
Service Performance Insight

Workforce Productivity Research & Consulting



The PS Maturity Model
Charting your Path to Excellence

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Presented by:

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Jeanne Urich Bio

  	<p>PSVillage Advisory Board and Contributing Author 'Tips from the Trenches'</p> <p>Services Management Consultant</p> <p>Focused on breakthrough Service Performance improvement - Strategy, Operations, Human Capital Alignment, Service Execution, Sales and Marketing</p> <p>Transformation Projects Interim Executive roles</p>
   	<p>SVP of Global Professional Services, Education, Account Management and Alliances</p> <p>Lead Service Organizations from 50 to 700 employees, Revenue from \$10M to \$115M</p> <p>Net Margin > 20%</p>
<p>TANDEM</p>  	<p>Global Service Marketing</p> <p>Operations</p> <p>Sales</p>
	<p>BA Math and Computer Science</p> <p>Phi Beta Kappa, Magna Cum Laude Honors</p> <p>Stanford Executive Marketing Program</p>



Agenda

- Common Service Challenges
- Service Performance Pillars
- Maturity Levels
- Participant Results
- Recommendations and Conclusions
- Questions and Answers



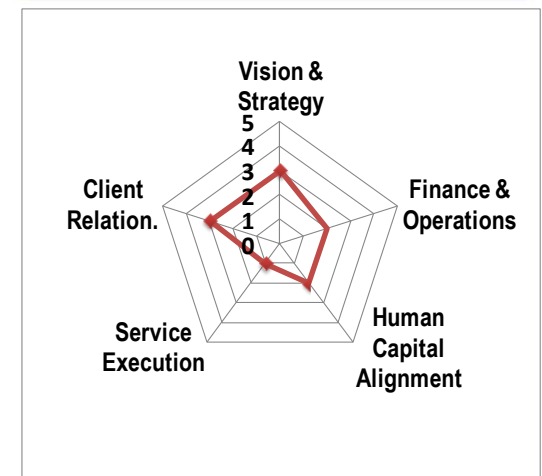
Common Issues Facing Service Orgs

- How can we demonstrate value to the organization?
- How can we improve financial performance and drive product revenue at the same time?
- How do we attract, retain and motivate the talent we need?
- How can we become more productive?
- How can we improve quality and customer satisfaction?
- What services should we offer and how can we sell more effectively?

