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**SAP for Professional Services**



## **SERVICE DELIVERY INNOVATION**

**Creating Client Value and Enhancing Profitability**

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## **EXECUTIVE SUMMARY**

A variety of forces shape the professional services industry – from fierce competition and globalization to the modularization of business processes and technology. Clients want professional services firms to deliver cost-effective services in smaller, fixed-price contracts, but at the same time want to retain highly seasoned professionals equipped to address their most challenging industry-specific process needs.

To succeed in this environment, professional services firms must continually improve their service delivery methods to increase client value and profitability and lower costs. This involves implementing more efficient resourcing and partnering processes, creatively packaging services, and cocreating value with clients. However, for any of these endeavors to work, a firm must have a foundation that supports global processes and workflows that enhance client and supplier collaboration. For the firms that succeed, the rewards are great. They can differentiate themselves in a crowded marketplace, lock in loyal clients, use internal and external resources more profitably, and improve time to market.

This paper reviews the forces that affect the professional services market today, defines and explains the main pillars of service delivery innovation, and reviews the benefits firms derive from service delivery innovation. It concludes by listing key operating and financial metrics that can measure the value created for firms when they commit their strategies to ongoing service delivery innovation.

## **DRIVING FORCES**

Faced with increasingly sophisticated clients, market globalization, and evolving technology, professional services firms must evaluate their business models to ensure that they can deliver the greatest value to every client on every project. If firms continue to do business as usual, they will face eroding profit margins, increased operational complexity and risk, and underleveraged partnerships. Let's take a moment to look at each of the five fundamental driving forces at work in the professional services marketplace today before we explore how firms can proactively address these trends.

### **Increasingly Sophisticated Clients**

The procurement process in the professional services industry is maturing. Many companies are on their second or third wave of outsourcing agreements and are clients that understand the process, know how to negotiate complex service-level agreements for maximum value, routinely expect firms to offer highly experienced consultants, and demand greater visibility into engagement pricing and structure. In addition, they increasingly focus on outcomes and demand more choices – both in terms of services and providers – at lower costs.

### **Intense Competition**

In addition to satisfying discerning clients, professional services firms must deal with increased competition in a variety of forms. The availability of online information, the pace at which the competition copies innovative ideas, and industry consolidation result in a steady and relentless increase in the number and types of competitive forces a professional services firm faces. For example, online service providers are making certain services obsolete, and almost every client has a defined outsourced plan. Offshore firms are gaining market share with their lower labor costs, and product firms are emerging as new competitors by marketing their manufacturing and product expertise to those seeking process efficiencies.

### **Market Globalization**

Competition is not only intense, it is global. National boundaries have become irrelevant to global business as suppliers, clients, information, and ideas easily flow across borders. Following this trend, professional services firms are finding themselves largely location-independent. No one region can serve as the single source for the right labor mix, latest technology, or management innovation. Clients expect their services partners to provide support around the world and source from the locations that provide the greatest expertise – and best value. Professional services firms must be able to deliver both custom and packaged services globally, yet deliver each project configured for the local market. Fulfilling this demand requires extraordinary operational and staffing flexibility.

### **Evolving Technology Architecture**

Squeezing the market still further, custom software, packaged applications, and software as a service (SaaS) are now available to solve business problems once addressed through labor-based services. With the emergence of Web services and enterprise service-oriented architecture (enterprise SOA), applications are being broken down into smaller components that can interface seamlessly and directly with other components. More and more information services, technologies, and business applications can be distributed across computers and organizations without the expert guidance once provided by professional services firms. Some of these are simply given away on the Internet, limiting the need for certain external professional services.

### **Emergence of Modularization**

Like software applications, business processes are also swiftly becoming modular – broken down into small elements to be combined and recombined as needed. Companies can choose to locate these modules inside or outside the enterprise, knowing they integrate easily with other critical business activities and can be reconfigured as needs change. The rapid and continued modularization of business processes means that companies must focus on and invest in only those world-class processes that create a competitive advantage.

