QUICK START GUIDE

# Six Steps to Improve Operational Efficiency

## A Practical Guide for MSPs, IT Services and Cloud Providers

CompTIA

Technological expertise does not assure an IT services business' success. Nor do the tools and people they hire. In fact, scores of highly competent tech professionals have experienced business failure despite having the solutions their clients want and people with the right skills to deliver them.

What many of those entrepreneurs lacked was solid business acumen. Not an MBA in management or accounting — though a growing number of tech entrepreneurs do — but the ability to make sound financial decisions and continually strengthen their operational processes. Those aptitudes are essential to building a healthy cash flow and effective business plans, and developing contingencies for when the inevitable things that can go wrong actually do.

One of the most important aspects of business acumen for today's IT services businesses is operational efficiency. With so many processes, policies and people in play at virtually every moment of the day, the management team must continually focus on reducing the time and costs associated with service delivery. Their revenue and customer retention goals depend on it.

Innovation is also a driving force in operational efficiency. IT businesses have evolved significantly over the past 10 years with the advent of managed and cloud services, and the model may shift even more substantially in the next decade.

Cutting-edge processes and technologies age quickly today and need upgrading or replacement more rapidly than in the past. And the cycle of change, particularly in the IT services space, continues to speed up with each passing year.

Complacency in business processes can be just as detrimental to MSPs, VARs and cloud providers as technological obsolescence. Continual improvement in both areas is not an option today — it is mission critical.

Those enhancements should include everything from the sales, marketing and billing and collections processes to the customer-oriented service delivery side of the business. No part of the business should be ignored.

That requires a frequent if not continuous top-to-bottom review of every process and each tool that IT services providers use to run their business operations. Everything should be fair game. From the portfolio to the structure of the business, inefficiencies and weaknesses that could impede progress must be identified and addressed.

Process improvement is simply the best way to ensure IT firms are well positioned to hit their revenue and profit growth projections, and to remain relevant to their current and prospective customers. Even when unknown factors or unexpected issues come into play, businesses with solid operational efficiency plans will be well prepared to respond and succeed.

# The Case for Operational Improvements

The IT industry has reached a turning point. With a growing number of almost disposable technologies and cloud services all but eliminating software license fees, it has become extremely difficult to operate profitable break-fix and traditional VAR businesses. Those models still sustain a fair portion of the channel, but the numbers continue to decline. The economics of innovation are having a major effect on those who fail to change their service offerings and operations to meet the demands of today's business consumers.

The steady decline of operating margins is well documented. Recent CompTIA research shows profits have dropped by a factor of four for the average IT services provider in virtually every technology category. While the sales of hardware and software typically netted 25–45% back in 2001, depending on the category or complexity of the product, resellers can expect to make between 5–15% on similar offerings today.

Innovation is a key driver. Cloud and managed services have lowered the cost of entry for new IT services companies, and increased competition between manufacturers is forcing changes in their own channel incentive programs. Businesses also have more solution choices and procurement options than ever before — creating a buyer's market that drives down prices for more commoditized products and services.

Those trends are fueling many changes in the IT channel. Providers are being forced to think about new ways of doing business. Those who fail to embrace change over the next 3-5 years will find their solution prospects and partnering opportunities non-existent.

IT services professionals must take a hard look at the things they are doing right now. Chances are their portfolios, delivery and support methodologies, and even their business partnerships are in dire need of a make-over; but it's the improvements made to their operational processes that usually have the quickest, positive effect on their bottom lines and long-term viability.

This CompTIA Quick Start Guide aims to address that latter point, offering several best practices channel companies should consider adopting to attain a high level of business efficiency. Questions to consider while reviewing these tips and instructions include:

- **Why are margins declining for many tech products and services?**
- **What process improvements will have the greatest impact?**
- **How can you assess your own organizational process efficiency?**
- **Where does your company's process performance compare to the competition?**

# 1 Document Existing Workflow

Have you ever sat down and listed the basic activities you and your team do each month? Not just the customer-oriented tasks associated with service delivery, but the things the sales, marketing, human resources and other groups do to support the entire organization.

