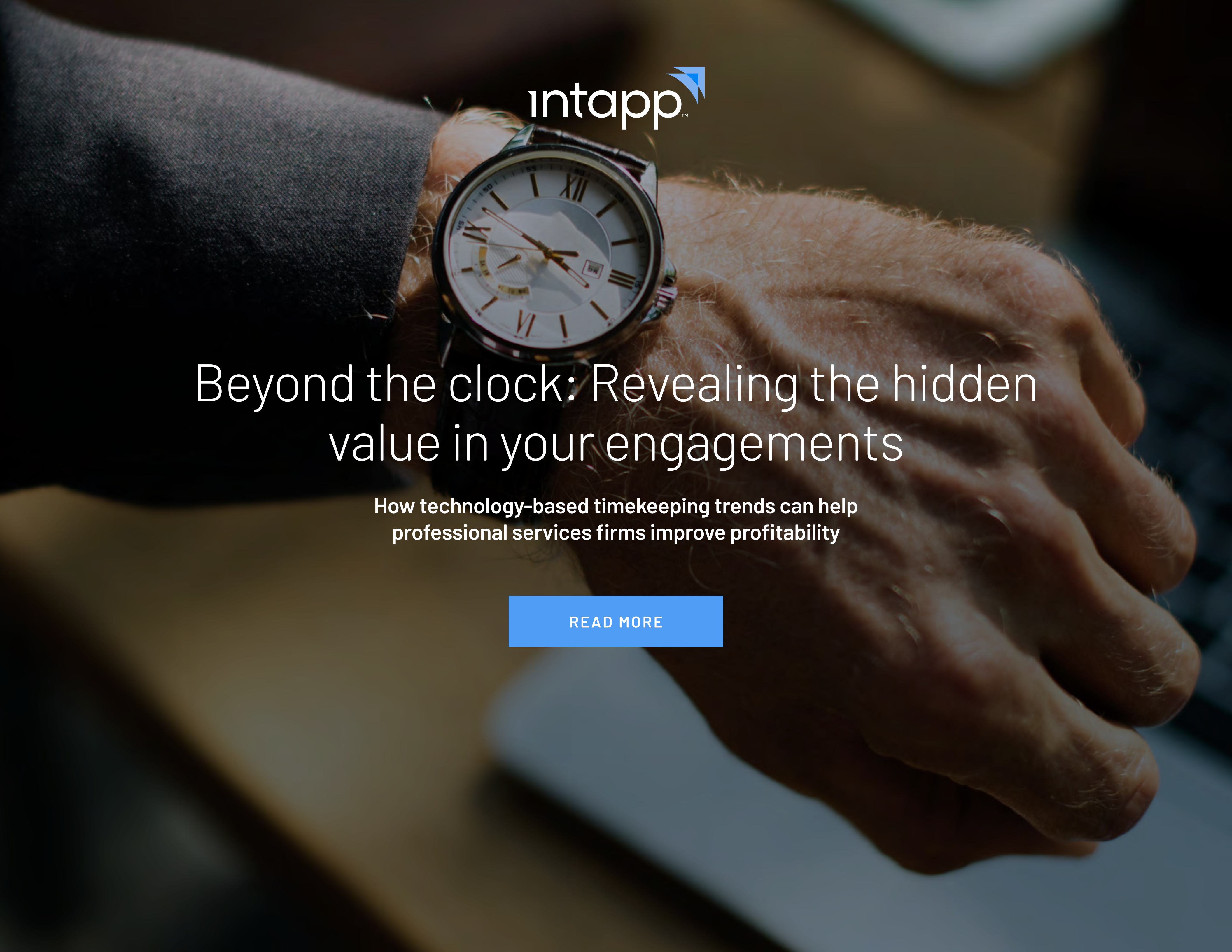

# Beyond the clock: Revealing the hidden value in your engagements

**How technology-based timekeeping trends can help professional services firms improve profitability**

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# Contents

# Introduction

As an American inventor and entrepreneur, Benjamin Franklin — who once famously said "time is money" — knew a thing or two about opportunity costs. In the professional services world, time has proven to be one of the most valuable commodities. And it goes beyond having enough time to meet your professional obligations; the way your firm's professionals spend their time directly impacts the bottom line. Are your professionals working efficiently? Are you pricing future contracts competitively? Are your projects on budget? Did you overlook any billable hours? Are your professionals spending too many hours tracking their time?

