

## The Competitive Edge: Professional Services Strategies for Software Companies

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### Presenters Today

**Dr. Katherine Jones**  
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### Agenda

- About NetSuite
- The Competitive Edge: Professional Services Strategies for Software Companies
- NetSuite Live

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### NetSuite Company Overview

- Founded 1998**
- Publicly traded on NYSE: "N"**
- Strategy:**  
Deliver integrated business applications as online services to small and mid-sized businesses
- Results:**
  - 600+ employees
  - \$100M+ annual revenue, double digit growth
  - HQ in San Mateo, CA with offices worldwide:
    - Denver, Colorado
    - Toronto, Canada
    - London, England
    - Sydney, Australia
    - Tokyo, Japan
    - Singapore
    - Hong Kong
    - Manila, Philippines
  - Largest integrated, on-demand customer base (5000+ customers)

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### Three Big Ideas

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### The Competitive Edge: Professional Services Strategies for Software Companies

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## The Competitive Edge: Professional Services Strategies for Software Companies




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### Jeanne Urich Bio

 	<p>Contributing Author 'Tips from the Trenches' Services Management Consultant Focused on breakthrough Service Performance Improvement - Strategy, Operations, HR, Sales &amp; Marketing, Partners &amp; Alliances. Projects, Interim Executive roles &amp; Mentoring</p>
  	<p>SVP of Global Professional Services, Education, Account Management &amp; Alliances Lead Service Organizations from 50 to 700 employees, Revenue from \$10M to \$115M, Margin &gt; 20%</p>
  	<p>Global Service Marketing Operations Sales</p>
	<p>BA Math and Computer Science Stanford Executive Marketing Program</p>

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### Agenda


- PS Performance Pillars
- PS Maturity Model
- Efficient Services Pricing
- Backlog – the fuel for growth
- Strategic Human Capital Alignment
- Project Execution
- Conclusions



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### Five Key Pillars of PSO Success

- Vision & Strategy
- Finance & Operations
- Human Capital Alignment
- Service Execution
- Client Relationships

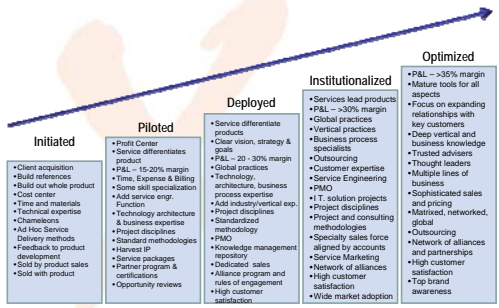


PSOs will only succeed if they integrate and optimize all areas of organizational performance

