



SAP Thought Leadership
SAP for Professional Services

TAKING CONTROL OF YOUR BUSINESS

**Growing Profitably in the Professional
Services Market**

THE BEST-RUN BUSINESSES RUN SAP™



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EXECUTIVE SUMMARY

Today's professional services climate is unforgiving. Margins are down, customer expectations up. In this environment, a professional services organization must keep a tight rein on all aspects of its business. But for those firms that weathered negative or nonexistent growth rates in the past few years, there is a silver lining: The economy is slowing recovering, and companies are once again spending, however cautiously, on professional services. Many small to midsize professional services firms are wrestling with how to grow their client base while responding to outsourcing trends, regulatory change, and increasingly sophisticated, demanding clients.

These same firms may also be contending with outdated, homegrown software applications to manage their critical resources, projects, and financials, realizing that antiquated solutions will not support the growth that they desire. In fact, these solutions could actually prevent many firms from operating efficiently – and from taking advantage of new opportunities.

How can a professional services firm grow profitably while providing clients with the higher-quality service and rock-bottom project pricing they demand? The firm must rely on leading best-practice solutions to gain control over every aspect of its business – from business development to resource planning to client billing. This paper details how professional services firms can grow and thrive in a difficult market by enhancing project visibility, maximizing resource utilization, improving operational efficiency, and successfully acquiring more customers.

MARKET TRENDS

The professional services industry has suffered in recent years from a down economy and reduced spending on services. The result was increased competition among firms for dwindling budgets and a fundamental shift to a buyer's market. But now the market for professional services is recovering. Worldwide consulting revenues, for example, were expected to rise nearly 3½% over 2005, yielding a market size of over US\$210 billion for 2006.¹

Along with moderate growth, the current professional services marketplace – including consulting, information technology (IT), business process optimization (BPO), and tax and audit firms – is characterized by the following trends: market consolidation, outsourcing growth, increasing client sophistication, regulatory changes, and new technology. Let's consider in more detail how these trends impact professional services companies.

Market Consolidation

Global clients require global support, especially in the case of IT and BPO services and consulting firms. To meet this requirement and compete with larger firms, small to midsize professional services firms have undergone mergers and acquisitions (M&As) to build economies of scale. Consolidation in the IT and BPO services markets, in particular, continues to abound. The realities of market consolidation require that firms prepare for M&A activity by being able to render accurate and auditable internal processes and records.

Outsourcing Growth

The trend of business process outsourcing is a mixed bag for professional services firms. For an IT or BPO firm, each time a business elects to outsource a function, a potential revenue stream disappears. But for many consulting firms, the very question of whether to outsource can spark new projects or clients. And, of course, the largest consulting firms that have

1. *The Global Consulting Marketplace 2005-2007: Key Data, Trends & Forecasts*; Kennedy Information, Inc.

added outsourcing to their portfolio of service offerings (such as IBM Global Services, EDS, and Accenture) will continue to win contracts and grow revenue. Professional services firms need to clearly understand and forecast the impact that outsourcing will have on their future revenue streams.

Client Sophistication

Today's clients are increasingly discerning: they expect seasoned consultants with deep industry or functional expertise to work on their accounts (see Figure 1).² They want greater transparency on engagement pricing and management, and demand price and scope concessions. Fixed-price projects are more common, raising project and delivery risk. These more sophisticated clients also require measurable return on investment (ROI) for almost every project. Professional services firms need to carefully manage skill levels and pricing to meet the evolving needs of their client base.

Regulatory Changes

The Sarbanes-Oxley Act (SOX) and International Financial Reporting Standards (IFRS) significantly impact professional services firms. On the client side, many companies are transforming fundamental business processes in order to comply with SOX and IFRS mandates. And these alterations are a major driver for engaging professional services firms. Regulatory changes also impact professional services firms internally. For example, audit firms must now perform global risk and conflict checks before engaging a new client or signing a new contract with an existing client. Ensuring internal compliance is a responsibility all firms must address. In addition, many firms can use their expertise to help their own clients become compliant.

New Technology

Internet and mobile technologies are mandatory for improving project and consultant efficiency. Applications that run on mobile devices can significantly increase timely communication and streamline administrative processes. In professional services, most consultants work at client sites. Without ready or convenient access to the firm's own IT systems, communication among the project team and within the services firm is difficult. With the pervasiveness of the Internet, wireless networks, and Web-based applications, professional services firms will want to boost productivity by providing consultants with these tools so they can easily access their firm's systems.

