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Revenue Leakage at Growing Professional Service Firms:

Are You Aware of the Money You Are Losing?

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Executive Summary

Professional services firms with staffs of 3 to 100 billable resources often lose revenue because they fail to properly track all of the time spent servicing customers. This happens because small firms often track time using spreadsheets, a process that becomes inefficient as the business grows and which often leads to incomplete time data as well as delayed invoicing or invoicing that is lower than it should be. This form of revenue leakage commonly occurs when tasks such as travel time, expenses and customer service are not properly noted.

This white paper presents how a Professional Services Automation (PSA) solution addresses the time-tracking challenge cost-effectively. Delivered via the Internet, PSA solution providers typically charge per user per month, significantly lowering the cost compared to maintaining a similar system in-house. PSA solutions also make it easy for billable resources to enter their time and for managers to assess resource utilization and project profitability. PSA solutions can include elements of CRM and ERP as well as invoicing so that professional service firms can rely on them to manage customer projects all the way from the bid process to the final invoice.

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Small-to-medium size professional service businesses face a big challenge in tracking time spent on customers. As they grow larger from one or two-person shops, the amount of revenue they lose on a daily basis can increase significantly. The challenge is the same across many business types including consulting, legal, accounting, engineering, marketing and advertising, technology solution providers and other professional services firms.

How Revenue Leakage Occurs

Revenue leakage occurs as professional services firms grow because time tracking data for each billable resource can be incomplete or scattered depending on the system used and the diligence of each billable resource when turning-in time sheets. To be profitable, professional services firms need everyone that services customers—from sales to service—to routinely submit time reports every day or more often.

Spreadsheet Suspicion

When a firm is still very small, with only one or two billable resources, tracking time on spreadsheets is usually sufficient. As long as each billable resource correctly tracks all of their time, the business can be assured that all clients are being properly billed, and they can accurately measure the profitability of any fixed-fee projects.

But as more billable resources are added to the staff, tracking time by spreadsheets becomes problematic. It requires every billable resource to classify time using the same time-category definitions. It also requires administrative time to combine spreadsheets from different people. The more people submitting spreadsheets, the more difficult the task becomes (especially if time-category definitions are not uniform company-wide).

If billable resources submit reports late, invoicing and cash flow will lag. And with spreadsheets allowing billable resources to use their own reporting template, some resources might list their time across five task categories while others might use seven. Management won't be able to properly track the work being done for each client, which delays billing even further. This situation also makes it more difficult to assess the amount of time that billable resources spend on each task.

To Bill or Not to Bill?

Revenue leakage can also occur if each billable resource does not clearly understand the difference between billable time and non-billable time. Some administrative tasks might be billable to the client, while others may not. If management does not clearly review time submissions in near real time, errors discovered at the end of a month or when the customer receives their invoice may have to be resolved in favor of the customer. It will be too late to correctly remember what occurred, and it's probably too late to convince the

Even with flawless billing processes, businesses need to keep track of work hours on a daily basis to prevent losses. For example, if employees report work hours at the end of the week, the organization suffers a 15% profit loss.

Firms with employees reporting work hours at the end of the month suffer a 30% profit loss. Revenue leakage occurs because employees don't recall work activities correctly and may allocate billable hours as non-billable hours. That's a direct hit to the bottom line.

customer even if memories are accurate. For the sake of maintaining the customer relationship, the business will usually need to err on the side of not billing for time that otherwise could have been billed.

The Travel Time Dilemma

Another area where revenue leakage occurs for professional service firms includes travel time to-and-from customer sites. Whether a business bills the full rate for both directions, a half rate, nothing at all, or by some other formula, the time must be tracked properly to ensure proper billing and to ensure the overall profitability of the project is assessed properly.

Cost of Prospecting & Customer Service

The sales process is another area for potential revenue leakage. Generally, sales time is not billed to customers, but management still needs to view the amount of time reps spend on each prospect to measure the cost of each sale and to ensure that prospects with the greatest potential receive the greatest amount of prospecting time. If too much time is spent on non-profitable prospects, the company will ultimately lose revenue.

Once a prospect becomes a customer, revenue leakage can occur in the customer service area. Whether customer service time is built into the cost of a product, billed at an hourly rate, factored in as part of a flat monthly fee, or offered as a free courtesy, management must still measure the cost of the time. Management should also make sure customer service reps spend more time on profitable customers vs. less profitable customers. In the long run, the most profitable customers will generate more revenue, so that is ideally where the most time should be spent.

Monitor Activity in Real Time Through a Centralized System

When assessing the time of billable resources in the areas described above, it's critical that assessments take place in as close to real time as possible. Checking billable resource time on a daily basis makes it more likely that problems can be rectified before it's too late. If a problem occurs early in the month, rectifying the issue at the end of the month or perhaps 60 days later when the customer is about the pay the invoice, will likely not be possible. The firm will either lose out on billable time, or the profitability of a project will suffer due to unnecessary time applied to a customer project.

