

Improve Operational Metrics and Streamline the Client Management Life Cycle in Your Professional Services Organization



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Improve Operational Metrics and Streamline the Client Management Life Cycle in Your Professional Services Organization

Introduction

This white paper addresses how professional services organizations (PSOs) can effectively manage the four critical phases of the client engagement life cycle—target, acquire, manage, and retain—the operational metrics that measure success, and how business management software can help firms manage client relationships to increase profitability.

It all starts with clients. PSOs survive and thrive by acquiring new clients and retaining existing ones. To be successful in today's business environment, PSOs need to fully understand and manage the entire client engagement life cycle.

This life cycle has four key components:

- (1) Target
- (2) Acquire
- (3) Manage
- (4) Retain



Each phase of the life cycle is significant to the PSO, as each lays the foundation for even longer-term client relationships. So, why do firms struggle to maintain and manage client relationships, potentially causing a negative impact on their revenue streams and client satisfaction? Kennedy Information Advisors have found that firms, especially small and mid-sized firms, lack the tools and resources needed to manage client data and resources. These firms frequently lack the applications that track customer-facing activities across multiple communication channels and that analyze client and project information to gain valuable business insights. Firms that successfully manage the client engagement life cycle are skilled at understanding industry benchmarks and best practices and at utilizing available tools to monitor the performance of their operations. PSOs increasingly leverage customer relationship management (CRM) software to streamline their business processes, enabling them to more effectively manage client information. This white paper will identify pain points in the client engagement life cycle. Firms can use these pain points as benchmarks to measure their own performance. The paper will also show how CRM software can help PSOs increase the efficiency of their operations.

Target

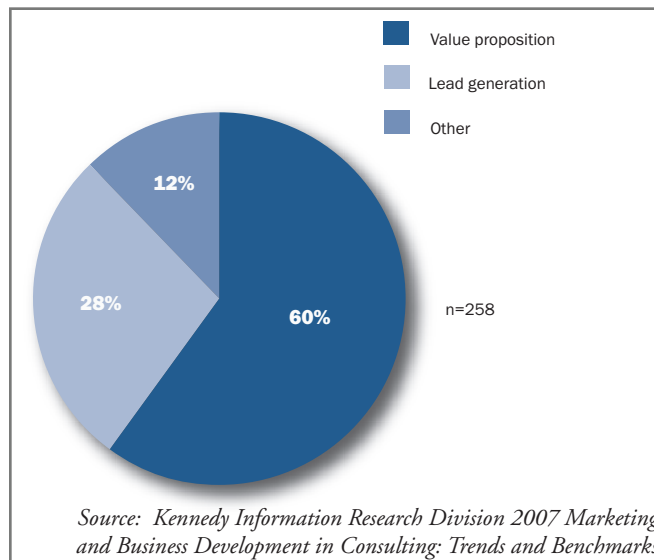
How PSOs build their brand recognition and convey their value proposition is critical to how firms successfully compete in the global business environment.

Key Challenges

Professional services firms face three key challenges in targeting prospective clients:

- Value proposition/Brand recognition
- Demand and lead generation
- Customer and list segmentation

In the 2007 Kennedy Information Advisors annual survey of management consultants, approximately 60 percent of marketing executives at PSOs were most concerned with improving the firm's name recognition and communicating their value proposition to prospective clients. These same executives ranked generating leads for business expansion as the second most important concern.



Value proposition/Brand recognition is the most critical component of the target phase of the client engagement life cycle. Firms need to create brand awareness and to communicate the value proposition to as many potential clients as possible. To do that, they need to demonstrate their understanding of clients' problems and how these problems can be solved.

Many prestigious firms, such as Deloitte, Roland Berger, and Nomura Research Institute, have well-recognized and respected names because of their longstanding reputations in the industry. However, for firms that lack this level of brand recognition, marketing and sales play a key role in building their value propositions in the market.

