

Fragmented Processes Jeopardize Project Firm Buoyancy

A Guide To Profitably Winning And
Delivering Projects For Project-Based
Businesses

Table Of Contents

Project Firms Need Integrated Project Life-Cycle Management To Thrive	3
Project Firms Can Improve Win Rates By Pursuing The Right Engagements	4
Project Firms Can Improve Capacity To Execute By Fixing Hiring And Retention Headaches.....	4
Project Firms Can Improve Project Execution And Profitability By Streamlining The Back Office	6
Project Firms Must Adapt To A Changing Marketplace	10
Key Recommendations	12
Appendix A: Methodology.....	13
Appendix B: Demographics	13
Appendix C: Endnotes.....	13

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Project Firms Need Integrated Project Life-Cycle Management To Thrive

Project firms, ranging from government contractors to professional services providers, manage a cycle of activities. This cycle includes identifying and winning projects; assembling the team skills and materials the project firms need to complete projects for revenue; and billing according to agreed upon terms, while tracking project, program, and resource profitability. Streamlined competence across the bidding, project execution, accounting, and billing life cycle is critical to a project firm's success. Yet the ballast of multiple point solutions constrains many from making headway in winning and delivering complex engagements in the teeth of a gale of competition, combined with a wave of skills shortages and a squall of revenue and earnings recognition regulations.

In June 2014, Deltek commissioned Forrester Consulting to survey project firms to understand their concerns about managing each stage of the project life cycle, from winning, executing, and billing to monitoring profitability and recognizing revenue and earnings. Forrester developed a survey to test the level of executive concern about their capabilities to respond to threats and opportunities across the whole project life cycle.

Results from in-depth surveys with 170 leaders in project firms reveal a surprising degree of complacency, given the growing competition and other key industry changes under way. They acknowledge wasting effort early in the project life cycle by pursuing poorly qualified project opportunities. They recognize, in the project life-cycle staffing stage, problems with hiring and retaining the right resources. But they seemed more complacent about the opportunities for improvement in the project execution and billing cycle stages, to drive even better utilization and margin.

KEY FINDINGS

Forrester's study found that project firms:

- › **Waste most of their sales or project pursuit effort.** Most project firms win less than half of the engagements they pursue. Almost half of project firms' leaders claim that the most significant challenge to winning new projects is matching skills to client requirements.

- › **Face challenges in recording time and expenses.** Most project firms ranked as first, second, or third in importance the challenge of promptly capturing time and materials or expenses associated with projects, and most struggle with the challenge of applying the correct negotiated billing policy to each engagement.
- › **Worry about skills to match project requirements.** Most project firms struggle to find, retain, and match the right skills mix for clients' complex requirements, yet paradoxically expect to continue enjoying relatively attractive utilization rates and margins.
- › **Struggle with billing and revenue recognition.** Most project firms struggle to meet the challenge of new billing and revenue recognition requirements, yet expect to continue enjoying relatively low levels of unbilled work in progress (WIP).
- › **Face innovation challenges.** Project firms face major challenges from new business models and new competitors.

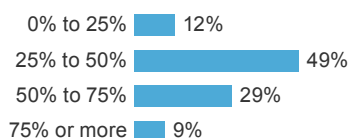
Project Firms Can Improve Win Rates By Pursuing The Right Engagements

Our data showed that executives leading project firms are aware of their win rates and know the importance of selectively pursuing the engagements that best match their capabilities. We asked them about project pursuit, qualification, and staffing and heard about:

- › **Disappointing win rates.** Most of our survey respondents, 61%, experience an engagement win rate of less than 50% (see Figure 1). This disappointing win rate means that most sales effort is wasted pursuing the wrong opportunities.¹
- › **Lack of granular project history to drive better bids.** Most of our survey respondents (58%) highlighted, as a contributory factor to the poor win rate, an inability to target the most potentially profitable engagements, based on past project profitability and ability to deliver. The same number also blamed poor win rates on an inability to offer a tradeoff between project completion date and cost.

FIGURE 1
Project Firms Report Disappointing Win Rates

“To the best of your knowledge, what have been your project win rates?”



