Service Performance Insight, LLC

A Service Performance Insight White Paper

Service Compass: *Charting the Course to Professional Service Excellence*

Salesforce CRM and FinancialForce PSA Integration

An Opportunity to Improve Professional Services Performance

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INTRODUCTION

The services sector has come into its own as a global economic force. The trend toward a service-driven economy is evident in all developed nations. This move has brought both opportunities and obstacles, as the worldwide workforce transitions to a knowledge and project-based focus. Today, no industry is exempt from the requirement to improve their capabilities in the sale and delivery of services.

The service market is broad and dynamic, existing within every company, both large and small. In manufacturing enterprises, services have become a core differentiator and profit center at a time when many products are sliding toward commoditization. In the billable Professional Services sector, the ability to effectively market, sell, deliver and bill for services is a core competency and critical success factor.

Changes in the economic dynamics of the Professional Services (PS) sector mandate improvements across both client acquisition and service delivery. Fortunately, information technology has become a key enabler of those operational improvements. Over a decade ago the PS market began to adopt Client Relationship Management (CRM) solutions, to manage contacts and choreograph the solution selling process. This move has been a catalyst for enhanced sales and marketing effectiveness.

However, CRM only focuses on the front-end of the client lifecycle but does little to improve the service delivery lifecycle which focuses on resource and project management and is where service revenue and profit are made. The addition and integration of Professional Services Automation (PSA) solutions with CRM now provides a complete view from prospect to project resulting in performance improvements across both sales and service delivery.

Service Performance Insight's research proves beyond the shadow of a doubt that integrated CRM and PSA provide the winning foundation for today's service organizations.

PS executives have come to realize that running sales and service delivery as isolated, stand-alone functions with silo'ed applications is no longer a viable alternative. The movement toward integrated CRM, PSA and ERP has become essential for seamlessly translating client requirements into successful project engagements with accurate time and expense capture to facilitate billing and revenue recognition. This integration figures prominently in optimizing operational effectiveness, via a 360-degree view of clients throughout all aspects of the client engagement and service delivery lifecycle.

Our research shows the pervasive use of CRM applications within the service industries, with salesforce.com commanding dominant market-share. However, the true power of CRM for service organizations can only be realized when it is integrated with PSA. Traditionally this integration has been an area of vulnerability for salesforce.com users because the application has been sold stand-alone. With the emergence of FinancialForce PSA, built on the Force.com platform, relief is in sight to break-down traditional functional and application stove-pipes in favor of an integrated view from prospect to project.

Overcoming CRM Silos

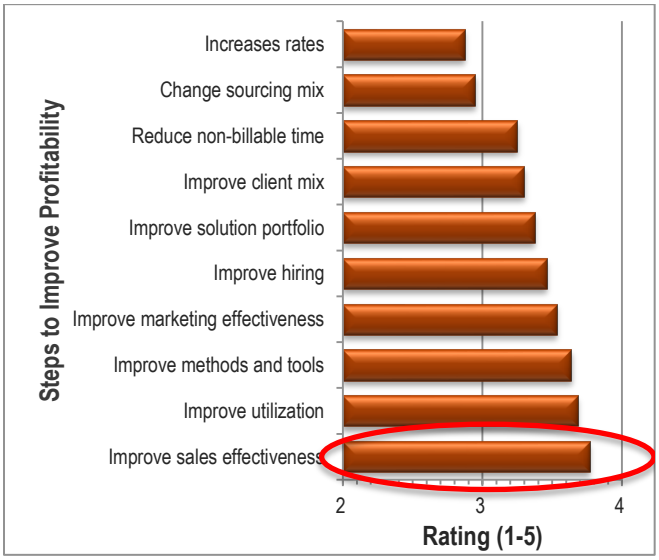
The ultimate goal for professional service organizations is to be able to consistently target the best clients and to be able to quickly and efficiently assign the best available resources to solve their complex business problems. The good news is that many PSOs have started down the road of investing in sales and marketing to improve their business development effectiveness. The bad news is that too often both the sales function and its supporting CRM applications are disconnected from service delivery and finance, which means vital client conversations and information are lost when deals are closed, and "tossed over the wall" to service delivery to start the project engagement lifecycle.

