What Keeps PS Executives Up at Night?

The Role of Professional Services Automation in Achieving Business Goals

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A Joint White Paper from the TPSA and OpenAir

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Contact Information

OpenAir.
211 Congress Street
8th Floor
Boston, MA 02110
U.S.A
Tel.: 617-351-023
Fax: 617-904-1617
www.openair.com

Technology Professional Service Association
17065 Camino San Bernardo
Suite 200
San Diego, CA 92127
U.S.A.
Tel.: 858-674-5491
Fax: 858-674-6794
info@tpsaonline.com
www.tpsaonline.com

EXECUTIVE SUMMARY

In today's economic climate, professional services (PS) executives demand complete transparency into the health of their organizations. No longer can PS firms survive on spreadsheets and retroactive reporting. According to recent studies by the Technical Professional Services Association (TPSA), there is an overwhelming demand for PSA solutions. Increasingly, firms are integrating a PSA solution into their core infrastructure to help achieve their key goals of increasing PS gross margin, improving individual project success and profitability, and centralizing key PS resources.

While reaching these goals will require changes to people, process, and technology, according to the TPSA Benchmark database, technology is emerging as a key enabler: member companies leveraging professional services automation (PSA) tools are clearly outperforming lagging PSA adopters. As this report will show, TPSA members with live PSA implementations have stronger financial performance across key operational metrics, including:

- Gross margin for overall PS operation: 12% higher for PSA users.
- PS average project gross margin: 12% higher for PSA users.
- PS revenue growth over the last three years: 48% higher for PSA users.
- PS revenue growth over the last 12 months: 11% higher for PSA users.
- Average hourly billable rate: 8% higher for PSA users.
- Average rate realization: 5% higher for PSA users.
- Average annual revenue by consultant: 18% higher for PSA users.

PS executives should learn how critical performance metrics of PSA adopters and non-adopters compare, and understand how streamlining operations with PSA technology can help companies meet and exceed performance goals, even in a down economy.

PS EXECUTIVES DEMAND INCREASED OPERATIONAL TRANSPARENCY

2009 has emerged as the most challenging year for technology firms since the tech crash of 2001. The good news is that service revenues have become the economic engine for both software and hardware firms, so the indiscriminate cuts to service operations we saw in 2001 have not happened in 2009.

In 1999, services revenue comprised a third of overall revenue for software companies and less than a fourth of revenues for hardware companies. As professional services organizations have matured, offering more comprehensive implementation options, services revenues have rapidly increased. As seen in *Figure 1*, in 2008 software firms recognized an average of 57% of revenue from services; hardware firms received 37% of total revenue from services. As a result, service executives are under greater pressure

than ever to drive additional revenues and increase the profitability of every service project.

Figure 1: **Service Revenues on the Rise**
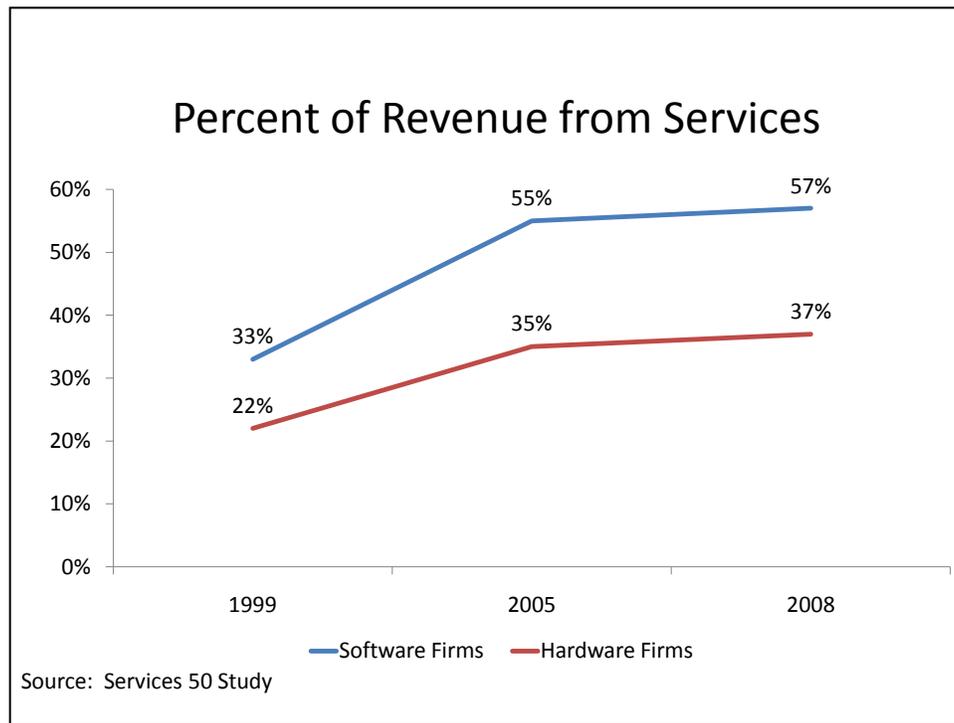
According to a recent survey of TPSA members, PS executives have identified three primary goals for 2009–2010, all designed to improve the revenue and profit position of the company, as well as make key improvements to PS infrastructure to enable growth and scalability for the post-recession economic rebound. These goals are:

