



Service Compass: Charting the Course
to Professional Service Excellence

The Power of PSA

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Service Performance Insight

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TABLE OF CONTENTS

Executive Summary	1
Introduction.....	2
Improved Resource and Project Visibility Leads to Greater Competitiveness.....	2
Accurate and Timely Expense Capture and Complex Billing	3
Professional Services Automation Is No Longer Optional	3
Integration Provides Additional Benefits	4
SaaS versus On-Premise Application Preference.....	4
Preference for Best-of-Breed versus Integrated Solutions.....	5
NetSuite / OpenAir Uplifts Service Performance.....	7
Recommendations & Conclusions	8
About Service Performance Insight	9

FIGURES

Figure 1: The Movement toward SaaS.....	5
Figure 2: Preference for Best-of-Breed vs. One Integrated Solution	6
Figure 3: NetSuite / OpenAir Survey Participation	7

TABLES

Table 1: Improved Billable Utilization Drives Profit.....	3
Table 2: PSA Integrated with Financials Provides Benefits	4
Table 3: Differences in Firms Preferring SaaS versus On-Premise.....	5
Table 4: Firm Preference for Best-of-Breed vs. One Integrated Solution	6
Table 5: OpenAir Performance Improvements.....	7

EXECUTIVE SUMMARY

The \$1.4 trillion global professional service industry is one of the most vibrant and fastest growing sectors of the global economy. Lawyers, accountants, management consultants, architects, engineers and IT service professionals have come to depend on powerful automation tools to help them sell, schedule, deliver and bill their knowledge-based work.

By definition, professional service organizations are based on the depth of knowledge and unique expertise they bring to solve their client's complex business problems. But the playing field has become more global and competitive, making powerful Professional Service Automation (PSA) solutions one of the antes to play. Seventy percent (up from 62% in 2008) of the 225 participants in SPI Research's 2010 Professional Services Maturity benchmark reported using PSA.

SPI Research defines Professional Service Automation as:

An integrated suite of applications used to increase operational visibility and improve resource management, project management and time and expense capture in professional services organizations

A key differentiator for professional service organizations is providing unique, high-value client solutions through the integration of *people*, *process* and *capital*. Professional Service Automation provides a solution to efficiently plan, sell, execute and charge for work. It gives team members the tools to collect and share client, resource and project knowledge that can be further used to optimize business operations. The net effect of PSA is a more productive and profitable business, with improved levels of predictability and client satisfaction.

For over a decade, thousands of PSOs have turned to PSA solutions to more efficiently run their organizations. PSA offers end-to-end integrated process workflow that gives PSOs visibility into the entire service project lifecycle and enables them to accurately and quickly make changes that positively impact profitability. This *Executive White Paper* focuses on two of the most critical drivers of PSA adoption:

1. Resource and project management visibility leading to faster delivery, higher quality and more profitable and predictable operations;
2. Accurate billing, reporting and time and expense tracking to illuminate project profitability and reduce billing and collection cycle time.

These improvements not only yield better financial results and increased client satisfaction, but also ultimately improve a PSO's brand and reputation.

To increase financial visibility and control throughout the service delivery lifecycle, PSA should be integrated with the organization's core financial (ERP) and client relationship management (CRM) solutions. SPI Research's recent 2010 Professional Services Maturity Model Benchmark, derived from surveys and analysis of 225 billable PSOs in

2009, demonstrates the benefits of integrating PSA with core financial and client relationship management applications to provide end-to-end service resource planning. The report also highlights the market shift toward Software-as-a-Service (SaaS) deployment to reduce operating costs and support an increasingly geographically dispersed workforce.

INTRODUCTION

Much has changed since the start of the 21st century for professional service providers – the Internet, global project work teams and shorter, faster more iterative projects. What hasn't changed is the fact that up to 90% of a service organization's costs are people-related and a billable hour is still 60 minutes of work, regardless if it is delivered from Mumbai or New York City. Profit creation in professional services still comes down to higher rates or better workforce productivity. Only a rare few organizations achieve higher-than-market rates so the real profit differentiator is workforce productivity and effectiveness.

Global competition, more cost-conscious clients, and price-erosion mandate Professional Service (PS) executives operate their organizations more efficiently. As a result Professional Service Organizations (PSOs) can no longer maintain multiple disconnected applications and disjointed spreadsheets to manage the business and their most important assets, their clients and employees. Information captured and used by one group may be critical for the success of others. The requirement for greater information visibility begins in the planning process, and extends through sales, staffing, project execution, invoicing and reporting.

No matter what size the professional service organization, the key to success is to provide the right resources, armed with the right knowledge, experience and tools, at the right time and right place. Winners operate with global visibility into their sales pipeline and project backlog and an up-to-the minute view of resources and project actual costs compared to budget. Accurate weekly time and expense capture from mobile workers is now standard as is the ability to quickly generate correct invoices conforming to local currencies and complex billing rules.