CRM For Service Organizations

Finding, retaining and expanding clients are the primary means of growing a business, and is a top challenge for most PS firms. CRM provides visibility into lead generation, marketing campaigns, contact management, deal capture, pipeline, forecasting, territory management and overall sales and marketing effectiveness. CRM allows PSOs to track clients throughout the engagement lifecycle, and to specifically target customer segments and offers by understanding details of the relationship.

As shown in Figure 1 the primary challenge facing PS organizations is improving "Sales effectiveness", closely followed by "improving billable utilization". These challenges speak to the interconnected nature of service sales and delivery. Services are intangible, with effective selling based on reputation, referrals, previous client outcomes and skilled resources. It takes skilled resources to bring service sales to life so disconnected sales and service delivery applications don't make sense.

Figure 1: PS Improvement Focus Areas



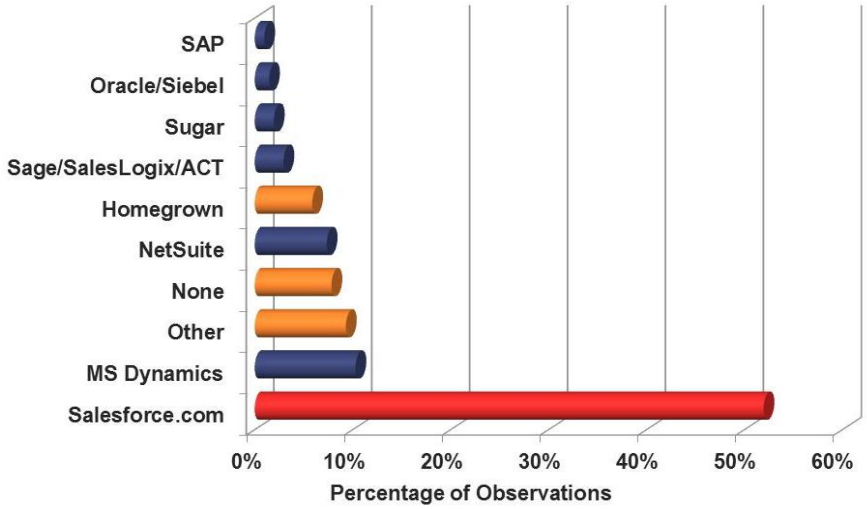
Source: Service Performance Insight, September 2012

Cultivating new and repeat clients is the lifeblood of the service industry. CRM helps firms focus on specific growth strategies: geographic expansion; vertical market penetration; major accounts or mergers and acquisitions by understanding relationship details, pressure points and profitability by client and segment.

The extremely high levels of CRM adoption in the service industries underscore the importance of service sales and marketing. Based on increased competition and the need to differentiate capabilities, dedicated sales and marketing teams have become a significant investment area for service organizations of all types and sizes.

Based on the 2012 PS Maturity™ benchmark of 214 PSOs, CRM adoption (86%) is closing in on ERP adoption (89%). Salesforce.com is clearly the CRM leader in terms of market penetration, with 52% of the PS market (up from 32% in 2011).

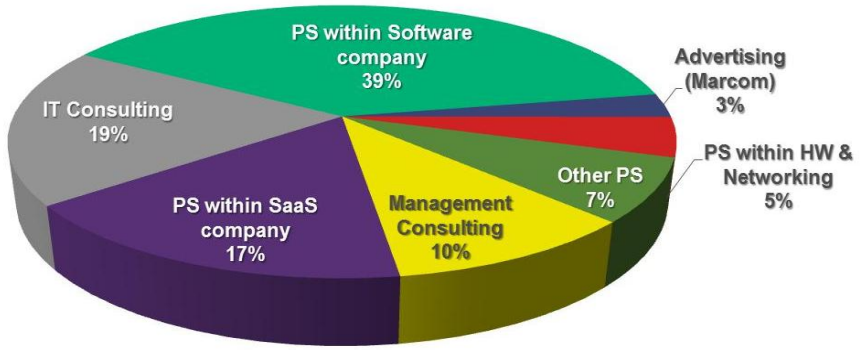
Figure 2: CRM Solution Used



Source: Service Performance Insight, September 2012

Figure 3 shows salesforce.com has broadly penetrated the service industries with parity across both embedded PS organizations (within hardware, software and SaaS companies) and independent PSOs (predominately management and IT consultancies).

