In Business for You

THE 5 PILLARS OF PROFITABILITY

UNIT4 PROFESSIONAL SERVICES

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3 Key indicators

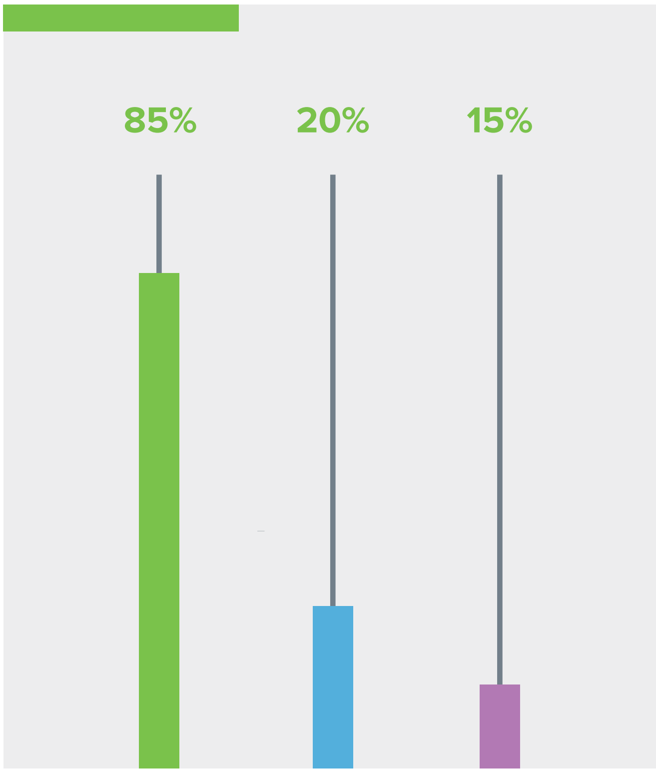
In professional services, 20% of companies lead the pack.

What are their secrets?

The modern professional service company lives in a permanent state of change – required to navigate and manage growth with technology that might not be up to the task. And to anticipate and improve their margins and cash flow more than ever before.

But **20% of professional service companies clearly outperform the others.**

To help you learn from the best, Unit4 and SPI Research investigated what the pillars of profitability are for these top performing businesses[1].



The 3 key indicators

Achieve a utilization rate of 85%
The most efficient companies have an average utilization rate of around 85%. The average across professional services businesses is closer to 70%.

Their higher utilization rate is closely linked to their capacity for anticipation and forecasting.

Achieve an operating income (EBITDA) of more than 20%
The most profitable service companies aim to achieve an EBITDA of at least 20% (in fact, they average around 23%). Crucially, they promote financial culture at all levels of the company. (For more on what this means, refer to Pillar 2).

Keep the cost of non-chargeable resources below 15%
The most organized service companies ensure that the costs of non-chargeable employees never exceed 15% of full salary costs. The average is around 20%.

So how do they do it?

Top-performers aren't simply better than the average – they work in ways that allow them to make better use of their people and their resources. They do this by embracing **five "pillars of productivity".**

#1 Make smarter new business deals

Top-performing companies average 27% growth in new business each year.

Up against this kind of competition, it's vital to be well organized in order to develop sales. **The challenge for leadership is to be selective about which projects to work on in pre-sales.** To prioritize opportunities where your chances of winning are higher, and where margins make the win worthwhile.

Although daunting at first, learning when to say "no" to opportunities is key in optimizing the cost of sales. And while it might not seem like a big worry now, it will become one if you allow it to.

In recent years, the opportunity conversion rate (the number of opportunities won compared to proposals issued) has been on a downward trend, decreasing 6% on average. This means that for the average professional services firm, **the cost of winning new business will progressively erode your ability to make a profit.**

Heading this problem off requires developing multi-disciplinary pre-sales teams, composed dynamically according to the opportunity, so that the cost of the pre-sales structure is more flexible.

But making new business deals also means managing the ability to generate future revenue. Renewals are thus essential to guarantee a growing production turnover.

To better manage profitability, your company must have good visibility both of pipeline and of your ability to deliver services when the deal is signed. (After all, you'll only begin to see revenue once the deal is completed).

Therefore, you'll need to make use of a reporting system that reconciles your business's pipeline with its projected deployment schedule. Ideally, commercial proposals should be drawn up directly in the operational management system to "reserve" resources and provide all your departments with reliable forecasts of revenue, margins, and resource invoicing rates.

This will put you in a better place to manage your approach. Giving managers and executives the right information to make the right decisions at the right time.

#2 Improve project profitability

Monitor the costs and progress of projects in real-time to protect and boost your margins.

The most profitable professional service companies do not wait for routine reviews or internal management control to collect cost information for monthly or quarterly meetings. Instead, they give project managers access to real-time progress indicators. Combining planning with cost evolution and forecast margins.

The profitability of each project impacts directly on your overall operating. Therefore, **maximizing profitability should be a priority for every project manager and operational manager.**

But for this to happen, you must promote a greater "financial culture" throughout the company.

Project managers generally monitor the progress of projects at the planning level – making sure invoicing aligns with forecasts. This method is essentially focused on managing projects by *deadlines.*

This causes problems when deadlines are kept at the expense of cost-effectiveness. A project manager who allocates extra resources to meet a deadline keeps the project on schedule. But if doing so means they've used 50% of the forecast cost to get to a 20% completion milestone, profitability will inevitably suffer.

To ensure this doesn't happen, project managers must have real-time visibility of the cost of resources used (internal and subcontracted, operational and financial), and be able to compare them with planned costs and progress. Letting them identify discrepancies as early as possible so they can react before it's too late.

For example, if the scope of a project changes, these changes must be reflected immediately to justify any additional unplanned tasks. In this way, your project manager can anticipate changes and discuss them with the customer to guarantee their satisfaction.

