Service Compass: Charting the Course
to Professional Service Excellence

Sell Locally, Deliver Globally

Services Resource Planning
for a Global World

October 2009

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GLOBALIZATION IS HERE TO STAY

What do the global recession of 2008/9 and the H1N1 flu virus have in common? They demonstrate there can be no doubt of the reality of the interconnected, mobile, global world in which we now live. What started as a severe cold in the US housing markets, quickly spread to become a worldwide financial epidemic of epic proportion.

Globalization is here to stay. The economic, trade and labor barriers of past generations have been permanently dismantled. Technology has made virtual, global, workplaces commonplace. Savvy corporations have embraced and accelerated the trend toward "labor-arbitrage" by adapting work to take advantage of lower cost, skilled labor, regardless of location or time zone.

As ubiquitous as global supply chains and virtual project teams have become, clients still prefer to buy professional services (legal, accounting, IT, engineering, architecture, marketing and business services) locally, and favor in-person sales and project management relationships. In the new business-to-business paradigm, the product (goods or project-oriented work) can be produced anywhere but the selling, project and account management relationship depends on in-person contact. "Local touch with global delivery" has become a new operating model for professional service organizations.

The system and information architecture to support the demands of local sales and project management with global project delivery require businesses to reassess their information architecture. Until now, few alternatives have been available for small-to-medium size service businesses to take advantage of globalization. NetSuite's OneWorld Services Resource Planning (SRP) provides a compelling, cloud-based platform to help businesses navigate the challenges of managing in a flat world.

This White Paper identifies some of the insights gained from SPI Research's recent benchmark survey on how globalization in professional services drives the need for Professional Service Organization (PSOs) to consider an integrated Services Resource Planning (SRP) solution to improve global financial visibility and operational efficiency.

GOING GLOBAL FROM THE GET GO

For over a decade, corporations have been taking advantage of the cost, capacity, and speed advantages of outsourcing for lower skill, repetitive tasks — but a new breed of specialized, vertical, deep business domain professional service providers are starting to emerge. One of the most surprising findings from our most recent (October, 2009) PS Maturity benchmark survey of 251 Professional Service organizations is that the newest and smallest PS firms are the most likely to use offshore resources. In fact, firms of less than 10 employees reported on average, 25% of their workforce is located offshore compared to only 14% for firms from 1,500 to 5,000 employees.

The new trend for start-up professional service organizations in all disciplines is to start with a global workforce from the get go. New PS entrants are increasingly building their businesses around specialized vertical, business process and domain knowledge. Often the principals of these start-up firms develop their knowledge, reputation and loyal client base while working for large PS providers. At some point, they become frustrated with the travel demands and lifestyle compromises required by the "Big 5" and translate their expertise into founding vibrant, highly specialized, boutique PS businesses. From inception, young PS organizations are embracing the use of highly specialized, near-shore and off-shore resources.

A new phenomenon for professional service providers is the ability to access both on-demand, cloud-based business applications *and* resources. Management consultants are out-tasking business analysis overnight to India or the Philippines to provide compelling charts and graphs for clients the next day. Specialized legal firms are providing expert hedge fund advice for firms around the globe. Accountancies are taking advantage of skilled resources from China or South America for peak-season tax preparation and both embedded and independent technology service providers are out-tasking complex design, integration and development tasks to skilled resources in Eastern Europe.

On-demand "cloud" business applications and "cloud-sourced" consultants are providing the fuel for growth for the new breed of professional service providers. Services Resource Planning (an integrated suite of business applications) business solutions ensure professional service organizations are able to take advantage of the best available resources, with the best available skills at a competitive price, regardless of location.

