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Service Compass: Charting the Course
to Professional Service Excellence

Best Practices of the Leading Service Organizations

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Service Performance Insight

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FIGURE

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INTRODUCTION

> ➢ When it comes to running a professional service organization what separates the "best" from the "rest"?
> ➢ Are there key attributes and best practices that differentiate top performing service organizations?
> ➢ Do integrated applications improve performance?

The PS Maturity Model was designed to answer these questions.

After more than two years of research using the PS Maturity Model and countless interviews, common characteristics of top performing service organizations have started to emerge. The most successful service-based organizations demonstrate excellence across a variety of key performance dimensions.

This whitepaper explores the best practices that separate the "best" from the "rest" including an in-depth case study of Accruent, (a pre-public software solution provider), a consistent top performer year after year. We reveal the secret sauce that enables the best of the best to outperform their rivals and the PS Maturity benchmark average.

INTRODUCTION TO THE PS MATURITY MODEL

The PS Maturity Model benchmarks, segments and analyzes a PSO into five distinct areas of performance that are both logical and functional.

The five Service Performance Pillars which form the foundation of all service-oriented organizations are:

1. **Vision, Strategy and Culture:** (CEO) a unique view of the future and the role the service organization will play in shaping it.
2. **Finance and Operations:** (CFO) the ability to manage services profit and loss — to generate revenue and profit while developing repeatable operating processes, IT applications and management controls.
3. **Human Capital Alignment:** (Human Resources) the ability to attract, hire, retain and motivate high quality employees and subcontractors.
4. **Service Execution:** (Engagement/Delivery) the methodologies, processes and tools to effectively schedule, deploy and measure the quality of the service delivery process.
5. **Client Relationships:** (Marketing and Sales) the ability to communicate effectively with employees, partners and customers to generate opportunities and win deals.

Each of these pillars defines core functions and operating processes within a billable professional services organization. For each service performance pillar, we have defined approximately thirty-five key performance measurements as the basis of the PS Maturity Model.

SERVICE MATURITY LEVELS

In order to determine the relative operational effectiveness of each pillar, SPI Research created five maturity level definitions:

- Δ **Level 1 — Initiated "Heroic":** The PSO is in its early stages; operating processes are ad hoc and fluid. The business environment is chaotic and opportunistic, and the focus for the PSO is primarily new client acquisition and reference building. Employees wear many hats and serve many roles. The primary goal is growth.

- Δ **Level 2 — Piloted "Functional Excellence":** Core operating processes have become repeatable. The company may demonstrate best practices in separate functional areas or geographies, but they have not yet been documented and codified for the entire organization.

- Δ **Level 3 — Deployed "Project Excellence":** The PSO has created a set of standard processes and operating principles for all major service performance pillars, but renegades and hold-outs may still exist.

- Δ **Level 4 — Institutionalized "Portfolio Excellence":** Management uses precise measurements, metrics and controls, to effectively manage the PSO. Each service-performance pillar is supported by a detailed set of operating principles, tools and measurements.

- Δ **Level 5 — Optimized "Collaborative":** The PSO focuses on continual improvement of all elements of the five performance pillars. A disciplined, controlled process is in place to measure and optimize performance through both incremental and innovative technological improvements. Management has established quantitative process-improvement objectives, and continually revises them to reflect changing business objectives.

The maturity level definitions allow PS firms to discover areas where they are underperforming compared to their peers. In some cases this performance may be a result of the organization's strategy, for instance, de-emphasizing service margin to accentuate product sales. Regardless of the motives, understanding each pillar's relative maturity can help PS executives implement an operational improvement strategy to move their organization forward.

WHAT THE LEADERS DO

In the 2009 PS Maturity Model benchmark, out of 170 participating organizations, seven firms significantly outperformed the benchmark average by scoring "4's" and "5's" (on a scale of 1 to 5 with 5 being the most mature) in most service performance pillar dimensions. We interviewed the top seven "Best of the Best" firms to discover their best practices and reasons for their superlative performance. Although each firm had a different business model and operated in different industries, we discovered fascinating commonality in several key areas:

1. **PS Maturity excellence starts with leadership** – The leaders of the top seven firms had significant prior experience creating and running PS organizations. Many of them started as consultants with the Big 5 or within PS for large technology companies. Based on years of experience, they have brought with them to their current leadership role deep business process and consulting domain knowledge.