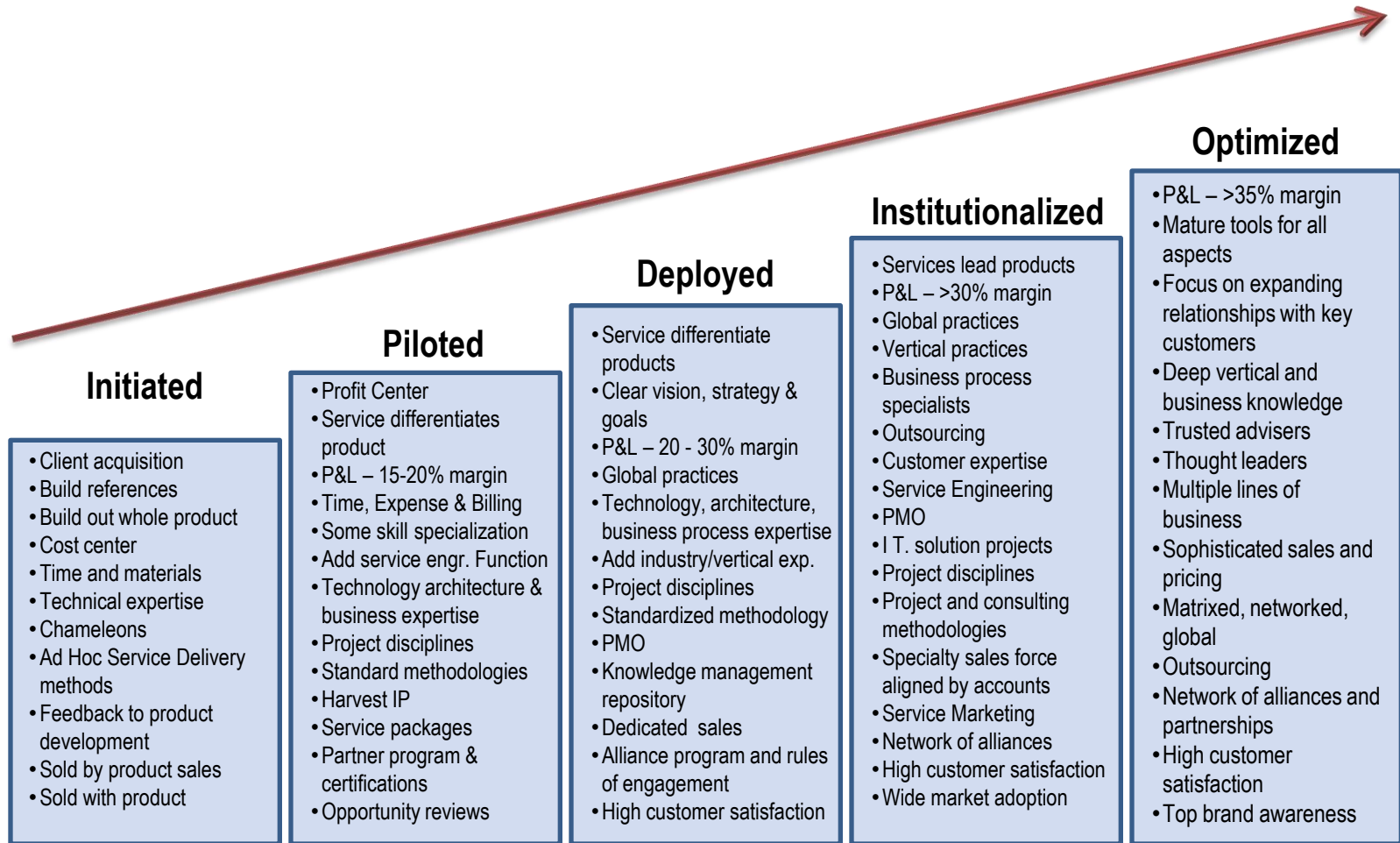


SPI Research PS Maturity Model

- The first and only Professional Service Maturity Model
- Comprehensive evaluation of all facets of a PS Organization
 - *Vision, Strategy and Culture*
 - *Finance and Operations*
 - *Human Capital Alignment*
 - *Service Execution*
 - *Customer Relationships*
- Diagnostic and Prescriptive
- Provides a unique and comprehensive framework for current assessment and future improvement initiatives



