Professional services organizations (PSOs) are putting tremendous energy into digitally transforming. But the enterprise resource planning (ERP) systems upon which many PSOs base their business fall short in two critical areas — time tracking and billing.

The Value of ERP Systems Tailored to Professional Services Organizations

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Questions posed by: Sage Intacct
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Q. **Professional services organizations seem to hit a wall on profitability that is often short of their potential. What are some of the primary reasons for this invisible cap on profit?**

A. The invisible cap on profitability is a real issue haunting professional services firms. However, the cap is not truly invisible; it is hidden among areas of inaccuracy or in areas where there is a lack of reliable data. These "blind spots" often keep project managers from having full visibility into the dynamics impacting the success of a project. While time management is just one of many aspects of project management, there has been an increased focus on time management as a means of bringing clarity to the problem of the "invisible cap."

It has been said that people are the inventory of professional services businesses. But that doesn't actually hit the mark. The inventory of service-based businesses is *time* — and time is extremely perishable. As a result, the biggest challenge for service-based businesses is managing time. Being able to accurately track and monitor time spent on projects on the phone, in transit, or onsite with clients is the key to profitability. In fact, improper time tracking can cost the average midsize consulting firm hundreds of thousands of dollars per year. The magnitude of this cannot be understated. This type of inefficiency leads to lost wages, unnecessary layoffs and, perhaps most importantly, reduced customer satisfaction.

As important as time tracking is, it can be one of the most stressful aspects of operations for service-based businesses. In fact, time tracking doesn't often come naturally to employees, with many choosing to prioritize the workflow over meticulous time tracking. An automated solution is required to compensate for this problem.

Also, many businesses require periodic updates of time spent on tasks (daily or weekly). This practice nurtures the common human impulse of procrastination. Busy consultants often will wait until just before the deadline to submit their time sheets and will be forced to approximate the time spent on tasks, which can be inaccurate. As a result, "guessing" becomes one of the most critical barriers to accurate time tracking and, in turn, project profitability. A continuous time management process is necessary to combat this tendency.

Time spent on projects should be tracked, of course, but time spent on activities outside of projects (e.g., breaks, follow-ups, travel, overwork) should be tracked, too. While some of these activities may not be billed to a project, they can be very valuable for project managers to discover. Understanding these hidden pockets of time can help project managers address those "invisible caps" on profitability. A solution that is fully integrated into the firm's workflow (e.g., email, meetings, phones) is needed to discover these valuable patterns.

Q. What are ERP vendors doing to address the challenges of time management?

A. To cope with the current uncertainty, professional services organizations are putting tremendous energy into digitally transforming. Several enterprise resource planning (ERP) packages cater to the professional services industry. Lately services firms have turned to machine learning and analytics to improve visibility into projects and increase automation of certain manual tasks. These solutions offer a tremendous amount of functionality to manage the overarching demands of project management such as resource optimization, project accounting, and collaboration.

ERP vendors have worked to incorporate human resources information into the project management workflow to help with resource management issues across the employee base. There have been moves to integrate client resource management (CRM) tools into the project workflow as well. All these integrations serve the purpose of getting more timely information to the decision makers.

However, many of these ERP systems offer little to no functionality in the time tracking or billing aspects of project management. Billing, which is directly related to time management in most cases, can be difficult and time consuming for businesses. These two aspects (time and billing) are where the rubber meets the road for project-based businesses. As a result, some businesses, even those with modern ERP systems, can develop a large visibility gap, which can significantly impact project delivery and project profitability.

Q. What should professional services organizations look for in an ERP vendor?

A. Professional services ERP applications are evolving rapidly as vendors invest research and development dollars into bolstering, augmenting and, in some cases, redesigning their applications. As fast as vendors are changing, the needs of the service-based business are changing even faster. As a result, businesses looking for project-based ERP should seek vendors that offer the following:

» **Holistic user experience.** For project management tools, user adoption is critical. User experience is an essential aspect of user adoption. Simply put, if it is easy to use, it will be adopted more readily among the employee base. In addition, buyers must consider that the user experience must go beyond the software to include the sales process, account management, implementation, product strategy and direction discussions, road maps, and post-implementation training.

» **More emphasis on ecosystem.** The project management process is most effective when it is integrated with human capital management (HCM), expense, and CRM systems. Buyers must look for vendors that are aggressively building out their partner ecosystem to include other related enterprise applications. Specifically, it is essential for vendors to have a highly developed set of APIs to create native, configurable integrations that streamline the data flow between systems.

» **More predictive features.** So much of project management and project accounting has been backward facing, examining historical data on past projects to establish project goals for profitability and timing. However, buyers must consider vendors that have made significant developments in predictive analytics and benchmarking technology to improve project optimization capabilities.

» **More time management features.** Critical resources are in high demand, and individuals are often working on several matters at once, making it difficult to track tasks and ensure data is accessible for optimal decision making. Buyers must consider ERP systems with time tracking features to provide project transparency and task-level visibility to maintain profitability.

