Kantata

5 Steps to More Profitable Projects

For Professional Services

Contents

Introduction

Staying profitable is a challenge for every services organization. Constantly increasing client expectations, changing trends in the industry, and the unpredictable nature of managing a workforce mean that even successful businesses must be ready to change their strategies at any given moment. According to our research, the top three business challenges in the service economy are Improving Margins, Increasing Revenue, and Improving Client Satisfaction.

As a result of these challenges and many others, 63% of executives stated that it has become harder to operate a services business, a significant increase compared to the 52% polled by Kantata just a year earlier.

Despite the pressures to become more profitable, 65% of services businesses polled told us that they had to turn down work in the past 12 months. Most often, it was due to not having enough of the right resources. The result is that services companies are simultaneously fighting to increase their margins while also being forced to turn down work more and more often.

These are just a few of the pressures being experienced in the industry today. The six most common types of pressures experienced by services firms are:

- Increased competition from new and expanding firms
- Eroding margins that eat away at profitability
- The generational shift in workforces that demands a new way to work
- The move to short-term, project-based work
- More remote teams and subcontractors
- Expectations of greater speed and transparency from clients

With these pressures, how do services businesses continue to maintain and improve on profitability?

The five steps detailed in this ebook are meant to improve service firm profitability from a variety of angles.

Each of these methods will not only help address the pressures being experienced by businesses today but are designed to make each project more profitable.

01

Increase the Accuracy of Your Estimates

Today, clients expect greater transparency in the services process, wanting to know who is working on their project, how long it will take, and why it costs as much as it does. At the same time, it's becoming more difficult for services businesses to maintain a healthy project margin. Creating an accurate estimate up front will help balance both sides by setting client expectations and preventing surprise costs from compromising profit margins. Having an accurate, reusable estimation model plays a pivotal role.

What Makes an Accurate Estimation Model?

The estimation process should not simply result in one high-level cost estimate and overview of deliverables. It should provide details on the types of work involved in the project lifecycle and the specific skills needed to complete each of them. An estimation model that does this can help resource managers understand who will need to be assigned to various tasks and what compensation rates will inform the project budget.

The estimation model should break the project down into multiple phases, which will act as containers that you track time against throughout the project lifecycle. Having differentiated phases will help clients understand the many aspects that lead to the overall estimated cost. These phases can quickly reveal what is costing your business more or less when comparing actuals to estimates.

The estimation model you have created can be replicated to track actuals on projects. However, keep in mind that each project will be executed slightly differently depending on client size, location, client history, and more, which will impact your project lifecycle.

The Importance of Estimation Models

Accurate estimates are the foundation of strong margins, profitability, and happy customers. Even with a time and materials contract, a company will still need to accurately estimate budgets. Having a thorough and precise estimate means that clients can understand the "why" behind project execution and cost, preventing them from questioning it when the time comes for payment.

Your estimation model and process is your secret sauce. With the right estimates, your project lifecycle will be based on informed decisions that are focused on both executing a project well and keeping a healthy margin from the very start. Estimation tools, methodologies, and assumptions that inform how an estimate is determined must be continuously reviewed and improved. Industries change, employee rates increase, and client expectations shift as time goes on. Your estimation model should change with them.

Monitoring Scope Creep

Scope creep is one of the easiest ways for project margins to be eroded. Effective scope management is possible through the use of a project management solution purpose-built for professional services that can identify scope changes and facilitate corrective measures. Along with a strong solution to manage services delivery, the following four steps can help curb scope creep before it begins and respond accordingly if it occurs.

01

Communicate and set expectations up front

Have a clearly defined statement of work (SOW) created before any tasks begin, which will help set client expectations. The SOW should have an agreed-upon plan of action that includes timelines, deliverables, responsibilities, and milestones.

02

Maintain requirements and status reports

Projects and related tasks should have well-documented timelines, assigned resources, budgets, and deliverables. A project requirements document should also include a section where your team reviews task statuses and compares them against the SOW.

03

Create a change management process

Your business should have a process for change management in place and stick to it on each project. When a client requests additional tasks and deliverables be added to an ongoing project, the established change management process can begin.

04

Set parameters for revisions

Excessive revisions can eat away at margins due to the unexpected amount of time and resources required to meet shifting client expectations. Prevent these cascading costs by setting parameters and a cap for the number of revisions upfront. These should be defined in the contract.

