



**A Service Performance Insight White Paper**

**Service Compass: *Charting the Course to Professional Service Excellence***

# **Service Delivery Performance Drivers for Customer-facing Organizations**

**Optimize productivity, profitability and client satisfaction  
through sales and project delivery alignment**

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**Service Performance Insight, LLC**

**[www.SPIresearch.com](http://www.SPIresearch.com)**

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## INTRODUCTION

Businesses are under more pressure than ever to deliver high-quality products and services. Customer (and client) facing organizations (sales and service delivery) must be aligned to ensure cost, schedule and value are delivered as promised. This new operational paradigm requires greater unification across traditionally and culturally different organizations. A robust and solid information foundation will be at the center of this alignment, and will provide the infrastructure for improved communication and collaboration for the company and ultimately its customers or clients.

In this executive white paper, Service Performance Insight (SPI Research) will show areas where sales and project/service delivery organizations can work together more closely to achieve the desired goals of increased sales, productivity and profitability, coupled with increased customer and employee satisfaction. SPI Research will use data taken from 413 large (over 100 employees) project-based organizations (PBOs) over the past three years.

## CUSTOMER (AND CLIENT) FACING EMPLOYEES NEED HELP

Over the past three years' the economy seems to be improving, but with the headwinds of increased global competition, along with a talent shortage, larger project-based organizations have become under increasing pressure to improve. Every organization must manage operations within the construct of the global economy, and with it comes increased competition from virtually anywhere, and at any time. The Internet has provided greater levels of global visibility and with it a more competitive environment. This situation has made it more difficult to sell project-based services, as evidenced by a reduced deal pipeline and project backlog (Table 1).

Of course, each PBO is dependent on the quantity and quality of its workers. Lately, PBOs have seen voluntary employee attrition increase significantly as the economy has grown. This situation has made it increasingly difficult to complete work on-time and on-budget, and therefore project margins have suffered. Most of the core financial key performance indicators have suffered as well, with the exception being that of profitability, which is actually grown.

**Table 1: Disturbing Trends for Larger Project-based Organizations**

Key Performance Indicator (KPI)	2014	2015	2016
Year-over-year change in PS revenue	12.3%	10.7%	9.5%
Bid-to-win ratio (per 10 bids)	4.81	4.85	4.80
Total attrition	11.4%	14.6%	15.5%
Time from recruit to bill (days)	127	115	120
Billable utilization	74.4%	73.7%	71.9%
Average revenue per project (k)	\$235	\$289	\$225
Annual revenue per employee (k)	\$181	\$162	\$157
<b>Profit (EBITDA %)</b>	<b>13.8%</b>	<b>17.3%</b>	<b>14.2%</b>

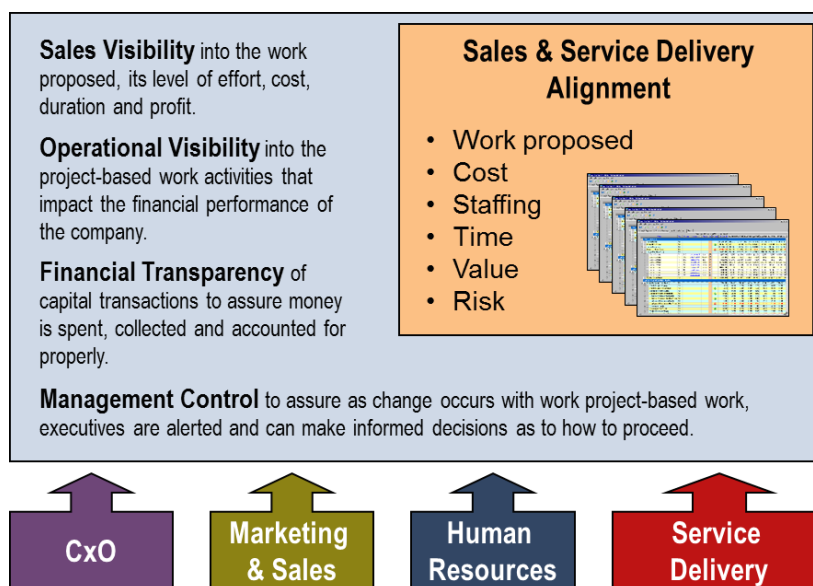
Source: Service Performance Insight, April 2017

However, profitability fell in 2016 as most of the gain were made at the beginning of 2015, and market conditions tightened toward the end of the year.

