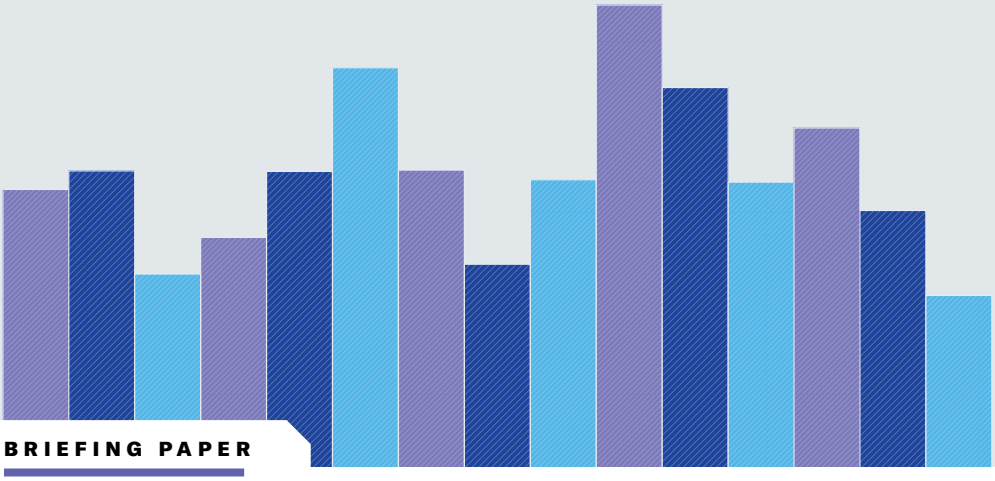
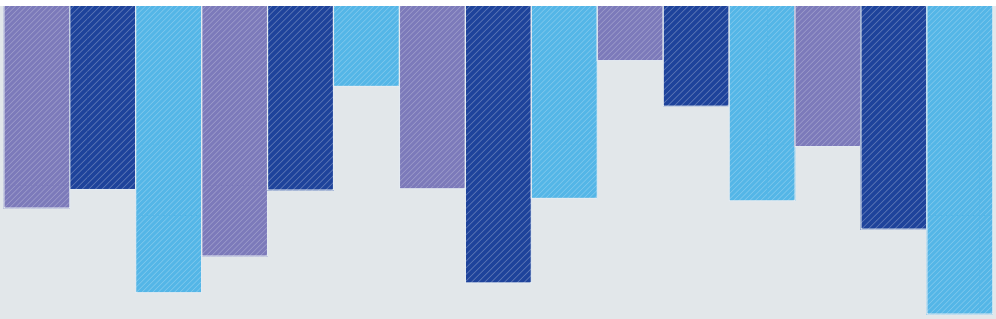
Harvard Business Review
ANALYTIC SERVICES



BRIEFING PAPER

Driving Professional Services Growth with Cloud ERP



Sponsored by

SAP

SPONSOR PERSPECTIVE

Paul Saunders

Head of Product Strategy and Chief Evangelist Cloud ERP

SAP S/4HANA

Twenty-five years ago, in its insights on the Experience Economy, *Harvard Business Review* showed that economic value had shifted from extracting commodities to making goods to delivering services to staging experiences.

For professional services firms, this shift separated the wheat from the chaff. Some of the largest firms leveraged vast economies of scale to expand into new markets while maintaining existing businesses. Their vast armies of finance staff, IT teams, and other administrative functions adeptly contorted outdated customer processes to achieve desired outcomes. Ironically, not all the largest professional services firms follow their own advice when it comes to transformation, optimization, and growth.

With echoes of Sir Francis Drake and the Spanish Armada, midmarket professional services firms have an opportunity to act more nimbly and to outmaneuver their formidable opponents by standardizing their non-differentiating administrative processes, freeing up much- needed resources to focus on providing exceptional experiences to their customers. Many smaller, well-focused niche firms often demonstrate higher levels of customer satisfaction than their behemoth counterparts.

Cloud technologies are the great leveler of competitors, enabling all professional services firms to compete globally at scale. Enterprise resource planning (ERP) has long proved essential in managing professional services' core financial processes alongside human resources, customer demand, project and program activity, and more. Unfortunately, overly customized ERP solutions resulted in unnecessary complexity, cost, and poor performance.

