Put an End to Revenue Leakage & Margin Erosion

Strategies and solutions to preserve millions in revenue

Mind shift: A focus on efficiency over growth

The professional services industry has entered a slow growth phase for the first time in nearly a decade. With an anticipated compound annual growth rate (CAGR) for 2020 at just 0.1%[1] — this marks a big drop from the 7% average CAGR the industry had been experiencing since 2014.[2]

The global COVID-19 pandemic, compounded by many recent industry challenges — including expanded services offerings, the rise of cloud platforms, remote working, and shifting client requirements–has made one thing clear: Delivery teams must focus on improving internal efficiencies by putting an end to revenue leakage and margin erosion.

Revenue leakage is a silent business threat. If an organization is not actively looking for revenue leakage, it can go unnoticed indefinitely. Formally defined, revenue leakage is the difference between revenue sold and revenue recognized. In reality, revenue leakage could exist in every stage of the customer lifecycle.

It is common for organizations to have 5%–8% gaps between revenue sold and revenue earned. For some professional services organizations, this could represent upwards of $5 million in leaked revenue per year. Addressing only 50% of revenue leakage over a five year period could preserve more than $10 million in revenue.

Annual & Projected Revenue ($M)

Projected revenue if 50% of current revenue leakage is addressed

Projected revenue at current rate of revenue leakage

YEAR
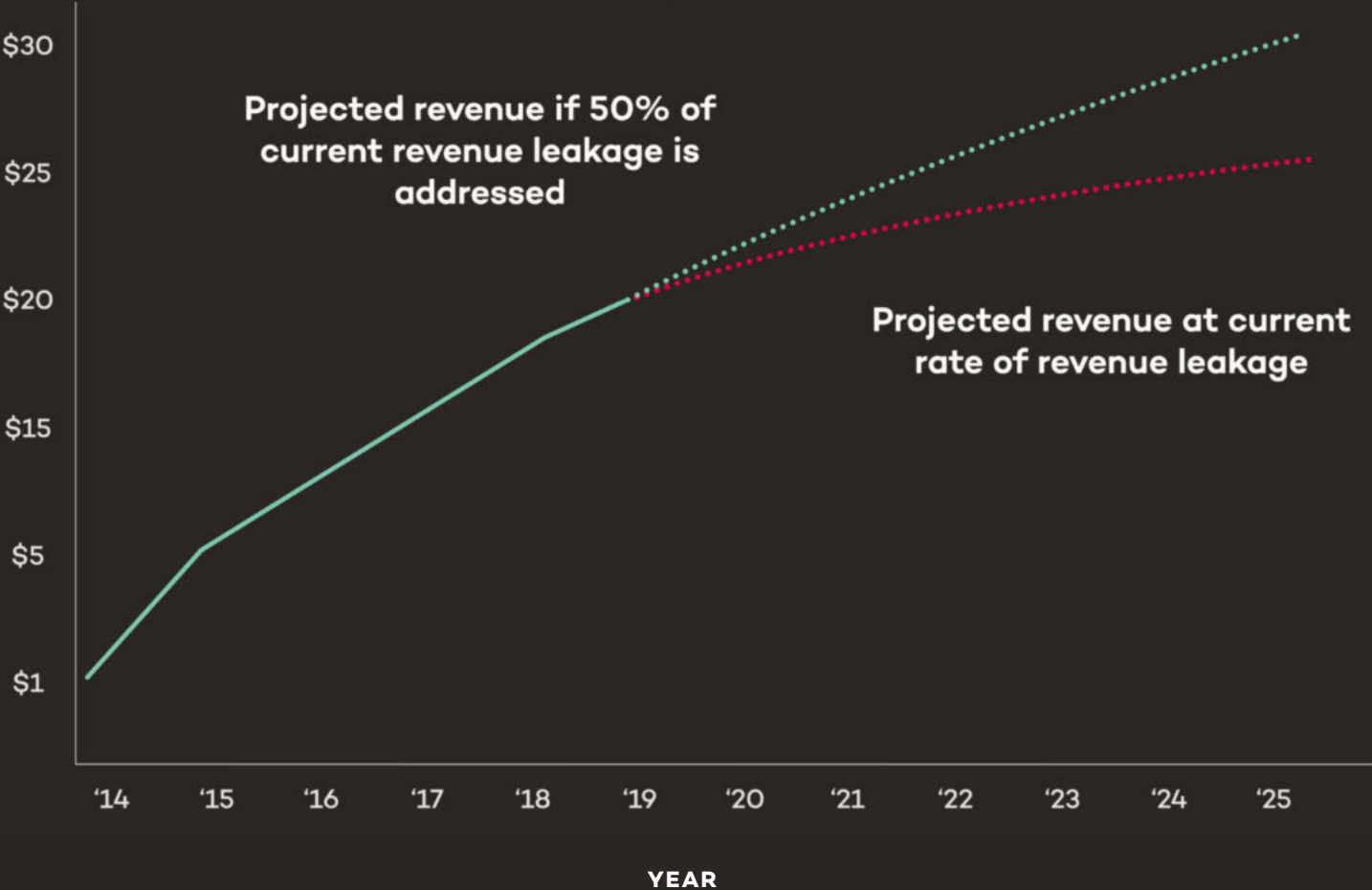
Disconnected systems and broken feedback loops are two of the biggest drivers of revenue leakage: for example, time worked that never makes it to an invoice or an unused budget that a client would have happily consumed. Organizations that do not have a single system for selling, planning, staffing, and delivering work open themselves up to the risk of revenue leakage.