## ALIGN ORGANIZATIONAL GOALS & OBJECTIVES

In over 10 years of surveying PBOs, SPI Research has found leading firms have strong communications among every department (Sales, Marketing Human Resources, Project/Service Delivery, Finance and Accounting). PBO executives understand that no individual department will succeed unless they all succeed. Therefore, leaders do a superior job of communication and activity alignment. These executives better understand areas where capital could be used for improvement – from marketing and sales of highly demanded services, to hiring the highest quality individuals, or to improving or eliminating poor performing business processes – in order to ultimately grow revenue faster and at higher margins.

**Figure 1: Align Sales with Delivery**



Source: Service Performance Insight, April 2017

## BUILD A PROJECT-BASED ORGANIZATION

High-performing project-based services firms realize that in order to achieve their objectives of growth and profitability, they must better perform when delivering services. Leaders have turned all work into project-based work. Projects have unique starting and stopping points, a methodology to deliver the project or service, and pre-defined time and cost. PBOs can create repeatable processes to plan, build a team, execute and deliver services.

### The project is central, but it is not everything

But as important as the project is, there are many other areas that impact the ultimate success or failure of a project, as well as the profitability of the work. First, project-based must be sold, and sold at an acceptable profit margin. To successfully sell work, the sales force must understand the value the project delivers to the client, the cost to do the work, and its duration. From there, the organization can work to price the work at a level that will meet margin requirements. Obviously,

the organization must understand resource availability, in order to begin the project on time, which will also give the client greater comfort the work will be completed on time. Therefore, resource management is critical not only to completing work, but also just to begin it (Figure 2).

**Figure 2: Customer/client facing organizations require visibility throughout engagements**



Source: Microsoft, April 2017

Once work has begun there is a significant amount of collaboration required to keep the work on time and on budget. Likewise, without the proper mechanism to capture time and expenses, the PBO will not understand how it is performing financially. And of course, in the end, accurate and detailed invoices must be generated and presented to the client. Many PBOs take days if not weeks to assemble the information. In many cases, it is either inaccurate or incomplete, which ultimately means payments will be rejected until it is straightened out. Leading organizations keep their days' sales outstanding (DSO), the time from when an invoice is generated and submitted to its payment, to less than 30 days. A higher DSO means higher financing costs which ultimately drives down profitability.

## LEVERAGE INFORMATION TOOLS FOR IMPROVED PERFORMANCE

It is important project-based organizations take advantage of the tools they have at their disposal. Virtually every organization surveyed by SPI Research with over 100 employees has access to finance and accounting solutions, which help them better run their business and manage cash flow. Almost every one of these same organizations also have a Client Relationship Management (CRM) solution in the house.

Many of the larger PBOs also utilize Professional Services Automation or Project Service Automation (PSA) solutions to efficiently staff resources and ensure projects are completed on-time and on-budget. PSA is *the* critical tool for service delivery, and its information has benefits for virtually every single department. And finally, as PBOs grow larger many turn to Human Capital Management (HCM) solutions to manage skills, compensation and training, just to name a few.

PBOs from around the world have begun to demand that their customer-facing organizations share information to increase sales, improve operating efficiency, increase customer/client satisfaction while raising profits. In other words, the Client Relationship Management solution should talk to the Professional Services Automation solution. A common question is what information should be exchanged between CRM and PSA, and what are the benefits of connecting these two enterprise software applications? Common CRM and PSA integration points include:

- △ Sharing of prospect and client information

- △ Opportunity tracking and coordination for assigning resources, tracking project progress and billing
- △ Forecasting close dates and project timelines
- △ Scoping and estimating, project budgeting and billing
- △ Tracking project issues, change orders and scope changes
- △ Tracking presales and non-billable client support time and cost
- △ Project dashboards, schedules, status

## CLIENT RELATIONSHIP MANAGEMENT IS CRITICAL FOR MARKETING & SALES

Client Relationship Management solutions help customer-facing organizations grow revenue. They enable the automation of relationship processes to improve sales and marketing efficiency and effectiveness. Many organizations treat CRM merely as a sales tracking solution, but it is much more. CRM should help PBOs operationalize all customer-facing processes, from demand creation, through prospecting, bidding and acceptance, to managing client needs throughout the delivery of projects.

Some CRM applications also provide powerful call center functionality for issue management; call handling; trouble ticketing and problem resolution. CRM supports analysis by customer, geography, project type, sales rep and virtually any other dimension tracked by the organization. It allows for personalization and for organizations to create and manage marketing programs (determine success or failure), enable bid tracking to see what pricing works or does not.

SPI Research has tracked the value delivered by CRM, as highlighted in Table 2. While CRM has always been known to help grow revenue faster than those organizations not using CRM, one of its significant benefits is in that of finding new customers, whether they are new logo customers or another division within a current one.

