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ERP in Professional Services: Leaders and Followers

Enterprise Resource Planning (ERP) has long been used in leading organizations to uncover untapped efficiencies, reduce costs, and provide visibility to managers to aid in informed decision making. Still, Aberdeen's 2011 ERP survey of 73 professional services firms found that only 64% are currently using ERP. Those that are currently using ERP are able to more effectively cut costs, manage projects, and staff accordingly. ERP is quickly becoming a key differentiator for leading professional services firms. When people are the product, the visibility that ERP provides leads to more consistent services and satisfied customers. This Sector Insight examines the ways in which leading professional services organizations are integrating ERP into their daily operations.

Defining Leading Professional Services Organizations

For the purposes of this report, Aberdeen defines "leaders" as the top 35% of aggregate performance scorers using the criteria shown in Table 1. "Followers" represent the remaining 65%. These metrics were selected because of their relevance in assuring the ultimate success of professional services organizations. Beyond excellence in performance of back-office processes such as closing financial statements at the end of each month and invoicing customers, processes greatly facilitated by ERP, these metrics stress the importance of delivering services to customers. Since in service organizations, people are the products, the ability of employees to exceed performance metrics is highlighted. Of course, in order for an organization to grow, it is important to keep costs low while increasing revenue, which is why growth in operating margins is the final metric included. Leaders are able to perform better than followers as a result of, in part, the fact that 73% of leaders have implemented ERP in comparison to 60% of followers.

Table 1: Top Performers Defined as "Leaders"

Definition of Maturity Class	Mean Class Performance(all reposndents)
Leaders: Top 35% of aggregate performance scorers	▪ 4.12 days to close a month ▪ 95% complete and on-time delivery ▪ 19% growth in operating margins over the last two years ▪ 45% of employees exceed performance metrics ▪ 3.8 days cycle time from service completion to invoicing

Sector Insight

Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography

What is ERP?

Aberdeen defines ERP as an integrated suite of modules that forms the operational and transactional system of record upon which any business is based. With its roots in Material Requirements Planning (MRP) it is most ubiquitous in the manufacturing industries, but has truly expanded beyond these boundaries to become a mature business application that provides value to a far more extensive set of industries. ERP systems provide much-needed capabilities, such as management of financial, product / inventory, human capital, purchasing, and other transactional data within one environment.
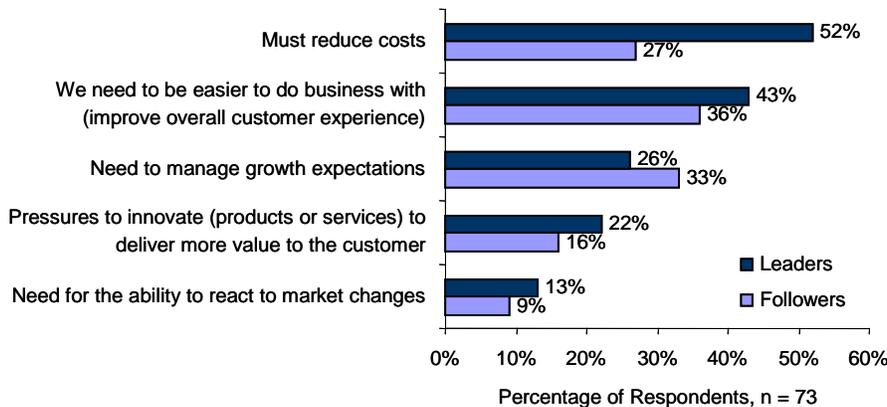
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Definition of Maturity Class	Mean Class Performance(all reposndents)
Followers: Remaining 65% of aggregate performance scorers	▪ 6.22 days to close a month ▪ 84% complete and on-time delivery ▪ 4% growth in operating margins over the last two years ▪ 34% of employees exceed performance metrics ▪ 5.89 days cycle time from service completion to invoicing

Source: Aberdeen Group, October 2011

The Environment Facing Professional Services

While many of the market pressures that professional services firms are facing are similar to those of other industries, the top business drivers impacting ERP strategies do differ between leaders and followers (Figure 1). Leaders are much more concerned with cost reductions. In professional services firms, this means better utilization of people and selecting projects that are less likely to incur cost increases. These costs need to be kept low in order to manage growth expectations.

