

Looking Forward – Catalysts for Growth in Professional Services



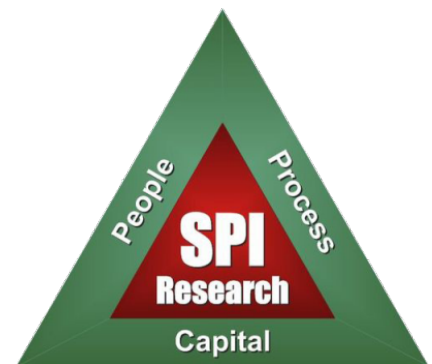
A Service Performance Insight White Paper

Service Compass: *Charting the Course to Professional Service Excellence*

Service Performance Insight

June 2015

Courtesy of Kimble Applications



Fuel your professional services
Grow your business with a complete PSA solution

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GREETINGS FROM KIMBLE

We are pleased to commission this white paper and webinar entitled “Looking Forward – Catalysts for Growth in Professional Services”.

The founders of Kimble have worked in the consulting industry for nearly 30 years. Their experience is drawn from working in senior positions in the services arm of major software vendors, global systems integrators and management consulting firms. They subsequently built two high profile independent professional services businesses from the ground up.

Having used a variety of Professional Services Automation (PSA) tools during this period they formed the belief that they could build a solution, which was capable of disrupting this software market. Rather than provide a series of modules serving particular business areas, Kimble was architected to facilitate adoption and adherence to the best practice processes required to successfully grow a services firm. This has meant that Kimble is capable of not only supporting firms through all stages of their growth but also guiding them on this journey and acting a catalyst for this growth.

Kimble signed up its first customer in June 2011. That customer had 20 employees. Today it has over 200 consultants and is a thriving business. Nearly 4 years later that customer has been joined by over 150 other consulting firms in 10 countries ranging in size from tens to thousands of staff. Regardless of size what characterizes all our customers is that they are highly ambitious organizations.

Using Kimble our customers are growing faster than their competitors and achieving tangible bottom line improvements too. The course of evolution for consulting firms may be uncertain, but it's our passionately-held belief that operational efficiency and the ability to put the right information in the hands of the people who need it, when they need it, and guide them as to how to best use it are capabilities which will power the growth of the most successful firms.

We believe that to realize the benefits of software you need to use it as a catalyst to enable business change in your organization and adopt best practice. This is why we have been working with SPI Research to provide our customers and prospects on guidance as to how they can adopt best practice and use our software to empower people throughout a consulting organization to make better decisions, decisions that improve business performance.

I hope you enjoy the white paper.

Mark Robinson

Chief Marketing Officer, Kimble Applications



For more information visit our website at www.kimbleapps.com
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INTRODUCTION

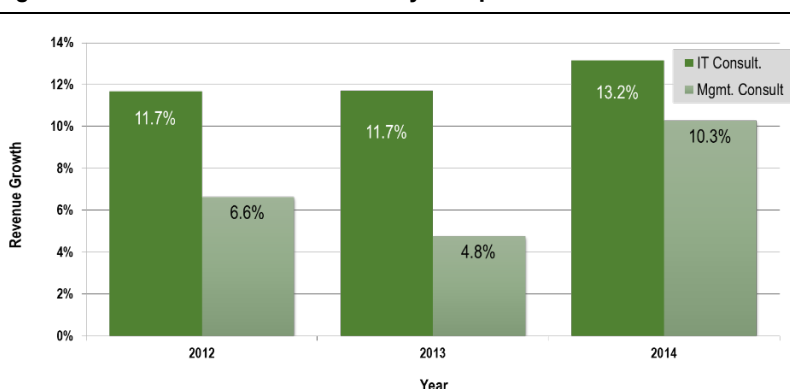
Grow or die! That has been the mantra for top-performing professional services organizations (PSOs) as leaders significantly increase revenue year-over-year while others languish and stagnate. But growth for the sake of growth is not enough. Top professional services organizations focus on intelligent growth, yielding higher revenue, better margins and superior client satisfaction. These organizations focus on what they do well, leading to expansion and continuous improvement.