IMPROVED RESOURCE AND PROJECT VISIBILITY LEADS TO GREATER COMPETITIVENESS

In PSOs, human resources are unlike the material resources used in product-centric organizations. Non-billable time is instantly perishable. PSOs can never recoup non-productive hours. Therefore, resource visibility and efforts to increase staff utilization are critical to organizational performance and profitability. Unfortunately, many PSOs do not have a real-time view into resource availability, nor the current and future workload and skills required, and therefore cannot make necessary changes to improve billable utilization.

The main issue is that in PSOs, projects and individuals are not created equal. Each project is unique and requires different knowledge and expertise and presents varying levels of risk and complexity. Likewise, people have different skills, and merely replacing one person with

another is not always an option, or in the best interest of the client (or the PSO for that matter). Projects require people with the right combination of technical and business skills, hourly burdened cost, and industry and domain knowledge, to successfully complete the work.

ACCURATE AND TIMELY EXPENSE CAPTURE AND COMPLEX BILLING

In the labor-based world of services, accurate time and expense capture and weekly or bi-weekly complex project billing are the norm. Delays and inaccuracies in time and expense collection need to be minimized. With today's mobile, remote and often global workforces, applications must support mobile device access to ensure consultants can submit from the road. Alerts and workflow hasten the approval routing process and ensure time and costs are accurately applied by client project.

Today's service providers must offer an array of contract and pricing options – time and materials, work-in-process, milestone and fixed fee and be able to automatically generate accurate multi-currency invoices. Reducing errors in time and expense capture and shortening billing and collection time is critical to keep costs and revenue in alignment. Cash flow is always an important consideration so reducing billing cycle and collection time has significant bottom-line impact.

PROFESSIONAL SERVICES AUTOMATION IS NO LONGER OPTIONAL

Since PSA solutions have been available for over a decade, over 70% of the organizations surveyed by SPI Research now use a PSA solution, and this figure would be higher if the smallest organizations (those with less than 10 people) were not included.

PSA's first and foremost benefit is that of increasing billable utilization. Because utilization is the lifeblood of profitability in professional services it impacts every area of the organization. Table 1 highlights the importance of billable utilization compared to KPIs that include revenue per billable employee, on time project delivery, and earnings before income taxes, depreciation and amortization (EBITDA). This information was taken from SPI Research's recent 2010 Professional Services Maturity Model Benchmark.

Table 1: Improved Billable Utilization Drives Profit

Billable Utilization	Revenue per Billable Employee	On-time Delivery	EBITDA
Under 60%	\$178K	76.0%	18.0%
60% to 80%	\$218K	80.0%	20.8%
Over 80%	\$216K	81.9%	28.4%
Survey Average	\$205K	79.2%	20.3%

Source: Service Performance Insight, April 2010

INTEGRATION PROVIDES ADDITIONAL BENEFITS

PSA by itself helps drive significant performance improvements. However, when PSA is integrated with other enterprise applications all levels of the PSO gain broader visibility into overall business operations. This visibility is critical to help make the changes necessary to improve performance and client satisfaction, which ultimately drive profit improvements. Table 2 compares some of the more important key performance indicators used by PS executives, and shows the positive impact of PSA on overall performance.

Table 2: PSA Integrated with Financials Provides Benefits

KPI	No PSA	PSA Not Integrated	Integrated PSA
Billable Hours	1,354	1,454	1,453
Utilization	68.5%	72.7%	72.7%
Concurrent Projects Managed	4.1	4.1	4.6
Revenue Per Consultant (k)	\$181	\$208	\$222
Revenue Per Employee (k)	\$150	\$183	\$191
EBITDA	16.6%	19.3%	22.7%

Source: Service Performance Insight, April 2010

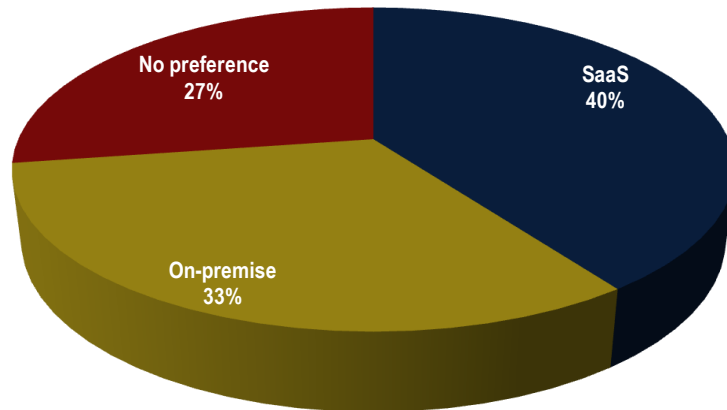
Integration allows critical project and resource information from PSA to be shared with other applications, such as core Financials, Client Relationship Management (CRM), and Human Capital Management (HCM), to facilitate decision-making and alignment.

