

THE EVOLUTION OF BUSINESS ECOSYSTEMS

Thriving in the Service Level Economy

ISSUE

03





About the Author

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Table of Contents

01. Introducing the Service Level Economy

05. The Globalization of Services

07. The Challenges for Service Providers

11. Thriving in the Service Level Economy

15. The Great Enabler: Technology

17. Looking to the Future

21. Summary

PREFACE:

Introducing the
Service Level Economy

We are in the early stages of a transformation that will change how we work forever.

In a recent report, *Power Shift: The rise of the consumer-focused enterprise in the digital age*, the Kellogg Institute documents how the digital revolution has created a power shift from sellers to buyers^[1]. This is driven by advances in technology that provide buyers with unprecedented access. Where once buyers had limited choice, now they have a great deal of choice. Where once they had limited information about sellers, now buyers can read others' experiences at the click of a button. Where once innovation was slow, now it is disruptive.

The result is buyer empowerment, and expectations are soaring. Today, buyers expect more options, better experiences, and more value.

We have seen before what this kind of power shift can do to a market. In the early 2000s, ecommerce rocked the retail industry. Look what Amazon has done to big box retailers. Another example is what is happening in the transportation and hotel industries. Uber has been able to provide more convenient transportation for less, and as a result the

company's growth has been staggering. Uber has become a household name in a matter of a few years. Let this one resonate as well: Airbnb renters can stay at a variety of property types, for less than the average hotel room rates and walk away with better experiences. Now, hotel chains are suffering, whereas Airbnb expects revenue to surpass \$6 billion by 2019^[2]. All of this change is fueled by innovation in business models that comes from the power shift from sellers to buyers.

While this disruption has had a strikingly similar pattern across consumer industries, the impact to business has been less visible and slower to transpire. Until now.

Today, the industries that serve businesses with professional or creative services is embarking on this same period of transition. Buyers, or clients in this scenario, are demanding greater speed, quality, and agility from service providers. At the same time, providers are facing more external pressure than ever before, which is materializing as increased competition, compressed delivery timelines, and tighter margins. Services firms are finding themselves in a place where they need to adapt — or risk getting left behind. As a result, some forward-thinking services leaders are designing new operating models that allow them to better connect, orchestrate, and optimize their businesses.

This is the
Service Level
Economy.

The Service Level Economy is not a vision for the future of the services industry — it is a pivotal transformation happening now, one which will propel us into the next era of business. What is required to compete in this new economy will reshape services firms as we know them, and what will emerge are highly efficient, scalable, and global organizations. This is the catalyst for digital business ecosystems, a topic about which visionaries including Deloitte’s Eamonn Kelly and John Hagel have written extensively.

I am witnessing this massive shift from the eye of the storm. I served as a Global Managing Partner at Accenture for nearly 20 years while helping Accenture and its clients

evolve and grow. Today, I work with thousands of services firms globally in my role as founder and CEO of Mavenlink. Every day, I speak with business leaders who seek consultation on how to run these complex, dynamic businesses more efficiently and profitably, in the face of immense economic and operational challenges.

The conditions I have observed leading to this point have provided unique insight and clarity into the market problems and opportunities service providers face, as well as the solution.

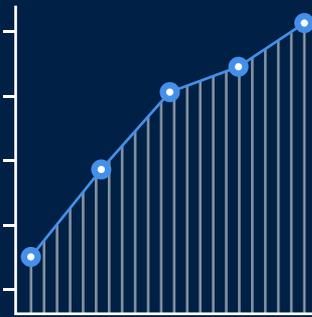
Welcome to the future of work.



THE GLOBALIZATION OF SERVICES

Not too long ago, businesses valued owning their resources above all else. They did everything themselves. They hired and managed large workforces, assembled their own operational and recruiting capabilities, and built and maintained all of their own technology resources. Ownership created the perception of greater control.

Today's speed, complexity, growing competition, and global nature of business have rendered this approach inadequate and ripe for innovation. With rapid evolution in markets and competition, organizations must become continuously more lean and agile. They must scale up and down more quickly while simultaneously managing costs, resources, and margins more precisely.