Figure 1: Top Business Drivers Impacting ERP Strategies

Source: Aberdeen Group, October 2011

Twenty-three percent (23%) of professional services firms responding to Aberdeen's Q4 2010 Business Review fell into the high growth category. Sixty-six percent (66%) of those same companies fell under $50 million in annual revenue. Growing companies often have limited resources and need to make the most out of what they currently have before more can be attained. The streamlined processes and efficiencies that ERP helps to provide aid in this process. Forty-three percent (43%) of leaders compared to 36% of followers have identified that they need to be easier to do business with. In professional services organizations, the organization is often working in partnership with their customer. This relationship is

Definition of Growth Categories

Aberdeen defined high growth companies as the top 20% in terms of:

√ Revenue growth from 2009 to 2010

√ Anticipated revenue growth in 2011

√ Growth in operating profits from 2009 to 2010

√ Anticipated growth in operating profits in 2011

Low growth companies were the middle 50% and no growth companies were defined as the bottom 30%.

enhanced by the visibility into customer data and enhanced collaborative capabilities that ERP provides.

Although leaders are already ahead of their competition, it would be unwise for them to stand pat. When working with customers, professional services firms often discover new ways in which they can serve their customers. Leaders pick up on this and feel a pressure to innovate and deliver more value in their services whether they are service improvements or new services entirely. Lastly, both leaders and followers acknowledge the need for the ability to react to market changes. This ability gives managers the ability to become more agile in their decision-making and get ahead of their competitors. While ERP can be a significant investment for organizations which could have the potential to cause short-term disruptions to the business, these business drivers provide a compelling case for implementing a thorough ERP strategy.

The strategies being used in response to these business drivers do not vary significantly between leading and following professional services organizations (Figure 2). What matters most is the ability to effectively enact these strategies. The most important strategic action for professional services firms is to standardize business processes. In services, the quality delivered to the customer can vary greatly depending on the individual employees delivering those services. It is extremely important to implement standards to ensure that best practices are being followed when delivering consistent services.

Figure 2: Top Strategic Actions

Percentage of Respondents, n = 73
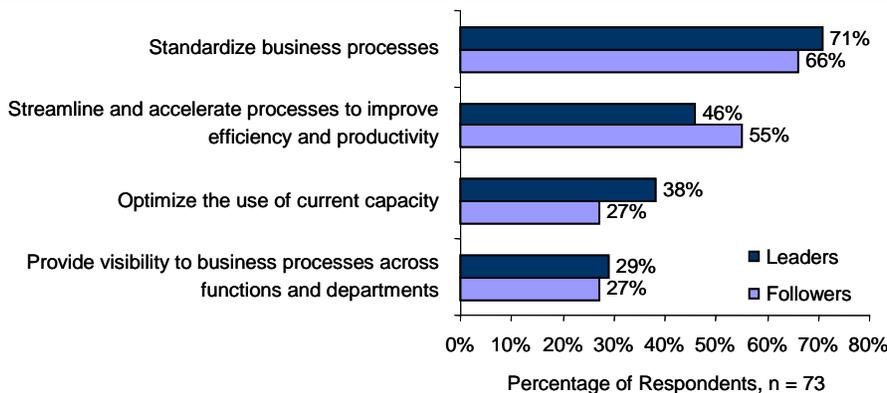
Source: Aberdeen Group, October 2011

Next, they are streamlining and accelerating processes. This allows professional services organizations to keep costs low and deliver services in a timely manner. Customers will become dissatisfied if projects take longer than anticipated and may choose not to renew service contracts. At the same time, these firms are optimizing the use of current capacity. This allows growing organizations to make the most out of what they have during the period when resources are still being attained. Lastly, both leaders and followers are providing visibility to business processes across

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Impact of ERP on an organization's performance

Even though only 64% of service firms use ERP of some sort, Aberdeen's March 2011 To ERP or Not to ERP report shows the impact of ERP on a company's performance.

