



White paper

Five Ways CFOs Can Increase Project Profitability

Sage

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The services industry's mandate: project profitability

In fast-paced services industries, savvy CFOs are tracking numerous key metrics like net income, current ratios, working capital, cash balance, DSO, gross margins, and more. But the one metric that may matter more than any other for long-term growth for professional services firms: project profitability.

The nature of the “project” can range from a technology implementation or ad campaign to a marketing event, research study, or countless other outsourced services. But the one constant? Each project typically has a beginning, an end, and employees and contractors assigned to deliver the service. Contracts can be short-term or last for years. Billing terms can also vary widely such as time and materials or fixed fee based on milestones. Since every project is unique, it's essential for you to clearly and quickly understand an individual project's profitability as well as the profitability of different classes of projects. After all, once you sign that contract, you own the outcome, whether it's profitable or not.

Project profitability isn't the job of just one individual or department. When you're seeking to raise your game with project

profitability, you need teams that can collaborate throughout project lifecycles and across functional disciplines. Sales must bid on the right projects at the right fees. Project managers need to assign the right resources to that project. And your talented professionals have to deliver their work

on-time and on-budget. While all of that happens, you're charged with monitoring budgets vs. actuals to avoid overruns, ensure profitability—and analyze the data to make even better bids in the future.

Here are five important steps your firm can take to achieve, preserve, and enhance project profitability.

1. Track the right metrics

With so much data (in so many formats across extensive timeframes), it's tempting to generate screen after screen of reports, analyses, and statistics. But amid all of the information you can access, you don't want to lose sight of what matters most. One crucial step toward improving project profitability is to determine which metrics are important to your firm's success. These five top KPIs for services organizations from Services Performance Insight can be a great starting point:

- Billable utilization
- Project overruns
- Project margins
- Annual revenue per billable consultant
- Annual revenue per employee

Consider these metrics as you develop the right set of metrics for your organization to increase project profitability.

Project profitability in action: CTI Clinical Trial and Consulting Services

CTI Clinical Trial and Consulting Services (CTI) supports life sciences firms worldwide. It's largest expense: labor from doctors, scientists, nurses, monitors, and project managers who work on clinical trials in more than 25 countries.

CTI uses Sage Intacct's project accounting features to capture all employee billing rates and standard costs, so teams can easily calculate labor costs, manage project resources, and issue project and time-tracking reports directly from Sage Intacct. Previously, a project accountant spent numerous days gathering data from two Microsoft Access databases and manipulating it in Excel to build monthly labor reports.

“Sage Intacct lets us create utilization, efficiency, and expense reporting at the project, task, department, or customer level for granular transparency into our labor costs and profitability across various operational categories.”

Brian Lawrence, Senior Director of Finance and Taxation

Sage Intacct value

- Cut project reporting time by 16 hours/month.
- Gained granular transparency into labor costs and profitability.

2. Carve out analysis time

Having the right data is one key to profitability. But, to make the right decisions, you also need time to analyze the data and make recommendations. According to a PWC survey, top-performing finance organization spend 20 percent more time on analysis vs. data gathering.¹ Modern, cloud-based accounting software automates your finance and accounting processes and eliminates duplicate data entry by easily integrating with third-party tools.

Project profitability in action: Goodway Group

Goodway Group, a rapidly growing digital marketing agency, could no longer depend on QuickBooks. The finance team was spending all its time preparing financials that show historical, descriptive data. By the time the reports were ready at end of the month, it was time to do it all over again.

With Sage Intacct, Goodway Group gains insight into its financials across a variety of dimensions, such as specific projects, segments, clients, vendors, or employees. Now, executives can analyze campaigns, clients, and segment-level profitability—not just an aggregate P&L.

“By understanding the cost of sales and profitability for each industry we’re in, our segment leaders can spot market opportunities, define strategic plans, and make more informed decisions.”

Mark Mead, Vice President of Finance

Sage Intacct value

- Team saved 40-plus hours/month on allocations.
- Gained visibility into segment profitability for informed growth decisions.

3. Create dashboards for project managers

Ernst & Young found that 67% of 769 CFOs surveyed believe improving cross-functional collaboration is a high priority for finance.² This is especially true for project-based companies where project managers and client services drive project execution and profitability. Finance can improve collaboration with project managers by providing information they need to be more efficient and make better decisions.

Project profitability in action: Red Door Interactive

This full-service marketing and advertising agency is known for its data-driven approach to expanding brand awareness, improving customer experiences, increasing leads, and growing loyalty and advocacy, a commitment that even extends to the finance team.

