Service Performance Insight, LLC

# 2024 Professional Services Maturity™ Benchmark

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Service Performance Insight

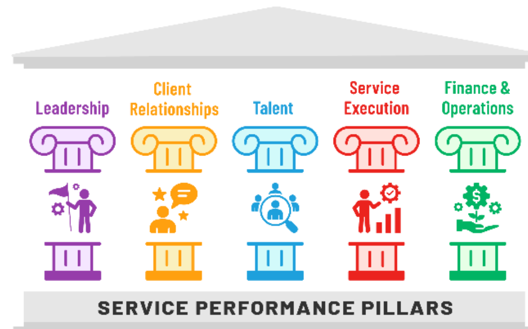
*Accelerate Service Productivity & Profit*

**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 50,000 service and project-oriented organizations to chart their course to service excellence.

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

- ∆ **Leadership**
- ∆ **Client Relationships**
- ∆ **Talent**
- ∆ **Service Execution**
- ∆ **Finance & 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 form 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

For more information on Service Performance Insight, please visit:

**www.spiresearch.com**

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Dear Professional Services Leader,

I’m pleased to introduce the 2024 Professional Services Maturity™ Benchmark, a research report developed by Service Performance Insight, LLC (SPI Research). This benchmark has been a trusted resource for professional services organizations for more than a decade, providing valuable insights into the current state of the market.

Despite the challenges faced in 2023, professional services organizations demonstrated resilience and adaptability. The report highlights key trends and performance metrics for the past five years, allowing you to gain a comprehensive understanding of the market's trajectory.

Some of the key findings from the report include:

1. Revenue Growth: The year-over-year change in professional services revenue decreased by 25% in 2023 compared to the previous year. This decline reflects the impact of the pandemic and other economic factors. However, the report also identifies opportunities for growth and provides insights into strategies that can help your organization navigate these challenges.

2. Talent Optimization: Employee attrition rates decreased in the Americas and EMEA regions, indicating a positive trend in talent retention. However, it's crucial to continue investing in your workforce and providing them with the necessary tools and support to enhance productivity and satisfaction.

3. Services delivery: The shift to remote services delivery peaked in 2021, with about 65% of billable hours being delivered remotely. While this percentage decreased slightly in 2023, it's expected to stabilize around 50% in the coming years. This highlights the importance of leveraging technology and evolving services delivery models to maximize productivity and meet client expectations.

4. Profitability: Despite the challenges faced in 2023, professional services organizations maintained healthy profitability. However, there was a slight decrease in net profit margin compared to the previous year. The report provides insights into strategies for improving profitability and achieving long-term success.

At Certinia, we understand the importance of staying informed and adapting to the ever-changing professional services landscape. I encourage you to explore the full report, which provides a more detailed analysis of the key performance indicators and trends in the professional services market. It offers actionable insights and recommendations that can help drive your organization's success.

Thank you for your continued partnership with Certinia. We remain committed to supporting your organization's growth and success in the professional services industry. Should you have any questions or require further assistance, please don't hesitate to reach out to our team.

Sincerely,

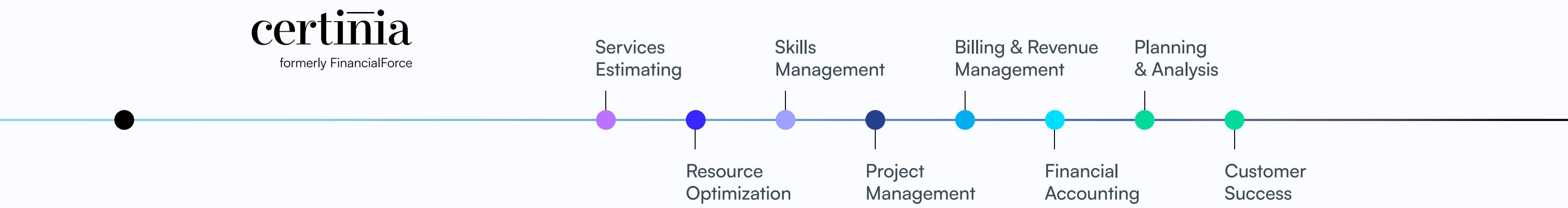
**Todd Kisaberth**
Chief Customer Officer
certinia

# Building for the Future

The pace of change over the last 12 months has been dizzying. AI is beginning to upturn traditional business models and the drive towards profitability is stronger than ever. Cost-effective growth, by any means, will be the theme of the year, but the question remains: How? While AI is permeating all aspects of business, the cobbled together operational systems that got us through the good times are standing in the way of adoption—to deliver tangible value with AI in professional services teams, solving the data problem is the first order of business.

The answer is to simplify delivery operations by consolidating cloud systems. Not only will cloud consolidation address the operational inefficiencies that many of our businesses are facing right now. It also connects co-workers, reduces complexity in estimating, and improves access to actionable insights. Efficiencies will be vital in the coming year to rebuild a model that was obscured by the post-pandemic environment, supply chain disruptions, and geo-political dynamics.

**The platform for services business**




As you'll read in this report, overall services revenues grew by 7.8% in 2023. But margin attainment was at a 5-year low, as models built on pandemic-era assumptions started to fail. A single-platform approach that connects the services journey and delivers real-time intelligence is giving leaders the enterprise agility they need to plan for a strong 2024.

Those that have adopted the fully connected approach—we call this a **Services-as-a-Business (SaaB) platform**—see outsized rewards for their forward-thinking business design. From faster revenue growth to higher win-rates, healthier resource utilization, and stronger project margins; companies with cost-effective, efficient and integrated solutions, as shown in table 38 of the report, see 32% higher profit (EBITDA) than those without. Moreover, these organizations have the data foundation needed to pragmatically deploy AI throughout their business in a way that drives bottom-line impact.

## About the Professional Service Maturity Benchmark

The Professional Services Maturity Benchmark is designed to give professional service organizations (PSOs) a reliable basis to view their performance relative to a well-established benchmark of peers. It provides visibility into critical business processes and key performance metrics. PSOs can easily compare their own performance against these findings to understand, analyze and improve business outcomes.

A hallmark of this benchmark is SPI Research's Professional Services Maturity Model, first introduced in 2008. Adopted by more than 50,000 organizations, the model has been enriched over time by their collective experience. The benchmark guides its users to locate their organization on this maturity model and provides prescriptive advice to formulate practical steps to advance to the next level.

This year, 575 firms completed the survey in the Fall of 2023. Their insight adds to that of nearly 3,000 participant firms over the past five years. The combined insight gives SPI Research a rich database from which to analyze and trend.

Each year, SPI Research has expanded both the number of vertical markets and the size of organizations the report profiles. This benchmark covers eight professional service segments:

1. IT Consulting
2. Management Consulting
3. PS w/in Software firms
4. PS w/in SaaS firms
5. Architecture & Engineering
6. Agencies
7. Healthcare PS
8. Other PS organizations

The report categorizes key performance measurements into six organizational size segments.

- Under 10 employees
- 10 - 30
- 31 - 100
- 101 - 300
- 301 - 700
- Over 700

North America originally dominated the survey. Over time, the benchmark has gained significant international participation with this year's respondents representing leading service organizations from around the world. Today, the Professional Services Maturity™ Benchmark report is generally considered to be the global standard for PS benchmarks.

## Introduction to the Professional Services Maturity™ Model

This report reflects SPI Research's working premise that the business outcomes of all billable professional services organizations are based on five fundamental Service Performance Pillars. Together they form the foundation of this benchmark study, which explores each pillar.

**Leadership** – Examines where and how PS executives most effectively offer a clear and compelling strategy to provide a unifying focus for organization and action.

**Client Relationships** – Concentrates on the effectiveness of sales, marketing, and partner relationship development.

**Talent** – Focuses on recruiting, hiring, compensation and retention of people, the core asset in every project- or service-driven organization.

**Service Execution** – Details all aspects of project delivery from planning through resource management, project management, delivery methods & tools, time and expense capture, and collaboration.

**Finance & Operations** – Considers the management of all financial information – revenue, margin, billing, and collections.

Within each of the five service performance pillars, SPI Research determines the relative operational effectiveness of each pillar with ***five maturity levels*** as follows:

1. **Initiated "Heroic":** The PSO is in an early stage, so operating processes are ad hoc and fluid. The business environment is opportunistic and primarily focused on new client acquisition and reference building. Employees wear many hats and perform multiple roles.

2. **Piloted "Functional Excellence":** Core operating processes are repeatable but unenforced. The company may demonstrate best practices in some functional areas or geographies, but those practices are not documented or codified for the entire firm.

3. **Deployed "Project Excellence":** The PSO has standard processes and operating principles for all major service performance pillars. However, renegades, holdouts, and outliers are tolerated where they persist.

4. **Institutionalized "Portfolio Excellence":** Management uses precise measurements, metrics and controls to effectively manage the PSO. Each performance pillar is supported by a detailed set of operating principles, tools and measurements.

5. **Optimized "Collaborative":** The PSO focuses 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. Management has established

both quantitative and qualitative process improvement objectives and continually revises them to reflect changing business targets.

SPI Research's maturity level surfaces areas where PSOs underperform compared to their peers. Understanding each pillar's relative maturity can help PS executives identify and implement improvement strategies to move their organization forward.

## Report Organization

The report is organized by Service Performance Pillars and shows benchmark comparisons by type and size of organization for 156 key performance measurements. It provides maturity definitions and levels for most major business processes to demonstrate how each Service Performance Pillar can be optimized. The report offers prescriptive guidance to help organizations advance their business process maturity and improve bottom-line results. The purpose of the five performance pillars is to delineate core functional elements and related business processes while providing guidance on how PSOs can move forward.

The SPI Research Professional Services Maturity Model Benchmark continues to evolve – it is not static. Performance considered "world-class" five years ago may be considered average today. SPI Research continually works with clients and participants to test and improve the Professional Services Maturity Model Benchmark.

The overall benchmark highlights industry averages. But every year, the mix in the types of professional services organizations surveyed changes. Therefore, the best way to take advantage of this report is to review and analyze individual market figures, as well as geographic region and organization size. From there, PS executives can determine exactly how well they are performing relative to their peers. SPI Research offers services to help organizations score themselves and their performance improvement initiatives. Please contact SPI Research (david.hofferberth@spiresearch.com) if you are interested in learning more.

**SPI Research would like to thank everyone for their support over the past 17 years!
I hope this report provides important concepts and KPIs to help you navigate through the uncertainty that lies ahead.**

Dear Professional Services Leader,

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**Todd Kisaberth**
Chief Customer Officer
certinia

# Chapter 1

## Foreword

# FOREWORD

For the record, ***this report was not written by ChatGPT, but it helped!*** More on this topic later.

Service Performance Insight, LLC (SPI Research) is proud to introduce the ***seventeenth-annual Professional Services Maturity™ Benchmark (PSMB)***. One would think we have seen it all over these past 17 years, but each year brings a new twist to the professional services market.

One thing hasn't changed. SPI Research stays constant to the benchmark mission: *The goal is to provide professional services organizations with the information needed to plan and execute performance improvement initiatives*. SPI's Professional Services Maturity Model is now the industry-leading performance improvement tool used by over 50,000 service and project-oriented organizations to chart their course to service excellence.

The Professional Services Maturity Model™ is a strategic planning and management framework that quantifies performance relative to the performance of similar organizations. This model serves as guidance and a check for PS executives. It is especially instructive to those executives who believe that their firm operates at a high level when the numbers tell a different story. Numbers don't lie.

When an executive is confident in the management team's leadership, but results show declining revenues, dissatisfied clients, high employee attrition, and poor performance on projects with resultant lower margins and profits, it's time to reevaluate. The PS Maturity model serves as a basis for consideration that the leadership team might not be as strong as they thought.

