



AberdeenGroup

Performance Gains in
the Services Midmarket

Integrated Solutions Increase
Visibility and Efficiency in
Project-Centric Organizations

An Executive White Paper

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Performance Gains in the Services Midmarket

Preface

Midsize services organizations (MSOs) rely on solutions-based information technology (IT) to compete and grow in business. Despite the type of business in which they are engaged — a professional services organization, an enterprise IT department, or some other project-centric organization (PCO) — each utilizes a variety of software applications to help manage its ever-changing business. Moreover, two major issues are currently advancing the adoption of these solutions:

- Increased information requirements from many of their clients at publicly traded corporations, the result of recent regulatory requirements such as the Sarbanes-Oxley Act of 2002
- Increased competition that has forced these organizations to offer more cost-competitive services with shortened durations

These demands are especially pressing in the MSO market (with the number of employees ranging between 50 and 1,000), where the resources to compete against larger, globally focused firms are limited. Because MSOs have smaller staffs, their increased informational demands place a disproportionate amount of pressure on everyone.

Over the last five years, larger PCOs have adopted integrated solutions to improve productivity and profitability. These solutions increase organizational visibility and resource utilization while reducing risk, and help to deliver projects on time and under budget. The independent software vendors (ISVs) that develop these solutions continue to compete for sales in the largest PCOs. In contrast, the MSO market has been underserved, particularly with regard to integrated solutions that address both operational and strategic needs.

However, a handful of suppliers are now targeting MSOs with solutions that offer enterprise functionality at a reasonable price. The allure of these solutions is in their integration. These packages have a unified database and consistent user interface connecting multiple modules (or functionality). They also are provided by a single ISV.

These integrated solutions enable the MSO to manage the same three key aspects of the business that larger organizations have received for several years:

1. *People* — The acquisition, utilization, and retention of the workforce. Because people are the value-add in PCOs, maintaining a proper balance

of specifically skilled resources enables organizations to maximize utilization, which results in the highest possible profit margins.

2. *Process* — The development, management, and utilization of best practices enable organizations to operate at the maximum possible efficiency, and inefficiencies reduce profitability. Understanding the workflows and processes of a PCO provides the visibility necessary for management to make changes that ultimately increase performance and deliver projects on time.
3. *Capital* — The effective management of capital ensures that organizations attain the highest levels of profitability. In the services market, the integration of project-related activities and the costs associated with their completion have, for the most part, been nonexistent. Through integration, managers and executives can drive-out cost, optimize the invoicing cycle, and modify the types and numbers of service offerings, thereby increasing profitability.

In this *Executive White Paper*, Aberdeen examines the move toward integrated solutions for PCOs in the MSO market. It defines integrated solutions and explains why they are superior to internally developed and nonintegrated point solutions. It also shows why current market conditions dictate the consideration of integrated solutions and explains the benefits that can be gained through their implementation.

The Economic Conditions Warrant Change

The past three years have been especially difficult for the services sector. Organizations with project-oriented revenue bases have been flanked with problems: margins eroding and business shrinking on one side, and new regulatory and competitive pressures on the other. Survival in many PCOs is an overriding concern. These macro pressures siphon money from the organization at the micro level — in project risk, client plan alterations, a fluctuating workforce, and reduced return on investment (ROI).

A PCO's clients now demand detailed information on project costs and timelines. Failure to deliver these details results in a rapidly dwindling client list. Moreover, recent regulatory legislation, such as the Sarbanes-Oxley Act of 2002, although targeted at larger, publicly traded companies, demands that PCOs of all sizes also become adept at detailed reporting, especially when many have clients in publicly traded companies. In short, numerous demands are changing the rules of how PCOs in the MSO market conduct business.

Project precision has also increased. With projects now becoming shorter in duration while increasing in complexity, PCOs face a much more demanding set of deliverables than ever before. Clients now typically measure each step along the way

to project completion, making it clear that wide project variances will not be tolerated and potentially “killing” a project if it does not meet its deliverables — thereby compounding project risk.

Yet clients still mandate project changes, creating a cycle that alters expectations and, ultimately, lowers client satisfaction. As project schedules shift, costs begin to increase or at least alter, and invoicing and payments start to follow an unpredictable pattern. Any of these changes can be irksome, but as they compound the project’s ROI dwindles. The PCO is squeezed and the client sponsor, under a senior management mandate to demonstrate benefit, is disappointed and is sometimes dismissed.