Leveraging the rich reporting in Sage Intacct, Red Door Interactive built a custom unbilled revenue report that tracks time and materials for retainer and hourly projects. Now, the firm can compare its completed project work vs. target client budgets and see how much budget remains. A Sage Intacct executive dashboard displays the firm's twelve-week cash forecast. Client Services dashboards feature sales reports, aging summaries, and invoices in process, while department dashboards show quarterly and annual budget vs. actuals.

“We love Sage Intacct’s permissions-based dashboards, which cut days of report preparation each month, because we’ve created helpful self-service dashboards where our executives, client services team, and department heads can find relevant, timely business insight.”

Natalie Bonczek, Controller

Sage Intacct value

- Saved about 55 hours on monthly workflows and reporting.
- Achieved new insights through self-service dashboards.

4. understand the true nature of fixed-fee project costs

The trend toward fixed-fee projects and value-based pricing continues. According to TSIA, 50% of professional services projects they analyzed are sold on a fixed-price basis across the industry. If you're billing based on time and materials, you already have the process in place to track your labor costs through time and expense entry. If your billing is based on a fixed fee and long-term contracts, it's also critical to know the details of your cost.

Smart CFOs use technology to understand the full project cost—and avoid the so-called “peanut butter” approach of spreading the cost evenly. Armed with detailed direct and indirect labor costs, they can make insightful decisions because they clearly understand which projects have higher margins, which clients are more profitable, and which employees are more productive. The more you know about the costs of your services at a granular level—not just at the P&L level—the more informed decisions you'll be able to make.

Project profitability in action: Tandem HR

Tandem HR, a professional employer organization provides human resources outsourcing and operates an employee-benefits brokerage. The company operates 16 different entities that support more than 500 small and mid-sized businesses.

With Sage Intacct, Tandem HR has transformed its project accounting, enabling users to create reports about specific clients, employees, and service lines—without having to manually

calculate labor costs across different entities. Tandem HR easily tracks specific employees and understands the amount of time spent on each project in order to improve profitability and identify when the company may need to adjust fees during contract renewals. Tandem HR also uses Sage Intacct to create nonfinancial reports, such as vendor reports that optimize spending across different benefit carriers, enrollers, or third-party employee assistance counselors.

“I used to spend about nine hours every month just creating time and labor costs. Sage Intacct [does it automatically]. I don't even remember how I set it up now—it works so smoothly I never have to think about it.”

Tanya Yakhnis, Chief Financial Officer

Sage Intacct Value

- Saved 500 person-hours annually by eliminating workarounds.
- Optimized client service levels, staff utilization, and vendor relationships.

5. enable data-driven decisions with trusted data

According to Forrester Research, 74% of firms say they want to be data-driven, but only 29% say they are good at connecting analytics to action. CFOs can play a critical role in fostering data-driven decision processes throughout the firm. That culture starts by providing the same reliable, trusted data in both financial and operational reporting. They want the same data that's used create P&L reports for executives and project-margin analyses for project managers. And they need timely data, in context, in real time.

Project profitability in action: Cameo Global

This IT services company specializes in large-scale IT solutions, managed services, collaboration solutions and contact center technologies worldwide. Prior to Sage Intacct, the company controller spent one-third of his time exporting data from an old accounting program into Microsoft Excel, formatting spreadsheets, and sending them to executives and project managers.

With Sage Intacct, now they get immediate, accurate views of the business, saving time and ensuring decisions are made using the correct information. For example, the company identified one overseas business unit that was generating less than half the margin of another business. That led Cameo Global to shift its focus to more profitable lines and refine its business strategy.

“As our leaders have learned Sage Intacct’s powerful capabilities, they’ve started using more reports and are employing an increasingly data-driven approach for every business decision. Now everybody sees the same data, and we have much better information with which to collaborate and make decisions.”

