WHITE PAPER

2020 Professional Services Maturity™ Benchmark

Professional Services

Service Performance Insight, LLC

2020 Professional Services Maturity™ Benchmark

sage Intacct

February 2020

Service Performance Insight

www.SPIresearch.com

Service Performance Insight

Service Performance Insight (SPI) 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**
- **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:

david.hofferberth@spiresearch.com or jeanne.urich@spiresearch.com

For more information on Service Performance Insight, please visit:

www.spiresearch.com

A special thanks to Good Free Photos and the US Coast Guard Academy for use of the cover image:

https://www.goodfreephotos.com/other-photos/coast-guard-academy-competes-2011-kennedy-cup.jpg.php

Table of Contents

Figures

Tables

In this 2020 Professional Services Maturity™ Benchmark Report, SPI Research has compiled the most comprehensive study of the various types of service organizations that exist today, and the common benchmarks that drive them. With this report, you will be able to see how the industry as a whole is performing, as well as getting the visibility into your unique niche.

Sage Intacct is proud to sponsor this year's report. As the only true cloud financial management system, built to meet the needs of all professional service organizations from the very small to large, multi-national companies, we strive to promote the success of our customers and this industry.

Our industry leading financial system is built to integrate with your key applications to ensure your technology stack is centered on reliable financial data, and a single source of truth. With deep integration to CRM systems like Salesforce, and top PSA providers such as Kimble, Sage Intacct allows your business to use the right solution for your teams and tie them together for an unmatched best-in-class approach to running your business. With over 1.5 million projects run on Sage Intacct, we understand what it takes to deliver the automation of complex processes, revenue recognition, and detailed financial reporting required of modern businesses.

When it comes to evaluating financial software, accountants, CPAs, and other financial professionals rely on the sound judgment of the American Institute of Certified Public Accountants (AICPA), the accounting profession's independent organization that sets high standards for accounting software. That's why we're proud that the AICPA and its subsidiary, CPA.com, named Sage Intacct as its **first and only** preferred provider of accounting applications.

Sage Intacct was also named a leader by the IDC MarketScape for cloud and SaaS ERP systems, and received the highest score for Core Financials from Gartner's 2019 Critical Capabilities report. Of course, our most coveted award comes from our customers. Sage Intacct is consistently the #1 vendor for customer satisfaction from G2 crowd.

To learn more about how Sage Intacct can help take your organization to the next level, please visit us at. www.sageintacct.com.

Thank you,

Brian Siefkes
Director, Professional Services Industry, Sage Intacct

Chapter 1 – Report Summary

Service Performance Insight (SPI Research) is proud to introduce the ***thirteenth-annual Professional Services Maturity™ Benchmark***. For over a decade 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 framework for performance improvement that helps pinpoint the areas 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.

Smooth Sailing in 2019!

For Professional Service organizations, 2019 was a year of smooth sailing with improvement in most major metrics. Stand out KPIs include revenue growth (10.6%) and revenue per consultant and per employee which reached new all-time highs! Equally important, attrition eased somewhat giving firms a bit of respite from the on-going skilled talent war.

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 thirteen years.

Table 1: Five-year PS Key Performance Metrics

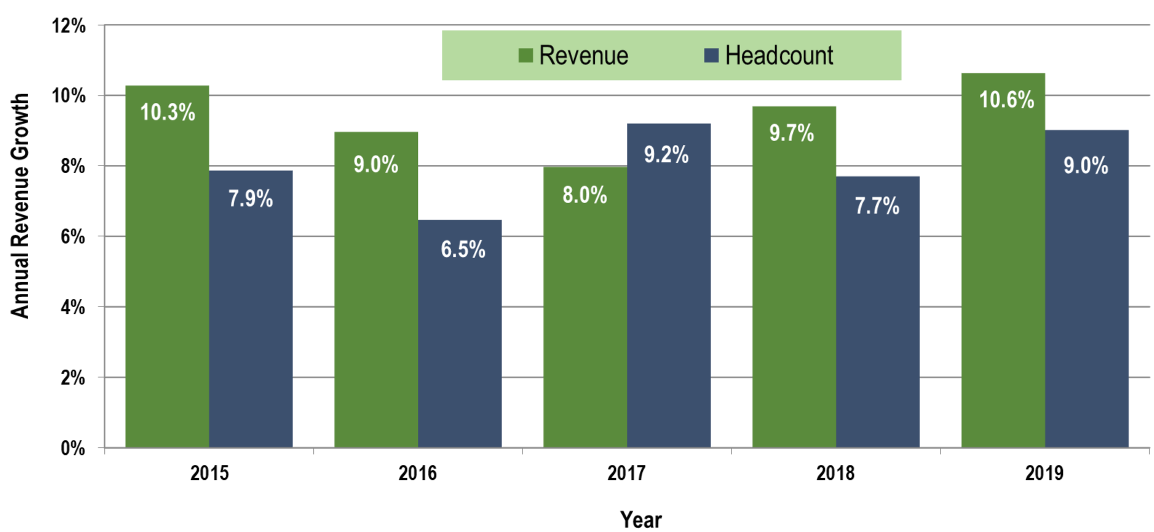
Key Performance Indicator (KPI)	2015	2016	2017	2018	2019
Annual PS revenue growth	10.2%	9.0%	8.0%	9.7%	10.6%
Annual PS headcount growth	7.8%	6.5%	9.3%	7.7%	9.0%
Percentage of billable personnel	70.4%	74.6%	75.5%	72.8%	73.3%
Employee attrition	12.9%	13.6%	12.4%	13.9%	13.2%
Annual revenue per consultant (k)	$198	$205	$196	$206	$207
Annual revenue per employee (k)	$157	$163	$159	$166	$170
Profit (EBITDA %)	**15.5%**	**14.2%**	**16.8%**	**18.5%**	**15.2%**

Source: SPI Research, February 2020

Change is constant in professional services with each year bringing new geopolitical, socioeconomic and technology disruption. After all, without disruption and change, professional services would not exist, because clients would not need expert help to navigate new opportunities and landmines. Over the past thirteen years of benchmarking, Service Performance Insight (SPI Research) has seen great change in the marketplace, particularly in the ever-growing adoption of integrated, cloud-based business applications which have helped firms wring ever higher levels of productivity and profit out of this labor-based business.

A near record number of respondents (513) 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. This year we have significantly improved the statistical depth and data validity for architects and engineers, accountancies and marketing and advertising firms. We also garnered input from a host of new PS segments such as VARS and Government Contractors. Every year SPI Research has worked to broaden the survey to reach more geographic regions so that it truly represents a worldwide performance survey. While we have not achieved all our goals, we are told this benchmark is the gold standard for the consulting industry. It is used by well over 35,000 billable professional services organizations to benchmark their operations and gain insight into ways they can improve.

Figure 1: Annual PS Revenue Growth vs. Headcount Growth



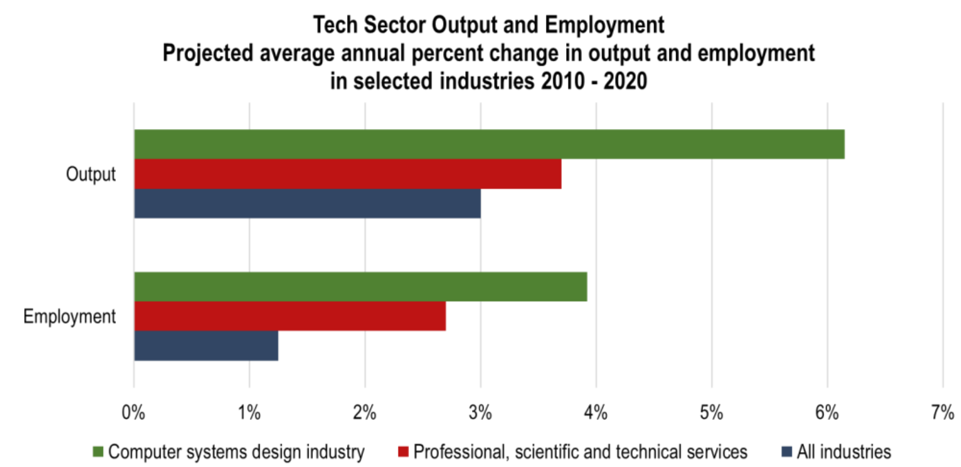
Source: SPI Research, February 2020

Productivity improvements are critical in professional services. As the global economy continues to hold up, organizations in every industry are having to work harder to achieve higher productivity, without adding substantial cost. Headcount growth is a key leading indicator for revenue growth. For the first time in this benchmark's history, PS headcount growth (9.2%) exceeded revenue growth in 2017. As we expected, this led to strong revenue growth in 2018 (9.7%). In 2019 revenue growth grew to a near record high of 10.6% while headcount growth surged to 9%.

The Rise of the Services Economy

The world has become services driven. The service sector is both the largest and the fastest growing component of the U.S. economy. Fifty years ago, services accounted for 60% of U.S. output and employment. Today, the service sector's share of the U.S. economy has risen to 80%. Look under the hood of almost any industry and you will find traditional healthcare, financial services and manufacturing companies looking to grow services as a predictable and profitable revenue stream.

Figure 2: US Bureau of Labor Employment Projections (2010-2020)



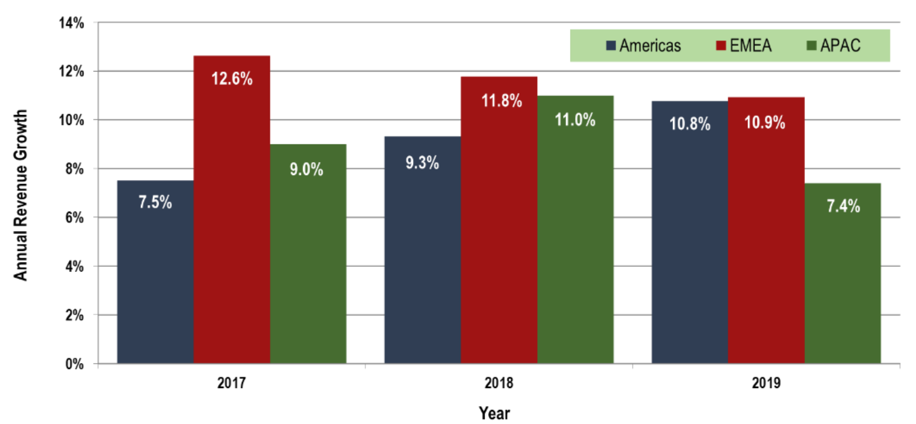
Source: Bureau of Labor Statistics 2018

This unprecedented growth in the services economy is not without its own set of challenges as new business models and buying preferences emerge. Service providers are exploring subscription, usage based and managed services pricing and billing models, hoping to secure annuity clients and predictable revenue streams.

Revenue Growth Continues!

Professional service revenue growth continued with a surge to 10.6%. Five-year average revenue growth now stands at 9.6%. Surprisingly, EMEA has reported the strongest revenue growth for the past three years. In the

Figure 3: Annual Revenue Growth by Geography

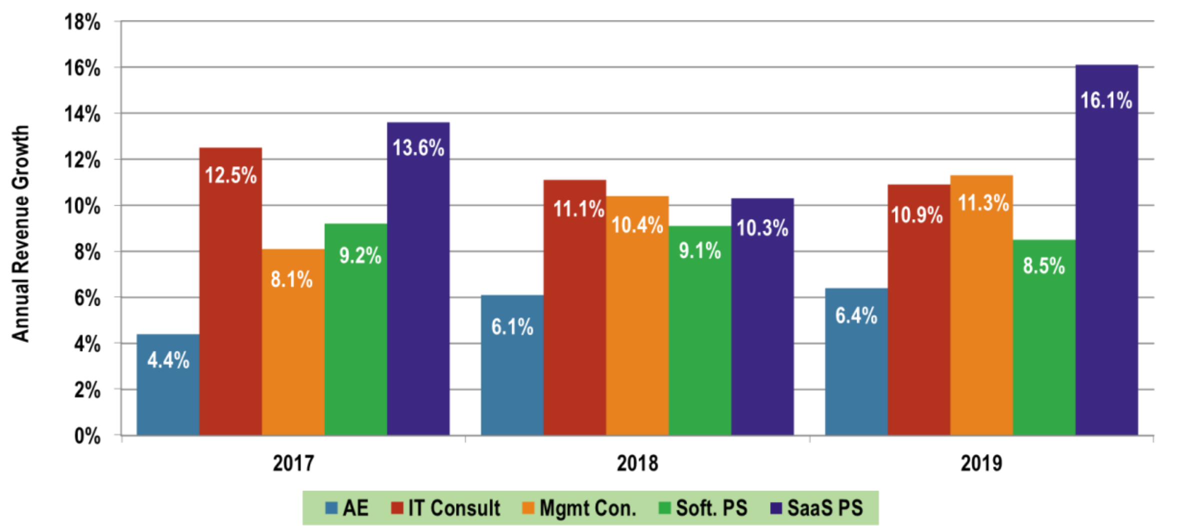


Source: SPI Research, February 2020

Americas, revenue growth is strong and growing. This year Asia Pacific reported the weakest revenue growth at 7.4%, a sharp decline from 2018.

Underlying top level year over year revenue growth, we see uneven sector performance (Figure 4) with organizations focused on the cloud, security, IOT, analytics and artificial intelligence experiencing significant growth while more traditional segments like architecture, engineering and construction are seeing consolidation and price pressure. Management consulting revenues surged this year to 11.3%. Now is the time for all PSOs to carefully evaluate their markets and positioning to ensure they stay ahead of the curve and to seize emerging market opportunities before they become mainstream and commoditized.

Figure 4: Annual Revenue Growth by PS Industry Segment



Source: SPI Research, February 2020

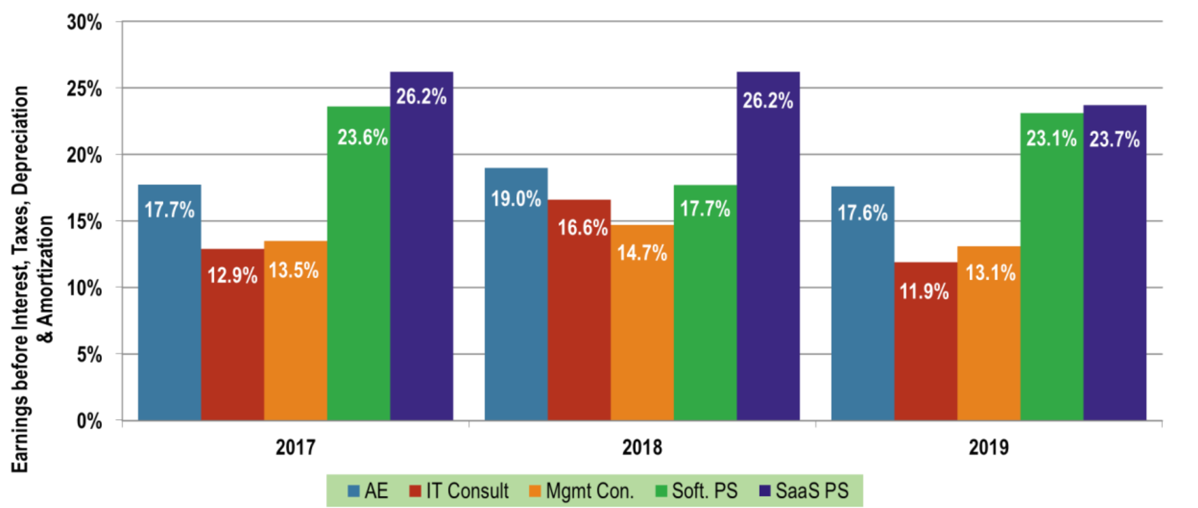
Profits Decline!

Overall PS sector net profit (EBITDA) declined from its highest ever reported ceiling of 18.5% in 2018 to 15.2% in 2019 (Figure 5). Buoyed by cloud consulting net profits of 23.7%, more and more service providers are adding cloud consulting competencies to grab some of the fairy dust.

Figure 5 shows embedded Software and SaaS PSOs continued their profit dominance at 23.1% and 23.7% - down from record profits in 2018 of 26.2%. As a whole, embedded service organizations (within product companies) continue to record stronger profits than their independent counterparts. ESOs averaged 21.3% EBITDA in 2019 down slightly from 22% in 2018. Independents reported EBITDA of 13.6% in 2019, dramatically lower than their record profit of 22% in 2018.

Figure 5 shows the wide disparity in reported net profit for the five largest verticals represented in this benchmark. Across these segments, profit declined significantly from 2018 with IT Consultancies reporting the largest falloff with a profit decline from 16.6% in 2018 to 11.9% in 2019. The fastest growing segment, embedded cloud (SaaS) PS, produces the best margins (23.7%) based on high demand and the ability to deliver remotely. With more input from architect and engineering firms, along with a commensurate improvement in the construction industry, their profits at 17.6% are the highest among independent firms.

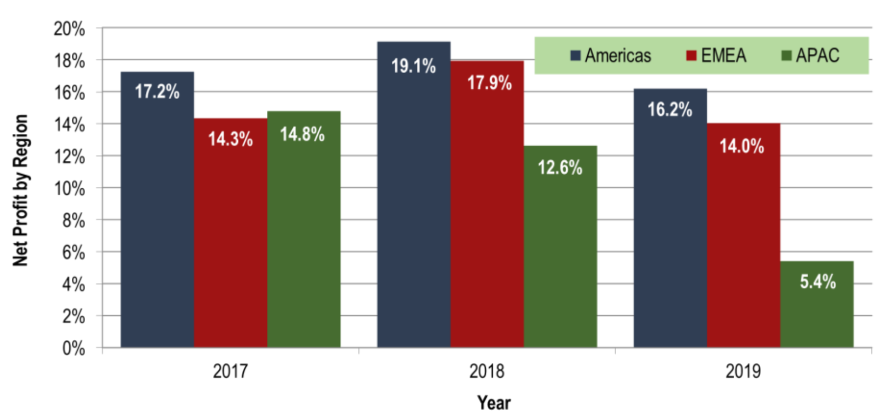
Figure 5: Net Profit (EBITDA) by PS Industry Segment



Source: SPI Research, February 2020

By geography, net profit declined significantly in all regions as the war for talent led to increasing personnel costs which were not matched by a commensurate rise in realized bill rates. Asian Pacific headquartered firms had a tough year with the lowest regional revenue growth (7.4%) and very low net profits of 5.4%. As growth has slowed across Asia, consulting firms have seen their profits decline precipitously.

Figure 6: Net Profit Comparison by Geographic Region



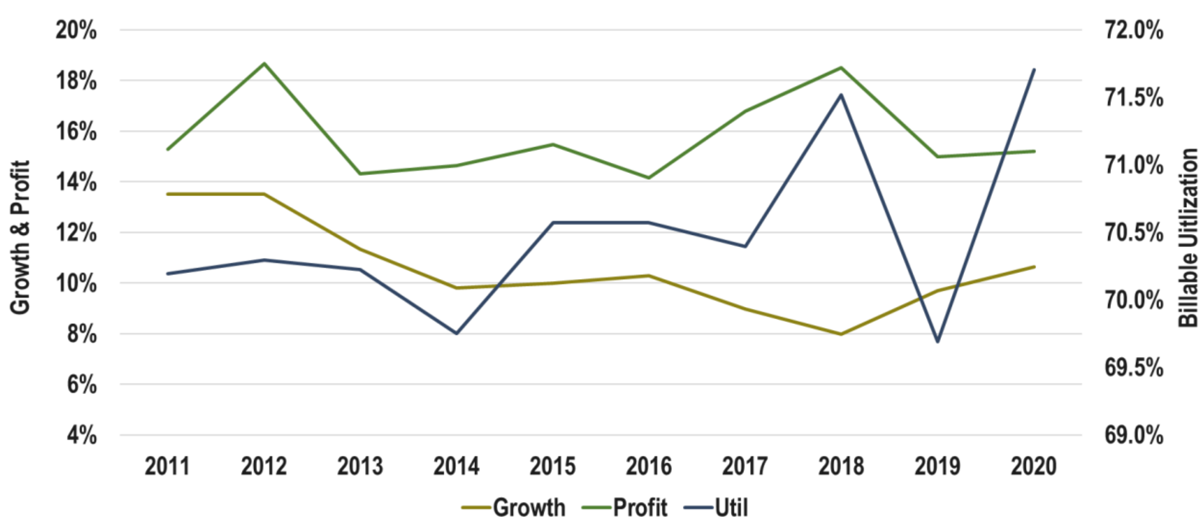
Source: SPI Research, February 2020

Show Me the Money!

For anyone who wants to know how money is made in a labor-based business, you 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.

As shown in Figure 7, PS profit levelled off from 18.5% in 2018 to 15.2% in 2019 while average billable utilization increased significantly from 69.7% to 71.7%. Year over year revenue growth climbed to 10.6%, the highest level of revenue growth the industry has reported since 2012 when the professional service sector surged after the recession. Employee attrition had been climbing steadily since the recession to 13.9% in 2018 but this figure improved slightly to 13.2% in 2019. All in all, 2019 was a fantastic year in Professional Services with improvement in most of the key metrics.

Figure 7: Growth, Profit and Utilization

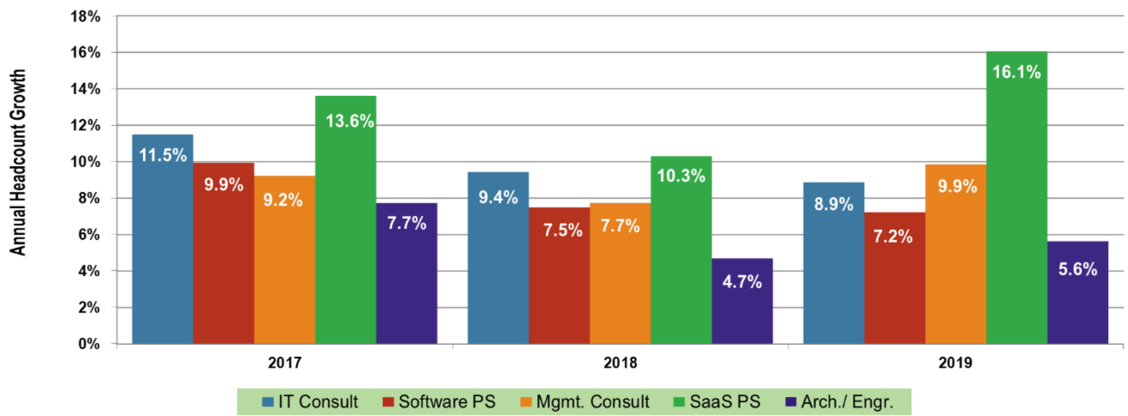


Source: SPI Research, February 2020

The War for Talent Intensifies!

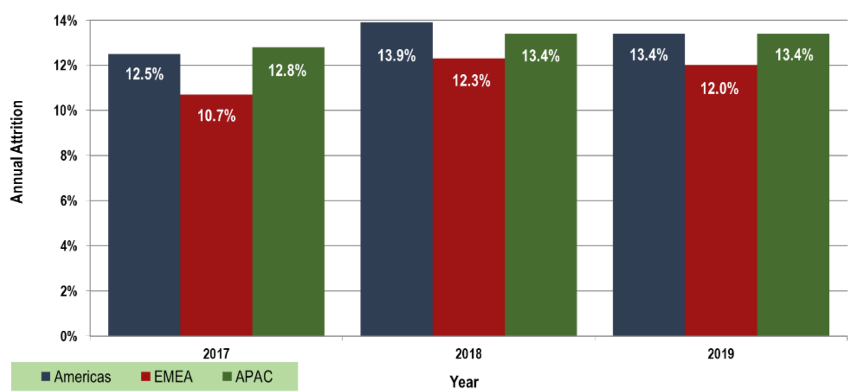
In 2019 the war for talent intensified. US unemployment declined to 3.7%, the lowest it has been in 50 years. Unemployment is even lower for jobs requiring a bachelor's degree or better, at 2.5%. To attract skilled talent, firms are brandishing their reputations as a great place to work by offering not only more money but also a host of other benefits including job-sharing, 401K matching, working from home, parental leave and generous time-off policies including sabbaticals. Headcount growth expanded from 7.7% in 2018 to 9.9% in 2019. Figure 8 provides a snapshot of headcount growth by industry segment. Not surprisingly, the greatest headcount and revenue growth was reported by SaaS PSOs.

Figure 8: Year over Year Headcount Growth by Industry Segment



Source: SPI Research, February 2020

Figure 9: Employee Attrition by Geography



Source: SPI Research, February 2020

On the bad news front, the average time to recruit and ramp new employees grew to 121.1 days, up from 117.3 days in 2018. Total attrition (both voluntary and involuntary) declined slightly from 13.9% to 13.2% (Figure 9). Asia and the Americas have historically reported the highest attrition. Attrition is undoubtedly one of the most vital metrics to watch, as the cost to replace a valuable employee can be more than $150,000.

Smooth Sailing Predicted for Professional Services in 2020

The theme for the 2020 benchmark is “Smooth Sailing”. All leading indicators point to a fabulous start to the new decade. 2019 was a terrific year in Professional Services with stable revenue and headcount growth, facilitated by expanded adoption of PS specific business applications most notably CRM, PSA and HCM. Revenue yields per consultant and per employee increased to $207K and $170K respectively due to improvements in utilization and bill rates. Sector profit declined from its all-time high of 18.5% in 2018 to a more sustainable 15.2% in 2019. Profits declined due to a downturn in IT Consulting, Accounting, Staffing and Managed Services EBITDA.

Despite continued turbulence over global trade with China; Brexit; and intensifying privacy and security concerns; times are still good in PS, with plenty of interesting work and abundant client challenges.

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 slowly making an impact of the Professional Services sector however the industry remains solidly a young man's game with 60% male employees with an average age of 39.1 years.

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. Transformation is coming slowly to this industry, with incremental improvements seen in productivity, knowledge capture and repeatable frameworks; we are not yet seeing revolutionary changes. If anything, the world of professional services is becoming more attractive, no longer so focused on basic "infrastructure and plumbing" supplied by armies of 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. 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 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.

Chapter 2 – The Professional Services Maturity™ Model

SPI Research has spent over a decade 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 2020 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	54.8%	25.0%	20.3%
Year-over-year change in PS revenue	8.3%	12.3%	14.8%
Deal pipeline / qtr. bookings forecast	156%	190%	220%
Employee billable utilization	61.3%	77.6%	84.2%
Projects delivered on-time	68.0%	84.8%	91.8%
Annual revenue / billable consultant (k)	$124	$230	$293
Annual revenue / employee (k)	$89	$186	$251
PS EBITDA	**7.5%**	**15.1%**	**21.0%**

Source: SPI Research, February 2020

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. **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™

Thirteen 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 10):

Figure 10: Service Performance Pillars™

Source: SPI Research, February 2020

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

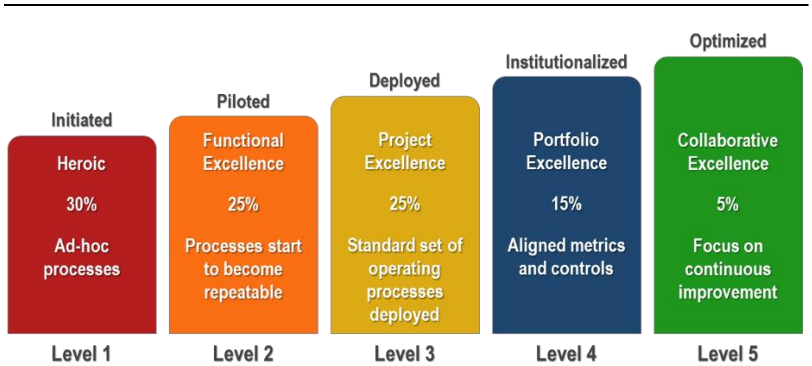
buyers, their requirements and how our solution solves those challenges in a differentiated way. This pillar encompasses all aspects of marketing, lead generation, quoting and selling solutions as well as contract management and partnering. The core business processes performed in the client relationships pillar include marketing, selling and the entire quote to cash business process.

3. **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 human capital management processes include recruiting, hiring, 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 11 depicts maturity level progression and outlines primary characteristics for each maturity level:

Figure 11: Services Maturity™ Model Levels



Source: SPI Research, February 2020

- **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".***

- **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".***

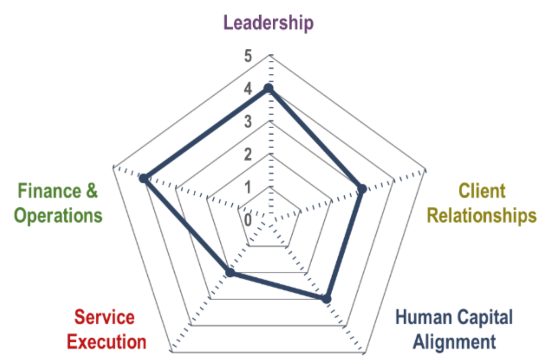
- **LEVEL 5** ***— OPTIMIZED "COLLABORATIVE"*****: (APPROXIMATELY 5% OF PSOS)** at maturity level 5 *executives focus on continual improvement of all elements of the five performance pillars*. A disciplined, controlled process is in place to measure and optimize performance through both incremental and 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 12). 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 12: Service Performance Pillar Maturity™



Source: SPI Research, February 2020

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.

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
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.
Human Capital Alignment	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.
Finance and Operations	The PSO has been created but is not yet profitable. Rudimentary time & expense capture. Limited financial visibility and control.	5 to 15% margin. PS becoming a profit center but still immature finance and operating processes. Investment in CFM and PSA to provide	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	PS generates > 20% of overall company revenue & contributes > 30% margin. Well-developed finance and operations processes and controls. Systems have been	> 30% margin. Continuous improvement and enhancement. High profit. Integrated systems. Global with disciplined process controls and

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
	Unpredictable financial performance. Rudimentary contract and risk management.	financial visibility. May not have real-time visibility or BI. Standard Library of Contracts and Statements of Work.	knowledge of all costs at the employee, sub-contractor & project level. Processes in place for contract management, legal and pricing decisions.	implemented for CRM, PSA, CFM and BI. IT integration and real-time visibility. Systems have been implemented for contract management, legal and pricing decisions.	optimization. Completely integrated financial, CRM, resource management, contracts and pricing systems, processes and controls.

Source: SPI Research, February 2020

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 is profit-motivated (which most are), increasing maturity levels do show up in significant bottom-line profit. Figure 13 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.

Figure 13: Professional Services Maturity™ Progression

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Firms	**152**	**129**	**128**	**77**	**27**
Year-over-year change in PS revenue	7.9%	8.7%	12.3%	13.6%	18.1%
Bid-to-win ratio (per 10 bids)	4.42	5.00	5.61	5.71	7.11
Percentage of referenceable clients	50.9%	63.7%	81.4%	90.6%	94.3%
Employee billable utilization	55.5%	68.2%	77.6%	83.3%	86.9%
Projects delivered on-time	60.6%	76.7%	84.8%	91.1%	93.9%
Project margin	28.8%	32.7%	37.0%	41.4%	51.2%
Annual revenue per billable consultant (k)	$88	$167	$230	$285	$313
Profit (EBITDA %)	**4.4%**	**11.1%**	**15.1%**	**19.4%**	**25.6%**

Source: SPI Research, February 2020

Pillar Importance and Organizational Maturity

The results and insights gained in the past twelve 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.

513 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 of the surveys with those that answered this specific question. SPI Research will eliminate the 21 firms that did not complete this questions and therefore the EBITDA is **15.4**% vs. the actual survey average of **15.5**%. 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	10	5.8%	20.6%	
Under -10%	29	4.4%	10.2%	10.2%
-10% - 0%	22	20.5%	14.0%	14.0%
0% - 5%	103	20.7%	13.9%	13.9%
5% - 10%	104	18.3%	19.3%	19.3%
10% - 15%	92	14.7%	14.5%	14.5%
15% - 25%	74	15.7%	13.7%	13.7%
Over 25%	79	5.8%	17.1%	17.1%
Total/Avg.	**513**	**100.0%**	**15.5%**	**15.4%**

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.

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	◔	◔	◕	●	●

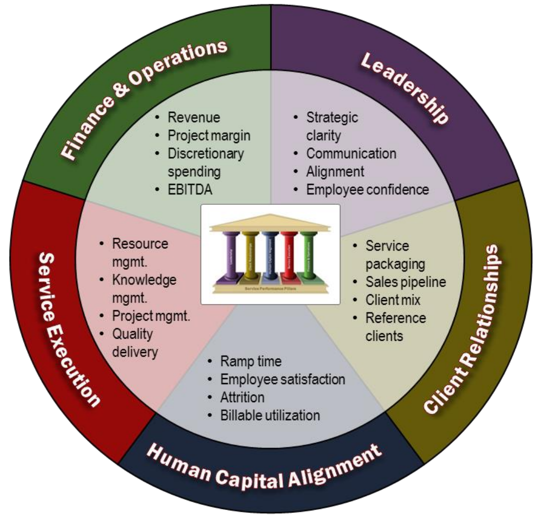
Source: SPI Research, February 2020

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." 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 14: PS Performance Pillars – Core KPIs



Source: SPI Research, February 2020

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.

Chapter 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 and knowledge.

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); Government Contractor and "other" which includes healthcare; managed service providers; 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 513 billable Professional Services Organizations (PSOs) from October through December 2019. The following sections outline the key markets which comprise the global professional services industry and breakdown the 2019 survey demographics in several key areas (market, organization size, and geographic region) to help PS firms compare their individual results to the benchmark.

The Global Services Market

According to Gartner, who tracks IT spending (including Communications Services but excluding Business Services and non-IT related Professional Services), Worldwide IT spending is projected to total $3.7 trillion in 2019, an increase of 0.4% from 2018. This is the lowest forecast growth in 2019 so far. Global

IT spending is expected to rebound in 2020 with forecast growth of 3.7%, primarily due to enterprise software spending.

"The slowdown in IT spending in 2019 is not expected to stretch as far into 2020 despite concerns over a recession and companies cutting back on discretionary IT spending," said John-David Lovelock, research vice president at Gartner.

Table 5: Worldwide IT Spending Forecast (Billions of U.S. Dollars)

	2019 Spending	2019 Growth (%)	2020 Spending	2020 Growth (%)	2021 Spending	2021 Growth (%)
Data Center Systems	205	-2.5	210	2.6	212	1.0
Enterprise Software	457	8.8	507	10.9	560	10.5
Devices	675	-5.3	683	1.2	685	0.4
IT Services	1,031	3.7	1,088	5.5	1,147	5.5
Communications Services	1,364	-1.1	1,384	1.5	1,413	2.1
Overall IT	**3,732**	**0.4**	**3,872**	**3.7**	**4,018**	**3.8**

Source: Gartner, 2019

Today's complex geopolitical environment has pushed regulatory compliance to the top of organizations' priority list. Overall spending on security increased 10.5% in 2019, with cloud security projected to grow 41.2% over the next five years.

IT spending growth is being driven by the rest of the world catching up on cloud spending. The U.S. is leading cloud adoption and accounts for over half of global spending on cloud. In some cases, countries that Gartner tracks lag one to seven years in cloud adoption rates. "For perspective, the country directly behind the U.S. on cloud spending is the United Kingdom, which only spends 8% on public cloud services. An interesting outlier is China, which has the highest growth of cloud spending out of all countries. While China is closing the spending gap, it still will not reach U.S. levels by 2023."

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 6)".***

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 6: 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 (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 2020

Tables 7 and 8 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 7: 2018 NAICS Services Rollup (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 2020

Table 8: 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**	

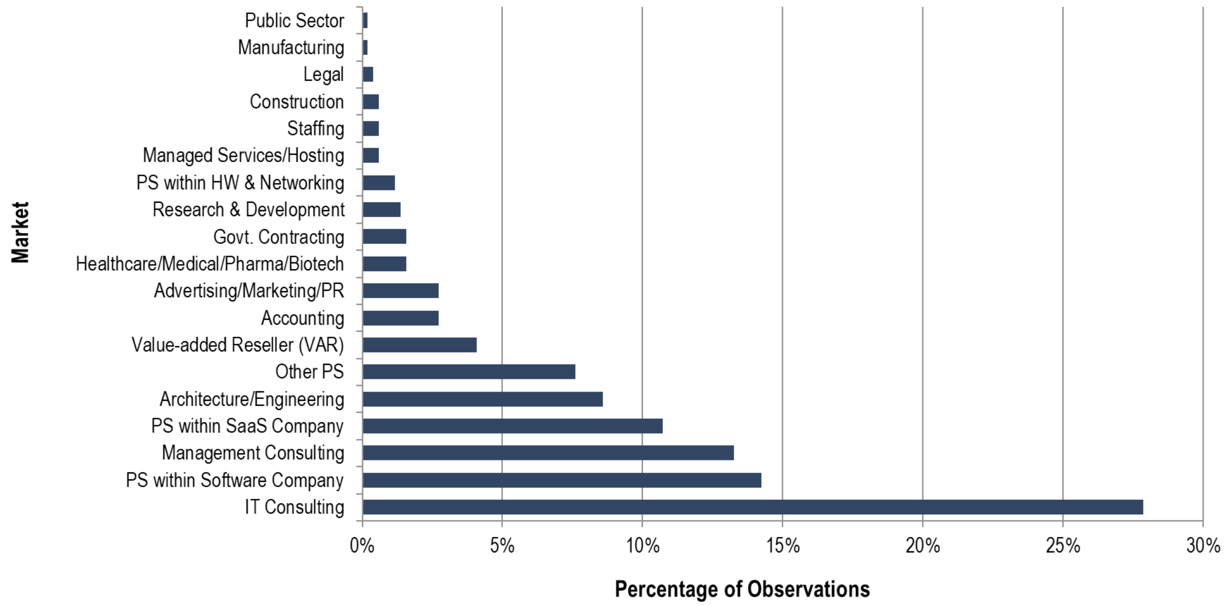
Source: US Census and SPI Research, February 2020

PS Maturity™ Benchmark Vertical Market Demographics

The 2020 PS Maturity™ benchmark is the most comprehensive global study of the professional services industry as it is based on 513 participating organizations representing over 272,000 consultants (Figure 15). The percentage of completed surveys representing the top 14 vertical market segments is as follows:

1. ***IT Consulting***: Systems Integrators and developers – 27.9%, 143 firms representing ~ 96,000 consultants;
2. ***Software PS***: Service divisions within software companies – 14.2%, representing 73 firms and ~ 43,000 consultants;
3. ***Management Consulting***: Management consultancies – 13.3% representing 68 firms and ~ 15,000 consultants;
4. ***SaaS PS***: Service divisions within software-as-a-service providers – 10.7% representing 55 firms and ~ 31,000 consultants;
5. ***Architects and Engineers***: Architects and engineers – 8.6% representing 44 firms with ~ 19,000 architects and engineers;
6. ***Value-Added Resellers:*** resell hardware, software and provide technology services, training and support – 4.1% representing 21 firms with ~ 1,200 consultants;
7. ***Marketing, Advertising and PR***: Advertising, marketing, communication firms – 2.7% representing 14 firms and ~ 17,000 consultants;
8. ***Accountancies***: Accounting firms – 2.7% representing 14 firms with ~ 11,000 accountants and auditors;
9. ***Government Contracting***: Firms providing professional services to Government agencies – 1.6% representing 8 firms with ~ 8,000 consultants;
10. ***Healthcare/Medical/Pharma/Biotech***: 1.6% representing 8 firms with ~ 5,000 project-based professionals;
11. ***Research & Development***: R&D organizations – 1.4% representing 7 firms with ~ 8,000 consultants;
12. ***Hardware (and Networking) PS***: Service divisions within hardware and networking manufacturers – 1.2% representing 6 firms with ~ 4,000 consultants;
13. ***Staffing***: Staffing organizations – 0.6% representing 3 firms with ~ 1,000 consultants;
14. ***Managed Services:*** Provide hosting and managed and outsourced services – 0.6% representing 3 firms with ~ 1,000 consultants;
15. ***Other PS***: business optimization, training – 9.0% representing 46 firms and ~ 13,000 consultants; "Other PS" includes other types of PSOs such as legal, manufacturing, construction, and organizations that either did not squarely fit into other specific professional services verticals or lacked enough observations worth analyzing.

