‣ Business Services - A framework for success

MORRISANDERSON

Why Business Services Are Important

Represents over 76% U.S. Census (include Healthcare, Government, Finance, Transportation, Media) of US GDP and 62% of world GDP as of 2011

Represents some of the fasting growing sectors of our economy

Spread over 72 NAICS Codes representing Business Services, these are some major classifications

Information Services	Human Resources	Fixed Assets	Waste/Recycling
Data Processing	Employment and Recruiting	Property Management (field services)	Waste Collection
IT Consulting	Office Staffing Temp Agencies	Security Services	Recycling Facilities
	Payroll and Bookkeeping Services	Janitorial Services	
	Customer Care, Billing & Teleservices	Parking Lots & Garages	
	For Profit Post-Secondary Education/Training		

Who:

- White Collar (Higher Education Technical Labor)
- Blue Collar (Low Tech Labor and Service Labor)
- Gray Collar (Higher Educated Technology Labor)

What:

- DIY (Do It Yourself) – Data Management
- DIWM (Do It With Me) – Contact Centers
- DIFM (Do it For Me) – Field Services

MORRISANDERSON

▸ The Glue for the Manufacturing and Distribution Economy

Completes the product experience after making and shipping the product by supporting the ownership experience

Approximately 58% of U.S. based equipment manufactures also house data management tools, contact centers, and field service operations to support their products. This further expands the reach of these ubiquitous business service areas

Services offer manufacturers revenue stability, but pure service firms are often more vulnerable to cyclical swings[1]

Service companies are faster growing than manufacturing, but about 7% more likely to file bankruptcy than manufacturers[1]

[1] *Cambridge University; Neely 2010*

Difference Between Products and Services

Vast differences exist: the customer experience is key and time is inventory

Product	Service	Difference
Cost of good sold	Cost of experience sold	Few tangible factors "How do I feel"
Quality as a result	Quality as an experience	Why do I feel better or worse
Time as a deadline	Time is inventory	Expensive and easily lost

▶ Defining Good Business Services Formulas

Successful business services companies often possess a combination of several key characteristics

Characteristics common among many attractive business services companies

Provide outsourcing of critical tasks	Technology enabled	Control proprietary assets	Utilize an ROI-based selling model	Economies of scale or expertise
» Improve client performance » Lower risk » Provide focus and scale-ability for client » Multiple organic growth opportunities	» Repeatable quality of delivery » High levels of integration with client » Constant upgrade cycle	» Physical or geographic assets enable unique service offering » Information assets developed via service delivery	» Value-proposition to clients is based on cost reduction, efficiency, top-line growth, etc. » Relevant to any economic environment	» Pricing flexibility » High margins » Profitable incremental revenue » Allows broad menu of service offerings

These characteristics drive growth, recurring revenue, sustainable margins and high switching costs/risks

Source: Lincoln International

Business Services Paradigm

Business Services is <u>Labor</u> enabled by <u>Technology</u>

Technology:

- Efficiency of knowledge application means leveraging technology (low and high tech) to aid in execution (training, application, content management and delivery) resulting in the lowest cost execution of the experience that meets customer expectations

Labor:

- Culture is important and is intertwined with technology Without cultural acceptance, technology cannot be leveraged

▶ Focus on the Fundamental Layers of a Business Service Organization

HR and IT drive It all

- Picking the right people
- Clear training objectives
- Systems people can follow
- Rating systems for employees
- Systems that support employees
- Systems that are up to date
- Systems that fill gaps in processes

This focus allows us to understand root causes more quickly and precisely
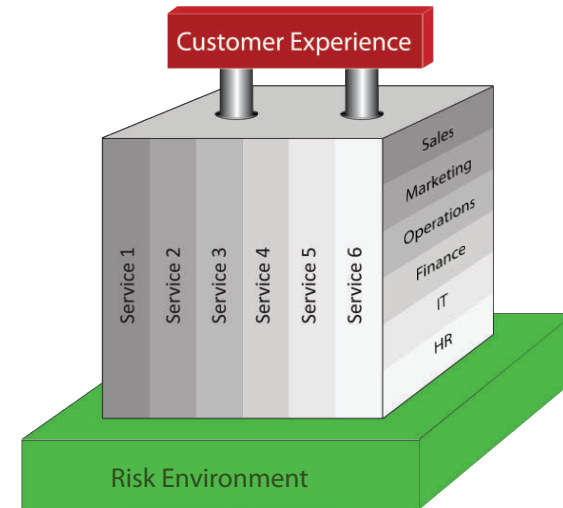
Difference Between Products and Services

Sales and Marketing can exasperate cracks in operations…

While operations and Finance expose the symptoms…

The cause of failure to execute resides with:

- Technology
  - » Systems Facilitating Business Services
  - » Financial Reporting and Controls
- Culture
  - » Management Effectiveness
  - » Compensation Alignment

Problem	Common Symptoms	Symptoms Secondary Impacts	Best in Class Metrics
Sales	Lost sales, low margins	Job Revenue	15% Topline/Margin Improvement YOY
Marketing	Lost Customers, no growth	Customer Attrition	95% Customer Retention
Operations	Not meeting customer expectations,	SLA Expectation	92%
Finance	Margins down, cash flow tight	Job Cost, Support Cost	10% Reduction YOY
Technology	Technology gaps, dated solutions	First Time Right	88%
Human Resources	Resist change, not effective at follow through	Utilization	83%

▸ Business Services Cost Offset Model

Technology and systems should lower cost of delivery

- To execute this model an operation needs good diagnostic information
- The lowest cost diagnostic data comes from self monitoring machines
- The next lowest cost is customer/user on site diagnostic with electronic reporting
- The next lowest is customer working with a contact center for diagnostic
- The next level (and highest initial cost) is tech in field doing on site diagnostic

The more accurate information gathered without human intervention the better.

