Professional Services Organizations (PSO) Need Professional Services Automation (PSA)

*PSOs – Eat Your Own Dog Food*

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President & CEO
**PSOs Need PSA**

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**OVERVIEW**

Professional Services Organizations (PSOs) exist because of the technology – software or hardware. Period. Without software or hardware, why would the technology organization need a professional services organization? The software or hardware is designed to do something of benefit for the target market: make business operations more efficient; provide real-time information on processes to help management make better decisions; enable quicker and more accurate analyses of large volumes of information. The software/hardware does something to make the user’s life better.

And the software/hardware company’s personnel – PS personnel included – are likely pretty well versed at explaining those benefits to the client base.

Why then, do so many PSOs not take their own advice?

In our work with PSOs, RTM Consulting has seen many organizations that do effectively use some form of a Professional Services Automation (PSA) solution. Yet, all too often, we find PSOs that are still run using spreadsheets, whiteboards, or a limited set of automation technology.

This white paper will explore how PSOs can drive more enterprise value through the use of real-time project, resource utilization, and other data. The paper is not intended to advocate the use of one platform over another. Rather, ultimately, it aims to help the PSO “eat its own dog food” in terms of acknowledging the benefits that automated information technology can provide to the PS business.

With services increasingly becoming more important to the profits of technology organizations, the PSO cannot afford to not conduct proactive, fact-based management of the PS business.
PROFESSIONAL SERVICES AUTOMATION (PSA) DEFINED

What is PSA?

According to Webopedia: Professional Services Automation (PSA) refers to a suite of software enabling IT service organizations to manage people and skilled resources.

According to Wikipedia: Professional Services Automation (frequently abbreviated to PSA) is software designed to assist professionals, such as IT consultants, with project management and resource management for client projects.

According to the Free Dictionary: An information system designed to organize, track and manage all opportunities, work, resources, costs, revenues and invoices to improve the productivity and efficiency of the workforce. It is primarily targeted toward professional service organizations (PSOs).

In short, it is software to run the PS business more effectively.

Our view is that a typical PSA solution encompasses the following:
Today’s PS marketplace demands that companies optimize both processes and their enabling technology in order to ensure profitable project delivery and customer satisfaction. Delivering on the process requirements demands the appropriate enabling technology. Examples include:

<table>
<thead>
<tr>
<th>PSA Framework</th>
<th>PS Process Requirements</th>
<th>Enabling Technology Requirement</th>
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<tbody>
<tr>
<td>Sales &amp; Opportunity Management</td>
<td>• More integrated role with Sales – helping drive estimates; as well as at times being primary driver of new (or expanded) opportunities</td>
<td>• Requires technology to support active management of and/or visibility to pipeline and linkages to PS planning for resources</td>
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<td>Project Management</td>
<td>• PS takes on more Project Management tasks; requires status reporting to client – as well as internal roll-up of the project portfolio as managers must now manage a growing portfolio of projects and may not be able to stay as connected to all projects as they have in the past</td>
<td>• Portfolio and Project Reporting</td>
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<td>• Integrated capture of Time / Effort to enable Schedule and Cost Performance management</td>
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<td>Resource Management</td>
<td>• Resources – while still managed within regions or departments or practices – may be leveraged outside of their structure</td>
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<td>• Complexity of planning for full life cycle projects and planning for pipeline work requires more robust resource forecasting (i.e., not sufficient to say “1 resource per deal”)</td>
<td>• Accurate and timely capture of resource assignments</td>
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<td>• Entry of future (forecast) work - linked to Sales &amp; Opportunity Management</td>
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<td>• Scenario planning of resource needs based on “what ifs” of items in the pipeline</td>
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<td>Time &amp; Expense Management</td>
<td>• Represents the “heart and soul” of the PS organization – in terms of being able to track costs and manage project / client profitability</td>
<td>• Robust time and expense capture capability that allows for integration with Project Management tools to enable Schedule and Cost Performance tracking, reporting and analyses</td>
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<tr>
<td>Knowledge Management</td>
<td>• More robust capture and segmented storage of knowledge artifacts</td>
<td>• Web accessible database to store and share artifacts</td>
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<td>• Continual evolution of artifacts to support and enable resources in the field</td>
<td>• Searchable</td>
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<td>Finance &amp; Corporate Management</td>
<td>• T&amp;E compliance and expense invoicing accuracy are the focus (i.e., get paid for the staff you provided)</td>
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<td></td>
<td>• Cost account and Sarbanes –Oxley compliance</td>
<td>• Like T&amp;E Management, there is typically robust reporting on compliance and invoicing</td>
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<tr>
<td></td>
<td></td>
<td>• More automated reporting of status and roll-ups</td>
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To succeed, you do not necessarily need to address all these areas at one time; however, over time, we find that the most successful PSOs do put both the processes and enabling technology in place for all of the areas of the PSA Framework.
**VALUE AND IMPORTANCE OF PROFESSIONAL SERVICES TO ENTERPRISE SUCCESS**

