Service Performance Insight, LLC

2021 Professional Services Maturity™ Benchmark

Microsoft | Dynamics 365

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www.spiresearch.com

Service Performance Insight, LLC

Service Performance Insight (SPI), LLC 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 35,000 service and project-oriented organizations to chart their course to service excellence.

The core tenet of the PS Maturity Model™ is PSOs achieve success through the optimization of five Service Performance Pillars™:

- **Leadership**
- **Client Relationships**
- **Talent** (formerly Human Capital Alignment)
- **Service Execution**
- **Finance and Operations**

The SPI Advantage – Research

Service Performance Insight provides an informed and actionable third-party perspective for clients and industry audiences. Our market research and reporting forms the context in which both buyers and sellers of information technology-based solutions maximize the effectiveness of solution development, selection, deployment and use.

The SPI Advantage – Consulting

Service Performance Insight brings years of technology service leadership and experience to every consulting project. SPI Research helps clients ignite performance by objectively assessing strengths and weaknesses to develop a full-engagement improvement plan with measurable, time-bound objectives. SPI Research offers configurable programs proven to accelerate behavioral change and improve bottom line results for our clients.

To provide us with your feedback on this research, please send your comments to:

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For more information on Service Performance Insight, please visit:

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1. Forward

Service Performance Insight, LLC (SPI Research) is proud to introduce the ***fourteenth-annual Professional Services Maturity™ Benchmark***. Since its inception we have researched, benchmarked, and built a maturity model to:

- Δ Help professional services (PS) executives better understand how their organization compares to others that are both similar in size and scope of work, as well as to the broader professional services market; and,
- Δ Provide an objective, fact-based performance improvement framework that helps pinpoint strengths and weaknesses and the advancements that will provide the greatest impact.

In 2007, SPI Research developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 35,000 service and project-oriented organizations to chart their course to service excellence.

The PS Maturity™ model helps executives compare and analyze their own performance so they can build consensus around the actions to take, and where to start, while quantifying the benefits of change. Analyzing the benchmark data by vertical market, geographic region and organization size gives PS executives an accurate comparison to their peers and the market at large. Over 6,000 firms have completed SPI's benchmarking surveys over the past fourteen years.

A near record number of respondents (561) completed this year's benchmark survey. With growth in the number of participants, data accuracy improves and enables us to expand coverage into more sub-verticals and geographies. This wealth of data means the depth, breadth and accuracy of the benchmark continues to expand.

2020 – A Year Like No Other

2020 was a year like no other in history with the Corona Virus pandemic ravaging society and the economy. Surprisingly, Professional Service organizations weathered the storm with relative ease. Yes, annual revenue and headcount growth were down from 2019, but taken as a whole, the PS sector reported relatively strong year over year revenue growth of 8.7% combined with 5.5% average headcount growth. Comparatively few firms were forced to lay-off their valuable PS employees. In fact, many firms used the chaos of 2020 to expand their workforces, with 18% (101 firms) reporting robust headcount growth greater than 15%. At the other extreme, 21.9% (123 firms) resorted to lay-offs. 18.8% (106 firms) reported negative revenue growth while 28.1% (158 firms) reported healthy revenue growth of more than 15%. Unfortunately the K-shaped recovery which is widening the gap between the have and have nots in society is also at play in the Professional Services sector with the best-positioned firms (focused on the hottest growth areas of the cloud and analytics) garnering near record levels of growth and profit while the bottom 20% saw revenues and profits plummet.

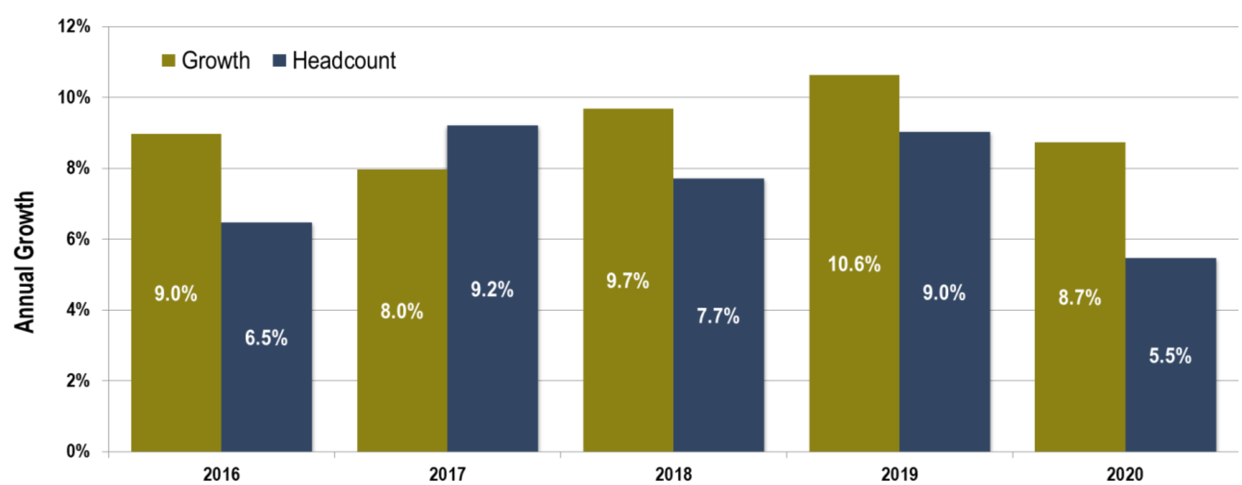
As shown in Table 1, several key metrics improved in 2020; overall attrition eased to 11.6%, the lowest attrition in five years, while the percentage of on-site service delivery declined to 40.8%. This means 59.2% of PS revenue was delivered remotely but the switch to virtual service delivery was far less dramatic than we had anticipated. In most cases, PSOs were able to move to virtual operations almost overnight. The move to virtual operations has generally been extremely positive with higher levels of productivity and much lower operating costs. Firms have been able to reinvest their planned expenditures on employee meals, travel and meetings into remote technology support and virtual training. In some cases, firms are providing employee stipends for childcare and home offices.

Table 1: Five-year PS Key Performance Metrics

Key Performance Indicator (KPI)	2016	2017	2018	2019	2020
Annual PS revenue growth	9.0%	8.0%	9.7%	10.6%	8.7%
Annual PS headcount growth	6.5%	9.2%	7.7%	9.0%	5.5%
Percentage of billable personnel	74.6%	75.4%	72.8%	73.3%	73.7%
Onsite delivery	***54.0%***	***57.6%***	***53.0%***	***47.5%***	***40.8%***
Employee attrition	13.6%	12.2%	13.9%	13.2%	11.6%
Annual revenue per consultant (k)	$205	$195	$206	$207	$203
Annual revenue per employee (k)	$163	$159	$166	$170	$165
Profit (EBITDA %)	**14.2%**	**16.8%**	**18.5%**	**15.2%**	**15.8%**

Source: SPI Research, February 2021

Figure 1: Annual PS Revenue Growth vs. Headcount Growth



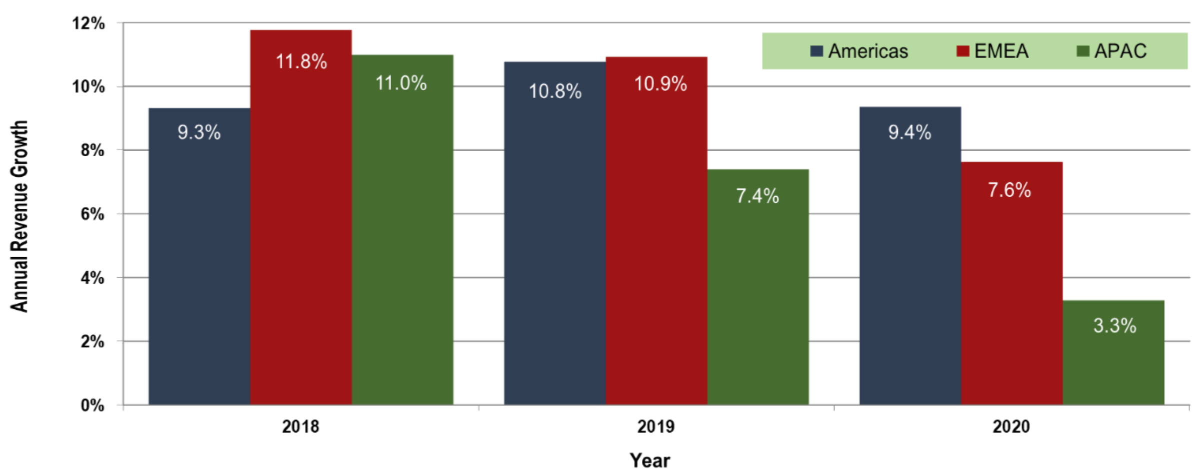
Source: SPI Research, February 2021

The downside of virtual operations has been experienced most acutely by employees with children at home who need attention and home-schooling. Much has been written about the negative impact, particularly on women with young children, who are bearing the brunt of home-schooling and childcare while still holding down full-time, demanding jobs. Now, with the promise of a vaccine in 2021 we anticipate the professional services sector will move to a hybrid business model – continuing to take advantage of the many benefits of remote work while using offices and gatherings to facilitate teamwork, training, mentoring and networking.

Revenue Growth by Geography

Despite months of global stay-at-home orders, the Professional Services sector none the less reported year over year revenue growth. The American economy was buoyed by federal stimulus payments, keeping individuals and hard-hit industry segments, like travel and leisure, from collapse. Even more surprising, according to the [Bureau of Labor and Statistics](), US productivity in the third quarter of 2020 rose 4.6 percent, following a 10.6 percent increase in the second quarter, which is the largest six-month improvement since 1965.

Figure 2: Annual Revenue Growth by Geographic Region



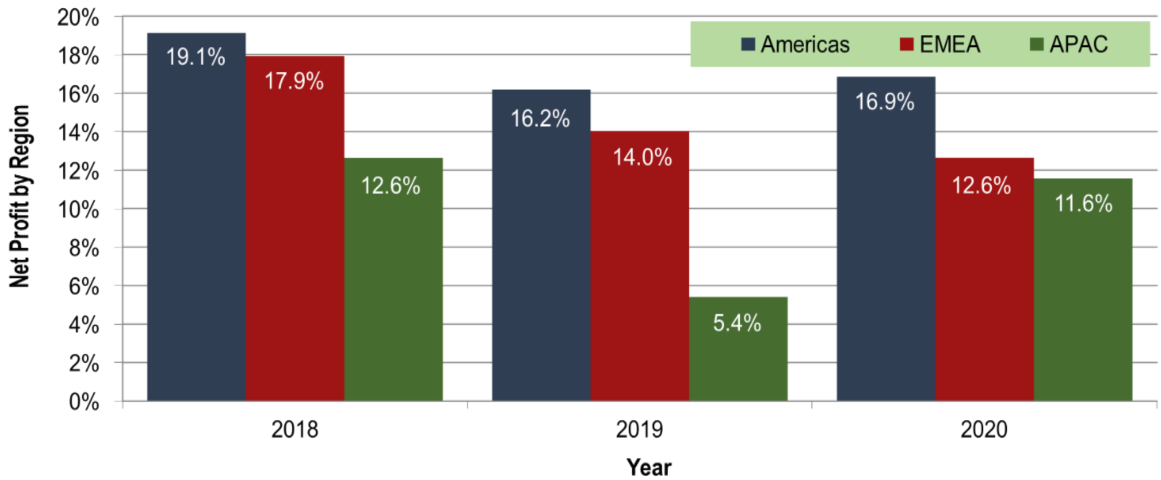
Source: SPI Research, February 2021

The technology sector was one of the least impacted with continued healthy revenues and profits. In 2020 we saw a great acceleration in the use of technology and digitization to support virtual work and access from anywhere. According to an [October 2020 study by McKinsey](), companies have accelerated digital transformation by 3 to 4 years. The move to automate and streamline will continue in 2021 as businesses continue to transform to digital operations. A terrible year for the economy still produced positive returns in many stock markets. The recession has hurt small businesses much more than large ones. Figure 2 shows although revenue growth slowed in all regions, the slowdown was least impactful in the Americas and the most dramatic in the Asia Pacific region.

In the Professional Service sector, revenue growth and profit are intertwined. In PS organizations, a delicate balance between sales and service delivery must be continually optimized to ensure firms are able to maximize resource billable utilization, driving revenue growth and profit.

Surprisingly, as shown in Figure 3, Americas headquartered firms reported year over year net profit improvement as their income statements were buoyed by significantly lower travel and recruiting costs due to the pandemic. In fact, both Americas and Asia Pacific headquartered firms reported profit improvements while European-headquartered firms experienced slight profit erosion.

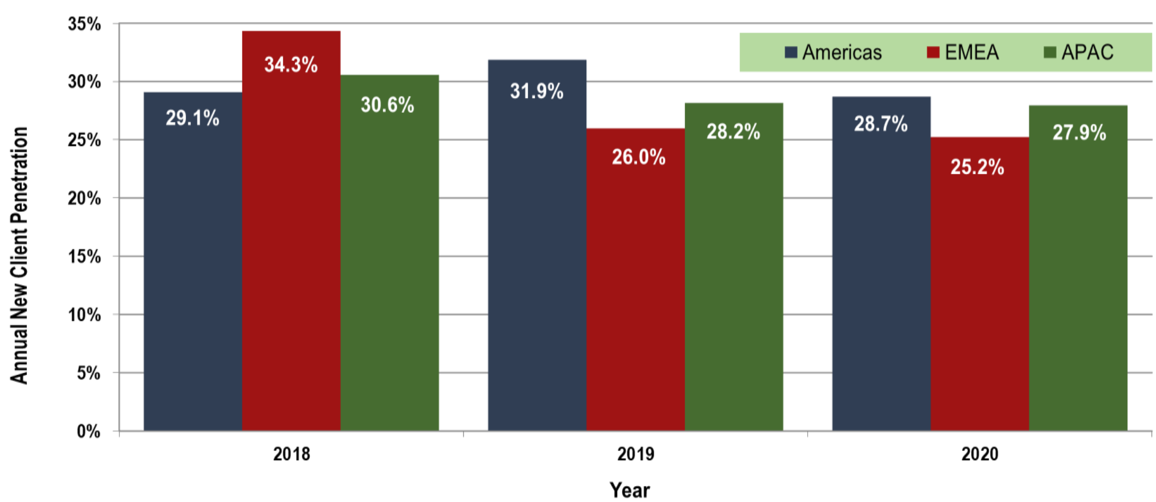
Figure 3: Annual Profit by Geographic Region



Source: SPI Research, February 2021

A key measure of market expansion is the percent of overall revenue derived from new logo clients. This metric indicates firms are expanding beyond their installed base by adding net new client projects. As this benchmark is dominated by technology firms, market expansion is particularly prevalent for cloud-based software and service organizations. According to Flexera's report-state-of-the-cloud-2020.pdf (flexera.com) a majority of organizations have accelerated their move to the cloud based on the impact of Covid-19 in forcing businesses to move to virtual operations.

Figure 4: Annual New Logo Client Percent of Revenue by Geographic Region

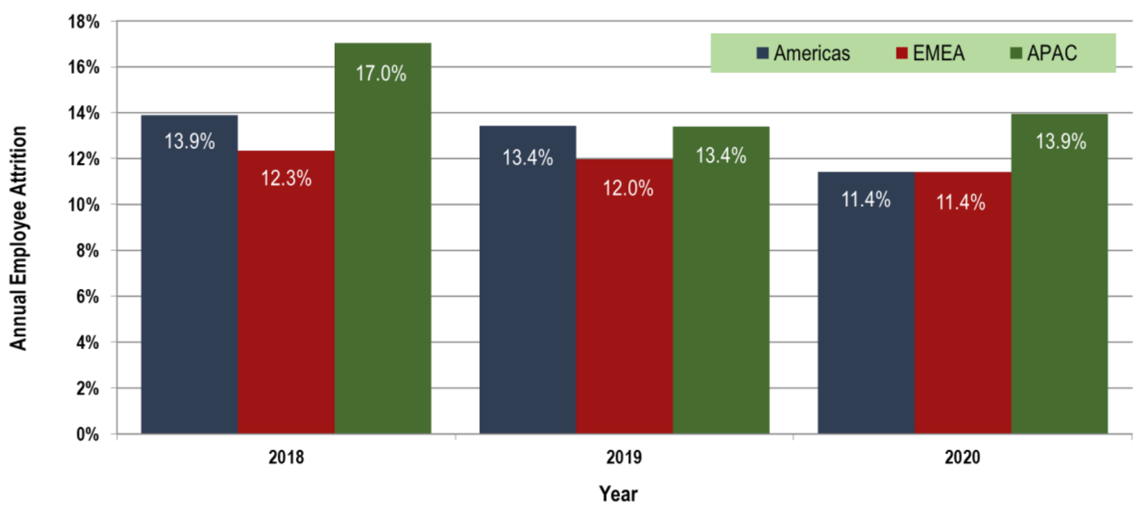


Source: SPI Research, February 2021

Another key contributor to net profit improvement has been a slow-down in attrition. Through the first half of the year, the PS sector experienced the lowest attrition of a lifetime at 5.5% according to SPI's 2020 PS Talent benchmark. Attrition accelerated in the 2nd half of the year and now stands at 11.6%. Analysts are predicting high attrition in 2021 as employees become disenfranchised with their work and gain confidence in an end to the pandemic. The pandemic has upended expectations of what work can be done outside of an office. As companies move to hybrid operations in 2021, the notion that employees must live and report daily to an office will be off the table. Particularly for the constrained skilled talent supply which fuels the PS sector, the ability to hire the best available employee, regardless of location, will accelerate. 2020 proved to clients and employers alike that both project quality and resource productivity are enhanced by virtual service delivery.

By geography, attrition declined in the Americas and EMEA but increased in Asia Pacific. Long prized as an outsourcing location, Indian IT firms have been the most challenged to staunch their skilled talent exodus, particularly with travel and immigration restrictions limiting overseas talent mobility. High rates of attrition are directly responsible for lackluster revenue growth in Asia Pacific.

Figure 5: Annual Attrition by Geographic Region



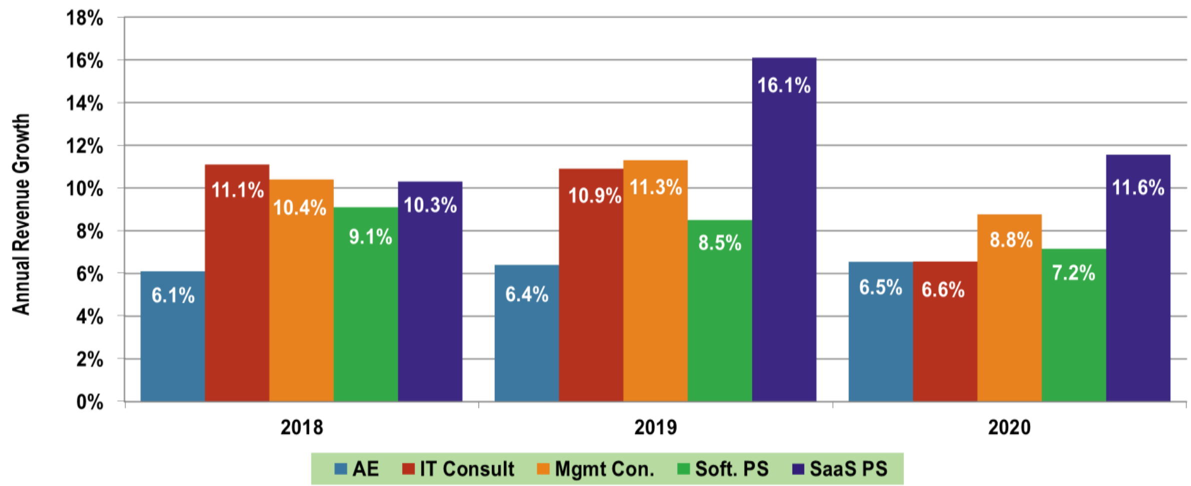
Source: SPI Research, February 2021

Revenue Growth by Industry Segment

The highest growth segments in 2020 were embedded PS within SaaS companies and Management Consultancies. As shown in Figure 6, growth slowed in all segments in 2020 but the slowdown was most acute for independent IT consultancies and embedded PS within SaaS companies as they experienced project delays and cancellations. On the flip side, these companies will be the first to recover as long as they are focused on driving productivity improvements and virtual operation for their clients.

Despite slower revenue growth, profit improved for embedded PS within enterprise software companies as these firms focused on profit improvement initiatives with an emphasis on enhancing their integrated business application backbone. By far, embedded PS organizations make the best use of integrated business applications, enabling them to visualize all aspects of operations and make necessary course corrections when sales stall.

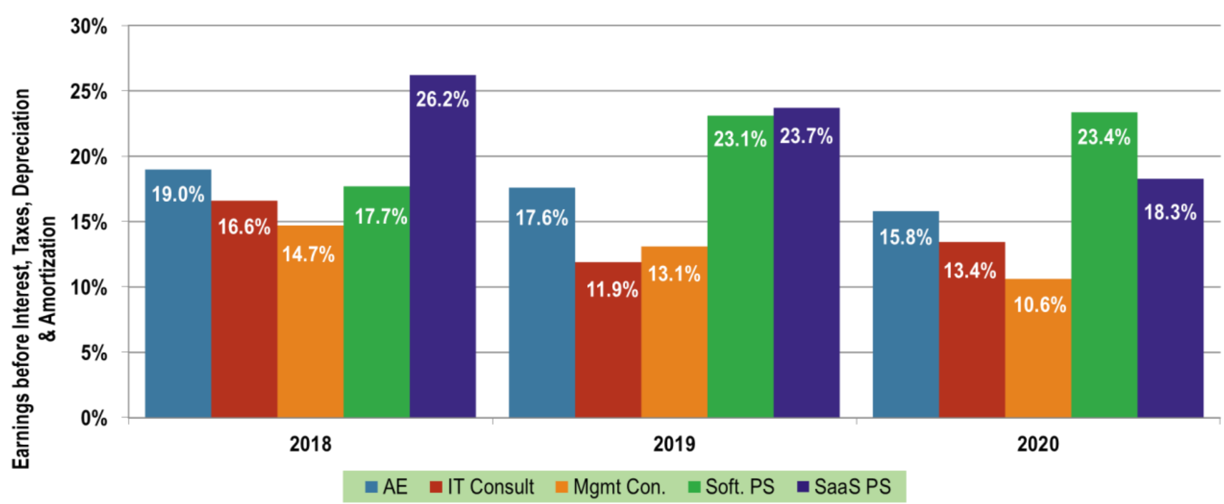
Figure 6: Annual Revenue Growth by PS Industry Segment



Source: SPI Research, February 2021

Embedded PS organizations have been the first to move to productize and automate their solutions portfolio, making it easier to sell and deliver services with prescribed business outcomes. All organizations are putting a premium on subscription, pay-as-you-go recurring revenue.

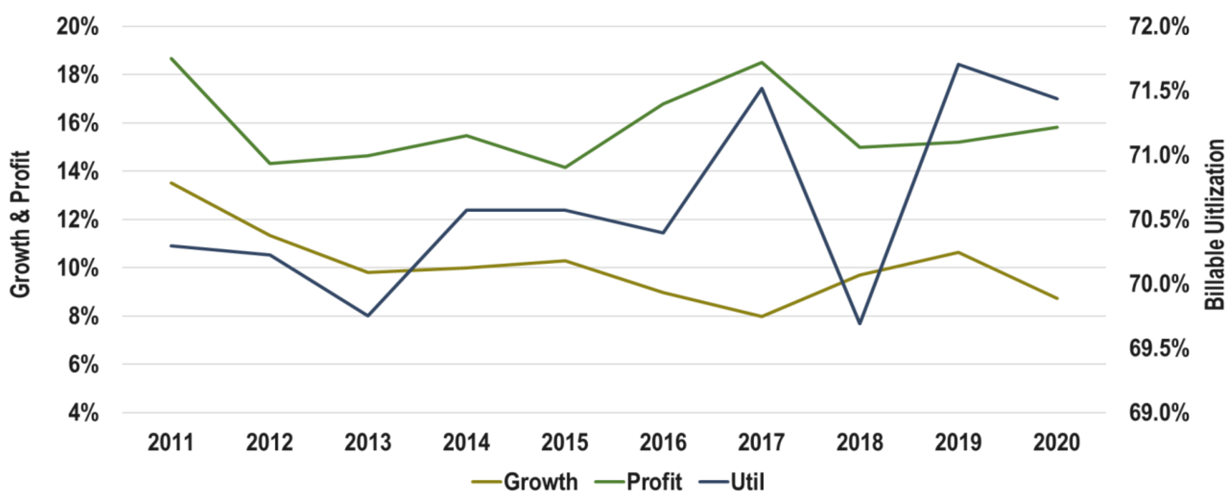
Figure 7: Net Profit (EBITDA) by PS Industry Segment



Source: SPI Research, February 2021

For anyone who wants to know how money is made in a labor-based business, they need to look no further than at workforce productivity. Despite legions of time-saving devices and technology, no one has yet found a way to make an hour longer than 60 minutes, nor have they discovered how to make a day last more than 24 hours. But what the PS industry is finally discovering is the secret is to work smarter not harder. This means PSOs are reducing the time and annoyance of administrative tasks like entering time and business expenses or writing and continually updating project status reports. No more endless resource scheduling meetings. No more entering and reentering reams of data into an endless series of disconnected spreadsheets. Instead of getting on an airplane at the crack of dawn on a Monday morning, and returning tired and exhausted on a Friday night, consultants can now work virtually from the comfort of home. Just look at the extraordinary acquisition of Slack by Salesforce for $28 billion to understand the premium companies are placing on virtual workforce communication and collaboration to accelerate digital transformation.

Figure 8: Annual Growth, Profit and Utilization



Source: SPI Research, February 2021

A Return to the "New Normal" in 2021

With the promise of a vaccine, the global economy is poised for a recovery in 2021. Some aspects of the Professional Services sector will however remain forever changed due to the pandemic. The pace of digital transformation will continue to accelerate, with the move to cloud computing becoming mandatory for even the most technology adverse industries. This means an abundance of work for PS organizations who stay at the forefront of technology. The importance of "mobile" with anywhere, anytime access to systems and employees will be mandatory. We have already seen a tech exodus from expensive urban centers like Silicon Valley fueled by the ability to work remotely from anywhere. This trend will slow down with a return to work "hybrid" model.

SPI Research sees a new millennial workforce, nursed on technology and instant global communication, take charge. Knowledge workers around the world are increasingly becoming more consultant-like with heightened expectations for measurable work effort and output. Younger employees are far less loyal and more likely to frequently change employers than the baby boomers they are replacing. Life-work balance, diversity and giving back are important considerations which are making an impact of the

Professional Services sector however the industry remains solidly a young man's game with 61% male employees and 53.6% of the workforce under 40 years of age.

Businesses and business models are being upended by a move to usage-based consumption, subscription billing and managed services with almost 20% of sector revenue coming from these recurring revenue models. Millennial and line of business buyers demand ease, access and instant gratification. Yet the age-old professional services business model based on applying specialized knowledge and skills to solve complex problems persists and thrives. The world of professional services is becoming more attractive, no longer focused on basic "infrastructure and plumbing" supplied by armies of technical developers. Employees are now able to focus on more meaningful business process improvements and truly impactful transformation and change management.

The professional services market continues to grow. No let-up in demand is seen and clients seem content to engage specialized service providers in traditional ways – focused on project outcomes but still based on traditional time and materials pricing although subscription-based and managed service contracts are gaining momentum. PS organizations must rise to the challenge by packaging and productizing their services, making them easier to sell and buy. Defined outcomes with clear ROI are becoming the norm, transferring more accountability to service providers. The trick is being able to move quickly to multi-element contracts and usage-based pricing without losing your shirt.

Technology ecosystems are emerging as preferred platforms as buyers seek to minimize complexity and amplify application integration. Winners are coalescing around Amazon, Google, Microsoft or the Salesforce platform so they can ride the waves these goliaths have created all while assuring new customers of their ability to plug and play nicely with partner applications within the same ecosystem. Service providers have coalesced by ecosystem too while working hard to establish meaningful differentiation.

Today, discussions of "brand" and "culture" come up in most professional services conversations because establishing the firm as a fantastic place to work is the most important element in attracting and retaining a high caliber workforce. The key to success is having the best talent available to capture and deliver new opportunities. Top performers understand they must create a compelling vision of the future and quickly hire and support employees to bring that vision into reality. Now is not the time for PSOs to rest on old skills, competencies and systems, more than ever before they need to be bold and disciplined to seize new solutions and technologies before they become mainstream.

The pace and magnitude of technology change at times seem insurmountable but somehow millions of consultants find a way to stay abreast of this mounting complexity to make sense of it all for their clients. New technologies continue to transform the professional services market, and nowhere is this more evident than in the security, mobile, artificial intelligence and collaboration (SMAC) space. These solutions, many of which are embedded in core business suites such as Enterprise Resource Planning (ERP) or Corporate Financial Management (CFM); Client Relationship Management (CRM); Professional Services Automation (PSA); and Human Capital Management (HCM); are becoming increasingly critical to the success and growth in professional services. Professional Services is an employee driven market and providing the best tools that provide the best insight underlies all performance improvements.

2. The Professional Services Maturity™ Model

SPI Research has spent almost two decades benchmarking varying levels of operational control or process "maturity" to determine the characteristics and appropriate behaviors for Professional Services Organizations based on their organizational lifecycle stage. The fundamental questions SPI Research was seeking to answer when the PS Maturity™ Benchmark was first conceived remain our primary focus:

- ∆ What are the most important focus areas for professional services organizations (PSOs) as their businesses mature?
- ∆ What is the optimum level of maturity or control at each phase of an organization's lifecycle?
- ∆ Can diagnostic tools be built for assessing and determining the health of key business processes?
- ∆ Are there key business characteristics and behaviors that spell the difference between success and failure?

The original concept behind SPI Research's PS Maturity Model™ was to investigate whether increasing levels of standardization in operating processes and management controls improve customer satisfaction and financial performance. ***The 2021 PS Maturity™ Benchmark demonstrates that increasing levels of business process maturity do indeed result in significant performance improvements (Table 2).***

Table 2: Maturity Matters!

Key Performance Measurement	Maturity Level 1-2	Maturity Level 3	Maturity Level 4-5
Percentage of respondents	54.7%	25.0%	20.3%
Year-over-year change in PS revenue	7.8%	6.4%	14.2%
Deal pipeline / qtr. bookings forecast	153%	181%	211%
Employee billable utilization	58.0%	76.4%	83.8%
Projects delivered on-time	59.3%	85.2%	92.0%
Annual revenue / billable consultant (k)	$88	$213	$275
Annual revenue / employee (k)	$74	$166	$238
PS EBITDA	**-3.2%**	**16.1%**	**22.8%**

Source: SPI Research, February 2021

In fact, SPI Research found that high levels of performance have far more to do with leadership focus, organizational alignment, effective business processes and disciplined execution than "time in grade." Relatively young and fast-growing organizations can and do demonstrate surprisingly high levels of maturity and performance excellence if their charters are clear.

Further improvements accrue when their goals and measurements are aligned with their mission, and they make the investments they need in talent and systems to provide visibility and appropriate levels of business control. Of course, it certainly helps if they are also well-positioned within a fast-growing market.

The core tenet of the PS Maturity Model™ is service and project-oriented organizations achieve success through the optimization of five Service Performance Pillars™:

1. **Leadership** – Vision, Strategy and Culture
2. **Client Relationships**
3. **Talent** (formerly Human Capital Alignment)
4. **Service Execution**
5. **Finance and Operations**

Within each of the Service Performance Pillars™, SPI Research developed guidelines and key performance maturity measurements. These guidelines cut across the five service dimensions (pillars) to illustrate examples of business process maturity. This study measures the correlation between process maturity, key performance measurements and service performance excellence.

Service Performance Pillars™

Fourteen years ago, SPI Research developed a model that segments and analyzes a PSO into five distinct areas of performance that are both logical and functional. We call the five underpinning elements Service Performance Pillars™ because they form the foundation for all professional services organizations (Figure 9):

Figure 9: Service Performance Pillars™

Source: SPI Research, February 2021

1. **LEADERSHIP - VISION, STRATEGY AND CULTURE**: (*CEO*) a unique view of the future and the role the service organization will play in shaping it. A clear and compelling strategy provides a focus for the organization and galvanizes action. Effective strategies bring together target customers, their business problems, and how a solution solves those problems differently, uniquely, or better than its competitors. For a service strategy to be effective, the role and charter of the service organization must be defined, embraced, communicated and supported throughout the company. Depending on whether the service strategy is to primarily support the sale of products, or to drive service revenue and profit; service organization goals and measurements will vary. Leadership skills and competencies must mature as the organization matures. Culture is the unwritten customs, behaviors and beliefs that determine the "rules of the game" for decision making, structure and power. The core leadership pillar processes include setting strategy, business planning, goal setting and management.

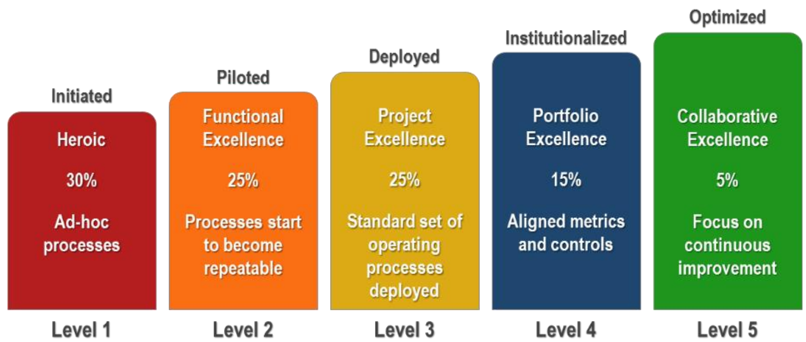
2. **CLIENT RELATIONSHIPS**: (*Marketing and Sales*) the ability to communicate effectively with employees, partners and customers to generate and close business and win deals. Effective client management involves developing a clear and compelling go-to-market strategy which defines target buyers, their requirements and how our solution solves those challenges in a differentiated way. This pillar encompasses all aspects of marketing, lead generation, quoting and selling solutions as well as contract management and partnering. The core business processes performed in the client relationships pillar include marketing, selling and the entire quote to cash business process.
3. **TALENT (FORMERLY HUMAN CAPITAL ALIGNMENT)**: (*Human Resources*) the ability to attract, hire, retain and motivate a high-quality consulting staff. With changing workforce demographics, talent management has increased in importance. High-caliber employees represent the essence, brand and reputation of the firm. PSOs are starting to adopt hybrid on and off-shore staffing models which put increased pressure on customer-facing staff to develop client relationships and more carefully define client requirements. Demands for career planning, skill development and flexible work options have intensified. The core talent management processes include recruiting, hiring, on-boarding, training, compensation, performance and career management.
4. **SERVICE EXECUTION**: (*Engagement/Delivery*) the methodologies, processes and tools to effectively schedule, deploy and measure the quality of the service delivery process. Service execution involves several factors: from resource management, to delivering projects in a predictable and acceptable time frame, to reducing cost while improving project quality and harvesting knowledge. Processes include resource management, capacity planning, project planning and quality control, knowledge management and methodology and tool development.
5. **FINANCE AND OPERATIONS**: (*CFO*) the ability to manage services profit and loss — to generate revenue and profit while developing repeatable operating processes. The finance and operations pillar focus on revenue, margin and cost and the financial, contractual and IT operating processes and controls required to run a profitable and predictable business.

Professional Services Maturity™ Model Benchmark Levels

The model is built on the same foundation as the Capability Maturity Model (CMM), which has been adopted for software development; but is specifically targeted toward billable PSOs, that either exclusively sell and deliver professional services or complement the sale of products with services. Figure 10 depicts maturity level progression and outlines primary characteristics for each maturity level:

- ***LEVEL 1* — *INITIATED "HEROIC"*: (APPROXIMATELY 30% OF PSOS)** at maturity Level 1, *processes are ad hoc and fluid*. The business environment is chaotic and opportunistic, and the focus for a PSO is primarily on new client acquisition and reference building. Often professional service employees at this level are chameleons — able to provide presales support one day and develop interfaces and product workarounds the next. Success depends on the competence and heroics of people in the organization, and not on the use of proven processes, methods or tools. Practices and procedures are informal, and quality is based on individual experience and aptitude. ***Level 1 organizations are often characterized as "informal" and "heroic".***

Figure 10: Services Maturity™ Model Levels



Source: SPI Research, February 2021

∆ ***LEVEL 2*** ***— PILOTED "FUNCTIONAL EXCELLENCE"*****: (APPROXIMATELY 25% OF PSOS)** at maturity level 2, *processes have started to become repeatable*. Best practices may be demonstrated in discrete functional areas or geographies, but they are not yet documented and codified for the entire organization. Basic processes have been established for the five Professional Services Performance Pillars, but they are not yet universally embraced. Operational excellence and best practices may be discerned within functions but not across functions. ***By Level 2 individual Functional Excellence should have emerged in key areas.***

∆ ***LEVEL 3*** ***— DEPLOYED "PROJECT EXCELLENCE"*****: (APPROXIMATELY 25% OF PSOS)** at maturity level 3, *the PSO has created a set of standard processes* and operating principles for all major service performance pillars but renegades and "hold-outs" may still exist. Management has established and started to enforce financial and quality objectives on a global basis. Processes have been established to focus on effective execution and there is spotlight on alignment between and across functions. By level 3 project delivery methodologies and quality measurements are in place and enforced across the organization. ***Level 3 organizations should exhibit "Project Excellence" with a consistent, repeatable project delivery methodology.***

∆ ***LEVEL 4*** ***— INSTITUTIONALIZED "PORTFOLIO EXCELLENCE"*****: (APPROXIMATELY 15% OF PSOS)** at maturity level 4, *management uses precise measurements, metrics and controls, to effectively manage the PSO*. Each service performance pillar contains a detailed set of operating principles, tools and measurements. Organizations at this level set quantitative and qualitative goals for customer acquisition, retention and penetration, in addition to a complete set of financial and quality operating controls and measurements. Processes are aligned to achieve leverage. The portfolio is balanced with a focus on project selection and execution. ***Level 4 organizations should exhibit "Portfolio Excellence".***

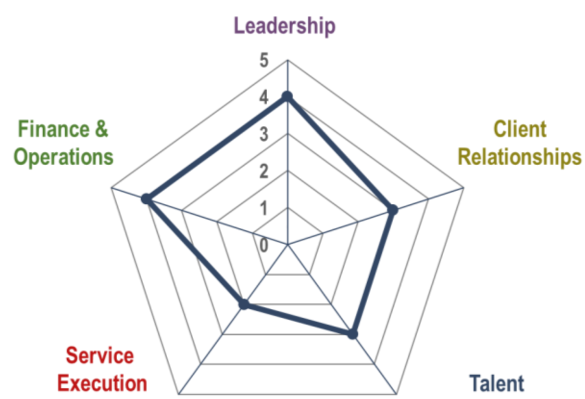
- ∆ **LEVEL 5** ***— OPTIMIZED "COLLABORATIVE"*****: (APPROXIMATELY 5% OF PSOS)** at maturity level 5 *executives focus on continual improvement of all elements of the five performance pillars*. A disciplined, controlled process is in place to measure and optimize performance through both incremental and innovative technological improvements. Quantitative process-improvement objectives for the organization are established. They are continually revised to reflect changing business objectives and used as criteria in managing process improvement. Initiatives are in place to ensure quality, cost control and client acquisition. The rough edges between disciplines, functions, and specialties have been smoothed to ensure unique problems can be addressed quickly without excessive bureaucracy or functional silos. ***Level 5 organizations are visionary and collaborative both internally and with clients and external business partners.***

Over the past decade, over 35,000 PSOs have studied the PS Maturity Model ™ and now use the concepts and key performance measurements to pinpoint their organization's current maturity and develop improvement plans to advance lagging areas.

SPI Research summarizes individual PSO performance in a SPIder chart (Figure 11). The maturity scorecard provides a measurement for each organization in comparison to the benchmark maturity definitions and peer organizations. It provides an invaluable tool to analyze current performance and prioritize future improvement initiatives.

This graphical depiction of the Service Performance Pillars™ by maturity level enables PS executives to quickly scorecard their organization's performance and diagnose areas of relative strength and weakness.

Figure 11: Service Performance Pillar Maturity™



Source: SPI Research, February 2021

Building the Professional Services Maturity™ Model

With core benchmark information gleaned across all primary business functions, SPI Research built the Professional Services Maturity™ Model that determines organizational maturity — by pillar — and provides guidance to advance to the next level (Table 3).

Table 3: Performance Pillars Mapped Against Service

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Leadership	Initial strategy is to support product sales and provide reference customers while providing workarounds to complete immature products. Leaders are "doers".	PS has become a profit center but is subordinate to product sales. Strategy is to drive customer adoption and references profitably. Leaders focus on P&L and client relationships.	PS is an important revenue and margin source, but channel conflict still exists. Services differentiate products. Leadership development plans are in place. Leaders have strong background & skills in all pillars.	Service leads products. PS is a vital part of the company. Solution selling is a way of life. PS is included in all strategy decisions. Succession plans are in place for critical leadership roles	PS is critical to the company. Service strategy is clear. Complimentary goals and measurements are in place for all functions. Leaders have global vision and continually focus on renewal & expansion.
Client Relationships	Opportunistic. No defined solution sets or Go to Market plan. Focus is on new customers and reference building. Individual heroics, no consistent sales, marketing or partnering plan or methodology. No consistent estimating, quoting or contract management processes. Ad hoc, one-off projects.	Start to use marketing to drive leads. Multiple sales models. Start investing in sales training, CRM & sales methodology. Start measuring sales effectiveness & client satisfaction. Start developing partners and partner programs. Some level of proposal reviews and pricing control.	Marketing, inside sales, solution sales with defined solution sets. CRM integrated with financials and PSA. Deal, pricing and contract reviews. Partner plan and scorecard. Tight pricing and contract mgmt. controls. High levels of customer satisfaction.	CRM, PSA, ERP/CFM integration provides 360-degree view of client relationships. Business process, vertical and horizontal solutions. Vertical client centers of excellence. Top client and partner programs. Global contract and pricing management. Key partner relationships. Strong customer reference programs.	Executive relationships. Thought leadership. Brand building and awareness. High customer satisfaction. Integrated sales, marketing and partnering programs. Consistent, high quality marketing, sales, contract management and pricing processes, systems and measurements. High quality references.
Talent	Hire as needed. Generalist skills. Chameleons, Jack of all Trades. Individual heroics. May perform presales as well as consulting delivery and project management.	Begin forecasting workload. Start developing job and skill descriptions & compensation plans. Rudimentary career paths. Start measuring employee satisfaction.	Resource, skill and career management. Employee satisfaction and engagement surveys. Training plans. Aligned goals and measurements with compensation. Attrition <15%	Business process and vertical skills in addition to technical and project skills. Career ladder and mentoring programs. Training investments to support career. Low attrition, high satisfaction	Continually staff and train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peak demand. Sophisticated variable on and off-shore workforce models.
Service Execution	No scheduling. Reactive. Ad hoc. Heroic. Scheduling by spreadsheet. No consistent project delivery methods. No project quality controls or knowledge management.	Skeleton methodology in place. Centralized resource mgmt. Initiating project mgmt. and technical skills. Starting to measure project satisfaction and harvest knowledge.	PSA deployed for resource and project management. Collaborative portal. Earned Value Analysis. Project dashboard. Global Project Management Office, project quality reviews and measurements. Effective change management.	Integrated project and resource management. Effective scheduling. Using portfolio management. Global PMO. Global project dashboard. Global Knowledge Management. Global resource management.	Integrated solutions. Continual checks and balances to assure superior utilization and bill rates. Complete visibility to global project quality. Multi-disciplinary resource management.

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Finance and Operations	The PSO has been created but is not yet profitable. Rudimentary time & expense capture. Limited financial visibility and control. Unpredictable financial performance. Rudimentary contract and risk management.	5 to 15% margin. PS becoming a profit center but still immature finance and operating processes. Investment in CFM and PSA to provide financial visibility. May not have real-time visibility or BI. Standard Library of Contracts and Statements of Work.	15 to 25% margin. PS operates as a tightly managed P&L. Standard methods for planning, resource mgmt., time & expense mgmt., cost control & billing. In depth knowledge of all costs at the employee, sub-contractor & project level. Processes in place for contract management, legal and pricing decisions.	PS generates > 20% of overall company revenue & contributes > 30% margin. Well-developed finance and operations processes and controls. Systems have been implemented for CRM, PSA, CFM and BI. IT integration and real-time visibility. Systems have been implemented for contract management, legal and pricing decisions.	> 30% margin. Continuous improvement and enhancement. High profit. Integrated systems. Global with disciplined process controls and optimization. Completely integrated financial, CRM, resource management, contracts and pricing systems, processes and controls.

Source: SPI Research, February 2021

Why Maturity Matters

SPI Research believes wide support for the PS Maturity™ model is due to its holistic approach to measuring performance. ***Maturity is determined through alignment and focus both within <u>and</u> across functions.*** For example, although financial measurements are of primary importance, they are equally weighted and correlated with leadership and sales and quality measurements to ensure organizations improve across all dimensions, not just in terms of financial performance. However, if the organization

Figure 12: Professional Services Maturity™ Progression

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Confidence in PS leadership (5 pt. scale)	3.03	3.98	4.35	4.89	5.00
Year-over-year change in PS revenue	9.3%	6.0%	6.4%	12.5%	18.8%
Bid-to-win ratio (per 10 bids)	4.01	4.79	5.30	6.27	6.50
Deal pipeline relative to qtr. bookings forecast	128%	182%	181%	205%	226%
Employee billable utilization	54.4%	62.3%	76.4%	83.1%	85.7%
Projects delivered on-time	47.8%	73.0%	85.2%	91.3%	94.0%
Annual revenue per billable consultant (k)	$50	$133	$213	$269	$290
Annual revenue per employee (k)	$50	$104	$166	$230	$261
Profit (EBITDA)	**-10.1%**	**5.0%**	**16.1%**	**19.5%**	**32.0%**

Source: SPI Research, February 2021

is profit-motivated (which most are), increasing maturity levels do show up in significant bottom-line profit. Figure 12 highlights major key performance measurements by maturity level and should alone be an important reason why PS executives should look deeper into using it to increase profits.

Pillar Importance and Organizational Maturity

The results and insights gained in the past fourteen years have confirmed SPI Research's original hypothesis that ***service organizations must develop a balanced and holistic approach to improving all aspects of their business as they mature.*** SPI Research has discovered that the emphasis on individual service pillar performance shifts as organizations mature. Excellence in only one specific service performance pillar does not create overall organizational success – rather it is the ***appropriate balance and alignment within and across performance pillars***, which leads to sustainable success.

561 firms are represented in this year's survey, however, not every firm answered every question. Therefore, if a firm did not answer a specific question no analysis will be conducted on its impact. The following table shows the correlation of EBITDA (profit) and annual revenue growth. This table compares all the surveys with those that answered this specific question. SPI Research will eliminate the 21 firms that did not complete this question and therefore the EBITDA is 16.1% vs. the actual survey average of 15.8%. We do this because showing blank answers does not really provide value to the reader (unless there is a high percentage of blanks).

Annual Revenue Growth	Surveys	Comp. %	EBITDA w/ Blanks	EBITDA w/o Blanks
Blank	21	3.7%	13.6%	
Under -10%	53	9.4%	16.2%	16.2%
-10% - 0%	53	9.4%	14.7%	14.7%
0% - 5%	99	17.6%	13.1%	13.1%
5% - 10%	113	20.1%	18.0%	18.0%
10% - 15%	64	11.4%	16.4%	16.4%
15% - 25%	59	10.5%	18.3%	18.3%
Over 25%	99	17.6%	16.1%	16.1%
Total/Avg.	**561**	**100.0%**	**15.8%**	**16.1%**

Table 4 depicts the relative service performance pillar importance by organizational maturity level. Many professional services organizations are established without an initial focus toward optimizing performance. PSOs begin with the goal of establishing a client and reference base. They may be operated as a cost center or as an adjunct to the product function to establish alpha and beta customers and to provide early product feedback. Initially they often perform presales, training, quality assurance and service delivery tasks. They hope to deliver services that are both profitable to them as well as valued by their clients, but in reality, they take the position that "just about any deal is a good deal."

Table 4: Service Pillar Importance by Organizational Maturity Level

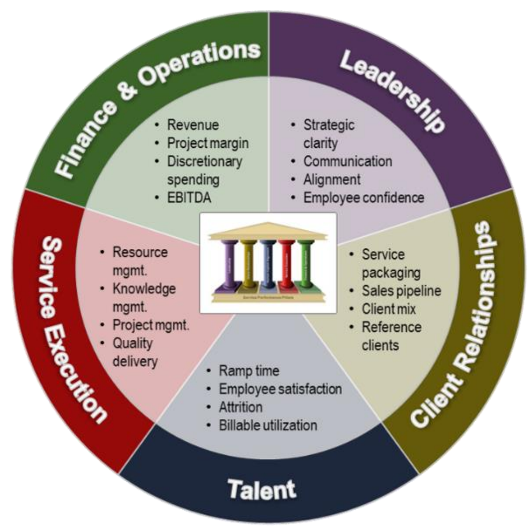
Pillar	Initiated	Piloted	Deploy.	Inst.	Opt.
Leadership	◔	◑	◑	●	●
Client Relationships	●	◕	◕	◕	●
Human Capital Align.	◔	◑	◕	●	●
Service Execution	◔	◑	◕	●	●
Finance and Operations	◔	◔	◕	●	●

Source: SPI Research, February 2021

The emphasis at **Level 1** maturity is on building client references and recruiting highly skilled generalist consultants who are experienced enough and flexible enough to perform heroic feats to ensure early customer success.

By **Level 2**, although primary focus is still to create reference customers, more emphasis is placed on human capital alignment for recruiting and ramping skilled employees, partners and contractors. Service execution focus is on developing repeatable project delivery methods and quality processes. At these early stages, many embedded professional services organizations have a strong product-driven focus, and the role of the service organization is subordinate to products. Conflicts between service profit, client success and driving product revenue are often characteristic of Level 2 embedded service organizations.

Figure 13: PS Performance Pillars – Core KPIs



Source: SPI Research, February 2021

By **Level 3** the organization must move toward a more balanced focus on all elements of the business by investing in systems, operating processes, and repeatable methods to sustain growth and ensure quality. Level 3 maturity should be the aspirational target of all PS organizations because it is at level 3 that an on-going, profitable and sustainable business has emerged. At level 3 the charter of the PS organization is clear. If the organization is an embedded PS organization within a product company, PS has a seat at the executive table and is seen as adding value that transcends product implementation, integration and customization. Increasingly, embedded PS has become a critical component of ensuring customer adoption and may play a leading role in driving product management direction and strategy. Independent Level 3 PSOs are financially and operationally strong with a clear focus on targets markets and sustainable, repeatable business processes and quality controls. They have built a compelling, differentiated portfolio which is brought to life by specialized, knowledgeable consultants. At level 3, heroics and firefighting are no longer the standard way of doing business as disciplined management systems, controls and integrated systems ensure predictability and repeatability.

At **Level 4** the organization has implemented structured business processes and utilizes integrated information systems to assure there is "one view of the business". Level 4 organizations are seen as true industry leaders in their target markets. They have developed a unique and differentiated culture which attracts industry-leading consultants and clients. More than average firms, Level 4 organizations are extremely transparent. They typically have strong management controls and visibility into all facets of the business by providing dynamic, real-time access to empowered team members. Level 4 organizations continually expand their horizons and boundaries – whether it is through geographic, vertical market or technology platform expansion.

Finally, at **Level 5** the organization is running very efficiently, and the focus is on continual improvement and innovation. Level 5 firms are the Best-of-the-Best. They are excellent in all functional areas but have transcended functional excellence with a collaborative, knowledge and intellectual property centric focus. Very few firms achieve sustained Level 5 performance.

3. Survey Demographics

Professional Services is one of the fastest growing segments of the global economy due in large part to the fact that companies in all other vertical industries are increasingly outsourcing and out-tasking their non-core business functions, processes and technology to specialized service providers.

Today, the global professional services industry is made up of over 25 million firms with combined annual revenues of more than $8 trillion. It is also highly fragmented as the top 500 largest firms (each with more than 5,000 employees) account for less than 5 percent of that revenue. This finding has positive implications for the growth potential of professional services firms: there is room in the market for innovative and effective newcomers that can effectively harness skilled talent to provide specialized insights, knowledge and client outcomes.

Firms in the professional service industry provide accounting, advertising and marketing, architectural, management consulting, engineering, IT, legal, and research services. These companies provide the knowledge and skills of their employees, typically on a project basis, where an individual or team is responsible for the delivery of high value services to the client.

Each year SPI Research has expanded vertical market coverage to include additional specialized service segments to depict the nuances and metrics which pertain to these sub-verticals. SPI's coverage this year includes: Value-Added Resellers (VARs); Managed Service providers and "other" which includes healthcare; and research and development organizations. This year the benchmark also provides more in-depth analysis of the accounting, architecture, engineering and marketing and advertising segments. The legal industry is the only major professional services market which is not covered in this report as the requirements, processes and systems used by the legal industry tend to be very specialized.

Unlike other industries, Professional Services is almost 100% a knowledge and people-based industry. The developed regions of North America, Europe and Asia-Pacific are rich in this resource. Growth in this segment depends on concentrated efforts to attract and deploy skilled talent in the most proven efficient and profitable ways to sharpen the business performance of professional services firms.

For this benchmark, SPI Research surveyed 561 billable Professional Services Organizations (PSOs) from October through December 2020. The following sections outline the key markets which comprise the global professional services industry and breakdown the 2020 survey demographics in several key areas (market, organization size, and geographic region) to help PS firms compare their individual results to the benchmark.

The North American Professional Services Market

SPI Research uses the North American Industry Classification System (NAICS) to analyze the U.S. services market. The primary Professional Services designation is NAICS 54xx which defines PS sub-verticals as ***"Those in this subsector engage in business processes where human capital is the major input. These establishments provide the knowledge and skills of their employees, often on an assignment basis, where an individual or team is responsible for the delivery of high value services to the client. The individual industries of this subsector are defined based on the particular expertise, training and credentials of the services provider (Table 5)".***

Per the most recent US Census, combined professional, scientific, and technical services (NAICS 54xx) revenues reached $2.9 trillion. In addition, substantial professional service revenue is generated by software (NAICS 5112); Data Services (NAICS 518) and Employment Services (NAICS 5613). Including these segments, the US professional service industry generated approximately $4.1 trillion in revenue in 2018 and employed 22.2 million US-based workers.

Table 5: Vertical PS Markets — the North American Industry Classification System

Code	Market	Description
5112	Software	Software publishing, both public and private software companies. Total revenue is reported. PS typically represents ~ 20% of revenues.
518	Data Services	Data processing, hosting and related services
5411	Legal	This industry is comprised of legal practitioners known as lawyers or attorneys (i.e., counselors-at-law) primarily engaged in the practice of law. Firms in this industry may provide a range of expertise or specialize in specific areas of law, such as criminal law, corporate law, family and estate planning, patent law, real estate law, or tax law.
5412	Accounting/ Tax Prep/ Bookkeeping / Payroll	This industry comprises establishments primarily engaged in providing services, such as auditing and accounting, designing accounting systems, preparing financial statements, developing budgets, preparing tax returns, processing payrolls, bookkeeping, and billing. Accountants are certified to ensure they have and maintain competency in their field.
5413	Architectural, Engineering and Related Services	This industry comprises establishments primarily engaged in planning and designing residential, institutional, leisure, commercial, and industrial buildings and structures by applying knowledge of design, construction procedures, zoning regulations, building codes, and building materials.
5414	Specialized Design Services	This industry group comprises establishments providing specialized design services (except architectural, engineering, and computer systems design).
5415	Computer Systems Design Services Related Services	(IT Consulting) – This industry comprises establishments primarily engaged in providing expertise in the field of information technologies through one or more of the following activities: (1) writing, modifying, testing, and supporting software to meet the needs of a particular customer; (2) planning and designing computer systems that integrate computer hardware, software, and communication technologies; (3) on-site management and operation of clients' computer systems and/or data processing facilities; and (4) other professional and technical computer-related advice and services.
5416	Management Science and Technical Consulting Services	(Management Consulting) – This industry comprises establishments primarily engaged in providing advice and assistance to businesses and other organizations on management issues, such as strategy and organizational planning; financial planning and budgeting; marketing objectives and policies; human resource policies, practices, and planning; production scheduling; and control planning.
5417	Scientific Research and Develop. Services	This industry group comprises establishments engaged in conducting original investigation on a systematic basis to gain new knowledge (research) and/or the application of research findings or other scientific knowledge for the creation of new or significantly improved products or processes

Code	Market	Description
		(experimental development). The industries within this industry group are defined on the basis of the domain of research; that is, on the scientific expertise of the establishment.
5418	Advertising and Related Services	(Marketing and Communications) – This industry comprises establishments primarily engaged in creating advertising or public relations campaigns and placing advertising in periodicals, newspapers, radio and television, or other media. These firms are organized to provide a full range of services (i.e., through in-house capabilities or subcontracting), including advice, creative services, account management, production of advertising material, media planning, and buying (i.e., placing advertising).
5419	Other Professional, Scientific, Technical Services	(Other PS) – This industry group comprises establishments engaged in professional, scientific, and technical services not listed above.
5613	Employment Services	Staffing, temporary employment, placement and employment search services.