√ Average ERP user's closed monthly book over 20% faster than non-ERP users.

√ Average ERP have almost 5% better delivery performance than non-ERP users.

√ Average ERP have 20% higher growth in operating margin than non-ERP users

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What is Professional Services?

The professional services sector includes the following major sub-sectors:

√ Construction services

√ Architectural and Engineering Services

√ IT Services

√ Business Consulting services

√ Legal services

functions and departments. This key benefit of ERP enables managers to see exactly what is going on in the business, and make more informed decisions.

The Impact of ERP on Capabilities

Leading professional services organizations are using ERP to enable a wide range of capabilities that have a significant influence on the ultimate performance of the organization. As stated, standardizing processes is extremely important in professional services firms to ensure consistent delivery, but standardizing back-office processes is equally important (Figure 3). Eighty percent (80%) of leaders have standardized enterprise-wide procedures for procurement, cash collection, and financial reconciliation. These standards are often aided by the templates and standard best practices that ERP can provide. Ensuring consistent order management and delivery is especially important, which is why leaders are 2.35 times as likely as followers to have this capability. Properly selected standardized procedures can align practices with the ultimate goals of the organization allowing the organization to run cohesively and providing a unified front to customers.

"We achieved automated customer invoicing from our ERP. We achieved a better view of the costs (including indirect ones), income and profit from each our project."

~ Rosen Peychev, Executive, sPro Ltd.

Figure 3: Process Improvements
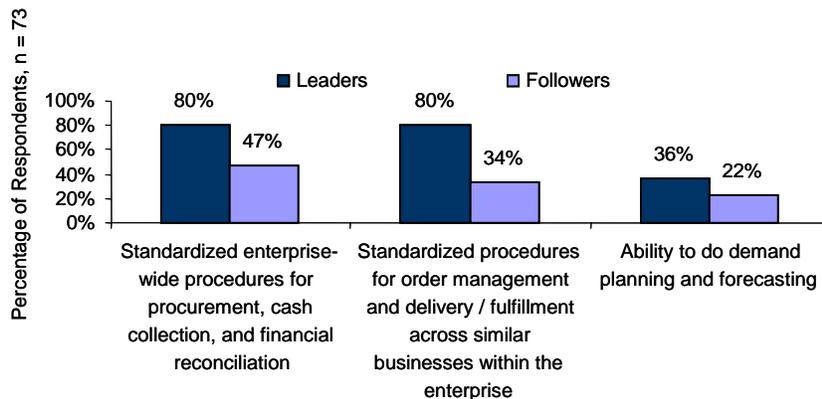
Source: Aberdeen Group, October 2011

Additionally, it is important in professional services to be able to predict the ebbs and flows of demand. With the aid of ERP and its modules and extensions, leaders are more able to ensure that they have the staff available to complete tasks when important projects are likely to come. Leaders are 64% more likely than followers to be able to assess demand, helping them to ensure the highest possible revenue streams.

A successful ERP strategy begins with selection and implementation. This starts at the top of the organization. When executives buy-in to the implementation process, acceptance trickles down throughout the organization. Ninety-four percent (94%) of leaders have the continued commitment and attention of senior management throughout ERP's selection, implementation, and beyond (Figure 4). As an extension of this, it is important to get the rest of the organization on board. Leaders are more

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likely than followers to have an ERP onboarding process to train new users efficiently. If new users are not fully trained on ERP, they will not be able to use it effectively and the benefits that the organization receives from their solution will diminish. Additionally, leaders are 93% more likely than followers to tie their ERP strategy to their talent plan and strategy. This means both hiring with prior ERP experience in mind, and having a succession plan in place for ERP users. Then organizations will be ensuring that commitment to ERP is continually consistent, even long after the initial implementation.

