KEYEDIN®

ESO Business Whitepaper

Why Your Embedded Services Organization Needs Better PPM... Today

KEYEDIN®

Introduction

The ESO (embedded services organization) is the internal services team, typically found in a B2B technology company, that provides a service to customers – usually implementing enterprise software or hardware, managing ongoing customer success and support, or even advocating the addition of new product features on behalf of a client. All of the these externally focused projects – in contrast to internally facing initiatives – make most ESOs hyper focused on costs, margins, and overall project success…because revenue is on the line.

"Product companies constantly mislead themselves as they try to keep their ESO in the black. Their customers want a fixed-fee experience, and the ESO struggles to deliver it. The ESO tries to address their challenges with a variety of contract structures. While good contracting is important, it fails to solve the issue because the real problem is a project delivery/customer expectation issue. "

The Changing Role of ESOs

As customer retention and loyalty become even more crucial in a SaaS world, ESOs are increasingly at the center of company strategy. In particular, there are three industry trends driving change in the ESO market, which in turn have altered the way successful services teams operate:

1 **Professional services as a profit center.**

While the norm for many services teams in the past has been to operate as a cost-neutral entity, or even in the red, they are increasingly a valuable contributor to business growth, revenue and profitability. As outlined in the chart below, in a XaaS world, ESOs are seen as a crucial competent to sales and revenue growth. This focus does not in any way diminish the role of sales, but rather points out the increasing importance of the services team's efforts to educate customers on the unseen opportunities afforded by complex enterprise software.
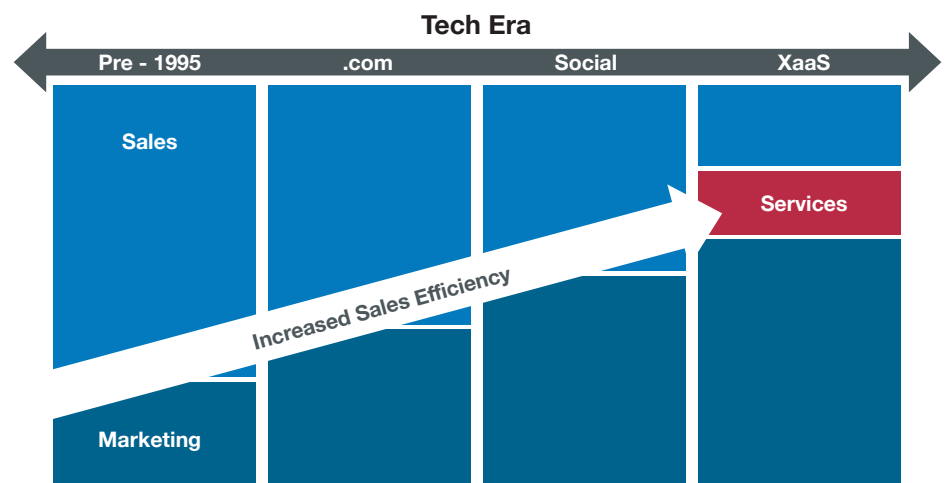
Steve Frost What Services Teams Can, Should and Shouldn't Do in Selling, TSW 2018

2 **A growing emphasis on customer retention.**

With customer net renewal rates becoming the standard by which SaaS companies are measured, services teams occupy an increasingly crucial role not only in customer satisfaction, but also in the company strategy that's communicated in the board room. Because they're on the front lines helping customers be successful, no team has a greater impact on renewal rates than the ESO; and it's those renewal rates that often are the difference between a thriving technology firm and a struggling one.

3 **The move to fixed-fee packages.**

Buyers of enterprise software and hardware are no longer willing to accept open-ended services engagements that focus on billing time and materials. Too many of those implementations have extended to months or even years, with a services tab that just keeps growing. Today buyers demand fixed-price offerings that focus on delivering an outcome.

An outcome-based, fixed fee services model where technology is deployed or optimized for a flat fee – puts a much greater emphasis on effective project management. Without the ability to clearly track project profitability and resource allocation, services engagements can quickly go out of scope; and if the client has purchased a fixed-fee package, scope creep means shrinking margins.

PPM for ESO Teams

The move to fixed-fee packages, in particular, is central to the business case for project and portfolio management (PPM) for ESOs. The reality is, whether an ESO has made the jump to fixed-fee services or not, for all intents and purposes, all contracts are fixed-fee for technology ESOs.