Adjustments in the services workforce because of mergers, acquisitions, splits, and layoffs are continual and they are problems that need to be managed. Large, high-profile PCOs must now also manage their businesses more efficiently, as well as have the flexibility to modify employment levels without affecting services levels — a flexibility that is not as easily present in the MSO market. Because employee turnover remains high in the services sector (currently from layoffs versus job switching during the dot-com era), it is vital to capture and reuse employee knowledge. Workforce planning, project execution, and cash-flow analysis will drive profitability. Optimizing organizational performance will enable some organizations to make it, whereas others will not.

These changes in the PCO sector are difficult enough for large service organizations to manage, even with their large staffs of project managers and accounting specialists. In the MSO market, however, these changes can be terminal. As the work and business become more complex, fast-paced, and closely scrutinized, increasing project visibility becomes paramount to success.

Spreadsheets and Point Solutions Are Not Enough

Traditionally PCOs — especially those in the MSO market — have relied on a collection of single-function point solutions (i.e., project management, time capture, invoicing, and reporting), either purchased from an ISV or developed internally. In addition to the general challenges inherent to point solutions, “homegrown” applications divert management energy and cost into application support activity and away from increasing business revenues.

Spreadsheet-based management tools are still prevalent in the MSO market, as well as in larger organizations. These tools, lauded for their flexibility, ease-of-use, and initial low cost, have provided PCOs with a solution for planning, control, and management functions. A boon for the MSO market 20 years ago, spreadsheets alone do not provide the information consistency, accessibility to data, and accountability that executives now demand. These deficiencies were collectively one

of the forces that pushed executives to “point” solutions for areas such as time and expense, accounting, procurement, and project management.

Although point solutions have given the MSO market some structure for capturing and reporting specific activities, they were not designed to provide much benefit in terms of operational visibility, collaboration, and organizational reporting.

These tools also carry a high cost of maintenance and demand many labor-intensive manual processes. Although many point solutions include excellent reporting capabilities for their own data, enterprise analysis and reporting demands access to data resident in potentially several point solutions. To use point solutions, therefore, typically requires manual processes, which are often cumbersome and expensive. More important, data inconsistencies and redundancies will guarantee inaccurate results.

Over the past two decades, enterprises have learned that integrated solutions provide the required visibility to enable them to better understand and improve their business. The benefit of integration has driven organizations of all types (both product- and services-centric) to spend hundreds of billions of dollars to integrate disparate systems. However, integration can be costly and a continual cash drain as different ISVs upgrade their solutions, resulting in a continual cycle of reintegration.

Why is Integration Important?

The integration of different applications within a PCO helps to optimize service delivery through the automation of business processes. Information is stored in a common database and automatically routed to the next task. The net result of integration is that it provides fast and accurate decision-making information, which can improve the organization’s performance (Figure 1) and bottom-line profitability, particularly in two major areas:

1. *Improved operational visibility* — Integration provides executives, managers, staff, and clients with the knowledge to assist in decision-making. This information can be used to improve operations, reduce project duration and cost, and accurately report on the status of people and capital within the organization. Integration enables individuals to receive alerts about complex interactions — for instance, informing management that a process is not running according to plan and will cost additional time or money.
2. *Less costly, more accurate reporting* — Reports can be generated from one database, eliminating the errors that accompany the manual assembly of information from a number of different applications. Reporting capabilities also minimize the cost of manually preparing reports. When these reports are run in “real time,” they enable executives to continually monitor and improve business operations.

Integration truly affects an organization’s bottom line. As information flows through the system faster than by manual means, invoices can be generated faster, resulting in a faster collection of service fees, reducing financing costs. In addition, managers and executives can be alerted when work completed is overlooked and is not invoiced — increasing revenues.

Without integration, individuals must cull and manually assemble data from a variety of sources. This process is time-consuming, costly, and typically is done infrequently — perhaps once a year. As a result, inefficiencies and critical mistakes can go unseen until it is too late, costing the organization money and opportunity.

