Service Performance Insight, LLC

A Service Performance Insight White Paper

Service Compass: *Charting the Course to Professional Service Excellence*

2014 Professional Services Maturity™ Benchmark Best-of the-Best

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Service Performance Insight

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INTRODUCTION

2013 was a tough year for technology professional services providers despite an improving global economy. All major metrics including bill rates, utilization and revenue per consultant fell. Furthermore, the professional services industry saw average net profit decline to 11.4 percent, down from 16.8 percent in 2012.

Against this turbulent backdrop, top Professional Service organizations still found ways to thrive. According to "The 2014 Professional Services Maturity Benchmark," out of 238 participating organizations, thirteen firms significantly outperformed the benchmark average by excelling in all five service performance dimensions: leadership, client relationships, human capital alignment, service execution and finance and operations. With much higher profits and more satisfied clients, these firms outperformed their peers and the benchmark average.

In this white paper, SPI Research focuses on one of this year's Best-of-the-Best service organizations, Varrow. Varrow relies on the Force.com platform as the cornerstone of seamless integration between their Salesforce.com CRM application and their FinancialForce PSA and FinancialForce Revenue Recognition applications. This paper focuses on the best practices which differentiate Best-of-the-Best firms from average firms.

PROFESSIONAL SERVICES MATURITY™ MODEL

For the past five years, Service Performance Insight has conducted in-depth analysis of the top five percent of PS Maturity™ benchmark participants to uncover the reasons for their superlative performance. After a careful audit of their survey responses and an in-depth interview with lead service executives, the top performing organizations have been named "Best-of-the-Best." The top five percent (13 firms) scored 20 or higher on a scale of 25 on the PS Maturity Model™.

SPI Research uses the PS Maturity Model™ as a diagnostic tool to measure the maturity of PS business, talent and financial processes. The core tenet of the PS Maturity Model™ is service, and project-oriented organizations achieve success through the optimization of five Service Performance Pillars™ (Figure 1):

1. **Leadership — Vision, Strategy and Culture:** Clarity, alignment and communication of a compelling vision and strategy.
2. **Client Relationships:** Marketing and sales effectiveness.
3. **Human Capital Alignment:** The ability to recruit, hire and engage a talented consulting workforce.
4. **Service Execution:** The ability to deliver high quality services and projects on time and on budget.
5. **Finance and Operations:** The ability to budget, forecast, measure and manage cash flow to meet revenue and profit objectives.

Figure 1: Service Performance Pillars™

Within each of the Service Performance Pillars™, SPI Research has developed guidelines and key performance measurements that correspond to levels of maturity and provide a roadmap to service performance excellence.

Professional Services Maturity™ Model Benchmark Levels

Figure 2 depicts maturity level progression and outlines primary characteristics for each maturity level. The bottom line is that as organizations improve performance through better focus, alignment, communication and collaboration, the more "mature" they become.

Figure 2: Professional Services Maturity™ Model Levels
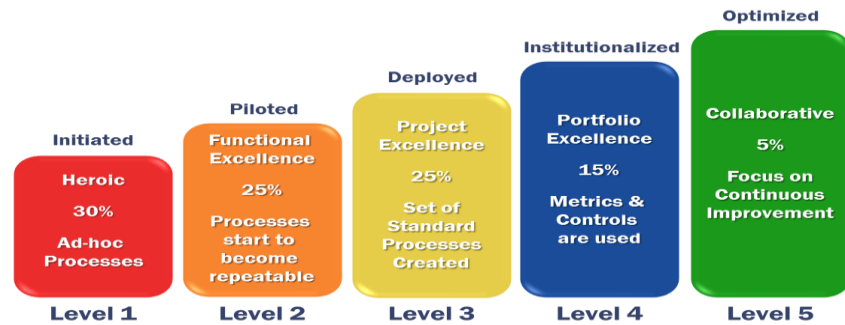
Does Professional Service Maturity Matter?

SPI Research has spent the past seven years benchmarking varying levels of operational performance or "maturity" to determine the characteristics and appropriate behaviors for PSOs based on their organizational lifecycle stage.

Figure 3 highlights major key performance measurements by maturity level, and demonstrates the benefits of investing in a program to assess and advance maturity.