Base: 170 leaders in project firms

Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

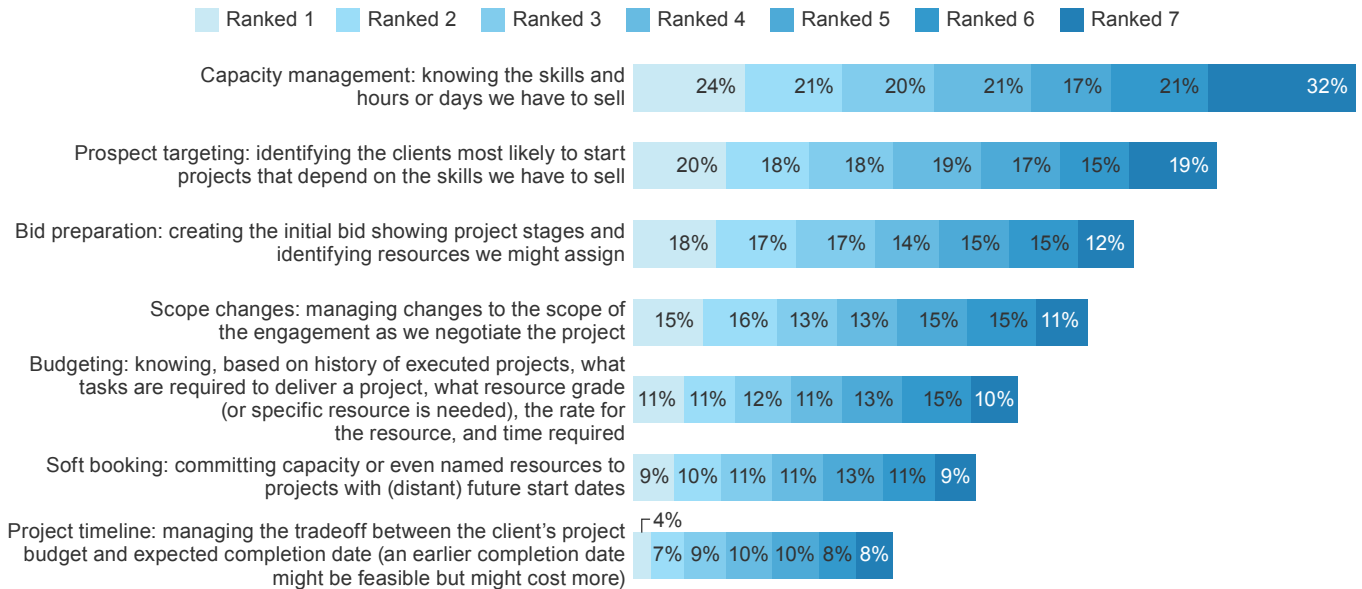
Project Firms Can Improve Capacity To Execute By Fixing Hiring And Retention Headaches

Our data showed that executives leading project firms are concerned about ability to match their ever more specific capabilities to clients' ever more specific demands. We asked them about winning, staffing, and executing projects and heard about:

- › **Inability to match specific capacity to client requirements.** Our respondents consider capacity management (knowing what skills they have to sell) to be the most significant challenge, with 45% of respondents ranking this as the most important or second most important hurdle in winning profitable business (see Figure 2). They also identified challenges with prioritizing pursuit of most suitable engagements, with 38% of respondents ranking this as the most important or second most important barrier to success.
- › **Hiring and retention headaches.** A significant minority (45%) of our respondents ranked talent hiring and retention as the most important or second most important challenge in project execution (see Figure 3). Most of them (58%) ranked as first, second, or third in importance the challenge of managing utilization in an environment of more complex projects requiring a wider range of skills.

FIGURE 2
Project Firms Face Resource Challenges

“Thinking about identifying and qualifying project opportunities, how would you rank these challenges in order of importance for your firm (1 = most challenging)?”

