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HOW IMPROVED PROJECT MANAGEMENT PERFORMANCE DRIVES RESULTS FOR PROFESSIONAL SERVICES COMPANIES

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Economic uncertainty has had a significant impact on companies all across the world. As professional services organizations return to stability they must factor-in the impact of the uncertainty on the industries they support, in addition to the pressures that they face managing their own operations. This report examines the pressures that professional services organizations are under, the actions they are taking to address these pressures, and the capabilities and investments they have in place to facilitate those actions.

Changing Needs Put New Pressures on Today's Professional Services Customers

The top business pressures that all companies face are being driven by changing customer needs, changing business models, increased demand volatility, and lack of external collaboration (see sidebar on next page). Due to the economic uncertainty, the ability to interact with customers – other than by phone or video meeting – has been limited at best. This has made it difficult to quantify the customer's ability to quickly adapt or to get a sense of how strong their resiliency might be. Not knowing exactly how their business model might change going forward is still an unknown variable to some degree as companies recover. Even as they experience resiliency, companies may need to further adapt to prepare for the future.

This is the state of the business landscape that professional services companies currently face as they approach many different and potentially volatile markets to offer their project management expertise. Understanding these pressures is critical to their ability to assist their customers in further adapting beyond their existing resiliency and preparing for the future.

Business Pressures and Challenges Affecting Professional Services Organizations' Portfolio and Project Management

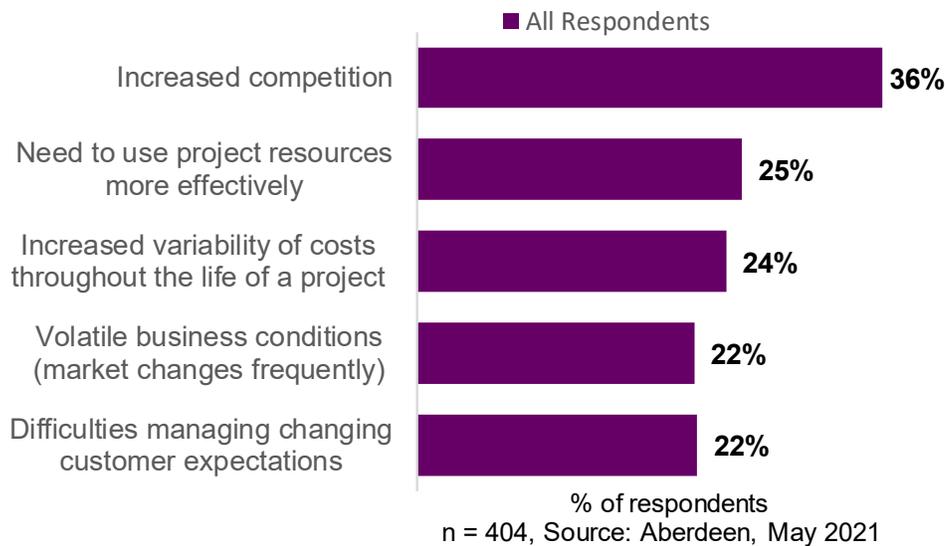
In addition to understanding the market issues their customers face, professional services companies have their own pressures and

The Aberdeen maturity class framework is comprised of three groups of survey respondents. This data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- ▶ **Best-in-Class**
Top 20% of respondents based on performance
- ▶ **Industry Average**
Middle 50% of respondents based on performance
- ▶ **Laggard**
Bottom 30% of respondents based on performance

challenges that specifically affect project and portfolio management as shown in Figure 1. The number one pressure that stands out is the increased competition at 36%, which is by far the leader. With travel and on-site delivery being limited, the entire business service industry is ready to engage the pent-up demand with all the innovative business insights and techniques they can bring to the table.

Figure 1: Portfolio and Project Management Pressures



Business Pressures, All Companies

Changing Customer Needs: 32%

Changing business models to adapt to the market: 31%

Increased demand volatility: 25%

Lack of collaboration externally with customers/suppliers: 24%

Professional services organizations have other challenges as well, such as using project resources more effectively. Having the right person with the right skills mapped on every project or assignment is the goal. This should be decided at the quotation level if possible. As portfolios fill up, this becomes more difficult as the most versatile and qualified resources become scarcer.

The same volatile business conditions and changing customer expectations also have an impact on professional services businesses, but they are not as great an impact as increased competition. Increased variability of costs throughout a project may also be impacted, but the level of change encountered on a project could also be due to the uniqueness of the demand to satisfy customer expectations.