Source: US Census and SPI Research, February 2021

Tables 6 and 7 provide a rollup of 2017 US Census data for these NAICS codes. There are 178,072 firms in these market segments; only 76,445 (42.9%) employ more than 20 people the remaining 57% employ less than 20 people. In other words, the industry is dominated by very small firms particularly in accounting; legal; management consulting and staffing.

Table 6: 2018 NAICS Services Rollup (Number of Firms)

NAICS	Market	Firms	Firms with over 20 employees	Employees in firms with over 20 emp.	% of total emp. in firms with over 20 emp.
5412	Accounting	16,880	3,253	451,605	48.5%
5418	Advertising/Marketing/PR	8,040	5,196	1,050,920	81.1%
5413	Architecture/Engineering	33,342	13,727	2,259,335	70.6%
5415	IT Consulting	14,696	14,044	2,813,675	82.4%
5411	Legal	27,626	9,326	1,050,035	52.3%
5191	Managed Services/Hosting	3,438	1,899	783,405	90.5%
5416	Management Consulting	32,054	14,466	2,515,955	61.4%
4234	PS within HW & Networking	4,108	2,379	838,355	91.4%
5112	PS within Software company	3,048	2,204	992,600	93.1%
5417	Research & Development	7,480	2,693	752,785	85.4%
5613	Staffing	22,720	5,674	2,609,315	91.9%
	Other PS	4,640	1,584	219,495	31.1%
	Total / Average	**178,072**	**76,445**	**16,337,480**	

Source: US Census and SPI Research, February 2021

Table 7: 2018 NAICS Services Rollup (Employees and Revenue)

NAICS	Market	Employees	Revenue (mm)	Rev/Emp	Rev/Consult
5412	Accounting	931,964	$150,974	$161,995	$267,515
5418	Advertising/Marketing/PR	1,296,126	$224,111	$172,908	$250,592
5413	Architecture/Engineering	3,198,556	$609,802	$190,649	$263,351
5415	IT Consulting	3,415,991	$763,861	$223,613	$300,211
5411	Legal	2,006,503	$266,641	$132,888	$147,654
5191	Managed Services/Hosting	865,414	$194,080	$224,263	$371,560
5416	Management Consulting	4,095,715	$683,053	$166,773	$224,379
4234	PS within HW & Networking	916,913	$407,691	$444,634	$702,765
5112	PS within Software company	1,066,639	$298,919	$280,244	$384,198
5417	Research & Development	881,203	$177,775	$201,741	$330,497
5613	Staffing	2,839,441	$309,472	$108,990	$163,485
	Other PS	706,861	$97,194	$137,500	$219,846
	Total / Average	**22,221,326**	**$4,183,571**	**$188,268**	

Source: US Census and SPI Research, February 2021

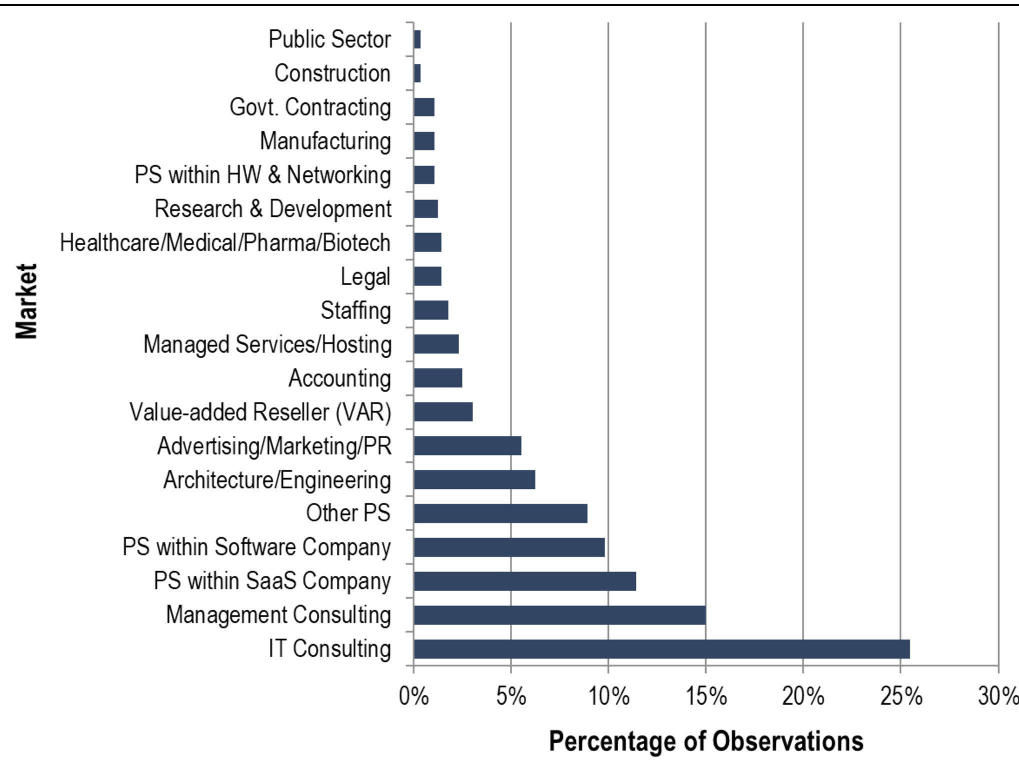
PS Maturity™ Benchmark Vertical Market Demographics

The 2021 PS Maturity™ benchmark remains the most comprehensive global study of the professional services industry as it is based on 561 participating organizations representing over 300,000 consultants (Figure 14). The percentage of completed surveys representing the top 14 vertical market segments is as follows:

- ***IT Consulting***. Systems Integrators and developers – 25.4%, representing 143 firms and ~ 90,000 consultants.
- ***Management Consulting***. Management consultancies – 15.0%, representing 84 firms and ~ 23,000 consultants.
- ***SaaS PS***. Service divisions within software-as-a-service providers – 11.4%, representing 64 firms and ~ 22,000 consultants.
- ***Software PS***. Service divisions within software companies – 9.8%, representing 55 firms and ~ 27,000 consultants.
- ***Architects and Engineers***. Architects and engineers – 6.3%, representing 35 firms and ~ 14,000 consultants.
- ***Marketing, Advertising and PR***. Advertising, marketing, communication firms – 5.5%, representing 31 firms and ~ 4,000 consultants.

- ***Value-Added Resellers***. resell hardware, software and provide technology services, training and support – 3.0%, representing 17 firms and ~ 9,000 consultants.
- ***Accountancies***: Accounting firms – 2.5%, representing 14 firms and ~ 13,000 consultants.
- ***Managed Services***. Provide hosting and managed and outsourced services – 2.3%, representing 13 firms and ~ 22,000 consultants.
- ***Staffing***: Staffing organizations – 1.8%, representing 10 firms and ~ 12,000 consultants.
- ***Research & Development***. R&D organizations – 1.3%, representing 7 firms and ~ 7,000 Staffing. Staffing organizations – 1.8%, representing 10 firms and ~ 12,000 consultants.
- ***Healthcare/Medical/Pharma/Biotech***. 1.3%, representing 8 firms and ~ 2,000 consultants.
- ***Hardware (and Networking) PS***. Service divisions within hardware and networking manufacturers – 1.1%, representing 6 firms and ~ 11,000 consultants.
- ***Government Contracting***. Firms providing professional services to Government agencies – 1.1%, representing 6 firms and ~ 9,000 consultants.
- ***Other PS***. Other markets including, legal, manufacturing, construction, public sector, etc. – 12.2%, representing 68 firms and ~ 41,000 consultants.

Figure 14: Benchmark Participant Vertical Market Distribution



Source: SPI Research, February 2021

Table 8 shows participant demographics for the past fourteen years. Historically, IT consultancies have been the largest participating market, closely followed by PS within software firms. The popularity of this benchmark continues to grow, averaging more than 500 participating firms for each of the past five years, making this **the** most comprehensive global Professional Services benchmark.

Table 8: Number of Participating Firms by Vertical Market (2007 through 2020)

Market	Type	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
IT Consulting	PSO	13	24	50	67	61	69	115	86	190	133	103	155	143	143	**1,352**
PS within Soft.	ESO	34	66	89	57	56	45	45	47	89	57	45	78	73	55	**836**
Mgmt. Consult.	PSO	2	12	22	22	31	34	24	27	68	46	45	75	68	84	**560**
Other PS	PSO	2	13	30	22	13	31	21	24	13	46	49	62	62	82	**470**
Arch./Engr.	PSO	0	0	4	6	7	8	6	10	50	35	153	100	44	35	**458**
PS within SaaS	ESO	0	0	18	19	26	23	16	13	43	41	29	70	55	64	**417**
Advertising	PSO	0	0	0	6	10	11	6	4	12	9	8	20	6	31	**123**
PS within HW/Net	ESO	1	3	12	9	10	9	4	4	16	6	6	12	14	6	**112**
Accounting	PSO	0	0	0	6	2	4	1	5	13	9	8	19	14	14	**95**
VAR	ESO	0	0	0	0	0	0	0	0	14	14	4	14	21	17	**84**
Managed Services	ESO	0	0	0	0	0	0	0	0	17	8	4	9	3	13	**54**
Res. & Dev.	PSO	0	0	0	0	0	0	0	0	15	7	0	4	7	7	**40**
Staffing	PSO	0	0	0	0	0	0	0	0	9	5	2	4	3	10	**33**
Total		**52**	**118**	**225**	**214**	**216**	**234**	**238**	**220**	**549**	**416**	**456**	**622**	**513**	**561**	**4,634**

Source: SPI Research, February 2021

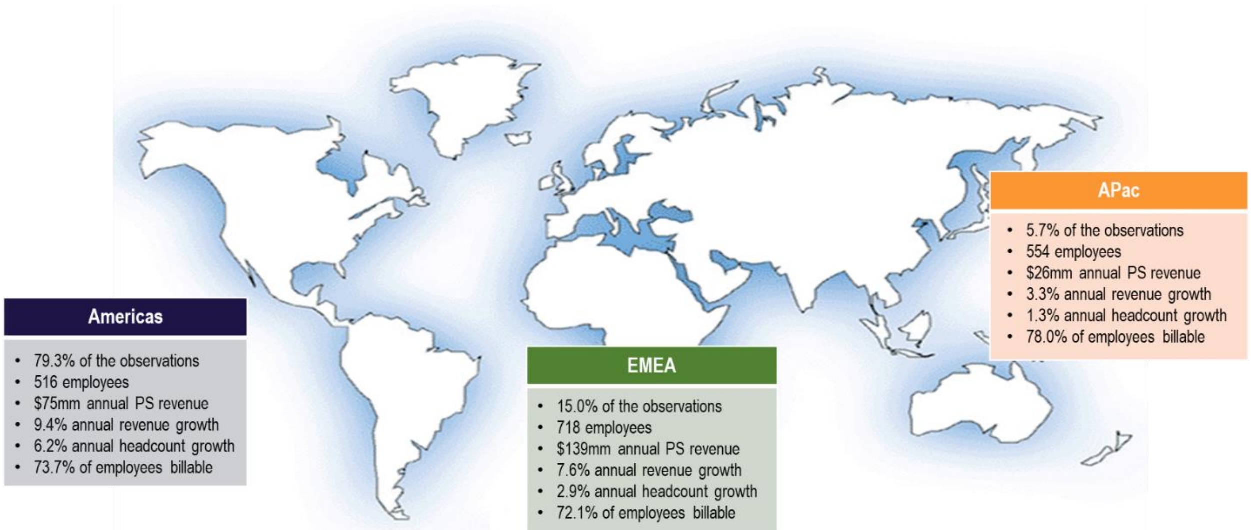
Table 9 shows 390 surveys came from independent firms while 171 came from ESOs (Embedded Service Organizations within product companies). North American headquartered firms dominated the study with 445 surveys while 84 came from EMEA-headquartered firms and 32 came from Asia Pacific (predominantly Australia and New Zealand). The average size organization this year is 548 employees.

Table 9: Survey Participant Demographics by Organization Type and Geographic Region

Key Performance Indicator	2019	2020	ESO	PSO	Amer.	EMEA	APac
Surveys	513	561	171	390	445	84	32
Size of PS organization (employees)	530	548	555	545	516	718	554
Annual company revenue (mm)	$203.2	$175.7	$279.1	$130.5	$175.1	$201.9	$122.5
Total PS revenue (mm)	$83.8	$81.4	$88.3	$78.4	$74.7	$138.5	$26.0
YoY change in PS revenue	10.6%	8.7%	10.6%	7.9%	9.4%	7.6%	3.3%
YoY change in PS headcount	9.0%	5.5%	6.3%	5.1%	6.2%	2.9%	1.3%
% of employees billable	73.3%	73.7%	71.7%	74.6%	73.7%	72.1%	78.0%
% of PS rev. delivered by 3rd-parties	10.6%	11.5%	10.9%	11.8%	11.1%	14.1%	11.1%

Source: SPI Research, February 2021

Figure 15: Regional Demographics



Source: SPI Research, February 2021

By organization size, the largest organizations grew the fastest and added the most PS headcount (Table 10). The largest relied the most heavily on subcontractors to generate incremental revenue. In the high-growth professional services world, mergers and acquisitions are increasingly seen as one of the fastest ways to augment growth and to expand into hot new service and technology segments. Increasingly, the largest firms are augmenting their capabilities in SMAC (Security, Mobile, Analytics and the Cloud) while also investing in more strategic and industry-focused practices.

Table 10: Survey Participant Demographics by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	62	108	170	111	48	62
Size of PS organization (employees)	5	20	65	200	500	3,996
Annual company revenue (mm)	$6.5	$12.7	$48.7	$140.4	$384.8	$931.1
Total professional services revenue (mm)	$3.0	$5.6	$17.9	$38.3	$116.0	$519.8
Year-over-year change in PS revenue	6.4%	7.6%	9.1%	10.3%	5.8%	11.6%
Year-over-year change in PS headcount	2.1%	3.0%	6.3%	7.8%	5.6%	6.7%
% of employees billable or chargeable	73.5%	75.0%	76.3%	74.2%	67.1%	68.6%
% of PS revenue delivered by 3rd-parties	9.1%	11.2%	11.2%	11.6%	12.9%	14.7%

Source: SPI Research, February 2021

Tables 11 and 12 further analyze the survey demographics by vertical market, highlighting the markets surveyed. According to this year's survey, SaaS PS (embedded PS organizations within cloud companies) reported the highest year over year PS revenue growth at 11.6% (down from 16.1% in 2019). They were followed by management consultancies (8.8%) and PS within software (6.7%).

Table 11: Survey Participant Demographics by Vertical Market

Key Performance Indicator (KPI)	IT Consult.	Mgmt. Consult.	SaaS PS	Software PS	Arch./ Engr.
Surveys	143	84	64	55	35
Size of PS organization (employees)	629	278	347	491	401
Annual company revenue (mm)	$171.3	$100.2	$228.5	$320.6	$62.5
Total professional services revenue (mm)	$78.6	$46.2	$69.9	$51.2	$64.1
Year-over-year change in PS revenue	6.6%	8.8%	11.6%	7.2%	6.5%
Year-over-year change in PS headcount	4.8%	5.9%	7.0%	6.7%	2.1%
% of employees billable or chargeable	75.4%	78.2%	74.6%	71.4%	75.0%
% of PS revenue delivered by 3rd-parties	14.4%	10.1%	10.0%	11.4%	11.6%

Source: SPI Research, February 2021

In 2017, PS industry hiring reached an all-time high with a 9.7% increase in headcount. In 2017, for the first time, we saw PS headcount growth exceed revenue growth. All of this hiring led to ebullient PS revenue growth of 9.7% in 2018 as all those new employees contributed to a surge in revenue. In 2019 the industry again experienced near-record hiring with 9.0% headcount growth and strong revenue growth (10.6%). Both headcount growth and revenue growth slowed considerably in 2020 to 5.5% and 8.7% respectively. With the promise of the end of the pandemic, we expect PS sector revenue and headcount growth to rebound in 2021.

Table 12: Survey Participant Demographics by Vertical Market

Key Performance Indicator (KPI)	MarCom	VAR	Account	Mgd. Serv.	All Others
Surveys	31	17	14	13	105
Size of PS organization (employees)	133	531	943	1,705	133
Annual company revenue (mm)	$43.4	$184.6	$184.6	$280.6	$43.4
Total professional services revenue (mm)	$31.3	$44.6	$136.6	$278.8	$31.3
Year-over-year change in PS revenue	10.0%	13.5%	10.5%	17.9%	10.0%
Year-over-year change in PS headcount	5.6%	3.4%	9.0%	4.0%	5.6%
% of employees billable or chargeable	74.5%	72.4%	61.8%	67.3%	74.5%
% of PS revenue delivered by 3rd-parties	9.4%	13.1%	10.5%	10.6%	9.4%

Source: SPI Research, February 2021

Type of Work Sold

SPI Research analyzes the type of work sold, (Table 13). Technology and IT consulting represents almost 40% of the work sold by ESOs. ESOs are no longer just selling implementation, integration and customization on either a time and materials or fixed priced basis; now those services, just like software, are being sold "as a service". ESO subscription revenue surged to 15.7%. This business model shift heightens the need for PSA or project-based accounting solutions. Providers must not only track labor and utilization costs but also ensure those costs are within committed subscription cost levels. Additionally, systems must now support complex multi-element contracts and billing. The percentage of managed service, recurring revenue, also continues to rise and now stands at 9.2%. The percentage of staff augmentation or "access to expertise" type of services has also risen to 6.3% as many firms now offer fractional "ownership" of solution architects 1, 2 or 5 days a week.

Table 13: Type of Work Sold by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2019	2020	ESO	PSO	Amer.	EMEA	APac
Business / management consulting	23.8%	27.8%	19.6%	31.4%	28.2%	25.8%	26.6%
Technology or IT consulting	39.4%	34.6%	39.9%	32.3%	33.4%	42.5%	33.6%
Subscription services	8.3%	9.6%	15.7%	6.9%	10.0%	7.4%	8.6%
Managed services	9.0%	9.2%	7.3%	10.1%	9.6%	7.8%	7.6%
Staff augmentation	5.5%	6.3%	5.1%	6.9%	6.3%	6.6%	5.8%
Hardware, software or equipment	4.5%	3.5%	4.7%	2.9%	3.2%	4.4%	4.9%
Other	9.6%	9.0%	7.8%	9.5%	9.3%	5.5%	12.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2021

In Europe the percentage of technology consulting was significantly higher than business or management consulting. As the North American technology services market matures, service providers are shifting their focus to add business process optimization. Expect the same shifts to occur in EMEA and Asia Pacific as the business matures giving way to a higher percentage of strategic multi-dimensional consultancies who offer strategic, market positioning and brand-building services in addition to technology and business process optimization expertise.

The breakdown of services sold becomes even more interesting as organizations are parsed by size. Smaller firms tend to sell more business or management consulting than the larger firms as the vast majority of management consultancies are quite small. Technology consulting lends itself to economies of scale whereas expert strategic or operational management consulting relies on specific domain knowledge and expertise which is not easily amplified across large project teams. As organizations grow, subscription and managed services make up a larger proportion of revenue.

Table 14: Type of Work Sold by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Business / management consulting	52.0%	33.5%	28.0%	19.3%	14.8%	16.7%
Technology or IT consulting	21.3%	33.6%	34.5%	41.8%	34.4%	37.6%
Subscription services	5.8%	8.1%	10.8%	6.8%	10.6%	17.6%
Managed services	5.7%	5.9%	9.3%	11.6%	14.0%	10.6%
Staff augmentation	4.3%	4.6%	5.4%	8.2%	14.2%	4.6%
Hardware, software or equipment	2.5%	3.2%	3.7%	4.1%	2.1%	4.4%
Other	8.3%	11.1%	8.2%	8.2%	9.9%	8.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

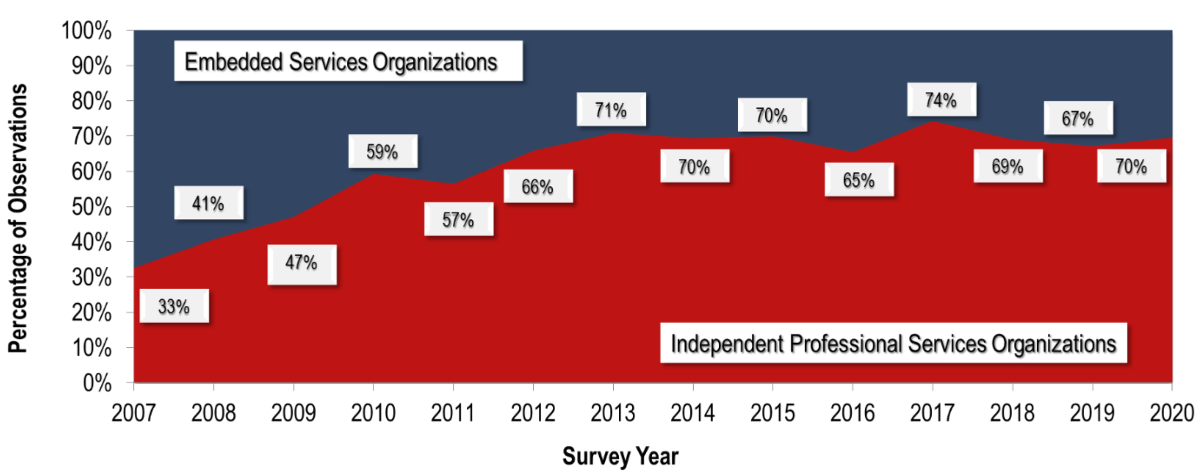
Source: SPI Research, February 2021

PSO Type

Many of the concepts and uses of professional services described in this report also exist within product-driven organizations. Thus, SPI Research uses the term "embedded service organization" (ESO) to describe the rapidly expanding market for service organizations within product companies. Within professional services, the fastest growing segment is software and IT services.

There are more than 25,000 software, hardware, IT and Managed Services companies in the United States; more than 99 percent are small and medium-sized firms (i.e., under 500 employees). This total includes software publishers, suppliers of custom computer programming services, computer systems design firms, and Managed Services providers. This segment of the PS industry draws on a highly educated and skilled US-based workforce of over 5.4 million people. Figure 16 shows over two-thirds of this year's benchmark participants are independent firms.

Figure 16: Independent vs. Embedded Survey Orgs Surveyed (2007 – 2020)



Source: SPI Research, February 2021

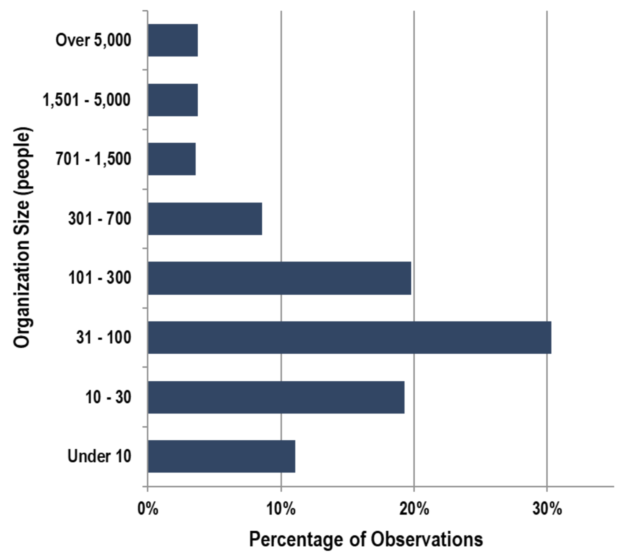
SPI Research analyzes billable PSOs in several ways with a focus on two macro segments – independents and embedded PS organizations:

Independent Professional Services Organizations (PSOs): Independent PSOs sell, deliver, and invoice for professional services to external clients. Clients hire systems integrators, IT consultancies (SIs); Value-Added Resellers (VARs) and Managed Service providers (MSPs)to implement or integrate technology based on their strategic competence or specialized industry or product knowledge. Clients hire management consultancies to provide strategic insight, guidance, facilitation and coaching. Independent PSOs typically provide expertise, knowledge, skills and business practices that are more specialized than those found within internal organizations. In this study a majority of the independent PSOs were IT consultancies, Systems Integrators (SIs) or VARs, with the remainder representing Management Consultancies (MCs), Accountants, Marketing and Advertising firms and Architects and Engineers. Healthcare services including staffing; management consulting; technology and business process consulting represents one of the fastest growing sectors as the healthcare industry is forced to automate and improve patient reporting. The participating PSOs represented a broad spectrum from some of the largest independent service providers in the world to extremely small, independent regional and specialty service providers. The vast majority of responding independent PSO's are privately held.

Embedded Services Organizations (ESOs): ESOs operate much like PSOs; however, they are part of a product-driven organization. The majority of ESO participants focus exclusively on their company's own technology but many of the largest ESOs like IBM and HP services provide global IT consulting, managed services and outsourcing not associated with their company's products. For the small to mid-size ESOs, their primary charter is to successfully implement their company's products. Increasingly the charter of embedded PS has expanded to include client adoption with a focus on reducing time to value. While they are focused on professional service revenue and profit, they are often asked to perform non-billable presales, proof of concept and customer satisfaction services at little to no charge. They enable external clients but must also support internal sales, support and engineering constituencies. At maturity levels 1 and 2, their primary focus is on project delivery and building a reference base. For ESOs, lead generation, marketing and sales are primarily provided by the product sales organization however as they mature, many are starting to develop their own "sales selling service" organizations. In this survey a majority of the ESOs were part of independent software and cloud vendors (ISVs). The embedded PS organizations in this study provide PS for some of the largest and best-known cloud vendors. Overtime the charter for embedded cloud PS has shifted from a cost center to a profit center. Cloud PS organizations are now measured on implementation, packaged subscription services, adoption, expansion, churn and recurring revenue. Almost all legacy on-premise software providers are moving to the cloud. SPI Research shows both on-premise and SaaS results. SPI Research uses this segmentation because independent consultancies must fund sales, marketing and back-office operations for finance, operations, facilities, IT and recruiting in a way that embedded organizations generally do not. Independents incur a higher cost of operation than captive (embedded) organizations do. However, the following chapters will demonstrate independent PSOs generally outperform their embedded counterparts because their sole focus is on delivering high-quality services at a profit. Independents generally are focused on client delight and service revenue and profit growth, versus embedded where the goals of delivering profitable services may be subordinate to customer product adoption and driving incremental product sales.

Organization Size

Figure 17: Organization Size

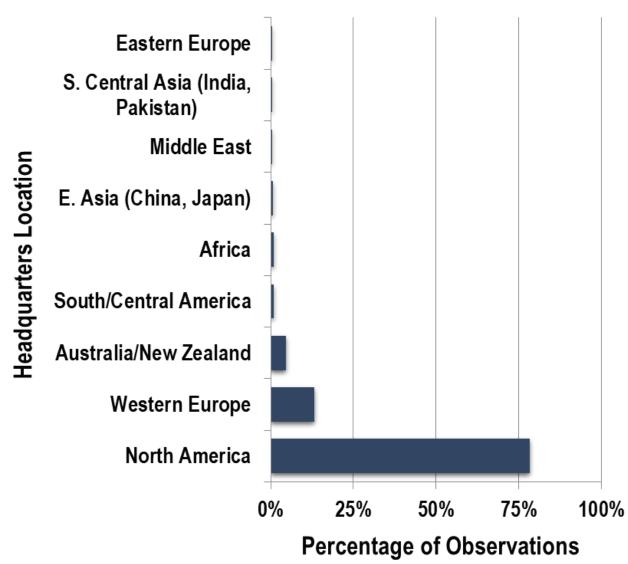


Source: SPI Research, February 2021

The average size organization in the Professional Services Maturity™ Benchmark was 548 PS employees this year. This year's survey is based on firms who employee over 312,000 consultants worldwide making it the most comprehensive study of the Professional Service industry. Figure 17 highlights survey distribution by PS headcount. The largest percentage of firms have between 31 and 100 employees, which has been the case for several years now. Embedded services organizations average 555 PS employees whereas independents averaged 545. Firms headquartered in EMEA averaged 718 PS employees; the Americas averaged 516 and Asia-Pacific averaged 554 PS employees per firm. Software PS organizations averaged 491 PS employees, underscoring the importance of embedded PS within these organizations. IT consultancies (629) and Management consultancies (278) also had a substantial PS workforce. Architect and engineering firms averaged 401 employees while marketing and advertising agencies averaged 133 PS employees.

Headquarters Location

Figure 18: Headquarters Location – Region



Source: SPI Research, February 2021

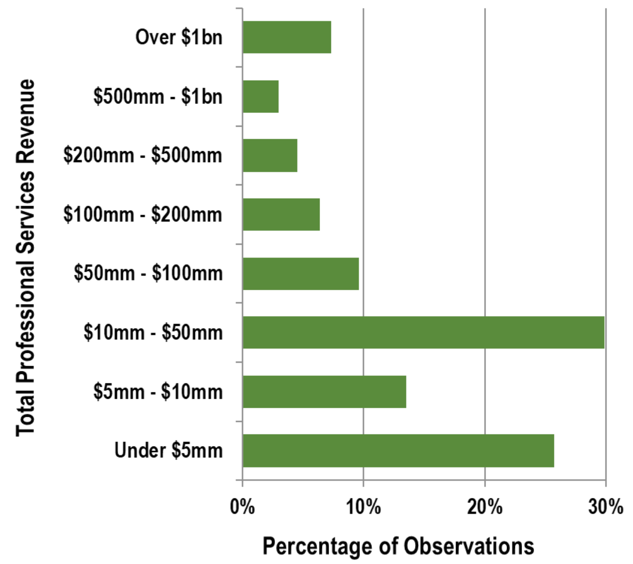
SPI Research works with professional services organizations from around the world and encourages them to participate in the benchmark survey. Survey participation from firms headquartered outside of North America, (Europe, Middle East, Africa (*EMEA*) and Asia-Pacific (*APac*)) represented 20% of the survey. (Figure 18).

It is important to note that regardless of where the organization has its headquarters, a significant number of employees may reside outside of the headquarters location. This is especially true for larger organizations. Therefore, the benchmark does reflect global organizations with a worldwide PS workforce.

Total Company Revenue

In this survey, many of the PS organizations are part of a larger enterprise that also sells a variety of other products and services. Many of the independent professional service providers also sell products or the responding group is an individual practice within a larger firm. Many technology service organizations have multiple lines of business which may include management consulting, managed services, outsourcing and staffing. Therefore, it is important to note total annual company revenue. In this year's survey the average organization generated $175.7 million in total revenue including $81.4 million in PS revenue (Figure 19). The percentage of total revenue produced by PS represented 46.3% this year. The % of overall PS revenue contribution has been steadily increasing, reflecting the importance of the new "everything as a service" economy.

Figure 19: Total Company Revenue



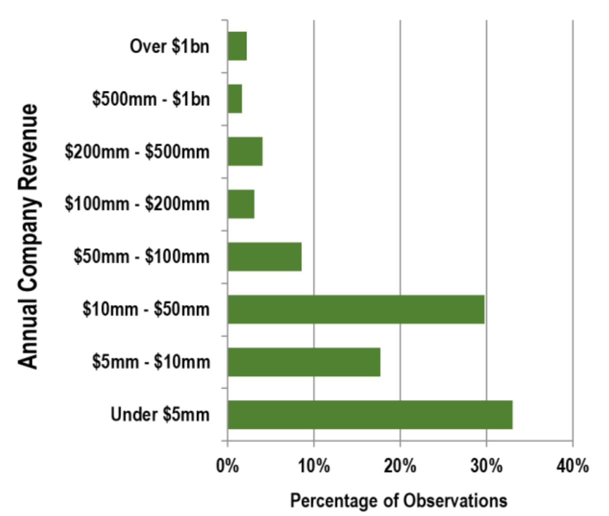
Source: SPI Research, February 2021

Total PS Revenue

The global PS market is primarily comprised of firms with less than $50 million in revenue, but SPI Research works especially hard to survey larger professional services providers to better understand the dynamics impacting their business and how they can improve organizational performance (Figure 20).

Embedded PSOs averaged $88.3 million in PS revenue and the independents averaged $78.4 million. The average across all 561 participants was $81.4 million compared to $83.8 million in 2019. In this year's survey firms headquartered in the Americas produced $74.7M compared to $138.5M for EMEA and $26M for APac headquartered firms.

Figure 20: Total Professional Services Revenue

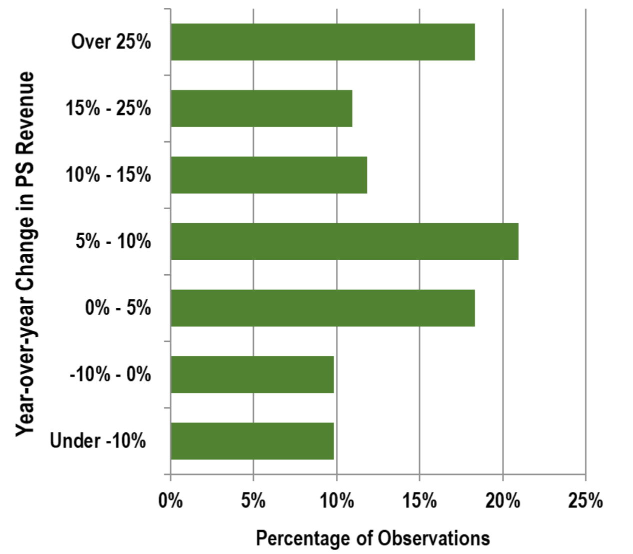


Source: SPI Research, February 2021

Year over year change in PS Revenue

For the past five years, PS annual revenue growth has averaged 9.2%. In 2020, due to Covid-19, annual PS revenue growth declined to 8.7%, down from 10.6% in 2019. Despite the pandemic, all PS subsegments reported 2020 revenue growth. The slowest growth was reported by architects and engineers (6.5%) and IT Consultancies (6.6%). 41% of the firms grew revenues by over 10% (Figure 21). 38% of the firms grew revenues by less than 5% and 21% grew revenues by 5 to 10%.

Figure 21: Year-over-Year Change in PS Revenue



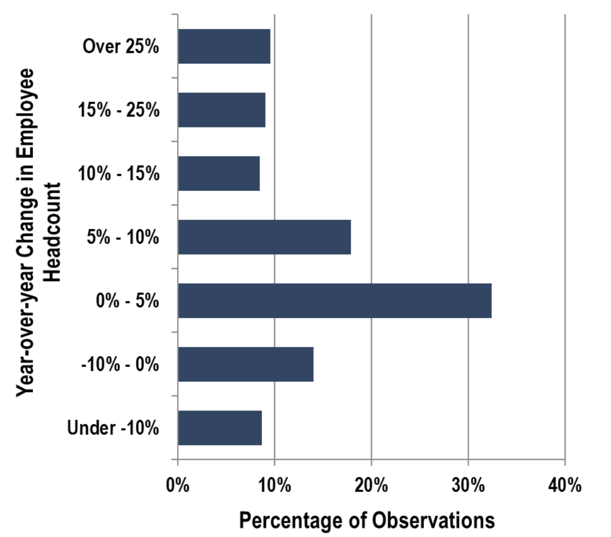
Source: SPI Research, February 2021

Independent providers averaged 7.9% revenue growth whereas embedded service providers grew at 10.6%. Firms with more than 700 employees grew the fastest at 11.6%. This is an important metric to watch as growth in the sector continued despite the pandemic. The professional services market can absorb growth rates of 5% to 10% through efficiency gains and better management of external subcontractors without significant increases in hiring. However, when growth rates rise above 10%, professional services organizations must add full-time employees.

Year-over-year change in PS Headcount

2017 saw a surge in headcount growth which tapered off slightly in 2018 but rebounded in 2019. Typically, headcount growth trails revenue growth by approximately 3 percentage points. In 2019 we saw the spread between headcount (9.0%) and revenue growth (10.6%) shrink with another surge of hiring. Due to the chilling effects of the pandemic, headcount growth slowed to its lowest level in 10 years (5.5%) but with the promise of a vaccine and a return to prosperity we expect a wave of PS hiring in 2021. Despite skilled talent shortages, we have not seen significant wage growth. As shown in Figure 22, 22.7% (123 organizations) reduced staff while 18.6% (101 organizations) grew headcount by more than 15%. The K-shaped recovery is bifurcating healthy growing firms from stagnant firms who have had to resort to layoffs and downsizing. [Tech's titans like Salesforce are ramping up hiring in 2021.]

Figure 22: Year-over-Year Change in PS Headcount

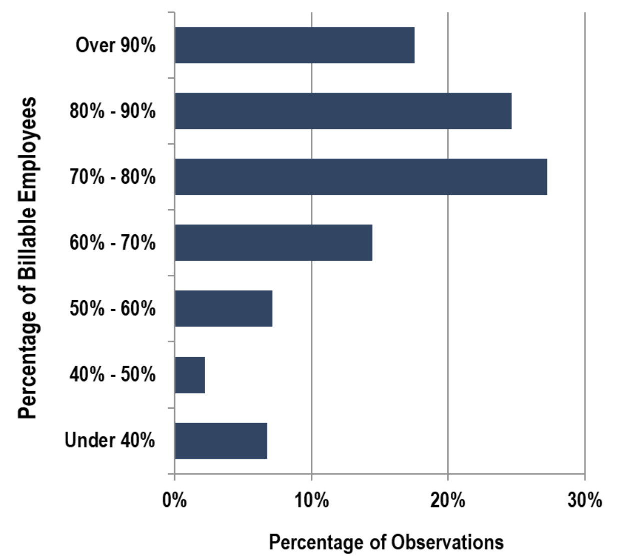


Source: SPI Research, February 2021

Percentage of Employees Billable or Chargeable

SPI Research found the percentage of billable employees grew from 72.8% in 2018 to 73.3% in 2019 and 73.7% in 2020 (Figure 23). PSOs have worked hard to eliminate non-revenue producing positions but the span of management control has remained fairly constant at 1:10. Independents reported 74.6% billable employees compared to 71.7% for ESOs. The EMEA region reported 72.1% of their employees billable; APAC 78% and Americas 73.7%. Organizations with 30 to 100 employees reported the highest billable percentage (76.3%). By vertical, Management Consultancies reported the highest billable percentage (78.2%).

Figure 23: Percentage of Employees Billable



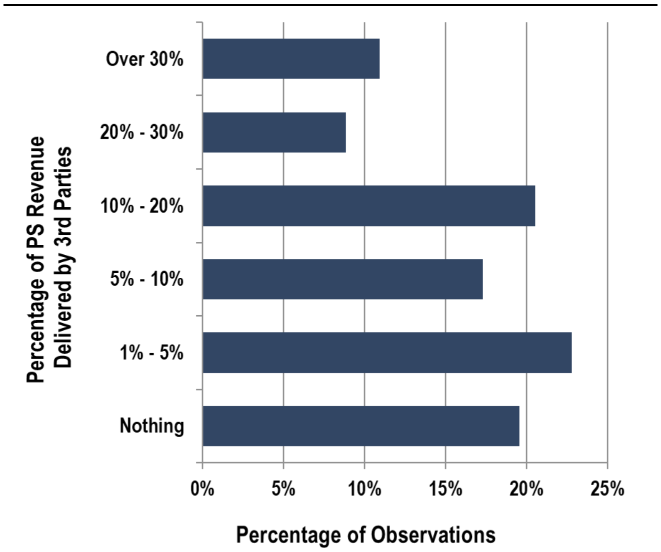
Source: SPI Research, February 2021

Excessive non-billable headcount creates a top-heavy organization or is a symptom of poor sales and marketing effectiveness and/or poor systems. But as in all things PS, there is a delicate balance that must be maintained. Non-billable headcount and time is a necessary component of leadership and developing infrastructure, systems and tools which support growth, consistency and quality.

Percentage of PS Revenue Delivered by Third Parties

Figure 24 shows the distribution of survey responses in terms of the amount of revenue generated by third-party resources. The average percent of PS revenue generated by subcontractors was 11.5%. ESOs used a third-party workforce to generate 10.9% of revenue, whereas independents reported 11.8%. APac and the Americas used a third-party workforce for to generate 11.1% of revenue; EMEA averaged 14.1%. By vertical, IT Consultancies used the most outside subcontractors, generating 14.4% of revenues. Subcontractor use grows proportionately with organization size.

Figure 24: Percentage of PS Rev. Delivered by 3rd-parties



Source: SPI Research, February 2021

4. High-Performance PSOs

SPI Research annually conducts in-depth analysis of top-performing PS Maturity™ benchmark participants to uncover the reasons for their superlative performance. We use our PS Maturity™ model framework and tools to develop maturity scores for each survey participant. Firms are evaluated within each Service Performance Pillar and given both a functional and overall PS Maturity™ score. This year we expanded our focus to the top 20% ***High-Performance PSOs*** (Level 4 and Level 5 performers). The top 20% represent organizations that have performed exceptionally well, but not with targets so high that other PSO's cannot aspire to become like them.

Pillar Performance

The results from the top 112 firms (the top 20%) are represented in this chapter. The following sections highlight some of the findings comparing the high-performing ***HPP*** organizations to the rest of the survey participants.

Demographics

Table 15 compares the 112 High-Performance ***HPP*** (top 20%) organizations to the remaining 80% (the rest).

The HPPs were somewhat smaller in terms of numbers of employees, but they had much higher revenue and headcount growth compared to the rest. The pandemic-induced K-shaped recovery favored the top 20% and disadvantaged the rest. When the economy is uncertain, leading firms grow and lesser firms struggle to survive. 80% of the employees in HPP firms were billable compared to only 72.4% for the others. This difference signifies the importance of balancing demand and supply to amplify productive time and minimize excessive overhead spending.

Table 15: High-Performance PSOs Comparison – Demographics

Key Performance Indicator (KPI)	HPP	Rest	▲
Number of firms	112	449	
Size of PS organization (employees)	459	570	-19%
Annual company revenue (mm)	$149.4	$182.7	-18%
Total professional services revenue (mm)	$79.7	$81.8	-3%
Year-over-year change in PS revenue	11.2%	8.1%	38%
Year-over-year change in PS headcount	9.0%	4.5%	98%
% of employees billable or chargeable	79.0%	72.4%	9%
% of PS revenue delivered by 3rd-parties	11.0%	11.7%	-5%

Source: SPI Research, February 2021

Leadership

The leading firms are highly specialized. They concentrate on specific high-growth technology or IT segments or vertical industries. The executives of top-performing firms are seasoned professionals – often with a track record of founding and growing multiple prior consulting organizations.

Leaders at the best firms foster a work environment that is fair and well-managed with ample rewards and career progression. Because employees understand and share in the success of these organizations, the atmosphere is one of collaboration, trust and loyalty.

Leadership is one of the most important factors driving success in the professional services market. A top concern surrounding a virtual work environment is that new hires and young workers will not have enough in-person exposure to leaders and managers. Leadership by walking around, modeling best practices and values, is a concept that helps ingrain cultural norms and expectations throughout an organization. Studies show that leadership challenges have been exacerbated by the forced virtual pandemic work environment. The concern is a more distributed and remote workforce will not have as much in-person contact with leaders to be groomed for future roles.

Table 16 compares the leadership metrics of the highest performing organizations with the remainder of the survey. The highest differential score is in the ability to get things done and confidence in the PSOs future. Top performers have made investments in collaboration tools and integrated systems to streamline business processes, allowing them to move to a virtual work environment without a hiccup.

Table 16: High-Performance PSOs Comparison – Leadership

Key Performance Indicator (KPI)	HPP	Rest	▲
Well understood vision, mission and strategy	4.30	3.89	11%
Confidence in PS leadership	4.46	4.13	8%
Ease of getting things done	4.26	3.76	13%
Goals and measurement alignment	4.15	3.74	11%
Employees have confidence in PSO's future	4.46	3.94	13%
Effectively communicates w/employees	4.25	3.96	7%
Embraces change - nimble and flexible	4.30	3.87	11%
Innovation focused	4.16	3.74	11%

Source: SPI Research, February 2021

Some leadership principles remain constant: leaders take on challenges that others are not able to handle, and they invest in the future with a focus on innovation. Leaders are clear and decisive in defining their vision of the future and their firm's place in the universe. Strategic clarity is further cemented by abundant communication which manifests in confidence in leadership and trust. Leading PSOs cultivate egalitarian, non-hierarchical, flat organizations in which all employees are vested in the success of the firm as well as their own well-being. Their focus on innovation means they strive to continually stay ahead of the pack, investing in new technologies and ideas long before they become mainstream. Their clarity of purpose provides a powerful foundation for their unique cultures which support and accelerate market differentiation, in turn leading to strong employee confidence in the future and customer loyalty.

Client Relationships

In this year's benchmark the HPPs had significantly fewer active clients but almost the same PS revenue as average firms which means they have deeper relationships with fewer clients and derive more revenue from each account. The mix of revenue from new accounts versus existing clients (70%) was virtually the same but the win ratio was much higher for HPPs. In 2020, all PSOs were forced to double down on current clients and existing relationships but the high-performing firms were much more productive at all aspects of business development. They maintained a larger sales pipeline, more backlog and were much more successful at winning bids. Sales success helps ameliorate issues in other areas of firms, as growing PSO's have happier consultants with more opportunities for interesting work and they make more money.

Top performers make fewer price concessions because they have a reputation for excellent work and are able to command premium pricing. Where they really shine is in their percentage of referenceable clients. Client reference ability, or more satisfied clients, goes a long way in terms of driving growth, profit and employee satisfaction. Top performers have well understood project quality methods which include reference building. They are able to spot problems early and fix them to ensure all projects are successful.

Table 17: High-Performance PSOs Comparison – Client Relationships

Key Performance Indicator (KPI)	HPP	Rest	▲
Total annual number of active clients	301	1,048	-71%
Revenue from current clients - Existing services	58.3%	55.6%	5%
Revenue from current clients - New services	13.1%	16.3%	-20%
Revenue from new logo clients - Existing services	19.4%	17.7%	10%
Revenue from new logo clients - New services	9.2%	10.3%	-11%
Bid-to-Win ratio (per 10 bids)	5.88	4.96	19%
Deal pipeline relative to qtr. bookings forecast	206%	171%	21%
Sales cycle (days: qualified lead to contract sign.)	87	90	3%
Average service discount given	5.3%	8.2%	36%
Percentage of referenceable clients	84.5%	69.0%	23%
Solution development effectiveness	4.00	3.59	12%
Service sales effectiveness	3.76	3.50	7%
Service marketing effectiveness	3.29	3.07	7%

Source: SPI Research, February 2021

Many of this year's HPPs do not employ traditional solution salespeople. Independent IT and management consultancies depend on their regional practice leaders to be the chief rainmakers in their region or domain. Although practice leaders are charged with developing a book of business, they are also charged with personal billability goals to ensure they continue to be recognized experts in their field. Independent High-Performance firms expect their practice leaders to be consultants first, able to truly add value to client relationships. Repeat business and referrals are the primary source of new business, a strong testimony to superlative client relationships and results.

Talent (formerly Human Capital Alignment)

Talent is a primary focus and hot topic for all service firms. In an increasingly competitive talent market, HPPs have become laser-focused on their employment brand. Organizations are embracing technology to help reimagine the workplace with knowledge-sharing, team building, transparency and collaboration at the core of their continuous learning cultures.

High-performing firms place a premium on high quality recruiting and on-boarding programs resulting in faster recruiting and ramping times combined with better retention and higher billable utilization. They hire "A" players and they invest a lot in them and expect a lot from them.

Just finding talent is not enough. This year's High-Performance firms focused on ramping and employee training to develop a qualified workforce. Some create rotational assignments to give their employees greater exposure to other technologies and clients. Employees who are continually learning and expanding their knowledge base tend to stay with their employer. When the work is not challenging or interesting, morale suffers, and attrition rises. Several of the smaller firms are 100% virtual – in other words, they don't invest in expensive facilities but keep morale high with communication and collaboration.

Table 18 compares Talent Pillar KPIs between the High-Performance PSOs and the others. Employee attrition, both voluntary and involuntary, was down this year but HPPs do a much better job of engaging and retaining their employees. The pandemic limited the propensity for employees to seek greener pastures as workers were happy to have employment stability while the world around them was filled with uncertainty.

Table 18: High-Performance PSOs Comparison – Talent

Key Performance Indicator (KPI)	HPP	Rest	▲
Percentage of workforce that is male	59.0%	61.8%	-5%
Employee annual attrition - voluntary	5.5%	7.4%	26%
Employee annual attrition - involuntary	4.3%	4.8%	12%
Recommend company to friends/family (1 to 5)	4.71	4.33	9%
Days to recruit and hire for standard positions	59.6	63.7	6%
Days for a new hire to become productive	48.0	61.5	22%
Guaranteed annual training days / employee	10.14	9.67	5%
Well-understood career path (1 to 5 scale)	3.52	3.24	9%
Employee billable utilization	79.4%	68.7%	15%
Annual fully loaded cost per consultant (k)	$137	$120	-14%
Onsite delivery	**36.0%**	**42.7%**	**-16%**

Source: SPI Research, February 2021

HPPs showed lower attrition meaning their firm's ability to train, motivate, incent and keep happy employees was much better. A higher percentage of employees would recommend their firm as a great place to work.

Because HPPs grow faster than average firms, they are able to recruit new employees faster, and they have better onboarding programs, so their new hires become productive in less time, shortening their ramping time and becoming billable faster. Two of the more significant differences between HPPs and the rest are that high-performance firms had much higher billable utilization. Their employees bill an additional 200 hours per year per consultant which translates to a whopping $60K more in revenue! And while they had higher fully loaded employee costs, the HPP firms made up for it in terms of higher billable utilization. They also did a much better job of supporting a virtual work environment, which reduced nonproductive time, and also improved billable utilization.

Service Execution

Table 19 compares service execution metrics between the High-Performance organizations and the remainder. High quality service execution is what really sets top performing PSOs apart. They tend to be highly disciplined in all facets of service execution. The table points out leaders tackle larger, more mission critical projects. Their projects require more staff for longer periods of time. Given the scale and complexity of their projects, remarkably, they are able to deliver most of them on-time and on-budget. They deliver projects with quality and integrity and are far more likely to use a standardized delivery methodology which results in more projects delivered on-time, fewer project overruns and fewer project cancellations. Because the best firms deploy the best consultants and effectively use PSA to exceed client expectations, every facet of service execution is more profitable.

Table 19: High-Performance PSOs Comparison – Service Execution

Key Performance Indicator (KPI)	HPP	Rest	▲
Average project staffing time (days)	8.31	10.24	19%
Number of projects delivered per year	410	411	0%
Average revenue per project (k)	$228	$129	77%
Average project staff (people)	4.32	4.02	7%
Average project duration (months)	5.89	5.43	8%
Projects delivered on-time	88.7%	76.6%	16%
Average project overrun	5.8%	9.2%	38%
Use a standardized delivery methodology	69.4%	64.7%	7%
Project margin for time & materials projects	38.7%	34.1%	13%
Project margin for fixed price projects	40.0%	33.8%	18%
Average project margin — subs, offshore	32.3%	28.1%	15%
Onsite delivery	**36.0%**	**42.7%**	**-16%**

Source: SPI Research, February 2021

The table shows improvement in virtually every Service Execution metric. HPP firms were able to staff projects faster. They also delivered much larger projects in terms of revenue, people and project duration. Larger projects entail more risk so top performers invest in project management and drive clarity, quality and properly set expectations throughout the life of the project. They also do a much better job of documenting progress and results. Top firms deliver more projects on-time and minimize project overruns. These are two critical KPI's that have a direct impact on client satisfaction. On-time, on-budget project delivery also impacts employee satisfaction, as it is no fun to work on projects that are over-budget and delivered late. Many of the HPP firms use structured, standardized, delivery methods and they invest in project management offices to drive quality and build a foundation of project excellence. They provide visibility to all aspects of project execution, ensuring deliverables and timelines are consistently met. What was also notable was that on-site delivery was much lower for HPPs, as they had the ability to support more projects simultaneously while working from home. Project margins were also much higher for these firms, which drives organizational profit.

Finance and Operations

Despite their altruism and spirit of giving back to their employees and communities, the High-Performers know how to make money; they are focused on financial success as a vehicle for growth. The Professional Services Maturity Model™ scoring over-weights financial success; meaning the leaders in this survey were much more profitable than their peers. Because the Professional Services Maturity Model™ is heavily weighted on financial success, there should be little doubt that high-performing firms operate much more profitably and show better results in all of the key financial performance indicators.

Table 20: High-Performance PSOs Comparison – Finance & Operations

Key Performance Indicator (KPI)	HPP	Rest	▲
EBITDA	**18.5%**	**14.5%**	**28%**
Annual revenue per billable consultant (k)	$246	$186	33%
Annual revenue per employee (k)	$207	$149	39%
Quarterly revenue target in backlog	50.1%	40.1%	25%
Percent of annual revenue target achieved	98.3%	89.6%	10%
Percent of annual margin target achieved	96.9%	87.6%	11%
Revenue leakage	3.56%	4.56%	22%
% of inv. redone due to error/client rejections	1.6%	1.9%	16%
Days sales outstanding (DSO)	40.5	42.4	5%
Quarterly non-billable expense per employee	$1,261	$1,444	13%
Executive real-time wide visibility	4.02	3.43	17%

Source: SPI Research, February 2021

Table 20 shows the enviable financial results from this year's High-Performance PSOs. Notable is the annual revenue per billable consultant and per employee. These figures are significantly higher for the high performing firms based on a combination of higher billable utilization, fewer price concessions and better realized bill rates. What should also be noted is that the HPPs do a much better job of planning both revenue and margin. In 2020 business planning and replanning was seriously tested. SPI Research is impressed at how close the high performing firms came to meeting their financial goals. The table shows just how important proper planning is up front, and when circumstances change, as they certainly did in 2020, PSO's must quickly respond.

Leaders keep a lid on non-billable expenses. They have better real time information visibility, which drives operational success, as executives can quickly see how operations are changing, and can respond with plans to meet challenges and changes.

The High-Performance PSOs Use and Integrate PS Applications

Table 21 depicts the level of commercial business application use and integration for top performing organizations versus the rest. In all dominant business applications categories, top performers invest more in business applications and do a better job of integrating them. Because they use these applications to run the business, they are much more satisfied with their application infrastructure. As noted in the prior section, high performance PSO's have better information visibility. Table 21 highlights the use of business solutions to run the business better.

In professional services, PSA is the core solution to drive operational results. 85% of the top performing firms use PSA, and nearly two-thirds have it integrated with the core financial management solution, which gives executives real-time visibility to all aspects of business development and service execution along with costs. Also important is the fact that nearly half of the firms surveyed integrated PSA with the core CRM solution. This integration is important because the two groups that directly interact with clients, sales and delivery, must have consistent information to better plan, sell, staff and deliver professional services. SPI Research underscores the importance of information integration. Visibility throughout the PSO helps tie strategy to execution with everyone operating with the same information to achieve the same organizational goals.

Table 21: High-Performance Comparison – Business Applications

Solution	HPP	Rest	Delta
Corporate financial management solution (CFM)	95.5%	94.2%	1%
Satisfaction with financial solution	3.97	3.71	7%
Commercial CRM solution	85.6%	82.8%	3%
Satisfaction with CRM solution	4.02	3.98	1%
CRM is integrated with CFM	37.2%	40.9%	**-9%**
Commercial PSA	85.5%	77.9%	10%
Satisfaction with PSA solution	4.03	3.85	5%
PSA is integrated with CFM	62.4%	50.0%	**25%**
Level of CRM and PSA Integration	46.0%	38.8%	**18%**
Commercial HCM solution	76.6%	67.8%	13%
Satisfaction with HCM solution	3.79	3.39	12%
HCM is integrated with CFM	30.7%	31.3%	**-2%**
Use a commercial BI solution	55.2%	52.9%	4%
Satisfaction with BI solution	3.85	3.67	5%
BI is integrated	43.1%	37.7%	**14%**

Source: SPI Research, February 2021

High-Performance Conclusions

This year SPI Research focused on the top 20%, High-Performance PSOs. Success is in sight for all organizations if they have a clear growth strategy and are able to translate that strategy into action. The comparisons in this chapter highlight how leading firms perform, and demonstrates the numbers are not out of reach for average firms. It takes dedication, insight and hard work to surmount challenges and inertia. Change and improvement first require a realization that things are not right. Not all firms know which metrics to track so they can't visualize success nor gauge the value of improvement. 2020 was a wake up call for businesses around the world, top performers were able to meet the challenges head on. They planned, replanned and dove in to take care of their employees and their clients. In turn, their employees stayed committed and persevered despite drastic changes in their work routines. Their clients supported them with more work and additional opportunities. This benchmark gives you and your firm insight into the metrics it takes to drive success, use it wisely to focus on building a great organization! Success is its own best reward!