Q. How do artificial intelligence (AI) and cloud play a role in helping PSOs improve financial performance?

A. The market for software-as-a-service (SaaS) financial applications is growing rapidly. Although many other aspects of business have suffered during the global slowdown, applications centered on the efficient operation and/or automation of cash flow and profitability continue to sell well. As a result, IDC predicts that public cloud financial applications will grow by 11.4% through 2024; almost 10x the growth of non-multitenant financial applications. According to IDC's *Worldwide Enterprise Resource Planning Software Forecast, 2020–2024,* the share of public cloud within the overall ERP software is expected to change from 26.4% in 2019 to 48.4% in 2024 as the demand for cloud-based ERP application software continues to outpace the demand for on-premises/other software solutions.

The reason for this trend is clear. The demand for more advanced features such as intelligent automation, touchless processing, digital payments, real-time benchmarking, and predictive analytics has driven buyers to forgo on-premises solutions. These advanced features are directly tied to the power of a multitenant cloud deployment model. The current pandemic has only accelerated the trend. Businesses of all sizes have turned to the unique aspects of SaaS financial software to survive. They are using cloud software to support rapid changes in business operations. In particular, cloud financial software has excelled in dealing with changes in the following critical areas:

» **Remote working.** Businesses were able to take their accounting departments from 100% office bound to 100% remote over a weekend without missing a beat. Those using SaaS financial accounting software were able to have complete access to critical accounting functions and information at home without changes in hardware or software.

» **Dynamic workflows.** In the beginning of the pandemic, most organizations clamped down aggressively on spending in all categories. To do this effectively, businesses had to quickly redesign their workflows for everything including purchasing, credit, and expense approval. Businesses of all sizes were working to ensure that each dollar spent had approval from the highest level. Those with cloud-based expense management, procurement, and accounts payable software were able to rapidly change key workflows without the heavy use of IT resources.

» **AI/machine learning.** As the pandemic began to unfold in early 2020, businesses had to quickly augment their strategies to cope. Many ERP systems were not positioned to provide users with the level of automation and predictive capabilities that the current uncertain market demands. ERP vendors must work to embed intelligence within the business workflows (e.g., continuous anytime close, smart financing, real-time S&OP, continuous business review, and advanced project management) to unleash the full power of AI. ERP vendors must utilize robotic process automation (RPA) or more advanced automation technologies such as cognitive computing, natural language processing, machine learning, and deep learning to automate lower-level tasking within the applications. IDC is already seeing this factor determine market position among ERP vendors and expects this trend, although early in its maturity, to continue.

Q. What is the future for professional services financial teams?

A. The ground underneath the feet of today's professional services financial teams is rapidly shifting to digital. Companies with the right mix of talent and software tools will be best able to thrive in these changing conditions. We will see companies increasingly prioritize features that provide/enhance visibility, flexibility, and agility. Simply put, PSOs that have the tools to support rapid change will find themselves well positioned for future growth. Some of the key trends that will impact service-based firms and their financial teams are as follows:

» **DX in professional services.** IDC believes that, in 2020, businesses will spend $1.3 trillion on the technologies and services that enable the digital transformation of their business models, products, and services. This trend extends to professional services ERP as well. According to IDC's 2020 *SaaSPath Survey*, 65% of organizations indicated that they plan to increase their spend for platform-as-a-service (PaaS) solutions.

» **New financial reporting standards.** IFRS 15 and ASC 606 have a significant impact on how and when revenue can be recognized. IFRS 16 impacts how corporations account for leases. Together, these reporting changes add complexity to the process of financial compliance.

» **Convergence of adjacent workflows.** The traditionally siloed nature of financial functions such as accounts receivable, procurement, expense management, and accounts payable is rapidly changing. In the coming years, we will see these walls break down, allowing for more coordination, collaboration, and communication among these financial functions. As such, decision makers will have a much more holistic view of a company's financial position to make better strategic decisions.

» **A deeper focus on analytics.** Amid the pandemic, finance professionals quickly find insights from their business data to drive more efficient financial processes and more accurate financial budgeting and planning. With business data volume and complexity increasing, it will become more critical for end users to have accurate, real-time insights from their business data. As more data becomes available, line-of-business users will have the opportunity to explore the data with confidence and get answers to the questions that they didn't know to ask.

» **More collaboration.** Financial management in a service-based business involves coordination between multiple business departments and multiple teams. Businesses are increasingly utilizing real-time aspects of their more advanced cloud-based software solutions to provide teams with greater access to and better visibility into data.

» **Growth in digital payments.** Organizations must receive payments and pay their suppliers and employees. Cash management is critical in times like the COVID-19 pandemic, especially for small and medium-sized businesses that may cease operations for a period of time and then reopen. IDC finds that organizations understand the need for more automation in accounts receivable and accounts payable, which is lending itself to digital payments versus paper payments. IDC finds two growth areas in payment processing: virtual card and e-invoicing to ensure taxes are being paid.

About the Analyst

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As a Research Manager with IDC's Enterprise Applications team, Kevin M. Permenter provides insights and intelligence across multiple areas including enterprise resource planning (ERP), order management, financial applications, and project and portfolio management. He assesses the interplay, challenges, and trends regarding various enterprise application deployment models like mobile enterprise applications and cloud models.

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Our modern, true cloud solution, with open APIs, gives project-based businesses the connectivity, visibility, and efficiency they need to drive project performance. At Sage Intacct, we help service organizations strategically grow their business through detailed insights to support critical decisions.

To see how Sage Intacct is revolutionizing financial management with advances in AI and Machine Learning, please *visit us*.

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