This white paper identifies some of the challenges executives face in terms of delivering high-growth professional services, and how leaders focus on performance improvement as a way to rapidly grow revenue and profit. The data utilized in this white paper comes from 358 independent professional services providers in the management and IT consulting arenas. They have been analyzed through Service Performance Insight's Professional Services Maturity™ Benchmark to determine the best practices of the most mature firms, which excel at driving high revenue, growth and profit.

GROWTH IS IN THE AIR

In professional services, the next decade should be exciting as companies in every market turn to the professional services sector for the strategies, tactics and talent necessary for them to expand and expand profitably. Every company in every market has a different strategy, depending on its growth and profit objectives. Figure 1 highlights management consultancy growth has grown significantly over the past three years while IT consulting year over year revenue growth has consistently exceeded 11%. The bottom line is that the independent consulting sector had a great year in 2014 and is well positioned for future growth for the next five years.

Figure 1: Annual Revenue Growth by Independents



Source: Service Performance Insight, June 2015

HIGH-GROWTH PSOs ARE UNIQUE

While most of the professional services market averages better than 10% annual revenue growth, those exceeding 20% are definitely unique. Some high growth organizations focus on mergers and acquisitions to expand their service offerings as well as geographic coverage, whereas others have increased hiring to drive revenue. Regardless, these organizations must focus on both talent cultivation and delivery efficiency in order to grow profitably.

Table 1 compares organizations growing at different annual rates. Most notable is the fact that the high-growth PSOs achieve the highest levels of profit, which is interesting because one might think high-growth translates to lower or reduced profitability. These organizations succeed because of their laser focus on selling and new client development, combined with service delivery efficiency – achieving high marks in terms of new client revenue, size of the sales pipeline and on-time project delivery.

Table 1: High-growth PSOs Operate Better

Annual Growth	Survey %	EBITDA	New Client revenue	Sales Pipeline to Forecast	Billable Util.	On-time Delivery	Rev. / Billable Emp.(k)	Revenue / Emp. (k)
Negative	17.7%	4.9%	22.7%	175%	66.1%	81.2%	\$189	\$144
0% - 5%	19.6%	8.2%	28.5%	186%	67.5%	80.0%	198	167
5% - 10%	17.9%	14.8%	29.6%	180%	70.4%	80.0%	196	176
10% - 15%	20.6%	14.4%	30.3%	180%	72.5%	80.4%	200	178
15% - 25%	16.9%	10.5%	30.1%	222%	79.2%	82.9%	227	190
Over 25%	7.3%	17.9%	34.3%	245%	74.2%	85.5%	210	166
Tot. / Avg.	100.0%	11.8%	28.7%	192%	71.3%	81.2%	\$202	\$170

Source: Service Performance Insight, June 2015

While the fastest growing firms had high levels of revenue per billable employee, those growing the fastest actually had somewhat reduced revenue per employee, meaning they were investing in infrastructure, management and systems to fuel future growth.

DOES HIGH-GROWTH MEAN HIGH PROFIT?

While Table 1 showed a definite correlation between high-growth and high profit, it is not as simple as hiring a large number of sales people. The best high-growth firms in SPI's Professional Services Maturity™ Benchmark outperform average firms in all aspects. They realize cash flow is the fuel for future growth, as it is in all industries.

