A Business Case for Collaborative Technologies at Personal Service Firms
A Whitepaper
By
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WHITE PAPER

The Business Case For Collaborative Technologies at Professional Services Firms

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The Business Case for Collaborative Technologies at Professional Services Firms

In April 2003, Nemertes Research conducted an in-depth study of performance and productivity at a cross-section of companies, including large and midsized professional services firms. [Midsize is defined as firms with 100 to 2,500 employees.] Our goal was to better understand how consulting, accounting, and engineering companies and others might use collaborative technologies—and specifically voice-data integration technologies—to improve their productivity. After evaluating several models, we found that collaborative technologies could deliver recognizable productivity gains in three main areas. We called these areas “just-in-time fetch-the-expert” in sales situations (JITFTE sales), “just-in-time fetch-the-expert” project delivery (JITFTE project delivery) and document sharing. We also created a cost model demonstrating that collaboration in the JITFTE sales scenario could deliver net revenue improvements to midsized professional services firms ranging from $56,160 to $280,800 (more if the gross annual revenue from new projects exceeded $7 million per year).

Methodology

We spoke with a selection of midsized financial services firms including accounting firms, engineering firms, and consultancies (see Figure 1: Participating Professional Services Firms).

We typically spoke with executives overseeing information technology (IT) or operations (in some cases both). We asked detailed questions about the technical environment and business processes at these firms. We also asked these executives to validate the models and hypotheses that we presented.

Figure 1: Participating Professional Services Firms
Common Characteristics

We found that regardless of the type of firm, professional services firms shared some common characteristics, including:

- A dispersed network of field and branch offices
- Two distinct scenarios requiring multi-party collaboration:
  1. Client presentations (both as part of the sales process and during delivery)
  2. Internal collaboration to create and refine client deliverables
- The presence of specialized expertise unevenly distributed geographically
- A greater-than-average willingness to explore productivity tools optimized for “virtual workgroups”

Specifically, all of the professional services firms we spoke with indicated they had a geographically dispersed network of field and branch offices from which they served their clients. The significance of the geographic dispersal is that it drives a greater-than-average reliance on collaboration technologies (such as email, instant messaging, and audio- and telephone conferencing) in order to create and manage “virtual project teams”.

Additionally, professional services firms typically cited two distinct scenarios in which they required collaboration: during client-facing presentations (whether initial sales calls or as part of the final deliverable) and internally as these virtual project teams worked together to collect data and create the client deliverable. In most cases some or all of the project team would be physically present at the client site for sales and delivery calls. Often, however, one or more members of the team would be unavailable due to time or geographic constraints or other client obligations. In cases where this individual possessed specific expertise pertaining to the client’s project, professional services firms needed a quick and easy way to locate this individual and obtain his input to the client.

Additionally, virtually every firm had specific individuals that were uniquely qualified to provide insight and guidance to clients in particular areas. These experts might be practice specialists, vertical industry specialists, or both depending on the organizational structure of the professional services firm. Often, these experts were shared across several geographical locations.

Finally, most professional services firms evinced a greater-than-average willingness to explore and deploy productivity tools. There is a clear recognition among many executives at professional services firms that productivity enhancements translate directly to increased top-line revenue.

Common Challenges

We found that these firms also shared some common challenges. These included:

- Distributed expertise. As noted, an ongoing challenge with professional services firms is ensuring that the appropriate expertise is available for specific client projects.
- Revenue highly dependent on effective customer interaction.
- The need to constantly improve productivity.
Specifically, as noted most professional services subject matter experts are typically distributed unevenly across geographies. This poses an ongoing challenge in sourcing and staffing sales calls as well as in sourcing and staffing the actual client engagements. Additionally, the signature characteristic of a professional services firm is that its “deliverable” is customer satisfaction. This drives a requirement for high levels of effective customer interaction (in person, via phone, via email, etc), and means that professional services firms are constantly seeking to improve their customer-interaction mechanisms.

Finally, the financial model of consulting organizations drives a heightened emphasis on productivity. Most consulting organizations deliver via a mix of “time-and-materials” and flat-rate project billing. Time-and-materials billing is simplest and most predictable (since the client pays all costs). However, the margins tend to be smaller, since clients are typically unwilling to pay more than a given markup on labor costs.

The advantage of flat-rate over time-and-materials billing is that it provides a much-needed opportunity for leverage: Consulting firms can maintain high project margin by deploying replicable methodologies, substituting lower-cost workers for higher-cost workers, and re-using institutional insight. All of these techniques require exceptionally solid productivity tools and processes, and a failure in this area has direct bottom-line consequences (the project costs more to deliver than the client paid).

**Collaboration Models**

To evaluate the impact of collaborative technologies, we modeled every professional services human interaction as a “transaction”. Transactions included sales calls, such as in-person or telephone visits to the client. They also included project delivery, in which virtual teams collaborated on creating and refining the client deliverable. We hypothesized that collaborative technologies could improve transaction quality in one of three ways:

1. **Shorten transaction time.** If the project completes more quickly, the professional services firm is able to process more transactions per unit time (with the same number of people and resources).
2. **Improve transaction quality.** For sales transactions, an improvement in transaction quality translates to a higher “close rate” for the sale. The value to the professional services firm in this case is improved top-line revenue. For project delivery transactions, an improvement in transaction quality translates to an increase in customer satisfaction. The value to the professional services firm in this case is greater retained revenue and a higher likelihood of repeat business.
3. **Lower transaction cost.** If transactions could be concluded as effectively or more so with fewer resources (both human and physical), the result would be to lower the professional services firm’s operational cost.