- **Increase PS gross margin.** Though service revenues have been rising, the cost of delivering service has been rising as well. Executives want to identify areas in which processes can be streamlined and resources better utilized to increase efficiencies and improve PS gross margins.

- **Improve individual project success and profitability.** PS executives want more intelligent reporting and analytics to better identify projects with the highest likelihood of success, as well as to enable proactive warnings or notifications when projects may be veering off track.

- **Centralize key PS resources.** Global PS organizations typically manage projects and resources by region, with little cross-sharing of best practices, request for proposal (RFP) responses, reusable code libraries, and other intellectual property

across geographies. Centralizing resources not only ensures accurate information and the largest potential for reuse, but it eliminates the cost of multiple systems to collect and maintain the content.

To achieve these goals, PS executives are demanding increased visibility for operations to more quickly identify trends and issues, more transparency to identify bottlenecks and allow process refinements, and better leveraging of valuable intellectual assets to maximize effectiveness of internal tools and content.

IMPROVING PS GROSS MARGIN AND PROJECT PROFITABILITY

In accounting, the gross margin refers to sales minus cost of goods sold. For PS operations, improving gross margin equates to driving additional PS business to increase sales, and streamlining operations to reduce costs. According to TPSA members, there are many challenges to achieving these goals, including:

Figure 2: **Automating the Quote-to-Cash Process**
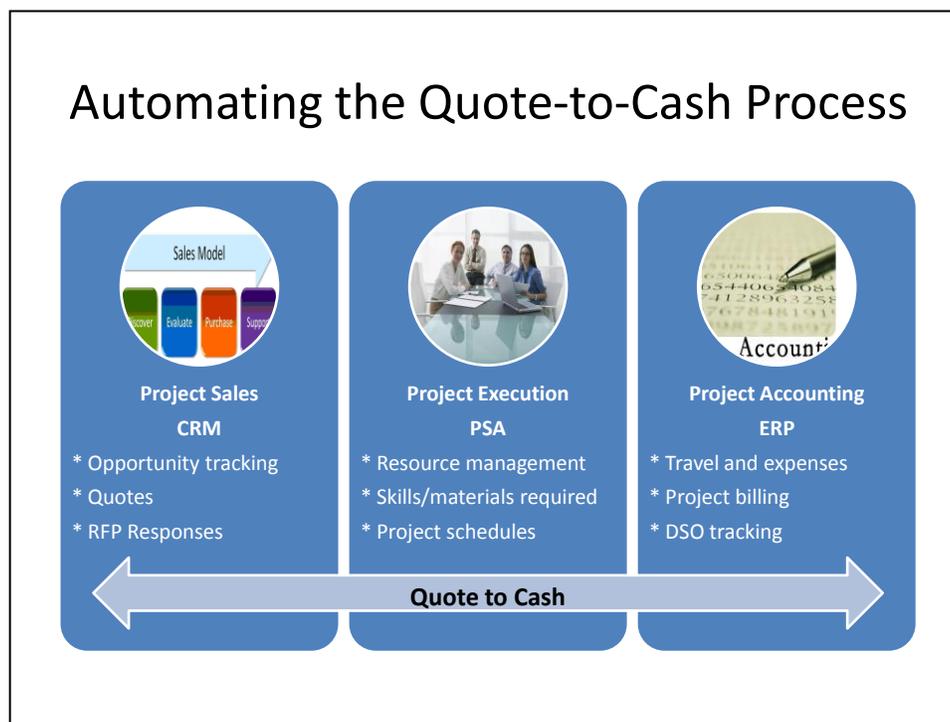
- **Visibility for the quote-to-cash process.** In most organizations, PS executives have little visibility into the macro-level quote-to-cash process. Services teams benefit from knowing about pending opportunities and won and lost sales quotes, and can add valuable assistance in closing major deals. On the accounting side, services teams can assist in resolving issues leading to high days sales

outstanding (DSO), as well as articulate granular project progress when incremental revenue is in the balance.

