

## Be Wary of Best Practices

*By James A. Alexander, Ed.D.*

The technology professional services industry is enthralled with best practices. The term peppers our publications\* and dominates our discussions as leaders of professional services organization (PSOs) hungrily look for standards of comparison. Yet, PSO leaders do this at their own risk! The same "best practice" that can be quite appropriate and helpful for one organization might be a "worst practice" for another, and actually set the organization back on its quest for high performance.

Thoughtful services leaders think about the *appropriateness* of practices they adopt based upon two factors: strategic alignment and PSO performance level.

### **Strategic Alignment**

*Ponder Point: Stuff rolls downhill.*

As in any business, if you don't get the strategy right, it is darn near impossible to get the marketing right, the selling right, or anything else right--stuff rolls downhill.

Research in our industry confirms this criticality and expands it to the realities of being embedded inside a product company. A key differentiator that separates top-performing PSOs within product companies from everybody else is their ability to better align their strategy with the mission and focus of the parent organization.\*\* Of course, this makes perfect sense, but doing so is a constant challenge.

The repercussions on non-alignment can be quite severe, as there is nothing worse than doing things really well that shouldn't be done in the first place! For example, maximizing utilization rates can be an important target of a mature, free-standing PSO, but if the *appropriate* strategy of the PSO is primarily supporting the parent company by helping to sell products, the goals may be in conflict (as the quality folks say, "optimizing one group [the PSO in this case] while sub-optimizing the organization) to the overall detriment of the company.

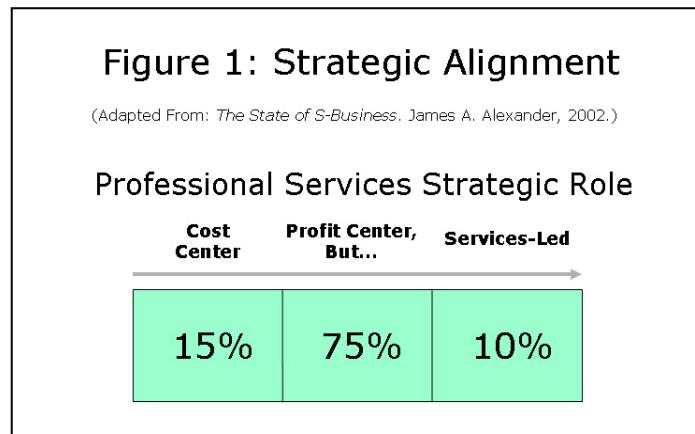
Strategic alignment means determining which one of the three possible strategic roles of professional service best supports the overall business mission. Take a look at it from your perspective:

*Which one phrase best describes your company today?*

- 1. Services is a Cost Center:** We aggressively sell products; however, we also provide and charge for services.

2. **Services is a Profit Center, But...:** Yes, we sell services and try to make some money on them, but our core business and our focus is products.
3. **Services-Led:** We are a services-driven business that also sells products.

Figure 1 shows that about 15% of technology PSOs within product companies are cost centers, 75% are profit centers, but...10% are services-led.\*\*\*



Number one above is pretty straightforward. The role of professional services is to support the product, help get the business in pre-sales, and help keep the business through successful installation (or commissioning or start up) and effective troubleshooting, where needed. Products have been, are, and will be the dominant focus. Enough said.

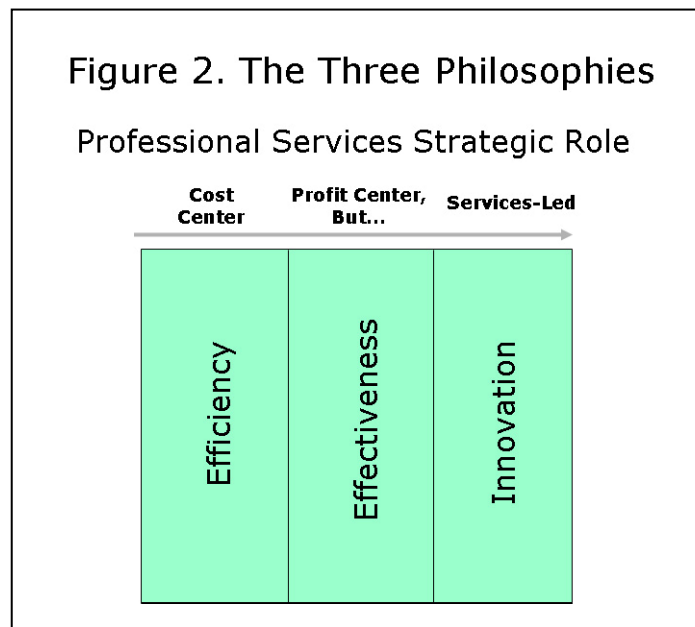
Number three is also easy to understand, as the organization pushes the benefits of services and services-led solutions first, and then pulls along their products. Here we emphasize development of new and unique services offerings, encourage sales (and everyone) to sell services, and manage utilization.