Figure 3: Salesforce.com Participants by Vertical PS Market



Source: Service Performance Insight, September 2012

Table 1 highlights the survey demographics from the 2012 Professional Services Maturity™ Benchmark study. While salesforce.com clients are smaller in terms of PS revenue, they deliver 8% higher revenue per consultant than those not using salesforce.com. Other notable differences include higher year over year revenue growth rates and greater use of third party resources.

Table 1: Survey Demographics

Key performance indicator (KPI)	Use salesforce.com	Do not use salesforce.com
Number of PS organizations in the study	106	98
Annual PS Revenue (mm)	$26.1	$30.2
Size of PS Organization (employees)	161	139
Annual Revenue per Billable Consultant (k)	$204	$188
Year-over-Year change in PS Revenue	16.4%	10.8%
Year-over-Year change in PS Headcount	12.0%	8.1%
% of PS revenue delivered by 3rd-parties	14.3%	12.2%

Source: Service Performance Insight, September 2012

Salesforce.com posted the best user satisfaction rating with an average satisfaction rating of 4.3 out of 5.0, but one of the lowest levels of integration between CRM and the core PSA application. Only 26% of SF.com users reported any level of integration with either the core financial or PSA application.

As shown in Table 2, salesforce.com posted the best user satisfaction rating with an average satisfaction rating of 4.3 out of 5.0, but one of the lowest levels of integration between CRM and the core PSA application. Only 26% of salesforce.com users reported any level of integration with either the core financial or PSA application. As the demand for integrated CRM continues to rise, pressure will be placed on salesforce.com to improve its level of integration and support for the Professional Services market. New PSA suppliers, like FinancialForce PSA, are developing native PS applications on the Force.com platform, which should help to fill the void for integrated CRM and PSA.

Table 2: Client Relationship Management Vendor Comparison

Solution	Market Share	Org. Size (emp.)	CRM Integration with PSA	CRM User Sat.	Rev. per Billable Person (k)
Salesforce.com	52.0%	161	26.2%	4.33	$174
Other	12.2%	87	19.0%	3.72	$166
MS Dynamics	10.3%	161	16.7%	3.95	$145
None	7.8%	40	N/A	N/A	$145
NetSuite	7.4%	76	66.7%	3.93	$144
Sage/SalesLogix/ACT	2.9%	28	41.7%	4.00	$154
Oracle/Siebel	1.5%	540	16.7%	4.33	$208

Solution	Market Share	Org. Size (emp.)	CRM Integration with PSA	CRM User Sat.	Rev. per Billable Person (k)
Total/Average	100.0%	151	25.7%	3.80	$167

Source: Service Performance Insight, September 2012

SALESFORCE.COM – THE CRM MARKET LEADER

SPI Research analysis showed that PSOs using salesforce.com not only improved in client relationship management, but also in other functional areas. When PSOs sell the right services (where qualified staff is available at an optimal price), to the right clients, everything else falls into place. Margins improve because the services sold have been successfully delivered before, utilization increases because the engagements sold are a good fit for available resources, and clients are happier because the consultants doing the work have the appropriate skills and availability to complete the work on time.

The following tables highlight some of the performance improvements shown between those organizations using salesforce.com versus those not using it. They are broken into the three core areas: 1) client relationships 2) service execution and 3) service financial management.

