

Getting to grips with Client (Un)Profitability

This white paper tackles a growing problem which can be regarded as a side-effect of the current tough operating climate.

In their efforts to maintain business viability – and keep staff gainfully employed – some project-oriented businesses can be tempted to take on projects with narrow profit margins.

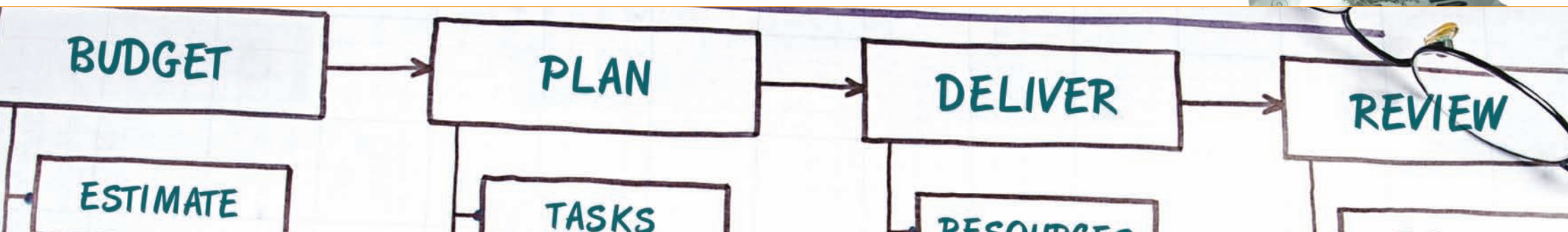
They then tend to over-deliver to retain the client's business in an aggressively competitive marketplace.

This trend is an entirely understandable, but is not a sustainable way of doing business.

We discuss here the value of adopting an evidence-driven approach to understanding which areas of your business and client base are most/least profitable and using this evidence to:

- Take strategic decisions about your future business direction
- Model what your ideal client looks like
- Hold meaningful conversations with your clients to build profitable relationships with them
- Analyse where internal processes are undermining your profitability

We refer in the white paper to the experience of IRIS clients, whom we thank for their assistance. We will be focusing on the IRIS systems which these businesses use. However, a good quality Professional Services Automation (PSA) solution should be able to provide similar functionality to the features outlined here.



Compiling the evidence

Knowledge is power. On any given day, could you easily say for certain:

- Which are your most/least profitable projects and types of project?
- Which are your most/least profitable clients?
- Which are the most/least profitable industries or sectors for your business?

Could you then 'drill down' to the underlying detail, for example to see where time has been invested on your current projects or compare actual costs against the budget agreed with the client?

Drivers Jonas LLP, a European private partnership of commercial and residential property consultants, has found that being able to view the 'big picture' and explore the underlying detail is invaluable in planning the direction of the business:

“In the current economic climate, we need to ensure our work is as profitable as it can be. We have a wealth of information, which we can interrogate down to the smallest detail. This means we can review the performance of every job, which aspects of work are working well or need attention, and decide whether or not to continue in a particular line of business.”

Improved reporting

To trawl through the records and gather together this essential information could add a huge administrative overhead for your business, but with a professional services automation system in place it becomes the work of a moment.

IRIS PROJECTminder quickly shines light on whether the user organisation is making or losing money on a project: they simply enter budget fee information, with an hourly cost rate for the members of staff working on the project, and then review the current profit.

They can also check whether they are set to make or lose money in the future. Again, they simply add the planned work and, with the minimum of effort, IRIS PROJECTminder will calculate the expected profitability for the project. They are then able to take appropriate action, such as updating the resource plan or reviewing their fee structure for that project.

Aggregate to accumulate

Your PSA solution should be able to do all the work of collating real-time information automatically across your projects and then presenting it in the formats you have defined as being most useful to your business and managers.

