

A Service Performance Insight
White Paper

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



Benchmarks and Best Practices for Professional Services Success



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Service Performance Insight

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Recovering Nicely but Some Growing Pains – from NetSuite Benchmarking the Evolution of Services Businesses

It's been a bit of a roller coaster ride for professional services organizations over the past several years from rapid growth in 2007 to a big drop by 2009 to a rebound in 2011, when double-digit annual growth reappeared. The industry as a whole has come out stronger with significant gains in key metrics such as annual revenue growth, headcount and increases in salaries, bill rates, and utilization rates.

Given this strong performance, I wasn't too surprised to see the study's results citing a surge in PSA adoption in 2011. It's great for NetSuite, the market leader for the 4th consecutive year, but it's also good for application adopters. The challenging economic cycle we are hopefully coming out of, the proven benefits of PSA solutions as cited in reports like this one, and the lower total cost of ownership of cloud based offerings all contributed to that growth. With over 75% of benchmark respondents now using a commercial PSA solution, it's more apparent than ever that professional services organizations realize the need for tools to help them maximize their potential in an increasingly global and competitive environment. Client requirements for more fixed fee contracts and desire to keep their costs contained in other ways means that constantly staying on top of your expenses and avoiding over-servicing accounts is critical.

Despite unique expertise and offerings, competition is intense – whether from a local firm, one overseas with lower labor costs, or a prospective client choosing to do more in-house. While we all try our best to stay on top of our own business metrics and continually improve, we don't always have the time or the information to look outside, and we don't always know where we should focus efforts first to improve. This paper includes some data from SPI's annual benchmark report that allows us to look beyond ourselves to see how the metrics we thought were good or bad in isolation stack up against others who look like us. In addition, SPI shares best practices for service delivery based on analysis of hundreds of companies over 5 years. These suggestions can help you realize service improvements faster.

In addition to our 4th consecutive win as market share leader, I am excited to report that many NetSuite and NetSuite OpenAir customers performed superbly in the 2012 benchmark study. Of the top 20 best performing services companies in this study, 40% of them (including NetSuite's own professional services organization) use our products. The survey also reveals that, while there's still plenty of opportunity for services firms to do a better job of integrating their PSA solutions with their financial and CRM systems, those that have done this have better performance than others. With a robust integrated suite that enables lead generation to quote to cash, we're thrilled to see strong results and plenty of opportunity. While we are pleased as executives and shareholders to see NetSuite's great showing, we derive even more satisfaction from hearing the stories of customers whose business and financial lives are enhanced through use of our products.

We hope you'll find the selected benchmark data in this paper and the best practices for service delivery useful and that they will give you satisfaction in your performance as well as provide you insights and motivation to continue to grow and improve your services organizations in the year ahead. If you'd like the full benchmark study, please visit www.netsuite.com.

Regards,

Ed Marshall, GM, Services Vertical, NetSuite

ABSTRACT

As the professional services (PS) market moves into another growth phase, organizations of all sizes may require revolutionary, not evolutionary, improvements to continue to be successful. To prepare, executives must evaluate all aspects of the business to ensure they have a differentiating strategy, compelling service offers, top talent and most importantly, best-in-class methods and tools to consistently deliver high-quality projects. These prerequisites warrant investment in tailored professional service applications that provide both the financial underpinning and service execution foundation to achieve sustainable growth. In other words, service organizations must become more “mature” in all aspects of their business.

Service Performance Insight’s (SPI Research) 2012 Professional Services Maturity™ Benchmark, based on data from 216 organizations, highlights both the opportunities and challenges facing PS executives. Our analysis shows that while client demand for professional services is rising at rates not seen in years, the expectation that projects will be delivered on time, on budget and with high levels of quality and client satisfaction is intensifying. A single project failure may lead to not only a damaged reputation but, in certain cases, may be the catalyst for financial collapse. Both the stakes and the ante to play in the hyper-competitive professional service market have been raised. To succeed, PS executives must focus on service delivery, and ensure their methods and processes are aligned with their internal and external mandates. A growing movement toward more fixed-fee and deliverables-based contracts accentuates the need for solid project delivery methods and business applications.

In this white paper, SPI Research focuses on service execution, one of five Professional Service Performance Pillars™ in the PS Maturity™ benchmark. This paper outlines why service delivery is critical for growth and demonstrates ways that professional service organizations (PSOs) can improve performance. The paper also provides key benchmark metrics against which you can measure your organization’s performance and use to identify areas for potential improvement.

THE PS MARKET DRAMATICALLY IMPROVED IN 2011

Professional service organizations went from torrid growth in 2007 to near chaos in 2009, and then returned to double-digit year-over-year revenue growth in 2011. The PS market includes firms that provide consulting in the areas of management consulting, IT consulting and research, architecture and engineering, accounting, and media and advertising.