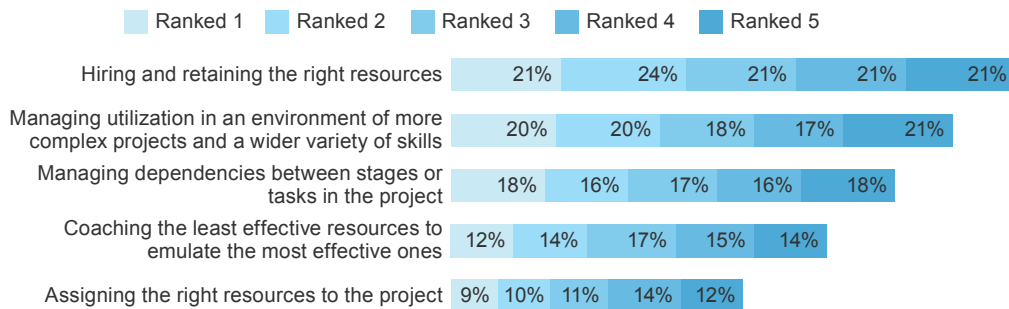


Base: 170 leaders in project firms

Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

FIGURE 3
Executing Projects With The Right Resources

“Thinking about executing or delivering a project once you have won, please rank the five most important challenges for your firm.”



Base: 170 leaders in project firms

Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

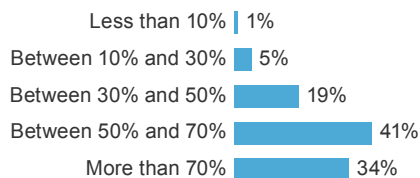
Project Firms Can Improve Project Execution And Profitability By Streamlining The Back Office

Our respondents expressed their concern about the increasing complexity of projects and the increased diversity and specialization of resources they need to staff the projects. Our survey respondents told us about the increased challenges in recruiting and hiring specialist talent and in matching specialists to engagement opportunities, but they also told us that they expect:

- Continued high utilization rates.** Our respondents enjoy relatively high utilization rates, with more than two-fifths (41%) reporting utilization of between 50% and 70% (see Figure 4).² Despite their worries about matching an increasing range of skills to increasingly complex engagements, our respondents expect continued high utilization over the next three years (see Figure 5).

FIGURE 4
Project Firms Experience High Utilization Rates

“What was your average billable utilization rate for billable employees over the last three years for billable employees?”

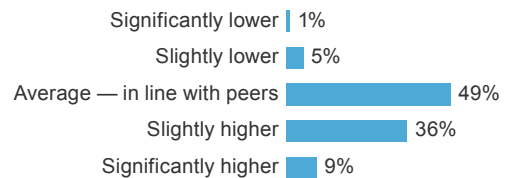


Base: 170 leaders in project firms

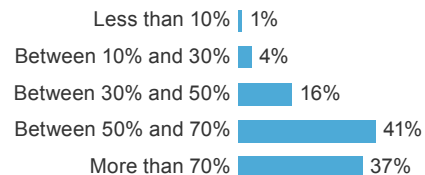
Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

FIGURE 5
Project Firms’ Dream Of Continued High Utilization

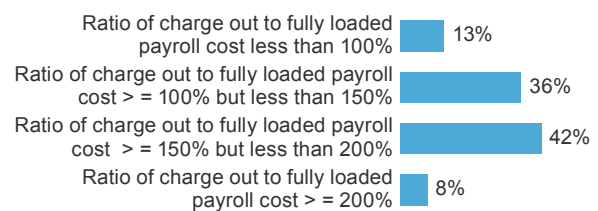
“How do you think your utilization compares with your peers in the markets you serve?”



“What do you expect to be the average billable utilization rate for billable employees over the next three years?”



“What is the average profitability of your resources?”



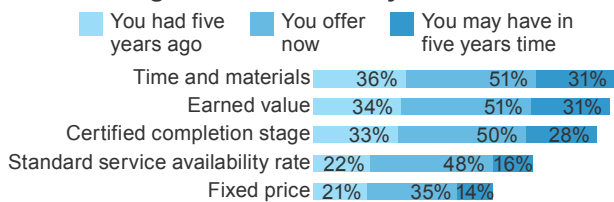
Base: 170 leaders in project firms

Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

› **Some simplification in billing.** Project firms support a wide range of billing policies now, with about half supporting billing for service availability (48%), billing for certified completion stages (50%), billing for earned value (51%), and billing for time and materials (51%) (see Figure 6). Our survey respondents believe that they will offer less options in the future, with only 14% expecting to offer fixed price billing in five years' time. But this is highly unrealistic. For example, project firms that are government contractors are often constrained by the funds allocated for each specific government initiative and have a fixed amount of revenue for each project.