THE RISE OF THE 24-BY-7 GLOBAL WORKFORCE

Over the past three years SPI Research has asked over 250 PSOs where their workforces are located. Although 93% of the Professional Service organizations in the study are headquartered in North America, 46% of their consultants reside outside North America making support for global operations mandatory (Figure 1). The average size of PS organizations in the study is slightly over 300 people, yet even the smallest (those with less than 30 people) have begun to operate on a global basis. They rely on mobile applications to connect project teams from around the world and require global business application support to allow them to sell locally and deliver globally.

Figure 1: Location of the Global PS Workforce
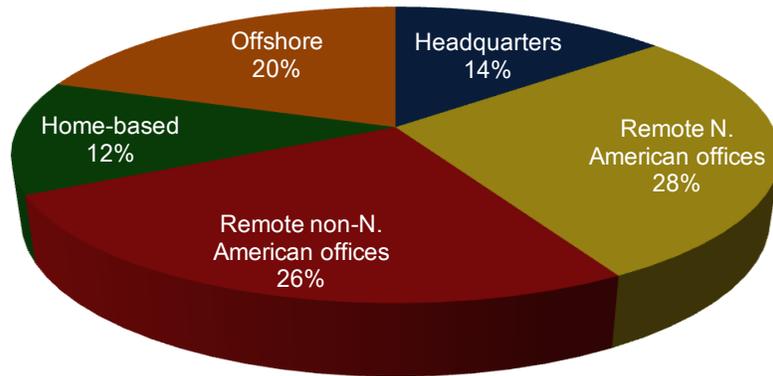
Every organization in our most recent survey uses remote consulting resources – whether they work from home, remote offices or offshore. Labor margins average 30% for offshore resources, compared to 33% for local staff. What makes the investment in offshore resources compelling is the ability to tap into a variable workforce to accommodate peak demand or specialized expertise, while offering clients 24-by-7 coverage on projects — reducing the time and cost to complete them.
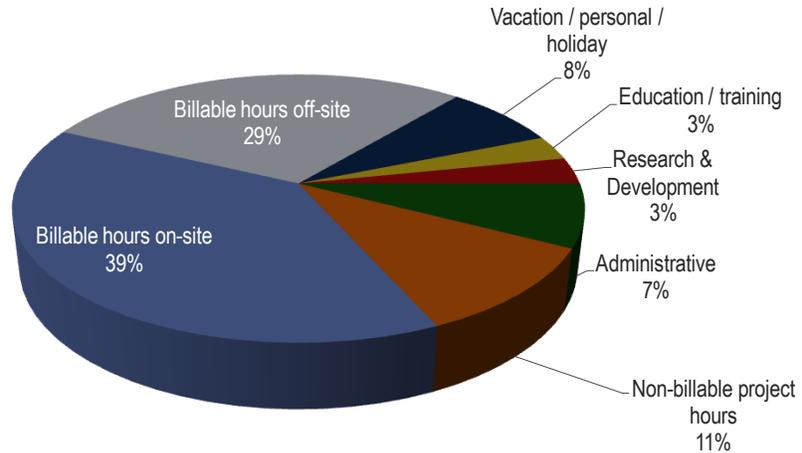
One of the most important revolutions in Professional Services has been the shift to deliver more and more billable project hours remotely. This growing trend towards more off-site project delivery is fueled by:

Δ　The growing acceptance of cloud-based SaaS (Software as Service Solutions);

Δ　Growing client acceptance of hybrid project teams comprised of on-site, near-shore and off-shore resources;

Δ　The availability of lower cost, highly skilled remote resources;

Δ　The availability of Web 2.0 applications and powerful remote service delivery tools;

Δ　Client and service provider desire to reduce travel costs;

Δ　The trend towards "virtual" offices and datacenters; and

Δ　The resulting improved quality of life for consultants, which translates to higher productivity and lower attrition for service firms.

Figure 2 highlights the statistics based on the reported benchmark survey average of 2,131 hours per year per billable employee. SPI Research expects the number of billable hours performed off-site will soon eclipse the number of billable hours on-site as both clients and service providers realize substantial cost-savings and productivity improvements from remotely delivered projects. Local touch is still required for relationship building, defining requirements and modeling business processes but the

majority of development, integration, problem-solving, testing and training activities are increasingly performed off-site.