Technology enablers in business services that provide the lowest all-in cost of delivery also provide the best outcomes

- SLA customer experience
- First-time fix
- Utilization

▸ Risk in Business Services

Business Services Environment

There are 12 generally accepted outside risks to businesses, six are meaningful in services

There are four ways to win or loose in the market or manage risk; two are critical

> » Speed: How quickly an organization adapts – important to all services industry efforts
> » Scale: Economies of Scale – key to larger services industry efforts
> » Scope: Diversification in service
> » Span: Extent of vertical integration

Technology is the key external pain point for business services companies

- Technology is lead by innovation
- Innovation can lead to outsourcing opportunities and can reduce product and service life cycles as well
- Moore's law is present in business services

▶ Risk Ratings

Areas of Risk	Impact	Focus	What to do
Innovation	High	Speed	Adopt services roadmap
Technology	High	Speed	Adopt a technology roadmap
Loyalty	High	Speed	Use customer experience metrics
Product/Services Life Cycles	High	Speed	Monitor service offerings for scope creep and margin loss
Globalization	High	Scale	Extend offering globally – best-in-class test
Outsourcing/Offshoring	High	Scale	Growth opportunities and cost reductions
Channels	Medium	Span	
Competitors	Medium	Span	
Regulations	Medium	Scope	
Stakeholders	Medium	Scope	
Demographics	Low	Scope	
Special Interests	Low	Scope	

Business Services High Risks

Moore's Law is present in Business Services

- Moore's law says that every 18 months, computer chip processing speeds will double
  - » Lowering cost to process information
  - » Increasing the complexity and capacity of data processing
- Once a technology platform is created (e.g. PC, data connectivity, social media, smart phones), it takes 20 or more years for the technology to mature
- In that 20 years, every 18 months enabling technology associated with platform technology changes dramatically
- During that span of time 12 or more pronounced cycles of innovation occur, forcing market participants to rapidly adapt
- Good roadmaps usually can only see two (or three generations) forward
- A company three generations behind must exit or leapfrog competition

