Optimizing Project Economics: Practical Advice You Can Use

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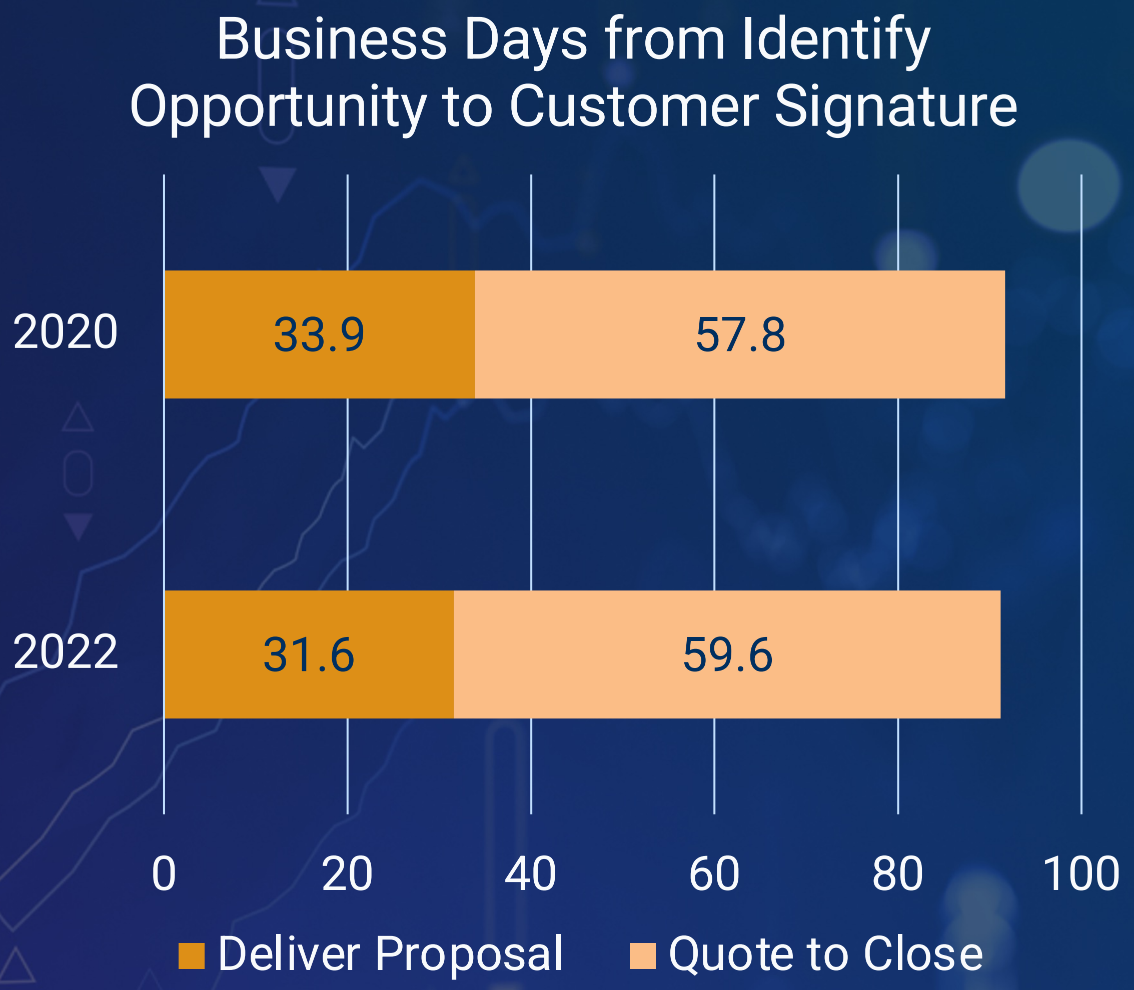
Increasing the Velocity of Professional Services

Optimizing project economics for professional services (PS) starts with creating a winning proposal. According to TSIA's Professional Services Benchmark Survey, the average number of business days to deliver a proposal was 32 days in 2022, with an average of 60 business days from quote to close.

Even though there has been continual investment in technology, the business days from identifying an opportunity to customer signature has seen little improvement in the last 2 years.

In the current economic environment deals tend to take longer to close. However, when a finalized deal takes weeks or months for the customer to receive an implementation proposal, it greatly impacts the customer experience and their time to value. Ultimately, this will erode annual recurring revenue (ARR).

