WHITE PAPER

Overcoming Barriers to Success in Today's Competitive Consulting Market

TABLE OF CONTENTS

Fuld and Company knows about business growth in the consulting industry and the mixed blessings that come with it.

In 2004 and 2005, the Cambridge, Mass.-based research and consulting firm in the field of business and competitive intelligence, saw revenues increase more than 10 percent. Business was strong and the climate ripe for new clients.

At the same time, competition in the business intelligence sector also grew, and new entrants into the space added fuel to the fire. To keep costs down, the firm wanted to keep its lean 50-person staff size, but that wasn't enough.

Operationally, the firm reached a crossroad. "There is always heavy pressure to price competitively," explains Chuck Bartlett, chief financial officer and controller at Fuld and Company. "While we do not cut our prices, this pressure has no doubt resulted in us missing out on new business and kept us from raising prices where we might have liked." Fuld and Company had to find a way to manage its staff and its projects better, so its revenue growth could be handled by the existing staff.

Their dilemma is not unique. The consulting sector turned a corner in 2005 and is experiencing stronger and steadier growth than it had in the first half of the decade. U.S. consulting revenue reached $138.8 billion in 2005, according to the U.S. Census Bureau, and Kennedy Information Group expects the global consulting market to grow 7.8 percent annually (CAGR) to about $400 billion in revenue by 2009.

But with this growth comes increasing competitive pressures. Boutique consulting shops led by former executives at goliath firms are stealing clients from incumbents and new business from small players. Midsize firms are pressured to shrink margins to compete for business, and sudden growth spurts at smaller firms shed light on too many disparate systems and not enough collaboration.

Outsourcing and commoditization of some management services are two of the reasons for increased competition, says David Hofferberth, managing director of Service Performance Insight, a research firm in Cincinnati, Ohio.

"The fact is you're going to start competing a lot more on price. The net effect is – even though firms are successful and profitable, their margins have been hurt," Hofferberth says. When that happens, a domino-effect ensues. "You inevitably reduce investment in research and development."

Without a change of course, Fuld and Company knew that its business would face significant financial consequences. "We would continue to overspend on resources to get projects done and consequently end up over budget, which means a negative impact to the bottom line," Bartlett recalls.

"Eventually, we would reach the size where you couldn't really fix the problem by simply saying 'stop it.' We needed something more systematic and procedural to make it work across the whole firm," he adds. "When you're smaller you can get together in a room and solve procedure problems. We were beyond that."

The firm was able to overcome these challenges by identifying its operational weak points and adopting new business methodologies and a centralized project management system.

Like Fuld and Company, consulting firms can manage these competitive pressures if they recognize barriers that keep them from achieving growth and profitability. Experts have identified the top five barriers to achieving profitability and growth in the consulting market, and offer tips for success.

Firms that don't effectively plan for future resource needs at least 10 months down the road risk losing business.

BARRIERS TO SUCCESS

1. Balancing Growth And Profitability

The dot-com bust and the breakup of the Big Five consulting firms from 2001 to 2003 left the consulting industry gun-shy about investing in growth, especially in small to mid-size firms with revenues less then $1 billion, Hofferberth says. Today, the mantra has shifted from survive to thrive. Firms are growing, their clients are growing, and those clients are demanding more services. But some firms have forgotten the importance of investing in research and development.

"R&D is the lifeblood of future growth for any organization," Hofferberth says.

But how do you balance the investments you're making to grow with your profitability? "Firms are having a hard time identifying and overseeing profitable projects and resources in their firms," says Scott DeFusco, vice president of product management at enterprise management software developer Deltek Systems Inc. in Herndon, Va. "The challenge is figuring out what are the most profitable projects, the most profitable markets, and which people are driving the profitability in the firm."

Some firms also have difficulty forecasting and balancing their resource needs. Firms that don't effectively plan for future resource needs at least 10 months down the road risk losing business.

2. Managing Operational Growing Pains

Small and mid-market firms are expanding into new markets, opening new offices, and watching revenues climb like never before. In fact, three U.S. consulting firms crossed the $1 billion threshold in consulting revenue in 2005, according to Kennedy Information.

But as they grow, many firms begin to realize that they're not being efficient when it comes to allocating resources. A few disparate sales management and project management systems suddenly become dozens, departments become silos of information that can't communicate with one another, and paper processes become enormous, which make the organization inefficient. This leads to a breakdown in collaboration, which is vital to continued business growth.