According to TPSA members, the most common reason for lack of visibility to the full quote-to-cash process is inability to integrate homegrown or outdated professional services automation (PSA) tools with existing customer relationship management (CRM) and enterprise resource planning (ERP) systems. Until the end-to-end process is transparent, PS will continue to be blindsided by last-minute requests for resources or specialized knowledge or skills.

- **Resource utilization and optimization.** To achieve the highest profit margins, consultants need to be active on projects as close to 100% of the time as possible, as well as being assigned to projects that best leverage their skills and enable them to be billed at the highest billable rate. Without sophisticated technology to manage employees by skill sets and billable rates, expensive resources are not being fully utilized and projects are less profitable.

- **Accurate project accounting and billing.** Without fully automated project accounting, PS organizations run the risk of revenue leakage by not billing for 100% of services delivered, as well as all appropriate time and expenses. Customers are also slower to pay, increasing DSO, when detailed records of work performed are not available. Additionally, software vendors, in particular, are struggling today with vendor-specific objective evidence (VSOE), which allows PS to bill for the value of individual deliverables in order to recognize partial revenue before the entire contract is fulfilled. Without a highly transparent and auditable process, VSOE revenues may trigger investigations into revenue recognition practices.

Key Enabler for Margin Improvements: Adoption of PSA

Professional services automation technology allows services teams to more effectively plan, manage, and execute customer projects, providing tools to track project progress and resource utilization, ensure accurate billing, and enable analytic-based reporting on operational success. As seen in *Figure 3*, only 63% of TPSA members are currently using a PSA solution, meaning a full one-third of member companies continue to manage their PS operations using spreadsheets: an unmanageable solution for large organizations. With no executive dashboards, key metrics are hard to accurately calculate, and no advance notice is given for potential

GXS Success Story

GXS, a supply chain management solution provider with over 40,000 clients in 58 countries, leverages OpenAir to gain control of its enterprise reporting and invoicing needs.

Prior to OpenAir, report creation at GXS was dependent on the company's IT department. As a result, report turnaround time lagged and often delayed critical business decisions. Furthermore, transfer of data between silo systems affected GXS' services goals and user adoption.

As with any global organization, speed of deployment was essential to the overall success and return on investment of OpenAir at GXS. With upwards of 900 end users, OpenAir was operational across 25 countries in 10 weeks and the benefits were immediate.

"Invoicing was a struggle before, especially when trying to get information from one system to another. Now it's all integrated and invoicing is simple," said George LaDue, OpenAir director, GXS.

resource shortages and project overruns, driving up operational costs and putting incremental revenue at risk.

Adoption of PSA is higher for large companies, with 67% of member companies with revenues in the $1 billion to $10 billion range currently using PSA, and 79% of members with over $10 billion in revenues using PSA. Larger companies are also investing in PSA at a higher rate than average. A full 41% of $1 billion-to-$10 billion companies have approved budget for PSA in 2009–2010, and one-third of all over-$10 billion members are planning additional PSA investments over the next 18 months.

