



## Evaluating a Professional Services Automation (PSA) Solution

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**Service Performance Insight  
Four Bridges  
6260 Winter Hazel Drive  
Liberty Township, OH 45044 USA  
Telephone: 513.759.5443  
Fax: 513.759.5229  
[www.SPIresearch.com](http://www.SPIresearch.com)**

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## PREFACE

Many services organizations, whether professional services firms, software vendors with services arms or internal service organizations, are turning to Professional Services Automation (PSA) solutions to automate their processes and streamline their operations to fully leverage their collective skills and expertise.

PSA generates a rapid and substantial return on investment (ROI) by improving operational efficiency, employee effectiveness, and management visibility through project management, resource management, project accounting, time and expense tracking and revenue recognition capabilities.

A company's choice of a PSA solution is a critical decision. Solutions differ across such factors as price, functionality, deployment and technology infrastructure. This SPI Research White Paper analyses some of the critical factors for organizations that are looking to deploy PSA.

## THE CHOICES CAN BE MIND-NUMBING

SPI Research has worked with over 60 independent software vendors that develop PSA solutions. While each has its own strengths in weaknesses they all have one common purpose — to make services-driven organizations more efficient and effective through the automation of core processes, increased collaboration of the workforce, and provide greater visibility into operations.

There are many factors to consider when choosing a PSA solution. The most common cited are price and functionality, which can vary widely among vendors. The lowest-priced solution may not be the best choice for a company if the functionality is limited; while the highest priced may not be the most optimal if the solution is too complex for its needs. It is therefore important to keep in mind a few things when choosing a PSA solution:

- *Functionality* – What core capabilities does it provide? How will it make a services organization more efficient and effective?
- *Integration* – Does it need to integrate it with existing systems? With which systems and applications does it integrate? Is integration easy or difficult?
- *Deployment options* – How will the vendor install the software at the company? Are they required onsite? Who will host the solution — the vendor or the customer?
- *Technical requirements* – What is required to use the product? Will an investment in the IT infrastructure be required to support the solution?
- *Vendor expertise in business process consulting* – Will the vendor help determine the business process workflows related to the solution? Do they have the internal expertise and experience to help?

### **Price Tends to Be the First Obstacle**

Cost is usually the first factor considered when evaluating PSA. SPI Research typically sees the total deployment cost of the solution (hardware, software, services) ranging between \$500 and \$1,500 per seat. Smaller organizations (100 resources) can expect the total first year cost to be around \$1,000 per seat whereas larger organizations (1,000 resources) will pay closer to \$600 per seat. It is also important to consider annual maintenance and upgrade costs. These normally run between 20% and 30% of the initial license cost.

First year cost tends to immediately include or remove solutions from consideration. Costs should be weighed against the financial benefits to the organization to see if the solution makes sense.

### **Solution Functionality Must Meet Organizational Needs**

Core PSA functionality includes project management, time and expense tracking and resource management. Other solutions might offer project accounting and revenue recognition. Because most PSA solutions offer the same basic tools, comparing them can be difficult. They may appear similar on the surface but in reality they are all quite different. The following sections highlight the core PSA functionality necessary to optimize operational performance.

#### ***Resource Management***

Resource management functionality is a key component of the PSA solution as it enables increased resource utilization and profitability by keeping resources on the right projects. From a staffing perspective, it is critical to be able to search for resources to allocate to a project based on a specific employee talent profile, such as industry experience, skill set, interests and experience — ensuring the best resources are allocated to each project. To this end, individual users should be able to update their profiles with changes to their education and experience so that whoever manages the resource staffing process has access to the most current information about each user.

Additionally, some applications offer multiple booking types, which are used for sorting booked resources for reporting purposes. For example, a company may want to distinguish hours booked for both billable and non-billable work. Another company may want to use both hard and soft bookings, where hard bookings actually allocate a resource to a project and soft bookings are place holders. Distinguishing hard and soft bookings allows administrators to manage forward-looking resource utilization and forecast hiring needs.

