



**FIFTH
QUADRANT**

Service Strategy & Research

Service Strategy Maturity: A Model for Business Performance

**A White Paper
Written by Fifth Quadrant
Commissioned by IBM**

June | 2011

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1. Introduction

Within the customer engagement research fraternity, there is growing evidence that demonstrates that customer service is a significant driver of both customer advocacy and future purchasing behaviour. Organisations also recognise that improving customer satisfaction / engagement is a significant business challenge alongside other challenges such as increasing productivity.

Despite this growing evidence of the importance of delivering great customer service in driving business performance, organisations remain more focused on Marketing, Human Resource Management, Technology and Finance strategies than Service Strategy.

This Paper sets out the findings of a research programme that tested the hypothesis that organisations with a mature enterprise-wide Service Strategy have higher levels of business performance. The research consisted of 107 quantitative interviews amongst Senior Executives involved in the development of Service Strategies across a broad spectrum of medium and large sized Australian based organisations.

This Paper identifies the key factors that define organisations as having a mature enterprise-wide Service Strategy. It then goes further by:

1. Uncovering the link between Service Strategy maturity and positive business performance outcomes across Revenue Generation, Employee Engagement and Productivity and Operational Efficiency.
2. Identifying the characteristics common to those organisations that are classified as more mature with respect to their Service Strategy.
3. Highlighting the key business practices that are common to mature Service Strategy organisations across Multi-Channel, Outsourcing and Analytics strategies.

The research was commissioned by IBM and conducted by research consultants and Service Strategy experts, Fifth Quadrant.

2. Executive Summary

This research based Paper reveals that at a strategic level, the Customer Service Experience performance of an organisation has a positive relationship with business performance. Despite this 28% of Australian based organisations do not have what would be classified as an enterprise-wide Service Strategy in place.

Key Findings

This research study identified the following key insights:

1. **Enterprise-wide Service Strategy is a proven driver of business performance.** There is a strong statistically significant relationship between organisations with a mature Service Strategy and stronger business performance.
2. **Employee Engagement and Productivity & Operational Efficiency performance moderate the relationship between Customer Experience / Satisfaction performance and overall business performance.** Organisations that rate above average in terms of Customer Experience / Satisfaction performance are significantly more likely to have above average Employee Engagement and Productivity & Operational Efficiency performance. These two variables have a positive and significant relationship with Revenue Generation performance ratings.
3. **Service Strategies need the support of senior Board level executives.** The behaviour of senior Board level executives in terms of consistently demonstrating leadership with regard to customer service excellence can influence the degree to which the Service Strategy positively impacts business performance.
4. **Leading Service Strategy organisations employ a more diverse Multi-Channel Strategy and Analytics Strategy.** The availability of multiple channels for customers as a means of engaging with the organisation and the use of a broader range of both internal and external data analytics are more common amongst organisations that have a more mature Service Strategy in place.
5. **The outsourcing of inbound and outbound contact centre functions is more common amongst Leading Service Strategy organisations.** Of the organisations surveyed, 15% currently outsource outbound contact centre operations and 17% outsource inbound contact centres operations. The proportion of Leading Service Strategy organisations that outsource outbound or inbound contact centre operations is 32%.

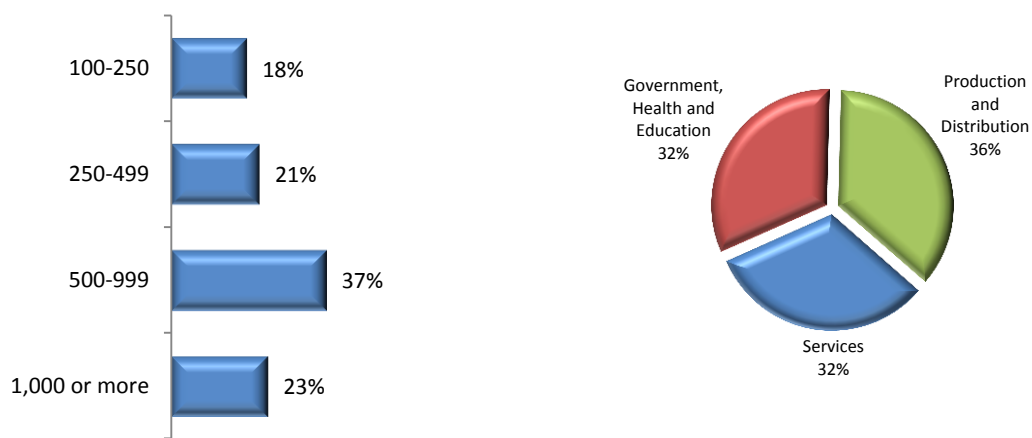
3. Research Methodology and Sample

The research involved conducting 107 detailed case study interviews which took place during December 2010 and January 2011.

Survey interviews were conducted by telephone with corporate executives (e.g. Contact Centre Managers, CEOs, CFOs, COOs and other senior staff) that influence the organisation's decisions with regard to their Service Strategy.

Organisations included came from a wide range based on employee size and industry across Government, Health and Education, Production and Distribution and Service (Figure 1 and Figure 2).

Figure 1 and Figure 2: Number of Employees and Industry Classification

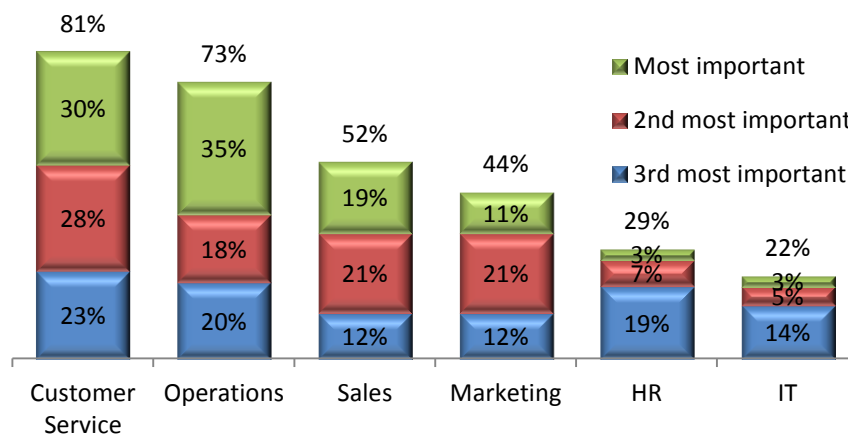


4. Service Strategy – Attitudes and Behaviour

Given this research set out to test the hypothesis that organisations with a mature enterprise-wide Service Strategy have higher levels of business performance it was essential to understand the prevalence of an enterprise-wide Service Strategy in Australian based organisations.