Since its inception, SPI has researched, benchmarked, and built a maturity model to give professional services executives:

- A quantifiable understanding of how their organization compares to others similar in size and scope of work, as well as placement within the broader professional services market.
- An objective, fact-based framework for performance improvement.
- A basis for building an annual plan that targets specific goals.

With this insight, executives can build consensus around actions to take, where to start, and how to quantify the benefits of change.

Analyzing the benchmark data by vertical market, geographic region, and organization size gives PS executives an accurate basis for comparison with their peers and the market at large. Nearly 6,500 firms have completed SPI's benchmarking surveys (see "About the Professional Service Maturity Benchmark" for a description of the benchmark and the maturity model).

This year 575 firms completed the benchmark survey. Data validity and insight improves as the sample size increases and enables SPI to expand coverage into sub-verticals and geographies. This wealth of data ensures that the depth, breadth and accuracy of the benchmark continues to grow. The value increases as well.

## The Professional Services Market

According to the North American Industry Classification System (NAICS), in 2021 there were over 40 million people working for consulting firms based in the US. Many of those people work outside US borders (SPI Research has not seen any update to the 2021 report). Approximately 75% of those individuals are billable, making the professional services market an important sector in the United States as well as around the world.

Leading markets include:

- **Management consultancies** with over 7 million employees
- **IT consultancies** with nearly 6.5 million employees
- **Architects and engineers** with 5.7 million employees
- The **staffing** market as well as the **managed services** market have taken off over the past several years. This is true of professional services organizations in both **SaaS** and **software** firms.

Companies in every market need the help of professional services. Technology is just one of the ways in which they can improve performance and maximize revenue per employee.

### Professional Services Performance Trends 2019 to Present

The past five years have been turbulent in every industry. Professional Services is no exception. 2019 was a year of growth and success in the market. Then came 2020, with COVID and a host of problems that impacted the global market. 2021 was a rebound year as firms truly felt they were getting back to work, but a hangover effect from COVID lingered. 2021 saw positives in overall sales growth and profitability. However, one might say that PSOs worked harder in 2022, but not necessarily smarter.

**Table 1: Key Performance Metrics 5-Year Trends**

| Key Performance Indicator (KPI) | 5-year avg. | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Number of firms surveyed | 2,898 | 513 | 561 | 540 | 709 | 575 |
| Year-over-year change in PS revenue | 9.6% | 10.6% | 8.7% | 10.6% | 10.4% | 7.8% |
| Deal pipeline relative to qtr. bookings forecast | 171.1% | 181% | 179% | 183% | 162% | 154% |
| Total attrition | 13.0% | 13.2% | 11.6% | 14.0% | 13.8% | 12.5% |
| Employee billable utilization | 71.2% | 71.7% | 71.4% | 73.2% | 70.7% | 69.3% |
| Onsite service delivery | 39.5% | 47.5% | 40.8% | 33.9% | 35.4% | 41.5% |
| Projects delivered on time | 78.1% | 79.3% | 79.7% | 80.2% | 76.2% | 75.7% |
| Project margin | 35.5% | 35.9% | 36.0% | 36.5% | 35.0% | 34.4% |
| Annual revenue per billable consultant (k) | $205 | $207 | $203 | $206 | $204 | $207 |
| Percentage of annual revenue target achieved | 93.0% | 93.6% | 92.1% | 96.2% | 92.7% | 90.6% |
| Percentage of annual margin target achieved | 89.7% | 89.7% | 90.3% | 92.1% | 88.8% | 87.7% |
| **Profit (EBITDA %)** | **15.4%** | **15.2%** | **15.6%** | **15.7%** | **16.1%** | **15.4%** |

***Source: SPI Research, February 2024***

2023 was a year in which growth was hampered by high interest rates, uncertain economic conditions, and geopolitical conflict, which also slowed hiring. Fortunately, Artificial Intelligence (AI) *mania* brought deep interest to the professional services market and the firms that support it.

As shown in Table 1, many of the most important metrics went down in 2022, and then in 2023 went down even more! 2023 was a difficult year to navigate, which sets the market up for a rebound in 2024. SPI Research believes interest rates will begin to go down, although not at the speed they went up in 2023. This stability should lead to investment in every market. Professional services organizations should do very well as the market changes and AI becomes more established. Also, because the PS market saw such a low level of revenue growth in 2023, SPI Research expects these organizations to concentrate heavily on sales during the coming year. In general, 2024 should be a good year for professional services, but there is always a level of uncertainty with US elections looming.

The movement to remote service delivery appears to have peaked at around 65% in 2021, or two-thirds of all billable hours. PSOs have begun to shift some of their service delivery on site, but SPI Research doubts it will ever reach 50%, meaning the tools and technologies available to consultancies must continue to evolve and help improve overall productivity.

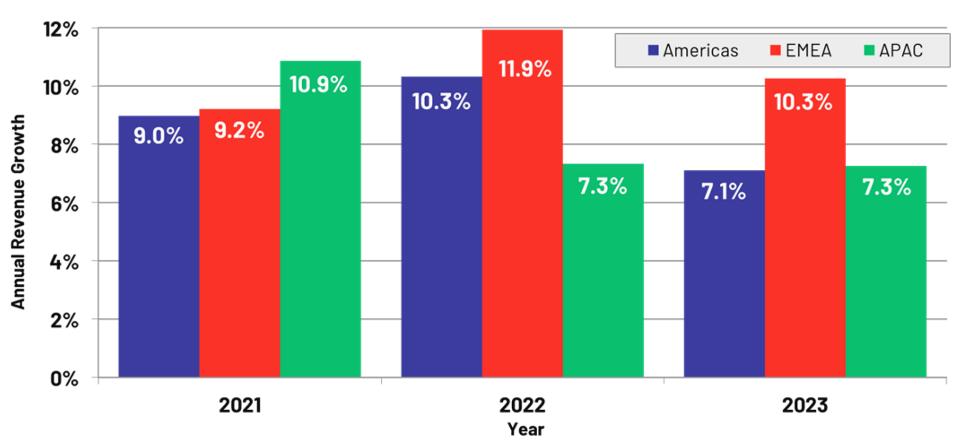
## Trends by Geographic Region

Overall market trends are interesting, but the devil is in the detail. It is important that PS executives have detailed information to understand how they perform relative to their peers and where they should focus their improvement efforts. At a high level, they understand that all regions of the world are distinct with their own characteristics.

### *Revenue Growth by Geographic Region*

Figure 1 shows reduced revenue growth in the Americas and EMEA, and APac staying flat for the year. This chart is especially concerning in the North American region, which dominates professional services worldwide. Inflation, interest rates and global conflict are just a few reasons why growth stalled to one of its lowest levels in a long time, but the future will brighten as the economy rebounds. SPI Research expects annual revenue growth to get back to the 10% - 12% rate it typically achieves.

**Figure 1: 3-Year Annual PS Revenue Growth by Geographic Region**

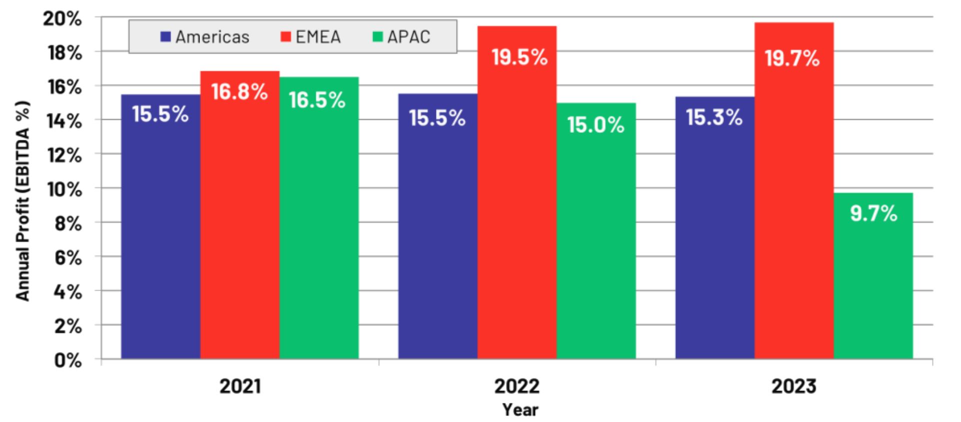



*Source: SPI Research, February 2024*

### *Profitability by Geographic Region*

EMEA again had quite a 2023. The region saw profitability go from 19.5% in 2022 to 19.7% last year. In 2023 both the Americas and APac saw a decline in organizational profit, with APac showing a significant decrease from 15% to 9.7% last year (Figure 2). Later in this report, SPI Research will analyze why profitability went down and highlight some of the areas where PS leaders can make changes to improve it in the upcoming year.

**Figure 2: 3-Year Annual PS Net Profit by Geographic Region**



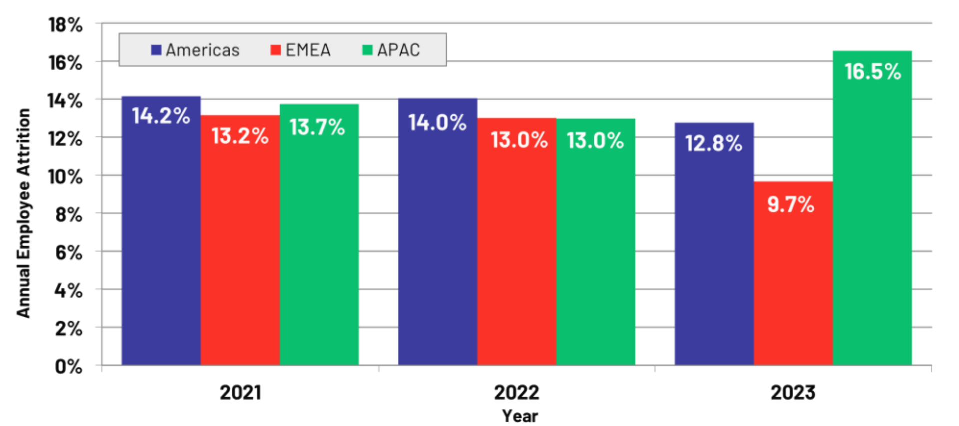

*Source: SPI Research, February 2024*

Profit is not just important to pay shareholders, it is foundational to the future. Profits are used to invest in the future by adding more training, enhancing sales processes, and placing a greater emphasis on project delivery for PSOs.

### *Attrition by Geographic Region*

Annual employee attrition is always important to PS leaders. During COVID, the professional services market saw some of its lowest attrition numbers ever with employees hunkering down for the duration of uncertainty. As expected, post-COVID the numbers began to rise. The good news is that in the Americas and EMEA, attrition went down during 2023 (Figure 3). Unfortunately, for APac, it rose. SPI Research will always monitor employee attrition, as talent is the lifeblood of the professional services market, and is always the first place PS leaders should work to improve.

**Figure 3: 3-Year Annual Employee Total Attrition by Geographic Region**

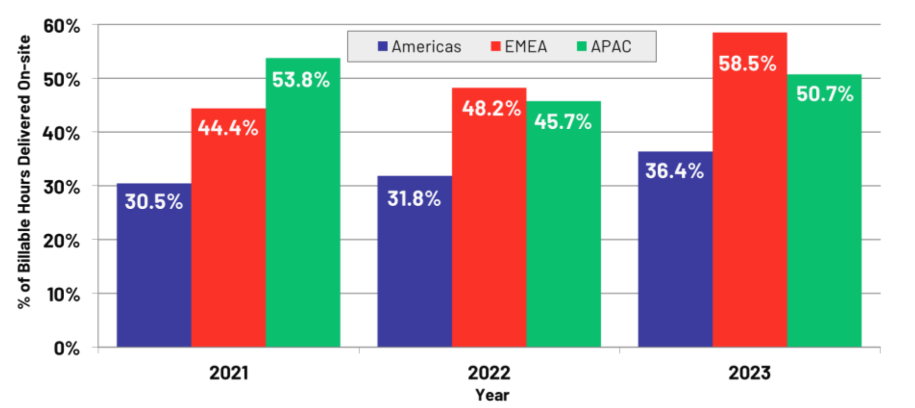



*Source: SPI Research, February 2024*

### *Onsite Billable Hours by Geographic Region*

COVID changed the way many industries look at remote work. The professional services market has done remote work for many years. Consultants travel enough already, so the use of home offices has benefited them greatly. Working remotely (usually at home) means consultants can work on several projects with several clients each day. Remote service delivery reached its lowest point in 2021 and has gone up since. EMEA showed nearly 60% of consulting work was done on site. (Figure 4) The North American market is slowly but surely increasing on site delivery and may hit 40% in 2024.