Figure 4: Putting ERP in Place
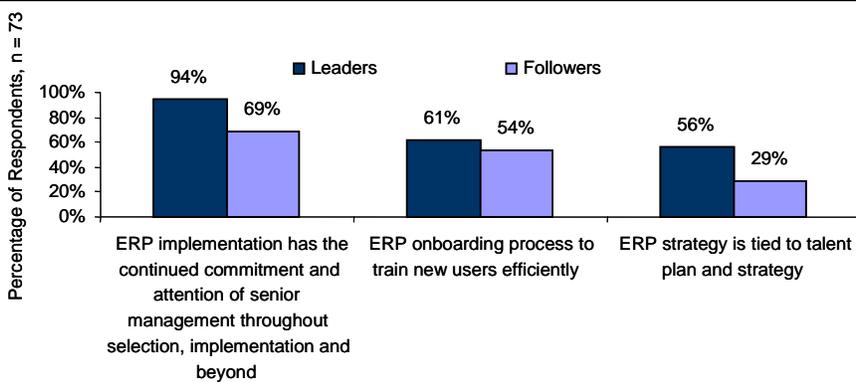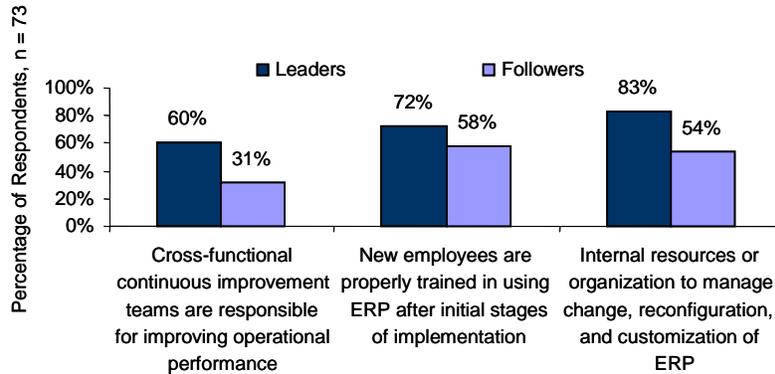

Source: Aberdeen Group, October 2011

Part of making sure that the commitment to ERP extends long after initial implementation involves training new employees on the system. Seventy-two percent (72%) of leaders are providing this training (Figure 5). Beyond that, leading professional services firms are almost twice as likely as followers to implement cross-functional continuous improvement teams that are responsible for improving operational performance. This not only includes the improvement of everyday processes, but also the use of ERP. Proper training helps users optimize the system, discover functionality that is lacking, and make the most out of the company's investment. As an extension of this, 83% of leaders have internal resources to manage change, reconfiguration, and customization of ERP.

Common characteristics for professional services firms

The characteristics that are typical to services firms:

√ human capital management is critical

√ Most work is project-oriented

√ Knowledge management is usually a differentiator

√ Highly mobile and distributed work force


Figure 5: Continuous Improvement

Source: Aberdeen Group, October 2011

One often overlooked benefit of ERP is the visibility that it provides to those who need information most. As a complete and auditable system of record, ERP contains the information that managers need to make informed decisions. As organizations grow, it becomes easier for managers to lose track of what is going on day to day in the business. To avoid this issue, 63% of leaders can drill down to transactions that form the fiscal and operational audit trail from summary data (Figure 6). Of course, this data is useless if it is old or inaccurate. Decisions based on inaccurate data could have disastrous effects on the organization. Leaders have a huge advantage over followers in that they are 131% more likely to have real time visibility into the status of all processes from quote to cash. As an extension of this, leaders are almost twice as likely as followers to automatically notify decision makers when scheduled activities fail to occur on time. This allows decision makers to react immediately and be more agile in the ways in which they lead the organization. Adverse effects can be diminished much more quickly. Of course, the visibility that ERP provides isn't only useful for those at the top of the organization. Leaders are 110% more likely than followers to provide a fully integrated view of all customer information to any sales and marketing person. This capability is aligned with the business driver of becoming easier to do business with. Customers can be served more effectively leading to higher customer satisfaction and potential future revenue.

"ERP impacted our organization highly [via] more efficiency and added value to our customers."

~ Nicolo Carrero, Services Director, ALFAPEOPLE Chile

Figure 6: Visibility into Operations
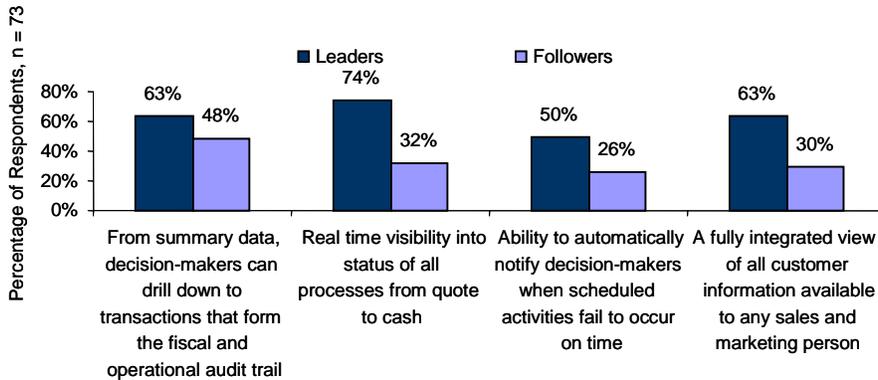
Source: Aberdeen Group, October 2011

In order to get ahead in today's 24 / 7 business environment, it is important for decision makers to be constantly connected in order to stay on top of their operations. With access to ERP at any time from any place, decision makers can receive full visibility into their business processes. Forty-one percent (41%) of leaders have access to ERP through role-based home pages on mobile devices (Figure 7). By providing individual roles with the information most important to their jobs, leaders are enabling employees to access data as quickly as possible and make well-timed decisions. Followers are also differentiated in that 29% alert users through mobile devices of process exceptions and deviations in performance. Again, this leads to the ability to make more agile decisions. Lastly is the ability to secure mobile devices and mobile ERP applications. Professional services firms often have access to confidential customer data. Compromising this data could quickly lead to lost customers or even lawsuits. While leaders are more likely than followers to have the ability to secure this data, only a third of them actually have this capability. As time moves forward and mobile access becomes even more essential, the adoption of this capability in professional services firms will need to increase to minimize security risks.

"ERP helped create an integrated approach to our business that wasn't there before."