Experts agree that the client decision-making process has three consistent aspects:

- Clients develop brand awareness levels and perceptions that precede marketing efforts.
- Clients need to associate a message with a brand, if that message is to influence attitudes and behavior toward the brand.
- A positive attitude toward a brand precedes and contributes to a purchase.

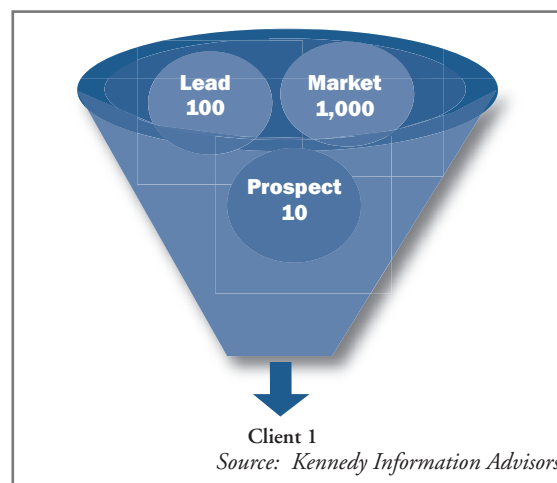
These aspects of the client decision-making process mean that firms need to differentiate themselves in the market, and they need to communicate how their capabilities map to clients' needs. For a professional services brand, this means attracting and retaining the top talent in the business. In an interview in September 2008 with *Consultants News*, John Hellerman, partner at Hellerman, Baretz Communications, a marketing/communications agency that specializes in serving the professional services industry, said, "The institutional brand should not only promote the firm, [but it] should [also] showcase its consultants. For professional services firms, people are their products, so firms should really look at themselves as product marketers. Even a small firm with ten principals has ten brands that they should be promoting in the market."

In the past 10 years, firms have successfully leveraged this information by using the Internet. While traditional marketing methods, such as hosting events and publishing articles and books, are still viable methods of communicating the firm's value proposition, many firms are successfully building their value by leveraging the broad reach afforded by the Internet through Web conferences, podcasts, and online marketing campaigns.

Demand and lead generation are the second key challenges firms face. In its annual survey of consulting firm marketing executives, Kennedy Information Advisors' researchers asked executives how their firms evaluated the effectiveness of their marketing function. Seventy-five percent of the firms queried responded that they measured effectiveness by their lead-generation activities.

J.J. Sendelbach, managing director at Kennedy Information Advisors and former partner at a large management consulting firm, notes, "Many firms subscribe to the theory that they need to reach at least one thousand companies with their value proposition [even if it's successful] in order to win one new client. According to this theory, one thousand people touched by the firm's message should generate one hundred leads (people who respond or react in some way to the material they have received). Of these one hundred leads, at least ten should reach the prospect stage (formally engage in discussions with the firm over its issues), and then, at least three of these should reach the proposal stage."

Sales Cycle Process Map



Customer and list segmentation is the third key challenge in the "Target" phase of the client engagement life cycle. Ineffective management and analysis of their customer lists and—even more important—of their customers' needs exist because firms:

- Do not have enough leads.
- Are not achieving enough penetration in key accounts.
- Do not know how to prioritize their business development lists.

Firms struggle with these issues, because they often fail to optimize the data they have for existing clients, missing opportunities to win new business. Clients in today's market have become more sophisticated about how they purchase professional services, and this has a significant impact on business development.

Most clients share the following three attributes:

- Specialized. They are purposely focused on their industry, market, supply chain, distribution network, customer base, and geography.
- Sophisticated and demanding. Clients have already explored resource and financial options, and they already know the value-added differential at each step, from sourcing to manufacturing to delivery.
- Better informed. Customers know about the marketplace, their competition, and their operations.

Consequently, PSOs need a better understanding of a potential customer's behavior and his or her likelihood to choose a firm to deliver services as opposed to selecting a competitor. By sharing win/loss insights and best practices among sales stakeholders and management, firms improve their ability to win new clients.