In the real world, multitasking has become the norm, and a decentralized, increasingly mobile workforce is common, making the use of traditional time sheets a somewhat antiquated and often inaccurate account of the working day. It's time for a technology-based approach to revolutionize how firms evaluate time.

This ebook explores lost opportunities and gaps in the ways firms evaluate their fee earners' time. It offers insights into the current state of the professional services industry and explores how ineffective processes may negatively impact revenues and profit margins. New approaches to timekeeping, combined with technology advances, can provide firms more efficient ways to capture valuable time data, reduce revenue loss due to unbilled time or inaccurate timekeeping, and help better meet client demands.

# 1. The challenge of accurate timekeeping

Picture this: It's Friday at 4 p.m. and, after putting in a long, crushing work week, professionals are reminded to submit their time sheets for the current billing cycle.

They begin to furiously attempt to recreate their workflows, hour by hour, for each day of the week, depending on only their notes and records, memories, and luck. Of course, this isn't a task they're thrilled to tackle; professionals generally view timekeeping as a necessary evil. Fee earners spend hours filling out time sheets — hours that could be better spent serving clients — and they don't always see the value in precise timekeeping. No matter their outlook, professionals view these administrative tasks as drudgery.

Worse, this time-recording method is fraught with potential inaccuracies. Reconstructed time accounts are often spotty; in fact, research demonstrates that a human's memory accuracy rate drops as low as 23% after six days (see sidebar, "The Ebbinghaus Forgetting Curve"). Yet we expect our best frontline workers to remember what engagements and projects they worked on each hour for several days prior. Intapp research suggests that ad hoc timekeeping can financially short the firm by two or more hours per day, per timekeeper, and generally can't be validated if called to task by the client during narrative defense.

So, what does it matter if accountants and consultants fail to record their time accurately? After all, most engagements are based on fixed-fee arrangements rather than being billed by the hour. In short: inaccurate data can hamper your firm's growth. If your firm's professionals aren't accurately recording the time spent on each engagement, you're missing out on critical data that can fuel revenue growth and help you create stronger pricing strategies, improve project management, and make better-informed staffing decisions.

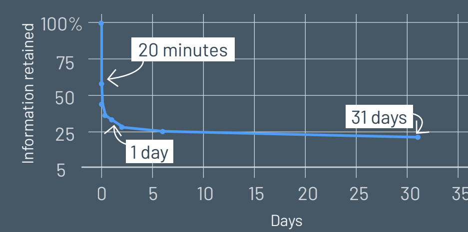
## THE EBBINGHAUS FORGETTING CURVE

Do your time sheets reflect the reality of your personnel's efforts? Probably not, and here's why. It has to do with something called the Ebbinghaus forgetting curve.

Hermann Ebbinghaus (1850–1909) was a German psychologist who pioneered the experimental study of memory. He became interested in philosophy while at the University of Bonn, where he wrote his doctoral dissertation on the philosophy of the unconscious. While teaching young children at a small school in England, he came upon a book called *Elements of Psychophysics*, which launched his interest in human memory. He began his first memory experiments in 1879. But it was his later experience, studying how children's mental abilities declined during the school day, that laid the groundwork for his "forgetting curve." His results are still widely accepted as a general theory for how we learn and retain information.