FIGURE 6
Project Firms Face Changes In Billing Policies

“Which of these billing policies did you have five years ago, and which do you offer now? How many might there be in five years time?”

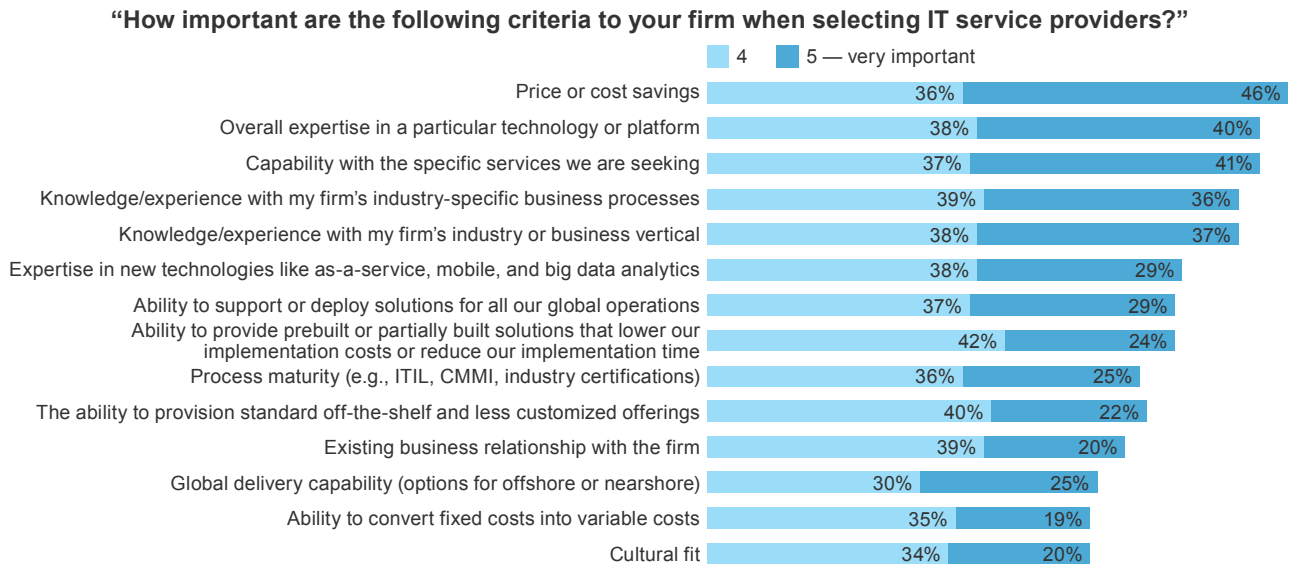


Base: 170 leaders in project firms

Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

› **More granular monitoring of profitability.** Taking IT services as a typical category of a project firm, Forrester's syndicated research shows that 54% of IT services buyers look to IT services project firms to provide consumption-based billing for all elements of the solution (see Figure 7). 19% consider the ability to substitute variable to fixed costs as very important and 35% consider the ability important. Fifty percent also look for business outcome rather than time and materials or time and expenses metrics (see Figure 8). These billing trends put the burden on project firms to efficiently and cost-effectively manage projects, or they risk spending months delivering a project that is an unprofitable engagement. Project firms that use an integrated project-based enterprise resource planning (ERP) system — that includes integrated project and resource planning capabilities — are best positioned to consistently deliver profitable projects.

