A Service Performance Insight White Paper

Service Compass: Charting the Course to Professional Service Excellence

Measuring the Value of Application Integration for Service Organizations

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Service Performance Insight

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INTRODUCTION

The economy is changing at a pace never seen before. This oscillation is no more evident than in professional services (PS), where the rapid pace of mergers and acquisitions, global supplier expansion and an increasingly demanding client base, have forced PS executives to improve on all fronts. At the center of this firestorm is the need for information — lots of it — and in real-time, to make informed decisions to remain competitive.

PS executives should be able to answer key questions regarding their information strategy, which include:

- Do I have deal visibility all the way from lead to pipeline to project backlog and project time and billing?
- Does my application infrastructure provide the timely information necessary to make decisions in real-time?
- Do I have visibility across all core business processes to manage and control costs?
- Do I have the insight I need to measure profitability at a national, regional, vertical, project, client and individual contributor level?
- Do my applications offer the flexibility necessary to adapt to continual change within my organization?

The answers to these questions should help PS executives better understand if their organization is ready for the volatility that lies ahead. Executives who do not embrace the requirement for real-time visibility could find themselves the object of an acquisition, not the one acquiring.

For over a decade, Professional Service Automation (PSA) solutions have gained in strategic importance and have become a critical success factor to improve the management and control of service delivery. Now, especially SaaS-based PSA applications, have matured to be cost-effective and easy to implement and use.

PSA provides the systems basis for the initiation, planning, execution, closure and control of projects and services. It helps manage many facets of service delivery — including opportunity management, staffing, resource and project management and collaboration — combined with accurate and timely time and expense capture.

This White Paper identifies some of the insights gained from SPI Research's recent benchmark survey on how PSA solutions improve operational efficiency. It also highlights benchmark results for OpenAir, a leading PSA solution provider.

THE PROFESSIONAL SERVICES MATURITY MODEL

Two years ago, SPI Research developed a model that benchmarks, segments and analyzes a PSO into five distinct areas of performance that are both logical and functional. The five Service Performance Pillars which form the foundation of all service-oriented organizations are:

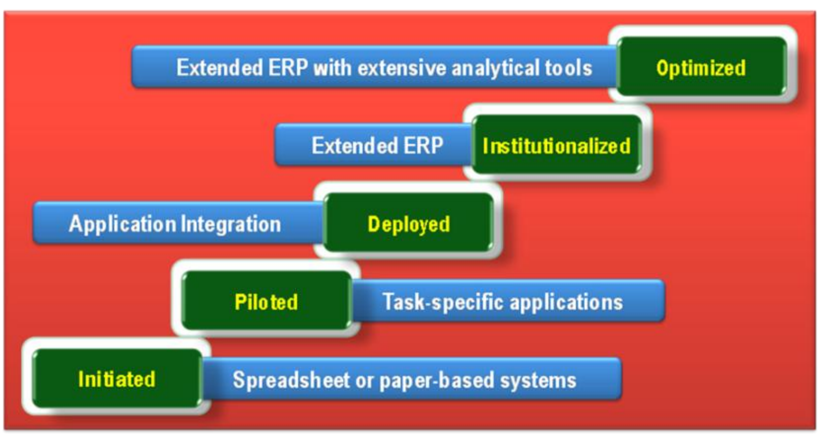
1. **Vision, Strategy and Culture:** (CEO) a unique view of the future and the role the service organization will play in shaping it.
2. **Finance and Operations:** (CFO) the ability to manage services profit and loss — to generate revenue and profit while developing repeatable operating processes, IT applications and management controls.
3. **Human Capital Alignment:** (Human Resources) the ability to attract, hire, retain and motivate high quality employees and subcontractors.
4. **Service Execution:** (Engagement/Delivery) the methodologies, processes and tools to effectively schedule, deploy and measure the quality of the service delivery process.
5. **Client Relationships:** (Marketing and Sales) the ability to communicate effectively with employees, partners and customers to generate and close business and win deals.

This model has been refined over the past two years based on additional analysis and feedback from over 170 participating Professional Services Organizations (PSOs). Now over 1,200 service-driven organizations are actively using it to measure and improve their performance.

SERVICE PERFORMANCE MATURITY LEVELS

SPI Research identified five levels of service performance maturity across each of the five pillars. When analyzing performance at each maturity level, SPI Research found better use of information technology (IT) coincides with improved key performance measurements (KPIs). Figure 1 highlights the PSO IT Maturity Model.