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### Service Maturity Levels



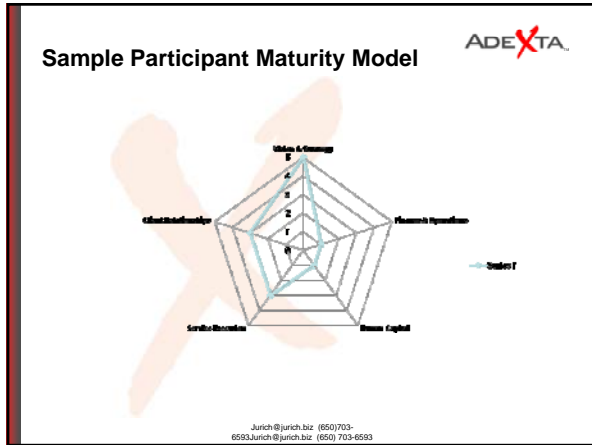
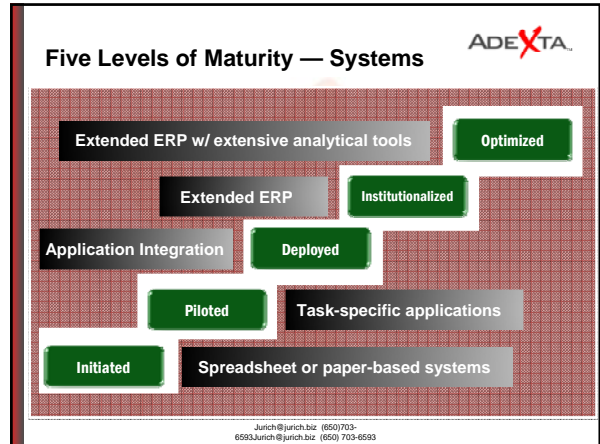
<p><b>Initiated</b></p> <ul style="list-style-type: none"> <li>• Client acquisition</li> <li>• Build references</li> <li>• Build out whole product</li> <li>• Cost center</li> <li>• Time and materials</li> <li>• Technical expertise</li> <li>• Channel sales</li> <li>• Ad hoc Service Delivery methods</li> <li>• Feedback to product development</li> <li>• Sold by product sales</li> <li>• Sold with product</li> </ul>	<p><b>Piloted</b></p> <ul style="list-style-type: none"> <li>• Profit Center</li> <li>• Service differentiates product</li> <li>• P&amp;L – 15-20% margin</li> <li>• Time, Expense &amp; Billing</li> <li>• Some skill specialization</li> <li>• Add service engr. Function</li> <li>• Technology architecture &amp; business expertise</li> <li>• Project disciplines</li> <li>• Standard methodologies</li> <li>• Harvest IP</li> <li>• Service packages</li> <li>• Partner program &amp; certifications</li> <li>• Opportunity reviews</li> </ul>	<p><b>Deployed</b></p> <ul style="list-style-type: none"> <li>• Service differentiates products</li> <li>• Clear vision, strategy &amp; goals</li> <li>• P&amp;L – 20 - 30% margin</li> <li>• Technology, architecture, business process expertise</li> <li>• Add industry vertical exp.</li> <li>• Project disciplines</li> <li>• Standardized methodology</li> <li>• PMO</li> <li>• Knowledge management repository</li> <li>• Dedicated sales</li> <li>• Alliance program and rates of engagement</li> <li>• High customer satisfaction</li> <li>• Wide market adoption</li> </ul>	<p><b>Institutionalized</b></p> <ul style="list-style-type: none"> <li>• Services lead products</li> <li>• P&amp;L – &gt;30% margin</li> <li>• Global practices</li> <li>• Vertical practices</li> <li>• Business process specialists</li> <li>• Outsourcing</li> <li>• Customer expertise</li> <li>• Service Engineering</li> <li>• PMO</li> <li>• IT solution projects</li> <li>• Project disciplines</li> <li>• Project and consulting methodologies</li> <li>• Specialty sales force aligned by accounts</li> <li>• Service Marketing</li> <li>• Network of alliances</li> <li>• High customer satisfaction</li> <li>• High customer awareness</li> </ul>	<p><b>Optimized</b></p> <ul style="list-style-type: none"> <li>• P&amp;L – &gt;35% margin</li> <li>• Mature tools for all aspects</li> <li>• Focus on expanding relationships with key customers</li> <li>• Deep vertical and business knowledge</li> <li>• Trusted advisors</li> <li>• Thought leaders</li> <li>• Multiple lines of business</li> <li>• Sophisticated sales and pricing</li> <li>• Matched, networked, global</li> <li>• Outsourcing</li> <li>• Network of alliances and partnerships</li> <li>• High customer satisfaction</li> <li>• Top brand awareness</li> </ul>
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### The New PS Maturity Model

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

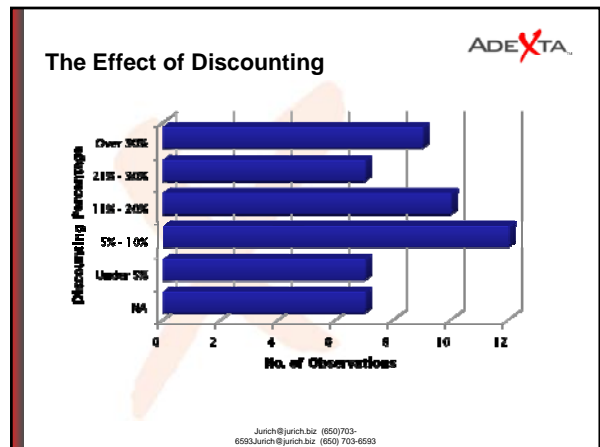
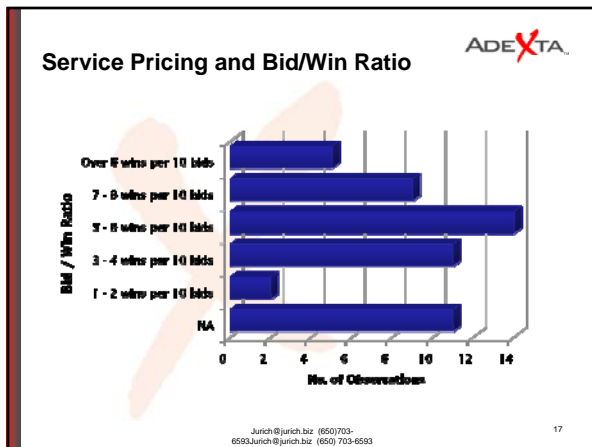