This would enable you to equip your decision-makers with instant access to meaningful information on your projects and your business, including your cash flow situation and profit forecasts. They could analyse the data in a multitude of ways and in varying degrees of complexity, from viewing a high-level graphical dashboard with key performance indicators, down to examining detailed reports. They could also share the information with fellow decision-makers.



Modelling the perfectly profitable client

To build a sustainable business, you need to focus on those sectors, projects and clients that are most profitable, rather than trying to be all things to all clients.

The Forum of Private Business (www.fpb.org), a UK not-for-profit membership organisation, warns its members that it's all too easy to become 'a busy fool'.

It is worth stepping back and analysing your client base to identify:

- **Clients who are already profitable** – How can you quantify for them the work that you do, so that it is recognised and suitably remunerated? How can you keep these clients 'locked in' by delivering service beyond the agreed minimum but without draining your resources and revenues?
- **Clients who could become more profitable** – How could you better manage the time you spend on their projects? Can you identify where you are providing more than you agreed within the project specification and budget. Do you have an evidence base that will support you in negotiating with clients to pay more or expect less?
- **Clients who are unlikely to ever become sustainably profitable** – How could you redress the balance and bring these clients back within acceptable parameters? If the evidence shows that these clients are always going to be an excessive drain on resources, do you need to make the decision, difficult though it may seem, to agree to go your separate ways in order to free up your valuable time and resources?

By gaining a better understanding of every client's worth to the business, you'll be well placed to decide where to invest your resources for optimum return, both in retaining clients and pursuing new business.

Uncovering the value you deliver

Defence Estates, the MOD's built and rural estate management agency, wanted to give its internal customers a clearer, more detailed account of the work it does for them: "The overall objective was for our customers to know exactly what services we were providing for them, and what it's costing."

The organisation's IRIS project management software has become an important element of this focus on customer-supplier relationships: "With customers getting a clear picture of all the work we're doing for them and the relative costs, we have a sound basis for mutual understanding."

Design Distillery, a design and marketing agency based in Chichester, found that in the past, when staff were using a manual project management system, staff did not record the little favours and 'could you just...' requests from clients that consumed valuable studio and account management time...

"The business has billed 10% more in the last few months that was previously being missed via the manual system. Those little jobs like burning a file to CD or sending a client a jpg are now itemised and included on the invoice. Both account handlers and designers now have a really efficient way of recording their hours on a job. That means every hour we spend on a client's work, is automatically recorded on the job bag. Nothing slips through the net anymore."

Design Distillery has found that having this level of detail on individual projects builds into a greater level of business-wide control and also informs the strategic direction of the agency: "It's fascinating to see which clients sap the most management time and studio time. We now have a clearer view of which clients (and which type of clients) are the most profitable. This information has allowed us to be more discerning about which types of clients we go after. I never expected IRIS PROJECTminder to be an effective new business tool."



Tough decisions

'Mission creep' can be insidious with long-standing clients. Often, the original terms of the relationship have not fully kept pace with rising costs. In addition, the relationship has no doubt become closer over time and your team is unwilling to set expectations and boundaries. No one wants to rock the boat.

In common with many project-oriented organisations, IRIS clients have had to hold some difficult conversations with clients of their own. They have the advantage though of being armed with evidence provided by their professional services automation solution.

Unfortunately, in some cases, there is a double whammy: clients may be high maintenance and reluctant to renegotiate the terms of the relationship. Where this situation prevails, it may be time to part company. It doesn't matter how much business is out there, turning work away is never easy to do. It can take nerves of steel to do this, but IRIS clients have found that it frees expensive resources to focus on where they can bring best return.

NC Architects, a Wiltshire-based architectural practice, took a close look at its client base, which resulted in some radical decisions: "As a result of implementing IRIS PROJECTminder, we've since removed unprofitable clients, those clients who are paying us slowly or who didn't pay at all. We've removed 24 clients and can concentrate depleted resources on our four most valuable clients, leaving us to grow our business from a profitable base."