▶ How Services are Vulnerable to Change
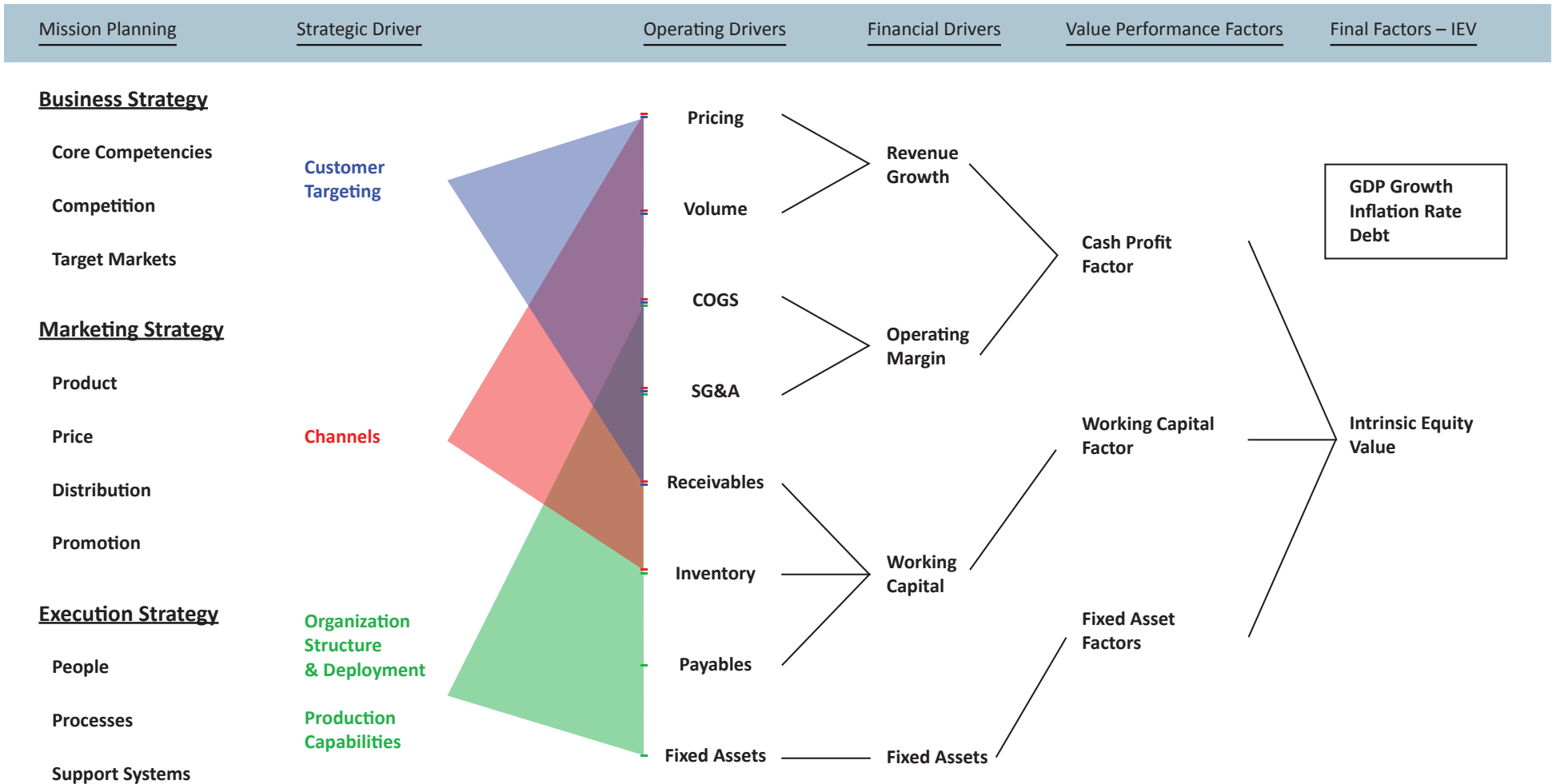

Adoption Curve
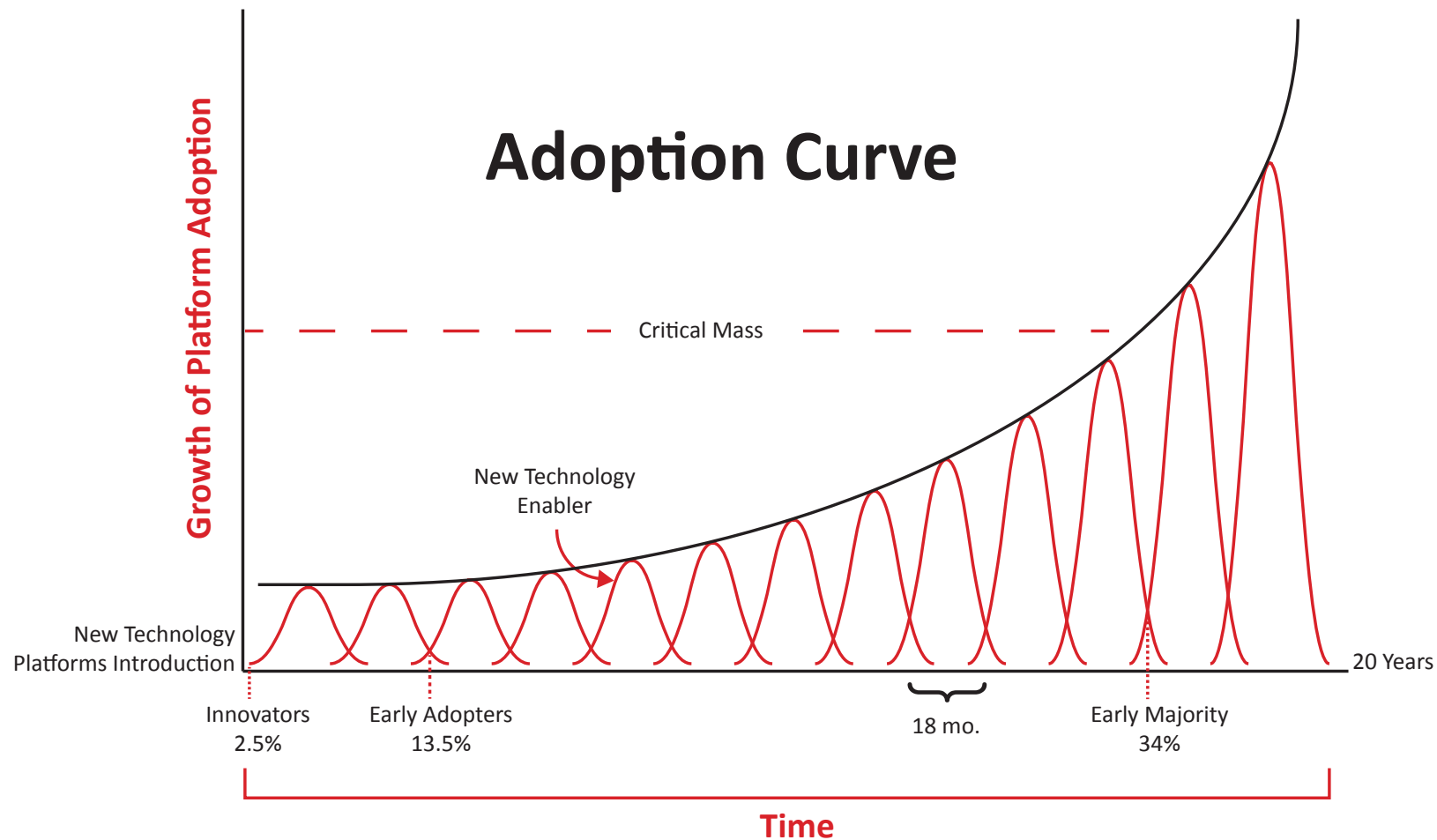
Enablers - Changes to technology, adoption patterns and business models that disrupt existing market participants and those who are trying to enter a new market

▸ Examining Business Services

MORRIS ANDERSON

DuPont Model Applied to Business Services

Planning Links to Return on Investment

Mission Planning	Strategic Driver	Operating Drivers	Financial Drivers	Value Performance Factors	Final Factors – IEV