Another issue is the mistake of optimizing your internal business processes in isolation. If you only optimize your resource allocation system, but that doesn't sync with your project management system, you immediately lose any benefits when you book a consultant you thought was available but isn't. The better option is to take a holistic approach and optimize processes for resources, project, financials, and time and expenses across the board.

Similar to revenue leakage, margin erosion is also a constant threat. Erosion of margin occurs when the actual margin of a project is less than the planned margin at the time the project was scoped. Factors like discounting, resource mix, scope creep, and invoicing errors and delays all contribute to margin erosion. Sometimes giving up some margin to ensure an excellent customer experience is a strategic decision leaders will make. It is important, however, for leaders to know when, where, and why they are giving up margin instead of being surprised once the books close.

Finding and fixing the issues

Addressing revenue leakage will allow you to increase earned revenue, protect your margins, and deliver the expected value of each engagement. In working with some of the biggest professional services firms in the world, we have a window into what it requires to find and fix the revenue leakage problem to achieve these benefits and preserve billions in revenue.

It starts with diving deep into the complexities of your organization and focusing on the following:

1. Selling the right deals
2. Maximizing utilization
3. Optimizing project delivery
4. Streamlining billing and revenue management
5. Investing in analytics
6. Leveraging a modern, cloud-based delivery solution

In this ebook, we provide the strategies and solutions to help you make that happen.

1 Selling the right deals

Align sales and delivery teams

When it comes to closing the right deals, you must ensure your sales and delivery teams are working as one team. Unfortunately, many organizations still rely on homegrown or legacy systems that compel teams to operate as standalone departments.

When these two teams use different systems, delivery teams receive limited information, preventing them from planning with clear-cut parameters and knowing how best to staff for both the near and long-term. Meanwhile, the sales team may be under- or over-promising simply because they're unable to see what's available to deliver.

The opposite is true when selling and delivery teams are aligned to the same platform, sharing unified data. Then they can work in unison to scope, plan, and price the right deals, predict and optimize staffing, and collaboratively deliver on customer promises. Plus, delivery will have the insight required to keep billable consultants off the bench and in the field. The end results will be a well-staffed and properly billed engagement.

Identify upsell opportunities

Delivery teams interact with customers 5–15 times more than sellers.[3] They are the chief point of contact, the first to hear customer challenges, and the ones powering customer satisfaction and retention. But when sales and delivery teams aren't aligned, upsell opportunities can easily be missed.

But when sales and delivery teams can see into each other's worlds, they can proactively work together to unlock new opportunities for revenue growth and deliver on customer expectations.

[3]TSIA Research, Touchpoint Calculus: Why Sales Can Do It for Themselves

2 Maximizing utilization

Always be resource-ready

Having the right team on the right project at the right time is what keeps projects on track, margins in line, and customers happy. When you don't, it becomes a major source of revenue leakage. But despite the fact that delivery leaders know how important this is, using the bench to full capacity remains rare.

As discussed earlier, when sales and delivery teams work in the same system, everyone involved has a view of current customer projects, staff commitments, and pipeline. Sellers know what they can promise, while delivery can build, recruit, and/or train the right staff based on what's in the pipeline.

Make every hour count

To successfully track the hours it takes to deliver a project, you need to make sure every hour is tracked — whether billable or not. Too many organizations today only track consulting time sold against a project, ignoring time not scoped for resources outside of delivery (e.g., development). The typical reasoning? "We didn't build the outside resources' level of effort (LOE) into the project because it's just a cost center." But making this mistake means you'll never identify the true project margin and you'll never know if you're efficiently utilizing the resources outside of consulting.