Service Maturity Levels



Maturity Levels by Pillar

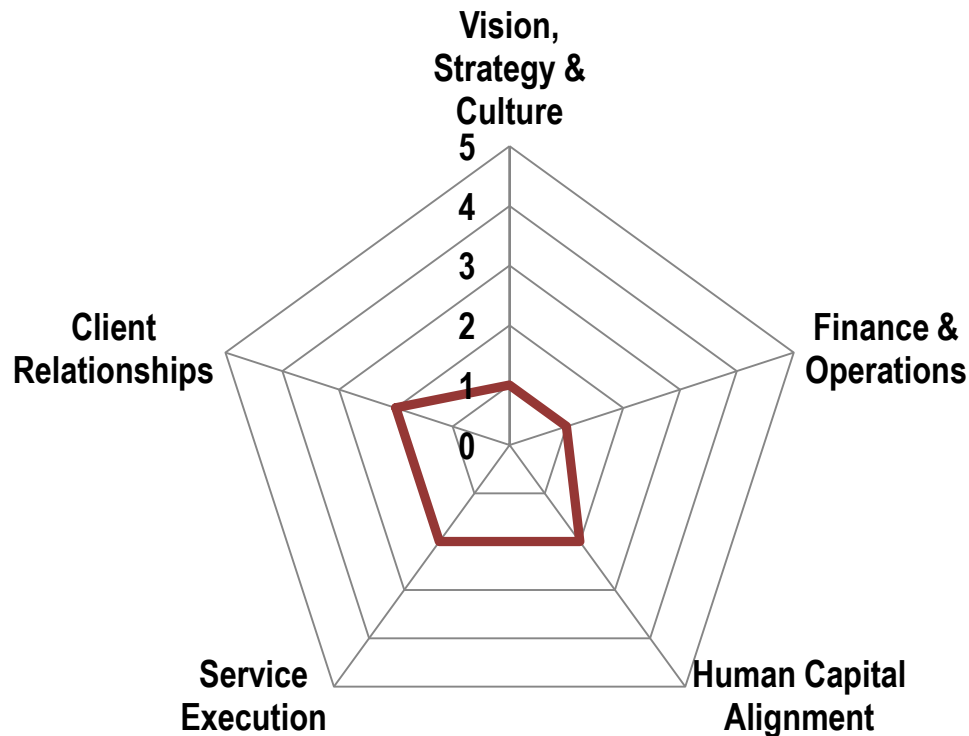
	Phase 1 Initiated	Phase 2 Piloted	Phase 3 Deployed	Phase 4 Institutionalized	Phase 5 Optimized
Business Strategy	Initial strategy is to support product sales and provide reference customers while providing workarounds to complete immature product.	PS has become a profit center but is subordinate to product sales. Strategy is to drive customer adoption and references profitably.	PS is an important revenue & margin source but channel conflict still exists. Services differentiate products.	Service leads products. PS is a vital part of the company. Solution selling is a way of life. PS is included in all strategy decisions.	PS is critical to the company. Service strategy is clear. Complimentary goals % measurements in place for all functions.
Finance & Operations	The PSO has been created but is not yet profitable. Rudimentary time & expense capture.	5 to 20% margin. PS becoming a profit center but still immature finance & operations processes	20 to 30% margin. PS is a complete P&L. Standard methods for resource mgmt., time, expense & billing.	PS generates > 20% of overall company revenue and contributes > 30% margin. Well developed finance & operations processes & controls.	> 40% margin. Continuous improvement & enhancement. High profit. Global with disciplined processes, controls & optimization.
Human Capital	Hire as needed. Generalist skills. Chameleons, Jack of All Trades. Individual heroics.	Begin forecasting workload. Start developing job & skill descriptions & compensation plans.	Resource management, skill mgmt, career mgmt, employee satisfaction surveys. Training plans. Attrition <20%	Business process & vertical skills in addition to technical & project skills. Career ladder. Training investment. Low attrition.	Continually staff & train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peaks.
Service Execution	No scheduling. Reactive. Ad hoc. Heroic.	Skeleton methodology in place. Initiating project mgmt. & technical skills.	Collaborative portal, begin looking at Earned Value Analysis. Project dashboard & quality measurements.	Integrated project & resource management. Using portfolio management.	Integrated solutions drives performance. Continual checks & balances to assure superior utilization & bill rates.
Client Relationship	Opportunistic. No defined solution sets. Focus on new customers & references.	Start to use marketing to drive leads. Multiples sales models. Start measuring customer sat.	Marketing, inside sales, solutions sales with defined solutions sets. Deal, pricing and contact reviews.	Business process & vertical solutions in addition to horizontal applications. Centers of excellence. Top client & partner programs.	Executive relationships. Thought leadership. Brand building & awareness. High customer satisfaction. Integrated sales & marketing. High quality references.



Key Metrics by Service Pillar

- Vision and Strategy
 - Defined Service Strategy
 - Goals and measurements in alignment
 - Competitive performance
- Finance and Operations
 - Billing and revenue rates
 - Net Contribution margin
 - Project margin
 - Revenue leakage
 - Days Sales Outstanding (DSO)
- Human Capital Alignment
 - Attrition
 - Mgmt. : employee ratio
 - Compensation
 - Recruit/Ramp Time
- Service Execution
 - Resource Management
 - Utilization
 - On-time delivery
 - Cancellation rate
- Client Relationships
 - Bid : Win ratio
 - Pipeline
 - Deal size
 - Client satisfaction
 - Repeat business

Service Performance Maturity



- Shows relative performance in key areas
- Offers quantitative improvement targets
- Helps Prioritize improvement initiatives
- Helps build leadership consensus around the Service Vision & Mission

PS Industry Benchmark Results

SPI Research applied the maturity model initially to 52 PS organizations in Q4 2007 to form an industry benchmark with the following aggregated results.