**Figure 4: 3-Year Annual % of Billable Hours Delivered On-site by Region**

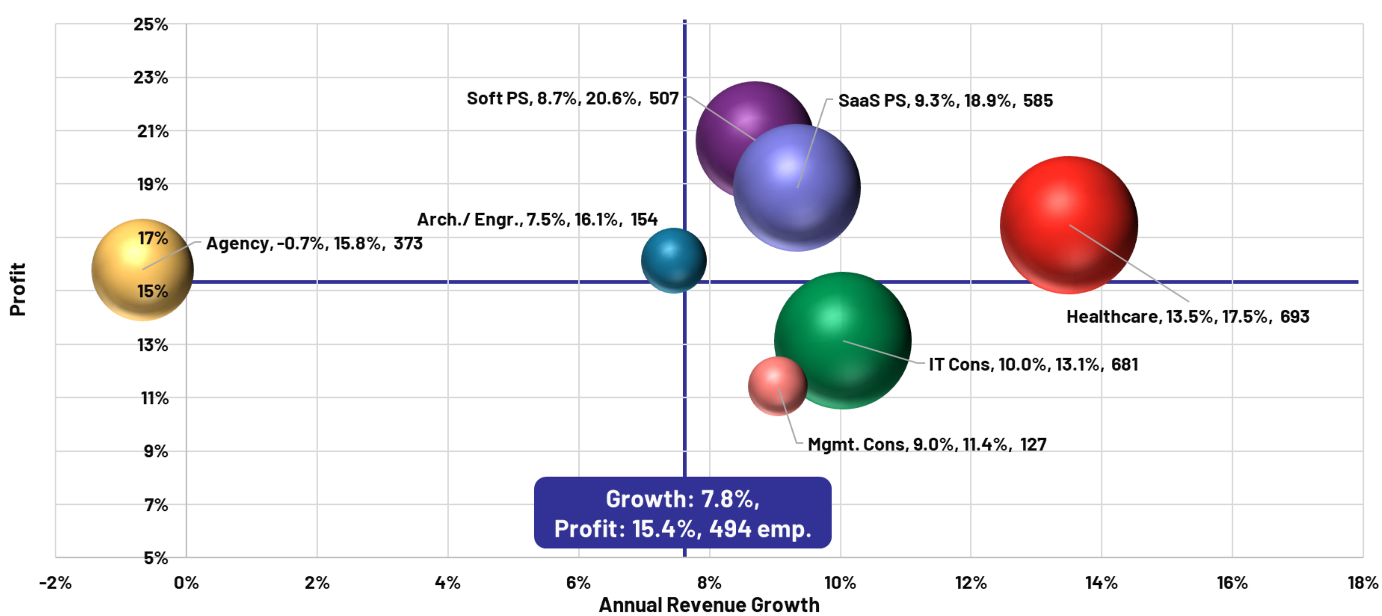



*Source: SPI Research, February 2024*

## Trends by PS Market

Each PS market operates differently, and Figure 5 shows just how different professional services sub-segments are. While SPI Research did not have extensive surveys from health care professional services organizations, the others showed just how distinct growth rates and profitability can be (The size of each of the circles is related to the size of the organization in terms of employees).

**Figure 5: 2023 PS Market Performance – Revenue Growth, Profit and Organization Size (employees)**

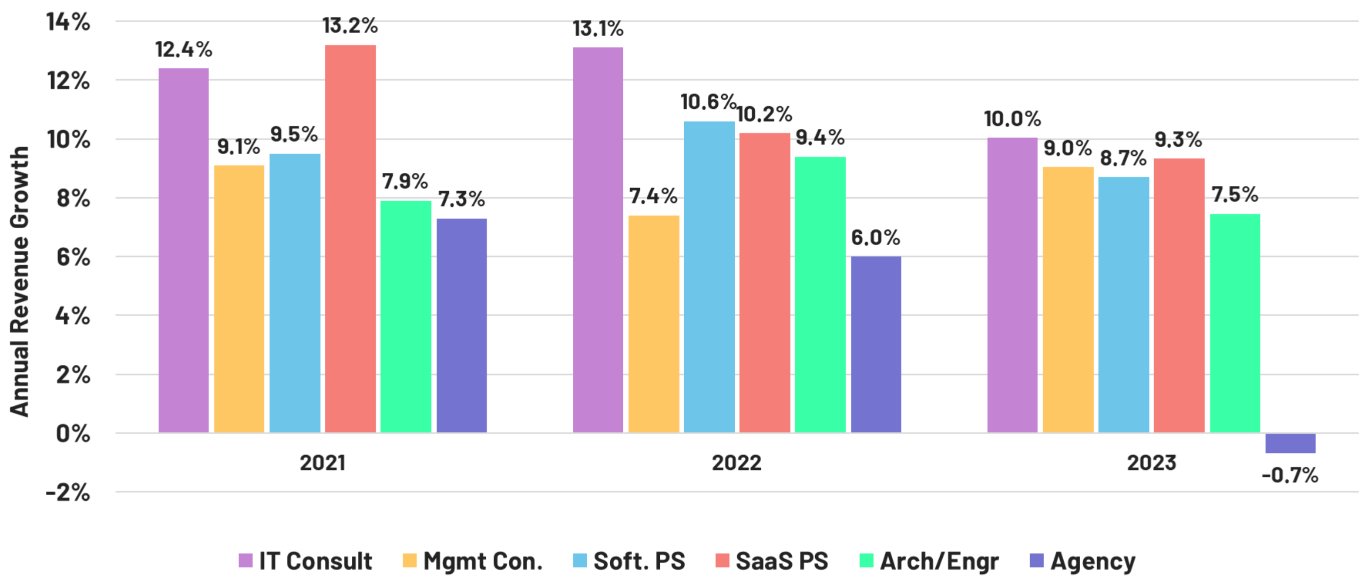



*Source: SPI Research, February 2024*

### *Revenue Growth by Market*

2023 was a down market for selling professional services. As the figure shows, agencies had negative growth rates in 2023 (Figure 6). The typically hot IT consulting market only managed 10%. Even as the impact of COVID faded, market conditions negatively impacted these organizations and agencies.

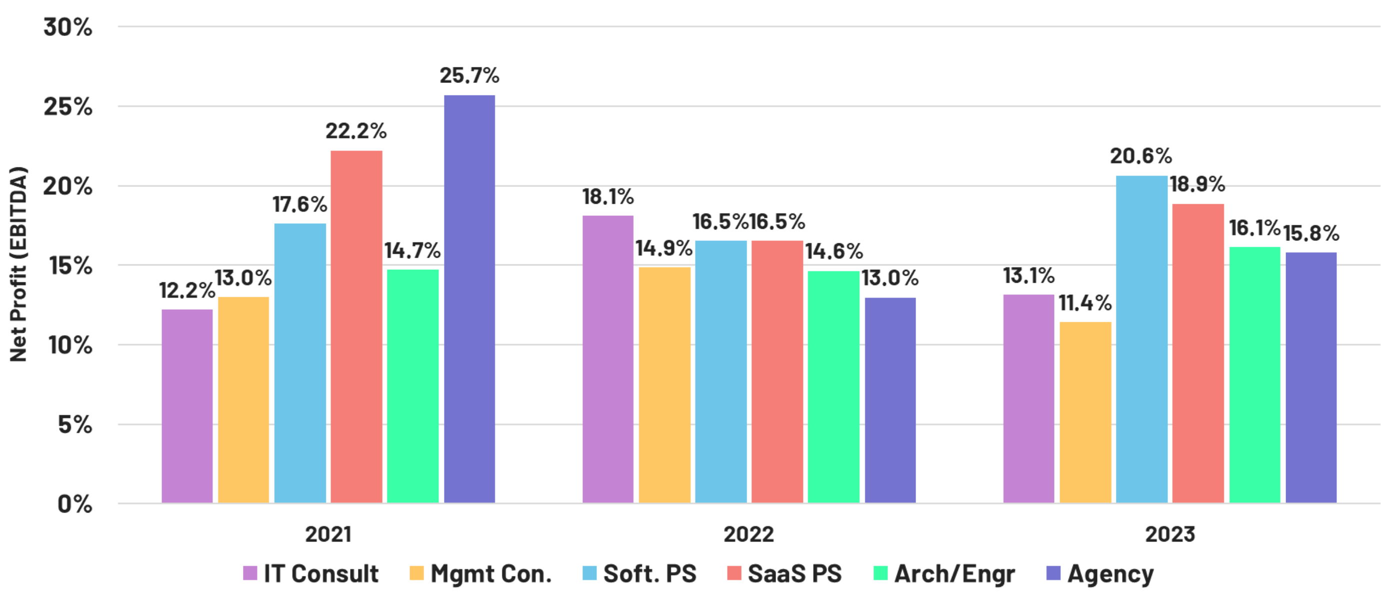
**Figure 6: 3-Year Annual PS Revenue Growth by PS Submarket**




*Source: SPI Research, February 2024*

### *Profit by Market*

**Figure 7: 3-Year Annual PS Net Profit by PS Submarket**




*Source: SPI Research, February 2024*

Figure 7 shows a wide variety of profitability when comparing markets. Overall, profitability in 2023 was very similar to 2022. It went up in some vertical markets but down in the two primary consultancies of IT and management.

## What Changed From 2022 to 2023?

SPI Research's mission is to improve performance (maturity), in professional services organizations. Over the past year, SPI Research has seen performance deteriorate in several areas, most notably in revenue and profitability (Table 2). But performance for performance's sake is not enough. PS executives are charged with making the organization succeed and prosper. SPI Research sees four major goals PS executives should achieve:

1. ***Revenue Growth***
2. ***Organizational Profit***
3. ***Client Satisfaction***
4. ***Employee Optimization***

Success depends on optimizing all four, not just focusing on growth or profitability. Firms that successfully achieve their goals have a much greater chance of longevity in the marketplace. Without attaining each objective, chances of long-term success diminish.

**Table 2: What Changed from 2022 to 2023? KPI Comparison**

| Key Performance Indicator (KPI) | 2022 | 2023 | ▲ |
|---|---|---|---|
| Year-over-year change in PS revenue | 10.4% | 7.8% | -25% |
| Year-over-year change in PS headcount | 8.5% | 5.2% | -38% |
| New clients | 29.3% | 31.3% | 7% |
| Deal pipeline / quarterly bookings forecast | 162% | 154% | -4% |
| Project duration (man months) | 33.9 | 29.6 | -13% |
| Projects delivered on-time | 76.2% | 75.7% | -1% |
| Project overrun | 9.9% | 9.6% | 3% |
| % of annual revenue target achieved | 92.7% | 90.6% | -2% |
| % of annual margin target achieved | 88.8% | 87.7% | -1% |
| **Profit (EBITDA %)** | **16.1%** | **15.4%** | **-4%** |

***Source: SPI Research, February 2024***

### Professional Services Business Applications

One Fortune 500 executive recently commented, "Data is the currency for innovation." The professional services technology landscape has expanded over the past year, with a core focus on Artificial Intelligence (AI), process automation, and return-on-investment (ROI) for technology dollars spent. SPI Research has seen an evolution from Business Intelligence to pure planning solutions. Not that BI is unimportant, it is just that PSOs have realized the benefits of exceptional planning. They know they need an integrated set of tools to do it well.