Figure 2: Percentage of Annual Hours for Billable Employees

Vacation / personal / holiday 8%

Education / training 3%

Research & Development 3%

Administrative 7%

Non-billable project hours 11%

Billable hours off-site 29%

Billable hours on-site 39%

Source: Service Performance Insight October 2009

To be successful in this new global delivery paradigm, professional service organizations must carefully articulate requirements and deliverables. Clear expectations and constant communication are required to keep global projects on track.

GLOBAL INFORMATION STRATEGY CONSIDERATIONS

To take full advantage of the cost, time and skill advantages of global project teams, businesses must overcome several obstacles:

Δ **Real-time information visibility** – no matter where work is performed, business leaders need instantaneous visibility into cost and profit drivers. Executives must have insight into the global sales pipeline and the ability to accurately forecast resource requirements, revenue and profit.

Δ **Global resource management** – to take advantage of geographically disbursed, virtual project teams, executives must have visibility to the best available resources, at the lowest cost, around the world. They must be able to dynamically schedule work and track progress against milestones.

Δ **Global financial management –** applications must accommodate both local and international regulations for revenue recognition and monthly and quarterly financial reporting. Global corporations require fast turnaround for business closing and reporting cycles and cannot rely on error-prone manual rollups.

Δ **Global time, expense and invoice management** – regardless of where work is delivered, companies must account for employee and subcontractor time and expense in local time zones and currency. To manage a global workforce, applications must

accommodate translation from local currencies and local work rules and holidays to produce accurate client invoices.

Δ **Multi-currency, revenue recognition and taxes** – the ability to support multiple currencies and multiple tax and revenue recognition policies represents a significant challenge. As companies become global the cost of hiring and supporting local financial analysts becomes prohibitive. Global business applications are required to conform to complex multi-currency business transactions.

Δ **Anytime, anywhere availability** – the new global, always on, world of work demands web-based solutions which can be accessed anytime, anywhere by a variety of mobile devices.

THE REQUIREMENT FOR A "SURROUND – SOUND" VIEW OF CLIENT RELATIONSHIPS AND PROJECT DELIVERY

As the global economy expands, it has become imperative for businesses of all types to work harder to improve differentiation, quality and efficiency. Businesses are increasingly evaluating their "core" — those business processes, products and services which truly distinguish their brand while outsourcing or out-tasking "context" supporting business processes. These trends have meant that businesses are more and more turning to specialized professional service providers to do just that — making the Professional Services sector now more critical than ever before to help corporations drive innovation and differentiation. But this increased demand for high-level professional services has come at a price.

Client requirements have evolved and pricing pressures are just the tip of the iceberg. Clients now insist upon greater visibility and demonstrated value in the work performed. Project team size and duration has been compressed while client requirements for quantifiable business value and shared project risk have been accentuated. The net result is an environment where service providers must invest in sales and marketing to distinguish their services while dedicating time and capital for sophisticated resource and financial management applications to manage a geographically dispersed workforce with support for global business transactions.

The critical success factors for today's global service providers are:

Δ *Client Acquisition*: The creation, packaging, marketing and selling of services and products that are unique, in demand, and demonstrate proven business value;

Δ *Talent Acquisition*: Building a "talent portfolio" — recruiting, hiring, training , motivating and retaining the best and brightest people, with both strong technical and interpersonal skills;

Δ *Service Delivery*: Service execution is a complex discipline that involves many factors that include: innovation, quality, collaboration, global resource management and knowledge management for high-level performance;

∆ *Financial Performance*: Assurance that the organization optimizes both its inflow and outflow of capital — maintaining healthy cash flow and margins, accurate forecasts and invoicing accurately and collecting in a timely manner.