Pillar	Level 1	Level 2	Level 3	Level 4	Level 5	Total
Vision and Strategy	33%	29%	12%	17%	10%	100%
Finance and Operations	50%	33%	12%	6%	0%	100%
Human Capital Alignment	56%	31%	13%	0%	0%	100%
Service Execution	29%	46%	17%	2%	6%	100%
Client Relationships	29%	33%	33%	0%	6%	100%
Total	39%	34%	17%	5%	5%	100%

Benchmark Participant Demographics

Demographic	Value
Size of Professional Services organization (employees)	403
Annual company revenue (Millions)	\$164.3
Professional services revenue as a percent of annual company revenue	46.4%
Year-over-year change in Professional Services revenue	17.2%
Year-over-year change in Professional Services employee headcount	15.5%
Percent of employees billable or chargeable	67.0%
Professional Services IT budget as a % of annual Professional Services revenue	4.5%
Projected Change in Total Professional Services IT budget	6.7%
Corporate Overhead Charges - Benefits, IT, Facilities, Corporate Overhead	22.0%
Average Consulting/billable staff hourly bill rate	\$164
Percentage of PS revenue delivered by third parties (subcontractors, offshore)	13.8%

Pillar 1 – Vision, Strategy and Culture – Service Charter Results

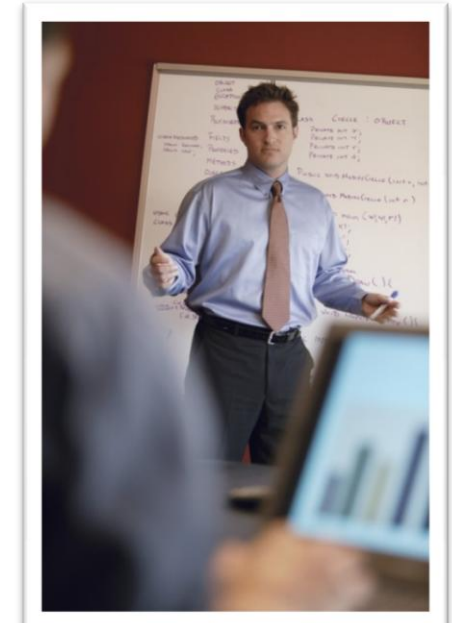
No.	Service Objectives	Rating
1	Improve Service Quality & Client Satisfaction	2.63
2	Increase Service Revenue	3.47
1	Increase Product Revenue	3.65
3	Increase Market Share - beat the competition	3.69
4	Increase Service Margin	3.92
7	Improve Product Quality & provide product feedback	3.94
6	Improve Cross-functional teamwork & knowledge sharing	3.96
5	Increase Employee Satisfaction	4.14
8	Improve Customer application knowledge & self-sufficiency	4.31

PS Strategy – Room for Improvement



Vision, Strategy and Culture Focus Areas

- Service mission clarity
- Vision of the future – the role of PS, new markets, new offers, focused improvement areas
- Confidence in Leadership
- Empowerment
- Alignment of goals, metrics and compensation



Pillar 2 - Finance and Operations Benchmark

Finance and Operations	Value	Finance and Operations	Value
Net contribution margin	22.8%	Average non-billable expense per employee per quarter	\$3,310
Average project gross margin	35.3%	Revenue per person for billable employees	\$214K
Average subcontractor margin	28.8%	% quarterly revenue in backlog	48.5%
Average offshore margin	44.4%	Quarterly average revenue forecasting variance	14.6%

Finance and Operations – Maturity Levels

	Level 1	Level 2	Level 3	Level 4	Level 5
Hourly Bill Rate	<\$150	\$150	\$175	\$200	\$225
Annual Revenue Per Person	\$160K	\$180K	\$200K	\$250K	\$300K
Corporate Overhead Charge	>30%	30%	25%	22%	20%
Project Gross Margin	<40%	40%	50%	60%	70%
Net Contribution Margin	<20%	20%	25%	30%	35%
Quarterly Revenue % in Backlog	<40%	40%	50%	60%	70%
% of Discounting	>20%	20%	15%	10%	5%
DSO	>60 Days	60	50	40	30

