The What and Why of Operational Maturity Levels™

Improving Performance by Determining the Degree to Which You Do Things the Way the Top Performers Do, and Doing Them More That Way

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Executive Summary

The principals of Service Leadership have used the Operational Maturity Level™ (OML™) model internally for several decades, long before making it available externally to our clients. As Solution Provider executives, we evolved the model to continually meet the challenge of successfully rolling out many new solutions and Services within our companies as they grew from one office to 18 (small and mid-size business (SMB) focused); from one office to nine (SMB and mid-market focused); and, from 14 offices to 44 (enterprise focused).

In these situations, any new solution or Service initially meets with greater or lesser success in one office as compared to another. This is a result of two factors:

1. Each office has a differing level of business management skill, and
2. Each office is coming from a different current base of solutions and Services skills and preferences.

The independent Solution Provider is in a similar situation today. There is no school for Solution Provider owners on how to run the business, nor how to add new solutions or Services, or evolve from the current Predominant Business Model™ (PBM™) to the desired one. To the extent that such guidance exists, it is generally extremely tactical (as in certification training and "best practices" for starting new solution practices) and misses the foundational aspects needed to make such efforts safer, more durable and profitable.

It is useful, therefore, to have a systematic, proven method for determining the management team's current understanding of the foundational needs of excellent Solution Provider operations, and for showing the management team the next steps to laying that foundation from their current point in the process.

The Operational Maturity Level Approach

The concept of evolving operational maturity is not new. The Capability Maturity Model (CMM) developed by the Software Engineering Institute at Carnegie Mellon University is an example of an early and robust methodology for accomplishing these goals within software development operations.

However, prior to Service Leadership's Operational Maturity Level (OML) methodology, no such method existed for Solution Providers/Managed Service Providers (SP/MSPs). Also, the CMM doesn't address the practical reality of growing a profitable business; it is strictly focused on the mechanics of running the "development factory" so to speak, as opposed to doing so in the context of a business intended to make a profit.

The OML approach encompasses all aspects of running a profitable and growing SP/MSP business, not just the "Services factory," but also:

- Marketing and Sales and their supporting operations,
- Service operations, and
- Back office administration.

Note that we use the term "Services" in most cases to denote both "solutions" (that is, products installed with Services in the form of projects) and "Services" (that is, Services delivered as operational support to the client, for solutions already installed and operating). This is because the term "solutions" can mean the sale of equipment without Services of any kind; there's nothing wrong with this, but the more complex and risky activity treated here includes assessment, design, installation, and support Services.

How Operational Maturity Relates to Financial Performance

Disregarding for a moment the differences between Predominant Business Models (more on that below), the Service Leadership Index™ reports that SP/MSPs in the top quartile of profit performance consistently deliver Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) % about three times (3x) higher

> Top quartile profit performers deliver about **3x higher EBITDA %** than those with median profitability in the same business model

than those with median profitability. The bottom quartile SP/MSPs meanwhile, regularly operate at zero profit or below (at least until they either improve towards median or cease to exist in their current form).

Clearly, the management teams of the Top Quartile firms are doing things more effectively than those of the Median-performing firms, who in turn are doing things more effectively than the bottom-performing firms.

The things that each management team is doing are the same across all these firms; there is an irreducible minimum of business practices needed to operate a Solution Provider firm. While it is true that a very immature firm will simply not be doing some of them, their ignorance does not diminish the fact that they should be doing them to have anything beyond a rudimentary (i.e. poorly scalable and low profit) operating model.