Instead, delivery leaders should establish productive utilization targets for these resources with a realistic percentage figure tied to specific projects.

Where a 0.5% improvement in resource utilization means the difference between hitting or missing your KPIs, **resource management is critical.**

Eliminate the reliance on spreadsheets

Nothing can throw off the proper tracking of resources, conflicting schedules, and a wide range of billable services and delivery models quite like a spreadsheet. They are extremely time-consuming and rife with potential errors. And when your margin tracking and profitability rely on their calculations, you don't want to worry about errors.

What you do need is resource planning software that delivers comprehensive views across your capacity and backlog while also providing timely, accurate, and powerful utilization reporting. Today, this type of visibility and reporting is only made possible with professional service automation (PSA) solutions.

Stay on top of project burndown

Key to utilization management is visibility into project burndown, which indicates whether the project is trending correctly or at risk of running over budget. To track this, your project managers must have clear visibility into all project hours budgeted, charged, planned, and unplanned. To be accurate, project burndown must include any and all assigned resources that further the scope of project, billable or not.

This can all be streamlined with the right PSA solution, with some able to predict the results of a project based on assignments and actuals. If you can add analytics to the mix, you can also predict project results based solely on hours that have not been scheduled.

Case study

Salesforce moves its global professional services division to FinancialForce

In the past, Salesforce ran two disparate systems with no overall view into projects. Extracting key information was time-consuming, and it became increasingly difficult to share real-time information across the business. Services Operations also acted as a single point of contact for all project queries, creating bottlenecks. After running NetSuite side-by-side with FinancialForce, Salesforce chose to move its entire professional services organization to FinancialForce PSA.

By automating project creation using FinancialForce, Salesforce improved utilization, project margins, and visibility into project profitability—saving considerable time and resources. Project burn reports, which used to take half a day to extract, are now pulled in seconds. For Salesforce's executive team, FinancialForce powers a complete view of the company's global project pulse that they can access anytime, anywhere.

SEE SALESFORCE'S STORY

3 Optimizing project delivery

Unify your teams and business on one solution

Companies with greater project visibility achieve higher win rates, utilization, and margins. With your selling, delivery, and finance teams all using a single, connected system, you get better visibility into pipeline, resource demand, and other critical project data. You can start projects faster and balance assignments across globally diverse resource pools. Additionally, you can work more confidently by spotting problems sooner and leveraging a holistic view into client and engagement health — based on a single version of the truth.

Prioritize projects based on profitability

All projects are not created equal. Without a dedicated system, it can be difficult to measure the nuances of profitability that each client and project represents. It's critical you can see what's happening across your entire practice, including project status, budgets, costs, customer interactions, and more, so you can focus on the right ones.

Empower the remote workforce

COVID-19 is the latest, most drastic indicator that organizations require virtual delivery models to continue running smoothly and consistently. A robust virtual delivery platform would allow you to empower your teams to easily share project information, track time and billing, and communicate in real-time as well as improve partner and customer interactions through built-in communities. Services organizations that have deployed communities experienced:[4]