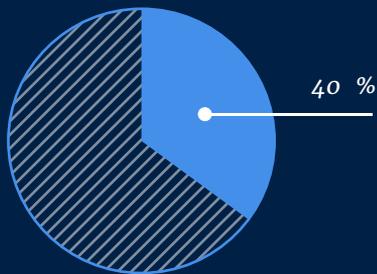


Services-delivery jobs have grown steadily over the past 25 years.

Source: U.S. Bureau of Labor and Statistics (BLS)^[3].



Inc.'s "Fastest Growing Companies" list now features more services-based businesses than any other industry sector^[4].



According to a study by Intuit, 40 percent of American workers will be contractors, service providers, and freelancers by 2020^[5].

An economy once dominated by global manufacturers and enterprise heavyweights is now increasingly supplemented by and reliant upon service providers.

Data reinforces this reality.

We see the effects of this change in every industry. Marketing departments frequently employ external agencies and freelance talent. Businesses increasingly depend on outside IT firms and cloud providers to manage data and technology. And countless organizations rely on outside call centers, legal teams, fulfillment centers, engineering teams, and myriad other services providers to deliver their full workforce needs.

The benefits are clear. External service providers allow a business to tap the right skills and resources at the right moment, without the larger investments of time and costs associated with recruiting, training, and managing resources internally. Organizations can therefore stay lean and focus on their core business functions while leveraging highly specialized expertise that helps drive their businesses forward. It's a model that maximizes flexibility and speed while optimizing costs — hallmarks of success in the 21st century.

THE CHALLENGES FOR SERVICE PROVIDERS

Clearly, it's a great time to be a service provider. The globalization of services represents a massive, \$3 trillion opportunity today. And that opportunity is growing rapidly. The robust global services market is expected to reach \$3.8 trillion by 2025^[6].

However, taking advantage of the opportunity has proved challenging. Service providers — notably management consultants, IT services firms, professional service providers, and marketing agencies — are experiencing intense pressure to meet the increasing demand of their buyers.

What used to work
just fine has become
inadequate today.

CHALLENGE ONE:

THEY ARE SHIFTING TO MORE SHORT-TERM, PROJECT-BASED WORK.

Long-term contracts are becoming rare. Instead, clients hire services providers for shorter-term, project-based engagements. In the recent *US Agency-Marketer Business Report*, 43 percent of marketing firms stated most of their work is project-based^[7]. To remain profitable, providers must carefully manage resources and projects. There is very little room for error.

The globalization of services represents a massive, \$3 trillion opportunity today.

CHALLENGE TWO:

THEY ARE HAVING DIFFICULTY MANAGING SURGE CAPACITY.

The ability to scale up and down on a project-by-project basis is incredibly valuable — and complex. Managing supply and demand impacts a provider's ability to grow and remain profitable. Firms including Accenture, PWC, and Deloitte manage surge capacity by keeping a large number of strategy, planning, and execution resources on hand. Contact the resource desk at one of these firms and three consultants show up on your project by Monday. The economies of scale required to take this approach mean it's very expensive for clients and, therefore, out of reach for most.



CHALLENGE THREE:

THEY NEED QUICK ACCESS TO HIGHLY SPECIALIZED SKILLS.

Work is increasingly being broken into the highly specialized skills and expertise required to complete it, as explained in the *Harvard Business Review* article "The Age of Hyperspecialization"^[8]. What was once one person's job now takes 40 highly skilled, hyperspecialized people. The market now demands this depth of skill, beyond almost any skill level previously required. This demand presents a real dilemma for providers already working with slim margins: They can't afford to keep specialists on the bench, yet they also can't turn away good work that demands such specialization.