However, number two is the tricky one, being betwixt and between, neither fish nor fowl. Here senior management wants to have its cake and eat it, too. See if this scenario sounds familiar: On Monday you sit down in your review with the CEO, and she assures you that your mission is to support the company by profitably growing professional services revenue, build a high-performance PSO, and contribute to the top line. So far, so good. On Tuesday you sit down with the vice president of sales, and he is emphatic about "value-pricing" (code word "deep discount") services to help land strategic business. You lay out your best defense, but in the end you lose the discussion as you knew you would. Bummer.

On Wednesday morning you are called into a crisis meeting and directed by the CEO (the same one you talked to on Monday) to board a bus to Boston with your best technical experts to fix the problems at Galactic Enterprises

and not to come back until the client is satisfied...never mind that your people are committed to other projects...of course, it isn't billable, it is for the "good of the company." Yes, the organization wants (and demands) profitable growth, but whether stated or not, the prime directive is to support the product first, then make your numbers any way you can. This is not an easy business to run!

Figure 2 shows that each PSO strategy requires different philosophies for success. Running a cost center requires constant vigilance toward efficiency. Hence, the entire organization is focused on keeping things lean and low-cost. "Implementing the profit center, but..." strategy requires a focus on effectiveness--balancing the requirements of profitable growth with the necessity of helping sell products on one hand and keeping customers satisfied on the other hand. Constant negotiations with sales and other executives are required to deliver on the duality of expectations. Running a PSO in a services-led organization requires emphasis on innovation, as the services component is recognized as the greatest potential value contributor. Here emphasis is on the creation of unique services that differentiate the organization from the competition. Marketing and selling push services and pull along the products.

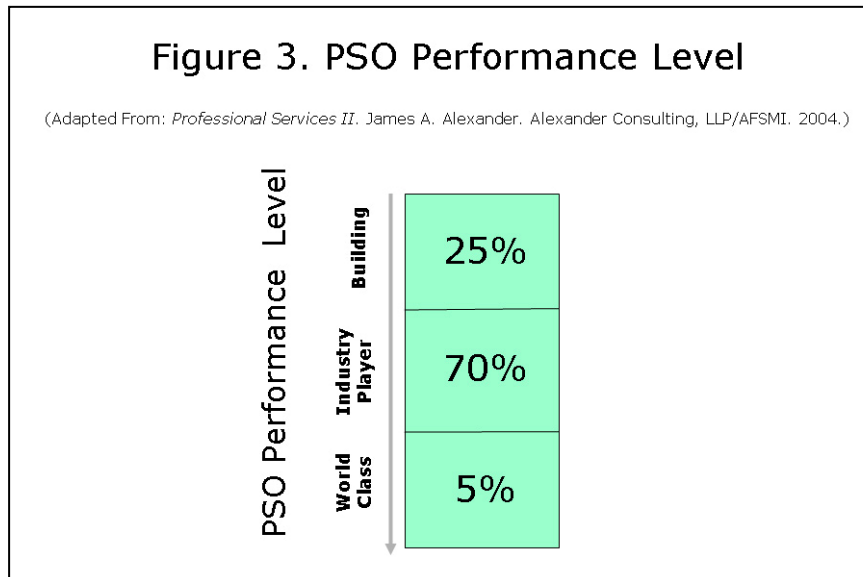


Obviously, each philosophy requires different capabilities and mindsets to optimize performance.