FIGURE 7
Project Buyers Look For Cost Savings From IT Service Providers

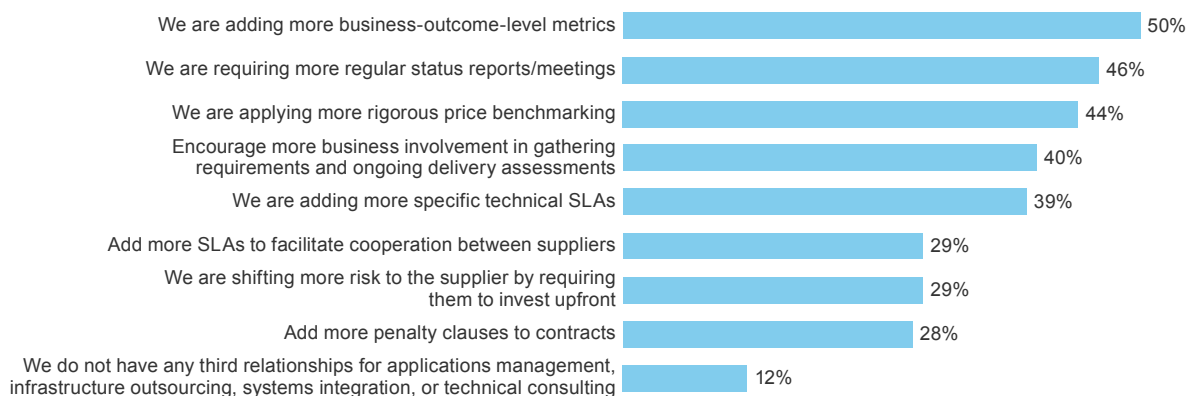


Base: 170 leaders in project firms

Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

FIGURE 8
Project Buyers Prefer Billing Based On Business Outcomes

“What changes, if any, is your firm making to IT services contracts to improve the quality of delivery, adherence to the financial terms (like level of savings), or improve business outcomes?”



Base: 1,050 North American and European enterprise services decision-makers

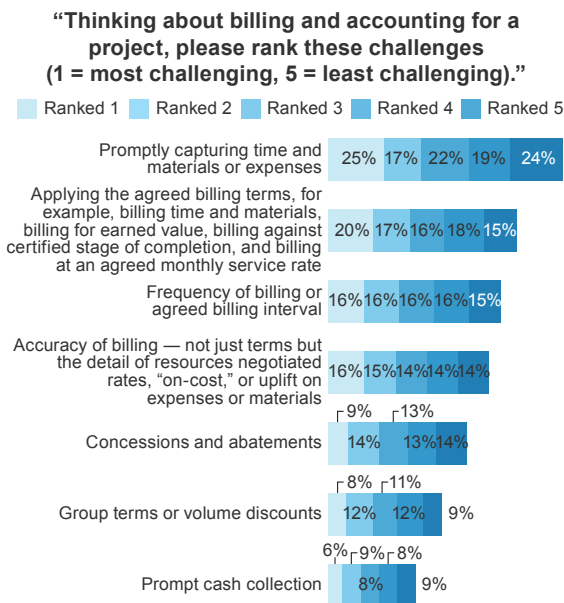
Source: Forrsights Services Survey, Q3 2013, Forrester Research, Inc.

› **Challenges in attributing costs and revenue to projects.** Of our respondents, a majority (64%) ranked as first, second, or third in importance the challenge of promptly capturing time and materials or expenses associated with projects (see Figure 9). A majority (53%) ranked as first, second, or third in importance the challenge of applying the correct negotiated billing policy to each engagement.

› **Continued favorable unbilled WIP to revenue ratios.** Almost all our respondents (96%) experienced an averaged unbilled WIP to revenue ratio of 30% or less over the last three years (see Figure 10). More than two-thirds (68%) of leaders in project firms expect to maintain existing unbilled WIP to revenue ratios in the next three years.

One-fifth (20%) of project firm leaders recognize that the rising complexity of engagements and associated resource pool will increase the ratio of unbilled WIP to revenue unless they improve billing processes.

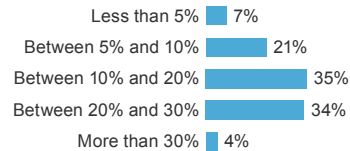
FIGURE 9
Project Firms Face Financial Obstacles



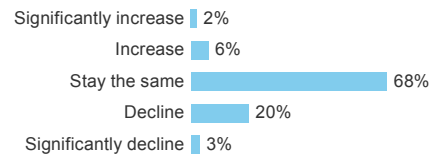
Base: 170 leaders in project firms
Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

FIGURE 10
Project Firms Have Unrealistic Expectations About Maintaining Unbilled WIP To Revenue Ratio

“What do you think was your average ratio of unbilled work-in-process (WIP) to revenue over the last three years?”