SAAS VERSUS ON-PREMISE APPLICATION PREFERENCE

Respondents to SPI Research's recent survey reflect the popularity and growth of SaaS (cloud-based) PSA applications as 40% of respondents expressed a preference for SaaS solutions (Figure 1). According to the December, 2009 Software Equity report, SaaS represents the fastest growing software sector with trailing twelve month revenue growth of 15.2% for the top 16 publicly traded SaaS firms.

SaaS-based solutions are a natural fit for project and services-driven organizations to support their geographically dispersed, Internet-intensive work style. They have grown in their appeal to both independent professional services providers (management consultants, architects and engineers, etc.), as well as embedded service organizations (the services arms of hardware and software providers, and others) operating in an environment with very little available or required IT support. SaaS solutions allow line-of-business executives to select the applications which best support their business without compromising security, data integrity or connectivity. Nor is IT forced to customize monolithic ERP applications to support unique PS requirements.

Figure 1: The Movement toward SaaS



Source: Service Performance Insight, April 2010

The survey shows PSOs who prefer SaaS solutions have slightly smaller workforces than those preferring on-premise, but they are growing three times faster and produce almost double the revenue per person of the organizations that prefer on-premise applications (Table 3).

SaaS solutions are becoming increasingly important in mid-sized and larger PSOs, and this trend is expected to continue. According to survey responses, the level of integration between the core financial application and PSA and CRM is almost identical for SaaS and on-premise solutions but the promise of ease of integration for SaaS applications and suites should deliver significant improvements in this area in the future.

Table 3: Differences in Firms Preferring SaaS versus On-Premise

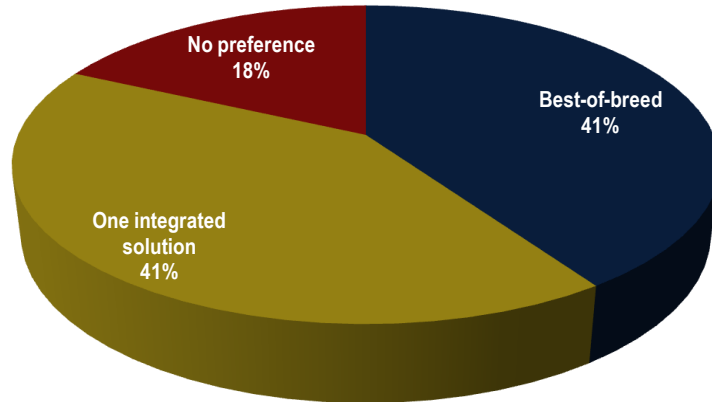
KPI	SaaS	On-premise
PSO Size (people)	381	413
PS Revenue (mm)	\$91M	\$53M
Revenue per employee	\$239K	\$128K
Revenue Growth	5.9%	1.5%
Percentage of billable employees	72.0%	69.3%
Integration with PSA	31.3%	31.9%
Integration with CRM	24.4%	25.6%
Integration with BI	11.8%	33.9%

Source: Service Performance Insight, April 2010

PREFERENCE FOR BEST-OF-BREED VERSUS INTEGRATED SOLUTIONS

Respondents were equally divided regarding their preference for best-of-breed or one integrated solution (Figure 2).

Figure 2: Preference for Best-of-Breed vs. One Integrated Solution



Source: Service Performance Insight, April 2010

Integration can be expensive, which could lessen the overall return on PSA investment. This reason alone has driven many PS executives to develop a comprehensive information strategy and standardize on one information solution that offers both best of breed functionality as well as out-of-the-box integration.

When comparing the organizations that preferred Best-of-breed versus one integrated solution, SPI Research saw distinct differences, highlighted in Table 4. As organizations grow in size it becomes obvious that greater out-of-the-box integration is needed to reduce deployment and integration costs. Table 4 shows that the PSOs preferring one integrated solution have much higher levels of integration between their core financial solution and critical business applications (PSA, CRM, BI) than those organizations that prefer best-of-breed. They also are significantly larger and growing faster.