In the Service Leadership Operational Maturity Level construct, we've identified five levels of maturity as shown in the Figure below.
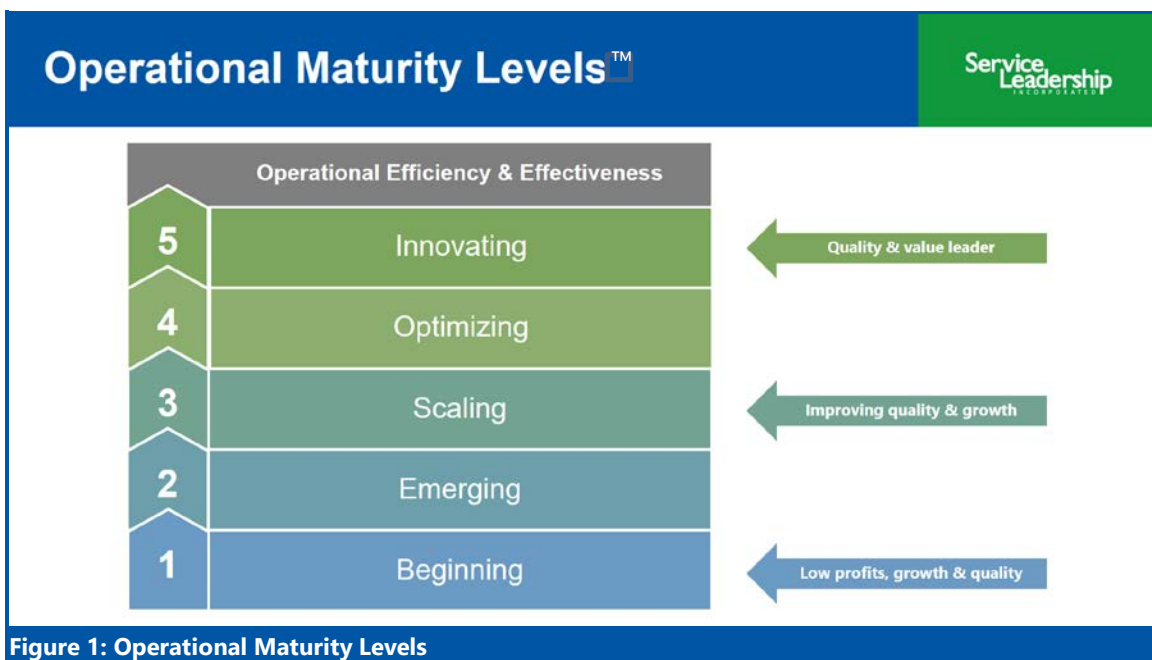

Figure 1: Operational Maturity Levels

Most often, those SP/MSPs who are at OML 1 or 2 are delivering sub-Median financial performance. Those who are OML 3 are most often delivering roughly Median financial performance, and those who are OML 4 or 5 are most often delivering Top (Best-in-Class) financial performance.

(The degree to which an OML 1 might be doing less well than an OML 2 is most often characterized by the direness of their financial situation: poor profits, minor losses, major losses. The degree to which an OML 5 might be doing better than an OML 4 is most often

characterized not by the degree of high financial performance, but instead by the extent to which they are adding very advanced or even non-IT Services to their offerings, of course in a controlled way.)

OMLs Are Made Up of Traits

What are those "things" which every SP/MSP must do, to have at least a basic, reliable business model, and must do well to have a top-performing business model? Service Leadership calls these things traits.

There are 30-37 traits (depending on Predominant Business Model™) amongst five functional areas as shown in Figure 2:

Operational Maturity Level Traits

FUNCTIONAL AREA	DESCRIPTION
Financial View Assessment	Measures the degree to which the company utilizes financial tools (such as budgeting, billing policies, etc.) and financial analysis (such as Days Sales Outstanding, Current Ratio, etc.) to manage day-to-day business operations and make business decisions with full knowledge of financial context.
Service View Assessment	Evaluates the company's current service delivery practices to understand the degree to which they are maximizing the potential for profit as well as long term success through higher customer and internal satisfaction.
Strategy View Assessment	Evaluates the degree to which the company has established its value creation goals and the methods by which it intends to realize them, from which all other tactical and operational decisions flow.
Compensation View Assessment	Examines the degree to which compensation drives the behaviors necessary to achieve the company's business objectives as well as the extent to which they attract and help retain the optimal employees.
Sales View Assessment	Evaluates the company's current marketing, selling and sales management methods to understand the degree to which they target the right prospects with the right activities to maximize the chances of winning the most profitable and sustainable business.

Figure 2: Operational Maturity Level (OML) Trait Functional Areas

Sample Operational Maturity Level assessment questions include:

- Who gets incentive pay and how it's structured,

- How time is tracked,

- How pricing is determined,

- How products, solutions and Services are marketed and sold (i.e. how does the team work together to sell them),

- How products, solutions and Services are delivered and how accounts are managed,

- How people are hired, on-boarded and perhaps terminated,

- How skills development and career advancement are performed,

- How the Chart of Accounts is set up,

- How vendor relationships are managed,

- How financial management is performed,

- And so on.

