THE SIX KEY CHALLENGES
FACING PROFESSIONAL SERVICES FIRMS
AND HOW AUTOMATION CAN HELP

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Introduction

After the financial crash of 2008, the EMEA professional services market is set to top $100 billion for the first time in history.[1] The sector covers a wide range of business and support services and is a major part of the European economy. It accounts for 12.8 per cent of EU value added and 13.7 per cent of total employment, representing some 31 million jobs.[2]

However, there are looming challenges on the horizon for the professional services sector. Globally, revenue growth is slowing, and professional services organisations are facing price pressure and increased competition for business, as seen in falling sales pipelines and bid-to-win ratios.[3]

There are some variations in performance between sub-sectors within professional services. For example, while there is high growth in ICT-related services around cloud, security, Internet of Things and Artificial Intelligence, there are price pressures on services in areas such as accounting and architecture.

An additional complexity is that professional services organisations also face challenges recruiting talent and then ramping up those new hires so that they are generating revenue and contributing to profitability.

In this environment of increased competition and slowing revenue growth, it is more critical than ever for professional services organisations to be able to allocate and manage resources effectively and across international borders, to manage bid and project financials more accurately and to innovate and offer new, differentiating and high-value subscription-based service models.

Business information is key to tackling these challenges. And that means real-time access to an accurate centralised repository of data that can provide the insights needed to

[1] Consultancy.org
[2] European Commission
[3] SPI Research 2018 Professional Services Maturity Benchmark

improve performance and boost revenue and profits. That's where Professional Services Automation (PSA) and modern cloud-based systems can help, providing greater visibility to enable better financial management and resource utilisation and automating many administrative and data input processes, which in turn lets consultants work on higher value work for clients.

In this white paper we will examine the key challenges facing professional services organisations and the ways in which PSA can help to overcome them and provide a vital competitive edge.

The Six Challenges for Professional Services Organisations

1
Human capital management and employee profitability

One of the most important KPIs for professional services organisations is billable utilisation—usually calculated as an employee's hours spent on billable client work divided by the number of hours in the work week. While 75 per cent utilisation is considered a minimum target, the best performing services firms can average 80 per cent or higher, according to SPI's professional services sector maturity research.[4] Maintaining high utilisation of employees drives higher billings, revenue and profits. Yet tracking and measuring billable utilisation poses challenges for many professional services organisations.[5]

But utilisation isn't just about maximising the number of billable hours for each employee—something that can lead to stress and job dissatisfaction among consultants. Billable utilisation can also be increased by reducing the hours employees spend on non-billable administrative tasks and manual processes.

One solution is Professional Services Automation (PSA) software, which enables organisations to increase utilisation rates, manage projects and schedules more effectively, and free up staff to work on high-value billable tasks. It enables organisations to automate and streamline many tasks such as timesheets, invoicing, forecasting and assigning resources. PSA software becomes a single source for all this vital information, instead of trying to navigate various tools, spreadsheets, manual processes and disparate IT systems.

Another challenge around utilisation is how fast professional services organisations can take an employee from being a new hire to becoming a profitable and productive resource. Shortening that timeframe is key to boosting revenue and profitability.

PSA software provides the employee and manager with a way to systematise the process. It lets managers set employee objectives for the day or week by connecting project management and resource management processes and data. It links these objectives to best practices and the internal knowledge base and assets.

[4] SPI Research 2018 Professional Services Maturity Benchmark
[5] http://www.openair.com/home/OpenAirWhitePaper-CalculatingUtilization.pdf

PSA supports better knowledge transfer to get the employee up to speed faster. This in turn helps with employee satisfaction, by having easy-to-use systems, tools and processes that help them do their jobs better.

It means these systems and tools add value to their career because it enables employees to take a more proactive approach to their work by taking on new tasks more easily, accessing relevant knowledge and information, and expanding their skillset.

2
Winning new business

New deals and repeat business from existing clients are the fundamental pillars of growth for the professional services industry. But this is becoming more of a challenge.

The signs of increased competitive pressure in winning new business can be seen in industry figures that show a decline in the sales pipeline globally from 189 per cent to 174 per cent. Another strong indicator of increased competition is when the bid-to-win ratio, which shows the number of winning proposals for every 10 submitted, falls below five. This has declined year on year in EMEA from 4.64 to 4.31, and globally from 4.85 to 4.80, signalling an intensification of competition.[6]

To survive in this fiercely competitive market, professional services organisations need to improve the lifetime value of their relationship with the customer by ensuring their current projects are delivered on time and to their customer's satisfaction so that they can then start offering more services. That means having good performance analytics around project metrics, service lines and strong customer relationships, especially with the staff involved with delivery. Having those views operationally are critical to being able to identify a need for, and then developing, additional service offerings.