Figure 2 shows the key performance indicators as

Figure 2: High-growth PSOs Show Superior Performance

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institution.	Level 5 Optimized
Year-over-year change in PS revenue	6.5%	9.2%	11.4%	17.2%	24.1%
% of employees billable or chargeable	67.5%	76.0%	79.1%	80.7%	82.4%
Bid-to-win ratio (per 10 bids)	4.22	5.24	5.24	5.44	6.34
Projects delivered on-time	75.6%	77.0%	84.7%	89.5%	85.8%
Project Margin	27.8%	38.2%	38.8%	36.5%	43.1%
Annual revenue per billable consultant (k)	\$150	\$203	\$222	\$225	\$249
Annual revenue per employee (k)	\$118	\$172	\$190	\$196	\$209
Profit (EBITDA)	-0.6%	4.0%	10.5%	27.2%	32.9%

Source: Service Performance Insight, June 2015

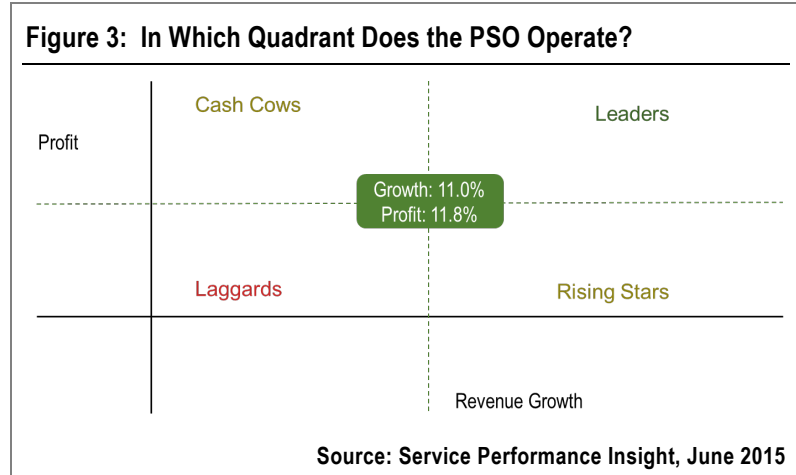
professional services organizations grow. The figure highlights the importance of minimizing non-billable overhead, successfully winning bids, and delivering projects on time with superior margins. High-growth manifests in exceptional revenue per consultant and employee. The cumulative effect of high performance execution shows up in superior net profit.

In order to balance growth and profit, the firm must continually attract consultants with in-demand skills but at a reasonable cost to be able to deliver high individual margins. Attention must be paid to portfolio expansion, using cash cow lines of business to fund geographic and

market expansion. At the same time firms must keep a careful eye on project delivery, minimizing project overruns and non-billable time. Standardizing delivery processes reduces cost while improving quality and customer satisfaction. Another benefit of standardized delivery processes is that they reduce new consultant training and ramping time. In an era of fixed price engagements, project quality and risk management has become an imperative.

LEADERS FOCUS ON GROWTH AND PROFIT

As stated at the beginning of this white paper, in professional services the mantra is grow or die. This scenario is different in professional services compared to many other industries as high growth in professional services is expected, whereas in other industries growth of 5% would be considered excellent. Figure 3 divides the 358 professional services providers into four unique groups:



1. **Laggards:** firms growing slowly (under 11%) and with minimal profit (under 11.8%). These organizations must make some significant changes or they will ultimately be out of business.
2. **Rising Stars:** these organizations have relatively high levels of growth but are not generating much profit which could compromise future expansion. They could, however, borrow capital to meet future growth needs, but there are risks associated with accumulating debt. Many of these organizations are focused on hot new technology sectors such as social, mobile, analytics and the cloud.
3. **Cash Cows:** these organizations, while not showing significant growth, have high levels of profit, which ultimately could be used to fuel future endeavors. While making significant profit is good in the short run, long-term these firms must expand in order to survive.
4. **Leaders:** these organizations show both excellent growth and profitability. They have the ability to expand, whether it be through mergers and acquisitions, or by hiring new employees. The fastest growing firms tend to also be the most profitable, enabling them to gain market share while establishing a leadership position in their markets.

Table 2 compares and contrasts the four types of organizations in terms of their relative growth rates and profitability. Obviously, the leaders showed the greatest overall performance as would be expected. Their organizations showed significant growth, not only in revenue, but also in headcount and new client expansion. They deliver projects on time with larger staffs, which results in better financial metrics such as revenue per billable employee and revenue per employee. The net result is that their profitability was very high.