Benchmarks

Many PSOs are leveraging benchmarks to measure and improve their sales and marketing efforts. Some of these benchmarks include:

- Volume of leads generated.
- Number of leads that result in proposals.
- Marketing costs as a percentage of total costs.

Volume of leads generated. This plays an important function in measuring future engagements. Leads generated in the first quarter of the fiscal year often lead to engagements in the third.

Number of leads that result in proposals. The definition of lead and prospect may vary across firms. For the purposes of this paper, a "lead" and a "prospect" are both people with whom a firm hopes to close a sale. However, a "prospect" has given the PSO some form of commitment in terms of time, energy, activity, or money.

Marketing costs as a percentage of total costs. How much a firm spends on marketing does not always translate into a successful business. For example, the Kennedy Information Advisors 2008 global study of consulting, accounting, and IT services firms found that the average PSO spends 8.3 percent of their revenue on marketing. However, the firm with the largest marketing budget (15.9 percent of total costs) lagged behind its peers in both operating margin and organic growth.

In the study, sales and marketing budgets, on average, range between 6 percent and 9 percent (with a mean of 8.9 percent) of total costs.

Cost	Legal	Accounting	Consulting	IT Services
Salaries	70.0%	67.2%	67.8%	65.7%
Sales and Marketing	6.0%	7.5%	8.9%	9.3%
Occupancy *	7.5%	7.2%	5.4%	6.1%
IT	2.9%	3.2%	3.2%	4.1%
Training	1.4%	1.1%	2.4%	2.2%
Contractors	6.0%	6.6%	6.9%	6.5%
Other	6.2%	7.2%	5.4%	6.1%

* Occupancy costs are expenses related to occupying a space, including rent, real estate taxes, personal property taxes, and insurance on a building and its contents.

Source: Kennedy Information Advisors

How Business Programs Can Improve Firm Benchmarks and Streamline Operations

To increase the volume of leads generated, improve the lead-to-proposal rate, and fully leverage their marketing budgets, PSOs are often adopting sophisticated strategic account management disciplines that include:

- Target account selling
- Strategic targeting
- Collaboration and client centricity

To manage these disciplines effectively, firms need fully integrated CRM systems to select the right target customers to pursue. CRM allows PSOs to gain sales intelligence by making prospect and customer data relevant through the creation of customizable dashboards that are easy to build. The information displayed on these dashboards can be leveraged and communicated across teams so that all members have a full view of client needs and interests.

Acquire

PSOs can increase their opportunities and improve their win-rate ratio by more effectively managing proposals, prospects, opportunities, and the sales pipeline.

Key Challenges

Some of the key challenges facing firms as they transition from the target phase to the acquire phase in the client engagement life cycle are:

- Proposals
- Prospects and opportunities
- Sales pipeline

Proposals. The process can be daunting for most PSOs, especially when the proposals are for large, complex engagements. This is especially typical for firms whose clients are predominantly in the public sector. Firms need to demonstrate that they understand the clients' needs, the specific benefits the clients are looking for, and how the PSO will provide relevant solutions. Yet, if not done efficiently, capturing these points in a document can be time consuming and can waste valuable resources. According to Michele Sandell, director of Proposal Management for SI International, in a 2005 case study, "Getting assigned to a proposal was perceived as the worst thing that could happen to an employee. It was common for a proposal manager to have to schedule meetings on Saturdays and Sundays, and I know some who actually kept sleeping bags under their desks." Many CRM business solutions are able to automate and improve the proposal process through collaboration tools, thus improving a PSO's response time to its prospect/client and reducing time to market in obtaining incremental or new business for the firm.