It's also vital for professional services organisations to continually add new clients. Industry benchmarks suggest at least a third of annual revenue should come from new business, yet research shows that 62.5 per cent of firms produced less than 30 per cent of their revenue from new clients.[7]

The secret to growth and staying ahead of the competition is winning new clients, expanding into new markets and developing new service offerings. But that's not about trying to offer every kind of service to everyone. In a saturated or slow growth market, services organisations need to be able to differentiate themselves by taking a more targeted and selective approach to clients, services, bidding and pricing.

Real-time data and full visibility of clients, projects and resources is essential to developing new services offerings and winning new business. PSA software provides a lifecycle view and visibility across important metrics such as customer satisfaction, performance analytics, and project execution and delivery—all in one location. This makes

it easier for organisations to identify the best opportunities and respond and react faster to changes in the market.

3
Resource management
Projects and resources are often spread around the globe at all levels of the company. This means it's a huge challenge for professional services organisations to keep track of and effectively manage them. And getting it wrong can lead to projects underperforming with disastrous consequences for on-time delivery, quality of execution and client satisfaction—all of which impact revenue and profitability.

Lack of visibility is a key factor in inefficient resource management. Mission-critical staffing decisions need to be made with accurate, up-to-date resource utilisation and skills data. Unfortunately, many professional services organisations still manage their resources using spreadsheets. Spreadsheets are used to determine who is available to be staffed to which projects and pick among the available resources. While the spreadsheet may seem efficient, it is not effective. The issues inherent in the spreadsheet approach become even more evident as an organisation grows. While you might be able to manage the staffing process challenges for a ten-person professional services organisation using spreadsheets, it quickly becomes unwieldy when the organisation doubles or triples in size.

The risk with this approach is that firms can lose significant revenue opportunities due to a lack of insight into their most important assets—their people. It's essential to have real-time reporting and analytics to assign people in the most effective way.

A more effective way to do this is by using PSA software and following resource management best practices and processes.

PSA software provides the visibility into demand and opportunities, work-in-progress and backlog data, and helps manage the business by allocating resources and driving projects to perform on revenues on a timeline that is predictable and can be forecast confidently.

With a modern cloud-based PSA solution, project managers and the staffing team all have access to the same real-time data on resource availability, so everyone will know who is available and who is not. As staffing allocations change, the PSA solution will automatically reflect these changes. The benefits of this approach are increased resource utilisation through the allocation of the right resources to the right projects and avoiding gaps in staffing. That results in more accurate financial forecasting and demand planning forecasts, allowing management to alter hiring plans as needed.

4
Productisation
Professional services organisations are evolving to "productise" their service offerings into digestible work orders; on-demand, pre-paid or bundled within a managed service offering. However, packaging their offerings like this is a challenge for many professional services firms when data from bids, delivery and backlog are spread across silos and management lacks visibility into the macro-trends tied to actual outcomes.

Using a centralised PSA solution enables a professional services organisation to amalgamate trends and results to build a catalogue of capabilities. With this foundation, the organisation can bundle capabilities more easily into packaged offerings. This productisation of their services swaps traditional billing rates for value and outcome-based pricing. In turn, this enables the firm to allocate resources on-demand and optimise margins, while still improving customer satisfaction due to more clearly defined value and deliverables in the productised package.

The benefits to productisation of service offerings are multi-faceted. Services sales revenues are more predictable, with a tangibility today's buyers desire from providers. And financial management improves because contracts are tighter, deliverables are prescribed and payment terms typically favour the professional services provider with advance payments—improving cash flow and consistency with collections. It also increases billable utilisation rates, enables employees to learn new skills and do more interesting work, and more broadly, it accelerates growth of the firm.

5
Financial management of projects
Good financial management of a project lifecycle, from the scoping and bidding through to delivery and invoice, is critical to keeping track of whether a project is over or underperforming relative to the original bid and the budget allocated. As with resource allocation, a spreadsheet approach is no

longer able to accurately track all these moving parts and get a snapshot view of a project's financial performance at any given point.