   A clear differentiator between the "best" and the "rest" organizations is that Professional Services has a seat at the executive table. PS is an integral part of the company's strategy, regardless whether the PS organization is embedded within a product company or run as an independent service business. For the embedded PS organizations, the PS executive has moved into a quasi-COO role and has taken on additional responsibilities for Support, Engineering or Alliances.

2. **Finance and Operations** – each of the top seven organizations have made an investment in integrated Front and Back-office applications. They all have a dedicated Professional Service Automation (PSA) application integrated with their core financial systems for time, expense and billing. The majority of the top seven are independent systems integrators who depend on PS revenue and margin. Integrated PSA with their core financial applications is the lifeblood of their business.

3. **Human Capital Alignment** – the top firms reported very low attrition despite the fact their employees average over 1,400 billable hours (and higher) per year. They focus on hiring "A" players and pay significantly more both in base and leveraged compensation than the benchmark average. Because of the quality of their staff, they are able to command higher bill rates resulting in much higher revenue and margin per consultant. Consultants have a vested interest in their own revenue generation and up-selling. Most of the firms provide at least one week annually for training and skill development.

4. **Service Execution** – the leading firms invest in consistent methods and tools. They have made a significant investment in a consistent, published methodology. Many of them provide published best practices, tools and templates for both their consultants and clients. They have a constant focus on quality service execution and delivering projects on-time and on-budget and follow-up each engagement with a satisfaction survey. They use their back office and PSA systems to help reinforce this process consistency.

5. **CRM** – the most dramatic difference between the "best" and the "rest" is the focus on a dedicated solution-selling force. The top firms reinvest almost 20% of their service revenue in sales and marketing. The embedded service organizations use the product sales force for lead-generation but also invest in dedicated PS business development experts and arm them with effective

estimating and contract tools. The significant investment in sales and marketing pays off with an almost 40% better bid to win ratio (7.43 wins per 10 bids) compared to the average.

CHARACTERISTICS OF THE TOP SEVEN SERVICE ORGANIZATIONS

The following table shows how the top seven organizations perform compared to the benchmark average. Real-time visibility is a key enabler of superior execution. Top-performing firms excel in all key performance areas. It starts with alignment around the service organization mission and charter which translates into sales and marketing investments to properly position the firm to capture business. Alignment between solution sales and a high-quality motivated consulting delivery staff ensures high bill rates, high utilization and high levels of client satisfaction which in turn lead to references and repeat sales. The best firms create a virtuous circle of alignment to outdistance their rivals.

Table 1: Leading Firms Perform Exceptionally

Key Performance Indicator	Top Firms	Survey Average
Year-over-Year Change in PS Revenue	23.6%	15.3%
Professional Services Contribution Margin	31.1%	22.3%
Annual Revenue per Billable Consultant	$225K	$197K
Executive Real-time Visibility	92.9%	64.2%
Utilization	75.0%	65.3%
Bid / Win Ratio	7.43	5.36
Sales & Marketing Cost as a % of Revenue	19.1%	11.7%

Source: Service Performance Insight, April 2009

THE IMPACT OF REAL-TIME INFORMATION VISIBILITY

Executive real-time information visibility might be the most important KPI in the benchmark. According to SPI Research, less than 50% of executives truly have real-time visibility into their organization's operations. At a time when economic conditions and the competitive environment dictate faster response time and greater flexibility, executives must have real-time insight to make smarter, faster decisions, control costs and right-size staff based on backlog and forecasts.

Real-time visibility correlates directly with an organization's ability to grow and prosper and with every leading indicator of performance. Many PSOs have turned to integrated web-based applications like NetSuite to deliver this much needed insight. Table 4 shows how profound the differences are for firms with real-time visibility versus those without.

Table 2: The Impact of Real-time Information Visibility

Key Performance Indicator	With Real-time Visibility	Without Real-time Visibility
Revenue Growth	17.2%	11.2%
Contribution Margin	23.9%	17.2%
Project Gross Margin	35.1%	26.0%
Attrition	5.1%	10.4%
Projects Delivered On-time	79.2%	60.0%
Billable Utilization	68.0%	62.0%

Source: Service Performance Insight, April 2009

INTEGRATED APPLICATIONS PROVIDE MEASURABLE VALUE

SPI Research found a direct correlation between how well applications (PSA, CRM, HRM, BI and Procurement) are integrated with the core financial ERP application on bottom-line financial performance. The profoundly positive results of integrated applications clearly justify investments in integration and demonstrate why integrated application suites like NetSuite are on the rise.