Today, professional services firms are succeeding with software as a service (SaaS) ERP by identifying, standardizing, and automating non-differentiating business capabilities. These capabilities (e.g., tax, treasury, accounts payable) are important and need to be done well, but they don't differentiate the company to its customers. SaaS ERP's core processes are continually optimized based on the experience of the thousands of companies using them. By using such cloud technologies, professional services firms of all shapes and sizes can free up much-needed resources to focus on providing exceptional experiences to their customers.

The past few years have really brought this point home. As customers have placed orders only to have the delivery date shift time and time again due to supply chain and resource challenges, their experience has not been positive.

Major professional services firms know that ERP is not just "back office." When it comes to customer experience, there is no "front office" and "back office." In today's digital experience economy, every interaction with a customer has to be a good one.

We've sponsored research by Harvard Business Review Analytic Services to examine how midmarket professional services firms deliver exceptional customer experiences by leveraging standardized, industry-leading processes within SaaS ERP.

Through interviews with professional services firms that are adeptly navigating storms of continual disruption, this briefing paper will show how they created tangible business impacts that enabled their organization and their customers to optimize, grow, and become more sustainable.

The Experience Economy is 25 years old, and the AI-driven Digital Economy is upon us. SaaS ERP provides the solid platform upon which sustainable differentiation and innovation can thrive.

Read on for invaluable strategies for winning today, tomorrow, and into the future.

Driving Professional Services Growth with Cloud ERP

Professional services firms are global talent brokers, matching an ever-changing roster of full-time and contract employees with the dynamic needs of clients. Billable hours and project milestones, and new metrics such as degree of innovation and Net Promoter Score that indicate customer satisfaction, are the critical indicators firms must track to deliver value to clients while preserving their profit margins.

Gathering, analyzing, and acting on this financial information can be difficult when customers, employees, and contractors operate in countries with different currencies, regulatory regimes, and work cultures. What's more, various types of employees, from developers to project managers to senior business consultants, may bill at different rates.

"All the monthly time tracking and billing must be done at the same time each month to a common chart of accounts," says Christian Haller, a member of the finance council at Nagarro, a Munich, Germany-based digital product engineering company with offices in 33 countries. The lack of clear, consistent, and timely financial information can make it more difficult or impossible for managers to track project costs and revenue, identify cost overruns or skill shortages, and hire the right skilled professionals to complete upcoming projects.

Working across multiple legacy systems raises integration and processing costs and increases the time required to add new practices, offices, or employees. The finance capabilities within a cloud-based enterprise resource planning (ERP) system, which is delivered as software as a service (SaaS), can provide a common platform that allows growing professional services firms to make better and faster decisions by tracking metrics such as employee utilization, intracompany billing, and cost overruns in real time across far-flung and fast-moving organizations.

HIGHLIGHTS

The finance capabilities within a cloud-based enterprise resource planning (ERP) system, which is delivered as software as a service (SaaS), can provide **a common platform that allows growing professional services firms to make better and faster decisions** by tracking metrics such as employee utilization, intracompany billing, and cost overruns in real time across far-flung and fast-moving organizations.

Professional services firms are finding the finance functions within SaaS ERP, such as **intercompany reconciliation, receivables, and billing,** critical to support their expansion into new markets.

Through its automation and flexibility, SaaS ERP **frees resources for value-added tasks, makes it easier to collaborate with a global and remote workforce,** and provides real-time insights to quickly tap new opportunities and provide superior customer experiences.

With such information, they can quickly move scarce talent to the projects that need it most, give clients more accurate updates on the work being done for them, and fix slowdowns more quickly. All this makes for an improved customer experience and lasting differentiation.

Upgrading legacy in-house systems to this best-practice level requires costly, time-consuming hardware purchases and rolling upgrades. In SaaS ERP, such upgrades happen automatically and simultaneously across the enterprise.

This briefing paper describes how the finance capabilities within a single first-tier SaaS ERP solution (which uses artificial intelligence to automate and improve business processes and includes automated risk and control processes) are helping professional services firms meet five key business objectives. These objectives include supporting expansion into new markets, automating and improving processes, accessing information in real time, developing new business models, and improving sustainability and compliance. The paper also provides advice on how to evaluate and implement such solutions.

