UNIT4

In Business for You

SOLVING THE FINANCIAL
VISIBILITY PUZZLE

Contents

Overview – aiming for "enviable"

The top five percent of professional services organizations (PSOs) are achieving "enviable" financial results.

To find out how they're doing it, we'll delve into their accounting systems and processes (especially how they streamline billing and collections).

We'll look at the way these organizations gather, analyze and use data to forecast cashflows, manage budgets and plan project resources.

We'll see how they track costs, revenues and profitability; and ask why they're consistently hitting revenue and margin targets.

We'll see how to eradicate unnecessary, manual tasks and uncover solutions for invoice disputes, errors and payment delays.

And we'll investigate the case for automation.

But first, let's look at these "enviable" numbers >>>

"Well-planned, profitable, stable"

A glance at the top five percent of PSOs

According to an independent industry benchmark*, the top five percent (The Best) of PSOs achieve "enviable" financial results compared to the other 95 percent (The Rest). All of these top-performers use a commercial finance and accounting solution integrated with a professional services automation (PSA) application for billing and revenue recognition.

The Best versus The Rest

The Best produced "significantly" more net profit (26.5 percent compared to 17.6 percent) than The Rest — a 51 percent advantage. Average revenue per project is 91 percent higher (among PSOs which rely on a PSA). These top-performers earn more revenue per employee, per billable consultant and per project.

These market-leaders enter each quarter with "significantly" more revenue in backlog than The Rest. Overall, **EBITDA** (earnings before interest, taxes, depreciation and amortization) **is 32.5 percent higher** in professional services firms which have completely embraced information systems and optimized operations*.

Overall, firms earn 35 percent higher EBITDA

Profitable and predictable

"This high level of profitability is derived from more revenue per employee, project and consultant. The Best can be characterized as running a very tight financial ship as they are appropriately metrics-driven and have real-time visibility to all facets of the business."

"The Best make money on every aspect of the business with high subcontractor margins (34.7%); high time and materials project margins (50%); and higher fixed price project margins (50.5%)."

"The leaders enter each quarter with significantly more revenue in backlog (57.8%), which creates greater financial stability and predictability. They are much more likely to have achieved both their annual revenue and margin targets which shows they are running a well-planned and predictable business.*"

Best-of-the-Best Comparison - Finance and Operations Pillar			
Key Performance Indicator (KPI)	Best	Rest	▲
EBITDA	26.5%	17.6%	51%
Annual revenue per billable consultant (k)	$251	$203	24%
Annual revenue per employee (k)	$213	$163	31%
Quarterly revenue target in backlog	57.8%	43.8%	32%
Percent of annual revenue target achieved	100.3%	93.3%	7%
Percent of annual margin target achieved	100.0%	89.7%	11%
Revenue leakage	3.38%	4.35%	22%
% of inv. redone due to error/ client rejections	3.1%	2.2%	-41%
Days sales outstanding (DSO)	45.3	46.4	2%
Quarterly non-billable expense per employee	$1,900	$1,586	-20%
% of billable work is written off	2.20%	2.89%	24%
Executive real-time wide visibility	4.43	3.50	27%

Source: SPI Research, February 2019

The case for automation is compelling >>>

Automatic data collection

The secret to getting paid quicker

The solution to speeding up your payment process lies in the way your organization gathers data and issues invoices.

A solid case for automation

The more precise the data collection process at implementation, the less confusion there is when it's time to collect on a bill. Capturing actuals as they occur and ensuring that all contract details make it from the original documentation to the invoicing software streamlines the collections process, reduces the amount of days sales outstanding (DSO) and immediately improves cashflow.

2%

According to industry analysis*, DSO is two percent lower in The Best firms compared to The Rest.

Up-to-date, on-the-go

With mobile time and expenses capture through-web-enabled, Cloud-based, user-friendly interfaces which mimic social tools, you can create self-driving projects with 360-degree visibility across departments.

The project-related costs (time, expenses and purchases) entered in your systems by consultants is kept accurate and complete 24x7, for both operations and finance. The sooner your team members enter the information, the more accurate it is, and the more accurate your invoice will be. This will usually lead to fewer disputes, faster payments and an improved cashflow.