5. Professional Services Business Applications

In a business climate driven by technology, disruption and skilled talent shortages, professional services organizations must themselves become technology enabled. In the past, PS technology use was confined to operations and service execution, it now has become mandatory, extending virtual workspaces, enhancing collaboration and knowledge sharing, providing the basis for effective recruiting, hiring and employee engagement and furnishing the tools for planning, budgeting, forecasting and analyzing. Top performing services organizations have deployed integrated business applications across all aspects of the business, giving them unprecedented visibility and control to see and take advantage of business changes in real-time.

Technology understanding and use, has become a strategic imperative to exploit globalization and drive market growth. Barriers to entry are being lowered as faster, nimbler, more technology-savvy firms seize top clients and markets. In this climate, new entrants focused on niches, specific functions and underserved constituents can quickly grow and make an impact on larger, more entrenched players. At the same time, consultants are demanding easy-to-use, contextual, socially aware systems, which mimic the applications they use in their personal lives. Mobile is no longer a nice to have, it has become a strategic imperative to reach an increasingly global and virtual client base and workforce.

The growth engine of the world's economy has shifted from manufacturing to project-based, people-centric services businesses. These businesses rely on project-based Enterprise Resource Planning (ERP), also known as Services Resource Planning (SRP) or Corporate Financial Management (CFM), applications to manage the financial aspects of the firm. These solutions automate core business processes such as quote-to-cash, resource and talent management, time capture and billing to provide the real-time visibility necessary to improve organizational efficiency and effectiveness.

Services firms are uniquely people-driven organizations. They depend on the knowledge and skills of a talented workforce to sell, staff and deliver a range of services typically on a project or contract basis. The fundamental financial requirements of service-based businesses are very different from classic manufacturing and supply-chain focused ERP applications as they must include functionality for managing resources (people) and projects (tasks). Increasingly, project-based ERP application providers also add rich talent management capabilities to support recruiting, on-boarding, compensating and rewarding the employees who are their core asset.

As the world economy has shifted to a new "as a service" mindset, service-oriented firms are increasingly bundling hardware, software, intellectual property and consulting into "subscription-based" or "managed services" bundles. Today's accounting, CRM and PSA systems must support a whole new range of contracting, pricing, staffing and billing models. In this arena, the new breed of cloud-based project-based ERP vendors excel as they were not only born in the cloud but so too were their technology-intense early adopter clients. They have built in support for multi-element contracts and subscription billing from the get-go.

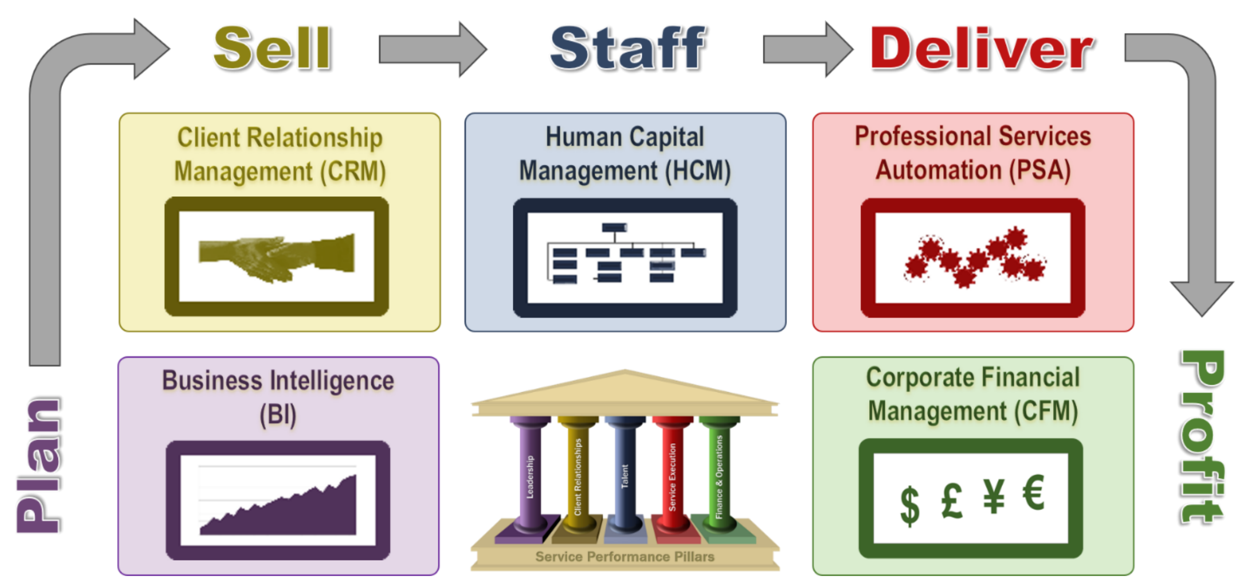
This chapter provides PS executives and software application providers insight into the level of market adoption, integration and satisfaction with core Professional Services business applications from this year's benchmark survey. ***This study is not intended to be an overall application market adoption survey and should not be relied on as such.*** The solutions highlighted in this chapter help PSOs optimize operational effectiveness through increased visibility, streamlined business processes and cost management.

Primary Professional Services Business Applications

The primary business applications used by Professional Services organizations are:

- ***Corporate Financial Management (CFM) or Enterprise Resource Planning (ERP)***: The fundamental solution required to accurately collect and report financial transactions.
- ***Client Relationship Management (CRM)***: The automation of client relationship processes to improve sales and marketing efficiency and effectiveness.
- ***Professional Services Automation (PSA)***: The initiation, planning, execution, close and control of projects and services through the management and scheduling of resources that include people (both internal and partners), materials and equipment.
- ***Human Capital Management (HCM)***: Talent management solutions for recruiting, hiring, compensation, goal setting and career and performance management which rely on integration with and extracts from the employee database.
- ***Business Intelligence (BI)***: The assembly and use of information to improve decision-making.

Figure 25: Core Professional Services Business Applications



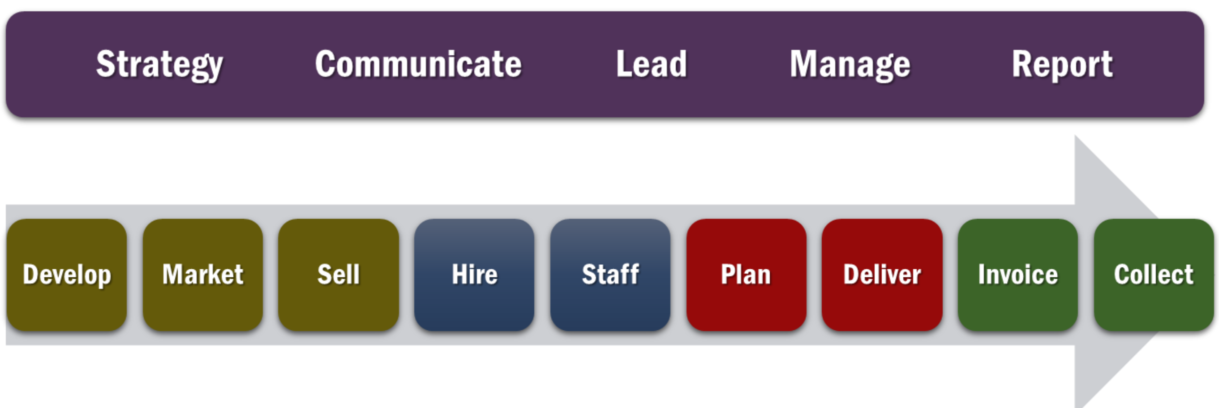
Source: SPI Research, February 2021

Both embedded and independent professional services organizations require similar functionality. The service industry's use of technology has typically lagged the manufacturing sector, but the global size, complexity and growth of today's service businesses has accentuated the need for specialized applications along with an increased demand for real-time information.

Quote to Cash

In today's economy, cash flow rules. Every organization must focus on cash flow to maintain a solid financial position and maximize profitability and liquidity. In service-oriented organizations this process begins with a client quote and ends once payment is received and the money is in the bank. This macro process of converting sales opportunities into paying customers is often referred to as "quote-to-cash," and its optimization is essential for financial well-being. The power of modern business applications is that they provide workflow, rules, alerts, approvals and reporting that mimic best practices in business management. Decades ago, services businesses had few viable options as they were forced to build their own, or substantially customize manufacturing-oriented applications, to handle projects and resources. Now, Project-Based ERP, Client Relationship Management (CRM) and Professional Services Automation (PSA) solutions provide modules that support essential services business processes, including the critical "quote-to-cash" process (Figure 26).

Figure 26: Primary Quote-to-Cash business processes span multiple departments



Source: SPI Research, February 2021

PSA solutions are designed to integrate core business processes across the organization so that each department has a clear understanding of their roles and measurements and how their work impacts the organization's overall ability to succeed. Success can be defined in many terms, such as growth, profit, quality, streamlined operations or reduced administration and rework. Regardless, when everyone works with the same set of information and is focused on the critical path to quality completion of project-based work, results improve.

Figure 27 shows quote-to-cash is a series of interrelated processes supported by client relationship management (CRM), PSA and enterprise resource corporate financial management (CFM) modules. To optimize these fundamental business processes, executives rely on the integration of essential business applications to provide visibility, transparency and control. Although each of these applications are offered on a stand-alone basis, the true power of managing the complete quote-to-profit business cycle is best accomplished by integrating best of breed applications together or purchasing an integrated suite of applications.

Figure 27: Quote-to-cash process

Source: SPI Research, February 2021

PS Solution Adoption

In this year's survey, commercial adoption declined in the primary business applications of CFM, CRM and PSA while adoption increased in HCM and BI. In 2020 every organization was challenged to budget, plan and replan throughout the year as the pandemic ravaged certain business segments and accelerated others. SPI's clients emphasized the importance of business and capacity planning tools like Workday's [Adaptive Planning] to help then navigate a challenging year. HCM usage also accelerated as more and more firms realize the benefits of integrating payroll with recruiting and skill building. The new killer application will be integrating HCM with PSA to give employers and employees visibility to upcoming projects and the skills they need to be part of them. The abundance of high quality, affordable cloud-based solutions has enabled greater numbers of PSOs to adopt commercial business applications, yet a surprisingly large number of firms still rely on antiquated homegrown applications and spreadsheets. Excel and Google sheets remain the most-used business applications.

Table 22: Commercial Solution Adoption

Solution	2018	2019	2020
Corporate Financial Management (CFM)	96.6%	94.8%	94.4%
Client Relationship Management (CRM)	83.5%	86.7%	83.4%
Professional Services Automation (PSA)	76.2%	84.8%	79.0%
Human Capital Management (HCM)	61.2%	68.1%	69.7%
Business Intelligence (BI)	47.0%	44.7%	53.4%

Source: SPI Research, February 2021

Cloud-based applications are outselling non-cloud by a factor of ten-to-one. Cloud solutions are especially important in the professional services sector, as today's virtual consulting organizations may have skilled employees located across the globe, not collocated in physical offices. The cloud has enabled PS executives and workers at all levels greater mobile access to the information they need to improve visibility and management control of resources and projects.

CRM adoption surpassed PSA adoption seven years ago, when cloud-based CRM applications, primarily from Salesforce.com, became the standard. CRM usage is often misleading as firms may only purchase a limited number of sales seats whereas they require PSA functionality (and licenses) for all billable members of the organization. More and more firms are also investing in Marketing Automation to generate leads, track prospects and build the brand. Corporate Performance Management applications for capacity and resource planning along with budgeting and forecasting are becoming essential as are communication and collaboration platforms like Slack, Jira, Microsoft Teams and Zoom.

This year we saw a decline in commercial PSA adoption from 84.8% to 79%. The reason for this is that many PSOs are moving to integrated financial solutions away from standalone PSA. SPI's benchmarking studies show the undeniable impact PSA has on all aspects of service execution. Effective resource management manifests in better staff retention, higher levels of billable utilization and significant improvements in on-time, on-budget project delivery. Time and expense capture and billing simply cannot be managed effectively with antiquated spreadsheets.

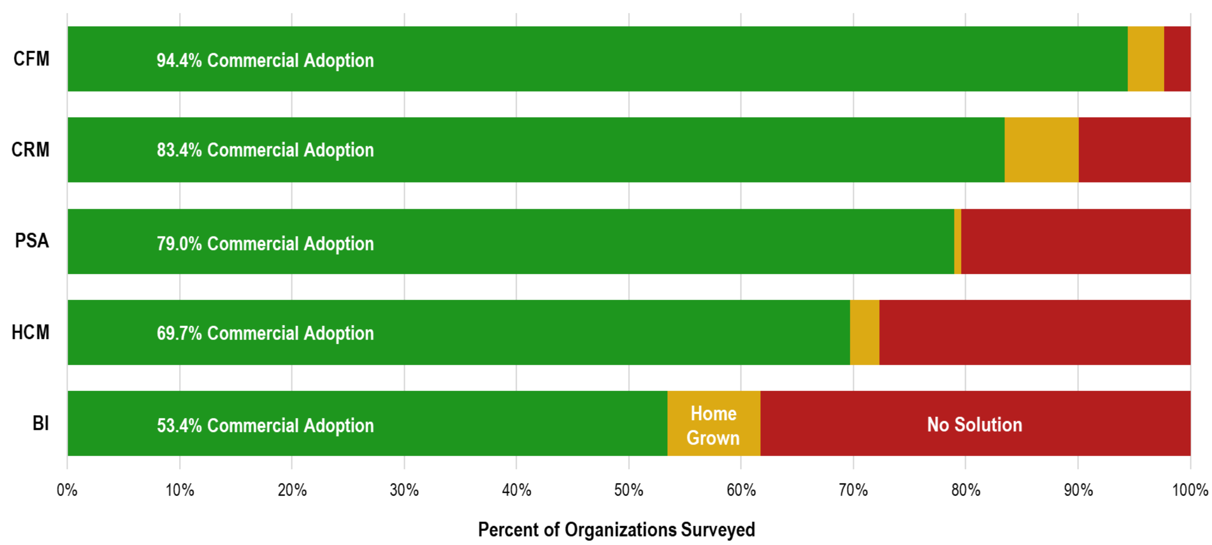
Human Capital Management (HCM) applications have experienced the greatest growth in PS adoption in recent years. As new cloud based powerful HCM applications have come to market expect to see adoption continue to rise to equal or even surpass PSA. It only makes sense that people, the crown jewels of the consulting profession, will benefit from applications which empower employees to manage their own skill and career development. Further, HCM solutions provide benefits in improved recruiting and learning management which can be significant as the average PSO spends more than 1% of total revenue on recruiting and another 1 to 2% on training. HCM applications are starting to provide powerful learning management platforms so employees have a single system of record to enhance skills and manage certifications and credentials.

Remote service delivery and collaboration tools have become prevalent, enabling consultants to work on client projects and machines from anywhere. One could characterize 2020 as the year of Zoom with 300 million daily Zoom participants powering the new virtual world. These powerful tools have ushered in the wave of virtual service delivery which has radically improved consulting productivity. Interestingly, knowledge management still lags other application areas despite the productivity and quality improvements it provides. A plethora of open-source knowledge and collaboration solutions are starting to encroach on Microsoft's SharePoint and Teams as the dominant knowledge management tool with SLACK and Jira topping the list. Stand-alone BI applications are losing market-share across the PS industry because new Artificial Intelligence, Reporting and Analytic functionality is now built into core CFM business applications, erasing the need to buy a standalone Business Intelligence solution. In 2020, capacity and business planning tools were essential to help businesses understand and react to market changes.

Each year SPI Research's Professional Services Maturity™ Benchmark quantifies the benefits achieved by services organizations with solutions that integrate Client Relationship Management and financial processes, Human Capital Management and financial processes, and Professional Services Automation and financial processes. Of course, the systems themselves are only part of a broader firm-wide commitment to behavioral change that fosters collaboration and enhanced communication, coordination and quality management.

Figure 28 compares the adoption of commercial solutions versus homegrown, and organizations that still rely on spreadsheets. Fewer than 5% of the organizations surveyed do not yet have a formal CFM or accounting solution, meaning they probably use Excel and email to run the business.

Figure 28: Commercial Solution Adoption



Source: SPI Research, February 2021

Table 23 compares business solution adoption and satisfaction along with the level of financial management (ERP) integration. The Americas usage of ERP surpasses that of EMEA and APAC. Recently European and Asia Pacific headquartered firms have made big investments in PSA. APac PSA usage now surpasses the Americas and EMEA is catching up. Application satisfaction is highly correlated with usage. Typically, application satisfaction improves as business applications become more widely adopted. CFM and PSA satisfaction surpassed all other solutions this year while CRM satisfaction took a nose-dive. The majority of firms in this benchmark use Salesforce CRM. They are becoming disenchanted with its high price and bloated functionality. HCM continues to receive the lowest overall satisfaction ratings because our research shows much of HCM's functionality has not been fully deployed or adopted. Effective HCM usage requires effective talent management processes including change management along with leadership training and development. Unfortunately, the role of human resources has not yet become strategic for many consultancies.

The level of solution adoption is much higher within embedded PS organizations. The table shows CRM is significantly more prevalent in embedded service organizations than in independents (PSOs), but this is to be expected because embedded service organizations (ESOs) tend to be larger and have a strong product-oriented sales force who are responsible for bringing services into deals. Product companies tend to value and invest more in IT than independent service providers.

Table 23: Business Application Use by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	ESO	PSO	Americas	EMEA	APac
Commercial CFM solution used	94.4%	95.9%	93.8%	95.0%	91.7%	93.5%
Satisfaction with CFM solution	3.77	3.64	3.83	3.78	3.66	3.90
Commercial CRM solution	83.4%	92.2%	79.4%	83.6%	85.7%	75.9%
Satisfaction with CRM solution	3.98	4.13	3.91	4.00	4.11	3.52
CRM is integrated with CFM	40.2%	51.7%	34.4%	40.9%	38.5%	35.0%
Commercial PSA solution	79.5%	84.5%	77.3%	79.6%	76.6%	86.2%
Satisfaction with PSA solution	3.89	3.81	3.93	3.87	4.08	3.81
PSA is integrated with CFM	52.7%	46.4%	55.8%	52.9%	50.0%	55.8%
Commercial HCM solution	69.7%	79.0%	65.4%	69.6%	73.2%	62.1%
Satisfaction with HCM solution	3.48	3.47	3.48	3.53	3.41	3.00
HCM is integrated with CFM	31.2%	31.0%	31.3%	32.5%	25.4%	28.6%
Commercial BI solution	53.4%	59.5%	50.6%	54.0%	53.8%	44.4%
Satisfaction with BI solution	3.71	3.79	3.66	3.73	3.74	3.33
BI is integrated with CFM	38.8%	44.3%	35.9%	40.2%	38.9%	21.1%
CRM / PSA integration	40.4%	53.4%	34.4%	41.2%	38.8%	33.3%

Source: SPI Research, February 2021

As one might expect, Table 24 shows higher levels of solution adoption as organizations expand. And for the most part, greater solution integration with core financials also increases as organizations get larger. Even with the proliferation of affordable and easy-to-use cloud solutions, the smallest organizations will always lag in their adoption rates. SPI Research has seen adoption increase in all size organizations. This table highlights the importance professional services organizations have placed on building a strong financial application infrastructure to enhance visibility and management control resulting in higher productivity and profit.

Table 24: Business Application Use by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Commercial CFM solution used	80.3%	89.8%	98.2%	96.4%	97.9%	100.0%
Satisfaction with CFM solution	3.91	3.93	3.71	3.90	3.55	3.43
Commercial CRM solution	63.2%	81.3%	85.0%	87.3%	93.9%	91.7%
Satisfaction with CRM solution	3.82	3.96	3.99	4.06	4.00	4.04

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
CRM is integrated	31.3%	23.5%	34.3%	57.4%	55.0%	48.8%
Commercial PSA solution	51.8%	74.0%	84.5%	87.6%	79.1%	88.9%
Satisfaction with PSA solution	3.82	4.04	3.98	3.95	3.42	3.76
PSA is integrated	24.3%	42.1%	51.2%	71.7%	55.1%	58.5%
Commercial HCM solution	32.8%	53.1%	69.4%	85.4%	92.3%	94.3%
Satisfaction with HCM solution	3.17	3.70	3.45	3.42	3.41	3.65
HCM is integrated	18.8%	28.6%	25.9%	32.6%	40.3%	45.6%
Commercial BI solution	31.0%	33.3%	52.1%	67.0%	76.3%	76.0%
Satisfaction with BI solution	3.67	3.80	3.58	3.89	3.50	3.71
BI is integrated	23.5%	30.4%	38.3%	42.6%	35.5%	59.2%
CRM / PSA integration	21.1%	27.3%	43.9%	55.3%	45.5%	41.8%

Source: SPI Research, February 2021

Table 25 shows embedded services organizations (Software/SaaS/Hardware PS) have higher adoption rates than independents in almost all categories. Generally, these organizations are part of a larger technology-focused product organization, larger organizations tend to rely more heavily on business applications to improve performance. Architects and Engineers and Management Consultancies reported lower levels of application usage across most categories except core financials which they rely on to run the business. This is clearly an improvement area for these segments.

Table 25: Business Application Use by Vertical Service Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult.	SaaS PS	Software PS	Arch./ Engr.
Commercial CFM solution used	95.1%	92.8%	95.2%	96.3%	100.0%
Satisfaction with CFM solution	3.91	4.14	3.53	3.75	3.53
Commercial CRM solution	86.6%	83.1%	96.7%	89.4%	53.1%
Satisfaction with CRM solution	4.03	4.11	4.08	4.22	3.32
CRM is integrated	32.7%	35.3%	57.6%	48.9%	35.0%
Commercial PSA solution	87.0%	67.5%	91.8%	88.0%	51.6%
Satisfaction with PSA solution	4.07	4.08	3.87	4.00	3.73
PSA is integrated	61.0%	49.2%	43.1%	43.0%	52.9%
Commercial HCM solution	68.0%	59.2%	85.2%	84.8%	50.0%
Satisfaction with HCM solution	3.52	3.55	3.51	3.57	3.56
HCM is integrated	32.9%	31.3%	33.0%	20.2%	28.9%

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult.	SaaS PS	Software PS	Arch./ Engr.
Commercial BI solution	49.6%	54.7%	55.9%	61.7%	41.4%
Satisfaction with BI solution	3.69	3.85	3.92	3.64	3.47
BI is integrated	35.8%	44.4%	43.4%	41.7%	50.0%
CRM / PSA integration	39.7%	37.0%	68.9%	50.0%	16.1%

Source: SPI Research, February 2021

Table 26 shows a mixed bag of business application use by marketing, VARs, Accountancies, Managed Service providers and other PS. Managed Service providers reported the lowest use of PSA as they rely on managed service subscription billing and entitlement platforms like Servicenow, Zuora and Connectwise. Managed Service providers take the least advantage of commercial business applications in comparison to all other PS verticals.

Table 26: Business Application Use by Vertical Service Market Continued

Key Performance Indicator (KPI)	Marcom	VAR	Account.	Mgd. Serv.	Other PS
Commercial CFM solution used	93.3%	100.0%	100.0%	84.6%	91.4%
Satisfaction with CFM solution	3.78	3.41	3.33	4.08	3.59
Commercial CRM solution	78.3%	100.0%	72.7%	75.0%	79.1%
Satisfaction with CRM solution	3.77	4.12	4.10	4.00	3.81
CRM is integrated	32.5%	46.9%	65.0%	38.9%	36.0%
Commercial PSA solution	80.8%	76.5%	81.8%	58.3%	78.7%
Satisfaction with PSA solution	3.75	3.36	3.10	3.78	3.73
PSA is integrated	50.0%	50.0%	55.0%	50.0%	57.1%
Commercial HCM solution	60.9%	70.6%	72.7%	41.7%	74.7%
Satisfaction with HCM solution	3.50	3.08	3.33	3.63	3.37
HCM is integrated	28.1%	33.3%	43.8%	50.0%	31.9%
Commercial BI solution	56.5%	62.5%	54.5%	45.5%	53.9%
Satisfaction with BI solution	3.86	3.82	3.44	3.86	3.56
BI is integrated	34.6%	41.7%	35.7%	50.0%	30.5%
CRM / PSA integration	32.7%	44.1%	31.8%	16.7%	34.0%

Source: SPI Research, February 2021

Solution Satisfaction

Table 27 shows application satisfaction (1: very dissatisfied to 5: very satisfied). Satisfaction with CRM tops the list followed by PSA and CFM. By vertical, Management Consultancies give the highest

Table 27: Solution Satisfaction

Solution	2018	2019	2020
Client Relationship Management (CRM)	4.02	4.03	3.98
Professional Services Automation (PSA)	3.85	3.87	3.89
Corporate Financial Management (CFM)	3.84	3.81	3.77
Business Intelligence (BI)	3.74	3.87	3.71
Human Capital Management (HCM)	3.64	3.53	3.48

Source: SPI Research, February 2021

satisfaction ratings and embedded SaaS and Accountancies give the lowest ratings. Satisfaction levels are relatively low for Human Capital Management. Human Capital Management perennially receives the lowest satisfaction ratings because these applications have for the most part remained standalone with limited integration with either CFM or PSA. Organizations are starting to more fully exploit the functionality of HCM beyond payroll for recruiting, learning management, career management and skill building and certification.

Corporate Financial Management (CFM)

Corporate Financial Management (CFM) [Finance and Accounting, (ERP or SRP)], is the primary application required to accurately collect, bill and report financial transactions. CFM collects and manages all financial information (expenses, invoices, etc.) to provide management reporting and visibility into total service revenue, cost and profitability. Project-driven, human capital intense businesses like professional services have unique financial management requirements including support for complex contract types and billing arrangements. Revenue recognition is also complex and must conform to local accounting and taxation rules while providing support for multicurrency, multilingual transactions for global firms. Seamless integration between the system of record (PSA) for managing resources and projects and the financial management solution for payroll, expense management, invoicing, revenue recognition and project accounting is critical.

Corporate Financial Management (CFM)

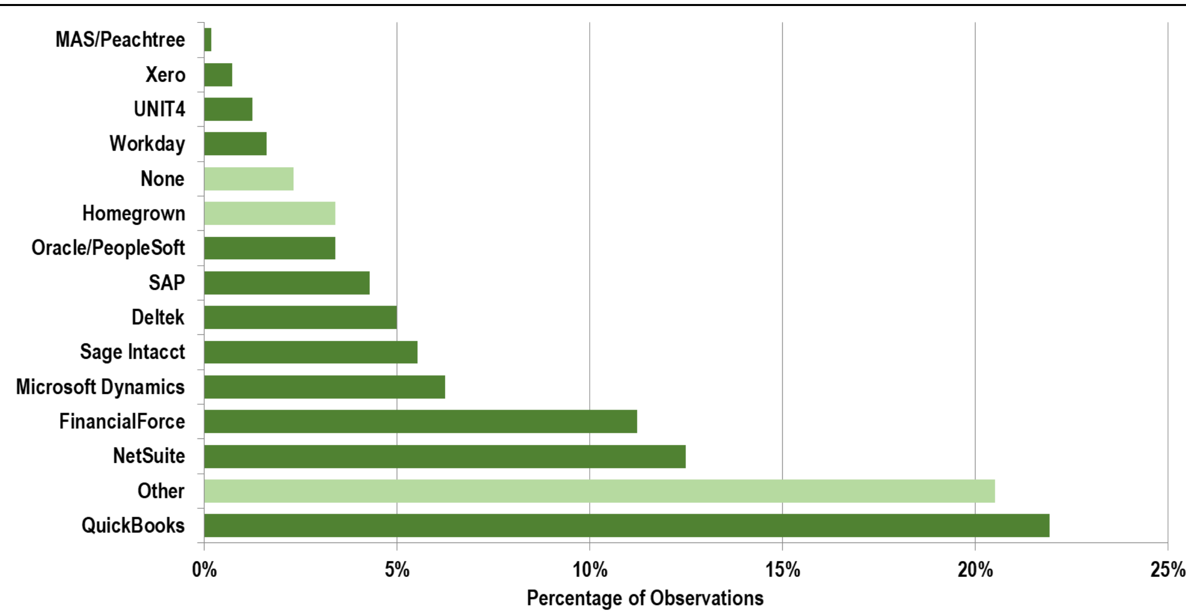
- Activity Based Management
- Asset Management
- Cash Management
- Collection Management
- Contract Management
- Financial Analytics
- General Ledger
- Internal Controls
- Lease Management
- Payables
- Planning and Budgeting
- Property Management
- Receivables
- Revenue Management
- Risk Management
- Treasury

Project- and service-based extensions to enterprise ERP applications started to appear in the late 1990's at the same time stand-alone Professional Service Automation (PSA) solutions supporting resource scheduling and time capture and billing became available. Over the past twenty years, project accounting, resource management and time capture and billing modules have been added to many ERP applications. Now most project-based ERP providers also add Human Capital Management (HCM) or talent management extensions to accentuate the important role that recruitment and engagement of a talented workforce has in today's economy. Support for specialized billing methods and complex revenue recognition rules for subscriptions, time and materials, work-in-process, deliverables-based or percentage completion are important project-based ERP extensions. Architects, Engineers and Government Contractors require purchasing modules and cost-plus accounting for materials and labor pricing as well as support for DCAA and FARS compliance. In 2020, mobile access to financial systems became mandatory. Interviews with CFOs reveals top selection criteria for business applications include powerful reporting capability with mandatory mobile access.

As shown in the chart, more and more service-oriented organizations are moving to cloud-based financials. Cloud-based financials provide significant benefits compared to legacy on-premise solutions. Cloud financials make it easier and less expensive to stay current on new releases; they provide superior human engineering which drives higher adoption and ease of use; they provide support for new digital capabilities including artificial intelligence, machine-learning and robotic process automation; faster introduction for advanced billing, revenue recognition; multi-entity; multi-lingual and multi-currency accounting and taxation.

This year's survey included responses from 123 QuickBooks; 70 NetSuite; 63 FinancialForce; 35 Microsoft; 31 Sage/Intacct and 28 Deltek financials clients. QuickBooks is perennially the leading financial solution for small and medium sized PSOs with 22% of survey respondents using it. QuickBooks market-share has not declined despite the plethora of cost-effective low-end solutions that have come to market with the project accounting and resource management functionality needed by PS firms (Figure 29). This year Deltek received the highest customer satisfaction rating of 87% followed by FinancialForce at 80%. Overall CFM average satisfaction was 75% (3.77 out of 5).

Figure 29: Corporate Financial Management (CFM) Solution Used



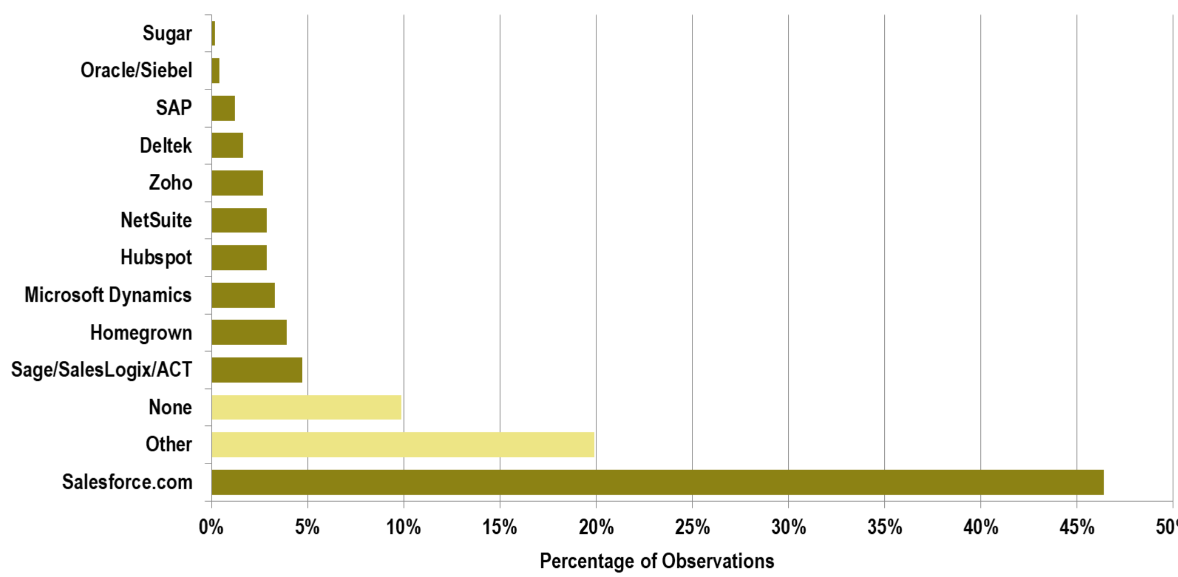
Source: SPI Research, February 2021

Client Relationship Management (CRM)

CRM supports the management of client relationships and is designed to improve sales and marketing effectiveness. CRM automates lead, contact and campaign management, sales pipeline, territory and contract management. Many CRM applications also provide powerful call center functionality for issue management; call handling; trouble ticketing and problem resolution. CRM allows PSOs to track clients through the engagement (bid to bill) lifecycle, and to specifically target customer segments and offers by understanding details of the relationship. CRM supports analysis by client, geography and portfolio. CRM is the system of record for client contacts, relationships and contracts.

Figure 30 shows Salesforce.com dominance once again with use by 50% (226) of the organizations surveyed. Sage/Intacct has gained share to move into 2nd place, followed by Microsoft. Salesforce dominance in the PS industry is slipping somewhat from 60% market share last year but Salesforce satisfaction is the highest at 84% compared to an overall CRM satisfaction rating of 79.6% (3.98 of 5).

Figure 30: Client Relationship Management (CRM) Solution Used



Source: SPI Research, February 2021

Table 28 compares organizations using CRM to those who do not. 16.6% of the organizations surveyed do not use any type of CRM solution. As the table shows, CRM benefits organizations in terms of growth. CRM users experienced significantly greater revenue and headcount growth. They have larger sales pipelines, more revenue from new clients and more backlog. CRM users report larger, more profitable projects resulting in significantly more revenue per consultant and employee. Improved sales effectiveness leads to a more efficient use of resources down the line. Profitability is clearly enhanced when CRM is integrated with PSA and the CFM application.

Table 28: Impact – Client Relationship Management (CRM) Use

Key Performance Indicator (KPI)	CRM Used	CRM Not Used	▲
Survey responses (commercial CRM)	83.4%	16.6%	
Year-over-year change in PS revenue	8.8%	7.2%	21%
Year-over-year change in PS headcount	5.3%	5.0%	7%
New client % of revenue	26.3%	19.5%	35%
Deal pipeline / quarterly bookings forecast	184%	161%	14%
Quarterly revenue target in backlog	44.1%	38.8%	13%
Quarterly revenue target in backlog	44.1%	38.8%	13%
Project margin	36.3%	34.5%	5%

Source: SPI Research, February 2021

This table highlights the benefits organizations receive as they move from no CRM to nonintegrated CRM to integrated CRM with significantly higher growth, especially in their ability to land new clients. With a stronger sales pipeline, revenue yields soar for billable consultants because there is a predictable and steady stream of work. These benefits underscore the importance of providing greater visibility and improved alignment between sales and service delivery. These benefits are amplified as organizations grow.

According to [Salesforce]() research on the impact of CRM on the professional services industry, "sixty percent of business development professionals say they spend too much time logging activities like emails and phone calls. Almost as many (58%) say the same thing about logging sales data and client notes, while 57% say they spend too much time generating quotes and proposals and gaining approvals." Deal structure, pricing and staffing all require tight integration between CRM and PSA applications to ensure sales and service delivery are in synch, focused on the right opportunities that take best advantage of skills, capabilities and resources.

Table 29: Impact – Commercial CRM Integration

Key Performance Indicator (KPI)	CRM Not Used	Used, Not Integrated	Used, Integrated
Survey responses (commercial CRM)	17.6%	34.9%	47.5%
Year-over-year change in PS revenue	7.2%	8.5%	9.0%
Year-over-year change in PS headcount	5.0%	4.1%	6.3%
New client % of revenue	23.3%	25.3%	31.6%
Deal pipeline / qtr. bookings forecast	161%	173%	193%
Quarterly revenue target in backlog	38.8%	44.5%	44.8%
Project duration (man-months)	20.4	21.2	24.8

Source: SPI Research, February 2021

Professional Services Automation (PSA)

Professional Services Automation provides the systems basis for initiation, planning, resource management, scheduling, execution, close and control of projects and services. PSA provides a resource and project dashboard including the demand forecast. It helps manage service delivery by overseeing opportunities, staffing, project management, and collaboration. PSA is typically the system of record for resource skills, competencies and preferences with integration to the employee and contractor database. It is used to collect time and expense by project and resource down to the task level, so it is the system of record for resource utilization and project cost and estimating.

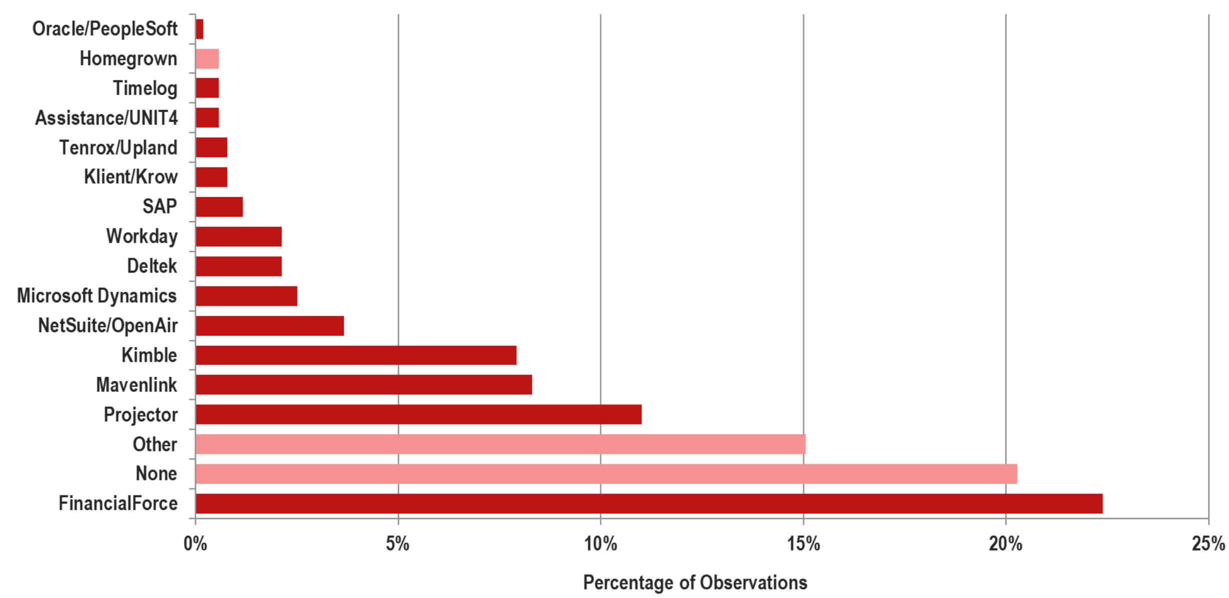
Professional Services Automation (PSA)

- Collaboration
- Invoicing
- Practice Management
- Project Accounting
- Project Analytics
- Project Costing
- Project Management
- Resource Management
- Time & Expense

Most PSA applications now offer billing modules with some level of revenue recognition by type of billing method – time and materials, work in process or fixed price. They also support accurate time and expense capture. PSA extensions for the construction industry include modules for material costs and procurement. Although PSA is still focused on enabling project- and services-driven organizations to better plan, staff, execute and collect all relevant information related to projects, it has become much more than that. It has become the core solution for business planning with a view of the best projects, best clients, best services and best people to translate the business plan into reality.

This year adoption of a commercial PSA declined from 84.8% to 79.5%. PSA satisfaction improved year over year with a satisfaction rating of 3.89 out of 5 (77%). All key metrics improve with the use of PSA.

Figure 31: Professional Services Automation (PSA) Solution Used



Source: SPI Research, February 2021

Figure 31 shows FinancialForce garnered first place this year as the most adopted PSA solution with approximately 22% (116 firms) of the survey. Projector is the second-most prevalent solution with 11% (57 firms). Mavenlink is third with 8.3% (49 firms) and Kimble is fourth with 7.9% (41 firms). NetSuite is fifth with 3.7% (19 firms). None (20.3% or 105 firms) and other (15.1% or 78 firms) are still two of the most prevalent answers. Projector wins top honors for client satisfaction with 92.8% satisfaction. FinancialForce is second in client satisfaction at 81%. Interestingly, the average size of the organizations that do not use a PSA is quite large at 416 PS employees. As the PSA market has matured, SPI Research sees solution providers coalescing by ecosystem. FinancialForce, Kimble, Mavenlink and Klient/Krow are part of the Salesforce ecosystem and AppExchange. Microsoft Dynamics, Timelog and UNIT4/Assistance PSA are focused on the Microsoft platform. NetSuite is now owned by Oracle and is moving its applications to Oracle's Cloud Infrastructure. Workday and Deltek have created their own ecosystems.

Table 30: Impact – Professional Services Automation (PSA) Use

Key Performance Indicator (KPI)	PSA Used	PSA Not Used	▲
Survey responses (commercial PSA)	79.5%	20.5%	
Year-over-year change in PS revenue	8.5%	7.5%	14%
Year-over-year change in PS headcount	6.3%	2.1%	204%
Use a standardized delivery methodology	67.6%	60.1%	12%
Employee billable utilization	71.9%	70.0%	3%
Quarterly revenue target in backlog	45.3%	35.4%	28%
Annual revenue per billable consultant (k)	$209	$180	16%
Annual revenue per billable employee (k)	$169	$149	13%
Project margin	35.8%	35.3%	1%

Source: SPI Research, February 2021

Table 30 compares PSOs using PSA solutions to those that do not. The results in this table are very powerful. Professional Services Automation solutions continue to drive significant operational performance benefits, yielding higher revenue and profit for professional services organizations. The use of PSA is on the rise due to the need to better manage projects and resources, especially in more technical disciplines, as it has become increasingly difficult to find, hire, retain and deploy talent. PSA solutions help match the right resources, with the right skills at the right time to the right projects. ***PSA solutions yield several core benefits to PSOs, but most executives only need to look to the 3% increase in billable utilization as a primary reason to select PSA.*** Just start to multiply what a 3% improvement in utilization means to revenue improvements. For a 100-person PS organization, 3% translates to 6,000 more billable hours per year. With average bill rates of $200 per hour, the PSO can produce $1.2M in incremental revenue! Almost all key metrics improve with PSA adoption. As shown in the table these systems pay for themselves with substantially higher consultant revenue yields, better project margins and more bottom-line EBITDA profit.

Table 31 highlights the benefits of integrated PSA versus standalone PSA. Again, the results demonstrate integrated PSA enables organizations to operate at higher levels of efficiency. Perhaps most notable in this table is the fact that PSA users reported almost double the headcount growth of non-users because they were far more successful throughout the challenging year of 2020.

Table 31: Impact – Commercial PSA Integration

Key Performance Indicator (KPI)	PSA Not Used	Used, Not Integrated	Used, Integrated
Survey responses (commercial PSA)	29.2%	27.3%	43.5%
Annual company revenue (mm)	$71.6	$136.1	$166.3
Year-over-year change in PS headcount	2.1%	6.4%	6.8%
Bid-to-win ratio (per 10 bids)	4.85	5.33	5.33
Deal pipeline / qtr. bookings forecast	151%	163%	196%
Well-understood career path for all emp.	3.15	3.15	3.41
Project staffing time (days)	11.37	9.97	9.36
Number of projects delivered per year	132	186	661
Executive real-time wide visibility	3.39	3.43	3.78

Source: SPI Research, February 2021

Because the delivery of services is where PSOs make their money, and because PSA is the primary application used by project managers and others responsible for services delivery, it is easy to understand why the operational and financial benefits are so significant. SPI Research has always recommended organizations with more than 20 employees utilize PSA. With the affordable cloud-based solutions now available, PSA should also be considered by smaller organizations.

Human Capital Management (HCM)

Human Capital Management (HCM) solutions (also known as talent management solutions) give employers the tools to effectively recruit, hire, onboard, train, evaluate and compensate employees. By tracking performance, skills and career progression, HCM helps companies create and maintain a high-performance workforce. Key software modules include payroll, recruiting, employee learning, skills tracking and certifications, compensation, performance management, policy compliance, and succession planning — each of which help organizations manage personnel growth and development.

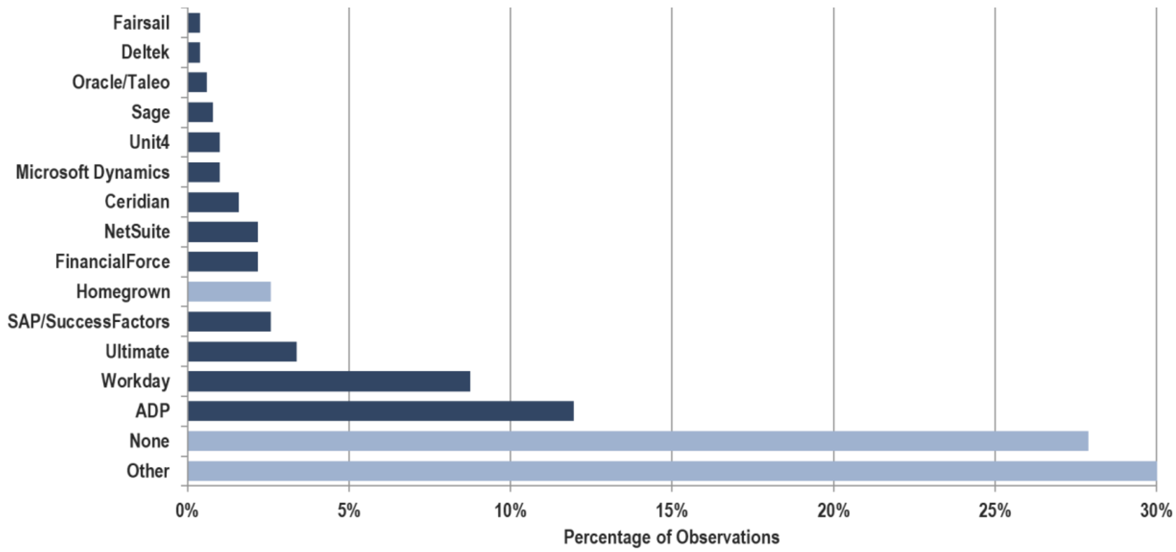
Human Capital Management (HCM)

- Workforce Planning
- Recruitment
- Career Development
- Rewards
- Performance Management
- Workforce Management
- Reporting and Analytics

HCM benefits the PSO by maintaining a database of skills, benefits and pay rate information that is used for resource scheduling, recruiting and performance and career management. HCM solutions provide rich applications that allow consultants to manage their own careers and skill development (training) and bid on the projects of greatest interest for them. HCM applications may also include workforce management functionality for time capture, time off and time and attendance tracking including workforce forecasting, budgeting and scheduling. Employee and manager self-service are now embedded roles in HCM business processes. Mobile access has become a fundamental component of HCM to support virtual operations, approvals and reporting.

Figure 32 shows that HCM has made significant strides in PS adoption. Five years ago, HCM was used by less than one-third of PSOs – now it is used by 69.7% of them although "other" and "none" still have top billing. HCM prevalence among the largest PSOs is significant. The average size of the PS organization using HCM is 665 consultants compared to 177 for non-users. New cloud-based solutions offer power and flexibility, helping companies manage the entire employee lifecycle from recruitment and hiring through training to retirement.

Figure 32: Human Capital Management (HCM) Solution Used



Source: SPI Research, February 2021

Of the solutions highlighted in this year's benchmark, ADP, Workday, Ultimate and SAP are leaders. The average workforce size for the top four HCM providers is 290; 2,239; 444; and 1,215 respectively. Workday has done a great job focusing on the service industry with powerful HCM functionality linked with their PSA and Financials solution to provide skill and career mapping aligned with projects. HCM usage will continue to grow within service-centric organizations as talent is their most valuable asset. Most of the solutions found in this

Table 32: Impact – Human Capital Management (HCM) Use

Key Performance Indicator (KPI)	HCM Used	HCM Not Used	▲
Survey responses (commercial CRM)	69.7%	30.3%	
Number of PS employees	665	177	275%
Year-over-year change in PS revenue	9.0%	6.9%	30%
Year-over-year change in PS headcount	6.4%	2.9%	119%
Deal pipeline / quarterly bookings forecast	184%	165%	12%
Project duration (man-months)	24.4	17.9	37%
Employee billable utilization	72.4%	69.5%	4%
Annual revenue per billable consultant (k)	$208	$188	11%
Annual revenue per employee (k)	$169	$155	9%
Profit (EBITDA %)	**16.3%**	**14.8%**	**10%**

Source: SPI Research, February 2021

benchmark are provided by financial solution providers, who offer HCM integration with financials to support workforce planning, costing and reporting. Talent management is central to PS performance as the skills and attitudes of the consulting workforce provide tangible evidence of consulting value. And with better management of personnel, PSOs can ensure talent is on staff and available when needed, which helps the organization grow faster.

HCM solutions, in conjunction with PSA, drive greater billable utilization, which results in higher revenue per employee and profitability. Most of the new breed of cloud-based HCM applications offer mobile access from anywhere, making it easy for employees to keep their profiles and time-off requests up-to-date. Several HCM vendors are adding rich predictive analytics, providing visibility into levels of employee engagement to provide early warning for employees who are likely to quit. Their recruiting tools are very powerful with out-of-the-box integration to all the top job sites.

Table 33: Impact – Commercial HCM Integration

Key Performance Indicator (KPI)	HCM Not Used	Used, Not Integrated	Used, Integrated
Survey responses (commercial CRM)	41.0%	42.9%	16.0%
Size of PS organization (employees)	177	437	847
Year-over-year change in PS revenue	6.9%	7.3%	10.6%
Project duration (man-months)	17.9	23.0	30.9
Employee billable utilization	69.5%	72.2%	75.6%
Revenue per project (k)	$116	$145	$211
Annual revenue per billable consultant (k)	$188	$206	$229
Annual revenue per employee (k)	$155	$168	$175
Percent of annual revenue target achieved	89.1%	91.6%	93.3%
Percent of annual margin target achieved	87.7%	90.2%	92.2%

Source: SPI Research, February 2021

Business Intelligence (BI)

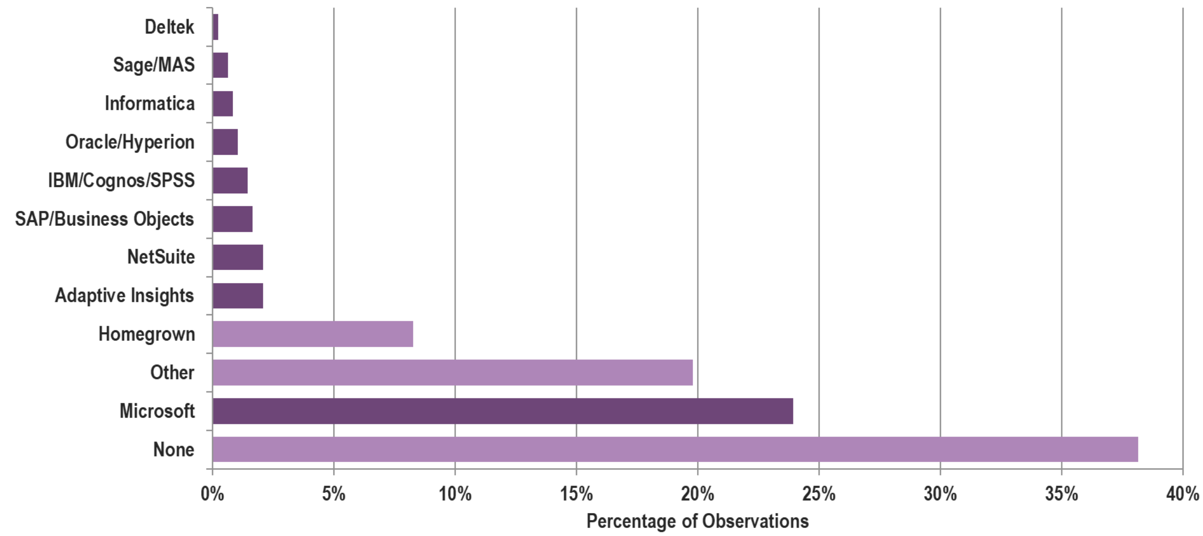
Business Intelligence (BI)

- Activity Based Management
- Balanced Scorecard
- Business Intelligence
- Demand Planning
- Financial Analysis

Business Intelligence integrates information from core business applications to improve strategic analysis, demand and capacity planning, budgeting, forecasting and financial planning. BI solutions continue to increase adoption in PSOs, whether they are offered as stand-along tools or part of the business applications themselves for reporting and analysis. As professional services organizations mature, BI becomes a more critical tool to provide real-time visibility to all aspects of the operation — allowing executives to spot trends and take corrective action early. It also is an important solution for annual planning, as PS executives try to uncover areas where additional growth and profit can be extracted.

Just as we have seen in all other categories, the legacy Business Intelligence stalwarts are being challenged and eclipsed by hungry new, born-in-the-cloud contenders like Snowflake, Tableau (now part of Salesforce) and Looker (now part of Google Analytics). At the same time every major software provider is looking to add Artificial Intelligence and advanced Data Analytics to their platforms. The winners will be those that combine power with ease of use and the ability to easily integrate and transverse vast amounts of data across platforms.

Figure 33: Business Intelligence (BI) Solution Used



Source: SPI Research, February 2021

Figure 33 shows relatively low adoption levels of Business Intelligence in this year's survey, similar to previous results. None, Microsoft, other and homegrown are the most prevalent BI solutions. Of the application suite providers, Workday/Adaptive Insights; NetSuite/Oracle/ Hyperion; IBM/Cognos/SPSS and SAP/ Business Objects each have a wide following.

Table 34: Impact – Business Intelligence (BI) Use

Key Performance Indicator (KPI)	BI Used	BI Not Used	▲
Survey responses (commercial CRM)	53.4%	46.6%	
Size of PS organization (employees)	708	249	184%
Year-over-year change in PS revenue	9.2%	8.1%	13%
Year-over-year change in PS headcount	6.6%	4.2%	55%
Quarterly revenue target in backlog	45.1%	41.5%	9%
Deal pipeline / qtr. bookings forecast	196%	162%	20%
Project duration (man-months)	28.5	22.1	29%

Source: SPI Research, February 2021

The results in Table 34 highlight some of the core benefits organizations have achieved that use BI solutions. While each improvement is impressive, growth in revenues and headcount and size of the deal pipeline stand out. The fact is BI is a strategic solution that helps PSOs plan, budget and forecast the business. Its powerful “what if” analysis tools help PSOs model capacity and resource plans to achieve optimal results.

Application Integration

Table 35: Impact – Commercial BI Integration

Key Performance Indicator (KPI)	BI Not Used	Used, Not Integrated	Used, Integrated
Survey responses (commercial CRM)	59.1%	23.2%	17.7%
Size of PS organization (employees)	249	380	730
Year-over-year change in PS revenue	8.1%	6.3%	11.3%
Year-over-year change in PS headcount	4.2%	3.9%	8.8%
Deal pipeline / qtr. bookings forecast	162%	169%	223%
Revenue per project (k)	$137	$145	$196
Project duration (man-months)	18.4	25.7	31.1

Source: SPI Research, February 2021

While the core business solutions support individual departments in their efforts to become more productive and profitable, as these solutions are integrated with the core financial management solution (ERP) they create additional insight and value (Figure 36). For instance, CRM integrated with CFM provides sales executives with the insight necessary to develop a pricing strategy, supporting the highest probability of winning the bid with maximum profitability. Without this integration, it would be much more difficult to conduct this type of analysis. Today's PSOs simply cannot operate with functional silos as the lines between sales, delivery and finance become blurred.

Table 36: Solution Integration with Core Financials

Solution	2018	2019	2020
Professional Services Automation (PSA)	56.9%	54.1%	57.8%
Business Intelligence (BI)	40.2%	44.7%	45.4%
Client Relationship Management (CRM)	47.7%	49.0%	43.3%
Human Capital Management (HCM)	32.2%	31.4%	34.1%

Source: SPI Research, February 2021

It is also important for applications to communicate with each other. PSA, integrated with CRM, provides visibility from the sales pipeline to the resource schedule, ensuring the right resources are available when needed. With integrated HCM, human resources, recruiting and resource management all benefit from visibility into in-demand skills, consultant preferences and career aspirations.

The table shows mixed levels of integration in this year's benchmark. SPI Research believes integration between CRM, PSA and core financials is an essential ingredient in superlative performance. Integration provides visibility to all parts of the organization and helps break down organizational silos.

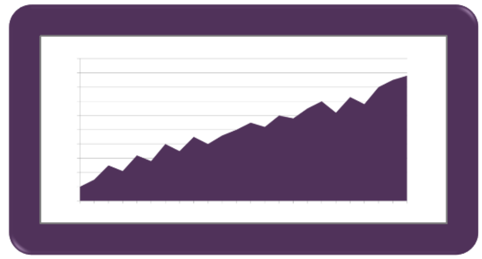
Achieving client delight and profit in professional services requires tight coordination between demand and supply which can only be achieved through integrated business applications. Many firms that have worked with SPI Research over the past several years have concentrated on application integration as they have learned its benefits and worked with their vendors to ensure the integration happens.