Optimation Technology, an engineering, automation and information systems firm based in Rochester, N.Y., has increased its employee size by 50 percent in two years and seen a 40 percent increase in annual revenues year over year. Until the early 2000s, years of using five separate external databases to track employees, projects and clients were creating inefficiencies in Optimation's business processes, not to mention wasting several man hours a month.

There were also other limitations in their ability to track projects, utilize resources and client contacts. "We had been using (client contact management software), but were never able to tie it back to any of our specific projects," explains CFO Kelly Burns. "It's easy to lose a lot

At Deltek's annual client conference, some 1,200 consultants reported they were most concerned with maintaining and attracting talent to meet project demands.

of valuable information that way." What's more, "because the systems were not integrated, people could manage and plan at the task level, but only using offline programs. This prevented upper management from knowing what the whole company was doing in terms of utilization."

3. Improving Customer & Employee Satisfaction

As firms grow quickly, they can become so focused on new clients that they forget about the old clients that got them where they are today. "One of the biggest challenges in growth mode is making sure you don't disconnect with your clients," DeFusco says.

What's more, clients want work done faster and cheaper, Hofferberth says. "The fact is you have to have the resources available to do the work faster."

Customers also grow dissatisfied when firms misalign clients with project teams. "As firms are growing they're becoming less and less knowledgeable about the talent pool," DeFusco says. "If we're doing a project with a large financial services firm, there may be someone on our staff who came from that company – and we need to know about it."

Internally, firms are challenged to keep consultants happy by assigning them to projects that they want to do in desirable locations. "If they're excited about what they're doing, they do a better job for the client," he adds.

Firms are also challenged to keep customers happy by billing them correctly.

When Triton Services Inc., a Bowie, Md.-based provider of advanced IT solutions and services to the public and private sector, was a small, 20-person firm in the early 1990s, manual data entry and checking for data accuracy were manageable processes. But by the late 90's, the company began to grow steadily, spurred on by entry into the world of prime federal contracting. Soon Triton discovered its software for small, routine accounting procedures wasn't enough anymore.

"Payroll had to be done on the side and posted manually. Also, the system was unable to handle job costing, labor distribution, billing or timekeeping," says Controller Susie Griffin. "As a result, our data integrity was always in question, and we had to manually calculate bills and rates – an inefficient process that took time and manpower."

4. Increased Competition

The largest firms have seen some of their top executives leave to start boutique shops – taking some talented co-workers with impressive resumes with them. Not only does the departure sting the big players, but it has also created fierce competition in the small- to mid-sized market – not just for new business, but for attracting and keeping talented staff.

At Deltek's annual client conference, some 1,200 consultants reported they were most concerned with maintaining and attracting talent to meet project demands.

In fact, 47 percent of IT professionals reported that they were actively or passively looking for another job, according to a 2006 survey of nearly 15,000 IT workers, including consultants, by Computerworld. Almost two-thirds of those job-seekers say they're looking for higher pay. Some 47% were seeking better career opportunities, and 43% wanted more interesting or more challenging work.

"One company had 100 people, and they were looking to grow to about 260 because they literally had that much work in the pipeline," DeFusco explains. "They can't find enough talent to handle the workload." They're also faced with retaining the talent they already have by keeping employees well compensated and excited about what they're doing; as well as providing an upwardly mobile work environment.

Firms that don't effectively plan for future resource needs at least 10 months down the road risk losing business.

Increased competition also affects billing rates. Firms are being forced to keep rates competitive, so those that are lean and efficient can continue to grow and innovate despite smaller profit margins. Consider the troubled airline industry. The carriers that can balance efficiency with the right destinations while keeping rates down are not only surviving, but thriving.

5. Managing Risk

Putting too many resources into one client or project can have a devastating effect on small but growing consulting firms. A 75-person consulting firm who specialized in government work recently lost a major government contract and had to layoff half of its staff because it represented a large chunk of its business. "Firms really struggle to see the risks in enough time to mitigate them," DeFusco says.

Firms need to look at the entire portfolio of projects they are currently managing within the organization. Any metrics that firms are tied to through their strategic planning or corporate budgeting process has a risk. "If you're not tracking how you're doing on a day-to-day or week-to-week basis, you're not going to be able to mitigate those risks," he adds.

Custom software and IT services firm Automation Creations Inc. in Blacksburg, Va., faced a growing client roster and internal growth that nearly doubled the firm size in 18 months.