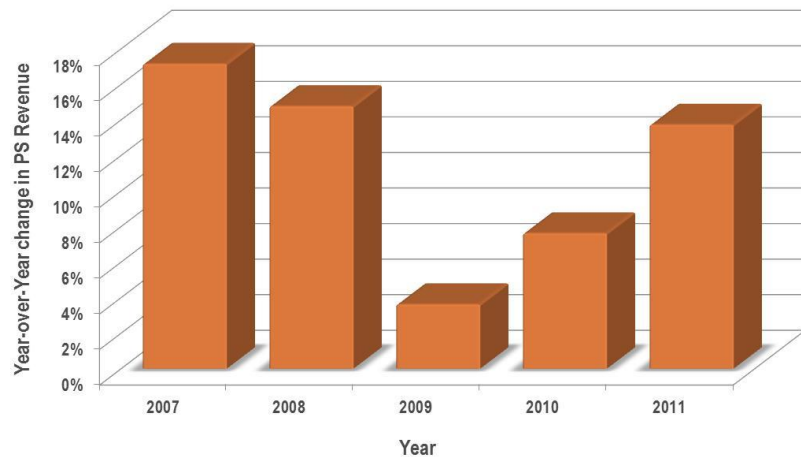
With five years of analysis, SPI Research now sees several important trends:

- Δ **Revenue growth:** The leading indicators for growth — annual revenue growth, headcount increases, size of the deal pipeline and percentage of revenue in backlog — were all up in 2011,

almost recovering to the pre-recessions highs seen in 2007. Firms were successful in achieving business targets for 2011 and metrics showed strong growth:

- Revenue growth was 13.7% in 2011, up substantially from 7.6% in 2010 (see Figure 1)
- 61 of 216 firms (28%) either achieved or exceeded their annual revenue target, with average revenue target attainment of 91% across all firms
- 49 of 216 survey participants (23%) achieved their annual margin targets.

Figure 1: Year-over-Year Change in PS Revenue (2007-2011)



Source: Service Performance Insight, May 2012

- Δ **Salaries are up:** After almost three years of layoffs, headcount and salary freezes, base salaries increased across all major job categories.
 - The average base salary for seven job titles — senior manager, project manager, business consultant, technical consultant, solution architect, account manager and training specialist — rose 4.8% from 2010 to 2011 on top of an 11% increase from 2009 to 2010.
 - Independent service organizations experienced the greatest year-over-year base salary increase (7.9%) while embedded service organizations reported a rise of only 1.7%.
 - The Americas region saw an average base salary upsurge of 6.7%, followed by 5.2% in Asia while EMEA experienced a steep decline of (-6.3%) in reaction to the worsening European sovereign debt crisis.
- Δ **Bill rates are up:** Bill rates are up after a steep decline in 2009. Average bill rates began to rise in 2010 and are now closing in

on their pre-recession highs, as shown in Table 1. Best-in-class professional services organizations tightly control pricing by carefully managing estimating, discounting, contract terms and scope.

Table 1: Hourly Bill Rate Comparisons (2008-2011)

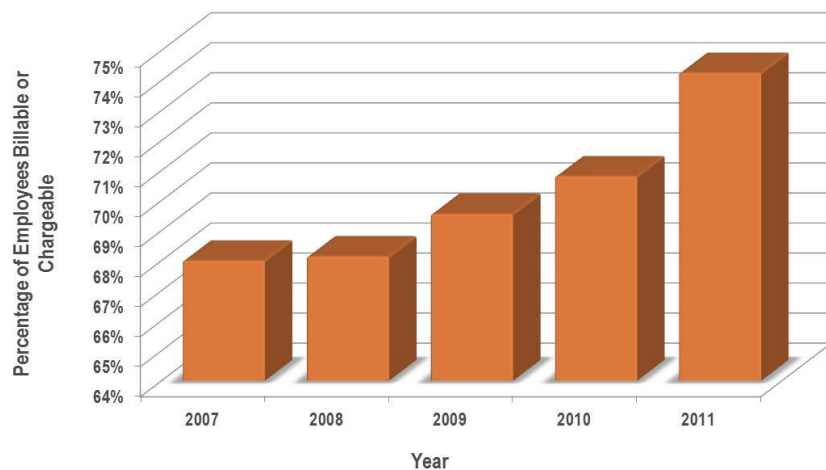
Level	2008	2009	2010	2011
Senior Manager	\$222	\$232	\$222	\$211 - \$239
Project/Program Manager	191	186	191	173 - 205
Business Consultant	176	171	179	174
Technical Consultant	170	158	166	168 - 185
Solution Architect	186	181	181	211
Account Management	147	142	152	N/A
Education/Training	169	154	156	N/A

Source: Service Performance Insight, May 2012

Δ **Productivity continues to improve:** Year-over-year revenue growth (13.7% in 2011, up from 7.6% in 2010) has consistently outpaced year-over-year headcount growth (10.1% in 2011, up from 6.9% in 2010), which means PSOs are continuing to ratchet up productivity. PS executives have worked hard to improve efficiency by eliminating overhead and waste.