“We can evaluate how [our] work is being done and how well things are going against our plan,” says Rodrigo Perez Liz, head of the service and construction practice in the Madrid office of Sothis, a professional services firm based in Valencia, Spain, that operates in 35 countries. “As a professional services company, we need to identify the relationship between what is being invoiced and control of the costs associated with a project. With this information, we can truly plan the team’s effort and can truly control the costs, and we can see red lights where a project might be running into trouble.”

Supporting Growth

To grow profitably, professional services firms must quickly and effectively track, manage, and measure client engagements throughout their life cycle.

Professional services firms are finding the finance functions within SaaS ERP, such as intercompany reconciliation, receivables, and billing, critical to support their expansion into new markets. These systems allow them to quickly replicate financial best practices in new geographies or industries without the cost and delay of deploying in-house infrastructure. The best practices within these easily expandable systems allow new business units and employees to become productive quickly and to instantly share critical financial data in a way the rest of the organization can use.

Market researcher Gartner Inc. predicts that global spending on IT services will grow 7.9% from 2022 to 2023 to close to $1.4 trillion.[1]

To secure their share of that market, professional services firms must quickly onboard new employees and contractors, establish new offices, and track a growing number of client engagements. They must also differentiate themselves by

most effectively navigating challenges such as remote working and recruiting and retaining scarce talent.

"As we move into new countries, new regions, and create new business units, we needed something we would be able to implement within three to four months to be able to have a clear view of the international business," says Haller of Nagarro, which is growing by almost 50% annually. This rapid deployment, along with an easy-to-learn user interface, is provided by its SaaS ERP system.

"The same [configuration] in one country can extend to a user in another country" as the company expands, says Haller. "We just pay by the user," he says, with the cloud provider configuring the system for each country's legal requirements. This allows Nagarro to quickly scale to meet demand in new markets or geographies and to realize value more quickly.

Beyond Technologies, a Montreal, Quebec-based technology and business consulting firm, moved to SaaS ERP five years ago so it could deploy the latest capabilities without buying new equipment or waiting for a disruptive, costly upgrade. "The biggest advantage of the cloud is in the fact [that] you're going to have access to the latest technology and functionality you can deploy whenever you want," says CEO Luc Dubois.

"When we took that decision to go to the cloud, our current solution was okay for our business at that point in time," says Dubois. "[However,] we needed a solution that would support our growth organically, geographically, and by acquisition. We knew that in order to be more successful in our journey, we would need better processes and automation and thus a better system—a better solution."

The ability to quickly deploy a cloud-based system with its consistent best practices has helped Beyond Technologies grow to serve four countries and open a service center in Morocco. "We just opened Morocco," says Dubois. "It took the finance folks not even a week to be ready to put transactional data into our system. It was quite easy to do with a cloud-based solution."

Automation and Process Improvement

By standardizing and automating routine, non-differentiating financial functions, growing professional services firms can focus scarce resources on providing exceptional experiences for their clients and outperform global competitors that are still struggling with manual, disjointed legacy financial systems.

Such on-premises systems make it harder to provide the common data needed to streamline or automate processes. Integrating multiple in-house systems and maintaining their integration takes time and money, as do manual calculations and troubleshooting.

A standard SaaS ERP platform can provide consistent, up-to-date, and easily understandable financial data, and the rules for processing it, across the organization. Common data and common best practices also make it easy to automate common processes. At Nagarro, for example, the company's SaaS ERP system speeds processes such as billing among its internal business units or geographies for the work of its consultants. "It avoids a lot of time issuing invoices, controlling invoices, and checking consolidation," says Haller, who estimates SaaS ERP saves 50% in processing costs for intracompany invoicing. It also eliminates the need for invoice-tracking staff in each of the 33 countries in which Nagarro operates.

"Before, we had to print out a list of [overdue customer payments] and go into the system for each customer and make a new transaction to see the details. Today everything is on the database, so you can double-click, go down through each customer, and jump easily to the overdue invoices," says Christian Haller, a member of the finance council at Nagarro.

SaaS ERP also eliminates much of the manual work in tracking overdue customer payments. "Before, we had to print out a list of [overdue customer payments] and go into the system for each customer and make a new transaction to see the details. Today everything is on the database, so you can double-click, go down through each customer, and jump easily to the overdue invoices," says Haller. Compared to on-premises ERP, SaaS ERP provides such capabilities as well as a continuous upgrade path to new technologies as they become available.