## Blurring the Boundaries Between Products and Services

Until 1995, *Fortune* magazine maintained separate Fortune 500 lists for industrial and services companies. However, it became increasingly difficult to distinguish between the companies offering products and those offering services. Product companies now sell services, while services companies sell products. Finally, *Fortune* merged the two types of companies into a single list. In a world characterized by a blurring distinction between products and services, professional services firms must understand when and how to deliver their services as clearly defined products.

## Convergence of Market Forces

As all five of these market forces converge, it becomes increasingly difficult for professional services firms to differentiate based on the products and services they provide. These firms are discovering that their competitors copy many of their services and that their clients' procurement departments compare every proposal with competing offers in minute detail. Even as price pressures squeeze profit margins, sophisticated global clients are demanding that professional services firms deliver standardized elements at the lowest possible cost and provide differentiated service in the most cost-effective manner possible.

A recent independent survey of over 230 professional services firms indicates that firms feel the top three challenges they face in delivering services are: working with partners, rolling out new services, and dealing with clients who demand more visibility and collaboration – as shown in Figure 1. The message is clear: professional services firms must either constantly innovate to deliver at the lowest cost the differentiated products and services clients demand, or risk being swallowed by competitive forces.

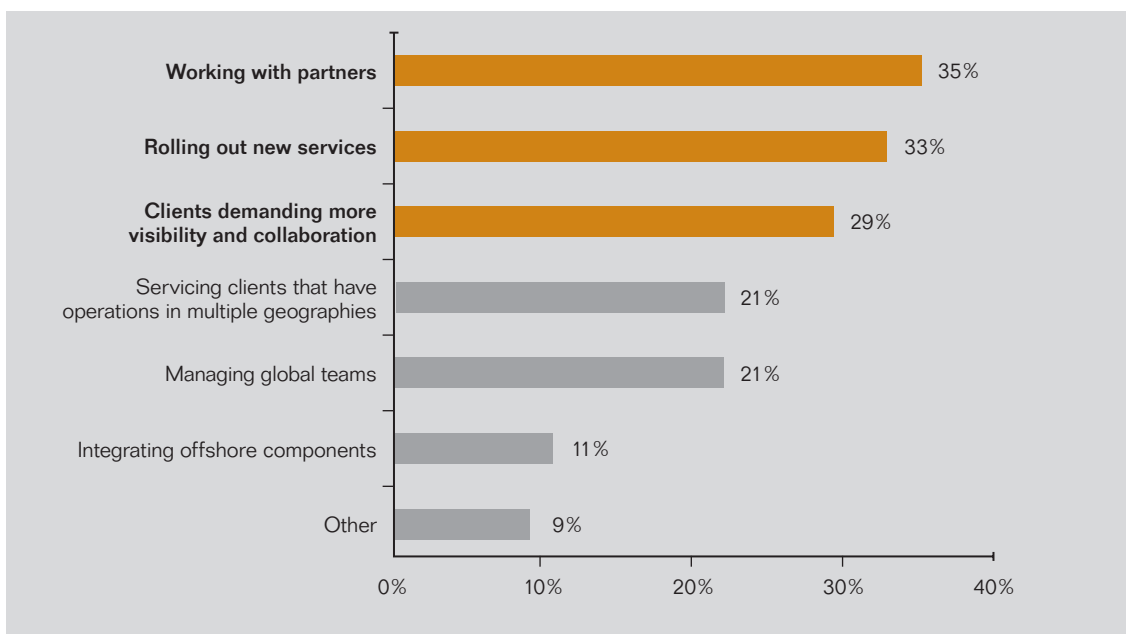


Figure 1: Factors Making Service Delivery Difficult

## SERVICE DELIVERY INNOVATION

How can a services firm best respond to overwhelming market forces? It must find new ways to deliver its services, and it must surpass client expectations. Through successful innovation a firm can protect its largest revenue generators, making possible its investment in the “next big thing” in terms of high-margin service offerings. In doing so, a firm must address the converging challenges of client sophistication, globalization, competition, technology innovation, and modularization – while still taking advantage of the market opportunities as they arise. To succeed at this balancing act, professional services firms must bring together resources in new ways, creatively package high-value products and services, and cocreate solutions with their clients.