Figure 3: 2014 PS Maturity™ Benchmark Progression – 238 firms

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institution.	Level 5 Optimized
Well understood vision, mission and strategy	3.57	3.64	3.93	4.33	4.38
Bid-to-win ratio (per 10 bids)	4.05	5.24	5.00	5.32	6.88
Referenceable Clients	68.2%	71.4%	76.9%	81.9%	84.6%
Employee billable utilization	61.4%	69.6%	72.7%	74.4%	78.1%
Projects delivered on-time	73.0%	76.1%	79.9%	79.6%	85.8%
Annual revenue per billable consultant (k)	$115	$165	$222	$258	$281
Quarterly revenue target in backlog	27.6%	40.0%	49.2%	62.1%	64.2%
Earnings before Income Taxes, Depreciation & Amortization (EBITDA)	**3.8%**	**9.2%**	**9.7%**	**18.5%**	**22.5%**

Source: Service Performance Insight, March 2014

SURVEY DEMOGRAPHICS

Table 1 compares the 13 Best-of-the-Best performing professional services organizations to the other 225 in this year's survey. The size of the Best-of-the-Best organizations is much smaller than the average firm in the benchmark. Six are embedded PS organizations within software or software as a service companies, five are IT consultancies and two are management consultancies. Several of the IT consultancies, like Varrow, derive a substantial portion of revenue from the resale of hardware and software products in addition to high value consulting.

Table 1: Best-of-the-Best Comparison – Demographics

KPI	BoB	Rest	▲
Organizations	13	225	
Size of PS organization (employees)	83	262	-68.5%
Annual company revenue (mm)	$65.8	$135.8	-51.5%
Total professional services revenue (mm)	$17.5	$50.7	-65.5%
Year-over-year change in PS revenue	11.0%	9.9%	11.1%
Year-over-year change in PS headcount	10.6%	7.4%	44.5%
% of employees billable or chargeable	74.6%	71.0%	5.0%
% of PS revenue delivered by 3rd-parties	5.4%	11.8%	-54.3%
EBITDA	**30.2%**	**9.8%**	**209%**

Source: Service Performance Insight, March 2014

This year's Best-of-the-Best are characterized by high profit and high levels of client satisfaction. Unlike prior years, only three of the top firms grew revenue greater than 25% in 2013. Surprisingly, three grew annual

revenue less than 5% and two actually saw their PS revenue decline yet they were still able to deliver high profit and client delight. Interestingly, not a single winner this year came from an embedded SaaS PSO. Times sure are a changing as embedded SaaS PSOs have typically garnered top honors; but not this year due to their business model shift to "client adoption" favoring generating repeat client purchases over PS profit.

While this year's Best-of-the-Best were smaller in size, they did on average, grow their workforce at a much higher rate than the others. They also had a higher percentage of billable employees, and depended much less on third-party resources, preferring to recruit and deploy their own talented staff without relying on subcontractors. This workforce strategy translated to higher levels of both employee and client satisfaction. Achieving these high levels of billable utilization relies on integrated business applications to ensure resource demand and supply are constantly monitored and balanced.

BEST-OF-THE-BEST PILLAR PERFORMANCE

Leadership

The leading firms are highly specialized. They concentrate on specific high-growth product segments or vertical industries. The executives of top-performing firms are seasoned professionals – often with a track record of founding and growing multiple prior consulting organizations. They are razor-focused on becoming the best, most reputable supplier in their space – meaning this is not a life-style business although they establish a strong culture based on equal parts excellence and personal growth with a measure of fun and team-building thrown in.

This year's leaders discussed the cohesiveness of the executive team, and how they built a collaborative environment among employees. While each discussed the importance of client satisfaction, they also covered the importance of creating satisfied employees to help build the culture and position the firm for future growth.

Varrow is a leading provider of technology solutions and services in the areas of Cloud, Mobility and Security. Varrow is the 2010, 11 and 12 first place winner of the Triad Fast 50, which recognizes the fastest growing businesses in the Greensboro, Winston-Salem, High Point Area of North Carolina. Varrow was also named to the Inc Top 500 list in 2010, 11 and 12, a listing of the fastest growing businesses in the US.