The right PSA solution should allow you to manage financials, such as tracking costs and resulting revenues, at the project transaction level, which makes it easier to scrutinize profits and margins.

"Corporate financial management (CFM) is the primary application required to accurately collect, bill and report financial transactions. CFM collects and manages all financial information (expenses, invoices, etc.) to provide management reporting and visibility into total service revenue, cost and profitability."

"PS businesses have unique financial management requirements including support for complex contract types and billing arrangements. Revenue recognition is also complex and must conform to local accounting and taxation rules while providing support for multicurrency, multilingual transactions for global firms."

"Seamless integration between the system of record (PSA) for managing resources and projects and the financial management solution for expense management, invoicing, revenue recognition and project accounting is critical.*"

Say goodbye to invoice disputes >>>

Error-free invoicing

Real-time, remote data capture

Project management software, integrated with a financial system eliminates any room for error when invoicing clients. Information can be captured anytime, anywhere through mobile time registration to keep it accurate and up-to-date.

Catch errors early

Error-free invoicing starts with defined contract terms and attention to detail when creating the contract. The right system can offer pre-programmed options that will help catch errors as they happen, rather than downstream during collections.
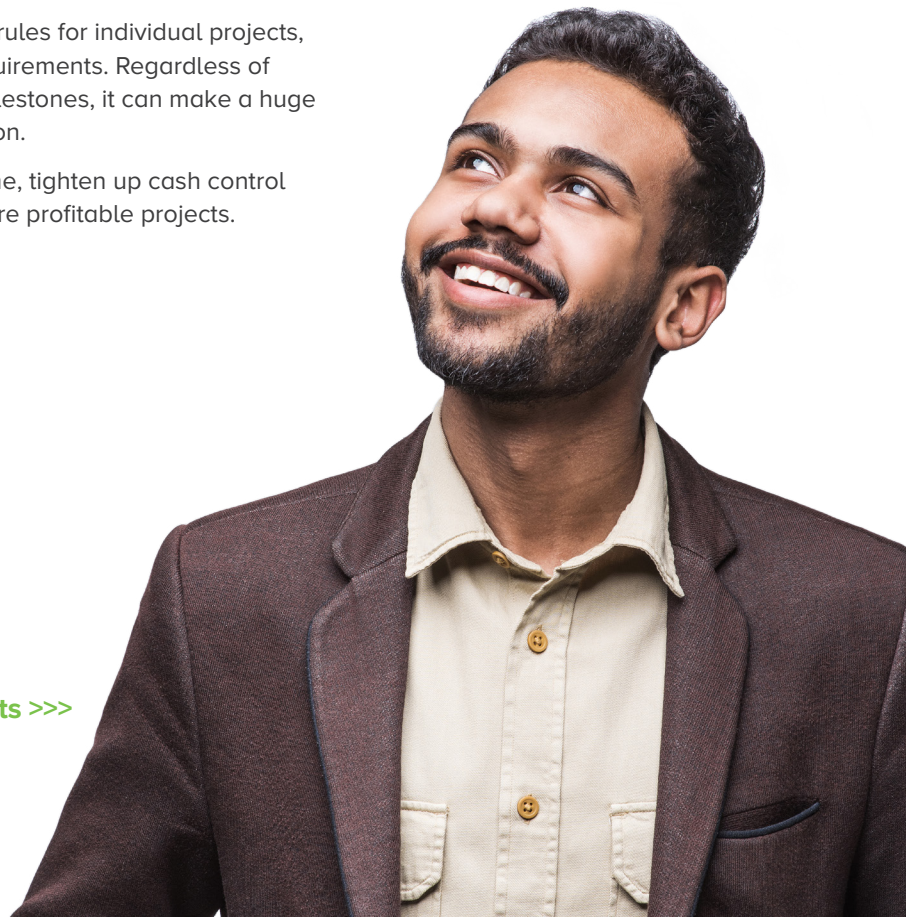
Automated projects

It is easier to bill in your client's required invoice format when all cost transactions are recorded automatically against a project from the outset. When you can drill down to individual tasks and to the consultants who worked on the project, fees can be itemized in as much detail as the client wants - all within the one system.