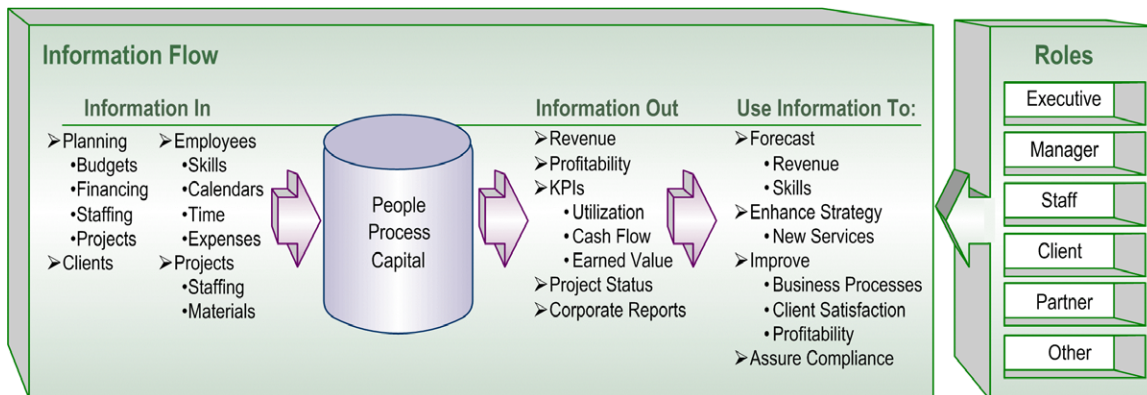
However, integrating disparate solutions can become a nightmare when individual ISVs deliver new versions of their application at will. Every time a new version is released, there is a period of reintegration, testing, deployment, and training, all of which costs time and money. In addition, internally developed systems must go through the same process.

The net result of integration is that it can add significant cost to an organization’s IT budget, something that IT is already under pressure to reduce. The ratio of integration costs to licensing fees can run anywhere from 3-to-1 to 6-to-1, depending on the depth and length of the integration and the customization required. Aberdeen research has shown that this additional cost can come to over \$1,500 per user, which eliminates the cost-effectiveness of the integration.

New IT Solutions Improve Service Performance

There is no real secret to optimizing organizational performance in PCOs. It comes down to the efficient and effective use of the three major areas within an organization: people, processes, and capital. For more than 20 years, organizations in the manufacturing sector have gained a competitive advantage by leveraging the IT infrastructure to integrate these three areas. And although technology will not

Figure 1: Integration of Knowledge Provides Benefits to PCOs



Source: Aberdeen Group, July 2003

improve poor processes, it can highlight inefficiencies so that they can be changed for the better.

These product-centric organizations use technologies that include customer relationship management (CRM), enterprise resource planning (ERP), and supply chain management (SCM) to maximize profitability by optimizing processes associated with planning and demand forecasting, procurement and inventory control, production, and customer service, to name a few. The importance of these solutions is that they offer executives visibility into operations that enable them to meet customer demand while minimizing cost. This capability has been missing in the services sector until recently.

Over the past five years, a new class of integrated solutions has come to market that makes PCOs more efficient. These solutions utilize an Internet architecture, which reduces deployment costs. Because of the Internet architecture, team members from anywhere that the Internet is present can collaborate, communicate, and work. They are also integrated and share a common database and consistent user interface. These characteristics help decrease the total cost of ownership and, thus, increase the ROI by minimizing the following:

- *Integration costs* — The ISV provides a standardized and consistent platform and is responsible for the solution integration. Most vendors now also offer application program interfaces (APIs) that help them integrate with other (legacy or specific line-of-business) systems.
- *Application operations and maintenance costs* — The introduction of integrated solutions eliminates the costs associated with supporting many of the older point solutions and homegrown applications. Their removal lessens the continual need and cost of customization, maintenance, and integration, enabling the organization to focus on delivering services to clients and not on developing and supporting applications.
- *Employee training* — Integrated solutions for the PCOs can eliminate many commonly used point solutions, each of which require specific training just to begin work. With a standard user interface and workflow, training costs can be held down.

Aberdeen recently analyzed 35 PCOs that deployed integrated solutions. These organizations had approximately 190 billable employees, representing 70% of their workforce. In addition, these individuals billed approximately \$115,000 annually. Interestingly, they were doing roughly 50% more projects on a year-over-year basis, reflecting their clients' needs to have more, but shorter in duration projects — and those projects had to be cost effective. With their business changing, they turned to integrated solutions to increase project visibility, reduce the time and costs as-

sociated with project delivery, and increase client satisfaction by demonstrating the true value of their work.

The PCOs that deployed integrated solutions found that their utilization increased to the point of showing an additional \$700,000 in additional billings with the same headcount, as well as a \$125,00 reduction in project financing through integrated billing management. The net result of deploying these solutions was a payback of less than five months for these organizations; the ROI averaged more than 180% over a five-year period.