A plan made in November or December is only good if the market behaves in May the way executives expected it would when they formulated the plan. Planning is an ongoing process. Executives must be ready to reassess their initial plans and modify them as conditions change. Everyone remembers how COVID disrupted virtually every organization's plan and goals. High-performing firms were prepared to make changes and were both nimble and flexible in doing so. As a result, they achieved superior results while others failed.

The use of information tools, and in particular Project-based Enterprise Resource Planning, have given these executives what they need to better plan, sell, hire, deliver and profit in the professional services market. The standalone vendors have also done well, as many organizations still prefer best-of-breed solutions. But the market is changing, and project-based solutions will continue to grow their customer base.

## The uncertainty of 2023 is in the rearview mirror, now it is on to 2024

The world is at the beginning of a ***technological transformation*** in 2024. 2023 was a transitional year in every industry, and while COVID might be behind us, some of its aftereffects continue to influence the global economy. Inflation and interest rates rose at a faster pace than in recent memory, causing businesses to reduce expenditures. The Professional Services market felt the effects of this slowdown and showed its lowest annual revenue growth rate in over a decade. As a result, performance suffered, but most PSOs maintained healthy profitability at year end. Another key factor driving investment during 2023 was the move to implement Artificial Intelligence (AI) in every industry. Globally, companies have just begun to take advantage of this technology, some of which has been around for decades but not in the accessible form recently seen in the market.

SPI Research expects 2024 to be a solid year in the PS market, as well as in every other industry. Interest rates are going down slowly, but surely, and AI will become critical to success over the next several years and decades. This *technological transformation* is profound.

Professional services organizations will be at the center or forefront of AI as they will both implement the technology internally to improve many aspects of their organization, and work with their client base on an AI-centered strategy and practical ways to use it. Of course, talent and data are at the core of most industries, especially Professional Services, and the effort made to improve both are a big part of the market's success.

In 2023 revenue growth was the area PS executives focused on the most, but increases were inadequate. SPI Research expects a continued focus on revenue growth in 2024. The good news is PSO's were successful in bringing in new logo clients in 2023, which bodes well for the future.

Voluntary attrition went down in 2023, which is always positive. However, involuntary attrition went up, which could be related to strategic change within PSOs or more likely uneven staffing levels. Regardless, PSO's should always invest in their talent and provide employees with the tools they need to be successful. Services delivered remotely went down slightly in 2023 and will probably reach 40% during 2024. However, this projection might be high because PS executives and their clients are now more comfortable than ever with employees working remotely.

### 2024 Expectations

2024 is a blank slate. With all the transitions that occurred during 2023, hopefully, PS executives can now launch into their strategic plans to drive revenue and profit, improve client satisfaction, and optimize talent. At the end of the year, these areas will be the ones in which PS executives will be judged most critically.

SPI Research expects a good year in 2024. This expectation assumes that key drivers will not negatively impact industry:

- ∆ ***Artificial Intelligence***: Will show some great use case studies in 2024 to drive further adoption but will face scrutiny from regulators and other interested parties.

- ∆ ***Inflation and interest rates***: Should go down somewhat – not as low as in 2020 but enough to spur investment.
- ∆ ***US elections***: The wildcard for everything.
- ∆ ***Global conflict***: Hopefully will slow down/end so everyone can get back to business.

Do industries plan to spend in 2024? SPI Research says 'yes' with the caveat that many companies will closely monitor interest rates and the US elections to be held in November. Which way will they go? Every four years the market goes through the "this is the most important election ever" phase, and how they go will determine spending patterns in every industry.

Business applications in the professional services marketplace have hit the road running at full stride. Over the past year, SPI Research has seen a strong movement towards planning applications, which has been a cornerstone for professional services. Planning solutions have excelled in the marketplace due to so much uncertainty in all industries. Always great, uncertainty amplifies the need for accurate and agile planning. In 25+ years of research on professional services organizations, SPI knows one thing remains constant: *those organizations that meet their plans succeed in every area, from sales through hiring, delivery, and financials.*

Project based ERP solutions have been around for decades, but 2023 might have been a turning point for the market. SPI Research has analyzed and written about the products and suppliers over the past three decades, and last year saw an acceleration in the use of Project-based ERP. Software-as-a-Service (SaaS) and the cloud helped these suppliers. Coupled with the need for greater security and integration, as well as better process automation across PSOs, Project-based ERP became a strong preference for many organizations. Best-of-breed solution providers also flourish offering functionality that is required. Afterall, ERP can't do everything for everyone. SPI Research has seen leading PSA vendors grow capabilities and market share over the past five years, as their laser focus on everything associated with resource management and service delivery has helped their customers achieve greater productivity and profit.

## Artificial Intelligence – A Technology Thats Time Has Come

Artificial Intelligence (AI) was reintroduced as a true "game-changer" in 2023, even though it has been around for decades. AI's mission is extensive – to enhance visibility, growth, client and employee satisfaction, productivity, and profit. It holds enormous potential for every industry but is especially important to the Professional Services market. These organizations will both use AI as well as sell AI and related services to its current and future clients. The technology has already made an impact on professional services:

- ∆ Leading solution providers for PSO's began embedding AI in their solutions several years ago to help the professional services market with everything from planning through sales, talent acquisition and training, service staffing and delivery to financial governance. It will only get better as time goes on.
- ∆ PSO's have begun to offer services to their clients around AI. Although proven in many industries, this generation of AI is truly the beginning of the next wave of computing. SPI Research realizes AI can be confusing and does have some negative associations. There is a good chance it will be regulated, but at the end of the day its benefits should far outweigh its risks.

The AI strategy must align with business goals. SPI Research expects PSOs to begin their AI initiatives in a few areas or processes to establish experience and assure it achieves the desired results. There are so many initiatives in AI going on right now from all the major software suppliers, PSOs will probably standardize on a few technologies originally and wait for the market to mature. OpenAI will be used to build content, GitHub Copilot for programming, and Chatbots for customer support are just a few of its early uses.

In the Professional Services market, Generative AI will be a major force in employee productivity and client strategy initiatives. And this is just the beginning! New platforms, approaches, models, processes and support will be enhanced by AI. AI must not only show a demonstrable Return on Investment (ROI) but must convince skeptics that its benefits far outweigh its risk. It seems this issue always arises with new technologies. PSO cannot afford to let fear cause them to fall behind.

SPI Research anticipates a very strong professional services market in 2024. But of course, change happens. Leading firms will hope for the best and prepare for the worst as the market enters a critical year. AI, like cloud computing before it, and the Internet before that, should be an exciting chapter in the technology revolution.

# Chapter 2

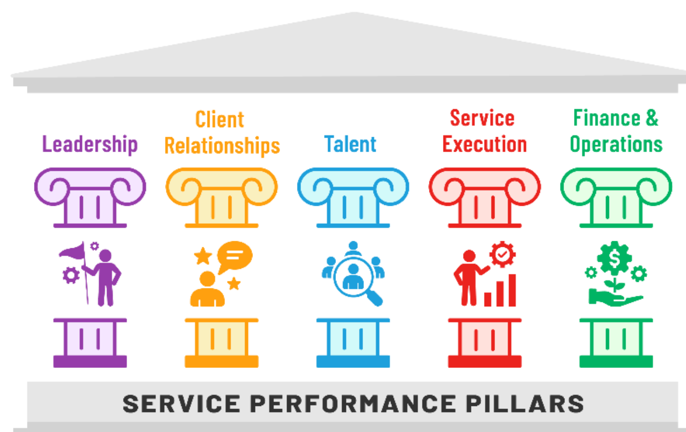
# The Professional Services Maturity™ Model

# THE PROFESSIONAL SERVICES MATURITY™ MODEL

## Service Performance Pillars™

SPI Research developed a model that segments and analyzes PSOs into five distinct areas of performance that are both logical and functional. SPI calls the five underpinning elements ***Service Performance Pillars™*** because they form the foundation for all professional services organizations (Figure 8):

**Figure 8: Service Performance Pillars™**




***Source: SPI Research, February 2024***

1. **LEADERSHIP**: (*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 value proposition (how a solution solves 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, supported, and clearly communicated 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 define 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 – to win deals. Effective client management involves developing a clear and compelling go-to-market strategy which defines target buyers, their requirements and how the 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 quote-to-cash business process.

3. **TALENT**: (*Human Resources*) the ability to attract, hire, retain, and motivate 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 have adopted a hybrid model of on, near, and off-shore staffing. This approach puts increased pressure on customer-facing staff to develop client relationships and more carefully define client requirements. Demands for career planning, skill development and flexible work options have intensified. The core talent management processes include recruiting, hiring, on-boarding, training, compensation, performance, and career management.

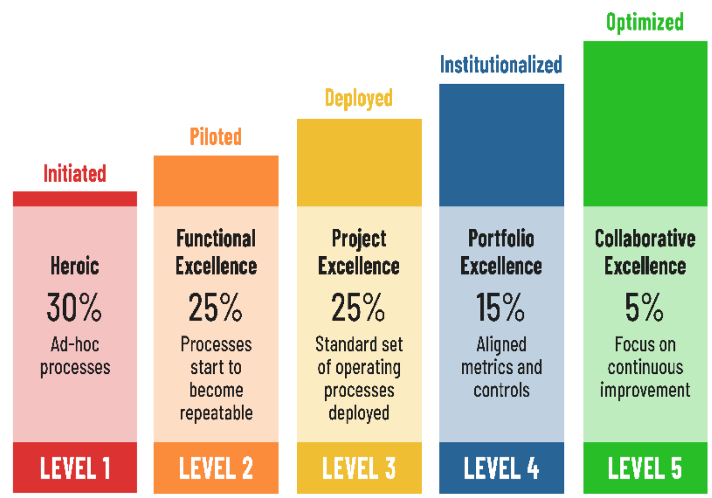
4. **SERVICE EXECUTION**: (*Engagement/Delivery*) the methodologies, processes, and tools to effectively schedule, deploy, and measure the quality of the service delivery process. Service execution involves several factors including: resource management, delivering projects in a predictable and acceptable time frame, reducing cost while improving project quality and harvesting knowledge. Processes include resource management, capacity planning, project planning, quality control, knowledge management, methodology and tool development.

5. **FINANCE & 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 focuses on revenue, margin, and cost, as well as 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. However, it is specifically targeted toward billable PSOs that either exclusively sell and deliver professional services or complement the sale of products with services. Figure 9 depicts maturity level progression and outlines primary characteristics for each maturity level:

**Figure 9: Services Maturity™ Model Levels**




*Source: SPI Research, February 2024*

- ∆ ***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 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 "reactive" and "heroic".***

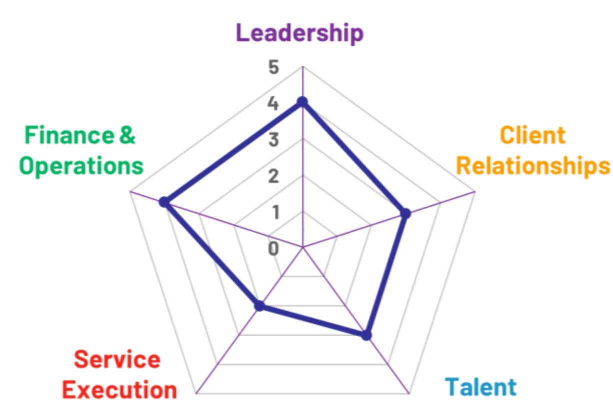
- ∆ ***LEVEL 2* *– PILOTED "FUNCTIONAL EXCELLENCE":* (APPROXIMATELY 25% OF PSOS)** at maturity level 2, *processes have started to become repeatable*. Best practices may be demonstrated in discrete functional areas or geographies, but they are not yet documented and codified for the entire organization. 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 "holdouts" 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 a 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 account 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 are 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.***

**Figure 10: Service Performance Pillar Maturity™**




**Source: SPI Research, February 2024**

Over the past 17-years, more than 50,000 PSOs have studied the PS Maturity Model ™ and now use the concepts and key performance measurements to pinpoint their organization's current maturity. They develop improvement plans to advance lagging areas. For its clients, SPI Research summarizes individual PSO performance in a SPIder chart (Figure 10). 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.