Table 3: Client Relationships KPIs

Key performance indicator (KPI)	Use salesforce.com	Do not use salesforce.com	Improve.
Bid-to-Win Ratio	5.49	4.93	11%
Deal Pipeline Relative to Quarterly Bookings Forecast	211%	193%	9%
Percentage of New Clients	40.2%	37.3%	8%
Percentage of New Services	44.2%	41.1%	8%

Source: Service Performance Insight, September 2012

Table 4: Service Execution KPIs

Key performance indicator (KPI)	Use salesforce.com	Do not use salesforce.com	Improve.
Average Staff per Project	4.17	3.58	16%
Projects Canceled	1.9%	2.3%	16%
A Standardized Delivery Methodology is used	69.4%	65.2%	7%
Average Project Overrun	8.3%	8.6%	3%

Source: Service Performance Insight, September 2012

Table 5: Finance & Operations KPIs

Key performance indicator (KPI)	Use salesforce.com	Do not use salesforce.com	Improve.
Annual Revenue per Billable Consultant (k)	$204	$188	8%
Average Revenue per Project (k)	$204	$177	15%
Quarterly Revenue Target in Backlog	49.7%	39.3%	26%

Source: Service Performance Insight, September 2012

Two other areas of note are that organizations using salesforce.com have higher project margins and stronger project backlog. These two measurements add up to greater profitability, as project margins are highly correlated to overall profitability margins, and a larger backlog enables PSOs to plan more effectively; increase rates and/or turn down work not meeting desired profitability levels.

SALESFORCE.COM IMPROVEMENT AREAS

While salesforce.com users are generally more productive, there is still significant opportunity for additional performance improvements by integrating CRM, Professional Services Automation (PSA) and Financial Management. In today's complex, solutions-based world running sales and service delivery as disconnected islands is no longer a viable option. When contemplating sales and service delivery integration a good starting point is to determine which application will be the system of record and what information must be exchanged between the CRM application, the project management software (PSA) and the financial solution (ERP).

Common CRM and PSA integration points include:

- Sharing of prospect and client information including estimates, contracts, service agreements and statements of work
- Opportunity tracking and coordination for assigning resources, tracking project progress and billing
- Forecasting deal close dates and project commencement timelines
- Scoping, estimating and quoting project-based opportunities
- Tracking presales and non-billable client support time and cost
- Shared project dashboards, schedules and status reports

CONNECTING CRM AND PSA – WHAT GOES WHERE?

When integrating CRM and PSA an important first step is determining which application will become the "system of record" for key client information. Typical decisions include:

- ***Client provisioning***: the CRM application is the system of record for client information while the PSA application is the system of record for project and resource information.
- ***Project Initiation***: once an opportunity reaches a certain probability, the CRM automatically launches a project or a project request in the PSA application. This provides the service team with insight into upcoming projects and allows both sales and project teams to track project status.
- ***Professional Services Automation***: CRM integration with full professional services automation functionality automates the entire client project billing cycle. The PSA application leverages the client and initial project data that resides in the CRM application to create the project, establish the key project milestones and billing rules, and generate pre-bills or invoices based on that information.
- ***Time tracking for client cases and issues***: A frequent requirement is to track time spent on client cases or issues being tracked in a CRM application either for cost accounting or billing purposes. CRM and PSA integration links a CRM case to the project management time entry system so that individuals who work on the case can report the time they spend on resolving it.

BENEFITS OF CRM AND PSA INTEGRATION

Integrating CRM and PSA improves performance at all levels of the organization. The following bullets highlight integration benefits:

- ***Executives***: company executives gain access to real-time project cost, budget, and revenue information that enables them to quickly answer questions:
  - What does the quarter look like?
  - What is our projected service revenue and cash flow?
  - Which client engagements generate the most revenue or highest profit?
  - Which reps or territories are doing the best job of selling solutions?
  - What is our average deal size and how long is it taking to close complex engagements?

- ***Service teams***: service team members are able to plan and prepare for upcoming projects and collaborate more effectively with the sales team on new opportunities and existing client engagements. Service team members can answer:
  - Which opportunities are real and when will they close?
  - What does the project pipeline look like? When are projects forecasted to start and when are they scheduled to be complete?

- What is the status/health of our projects and service engagements?
- What resources and skills are required to deliver these projects? Do we have enough capacity to staff upcoming projects?

- ***Sales team***: CRM and PSA integration connects sales team members to project execution teams. Sales team members gain access to client and project summary information that helps them understand a client's current status and whether there are new sales opportunities to pursue. Sales team members are able to answer:
  - What is the status of my client's project(s)?
  - Is the client happy? Are there any red flags regarding requirements, delivery dates, budget or scope?
  - What else does the client need?
  - How much of the project has been billed so far?
  - Have we fulfilled open purchase orders? When is the right time to contact the client for a change order or to sell additional services?