Figure 1: Professional Service IT Maturity Level



Source: Service Performance Insight, April 2009

- ∆ **Level 1: Initiated** – ***Ad Hoc***: Most PSOs begin with manual or spreadsheet-based tools to run their business. Time and expense capture may be sporadic and ad hoc. Billing is performed manually or through the backend financial application. At Level 1, PSO's have limited to no visibility into true project costs and project and employee accounting.
- ∆ **Level 2: Piloted** – ***Application Specific***: As they grow and engage in more structured processes, organizations deploy task specific applications for time and expense capture and billing, resource management, project management (PM), knowledge management (KM) and client relationship management (CRM), etc. to better manage work and to create an audit trail, albeit rudimentary, for tracking work. Many of these task specific applications provide a database to improve reporting. Level 2 organizations may still rely heavily on homegrown spreadsheet applications for budgeting, capacity planning, estimating and resource management and reporting.
- ∆ **Level 3: Deployed** – ***Integrated Applications***: As organizations mature they deploy greater integration of business applications with the core financial enterprise resource planning (ERP) solution to provide a more complete profit and loss view of projects, resources and practice areas. At this phase they begin to evaluate the time and cost factors associated with integration of various point releases. Emphasis at this level is on creating effective management reports to provide visibility into all facets of the business.
- ∆ **Level 4: Institutionalized** – ***Extended ERP***: An increasing number of PSOs at this phase of maturity begin to add various components of ERP applications rather than continually integrate disparate applications. We use the term extended ERP. Now professional services organizations are purchasing both core financials as well as other pre-integrated application suites from the same ERP solution provider. Currently CRM is the most popular application that is purchased pre-integrated with financials, closely followed by professional service automation. Other applications that are being acquired from the same ERP vendor include human capital management, business intelligence, and procurement.
- ∆ **Level 5: Optimized** – ***Extended ERP and Analytics***: Finally, as the PSO has significant integration in its application infrastructure it turns the solution loose to efficiently surface and report data to optimally measure and transform the organization. Most, if not all, core applications are integrated with business intelligence to provide visibility into the work being sold, executed, and closed. Self-service applications and Business Intelligence provide real-time insight and control.

While not every PSO is run with a completely integrated set of business applications, SPI Research found the level of integration has increased significantly over the past five years. This development will continue regardless of the economy as many PS firms see IT as a way to not only cut costs, but also as a means to improve operational efficiency and effectiveness.

Pressures Mount across PSOs

It is bad enough the economy has slowed. Now many PSOs are cutting staff and prices to stay in business. PS executives now, more than ever, need assurance that all their practices and people are profitable in order to remain solvent. Despite economic turmoil, the war for talent continues, as many PSOs take a hard look at both their current and future portfolio of services and pipeline to hire the best people possible to meet future needs.

Perhaps one of the few bright spots in this challenging economy is that client organizations now are open to real change to improve their market position in the new economy. Advisory business consulting services will play a significant role in helping clients prosper going forward. Firms that offer managed and infrastructure services are still prospering if they can demonstrate ability to reduce IT costs. The other bright spot is that legacy technology companies have finally embraced the profit potential of services and are starting to make PS improvement initiatives a core strategic focus.

Increased Complexity

Many PSOs still use bi-weekly or monthly reports to run their business. This time lag won't cut it in the 21st Century. Conditions change too rapidly and executives who do not have the necessary information at their finger-tips will ultimately lag behind the competition and be unable to accurately plan and manage the business.

As professional service organizations grow and become more global, information systems must support multiple geographic regions, currencies, time-zones and languages. Today's PS contracts use a variety of time and material, percentage project completion, fixed price and risk/reward pricing structures which drive the requirement to support complex billing and revenue recognition schemes. Without real-time visibility into true costs and opportunities, PSO executives don't have the information required to manage in the new project-oriented global world.

PSO Business Applications are on the Rise

PSOs are cobbler's children no more. While the Professional Service sector lags its manufacturing counterparts in terms of information systems, it is rapidly moving ahead in automation as an increasing number of PS firms realize the benefits gained through integrated business applications, whether they come from an Enterprise Resource Planning (ERP) solution or are provided by a dedicated Professional Service Automation (PSA) solution.

Over the years, a variety of solutions have come to market that have improved most operational aspects of PSOs. These solutions tend to target specific functions within PSOs, (Human Capital Management, Resource Management or Time and Expense Capture and Billing) each with its own set of challenges heretofore addressed by nonintegrated applications that were not designed for fee-based, global project-oriented professional service organizations. Unfortunately, the legacy approach to solving one set of business problems created another — operational fragmentation. PS executives have realized in order to optimize performance, profitability, and client satisfaction, they need solutions that provide visibility into their entire business — from planning and budgeting, through marketing, sales, project execution, closure, analysis, and reporting. PSOs need to operate as a synergistic whole or they will fragment into the friction-laced inefficiency of well-intentioned, operational silos.

Many PSOs have attempted to integrate these disparate applications. However, as PS executives know all too well, this process can quickly spiral out-of-control in both cost and elapsed time. More often than not, the result is a modest operational gain at significant increased cost for the internal IT organization.

