



A Service Performance Insight White Paper

Service Compass: *Charting the Course to Professional Service Excellence*



Transforming a Services Business in the Cloud

The Reinvention of Aspect Software's Professional Services Business



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ASPECT SOFTWARE'S PROFESSIONAL SERVICES TRANSFORMATION

Professional service organizations (PSOs) provide one of the highest leverage business models to quickly grow revenues and profits, but can be the most difficult organizations to transform and change. Think about the once great dot.com eBusiness integrators (the ants...Scient, Viant and Sapient) who launched new methodologies and penetrated the Fortune 50 almost overnight and then succumbed to the dot.com bust, IBM's massive strategic shift into IT services, and the rapid rise of Tata, Wipro and Infosys in IT outsourcing.

In a business climate characterized by globalization, political turmoil and technology disruption, professional service organizations must themselves continually adapt and change to stay ahead of the curve. Transformation and change is particularly challenging for embedded service organizations within product companies who must walk a fine line between supporting product adoption and generating services profit.

This whitepaper portrays the services transformation journey of one of this year's Best-of-the-Best professional services organizations, Aspect Software. For over twenty years, Aspect Software has been at the forefront of the call center revolution. Surviving and thriving through the growth and consolidation of call center platforms has not always been easy. From its early days as a hardware call center switching provider to becoming a leader in cloud-based inbound and outbound multi-channel communication has required many course corrections in strategy, business, operating and revenue models.

In 2012 Aspect Software began rethinking both its product direction and the role of services with an eye to transitioning both products and services to the cloud. Now in its fifth year, this transformation has resulted in significantly greater cloud product and service revenue and margin combined with deeper customer adoption and improved project quality. For this whitepaper, SPI Research sat down with SVP of Worldwide Professional Services for Aspect Software, Ken Ewell, to discuss Aspect's PS transformation as the company transitions its products and services from on-premise to the cloud. Ken is accountable for Aspect's Professional Services' processes, people and knowledge across the organization as well as leading the launch of Aspect's new and enhanced service delivery framework. Ken is responsible for over 300 professionals globally with disciplines in implementation and optimization, application strategy and call center performance improvement.



"I am extremely proud of the ongoing transformation of our professional services organization and the dramatic performance gains we have made. By developing a consistent, repeatable service delivery framework we have been able to reduce our client's time to benefit and total cost of ownership, all while improving utilization, quality and consistency. The changes we are driving are both qualitative and quantitative. We believe that our inclusion in the Best-of-the-Best professional service organizations is testimony to our focus on helping our clients and employees align to their goals and objectives – at the start of their contact center journey and in the long term as they grow and evolve."

Kenneth Ewell, Senior Vice President, Worldwide Professional Services, Aspect Software

A key factor in enabling this significant business transformation has been the selection and deployment of NetSuite as Aspect's financial and professional services backbone to ensure revenue and expenses are kept in balance while the company shifts to multi-element contracts including subscription billing and managed and professional services conforming to complex revenue recognition policies. NetSuite OneWorld provides the global accounting platform, standards and language support to ensure Aspect's global operations are always in synch.

TRANSFORMATION CATALYSTS

Over 60% of major change programs fail to achieve their desired results. One major barrier to success is that leaders often underestimate the magnitude of change, the need to fully engage the full organization and the requirement for leadership focus and follow through. By managing change in a more complete way, as a business transformation, the odds of success are greatly increased.

Some of the reasons organizations begin a services transformation are because they want to:

- Shift from a legacy on-premise business model to a cloud-based recurring revenue model;
- Accelerate revenue and margin growth either through mergers and acquisitions or internal process improvements;
- Drive alignment between the service organization and other departments, or improve internal service organization alignment;
- Assimilate new groups, companies or functions;
- Capitalize on new markets by creating new solution offers and service delivery frameworks;
- Implement new systems and processes to improve effectiveness and efficiency;
- Improve quality and client satisfaction; and
- Optimize sales and marketing effectiveness.