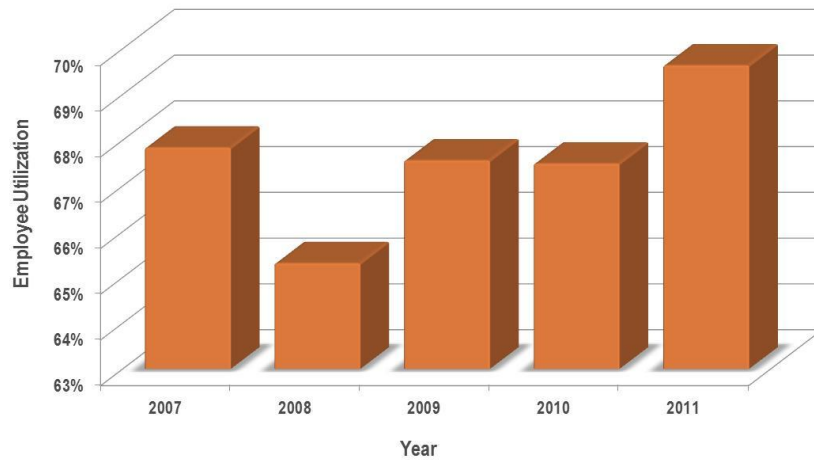
The percentage of billable staff compared to total staff has risen every year from 67% in 2007 to 73% in 2011, as seen in Figure 2. Meanwhile, in 2011 average billable utilization climbed to an all-time high of 70% (1,400 hours per year) across all verticals and geographies (Figure 3).

Figure 2: Percentage of Employees Billable or Chargeable (2007-2011)



Source: Service Performance Insight, May 2012

Figure 3: Consultant Billable Utilization (2007-2011)

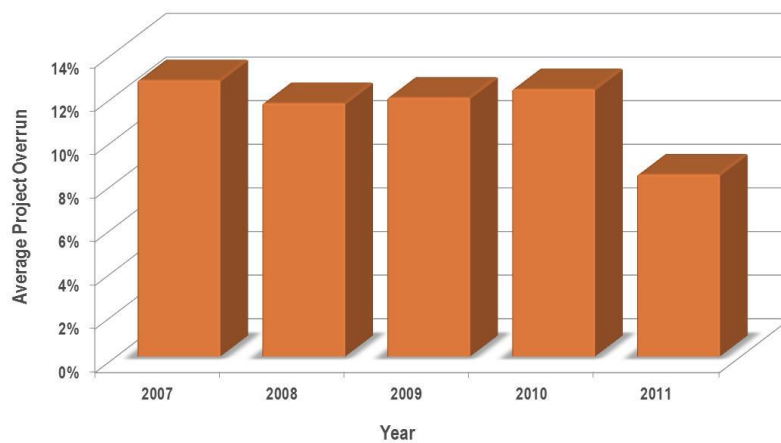


Source: Service Performance Insight, May 2012

Technology has propelled this shift to a higher ratio of billable employees. Today, even the smallest firms have replaced PS administrators with powerful cloud-based applications to manage time and expense capture and billing along with handling client relationships and resource, project and knowledge management.

- △ **Quality is rising:** The percentage of projects experiencing an overrun decreased significantly slightly (8.3% in 2011 compared to 12.3% in 2010), when an overrun did occur, PSOs appear to have made significant progress in reducing the magnitude of project overruns. This quality improvement is based on two important advancements. In 2011, PSOs reported a significantly larger number of projects used standardized delivery methods (66.6% in 2011 versus 57.7% in 2010) combined with dramatic improvements in the underlying technology.

Figure 4: Project Overrun Rate (2007-2011)



Source: Service Performance Insight, May 2012

Technology enhancements including cloud-based software are the primary catalyst for project quality improvements as implementation is now primarily focused on configuration as opposed to legacy code development and expensive, trouble-prone custom integration.