Let’s be clear. Technology companies – both hardware and software – are generally founded by either engineers who have an idea for a great product OR by marketers who see a clear market need and can define requirements that engineers can translate into a great product. Investors may be brought in; and all parties are excited about the market potential for the product.

This is as it should be.

Once the company engages with the market and begins making sales, some of the engineers get involved with the client, helping them install, configure, and even use the product. Perhaps a few folks are hired into a nascent professional services group to take on more of these client engagement activities.

Let’s be clear. The focus is on the product. Services – whether they be “professional” and delivered through a professional services organization or simply delivered by the engineers who are available – are all too often an afterthought.

This is **not** as it should be.

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**Typical PS Organization Evolution**

- Initially, the goal of the software company is to sell software
  - Clients need some guidance and direction on how to use the software
  - As such, the PS organization deploys a few “product encyclopedia” personnel; that is, a PS resource whose role is to work with the client for a period of time, explain all the ways the client can use the software, and then move to the next client

- At this stage, PS is seen as a “necessary evil”
  - From here, the PS organization begins to grow
  - Certain clients end up requiring more and more “product encyclopedia” knowledge; personnel get extended to longer terms and perhaps additional resources are added
  - The PS personnel that are working with the client begin to do “other things” (i.e., Solution Architecture, expanded Configuration and Customization, etc.)

- As the company continues to penetrate the market, the scope of professional services that the company’s clients require expands for a number of reasons
  - The scope of use of the software increases at existing clients (i.e., the client is more comfortable with the software and identifies additional uses for it)
  - The scope of the software expands – making it more complex for third parties to stay on top of the recent changes and take advantage of them; leading to the PS organization needing to provide more resources and more defined service offerings to support client adoption
  - The sales force begins to move up market and penetrate more enterprise level clients and/or international markets; these clients typically require more comprehensive / full scale delivery

- At this stage, while the PS processes and enabling technology are geared toward addressing PS as a “necessary evil,” the financial impact of PS has grown tremendously in terms of both revenue (for some PSOs this is direct revenue, for many it is the “time to revenue” as software revenue is not booked until system go live) and profit
Available market data demonstrates both the market potential as well as the market need for services to not be an afterthought. Let’s look at the data.

First, let’s look at the case of two very successful product companies: Intel and Cisco. The chart demonstrates what happened to their product margins over the 2003 to 2008 timeframe. In a nutshell: they shrunk. According to the Technology Services Industry Association (TSIA)\(^1\), these declines in product margin cost Intel and Cisco a combined $3B in margin during this period. That’s not pocket change! And to be clear – this all happened before the economic recession kicked in.

There are a variety of causes for the margin decline: increasing competition; declining product usefulness; market saturation. Regardless, product companies need to understand that over time, their product margins are very likely to decline. And it doesn’t take long.

Second, let’s look at how the technology market has been deriving its revenue\(^2\). Quite simply, since 1999, services revenue has become an increasing portion of overall revenue for both hardware and software companies. For both hardware and software companies the percent of revenue from services has doubled. For software companies, the majority of revenue (60%) is now derived from services.

The causes for this are many: increasing complexity of the product set being sold (and serviced); shift from using independent systems integrators (SI) to relying on the product company personnel (who presumably know more about the product than an SI); shift from large IT organizations to the use of third parties.