Finance and Operations – Best Practices

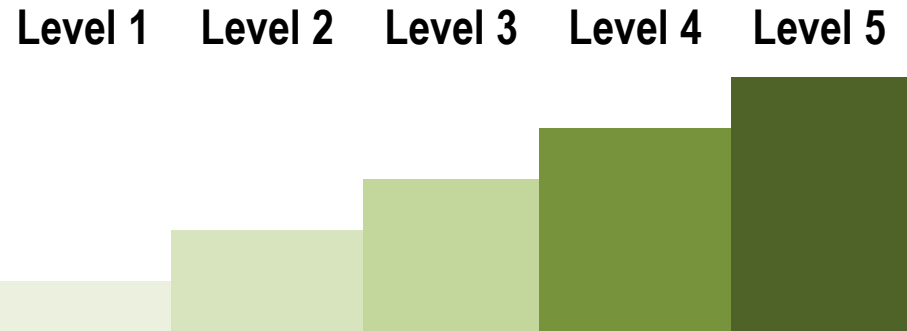
- Open books for financial visibility and control
- Backlog – the fuel for growth
- Increase/maintain bill rates by controlling discounting
- Measure margin at multiple levels
- Control discretionary spending
- Tightly manage fixed price projects



Human Capital Alignment – Benchmark

Demographic	Value
Attrition	8.9%
Management to Employee Ratio	11.28
% that conduct performance reviews tied to industry benchmarks	26.5%
Length of time to recruit and hire	62 days
Length of time for new hire to become productive	60 days
Number of training days per employee per year	5.4 days
% with a well-understood career path	47.9%
% that conduct annual Employee Satisfaction Survey	63.2%

Human Capital Alignment – Maturity Levels



	Level 1	Level 2	Level 3	Level 4	Level 5
Percent of employees billable	43%	73%	78%	90%	95%
Annual attrition	15%	10%	8%	6%	5%
Days to recruit & hire for std. positions	70	65	53	48	40
Days for new hire to become productive	80	55	45	31	15
Annual Training Days per year	0	<5	<8	<10	>10

Human Capital Alignment – Focus Areas

- Employees - the most important aspect of your firm
- Attrition – one of the most important metrics
- Invest in recruiting and ramping programs
- Provide career and skill development
- Incentives increase profits – tie to results
- Management to employee ratio > 1:10
- Align goals and measurements