Cloud computing, mobile and social are still in their infancy but are quickly becoming the dominant sources of technology sector growth. These technologies are having a positive impact on PSOs and have been the catalyst for significantly higher levels of productivity while reducing overhead and administration costs. Large and small PSOs are increasingly abandoning homegrown spreadsheet-based applications in favor of commercial off-the-shelf applications expressly tailored to the professional services market. These new technologies likewise are significantly improving service delivery.

PROFESSIONAL SERVICES MATURITY™ MODEL

SPI Research uses the PS Maturity Model™ as a diagnostic tool to chart the road to professional services excellence. 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 5):

1. **Leadership — Vision, Strategy and Culture:** Executive-level strategic alignment, communication and control.
2. **Client Relationships:** Marketing and sales effectiveness
3. **Human Capital Alignment:** Recruiting, hiring and engaging a quality workforce.
4. **Service Execution:** Delivering valuable services and projects on time and on budget.
5. **Finance and Operations:** Managing and controlling cash flow to meet revenue and profit objectives.

Figure 5: Service Performance Pillars™



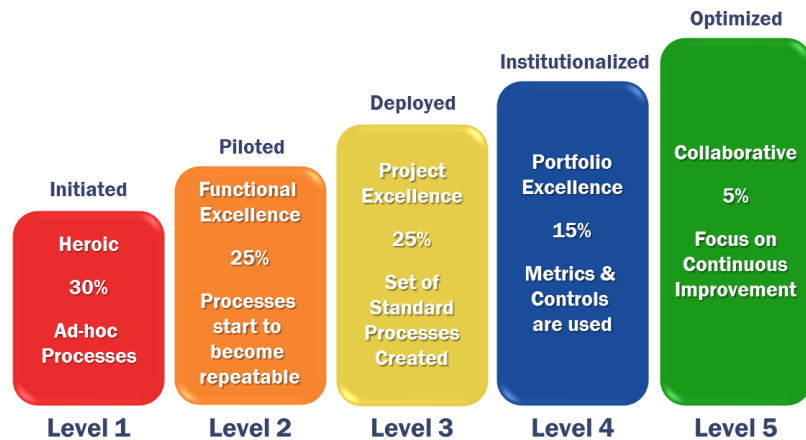
Source: Service Performance Insight, May 2012

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

The model is built on the same foundation as the Capability Maturity Model (CMM), which has been adopted for software development; but is specifically targeted toward billable PSOs that either exclusively sell and execute professional services or complement the sale of products with services. Figure 6 depicts maturity level progression and outlines primary characteristics for each maturity level.

Figure 6: Services Maturity™ Model Levels



Source: Service Performance Insight, May 2012

The bottom line is that as organizations improve performance through better focus, alignment, communication and collaboration, the more “mature” they become.

Does Professional Service Maturity Matter?

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

The 2012 PS Maturity™ Benchmark demonstrates that increasing levels of standardization in operating processes and management controls do indeed result in significant performance improvements. In fact, SPI Research found that high levels of performance have far more to do with leadership focus, organizational alignment, effective business processes and disciplined execution than the age and size of the company.

Relatively young and fast-growing organizations can and do demonstrate surprisingly high levels of maturity and performance excellence if their charters are clear. Further improvements accrue when their goals and

measurements are aligned with their mission, and they make the investments they need in talent and systems to provide visibility and appropriate levels of business control. Of course, it certainly helps if they are also well-positioned within a fast-growing market.

Level 4 and 5 (highest performing) organizations significantly outperformed their peers by generating significantly higher revenue per billable consultant, contributing to higher project and operating margins.

Table 2: Maturity Matters!

Key Performance Measurement	Maturity Level 1-2	Maturity Level 3	Maturity Level 4-5
PS EBITDA	8.4%	14.5%	21.5%
Revenue per Billable Consultant	\$161,000	\$228,000	\$243,000
Project Gross Margin	30.2%	33.5%	41.2%
Billable Utilization	67.6%	68.1%	76.6%

Source: Service Performance Insight, May 2012

It is important to note that most key performance measurements are related, and so are the Pillars. Decisions made in one area impact the performance, or ability to perform, in another (Figure 7). For instance, setting high bill rates improves margins tracked in the Finance and Operations Pillar, but can have a negative impact on ability to win bids (in the Client Relationship Pillar).

Figure 7: Key Performance Indicators (KPIs) Are Correlated



Source: Service Performance Insight, May 2012

Losing a high percentage of bids because of overly aggressive pricing can affect morale, resource management, on-time delivery and so forth. Genuinely successful PSOs demonstrate balanced performance across all aspects of the business. They innately understand that focus, alignment and appropriate levels of management visibility and control are required to get and stay ahead in the service world.