The research found that overall, the majority of Australian based organisations (71%) claim to have an enterprise-wide Service Strategy in place. In addition, the study found that 81% of organisations indicated that, at the board level, Service Strategy is regarded as one of the top three most important strategies within the organisation (Figure 3). Despite this endorsement of the importance of Service Strategy, the behaviours of organisations with respect to how they develop, implement and deliver a Service Strategy varies considerably. These differences between organisations with respect to their Service Strategy cover both behavioural and operational attributes.

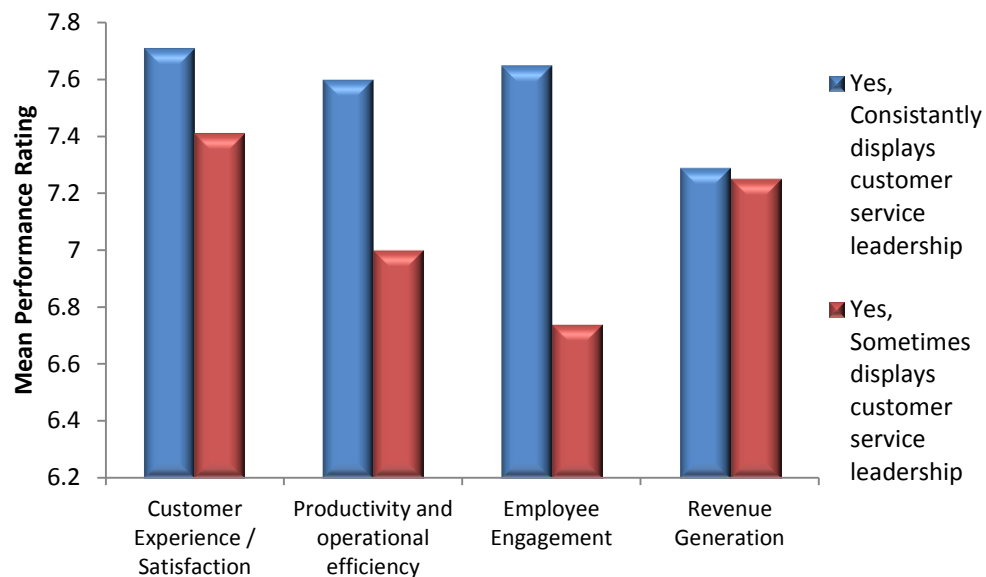
Figure 3: Senior Executives Business Strategy Priorities



4.1 Executive Behaviours

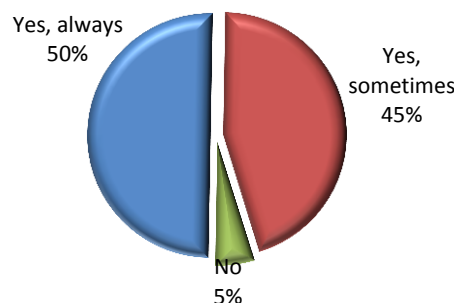
One of the key areas where there is inconsistency across Australian based organisations is the perceived behaviour and focus of Board level executives in demonstrating leadership with regard to customer service excellence. In organisations where senior executives consistently display customer service leadership, the performance of the organisation in terms of Productivity and Operational Efficiency and Employee Engagement is significantly higher (Figure 4).

Figure 4: Impact of senior executive team demonstrating customer service leadership on business performance attributes



Despite this evidence of a statistically significant relationship, only 1 in 2 Australian based organisations rated that their senior executives consistently displayed customer service leadership (Figure 5). There is a key opportunity for many organisations to implement quick wins by driving stronger customer service leadership from the Board executives.

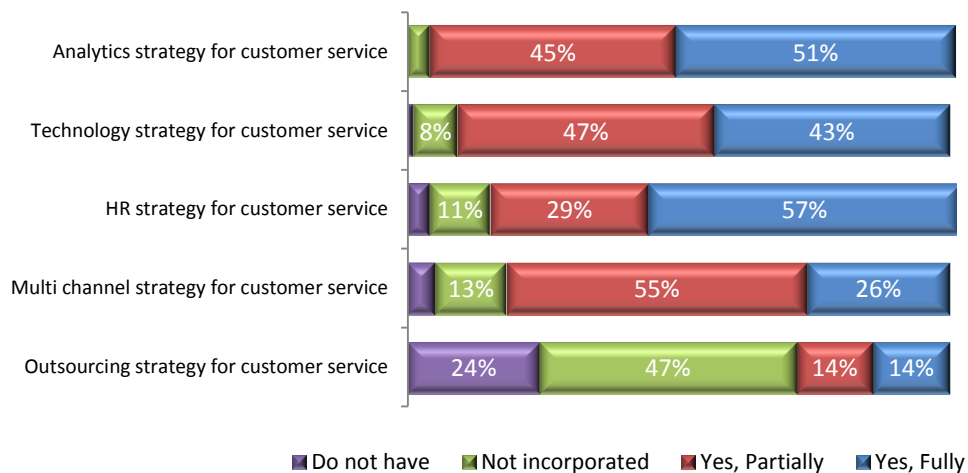
Figure 5: Consistency of senior executive team demonstrating customer service leadership



