

Chapter

Managing the Service Supply Chain

■ INTRODUCTION

A considerable amount of literature and software is available regarding supply chain management (SCM), enterprise resource planning (ERP), and customer relationship management (CRM). Enterprise Resource Planning and SCM are primarily back-office applications that focus on accounting, inventory, order processing (fulfillment) and procurement, whereas CRM software mostly addresses front-office needs such as opportunity management, marketing campaigns, call center management, and customer service.

PSA software provides the tools, techniques, and technology that enable project- and service-oriented organizations (PSORGs) to manage personnel, resources, projects, and clients.

Many medium- to large-sized companies utilize single-vendor software systems called ERPs to centralize and manage some of their core business processes. Enterprise Resource Planning software provides accounting, human resources (HR), inventory, procurement, and order-processing functionality. The major benefit of an ERP system is that it provides an integrated solution that can be used in conjunction with reporting tools to gain insight into the company's operations.

The major ERP vendors tend to be perceived as having different strengths and weaknesses when compared with each other (e.g., some emphasize their strength in the industrial sector, whereas oth-

ers focus their strength in providing HR department functionality). In some cases, major enterprises have installed *multiple* ERPs to gain the benefit of some of these features—that is, they try to get the best features from each offering. In these cases, as we shall see later, these enterprises are essentially following what we call the best-of-breed approach to software solutions.

Traditional enterprise systems such as ERPs and SCMs have focused on the manufacturing and distribution sectors where they originated. The dramatic expansion of the service industry in the last decade has led to many service organizations' trying to apply these traditional ERPs outside of their conventional homes (which is typically in accounting and HR departments) often with mixed results.

This situation has often created the worst of all possible worlds, in which the enterprise is running powerful and expensive ERP systems for the accounting or HR departments, leaving the revenue-producing parts of the organizations like professional services to mechanize themselves in a haphazard manner with spreadsheets and paper, or to attempt building an in-house system. This can lead

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to situations in which the back-office costs are increasing due to the expensive systems the functional support groups like finance are running, while the front-line groups (who are the ones generating the revenue) suffer from an almost complete lack of productivity and mechanization tools. Essentially, these organizations have produced a situation in which the back-office functions and systems are driving the front-line, revenue-producing part of the organization, instead of the other way

around—not an optimal situation. Please refer to Appendix D, “Professional Services Automation and Enterprise Resource Planning,” for more details.

Due to the continued aggressive adoption of information technology (IT), increased competition, increased customer expectations, globalization, scarcity of skilled resources, and technological

innovations, service organizations are under constant pressure to maximize revenues, minimize project costs, produce more measurable results, improve productivity, and increase customer satisfaction. In addition, using systems such as ERPs, independent project management tools, in-house applications, spreadsheets, or paper-based systems are no longer to be viewed as effective methods for increasing productivity for PSORGs.

Much like manufacturing or distribution companies, service organizations have their own unique business processes. If software applications are to be implemented in order to streamline such processes, then the functionality these applications adopt must focus on the project life cycle.

Some of the unique requirements for PSORGs are dictated by whether their projects are for cost centers (nonbillable and based on budgets) or profit centers. Most IT departments are engaged in internal software development, engineering, R&D, and product design, and they only serve internal *clients*. The projects and services implemented for these internal clients are based on corporate budgetary constraints and is nonbillable work. Some PSORGs perform work for external *clients*, and usually perform their billing based on various rating algorithms.

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Regardless of whether the work is being done for internal or external clients, the focal point is on implementing the project or service; as such, several questions need to be addressed. How can organizations

- Manage to deliver projects on time and within budget?
- Ensure that proper resources are in place to deliver such projects?
- Effectively report on project information in real time?
- Ensure that project information is accessible at all times by anyone?

- ▶ Ensure that employees focus on core responsibilities rather than administrative tasks?
- ▶ Efficiently manage the life cycle of a service or project engagement?
- ▶ Streamline their key service or project processes for greater productivity?

The fact is that very few PSORGs efficiently deliver their services. Due to increased industry complexities and inefficient corporate processes, service workers are not focusing on their key responsibilities. They are instead being bombarded with increasing amounts of administrative tasks, technology issues, unmanaged workloads, and lack of information. There is therefore a great need and an ever-increasing demand for software applications that can render PSORGs more productive and more profitable.