Spurred by awareness of these systemic inefficiencies along with an increase in services-specific applications, PSOs have moved toward integration at a more fundamental level. SPI Research has seen a change in the types of applications purchased in the Professional Services sector. In less than a decade, many PSOs have moved from manual or spreadsheet-based systems to individual process-specific applications and now onto PSA solutions, tightly integrated with core financials.

The movement in technology buying behavior reflects a change in business orientation. Given the tectonic shifts in the marketplace, many PSO firms clearly see that integration throughout their application infrastructure is critical to drive ongoing success. SPI Research finds that PS executives struggle with questions of how best to implement this integration, not with whether to do so. The following sections highlight PSA solutions, and the level of integration with core financial applications, which improves management visibility.

PROFESSIONAL SERVICES AUTOMATION DRIVES PERFORMANCE

SPI Research defines Professional Services Automation as:

An integrated suite of applications used to increase operational visibility and improve process efficiency in professional services organizations

Professional Service Automation provides organizations with a solution to efficiently plan, sell, execute and charge for work. PSA gives team members the tools to collaborate and collect knowledge that can be further used to optimize business processes. The net effect of PSA is a more productive and profitable business, as well as improved levels of predictably and client satisfaction.

Perhaps the key differentiator for this market is the integration of *people*, *process* and *capital*. PSA enables organizations to track and manage their workforce, the projects and services delivered, and the capital expended — each a necessary component for superior execution.

SPI Research expects every PSA solution should provide two core management functions: (1) service execution and (2) service control. ***Service execution*** involves more efficiently delivering project and services-driven work — scheduling the work, provisioning it with the right people who are available at the right time, and accurately billing or accounting for the work completed. ***Service control*** assures that the work is done on time and on budget. It involves much of the organizational planning, personnel hiring, performance, and quality metrics required to successfully run an organization. It also determines the type of work needed and ensures that the organization stays focused on meeting both project and corporate objectives — in line with the organization's financial governance responsibilities.

PSA solutions, particularly SaaS (Software as a Service, hosted solutions), have become so easy to use and implement and inexpensive to purchase and maintain that all PS organizations with over ten employees should consider using them. The creation and maintenance of a complex set of spreadsheets is no longer a viable alternative for even the smallest PSOs.

Quantifiable Benefits from PSA Integration

Many studies have been conducted to show the benefits of integrated applications. However, very few, if any, have quantified the value of integrated applications for PSOs. The SPI Research benchmark study has shown significant improvements for organizations that integrate PSA with core financial solutions (Table 1).

Table 1: Is Your PSA Integrated with the Core Financial Application?

Key Performance Indicator	Yes	No
Year over Year PS Revenue growth	17.2%	15.3%
Contribution margin	21.9%	21.1%
Project gross margin	34.3%	31.1%
Revenue leakage	5.3%	5.9%
Attrition	6.5%	6.7%
Utilization	67.1%	60.9%

Source: Service Performance Insight, April 2009

These results show performance improvements across every leading key performance indicator. While each of these improvements is important, the greatest benefit of PSA is in improving resource utilization as shown in the prior table. PSOs that integrate PSA with their financial infrastructure gain over a 6% increase in utilization, potentially adding millions of dollars of increased revenue, and significantly higher profit margins.

Many PSOs have purchased Professional Service Automation solutions over the past decade and the results are noteworthy. Purchasing PSA and using it to improve service delivery will undoubtedly improve performance, but even greater performance improvements are achieved if the PSA solution is integrated with the core financial solution (Figure 2).

Figure 2: Using PSA Helps — Integrating It Is Even Better

Firms that do not have a PSA solution	• Concurrent Projects Managed: 3.5 • Proj. Cancelation Rate: 3.7% • Project Margin (FP): 22% • Project Margin (T&E): 15% • Real-time Visibility: 0%
Firms that use PSA without integration	• Concurrent Projects Managed: 4.5 • Proj. Cancelation Rate: 2.6% • Project Margin (FP): 29% • Project Margin (T&E): 37% • Real-time Visibility: 50%
Firms that use integrated PSA solutions	• Concurrent Projects Managed: 5.2 • Proj. Cancelation Rate: 1.5% • Project Margin (FP): 35% • Project Margin (T&E): 38% • Real-time Visibility: 80%

Source: Service Performance Insight, April 2009

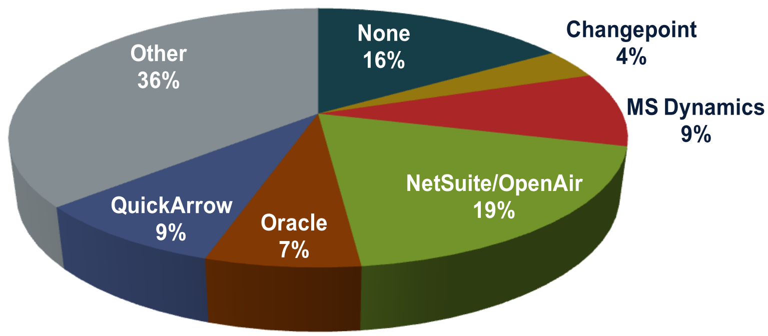
PSA capabilities are unmatched when considering performance improvements in the execution of services. SPI Research's recent benchmark has shown that project managers who utilize PSA are able to increase the number of projects managed concurrently by over 48% when PSA is integrated with core financials. Also, profit margins almost double when using PSA as improved project visibility provides better management control and understanding of planned costs versus actual to facilitate intervention when necessary.