Business Strategy

Core Competencies

Competition

Target Markets

Customer Targeting

Marketing Strategy

Product

Price

Distribution

Promotion

Channels

Execution Strategy

People

Processes

Support Systems

Organization Structure & Deployment

Production Capabilities

Pricing

Volume

COGS

SG&A

Receivables

Inventory

Payables

Fixed Assets

Revenue Growth

Operating Margin

Working Capital

Fixed Assets

Cash Profit Factor

Working Capital Factor

Fixed Asset Factors

Intrinsic Equity Value

GDP Growth
Inflation Rate
Debt

▶ SKU Tower

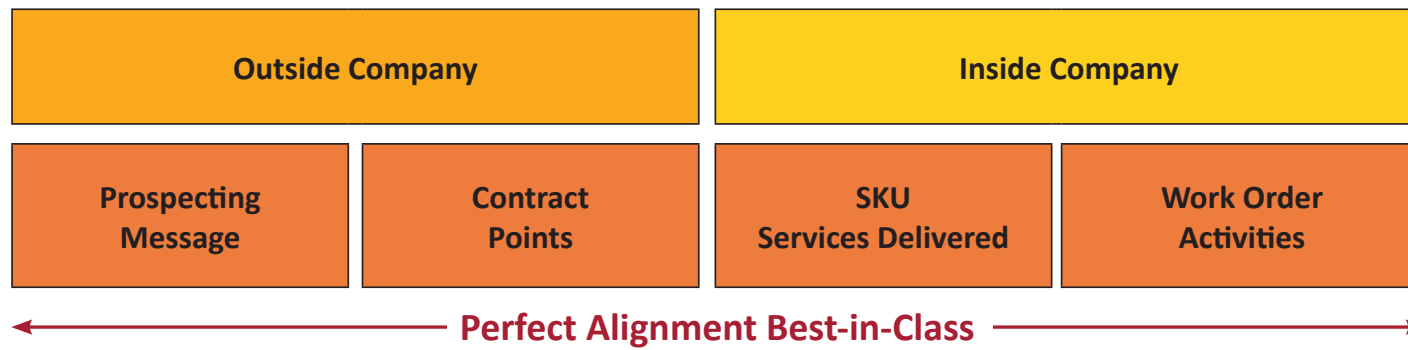Proprietary alignment of services and functions towards improved execution

This analysis cuts across an entire service offering and all operational flows

- Treats service work flows as products or SKUs
- Tests delineation of service offerings
- Tests completeness of work order activities
- Tests alignment of services across functional areas
- Detects information gaps between functions
- Defines key metrics for top management
- Defines layers of performance metrics for each functional area

Aligns customer expectations with work order activities

- Operations simplified
- Cost reduced, working capital reduced

SKU Tower

Outside Company | Inside Company

Prospecting Message | Contract Points | SKU Services Delivered | Work Order Activities

Perfect Alignment Best-in-Class

▶ SKU Tower

Functional Areas Examined for SKU Alignment

- Sales
- Marketing
- Operations
- Finance
- Information Technology

- Human Resources
- Risk Environment
  - » Governance
  - » Legal

SKU Tower

SKU's are Service Offering Modules that can be standardized at a level just above work order activity (detail) level
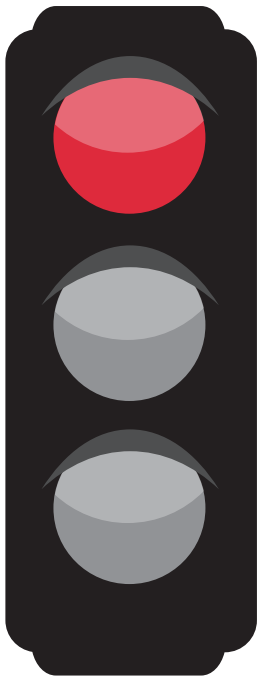
- Focal point of meeting customer expectations
- Define appropriate levels to measure contribution margin, growth and end of life
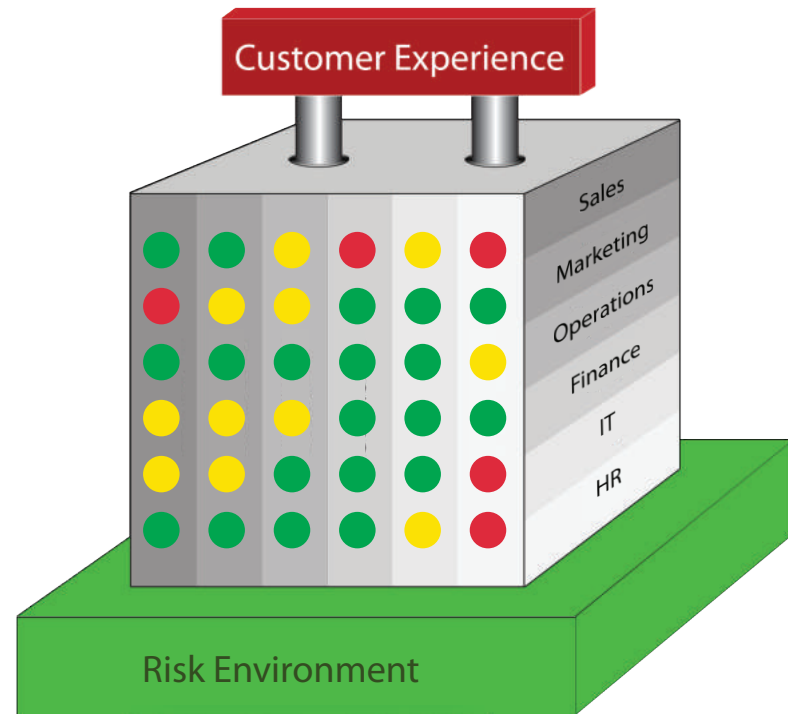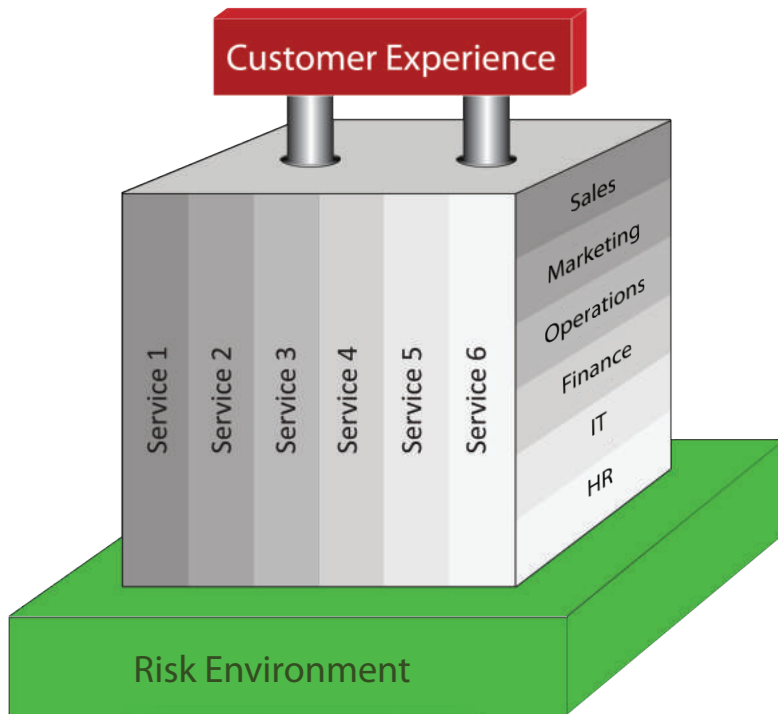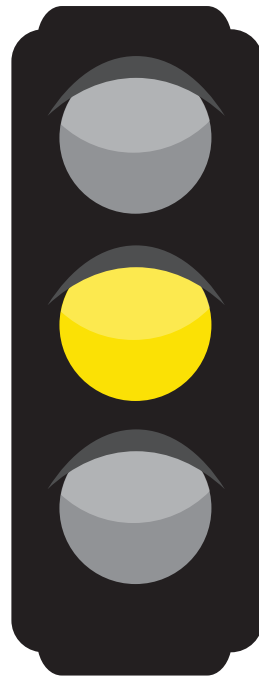
▶ Filters Define the Go/No-Go Nature of Metrics Dash Board