The Estimation Process Review

After a project comes to a close, your company should compare your project estimates vs. actuals. Remember that while estimates should be accurate, having agility and flexibility in estimation models and tools is critical. Upfront budget estimates are always needed, no matter how you calculate margins for your company.

> Transparency on estimates (even for fixed fee projects) is crucial for maintaining relationships with customers.

Letting a customer know why you're charging them what you are and then completing a project accordingly creates a sense of honesty and reliability. This can make a significant difference in negotiation dynamics, efficiency, and trust.

02

Match the Right Skills for the Right Task

Services can be a feast-or-famine business, but with the right method, companies don't have to be caught off guard when either time comes. According to our research, 65% of executives stated that they had to turn down work in the past 12 months, with the most common reason being that their firms did not have enough resources. Capacity planning will help you be prepared and react quickly when an influx of new projects arrives, as well as when the amount of new work shrinks. Being able to effectively react to both means higher margins and more projects.

> It all starts with being able to match the right skills for their respective tasks.

Can you confidently say that you have the optimal capacity of resources to meet your current project demand? How about the right capacity to meet project demand in the next three, six, or nine months? Understanding your workforce's skill sets at a detailed level and being able to accurately match them to upcoming projects is vital for effectively running a services business.

The Benefits of Accurate Skill Matching

Successful project and resource managers should be familiar with their team members' skill sets and skill levels, along with what it takes to complete tasks in ways that satisfy clients. However, this becomes more difficult as teams and client bases grow over time. The result is that managers will need a resource management solution purpose-built for professional services that details available team members' skills and the skills needed to complete upcoming tasks.

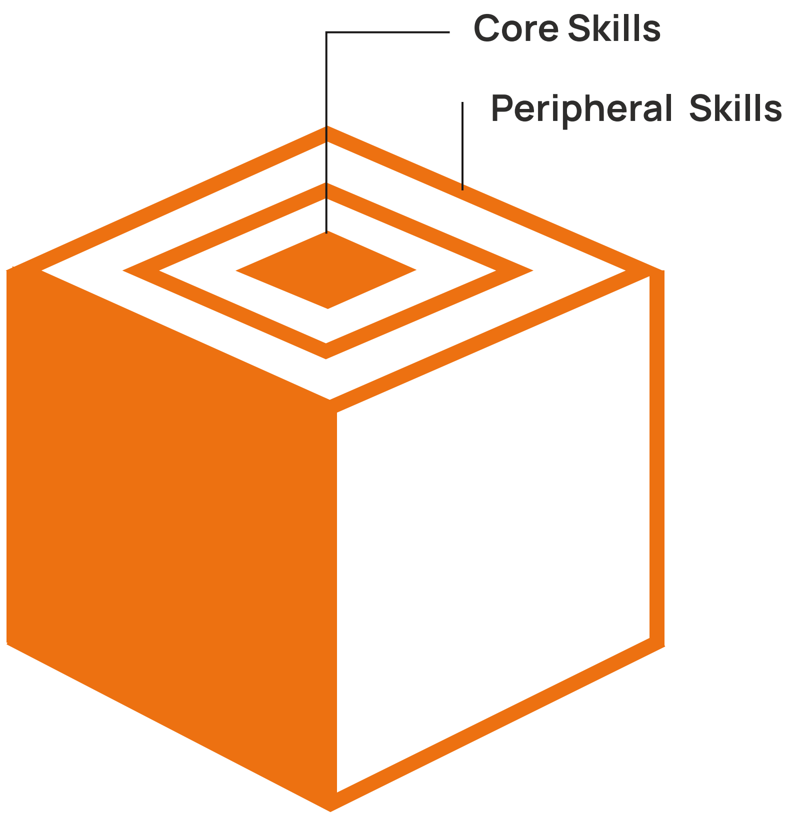
First and foremost, your business should create an inventory of team member skills. This means not only knowing how they can be used most effectively, but when they have time in their schedule to be placed on a project.

Having these insights available in an organized, easy-to-use resource management solution prevents confusion, delays, and inaccuracies in project assignments. Skill matching can also help create accurate and timely resource forecasting. Anticipating upcoming projects and employee schedules can prevent conflicts in resource assignments that can delay project completion and lower client satisfaction.

> Your business should create an inventory of team member skills.

Core vs Peripheral Skills

Once you know what skills are provided by your team, you can determine which are core and which are peripheral. This will help you determine when to assign a project to a full-time employee and when to hire a contract worker.