“Over the next three years, do you anticipate the unbilled WIP ratio will . . .”

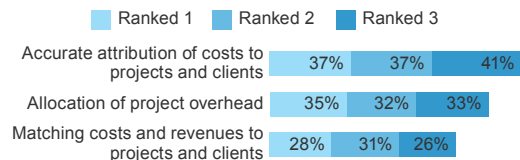


Base: 170 leaders in project firms
Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

› **Revenue and earnings recognition challenges.** Our respondents identified accurate attribution of costs to projects and clients as the main concern, with 74% ranking this as the most important or second most important challenge (see Figure 11).

FIGURE 11
Project Firms Wrestle With Revenue And Earnings Recognition

“Thinking about revenue and profit recognition, please rank these challenges (1 = most challenging, 3 = least challenging).”

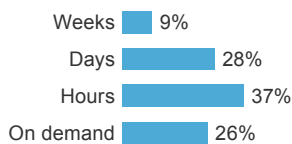


Base: 170 leaders in project firms
Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

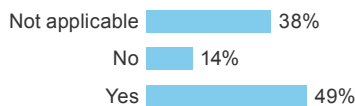
› **Varying levels of ability to report costs and revenues by project and client.** Of our respondents, just over a quarter (26%) claim to be able to generate a profit and loss or income statement by project and client on demand (see Figure 12). Poor grasp of project and resource profitability is usually the result of deploying point solutions instead of project ERP and can lead firms to bid for the wrong type of projects and then staff them with the wrong resources. This is a very significant statistic. Almost half (49%) of project manufacturers claim the ability to tie shop floor costs and activity to each unique project they support.

FIGURE 12
Project Firms Vary In Their Ability To Report Costs And Revenues By Project And Client

“How long does it take to produce a profit and loss or income statement for a specific project or client?”



“If you are a project manufacturer, can you tie shop floor costs and activity to a unique project?”



Base: 170 leaders in project firms

Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

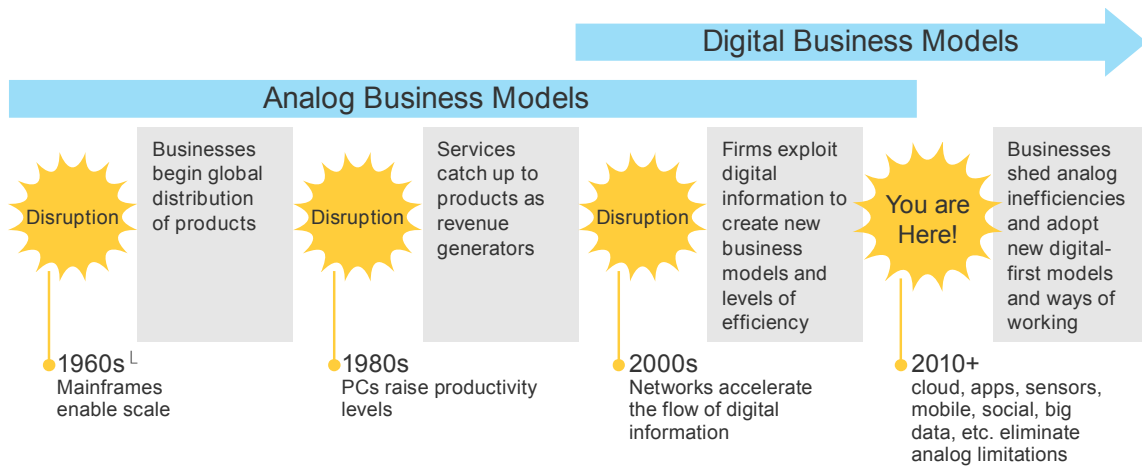
Project Firms Must Adapt To A Changing Marketplace