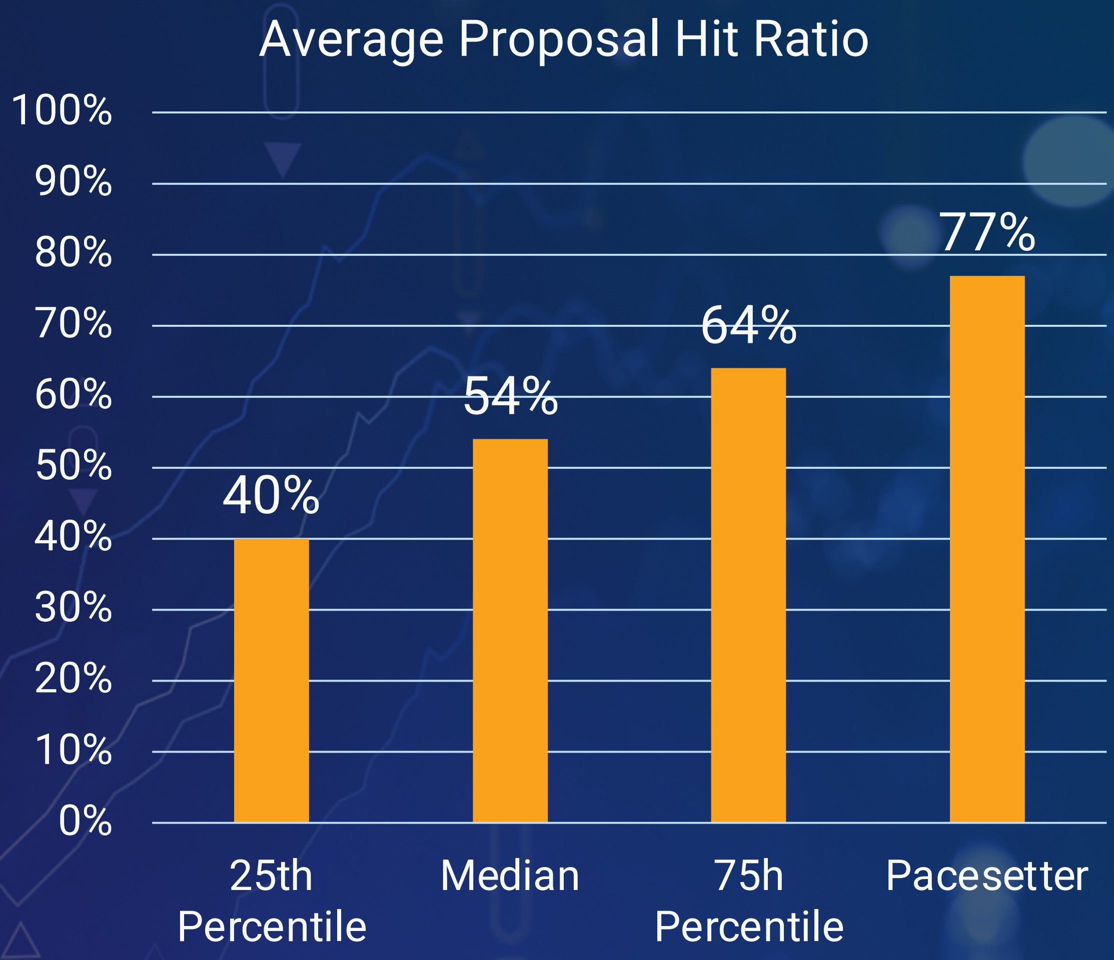
Unfortunately, many companies continue to cling to manual processes for proposal creation and approvals, with proposals sitting on desks waiting for a signature. There is tremendous opportunity to automate and streamline the proposal process, which will ultimately allow PS to scale.



Creating Winning Proposals: Boosting Hit Rate

A good measure of creating winning proposals is the hit rate, or the percent of proposals accepted by customers. With a median of 54%, only half of the sent proposals are being accepted. This creates a lot of rework and back-and-forth, driving up customer effort and impacting project economics.

According to a TSIA R3 Poll, Expectations for Selling SaaS, only 28% of sales teams are required to capture the customer's desired business outcomes during the sales process. For the majority of companies, PS is creating a proposal with no visibility into why customers are buying the technology, what their expected outcomes are, or what the anticipated time to value is, meaning they are building generic proposals that do not address the unique ROI requirements of each account.