### The New PS Maturity Model Benchmark Participant Demographics

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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%

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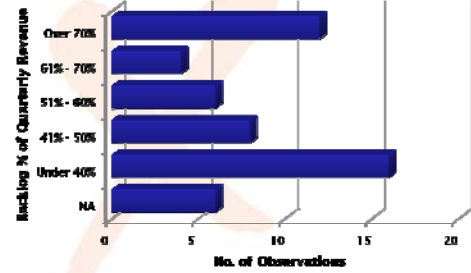
### Pricing Best Practices



- Limit Discounting <20%
- Limit Pricing, Discounting & Contracting Authority
- Track and Measure Bid/Win Ratio
- Conduct deal loss reviews – continual improvement
- Contract review time and overall deal negotiation time and approval should increase with increased project complexity
- Provide differentiated quoting, contracting and pricing processes by providing self-service options for simple, repetitive projects and focused comprehensive reviews for estimates, prices, quotes and contracts for complex engagements
- Deal and contract reviews for complex projects

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### Backlog is the Fuel For Growth



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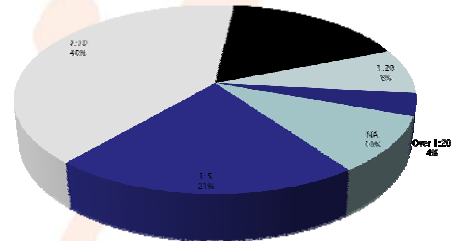
### Human Capital Alignment



Human Capital Alignment	Benchmark Average
Attrition - planned and unplanned	8.90%
Management -Employee Ratio	11.28
% that conduct performance reviews tied to industry benchmarks	26.50%
Length of time to recruit & hire	62 days
Length of time to become productive	59.7 days
% with an employee training plan & budget	68.80%
Number of training days per year	5.38
% with standard job descriptions for all positions	79.20%
% with a skill profile for all employees	60.40%
% with a well-understood career path for all employees	47.90%
% that conduct an annual employee satisfaction survey	63.20%

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### Management to Employee Ratio



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### Training Enhances the Bottom-line



Training Days/Year	Under 5	Over 5
Revenue / Billable Employee	\$192K	\$244K
Revenue Growth	16.6%	22.6%
Attrition	13.2%	20.5%

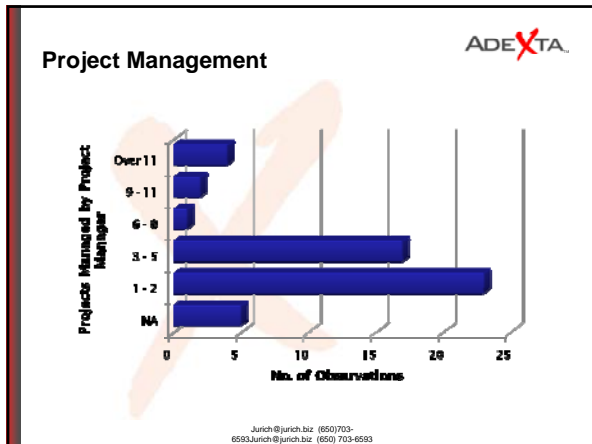
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### Human Capital Alignment Best Practices



- Employees - the most important aspect of your firm
- Attrition – one of the most important metrics
- Invest in recruiting and ramping programs
- Resource planning - understand & invest in required skills – at least 5 training days/employee
- Pay for performance – use compensation benchmarks – target firm % above benchmark
- Incentives increase profits – tie to results
- Minimally conduct annual performance appraisals for all employees
- Optimum management to employee ratio > 1:10