SERVICE EXECUTION ANALYSIS

Service execution — the success or failure of project delivery — measures the quality, efficiency and repeatability of service delivery. Planning, scheduling, estimating and delivering service engagements are the primary drivers of successful service delivery. Regardless of the maturity of every other area of the PSO, a firm will not succeed unless it can effectively and profitably deliver quality services that provide customer value.

PSOs with high levels of quality project execution share common traits, which include:

- Δ **Resource management:** Visibility from prospect to project to ensure the right resources with the right skills are available when needed
- Δ **Structured or standardized service delivery processes:** All employees understand their role and what is expected of them
- Δ **Solid project management:** Visibility into the schedule, resources, deliverables and risks to ensure projects are delivered on time and on budget
- Δ **Accurate and timely project accounting:** All financial information, including time and expense capture and billing are accurate and timely to ensure revenues and costs are kept in balance.

Done right, gross project margins over 60% are possible. Done wrong, project profits can drop to single digits or go negative. In addition to profitability, service execution is the major determinant of client satisfaction and references.

Table 3 highlights service execution pillar maturity, as the PSO moves from basic reactive “all hands on deck” project delivery to greater efficiency, repeatability and higher quality service execution.

Table 3: Service Execution Pillar Mapped Against Service Maturity

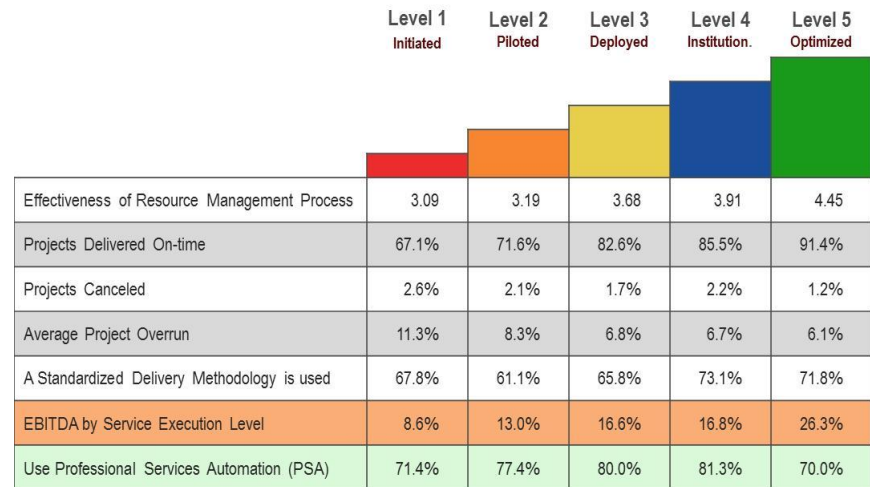
	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Service Execution	No scheduling. Reactive. Ad hoc. Heroic. Scheduling by spreadsheet. No consistent project delivery methods. No project quality controls or knowledge management.	Skeleton methodology in place. Centralized resource management. Initiating project management and technical skills. Starting to measure project satisfaction and harvest knowledge.	PSA deployed for resource and project management. Collaborative portal. Earned Value Analysis. Project dashboard. Global Project Management Office, project quality reviews and measurements. Effective change management.	Integrated project and resource management. Effective scheduling. Using portfolio management. Global PMO. Global project dashboard. Global knowledge management. Global resource management.	Integrated solutions. Continual checks and balances to assure superior utilization and bill rates. Complete visibility to global project quality. Multi-disciplinary resource management.

Source: Service Performance Insight, May 2012

Leading PSOs have developed new talent strategies based on a distributed global workforce, which reduces overhead costs in terms of office space and travel, and allows them to hire the best, most cost effective talent regardless of physical location. The work itself is shifting towards a greater emphasis on vertical industry and business process knowledge and less dependence on deep technical skills

As professional service organizations improve their service execution maturity, overall productivity and profitability increase. Figure 8 highlights increases in service performance. PSOs are more effective in their resource management processes, meaning they have greater success in efficiently staffing individuals on projects with the right skills and the right availability. As one might expect, these improvements increase the number of annual billable hours, which ultimately impacts revenue and profitability.

Figure 8: Service Execution Maturity Matters



Source: Service Performance Insight, May 2012

The figure also shows organizations reaching the highest level of service execution maturity also deliver over 90% of their projects on time, which leads to higher revenue growth rates and higher levels of client satisfaction, which drive increased references and sales going forward.

Improvements in service execution also show up in higher profit levels. Figure 8 shows this to be true as firms operating at the lowest service execution levels yield an average of 8.6% profit (which would be great in manufacturing but not in services), whereas those executing at the highest levels show profitability in excess of 26%.