By speeding the quote-to-cash cycle, SaaS ERP can give growing professional services firms more capital to weather downturns, hire new staff, or expand into new markets without expensive borrowing. Beyond Technologies' SaaS ERP system has allowed it to invoice customers more quickly and thus be paid sooner. "There are automated jobs we put in AI [artificial intelligence], like accounts receivable matching with our account statements," says Dubois. "We have a 95% success rate, which is a great number. There are some other

SaaS ERP lets decision makers quickly drill into the details of metrics such as utilization or cost that exceed normal limits.

year-end transactions we are going to try to automate, which is part of our plan for 2023."

Among the SaaS ERP functions Sothis has found valuable are the ability to scan invoices into the system and correct only those that did not scan properly and the ability to route financial information to decision makers without using email, says Perez Liz of Sothis.

Real-Time Information

Knowing when a client engagement is going off track can be especially hard in professional services. Clients' expectations may increase when they first see a new product or service in action. Their willingness to engage in the project may drop when an executive champion leaves or when their revenue falls. Even more than in other industries, a lack of skilled talent in hot technology areas makes resignations, sicknesses, and geopolitical travel barriers harder to manage. The more quickly and effectively a professional services firm can respond, the better it can meet project milestones without incurring excessive costs and provide a superior client experience.

To adapt to such changes, management needs instant and accurate visibility into the state of each project, the number of hours and billing rate of each team member, and the project's budget and schedule. If the professional services firm is drawing on a global staff or gig workers, all this data must be gathered from multiple geographies and business units.

Gathering this data from multiple financial systems with varying data models and user interfaces can be time-consuming and expensive and introduce manual errors that take even more time and money to correct. Worse yet, this delays the redeployment of staff to meet the project's goals without reducing or eliminating the profit margin on the project.

Beyond Technologies' most important KPI is utilization, the percentage of its employees' and contractors' time that can be billed to clients. Beyond Technologies needed a tool that could translate utilization into revenue while accounting for the billing rates of its various employees and contractors. It also needed to incorporate information about its sales pipeline to adjust its hiring based on future utilization rates.

"We have a CRM [customer relationship management] system always integrated with our ERP, and the HR system integrated with our staffing tools and ERP as well," says Dubois. That helps the company quickly determine when it needs to hire and when it can afford to divert staff from billable projects to train them in new technologies.

Using such real-time data, Beyond Technologies might, for example, increase its hiring from 20 to 35 new staff for a given month. That would allow it to complete more work for clients rather than push those projects into the future.

"We need quick access to the data to analyze the data, why figures are not as expected, where something has deviated anywhere across the world," says Haller. SaaS ERP lets decision makers quickly drill into the details of metrics such as utilization or cost that exceed normal limits.

"Before implementing the system, the month-end closing took us more than a week," says Perez Liz. "Now we can do it in three days."

Support for New Business Models

Just like the customers they serve, professional services firms must offer new delivery and pricing options for customers for which the traditional models (such as fixed-priced projects or monthly time and material billing) are too expensive or inflexible. Joining larger peers that are already doing so, some smaller organizations are experimenting with subscription-based billing, in which a professional services firm performs an agreed-upon scope of work for a fixed price every month. Others offer outcome-based pricing, in which the professional services firm's compensation is linked to the business results of the engagement, not just the work it did.

Beyond Technologies hopes to use its SaaS ERP system to offer its customers subscription-based billing, tracking the amount and costs of work it does for each customer each month and allowing the customer to "bank" unused hours for use in future months. Gathering and analyzing this information and its implications for profit margins for staff operating in different countries, billed at different rates for multiple projects, are much easier with a single enterprise-wide financial system than with disparate systems in various geographies or business units.

Sustainability and Compliance

Businesses worldwide are seeking to reduce their environmental impact and to comply with a growing number of increasingly complex regulations. Professional services firms are no exception. "We have a sustainability charter

A lack of skilled talent in hot technology areas makes resignations, sicknesses, and geopolitical travel barriers harder to manage. The more quickly and effectively a professional services firm can respond, the better it can meet project milestones without incurring excessive costs and provide a superior client experience.