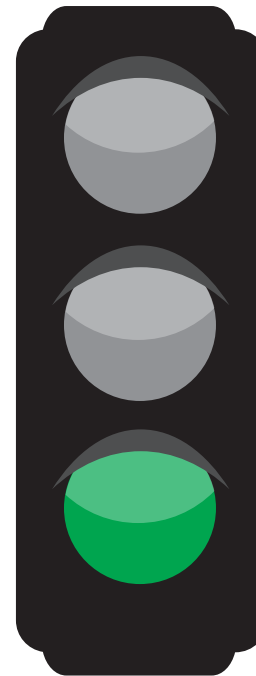Used in the SKU Tower to simplify interpretation

Metric #1

Measured activity is below acceptable standards or getting worse.

Metric #2

Measured activity is not in failure mode, but is not meeting expectations. This gage is also employed when a metric's is desired, but not set up, data is incomplete or is not completed on time.

Metric #3

Measured activity is within tolerance/expectations.

▶ **Business Services Conclusion**

Services have their own unique set of operational features

Their analysis alludes many modern systems

Gaps and breaks in the flow of services are easy to make – hard to detect

Stringent filtering can produce rapid analysis of performance

Benchmarks allow determination of hot spots and accelerate correction

Roadmaps put order to the seemingly chaotic and endless list of remediation and growth priorities – helps avoid the "boiling the ocean" problem

MorrisAnderson Offering – Exhibit

▶ MorrisAnderson Offering

 Industry knowledge and case studies

 Proven model for analysis

 Roadmaps to improved ROI

 100 day launch – improvement program

Business Services Assessments Include

Environment Test – Risk and Tension

Business Model – Strength

Sales and Marketing Systems – Linkage and Flow

Operational Performance – Work Order Systems

Financial Reporting – Confidence, Transparency

Human Resources – Efficiency, Utilization

Information Technology – Data Velocity, Gaps

Metrics – Management Attention

Roadmaps – Corrective Actions and Proactive Change

Due Diligence in Business Services - Exhibit

MorrisAnderson

Due Diligence in Business Services

Sample issues in Business Services

- Revenue Recognition
- GAAP vs. Policy vs. Reality
- Persuasive evidence – did the service happen
- Delivery - what is the handoff for a service
- Warranty for service
- Key man risk
- Technology
- Employees

▶ Due Diligence in Business Services

High Internal Risk in Services Businesses

- Concentrations (customers, sales personnel and suppliers)

- Operational risk (hidden or poorly documented processes)

- Key man (usually an individual has become synonymous with the service delivery)

- Cost Structure (accounting for services cost is often overlooked)

- Volatility of cash flows (project based work)