If financial management of projects is done right, gross margins of more than 60 per cent are possible. Done wrong, however, and these can drop to single digits or even go negative.[8]

Having a central source of real-time, accurate data lets a project management office (PMO) standardise policies, processes and methods and generate best-practice guidance and metrics for delivering high-quality projects. In fact, research shows that professional services firms using standardised delivery methodology have more people in billable roles and deliver more revenue per consultant and employee, and they are much more likely to deliver projects on time.

PSA software provides the comprehensive real-time visibility that professional services organisations need to make the right financial management calls.

PSA solutions are designed to integrate core business processes across the organisation so that each department has a clear understanding of their roles and measurements and how they impact the organisation's ability to succeed.

Another financial management challenge for professional services organisations is tackling revenue leakage through inconsistent and inaccurate time and expense (T&E) data

scattered around different spreadsheets and systems. This makes it difficult to accurately track the time spent servicing customers and bill in a timely and consistent manner. This can then lead to delays and errors in invoicing clients and spiralling day sales outstanding (DSO) figures as the average number of days customers take to pay their invoices increases.

A PSA solution stores this data in a central repository and integrates with financial applications to automate much of this manual billing work and provide timely project billing information with drill-down detail while automatically updating the general ledger. This approach using PSA can result in up to 50 per cent reduction in administrative time, up to 75 per cent fewer write-offs and up to 75 per cent decrease in billable hours not properly recorded. It is easier for employees, it provides greater billing transparency to clients and it improves the bottom line.[9]

6
Internationalisation – cross-border growth
Today, even small professional services organisations have resources spread not only geographically within a country but also across the world. International expansion is fundamental to growing the client base, revenues and profits.

However, expanding and operating internationally poses many challenges, including greater regulatory and compliance complexity, multiple currencies, inter-company billing activity and cross-invoices. This requires systems and processes that

[8] SPI Research 2018 Professional Services Maturity Benchmark
[9] Eliminating Pain and Waste in Services Project Billing

provide a single source of accurate data, can be implemented and scale up quickly, and include localisation features that automatically incorporate a country's currency and tax requirements.

Trying to run operations and allocate resources in different countries using outdated methods such as spreadsheets quickly become unmanageable in the context of international growth. PSA software helps manage the flow of people and financial reporting across borders, all from a central information source. A cloud-based PSA solution can be implemented quickly in a new country without the up-front capital expenditure associated with traditional IT systems and scale as the operation there grows.

By providing greater real-time visibility of project needs and staffing levels, PSA software also ensures effective utilisation of resources across projects in different countries and prevents gaps that could lead to delays in delivery for the client, which would in turn impact client satisfaction and the potential for repeat business.

Conclusion
Professional services organisations are facing many challenges to profitability and growth. Market saturation in some service sectors, price pressure, and economic and political uncertainty mean professional services organisations must find new ways to differentiate themselves and gain a competitive edge.

In such a competitive marketplace, professional services organisations must not only continue to add new clients but also

have the analytics and insight that enables them to develop new services and offerings that extend the lifetime value of the existing relationships with clients.

Related to this is the productisation of services, which presents a new frontier of opportunity and growth for professional services organisations. A centralised data store that provides insights into trends and client demands enables professional services organisations to align resources and capabilities into new packaged offerings with more predictable cost and pricing.

There is the challenge of increasing employee profitability too. That means giving employees and managers the tools to enable them to be more productive and be more proactive about the work they take on so that not only does billable utilisation increase but employees are more engaged and satisfied with the work they are doing.

Projects can quickly start to run over time and budget with poor resource management. And accurate information is also essential to good financial management, which means moving beyond the spreadsheet. Tackling this requires real-time visibility into resource utilisation and the skills available to ensure managers can assign the right people to the right projects in the most effective way.

And as professional services firms increasingly look to international expansion to fuel growth, having the right technology platform in place becomes even more critical. A robust system is needed to support cross-border reporting and manage the effective utilisation of resources across global projects.

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Information is a key weapon for services organisations as they face up to these challenges. That's where greater investment in technology, and PSA software in particular, can provide the insights and real-time visibility that organisations need to manage resources and projects more effectively, identify new service opportunities, and extend the lifetime value of clients.

PSA software integrates with core business processes right across the organisation to provide the comprehensive real-time visibility needed to make good financial management calls. PSA also helps by automating many of these tasks and freeing up staff and managers to focus on higher value work.

This will in turn help the professional services organisation to add topline revenue, secure existing client relationships, reduce bottom line costs through efficiencies and ultimately help them not tackle these challenges but to grow through them.

It's a powerful illustration of the benefits of PSA application usage and integration as professional services organisations face up to the many big challenges facing their industry today.

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