For a discussion of deploying a commercially available PSA solution versus building it in-house, please refer to Appendix C, “In-House Software.”

■ PRESENTING PSA SOLUTIONS

Professional Services Automation (PSA) describes a set of software solutions that have been designed specifically for PSORGs. These solutions streamline business processes for these organizations. They automate and integrate core business processes so that organizations within these industries can increase productivity and profitability.

Professional services automation streamlines, automates, and integrates the delivery of projects and services.

Project- and service-oriented organizations are ridden with inefficient processes and behavior (see Figure 1.1). Resources are not utilized at their optimal capacities, collaboration is less than ideal, billing cycles are lengthy, project status is based on outdated information, and project costs are not managed or known with certainty—all of which lead to a less-than-productive organization and decreased profitability. Professional Services Automation solutions address these inefficiencies

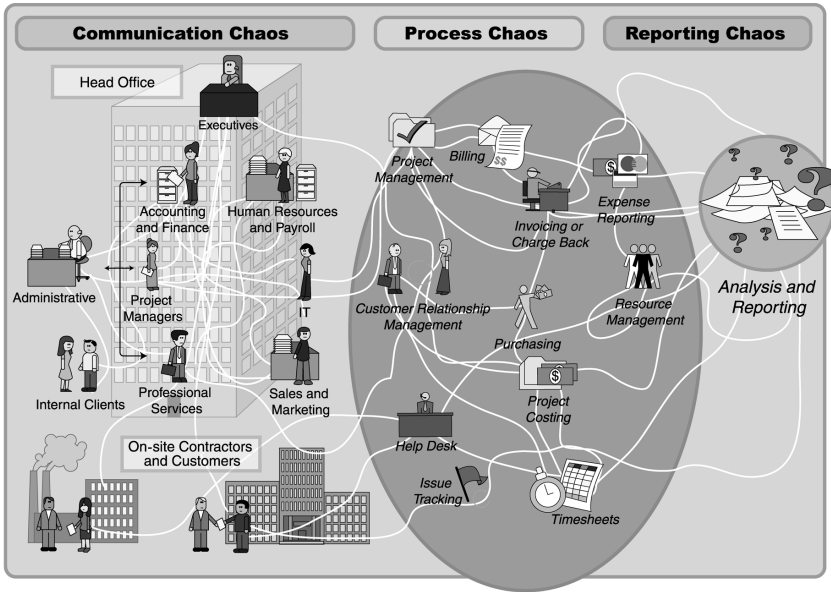


Figure 1.1 Before Professional Services Automation

in much the same way that ERP solutions address the business processes for more traditional industries.¹

As an increasing number of organizations operate under project- and service-oriented methods,² establishing a streamlined and more productive approach for core business processes is no longer simply nice to have, it is a necessity. Professional Services Automation solutions and vendors are therefore addressing this need by leveraging, complementing, and enhancing the required or best features of CRM, HR, project management, and accounting or ERP

1. Enterprise resource management solutions are generally used for the most stable back-office functions, such as general ledger creation and other basic accounting functions. Their implementation is also often tailored to the sponsoring department, often finance. Having an ERP customized to service finance needs is a problem for PSORGs, which require a more responsive information system to manage their project engagements.

2. Project-oriented methods often refer to organizing work, budgets, and human resources around the concept of delivering a project as a mission, then disbanding immediately after the project is completed.

systems in order to deliver an integrated approach to service efficiency.³

■ BENEFITS

Because PSA solutions streamline the life cycles of project and service engagements, how can executives determine the benefits and measurable results their organizations can derive from implementing a PSA solution?

PSORGs have traditionally been inconsistent in evaluating their performance metrics. Are billing rates used in an optimal way? Can project costs be managed more effectively? Are resources used effectively? Is employee collaboration optimal for improved project results? Can billing cycles be improved in order to reduce accounts receivable? Organizations implementing projects and offering services are focusing on corporate and process efficiency more than ever. Both areas are essential because services comprise an enormous portion of many modern businesses, and the pressure for high performance and efficiency is higher than ever.⁴ The challenge for PSA solutions is to provide, in a quick fashion, functionality that delivers positive, identifiable, and measurable results to these organizations.