Our survey respondents showed a streak of complacency, with many expecting to maintain current levels of utilization and margin. They already recognize the difficulty of winning engagements and the challenge of recruiting and matching talents to clients' increasingly complex projects. They also struggle with calculating project-level profitability. This complacency is a concern considering the changes that are occurring in the marketplace. Project firms need to:

- › **Wise up to new business models.** The shift from an analog to a digital economy is driving a shift from ownership to consumption and to new business models and new billing and revenue recognition (see Figure 13). The (US) Financial Accounting Standards Board and International Accounting Standards Board are engaged now on developing new revenue recognition standards that will require project firms to deploy sophisticated project-based ERP with project accounting to comply.
- › **Wake up and smell the project ERP coffee.** Whether they deliver complex systems integration projects or build sophisticated aircraft and satellites, project firms have to reconsider their expectation of continued high utilization and low unbilled WIP. They need to heed the lighthouse signal of their daily struggle with rising project complexity and matching ever more specialist resources to ever more demanding opportunities. They also need to calculate project- and resource-level profitability so they can make smarter decisions on what projects to pursue and what resources to allocate to which projects.

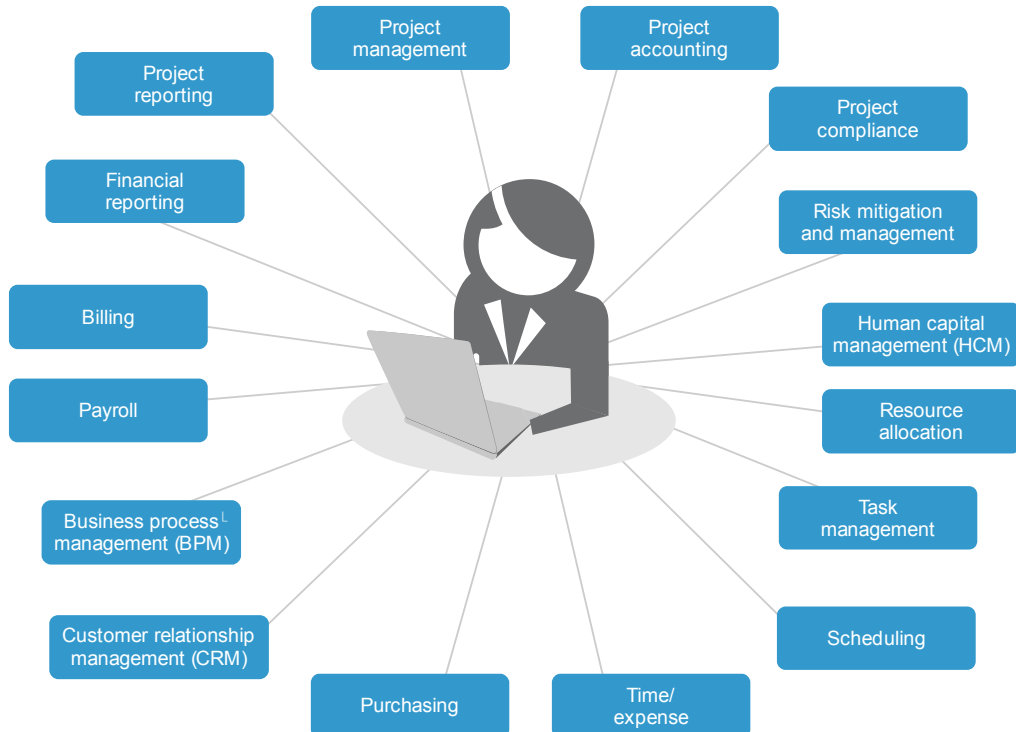
Project firms need to take urgent steps to integrate disciplines like human capital management, business development, bidding execution, financial management, billing, and project/resource management. They need to choose enterprise solutions capable of managing the entire project life cycle: driving more effective project pursuit, staffing, project management, and billing; optimizing resourcing decisions; and supporting new revenue and earnings recognition policies. Firms that choose project-based ERP will be the market leaders and top performers in today's marketplace. Given increasing global competition from known and emerging competitors, firms that miss out on project ERP, to manage all the elements of a project, risk disaster (see Figure 14).