Many other areas, although not quantified, showed how these solutions improved performance. Some of these areas included:

- Improved planning over the traditional spreadsheet method
- More accurate forecasting of services and faster reactions to changing business conditions, as opposed to when information was manually assembled and analyzed on a six-month or one-year basis
- Reduced billing disputes from manually-generated invoices

ISVs use a variety of names to describe integrated solutions for PCOs; however, the names are not important. What is important is the functionality and benefits that each provides. These solutions have a common thread in that they manage the people, processes, and capital related to project-based work, and allow ISVs to focus on the business at hand — delivering project-based work — while eliminating the need to pay for integration of disparate systems and reports. Each solution also provides a common user interface and has the capability of exporting information into popular document, spreadsheet, and graphics packages directly for additional analysis and presentation.

Some integrated solutions are more focused toward professional services organizations, emphasizing the entire delivery of services from sales and marketing activities through the planning, staffing, and delivering the service, invoicing the client, and analyzing the business, helping PCOs to increase profitability and client satisfaction in future work. Other solutions help manage internally delivered services and emphasize the prioritization and management of an organization's projects. Executives, managers, and team members use these solutions to do the following:

- *Plan, staff and initiate* work on projects
- *Prioritize* projects based on a variety of indices (strategic or tactical importance, cost, ROI, etc.)
- *Monitor* (continually) their progress to see how they are performing against plan
- *Modify* work to assure that they are meeting goals (budget, time, value, etc.)

Integration with the Back Office

One of the latest movements in the industry is to integrate these front office-oriented solutions with back-office applications that include financial, human resources, and procurement systems. This integration enhances the value proposition of integration and enables organizations to tie projects and other work directly to their associated profitability. The result is an end-to-end integrated solution for managing the entire organization. Although extremely large organizations have the desire, capital, and choice to continue to integrate disparate systems, in the MSO market the value proposition is hard to beat.

These integrated solutions are comprised of a number of different management modules that organizations purchased separately. Although different vendors use different names to describe the functionality, they can be considered as part of four (Figure 2) major business functions that include the following:

1. *Communication (collaboration, client relationship, partner relationship)* — Supports the timely communication and collaboration between employees, management, partners, and clients to more effectively and efficiently deliver services
2. *Service delivery (opportunity, engagement, project, resource, time & expense, invoice)* — Streamlines the processes required to execute work efficiently, and provides the framework for organizations to staff organizations effectively