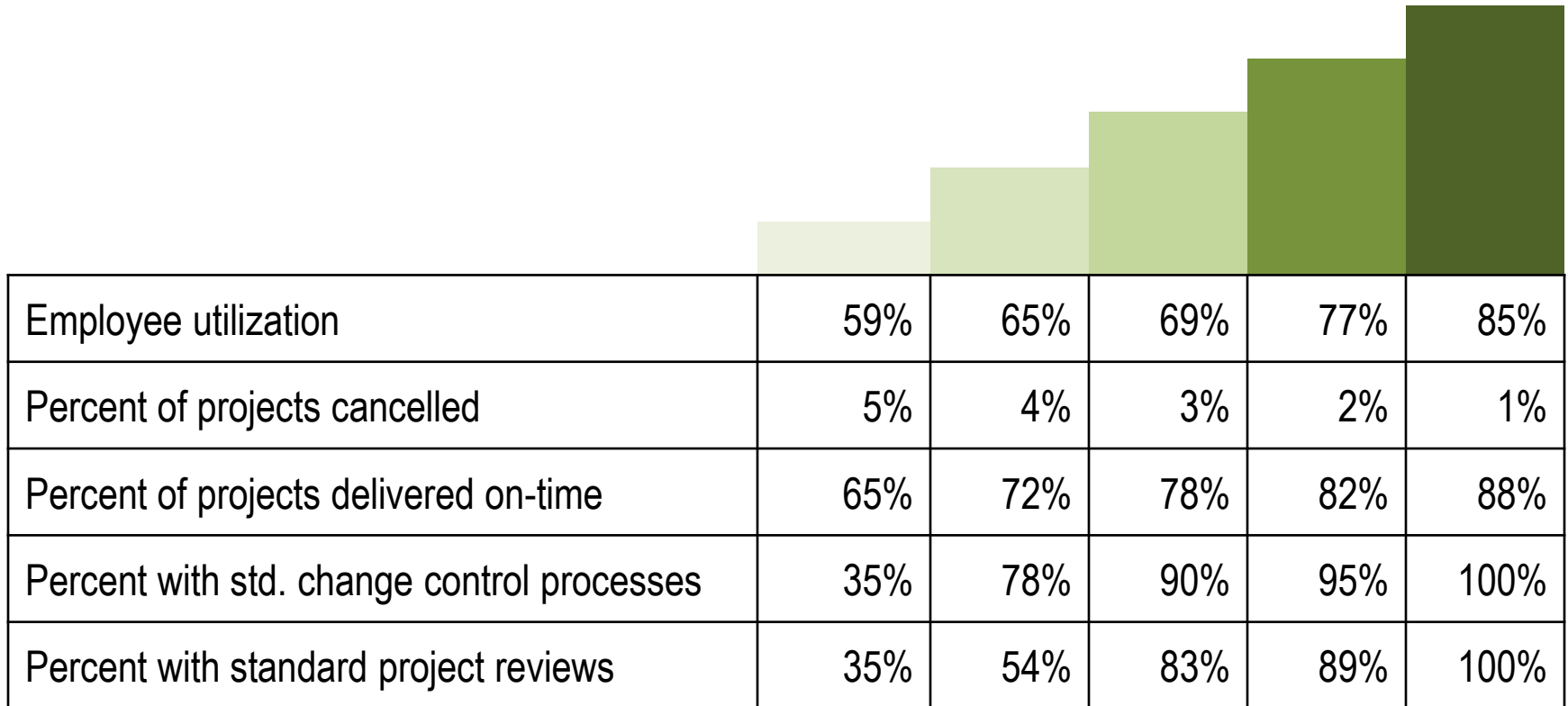


Pillar 4 - Service Execution Benchmark Results

Service Execution	Value	Service Execution	Value
Average no. of simultaneous projects managed by PM	4.0	Frequency of project overruns	46.7%
Average no. of people working on an average project	4.6	Percentage that use a standardized delivery methodology	81.3%
Average project duration (months)	5.2	Percent. that use std. estimating processes and estimate reviews	78.1%
Percentage of projects that are canceled	2.4%	Percentage that use standard change control processes	71.9%
Percentage of projects delivered on time	74.0%	— If so, the percent of projects that include change orders	25.5%
Percentage of work conducted on-site	53.5%	Percentage that have standard project reviews	66.7%

Service Execution – Maturity Levels

Level 1 Level 2 Level 3 Level 4 Level 5



Service Execution

- Increase Utilization and Bill Rates
 - 75% (\$225K annual revenue/billable employee) vs. 52% (\$125K)
- Don't manage too many projects
 - Slower revenue growth 21% (1-2) vs. 9% (over 6)
- Smaller Teams, higher growth
 - 20% (Under 5 people) vs. 13% (over 5 people)
- Shorter projects yield higher growth
 - 21% (Under 3-months) vs. 15% (over 3)

Service Execution – Focus Areas

- Invest in PMO and Knowledge Management to drive reuse and repeatability
- Project dashboard
- Enhance methodology and tools
- Project quality reviews
- Project Management training
- Estimating tools
- Invest in Resource Management Automation



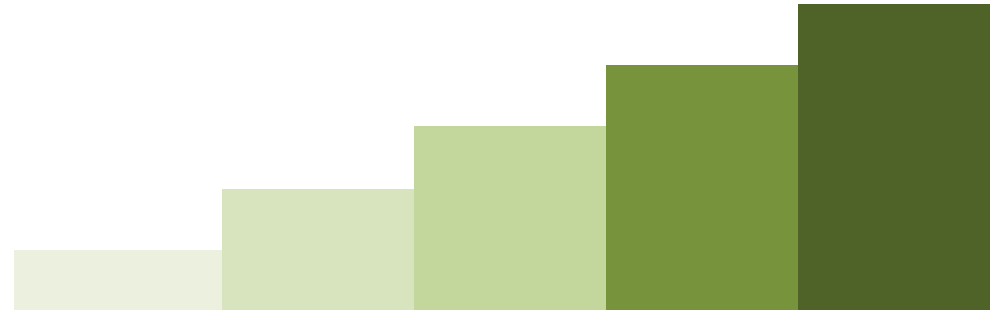
Pillar 5 - Client Relationship Benchmark

Client Relationships	Value
Percentage of existing clients that purchase new projects annually	48.2%
Ratio of deal pipeline in comparison to quarterly bookings forecast	2.39
Length of sales cycle from qualified lead to contract signing (days)	97.7
Percentage with a standard method for securing references and testimonials	46.3%
% discounting that exists	17.6%
Bid/win ratio (X wins / 10 bids)	5.63