As a result of these prerequisites, many PS organizations have invested in four core business applications to support their business:

1. *Financial Management (ERP)*: The core solution required to accurately capture time and expense and collect and report on financial transactions;

2. *Client Relationship Management (CRM)*: The measurement and management of client relationships to improve sales, marketing and partnering effectiveness;

3. *Professional Services Automation (PSA)*: The initiation, planning, execution, close and control of projects and services;

4. *Business Intelligence (BI)*: Tools for business analysis and reporting across applications to improve decision-making.

APPLICATION INTEGRATION IS CRITICAL FOR PERFORMANCE IMPROVEMENT

Analysis from the PS Maturity benchmark study of 251 PS organizations reveals quantifiable proof of the value of integrated applications. PSO's that invest in PSA and CRM, and integrate these applications with their core financial application, significantly outperform organizations who do not invest in PSA or CRM. Table 1 highlights some of the benefits of an integrated front and back office for PS organizations:

Table 1: Integration Improves Performance

Key Performance Indicator	Without PSA or CRM	Integrated PSA and CRM	Delta
Year over Year Revenue Growth	14.2%	17.6%	23.9%
Annual Revenue per Employee (1,000)	$175	$196	12.0%
Revenue per Project (*1,000)	$106	$225	112.3%
Quarterly Revenue in Backlog	34.4%	47.0%	36.6%
On-time Project Delivery	76.7%	81.3%	6.0%
Deal Pipeline to Quarterly Forecast	133%	215%	61.7%
Concurrent Projects Managed by PM	3.3	6.0	81.8%

Source: Service Performance Insight, October 2009

SERVICES RESOURCE PLANNING

Over the past decade independent software vendors (ISVs) have set their sights on the Professional Services sector. The Professional Services sector differs from the manufacturing sector in many ways, not the least

of which is that people are the raw material and the core production assets. For all the reasons that people are more complex than machines, workforce optimization is much more difficult to attain than optimization of inanimate industrial assets.

SPI Research defines Services Resource Planning (SRP) as:

An integrated suite of applications with the core financial solution used to increase operational visibility and improve process efficiency in professional services organizations.

Services Resource Planning provides organizations a comprehensive solution to efficiently plan, sell, execute and charge for work. It provides visibility into the business on a global basis, with a consistent view of operations. Its overall benefit is to make the organization more productive and profitable while increasing levels of client satisfaction.

THE NETSUITE ONEWORLD SERVICES RESOURCE PLANNING SUITE DELIVERS BUSINESS MANAGEMENT FOR GLOBAL SERVICES BUSINESSES

As a cloud business suite, NetSuite OneWorld SRP integrates two enterprise proven solutions, OpenAir Professional Services Automation (PSA) with the NetSuite global business management suite. It provides global service businesses real time information visibility, integrated financials, resource optimization and services management from corporate, to subsidiaries, down to the individual project level across geographies, currencies, and tax jurisdictions.

With its automated multi-currency management, built-in support for international tax, compliance and sophisticated revenue recognition management, NetSuite OneWorld helps global service organizations eliminate in-country error-prone manual processes and shorten financial closing cycles. Its comprehensive services management functionality makes it ideal for professional services, legal, accounting, business process outsourcing management, and media-agency organizations with international operations.

Key Features of NetSuite OneWorld SRP:

Δ **Global Real-Time Visibility:** Global dashboards and reports that combine financial and operational project drivers (such as utilization and profitability) for projects, subsidiaries, regions and at the corporate level.

Δ **SRP Global Resource Management:** Matches the best available resource from a global bench based on skills, experience and cost.

Δ **SRP Global Financial Management:** Accelerates monthly and quarterly financial closing cycles and reduces financial risk through revenue recognition management that utilizes project

based revenue recognition rules combined with automated divisional and corporate financial management and reporting.