Working Capital

- Lack of inventory creates more fluctuation in cash flow week to week

- Billing cycles can help or hurt an organization

- Deferred maintenance - behind technology curve

- S/W//Data contracts can be large annual fees

- look like R/E taxes and can be far more devastating to miss

▶ Due Diligence in Business Services

Operations

- FTE analysis (sales per employee, etc.) and employee utilization
- First - call/visit complete statistics
- Independent contractors (1099) vs. employees (W-2)
- Knowledge service - tend to know individual providing the service
- Data services - do not know the individual delivering the service

Projections

- Trends, Mix
- Historical metrics are more important – they are like inventory and define "time" which is the inventory equivalent of services
- Service company projections tend to be more suspect than manufacturing and distribution

Governing Law

- Pay particular attention to local laws
- Labor, licenses, registrations, disclosure and communication rules

▶ **Due Diligence in Business Services**

HR

- Reviews and employee training/skills are like machine and software maintenance - not optional
- Review org chart for managers with too many direct reports
- Key man (see above)
- Review benefits and alignment with goals and staff utilization of those benefits

Legal Due Diligence

- Non-disclosure Agreements
- Restrictive covenants
- Non-compete and non-solicitation agreements (focus on this with seller)
- Employment contracts
- Most of the value is in "know-how"/tribal knowledge, trade secrets and relationships
- Key employees:
  » Identify who is key (need to have contracts)
  » Incentives to stay after the close
- Intellectual Property - trade names, software/processes that are unique

▶ **Due Diligence in Business Services**

IT

- Design and implement an optimal time frame for IT assessment

- Identify significant IT risk

- Determine key components of post-closing implementation

- Ensure reporting and analytical systems are optimized in a post -closing environment

- Make a future - state/roadmap of technology

- Benchmark IT standards

- Review internal activities against the value of third party services

- Assess IT staff and users

- Establish review periods for IT

Business Services Engagement Process: Focus on Five Key Areas	
Financial	▪ Revenue ▪ Profitability ▪ Cash Flow
Operations	▪ Management ▪ Employee Utilization and/or Process Yield ▪ Scheduling
Asset Management	▪ Capital Investments ▪ Process Maintenance ▪ Work Environment
Sales	▪ Review of Existing Sales Process and Methodology ▪ Pipeline and Territory Review and Optimization Analysis ▪ Cost of Sales/Yield
Employees	▪ Fully Loaded Employee Cost ▪ Department Efficiency Metrics ▪ Recruiting, Training and Termination

Ishikawa Fishbone Diagram Used as a Service Filter
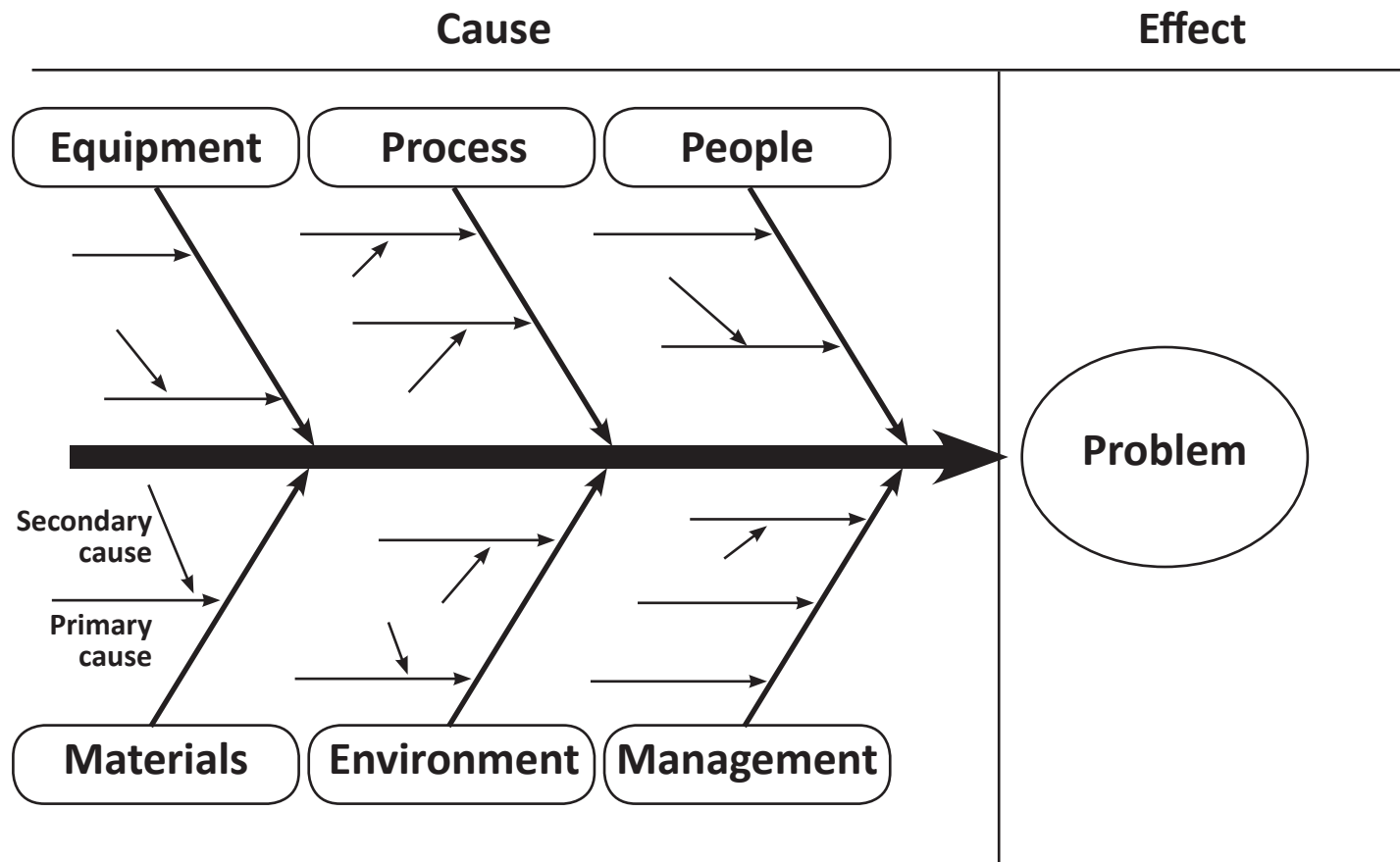
▶ **Business Services Assessments Include**

