

Operational Rigour

Setting Appropriate Controls In a Professional Services Business

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A Dei Lucrui Whitepaper

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Abstract

This paper examines how a business can find itself without the appropriate level of operational controls, it highlights what the dangers are and goes on to illustrate how you can address the problem without tying the business down.

Nigel Girling is a seasoned executive with more than 20 years experience of forming, growing and driving successful IT Professional Services businesses. He uses his direct experience to show how to recognize the danger signs, and what to do when you see them.

Nigel has lived and worked in the UK, Africa, The Middle East and Europe, worked extensively in the USA and consulted in Australia and Asia. He has held Senior roles in Major Multi-National Corporations and has ran and worked with small and startup businesses.

Introduction

To compete better in today's tough business environment, companies are increasingly looking to provide more value to their clients. In particular, many product based companies are looking to increase value beyond purely providing products, by packaging products and services to solve a specific business need.

The services sold range from simple implementation services, to a comprehensive review, architect, design, implement, maintain project cycle.

Why are you in business?

This is a key question that needs to be answered early on. Are you in business to make money?, to serve a community?, to satisfy a specific need?

If you are in business to make money (and many would say that is the *only* reason to be in business!), then do you want to make money out of product supply, do you want to be a 'full service' company, or perhaps somewhere in between.

In reality, most companies know the answer to this question when they start trading, but the answer gets blurred as opportunities are seized and the offering to the customer expands to cover these new opportunities.

Making a firm decision about what to sell is of utmost importance as the profitability of each type of business and the operational model needed to support it, is very different. Running a services business within the framework of a product business will inevitably lead to under-performing cashflow and missed profitability goals.

Flexibility is generally accepted as a good thing, but the problem with this 'company charter creep' is that you may end up fundamentally changing the nature of your business without a solid plan to do this effectively and safely.

The potential problems

Looking at businesses that have 'morphed' from product oriented businesses to service oriented businesses the following issues regularly occur:

- product warranty issues – When providing implementation services, care must be taken to ensure that product warranties are not invoked until the customer takes title for the products, but coverage must be obtained to provide support for the implementation period.

- enduring liabilities – Whenever services are provided, the customer will be entitled to expect some level of warranty and support. These entitlements must be closely managed and the costs of provision understood and built into the profitability calculations.
- cashflow – With a product sale, an invoice is typically sent along with the product. In many cases the invoice is sent when an order is received. With services based propositions, invoices are, usually, sent when the services have been completed. The customer will need a period of proving the solution, and may even keep a portion of the payment until the expected benefits have been achieved.
- sales cycle length – Services based propositions are inherently more complex and need the engagement and approval of more people. this inevitably increases the length of the sales cycle which results in increased cost of sales.
- margin erosion – Extended payment terms, enhanced customer support, acquisition of new skills, etc. all silently build cost into the business and can chip away at the expected margin.
- skills – Each project may require new skills to be acquired. This takes both money and time and puts additional pressure on management.
- Project completion – Pressure from clients and a willingness to please, can lead to never ending changes to project deliverables which prevent a project from reaching its planned conclusion.

This list shows some of the more common pitfalls when moving from a product to a service oriented business. Any one of them can cause a business to go off track, and in combination they can (and often are) fatal.

While it is a simple matter to look through the list and see what needs to be done, what happens in the heat of trying to grow a business and serve the needs of your customer, is that you lose sight of the bigger picture and the 'I can handle it' mentality, quickly gets you into very deep water.

Keeping things in perspective

The good news is that all of the issues can be readily identified and dealt with! It is just as damaging to a business to have over-burdensome controls as it is to have insufficient or inadequate controls. Tying people up with 'red-tape' and endless process is a sure way to make sure the processes are ignored and a culture of process evasion is engendered throughout the business.

What is needed are appropriate controls, that enable management to recognize when things are moving 'out of spec' and sufficient processes to allow the business to be steered back on course.

The controls for the business need to preserve the following elements:

- Flexibility – A services lead engagement is about change and is unique in some way (people, place, products, time). The longer the project takes to complete the higher the likelihood that some changes to the original plan will have to be made. You need to have controls in place to ensure that the impact of any such change is properly understood and all parties agree to the change and accept the consequences of its implementation (delay, cost, functional impact).
- Measureability – In order to assess business performance, a business must have effective goal setting and performance tracking in place. Examples of performance tracking mechanisms in a product oriented environment are stock levels, inventory turn rate, orders outstanding, payments outstanding. In a services oriented business, the measures can become more 'fuzzy' relying on estimates of the value of work completed to date.

- Accountability – With a product based business, the accountabilities are quite straightforward. The customer decides what they need, places an order with you. When you accept the order you take on the responsibility to deliver the product to the customer at the agreed price within the agreed timeframe. After you have delivered what the customer asked for, your responsibilities in this deal are ended. With a services based business, you may advise the customer what to buy and perform services to implement the product(s). In this case you have the responsibility to ensure that the delivered solution provides the benefits the customer contracted with you to provide. The relationship here is risk & reward (you take on the customers risk of failure to provide the benefits, and the customer pays you a premium in return).

Conclusion

For a services based business to survive, it needs to have a complete set of controls and processes to ensure that the business delivers what it set out to deliver for every constituency.

Clients want to know that they will get the benefits they are expecting, business managers need to know when projects will complete to make best use of people & equipment and to manage cashflow, and the business owners need to be sure they will get the revenue and profit from the business they need to make their investment worthwhile.

Too much process and control can easily strangle a business, but insufficient controls will kill it .

Call us NOW on 01933 665 186 to see how Dei Lucrii can help you build the appropriate level of operational rigour into your business or eMail us at Info@Dei-Lucrii.com.

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