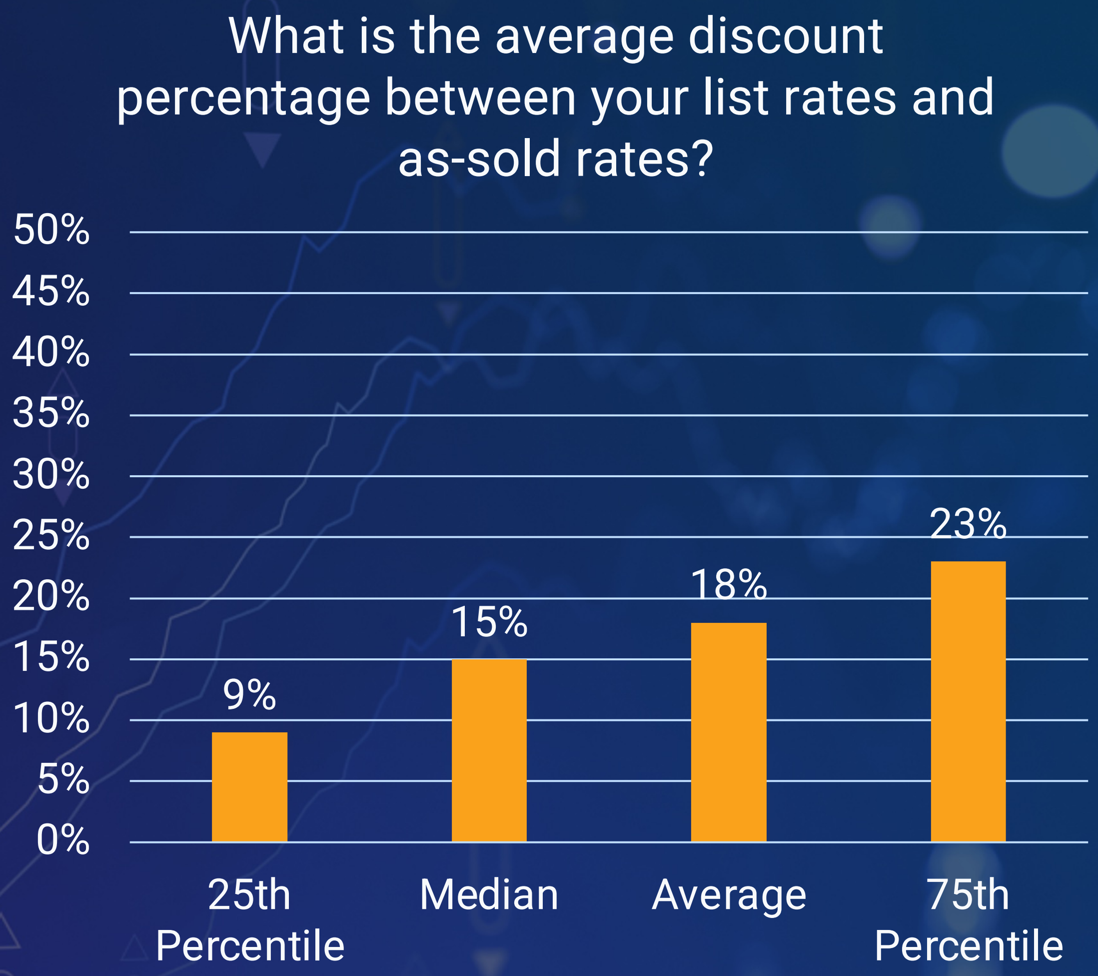
Source: TSIA 2022 Professional Services Benchmark

Automating Proposals: Enforcing Discounting

The final concept to consider when creating profitable proposals is discount rate. Discounting is impacting project economics with an average discount of 18% between list rates and as-sold rates on PS projects.

According to the TSIA Professional Services Benchmark Survey, 47% of companies can give as much as a 20% discount on PS projects. This means that services discounts are not nearly as regimented as product discounts.

Embracing automation not only helps to streamline the proposal creation process, but also enforces discounting rules to help mitigate the erosion of project margins.