"Resist the temptation to lowball and then maybe in a year or two need to re-implement a new system. I see a lot of my peers making that error. Go all in with a tier one system. You want this to be your last ERP system—your last implementation," says Luc Dubois, CEO of Beyond Technologies.

to monitor our emissions," says Dubois. "Travel is where we spend much of our global 'budget' of emissions." The ability of its SaaS ERP solution to track its emissions was an important factor in choosing that solution, he says. While Beyond Technologies has not met its emissions objectives, it now has the information to work with its clients on ways to reduce travel, he says.

A single first-tier SaaS ERP system also eases compliance. "We are across the world in 33 countries from the Philippines to India to China, Europe, and the U.S. and South America," says Haller. His cloud-based ERP system covers all the legal and compliance requirements for all those areas.

Managing the Transition

Moving from a legacy ERP system to SaaS ERP can be anything but seamless. Here are several common pitfalls and how to avoid them:

Thinking short term.

Professional services firms may be tempted to focus on the immediate outlays involved in moving to the cloud rather than on the ultimate expense of failing to do so in the most cost-effective fashion. In choosing a SaaS ERP system, "resist the temptation to lowball and then maybe in a year or two need to re-implement a new system. I see a lot of my peers making that error," says Dubois. "Go all in with a tier one system. You want this to be your last ERP system—your last implementation."

Dubois estimates that using a single platform saved Beyond Technologies as much as $300,000 in up-front integration costs and another $150,000 per year in maintaining the integration, developing workarounds, and processing transactions that couldn't be handled by the disparate systems.

With SaaS ERP, says Dubois, "you know it's going to work." At Nagarro, "we don't want any extra local solutions," says Haller. "One common solution, one common setup, one common database."

Over customizing.

Several customers also recommend adapting business processes to the best practices embodied in a first-tier SaaS ERP solution rather than customizing the software to fit traditional ways of working.

"Try to go with the standard as much as possible," says Perez Liz.

"Don't pretend you have a secret sauce for a professional services organization," says Dubois. "The processes, such as who is going to invoice a customer, are well defined. If you need to transform your organization to be more efficient, do it."

Vendor-supplied industry applications that integrate with SaaS ERP solutions can mitigate the need for customization in some cases where standardized processes may not meet a customer's needs for innovation and differentiation.

Doing too much too fast.

Dubois warns against trying to drive too much change too quickly when adopting the best practices within a SaaS ERP system. "If you need to raise your maturity level, don't go from level one to level three or from level one to level four. Go from level one to two." This minimizes the disruption to the organization and maximizes the adoption of the cloud system, speeding the return on investment, he says.

"Try to tackle only what you really need in the beginning, and once you have full control of how you're working with the tool in six months or so, you can begin to think about the next step and how to evolve," says Perez Liz.

Identify two or three KPIs for each workstream that need improvement and monitor them regularly, says Dubois. "You need to focus on those KPIs to increase your customer satisfaction, to lower your working cash flow, to increase your margin." He also suggests looking for best-in-class reporting capabilities from a SaaS ERP solution that allow business analysts to easily create new reports without help from IT.