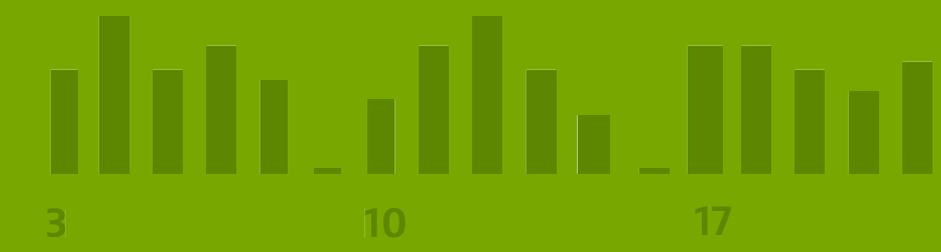
CHALLENGE FOUR:

THEY FACE INCREASED EXPECTATIONS FOR PERFORMANCE AND TRANSPARENCY.

Finally, service providers are being required to show results faster and with greater transparency. With tremendous competition and no guarantees of long-term client relationships, providers must continually prove and reinforce their value. Greater information access has created a more informed buyer, too.

I speak with services leaders every day and what they share in common is that there's an overall feeling of anxiety building. What used to work just fine has become inadequate today. Services leaders know if they can't figure out how to manage their businesses through these pressing challenges, they will fail. And they're right.

THRIVING IN THE SERVICE LEVEL ECONOMY



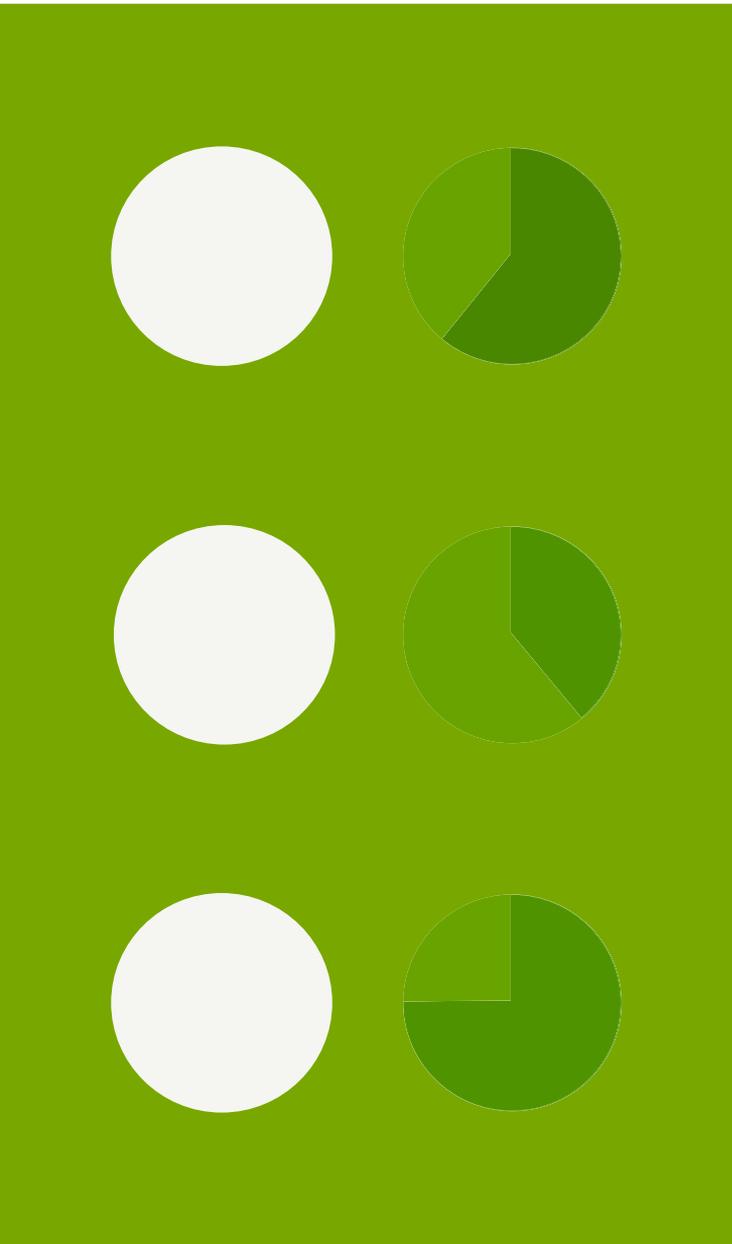
“Tools aren’t enough.
Service providers need
a new philosophy.”