4.2 Service Strategy Components

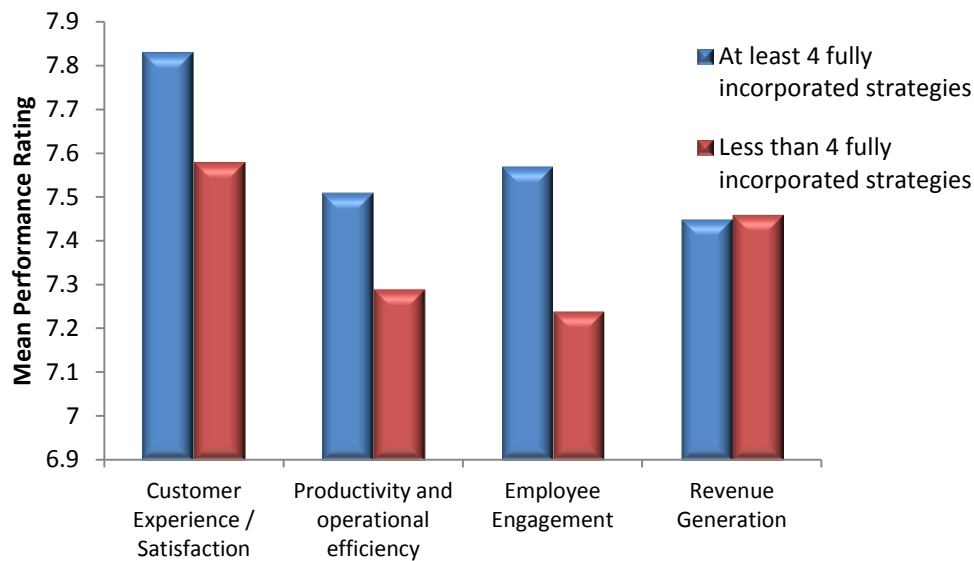
There was further inconsistency observed with respect to which sub-strategies are incorporated within the enterprise-wide Service Strategy across Australian organisations. Across the organisations surveyed, 57% have fully incorporated a Human Resources Management Strategy within their enterprise-wide Service Strategy, 51% have incorporated an Analytics Strategy and 43% of organisations have a Technology Strategy that is fully incorporated within the Service Strategy (Figure 6). Two sub-strategies that are less commonly incorporated into the enterprise-wide Service Strategy are a Multi-Channel Strategy (26%) and an Outsourcing Strategy (14%).

Figure 6: Sub-strategies incorporated into the Service Strategy



This study showed that amongst organisations where more sub-strategies are partially or fully incorporated within the enterprise-wide Service Strategy, the performance of the organisation in terms of Customer Experience / Satisfaction, Productivity and Operational Efficiency and Employee Engagement was higher (Figure 7).

Figure 7: Impact of sub-strategies incorporated into the Service Strategy on business performance attributes



4.3 Analyst Commentary

Despite the strong recognition of the importance of the organisation having an enterprise-wide Service Strategy, the implementation of an enterprise-wide Service Strategy is inconsistent across Australian based organisations.

This Paper reveals that Service Strategies need the support of senior Board level executives. However, the requirement is for Board executives to be more than 'sponsors' of the Service Strategy. Senior executives must go beyond this and consistently demonstrate leadership with regard to customer service excellence.

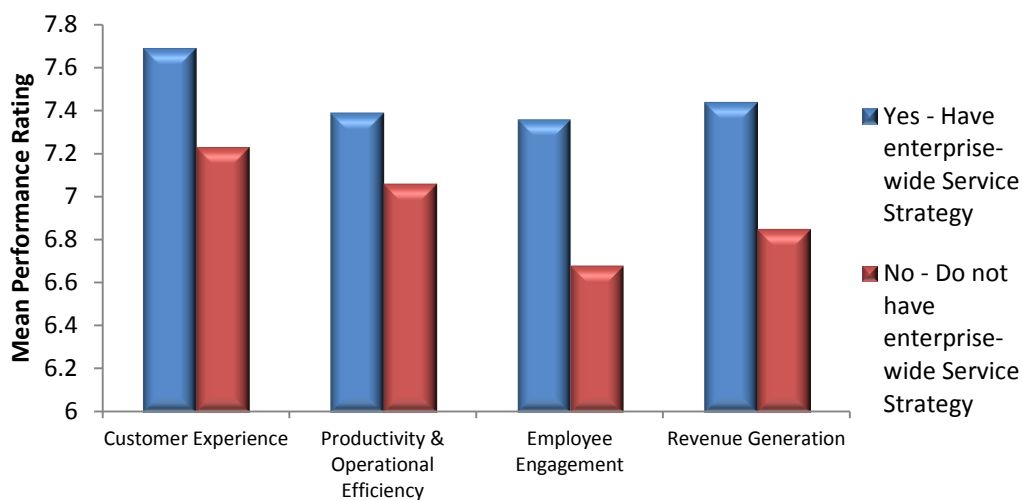
Whilst most organisations incorporate Human Resources Management, Technology and Analytics sub-strategies within their enterprise-wide Service Strategy, there is opportunity for organisations to leverage Multi-Channel and Outsourcing strategies further in order to develop a mature Service Strategy.

5. Service Strategy Maturity and Business Performance

This study revealed the prevalence and level of deployment of an enterprise-wide Service Strategy was inconsistent across the organisations surveyed. The question is whether organisations that have a more mature Service Strategy deliver better business performance outcomes.

Overall, the study revealed that organisations that have an enterprise-wide Service Strategy achieve significantly higher performance ratings for Employee Engagement and Revenue Generation (Figure 8). The study also revealed that the levels of development and implementation of the enterprise-wide Service Strategy was inconsistent across Australian based organisations.

Figure 8: Impact of an enterprise-wide Service Strategy on business performance



In order to take into account the inconsistent levels of development and implementation of an enterprise-wide Service Strategy and objectively measure the maturity of Australian based organisations with regard to Service Strategy, a Service Strategy Maturity Model and Index has been developed.

The Service Strategy Maturity Model has been used to assess:

1. The business performance of more mature versus less mature Service Strategy organisations;
2. The characteristics of Leading Service Strategy organisations with respect to 1) Multi-Channel 2) Outsourcing and 3) Analytics strategies.

5.1 Service Strategy Maturity Model

The Service Strategy Maturity Model is constructed by combining four key measures of Service Strategy and the Customer Service performance of an organisation (Figure 9) as follows:

1. The first measure is based on the rating of management recognition and support.
2. The second measure is based on the rating of the level of incorporation of sub-strategies within the enterprise-wide Service Strategy.
3. The third measure is based on the rating of the effectiveness of the Service Strategy in driving business performance.
4. The final measure is based on the overall rating of the organisation's Customer Experience / Satisfaction performance.

Survey participants were asked to rate their organisation's performance across these key measures.

The resulting Service Strategy Maturity Index provides a one number summary of an organisation's performance across these four key attributes.