~ Jay Giannantonio, Executive, JG Consulting

Figure 7: Technology Aids 24 / 7 Business

Source: Aberdeen Group, October 2011
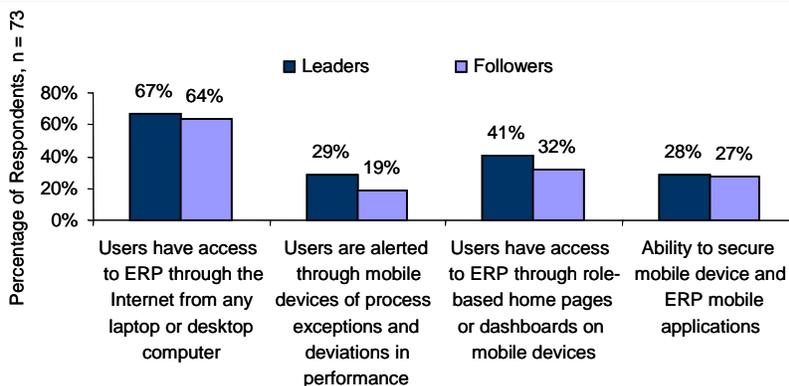
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There are many capabilities enabled by ERP that have a strong impact on organizations of all types. There are, however, some modules and extensions of ERP that can have a significant impact on performance, specifically in professional services (Table 2). First, the firm needs to be able to assess the potential value to the company of any future projects. Leaders are 77% more likely than followers to have implemented modules for job or project costing. Once projects have been accepted they need to be managed effectively, which is why 38% of leaders have project management modules compared to 30% of followers. Of course, when people are the product, human resources and scheduling become increasingly important. Professional services need to be able to have the right people on the right projects at the right time. Leaders are 35% more likely than followers to have human resources modules and over twice as likely as followers to have workforce scheduling modules. Additionally, leaders are more likely to have workforce management functionality beyond core ERP.

Table 2: Professional Services ERP Modules and Extensions

	Leaders	Followers
Job or Project Costing	46%	26%
Human Resources	31%	23%
Project Management	38%	30%
Workforce Scheduling	19%	9%
Payroll	31%	13%
Human Capital Management (beyond core ERP)	29%	14%
Workforce Management (beyond core ERP)	23%	21%

Source: Aberdeen Group, October 2011

Lastly, in order for organizations to ensure that they are getting the full return on their investments, they must measure the benefits that they receive from these investments. Fifty-percent (50%) of leading professional services organizations are measuring return on investment for ERP projects (Figure 8). Additionally, 50% are measuring the quantifiable business results resulting from their implementation. This allows these organizations to see where their ERP is either helping or hurting them. The organization can then further optimize ERP towards attaining better results. The ability to measure gains from ERP also extends to other areas of the organization. Leaders are 83% more likely than followers to measure the accuracy of demand planning and forecasting. If these forecasts are inaccurate, they are useless. Measuring this accuracy allows followers to fine-tune forecasts and devise superior plans. Additionally, leaders are 2.63 times as likely as followers to measure marketing influence on closed sales and pipeline. Figuring out what works and what doesn't leads to better marketing investments.

Project Management and revenue recognition

Because professional services firms are very project focused, they usually need to recognize revenue through earned value tracking. Below is a breakdown of the tools they use to track earned value:

√ ERP – 40%

√ Project Management – 24%

√ Accounting software – 14%

√ Spreadsheets and manual data entry – 64%

As you can see, manual data entry is still a common practice.

Figure 8: Measurement Leads to Optimization
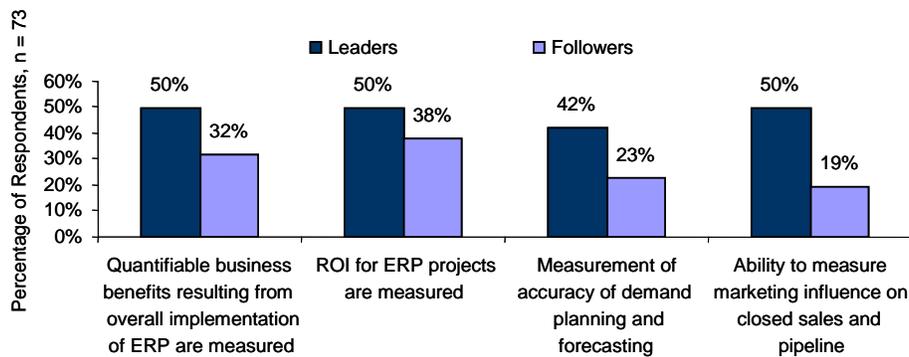
Source: Aberdeen Group, October 2011

Leaders are reporting that 83% of their customers report "better than average" satisfaction compared to 74% for followers. Leaders had an 89% customer retention rate compared to 81% for followers. While these results are not solely attributed to ERP, they are indicative of characteristics that a more tightly run professional services organization may have. Leaders are, however, reporting better benefits resulting from ERP implementations than followers (Table 3). Even followers are seeing substantial reductions in operating and administrative costs and improvements in complete and on-time delivery.

