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Adams & company

Rene Fenstermaker
INPUT
1881 Landings Drive
Mountain View, CA 22551

February 11, 1997

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EXTENT 6 Pages

SIZE

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STOCK

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Submitted by: 

Linda Parcels

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111303	ANDERSEN CONSULTING	William Stancer	SIRB-C--Report-Comp Exec List	1
111303	ANDERSEN CONSULTING	Trish Evans	SIRB-C--Report-Comp Exec List	1
120034	ANDERSEN CONSULTING	Keith Burgess	SIRB-C--Report-Comp Exec List	1
111303	ANDERSEN CONSULTING	Sarah Mulhern	SIRB-C--Report-Comp Exec List	1
111303	ANDERSEN CONSULTING	Anne O'Grady	SIRB-C--Report	1
111303	ANDERSEN CONSULTING	Philippe Ruttens	SIRB-C--Report	1
111303	ARTHUR ANDERSEN	Leng Eng	SIRB-C--Report-Comp Exec List	1
120034	AT&T GLOBAL INFO. SOLUTIONS	Mike Ruffolo	SIRB-C--Report-Comp Exec List	1

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120034	AT&T GLOBAL INFO. SOLUTIONS	Bruce Stapleton	SIRB-C--Report-Comp Exec List	1
121214	AT&T SOLUTIONS	Phil Hornthal	SIRB-C--Report	2
3000738	BELL COMMUNICATIONS RESEARCH	Lois Newman	SIRB-C--Report	2
3001184	BELLCORE	Accounts Payable	SIRB-C--Report	2
3001137	BELLSOUTH BUSINESS SYSTEMS	Cheryl Hendricks	SIRB-C--Report	1
3000781	C&C INTERNATIONAL, LTD	Isao Kishinoue	SIRB-C--Report	2
3000747	CGI INFORMATIQUE	Odile Boudon	SIRB-C--Report	1
120034	COMPUTER SCIENCES CORPORATION	Ed Coleman	SIRB-C--Report-Comp Exec List	1
112996	COMPUTER SCIENCES CORPORATION	Gail Lepard	SIRB-C--Report	4

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Order #	Company Name	Name	Project	Quantity
120034	COMPUTER SCIENCES CORPORATION	Van Honeycutt	SIRB-C--Report-Comp Exec List	1
120034	CSC COMPUSOURCE	D. Quintiliani	SIRB-C--Report-Comp Exec List	1
120034	CSC CONSULTING	J. Mickel	SIRB-C--Report-Comp Exec List	1
120034	CSC CONSULTING	Bob Baginski	SIRB-C--Report-Comp Exec List	1
120034	CSC CONSULTING	J. Saviano	SIRB-C--Report-Comp Exec List	1
120810	DIGITAL EQUIPMENT COROPRATION	Wini Ferguson	SIRB-C--Report	1
120034	DIGITAL EQUIPMENT CORPORATION	Jacques Gallet	SIRB-C--Report-Comp Exec List	1
120034	DIGITAL EQUIPMENT CORPORATION	Renate Baptiste	SIRB-C--Report-Comp Exec List	1
120034	DIGITAL EQUIPMENT CORPORATION	Nancy Scull	SIRB-C--Report-Comp Exec List	1
120814	DIGITAL EQUIPMENT CORPORATION	Elise McMullin	SIRB-C--Report	1

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Commercial Unit

Order #	Company Name	Name	Project	Quantity
3000995	DIGITAL EQUIPMENT CORPORATION	Vince Chicallo	SIRB-C--Report	1
120034	IBM - ISSC	George Atkinson	SIRB-C--Report-Comp Exec List	1
111568	IBM CORPORATION	Ilse Ruckert	SIRB-C--Report	2
120034	IBM CORPORATION	Dennis Hawkins	SIRB-C--Report-Comp Exec List	1
120034	IBM CORPORATION	John F. Schultz	SIRB-C--Report-Comp Exec List	1
120034	IBM CORPORATION	Jim Corgel	SIRB-C--Report-Comp Exec List	1
120034	ITAA	Paul Green	SIRB-C--Report-Comp Exec List	1
121234	NASDAQ Stock Market	Al Berkeley	SIRB-C--Report-Comp Exec List	1
3000919	NEC SYSTEM BUSINESS PLANNING DEPT	Saburo Tacho	SIRB-C--Report	2
121195	SAIC	John Kelly	SIRB-C--Report	2