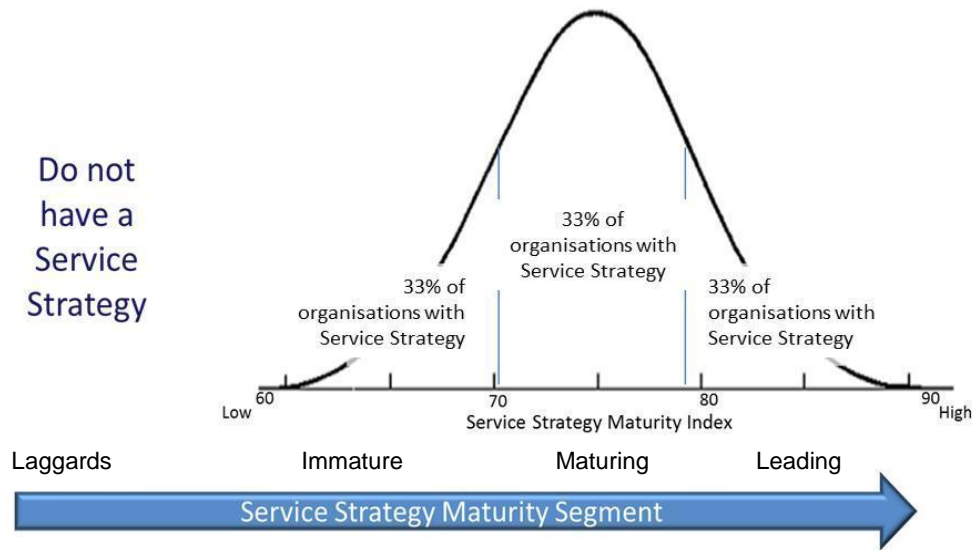
Figure 9: Service Strategy Maturity Model



The Service Strategy Maturity Model has identified four segments of organisational maturity with respect to Service Strategy deployment and implementation (Figure 10):

1. LAGGARDS: Organisations that do not have an enterprise-wide Service Strategy.
2. IMMATURE: Organisations whose Service Strategy maturity index falls in the bottom third of the overall population of organisations that have an enterprise-wide Service Strategy.
3. MATURING: Organisation whose Service Strategy maturity index falls within the middle third of the overall population of organisations that have an enterprise-wide Service Strategy.
4. LEADING: Those companies whose Service Strategy maturity index falls within the top third of the overall population of organisations that have an enterprise-wide Service Strategy.

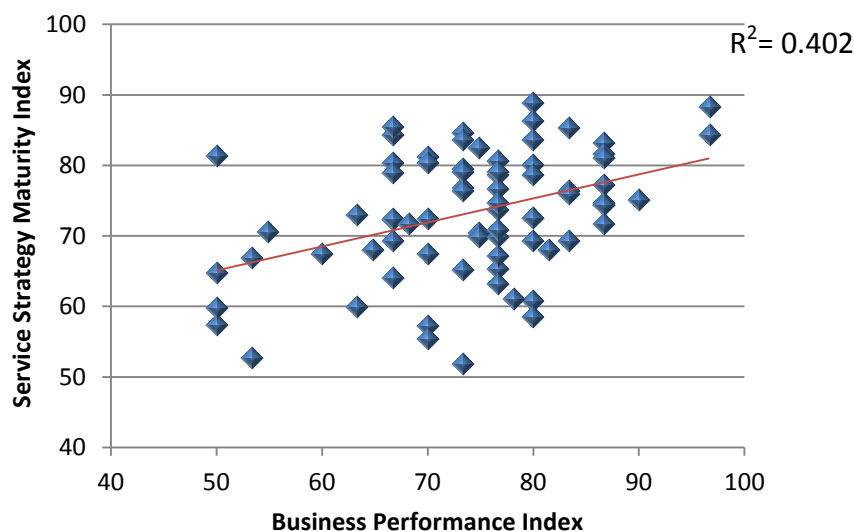
Figure 10: Service Strategy Customer Service Maturity Model



5.2 Leading Service Strategy Organisations Deliver Better Business Performance

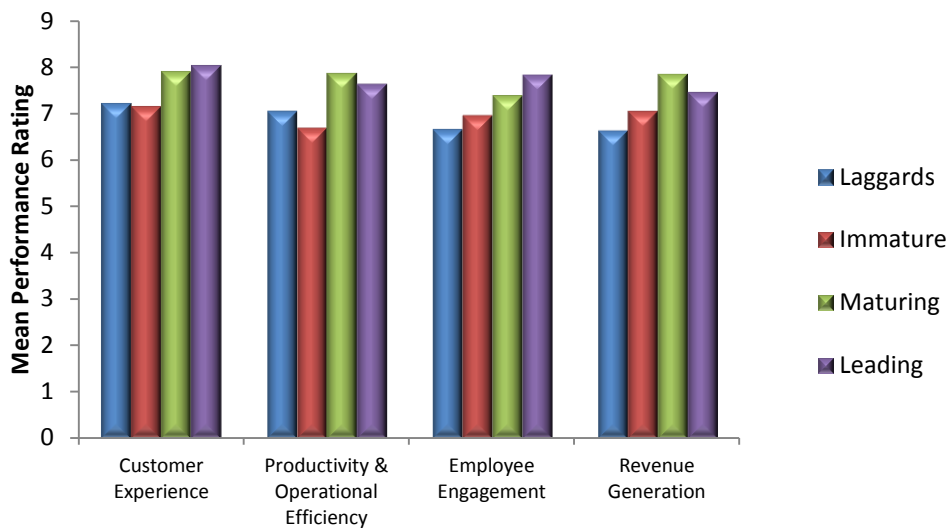
This study identified that there is a significant and positive relationship between organisations that have a 'Leading' Service Strategy Index score and strong overall business performance (Figure 11). Organisations were classified across two variables: Service Strategy Maturity and Business Performance. The Business Performance measure was derived through an assessment of the combined performance of Revenue Generation, Employee Engagement and Productivity and Operational Efficiency ratings.

Figure 11: Service Strategy Maturity Model v Business Performance Index



Underlying this relationship is the fact that organisations classified as Leading or Maturing on the Service Strategy Index, delivered significantly higher performance ratings across Customer Experience, Productivity and Operational Efficiency, Employee Engagement and Revenue Generation business performance variables than those classified as Immature or Laggards (Figure 12).

Figure 12: Mean Business Performance Ratings



5.3 Analyst Commentary

The majority of organisations in this study ranked Service Strategy as one of the three most important organisational strategies (81%). However, the development and implementation of an enterprise-wide Service Strategy across Australian based organisations was inconsistent, with less than 1 in 4 organisations regarded as being ‘Leading’ with respect to their Service Strategy Maturity Index rating.

It is evident that a successfully integrated enterprise-wide Service Strategy will drive better business performance. This Paper highlights that there are opportunities within many Australian based organisations to develop stronger Service Strategies. Organisations that fully embrace an enterprise-wide Service Strategy should achieve superior business performance outcomes.