Figure 15: Vertical Market Distribution



Source: SPI Research, February 2020

Table 9 shows participant demographics for the past thirteen years. Historically, IT consultancies have been the largest participating market, closely followed by PS within software firms.

Table 9: Number of Participating Firms by Vertical Market (2007 through 2019)

Market	Type	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
IT Consulting	PSO	13	24	50	67	61	69	115	86	190	133	103	155	143	**1,209**
PS within Soft.	ESO	34	66	89	57	56	45	45	47	89	57	45	78	73	**781**
Mgmt. Consult.	PSO	2	12	22	22	31	34	24	27	68	46	45	75	68	**476**
Arch./Engr.	PSO	0	0	4	6	7	8	6	10	50	35	153	100	44	**423**
Other PS	PSO	2	13	30	22	13	31	21	24	13	46	49	62	62	**388**
PS within SaaS	ESO	0	0	18	19	26	23	16	13	43	41	29	70	55	**353**
Advertising	PSO	0	0	0	6	10	11	6	4	12	9	8	20	6	**92**
PS within HW/Net	ESO	1	3	12	9	10	9	4	4	16	6	6	12	14	**106**
Accounting	PSO	0	0	0	6	2	4	1	5	13	9	8	19	14	**81**
VAR	ESO	0	0	0	0	0	0	0	0	14	14	4	14	21	**67**
Managed Services	ESO	0	0	0	0	0	0	0	0	17	8	4	9	3	**41**
Res. & Dev.	PSO	0	0	0	0	0	0	0	0	15	7	0	4	7	**33**
Staffing	PSO	0	0	0	0	0	0	0	0	9	5	2	4	3	**23**
Total		**52**	**118**	**225**	**214**	**216**	**234**	**238**	**220**	**549**	**416**	**456**	**622**	**513**	**6,092**

Source: SPI Research, February 2020

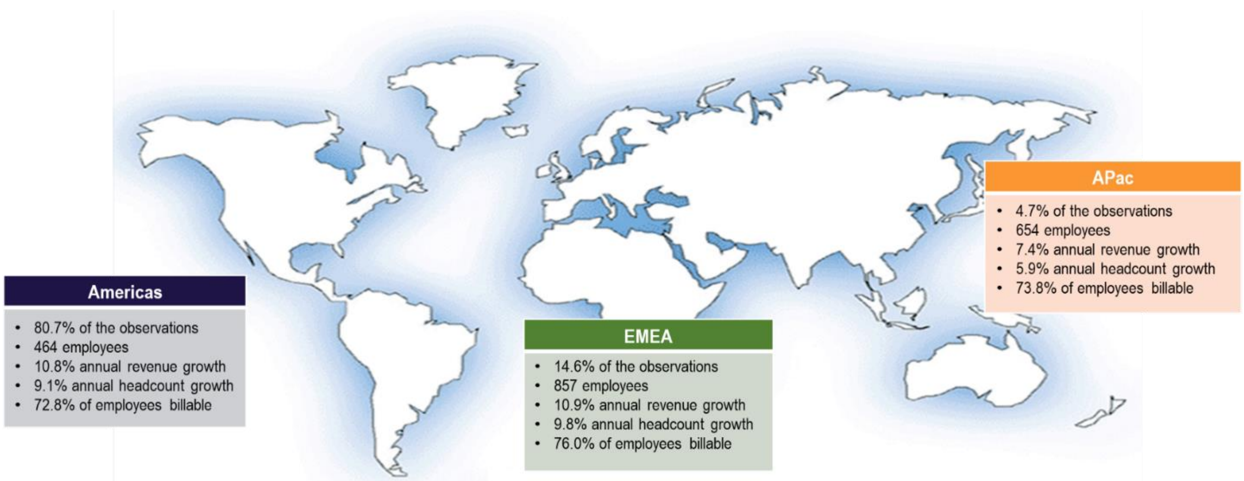
Table 10 shows 345 surveys came from independent firms while 168 came from ESOs (Embedded Service Organizations within product companies). North American headquartered firms dominated the study with 414 surveys while 75 came from EMEA-headquartered firms and 24 came from Asia Pacific (predominantly Australia and New Zealand). The average size of organizations in the benchmark is 530 PS employees.

Table 10: Survey Participant Demographics by Organization Type and Geographic Region

Key Performance Indicator	2018	2019	ESO	PSO	Amer.	EMEA	APac
Surveys	622	513	168	345	414	75	24
Size of PS organization (employees)	625	530	504	543	464	857	654
Annual company revenue (mm)	$228.2	$203.2	$293.8	$160.0	$197.3	$214.0	$268.3
Total PS revenue (mm)	$92.8	$83.8	$71.8	$89.6	$71.1	$149.6	$97.9
YoY change in PS revenue	9.7%	10.6%	11.3%	10.3%	10.8%	10.9%	7.4%
YoY change in PS headcount	7.7%	9.0%	9.9%	8.6%	9.1%	9.8%	5.9%
% of employees billable	72.8%	73.3%	73.5%	73.2%	72.8%	76.0%	73.8%
% of PS rev. delivered by 3rd-parties	11.7%	10.6%	9.5%	11.2%	10.8%	10.9%	7.8%

Source: SPI Research, February 2020

Figure 16: Regional Demographics



Source: SPI Research, February 2020

By organization size, the smallest and largest organizations grew the fastest and added significant PS headcount (Table 11). 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 11: Survey Participant Demographics by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	55	88	138	119	47	66
Size of PS organization (employees)	5	20	65	200	500	3,237
Annual company revenue (mm)	$12.7	$56.0	$60.3	$225.1	$232.7	$786.1
Total professional services revenue (mm)	$3.1	$9.5	$18.6	$41.5	$84.6	$459.2
Year-over-year change in PS revenue	13.0%	10.4%	10.8%	8.8%	9.5%	12.5%
Year-over-year change in PS headcount	7.5%	7.6%	9.2%	8.6%	10.1%	11.8%
% of employees billable or chargeable	72.6%	74.5%	74.7%	72.9%	68.9%	73.2%
% of PS revenue delivered by 3rd-parties	10.7%	10.8%	10.7%	9.9%	10.5%	11.8%

Source: SPI Research, February 2020

Tables 12 and 13 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 16.1%. They were followed by management consultancies (11.3%); VARS (11%) and IT Consultancies (10.9%).

Table 12: Survey Participant Demographics by Vertical Market

Key Performance Indicator (KPI)	IT Consult.	Software PS	Mgmt. Consult.	SaaS PS	Arch./ Engr.
Surveys	143	73	68	55	44
Size of PS organization (employees)	673	593	224	556	425
Annual company revenue (mm)	$175.0	$376.3	$126.3	$275.4	$71.6
Total professional services revenue (mm)	$108.6	$99.0	$57.0	$48.0	$70.3
Year-over-year change in PS revenue	10.9%	8.5%	11.3%	16.1%	6.4%
Year-over-year change in PS headcount	8.9%	7.2%	9.9%	15.1%	5.6%
% of employees billable or chargeable	76.5%	73.3%	73.8%	72.5%	74.4%
% of PS revenue delivered by 3rd-parties	12.1%	10.8%	10.6%	10.3%	11.0%

Source: SPI Research, February 2020

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% headcount growth and strong revenue growth (10.6%).

Table 13: Survey Participant Demographics by Vertical Market

Key Performance Indicator (KPI)	VAR	Account.	Advertise. / Mktg / PR	Gov. Cont.	Other PS
Surveys	21	14	14	8	73
Size of PS organization (employees)	58	777	1,214	1,002	422
Annual company revenue (mm)	$25.1	$105.4	$511.9	$197.2	$203.4
Total professional services revenue (mm)	$9.2	$65.2	$276.7	$197.2	$59.5
Year-over-year change in PS revenue	11.0%	9.8%	10.4%	7.2%	10.8%
Year-over-year change in PS headcount	8.6%	11.3%	9.1%	5.6%	7.8%
% of employees billable or chargeable	76.0%	67.7%	71.8%	75.6%	66.8%
% of PS revenue delivered by 3rd-parties	6.8%	8.3%	8.3%	16.6%	8.9%

Source: SPI Research, February 2020

Type of Work Sold

SPI Research analyzes the type of work sold, (Table 14). Technology and IT consulting represent almost one-half 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 14.9%. 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.

Table 14: Type of Work Sold by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2018	2019	ESO	PSO	Amer.	EMEA	APac
Business / management consulting	24.7%	23.8%	15.1%	28.0%	23.3%	27.0%	21.3%
Technology or IT consulting	34.7%	39.4%	44.7%	36.8%	38.3%	40.7%	53.7%
Subscription services	7.6%	8.3%	14.9%	5.0%	8.7%	7.1%	3.7%
Managed services	9.5%	9.0%	8.6%	9.2%	9.4%	9.2%	3.1%
Staff augmentation	5.2%	5.5%	4.4%	6.0%	5.5%	4.4%	8.3%
Hardware, software or equipment	4.3%	4.5%	7.0%	3.3%	4.6%	4.3%	3.5%
Other	14.0%	9.6%	5.3%	11.7%	10.2%	7.3%	6.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2020

In Europe, and Asia, 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.

Table 15: 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	41.4%	28.0%	21.1%	20.0%	17.9%	20.1%
Technology or IT consulting	32.2%	40.1%	44.7%	38.4%	36.6%	37.0%
Subscription services	3.1%	6.2%	7.4%	9.6%	12.2%	11.9%
Managed services	8.3%	6.9%	7.9%	9.8%	12.4%	11.1%
Staff augmentation	3.9%	2.6%	4.4%	5.3%	12.9%	7.9%
Hardware, software or equipment	6.2%	3.2%	2.6%	6.2%	4.0%	6.3%
Other	4.9%	13.0%	12.0%	10.8%	4.1%	5.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

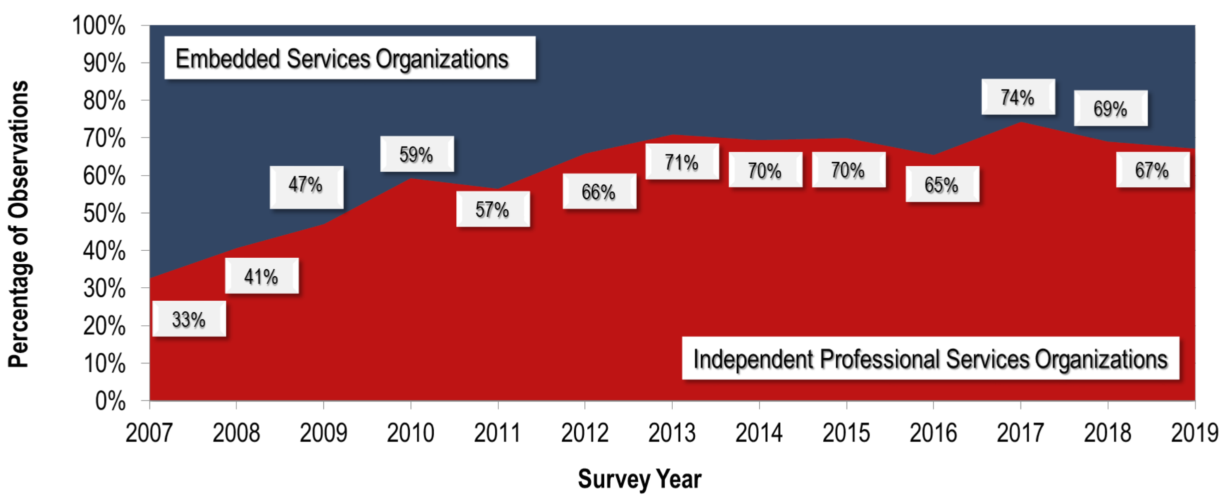
Source: SPI Research, February 2020

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.

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 (Figure 17).

Figure 17: Independent vs. Embedded Survey Orgs Surveyed (2007 – 2019)



Source: SPI Research, February 2020

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 17 shows over two-thirds of this year's benchmark participants are independent firms.

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.

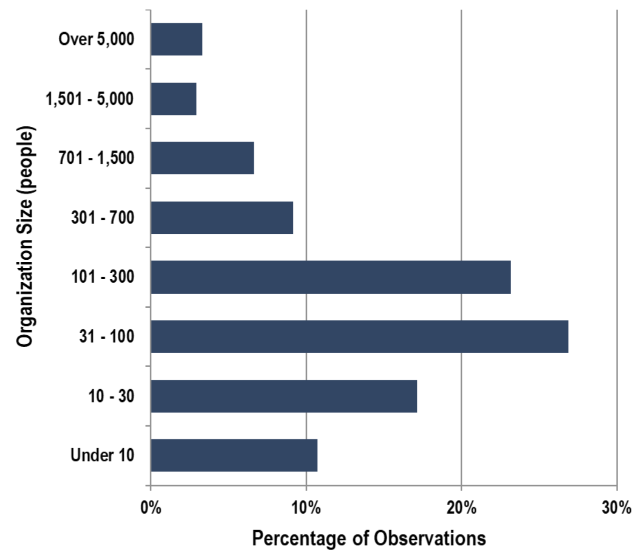
Embedded Services Organizations (ESOs): ESOs operate much like PSOs; however, they are part of a product-driven organization. The majority of ESO participants focus exclusively on their company's own technology but many of the largest ESOs like IBM and HP services provide global IT consulting, managed 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, 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

The average size organization in the Professional Services Maturity™ Benchmark was 530 PS employees this year. This year's survey is based on firms who employee over 270,000 consultants worldwide making it the most comprehensive study of the Professional Service industry.

Figure 18: Organization Size



Source: SPI Research, February 2020

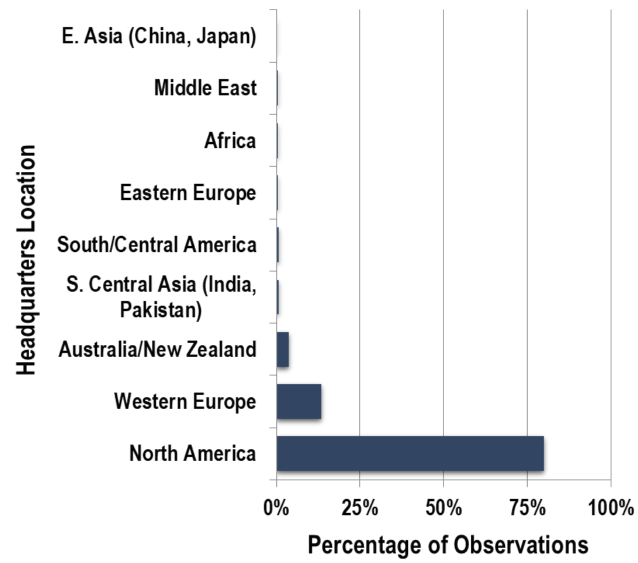
Figure 18 highlights survey distribution by PS headcount. The largest percentage of firms have between 31 and 100 employees, which has been the case for several years now. Embedded services organizations average 504 PS employees whereas independents averaged 543. Firms headquartered in EMEA averaged 857 PS employees; the Americas averaged 464 and Asia-Pacific averaged 654 PS employees per firm. Software PS organizations averaged 593 PS employees, highlighting the importance of embedded PS within these organizations. IT consultancies (673) and Management consultancies (224) also had a substantial PS workforce. Architect and engineering firms averaged 425 employees while marketing and advertising agencies averaged 1,214 PS employees.

Headquarters Location

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 19).

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.

Figure 19: Headquarters Location – Region

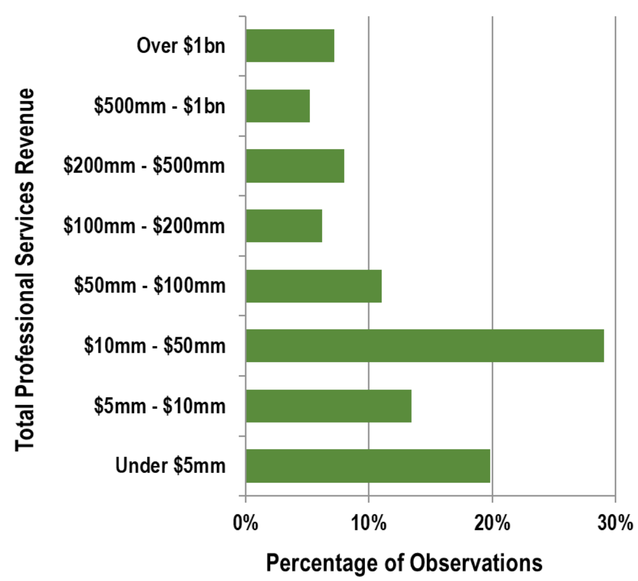


Source: SPI Research, February 2020

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 $203 million in total revenue including $83.8 million in PS revenue (Figure 20). The percentage of total revenue produced by PS represented 41.3% this year. The % of overall PS revenue contribution has been steadily increasing, reflecting the importance of the new "everything as a service" economy.

Figure 20: Total Company Revenue



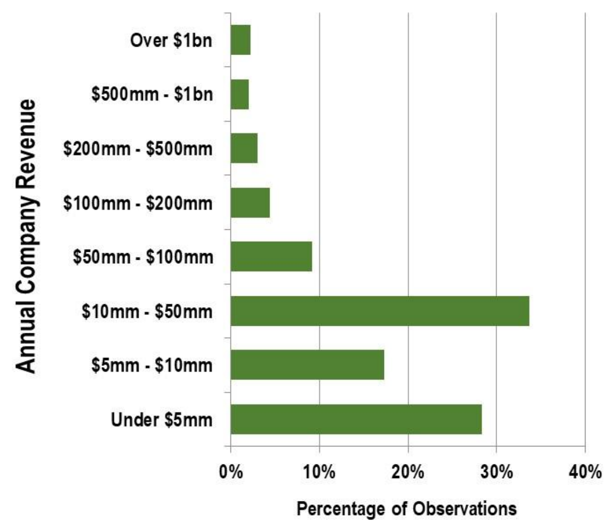
Source: SPI Research, February 2020

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 21).

Embedded PSOs averaged $71.8 million in PS revenue and the independents averaged $89.6 million. The average across all 513 participants was $83.8 million compared to $92.8 Million in 2018 and $57 million in 2017. In this year's survey firms headquartered in the Americas produced $71.1M compared to $149.6M for EMEA and $97.9M for APac headquartered firms.

Figure 21: Total Professional Services Revenue



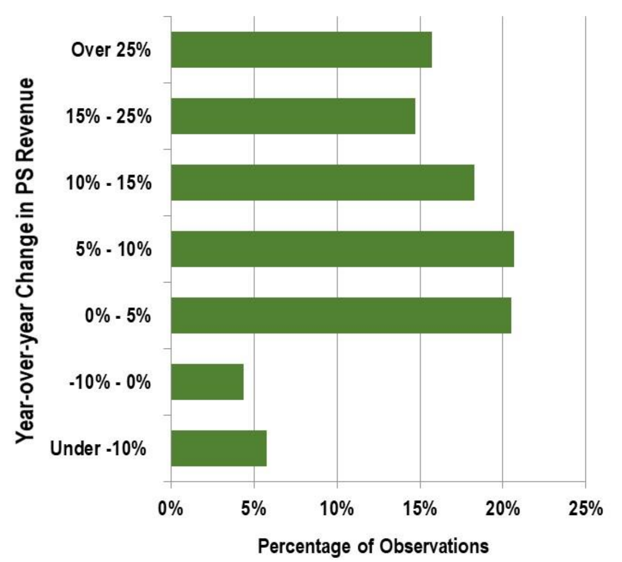
Source: SPI Research, February 2020

Year over year change in PS Revenue

For the past five years, PS annual revenue growth has averaged 9.6%. In 2019, annual PS revenue growth climbed to 10.6% up from 9.7% in 2018 and 8% in 2017.

Interestingly, almost all PS subsegments reported strong revenue growth. The slowest growth was reported embedded hardware and networking providers at 3.5%. 48% of the firms grew revenues by over 10% (Figure 22). 31% of the firms grew revenues by less than 5% and 21% grew revenues by 5 to 10%.

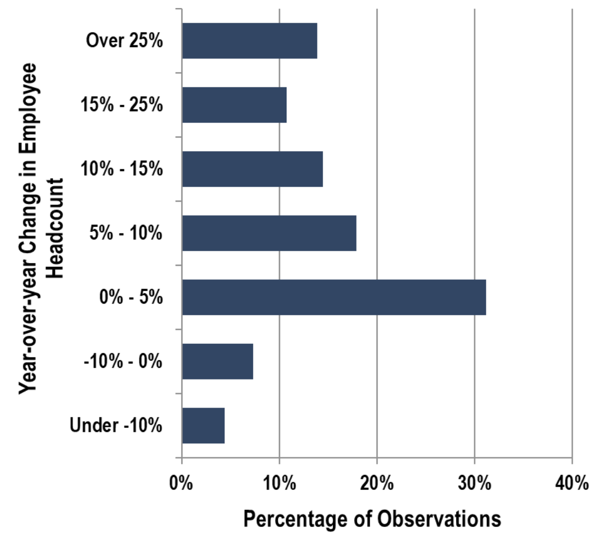
Figure 22: Year-over-Year Change in PS Revenue



Source: SPI Research, February 2020

Independent providers averaged 10.3% revenue growth whereas embedded service providers grew at 11.3%. Firms with less than 10 and more than 700 employees grew the fastest at 12.5%. Firms with fewer than 100 employees experienced higher revenue growth than firms with between 100 and 700 employees who reported less than 10% growth. This is an important metric to watch as growth in the sector increased this year despite reports of consolidation and price erosion in slower growing segments. 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.

Figure 23: Year-over-Year Change in PS Headcount



Source: SPI Research, February 2020

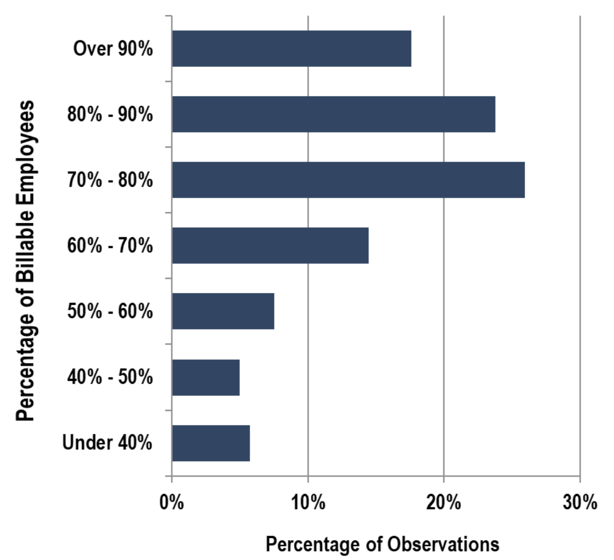
Year-over-year change in PS Headcount

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 (Figure 23). Despite hiring increases we have not seen significant wage inflation.

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 (Figure 24). 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 73.2% billable employees compared to 73.5% for ESOs. The EMEA region reported 76.0% of their employees billable; APAC 73.8% and Americas 72.8%. Organizations with 30 to 100 employees reported the highest billable percentage (74.7%). By vertical, IT Consultancies and VARS reported the highest billable percentage (76%).

Figure 24: Percentage of Employees Billable



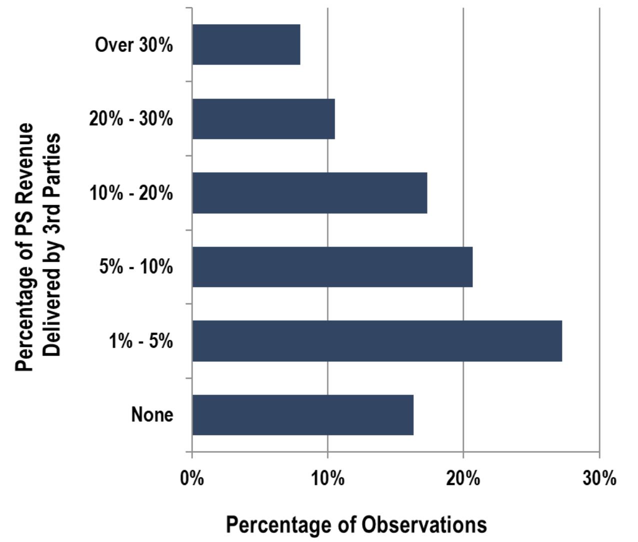
Source: SPI Research, February 2020

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 25 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 10.6%, down from 12.6% in 2017. ESOs used a third-party workforce to generate 9.5% of revenue, whereas independents reported 11.2%. APac used a third-party workforce for 7.8% of revenue; the Americas 10.8%. By vertical, R&D used the most outside subcontractors at 18.2%. Subcontractor use grows proportionately with organization size.

Figure 25: Percentage of PS Rev. Delivered by 3rd-parties



Source: SPI Research, February 2020

Chapter 4 – Best-of-the-Best

SPI Research annually conducts in-depth analysis of the top 5% of PS Maturity™ benchmark participants to uncover the reasons for their superlative performance. The leading (according to the PS Maturity™ model) organizations have been named "Best-of-the-Best" after a careful audit of their survey responses and in-depth interviews with their lead service executive.

In this year's benchmark, SPI Research names the top 25 firms, each scoring 20 or above (out of 25) on the PS Maturity™ Model. The following sections highlight some of the findings comparing the "best" preforming organizations to the rest of the survey participants.

Introducing the 2020 Best-of-the-Best Service Organizations

Acorio

Acorio is a cloud consultancy on a mission to deliver on ServiceNow's promise, with inspiration, guidance and unparalleled expertise throughout your entire Service Management journey. Acorio is a two-time Best-of-the-Best Winner.

Marci Parker – VP of Professional Services

Please tell us about your firm's top accomplishments in 2019.

We grew close to 50% in 2019, with overachievement on our sales goals. We continue to define and improve the operations of our product-line aligned practices; and have centralized the management of our delivery department learning. We also now have a formal quality department and are working to implement quality measures into every aspect of our business.

We celebrated 86 successful client project completions and maintained our externally measured 9.3 out of 10 customer satisfaction score. We were recognized for the third year in a row as the #1 firm to work for in Massachusetts by the Boston Globe. We also were recognized by Inc as one of the top places to work in the nation.

Please tell us why your firm is a great place to work.

Acorio is a great place to work because of its collaboration, diversity, and eclectic environment. Everyone has an opportunity to learn from other's experience, and everyone willingly shares their experience with anyone who is interested. Additionally, the company's mission is clear and communicated often – resulting in everyone working towards the same goals. Much time is spent with managers ensuring that each employee is aware of weekly priorities and that their needs are heard.

Please tell us about the top challenges your firm is facing in 2020.

Continued fast-paced growth to keep up with our client demands

Continue to push on quality while growing, with a goal to increase our CSAT even higher

Increase the size and dollar value of customers and projects

Elevate our "brand" in the marketplace to match our more mature business

Advoco

Advoco is a leading Enterprise Asset Management (EAM) consulting services company that has seen continual growth since its founding in 2002. By optimizing our clients' business performance through an improved application and implementation of Infor EAM, Advoco forms a trusted partnership and meets the complex needs of leading organizations around the world. Advoco is a three-time Best-of-the-Best Winner.

Steve Brindle – Founder and Partner

Please tell us about your firm's top accomplishments in 2019.

Meeting our 2019 revenue goal after having a slow Q2 – we celebrated by taking the entire company and spouses/partners for a long weekend in Cancun, Mexico!

Please tell us why your firm is a great place to work.

We value culture above growth and profits – though by doing so we actually grow and are profitable!! We promote balancing the stress of a client facing consultancy with company fun: Christmas trip to Cancun; we make wine in Sonoma CA (picking the grapes, though fermentation, barreling and bottling); twice yearly fitness challenges; Advoco-for-Good: our support for charitable/non-profit organizations; various office events throughout the year.

Please tell us about the top challenges your firm is facing in 2020.

Recruitment is going to be key for us in 2020 – especially in Q1. We have a strong backlog of work that we are currently understaffed to be able to deliver on within the necessary timeframes. We have a proven recruitment process, but finding the right people, hiring them and getting them trained and able to deliver our services takes time. To help address this we have brought on board a second HR staff member who is initially focused purely on recruitment.

Coveo

Coveo makes business personal. As the pioneers of cloud-based AI-powered search and recommendations, Coveo has always been driven by making the lives of our customers easier. Coveo is dedicated to helping organizations deliver more personalized experiences at scale, by ensuring that every customer, partner and employee has contextually relevant information at every interaction. Coveo is a two-time Best-of-the-Best Winner.

Alain Bouchard Vice President, Professional Services and Technical Support at Coveo

Please tell us about your firm's top accomplishments in 2019.

2019 was a phenomenal year for Coveo. In addition to securing $227M CDN in funding to accelerate our growth, we launched two game-changing products last year: Coveo for ServiceNow and Coveo for B2B Commerce. Coveo for ServiceNow enables every ServiceNow customer to index content within and outside the ServiceNow ecosystem, and then predicts what content is relevant for the user. With Coveo for Salesforce B2B Commerce, Coveo is redefining the B2B commerce market by enabling more efficient and effective AI-powered buying experiences.

Our products and work also received industry-wide recognition this year. Thanks to the hard work of our incredible employees, partners and customers, we were recognized as a leader in both the 2019 Gartner Magic Quadrant for Insight Engines and The Forrester Wave™: Cognitive Search, Q2 2019.

What we're most proud of this year is the success our customers have been able to achieve. While some companies are struggling to implement and see results from their investments in AI, Coveo's customers stand out. Tableau, for example, saved $18M after applying Coveo AI to their customer experience. A leading financial services company generated $1.5M in revenue in just one quarter after using Coveo Analytics to develop a targeted search advertising campaign. A top ten retailer using Coveo for Commerce (launching in January 2020), reported that after implementing Coveo, their online store saw an 8.4 percent increase in revenue, translating to millions of dollars.

These customer successes are just some of the many reasons why our company, due to the incredible demand from the market, also underwent a significant expansion in 2019, hiring about 50 employees per quarter in 2019 and opening a new office in Montreal's iconic Windsor Station.

Please tell us why your firm is a great place to work.

The people. Anyone who has been through the Coveo recruiting process can attest to how carefully Coveo selects our employees - and it shows. Coveo has built a culture where passionate, collaborative and creative risk-takers come to thrive. Innovation is not just a side project for us; it's a part of everything we do. Whether it's sponsoring Quebec's oldest coding competition or doing company-wide hackathons, we push ourselves to constantly innovate and grow. As President, Co-founder and CTO Laurent Simoneau likes to say, "If it were easy, someone else would have done it."

Please tell us about the top challenges your firm is facing in 2020.

Our mission and vision of helping every company win in the AI-take-all economy is what drives us every day, but remaining laser-focused can be a challenge in a rapidly growing market with a product in high demand. While other companies may try for "gimmicks" to earn media coverage or get distracted by other diversionary projects, our focus will always be on our customers.

Guidewire Software

Guidewire exists to deliver the industry platform that P&C insurers rely upon to adapt and succeed in a time of accelerating change—and to ensure that every customer succeeds in the journey.

Mike Polelle – Chief Delivery Officer

Please tell us about your firm's top accomplishments in 2019.

Guidewire Professional Services accomplishments in 2019 were in support of our company's product transition from providing on-premise software to be a cloud-native platform. We kicked off the journey to transform the services offerings, methodology and engagement model provided to our customers. Additionally, we completed the consolidation of several PSA and Customer Support platforms, rolled out a new contract management system in support of Professional Services contracts, and further strengthened our employee engagement through multiple initiatives.

Please tell us why your firm is a great place to work.

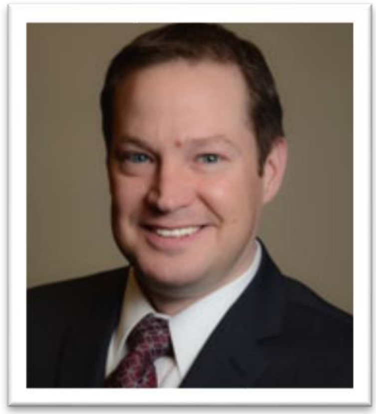
Guidewire Professional Services is a great place to work because we have maintained our deeply held core values of Integrity, Rationality and Collegiality throughout the history of our company. We are also viewed by our customer base and internal stakeholders as key advisors, which provides for a rich and meaningful experience for our employees. Additionally, we have a very open and meritocratic culture which allows for transparent communication, deep collaboration and promotes a collegial environment.

Please tell us about the top challenges your firm is facing in 2020.

Our top challenge for 2020 will be to continue to help our customer base transform their usage of our products from a self-managed model to a cloud-based subscription model. We will further develop our professional services organization, engagement model and delivery strategy to accelerate this transformation.

Integrated Project Management

Integrated Project Management Company, Inc. (IPM) is a leading project management consulting firm specializing in planning and implementing strategic and critical projects in the life sciences, healthcare, and consumer products sectors. Our leadership approach combines clients' internal capabilities and legacy knowledge with IPM's proven ability to inspire stakeholder engagement and buy-in to achieve project objectives. Since our inception in 1988, IPM has served more than 400 clients, from Fortune 100 companies to startups, and completed nearly 4,000 projects. IPM is a four-time Best-of-the-Best Winner.



Timothy J. Czech, Chief Financial Officer, IPM

Please tell us about your firm's top accomplishments in 2019.

The IPM mission has always emphasized sustainable success and—most importantly—its people. Not only did 2019 mark IPM's thirty-first year in business, but also the first time our company exceeded 200 family members. This growth inspired IPM to look for a new home after three decades in the same office. In April 2019, we moved to a newly renovated headquarters designed to maximize collaboration across our seven offices and 115 client sites and reflect our commitment to continuous improvement. Our new home better represents who we are and what we want to achieve.

2019 was also a special year as we received the National Malcolm Baldrige Quality Award. The award is the highest level of recognition for performance excellence in the U.S., and IPM is only the fifth consulting company to achieve this recognition since Baldrige's inception in 1987. We were also honored to be the recipient of the 2019 Better Business Bureau of Chicago and Northern Illinois Torch Award for Marketplace Ethics with the feedback that there was "no close second."

Thanks to the Baldrige process, in 2016 we implemented a societal impact metric to meaningfully track our efforts to impact the world. We defined societal impact as "a significant force in the betterment of society through social, environmental, and economic influence" and every project receives a low, medium, or high score based on those three areas. We were excited that our societal impact index increased by 5% in 2019 but are most proud that the index—not profitability—serves as our guiding light for business decisions.

Another milestone reached in 2019 relates to our Net Promoter Score (NPS), a key metric of customer satisfaction and engagement. IPM achieved a world-class NPS of 71, far exceeding the consulting benchmark of excellence at 50. This is historically IPM's highest score and reflects how we prize providing unmatched quality, caring, and value to our clients.

Please tell us why your firm is a great place to work.

Culture is an easy buzzword to employ, but actually establishing and maintaining a caring, values-driven culture is much more difficult. IPM would not be where it is today without the dedication to nurturing our culture. With offices located across the U.S., IPM holds quarterly staff meetings to secure time the entire company can be together. IPM has a formal mentoring program; social committees to encourage more relaxed quality time together; Centers of Excellence to provide consultants with guidance from subject matter experts across the company; and our Knowledge and Process Management team facilitates customized training. We have an internal philanthropic program named Project Mercy where one office selects a different charity for the company to support each quarter—this allows us to make an impact in our communities as well.

This culture of caring is also evident in the benefits we seek for our family members. We support employees through an extensive range of health benefits and services; training and development priorities which allow for training hours per year per person to exceed most Fortune 500 companies; and most recently through what we call the Gift of Time, which is the closing of all our offices for the week of Christmas so people have more time with their families. These examples and other measures ensure our employees are challenged, provided growth opportunities, and treated with respect. Further proof of this commitment to our family members is in the awards earned in 2019 that were based on employee feedback—*Fortune Magazine*/Great Place to Work's 2019 Best Workplaces in Chicago and 2019 Best Workplaces in Consulting & Professional Services; as well as *Crain's* Chicago Business Best Places to Work in Chicago.

Our employees themselves are really the heart and soul of IPM. Our Mission and Beliefs expressly state our people are our most important asset and our differentiator. The IPM family consists of individuals with diverse backgrounds and experience who put our values to practice and consistently go above and beyond for our colleagues, clients, and communities. We believe our identity—high-performing leaders passionate about making a lasting impact and empowering others—is truly special.

Please tell us about the top challenges your firm is facing in 2020.

One of IPM's consistent priorities is ensuring we find people who fit our culture of excellence, family, and uncompromising integrity. However, a few factors make recruiting one of the top challenges for IPM in 2020. Unemployment in the United States is the lowest in 50 years, which makes for a smaller pool of applicants. An extremely competitive job market means those going through the interview process are being enthusiastically pursued by other companies as well. And balancing supply and demand across four industries, ten service lines, and seven locations adds a difficult twist to the recruiting process—how to fulfill our strategic and operational needs without missing out on extraordinary candidates or having those top performers on the bench. However, we believe the IPM family and approach make a compelling case and we look forward to our continued growth and success.

Kinsmen Group

To provide our customers the perfect experience by applying our passion for engineering information management to help them make better decisions, reduce risks, get higher returns on their assets, and improve safety. Kinsmen Group is a two-time Best-of-the-Best Winner.

Brian Sallade – CEO

Please tell us about your firm's top accomplishments in 2019.

- Stuck to the strategic plan and continued significant growth, ranking #135 on the Inc 5000 list of fastest growing private companies in the United States;
- Successfully delivered 100% of our projects, on time and on budget with excellent customer feedback;
- Invested in the development of new tools for data migration, managed admin services, and information handover;
- Continued establishing ourselves as thought leaders by speaking at industry events.

Please tell us why your firm is a great place to work.

- Our team members have skills and experience that support complete trust, reliability, openness and accountability throughout the organization;
- Management support is always available – down to the smallest projects;
- We reward our employees for accomplishments and customer service;
- We provide a flexible working environment; supportive of family life and actively encourage the 'KIN' (family) aspect;
- We encourage each other at all times as we learn from our mistakes and openly work to resolve them;
- Simply put, we care.

Please tell us about the top challenges your firm is facing in 2020.

- Continued movement to the cloud by our customers requires new skills;
- Changing face of large projects – we drive a more agile approach to realize benefits faster;
- Maintaining high growth rate requires further investment in people, processes and systems.

Logical Design Solutions (LDS)

Logical Design Solutions (LDS) is a management consultancy specializing in digital strategy and design for global organizations. We partner with clients to envision and design emerging digital ecosystems. Our work can be found wherever business ecosystems are complex and changing, and where the human element is of critical importance. LDS is a nine-time Best-of-the-Best Winner.

Bruce Lovenberg, CPA Chief Financial Officer

Please tell us about your firm's top accomplishments in 2019.

2019 was a tremendous year for Logical Design Solutions (LDS) as we faced a set of new challenges for our clients who are going through daunting organizational and digital transformations. Here are some of the highlights:

- ∆ Transforming our service offerings to better align with our client's needs for digital transformation consulting
- ∆ Leading to new service offerings in organizational design and governance consulting
- ∆ Continued marketplace growth in management and strategy consulting
    - Completed one of the most aggressive digital transformations with a client in the utility industry
    - Added one of the largest healthcare industry clients to our portfolio
    - Established a whole new breed of best practices in the design of worker experiences where new work practices and the human-machine relationship is taking center-stage in our clients' business operations
    - Created new, modern organizational design standards that are being adopted by our Fortune 500 clients
    - Thought Leadership published in national business and technology media
    - Talent acquisition moved us to establishing presence in emerging tech center cities like Toronto
    - Established new progressive talent acquisition practice

Please tell us why your firm is a great place to work

A few years ago, LDS embarked on a Great Place to Work initiative with the intent of being recognized by the Great Place to Work Institute (GPWI). Using the principles of the GPWI, we created a foundation, a platform if you will, that continues to be the LDS value system today and will take us into the 2020's. The principles are:

- ∆ Trust is the defining principle of our great workplaces
- ∆ Trust is created through management's credibility and the respect with which employees feel they are treated to the extent to which employees expect to be treated fairly
- ∆ Our workplace engenders a degree of pride and levels of authentic connection and camaraderie that employees feel with one another
- ∆ Our workplace will achieve organizational goals together by inspiring, communicating and listening

- ∆ We will have employees who give their personal best by thanking, developing and caring
- ∆ We will work together as a team / family by celebrating and sharing our accomplishments
- ∆ We will hire, assimilate, develop and promote talent that are culturally aligned critical thinkers
- ∆ Our Talent is our Brand

This led to three main focus areas over the last year; 1) onboarding & assimilation program 2) performance & development and 3) health & wellness.