That is not easy to accomplish, yet no manager can make improvements to processes they know little or nothing about. Familiarity and understanding are essential to driving out process or system inefficiencies, though those who perform certain tasks may resist changes to their work routines. Keep in mind that changes, no matter how small, can stir emotional responses from those that they affect. It is critically important to engage team members throughout the process.

Begin the review by listing the responsibilities and procedures of each department. Use existing job descriptions, manuals, performance evaluation sheets, playbooks and other procedural resources as a baseline. Collect and compile this information in one location which can be used to create an updated flow chart for various working groups; sales, marketing, technical support, billing and collections, human resources, etc. Don't forget to list procedures regularly performed by members of the management team. As IT services firms grow, some of those tasks may fall to others in the organization or be automated.

Many organizations use business process model (BPM) applications, a common analysis tool, to help document their workflow and group interactions. These online programs or software create transparency and accountability across an organization, identify any gaps and inefficiencies, and help managers estimate outcomes of proposed operational changes.

The amount and intricacy of the information IT services firm collect can vary. If the organization is seeking a Six Sigma certification the details will need to be more refined than those simply looking to improve their productivity and better organize their work teams.

The end goal in this step is to document common practices in the business and build workflow charts that clearly illustrate the company's current situation. Interviews and on-site observation is a good way to validate current procedures, fill in gaps and note differences from the collected materials.

# 2 Review Key Operations

No two IT services businesses are the same. Some employ inherently complex and expensive processes to support their clients, and the time and costs associated with certain procedures may never be reduced. These "proprietary" methodologies may still be reviewed periodically since advances might come along and make improvements a possibility, but the management team should focus its efforts on the more controllable operating processes.

That includes reviewing the tasks assigned to each employee and understanding why they are doing them. It is crucial to note the time required for their actual assigned work activities, as well as the other things they may be asked to do in a typical workday. Are they training or mentoring new employees, or frequently helping co-workers handle other responsibilities? Those exceptions should be noted and considered if any workforce changes are proposed.

The next crucial step is to determine what actions could be improved, consolidated, automated, or eliminated. Nothing should be taken for granted or assumed. Just because the company has always done something one way does not mean it can't be improved.

The key consideration at this point should be on the company and its employees, not on those outside the organization. This is the time to evaluate and consider improvements to internal processes, to brainstorm and refine ideas. The effects of proposed changes on customers, partners and others will be considered later.

The focus here should be on:

- **Identifying/Defining Processes**—Create a step-by-step description of how the firm does everything, from sales and marketing to accounts receivable and payroll. Each individual step has an associated cost that should be controlled. Start with the important and most often repeated business processes. Even a small improvement here can bring significant time and costs savings.
- **Assessing Capabilities/Capacities**—Do employees have the skills and ability to perform their tasks effectively? Whether covering multiple roles or assigned to tasks they may not be properly trained to do, most businesses have people handling certain things outside their skill set. It's important to assess each employee and note any "gaps." What specific skills and abilities are required to perform that activity effectively?
- **Building Key Performance Indicators (KPIs)**—Is the organization tracking performance of the business operations that matter most? Again, no two IT services firms are the same and there are many ways to quantify success. Managers need to know if their business is operating within acceptable cost ranges or whether they are spending too much on certain activities. A word of caution: While there are literally hundreds of metrics to track, many are either incomplete measurements of a larger process, or are disconnected from direct actions of employees. Providers need to select a very few, targeted metrics that are specifically attached to financial health.

# 3 Target Low Margin Activities

IT services companies usually realize the greatest savings when they focus on labor-intensive processes. Can certain tasks be eliminated or assigned to less tenured (i.e. lower salaried) employees? On the sales and marketing side if the business, it might be better to hire an entry-level employee to qualify leads or evaluate the cost of outsourcing certain responsibilities.

From a help-desk perspective, are any personnel qualified to be reassigned to take on more responsibilities in the organization? That allows the firm to support more new clients and/or expand its billable services portfolio, which boosts cash flow and funds the hiring and training processes.

Another option is automation. Can certain procedures be performed as well, if not better, by technical solutions? A cost-benefit analysis will help providers determine the need and priority for those investments.