Prospects and opportunities. Strategic targeting of the right client is crucial to the profitability of a PSO. Firms use strategic targeting to segment client profitability and use three basic categories:

- Highly profitable (profits characterized as almost excessive: "A" Clients)
- Break even (up a little, down a little: "B" Clients)
- Significant losses (huge losses; loss leaders: "C" Clients)

This method allows PSOs to maximize the number of highly profitable clients and to minimize the number of clients they lose. If a firm can skew its client base toward the profitable end of this continuum, it will usually boost bottom-line returns.

Differences in specific client profitability are due to several factors, which include:

- Total revenues (with that client).
- Profit margins attributed to the revenues.
- Duration of the client relationship.
- Cost of client acquisition, service, and retention.

Sales pipeline. Firms often struggle to fully leverage the sales pipeline as a means of measuring growth and identifying and managing business trends. They tend to focus too much on the back end of the sale, or closing the deal, and not enough on the front end. Firms that are able to manage their sales pipeline efficiently are able to:

- Allocate resources for engagements more effectively.
- Forecast sales more accurately.
- Develop reliable guidelines to assess sales opportunities.

Many firms that are effective in sales pipeline management leverage CRM systems to help them develop sales guidelines, analyze customer data, and create review points for the sales teams.

Benchmarks

There are several good benchmarks that firms can use to measure the success of the client engagement life cycle at this stage. These include:

- Client win rate.
- Extension rate.
- Lifetime value potential of wins (not just a new client name).

Client win rate. The success ratio representing the percentage of proposals won as a percent of all projects (this includes repeat business from existing clients) formally proposed is typically 70 percent in the professional services industry (according to Kennedy Information Advisors), but it can vary among verticals (that is, legal, accounting, IT services) and client base.

Extension rate. This is the client renewal rate, percentage of revenue from new clients. During the fiscal year, the extension-rate ratio of repeat business for PSOs versus new client business is 73 percent to 27 percent. The management consulting industry, typically, has a higher ratio of new client business, generally 56 percent to 44 percent.

Lifetime value potential of wins. As a means of tracking client penetration, firms need to understand the ratio between new engagements within existing accounts versus net new client names. Typically, 65 percent of new business should be new engagements within existing accounts.

How Business Programs Can Improve Firm Benchmarks and Streamline Operations

At this stage of the client engagement cycle, CRM provides three benefits: collaboration, client intelligence, and project analysis. As the team members work with clients, day-to-day collaboration tools help them to see other opportunities. Greater insight into a client's information provides the intelligence team members need to analyze client and market segmentation. Today's CRM software also helps firms build complicated financial models to determine the return on investment (ROI) and the profit margin of engagements.

Manage

Client and project management is arguably the most critical phase of the client engagement life cycle, because it is during this phase that firms build long-term relationships with clients. During this phase, firms often struggle to manage resources and to achieve profitability in engagements.

Key Challenges

The key challenges PSOs face in the manage phase are:

- Additional engagements.
- Improve contact and relationship management.
- Up-sell/Cross-sell opportunity management.

Additional engagements. Firms today have difficulty identifying existing and potential customers, and segmenting them according to the value they represent. Disparate customer information needs to be consolidated into a single repository so PSOs can create lasting client relationships that leads to repeat business.

Improve contact and relationship management. As the trend toward employing dispersed workforces and contractors increases, so does the need for firms to effectively manage their teams' communication capabilities, and productivity. Completing projects on time and within budget requires highly efficient tracking capabilities to manage both the engagement team and their job roles. A firm that has a 360-degree view into its engagement team in real time can track customer preferences, build relationships, and target marketing campaigns.

Effectively managing engagements, client expectations, and the engagement team drives the success of the project and the client relationship. To stay competitive and maintain profit margins, firms need to be more diligent about how they resource and manage project milestones. Leading PSOs have the tools that provide a complete view of all resources in all projects across all clients, and these include alerts when key metrics (such as utilization or travel) reach a warning stage.