Onboarding & Assimilation: As it pertains to onboarding and assimilation, we want to ensure that our newest employees know and understand the commitment we are making to them. This program requires that we communicate our commitment to ensuring that they know and understand what the goals and expectations are for their first 12 months, what the key milestone markers/achievements are during this journey and real time feedback/mentoring along the way. As always, timely and direct feedback during this time is critical to ensure that we are aligned in partnership along this roadmap.

Performance & Development: In consideration of the changing, complex and ambiguous nature of our work, we have a focus on enhancing talent development programs. We want to ensure that we have the right talent in the right roles and that their areas of expertise continue to evolve and expand.

Health & Wellness: Our employees' health and wellness is a priority to us at LDS. We continuously make a concerted effort to ensure that we think about their needs, work/life balance and overall health. Every year we take great pride in the campaigns we develop.

Overall, each of the three areas of focus contribute to the culture at LDS. Afterall, a well-informed, aligned, professionally nurtured employee is a happy employee and a contributor to the culture at LDS.

Please tell us about the top challenges your firm is facing in 2020.

In 2020 we have three main focus areas that will help remediate challenges we find to our organization.

1. We will recruit where talent lives – recruiting great talent is always a challenge in these competitive hiring times, but we have proven that we can assimilate talent when talent is outside the boundaries of our workplace. Our experience this year gives us the confidence that we can go where talent lives and be successful in new staff's complete assimilation and contribution to the business.
2. Continuous evolution of our thought leadership and positioning to have it consumed through more national channels -- our strategy for the next several years is to strengthen our marketplace positioning as the most significant player in the business transformation space, where business transformation includes contexts of new work design in the human-machine relationship. Contributing to the dialogue of the future of work is paramount to our brand and differentiation from much larger competitors.
3. Continue to evolve our methodology to better support our clients' needs for transformational business, organization and worker design – our clients' challenges are increasingly complex and our ability to be forward thinking in common practices that solve these complex problems will define our business throughout the 2020's.

Maryville Consulting Group

Maryville Consulting Group is a management consulting firm that helps companies transform into technology-enabled businesses. We deliver consistent strategy execution to assist organizations through every stage of their transformation journey.

Joey Blomker – Practice Director, Digital Operations

Please tell us about your firm's top accomplishments in 2019.

In 2019, Maryville Consulting Group had the opportunity to celebrate its 25th year of enabling Fortune 500 client success across the globe. Our focus on strategy execution and engineering services brought with it organic growth of 20%+ to our consulting team, revenue and earnings. Maryville's 2019 was a success in each of our four pillars of Impactful Leadership; Account Management; High-Impact Offerings and Operational Excellence.

Impactful Leadership

- The strategic partnerships we've built with universities brought in talent from top-ranked programs at Wash U, SLU, UNC and UVA.
- Our focus on collaboration was further enabled by our investments in video conferencing; the institution of regular town halls; a peer mentorship program and an increased internal travel initiative to connect our remote and HQ colleagues.
- We increased our learning opportunities with a significant increase to our training funding and introduction of an all-access online training platform.

Account Management

- We retained and grew our top accounts, increasing average account tenure to over three years. In each of those accounts, we continue to find opportunities to contribute in new ways via outcome-oriented projects.
- We drove client success through collaboratively defined and executed capability roadmaps, clearly outlining quarterly objectives and metrics.
- Many colleagues were provided the opportunity to take on account leadership roles in 2019 – demonstrating engineers and consultants alike have the ability to build trusted advisor status with Fortune 500 clients.

High-Impact Offerings

- Strategy engagements led the way for new accounts in 2019, setting up our 2020 growth through multi-year roadmaps paired with continual value execution work.
- Our offerings backed by three transformation acceleration disciplines: Product Management, Digital Operations and Technology Business Management, all saw double digit growth in 2019 – with C-Suite sponsorship in about 2/3 of our accounts.
- Technology vendor relationships with ServiceNow (Elite Partner with highest CSAT in North America), Apptio (Partner of the Year 4 Years in a Row) and Nuvolo (largest services partner) grew; we established new relationships with Celonis, Coupa, Okta, SailPoint and Tanium.

Operational Excellence

- Our move to an industry-leading technology platform for 401k, Benefits and Payroll was paired with a 66% increase to our company 401k match.
- Our controllership function reduced time to financial close by over 50% in 2019, increasing the ability for financials to provide relevant data to decision makers throughout the organization.
- We established an office and grew headcount in Minneapolis, while planning the growth of our next market in Q4 2020.

Please tell us why your firm is a great place to work.

Maryville is a great place to work because great people work at Maryville. Attitude, aptitude and work ethic are the top competencies we evaluate when considering candidates. Each team member joins Maryville to be challenged, they stay because their peers make every challenge exciting, every day enjoyable, and every outcome rewarding. Setting the bar high allows the team to build trust and show vulnerability – everyone that is at Maryville belongs at Maryville. That is uncommon and it is hard work.

Maryville has a focus on the value of each individual on the team and a desire to build upon his or her strengths – you'll often see our leadership team working closely with recent associate hires on client engagements and internal initiatives. It is a privilege to work alongside such bright future leaders.

In a recent pulse of our largest consulting practice, colleagues anonymously answered a Q4 survey with the following responses:

- 100% stated they believe that Maryville's culture is high-performing
- 95% are impressed with the peers they're able to work with on a regular basis
- 95% believed Maryville is a unique place to work amongst other places they've worked or through discussions they've had with peers

We believe our collaborative environment, our excellent tenure, and our high-performing culture make Maryville a top place to work for consulting and engineering leaders.

Please tell us about the top challenges your firm is facing in 2020.

Our top challenges include growing our team, evolving our offerings, and messaging our successes. We are in a tight labor market. Growing our team requires a continual focus and investment in our colleagues. We took a look at our benefits in 2019, increasing our 401k match, improving our parental leave policy, and increasing paid time off for every member of the team. Strengthening our benefits is important, but to grow our team, we are challenged to provide continuous growth opportunities to each of our team members – professional growth is what drives retention most at Maryville. In 2020, we must continue to place team members in positions where they'll stretch what they thought possible, while providing the appropriate coaching and guidance to drive success. If we succeed at growing our people, all other challenges will be faced with confidence.

In 2020, we must address the market by evaluating and building new practices that complement existing skills and present existing clients with additional means to leverage Maryville's delivery excellence. Our success with C-Level sponsorship has provided us the opportunity to evaluate new offerings in collaboration with clients – a position we feel provides us with unique advantage. To continue our growth, Maryville's 2020 requires us to demonstrate the discipline to follow our go-to-market plan, and the agility to adjust the plan when necessary.

Lastly, we are challenged in comprehensively messaging our success. Our reputation with current and past clients is stellar – they are our growth engine, as they provide our main referral source for new accounts. Take a look at our website, our lack of outbound messaging, and our social media and you'll see that marketing is not a core capability or focus for our firm. In 2020, we'll work to build more discipline around messaging our success and presenting ourselves as the industry-leader our clients know us to be.

2020 is a year that we look to sustain our excellent 2019 growth. We'll strive to meet these challenges and others we don't foresee by leveraging our collaborative, high-performing culture and building upon the solid foundation set over the past 26 years of client enablement.

Navis

Navis, a part of Cargotec Corporation, is a provider of operational technologies and services that unlock greater performance and efficiency for the world's leading terminal operators and ocean carriers. Navis combines industry best practices with innovative technology and world-class services to enable our customers to maximize performance and reduce risk. Whether tracking cargo through a port, automating equipment operations, or managing multiple terminals through an integrated, centralized solution, Navis provides a holistic approach to operational optimization, providing customers with improved visibility, velocity and measurable business results.

Christian Weinbrenner
VP Global Professional Services

For more than 25 years, the Navis Services team has been on the front line of container terminal operations providing more than 300 terminals around the world with knowledge, dedicated consulting services and on the ground expertise.

Please tell us about your firm's top accomplishments in 2019.

In 2019 we launched Navis 360 Managed Services. Tapping into Navis' extensive expertise at container terminals globally, the offering provides subscription-based services around key areas of TOS success, including cloud hosting, monitoring, upgrades, application management and operational reviews. These new services are designed to enhance customers' experience and long-term success with N4 and related Navis products. As part of a more holistic approach to working with terminals, Navis launched Navis 360 Managed Services with the goal of helping customers make the most of their terminal investments. By providing a suite of offsite services, guaranteed by an SLA at attractive and predictable pricing, Navis 360 Managed Services provides valuable support for N4 TOS implementations, terminal IT Infrastructure management and business intelligence and analytics. Customers can leverage Navis' global expertise and technology resources, freeing up customer resources to focus on the business of running their terminals. We also introduced the concept of a Center of Excellence (CoE) with dedicated resources for our Global Terminal Operators.

At the same time, Navis Professional Services migrated our FinancialForce PSA to the Lightning UI. FinancialForce and Lightning do give us a lot more freedom to improve the user experience for our Project Managers and Consultants. It has accelerated our use of FinancialForce and has improved our utilization in the 2nd half of 2019 by 8%. Besides this, we implemented a Project Status object allowing us to report on the changes from reporting period to reporting period with timestamps, rather than having long text summaries within the reporting field. Additionally, in 2019 Navis acquired two companies and we are in the process of migrating them to use FinancialForce as the main PSA tool.

Please tell us why your firm is a great place to work.

Navis and our Professional Services Team lives by its four Guiding Principles for Success (GPS), ***Customer Obsessed, Forging the Future, Better Together and Smart Operators.*** Navis is, therefore, a company that people aspire to work for; and is a place where our employees are able to have fun and grow. Success, standing side-by-side with our customers, is personal. We believe our mandate as market leaders is to blaze a trail into the future, championing the innovation our industry needs. We believe continuous learning, growth and development defines us. We leverage our differences because diversity makes us strong. We believe in being nimble enough to respond to the day-to-day, but visionary enough to see the big picture. With our services growth strategy, we are actively Forging the Future of our own work environment, provide new career opportunities which help us to be even more Customer Obsessed.

Please tell us about the top challenges your firm is facing in 2020.

Our main challenge in 2020 will be to accelerate our growth as a company, which includes Professional Services. The growth of our Services business will be driven by offerings like our 360 Managed Services, OneTerminal (an offering with KALMAR), Training, CoE, and our new service offerings from our acquisitions. All of these areas will require new service offerings and have an impact on our standard business model driven today by the utilization of our resources. Hosting our applications in the Cloud will be a large focus of our 360 Managed Services in the next years, which requires an organizational transformation within the Services Organization. Further to the service offerings side, Navis will invest in providing all project content from FinancialForce in 2020 via our Navis Customer Community to allow full collaboration with our customers online. Instead of distributing project content via e-mail or other tools, the aim is to consolidate all of this in a Community. This will allow our Project Managers to focus on delivering even more value to our customers than writing weekly status reports.

TopStep Consulting

TOP Step Consulting ***improves business efficiency and productivity for Professional Service operations by providing consulting and implementation services for Professional Services Automation software. TOP Step Consulting is a ten-time Best-of-the-Best winner, having won the award every year it has been given. Congratulations!***

Ron Breaux – President and CEO

Please tell us about your firm's top accomplishments in 2019

Top Step continued to focus on PSA services and sales strictly limited to NetSuite OpenAir. Top Step added our first ever full-time sales team to continue to focus on selling both licenses and services. We have built a strong license sales pipeline that will provide additional growth in 2020. Our revenue grew over 20% from 2018 to 2019. 2019 was the top revenue producing year in the history of the company!! Continued to build our team of consultants with talented dedicated professionals. Re-organized the company into a new management structure to focus on supporting and mentoring team members. Successfully rebranded the company for a fresh look and feel that has benefited our presence in the market. Continued growth of our marketing efforts to continue our monthly webinars and increased public education. ***Named Best-of-the-Best by SPI Research in 2020 for the 10th straight year!!***

Please tell us why your firm is a great place to work.

Satisfaction of constantly solving customer challenges on a daily basis. Always opportunities to learn new things from co-workers and customers alike. Strong management teams with open communication providing a strong support model with constant communication. Opportunities for learning new technologies and expanding skills. Flexible work schedules and work from home model but still connected to your team members.

Please tell us about the top challenges your firm is facing in 2020.

We are focused on growing license selling opportunities as a Solution Provider NetSuite partner. We are also focused on continuing to work with NetSuite Alliance teams and other NetSuite partners to grow our services business. Top challenge is always to continue to add new team members to help us grow and contribute to making more happy customers. We will continue to focus on Top Step brand though continued marketing efforts and new marketing campaigns. We are also focusing to maintain our high customer satisfaction model to add additional oversight to ensure successful projects. Continue the growth of Top Step in a healthy way for our customers and employees.

VFP Consulting

At VFP Consulting, we implement cloud-based business applications to help businesses streamline operations and become more efficient. We believe in the power and convenience of a single cloud platform that provides a 360° view of your business.

Stephanie Picardi, CEO

Please tell us about your firm's top accomplishments in 2019.

2019 was a stand-out year for VFP Consulting in more ways than one, and we've seen our business grow in leaps and bounds. With a strong focus on operational excellence, VFP has experienced an average of 45% growth per year since 2016. Becoming a FinancialForce Partner of the Year was undoubtedly the biggest highlight of our year. We've also maintained a strong focus on team culture and loyalty, adding more company retreats and incentives for the entire VFP team, and expanded both our sales and leadership team. As a result, we reached an exciting new company milestone: our team is now 20 strong!

Please tell us why your firm is a great place to work.

At VFP Consulting, we know we're nothing without our team. It's for this reason our company puts such a huge focus on making sure our culture revolves around something a lot more personal than free beer and foosball tables. Our approach is straightforward: a company needs to have a good sense of their values. The overall health of an organization includes alignment, engagement, and trust. It's these concepts that drive our leadership team daily to support our team in achieving consulting excellence. It's foundational, and if we neglect it, then nothing else matters. Organizational health and living our core values is our top priority at VFP, and it's how we've created the amazing culture we have today. "Coming into work" is truly something our employees look forward to every day of the week, no matter where they're currently located in the world.

Please tell us about the top challenges your firm is facing in 2020.

Our challenge this past year has been ensuring VFP maintains its cultural and operational excellence while growing rapidly. We've invested a lot in order to scale up and our next challenge is achieving our vision of becoming the go-to consulting firm for quote-to-cash implementation and industry best practices. Through training and development (making sure we're hiring strategically and building a fully-equipped team) and continuing to carve out configuration and post-production support, we've maintained operational excellence and quality service. We're continuing to tackle this challenge head-on in 2020 by implementing new methods for staying cost-effective and efficient when performing these activities. The VFP team is growing and we're confident moving into this next phase of our team's growth and development!

Pillar Performance

The following sections highlight the results of this year's Best-of-the-Best professional services organizations (PSOs) and compares their results with the rest of the survey participants.

Demographics

Table 16 compares the 25 Best-of-the-Best performing PSOs to the other 488 in this year's survey. Best-of-the-Best organizations tend to be more specialized than the average firm in the benchmark. This year's top performers are larger than average firms, with 791 PS employees compared to 517 for the rest. This year's Best-of-the-Best are dominated by North American headquartered firms with 23 of 25 based in North America and 2 in Western Europe. Seven are embedded PS organizations within fast-growing cloud and enterprise software companies. Ten are IT consultancies specializing in enterprise-class solutions for complex IT problems; most include high-growth cloud implementation, migration, integration and transformation services. They serve a wide variety of industries with specialized expertise and deep domain knowledge. Four Management consultancies; one Marketing and Advertising firm and one Accountancy numbered in the Best-of-the-Best.

Table 16: Best-of-the-Best Comparison – Demographics

Key Performance Indicator (KPI)	Best	Rest	▲
Number of firms	25	488	
Size of PS organization (employees)	791	517	53%
Annual company revenue (mm)	$220.4	$202.2	9%
Total professional services revenue (mm)	$136.7	$81.0	69%
Year-over-year change in PS revenue	19.3%	10.2%	90%
Year-over-year change in PS headcount	14.4%	8.7%	65%
% of employees billable or chargeable	85.8%	72.7%	18%
% of PS revenue delivered by 3rd-parties	11.8%	10.6%	12%

Source: SPI Research, February 2020

This year's Best-of-the-Best are characterized by high growth, profit, and high levels of client satisfaction. Every year we find the best firms are also the fastest growing. ***On average, they grew year over year PS revenue by 19.3%; almost twice the revenue growth of average firms (10.2%). Year-over-year employee headcount growth was also impressive at 14.4% compared to 8.7% growth for average firms.*** For these fast-growing firms their top challenge is finding and growing the talent they need to sustain their dynamic growth while maintaining a culture of excellence. The Best featured a much higher percentage of billable employees (85.8% compared to 72.7% for average firms).

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.

A recurring theme from this year's leaders is their strong sense of community. The leaders of the top firms are seen as visionaries within the markets they serve, they see their role as one of truly helping improve the lives of their clients and employees. They select clients and projects because they share the same values, whether it is a love of transformational change or desire to make a difference through leading edge programs. Their sense of pride and commitment comes through in the organizations they have developed.

Table 17: Best-of-the-Best Comparison – Leadership Pillar (1 to 5 Scale)

Key Performance Indicator (KPI)	Best	Rest	▲
Innovation focused	4.32	3.67	18%
Well understood vision, mission and strategy	4.52	3.91	16%
Confidence in PS leadership	4.68	4.03	16%
Effectively communicates w/employees	4.48	3.85	16%
Employees have confidence in PSO's future	4.56	3.97	15%
Goals and measurements in alignment	4.28	3.78	13%
Embraces change - nimble and flexible	4.28	3.82	12%
Ease of getting things done	4.12	3.79	9%

Source: SPI Research, February 2020

Leaders discussed the importance of building a unique, employee-centric culture which in turn becomes a source of competitive differentiation. In today's competitive talent market establishing a strong reputation as a great place to work and grow is paramount to building brand awareness and success. While each leader discussed the importance of client success, they also discussed the importance of creating engaged employees to carry on the culture and position the firm for the future. A key area of differentiation is that top firms significantly invest in employee development. ***On average, they provide 11.5 days of employee training compared to 9.2 days for average firms.***

Table 17 compares the leadership metrics of the highest performing organizations with the remainder of the survey. The highest differential score is their innovation focus. 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 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

Many of this year's Best-of-the-Best do not employ traditional solution salespeople. The 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 Best-of-the-Best 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. ***Their percentage of reference clients is 88.8% compared to only 71.2% for average firms.***

Table 18: Best-of-the-Best Comparison – Client Relationships Pillar

Key Performance Indicator (KPI)	Best	Rest	▲
Total annual number of active clients	909	739	23%
Revenue from current clients - Existing services	57.4%	51.6%	11%
Revenue from current clients - New services	16.0%	17.3%	-7%
Revenue from new logo clients - Existing services	19.2%	19.5%	-2%
Revenue from new logo clients - New services	7.4%	11.5%	-36%
Bid-to-Win ratio (per 10 bids)	6.79	5.19	31%
Deal pipeline relative to qtr. bookings forecast	250%	177%	41%
Sales cycle (days: qualified lead to contract sign.)	94	87	-8%
Average service discount given	6.5%	7.6%	15%
Solution development effectiveness	4.33	3.69	17%
Service sales effectiveness	4.17	3.58	16%
Service marketing effectiveness	3.83	3.18	21%
Percentage of referenceable clients	88.8%	71.2%	25%

Source: SPI Research, February 2020

The embedded PSOs primarily rely on the product sales force. They have forged a strong partnership with product sales and have built sales tools and service packages to guide and shape consulting engagements. These service packages enable the product sales force to position and quote services, leading to higher product and service attach rates. PS is regarded as a significant and growing source of top-line company revenue, not a necessary evil. In many cases, their lead services executive is also responsible for global support, professional services and account management with the title of Chief Customer Success officer, acknowledging the important role services plays in ensuring client success. A relatively new set of metrics has emerged for embedded PS, focused on customer adoption. The cloud PSOs measure not only the number of licenses, seats and recurring revenue but also the depth of client adoption and engagement by building dashboards and scorecards which depict client usage, adoption and churn.

Almost all this year's Best-of-the-Best rely on CRM applications to improve their sales and marketing effectiveness. ***17 of the top 25 use Salesforce.com as their CRM.*** Several firms credited the tight integration between their CRM and PSA applications as a catalyst in building collaboration between sales and service delivery. They have instituted consistent sales processes and bid reviews to ensure they are focused on the type of projects they are most likely to win and to maintain pricing and contract terms within guidelines. Because they are the premium supplier in their well-defined markets, they often do not have to compete for business. They are chosen based on referrals, their demonstrated competence, and high levels of customer satisfaction. When they do compete, they are far more likely to win as their win ratio is 68% compared to 52% for average firms.

Survey results revealed the percentage of revenue from new clients was 26.6% for Best-of-the-Best firms compared to 29.5% for average organizations, indicating the best did a better job of nurturing and upselling their existing client base. Leaders give higher marks for sales, marketing and solution development effectiveness. Interviews revealed leaders do not have the schism between sales and service delivery which is so apparent in many PSOs. Sales and delivery collaboration produced higher win ratios, larger sales pipelines and more reference customers.

Human Capital Alignment

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

Table 19 compares Human Capital Alignment pillar key performance indicators between the Best-of-the-Best organizations and the remainder. The table shows more employees would recommend their firm as a great place to work; they receive higher levels of training investment and are more likely to understand and take advantage of career advancement opportunities. They also are paid more plus they receive a host of additional benefits including 401K (retirement plan) matching, family leave, sabbaticals, top notch medical coverage, employee ownership, spouse inclusion in company trips and time and money investments in giving back to their communities.

Table 19: Best-of-the-Best Comparison – Human Capital Alignment Pillar

Key Performance Indicator (KPI)	Best	Rest	▲
Percentage of workforce that is male	57.0%	60.1%	-5%
Employee annual attrition - voluntary	7.2%	8.6%	16%
Employee annual attrition - involuntary	4.5%	4.7%	4%
Recommend company to friends/family (1 to 5)	4.83	4.35	11%
Days to recruit and hire for standard positions	57.0	62.2	8%
Days for a new hire to become productive	47.4	60.2	21%
Guaranteed annual training days / employee	11.50	9.18	25%
Well-understood career path (1 to 5 scale)	4.16	3.28	27%
Employee billable utilization	85.4%	70.9%	20%
Annual fully loaded cost per consultant (k)	$149	$125	-19%

Source: SPI Research, February 2020

Each top firm emphasized the importance of culture. Culture goes way beyond establishing a mission statement – it must be unique and inspiring to attract the type of consultants and clients the firm can best serve. Many of this year's Best-of-the-Best have also been recognized as "Best Places to Work" by other publications. Innovative employee engagement programs include annual company retreats; generous healthcare and parental leave policies; flexible work schedules;

health and wellness programs; significant investments in employee training and career development and a consistent focus on fun, team-building, collaboration and communication.

Top performing firms place a premium on high quality recruiting and on-boarding programs resulting in faster recruiting and ramping times combined with higher billable utilization. They hire "A" players. They invest a lot in them and expect a lot from them. ***Billable utilization targets of the best firms average 85% or higher compared to 70% for average firms. This means top performing consultants bill 300 more hours per year than those at average firms.*** According to Best Place to Work research, a key determinant of consultant dissatisfaction is not excessive work hours but having to deal with bureaucracy, meetings and time-wasting activities.

The leading firms use a variety of innovative recruiting strategies – from establishing strong partnerships with local universities, to attracting more senior consultants from their competitors. Just as in selling, referrals are a key source of new hires because the best and brightest invite their friends to join them. Once on board, the best firms offer new hire orientation and on-boarding programs which include shadowing and mentoring to quickly bring new hires up to speed. Leading firms have discovered they simply cannot rely on stealing top talent from their competitors – they need to grow their own. Several firms recruit from local universities (MIS and Engineering) and then invest over 90 days in teaching new hires both the industry and technology. This strategy, although initially expensive, results in qualified consultants who can hit the ground running after their on-boarding program has been completed. Other fascinating recruiting strategies include personality testing for cultural fit, communication and organizational skills in addition to technical knowledge. Several firms are starting specialized programs to attract and groom the next generation of female consultants. In an industry dominated by males, savvy firms realize the vast potential from attracting and growing a diverse workforce.

Top firms also invest in helping consultants build their own networks and communities – they encourage their young consultants to build strong college and network ties… to serve these communities with their talents but also as a source of recruiting and business referrals. With young millennial consultants, continuous learning is a perquisite which means top firms understand employee career and knowledge aspirations and ensure top performers are assigned to the projects, clients and geographies they are most interested in.

Just finding talent is not enough. This year's Best-of-the-Best 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 in-person weekly and quarterly meetings and company retreats to enhance communication and team building.

Service Execution

Table 20 compares service execution metrics between the Best-of-the-Best 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 their projects are more profitable.

Table 20: Best-of-the-Best Comparison – Service Execution Pillar

Key Performance Indicator (KPI)	Best	Rest	▲
Average project staffing time (days)	10.30	9.76	-6%
Number of projects delivered per year	313	601	-48%
Average revenue per project (k)	$490	$145	238%
Average project staff (people)	5.92	3.94	50%
Average project duration (months)	7.92	5.43	46%
Projects delivered on-time	92.2%	78.5%	17%
Average project overrun	7.4%	9.2%	19%
Use a standardized delivery methodology	80.4%	66.6%	21%
Project margin for time & materials projects	45.6%	35.0%	30%
Project margin for fixed price projects	44.0%	34.7%	27%
Average project margin — subs, offshore	41.5%	26.4%	57%

Source: SPI Research, February 2020

The Best-of-the-Best make money on every aspect of the business with high subcontractor margins (41.5%); high time and materials project margins (45.6%); and higher fixed price project margins (44.0%). They make a lot more money on both time and materials and fixed price projects; but they also excel in the judicious use of subcontractors, only using the best outside resources while ensuring they make margin on them. Leaders focus on all aspects of quality service delivery, with higher marks for resource management, estimating; change control processes and knowledge management processes.

Because every leader relies on a PSA application they can build and reinforce project delivery standards which result in precision execution and high levels of quality, productivity and profitability. They credit their PSA with improving resource, project management, time and expense capture and billing, leading to higher levels of billable utilization and on-time project completion. This year's Best-of-the-Best were uniform in their commitment to developing standardized methodologies. In addition to repeatable processes and templates, they are focused on measuring quality and client satisfaction. Most estimates, proposals and changes go through a rigorous evaluation to ensure proper risk management and margin analysis.

PSA applications used by the Best-of-the-Best include: FinancialForce PSA (10); Projector PSA (3); SAP (3); Kimble (2); NetSuite (1); Deltek (1); Connectwise (1) and Other (3).

Finance and Operations

Despite their altruism and spirit of giving back to their employees and communities, the Best-of-the-Best know how to make money; they are focused on financial success as a means of growth. The Professional Services Maturity Model™ scoring over-weights financial success; meaning the leaders in this survey were much more profitable than their peers. Table 21 shows the enviable financial results from this year's Best-of-the-Best.

Table 21: Best-of-the-Best Comparison – Finance & Operations Pillar

Key Performance Indicator (KPI)	Best	Rest	▲
EBITDA	**23.3%**	**14.6%**	**59%**
Annual revenue per billable consultant (k)	$276	$203	36%
Annual revenue per employee (k)	$237	$165	43%
Quarterly revenue target in backlog	55.6%	44.0%	26%
Percent of annual revenue target achieved	105.6%	92.8%	14%
Percent of annual margin target achieved	105.8%	88.7%	19%
Revenue leakage	3.66%	4.60%	20%
% of inv. redone due to error/client rejections	2.8%	2.4%	-16%
Days sales outstanding (DSO)	43.4	46.0	6%
Quarterly non-billable expense per employee	$2,260	$1,684	-34%
Executive real-time wide visibility	4.00	3.50	14%

Source: SPI Research, February 2020

They produced significantly more net profit (23.3% compared to 14.6%) than average firms in the benchmark. This high level of profitability is derived from more revenue per employee, project and consultant. The Best-of-the-Best can be characterized as running a very tight financial ship as they are appropriately metrics driven and have real-time visibility to all facets of the business.

They are frugal with non-essential expense. In particular, they refrain from overspending on fancy offices and non-billable travel, preferring to invest in the skill and career development of their employees. ***The leaders enter each quarter with significantly more revenue in backlog (55.6%), which creates greater financial stability and predictability.*** They are much more likely to have achieved both their annual revenue and margin targets which shows they are running a well-planned and predictable business.

The Best-of-the-Best PSOs Use and Integrate PS Applications

Table 22 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 the application infrastructure.

All this year's top performers have deployed a commercial finance and accounting solution which is partially integrated with their PSA application for billing and revenue recognition. On the financial side of the business, they rely on Deltek; NetSuite; Microsoft Dynamics; QuickBooks; FinancialForce; SAP and Sage/Intacct.

17 of 25 use Salesforce as their CRM. Other popular CRM solutions include Deltek; Microsoft and NetSuite.

One of the secrets to success of the Best is that all of this year's top performers use a commercial PSA. The PSA solutions used are: Deltek; NetSuite/OpenAir; Projector PSA; FinancialForce; Kimble and SAP.

Table 22: Best-of-the-Best Comparison – Business Applications

Solution	Best	Rest	Delta
Corporate financial management solution (CFM)	100.0%	94.5%	6%
Satisfaction with financial solution	3.88	3.81	2%
Commercial CRM solution	84.0%	86.8%	-3%
Satisfaction with CRM solution	3.87	4.04	-4%
CRM is integrated with CFM	52.2%	48.8%	7%
Commercial PSA	96.0%	84.2%	14%
Satisfaction with PSA solution	3.84	3.87	-1%
PSA is integrated with CFM	66.0%	53.3%	24%
Level of CRM and PSA Integration	56.0%	46.6%	20%
Commercial HCM solution	76.0%	67.6%	12%
Satisfaction with HCM solution	3.90	3.50	11%
HCM is integrated with CFM	35.7%	31.2%	15%
Use a commercial BI solution	62.5%	52.2%	20%
Satisfaction with BI solution	4.33	3.84	13%
BI is integrated	52.8%	44.1%	20%

Source: SPI Research, February 2020

Best-of-the-Best Conclusions

Each year it is inspiring to meet with leaders of the Best-of-the-Best organizations. They are justifiably proud of the unique Professional Services organizations they have built, but their pride is focused on their employees and client results, not on themselves. An area that sets the leaders apart is their in-depth knowledge of their markets and solutions. They understand and have visibility to all aspects of the business.

More than average firms, they are truly passionate about building an exceptional organization, not just for today, but for decades to come. They are willing to honestly look at themselves and the business and make changes to ensure they continue to be the premium firm. Their sterling reputation for delivering high quality results is a key ingredient in their success as most often new business comes from referrals.

A few of this year's Best-of-the-Best have been winners' year-after-year, both throughout the great recession and now again when the consulting market is hot. The independents have aligned themselves with the latest and greatest technologies and methods. They are constantly reinventing themselves to ensure they are on the cutting edge of the best solutions for their markets. The leaders of the embedded PSOs have a seat at the executive table – PS is seen as a critical element of the business and a major source of revenue, profit and client product adoption.

Excellence is within the grasp of all PS organizations – but it takes hard work, determination and constant vigilance. Service Performance Insight finds it gratifying that leading organizations rely on the PS Maturity™ benchmark to guide their investments and performance. "You get what you measure" so reference the superlative results of this year's Best-of-the-Best to build your own organizations for the future!

Chapter 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), 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, and 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 the core asset of service-based businesses.

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.

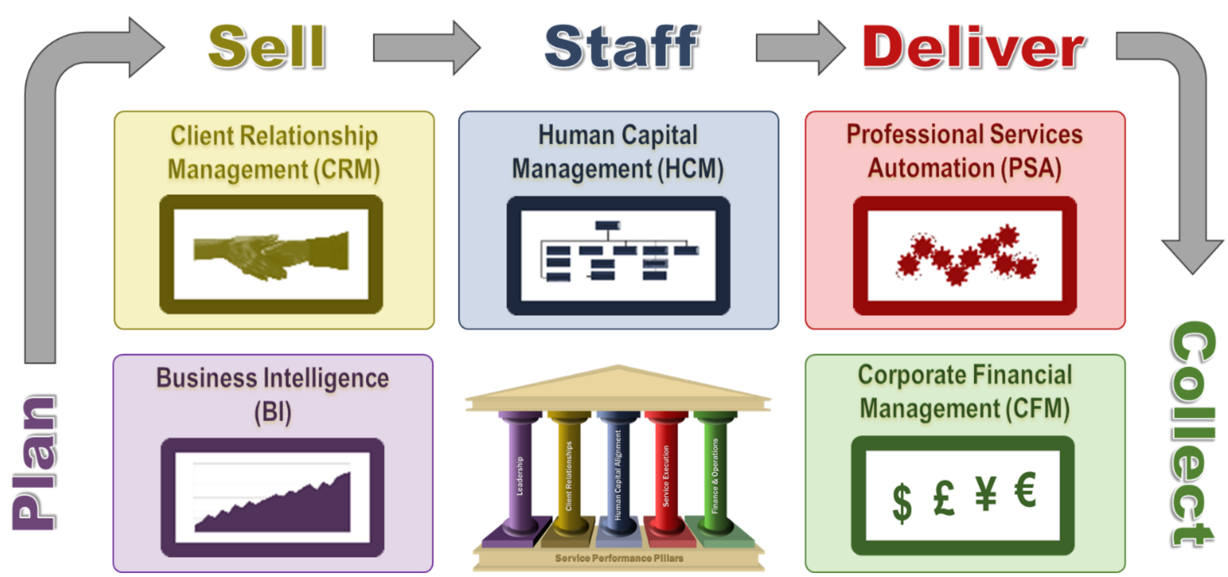
This chapter provides PS executives and software application providers insight into the level of market adoption, integration and satisfaction with core Professional Services business applications from this year's benchmark survey. ***This study is not intended to be an overall application market adoption 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:

- Δ ***Corporate Financial Management (CFM) or Enterprise Resource Planning (ERP)***: The fundamental solution required to accurately collect and report financial transactions.
- Δ ***Client Relationship Management (CRM)***: The automation of client relationship processes to improve sales and marketing efficiency and effectiveness.
- Δ ***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.
- Δ ***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.
- Δ ***Business Intelligence (BI)***: The assembly and use of information to improve decision-making.

Figure 26: Core Professional Services Business Applications



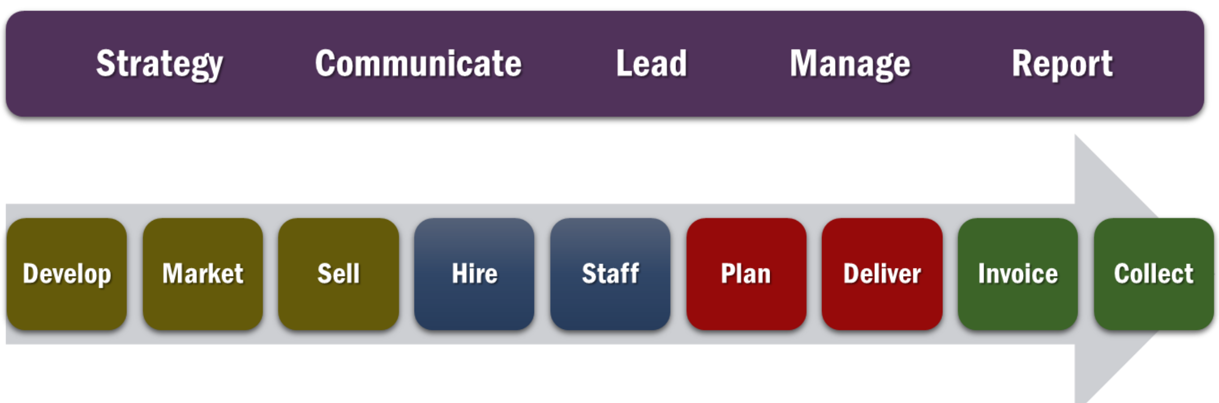
Source: SPI Research, February 2020

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 business processes, including the critical "quote-to-cash" process (Figure 27).

Figure 27: Primary Quote-to-Cash business processes span multiple departments



Source: SPI Research, February 2020

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 they impact 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 tend to improve.

Figure 28 shows quote-to-cash is a series of interrelated processes supported by client relationship management (CRM), PSA and enterprise resource planning (ERP) 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 standalone 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 28: Quote-to-cash process

Source: SPI Research, February 2020

PS Solution Adoption

In this year's survey, commercial adoption increased in almost every category except Corporate Financial Management. 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.

Table 23: Commercial Solution Adoption

Solution	2017	2018	2019
Corporate Financial Management (CFM)	95.1%	96.6%	94.8%
Client Relationship Management (CRM)	76.5%	83.5%	86.7%
Professional Services Automation (PSA)	67.3%	76.2%	84.8%
Human Capital Management (HCM)	55.9%	61.2%	68.1%
Business Intelligence (BI)	37.3%	47.0%	44.7%

Source: SPI Research, February 2020

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.

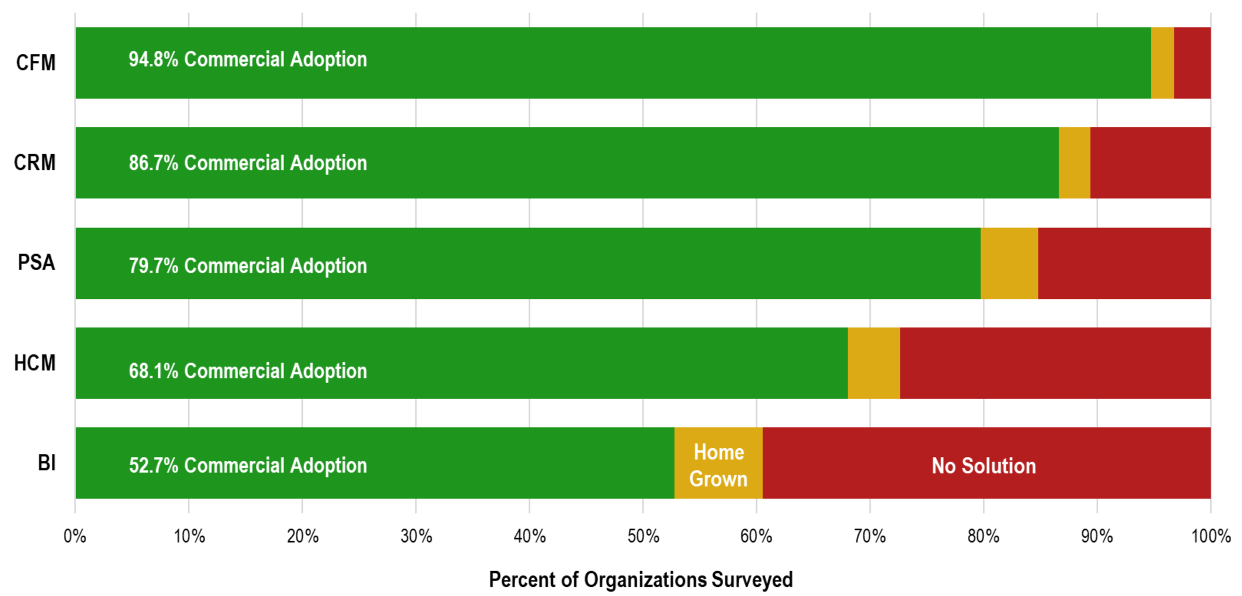
CRM adoption surpassed PSA adoption six years ago, when cloud-based CRM applications, primarily from Salesforce.com, became the standard. CRM usage is often misleading as firms may only purchase a limited number of sales seats whereas they require PSA functionality (and licenses) for all billable members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

This year we saw a significant jump in commercial PSA adoption from 76.2% to 84.8%. 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 2% 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. These powerful tools have ushered in the wave of virtual project 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 as the dominant knowledge management tool with SLAC 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 business applications, erasing the need to buy a standalone Business Intelligence solution.