Obviously, an SP/MSP business – even a small one – is complicated, and there are many ways to leak profits. Happily, if the above traits are set up and executed effectively, they form a set of checks and balances, or natural barriers, which both reduce the leakage to a minimum and give management the information and the time to more fully focus on optimizing the business as opposed to plugging leaks and putting out fires.

Distinct OML Traits for Each Predominant Business Model

Service Leadership breaks the SP/MSP community into 10 Predominant Business Models (PBM) because different PBMs have different inherent financial drivers. As a result:

- Different PBMs have different fair market valuations.

- Comparisons of financial performance are only fair and relevant between companies of the same PBM.

- Many of the best practices which benefit companies of one PBM will have no effect or a detrimental effect on companies in another PBM.

- The path to a new, more desirable PBM is different depending on the PBM from which the company is starting because of differing capabilities, resources and skills.

Briefly, although most Infrastructure-Centric Solution Providers and MSPs sell product, time and materials (T&M) support (break/fix), and projects, as well as Managed Services, it is the Revenue size of each of these lines of business relative to each other which makes for differing business management needs.
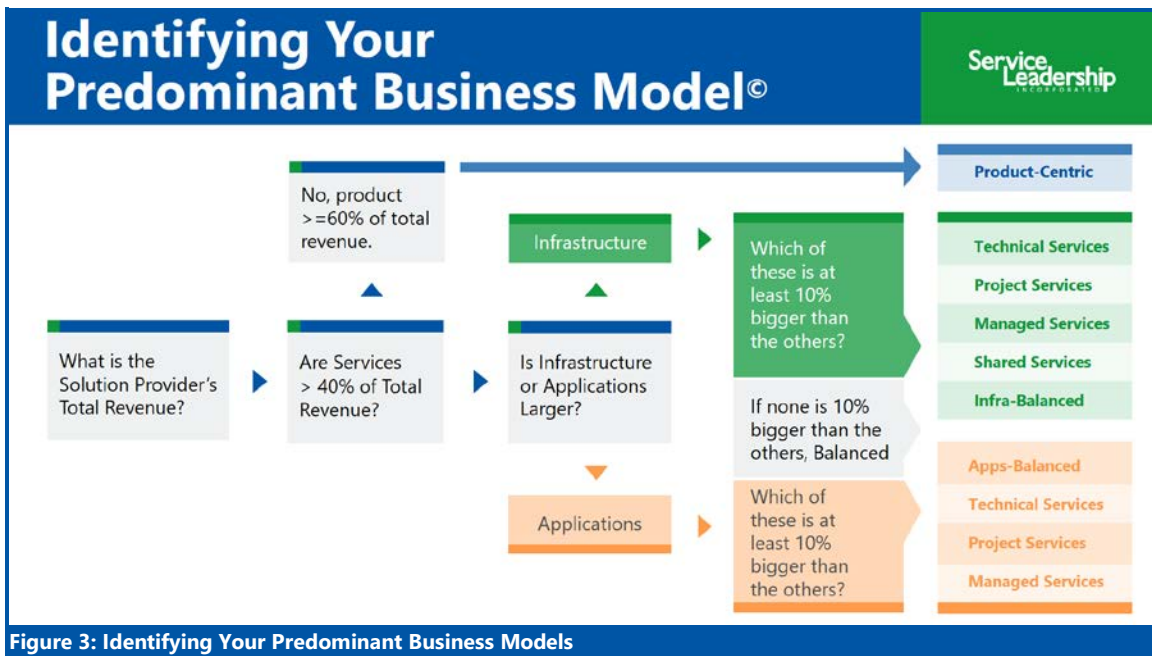
Figure 3: Identifying Your Predominant Business Models

As Service Revenue (as opposed to product resale) grows to approach 40% of total Revenue, management will change its decision-making behavior to protect the Services business (since it now has more risk and reward) as opposed to the product business. Just as Product-Centric firms frequently sub-optimize their Services business (and therefore financial performance), Services-Centric firms frequently sub-optimize their product business, likewise hampering growth and profits.