Core Skills

Those that are directly tied to your business' most essential and frequently used services, such as client management. These skills are a crucial part of how your business serves clients and require full-time commitments to keep clients satisfied and projects on schedule.

Peripheral Skills

Only used for some projects, even if they are important. These projects do not happen frequently enough to compose the majority of a full-time work schedule and the skills required are not broadly applicable. For example, video editing is a specialized skill that requires in-depth experience, but may not be needed on a daily basis for a services firm.

The key is to hire people who will largely provide core skills while you contract those who provide the peripheral. Tap into your peripheral skills resources only as you need them for individual projects to prevent high costs that come with keeping full-time workers on the bench and rarely utilized

The Contractor Network.

Having a network of experienced contract workers who can reliably provide peripheral skills means that your business will only pay for these intermittent tasks when they are needed. However, you will need to keep your networks with contractors and partners warm by staying in contact with them. Weeks, months, or even years may pass without needing a contract worker's skills. By the time you contact them again, they may have lost interest in working for you, which will send you on the hunt for new contractors who have not proven themselves.

Stay in contact with contractors and show them that you value them, even if you are not constantly using them. Check up on them with a friendly email, keep them up to date on company news and possibly send small tasks between larger projects. Fast contractor responses will prevent you from losing client deals while waiting for workers to agree to a gig.

> This balance between an effective full-time team and a consistently utilized network of contractors is the key to staying profitable while not losing your ability to take on bigger projects

03

Create Healthy Tension Between Resource and Project Management

One of the most important internal dynamics of a services business is the coordination between resource managers and project managers. Keeping a healthy tension between them means keeping costs in balance while delivering a project on time and keeping customers happy.

Properly balancing your resources and projects is the second biggest opportunity your business has for improving your margin after making estimates more accurate. However, it's also the second biggest threat to your margins. The need for proper balance comes from how your resource managers and project managers will naturally approach a project with their own goals in mind.

Creating a healthy tension between your resource and project managers can help balance their needs, result in better margins, and create a more efficient workforce.

What Resource Managers Want

Resource Managers are focused on the bottom line, with budgets and expenses informing their choices. However, successful resource managers (RMs) also want to make sure that people and projects succeed. This will often cause a resource manager to stretch limited resources as far as they can to save money and keep their workforce fully utilized.

> Creating a healthy tension between your resource and project managers can help balance their needs.

What Project Managers Want

Project managers are focused on executing tasks to the best of their company's ability. Typically, this will mean that client satisfaction and high-quality results will take precedence over staying within budget. As a result, project managers (PMs) may be more likely to request more resources than they actually need during the project planning phase.

Finding the Perfect Balance

> Both resource managers and project managers are trying to accomplish their own goals first and foremost, but might be unknowingly creating hurdles for one another.

They aren't necessarily trying to complicate one another's lives, it just naturally comes from the way their priorities interact.

Creating a process for regular interaction/evaluation between RMs and PMs in order to maintain a healthy tension is critical. Consider a regularly scheduled meeting where managers review past, current, and upcoming projects to discuss their needs. As they review worker skill sets and budgets, managers will be able to see each others' points of view for better communication.

Keep the lines of communication between them open and make sure they understand each other's true needs before a project begins, as well as during and even after its completion. Data-driven decisions will also help alleviate the unnecessary tension between them by basing budgeting decisions on what past project data proves, rather than one manager overriding the other. Data will also aid PMs in understanding project costs at a more detailed level, leading to more accurate project planning in the future.

04

Measure Profit & Loss at the Project Level

Do you know the total revenue and expenses of your last completed project, not just what was billed to the client? Don't just measure how much you charged a client at the end of a project. Your business should be treating each project as a Profit and Loss, measuring what actions cost you money, as well as what made you money. This will help you better understand what is holding your margins back and where you can make effective changes.

How to Track Profit and Loss for Individual Projects

Being able to see the true costs and profits associated with individual projects means that your business can make informed decisions about which projects to replicate, which processes to streamline, and what types of clients you should focus on in your long-term business strategy.

A project-level profit and loss template should track and calculate the following elements:

> Don't just measure how much you charged a client at the end of a project.

Incentivize Project Managers to Take True Ownership

Project managers should feel a sense of financial accountability. When financial incentives are implemented correctly, managers will be encouraged to perform to the best of their capabilities.

Consider your project manager as the "Captain of the Ship." It's natural for projects to have changes in scope, cost, and client expectations during execution. As such, you need to enable your PMs to be dynamic, empowered, and solution-oriented so they can respond appropriately.