Figure 29: Commercial Solution Adoption



Source: SPI Research, February 2020

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

Table 24 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 with their usage of PSA now surpassing or equaling the Americas. Understandably, application satisfaction is highly correlated with usage. Typically, application satisfaction improves as business applications become more widely adopted. PSA and BI satisfaction surpassed all other solutions this year. 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.

Table 24: Business Application Use by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2019	ESO	PSO	Americas	EMEA	APac
Commercial CFM solution used	94.8%	95.2%	94.5%	96.0%	89.9%	87.5%
Satisfaction with CFM solution	3.81	3.70	3.87	3.83	3.66	4.05
Commercial CRM solution	86.7%	97.5%	81.3%	87.8%	77.8%	91.3%
Satisfaction with CRM solution	4.03	4.13	3.97	4.05	3.88	4.00
CRM is integrated with CFM	49.0%	64.2%	40.6%	52.1%	34.5%	40.0%
Commercial PSA solution	84.8%	92.7%	80.9%	84.5%	82.6%	95.8%
Satisfaction with PSA solution	3.87	3.82	3.89	3.85	3.96	3.83
PSA is integrated with CFM	54.1%	53.1%	54.7%	56.6%	40.0%	52.5%
Commercial HCM solution	68.1%	79.6%	62.4%	69.8%	58.2%	66.7%
Satisfaction with HCM solution	3.53	3.56	3.51	3.56	3.40	3.24
HCM is integrated with CFM	31.4%	32.5%	30.8%	30.8%	26.7%	56.3%
Commercial BI solution	52.7%	59.0%	49.7%	52.4%	51.5%	62.5%
Satisfaction with BI solution	3.87	3.75	3.94	3.85	3.86	4.17
BI is integrated with CFM	44.7%	49.1%	41.9%	46.1%	41.9%	30.0%
CRM / PSA integration	47.1%	63.4%	39.1%	49.5%	29.3%	60.4%

Source: SPI Research, February 2020

The level of solution adoption is much higher within embedded PS organizations. Table 24 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.

As one might expect, Table 25 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 25: 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	75.9%	96.5%	95.5%	98.3%	97.7%	98.4%
Satisfaction with CFM solution	3.76	3.96	3.84	3.71	3.81	3.82
Commercial CRM solution	59.6%	82.4%	90.1%	90.9%	95.2%	95.0%
Satisfaction with CRM solution	3.93	4.11	4.01	4.05	4.15	3.92
CRM is integrated	38.2%	38.8%	44.4%	54.7%	57.3%	62.5%
Commercial PSA solution	62.3%	77.9%	90.2%	85.2%	97.7%	92.1%
Satisfaction with PSA solution	3.85	4.07	3.77	3.80	4.18	3.73
PSA is integrated	43.1%	48.5%	49.1%	63.4%	57.9%	60.0%
Commercial HCM solution	32.1%	49.4%	70.0%	82.4%	83.7%	83.9%
Satisfaction with HCM solution	3.21	3.63	3.49	3.63	3.33	3.62
HCM is integrated	21.2%	31.8%	18.7%	34.6%	37.5%	49.0%
Commercial BI solution	32.1%	37.0%	52.7%	59.3%	60.5%	75.0%
Satisfaction with BI solution	3.67	3.88	3.86	3.93	3.91	3.86
BI is integrated	36.0%	34.6%	40.1%	47.9%	48.5%	57.8%
CRM / PSA integration	32.7%	39.8%	52.2%	48.7%	57.4%	47.7%

Source: SPI Research, February 2020

Table 26 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. This is clearly an improvement area for these segments.

Table 26: Business Application Use by Vertical Service Market

Key Performance Indicator (KPI)	IT Consult	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Commercial CFM solution used	97.8%	95.9%	83.1%	96.3%	100.0%
Satisfaction with CFM solution	3.98	3.61	3.82	3.71	3.72
Commercial CRM solution	90.6%	97.2%	79.0%	100.0%	56.1%
Satisfaction with CRM solution	4.04	4.11	3.96	4.06	3.52
CRM is integrated	35.8%	62.9%	42.7%	68.8%	37.0%
Commercial PSA solution	88.6%	93.1%	78.1%	90.7%	57.1%
Satisfaction with PSA solution	3.99	3.88	3.78	3.70	3.56
PSA is integrated	52.2%	52.2%	54.7%	46.7%	66.7%
Commercial HCM solution	69.9%	73.5%	56.3%	94.1%	50.0%
Satisfaction with HCM solution	3.57	3.53	3.14	3.70	3.44
HCM is integrated	28.8%	34.5%	36.0%	28.8%	28.0%
Commercial BI solution	57.8%	52.9%	46.0%	55.1%	29.3%
Satisfaction with BI solution	3.99	3.72	3.86	3.79	3.73
BI is integrated	48.2%	50.0%	34.3%	35.9%	44.4%
CRM / PSA integration	50.0%	61.0%	33.1%	70.9%	17.0%

Source: SPI Research, February 2020

Table 27 shows marketing and advertising and government contractors all have CFM applications while Accountancies and Management Consultancies reported the lowest CFM adoption.

Table 27: Business Application Use by Vertical Service Market Continued

Key Performance Indicator (KPI)	VAR	Account	MarCom	Gov. Cont.	Other PS
Commercial CFM solution used	90.5%	84.6%	100.0%	100.0%	95.7%
Satisfaction with CFM solution	4.05	3.91	3.25	4.38	3.78
Commercial CRM solution	94.7%	72.7%	70.0%	50.0%	88.4%
Satisfaction with CRM solution	4.20	4.11	3.89	3.67	4.16
CRM is integrated	65.8%	50.0%	66.7%	66.7%	47.3%
Commercial PSA solution	95.0%	83.3%	76.9%	50.0%	89.7%
Satisfaction with PSA solution	3.63	3.60	3.67	4.00	4.08
PSA is integrated	72.2%	72.2%	50.0%	66.7%	51.7%
Commercial HCM solution	57.9%	72.7%	81.8%	62.5%	62.3%
Satisfaction with HCM solution	3.33	3.83	3.89	3.67	3.58
HCM is integrated	22.7%	58.3%	38.9%	37.5%	29.8%

Key Performance Indicator (KPI)	VAR	Account	MarCom	Gov. Cont.	Other PS
Commercial BI solution	78.9%	50.0%	54.5%	28.6%	56.5%
Satisfaction with BI solution	3.88	4.00	3.40	4.25	3.90
BI is integrated	71.4%	41.7%	16.7%	50.0%	41.0%
CRM / PSA integration	59.5%	46.4%	14.3%	0.0%	48.6%

Source: SPI Research, February 2020

Solution Satisfaction

Table 28 shows application satisfaction (1: very dissatisfied to 5: very satisfied). Satisfaction with CRM tops the list followed by PSA and BI. Satisfaction levels are relatively low for CFM and 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.

Table 28: Solution Satisfaction

Solution	2017	2018	2019
Client Relationship Management (CRM)	3.87	4.02	4.03
Professional Services Automation (PSA)	3.89	3.85	3.87
Business Intelligence (BI)	3.86	3.74	3.87
Corporate Financial Management (CFM)	3.95	3.84	3.81
Human Capital Management (HCM)	3.59	3.64	3.53

Source: SPI Research, February 2020

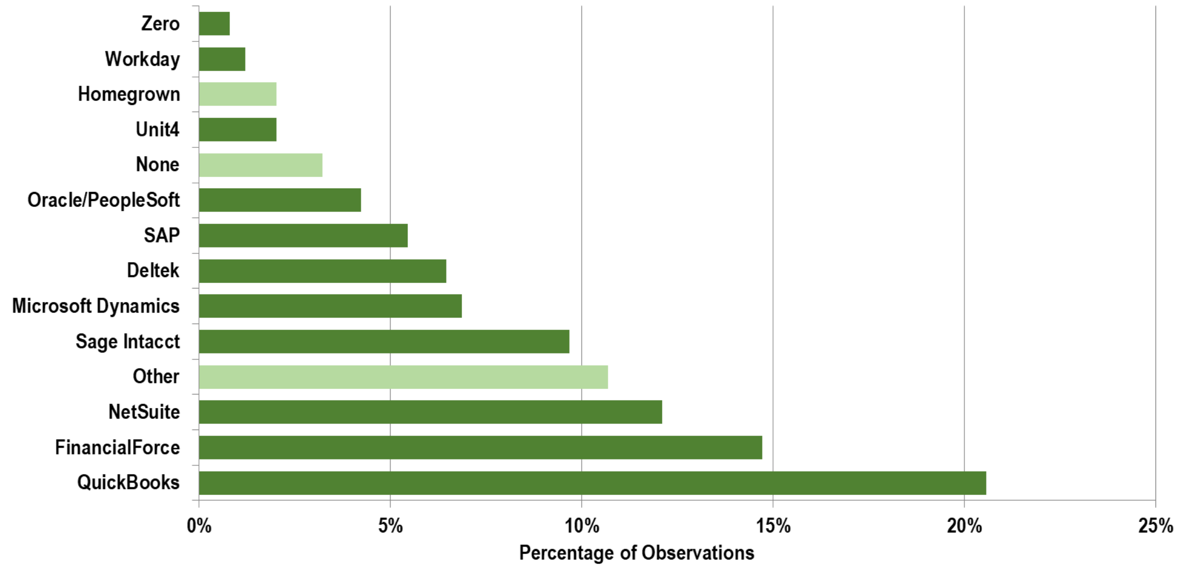
Corporate Financial Management (CFM)

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

Figure 30: Corporate Financial Management (CFM) Solution Used



Source: SPI Research, February 2020

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 expense compliance.

This year's survey included responses from 102 QuickBooks; 73 FinancialForce; 60 NetSuite; 48 Sage/Intacct and 32 Deltek financials clients. QuickBooks is perennially the leading financial solution for small and medium sized PSOs with 20% 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 30).

Client Relationship Management (CRM)

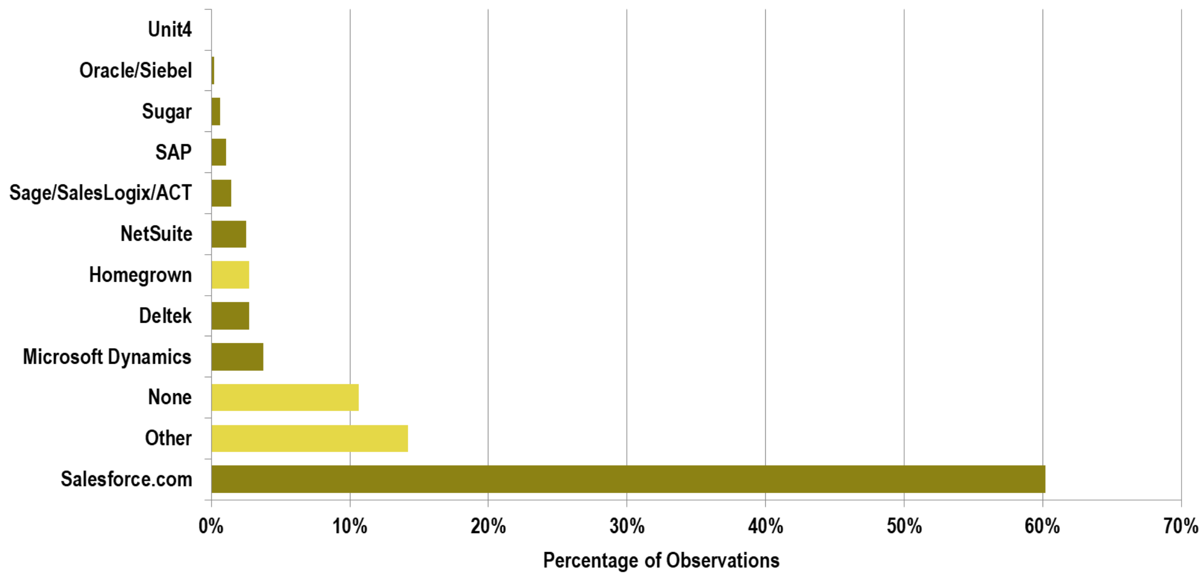
CRM supports the management of client relationships and is designed to improve sales and marketing effectiveness. CRM automates lead, contact and campaign management, sales pipeline, territory and contract management. Many CRM applications also provide powerful call center functionality for issue

Client Relationship Management (CRM)

- Client Analytics
- Marketing
- Partner Relationship Mgmt.
- Proposals
- Sales
- Service

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.

Figure 31: Client Relationship Management (CRM) Solution Used



Source: SPI Research, February 2020

Figure 31 shows Salesforce.com dominance once again with use by 60% of the organizations surveyed. Microsoft Dynamics CRM has gained share to move into 2nd place, closely followed by Deltek.

Table 29: Impact – Client Relationship Management (CRM) Use

Key Performance Indicator (KPI)	CRM Used	CRM Not Used	▲
Survey responses (commercial CRM)	416	64	
Year-over-year change in PS revenue	11.4%	6.7%	70%
% new client revenue	32.5%	22.1%	47%
Deal pipeline / quarterly bookings forecast	187%	150%	25%
Quarterly revenue target in backlog	44.9%	42.9%	5%
Annual revenue per billable consultant (k)	$213	$174	23%
Annual revenue per employee (k)	$176	$140	25%
Project margin	36.0%	32.6%	10%

Source: SPI Research, February 2020

Table 29 compares organizations using CRM to those who do not. 13% 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 30 further depicts CRM impact, comparing those organizations not using CRM at all to those organizations using standalone CRM, and then to organizations using CRM integrated with the core financial solution. 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.

Table 30: Impact – Commercial CRM Integration

Key Performance Indicator (KPI)	CRM Not Used	Used, Not Integrated	Used, Integrated
Survey responses (commercial CRM)	64	123	254
Year-over-year change in PS revenue	6.7%	10.9%	11.6%
Year-over-year change in PS headcount	5.7%	9.0%	10.3%
New clients	22.1%	26.6%	35.5%
Quarterly revenue target in backlog	42.9%	45.3%	45.7%
Annual revenue per billable consultant (k)	$174	$206	$214
Annual revenue per employee (k)	$140	$166	$179

Source: SPI Research, February 2020

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)

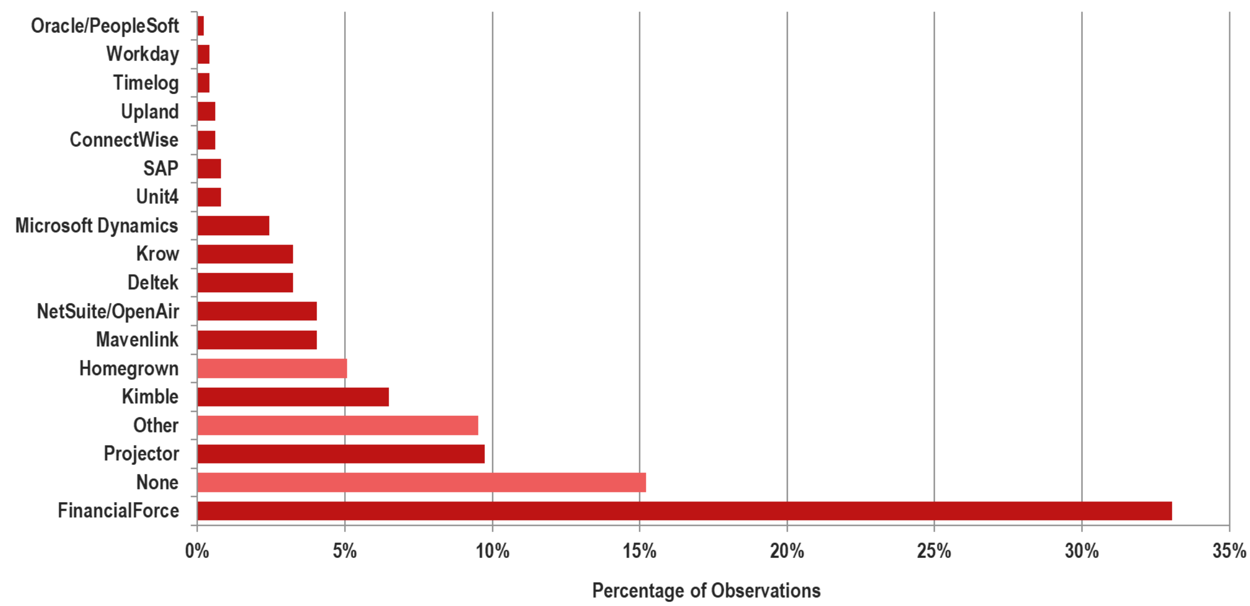
- Collaboration
- Invoicing
- Practice Management
- Project Accounting
- Project Analytics
- Project Costing
- Project Management
- Resource Management
- Time & Expense

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 expanded 8.6% from 76.2% to 84.8%. PSA satisfaction remained relatively unchanged year over year with a satisfaction rating of 3.87 out of 5 (77%).

Figure 32 shows FinancialForce garnered first place this year as the most adopted PSA solution with approximately 33% (163 firms) of the survey. Projector is the second-most prevalent solution with 9.7% (48 firms). Kimble is third with 6.5% (32 firms). Mavenlink is tied with NetSuite in fourth with 4% (20 firms). Deltek and Krow are tied in sixth place with 3.2% (16 firms). None (15.2% or 75 firms) and other (9.5% or 47 firms) are still two of the most prevalent answers. Interestingly, the average size of the organizations that do not use a PSA is quite large at 143 PS employees. As the PSA market has matured, we see solution providers coalescing by ecosystem. FinancialForce, Kimble, Mavenlink and 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.

Figure 32: Professional Services Automation (PSA) Solution Used



ource: SPI Research, February 2020

Table 31 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 4% increase in billable utilization as a primary reason to select PSA.*** Just start to multiply what a 4% improvement in utilization means to revenue improvements. For a 100-person PS organization, 4% translates to 8,000 more billable hours per year. With average bill rates of $200 per hour, the PSO can produce $1.6M 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 32 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 almost 5% increase in billable utilization as PSOs move from spreadsheets to PSA to integrated PSA.

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.

Table 31: Impact – Professional Services Automation (PSA) Use

Key Performance Indicator (KPI)	PSA Used	PSA Not Used	▲
Survey responses (commercial PSA)	418	75	
Year-over-year change in PS revenue	10.7%	9.7%	11%
Employee billable utilization	72.2%	69.2%	4%
Use a standardized delivery methodology	67.8%	66.4%	2%
Annual revenue per billable consultant (k)	$213	$181	17%
Project margin	36.3%	31.7%	14%
Profit (EBITDA%)	15.6%	13.9%	12%

Source: SPI Research, February 2020

Table 32: Impact – Commercial PSA Integration

Key Performance Indicator (KPI)	PSA Not Used	Used, Not Integrated	Used, Integrated
Survey responses (commercial CRM)	75	97	149
Year-over-year change in PS revenue	9.7%	9.5%	11.2%
Year-over-year change in PS headcount	7.6%	9.0%	9.3%
Deal pipeline / quarterly bookings forecast	146%	180%	193%
Quarterly revenue target in backlog	41.3%	43.6%	46.1%
Employee billable utilization	69.2%	70.7%	74.0%
Annual revenue per billable consultant (k)	$181	$196	$224
Annual revenue per employee (k)	$141	$157	$187
Project margin	31.7%	34.1%	37.6%

Source: SPI Research, February 2020

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

Human Capital Management (HCM)

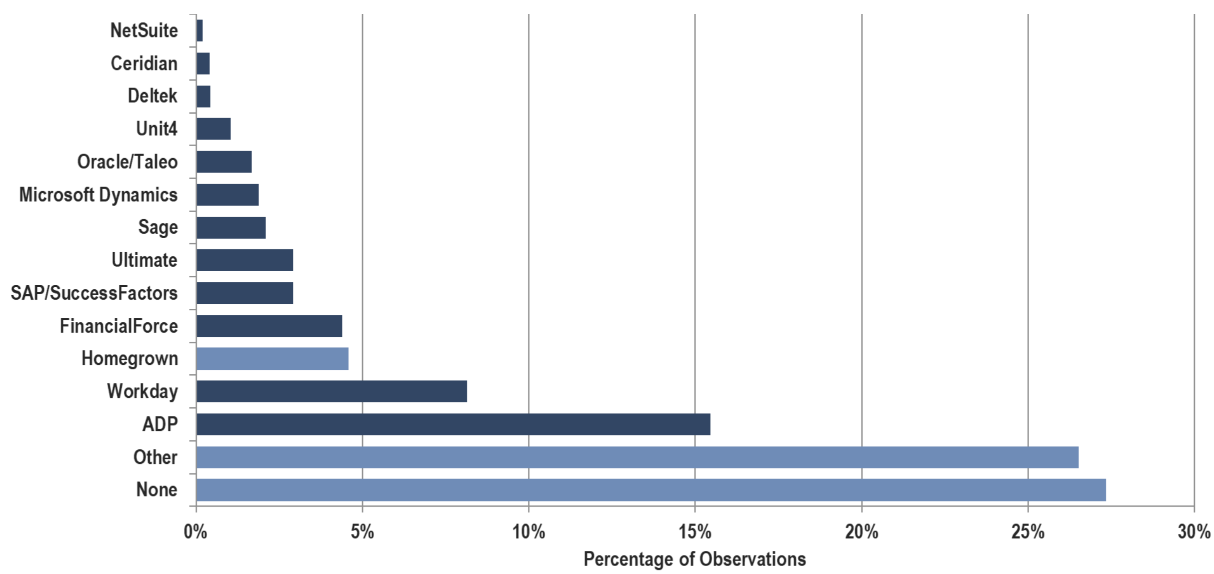
- Workforce Planning
- Recruitment
- Career Development
- Rewards
- Performance Management
- Workforce Management
- Reporting and Analytics

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.

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. Effective 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.

Figure 33 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 68% of them although "none" still has top market share at 27% (131 firms). HCM prevalence among the largest PSOs is significant. The average size of the PS organization using HCM is 588 consultants compared to 352 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 33: Human Capital Management (HCM) Solution Used



Source: SPI Research, February 2020

Of the solutions highlighted in this year's benchmark, ADP, Workday and FinancialForce (now partnering with ADP for HCM) are leaders. SAP/Successfactors; Ultimate and Sage are not far behind. HCM usage will continue to grow within service-centric organizations as talent is their most valuable asset. Most of the solutions found in this benchmark are provided by financial solution providers, who generally offer integration with other applications in their suites.

Table 33 highlights the significant benefits of HCM by comparing those organizations who use it versus those who do not. The table highlights HCM is critical for large organizations. Key improvements show up in faster growth, larger pipelines, stronger backlog and higher per person revenue yields. HCM has a powerful impact on net profit with an average bottom-line profit of 15%. Higher billable utilization occurs because the right people with the right skills are available to do the work. Larger management span of control reduces the cost of non-billable management and enhances the bottom-line. HCM solutions provide greater visibility into employee skills, preferences, training and career potential. It helps ensure equitable compensation is an integral component of pay for performance and reward systems.

Table 33: Impact – Human Capital Management (HCM) Use

Key Performance Indicator (KPI)	HCM Used	HCM Not Used	▲
Survey responses (commercial CRM)	326	153	
Number of PS employees	588	352	67%
Year-over-year change in PS revenue	$93.4	$50.6	84%
Year-over-year change in PS headcount	11.4%	9.2%	23%
Deal pipeline / quarterly bookings forecast	186%	171%	9%
Days to recruit and hire for std. positions	61.1	64.4	5%
Days for a new hire to become productive	57.4	62.8	9%
Employee billable utilization	72.6%	70.4%	3%
Annual revenue per billable consultant (k)	$216	$190	14%
Annual revenue per employee (k)	$177	$156	14%
Profit (EBITDA %)	**16.0%**	**14.0%**	**15%**

Source: SPI Research, February 2020

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 34: Impact – Commercial HCM Integration

Key Performance Indicator (KPI)	HCM Not Used	Used, Not Integrated	Used, Integrated
Survey responses (commercial CRM)	153	156	65
Size of PS organization (employees)	352	378	526
Year-over-year change in PS revenue	9.2%	11.1%	10.9%
Deal pipeline / qtr. bookings forecast	171%	187%	198%
New client % of total revenue	29.7%	30.1%	32.8%
Employee billable utilization	70.4%	72.7%	73.7%
Revenue per project (k)	$134	$180	$205
Percent of annual revenue target achieved	91.5%	94.7%	95.3%
Percent of annual margin target achieved	89.0%	90.2%	90.9%
Profit (EBITDA %)	**14.0%**	**15.1%**	**15.7%**

Source: SPI Research, February 2020

Business Intelligence (BI)

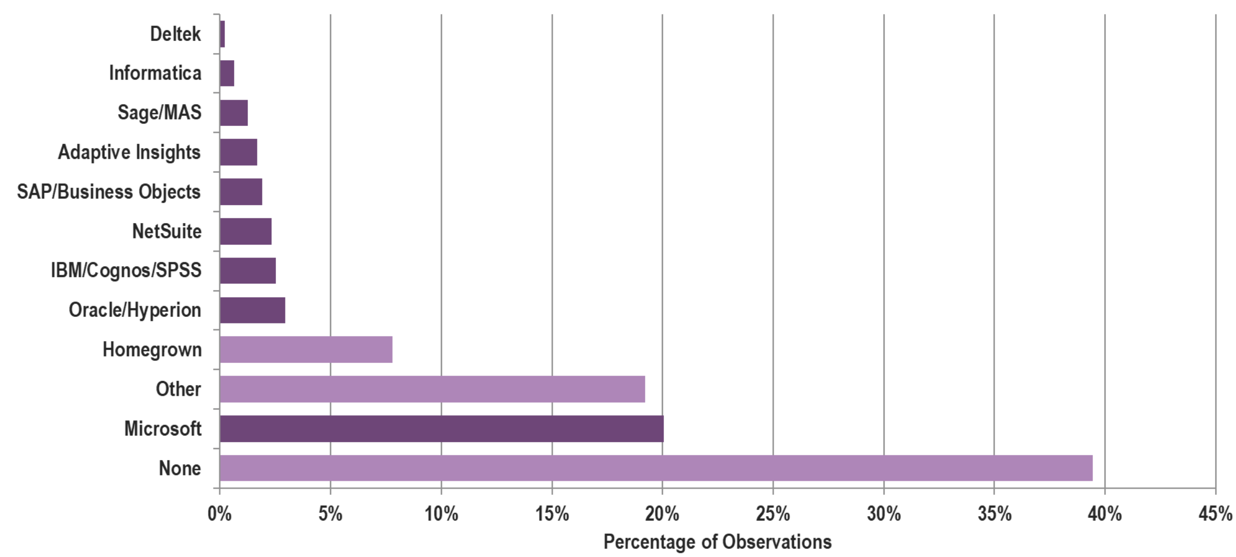
Business Intelligence integrates information from core business applications to improve strategic analysis, demand and capacity planning, budgeting, forecasting and financial planning. BI solutions continue to increase adoption in PSOs, whether they are offered as stand-along tools or part of the business 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.

Business Intelligence (BI)

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

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 and Looker. At the same time every major software provider is looking to add Artificial Intelligence and 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 34: Business Intelligence (BI) Solution Used



Source: SPI Research, February 2020

Figure 34 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, Oracle/Hyperion and NetSuite; IBM/Cognos/SPSS; SAP/ Business Objects and Workday/Adaptive Insights each have a wide following.

The results in Table 35 highlight some of the core benefits organizations have achieved that use BI solutions. While each improvement is impressive, growth in both revenues and headcount 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.

Table 35: Impact – Business Intelligence (BI) Use

Key Performance Indicator (KPI)	BI Used	BI Not Used	▲
Survey responses (commercial CRM)	250	224	
Size of PS organization (employees)	698	279	150%
Year-over-year change in PS revenue	10.6%	10.4%	2%
Year-over-year change in PS headcount	8.8%	9.1%	-4%
New client % of total revenue	32.1%	29.3%	9%
Deal pipeline / qtr. bookings forecast	191%	171%	11%
Project duration (man-months)	23.9	20.3	18%
Project margin	35.5%	35.2%	1%

Source: SPI Research, February 2020

Application Integration

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 35). 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: Impact – Commercial BI Integration

Key Performance Indicator (KPI)	BI Not Used	Used, Not Integrated	Used, Integrated
Survey responses (commercial CRM)	224	77	77
Size of PS organization (employees)	279	409	724
Year-over-year change in PS revenue	10.4%	9.8%	11.1%
Year-over-year change in PS headcount	9.1%	7.7%	9.8%
Revenue per project (k)	$139	$185	$207
Annual revenue per billable consultant (k)	$198	$212	$222
Annual revenue per employee (k)	$166	$172	$175
Project margin	35.2%	33.6%	37.2%

Source: SPI Research, February 2020

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.

Table 37 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.

Figure 35: Success depends on inter-departmental cooperation

Source: SPI Research, February 2020

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.

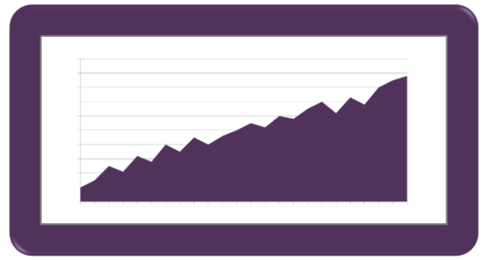
PSOs are waking up to the necessity of coordinating sales with service delivery. This integration improves customer satisfaction and defines quality execution. Typically, application suites, such as Deltek, FinancialForce, Microsoft, NetSuite, Workday and SAP offer out-of-the-box integration between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

Table 37: Solution Integration with Core Financials

Solution	2017	2018	2019
Professional Services Automation (PSA)	62.5%	56.9%	54.1%
Client Relationship Management (CRM)	41.3%	47.7%	49.0%
Business Intelligence (BI)	50.0%	40.2%	44.7%
Human Capital Management (HCM)	35.9%	32.2%	31.4%

Source: SPI Research, February 2020

Chapter 6 – Leadership Pillar



Growth, growth and more growth. 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 twelve 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 46 shows the Leadership Maturity model and the optimal leadership style for each level of maturity.

Table 38: 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 2020

Leadership challenges are much the same but also very different in embedded PSOs. These organizations exist to ensure the successful implementation and adoption 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 and optimization. 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 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 39). 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's 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 the table, effective leadership has a powerful impact on all aspects of performance.

Table 39: Impact Based on Leadership Maturity Scores

Key Performance Indicator (KPI)	8 - 25	26 - 30	31 - 35	36 - 40
Percentage of respondents	19.2%	18.6%	37.3%	24.9%
Year-over-year change in PS revenue	7.2%	8.0%	11.4%	14.7%
% of employees billable or chargeable	67.0%	72.9%	74.1%	76.3%
Deal pipeline / quarterly bookings forecast	151%	166%	180%	218%
Bid-to-Win ratio (per 10 bids)	4.72	5.03	5.35	6.02
Percentage of referenceable clients	67.4%	63.5%	72.2%	79.8%
Recommend company to friends/family (5 pt.)	3.60	4.03	4.54	4.92
Well-understood career path for all employees	2.75	2.86	3.43	3.97
Employee billable utilization	71.5%	67.4%	72.1%	73.8%
Projects delivered on-time	70.5%	79.0%	80.7%	83.0%
Use a standardized delivery methodology	54.6%	63.9%	70.8%	73.2%
Annual revenue per billable consultant (k)	$202	$198	$211	$221
Annual revenue per employee (k)	$167	$153	$173	$186

Source: SPI Research, February 2020

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:

- ***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.

- ∆ ***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.
- ∆ ***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?
- ∆ ***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.
- ∆ ***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.
- ∆ ***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.
- ∆ ***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.
- ∆ ***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

Table 40: Impact – Well understood vision, mission and strategy

Well understood vision, mission and strategy	Survey %	Headcount growth	% of emp. Billable	Project Margin	EBITDA
1: Very ineffective	0.8%	-0.6%	77.5%	31.0%	-34.3%
2	5.3%	7.1%	69.6%	31.6%	10.4%
3	17.3%	7.6%	72.6%	34.6%	15.8%
4	52.4%	7.9%	73.4%	35.6%	14.3%
5: Very effective	24.2%	13.5%	76.4%	39.3%	18.6%
Total/Average	**100.0%**	**9.1%**	**73.8%**	**36.0%**	**15.0%**

Source: SPI Research, February 2020

support the organization's mission will work tirelessly to achieve it. In this year's survey, clarity of vision, mission and strategy directly correlated with the percentage of billable employees, win ratio, attrition and propensity to recommend as a great place to work.

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.

Table 41: Impact – Confidence in PS Leadership

Confidence in PS Leadership	Survey %	Revenue growth	Employee attrition	On-time project delivery	Project margin
1: Very ineffective	1.0%	1.5%	30.1%	66.0%	25.0%
2	4.1%	6.8%	16.1%	67.8%	28.3%
3	12.6%	7.0%	15.4%	72.8%	35.7%
4	52.6%	10.5%	13.0%	80.3%	35.9%
5: Very effective	29.7%	13.4%	11.4%	82.6%	38.0%
Total/Average	**100.0%**	**10.7%**	**13.1%**	**79.4%**	**36.1%**

Source: SPI Research, February 2020

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 42: Impact – Ease of getting things done

Ease of getting things done	Survey %	Revenue growth	Headcnt. growth	On-time project delivery	Project overrun
1: Very ineffective	1.0%	-1.0%	0.0%	58.0%	27.0%
2	5.9%	8.4%	6.8%	69.4%	12.3%
3	24.7%	8.5%	7.6%	75.5%	9.4%
4	48.1%	11.5%	9.7%	81.5%	8.4%
5: Very effective	20.3%	12.6%	10.6%	82.7%	8.2%
Total/Average	**100.0%**	**10.7%**	**9.1%**	**79.3%**	**9.0%**

Source: SPI Research, February 2020

Table 42 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.

Goal and measurement 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.

Table 43: Impact – Goals and measurement alignment

Goals and measurement alignment	Survey %	Headcount growth	Bid-to-win ratio	On-time project delivery	Ann. rev./ consult. (k)
1: Very ineffective	1.0%	0.0%	2.70	66.0%	$81
2	6.7%	8.3%	5.02	75.0%	$191
3	24.4%	7.0%	5.13	75.2%	$204
4	47.0%	10.1%	5.30	81.0%	$207
5: Very effective	20.9%	10.1%	5.61	82.5%	$221
Total/Average	**100.0%**	**9.1%**	**5.28**	**79.4%**	**$207**

Source: SPI Research, February 2020

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 43 goals and measurements in alignment had a profound impact on headcount growth, win ratios, on-time project delivery and annual revenue per consultant.

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

Table 44: Impact – Employees have confidence in the PSO's future

Employees have Confidence in PSO's Future	Survey %	Revenue growth	Client ref.	Employee attrition	On-time project delivery
1: Very ineffective	1.4%	2.5%	67.9%	15.4%	54.3%
2	3.2%	5.0%	61.9%	14.8%	72.8%
3	17.6%	6.5%	64.2%	14.7%	76.4%
4	49.3%	10.7%	72.4%	13.1%	80.2%
5: Very effective	28.4%	14.4%	78.3%	12.2%	81.8%
Total/Average	**100.0%**	**10.7%**	**72.2%**	**13.2%**	**79.4%**

Source: SPI Research, February 2020

experienced lower attrition and more projects delivered on-time. Capping it all off, they were also more profitable.

"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 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.

Table 45: Impact – Effectively communicates with employees

Effectively communicates with employees	Survey %	Revenue growth	Client reference	Employee attrition	On-time project delivery
1: Very ineffective	0.6%	-3.3%	78.3%	20.5%	45.0%
2	5.9%	9.0%	66.3%	13.6%	73.4%
3	19.3%	9.1%	68.0%	13.5%	76.0%
4	53.3%	10.2%	72.1%	13.2%	80.8%
5: Very effective	20.9%	14.3%	77.9%	12.6%	81.2%
Total/Average	**100.0%**	**10.7%**	**72.2%**	**13.2%**	**79.3%**

Source: SPI Research, February 2020

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 46: Impact – Embraces change - nimble and flexible

Embraces change - nimble and flexible	Survey %	Org. size (emp)	Headcnt. growth	% of emp. billable	Client ref.
1: Very ineffective	1.4%	1,125	3.6%	67.1%	72.9%
2	7.1%	718	6.4%	70.9%	68.1%
3	23.0%	640	7.8%	73.5%	69.3%
4	43.1%	523	8.8%	73.5%	71.7%
5: Very effective	25.4%	265	11.8%	75.8%	76.7%
Total/Average	**100.0%**	**507**	**9.1%**	**73.8%**	**72.2%**

Source: SPI Research, February 2020

Innovation focused

Table 47: Impact – Innovation focused

Innovation focused	Survey %	Bid-to-win ratio	Deal pipeline	Client reference	Rec. to family & friends
1: Very ineffective	1.6%	4.19	131%	71.9%	3.57
2	9.2%	5.01	148%	66.4%	3.77
3	26.3%	5.05	172%	66.2%	4.12
4	43.4%	5.20	187%	74.8%	4.51
5: Very effective	19.6%	6.02	203%	77.1%	4.79
Total/Average	**100.0%**	**5.29**	**182%**	**72.2%**	**4.38**

Source: SPI Research, February 2020

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.

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 is "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. Almost 65% of survey participants gave high marks for innovation. With innovation, billable utilization grows and attrition declines.

Steps Taken to Improve Profitability

Table 48 depicts improvement priorities. In 2019 the number one and two improvement priorities are 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. Consulting excellence comes with knowledge, effectively harvesting that knowledge and making it accessible is a worthy endeavor.

Table 48: Steps Taken to Improve Profitability by Organization Type and Geographic Region

Key Performance Indicator	2018	2019	ESO	PSO	Amer.	EMEA	APac
Surveys	**622**	**513**	**168**	**345**	**414**	**75**	**24**
Improve marketing effectiveness	3.89	4.03	3.91	4.09	4.03	4.11	3.92
Improve solution portfolio	3.77	4.02	4.21	3.93	4.02	4.07	3.88
Improve sales effectiveness	3.95	3.95	3.98	3.94	3.93	4.13	3.71
Improve methods and tools	3.83	3.87	4.03	3.79	3.9	3.81	3.58
Improve hiring and ramping	3.76	3.80	3.80	3.80	3.82	3.63	3.92
Improve utilization	3.82	3.76	3.77	3.76	3.76	3.83	3.58
Expand business models	NA	3.44	3.64	3.34	3.43	3.58	3.33
Reduce non-billable time	3.53	3.41	3.44	3.4	3.44	3.27	3.29
Increases rates	3.29	3.27	3.1.0	3.35	3.27	3.33	3.00

Source: SPI Research, February 2020

Table 49 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 sales effectiveness'.

