



CLIENT VALUE DIFFERENTIATION

CREATING SUPERIOR CLIENT
EXPERIENCES AND PROFIT MARGINS

To increase their profit margins, professional service firms must sell to clients who stand to gain the most from their services. That may sound obvious, but how to do it? The answer is straightforward: simplify the structure of your services so that they are easier to sell, which makes them easier to buy. A well-informed client base that buys exactly what it needs translates into satisfied clients and thriving businesses, including yours.



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EXECUTIVE SUMMARY

Today's sophisticated clients demand professional services with deeper expertise and a stronger focus on outcomes. When selling to these clients, professional services firms are experiencing longer sales cycles and signing smaller contracts, resulting in increased cost of sales for less revenue. In order for firms to succeed in this competitive, modestly growing market, they need to differentiate on three strategic factors: their talent, their service and business models, and how they sell their services. This final imperative – selling services – is the focus of this paper. The effectiveness of professional services firms in adapting new strategies to sell more services can shape the client experience, create value for the client, and may determine the firm's ultimate success.

A professional services firm must find new ways to deliver differentiated value to clients, but in a manner that creates a profitable advantage for itself, effectively maximizing returns on its client relationships. Creating and managing a superior buying experience that also delivers value to the client requires deliberate effort and a structured approach.

To differentiate themselves, professional services firms must maximize

their impact with clients with each contact, from the earliest business development interactions. For some, this means simplifying the buying process for clients through innovations in packaging and the productization of services. For others, it means assembling impressive pursuit teams with the client- and issue-specific expertise needed to establish credibility and gain the client's confidence. This is critical to successfully closing deals on more complex engagements. And all firms

must carefully examine their clients, service lines, and other meaningful segmentations to maintain focus on selling to the right set of clients.

By adopting new, disciplined approaches to creating and managing the delivery of superior client experiences – known as client value differentiation – firms lay the groundwork for deeper, sustainable, more profitable client relationships.

MARKET TRENDS AND DRIVING FORCES

EASING CLIENT FRUSTRATION BY CLEARLY DIFFERENTIATING SERVICE OFFERINGS

Client expectations are changing. The analyst firm IDC reports that most clients find the buying processes for IT services ineffective and frustrating. Service providers continue to focus on selling their capabilities rather than on proactively working with buyers to determine the services and solutions that will most improve the client's business. Clients are frustrated by the lack of preparation, poor listening skills, minimal follow-up, and ignorance of their industry and business processes, which some services firms blatantly display during the sales cycle. Given the void of information needed to differentiate service offerings in terms of business impact, clients will use cost as the primary factor in evaluating services.

As frustration with the buying process has risen, service rates have declined, effectively eroding margins over the

past several years, although the decline appears to have leveled off. The blended hourly rate – a combination of rates for consulting and IT integration work – has declined from a high of US\$320 per hour in 2000 to US\$205 per hour in 2007 (see Figure 1). In some cases, this reduction has lessened the buyer's focus on rates. A recent survey conducted by IDC reveals that the most important criteria when buying professional services are weighted equally among trust, quality, and costs. There is now greater opportunity for firms to sell more business based on the quality of services they deliver and the depth and breadth of technical and industry expertise they can provide (see Figure 2).

Meanwhile, buyers are taking longer to evaluate service proposals. The length of the average sales cycle for consulting services, currently five to nine months according to IDC, has

increased 15% to 20% since 2002. In addition, many firms find that the average size of engagements they sell is smaller in terms of dollars and service resources contracted, primarily due to technology solution alternatives and commoditization of services. The result? Firms must now sell an increased number of engagements to generate the same revenue. And the additional sales cycles that result translate into additional costs.

Nevertheless, firms must ensure that the service offerings they sell and deliver clearly present differentiated value to the prospective client. The firms need the tools and teams in place to make it easier to sell a wide range of services – from simple, commodity-type services to complex business solutions. Complex engagements require an orchestrated effort that draws on deep industry and solution knowledge throughout the sales process, something not required of more standard, mature service lines. Nevertheless, firms must look for ways to be efficient and effective in how they sell both.

A more complex sales cycle might involve custom services combined with packaged services to be delivered across multiple locations using an assortment of delivery teams, hosting options, and partners. For these types of complex projects, clients are involving more senior stakeholders in the RFP process and expect documented ROI from the prospective service provider. As a result, professional services firms must involve more experts in the sales process.