Professional services firms that lead the pack are those that consistently deliver on client service innovation in three primary areas: resourcing and partnering, packaging, and cocreating value with clients.

### Resourcing and Partnering

At the heart of any professional services firm is talent resourcing – optimally allocating scarce resources to projects. Innovation in resourcing increasingly means drawing on an effective, available pool of external, global talent while using internal resources as efficiently as possible. It involves equipping both resource management personnel and consultants with tools that enable them to complete administrative tasks effortlessly while communicating and collaborating across borders and organizational structures. To perform innovative resourcing, systems and processes must be established that encourage resource sharing between firms and identify specialized expertise, innovative technology, and low-cost labor – regardless of location. Specifically, by retaining local expertise and embracing the local conditions in the countries in which they operate, firms can win business, manage projects, and cement client relationships more effectively.

In the independent survey cited above, 71% of professional services firms indicated it is important to partner with other services providers. When a firm seamlessly blends internal and external partner resources, it gains a distinct advantage because it can meet a variety of client needs in a rapid, efficient manner. For example, when internal consulting resources are stretched too thin, innovative professional services firms rely on technology to quickly identify and then deploy appropriate partners, subcontractors, and offshore resources to meet clients’ needs. To facilitate collaboration with suppliers, firms can implement technology that seamlessly integrates subcontractors into their service delivery processes across diverse markets. Armed with tools designed to improve supplier management, a professional services firm can create a single, real-time view of all external resources and effectively meet client needs regardless of location.

### Packaging

Another trend in service delivery innovation is the move toward packaging services. Professional services firms can deliver services in an ad hoc manner for every client or package them in structured yet flexible ways. Many firms find themselves creating one-off solutions to address every client request. The challenge is to turn these one-off projects into a packaged offering that is repeatable, efficient, and transferable throughout the firm – and to other clients. An example would be a packaged offering including templates, defined methodologies, work plans, and how-to guides. By packaging, pricing, and marketing these mature service offerings, a professional services firm gains a streamlined sales process for both new and existing clients, more predictable outcomes, and higher profitability.

Productization, a subset of packaging, turns services into standardized yet configurable products that efficiently and effectively combine people, intellectual property, technology, software, products, and consulting. Productization – which is a priority for 68% of firms recently surveyed – benefits professional services firms in the following ways:

- When firms combine resources in standardized ways rather than on a project-by-project ad hoc basis, they can achieve substantial efficiencies and higher resource utilization.
- By productizing services, firms can standardize pricing. This saves substantial scoping and proposing resources on every project, makes it easier for clients to evaluate offers and make buying decisions, and enables higher profit margins on well-delivered projects. The most innovative firms can utilize a service configurator to further streamline the proposal process.
- Productization simplifies the sales process and enables salespeople to offer specific, defined packages to clients and prospects. For some services, clients can actually use online catalogs to order specific services, triggering immediate resourcing and service execution. The result is an enhanced, multichannel buying experience for all clients. Additionally, the firm can employ low- or high-touch channels depending on the nature of the service and client relationship.

### Cocreating Value

The ultimate objective of professional services relationships is to create value for the client. However, professional services firms can create that value in many different ways. Some professional firms continue with traditional “black box” service models that create outcomes with minimal interaction and knowledge-sharing with their clients. This results in a commodity relationship. By contrast, innovative firms are building knowledge-based relationships founded on collaboration and mutual knowledge exchange between the organizations. In this type of relationship, the outcomes include enhanced capabilities and knowledge for the client.

A deep, knowledge-based relationship is impossible to replicate by competitors because the unique collaboration and mutual understanding is developed over time.