SPI Research has found a direct correlation between the use of a Professional Services Automation (PSA) tool and better results across many service KPIs. Although at Level 5 maturity there was a decrease in the use of PSA, this decrease was due to a small sample size. Had the sample size been larger, SPI Research believes this figure would have been over 80%.

PSA IS AT THE HEART OF SERVICE EXECUTION

Professional Services Automation (PSA) solutions facilitate initiation, planning, execution, and control of projects and resource management. PSA helps manage service delivery forecasting, resource management, project management and collaboration, combined with accurate and timely time and expense capture. PSA has become increasingly popular as the need to improve the management and control of service execution has become more important, and the applications have matured to become easy to implement and use. SPI Research believes that PSOs with over 10 employees should consider using PSA. Creating and maintaining a complex set of spreadsheets is no longer a viable alternative for even the smallest PSOs. Surprisingly, 37% of respondents reported using none (14%), other (14%) or homegrown (9%) as their PSA solution.

As Table 4 shows, companies that use PSA achieve better results than those without PSA in terms of billable utilization, annual revenue per consultant, on-time project delivery and other metrics. What are especially interesting about Table 4 are the additional benefits that service organizations derive from “integrated PSA”—that is, when PSA is integrated with client relationship management (CRM) and enterprise resource planning (ERP) solutions. For instance, the data reveals that companies with integrated PSA enjoy 10% more in annual revenue per consultant than companies with non-integrated PSA — and 20% more than those with no PSA solution.

Table 4: Comparison of Companies with and without PSA

Key Performance Indicator (KPI)	Without PSA	Non-Integrated PSA	Integrated PSA
Concurrent Projects Managed by PM	4.46	4.54	5.22
A Standardized Delivery Methodology is Used	63.8%	68.9%	71.5%
Projects Delivered on Time	74.8%	76.8%	80.0%
Average Project Overrun	8.9%	7.9%	6.8%
Project Margin for Fixed Price Projects	33.0%	33.2%	36.3%
Billable Utilization	63.1%	68.0%	70.1%
Annual Revenue per Billable Consultant	\$179,000	\$195,000	\$215,000

Source: Service Performance Insight, May 2012

Integration of PSA with CRM and ERP provides visibility from initial prospect contact throughout the sale cycle, delivery, invoicing, and fee collection. With this integration, PS executives can more efficiently manage and control service delivery, which ultimately impacts both client satisfaction and profitability — two of the most important key performance indicators in professional services.

BEST PRACTICES TO IMPROVE SERVICE EXECUTION

The following sections highlight some of the best practices PSOs should consider when looking to improve service execution and ultimately organizational performance and profitability.

Integrate Information Systems

The 2012 Benchmark showed that a majority of PSOs have implemented ERP, CRM and PSA solutions. Each provides enhanced visibility and management control for the department implementing it. Unfortunately, many PSOs have not integrated these solutions, meaning visibility is limited to the department using the solution. For example, if CRM data is not integrated with the PSA solution, the service delivery organization lacks visibility into the sales pipeline and the number, type, and scope of requests likely to reach their organization soon.

Without integration, email and word-of-mouth are the ways information is shared, but this communication does not typically reach all critical personnel. With integrated solutions across the PSO, all relevant personnel are alerted and can undertake their responsibilities in ensuring success. With pipeline visibility, in particular, services management can estimate and plan ahead for resource needs by type.

Financial integration, gained by integrating PSA and ERP information, also has many benefits including:

- Δ Greater accuracy and less time invoicing and billing due to more comprehensive capturing of time and expenses and a single point of data entry.
- Δ Improved revenue forecasting.
- Δ Faster revenue collection due to an easier ability to generate bills as project milestones, % project completion or month end is reached and an easier ability to substantiate charges to customers.

Integrated solutions add up to increased real-time information. Real-time information visibility is also one of the most important KPIs in our research. SPI Research asked PS executives whether their executives have real-time visibility into all business activities (sales, service, marketing, finance, etc.). The results show less than 50% of executives believe they have real-time visibility into their organizations' operations.

Table 5 shows that executives who believe they have real-time visibility run companies that are much more effective than those that are not. However, only about 10% of the organizations surveyed said they had high levels of real-time visibility.

These results are particularly important during the project delivery phase, as more work is completed on time with higher billable utilization rates and much higher margins. It also doesn't hurt that these companies are growing much faster. Real-time visibility is one of the most important criteria to justify expenditures in IT. Without real-time visibility, organizations cannot monitor, measure and control the business.