Table 3: Integration Works

KPI	> 3 Applications Integrated	< 3 Applications Integrated
Professional Services Contribution Margin	26.6%	21.5%
Annual Revenue per Billable Consultant	$218 K	$191K
Revenue Leakage	4.3%	7.2%
Utilization	70%	67%
Project Cancellation	1.9%	2.7%
Bid : Win Ratio	5.5	5.1

Source: Service Performance Insight, April 2009

PROFILE OF ACCRUENT, ONE OF "THE BEST OF THE BEST"

For two years in a row, Accruent, a fast-growing privately held software solutions provider has ranked as one of the "Best of the Best" in the PS Maturity Benchmark. Accruent leads the industry with a comprehensive suite of real estate and facilities management solutions that enable organizations to develop and operate their real estate and facilities portfolios as a competitive advantage. Organizations across diverse industries turn to Accruent to right-size their real estate portfolios, eliminate unnecessary spending, and support compliance and sustainability initiatives. Over 400 customers have chosen to partner with Accruent because of the company's best-in-class functionality, deep

domain knowledge, proven implementation success, and track record of customer commitment.

One of the key reasons Accruent has been named to the Deloitte and Touche "Technology Fast 50" list for seven consecutive years (besides achieving triple digit revenue growth) has been its strong professional service organization and reputation for delivering successful projects on-time and on-budget. With a PS staff of only 38 full-time employees, the PS organization and its partners are able to bring a new client "live" every ten days – quite an amazing feat!

Providing customers with solutions – bringing people, processes, and technology together to solve real problems – is truly what drives Accruent's success. New clients are often wary of the time and costs involved with software implementations. They are more likely to partner with a company that has a strong services offering that can help them articulate their vision and accurately prioritize business objectives and goals to accelerate their time to value. Existing clients are continually looking to drive new value from their solutions, particularly in challenging economic times. Through lessons learned and best practices gained from implementing solutions and supporting customers across every industry, the Accruent services organization can direct clients to new or enhanced offerings that will help them make their organizations more successful.

As Senior Vice President of Customer Solutions, Carey Bettencourt is responsible for the delivery of complete solutions to Accruent customers worldwide. Carey's group has end-to-end responsibility for client success. The 80 person Support, PS and Engineering teams are responsible for operational best practices, change management, implementation, contract services, customer support, product development and client services. Carey's small but mighty PS team leads with a customer-specific "Business Value Assessment" engagement to generate a business case for improved real-estate performance and profitability through the use of Accruent solutions. The Business Value Assessment is basically a profitable presale project which paves the way to justify an Accruent solution by demonstrating strategies to reduce capital and operating expense.

Table 4: Accruent's PS Profile

Δ   Embedded PSO ~ 38 employees~ $12M in annual PS revenue

Δ   Accruent is a true solutions provider - the percent of total company revenue from PS is 31% and from Support is 33%.

Δ   Clear focus for PS – generate revenue and profit to fund R&D

Δ   Very Profitable PS business

    o   > $320K revenue per person per year

    o   High bill rates averaging over $200 per hour

    o   High utilization > 1,600 billable hours per person

     o   > 40% gross margin

Δ   Integrated applications – Accounting / ERP (NetSuite), PSA (OpenAir)

Δ   Lead with Business Value Assessment delivered by Sr. Business Consultants to demonstrate the return on investment of Accruent solutions

Δ   Integrated Sales Model – Graded Backlog

Δ   Secret Success Formula – People, Process, Real-time visibility

INTEGRATED APPLICATIONS IMPROVE RESULTS

To provide end-to-end visibility from leads to pipeline to backlog and billing, Accruent has implemented an integrated front and back office application environment based on OpenAir for Professional Service Automation (PSA) integrated with NetSuite Financials. Accruent has been using OpenAir for PSA for five years and depends on it for time entry, resource management, service bookings, skill profiles, budgeting and real-time analysis of trends and monthly utilization.

Figure 1: The NetSuite Integrated Application Story

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Source: NetSuite, April 2009

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Accruent implemented the NetSuite financial solution in 2008 to replace QuickBooks. Accruent relies on NetSuite's robust revenue recognition and support for complex billing (time and materials, fixed price and work in process) to ensure projects are billed correctly. Billing and accounts receivable are managed by the NetSuite financial application.

