How High Performance Professional Services Organizations Manage Talent and Optimize Project Delivery

Introduction

The professional services market is booming, but growth will be inhibited by a lack of qualified resources. Services firms are uniquely people-driven organizations. They depend on the knowledge and skills of a talented workforce to sell, staff and deliver a range of services typically on a project or contract basis. To be competitive in today's talent-constrained services business – the ability to attract, hire and engage a talented workforce must be a top priority.

Talent is the top challenge facing today's people centric businesses

In 2015 the sobering new reality of a skilled talent shortage is taking center stage. The global workforce is simultaneously getting younger and older as millennials begin to make up a higher and higher percentage of workers, all while baby boomers refuse to retire due in equal parts to economic and job satisfaction reasons.

The knowledge workers of today, who make up the professional services sector, are more multi-generational, more multi-cultural, more global and more technology-savvy than ever before. Leading and inspiring this workforce means top performing PS organizations must focus as intently on developing unique cultures as they do on cultivating exceptional domain knowledge and competencies.

Attrition Hurts!

One metric which threatens to derail productivity is attrition. Attrition is extremely costly in PS as the cost to replace a valuable consultant can be over $150,000. Attrition has climbed steadily since 2009 as employees have taken advantage of a bonanza of new opportunities. In 2015 attrition stands at 8.9% and is bound to continue to rise as consulting demand outstrips supply. As Table 1 shows, lower attrition generally yields higher performance metrics and profit (highlighted in green).

Table 1: Attrition Hurts!

Attrition	% of Obs.	Revenue Growth	Billable Utilization	Project Margin	Rev. / Billable Employee (k)	Revenue/ Employee (k)	EBITDA
None	9.8%	14.2%	69.5%	35.0%	$217	$194	19.3%
1% - 5%	29.8%	8.0%	68.4%	34.8%	$187	$155	15.7%
5% - 10%	23.9%	10.8%	70.5%	37.1%	$202	$174	12.8%
10% - 15%	18.5%	11.4%	74.1%	33.8%	$208	$181	10.3%
15% - 25%	15.1%	7.7%	72.8%	34.9%	$193	$160	10.5%
Over 25%	2.9%	0.4%	69.2%	36.3%	$179	$105	5.2%
Total / Avg.	**100.0%**	**9.6%**	**70.8%**	**35.2%**	**$198**	**$167**	**13.1%**

Source: Service Performance Insight, September 2015

PSOs must focus on retaining staff through a variety of means: flexible work, remote service delivery, formal and informal training and mentoring along with ample recognition and team building.

The best firms understand the importance of people

Talent is a primary focus and hot topic for all of the highest performing firms. In an increasingly tight talent market, top performing firms intently focus on employee engagement and satisfaction by offering career-enhancing training, tools and mentoring.

Top firms emphasize the importance of culture. Culture goes way beyond establishing a mission statement, it must be unique and inspiring to attract the type of consultants and clients the firm can best serve.

The leading firms use a variety of innovative recruiting strategies – from establishing strong partnerships with local universities, to attracting more senior consultants from their competitors. Just as in selling, referrals are a key source of fresh talent because the best and brightest invite their friends to join them. Once on board, the best firms offer new hire orientation and on-boarding programs to quickly bring new hires up to speed.

Just finding talent is not enough. In this year's SPI Research benchmark the Best-of-the-Best firms focused on on-boarding and employee training to develop a qualified workforce. Some create rotational assignments to give their employees greater exposure to other disciplines and clients.

Employees who are continually learning and expanding their knowledge base tend to stay with their employer. When the work is not challenging or interesting, morale suffers and attrition rises.

Today's service firms are increasingly virtual – in other words, they don't invest in expensive facilities but keep morale high with modern,

intuitive, cloud-based business systems combined with periodic in-person meetings to enhance communication and team-building.

Table 2 compares Human Capital Alignment key performance metrics between the Best-of-the-Best organizations and the remainder. The table shows top firms invest in more employee training and provide clearer career paths resulting in higher levels of billable utilization and lower levels of attrition.

Table 2: Best-of-the-Best Comparison – Human Capital Alignment Pillar

KPI	Best	Rest	▲
Employee annual attrition	9.9%	8.8%	-12%
Management to employee ratio	9.58	10.08	-5%
Time for a new hire to become productive (days)	60.0	64.3	7%
Guaranteed training per employee per year (days)	9.55	8.12	18%
Well-understood career path for all employees	4.33	3.07	41%
Billable employee utilization	77.1%	70.6%	9%

Source: Service Performance Insight, September 2015

People-Centric ERP is required

In order to attract, hire and retain the highest caliber workforce, PS leaders must leverage their information infrastructure to insure they have the "right" people delivering valuable services that meet the organization's revenue and profit objectives, while also motivating and challenging the workers. To maximize worker productivity systems must provide visibility to talent, their capabilities, costs, bill rates and availability.

Leading PSOs rely on project-based Enterprise Resource Planning (ERP), applications to manage the financial aspects of the firm. These solutions automate core business processes such as quote-to-cash, resource and talent management, time capture and billing, and provide the real-time visibility necessary to improve organizational efficiency and effectiveness.

The fundamental financial requirements of service-based businesses are very different from

classic manufacturing and supply-chain focused ERP applications as they must include functionality for managing resources (people) and projects (tasks).

Project-based ERP application providers are adding rich talent management capabilities to support recruiting, on-boarding, compensating and rewarding the employees who are the core asset of service-based businesses.

Support for specialized billing methods and complex revenue recognition rules for time and materials, work-in-process, deliverables-based or percent complete contracts are also important project-based ERP extensions.