Table 49: 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	**55**	**88**	**138**	**119**	**47**	**66**
Improve solution portfolio	3.94	4.13	3.96	4.10	3.84	4.07
Improve marketing effectiveness	4.02	4.18	4.08	3.95	3.98	3.93
Improve sales effectiveness	3.83	4.01	3.98	3.91	3.93	4.00

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Increases rates	3.19	3.26	3.33	3.20	3.27	3.33
Improve hiring and ramping	3.40	3.87	3.83	3.98	3.71	3.72
Improve methods and tools	3.83	3.99	3.84	3.93	3.62	3.87
Improve utilization	3.58	3.83	3.78	3.86	3.56	3.75
Reduce non-billable time	3.11	3.39	3.43	3.47	3.40	3.57
Expand business models	3.10	3.40	3.39	3.41	3.49	3.95

Source: SPI Research, February 2020

Tables 50 and 51 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 50: Steps Taken to Improve Profitability by Vertical Market

Key Performance Indicator (KPI)	IT Consult.	Software PS	Mgmt. Consult.	SaaS PS	Arch./ Engr.
Surveys	**143**	**73**	**68**	**55**	**44**
Improve solution portfolio	4.11	4.25	4.08	4.30	3.19
Improve marketing effectiveness	4.14	3.91	4.27	3.81	3.90
Improve sales effectiveness	4.02	3.93	4.09	3.94	3.69
Increases rates	3.43	3.04	3.30	3.11	3.71
Improve hiring and ramping	4.00	3.76	3.82	3.96	3.67
Improve methods and tools	3.92	3.99	3.80	4.11	3.57
Improve utilization	3.91	3.82	3.71	3.66	3.79
Reduce non-billable time	3.41	3.49	3.34	3.40	3.45
Expand business models	3.60	3.66	3.06	3.58	2.95

Source: SPI Research, February 2020

Table 51: Steps Taken to Improve Profitability by Vertical Market

Key Performance Indicator (KPI)	VAR	Account.	Advertise. / Mktg / PR	Gov. Cont.	Other PS
Surveys	**21**	**14**	**14**	**8**	**73**
Improve solution portfolio	3.90	3.50	3.64	3.43	4.10
Improve marketing effectiveness	4.10	3.58	3.91	3.43	4.10
Improve sales effectiveness	4.10	3.42	4.09	2.86	4.00
Increases rates	3.14	3.00	3.09	2.57	3.17
Improve hiring and ramping	3.71	3.50	3.73	3.57	3.49
Improve methods and tools	4.05	3.50	3.82	3.43	3.77
Improve utilization	4.05	3.42	3.64	3.29	3.55
Reduce non-billable time	3.33	3.42	3.73	2.86	3.42
Expand business models	3.57	3.50	3.55	3.00	3.46

Source: SPI Research, February 2020

Chapter 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 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 client's key 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 52 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 52: 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 drive 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 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 2020

The effectiveness of the organization's sales and marketing efforts determines the quality and size of the pipeline; bid-to-win ratios; discounts; client satisfaction 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.

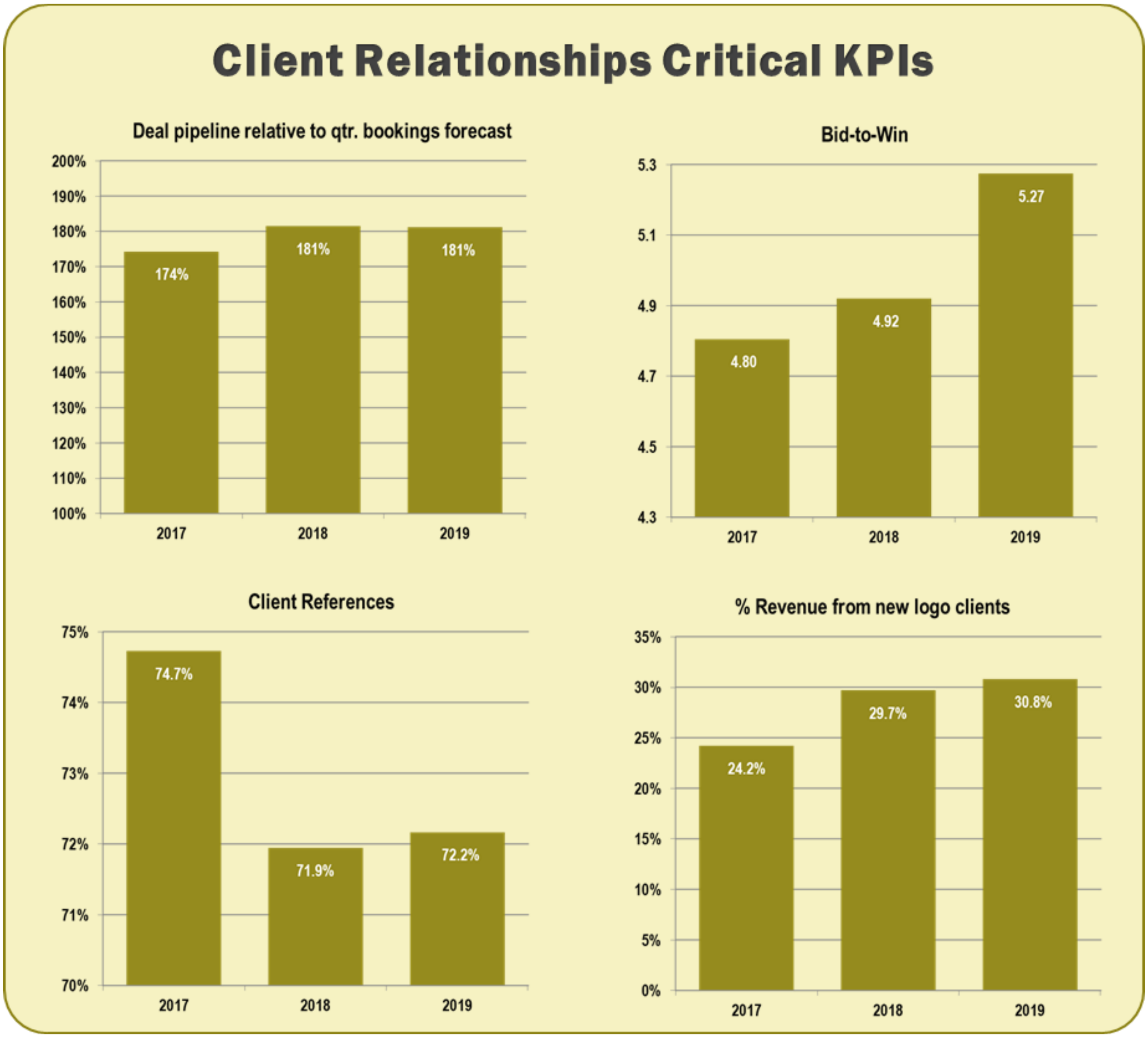


Table 53 shows why 'improving marketing and sales effectiveness' is always a top improvement priority. Perennially sales, marketing and solution development effectiveness scores are some of the lowest in the benchmark. Dissatisfaction with service marketing continually makes the top of the dissatisfaction list as PS organizations are never satisfied with the number and quality of leads generated by marketing or the quality of references. These are subjective questions in which survey respondents are asked to 'rate the effectiveness' of sales, marketing and solution development. Although these questions revealed dissatisfaction, the objective sales metrics were not as conclusive. They show mixed results with more wins and larger sales pipelines along with slight improvement in the length of the sales cycle but a decline in customer 'reference-ability'.

Table 53: Client Relationships Pillar 5-year trend

Key Performance Indicator (KPI)	5 Year Avg.	2015	2016	2017	2018	2019
New client % of total revenue	28.6%	28.3%	29.7%	24.2%	29.7%	30.8%
Win-to-bid ratio (per 10 bids)	4.97	4.95	4.85	4.80	4.92	5.27
Deal pipeline relative to qtr. bookings forecast	179%	172%	189%	174%	181%	181%
Sales cycle (days: qualified lead to contract signing)	89	88	92	90	89	87
Average service discount given	6.9%	7.7%	7.7%	4.9%	6.7%	7.6%
Solution development effectiveness (1 to 5 scale)	3.60	3.59	3.47	3.52	3.64	3.72
Service sales effectiveness (1 to 5 scale)	3.52	3.58	3.42	3.42	3.53	3.61
Service marketing effectiveness (1 to 5 scale)	3.21	3.29	3.07	3.20	3.25	3.21
Percentage of referenceable clients	72.1%	70.4%	71.5%	74.7%	71.9%	72.2%
Time & materials % of work sold	NA	46.8%	55.4%	49.9%	43.8%	47.6%
Fixed time / fixed fee % of work sold	NA	39.7%	38.9%	40.7%	38.9%	34.1%
Shared risk / performance-based % of work sold	NA	6.4%	2.8%	2.2%	2.6%	2.3%
Subscription services	NA	NA	NA	NA	NA	7.7%
Managed Services	NA	NA	NA	4.4%	10.3%	6.7%
Other	NA	7.2%	2.9%	2.8%	4.3%	1.6%

Source: SPI Research, February 2020

An examination of the type of work sold shows a decline in fixed price contracts in favor of managed service contracts. Service providers are now offering “managed services” as monthly, quarterly or annual contracts to drive more predictable, recurring revenue.

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 and partnering. SPI Research charts its definitions of sales maturity levels and show how they progress as the organization enhances the knowledge and practice of solution selling resulting in superior client value (Table 54).

The table depicts PS sales maturity progression. As organizations enhance their solution selling capabilities, methods, systems and tools, overall sales effectiveness improves. These efforts pay for themselves in higher percentages of sales quota achievement; better sales forecasting accuracy; improved pricing and estimating accuracy 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 54: 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. 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 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.
Partners	Ad hoc and opportunistic without clearly defined roles.	Partner plan in place, but conflicts still exist. Defined partner programs to extend market reach.	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 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 2020

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 55). Sales effectiveness has a profound impact on all aspects of PS but unfortunately 8.7% of respondents give sales effectiveness a failing grade of 1 or 2; 30.6% give sales effectiveness an "OK" score of 3; 60.7% give sales effectiveness high marks. This year's average rating of sales effectiveness improved to 3.61 (72.2%) from 3.53 (71%) last year.

ESOs gave slightly higher marks for sales effectiveness (3.63 or 72.6%) than independents (3.61 or 72.2%). By geography, Americas gave the highest score of 3.63 (72.6%) and APAC gave the lowest of 3.46 (69.2%).

Table 55: Impact – Service Sales Effectiveness

Service sales effectiveness	Survey %	Rev. growth	Deal pipeline	Backlog	Client refer.
Very ineffective	1.3%	7.5%	125%	45.0%	71.3%
Ineffective	7.4%	8.1%	136%	34.8%	68.2%
Neither	30.6%	9.7%	166%	37.1%	67.8%
Effective	50.0%	12.0%	181%	42.5%	71.0%
Very effective	10.7%	15.9%	214%	46.1%	77.6%
Total/Average	**100.0%**	**11.4%**	**176%**	**40.7%**	**70.5%**

Source: SPI Research, February 2020

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 services portfolio comprised of repeatable sales and service delivery methods and tools, which we include in the larger scope of service lifecycle management.

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.	Campaign-driven, focused initiatives. Service marketing includes collateral, web and in-person seminars, and other promotions with voice of the customer for specific service offers.	Programmatic and comprehensive. Service marketing - target-market and segment focus 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 2020

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 delivery tools, methods and systems.

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.

Table 57: Impact – Service Marketing Effectiveness

Service marketing effectiveness	Survey %	Bid-to-win ratio	Deal pipeline	Client refer.	Project duration (man-months)
Very ineffective	4.8%	4.65	150%	76.5%	23.7
Ineffective	17.4%	5.08	169%	65.5%	19.7
Neither	38.2%	5.38	162%	69.4%	21.8
Effective	31.0%	5.27	191%	73.8%	30.9
Very effective	8.7%	5.66	210%	74.0%	53.3
Total/Average	**100.0%**	**5.28**	**176%**	**70.8%**	**27.1**

Source: SPI Research, February 2020

SPI Research asked how effective service marketing was on a scale of 1 to 5, with 5 representing excellent (Table 57). Marketing effectiveness has consistently been given an even worse score than sales effectiveness. This year marketing effectiveness declined from a poor score of 3.25 (65%) in 2018 to 3.21(64%). More than 20% of organizations give marketing effectiveness a failing grade of 1 or 2. For the 40% of firms who gave their marketing efforts a strong score of 4 or 5, marketing has a positive impact on win ratios, size of the sales pipeline, client reference-ability and project durarion. Marketing is certainly worth the expense if it is well-staffed, fully funded and strategically positioned.

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. 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, money 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 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 Common sales and delivery method, tools, and templates.

SPI Research asked how effective solution development was on a scale of 1 to 5, with 5 representing excellent (Table 58). 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 3.72 compared to 3.61 for sales effectiveness and 3.21 for marketing effectiveness. For the 65.5% of firms who gave their solution development efforts a good score of 4 or 5, solution development had a positive impact on revenue growth, the size of the deal pipeline, client reference-ability and target margin achievement.

Table 58: Impact – Service Development Effectiveness

Solution development effectiveness	Survey %	Rev. growth	Deal pipeline	Client refer.	% of ann. margin target
Very ineffective	2.0%	2.0%	130%	66.0%	78.3%
Ineffective	5.2%	8.8%	159%	70.3%	83.1%
Neither	27.3%	9.8%	165%	68.2%	86.5%
Effective	49.6%	11.3%	180%	70.5%	91.0%
Very effective	15.9%	16.9%	199%	76.9%	96.4%
Total/Average	**100.0%**	**11.5%**	**177%**	**70.8%**	**90.0%**

Source: SPI Research, February 2020

Survey Results

The following section reviews and analyzes 2020 PS Maturity™ benchmark results from 513 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 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, win ratios and the percentage of reference customers all improved year over year. In fact, the only client relationships metric which declined this year was discount percentage which grew from 6.7% to 7.6% (Table 59).

The Bid-to-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. The win ratio improved year over year from 4.92 to 5.27. This is the best-ever win ratio reported indicating plenty of demand!

Table 59: Client Relationships KPIs by Organization Type and Geographic Region

Key Performance Indicator	2018	2019	ESO	PSO	Amer.	EMEA	APac
Surveys	622	513	168	345	414	75	24
Revenue from new clients	29.7%	30.8%	39.3%	26.8%	31.9%	26.0%	28.2%
Bid-to-Win ratio (per 10 bids)	4.92	5.27	5.29	5.26	5.35	4.78	5.52
Deal pipeline / qtr. bookings forecast	181%	181%	193%	176%	183%	173%	179%
Sales cycle (days: qualified lead to contract signing)	89	87	101	81	89	82	75
Service discount given clients	6.7%	7.6%	11.5%	5.7%	8.0%	6.4%	4.4%
Percent. of referenceable clients	71.9%	72.2%	68.2%	74.0%	73.2%	67.9%	67.9%
Solution development effectiveness	3.64	3.72	3.65	3.75	3.72	3.76	3.71
Service sales effectiveness	3.64	3.61	3.63	3.61	3.63	3.59	3.46
Service marketing effectiveness	3.53	3.21	3.11	3.26	3.23	3.10	3.29

Source: SPI Research, February 2020

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 remained the same this year as last at 181%.*** Table 59 shows the size of the deal pipeline compared to the quarterly bookings forecast is stronger for ESOs. Independent PSO pipelines improved nicely from 173% to 176%. By geography the deal pipeline is strongest for the Americas and weakest for EMEA which is consistent with the global economic outlook.

The level of discounting is an indicator of increased competition or slowing demand. Average discounts increased from 6.7% to 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 300 to 700 person organizations and weakest for the smallest (Table 60). 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.

Table 60: Client Relationships KPIs by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	55	88	138	119	47	66
Revenue from new clients	32.3%	32.5%	34.2%	27.1%	29.1%	27.7%
Bid-to-Win ratio (per 10 bids)	5.31	5.21	5.28	5.23	5.35	5.35
Deal pipeline relative to qtr. bookings forecast	142%	172%	179%	198%	202%	191%
Sales cycle (days: qualified lead to contract sign.)	74	80	90	94	87	93
Service discount given clients	6.6%	6.2%	7.5%	6.3%	10.5%	10.8%
Percentage of referenceable clients	75.1%	74.6%	72.6%	70.1%	67.3%	72.2%
Solution development effectiveness	3.76	3.63	3.64	3.75	3.76	3.93
Service sales effectiveness	3.24	3.60	3.70	3.63	3.55	3.82
Service marketing effectiveness	2.72	3.21	3.11	3.32	3.24	3.70

Source: SPI Research, February 2020

By vertical, embedded Software and SaaS PSOs and Government Contractors reported the strongest deal pipelines while accountancies and VARS reported the weakest. Government Contractors and Architects and Engineers reported the highest levels of client reference-ability while embedded Software PSOs reported the poorest (66%). Service discounting was highest for embedded Software and SaaS ESOs and lowest for Government Contractors (2.9%). The length of the sales cycle is longest for Government Contractors and software ESOs and shortest for accountancies. Tables 61 and 62 show key client relationships metrics by vertical market.

Table 61: Client Relationships KPIs by Vertical Market

Key Performance Indicator	IT Consult	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Surveys	143	73	68	55	44
Revenue from new clients	28.0%	39.8%	28.3%	46.5%	16.8%
Bid-to-Win ratio (per 10 bids)	5.08	5.34	5.71	5.14	4.99
Deal pipeline relative to qtr. bookings forecast	181%	190%	172%	217%	174%
Sales cycle (days: qualified lead to contract sign.)	82	104	78	100	79
Service discount given clients	6.9%	12.2%	5.2%	12.6%	4.2%
Percentage of referenceable clients	72.4%	66.0%	76.3%	69.3%	78.3%
Solution development effectiveness	3.71	3.71	3.89	3.79	3.51
Service sales effectiveness	3.59	3.60	3.66	3.77	3.70
Service marketing effectiveness	3.24	3.02	3.22	3.23	3.40

Source: SPI Research, February 2020

Table 62: Client Relationships KPIs by Vertical Market

Key Performance Indicator	VAR	Account	MarCom	Gov. Cont.	All Others
Surveys	21	14	14	8	73
Revenue from new clients	34.2%	28.5%	29.2%	23.9%	27.4%
Bid-to-Win ratio (per 10 bids)	5.17	4.90	5.08	4.75	5.62
Deal pipeline relative to qtr. bookings forecast	155%	141%	168%	217%	173%
Sales cycle (days: qualified lead to contract sign.)	96	66	73	112	89
Service discount given clients	7.5%	5.5%	3.1%	2.9%	6.8%
Percentage of referenceable clients	77.4%	67.0%	68.3%	80.0%	70.7%
Solution development effectiveness	3.65	3.73	3.92	3.50	3.68
Service sales effectiveness	3.52	3.82	3.42	3.67	3.49
Service marketing effectiveness	3.14	3.55	3.33	3.17	3.16

Source: SPI Research, February 2020

Type of Work Sold

IT consultancies (143 firms) and embedded PS within Software and SaaS (128) dominated this year's benchmark, so it is no wonder that 39.4% of the work sold was IT or technology consulting while 23.8% was management consulting. Both embedded and independents are delivering more business and management consulting – encroaching on the pure play management consultancies.

Table 63 depicts the types of work sold by embedded and independent service providers and by major geographic regions. This year ESOs delivered 15.1% of their work as management consulting, showing the shift towards more business process consulting, away from technical consulting. They also have been growing their subscription and managed service revenues.

Table 63: Type of Work Sold by Organization Type and Geographic Region

Key Performance Indicator	2018	2019	ESO	PSO	Amer.	EMEA	APac
Business / management consulting	24.7%	23.8%	15.1%	28.0%	23.3%	27.0%	21.3%
Technology or IT consulting	34.7%	39.4%	44.7%	36.8%	38.3%	40.7%	53.7%
Subscription Services	7.6%	8.2%	14.9%	5.0%	8.7%	7.1%	3.7%
Managed services	9.5%	9.0%	8.6%	9.2%	9.4%	9.2%	3.1%
Staff augmentation	5.2%	5.5%	4.4%	6.0%	5.5%	4.4%	8.3%
Hardware, software or other equipt.	4.3%	4.5%	7.0%	3.3%	4.6%	4.3%	3.5%
Other	14.0%	9.6%	5.3%	11.7%	10.2%	7.3%	6.4%
Total/Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2020

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.

Table 64: 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	41.4%	28.0%	21.1%	20.0%	17.9%	20.1%
Technology or IT consulting	32.2%	40.1%	44.7%	38.4%	36.6%	37.0%
Subscription Services	3.1%	6.2%	7.4%	9.6%	12.2%	11.9%
Managed services	8.3%	6.9%	7.9%	9.8%	12.4%	11.1%
Staff augmentation	3.9%	2.6%	4.4%	5.3%	12.9%	7.9%
Hardware, software or other equipment resale	6.2%	3.2%	2.6%	6.2%	4.0%	6.3%
Other	4.9%	13.0%	12.0%	10.8%	4.1%	5.6%
Total/Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2020

Table 65: Type of Work Sold by Vertical Market

Key Performance Indicator	IT Consult	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Business / management consulting	10.1%	13.6%	69.2%	13.1%	22.8%
Technology or IT consulting	62.9%	50.2%	10.8%	45.2%	6.7%
Subscription Services	5.2%	12.3%	3.8%	20.1%	0.5%
Managed services	8.7%	9.8%	4.5%	8.0%	18.6%
Staff augmentation	7.4%	4.7%	4.9%	2.2%	2.3%
Hardware, software or other equipment resale	4.5%	7.5%	2.5%	3.0%	1.9%
Other	1.2%	1.9%	4.4%	8.4%	47.3%
Total/Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2020

Managed service revenue has increased slightly over the past five years from 7.3% in 2012 to 9.0% in 2019 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 8.2% 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 65 and 66 depict the business mix by vertical segments. In this benchmark, staff augmentation has been increasing each year to 5.5%. 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 66: Type of Work Sold by Vertical Market

Key Performance Indicator	VAR	Account	MarCom	Gov. Cont.	All Others
Business / management consulting	23.2%	30.0%	32.1%	34.5%	23.4%
Technology or IT consulting	40.4%	27.5%	35.9%	35.5%	27.3%
Subscription Services	7.2%	23.2%	3.6%	0.5%	9.1%
Managed services	3.5%	9.5%	5.9%	7.9%	10.4%
Staff augmentation	3.2%	3.0%	2.6%	9.4%	8.7%
Hardware, software or other equipment resale	15.3%	2.1%	3.9%	6.0%	3.5%
Other	7.1%	4.6%	15.9%	6.3%	17.6%
Total/Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2020

Interestingly, the types of consulting organizations who derive a significant portion of revenue from managed services are architects and engineers (18.6%). 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 Penetration

SPI Research believes at least 30% of annual revenue should come from new clients for PS organizations to grow. This study demonstrates the strong correlation between growth and profitability.

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 services (Table 67).

Table 67: Impact – Percentage of Business from New Clients

Percentage of new clients	Survey %	Revenue growth	Headcount Growth	Size of Pipeline	Client Reference	Employee attrition	EBITDA
Under 10%	14.7%	8.8%	9.2%	156%	75.7%	11.5%	14.6%
10% - 20%	17.0%	8.4%	7.6%	188%	75.2%	14.1%	15.8%
20% - 30%	20.3%	9.8%	8.6%	178%	72.3%	13.0%	13.8%
30% - 40%	12.9%	9.1%	7.6%	190%	68.6%	13.8%	16.0%
40% - 50%	8.8%	12.9%	8.0%	185%	72.8%	13.2%	9.7%
Over 50%	26.3%	14.2%	11.5%	189%	69.4%	13.1%	18.3%
Total / Average	**100.0%**	**10.8%**	**9.1%**	**181%**	**72.1%**	**13.1%**	**15.4%**

Source: SPI Research, February 2020

Primary Target Buyer

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

SPI Research asked, "who is the primary buyer for your services"? For the 513 benchmark respondents, the primary target buyer is most likely to be a Line of Business executive, as business leaders take charge of their applications and wrest control from the IT organization.

Table 68: 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	9.9%	12.1%	30.3%	5.26	156%	39.6%	11.6%
COO	7.4%	12.4%	31.4%	5.35	178%	38.8%	18.6%
CIO	20.8%	11.8%	30.9%	5.20	185%	35.8%	13.0%
Line of Business	45.0%	11.0%	31.2%	5.26	183%	34.4%	16.6%
Purchasing	0.6%	9.2%	21.7%	5.50	150%	21.9%	18.9%
Other	16.4%	6.5%	31.5%	5.31	186%	38.4%	15.0%
Total / Average	**100.0%**	**10.6%**	**31.0%**	**5.27**	**181%**	**36.1%**	**15.3%**

Source: SPI Research, February 2020

Table 68 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 COO, CIO and Line of Business executives produced the best results with strong revenue growth and the best net margins.

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 one else need be considered.

Table 69: Impact – Bid-to-win ratio (per 10 bids)

Bid-to-win ratio (per 10 bids)	Survey %	Revenue growth	Headcnt. growth	On-time project delivery	Ann. rev. / consult (k)
1 - 2 wins	7.9%	3.8%	5.2%	74.1%	$170
3 - 4 wins	29.5%	9.8%	7.8%	77.8%	$195
5 - 6 wins	33.9%	11.7%	9.7%	79.1%	$218
7 - 8 wins	21.4%	11.8%	9.9%	81.8%	$221
Over 8 wins	7.3%	13.7%	12.0%	82.9%	$210
Total/Average	**100.0%**	**10.7%**	**9.0%**	**79.2%**	**$208**

Source: SPI Research, February 2020

Table 69 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 8 wins with the highest revenue and employee growth; best on-time project delivery and almost the highest revenue per consultant.

The bid-to-win ratio has climbed nicely over the past three years to 5.27, the highest this metric has ever been. Several factors may be at play to cause such a rise in win ratios, including less competition, more specialized services, higher demand and better positioning. Whatever the root cause, service providers are certainly reaping the benefits with the best overall client relationship metrics reported over the past 5 years.

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 good sign of growth ahead is that more than 55% of benchmark participants reported their deal pipeline was two times or larger than the forecast!

Table 70 illustrates the positive impact of a strong sales pipeline on revenue growth; backlog; project size and revenue per consultant.

Table 70: Impact – Size of deal pipeline

Deal Pipeline	Survey %	Revenue growth	Quarterly revenue target in backlog	Project duration (man-months)	Ann. rev. /consult. (k)
Less than forecast	13.4%	7.3%	38.0%	20.9	$173
Same as forecast	30.6%	10.2%	36.4%	22.4	$200
2X forecast	30.8%	10.8%	48.9%	26.9	$220
3X forecast	18.3%	12.2%	49.7%	28.9	$225
4X forecast	6.8%	17.0%	55.6%	46.1	$221
Total/Average	**100.0%**	**10.8%**	**44.2%**	**26.4**	**$209**

Source: SPI Research, February 2020

As shown in Table 71, the average size of the deal pipeline remained unchanged year over year at 181% which is higher than the five-year average of 179%. ESOs reported extremely healthy pipelines of 193% of forecast while independents reported leaner pipelines of 176%; but independents saw their pipelines grow year over year. SPI Research found organizations from the Americas had the strongest (183%) deal pipeline relative to quarterly bookings forecast, while those from EMEA had the weakest (173%). Pipelines grew in the Americas but decreased in EMEA and APac.

Table 71: Year-over-year change – Deal Pipeline

Deal Pipeline	2018	2019	▲
Total Survey	181%	181%	0%
Embedded services organizations	199%	193%	-3%
Independent services organizations	173%	176%	2%
Americas	182%	183%	1%
EMEA	178%	173%	-3%
APac	187%	179%	-4%
IT Consulting	187%	181%	-3%
PS within Software Company	182%	190%	4%
Management Consulting	168%	172%	3%
PS within SaaS Company	198%	217%	10%
Architecture/Engineering	158%	174%	11%
Value-added Reseller (VAR)	243%	155%	-36%
Accounting	147%	141%	-4%

Source: SPI Research, February 2020

By vertical, ESOs within SaaS companies reported the largest pipelines and the strongest growth. 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 and superior functionality and ease of use. VARS; IT Consultancies and Accountancies reported diminished sales pipelines which predict increasing competition and potential commoditization.

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 72 shows roughly 57% of respondents reported sales cycles of under 90 days while the other 43% reported sales cycles longer than 90 days. Shorter sales cycles have a positive impact on revenue growth and on-time project delivery, but longer sales cycles appear to increase the size of the deal pipeline.

Table 73 shows year over year changes in the length of the sales cycles. ESOs reported longer sales cycles while independents reported shorter. By geography, the average sales cycle decreased with the sharpest decrease reported in APac.

Significantly shorter sales cycles were reported by architects and engineers and accountancies; portending increased demand and shorter purchase decision cycles. ESOs within enterprise software companies reported the longest sales cycles.

Table 72: Impact – Sales cycle (days: qualified lead to contract sign.)

Sales cycle	Survey %	Rev. growth	New clients	Deal pipeline	On-time project delivery
Under 30 days	5.7%	14.5%	25.8%	112%	85.9%
30 - 60 days	21.8%	10.0%	31.1%	161%	80.9%
60 - 90 days	29.3%	10.3%	30.9%	176%	78.9%
90 - 120 days	23.8%	11.4%	31.9%	186%	78.4%
120 - 150 days	10.5%	10.9%	31.6%	204%	76.3%
Over 150 days	9.0%	9.3%	27.7%	234%	75.8%
Total/Average	**100.0%**	**10.7%**	**30.7%**	**180%**	**79.1%**

Source: SPI Research, February 2020

Table 73: Year-over-year change – Length of sales cycle (days)

Sales cycle	2018	2019	▲
Total Survey	88.8	87.4	-2%
Embedded services organizations	98.3	100.8	3%
Independent services organizations	84.2	81.2	-4%
Americas	90.2	89.3	-1%
EMEA	82.3	81.8	-1%
APac	80.8	74.6	-8%
IT Consulting	83.2	81.8	-2%
PS within Software Company	103.8	104.0	0%
Management Consulting	75.7	78.4	4%
PS within SaaS Company	97.0	100.2	3%
Architecture/Engineering	90.0	78.5	-13%
Value-added Reseller (VAR)	105.0	96.0	-9%
Accounting	82.8	66.0	-20%

Source: SPI Research, February 2020

Service Discounting

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

In professional services, it is 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 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: Impact – Service Discounting

Average Service Discount	Survey %	Bid-to-win ratio	Deal pipeline	Project duration (man-months)	EBITDA
None	22.3%	5.66	183%	25.4	15.2%
Under 5%	21.2%	5.41	181%	23.2	13.9%
5% - 10%	32.8%	5.02	180%	25.5	14.8%
10% - 20%	16.1%	5.36	174%	28.9	18.3%
20% - 30%	5.6%	4.28	184%	29.5	14.0%
Over 30%	1.9%	5.38	238%	46.8	10.6%
Total/Average	**100.0%**	**5.26**	**181%**	**26.2**	**15.1%**

Source: SPI Research, February 2020

Table 75: Year-over-year change – Service Discount

Service Discount	2018	2019	▲
Total Survey	6.7%	7.6%	13%
Embedded services organizations	9.8%	11.5%	17%
Independent services organizations	5.3%	5.7%	9%
Americas	6.7%	8.0%	20%
EMEA	6.9%	6.4%	-7%
APac	7.1%	4.4%	-38%
IT Consulting	7.2%	6.9%	-4%
PS within Software Company	10.1%	12.2%	21%
Management Consulting	4.8%	5.2%	9%
PS within SaaS Company	11.2%	12.6%	13%
Architecture/Engineering	2.0%	4.2%	108%
Value-added Reseller (VAR)	4.3%	7.5%	75%
Accounting	8.8%	5.5%	-37%

Source: SPI Research, February 2020

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 75 shows 76% of organizations discount less than 10%. Those organizations who discount heavily (greater than 20%) understandably saw their net margins decrease significantly.

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.

Table 76: Impact – Percentage of "referenceable" clients

% of "referenceable" clients	Survey %	Bid-to-win ratio	Employee attrition	billable util.	Project duration (man-months)
Under 50%	14.1%	4.74	13.9%	69.8%	22.5
50% - 60%	12.0%	5.03	14.6%	72.5%	25.8
60% - 70%	14.3%	4.82	12.5%	68.5%	27.0
70% - 80%	20.4%	5.20	13.5%	69.9%	25.0
80% - 90%	18.9%	5.69	13.3%	74.2%	26.3
Over 90%	20.2%	5.76	11.4%	74.7%	31.0
Total/Average	**100.0%**	**5.26**	**13.1%**	**71.8%**	**26.5**

Source: SPI Research, February 2020

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 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 77: Year-over-year change – Client references

Client references	2018	2019	▲
Total Survey	71.9%	72.2%	0%
Embedded services organizations	66.3%	68.2%	3%
Independent services organizations	74.6%	74.0%	-1%
Americas	72.2%	73.2%	1%
EMEA	69.4%	67.9%	-2%
APac	72.5%	67.9%	-6%
IT Consulting	72.4%	72.4%	0%
PS within Software Company	65.6%	66.0%	1%
Management Consulting	77.3%	76.3%	-1%
PS within SaaS Company	64.5%	69.3%	7%
Architecture/Engineering	76.5%	78.3%	2%
Value-added Reseller (VAR)	77.9%	77.4%	-1%
Accounting	70.0%	67.0%	-4%

Source: SPI Research, February 2020

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 fixed price and subscription-priced 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 78: Fee Structure by Organization Type and Geographic Region

Fee Structure	2018	2019	ESO	PSO	Americas	EMEA	APac
Time & Materials	43.8%	47.6%	43.6%	49.4%	46.8%	49.8%	52.9%
Fixed Time / Fixed Fee	38.9%	34.1%	33.9%	34.2%	35.0%	29.9%	32.2%
Shared Risk / Performance based	2.6%	2.3%	1.7%	2.6%	1.6%	5.2%	4.6%
Subscription Services	NA	7.7%	12.7%	5.4%	8.4%	5.9%	1.5%
Managed Services	10.3%	6.7%	6.1%	7.0%	6.8%	6.6%	6.3%
Other	4.3%	1.6%	2.1%	1.4%	1.4%	2.7%	2.5%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2020

Table 78 compares billing models for embedded and independent PSOs. ESOs have been steadily shifting away from fixed fee contracts in favor of time and materials and subscription 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 contract. 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 79: Fee Structure by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Time & Materials	45.6%	52.5%	50.1%	47.1%	44.3%	40.0%
Fixed Time / Fixed Fee	35.5%	36.0%	36.3%	32.9%	33.2%	28.3%
Shared Risk / Performance based	5.0%	1.2%	1.8%	1.1%	2.9%	4.1%
Subscription Services	6.9%	5.3%	4.5%	9.5%	12.5%	12.1%
Managed Services	6.8%	4.5%	6.1%	6.9%	6.4%	11.1%
Other	0.2%	0.5%	1.1%	2.6%	0.7%	4.4%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2020

Table 79 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 80 and 81). IT consultancies favor time and materials contracts (60.7%). 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 either time and materials or fixed price contracts. 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 80: Fee Structure by Service Market Vertical

Fee Structure	IT Consulting	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Time & Materials	60.7%	49.7%	41.1%	36.8%	41.5%
Fixed Time / Fixed Fee	23.9%	29.1%	43.2%	40.5%	52.0%
Shared Risk / Performance based	1.7%	2.2%	4.6%	0.9%	0.6%
Subscription Services	4.9%	15.0%	6.0%	11.5%	0.2%
Managed Services	8.1%	3.6%	3.7%	5.9%	5.4%
Other	0.8%	0.4%	1.5%	4.5%	0.3%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

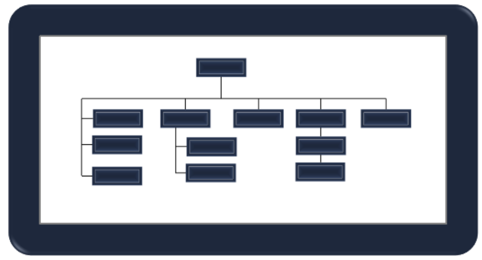
Source: SPI Research, February 2020

Table 81: Fee Structure by Service Market Vertical

Fee Structure	VAR	Account	MarCom	Gov. Cont.	All Others
Time & Materials	53.8%	34.2%	27.1%	44.3%	41.6%
Fixed Time / Fixed Fee	33.3%	27.7%	58.8%	27.3%	32.3%
Shared Risk / Performance based	3.0%	5.0%	5.4%	3.6%	1.9%
Subscription Services	5.5%	23.1%	4.1%	3.6%	9.1%
Managed Services	4.4%	6.9%	4.6%	10.6%	12.3%
Other	0.0%	3.1%	0.1%	10.7%	2.9%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2020

Chapter 8 – Human Capital Alignment Pillar



The shift to a digital economy is fundamentally rewriting the rules of employment relationships. 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 thirteen 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 growth has come from the effective use of technology to lower overhead and administrative costs in combination with the move to virtual (off-site) consulting delivery. PS employees are working the same number of annual hours (2,080 hours per year) but are working smarter through the use of agile development methodologies; virtual consulting delivery (limiting travel time); maximizing the ability to multi-task 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 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. 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're seeing a younger and younger workforce (24.1 percent are under 30 years of age).

Attrition has been increasing steadily over the past ten years and now stands at 13.2 percent. This is worrisome for a people-based business. In 2019 the developed world continued to experience one of the strongest job markets in history – with unemployment hitting a 50-year low (3.7%) in the US. 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.

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, 26.8% of consultants primarily work from home with another 5.8% described as contingent workers either onshore or off. 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 "Human Capital Alignment" pillar encompasses all elements of the Professional Services workforce strategy. Human Capital Alignment 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 Human Capital Alignment pillar:

Table 82: Human Capital Alignment Maturity Model

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Human Capital Alignment	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 2020

Survey Results

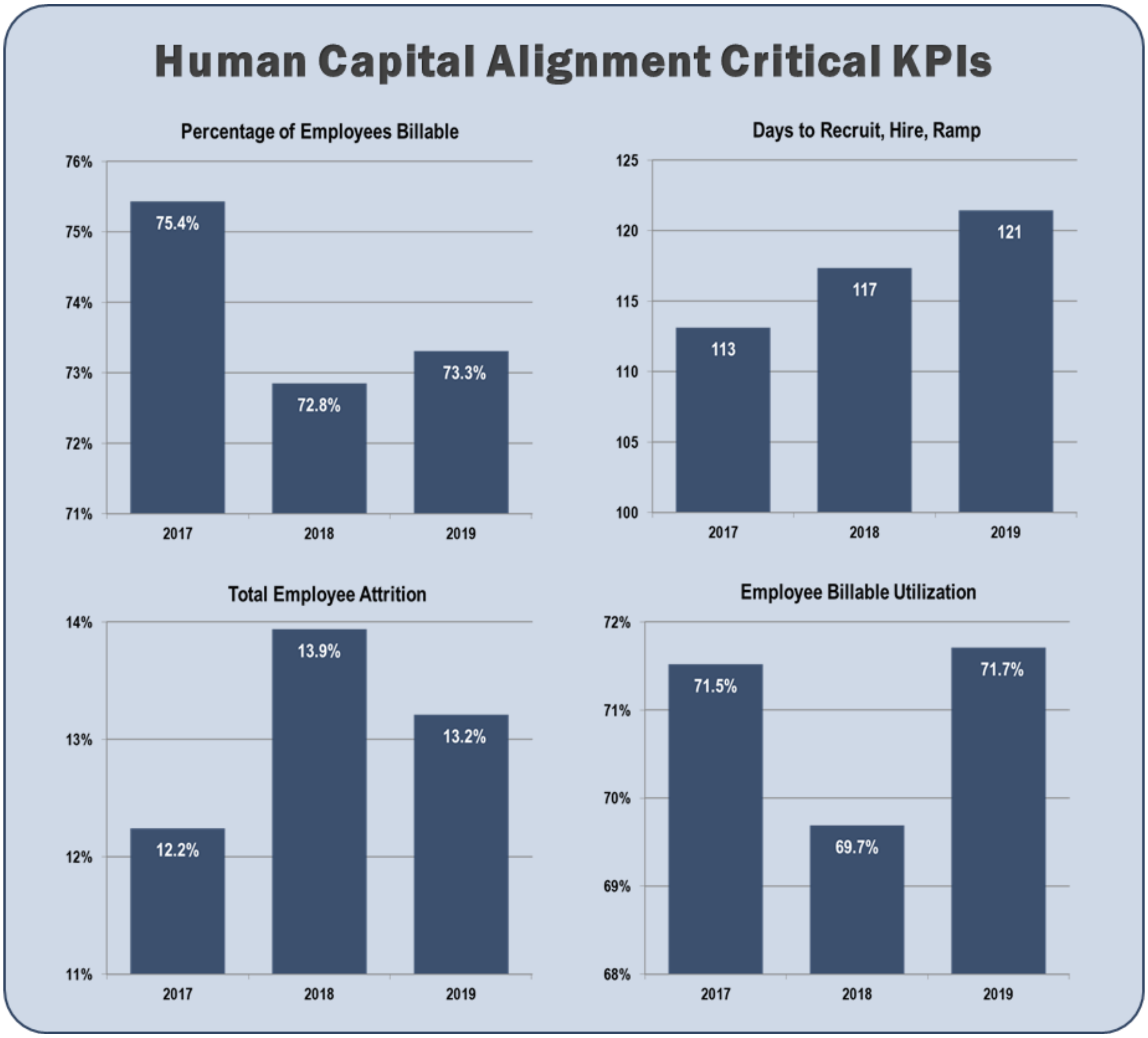
Today's Professional Services leaders must squarely confront the realities of attracting and retaining a younger workforce against the backdrop of a technical labor shortage. Globalization has significantly impacted workforce strategies with many service providers providing hybrid on and off-site resources

Table 83: Human Capital Alignment 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)	3.98	4.26	4.57	4.58	4.93
Well-understood career path for all employees (1-5 scale)	3.23	3.82	4.13	4.69	4.89
Employee annual attrition - voluntary	11.5%	8.4%	9.9%	4.9%	2.6%
Employee annual attrition - involuntary	5.2%	5.4%	4.6%	3.8%	2.4%
Non-billable project hours	189	173	117	82	88
Billable project hours	1,265	1,376	1,471	1,648	1,557
Employee billable utilization	55.5%	68.2%	77.6%	83.3%	86.9%
PS Profit (EBITDA)	**4.4%**	**11.1%**	**15.1%**	**19.4%**	**25.6%**

Source: SPI Research, February 2020

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 Human Capital Alignment 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.