And as small-to-medium size professional service businesses add more billable resources, tracking all of these work-related tasks along with travel time, expenses, time spent on servicing and time spent on new sales, will become more overwhelming on spreadsheets that each individual resource manages and submits. Thus, it's critical to have all resources submit information into one central system.

Converting to a central system will require a process change throughout the business, and convincing people to change how they conduct and document their work is a major challenge in itself. To meet this challenge, it's important that management explain why

the change is needed and demonstrate how revenue and profit margins are being hurt by de-centralized time tracking methods such as spreadsheets.

Professional Services Automation: The Most Effective Time-Tracking Alternative

In considering where to turn for a solution to the spreadsheet dilemma that causes revenue leakage, many firms think they can continue to get by with spreadsheets and that their revenue leakage problem is not significant. The problem with the spreadsheet model is that measuring the size of the problem may not be possible. But for the long-term health of the firm, it's critical to generate a baseline revenue leakage measurement.

Other firms assume it will take too long to implement a solution, and they fear they may invest too much capital and months of time only to find the solution does not deliver as promised. This is often the case for firms that have attempted to deploy complex Enterprise Resource Planning solutions, but they come with price tags that make sense only for firms with 100 or more billable resources.

For an effective time-tracking solution, it's important for professional services firms to find a solution where they can capture all time information in one easy-to-access, centralized application so that time is not spent re-keying the data into another application. If the workflow is complicated, billable resources may spend extra time submitting the data, and managers may not have enough time to properly assess the time reports.

The best way to meet this need for firms with 3 to 100 billable resources is to rely on an online professional services automation (PSA) service delivered via the Software as a Service (SaaS) model. With the SaaS method, the application is hosted over the Internet by the solution provider. This model has become popular as end users realize their data remains safe even when delivered by an Internet-based service.

SaaS particularly makes sense for small- and medium-size professional service firms because most providers using the SaaS model invoice customers on a monthly basis per user, and they allow customers to change the number of users at the beginning of each month. For a firm that expects to grow on a monthly basis or might need to reduce staff at some point, this is a much more cost-effective approach compared to purchasing a number of software licenses that would be owned outright but that may or may not be needed. The SaaS model also means the firm does not need to allocate computer hardware to run the software or use internal IT people to maintain the software and future budget funding for system upgrades.

The PSA SaaS model allows billable resources to enter their time daily or more often from a mobile device or anywhere they can access an Internet connection. This is particularly important for firms with resources that spend most or all of their time in the field. By entering data in real time as tasks are completed, management can immediately view the data for red flags that indicate something is amiss, and it accelerates the billing cycle.

The best SaaS offerings provide flexibility to create different categories of billable time. They also use cross-industry, easy-to-read forms and reports. These can be more effective than industry-specific time-tracking services that often create too much complexity along with so many extras to choose from that field personnel as well as management become frustrated to the point where they don't use the tool.

A PSA solution should encompass some components of CRM, ERP, time-tracking, project management and billing, but if the solution delves too deeply into any one area, it may discourage billable resources because of the time it takes them to fill-in all the information. Solutions designed for cross-industry use tend to focus only on the major information that's needed so end users and managers spend minimal time entering and analyzing data. That allows them to spend more time on their core competencies.

Professional Services Automation Benefits

A major benefit that PSA solutions deliver that might not be expected is the documentation that service firms can deliver to their customers. Automated solutions create detailed hourly reports by the task and by the billable resource so that customers can view a list of all the tasks and all the hours. This helps emphasize the value that professional services firms deliver. Because the time per task and resource is shown clearly, customers will feel the service firm is being more transparent—a vital attribute in today's business world for being a generator of trust.

Analyzing the time that sales and customer service spend on each customer can also lead to improvements in overall process efficiencies that reduce business costs. If an exorbitant amount of time is spent on a particular work order, it may indicate that sales is not communicating clearly with customer service and production on what needs to be delivered to the customer. This is another important area to track in order to keep profit margins high and to ensure customer retention. If tasks are not clear, or if incorrect resources are assigned, it can slow down service.

With a PSA solution, business managers can closely evaluate the utilization of all billable resources. If resources are over-booked during an extended time frame, customer service may suffer, and it may indicate that the service fees being charged are too low. If resources are under-booked, then revenue is lost, and it may indicate that service fees are too high. By proactively identifying either condition, management can prevent revenue leakage.

It's also important to take advantage of the ability to drill-down into the utilization rate of each resource to see exactly how that time is being spent. If two resources are utilized 100 percent of the time, it could be that Resource 1 is utilized on billable time 100 percent while Resource 2 is on billable time only 50 percent while the rest of the time is being spent on non-billable tasks. Managers can then analyze the non-billable tasks to make sure they are warranted and also confirm whether they should actually be billable tasks.