- **+53% increased customer retention**
- **+40% increased sales**
- **+40% increased speed of delivery**
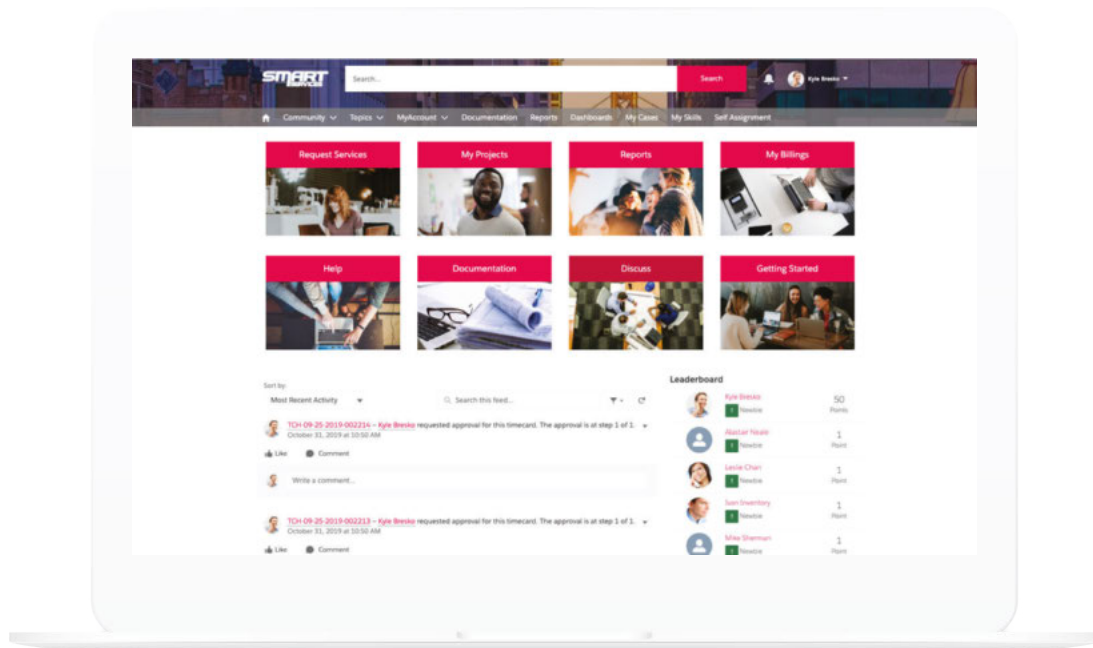
The complexities involved in operating a global professional services organization at scale are enormous. If your organization is still relying on spreadsheets, disconnected systems, and single-function tools, then your complexities, inefficiencies, and error-prone processes only become greater.

4 Streamlining billing and revenue management

Support all billing models

In order to preserve revenue, you must be able to accomodate pricing and billing processes tailored to your customers' needs. Whether you deal in time and materials (T&M), subscription-based contracts, fixed-fee services, or a blend of models, your billing system should be agile enough to support them all, from the opportunity all the way through to customer renewal and revenue recognition.

Ensure timely, streamlined billing

Manual, inflexible back-office systems and processes are the leading causes of slow billing, costly errors, and revenue leakage for professional services organizations. Working from an agile, single technology stack, you can automate and streamline your delivery-related billing and revenue recognition processes while hooking into your company's existing financial system. You can invoice for any revenue stream without missing a single billable hour, reimbursable expense, or delivery milestone. In addition, timely invoices mean no surprises down the road for you or your customers. The results: lower DSO, margins protected, revenue leakage stemmed.

Work from a master customer record

Empower your organization with a single customer record so that anyone — delivery teams, selling teams, finance teams — can answer a customer question, give status updates on projects, know where billing stands, and even prevent disputes.

Case study

Tracking projects from creation to completion

Prior to FinancialForce, Hewlett Packard Enterprise (HPE) managed service requests through manual worksheets, with no systematic data consolidation or mobility. Existing processes also didn't support end-to-end project management functionality, or the company's evolving portfolio complexity. Teams lacked visibility into projects and assigned resources, resulting in inconsistencies. Delivery teams also had several separate systems, requiring HPE to spend time and money moving data around and training users.

HPE now runs its delivery business on FinancialForce, bringing all relevant project and financial data into one place. Rather than trying to guess the best way to spend money or hire resources, they are able to achieve comprehensive, real-time transparency into profitability by client, project type, region, and more. Teams can easily scale project execution and improve customer intelligence by centralizing core data on one platform.

<div style="border:1px solid red; display:inline-block; padding:10px">SEE HPE'S STORY</div>

5 Investing in real-time data analytics and predictability

Make real-time the only time

Instead of manually cobbling together best guesses based on past events, professional services firms should use real-time analytics to deliver insights on what is happening right now and in the future. This way, you can get visibility into every dollar recognized and dollar planned. Make critical decisions in an informed and predictable manner, important for managing resources, maintaining profit margins, keeping projects on track, resolving issues and, ultimately, protecting revenue.

Achieve predictability

Powerful forecasting capabilities can empower you to accurately predict what will happen over the course of the year for utilization, backlog, and capacity using scenario-based formulas and delivery curves specific to your organization. This drives better understanding of all aspects of a resource scheduling — project time, paid time off (PTO), non-billable time, backlog — to better predict needs and optimize staffing. Quickly identify potential issues and course correct before the issues impact margins or revenue.