SPI Research analyzed 22 Human Capital Alignment key performance measurements that are critical to attaining superior employee performance. Table 84 portrays trends in human capital alignment. The chief issues facing PS employers are recruiting (on average it takes 61.9 days to find and hire); ramping (on average it takes 59.5 days for a new hire to become productive); and retention. Skilled employees have more career choices than ever before resulting in high levels of voluntary attrition.

As the table shows, many human capital metrics improved in 2019 but the time to recruit, hire and ramp new employees grew to 121.4 days (half a year), further exacerbating the war for talent with the high cost to find and groom new workers. Positive improvement is shown in lower involuntary attrition (layoffs), the number of guaranteed training days, well-understood career path and most importantly, higher billable utilization.

Table 84: Human Capital Alignment Pillar 5-year trend

Key Performance Indicator (KPI)	2015	2016	2017	2018	2019
Voluntary attrition	7.9%	8.0%	7.6%	8.5%	8.5%
Involuntary attrition	NA	5.5%	4.7%	5.4%	4.7%
Recommend company to friends/family (1 to 5 scale)	4.19	4.28	4.38	4.41	4.37
Days to recruit and hire for standard positions	60.5	62.2	60.8	59.9	61.9
Days for a new hire to become productive	57.9	55.4	52.5	57.4	59.5
Guaranteed annual training days / employee	8.92	8.33	7.78	8.83	9.31
Well-understood career path for all employees (1 to 5 scale)	3.29	3.17	3.20	3.28	3.33
Employee billable utilization	70.6%	70.4%	71.5%	69.7%	71.7%

Source: SPI Research, February 2020

The percentage of companies who would recommend their company as a great place to work declined slightly but is still good at 87.4%.

Table 85: Human Capital Alignment KPIs by Organization Type and Geographic Region

Key Performance Indicator	2018	2019	ESO	PSO	Amer.	EMEA	APac
Surveys	622	513	168	345	414	75	24
Employee annual attrition - voluntary	8.5%	8.5%	7.3%	9.1%	8.5%	8.1%	10.1%
Employee annual attrition - involuntary	5.4%	4.7%	4.7%	4.7%	4.9%	3.9%	3.3%
Recommend company to friends/family	4.41	4.37	4.34	4.39	4.38	4.34	4.38
Days to recruit and hire for standard positions	59.9	61.9	69.4	58.4	62.5	60.2	58.0
Days for a new hire to become productive	57.4	59.5	73.5	52.8	61.9	50.2	47.6
Guaranteed annual training days / employee	8.83	9.31	10.72	8.63	9.23	10.04	8.44
Well-understood career path for all employees	3.28	3.33	3.30	3.34	3.29	3.51	3.33
Employee billable utilization	69.7%	71.7%	70.2%	72.4%	71.5%	72.4%	72.3%
Annual fully loaded cost per consultant (k)	$122	$127	$128	$126	$130	$107	$139

Source: SPI Research, February 2020

Other signs of improvement are shown in more guaranteed training days per employee and enhancements in career management. ***Average reported utilization improved to 71.7%. Embedded PS organizations reported an increase in average utilization from 66% to 70.2%.*** Table 85 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 but they provide more training, reducing time from hire to productivity.

The average time to recruit, hire and ramp a new consultant increased from 117 days to 121 days in 2019 with the Americas reporting the longest recruiting and ramping time of 124.4 days. Obviously, reducing the time and cost of finding and ramping new employees has a major impact on growth and profitability. Interviews with this year's Best-of-the Best revealed 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 9.3 days on average in 2019***. PS organizations of all types and sizes are investing in training to ensure their workforces remain engaged and qualified by enhancing their skills.

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 3.33 (66.6%) in 2019.

Table 86: Human Capital Alignment KPIs by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	55	88	138	119	47	66
Employee annual attrition - voluntary	5.0%	7.6%	8.7%	9.2%	10.0%	10.4%
Employee annual attrition - involuntary	4.0%	4.0%	4.5%	5.2%	5.5%	4.8%
Recommend company to friends/family	4.37	4.54	4.39	4.38	4.09	4.31
Days to recruit and hire for standard positions	69.0	62.8	59.2	58.5	67.5	62.6
Days for a new hire to become productive	67.2	62.1	57.8	54.4	67.8	55.9
Guaranteed annual training days / employee	9.42	8.33	9.69	7.91	10.34	11.38
Well-understood career path for all employees	3.10	3.27	3.26	3.33	3.50	3.61
Employee billable utilization	68.8%	71.4%	71.6%	72.2%	71.5%	74.3%
Annual fully loaded cost per consultant (k)	$122	$128	$125	$127	$123	$135

Source: SPI Research, February 2020

Table 86 shows the human capital alignment 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 (15.5%). 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.

Table 87: Human Capital Alignment KPIs by Vertical Market

Key Performance Indicator	IT Consult	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Surveys	143	73	68	55	44
Employee annual attrition - voluntary	9.3%	7.0%	9.1%	8.4%	7.1%
Employee annual attrition - involuntary	4.8%	4.8%	4.9%	4.7%	3.8%
Recommend company to friends/family	4.41	4.21	4.45	4.39	4.44
Days to recruit and hire for standard positions	53.4	69.8	61.6	69.3	66.8
Days for a new hire to become productive	51.8	73.1	48.8	76.2	55.4
Guaranteed annual training days / employee	9.51	10.79	8.91	10.85	6.79
Well-understood career path for all employees	3.38	3.25	3.48	3.56	3.21
Employee billable utilization	73.1%	69.8%	73.0%	72.7%	71.0%
Annual fully loaded cost per consultant (k)	$124	$127	$137	$135	$114

Source: SPI Research, February 2020

Tables 87 and 88 show key Human Capital Alignment metrics by market. Marketing and Advertising providers reported the highest attrition (14.2%) while Architects and Engineers reported the lowest (10.9%). Accountancies reported the greatest investment in employee training while Government Contractors had the least. It takes the least amount of time to recruit and ramp new hires in Marketing and Advertising and the longest time in SaaS ESO's. Billable utilization is highest for IT Consultancies at 73.1% while VARs reported the lowest billable utilization at 67.1%.

Table 88: Human Capital Alignment KPIs by Vertical Market

Key Performance Indicator	VAR	Account	MarCom	Gov. Cont.	All Others
Surveys	21	14	14	8	73
Employee annual attrition - voluntary	4.9%	7.8%	10.3%	8.8%	10.0%
Employee annual attrition - involuntary	4.9%	6.4%	3.9%	2.3%	4.5%
Recommend company to friends/family	4.62	4.18	4.00	4.33	4.34
Days to recruit and hire for standard positions	72.9	63.8	55.0	50.0	62.1
Days for a new hire to become productive	79.3	55.0	42.5	25.0	63.3
Guaranteed annual training days / employee	10.95	11.04	7.08	3.75	8.26
Well-understood career path for all employees	3.19	3.75	3.50	2.33	3.02
Employee billable utilization	67.1%	69.1%	70.0%	72.5%	71.3%
Annual fully loaded cost per consultant (k)	$122	$135	$112	$108	$126

Source: SPI Research, February 2020

SPI Research asked questions about the age and gender of the global PS workforce (Table 89). ***This benchmark reflects statistics from a global PS workforce of more than 270,000 employees. PS continues to be a young man's game with 56.6% of the workforce under age 40 while 60% are male.*** This year the percentage of employees under 30 decreased slightly from 24.7% to 24.1% while over age 50 employees increased from 16.9% to 17.6%. Embedded PSOs reported slightly 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 40 (44.1%). Asia Pacific is the most male-dominated with 66% male PS employees. ***The percentage of females increased this year from 38% to 40%. The Americas is leading the way in bringing women into the PS workforce with 40.5% 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?

Table 89: Workforce Age and Gender by Organization Type and Geographic Region

Workforce Age (years)	2018	2019	ESO	PSO	Amer.	EMEA	APac
Under 30	24.7%	24.1%	24.3%	23.9%	23.5%	28.6%	19.3%
30 - 40	33.1%	32.6%	35.0%	31.5%	32.4%	31.9%	37.5%
40 - 50	25.3%	25.7%	25.8%	25.7%	25.5%	26.1%	29.0%
Over 50	16.9%	17.6%	14.9%	18.9%	18.6%	13.4%	14.3%
Average Age (Years)	**38.9**	**39.1**	**38.5**	**39.4**	**39.4**	**37.8**	**39.2**
Percentage Male	**62.0%**	**60.0%**	**62.4%**	**58.9%**	**59.5%**	**60.3%**	**66.0%**

Source: SPI Research, February 2020

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.

Table 90: Workforce Age and Gender by Organization Size

Workforce Age (years)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Under 30	15.0%	21.3%	25.3%	24.0%	33.3%	27.5%
30 - 40	27.0%	31.1%	32.1%	35.6%	32.1%	35.7%
40 - 50	33.6%	28.7%	25.1%	23.7%	22.9%	21.3%
Over 50	24.5%	18.9%	17.5%	16.6%	11.7%	15.6%
Average Age (Years)	**42.4**	**40.0**	**38.9**	**38.7**	**36.6**	**37.9**
Percentage Male	**57.3%**	**61.8%**	**59.4%**	**62.4%**	**58.3%**	**58.2%**

Source: SPI Research, February 2020

The largest organizations have the highest percentage of employees under 30 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 also do a better job of recruiting women as they are able to provide more flexibility and invest in developing a diverse workforce.

By vertical market, the big three – IT Consulting, Software and Architects and Engineers are heavily male dominated with almost 65% male employees. Surprisingly this year ***three industries reported more than 50% female workers! Accountancies; marketing and advertising and government contractors have more female employees than male. Marketing and advertising firms have the youngest workforce with an average age of 36.5 years.*** Management consultancies and government contractors 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 91: Workforce Age and Gender by Vertical Market

Workforce Age (years)	IT Consult	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Under 30	26.0%	22.5%	22.0%	34.6%	21.7%
30 - 40	33.4%	35.9%	24.7%	36.8%	30.4%
40 - 50	26.6%	29.1%	26.0%	18.5%	25.9%
Over 50	14.0%	12.6%	27.3%	10.1%	22.0%
Average Age (Years)	**38.2**	**38.5**	**41.6**	**35.7**	**40.4**
Percentage Male	**63.6%**	**64.2%**	**55.2%**	**60.5%**	**63.2%**

Source: SPI Research, February 2020

Table 92: Workforce Age and Gender by Vertical Market

Workforce Age (years)	VAR	Account	MarCom	Gov. Cont.	All Others
Under 30	12.0%	26.4%	31.4%	18.0%	19.2%
30 - 40	33.5%	38.2%	39.5%	30.6%	31.5%
40 - 50	29.2%	20.9%	15.4%	17.0%	28.8%
Over 50	25.4%	14.5%	13.7%	34.4%	20.6%
Average Age (Years)	**42.4**	**37.7**	**36.5**	**42.6**	**40.6**
Percentage Male	**62.6%**	**46.3%**	**48.3%**	**43.3%**	**55.8%**

Source: SPI Research, February 2020

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 primary catalyst which is the reason for moving on. Table 93 shows the top reasons why employees leave. The number one rationale (44.2%) is “better opportunity” which translates to a better work environment, perhaps better compensation or more opportunity for advancement. "Other (18.6%)" is in second place. "Other" covers a magnitude of issues – "work/life" balance or leaving the industry entirely.

Table 93: Why employees leave

Why employees leave	Survey %	Employee attrition	Recommend to family/ friends	Billable utilization	On-time project delivery	EBITDA
Better opportunity	44.2%	14.2%	4.42	71.4%	78.7%	14.1%
Money	12.7%	17.7%	4.33	72.5%	78.8%	14.9%
Mgmt. dissatisfaction	4.6%	13.4%	3.29	73.8%	74.5%	21.2%
Travel	4.8%	10.4%	4.59	72.7%	86.0%	21.9%
Stress	5.9%	16.1%	4.19	78.1%	76.1%	18.2%
Lack of career advance.	9.2%	11.9%	4.24	67.4%	77.4%	11.4%
Other	18.6%	8.7%	4.66	71.3%	81.7%	15.8%
Total/Average	**100.0%**	**13.3%**	**4.38**	**71.7%**	**79.2%**	**15.2%**

Source: SPI Research, February 2020

"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 9.2%. 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 employs 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 intently 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 94 shows the correlation between voluntary attrition and revenue growth 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 94: Impact – Voluntary Attrition

Employee annual attrition - Voluntary	Survey %	Revenue growth	Bid-to-win ratio	Client Refer.	EBITDA
None	10.8%	13.1%	5.99	77.9%	17.2%
1% - 5%	28.9%	10.4%	5.52	74.2%	15.2%
5% - 10%	28.2%	9.9%	5.07	70.2%	15.8%
10% - 15%	18.9%	10.9%	5.29	68.7%	14.4%
15% - 25%	7.7%	9.1%	4.72	69.8%	12.9%
Over 25%	5.5%	12.4%	4.00	72.1%	15.7%
Total/Average	**100.0%**	**10.7%**	**5.25**	**72.0%**	**15.3%**

Source: SPI Research, February 2020

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 121 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 while mentoring a replacement hire.

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

Voluntary Attrition	2018	2019	▲
Total Surveys	8.5%	8.5%	0%
ESO	8.3%	7.3%	-13%
PSO	8.6%	9.1%	6%
Amer	8.5%	8.5%	1%
EMEA	7.4%	8.1%	9%
APac	10.8%	10.1%	-6%
IT Consulting	9.1%	9.3%	3%
PS within Software Company	7.6%	7.0%	-8%
Management Consulting	7.3%	9.1%	24%
PS within SaaS Company	9.1%	8.4%	-7%
Architecture/Engineering	7.0%	7.1%	1%
Value-added Reseller (VAR)	6.4%	4.9%	-23%
Accounting	13.1%	7.8%	-40%

Source: SPI Research, February 2020

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

Table 95 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, marketing and advertising firms have the highest attrition and it is only getting worse. Larger organizations experience more voluntary attrition than smaller ones, but the impact of voluntary attrition is enormous on the smallest organizations who reported a significant jump in attrition.

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 96: Year-over-year change – Involuntary Attrition

Involuntary Attrition	2018	2019	▲
Total Surveys	5.4%	4.7%	-14%
ESO	6.2%	4.7%	-24%
PSO	5.0%	4.7%	-8%
Amer	5.4%	4.9%	-9%
EMEA	4.9%	3.9%	-21%
APac	6.3%	3.3%	-48%
IT Consulting	5.4%	4.8%	-11%
PS within Software Company	5.4%	4.8%	-11%
Management Consulting	4.4%	4.9%	12%
PS within SaaS Company	7.1%	4.7%	-34%
Architecture/Engineering	4.3%	3.8%	-11%
Value-added Reseller (VAR)	6.0%	4.9%	-20%
Accounting	7.0%	6.4%	-9%

Source: SPI Research, February 2020

Table 96 shows involuntary attrition trends by geography, vertical and size of organization. Remarkably, involuntary attrition decreased in all geographies and almost all sizes and types of organizations because work was plentiful in 2019 with most firms experiencing revenue growth. Accountancies reported the worst involuntary attrition at 6.4%.

These are very encouraging 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.

Recommend company to friends/family

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

Table 97 shows the powerful impact of workplace satisfaction. The good news is 54.3% 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: Impact – Recommend company to friends/family

Recommend company to friends/family	Survey %	Rev. growth	Client refer.	Emp. attrition	Project margin
Definitely not	0.9%	8.1%	75.0%	14.5%	26.5%
Probably not	3.4%	9.5%	56.7%	15.1%	29.1%
Don't know	7.5%	6.8%	65.4%	15.5%	32.6%
Probably	33.8%	8.0%	68.1%	14.8%	37.0%
Definitely	54.3%	12.8%	76.5%	11.8%	36.4%
Total/Average	**100.0%**	**10.6%**	**72.1%**	**13.2%**	**36.0%**

Source: SPI Research, February 2020

Table 98 shows employee engagement trends by geography, vertical and size of organization. The most engaged employees this year work within VARs. The least engaged are accountants. Employee engagement diminishes as the size of the organization increases. European employees are slightly less engaged than their counterparts in the Americas and APAC. Employee engagement improved year over year for ESOs, VARs and Accountants.

Table 98: Year-over-year change – Recommend company to friends/family

Recommend company to friends/family	2018	2019	▲
Total Surveys	4.41	4.37	-1%
ESO	4.28	4.34	1%
PSO	4.47	4.39	-2%
Amer	4.41	4.38	-1%
EMEA	4.43	4.34	-2%
APac	4.32	4.38	1%
IT Consulting	4.46	4.41	-1%
PS within Software Company	4.21	4.21	0%
Management Consulting	4.55	4.45	-2%
PS within SaaS Company	4.34	4.39	1%
Architecture/Engineering	4.59	4.44	-3%
Value-added Reseller (VAR)	4.57	4.62	1%
Accounting	4.12	4.18	2%

Source: SPI Research, February 2020

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 is 1.0% 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 99: Year-over-year change – Time to recruit and hire for standard positions (days)

Time to recruit and hire for standard positions (days)	2018	2019	▲
Total Surveys	59.9	61.9	3%
ESO	62.0	69.4	12%
PSO	58.9	58.4	-1%
Amer	59.5	62.5	5%
EMEA	64.3	60.2	-6%
APac	57.6	58.0	1%
IT Consulting	54.5	53.4	-2%
PS within Software Company	62.9	69.8	11%
Management Consulting	62.7	61.6	-2%
PS within SaaS Company	63.1	69.3	10%
Architecture/Engineering	67.7	66.8	-1%
Value-added Reseller (VAR)	65.4	72.9	11%
Accounting	57.4	63.8	11%

Source: SPI Research, February 2020

Table 99 shows recruiting time trends by geography, vertical and organization size. ESOs take longer to recruit than independents. Recruiting time is two days longer in the Americas than in EMEA and 4 days longer than APAC. VARs spend the most time in recruiting; marketing and advertising 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 candidates with clearly defined job roles is a good practice.

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.

40% of the PSOs in the survey reported over 60 days for a new consultant to become productive. 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 increased to 59.5 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 75 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 100: Year-over-year change – Time for a new hire to become productive (days)

Time for a new hire to become productive (days)	2018	2019	▲
Total Surveys	57.4	59.5	4%
ESO	70.7	73.5	4%
PSO	51.3	52.8	3%
Amer	58.1	61.9	7%
EMEA	58.6	50.2	-14%
APac	47.8	47.6	0%
IT Consulting	48.3	51.8	7%
PS within Software Company	72.3	73.1	1%
Management Consulting	56.3	48.8	-13%
PS within SaaS Company	73.2	76.2	4%
Architecture/Engineering	50.9	55.4	9%
Value-added Reseller (VAR)	76.1	79.3	4%
Accounting	58.2	55.0	-6%

Source: SPI Research, February 2020

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 is 1.2% of total revenue. Best-of-the-Best organizations mandate more than two weeks of training per year. Almost 10% of firms provide three 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.

In this year's benchmark, higher numbers of guaranteed training days positively correlate with net profit (Table 101). Access to high quality training is a major workplace attraction driver. Many firms report 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.

Table 101: Impact – Guaranteed annual training days / employee

Guaranteed training per employee per year	Survey %	Revenue growth	Client refer.	Rec. to family / friends	EBITDA
None	3.5%	6.4%	73.8%	3.81	11.7%
Under 5 days	19.5%	9.3%	70.7%	4.16	14.6%
5 - 10 days	40.9%	9.9%	71.8%	4.39	14.9%
10 - 15 days	20.6%	11.6%	71.8%	4.46	17.0%
15 - 20 days	9.5%	16.0%	78.0%	4.57	14.4%
Over 20 days	6.1%	8.6%	68.8%	4.71	17.5%
Total/Average	**100.0%**	**10.5%**	**72.1%**	**4.38**	**15.3%**

Source: SPI Research, February 2020

Well-understood career path for all employees

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 102)? 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.

Table 102: Impact – Well-understood career path for all employees

Well-understood career path for all employees	Survey %	Revenue growth	Client refer.	Emp. attrition	Rec. to family / friends
Strongly Disagree	5.0%	9.9%	73.7%	16.2%	3.48
Disagree	15.1%	6.8%	66.7%	12.5%	3.99
Neither Agree/Disagree	33.3%	8.7%	71.8%	13.5%	4.26
Agree	35.6%	12.8%	73.2%	13.1%	4.65
Strongly Agree	11.0%	14.3%	75.6%	12.8%	4.84
Total/Average	**100.0%**	**10.5%**	**72.1%**	**13.3%**	**4.38**

Source: SPI Research, February 2020

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 103 shows the actual (not theoretical) benefits this year's firms experienced from increasing employee utilization. This year, in terms of EBIDTA, the results favored organizations who reported billable utilization from 80 to 90%. Most organizations (35.9%) 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 103: Impact – Employee Billable Utilization

Employee utilization	Survey %	Revenue growth	% of emp. billable	Ann. rev./ consult. (k)	% of ann. rev. target	% of ann. margin target	EBITDA
Under 50%	4.6%	6.9%	48.3%	$131	85.6%	82.8%	14.9%
50% - 60%	11.7%	9.0%	65.6%	$201	89.9%	85.7%	10.7%
60% - 70%	23.7%	10.2%	72.5%	$209	91.6%	88.0%	15.3%
70% - 80%	35.9%	11.0%	75.8%	$212	94.1%	90.1%	15.8%
80% - 90%	18.0%	10.7%	79.8%	$209	97.1%	93.3%	19.0%
Over 90%	6.1%	15.8%	84.3%	$239	99.8%	95.2%	15.2%
Total/Average	**100.0%**	**10.6%**	**73.8%**	**$207**	**93.5%**	**89.6%**	**15.6%**

Source: SPI Research, February 2020

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 the 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 104: Year-over-year change – Employee Billable Utilization

Employee Billable Utilization	2018	2019	▲
Total Surveys	69.7%	71.7%	3%
ESO	66.0%	70.2%	6%
PSO	71.4%	72.4%	1%
Amer	69.6%	71.5%	3%
EMEA	70.1%	72.4%	3%
APac	70.0%	72.3%	3%
IT Consulting	72.5%	73.1%	1%
PS within Software Company	67.8%	69.8%	3%
Management Consulting	71.7%	73.0%	2%
PS within SaaS Company	64.5%	72.7%	13%
Architecture/Engineering	69.9%	71.0%	1%
Value-added Reseller (VAR)	64.3%	67.1%	4%
Accounting	73.5%	69.1%	-6%

Source: SPI Research, February 2020

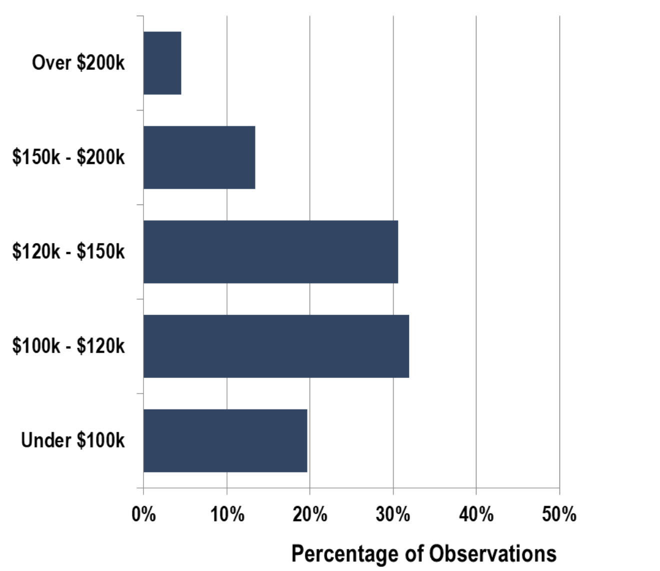
Table 104 depicts the annual change in billable utilization by type of organization, geography, vertical and size. Independents bill more hours than embedded service organizations. EMEA headquartered firms said they billed more hours than their counterparts in the Americas and APac but this is misleading because they actually averaged only 1,390 annual billable hours per consultant. IT Consultancies bill the most hours; VARs the least. Billable utilization increases with organization size as larger firms do not ask employees to perform as many non-billable tasks.

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 rose to $127,000 this year. Almost one-third of firms reported a fully loaded cost of $100 to $120,000. Another third reported a fully loaded cost of $120,000 to $150,000. 4.5% of firms pay employees more than $200,000. 51.5% pay $120,000 or less and 48.5% pay more than $120,000. Interestingly, the firms that pay the most are also growing the fastest and make the most profit (19%).

Figure 36: Annual fully loaded cost per consultant



Source: SPI Research, February 2020

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 (Table 105).*** The change in hours from 2018 to 2019 is miniscule but total work hours decreased 18 hours, a very good trend in fewer overtime hours. The biggest change is the move to more and more off-site service delivery which is the best thing that has ever happened to the Professional Services industry! For the first time, more hours were delivered virtually than on the client's site. 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.

Table 105: Five Year Comparison – Work Hours

Hours Worked	2015	2016	2017	2018	2019
Vacation / personal / holiday hours	169	182	164	169	164
Education / training hours	77	84	59	80	76
Administrative hours	172	150	132	157	160
Non-billable bus. dev. sales support	NA	NA	110	126	117
Non-billable project hours	213	130	111	151	140
Total non-billable hours	**631**	**546**	**577**	**683**	**658**
Billable hours on-site	799	760	863	757	682
Billable hours off-site	640	647	636	671	753
Total billable hours	**1,438**	**1,407**	**1,499**	**1,428**	**1,435**
Total hours	**2,069**	**1,953**	**2,076**	**2,111**	**2,093**

Source: SPI Research, February 2020

Table 106 shows a comparison of hours worked for embedded and independent PSOs and geographic region. Not surprisingly, EMEA and APac 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 175 annual hours. EMEA headquartered organizations do the best job of limiting administrative time at 135 hours – enabling them to take more PTO and training. ESOs also logged the most non-billable sales support hours at 139 but this is part of their charter, so it is OK. Organizations worked fewer overall hours in 2019 (2,093 versus 2,111) but more of them were billable (1,435 versus 1,428). By geography, the Americas worked and billed the most hours. EMEA headquartered firms worked and billed the least hours.

Table 106: Hours Worked by Organization Type and Geographic Region

Not	2018	2019	ESO	PSO	Amer.	EMEA	APac
Vacation / personal / holiday hours	169	164	158	167	155	203	208
Education / training hours	80	76	82	73	73	94	72
Administrative hours	157	160	175	154	164	135	163
Non-billable bus. dev. sales support	126	117	139	107	115	127	121
Non-billable project hours	151	140	195	114	145	120	121
Total non-billable hours	**683**	**658**	**749**	**615**	**652**	**680**	**685**
Billable hours on-site	757	682	573	734	672	710	776
Billable hours off-site	671	753	771	745	772	681	626
Total billable hours	**1,428**	**1,435**	**1,343**	**1,479**	**1,445**	**1,390**	**1,401**
Total hours	**2,111**	**2,093**	**2,092**	**2,094**	**2,097**	**2,070**	**2,087**

Source: SPI Research, February 2020

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, now only 48% are delivered on-site. Across all job titles, billable hours average 1,479 for independents compared to 1,343 hours for embedded service organizations. The average ESO consultant spends 195 hours (4.9 weeks) on non-billable project and business development activities while the independents spend only 114 hours.

The table shows consultants in the Americas were billable 1,445 hours; EMEA based consultants billed the least hours at 1,375 and Asia Pacific consultants billed 1,397 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 but they also spent the most hours in non-billable business development/sales support. APac firms deliver the most hours on-site. Non-billable administrative time increased year over year to 126 hours. Excessive administrative time usually results from not having enough billable work combined with poor systems and processes.

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 (176 and 167) and non-billable business development and project hours (326 and 268) leading to the lowest number of billable hours (1,330 and 1,350) 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.

Accountants take the most time off, with 265 hours (33 days) but they make up for it with a lot of overtime (47 hours). R&D organizations, staffing and architects and engineers bill the most hours (1,640, 1,512 and 1,502 respectively).

Table 107: Hours Worked by Vertical Market

Hours Worked	IT Consulting	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Vacation / personal / holiday hours	166	165	173	145	157
Education / training hours	85	86	71	66	46
Administrative hours	134	176	144	167	179
Non-billable bus. dev. sales support	89	150	156	101	73
Non-billable project hours	111	185	132	250	131
Total non-billable hours	**585**	**761**	**678**	**730**	**585**
Billable hours on-site	631	652	895	403	943
Billable hours off-site	866	678	515	947	558
Total billable hours	**1,498**	**1,330**	**1,410**	**1,350**	**1,502**
Total hours	**2,082**	**2,091**	**2,088**	**2,080**	**2,087**

Source: SPI Research, February 2020

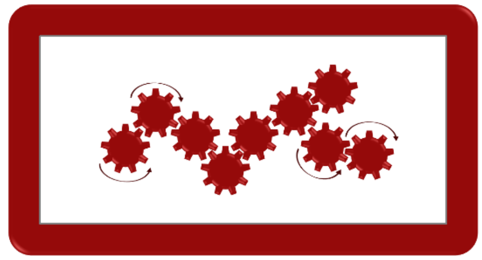
Table 108: Hours Worked by Vertical Market

Hours Worked	Advertise / Mktg / PR	Accounting	VAR	Hardware PS	Other PS
Vacation / personal / holiday hours	168	265	164	160	154
Education / training hours	89	133	38	34	71
Administrative hours	161	180	177	131	203
Non-billable bus. dev. sales support	178	124	177	34	124
Non-billable project hours	113	106	105	40	118
Total non-billable hours	**708**	**807**	**660**	**399**	**671**
Billable hours on-site	672	715	694	609	662
Billable hours off-site	709	605	786	1,071	798
Total billable hours	**1,381**	**1,320**	**1,480**	**1,680**	**1,459**
Total hours	**2,088**	**2,127**	**2,140**	**2,079**	**2,130**

Source: SPI Research, February 2020

Chapter 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.

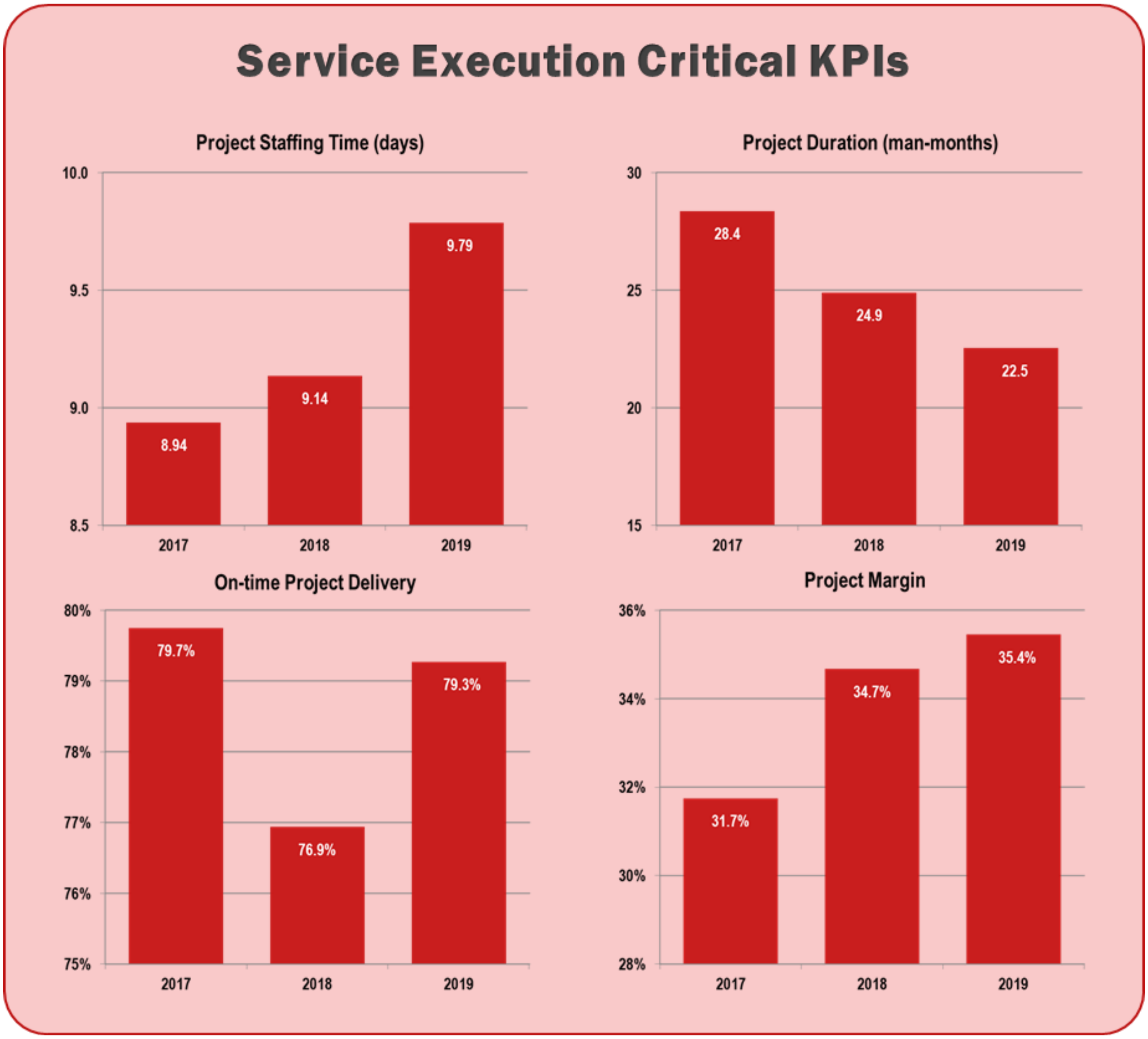
Table 109 highlights the maturity levels in the Service Execution pillar, as the PSO moves from basic reactive "all hands-on deck" project delivery to greater efficiency, repeatability and higher quality service execution.

Table 109: 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 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.

Source: SPI Research, February 2020

2019 was a very good year from a Service Execution point of view in terms of better on-time project delivery resulting in improved project margins. The time it took to staff projects elongated – reflecting strong revenue growth that was not matched by enough headcount growth. At the same time, as we have seen over the past 13 years, projects are getting shorter and smaller – reflecting agile service delivery "sprints" and the relative ease of configuration and integration – tasks which used to take an army of consultants. The good news is the industry has been able to adapt to these changes through better use of tools like PSA for resource management and knowledge and collaboration tools like Jira and Confluence. Except for the constant pressure to perform, working in PS is a lot more fun these days than 20 years ago when a majority of the work focused on plumbing.



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 110:

- ∆ ***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 110: 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.

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
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 2020

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 the best billable utilization as well as good on-time project delivery and revenue growth.
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 111: Impact – Resource Management Strategy

Resource Mgmt. Strategy	Survey %	Revenue growth	Billable utilization	On-time proj. delivery	Project overrun	Std. del. method. used	Project duration (man-months)
Centrally Managed	44.9%	11.3%	73.6%	80.0%	8.7%	68.9%	24.2
Locally Managed	23.3%	9.9%	68.6%	79.0%	8.8%	67.2%	22.0
By Account	10.9%	8.4%	68.3%	76.5%	8.5%	63.9%	32.9
By Horizontal Skill Set	9.2%	10.8%	72.8%	79.8%	10.5%	69.5%	33.6
Center of Excellence	8.3%	9.3%	72.0%	79.4%	8.8%	59.7%	28.2
Other	3.5%	12.5%	72.5%	80.9%	12.7%	70.0%	42.9
Total / Average	**100.0%**	**10.5%**	**71.6%**	**79.3%**	**9.0%**	**67.3%**	**26.5**

Source: SPI Research, February 2020

To improve utilization, PSOs must improve resource management effectiveness. As Table 111 shows, there are pluses and minuses to different resource management strategies. Green shading indicates “Best” while red shading indicates “Worst” based on responses from 513 firms. This year “Other” comes out on top with the highest number of “best” scores. Presumably “other” involves components of different strategies, making it more flexible and responsive. By account resourcing showed the worst results, because resources may be hoarded by account, prohibiting redeployment to more lucrative clients and services.

Survey Results

Table 112 shows 5-year trends for Service Execution KPIs. The table shows a mixed bag of improvements and declines. Project staffing time increased due to strong demand and difficulty in finding talent. Revenue per project improved while staff size and project durations decreased which must mean better realized bill rates and realized project revenues. On-time project delivery improved while project overruns increased which must mean the majority of projects were delivered on-time but when things went awry, they did so significantly with big overruns on a few projects. Use of standardized delivery methodologies improved but not to the level reported in 2016. Project margins for both time and materials and fixed priced projects were the best reported for the past five years! Subcontractor margin also improved nicely. Estimating and knowledge-management processes 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 and red shading worst annual performance for each metric.