This exercise has put the practice in a much stronger position going forward: "We can now identify which jobs, types of jobs and clients are losing us money. The most important change is the ability to improve cash flow and eliminate revenue leakage. As a result of the history being available, we are able to cost projects more accurately, and avoid repeating the problems arising from poor estimating."

A note on vanity projects

As we mentioned in our previous white paper, '4½ Key Steps to Project Success', there is often a temptation for project-oriented businesses to invest their resources in vanity projects.

There may be good reasons to bid for projects which you know from the start will generate very little profit: a project may have particular prestige attached to it or it may extend your portfolio by taking your practice into a new market/territory or provide a particularly impressive 'showcase' for your work in a specific sector.

Before bidding for such work, you'll want to quantify the risks and have measures in place to contain any losses so that they don't overwhelm your business and become a bottomless pit. If you can draw on a solid foundation of knowledge of costs and time for previous similar projects, you will have a better understanding of the commitment you are making and the potential risks. With projects of this nature, it's more important than ever to keep to the specification. Set clear expectations at the start, apply strong change control, and have a process to handle requests from the client for additional work.

Munday & Cramer, architectural & building surveyors, recognised the risks involved in pursuing unprofitable projects. Their PSA system allows the practice to make informed decisions on whether to take on a project or not...

"There is an inclination to take on jobs that are never going to be viable. IRIS PROJECTminder allows us to see in 'black and white' whether a project will be profitable and we can decide accordingly."

For Munday & Cramer, one of the unexpected benefits of implementing IRIS PROJECTminder has been the boost to staff morale. At a time when many in the industry are concerned for their jobs, unrestricted access to the system enables every member of staff at to see whether the projects undertaken are ultimately profitable: "This open book approach allows everyone to see whether we are making or losing money and it encourages everyone to work as efficiently as possible."



Putting your own house in order

As well as identifying which clients are affecting your profitability, you need to consider how your internal processes could be streamlined to improve efficiency and reduce costs.

Are you deploying your resources to best effect? Are you scrutinising how every minute is spent? Can you spot instantly where actuals are becoming out of line with the budget? Are you capturing all time and expenses in the client invoice? And, importantly, can you do all this without diverting your team from revenue-earning activities?

No 'nasty surprises'

Setting a budget at the beginning of a project for time and expenses and ensuring any changes are diligently tracked, measured and approved, by all concerned, are fundamentals of a profitable business. Your PSA solution should help you to agree, maintain and monitor project budgets against actual time and expense costs. With vigilant monitoring, you'll keep costs and timescales on track and the eventual invoice will fully reflect the resources deployed.

Comprehensive reporting analysis should enable project managers to monitor progress against the set budget, quickly and easily identify problems and take effective decisions to bring costs back on track, preempting problems further down the line. Alternatively, where the original milestones have demonstrably moved, the forecast can be adjusted accordingly.

Willdig Lammie Partnership, a Newport-based architectural practice, undertakes a complex mix of projects and timescales that needs close management...

"Our projects vary immensely in timescale; they can extend over several years or come and go in a month. Now, we can closely monitor and track projects against the original bid, spot where costs or timescales are coming adrift, and swiftly take action. In practical terms, this means that if someone says they need eight weeks on a job, we can look at the original bid and say 'No, the bid was based on six weeks', rather than finding out too late that our profitability has been damaged."

Other IRIS clients have experienced similar benefits of improved control by implementing IRIS software:

Ward Williams Associates, a professional construction consultancy with offices across the south of England, says...

"Should our actual costs start to come adrift from the budget, managers can drill down to the underlying causes. If it's a case of 'mission creep', we can approach the client and renegotiate or, if it's down to us, immediate action can be taken to bring our costs back on track. We avoid nasty surprises further down the line."

GHA Livigunn, a multi-disciplined engineering design consultancy, also relies on its system to keep projects on track...