## Professional Services Maturity™ Model Construction

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

**Table 3: Performance Pillars Mapped Against Service**

| | Level 1<br>Initiated | Level 2<br>Piloted | Level 3<br>Deployed | Level 4<br>Institutionalized | Level 5<br>Optimized |
|---|---|---|---|---|---|
| Leadership | The 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. The 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. Complementary goals and measurements are in place for all functions. Leaders have a global vision and continually focus on renewal & expansion. |
| Client Relationships | Opportunistic. No defined solution sets or Go to Market plan. The 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 management controls. High levels of customer satisfaction. | CRM, PSA, ERP/CFM integration provides a 360-degree view of client relationships. Business process, vertical and horizontal solutions. Vertical client centers of excellence. Top client and partner programs. Global contract and pricing management. Key partner relationships. Strong customer reference programs. | Executive relationships. Thought leadership. Brand building and awareness. High customer satisfaction. Integrated sales, marketing and partnering programs. Consistent, high-quality marketing, sales, contract management and pricing processes, systems, and measurements. High quality references. |
| Talent | Hire as needed. Generalist skills. Chameleons, Jack of all Trades. Individual heroics. May perform presales as well as consulting delivery and project management. | Begin forecasting workload. Start developing job and skill descriptions & compensation plans. Rudimentary career paths. Start measuring employee satisfaction. | Resource, skill, and career management. Employee satisfaction and engagement surveys. Training plans. Aligned goals and measurements with compensation. Attrition <15% | Business process and vertical skills in addition to technical and project skills. Career ladder and mentoring programs. Training investments to support career. Low attrition, high satisfaction | Continually staff and train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peak demand. Sophisticated variable on and offshore workforce models. |

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

***Source: SPI Research, February 2024***

## Does Professional Services Maturity Matter?

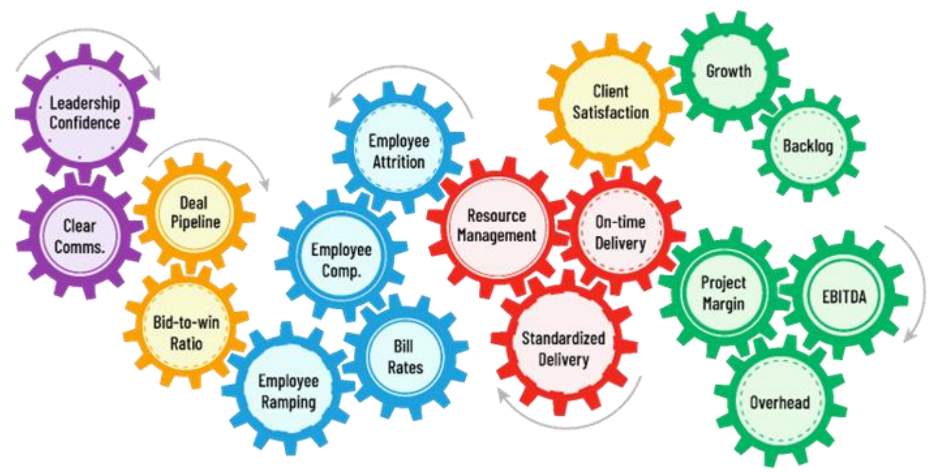
SPI Research has spent the past 17 years benchmarking varying levels of operational control or "maturity" to determine the characteristics and behaviors that are appropriate for PSOs based on their organizational lifecycle stage. The primary questions SPI Research's Professional Services Maturity Model Benchmark addresses are:

- ∆ **What are the most important focus areas for professional services organizations (PSOs) as business processes mature?**
- ∆ **What is the optimum level of maturity or control at each phase of an organization's lifecycle?**
- ∆ **How can diagnostic tools determine and assess the health of key business processes according to an organization's level of maturity?**
- ∆ **What are the key business characteristics and behaviors that spell the difference between success and failure? How do they change depending on the maturity of the company or industry?**

### ∆ How does the Professional Services Maturity Model Benchmark operate within the wider context of the technology maturity model?

The original concept behind SPI Research's Professional Services Maturity Model was to investigate the impact of increasing levels of standardization in operating processes and management controls on financial performance. It is based on the correlation of all KPIs, and how each can and do influence others (Figure 11).

**Figure 11: Performance in One Area Impact Others Performance**




*Source: SPI Research, February 2024*

***SPI Research's 2024 Professional Services Maturity Benchmark demonstrates that increasing levels of business process maturity do result in significant performance improvements. This quantifiable finding is based on in-depth surveys of 575 service organizations over the past year.*** Figure 12 highlights major key performance measurements by maturity level. These numbers alone serve as reasons for PS executives to investigate using it to increase profits.

**Figure 12: Professional Services Maturity™ Progression**

| | Level 1 Initiated | Level 2 Piloted | Level 3 Deployed | Level 4 Institutionalized | Level 5 Optimized |
|---|---|---|---|---|---|
| **Firms** | **172** | **144** | **144** | **86** | **29** |
| Year-over-year change in PS revenue | 2.3% | 7.1% | 8.9% | 13.7% | 19.3% |
| Deal pipeline / quarterly bookings forecast | 106% | 140% | 175% | 201% | 262% |
| Percentage of bids won | 37.4% | 48.2% | 50.8% | 58.4% | 63.8% |
| Employee billable utilization | 56.7% | 68.0% | 74.4% | 79.5% | 83.6% |
| Projects delivered on-time | 62.9% | 71.4% | 82.4% | 87.8% | 92.2% |
| Project margin | 25.7% | 33.8% | 36.1% | 40.4% | 50.5% |
| Annual revenue per billable consultant (k) | $112 | $187 | $238 | $255 | $297 |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

*Source: SPI Research, February 2024*

An aspect that sets the Professional Services Maturity™ Model apart from others is 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, in this model they are equally weighted and correlated with leadership and sales and quality measurements. This weighting ensures that organizations can 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 correlate strongly with significant bottom-line profit.**

## Pillar Importance and Organizational Maturity

The results and insights gained over seventeen years confirm 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 <u>and</u> across performance pillars, which leads to sustainable success.***

**Table 4: Service Pillar Importance by Organizational Maturity Level**

| Pillar | Initiated | Piloted | Deploy. | Inst. | Opt. |
|---|---|---|---|---|---|
| Leadership | ◔ | ◑ | ◑ | ● | ● |
| Client Relationships | ● | ◕ | ◕ | ◕ | • |
| Talent | ◔ | ◑ | ◕ | ● | ● |
| Service Execution | ◔ | ◑ | ◕ | ● | ● |
| Finance & Operations | ◔ | ◔ | ◕ | ● | ● |

***Source: SPI Research, February 2024***

Table 4 depicts the relative service performance pillar importance by organizational maturity level. Many professional services organizations are established without an initial focus on optimizing performance. They 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. 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 the 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 focuses 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.

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 is established. At level 3 the charter of the PS organization is clear. If it 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 target 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 very 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 runs very efficiently. 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.

Figure 13 highlights some of the critical areas PSOs should continually monitor to achieve higher levels of maturity.  And there are more, many more!  This report highlights over 155 Important metrics to capture, analyze and improve, as well as the tools that leading firms use to run their business.

**Figure 13:  PS Performance Pillars - Core KPIs**


*Source: SPI Research, February 2024*

# Chapter 3

# Survey Demographics

# SURVEY DEMOGRAPHICS

The Professional Services market continues to be one of the fastest growing segments of the global economy due in large part to the fact that companies in all other vertical industries increasingly outsource and out-task 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% of that revenue. This finding has positive implications for the growth potential of professional services firms: there is room in the market for innovative and effective newcomers that can effectively harness skilled talent to provide specialized insights, knowledge and client outcomes.

Firms in the professional service industry provide accounting, agency (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.

Unlike other industries, Professional Services is nearly 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 575 billable Professional Services Organizations (PSOs) from September through November 2023. The following sections outline the key markets which comprise the global professional services industry and breakdown the 2023 survey demographics in several key areas (market, organization size, and geographic region) to help PS firms compare their individual results to the benchmark.

## The North American Professional Services Market

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

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

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

| Code | Market | Description |
|---|---|---|
| 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 2024***

Per the most recent US Census, combined professional, scientific, and technical services (NAICS 54xx) revenues reached $3.8 trillion. In addition, substantial professional service revenue is generated by the software industry (NAICS 5112); Data Services (NAICS 518) and Employment Services (NAICS 5613). Including these segments, the US professional service industry generated approximately $5 trillion in revenue in 2021 and employed 30 million US-based workers.

Tables 6 and 7 provide a rollup of 2021 US Census data for these NAICS codes. There are 2.4mm firms in these market segments; only 88,160 (3.7%) employ more than 20 people the remaining 96.3% employ less than 20 people. In other words, the industry is dominated by very small firms particularly in accounting; legal; management consulting and staffing.

**Table 6: 2021 NAICS Services Rollup (Number of Firms)**

| NAICS | Market | Firms | Firms with over 20 employees | Employees in firms with over 20 emp. | % of total emp. in firms with over 20 emp. |
|---|---|---|---|---|---|
| 5412 | Accounting | 185,175 | 3,353 | 780,020 | 58.3% |
| 5418 | Advertising/Marketing/PR | 76,365 | 5,387 | 2,165,590 | 89.1% |
| 5413 | Architecture/Engineering | 340,647 | 16,425 | 4,614,425 | 80.8% |
| 5415 | IT Consulting | 232,663 | 17,146 | 5,662,225 | 88.0% |
| 5411 | Legal | 352,130 | 9,486 | 1,708,380 | 60.9% |
| 5191 | Managed Services/Hosting | 29,076 | 2,195 | 1,768,550 | 94.9% |
| 5416 | Management Consulting | 717,002 | 16,554 | 5,105,630 | 72.6% |
| 4234 | PS within HW & Networking | 18,338 | 2,774 | 1,731,740 | 95.7% |
| 5112 | PS within Software & SaaS Company | 24,414 | 2,939 | 2,954,120 | 97.2% |
| 5417 | Research & Development | 43,674 | 3,210 | 1,445,085 | 90.2% |
| 5613 | Staffing | 80,911 | 6,987 | 4,933,715 | 94.5% |
| | Other PS | 311,990 | 1,660 | 346,430 | 32.9% |
| | **Total / Average** | **2,412,385** | **88,116** | **33,215,910** | **82.3%** |

***Source: US Census and SPI Research, February 2024***

**Table 7: 2021 NAICS Services Rollup (Employees and Revenue)**

| NAICS | Market | Employees | Revenue (mm) | Rev/Emp | Rev/Consult |
|---|---|---|---|---|---|
| 5412 | Accounting | 1,337,733 | $163,017 | $121,860 | $152,325 |
| 5418 | Advertising/Marketing/PR | 2,430,245 | $298,563 | $122,853 | $166,703 |
| 5413 | Architecture/Engineering | 5,708,513 | $694,211 | $121,610 | $174,507 |
| 5415 | IT Consulting | 6,436,343 | $844,751 | $131,247 | $181,360 |
| 5411 | Legal | 2,806,404 | $268,279 | $95,595 | $119,494 |
| 5191 | Managed Services/Hosting | 1,864,387 | $262,935 | $141,030 | $245,270 |
| 5416 | Management Consulting | 7,029,799 | $801,415 | $114,002 | $164,128 |
| 4234 | PS within HW & Networking | 1,809,124 | $519,746 | $287,292 | $366,755 |
| 5112 | PS within Software & SaaS | 3,040,397 | $458,146 | $150,686 | $202,069 |
| 5417 | Research & Development | 1,602,023 | $230,536 | $143,903 | $191,871 |
| 5613 | Staffing | 5,221,916 | $370,113 | $70,877 | $109,041 |
| | Other PS | 1,052,190 | $116,480 | $110,702 | $155,372 |
| | **Total / Average** | **40,339,074** | **$5,028,190** | **$124,648** | **$174,444** |

***Source: US Census and SPI Research, February 2024***

## PS Maturity™ Benchmark Vertical Market Demographics

Table 8 and Figure 14 show the demographics of the 575 survey participants by PS vertical market. As usual, the IT and Management Consulting markets provide approximately 36% of the overall surveys. This year SPI Research received 52 Agency surveys, the most ever by a wide margin. These surveys will help SPI Research provide greater analysis than in the past.