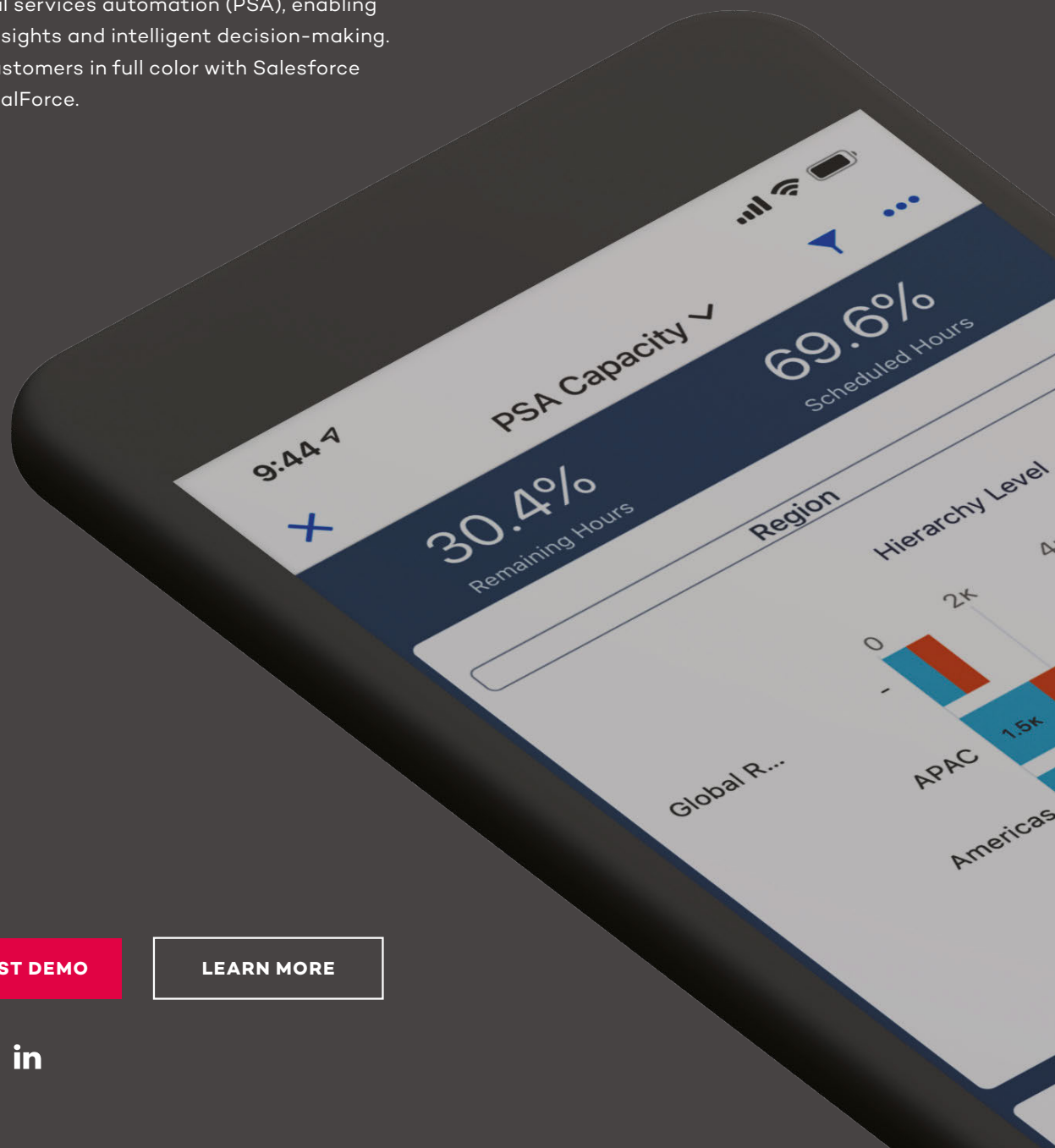# 6 Leveraging a delivery solution connected to your CRM

You can't stem revenue leakage without a comprehensive and agile delivery platform that provides a true 360 business view. The current business climate presents an opportunity to optimize the core to deliver near-term profitability impact, and provides a springboard for future innovation on a simplified, cloud platform.

FinancialForce Professional Services Cloud is software purpose-built to optimize critical delivery processes using a single dataset on the Salesforce platform. It has everything you need to:

- Connect the front and back office, including sales, delivery, and finance
- Deliver the right teams, to the right projects, at the right time
- Keep projects on track, on budget, and profitable
- Streamline billing and financials
- Get actionable insights to keep financials healthy and spot issues

EXPERIENCE MODERN DELIVERY

FinancialForce offers customer-centric business applications on the leading cloud platform from Salesforce. We accelerate your business growth with the only modern ERP suite and the #1 professional services automation (PSA), enabling real-time insights and intelligent decision-making. See your customers in full color with Salesforce and FinancialForce.

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