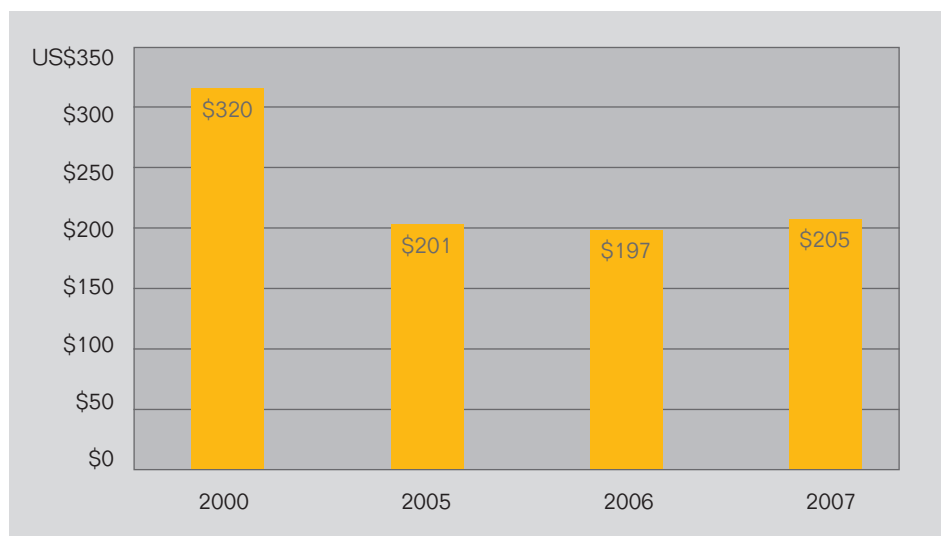


Figure 1: Blended Rate (Source: IDC, 2007 Market Perception of Service Firms)

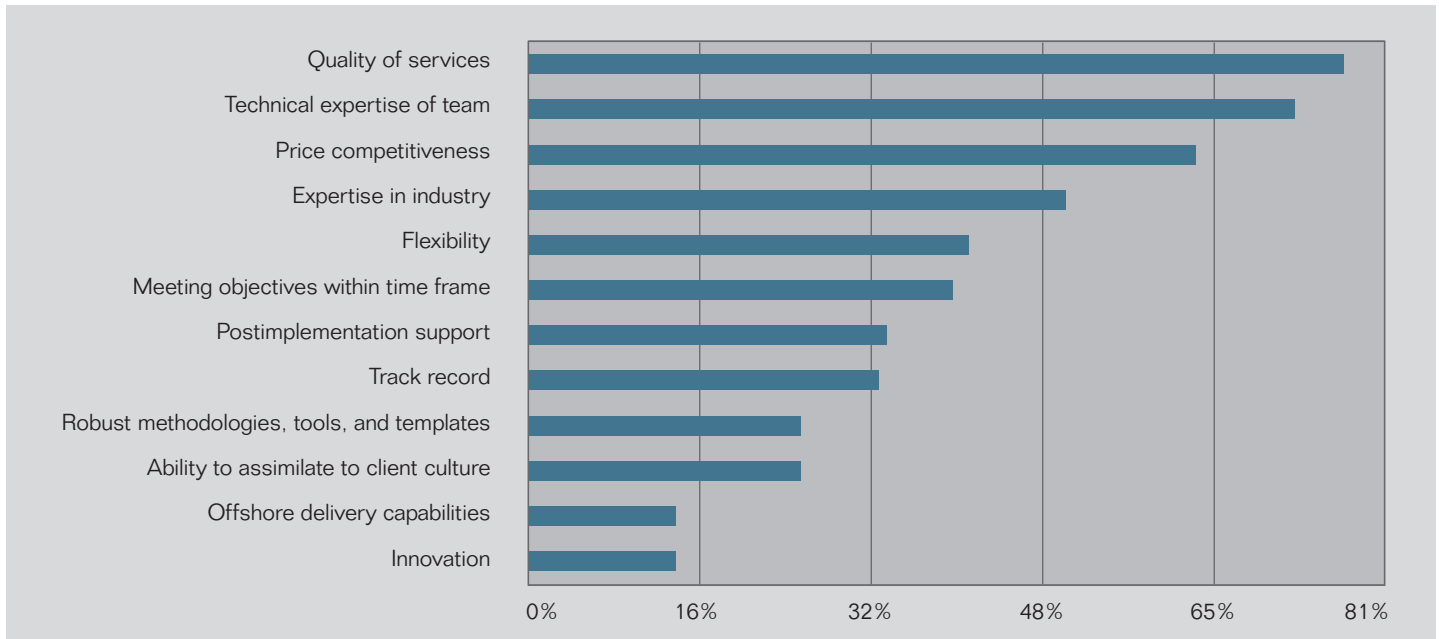


Figure 2: Most Important Criteria in Selecting a Firm (Source: IDC, 2007 Market Perception of Service Firms)

As the number of individuals involved in selling services increases, clients are more apt to find a disconnect between the business developers who sell the services and those who deliver them. This can affect engagement goals and objectives as well as successful outcomes in winning deals.