Source: TSIA 2022 Professional Services Benchmark

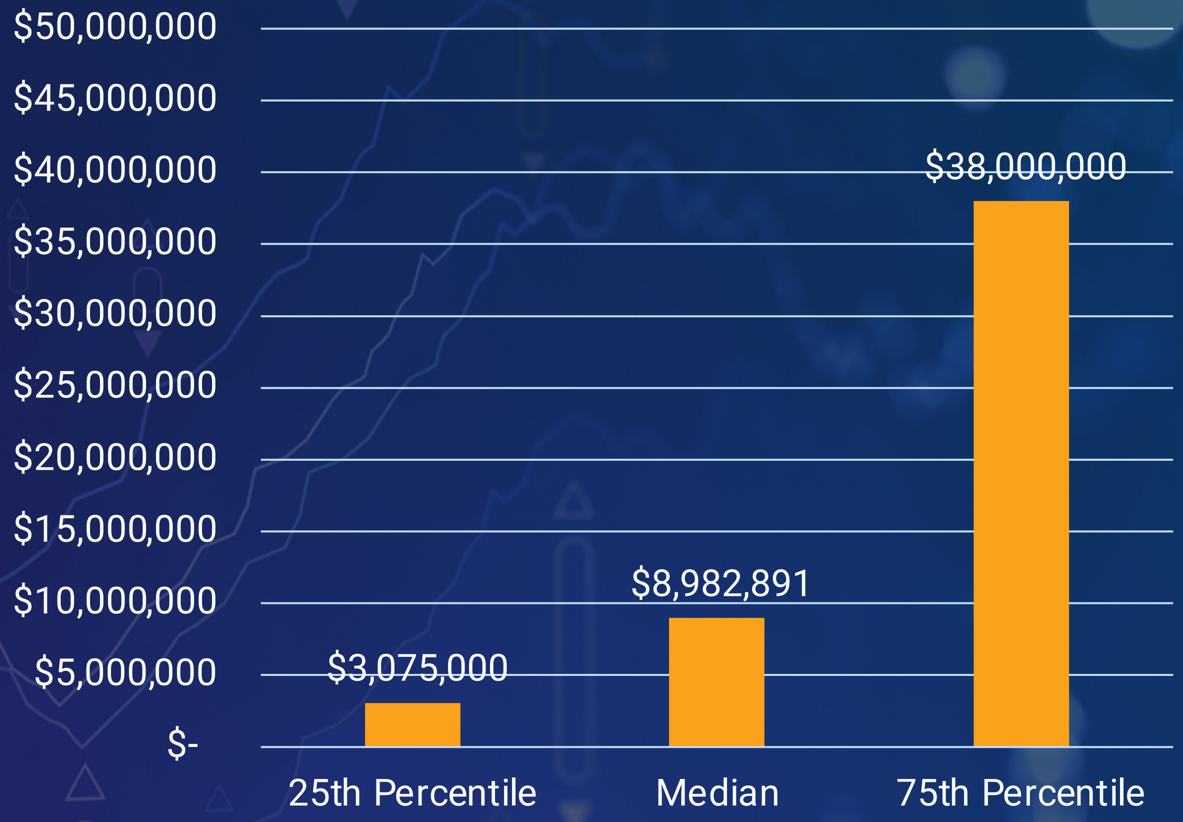
Poor Project Resourcing Has Serious Financial Implications

Project backlog is revenue that is deferred to the next fiscal year due to lack of resources needed to deliver the committed projects.

The median backlog for PS projects is almost $9M, and the 75th percentile is $38M. Pushing this revenue into the next year not only impacts revenue and profitability for the current year, but also delays committed projects for the following year.

Understanding the overarching impact of how resources influence project economics will help build the case for additional investments in automation.

At the beginning of your most recently completed fiscal year, what was the dollar value of your backlog or deferred PS revenue?