But as it grew, it was losing site of its risks. The firm was still using an outside accountant for basic accounting and payroll functions. This left ACI limited to high-level reporting. "We sometimes had to wait for up to six months for quarter-end financial reports using our outside accountant," says CFO Rob Stuart. "It was clear that we needed an in-house program that we could have up and running quickly to give us more accurate and reliable data in a more timely fashion. Otherwise, without the appropriate fiscal data, we couldn't make timely business decisions on any of our projects."

OVERCOMING THE CHALLENGES

After careful analysis, Fuld and Company realized that it could keep rates competitive, improve margins and gain revenue through more efficient processes and technology.

"It all comes down to better project management for us. That's true industry-wide for companies of our size," Bartlett explains. "We were doing project management in more of a traditional, old-school kind of way – ad hoc, with very inconsistent processes, procedures, systems and tools. Each individual manager might have their own way of doing project management. It was hard to control time and expenses and the margin we were getting out of it."

Fuld deployed a single, companywide project management software solution to streamline processes. The solution allowed project managers to see the resources, time and expenses of each project on a regular basis. Experts recommend the following steps to overcome growing pains.

Innovate

Some two-thirds of global business leaders expect to drive fundamental changes within their organization in the next two years, a process they see as an opportunity to expand their "innovation horizon," according to a 2006 global study of 765 CEOs and business executives conducted by IBM Business Consulting Services. Most of them will use technology as an innovation catalyst by combining it with business and market insights. "Growth – perhaps even survival – depends on innovation," the study says.

The same philosophy holds true in the consulting industry. Those who innovate and differentiate their firm from their competitors will grow.

Business model innovation was also important to these CEOs. Competitive pressures have pushed business model innovation much higher than expected on CEOs' priority lists. But its importance does not negate the need to focus on products, services, markets and operational innovation, according to the study. But innovation requires orchestration from the top, the study cautions. "CEOs acknowledge that they have primary responsibility for fostering innovation. But to effectively orchestrate it, CEOs will need to create a more team-based environment, reward individual innovators and better integrate business and technology."

Look at the big picture

Most growing consulting firms haven't mapped out their entire business cycle and all of the tools they need to support those processes, DeFusco says.

The typical project delivery cycle includes marketing, surfacing opportunities, identifying jobs to pursue, submitting a proposal, building the client relationship, and winning the work. Then firms execute the project, manage resources, collect time and expenses from employees, bill the client, and processing payroll. But one important step is missing. "At the end of that project, you need to track your performance to see 'What can I do better the next time? Where did we go off-track, and where were we on-track?'" DeFusco advises.

At Deltek's annual client conference, some 1,200 consultants reported they were most concerned with maintaining and attracting talent to meet project demands.

While individual managers may indeed track performance, it is often done on disparate spreadsheets and marketing systems. Client contact information may be kept in another system. Billing rates are kept in yet another system. Client information may vary in each system. For instance, Acme Supply Company could be listed by its full name in one system, and ASC in another system. "By the time you map it out, you have a very disturbing picture," DeFusco says. With disparate systems, "you don't have that one version of the truth. When you do that, people lose faith in the information and they turn away from it," he adds.

Industry-watchers advise firms to look at their processes and think of them in a wholly-integrated view, preferably through a single software solution that integrates the entire business cycle.

Identify and mitigate risks

Firms should adopt an automated, dashboard view of all projects in progress and their impact on the firm's bottom line. For instance, each project should be represented with a square. The size of square represents the size of project being managed. The color of box should represent the health of the project. Bright red, for instance, means the project is beginning to veer off course, off schedule, or profitability is dipping based upon current expenditures. Resource utilization should also be tracked in this manner.

At Automation Creations, the firm integrated an accounting module throughout the enterprise that specifically meets the needs of project-based business and professional services firms. "Being able to know where we are financially, from anywhere, is a godsend," Stuart says. The software also has the ability to track the number of billable hours ACI employees are logging. This helps Stuart and other ACI executives compare hours expended versus hours forecast on any project in ACI's pipeline, helping to keep them on budget and on time.

Equip all staff with the most efficient tools

Sure, project managers and payroll administrators can speed through an Excel spreadsheet and crunch the numbers like there's no tomorrow, but there is an underserved group of critical number-holders who also need more efficient tools. The highly valuable, but never-in-the-office traveling consultants can slow down project management efficiency.

These travelers carry days or weeks worth of receipts and mental notes of time expenditures during their travel. When they return, they often spend two to three hours of administrative time trying to recall their expense. "Invariably there's a 3 percent to 5 percent rate of inaccuracy with that," DeFusco says. What's more, administrators waste additional time making corrections to time and expense reports once the errors are discovered, which slows the process further.