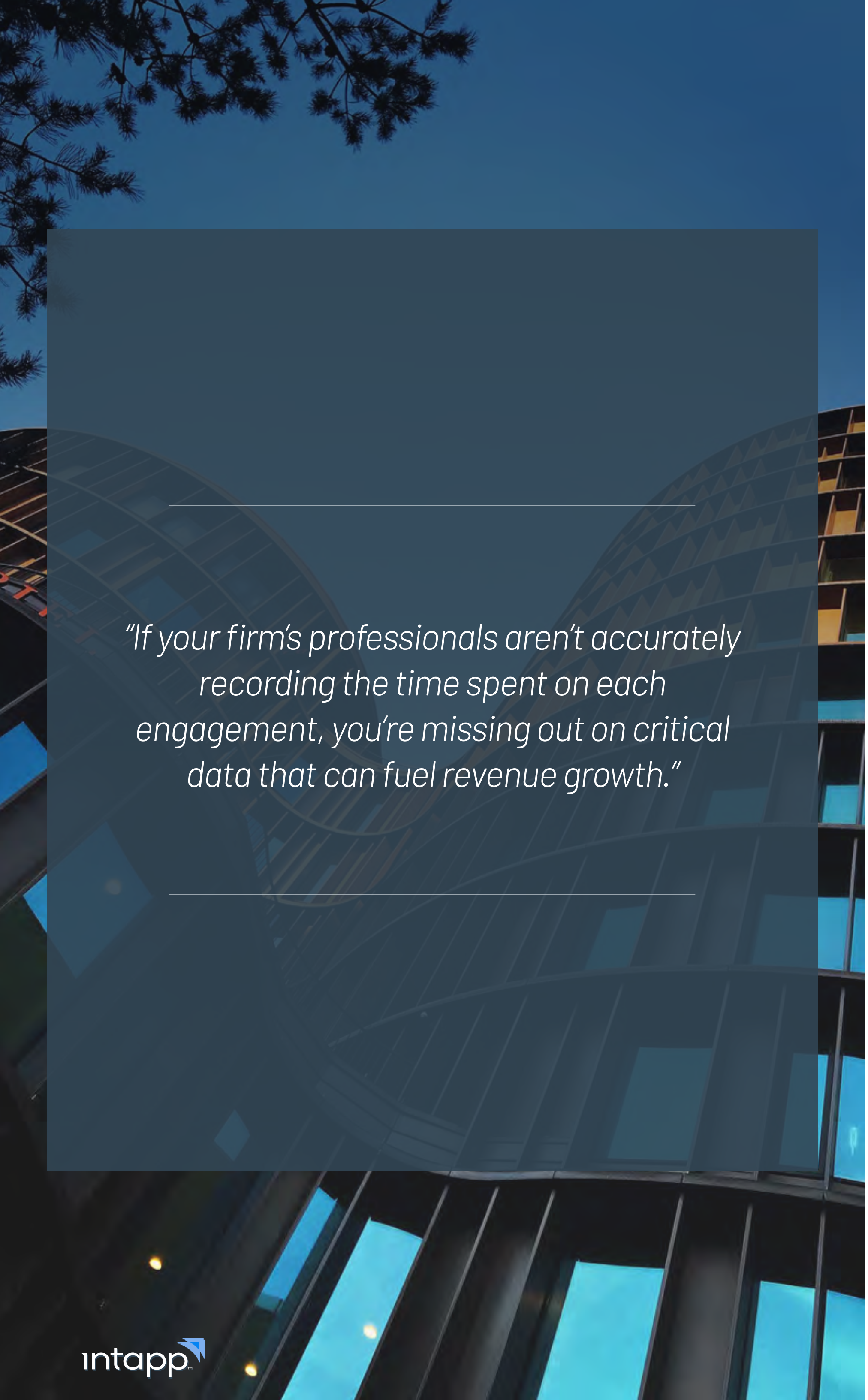
The forgetting curve is a mathematical formula that describes the rate at which something is forgotten after it is initially learned. Ebbinghaus performed his experiments on himself, learning lists of meaningless syllables such as DIF, LAJ, LEQ, MUV, WYC, DAL, SEN, KEP, and NUD. He then tested himself periodically to see how many of the nonsensical syllables he remembered at various points in time. He discovered that his memory quickly declined. He discovered that the amount of knowledge our brains retain drops quickly over a 24-hour period, but it eventually levels off — even taking into account the fact that the human brain retains more information when the syllables are consistently repeated.