PSOs are waking up to the necessity of coordinating sales with service delivery. This integration improves customer satisfaction and defines quality execution. Typically, application suites, such as Deltek, FinancialForce, Microsoft, NetSuite, Workday and SAP offer out-of-the-box integration between their core business solutions making a 360-degree view of clients and projects a reality.

Figure 34: Success depends on inter-departmental cooperation

Source: SPI Research, February 2021

6. Leadership Pillar



2020 has tested the mettle of even the best leaders. Shifting to virtual operations overnight followed by a year of economic uncertainty and turmoil has tried the most seasoned managers but out of the chaos most professional service organizations have survived and even thrived. Resiliency and effective communication have been key to calming a jittery workforce while keeping a focus on delighting clients. Surprisingly 40% of firms reported year over year revenue growth exceeding 10% while an equal number reported low to no growth. Larger organizations outperformed smaller ones with those focused on digital transformation and cloud technologies the winners. Best performing organizations used 2020 to shore up internal systems and streamline cumbersome business processes, positioning them well for an expected recovery in 2021.

Each year SPI Research finds a direct correlation between growth and success in Professional Services. Given that the PS industry is built on the application of unique knowledge and domain expertise it is sometimes hard to understand why the growth dynamic is so important. But… it is. In professional services and the wider world of technology, leading firms create dominant market positions. There is a compounding effect of how customers make decisions, the networks and ecosystems that are created, and the ability to scale as a firm that means there is a significant advantage for the companies that grow the fastest. By establishing market-leading positions, premium PS firms win the best deals and turn those deals into wildly satisfied clients who continue to buy and provide referrals. They become known as innovators in their markets. They produce tangible results and harvest the knowledge gained to do an even better job the next time. They build a culture which embodies their values which further attracts prospective consultants and clients who identify with those attributes.

But growth comes with a price. The unique knowledge, vision and passion that a consulting leader brings to founding a hot new firm must be nurtured and continuously kindled within new employees. The leader must simultaneously learn to let go and grow at the same time. Micro-managing does not work in PS, cultivating a reputation and repeatable skills, competencies and processes does. Most independent consulting firms can easily grow from 20 to 50 consultants, but after that things get more interesting. This is when firms must move from heroic to repeatable and founders must move from doers and fire fighters who wear all the hats to leaders and visionaries. The leaders who can't make this transition must have the courage to bring in new talent who can take the firm to the next level.

As professional services organizations grow, leadership challenges intensify. SPI's research into this topic over the past fourteen years has shown a powerful correlation between financial success and confidence in leadership. In small organizations, leadership by walking around works just fine. But as the organization grows in size; scope and complexity; geographic dispersion, communication and alignment become issues. PSOs must implement policies to ensure communication, collaboration and alignment do not suffer with expansion. Systems and processes must be implemented to provide real-time visibility and management control.

Leadership development, succession planning and funding growth are big challenges for independent PSOs. Many consider mergers and acquisitions to augment organic growth. Employee ownership is a viable option as the founder nears retirement. A chief concern is "How best to monetize value while building a firm for the future?" Table 37 shows the Leadership Maturity model and the optimal leadership style for each level of maturity.

Table 37: The Leadership Maturity Model

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Leadership	Initial strategy is to support product sales and provide reference customers while providing workarounds to complete immature products. Leaders are "doers".	PS has become a profit center but is subordinate to product sales. Strategy is to drive customer adoption and references profitably. Leaders focus on P&L and client relationships.	PS is an important revenue and margin source, but channel conflict still exists. Services differentiate products. Leadership development plans are in place. Leaders have strong background & skills in all pillars.	Service leads products. PS is a vital part of the company. Solution selling is a way of life. PS is included in all strategy decisions. Succession plans are in place for critical leadership roles	PS is critical to the company. Service strategy is clear. Complimentary goals and measurements are in place for all functions. Leaders have global vision and continually focus on renewal & expansion.
Leadership Styles by Maturity Stage	The Entrepreneur. Leaders are "doers". In small companies, PS leaders are technically competent and directly perform engagement activities in addition to recruiting and ramping new consultants. Typically, they possess stronger technical than business or leadership skills.	The Generalist. The emerging PS leader must start to focus on HR, Finance and Operations while nurturing close relationships with clients and partners. At this stage, setting strategic vision and strategy are less important than strong operational management skills.	The General Manager. By the deployed stage, the PS leader must start to focus on setting vision and strategy and forging strong partnerships with clients and the cross-functional leadership team. The PS leader must exhibit strong operational and process management skills. He must have a strong background in sales, finance and operations. Focus at this stage is on recruiting strong functional leaders to scale the organization.	The Strategist. By the institutionalized phase, the PS leader has developed a strong leadership team and institutionalized operating processes in all five service performance pillars. His primary focus is strategy, business planning and establishing strategic partnerships and alliances. At this stage, he must "lead", "inspire" and "communicate". He must be able to attract and retain high quality functional leaders.	The Leadership Team. As the PS organization matures, the leader becomes more strategic and able to effectively communicate and inspire. All functional areas have strong, sustainable operating processes. His focus is on ensuring alignment within the organization while continually forging new business partnerships. The leadership team constantly focuses on innovation and operational excellence.

Source: SPI Research, February 2021

Leadership challenges are much the same but also very different in embedded PSOs. These organizations exist to ensure the successful implementation, adoption and expansion of the company's products. They are not given the latitude to develop services for services sake, but rather must serve the best interests of the company's products, even if those interests undermine PS productivity and profitability. In embedded PSOs the primary leadership challenge is one of charter conflict and forging cross-functional relationships. Embedded PS executives are tasked with developing a high-quality consulting business, but consulting is subordinate to product proliferation and adoption. A new, more strategic role is emerging to drive client adoption, optimization and renewals. This role requires significantly greater alignment with sales, support and product development so collaboration and team-building skills are paramount.

The Leadership Index

It is impossible to work in a people-based industry like Professional Services and conclude that leadership does not matter. Most of us intuitively understand leadership's importance, but few studies have been able to quantify its benefit. This study does just that. SPI Research has developed a Leadership index that focuses on the most important aspects of leadership to measure its impact. You will be as astounded as we were to discover that great or poor leadership permeates every facet of PSO performance!

For several years, SPI Research has asked a series of questions regarding various aspects of professional services vision, strategy and leadership including confidence, clarity and alignment. Strategic decisions set the direction and tone for the PSO and affect all functions because vision and strategy determine goals and objectives, the types of clients to pursue, the types of services to offer and the interrelationship between functions.

The leadership questions have evolved into eight core questions that examine how various dimensions of leadership impact performance. The questions ask, "please rate the following aspects of your organization in terms of how well it operates (1: very ineffective to 5: very effective)":

1. The vision, mission and strategy of the PSO is well understood and clearly communicated
2. Employees have confidence in PS leadership
3. It is easy to get things done within the PS organization
4. Goals and measurements are in alignment for the service organization
5. Employees have confidence in the future of the PS organization
6. The organization effectively communicates with employees
7. The organization embraces change, it is nimble and flexible
8. The organization focuses on innovation and is able to rapidly take advantage of changing market conditions

SPI Research created a "***Leadership Index***" by ranking the aggregate leadership scores for all eight questions by survey participant. The minimum score for the leadership index would be eight, if the survey participant stated "1 – very ineffective" for each of the eight questions. The maximum would be 40, if the participant stated "5 - very effective", for each question.

As statisticians, a perfect day is when a key performance measurement clearly correlates with most measures of performance. Well, the dimensions of leadership are one of those perfect statistics. As the leadership dimensions improve, so do all major key performance metrics (Table 38). One might expect "Confidence in Leadership" and "Confidence in the Future" to improve along with clarity of vision and strategy but the truly remarkable finding around leadership is that all the major operational metrics –

revenue per person, utilization, project margin and on-time project completion improve as well. It is amazing how strategic clarity permeates all aspects of operational performance. If the strategy is clear and compelling, people-based organizations will find a way to accomplish it.

With strong leadership, employees understand what is required of them, and can go about conducting their daily business with confidence their work supports corporate objectives. Strong leadership helps employees get on the same page, working toward a common goal. Happy employees are more productive and deliver higher levels of client satisfaction and profitability.

The table depicts the percentage of survey respondents by overall leadership index rating compared to key operational measurements. As shown in Table 38, effective leadership has a powerful impact on all aspects of performance.

Table 38: Impact Based on Leadership Maturity Scores

Key Performance Indicator (KPI)	8 - 25	26 - 30	31 - 35	36 - 40
Percentage of respondents	31.7%	17.4%	27.0%	23.9%
% of employees billable or chargeable	68.9%	73.4%	74.1%	78.7%
New client % of revenue	14.4%	26.9%	29.5%	26.7%
Win ratio (per 10 bids)	4.77	4.66	5.30	5.70
Deal pipeline / quarterly bookings forecast	165%	170%	183%	186%
Percentage of referenceable clients	67.8%	66.2%	73.8%	79.9%
Employee billable utilization	69.2%	67.7%	73.6%	73.8%
Projects delivered on-time	75.1%	75.1%	79.5%	86.4%
Project overrun	10.1%	10.6%	7.4%	6.5%
Annual revenue per billable consultant (k)	$183	$193	$209	$211
Annual revenue per employee (k)	$137	$155	$172	$183
Percent of annual revenue target achieved	87.8%	89.3%	93.3%	94.2%
Percent of annual margin target achieved	85.7%	86.3%	93.6%	92.0%
Annual revenue per billable consultant (k)	$183	$193	$209	$211
Annual revenue per employee (k)	$137	$155	$172	$183
Profit (EBITDA %)	**12.2%**	**14.4%**	**15.5%**	**17.6%**

Source: SPI Research, February 2021

More than any other factor, good, or poor leadership impacts all facets of the business driving stronger growth, higher billable utilization, better on-time project delivery, more winning proposals and higher levels of customer satisfaction. The reverse is also true. Poor leaders can sabotage cross-functional alignment, leading to organizational alienation, functional silos and chaos. Leaders who are not able to transition to more strategic roles can create heroic, reactive organizations characterized by firefighting, in-fighting and burnout. Many top-performing organizations have reported adding SPI's leadership questions to their employee surveys to help them measure and quantify employee confidence in leadership. This year, independent firms gave higher marks across the leadership dimensions than embedded service organizations particularly for clarity of vision and ease of getting things done.

Leadership Issues

When things go wrong, it most often starts at the top and then cascades downward throughout the organization, ultimately showing up in poor financial performance. Eliminating the root causes of dysfunction and inefficiency go a long way toward driving organizational success. The most common leadership issues facing PSOs include:

- Δ ***Unclear strategy*** – lack of clarity around target markets, target clients and why we win. Inability to capitalize on market opportunities due to lack of alignment, lack of employee engagement or leadership and cultural issues. No leverage to drive repeat sales, limited competitive differentiation, poor sales, marketing and service delivery execution.
- Δ ***Lack of alignment –*** unclear service charters – particularly a problem for embedded service organizations – with conflict between driving revenue and margin versus helping the overall company achieve its objectives of market expansion and client adoption.
- Δ ***Silos*** – exist in all companies – they usually occur in the choppy waters between groups or functions where responsibility and accountability are blurry. A classic example… who is responsible for driving new service revenues – is it sales or delivery? How can disconnected processes and poor handoffs be improved?
- Δ ***Reactive not proactive*** – because the organization lacks real-time visibility into all facets of the business, leaders must rely on past business performance rather than being able to spot trends and take advantage of them in real-time. Running the business by spreadsheet makes administration overly burdensome with endless rounds of error prone manual spreadsheet inputs. Managers have no ability to analyze and recalibrate to take advantage of changing market conditions leading to missed targets and a demoralized workforce.
- Δ ***Skills imbalance*** – the logical extension of organizational silos… where all parties are not aligned … not selling what we can deliver or not being able to deliver what has been sold. Not enough or too many people with the right skills, excessive non-billable headcount, sub-par utilization, difficulty in recruiting, ramping, retaining and inability to quickly, easily staff projects.
- Δ ***Immature processes*** – disparate or poor systems and tools. Inconsistent project methods; lack of tools and intellectual property leading to low repeatability and inability to drive efficiency and reuse.
- Δ ***Poor quality and customer satisfaction*** – Failed projects, cost overruns, difficulty securing references. No quality review processes and/or poor project visibility into budget to actuals.
- Δ ***Poor financial performance*** – All of the above factors – lack of strategic clarity, poor alignment, silos, and of out-of-date information contribute to reactive, rearview mirror business forecasting and planning. The net result is revenue and margin below targets, poor forecasting accuracy, unpredictability and high levels of risk.

Well understood vision, mission and strategy

Clear leadership direction and effective bi-directional communication are critical success factors. Employees who lack an understanding of the vision, mission and strategy have no ability to work toward realizing it whereas those who comprehend, espouse and support the organization's mission will work tirelessly to realize it. In this year's survey, clarity of vision, mission and strategy directly correlated with revenue and headcount growth, percentage of billable employees, propensity to recommend as a great place to work and billable utilization.

Table 39: Impact – Well understood vision, mission and strategy

Well understood vision, mission and strategy	Survey %	Headcount growth	% of emp. Billable	Rec. to family/ friends	Billable util.
1: Very ineffective	1.6%	7.9%	64.3%	3.57	65.0%
2	5.1%	0.2%	72.4%	3.70	67.5%
3	14.4%	3.9%	72.9%	4.03	70.0%
4	50.4%	5.3%	74.1%	4.44	71.4%
5: Very effective	28.4%	7.2%	77.7%	4.81	73.4%
Total/Average	**100.0%**	**5.4%**	**74.7%**	**4.43**	**71.4%**

Source: SPI Research, February 2021

Confidence in PS leadership

The tools for effective leadership, clarity of purpose and alignment exist within all service organizations. By investing in these critical aspects, service organizations can manage their own destiny. SPI Research continues to discover most key performance measurements improve as confidence in leadership increases. According to survey results, few other factors have the same impact on the overall health and well-being of the service organization. Poor leadership creates a negative spiral effect —high attrition, low morale, poor employee engagement — which in turn lead to low levels of client satisfaction and poor financial results. Leadership is a critical aspect of growth. As millennials become dominant in the workforce, effective leadership is more critical than ever before. Younger workers need more guidance, handholding and constructive feedback to hone both their technical and interpersonal skills. As shown in Table 40 a key aspect of confidence in leadership is based

Table 40: Impact – Confidence in PS Leadership

Confidence in PS Leadership	Survey %	Revenue growth	% of emp. billable	On-time project delivery	Project margin
1: Very ineffective	0.7%	-1.7%	50.0%	95.0%	29.0%
2	2.4%	8.2%	64.1%	66.0%	35.4%
3	9.5%	1.6%	70.2%	69.9%	29.7%
4	50.1%	6.6%	73.6%	78.3%	35.7%
5: Very effective	37.3%	9.5%	78.5%	84.8%	37.4%
Total/Average	**100.0%**	**7.2%**	**74.7%**	**79.7%**	**35.7%**

Source: SPI Research, February 2021

on clarifying the growth strategy which translates to pursuing the right opportunities and having the right resources to effectively deliver. Alignment leads to success, cementing the firm's value proposition.

Ease of getting things done

SPI Research asked participants whether it was easy to get things done within their organization, meaning minimal red tape, able to quickly and easily assign qualified resources, with limited bureaucracy. Organizations that provide an infrastructure that supports employee productivity enhance both employee satisfaction and financial success.

Table 41 shows a majority of firms reported it is relatively easy to get things done. As ease of getting things done improves, so do other metrics including revenue and headcount growth, on-time project delivery and minimized overruns.

Table 41: Impact – Ease of getting things done

Ease of getting things done	Survey %	Employee attrition	Rec. to family/ friends	On-time project delivery	Project overrun
1: Very ineffective	1.3%	15.9%	3.33	70.8%	12.5%
2	6.7%	15.7%	3.71	75.6%	11.7%
3	18.6%	14.5%	4.25	75.6%	9.5%
4	48.8%	10.7%	4.44	78.7%	8.2%
5: Very effective	24.6%	10.2%	4.82	86.9%	6.5%
Total/Average	**100.0%**	**11.7%**	**4.43**	**79.8%**	**8.3%**

Source: SPI Research, February 2021

Goals and measurements in alignment

Another survey question asked, "Are goals and measurements in alignment for the service organization?" Alignment speaks to a clearly articulated strategy with goals and measurements reinforcing the organization's purpose and stimulating action. Alignment or lack of alignment has a significant impact on bottom-line performance. Lack of alignment emanates from a lack of clarity and conflicting or too many priorities. It is characterized by low levels of employee engagement and functional silos or factions. The highest performing service organizations exhibit clarity of purpose and alignment around a succinct set of core values and initiatives. Effective measurements and compensation reinforce those values, linking strategy to execution. As shown in Table

Table 42: Impact – Goals and measurements in alignment

Goals and measurements in alignment	Survey %	Revenue growth	Bid-to-win ratio	Client reference
1: Very ineffective	1.8%	8.1%	4.13	65.6%
2	6.0%	3.9%	4.89	65.8%
3	24.1%	4.2%	4.98	69.7%
4	42.3%	7.8%	5.20	73.3%
5: Very effective	25.8%	9.8%	5.71	77.9%
Total/Average	**100.0%**	**7.2%**	**5.24**	**73.0%**

Source: SPI Research, February 2021

42 goals and measurements in alignment had a profound impact on revenue growth, win ratios and client referenceability.

Employees have confidence in the PSO's future

The level of employee confidence in the future of the PS organization has a significant impact on almost all key performance measurements. Firms with the highest levels of employee confidence experienced the highest levels of revenue growth, were more often seen as a great place to work, and experienced lower attrition and higher utilization. Capping it all off, they were also more profitable.

Table 43: Impact – Employees have confidence in the PSO's future

Employees have Confidence in PSO's Future	Survey %	Org. size (emp)	Attrition	Rec. to family / friends	Billable util.
1: Very ineffective	1.1%	1,579	25.2%	3.60	61.3%
2	3.8%	656	14.8%	3.71	63.9%
3	15.6%	452	14.1%	3.91	67.4%
4	46.0%	420	11.7%	4.42	71.3%
5: Very effective	33.6%	377	9.7%	4.78	74.5%
Total/Average	**100.0%**	**433**	**11.7%**	**4.42**	**71.3%**

Source: SPI Research, February 2021

"The world loves a winner" seems to be an appropriate description for the positive results of the organizations with the highest levels of employee confidence. A key "chicken or egg question" always arises around "confidence in the future" as typically the highest performing and fastest growing organizations propel employees to have confidence in the future, while low confidence is indicative of organizations in turmoil or going through massive change as they reposition themselves to take better advantage of the future. A key consideration for firms that experience low to no growth is how to reposition themselves onto a growth path while maintaining employee commitment.

Effectively communicates with employees

Respondents were asked to rate "our organization effectively communicates with employees". ESOs reported better communication than independents. Talk may be cheap but without bidirectional communication, employees quickly become disenfranchised. Creating an effective communication plan

Table 44: Impact – Effectively communicates with employees

Effectively communicates with employees	Survey %	Revenue growth	New clients	Client reference	Rec. to family/ friends
1: Very ineffective	0.7%	0.8%	8.3%	65.0%	3.67
2	5.3%	5.1%	22.7%	68.3%	4.07
3	15.7%	4.1%	25.7%	68.6%	4.16
4	47.1%	7.4%	26.9%	70.4%	4.40
5: Very effective	31.2%	9.2%	28.3%	79.7%	4.72
Total/Average	**100.0%**	**7.1%**	**26.6%**	**73.0%**	**4.43**

Source: SPI Research, February 2021

should be part of any improvement plan.   Poor or no communication has a profound impact on employee engagement, client satisfaction and attrition. Project overruns and their negative consequences are exacerbated by poor communication.

Embraces change – nimble and flexible

Change is a way of life for 21st century professional services organizations. One of the primary reasons why more and more companies out-task IT, accounting, law, architecture, strategy and marketing to specialized PS organizations is that the pace and amount of change and technical complexity is impossible to keep up with, so they must reply on external consultants and specialists. Each leadership dimension impacts all other leadership dimensions. Nimble organizations that can easily adapt to change, have higher levels of billable employees and are considered better places to work. The survey shows nimbleness and adaptability diminish as organizations grow. The glue that binds superlative leadership scores is always executive real-time visibility. Numbers don't lie so the best led organizations invest in integrated systems to allow them to see and take advantage of market changes instantly.

Table 45: Impact – Embraces change - nimble and flexible

Embraces change - nimble and flexible	Survey %	Org. size (emp)	% of emp. billable	New clients	Rec. to family/ friends
1: Very ineffective	1.3%	1,297	71.7%	8.3%	3.67
2	6.4%	1,117	70.7%	22.7%	4.07
3	18.7%	694	73.4%	25.7%	4.16
4	40.0%	304	73.9%	26.9%	4.40
5: Very effective	33.6%	272	77.2%	28.3%	4.72
Total/Average	**100.0%**	**432**	**74.7%**	**26.6%**	**4.43**

Source: SPI Research, February 2021

Innovation focused

Innovation is a hot topic these days as technology innovators like Apple have created new markets and destroyed leaders like Research in Motion who were not able to see and respond to a "consumer-based" future. Research into the science of innovation shows innovators are more likely to take risks and have a high tolerance for failure.

Table 46: Impact – Innovation focused

Innovation focused	Survey %	Revenue growth	Client reference	Project duration (man-mnth)	% of ann. rev. target
1: Very ineffective	1.3%	-2.1%	67.5%	43.3	91.7%
2	8.0%	4.4%	68.4%	25.9	91.1%
3	22.3%	2.9%	68.6%	25.2	89.4%
4	40.6%	8.4%	72.3%	27.0	93.9%
5: Very effective	27.7%	9.7%	79.4%	26.8	92.1%
Total/Average	**100.0%**	**7.1%**	**73.1%**	**26.7**	**92.2%**

Source: SPI Research, February 2021

In professional services, innovation comes from exploring and embracing new business models, processes and technologies to improve productivity and quality. To the extent thought leadership can be considered a component of innovation, PSOs excel at innovation. The benchmark results depict the importance of striving for new and innovative solutions to problems. Innovative organizations provide employees with the confidence to know the organization will be around for years to come, and they will be continually challenged and personally grow as the organization expands. Innovation focus is not organization size dependent. Best-of-the-Best PSOs report a core belief in “great ideas come from anywhere”. This organization has built a culture of empowerment, embracing innovation. Any employee with a great idea, at any level, can build a business case and receive funding and support to tackle internal problems or create new solutions. More than 65% of survey participants gave high marks for innovation. With innovation, revenues grow and clients are delighted.

Steps Taken to Improve Profitability

Table 47 depicts improvement priorities. In 2020, as in 2019 the number one and two improvement priorities were improving ‘marketing’ and the ‘solution portfolio’. These priorities have risen to the top as most organizations are dealing with business model disruption. Traditional time and materials or fixed price contracts are giving way to “pay as you go” subscription services or multiyear managed services contracts with service level agreements. ‘Improving marketing effectiveness’ is a priority as organizations are reexamining their marketing strategies and looking to both expand and consolidate their solutions portfolio. Improving sales effectiveness is a perennial challenge and opportunity because it is so difficult to develop business development experts. In professional services the best solution sellers tend to be the best and most knowledgeable consultants as they bring value to executive relationships and can quickly assess client issues and codevelop solutions. This year ‘improving methods and tools’ is a priority, as it should be.

Table 47: Steps Taken to Improve Profitability by Organization Type and Geographic Region

Key Performance Indicator	2019	2021	ESO	PSO	Amer.	EMEA	APac
Surveys	**513**	**561**	**171**	**390**	**445**	**84**	**32**
Improve solution portfolio	4.02	4.07	4.18	4.02	4.05	4.14	4.14
Improve marketing effectiveness	4.03	4.07	3.87	4.15	4.06	4.03	4.17
Improve sales effectiveness	3.95	3.94	3.97	3.92	3.93	3.97	4.00
Improve methods and tools	3.87	3.89	4.05	3.81	3.90	3.83	3.90
Improve hiring and ramping	3.80	3.69	3.70	3.69	3.73	3.44	3.72
Improve utilization	3.76	3.59	3.47	3.65	3.62	3.52	3.34
Expand business models	3.44	3.49	3.71	3.39	3.48	3.56	3.38
Reduce non-billable time	3.41	3.28	3.30	3.27	3.29	3.32	3.07
Increase rates	3.27	3.06	2.90	3.13	3.09	3.00	2.83

Source: SPI Research, February 2021

Consulting excellence comes with knowledge, effectively harvesting that knowledge and making it accessible. PSOs are least likely to increase rates. Table 48 shows the steps to improve profitability change as organizations grow. For the smallest organizations, the number one priority is 'improving marketing effectiveness' while the top improvement priority for the largest organiztaions is 'improving the solution portfolio'.

Table 48: Steps Taken to Improve Profitability by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	**62**	**108**	**170**	**111**	**48**	**62**
Improve solution portfolio	3.98	4.16	4.09	4.02	3.93	4.16
Improve marketing effectiveness	4.15	4.18	4.06	4.08	3.85	3.92
Improve sales effectiveness	3.84	3.95	4.00	3.93	3.80	3.96
Increases rates	3.27	3.04	3.09	2.92	2.83	3.25
Improve hiring and ramping	3.25	3.61	3.91	3.68	3.69	3.75
Improve methods and tools	3.69	3.77	3.99	3.98	3.83	3.90
Improve utilization	3.49	3.56	3.64	3.68	3.53	3.53
Reduce non-billable time	3.18	3.23	3.26	3.47	3.15	3.30
Expand business models	3.00	3.45	3.50	3.52	3.68	3.85

Source: SPI Research, February 2021

Tables 49 and 50 further analyze the steps to be taken to improve profitability by vertical market. IT Consultancies are concentrating on 'improving marketing effectiveness' while embedded software and SaaS PSOs are concerned with 'improving the solution' portfolio to more effectively package services into a cogent solution portfolio, making it easier to sell and buy solutions.

Table 49: Steps Taken to Improve Profitability by Vertical Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Surveys	**143**	**84**	**64**	**55**	**35**
Improve solution portfolio	4.18	4.13	4.13	4.20	3.63
Improve marketing effectiveness	4.20	4.26	3.83	3.83	4.07
Improve sales effectiveness	4.00	4.08	4.00	3.83	3.60
Increase rates	3.12	3.18	2.63	2.94	2.93
Improve hiring and ramping	3.85	3.53	3.68	3.69	3.70
Improve methods and tools	3.94	3.91	4.15	4.08	3.33
Improve utilization	3.77	3.67	3.05	3.88	3.63
Reduce non-billable time	3.34	3.23	2.98	3.58	3.40

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Expand business models	3.59	3.22	3.62	3.75	2.77

Source: SPI Research, February 2021

For most organizations, improving sales and marketing effectiveness and clarifying and codifying the solution portfolio are top improvement priorities.

Table 50: Steps Taken to Improve Profitability by Vertical Market

Key Performance Indicator (KPI)	MarCom	VAR	Account	Mgd. Serv.	All Others
Surveys	**31**	**17**	**14**	**13**	**105**
Improve solution portfolio	3.96	4.25	3.67	4.11	3.94
Improve marketing effectiveness	4.00	4.06	3.92	4.44	4.00
Improve sales effectiveness	3.78	4.25	3.67	4.22	3.84
Increase rates	3.22	3.19	2.92	3.00	3.23
Improve hiring and ramping	3.65	3.69	3.91	3.56	3.63
Improve methods and tools	3.65	4.00	4.08	3.67	3.74
Improve utilization	3.61	3.81	4.08	3.33	3.40
Reduce non-billable time	3.17	3.50	3.67	3.00	3.20
Expand business models	3.22	3.69	3.67	3.78	3.58

Source: SPI Research, February 2021

7. Client Relationships Pillar

The Client Relationships pillar focuses on the activities associated with business development and client management. Finding and retaining customers is a primary means of growing a business and is always one of the top challenges for PS firms.

In this chapter, SPI Research provides the PS Sales and Marketing Maturity Model™, along with statistics showing the benefits of sales and marketing investments. This chapter examines service sales and marketing effectiveness, win ratios and the impact of building a robust sales pipeline. Since referrals are a primary driver of new and repeat business, SPI Research also explores the correlation between client satisfaction and business success.

Cultivating new and repeat clients is the lifeblood of the service industry. Professional services organizations are in business to provide knowledge, expertise and guidance. Their sales and marketing organizations must define target markets and solutions by understanding key client challenges. The job of service sales and marketing is to generate awareness and identify and close opportunities. Services are intangible, so service sales and marketing must demonstrate concrete proof of the firm's knowledge, experience, differentiation and quality.

Table 51 highlights the five levels of maturity in the Client Relationships pillar. As sales and service delivery processes mature, organizations move from selling anything and everything to anyone, to a more careful and selective approach to client selection, solution creation, deal capture, contract and pricing management, reference building and partnering.

Table 51: PS Sales and Marketing Maturity Model™

	Level 1	Level 2	Level 3	Level 4	Level 5
Client Relationships	Opportunistic. No defined solution sets or go to market plan. Focus is on closing deals and reference building. Individual heroics, no consistent sales, marketing or partnering plan or methodology. Ad hoc, one-off projects.	Start to use marketing to generate leads. Multiple sales models. Start investing in sales training, CRM & sales methodology. Manual integration with PSA. Start measuring sales effectiveness & customer satisfaction. Start developing partners and partner programs. Some level of proposal and contract reviews and pricing control.	Marketing, inside sales, solution sales with defined solution sets. CRM integrated with PSA. Deal, pricing and contract reviews. Partner plan and scorecard. Tight pricing and contract mgmt. controls. High levels of customer satisfaction.	CRM, PSA, CFM integration provides 360-degree view of client relationships. Business process, vertical and horizontal solutions. Vertical centers of excellence. Top client and partner programs. Global contract and pricing management. Key partner relationships. Strong customer reference programs.	Executive relationships and client advisory board. Thought leadership. Brand building and awareness. High customer satisfaction. Integrated sales, marketing and partnering programs. High quality references.

Source: SPI Research, February 2021

The effectiveness of the organization's sales and marketing efforts determines the quality and size of the pipeline; win ratios; discounts; client satisfaction and referenceability and the length of the sales cycle.

Effective sales and marketing organizations continually uncover new opportunities while ensuring existing customers continue to buy and refer. Today's successful PSO, whether embedded or independent, is increasingly taking charge of its own destiny by investing in sales, marketing and service packaging.

Table 52 shows why 'improving marketing and sales effectiveness' is always a top improvement priority. Perennially sales, marketing and solution development effectiveness scores are some of the lowest in the benchmark. Dissatisfaction with service marketing continually makes the top of the dissatisfaction list as PS organizations are never satisfied with the number and quality of leads or brand reputation and sales tools. These are subjective questions in which survey respondents are asked to 'rate the effectiveness' of sales, marketing and solution development. As one might expect, most client relationship metrics declined in 2020, reflecting longer sales cycles, lower win ratios and a lower percentage of revenue from new clients. One important improvement area is a slight increase in the percentage of referenceable clients. Hopefully as economic conditions improve and Corona Virus vaccines become available we will see a surge in PS spending. One of the most cited improvement priorities is "service packaging" as more and more firms seek to clarify their solutions and the client value they deliver.

Table 52: Client Relationships Pillar 5-year trend

Key Performance Indicator (KPI)	5 Year Avg.	2016	2017	2018	2019	2020
New client % of total revenue	29.4%	29.7%	24.2%	29.7%	30.8%	28.2%
Bid-to-Win ratio (per 10 bids)	5.02	4.85	4.80	4.92	5.27	5.18
Deal pipeline relative to qtr. bookings forecast	181%	189%	174%	181%	181%	179%
Sales cycle (days: qualified lead to contract signing)	89	92	90	89	87	90
Average service discount given	6.9%	7.7%	4.9%	6.7%	7.6%	7.6%
Solution development effectiveness (1 to 5 scale)	3.62	3.47	3.52	3.64	3.72	3.69
Service sales effectiveness (1 to 5 scale)	3.52	3.42	3.42	3.53	3.61	3.56
Service marketing effectiveness (1 to 5 scale)	3.18	3.07	3.20	3.25	3.21	3.12
Percentage of referenceable clients	72.6%	71.5%	74.7%	71.9%	72.2%	72.7%
Time & materials % of work sold	48.4%	55.4%	49.9%	43.8%	47.6%	47.9%
Fixed time / fixed fee % of work sold	37.0%	38.9%	40.7%	38.9%	34.1%	33.0%
Shared risk / performance-based % of work sold	2.3%	2.8%	2.2%	2.6%	2.3%	1.7%
Subscription services	NA	NA	NA	NA	7.7%	7.3%
Managed Services	NA	NA	4.4%	10.3%	6.7%	7.6%
Other	2.9%	2.9%	2.8%	4.3%	1.6%	2.4%

Source: SPI Research, February 2021

An examination of the type of work sold shows a decline in fixed price contracts in favor of subscription and managed service contracts. A top improvement priority for all service providers is solution packaging with a focus on making services easier to sell and buy. Service providers are now offering subscription and "managed services" as monthly, quarterly or annual contracts to drive more predictable, recurring revenue. Buyers want predetermined monthly costs, putting the onus on service providers to correctly package and price contracts.

The PS Sales Maturity Model™

As part of the PS Sales and Marketing Maturity Model™, SPI Research focuses on key success criteria and processes associated with PS sales, marketing, solution development and partnering. SPI Research charts its definitions of sales maturity levels and shows how they progress as the organization enhances the knowledge and practice of solution selling resulting in superior client value (Table 53). As organizations enhance their solution selling capabilities, methods, systems and tools, overall sales effectiveness improves. These efforts pay for themselves in a higher percentage of sales quota achievement; better sales forecasting accuracy; less churn; higher levels of adoption; improved pricing and estimating resulting in fewer project overruns; shorter sales cycles due to better deal qualification; larger deals; more PS revenue by account; larger pipelines and significantly stronger reference clients.

Table 53: PS Sales Maturity Model™

	Level 1	Level 2	Level 3	Level 4	Level 5
	Ad Hoc, Opportunistic, Heroic	**Piloted, Experimental, Pockets of Excellence**	**Deployed, Basics in Place for All Key Elements**	**Institutionalized, in the Company DNA / Fabric**	**Visionary, Agile, Innovative, Continuous Renewal and Improvement**
Client Value	Handcrafted projects, unique, highly dependent on individual team member skills.	Limited replication or codification of service solutions. Point product solutions primarily focused on rapid implementation, integration and customization. Starting to focus on adoption.	Clear, value-based sales and marketing messages developed for product / vertical /geographic audiences. Some level of client value and ROI measurement.	Client-centric, high value services developed and packaged. Demonstrated, measurable business value.	Partnerships exist with most strategic, forward-thinking clients to develop and enhance leading edge services. Solutions deliver clear and significant value.
Sales Process	Opportunistic and instinctive with ad hoc service offerings. No consistent sales methodology. Variation in pricing methods. Inconsistent proposals, quotes, contracts. Limited to no investment in sales training, methods or tools.	Dedicated solution selling teams. Repeatable process for point solutions. Implementing sales methodology, reinforced in CRM. Reusable proposal boilerplate. Informal proposal roles and self-governing proposal teams. Standard price list and discount authority. Developing standard contracting and estimating tools.	Consistent solution selling methods & tools reinforced and supported in CRM. Solution-oriented best practices. Consistent estimating and risk evaluations. Bid qualification criteria. Standard contracts and statements of work. Clear roles, responsibilities and timelines. Sales organization trained to effectively sell solutions.	Solution and value selling is a way of life with appropriate measurements and controls with fully integrated supporting systems and tools. Sophisticated selling strategies including quantified client value with improved KPIs and positive ROI.	Established thought leadership and trusted advisor at highest levels. Continual investment in improving and expanding service portfolio as a means of market expansion. Effective proposal center delivers timely, high-quality estimates, proposals, contract and risk reviews.

	Level 1	Level 2	Level 3	Level 4	Level 5
Partners	Ad hoc and opportunistic without clearly defined rules, certification or quality metrics.	Partner plan in place, but conflicts still exist. Defined partner programs to extend market reach. Piloting certification, training & quality metrics.	Solution sets designed with partners in mind (defined roles and deliverables for prime, hybrid, sub). Top partner program.	Co-development with partners. Partners are integral part of service packaging and rollout.	Co-opetition. Partners contribute to company's overall service innovation by providing SME feedback and insights.
Client Sat Programs	Ad hoc reference requests. No formal program. Heroic.	Client satisfaction and reference programs established to extend market reach.	Proof, testimonials and references to support solution client value. Consistent, ongoing satisfaction measures.	Client advisory board influences roadmap participates in beta programs.	Strategic clients are company and service evangelists.

Source: SPI Research, February 2021

Solution Development Effectiveness

Solution development effectiveness requires consistent PS and Sales executive funding and support. Ad hoc teams of benched consultants cannot be effective in developing a compelling and meaningful solution development strategy and program. Based on the Service Lifecycle Management Maturity Model™ benchmark, very few organizations are effective at service productization. Creating an effective and efficient solution development process is a difficult undertaking. Most firms are struggling to do this because solution development crosses over traditional functional boundaries and requires cross-organizational collaboration and change management. Getting all the constituent groups – professional services, sales, marketing, product management and channel partners – on the same page to create compelling solutions for targeted markets is a tough but worthwhile task.

Solution development requires significant leadership, organizational commitment, funding and on-going change management. SPI Research believes that the following are critical success factors for instantiating and sustaining a successful solution development program:

- Δ Articulated and well-understood services strategy
- Δ Service productization program vision
- Δ Executive sponsorship
- Δ Market-driven focus
- Δ Global company adoption of program
- Δ Resource commitment
- Δ Cross-functional participation; and
- Δ Repeatable sales and delivery methods, tools, and templates.

SPI Research asked how effective solution development was on a scale of 1 to 5, with 5 representing excellent (Table 54). Solution Development effectiveness has traditionally been given a lower score than sales effectiveness but higher marks than marketing effectiveness. This year overall solution development effectiveness was rated higher than sales effectiveness with a score of 3.69 compared to 3.56 for sales effectiveness and 3.12 for marketing effectiveness. All the measures of solution development, sales and marketing effectiveness declined from the 2019 survey. For the 62.6% of firms who gave their solution development efforts a good score of 4 or 5, solution development had a positive impact on the size of the deal pipeline, project margins and revenue yield by consultant and employee.

Table 54. Impact – Service Development Effectiveness

Solution development effectiveness	Survey %	Deal pipeline	Project margin	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)
Very ineffective	1.6%	83%	29.2%	$170	$145
Ineffective	5.8%	169%	31.0%	$180	$149
Neither	29.8%	170%	35.5%	$197	$157
Effective	47.1%	186%	35.7%	$206	$169
Very effective	15.6%	198%	39.0%	$210	$179
Total/Average	**100.0%**	**180%**	**35.7%**	**$202**	**$165**

Source. SPI Research, February 2021

Service Marketing Effectiveness

Having a service marketing focus is not enough. Marketing must develop an effective online presence, thought leadership, lead generation campaigns, sales tools and sales enablement to increase the firm's brand awareness and to showcase thought leadership and bring in qualified leads. The most successful PS marketing efforts require a strategic focus to ensure they augment and enhance the firm's strategy.

Marketing should be charged with bringing the firm's vision and strategy to life through effective positioning. Without a seat at the executive table, marketing will be relegated to tactical lead generation and sales support activities. Effective marketing requires dedicated, skilled personnel along with sustained funding.

SPI Research asked how effective service marketing was on a scale of 1 to 5, with 5 representing excellent (Table 55). Marketing effectiveness has consistently been given an even worse score than sales effectiveness. Marketing effectiveness has consistently declined from a poor score of 3.25 (65%) in 2018 to 3.21(64%) and now 3.12(62%). More than 24% of organizations give marketing effectiveness a failing grade of 1 or 2. For the 33.7% of firms who gave their marketing efforts a strong score of 4 or 5, marketing has a positive impact on revenue growth, size of the sales pipeline, client

Table 55: Impact – Service Marketing Effectiveness

Service marketing effectiveness	Survey %	Revenue growth	Deal pipeline	Client refer.	Project margin
Very ineffective	5.2%	3.4%	139%	71.7%	32.8%
Ineffective	18.9%	6.3%	194%	72.9%	34.2%
Neither	42.2%	6.9%	175%	72.2%	35.2%
Effective	25.7%	7.7%	181%	73.1%	37.2%
Very effective	8.0%	7.0%	206%	76.7%	39.9%
Total/Average	**100.0%**	**6.8%**	**181%**	**72.9%**	**35.8%**

Source: SPI Research, February 2021

reference-ability and project margins. Marketing is certainly worth the expense if it is well-staffed, fully funded and strategically positioned.

PS Marketing Maturity

The global economy has evolved into a services economy with services like health care, technology and consulting representing some of the hottest areas of growth. Marketing services is an important skill, and a tough one, for businesses to master. Without a tangible product to show and tell customers about, service marketers must be adept at pulling together all the pieces of the marketing mix to demonstrate value for their target clients. Services are inherently intangible, are consumed simultaneously at the time of their production, and cannot be stored, saved or resold once they have been used. Service offerings are unique and cannot be exactly repeated even by the same service provider for the same customer. Service marketing has become a big business with a focus on establishing the services brand, generating awareness and leads while providing powerful tools and collateral to support service sales and delivery. Service marketing typically produces customer case studies and client testimonials. The move to social marketing has accentuated the role of marketing in building awareness. Marketing also focuses on brand building and conveying the essence of the brand through the firm's website and social channels.

Relationships Are Key

In service marketing, because there is no tangible product, relationships are key – both with the services sales force and clients. Service marketers must listen to and understand the needs of customers and prospects to identify the compelling reasons they buy and what attributes they most care about to build differentiation for the firm. The role of service marketing is to identify target markets and clients and to position the firm and its solutions in a differentiated way while supporting the sales force with lead generation and reference building activities. In many organizations, service marketing is also responsible for developing customer references, testimonials, case studies and client advisory boards.

Services Marketing versus Service Lifecycle Management

A key finding from this benchmark is most PS organizations are confusing service marketing with service lifecycle management. Service marketing is clearly an aspect of service lifecycle management, but most often does not encompass the truly transformational elements of building a service portfolio comprised of repeatable sales and service delivery methods and tools, which we include in the larger scope of service lifecycle management.

Increasingly, service marketing organizations are focused on building compelling websites which facilitate prospective client evaluation and selection. Social marketing is another key component of marketing which has gained tremendous importance as most buyers now carefully review prospective service providers through online channels. A key component of service marketing is to provide compelling service positioning and thought leadership through high value content including analyst reviews.

Table 56: PS Marketing Maturity™ Levels

	Level 1	Level 2	Level 3	Level 4	Level 5
	Ad Hoc, Opportunistic, Heroic	**Piloted, Experimental, Pockets of Excellence**	**Deployed, Basics in Place for All Key Elements**	**Institutionalized, in the Company DNA / Fabric**	**Visionary, Agile, Innovative, Continuous Renewal and Improvement**
Client Value	Handcrafted projects, unique, highly dependent on individual team member skills.	Limited replication or codification of service solutions. Point product solutions primarily focused on rapid implementation.	Clear, value-based sales and marketing messages for product, vertical, geographic audiences. Some level of client value and ROI measurement.	Client-centric, high value services developed and packaged. Demonstrated, measurable business value.	Partnerships exist with most strategic, forward-thinking clients to develop and enhance leading edge services.
Marketing	Tactical. Limited to no investment in service marketing. Simple website, ad hoc social marketing and reference building.	Campaign-driven, focused initiatives. Service marketing includes collateral, presentations, seminars, and other promotions with voice of the customer for specific service offers.	Programmatic and comprehensive. Service marketing - target-market and segment focused to establish differentiation.	Strategic and global, service portfolio reflects and supports brand and industries. Service portfolio management and strategic marketing efforts aligned.	Brand, thought leadership, and innovation are established and supported through all marketing activities. High brand value.
Team Definition and Composition	None. Lack of service marketing organizational definition.	Organizational structure includes borrowed or rotational roles to support service marketing efforts.	Permanent service marketing roles defined, staffed and funded.	Effective service marketing leadership and management.	Service marketing organization is strategic and continually impacts company's success.
Marketing Budget Plan / Business Plan	No budgeting for service marketing. Business planning does not incorporate service marketing. Ad hoc, one off, impact not measurable.	Budgeting includes service marketing costs and projected results. Business planning capabilities are based on individuals' experiences.	Budgeting process fully incorporates service marketing investments, revenue, profit planning. Mature business planning capabilities.	Service marketing and portfolio planning is a strategic component of annual budgeting process.	Decisions to fund service marketing are based on complex, reliable business modeling levers as part of budget plan. Service marketing business plan justification is mature - comprehensive, fact-based, insightful.

Source: SPI Research, February 2021

SPI Research recommends organizations start with service marketing – building a compelling website and on-line brand, creating lead generation campaigns, sales tools, service descriptions, service packages and value-based presentations. Each of these activities will add value to the organization and will start to build brand-awareness and generate leads. After the organization gains success and traction with service marketing it will be in a better position to tackle true service lifecycle management, which not only involves sales and marketing but also extends to product management and service execution with repeatable solution delivery tools, methods and systems.

PS Sales Effectiveness Metrics

Service sales effectiveness is a subjective question but typically refers to the percentage of salespeople who achieve quota and the probability that the sales organization will achieve its forecast and targets. SPI Research asked respondents to rank the effectiveness of the service sales organization on a scale from 1 to 5 with 5 representing perfection (Table 57). Sales effectiveness has a profound impact on all aspects of PS but unfortunately 8.6% of respondents give sales effectiveness a failing grade of 1 or 2; 36.2% give sales effectiveness an “OK” score of 3; 55.2% give sales effectiveness high marks. This year’s average rating of sales effectiveness declined to 3.56 (71.2%) from 3.61 (72.2%) last year.

Table 57: Impact – Service Sales Effectiveness

Service sales effectiveness	Survey %	Rev. growth	Deal pipeline	% of ann. rev. target	% of ann. margin target
Very ineffective	0.9%	9.2%	50%	81.7%	75.0%
Ineffective	7.7%	2.8%	159%	86.4%	86.3%
Neither	36.2%	6.2%	173%	90.4%	88.8%
Effective	45.3%	7.5%	188%	93.5%	91.5%
Very effective	9.9%	9.6%	209%	97.0%	95.4%
Total/Average	**100.0%**	**6.9%**	**181%**	**92.1%**	**90.3%**

Source: SPI Research, February 2021

ESOs gave higher marks for sales effectiveness (3.64 or 72.8%) than independents (3.53 or 70.6%). By geography, EMEA gave the highest score of 3.59 (71.8%) and APAC gave the lowest of 3.5(70%).

Survey Results

The following section reviews and analyzes 2021 PS Maturity™ benchmark results from 561 participating Professional services organizations. In this section SPI Research analyzes 20 Client Relationship key performance measurements that are critical for measuring sales, marketing and solution development effectiveness. The impact of the on-going Corona Virus pandemic can be seen in a decline in almost all sales and marketing metrics.

The percentage of overall revenue from new clients is an important indicator of market expansion. A higher percentage of new client revenue shows the organization is expanding beyond its installed base. The size of the deal pipeline, the percentage of revenue from new clients, the length of the sales cycle and win ratios all declined year over year. The only client relationships metric which improved this year was client referenceability with slight improvement from 72.2% to 72.7% (Table 58).

The Win ratio shows the number of winning proposals for every 10 proposals submitted. It is a strong indicator of the level of competition and portends market saturation when the win ratio declines below 5, indicating firms are winning less than 50% of their opportunities.

Table 58: Client Relationships KPIs by Organization Type and Geographic Region

Key Performance Indicator	2019	2020	ESO	PSO	Amer.	EMEA	APac
Surveys	513	561	171	390	445	84	32
Revenue from new clients	30.8%	28.2%	36.6%	24.7%	28.7%	25.2%	27.9%
Win ratio (per 10 bids)	5.27	5.18	5.13	5.20	5.22	5.02	5.00
Deal pipeline / qtr. bookings forecast	181%	179%	197%	172%	172%	203%	213%
Length of the Sales cycle (days: qualified lead to contract signing)	87	90	103	84	90	89	76
Average Service discount	7.6%	7.6%	10.9%	6.2%	7.8%	6.9%	5.4%
Percentage of referenceable clients	72.2%	72.7%	67.2%	75.0%	73.1%	70.9%	72.7%
Solution development effectiveness	3.72	3.69	3.75	3.66	3.69	3.75	3.50
Service sales effectiveness	3.61	3.56	3.64	3.53	3.56	3.59	3.50
Service marketing effectiveness	3.21	3.12	3.06	3.15	3.14	3.00	3.18

Source: SPI Research, February 2021

The size of the deal pipeline is an important predictor of future revenue. ***The size of the deal pipeline in comparison to the quarterly sales forecast declined to 179% from 181% in 2019.*** Table 58 shows the size of the deal pipeline compared to the quarterly bookings forecast is stronger for ESOs. Independent PSO pipelines declined to 172% from 176% last year. By geography the deal pipeline is strongest for Asia Pacific and weakest for the Americas.

The level of discounting is an indicator of increased competition or slowing demand. Average discounts remained the same year over year at 7.6%. In services, discounting has a direct impact on profit as it is impossible to make up price concessions with volume. ESOs consistently report higher levels of discounting, longer sales cycles and fewer client references than independents.

By organization size, the deal pipeline is strongest for the largest organizations (>700 employees) and weakest for the smallest (Table 59). The smallest firms tend to live deal to deal with limited future visibility. Interestingly, client reference-ability tends to decline with organization size while level of discounting increases. For small firms, making every client a success at a reasonable price is a business imperative. Interestingly, the length of the sales cycle in 2020 was only slightly longer than in 2019 (90 days compared to 87 days) despite tremendous market uncertainty.

Table 59: Client Relationships KPIs by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	62	108	170	111	48	62
Revenue from new clients	36.5%	30.9%	27.4%	24.3%	25.8%	24.6%
Bid-to-Win ratio (per 10 bids)	5.04	5.46	5.34	4.95	4.66	5.21
Deal pipeline relative to qtr. bookings forecast	122%	151%	207%	196%	168%	200%
Sales cycle (days: qualified lead to contract sign.)	78	88	91	95	88	90
Service discount given clients	6.8%	6.0%	7.5%	7.6%	8.6%	11.3%
Percentage of referenceable clients	75.0%	76.3%	74.6%	68.5%	66.4%	70.7%
Solution development effectiveness	3.74	3.71	3.65	3.62	3.50	4.00
Service sales effectiveness	3.51	3.48	3.57	3.59	3.46	3.83
Service marketing effectiveness	2.96	3.08	3.18	3.05	3.08	3.44

Source: SPI Research, February 2021

By vertical, embedded Software and SaaS PSOs and IT Consultancies reported the strongest deal pipelines while accountancies and Managed Service providers reported the weakest. Management Consultancies and Architects and Engineers reported the highest levels of client reference-ability while embedded SaaS and Software PSOs reported the poorest (66%). Service discounting was highest for embedded Software ESOs and lowest for Architects and Engineers (3.7%).

Table 60: Client Relationships KPIs by Vertical Market

Key Performance Indicator	IT Consult	Mgmt Consult	SaaS	Software	AEC
Surveys	143	84	64	55	35
Revenue from new clients	25.0%	27.3%	48.3%	28.8%	21.6%
Bid-to-Win ratio (per 10 bids)	5.02	5.51	5.06	5.45	5.18
Deal pipeline relative to qtr. bookings forecast	190%	175%	209%	197%	150%
Sales cycle (days: qualified lead to contract sign.)	86	85	111	102	82
Service discount given clients	7.0%	6.3%	14.4%	9.8%	3.7%
Percentage of referenceable clients	74.2%	81.5%	69.2%	66.0%	76.4%
Solution development effectiveness	3.63	3.77	3.85	3.77	3.62
Service sales effectiveness	3.52	3.49	3.54	3.70	3.62
Service marketing effectiveness	3.00	3.21	2.92	3.00	3.15

Source: SPI Research, February 2021

The length of the sales cycle is longest for VARs and shortest for Marketing and Advertising firms. Tables 60 and 61 show key client relationships metrics by vertical market.

Table 61: Client Relationships KPIs by Vertical Market

Key Performance Indicator	MarCom	VAR	Account	Mgd. Serv.	All Others
Surveys	31	17	14	13	105
Revenue from new clients	21.3%	30.8%	23.2%	19.3%	25.0%
Bid-to-Win ratio (per 10 bids)	4.32	5.21	5.17	4.64	5.28
Deal pipeline relative to qtr. bookings forecast	144%	175%	121%	121%	169%
Sales cycle (days: qualified lead to contract sign.)	68	114	93	81	81
Service discount given clients	5.1%	9.5%	6.0%	3.6%	6.0%
Percentage of referenceable clients	67.4%	72.5%	71.3%	67.9%	68.9%
Solution development effectiveness	3.68	3.50	3.55	3.71	3.62
Service sales effectiveness	3.63	3.71	3.18	3.71	3.60
Service marketing effectiveness	3.68	3.43	3.18	3.29	3.22

Source: SPI Research, February 2021

Type of Work Sold

IT consultancies (143 firms) and embedded PS within Software and SaaS (119) dominated this year's benchmark, so it is no wonder that 34.6% of the work sold was IT or technology consulting while 27.8% was management consulting. Both embedded and independents are delivering more business and management consulting – encroaching on the pure play management consultancies.

Table 62: Type of Work Sold by Organization Type and Geographic Region

Key Performance Indicator	2019	2020	ESO	PSO	Amer.	EMEA	APac
Business / management consulting	23.8%	27.8%	19.6%	31.4%	28.2%	25.8%	26.6%
Technology or IT consulting	39.4%	34.6%	39.9%	32.3%	33.4%	42.5%	33.6%
Subscription Services	8.2%	9.6%	15.7%	6.9%	10.0%	7.4%	8.6%
Managed services	9.0%	9.2%	7.3%	10.1%	9.6%	7.8%	7.6%
Staff augmentation	5.5%	6.3%	5.1%	6.9%	6.3%	6.6%	5.8%
Hardware, software or other equipt.	4.5%	3.5%	4.7%	2.9%	3.2%	4.4%	4.9%
Other	9.6%	9.0%	7.8%	9.5%	9.3%	5.5%	12.8%
Total/Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2021

Table 62 depicts the types of work sold by embedded and independent service providers and by major geographic regions. This year ESOs delivered 19.6% of their work as management consulting, showing the shift towards more business process consulting, away from pure technology implementation. They also have been growing their subscription and managed service revenues. Almost all PSOs provide some level of staff augmentation whether it is buying access to a solution architect or "renting" expertise. Many services do not really warrant or require a detailed statement of work as specific resources with specific skills are only required on a temporary basis to fill a skills gap or accomplish a specific task.

Today many IT consultancies have equal numbers of business analysts and technical consultants – they focus on business process improvement and streamlining cumbersome business processes. Increasingly technology-focused PS providers are adding industry and domain experts to ensure horizontal technologies can be adopted and modified to reflect the unique needs of vertical industry clients. The underlying technologies themselves no longer require extensive customization and integration; they have become easier to install and integrate with standard data loaders and connectors. Ensuring user adoption has become the primary concern of embedded ESOs. This means today's consultants need to understand business processes and what business users want and need to drive user adoption. Technology consulting now includes workflow mapping, business process modelling, rollout plans and administrator and end-user training, all with a focus on user adoption.

Increasingly the majority of professional services are delivered virtually or remotely so one of the most important investment areas has become virtual collaboration and messaging platforms like SLACK (acquired by Salesforce for $27.7 billion) and Zoom.

Table 63: Type of Work Sold by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Business / management consulting	52.0%	33.5%	28.0%	19.3%	14.8%	16.7%
Technology or IT consulting	21.3%	33.6%	34.5%	41.8%	34.4%	37.6%
Subscription Services	5.8%	8.1%	10.8%	6.8%	10.6%	17.6%
Managed services	5.7%	5.9%	9.3%	11.6%	14.0%	10.6%
Staff augmentation	4.3%	4.6%	5.4%	8.2%	14.2%	4.6%
Hardware, software or other equipment resale	2.5%	3.2%	3.7%	4.1%	2.1%	4.4%
Other	8.3%	11.1%	8.2%	8.2%	9.9%	8.6%
Total/Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2021

Managed service revenue has increased slightly over the past five years from 7.3% in 2012 to 9.2% in 2020 but this increase is not as dramatic as we would have expected. The greatest shift has been in the rise of subscription services, growing from 2.4% of revenue three years ago to 9.6% this year. Expect subscription revenues to continue to climb as vendors are increasingly pricing a combination of hardware, software, consulting and support "as a service".

Tables 64 and 65 depict the business mix by vertical segments. In this benchmark, staff augmentation has been increasing each year to 6.3%. It appears that every segment provides some level of "providing/renting" a person or bank of hours in addition to statement of work driven projects.