In my two decades at Accenture, I witnessed how a well-oiled business machine operates. Accenture remains one of the best-run services businesses in the world. Yet no organization is immune to the broad changes taking place; the Service Level Economy doesn’t evaporate based on the size or shape of the service providers operating within it.

Clayton Christensen, the Harvard Business School professor and visionary business author of books including *The Innovator’s Dilemma*, and his peers noted this fact in a recent *Harvard Business Review* article, pointing out that the consulting industry is on the cusp of disruption:

We have come to the conclusion that the same forces that disrupted so many businesses, from steel to publishing, are starting to reshape the world of consulting.... The pattern of industry disruption is familiar: New competitors with new business models arrive; incumbents choose to ignore the new players or to flee to higher-margin activities; a disrupter whose product [or service] was once barely good enough achieves a level of quality acceptable to the broad middle of the market, undermining the position of longtime leaders and often causing the “flip” to a new basis of competition [9].

The Service Level Economy is forcing change, and a new basis of competition has formed as a result. We have reached the moment when incumbents must evolve to survive or risk losing business to more nimble firms with innovative business models.



*The firm of the Service Level
Economy thrives by adopting
a new set of core values:*

ONE

TRANSPARENCY.

Service providers need to be relentless in the pursuit of real-time data surrounding their business, leading to deeper operational insights.

TWO

PERFORMANCE.

With increased visibility and control, providers must find new opportunities to improve efficiency, performance, and financials.

THREE

SCALABILITY.

Providers must enable granular management of resources and skills so they can scale up and down at a moment's notice.

FOUR

ACCOUNTABILITY.

To satisfy high client expectations, service providers need to offer increased accountability by sharing real-time progress on goals and deadlines.