Transformation has been used to describe everything from high-risk complete business overhauls to tactical changes in IT Systems. ***So to be clear, by transformation, we mean a wide variety of actions that are required to drive continuous growth in a business. These range from shifting business models, a new leader "taking charge", to launching a new phase in the organization's maturity, to entering new markets, to integration of acquisitions, or to breaking down organizational silos.*** Put simply, transformation means opening up new possibilities for growth and moving from one state to another, but it is tough work and most efforts fall short.

WHY CHANGE?

Across the entire IT landscape, the cloud has fundamentally changed the ways companies develop and deliver their products with an emphasis on providing more flexible consumption-based business models, allowing customers to choose and pay based on need and usage. Today technology businesses must think strategically about adapting their business models and operations to increase customer intimacy and loyalty while also providing more flexible pricing and billing options.

Against the backdrop of significant corporate change, Aspect's Professional Services organization's lackluster performance and sales reporting structure was out of step with the new business

direction. PS needed to move from being a reactive cost center to a customer-centric, profitable value center. At the same time PS was asked to act as a stimulus to help move legacy clients to Aspect's new cloud platform all while building more lucrative recurring revenue streams.

Internal PS organizations are under constant pressure to stay ahead of technology curves while supporting the needs of the overall organization. This often results in frequent charter changes as PS priorities shift from product enabler to profit center to customer adoption engine and then back again. Frequently executive teams are not on the same opinion page regarding their understanding and mandates for the role they want PS to play.

Product development may consider PS to be a vehicle for early adoption and product feedback as well as a panacea for bug fixes and additional features. Sales might see PS as a bargaining chip for closing deals or delivering on unrealistic promises. Finance possibly perceives the high fixed labor costs of PS as a drain on margins and reduction in share value if the service to product revenue mix exceeds expectations. External service delivery partners typically see PS as both a threat and source of deep product expertise.

Swings in product direction and PS charter are often the catalyst for renovation as a new PS executive takes charge to move the organization toward improved visibility, predictability, quality and profitability. Yet research shows less than 40% of any type of corporate transformation effort is successful, particularly if the endeavor is rooted in negative executive pressure to reduce costs or execute a turn around after a crisis.

FACING THE CHALLENGE

Service organizations undertake a major transformation when the current business model no longer fits the required new business model or when dissatisfaction with current sub-par performance starts to reach crisis proportions. Typically PS organizations must undertake a significant transformation when they move from cost centers to profit centers or from on-premise to software as a service (SaaS) subscription-based business models.

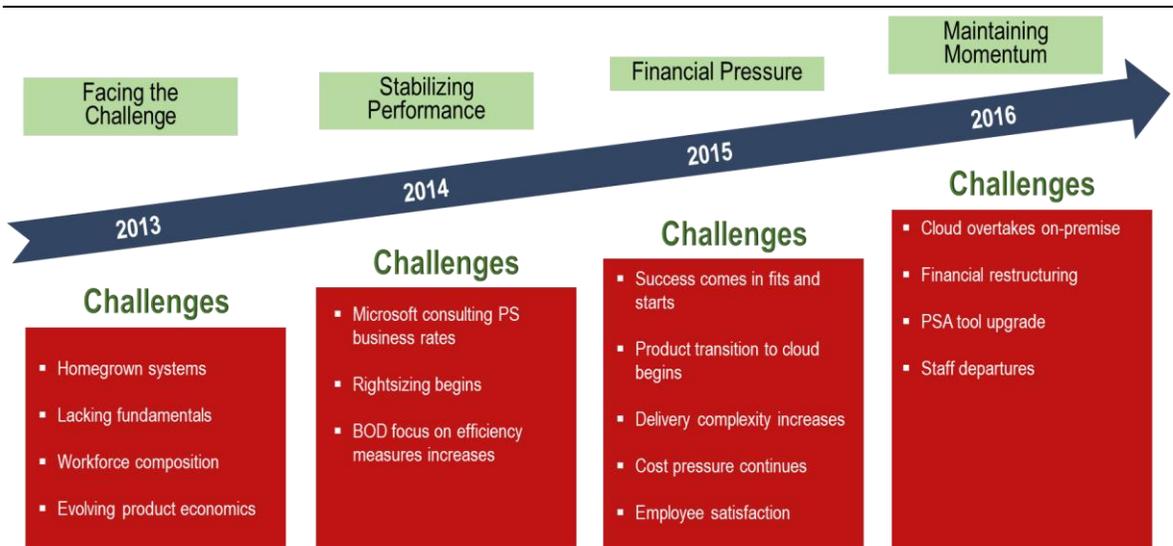
When Ken Ewell was asked to lead the Aspect Software PS organization in 2013, PS issues were particularly acute because Aspect itself was undergoing major disruptions including privatization and debt restructuring all while moving its legacy on-premise applications to the cloud. Aspect needed to find a way to maintain its legacy customers and maintenance stream while completely retooling the organization for the cloud. Transitioning to this new model created significant downward pressure on project size and PS pricing all while new and old competitors continued to exert formidable external pressure.