### Herman Ebbinghaus' Forgetting Curve




By the sixth day, a person retains less than 25% of the information learned on day zero. The forgetting curve shows how a human brain needs constant repetition to retain information.

If time sheets are completed on a weekly basis — or even an end-of day basis — the chance that they reflect the totality of the staff's efforts is vanishingly small. And the time sheets themselves most likely present a managed internal narrative of management expectations, distorting what actually transpired while delivering services to the client.




Another reason to be vigilant with time records is the newly enforceable Financial Accounting Standards Board (FASB) rule ASC 606, which demands firms report revenue recognition as performance obligations are satisfied. The new standard provides a comprehensive, industry-neutral revenue recognition model intended to increase financial-statement comparability across companies and industries. ASC 606 is considered the biggest change in accounting rules since Sarbanes-Oxley, making noncompliance a huge risk to firms right now (see sidebar, "Understanding ASC 606").

Consider a professional services firm with 3,000 employees. A single unrecorded hour per week, per employee, at a rate of $335 per hour, represents a $52.26 million difference in estimated cost versus actual cost of client engagements over the span of a year.

3,000 employees at
**$335 per hour each**

Annual loss:
**$52,260,000**

## UNDERSTANDING ASC 606

In 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued new standards. This included ASC 606, a rule for recognizing revenue across all industries worldwide. The goal was to simplify and harmonize revenue recognition practices globally, resulting in future revenue gain or loss when accounted for under the new guidelines. Many industry leaders consider the new rules the biggest change to accounting standards since Sarbanes-Oxley.

FASB gave companies 4 years to adopt and comply with these revenue rules. In 2018, public companies were required to adhere to the new guidelines; in 2019, private companies of all sizes must also fall in line. The rules require recognizing an amount of revenue proportionate with the goods and services actually transferred to customers during the reporting period. Noncompliance poses a huge risk and can result in fines and possible jail time.

ASC 606 outlines five compliance steps:

1: Identify the contract(s) with a customer.

2: Identify performance obligations in the contract.

3: Identify the transaction price.

4: Allocate a price to each obligation.

5: Recognize revenue only as performance obligations are satisfied.

The biggest change for service companies is the frequency with which they may have to allocate revenue. Additionally, ASC 606 makes revenue recognition calculations more complicated, potentially requiring firms to implement new systems to help with processing and forecasting. To expedite the process, firms can transition to an automated revenue-allocation program and deploy other technological tools that make it easier to track and disclose the flow of services to customers.

Automated time tracking helps the accuracy of recognizing revenue and in calculating work in progress (WIP) and WIP reserves. For fixed-fee projects, tracking your team's progress toward delivering agreed-upon milestones within the agreed-upon budget is critical to the calculation.

Accurate timekeeping and ASC 606 compliance means you'll neither underrecognize nor overrecognize revenue.

# 2. The business value of better timekeeping

Firms that are able to improve accuracy and transparency in capturing and recording fee-earner time can reap multiple benefits, all of which translate to real value.

**Maximize engagement pricing:** Ask any firm how it arrives at its fixed-fee pricing and you'll invariably hear, "That's how we've always done it," or "That's what the competitor charges," or even "We looked at actual costs, but it's been at least 5 years since we have revisited it."

Firm pricing teams attempt to mine timekeeping and billing records to help derive pricing to win new business. Yet the laborious process of time capture coupled with write-off problems often make timekeeping and billing records unreliable data sources for pricing efforts. When your firm can clearly see the whole picture of how total personnel effort is spent on a particular engagement, you can gain valuable insights into how to better price new business in a more profitable way.