Prior to founding Varrow, Jeremiah Cook and Dan Weiss each had small consulting businesses. They decided to partner in 2007 to bring the right combination of technology and expertise to serve their IT infrastructure clients. The partnership was created just at the right time and place to help Southeastern healthcare providers digitize their records to achieve HIPAA compliance. Since 2007 Varrow has grown to over $140 million in annual revenues and has become one of EMC's and VMware's top 10 partners. Services represents less than 10% of total revenue but are projected to grow to 15% with a focus on both product-attached, managed services and high value consulting services.

Table 2: Best-of-the-Best Comparison – Leadership Pillar

Key Performance Indicator (KPI)	BoB	Rest	▲
Innovation focused (Rating from 1 to 5)	4.33	3.65	18.7%
Well understood vision, mission & strategy	4.50	3.81	18.0%
Effectively communicates w/employees	4.33	3.70	17.0%
Embraces change - nimble and flexible	4.50	3.86	16.7%
Confidence in PS leadership	4.50	4.02	12.0%
Ease of getting things done	4.17	3.73	11.8%
Goals and measurements in alignment	3.92	3.72	5.2%

Source: Service Performance Insight, March 2014

Table 2 compares the leadership metrics of the highest performing organizations with the remainder of the survey. The comparative scores show the leading firms emphasize innovation and strategic clarity and alignment. The two highest differential scores are innovation and a well understood vision, mission and strategy. Leading PSOs emphasize the importance of communication by providing clear expectations for both their clients and workforce. They embrace change and are nimble and flexible to stay ahead of ever-changing business and technology trends.

Client Relationships

Interviews with the best-of-the-best firms revealed they intently focus on the top clients in their market-space with an intentional push to expand their footprint and share of wallet with industry-leading clients. Varrow has quickly become the top IT infrastructure provider in the Southeast with customers in healthcare, state and local government and commercial businesses. In addition to core implementation services, Varrow is adding assessments, planning, design and health checks to augment its portfolio. Support and managed services round out Varrow's service offers making it a one-stop shop for complex IT infrastructure solutions.

At Varrow, services are sold either as time and materials; through pre-paid retainer agreements (a block of hours with progressive discounts); fixed fee quickstarts with pre-defined scope for price-listed products and through custom statements of work which combine quick starts and migration services. Varrow is in the process of creating a dedicated services presales team for scoping, pricing and proposals.

Varrow is uniquely advantaged by the seamless integration between their Salesforce.com CRM application, FinancialForce Professional Services Automation (PSA) and FinancialForce Revenue Recognition applications. They credit these FinancialForce.com applications as key success ingredients because they are now able to continuously monitor and match demand with supply. Integrated CRM and PSA applications give them a 360-degree view of clients; ensuring prospects fluidly become projects. Delivery has visibility to the sales pipeline and project

dashboard to ensure they are selling what they can deliver and delivering what was sold.

Table 3 compares client relationship metrics between the best-of-the-best and the other organizations in the survey. Leading firms have larger deal pipelines, a much higher win to bid ratio and better sales and marketing effectiveness. These organizations also had a much higher percentage of referenceable clients leading to more new and repeat client revenue.

Table 3: Best-of-the-Best Comparison – Client Relationship Pillar

Key Performance Indicator (KPI)	BoB	Rest	▲
Deal pipeline to qtr. bookings forecast	309%	184%	67.8%
Bid-to-win ratio (per 10 bids)	6.5	4.9	33.4%
Solution development effectiveness (1 to 5 scale)	3.8	2.9	30.5%
Service sales effectiveness (1 to 5 scale)	3.8	3.2	16.8%
% of "referenceable" clients	84.6%	73.9%	14.4%
New client % of total revenue	31.7%	31.0%	2.0%

Source: Service Performance Insight, March 2014

Human Capital Alignment

The ability to recruit and retain talented staff is a perennial challenge. While no one would argue that employees are the most valuable resource, in years gone by it was somewhat easier to find skilled talent. The leading firms use a variety of innovative recruiting strategies – from establishing strong partnerships with local universities to attracting more senior consultants from their competitors. Just as in selling, referrals are a key source of new hires because the best and brightest invite their friends to join them. Once on board, the best firms offer new hire orientation and on-boarding programs which include shadowing and mentoring to quickly bring new hires up to speed.

Varrow's top challenge is finding and ramping a highly specialized workforce. They have depleted the talent pool in the Southeast so now recruiting has expanded throughout the U.S. with relocation packages to attract skilled employees to move to North Carolina. Varrow also offers an intense thirteen week on-boarding program which culminates in the Varrow Certified Infrastructure Professional (VCIP) certification.