Frequently, services are victims of a lack of attention

- Processes are not up to date, not in systems or vary by location or operator
- Best practices are hard to interpret through all the noise of variances
- bu's reduce the noise and put clarity to processes

Japanese Root	English Translation	Short Meaning	Examples
Seiri	Sort	Organization	Messy work area
Seiton	Straighten	Neatness	Throw away junk
Seiso	Sanitize	Cleaning	No piles
Seikstsu	Systematize	Routine	Agreed upon procedures
Shitsuke	Standardize	Discipline	Follow agreed upon procedures

Roadmap for Field Service Success

Make Service Management responsible for scheduling

Integrate parts into scheduling criteria – only 15% of organizations plan this way

Move away from paper based scheduling and increase investment in mobility

Evaluate scheduling and planning accuracy frequently

Tie field tech variable comp to team goals, customer satisfaction and revenue generation (and/or leads) – 20% of best in class do this

Push for prevention – Still only 33% of best in class accomplish this

Best in class perform quarterly roadmap testing looking out two generations or three years at a minimum. Five years or three generations is the outside boundary

Every point on the roadmap has to have an owner and a project unto itself even when it is the child or parent of another activity

▶ Benchmarks for Business Services

Field Services: *(Aberdeen, January 2012)*

Benchmark	Best in Class (Top 20%)	Average (Middle 50%)	Laggards (Bottom 30%)
Utilization	83%	66%	52%
First-time Fix	88%	74%	59%
SLA Compliance	92%	81%	67%
Increase Productivity	15% over prior year	6%	0.60%
Decrease Resolution Time	10% over prior year	4%	0.50%

The Competitive Framework

Process	Best-in-Class	Average	Laggards
Capture customer feedback regarding field service performance:	93%	90%	84%
Service schedules created two times a day or more frequently (2 times, 4 times or dynamic):	58%	54%	36%

Organization	Best-in-Class	Average	Laggards
Service leadership responsible for forecasting service demand and developing resource plans:	80%	60%	51%
Centralized scheduling of service resources:	76%	52%	45%
Service organization responsible for scheduling third-parties:	61%	49%	38%

Source: Aberdeen*Group*

Human Resources

The Competitive Framework

Knowledge	Best-in-Class	Average	Laggards
Field technicians have personalized dashboards reflecting service performance:	46%	26%	24%

Performance	Best-in-Class	Average	Laggards
Quarterly or more frequent measure of service employee engagement:	61%	51%	35%
Service performance used to evaluate and modify scheduling criteria:	59%	36%	33%
Variable compensation (bonus) plan in place for field technicians:	59%	53%	49%

Source: Aberdeen*Group*

The Competitive Framework

Technology	Best-in-Class	Average	Laggards
Technicians made aware of schedule via mobile field service application:	49%	33%	29%
Field services functions that are currently automated:	-	-	-
Work order management	61%	58%	55%
Scheduling	58%	30%	26%
Dispatch	46%	35%	44%
Forecasting	27%	11%	9%

Source: Aberdeen*Group*

Contact Center Metrics - Exhibit

Roadmap for Contact Center Success

Improve information access for contact center agents

Simplify agent processes and access to information

Focus on knowledge management

Increase frequency of training

Standardized escalation procedures

Have feedback capturing in place

Compensation for revenue/up sell opportunities

Benchmarks for Business Services

Contact Centers *(Aberdeen January, 2012)*

Benchmark	Best in Class (Top 20%)	Average (Middle 50%)	Laggards (Bottom 30%)
Utilization	86%	72%	56%
First Call Resolution	87%	65%	42%
Customer Retention	92%	72%	46%
Increase Productivity	21%	13%	6%
Decrease Cost	8%	4%	-3%

The Competitive Framework

Process	Best-in-Class	Average	Laggards
Standardized escalation procedures in place:	71%	56%	61%
Immediate capture of customer feedback following contact center session:	57%	54%	37%

Organization	Best-in-Class	Average	Laggards
Executive level oversight of all customer service operations:	75%	71%	34%
Service leader has real-time visibility into contact center:	75%	57%	45%
Frequent and periodic training of customer service representatives in accurate diagnosis, resolution and escalation procedures:	54%	44%	37%
Organizational focus on driving revenue via the contact center	50%	40%	21%

*Source: AberdeenGroup

Human Resources

The Competitive Framework

Knowledge	Best-in-Class	Average	Laggards
Organization-wide access to online (searchable knowledgebase) of captured service, asset, and customer-specific information:	57%	46%	45%

Performance	Best-in-Class	Average	Laggards
Quarterly or more frequent measurement of call agent satisfaction/or engagement:	57%	49%	37%
All agents recieve real-time, daily or weekly access to overall performance (via metrics or customer feedback):	50%	46%	37%