Table 5: Real-time Visibility Enhances Communication & Collaboration

Key Performance Indicator (KPI)	High Visibility	Low Visibility	Improvement
Year-over-Year Change in PS Headcount	11.6%	9.1%	27%
Employee Annual Attrition	4.7%	8.2%	42%
New Clients — New Projects/Services	19.5%	14.9%	31%
Projects Canceled	1.6%	2.2%	29%
Average Project Overrun	6.8%	8.9%	24%
Days Sales Outstanding (DSO)	34.5	47.8	28%

Source: Service Performance Insight, May 2012

Implement Standardized Service Delivery Processes

Mature firms invest significant time and attention to methodology development as a means to standardize project processes, define expectations and institutionalize quality.

Standardized service delivery methods with supporting tools undoubtedly improve performance — freeing consultants to focus on client business problems instead of continually reinventing the wheel by recreating project documents such as statements of work and project plans. KPIs including sales pipeline, billable utilization and meeting margin targets increase with greater use of a standardized methodology.

Table 6 shows productivity benefits for PSOs that use a standard delivery methodology on over 80% of the work they do. With structure comes greater precision and clarity; therefore organizations are able to bring employees up to speed faster and improve project execution productivity. The table shows a reduction in the average project overrun along with significantly increased time and materials profit margins.

Table 6: Benefits of Effective Standardized Delivery Processes

Key Performance Indicator (KPI)	Over 80% Standardization	Under 80% Standardization	Improvement
Time for a New Hire to Become Productive (days)	60	72	16%
Average Project Overrun	7.5%	9.0%	17%
Deal Pipeline Relative to Qtr. Bookings Forecast	218%	190%	14%
Project Margin for Time & Materials Projects	36%	31.7%	14%
Effectiveness of Project Quality Processes (1-5)	3.59	3.30	9%
Solution Development Effectiveness (1-5)	3.22	2.96	9%

Source: Service Performance Insight, May 2012

Improve Resource Management

Survey respondents rated the effectiveness of their resource management process on a 1-5 scale, where 5 represented extremely effective resource management processes. Although subjective, this key performance indicator is an important measurement of how the organization views its resource management processes. Table 7 shows the effect of resource management on other key performance metrics.

Table 7: Benefits of Effective Resource Management

Key Performance Indicator (KPI)	Highly Effective	Not Highly Effective	Improvement
Year-over-Year Change in PS Revenue	20.7%	12.8%	62%
Revenue per Employee	\$250,000	\$184,000	36%
Project Margin for Fixed Price Projects	43.2%	32.2%	34%
Average Project Overrun	5.9%	8.6%	31%
Employee Utilization	72.8%	69.0%	6%
EBITDA	18.7%	12.9%	45%

Source: Service Performance Insight, May 2012

Effective resource management translates to greater year over year revenue growth; higher revenue per employee; better project margins; fewer project overruns; higher billable utilization and significantly better overall net margin or EBITDA. Highly effective resource management permeates throughout the entire project lifecycle and leads to satisfied clients and happier employees. Having the right person with the right skills on the right job at the right time is the essence of effective resource management.

Drive Utilization Higher

In many professional service organizations, (employee) billable utilization is one of the most closely monitored key performance indicators. Although every organization measures this metric differently, at the end of the day this is a classic workforce productivity measurement. For simplicity, SPI Research uses annual billable hours divided by 2,000 annual work hours.

Approximately 20% of PSOs surveyed had utilization levels above 80% annually (1,600 hours). Table 8 highlights several important KPIs as utilization rises above 80% (or 1,600 billable hours annually). In almost every one of these critical metrics there is more than a 20% improvement in productivity, cost reduction, growth and profitability as organizations manage their resources effectively.

Table 8: Benefits of High Employee Utilization

Key Performance Indicator (KPI)	Over 80% Utilization	Under 80% Utilization	Improvement
Year-over-Year Change in PS Revenue	17.2%	13.0%	32%
Projects Delivered on Time	84.7%	74.6%	14%
Average Project Overrun	5.6%	9.2%	39%
Project Margin for Fixed Price Projects	38.6%	31.6%	22%
Annual Revenue per Billable Consultant	\$227,000	\$190,000	20%
EBITDA %	18.1%	12.6%	44%

Source: Service Performance Insight, May 2012

Deliver Projects on Time

The percentage of projects delivered on time is a measurement that divides the number of projects completed on-time by the total number of projects. This KPI is critical for billable service organizations, because when it decreases, both profitability and client satisfaction suffer.

Unfortunately, on-time project delivery rates tend to be less than 80% on average for PSOs. In the 2012 benchmark, SPI Research found only 20% of the firms surveyed delivered projects on time over 90% of the time. However, on-time project completion rates have vastly improved from 10 years ago when less than 20% of projects were delivered on-time.