Product companies constantly mislead themselves as they try to keep their ESO in the black. Their customers want a fixed-fee experience, and the ESO struggles to deliver it. The ESO tries to address their challenges with a variety of contract structures. While good contracting is important, it fails to solve the issue because the real problem is a project delivery/customer expectation issue.

To illustrate, when a product company sells a time-and-materials statement of work (SOW), most of the agreement is the same as a fixed-fee SOW, except for a few lines. The customer expectation doesn't really change much. They want the product, and they see the implementation as a one-time cost to get the product in place.

> "Ultimately, the solution for an ESO that runs – or needs to run – in the black is better PPM. The services team needs to make their projects more predictable and successful so they can estimate and deliver with minimal variance. It is impossible to fix variance without PPM discipline. The team needs good schedules with reliable actuals to know its variance."

When the ESO burns up the hours in the agreement and the deliverables have not been delivered, customer satisfaction becomes extremely fragile. As a result, change orders, if they are used at all, are discounted and hours are delivered without being billed. The time and materials agreement plays out more like a fixed-fee agreement than a true time-and-materials contract.

Ultimately, the solution for an ESO that runs – or needs to run – in the black is better PPM. The services team needs to make their projects more predictable and successful so they can estimate and deliver with minimal variance. It is impossible to fix variance without PPM discipline. The team needs good schedules with reliable actuals to know its variance. In turn, that insight allows services leaders to determine the root cause of the variance and then schedule differently the next time. Over time, templated implementations become more and more predictable, variance is reduced, and profitability increases.

More to the point, most executives in any company have a system of record that supports the type of optimization noted above: The Head of Sales has a CRM like Salesforce, the CFO has an ERP system like Intacct, the HR Director has Workday, and so forth. All the while, the Head of PS is trying to manage information among disparate systems and spreadsheets. A PPM tool tailored to the needs of the ESO is designed to capture all project data to help forecast revenue, plan resource capacity and demand, and track budgets vs. actuals for an always up to date picture of the business.

The ROI of the Right Solution

Better PPM, done right in the ESO, can make a massive impact on team productivity and profitability. Take the case of MEDHOST, a healthcare IT vendor that provides electronic health records and other clinical and financial software solutions to community hospitals around the United States. The company's professional services team bears the significant responsibility of deploying MEDHOST software at customer sites, through skilled implementation projects that average 32 weeks in duration.

By transitioning from multiple point solutions and dozens of spreadsheets for time tracking, forecasting, and project management to a single PPM solution, integrated with the company's CRM and ERP systems, MEDHOST was able to realize tremendous gains:

1. Doubled professional services profit margins from 20 pts to 40

2. Decreased revenue forecast variance by 60%

3. Cut in half the annual cost of project management tools

In addition to the substantial financial benefits of the transition, the MEDHOST ESO has also improved its strategic decision-making by importing PPM data into a third-party business intelligence tool for deeper analysis.

A Solution for Your ESO

In order to capture a similar return for your ESO, a specialized PPM solution is required; one that is tailored to the needs of services organizations. In particular, an ideal solution would address several of the most common challenges ESOs face, which have become ever-more pronounced because of the trends noted above. The table below outlines key considerations in adopting a PPM solution within an ESO:

### Gain the visibility to ensure project profitability.

An ideal PPM solution must allow services executives to understand in real time – and in one place – how much effort and expense have been logged against any and all of their projects. If one engagement starts to go out of scope, potentially cutting margins, it must be immediately flagged and addressed. In addition, gathering historical data on budgeted time and expense vs. actuals allows the services team to more accurately scope projects to protect margins long term.


Deliver accurate services revenue forecasts at any time.

As ESOs face more and more scrutiny around delivering against revenue and profitability targets, accurate quarterly and annual forecasts are paramount. A forecast is your commitment to the organization and doing so accurately on a consistent basis builds trust and credibility in the services team by creating a predictable model that stakeholders can rely on. However, to effectively deliver against that commitment with minimal variance, requires a PPM tool that provides comprehensive capacity planning, resource management, and budgeting. In addition, an accurate forecast allows the services team to make decisions based on what you know, not what you think or want to happen; and it keeps all stakeholders on the same page with data they can trust.

Optimize resource allocation and utilization.