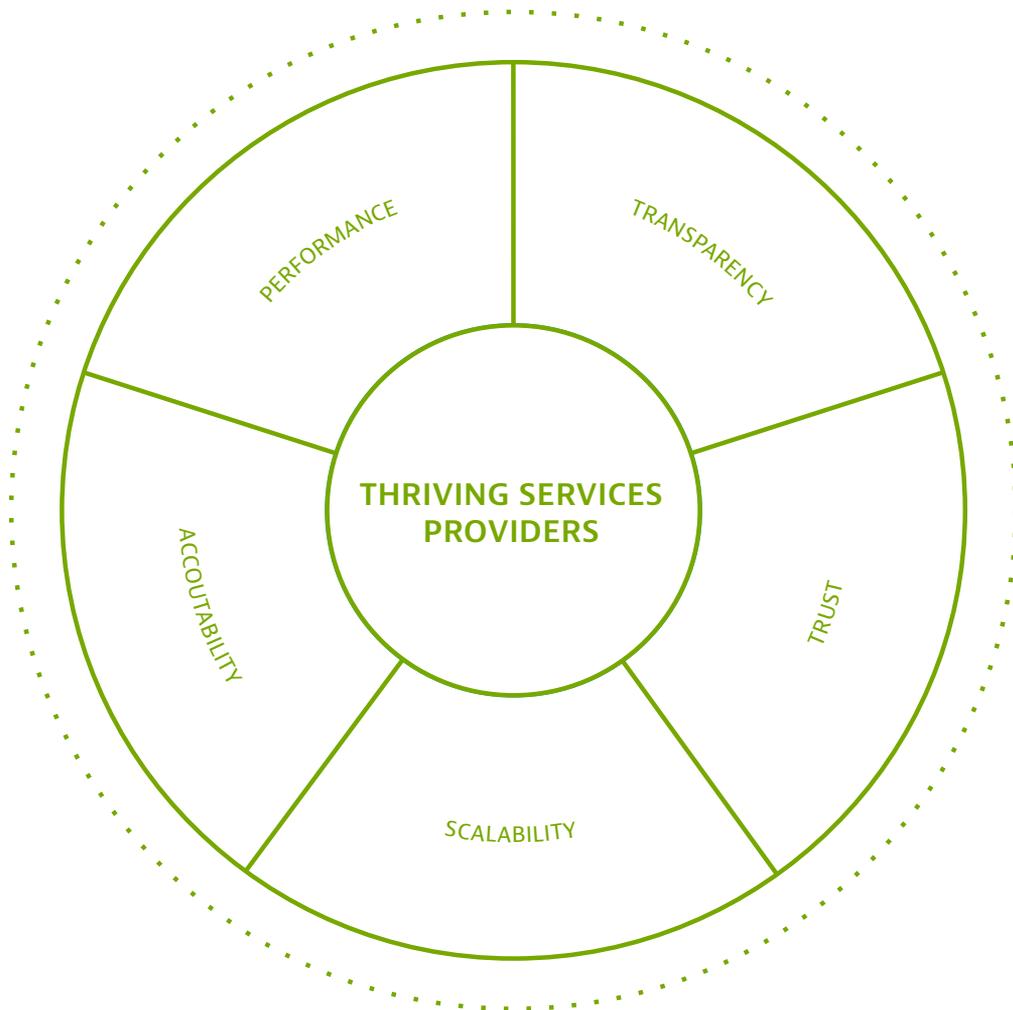
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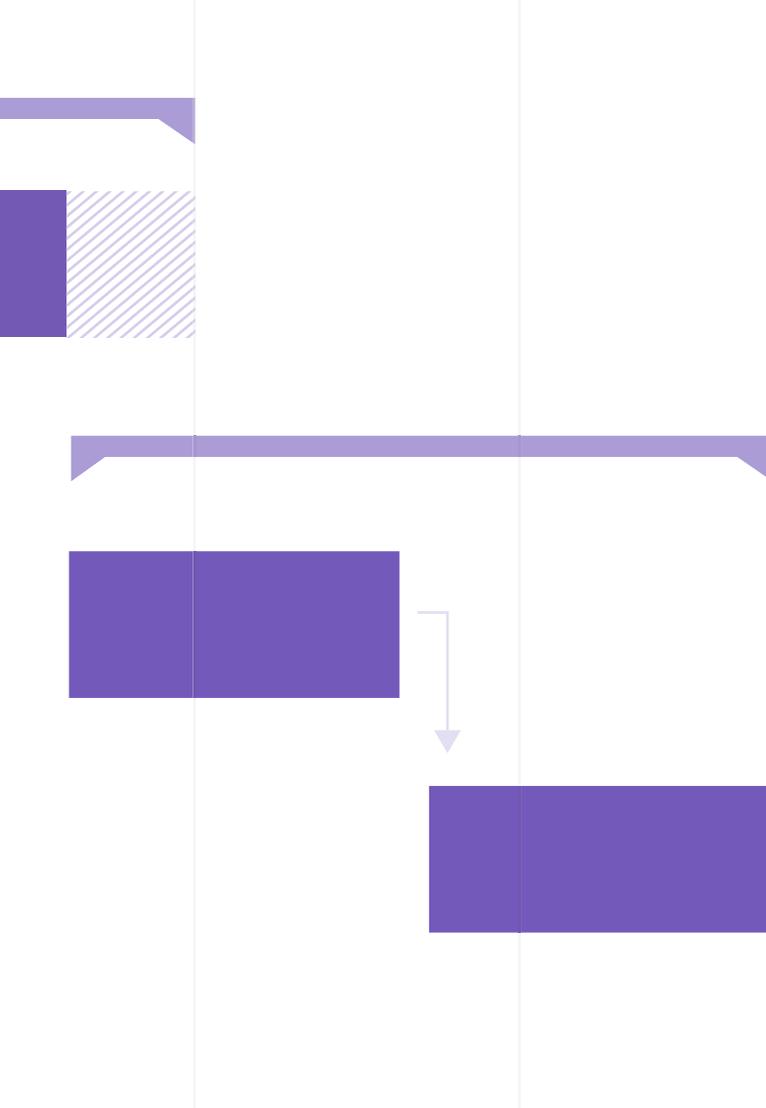
TRUST.