As the firm continues to add Services, most often one of the lines of Service business – T&M support, Projects or Managed Services – will become the favored one within the firm, either intentionally as a matter of strategy, or by the conscious or unconscious preferences of the leadership team, or by the luck of having a large customer or series of customers which ask for that Service. When that line of Service becomes at least 10% larger than the second largest one, it dominates management's thinking just as did product resale when (and if) they started in that business model.

This is simply because SP/MSP businesses are difficult to run and there is only so much time, resource and skill. The predominant line of business will necessarily consume the lion's share of management's efforts to both protect and grow the company.

If one wishes to get management's attention and to help protect and grow the firm, one must know the current PBM, regardless of what PBM the management team may wish to evolve to for strategic reasons. If the current PBM is not taken into account:

- Mature management teams will ignore transformational or improvement advice which does not take into account their current PBM (because they know how dangerous that will be), and

- Immature management teams can be easily led into transformational or "improvement" activities that damage the core business, risking not only the transformation or improvement but the very existence of the firm itself.

Finding your Predominant Business Model is a critical step to ensuring apples-to-apples comparisons in benchmarks and to selecting best practices that are right for your business. The S-L Predominant Business Model™ Flash Finder is a groundbreaking, free tool that will quickly allow you to determine your PBM and learn to apply it to your business.
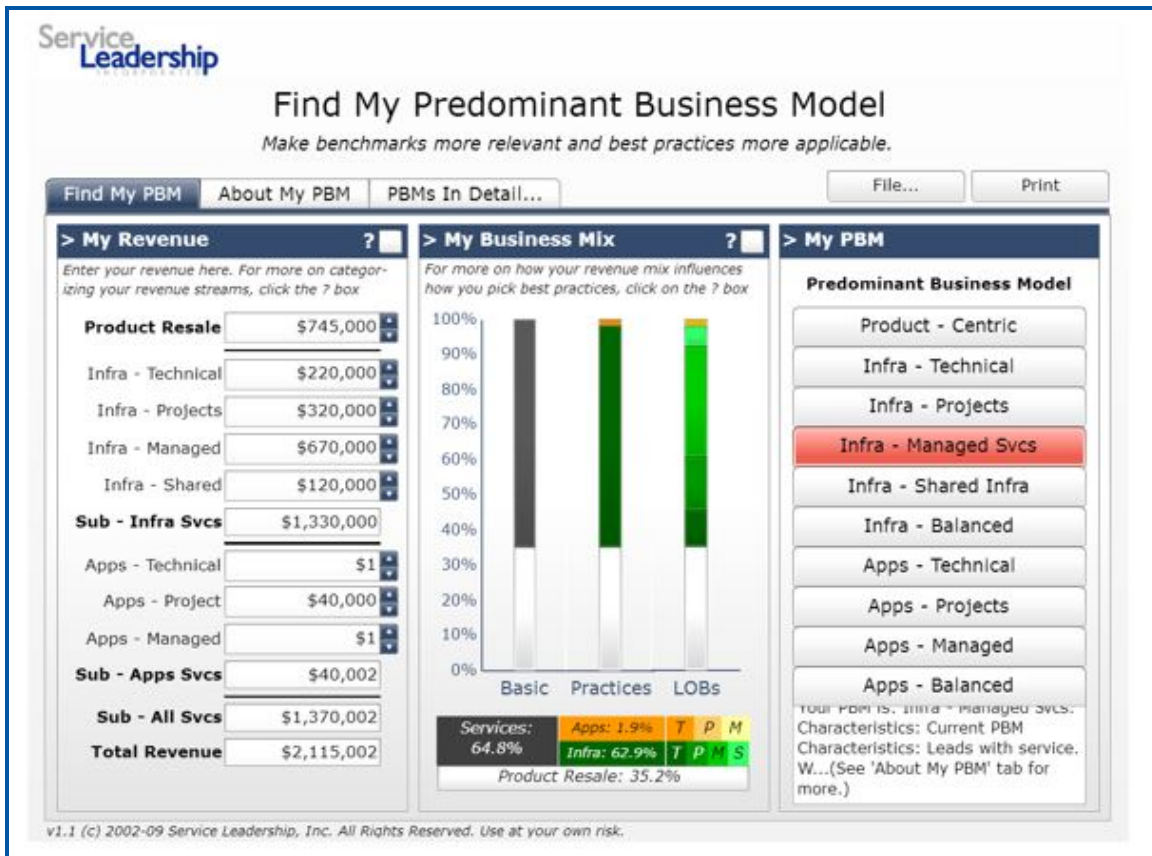