Figure 3: **PSA Adoption and Planned Spending**

Source: 2009 TPSA Member Technology Survey
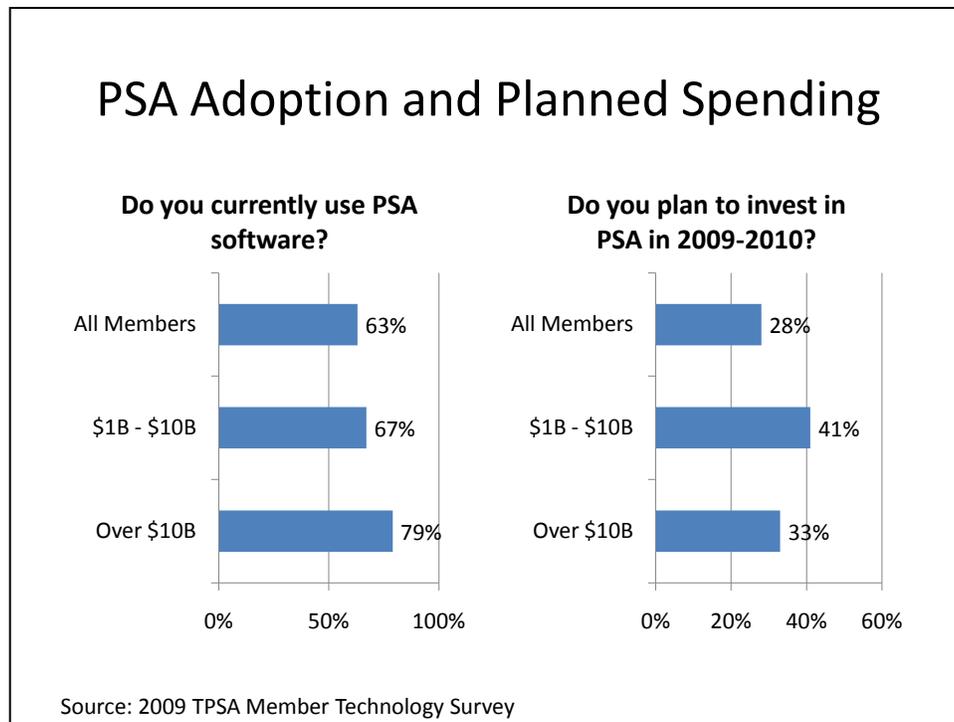
Why, at a time when the economic recession has battered technology spending, are so many companies planning a PSA investment in the coming months? The reason is clear when you examine the key success metrics for TPSA members: core operational and financial metrics are significantly higher for companies that leverage a PSA solution, such as:

- **Gross margin for overall PS operation.** PSA solutions provide executive dashboards giving users an immediate view of PS economics and project status. Analytic-based reporting is able to identify the most profitable projects, as well as the least profitable projects, so sales can be educated on "best fit" profiles for future PS deals.

- **PS average project gross margin.** PSA users have sophisticated tools at their disposal for resource planning, allowing them to make intelligent staffing decisions based on employee skills, location, availability, and pending projects in the pipeline. Projects are staffed with the best available and most cost-effective resources, with an eye toward maximizing utilization and billable rates.

- **PS revenue growth over the last 12 months to three years.** Revenue growth has many drivers, including an educated sales force, well-managed and executed PS projects that are completed on time, and satisfied customers that repurchase more at a faster rate. With PSA technology to oversee and monitor operations, issues are identified and resolved quickly, before revenue can be impacted.

Table 1: **PSA Adopters Show Stronger Margins and Revenue Growth**

Metric	Companies Using PSA	Companies Not Using PSA
Gross Margin for Overall PS operation	25.0%	22.4%
PS Average Project Gross Margin	35.5%	31.6%
PS Revenue Growth Over the Last Three Years	19.4%	13.1%
PS Revenue Growth Over the Last 12 Months	18.5%	16.7%

Source: TPSA 2009 Benchmark

Resource Utilization's Role in PS Profit

Obviously, the number one expense for PS organizations is employee or resource cost. With large PS teams having hundreds or even thousands of consultants, identifying the best, yet most cost-effective, resource for every project has become a major concern. The price of poor resource utilization is clear: highly paid consultants are wasted on low-value projects, or worse, consultants sit idle waiting for their next project assignment.

Boosting utilization rates has become a hot topic with TPSA members, and again, according to the TPSA Benchmark, companies who leverage a PSA solution to manage resource utilization are seeing greater success than companies managing resources manually with spreadsheets. In particular, PSA users see better results for:

- **Average hour billable rate.** This metric shows how well PS teams are doing in hiring staff with specific knowledge and skills, as well assigning each resource to appropriate projects that leverage their skills, allowing higher billable rates. Without the intelligent resource management tools included in a PSA suite, key resources may be wasted on projects that do not require their specialized skills, driving down the billable rate for the consultants.

- **Average rate realization.** Rate realization reveals what percentage of the time consultants are being billed at their maximum rate. As with average hour billable rates, analytic-based resource management allows companies to assign consultants to projects with an eye toward building a project team with the right set of skills and expertise levels, ensuring each team member can be billed at or close to their maximum rate.