Close attention should also be paid to the metrics and developing baselines. How will performance be measured moving forward and what policies and standards will need to be implemented to manage the organization's most important and impactful activities? Who will be charged with monitoring and tracking results? Once effective standards and the related policies have been designed, they need to be communicated to all employees—not just those who are directly responsible for those actions. A consistent application of these best practices is essential to operational efficiency.

Key financial policy concerns include:

- **Product Discount/Pricing Floors:** Selling products and services at a reduction has a direct and significantly negative impact on a firm's margins and profitability. When extended to existing clients, the reduced revenue stream essentially forces the business to engage more customers and sell additional services just to maintain the status quo. When the cost of delivery increases and income stagnates, profit margins take a big hit.

  Every IT services business needs a policy to ensure that doesn't happen. That includes determining who is authorized to approve discounts, which products and service rates are applicable, what conditions must be met to obtain approval, and how those exceptions will be documented/tracked.

- **Service Priorities:** The more high-value products and services that are sold, the better the margin. That seems like common sense, but every company needs policies and tracking measures to ensure profitability is always a key consideration. Long sales cycles and solution complexity can make that more challenging, leading some sales professionals to promote simpler, lower-value services as their default. This can significantly undercut target margins. Management must define standards for the mix of products and services to be sold, and align their compensation plans to motivate these behaviors.

- **Vendor Rebates and Incentives:** Many IT services firms end up leaving margin on the table. Those who don't participate in incentive or rebate programs for solutions they are already selling may be ignoring a significant revenue source. That is,

## FINANCIAL IMPROVEMENT RESOURCES

For IT services professionals looking to improve their business' financial operations (and outlook), CompTIA offers several helpful guides and valuable educational resources. Many of those materials are free, including:

**The Quick Start Guide to Cash Management Strategies**
This training guided covers the two most common approaches for improving an IT services business' cash flow. There's the "tight cash control" option for short-term needs and the "forecast and monitor" method for VARs and MSPs looking to make more strategic changes.

**The Quick Start Guide to Understanding Your P/L**
This resource offers valuable pointers to help IT services providers gain insight into the financial side of their businesses. From charting P&L trends and industry benchmarks ,to tracking company goals and forecasting, it provides a great overview for those looking to positively affect the financial performance of their organization.

For more IT services business improvement resources, check out the CompTIA IT Channel Training resource center at www.comptia.org/events/training

unless what it actually costs to manage those activities exceeds the income they would receive. Services firms should establish clear policies for joining, tracking, and collecting incentives; and be sure to share those details with their vendor partners to make sure that approach complies with their program requirements.

- **Service Operations:** Low utilization rates for billable service personnel is the single biggest factor for margin erosion when employees are on a fixed salary. Emphasizing the sales of services, planning project calendars, and tracking specific activities and deliverables is essential in the IT services space, as is setting service prices based on the value of the specific activity and the actual cost of each resource.
- **Sales/Marketing:** Programs that produce few leads consume valuable time and financial resources for both sales and marketing teams. That's why it's crucial for IT services firms to track metrics around each campaign, including its effect on sales cycles and lead conversions. Marketing directors should establish and monitor the "rate of return" for all activities, and closely collaborate with sales team members to ensure the programs and messaging are hitting the mark. Vendor marketing development funds (MDF) should be pursued whenever possible to expand the firm's messaging breadth without breaking the budget.
- **Financial Management:** This area of an IT business often receives little attention considering how important it is to the organization's success. In the era of cloud and managed services, solid cash flow management practices are crucial. The business must be able to track and estimate recurring and project revenue, as well as outstanding receivables, to ensure its own bills can be paid on time. One easy way to improve profitability is to tighten billing and collections policies, and reduce AR lag time with automated business applications. A major goal should be to eliminate long delinquent or "bad debt" and speed the collection process, minimizing the time between services delivered and payment to improve monthly cash flow. The reduces a firm's reliance on lines of credit or short-term loans — and the associated high-interest charges. Similar processes and metrics should be established to properly (and cost-effectively) manage payables.