Δ **SRP Global Time, Expense and Invoice Management:** Improves services productivity and reduces errors across all divisions with a powerful time entry system with "Offline" capability, together with an approval management process that can be tailored by client and project.

Δ **Powerful Project Accounting:** Supports management and analysis of project revenue and cost from bid preparation through time and expense tracking to client billing and internal charge-backs.

Δ **Multi-Currency & Tax Management:** Support for multiple currencies and international taxes enabling comprehensive management, billing and revenue recognition of projects across multiple currencies and tax jurisdictions.

Δ **SRP Global Accessibility:** 100% web based on-demand solution provides access anytime, anywhere. Ensures service teams on the road can stay connected with both offline and mobile device access enabling them to submit time and expenses and update and monitor project performance.

Figure 3: NetSuite OneWorld SRP

Source: NetSuite October 2009

CONCLUSIONS

The world of professional services became global over a decade ago, but until recently only the largest PSOs were able to take full advantage of global business operations due to the complexities of operating in multiple time zones, with multiple currencies, conforming to complicated tax and business rules. Now, global doesn't mean giant, as organizations of all sizes have enhanced their operations to support global clients and take advantage of a global workforce to sustain a 24-by-7 marketplace.

To succeed on a global basis, small and midsized professional service organizations must have the information infrastructure to efficiently and effectively manage the business. Until recently, these organizations were forced to use disparate information systems and manual reporting to manage the business on a country by country basis, without the ability to efficiently and consistently roll up their financial results for reporting purposes. They also did not have the visibility necessary to optimize operations.

The NetSuite OneWorld Services Resource Planning solution is the only cloud solution available for PSOs that enables global services businesses to gain comprehensive real time visibility, integrated financials, resource optimization and services management from corporate, to subsidiaries, down to the individual project level across geographies, currencies, and tax jurisdictions – providing Professional Services executives with the visibility and control to effectively manage global performance.

With over 6,500 customers, NetSuite Inc. (NYSE: N) is the leading provider of web-based business management software. Since 1998, NetSuite has provided growing and mid-sized businesses with one on-demand business application to run their entire business, including Accounting / Enterprise Resource Planning (ERP), CRM, Inventory, and Ecommerce. In 2008, with the acquisition of OpenAir, the leading provider of web-based professional services automation software, NetSuite introduced NetSuite Services Resource Planning (SRP), the world's first cloud solution to help professional services organizations run their entire services project lifecycle with one seamless system—from marketing and sales to project management, services delivery, billing, accounting, revenue management, and renewals / upsell. To learn more, please visit www.netsuite.com.

About Service Performance Insight

Jeanne Urich, Service Performance Insight Managing Director, provides strategic consulting, research and operational advice to improve and transform service and project-oriented organizations. She is a thought leader and recognized expert in Professional Services.

She is the co-author of the ground breaking Professional Service Maturity Model benchmark used by over 3,000 project-oriented organizations to diagnose and improve their performance. www.spiresearch.com. She is a featured speaker and author for major software solution providers and industry associations.

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Dave Hofferberth, 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 1980's, where he conducted studies on white-collar productivity in the banking, technology, energy and construction sectors.

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). He serves on the advisory board of rightERP, and UK-based research organization.

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Service Performance Insight (SPI Research) is a globally-focused research and consulting firm specializing in the services sector. The firm closely follows professional services organizations (PSOs) — both Embedded and Consultants/Systems Integrators — and the independent software vendors (ISVs) that develop business solutions to make people more productive and profitable. SPI Research pays particular attention to the integration of the three key assets of a PSO: its people, (business) processes and capital, and how technology can help optimize their use. SPI Research has developed the definitive business model that shows how PSOs can improve organizational performance by improving five core aspects of their business. They include: 1) Vision, Strategy and Culture; 2) Finance and Operations; 3) Human Capital Alignment; 4) Service Execution; and 5) Client Relationships.

Visit www.SPIresearch.com for more information on Service Performance Insight.