Mike Munson, Controller

Sage Intacct value

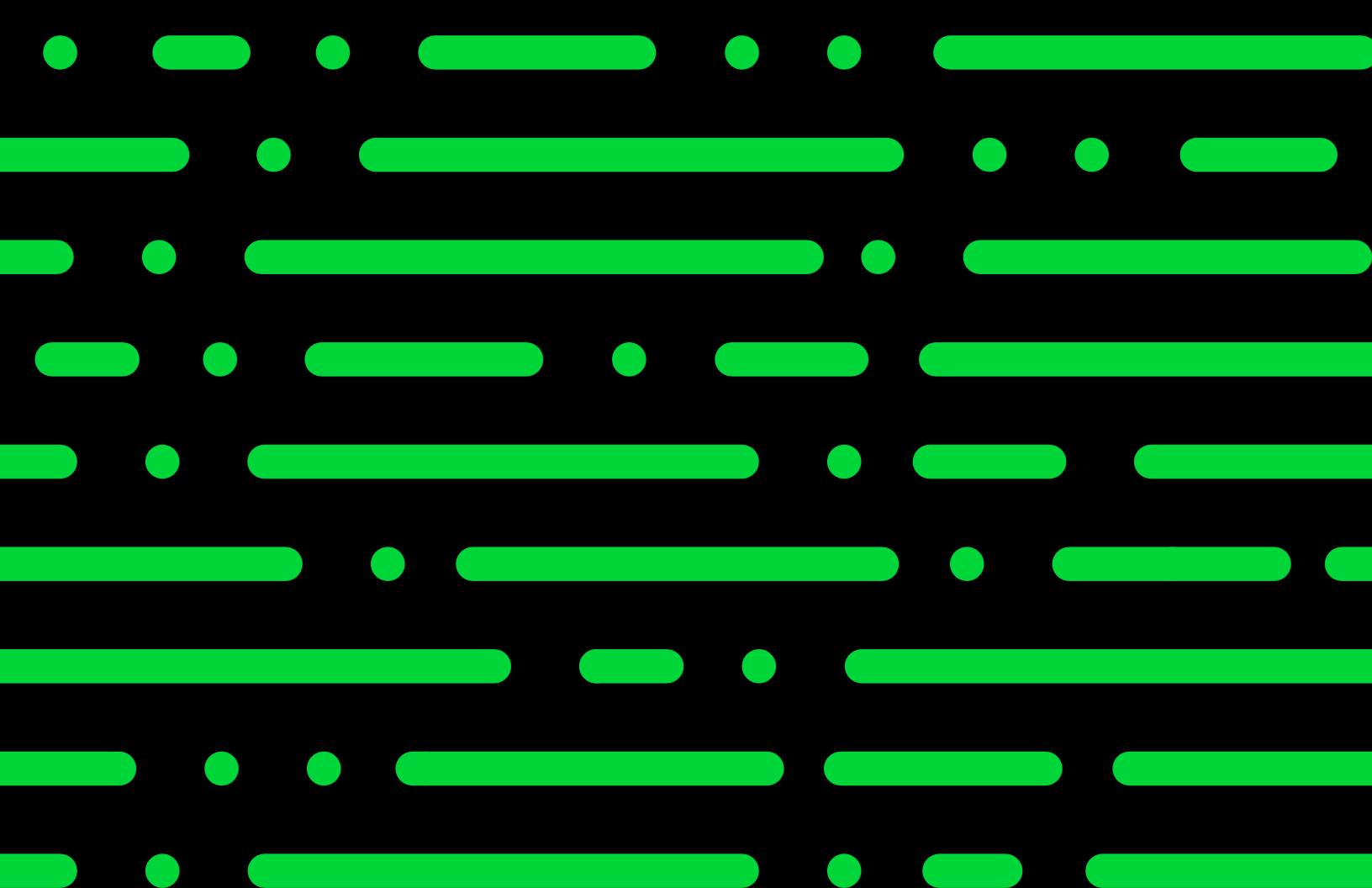
- Cut a week of data entry each month through integration with other business systems.
- Enabled data-driven decision making with accurate, timely information for optimizing project profitability and billing utilization.

Conclusion

CFOs can no longer afford to simply operate the finance and accounting functions. They are becoming strategic advisors to the company—especially in project- and service-based organizations. By collaborating closely with the operations team, CFOs can have an outsized big impact on the key metric for success: project profitability. To adopt these best practices and reach that next level of sustainable, profitable growth, CFOs must modernize the accounting software foundation by adopting a best-in-class solution that's built for the needs of professional services organizations. What's more, a cloud-based solution with open APIs easily integrates with other systems critical to your unique business processes. A flexible, customizable solution that is available to your cross functional teams in real-time, any time. And a scalable solution that can easily support your growth now and in the future.

About Sage Intacct

Sage Intacct is the innovation and customer satisfaction leader in cloud accounting and ERP. Bringing cloud computing to finance and accounting, Sage Intacct is the preferred financial application for AICPA business solutions. In use by organizations from startups to public companies, Sage Intacct is designed to improve company performance and make finance more productive. Hundreds of leading CPA firms and value-added resellers also offer Sage Intacct to their clients. The Sage Intacct system includes accounting, cash management, purchasing, vendor management, financial consolidation, revenue recognition, subscription billing, contract management, project accounting, fund accounting, inventory management, and financial reporting applications, all delivered through the cloud.



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