# 4 Pay Close Attention to Financial KPIs

IT services professionals often focus too much on their revenue and "absolute" cost factors, and not enough on longer-term trends and benchmarks. While fiscal responsibility is a noble objective, every firm needs a strategic financial plan with a realistic timeline, key metrics, and acceptable benchmarks. Performance must be monitored and measured continually so the management team can spot and address concerning trends.

The most common financial KPIs tracked by IT services firms include:

- **Gross Margin on Product Sales:** This measures the firm's ability to receive full value of its products without any discounts. Firms need to use caution when assigning costs. For example, should pre-sales costs be included in the gross margin or in the cost of sales? Be consistent.
- **Gross Margin on Service Sales:** Similarly, this determines the company's ability to sell services at full price, as well as its efficiency in delivering them. Service margins should be tracked by type of service, technology, customer, and engagement.
- **Selling Expense as a Percentage of Gross Margin:** This calculation shows how much it costs the firm to generate profits. Is the sales team using its resources wisely? Are they converting a high percentage of their leads into revenue opportunities? A rep who requires longer sales cycles to close deals or needs greater discounts will lower the company's profit margins.
- **Solution Revenue Mix:** This assesses an IT services firm's customer engagement. IT services businesses prosper when their team sells more long-term, high-profit offerings to their new and existing clients. Since support and specialty services margins are typically much higher than hardware and software, the sales team should be focused on driving a higher percentage of its revenue from services. Customer needs and budgets vary, so each firm must consider its target audience when determining an optimum solution mix goal, and incentive the sales team accordingly.
- **General and Administrative Expense (G&A):** This figure is based on a percentage of the company's revenue and measures the efficiency of their back-office operations. How well are those expenses being managed? Start by assessing the major costs including personnel, standard processes, equipment, business systems and external resources. Compare those expenses with industry benchmarks and consider options such as automated billing and payment processing programs or outsourcing certain business functions.

# 5 Perform a Skills Assessment

The most valuable resource in any IT services firm is its people. From the receptionist and help desk personnel to the management team, their skills, abilities and personalities can play a major part in the organization's success, or inversely, its failure.

That explains why businesses invest so heavily in their personnel. Salaries and training are typically two of the most significant expenses in an IT services businesses, so managing the HR-related processes is crucial to the company's operational efficiency and profitability.

A company's employee skill set is essentially a capital asset. Larger IT services firms usually employ technical, sales, marketing, management and assorted personnel to support their business clients. The trick is finding and properly rewarding the right mix of talent. That is never easy.

Providers must carefully and continually examine the effectiveness of their workforce, using benchmarks and comparisons with similar peers in the IT services industry. A basic inventory of operating processes is the place to start, with an evaluation of the organization's core competencies.

IT services businesses tend to grow quickly and it is far too easy to overlook certain talents or put someone in a position they are not properly prepared for. Either situation can have a negative impact on performance and operational efficiency. That is why assessing and measuring an IT services business' talent pool is so critical.

A good place to start is by taking an inventory of current employees' skills. Many firms use technical and business assessment tools to simplify the process. This process helps validate that the company has the right people in the right positions, and is not underutilizing its resources. Some companies develop their own system using a five or ten-point scale to assess their team members' capabilities for specific job functions, and may incorporate those rankings in employee performance reviews and for developing career development and training programs. The overall goal is to note and address organizational skills gaps to maximize company performance.

## LEVERAGE IT SERVICES INDUSTRY STANDARDS

As the leading vendor-neutral tech trade association, CompTIA believes in providing tools that help move the industry forward.

Channel Standards are a direct result of that focus. Developed by tech industry experts – including CompTIA Community members, IT professionals and industry thought leaders – these are an "open book" of best practices that can be applied by service providers everywhere.

Four CompTIA Channel Standards are currently available, including:

- IT Solution Provider
- Managed IT Solution Provider
- Managed Print Provider
- Cybersecurity

For more details on these advanced channel-focused business programs, go to https://www.comptia.org/standards

# 6 Leverage Your Tools

There is simply no excuse for those in the IT industry who fail to take full advantage of automation. How can MSPs, VARs and other technology providers expect customers to take them seriously when they haven't adopted highly efficient business systems themselves? As the saying goes "you have to eat your own dogfood." The best place to validate the usability and value of a product or service is to use it in your own organization first. Especially when it comes to tools that can improve operational efficiency.