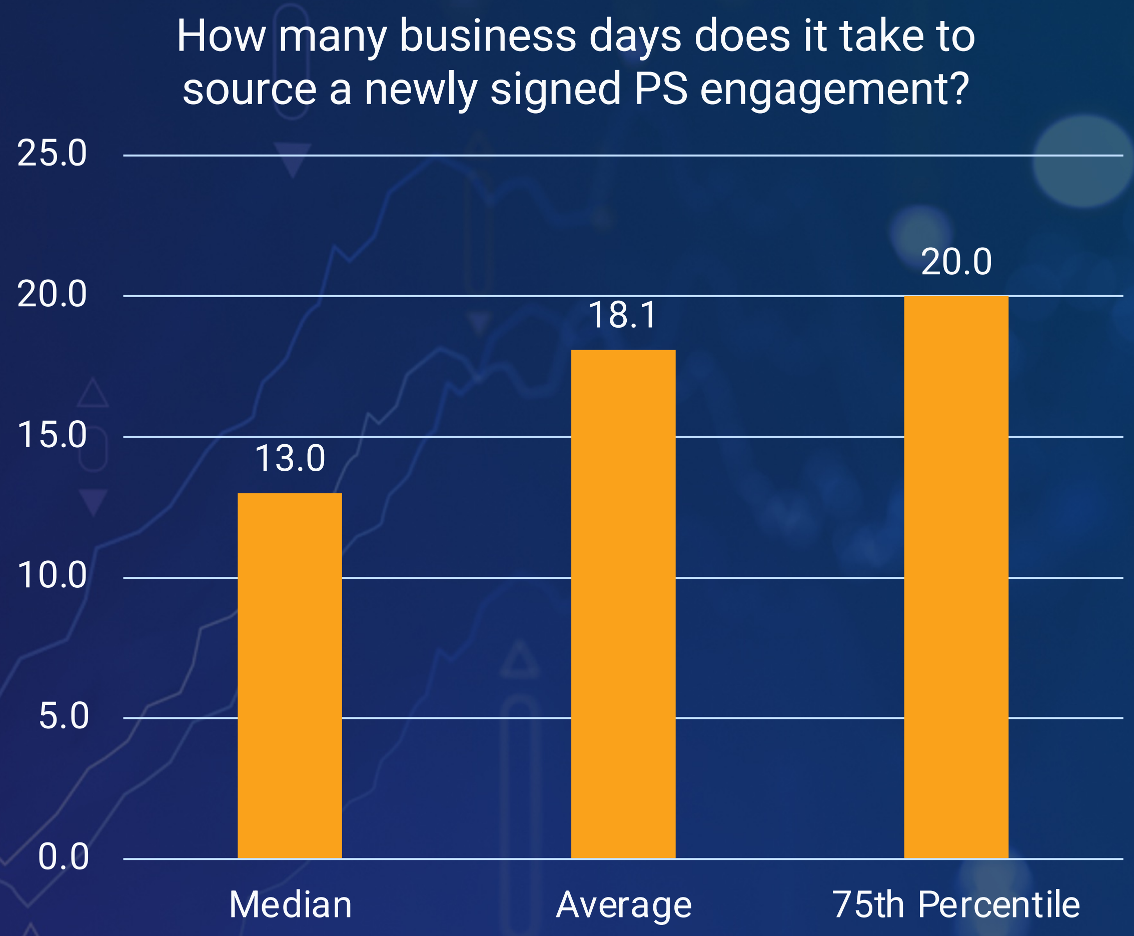
Source: TSIA 2022 Professional Services Benchmark

Forecasting Resources Critical As Projects Evolve

A lot is changing about professional services. PS teams are shifting toward more fixed price, repeatable projects, value-added services, and subscription services. With project types evolving, the skills required for project delivery are also changing. Companies that have primarily hired for technical skills, may be lacking resources with business acumen and process modeling expertise.

On average, it takes 18 business days to staff a project. Automation can reduce this time but as project types evolve, organizations need to focus on resource forecasting. Forecasting provides opportunity to understand what sort of skills, experience, and certifications will be needed 6, 12 or even 18 months from now.

It takes an average of 48 business days for a newly hired delivery consultant to become billable. Resource forecasting will ensure you have the right skills available for future projects.