Definition of Maturity and Performance Levels

Before moving forward, it is important to define the maturity levels for our research respondents which we will use moving forward. For professional business services companies it is extremely important, because of its impact on why Best-in-Class companies are such a factor in determining

a direction forward. Table 1 provides the maturity levels for the Best-in-Class companies (top 20%) compared to All Others (remaining 80%). The first two metrics are key for professional services since they are the critical metrics for project management success: on-time and under budget.

Table 1: Best-in-Class Maturity Matrix

Performance Metric	Best-in-Class	All Others
	Top 20%	Remaining 80%
Average percentage of projects delivered on-time or early	84%	57%
Average percentage of projects delivered within budget	85%	59%
Improvement in productivity over the past two years	21%	6%
Improvement in profitability over the past two years	19%	4%

In both cases the Best-in-Class are significantly higher than their competition by a 47% higher on-time percentage and a 44% higher percentage of projects delivered within budget.

On business metrics that all organizations track, the Best-in-Class are over 3.5x the productivity improvement over the last two years and 4.75x the profitability improvement over the last two years compared to All Others. Simply stated, Best-in-Class companies perform significantly better which is supported and demonstrated by their superior capability advantages and continued investment in technology.

Strategic Actions Prioritized in Response Project Portfolio Management Pressures

To address the pressures shown in Figure 1, Best-in-Class companies have undertaken specific actions to offset these pressures in areas where they don't already have sufficient specific capabilities in place. These strategic actions are shown in Figure 2. Balancing the portfolio with project resources and aligning it with the corporate/financial strategy stand out as most important actions identified by the Best-in-Class that will make a significant difference based on the challenges that companies are facing. This is another form of balancing demand against capacity,

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where capacity in this case are the project resources that the organization has. Staying within their capacity to create a feasible portfolio is the key. There may be opportunities that appear attractive but aligning with project resources is a guard against over-committing. Aligning with the strategy and financial resources moving forward will keep the organization on track and avoid any unnecessary risks. Professional services companies are in position to take advantage of growth opportunities, but need to proceed cautiously to avoid unnecessary risk given the competition and uncertainty that exists.

Figure 2: Strategic Actions



Managing against fixed price constraints tracks directly with the Best-in-Class performance metric of 44% higher percentage of projects delivered within budget.

At the project level, increasing communication with clients throughout the life of a project ensures that no stone is left unturned in addressing customer needs and making sure that project resources are in sync with the latest expectations. Implementing best practices and soliciting feedback from all stakeholders, internally and externally is a reminder to not overlook the viewpoint of those who are closest to the action.

Process Capabilities That Determine Project Outcomes

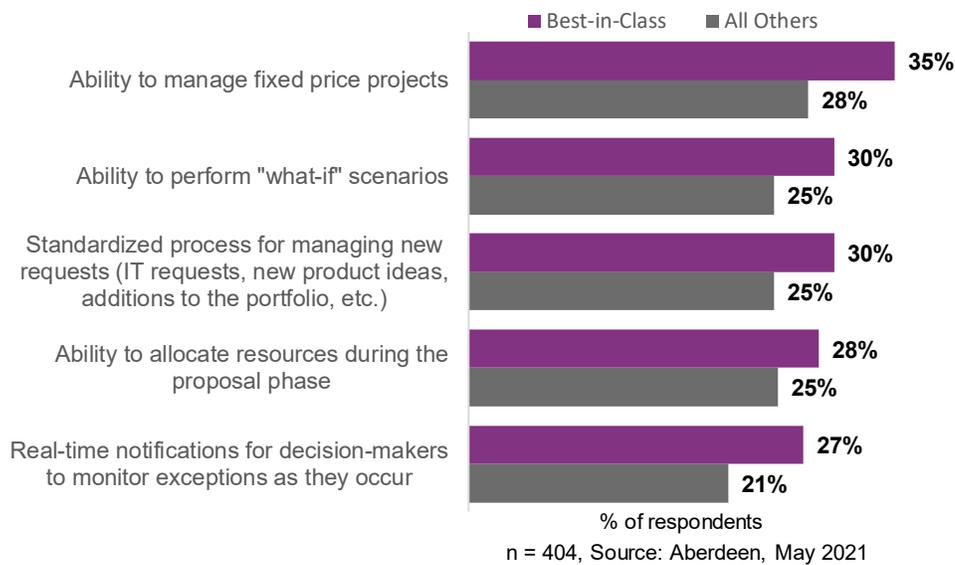
Examining the capabilities that are in place for the Best-in-Class compared to the competition starts with fundamental project management processes as shown in Figure 3. In every case, the Best-in-Class have a competitive edge. Managing against fixed price constraints tracks directly with the Best-in-Class performance metric of 44% higher percentage of projects delivered within budget.