Finally, applications will differ in the level of automation of the staffing process. For example, some applications will alert users when they are staffed to projects with an automatically generated email while others require that users monitor their staffing in the PSA application. Additionally, some applications can be customized such that users must approve all staffing assignments before they are finalized.

When evaluating the Resource Management module of a PSA solution users should take a close look at the following features:

- Skills tracking by individual resource;
- Booking request/approval workflow;
- Robust utilizations reporting, including capacity planning (FTE) forecasts and utilization by hierarchy (offices, line of business, etc); and
- The ability to drive financial forecasts (billings, revenue, margin) from staffing plans.

### ***Project Management***

All PSA applications offer basic project management, including the ability to create phases and tasks and estimate project hours. Where applications will differ is in the level of automation of this process.

Many services organizations leverage project templates as a way to standardize their operations. To this end, the most automated project management solutions offer two types of project templates:

1. The ability to create projects from other projects and,
2. The ability to create projects from templates.

Both methods can save valuable time in the creation of a project and eliminate the need to re-key data. Creating projects from other projects is valuable if a particular project is very similar to a completed project, which allows a user to quickly create an accurate estimate of the new project. Creating projects from templates, and thereby copying the phases, tasks, and assigned hours, is useful if a large majority of the work segments into standard buckets of projects. Not only do these templates provide a starting point for customizing project phases, task and assigned hours, but they also may store resource types (e.g., analyst vs. manager) assigned to a project as well as the billing rules for each project type (time and materials vs. fixed fee billing).

Another way to streamline the project creation and management process is to link the PSA management tools with third party project management tools, the most common being Microsoft Project. Some solutions will allow users to create a project in Microsoft Project and upload the project plan into the PSA to manage the project. This ability may also be bi-directional, allowing users to create and update a project in the PSA and then download it into Microsoft Project.

Additionally, some service providers may want the project management tool to link with time tracking in order to provide real-time updating of project status. With this feature, project plans can be continually updated as users submit time against a project's phases or tasks, thereby eliminating the need for the project manager to track down the users assigned to the project to determine the status of the project.

Finally, issue (or problem) tracking may be important. Some PSA applications provide the ability to track and manage issues that arise during a

project. With this feature each issue is mapped to a project and assigned a status (open or resolved), the severity level (low, medium, high) and the person who is accountable for resolving it.

When evaluating the Project Management module of a PSA solution users should take a close look at the following features:

- The ability to leverage project templates when creating new projects;
- Integration with third-party Project Management tools, predominantly Microsoft Project;
- Integration with time tracking module; and
- Issue tracking.

### ***Time Tracking***

While time tracking is fairly standard across PSA toolsets, there are many factors to consider when evaluating this module. One critical issue is the ability to submit time at the project, phase and task level. Submitting at the project level is a critical input to project accounting (described later) while submitting at the phase or task level is a critical component of project management. Specifically, as users submit time against a project's phases or tasks, the percentage complete and hours booked against a project will automatically update, thereby eliminating the need for the project manager to track down the users assigned to the project to determine its status.

The submission and approval process also can be an important issue for the company. Factors to consider include whether users can submit time from their PC only, or is the solution integrated with mobile devices such as PDAs or WAP-enabled phones; how managers approve time submissions (i.e., in bulk or individually); and if the approval process can be customized by project or client.

When evaluating the Time Tracking module of a PSA solution users should take a close look at the following features:

- Ability to track time at the project, phase and task level;
- Integration with project management module;
- Offline access via PDAs, Blackberry or WAP-enabled phones; and
- Ability to customize approval process and workflow.

### ***Expense Tracking***

Like time tracking, expense tracking is fairly standard across PSA solutions. Differentiating factors include the ability to track expenses at the project level, which is a critical component of project accounting; the ability to submit expenses from offline applications, such as PDAs, a Blackberry or WAP-enabled phones; the ability to approve expenses in bulk, rather than approving each expense submission individually; the ability to customize the approval process by project; and the ability for

users to monitor whether their expenses have been approved and reimbursed (e.g., use of an email alert system). Additionally, for many companies, multi-currency functionality is critical if their employees travel internationally.