Table 2: PS Leaders Focus on Growth and Profit

Key Performance Indicator (KPI)	Laggards	Rising Stars	Cash Cows	Leaders
Percentage of firms in each quadrant	43.6%	26.1%	7.0%	23.3%
Year-over-year change in PS revenue	-1.7%	20.5%	7.5%	22.5%
Profit (EBITDA)	6.1%	4.4%	24.9%	24.5%
Year-over-year change in PS headcount	2.6%	15.5%	6.6%	15.7%
New clients	25.5%	29.9%	34.3%	34.0%
Average project staff (people)	3.77	4.03	4.59	4.36
Projects delivered on-time	78.9%	80.7%	81.5%	82.7%
Annual revenue per billable consultant (k)	\$192	\$193	\$213	\$239
Annual revenue per employee (k)	\$157	\$160	\$198	\$201

Source: Service Performance Insight, June 2015

The table highlights that in general the cash cows show slightly better metrics than rising stars. What SPI Research found interesting was that they also reported a higher percentage of new client revenue than any of the other three organization types. It is noteworthy that such a small percentage of PS organizations can be classified as cash cows as the PS market is very dynamic, favoring firms who continually focus on new sources of revenue.

HOW FAST GROWING LEADERS PERFORM

In the following sections SPI Research will analyze how the fastest-growing and most profitable organizations perform. Each section will compare and contrast areas where high-growth professional services organizations have improved performance, which yields both faster growth and higher profitability.

Client Relationships – Focus on Marketing and Sales

The high-growth professional services organizations focus on marketing and sales. However, their new client penetration and bid to win ratios are not that much better than those organizations experiencing lower growth rates. What sets these organizations apart is their larger sales pipelines combined with

higher levels of client referenceability. They may not win every bid, but higher bid-to-win ratios in combination with larger sales pipelines compounds growth. High-growth firms rely on CRM applications to manage their sales and marketing efforts. CRM applications provide visibility to winning sales and marketing strategies while shining a light on sales and marketing effectiveness.

Table 3: High-growth PSOs Focus on Sales and Marketing

Key Performance Indicator (KPI)	High	Low	▲
New Client Revenue	31.3%	27.9%	12%
Bid-to-win ratio (per 10 bids)	5.20	4.90	6%
Deal pipeline / quarterly bookings forecast	228%	180%	26%
Percentage of referenceable clients	81.8%	77.5%	6%
Use Client Relationship Management (CRM)	90.9%	82.3%	10%

Source: Service Performance Insight, June 2015

CRM in combination with Professional Services Automation (PSA) applications drive alignment between sales and service delivery. By providing visibility into the entire customer lifecycle from prospect to project, sales can focus on the right type of opportunities and service delivery can ensure resources are available with the right type of skills and competencies. With this alignment, they are able to sell more services and staff with the required skill sets, ensuring the work is delivered on time and on budget, which ultimately drives client satisfaction and profitability higher.

Human Capital Alignment – Optimize Human Capital

Leading professional services organizations realize the importance of their workforce. They focus on minimizing the time to hire and train employees so that they begin to bill as fast as possible. They also spend their money wisely on training and retention to reduce ramping time and minimize voluntary attrition.

SPI Research looked at billable utilization and subtracted out attrition to highlight the importance of maintaining a highly billable and utilized workforce, but not so high as to compromise morale and increase attrition. Table 4 shows this combined key performance indicator (Utilization minus Attrition) is much higher in organizations experiencing the highest growth rates.

SPI Research also found the use of Human Capital Management (HCM) solutions is significantly greater in fast-growing firms. Like CRM and PSA, HCM applications provide a powerful foundation for managing the entire employee lifecycle by providing visibility from recruiting all the way through retirement. The key to continuing growth is constantly attracting and growing new talent. Effective career and performance management has become a business imperative.