The ability to perform “what if” scenarios contributes to the Best-in-Class performance edge. This is done by enabling the testing of plans at the

portfolio and project levels for upside, downside, risk, and most-likely scenarios, which allow organizations to develop contingency plans and strategies to mitigate/minimize any negative impact, or take advantage of positive impacts to the plans.

Standardizing the process for managing new requests promotes efficiency and avoids wasted time and duplication of effort when there is no process in place.

Figure 3: Project Management Process Capabilities



Real-time notifications as exceptions occur is a significant capability factor in keeping a project on schedule by alerting any out-of-tolerance condition so that action can be taken in a timely manner.

Allocating resources during the proposal phase ensures that there are no surprises that occur when a project begins, and resources are prepared in advance for what is expected. This eliminates any last-minute scrambling to staff a project, which can create an impression of disorganization and/or chaos in the very beginning phases of a project, when control and organization are important objectives to convey when a project begins.

Real-time notifications as exceptions occur is a significant capability factor in keeping a project on schedule by alerting any out-of-tolerance condition, so that action can be taken in a timely manner. This has a direct impact on the Best-in-Class 47% higher performance metric of “projects delivered on time or early.”

Organizational Capabilities That Drive Performance

Figure 4 provides capabilities that incorporate how companies are set up or organized to deal with several challenges. In all cases the Best-in-Class have a significant advantage. The first one is the self-service

capacity for access to data, which eliminates bottlenecks for access. This does not mean there are no controls, but rather that authorization has been granted to those who have a need and have demonstrated a responsible approach to data management and/or decision making.

In many cases there may have been some shifts/modifications in standard business processes that may require some tailoring of a solution to accommodate these changes. Recognizing that adjustments must be made to incorporate these changes and clearly identifying what the specific change is might require some project management efforts to understand what is needed. These may be procedural and/or process based and should *not be* assumed to mean “customizing software.”

Figure 4: Project Management Organizational Capabilities



Clear ownership over who makes the decision at the portfolio level for what projects are incorporated into the portfolio and having a defined client manager are both key organizational decisions that make a difference and drive performance.

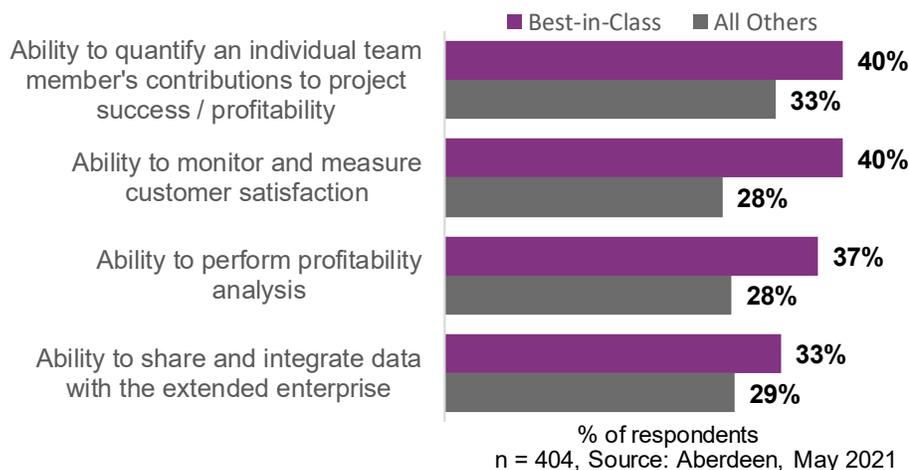
Clear ownership over who makes the decision at the portfolio level for what projects are incorporated into the portfolio and having a defined client manager are both key organizational decisions that make a difference and drive performance. Defining clear process owners in both cases lets the organization know how decisions and communication will occur at both the portfolio, as well as the project management levels. This eliminates redundant meetings and speculation to determine who is in charge or how a decision will be made and communicated to a client.