Client Relationships	Value
Percentage spent on service marketing as a percentage of service revenue	1.7%
Percentage with an Account Management Function	75.0%
Percentage that provide Solutions training for Product Sales Force	56.3%
Percentage with a program to incent client and employee leads and referrals	40.8%
Percentage with a "Top Client" premium program and incentives	20.4%

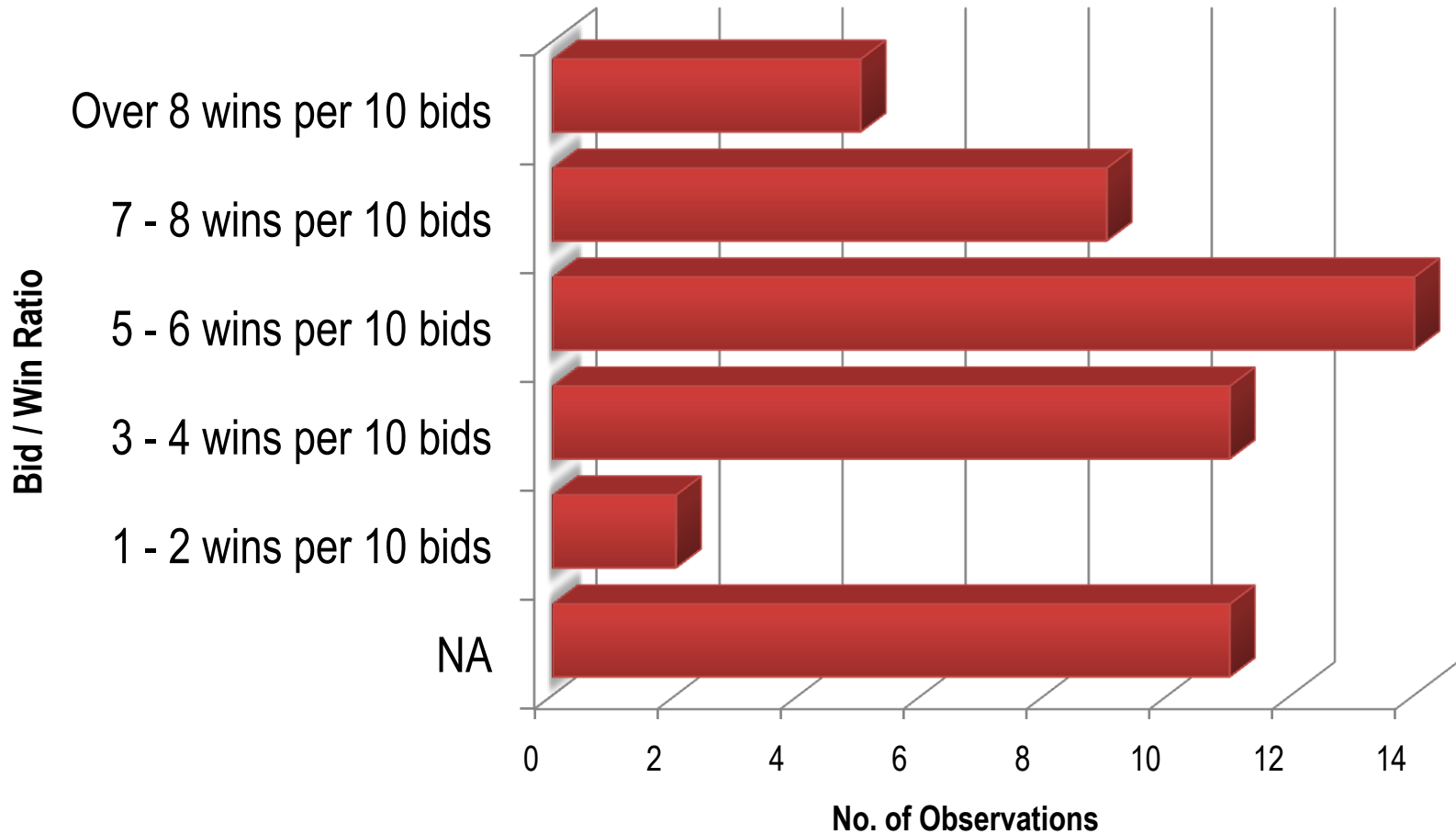
Client Relationships – Maturity Levels

Level 1 Level 2 Level 3 Level 4 Level 5



Bid / Win Ratio	3	4	5	6	9
% of Discounting	>20%	20%	15%	10%	5%
Sales cycle (days)	120	100	90	70	60
Size of deal pipeline to forecast	Same as forecast	2 X forecast	3 X forecast	4 X forecast	5X forecast
Customer Satisfaction	<60%	60%	70%	80%	90%