When evaluating the Expense Tracking module of a PSA solution users should take a close look at the following features:

- Ability to track expenses at the project level;
- Offline access via PDAs or WAP-enabled phones;
- Ability to customize approval process and workflow; and
- User ability to track expenses and reimbursements.

### ***Project Accounting***

Projects accounting is the core that links the PSA solution to back-office accounting system. It includes three main areas: Billing & Invoicing, Revenue Recognition, and Project Profitability.

#### ***Billing and Invoicing***

There are many ways to bill clients — fixed fee, time & materials, re-billable expenses, product pass through, or some combination of these four — so it is critical to ensure that the PSA solution accommodates the unique billing needs of the organization and its clients. Not all PSA solutions have the same flexibility in terms of how to bill customers. The most flexible applications allow customers to use multiple billing rules, such as fixed fee and time & materials billing, for a single project.

For many service providers, billing varies client-to-client, and within clients, sometimes project-to-project. Therefore a more robust and flexible application is critical to their business needs. Additionally, some service providers need the flexibility both to pass through purchases made on behalf of a client and mark up other expenses that are incurred. Additionally, the more robust applications have online invoicing capabilities, which allows users to conduct all billing and invoicing within the application, and integrate all billing information generated by PSA with the company's legacy financial and accounting systems.

#### ***Revenue Recognition***

Revenue recognition is an important component of project accounting. With the increased scrutiny placed by auditors on revenue accounting, it is imperative that the PSA solution is robust enough to accommodate the different ways by which the organization recognizes revenue. Pricing agreements with clients can be quite different, including up-front fees, complex discounts, multiple billing methods and maintenance agreements. How an organization chooses to recognize this revenue will differ by both project and client. Robust revenue recognition capabilities allow service providers to account for revenue more accurately by establishing project-based rules for revenue recognition. For example, service providers can accelerate revenue by recognizing it sooner and billing for partially completed projects, or recognize an upfront fee over the life of

the project as the work is completed.

### ***Project Profitability***

As mentioned above, to enable project accounting and track project profitability, users must be able to track time and expense at a project level. It is imperative that the PSA solution selected allow for user costs to vary by project or by year, in order to capture true historical cost. Service providers with non-US based clients will require a solution that handles multiple currencies and international tax related issues such as VAT, GST and PST.

When evaluating the Project Accounting module of a PSA solution users should take a close look at the following features:

- Ability to track time and expenses at the project level;
- Customizable billing that allows for multiple billing rules by customer or project;
- Customizable revenue recognition capabilities; and
- Flexible costing functionality that allows for true historical costing of users and handles multiple currencies and international tax related issues.

### ***Reporting***

The reporting functionality of a PSA solution is the key tool for the analysis of the project related data. The functionality should offer standard reports but also be flexible enough to run customized reports depending on the needs of the user. Additionally, the number of formats of reports (e.g., Gantt charts vs. pie charts) also may be important in order to customize the analysis for the benefit of audience. For example, project managers may require detailed reporting while C-level executives will want high level reports and graphs that capture the overall picture. Customizing reporting needs will ensure that all users are fully utilizing the information contained in the application. The solution should also enable users to download selected data into personal productivity packages like spreadsheets, word presentation and documents for more a more tailored look.

The reporting functionality of a PSA application is the key indicator of the caliber of metrics that a company can expect to receive. For many service providers, managing by metrics is a key component for their success. Therefore it's imperative that the PSA tool enables its users to track the appropriate metrics.

When evaluating the Project Accounting module of a PSA solution users should take a close look at the following features:

- Standard reports provided;
- Ability to customize reporting for individual user needs; and
- Customizable metrics.

## **The Technical Infrastructure Improves Visibility**

While the PSA solution cost and usability are critical for success within an organization, for it to provide significant benefits it must fit within the technological infrastructure. It must be able to be integrated with other enterprise applications and be used by the workforce regardless of the technologies they use to do their job. The following sections highlight factors to consider as to PSA's fit within the technology infrastructure.

