




Professional Services

A Strategic Weapon for Product-Focused Firms



by Tom Esposito



In today's competitive environment, product-focused firms are recognizing what a robust professional services capability can contribute to growing revenue, increasing profit, and improving overall customer satisfaction and loyalty.

Professional Services...Front and Center

As most product markets are becoming increasingly competitive—and commoditized—and as product life cycles continue to shrink, traditional hardware and software manufacturers and their business partners have become increasingly sensitive to the need to drive new strategies for increasing brand differentiation and developing sustainable competitive advantage...enter professional services.

This drive for new or improved services is not fueled only by shrinking product margins and internally focused business objectives, but also by customers demanding services that can help them to select and integrate solutions that will fit their business model.

Today, many firms are aggressively pursuing the significant revenue and profit opportunities emerging from the rapid growth of their customers' services requirements. Best-in-class product development and distribution firms are recognizing that customers place a much greater value on business solutions (products and services) that are focused on improving the success and the competitiveness of their businesses vs. piece parts product and services offerings.

Emerging Opportunity

“Information technology services will be to business in the 21st century what information technology was to business in the 20th century.” (IDC)

Recently, The INSIGHT Group participated in two major assessments involving the impact and value of professional services to a firm's bottom line.

Software Firms

The first assessment was conducted in conjunction with Arizona State University's Graduate School of Business and the Center for Services Leadership. This study focused on the impact of services to the overall success of software firms.

The objective of this study was to provide senior company executives with an in-depth understanding of the trends and best practices related to the strategic role that services plays in the software industry. INSIGHT analyzed the top 100 software firms and interviewed senior executives from 16 of these major firms. The findings were very compelling in making a strong case for significantly improving the professional services capabilities for both themselves and their business partners. Out of the 100 firms involved in the study, 48 companies provided financials for each service segment. The data represented \$42 billion in total revenues for 2004. Key findings (see *Figure 1*):

- Total services revenue was 59 percent of total revenues in 2004, up from 57 percent in 2002, and growing at a compound rate of five percent (59 percent

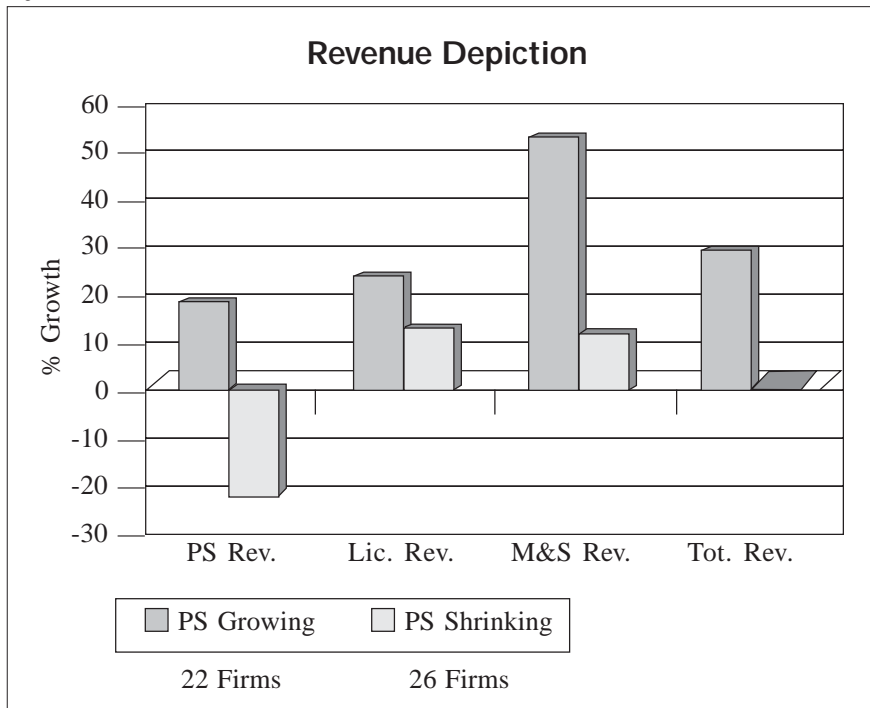


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professional services: a strategic weapon for product-focused firms

Figure 1



includes M&S + PS).

- The companies experiencing positive growth in professional services revenue also grew all other revenues significantly more than the companies experiencing negative growth in professional services. The highest correlation for overall success was tied to professional services.
- All of the software companies interviewed regard professional services as a priority for helping to support/sell products and/or improve customer satisfaction.

Hardware Distributors

The second multi-client study dealt with the need and importance of professional services for computer hardware distributors (VARs). This study included a large percentage of HP and IBM business partners. Again, the findings were consistent with the software firm study.