Figure 2: Integrated Solutions Support Core Business Functions



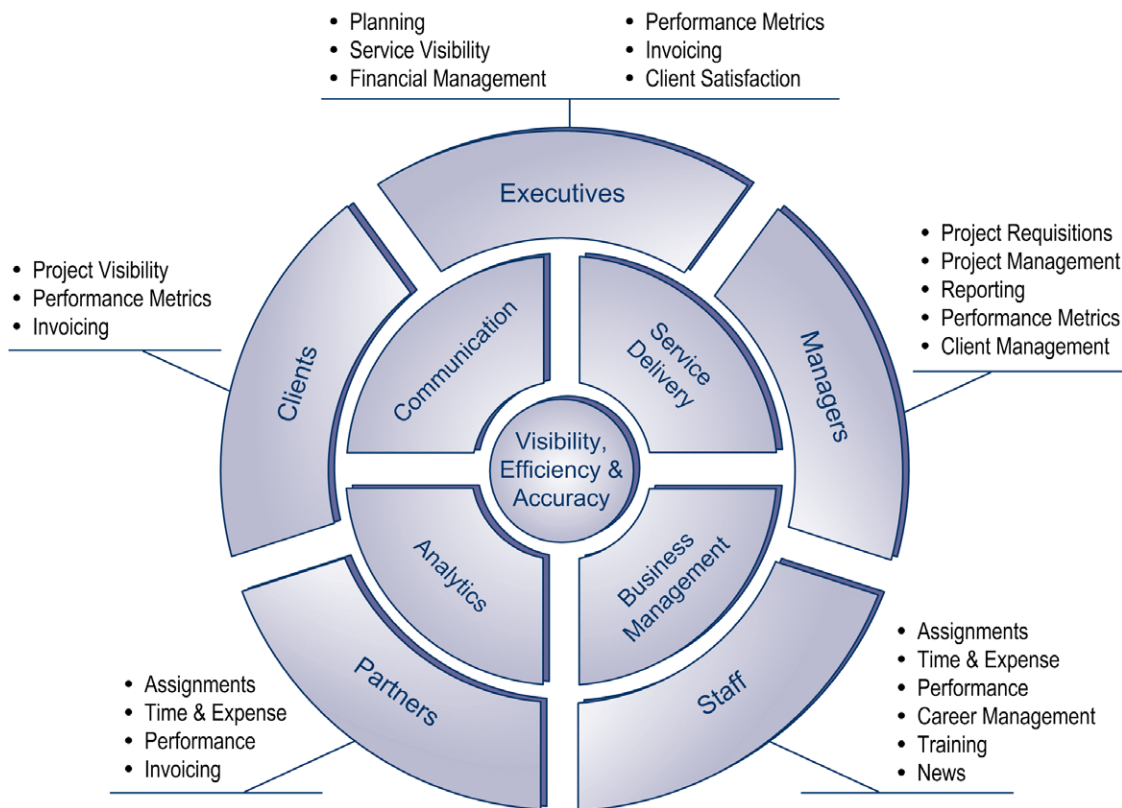
Source: Aberdeen Group, July 2003

3. *Analytics (performance, business intelligence, knowledge, portfolio)* — Provides structure for analyzing, reporting, and improving business operations
4. *Business management (practice, financial, human resource, procurement)* — Enables executives to “run the business” by providing a corporate infrastructure for internal and external management and communications to investors and regulatory agencies.

Raising the Bar on Performance and Profitability

Organizations that use integrated solutions now have a visibility and insight into their organization that they never had before (Figure 3). This visibility gives them a much higher probability of delivering projects *on time and under budget* — something that was much more difficult using spreadsheets and point solutions, as well as using people working from remote locations. In order to maximize the benefits of using these solutions, organizations should consider a number of initiatives to increase their effectiveness.

Figure 3: Visibility Provided By Integrated Solutions



Source: Aberdeen Group, July 2003

Increase Performance

Early-adopter organizations that implement integrated solutions have seen employee utilization increase from 59% to 67% — an 8% improvement — because less time is spent on administrative processes, such as time and expense preparation, report generation, and duplication of activities. This reduction of overhead enables individuals to gain over two extra weeks of billable time annually. The improvement is accomplished in a number of ways, including the following:

- *Balance the supply and demand for resources* — By understanding current capabilities and future work requirements, organizations can insure that they have the proper amount and type of resources available for projects. In services organizations, bench time (when workers are not billing) is lost time and drains capital, all of which affects profitability.
- *Reduce the project life cycle* — Organizations can use the solution to plan projects, create individual schedules, assure that resources are available, and run projects as efficiently as possible. By improving the project performance over managing by spreadsheet or non-integrated project management solution alone, organizations can complete projects more rapidly, reduce the capital outlay necessary to support projects, and invoice and collect in a reduced timeframe.
- *Enable employees to manage their available skills* — Employees can maintain their skills online, making them visible to project managers that require their areas of expertise. In addition, employees can use the solution to look for new projects and work to gain the skills required for upcoming projects.
- *Standardize processes* — PCOs can use the solution to standardize business process, create repeatable and efficient workflows, and reuse information rather than recreating it repeatedly.

Improve Profitability

Because information flows through integrated solutions seamlessly, approvals and subsequent billing can be done faster and with fewer errors compared to when the information was assembled manually. This automation streamlines the invoicing process and can take weeks off the invoice cycle. Integrated solutions also offer increased profitability through the visibility provided and serve as a foundation to improve operations. Some of the ways in which integrated solutions accomplish improved cash flow and profitability include the following:

- *Evaluate strategy to improve revenue* — Integrated solutions enable executives to literally dissect their business efficiently, finding areas in which they can make both strategic and tactical changes to increase revenues, decrease costs, and improve profitability.

- *Reduce day's sales outstanding (DSO)* — By automating the flow of information, invoices can be generated, approved, and sent electronically to clients for payment, reducing the time that had been spent on faxes and mail services.
- *Manage profitability by client, geography, practice, and skill* — By utilizing one database and solution for collecting and reporting information, operations can be evaluated and reported on by any key parameter captured within the system. Therefore, executives can determine what types of projects, clients, and practice areas are the most profitable and what areas need fixing or elimination — each with the goal of optimizing performance and profitability.
- *Enable clients to view selected information* — Clients that understand how the work is progressing tend to be more satisfied than those “kept in the dark.” Providing them with access to project status and cost information might allow them to head-off any major issues with their executive management, increasing the potential that the project will be completed and paid for, as well as minimizing the risk to the PCO. In addition, client satisfaction, something for which every organization strives, increases.