"The system shows us how we are performing and alerts us if we are spending more time than originally budgeted for. We can then look at the possible reasons why this might be: is it because the scope of the project has been extended or because we aren't working efficiently? There have been occasions where the system has shown that we are spending too much time on a project and we are then able to resolve the issue at an early stage."



Collating every item of project-related data

Having a deep insight into individual projects and your business as a whole depends on an accumulation of data on how every minute has been spent. Keeping detailed, accurate records of time and expenses against specific projects is vital to your profitability. If you fail to capture all associated costs, such as expenses and third-party invoices, you'll either exceed the budget or fall short on covering your outgoings.

Non-chargeable activities, too, such as training, holidays and sickness, need careful recording, to ensure you can answer a fundamental project management question: "Where has all the time gone?"

Gathering this information could, in itself, prove a time-consuming and expensive administrative overhead for your business. Time spent entering data is a chore for your team and will distract them from your core work. IRIS PROJECTminder resolves this problem by using industry-wide best practices to make data entry as simple and straightforward as possible.

Shortening the billing cycle

Increasing client profitability includes being able to bill promptly and accurately. This will avoid unintentionally extending credit, while invoice accuracy minimises the queries that clients may use as a good excuse for delaying payment!

Touchpaper, the international providers of IT business management solutions, has found this functionality within its PSA solution very beneficial...

"Speeding up timesheet entry has enabled the company to shorten the billing cycle, which has made a noticeable difference to cash flow. The ability of the software to fulfil our requirements for the control of timesheets and disbursements was central to our decision. Since then, it has been monitoring the profitability of every piece of work we do."

IRIS PROJECTminder also provides every help to automate the creation and delivery of invoices, saving the many hours that can be consumed by collating and formatting information.

Please note: the topic of improving your billing processes and eliminating revenue leakage is covered in more detail in a recent IRIS Project Solutions white paper '4½ Key Steps to Project Success', available on our website.



In conclusion...

In this white paper, we have aimed to show how you can improve the profitability of your business, by:

- Gaining an accurate understanding of the actual and potential areas of profitability within your business
- Quantifying the value of the work you are doing to increase or protect profit margins on existing accounts
- Improving your own internal processes to scrutinise how time is being spent and to uncover all project-related costs
- Building a body of knowledge on projects that leads to better informed decisions on which projects to bid for in the future

As the experience of our clients shows, achieving this level of control and empowering the business to be more strategic does not necessitate adding a new layer of management, increasing your administrative teams or turning your project teams into number crunchers. You should be able to depend on the software you use to manage your projects to generate automatically all the information that will help you to gain greater visibility and control of your business.

UL Architects, uniquely the only RIBA Chartered Practice owned by a British university (the University of Lincoln), sums up the wide-ranging advantages of migrating to IRIS PROJECTminder, in terms of improved efficiency, management information and profitability...

“Having implemented a Microsoft Excel system to help manage projects, we were finding it took a great deal of time and effort to collect and collate the timesheets into useful reports. This was time that could have been used for more productive activities.

We also found it hard to predict expenditure at the project level and consequently found assessing the profitability of a project was quite difficult. Before IRIS PROJECTminder, projects were over and underestimated in terms of how long they would take and how much time was needed for them.”



About IRIS Project Solutions

IRIS has a range of professional services automation (PSA) and project management solutions designed to improve the performance and profitability of people and projects in consulting and professional services organisations.

Comprehensive and easy to use, they provide the essentials you need to manage your projects, resources, and timesheets & expenses in order to build a sustainable business.

With IRIS Project Solutions, you'll be ideally positioned to maintain control of every aspect of your project-oriented business. Whether you run simple in-house projects with a handful of tasks or multi-layered, multi-disciplined projects including thousands of resources in disparate locations, IRIS Project Solutions will equip you with the tools you need to improve and simplify the way in which your projects are costed, planned, managed and billed.

To find out more about IRIS project solutions call **02 9380 6220** or visit **www.projectminder.com.au**



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