Table 64: Type of Work Sold by Vertical Market

Key Performance Indicator	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Business / management consulting	10.1%	77.5%	20.0%	12.0%	21.4%
Technology or IT consulting	63.9%	9.6%	36.4%	51.3%	12.9%
Subscription Services	4.5%	2.9%	21.3%	13.9%	9.4%
Managed services	9.2%	3.8%	6.7%	7.7%	25.0%
Staff augmentation	7.1%	3.9%	4.9%	4.9%	4.6%
Hardware, software or other equipment resale	4.0%	0.4%	1.7%	4.5%	3.3%
Other	1.2%	2.1%	9.0%	5.7%	23.4%
Total/Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2021

Table 65: Type of Work Sold by Vertical Market

Key Performance Indicator	MarCom	VAR	Account	Mgd. Serv.	All Others
Business / management consulting	47.7%	4.1%	42.9%	68.1%	18.4%
Technology or IT consulting	2.8%	52.8%	10.0%	14.2%	23.9%
Subscription Services	16.3%	21.4%	14.3%	1.9%	8.7%
Managed services	15.0%	3.8%	7.1%	5.8%	10.6%
Staff augmentation	5.5%	4.1%	9.3%	4.6%	9.9%
Hardware, software or other equipment resale	1.8%	10.2%	2.9%	2.3%	5.6%
Other	10.8%	3.5%	13.6%	3.1%	22.9%
Total/Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2021

Interestingly, the types of consulting organizations who derive a significant portion of revenue from managed services are architects and engineers (25.0%). These firms focus on annual contracts and retainers where they outsource entire business processes. Most SaaS embedded ESOs have started adding managed service offers as they out-task elements of running their applications for their clients. For many independents, the promise of managed services as a source of annuity revenue has not been fully realized because the technology manufacturers themselves have grabbed these opportunities by offering better economies of scale and enhanced security.

New Client Revenue

The percentage of revenue from new clients is a strong predictor of market expansion. The fastest growing firms derive over 30% of revenue from new clients. In PS there is a strong correlation between growth and profitability. New client growth is a critical component of success.

The bottom-line is PS organizations must constantly expand their markets, clients and solution repertoire to stay in touch with market changes and ahead of the competition. New clients allow PSOs to reap the benefits of previous client experiences and knowledge without the baggage of long-term relationships in which both provider and client may have become complacent. New clients provide the opportunity to expand knowledge, skills and expertise (Table 66).

Table 66: Impact – Percentage of Revenue from New Clients

Percentage of new clients	Survey %	Revenue growth	Win Ratio	Size of Pipeline	Revenue per consultant	Revenue per employee	EBITDA
Under 10%	34.4%	9.2%	4.85	153.4%	$191	$160	14.2%
10% - 20%	12.3%	7.0%	5.31	205.3%	$213	$172	14.4%
20% - 30%	17.5%	9.1%	5.31	197.3%	$211	$171	18.1%
30% - 40%	10.7%	8.1%	5.44	179.7%	$186	$150	16.7%
40% - 50%	7.7%	5.2%	5.45	165.1%	$223	$184	12.0%
Over 50%	17.5%	10.8%	5.04	178.3%	$205	$165	16.7%
Total / Average	**100.0%**	**8.7%**	**5.18**	**179.3%**	**$203**	**$165**	**15.8%**

Source: SPI Research, February 2021

Primary Target Buyer

Primary target buyer depicts the title of key buyers such as CEO, CFO, CIO, Line of Business or Purchasing

SPI Research asked, "who is the primary buyer for your services"? For the 561 benchmark respondents, the primary target buyer is most likely to be a Line of Business executive, as business leaders have increasingly taken charge of their applications and have wrested control from the IT organization.

Table 67 correlates primary buyer type with other key metrics. Without knowing other aspects, it is hard to come up with definitive best practices, but this analysis does reveal some interesting comparisons. This year selling to the CEO produced the best EBITDA but the smallest pipeline. Surprisingly the very few firms who sell primarily to purchasing reported the strongest revenue growth.

Table 67: Impact – Primary target buyer for services

Primary target buyer for services	Survey %	Revenue growth	New clients	Bid-to-win ratio	Deal pipeline	Project margin	EBITDA
CEO	13.0%	8.9%	31.9%	5.26	145.8%	34.1%	21.6%
COO	6.7%	9.7%	35.0%	5.48	203.7%	35.9%	17.5%
CIO	22.9%	8.4%	25.2%	5.49	201.0%	36.6%	12.6%
Line of Business	39.4%	7.1%	26.2%	5.12	182.2%	36.3%	14.7%
Purchasing	1.3%	17.1%	32.3%	5.42	150.0%	45.2%	19.5%
Other	16.7%	6.1%	25.8%	4.89	170.1%	35.0%	18.5%
Total / Average	**100.0%**	**7.8%**	**27.3%**	**5.21**	**180.5%**	**36.0%**	**15.9%**

Source: SPI Research, February 2021

Bid-to-Win Ratio

Bid-to-Win ratio measures the number of wins per ten bids. The Bid-to-Win ratio is a powerful metric for judging sales and marketing effectiveness but must be analyzed in conjunction with the size of the pipeline; the length of the sales cycle and the cost to pursue the bid.

If the Bid-to-Win ratio is too high, it may be an indication that the organization is not aggressive enough in targeting new clients and new services. If it is extremely low, it is an indication the firm is competing in a commoditized market or is not well-positioned or is not doing a good job of qualifying deals. The best deals are those that do not require a bid (sole source) because the client has done business with the firm before and knows they will do a good job, or they are so clearly the premium supplier that no other providers needs be considered.

Table 68 shows the positive impact of improving bid to win ratios through better deal qualification; reference selling; improved positioning to target the right markets and clients; and improving overall quality and client satisfaction resulting in more and better referrals. This year the optimal ratio is over 7 wins with the highest revenue and employee growth; and best on-time project delivery. The win ratio declined in 2020 to 5.18 from 5.27 in 2019 as

Table 68: Impact – Bid-to-win ratio (per 10 bids)

Bid-to-win ratio (per 10 bids)	Survey %	Rev. growth	Head-count growth	% new client Rev.	On-time proj. del.
1 - 2 wins	9.7%	5.4%	1.9%	23.0%	77.1%
3 - 4 wins	26.5%	4.9%	1.9%	26.8%	77.2%
5 - 6 wins	37.1%	7.0%	5.2%	27.7%	79.1%
7 - 8 wins	22.4%	12.1%	9.4%	28.2%	83.3%
Over 8 wins	4.3%	9.9%	8.9%	28.7%	85.0%
Total/Average	**100.0%**	**7.6%**	**5.1%**	**27.1%**	**79.6%**

Source: SPI Research, February 2021

purchasing cycles were delayed and fewer new deals were available due to the Corona Virus pandemic.

Deal Pipeline Relative to Quarterly Bookings Forecast

The deal pipeline as compared to the quarterly bookings forecast provides insight into sales effectiveness and future revenue. The size of the deal pipeline shows direct correlation to all major growth indicators – revenue growth; revenue per billable employee; percentage achievement of annual revenue and margin targets and billable utilization.

A sign of caution and continued market turbulence is that 43.1% of benchmark participants reported their deal pipeline was less than two times their forecast.

Table 69 illustrates the positive impact of a strong sales pipeline on revenue growth; backlog; on-time project delivery and client referenceability.

Table 69: Impact – Size of deal pipeline

Deal Pipeline	Survey %	Rev. growth	Qtr. revenue target in backlog	On-time proj. delivery	Client refer.
Less than forecast	14.8%	3.2%	30.3%	77.8%	68.6%
Same as forecast	30.3%	7.8%	38.5%	79.5%	72.1%
2X forecast	29.4%	7.4%	45.6%	79.6%	72.4%
3X forecast	19.0%	10.9%	52.2%	80.3%	73.5%
4X forecast	6.4%	8.1%	51.0%	83.3%	76.8%
Total/Average	**100.0%**	**7.6%**	**42.8%**	**79.7%**	**72.2%**

Source: SPI Research, February 2021

Table 70 shows the average size of the deal pipeline declined year over year to 179%. ESOs reported healthy pipelines of 197% of forecast while independents reported leaner pipelines of 172%; independents reported a steep decline in their deal pipelines from 176% in 2019. Asia Pacific had the strongest (213%) deal pipeline relative to quarterly bookings forecast, while the Americas had the weakest (172%). Pipelines grew in APac and EMEA but decreased in the Americas. By vertical, ESOs within Software companies reported the largest pipelines. Clearly Cloud Application providers are prospering as companies in all industries retool and transform their application infrastructure from on-premise to the cloud due to lower cost of ownership, superior functionality, ease of use and ability to support.

Table 70: Year-over-year change – Deal Pipeline

Deal Pipeline	2019	2020	▲
Total Survey	181%	179%	-0.9%
Embedded services organizations	193%	197%	2.1%
Independent services organizations	176%	172%	-2.3%
Americas	183%	172%	-5.9%
EMEA	173%	203%	17.3%
APac	179%	213%	18.7%
IT Consulting	181%	190%	5.1%
Management Consulting	172%	175%	1.6%
PS within SaaS Company	217%	209%	-3.7%
PS within Software Company	190%	197%	3.6%
Architecture/Engineering	174%	150%	-13.8%
Advertising/Mktg/PR	168%	144%	-14.2%
Value-added Reseller (VAR)	155%	175%	12.9%
Accounting	141%	121%	-14.3%

Source: SPI Research, February 2021

Length of the Sales Cycle

The length of the sales cycle measures the time it takes to move a qualified lead to a signed contract. Sales cycle length is a leading indicator of demand as sales cycles elongate when the economy is contracting and shrink when the economy is expanding.

Table 71 shows roughly 56% of respondents reported sales cycles of under 90 days while the other 44% reported sales cycles longer than 90 days. Shorter sales cycles have a positive impact on revenue

Table 71: Impact – Sales cycle (days: qualified lead to contract sign.)

Sales cycle	Survey %	Rev. growth	New clients	Deal pipeline	Project margin
Under 30 days	5.3%	10.8%	24.4%	135%	37.3%
30 - 60 days	19.7%	9.1%	26.9%	147%	37.5%
60 - 90 days	31.0%	7.8%	30.5%	178%	37.1%
90 - 120 days	23.3%	6.4%	28.5%	208%	35.5%
120 - 150 days	10.0%	6.3%	26.4%	194%	33.4%
Over 150 days	10.6%	7.8%	21.0%	196%	31.7%
Total/Average	**100.0%**	**7.7%**	**27.6%**	**180%**	**35.9%**

Source: SPI Research, February 2021

growth and on-time project delivery, but longer sales cycles appear to increase the size of the deal pipeline.

Table 72 shows year over year changes in the length of the sales cycles. Both ESOs and Independents reported slightly longer sales cycles. By geography, the average sales cycle increased with the sharpest increase reported in EMEA.

Significantly longer sales cycles were reported by all verticals except ESOs within enterprise software companies. Accountancies and VARS reported the largest increase in sales cycles.

Table 72: Year-over-year change – Length of sales cycle (days)

Sales cycle	2019	2020	▲
Total Survey	87	90	2.4%
Embedded services organizations	101	103	2.4%
Independent services organizations	81	84	3.1%
Americas	89	90	1.3%
EMEA	82	89	9.3%
APac	75	76	2.5%
IT Consulting	82	86	4.9%
Management Consulting	78	85	8.7%
PS within SaaS Company	100	111	10.9%
PS within Software Company	104	102	-1.5%
Architecture/Engineering	79	82	3.9%
Advertising/Mktg/PR	66	68	2.5%
Value-added Reseller (VAR)	96	114	18.3%
Accounting	66	93	41.4%

Source: SPI Research, February 2021

Service Discounting

Average service discount depicts the average discount or price concession from list price.

In professional services, it is far more difficult to develop a pricing strategy than in product-based organizations. It is easy to do comparative shopping at a grocery store or for products on-line. In professional services, pricing is more art than science with wider variability in terms of costs, estimates, proposals and pricing. Professional services executives

Table 73: Impact – Service Discounting

Average Service Discount	Survey %	Bid-to-win ratio	Deal pipeline	Billable util.	On-time proj. delivery
None	20.1%	5.38	151%	73.3%	84.0%
Under 5%	25.5%	5.28	184%	72.4%	82.2%
5% - 10%	29.1%	5.18	189%	70.8%	76.7%
10% - 20%	19.1%	4.74	184%	68.9%	80.1%
20% - 30%	4.1%	4.66	189%	69.7%	72.1%
Over 30%	2.1%	5.85	190%	68.9%	62.8%
Total/Average	**100.0%**	**5.15**	**179%**	**71.3%**	**79.7%**

Source: SPI Research, February 2021

cannot just look at expected project cost, sales forecasts, or some other key metric to set pricing. Supply and demand definitely come into play. The more unique the offering; the more demonstrable the return on investment; the larger the reference base; the harder to find required skills; the more premium pricing is warranted.

Table 74: Year-over-year change – Service Discount

Service Discount	2019	2020	▲
Total Survey	7.6%	7.6%	-0.6%
Embedded services organizations	11.5%	10.9%	-5.6%
Independent services organizations	5.7%	6.2%	8.2%
Americas	8.0%	7.8%	-2.0%
EMEA	6.4%	6.9%	7.3%
APac	4.4%	5.4%	21.8%
IT Consulting	6.9%	7.0%	1.7%
Management Consulting	5.2%	6.3%	20.5%
PS within SaaS Company	12.6%	14.4%	14.6%
PS within Software Company	12.2%	9.8%	-19.7%
Architecture/Engineering	4.2%	3.7%	-11.8%
Advertising/Mktg/PR	3.1%	5.1%	63.8%
Value-added Reseller (VAR)	7.5%	9.5%	26.2%
Accounting	5.5%	6.0%	9.8%

Source: SPI Research, February 2021

Past win ratios are critical but must be viewed in conjunction with past and projected project margins to determine the optimal pricing strategy. Professional services executives should not mind losing bids when they hurt margin because "bargain basement" pricing rarely results in win-win partnerships. If firms are continually asked to discount pricing it is a sure sign that something is wrong. Either they have not properly demonstrated their value, or they are moving into a commodity market or they have not done a good job of differentiating their services.

There is absolutely no way service organizations can make up in volume the amount they lose per deal because margins are too thin and there is no way to recoup hours worked at cheap rates. Table 73 shows 74.7% of organizations discount less than 10%. Those organizations who discount heavily (greater than 20%) have slightly higher win ratios but much lower utilization and on-time delivery.

Although limiting discounting might impact growth, it enhances bid-win ratios, billable utilization, on-time project delivery and client reference-ability. Firms who refrain from discounting do a better job of using standardized methods and tools, resulting in fewer project overruns. Profit is the fuel that drives expansion. While not every project achieves its desired profitability goal, one or two money-losing projects can quickly undermine all profit.

When creating a large bid, all costs including sales costs should be measured. Very few projects are delivered precisely on time and on budget, so change control is an important element of pricing. If a client demands pricing concessions, scope must be contained, but the client must also understand and accept the risks. Best practices in pricing include creating a dedicated proposal center to ensure all proposals are of the highest quality. Bid, estimate, pricing and contract reviews are all good investments which pay dividends by improving project margins and reducing the risk of overruns and losses.

Referenceable Clients

The percentage of referenceable clients depicts the percentage of clients who would act as a reference. It is a strong quality measurement and has a positive impact on all business aspects.

The percentage of reference clients is considered one of the most important KPIs in the professional services sector. Client references have a strong correlation with service sales effectiveness; the length of the sales cycle; ease of getting things done and whether employees would recommend the PSO as a great place to work. The relationship between client and employee satisfaction is irrefutable.

Client references are a leading indicator of organizational success. As this percentage increases, so does the probability of high levels of growth; better win ratios and lower sales costs. Any maturity improvement plan must address measuring and improving client satisfaction and building references. Best practices include post-project engagement interviews and surveys; acquiring client references and testimonials as part of project close-out process along with frequent and consistent project quality reviews. Executive teams should review the project dashboard at weekly meetings and immediately assign executives to manage troubled projects.

Table 75: Impact – Percentage of "referenceable" clients

% of "referenceable" clients	Survey %	Bid-to-win ratio	Rec. to family/ friends	Billable util.	On-time proj. delivery
Under 50%	13.7%	4.39	4.07	67.1%	74.7%
50% - 60%	13.7%	4.84	4.16	67.4%	75.5%
60% - 70%	11.1%	4.88	4.25	70.0%	76.1%
70% - 80%	20.1%	5.38	4.44	72.9%	77.8%
80% - 90%	19.3%	5.48	4.64	73.4%	82.0%
Over 90%	22.1%	5.65	4.68	73.6%	86.5%
Total/Average	**100.0%**	**5.19**	**4.42**	**71.3%**	**79.6%**

Source: SPI Research, February 2021

Table 76: Year-over-year change – Client references

Client references	2019	2020	▲
Total Survey	72.2%	72.7%	0.7%
Embedded services organizations	68.2%	67.2%	-1.4%
Independent services organizations	74.0%	75.0%	1.4%
Americas	73.2%	73.1%	-0.1%
EMEA	67.9%	70.9%	4.4%
APac	67.9%	71.2%	4.9%
IT Consulting	72.4%	74.2%	2.4%
Management Consulting	76.3%	81.5%	6.8%
PS within SaaS Company	69.3%	69.2%	-0.1%
PS within Software Company	66.0%	66.0%	0.1%
Architecture/Engineering	78.3%	76.4%	-2.4%
Advertising/Mktg/PR	68.3%	67.4%	-1.4%
Accounting	67.0%	71.3%	6.3%

Source: SPI Research, February 2021

As shown in Table 76 ESOs continued to lose ground with referenceable clients. Given the charter of ESOs which is increasingly focused on adoption, and expansion poor referenceability must be addressed. Service productizing is a key improvement priority to decrease implementation time and increase client knowledge and self-sufficiency.

Pricing and Deal Structure

Pricing structure refers to the percentage of work sold by deal structure: time and materials; fixed fee; performance-based; subscription; managed services or other.

Every year, SPI Research has seen a shift in pricing and deal structure. As clients have become increasingly concerned about risk and cost overruns, they have pushed more accountability to the PSO through fixed fee and shared risk contracts. Until 2014 the percentage of fixed fee work steadily increased from 35.5% in 2009 to 44% in 2013. ***In 2014 SPI Research saw a resurgence in time and materials priced contracts – signaling increased demand for services. 2014 was the first time in eight years that we saw an increase in time and materials pricing from 51.7% in 2013 to 58.8% in 2014 but since that time we have seen a steady decline in time and materials priced contracts in favor of subscription-priced and managed services.***

Managed service contracts bundle hardware, software, services and technology refresh into a monthly or annual contract price, often with response time and service level agreements. Time and materials-based pricing puts emphasis on accurate resource management, time collection and reporting. Fixed price pricing puts an emphasis on accurate estimates, project costing and change management. Either way PSA applications are critical to support accurate time and cost capture and billing.

Table 77: Fee Structure by Organization Type and Geographic Region

Fee Structure	2019	2020	ESO	PSO	Americas	EMEA	APac
Time & Materials	47.6%	47.9%	38.8%	51.7%	46.1%	59.2%	47.9%
Fixed Time / Fixed Fee	34.1%	33.0%	35.5%	32.0%	33.4%	28.5%	37.6%
Shared Risk / Performance based	2.3%	1.7%	1.2%	2.0%	1.7%	1.0%	3.3%
Subscription Services	7.7%	7.3%	14.3%	4.3%	8.2%	2.8%	4.1%
Managed Services	6.7%	7.6%	8.2%	7.4%	8.0%	7.5%	2.7%
Other	1.6%	2.4%	1.9%	2.7%	2.5%	0.9%	4.4%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2021

Table 77 compares billing models for embedded and independent PSOs. ESOs have been steadily shifting away from fixed fee contracts in favor of subscription and managed service pricing. Independents have always preferred time and materials contracts; they are moving away from fixed price work due to the cost and time overruns which are inherent with fixed price contracts. By geography, time and materials is the prevalent pricing structure. EMEA predominantly sells time and materials contracts although they are often "daily" contracts which are far less favorable for the service provider than hourly contracts.

Table 78: Fee Structure by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Time & Materials	41.8%	55.8%	47.3%	53.2%	39.9%	35.6%
Fixed Time / Fixed Fee	45.8%	31.3%	33.5%	31.1%	27.4%	28.8%
Shared Risk / Performance based	1.0%	2.4%	1.9%	0.5%	2.6%	2.4%
Subscription Services	3.3%	6.1%	8.1%	5.9%	10.2%	12.8%
Managed Services	4.0%	3.7%	7.7%	6.8%	13.9%	16.8%
Other	4.1%	0.7%	1.5%	2.5%	5.9%	3.6%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2021

Table 78 compares deal structure by size of organization. The percentage of managed services and subscription or recurring revenues goes up proportionately with the size of the organization while the percentage of fixed price contracts goes down.

By vertical, architects, marketing and advertising firms rely on fixed price contracts (Tables 79 and 80). IT consultancies favor time and materials contracts (61.3%). As the SaaS market has become more mature a greater emphasis is being placed on customer adoption, so SaaS firms focus on "time to value" with subscription pricing which includes the cost of software and implementation services. Net profit is not necessarily tied to pricing structure as it is possible to make good service margins with any type of contract as long as costs, deliverables and client expectations are properly set. Accurate estimating, excellent project management, good communication and change control are the most important elements in ensuring quality services are delivered at planned margins.

Table 79: Fee Structure by Service Market Vertical

Fee Structure	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Time & Materials	61.3%	54.2%	36.9%	43.7%	38.4%
Fixed Time / Fixed Fee	23.2%	33.6%	38.3%	35.4%	53.5%
Shared Risk / Performance based	1.2%	3.5%	0.5%	0.9%	1.3%
Subscription Services	4.1%	2.6%	19.2%	14.7%	3.1%
Managed Services	9.0%	4.2%	4.9%	4.7%	3.3%
Other	1.2%	1.9%	0.2%	0.5%	0.4%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

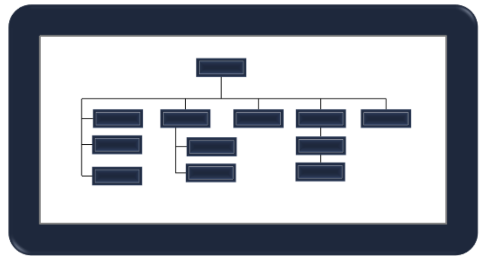
Source: SPI Research, February 2021

Table 80: Fee Structure by Service Market Vertical

Fee Structure	MarCom	VAR	Account	Mgd. Serv.	All Others
Time & Materials	28.9%	52.9%	43.5%	25.7%	41.1%
Fixed Time / Fixed Fee	45.2%	17.1%	26.5%	33.6%	35.8%
Shared Risk / Performance based	1.4%	0.0%	2.5%	11.9%	1.9%
Subscription Services	9.1%	5.0%	15.0%	2.4%	4.7%
Managed Services	8.9%	22.1%	10.8%	26.4%	9.1%
Other	6.6%	2.9%	1.7%	0.0%	7.4%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2021

8. Talent Pillar



The shift to a digital economy is fundamentally rewriting the rules of employment relationships. The Corona Virus pandemic has accelerated the move to virtual operations and accentuated the importance of collaboration and communication tools to support remote service delivery. Technologies like AI (Artificial Intelligence), Security, Mobile and Analytics are fueling disruption and change in our personal and professional lives.

SPI's PS Maturity™ research over the past fourteen years supports the notion that only a handful (less than 20%) of Professional services organizations achieve greatness. These leaders are able to quickly seize market opportunities and drive best-in-class performance through the effective use of technology in conjunction with enlightened management and workforce practices.

Over this same timeframe, real growth in billable hours (utilization) has been miniscule. Almost all PS productivity improvement has come from the effective use of technology to lower overhead and administrative costs in combination with the move to virtual (remote) consulting delivery. PS employees are working the same number of annual hours (2,080 hours per year) but they are working smarter through the use of agile development methodologies; virtual consulting delivery (limiting travel time); maximizing multi-tasking across multiple projects while limiting administrative time for time and expense capture and meetings. They are taking advantage of knowledge sharing and service productizing to quickly support and propel employees to greater levels of expertise and productivity.

Firms are seeking younger workers with hot new skillsets— but competition to recruit them is fierce. The millennial generation, born **between 1981 and 1996**, became the largest segment of the U.S. workforce in 2016, supplanting retiring baby boomers. Millennial workers are less loyal than previous generations, and more inclined to hop between jobs, which makes retention even harder. According to a Gallup poll, in 2016, 21% of millennials switched jobs compared to fewer than 7% job change for older workers. All firms must learn to manage multi-generational and multi-cultural workforces, especially since we are seeing a younger and younger workforce (53.6% are under 40 years of age).

Attrition has been increasing steadily over the past ten years but declined in 2020 as workers not only sheltered in place but also stayed in place in their jobs. Annual attrition declined to an all-time low of 5.5% according to SPI's 2020 PS Talent benchmark which was conducted in the 2nd quarter of 2020 in the midst of the pandemic. By the end of 2020 annualized attrition had ticked back up to 11.6%. Attrition is one of the number one PS profit busters as it takes 120.7 work-days to recruit, hire and ramp new consultants. A tremendous amount of time and money goes into recruiting highly skilled consultants – at least 10% of base salary goes to recruiting fees plus the considerable amount of time management and colleagues must devote to interviewing, reference checking, on-boarding, mentoring and acclimating new workers.

A clear differentiator for all service providers is their ability to attract, retain and engage hard to find talent. Establishing the firm as a great place to work is now of equal importance with cultivating a reputation for quality delivery and excellent customer satisfaction.

SPI has tracked the number of annual consulting hours delivered off-site versus on the client's site for the past 14 years. Each year more and more work has been delivered virtually but the Covid pandemic has permanently caused a shift to virtual operations. Firms are finding productivity has been improved with virtual operations plus the cost and time of travel and commuting has been slashed. As the world emerges from the pandemic, we expect many PSOs will move to hybrid operations with far fewer employees required to travel to a client's site or work in a headquarters office. Long term this means firms can hire the best available employees, regardless of location and employees themselves can move to lower cost locales or nearer family, enhancing their life-work balance.

Today's consulting workforce is increasingly virtual, with more consulting hours delivered off-site as on the client's site this year. In this year's benchmark, 60% of billable hours were delivered virtually. The new world of consulting work depends on a global multi-lingual, multi-generational, multi-cultural, technically skilled, project-based workforce. Analytic, organization and communication skills are fueling this new world of work.

Top performing organizations continually point to their unique, employee-centered cultures as the number one element in their business success. Culture is defined as the system of values, beliefs and behaviors that define how work really gets done. Culture brings together the implicit and explicit reward systems that define how an organization actually works in practice, no matter what an organizational chart, business strategy, or corporate mission statement may say.

SPI Research's "Talent" pillar encompasses all elements of the Professional Services workforce strategy. Talent focuses on both the people processes and systems required to recruit, hire, ramp, retain and motivate a high-quality consulting workforce. The following table shows how PSOs mature across the Talent pillar:

Table 81: Talent Maturity Model

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Talent	Hire as needed. Generalist skills. Chameleons, Jack of all Trades. Individual heroics. May perform presales as well as consulting delivery.	Begin forecasting workload. Start developing job and skill descriptions & compensation plans. Rudimentary career paths. Start measuring employee satisfaction	Resource, skill and career management. Employee satisfaction surveys. Training plans. Goals and measurements aligned with compensation. Attrition <15%	Business process and vertical skills in addition to technical and project skills. Career ladder and mentoring programs. Training investments to support career. Low attrition, high satisfaction	Continually staff and train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peak demand. Sophisticated variable on and off-shore workforce model.

Source: SPI Research, February 2021

Survey Results

Today's Professional Services leaders must squarely confront the realities of attracting and retaining a younger workforce against the backdrop of a technical labor shortage. Globalization has significantly impacted workforce strategies with many service providers providing hybrid on and off-site resources via regional and global competency centers. Based on technology advances, consulting emphasis is shifting toward business process and vertical industry expertise however demand for horizontal application and technical know-how still remains high. SPI Research found Talent metrics contain some of the highest number of performance indicators with extremely strong correlation to success — meaning, employees, and how they perform once onboard determine success or failure.

Table 82: Talent Performance Indicators tied to Maturity levels

Maturity Level	Level 1	Level 2	Level 3	Level 4	Level 5
Recommend company to friends/family (1-5 scale)	4.08	4.35	4.38	4.70	4.83
Well-understood career path for all employees (1-5 scale)	2.92	3.31	3.28	3.46	3.77
Employee annual attrition - voluntary	11.0%	5.6%	8.2%	4.8%	4.5%
Employee annual attrition - involuntary	6.1%	4.3%	5.1%	3.6%	5.0%
Non-billable project hours	195	190	148	67	93
Billable project hours	1,216	1,276	1,449	1,640	1,680
Percentage of billable hours onsite	44.8%	37.2%	40.9%	41.1%	51.5%
Employee billable utilization	**54.4%**	**62.3%**	**76.4%**	**83.1%**	**85.7%**
PS Profit (EBITDA)	**-10.1%**	**5.0%**	**16.1%**	**19.5%**	**32.0%**

Source: SPI Research, February 2021

SPI Research analyzed 22 Talent key performance measurements that are critical to attaining superior employee performance. Table 83 portrays trends in human capital alignment. The chief issues facing PS employers are recruiting (on average it takes 62.6 days to find and hire); ramping (on average it takes 58 days for a new hire to become productive). Skilled employees have more career choices than ever before resulting in high levels of voluntary attrition.

As the table shows, most talent metrics improved in 2020 with lower attrition; better employee engagement; slightly less time to ramp new employees and more time devoted to training and skill building. Surprisingly, consultants billed only slightly fewer hours than they did in 2019 with billable utilization at 71.4%. The percentage of companies who would recommend their firm as a great place to work improved slightly to 88.4%, indicating most PS employees are very happy with their employment relationship.

Table 83: Talent Pillar 5-year trend

Key Performance Indicator (KPI)	2016	2017	2018	2019	2020
Voluntary attrition	8.0%	7.6%	8.5%	8.5%	6.9%
Involuntary attrition	5.5%	4.7%	5.4%	4.7%	4.7%
Recommend company to friends/family (1 to 5 scale)	4.28	4.38	4.41	4.37	4.42
Days to recruit and hire for standard positions	62.2	60.8	59.9	61.9	62.6
Days for a new hire to become productive	55.4	52.5	57.4	59.5	58.0
Guaranteed annual training days / employee	8.33	7.78	8.83	9.31	9.78
Well-understood career path for all employees (1 to 5 scale)	3.17	3.20	3.28	3.33	3.31
Employee billable utilization	70.4%	71.5%	69.7%	71.7%	71.4%
Annual fully loaded cost per consultant (k)	NA	$108	$122	$127	$124

Source: SPI Research, February 2021

Table 84: Talent KPIs by Organization Type and Geographic Region

Key Performance Indicator	2019	2020	ESO	PSO	Amer.	EMEA	APac
Surveys	513	561	171	390	445	84	32
Employee annual attrition - voluntary	8.5%	6.9%	6.2%	7.2%	6.6%	6.9%	10.1%
Employee annual attrition - involuntary	4.7%	4.7%	4.8%	4.6%	4.8%	4.5%	3.9%
Recommend company to friends/family	4.37	4.42	4.34	4.46	4.44	4.26	4.52
Days to recruit and hire for standard positions	61.9	62.6	64.3	61.9	62.9	66.8	50.6
Days for a new hire to become productive	59.5	58.0	69.2	53.3	60.6	48.9	43.9
Guaranteed annual training days / employee	9.31	9.78	10.11	9.64	9.82	9.37	10.27
Well-understood career path for all employees	3.33	3.31	3.28	3.32	3.31	3.38	3.15
Employee billable utilization	71.7%	71.4%	69.4%	72.3%	71.5%	71.1%	71.8%
Annual fully loaded cost per consultant (k)	$127	$124	$125	$124	$127	$108	$124

Source: SPI Research, February 2021

Other signs of improvement are shown in more guaranteed training days per employee and enhancements in career management. ***Embedded PS organizations reported a decrease in average utilization from 70.2% to 69.4%.*** Table 84 summarizes important talent management questions by organization type and location. The table shows independents are more likely to refer their firm as a great place to work than their embedded counterparts. Employees in EMEA are less likely to recommend the firm as a great place to work than their global counterparts it takes them longer to recruit and hire but less time to ramp new employees.

The average time to recruit, hire and ramp a new consultant decreased from 121 days to 120.7 days in 2020 with the Americas reporting the longest recruiting and ramping time of 123.5 days. Obviously, reducing the time and cost of finding and ramping new employees has a major impact on growth and profitability. Top performing firms provide innovative college hiring and ramping programs – with intense on-boarding programs of three months or more to ensure new consultants are quickly successful and productive. The need for skill and leadership development has resulted in a ***big increase in the days of guaranteed training – moving from 3.8 days in 2008 to over 9.78 days on average in 2020***. PS organizations of all types and sizes are investing in training to ensure their workforces remain engaged and qualified by enhancing their skills and certifications.

PS organizations are finally starting to realize the importance of providing employee career paths and opportunities – this has led to a slight improvement in the benchmark of "a well-understood career path," which has advanced from a score of 2.67 out of 5 (53%) in 2009 to 3.31 (66.2%) in 2020.

Table 85: Talent KPIs by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	62	108	170	111	48	62
Employee annual attrition - voluntary	3.1%	4.8%	7.5%	7.4%	10.5%	9.5%
Employee annual attrition - involuntary	2.2%	3.9%	4.9%	5.3%	5.9%	6.5%
Recommend company to friends/family	4.24	4.58	4.55	4.41	4.18	4.15
Days to recruit and hire for standard positions	64.8	66.9	61.7	60.2	54.4	65.8
Days for a new hire to become productive	50.4	64.7	57.2	57.9	49.6	62.0
Guaranteed annual training days / employee	8.78	9.77	9.75	9.89	9.44	11.32
Well-understood career path for all employees	3.17	3.25	3.33	3.28	3.50	3.45
Employee billable utilization	68.6%	71.1%	72.4%	71.6%	70.0%	73.3%
Annual fully loaded cost per consultant (k)	$122	$125	$124	$121	$124	$133

Source: SPI Research, February 2021

Table 85 shows Talent scores by organization size. Attrition tends to rise in direct proportion to organization size as employees feel less loyalty and their work becomes more impersonal. This year organizations with 300 to 700 employees reported the highest attrition (16.4%). One of the reasons for this is that these large organizations are experiencing the highest numbers of mergers and acquisitions which often lead to attrition. Management span of control grows proportionately with organization size as larger organizations provide more employee and management support structures. Small to midsize organizations were more likely to be viewed as "great places to work" with higher employee recommendation scores. Several important trends emerge as organizations grow in size – they offer more guaranteed training days and tend to have clearer job descriptions and skill plans which provide better defined career paths for their employees.

Tables 86 and 87 show Talent metrics by vertical market. Staffing firms reported the highest attrition (14.5%) while Architects and Engineers reported the lowest (9.1%). Accountancies reported the greatest investment in employee training while Staffing firms provide the least. It takes the least amount of time to recruit and ramp new hires in Staffing (87.5 days) and the longest time in SaaS ESO's (142.8 days). Billable utilization is highest for Managed Service providers and Hardware and Networking providers at 75%.

Table 86: Talent KPIs by Vertical Market

Key Performance Indicator	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Surveys	143	84	64	55	35
Employee annual attrition - voluntary	8.0%	6.9%	5.7%	6.0%	4.7%
Employee annual attrition - involuntary	4.4%	4.0%	4.5%	5.0%	4.4%
Recommend company to friends/family	4.47	4.50	4.34	4.41	4.57
Days to recruit and hire for standard positions	55.7	60.6	68.1	63.7	75.6
Days for a new hire to become productive	45.6	53.7	74.7	70.0	61.7
Guaranteed annual training days / employee	9.85	9.28	9.34	11.09	8.57
Well-understood career path for all employees	3.26	3.43	2.94	3.50	3.36
Employee billable utilization	73.0%	73.4%	69.4%	68.8%	70.2%
Annual fully loaded cost per consultant (k)	$128	$131	$130	$116	$110

Source: SPI Research, February 2021

Table 87: Talent KPIs by Vertical Market

Key Performance Indicator	MarCom	VAR	Account	Mgd. Serv.	All Others
Surveys	31	17	14	13	105
Employee annual attrition - voluntary	6.8%	7.5%	7.4%	9.6%	6.8%
Employee annual attrition - involuntary	6.1%	6.6%	2.5%	3.3%	5.7%
Recommend company to friends/family	4.06	4.33	4.17	4.50	4.41
Days to recruit and hire for standard positions	61.7	60.0	91.3	55.0	62.9
Days for a new hire to become productive	59.2	62.5	58.8	52.5	60.8
Guaranteed annual training days / employee	8.75	8.75	12.08	13.75	9.87
Well-understood career path for all employees	3.33	3.67	3.18	3.83	3.30
Employee billable utilization	71.5%	69.2%	70.5%	75.0%	70.8%
Annual fully loaded cost per consultant (k)	$114	$135	$124	$133	$117

Source: SPI Research, February 2021

SPI Research asked questions about the age and gender of the global PS workforce (Table 88). ***This benchmark reflects statistics from a global PS workforce of more than 307,000 employees. PS continues to be a young man's game with 53.6% of the workforce under age 40 while 61% are male.*** This year the percentage of employees under 30 decreased slightly from 24.1% to 21.2% while over age 50 employees increased from 17.6% to 20.6%. Embedded SaaS PSOs employ younger workforces than independents as they tend to provide better on-boarding programs and they require the latest technical skills. The Americas has the oldest workforce with the most employees over 50 (21.4%). EMEA is the most male-dominated with 68.2% male PS employees.

Table 88: Workforce Age and Gender by Organization Type and Geographic Region

Workforce Age (years)	2019	2020	ESO	PSO	Amer.	EMEA	APac
Under 30	24.1%	21.2%	22.9%	20.5%	20.3%	25.6%	23.4%
30 - 40	32.6%	32.4%	36.5%	30.7%	32.4%	34.4%	27.5%
40 - 50	25.7%	25.8%	25.3%	26.0%	25.9%	24.5%	28.3%
Over 50	17.6%	20.6%	15.3%	22.8%	21.4%	15.6%	20.7%
Average Age (Years)	**39.1**	**40.1**	**38.7**	**40.7**	**40.4**	**38.4**	**40.1**
Percentage Male	**60.0%**	**61.1%**	**63.6%**	**60.0%**	**59.8%**	**68.2%**	**63.1%**

Source: SPI Research, February 2021

The percentage of females decreased this year from 40% to 39%. The Americas is leading the way in bringing women into the PS workforce with 40.2% females. Around the world we are seeing a host of new programs designed to bring women into the world of technology. Science, Technology, Engineering and Math education programs and strong female role models are starting to make a difference, but a significant gender gap still persists. In the US, women make 82% of the wage averages paid to men. What happened to equal work, equal pay? Also with the Corona Virus pandemic women are disproportionately trying to juggle demanding careers while home schooling their children.

Table 89: Workforce Age and Gender by Organization Size

Workforce Age (years)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Under 30	13.2%	17.3%	21.5%	26.2%	29.4%	20.6%
30 - 40	17.0%	31.8%	33.8%	37.2%	37.4%	32.9%
40 - 50	27.4%	26.6%	27.1%	22.8%	22.6%	27.5%
Over 50	42.5%	24.4%	17.6%	13.8%	10.7%	18.9%
Average Age (Years)	**46.0**	**41.4**	**39.5**	**37.8**	**36.7**	**39.9**
Percentage Male	**56.0%**	**59.6%**	**61.0%**	**62.3%**	**62.8%**	**67.7%**

Source: SPI Research, February 2021

When comparing workforce demographics by organization size, in general the average age of the workforce is older for smaller firms as many experienced consultants leave large firms to start their own.

The largest organizations have the highest percentage of employees under 40 as they invest in college recruiting and hiring. Large firms like Deloitte and Accenture provide an excellent introduction to the world of consulting because they provide structured on-boarding programs combined with career planning and skill/position progression. The largest organizations traditionally have done a better job of recruiting women as they are able to provide more flexibility and invest in diversity.

By vertical market, the big three – IT Consulting, Software and Architects and Engineers are heavily male dominated with 65% male employees. Surprisingly this year ***two industries reported more than 50% female workers! Accountancies and marketing and advertising have more female employees than male. Marketing and advertising firms have the youngest workforce with an average age of 38.5 years.*** Management consultancies employ the most over 50 employees. Marketing and Advertising and cloud (SaaS) PSOs contain the most under age 30 employees with almost 1/3 of their employees in their 20s. They also have the fewest employees over age 50.

Table 90: Workforce Age and Gender by Vertical Market

Workforce Age (years)	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Under 30	20.6%	16.5%	26.2%	21.4%	18.0%
30 - 40	31.7%	27.9%	38.6%	36.7%	34.7%
40 - 50	28.2%	23.4%	22.2%	25.8%	25.0%
Over 50	19.5%	32.2%	12.9%	16.1%	22.4%
Average Age (Years)	**40.2**	**42.9**	**37.5**	**39.1**	**40.7**
Percentage Male	**66.1%**	**54.3%**	**62.6%**	**67.8%**	**64.0%**

Source: SPI Research, February 2021

Table 91: Workforce Age and Gender by Vertical Market

Workforce Age (years)	MarCom	VAR	Account	Mgd. Serv.	All Others
Under 30	30.7%	12.5%	14.1%	27.5%	23.7%
30 - 40	26.1%	31.1%	40.0%	40.7%	30.1%
40 - 50	24.9%	33.4%	30.9%	21.2%	26.2%
Over 50	18.3%	23.0%	15.0%	10.7%	20.0%
Average Age (Years)	**38.5**	**42.3**	**40.1**	**36.8**	**39.7**
Percentage Male	**43.2%**	**67.1%**	**47.7%**	**60.8%**	**59.4%**

Source: SPI Research, February 2021

Why Do Employees Leave?

Employees leave for a variety of reasons but typically there is a primary catalyst for moving on.

Why do employees leave? Obviously, employees leave for a variety of reasons. In many cases there is a primary catalyst which is the reason for moving on. Table 92 shows the top reasons why employees leave. The number one rationale (43.3%) is "better opportunity" which translates to a better work environment, perhaps better compensation or more opportunity for advancement. "Other (20.9%)" is in second place. "Other" covers a magnitude of issues – "work/life" balance, lack of diversity or leaving the industry entirely.

Table 92: Why employees leave

Why employees leave	Survey %	Employee attrition	Recommend to family/ friends	Billable utilization	On-time project delivery	EBITDA
Better opportunity	43.3%	13.2%	4.52	72.0%	81.6%	12.7%
Money	13.3%	13.1%	4.46	71.3%	74.9%	17.5%
Mgmt. dissatisfaction	4.2%	15.5%	3.83	71.5%	80.3%	10.7%
Travel	3.0%	9.4%	4.69	72.7%	83.5%	23.0%
Stress	5.6%	14.2%	4.13	72.1%	78.0%	27.0%
Lack of career advance.	9.8%	10.5%	4.29	71.3%	75.5%	12.5%
Other	20.9%	7.6%	4.51	71.4%	80.4%	19.9%
Total/Average	**100.0%**	**11.8%**	**4.44**	**71.7%**	**79.7%**	**15.6%**

Source: SPI Research, February 2021

"Money" is the third most prevalent reason employees leave. A younger, less traditional workforce requires challenging projects; exposure to hot new technologies and leading-edge clients plus training, communication and teamwork to remain engaged but money is often a determining factor. "Lack of career advancement" was cited as the primary reason to leave by 9.8%. Interestingly these firms experienced the least growth which would explain why career opportunities are limited.

"Management dissatisfaction", "Stress" and "Travel" are also major reasons employees quit. Management dissatisfaction leads to high attrition and makes the workplace one that employees would not recommend to their friends and family. With more than one quarter of PS employees under the age of 30, leadership development must be a top priority. The table shows "management dissatisfaction" has a profound negative impact on attrition, employee engagement and billable utilization. The best firms are intentionally grooming and growing a new generation of leaders.

Employee annual attrition – voluntary

Employee attrition is defined as the number of employees who left the company, either voluntarily or involuntarily, over the past year divided by the weighted average number of employees.
*Attrition Rate = Number of Attritions/Weighted Average Number of Employees *100*

Voluntary attrition, employees who leave who are not asked to leave, is one of the most important key performance indicators in the services sector as employees are the most valuable resource. Annual attrition in the professional services sector has been steadily climbing since the recession ended.

Table 93 shows the correlation between voluntary attrition; revenue growth; win ratio and profit; demonstrating the negative consequences of high voluntary attrition rates. As attrition rises, most other aspects of performance suffer. The probability of on-time project delivery decreases while project overruns increase. Remaining employees must pick up the pieces from exiting workers and must quickly come up to speed to reestablish client relationships. Clients are forced to back-track to reestablish previous decisions and vendor commitments.

Table 93: Impact – Voluntary Attrition

Employee annual attrition - Voluntary	Survey %	Revenue growth	Bid-to-win ratio	Ann. rev./ emp. (k)	EBITDA
None	16.7%	10.2%	5.42	$161	17.8%
1% - 5%	32.1%	7.4%	5.41	$171	18.3%
5% - 10%	27.3%	7.0%	5.01	$170	13.7%
10% - 15%	15.8%	9.1%	5.00	$158	14.4%
15% - 25%	5.4%	3.2%	4.50	$158	16.4%
Over 25%	2.7%	0.6%	5.25	$150	4.6%
Total/Average	**100.0%**	**7.6%**	**5.19**	**$166**	**15.9%**

Source: SPI Research, February 2021

Table 94: Year-over-year change – Voluntary Attrition

Voluntary Attrition	2019	2020	▲
Total Survey	8.5%	6.9%	-19.0%
Embedded services organizations	7.3%	6.2%	-15.3%
Independent services organizations	9.1%	7.2%	-21.2%
Americas	8.5%	6.6%	-21.9%
EMEA	8.1%	6.9%	-15.1%
APac	10.1%	10.1%	-0.3%
IT Consulting	9.3%	8.0%	-13.8%
Management Consulting	9.1%	6.9%	-23.7%
PS within SaaS Company	8.4%	5.7%	-32.4%
PS within Software Company	7.0%	6.0%	-13.7%
Architecture/Engineering	7.1%	4.7%	-33.9%
Advertising/Mktg/PR	10.3%	6.8%	-34.2%
Value-added Reseller (VAR)	4.9%	7.5%	53.1%
Accounting	7.8%	7.4%	-5.4%

Source: SPI Research, February 2021

The costs of high voluntary attrition permeate all aspects of the firm. Lower employee engagement influences the firm's ability to recruit new top talent. The very real cost to replace leaving employees shows up in 120.7 workdays on average to find, recruit, hire and ramp new consultants. But this lost time is just the tip of the iceberg, as it does not measure lost productivity time for recruiters and managers nor the impact on the remaining workforce from taking over work after a valuable employee has left or while mentoring a replacement hire.

SPI Research believes the real cost to replace a valuable consultant is more than $150,000 creating a big bottom-line profit divot and making it hard to increase revenue and margins when firms must backfill leaving employees.

Table 94 shows Voluntary Attrition trends by geography, vertical and size of organization. Year over year, ESOs did a better job of employee retention than independents. APac experienced the highest attrition. By vertical, IT Consultancies and VARs have the highest attrition. Larger organizations experience more voluntary attrition than smaller ones, but the impact of voluntary attrition is enormous on small organizations.

Employee annual attrition – involuntary

Involuntary attrition refers to employees who are laid off or fired. It is calculated based on the number of employees terminated within the period divided by the weighted average number of employees.

Involuntary attrition typically refers to an employer decision to terminate the employee. Reasons for involuntary attrition include poor performance, excessive absenteeism or violation of a workplace policy that is considered a terminable offense. Attrition due to layoffs, reduction in force or job elimination is typically involuntary because the employment relationship ends based on the employer's circumstances, not the employee's decision. Involuntary attrition or layoffs may have a temporary positive impact on per consultant and per employee revenue yield as well as utilization because available work is performed by fewer employees. However, the long-term effects of involuntary attrition show up in lower top-line growth and poor employee engagement. Interestingly, voluntary attrition rises directly in response to involuntary attrition as non-impacted employees fear they will be next or become disenfranchised with their prospects for long-term career growth.

Table 95: Year-over-year change – Involuntary Attrition

Involuntary Attrition	2019	2020	▲
Total Survey	4.7%	4.7%	-0.2%
Embedded services organizations	4.7%	4.8%	2.1%
Independent services organizations	4.7%	4.6%	-1.2%
Americas	4.9%	4.8%	-2.5%
EMEA	3.9%	4.5%	16.4%
APac	3.3%	3.9%	17.4%
IT Consulting	4.8%	4.4%	-9.1%
Management Consulting	4.9%	4.0%	-18.0%
PS within SaaS Company	4.7%	4.5%	-3.5%
PS within Software Company	4.8%	5.0%	3.5%
Architecture/Engineering	3.8%	4.4%	16.1%
Advertising/Mktg/PR	3.9%	6.1%	56.7%
Value-added Reseller (VAR)	4.9%	6.6%	34.5%
Accounting	6.4%	2.5%	-60.9%

Source: SPI Research, February 2021

Table 95 shows involuntary attrition trends by geography, vertical and size of organization. Unfortunately, involuntary attrition increased in both embedded and independent PSOs due to the negative impact of the Corona Virus pandemic. EMEA and APac experienced a big increase in involuntary attrition as did Marketing and Advertising firms, VARS and AEC firms. VARs reported the worst involuntary attrition at 6.6%.

These are very discouraging trends because the emotional cost of involuntary attrition is significant for both the terminated employee and his colleagues. High involuntary attrition means firms are not hitting their revenue and growth targets or they have done a poor job of forecasting demand. Involuntary attrition also signifies broken recruiting and new hire reference checking processes if employees are terminated for cause. With the high cost of finding, hiring and ramping a new employee, firing or laying off an employee should be a last resort.

Table 96: Impact – Recommend company to friends and family

Recommend company to friends/family	Survey %	Revenue growth	Headcount growth	% of emp. billable	On-time proj. delivery
Definitely not	0.7%	0.8%	-5.0%	31.7%	57.5%
Probably not	2.8%	1.5%	0.0%	65.0%	73.8%
Don't know	6.3%	6.8%	1.8%	69.6%	74.8%
Probably	34.5%	2.2%	2.2%	74.2%	77.7%
Definitely	55.7%	10.0%	7.7%	76.4%	82.0%
Total/Average	**100.0%**	**6.8%**	**5.1%**	**74.6%**	79.7%

Source: SPI Research, February 2021

Recommend company to friends and family

Recommending one's company to family and friends as a "great place to work" is an important measure of employee engagement.

Table 96 shows the powerful impact of workplace satisfaction. The good news is 55.7% of the organizations in the survey would highly recommend their work environment. Great places to work are characterized by high employee engagement, a strong culture of achievement and confidence in the future. Table 97 shows employee engagement trends by geography, vertical and size of organization. The most engaged employees this year work within AEC firms. The least engaged are Marketing and Advertising employees. Employee engagement diminishes as the size of the organization increases. European employees are less engaged than their counterparts in the Americas and APAC. Employee engagement improved year over year for Independents but declined significantly for VARs.

Table 97: Year-over-year change – Recommend company to friends/family

Recommend company to friends/family	2019	2020	▲
Total Survey	4.37	4.42	1.2%
Embedded services organizations	4.34	4.34	0.0%
Independent services organizations	4.39	4.46	1.5%
Americas	4.38	4.44	1.4%
EMEA	4.34	4.26	-1.9%
APac	4.38	4.52	3.2%
IT Consulting	4.41	4.47	1.3%
Management Consulting	4.45	4.50	1.1%
PS within SaaS Company	4.39	4.34	-1.1%
PS within Software Company	4.21	4.41	4.8%
Architecture/Engineering	4.44	4.57	3.0%
Accounting	4.18	4.17	-0.3%

Source: SPI Research, February 2021

Time to recruit and hire for standard positions (days)

Time to recruit and hire is the length of time in work days from job posting to employment start date.

SPI Research considers the length of time to recruit and ramp new employees to be very important determinants in overall performance, sustainable growth and profit. "Ramping" time is critical because it not only focuses on making employees productive faster, but also reduces the non-billable time and cost of other resources who support the hiring and on-boarding process. Most firms do not track the full cost of recruiting and hiring, but it is substantial (in many cases over 50% of the first-year new hire base salary). ***This year the average cost of recruiting declined to .7% of total revenue.*** The most mature firms create a dedicated recruiting function, armed with in-depth skill and personality profiles for targeted positions. Since all indicators point to a continuing talent shortage for years to come, firms would be well-served to examine and improve their recruiting, on-boarding and training functions. Recruiting must be closely aligned with the sales pipeline and resource management plan. Table 98 shows recruiting time trends by geography, vertical and organization size. ESOs take longer to recruit than independents. APac has the shortest recruiting time and EMEA has the longest.

Accountancies spend the longest time in recruiting; IT Consultancies the least. When comparing the time required to recruit for standard positions (such as consultants) to other key performance indicators, as it takes longer to recruit and hire, billable utilization suffers, because current employees must spend more time helping with the process, which limits their own bandwidth and billable time.

Project overruns increase because more seasoned employees are tasked with hiring and ramping new employees plus new hires are not available to fill required roles and may make mistakes due to inexperience. A key factor in longer recruiting times is the fact that these organizations report poor visibility to the sales and resource pipeline. Maintaining a "warm pool" of recruiting candidates with clearly defined job roles is a good practice.

Table 98: Year-over-year change – Time to recruit and hire for standard positions (days)

Time to recruit and hire for standard positions (days)	2019	2020	▲
Total Survey	61.9	62.6	1.2%
Embedded services organizations	69.4	64.3	-7.3%
Independent services organizations	58.4	61.9	6.0%
Americas	62.5	62.9	0.6%
EMEA	60.2	66.8	11.0%
APac	58.0	50.6	-12.8%
IT Consulting	53.4	55.7	4.4%
Management Consulting	61.6	60.6	-1.6%
PS within SaaS Company	69.3	68.1	-1.8%
PS within Software Company	69.8	63.7	-8.8%
Architecture/Engineering	66.8	75.6	13.1%
Advertising/Mktg/PR	55.0	61.7	12.1%
Value-added Reseller (VAR)	72.9	60.0	-17.7%
Accounting	63.8	91.3	43.0%

Source: SPI Research, February 2021

Time for a new hire to become productive (days)

Time to productivity is the length of time in workdays from employment start date to the date when target billable utilization is achieved.

34% of the PSOs in the survey reported over 60 days for a new consultant to become productive once hired. Well-structured on-boarding and mentoring programs are mandatory for organizations planning on significant growth. This year the average time for a new hire to become productive decreased from 59.5 to 58 days. Each extra day of ramping time is significant. At $200 per hour, each extra on-boarding day translates to a potential loss in revenue per consultant of $1,600 per day. This is one metric that has shown considerable degradation over the years. ESOs take longer than independents. PS within SaaS and Software companies take the longest to ramp employees, averaging 73 days. Smaller organizations take longer than larger ones as they require employees to perform more roles and have less well-defined on-boarding programs.

Table 99: Year-over-year change – Time for a new hire to become productive (days)

Time for a new hire to become productive (days)	2019	2020	▲
Total Survey	59.5	62.6	5.2%
Embedded services organizations	73.5	64.3	-12.5%
Independent services organizations	52.8	61.9	17.3%
Americas	61.9	62.9	1.6%
EMEA	50.2	66.8	33.2%
APac	47.6	50.6	6.2%
IT Consulting	51.8	45.6	-11.9%
Management Consulting	48.8	53.7	10.1%
PS within SaaS Company	76.2	74.7	-1.9%
PS within Software Company	73.1	70.0	-4.2%
Architecture/Engineering	55.4	61.7	11.3%
Advertising/Mktg/PR	42.5	59.2	39.2%
Value-added Reseller (VAR)	79.3	62.5	-21.2%
Accounting	55.0	58.8	6.8%

Source: SPI Research, February 2021

Guaranteed annual training days per employee

The guaranteed number of training days per employee per year is the average number of budgeted training days per employee.

Like the annual training budget, this indicator, while promised to employees, is not necessarily utilized, but does reflect the organization's commitment to employee development and shows the organization is investing in the future and skill growth of its employees.

Across the benchmark the average cost of training declined this year to .9% of total revenue but the number of guaranteed training days soared to 9.78 (highest ever reported). The pandemic has inspired employees to take advantage of working from home to improve their skills. Companies like Pluralsight and Udemy offer thousands of online technical development classes making training and certification easy and affordable. Top performing organizations mandate more than two weeks of training per year.

Almost 30% of firms provide two weeks or more of training per year. Several Best-of-the-Best firms put new hires through intensive three-month scenario-based training programs where they work as a team to develop requirements, architect and implement real-world solutions. PSOs find investments in both technical and interpersonal skill building pay dividends. Certifications are becoming mandatory in several fields.