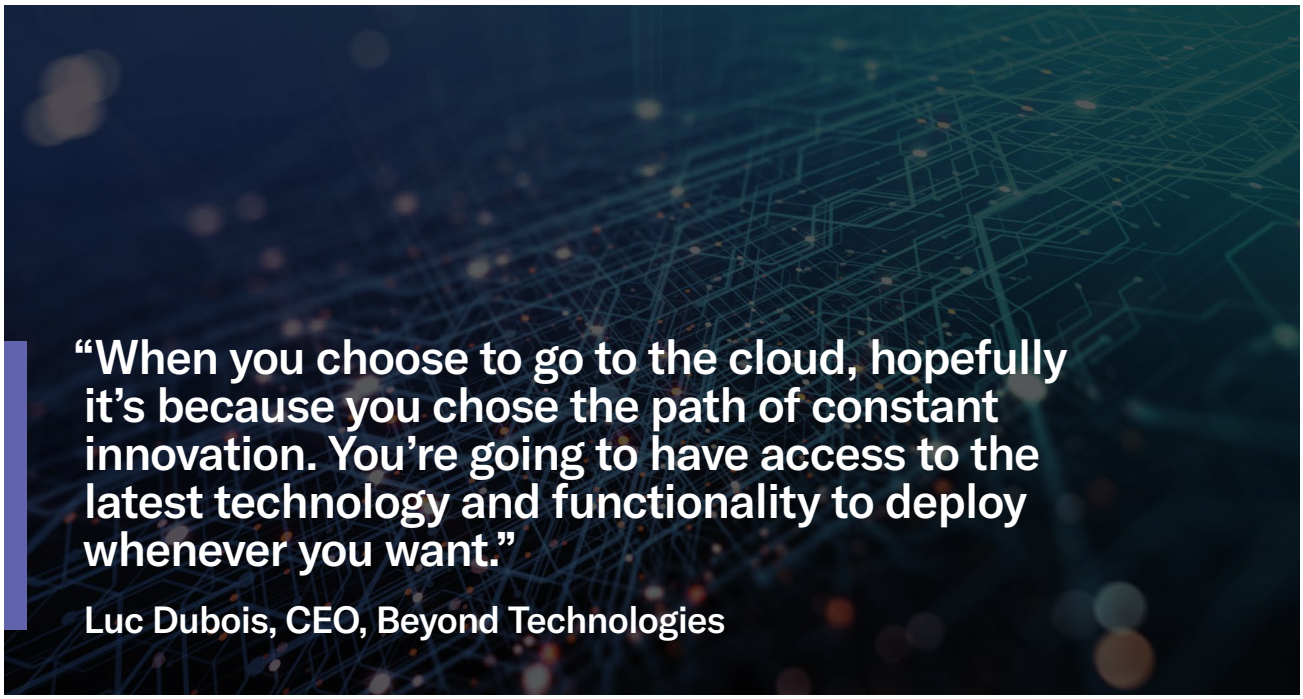
Failing to communicate.

As with any new technology, good change management—explaining why the business is adopting this new system and adapting its processes to it—is critical. Deploying SaaS ERP in a professional services environment requires communicating the benefits in terms key stakeholders can understand.

"Every single CFO wants to have their own report the way they want it," says Perez Liz. To convince such users to accept the best practices in a SaaS ERP system, he suggests asking them to perform several months of financial closings with only the standard reports. "If you can survive the first three months'

“Try to tackle only what you really need in the beginning, and once you have full control of how you’re working with the tool in six months or so, you can begin to think about the next step and how to evolve.”

Perez Liz of Sothis



closings, maybe you don’t need more information,” Perez Liz explains. “Before you commit to providing a custom report, be sure it’s not something the system is already providing.”

Conclusion

SaaS ERP enables professional services firms to compete and grow globally by standardizing and eliminating the manual effort of core financial processes. Through its automation and flexibility, SaaS ERP frees resources for value-added tasks, makes it easier to collaborate with a global and remote workforce, and provides real-time insights to quickly tap new opportunities and provide superior customer experiences.

The adaptability and easy data access of SaaS ERP solutions speed the launch of new service areas or geographies, automate routine functions, enable new business models, and help meet existing regulatory requirements and emerging needs such as emissions tracking.

But successful use of such platforms requires long-term thinking and change management. This includes convincing users to adapt their work styles to the best practices within the platform rather than adapting the platform to them, and not driving change more quickly than the organization can handle. Improving processes at a manageable speed helps boost adoption, customers say.

“When you choose to go to the cloud, hopefully it’s because you chose the path of constant innovation,” says Dubois. “You’re going to have access to the latest technology and functionality to deploy whenever you want. You don’t need to wait for a big upgrade. That is a game changer.”

Endnote

1 Gartner, Inc., “Gartner Forecasts Worldwide IT Spending to Grow 5.1% in 2023,” October 19, 2022. https://www.gartner.com/en/newsroom/press-releases/2022-10-19-gartner-forecasts-worldwide-it-spending-to-grow-5-percent-in-2023.

Harvard Business Review
ANALYTIC SERVICES

ABOUT US

Harvard Business Review Analytic Services is an independent commercial research unit within Harvard Business Review Group, conducting research and comparative analysis on important management challenges and emerging business opportunities. Seeking to provide business intelligence and peer-group insight, each report is published based on the findings of original quantitative and/or qualitative research and analysis. Quantitative surveys are conducted with the HBR Advisory Council, HBR's global research panel, and qualitative research is conducted with senior business executives and subject matter experts from within and beyond the *Harvard Business Review* author community. Email us at hbranalyticservices@hbr.org.

hbr.org/hbr-analytic-services

Copyright © 2023 Harvard Business School Publishing.

MCCRE37760523