For Ken, a veteran strategy consultant who had personally experienced the good, the bad and the ugly of corporate transformation initiatives, the way forward was clear:

- **Face the challenge** – squarely assess the current state of legacy PS systems, personnel and business models. Develop and gain executive approval for a multi-year transformation plan. Create a global service delivery methodology, Aspect Accell, to drive consistency and quality.
- **Stabilize performance** – after humanely reducing staff size and changing the composition of the organization, stabilize operations while reducing Aspect's exposure to commodity pricing surrounding its Microsoft platform.

- **Respond to financial pressure** - as the company transitioned to a cloud-based revenue model the move away from its high margin recurring maintenance stream put tremendous pressure on profit margins. To accelerate the technology shift while reducing labor costs, Aspect needed to increase the use of lower cost offshore consultants and subcontractors through the creation of global Center of Excellence in India.
- **Maintain momentum** – one of the hardest parts of any major change program is maintaining focus and momentum after changes have been institutionalized. For Aspect, moving off homegrown systems and tools to NetSuite’s financial suite helped streamline operations while cementing change. Now team members across the organization have real-time visibility to all aspects of performance. Realtime visibility provides one source of the truth, empowering managers across the company to take charge. With streamlined operations and a consistent set of metrics and delivery standards Aspect was then able to focus on leadership growth with an emphasis on improving customer and employee satisfaction.

Figure 1: Aspect’s PS Challenges



Source: Aspect Software, December 2017

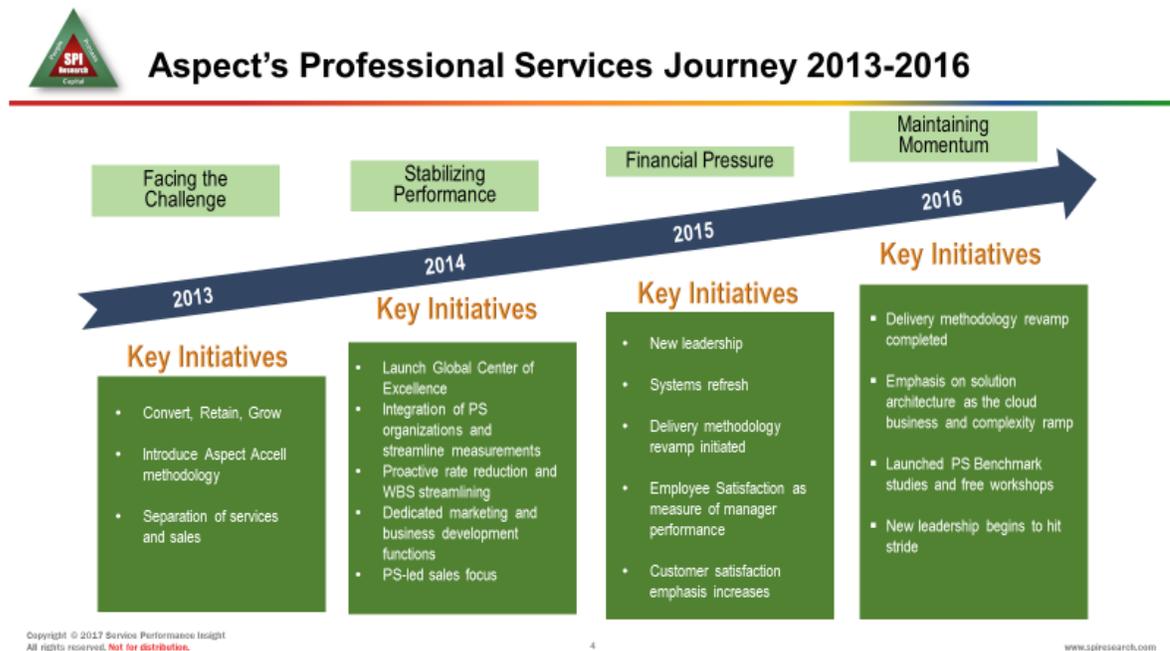
MAKING THE MOVE FROM ON-PREMISE TO THE CLOUD