In many instances projects are late due to client changes or lack of scope control. Regardless of the reason, when projects are delivered late, subsequent projects cannot be initiated on-time and therefore the organization loses out on additional revenue, and must go back to other clients to disclose the bad news that their work cannot be started on time or may hire external supplemental resources, frequently at a higher cost.

Table 9 provides insight into some of the more notable KPIs, and how important on-time delivery is to organizational performance. While profitability is always an important metric, the table highlights client references directly increase with on-time delivery. Referenceable clients are the fuel for growth, as reputation is a critical business development factor.

Table 9: Benefits of On-time Service Delivery

Key Performance Indicator (KPI)	Over 90% On-time Project Delivery	Under 90% On-time Project Delivery	Improve.
Projects Canceled	1.7%	2.2%	20%
% of "Referenceable" Clients	80.5%	68.1%	18%
Annual Revenue per Employee	\$188,000	\$161,000	17%

Key Performance Indicator (KPI)	Over 90% On-time Project Delivery	Under 90% On-time Project Delivery	Improve.
% Of Billable Work Is Written Off	1.6%	3.0%	45%
EBITDA %	18.7%	11.5%	63%

Source: Service Performance Insight, May 2012

Don't Forget Knowledge Management

One element PSOs often overlook is knowledge management. With the movement toward a more dispersed workforce, the centralization and dissemination of knowledge becomes increasingly important. Today virtual project teams and off-site consulting delivery have become the norm, accelerating the need to collect and share information and knowledge in a cohesive manner.

Most PSOs have initiated some type of knowledge management (KM) infrastructure. Unfortunately, the 2012 benchmark found only 30% felt their KM processes were satisfactory.

Table 10 shows some of the performance improvements found in PSOs where there is a high-level of satisfaction with KM. While KM alone cannot improve every aspect of the PSO's business, it does make sense that a comprehensive KM infrastructure provides the basis for greater knowledge collaboration, resulting in a more efficient workforce.

Table 10: Benefits of Effective Knowledge Management

Key Performance Indicator (KPI)	Satisfied	Not Satisfied	Improvement
Employee Utilization	74.7%	67.3%	11%
Projects Delivered On-time	83.7%	73.4%	14%
Projects Canceled	1.6%	2.3%	30%
Average Project Overrun	5.4%	9.7%	44%
Project Margin for Fixed Price Projects	37.6%	31.3%	20%
EBITDA %	19.1%	11.0%	74%

Source: Service Performance Insight, May 2012

THE TOP PERFORMERS

The "Best-of-the-Best" (the top 20 organizations in the survey) perform substantially better than all other participating organizations, as Table 11 indicates. Every leader has invested in a PSA application that propels resource effectiveness. Because they tend to follow proven service delivery methods, more of their projects are delivered on time; fewer are cancelled and when they do experience an overrun they are able to quickly get projects back on track. Perhaps by implementing a PSA system integrated with ERP and CRM and following some of the other

best practice tips, you can improve your organization's performance before the 2013 benchmark.

Table 11: Best-of-the-Best – Service Execution Pillar KPIs

Key Performance Indicator (KPI)	Leaders	Rest	▲
Effectiveness of Resource Mgmt. Process	4.3	3.38	27%
Average Project Duration (Months)	6.08	5.07	20%
Projects Delivered On-time	90%	75%	20%
A Standardized Delivery Methodology is used	77%	65.5%	18%
Concurrent Projects Managed by PM	4.63	4.13	12%
Average Project Staff (People)	3.68	3.99	-8%
Average Project Staffing Time (In Days)	11.3	12.8	-11%
Projects Canceled	1.5%	2.1%	-30%
Average Project Overrun	5.9%	8.6%	-32%

Source: Service Performance Insight, May 2012

RECOMMENDATIONS & CONCLUSIONS

The economy is changing and the professional services market must change with it. Increased global demands, new technologies and a more demanding workforce are just the tip of the iceberg. Professional services executives must evaluate, improve and optimize performance across all five service performance pillars, in other words, across their entire organization.

With an expansion of the service portfolio and more demanding clients, PSOs must execute services more efficiently than ever before. Increased global competition mandates the need for better performance. With the rapid growth in the demand for professional services over the past two years it is imperative PS executives focus on the delivery of services, or as SPI Research would term it, the Service Execution Pillar.

The top performers in SPI Research's most recent benchmark all utilize PSA solutions to achieve better results. PSA solutions provide the necessary visibility, tools and intelligence to enable PSOs to operate more efficiently, and integration of PSA with both CRM and ERP solutions results in even greater overall performance as multiple functions work better together, employees are better able to plan ahead, and workflow efficiencies are possible.

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 5,000 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 5,000 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.SPResearch.com for more information on Service Performance Insight, LLC.