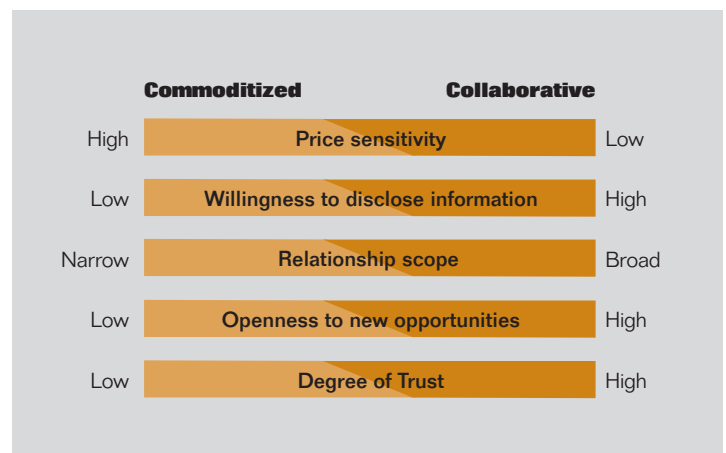


Figure 2: Client Relationship Characteristics

Firms must recognize which of their services are commoditized and which are high value – and then price their offerings accordingly. A collaborative or knowledge-based relationship – characteristic of a high-value service – relies on mutual trust, a willingness to disclose information, and both sides being open to new ideas, as illustrated in Figure 2. To truly cocreate and exploit intellectual property, senior resources from both the professional services firm and the client work together across organizational boundaries to create new products or develop new ideas. Clients in such a knowledge-based relationship are less affected by price because they value the role that open communication, collaborative teams, and complementary expertise play in creating value.



## **Characteristics of Successful Service Delivery Innovation**

Professional services firms that excel at service delivery innovation demonstrate the six key characteristics:

- A networked organization
- Flexible workflows
- Global sourcing
- Client and supplier collaboration
- Continuous innovation
- Enabling technology

### **A Networked Organization**

Professional services organizations are ultimately collections of people: deeply specialized professionals who bring together their expertise to create value for clients. As such, the relationships and networks that link individual professionals are at the heart of the organization. Siloed professional organizations are ineffective. Successful organizational networks rely on human capital policies and technologies that quickly and effectively locate expertise, support project teams, and encourage collaboration throughout the organization.

### **Flexible Workflows**

Streamlined and effective workflows are a vital component of service delivery innovation within a professional services firm. However, this workflow is markedly different from the workflow required by a routine operation, such as processing an invoice for payment. Workflows within innovative professional services firms need to be readily reconfigured to adapt to different projects, situations, and emerging market needs. Workflows need to support the firm's efforts to identify talent, create marketplaces, establish pricing mechanisms, enhance client relationships, and integrate quality assurance processes into workflows. The systems and processes in place should support the introduction of new services and products across the organization.

### **Global Sourcing**

Both internal and external sourcing strategies are critical to the success of a global professional services firm, and work and resources need to flow across boundaries. To succeed at global sourcing, professional services firms must undertake several initiatives. First, they must consistently implement highly effective processes for identifying and applying internal talent. Secondly, firms must establish an approach for drawing on external talent as soon as required. Professional services firms must master this complex activity in order to compete in a global market influenced by low-cost labor and emerging pools of expertise. Firms need integrated workflow technologies, available collaboration spaces, appropriate organizational design, and a professional culture that supports work across borders. Firms must also adapt and mesh the work and social attitudes of its home country with the very different cultures of colleagues and clients on other continents.

### **Client and Supplier Collaboration**

If a firm provides “black box” services – characteristic of no collaboration with clients – it will rapidly become a commoditized service provider. Professional services firms need to effectively and continuously collaborate with their clients to build greater value and lock in clients for the long term. Firms must also achieve outstanding collaboration with their talent suppliers. In a modularized economy, receiving the greatest value from external talent requires bringing them into the firm's processes rather than contracting for work piecemeal. To enable external collaboration, professional services firms can use technology that allows remote professionals to view and participate in key business processes.