Table 4 compares Human Capital Alignment pillar key performance metrics between the best-of-the-best organizations and the remainder. The Best place a premium on finding and retaining qualified staff. They invest more than average firms in training and career management which results in a larger management span of control, better retention and more satisfied employees. Because Salesforce CRM, FinancialForce PSA and Revenue Recognition share the same platform, Varrow has complete visibility into resource demand and can visualize upcoming requirements to commence recruiting.

The most notable difference is billable utilization, where leading firms average 1,640 billable hours per year compared to the others, which average 1,426 billable hours per year. Two-hundred additional billable hours per year definitely improves financial performance. In Varrow's case, FinancialForce PSA is credited with helping them drive utilization to 81% which translates to 1,685 billable hours per year per engineer.

Table 4: Best-of-the-Best Comparison – Human Capital Alignment Pillar

Key Performance Indicator (KPI)	BoB	Rest	▲
Guaranteed annual training days per employee	11.1	8.9	25.1%
Management to employee ratio	12.1	10.0	20.6%
Well-understood career path (1 to 5 scale)	3.8	3.2	20.1%
Employee billable utilization	78.3%	69%	13.3%
Employee annual attrition	7.5%	8.3%	10.3%
Recommend company to friends/family (1 to 5 scale)	4.4	4.3	3.5%

Source: Service Performance Insight, March 2014

Service Execution

Varrow relies on its cloud-based FinancialForce PSA application to plan the demand forecast and manage projects and resources. With real-time visibility, they are able to quickly initiate recruiting for in-demand skills. Another powerful benefit of FinancialForce PSA is that it profiles project budget to actuals so estimates and proposals can be continually enhanced to accurately reflect level of effort. Varrow can now segment projects by client, technology and type of project which facilitates continual improvement in scoping and estimating.

There is no mystery why the leaders out-perform average firms – they concentrate on consultant billability! Having visibility to upcoming projects along with current activities allows top-performers to smooth peaks and valleys in demand. FinancialForce PSA allows them to schedule short-term work and tasks around longer term project commitments. Not an hour of time or expense is wasted because the easy-to-use cloud-based application is always accessible to consultants, allowing the best performing firms to rapidly capture time and expense to generate accurate invoices.

The service execution pillar is where the rubber hits the road – where revenue, profit and client delight are generated. Table 5 compares service execution metrics between the best-of-the-best performing organizations and the remainder. Almost all service execution metrics reflect significant advantages between the top performers and the other organizations in this study. Leading firms have far fewer project cancellations and overruns due to sales and delivery collaboration propelled by integrated CRM and PSA applications. Leaders benefit from the use of a standardized delivery methodology and resource

management effectiveness with larger projects and better on-time, on-budget service delivery.

Table 5: Best-of-the-Best Comparison – Service Execution Pillar

Key Performance Indicator (KPI)	BoB	Rest	▲
Projects canceled	1.2%	2.0%	38.2%
Average project overrun	5.9%	8.6%	31.5%
Use a standardized delivery methodology	77.3%	64.5%	19.9%
Average project duration (months)	5.95	5.11	16.5%
Average project staff (people)	4.3	3.73	15.2%
Effect. of resource management (1 to 5 scale)	3.83	3.45	11.1%
Projects delivered on-time	84%	77%	9.2%

Source: Service Performance Insight, March 2014

Precision service execution is the hallmark of Best-of-the-Best firms. Every top performer has invested in a CRM application with Salesforce.com powering 9 of the top 13. 83% of the top firms have invested in a commercial PSA application. Varrow relies on seamless integration between their Salesforce.com CRM, Financial Force PSA and Revenue Recognition because the majority of service deals emanate from product sales. This integration means service delivery can monitor the sales pipeline and deal probability in real-time, ensuring appropriate resources are available when needed. FinancialForce PSA is credited with powering superlative resource management and estimating effectiveness. The project dashboard reflects budget to actuals and overruns to ensure variances are visible so they can be quickly remedied.

Finance & Operations

One of the hallmarks of the leaders is their attention to measuring and monitoring all aspects of the business. Powerful integrated CRM, PSA and Revenue Recognition applications provide visibility throughout the entire quote-to-cash process to ensure prospects are fluidly converted into projects with flawless hand-offs between sales and service delivery. The leaders in this survey continually monitor and measure financial metrics. They have the ability to make adjustments as necessary, and don't wait too long before implementing changes. The importance of real-time financial information cannot be understated.