- **Average revenue per consultant.** Another related utilization metric is average revenue per consultant, an important metric that shows both how well consultants are being utilized and the billing rates charged for their efforts.

Table 2: **PSA Adopters Show Higher Billable Rates, Rate Realization**

Metric	Companies Using PSA	Companies Not Using PSA
Average Hourly Billable Rate	$179	$165
Average Rate Realization	79.8%	76.0%
Average Annual Revenue by Consultant	$241,903	$204,655

Source: TPSA 2009 Benchmark

EMERGING PACESETTER TREND: CENTRALIZED PS RESOURCES

When surveyed about top business objectives, PS executives agreed on one goal not directly tied to a revenue or cost number: centralizing PS resources. Currently, only 26% of TPSA members manage project resources on a global basis; 21% of members are currently organized by geographic areas and 54% of members are organized by practice or competency. This has created multiple problems due to non-standard processes, multiple conflicting content stores of RFP responses and reusable code libraries, and local expertise that either overlaps or leaves some geographies with critical expertise gaps. The benefits of centralizing PS resources include:

- **Stopping the IP drain.** Creating a centralized repository for project-related materials and lessons learned, and providing training to ensure employees contribute, is a critical step toward capturing all the intellectual property (IP) within your PS operation, including geographic-specific information that may not usually make it into the corporate information store.

- **Accurate, consistent information.** When best practices are collected and maintained at a geographic level, customers receive different answers depending on whom they ask. By enforcing a single centralized source of truth, these regional disparities are exposed, allowing the "best" answer or approach to be used every time.

- **Collaborative pool of experts.** With all global PS resources using a single set of tools to collect and share information, the pool of experts on any topic or for any question is dramatically higher. Employees from any region can reach out to experts wherever they may be located across the globe.

The bottom line is that PS operations with a single, centralized pool of content and expertise resources will find fewer escalations to development, faster access to critical information and assistance, and lower cost of overall operations.

PSA Serves as an Enabler of Resource Centralization

When analyzing TPSA Benchmark data, member companies using a PSA solution are consistently in the lead on creating centralized PS resources. Adopting a leading PSA solution often serves as the starting point for a resource centralization process for several reasons, including:

- **Creating and enforcing a single set of enterprise processes.** As any PS consultant knows, defining processes for a software platform to monitor and reinforce means formalizing and documenting internal processes, often for the first time. This also allows PS executives to roll out approved processes globally, eliminating regional differences in how core activities are executed.

- **Enabling a central document repository for all employees.** Offering all PS employees "one-stop shopping" for any information they need to do their jobs increases productivity and ensures consistency and accuracy. Leading PSA

MedImmune Success Story

When MedImmune, a publicly traded biotechnology firm, was awarded a $170-million government contract, there was an immediate need for greater discipline surrounding time tracking, resource allocation, and supervisor approvals. With the pending challenge of DCAA compliance, MedImmune required a rapid and effective overhaul of their core infrastructure.

Enter OpenAir. "From initial pilot to the first thousand employees going into production with full SAP integration took less than six months," said Joe Carella, former senior director at MedImmune. "All told, it took nine months starting from the day OpenAir walked into my office to full enterprise deployment of 2,500 employees."

With accurate time tracking and approvals, MedImmune saves two person-days per year per individual. This translates to less than 1% productivity improvement. However, by capturing this 1% improvement, OpenAir paid for itself in less than three years.

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solutions capture and maintain libraries of project information, giving PS organizations a running start at a centralized repository.

- **Streamlining information access through integration.** PSA implementations not only give PS teams a starting point for centralizing knowledge and project content, but also can serve as the doorway to other repositories via integration. Common integrations may include links to internal discussion forums, content management systems, code libraries, or support and development knowledgebases.