Automation should always be considered the final step. Without making improvements to a company's procedures, adding tools to the mix simply speeds up inefficient or poorly constructed processes. That won't solve all the problems. In fact, it often creates additional work (and costs) later on when the management team attempts to resolve outstanding issues.

After a work process has been scrutinized, polished and deemed "efficient," automation makes perfect sense. IT services business tools can be divided into two categories:

**1. Professional Services Delivery**

These are the tools MSPs, hybrid VARs and solution providers use to monitor and manage their clients' systems, though several have developed extensive back office capabilities integrations over the past few years. These applications make it easier for IT firms to onboard and support clients from anywhere in the world, and offer a variety of remote services without huge investments in personnel or technology. Most offer significant reporting capabilities and easy to manage partner dashboards. Their impact on an IT services company's operational efficiency is immeasurable when properly configured and integrated, and team members are properly trained on their use. That last point is the biggest issue for channel firms, who end up leveraging a small portion of automation capabilities of these tools.

This category includes:

- Remote Monitoring and Management (RMM) programs
- Professional Services Automation (PSA) platforms
- Backup and Disaster Recovery (BDR)
- Managed Security Services (i.e. firewall, anti-virus, anti-malware)
- Email Management and Security

**2. Back Office**

While many IT services firms use some technologies for their office operations, such as online accounting and billing, resource utilization is typically low compared with other industries. Customers often employ automation to greater effect than the professionals who support their technology infrastructure.

IT business owners and managers frequently end up performing time-consuming tasks such as generating quotes and invoices, or tracking down lost time sheets. There are a number of cost-effective solutions that could easily tackle those procedures — with minimal if any human involvement.

Again, a bigger issue for many IT services firms is not a lack of tools at their disposal, but the inability to follow through on implementation and employee training. Professional Services Automation platforms are a perfect example, with a relatively small number of providers using more than the basic ticketing and billing features. Time tracking, scheduling and dispatching, project management and other capabilities may be underutilized or ignored completely — while their team performs these operations manually or using a less-efficient system.

The goal is to implement and/or integrate back office solutions that reduce the complexity and costs associated with managing an IT services business. The options include:

- Automated billing/payment processing
- Customer Relationship Management (CRM)
- Enterprise Resource Planning (ERP)
- Quoting tools

# Wrap Up

Operational efficiency, in a nutshell, is about optimizing the use of a company's limited and valued resources. It should always be considered a team objective. When the business is run efficiently, it provides owners with additional capital for expansion and/or greater profit. Employees generally benefit from greater job security and other incentives. Those who have "skin in the game" are more likely to follow through with improvement project commitments and process streamlining.

# About CompTIA

## WHO WE ARE

CompTIA is a global, not-for-profit IT trade association and the voice of the industry

## OUR MISSION

**Advance the IT industry**

Technology is infrastructure, just like roads and bridges. Our economic growth, national security and quality of life depend on it. When we help tech businesses grow and help build a skilled tech workforce, we make that infrastructure stronger.

## WHO WE SERVE

Tech businesses, tech professionals, tech educators, and anyone interested in a tech career or a vibrant tech industry.

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## HOW WE DO IT

**NETWORKING**
Member-led communities, councils, and events that help thousands of tech executives and professionals learn and collaborate with peers.

**EDUCATION**
Vendor-neutral education, business standards, technical content and career advice to help drive business revenue and professional growth.

**THOUGHT LEADERSHIP**
Highly regarded research and subject-matter expertise on topics including technology trends, cybersecurity and workforce issues.

**CERTIFICATION**
Vendor-neutral certifications that help millions of IT pros around the world validate their skills and advance in their careers.

**ADVOCACY**
Advocacy at state, federal, and international levels for policies that build a skilled tech workforce and advance the digital economy.

**PHILANTHROPY**
Help for those who are under-represented in IT and those who lack economic opportunity to prepare for, secure and succeed in IT careers.

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