CRM helps organizations build pipeline and ultimately fuel backlog, which has an added benefit of reducing the need to discount services. And of course, CRM helps improve overall company profit, which is ultimately why PBOs purchase CRM in the first place.

**Table 2: CRM Drives Revenue Growth**

Key Performance Indicator	With CRM	w/o CRM	△
Year-over-year change in PS revenue	10.2%	3.8%	171%
New clients	28.0%	16.3%	71%
Deal pipeline / quarterly bookings forecast	207%	178%	16%
Sales cycle (days)	95	114	16%
Annual revenue per billable consultant (k)	\$207	\$172	20%
Annual revenue per employee (k)	\$158	\$134	17%
<b>Profit (EBITDA %)</b>	<b>14.8%</b>	<b>5.0%</b>	<b>195%</b>

Source: Service Performance Insight, April 2017

## PROFESSIONAL SERVICES AUTOMATION MANAGES THE SERVICE DELIVERY LIFECYCLE

Professional/Project Services Automation solutions are central to the delivery of project-based services. They help PBOs find the optimal staff to meet both time and budget constraints. As services are delivered, PSA can improve the collection of time and expense information, thereby improving the accuracy and timeliness of invoices.

PSA can account for all time, costs and materials related to the work. Accurate time and cost information contributes to accurate invoicing, which improves the probability of client acceptance leading to prompt payment.

PSA also helps to close the books faster. With real-time, accurate information, closing the books can take hours instead of days or weeks. Today, speed and accuracy are critical success factors.

The bottom line is that PSA helps project-based organizations become more efficient and effective, which helps them grow at a much faster rate than those organizations not using PSA (Table 3).

**Table 3: PSA Can Improve Other Areas of PBOs**

Key Performance Indicator	With PSA	w/o PSA	Δ
Year-over-year change in PS revenue	9.7%	8.5%	14%
New clients	28.4%	18.5%	53%
% of employees billable or chargeable	74.4%	72.1%	3%
% of billable work is written off	2.83%	3.76%	25%
Annual revenue per employee (k)	\$159	\$147	8%
Profit/employee (k)	\$22.0	\$16.4	34%
<b>Profit (EBITDA %)</b>	<b>14.7%</b>	<b>11.7%</b>	<b>26%</b>

Source: Service Performance Insight, April 2017

## CRM AND PSA INTEGRATION CONNECTS SALES TO THE WORLD OF WORK

CRM and PSA integration provides a platform for bi-directional information exchange. Integration ensures sales and project teams have shared visibility to project status, pipeline, cost, budget, and billing information. Real-time access to this information helps:

- △ The sales team analyze client status and pinpoint new opportunities;
- △ Project team members plan, train, staff and prepare for upcoming projects;
- △ Executives assess project performance and forecast future demand; and,
- △ Accelerate and streamline the entire project billing cycle.

Dispersed teams, projects and clients have made project execution more challenging than ever. It takes considerable collaboration and effort between teams to win new clients, keep them happy, and to deliver projects profitably and effectively. By linking CRM and PSA, sales and service teams gain visibility to forecast demand, seamlessly transition projects from sales to service teams while exceeding client expectations. In today's fast paced impatient world, spreadsheets, emails, manual processes and disconnected systems are no longer sufficient.

## CRM and PSA integration helps to answer critical questions

The integration of CRM and PSA improves performance at all levels of the organization. The following bullets highlight integration benefits experienced by the Tenrox user group:

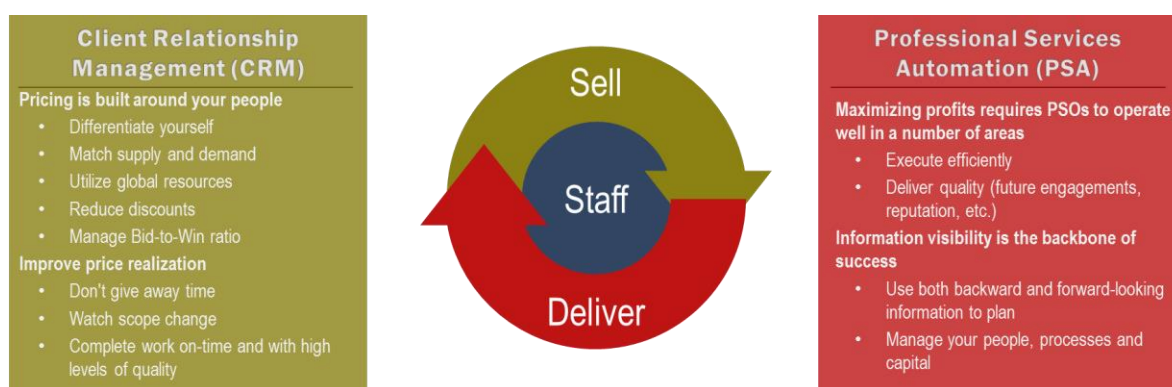
- △ **Executives:** company executives gain access to real-time project cost, budget, and revenue information that enables them to quickly answer questions:
  - What does the quarter look like?
  - What is our projected revenue and cash flow?
  - Which client engagements generate the most revenue or highest profit?
  - How can I get a consolidated view of all our service engagements and their status?
- △ **Sales:** CRM and PSA integration connects sales team members to the project execution teams. Sales team members gain access to client and project summary information that helps them understand a client's status and whether there are new sales opportunities to pursue. Sales team members can answer:
  - What is the status of my client's project(s)?
  - Is the client happy? Are there any red flags regarding requirements, delivery dates, budget or scope?
  - What else does the client need?
  - How much of the project has been billed so far?
  - How much services have been consumed from the open POs? When is the right time to contact the client for more services?
- △ **Service:** service team members can plan and prepare for upcoming projects and collaborate more effectively with the sales team on new opportunities and existing client engagements. Service team members can answer:
  - What is the status/health of our projects and service engagements?
  - What does the project pipeline look like? When are projects forecasted to start and when are they scheduled to be complete?
  - What resources and skills are required to deliver these projects? Do we have enough capacity to staff upcoming projects?

## CRM and PSA integration drive revenue and profit upward

Most PBO executives understand that both CRM and PSA are very important to their business. After core financials, these two solutions had the highest penetration rates in SPI Research's **2017 Professional Services Maturity™ Benchmark**. Over 90% of the largest organizations (over 100 employees) surveyed used CRM, while over 80% used PSA.

Although most firms recognize the importance of CRM to gauge sales and marketing effectiveness, they predominantly deploy their CRM system as a stand-alone application, with only 33% reporting integration between the CRM application and their core financial or PSA applications. For those few firms that have integrated CRM, the performance rewards have been significant (Figure 3).



**Figure 3: CRM and PSA Integration optimizes the Quote-to-Cash process**

Source: Service Performance Insight, April 2017

**Integrated CRM and PSA magnifies opportunities and impediments to success**

As PBOs grow in size and scope, the needs of it increase. Nowhere is this more evident than in the information infrastructure. Many project-based organizations operate in functional silos, meaning each department uses stand-alone applications to improve specific departmental processes. While the benefits to each department might be significant, does the overall organization prosper if departments do not communicate and collaborate?

To better understand how the integration of CRM and PSA increases organizational performance, SPI Research analyzed billable service organizations with over 100 employees (Table 4). These organizations are large enough to need and deploy business applications such as CRM and PSA. SPI Research segmented these organizations into those organizations with integrated CRM and PSA, and those without.

With this integration, PBO executives can plan projects within PSA to gain a detailed

understanding of the time and costs involved. This information, when directly fed into CRM shows the projected profitability of the engagement and also enables the PBO to quickly prepare accurate bids that meet the PBO's margin requirements. Once a bid is accepted the PBO can immediately build the project plan with the available resources and expedite the beginning of the project. The integration of CRM and PSA provides the PBO with the billing plan, agreed upon in advance with the client.

**Table 4: Integrated CRM and PSA Improves Sales**

Key Performance Indicator	Int.	Non-Int.	Δ
Year-over-year change in PS revenue	11.0%	6.2%	78%
Year-over-year change in PS headcount	9.7%	5.4%	81%
Deal pipeline / quarterly bookings forecast	215%	185%	16%
Sales cycle (days)	82	113	27%
Revenue per project (k)	\$233	\$199	17%

Source: Service Performance Insight, April 2017

Integrated PSA and CRM show human resources where they might have staffing deficiencies so that they can immediately work to hire and train employees to do the project-based work. In a fast-paced environment, such as professional services, every day could be tens of thousands of dollars lost due to inadequate skills inventory (Table 5). By integrating CRM and PSA, HR executives can do their work much more efficiently.