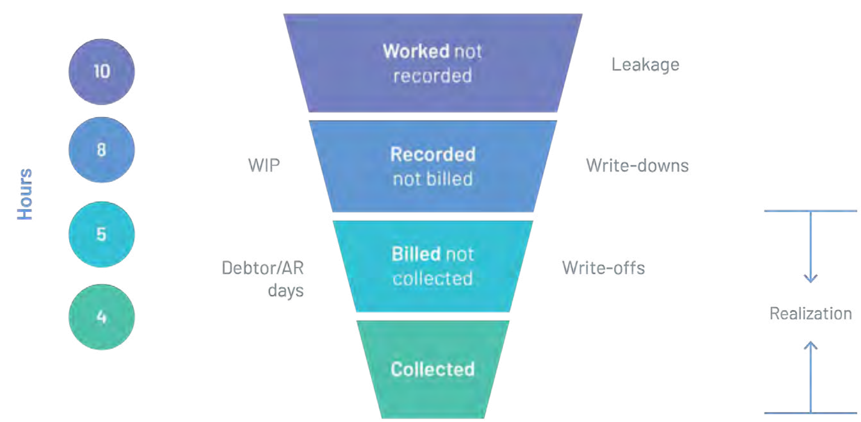
**Make informed staffing decisions:** Employees are a company's greatest asset, yet many professional services firms are working with an incomplete or even erroneous picture of how these valuable resources spend their time. This information deficit can lead to suboptimal staffing decisions and gaps in the data you need to properly evaluate, manage, and retain staff. Automated timekeeping provides the necessary data to maximize your employees' skill sets and better match them with your clients' needs; it also helps identify staffing gaps that could prevent future growth. You want to support greater employee focus, helping identify nonproductive time and provide opportunities to retrain or refocus.

**Improve the narrative to defend overages:** Increasing realization along the billing chain — from prebilling discounts to frustrating billing queries through e-billing rejections — can significantly improve the bottom line. When team leaders and partners gain complete visibility into timekeeping narratives, the firm is much better positioned to respond to client queries by using defensible records to support the bill, or to successfully navigate a price negotiation. Accurate time management and recording can feed into your firm's business intelligence matrix helping to illuminate decisionmaking and drive growth.

**Increase project efficiency:** Firms can't afford to labor under profitability delusions simply because manually entered timekeeping data indicates a project has stayed on budget. Professionals chronically underreport their time, inhibiting the firm's ability to proactively manage its projects. Workflow adjustments may need to be made, resources reallocated, and target completion times examined. These adjustments require insights — and insights require good data.

**Capture every dollar of your "time and materials" engagements:** All professional services firms suffer leakage. Time recorded by fee earners doesn't necessarily equate to actual time worked, fees billed by management don't always equate to time recorded by fee earners, and fees collected from clients usually don't equate to fees billed.

**Work effort-to-cash funnel — average professional**




When your fee earners are taking calls during the commute or answering emails from home, it may be impossible to reduce leakage to zero, but you can readily achieve significant reductions. When professionals working on hourly client engagements underrecord their time, it's a subtle assault on the firm's bottom line. Improved timekeeping solutions that capture all work — not just reported work — can boost profits by hundreds of thousands of dollars annually.

# 3. The "generic app" problem

Many professional services firms use timekeeping apps that are included with everyday practice-level tools and financial management systems, such as SAP and Workday. However, these somewhat rudimentary apps — which may look like little more than glorified Microsoft Excel spreadsheets with a drop-down menu or two — often fall short in a number of ways, particularly when it comes to assessing actual engagement value.

**They're reliant on manual entry.**

As a result, they're time-consuming for professionals to use. Every field must be hand-selected, and there's often no easy way to automatically replicate frequent activities, such as a weekly call with a client.