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### On-time Project Delivery Drives Profits

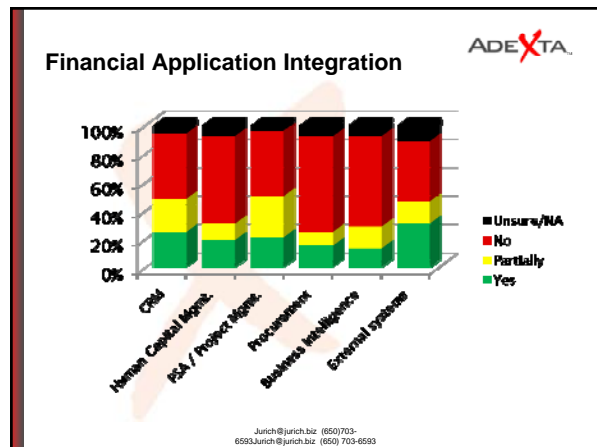
Percentage of Projects Delivered On-time	< 50%	>= 50%
Contribution margin	7%	25%
Revenue Growth	10%	20%
Revenue per billable employee (1000s)	\$155	\$200

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### Smaller Project Teams Work

Size of Project Team	< 5	>= 5
Revenue Growth	20%	15%
Revenue per Billable Employee (1000s)	\$225	\$195
Project Duration (months)	4.5	6.5

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### Additional Comments & Conclusions

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### Thank-You for Attending

To Purchase the PS Maturity Model Benchmark, go to:

**[www.spiresearch.com](http://www.spiresearch.com)**

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### Internal Services Management

- Most software companies have Services Teams
  - Product Implementation
  - Education Services
  - Ongoing service contracts
- Internal PS teams face the several challenges
  - Project creation and assignment
  - Project tracking
  - Time and expense management
  - Team collaboration
- Internal organizations also have to synchronize with financial needs of a product company

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### Challenge: Project Creation and Tracking

- Proactive project monitoring
  - Configurable risk parameters and thresholds
  - Auto-notification when thresholds are breached
- Communicate with confidence
  - Single system of record for all project communication
  - Understand customer expectations based on centralized project history
- Dashboard project tracking
  - KPIs (profitability, effective rates, backlog, etc.)
  - Project status
  - Issue flagging

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### Challenge: Cross Functional Cooperation

- Project teams need a central repository of data
  - Project details
  - Cross departmental customer interactions
  - Document management
- One step further – expose data to customers!
  - Publish status documents to customers
- Delivery staff wants efficiency and repeatability in their work processes

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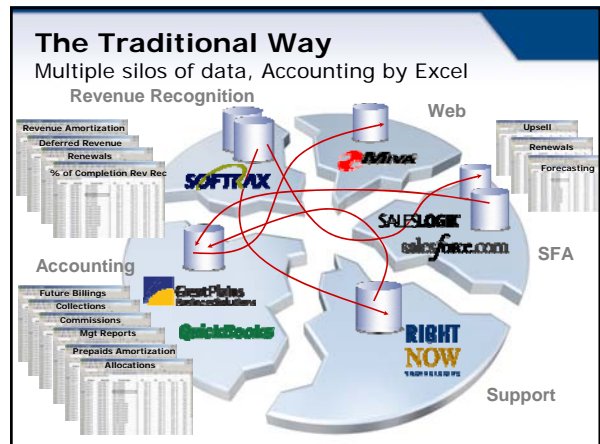
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### NetSuite for Your Professional Service Team

- NetSuite Software Company Edition has integrated Advanced Project Tracking
  - Automatically create projects from items sold and link them back to their associated transactions
  - Automatically tracks project metrics such as percent complete, time budgeted and spent on project tasks
  - Provides visibility across all business processes from both a project management and a cost /revenue perspective, with real-time KPIs
  - Allows complex billing activities such as automatic milestone-based invoicing
  - Helps services firms estimate job profitability by comparing projected loaded labor cost against expected billings

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- ### NetSuite Benefits
- Integrate Suite of Applications
  - End-to-End Business Processes
  - Role-Based Dashboards
  - Single Data Repository
  - Modular
  - Open System
  - Highly Customizable
  - Manageable by Mere Mortals
  - Affordable by SMBs
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