Up-sell/Cross-sell opportunity management. PSOs struggle to measure the sources of their revenues, and how they win business. This difficulty measuring correctly and on time can cause the firm to miss future revenue growth for their clients. To be successful at cross-selling, firms need to be able to consolidate customer information from multiple sources, such as spreadsheets, and better coordinate the deployment of multiple resources across client segments to be more effective.

Best Practices of Engagement Management

J.J. Sendelbach describes best practices for engagement management as follows: "There are three layers of quality assurance intrinsically embedded in a top quartile engagement: weekly project team review cycles (after the fact), monthly client feedback loop sessions with the real client paying for the project, and the project status calls made by the quality assurance officer of the consulting firm to the client paying for the engagement." Not only do such processes cover the objective aspects of a client relationship, but they also cover the subjective (and often more psychological) aspects of the relationship. Such a sophisticated project management life cycle is a perfect opportunity for furthering brand name awareness and for cross-selling and up-selling.

Benchmarks

Firms today can use several benchmarks to measure their project management capabilities. Some of these include:

- Cost per employee.
- Average project size.
- On-time and on-budget rates.

Cost per employee is an indicator of both productivity and profit. In the Kennedy Information Advisors 2008 global study of consulting, accounting, and IT services firms, PSOs had an average annual cost per employee of U.S.\$239,000. However, this figure can vary significantly based on a firm's size, geographic market, and industry.

Average project size can vary within each vertical of the PSO market. A firm's geographic location and client mix can also impact the size of engagements. However, accounting, engineering, and IT services tend to perform larger engagements than consulting firms or law firms. The following table lists the average project size of a PSO with 10 to 25 employees (from the Kennedy Information Advisors PSO study in 2008):

PSOs with 10 to 25 Professionals	
PSO Type	Average Project Size
Legal	\$189,000
Accounting	\$252,000
IT Services	\$269,000
Management Consulting	\$221,000

In U.S. Dollars
Source: Kennedy Information Advisors

On-time and on-budget rates are often difficult for firms to measure accurately because issues, such as scope creep and rates, will vary across each vertical. According to data collected in the *Consulting Magazine* survey, *Best Firms to Work For 2008*, for IT services and management consulting, professionals indicated that approximately 80 percent of projects deliver on time and 85 percent are delivered on budget.

How Business Programs Can Improve Firm Benchmarks and Streamline Operations

CRM business programs customized for the PSO vertical enhance a firm's ability to manage its resources and costs during the course of a project. These applications offer real-time project management to the engagement team, providing collaborative environments, project budgeting, status reports, meeting minutes, feedback/approval tracking, and timesheets. Firms gain the ability to track client activity and history, contact information, attributes, meeting notes, attachments, communications, and open proposals, along with purchased products, quotes, bill rates, and pricing.

Retain

PSOs need to build relationships with clients, not only to win repeat business, but also to identify opportunities to up-sell or cross-sell their services. To build and strengthen client relationships, PSOs need a 360-degree view of clients' preferences, purchase levels, and satisfaction rates.

Not only is it critical to maintain a relationship through marketing initiatives, but it is also necessary to personalize marketing between the partner at the PSO and the client. One senior partner at a strategy consulting firm stated, "The best marketing tool I have is if I see an interesting article on a subject matter, I forward it on to the client with a personal note and summary."

Key Challenges

The key client-retention challenges that firms face are:

- Case/Incident management
- Customer satisfaction

Case/Incident management is more common in the IT services and engineering verticals. But, as with measuring client satisfaction, most firms, especially smaller ones, lack the processes and resources to watch for and to help correct potential errors during the course of the project. Maintaining these relationships is critical to successful long-term client relationships. According to Sendelbach, "As much as 65 percent of 'new client' business is from new relationships at existing accounts. Managing and developing these relationships during client engagement is critical. It is also important to note that, on average, to win a totally new client is typically six times as expensive as retaining a client, and cross- and up-selling within an existing account has rarely a higher cost to it than two times client maintenance."