Table 3: Measurable Benefits to be Derived from ERP

Benefit Achieved through ERP	Leaders	Followers
Reduction in operational costs	23%	11%
Reduction in administrative costs	23%	13%
Improvement in complete and on-time delivery	21%	11%

Source: Aberdeen Group, October 2011

Beyond the measured improvements that leaders are reporting, leaders are more likely than followers to be able to quantify benefits received from ERP (Table 4). The benefits include reductions in rework, better utilization of resources, improved labor utilization, and improved quote accuracy which all lead to increased production, revenue, and, ultimately, profits.

"ERP provides the information behind most management decision making."

~ Eric Klauss, Vice President, BCS

Table 4: More Leaders Report Quantifiable Benefits

Quantifiable Benefit Reported	Leaders	Followers
Reduction in operational costs	67%	61%
Reduction in administrative costs	61%	59%
Reduction or redeployment of headcount	50%	45%
Reduction in waste (rework)	38%	27%
Better utilization of resources	47%	39%
Increased profits	56%	23%

Quantifiable Benefit Reported	Leaders	Followers
Increased revenue	44%	24%
Increased production	33%	15%
Support growth without additional headcount	36%	32%
Improved quote and bid accuracy	53%	24%
Improved project cost tracking	63%	50%
Improved labor utilization	60%	29%

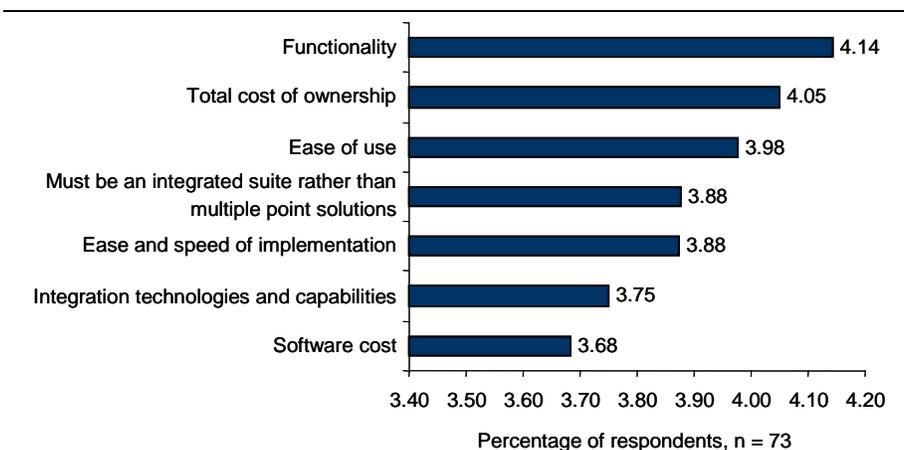Source: Aberdeen Group, October 2011

Choosing an ERP Solution

Of course, in order to achieve the highest possible benefits from ERP, professional services organizations need to choose the ERP solution that is right for them. Respondents to Aberdeen's 2011 ERP survey were asked to rank their top selection criteria for ERP one a scale of 1 to 5 with 5 being the most important (Figure 9). These top selection criteria were consistent across leaders and followers. It may be surprising to some that total cost of ownership is not the most important criteria when selecting an ERP solution. Functionality is most important because if the ERP system does not have the functions and features that the organization needs to successfully run, then it is useless. Of course, even if that functionality is available, it will not be able to be taken advantage of if it is difficult to use. Ease of use is the third leading selection criteria for ERP. Additionally, it is important that ERP contains all of the data a business needs and is a complete system of record. This is why being an integrated suite rather than multiple point solutions is a higher ranking factor than integration technologies and capabilities. Finally, professional services firms are selecting their ERP solutions based on the ease and speed of implementation. These firms want the solution in place quickly, with little interruption to the business.