6. Characteristics of Leading Service Strategy Organisations

As organisations consider developing a true enterprise-wide Service Strategy, much can be learnt by studying organisations that are classified as Leading. This section of the Paper investigates the key business practices that are common to Leading Service Strategy organisations across Multi-Channel, Outsourcing and Analytics strategies.

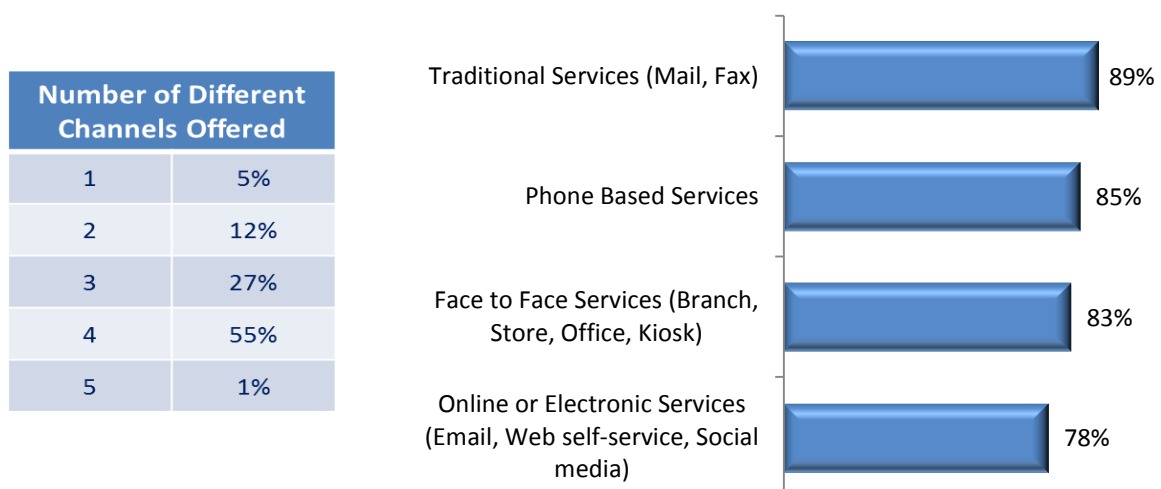
6.1 Customer Service Channels

The current convergence and integration of customer service channels and the increasing sophistication and use of multi-media channels and devices by consumers means the customer service landscape is changing rapidly as well as dramatically.

Today, organisations seeking to gain competitive advantage, by creating a consistently strong customer experience and improving customer value, are investigating Multi-Channel Service Strategies.

This research revealed that many organisations are currently offering multiple touch points for customers to communicate and interact, with 56% of organisations offering 4 or more different contact channels. Traditional channels such as mail and fax are offered by 89% of organisations. Phone based channels (e.g. phone attendant, IVR and SMS) are offered by 85% of organisations and face to face services (e.g. branch and store) by 83% of organisations. The availability of Online or Electronic services (e.g. email, web self-service and social media) lags behind with 78% of organisations offering these channels (Figure 13).

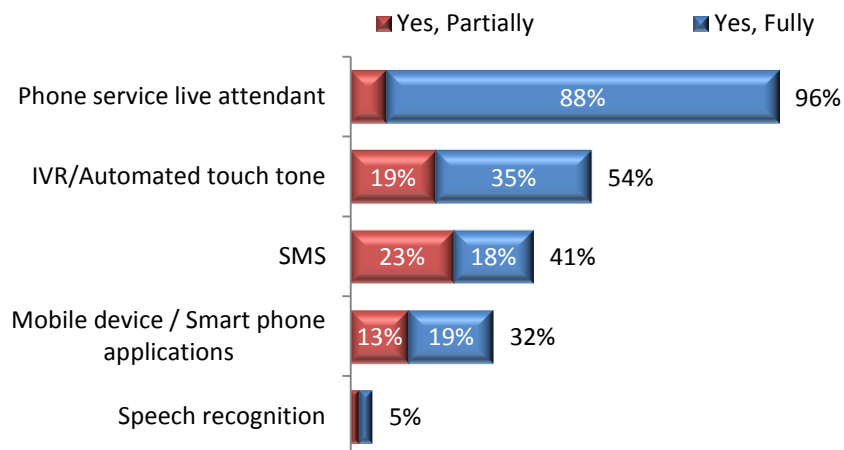
Figure 13: Customer Service Channels Offered



6.1.1 Phone Based Services

Amongst organisations in this study that offer Phone based channels, the implementation of live attendant phone services was widespread (96%). However, the implementation and use of technology based Phone channels was inconsistent with 54% having implemented IVR / automated technology, 41% SMS, 32% mobile device / smart phone applications, and only 5% having implemented some form of voice recognition technology (Figure 14).

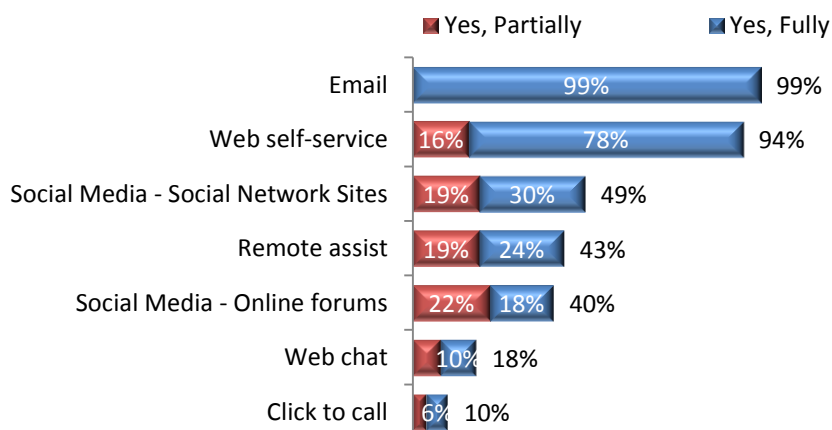
Figure 14: Extent to which phone based services are implemented amongst organisations that currently offer phone channels



6.1.2 Online and Electronic Services

The level of implementation, across a range of Online / Electronic services channels varied across Australian based organisations. Of the 78% of organisations that currently offer Online / Electronic channels, email is fully implemented within 99% of organisations. Internet (web based self-service) channels are implemented within 94% of organisations. Social media is less developed as a customer contact channel with 49% of organisations having implemented the use of social media via social network sites and 40% having implemented the use of social media through online forums. The use of online as a medium through which to connect to a customer service representative is currently underutilised compared to other online electronic channels with only 18% of organisations having implemented the use of web chat and 10% implemented Click To Call options (Figure 15).