### ***Integration capabilities***

A PSA solution sits between front-end application such as CRM and back-end application such as human capital, procurement, financial and accounting packages. Therefore, it is critical that the choice of a PSA solution integrates with the existing application infrastructure. Integrating with current applications offers many advantages, including the elimination of the need to re-key the information from one source into another, which can save hours if not days of a company's time. Additionally, it may be important to integrate PSA with the existing payroll system, allowing time and expense to be automatically routed into payroll.

Most PSA solutions offer robust integration with leading back-office applications. It is important to ask how familiar the vendor's professional services team is with this type of integration.

### ***Deployment options***

There are two main deployment options among PSA vendors. In the traditional client-server model, the customer hosts the software on its servers and must employ IT personnel to maintain the server and the solution. The vendors charge an upfront license fee per user plus an annual maintenance fee, which usually equals 20% - 30% of the license fee. Due to its high upfront cost and the need to employ IT personnel to maintain the solution, this model traditionally has been limited to larger companies.

Conversely, in the past five years, a new model has emerged, specifically the Software as a Services (SaaS) model, in which the vendor hosts the software on its servers and charges a monthly or annual fee per user rather than a fixed upfront fee. The vendor maintains the application and often provides quarterly or more frequent updates of its solution, free of charge. Some vendors may also refer to this as a hosted or "on-demand" solution. The SaaS model has gained significant traction recently due to its zero cost of ownership, shorter deployment schedules and elimination of the need for IT head count at the customer to maintain the solution. Despite the obvious cost advantages to small and medium sized companies, SaaS solutions are gaining popularity among large companies due to the ease of upgrading the software. Deploying an upgrade of an application across a large company and thousands of PCs requires a significant investment of both dollars and people. A SaaS solution allows for upgrades in real time at no additional cost to the customer.

**Technical requirements**

When evaluating a PSA solution, it is important to understand the technical requirements, if any, that will be placed on the company's infrastructure. Critical questions to ask include:

- If using a SaaS model, can users use any browser to access the application, from the office, from home, or from a client site?
- Does the application run on all platforms, including MAC and Linux OS?
- Can the application support off-line use in the event Internet access fails?

Most PSA vendors offer access through either a browser or a thin client that is placed on the user's computer. However, not all applications can run on all operating systems, including Windows, MAC and Linux OS. Advertising agencies, which primarily use a MAC operating system, should specifically be aware of this issue.

Supporting disconnected access is critical for improving service levels. For example, mobile clients will be able to access the application when the network connection is down or slow. Also, disconnected access can improve service availability and performance of the application.

Some vendors also integrate with mobile devices, such as PDAs and WAP-enable phones, thereby enabling users to submit time and expense when away from a computer. The optimal access for a company will depend on its business model and needs. For example, if users tend to travel frequently, the ability to access the solution from the road and from a variety of mobile devices will be important.

**VENDOR EXPERTISE IN BUSINESS PROCESS CONSULTING**

A PSA vendor may require that its professional services team works with its customers to deploy the software rather than use an external service provider. This deployment process may be done remotely or on-site, depending on the application and company's needs. This process can sometimes require several weeks or more of work.

Not only is it imperative for the vendor to meet the organizations deployment timing needs, it is also critical that the vendor works with the organization to optimize the solution for the business needs and workflows, rather than adapting the company to their software. As a result, the experience of the professional services team strongly correlates with the long-term success of the PSA application. The professional services team should not only be experts in PSA solutions, but also experts in business process optimization.

## CONCLUSIONS

The choice of a PSA solution is a critical company decision as the solutions differ across many factors, including price, functionality and deployment schedule. The right solution can generate a significant return on investment by automating and integrating previously time-intensive business operations, such as staffing resources, managing projects, tracking time and expenses, project accounting, and billing and invoicing — ultimately making the business more efficient and effective.

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**Service Performance Insight** (SPI Research) is a globally-focused research firm specializing in management issues regarding information technology (IT) use in the services sector. The firm closely follows professional services organizations (PSOs), independent software vendors (ISVs) and other technology providers, analyzing how organizations best use technology to make their 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.

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