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INPUT		Distribution Report		As of 2/5/97
Order #	Company Name	Name	Project	Commercial Unit
120034	SLOAN SCHOOL - MIT	Richard Wang	SIRB-C--Report-Comp Exec List	1
3001077	Z.. INTERNAL - COMMERCIAL	Mike Dishman	SIRB-C--Report	1
111024	ZZ.. INTERNAL - COMMERCIAL	Sales Library	SIRB-C--Report	1
111027	ZZ.. INTERNAL - COMMERCIAL	Library	SIRB-C--Report	2
111631	ZZ.. INTERNAL - COMMERCIAL	John McGilvray	SIRB-C--Report	1
121020	ZZ.. INTERNAL - COMMERCIAL	Program Mgr	SIRB-C--Report	1
120035	ZZ.. INTERNAL - COMMERCIAL	Wilson Haddow	SIRB-C--Report	1
111040	ZZ.. INTERNAL - CORPORATE	Peter Cunningham	SIRB-C--Report	1
111028	ZZ.. INTERNAL - FRANCE	Library - Sales	SIRB-C--Report	5
111038	ZZ.. INTERNAL - GERMANY	Frank Solbach	SIRB-C--Report	5

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Order #	Company Name	Name	Project	Quantity
111034	ZZ.. INTERNAL - JAPAN	Library	SIRB-C--Report	4
111029	ZZ.. INTERNAL - NEW JERSEY	Office Manager	SIRB-C--Report	5
111030	ZZ.. INTERNAL - UK	Library/Stock	SIRB-C--Report	2
111031	ZZ.. INTERNAL - VIRGINIA	Phantom Sales Person	SIRB-C--Report	6
3000886	ZZ.. INTERNAL COMMERCIAL	Nancy Hill	SIRB-C--Report	1
111063	ZZ.. INTERNAL REG. OF COPYRIGHT	Dep & Acq Div-LM438C	SIRB-C--Report	2
			Total:	100

#stock
200?

Financial Benchmarks for Professional Services and Systems Integration Firms

Which is better for a professional service/systems integration firm? To earn pre-tax profits of 7% or 15%? Before you answer, read this Research Bulletin.

By INPUT's analysis, the chief determinant of financial performance in a well-managed services firm is the amount of risk it is able to assume. There are two types of risk: financial risk and technical/project risk.

Exhibit 1 provides a schematic view of the impact of risk on financial return. (INPUT's measure is profit before tax for professional services/systems integration firms; profitability analysis for capital intensive operations, e.g., data center outsourcing, would also have to include the financial effects of physical assets—depreciation, amortization, interest, etc.)

Exhibit 1

SI/Professional Services: Profitability at Different Levels of Risk

High	N/A	20%	25%
		15%	20%
Financial Risk	10%	15%	20%
		10%	15%
Low	5%	10%	15%
	Low		High

Source: INPUT

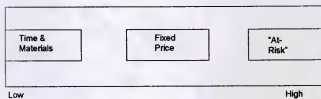
Note: Profit is profit before tax

Financial risk increases as vendors move from a time and materials reward structure to having the reward being "at risk", e.g., contracts where a significant amount of fees

are dependent on improved client performance. Exhibit 2 illustrates the range in risk.

Exhibit 2

Levels of Financial Risk



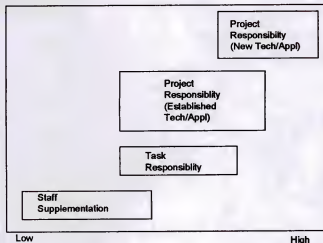
Source: INPUT

Project risk is determined by the level of responsibility assumed by the vendor and, for certain projects, the extent to which a vendor must deal with less understood technical risks. Exhibit 3 illustrates general relationships between the major types of risk; these are not simple relationships:

- In newer technologies, even staff supplementation can be risky. Vendors should expect to be compensated for these risks.
- Task and project responsibilities overlap. Some tasks may be highly visible, critical to success and/or have rigorous deadlines.
- Some projects may be essentially cookie-cutter in nature (e.g., the 50th installation of a package).
- Arguably, technology risk could be a separate axis of its own. However, INPUT believes technology has a significant impact on financial performance only where the vendor is responsible for success (i.e., in a project setting).