Table 100: Impact – Guaranteed annual training days / employee

Guaranteed training per employee per year	Survey %	New clients	Rec. to family/ friends	Ann. rev./ consult. (k)	EBITDA
None	1.8%	9.0%	3.63	$69	5.0%
Under 5 days	18.3%	25.6%	4.27	$185	13.2%
5 - 10 days	43.4%	28.7%	4.47	$210	15.2%
10 - 15 days	18.3%	25.2%	4.49	$219	16.6%
15 - 20 days	10.1%	26.8%	4.43	$191	22.8%
Over 20 days	8.1%	29.3%	4.63	$200	**15.7%**
Total/Average	**100.0%**	**27.0%**	**4.43**	**$202**	**EBITDA**

Source: SPI Research, February 2021

In this year's benchmark, higher numbers of guaranteed training days positively correlate with net profit (Table 100). Access to high quality training is a major workplace attraction driver. Pre-pandemic, many firms reported they bring together the entire consulting team twice a year for skill-building, reinforcing the company's direction and strengthening collaboration and team building. Team meetings give road warriors a break and allow them to establish new friendships and partnerships while rejuvenating. Several of the Best-of-the-Best firms include significant others and spouses in their annual events to thank them for holding down the fort while their road-warrior partners delight clients.

Well-understood career path for all employees

Table 101: Impact – Well-understood career path for all employees

Well-understood career path for all employees	Survey %	Employee attrition	Billable util.	Exec real-time visibility	EBITDA
Strongly Disagree	3.5%	12.1%	70.7%	2.79	5.0%
Disagree	16.5%	13.2%	70.4%	3.27	13.2%
Neither Agree/Disagree	34.4%	10.4%	69.5%	3.52	15.2%
Agree	36.7%	11.9%	72.2%	3.79	16.6%
Strongly Agree	8.9%	12.5%	76.0%	4.03	22.8%
Total/Average	**100.0%**	**11.6%**	**71.3%**	**3.60**	**15.7%**

Source: SPI Research, February 2021

The survey asked if the organization provides a well understood employee career path, meaning as employees are hired and move within different roles, is there a planned next step for their career progression (Table 101)? This KPI is important because it shows the firm's commitment to employee skill growth and career development. Even though this question is subjective, and answered by PS executives, who might have a bias, the results show how important career development is. It shows employees with a well-defined career path are more likely to recommend their firm as a great place to work and are less likely to leave. Interestingly, employees work harder and are happier at firms with well-defined career paths. Numerous studies have shown that employees become increasingly productive with longer tenure so keeping them engaged is an investment worth making.

Employee billable utilization

For simplicity, in this benchmark, employee billable utilization is calculated by dividing the total annual billable hours by 2,000.

SPI Research defines employee utilization on a 2,000 hour per year basis. This key performance indicator is central to organizational profitability. Utilization is consistently the most measured key performance indicator but must be examined in conjunction with overall revenue and profit per person along with leading indicators like backlog and the size of the sales pipeline to become truly meaningful. Utilization is a major indicator of opportunity and workload balance. It provides a signal to expand or contract the workforce.

To improve margins, PS executives must continually focus on increasing employee billable utilization, as well as increasing the percentage of billable employees. The primary gain from increased utilization is a significant increase in net profit. Table 102 shows the actual (not theoretical) benefits this year's firms experienced from increasing employee utilization. In this year's survey, 59% of organizations achieved 70% or higher billable utilization. Clearly utilization and revenue growth are intertwined because work is plentiful. Most organizations (35.2%) target 70 to 80% utilization (1,400 to 1,500 annual billable hours per employee) because this target provides plenty of room for vacations, training and paid time off without too much time spent on non-billable activities like non-billable travel, administration and free sales support.

Table 102: Impact – Employee Billable Utilization

Employee billable utilization	Survey %	Revenue growth	% of emp. billable	On-time proj. delivery	Project margin	Ann. rev./ consult. (k)	Exec realtime visibility
Under 50%	3.7%	1.6%	52.8%	64.7%	29.4%	$98	2.53
50% - 60%	14.3%	3.3%	71.5%	77.1%	32.7%	$175	3.33
60% - 70%	22.8%	7.0%	74.9%	79.1%	35.4%	$211	3.55
70% - 80%	35.2%	8.7%	75.6%	79.9%	37.3%	$213	3.70
80% - 90%	19.8%	9.5%	79.6%	81.6%	38.0%	$212	3.75
Over 90%	4.4%	14.2%	80.5%	89.7%	35.4%	$213	3.83
Total/Average	**100.0%**	**7.7%**	**75.0%**	**79.5%**	**36.0%**	**$203**	**3.58**

Source: SPI Research, February 2021

Understandably, firms reporting the highest levels of utilization also deliver the largest projects, making it easier to keep utilization high without the churn associated with numerous short projects. Running a growing PS organization at greater than 80% utilization can produce strong profits but may not be sustainable over the long run due to employee burnout. At the other end of the spectrum, organizations who reported less than 60% utilization reported some of the worst metrics. The key to success is to have the right balance of meaningful work with enough time set aside for skill and client relationship building. Although PS firms would like to abandon the billable utilization metric (and all the accompanying time tracking it entails), unfortunately there is no other metric which provides as good a picture of workforce productivity. Perhaps as more and more firms shift to subscription and fixed price work the focus on billable utilization will decline but if this is the case firms must ratchet up their focus on project accounting and budget to actual performance. But here again, how can budget to actual performance be measured without tracking work effort?

Table 103: Year-over-year change – Employee Billable Utilization

Employee Billable Utilization	2019	2020	▲
Total Survey	71.7%	71.4%	-0.4%
Embedded services organizations	70.2%	69.4%	-1.1%
Independent services organizations	72.4%	72.3%	-0.1%
Americas	71.5%	71.5%	0.0%
EMEA	72.4%	71.1%	-1.8%
APac	72.3%	71.8%	-0.7%
IT Consulting	73.1%	73.0%	-0.2%
Management Consulting	73.0%	73.4%	0.5%
PS within SaaS Company	72.7%	69.4%	-4.5%
PS within Software Company	69.8%	68.8%	-1.4%
Architecture/Engineering	71.0%	70.2%	-1.1%
Advertising/Mktg/PR	70.0%	71.5%	2.1%
Value-added Reseller (VAR)	67.1%	69.2%	3.1%
Accounting	69.1%	70.5%	2.0%

Source: SPI Research, February 2021

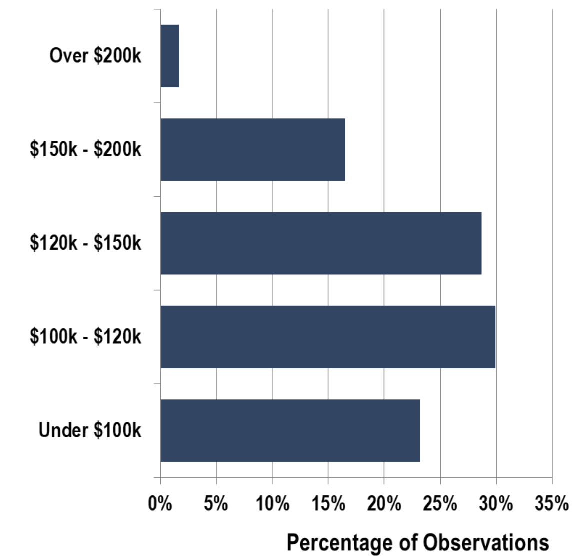
Table 103 depicts the annual change in billable utilization by type of organization, geography, vertical and size. Independents bill more hours than embedded service organizations. IT and Management Consultancies bill the most hours; embedded PS within software bills the least. Billable utilization increases with organization size as larger firms do not ask employees to perform as many non-billable tasks and roles have greater clarity.

Annual fully loaded cost per consultant

Fully loaded cost includes base and variable compensation as well as the cost of fringe benefits and healthcare.

Average fully loaded employee cost decreased slightly to $124K compared to $127K last year. 47% (196) firms reported loaded cost per consultant of more than $120K. 30% (125) of firms reported a fully loaded cost of $100 to $120,000. Another 30% reported a fully loaded cost of $120,000 to $150,000. 1.7% of firms pay employees more than $200,000. Interestingly, firms that pay the most are growing the fastest; have the largest sales pipelines and the highest utilization but they also have the highest attrition.

Figure 35: Annual fully loaded cost per consultant



Source: SPI Research, February 2021

Annual Hours Worked

Always one of the most anticipated metrics from the annual PS Maturity™ benchmark survey is the breakdown of work hours. Most organizations put a lot of focus on consultant time spent on both billable and non-billable tasks. ***Across the benchmark, billable utilization increased from 1,428 hours on average in 2018 to 1,435 in 2019 but declined to 1,406 in 2020 (Table 104).***

Table 104: Five Year Comparison – Work Hours

Hours Worked	2016	2017	2018	2019	2020
Vacation / personal / holiday hours	182	164	169	164	177
Education / training hours	84	59	80	76	75
Administrative hours	150	132	157	160	142
Non-billable bus. dev. sales support	NA	110	126	117	113
Non-billable project hours	130	111	151	140	151
Total non-billable hours	**546**	**577**	**683**	**658**	**658**
Billable hours on-site	760	863	757	682	573
Billable hours off-site	647	636	671	753	833
Total billable hours	**1,407**	**1,499**	**1,428**	**1,435**	**1,406**
Total hours	**1,953**	**2,076**	**2,111**	**2,093**	**2,063**
Percentage of remote delivery hours	**46.0%**	**42.4%**	**47.0%**	**52.5%**	**59.2%**

Source: SPI Research, February 2021

The change in total work hours decreased 30 hours, a very good trend in fewer overtime hours. The biggest change is the move to more and more virtual service delivery which is the best thing that has ever happened to the Professional Services industry! 60% of billable hours were delivered virtually. Hooray! Perhaps in the future consultants will only need to send their Avatars to meet with clients. In many ways, virtual service delivery has not only reduced the travel burn and burnout which has historically been the life of a consultant, but it has also significantly benefited clients because they can now take advantage of the most talented and best fit consultants, regardless of location. The ramifications of virtual Professional Services are significant in that it forces PS firms to establish a strong on-line presence plus it necessitates excellent communication and collaboration tools and practices.

Table 105 shows a comparison of hours worked for embedded and independent PSOs and geographic region. Not surprisingly, EMEA headquartered firms enjoy more vacation time than workaholic Americans. Embedded organizations waste the most time on non-billable administration – endless meetings and chit chat account for 150 annual hours. EMEA headquartered organizations do the best job of limiting administrative time at 98 hours – enabling them to take more PTO and training. ESOs and independents logged almost the same non-billable sales support hours. Organizations worked 30 fewer overall hours in 2020. By geography, APac worked billed the most hours. EMEA headquartered firms worked the least hours but more of them were billable than in the Americas.

Table 105: Hours Worked by Organization Type and Geographic Region

Not	2019	2020	ESO	PSO	Amer.	EMEA	APac
Vacation / personal / holiday hours	164	177	194	169	174	205	155
Education / training hours	76	75	82	73	75	77	77
Administrative hours	160	142	150	139	149	98	146
Non-billable bus. dev. sales support	117	113	111	113	107	122	153
Non-billable project hours	140	151	251	108	163	108	95
Total non-billable hours	**658**	**658**	**788**	**601**	**668**	**611**	**627**
Billable hours on-site	682	573	388	652	540	625	852
Billable hours off-site	753	833	881	812	862	793	567
Total billable hours	**1,435**	**1,406**	**1,269**	**1,464**	**1,402**	**1,418**	**1,420**
Total hours	**2,093**	**2,063**	**2,057**	**2,066**	**2,071**	**2,029**	**2,047**
Percentage of remote delivery hours	**52.5%**	**59.2%**	**69.4%**	**55.4%**	**61.5%**	**55.9%**	**40.0%**

Source: SPI Research, February 2021

The number of hours worked on-site has been steadily decreasing over the past 5 years. Five years ago, 56% of work hours were performed on the client's site, this year only 40% were delivered on-site but this number is much higher than expected. With stay-at-home orders around the world we expected to see on-site billable hours drop to zero, but this was not the case. Across all job titles, billable hours average 1,469 for independents compared to 1,269 hours for embedded service organizations. The average ESO consultant spends 251 hours (6.3 weeks) on non-billable project activities while the independents spend only 108 hours.

The table shows consultants in the Americas were billable 1,402 hours; EMEA based consultants billed 1,418 hours and Asia Pacific consultants billed 1,420 hours. Workaholic Americans take shorter vacations; spend less time in training; and more time on non-billable administration. This year EMEA firms invested the most in vacations and education and training. APac firms deliver the most hours on-site. Non-billable administrative time decreased year over year to 142 hours. Excessive administrative time usually results from not having enough billable work combined with poor systems and processes.

Table 106: Hours Worked by Vertical Market

Hours Worked	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Vacation / personal / holiday hours	166	171	176	201	157
Education / training hours	75	75	69	76	82
Administrative hours	122	165	146	132	126
Non-billable bus. dev. sales support	136	114	129	91	96
Non-billable project hours	145	127	187	121	115
Total non-billable hours	**644**	**652**	**708**	**621**	**576**
Billable hours on-site	556	508	521	645	734
Billable hours off-site	835	921	839	781	738
Total billable hours	**1,392**	**1,429**	**1,360**	**1,426**	**1,471**
Total hours	**2,036**	**2,082**	**2,069**	**2,047**	**2,048**
Percentage of remote delivery hours	**60.0%**	**64.4%**	**61.7%**	**54.8%**	**50.1%**

Source: SPI Research, February 2021

When examining annual hours by vertical it is clear to see best and worst practices. Embedded Software and SaaS PS organizations spend the most non-billable hours in administration and non-billable business development and project hours leading to the lowest number of billable hours yet they make the most profit because they are able to charge high bill rates. Charter confusion and conflict within cloud software companies means valuable consultants spend an inordinate amount of time in meetings, performing sales support and non-billable project activities. It is inevitable that cloud growth rates will have to level off at some point; when they do, they will need to focus on improving the productivity of their PS organizations.

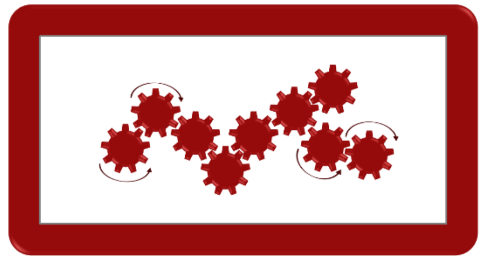
Table 107: Hours Worked by Vertical Market

Hours Worked	MarCom	VAR	Account	Mgd. Serv.	All Others
Vacation / personal / holiday hours	157	142	170	176	165
Education / training hours	91	90	81	67	79
Administrative hours	130	181	174	176	122
Non-billable bus. dev. sales support	88	60	176	96	109
Non-billable project hours	224	123	227	180	85

Hours Worked	MarCom	VAR	Account	Mgd. Serv.	All Others
Total non-billable hours	**689**	**596**	**828**	**695**	**561**
Billable hours on-site	620	283	596	646	665
Billable hours off-site	779	1,102	614	737	820
Total billable hours	**1,399**	**1,385**	**1,210**	**1,383**	**1,485**
Total hours	**2,088**	**1,981**	**2,038**	**2,078**	**2,047**
Percentage of remote delivery hours	**55.7%**	**79.5%**	**50.8%**	**53.3%**	**55.2%**

Source: SPI Research, February 2021

9. Service Execution Pillar



The Service Execution Pillar measures the quality, efficiency and repeatability of service delivery. It focuses on the core activities for planning, scheduling and delivery of service engagements. Regardless of the maturity of every other area of the PSO it will not succeed unless it can successfully and profitably deliver services, with an emphasis on quality, timeliness and customer value.

The Service Execution pillar is where money is made in professional services. Work must be scoped, bid, sold, delivered and invoiced in order to generate revenue and maximize project margin. The alignment of sales, service and finance is critical for success. All project-related information (time, expense, project details and knowledge) must be captured to be invoiced and to improve the next service delivered.

In an increasingly competitive consulting marketplace, success most often comes down to operational excellence – with visibility and management controls in place to ensure effective resource and project management. Done right, gross project margins of more than 60% are possible. Done wrong, project yields can drop to single digits, or go negative.

Table 108 highlights the maturity levels in the Service Execution pillar, as the PSO moves from basic reactive "all hands-on deck" project delivery to greater efficiency, repeatability and higher quality service execution.

Table 108: Service Execution Performance Pillar Mapped Against Service Maturity

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Service Execution	No scheduling. Reactive. Ad hoc. Heroic. Scheduling by spreadsheet. No consistent project delivery methods. No project quality controls or knowledge management.	Skeleton methodology in place. Centralized resource mgmt. Initiating project mgmt. and technical skill development. Starting to measure project satisfaction and harvest knowledge.	PSA deployed for resource and project management. Collaborative portal. Earned Value Analysis. Project dashboard. Global Project Management Office, project quality reviews and measurements. Effective change management.	Integrated project and resource management. Effective scheduling. Using portfolio management. Global PMO. Global project dashboard. Global Knowledge Management. Global resource management.	Integrated solutions. Continual checks and balances to assure superior utilization and bill rates. Complete visibility to global project quality. Multi-disciplinary resource management.

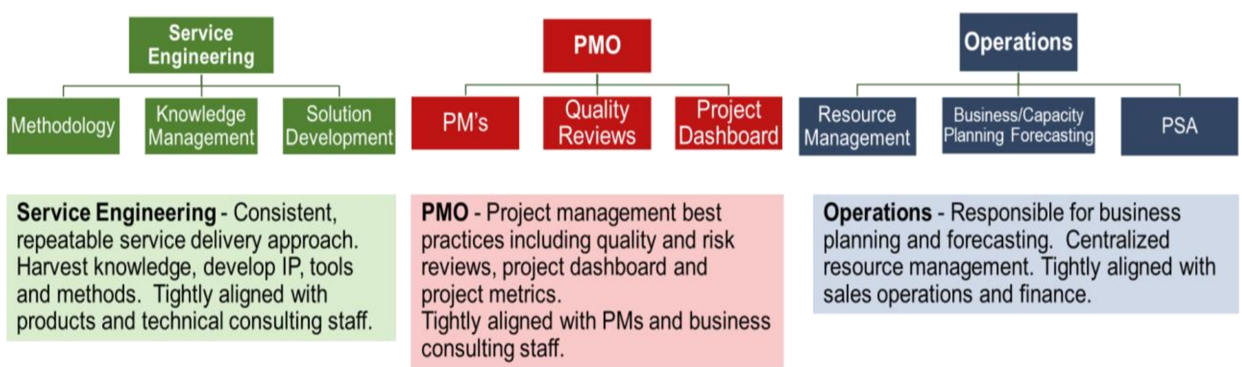
Source: SPI Research, February 2021

In 2020 we saw a mixed bag of Service Execution metrics – all of the subjective self-assessment metrics of "effectiveness" in resource management; estimating and pricing; change control; quality and knowledge management improved. Most of the objective service execution metrics also improved with faster project staffing times; more projects delivered on-time; fewer project overruns and better use of standardized delivery metrics and tools. A few service execution financial metrics improved as well with better fixed price and subcontractor margins but due to project delays and fewer deals overall revenue per project and per consultant declined. A very positive aspect of 2020 is that many PSOs used the lockdown to focus on assessing and improving operations as we saw a surge of improvement projects.

Service Execution Best Practices

Becoming a top performing service delivery organization does not happen overnight but it certainly won't happen at all without clear roles, tools and methods designed to enhanced repeatable service delivery best practices. In this section we outline the key headquarters functions which define and improve service operations. By the time a PS organization grows to 20 consultants, a PS operations function becomes mandatory. By the time a PS organization grows to 100 consultants, some combination of a service engineering and a PMO function is warranted. Best run service organizations not only invest in these key functions but they also capitalize on best-in-class tools and business applications to support the goal of repeatable, consistent, high quality and profitable service delivery.

Figure 36: Professional Services Headquarters Functions



Source: SPI Research, February 2021

Operations

Service operations is the heart and soul of building a scalable high quality service organization. Service operations is responsible for business and capacity planning and forecasting. This function works with Finance and Practice leaders to develop the annual business plan and drives operations reviews to achieve revenue and margin targets. In independent firms, Service Operations may report into Finance or may report directly to the CEO. In independent firms, service sales and delivery operations are typically combined but in embedded technology firms, service operations is a peer to sales operations. Depending on the size of the organization, service engineering, service marketing and the project management office may report into operations however with larger organizations, each of these functions may report directly to the Practice or Regional VP. Service operations is typically charged with time and expense capture along with running the resource management function. The most important tool for service operations is Professional Services Automation which includes resource management, time and expense capture and billing. Top performing PSOs invest in business and capacity planning tools to ensure sales and delivery are kept in balance. In many organizations service operations also maintains the project dashboard to track budget to actual performance.

Project Management Office

The PMO charter is typically quality control and customer satisfaction. The PMO ensures project quality by reviewing projects and management practices against standards and metrics. It establishes standard project milestone and close-out procedures and maintains the project dashboard and risk register highlighting status, cost, risk, communication and client satisfaction. The PMO may conduct customer satisfaction interviews to determine project success and provide the foundation for "Go Live" reports, success stories, customer testimonials and future up-sell opportunities. Optionally project managers report direct or dotted-line into the PMO which functions as project management center of excellence. A plethora of project management tools are available but they must be closely aligned or the same as the core PSA to provide visibility to project budget to actuals for revenue, time and costs.

Service Engineering

Larger organizations are investing in service engineering organizations charged with developing and continually improving the service delivery methodology, templates and tools. This organization is typically comprised of "best-of-the-best" solution architects with a tight linkage to product development to develop "train the trainer" skills and methodology updates timed to new product releases. In technology companies, service engineering is closely aligned with product development, chartered with providing usability feedback and implementation know how. This function creates and maintains the knowledge management repository and reviews and selects service delivery tools and methodologies. Typically this function is the center of excellence for all things technology. Typical tools include Knowledge Mgmt.; Agile development tools and communication and collaboration tools like Slack.

Strategic Resource Management for PSOs

Given market growth and an increasing talent shortage, effective resource management has become critical as the supply of qualified consultants is outstripped by the demand for services. Improving and maintaining high levels of billable utilization is a constant challenge requiring a delicate balance between demand (sales) and supply (delivery).

Resource management business processes

One of the most important elements of service execution is resource management and scheduling. SPI Research has developed a "Resource Management Maturity Model" shown in Table 109:

- ∆ ***Sales Pipeline:*** Integration of the sales project pipeline with resource requirements and availability.
- ∆ ***Resource Management:*** The process for scheduling and deploying resources. Resource management can be centralized or decentralized.
- ∆ ***Functional Interlock:*** Alignment between the sales project pipeline, the resource management process, the recruiting process, the human resource onboarding and skill development processes and the resources themselves.

- ∆ ***Human Resource Processes:*** Recruiting, onboarding, ramping, and resource skill development.
- ∆ ***Resources:*** The consultants and contractors available to deliver projects and engagements.

Table 109: The Resource Management Maturity Model

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Service Execution	No scheduling. Reactive. Ad hoc. Heroic. Scheduling by spreadsheet. No consistent project delivery methods. No project quality controls or knowledge management.	Skeleton methodology in place. Beginning to centralize resource mgmt. Initiating project mgmt. discipline. Starting to measure project satisfaction and harvest knowledge.	PSA deployed for resource and project management. Collaborative portal. Earned value analysis. Project dashboard. Global Project Management Office, project quality reviews and measurements. Effective change management.	Integrated project and resource management. Effective scheduling. Using portfolio management. Global PMO. Global project dashboard. Global knowledge management. Global resource management.	Integrated solutions. Continual checks and balances to ensure superior utilization and bill rates. Complete visibility to global project quality. Multi-disciplinary resource management.
Sales Pipeline	Sales pipeline and forecast is disconnected from scheduling. Reactive or no sales resource demand forecast or plan.	Standalone CRM and resource forecast. Limited visibility into resource schedule or available skills.	CRM and resource management applications deployed. Sales starts forecasting future resource and skill requirements by engagement.	Fully integrated CRM and Resource management. High levels of pipeline forecast accuracy. Ability to dynamically and automatically map the sales forecast to resource requirements.	Optimized and integrated CRM and resource management. Sales visibility into resource availability and skills. Strong analytic and query tools.
Functional Interlock	Reactive resource brokering and bartering. Sales picks and commits resource "favorites." Time-consuming manual scheduling.	Weekly resource brokering meetings to assign resources and discuss future projects and resources requirements.	Centralized resource management function handles the majority of resource requests and schedules. At least manual integration between CRM and PSA.	Centralized resource management function handles resource requests and schedules. Integrated with HR for recruiting and resource skill development.	Completely optimized and seamless sales -> resource management -> recruiting -> skill and career development processes.
Consulting Resources	Reactive and ad hoc scheduling. No visibility to future projects. No career or skill plan. Broad job requirements but limited training or support. Firefighting leads to consultant burnout.	Project initiation and closeout processes. Some visibility into future projects. Some ability to plan and express project preferences. Training support to improve skills.	Central PMO and resource management provide methodology guidance and oversight. Ability to input skill and role preferences. Visibility to upcoming projects. Reasonable notice given for schedule changes. Integrated career & skill development plans.	Fully integrated systems and tools to support career and skill growth. Self-service employee portal allows employees to continually maintain and update skills and preferences. Visibility to preferred assignments. Career planning and training. Predictable schedule.	Global, on-site, off-site roles. Ability to view and bid on preferred assignments. Employees have input to and control over their career and skill progression. Specialized horizontal, vertical and technical roles. Career growth. High employee satisfaction.

Source: SPI Research, February 2021

Which resource management strategy is best?

SPI's research shows there may not be "one magic bullet" resourcing strategy that is clearly superior to all others. The five strategies that follow enable PSOs to manage talent and fulfill client demands. Although centralized resource management is the most prevalent strategy, each organization must create a resourcing strategy that works best for their business, with the ultimate goal of increasing utilization *and* client and employee satisfaction.

1. **Centrally-managed** – Most resource management pundits favor "centralized" resource management. It provides superior management visibility into the entire project backlog and level of skills required both today and in the future. In centralized resource management, a dedicated resource management team is responsible for managing the master resource schedule and making staffing decisions based on skills, availability, location, cost, preference, etc. Centralized management is the most efficient way to manage a large workforce. In this year's benchmark, centralized management produced some of the best results with fewer project overruns and the best revenue per consultant and project margins.
2. **Local resource management** – Local resource management is the preferred form of resourcing for young organizations where the workforce is small enough to foster real esprit de corps, and employees wear many hats. Smaller organizations can't afford the overhead of a dedicated resource management function, as relationships and roles are fluid, requiring more local control and finesse. Staffing locally also provides the benefit of closer client relationships and less travel.
3. **Account-based** – Resource management by account may be a good strategy for very large accounts where there is a strong backlog of projects, but account-based resourcing can cause big issues if account revenue dries up. An example was Electronic Data Systems' (EDS) reliance on revenue from General Motors. As the relationship with General Motors soured, and its fortunes began to wane, Electronic Data Systems was left holding the bag. The other drawback to account-based resourcing is that it narrows consultant range of experience as teams are not exposed to diverse business models and client challenges.
4. **By horizontal skill set** – Managing resources by horizontal skill set is useful for developing best practices, repeatable processes and shared knowledge. For example, many firms have project and program managers report directly or indirectly to the Project Management Office (PMO). By building affinity around "birds of a feather," project managers or specialized consultants can more easily share best practices and standardize methodologies, templates, etc. As organizations grow, a horizontal or competency-based overlay reporting structure can help firms develop repeatable best practices and deep, shared domain expertise while still enjoying the efficiency of centralized management.
5. **Centers of excellence** – The current trend towards vertical and offshore Centers of Excellence (COE) was pioneered by Accenture over the last decades. The advantage of industry-specific "Centers of Excellence" is the development of deep industry domain knowledge. In theory, each

Center of Excellence acts as a clearinghouse for specialized knowledge, expertise and solutions. Clients and prospects delight in seeing a "Vision of the Future" for their unique industry challenges. The downside of COE can be excessive overhead, the creation of an ivory tower mentality along with the inability to learn from emerging new horizontal and vertical trends. Further, use of horizontal skills sets and technologies outside the COE can become cumbersome and inefficient. Centers of Excellence are favored for outsourced consulting – particularly development and managed service centers where consultants are collocated to maximize collaboration, repeatability and quality control while minimizing cost.

Table 110: Impact – Resource Management Strategy

Resource Mgmt. Strategy	Survey %	Revenue growth	Billable utilization	On-time proj. delivery	Project overrun	Revenue / Consult (k)	Project margin
Centrally Managed	44.0%	7.3%	71.1%	81.2%	7.5%	$210	38.9%
Locally Managed	23.1%	6.6%	70.3%	77.6%	9.5%	$195	32.9%
By Account	9.2%	10.1%	72.0%	80.8%	8.8%	$183	30.0%
By Horizontal Skill Set	8.2%	9.8%	73.6%	80.0%	9.3%	$204	33.5%
Center of Excellence	10.1%	6.8%	71.4%	82.4%	9.1%	$203	37.7%
Other	5.4%	3.2%	73.2%	71.4%	8.4%	$194	35.6%
Total / Average	**100.0%**	**7.4%**	**71.4%**	**79.8%**	**8.4%**	**$203**	**36.0%**

Source: SPI Research, February 2021

To improve utilization, PSOs must improve resource management effectiveness. As Table 110 shows, there are pluses and minuses to different resource management strategies. Green shading indicates "Best" while red shading indicates "Worst" based on responses from 561 firms. This year "Centrally Managed" comes out on top with the highest number of "best" scores. By account and "other" resourcing showed the worst results, because resources may be hoarded by account, prohibiting redeployment to more lucrative clients and services.

Survey Results

Table 111 shows 5-year trends for Service Execution KPIs. The table shows a mixed bag of improvements and declines. Project staffing time decreased due to lower attrition and more stability in the workforce due to "sheltering in place" and "working from home". Revenue per project declined due to holdups and project cancellations caused by the pandemic while staff size and project durations increased as consultants were able to focus on fewer, larger projects. On-time project delivery improved while project overruns decreased. Use of standardized delivery methodologies improved. Project margins for fixed priced projects and subcontractors were the best reported for the past five years! Subcontractor margin also improved nicely. All of the subjective questions around resource management; estimating; change control; project quality and knowledge management improved.

This benchmark highlights services-driven organizations have become more focused on efficiency than they were five years ago. Project overruns go down as the use of standardized delivery methodologies increase. Green shading indicates best annual performance for each metric. 2017 and 2020 were banner years for excellence in service execution.

Table 111: Service Execution Pillar 5-year trend

Key Performance Indicator (KPI)	2016	2017	2018	2019	2020
Project staffing time (days)	8.68	8.94	9.14	9.79	9.73
Number of projects delivered per year	NA	399	871	584	411
Revenue per project (k)	$163	$171	$152	$164	$154
Project staff size (people)	4.17	4.45	4.36	4.05	4.09
Project duration (months)	5.44	6.37	5.71	5.56	5.55
Projects delivered on-time	78.1%	79.7%	76.9%	79.3%	79.7%
Project overrun	8.4%	8.2%	8.6%	9.1%	8.3%
Use a standardized delivery methodology	71.2%	69.7%	66.1%	67.4%	65.9%
Project margin for time & materials projects	35.5%	31.7%	34.9%	35.6%	35.3%
Project margin for fixed price projects	34.9%	31.8%	34.4%	35.2%	35.4%
Project margin — subs, offshore	28.3%	23.1%	25.8%	27.4%	29.3%
Effectiveness of resource management process	3.59	3.50	3.63	3.59	3.65
Effectiveness of estimating processes and reviews	3.56	3.56	3.56	3.58	3.60
Effectiveness of change control processes	3.45	3.38	3.45	3.38	3.51
Effectiveness of project quality processes	3.61	3.62	3.69	3.67	3.69
Effectiveness of knowledge management processes	3.23	3.31	3.42	3.43	3.43

Source: SPI Research, February 2021

Table 112 shows ESOS took longer to staff than independents because ESOs were less impacted by the pandemic. All organizations are taking more advantage of PSA to help them predict capacity and manage resources. EMEA headquartered organizations did the best job of on-time project delivery.

Table 112: Service Execution KPIs by Organization Type and Geographic Region

Key Performance Indicator	2019	2020	ESO	PSO	Amer.	EMEA	APac
Surveys	513	561	171	390	445	84	32
Project staffing time (days)	9.79	9.73	10.84	9.25	9.68	10.35	9.04
Number of projects delivered per year	584	411	707	280	360	742	294
Average revenue per project (k)	$164	$154	$138	$161	$160	$145	$102
Project staff size (people)	4.05	4.09	4.04	4.12	4.09	4.32	3.63

Key Performance Indicator	2019	2020	ESO	PSO	Amer.	EMEA	APac
Project duration (months)	5.56	5.55	4.99	5.80	5.70	4.92	5.02
Projects delivered on-time	79.3%	79.7%	75.0%	81.8%	79.5%	81.3%	79.2%
Project overrun	9.1%	8.3%	9.6%	7.8%	8.3%	8.8%	7.3%
Use a standardized delivery method.	67.4%	65.9%	71.5%	63.4%	66.6%	63.2%	63.1%
Project margin for T&M projects	35.6%	35.3%	33.6%	36.0%	35.4%	35.1%	34.5%
Project margin for fixed-price projects	35.2%	35.4%	34.0%	36.1%	35.5%	35.6%	33.9%
Project margin — subs., offshore	27.4%	29.3%	31.0%	28.6%	29.1%	31.5%	27.3%
Effect. of resource mgmt. process	3.59	3.65	3.50	3.72	3.64	3.76	3.62
Effect. of estimating proc. and reviews	3.58	3.60	3.46	3.66	3.60	3.65	3.50
Effect. of change control processes	3.38	3.51	3.50	3.51	3.51	3.52	3.42
Effect. of project quality processes	3.67	3.69	3.53	3.76	3.70	3.71	3.46
Effect. of knowledge mgmt. processes	3.43	3.43	3.28	3.49	3.46	3.24	3.46

Source: SPI Research, February 2021

The nature of projects is shifting towards more configuration, workflow analysis, user interfaces and report design away from the complex, custom mega projects of the past making them somewhat easier to manage and keep within scope. A host of accelerators, configuration, project and knowledge management tools have come to market to enhance knowledge sharing and collaboration while facilitating more natural oversight, guidance and real-time quality reviews to mitigate risks.

Table 113 shows the differences in service execution metrics by size of organization. Historically, the smallest organizations staff faster than larger organizations. The number, size and complexity of projects increases proportionately to organization size with the largest organizations delivering projects averaging 37-man months (3 years) but typically on-time project delivery diminishes with organization size. The downside of larger organizations is shown in decreasing on-time project delivery and increasing project overruns. This chart shows why the consulting industry is filled with small boutique firms as project margins and project quality metrics such as on-time delivery are very respectable for the smallest organizations.

Table 113: Service Execution KPIs by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	62	108	170	111	48	62
Project staffing time (days)	9.22	6.95	9.58	10.05	14.71	12.36
Number of projects delivered per year	65	86	209	327	1,672	1,508
Average revenue per project (k)	$66	$136	$144	$166	$154	$326
Project staff size (people)	1.86	3.52	3.90	4.88	5.46	5.89

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Project duration (months)	4.51	5.74	5.10	5.84	6.58	6.34
Projects delivered on-time	80.9%	81.2%	80.4%	78.5%	75.4%	79.7%
Project overrun	7.4%	8.4%	7.4%	8.6%	10.6%	9.8%
Use a standardized delivery methodology	59.1%	72.3%	66.3%	65.3%	61.1%	63.5%
Project margin for time & materials projects	35.5%	34.3%	35.5%	36.2%	35.4%	34.6%
Project margin for fixed price projects	36.3%	33.9%	34.6%	38.6%	35.7%	32.6%
Project margin — subcontractors, offshore	29.7%	29.4%	29.5%	29.8%	28.1%	28.1%
Effectiveness of resource management process	3.76	3.74	3.65	3.55	3.44	3.78
Effectiveness of estimating processes and reviews	3.76	3.66	3.58	3.52	3.38	3.71
Effectiveness of change control processes	3.76	3.46	3.46	3.41	3.53	3.69
Effectiveness of project quality processes	3.90	3.73	3.60	3.59	3.75	3.81
Effectiveness of knowledge mgmt. processes	3.60	3.53	3.32	3.44	3.31	3.44

Source: SPI Research, February 2021

Tables 114 and 115 show service execution metrics by vertical market. Remarkably, many service execution metrics are very similar across markets. Managed Service providers deliver the largest projects averaging $271K. Architects and engineers and Marcom deliver the smallest projects, averaging $99K and $70K respectively. Management consultancies do the best job of on-time project delivery (85.8%) while VARs and Software PSOs reported the worst on-time project delivery. VARs reported the best time-and-materials project margins at 36.8%; VARS delivered the best fixed price margins (40%) and hardware PS delivers the best subcontractor margins (43.2%).

Table 114: Service Execution KPIs by Vertical Market

Key Performance Indicator	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Surveys	143	84	64	55	35
Project staffing time (days)	9.80	9.31	8.89	12.61	7.12
Number of projects delivered per year	246	135	444	406	559
Average revenue per project (k)	$183	$173	$117	$132	$99
Project staff size (people)	4.25	3.52	3.77	4.39	4.09
Project duration (months)	5.79	5.73	4.67	4.93	6.81
Projects delivered on-time	81.1%	85.8%	75.0%	74.1%	77.1%
Project overrun	8.2%	5.9%	11.0%	8.6%	11.0%
Use a standardized delivery methodology	66.0%	62.8%	76.0%	70.9%	63.8%

Key Performance Indicator	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Project margin for time & materials projects	39.6%	36.2%	30.3%	34.7%	30.9%
Project margin for fixed price projects	37.8%	38.4%	30.1%	37.2%	35.4%
Project margin — subcontractors, offshore	32.4%	26.6%	29.3%	29.2%	22.0%
Effectiveness of resource management process	3.70	3.91	3.42	3.69	3.69
Effectiveness of estimating processes and reviews	3.64	3.75	3.28	3.52	3.69
Effectiveness of change control processes	3.51	3.65	3.43	3.48	3.35
Effectiveness of project quality processes	3.74	3.85	3.55	3.52	3.69
Effectiveness of knowledge mgmt. processes	3.42	3.58	3.40	3.14	3.69

Source: SPI Research, February 2021

Table 115: Service Execution KPIs by Vertical Market

Key Performance Indicator	MarCom	VAR	Account	Mgd. Serv.	All Others
Surveys	31	17	14	13	105
Project staffing time (days)	5.74	10.83	12.95	13.33	9.78
Number of projects delivered per year	282	230	193	223	1,031
Average revenue per project (k)	$70	$267	$181	$271	$136
Project staff size (people)	5.18	3.92	3.21	4.83	4.33
Project duration (months)	5.65	5.54	5.21	7.92	5.40
Projects delivered on-time	80.0%	71.3%	76.7%	82.5%	81.3%
Project overrun	8.0%	8.3%	10.2%	9.2%	7.4%
Use a standardized delivery methodology	62.9%	68.3%	55.5%	73.3%	59.7%
Project margin for time & materials projects	31.4%	43.2%	33.6%	27.5%	33.4%
Project margin for fixed price projects	31.0%	35.5%	31.8%	31.7%	33.7%
Project margin — subcontractors, offshore	33.8%	40.6%	26.4%	42.5%	27.4%
Effectiveness of resource management process	3.09	3.33	3.45	3.33	3.65
Effectiveness of estimating processes and reviews	3.73	3.89	3.27	4.00	3.62
Effectiveness of change control processes	3.55	4.11	3.45	4.00	3.40
Effectiveness of project quality processes	3.91	3.67	3.64	3.67	3.63
Effectiveness of knowledge mgmt. processes	3.45	3.33	3.45	2.67	3.45

Source: SPI Research, February 2021

Project staffing time

Project staffing time is the length of time between contract signing and project team commencement. This key performance indicator is important because it is an early warning sign of too much demand or not enough resources when it takes too long to assemble the right team.

The impact of project staffing time is shown in Table 116. 60% of organizations staff in less than 10 days. The best service execution metrics were reported for the organizations who are able to staff the fastest as they do the best job of taking advantage of standardized delivery methods resulting in the best on-time project delivery with the least project overruns. The 5-year average is 9.29 days.

Table 116: Impact – Project staffing time

Average project staffing time (days)	Survey %	Project duration (man-mnth)	Std. del. method. used	On-time proj. delivery	Project overrun
Under 5 days	36.6%	19.9	68.5%	80.4%	7.5%
5 - 10 days	24.8%	27.8	67.6%	79.4%	8.1%
10 - 15 days	17.0%	25.7	62.2%	79.8%	9.3%
15 - 20 days	7.3%	31.6	59.7%	79.7%	10.0%
Over 20 days	14.2%	37.0	65.6%	79.6%	9.2%
Total/Average	**100.0%**	**26.1**	**66.1%**	**79.9%**	**8.4%**

Source: SPI Research, February 2021

Revenue per project

The average revenue per project is calculated by dividing the total revenue of the service organization by the total number of projects delivered. This KPI provides insight into the size, scope, and duration of projects.

PSOs complete many small projects along with a few larger ones, which may skew revenue per project. Wide variability in project size stresses resource management predictability and may make project management unaffordable. Most financial metrics improve with project size as it is easier to staff and forecast large projects. Larger organizations build “rapid response” teams to handle short, unpredictable projects. The 5-year average revenue per project is $160K.

Table 117: Impact – Revenue per project

Average revenue per project (k)	Survey %	Project duration (man-mnths)	Billable util.	Ann. rev./ consult. (k)	Client refer.
Under $25k	17.0%	13.6	66.9%	$150	71.3%
$25k - $50k	20.5%	17.2	69.1%	$204	70.7%
$50k - $100k	24.2%	21.7	69.5%	$196	70.7%
$100k - $250k	22.4%	29.9	75.2%	$227	75.3%
$250k - $500k	10.0%	35.6	76.0%	$227	75.3%
$500k - $1mm	3.7%	58.1	75.3%	$229	77.0%
Over $1mm	2.1%	112.3	74.4%	$254	83.3%
Total/Average	**100.0%**	**25.9**	**71.2%**	**$202**	**72.8%**

Source: SPI Research, February 2021

Project staff size

The project staff size is the FTE number of resources dedicated to projects. Shorter, more iterative, "agile" projects cause more scheduling issues but may result in improved project value and ROI.

Larger projects may improve utilization but show the poorest use of standard delivery methods. Across the benchmark, the average project staff size has declined every year, making effective resource management imperative (table 118). The 5-year average is 4.23.

Table 118: Impact – Project staff size

Average project staff size (people)	Survey %	Project duration (man-months)	Billable util.	Std. del. method. used	On-time project delivery
1 - 2	28.9%	6.1	69.6%	62.9%	80.3%
3 - 5	52.7%	22.1	71.7%	68.1%	80.0%
6 - 8	13.5%	49.0	72.5%	68.2%	78.9%
9 - 11	2.1%	100.6	71.1%	56.7%	73.3%
Over 11	2.8%	147.6	75.8%	50.0%	77.5%
Total/Average	**100.0%**	**26.2**	**71.3%**	**65.9%**	**79.7%**

Source: SPI Research, February 2021

Project duration

The average project duration, expressed in months, pertains to how long it takes to deliver projects. The average project duration, like average project staff size, is important in that it shows the length and scale of projects. Longer projects may be easier to forecast and staff but are not necessarily more profitable because they may entail more risk and complexity.

Unlike project staff size, project duration has remained relatively constant, averaging 5.72 months over the past 5 years. Table 119 shows larger projects enhance billable utilization and predictability but may also involve greater complexity and risk resulting in more project overruns. Projects under 3 months in duration stress resource scheduling, resulting in poor billable utilization.

Table 119: Impact – Project duration

Project Duration (months)	Survey %	Employee attrition	Billable util.	On-time delivery	Project margin
Under 1	4.5%	8.1%	67.5%	72.9%	33.2%
1 - 3	24.6%	11.3%	69.9%	79.9%	34.6%
3 - 6	36.6%	11.7%	71.2%	80.2%	37.8%
6 - 9	16.7%	12.0%	73.7%	80.2%	36.4%
9 - 12	10.8%	11.6%	70.7%	76.9%	36.5%
Over 12	6.8%	12.5%	75.7%	84.8%	30.8%
Total/Average	**100.0%**	**11.5%**	**71.4%**	**79.7%**	**36.0%**

Source: SPI Research, February 2021

Projects delivered on-time

The percentage of projects delivered on time is a measurement that divides the number of projects completed on-time by the total number of projects. This KPI is critical for billable service organizations, because when it decreases, both profitability and client satisfaction decline.

Almost 20% of organizations reported delivering less than 70% of their projects on-time. Naturally, their customers are not referenceable nor do their consultants view them as a great place to work and they vote with their feet – with attrition averaging 13%. For the bottom 20%, project overruns average more than 15%, inhibiting revenue growth and referrals.

Thankfully almost 30% of firms reported 90% or better on-time project delivery. Ontime, on-budget project delivery is one of the best quality measurements, as it indicates alignment and visibility across the entire quote to cash process. Sales is selling services that the organization has the capability to accurately estimate and staff. Resources are aligned with project requirements so they can deliver within promised timelines. The rewards for on-time delivery are ample with the best client referenceability, lowest employee attrition and highest employee engagement and billable utilization. Organizations who struggle with on-time delivery must closely examine and improve their sales and delivery processes as the benefits of on-time delivery are significant.

Table 120: Impact – Ontime project delivery

Projects delivered on-time	Survey %	Revenue growth	Client Reference	Employee attrition	Rec. to family/ friends	Billable utilization	Project overrun	Ann. rev./ consult. (k)
Under 40%	2.8%	2.3%	63.8%	12.7%	3.83	62.9%	15.0%	$143
40% - 60%	5.6%	5.7%	63.3%	11.4%	4.25	67.9%	18.2%	$161
60% - 70%	11.6%	4.5%	68.7%	14.1%	4.35	67.6%	11.0%	$185
70% - 80%	21.2%	9.4%	69.1%	12.6%	4.29	69.9%	11.3%	$207
80% - 90%	29.5%	6.5%	73.3%	11.5%	4.52	73.5%	6.9%	$214
Over 90%	29.3%	9.2%	79.7%	9.8%	4.54	73.2%	4.2%	$210
Average	**100.0%**	**7.5%**	**72.9%**	**11.6%**	**4.42**	**71.3%**	**8.4%**	**$203**

Source: SPI Research, February 2021

Project Overrun

Project overrun is the percentage of actual to budgeted cost or actual to budgeted time. Project overruns may be expressed in actual time/cost versus plan. This KPI is important because any time a project goes over budget in either time or cost; it cuts directly into the PSO's profitability.

Project overruns have a profoundly negative impact on almost all aspects of service execution as they put stress on service delivery and forestall new project initiation. For the 2.1% of firms who reported greater than 30% project overruns, attrition soars while revenue per employee plummets. Across the benchmark, project overruns decreased from 9.1% to 8.3% this year. Architects and engineers and SaaS ESOs reported the largest overruns at 11%. Overruns increase with project size and complexity which is a primary reason that most organizations are moving to agile "sprints" – breaking projects down into more manageable pieces.

Table 121: Impact – Project overrun

Project overrun	Survey %	Employee attrition	Rec. to family/ friends	Billable util.	On-time project delivery
Never	5.7%	5.6%	4.46	75.5%	86.3%
0% - 5%	33.0%	11.1%	4.49	73.2%	87.2%
5% - 10%	35.4%	11.8%	4.44	70.2%	79.2%
10% - 20%	19.3%	12.3%	4.31	68.4%	72.4%
20% - 30%	4.5%	13.8%	4.37	71.9%	64.7%
Over 30%	2.1%	20.3%	4.11	69.4%	53.9%
Total/Average	**100.0%**	**11.6%**	**4.42**	**71.2%**	**79.7%**

Source: SPI Research, February 2021

Standardized delivery methodology use

A standardized (or structured) delivery methodology is used to incorporate best-practices and quality into projects. Repeatable frameworks include tools, templates and knowledge.

Mature firms invest significant time and attention into methodology development as a means to standardize delivery processes; define expectations and institutionalize quality. Using a standardized delivery methodology is a critical component of a services productization strategy. It helps improve project forecasting and resource management thereby improving profitability. PSOs who can accurately plan and execute services in a structured way, are not only more productive but also more likely to deliver with quality. There is significant effort involved in developing, implementing and adhering to standardized delivery methodologies, but the net impact for PSOs is beneficial. Table 122 shows the use of standardized delivery methods and tools has a positive impact on on-time project delivery, project margins and EBITDA. This year ESOs did a better job of standardizing delivery methodologies with 71.5% of their projects taking advantage of standardized methods and tools. SaaS ESOs

Table 122: Impact – Standardized delivery methodology use

Percentage of projects where a std. delivery meth. is used	Survey %	On-time project delivery	Employe e attrition	Project margin	EBITDA
Under 20%	8.1%	76.7%	14.5%	37.3%	12.1%
20% - 40%	8.8%	77.1%	11.0%	31.2%	15.0%
40% - 60%	19.0%	78.1%	12.3%	33.6%	16.8%
60% - 80%	24.2%	78.4%	11.8%	35.5%	15.6%
Over 80%	40.0%	82.2%	10.8%	38.1%	16.2%
Total/Average	**100.0%**	**79.6%**	**11.7%**	**36.0%**	**15.7%**

Source: SPI Research, February 2021

reported the use of standardized methods on more than 76% of their projects.

Project margin trends

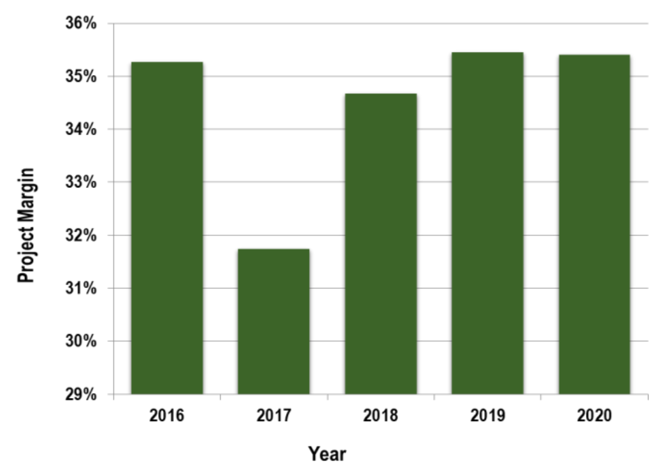
Project margin is the percentage of revenue which remains after accounting for the direct costs of project delivery

Figure 37 shows average project margins have varied greatly but stayed the same this year. This metric underscores the importance of a holistic view of PS, as one important metric like project margin can cause a ripple effect leading to lower overall net profit.

Leading professional services organizations strive to achieve project margins over 35% but as the figure shows, less than one third of the organizations surveyed consistently achieve project margins greater than 40%. Low project margins are caused by a variety of issues including poor estimates, scope change, lack of a clear project charter, poor project management, poor execution and communication combined with not having enough or poorly prepared consultants. Organizations with lower project margins struggle to meet annual margin targets. Very few organizations are making more than 30% margin on subcontractors.

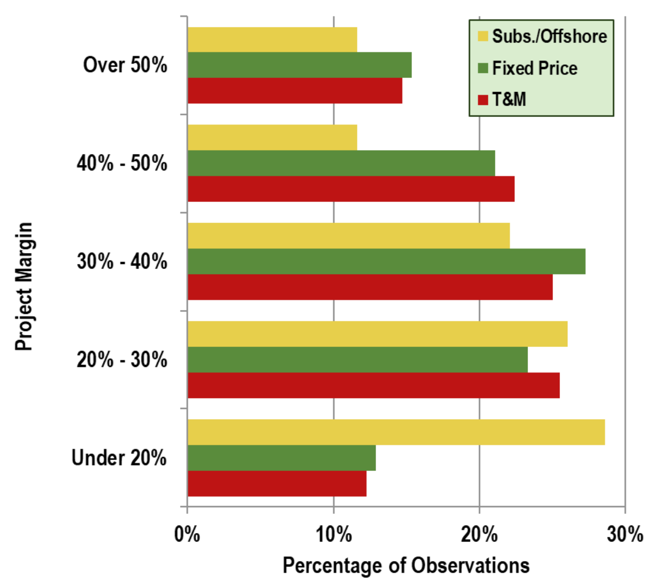
Projects can be structured in a variety of ways – fixed price, milestone based, time and materials or cost plus. Typically, time and materials-based projects produce the best margins as long as bill rates are set appropriately. "Not to exceed" projects should be avoided as they provide none of the benefits of fixed price projects but carry all of the risks. Cost-plus contracts are also undesirable; they are most prevalent in government work which tends to be penny-wise and pound-foolish.

Figure 37: Project Margin Five-year Trend



Source: SPI Research, February 2021

Figure 38: Project Margin Comparison by Type



Source: SPI Research, February 2021

Clients and service providers alike should be focused on paying fairly for work that delivers promised results. If the project benefit is substantial, then assuring successful delivery should be the primary focus.

Project margin for time and materials projects

Project margin is the essential building block of productivity and profit for all PSOs and is a metric that must be carefully measured and tracked. High project margins are associated with on-time, on-budget delivery. Standardized delivery methods and tools combined with project quality reviews and training investments all correlate with the highest margins. Interestingly, client referenceability directly improves as margins improve. IT Consultancies produced the best time and materials margins in this year's survey at 39.6%.

Table 123: Impact – Project margin for time and materials projects

Project margin for T&M projects	Survey %	Revenue growth	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	EBITDA
Under 20%	12.3%	7.2%	$164	$133	11.9%
20% - 30%	25.5%	7.2%	$199	$163	16.1%
30% - 40%	25.1%	6.8%	$198	$166	17.5%
40% - 50%	22.4%	8.0%	$212	$171	14.4%
Over 50%	14.7%	8.9%	$224	$176	18.3%
Total/Average	**100.0%**	**7.5%**	**$201**	**$164**	**15.9%**

Source: SPI Research, February 2021

Project margin for fixed price projects

Table 124 shows 36.5% of organizations achieved fixed price margins of more than 40% but unfortunately 36.2% reported fixed price margins of less than 30%. Clients appreciate the simplicity of fixed price bids, which transfer risk to the service provider. Fixed pricing is appropriate for standardized projects with clear deliverables but should be avoided for projects involving a lot of unknowns like new technology, new geographies, new deliverables. In general, most service providers do a poor job of managing change orders.

Table 124: Impact – Project margin for fixed price projects

Project margin for fixed price projects	Survey %	Revenue growth	New clients	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)
Under 20%	12.9%	5.9%	31.2%	$159	$136
20% - 30%	23.3%	7.3%	27.7%	$192	$156
30% - 40%	27.3%	7.6%	27.1%	$202	$163
40% - 50%	21.1%	7.7%	26.5%	$213	$175
Over 50%	15.4%	8.9%	26.0%	$226	$183
Total/Average	**100.0%**	**7.5%**	**27.5%**	**$200**	**$164**

Source: SPI Research, February 2021

Project margin — subcontractors and offshore

Subcontractor margin is an important metric which represents the gross margin after paying for the cost of the resource. Markup represents the sales price, not the cost of delivery.

Use of subcontractors has remained relatively constant across this benchmark, averaging 11.5% of revenue for the past 5 years. Although service providers would like to use more contingent labor, few great subcontractors are available on an on-going basis. Further, highly skilled independent consultants understand their value which is why average subcontractor margin hovers at 26.8% for the past five years. Table 125 shows significant benefits for the few firms who are able to enjoy greater than 40% subcontractor margin with commensurate high project and EBITDA margins. These organizations are more likely to judiciously use subcontractors because they use standardized methods and tools. A word of caution – excessive use of subcontractors undermines quality and knowledge capture leading to commoditization. Organizations who rely on subcontractors for more than 20% of revenue run the risk of being viewed as transactional staffing providers instead of high value consultancies.

Table 125: Impact – Project margin — subs, offshore

Average project margin — subs, offshore	Survey %	New clients	Std. del. method. used	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)
Under 20%	28.6%	22.1%	64.8%	$186	$149
20% - 30%	26.1%	29.3%	64.3%	$189	$148
30% - 40%	22.1%	25.1%	68.4%	$213	$176
40% - 50%	11.6%	30.4%	66.5%	$223	$195
Over 50%	11.6%	30.7%	69.5%	$232	$197
Total/Average	**100.0%**	**26.6%**	**66.2%**	**$202**	**$166**

Source: SPI Research, February 2021

Effectiveness of the resource management processes

SPI Research asked survey respondents to rate the effectiveness of their resource management process with 1 = very ineffective and 5 = very effective. Resource management is critical to project planning and execution. PSOs who effectively and efficiently manage resources show much higher utilization rates, more projects delivered on-time and fewer project overruns

Table 126: Impact – Effectiveness of the resource management processes

Effect. of resource mgmt. process	Survey %	Client ref.	Project duration (man-mnth)	Std. del. method. used	On-time proj. delivery
1 – poor	0.8%	63.3%	18.7	63.3%	66.7%
2	10.4%	65.6%	31.8	63.2%	69.8%
3	25.9%	69.5%	26.2	62.6%	76.1%
4	48.7%	75.4%	26.1	67.6%	82.1%
5 – great	14.2%	78.5%	23.3	73.0%	85.6%
Total/Average	**100.0%**	**73.2%**	**26.3**	**66.6%**	**79.7%**

Source: SPI Research, February 2021

resulting in better client referenceability. Clearly resource management effectiveness directly improves with the use of PSA solutions.