Transitioning from licensed, on-premise to cloud-based revenues is a formidable task for any enterprise software provider. The more engrained the systems, processes and maintenance-driven product development mindset, the tougher the transition becomes. With so many enterprise software companies pursuing cloud strategies and many struggling, Aspect Software needed to find a way to transform their business model and shift the majority of sales to cloud-based software without eroding revenue.

Aspect PS traditionally approached client engagements from a product centric point of view with a focus on software implementation and integration. Part of Aspect Software’s PS transformation has been to change the dialogue to focus on client business issues and real business outcomes. This meant changing the structure of the organization to focus on the areas that matter most for

customers – before, during and after deployment, as well as orienting around the types of help customers need – from self-service to advanced analytics and reporting.

Figure 2: Aspect Software's PS Transformation Journey



Source: Aspect Software, December 2017

Customer-centricity means the PS organization is now oriented around the types of businesses served – from self-service customers who need ready access to technical advisors to helping call center agents with workforce optimization and enhanced user experience. Now more consulting is provided for call center leaders with actionable reports and analytics to help them make more informed decisions. PS has also strengthened partnerships with marquee customers like Hyundai and eBay to focus on high-volume performance improvements.

Figure 3: Aspect Software's Customer-Centric PS Practice Areas



Source: Aspect Software, December 2017

Key elements in transitioning Aspect Software's Professional Services to the cloud included:

- **Reporting structure** – moved PS from a cost center reporting to sales to a value center reporting to directly to the CEO. Created new, customer centric practice areas to help clients grow and fully adopt Aspect applications throughout the entire customer journey.
- **Delivery methodology development** – created a consistent global service delivery framework, Aspect Accell, to reduce time to value and improve delivery quality and consistency.
- **Retool the workforce** – after humanely rightsizing the organization, created a global center of excellence in India to provision a highly skilled but lower cost consulting pool. Retooled PS leadership to focus on improving customer and employee satisfaction through upskilling, performance management and leadership development.
- **Enhance Marketing and Business Development** – created a dedicated PS marketing and business development function to strengthen the relationship with product sales through enhanced service positioning and better-defined business value.
- **Systems refresh** – moved from legacy, homegrown tools to NetSuite for financial management and professional services automation. Developed and consistently measured global PS business metrics. Hold PS management responsible for achieving utilization, revenue and margin targets along with customer and employee satisfaction objectives.
- **Leadership and employee engagement** – keeping the workforce engaged through downsizing, privatization and the creation of an offshore center of excellence required constant communication and clarity of vision. What we have learned over the course of this major business transformation, is the critical importance of our people. Their innovation, commitment, flexibility, candor, and desire to create something better are what make any major transformation possible. Developing a clear play book including a new and better service delivery framework along with constant communication helped employees weather the transitions and adapt to the new operating model. We also upskilled our PS leadership team so employees had new leaders they admired and could trust.