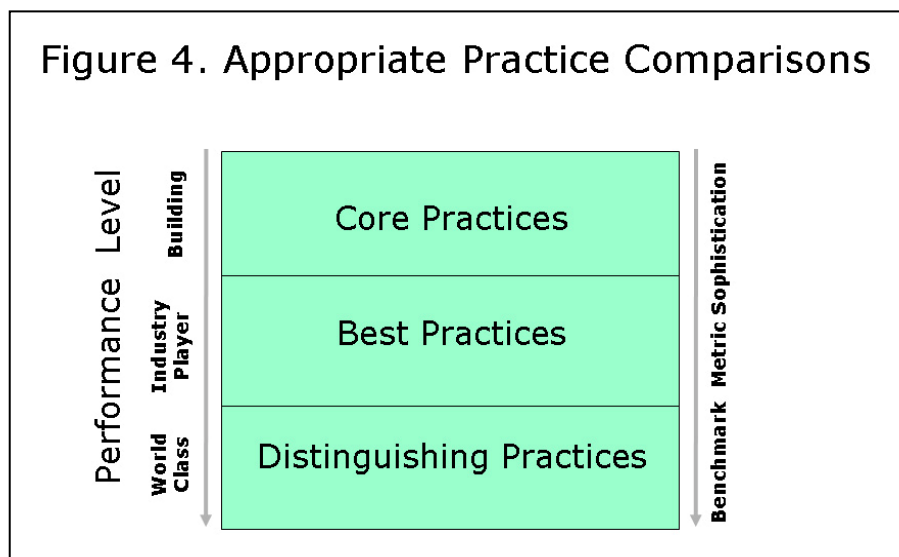
### **PSO Performance Level**

The other prime consideration in leading your PSO is its performance level.

Figure 3 shows that about 25% of PSOs in our industry are in the building phase, 70% are industry players, and roughly 5% are world class.\*\*\*



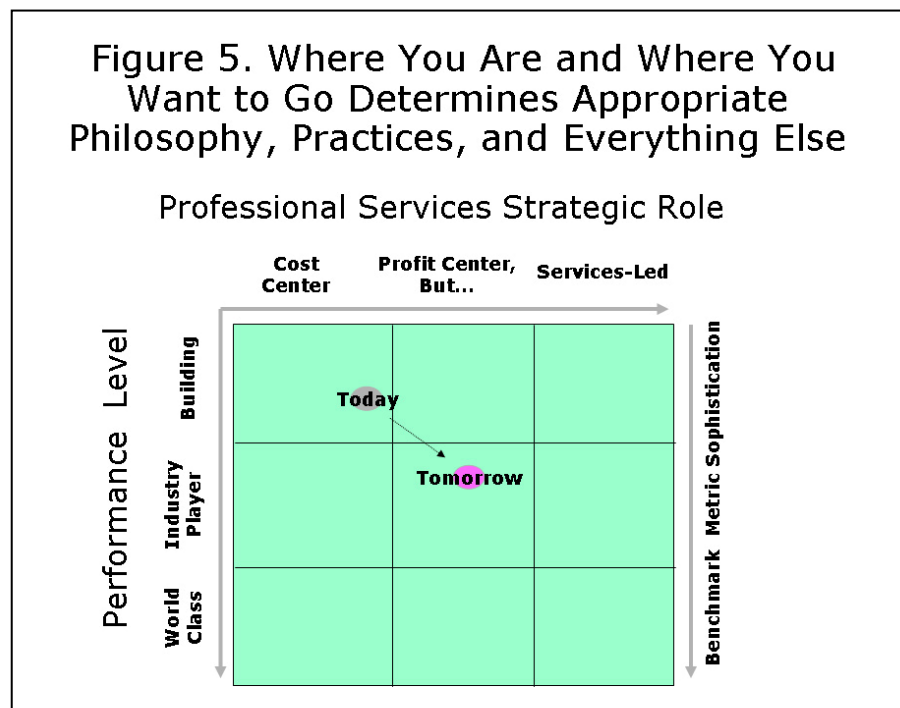
In each phase, the core actions, the practices you want to embrace, are different. As *Figure 4* demonstrates, in the Building phase you want to focus on core practices--implementing those basic but important things found in all effective PSOs. In the Industry Player phase, the focus shifts to best practices, where it is appropriate to compare and contrast your organization against the top performers in your space. Finally, if you progress to the World Class phase, you must abandon the best-practice habit, as it will only hinder your progress. Now your quest for comparison changes to the analysis of the elite few in other, often totally unrelated industries that have a big competitive advantage.



As your PSO matures and develops so should the sophistication of your metrics and the level of your comparison benchmarks.

### Putting It All Together

*Figure 5* attempts to put things together with a simple example of a PSO within a technology company attempting to move from a cost center to a profit center, from the Building phase to the Industry Player phase. Think of the implications! The organization philosophy must shift from efficiency to effectiveness. The base comparisons need to change from core practices to the best practices of the industry. Hence, significant changes in objectives and measures may have to take place. Capabilities that served you well before may now be unnecessary, “new blood” may be required to deliver on the new mission, the organization structure will need to be re-thought, etc.



Strategic alignment and the performance level of your PSO have major implications as to the most appropriate way to lead and manage your business. Know where you are today and where you want to go tomorrow, then build your PSO accordingly. Remember, what might be a best practice for one, may be a worst practice for another.

\* I confess. I am also a culprit, having conducted four industry studies and positing practices of performance while not always differentiating their most appropriate usage.

\*\* [The State of Professional Services II: An Industry Comes of Age](#). James A. Alexander, Alexander Consulting LLP/AFSMI. December 2004.

\*\*\* These figures are based upon the author's past industry research and current estimates.

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