Firms need to make consultants more efficient when they're traveling and empower them with technology that allows them to be efficient on the road. They can't feel disconnected from their systems when they're on the road. They can't feel that they need Web access.

A wireless PDA can be equipped with time and expense reporting software that is accessible online or offline to help consultants keep up with their administrative tasks – whether in a taxi, an airport or on a plane.

Firms that don't effectively plan for future resource needs at least 10 months down the road risk losing business.

Monitor and track employees' experience and preferences

Firms should try to align each employee's career goals with project goals. By keeping track of employees' preferences for projects and work locations, firms can make more successful project team matches and retain employees at a higher rate.

At Fuld and Company, project managers can track its small staff easily, "But because we use a lot of contractors, we could benefit from using resource management software," Bartlett says.

THE RESULTS: INCREASED PROFITS AND IMPROVED GROWTH

Consulting firms that automating project management, resource management and portfolio management functions can realize significant savings and efficiencies, according to industry researchers.

By adopting a standard method for project management, firms can realize a 10 percent to 25 percent profit increase, according to author Thomas Lah in his book, "Building Professional Services."

Optimation Technologies decided to replace their multiple databases with a single, fully integrated product offering project management, resource planning, financial and project accounting, customer relationship management, billing, timekeeping and employee expense. The Web-based system created a smoother workflow within the company and made it easier for traveling or remote employees to access the most up-to-date project information. "Better still, because it's Web-enabled, all our multiple branches can conform to that same standard, making quality control much less of an issue," Burns says.

What's more, "the system intuitively maintains the history of every single project we've ever worked on," adds President William Pollock, allowing executives to stay completely informed on each project. By streamlining its financial system, Optimation saved at least $75,000 a year on additional staffing costs, Pollack adds.

Likewise, when firms automate the tracking of its resources, utilization increases by 8 percent, according to research by Aberdeen Group in Boston. What's more, employees who aren't overused don't suffer from burnout. "When you can balance your utilization by choosing available employees with the right type of skills for the project, you're able to retain employees," DeFusco says.

When a consultant is over-utilized, he or she represents a general risk for the group because their departure would be devastating.

At Triton Services, labor distribution software was integrated with the firm's homegrown timekeeping system, significantly decreasing the number of manual data errors as well as time spent on processing labor data.

"Because of this integration, labor distribution now takes only four hours compared to the exhausting two and a half days it previously took," Griffin says. "We've been able to reduce time spent and improve the data accuracy of these processes by about 95 percent."

Invoice cycle can be reduced by 33 percent when firms use a centralized project management solution, according to an Aberdeen study. Imagine a firm with a paper timesheet process where employees have to track time on the road, fill out a paper time sheet and expense report, clip receipts, and do copying and scanning. By the time the information is fed into the cycle it could be weeks to a month later before that invoice gets out the door.

Automated systems can significantly reduce those delays with the use of mobile applications, Web access, alerts that remind employees to get in their time and expense reports, and alerts that go to their managers if they don't submit those reports. These steps decrease the invoice cycle and get bills out more quickly. Likewise, more money goes more quickly back into the company to invest.

At Deltek's annual client conference, some 1,200 consultants reported they were most concerned with maintaining and attracting talent to meet project demands.

Today, almost a year after revamping its project management procedures, Fuld and Company sees a trend toward on-budget projects. Bartlett is able to capture information quickly and easily for his weekly project management reports and monthly financial analysis reports.

"The information flow is much faster. I'm able to see what time people are putting in immediately, and its cumulative affect," Bartlett says. Some employees still lag in reporting their time and expenses, and there may still be some delays. But overall, "because that's all happening in one system, I'm able to bring up financials and the closed months to get out the actual financial reporting and analysis to management much more quickly."

RESOURCES

"Overcoming Barriers to Success in Today's Competitive Consulting Market"

Published by KENNEDY INFORMATION

3 Park Avenue, Fl. 30 • New York, NY 10016 USA
Tel: 212.563.6054 • Fax: 212.563.6138

Consulting Magazine Custom Media

Contact Deltek

www.deltek.com
info@deltek.com
800.456.2009

Deltek is a global leader dedicated to delivering enterprise management software that meets the unique needs of project-focused organizations. With over two decades of experience, Deltek enables companies to maximize profitability and productivity, integrating all aspects of their businesses. More than 11,000 customers worldwide rely on Deltek to streamline operations, improve performance and win more business.

Deltek • 13880 Dulles Corner Lane, Herndon, VA 20171
US & Canada: 800.456.2009 or 703.734.8606 UK +44 (0) 20 7518-5010