### **Continuous Innovation**

Service delivery innovation is an ongoing process; it must be embedded into the way a professional services firm functions and develops new products and services. Some initiatives – such as implementing global processes, developing client collaboration, or creating a more networked organization – are ongoing as well. There is always room for improvement. Other strategies, such as productizing services, may evolve in stages, building on existing capabilities and firm maturity. Most importantly, everyone in the company, from the executive team on down, must continually seek better ways to deliver services.

### **Enabling Technology**

Technology is a key enabler of service delivery innovation – as shown by the overwhelming response of 93% of the professional services firms surveyed. Each of the characteristics of service delivery innovation discussed so far requires a technology platform that is modular, flexible, and reconfigurable. In addition, this platform must integrate easily with external systems and processes to support client and supplier collaboration and to draw on global best-of-breed resources.

**“With service delivery innovation, firms can create and implement new methods of delivering professional services that result in increased client value, lower costs, and higher profitability.”**

Ross Dawson, CEO, Advanced Human Technologies

## BENEFITS OF SERVICE DELIVERY INNOVATION

Firms effective at service delivery innovation will generate greater value for their clients, achieve competitive differentiation, and operate more profitably. Respondents in the independent survey reported that the top four benefits of improved service delivery are higher client satisfaction, reduced cost of service delivery, faster time to market, and higher resource utilization – as shown in Figure 3.

Examples of key operating and financial metrics that measure the value created by service delivery innovation include:

- **Greater differentiation in the marketplace**

Service delivery innovation enables professional firms to differentiate themselves through new services that better address client needs; competitively priced services that reach new markets; and services that are easier for clients to use.

- **Services that are easier to buy and sell**

Effective service delivery innovation calls for clearly packaged and structured service offerings that detail the included activities and expected client outcomes. Additionally, a professional services firm must be able to readily customize these offerings to meet specific client requirements and issues. With predictable pricing, clients can more easily make buying decisions, making it faster and easier for firms to sell services to existing and new clients.

- **Increased client loyalty**

Service delivery innovation enhances a firm's ability to lock in client loyalty through an easier buying process, clearer communication of deliverables and outcomes, and an increased ability to meet client needs. The result is that clients will prefer to stay with existing service providers. This leads to increased renewals, a higher share of clients' spending on external services, and increased value to clients from their lead service provider.