Today, projects must be driven as much by the search for continuous optimization of their profitability as by deadlines and scope. In fact, when the costs incurred for a project exceed the forecasts, it's often the project manager who will be in the best position to find solutions that will minimize the impact on the forecast margin.

#3 Increase your invoicing rate

Planning must be constantly scrutinized to make better use of your internal resources.

Planning a project which intends to use 80% internal resources and 20% subcontracting? Shifting the ratio to 90% and 10% will almost always increase the project's profitability by far more than 10%.

Increasing the invoicing rate of internal resources should, therefore, be a top priority when it comes to maximizing project profitability.

And when we look at the top performers, we find that it is. The most efficient professional service companies continuously monitor and forecast resource availability in the short- and medium-term. Information is shared with project managers so that they can adjust their planning if needed.

The collaborative dimension here is fundamental to maximizing the use of internal resources (and, by extension, maximizing profitability).

This dynamic management of resources is also a good way of aligning the needs of the Operations Department with the responsibilities of the Human Resources Department. Helping them to anticipate recruitment needs in the short or medium term. In the same way, they will be able to analyze why certain areas of expertise are less well planned than others, and undertake training actions to help increase utilization rates.

As we saw in the study, the most effective professional services businesses invoice around 85% of their time capacity. But the cost of a consultant invoicing at 50% is likely the same as one invoicing at 90%.

Allocating them as a backup on an existing project to accelerate planning and recognize revenue earlier than expected can also have a positive effect on the company's overall profitability at the end of the fiscal year.

Maximizing the invoicing rate is, therefore, a constant task in which resource planning systems must play a central role.

#4 Make invoicing more reliable

Integrate and automate your processes to better guarantee income recognition.

Invoicing and revenue recognition processes are critical to financial performance. But in many cases, they're more complex than they need to be. A fundamental pillar for improving the company's profitability is to make invoicing processes more reliable by automatically integrating operational data related to subcontracting invoices, time, absence and expense reports collected directly from employees in the field.

This data must be validated in real-time so that it can be evaluated quickly.

Integrating business processes with the invoicing process eliminates the risk of errors and lets you deliver fair and accurate invoices to customers quickly.

Using a single management solution carries the advantage of cast-iron reliability for all your data, invoices, and accounts.

Producing fair, accurate invoices makes customer disputes less likely and accelerates payment terms - big positives in terms of cash flow optimization. This also allows project managers and the Finance Department to continuously monitor margins compared to the initial forecasts.

If processes are sufficiently automated, measuring the progress of projects and determining when invoices should be issued or postponed (and revenue realized or deferred) will be much simpler and much less involved. Reducing the time required for periodic closures and the circulation of financial reports.

In most professional service companies, this process remains time consuming and costly as it requires the teams to spend potentially chargeable time on administration.

#5 Reduce operating costs

Improve the efficiency of your non-chargeable resources to keep growth manageable.

In professional services companies, the proportion of chargeable and non-chargeable employees is a key indicator in measuring performance. The term SGA (sales, general, and administrative costs) is used to identify the costs of the internal sales, marketing, IT, general and administrative teams.

As we mentioned earlier, the SPI [1] study shows us that **the most profitable companies ensure that their non-chargeable time doesn't exceed the threshold of 15% of total payroll costs.** A company's ability to achieve this target is closely linked to the possibilities of integration and automation allowed by technology.

If your ERP system is not adaptive or flexible enough, it incentivizes your people to work around it: Excel workbooks multiply and lead to data re-entries and new controls or checks before validation. **This leads not only to losses in productivity and efficiency, but also to an increase in internal IT and salary costs as the company grows.**

Choosing a system capable of automating many processes is, therefore, essential to fostering growth that isn't accompanied by bloat associated with non-billable work.

Being ready for anything

Your information system must be “digitally ready” to perform

Today's service companies live in constant change and need more agility and collaborative functions than ever before. Today's service companies live in constant change and need more agility and collaborative functions than ever before.

In order to achieve EBITDA of 20% or more, the information system obviously plays an important role in integrating the various operational functions and automating administrative and financial processes. Beyond this, **your solution must also make it possible to quickly and easily adapt to change**, such as mergers and acquisitions, internal reorganizations, the development of new activities, or the introduction of new reporting standards.

The flexibility of your information system is essential to decompartmentalize operations and guarantee the coherence and continuity of business processes.

At Unit4, we have always prioritized this adaptability when developing our products. After all, the lowest TCO (total cost of ownership) has always been associated with the highest ROI (return on investment) for our clients.

On the other hand, it’s obvious that increasing profitability in a service company is a collaborative endeavor involving multiple departments. To succeed, a culture of entrepreneurship and profitability must be encouraged throughout the business. **The information system will help achieve this by simplifying information sharing, creating a true collective intelligence approach.**

Companies with large org charts or highly structured processes urgently need to recreate this dynamic in the exchange of information between employees. And this requires businesses to integrate collaborative functionalities through the use of modern digital tools which people can easily use on a daily basis.

In fact, improving this kind of collaborative working and information sharing is a fundamental trend in those service companies that outperform others. The SPI study shows that the top 5% of successful service companies have moved to the next level of excellence when it comes to constantly sharing information both internally and externally.

About Unit4

Unit4's next-generation enterprise software supports our customers in delivering an exceptional People Experience to their customers – from students and professionals to the public servants and non-profits doing good in the world. Unit4 transforms work to be more meaningful and inspiring through software that's self-driving, adaptive and intuitive, intelligently automating administrative tasks and providing easy access to the answers people need. Unit4 works with people the way people work.

For more information

please visit our website or download the PSO industry brochure, [Breaking new ground in professional services]

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