LESSONS LEARNED

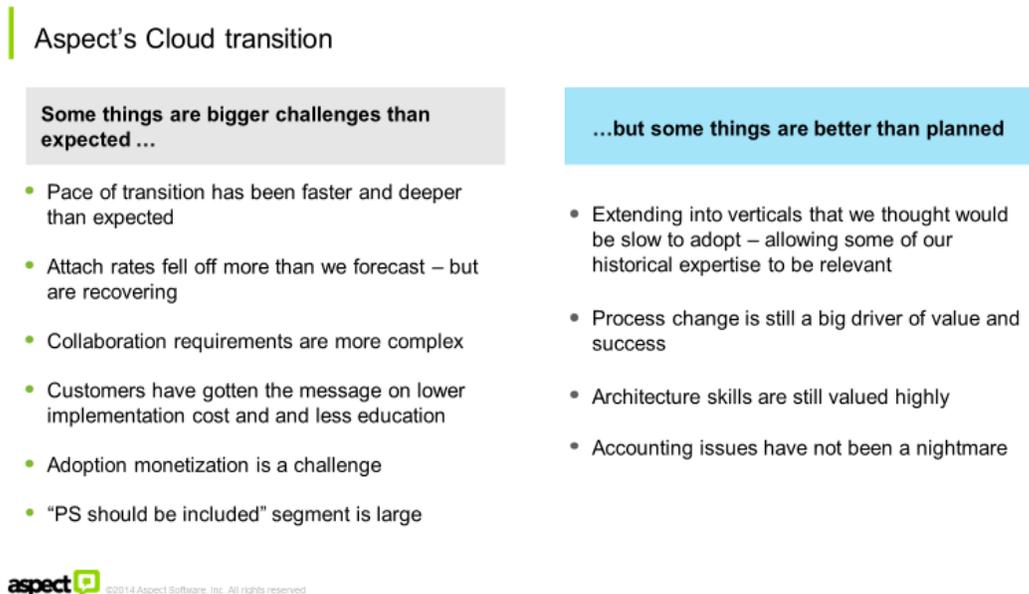
Now five years into a complete business overhaul, Ken Ewell reflects on key lessons learned:

- **Customer desire to shift to the cloud was faster and deeper than we anticipated.** The speed of cloud adoption has been surprisingly rapid across all sizes of customers. Traditional barriers to moving to the cloud such as security and data privacy have become non-issues.
- **Product and service attach rates fell off more than anticipated.** Maintaining or exceeding traditional growth targets requires tremendous focus in the face of increasing cloud sales. This is simple math, cloud deals defer revenue over many years, to make up for that deferral, overall sales and service attach rates must be much higher than traditional on-premise growth rates. We continue to struggle with this.
- **Sales and Service Delivery Collaboration are essential.** In the perpetual license world, it was a two-phase process. Step 1 – Sell the solution. Step 2 – Implement the solution. In the cloud world, these phases blend. The objective is to get happy, renewable recurring revenue customers as fast as possible. This requires fluid and agile sales and delivery collaboration.
- **Adoption Monetization requires a different set of metrics.** Metrics such as time to go live, churn, retention, NPS (Net Promoter Scores), and % of incremental revenue from existing

cloud customers become increasingly important. By using NetSuite, the transition to subscription billing and revenue recognition was easier than anticipated.

- **Extending into new verticals and solutions was easier than planned.** With our consistent delivery methodology and improved business development and service marketing we found new customers in new verticals were more receptive than we had anticipated.
- **Business process change and architecture are more important than before.** Cloud customers need better workflow and clearer process mapping and change management.

Figure 4: Aspect's Cloud Transition



Source: Aspect Software, December 2017

ACCOMPLISHMENTS

We are very proud of the tremendous progress we have made. Through a laser focus on enhancing service execution metrics, methods and tools, billable utilization has improved from 60 to 69% while the amount of “free” work has been more than cut in half from 9% to 4%.

Here are just a few of our accomplishments over the past five years:

- **Global Center of Excellence.** The PS organization has been fine-tuned and reshaped with a higher percentage of subcontractors through investment in an India-based global Center of Excellence. We are now able to take advantage of collocating a large, multi-talented workforce. Today 40 to 50% of work is delivered virtually with greater attention to methodology development and the use of consistent frameworks. The move to an Indian-based Center of Excellence has produced significant cost savings, enabling investment in experienced solution architects with the required skills to support our more complex products. To ensure success, the COE focuses on a defined subset of our products – customer interaction management and workforce optimization.