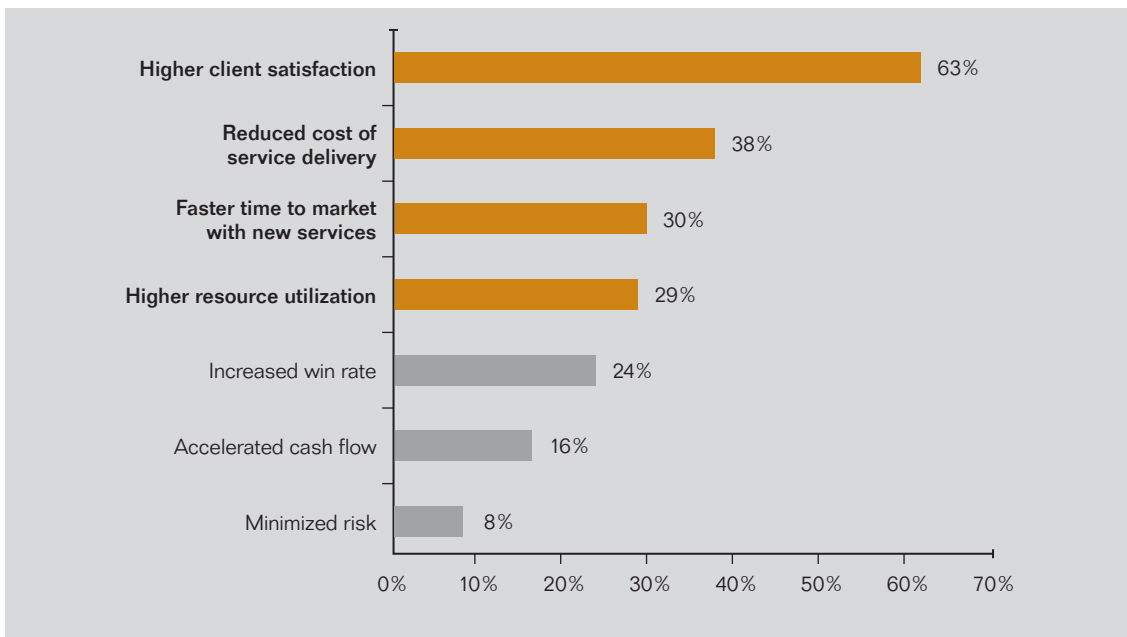


Figure 3: Benefits of Improved Service Delivery

### ■ **Increased speed to market**

In a world driven by innovation and speed, the firms that can bring new products to market faster than their competitors or swiftly follow market leaders can derive substantial benefits. To do this, professional services firms require an innovative service delivery platform that allows them to combine existing resources in new ways – or call upon new resources – to create innovative services and products with minimized cost and effort.

### ■ **Improved resource utilization**

One of the primary profit drivers for professional services firms is resource utilization. Service delivery innovation provides better structure and enhanced flexibility for allocating resources to projects and client work. With more highly defined services, deliverables, and outcomes, firms can predict more precisely what resources will be needed and where. At the same time, firms can more readily reallocate resources, not just within locations but across locations and countries when necessary. The final outcome is higher resource utilization.

### ■ **Lower compliance risk**

The recent dramatic increase in compliance costs for professional services firms – driven both by regulation and highly specific reporting requirements from clients – has had a significant impact on profitability. Service delivery innovation creates visibility into service processes and improves predictability of the outcomes. This reduces the compliance burden, not to mention considerably reducing the chance of deviating from contracted client deliverables.

## **How to Measure the Value Created from Service Delivery Innovation**

Professional services firms that are effective at service delivery innovation will deliver greater value to their clients, achieve competitive differentiation, and operate more profitably. Examples of key operating and financial metrics that measure the value created by service delivery innovation include:

### **Operating Metrics**

- Faster time to market with new services
- Increased win rate
- Higher resource utilization
- Better leveraging of intellectual capital
- Higher client satisfaction
- Higher wallet share
- Increased client renewals

### **Financial Metrics**

- Higher gross and operating margins
- Increased revenue and profit per resource and by client
- Lower cost of compliance
- Lower cost of sales

## CONCLUSION

Driven by demanding clients, intense competition, globalization, emerging technologies, and modularization, professional services firms are turning toward service delivery innovation as a way to deliver high-value services at competitive prices to their target clients. With service delivery innovation, firms evaluate and offer profitable new services to existing clients. They identify ways to serve client segments more effectively and profitably, and recommend novel pricing models or structures to attract new clients. Innovating on service delivery also requires that firms bring together resources in new ways and package services into repeatable offerings so that they can capitalize on efficiencies and staffing predictability. Finally, leading professional services firms recognize the value of moving beyond a commoditized relationship by collaborating with clients to cocreate value.

Firms that can excel at service delivery innovation will reap substantial benefits. Innovative partnering arrangements improve resource utilization and client service. Effective packaging makes services easier to buy and sell and increases speed to market. In addition, collaborative client relationships drive greater differentiation and increase client loyalty.

However, realizing the benefits of service delivery innovation requires a comprehensive and rich set of technology functionality that supports a networked organization, flexible workflows, global sourcing, increased collaboration, and continuous innovation. With enabling technology, a professional services firm can sharpen its focus on managing resources, pricing, costs, and client relationships, and ultimately increase its competitive advantage and boost its bottom line.

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