Table 4: Firm Preference for Best-of-Breed vs. One Integrated Solution

Key Performance Indicator	Best-of-Breed	One Integrated Solution
PSO Size (people)	129	517
PS Revenue	\$16M	\$108M
Revenue Growth	3.6%	4.7%
Percentage of billable employees	68.6%	71.9%
Integration with PSA	26.8%	41.8%
Integration with CRM	16.9%	33.0%
Integration with BI	16.2%	27.4%

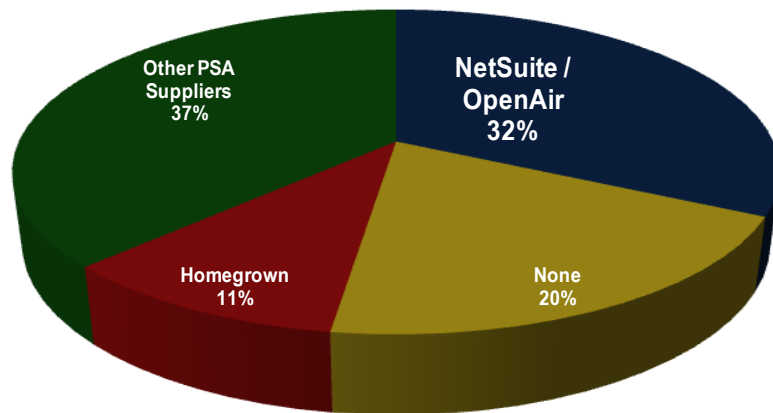
Source: Service Performance Insight, April 2010

NETSUITE / OPENAIR UPLIFTS SERVICE PERFORMANCE

NetSuite’s OpenAir has been a market leader in the Professional Service Automation space for over a decade. Following its acquisition by NetSuite in 2008, it now offers a robust platform underneath to deliver integrated PSA with the ability to reach other solutions to increase organizational performance, as well as seamless integration with NetSuite’s business software suite.

SPI Research’s 2010 Professional Services Maturity Model Benchmark survey highlighted OpenAir’s market position. While the survey was not intended to be a market penetration study, it did highlight OpenAir’s significant presence in the market (Figure 3).

Figure 3: NetSuite / OpenAir Survey Participation



Source: Service Performance Insight, April 2010

The real benefit of having such a large OpenAir client sample size is that it makes comparison and analysis more statistically valid. Table 5 shows how OpenAir’s customers performed in several key performance categories compared to organizations that do not utilize PSA.

Table 5: OpenAir Performance Improvements

KPI	OpenAir	No PSA	Advantage
Number of firms surveyed	67	44	NA
Billable percentage of employees	74.0%	67.3%	10.0%
Revenue per billable employee (1,000)	\$220K	\$174k	26.4%
Project Margins	34.6%	28.4%	21.8%
Billable Utilization	67.0%	65.8%	1.8%
Earnings before Income Taxes, Depreciation and Amortization (EBITDA)	22.3%	19.5%	14.4%

Source: Service Performance Insight, April 2010

RECOMMENDATIONS & CONCLUSIONS

The key to running a profitable professional service organization is optimizing billable staff time and reducing overhead cost. Time is money for professional service firms who have neither the time nor the desire to set up and run disconnected, complex and expensive business applications. Fortunately, the new breed of SaaS-based professional service automation applications remove the barriers to PSA adoption by providing a complete, cost-effective and powerful solution for managing resources, projects and costs.

PSA solutions instantiate best practices and provide a catalyst for professional service organizations to adopt stream-lined business operations and reduce their reliance on a series of manual, complex and error-prone spreadsheets. SPI's benchmarking research proves the value of these solutions in improved billable utilization, better control and visibility to costs, improved project execution and reduced billing and collection times.

OpenAir's out-of-the box integration either with a complete suite, like NetSuite, or best-of-breed financial and CRM applications, like Salesforce.com, SAP and Oracle, provides a compelling, cloud-based platform to help businesses navigate the challenges of managing in a flat world.

Although PSA applications have been available for over a decade over 30% of the organizations in our most recent survey still have not implemented a solution which is all the more surprising because many of these firms specialize in helping their clients evaluate and implement technology. Our research indicates the time for procrastination is over, service and project-oriented organizations of all sizes and types can benefit from PSA and should make the move to get on board.

About Service Performance Insight



Jeanne Urich, Service Performance Insight Managing Director, provides strategic consulting, research and operational advice to improve and transform service and project-oriented organizations. She is a thought leader and recognized expert in Professional Services.

She is the co-author of the ground breaking Professional Service Maturity Model benchmark used by over 3,000 project-oriented organizations to diagnose and improve their performance. www.spiresearch.com. She is a featured speaker and author for major software solution providers and industry associations.

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Dave Hofferberth, Service Performance Insight Managing Director, has over 25 years experience in information technology (IT) serving as an industry analyst, product director and consultant. Hofferberth's research is focused on the services economy, and in particular, on white-collar productivity issues and the technologies that help people perform at their highest capacity.

Hofferberth's background is extensive in services performance beginning in the early 1980's, where he conducted studies on white-collar productivity in the banking, technology, energy and construction sectors.

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