- **Employee Retention.** Despite downsizing and restructuring, Aspect has kept workforce attrition to a minimum through an emphasis on open communication and frequent job performance feedback and recognition. Now we measure all our managers on employee satisfaction through a quarterly management effectiveness survey. Employees provide feedback on “My supervisor encourages me... I have the tools to do my job” leading to quarterly engagement conversations. We have redoubled our communication and recognition efforts to ensure employees feel valued.
- **Enhanced use of partners and subcontractors.** We have changed our ratio of partner-delivered revenue from 9 to 18%. This flexible resource model has led to greater precision in our direct utilization, enabling us to improve direct billable utilization from 60 to 69.2% (from 2013 to 2016). In 2017 we are going to shift to 30% subcontractor delivered revenue.
- **Sales relationship.** We have reduced the amount of free work by synchronizing our solution architecture process with the presales organization. We have increased the number and skill levels of our solution architects while incorporating presales discussions into our discovery process. We have enhanced the value of PS through more consistent sales linkage and higher value conversations and solutions. At the leadership level, sales and PS leaders model collaboration and mutual support to set a positive example throughout the company.
- **Focus areas for 2017** – grow the COE team to be a bigger contributor. Add more products to the COE portfolio while driving greater efficiency. Add more consultative resources to the COE team who can focus on running our client’s business, not just implementation. In the cloud world projects are shorter and more iterative so we need to focus on agile resource management and build out the number and depth of our integrations with Microsoft, Salesforce CRM and other platforms.
- **Enhance our use of NetSuite** – focus on improving financial performance and visibility. Expand our NetSuite usage and improve our management reporting and dashboards.

ASPECT IS ONE OF THE BEST-OF-THE-BEST PSOs

According to Service Performance Insight’s [2017 Professional Services Maturity™ Benchmark](#) out of 416 participating organizations, twenty-one firms (5%) significantly outperformed the benchmark average by excelling in all five service performance dimensions – **Leadership, Client Relationships, Human Capital Alignment, Service Execution and Finance and Operations**. The top 21 firms outperformed their peers and the benchmark average with significantly higher profit and more satisfied clients. Based on a successful multi-year transformation Aspect Software Professional Services has been named to this prestigious list.

Table 1 compares the 21 best-of-the-best performing PSOs to the other 395 in this year's survey. This year’s Best-of-the-Best are characterized by high growth, profit, and high levels of employee and client satisfaction.

Table 1: Best-of-the-Best Comparison to Average PS Organizations

Key Performance Indicator (KPI)	Best	Rest	Performance Delta
Bid-to-Win ratio (per 10 bids)	6.62	4.75	39%
Deal pipeline relative to qtr. bookings forecast	275%	184%	49%

Key Performance Indicator (KPI)	Best	Rest	Performance Delta
Days for a new hire to become productive	45.0	56.0	20%
Guaranteed annual training days / employee	11.50	8.15	41%
Well-understood career path for all employees (1 to 5 scale)	3.90	3.13	25%
Days for a new hire to become productive	45.0	56.0	20%
Average revenue per project (k)	\$255	\$157	62%
Average project margin — subs, offshore	37.8%	27.7%	36%
Annual revenue per billable consultant (k)	\$255	\$202	26%
EBITDA	19.2%	13.6%	41%

Source: Service Performance Insight, December 2017

TRANSFORMATION REQUIRES INTEGRATED, CLOUD-BASED BUSINESS APPLICATIONS

Now more than ever before, embedded professional services organizations need integrated, cloud-based business applications to provide the reliability, visibility and scalability to navigate their own turbulent transition from an on-premise to cloud business model. They need systems that support multiple revenue streams and complex multi-element subscription billing.

The rise of professional services and consulting as a vibrant global industry has accentuated the need for business applications that support the specialized business requirements of people-centric businesses.