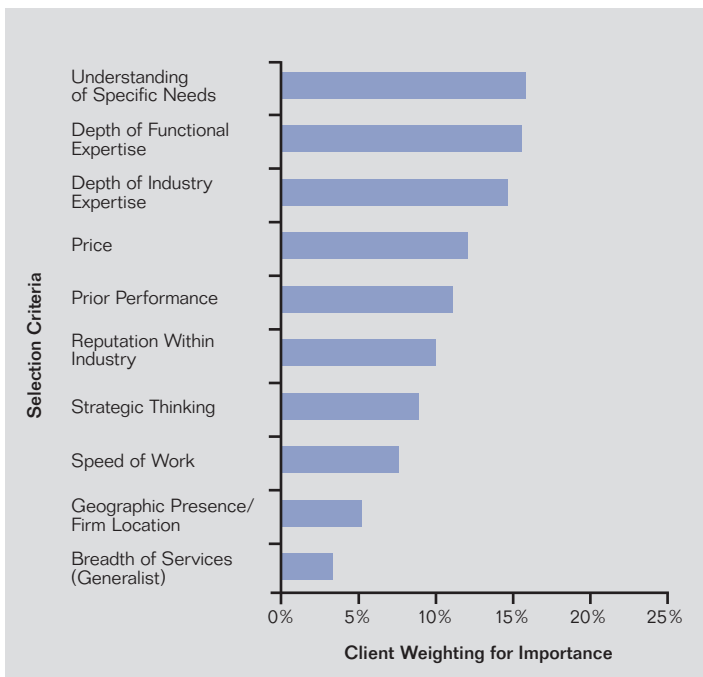


Figure 1: Importance Attached to Criteria Used by Clients to Select Consultancies

2. *Consulting Client Satisfaction: Leading Firms' Performance, Reputation, and Brand Awareness*; Kennedy Information, Inc.

INTERNAL CHALLENGES

In order to proactively respond to these market trends, professional services firms must address a wide range of internal challenges. These range from identifying profitable projects to managing opportunity and risk.

Limited Visibility into Project Performance

Many professional services firms find it difficult to answer basic questions about their business, such as: What types of projects are the most profitable? How profitable is each client? Without an accurate understanding of how much it costs to provide service on a per-project or per-client basis, it's nearly impossible to gauge specific project performance and profitability.

Many firms lack the kind of solutions that provide this insight. And the solutions they do have are either not robust enough or not integrated – and thus unable to report on the time, resource usage, material costs, revenue, and profitability of specific client engagements, let alone capture knowledge capital for a specific project.

This information gap essentially leaves the firm unable to address important considerations such as the following:

- What is the average profit margin across all lines of business? How does the margin vary by client? By project length? By team?
- What types of projects return knowledge capital that can be used to sell additional work to other industries or customers?
- What mix of services will provide the optimal utilization of resources or greatest ROI?

The difference between posting a profit and taking a loss is having insight into project costs and client cost-to-service data and metrics. For professional services firms to grow profitably, they must have access to this insight – and then apply it to plan for and secure future projects, clients, and resources.

Difficulty Managing Project Resources

Human resources comprise the single largest line item in any professional services firm – accounting for 72% of operating expenses (see Figure 2).³ Therefore, it's imperative that professional services firms get the most from their investment in consultants and staff.

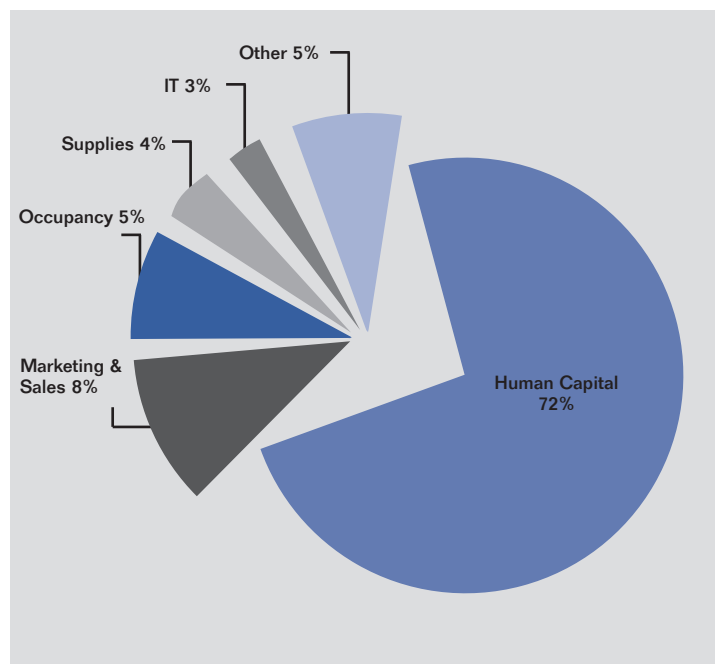


Figure 2: Average Operating Cost Breakdown

To accomplish this, firms need to effectively manage and match the right mix of people, equipment, and services with the right project – all while ensuring project profitability and client satisfaction. By mastering this balance, firms utilize their teams to the fullest, while remaining flexible on assigning resources to meet client expectations.