ACCRUENT'S SECRET SUCCESS FORMULA

- The "right" business model – PS is an integral part of the company and was designed from inception to be very profitable to fund research and development.

- Intent focus on hiring the right mix of top domain, consulting and technology experts.

- Lead with Business Value Assessment to help prospects quantify the business value from integrated workplace management.

- To reduce burn-out, Accruent relies on remote service delivery and provides an annual training "summit" for consultant networking and skill development.

- Consistent Business Processes – fully integrated PSA with core financials for resource management, project management, backlog analysis and monthly billing. Weekly pipeline calls with sales and PS to stay on top of the forecast.

- Investment in Accruent's *Accelerate*™ methodology drives a consistent delivery approach which includes industry best practices project templates, and ensures alignment between the project scope and the client's vision and expected ROI.

- Real-time visibility – not anecdotal. Tight management controls and integrated applications provide complete visibility from lead to "go live".

RECOMMENDATIONS AND CONCLUSIONS

The "Best of the Best" Professional Service organizations invest in people, processes and integrated systems. They focus on alignment from strategy to execution and have complete real-time visibility into all facets of their operations. They hire the best and keep them motivated with highly leveraged compensation plans tied to measurable results. The magic "secret sauce" is a laser focus on execution and reliance on integrated applications to provide real-time visibility.

Best-of-Best firms are increasingly turning to web-based integrated application suites like NetSuite/OpenAir to displace legacy point solutions because both SaaS (Software as a service) systems and integrated application suites lower the total cost of ownership, reduce time and cost spent on integration and upgrades, while providing superior reporting and insight across functions. Service Performance Insight believes all project-oriented businesses should strongly consider making the move to an integrated application suite now so they will be able to capitalize on the market as the economy improves.

With over 6,500 customers, NetSuite Inc. (NYSE: N) is the leading provider of web-based <u>business management software</u>. Since 1998, NetSuite has provided growing and mid-sized businesses with one on-demand business application to run their entire business, including Accounting / Enterprise Resource Planning (ERP), CRM, Inventory, and Ecommerce. In 1998, with the acquisition of OpenAir, the leading provider of web-based professional services automation software, NetSuite introduced NetSuite Services Resource Planning (SRP), the world's first solution to help professional services organizations run their entire services project lifecycle with one seamless system—from marketing and sales to project management, services delivery, billing, accounting, revenue management, and renewals / upsell. To learn more, please visit www.netsuite.com.

About Service Performance Insight

Jeanne Urich, Service Performance Insight Managing Director, is a management consultant specializing in Service organization improvement and transformation for small to large technology companies. She has been a corporate officer and leader of the Worldwide Service organizations of Vignette, Blue Martini and Clarify, responsible for leading the growth of their Professional Services, Education, Account Management and Alliances organizations.

She has a Bachelor's Degree in Math and Computer Science from Vanderbilt University. She serves on the Advisory Board of www.psvillage.com , a preeminent on-line community for Services executives. She is co-author of the ground-breaking new 2009 benchmark "The Professional Service Maturity Model" www.spiresearch.com

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Dave Hofferberth, Service Performance Insight Managing Director has over 20 years experience in information technology (IT) serving as an industry analyst, market consultant, and as a product director at Oracle. Hofferberth is focused on the services economy, and in particular, on white-collar productivity issues and the technologies that help people perform at their highest capacity.

Hofferberth's background also includes the management of application development teams and analytical tool development to support business decision-making processes. Hofferberth earned an MBA from Duke University and a BS in Industrial Engineering from the University of Tennessee. He is also a licensed Professional Engineer (PE).

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Service Performance Insight (SPI Research) is a globally-focused research and consulting firm specializing in the services sector. The firm closely follows professional services organizations (PSOs) — both Embedded and Consultants/Systems Integrators — and the independent software vendors (ISVs) that develop business solutions to make people more productive and profitable. SPI Research pays particular attention to the integration of the three key assets of a PSO: its people, (business) processes and capital, and how technology can help optimize their use. SPI Research has developed the definitive business model that shows how PSOs can improve organizational performance by improving five core aspects of their business. They include: 1) Vision, Strategy and Culture; 2) Finance and Operations; 3) Human Capital Alignment; 4) Service Execution; and 5) Client Relationships.

Visit www.SPIresearch.com for more information on Service Performance Insight.