With an understanding of the above industry trends, the remainder of this paper examines innovative ways that firms can deliver differentiated value to clients in order to increase revenue, profit, and margin gains. The role of the business development team is reviewed along with the concept of how productization of services can

improve sales and efficiency. An overview is provided of the “pursuit team” concept and how firms can more quickly and efficiently assemble the perfect team to gain the client’s confidence and increase the likelihood of sales success. Also emphasized, however, is the fact that no matter how skillful or well conceived these teams are, they cannot sell at will. Because no firm can be all things to all people, it must identify which clients and service lines to focus on to ensure a mutually profitable exchange. Finally, the paper explores the new role of pricing and margin management that is gaining a foothold in firms today.

CLIENT VALUE DIFFERENTIATION

CREATING AND MANAGING SUPERIOR CLIENT EXPERIENCE

Successful client value differentiation means creating and managing a superior client experience – one that delivers value to the client at each and every touch point while generating the greatest return on that client relationship.

To achieve this, firms need to:

- Improve sales effectiveness, both internally and externally, with the clients of their business development organization
- Use pursuit teams to meet client demands
- Examine client, service line, and other segmentations of profitability to ensure optimal delivery to the clients who stand to benefit the most
- Innovate price and margin management to increase profits

Improve Sales Effectiveness of the Business Development Organization

In the past, professional services firms relied almost exclusively on the efforts of managing partners and other key stakeholders to act as the primary rainmakers for revenue generation. Today many firms have built out and are maintaining dedicated sales organizations. According to respondents from an independent survey, two-thirds of professional services firms maintain dedicated business development organizations.

But creating effective business development teams can be challenging. The independent survey further identified two top issues for firms with dedicated business development organizations. First, these organizations often lack visibility into sales opportunities and are unable to identify and plan for deals in the pipeline. Approximately 69% of

the respondents either struggled to gather sales data or felt their firm's services were too complex for the business development team to easily define, price, and scope in proposals. Many firms believe that standardizing services would make it easier for the business development team to successfully sell more services.

Second, firms find it difficult to get talent up to speed quickly on service offerings – a challenge that impairs the business development team's ability to win and close more deals. Although maintaining a separate business development organization gives the firm more sales time in front of clients, the business developers selling the services often lack proficiency and in-depth knowledge of the services they are selling. To correct this, business developers must be ramped up in the new service offerings, which introduces a certain lag time between appearance of the new offering on the price list and competent sales representation of it.

In order to be effective – and at the same time address client frustrations about difficulties differentiating between, understanding, and, therefore, buying services – business development teams need to take a more disciplined approach to their selling. Analyst firm IDC notes that to improve sales productivity and efficiency, professional services firms must:

- Standardize on a single sales methodology and use key performance indicators (KPIs) to track sales effectiveness
- Invest in selling capabilities that streamline and simplify the

construction of proposals

- Recognize that productizing services offerings allows firms to produce more predictable sales models, which leads to greater client satisfaction

Step 1: Standardize and Measure

Focus should be on a single sales methodology and streamlined processes to minimize the impact that longer sales cycles have on the cost of sales. In addition, firms should develop and monitor KPIs to assess the effectiveness of the sales process throughout the opportunity life cycle. KPIs should be leveraged to ensure continued high sales performance and to highlight where additional improvements in the sales process might be necessary.

Step 2: Streamline and Simplify

Business development professionals are hired for their sales expertise, not their in-depth service delivery experience. To help them boost their sales success, firms can simplify the construction of their services, making it easier for the business development professionals to understand service scope, pricing, and packaging. The simpler the service is to construct, the easier it is for business developers to understand, describe, and discuss it during sales presentations – and the easier it becomes for the client to understand it and, consequently, choose and purchase it. The client's decision to buy is better informed, and this translates into a more satisfied client. To facilitate this process, innovative sales tools such as proposal libraries, sales platforms, and ROI calculators should be leveraged.

Step 3: Productize Offerings

Firms can package some of their service offerings as products by standardizing them. The candidates for this process are the service offerings that can be broken down into clearly defined, repeatable process steps, with each step bearing a price tag. Because this turns the entire service offering into a predictable, repeatable, cost-effective process, the firm can sell the service as it would a packaged product, thus productizing the service.