3. *Benchmarks in Management Consulting 2004: Operating Metrics for Sound Firm Management*; Kennedy Information, Inc.

BEST BUSINESS PRACTICES FOR PROFESSIONAL SERVICES FIRMS

Inefficient Operations

Many professional services firms are operating inefficiently due to disparate information housed in multiple financial systems. Important time and expense systems do not integrate with client billing or project resource management systems, clouding any potential for accurate visibility into business processes and performance. These disparities force staff to waste valuable time entering time sheet and project information manually when they could be focusing on the successful completion of client projects.

Inefficient and manual processes increase the likelihood of inconsistent or inaccurate data from one system to the next. Automated, integrated, and easily accessible software applications can rapidly increase the efficiency of professional services firms – and contribute dramatically to project profitability and client satisfaction.

Inconsistent Opportunity and Risk Management

The goal of most professional services firms is to grow business, but often their existing solutions inhibit their ability to effectively acquire profitable new clients. They may lack the historical data needed to analyze the impact of scoping, pricing, and staffing decisions on the profitability of projects. Without this analysis, firms are unable to proactively identify which new client opportunities promise profit – and which will result in loss.

It's also virtually impossible to answer strategic questions such as the following:

- What is the revenue potential for this client?
- What are our profit margins on the services this client is requesting?
- What will our cost of sale be to win this account?

Professional services firms need to qualify projects and clients based on potential profitability, conflict, risk, and resource utilization information – and complete this assessment during the proposal stage.

SAP has 30 years of experience working with over 1,400 customers in the professional services industry. We understand the business practices used by progressive consulting, BPO, IT, and tax and audit firms to maintain and grow a profitable client base in the midst of challenging industry realities. By using best business practices and solutions developed by SAP specifically for the professional services industry, firms now have solutions with preconfigured settings that support end-to-end business processes, along with a proven implementation methodology and documentation, to help harness project information necessary to create the project and client insights required to grow strategically and profitably. Management actively takes control of financial and operational activities, making forward-thinking decisions that help the firm maintain and even gain market share.

To grow profitably, professional services firms need to employ best business practices and solutions that help them perform the following:

- Enhance project visibility
- Maximize resource utilization
- Improve operational efficiencies
- Identify profitable new clients

Enhance Project Visibility with Real-Time Analytics

Many professional services firms still rely on outdated and disconnected applications to manage their projects, resources, and operations. This lack of integration across the organization impairs visibility into operations, making it difficult to deliver projects profitably, on time, and within budget. A **single integrated project management solution** can provide real-time visibility into all aspects of a project or ongoing client engagement, enabling management to rapidly access accurate data on which to base key decisions.

In addition to providing an integrated view of data, the software backbone should offer prebuilt analytics that deliver timely reports and metrics. Real-time analytics capture, monitor, and track all critical project information – from detailed financial information to project resource management – and can be used to structure future projects to ensure profitability. A sophisticated **portfolio management solution** includes real-time analytics that can help analyze the performance of projects and ongoing engagements in light of the company’s strategy and the business environment. The goals are to monitor the project portfolio for early detection of troubled projects and to ensure maximum value for the firm while incurring minimum risk.

A best practice for knowledge management is to develop, enhance, structure, and store the knowledge a firm acquires through its consultants, engagements, and clients. The collected knowledge has to be retrievable and reused in a strategic way to generate the greatest profits.

An integrated solution allows for complete visibility into performance across multiple engagements and geographic regions for more efficient planning and execution of projects. Detailed insights improve the ability to accurately forecast resource demands and coordinate all project tasks and milestones – ensuring on-time delivery of services.

Maximize Resource Utilization with Project and Resource Management

Professional services firms must extract full value from their investment in consultants and staff when demand is high, while minimizing the impact on profitability when demand declines. A best practice includes flexible project resource planning to provide visibility into demand and the tools to apply the best mix of resources to the right projects. A software solution allows firms to compare the current status of resources and projects with an overview of their total resource pool. With this insight, they can determine whether they have the necessary resources – based on skill set, knowledge, and experience – to meet their clients’ expectations.