Figure 5: **PSA Kick-Starts Resource Centralization**

Source: 2009 TPSA Benchmark
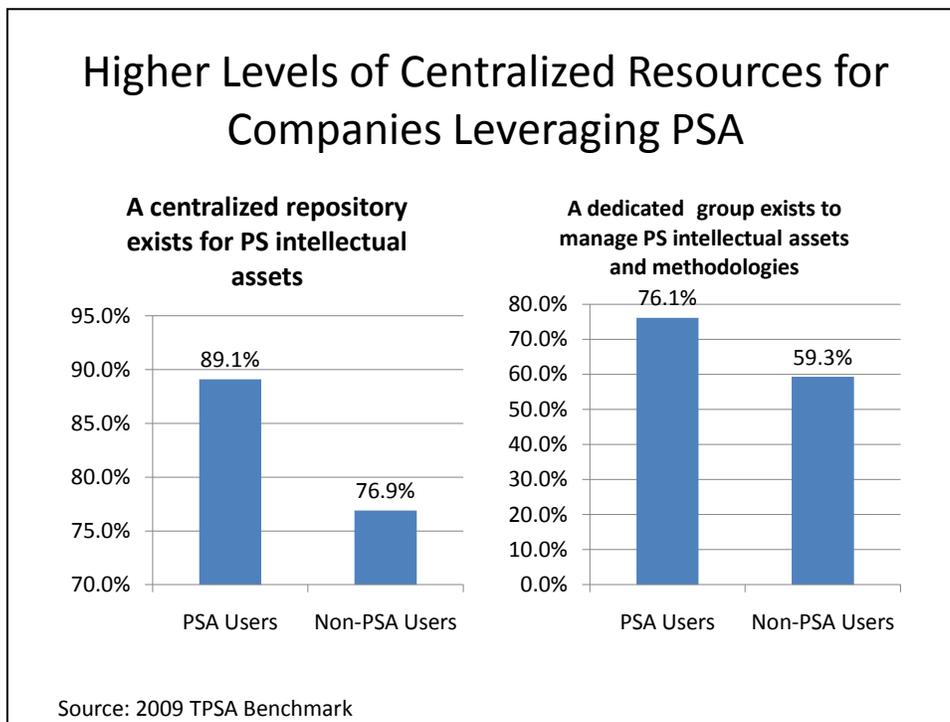
As seen in *Figure 5*, the TPSA benchmark shows that member companies already using a PSA solution are much further ahead in the creation of centralized PS resources than non-PSA adopters. A total of 89% of PSA users already have a centralized repository for PS intellectual assets, compared to 77% of non-PSA users. Another indicator of the maturity of a centralization project is dedicating resources to the creation and maintenance of the centralized content store, and 76% of members using PSA have made this step, compared to only 59% of non-PSA users.

The TPSA Recommends

With increased transparency in our industry about utilization rates and services revenues, PS operations are determined to better understand and improve key success metrics, and that requires moving beyond spreadsheets to adopt technology that can provide a boost in oversight and performance.

Technology alone does not guarantee success, and TPSA Research does not mean to imply that simply purchasing a PSA solution will afford metric improvements: PSA success requires a balance between people, process, and technology. However, a good PSA implementation involves formalizing and documenting PS processes, and creating libraries to store project content, RFP responses, code libraries, and best practices. As the TPSA Benchmark metrics in this report have shown, PS organizations that go through a PSA implementation emerge with better processes, better centralized resources, and more profitable operations overall.

Companies shopping for professional services automation should pay particular attention to:

- **Employee adoption.** One of the top reasons for lack of return on investment (ROI) for enterprise applications is poor employee adoption, with employees often feeling that tools are forced upon them with no benefit to end users. Make certain you select technology with a highly intuitive user interface designed for business users, and clearly communicate the business value for every user of the system: all project tracking and accounting will be automated, boosting utilization rates and enabling consultants to increase billable hours.

- **Deployment options.** Though legacy PSA software has always been installed on premise, more companies today opt for the flexibility and lower cost of a software as a service (SaaS) product. With wizard-like setup tools and end-user targeted configuration options, little onsite administration is required, and upgrades are painless and require no downtime.

- **Quote-to-cash.** Increased visibility to the end-to-end process from opportunity tracking to collecting payment for a completed project should be a goal for all PS executives. Select a product with a proven track record in integrating to common CRM and ERP systems, such as NetSuite, Oracle, Sage, Salesforce, and SAP.

Software AG Success Story

Enterprise organizations that utilize homegrown solutions to manage their core assets not only leave money on the table, but also limit their growth and business potential.

Through the use of OpenAir across more than 20 country offices, Software AG, Germany's second largest software company, overcame these obstacles and experienced immediate productivity improvements.

"Now with one unified system, we realized a lot of overhead had to be eliminated; for example, time spent on verifying the validity of data or double-checking the data," said Jodi Cicci, former PMO director, software AG.

"Knowing the data is correct has freed us up to focus on higher strategic values such as how to efficiently manage projects, forecasting, and revenue utilization."