Different rules

In cases where you need to establish different fee rules for individual projects, your billing tools should support these flexible requirements. Regardless of whether you are billing at intervals or at certain milestones, it can make a huge difference if you can recoup costs in a timely fashion.

Invoice automation allows you to reduce admin time, tighten up cash control and bill with precision, allowing you to execute more profitable projects.

All this frees up staff to add value to projects >>>

Give time back to accountants

Reducing manual tasks and tedious admin

Automated workflows shorten the sales-to-cash cycle.

By automating tasks which require lower skills, staff can free up time to add value to projects, like analyzing historical and real-time performance to identify areas of business improvement, or modeling 'what-if' scenarios.

"PSOs are reducing the time and annoyance of administrative tasks like entering time and business expenses or writing and continually updating project status reports. No more endless resource scheduling meetings. No more entering and reentering reams of data into finance and accounting systems.*"

Breaking silos

Operations and finance teams should not function as isolated departments that report about past activities. Project professionals should be the trailblazers for business growth enablement, by ensuring collaboration between teams across the broader business, spotting actionable intelligence and driving future activities.

PSA applications unify operational excellence in the front office with financial excellence in the back office. When sales and finance both use the same system for data collection it puts an end to errors that slow down procedures. It also eliminates data silos and breaks down the barriers between sales, services and finance.

91%

Average revenue per project is 91 percent higher in the best- performing PS firms which rely on a PSA application.

Looking ahead with plans and budgets >>>

Planning, analysis, cashflow

More proactive, less reactive

Plan, budget and analyze

The planning and budgeting process afforded by an integrated finance and PSA solution enlists the collective intelligence and vision of your entire organization.

According to industry research*, the real-time visibility and analysis tools within ERP solutions have transformed decision-making at the best-performing PSOs from tactical to strategic, making their planning more proactive and less reactive. Planning for these leaders has become an all-year-round process

involving all departments and levels. With these tools, managers have become empowered to analyze business performance, carry out a root cause analysis and take action before it's too late.

Insights for cashflow planning

For optimal cashflow planning, it's vital to have insights into future cashflow positions with just a few clicks. Such planning requires proven models that graphically show the projected cashflow position at any moment in time. With a dashboard of unbilled work and overview of open items per project, chief executive officers and project managers can be made aware of - and held accountable for - the financial position of projects in the portfolio.

Since project managers keep tabs on every aspect of project progress, they hold the knowledge about what can be billed to the client. Therefore, the right business system for project-based organizations should support an invoice proposal workflow that prompts them to approve invoices (or write-off, park, or postpone billable items) before they are sent out.

"In an increasingly competitive consulting marketplace, success most often comes down to operational excellence — with visibility and management controls in place to ensure effective resource and project management.*"

Summary – bill with precision

Real-time, remote data capture

To achieve the "enviable" financial results of the top-performing PSOs, your organization needs to look at how it gathers and analyzes data.

Harnessing the power of ERP helps you accurately bill, collect and report financial transactions across your organization. By automating elements like data capture and invoicing within an integrated solution you can avoid billing disputes and payment delays. The resulting reduction in tedious, manual admin tasks will give accountants more time to add value elsewhere.
By using a single system of record you will break silos between sales, services and finance. And, by remotely capturing project costs in real-time with user-friendly, mobile tools, your data will always be accurate, up-to-the-minute and available to different teams. With real-time visibility and analysis tools within a single solution it's easier to track profits and margins, to analyze data and prepare cashflows and budgets.

The end result will be fewer bill disputes and faster payments; a shorter sales-to-cash cycle and improved cashflow; easier planning and greater financial stability. In short, automating professional services processes allows your organization to bill with precision, execute more profitable projects, optimize billable staff utilization and win more business.

Thank you for reading.

With the right partner, you can also integrate systems for managing client relationships, human resources and project services delivery into your PSA solution.

Read more about these performance pillars in our e-guides on clients, talent and projects. To read more independent insights from SPI, you can download the 2019 PSMB.

References

*Source: Professional Services Maturity Benchmark (PSMB) report 2019, by Service Performance Insight (SPI).

Ready for a demo?
We would like to get in touch to show you our solutions and answer any questions you might have. Click here to request a personal demo.

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