Service Execution – Deliver Efficiently and Effectively

High-growth PSOs are especially attuned to service delivery. Not only do these organizations show high levels of billable utilization, they are also able to sell larger projects requiring more consultants

Table 4: High-growth PSOs Optimize Human Capital

Key Performance Indicator (KPI)	High	Low	▲
Management to employee ratio	10.7	9.6	12%
Hire to Productive time (days)	104	120	13%
Percentage of employees off-shore	8.2%	3.8%	113%
Utilization - Attrition	69.5%	60.4%	15%
Use Human Capital Management (HCM)	52.4%	42.3%	24%

Source: Service Performance Insight, June 2015

Table 5: High-growth PSOs Deliver Efficiently and Effectively

Key Performance Indicator (KPI)	High	Low	▲
Project duration (man-months)	26.1	21.5	22%
Employee billable utilization	77.7%	69.2%	12%
Concurrent projects managed by PM	4.26	3.65	17%
Projects delivered on-time	83.7%	80.4%	4%
Average project overrun	7.1%	7.8%	9%
Use Professional Services Automation (PSA)	87.0%	69.2%	26%
Integrate PSA and CRM	29.9%	20.7%	44%

Source: Service Performance Insight, June 2015

and for longer durations, which fuels revenue and profitability. Table 5 highlights the service delivery effectiveness of high growth firms.

Clearly the use and integration of CRM and PSA applications is a key determinant in high growth and profitability. High growth requires functional and process alignment across all elements of the organization. The effective use of PSA in combination with CRM reduces administrative time and overhead while providing real-time visibility into the sales and project pipeline. It is this alignment of sales and service delivery, which keeps the organization moving forward, constantly ensuring the appropriate balance is maintained, propelling profitable growth. Highly successful and fast-growing firms also standardize service delivery in order to easily replicate projects and quickly catch problems. Quality is enhanced through repetition and continuous improvement.

Finance and Operations – Boost Capital Use

High-growth PSOs not only reported superior client relationship and service delivery metrics but also exceptional financial results (Table 6). High-growth PSOs are able to win larger projects, which stabilize cash flow and revenue. Larger, more mission-critical projects reduce resource and client churn while providing an excellent foundation for growing and ramping new consulting talent. Larger projects enables them to increase annual revenue per billable consultant and revenue per employee. The net result is higher profit, which drives further growth and expansion.

High levels of backlog allow PSOs to do a better job of capacity and resource planning while ensuring plenty of work is available to fuel growth. High levels of backlog mean the firm is not forced to discount or agree to unfavorable terms to meet revenue targets. Discounting negatively impacts project margins and inhibits profitable growth. Careful management and visibility to the income statement is required to ensure revenue and costs are kept in balance.

Table 6: High-growth PSOs Boost Capital Use

Key Performance Indicator (KPI)	High	Low	▲
Annual revenue per billable consultant (k)	\$221	\$196	13%
Annual revenue per employee (k)	\$182	\$166	10%
Average revenue per project (k)	\$214	\$181	19%
Quarterly revenue target in backlog	52.7%	41.3%	28%
Project Margin	39.2%	35.4%	11%
Profit (EBITDA)	12.8%	10.6%	20%