Table 112: Service Execution Pillar 5-year trend

Key Performance Indicator (KPI)	2015	2016	2017	2018	2019
Project staffing time (days)	10.42	8.68	8.94	9.14	9.79
Number of projects delivered per year	NA	NA	399	871	584
Revenue per project (k)	$225	$163	$171	$152	$164
Project staff size (people)	4.71	4.17	4.45	4.36	4.05
Project duration (months)	6.19	5.44	6.37	5.71	5.56
Projects delivered on-time	76.1%	78.1%	79.7%	76.9%	79.3%
Project overrun	10.0%	8.4%	8.2%	8.6%	9.1%
Use a standardized delivery methodology	64.5%	71.2%	69.7%	66.1%	67.4%
Project margin for time & materials projects	33.8%	35.5%	31.7%	34.9%	35.6%
Project margin for fixed price projects	33.1%	34.9%	31.8%	34.4%	35.2%
Project margin — subs, offshore	26.2%	28.3%	23.1%	25.8%	27.4%
Effectiveness of resource management process	3.60	3.59	3.50	3.63	3.59
Effectiveness of estimating processes and reviews	3.55	3.56	3.56	3.56	3.58
Effectiveness of change control processes	3.45	3.45	3.38	3.45	3.38
Effectiveness of project quality processes	3.58	3.61	3.62	3.69	3.67
Effectiveness of knowledge management processes	3.36	3.23	3.31	3.42	3.43

Source: SPI Research, February 2020

Table 113 shows ESOS staffed faster than independents, a reversal from years past. ESOs 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 113: Service Execution KPIs by Organization Type and Geographic Region

Key Performance Indicator	2018	2019	ESO	PSO	Amer.	EMEA	APac
Surveys	622	513	168	345	414	75	24
Project staffing time (days)	9.14	9.79	9.46	9.94	9.83	9.63	9.57
Number of projects delivered per year	871	584	537	607	382	1,823	276
Average revenue per project (k)	$152	$164	$177	$158	$167	$132	$214
Project staff size (people)	4.36	4.05	3.71	4.21	4.09	3.87	3.94
Project duration (months)	5.71	5.56	5.20	5.74	5.71	5.07	4.65
Projects delivered on-time	76.9%	79.3%	77.8%	80.0%	78.6%	82.9%	79.0%
Project overrun	8.6%	9.1%	9.8%	8.7%	9.2%	8.8%	7.6%
Use a standardized delivery method.	66.1%	67.4%	71.4%	65.5%	68.4%	62.4%	66.7%
Project margin for T&M projects	34.9%	35.6%	35.3%	35.7%	36.3%	33.3%	32.0%
Project margin for fixed-price projects	34.4%	35.2%	35.5%	35.1%	35.9%	32.2%	33.5%
Project margin — subs., offshore	25.8%	27.4%	29.1%	26.6%	28.4%	22.5%	25.0%
Effect. of resource mgmt. process	3.63	3.59	3.53	3.61	3.54	3.73	3.82
Effect. of estimating proc. and reviews	3.56	3.58	3.52	3.61	3.58	3.62	3.57
Effect. of change control processes	3.45	3.38	3.27	3.43	3.37	3.45	3.27
Effect. of project quality processes	3.69	3.67	3.53	3.74	3.69	3.65	3.50
Effect. of knowledge mgmt. processes	3.42	3.43	3.29	3.49	3.43	3.45	3.39

Source: SPI Research, February 2020

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 114 shows the differences in service execution metrics by size of organization. Historically, the smallest organizations staff faster than larger organizations, but this year the smallest organizations struggled to quickly staff projects, however they still managed to do a good job of delivering projects on-time. The number, size and complexity of projects increases proportionately to organization size with the largest organizations delivering projects averaging 44-man months (almost 4 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 114: Service Execution KPIs by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	55	88	138	119	47	66
Project staffing time (days)	9.51	7.31	9.31	10.15	10.89	12.97
Number of projects delivered per year	74	89	219	506	469	2,945
Average revenue per project (k)	$68	$128	$120	$214	$136	$336
Project staff size (people)	2.46	3.09	3.50	4.64	4.60	6.59
Project duration (months)	4.55	5.22	5.38	5.71	6.08	6.73
Projects delivered on-time	84.0%	80.3%	79.7%	78.1%	76.2%	77.0%
Project overrun	7.5%	9.3%	9.2%	8.7%	10.4%	9.6%
Use a standardized delivery methodology	66.1%	70.0%	70.3%	64.9%	65.6%	64.4%
Project margin for time & materials projects	35.4%	33.5%	34.8%	37.5%	39.0%	34.2%
Project margin for fixed price projects	38.7%	33.4%	34.3%	35.7%	37.2%	34.2%
Project margin — subcontractors, offshore	28.9%	25.4%	25.5%	29.9%	26.7%	28.9%
Effectiveness of resource management process	3.68	3.57	3.62	3.49	3.41	3.74
Effectiveness of estimating processes and reviews	3.80	3.61	3.48	3.55	3.44	3.74
Effectiveness of change control processes	3.33	3.41	3.24	3.32	3.53	3.69
Effectiveness of project quality processes	3.71	3.68	3.62	3.61	3.68	3.87
Effectiveness of knowledge mgmt. processes	3.62	3.54	3.23	3.39	3.28	3.74

Source: SPI Research, February 2020

Tables 115 and 116 show service execution metrics by vertical market. Remarkably, many service execution metrics are very similar across markets. Government Contractors deliver the largest projects averaging over $325K. Architects and engineers and VARs deliver the smallest projects, averaging $81K and $74K respectively. Management consultancies do the best job of on-time project delivery (81.8%) while VARs and SaaS PSOs reported the worst on-time project delivery at 68%. Management consultancies 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 (31.5%). The green and red shading indicates the best and worst metrics by vertical.

Table 115: Service Execution KPIs by Vertical Market

Key Performance Indicator	IT Consulting	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Surveys	143	73	68	55	44
Project staffing time (days)	10.48	9.39	7.65	10.34	9.82
Number of projects delivered per year	228	698	1,484	374	1,061
Average revenue per project (k)	$193	$211	$156	$187	$81
Project staff size (people)	4.53	3.78	3.52	4.17	3.70
Project duration (months)	5.42	5.66	5.93	5.51	6.46
Projects delivered on-time	79.1%	77.8%	86.1%	78.3%	75.7%
Project overrun	8.9%	10.0%	7.5%	9.9%	10.5%
Use a standardized delivery methodology	67.2%	73.0%	62.1%	72.1%	72.4%
Project margin for time & materials projects	38.7%	35.5%	35.2%	33.6%	31.1%
Project margin for fixed price projects	36.9%	35.1%	36.3%	34.3%	30.0%
Project margin — subcontractors, offshore	30.4%	28.1%	25.9%	30.4%	17.8%
Effectiveness of resource management process	3.62	3.72	3.77	3.43	3.39
Effectiveness of estimating processes and reviews	3.56	3.59	3.75	3.48	3.54
Effectiveness of change control processes	3.42	3.39	3.60	3.27	3.32
Effectiveness of project quality processes	3.62	3.59	3.87	3.57	3.68
Effectiveness of knowledge mgmt. processes	3.34	3.12	3.63	3.52	3.59

Source: SPI Research, February 2020

Table 116: Service Execution KPIs by Vertical Market

Key Performance Indicator	VAR	Account	MarCom	Gov. Cont.	All Others
Surveys	21	14	14	8	73
Project staffing time (days)	9.76	12.50	8.27	17.92	9.55
Number of projects delivered per year	166	389	445	47	392
Average revenue per project (k)	$74	$233	$103	$325	$112
Project staff size (people)	2.93	5.50	5.75	5.25	3.67
Project duration (months)	3.30	9.35	4.08	6.58	5.07
Projects delivered on-time	76.0%	69.5%	80.8%	82.5%	79.5%
Project overrun	10.1%	14.8%	6.5%	7.5%	7.7%
Use a standardized delivery methodology	71.9%	60.0%	66.7%	33.3%	63.5%
Project margin for time & materials projects	38.6%	37.5%	34.5%	15.8%	34.6%
Project margin for fixed price projects	41.0%	31.5%	29.1%	40.0%	34.3%

Key Performance Indicator	VAR	Account	MarCom	Gov. Cont.	All Others
Project margin — subcontractors, offshore	31.1%	26.0%	30.5%	22.5%	25.1%
Effectiveness of resource management process	3.35	3.90	3.42	3.40	3.48
Effectiveness of estimating processes and reviews	3.59	3.90	3.58	3.50	3.52
Effectiveness of change control processes	3.06	3.60	3.17	3.50	3.25
Effectiveness of project quality processes	3.41	3.90	3.92	4.00	3.71
Effectiveness of knowledge mgmt. processes	3.35	3.90	3.75	3.50	3.40

Source: SPI Research, February 2020

By vertical, management consultancies reported the best overall service execution metrics with high marks for on-time project delivery; limited project overruns and good change control.

Marketing and advertising agencies deliver hundreds, if not thousands, of small projects per year. Because of the creative nature of their work their use of standardized methods and tools is very low (66.7%). The whole field of marketing and advertising is changing dramatically with the rich brand-building agency retainers of the past giving way to sophisticated multi-media campaigns combining search engine optimization with social media. Marketing and advertising agencies are finding they must do a better job of project and resource management. Overall, Government Contractors reported the lowest service execution metrics with lengthy project staffing time, poor use of standardized methodologies and the lowest time and materials margins.

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 and not enough resources when it takes too long to assemble the right team.

The impact of project staffing time is shown in Table 117. 60% of organizations staff in less than 10 days. The best utilization was reported by organizations that take 15 to 20 days to staff projects. Across the benchmark, average project staffing time grew from 9.14 days in 2018 to 9.79 days in 2019 due to strong demand and limited resources. The 5-year average is 9.43 days.

Table 117: Impact – Project staffing time

Average project staffing time (days)	Survey %	Billable util.	On-time project delivery	Project overrun	EBITDA
Under 5 days	30.0%	70.2%	82.5%	7.4%	15.8%
5 - 10 days	29.4%	71.9%	76.3%	9.0%	16.1%
10 - 15 days	20.8%	71.5%	79.9%	9.5%	14.0%
15 - 20 days	9.4%	75.7%	80.5%	11.3%	16.3%
Over 20 days	10.3%	71.5%	76.8%	10.5%	13.5%
Total/Average	**100.0%**	**71.6%**	**79.4%**	**9.0%**	**15.3%**

Source: SPI Research, February 2020

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 $175K.

Table 118: Impact – Revenue per project

Average revenue per project (k)	Survey %	Project duration (man-mnths)	Billable util.	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)
Under $25k	14.5%	7.4	67.3%	$178	$140
$25k - $50k	19.6%	12.6	67.6%	$185	$150
$50k - $100k	25.4%	21.5	71.6%	$207	$170
$100k - $250k	22.8%	25.6	74.4%	$224	$181
$250k - $500k	11.8%	37.2	73.1%	$229	$194
$500k - $1mm	3.1%	80.3	74.3%	$214	$183
Over $1mm	2.7%	139.6	83.3%	$300	$264
Total/Average	**100.0%**	**25.5**	**71.4%**	**$208**	**$170**

Source: SPI Research, February 2020

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.

Interestingly, the best metrics are shown for projects with 6 to 8 consultants. Across the benchmark, the average project staff size has declined every year, making effective resource management imperative. The 5-year average is 4.36.

Table 119: Impact – Project staff size

Average project staff size (people)	Survey %	Project duration (man-months)	Project overrun	Std. del. method. used	Project margin
1 - 2	30.0%	6.0	8.2%	69.0%	35.9%
3 - 5	57.5%	23.3	9.3%	66.3%	35.7%
6 - 8	4.4%	41.1	8.5%	74.2%	38.5%
9 - 11	3.5%	84.7	9.5%	62.5%	38.4%
Over 11	4.6%	139.7	12.0%	67.0%	35.6%
Total/Average	**100.0%**	**26.4**	**9.1%**	**67.4%**	**35.9%**

Source: SPI Research, February 2020

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 5.86 months over the past 5 years. Table 120 shows larger projects enhance billable utilization and predictability but 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 120: Impact – Project duration

Project Duration (months)	Survey %	billable util.	On-time project delivery	Project overrun	Project margin
Under 1	3.7%	63.3%	79.1%	7.3%	31.1%
1 - 3	25.2%	69.2%	81.1%	7.9%	36.0%
3 - 6	36.1%	70.8%	78.4%	8.8%	36.2%
6 - 9	18.8%	74.4%	78.0%	9.2%	37.5%
9 - 12	9.4%	75.1%	75.8%	12.6%	33.6%
Over 12	6.8%	75.3%	84.0%	10.9%	35.4%
Total/Average	**100.0%**	**71.5%**	**79.2%**	**9.1%**	**35.9%**

Source: SPI Research, February 2020

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.

Over 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 more than 15%. For the bottom 20%, project overruns average more than 24% and standardized delivery methods are used less than 60% of the time.

Thankfully over 25% 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 121: Impact – Ontime project delivery

Projects delivered on-time	Survey %	Revenue growth	Client Reference	Employee attrition	Rec. to family/ friends	Billable util.	Project overrun	Std. del. method. used
Under 40%	2.0%	-0.3%	66.1%	15.3%	3.67	73.3%	22.2%	58.9%
40% - 60%	8.0%	14.9%	66.3%	14.9%	3.92	66.5%	15.2%	58.6%
60% - 70%	9.8%	8.9%	64.9%	14.5%	4.27	68.2%	11.7%	62.7%
70% - 80%	22.8%	8.5%	69.5%	14.2%	4.30	71.4%	12.2%	65.7%
80% - 90%	31.5%	11.3%	73.1%	13.5%	4.43	71.0%	7.5%	68.2%
Over 90%	25.9%	11.9%	79.2%	10.4%	4.55	75.0%	4.2%	72.8%
Average	**100.0%**	**10.6%**	**72.4%**	**13.1%**	**4.36**	**71.5%**	**9.0%**	**67.4%**

Source: SPI Research, February 2020

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.

Table 122: Impact – Project overrun

Project overrun	Survey %	Employee attrition	Rec. to family/ friends	Billable util.	On-time project delivery
Never	4.5%	6.5%	4.25	66.0%	89.0%
0% - 5%	32.4%	11.6%	4.55	74.4%	86.7%
5% - 10%	33.3%	14.0%	4.36	70.0%	79.4%
10% - 20%	20.1%	15.1%	4.26	70.4%	72.4%
20% - 30%	7.8%	11.7%	4.11	70.4%	63.9%
Over 30%	2.0%	21.7%	3.50	79.4%	59.4%
Total/Average	**100.0%**	**13.1%**	**4.36**	**71.6%**	**79.2%**

Source: SPI Research, February 2020

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% of firms who reported greater than 30% project overruns, attrition soars while revenue per employee plummets. Across the benchmark, project overruns climbed from 8.6% to 9.1% this year. Accountancies and Staffing firms reported the largest overruns at 14.8% and 23.8% respectively. The largest organizations had the highest percentage.

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.

Table 123: Impact – Standardized delivery methodology use

Percentage of projects where a std. delivery meth. is used	Survey %	On-time proj. delivery	Exec realtime visibility	Project margin	EBITDA
Under 20%	14.4%	80.2%	2.87	33.0%	23.9%
20% - 40%	18.1%	74.0%	3.20	35.6%	11.9%
40% - 60%	28.9%	75.1%	3.44	34.8%	14.6%
60% - 80%	24.1%	77.8%	3.60	36.1%	18.1%
Over 80%	14.4%	82.8%	3.64	36.5%	13.6%
Total/Average	**100.0%**	**79.1%**	**3.51**	**35.8%**	**15.3%**

Source: SPI Research, February 2020

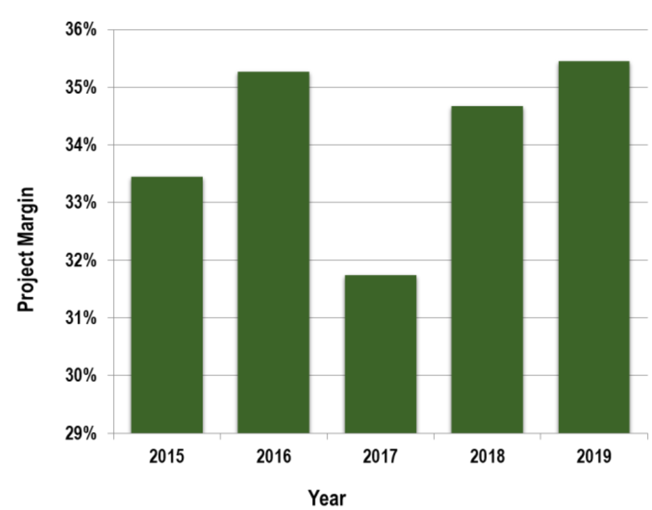
Mature firms invest significant time and attention into methodology development as a means to standardize delivery processes; define expectations and institutionalize quality. Using a standardized delivery methodology is a critical component of a services productization strategy. It helps improve project 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 123 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 71.4% of their projects taking advantage of standardized methods and tools. Managed service providers reported the use of standardized methods on more than 90% 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 improved 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.

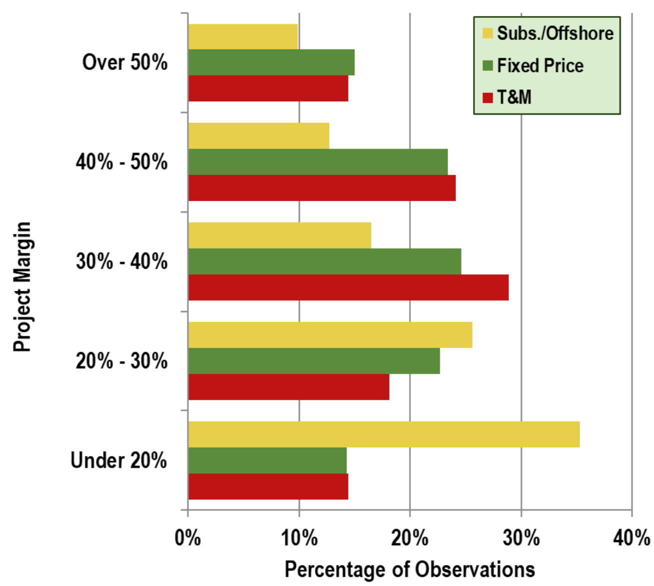
Figure 37: Project Margin Five-year Trend



Source: SPI Research, February 2020

Leading professional services organizations strive to achieve project margins over 35% but as Figure 38 shows, less than one quarter 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 poor communication. Organizations with lower project margins struggle to meet annual margin targets. Very few organizations are making more than 30% margin on subcontractors.

Figure 38: Project Margin Comparison by Type



Source: SPI Research, February 2020

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. 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

Table 124: Impact – Project margin for time and materials projects

Project margin for T&M projects	Survey %	Revenue growth	Project duration (man-months)	Project margin	EBITDA
Under 20%	14.4%	8.5%	23.3	16.3%	12.0%
20% - 30%	18.1%	9.1%	24.3	26.9%	14.0%
30% - 40%	28.9%	10.0%	26.4	34.0%	14.9%
40% - 50%	24.1%	12.0%	28.4	44.9%	15.5%
Over 50%	14.4%	13.1%	29.9	55.3%	19.2%
Total/Average	**100.0%**	**10.6%**	**26.6**	**35.9%**	**15.1%**

Source: SPI Research, February 2020

referenceability directly improves as margins improve. IT Consultancies produced the best time and materials margins in this year's survey at 38.7% while staffing providers reported the worst at 27.5%.

Project margin for fixed price projects

Table 125 shows 38% of organizations achieved fixed price margins of more than 40% but unfortunately 37% 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 to ensure fixed fee projects are not encumbered with scope change.

Table 125: Impact – Project margin for fixed price projects

Project margin for fixed price projects	Survey %	Client ref.	On-time proj. delivery	Project margin	EBITDA
Under 20%	14.3%	71.1%	76.9%	17.1%	11.0%
20% - 30%	22.7%	70.6%	78.5%	27.3%	12.2%
30% - 40%	24.6%	70.7%	76.4%	35.3%	15.1%
40% - 50%	23.4%	71.1%	79.9%	44.7%	17.5%
Over 50%	15.0%	79.0%	84.7%	55.4%	18.5%
Total/Average	**100.0%**	**72.1%**	**79.0%**	**36.1%**	**14.9%**

Source: SPI Research, February 2020

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 11.4% 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 26.1% for the past five years. Table 126 shows significant benefits for the few firms who are able to enjoy greater

Table 126: Impact – Project margin — subs, offshore

Average project margin — subs, offshore	Survey %	Std. del. meth. used	% of ann. margin target	Project margin	EBITDA
Under 20%	35.3%	65.8%	86.3%	30.6%	12.4%
20% - 30%	25.6%	64.6%	92.1%	35.2%	13.8%
30% - 40%	16.5%	66.5%	88.6%	36.0%	17.8%
40% - 50%	12.7%	71.7%	92.7%	43.5%	15.9%
Over 50%	9.9%	77.2%	94.5%	45.7%	20.3%
Total/Average	**100.0%**	**67.5%**	**89.8%**	**35.8%**	**14.9%**

Source: SPI Research, February 2020

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.

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

Table 127: Impact – Effectiveness of the resource management processes

Effect. of resource mgmt. process	Survey %	Client ref.	On-time proj. delivery	Project overrun	Std. del. method. used
1 – poor	1.2%	74.0%	63.0%	12.0%	34.0%
2	10.8%	68.2%	75.1%	10.9%	61.8%
3	28.1%	72.9%	76.9%	10.1%	64.0%
4	48.2%	72.1%	80.3%	8.4%	69.7%
5 – great	11.8%	76.9%	84.1%	7.8%	72.1%
Total/Average	**100.0%**	**72.5%**	**79.1%**	**9.1%**	**67.1%**

Source: SPI Research, February 2020

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 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 estimating. On-time project completion improves; PSOs experience fewer overruns, are more likely to use standard delivery methods and better project margins. Estimating

Table 128: Impact – Effectiveness of estimating processes and reviews

Effectiveness of estimating processes and reviews	Survey %	On-time proj. delivery	Std. delivery meth. used	Exec realtime visibility	Project margin
1 – poor	1.4%	65.0%	38.0%	2.67	29.8%
2	10.2%	74.9%	63.6%	3.05	34.0%
3	27.3%	77.1%	64.3%	3.45	34.5%
4	51.3%	80.3%	68.9%	3.62	36.2%
5 – great	9.9%	83.5%	73.8%	3.90	41.0%
Total/Average	**100.0%**	**79.0%**	**67.2%**	**3.53**	**35.9%**

Source: SPI Research, February 2020

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.

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 129: Impact – Effectiveness of change control processes

Effectiveness of change control processes	Survey %	Client refer.	On-time proj. delivery	Exec realtime visibility	Project margin
1 – poor	2.1%	76.1%	63.1%	3.00	29.5%
2	14.7%	67.4%	78.9%	3.29	33.6%
3	34.0%	70.9%	76.8%	3.33	34.8%
4	41.7%	75.0%	80.4%	3.72	36.4%
5 – great	7.5%	75.2%	85.0%	3.93	42.2%
Total/Average	**100.0%**	**72.5%**	**78.9%**	**3.53**	**35.8%**

Source: SPI Research, February 2020

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 129 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 130 shows results improve across the board as quality processes are implemented.

Table 130: Impact – Effectiveness of project quality processes

Effectiveness of project quality processes	Survey %	Client refer.	Rec. to family/friends	Std. del. method. used	Project margin
1 – poor	0.5%	80.0%	3.50	50.0%	16.3%
2	7.6%	68.9%	4.09	63.1%	29.1%
3	31.2%	70.6%	4.29	65.4%	36.7%
4	45.5%	72.2%	4.41	67.6%	36.2%
5 – great	15.2%	78.8%	4.57	72.6%	36.7%
Total/Average	**100.0%**	**72.5%**	**4.37**	**67.2%**	**35.8%**

Source: SPI Research, February 2020

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.

Table 131: Impact – Effectiveness of knowledge management processes

Effectiveness of knowledge mgmt. processes	Survey %	Client refer.	Billable util.	On-time proj. delivery	Project margin
1 – poor	2.6%	63.0%	72.7%	75.0%	30.7%
2	12.8%	69.0%	67.3%	77.5%	33.5%
3	34.7%	71.4%	71.1%	77.8%	36.5%
4	38.9%	73.1%	72.8%	79.8%	35.8%
5 – great	11.0%	81.7%	75.0%	82.7%	37.8%
Total/Average	**100.0%**	**72.7%**	**71.7%**	**79.0%**	**35.8%**

Source: SPI Research, February 2020

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 131). 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.

Chapter 10 – Finance and Operations Pillar

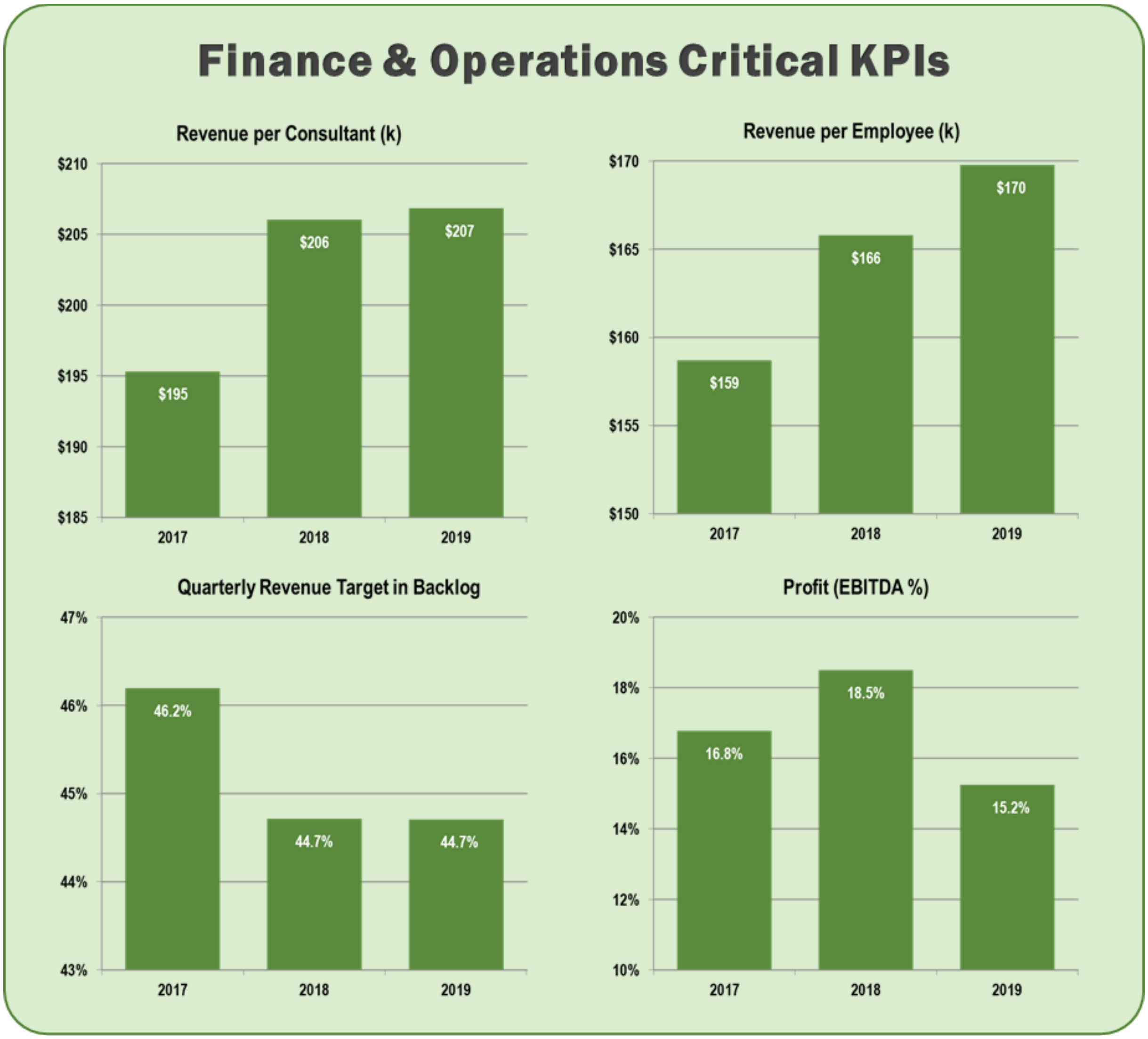
The Finance and Operations pillar represents the realm of the CFO for large PS organizations and is an intrinsic part of the role of the chief service executive for all PS organizations, regardless of size. In this service performance pillar, SPI Research examines 26 key performance measurements for revenue, margin and operating expense. We include detailed profit and loss statements and expense ratios by organization size, geography and vertical. Table 132 highlights attributes of the Finance and Operations pillar as the organization matures.

Table 132: 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.

Source: SPI Research, February 2020

The following chart shows a mixed bag of financial improvements and declines. After the record-breaking EBITDA profit of 18.5% reported in 2018, we expected profit to decline to more normal levels. In 2019 average profit is 15.2%. Still respectable, given the tremendous revenue and headcount growth reported in 2019. Annual revenue per consultant eclipsed last year's high of $206K with a climb to $207K! Revenue per employee also gained ground in 2019 to a new high of $170K! These are tremendous achievements given near-record global revenue and headcount growth of 10.6% and 9.0% reported in 2019. Indeed, it is a very good time to be in PS with tremendous growth and profit reported by a majority of organizations. Embedded service organizations within software and SaaS technology companies and IT consultancies are clearly responsible for the great financial results as their consultants produced over $217K per year – one of the highest revenue yields in this benchmark's history!



But all is not rosy in River City as financial metrics declined in several important areas, most notably backlog declined to 44.7% from 46.2% in 2017. This means PS organizations started 2020 with less committed work. Other declining KPIs were primarily financial "hygiene" metrics like the percentage of invoices which had to be redone and the percentage of work that was written off. Declines in these metrics usually means there were breakdowns in key business processes.

Declining leading indicators like backlog portend slower revenue growth in 2020. However, 2019 hiring was very robust with 9.0% headcount growth. Headcount growth leads to revenue growth the next year. The PS industry as a whole closely mirrors global GDP growth projections which remain favorable for 2020. As we enter a new decade, prospects for the Global Service economy remain very bright. Table 133 provides a picture of five years' worth of financial metrics. Green shading indicates best annual metrics, red indicates worst.

Table 133: Finance & Operations Pillar 5-year trend

Key Performance Indicator (KPI)	2015	2016	2017	2018	2019
Annual revenue per billable consultant (k)	$198	$205	$196	$206	$207
Annual revenue per employee (k)	$157	$163	$159	$166	$170
Quarterly revenue target in backlog	40.4%	45.6%	46.2%	44.7%	44.7%
Percent of annual revenue target achieved	91.4%	92.1%	93.0%	93.8%	93.6%
Percent of annual margin target achieved	89.4%	90.1%	89.1%	90.3%	89.7%
Revenue leakage	4.20%	4.30%	4.39%	4.29%	4.54%
% of invoices redone due to error/client rejections	2.6%	2.2%	2.2%	2.3%	2.5%
Days sales outstanding (DSO)	43.8	44.6	48.2	46.3	45.8
Quarterly non-billable expense per employee	$1,908	$1,579	$1,615	$1,606	$1,718
% of billable work is written off	3.00%	2.60%	2.76%	2.84%	3.52%
Executive real-time wide visibility	**3.32**	**3.51**	**3.66**	**3.56**	**3.52**
Profit (EBITDA)	**15.5%**	**14.2%**	**16.8%**	**18.5%**	**15.2%**

Source: SPI Research, February 2020

Survey Results

The following section reviews and analyzes 2020 PS Maturity™ benchmark results from 513 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 134

Table 134: Finance & Operations KPIs by Organization Type and Geographic Region

Key Performance Indicator	2018	2019	ESO	PSO	Amer.	EMEA	APac
Surveys	622	513	168	345	414	75	24
Annual revenue per billable consultant (k)	$206	$207	$217	$202	$214	$167	$217
Annual revenue per employee (k)	$166	$170	$181	$165	$178	$128	$172
Quarterly revenue target in backlog	44.7%	44.7%	45.2%	44.5%	45.5%	42.5%	38.7%
Percent of annual revenue target achieved	93.8%	93.6%	93.1%	93.8%	93.6%	94.0%	92.2%
Percent of annual margin target achieved	90.3%	89.7%	89.8%	89.7%	90.0%	88.7%	88.9%
Revenue leakage	4.29%	4.54%	4.83%	4.42%	4.69%	4.13%	3.61%
% of invoices redone due to error/client rejections	2.3%	2.5%	2.9%	2.3%	2.5%	2.3%	1.7%
Days sales outstanding (DSO)	46.3	45.8	45.7	45.9	47.0	43.3	35.9
Quarterly non-billable expense per employee	$1,606	$1,718	$1,727	$1,713	$1,705	$1,809	$1,663
Executive real-time wide visibility	**3.56**	**3.52**	**3.48**	**3.54**	**3.55**	**3.44**	**3.39**
Profit (EBITDA)	**18.5%**	**15.2%**	**21.3%**	**13.6%**	**16.2%**	**14.0%**	**5.4%**

Source: SPI Research, February 2020

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 and employee than independents. Embedded service organizations outperformed independents in revenue yields, backlog and profit but slightly underperformed independents in target revenue achievement, revenue leakage, DSO and write-offs.

Embedded PSOs saw net profit decrease from 22% to 21.3%, the third straight year of profit declines. Independent EBITDA declined significantly from 17.1% to 13.6%. By geography, profit was down in all territories. In the Americas net profit moved down from 19.1% to 16.2%; APAC tanked from 12.6% to 5.4% and EMEA moved from 17.9% to 14.0%. Global economic prosperity and digital transformation have spurred PS growth, but talent shortages and costs have skyrocketed leading to lower profit.

A positive factor is that employee productivity improved again in 2019. Revenue per consultant increased from $206,000 to $207,000 while revenue per employee increased from $166,000 to 170,000. A contributing factor to the increase in per employee revenue yields is that organizations "pre-hired" in 2018 so new hires were able to hit the ground running in 2019.

Backlog is always a very important KPI. Backlog stayed the same at 44.7%. The Americas reported the strongest backlog at 45.5%. Backlog decreased in APac from 46.1% to 38.7%. EMEA reported a decline in backlog from 46.2% to 42.5%.

Table 135: Finance & Operations KPIs by Organization Size

Key Performance Indicator	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	55	88	138	119	47	66
Annual revenue per billable consultant (k)	$182	$213	$198	$221	$201	$218
Annual revenue per employee (k)	$147	$175	$166	$177	$159	$186
Quarterly revenue target in backlog	35.3%	39.0%	47.1%	49.1%	50.0%	42.8%
Percent of annual revenue target achieved	90.6%	91.2%	93.7%	96.4%	91.3%	95.7%
Percent of annual margin target achieved	88.4%	88.6%	88.4%	91.5%	92.0%	90.4%
Revenue leakage	4.67%	4.84%	4.29%	4.95%	3.53%	4.64%
% of invoices redone due to error/client rejections	1.9%	1.8%	2.1%	3.0%	2.9%	3.7%
Days sales outstanding (DSO)	36.2	41.3	46.5	49.4	47.8	51.7
Quarterly non-billable expense per employee	$1,239	$1,543	$1,550	$1,828	$2,230	$2,178
Executive real-time wide visibility	**3.62**	**3.73**	**3.49**	**3.36**	**3.50**	**3.56**
Profit (EBITDA)	**16.0%**	**13.8%**	**15.7%**	**15.8%**	**15.5%**	**12.8%**

Source: SPI Research, February 2020

Non-billable expense per employee increased in 2019 from $1,606 to $1,718. Excessive non-billable expense is a danger signal directly related to poor cost management and ineffective business development practices. Embedded PSOs increased non-billable expense per employee; they spent $1,727 per consultant per quarter in 2019 compared to $1,660 in 2018. Independents significantly increased discretionary spending from $1,581 to $1,713. Discretionary spending directly impacts bottom-line net profit.

Table 135 compares finance and operations KPI's by organization size. Organizations with 100 to 300 consultants reported the best per consultant revenue yields and net profit. The smallest organizations reported the worst financial metrics except in DSO and discretionary spending.

Tables 136 and 137 show financial results by vertical market. Best performance is highlighted in green and worst performance is highlighted in red.

Table 136: Finance & Operations KPIs by Vertical Market

Key Performance Indicator	IT Consulting	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Surveys	143	73	68	55	44
Annual revenue per billable consultant (k)	$207	$218	$211	$221	$182
Annual revenue per employee (k)	$165	$175	$176	$199	$151
Quarterly revenue target in backlog	47.5%	48.0%	39.7%	44.7%	52.4%
Percent of annual revenue target achieved	93.1%	92.4%	95.3%	95.6%	95.8%
Percent of annual margin target achieved	88.8%	90.5%	92.4%	91.3%	89.9%
Revenue leakage	4.69%	4.46%	3.44%	5.15%	5.41%
% of invoices redone due to error/client rejections	2.2%	2.9%	1.5%	2.8%	2.9%
Days sales outstanding (DSO)	43.3	42.7	41.1	53.1	62.4
Quarterly non-billable expense per employee	$1,603	$1,670	$1,703	$1,885	$2,013
Executive real-time wide visibility	**3.55**	**3.49**	**3.51**	**3.49**	**3.56**
Profit (EBITDA)	**11.9%**	**23.1%**	**13.1%**	**23.7%**	**17.6%**

Source: SPI Research, February 2020

Surprisingly, Accountancies turned in the worst financial performance with the lowest per person and per consultant revenue yields; the highest non-billable discretionary spending and the worst profit at 7.8%. On the positive end of the spectrum, SaaS ESOs reported some of the best financial metrics with the highest per person and per consultant revenue yields and high net profit of 23.7%.

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% declining to 23.7% in 2019. This is an important KPI to watch, as many organizations are turning to the cloud for their information infrastructure.

Table 137: Finance & Operations KPIs by Vertical Market

Key Performance Indicator	VAR	Account	MarCom	Gov. Cont.	All Others
Surveys	21	14	14	8	73
Annual revenue per billable consultant (k)	$210	$170	$220	$192	$205
Annual revenue per employee (k)	$164	$143	$167	$160	$170
Quarterly revenue target in backlog	36.3%	52.0%	35.0%	32.0%	38.9%
Percent of annual revenue target achieved	87.1%	96.5%	88.8%	87.0%	94.2%
Percent of annual margin target achieved	85.6%	87.5%	88.6%	92.0%	88.6%
Revenue leakage	5.44%	4.23%	4.70%	4.00%	4.15%
% of invoices redone due to error/client rejections	2.5%	3.0%	2.3%	1.8%	3.2%
Days sales outstanding (DSO)	42.0	45.0	46.0	31.7	45.1
Quarterly non-billable expense per employee	$1,484	$2,225	$1,977	$1,500	$1,646
Executive real-time wide visibility	**3.76**	**3.45**	**3.75**	**3.40**	**3.42**
Profit (EBITDA)	**12.7%**	**7.8%**	**25.0%**	**19.8%**	**14.7%**

Source: SPI Research, February 2020

Steps Taken to Improve Profitability

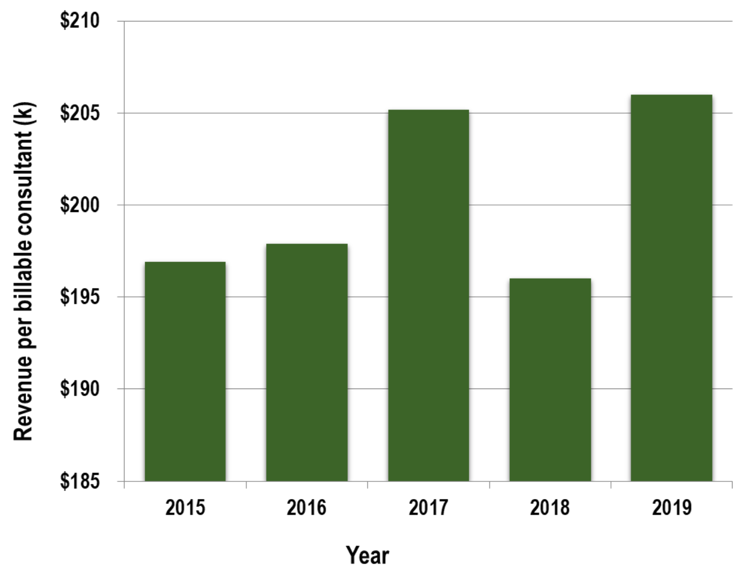
Table 138: Steps Taken to Improve Profitability Comparison: 2018-2019

Steps Taken to Improve Profitability	2018	2019	Change
Improve marketing effectiveness	3.89	4.03	3.70%
Improve solution portfolio	3.77	4.02	6.70%
Improve sales effectiveness	3.95	3.95	0.10%
Improve methods and tools	3.83	3.87	1.10%
Improve hiring and ramping	3.76	3.8	1.10%
Improve utilization	3.82	3.76	-1.50%
Expand business models	NA	3.44	NA
Reduce non-billable time	3.53	3.41	-3.40%
Increases rates	3.29	3.27	-0.50%

Source: SPI Research, February 2020

Each year SPI Research asks, "What steps will your organization take to improve profitability?" This year "improving marketing effectiveness" rose to the top of the list. PSOs are becoming keenly aware of the need to effectively create an employment and client results brand. The second improvement priority is "improving our solution portfolio" to help position, sell and deliver repeatable solutions. 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.

Figure 39: Revenue per Billable Consultant Five-year Trend



Source: SPI Research, February 2020

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.