Effectiveness of estimating processes and reviews

SPI Research asked survey respondent to rate the effectiveness of their estimating processes and estimate reviews, with a rating of 1 for poor to 5 for excellent. This key performance indicator is important as accurate estimates hold the key to all other service delivery metrics. Inaccurate estimates and poor pricing controls lead to miss-set client expectations; project overruns and poor client satisfaction. While this subjective KPI might be hard to fathom, its results show how some of the most important KPIs improve as the organization becomes more effective in pricing and estimating. On-time project completion improves; PSOs experience fewer overruns, are more likely to use standard delivery methods and better project margins. Estimating requires significant investment in methodology development and scoping projects to the task level, but obviously from this table it is well worth the effort to ensure accuracy and continual improvement.

Table 127: Impact – Effectiveness of estimating processes and reviews

Effectiveness of estimating processes and reviews	Survey %	Project duration (man-mnth)	Std. del. method. used	On-time proj. delivery	Project margin
1 – poor	1.6%	23.8	76.7%	67.5%	26.1%
2	10.2%	19.9	59.2%	70.0%	31.8%
3	25.8%	25.4	63.3%	75.9%	36.7%
4	51.8%	27.1	67.5%	82.3%	36.4%
5 – great	10.7%	30.8	74.4%	85.9%	37.5%
Total/Average	**100.0%**	**26.2**	**66.5%**	**79.6%**	**36.0%**

Source: SPI Research, February 2021

Effectiveness of change control processes

SPI Research asked executives to rate the effectiveness of their change control processes, with a rating of 1 for poor to 5 for excellent. All projects involve risk and scope change. The important question is how these variables are managed. Mature PSOs invest in developing change and risk management policies along with project management oversight and guidance.

Table 128: Impact – Effectiveness of change control processes

Effectiveness of change control processes	Survey %	Client refer.	Billable utilization	Exec real-time visibility	Project margin
1 – poor	1.3%	68.0%	65.0%	3.00	32.0%
2	12.5%	69.7%	71.7%	3.02	32.4%
3	30.5%	70.4%	70.3%	3.30	35.7%
4	45.6%	75.3%	72.1%	3.84	36.7%
5 – great	10.2%	76.5%	71.4%	4.18	38.8%
Total/Average	**100.0%**	**73.1%**	**71.3%**	**3.60**	**36.0%**

Source: SPI Research, February 2021

Clients and service providers alike must consider the impact of changes and how they will affect timelines and subsequent projects. A critical component of change control is to ensure project margins do not suffer. Ideally, project changes are clearly outlined; client perception is appropriately managed and change orders are put in place. Too many change orders not only impact the budget and schedule but are signs of scope creep as well as inadequate executive sponsorship and poor communication.

Table 128 compares the effectiveness of change control processes to other key performance indicators. Again, like the organizations with high levels of resource management and estimating effectiveness, those organizations that manage change the best demonstrate significantly better KPIs in both the service execution and finance and operations pillars. Organizations that focus on basic execution issues such as resource management, estimating and change control drive superior results compared to those organizations that place less emphasis on these critical business processes.

Effectiveness of project quality processes

SPI Research asked executives to rate the effectiveness of project quality processes, with a rating of 1 for poor to 5 for excellent. Quality must be a core organizational attribute that is built into the culture and management practices. Most leading professional services organizations build in quality checks and balances to assure the work is done correctly. As more PSOs work to productize their services offerings, they must incorporate quality processes and procedures, as well as metrics. High quality service delivery underlies client satisfaction and drives referrals and repeat business. Table 129 shows results improve across the board as quality processes are implemented.

Table 129: Impact – Effectiveness of project quality processes

Effectiveness of project quality processes	Survey %	Client refer.	On-time proj. delivery	Ann. rev./ consult. (k)	Project margin
1 – poor	0.8%	50.0%	88.3%	$258	30.3%
2	6.7%	67.5%	66.8%	$182	32.5%
3	28.5%	69.3%	74.0%	$189	33.6%
4	50.5%	74.4%	82.0%	$207	37.1%
5 – great	13.5%	81.6%	88.1%	$220	38.9%
Total/Average	**100.0%**	**73.3%**	**79.6%**	**$202**	**36.0%**

Source: SPI Research, February 2021

Effectiveness of knowledge management processes

Organizations are finally starting to do a better job of capturing, packaging and repurposing knowledge. Top-performing organizations understand differentiation comes from their unique knowledge and their ability to create, harvest and repurpose industry-leading intellectual property. Although a plethora of powerful and inexpensive knowledge management tools exist, they lose their effectiveness without a centrally managed and empowered knowledge management function. The key to knowledge management is not only capturing it and codifying it but also continually pruning it and improving it. In today's world of social media overload, great search capability is a must to surface the best knowledge when it is needed.

SPI Research asked benchmark respondents their opinion of the effectiveness of their knowledge management processes, with a rating of 1 for poor to 5 for excellent (Table 130). Knowledge management has become a critical component of service execution. Best practices and other quality-driven initiatives are built-in into project delivery. Assuring the right information is available to all those who need it is paramount to success. Over the past five years' knowledge management, especially using social media and collaboration tools, has moved to the forefront of service execution. Team members now work more collaboratively to achieve project objectives. The table shows that effectiveness of Knowledge Management processes has a positive impact on both service delivery and financial results.

Table 130: Impact – Effectiveness of knowledge management processes

Effectiveness of knowledge mgmt. processes	Survey %	Employee attrition	Rec. to family/ friends	Billable utilization	Project margin
1 – poor	2.1%	13.8%	3.88	68.8%	30.6%
2	14.8%	13.8%	4.00	70.5%	32.5%
3	30.6%	11.8%	4.41	70.3%	36.6%
4	42.7%	11.3%	4.56	71.8%	36.2%
5 – great	9.8%	9.6%	4.79	73.9%	39.3%
Total/Average	**100.0%**	**11.7%**	**4.44**	**71.3%**	**36.0%**

Source: SPI Research, February 2021

10. Finance and Operations Pillar.

The Finance and Operations pillar represents the realm of the CFO for large PS organizations and is an intrinsic part of the role of the chief service executive for all PS organizations, regardless of size. In this service performance pillar, SPI Research examines 26 key performance measurements for revenue, margin and operating expense. We include detailed profit and loss statements and expense ratios by organization size, geography and vertical. Table 131 highlights attributes of the Finance and Operations pillar as the organization matures.

Table 131: Finance & Operations Performance Pillar Maturity

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Finance & Operations	The PSO has been created but is not yet profitable. Rudimentary time & expense capture. Limited financial visibility and control. Unpredictable financial performance. Rudimentary contract management. Manual systems and processes.	5 to 20% margin. PS becoming a profit center but still immature finance and operating processes. Investment in CFM and PSA to provide financial visibility. May not have real-time visibility or BI. Standard Library of Contracts and Statements of Work.	20 to 30% margin. PS operates as a tightly managed P&L. Standard methods for resource mgmt., time & expense mgmt., cost control & billing. In depth knowledge of all costs at the employee, sub-contractor & project level. Processes in place for contract management, legal and pricing decisions.	PS generates > 20% of overall company revenue & contributes > 30% margin. Well-developed finance and operations processes and controls. Systems have been implemented for CRM, PSA, CFM and BI. IT integration and real-time visibility. Systems have been implemented for contract management, legal and pricing decisions.	> 30% margin. Continuous improvement and enhancement. Realtime budgeting, forecasting and planning with visibility to all elements of the business.

Source: SPI Research, February 2021

Despite the pandemic the finance and operations side of the PS business held up remarkably well. Organizations were challenged with replanning and re-budgeting throughout the year as circumstances changed. PSOs found some clients accelerated projects while others delayed or postponed them causing a ripple effect through the best-laid business plans. The following chart shows a mixed bag of financial improvements and declines. As expected, revenue yield and achievement of revenue targets declined but firms were able to reap the benefits of significantly lower travel and operating expense to shore up margins. CFOs were pleasantly surprised at the enormous cost savings from not having to operate facilities, provide meals or pay for travel. They reinvested those savings into training and skill building for their employees while also shoring up their own finance and operations systems.

In 2020 average net profit grew slightly to 15.8%. Very respectable, based on the tremendous turbulence and uncertainty which characterized 2020. Annual revenue per consultant declined from last year's high of $207K to $203K, but still very respectable given the circumstances. All in all, the PS sector performed much better than expected. In many ways, 2020 allowed organizations to take a break from meteoric double-digit growth to hunker down and fix the basics, positioning the PS industry well for 2021 and the future.

Underlying these numbers there is a tale of two cities of haves and have nots. Well-positioned high growth firms focused on the cloud were called upon to help clients shift to virtual, cloud-based operations overnight while firms who had already been stalled went into a free fall, perhaps never to recover. In each of the key financial metrics we see a bifurcation between firms with good or improving numbers versus those with poor and declining further numbers. As a case in point, 27.5% of firms reported revenue per consultant under $150K, indicating they had poor direct labor margins. On the other hand, 49.2% of the organizations reported revenue per consultant greater than $200K.

In response to the pandemic backlog declined to 43.0% from 44.7% in 2019. This means PS organizations started 2021 with less committed work. Other declining KPIs were on the revenue or growth side of the business with lower revenue yields per consultant and employee resulting in missed revenue targets. But on the financial "hygiene" or expense control side of the business firms were able to dramatically reduce non-billable employee discretionary spending to $1,390 – the lowest in this benchmark's history. Other operational metrics improved with lower revenue leakage, fewer inaccurate invoices and lower DSO. These operational metrics indicate firms were able to use 2020 to clean up their back offices and shore up broken business processes which will provide a big payback in the years to come.

Table 132: Finance & Operations Pillar 5-year trend

Key Performance Indicator (KPI)	2016	2017	2018	2019	2020
Annual revenue per billable consultant (k)	$205	$196	$206	$207	$203
Annual revenue per employee (k)	$163	$159	$166	$170	$165
Quarterly revenue target in backlog	45.6%	46.2%	44.7%	44.7%	43.0%
Percent of annual revenue target achieved	92.1%	93.0%	93.8%	93.6%	92.1%
Percent of annual margin target achieved	90.1%	89.1%	90.3%	89.7%	90.3%
Revenue leakage	4.30%	4.39%	4.29%	4.54%	4.26%
% of invoices redone due to error/client rejections	2.2%	2.2%	2.3%	2.5%	1.8%
Days sales outstanding (DSO)	44.6	48.2	46.3	45.8	41.9
Quarterly non-billable expense per employee	$1,579	$1,615	$1,606	$1,718	$1,390
Executive real-time wide visibility	**3.51**	**3.66**	**3.56**	**3.52**	**3.60**
Profit (EBITDA)	**14.2%**	**16.8%**	**18.5%**	**15.2%**	**15.8%**

Source: SPI Research, February 2021

Declining leading indicators like backlog portend slower revenue growth in 2021 but we may see a big uptick in spending towards the second half of the year as the economy starts to recover from the pandemic. Hiring was curtailed in 2020 with only 5.5% headcount growth. Lower headcount growth leads to lower revenue growth the next year. As a whole, the PS industry closely mirrors global GDP growth projections which remain cautious for 2021. Table 132 provides a picture of five years' worth of financial metrics. Green shading indicates best annual metrics, red indicates worst.

Survey Results

The following section reviews and analyzes 2021 PS Maturity™ benchmark results from 561 participating professional services organizations. In this section SPI Research analyzes 26 finance and operations key performance measurements that are critical to attaining superior financial performance. Table 133 compares the finance and operations key performance indicators by the type of organization and by region. This year, embedded service organizations (ESOs) reported more revenue per consultant than independents. Embedded service organizations outperformed independents in revenue yields, backlog and profit but slightly underperformed independents in target margin achievement, revenue leakage, and DSO.

Embedded PSOs saw EBITDA decrease from 22% to 21.3% to 20.8%, the third straight year of profit declines. Independent net contribution margin declined from 17.1% to 13.6% last year but recovered somewhat in 2020 to 14.2%. By geography, profit improved in the Americas and APac but declined in EMEA which moved from 17.9% in 2018 to 14.0% in 2019 and 12.6% in 2020. Europe has been hit especially hard by the double punch of the pandemic and Brexit.

Table 133: Finance & Operations KPIs by Organization Type and Geographic Region

Key Performance Indicator	2019	2020	ESO	PSO	Amer.	EMEA	APac
Surveys	513	561	171	390	445	84	32
Annual revenue per billable consultant (k)	$207	$203	$206	$202	$210	$179	$176
Annual revenue per employee (k)	$170	$165	$164	$166	$173	$140	$133
Quarterly revenue target in backlog	44.7%	43.0%	45.4%	42.0%	42.7%	45.1%	42.1%
Percent of annual revenue target achieved	93.6%	92.1%	92.4%	92.0%	92.4%	92.5%	88.1%
Percent of annual margin target achieved	89.7%	90.3%	89.9%	90.5%	90.2%	92.8%	86.9%
Revenue leakage	4.54%	4.26%	4.78%	4.04%	4.41%	3.94%	3.11%
% of invoices redone due to error/client rejections	2.5%	1.8%	1.8%	1.8%	1.7%	2.2%	1.8%
Days sales outstanding (DSO)	45.8	41.9	42.0	41.8	41.8	45.2	36.3
Quarterly non-billable expense per employee	$1,718	$1,390	$1,222	$1,459	$1,401	$1,255	$1,554
Executive real-time wide visibility	**3.52**	**3.60**	**3.44**	**3.66**	**3.58**	**3.66**	**3.67**
Profit (EBITDA)	**15.2%**	**15.8%**	**20.8%**	**14.2%**	**16.9%**	**12.6%**	**11.6%**

Source: SPI Research, February 2021

Consultant and employee revenue yields declined due to lower billable utilization with 29 fewer annual billable hours. An interesting workplace study conducted by Nintex revealed 70% of employees found they were more productive working from home than they had imagined. They cited the positive impact of no commuting, fewer interruptions, more time spent with family and better life-work balance. 67% of respondents reported they were able to get their work done in fewer hours by working from home. The study went on to underscore the tale of two cities we see in other areas, higher level employees with fewer care giving responsibilities were far more productive than their lower-level counterparts with young children at home.

Backlog is always a very important KPI. Backlog declined from 44.7% to 43.0% The Americas reported declining backlog from 45.5% to 42.7%. Backlog increased in APac from 38.7% to 42.1%. EMEA reported an increase in backlog from 42.5% to 42.7%.

Non-billable discretionary employee expense plummeted to $1,390, far below the five-year average of $1,579. Coming out of the pandemic it will be interesting to see if companies return to lavish offices and plentiful employee meals and travel or if they choose to maintain a flexible work-from-home model with an emphasis on employee investments in training, skill building and work-from-home technologies. Discretionary spending directly impacts bottom-line net profit. 2020 has proven that the knowledge workers who comprise the Professional Services industry benefited from a virtual work environment.

Table 134 compares finance and operations KPI's by organization size. Best performance is highlighted in green and worst performance is highlighted in red.

Table 134: Finance & Operations KPIs by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	62	108	170	111	48	62
Annual revenue per billable consultant (k)	$178	$212	$212	$206	$189	$190
Annual revenue per employee (k)	$158	$169	$171	$168	$148	$158
Quarterly revenue target in backlog	30.1%	40.1%	45.6%	47.2%	48.1%	41.6%
Percent of annual revenue target achieved	86.5%	93.2%	91.5%	93.8%	90.2%	96.6%
Percent of annual margin target achieved	86.5%	90.2%	90.1%	91.4%	90.0%	94.0%
Revenue leakage	3.12%	3.97%	4.26%	4.99%	3.92%	4.90%
% of invoices redone due to error/client rejections	1.0%	1.4%	1.8%	2.1%	2.4%	2.6%
Days sales outstanding (DSO)	25.8	38.6	44.6	44.9	50.8	44.2
Quarterly non-billable expense per employee	$1,256	$1,176	$1,440	$1,311	$1,884	$1,685
Executive real-time wide visibility	**3.64**	**3.69**	**3.65**	**3.52**	**3.23**	**3.70**
Profit (EBITDA)	**19.3%**	**17.6%**	**11.5%**	**16.8%**	**23.7%**	**16.3%**

Source: SPI Research, February 2021

Tables 135 and 136 show financial results by vertical market. SaaS ESOs have experienced wild fluctuations in net profit as their charters swing from PS as a customer adoption engine to PS as a profit center. No doubt cloud service providers, both embedded and independent, are very profitable because they are able to charge some of the highest bill rates and deliver the majority of their services virtually. SaaS ESOs saw best-ever profit in 2017 and 2018 at 26.2% decline to 23.7% in 2019 and now 18.3% in 2020. The big profit buster for embedded service organizations is the amount of non-billable time they spend on endless meetings (administration) and non-billable sales support and business development activities. This is an important KPI to watch, as many organizations are turning to the cloud for their information infrastructure.

Table 135: Finance & Operations KPIs by Vertical Market

Key Performance Indicator	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Surveys	143	84	64	55	35
Annual revenue per billable consultant (k)	$211	$208	$216	$190	$188
Annual revenue per employee (k)	$172	$172	$166	$152	$162
Quarterly revenue target in backlog	44.9%	39.3%	44.5%	47.2%	45.4%
Percent of annual revenue target achieved	92.2%	91.8%	92.4%	91.0%	92.1%
Percent of annual margin target achieved	89.0%	91.8%	88.8%	90.6%	90.2%
Revenue leakage	4.03%	3.10%	5.28%	4.63%	5.69%
% of invoices redone due to error/client rejections	2.0%	1.4%	1.4%	1.9%	2.5%
Days sales outstanding (DSO)	42.5	38.6	39.3	45.6	46.8
Quarterly non-billable expense per employee	$1,410	$1,625	$1,117	$1,283	$1,240
Executive real-time wide visibility	**3.77**	**3.80**	**3.38**	**3.44**	**3.74**
Profit (EBITDA)	**13.4%**	**10.6%**	**18.3%**	**23.4%**	**15.8%**

Source: SPI Research, February 2021

As shown in Table 136, Managed Service providers had an especially tough year in 2020, barely eking out a profit. Seen as a bastion of recurring revenue, the managed service market has become crowded, leading to intense competition and compression in rates and profits. Market dynamics are at play with yesterday's darlings becoming today's train wrecks which shows how important it is to focus on growth markets and building differentiation.

Table 136: Finance & Operations KPIs by Vertical Market

Key Performance Indicator	MarCom	VAR	Account	Mgd. Serv.	All Others
Surveys	31	17	14	13	105
Annual revenue per billable consultant (k)	$175	$241	$210	$175	$187
Annual revenue per employee (k)	$153	$208	$173	$133	$152
Quarterly revenue target in backlog	40.0%	42.8%	35.5%	35.0%	40.9%
Percent of annual revenue target achieved	85.0%	96.1%	86.4%	91.7%	94.3%

Key Performance Indicator	MarCom	VAR	Account	Mgd. Serv.	All Others
Percent of annual margin target achieved	84.4%	92.2%	82.7%	86.7%	94.4%
Revenue leakage	3.56%	3.28%	6.32%	4.00%	4.14%
% of invoices redone due to error/client rejections	1.5%	2.2%	2.7%	1.3%	1.7%
Days sales outstanding (DSO)	35.6	37.0	35.5	31.7	45.3
Quarterly non-billable expense per employee	$1,175	$1,361	$2,136	$750	$1,383
Executive real-time wide visibility	**3.56**	**4.00**	**3.09**	**3.33**	**3.33**
Profit (EBITDA)	**20.9%**	**22.6%**	**23.5%**	**1.5%**	**18.5%**

Source: SPI Research, February 2021

Steps Taken to Improve Profitability

Table 137: Steps Taken to Improve Profitability Comparison: 2019-2020

Steps Taken to Improve Profitability	2019	2020	Change
Improve solution portfolio	4.02	4.07	1.2%
Improve marketing effectiveness	4.03	4.07	0.9%
Improve sales effectiveness	3.95	3.94	-0.4%
Improve methods and tools	3.87	3.89	0.5%
Improve hiring and ramping	3.80	3.69	-2.8%
Improve utilization	3.76	3.59	-4.5%
Expand business models	3.44	3.49	1.3%
Reduce non-billable time	3.41	3.28	-3.8%
Increase rates	3.27	3.06	-6.4%

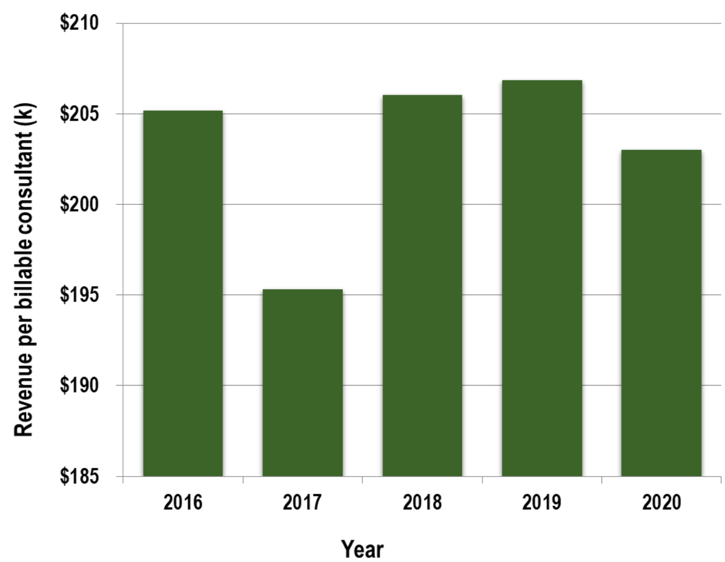
Source: SPI Research, February 2021

Each year SPI Research asks, “What steps will your organization take to improve profitability?” This year “improving the solution portfolio” and “marketing effectiveness” rose to the top of the list. PSOs are becoming keenly aware of the need to create repeatable service offers with an emphasis on recurring subscription (consumption-based) pricing. Improving marketing effectiveness is a perennial challenge area as few firms are happy with their websites, the amount and quality of leads and with the quality of their thought leadership content. Marketing is also charged with building the brand and establishing the firm’s culture and reputation as a “Great Place to Work”. The Best-of-the-Best are investing in “Chief Revenue Officers” as a key member of the executive team. They conduct market research and stay abreast of shifting technology trends, investing not in where the ball currently is but on where they think it is going to be. This attention to portfolio expansion into hot new growth areas manifests in “first mover advantages” and allows them to develop skills and references in anticipation of where the market is going. A critical component of market expansion is not only anticipating where the market is going but having the courage to hire and develop solutions in advance of demand. Improving methods and tools is another improvement priority as PSOs must ensure they provide their consultants the latest technologies and methodologies.

Annual revenue per billable consultant (k)

Annual revenue per billable consultant depicts the service organization's total revenue divided by the FTE (Full-time equivalent) billable consultants. Alternatively, this metric is derived by multiplying the consultant's average bill rate times billable hours. Revenue per consultant provides an indication of consultant productivity; the likelihood the firm will be profitable is foretold by the labor multiplier. SPI Research considers revenue per billable consultant to be one of the most important KPIs, but it must be viewed in conjunction with labor cost. Revenue per billable consultant should minimally equal 1.5 times the fully loaded cost of the consultant. Headcount and capacity planning should be based on expectations of a 2X revenue yield to consultant cost. Revenue multipliers of three and higher are typical for engineering and architecture firms while a labor multiplier greater than three is standard in management consulting and legal professional services. Billable consultant revenue yield is a strong predictor of PS profit. Average consultant annual revenue production declined from its zenith last year of $207K to $203K in 2020.

Figure 39: Revenue per Billable Consultant Five-year Trend



Source: SPI Research, February 2021

Chicken or egg? Table 138 depicts the impact of increasing revenue per consultant. Deal pipelines are far more robust in organizations with the highest revenue yields. Clearly more revenue per consultant improves project and net margins as well as billable utilization, client

Table 138: Impact – Revenue per Billable Consultant

Revenue per billable consultant	Survey %	Project duration (man-mnth)	Std. del. method. used	Billable util.	On-time proj. delivery
Under $100k	11.4%	34.3	59.3%	64.8%	74.2%
$100k - $150k	16.1%	29.9	62.3%	67.9%	76.5%
$150k - $200k	23.3%	25.1	65.1%	70.1%	78.9%
$200k - $250k	24.1%	23.0	68.9%	73.2%	80.3%
$250k - $300k	15.8%	20.1	71.1%	75.7%	82.8%
Over $300k	9.3%	29.5	71.8%	72.8%	85.6%
Total/Average	**100.0%**	**26.1**	**66.4%**	**71.0%**	**79.5%**

Source: SPI Research, February 2021

referenceability and achievement of revenue and margin targets. Table 139 shows year over year trends for revenue per consultant. Revenue yields declined for ESOs with the steepest declines shown in SaaS ESOs and VARS.

Table 139: Year-over-year change – Revenue / Billable Consultant

Revenue per Billable Consultant	2019	2020	▲
Total Surveys	$207	$203	-1.9%
ESO	$217	$206	-5.1%
PSO	$202	$202	-0.1%
Amer	$214	$210	-1.8%
EMEA	$167	$179	7.3%
APac	$217	$176	-18.9%
IT Consulting	$207	$211	2.0%
PS within Software Company	$211	$208	-1.4%
Management Consulting	$221	$216	-2.0%
PS within SaaS Company	$218	$190	-12.8%
Architecture/Engineering	$182	$188	3.6%
Value-added Reseller (VAR)	$220	$175	-20.5%
Accounting	$210	$241	14.6%

Source: SPI Research, February 2021

Annual revenue per employee (k)

This calculation looks at the overall revenue yield for all PS employees – both billable and non-billable. Annual revenue per employee is like annual revenue per billable consultant; it divides total PS revenue by the total number of employees (FTE) but includes both billable and non-billable headcount. Revenue per employee is a powerful indicator of the overall profitability of the firm. If the average cost per employee is known, profit can be estimated by comparing cost per employee to revenue per employee. Also, like revenue per consultant, this KPI is highly correlated with profitability, utilization and bill rates.

Table 140: Impact – Annual Revenue per Employee

Revenue per Employee	Survey %	% of emp. billable	Billable util.	Exec real-time visibility	EBITDA
Under $100k	16.0%	70.0%	65.7%	3.31	13.7%
$100k - $150k	25.7%	72.5%	69.4%	3.45	16.0%
$150k - $200k	25.4%	77.2%	71.7%	3.60	14.0%
$200k - $250k	18.6%	76.3%	75.0%	3.78	16.9%
$250k - $300k	8.9%	72.9%	74.7%	3.85	18.7%
Over $300k	5.5%	82.1%	75.0%	3.90	24.8%
Total/Average	**100.0%**	**74.6%**	**71.2%**	**3.59**	**16.0%**

Source: SPI Research, February 2021

PSOs with a high percentage of non-billable employees or excessive sales, marketing and G&A spending, have lower annual revenues per employee. Revenue per employee is very important in determining the appropriate size and financial health of the organization. Based on the high cost of talented consulting staff, SPI Research believes this figure should be at least 1.4 times the fully loaded cost per person to maintain strong financial viability.

If the organization achieves an acceptable revenue yield per billable consultant but is below the benchmark for revenue per employee, this is an indication of excessive non-billable overhead. Table 141 shows revenue per employee declined in many organizations. ESOs within SaaS companies and management consultancies led the way with the steepest decline in revenue yields. Revenue per employee improved in the EMEA and but declined in the Americas and APac.

Table 141: Year-over-year change – Annual Revenue / Employee

Annual Revenue per Employee	2019	2020	▲
Total Surveys	$170	$165	-2.7%
ESO	$181	$164	-9.4%
PSO	$165	$166	0.6%
Amer	$178	$173	-2.7%
EMEA	$128	$140	9.6%
APac	$172	$133	-22.9%
IT Consulting	$165	$172	4.3%
PS within Software Company	$176	$172	-2.4%
Management Consulting	$199	$166	-16.5%
PS within SaaS Company	$175	$152	-13.2%
Architecture/Engineering	$151	$162	7.3%
Value-added Reseller (VAR)	$167	$153	-8.5%
Accounting	$164	$208	27.0%

Source: SPI Research, February 2021

Quarterly revenue target in backlog

Quarterly revenue backlog is the amount of already sold (booked) business in backlog (ready to execute) divided by forecasted quarterly revenue. Backlog represents "fuel in the tank"; it improves an organization's ability to grow and increases the accuracy of financial forecasts. Some organizations measure quarterly backlog as the amount of already sold work plus the amount of work from a factored sales forecast.

Table 142: Impact – Quarterly Revenue in Backlog

Qtr. rev. target in backlog	Survey %	New clients	Bid-to-win ratio	Deal pipeline	Client refer.
Under 20%	21.8%	22.1%	4.92	128%	74.1%
20% - 40%	23.4%	30.3%	5.16	178%	70.2%
40% - 50%	13.3%	30.7%	5.12	186%	69.6%
50% - 60%	12.5%	27.8%	5.18	187%	70.6%
60% - 70%	14.9%	26.0%	5.59	218%	77.7%
Over 70%	14.1%	21.7%	5.17	211%	76.1%
Total/Avg.	**100.0%**	**26.4%**	**5.17**	**180%**	**73.0%**

Source: SPI Research, February 2021

Declining backlog levels is a clear indication of slowing growth. Backlog is one of the most powerful leading indicators. Product-focused organizations have more problems with backlog as they frequently sell a "bank of hours" with the product sale which may never be consumed. It is a good idea to frequently "scrub" backlog to determine whether booked deals can be delivered in the current quarter. If they cannot, this "shadow" backlog should not be counted. Typically, if backlog is not consumed (delivered) within a year it should be written off or removed from the revenue forecast as it is unlikely the client will use the consulting time they have been sold.

Table 143: Year-over-year change – Qtr. Revenue Target in Backlog

Quarterly Rev. Target in Backlog	2019	2020	▲
Total Surveys	44.7%	43.0%	-3.8%
ESO	45.2%	45.4%	0.4%
PSO	44.5%	42.0%	-5.6%
Amer	45.5%	42.7%	-6.2%
EMEA	42.5%	45.1%	6.1%
APac	38.7%	42.1%	8.7%
IT Consulting	47.5%	44.9%	-5.6%
PS within Software Company	39.7%	39.3%	-1.0%
Management Consulting	44.7%	44.5%	-0.4%
PS within SaaS Company	48.0%	47.2%	-1.7%
Architecture/Engineering	52.4%	45.4%	-13.3%
Value-added Reseller (VAR)	35.0%	40.0%	14.3%
Accounting	36.3%	42.8%	17.8%

Source: SPI Research, February 2021

Table 142 compares the quarterly revenue target in backlog to other key performance indicators. As one might expect higher backlog is an indication of future demand and produces better financial metrics. This table shows that backlog and the size of the sales pipeline and win-to-bid ratio are highly correlated.

Table 143 shows backlog trends. Backlog declined for all organizations except accountancies.

Percentage of annual revenue target achieved

The annual revenue target achieved is the percentage of the annual revenue goal that is attained. PSOs create detailed annual business plans; this figure shows how accurate they are in business planning, forecasting and execution. If the organization does not meet its annual revenue target it is a sure bet that the annual margin or profit target will be missed as well as most organizations plan their spending based on their revenue projections. On the other hand, if the organization exceeds its revenue projections by a wide margin this may result in quality issues, staff burnout and potentially client satisfaction issues because the organization is understaffed to meet demand.

This year the percentage of annual revenue target achieved was 92.1%. The five-year average is 93.0%. Table 144 shows year over year trends in revenue target attainment. Independents achieved 92.0% of their target revenue, ESOs achieved 92.4%.

As Table 145 shows there is a direct correlation between achieving revenue targets and all other important metrics. There is a strong positive correlation between meeting annual revenue targets and profitability, assuming revenue and profit targets are set appropriately. SPI Research also found organizations who achieved their revenue targets had lower attrition rates, reflecting financial stability and the organization's ability to reward performance and reinvest in the business.

Table 144: Year-over-year change – % of annual revenue target achieved

Percentage of annual revenue target achieved	2019	2020	▲
Total Surveys	93.6%	92.1%	-1.6%
ESO	93.1%	92.4%	-0.7%
PSO	93.8%	92.0%	-1.9%
Amer	93.6%	92.4%	-1.3%
EMEA	94.0%	92.5%	-1.5%
APac	92.2%	88.1%	-4.5%
IT Consulting	93.1%	92.2%	-1.0%
PS within Software Company	95.3%	91.8%	-3.7%
Management Consulting	95.6%	92.4%	-3.3%
PS within SaaS Company	92.4%	91.0%	-1.5%
Architecture/Engineering	95.8%	92.1%	-3.8%
Value-added Reseller (VAR)	88.8%	85.0%	-4.3%
Accounting	87.1%	96.1%	10.3%

Source: SPI Research, February 2021

Table 145: Impact – Percentage of annual revenue target achieved

Percentage of annual target revenue achieved	Survey %	Revenue growth	Headcount growth	% of emp. billable	Bid-to-win ratio	Deal pipeline	Client reference	EBITDA
Under 80%	14.1%	2.3%	-1.5%	71.7%	4.01	123%	68.7%	7.4%
80% - 90%	26.3%	3.8%	2.9%	72.9%	5.05	178%	72.8%	15.0%
90% - 100%	35.5%	7.0%	6.1%	75.4%	5.29	191%	71.9%	16.4%
100% - 110%	18.6%	12.5%	9.5%	76.4%	5.70	193%	76.5%	19.3%
Over 110%	5.6%	21.0%	15.0%	82.1%	6.60	203%	82.3%	24.9%
Total/Average	**100.0%**	**7.3%**	**5.3%**	**74.8%**	**5.20**	**179%**	**73.1%**	**15.8%**

Source: SPI Research, February 2021

Percent of annual margin target achieved

The annual margin target achieved, similar to the annual revenue target achieved, is the percentage of the annual profit goal which was attained. SPI Research measures revenue and margin target attainment to calibrate the accuracy of annual business plans. Even if PSOs don't accurately measure other benchmark metrics, they usually know if they achieved their targets or not. Target attainment is important from a planning and investment perspective. If the organization does not meet its margin goals it might have to scale back future spending, potentially limiting growth.

Table 146: Impact – Percentage of annual margin target achieved

Percentage of annual target revenue achieved	Survey %	Revenue growth	Headcount growth	% of emp. billable	On-time proj. delivery	Project margin	Project overrun	EBITDA
Under 80%	21.3%	4.3%	0.5%	70.3%	73.7%	30.6%	12.1%	9.2%
80% - 90%	23.9%	4.2%	2.5%	73.4%	79.2%	34.7%	6.3%	15.1%
90% - 100%	33.2%	8.4%	7.6%	76.4%	81.2%	38.4%	8.2%	15.7%
100% - 110%	15.7%	10.2%	8.5%	77.2%	81.7%	38.4%	6.6%	28.1%
Over 110%	5.9%	15.8%	12.6%	81.4%	87.7%	40.7%	8.0%	17.0%
Total/Average	**100.0%**	**7.2%**	**5.3%**	**74.8%**	**79.6%**	**36.0%**	**8.3%**	**16.2%**

Source: SPI Research, February 2021

Perhaps one of the most important gauges of financial maturity is the ability to consistently achieve annual revenue and margin targets. The number of firms who achieve their margin target is always less than the percentage of firms who achieve their revenue targets. Only 21.5% of survey respondents achieved 100% or more of their annual margin target!

Table 146 shows a direct correlation between margin target attainment and backlog, revenue and headcount growth, billable utilization and on-time project delivery. The percentage of annual margin target achieved was slightly higher (90.3% vs 89.7%) in 2020. Organizations from EMEA had the highest (92.8%) percent of annual margin target achievement. Independents reported better target margin attainment than ESOs (90.5% versus 89.9%).

Table 147: Year-over-year change – Percentage of annual target margin achieved

Percentage of Annual Target Margin Achieved	2019	2020	▲
Total Surveys	89.7%	90.3%	0.7%
ESO	89.8%	89.9%	0.1%
PSO	89.7%	90.5%	0.9%
Amer	90.0%	90.2%	0.2%
EMEA	88.7%	92.8%	4.7%
APac	88.9%	86.9%	-2.2%
IT Consulting	88.8%	89.0%	0.2%
PS within Software Company	92.4%	91.8%	-0.6%
Management Consulting	91.3%	88.8%	-2.7%
PS within SaaS Company	90.5%	90.6%	0.1%
Architecture/Engineering	89.9%	90.2%	0.3%
Value-added Reseller (VAR)	88.6%	84.4%	-4.8%
Accounting	85.6%	92.2%	7.7%

Source: SPI Research, February 2021

Revenue Leakage

Revenue leakage refers to revenue that has been earned but is lost before it can be realized. Causes of revenue leakage include billing errors, time the firm is unable to bill for product or project delivery issues and incorrect statements of work or misquotes. Revenue leakage is difficult to determine in many cases, making it a "silent killer" of profitability. In many instances, organizations don't even realize revenue has not been billed, making it a very difficult figure to calculate. It is also a barometer for overall operational efficiency, as PSOs with higher levels of revenue leakage reported lower utilization, poorer on-time project delivery, more project overruns and lower EBITDA than organizations that better manage contracts, capturing all hours and expenses and billing accurately.

Table 148: Impact – Revenue Leakage

Revenue Leakage	Survey %	Client reference	Billable util.	On-time proj. delivery	Exec realtime visibility
Under 2%	37.6%	75.7%	72.3%	83.7%	3.70
2% - 5%	34.9%	72.7%	71.0%	79.4%	3.60
5% - 10%	19.4%	70.6%	70.8%	76.5%	3.44
Over 10%	8.1%	70.7%	67.4%	69.8%	3.43
Total/Average	**100.0%**	**73.3%**	**71.1%**	**79.7%**	**3.59**

Source: SPI Research, February 2021

Average reported revenue leakage this year was the lowest it has been in 5 years at 4.26%. ESOs reported significantly more revenue leakage than independents (4.78% versus 4.04%). By geography, the Americas reported the most revenue leakage as did Accountancies.

Table 149: Year-over-year change – Revenue Leakage

Revenue Leakage	2019	2020	▲
Total Surveys	4.5%	4.3%	-5.3%
ESO	4.8%	4.8%	-0.3%
PSO	4.4%	4.0%	-8.2%
Amer	4.7%	4.4%	-6.3%
EMEA	4.1%	3.9%	-3.8%
APac	3.6%	3.1%	-13.6%
IT Consulting	4.7%	4.0%	-14.2%
PS within Software Company	3.4%	3.1%	-8.8%
Management Consulting	5.2%	5.3%	1.5%
PS within SaaS Company	4.5%	4.6%	2.8%
Architecture/Engineering	5.4%	5.7%	5.3%
Value-added Reseller (VAR)	4.7%	3.6%	-24.3%
Accounting	5.4%	3.3%	-39.3%

Source: SPI Research, February 2021

Percentage of invoices redone due to error/client rejections

Invoices rejected for whatever reason dip into profit, as the PSO must finance the costs incurred while still delivering the service. Some PSOs do not consider invoices that have to be redone due to inaccuracies or client rejections in their DSO calculation – they probably should.

Table 150: Impact – Invoices Redone due to Errors or Client Rejections

Invoices redone due to errors or client rejections	Survey %	Employee attrition	Rec. to family/ friends	On-time project delivery	Project overrun
None	12.4%	8.4%	4.51	80.1%	6.0%
Under 1%	40.9%	10.8%	4.49	82.7%	7.5%
1% - 3%	29.3%	12.1%	4.43	77.7%	8.3%
3% - 5%	12.1%	12.4%	4.37	78.8%	10.6%
5% - 10%	3.7%	17.5%	3.93	73.2%	13.4%
Over 10%	1.6%	26.9%	3.60	55.8%	19.6%
Total/Average	**100.0%**	**11.6%**	**4.43**	**79.7%**	**8.3%**

Source: SPI Research, February 2021

If expectations are properly set and time and expense accurately reported, ideally no invoice should be rejected. Invoicing problems tend to be systemic and emanate from the inaccurate capture of time and expense information; unclear statements of work; lack of approved change orders; inaccurate billing and exceeding pre-determined spending limits. It behooves all PSOs to understand the client's purchasing process before starting work as the negative impact of not being able to collect payment and revise invoices can be vexing and impact cash flow.

Days sales outstanding (DSO)

Days Sales Outstanding (DSO) is one of the most important KPIs for financial executives. It reflects the importance of accurately producing invoices and efficiently collecting payment. DSO is also a powerful measurement of client satisfaction, strong operating controls and client creditworthiness.

Table 151: Impact – Days Sales Outstanding (DSO)

Days Sales Outstanding (DSO)	Survey %	Revenue growth	Employee attrition	Project duration (man-month)	EBITDA
Under 30 days	26.7%	8.8%	9.8%	16.7	17.0%
30 - 50 days	44.4%	7.2%	11.1%	29.6	16.0%
50 - 70 days	20.4%	5.1%	11.7%	29.6	14.8%
70 - 100 days	6.5%	7.6%	15.8%	29.7	14.8%
Over 100 days	1.9%	-4.3%	22.9%	69.0	17.7%
Total/Average	**100.0%**	**7.0%**	**11.4%**	**27.0**	**16.0%**

Source: SPI Research, February 2021

This year the average DSO was 41.9 days, much lower than the 5-year average of 45.3 days. Given the economic turbulence of 2020 it is an unexpected but nice surprise that DSO shortened. Across the technology sector, committed DSO has shifted from 30 to 45 days. Cash collection is extremely important for independents as they must fund operations from cashflow. Table 151 shows longer payment times correlate with negative revenue growth and high attrition but don't necessarily torpedo net profit.

Quarterly non-billable expense per employee

Quarterly non-billable expense per employee shows how well PSOs manage employee expenses not related to billable work. Ideally, this metric is minimized, but there are always expenses due to travel, training, IT and business development that cannot be billed to clients.

Table 152: Impact – Quarterly non-billable expense per employee

Quarterly non-billable expense per employee	Survey %	% of emp. billable	Employee attrition	On-time project delivery	Project overrun
Under $1,500	74.2%	75.4%	11.0%	80.4%	7.5%
$1,500 - $2,500	16.7%	73.9%	11.5%	77.5%	10.2%
$2,500 - $5,000	4.8%	70.8%	17.6%	74.4%	11.3%
$5,000 - $7,500	3.0%	70.5%	12.6%	81.4%	11.6%
Over $7,500	1.3%	71.0%	19.5%	73.0%	11.0%
Total/Average	**100.0%**	**74.7%**	**11.6%**	**79.6%**	**8.3%**

Source: SPI Research, February 2021

The quarterly non-billable expense per employee declined to the lowest level ever reported at $1,390, almost $200 less than the 5-year average of $1,579. Excessive non-billable employee expense is usually a symptom of poor or ineffective business expense policies. It may also be a symptom of runaway business development costs with non-essential personnel wasting valuable time and money chasing non-qualified opportunities. Common causes of high non-billable discretionary spending are high business development and training expenses or employee expense misuse.

Real-time visibility

Real-time information visibility is one of the most important management tools. SPI Research asked survey respondents whether their executives had real-time visibility into all business activities (sales, service, marketing, finance, etc.). The rewards are significant for organizations who have integrated systems and management dashboards that allow them to pinpoint issues and spot trends in real-time.

Executives who have real-time visibility run companies that are much more profitable than those that do not as they are able to take advantage of changing market conditions. Surprisingly despite market turbulence, real-time visibility increased this year. Firms intently focused on their sales pipelines and backlog to ensure they had enough work to keep staff billable. Most organizations started planning and replanning their forecasts as the Corona Virus epidemic unfolded.

Real-time visibility is a very important key performance indicator. As Table 153 shows, organizations that have comprehensive visibility can make the decisions necessary to grow and achieve high levels of profitability. And it is not for just those KPI's listed in this table, it is for a majority of the other metrics tracked by SPI Research as well.

Table 153: Impact – Information Visibility

Real-Time Visibility	Survey %	Revenue growth	Headcount growth	% of emp. billable	New clients	Bid-to-win ratio	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)
1 - None	0.0%	NA	NA	NA	NA	NA	NA	NA
2 - Minimal	3.7%	2.5%	2.5%	65.0%	40.0%	3.50	$125	$125
3 - Some	11.1%	-1.3%	-3.3%	65.0%	9.0%	4.83	$150	$117
4 - Substantial	55.6%	1.8%	3.7%	71.3%	20.9%	5.10	$232	$172
5 - Comprehensive	29.6%	2.8%	1.6%	82.5%	18.3%	6.00	$225	$186
Total/Average	**100.0%**	**1.8%**	**2.2%**	**73.7%**	**19.5%**	**5.28**	**$217**	**$168**

Source: SPI Research, February 2021

Extended real-time visibility is only attained through application integration. “Extended” means information that flows across departments and functions, so that employees have a more complete picture of operations, and can make quick, fact-based decisions. Without real-time visibility, decision-making can be subjective and reactive which hurts business performance. SPI Research believes these results help organizations justify expenditures in IT to provide the systems and tools they need to visualize, monitor and control the business.

Income Statements

In this section SPI Research analyzes income statements by organization type and size. Inputs were:

Revenue

- Δ ***Direct gross PS revenue***: Directly delivered PS revenue (not including re-billable travel)
- Δ ***Indirect gross revenue***: (revenue from subcontractors, outside resources)
- Δ ***Pass-thru revenue***: (revenue from hardware, software, materials, etc.)
- Δ ***Reimbursable travel and expense revenue***: (re-billable travel and expense revenue)

Table 154: Income Statement Comparison

Income Statement Revenue & Expense	2019	2020	Delta
Benchmark Surveys	513	561	
REVENUE			
Direct gross PS revenue	78.9%	82.3%	4%
Indirect gross revenue (subcontractor)	11.4%	11.3%	-1%
Pass-thru rev. (hardware, software, mat.)	6.7%	5.1%	-24%
Reimbursable Travel & Expense revenue	3.1%	1.3%	-58%
Total Revenue	**100.0%**	**100.0%**	
EXPENSES			
Direct labor expense	41.1%	42.7%	4%
Fringe benefit percentage of direct labor	6.0%	6.7%	12%
Subcontractor/outside consultant expense	8.8%	9.1%	4%
Pass-thru equipment expense	4.5%	3.7%	-18%
Billable travel and business expense	2.7%	1.6%	-41%
Non-billable travel expense	1.9%	1.5%	-23%
Total recruiting expense	1.0%	0.7%	-29%
Sales expense	4.4%	4.1%	-8%
Marketing expense	2.0%	1.7%	-16%
Education/training/certification expense	1.0%	0.9%	-10%
PS IT expense	2.2%	2.0%	-11%
All other G&A expense	9.1%	9.6%	5%
Total Expense	**84.8%**	**84.2%**	**-1%**
EBITDA	**15.2%**	**15.8%**	**4%**

Source: SPI Research, February 2021

Expense

- Δ ***Direct Labor expense***: (does not include fringe benefits, vacation, sick time or overhead)
- Δ ***Fringe benefit expense***: as a percentage of direct labor (for healthcare, pensions, vacation and sick pay)
- Δ ***Subcontractor/outside consultant expense***: cost of subcontractors and outside consultants
- Δ ***Pass-thru expense***: (expense for hardware, software, materials, etc. that can be billed)
- Δ ***Billable travel and business expense***: business expense that can be billed to clients
- Δ ***Non-billable travel and business expense***: business expenses that cannot be billed to clients
- Δ ***Recruiting expense***: (includes recruiting headcount, fees and signing bonuses)

- Δ ***Sales expense***: (includes sales headcount, bonus and non-reimbursable sales expense)
- Δ ***Marketing expense***: (includes marketing headcount, bonus and marketing program expense)
- Δ ***Education, training and certification expense***: (includes the cost of training and certification)
- Δ ***PS IT expense***: supporting the IT infrastructure (personnel, applications, networking, etc.)
- Δ ***General and Administrative***: non-billable headcount, general and administration costs, facilities, headcount and overhead.

Profits surprisingly increased in 2020 when compared to 2019 due to a significant decline in spending. By category, rebillable business travel decreased almost 50% causing a big profit improvement as rebillable travel is usually billed at or below cost, reducing net profit. Recruiting costs were reduced by 29% with a slowdown in hiring and lower attrition. Nonbillable travel expense was cut by 23%.

Table 154 shows the PS industry did a great job or reining in costs based on expectations of significant declines in revenue which did not happen. One of the unexpected positive benefits of the pandemic were reductions in discretionary spending which did not have a commensurate impact on reduced revenue. As the economy comes out of the pandemic, CFOs should carefully review which costs are really essential to grow revenues and which ones can be cut without impacting the business. Hopefully organizations will evaluate the many positive benefits from allowing employees to work from home – think of the long-term positive impact on the climate if business travel and work commutes are permanently reduced!

Table 155 provides income statement comparison for embedded versus independents as well as by geography. Sources of revenue for independents and ESOs were very similar this year but independents derived slightly less revenue from subcontractors, reimbursable travel and pass-through hardware and software.

The cost of healthcare and fringe benefits including paid time off continued to climb in the Americas reflecting runaway healthcare costs. APAC firms pay substantially less for fringe benefits, particularly healthcare than their counterparts in the Americas and Europe. All businesses should look to Asia for positive ideas to improve workplace wellness without commensurate skyrocketing medical costs.

Table 155: Income Statement by Organization Type and Embedded Service Type

Key performance indicator (KPI)	Survey	ESO	PSO	Americas	EMEA	APac
Surveys	561	171	390	445	84	32
REVENUE						
Direct gross PS revenue	82.3%	81.0%	82.8%	82.9%	80.7%	80.0%
Indirect gross revenue (subcontractor)	11.3%	11.4%	11.2%	11.0%	15.0%	7.3%
Pass-thru rev. (hardware, software, mat.)	5.1%	5.6%	4.9%	4.8%	3.4%	10.8%
Reimbursable Travel & Expense revenue	1.3%	2.0%	1.1%	1.3%	0.9%	1.9%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Key performance indicator (KPI)	Survey	ESO	PSO	Americas	EMEA	APac
EXPENSES						
Direct labor expense	42.7%	42.7%	42.7%	42.2%	46.8%	40.6%
Fringe benefit percentage of direct labor	6.7%	7.5%	6.5%	7.3%	5.5%	3.7%
Subcontractor/outside consultant expense	9.1%	9.5%	9.0%	8.0%	15.3%	8.5%
Pass-thru equipment expense	3.7%	3.9%	3.6%	3.5%	2.2%	8.4%
Billable travel and business expense	1.6%	1.8%	1.5%	1.8%	1.1%	0.8%
Non-billable travel expense	1.5%	1.9%	1.3%	1.7%	0.8%	0.7%
Total recruiting expense	0.7%	0.7%	0.7%	0.7%	0.8%	0.5%
Sales expense	4.1%	3.3%	4.3%	4.0%	3.6%	5.4%
Marketing expense	1.7%	1.4%	1.8%	1.8%	0.9%	1.9%
Education/training/certification expense	0.9%	1.0%	0.8%	0.9%	1.0%	0.8%
PS IT expense	2.0%	2.1%	1.9%	2.0%	1.6%	2.2%
All other G&A expense	9.6%	3.3%	11.6%	9.4%	7.8%	14.8%
Total Expenses	**84.2%**	**79.2%**	**85.8%**	**83.1%**	**87.4%**	**88.4%**
2020 EBITDA	**15.8%**	**20.8%**	**14.2%**	**16.9%**	**12.6%**	**11.6%**
2019 EBITDA Comparison	**15.2%**	**21.3%**	**13.6%**	**16.2%**	**14.0%**	**5.4%**

Source: SPI Research, February 2021

Table 156 provides analysis of income statements by organization size. Net profit improved for all size organizations except those with 31 to 100 employees. These size organizations spent more on subcontractors but were not able to make good margins on them. Smaller organizations spent relatively more on sales and marketing than their larger counterparts.

Table 156: Income Statement by Organization Size

Key performance indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	62	108	170	111	48	62
REVENUE						
Direct gross PS revenue	79.6%	85.5%	80.0%	83.6%	83.3%	79.7%
Indirect gross revenue (subs.)	11.9%	10.0%	11.6%	11.5%	12.9%	10.7%
Pass-thru rev. (hw, sw, mat.)	7.7%	3.3%	7.3%	3.1%	2.6%	8.1%
Reimbursable Travel & Expense	0.8%	1.2%	1.1%	1.7%	1.2%	1.5%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Key performance indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
EXPENSES						
Direct labor expense	44.8%	41.3%	43.6%	42.8%	39.1%	45.1%
Fringe benefit % of direct labor	6.1%	6.5%	6.6%	7.0%	7.1%	7.7%
Subcontractor/outside consultant	8.8%	7.5%	10.5%	8.8%	10.1%	7.5%
Pass-thru equipment expense	4.0%	3.4%	5.4%	1.7%	1.7%	5.2%
Billable travel and business	2.9%	1.5%	1.5%	1.5%	1.2%	2.3%
Non-billable travel expense	0.3%	1.8%	1.8%	1.2%	1.1%	1.0%
Total recruiting expense	0.1%	0.7%	0.6%	1.0%	0.5%	1.3%
Sales expense	4.2%	3.8%	4.8%	3.9%	2.4%	3.1%
Marketing expense	1.1%	2.1%	2.1%	1.3%	0.5%	0.9%
Education/training/certification	0.7%	1.0%	0.8%	1.1%	0.5%	1.3%
PS IT expense	0.4%	2.3%	1.7%	2.3%	1.8%	2.7%
All other G&A expense	7.2%	10.5%	9.1%	10.6%	10.3%	5.6%
Total Expenses	**80.7%**	**82.4%**	**88.5%**	**83.2%**	**76.3%**	**83.7%**
2020 EBITDA	**19.3%**	**17.6%**	**11.5%**	**16.8%**	**23.7%**	**16.3%**
2019 EBITDA Comparison	**16.0%**	**13.8%**	**15.7%**	**15.8%**	**15.5%**	**14.0%**

Source: SPI Research, February 2021

In this year's survey, SPI Research received profitability metrics from most of the vertical markets (*only markets with sufficient income statement data are shown*). This year we received significantly more completed surveys from architects and engineers. With economic improvement, this sector has seen profit improvement year over year as well as revenue growth however architects reported the highest level of G&A overhead spending in the benchmark at 13.3% of total revenue.

Table 157 shows income statement comparison for the five primary verticals represented in this benchmark. Management consultancies, software ESOs and Accountancies had a very good year from a net profit point of view.

The cloud is here to stay and as these organizations mature, they are leading the charge in investing in tools and technology to streamline their PS operations. The large cloud PSOs have large development centers throughout India, Asia and Eastern Europe, allowing them to take advantage of strong technical talent at substantially lower costs. Management consultancies and enterprise software and SaaS ESOs have high direct labor costs as they must pay a premium for the unique skills their clients require. SaaS ESOs and Accountancies spend the most on IT. Architects and engineers have the highest G&A cost which dilutes their margins.

Table 157: Income Statement by PS Market Vertical

Key performance indicator (KPI)	IT Consult	Mgmt. Consult	SaaS PS	Software PS	Arch./ Engr.
Surveys	143	84	64	55	35
REVENUE					
Direct gross PS revenue	77.2%	87.3%	81.1%	86.1%	87.4%
Indirect gross revenue (subs.)	14.5%	10.4%	13.4%	9.3%	7.5%
Pass-thru rev. (hw, sw, mat.)	7.6%	1.4%	3.3%	2.4%	3.8%
Reimbursable Travel & Expense	0.6%	1.0%	2.2%	2.2%	1.3%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES					
Direct labor expense	40.6%	46.9%	46.2%	45.1%	40.3%
Fringe benefit % of direct labor	5.5%	5.9%	7.9%	7.7%	9.4%
Subcontractor/outside consultant	10.9%	7.8%	11.4%	7.5%	6.6%
Pass-thru equipment expense	5.4%	0.7%	1.1%	3.0%	3.5%
Billable travel and business	0.7%	2.3%	2.1%	1.7%	2.3%
Non-billable travel expense	1.4%	1.2%	2.2%	1.5%	1.6%
Total recruiting expense	0.7%	0.9%	1.0%	0.7%	0.5%
Sales expense	5.7%	4.5%	2.8%	2.9%	2.5%
Marketing expense	1.8%	2.2%	1.6%	0.5%	1.5%
Education/training/certification	0.6%	1.1%	1.2%	0.6%	1.0%
PS IT expense	2.0%	2.3%	2.6%	2.3%	1.7%
All other G&A expense	11.3%	13.5%	1.6%	3.0%	13.3%
Total Expenses	**86.6%**	**89.4%**	**81.7%**	**76.6%**	**84.2%**
2020 EBITDA	**13.4%**	**10.6%**	**18.3%**	**23.4%**	**15.8%**
2019 EBITDA Comparison	**11.9%**	**23.1%**	**13.1%**	**23.7%**	**17.6%**

Source: SPI Research, February 2021

Table 158 shows income statements for accountancies, advertising and marketing agencies, Managed Service providers and other PS.