Performance Management Capabilities for Measurement

Performance management capabilities address what progress and successes get measured, and how. Figure 5 identifies key performance

management capabilities. The first one is the ability to quantify and connect individual team member's contributions to the success and profitability of the project which creates ownership of success for each team member. Best-in-Class companies are 21% more likely to have this capability in place compared to the competition. Project success is more likely when defined roles can be mapped to success so that every member shares in the outcome. Having a customer focus by monitoring and measuring customer satisfaction is also critical. Best-in-Class companies are 43% more likely to have this measurement capability in place. Delivering on-time and under budget is essential for success, but customer satisfaction is emphasized by the Best-in-Class and may lead to more profitable opportunities, which is why they are 4.75x higher than All Others in profitability improvement. What gets measured will drive improvement. This could be a call-to-action for All Others and may explain why their financial performance lags that of the Best-in-Class.

Figure 5: Performance Management Capabilities



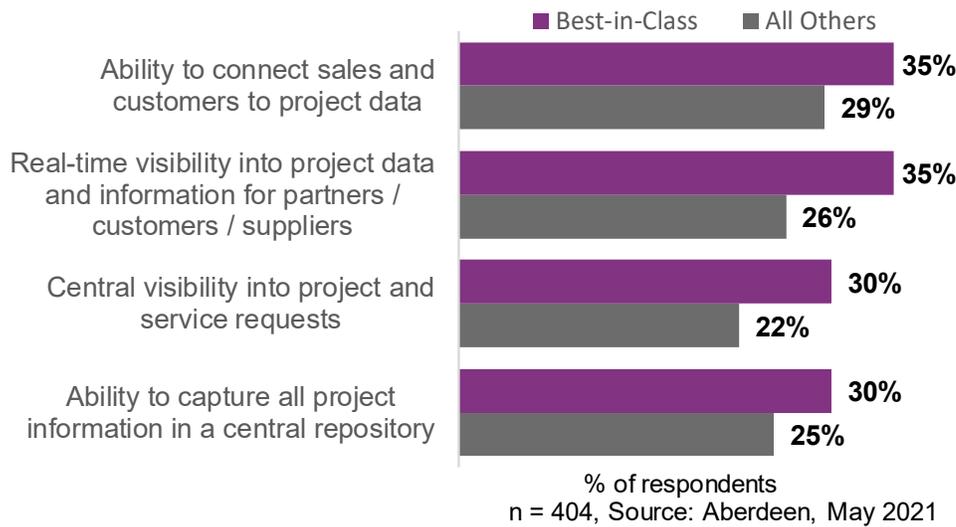
The ability to perform a profitability analysis is another area that the Best-in-class have a significant advantage and would clearly be very supportive in contributing to the financial profitability results.

Knowledge Management Capabilities Provide Insights

Figure 6 indicates the knowledge management capabilities for the Best-in-Class compared to All Others. Data visibility, connectivity and centralization are critical for project management support and success.

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Figure 6: Knowledge Management Capabilities



Real-time visibility into project data and information for partners, customers and suppliers, and the ability to connect sales and customers that data, are at the top of the list for knowledge management. This provides the visibility for all stakeholders, so that they are informed at all times. The Best-in-Class are 35% more likely to have this information in real-time compared to All Others. Real-time data coupled with alert notifications when an exception occurs, explains why they are so much higher in their *on-time delivery* and *within budget* performance metrics, along with their significantly higher profitability improvement.

Central visibility into project and service requests streamlines communication across project management teams and breaks down silos of data and processes. These breakdowns are likely to occur when project teams are working remotely at multiple sites and also due to customer office closures. Having visibility into project and service requests ensures that all options are in view when decisions are made. Centralization is also a catalyst for real-time data dissemination. As soon as data becomes available, it can be known by all.

Technology Enablers

Supporting all the capabilities that showcase the leadership and superior performance the Best-in-Class have in comparison to their competition, are the continued investment in technology as shown in Figure 7.

Cloud Adoption

Cloud Based:

- ▶ Best-in-Class – 30%
- ▶ All Others – 21%

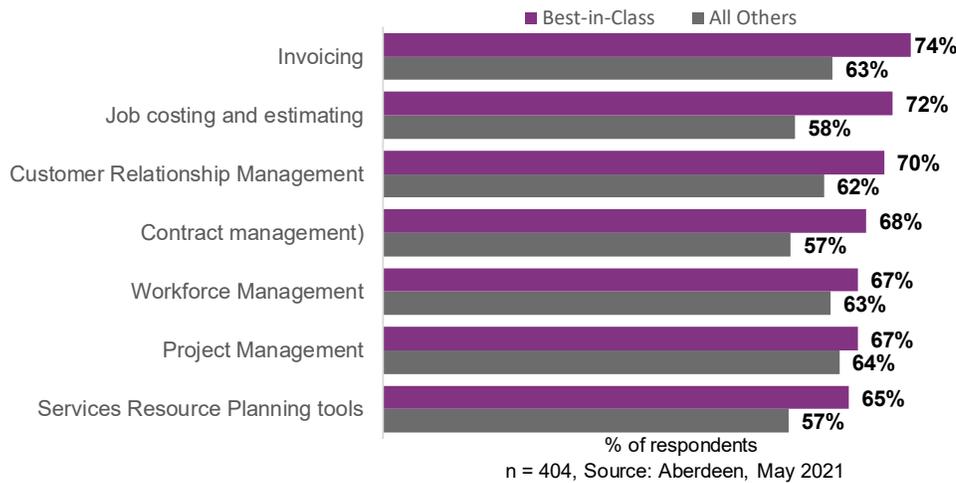
Hybrid:

- ▶ Best-in-Class – 40%
- ▶ All Others – 45%

On Premise:

- ▶ Best-in-Class – 28%
- ▶ All Others – 32%

Figure 7: Continued Technology Adoption



Best-in-Class companies have a higher adoption level across all of the solutions, but the first four are much larger. Job costing & estimating, invoicing, CRM and contract management are differentiators by wide margins than the rest of the solutions indicated. Job costing and estimating is the tool that provides the ability to properly gauge the true expected cost and accuracy of costs, which leads to more informed decisions that contribute to a 44% higher percentage of projects delivered within budget and a 4.75x higher profitability improvement. Invoicing also contributes to the financial performance and reduces revenue leakage by replacing manual processes, which is reflected in the 3.5x productivity improvement for the Best-in-Class compared to All Others.

CRM is certainly helpful in managing customers and partners online, but it is also reflected in the much greater likelihood that Best-in-Class companies are 43% more likely to measure customer service. Contract management also provides several benefits that contribute in many ways to performance improvements. Having a contract management system is a great assist to establishing and creating contracts, with workflow signoffs that greatly improves productivity. It also facilitates a shorter sales cycle because of shortened approval cycles and tracking of actual vs. budgeted contract targets for resources and expense in a central repository. Having a digital contract improves productivity for all involved. Typically, every new customer has a unique contract that must be dealt with, where the terms conflict. All companies must deal with it as a part of business, but it's much quicker to run automated comparisons versus manual comparisons and the turnaround is much quicker.

Project Management KPIs

Average Percentage of customers that report better than average satisfaction:

- ▶ Best-in-Class – 81%
- ▶ All Others – 60%

Organizations win ratio (the percentage of projects your organization bids for that it closes):

- ▶ Best-in-Class – 66%
- ▶ All Others – 49%

Average Rate Realization (amount of revenue earned as a percentage of revenue expected based on list prices):

- ▶ Best-in-Class – 79%
- ▶ All Others – 61%

Additional Project Management KPIs

In addition to the performance metrics utilized in the definition of the Best-in-Class, there are several KPIs provided in the sidebar that further support the significant performance results of the Best-in-Class companies. The Best-in-Class are:

- ▶ *44% higher in their average percentage of customers that report better than average satisfaction*
- ▶ *35% higher in their organizations win ratio (the percentage of projects your organization bids for that it closes)*
- ▶ *30% higher in their average rate realization (amount of revenue earned as a percentage of revenue expected based on list prices)*

Summary and Key Takeaways

Professional services organizations have been affected by the economic uncertainty by increased competition and changing customer expectations. There is also a wide variability across the spectrum of industries that they support with their professional services capabilities which adds to the volatility.

Best-in-Class companies have significant capability advantages compared to their competition when it comes to centralized information and visibility into project status at all levels in terms of data access, performance management, organizational, and knowledge management insights.

These advantages translate into performance advantages in projects completed on time and under budget. The Best-in-Class also have an advantage on other key performance indicators such as profitability and productivity improvements, customer satisfaction, and win ratio percentage.

Aberdeen recommends that professional services organizations follow the lead established by Best-in-Class companies in their continued technology investments. Doing so will enable superior capabilities in all facets of project management performance to drive better business results.

Related Research

- ▶ [Talent, Improved Insights and Agility Lead the Way for Recovery and Growth for Professional Services Firms](#); May 2020
- ▶ [Delivering On the Promise of Data-Driven Insights for On-Time / Under Budget Project Management](#); July 2019
- ▶ [Making Informed Decisions with Improved Transparency](#); May 2019

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