Table 139: Impact – Revenue per Billable Consultant

Revenue per billable consultant	Survey %	Client refer.	Project duration (man-months)	Billable util.	% of ann. rev. target
Under $100k	8.5%	68.5%	28.0	67.1%	83.3%
$100k - $150k	16.2%	70.8%	28.2	69.4%	91.9%
$150k - $200k	23.0%	74.7%	29.3	71.0%	92.9%
$200k - $250k	23.5%	71.3%	19.2	72.0%	94.7%
$250k - $300k	15.5%	73.8%	20.1	75.0%	95.8%
Over $300k	13.3%	74.2%	33.4	73.4%	97.3%
Total/Average	**100.0%**	**72.5%**	**25.8**	**71.6%**	**93.4%**

Source: SPI Research, February 2020

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 hit its zenith this year at $207K.

Chicken or egg? Table 139 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 referenceability and achievement of revenue and margin targets.

Table 140 shows year over year trends for revenue per consultant. Revenue yields improved for ESOs and slightly declined for independents. PS within SaaS and Software produced the highest yields while architects and accountants produced the lowest.

Table 140: Year-over-year change – Revenue / Billable Consultant

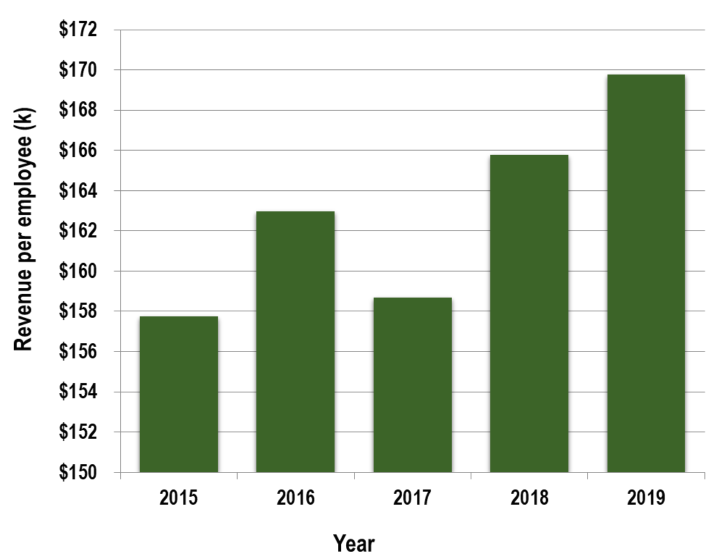
Revenue per Billable Consultant	2018	2019	▲
Total Surveys	$206	$207	0%
ESO	$210	$217	4%
PSO	$204	$202	-1%
Amer	$208	$214	2%
EMEA	$189	$167	-12%
APac	$206	$217	5%
IT Consulting	$203	$207	2%
PS within Software Company	$216	$218	1%
Management Consulting	$219	$211	-3%
PS within SaaS Company	$192	$221	15%
Architecture/Engineering	$198	$182	-8%
Value-added Reseller (VAR)	$238	$210	-11%
Accounting	$220	$170	-23%

Source: SPI Research, February 2020

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.

Figure 40: Revenue per Employee Five-year Trend



Source: SPI Research, February 2020

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.

Table 141: Impact – Annual Revenue per Employee

Revenue per Employee	Survey %	% of emp. billable	Billable util.	On-time project delivery	Project overrun
Under $100k	15.5%	68.4%	66.6%	76.4%	10.0%
$100k - $150k	25.2%	73.1%	70.9%	77.8%	9.8%
$150k - $200k	25.9%	75.4%	72.8%	79.6%	8.3%
$200k - $250k	20.9%	75.7%	72.7%	79.8%	8.5%
$250k - $300k	7.5%	74.3%	73.2%	78.0%	10.4%
Over $300k	5.0%	77.6%	76.1%	83.3%	9.1%
Total/Average	**100.0%**	**73.8%**	**71.5%**	**78.7%**	**9.2%**

Source: SPI Research, February 2020

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 142 shows revenue per employee improved in most organizations. EMEA had a bad year with a significant decline in revenue per consultant and per employee to the lowest level in the survey. ESOs led the way with improved revenue yields. Revenue per employee improved in the Americas and APac but declined in EMEA. By vertical, PS within SaaS reported the greatest improvement and the highest per person revenue yields, while VARs had the steepest decline. Accountancies reported the lowest per employee revenue yields.

Table 142: Year-over-year change – Annual Revenue / Employee

Annual Revenue per Employee	2018	2019	▲
Total Surveys	$166	$170	2%
ESO	$168	$181	8%
PSO	$165	$165	0%
Amer	$168	$178	6%
EMEA	$149	$128	-14%
APac	$166	$172	3%
IT Consulting	$167	$165	-1%
PS within Software Company	$173	$175	2%
Management Consulting	$176	$176	0%
PS within SaaS Company	$154	$199	29%
Architecture/Engineering	$161	$151	-6%
Value-added Reseller (VAR)	$196	$164	-16%
Accounting	$150	$143	-5%

Source: SPI Research, February 2020

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. ***Increasing backlog levels are a clear indication of future 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: Impact – Quarterly Revenue in Backlog

Qtr. rev. target in backlog	Survey %	New clients	Bid-to-win ratio	Deal pipeline	Project margin
Under 20%	17.9%	30.7%	5.14	151%	36.1%
20% - 40%	24.3%	32.3%	5.20	165%	34.3%
40% - 50%	17.2%	32.4%	5.12	168%	34.6%
50% - 60%	11.3%	34.0%	4.87	192%	34.5%
60% - 70%	11.5%	31.6%	5.63	211%	39.2%
Over 70%	17.7%	26.2%	5.71	227%	40.5%
Total/Avg.	**100.0%**	**31.1%**	**5.28**	**182%**	**36.4%**

Source: SPI Research, February 2020

Table 143 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 144: Year-over-year change – Qtr. Revenue Target in Backlog

Quarterly Rev. Target in Backlog	2018	2019	▲
Total Surveys	44.7%	44.7%	0%
ESO	45.4%	45.2%	0%
PSO	44.4%	44.5%	0%
Amer	44.4%	45.5%	3%
EMEA	46.2%	42.5%	-8%
APac	46.1%	38.7%	-16%
IT Consulting	45.7%	47.5%	4%
PS within Software Company	47.9%	48.0%	0%
Management Consulting	41.3%	39.7%	-4%
PS within SaaS Company	42.5%	44.7%	5%
Architecture/Engineering	45.0%	52.4%	17%
Value-added Reseller (VAR)	52.5%	36.3%	-31%
Accounting	35.0%	52.0%	49%

Source: SPI Research, February 2020

Table 144 shows backlog trends. Backlog declined significantly in EMEA and APac but improved slightly in the Americas which is still experiencing a strong economy. Architects and engineers and accountancies significantly grew backlog which portends future revenue growth.

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.

Table 145: Year-over-year change – % of annual revenue target achieved

Percentage of annual revenue target achieved	2018	2019	▲
Total Surveys	93.8%	93.6%	0%
ESO	94.2%	93.1%	-1%
PSO	93.6%	93.8%	0%
Amer	93.8%	93.6%	0%
EMEA	93.5%	94.0%	1%
APac	94.0%	92.2%	-2%
IT Consulting	94.1%	93.1%	-1%
PS within Software Company	95.5%	92.4%	-3%
Management Consulting	92.7%	95.3%	3%
PS within SaaS Company	91.3%	95.6%	5%
Architecture/Engineering	94.6%	95.8%	1%
Value-added Reseller (VAR)	105.0%	87.1%	-17%
Accounting	92.3%	96.5%	5%

Source: SPI Research, February 2020

This year the percentage of annual revenue target achieved was 93.6%. The five-year average is 92.8%. Table 145 shows year over year trends in revenue target attainment. Independents achieved 93.8% of their target revenue, ESOs achieved 93.1%

Table 146: Impact – Percentage of annual revenue target achieved

Percentage of annual target revenue achieved	Survey %	Revenue growth	Bid-to-win ratio	Deal pipeline	Billable util.
Under 80%	12.2%	6.6%	4.06	130%	66.1%
80% - 90%	21.1%	6.9%	5.04	160%	69.6%
90% - 100%	39.7%	8.9%	5.41	195%	72.0%
100% - 110%	20.1%	14.8%	5.65	197%	73.9%
Over 110%	6.9%	23.2%	6.44	219%	79.5%
Total/Average	**100.0%**	**10.4%**	**5.29**	**182%**	**71.6%**

Source: SPI Research, February 2020

As Table 145 shows there is a direct correlation between achieving revenue targets, revenue growth and billable utilization. PSOs that exceeded their revenue goals produced higher margins, higher revenue growth and superior billable utilization. There is also 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.

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. Perhaps one of the most important gauges of financial maturity is the ability to consistently achieve annual 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 19.3% of survey respondents achieved 100% or more of their annual margin target!

Table 147 shows a direct correlation between backlog, billable utilization and on-time project delivery with

Table 147: Impact – Percentage of annual target margin achieved

Percentage of annual target margin achieved	Survey %	Qtr. rev. target in backlog	Billable util.	On-time project delivery	Project overrun
Under 80%	21.0%	34.9%	67.3%	73.4%	10.9%
80% - 90%	26.3%	44.9%	70.8%	77.9%	9.8%
90% - 100%	33.3%	48.4%	72.7%	80.4%	8.5%
100% - 110%	14.7%	49.3%	75.0%	83.2%	8.1%
Over 110%	4.6%	52.2%	78.3%	87.4%	7.4%
Total/Average	**100.0%**	**44.9%**	**71.7%**	**79.0%**	**9.2%**

Source: SPI Research, February 2020

Table 148: Year-over-year change – Percentage of annual target margin achieved

Percentage of Annual Target Margin Achieved	2018	2019	▲
Total Surveys	90.3%	89.7%	-1%
ESO	89.9%	89.8%	0%
PSO	90.6%	89.7%	-1%
Amer	90.0%	90.0%	0%
EMEA	91.3%	88.7%	-3%
APac	92.4%	88.9%	-4%
IT Consulting	91.2%	88.8%	-3%
PS within Software Company	89.1%	90.5%	2%
Management Consulting	90.6%	92.4%	2%
PS within SaaS Company	90.1%	91.3%	1%
Architecture/Engineering	90.3%	89.9%	0%
Value-added Reseller (VAR)	95.4%	85.6%	-10%
Accounting	90.0%	87.5%	-3%

Source: SPI Research, February 2020

margin target attainment. The percentage of annual margin target achieved was slightly lower (90.3% vs 89.7%) in 2019. Organizations from the Americas had the highest (90.0%) percent of annual margin target achievement. By vertical, Management consultancies had the best margin target attainment (92.4%).

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 149: Impact – Revenue Leakage

Revenue Leakage	Survey %	% of emp. billable	Emp. attrition	Billable util.	On-time project delivery
Under 2%	34.2%	76.9%	11.5%	73.4%	83.4%
2% - 5%	35.7%	72.8%	13.8%	70.2%	79.2%
5% - 10%	21.0%	73.1%	15.8%	72.6%	76.2%
Over 10%	9.2%	73.3%	13.2%	71.7%	79.3%
Total/Average	**100.0%**	**74.3%**	**13.4%**	**71.9%**	**80.0%**

Source: SPI Research, February 2020

Table 150: Year-over-year change – Revenue Leakage

Revenue Leakage	2018	2019	▲
Total Surveys	4.3%	4.5%	6%
ESO	4.8%	4.8%	1%
PSO	4.1%	4.4%	9%
Amer	4.3%	4.7%	9%
EMEA	4.4%	4.1%	-6%
APac	4.0%	3.6%	-9%
IT Consulting	4.0%	4.7%	17%
PS within Software Company	4.4%	4.5%	1%
Management Consulting	3.4%	3.4%	2%
PS within SaaS Company	4.5%	5.2%	15%
Architecture/Engineering	4.6%	5.4%	18%
Value-added Reseller (VAR)	6.4%	5.4%	-15%
Accounting	5.1%	4.2%	-17%

Source: SPI Research, February 2020

Average reported revenue leakage this year was 4.5% compared to 4.3% in 2018. ESOs reported significantly more revenue leakage than independents. By geography, the Americas reported the most revenue leakage as did architects and engineers and VARs. Management Consultancies did the best job of limiting leakage.

Percentage of invoices redone due to error/client rejections

Invoices rejected for whatever reason dip into profit, as the PSO must finance the debt 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 151: Impact – Invoices Redone due to Errors or Client Rejections

Invoices redone due to errors or client rejections	Survey %	Emp. attrition	Rec. to family/ friends	On-time project delivery	Project margin
None	9.0%	11.3%	4.50	83.7%	39.7%
Under 1%	32.9%	11.9%	4.47	81.6%	36.9%
1% - 3%	30.3%	13.8%	4.41	77.0%	35.2%
3% - 5%	17.3%	15.5%	4.26	77.3%	34.6%
5% - 10%	7.8%	17.6%	4.06	78.9%	34.4%
Over 10%	2.8%	14.8%	3.75	66.3%	36.9%
Total/Average	**100.0%**	**13.6%**	**4.37**	**79.0%**	**36.0%**

Source: SPI Research, February 2020

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.

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 152: Impact – Days Sales Outstanding (DSO)

Days Sales Outstanding (DSO)	Survey %	On-time project delivery	Avg. project overrun	Project margin	EBITDA
Under 30 days	20.6%	81.1%	7.2%	37.6%	13.8%
30 - 50 days	46.2%	79.8%	8.8%	36.5%	14.4%
50 - 70 days	20.4%	76.5%	10.1%	34.5%	16.4%
70 - 100 days	9.5%	77.6%	11.0%	34.5%	17.7%
Over 100 days	3.3%	68.1%	19.8%	38.5%	9.6%
Total/Average	**100.0%**	**78.8%**	**9.3%**	**36.2%**	**14.8%**

Source: SPI Research, February 2020

This year the average DSO was 45.8 days, lower than the 46.3 days reported in 2018. With the return to economic prosperity, clients are taking their sweet time to pay their bills. 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 152 shows longer payment times correlate with poor on-time project delivery and project overruns as clients are understandably reluctant to pay their bills if projects have gone awry. Architects and engineers reported the longest DSO at 62.4 days; Managed Service providers had the lowest at 40.0 days.

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 153: Impact – Quarterly non-billable expense per employee

Quarterly non-billable expense per employee	Survey %	Billable util.	On-time project delivery	Project overrun	EBITDA
Under $1,500	58.1%	71.9%	80.8%	8.3%	14.4%
$1,500 - $2,500	26.7%	71.4%	76.9%	9.3%	15.4%
$2,500 - $5,000	10.3%	71.9%	75.0%	11.4%	17.8%
$5,000 - $7,500	3.4%	66.2%	76.1%	14.4%	19.5%
Over $7,500	1.5%	86.7%	74.2%	18.3%	25.9%
Total/Average	**100.0%**	**71.8%**	**78.9%**	**9.3%**	**15.4%**

Source: SPI Research, February 2020

The quarterly non-billable expense per employee increased from $1,606 in 2018 to $1,718 in 2019. 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

Table 154: Impact – Information Visibility

Real-Time Visibility	Survey %	Bid-to-win ratio	Client reference	Rec. to family/ friends	Billable util.	On-time project delivery	Project margin	EBITDA
1 - None	2.6%	4.36	76.8%	3.64	62.7%	75.5%	40.0%	13.1%
2 - Minimal	11.2%	5.04	68.4%	3.94	70.6%	76.6%	29.4%	14.4%
3 - Some	33.0%	5.15	70.5%	4.19	70.8%	75.6%	36.3%	16.1%
4 - Substantial	37.5%	5.24	72.8%	4.57	71.7%	81.3%	37.0%	15.1%
5 - Comprehensive	15.7%	6.00	78.2%	4.68	76.0%	83.3%	37.2%	15.0%
Total/Average	**100.0%**	**5.29**	**72.5%**	**4.37**	**71.7%**	**79.1%**	**36.0%**	**15.3%**

Source: SPI Research, February 2020

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. Real-time visibility has declined the past two years. Perhaps a contributing factor to lower results this year is that many organizations were surprised by the market turbulence which arose from seemingly nowhere in the 4th quarter.

Real-time visibility is a very important key performance indicator. As Table 154 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.

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)

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)

Table 155: Income Statement Comparison

Income Statement Revenue & Expense	2018	2019	Delta
Benchmark Surveys	622	513	
REVENUE			
Direct gross PS revenue	79.9%	78.9%	-1.3%
Indirect gross revenue (subcontractor)	11.3%	11.4%	0.5%
Pass-thru rev. (hardware, software, mat.)	5.3%	6.7%	26.7%
Reimbursable Travel & Expense revenue	3.5%	3.1%	-12.6%
Total Revenue	**100.0%**	**100.0%**	
EXPENSES			
Direct labor expense	39.9%	41.1%	3.1%
Fringe benefit percentage of direct labor	5.2%	6.0%	15.9%
Subcontractor/outside consultant expense	8.9%	8.8%	-0.8%
Pass-thru equipment expense	3.0%	4.5%	49.0%
Billable travel and business expense	2.8%	2.7%	-4.6%
Non-billable travel expense	1.9%	1.9%	0.1%
Total recruiting expense	1.1%	1.0%	-6.4%
Sales expense	4.6%	4.4%	-4.1%
Marketing expense	1.9%	2.0%	5.5%
Education/training/certification expense	1.3%	1.0%	-22.1%
PS IT expense	2.0%	2.2%	10.8%
All other G&A expense	9.0%	9.1%	0.7%
Total Expense	**81.5%**	**84.8%**	**4.0%**
EBITDA	**18.5%**	**15.2%**	**-17.6%**

Source: SPI Research, February 2020

- 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 decreased in 2019 when compared to 2018 (Table 155). The primary catalyst for lower PS sector profit came from significantly more pass-through hardware, software and other materials which generally produce less margin; higher direct labor costs and significantly higher fringe benefit expense reflecting increases in health care costs and employee benefits (paid time off). Firms increased marketing and IT spending. Typically, pass-through hardware revenue and rebillable travel revenue generate lower margins than direct labor, but pass-through software is typically margin rich.

In 2019, organizations spent less on non-billable travel, recruiting, sales and training. Lower sales spending was offset by higher marketing spending with the net effect of lowering average sales and marketing fractionally to 6.4%. Positive gains were reported in IT spending with firms investing in IT to provide the needed infrastructure and visibility for the future.

Table 156: Income Statement by Organization Type and Embedded Service Type

Key performance indicator (KPI)	Survey	ESO	PSO	Americas	EMEA	APac
Surveys	513	168	345	414	75	24
REVENUE						
Direct gross PS revenue	78.9%	78.4%	79.0%	79.1%	77.1%	79.1%
Indirect gross revenue (subcontractor)	11.4%	11.0%	11.5%	11.2%	14.0%	8.4%
Pass-thru rev. (hardware, software, mat.)	6.7%	7.6%	6.5%	6.8%	5.2%	9.4%
Reimbursable Travel & Expense revenue	3.1%	3.0%	3.1%	2.9%	3.7%	3.2%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES						
Direct labor expense	41.1%	41.0%	41.2%	40.2%	44.6%	45.5%
Fringe benefit percentage of direct labor	6.0%	6.4%	5.9%	6.5%	4.7%	2.2%
Subcontractor/outside consultant expense	8.8%	6.5%	9.5%	8.3%	12.4%	7.7%
Pass-thru equipment expense	4.5%	4.8%	4.4%	4.6%	2.7%	7.2%
Billable travel and business expense	2.7%	2.7%	2.7%	2.7%	3.0%	2.0%
Non-billable travel expense	1.9%	2.4%	1.8%	1.9%	2.1%	0.9%
Total recruiting expense	1.0%	1.4%	0.9%	0.9%	0.8%	2.9%
Sales expense	4.4%	3.6%	4.6%	4.3%	3.3%	8.2%
Marketing expense	2.0%	1.5%	2.1%	2.0%	1.9%	1.8%
Education/training/certification expense	1.0%	1.2%	1.0%	1.0%	1.0%	0.7%
PS IT expense	2.2%	2.3%	2.2%	2.3%	1.7%	2.3%
All other G&A expense	9.1%	4.9%	10.2%	8.9%	7.8%	13.3%

Key performance indicator (KPI)	Survey	ESO	PSO	Americas	EMEA	APac
Total Expenses	**84.8%**	**78.7%**	**86.4%**	**83.8%**	**86.0%**	**94.6%**
2019 EBITDA	**15.2%**	**21.3%**	**13.6%**	**16.2%**	**14.0%**	**5.4%**
2018 EBITDA Comparison	**18.5%**	**22.0%**	**17.1%**	**19.1%**	**17.9%**	**12.6%**

Source: SPI Research, February 2020

Table 156 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 and reimbursable travel with more revenue from pass-through hardware and software.

The cost of healthcare and fringe benefits including paid time off skyrocketed 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. APac headquartered firms spent significantly more on sales and marketing (10%) than their American (6.3%) and EMEA (5.2%) headquartered counterparts.

Independents spend more on subcontractors, sales and marketing and G&A. Of course, this makes sense as independents must manage a fully loaded profit and loss statement whereas embedded organizations do not typically pay for corporate G&A, sales, marketing and IT.

Table 157 provides analysis of income statements by organization size. Net profit declined for all size organizations with the largest organizations reporting the steepest decline. A primary reason for the decline is the shift to higher percentages of pass through and rebillable travel revenue along with a significant increase in fringe benefit spending reflecting increasing medical and employee benefit costs. The smallest organizations typically report the best profitability primarily because many of them operate as virtual businesses, with limited G&A spending on facilities and management. They also do not report significant recruiting expense as their overall hiring is fairly limited. They cannot afford to invest in junior personnel or interns, preferring to make senior hires who can become immediately productive.

Table 157: Income Statement by Organization Size

Key performance indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	55	88	138	119	47	66
REVENUE						
Direct gross PS revenue	84.4%	84.9%	77.7%	76.9%	75.6%	73.7%
Indirect gross revenue (subs.)	8.9%	7.8%	13.2%	11.4%	13.0%	12.8%
Pass-thru rev. (hw, sw, mat.)	3.6%	5.0%	6.3%	8.7%	6.8%	9.1%
Reimbursable Travel & Expense	3.1%	2.4%	2.7%	2.9%	4.7%	4.4%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES						
Direct labor expense	52.7%	42.8%	39.4%	36.7%	42.0%	43.0%

Key performance indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Fringe benefit % of direct labor	6.2%	6.1%	5.9%	6.6%	6.1%	4.3%
Subcontractor/outside consultant	8.0%	8.0%	9.3%	9.9%	9.0%	6.4%
Pass-thru equipment expense	2.3%	3.6%	4.8%	5.4%	4.7%	4.4%
Billable travel and business	2.9%	2.1%	2.5%	2.5%	3.8%	3.6%
Non-billable travel expense	1.2%	1.7%	1.8%	1.7%	2.1%	3.7%
Total recruiting expense	0.3%	0.6%	0.7%	0.8%	1.4%	4.4%
Sales expense	2.9%	3.9%	4.8%	4.6%	4.5%	5.1%
Marketing expense	2.1%	1.8%	2.1%	1.9%	1.5%	2.8%
Education/training/certification	0.9%	1.1%	0.7%	1.0%	0.9%	2.2%
PS IT expense	1.7%	2.3%	2.7%	2.3%	2.3%	0.8%
All other G&A expense	2.8%	12.2%	9.5%	11.0%	6.2%	5.2%
Total Expenses	**84.0%**	**86.2%**	**84.3%**	**84.2%**	**84.5%**	**86.0%**
2019 EBITDA	**16.0%**	**13.8%**	**15.7%**	**15.8%**	**15.5%**	**14.0%**
2018 EBITDA Comparison	**18.8%**	**17.9%**	**16.1%**	**20.6%**	**17.1%**	**24.6%**

Source: SPI Research, February 2020

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 16% of total revenue.

Table 158 shows income statement comparison for the five primary verticals represented in this benchmark. Cloud and more traditional software ESOs had another banner year, reporting the highest net profit. 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. Software ESOs spend the most on IT. Architects and engineers have the highest G&A cost which dilutes their margins.

Table 158: Income Statement by PS Market Vertical

Key performance indicator (KPI)	IT Consult	Software PS	Mgmt. Consult	SaaS PS	Arch./ Engr.
Surveys	143	73	68	55	44
REVENUE					
Direct gross PS revenue	76.0%	77.3%	83.3%	84.7%	79.7%
Indirect gross revenue (subs.)	13.2%	13.7%	7.6%	10.4%	13.9%
Pass-thru rev. (hw, sw, mat.)	8.6%	4.4%	4.4%	3.0%	3.5%
Reimbursable Travel & Expense	2.2%	4.7%	4.7%	1.8%	2.9%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES					
Direct labor expense	41.6%	38.3%	46.1%	45.4%	31.4%
Fringe benefit % of direct labor	5.2%	6.5%	5.9%	6.0%	6.5%
Subcontractor/outside consultant	10.1%	8.2%	6.4%	6.5%	13.7%
Pass-thru equipment expense	6.1%	2.4%	1.9%	1.9%	2.8%
Billable travel and business	2.1%	4.1%	3.4%	1.8%	2.3%
Non-billable travel expense	1.6%	2.7%	1.6%	3.2%	2.7%
Total recruiting expense	1.4%	1.0%	1.0%	2.8%	0.4%
Sales expense	5.8%	4.1%	4.1%	2.4%	2.1%
Marketing expense	2.2%	1.5%	2.3%	1.0%	1.8%
Education/training/certification	0.9%	1.2%	1.4%	1.2%	0.5%
PS IT expense	2.3%	2.7%	2.5%	1.7%	2.2%
All other G&A expense	8.7%	4.0%	10.4%	2.6%	16.0%
Total Expenses	**88.1%**	**76.9%**	**86.9%**	**76.3%**	**82.4%**
2019 EBITDA	**11.9%**	**23.1%**	**13.1%**	**23.7%**	**17.6%**
2018 EBITDA Comparison	**16.6%**	**17.7%**	**14.7%**	**26.2%**	**19.0%**

Source: SPI Research, February 2020

Table 159 shows income statements for accountancies, advertising and marketing agencies, VARs, government contractors and other PS. Marketing and advertising firms and government contractors generated more profit year over year while the other segments reported a steep profit decline with accountancies reporting the lowest profit at 7.8%/ The marketing and advertising business model relies on lower cost resources and lower revenue yields but profits are in line with other verticals due to lower employment and G&A costs.

Table 159: Income Statement by PS Market Vertical

Key performance indicator (KPI)	VAR	Account	MarCom	Gov. Cont.	All Others
Surveys	21	14	14	8	73
REVENUE					
Direct gross PS revenue	69.0%	68.2%	61.0%	93.6%	83.3%
Indirect gross revenue (subs.)	6.7%	11.7%	18.9%	6.0%	8.7%
Pass-thru rev. (hw, sw, mat.)	23.0%	17.0%	11.7%	0.0%	4.8%
Reimbursable Travel & Expense	1.3%	3.1%	8.4%	0.4%	3.3%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES					
Direct labor expense	37.9%	60.2%	25.4%	51.6%	42.3%
Fringe benefit % of direct labor	7.3%	7.4%	5.0%	8.9%	6.5%
Subcontractor/outside consultant	3.3%	3.6%	7.1%	13.8%	7.3%
Pass-thru equipment expense	14.4%	10.1%	11.7%	0.1%	3.3%
Billable travel and business	1.6%	0.4%	5.7%	0.3%	3.5%
Non-billable travel expense	1.3%	1.5%	2.3%	0.1%	1.4%
Total recruiting expense	0.8%	0.0%	1.7%	0.2%	0.4%
Sales expense	5.2%	2.0%	5.5%	0.0%	5.1%
Marketing expense	2.7%	1.8%	1.9%	0.2%	2.2%
Education/training/certification	1.4%	3.3%	1.9%	0.4%	0.6%
PS IT expense	2.7%	0.9%	2.0%	0.0%	1.9%
All other G&A expense	8.8%	0.9%	4.8%	4.7%	10.6%
Total Expenses	**87.3%**	**92.2%**	**75.0%**	**80.2%**	**85.3%**
2019 EBITDA	**12.7%**	**7.8%**	**25.0%**	**19.8%**	**14.7%**
2018 EBITDA Comparison	**22.3%**	**21.3%**	**16.9%**	**19.2%**	**19.2%**

Source: SPI Research, February 2020

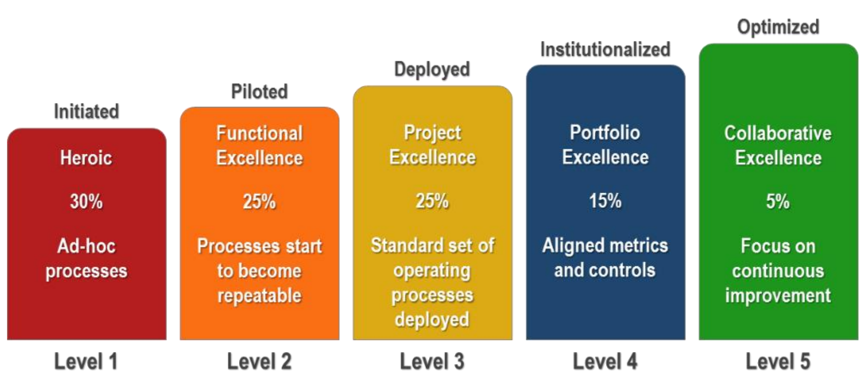
Chapter 11 – 2020 Professional Services Maturity™ Model Results

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 4,500 billable services organizations (over 2,500 during the past five years) participating over the past thirteen years, SPI Research has further refined the model to improve its accuracy.

513 firms participated from September through November of 2019 representing nearly 275,000 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 513 firms surveyed in 2019.

Figure 41: 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 41):

- Δ **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.
- Δ **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.
- Δ **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 160. 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 160: Minimum Normalized Performance Pillar Scores

Pillar	Level 1	Level 2	Level 3	Level 4	Level 5	Maximum
Leadership (LE)	0.0	67.9	77.3	84.9	92.2	100.0
Client Relationships (CR)	0.0	50.8	64.3	78.5	89.1	100.0
Human Capital (HC)	0.0	54.3	73.6	84.7	92.9	100.0
Service Execution (SE)	0.0	53.4	65.9	75.9	86.1	100.0
Finance & Operations (FO)	0.0	43.2	61.6	77.1	88.0	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 42 highlights one such example.

Figure 42: Increase performance by focusing on low-performing KPIs

Organizational Demographics	Consulting Rus	Peer Average	Survey Average	Level 1	Level 2	Level 3	Level 4	Level 5
Year-over-year change in PS revenue	Under -10%	7.2%	10.6%					
Goals and measurement alignment	5	3.87	3.80					
Employees have confidence in PSO's future	5	3.94	4.00					
Deal pipeline / quarterly bookings forecast	4X forecast	1.98	1.81					
Sales cycle (days: qualified lead to contract signing)	120 - 150 days	91.6	87.42					
Employee annual attrition - voluntary	5% - 10%	10.1%	8.5%					
Employee annual attrition - involuntary	1% - 5%	0.05	0.05					
Employee billable utilization	60% - 70%	74.5%	71.7%					
Projects delivered on-time	80% - 90%	75.2%	79.3%					
Project overrun	Blank	10.0%	9.1%					
Use a standardized delivery methodology	Over 80%	63.6%	67.4%					
Annual revenue per billable consultant (k)	$200k - $250k	$236	$207					
Annual revenue per employee (k)	$200k - $250k	$179	$170					
Quarterly revenue target in backlog	60% - 70%	49.8%	44.7%					
Percent of annual revenue target achieved	90% - 100%	92.8%	93.6%					
Percent of annual margin target achieved	80% - 90%	87.4%	89.7%					
EBITDA	**5.0%**	**10.3%**	**15.2%**					

Source: SPI Research, February 2020

Model Results

SPI Research analyzed each of the 513 participating firms to minimize any bias when comparing PSOs of different sizes. Table 161 shows most organizations in each size category have similar averages for each pillar.

Table 161: Average Service Maturity by PSO Size (People)

		Average Maturity Level					
Organization Size (people)	Count	LE	CR	HC	SE	FO	Average
Under 10	55	2.58	2.60	2.40	2.69	2.22	**2.50**
10 – 30	88	2.58	2.55	2.51	2.41	2.38	**2.48**
31 – 100	138	2.39	2.34	2.37	2.36	2.41	**2.38**
101 – 300	119	2.41	2.37	2.35	2.32	2.52	**2.39**
301 – 700	47	2.06	2.13	2.34	2.34	2.36	**2.25**
Over 700	66	2.33	2.50	2.53	2.50	2.45	**2.46**
Total	**513**	**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 Human Capital Alignment, 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 162: Average Service Maturity by PSO Type

		Average Maturity Level					
Organization Size (people)	**Count**	**LE**	**CR**	**HC**	**SE**	**FO**	**Average**
Embedded	168	2.33	2.22	2.33	2.26	2.33	**2.30**
Independent	345	2.45	2.50	2.45	2.48	2.45	**2.47**
Total	**513**	**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 162. 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 163: Average Service Maturity by Vertical Market

		Average Maturity Level					
Market	**Count**	**LE**	**CR**	**HC**	**SE**	**FO**	**Average**
IT Consulting	143	2.53	2.52	2.55	2.57	2.57	**2.55**
Software PS	73	2.37	2.18	2.30	2.32	2.45	**2.32**
Management Consulting	68	2.78	2.68	2.56	2.78	2.54	**2.67**
SaaS PS	55	2.51	2.29	2.53	2.24	2.36	**2.39**
Architecture/Engineering	44	2.16	2.59	2.48	2.23	2.45	**2.38**
VARs	21	2.14	2.71	2.38	2.33	2.19	**2.35**
Accounting	14	2.00	2.00	2.14	1.93	2.07	**2.03**
Advertising/Marketing/PR	14	2.21	2.14	2.21	2.21	2.00	**2.16**
Government Contracting	8	1.75	2.25	2.13	2.00	2.00	**2.03**
All Others	73	2.22	2.23	2.11	2.30	2.19	**2.21**
Total	**513**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2020

Table 163 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.

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 164 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 164: 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	7.9%	8.7%	12.3%	13.6%	18.1%
Year-over-year change in PS headcount	7.2%	8.4%	9.3%	10.9%	14.8%
Well understood vision, mission and strategy (5 pt.)	3.23	3.82	4.13	4.69	4.89
Confidence in PS leadership (5-pt. scale)	3.27	4.00	4.30	4.75	5.00
Bid-to-win ratio (per 10 bids)	4.42	5.00	5.61	5.71	7.11
Deal pipeline relative to qtr. bookings forecast	139%	176%	190%	197%	285%
Employee billable utilization	55.5%	68.2%	77.6%	83.3%	86.9%
Projects delivered on-time	60.6%	76.7%	84.8%	91.1%	93.9%
Average project overrun	13.4%	9.8%	8.0%	5.3%	7.1%
Use a standardized delivery methodology	60.9%	63.2%	67.6%	76.8%	83.3%
Annual revenue per billable employee (k)	$88	$167	$230	$285	$313
Annual revenue per employee (k)	$60	$124	$186	$245	$268
Project margin	28.8%	32.7%	37.0%	41.4%	51.2%
Percent of annual revenue target achieved	85.7%	90.4%	95.0%	98.7%	104.8%
Percent of annual margin target achieved	80.9%	85.8%	91.2%	95.0%	104.6%
EBITDA (Profit) %	**4.4%**	**11.1%**	**15.1%**	**19.4%**	**25.6%**

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.

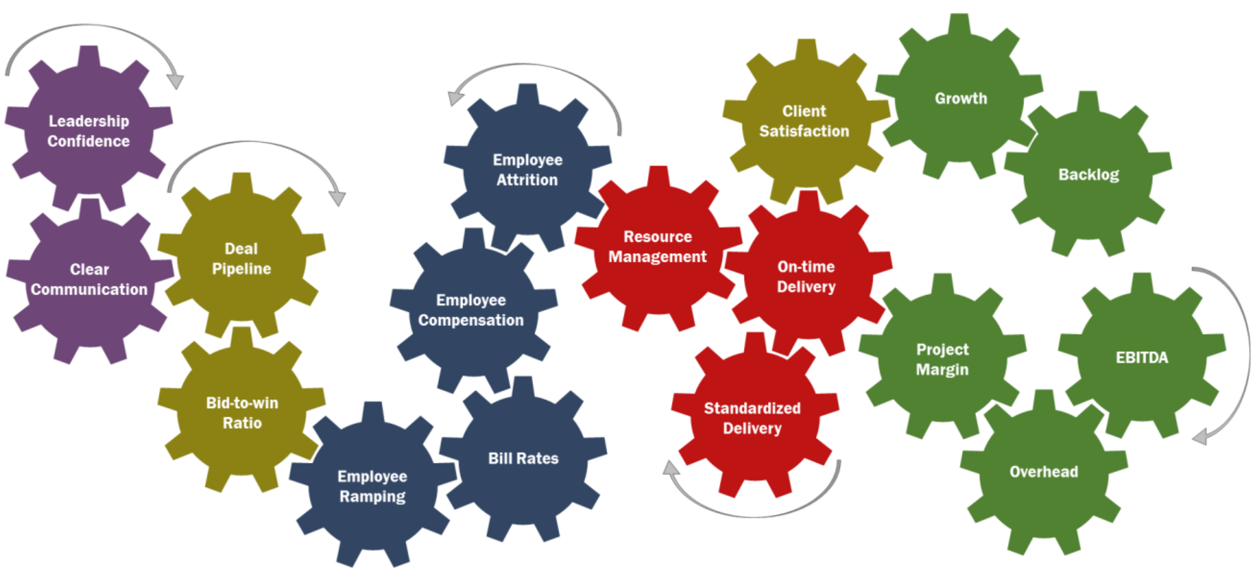
The Inter-relationship of Pillars

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 43). 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 43: Key Performance Indicators (KPIs) are Correlated



Source: SPI Research, February 2020

Model Conclusions

In 13 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™.

Chapter 12 – Conclusions and Recommendations

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 either. Scrimping on systems costs more in the long run. Service providers need to use and recommend the right tools for the job including 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.

Smooth Sailing in 2020

2019 was an exceptional year for Professional Services with tremendous revenue and headcount growth which led to record consultant and employee revenue yields. The deal pipeline remained strong at 181% of forecast while backlog remained the same as last year at 41.7%. All of these leading indicators point to smooth sailing in 2020 based on a relatively strong global economic outlook.

With continued prosperity it is time to concentrate on your organization's weakest links, while also continue 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, 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. ***Human Capital Alignment***: 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 Best-of-the-Best organizations. This information will shed light on best practices and help galvanize your organization around improvement priorities.

Best of luck for a prosperous and profitable 2020!

Jeanne Urich and Dave Hofferberth

Chapter 13 – Appendices

Appendix A: Acronyms Used in This Report

Table 165: 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 2020

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 166: 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.

Term	Definition
Gross Margin Percentage	Gross Margin % = (Total Services Revenue – Expense or Cost of Services Delivered) / Total Services Revenue Gross Margin %= Gross Margin / Revenue
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

Term	Definition
	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 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

Term	Definition
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.
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:

Term	Definition
	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 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 2020***

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 2019

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)			
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%

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	Do PS execs. have real-time visibility into all business activities (sales, service, marketing, finance, etc.)?	

2019 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:

david.hofferberth@spiresearch.com

The information you supply will be kept strictly confidential

Appendix D: Related SPI Research

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

- 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 **2018 Professional Services Global Pricing, Compensation and Utilization Report** (October 2018): *The 2018 Professional Services Global Pricing, Compensation and Utilization Report is the largest and most comprehensive PS pricing study ever published based on pricing information provided by 156 PS organizations representing almost 11,000 consultants worldwide. The study provides analysis of list price, realized bill rates, compensation and utilization across a broad range of professional service verticals, geographies and job levels around the globe.*
- 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 239.304.2998.

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 three publicly traded software companies (Vignette, Blue Martini and Clarify), responsible for leading the growth of their professional services, education, account management and alliances organizations.

Jeanne is a world-renowned thought-leader, speaker and author on all aspects of Professional Services having spent over 40 years creating, running and transforming global consulting organizations.

Contact Urich at jeanne.urich@spiresearch.com or 650.342.4690.

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.