Figure 15: Extent to which online / electronic services are implemented amongst organisations that currently offers online / electronic channels

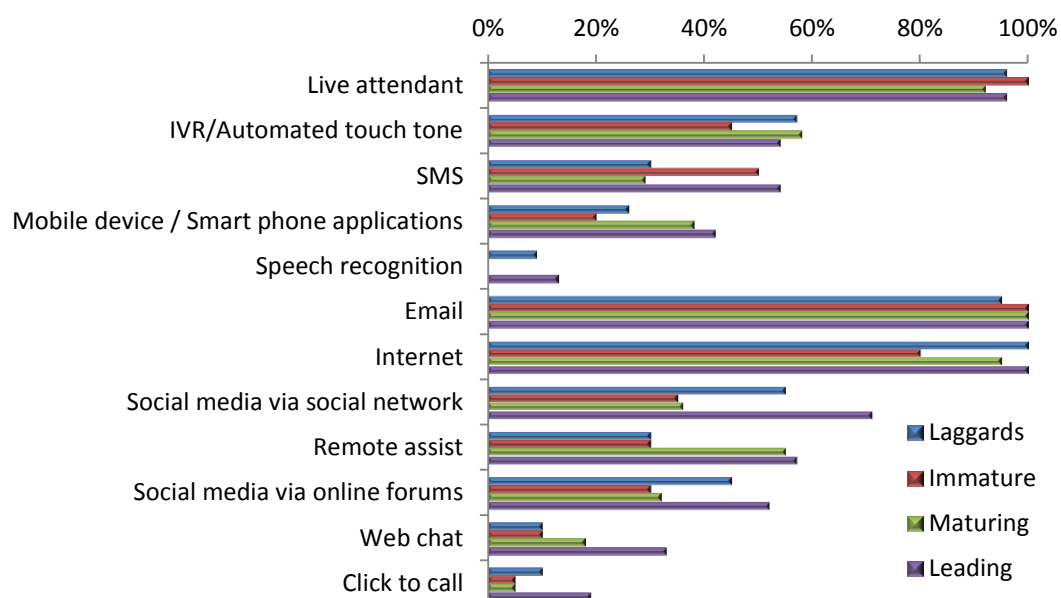


6.1.3 Multi-Channel characteristics of Leading Service Strategy Organisations

A key finding was evidence of a statistically significant relationship between organisations that are classified as Leading with respect to their Service Strategy Maturity Index and Multi-Channel Strategy:

1. 76% of Leading Service Strategy organisations offer 4 or more customer service channels. This result is significantly higher than Immature organisations where only 45% offer 4 or more channels.
2. In terms of Phone based channels, Leading Service Strategy organisations are significantly more likely to have implemented mobile device / smart phone applications (42%) as a customer service channel than Immature organisations (26%).
3. In terms of Online / Electronic channels, Leading Service Strategy organisations are significantly more likely to have implemented the use of social media via social network sites as a customer service channel (71%) than Maturing (36%) and Immature (35%) organisations (Figure 16).

Figure 16: Extent to which phone and online / electronic services are implemented



6.1.4 Analyst Commentary

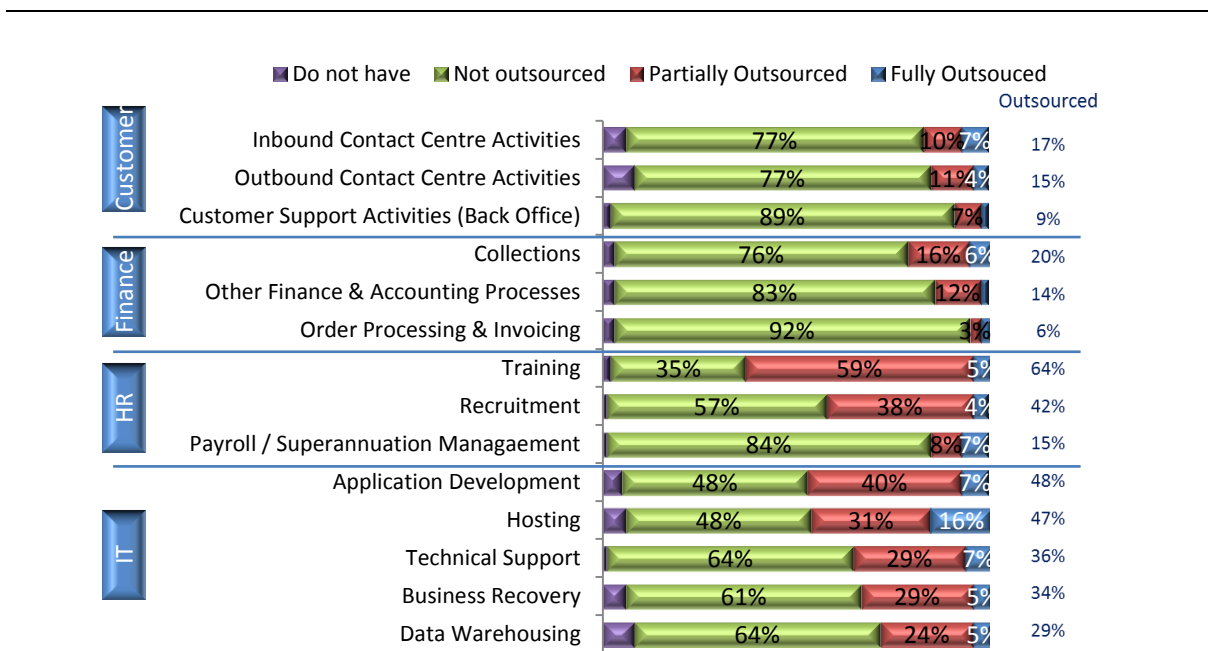
Whilst the offering of multiple customer service channels is a characteristic of Leading Service Strategy organisations, simply having a range of channels available for customers to interact with an organisation does not directly lead to Service Strategy maturity and better customer service performance ratings. The development of an effective Multi-Channel strategy must take into consideration customer needs but also organisational capabilities in order to ensure the delivery of an effective and consistent service experience through all channels that are offered.

In addition, organisations that are thinking cleverly about Multi-Channel service are thinking not only about implementing particular channels, but also about how to integrate the channels and deliver a consistent service experience that directly supports the organisation's Brand, Corporate Strategy and specific Channel Strategies.