Participants were asked, "Which of your businesses will have a greater im-

act on your future success?" Forty-five percent of respondents said both product and professional services would contribute equally. Thirty-six percent of respondents said professional services would contribute more. Those who said product and professional services were of equal impact shared the view that they feed off of each other, each enhancing sales of the other.

A significant number of business partners interviewed also expressed a high need and interest in obtaining education on best practices for developing and managing a best-in-class professional services business. Along with senior management commitment and leadership to drive the cultural changes needed, aligned HR processes and strong people management processes also were on the top of their wants and needs list. Key elements included recruiting, sourcing, motivating, rewarding, and retaining key skills, combined with enhanced professional development, training, competency certifica-

tion, and career management for both professional services delivery and sales professionals.

Successful Strategies and Initiatives

"Essence of a successful professional services business.

Ability to allocate enterprise resources dynamically in order to solve unique customer problems/issues.

- *Value proposition/measure of success . . . Did we improve our customer's competitive position?"*

In order to be successful in a business-solutions-focused environment, professional services business units must leverage their companies' core capabilities—rapidly and dynamically allocate resources in order to solve unique customer problems. Professional services leadership requires a "market of one" customer focus, meaning that services offerings must extend far beyond the needs of the products to the overall business needs of the client and their customers. Ultimately, success is dependent on effective management of professional services as a unique yet fully aligned business. Today, many firms limit their services growth opportunity by managing their professional services business as an extension to their product business, using product business processes and metrics.

The professional services business model is process-based, with roles and responsibilities that cross both organizational and geographic boundaries. Rather than a primary focus on hardware product development and marketing, the services business relies on the skills, capabilities, and innovation of the people who develop the business solutions that anticipate and satisfy specific client needs. Empirical best-practice evidence shows that the most success-

ful services-led organizations have:

- Aligned senior leadership with a services vision and established sponsorship with a comprehensive services strategy and business plan.
- Organizational cultures that enable the strategy and embrace collaborative services and solutions development and delivery across business units and geographies.
- A common services framework that aligns services offerings, methodologies, professional skills, and capabilities with customer needs.
- Aligned functional support processes, such as HR, finance, accounting, IT, contracts administration, pricing models, and so forth, unique to the professional services business.
- Ability to continually identify, acquire, develop, deploy, incent, reward, and retain “customer valued” professional services skills.

Evidence of Successful Implementation

In my role as chief reengineering officer for IBM Global Services during the mid-1990s, I had the opportunity to benchmark many best-in-class professional services firms. During the last 10 years with INSIGHT, we have worked with dozens of firms, large and small, and have developed a substantial amount of additional best practices intellectual capital. As a result of these experiences, we have observed a number of common success elements implemented by product firms that also have created successful professional services business units. Each element is critical to success. Success Principle One: Run your professional services unit as a business, using the professional services business model, business processes, accounting procedures, and metrics.

Unfortunately, many product-focused firms today are driven by a product-oriented management system, and mentality. In most cases, the professional services business in these firms is “held hostage” to the product business. Worse yet, in difficult times, revenue-producing services professionals can be treated much the same as expense overhead and subjected to across-the-board headcount cuts. In many (if not most) cases, firms should be investing in the professional services business while driving cost-cutting efficiencies in their product business.

The following questions can serve as a “Health Check” and a good indicator for firms seeking to achieve best-in-class status for their professional services units or business. Key questions:

1. Is there an overall business owner for professional services?
2. Is there a documented, agreed-upon professional services strategy and business plan aligned with your business partner strategy and fully supported by senior management?
3. Is there a separate P&L for the professional services business?
4. Is there a common documented process for assessing customer services wants and needs?
5. Is there a common consultative selling/deal-making process in place for services-led opportunities?
6. Do you have dedicated professional services marketing and business development (sales) teams in place?
7. Have you structured your services delivery capabilities along a practice-based model with practice leaders, documented methodologies, and intellectual capital support processes in place for each offering?

8. Do you have the ability to commit and share assets rapidly between your product and services businesses?

9. Do you have a documented skills management and professional development process in place that supports the ongoing development and certification of customer-valued skills?

10. Are your HR, compensation, and incentive programs competitive and relevant for recruiting, motivating, rewarding, and retaining key services and solutions skills, and are they aligned with your services objectives?

11. Do you manage your professional services unit utilizing services metrics and accounting practices?

12. Do you have a complete project-based customer satisfaction management and engagement process in place?

Perspective

Professional services capabilities will continue to grow in value and importance as customers demand more integrated business solutions. Professional services capabilities are becoming the critical component of the overall solutions mix—driving more revenue, profit, and customer satisfaction.

Success for most product firms will be tied to acquiring the knowledge and implementing the professional services business model and business processes. A *no* answer to any of the above questions should serve as a red flag regarding your ability to compete effectively for significant “services-led” opportunities in the future. ▼