Source: Service Performance Insight, June 2015

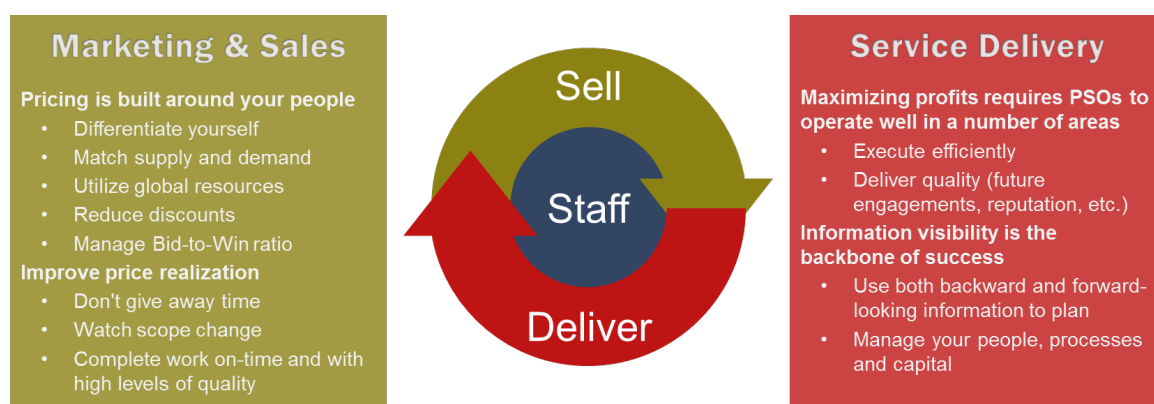
ORGANIZATIONAL VISIBILITY IMPROVES PERFORMANCE

High growth magnifies the complexities of managing a global PSO. Visibility is of paramount importance for management control and risk mitigation. Based on over eight years of surveying thousands of professional service organizations, SPI Research has consistently seen those organizations with high levels of information visibility (across the organization – sales, service delivery, human resources, finance, etc.) perform much better and were able to more easily pinpoint areas requiring improvement and make the necessary adjustments to improve growth and profitability. The following sections highlight the benefits of information visibility and the use of integrated solutions to drive high-growth and improved performance and profit.

HIGH-GROWTH FIRMS TAKE ADVANTAGE OF INFORMATION

In the previous sections SPI Research noted the greater use of business solutions in high-growth firms. The visibility provided by departmental solutions enables PSOs to focus on areas where they can grow. Nowhere is this more important than in the sales and delivery of services (Figure 4). Unfortunately, many PSOs still do not integrate CRM and PSA, making it difficult for both sales and service delivery to understand the types of services sold, their cost, resource availability, and service margin. While weekly or monthly meetings between these two organizations may help align them, it is the availability of real-time information visibility by both these constituencies that drives effectiveness.

Figure 4: Align Service Selling and Delivery



Source: Service Performance Insight, Month 2015

Professional Services Automation (PSA) is the Core Application for High-growth Service Delivery

There are a number of issues PSOs face when they grow rapidly, some of which include:

- △ Insufficient skills available to begin projects
- △ Delivery timelines that slip
- △ Unaccounted costs due to a lack of control given the pace
- △ A reduction in quality delivery

PSOs that grow fast must “double-down” their efforts to increase visibility and control of the services delivered. Of course they must deliver services effectively and efficiently, with a focus on client delight and profitability.

Many PSOs have turned to Professional Services Automation (PSA) solutions to improve performance. To truly optimize service

Table 7: PSA Improves Service Performance

Key Performance Indicator (KPI)	Use PSA	No PSA	▲
Time for a new hire to become productive (days)	53.2	60.2	12%
Project duration (man-months)	24.6	23.4	5%
Project Margin	37.2%	34.3%	9%
Hire to Productive time (days)	109	118	8%
Annual revenue per billable consultant (k)	\$205	\$195	5%
Average project overrun	7.7%	8.1%	5%