FIGURE 13
Analog To Digital Business Transformation Requires Complex Engagements And New Billing



Source: "Navigate Digital Disruption With An Emerging Technology Vision," Forrester Research, Inc., September 18, 2012

FIGURE 14
Executives Need Easy Access To An Integrated View Of All Project-Related Data With Project-Based ERP



Source: "Market Overview: Project-Based ERP For Service Delivery Professionals," Forrester Research, Inc., January 13, 2012

Key Recommendations

To contend with more complexity, more demanding clients, and more prospective competition, project firms need to abandon the separate spreadsheets, point solutions, and generic ERP systems that many firms use today. They need to embrace powerful project-based ERP systems that can manage the entire project life cycle and are capable of carrying the whole enterprise safely through the storms and shifting sands of competition to a brave new future.

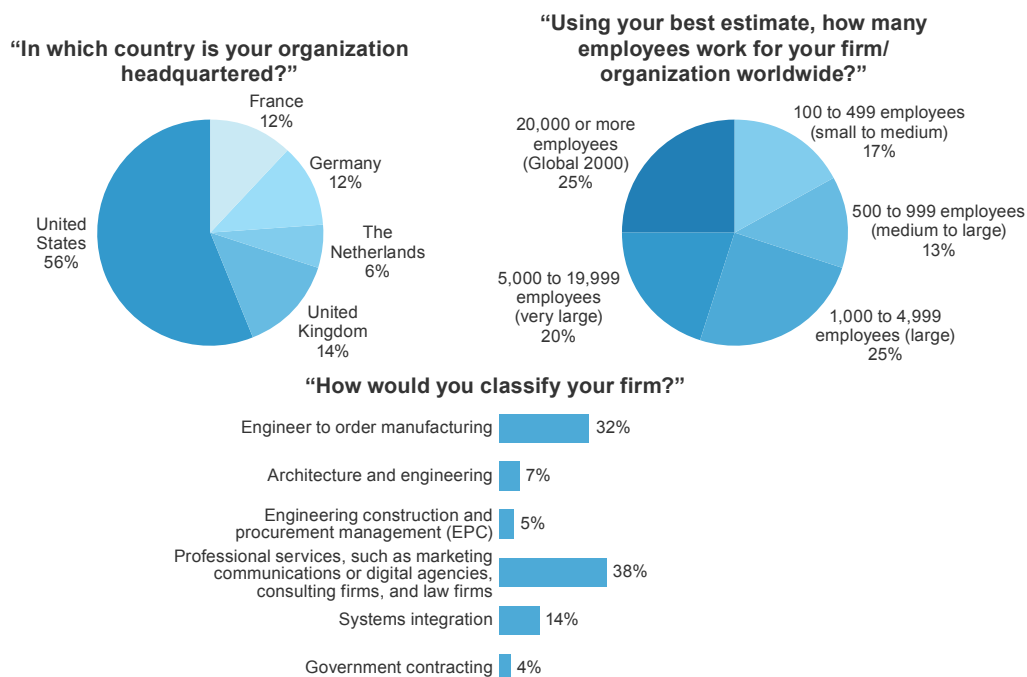
Project firm leaders should benchmark against competitors' key performance indicators such as project win rate and trends in unbilled WIP. They should carefully consider the granularity of project and resource profitability data available to support their decisions. They should develop a future state vision with project-based ERP at the center of their organizations and a transition road map to deliver the supporting applications they need to survive and thrive.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 170 leaders in project firm organizations in the US, UK, France, Germany, and the Netherlands to evaluate their concerns about bidding for and delivering projects, along with billing clients and recognizing revenue and earnings. Respondents were asked to classify their challenges when identifying and qualifying project opportunities, their project winning rate, and the five most important challenges they face once they win a project. The study began in May 2014 and was completed in June 2014.

Appendix B: Demographics

FIGURE 15
Survey Demographics: Location, Size, And Org Type



Base: 170 leaders in project firms

Source: A commissioned study conducted by Forrester Consulting on behalf of Deltek, June 2014

Appendix C: Endnotes

¹ The win rate compares with government contractor win rates of 66% for small firms, 61% for medium firms, and 57% for large firms.

² This compares with 59.4% utilization recorded for architecture and engineering project firms.