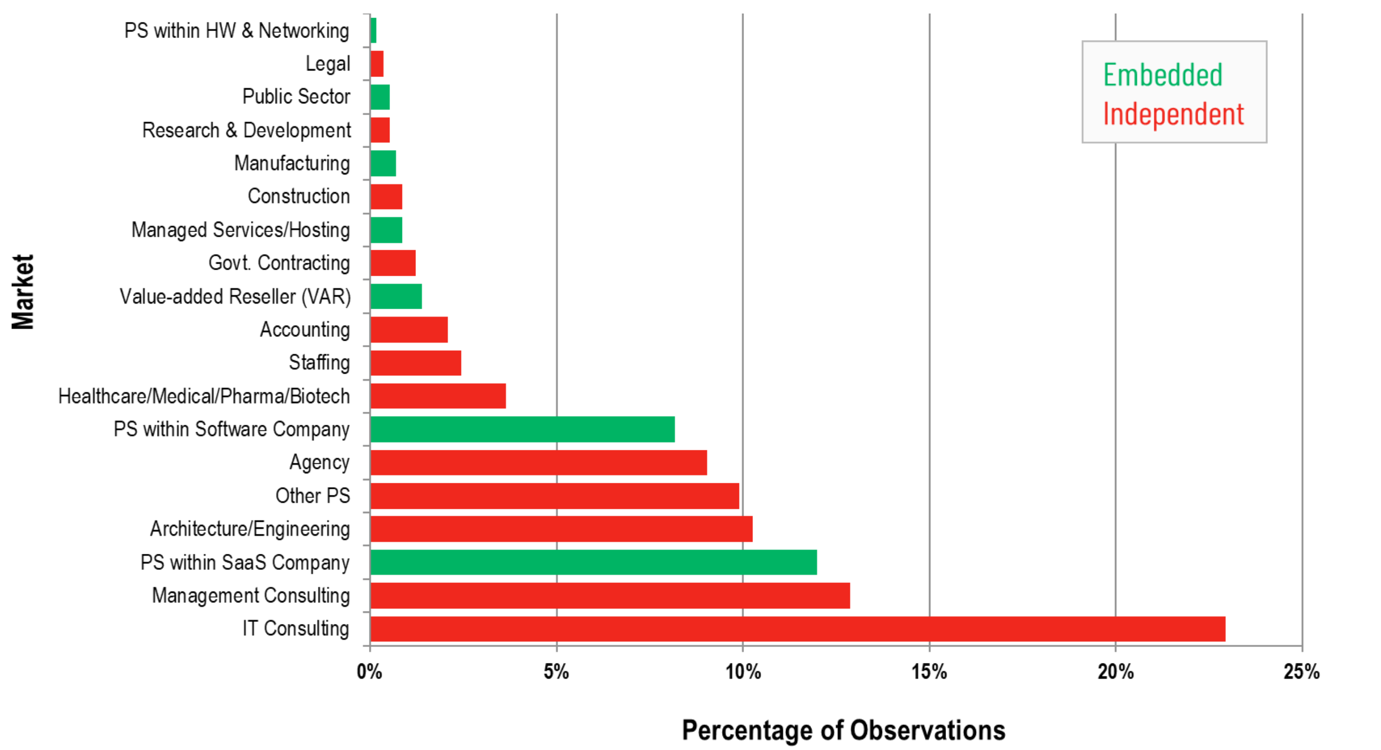
**Table 8: 2024 Professional Services Maturity™ Benchmark Vertical Market Participation**

| Market | Surveys | Survey % | Consultants |
|---|---|---|---|
| IT Consulting | 132 | 23.0% | 89,935 |
| Management Consulting | 74 | 12.9% | 9,420 |
| PS within SaaS Company | 69 | 12.0% | 40,345 |
| Architecture/Engineering | 59 | 10.3% | 9,085 |
| Agency | 52 | 9.0% | 19,380 |
| PS within Software Company | 47 | 8.2% | 23,820 |
| Healthcare/Medical/Pharma/Biotech | 21 | 3.7% | 14,550 |
| Staffing | 14 | 2.4% | 11,815 |
| Accounting | 12 | 2.1% | 4,680 |

| Market | Surveys | Survey % | Consultants |
|---|---|---|---|
| Value-added Reseller (VAR) | 8 | 1.4% | 1,525 |
| Govt. Contracting | 7 | 1.2% | 1,370 |
| Managed Services/Hosting | 5 | 0.9% | 1,750 |
| Construction | 5 | 0.9% | 1,285 |
| Manufacturing | 4 | 0.7% | 95 |
| Research & Development | 3 | 0.5% | 405 |
| Public Sector | 3 | 0.5% | 7,525 |
| Legal | 2 | 0.3% | 265 |
| PS within HW & Networking | 1 | 0.2% | 7,500 |
| Other PS | 57 | 9.9% | 39,360 |
| **Total/Average** | **575** | **100.0%** | **284,110** |

*Source: SPI Research, February 2024*

**Figure 14: Benchmark Participant Vertical Market Distribution**




*Source: SPI Research, February 2024*

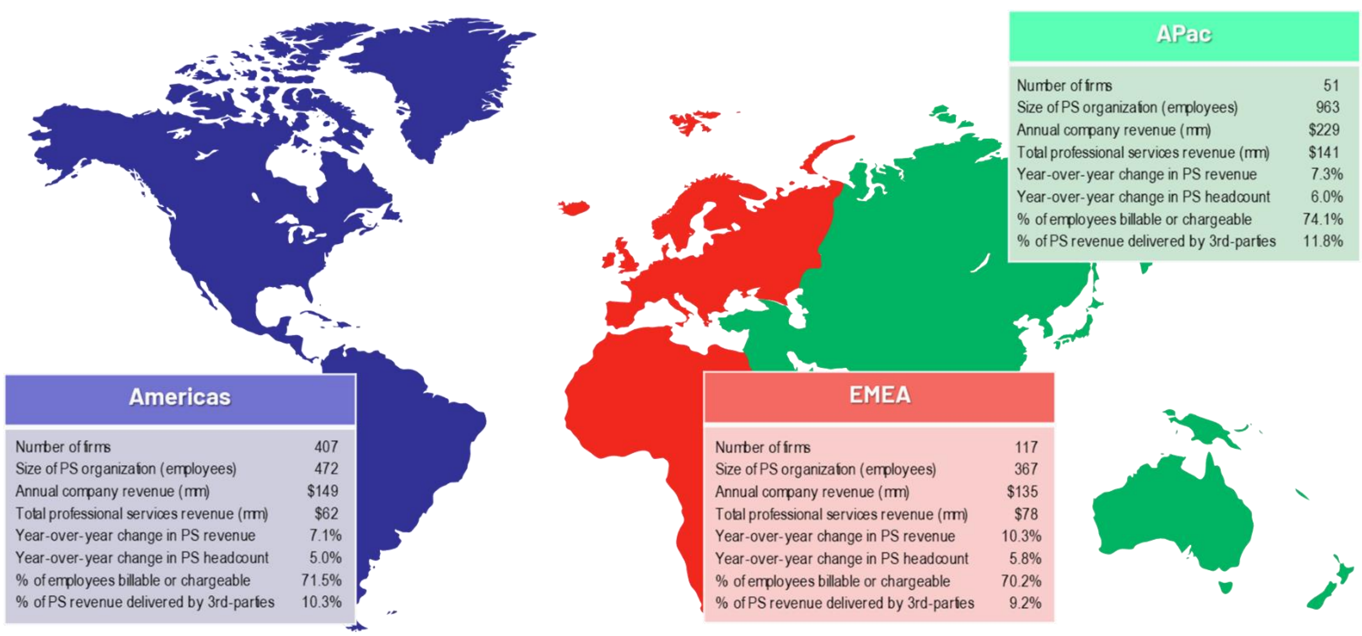
Table 9 shows participant demographics for the past 17 years. Historically, IT consultancies have been the largest participating market. The popularity of this benchmark continues to grow, averaging more than 500 participating firms for each of the past five years, making this **the most comprehensive global Professional Services benchmark**.

**Table 9: Number of Participating Firms by Vertical Market (2007 through 2023)**

| Market | Type | 2007-11 | 2012-16 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| IT Consulting | PSO | 215 | 593 | 103 | 155 | 143 | 143 | 133 | 173 | 132 | **1,790** |
| Software PS | ESO | 302 | 283 | 45 | 78 | 73 | 55 | 58 | 84 | 47 | **1,025** |
| Mgmt. Consulting | PSO | 89 | 199 | 45 | 75 | 68 | 84 | 102 | 106 | 74 | **842** |
| Other PS | PSO | 80 | 135 | 49 | 62 | 62 | 82 | 81 | 97 | 99 | **747** |
| Arch./Engr. | PSO | 17 | 109 | 153 | 100 | 44 | 35 | 41 | 67 | 59 | **625** |
| SaaS PS | ESO | 63 | 136 | 29 | 70 | 55 | 64 | 56 | 73 | 69 | **615** |
| Agency | PSO | 16 | 42 | 8 | 20 | 6 | 31 | 29 | 46 | 52 | **250** |
| Accounting | PSO | 8 | 32 | 8 | 19 | 14 | 14 | 13 | 19 | 12 | **139** |
| HW/Net PS | ESO | 35 | 39 | 6 | 12 | 14 | 6 | 4 | 6 | 1 | **123** |
| VAR | ESO | 0 | 28 | 4 | 14 | 21 | 17 | 10 | 10 | 8 | **112** |
| Managed Serv. | ESO | 0 | 25 | 4 | 9 | 3 | 13 | 2 | 11 | 5 | **72** |
| Res. & Dev. | PSO | 0 | 22 | 0 | 4 | 7 | 7 | 7 | 5 | 3 | **55** |
| Staffing | PSO | 0 | 14 | 2 | 4 | 3 | 10 | 4 | 12 | 14 | **63** |
| **Total** | | **825** | **1,657** | **456** | **622** | **513** | **561** | **540** | **709** | **575** | **6,458** |

***Source: SPI Research, February 2024***

**Figure 15: Regional Demographics**




***Source: SPI Research, February 2024***

Figure 15 highlights key regional demographics and Table 10 shows 405 surveys came from independent firms while 170 came from ESOs (Embedded Service Organizations within product companies). North American headquartered firms dominate the study with 407 surveys, while 117 came from EMEA-headquartered firms and 51 came from Asia Pacific (predominantly Australia and New Zealand). The average size organization this year employs 494 employees.