OPENAIR DELIVERS IMPRESSIVE RESULTS

OpenAir, a leading provider of professional Services Automation Solutions demonstrated several key user benefits based on the 2009 PS Maturity benchmark results. Of the leading PSA providers, OpenAir had the highest percentage of users (market share) in SPI Research's recent Professional Services Maturity Model study (Figure 3) although a surprisingly high percentage of PSO's still use homegrown applications and spreadsheets (36% other) or nothing (16%).

OpenAir offers all of the advantages of SaaS applications — low cost of entry, rapid deployment, simplified configuration and customization tools and out-of-the box integration with NetSuite's powerful back-office accounting and financial applications. Another reason for OpenAir's impressive market-share is multilingual, multicurrency global support.

Figure 3: PSA Market Share



Source: Service Performance Insight, April 2009

OpenAir PSA is a premier solution for project-based businesses, enabling them to increase profits through more efficient processes and real-time visibility. Organizations that include Siemens AG, Software AG, Hallmark, and PRTM utilize OpenAir to streamline their businesses through automated project management, resource management, time and expense tracking, and invoicing. OpenAir has more than 45,000 active users at over 350 project-oriented firms using the software to better capture billable time, manage projects and resources and bill customers. The benchmark showed a number of areas where OpenAir's customers showed superior performance compared to the benchmark average (Table 2).

Table 2: OpenAir Key Benefits

KPI	OpenAir	Survey Average
Percentage of billable employees	74.3%	67.9%
Administrative Burden	15.5%	20.4%
Attrition Rate	5.9%	7.7%
Percentage of employees who use standard job descriptions and have a skill profile	88.7%	77.7%
Project cancellation rate	1.2%	1.8%
Revenue target achieved	101.9%	95.8%
Margin target achieved	97.1%	89.2%

Source: Service Performance Insight, April 2009

CONCLUSIONS

The professional service market has increased its use of business applications over the past decade, as executives demand more visibility across functions and disciplines. However, standalone business applications don't provide nearly the benefits of applications integrated with the core financial solution.

The economy will rebound but eventually it will go through another cycle. PS executives who have the tools to manage these fluctuations have the greatest chance of success in any market.

OpenAir, a leading provider of professional Services Automation Solutions has demonstrated why it is a market leader. SPI Research expects the solution to gain increased popularity as PSOs expand beyond a single country and require a solution that offers multiple languages and currencies as well as global support. OpenAir’s acquisition by NetSuite ensures the application will be at the forefront of PSA integration with a strong underlying core financial solution. The SaaS model means cost to implement and maintain both the PSA and financial application are manageable plus all users immediately benefit from enhancements.

The benchmark results showed a surprisingly high number of firms still rely on homegrown applications and spreadsheets to run their increasingly complex, real-time, project-oriented businesses. Given the power and relatively low cost of hosted solutions like OpenAir, SPI Research recommends these firms seriously evaluate the benefits of moving to an integrated PSA application. SPI Research also believes the quantifiable benefits demonstrated by integrated PSA applications in the 2009 PS Maturity Model benchmark more than justify their purchase.

About Service Performance Insight

Jeanne Urich, Service Performance Insight Managing Director, is a management consultant specializing in Service organization improvement and transformation for small to large technology companies. She has been a corporate officer and leader of the Worldwide Service organizations of Vignette, Blue Martini and Clarify, responsible for leading the growth of their Professional Services, Education, Account Management and Alliances organizations.

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Service Performance Insight (SPI Research) is a globally-focused research and consulting firm specializing in the services sector. The firm closely follows professional services organizations (PSOs) — both Embedded and Consultants/Systems Integrators — and the independent software vendors (ISVs) that develop business solutions to make people more productive and profitable. SPI Research pays particular attention to the integration of the three key assets of a PSO: its people, (business) processes and capital, and how technology can help optimize their use. SPI Research has developed the definitive business model that shows how PSOs can improve organizational performance by improving five core aspects of their business. They include: 1) Vision, Strategy and Culture; 2) Finance and Operations; 3) Human Capital Alignment; 4) Service Execution; and 5) Client Relationships.

Visit www.SPIresearch.com for more information on Service Performance Insight.