PSA streamlines business processes by reducing administrative work and allowing data management and billing to become more efficient. Many firms experience improvement in the speed and accuracy of invoicing, which also benefits customers that need to see billable time broken down across specific categories. This in turn reduces the amount of customer invoice inquiries.

PSA broadens the types of activities that can be tracked. Rather than just tracking hours directly related to customers, businesses can monitor time spent on administrative duties, in-house projects, and partner-related projects. This helps properly assess employee performance as well as overall business costs.

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Professional Services Automation Case Study

One of the leaders in Professional Service Automation is Severa Corporation, a provider of SaaS-based PSA solutions for small- to medium-sized businesses. Severa 3 is offered as an online application for advertising agencies, consulting, law firms, engineering houses, architecture firms, accounting firms and other professional services organizations. Severa enables service firms to manage customers, projects, work time and billing with one centralized system. Severa's transparency into project data also helps communicate business objectives, optimize resource allocation and reduce revenue leakage.

One of Severa's customers, Direxon, is an industry expert in the field of identity-based security and network services. They help customers plan, develop and implement identity management processes. As a result, Direxon's customers receive documented security improvements that enable closer business relations with their clients and partners, and better performance for their mobile users.

Direxon chose Severa 3 for enhanced accounting, project management, customer relationship management, and resourcing procedures. Severa 3 also helped Direxon to develop better business communication processes based on improved reporting techniques. All of these features have led to optimized resource allocation and reduced revenue leakage.

Initially, the need for a PSA system derived from a European Union project in which Direxon participated. "We were planning to have a common reporting function, at least among the Finnish participants, and that's why we started testing Severa 3," said Direxon CEO Jaakko Malmgren.

Because Severa 3 was developed as a self-service solution, Direxon found it easy to implement and use immediately. The company was able to independently implement Severa 3 in their organization without IT involvement. According to Malmgren, the implementation went smoothly and without a hitch: "The start-up process was extremely easy. I registered myself on the system as a free user and after adjusting a few settings, I was able to complete my first work-hour entry. Severa's quick implementation puts it in a class all its own when compared with other PSA tools on the market."

Severa also supported independent learning. "The user interface is intuitive and therefore encouraged us to test and learn new features," said Malmgren. "Severa's quick help and support documents guided us through new procedures, such as adding several client accounts."

Before using Severa, Direxon didn't use a tool for project management, CRM or billing functions. Like many other professional services organizations, they tracked work hours in Excel. After only a few months of using Severa, Direxon noticed great improvements in their business processes. "Recording work hours and travel expenses has improved tremendously," said Malmgren. "Severa almost guarantees better business processes. Daily reporting is so easy that we now have more accurate information about how our time is spent."

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Professional Services Automation (PSA) Features Checklist:

- Delivers services via online Software-as-a-Service (SaaS) model to eliminate concerns about internal IT requirements—including costs for hardware, system maintenance and software upgrades.
- Offers subscription-based, flexible billing model that allows for adding and subtracting of users every month and bills monthly according to the number of users—with no penalty for reducing or adding users.
- Allows management to easily and quickly view how billable resources are performing, whether customers are being properly billed, and the profitability of each project via customizable dashboards accessed by a one-click methodology.
- Presents simplified data-entry fields so billable resources can quickly submit their time and won't become discouraged.
- Provides an easy implementation process via a self-service model that allows most key features to be accessed by billable resources immediately and without assistance.
- Provides back-up technical support in case extra functionality is required.
- Encompasses multiple business functions from sales to billing so that bids, projects, resource assignments and invoices can all be created seamlessly within one system to avoid multiple data entry or wasteful duplication.
- Offers flexible work-task categories that can be customized according to the areas of time tracked by the firm or according to customer requirements.
- Allows billable resources to access the service from mobile devices or any Internet connection so that data can be submitted easily and quickly every day.

Professional Services Automation Solution Benefits Checklist

- Prevents revenue leakage by ensuring all billable time is invoiced.
- Allows non-billable time to be assessed in measuring overall customer profitability.
- Generates invoices faster with greater accuracy.
- Tracks and predicts the utilization rate of each billable resource as well as other employees.
- Identifies non-profitable tasks so resources can be reallocated.
- Improves follow-up and predictability of projects.
- Manages sales, customer and billing processes with a single tool.
- Allows all employees to view and contribute to the progress of projects, tasks and business in general.
- Provides flexibility to employees for reporting on their time spent on each customer project regardless of their location.
- Monitors project profitability and progress effortlessly in real time.
- Creates more refined employee job descriptions based on time spent on tasks to assist with HR recruiting efforts.