Effective use of PSA Software in Consulting Organizations

What is PSA software and how can it support the operation of a consulting organization?

Abstract
Effecteive use of Professional Services Automation Software (PSA) can help consulting organizations improve operational efficiency, productivity, billable utilization, and financial margins.

PSA implementations require focused investment in areas which will produce the greatest return on investment for the organization. This paper describes how PSA supports the operation and management of consulting organizations and highlights areas of recommended implementation investment.

Introduction
SPI Research, a research and consulting firm specializing in the services sector, defines Professional Service Automation as: An integrated suite of applications used to increase operational visibility and improve resource management, project management and time and expense capture in professional services organizations.

PSA needs to be integrated, a set of tools reading from a common data set where data is entered once and leveraged by different functional areas and roles. The user interface needs to be consistent, standardized, and integrated to facilitate usage and adoption.

In order to increase operational visibility, PSA requires organizations to share information. In other words, whoever has the data enters the data so that those who rely on the data to do their jobs can leverage its use, and ideally see the impact in real time to maximize responsiveness. In a fast-moving organization, a “single version of the truth” is key for timely decision-making.

PSA improves resource management and project management by increasing efficiency through better planning, increased collaboration and personnel utilization, and integrated
knowledge management. It provides a standardized set of reports which allows functional areas to rely on consistent data processing and presentation to make business decisions.

Time and expense capture are a foundational element of PSA. They provide the data blocks upon which business information is built. Allowing service-based organizations to leverage this business information by becoming more efficient and profitable is the hallmark of PSA.

This paper describes how PSA supports the operation and management of consulting companies based on real-life experiences helping consulting organizations become more productive and profitable. We start by defining a real-life setting for a consulting organization.

Context Setting – Introducing CorpConsult
CorpConsult is our archetypal service-based organization. It is a North America based company providing consulting services to clients in the United States of America (USA) and the European Union (EU). CorpConsult is in its 10th year of operations and revenues have continually increased to $40 million. CorpConsult has two consulting divisions, USA and EU. Each division is run as a separate profit and loss center. Engagement projects are considered a success not only for achieving client objectives and satisfaction but also for supporting the personnel development and financial performance goals of CorpConsult.

CorpConsult clients include organizations interested in improving their software development life cycle (SDLC) skills. Engagements include short term SDLC assessments, four to six weeks, and long term SDLC improvement projects, six to twelve weeks, where knowledge transfer takes place. Assessment engagements tend to be quoted fixed price (FP), whereas improvement projects are quoted time and materials (T&M).

CorpConsult employees are experienced consultants with various degrees of experience in SDLC methods, techniques, languages, and tools. They start as consultants and promote up through the ranks to senior consultants, senior technical consultants, and principal consultants. Billing rates go up as the employee rank increases. CorpConsult currently has 200 employees.
Short term engagements are usually staffed by a senior technical consultant, playing the role of project manager (PM), with support from senior consultants and principal consultants. Longer term engagements are staffed by a senior technical consultant, as PM, with technical guidance provided by principal consultants. Consultants and senior consultants work along the client’s employees to mentor them on the desired skills. In all engagements, all team members contribute to the engagement work, additionally; the PM minds the schedule and main client interactions.

During their second year of operation, CorpConsult’s employees found themselves spending considerable amounts of time trying to run their business using spreadsheets for time and expense capture, resource planning, financial forecasting, and operational and financial reporting. They felt too much time was being sunk into updating and coordinating the different spreadsheets. They decided instead to reallocate this time to actually run the business and implemented Unanet.

Success – Defining and Measuring Success

Early in its corporate life, CorpConsult defined success as achieving client objectives and satisfaction. It was soon realized that operationally it was hard to determine whether success had been achieved or not. It was also noted that the criteria for success had to have both external customer measurements and internal operational measurements.

For external customer success measurement, a series of elements were considered and client satisfaction surveys were put in place to gather customer feedback. CorpConsult used their PSA’s ability to associate documents with projects to store proposals, statements of work, change orders, customer satisfaction surveys, etc. This way all customer requirements, commitments, and survey results are available to project team members.

For internal operations, the definition and measurement of success took a while to evolve and mature. Initially, it was centered on financial success. Thus engagement blended billable rate targets were instituted to be used during the bid cycle. At this time, CorpConsult used PSA only for engagement time and expense capture.

CorpConsult quickly realized that using bill rates to quote jobs did not guarantee that those rates were achieved during the engagements because not all work performed was billable or
not all billable work was accounted for. The challenge was that when calculations of engagement rates and margins were completed, the work was already done and the opportunity to improve was missed. At this time, the engagement rate calculations were done using spreadsheets and data from the PSA system was used as input for those calculations.

In order to address the situation above CorpConsult instituted the use of role-specific billable rates during the bid cycle and started to use PSA to calculate effective engagement rates, based on average cost rates, while accounting for all work performed. This kind of reporting allowed their PMs to watch engagement margins and make corrections, such as shifting work to lower cost resources, as the work was being performed.