Not surprising, productization increases the effectiveness of a firm's business development team. With this process innovation, the business development team can construct a more accurate proposal in less time. Productized services can be strategically priced at a more granular level. Priced components can be placed into a configurator tool that links requisite and optional services. Selecting a component results in the inclusion of requisite services and relevant options. This streamlined process extends benefits to other groups within the organization. The service delivery group, for example, can enjoy efficiency gains with a correlation to margin improvement because each of the repeatable steps benefits from streamlined service delivery preparation and execution.

In an independent survey conducted at the end of 2007, SAP received responses from over 250 professional services providers. Although 38% of the respondents indicated that they offer productized services as a differentiator, many firms admitted having difficulty standardizing their services to

produce productized services. In fact, 39% of those surveyed indicated their services seemed too complex or unique to define, making it impossible to break them down into process steps. While it is unreasonable to assume all services can be productized, innovative firms do seek to define and package their standard services into easily configurable products. For additional insight on innovating service delivery, please refer to the white paper published by SAP, *Service Delivery Innovation: Creating Client Value and Enhancing Profitability* (Dawson/Horenkamp, 2007).

Use Pursuit Team to Meet Client Demands

To ensure that a client perceives the value and depth of expertise a firm can bring to an engagement, many firms leverage team selling during the sales cycle. Using pursuit teams, which often focus on more complex service offerings, is not a new concept. In fact, 91% of those who participated in the 2007 survey indicate that they use team selling – or pursuit teams – to sell services. However, when asked to rank the top challenges, 50% indicated that organizational issues restrict or make it difficult to build an effective cross-functional pursuit team; another 46% indicated that the biggest challenge was managing team duties and activities.

Using pursuit teams is complicated for firms that must coordinate across multiple service delivery organizations, global delivery teams, and partners. Firms must be able to collaborate across the organization, identify and retain specialized and local expertise

Large Outsourcing Firm Aims to Standardize Service Offerings and Streamline Proposal Process

A large outsourcing firm recognized how difficult it was for its business development team to create accurate, timely proposals due to the complexity of its service offerings. These challenges resulted in delays in finalizing and producing accurate proposals. The firm is simplifying the proposal-building process by introducing configurable service products.

during the sales cycle as needed, and seamlessly integrate with partners supplying software, hardware, or additional services. Easily identifying specialized expertise and expanding the business development team capacity as needed to include that expertise are critical to winning deals and delivering a superior client experience.

Establishing a pursuit team's credibility with the client requires that a firm get the right consultants in front of the client as early in the selling process as possible. To build an effective pursuit team whose skill sets match the client's specific industry and business needs, firms need real-time visibility across three key disciplines of the talent supply chain: demand, resource, and supplier management. This real-time visibility is necessary to determine whether the pursuit team has the requisite knowledge and skill sets for the sales effort; assuming it does, whether those resources are available to assist

with the sales effort; and whether those resources would be available to staff the project once the client signs. For additional insight into effectively managing the talent supply chain, please refer to the white paper published by SAP, *Using Talent Supply Chain Management to Overcome Challenges in the Professional Services Market* (Lah/Capperella, 2007).

Examine Client, Service-Line, and Other Profitability

Any investment in creating and managing the delivery of superior client experiences must ultimately result in improving a firm's profits. The majority of respondents surveyed – approximately 75% – indicated that they analyze the profitability of at least one client or service line at least once a year. System shortcomings ranked as the factor that most limited a firm's ability to analyze client or service-line profitability. Often a firm's systems are not designed for capturing and collecting relevant costs – such as sales, marketing, and service data – at the client, service-line, and other levels.

The key to improving profitability is to use greater discipline in determining which clients, service lines, and other segments (for example, region or solution) best fit into the firm's strategic and profit objectives. Once that has been determined, firms must make informed decisions about whether they will invest more or scale back on the client relationships within those defined segments. Firms can't be all things to all clients, but with a disciplined approach, they can deliver exceptional services and superior experiences to



Benefits of Client Value Differentiation

- Creates configurable services that are easier to sell and easier for clients to buy
- Improves sales effectiveness through a disciplined approach to selling
- Ensures smarter pricing and higher margins in alignment with an actionable pricing policy
- Sharpens focus on the right clients and services

targeted clients. With sophisticated analytics, firms can narrow their focus to the right set of clients, service lines, and segments – those that provide the greatest revenue and profit.

Innovate Price and Margin Management

In addition to focusing on the most profitable clients, service lines, and segments, firms need to use innovative

approaches – such as additional segmentation, analyses, standardized rates or price lists, and automated approval processes – to increase the effectiveness of profitability management. Many firms currently rely on spreadsheets for price and margin management within the sales process. These are often filled with errors and make it difficult for the firm to enforce pricing policies and compliance. Spreadsheets lack mechanisms for capturing approvals and supporting pricing exceptions – the tracking of which is essential for compliance with the Sarbanes-Oxley Act of 2002.