SALES AND SERVICE DELIVERY WORKING TOGETHER

CRM and PSA integration provides a platform for bi-directional information exchange. Integration ensures sales and project teams have shared visibility to project status, pipeline, cost, budget, and billing information. Real-time access to this information helps:

- The sales team analyze client status and pinpoint new opportunities;
- Project team members plan, train, staff and prepare for upcoming projects;
- Executives assess sales and project performance and forecast future demand; and,
- Accelerate and streamline the entire project billing cycle.

Geographically dispersed teams, projects and clients have made project execution more challenging than ever. These issues are further complicated by the use of subcontractors, in addition to full time employees. It takes considerable collaboration and effort between teams to win new clients, keep them happy, and to deliver projects profitably and effectively. By linking CRM and PSA, project and sales teams gain visibility to forecast demand and are able to seamlessly transition projects from sales to service teams. In today's fast paced impatient world, spreadsheets, emails, manual processes and disconnected systems are no longer satisfactory.

ALIGNMENT DRIVES PRODUCTIVITY AND PROFIT

Most professional service executives understand that both CRM and PSA are very important to their business. After core financials, these two solutions had the highest penetration rates in SPI Research's ***2012 Professional Services Maturity Model™ Benchmark***. Over 86% of the organizations surveyed used CRM, while nearly 76% of the organizations used PSA.

To better understand how the integration of CRM and PSA increases organizational performance, SPI Research analyzed 214 billable service organizations. SPI Research segmented these organizations into two different categories (Table 6) and analyzed several of the key performance indicators:

1. Professional service organizations that have purchased both CRM and PSA, but have integrated neither; and
2. Organizations that have integrated both CRM and PSA.

Table 6: Integration Increases Performance

Key Performance Indicator	Integrated CRM & PSA	Non-Integrated CRM & PSA	Improve.
Year over Year Change in Employee Headcount	13%	9%	46%
% of Annual Revenue from New Clients	42%	35%	20%
Year over Year PS Revenue Growth	15%	13%	17%
Executive real-time wide visibility (1 to 5 scale)	3.93	3.47	13%
Time to Recruit And Hire For Standard Positions (days)	54.8	62.3	12%
Project Margin	36%	33%	11%
% of "Referenceable" Clients	76%	70%	8%
Percent of Annual Margin Target Achieved	93%	89%	4%
Billable Utilization	73%	71%	2%

Source: Service Performance Insight, September 2012

The results speak for themselves. SPI Research found higher levels of integration resulted in improvements across all aspects of the business:

- Δ Higher year over year growth – both in assimilating new employees and in PS revenue
- Δ Higher percentage of revenue from new clients which equates to market expansion
- Δ Better executive visibility – leads to improved decision-making
- Δ Shorter time to recruit and hire new employees – new hires are productive and billable faster resulting in higher productivity

- Improved project margins from selling projects which take advantage of available skills and resources
- More referenceable clients because the promises made in the sales cycle are directly translated into project requirements
- Higher achievement of target margins due to larger, more qualified sales pipelines and the ability to efficiently staff projects
- Higher billable utilization – improved ability to forecast and staff to meet demand

CONCLUSIONS

In today's fast-paced global economy, all departments and functions must work together. Unfortunately, many organizations operate sales and service as separate functional and application silos which exacerbates disconnects between business development and service delivery and accentuates a "we" and "them" mentality. Executive outings may create greater harmony in the C-suite, but without communication and collaboration at all levels; the organization will never operate to its fullest potential nor will clients feel both sides are working together to achieve the best results.

Information systems were developed to provide greater visibility, transparency and accuracy to the thousands of business activities occurring simultaneously. For the most part, these systems have improved visibility to the progress of selling and delivering projects, and helped to more efficiently and accurately account for revenue and costs.

The requirement for complex solution selling of project-based deals has become pervasive regardless of industry. The days of operating with disconnected sales and service delivery teams are over. Today's clients expect and demand coordination between business development discussions and project engagement requirements. To meet client objectives, the organization must operate as a whole, rather than as a conglomeration of independent departments and activities.