Figure 4: PBM Flash Finder Tool Preview

Advancing Your Operational Maturity Level

For Solution Providers who've made the decision to drive accelerated performance and maximize the profit potential of their business, Service Leadership offers three performance improvement services:

1. SLIQ™ (adj. \slek\) - a powerful cloud-based diagnostics and performance improvement tool that defines your firm's Operational Maturity Level™ (OML) within the five functional areas of Strategy, Finance, Sales, Service, and Compensation. SLIQ not only shows you how your firm's operational methods today compare to top performers in your business model but also maps the fastest route to maximum profitability and guides your progress every step of the way.

2. Peer Groups - Service Leadership Index® OML Progression Peer Groups are powerful, advanced small groups designed to drive Operational Maturity Level through expert facilitation, accountability and best practices in a confidential community of non-competing Solution Provider firms.

3. Consulting Services - short-duration, high-impact consulting services designed to help management teams identify the critical success factors in Solution Provider operations and ensure succinct knowledge transfer to enable accelerated implementation of new foundational components.

There's a real difference in momentum and speed of growth as you advance in maturity level.

Get started today with the free tools to identify your PBM and OML and start comparing your operational methods to those Best-in-Class firms consistently delivering EBITDA % about three times (3x) higher than those with median profitability.

> **With each step up in operational maturity, the level of** chaos, confusion, friction and customer dissatisfaction decline, while the level of **control, stability, satisfied customers and satisfied employees goes up.**

If you found this white paper helpful, please share it with your peers. They can download a free copy at http://www.Service-leadership.com/pbm/operational-maturity-levels.asp

SLIQ-The Fastest Path to Maximum Profitability

Performance Acceleration | Actionable Diagnostics | Prescriptive Best Practices | SLIQ

SLIQ™ (adj. \slek\), a powerful online tool that provides IT Solution Providers with individualized, highly prescriptive, step-by-step plans to increase growth, profit margin, and Service quality.

Actionable Diagnostics: SLIQ starts by defining your firm's Operational Maturity Level™, derived from a series of 30-37 traits (depending on your Predominate Business Model) within the five functional areas of Strategy, Finance, Sales, Service, and Compensation. Advancing in these traits is the key to optimizing growth and profitability.

Performance Acceleration: SLIQ creates a detailed, prioritized progression plan unique to your firm to achieve greater operational maturity. You then assign actions to your team and hold them accountable by re-assessing your OML and generating an updated action plan to get to the next level, and progressively to Best-in-Class results.

Prescriptive Best Practices: SLIQ guides you every step of the process, delivering precisely timed best-practices via implementation assets (flash tools, videos, white papers, how-to documents and Excel templates) — as well as on-going live, monthly webinars open to your questions — all from the experts at Service Leadership. This guided step-by-step approach is proven to deliver faster growth, higher profit and increased Service quality in either a business-model acceleration or transformation.

Are you ready to take the fastest path to maximum profitability?

View a Demo

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About Service Leadership, Inc.

Service Leadership is dedicated to providing total profit solutions for IT Solution Providers, directly and through industry consultants and global IT vendors. The company publishes the leading vendor-neutral, Solution Provider financial and operational benchmark: Service Leadership Index®. This includes private diagnostic benchmarks for individual Solution Providers and their business coaches and consultants. The company also publishes SLIQ™, the exclusive web application for partner owners and executives to drive financial improvements by confidentially assessing and driving their Operational Maturity Level™.

Service Leadership offers advanced peer groups for Solution Providers of all sizes and business models, and individual management consulting engagements for Solution Providers from US$15mm to US$3bb in size worldwide. In addition, Service Leadership provides global IT vendors with advanced partner enablement assets, partner ROI models, management consulting and advanced peer groups, as well as executive and industry best practices education and speaking. Please visit www.service-leadership.com for more information.