6.2 Outsourcing

Australian based organisations are relatively experienced with the outsourcing of business processes whether it is for Customer Interaction, Finance, Human Resource Management or Information Technology business processes. Overall, 85% of Australian based organisations in this study outsource, partially or fully, at least one of the fourteen business process measured, with organisations outsourcing an average of 3.7 different business processes. Across the fourteen different business processes included in this study, the level of outsourcing varies (Figure 17).

Figure 17: Outsourcing Business Processes



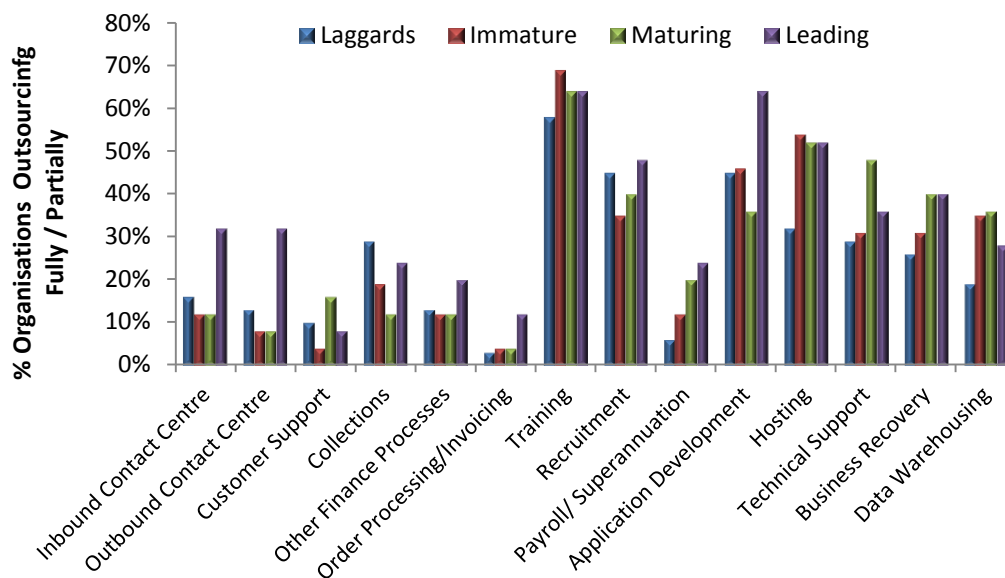
Human Resource Management (HRM) tasks are the most common business processes outsourced, with training (64%) and recruitment (42%) being the two most outsourced HRM business functions. Information Technology based business processes are the second most outsourced functions across Australian based organisations with 48% outsourcing application development, 47% hosting and 36% outsourcing technical support. The outsourcing of Finance functions such as collections (20%) and order processing and invoicing (6%) lag behind that of HR and IT functions. The outsourcing of Customer Interaction functions is lowest with only 17% of surveyed organisations outsourcing inbound contact centre activities and 15% outsourcing outbound contact centre activities.

6.2.1 Outsourcing: Characteristics of Leading Service Strategy Organisations

One of the intriguing results of this study was the finding that there was no significant relationship between Service Strategy maturity and the outsourcing of a greater number of the 14 different business processes measured. However, what is evident from this study was that there are business processes that are more commonly outsourced by Leading Service Strategy organisations (Figure 18).

1. Leading Service Strategy organisations were significantly more likely to outsource outbound contact centre activities (32%) and software application development (54%) than Maturing and Laggard Service Strategy organisations.
2. The outsourcing of inbound contact centre activities, finance processes, ordering processes, and payroll functions was higher amongst Leading Service Strategy organisations than Laggards.
3. The outsourcing of hosting, business recovery and data warehousing was lower amongst Laggard Service Strategy organisations.

Figure 18: Outsourcing of business processes



6.2.2 Analyst Commentary

Although the majority organisations in this study are currently outsourcing at least one business process (85%), for many, outsourcing remains a low strategic priority. The subsequent question is whether outsourcing helps drive positive business performance.

Although there is not a direct relationship between outsourcing and Service Strategy maturity at the overall level, there is a significant relationship between the outsourcing of inbound and outbound contact centre functions and application development processes and Leading Service Strategy organisations. This finding suggests that as organisations become more mature with respect to Service Strategy, outsourcing may play a greater role in operational strategies and capabilities.

6.3 Analytics

As consumers become increasingly sophisticated, greater demand is placed on organisations to respond quickly and more effectively pre-empt consumer needs. Organisations must become more dynamic and efficient. In order to make critical business decisions quickly, an effective Analytics Strategy is should be strongly considered.

An Analytics Strategy is an important component of the enterprise-wide Service Strategy, with 96% of organisations in this study incorporating an Analytics Strategy as part of the enterprise-wide Service Strategy (Figure 6). However, within the Analytics Strategy the level of use of business analytics software tools across different business functions varies. Key findings in this study, with respect to the use of business analytics software were:

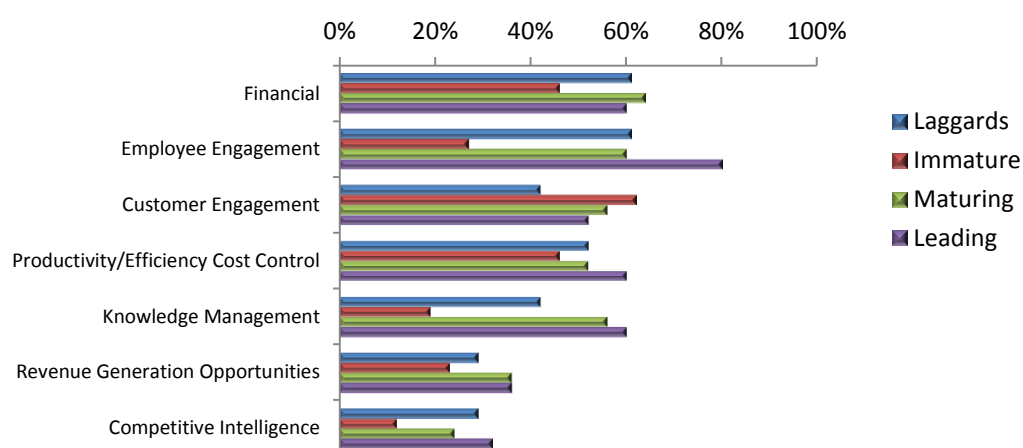
1. The use of business analytics software is most prevalent for the areas of Finance (58%) and Employee Engagement (57%);
2. The use of analytics software for Competitive Intelligence (24%) and Revenue Generation Opportunities (31%) lags that of other business processes.