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3. Professional services automation solutions are optimized to deliver the functionality required by PSORGs.

4. In the last decade, there has been constant pressure to increase performance and profitability. Enterprises are constantly reducing and reorganizing staff during good times and especially during bad times. Tools that enhance productivity are always required.

- Increased employee productivity through more focused work
- More opportunities due to improved resource management
- More effective resource utilization and retention
- Improved client satisfaction due to quicker and more complete billing and lower project costs
- Overall operational efficiency
- Maximization of billable revenues
- Improved reporting capabilities for more effective decision making
- Quicker measurable results

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All such benefits lead towards greatly improving profitability.

■ HOW CAN MY ORGANIZATION BENEFIT FROM A PSA SOLUTION?

All organizations can benefit from automating their basic business processes (see Figure 1.2). Internal business processes such as opportunity management, resource management, project management, purchasing, expense reporting, timesheet management, and many others are not fully mechanized in most organizations. To gain the full benefit of this mechanization, the organization will have to review its processes and structure them so that mechanization is not inhibited. As can be seen from the ROI sections that follow, significant savings are to be realized in *non-re-engineered organizations*.⁵

5. If PSORGs were actually re-engineered, the corresponding benefits would be that much greater, because some of the mechanized benefits would not be squandered on inefficient manual organizational processes.

The following chapters further examine the large return on investment and benefits that result with the introduction of PSA solutions in PSORGs.

In evaluating how an organization will benefit from a PSA solution, certain key questions should be asked. How will the organization benefit from

- ▶ Increased employee collaboration to deliver projects and service clients?
- ▶ Capturing all project-related costs quickly and accurately?
- ▶ Accurately and quickly generating billable information at a level of detail and format demanded by clients?
- ▶ Streamlining project-related business processes so that clients can be serviced more efficiently?
- ▶ Improved management of project portfolios (e.g., resource allocation and utilization, status, costs, billings)?

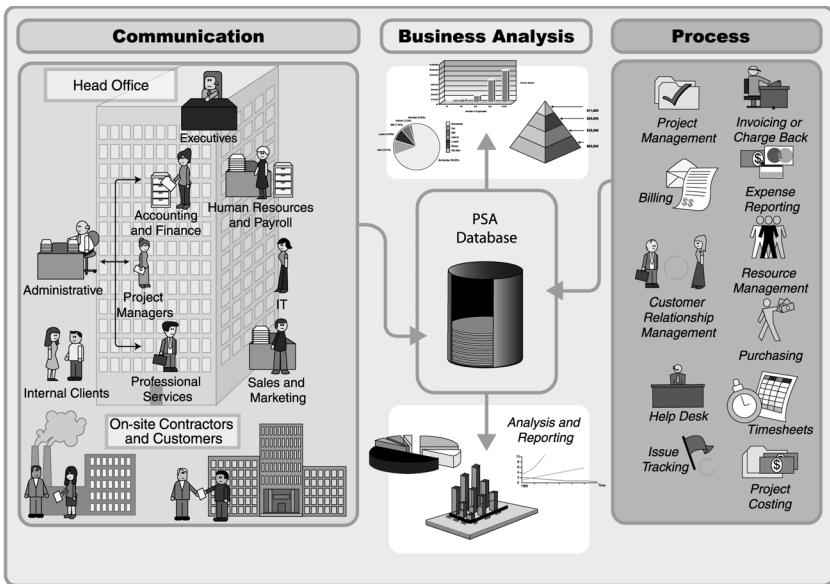


Figure 1.2 After Professional Services Automation

As can be seen from the figure in the introduction to the next part, showing the complete Professional Services Automation cycle, the services provided by a PSA solution cover the whole range of service and project delivery.

One of the key benefits associated with implementing a PSA solution is the improvement of billable cycles. Increasing billing efficiencies reduces A/R days and improves financial liquidity, which is a clear benefit to most organizations.⁶ Another key benefit is the improved management and utilization of resources. Ensuring that resources are scheduled and utilized on appropriate projects is also a clear benefit to all PSORGs.

6. This topic is covered further in later chapters. The ability to bill faster on a sustained basis will be seen to result in considerable savings to PSORGs providing billable services.