**Key Findings**

We found that in the professional services environment, enhanced collaboration techniques could both lower transaction costs (by limiting the need for travel, for example) and shorten transaction times (by enabling faster creation of client deliverables). However, the real “bang for the buck” comes with improved transaction quality. Specifically, collaborative technologies could help improve the close rate for project sales as well as the quality of the ultimate deliverable as part of project delivery.
JITFTE For Sales

For sales calls, a particular approach we called “just-in-time fetch-the-expert” (JITFTE) promises substantial returns. Essentially, JITFTE involves using a combination of presence information, audio-conferencing, and data messaging capabilities to bring experts into a transaction as needed.

Presence information refers to real-time knowledge about the whereabouts and availability of the expert. In conjunction with audio-conferencing, presence information enables a professional services sales agent to find and “conference in” an expert during the sales process to demonstrate subject-matter expertise and gain instantaneous credibility.

For example, a salesperson and team leader might be present at a prospect site to discuss the consulting firm’s abilities in a particular area. During that visit, an additional opportunity might be uncovered in an area in which the team leader and salesperson lack in-depth expertise. If the salesperson can quickly locate an expert, provide that individual with appropriate background, and smoothly introduce the expert into the conversation with the client, the deal is more likely to close.

We found that roughly 25% of firms were already using such technologies—typically a combination of instant messaging (IM) and conference calling—in scenarios such as the one we described. An additional fifty percent (50%), however, said they would be interested in using JITFTE technologies in the sales process (see Figure 2: Interest in JITFTE Collaboration Technologies for Sales).

![Figure 2: Interest in JITFTE Collaboration Technologies for Sales](image-url)
Based on the interest in JITFTE collaboration technologies in sales scenarios, we created some cost models that demonstrating that if JITFTE were able to obtain even relatively minor increases in project ‘close rates’ of approximately 1% these technologies would result in measurable revenue improvements ranging from $56,150 to $280,800.

Specifically, a professional services firm generating approximately $7 million in gross new revenue annually might have a typical project size of $260,000. To generate that much business, the firm would need to close 27 new projects per year (see Figure 3a: Assumptions for ROI Model).

### Table: Consulting Projects

<table>
<thead>
<tr>
<th>Average New Project Size</th>
<th>Annual Revenue From New Projects</th>
<th>Number of New Projects Per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$260,000</td>
<td>$7,020,000</td>
<td>27</td>
</tr>
</tbody>
</table>

**Figure 3a: Assumptions for ROI Model**

If the professional services firm had a close rate of 75% (an aggressive but not unrealistic rate for most good consultancies), the firm would need to bid on 36 projects per year to close the anticipated 27. At 60% project margin, the net value to the business of the $7,020,000 in new projects is $4,212,000.

By incrementally increasing the close rate by 1% (ie moving from 75% to 76%), the professional services firm would realize an additional $56,160 in revenue annually. Note that this is the true value of the revenue, including project margin—ie it is the net new revenue as opposed to gross. Increasing the close rate by 5% (ie moving from 75% to 80%) results in net revenue increase of $280,000. (See Figure 3b: The ROI to Consulting Firms of JITFTE).

### Table: Consulting Projects

<table>
<thead>
<tr>
<th>Average Project Size</th>
<th>Typical Project Margin</th>
<th>Typical Close Rate</th>
<th>Number of Projects Bid On Per Year</th>
<th>Bottom-Line Value of New Projects to Consulting Firm</th>
<th>Incremental Impact of Increasing Close Rate By 1%</th>
<th>Incremental Impact of Increasing Close Rate By 2.5%</th>
<th>Incremental Impact of Increasing Close Rate By 5%</th>
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</thead>
<tbody>
<tr>
<td>$260,000</td>
<td>60.00%</td>
<td>75.00%</td>
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<td>$4,212,000</td>
<td>$56,160</td>
<td>$140,400</td>
<td>$280,800</td>
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</table>

**Figure 3b: The ROI to Consulting Firms of JITFTE**

<table>
<thead>
<tr>
<th>Total ROI to Consulting Firm of Deploying JITFTE Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>$56,160</td>
</tr>
<tr>
<td>$140,400</td>
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<td>$280,800</td>
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JITFTE for Project Delivery

We also found that there was strong interest in using JITFTE collaboration technologies in project delivery scenarios, particularly for time-sensitive projects. Here, a virtual team might be collaborating on a client deliverable and realize the team needed input from a specialist elsewhere in the organization. The team leader would quickly locate the expert, provide background, engage this individual in dialogue, and extract the necessary input—all during the course of a conference call.

Virtual Teaming.

Finally, thirty-two (32%) of participants say they use audio-conferencing as part of “virtual teaming” collaborative efforts, and more say they would like to. Some participants also responded positively to the idea of a technology that would allow them to deliver “one-click” document sharing as part of a conference call. Those who have tried such solutions claim benefits that include improved version control, the ability to control what the client sees, and more effective and efficient collaboration.

“We’re a very diverse workforce. We have working groups that are distributed geographically and at various client sites. People use document conferencing for status updates on projects, departmental meetings, meetings with clients, and sales calls,” says Mike Shisko, Director of IT at Experio Consulting Services, an 800-person technology consulting company. “You’re not emailing a lot of documents—so you save on storage and bandwidth. You also eliminate the problems with version control.”

Conclusions

Can collaboration technologies improve top and bottom lines at midsized to large professional services firms? Based on our research, the answer is yes. By improving the likelihood of successful transaction outcomes and reducing the cost of transactions, collaborative technologies that combine voice and data can help professional services firms lower costs, improve sales, and increase customer service—all goals that resonate with the professional services firms we worked with.