**Table 5: Integrated CRM and PSA Improves Talent Mgmt.**

Key Performance Indicator	Int.	Non-Int.	Δ
Year-over-year change in PS headcount	9.7%	5.4%	81%
Employee annual attrition - involuntary	5.9%	6.5%	10%
Recommend company to friends/family	4.32	3.86	12%
Days for a new hire to become productive	54.4	66.8	18%
Annual training days / employee	9.01	7.50	20%

Source: Service Performance Insight, April 2017

Of course, PSA solutions benefit in the delivery of services – from understanding which resources to staff projects with, to managing the work as it is done, to collecting all of the time and expense information necessary to invoice the client, as well as provide a collaborative foundation for the workers to complete projects efficiently and effectively (Table 6). PSA solutions help project-based organizations to optimize billable utilization, because every hour not billed is in our lost forever.

Once work is initiated PSA provides the visibility necessary to assure schedule and cost compliance, and in the event of project changes, the combination of PSA and CRM enable the PBO to minimize potential client relationship damage.

As invoices are generated and sent to the client from within PSA, the PBO will be able to

**Table 6: Integrated CRM and PSA Improves Service Delivery**

Key Performance Indicator	Int.	Non-Int.	Δ
Employee billable utilization	73.3%	71.7%	2%
Project staffing time (days)	8.78	10.38	15%
Projects canceled	1.7%	2.1%	19%
Project overrun	7.9%	10.4%	24%
Use a standardized delivery methodology	75.7%	72.0%	5%
Project margin	38.8%	30.2%	28%

Source: Service Performance Insight, April 2017

manage any client concerns through CRM, which increases communication and collaboration and subsequently client satisfaction. These benefits cannot be underestimated as in many cases invoices are generated and not approved due to client concerns, which ultimately hurt cash flow.

PSA solutions also help in the organization in terms of understanding cash flow. As invoices are generated due at specific points of the project, the finance department will have greater visibility into when they will be paid, and therefore how much capital they will have to outlay to pay for the service.

The net effect of integrated CRM and PSA yields significantly higher performance than those organizations that do not. Unfortunately, many project-based organizations do not have integrated CRM and PSA, and fail to sell projects and services and operate their organization optimally.

## CONCLUSIONS & RECOMMENDATIONS

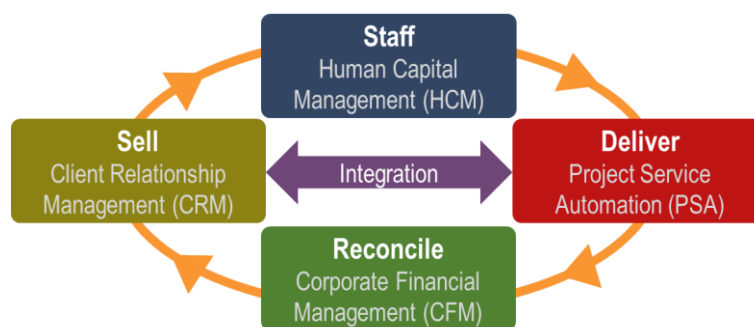
Globalization has changed the world forever. There is no end to competition and new ideas. Executives in every industry must double-down their efforts to improve performance in products they develop, sell and support, as well as the project-based services they provide. There is very little room for waste.

Better project management means better business management. During these days of increased cost, competitive and compliance pressure, it is essential that organizations operate more efficiently, price services more aggressively, and report in an accurate, consistent and auditable way. Executives require greater information now than ever, yet it must be accurate and consistently reported to ensure long-term growth and prosperity.

SPI Research believes the next several years CRM and PSA integration will be increasingly critical for PBOs. Competition, changing business models and technologies are just a few of the issues impeding growth. Organizations with the best employees will be successful, but only if they sell and deliver high-quality repeatable services on time and on budget.

An integrated CRM and PSA solution provides the platform to strengthen financial and operational control, help better manage the full project lifecycle, and minimize risk across the organization. And all of the project information all resides within a single instance, meaning one version of the truth and no need for additional paper- or spreadsheet-based tools to assemble data.

**Figure 4: CRM & PSA Integration Improves Visibility, Productivity and Profit**



Source: Service Performance Insight, April 2017

## About Service Performance Insight



**R. David Hofferberth, PE**, Service Performance Insight founder, managing director and licensed professional engineer has served as an industry analyst, market consultant and product director. He is focused on the services economy, especially productivity and technologies that help organizations perform at their highest capacity.

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**Service Performance Insight** (SPI Research) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 15,000 service and project-oriented organizations to chart their course to service excellence.

SPI provides a unique depth of operating experience combined with unsurpassed analytic capability. We not only diagnose areas for improvement but also provide the business value of change. We then work collaboratively with our clients to create new management processes to transform and ignite performance. Visit [www.SPiresearch.com](http://www.SPiresearch.com) for more information on Service Performance Insight, LLC.