A project is only as good as the people working on it, so it goes without saying that resource management is critically important to project success for any ESO. But resource management is more than getting the right people on the right projects at the right time – true resource management requires being agile and moving resources around as needed. Personnel changes all the time, so an ESO-focused PPM solution must keep an accurate skills database and use role-based planning to creating an effective resource plan. Managing resource execution and accounting for change can be achieved through what-if scenario modeling, impact analysis of changes and a resource workbench to gain an accurate understanding of the current state of resources – at any given time. Tracking and measurement of resources and performance helps ESOs get better at resourcing in the future and helps develop a soft skills inventory to help leaders continually improve.
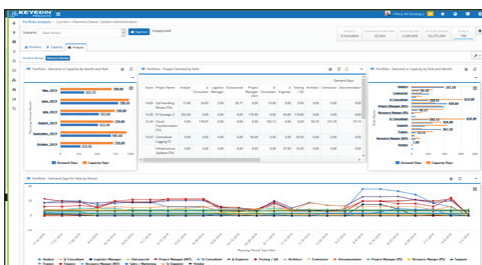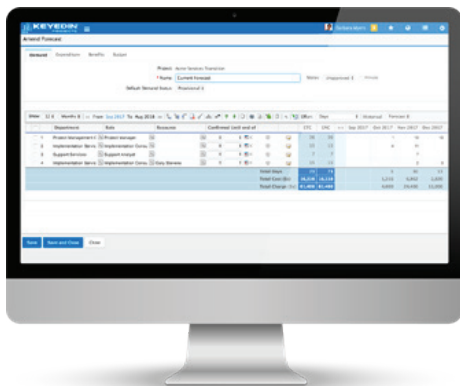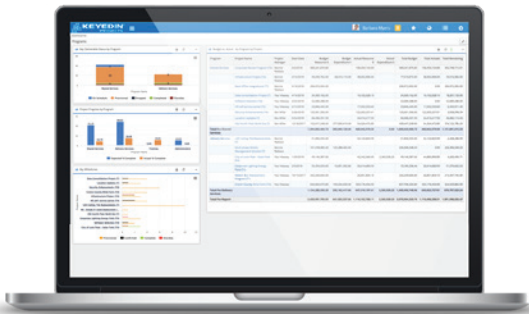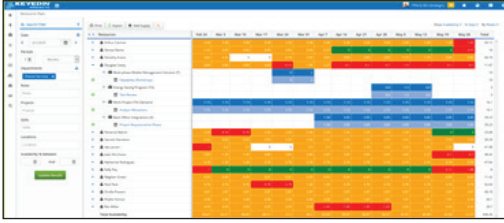
Integrate with the systems you use everyday.

The best solution is one that works with existing systems for an end-to-end view of the business. Communicate with strategic business partners by integrating with your CRM or sales soltuion to see demand and manage intake coming your way. Feed information to your accoutning team through integration with financial or ERP system so you can accurately bill and reconcile your business.

"Don't let your professional services team rely on outdated or incomplete information to run the business. A PSA solution will allow services leader to get the information they need to execute the projects that make a difference"

Professional services teams have always been a critical role in the success of business through providing subject matter expertise in product related matters and as a trusted advisor for customers. As embedded services organizations increasingly contribute to retention and revenue for the company they become even more critical to business success. Don't let your professional services team rely on outdated or incomplete information to run the business. A PSA solution will allow services leader to get the information they need to execute the projects that make a difference. Learn more about how PSA solutions like KeyedIn Projects are helping ESOs improve business outcomes and drive performance. Schedule a demo or learn more at www.keyedin.com today!

About KeyedIn® Projects

KeyedIn enables project management offices (PMOs) and embedded services organizations (ESOs) to be more strategic, more efficient, and deliver greater business impact by allowing you to easily forecast and allocate resources, create and analyze portfolios, gain visibility to all your projects, and discover new insights through dynamic PPM analytics. Learn more at www.keyedin.com.

For more information, visit www.keyedin.com

KEYEDIN®

Copyright © 2019 KeyedIn Solutions. All rights reserved.

Corporate Headquarters

8500 Normandale Lake Blvd
Suite 400
Bloomington, MN 55437, USA
p +1 866 662 6820

EMEA Headquarters

Maple House
Woodland Park
West Yorkshire, BD19 6BW, UK
p +44 (0)1274 863300

www.keyedin.com