"We now use our ERP system to manage project cost tracking and earned value tracking. Our CEO can now see and react to project events in days versus weeks"

~ Vice President of Sales, North American Waste Water Engineering Firm

Figure 9: ERP Selection Criteria

Functionality — 4.14
Total cost of ownership — 4.05
Ease of use — 3.98
Must be an integrated suite rather than multiple point solutions — 3.88
Ease and speed of implementation — 3.88
Integration technologies and capabilities — 3.75
Software cost — 3.68

Percentage of respondents, n = 73

Source: Aberdeen Group, October 2011

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Key Findings and Recommended Actions

ERP, along with the capabilities and actions outlined above, is enabling professional services organizations to cut costs, allocate resources, increase productivity, and serve their customers better. This is leading to increased customer satisfaction and higher profits. There is always room for improvement, however; both leaders and followers should consider the following steps for further success:

Followers: Steps to a Successful ERP Strategy

- **Standardize business processes.** Leaders are much more likely than followers to standardize both back-office and customer facing processes. In professional services, it is important to provide a consistent product to all customers. By enforcing standards, the organization can present a unified front and ensure that best practices are being followed. ERP can provide templates for best practices to organizations where this capability is lacking.

- **Tie ERP strategies to talent plans and strategies.** By hiring employees with ERP experience, professional services firms can help to ensure the greatest possible usage of ERP. This extends to having a succession plan in place for ERP users. Leaders are 93% more likely than followers to have this capability.

- **Measure returns on investment.** This recommendation is not only for ERP investments, but for any investment the organization makes. Measuring investments allows organizations to optimize processes and make the most out of spending. Leaders are more likely to measure return on ERP and marketing investments.

Leaders: Steps to Improving an ERP Strategy

- **Implement a formal sales and operations planning process.** This includes the key component of sales and operations planning, demand planning and forecasting capabilities. By assessing demand, professional services firms can ensure that they are properly staffed to carry out any potential profitable projects that arise. Less than half of professional services organizations are able to perform this exercise.

- **Secure mobile devices.** Professional services firms often have access to confidential customer data. When being carried around on mobile devices there is a potential risk that this data could be compromised. If this were to happen, it could have disastrous effects on the organization. Only 28% of leaders have the ability to secure these devices, which is far below the percentage that should be expected of leading organizations.

- **Look to professional service-specific modules and extensions of ERP.** Modules and extensions such as project and job costing, project management, human capital management, and

"ERP:

1. Consolidated multiple applications

2. Helped in performing multiple processes in a single application

3. Helped with being a system of record."

~ Ashish Jaikaria, Associate Director, Cognizant

workforce scheduling are helping professional services organizations to select more profitable projects, manage these projects more effectively, and assign the right people to the right jobs. Still, according to this survey's data, they are far from pervasive amongst leaders. By combining these enablers with ERP, leaders could be more likely to be able to deliver higher quality services at reasonable prices to customers while ensuring profitability.

By combining these steps with a well thought out ERP strategy, professional services firms can ensure that the highest quality service is delivered efficiently, leading to higher profits and growth.

For more information on this or other research topics, please visit www.aberdeen.com. To take part in Aberdeen's 2011 ERP research, click here.

Related Research	
ERP's Impact on Finance Executives: Visibility Leads to Stability; October 2011	*ERP Selection: Starting Out on the Right Foot*; August 2011
ERP in SME 2011: Setting the Stage for Growth; September 2011	*Case Study: ERP and BI Put Business Problems to Bed*; June 2011
ERP's Impact on Human Resources: People are the Key to Top Performance; September 2011	*Mobility in ERP 2011*; May 2011

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