Improving organizational performance is everyone's job, but these improvements are not realistic without a workforce that has a solid understanding of operations and the tools to show how they can make changes that impact performance positively. Integrated solutions provide such a tool to increase performance.

Selecting the Right Solution

It is always important to find a solution that meets the customer's needs. Although many factors must be considered before selecting a solution, there are a few that are critical, including the following:

- *Functionality required* — Select a solution with the core functionality required and do not load-up on additional “bells and whistles.” Overly complex solutions can affect operations negatively. Many solutions come with toolsets to enable additional customization and configuration that can work with other areas of the business. Most offer direct exporting to popular spreadsheet, document, and graphics packages.
- *Technology* — The move to thin-client computing has opened the door to a number of different server platforms. Make sure that the server platform is consistent with the organization's operating environment. The technology choice should provide scalability and performance as the database gets large. The technology must also be open, for integration with other company (legacy) or industry-specific solutions.

- *Software vendor viability* — Look for vendors with a solid track record of growth and profitability, and with the financial stability to remain in the market for the long run. This solution is too important for a PCO's long-term success and the vendor should be able to support it long-term.
- *Personnel considerations* — This issue is probably the most underestimated when implementing any type of solution, primarily because people are resistant to change. Change management in an organization is critical for the successful deployment and operation of the solution. Make sure that the workforce understands why this integration is important and what it means in terms of how they will work going forward, as well as “what is in it for them.”

To select the right solution, organizations need to start with a clearly defined business case and present it to executive management, showing the quantitative and qualitative benefits, as well as the costs and risks involved with its deployment. Executive commitment is critical when deploying solutions across a significant part of the organization.

The organization must then select a solution that is right for their business. When evaluating vendors, some of the areas to consider include their expertise in certain vertical markets; the size of the organization they typically serve; and their geographic focus, languages, and currencies that they support.

Once a solution is selected (and only with the modules that provide sufficient benefits), it is generally a good idea to conduct a pilot study with 5% to 10% of the workforce, in order to iron-out any issues or business processes that could arise upon deploying the solution to the entire organization. In many instances, this is when organizations go through a business-process reengineering phase, followed by change management, to get the organization onboard with the deployment. At this point, the implementation plans must be solid, to avoid delays or issues that hinder productivity. Faster deployments are usually the best — they reduce delays and get the workforce using the solution more quickly.

It is very important to communicate with the executives and show them the true benefits once the solution is up and running. This communication provides the foundation for their ongoing commitment and support. They can also take care of any issues that arise, to truly optimize the organization's performance. These benefits should also be communicated to the workforce, to show them that the new way of working is having a positive impact on the organization.

Aberdeen Conclusions

Recent accounting scandals and economic woes have altered the services market and forced services organizations to improve the delivery of work to their clients.

Competitive pressures have forced these organizations to become more efficient in order to remain viable, especially in the MSO market where there is little room for failure. These factors make the need to leverage IT more important than ever. Fortunately, advances in integrated information systems have created benefits for MSOs. Now, these organizations have access to the same integrated solutions that their larger brethren have had for some time.

Integrated solutions help manage the core assets of a PCO: its people, core processes, and capital infrastructure. Because of the visibility gained and the resulting efficiency improvements made, these organizations can become more competitive in the marketplace and can help them to deliver project-based work consistently on time and under budget, which is paramount to building shareholder value. This information helps in every aspect of the business cycle: planning, sales, staffing, project execution, reporting, and analysis. All of the information contained within the solution helps provide a precise audit trail of the work accomplished. As executives are further charged with providing accurate and timely information about the work they complete for their clients, these integrated solutions will enable them to report results more rapidly and accurately.

The market for integrated solutions for the MSO market will to grow substantially over the next several years, as executives see the benefits gained by their implementation, as clients require more timely access to project information, and as investors demand better financial performance. Aberdeen expects these solutions to become both mandatory for economic survival and a prerequisite for winning new business, as client demands dictate more timely and accurate reporting of project-centric work. There is no going back in time, and the ability to see forward will provide the foundation for future success.

To provide us with your feedback on this research, please go to www.aberdeen.com/feedback.

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Based on a comprehensive analytical framework, Aberdeen provides fresh insights into the future of computing and networking and the implications for users and the industry.

Aberdeen Group performs projects for a select group of domestic and international clients requiring strategic and tactical advice and hard answers on how to manage computer and communications technology. This document is the result of research performed by Aberdeen Group, which was underwritten by Microsoft Corporation. Aberdeen Group believes its findings are objective and represent the best analysis available at the time of publication.