Customer satisfaction levels with projects is a factor that most PSOs fail to measure. If the levels are low, the PSO can lose the relationship with the client. And, without the visibility into its own weaknesses, the firm has no way of knowing where it needs to improve its operations. The best practice is an internal and external client-satisfaction loop. The internal loop can be incorporated into the everyday quality assurance and project management life cycle. As for the external loop, PSOs can measure the external client satisfaction two times a year by contracting with a specialized third-party firm to perform a survey, reaching out to clients on an either a blind or a disclosed basis. CRM solutions for PSOs allow them to track and calibrate those values over time, by vertical or horizontal (line of service), for further analysis and resolution.

How Business Programs Can Improve Firm Benchmarks and Streamline Operations

CRM systems today allow project managers to identify cross-sell and up-sell opportunities easily within existing accounts through a centralized repository and a complete 360-degree view of the client's critical information. These views include client activity and history, contact information (including hobbies, birthdays, anniversaries, likes, and dislikes), attributes, meeting notes, attachments, communications, open proposals, purchased products, quotes, bill rates, pricing, future engagement opportunities, industry or client-specific macro-trends and micro-trends, and upcoming changes in hierarchy (including promotions). These capabilities allow firms to maintain and build long-term relationships with the client and to identify and correct errors or problems during the course of an engagement. But, most important, once the client relationship is "digitized," smart CRMs can even highlight behavioral patterns and common pitfalls, while giving indications about where, when, and what to sell.

Conclusions

Professional services firms today are placing a greater emphasis on business development. This emphasis has generated opportunities for business development, marketing, and sales at virtually every firm in the business community. These business development disciplines occur across the service lines of consulting, accounting, IT services, legal, engineering, and other PSOs. While they manifest themselves in different ways among the highly varied PSOs, these underlying trends in business development include:

- Strategic account management.
- Professionalized business development.
- The alignment of sales and marketing.
- Thought leadership and innovation.
- Branding.

To achieve success in these areas, firms need effective, integrated CRM systems that can help manage client data, budgets, and project teams. These systems:

- **Provide a 360-degree view into client organizations.** Today's CRM systems should provide real-time customer information that can be shared across the lines of a PSO's business at all phases of the client relationship. Typically, today's CRM systems should have sales and customer service modules that are completely integrated and that allow firms not only to maintain a relationship through formal marketing initiatives, but also to allow a more personalized marketing effort between the partner at the PSO and his or her client.
- **Connect and streamline business processes.** This provides PSOs the ability to share customer information, helping PSOs find new ways to better serve clients on engagements and to identify new opportunities to sell. These applications free professionals from duplicating business intelligence efforts.
- **Offer flexibility to integrate smoothly with the firm's other key applications.** A CRM application for a PSO needs to provide for easy and simple integration with other systems, such as human resources and financials. This allows firms to have a clearer picture of resources and costs associated with the engagement.
- **Provide mobile solutions to PSO workforces.** As today's business world becomes more global, and PSOs become more virtual, CRM systems need to be able to support PSO professionals' ability to work—regardless of their location.
- **Customize and integrate with other business solutions and services built on flexible technologies and powerful integration tools.** A CRM solution must allow PSOs the ability to integrate its functionality with third-party applications and Web services. Together, these systems can enable a firm to build an extremely powerful and extended solution for the PSO's unique business requirements.

About Microsoft Dynamics

Microsoft Dynamics is a line of integrated, adaptable business management solutions that enables you and your people to make business decisions with greater confidence. Microsoft Dynamics works like familiar Microsoft software, such as Microsoft Office, which means less of a learning curve for your people, so they can get up and running quickly and focus on what's most important. Built to work with Microsoft technologies, it works easily with the systems your company already has implemented. By automating and streamlining financial, customer relationship, and supply chain processes, Microsoft Dynamics brings together people, processes, and technologies, helping increase the productivity and effectiveness of your business and helping you drive business success.

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