Table 6 compares Finance & Operations pillar KPIs between the best-of-the-best organizations and the remainder. The results show significantly better levels of financial performance across all metrics.

Because leaders are focused and specialized they are able to win larger, more impactful projects so average revenue per project is significantly higher ($235,000 more per project). They focus on profit in all aspects of the business with metrics for profit by person, project and subcontractor. On average, the leaders produce $86,000 more in revenue

per person and $107,000 more revenue per consultant. High project, employee and consultant margins drop directly to the bottom-line where leaders produce three times more net profit (30.2% compared to 9.8% EBITDA). These extraordinary figures are a direct result of integrated business applications which provide real-time visibility to all aspects of the business.

**Table 6: Best-of-the-Best Comparison – Finance & Operations Pillar**

Key Performance Indicator (KPI)	BoB	Rest	▲
EBITDA	**30.2%**	**9.8%**	**209.0%**
Average revenue per project (k)	$413	$178	132.0%
Annual revenue per employee (k)	$236	$150	57.3%
Annual revenue per billable consultant (k)	$291	$187	55.6%
Quarterly revenue target in backlog	65.8%	43.7%	50.7%
Project margin for time & expense projects	40.4%	37.4%	7.9%

Source: Service Performance Insight, March 2014

INTEGRATED APPLICATIONS MAKE THE DIFFERENCE

Service Performance Insight's research has shown the highest performing organizations excel in their use of integrated information technology solutions. While a majority of the organizations utilize financial management, client relationship management, and professional services automation solutions to efficiently plan, sell and execute services, those that perform the best drive even better results through the integration of these core solutions.

Figure 4: Integrated information drives performance improvements
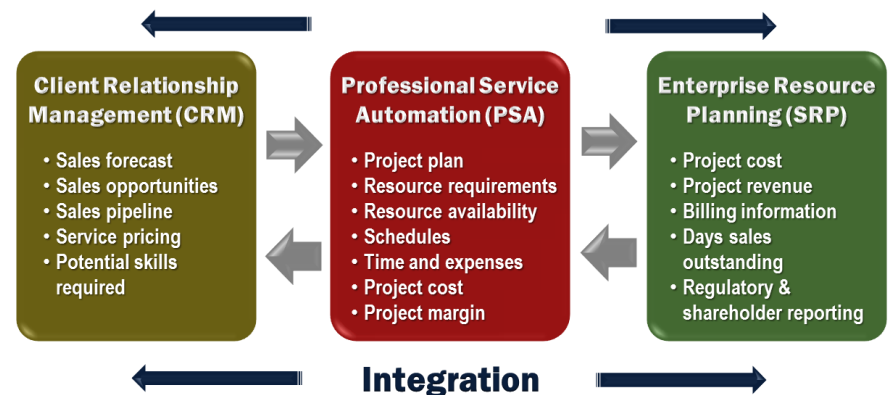
Source: Service Performance Insight, March 2014

Information should be integrated so that it can be seamlessly passed from one application to another (for example from CRM to PSA to Revenue

Recognition). Information sharing enables all relevant employees to better understand high-demand skills, cost, availability, and profitability. With integrated information, recruiting and subcontracting can be turned on and off to ensure the right resources, with the right skills are available at the right time. Financial executives can ensure revenues and costs are aligned while service delivery can focus on productivity and quality (Figure 4).

Table 7 shows the best performing organizations have much higher levels of integration between their core ERP application and departmental applications. They also have much higher levels of CRM and PSA integration. These integration levels, coupled with the performance metrics in each pillar, highlight the importance of information visibility across the PSO. Ideally, this integration is automatic and the solutions share the same platform. This reduces the need for custom integration, coding and costly updates.