All of these combined lead to trust, the most critical element fueling long-standing relationships.

Service providers today need new models and strategies. They need new underlying systems that facilitate every aspect of their business. Tools aren't enough. Service providers need a new philosophy.

Service Level Economy Values





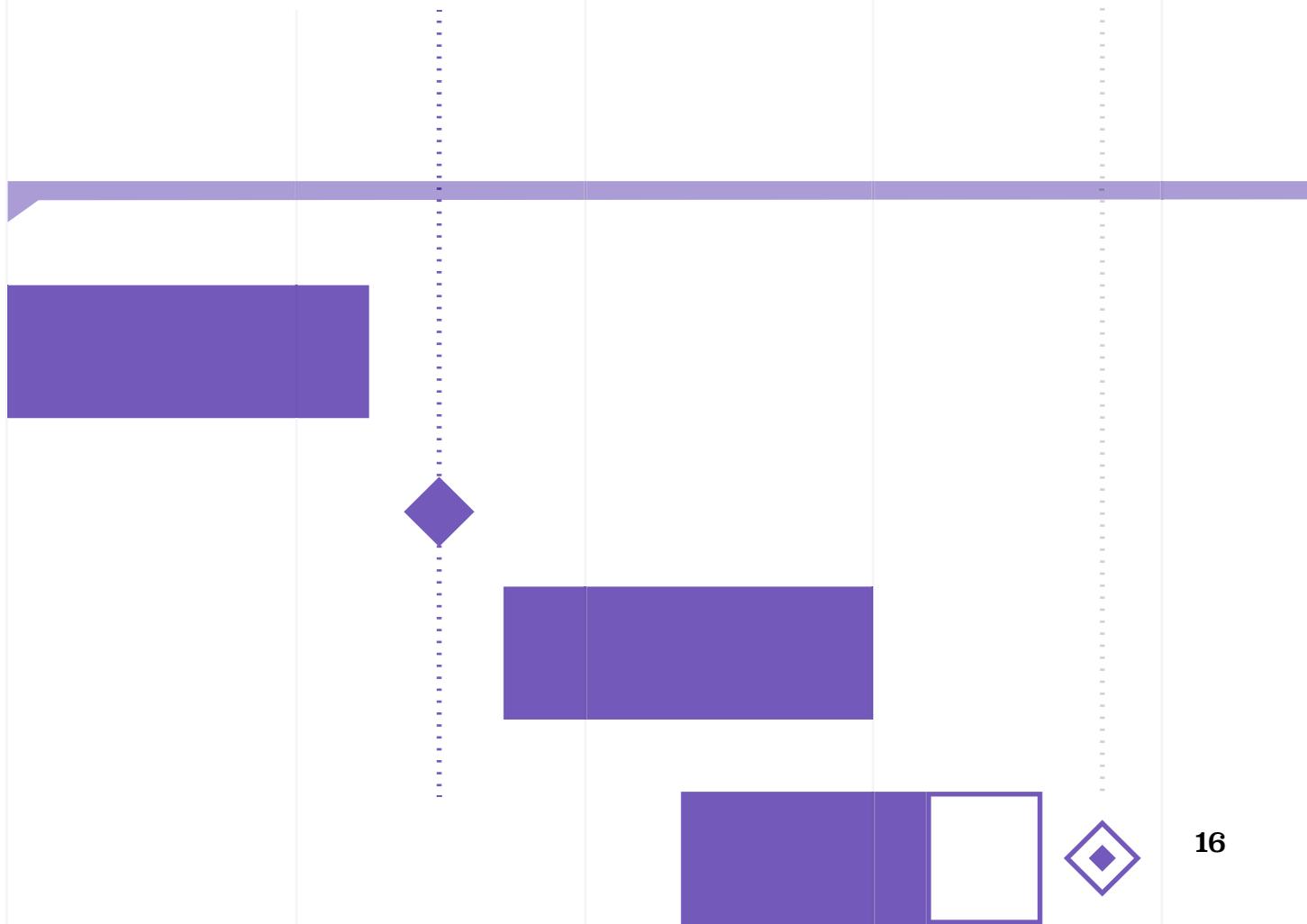
THE GREAT ENABLER: TECHNOLOGY

Historically, technology has poorly served the service provider industry. These businesses have had to operate within fragmented business environments, where critical data stays isolated in CRM, resourcing, project management, collaboration, accounting, and other systems. They are stuck using these old tools that are completely inadequate.