Source: AberdeenGroup

Information Technology

The Competitive Framework

Technology	Best-in-Class	Average	Laggards
Agents can access all customer information on a single screen:	71%	47%	39%
Applications/tools currently in use:			
Contact Center Analytics	46%	45%	42%
Customer Managment with Contact Center functionality	43%	30%	28%
Knowledge Managment	42%	35%	29%
Workforce Optimization	40%	37%	24%

*Source: AberdeenGroup

▸ Information Services Metrics - Exhibit

▶ **Information Services**

Very fluid market due to constant market disruptors along adoption curve

Corporate alignment important to keeping up with changing market conditions

Create roadmaps for products, services, operations and metrics

Mobile deployment of information is exploding

- Four technology platforms and "enabler" status
  » Personal Computers – Launch 1982, Current Status, 12/12, End of Growth Curve - 2005
  » Internet 2.0 – Launch 2001, Current Status 6/12, End of Growth Curve – est. 2021+
  » Smart Phones – Launch 2005, Current Status 4/12, End of Growth Curve – est. 2025+
  » Tablets – Launch 2010, Current Status 2/12, End of Growth Curve – est. 2030+

Information Services Systems 2012 and Adopotion Levels

The 2012 TSIA Technology and Services Heatmap
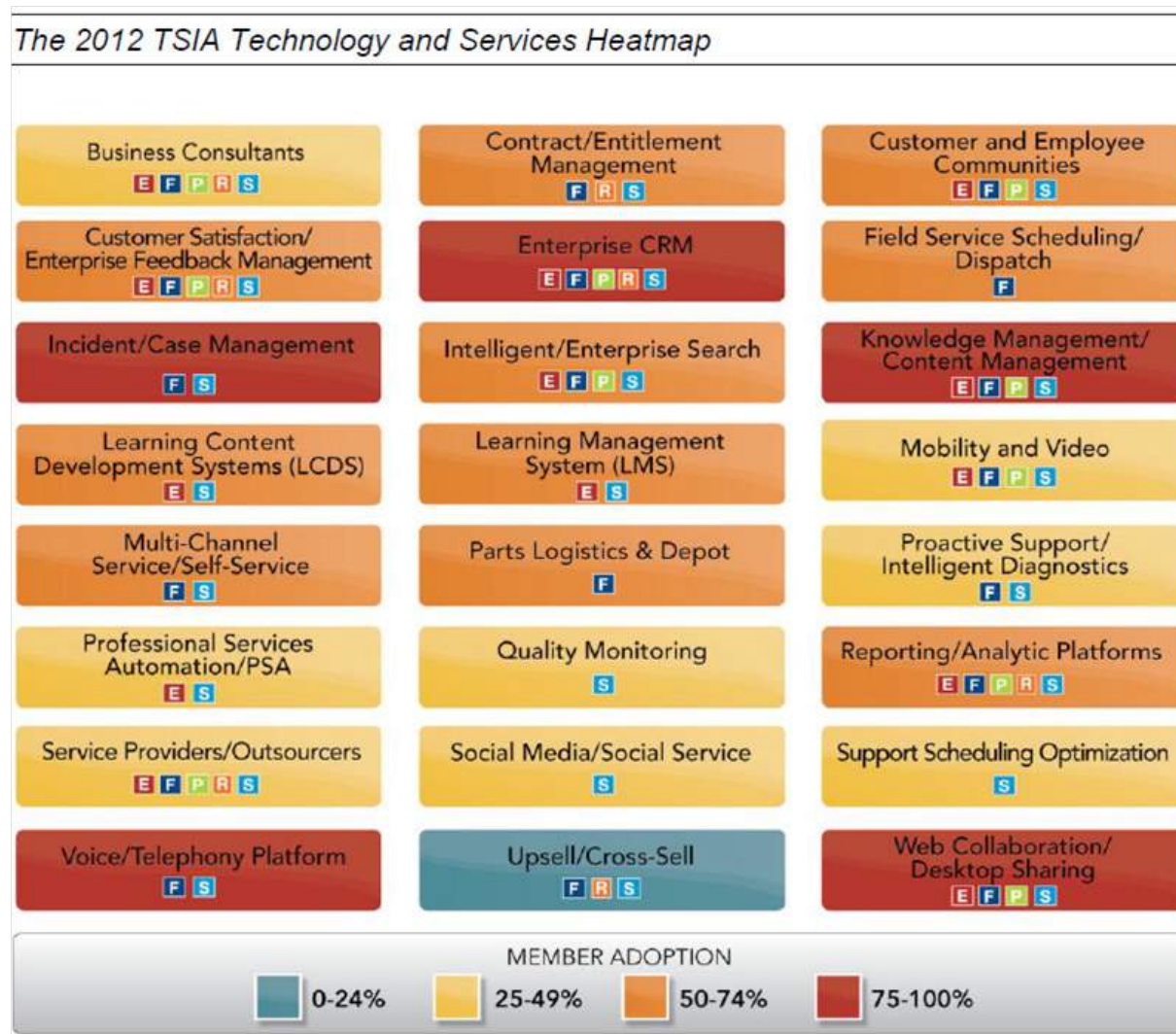
Data Management Metrics

Key Performance Indicators (KPI)

- Cost per lead
- Cost per data point acquisition
  » Primary or secondary data propriety
  » Buy vs. build

Customer ROI

- Renewal/return rate
- Abandonment rate of users