6.3.1 Analytics: Characteristics of Leading Customer Service Organisations

In terms of the types of business analytics that are more prevalent amongst Leading Service Strategy organisations compared to Immature and Laggard Service Strategy organisations, analytics software for Employee Engagement and Knowledge Management are deployed at a statistically significantly higher level (Figure 19).

What is interesting is that the use of analytics software for Revenue Generation Opportunities and Competitive intelligence is not as developed across all levels of Service Strategy maturity.

Figure 19: Customer Service Maturity and Business Analytics



6.3.2 Analyst Commentary

A significant finding of this Paper is the positive link between organisations that have a Leading Service Strategy and the implementation of developed Analytics Strategy. As organisations become more mature with respect to Service Strategy the role of analytics software for managing Employee Engagement and Knowledge Management may play a bigger role in the organisations Analytics Strategy.

In addition, the use of analytics software for Revenue Generation Opportunities and Competitive Intelligence lags behind that of other business processes, even amongst Leading Service Strategy organisations. In order to improve business performance organisations may consider leveraging analytics software in these areas.

7. Analyst Perspective

Organisations increasingly recognise the importance of delivering a great customer service experience. Despite this, organisations remain more focused on Marketing, Human Resource Management, Technology and Finance strategies than Service Strategies to deliver strong business performance. Although 81% of organisations included in this study rate Service Strategy as one the three most important strategies to the business, less than 1 in 4 organisations have in place what this study would classify as a Leading enterprise-wide Service Strategy.

To help understand the role and characteristics of a Leading Service Strategy this Paper has identified how a mature Service Strategy influences business performance and incorporates Multi-Channel, Outsourcing and Analytics Strategies.

One of the most significant contributions of this research is proving evidence that supports the hypothesis that organisations with a Leading Service Strategy classification, as defined within the parameters of this research, are significantly more likely to deliver better business performance outcomes with respect to Employee Engagement, Operational Efficiency and Revenue Performance.

Another key finding of this study is confirmation of a statistically significant relationship between organisations that are classified as Leading with respect to their Service Strategy Maturity Index and their Multi-Channel Strategy. This includes the finding that Leading Service Strategy organisations are more likely to have implemented mobile device / smart phone applications and social media via social network sites as customer service channels.

The development of an effective Multi-Channel strategy must take into consideration customer needs but also organisational capabilities in order to ensure the delivery of a great service experience through all channels that are offered. In addition thought must be given to how to integrate the channels and deliver a consistent service experience that directly supports the organisation's Brand, Corporate Strategy and Service Strategy across each channel.

With respect to outsourcing, the Paper presents evidence that supports the role of outsourcing business processes and activities as a component of a more mature Service Strategy. As organisations develop more mature Service Strategies, they may consider the role outsourcing of inbound and outbound contact centre activities may play.

The volume of internal and external data that is currently available to organisations has reached the nexus where it potentially limits the ability of the organisation to make decisions efficiently. An Analytics Strategy may assist organisations make effective decisions and capitalise on opportunities

quickly. As organisations become more mature with respect to the implementation of an enterprise-wide Service Strategy there is likely to be an increased focus on Employee Engagement and Knowledge Management analytics capabilities.

As organisations increasingly recognise the relationship between delivering a great customer service experience and business performance, organisations need to ensure they do this through a mature enterprise-wide Service Strategy.

Evidence provided in this Paper supports the notion that in addition to the traditional strategies of Marketing, Human Resource Management, Technology and Finance, Service Strategy makes a significant contribution to business performance. Subsequently Service Strategy should be a compulsory topic in Boardroom discussions. Organisations that develop and implement an enterprise-wide Service Strategy should gain significant advantage with particular regard to Employee Engagement, Productivity & Operational Efficiency and Revenue Generation.

Service Strategy can no longer live in isolation from the rest of the organisation and must span all facets of a business's operation.

8. About Fifth Quadrant

Fifth Quadrant is a Service Strategy and Research Consultancy and Fifth Quadrant | callcentres.net is our online publishing and social media division.

We are changing the way organisations think about Service Strategy and are dedicated to ensuring that Service has on-going presence at the Boardroom table.

Working across Voice, Face-to-Face, Online, Correspondence and Social Media service channels, Fifth Quadrant delivers an unrivalled level of knowledge, subject matter expertise and proprietary methodologies to ensure organisations have highly effective Service Strategies.

Fifth Quadrant has five core divisions: Consulting Services | Service Research | Analyst Services | Training | Online Publishing & Social Media



Report Authors



Dr Catriona Wallace: Owner and Managing Director

Dr Wallace has a PhD in Organisational Behaviour, is Adjunct Faculty at the Australian Graduate School of Management, is a published author and is internationally recognised as one of the top consultants and researchers in the service strategy field.

Dr Wallace leads a team of analysts and online specialists and has developed Fifth Quadrant into being the primary advisory service for the service industry in Australia and Asia-Pacific. Dr Wallace was also a finalist in the Telstra Business Woman of the Year Award for 2008.



Chris Kirby: Head of Research

Chris has a Bachelor of Science with Honours at the University of Plymouth and Postgraduate Advanced Certificate in Marketing from the Chartered Institute of Marketing London.

Chris has over 15 years market research experience including customer and employee engagement, product development and benchmarking, brand strategy and positioning, advertising and communications and innovation. Chris has worked across many industry sectors including Banking and Finance, Healthcare, Automotive, FMCG and Telecommunication.



Laurence Jackson: Senior Consultant

Laurence has extensive experience across all aspects of the research and service consultancy spectrum, and has particular expertise in the measurement of all things customer, including customer engagement, customer storytelling, technology and its role in customer experience and overall customer strategy.

Laurence has a BA (Hons) in English Literature and an MSc in Marketing and Market Research from The University of Birmingham in the UK and has worked for over 11 years in both the private and public sectors in the UK and Australia.

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9. About IBM

For further information

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The right partner for a changing world

IBM is a global technology and innovation company that stands for progress. We collaborate with our clients, bringing together business insight, advanced research and technology to give them a distinct advantage in today's rapidly changing environment. Through our integrated approach to business design and execution, we help turn strategies into action. And with expertise in 17 industries and global capabilities that span 170 countries, we can help clients anticipate change and profit from new opportunities. IBMers around the world invent and integrate hardware, software and services to help forward-thinking enterprises, institutions and people everywhere succeed in building a smarter planet.

IBM Australia

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Fifth Quadrant Service Strategy Maturity: A Model for Business Performance

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