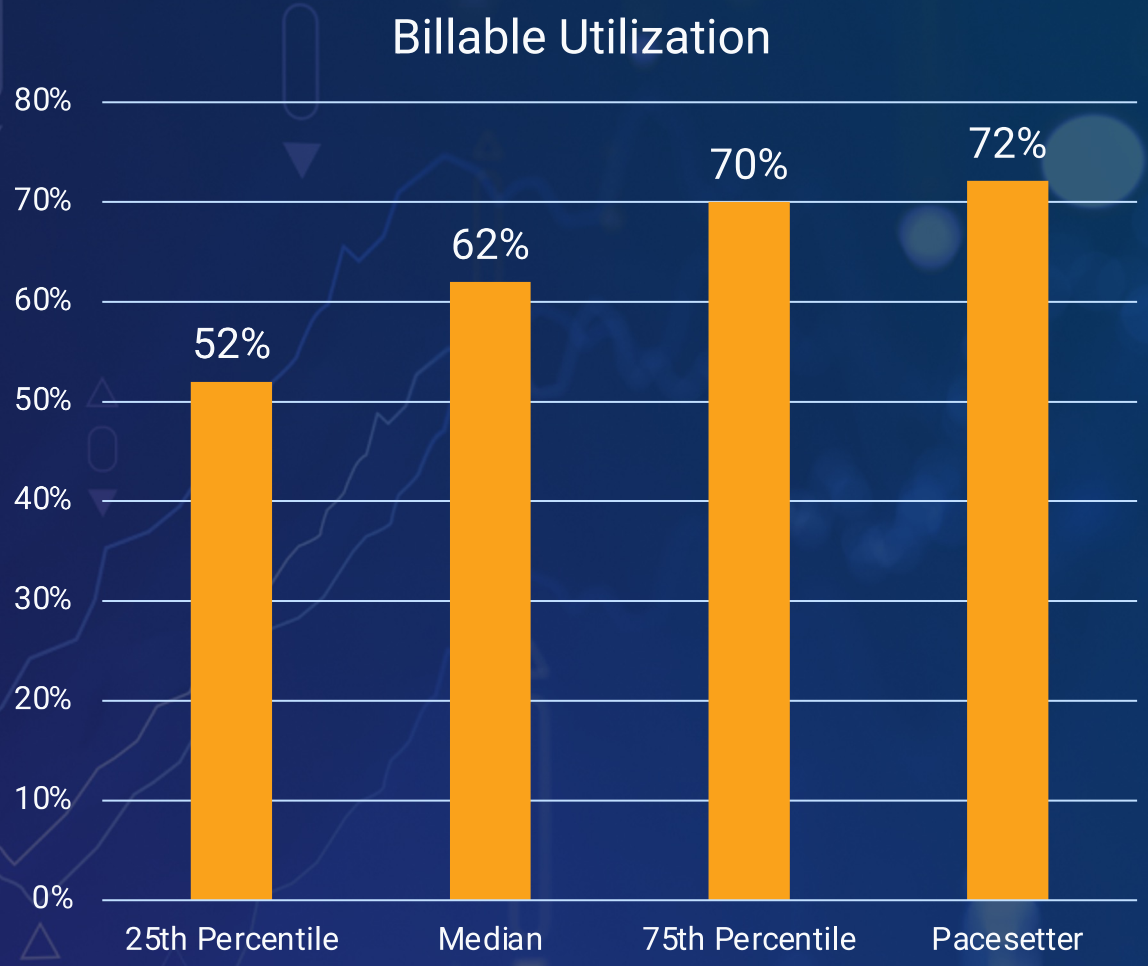
Source: TSIA 2022 Professional Services Benchmark

Profitable Resource Management: Billable Utilization

Resource utilization is always a popular topic with TSIA members. Not only does maximizing utilization improve profitability, but consultants are also often incented on utilization rates.

The median utilization rate is 62%, with pacesetters averaging 72%. Automated resource management can help balance and improve utilization by making project assignments based on skills, availability, and utilization rates. This will help with overusing certain resources you are familiar with and will help prevent overlooking other consultants sitting on that bench with the right skills and certifications, which is a common problem with manual scheduling.

Without automation, it will become increasingly difficult to balance having the right people, with the right skills, at the right cost, to improve project economics. As the required skills matrix continues to proliferate to deliver new project types, manual scheduling will thwart attempts at scaling PS operations.