Desiring to have further correlation and visibility into engagement and corporate performance, CorpConsult increased their PSA implementation investment and decided to input their cost model – containing actual costs for each resource – in order to bid work at appropriate rates. The model allowed CorpConsult to monitor the work performed using actual costs, and calculate engagement margin and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) using real time data from their PSA. Using these models, real engagement data is used to monitor corporate performance, adjust the models, and forecast better based upon operational reality.

As we can see, the definition of success varies as organizations mature operationally. PSA systems need to be able to support that evolution by building on the foundation of time and expense capture to provide consistent and reliable information to make business decisions.

“Perhaps the most mind-boggling finding to me is that 38% of respondents lack automated systems to manage their businesses. No wonder margins and income targets are low for many – they have no way to manage their business.” – Quote from a service vice president of a large software enterprise from the 2012 PSVillage Professional Services Industry Benchmark Report.

Engagement Lifecycle
CorpConsult has standardized the activities and deliverables for their engagement phases, which are: Propose, Initiate, Execute, Monitor & Control, and Close.

The objective of the Propose phase is to pursue and close business opportunities. During this phase, proposals are created and associated with probability for revenue and manpower forecasting purposes. PSA is used to create placeholder projects, from template projects, with generalized resource plans and tentative dates. These plans are used to generate the manpower headcount, costs, and revenue figures for proposal, budgeting, and forecasting from the PSA. As the opportunities become more real, the probabilities are
increased, generalized resource plans are replaced by “what-if” scenarios using consultant specific plans, and dates are firmed up based on client requirements and consultant availability using the PSA. Versions of proposals and statement of work are stored in the PSA system under each project.

The objective of the Initiate phase is to prime the rest of the organization to start the execution of engagements. This phase officially starts when an order is received. During this phase, the PSA is used to select a staffing plan with named resources and dates from the previous what-if scenarios. Resource assignments are made and communicated via the PSA. Statements of work are created from this data for client approval and an award document package is uploaded to the PSA for review by the assigned team members.

The objective of the Execute phase is to perform the contracted engagements. During this phase, team members use PSA to capture time and expenses, review client requirements and agreements, and to store documents created during engagement execution. Invoices are generated from PSA during this phase.

The Monitor & Control phase many times runs parallel to the initiate, execute, and close phases. During this phase, project managers and CorpConsult executives use PSA for the review and approval of timesheets and expense reports. Additionally, reports are used to monitor actuals to date and forecasted time and expense figures, funded and ceiling limits, profitability analysis and goals, and estimate to complete figures.

The objective of the Close phase is to bring to a close customer acceptance of the engagement deliverables and final invoicing. Internally, personnel performance feedback, lessons learned, and overall requirement versus execution evaluations are completed during the close phase. During this phase, the PSA is used to generate final invoicing and capture the engagement’s acceptance and closure document packages.

PSA needs to support the operation of consulting companies, throughout the engagement lifecycle, in an integrated way that increases operational visibility and improves operational management.

Best Practices
CorpConsult has found that using PSA to implement the following best practices has helped their employees concentrate on running the business as opposed to managing a system.
Sharing information – Encourage not only reliable but consistent data by having the employees who create or have the data enter the data so that those who rely on the data to do their jobs can leverage its use. Manage by real time data and facts, and not by innuendo.

Communication Plan – Do not spend time documenting and reporting on work where PSA can do it for you. Use PSA reports to communicate with both external clients and internal customers, pushing the reports out on a regular schedule. Where reports won’t do, create objective-specific documents to communicate with clients. Store these engagement-specific documents in the PSA for easy access by team members.

Codify Best Practices – Identify patterns of success and reuse them. Create templates for projects, reports, client-facing documents, and internal documents. Use PSA to make these templates readily available to the teams.

Plan the Work and Work the Plan – Use PSA to create plans and baselines of time and expenses. Frequently compare those to actual figures. Set up engagement alerts to monitor how close actuals are to plans.

Manage People and Costs – Protect your margins. Use PSA to have people with the right skills, experience, and certifications staff the engagements. Do not staff engagements with overqualified employees unless no one else is available. Use PSA to monitor availability of appropriate resources and reduce engagement costs as soon as possible.

Leverage Dashboards - Set up dashboards by role to help identify patterns and trends, and provide a consistent way of analyzing performance. Feed information to help team members make business decisions in support of the team’s success.

Enable Process Support of Compliance – Use PSA as the back bone for the implementation of process, standards, and regulations like EVMS, DCAA, Sarbanes-Oxley, control access to project data with the use of roles and organization access, etc.

Measure for Success – Clearly identify, for each engagement, success and how it is going to be measured. Include both external client and internal team operational measures. Make them part of the dashboards to help each team member associate their personal success to the team’s success.

In Conclusion
According to the Technology Services Industry Association, TSIA, Professional services automation, or PSA, is a platform to automate professional services engagements which
includes resource management, scheduling, project management, and accounting modules. Their 2012 TSIA Member Technology Spending Survey Report indicates that 54% of TSIA members have deployed PSA. PSA is a budgeted planned spending for 59% of members during 2012–2013.

We have seen scenarios of how PSA can support the operation and management of consulting companies. Based on a business appropriate level of investment and implementation, consulting organizations can effectively achieve great insight and control of their operations in order to have their employees concentrate on running the businesses.