Bid/Win Ratio



Client Relationships – Best Practices

- Solutions portfolio and roadmap
- Improve sales effectiveness with Sales Training
- Account Planning
- Partner Plan and scorecard
- Constantly measure customer satisfaction, references, testimonials
- Proposal center for quality proposals, estimates, SOW's
- Invest in top customer programs



PS Improvement Business Value

PS Organization Alignment Business Value Calculation						
2% Increase in Bill Rate	Current Billable Staff	Available Hours @ 2080	60% Utilization	Total Revenue @ \$200/hr	Total Revenue @ \$204/hr	Bill Rate Improvement
	1500	3,120,000	1,872,000	\$ 374,400,000	\$ 381,888,000	\$ 7,488,000
2% Increase in Utilization	Current Billable Staff	Available Hours @ 2080	60%	Total Revenue @ \$200/hr	61%	Utilization Improvement
	1500	3,120,000	1,872,000	1,909,440	\$ 381,888,000	\$ 7,488,000
10% Reduction in Hiring Time	Current Billable Staff	10% Hiring Per Year	Current Days to Hire	10% Reduction in hiring days	Loaded Cost Per Person Per Hour	Reduction in Hiring Cost
	1500	150	75	67.50	72	\$ 649,038
2% Increase in Service Sales Productivity	Current Sales Staff	Average Quota	10% Service Attach Rate	10.2% Service Attach Rate		Sales Productivity Improvement
	500	3,000,000	150,000,000	153,000,000		3,000,000
Admins Reduction 1 hour per week per person	Current Billable Staff	Available Hours @ 2080	Work Days Per Year			15,000,000
	1500	3,120,000	250			
Organizational Alignment Business Value						\$ 18,625,038



Small Improvements, Big Results!

Revenue

- Sales Productivity +10% ~ \$300K
- Utilization +1% ~ \$2 – 3K pp
- Bill Rate +10% ~ \$14K pp

Client Satisfaction

- Reduce DSO 10 days ~.4%
- Increase service attach rate 1% ~ \$200-500K revenue increase
- Installed base sales – reduce cost of sale

Margin

- Reduce overhead
- Improve sub margin
- Better scope projects
- Reduce non-billable expense – target \$2500 pp/qtr

Workforce Plan

- Reduce employee ramp by 1 qtr ~ \$50-70K revenue
- Reduce admin. hours – 1 hr/week ~ \$10K pp/year
- Attrition ~ \$150K per person

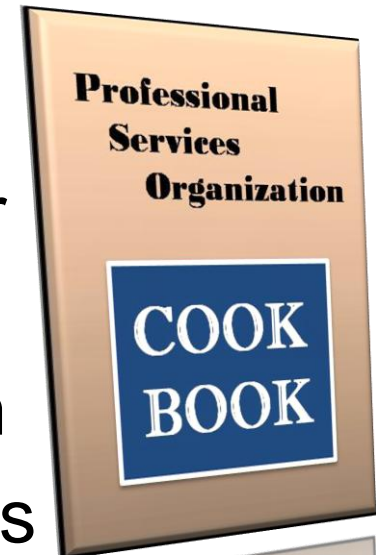
Why focus on Service Maturity?

- If you don't know where you are going, who knows where you will end up?
- Understand where PS is positioned relative to the benchmark.
- Identify specific recommended improvement initiatives
- Quantify the business value of improvement initiatives.
- Establish immediate and long term maturity objectives.
- Create a road map for PS excellence, shaped with third party insight.
- Commitment to enhance the PS organization to propel product revenue and client satisfaction



Recommendations and Conclusions

- The economy dictates that now is the time for improvement
- Develop improvement initiatives for each Service Performance pillar
- Establish a Benchmarking program
- Create initiative improvement teams
- Report success and failure – focus on continuous improvement



Thank-You for Attending

To participate in the benchmark:

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