So, while the product is important, the PSO needs a more strategic focus. Successful technology companies must have a well thought out services strategy and operating model to optimize profitability.

\(^1\) Source: Technology Services Industry Association 2009 TSW Keynote Address.

\(^2\) Source: Technology Services Industry Association 2009 TSW Keynote Address.
Look at the market data³ – during a difficult economic climate. Technology companies that were “services heavy” (derived >65% of their revenue from services) saw their OI increase by nearly 3 points (Q209 vs. Q208). “Product heavy” companies (derived >65% of their revenue from products) saw their OI drop by over 6 points over the same period. The companies in between Services and Product Heavy saw a small growth.

PSOs: EAT YOUR OWN DOG FOOD!

This makes a pretty compelling case for the value of the PSO to the enterprise. Now, to effectively run your PSO – and reap the financial benefits – you need to have the appropriate processes and technology in place. Just as there is an ROI for the benefits of your technology / software / hardware – there is a significant benefit to putting a PSA solution in place.

Let’s start with the qualitative benefits.

A PSA Solution can do a number of very important things:

1. Create Visibility to: Pipeline, Forecasts, Resource Needs, Project and Portfolio Performance
2. Enable Improved Decision Making by providing users with (near) real-time information on PSO activities
3. Create Leverage for PSO Management / Leaders by providing PMs and others with actionable information
4. Enable Proactivity and Financial Improvements through more data driven management of the portfolio
5. Provide more accurate information as it is built on “bottoms up” data captured at the project / task level – but rolled up and summarized at various levels of the Portfolio / PSO

³ Source: Technology Services Industry Association 2009 TSW Keynote Address.
The benefits accrue across all areas of the PSA Framework and hit on the key levers of PSO Success: Financial, Delivery, Customer Satisfaction.

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<tr>
<th>Area</th>
<th>Financial Performance</th>
<th>Delivery Performance</th>
<th>Customer Satisfaction</th>
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<tbody>
<tr>
<td><strong>Sales &amp; Opportunity Management</strong></td>
<td>• Improved forecasting of cost needs to meet demand</td>
<td>• PSO able to plan for upcoming work</td>
<td>• Better planning leads to better responsiveness to customer needs</td>
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<tr>
<td><strong>Project Management</strong></td>
<td>• Improved project financial visibility enables proactive addressing of issues</td>
<td>• Clear / real-time visibility to project portfolio enables focus on most important projects</td>
<td>• Improved standardization of project delivery</td>
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<tr>
<td><strong>Resource Management</strong></td>
<td></td>
<td>• Getting right resources involved from project initiation</td>
<td></td>
</tr>
<tr>
<td><strong>T&amp;E Management</strong></td>
<td>• Improved project financial visibility enables proactive addressing of issues</td>
<td>• Improved visibility for cross functional groups to provide resources</td>
<td>• Improved on-time start – ready when the customer wants to start</td>
</tr>
<tr>
<td><strong>Knowledge Management</strong></td>
<td>• Reduces ramp-up time for new hires</td>
<td>• Consistent time capture allows historical data to profile projects and plan future work</td>
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<tr>
<td><strong>Financial Management</strong></td>
<td>• Improved accuracy of capitalization of services costs</td>
<td>• Re-use of successful artifacts improves delivery performance and shortens timeframe to delivery</td>
<td>• Improved standardization of project delivery</td>
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From a quantitative perspective, the benefits can be summarized across a number of dimensions. For example:

- **Sales (Demand), Project (Backlog), and Resource (Utilization) Visibility**
  - Greater visibility to future and current demand – along with availability of resources and skills can drive considerable economic value
    - 1 point of utilization improvement per resource = 20 additional billable hours per year
    - $ VALUE = Number of PSO resources * 20 hours * your bill rate
    - Many PSOs can see a 2-to-5-point improvement in utilization (so multiply the $ Value by 2 to 5 to see the range of value that can be enhanced)

- **Project Performance**
  - PSOs with strong PM disciplines and the enabling data and infrastructure are 30% more likely to deliver on-time
  - What do project over-runs cost your PSO? What if you could reduce that amount by 10%? 25%? 50%?