> Empower them to make decisions by providing the right data at the right time.

Empower them to make decisions by providing the right data at the right time, but also hold them responsible for where the project ends up. If they feel like they can't adjust strategies and priorities when needed, PMs will be less likely to take financial responsibility for the project, which can affect margins.

Consider associating financial rewards to PMs for financial performance, which can further tie financial responsibility, project management, and bonuses together for greater ownership. But this must be balanced. This is an incentive, not a punishment. The more successful a project, the larger the bonus for a project manager.

Balance Customer Satisfaction

Customer satisfaction must balance out this focus on financial results. Projects that don't match client expectations and fulfill the purpose they were designed to meet will ultimately result in dissatisfied clients. Keep this in mind to prevent your Profit & Loss approach from getting out of hand and negatively impacting the customer. Remember that customer satisfaction drives future projects and continued growth as a business. If you lose all your customers, it doesn't matter how big your margins are.

05

Make the Most of the Post-Mortem Process

While it may be tempting to devote all of your time to the next project, it's important to review the project you have just finished. The postmortem process will help you continually refine profitability and improve future projects based on your takeaways, with each completed project informing the next through full-cycle resource management.

How the Post-Mortem Process Improves the Project Life Cycle

After determining that a project is truly complete, it's time to look back on the many different aspects of your project lifecycle planning and execution. Every project can be a learning experience for a services firm, but taking the time to review them in detail means that granular insights can be found, rather than general takeaways.

Hopefully, your services organization is consistently learning from the past. Post-mortem reviews provide you with the time and forum necessary to learn real lessons from completed projects and turn them into actionable improvements.

It's important to note that the post-mortem review process should be a designated phase of the project lifecycle, and not simply something done quickly as an afterthought or cut from a project to move on to the next. Give yourself enough time to review completed projects in detail for useful takeaways that can inform how you execute and improve your next project.

What to Analyze in the Post-Mortem Process

There are a few major measurements that should be applied to every project's post-mortem process.

→ **Compare Your Estimates vs. Actuals for Profitability Insights:**

Were there delivery challenges? What were your resource challenges? Did you create inaccurate estimates? What updates need to be made to the estimation process? You need to see how your estimates and execution align, which will help improve estimation skills and highlight areas that negatively impact project execution.

→ Create an Internal Review to Evaluate Team Performance and Assess Employee Skills:

How well did individual team members perform when completing tasks? Did their skills effectively align with the project's demands? Learn how you can finetune performance and better determine core skills and peripheral ones. This internal review only becomes more important the larger you become.

→ Gauge Customer Satisfaction For Future Execution On Deliverables:

Are there opportunities for more projects with the customer? Would they make for a good reference or case study? What were your key performance indicators both before and after project completion? Understanding customer satisfaction will help you keep future clients happy with your work and more willing to return for future projects.

> The review process can give you a list of improvement opportunities that you can make before your next project, rather than implementing them on the fly in the middle of one. The result is better estimates, improved project execution and greater margins.

Recap

> The services industry is undergoing changes in workforce makeup, client expectations and industry trends. As a result, many businesses are looking for a way to improve both their margins and customer satisfaction.

The key is to make specific but significant adjustments to how your business is run that will increase productivity and efficiency in ways that are commonly overlooked. These shifts reduce wasted time, more effectively leverage your workforce's skills and improve on the many small costs eating away at your margins. Over time, your services business' profits can grow through the combination of a stronger workforce and streamlined project lifecycles.

01

Create A Unified Estimation Model.
This should break down projects into phases and all appropriate team members should agree to use the model before the start of each project.

02

Analyze Your Employees' Skills.
The skills stored in your system should be reviewed every three months to ensure accuracy, as well as any blind spots in your task assignments.

03

Set Up A Regular Meeting Between Project and Resource Managers.

Regular communication ensures healthy interactions and a consistent balance between needs.

04

Use A Detailed Profit and Loss Template.

This should calculate every project's gross margin, operating income and net profit to stay aware of your company's true income.

05

Build Post- Mortem Reviews Into Your Project Lifecycle.

Detailed analysis and comparison of estimates vs actuals create deep insights before the next project begins.

> "With Kantata, not only will our people be more fully engaged, but we'll also be able to easily resolve downtime and get the most out of our internal talent. This improves collaboration across the organization and provides our clients with even more cost-effective solutions."
>
> Brandon Ledford, Vice President, Human Capital
> **MGT Consulting Group**

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