Table 7: Best-of-the-Best – Applications and Level of Integration

Application	Best	Rest	▲
Use a Commercial Financial System (ERP)	90.9%	89.4%	1.7%
Use a Commercial CRM	100.0%	87.7%	14.0%
Level of CRM integration with ERP	45.0%	33.2%	35.7%
Use a Commercial PSA	83.3%	77.2%	7.9%
Level of PSA integration with ERP	75.0%	59.9%	25.2%
Level of CRM and PSA Integration	45.5%	29.8%	52.4%

Source: Service Performance Insight, March 2014

FINANCIALFORCE.COM

FinancialForce.com delivers ERP at *Customer Speed™*. Built on the Salesforce1 Platform, FinancialForce ERP equips customer-centric businesses with a unified cloud platform and all the applications necessary to grow both the top and bottom line. These applications allow businesses to increase the speed at which they operate and be more responsive along every touch point of a customer's journey.

FinancialForce PSA was built to manage the core processes associated with the sale, delivery and accounting of services. It takes advantage of the force.com platform to create a homogeneous information infrastructure allowing information to be seamlessly passed from application to application. By adding FinancialForce Revenue Recognition, Human Capital Management, Supply Chain Management, or Financial Management, service businesses can take advantage of an entire ERP suite of products all on the same platform.

FinancialForce's collaborative functionality leverages Chatter. Social collaboration enables employees, partners and clients to leverage and

share knowledge. No more broadcast emails as people, projects and tasks automatically post changes to ensure everyone has the same real-time information.

BEST-OF-THE-BEST CONCLUSIONS

Varrow, a Best-of-the Best organization profiled in this whitepaper, has made an investment in FinancialForce PSA and Revenue Recognition with seamless integration with its Salesforce.com CRM.

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 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 application suites like FinancialForce.com to displace legacy point solutions. Cloud-based 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 consider making the move to an integrated application suite now so they will be able to capitalize on the market as the economy continues to improve. Integrated business applications are certainly an important element of the secret sauce brewed by the Best-of-the-Best service organizations.

The best-of-the-best service providers in this year's survey showed superior results in all five service performance pillars. They run lean, specialized but highly effective organizations with a focus on excellence. Because of their reputation for quality, they are able to land the best clients and recruit the top talent. They place an emphasis on success in all areas of their company, not just in one area, such as sales or operations. They are passionate about being the leaders in their chosen domain. They play to win and know what success looks like.

One leader summed it up this way "I think you hit the nail on the head when you said that the "Best-of-the-Best" are always looking for ways to improve. As a winner you would think that we have it all under control. I can assure you that we are always looking for more improvements, greater efficiencies, happier clients and of course better financials. The PS Maturity™ benchmark gives us a great place to stop and reflect on how we are doing and what we can do to improve."

About Service Performance Insight

Jeanne Urich, Service Performance Insight Managing Director, is a renowned author, speaker and thought leader focused on the global service economy. She is a trusted advisor and transformative and operational change consultant to senior executives of leading services organizations, helping them navigate the journey from business-as-usual to business-as-exceptional.

Prior to co-founding Service Performance Insight she was 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 is the co-author of the ground breaking Professional Service Maturity Model™ benchmark used by over 10,000 project-oriented organizations to diagnose and improve their performance. She is a featured speaker and author for major software solution providers and industry associations.

She has a Bachelor's Degree (Magna Cum Laude and Phi Beta Kappa) in Math and Computer Science from Vanderbilt University. She is a contributing author of *Tips from the Trenches: the Collective Wisdom of over 100 Professional Service Leaders*. Contact Jeanne at **jeanne.urich@spiresearch.com Phone (650) 342-4690.**

R. David Hofferberth, PE, Service Performance Insight Managing Director, has over 25 years' experience in information technology (IT) serving as an industry analyst, product director and consultant. Hofferberth's research 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 is extensive in services performance beginning in the early 1980s, where he conducted studies on white-collar productivity in the banking, technology, energy and construction sectors. In 1999 he introduced to the market the solution area now known as Professional Services Automation (PSA), when he published the seminal report: *Professional Services Automation: Increasing Efficiencies and Profitability in Professional Services Organizations.*

Prior to founding Service Performance Insight he was a Senior Director at Oracle and Aberdeen Group. 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). Contact Dave at **david.hofferberth@spiresearch.com   Phone: (513) 759-5443.**

Service Performance Insight (SPI Research) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 10,000 service and project-oriented organizations to chart their course to service excellence.

SPI provides a unique depth of operating experience combined with unsurpassed analytic capability. We not only diagnose areas for improvement but also provide the business value of change. We then work collaboratively with our clients to create new management processes to transform and ignite performance. Visit **www.SPIresearch.com** for more information on Service Performance Insight, LLC.