Professional Services Performance – Aligning Your PSO For Optimal Performance and Profitability

ARTICLE 05.16.16 DEAN DORTON

Optimal performance and profitability for professional services organizations relies on three key factors for success: core competency, best practice processes, and the strategic use of technology.

Core competency is the value you bring to your clients – the appeal of the services you offer, the talent of your team, and the desirability of the results your services deliver.

The second key factor for success is the processes that are used for service delivery and your internal operations. The effectiveness of these processes is usually gauged by Key Performance Indicators (KPIs).

The strategic use of technology is the third key factor for success. Simply put, this means you are leveraging technology to handle repetitive, low value activities in order to free up human talent to focus on the more strategic areas of the business. Another important aspect of strategic technology deployment is integrating or connecting various solutions in use within the business (ERP, Project Accounting, CRM, HR, etc.) to gain a more accurate view of performance and profitability.

In this article we will be focusing on the second and third key factors for success: the Key Performance Indicators and the strategic use of technology.

Professional Services Performance – Successful PSOs make financial performance a priority

In their white paper, How Professional Services Firms Use Technology to Drive Financial and Operational Performance, Service Performance Insights reported, “the leading firms (top 20% in SPI’s benchmark) are focused on attaining financial success. While net profitability might be their ultimate goal, most of the work to be done involves improving organizational processes across all departments within the PSO.”

Professional Services Performance – The table below (from the SPI survey) lists the top KPIs and how the top 20% performed against the lower 80%:

The KPIs above help businesses measure their performance and identify areas for improvement. A key element in accurate tracking and measurement of KPIs is a robust Finance and Accounting software solution. It all begins with ERP software.

Your financial management (ERP) software serves as the hub for consolidating information and providing the reporting and dashboards that will provide managers and executives with real-time reporting that aid decision-making, such as Revenue by Territory, Profitability by Practice, Revenue and true profit by client or client type, Utilization by consultant or consultant type, and any other areas that contribute to the success of the business.

Best-of-Breed in Action: Connecting ERP to Other Systems for Professional Services Performance

The magic begins to happen when departmental systems are connected to your ERP system. Let's assume that your accounting software the features and functionality you need (e.g. revenue recognition capabilities, user-defined dashboard, dimensional reporting, etc.). The next step would be bringing in information from other departments. Think about a process like "quote-to-cash." Most PSO leaders would like to view metrics associated with quote-to-cash at the various touch points throughout the process – data that may reside partially in CRM, PSA, and ERP systems. Without connections or integration between the systems, any sort of reporting is probably going to be time-consuming and manual.

Professional Services Performance – What industry surveys and benchmark reports reveal

In their white paper, How Professional Services Firms Use Technology to Drive Financial and Operational Performance, Service Performance Insights reported, "The conclusions from this and past benchmarks strongly indicate that the most competitive PSOs are those that leverage technology to seamlessly connect departments within the organizations."

As the CFO, you might sit back and take a mental inventory of the various systems in use within your organization. The sales team selected their own CRM solution, the decision based on how the system assisted each sales representative with contact management and pipeline management – not how seamlessly it integrated with back-office accounting. Likewise, Human Resources uses an HRIS system that helps them remain compliant, store documentation, and perhaps offer a level of employee self-service – and that HRIS system is from another software publisher altogether.

Is the solution to opt for a suite of applications (one publisher who provides all the departmental solutions) in order to achieve integration of solutions for more meaningful business information? In most cases, no.

Replacing existing system for the sole purpose of achieving integration doesn't make financial sense and renders that remedy dead on arrival. But even if money is not the issue, we all know how disruptive change can be – particularly when the change impacts the day-to-day activities of the individual. Plus, replacing multiple systems at once will put an enormous amount of stress on the organization as system users adapt to the change – or worse, don't. For example, in the area of CRM deployment, there's an abundance of data revealing that one of the biggest problems is solution adoption by end users. It's very difficult to get a clear picture of a consolidated pipeline when some are using the system sporadically or not using the system at all.

Best-of-Breed Solution Approach

A more practical and ultimately more powerful strategy is to take the best of breed approach. The notion of best-of-breed has been around for a long time

In SPI Research's latest benchmark, 95% of the firms surveyed were taking a best-of-breed approach, and they reported, "While each best-of-breed solution, on its own, provided significant visibility and process support to its various departments, most could not achieve the highest level of performance given the lack of integration into the firm's information infrastructure."

Enter Cloud Computing – the Game Changer for Professional Services Performance

Best-of-breed has become a more potent approach in recent years with the advent of cloud computing and the strength of cloud-based applications for all areas of the business. Today there are robust cloud-based solutions that are easy to integrate in spite of coming from different publishers. Cloud solutions, by virtue of their open architecture, easily connect independent systems in the cloud. Not only does the cloud provide greater opportunity for integration, there is the additional benefit of accessing solutions, reports and dashboard on a variety of devices – from desktop computers to tablets to smartphones.

To assist you in determining how to select the best foundational ERP system on which to build your performance improvements, Massey Consulting invites you to download the following resources:

11 Reasons Companies Will Move to the Cloud Accounting