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

| Key Demographic | 2022 | 2023 | ESO | PSO | Amer. | EMEA | APac |
|---|---|---|---|---|---|---|---|
| Surveys | 709 | 575 | 170 | 405 | 407 | 117 | 51 |
| Size of PS organization (employees) | 609 | 494 | 621 | 441 | 472 | 367 | 963 |
| Annual company revenue (mm) | $178.2 | $153.5 | $240.8 | $117.7 | $149.4 | $134.6 | $228.5 |
| Total PS revenue (mm) | $76.4 | $72.4 | $76.3 | $70.7 | $62.1 | $77.7 | $141.0 |
| YoY change in PS revenue | 10.4% | 7.8% | 8.0% | 7.7% | 7.1% | 10.3% | 7.3% |
| YoY change in PS headcount | 8.5% | 5.2% | 5.2% | 5.2% | 5.0% | 5.8% | 6.0% |
| % of employees billable | 72.1% | 71.5% | 68.2% | 72.9% | 71.5% | 70.2% | 74.1% |
| % of PS rev. delivered by 3rd-parties | 11.2% | 10.2% | 10.0% | 10.3% | 10.3% | 9.2% | 11.8% |

*Source: SPI Research, February 2024*

Headcount growth was 5.2%, down from 8.5% in 2022, and the lowest increase SPI has seen in a long time. Issues including inflation, rate hikes and geopolitical tensions slowed growth again in 2023. There is still difficulty in finding and retaining talent.

In 2023, both the smallest and largest PSOs grew the fastest, and the largest firms added the most headcount (Table 11). They also relied 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.

**Table 11: Survey Participant Demographics by Organization Size**

| Demographic | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Surveys | 72 | 94 | 178 | 116 | 52 | 63 |
| Size of PS organization (employees) | 5 | 20 | 65 | 200 | 500 | 3,510 |
| Annual company revenue (mm) | $23.4 | $24.5 | $64.1 | $123.3 | $282.1 | $705.3 |
| Total professional services revenue (mm) | $23.4 | $5.3 | $18.6 | $43.5 | $129.1 | $390.6 |
| Year-over-year change in PS revenue | 9.1% | 7.4% | 7.4% | 7.4% | 7.5% | 8.8% |
| Year-over-year change in PS headcount | 2.6% | 5.7% | 4.3% | 5.7% | 7.2% | 7.7% |
| % of employees billable or chargeable | 68.3% | 72.4% | 71.8% | 71.2% | 72.6% | 72.4% |
| % of PS revenue delivered by 3rd-parties | 8.5% | 9.1% | 12.0% | 9.7% | 8.9% | 11.0% |

*Source: SPI Research, February 2024*

Table 12 further analyzes the survey demographics by vertical market, highlighting the markets surveyed. According to this year's survey, Healthcare professional services organizations and IT Consultancies grew the fastest, while advertising agencies had negative growth, a significant reduction since its COVID-driven boom.

**Table 12: Survey Participant Demographics by Vertical Market**

| Demographic | IT Cons | Mgmt Cons | Soft. PS | SaaS PS | Arch/Engr | Agency | Health |
|---|---|---|---|---|---|---|---|
| Surveys | 132 | 74 | 47 | 69 | 59 | 52 | 21 |
| Size of PS org. (employees) | 681 | 127 | 507 | 585 | 154 | 373 | 693 |
| Annual company revenue (mm) | $143.3 | $55.0 | $299.8 | $347.1 | $32.5 | $54.3 | $187.8 |
| Total PS revenue (mm) | $99.6 | $51.1 | $82.7 | $77.5 | $24.5 | $52.2 | $116.6 |
| YoY change in PS revenue | 10.0% | 9.0% | 8.7% | 9.3% | 7.5% | -0.7% | 13.5% |
| YoY change in PS headcount | 6.4% | 7.3% | 6.3% | 7.2% | 4.9% | -1.3% | 11.1% |
| % of employees billable | 73.8% | 72.1% | 73.3% | 68.6% | 76.8% | 69.2% | 68.7% |
| 3rd-party PS revenue | 10.1% | 11.1% | 9.6% | 9.2% | 9.8% | 8.9% | 11.6% |

***Source: SPI Research, February 2024***

## Type of Work Sold

SPI Research analyzed the type of work sold, (Table 13). In 2023, the numbers were like those of 2022. Business and IT consulting represents over 50% of the work sold by Embedded Services Organizations. ESOs no longer just sell 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". This business model shift heightens the need for Professional Services Automation (PSA) solutions. Providers must not only track labor and utilization costs but also ensure those costs are within committed subscription cost levels. Additionally, systems must now support complex multi-element contracts and billing. The percentage of managed service, recurring revenue has risen over the past five years and now stands at 12.2% (up from 10.6% in 2022).

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

| Key Performance Indicator (KPI) | 2022 | 2023 | ESO | PSO | Amer. | EMEA | APac |
|---|---|---|---|---|---|---|---|
| Business / management consulting | 30.6% | 30.5% | 24.8% | 32.9% | 29.6% | 35.2% | 26.4% |
| Technology or IT consulting | 31.7% | 31.2% | 26.6% | 33.1% | 31.1% | 28.4% | 38.2% |
| Subscription services | 7.6% | 7.0% | 11.6% | 5.1% | 7.0% | 7.5% | 5.9% |
| Managed services | 10.6% | 12.2% | 10.3% | 13.0% | 13.0% | 11.6% | 6.7% |
| Staff augmentation | 6.4% | 5.3% | 5.5% | 5.2% | 5.2% | 6.3% | 3.7% |
| Hardware, software or equipment | 3.1% | 3.0% | 3.3% | 2.9% | 3.2% | 1.9% | 4.0% |
| Other | 10.0% | 10.9% | 17.9% | 7.9% | 10.8% | 9.2% | 15.0% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

**Source: SPI Research, February 2024**

**Table 14: Type of Work Sold by Organization Size**

| Key Performance Indicator (KPI) | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Business / management consulting | 57.2% | 29.4% | 27.7% | 29.2% | 25.5% | 15.7% |
| Technology or IT consulting | 21.3% | 32.2% | 30.7% | 34.6% | 33.8% | 33.9% |
| Subscription services | 4.3% | 6.5% | 5.3% | 5.7% | 11.9% | 13.7% |
| Managed services | 3.3% | 12.5% | 12.8% | 13.9% | 15.5% | 14.2% |
| Staff augmentation | 1.8% | 3.8% | 6.4% | 5.3% | 7.1% | 7.1% |
| Hardware, software or equipment | 1.7% | 3.7% | 2.2% | 3.3% | 2.8% | 5.7% |
| Other | 10.4% | 11.9% | 14.9% | 8.0% | 3.5% | 9.8% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

***Source: SPI Research, February 2024***

## PSO Type

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

There are more than 70,000 software, hardware, IT and managed services companies in the United States; more than 99% 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 6.4 million people.

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 represent 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 software and cloud solution vendors (ISVs). The embedded PS organizations in this study provide PS for some of the largest and best-known cloud vendors. Overtime the charter for embedded cloud PS has shifted from a cost center to a profit center. Cloud PS organizations are now measured on implementation, packaged subscription services, adoption, expansion, churn, and recurring revenue. Almost all legacy on-premise software providers are moving to the cloud. SPI Research shows both on-premise and SaaS results.

SPI Research uses this segmentation because independent consultancies must fund sales, marketing and back-office operations for finance, operations, facilities, IT and recruiting in a way that embedded organizations generally do not. Independents incur a higher cost of operation than captive (embedded) organizations do. However, the following chapters will demonstrate independent PSOs generally outperform their embedded counterparts because their sole focus is on delivering high-quality services at a profit. Independents generally are focused on client delight and service revenue and profit growth, versus embedded where the goals of delivering profitable services may be subordinate to product adoption and driving incremental product sales.

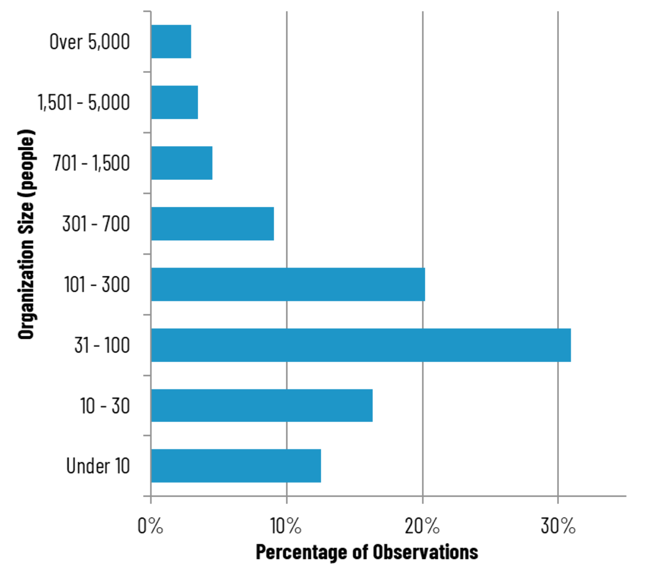
575 firms are represented in this year's survey, however, not every firm answered every question. Therefore, if a firm did not answer a specific question no analysis will be conducted on its impact. The following table shows the correlation of EBITDA (profit) and annual revenue growth. This table compares all the surveys with those that answered this specific question. SPI Research will eliminate the 10 firms that did not complete this question and therefore the EBITDA is **15.2**% vs. the actual survey average of **15.4**%. This elimination is done 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 | 1.7% | 21.1% | |
| Under -10% | 48 | 8.3% | 10.0% | 10.0% |
| -10% - 0% | 45 | 7.8% | 12.2% | 12.2% |
| 0% - 5% | 127 | 22.1% | 16.9% | 16.9% |
| 5% - 10% | 132 | 23.0% | 14.9% | 14.9% |
| 10% - 15% | 94 | 16.3% | 18.3% | 18.3% |
| 15% - 25% | 48 | 8.3% | 8.0% | 8.0% |
| Over 25% | 71 | 12.3% | 18.6% | 18.6% |
| **Total / Average** | **575** | **100.0%** | **15.4%** | **15.2%** |

## Organization Size

The average size organization in the Professional Services Maturity™ Benchmark was 494 PS employees, down from the 609 in 2022. This year's survey is based on firms that employ over 284,000 consultants worldwide, continuing to make it the most comprehensive study of the Professional Service industry. Figure 16 highlights survey distribution by PS headcount. Each year the largest percentage of firms have between 31 and 100 employees. Embedded services organizations averaged 621 PS employees whereas independents averaged 441. Firms headquartered in the Americas averaged 472; EMEA averaged 367 PS employees; and APac averaged 963 PS employees per firm. Software PS organizations averaged 507 PS employees and SaaS averaged 585, underscoring the importance of embedded PS within these organizations. IT consultancies (681 employees) and management consultancies (127) also had a substantial PS workforce. Architecture and engineering firms averaged 154 employees while agencies (marketing and advertising) averaged 373 PS employees. Healthcare PS averaged 693 employees.

**Figure 16: Organization Size**



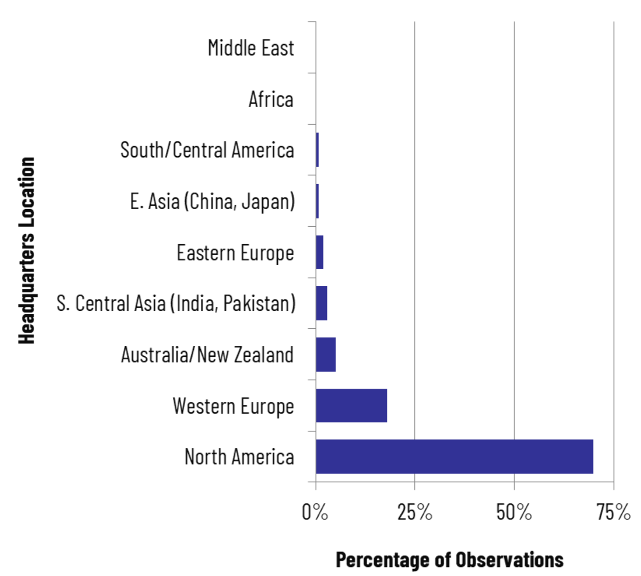

*Source: SPI Research, February 2024*

## Headquarters Location

SPI Research encourages professional services organizations from around the world 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 over 29% of the survey. (Figure 17).