Table 158: Income Statement by PS Market Vertical

Key performance indicator (KPI)	MarCom	VAR	Account	Mgd. Serv.	All Others
Surveys	31	17	14	13	105
REVENUE					
Direct gross PS revenue	85.7%	75.2%	87.9%	45.0%	83.8%
Indirect gross revenue (subs.)	9.0%	7.3%	9.3%	26.2%	8.7%
Pass-thru rev. (hw, sw, mat.)	4.2%	14.9%	1.5%	28.2%	5.6%
Reimbursable Travel & Expense	1.1%	2.6%	1.3%	0.7%	1.8%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES					
Direct labor expense	55.8%	31.6%	36.7%	30.3%	41.9%
Fringe benefit % of direct labor	5.2%	8.1%	7.6%	2.4%	7.4%
Subcontractor/outside consultant	9.0%	7.2%	4.9%	14.9%	9.1%
Pass-thru equipment expense	1.9%	9.6%	1.7%	24.6%	4.1%
Billable travel and business	0.3%	2.5%	3.4%	0.7%	1.6%
Non-billable travel expense	0.4%	1.1%	1.6%	0.4%	1.4%
Total recruiting expense	0.3%	0.4%	0.3%	0.4%	0.7%
Sales expense	0.4%	4.3%	1.8%	11.3%	3.1%
Marketing expense	0.2%	2.9%	2.7%	1.9%	1.6%
Education/training/certification	0.1%	1.1%	1.4%	0.5%	1.2%
PS IT expense	0.2%	1.5%	2.8%	0.8%	1.4%
All other G&A expense	5.4%	7.2%	11.6%	10.3%	8.1%
Total Expenses	**79.1%**	**77.4%**	**76.5%**	**98.5%**	**81.5%**
2020 EBITDA	**20.9%**	**22.6%**	**23.5%**	**1.5%**	**18.5%**
2019 EBITDA Comparison	**12.7%**	**7.8%**	**25.0%**	**19.8%**	**14.7%**

Source: SPI Research, February 2021

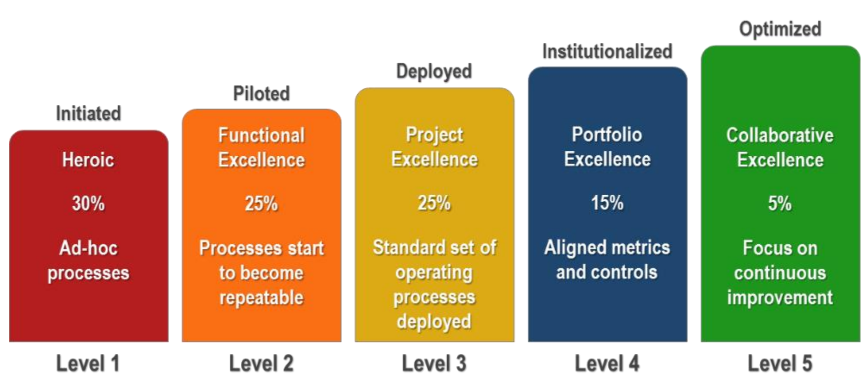
11. 2021 Professional Services Maturity™ Model Results

SPI Research has spent over a decade developing and improving the Professional Services Maturity™ Model. Over 35,000 billable professional services organizations use the model to benchmark and improve organizational performance. With over 6,000 billable services organizations (over 2,500 during the past five years) participating over the past fourteen years, SPI Research has further refined the model to improve its accuracy.

561 firms participated from September through November of 2020 representing over 300,000 consultants worldwide, continuing to make this the most comprehensive study of the global PS industry. While most the participating organizations are headquartered in North America, the firms surveyed have employees distributed globally, and SPI Research believes it to be an accurate representation of the global PS industry. SPI Research clients continue to use the model to develop, prioritize and implement performance gains.

In this chapter, SPI Research reveals the analytic basis of the model and gives insight into our survey techniques. For this year's model, SPI Research used the current database of 561 firms surveyed in 2020.

Figure 40: Professional Services Maturity Model™ Levels



Source: SPI Research, February 2020

Maturity Levels

The maturity rating for each Service Performance Pillar varies based on the performance of the organization. In each of the five performance pillars, every firm operates at one of the five maturity levels (Figure 40):

- ∆ **Level 1 (Initiated – 30% of the respondents)**: In the initial stages, the focus of the organization is primarily on client acquisition and building a reference base. To accomplish this core mission, the organization must recruit and hire excellent staff. Therefore, at Maturity Level 1 the priority focus areas are Customer Relationships and Human Capital Management.
- ∆ **Level 2 (Piloted – 25% of the respondents)**: The organization is becoming a profit center, so focus is still on client relationships, but human capital and finance and operations have become more important as the organization moves from a cost center to a profit center.
- ∆ **Level 3 (Deployed – 25% of the respondents)**: The organization has now deployed core operating processes in all five service performance pillars. At this point, the organization must continue to accentuate Human Capital Alignment, but the key focus has shifted to Finance and Operations and Service Execution. The organization must start to consider strategy and vision to

ensure the focus is on the right clients, markets and competition. At this level, the organization must have deployed standard business processes across all dimensions.

- Level 4 **(Institutionalized – 15% of the respondents)**: At this level, the organization must start optimizing across all dimensions. However, maintaining and growing service revenue and margin is of paramount importance. The organization must start developing a differentiated approach to clients with vertical and horizontal market segments and geographies so a focus on the Client Relationship pillar is critical.
- Level 5 **(Optimized – 5% of the respondents)**: The organization has achieved "black belt" status in all functional areas. Processes are fully developed, deployed and institutionalized. The organization is now developing comprehensive measurement, monitoring, and optimization processes across all pillars.

While every organization should strive to attain Maturity Level 5 in each of the five service performance pillars, some areas are more important than others depending on the overall maturity of the company or its market. For instance, early in the life of a professional services organization client relationships are far more important than profitability because without clients there can be no future. Over time, client relationships always remain important, but the organization must equally focus efforts on other Pillars. To be a truly optimized organization, the firm should aspire to reach Level 5 in all dimensions.

Model Improvements

Each year SPI Research makes modifications to improve the model based on additional surveys, its own analysis, and feedback from PSOs that use the model. This year, there were no changes to the questions asked, however, the model change slightly in terms of the weight other specific questions. These mainly were changes to emphasize the importance of specific KPIs SPI Research found as not having a strong impact on overall performance.

As is the case each year, not every question is included in the PS Maturity™ model. Demographic information is not part of the PS Maturity™ model but helps PS executives better compare their organizations to the benchmark. This year several questions were removed, which SPI Research felt did not help PSOs improve performance.

Model Inputs

SPI Research conducts correlation analysis between the questions to determine what, if any, impact each of the key performance indicators (KPIs) have on each other. The questions were then rated by relative importance from 0.0 (unimportant) to 1.0 (very important) for each of the KPIs. Each question was assigned a maximum value based on the answer given and the weight of the question. At the bottom of each of the following tables is the total maximum value possible in each maturity rating. Here is a synopsis of the SPI Research methodology:

- ***Factor***: Respondent's unique answers to the given question. Some questions are answered within a range to reduce the time to complete the survey.

- ∆ ***Weight***: The relative value of the question as compared to others. Questions were weighted from 0.0 to 1.0 depending on the overall importance of the question. Questions with a weight of 1.0 are the most important in determining organizational maturity.
- ∆ ***Pillar Correlation***: SPI Research incorporates a correlation coefficient for each question to all pillars, reflecting the inter-relationship that exists between different functions and key performance metrics within PSOs. Correlations range from -1.0 to 1.0 depending on the KPI's negative or positive impact on performance.
- ∆ ***Maximum Score***: The maximum score for each question is determined by multiplying the normalized value of the question by its weight. Scores are normalized on a scale from 1 to 100 and then assigned a Maturity Level based on a score from 1 to 5.

The minimum scores for each Pillar are summarized in Table 159. The maximum value is 100, which means the organization is at the "Optimized" level. By design, maturity scores are relative to the size of the survey with approximately 5% of organizations designated at Level 5 (Optimized) in any given pillar.

Moreover, SPI Research assumes 15% perform at Level 4; 25% perform at Level 3; 25% perform at Level 2 and the other 30% perform at Level 1. These scores are slightly different from the 2019 report in most pillars as SPI Research annually adjusts scores based on economic conditions and the feedback received over the past year.

Table 159: Minimum Normalized Performance Pillar Scores

Pillar	Level 1	Level 2	Level 3	Level 4	Level 5	Maximum
Leadership (LE)	0.0	52.0	69.3	82.0	91.8	100.0
Client Relationships (CR)	0.0	32.5	53.0	69.3	83.0	100.0
Talent (TA)	0.0	29.8	52.1	75.1	87.5	100.0
Service Execution (SE)	0.0	32.3	57.5	73.2	86.3	100.0
Finance & Operations (FO)	0.0	12.7	42.8	60.6	79.3	100.0

Source: SPI Research, February 2020

What might be interesting to readers of this report is that when analyzing the normalized scores (1 to 100) in each Pillar it shows that no firm scores a "0", meaning the lowest level of performance, nor does any firm score a "100", meaning the highest level.

SPI Research works with services organizations to improve performance in each Pillar. The analysis highlights how the firm scored relative to its peers (for example, management consultancies with between 100 and 300 employees) and the overall survey. This graphical display highlights areas where the organization performs poorly and where additional attention should be paid to produce improvements. SPI Research recommend firms look first at the areas performing poorly (**red**), as opposed to further improving areas where it already does well (**green**). Figure 41 highlights one such example.

Figure 41: Increase performance by focusing on low-performing KPIs

Organizational Demographics	Consulting Rus	IT Consult.	Mgmt. Consult.	Level
Well understood vision, mission and strategy	5	3.98	4.27	
Confidence in PS leadership	5	4.29	4.44	
Year-over-year change in PS revenue	Under -10%	6.9%	8.3%	
Total annual number of active closed clients	352	94	629	
Bid-to-win ratio (per 10 bids)	5 - 6 wins	4.95	5.54	
Deal pipeline / quarterly bookings forecast	4X forecast	1.92	1.73	
Sales cycle (days: qualified lead to contract signing)	120 - 150 days	86.3	86.45	
Service discount given	None	6.1%	6.0%	
Solution development effectiveness	5	3.69	3.70	
Service sales effectiveness	4	3.55	3.41	
Service marketing effectiveness	4	3.02	3.10	
Employee annual attrition - voluntary	5% - 10%	6.8%	6.2%	
Employee annual attrition - involuntary	1% - 5%	3.9%	3.6%	
Recommend company to friends/family	5	4.52	4.57	
Employee billable utilization	60% - 70%	73.1%	73.0%	
Use a standardized delivery methodology	Over 80%	67.7%	62.9%	
Projects delivered on-time	80% - 90%	81.2%	86.1%	
Project overrun	Blank	7.7%	5.3%	
Annual revenue per billable consultant (k)	$200k - $250k	$215	$209	
Annual revenue per employee (k)	$200k - $250k	$173	$173	
Quarterly revenue target in backlog	60% - 70%	44.9%	38.7%	
EBITDA	**5.0%**	**12.8%**	**11.5%**	

Source: SPI Research, February 2020

Model Results

SPI Research analyzed each of the 561 participating firms to minimize any bias when comparing PSOs of different sizes. Table 160 shows most organizations in each size category have similar averages for each pillar.

Table 160: Average Service Maturity by PSO Size (People)

		Average Maturity Level					
Organization Size (people)	**Count**	**LE**	**CR**	**TA**	**SE**	**FO**	**Average**
Under 10	62	2.42	2.52	2.31	2.52	2.34	**2.42**
10 – 30	108	2.69	2.68	2.55	2.57	2.56	**2.61**
31 – 100	170	2.37	2.49	2.40	2.36	2.39	**2.40**
101 – 300	111	2.52	2.35	2.52	2.53	2.60	**2.51**
301 – 700	48	2.19	2.00	2.27	2.23	2.29	**2.20**
Over 700	62	2.00	2.06	2.23	2.08	2.03	**2.08**
Total	**561**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2020

Overall, in this year's survey the smallest firms scored highest. The smaller firms scored highest in the Leadership pillar, as they can communicate much more efficiently than larger, global organizations.

Smaller firms also scored higher in the Client Relationships pillar, fueling strong growth along the way. However, in Talent, smaller firms scored lower, as many lack the training, compensation and internal growth potential that tend to keep attrition low and employees happy.

SPI Research found it interesting that the smallest firms scored the highest level of maturity in delivering services. This result is atypical, as larger firms have more tools and methodologies in place to perform efficiently and effectively. However, sometimes larger firms have very bureaucratic processes, which slow the ability to deliver services, and potential profit, down. Overall, midsize firms will show the greatest Finance & Operations maturity, primarily due to not being so small as to worry about profit, but not so large, as to worry about corporate bureaucracy.

Table 161: Average Service Maturity by PSO Type

		Average Maturity Level					
PSO Type	**Count**	**LE**	**CR**	**TA**	**SE**	**FO**	**Average**
Embedded	171	2.24	2.25	2.30	2.17	2.39	**2.27**
Independent	390	2.49	2.48	2.46	2.52	2.42	**2.47**
Total	**561**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2020

SPI Research analyzed the maturity of PSOs by type (embedded vs. independent), and the results are summarized in Table 161. This year's results show independents scored better in every performance pillar. In the past embedded organizations exhibited greater maturity in all five dimensions. Embedded PSOs are typically early adopters of business applications as they receive the benefit of sophisticated IT investments while independents tend to forego solution acquisition in favor of business development and marketing expenditures. However, in this year's survey the Independents operated at a higher overall level.

Table 162 shows the average level of maturity for each of the performance pillars by select vertical markets. IT consultancies, management consultancies and VARs scored the highest in at least one pillar. Accountancies and Government Contractors scored the lowest overall. Several of the markets where SPI Research did not have enough quantitative data showed lower results. However, it is difficult to analyze those markets when there are less than 20 surveys.

Table 162: Average Service Maturity by Vertical Market

		Average Maturity Level					
Market	Count	LE	CR	TA	SE	FO	Average
IT Consulting	143	2.45	2.51	2.53	2.68	2.58	**2.55**
Management Consulting	84	2.99	3.01	2.70	2.85	2.65	**2.84**
PS within SaaS Company	64	2.44	2.48	2.45	2.27	2.61	**2.45**
PS within Software Company	55	2.35	2.20	2.42	2.24	2.47	**2.33**
Architecture/Engineering	35	2.29	2.40	2.20	2.17	2.51	**2.31**
Advertising/Marketing/PR	31	1.90	1.61	2.00	1.74	1.55	**1.76**
Value-Added Resellers (VAR)	17	2.06	2.41	1.88	2.06	2.41	**2.16**
Accountancies	14	2.36	2.50	2.57	2.57	2.64	**2.53**
Managed Services	13	1.31	1.54	1.92	1.77	1.31	**1.57**
All Others	105	2.31	2.20	2.30	2.28	2.16	**2.25**
Total	**561**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2020

The Financial Benefits of Moving Up Levels

The PS Maturity Model™ was developed to demonstrate the importance of organizational improvement through the use of benchmarking. SPI Research believes that the importance of the maturity model is to help organizations improve ***balanced performance across the entire organization***, not just in terms of financial performance. However, if the organization is profit-motivated (which most are), increasing maturity levels do show up in significant bottom-line profit. Table 163 highlights some of the key performance indicators by maturity level and should alone be an important reason why PS executives should looker deeper into using it to accelerate both productivity and profit.

Table 163: Key Performance Indicators (KPIs) by Maturity Levels

Key performance indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Year-over-year change in PS revenue	9.3%	6.0%	6.4%	12.5%	18.8%
Year-over-year change in PS headcount	4.4%	3.0%	4.4%	9.4%	15.8%
Well understood vision, mission and strategy (5 pt.)	2.69	3.70	4.16	4.73	4.97
Confidence in PS leadership (5-pt. scale)	3.03	3.98	4.35	4.89	5.00
Bid-to-win ratio (per 10 bids)	4.01	4.79	5.30	6.27	6.50
Deal pipeline relative to qtr. bookings forecast	128%	182%	181%	205%	226%
Employee billable utilization	54.4%	62.3%	76.4%	83.1%	85.7%
Projects delivered on-time	47.8%	73.0%	85.2%	91.3%	94.0%

Key performance indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Average project overrun	14.9%	10.6%	6.8%	5.2%	5.3%
Use a standardized delivery methodology	54.7%	65.2%	65.0%	71.2%	74.8%
Annual revenue per billable employee (k)	$50	$133	$213	$269	$290
Annual revenue per employee (k)	$50	$104	$166	$230	$261
Project margin	27.2%	33.7%	34.4%	40.8%	49.9%
Percent of annual revenue target achieved	77.5%	85.8%	93.8%	96.3%	101.8%
Percent of annual margin target achieved	73.8%	82.9%	91.7%	96.1%	101.3%
EBITDA (Profit) %	**-10.1%**	**5.0%**	**16.1%**	**19.5%**	**32.0%**

Source: SPI Research, February 2020

This table shows some of the benefits in moving up levels. Virtually every one of the 138 KPIs improve as firms move up from one level to the next. Most organizations SPI Research has worked with find that improving by one maturity level annually is about all they can do. While moving up even one level can be difficult, the model shows the investment is well worth it.

The Inter-relationship of Pillars

Process improvement can both positively and negatively impact other Key Performance Indicators (KPIs) in the same Service Performance Pillar as well as the other four. Some examples include:

- ∆ Bid-to-Win (*Client Relationships*) impacts margins and revenue growth (*Finance and Operations*). Winning bids might improve a PSO's sales effectiveness but might worsen its Finance and Operations pillar due to lower profit margins if heavy discounting is required to win the bids.
- ∆ Leadership issues (communication, well understood vision, mission and strategy,) can impact the ability to grow (*Finance and Operations*), staffing levels (*Human Capital*) and the ability to effectively deliver projects (*Service Execution*).
- ∆ If a project is delivered late (*Service Execution*) it can negatively impact relations with the client and future sales effectiveness (*Client Relationships*), revenue growth and project profitability (*Finance and Operations*).

SPI Research took these interrelationships into account when building the Professional Services Maturity Model™ (Figure 42). It adds complexity to the model, but SPI Research believes it provides a real-world balanced view that improves PSOs ability to positively enact change.

Figure 42: Key Performance Indicators (KPIs) are Correlated

Source: SPI Research, February 2020

Model Conclusions

In 14 years of building the Professional Services Maturity Model™ SPI Research has seen the correlation of KPIs vary from year-to-year, as the economy and competitive environment dictate how PS organizations operate. The model is an aggregate built for PSOs (both embedded and independent), different size organizations, as well as for the different vertical markets surveyed. Therefore, the results will have some type of "generic bias." PS executives who wish to have their organization compared directly to their peer group (i.e., IT Consultants with 100 to 300 employees) should contact SPI Research.

As organizations grow, they will gain greater operational efficiency and other advantages, while losing intimacy and ease of communication. Every vertical market has its own constraints, particularly in pricing strategies, in many cases limiting the ability for high levels of profitability. The key to this maturity model is for executives to drill down on their own vertical market, as well as organization size, to better determine relative performance. SPI Research can further segment this information to help PS executives specifically analyze performance relative to their exact peer group. Contact SPI Research for more information on the Professional Services Maturity Model™.

12. Conclusions and Recommendations

COVID, COVID, COVID! The world is tired of worrying about the pandemic, but it continues to rage on. A glimmer of relief is on the horizon as vaccines are starting to roll out. Despite the social and economic catastrophe in its wake, many sectors of the economy have performed well. In fact, a strange K-shaped recovery is exacerbating the already enormous gulf between rich and poor. The rich are getting richer with stocks, savings accounts, and high-end homes at all-time highs while the poor are disproportionately dying and losing already low-paying jobs. The technology and professional services sector is to a lesser extent experiencing the same bifurcation with 20% of PS organizations thriving while the bottom 20% struggle to survive.

Because of the pandemic, the global economic marketplace has shifted, and shifted toward a more distributed and remote workforce. While this trend has been occurring in the professional services market for some time, other industries were shocked into it. The net result is that businesses will operate differently in 2021 than they did in 2019. Long term the impact on the professional services market will be extremely positive, with more clients accepting and embracing virtual service delivery. Interestingly, with fewer in-office distractions and shorter to no commutes and business travel, corporations have been reaping benefits in lower operating costs which they are reinvesting in technology to streamline the business and support a future virtual work world. The tech giants are thriving and reinvesting in more growth, more innovation and more employees.

This year's Professional Services Maturity™ Benchmark had somewhat different results than in previous years, but not necessarily worse. In the middle of 2020 SPI Research expected very negative findings. But as the year progressed it turned out business conditions were not as bad as preconceived. The biggest change was the overnight move to remote work. Prior to the pandemic almost all PS organizations performed some, if not most work virtually but this trend clearly accelerated in 2020. Remote work can drive higher performance if managed correctly, and the Professional Services market has the talent to do so. However, personal interaction is as important in business as it is in life. How will PSO's groom and grow new employees? What are the long-term ramifications for managers and leaders? How can systems and tools help build culture and a sense of belonging? All of these are major questions facing Professional Services organizations.

You Can't Fix What You Can't Measure

The Professional Services Maturity™ Benchmark provides clear metrics and guidance on over 160 key performance measurements. SPI Research likes to say, "Running a service organization is a game of singles and doubles." Small percentage improvements in just a few key performance areas can have dramatic bottom-line results. PS executives often feel isolated and have a limited support base to rely on for advice. The Professional Services Maturity™ Benchmark and score-carding process takes the guesswork out of metrics. Completing the PS Maturity™ survey can highlight new avenues for improvement and enable PSOs to conduct their own self-assessment.

Most PSOs consider themselves leaders and they probably are in one or more areas. To continue to remain relevant in this competitive and fragmented market, they must have unique and specific capabilities that set them apart. However, as with most organizations as they scale, inefficiencies and blind-spots start to appear, threatening to derail growth and undermine productivity. There may be areas of immaturity or overly cumbersome or manual systems and processes. This benchmark helps PS executives measure and compare their performance, armed with an objective fact base and competitive comparisons. By developing a measurable annual improvement plan and backing it up with clear enhancement initiatives and goals the organization can create and institutionalize a continuous cycle of improvement and renewal.

Digital Transformation is not just for your clients

Knowledge is power, and data fuels knowledge. Analytics have enabled firms to better prepare and operate in a changing world. A lack of actionable information hinders progress. Effective and integrated business applications provide the cornerstone for any type of business transformation.

The Professional Services Maturity Model™ is based on accurate and timely information. Needless to say, PS firms cannot run optimally without accurate and timely information. Scrimping on systems costs more in the long run. Service providers need to use and recommend the right tools for the job including upgrading their own information infrastructure. The acumen they use to help their clients embrace digital transformation must also be brought to bear on their own systems. Investments in IT will pay off.

Dramatic improvements are possible when PSOs implement the right information technologies, but only when real-time information and consistent metrics are visible and reinforced throughout the organization. The quote to cash business cycle is at the heart of providing visibility to the three key areas underpinning growth – pipeline, projects and people. In a knowledge intensive business, like Professional Services, arming employees with a view of active deals, the resources required to effectively deliver projects, and the skills and competencies needed both today and tomorrow goes a long way towards enhancing progress.

Choppy Seas in 2020 should lead to Smooth Sailing in 2021

2020 was a strange and challenging year for Professional Services with a global pandemic and US elections, which led to uncertainly in the market. A year ago, SPI Research highlighted that after an exceptional 2019, there would be smooth sailing in 2020. Ouch! Leading firms did quite well in 2020 – they grew and invested in their employees. Unfortunately, an equal number of firms suffered, and if they survive, they enter 2021 working even harder to catch up. Many were acquired by their more successful brethren as economies of scale are working to drive market consolidation.

The good news is that in 2021 there will be no more major contentious US elections and the new administration looks to focus on defeating the virus along with infrastructure, which will lead to jobs in all markets. Debt is something everyone should be worried about, and could cause problems down the road. Likewise, higher interest rates or rising inflation can slow growth. But SPI believes the good news outweighs the bad, and 2021 will be a year for companies in all markets to reevaluate and change, creating an even greater need for professional services.

SPI Research continues to advocate PSOs must concentrate on their weakest links, while also continuing to improve in each of SPI Research's five core pillars:

1. ***Leadership***: build leaders for the future. A new young millennial workforce requires strong front-line management and guidance. With changing workforce dynamics, effective, ethical and collaborative leadership is required more than ever before.
2. ***Client Relationships***: selling professional services has become increasingly difficult, as client organizations look for demonstrable value and demand "pay as you go" subscription pricing. Marketing and sales campaigns must address client's key challenges and provide the means for clients to buy the way they want to. New usage-based business models make it easier for buyers to buy but more complex for service providers to provide. Measurable business value and adoption are driving references and growth.
3. ***Talent***: your talent pool is your most critical asset, and continued understanding of how the workforce changes, and how they wish to be treated, from training to compensation to social programs, is critical to understand and cultivate a high-quality workforce.
4. ***Service Execution***: delivering services on time and on budget with sufficient margin fosters growth and profitability. Always keep an eye on project budgets to actuals, eliminating overruns before they spiral out of control. You can't have your best people on every project, there must be a mix between higher-level skills and lower level and lower cost talent. Implementing standardized business processes and systems helps you better understand and track effort for the services delivered.
5. ***Finance & Operations***: keep an eye on the bottom-line! Cash flow is critical, and it is imperative for your organization to track costs and expenses to determine where improvement is needed. Predictable financial performance provides the breathing room to make investments into new growth areas.

SPI Research believes benchmarking is an activity that should be conducted continuously, as the insights it delivers enable PSOs to make changes in real time that are necessary for growth and prosperity. Continue to compare your organization to the High-Performance PSOs. This information will shed light on best practices and help galvanize your organization around improvement priorities.

Stay healthy and best of luck for a prosperous and profitable 2021!

Jeanne Urich and Dave Hofferberth

13. Appendices

Appendix A: Acronyms Used in This Report

Table 164: Lexicon of Acronyms and Abbreviations

Acronym	Meaning	Acronym	Meaning
AI	Artificial Intelligence	PA	Project Accounting
APac	Asia-Pacific	PaaS	Platform as a Service
BI	Business Intelligence	PMI	Project Management Institute
BPM	Business Process Management	PMO	Project Management Office
BPO	Business Process Outsourcing	PMP	Project Management Professional
CEO	Chief Executive Officer	PPM	Project Portfolio Management
CFM	Core/Corporate Financial Management	PS	Professional Services
CFO	Chief Financial Officer	PSA	Professional Services Automation
CIO	Chief Information Officer	PSO	Professional Services Organization
CRM	Client Relationship Management	ROI	Return on Investment
DSO	Days Sales Outstanding	RSD	Remote Service Delivery and Collaboration
EMEA	Europe, Middle East, Africa	SaaS	Software as a Service
ERP	Enterprise Resource Planning	SCM	Supply Chain Management
ESO	Embedded Service Organization	SM	Social Media
EVM	Earned Value Management	SMAC	Social, Mobile, Analytics, Cloud
HCM	Human Capital Management	SRP	Service Resource Planning
HR	Human Resources	SLA	Service Level Agreement
IaaS	Infrastructure as a Service	SLM	Service Lifecycle Management
IoT	Internet of Things	STEM	Science, technology, math and engineering
ISV	Independent Software Vendor	SVC	Service Value Chain
IT	Information Technology	VSOE	Vendor-Specific Objective Evidence
KPI	Key Performance Indicator	WBS	Work Breakdown Structure
MarCom	Marketing Communication / Advertising	YoY	Year-over-year
NAICS	North American Industry Classification System		

Source: SPI Research, February 2021

Appendix B: Financial Terminology

The following table contains a list of standard key performance measurement terms and definitions used in the benchmark report. The terms and definitions have been compiled from our knowledge and experience and a variety of sources including www.wikipedia.org http://www.investopedia.com and Morris, Manning and Martin, LLP. SPI Research is interested in expanding and evolving common key performance measurements, standards and definitions for Professional services organizations. If you would like to add terms or suggest changes, your comments and suggestions will be appreciated.

Table 165: Standard Key Performance Indicator (KPI) Definitions

Term	Definition
70% utilization	~ 1,400 billable hours/year or 350 hours/quarter
Allocations	Corporate allocations refer to a company's policy of distributing the cost of shared resources, for example, facilities, healthcare, IT and Sales, General and Administrative (SG&A) costs to specific functions or departments.
Annual Billable Utilization %	Annual Billable Hours/(2080 hours – vacation and holidays) or Billable days/(260 days – 10 vacation – 10 holidays ~ 240 days)
Attrition %	Attrition % = (Voluntary + involuntary) / Total Beginning Employees
Backlog	Backlog = Bookings - Billings The total value of contract commitments yet to be executed: Total Backlog = Previous fiscal year's contracts not yet billed + Latest fiscal year's sales - Latest fiscal year's revenue
Bid Win Ratio	The ratio of successful bids (resulting in signed contracts) divided by the total number of bids or proposals issued. Bid Win ratio is a good measure of sales and marketing effectiveness because it demonstrates the organization is pursuing appropriate types of business and is able to beat its competitors.
Billings	Completed, accepted work that can been billed (T&M, Work in process, Milestone, Deliverables)
Bookings	Signed Contracts (signed PS Agreement + signed SOW + PO)
Burdened Cost	Typically employee burdened costs are the costs per employee for benefits (Healthcare, Pensions, 401K) and an apportioned cost for the employee's facility and IT usage + all discretionary expense. The difference between burdened cost and fully burdened cost is that fully burdened cost includes an allocation for corporate SG&A costs.
Capitalization	**Expensed computing equipment:** expenses (typically less than $100k) vs. capitalized (paid for over a time period). Servers for example, are typically capitalized and depreciated over a 3 year period. Capital expenditures usually refer to expenses a company makes for property, buildings or equipment. Capitalized items typically have a useful life of several years.
Cash	The value of the most liquid assets within the balance sheet. Cash equivalents are assets such as money market accounts that can be accessed quickly and are not subject to significant change. Does not include the value of accounts receivable.
Cash flow	Is the balance of the amounts of cash being received and paid by a business during a defined period of time, sometimes tied to a specific project. The timing of cash flows into and out of projects is used as input to financial models such as internal rate of return, and net present value.
Cost per person	Cost Per person = Base + Fringe (~25%) + Bonus

Term	Definition
Days Sales Outstanding (DSO)	A measure of the average number of days that it takes a company to collect revenue after a sale has been made and a bill has been issued. A low DSO means that it takes a company fewer days to collect its accounts receivable. A high DSO means that a company is selling its product to slow-paying customers and it is taking longer to collect money. Days sales outstanding is calculated as: $= \frac{\text{Accounts Receivable}}{\text{Total Credit Sales}} \times \text{Number of Days}$ OR $= \left[\frac{\text{Accounts Receivable}}{\left(\frac{\text{Total Credit Sales}}{\text{Number of Days}}\right)}\right]$ DSO is a key performance measurement of the credit-worthiness of a company's clients; a general indicator for client satisfaction and the effectiveness of the billing and collection process. DSO is reported either quarterly or annually.
Depreciation	An expense recorded to allocate a tangible asset's cost over its useful life. Because depreciation is a non-cash expense, it increases free cash flow while decreasing reported earnings.
Direct Costs	Cost incurred as a direct consequence of producing a good or service, as opposed to overhead or indirect costs.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization. $\text{EBITDA} = \text{Revenue} - \text{Expenses (excluding tax, interest, depreciation and amortization)}$ EBITDA is essentially net Income with interest, taxes, depreciation, and amortization added back to it. EBITDA can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. However, this is a non-GAAP measure that allows a greater amount of discretion as to what is (and is not) included in the calculation. This also means that companies often change the items included in their EBITDA calculation from one reporting period to the next.
EITF	An organization formed in 1984 by the Financial Accounting Standards Board (FASB) to provide assistance with timely financial reporting. The EITF holds public meetings in order to identify and resolve accounting issues occurring in the financial world. EITF 08-01 and EITF 09-03 are scheduled to go into effect in June, 2010. These new rulings provide revenue recognition guidelines around the value of multi-element contracts which include products and services. These new rulings will allow companies to more accurately recognize revenue as services are delivered for complex multi-element contracts. They create a hierarchy of evidence to support revenue recognition including VSOE (Vendor Specific Objective Evidence), TPE (Third Party Evidence) and ESP (Estimated Selling Price).
FASB	A seven-member independent board consisting of accounting professionals who establish and communicate standards of financial accounting and reporting in the United States. FASB standards, known as generally accepted accounting principles (GAAP), govern the preparation of corporate financial reports and are recognized as authoritative by the Securities and Exchange Commission.
Fixed Costs	Fixed costs are costs that remain the same regardless of changes in the business. For example, facility lease costs remain the same for the life of the lease, regardless of the level of occupancy. If the business is expanding, the percentage of fixed costs may decrease whereas if the business is contracting, the percentage of fixed costs may increase.
Fringe Benefits	A collection of various benefits provided by an employer, which are exempt from taxation as long as certain conditions are met. Fringe benefits commonly include health insurance, group term life coverage, education reimbursement, childcare and assistance reimbursement, cafeteria plans, employee discounts, personal use of a company owned vehicle and other similar benefits.
Gross Margin	**Gross Margin = (Total Services Revenue – Expense or Cost to Deliver the Services)** The gross profit generated per dollar of services delivered. A company's total sales revenue minus its cost of goods or services sold. This dollar amount represents the gross amount of money the company generated over the cost of producing its goods or services.
Gross Margin Percentage	Gross Margin % = (Total Services Revenue – Expense or Cost of Services Delivered) / Total Services Revenue Gross Margin %= Gross Margin / Revenue

Term	Definition
Gross Profit Percentage	A company's total sales or service revenue minus cost of goods or services sold, divided by the total sales revenue, expressed as a percentage. Gross profit and gross margin are used interchangeably.
Income Statement or Profit and Loss Statement	A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year. The statement of profit and loss follows a general format that begins with an entry for revenue and subtracts from revenue the costs of running the business, including cost of goods sold, operating expenses, tax expense and interest expense. The bottom line is net income (profit).
Labor Burdened Cost	Labor Burdened Cost per Productive Hour (or Fully-burdened Cost) (Labor Burdened Cost + gross payroll labor cost) ÷ the number of actual work (productive) hours Number of actual productive hours ÷ the total additional cost of the employee = Employee labor burden cost per productive hour
Labor Multiplier	Labor multiplier = total $ amount of labor hours billed / fully loaded (burdened) labor cost Note: a labor multiplier of 1.0 indicates a breakeven point. Any usability cost-benefit analysis should value people's time based on their fully loaded cost and not simply on their take-home salary. The cost to a company of having a staff member work for an hour is not that person's hourly rate but also includes the cost of benefits, bonuses, vacation time, facility costs (office space, heating and cleaning, computers etc.), and the many other costs associated with having that person employed. The simplest way to derive the average loaded cost of an employee is to add up all corporate or division expenses and divide by the total number of productive hours worked. Commonly, the fully loaded cost of an employee is at least twice his or her salary. This is why consultants charge so much more than regular employees: their billable hours have to cover the many overhead costs that are implicit for full-time employees. In fact, looking at common consulting rates for the kind of staff you are dealing with is a shortcut for estimating the fully loaded value of your employees' time. EXAMPLE: base rate/hour (BR)= dollar per hour pay for the staff category OH multiplier (OHM) = firm's overhead (OH) percentage + 100% Profit multiplier (PM)= profit percentage + 100% **"loaded" rate/hour** = BR X OHM X PM Base rate/hour= $45.00 per hour overhead multiplier = 135% overhead + 100% = 235% = 2.35 Profit multiplier = 10% profit + 100% = 110% = 1.1 **"loaded" rate/hour =** $45.00 X 2.35 X 1.1
Lagging Indicators	**Investopedia explains** LAGGING INDICATORS Lagging indicators confirm long-term trends, but they do not predict them. Some examples are unemployment, corporate profits and labor cost per unit of output. Interest rates are another good lagging indicator as interest rates change after severe market changes. In services, billable utilization, revenue per person and net profits are lagging indicators because they reflect changes in market conditions after the change has already occurred.
Leading Indicators	A measurable economic factor that changes before the economy starts to follow a particular pattern or trend. Leading indicators are used to predict changes in the economy, but are not always accurate. In services, leading indicators are backlog and sales pipeline because they are predictors of future revenue. **What Does the** COMPOSITE INDEX OF LEADING INDICATORS **Mean?** An index published monthly by the Conference Board used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy. These 10 components include: 1. The average weekly hours worked by manufacturing workers 2. The average number of initial applications for unemployment insurance 3. The amount of manufacturers' new orders for consumer goods and materials

Term	Definition
	4. The speed of delivery of new merchandise to vendors from suppliers 5. The amount of new orders for capital goods unrelated to defense 6. The amount of new building permits for residential buildings 7. The S&P 500 stock index 8. The inflation-adjusted monetary supply (M2) 9. The spread between long and short interest rates 10.Consumer sentiment
Loaded Cost per Person	Base + Fringe Benefits (~25%) + Target Variable Compensation + % Corporate and Practice Overhead allocation per person. Non-billable time (bench time) must be added to calculate the actual cost per hour of productive time.
Margin %	Margin % = (Revenue - Cost)/Revenue
Markup %	Markup % = (Revenue-Cost)/Cost For example, 60% markup = 40% margin
Measurement Utilization %	Billable Hours + Approved non-billable hours (pre-sales, Customer Satisfaction, Special Projects)/(2080 hours or 260 days - vacation and holidays)
Measurement Utilization	Measurement Utilization = (Billable Hours + Approved non-billable hours)/ (2080 hours – Vacations – Holidays) Approved non-billable hours are usually associated with presales, overtime not billed to clients, customer satisfaction resolution time, internal projects or skills training.
Net Income	A company's total earnings (or profit). Net income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. This number is found on a company's income statement and is an important measure of how profitable the company is over a period of time. The measure is also used to calculate earnings per share. Often referred to as "the bottom line" since net income is listed at the bottom of the income statement. Net income is calculated by starting with a company's total revenue. From this, the cost of sales, along with any other expenses that the company incurred during the period, is removed to reach earnings before tax. Tax is deducted from this amount to reach the net income number.
Non-billable Travel	Non-billable travel expense represents travel expense which cannot be re-billed to a client. Typically consulting non-billable travel is associated with business development or training activities.
On-Target Earnings (OTE)	The typical pay structure for a salesperson is composed of a fairly low basic salary with an additional amount of commission. The package will usually be called OTE or on-target earnings, meaning that if a salesperson hits the specified target, they will be guaranteed that amount of money. A higher commission can be paid if the person performs beyond this target.
Operating Income	Operating income would not include items such as investments in other firms, taxes or interest. In addition, nonrecurring items such as cash paid for a lawsuit settlement are often not included. Operating income is required to calculate operating margin, which describes a company's operating efficiency. **Operating Income = Gross Income – Operating Expenses – Depreciation**
Operating Margin	Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of service delivery such as wages and benefits. **Operating Margin = Operating Income / Net Sales** Operating Profit = (Total Service Revenue – Total cost of service delivery – Total Operating Expense)/ Total Service Revenue
Operating Profit / Margin	The amount of profit realized from a business's own operations. A ratio used to measure a company's pricing strategy and operating efficiency.
Overhead Costs	Usually, fixed costs - a business cost that is not directly accountable to a particular function or product; a fixed cost such as facilities. Costs incurred that cannot be attributed to the production of any particular unit of output. The general, fixed cost of running a business such as rent, lighting, and heating expenses, which cannot be charged or attributed to a specific product or part of the work operation.

Term	Definition
Profit Margin = Return on Sales (ROS)	The percentage of every dollar of sales that makes it to the bottom line. Profit Margin is Net Income after Tax divided by Net Sales. A ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings.
Project Margin £$€	Project Revenue – Direct Cost of project service delivery
Revenue Estimate	Revenue Estimate = Billable headcount X Billable hours X Average Bill rate X Average Utilization Rate
Revenue	Revenue = Billings that can be recognized within the time period + Re-billable travel and expense The amount of money that a company actually bills during a specific period, including sales discounts.
Revenue per person	Actual Bill Rate * Billable Hours + re-billable travel and expense
Recurring Revenue	The best revenues are those that continue year in and year out, they are often referred to as "recurring" revenue. Examples of recurring revenues are multi-year maintenance contracts and multi-year Software as Service (SaaS) subscription revenues. Temporary revenue increases, such as those that might result from a short-term promotion, are less valuable and garner a lower price-to-earnings multiple for a company.
Run Rate	How the financial performance of a company would look if you were to extrapolate current results out over a specified period of time.
Revenue Recognition	http://www.mmmlaw.com/publications/article_detail.asp?articleid=103 (Selected excerpts from the article) Any business generating revenue from licensing, selling, leasing or otherwise marketing software will experience serious problems from failure to recognize the significance of the New SOP. This section summarizes the importance of revenue recognition. Revenue recognition is a fundamental component of generally accepted accounting principles (GAAP) and is a key consideration in maintaining the integrity of financial statements. The central issue is one of timing and amount : When should revenue generated in a software transaction be recognized in a software company's income statement, and in what amounts? In most cases, companies strive to recognize revenue as quickly as possible, thereby improving their financial performance. Even private software companies generally try to improve financial performance by accelerating revenues whenever possible. Before issuance of SOP 91-1 in December 1991, there was no specific guidance for recognizing revenue in software transactions. The ensuing lack of uniformity among software companies in their revenue recognition policies led to the inability of third parties to make meaningful comparisons among companies. Similarly, the New SOP is designed to provide even greater uniformity by addressing inconsistent applications of SOP 91-1 in software transactions. Basic Revenue Recognition Criteria. SOP 91-1 and the New SOP each define basic criteria that must be satisfied before revenue can be recognized. Under the New SOP if an arrangement to deliver software does not require significant production, modification, or customization of the software, then the New SOP specifies four criteria which must be met prior to recognizing revenue from a single-element arrangement or for individual elements in a multiple-element arrangement.1 These four criteria are: 1. persuasive evidence of an arrangement exists; 2. delivery has occurred; 3. the software vendor's fee is fixed or determinable; and 4. Collectability is probable. Although these basic revenue recognition criteria are substantially the same as those contained in SOP 91-1, the New SOP takes a fundamentally different approach in certain areas such as: (1) providing detailed guidelines for recognition of revenue in "multiple-element arrangements," and (2) eliminating the concept of remaining "significant vendor obligations" under SOP 91-1. Changing Sales Behavior. A software company's sales force will be critical to implementation of the New SOP. As a general rule, software companies tend to bundle software and services together in order to offer a turn-key software solution to the buyer. Additionally, the description of and the fees for the software and services being offered are typically combined. This

Term	Definition
	bundling makes the sale easier for a sales representative because it makes the offering easier for the buyer to understand and it prevents the buyer from removing elements of the transaction that the buyer might not otherwise pay for if they knew the individual price for the element. However, the result of this bundling could be a deferral of revenue recognition. Therefore, many software companies will have to change the manner in which their sales personnel work in order to achieve their revenue recognition goals. Sales Force Compensation. From an internal perspective, many companies base compensation and bonus arrangements, at least in part, on recognized revenue within a specified time period. If revenue recognition policies are changed, bonus plans may be affected. With the adoption of the New SOP, benefit plans will require further examination to verify the suitability of these plans in achieving a company's objectives and motivating employees to complete all the requirements for revenue recognition as a basis for earning a bonus.
Subcontractor Margin	Subcontractor Margin = (Total subcontractor generated revenue – total subcontractor cost)/ Total subcontractor generated revenue
Variable Costs	Variable costs are costs that vary based upon usage. Training, travel and business expenses are variable, whereas costs for facilities are treated as a "fixed" cost because they do not vary based on use. Commonly variable costs may also be termed "discretionary" because management can make decisions to make or not make the expenditure.
VSOE	**VSOE = Vendor-Specific Objective Evidence (accounting/contracting)** VSOE is the price established by management having relevant authority. Once a firm has established the VSOE price and officially acknowledged it as such, that price must not be expected to change prior to the introduction of that element into the marketplace. The introduction of that deliverable into the marketplace on a separate basis ought to be within a very short period of time after the VSOE price is set. Accounting firms have differing opinions on how long is too long, so make certain you are aware of your accounting firm's guidelines. Vendor Specific Objective Evidence (VSOE) is an agreed-upon value for goods and services. For service organizations, VSOE is usually established by the company's auditors based on historical bill rates or actual realized revenues from service packages. When VSOE service prices are set the effect can be very painful because the firm's auditors review past engagements to set current VSOE rates. This means if a firm's services were significantly discounted in the past the service organization will be penalized with "Past sins" when auditors calculate current VSOE rates. With software companies the accepted practice is to amortize each sale across the contract's lifetime and to apply all labor hours whether billable or not.

Source: Investopedia, Wikipedia, *Morris, Manning and Martin, LLP, a****nd SPI Research, February 2021***

Appendix C: Professional Services Maturity™ Benchmark Survey Tool

Service Performance Insight

Accelerate Service Productivity & Profit

The information you supply will be kept strictly confidential

Thank-you for your time and participation, please email back to:
david.hofferberth@spiresearch.com

Section 1 — Survey Respondent

1	Name	
2	Title	
3	Company	
4	Email	
5	Telephone	

Section 2 — Firm Demographics — Fiscal Year 2020

6	Headquarters location	
7	Professional Services (PS) sub-vertical	
8	Size of **Professional Services Organization** (total employees)	
9	Annual company revenue (for the entire company, not just PS)	
10	Total annual Professional Services revenue	
11	Year-over-year change in Professional Services revenue	
12	Year-over-year change in Professional Services employee headcount	
13	Percentage of **Professional Services** employees billable or chargeable	
14	Percentage of PS revenue delivered by third-parties (subcontractors, offshore)	

What percentage of your PS revenue comes from the following:

15	Business / Management Consulting	
16	Technology or IT Consulting	
17	Subscription Services (Services sold on a subscription basis)	
18	Managed services	
19	Staff augmentation	
20	Hardware, software or other equipment resale	
21	Other	
	Total — Error - total must add up to 100%	0%

Information Technology

	Business Solutions	Solution Used	Satisfaction Level	Is it Integrated w/Financials
22 - 23	Accounting / Financial Management Solution (ERP / CFM)			
24 - 26	Client Relationship Management (CRM)			
27 - 29	Professional Services Automation (PSA)			
30 - 32	Human Capital Management (HCM)			
33 - 35	Business Intelligence (BI)			
36	Is CRM integrated with PSA?			

Section 3 — Performance Pillars - PS Organization only

Leadership

Rate the following aspects of your organization in terms of how well they operate (1: very ineffective - 5: very effective)

37	The vision, mission and strategy of the PSO is well understood and clearly communicated	
38	Employees have confidence in PS Leadership	
39	It is easy to get things done w/in the PS organization	
40	Goals and measurements are in alignment for the service organization	
41	Employees have confidence in the future of the PS organization	
42	PS effectively communicates with employees	
43	PS embraces change, we are nimble and flexible	
44	PS focuses on innovation and is able to rapidly take advantage of changing market conditions	

For the coming year, please rate the following steps you will take to improve profitability (1: very unlikely – 5: extremely likely)

45	Improve solution portfolio - service packaging, new offers	
46	Improve marketing effectiveness - brand awareness, lead generation, events	
47	Improve sales effectiveness - higher close ratio, on-target performance, training	
48	Increase bill rates	
49	Improve hiring, ramping, skill-building, training	
50	Improve methods and tools for reuse, consistency, quality	
51	Improve billable utilization - increase billable utilization	
52	Reduce non-billable time - presales, write-offs, admins	
53	Expand business models (add managed services, subscription, hybrid, etc.)	

Client Relationships

54	Total annual number of active clients	

55 - 56
57 - 58
Service revenue breakdown by new vs. existing clients and new vs. existing services

	Existing Services	New Services	Total
Current Clients			0%
New Logo Clients			0%
Total	0%	0%	0%

Error - total must add up to 100%

59	Primary target buyer for your services	
60	Bid-to-Win ratio (per 10 bids)	
61	Size of deal pipeline in comparison to your quarterly bookings forecast	
62	Length of sales cycle from qualified lead to contract signing	
63	Service discount given clients	
64	Rate the effectiveness of your solution development process (1 poor - 5 great)	
65	Rate your service sales effectiveness (1 poor - 5 great)	
66	Rate your service marketing effectiveness (1 poor - 5 great)	
67	Percent of referenceable clients	

What is the percentage of work sold in the following categories?

68	Time & Materials	
69	Fixed time / fixed fee	
70	Shared risk / performance-based	
71	Subscription	
72	Managed Services	
73	Other	
	Total — Error - total must add up to 100%	0%

Human Capital Alignment

What is the percentage of your PS workforce is in the following age categories?

74	Under 30	
75	30 - 40	
76	40 - 50	
77	Over 50	
	Total Error - total must add up to 100%	0%

78	Percentage of your workforce that is male?	
79	The primary reason employees leave	
80	Professional Services employee ***voluntary*** annual attrition	
81	Professional Services employee ***involuntary*** annual attrition	
82	How strongly would you recommend your company as a great place to work (1=not at all – 5=very)	
83	Length of time to recruit and hire for standard positions	
84	Once hired, how long until fully billable?	
85	Annual number of training days per employee	
86	There is a well-understood career path for all employees (1-strongly disagree, 5-strongly agree)	
87	What is your annual consultant billable utilization percentage (2,000 hr. base)?	
88	What is your annual fully loaded cost per consultant (salary, bonus, fringe benefits)	

How many annual hours are spent in the following categories for your average billable employee?

89	Vacation/personal/holiday	
90	Education/training	
91	Adminstrative	
92	Non-billable business development/sales support	
93	Non-billable project hours	
94	Billable hours on-site	
95	Billable hours off-site	
	(Hours do not have to add up to exactly 2,080) Total annual hours per consultant	0

Service Execution

96	Describe your resource management process	
97	Length of time to staff projects (in days)	
98	Number of projects delivered per year	
99	Revenue per project	
100	Average number of people working on a project	
101	Average project duration (in months)	
102	Percentage of projects delivered on-time, on budget	
103	Project overrun	
104	Percentage of projects where a standard delivery methodology is used	
105	Project margin for time and materials projects	
106	Project margin for fixed price projects	
107	Margin for subcontractors and/or offshore resources	
108	Effectiveness of resource management process (1 very ineffective - 5 very effective)	
109	Effectiveness of estimating processes & estimate reviews (1 very ineffective - 5 very effective)	
110	Effectiveness of change control processes (1 very ineffective - 5 very effective)	
111	Effectiveness of project quality processes (1 very ineffective - 5 very effective)	
112	Effectiveness of knowledge management processes (1 very ineffective - 5 very effective)	

Finance and Operations

113	Annual revenue per billable employee	
114	Annual overall revenue/person yield (for the entire PS organization)	
115	Percentage of the quarterly revenue target in backlog at the beginning of the quarter	
116	Percentage of annual **revenue** target achieved	
117	Percentage of annual **margin** target achieved	
118	Percentage of overall revenue unable to bill (revenue leakage)	
119	Percentage of invoices that must be redone due to error or client rejection	
120	Days Sales Outstanding (DSO)	
121	Quarterly non-billable discretionary expense per employee (cell phones, non-billable travel, training)	
122	PS execs. have real-time visibility into all bus. activities (sales/service/finance/etc.) (1 none - 5 comprehensive)	

2020 Professional Services Income Statement (in $Millions)

		($millions)
123	Direct gross PS revenue	
124	Indirect gross PS revenue (revenue delivered by subcontractors, outside resources etc.)	
125	Pass-thru PS revenue (hardware, software, materials, etc.)	
126	Revenue from reimbursable PS travel and business expense	
	Annual Gross PS Revenue (Should be in the range answered in question 10)	$0.00

		($millions)
127	Total direct billable labor expense for billable PS headcount (does not include fringe benefits, vacation, sick time or overhead)	
128	Total fringe benefit expense as a % of direct labor (for healthcare, pensions, vacation and sick pay)	
129	Total subcontractor/outside consultant expense (compare to question 124)	
130	Pass-thru equipment cost (hardware, software, materials, etc.) (compare to question 125)	
131	Total billable travel and business expense (compare to question 126)	
132	Total non-billable travel and business expense	
133	Total Recruiting expense (recruiters, fees, signing bonus, referrals, etc.)	
134	Total Sales expense (includes fully loaded headcount expense, bonus and non-reimbursable sales expense)	
135	Total Marketing expense (includes all headcount, bonus and marketing program expense)	
136	Total education, training and certification expense for the entire PS organization	
137	Professional Services IT expense (fully loaded IT headcount, capital, depreciation, IT-specific facility expense)	
138	All other G&A expense - fully loaded non-billable headcount, general and administrative, facilities, legal, etc.	
	Annual PS Expenses	$0.00
	Earnings before Interest, Taxes, Depreciation, Amortization (EBITDA)	$0.00
	Earnings before Interest, Taxes, Depreciation, Amortization Percentage (EBITDA%)	#DIV/0!
		Please check your EBITDA

Thank-you for your time and participation, please email back to:

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Appendix D: Related SPI Research

SPI Research has produced several publications for services-driven organizations that include:

- Δ **2020 Professional Services Talent Benchmark** (August 2020): *This important 108-page study profiles talent priorities, the move to virtual service delivery, level of employee investment and the impact of business applications. The study provides analysis of target and realized bill rates; compensation and utilization across a broad range of professional service verticals, geographies and job levels around the globe. It provides an unprecedented view of Professional Services workforce distribution and composition by industry segment through an analysis of organization structures for various service segments including IT Consulting; Management Consulting; Architects and Engineers and embedded service organizations within technology companies.*

  The study provides analysis of target and realized bill rates, compensation and utilization across a broad range of professional service verticals, geographies and job levels around the globe. Based on survey data from 127 Professional Service organizations, representing more than 20,000 consultants, this independent study profiles published and realized bill rates, base and variable compensation and billable utilization across 12 job roles.
- Δ **2019 PS Human Capital Management (HCM) End-user Survey** (September 2019): *The 2019 Human Capital Management (HCM) End-user Survey Report is the first professional services end-user survey. It is based on 52 billable professional services organizations, and details many of the drivers behind the purchase and use of HCM, analyses user satisfaction by module, and both qualifies and quantifies its benefits. The 45-page report consists of 46 figures and tables, and highlights some of the trends in HCM use, most notable its movement to the Cloud. The average firm size was 446 employees, and the organizations showed an annual profit of 11.6%.*
- Δ **2017 Professional Services Automation End-user Survey** (September 2017): *For the first time in over a decade, during the second quarter of 2017, SPI Research conducted a Professional Services Automation (PSA) end-user survey. This examination of 68 billable organizations using PSA is truly an independent research study – the PSA solution providers had no input or control over the survey or respondents. The survey asked both quantitative and qualitative questions regarding why firms selected PSA, which attributes were most important, and how buyers perceived their benefits. Most importantly, this study looked at both pre- and post-PSA deployment. The report contains: PSA definition and core modules, why PSA was purchased, how PSA is used, user satisfaction with various components and aspects of PSA, pre- and post-PSA deployment benchmarks, and participant interviews, and long with 36 insightful figures and tables.*
- Δ **2017 Professional Services Automation Buyers Guide** (July 2017): *The growth engine of the world's economy has shifted from manufacturing to project-based, people-centric services businesses. These businesses rely on Professional Services Automation (PSA) solutions. PSA automates core business processes such as quote-to-cash, resource management, project*

management, time capture and billing. It provides the real-time visibility necessary to improve organizational efficiency and effectiveness. This PSA Buyer's Guide provides an overview of important trends, business processes and selection criteria to help project- and services-based businesses evaluate and choose PSA applications, which will provide the level of insight, management and control needed to improve productivity and profitability.

- Δ **2013 Professional Services Sales and Marketing Maturity™ Benchmark** (October 2013): *Most professional services organizations are dissatisfied with their sales, marketing (and packaging) effectiveness. For the past eight years, over 1,500 PS organizations that have completed SPI Research's benchmark surveys have consistently given their sales and marketing efforts failing marks. The results for the very few firms that have successfully implemented PS sales, marketing and packaging disciplines, and made these activities central to their value proposition are extraordinary with 47 percent of all services sold as packaged solutions, 28.6 percent net profit and $255,000 annual revenue yield per consultant.*

Information on these and any other SPI Research publications can be found at www.spiresearch.com or by e-mail at info@spiresearch.com.

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 more than 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 239-207-7773.

Jeanne Urich, Service Performance Insight managing director, is a management consultant specializing in improvement and transformation for project- and service-oriented organizations. She has been a corporate officer and leader of the worldwide service organizations of Vignette, Blue Martini and Clarify, responsible for leading the growth of their professional services, education, account management and alliances organizations.

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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 35,000 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.SPIresearch.com** for more information on Service Performance Insight, LLC.