Getting out of these siloed systems is critical: Service providers must move beyond spreadsheets and email if they are to thrive in the fast-paced, hyper-connected, hyperspecialized world of the Service Level Economy.

Advanced technology is beginning to offer everything services firms need to succeed. They can grow and scale confidently, facilitate the management and mobilization of resources, and expand their networks quickly and sometimes globally while accessing the specific skills and resources needed — all on a project-by-project basis.

In the future, a single digital infrastructure has the potential to emerge — one that packages up the processes, frameworks, guidelines, analytics, and insights demanded by the Service Level Economy. The adoption of this system would have the potential to help firms stand out among the competition, as buyers recognize these sellers' commitment to best practices and to meeting their expectations. Buyers will want to work with providers they see adopting this new, more transparent, more trustworthy philosophy of business; they will think, “If you believe in this way of working, I want to work with you.”



LOOKING TO THE FUTURE:

ACCELERATING THE FORMATION OF BUSINESS ECOSYSTEMS

This the future as I see it: The Service Level Economy demands connectedness and flexibility. Driven by this demand, the need to collaborate grows. A digital infrastructure evolves to facilitate better business relationships. Providers of all sizes and disciplines work together to serve clients beyond the capabilities of any one participant. Based on their success, buyers consume a larger volume of higher-value services from these networked providers.

In the groundbreaking Deloitte report *Business ecosystems come of age*, visionary Eamonn Kelly explores how this dynamic re-arrangement of business is dramatically reshaping the core structure of the economy:

Increasingly, forward-thinking operations managers are looking to optimize performance across value webs that span and connect whole ecosystems of suppliers and collaborators. Properly activated, these value webs can deliver superior results across multiple dimensions—reducing costs, improving service levels, mitigating risks of disruption, and delivering feedback-fueled learning and innovation. Supply chain leaders who are able to more effectively manage in this new environment can benefit from greater agility, responsiveness, and resilience.

Kelly also foreshadows the value firms will see upon dissolving their business boundaries:

As it becomes increasingly possible for firms to deploy and activate assets they neither own nor control, to engage and mobilize larger and larger numbers of participants, and to facilitate much more complex coordination of their expertise and activities, the art of the possible is expanding rapidly^[10].

Like Kelly, I believe these ecosystems of suppliers and collaborators are one of the biggest transformations of our lifetime, and the benefits will extend beyond traditional business outcomes.

There is just one remaining consideration: how we are going to get there. The critical piece that will enable these ecosystems is the establishment of trust. Once buyers have the confidence that sellers will continually meet their expectations, business ecosystems will proliferate and begin to orchestrate complex and mission-critical work. It's the Service Level Economy that accelerates this evolution of business into dynamic and collaborative ecosystems. And this will transform work as we know it.

The critical piece that will enable ecosystems is the establishment of trust.



“

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SUMMARY

I first envisioned this future while at Accenture 20 years ago. But at that time, the pieces did not exist to enable this environment. Today, the landscape has changed. The emergence of the cloud has profoundly impacted how people, ideas, and systems connect.

We are finally ready to realize the potential of the Service Level Economy.

Service providers will better support client needs while optimizing their own processes. All parties — from buyers and prime orchestrators to subcontractors — will have greater visibility and more granular control of their projects, people, and financials. Increasingly and with greater speed and confidence, buyers will find and consume hyperspecialized services and support, all around the world. Trust, above all else, will be the primary driver of success.

This will be the new norm for every business in the world. After all, no one organization can support the scale, complexity, and speed of modern business. In the future, we will all rely upon the services of each other.

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