**They lack deep filtering and intelligent reporting capabilities.**

These tools provide a limited view of previous timekeeping entries. And no matter how frequently they're used, they don't provide built-in AI that gets smarter over time, to help users enter time more accurately and efficiently.

**They don't travel well.**

Employees working while traveling, commuting, or attending remote meetings may find these tools cumbersome to use on mobile devices.

Using these apps is like working with an abacus to solve complex mathematical equations instead of using a high-precision graphing calculator. You can do it, but it's tedious and time-consuming. The same goes for manually entering hours into a spreadsheet: You can record time, but not in a time-efficient or highly accurate method. And when you're not capturing time accurately, you're unable to fully understand the true value of your engagements.

Once firms employ a more holistic approach to timekeeping — one that yields fewer errors and improved employee efficiency — they often see a decrease in expenditures while simultaneously improving revenue, because true costs are displayed in easy-to-pull reports. Knowing the value of client business can directly impact future pricing decisions, employee allocation, and business development with current and future clients. When management is tasked with overseeing thousands of fee earners and an even greater number of engagements, it's imperative to quickly see the value of each one.

Pricing engagements by using a deeper knowledge of what similar types of engagements have historically cost can boost the bottom line. Many firms continue to bill the same fixed fees year after year; automation can help you discover areas where you're able to price things more accurately, and, hopefully, add to the top (and bottom) line as well.

Additionally, knowing the value of client business helps inform future business-development activities. It enables you to identify ways to expand your services and increase your engagements with existing and potential clients, allowing you to boost your revenue in new and efficient ways.

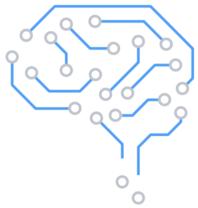
Data-driven knowledge helps fee earners as well. Professionals are happier when their work is valued and makes the client happy. And management appreciates when their resources are utilized properly and efficiently. It's a win-win!

*Knowing the value of client business can directly impact future pricing decisions, employee allocation, and business development with current and future clients.*

# 4. The four technology trends changing the face of timekeeping

Timekeeping is an administrative task no one enjoys. If direct compensation can't be extracted from the effort, your professionals will naturally (and understandably) gravitate toward skimping on timetracking chores and instead focus on performing direct work for the client.

The key to widespread adoption of — and compliance with — timekeeping requirements is enlisting the aid of the latest technologies. Four technological advancements can help you improve resource allocation, increase realization of billable time, enhance pricing decisions, and get a clearer vision of how your fee earners spend their time.



## 1. Applied AI

AI can leverage the vast repository of your firm data to automate processes, improve accuracy, and provide predictive insights in purposeful ways to improve strategic execution and outcomes. AI is typically broken down into four main subsets:

**Natural language processing (NLP)/text mining** provides a way for computers to analyze and derive meaning from human language. NLP and text mining can identify key phrases and passages in client documents, timekeeping narratives, and other data sources.

**Human-computer interaction (HCI)** focuses on the design and use of computer technology — in particular, the interfaces between people and computers. By employing cognitive science findings, HCI enables computers to improve the processing of information as a result of human interaction.

**Predictive analysis** applies a variety of statistical techniques — including data mining, predictive modeling, and ML — to analyze current and historical facts to make predictions about future or otherwise unknown events.

**Machine learning (ML)** uses statistical techniques to give computers the ability to "learn" by progressively improving performance on a specific task.

## 2. Passive time capture

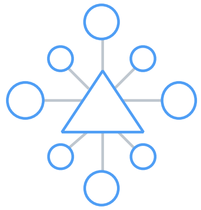
Passive (automated) and active (prompted) time capture can reduce or eliminate the need to for professionals to manually review multiple systems to reconstruct their days.

**Automatic recording** automatically captures time data for all of your fee earners. The best solutions can even work across multiple applications, systems, and devices.