Today's information systems for people-centric businesses must embrace and support the people-side of the business. Silos of hard to access information just don't meet the needs of knowledge workers who demand around-the-clock connectivity. They call for access to intuitive, social, mobile, cloud-based business applications like the ones they have grown up with.

A new breed of cloud-based ERP applications, led by Workday, are coming to the fore that combine support for talent, accounting and resource management all on one intuitive and powerful cloud-based platform.

A Powerful Combination – People-Centric ERP and Professional Services Automation (PSA)

While PSOs utilize a variety of different solutions to plan, sell and manage finances, Professional Services Automation (PSA) applications are where service profit is generated. PSA solutions are focused on people, and their ability to deliver successful projects, healthy margins, and delighted customers.

Professional Service Automation provides organizations with a solution to efficiently plan,

Figure 1: People-Centric ERP puts People at the Core

Source: SPI Research, September 2015
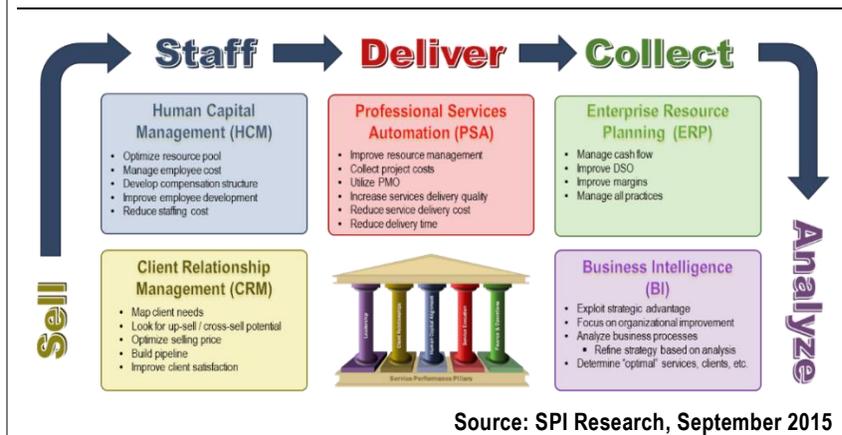
sell, execute and charge for work. PSA gives team members the tools to collaborate and collect knowledge that can be further used to optimize business performance. The net effect of PSA is a more productive and profitable services business, as well as improved levels of predictability and client satisfaction.

PSA provides visibility to the people, processes and capital which fuel the service economy. It enables organizations to track and manage their resources, the projects and services delivered, and the capital expended — each a necessary component of superior service delivery.

SPI Research expects every PSA solution to provision two primary management functions: (1) **service execution** and (2) **service control**. **Service execution** involves efficiently planning, staffing, delivering and accounting for project and services-driven work — scheduling the work, staffing it with the right people who are available at the right time, and accurately accounting and billing for completed work.

Service control assures that the work is completed on-time and on-budget with quality built in. It involves capacity and project planning, visibility to delivery performance by project and client type and quality metrics. Visibility to budget to actual performance helps pinpoint problems early. Up-to-date resource plans illuminate upcoming peaks and valleys in demand triggering hiring or schedule changes.

Table 3: High-Performance PSOs Leverage PSA

Key Performance Indicator (KPI)	With PSA	Without PSA	▲
% of billable employees	76.6%	68.5%	12%
Sales pipeline compared to sales forecast	207%	170%	22%
Employee billable utilization	71.7%	67.4%	6%
Quarterly revenue target in backlog	50.1%	41.3%	21%
Project Margin	37.0%	30.9%	20%
Annual revenue per billable consultant (k)	$199	$188	6%
EBITDA %	**14.2%**	**8.2%**	**74%**

Source: Service Performance Insight, September 2015

PSA capabilities are unmatched when considering service execution performance improvements. SPI Research's recent benchmark showed PSA significantly improved project visibility and provided better management control and understanding of planned versus actual time and costs to facilitate changes when necessary (Table 3). The study also showed that PSA integration with the core financial management solution increased its benefits even further (Table 4).

Workday has recently combined its powerful, people-centric ERP with industry-leading PSA

Table 4: Integrated PSA Further Increases Its Benefits

Key Performance Indicator (KPI)	Without PSA	With Non-Int. PSA	With Int. PSA
% of billable employees	68.5%	76.6%	76.9%
Bid-to-win ratio	4.45	4.83	5.14
Standardized methodology use	62.0%	64.2%	69.2%
Annual revenue per billable consultant (k)	$188	$189	$205
Profit (EBITDA)	**8.2%**	**13.8%**	**14.4%**

Source: Service Performance Insight, September 2015

functionality. The new application is the first to provide an optimized PSA that combines talent, operations, financials and analytics all on the same purpose-built platform.

Until now, service leaders were faced with painful decisions whether to optimize service execution with a best-of-breed PSA solution and deal with troublesome and inadequate integration to the finance-driven ERP application or to sub-optimize service execution by making do with an ERP application not designed to support the unique needs of people and project-centric businesses.

Workday's new ERP and PSA combination eliminates the need to make painful compromises as the system supports the needs of both finance and service delivery all on a modern, intuitive, cloud-based platform.

Recommendations & Conclusions

The economy is starting to grow again, employment is rising across the board with critical talent shortages appearing. Issues associated with finding, hiring and retaining top talent will be significant and could derail the growth of the professional services market. Therefore, PS executives must continually focus on talent in order to profitably grow the business.

Fortunately a new breed of people-centric finance and PSA applications, led by Workday, are coming to market to help grow and manage people-based businesses.