The solution should enable firms to maintain high utilization levels by streamlining the process used to assign resources to client engagements. Firms should strive to balance consultant skill sets and career aspirations with client expectations. If the resource planning solution is integrated with the firm’s HR application, the firm can leverage a wealth of HR data including updates regarding skill sets, billing rates, training, travel preferences, and location to determine ideal optimal staffing scenarios.

Improve Operational Efficiencies with a Single Integrated Solution

Many professional services firms are operating inefficiently due to multiple, disparate solutions that not only force their staff to waste valuable time entering information multiple times but also increase the likelihood that data will be inconsistent or inaccurate from one solution to the next. With a **single integrated financial solution**, data is entered only once, thereby increasing operational efficiency and data accuracy. Firms can then easily and accurately bill for every cost incurred – from contractors hired to time and expenses.

Consulting firms need an **invoice management solution** that enables them to bill their customers accurately and timely, using a fixed-price or a time-and-materials billing model. Firms can then generate invoices periodically according to milestones or predefined thresholds, ensuring an even revenue stream and transparency for both sides of the business relationship. Consulting professionals can regularly enter their time and expenses – anytime, anywhere – enabling up-to-date project tracking and billing that speeds up the collection process. With an automated and streamlined invoicing process, firms can increase cash flow and improve profitability.

BUSINESS BENEFITS OF SAP® SOLUTIONS FOR THE PROFESSIONAL SERVICES INDUSTRY

A **time and expenses management solution** that is integrated with the firm's billing application further increases billing accuracy and decreases time to revenue. A self-service application for time and expenses should include time capture, travel planning, travel expense reporting, and profit center accounting. Another key to improving process efficiency is the leveraging of mobile devices for capturing time and expenses.

Acquire Profitable Clients with Adaptable Opportunity Management

Firms need to grow business, but more important, they need to grow business with profitable clients. Many firms, however, lack a consistent approach to scoping projects, hindering their ability to understand which opportunities will be most profitable.

To drive new business and expand the footprint of services provided to existing clients, firms need support for opportunity management – including account management, lead generation, and qualification. Firms need a **proposal and order management solution** that helps them do the following: respond to inquiries; provide quotations; acquire and enter sales orders; administer services; determine pricing; check feasibility of services; and track, manage, and bill orders. The solution supports the use of information from the scoping, discovery, and goal-definition processes to create a high-level project plan. Finally, the solution enables firms to estimate resource requirements for projects. The benefit? Firms have a consistent approach to project scoping, discovery, and proposal processes, resulting in a shortened sales cycle, a reduced cost of sale, and a laser focus on the best opportunities.

Based on more than 30 years of experience and tailored to the professional services industry, the SAP® solution portfolio, best practices offering, and services provide an affordable option for consulting, BPO, IT, and tax and audit firms. When implemented by professional services industry specialists, these world-class solutions can reduce costs by more than 50% compared to traditional approaches.⁴ Implementation is fast, and the project price defined.

The SAP for Professional Services solution portfolio provides a powerful, robust, and complete answer to the challenges of managing projects, resources, and time and expenses. Using SAP solutions designed for professional services, firms can perform all core activities related to human capital and financial management, analytics, administration, and operations. These solutions enable firms to effectively manage opportunities, resources, revenues, and costs – and to deliver the high-quality, on-time results clients demand.

With SAP solutions for professional services, firms have the facts, figures, and functions they need to put the right people in the right place at the right time. The solutions deliver rich functionality for the entire project life cycle – from winning new business to billing. SAP provides an integrated, end-to-end environment in which data flows freely to where it's needed.

4. Martin Selchert, *Enhanced Project Success Through SAP Best Practices, International Benchmarking Study*, SAP Press, 2004.

CONCLUSION

Professional services companies face several daunting internal challenges that can impede their ability to grow profitably. Limited visibility into true project costs can hamper performance and misguide planning. Ineffective human resource utilization can prove crippling to success. Inefficient operational processes can further limit the productivity of valued consultants, taking away from revenue-generating opportunities. And old technology can impede the ability to create consistent risk and opportunity management processes.

To boost profitability, professional services firms must rethink their internal infrastructure. They must adopt best business practices that streamline their operations and provide increased visibility into every aspect of client, project, and service-line profitability. Firms that continue to simply plan and staff projects relying on a combination of spreadsheets and management instinct will fall behind.

Companies that can take a proactive approach will ultimately take control of their business and come out ahead. What professional services firms need is an integrated technology solution that reduces manual processes while helping to improve visibility, resource utilization, and operations. The SAP integrated solution portfolio for the professional services industry provides the timely, accurate insights firms need to make proactive business decisions that drive profitability and performance.

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