Through an innovative approach to managing rates, pricing, and margins, firms can define pricing policies, set pricing strategies, and enforce corporate standards at various levels, including by region, service line, solution, and client.

When negotiating deals, the spreadsheet approach generally provides zero visibility into the bottom-line impact of negotiated terms. As a result, money could potentially be left on the table. For example, a firm may be underpricing certain types of services for some clients or regions. Firms should establish and enforce compliance with target margins, approval requirements, and defined floors per segment to minimize revenue leakage. Traditional segmentation – by region, service line, solution, or client – can be broken down further by client flexibility or scope of effort, for example. Through more meaningful segmentation, firms can trace pricing performance and trends to more finely defined market segments, helping them pinpoint where additional revenue or profit leakage may be occurring.

BENEFITS

REAPING REWARDS FOR DELIVERING CLIENT VALUE



For those firms that invest in the processes and tools to deliver differentiated client value, the rewards are great. With a more disciplined approach to selling, firms can improve sales effectiveness, build winning teams, price engagements more advantageously, and ultimately provide greater value to clients while creating profit advantages for the firm.

By productizing the services it offers, a firm is in a position to clearly describe those services to prospective clients. This boosts the client's understanding of the services, which makes it easier for the client to differentiate between those services and the competition's. And because the services are easier to understand, it's easier for clients to buy the ones they need, which in turn increases the likelihood that they will be highly satisfied with those services. The flip side is that the services are

much easier to sell. To further increase this competitive advantage, firms are well advised to take a more disciplined approach to selling – one based on standard methodologies and processes. It will get them in front of more clients and improve sales effectiveness, which will generate more wins.

Firms that use pursuit teams can respond to client demands faster and in greater detail. Effective pursuit teams have the in-depth expertise that better equips them to provide a complete description of services, helping the client understand the services before a commitment to purchase is made.

By adopting systems that establish pricing and policy standards, firms can better enforce pricing strategies and objectives specific to identified segments, for example, by region, service

line, solution, and client. Ultimately, firms can achieve margin growth and profits in alignment with an actionable pricing policy. Automated pricing approvals and workflows can reduce the quote cycle time and create comprehensive audit trails by capturing all price and discount approvals essential for compliance with Sarbanes-Oxley.

Finally, as a firm sharpens its focus on delivering differentiated services, it must also sharpen its focus on which of its clients have the most to benefit from those services. In other words, the firm must pinpoint the clients whose goals coincide with its own. When the firm does this successfully, those clients receive top-quality service precisely because their interests are closely aligned with the firm's strategic and profit objectives. This results in long-term client satisfaction.

CONCLUSION

SELLING SERVICES COST-EFFECTIVELY TO TARGETED CLIENTS



Driven by ever smaller engagements, lengthy sales cycles, and client frustrations with the process of buying IT services, professional services firms need to find better ways to sell services to targeted clients – and in the most cost-effective manner. Every touch point with the client, from the first contact the business development organization makes, is an opportunity to deliver value. The more a firm invests in processes and tools to create and deliver that value, the more likely the firm will deliver superior client experiences. For some service lines, this means packaging services for use in configurable products in order to simplify the sales proposal and buying process. For more complex engagements, skilled pursuit teams are needed early in the sales process to establish credibility and gain the confidence of clients by demonstrating the depth and breadth of the firm’s expertise as a differentiator.

To sell services in the most cost-effective manner, business analytics can help firms identify which clients they can best serve and what services they should focus their energies on in order to create the most profitable mix of clients and service lines. Some services firms improve their margins by stepping up operational efficiency during the sales cycle, using workflows and approval automation to support smarter pricing and increased pricing controls. The increased business clarity, resulting from greater focus on the right set of clients and services, allows the firm to stand out in a crowded marketplace, lock in loyal and profitable clients, and create the highest return on its investments in client relationships.

For those firms that continuously deliver differentiated client value, the rewards are significant. With a more disciplined approach to selling, firms

can improve sales effectiveness through increased productivity and efficiencies that ultimately translate into profit and revenue advantages.

To realize the benefits of client value differentiation, professional services firms need a comprehensive and rich technology base that supports standardization, visibility, and automation within the sales processes. To learn more about how the SAP® for Professional Services solution portfolio can help firms create superior client experiences to drive increases in revenue and profit, please visit www.sap.com/professionalservices.

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