Source: Service Performance Insight, June 2015

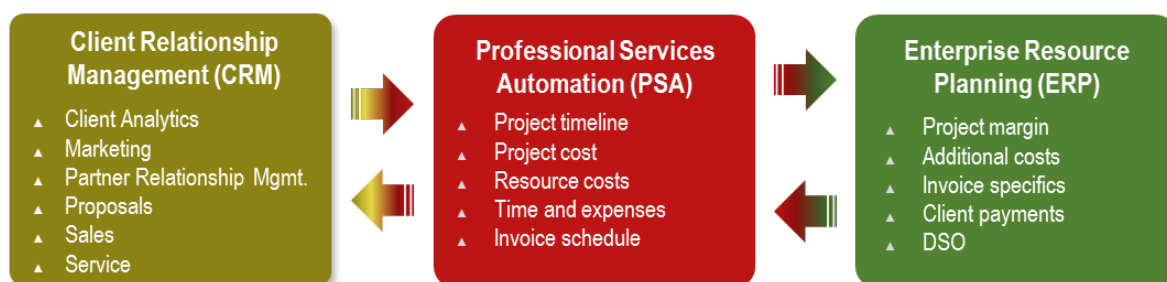
delivery many of the organizations using PSA have integrated it into their information infrastructure (particularly with ERP and CRM), sharing information from sales through service delivery to invoicing and collection.

PSA provides the systems basis for initiation, planning, execution, close and control of projects and service delivery. It helps manage key service execution processes including resource management and staffing, project management and collaboration, along with time and expense capture and billing. As PSOs focus on the management and control of service execution, PSA has become increasingly critical to improving growth and quality delivery.

Integrated CRM, PSA and ERP Drive Growth and Performance

By themselves, departmental solutions (CRM for sales and marketing, PSA for service delivery, and ERP for accounting and operations) provide visibility into current and future work, enabling each to improve internal productivity. A way to gain greater visibility across the PSO is to take advantage of an integrated information infrastructure. SPI Research has seen significant productivity advances when organizations integrate CRM, PSA and ERP.

Figure 5: Integrated PSA Helps Accelerate Growth and Profit



Source: Service Performance Insight, June 2015

PSA is at the center of the bid-to-bill process (sell, deliver and invoice), as it utilizes information during the sales process (client information, project information, deliverables, potential resources, etc.) and begins the initiation of project or service delivery. As work is completed against the project plan, information is sent to the financial management solution (time, expense, percent complete, etc.) so Finance can accurately forecast, invoice and collect revenue and expenses.

CONCLUSIONS AND RECOMMENDATIONS

The name of the game in professional services is growth. The mantra of grow or die could not be more true in such a dynamic market. Professional services organizations must grow intelligently. They must focus on high margin services that are in demand as revenue and margin, which turns into profit, is the fuel for growth.

Leading professional services organizations are both growing and profitable. Every aspect of the organization is aligned to ensure the organization has the people, processes, capital and technology necessary to deliver sufficient growth, while not sacrificing profit. These organizations begin with a growth strategy, leading to the alignment of sales, service delivery and human resources in order to fulfill the strategy.

The next decade will be filled with new challenges while finding and retaining high quality talent will be a constant issue. But the best firms will find ways to hire and retain the best people and grow their revenues and profits significantly higher than their peers.

About Service Performance Insight



R. David Hofferberth, PE, Service Performance Insight founder, managing director and licensed professional engineer has served as an industry analyst, market consultant and product director. He is focused on the services economy, especially productivity and technologies that help organizations perform at their highest capacity.

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Jeanne Urich, Service Performance Insight managing director, is a management consultant specializing in improvement and transformation for project- and service-oriented organizations. She has been a corporate officer and leader of the worldwide service organizations of Vignette, Blue Martini and Clarify, responsible for leading the growth of their professional services, education, account management and alliances organizations.

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About Kimble Applications



Kimble Applications is the preeminent cloud Professional Services Automation software vendor. Kimble's unique process-centric design gives consulting organizations the capability to gain insight into the performance of their business and helps guide business leaders to make smarter decisions that accelerate revenue and profit growth. <http://www.kimbleapps.com/> or 480-240-7384.

Service Performance Insight (SPI Research) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 10,000 service and project-oriented organizations to chart their course to service excellence.

SPI provides a unique depth of operating experience combined with unsurpassed analytic capability. We not only diagnose areas for improvement but also provide the business value of change. We then work collaboratively with our clients to create new management processes to transform and ignite performance. Visit www.SPResearch.com for more information on Service Performance Insight, LLC.