The 12 deadly sins of managing a services business

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Managing a services business is a perennial challenge. From developing a quote to delivering high-quality services on time, on budget and within the expected scope, success is both management science and art. Historically, the software tools used by services organizations have been ill-suited. Services teams are often forced to use systems designed for a product business, or have to cobble together disparate applications, none of which are purpose-built for services or designed to be integrated. Absent proper tools, many services organizations lack a comprehensive, timely view of their business and consequently underperform. Delivering on customer promises is challenging at best. All too often, services organizations operate at a financial loss, or struggle to break even. This does not have to be the case.

This research note highlights the twelve most common — and most costly—shortcomings of services operations. It can be used as a practical benchmarking tool to assess the relative strengths and weaknesses of a services organization.

Services-as-a-Business (SaaB) encompasses the business management needs of services organizations, including professional services as well as services teams within product companies.

The SaaB framework describes an integrated platform connecting the systems, processes, and people involved in delivering high-quality services on time, on budget, and meeting or exceeding customer expectations.

The 12 deadly sins

1. Revenue leakage

The average services organization “leaks” 2-4% of revenue. This is money that could go directly to the bottom line — turning a marginal services operation into a profit center or transforming a break-even services business into a meaningful contributor. Billable events go unbilled. Services are given away to compensate for product or delivery shortcomings and because “we need to make the customer happy”. More fundamentally, many services organizations are using finance software tools that have no awareness of modern project accounting requirements such as milestone or percentage of completion billing. The lack of modern tools, reliance on spreadsheets, and/or poorly integrated systems are the key contributors to revenue leakage.

2. No single source of truth

Without a single source of truth, accessing a unified view of the customer (e.g. contractual obligations, project plan and milestones, billing status, etc.) requires the user to tap into multiple systems - increasing the likelihood of missteps, errors, and worse. Customer responsiveness lags, and the overall customer experience is filled with friction. Even more importantly, wide gaps persist between management of project delivery and financial accounting of the services business. Keeping everything in one platform allows for a single source of knowledge, keeping everyone on the same page.

3. High rate of customer billing disputes

Most professional services organizations are challenged by customer billing disputes. When a bill lacks precision or clarity, customer confusion (and mistrust) ensues. When more than two percent of bills are disputed, it’s an indication that the inputs into generating invoices are off. A product or service may be outstanding, but a bill that lacks accuracy inevitably leads to a poor customer experience, higher back-office costs, and lost revenues.

4. Low or inconsistent customer satisfaction

Managing customer expectations in a services context is a complex challenge. Clients often do not know what to expect when it comes to costs, timelines, and outcomes. Aligning these expectations to realistic outcomes is at the heart of delivering high customer satisfaction. Low customer satisfaction - or wild swings in NPS scores — generally indicate that information is missing or communications are inaccurate, leading to an erosion of customer trust.

5. Lack of metrics

Services organizations need management metrics in order to succeed. These include many industry-standard measurements covering costs, resource utilization, rates, churn, and more. Lack of reliable metrics or heavy use of nonstandard measurements is an indicator of an underperforming services organization.

6. Sales quoting takes too long

In an era of hyper-competition, providing timely quotes is perceived as an expression of a services organization's ability to deliver on-time. Delays in quoting are a competitive disadvantage. Best in class companies can generate complex quotes in 48 hours or less.

7. Inability to provide timely & accurate financial forecasts

If a request to generate any kind of financial report or forecast (e.g. cashflow, revenue, utilization, etc.) takes more than 24 hours, it indicates that a services organization's finance and operational infrastructure is lacking. It is also indicative of an overreliance on manual resources and tools like Excel.

8. Inability to create a 360-degree view of resource allocation & status across a portfolio of projects

In a services delivery context, having a unified view of which resources are allocated to specific workflows and projects, what is the level of utilization and where are the gaps in staffing — all that can be the difference between a successful outcome and a complete failure. Most services organizations are matrixed, where a resource may be utilized fractionally across a portfolio of projects. This is especially true in situations where human resources are highly specialized and/or have unique certifications. A 360-degree view of resource commitments minimizes waste and delays, as well as burnout and employee turnover.

9. Inability to track & plan resource commitments & gaps

Who knows? — that is the question in managing a services business. Companies that are unable to map their resources and answer this question in a timely, accurate, and consistent manner are unable to plan work or fulfill services commitments. Assigning the right skillset in the right place and at the right time becomes an impossibletask. Resources end up double-booked or underutilized, leading to lost revenue, diminished profitability, project delays, and customer dissatisfaction.

10. Inability to assess how a change in engagements translates into financial impact

In a services business, the ability to manage change separates industry leaders from everyone else. Failing to see how changes in a project affect financial results exposes the lack of connective tissue between the operations and finance functions of a services business.

11. Manual process to integrate time & expense tracking with billing & accounting

Services businesses have a long legacy of stovepipe solutions to address timekeeping, expense management, billing, and accounting. These were typically supported by disparate systems with limited or no integration between them. Manual integration, where batch data is fed between these key systems, is indicative of a sub-par back-office operation.

12. Revenue recognition requires manual effort

Individually, or in combination, increasing business volume, rising contract complexity, and regulation drive the need to automate revenue recognition. This is particularly acute when dealing with contracts that have a services component, since identifying performance obligations can be difficult. The only way for a finance team to scale efficiently is through automation: relying on manual calculations stored in disconnected spreadsheets increases the risk of reporting errors, and compliance and audit problems.

Conclusion

Not all services business "sins" are created equal. However, if an organization is presenting three or more, it is a clear indication that processes and systems require modernization.

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