The benefits of integrated Service Resource Planning (SRP) applications include:

- **One source of the truth** – modern SRP applications provide support for multiple currencies, accounting regulations, taxes and revenue recognition policies. With multi-entity support combined with global consolidation, these systems are critical for expanding firms, enabling them to leverage the entire organization while creating synergies between offices.
- **Increased visibility with reduced reporting cycles** – by streamlining business processes, approvals and reporting, SRP applications provide unprecedented visibility to all aspects of the business. Sales is able to manage the opportunity pipeline with an eye to the status of ongoing projects and resource availability. Service delivery can see opportunities coming down the road to start allocating and prioritizing resource requests while individual consultants gain control of their schedules and can track their progress towards achieving utilization targets.
- **Increased financial transparency and control** – by linking financial information to project information, expenses can be linked to projects, providing visibility to client, project and practice profitability. A consolidated financial system eliminates the need for running the business by manual, error-prone spreadsheets. Businesses are able to close their books faster, resulting in faster and more accurate invoicing leading to shorter billing and collection cycles. Finance can focus on helping to run the business rather than generating and managing hundreds of disconnected, error-prone spreadsheets. Managers can run standard reports, giving them visibility to all aspects of the business while reducing administrative costs.

- **Integrated timesheet system** - Because timesheets are linked to specific projects, and staff can add resource and expense details to timesheets, project managers have a much easier time keeping projects on track and within budget. They are able to manage risk quickly see the status of all projects relative to time and budget, and react accordingly to reallocate the necessary resources to ensure the project stays on track.
- **Easy to use** – intuitive workflow and alerts, out-of-the-box reporting, CRM and PSA integration – alignment of sales opportunity pipeline with resource plan and schedule. Seamless handoffs ensure opportunities don't fall through the cracks. Able to respond to more proposals with confidence that resources are available to support the business.

Table 2 shows the real-world benefits of cloud-based service resource planning applications by comparing 160 organization who use cloud ERP to 298 who still run the business on legacy ERP applications from SAP, Oracle and others. The benefits are clear in terms of faster growth, more revenue per consultant and employee, all adding up to significantly higher net profit achievement.

Table 2: The Benefits of Cloud Service Resource Planning (SRP)

Key Performance Indicator	Cloud ERP	Legacy ERP	Cloud Benefit
Number of PS Organizations	160	298	
Size of PS organization (employees)	749	671	12%
Year-over-year change in PS revenue	12.3%	9.6%	28%
Annual revenue per billable consultant (k)	\$217	\$194	12%
Annual revenue per employee (k)	\$176	\$154	14%
Profit (EBITDA)	17.3%	14.7%	18%

Source: Service Performance Insight, December 2017

IN CONCLUSION

Once the realm of smaller companies looking for scalability, the economies of scale, risk mitigation, financial gains and efficiency means the cloud is a focus for businesses of all sizes, and at the heart of transformation plans. Like many other mature software application providers, Aspect Software has spent the past five years retooling and reskilling to move its applications and professional services to the cloud.

Although a transformation of this magnitude is never finished in the ever-changing call center space, Aspect has managed to privatize and restructure debt to emerge as a winner. Certainly this overall improvement in performance could not have been achieved without a commensurate shift and modernization of its professional services organization. Now, building on a cogent, well-executed professional services plan, the PS organization has achieved coveted recognition as one of the Best-of-the-Best global professional services organizations.

As part of this massive change effort, Aspect has also modernized its own business applications and moved them to the cloud-based NetSuite Service Resource Planning platform. Change is hard work but well worth the effort when it results in such measurable and tangible improvement. Aspect is implementing the systems and processes it needs to create a bright future.

About Service Performance Insight



R. David Hofferberth, PE, Service Performance Insight founder, managing director and licensed professional engineer has served as an industry analyst, market consultant and product director. He is focused on the services economy, especially productivity and technologies that help organizations perform at their highest capacity. Dave's background includes application and analytical tool development to support business decision-making processes. He has over 30 years of domestic and international information technology experience with firms including the Aberdeen Group and Oracle. Contact Hofferberth at david.hofferberth@spiresearch.com or 513-759-5443.



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Service Performance Insight (SPI Research) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 15,000 service and project-oriented organizations to chart their course to service excellence.

SPI provides a unique depth of operating experience combined with unsurpassed analytic capability. We not only diagnose areas for improvement but also provide the business value of change. We then work collaboratively with our clients to create new management processes to transform and ignite performance. Visit www.SPResearch.com for more information on Service Performance Insight, LLC.