Exhibit 3

Levels of Project Risk



Source: INPUT

Risk-Based P & L Models

What do the P & Ls of actual companies look like? INPUT has collected performance data for individual companies from a variety of public and private sources. INPUT normalized this data, since companies define and classify expenses differently.

INPUT has prepared two models:

- In one model, the vendor takes on a lower amount of risk—these companies can be thought of as suppliers of professional services.
- In the other, the vendor accepts a higher level of risk—this type of firm is the most likely to offer systems integration services.

In real life, of course, there are relatively few pure examples of either type of firm:

- Many professional services firms try to add value and profitability by accepting higher levels of risk.

- Systems integration firms will often take on the less differentiated professional services assignments in order to meet client requirements, especially if the alternative is unused staff.

The "lower risk" model is shown in Exhibit 4.

- The bulk of expense is for project personnel.
- Levels of general and administrative expenses are relatively low because line managers, from the CEO on down, are also involved in selling.
- Formal training is not emphasized.
- Unassigned time is rigorously controlled through the use of contract personnel and, if necessary, layoffs.

The "higher risk" model is shown in Exhibit 5.

- The actual or implicit personnel markup is higher.
- There is a more formal management structure.
- Identifiable sales time reduced because managers perform most sales tasks as part of their (70 hour) work week.

Conclusion

When risks are managed adequately, the high risk model produces high levels of profitability. However,

- By definition, these higher profits are more at risk.
- The higher risk firms need a higher level of assets per person to conduct business (primarily increased working capital to reflect a longer lag between expenditures and receipt of cash). In Exhibit 5, if profitability were reduced from 25% to 15%, the ROA would also fall—to levels similar to that of a low risk firm with profits of 7%.

Therefore, the answer to the question at the beginning of this Research Bulletin is: "It depends." That is, it depends on how well

- Assets are managed (both financial and human)
- Risks are identified and understood
- Work is executed and risks are managed

Exhibit 4

S I/Professional Services Financial Profile Low Risk Activities

<u>Expense Categories</u>		<u>Comment</u>
Project Costs	65%	
Project Personnel	60%	
Software Products	0%	Pass-throughs
Other	5%	
Overhead	28%	
G&A	8%	
Sales	9%	Dedicated sales force
Training/R&D	1%	Experience + OJT
HR	2%	Mainly recruitment
Unassigned Time	6%	Layoffs and contract personnel
Write-offs	2%	Mainly time and materials
Operating Income	<u>7%</u>	Variable, dependent on general economy
	100%	
ROA	12%	

Source: Composite experience, 1994-1996

Exhibit 5

S I/Professional Services Financial Profile High Risk Activities

<u>Expense Categories</u>		<u>Comment</u>
Project Costs	40%	
Project Personnel	33%	
Software Products	2%	Most are Pass-throughs
Other	5%	
Overhead	35%	
G&A	13%	
Sales	2%	"Eat what you kill" ("Partnership model", but can also be used by a corporation)
Training/R&D	3%	Experience + OJT
HR	2%	Mainly recruitment
Unassigned Time	10%	Some informal training
Write-offs	5%	High variable
Operating Income	<u>25%</u>	At high end, usually includes financial risk-sharing
	100%	
ROA	12%	

Source: Composite experience, 1994-1996

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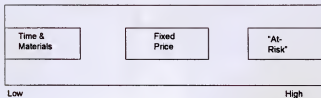
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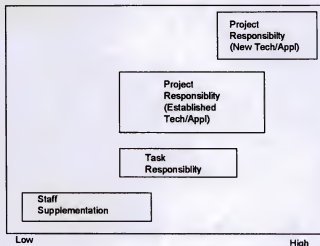
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