**Gap finders** log possible omissions in professionals' time sheets and send suggestions for additional hours and activities that should be recorded, often presented in a calendar view.

**Background activity** occurs automatically behind the scenes, so professionals don't have to change their workflows or behavior for the capture system to work.

**Multiple sources** can be presented as a single list, cross-referenced to the activity list.



## 3. Interconnectivity

Some advanced software lets your timekeeping data integrate with other applications already in use at your firm, such as ERP, billing, and analytics, to offer seamless access to risk, budget, and client terms information. This can help prevent errors and support proactive alerting and monitoring, such as providing billing-violation warnings at the point of time entry. This kind of integration can provide several benefits, such as:

**Simplified time sheet review** with entries are already coded properly before submission to the financial management system.

**Automated alerts**, which can occur as budget thresholds draw near or other triggers are met.

**Real-time visibility** to help leaders see the budget effects of engagement time — which can result in better client care and fewer write-offs.

## 4. Mobile workforce management

Modern systems provide anytime, anyplace access via native mobile support, offering complete availability of users' timekeeping data when they are away from the office or working remotely.

**Anytime access** available both offline and online helps timekeepers record and review time sheets — no more waiting for a data connection.

**Speech-to-text entry** helps mobile users dictate draft time entries on the go.

**Remote submission** lets users submit time sheets to firm systems from their mobile devices.

# 5. The benefits of timekeeping automation

Modern software that includes these four technologies can be a boon to fee earners, partners, and COOs across all professional services firms. It can make timekeeping faster and easier while reducing leakage. A major professional services firm reported to Intapp that timekeeping automation captured an average of 4.6 hours of otherwise-unrecorded time per fee earner, per week.

More importantly, the leading benefit of working with a highly automated timekeeping system is a deeper understanding of the true value of an engagement. Firm management can use underlying system analytics to view next-level reporting and discover where the firm can be more efficient in managing engagements. These reports can offer visual representations and breakdowns by job types, clients, cost of delivery, splits of work, budgets versus actuals, and much more.

Being able to automatically break down data into usable performance metrics allows you to calculate a more accurate value of projects, which can lead to better pricing decisions in the future. Accurate project-value estimation is a key element of client profitability and can't be accomplished without understanding how professionals use their time in relation to engagements — one size does not fit all.

So, which features and capabilities should you look for when evaluating technology solutions? You'll want to integrate a smart system — ideally, supported by both AI and automation — that offers contemporaneous capture, an unfiltered workstream, native mobile support, and next-level reporting. The software should be easy for fee earners to use, offering preconfigured fields that speed entry, support offline productivity, and provide multiple levels of report granularity.

The system should also be deployed in the cloud, both for security reasons as well as to enhance future scalability and deployment speeds. A secure cloud allows the firm to exercise control over its data, ensure privacy, and meet compliance requirements — all without disruptive upgrades. It also improves collaboration outside the firewall when engaging with clients, affiliates, subcontractors, or specialists.

Finally, look for a solution that offers interoperability with your existing systems, to help you derive more value across all your data points.

# Conclusion

Today's professional services firms face timekeeping challenges due to an incredibly competitive market and a continued focus on improving profit margins. Current timekeeping processes are cumbersome, often require manual workarounds, and don't take advantage of advanced technologies — such as AI — to optimize time capture.

But there's a better way. Firms can now turn to technology that's purpose-built for the way fee earners work. The right software solutions fit seamlessly into professionals' day-to-day workflows, integrate with current firm systems, and leverage automation and AI for speed and accuracy. Best of all, they're easy to use, intuitive, and scalable throughout the firm to facilitate adoption.

With the right technology, time truly can become money. Mr. Franklin would undoubtedly be proud.

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Intapp Time helps professional services firms capture the true value of their engagements. Contact an Intapp expert for an in-depth analysis of how implementing our solution can help capture better insights into your professionals' time, reduce client scrutiny, and increase revenue realization in your firm.

CONTACT AN EXPERT

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