- **Invoicing and Financial Management**
  - How much time do your PSO personnel and Finance personnel spend trying to reconcile data before you invoice?

The answers to the questions above and the exact amounts will differ based on the size and scale of your PSO. The good news is – that in light of the wide variety of PSA solutions in the market (e.g., Tier 1 ERPs, configurable PSA solutions, and SaaS PSA solutions) – there is a potentially attractive ROI for your business.

**CLOSING**

Running technology organizations is a complex task as it involves: 1) running a product organization that must build, market, sell, and deliver a production to the market; and 2) running a services organization that must do the same in terms of building, marketing, selling, and delivering services to market. At times, these two requirements may be at competing points. At a minimum, there are countless variables to manage and tradeoffs that have to be made. In light of the fact that most technology companies are first developed around the product – with the services organization being added over time, the primary focus is typically on the product – despite the very real market need for a comprehensive services strategy, operating model and enabling technology infrastructure.

The question is not “should you implement a PSA?” Rather, the question is, “how can you afford not to implement the appropriate PSA technology?”

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4 Sources TSIA; RTM Consulting Analysis
ABOUT RTM CONSULTING AND THE AUTHOR

Cincinnati-based RTM Consulting provides strategic and operational advice to assist technology companies with increasing revenues and margins by leveraging services more effectively. Specializing in Resource Management and Services Business Optimization, RTM Consulting helps teams responsible for professional, consulting and support services achieve the benefits associated with successful services portfolios. With its unique Just-in-Time Resourcing® solution and Business Acceleration Services, RTM Consulting helps large, medium and small firms move beyond theory to practical application of industry best practices and achievement of exceptional results in the shortest possible period of time.

Randy Mysliviec leads RTM Consulting, providing high impact advisory services for technology companies’ service businesses. Acknowledged by industry sources as an expert in Global Resource Management (GRM) and author of the Just-in-Time Resourcing® brand of solutions, Randy advises multinational companies with the complex challenge of operating services teams serving the global market. He is a founding member of the Technology Professional Services Association (TPSA – now TSIA - the Technology Services Industry Association) and served as a member of the TPSA Advisory Board. Randy is also a contributing author for PSVillage.

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Who We Are

RTM Consulting provides strategic and operational advisory services to service intensive technology companies (primarily professional and consulting services, field and support services), marketing agencies, accounting, tax and audit firms, and enterprise/IT organizations to assist them with increasing revenues, lowering costs, improving project performance and the customer experience by leveraging best in class services more effectively.

What We Do

Our unique and services specific strategic frameworks and transformation models, combined with talented consultants, help accelerate time to value in everything we do to help you gain competitive advantage. Some of our services include:

**Resource Management** - We help you focus on ‘Getting the Right Person in the Right Place at the Right Time’ with our Just-in-Time Resourcing® (JITR) solutions.

**Project & Portfolio Management** - Our unique PMO/PM frameworks will help your organization efficiently run projects on-time, on-budget, with consistently excellent quality.

**Digital Transformation** - We use our knowledge, tools and practical experience to help you on your digital transformation journey. The end goal is to deploy useful, innovative technology that is embraced by your business users to improve business outcomes.

**Skills Development/Training** - We enhance the soft skills of your services personnel to complement their product, business and technical knowledge with services specific curriculums in consulting soft skills, resource management and project management, services selling and more.

**Services Business Optimization** - Our skilled practitioners help you identify and implement best practices necessary to transform your services business into the most efficient and effective operation possible.

**Strategic Planning for Embedded Services** - We help you build the right plan to leverage services to drive the growth and profitability of your business

**Find Top Tier Services Talent** - Our Premier Resource Network (PRN) is a specialized talent acquisition service designed to support your most critical resourcing needs with hand-selected professionals whom we know and trust.

How We Do It

Our highly disciplined management consulting and operational services include:

**Rapid Diagnostics** to identify opportunities to improve business performance.

**Implementation Services** to make solution implementation fast and effective.

**Business Planning Services** to turn your vision into a realistic operating plan.

**Business Acceleration Services** to accelerate your time to value with RTMC solutions.