Until recently, the development of information systems for the services sector has been limited to silo'ed departmental solutions, with even the largest software developers not offering the integration necessary for enterprisewide visibility. Now, there are a few, but mighty, number of vendors tackling this critical issue. Developers such as salesforce.com, with its industry-leading solution, will only succeed if they become part of a larger ecosystem providing critical sales and marketing data to other internal organizations so they can more efficiently and accurately plan and execute services.

SPI Research has demonstrated the bright future provided by integrating sales and marketing with service execution and finance. Now with the addition of FinancialForce PSA, salesforce.com is well-positioned to remain a leader in this market if it starts to promote and support the benefits of CRM, PSA and ERP integration.

About Service Performance Insight

Jeanne Urich, Service Performance Insight Managing Director, is a renowned author, speaker and thought leader focused on the global service economy. She is a trusted advisor and transformative and operational change consultant to senior executives of leading services organizations, helping them navigate the journey from business-as-usual to business-as-exceptional.

Prior to co-founding Service Performance Insight she was a corporate officer and leader of the worldwide service organizations of Vignette, Blue Martini and Clarify, responsible for leading the growth of their professional services, education, account management and alliances organizations.

She is the co-author of the ground breaking Professional Service Maturity Model™ benchmark used by over 5,000 project-oriented organizations to diagnose and improve their performance. She is a featured speaker and author for major software solution providers and industry associations.

She has a Bachelor's Degree (Magna Cum Laude and Phi Beta Kappa) in Math and Computer Science from Vanderbilt University. She is a contributing author of *Tips from the Trenches: the Collective Wisdom of over 100 Professional Service Leaders*. Contact Jeanne at **jeanne.urich@spiresearch.com** **Phone (650) 342-4690.**

R. David Hofferberth, PE, Service Performance Insight Managing Director, has over 25 years' experience in information technology (IT) serving as an industry analyst, product director and consultant. Hofferberth's research is focused on the services economy, and in particular, on white-collar productivity issues and the technologies that help people perform at their highest capacity.

Hofferberth's background is extensive in services performance beginning in the early 1980s, where he conducted studies on white-collar productivity in the banking, technology, energy and construction sectors. In 1999 he introduced to the market the solution area now known as Professional Services Automation (PSA), when he published the seminal report: *Professional Services Automation: Increasing Efficiencies and Profitability in Professional Services Organizations.*

Prior to founding Service Performance Insight he was a Senior Director at Oracle and Aberdeen Group. Hofferberth earned an MBA from Duke University and a BS in Industrial Engineering from the University of Tennessee. He is also a licensed Professional Engineer (PE). Contact Dave at **david.hofferberth@spiresearch.com** **Phone: (513) 759-5443.**

Carey Bettencourt, Service Performance Insight Managing Director is a management consultant who specializes in improvement and transformation for project-driven professional service organizations. She is an experienced change management leader, expert in helping clients develop high performing teams that deliver increased utilization, profit and customer satisfaction. Carey also helps PS organizations identify, clarify, and create integrated communication, marketing, and product offerings that drive market differentiation and increased sales.

Carey has over 20 years domestic and international experience with leading software companies. She was a corporate officer and the senior vice president of the customer solutions organization at Accruent, the top-ranked professional services organization for three consecutive years according to the SPI Research Maturity benchmark. Carey was also a vice president at software firms ChannelPoint and Vroom Technologies responsible for professional services, education, support, strategic alliances, and hosting services. She previously held consulting practice, business development, and strategic alliance leadership roles at Oracle and J.D. Edwards.

Carey earned a Bachelor of Arts in Economics from UC Berkeley and an MBA from Pepperdine University. Contact **carey.bettencourt@spiresearch.com**

Service Performance Insight (SPI Research) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 6,000 service and project-oriented organizations to chart their course to service excellence.

SPI provides a unique depth of operating experience combined with unsurpassed analytic capability. We not only diagnose areas for improvement but also provide the business value of change. We then work collaboratively with our clients to create new management processes to transform and ignite performance. Visit **www.SPIresearch.com** for more information on Service Performance Insight, LLC.

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