Source: TSIA 2022 Professional Services Benchmark

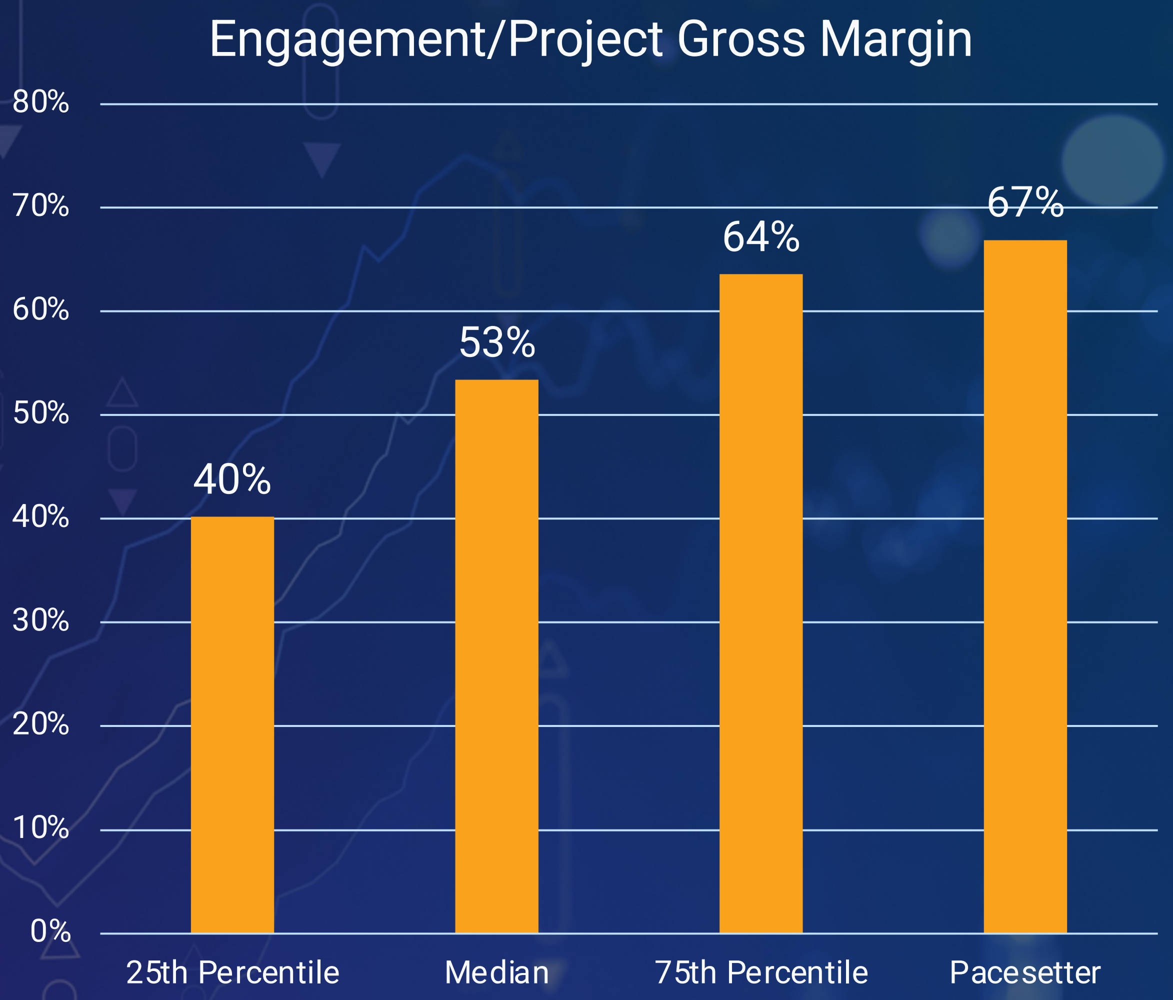
Project Profitability: Engagement/Project Gross Margin

Project gross margin is one of the most critical elements of project economics. Historical analysis of margins by project type will provide a lot of ammunition in understanding correct pricing and discounts to drive profitability.

But one of the most important things for improving project margins is real-time visibility into the margins of each project. If you wait until the project closes and then find out you lost money, it is too late to make a course correction.

Professional Services Automation (PSA) enables real-time visibility into project margins, so if a particular project is trending toward poor margins, you have an opportunity to step in and remedy the situation.

Bottom line, if you aren't managing project margins in real time, you will not be able to proactively manage project economics.



Source: TSIA 2022 Professional Services Benchmark

Optimizing Project Economics : Recommendations

Looking at all elements of project economics is critical for a profitable professional services organization. For companies looking for ways to improve the revenue and profitability for PS, TSIA offers these recommendations.

- **Embrace automation across the PS lifecycle.**
  - Professional Services Automation is a key element in ensuring profitability at every stage of the project, from creating a proposal, to staffing the project, to real-time tracking of project margins.
- **Eliminate silos between sales and service.**
  - To boost proposal hit rates, sales and professional services must be more aligned on the expected outcomes and time to value of each customer. If sales is not capturing this information during the selling process, work with your CRO or sales leadership to make this a standard practice.
- **Minimize project backlog with resource forecasting.**
  - PS project types are evolving, and companies will need different skills as more value-added services become standard. Resource forecasting will ensure you have the right skills available as future projects close and are ready for delivery.