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

**Figure 17: Headquarters Location – Region**

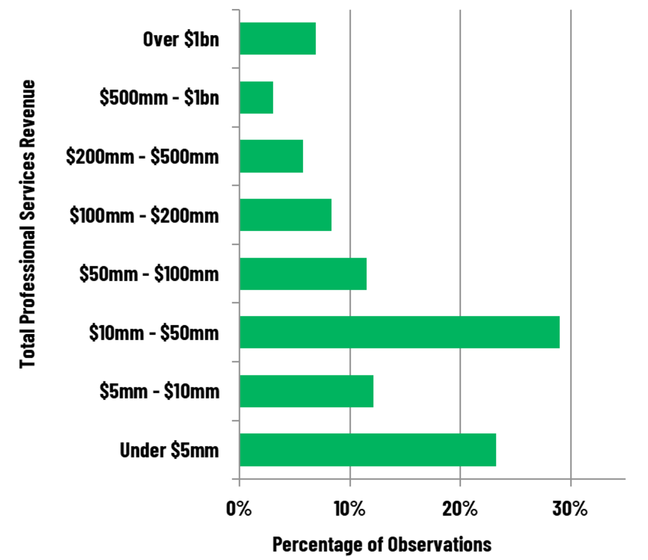



*Source: SPI Research, February 2024*

## Total Company Revenue

Many of the ESOs are part of a larger enterprise that also sells a variety of other products and services. As well, many of the independent professional service providers also sell products or the responding group is an individual practice within a larger firm. Most 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 $153 million in total revenue including $72.4 million in PS revenue (Figure 18). The percentage of total revenue produced by PS represented 47% this year. The percentage of overall PS revenue contribution has steadily increased over the years, reflecting the importance of the new "everything as a service" economy.

**Figure 18: Total Company Revenue**




*Source: SPI Research, February 2024*

**Table 15: YoY Change in Annual Company Revenue (mm)**

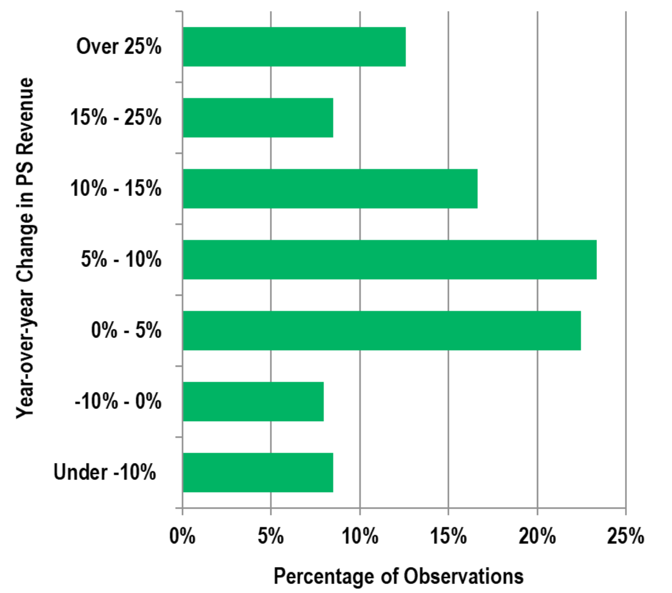
| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | $178 | $153 | -14% | Under 10 | $5 | $23 | 407% |
| ESO | $320 | $241 | -25% | 10 - 30 | $42 | $25 | -42% |
| PSO | $118 | $118 | -1% | 31 - 100 | $63 | $64 | 1% |
| Amer | $186 | $149 | -20% | 101 - 300 | $159 | $123 | -23% |
| EMEA | $136 | $135 | -1% | 301 - 700 | $244 | $282 | 16% |
| APac | $194 | $229 | 18% | Over 700 | $776 | $705 | -9% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | $126 | $143 | 14% | Arch. / Engr. | $96 | $32 | -66% |
| Mgmt. Consult. | $86 | $55 | -36% | Agency | $119 | $54 | -54% |
| Software PS | $391 | $300 | -23% | Healthcare | $310 | $188 | -39% |
| SaaS PS | $243 | $347 | 43% | Other PS | $193 | $155 | -20% |

*Source: SPI Research, February 2024*

## 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 19). In 2023 the average PS revenue was $72.4mm, with ESOs averaging $76.3mm and independents averaging $70.7mm. APac led the way with $141mm in PS revenue per firm, while North America averaged $62.1mm. EMEA averaged $77.7mm.

**Figure 19: Total Professional Services Revenue**



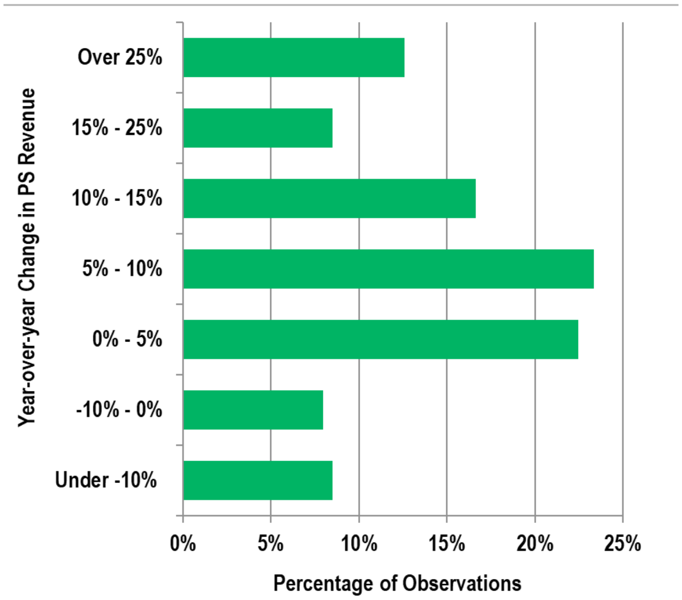

*Source: SPI Research, February 2024*

## Year-over-year change in PS Revenue

For the past five years, PS annual revenue growth has averaged 9.6% (Figure 20). In 2020, due to COVID, annual PS revenue growth declined to 8.7%, down from 10.6% in 2019. In 2021 things improved with hiring back up to 10.6%. 2022 saw a slight decline in revenue growth (10.4%). 2023 also saw a more significant decline in revenue growth (7.8%), setting up a focus on sales in 2024.

Independent providers averaged 7.7% revenue growth, whereas embedded service providers grew at 8.0%. Firms with under 10 employees grew the fastest at 9.1%. 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 20: YoY change in PS Revenue**




*Source: SPI Research, February 2024*

**Table 16: YoY Change in Annual PS Revenue (mm)**

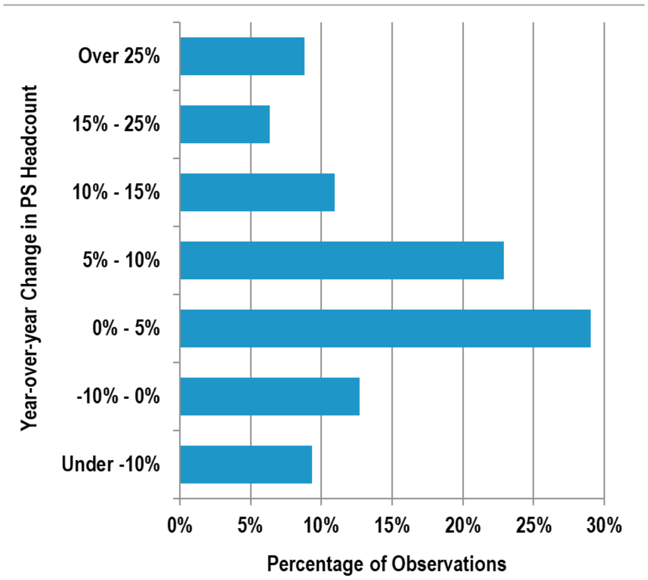
| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 10.4% | 7.8% | -25% | Under 10 | 6.0% | 9.1% | 51% |
| ESO | 10.2% | 8.0% | -22% | 10 - 30 | 10.0% | 7.4% | -26% |
| PSO | 10.4% | 7.7% | -26% | 31 - 100 | 10.4% | 7.4% | -29% |
| Amer | 10.3% | 7.1% | -31% | 101 - 300 | 12.0% | 7.4% | -38% |
| EMEA | 11.9% | 10.3% | -14% | 301 - 700 | 12.4% | 7.5% | -39% |
| APac | 7.3% | 7.3% | -1% | Over 700 | 10.5% | 8.8% | -16% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 13.1% | 10.0% | -23% | Arch. / Engr. | 9.4% | 7.5% | -21% |
| Mgmt. Consult. | 7.4% | 9.0% | 22% | Agency | 6.0% | -0.7% | -111% |
| Software PS | 10.6% | 8.7% | -18% | Healthcare | 7.4% | 13.5% | 83% |
| SaaS PS | 10.2% | 9.3% | -9% | Other PS | 11.4% | 6.1% | -46% |

*Source: SPI Research, February 2024*

## Year-over-year Change in PS Headcount

Employee headcount growth in 2020 hit a low at 5.5% due to COVID. In 2021 hiring grew to its highest level at 9.1%, and in 2022 came down slightly to 8.5% Unfortunately, in 2023 headcount only grew 5.2%, the lowest growth in over a decade (Figure 21)!

**Figure 21: YoY change in PS Headcount**




*Source: SPI Research, February 2024*

Both embedded and independents had exactly 5.2% employee headcount growth. APac grew the fastest, but only at 6%. SPI found it interesting the largest firms showed the greatest growth while the smallest firms showed the least. 2023 was a year of market change, as firms in every PS market and of all sizes prepare for 2024. There was just too much market volatility in 2023, which drove more conservative hiring decisions.

Healthcare professional services grew employee headcount 11.1%, which demonstrates the importance of this market as the population ages and there are more health concerns. Agencies showed a reduction in headcount of 1.3%, which doesn't typically happen in the professional services market.

**Table 17: YoY Change in PS Headcount**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 8.5% | 5.2% | -38% | Under 10 | 1.4% | 2.6% | 78% |
| ESO | 9.1% | 5.2% | -43% | 10 - 30 | 6.2% | 5.7% | -8% |
| PSO | 8.2% | 5.2% | -36% | 31 - 100 | 8.7% | 4.3% | -51% |
| Amer | 8.1% | 5.0% | -39% | 101 - 300 | 10.6% | 5.7% | -46% |
| EMEA | 9.7% | 5.8% | -40% | 301 - 700 | 12.6% | 7.2% | -43% |
| APac | 9.3% | 6.0% | -35% | Over 700 | 11.0% | 7.7% | -30% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 11.5% | 6.4% | -44% | Arch. / Engr. | 7.8% | 4.9% | -37% |
| Mgmt. Consult. | 4.3% | 7.3% | 69% | Agency | 4.2% | -1.3% | -130% |
| Software PS | 8.2% | 6.3% | -24% | Healthcare | 7.6% | 11.1% | 45% |
| SaaS PS | 9.7% | 7.2% | -26% | Other PS | 9.2% | 3.1% | -66% |

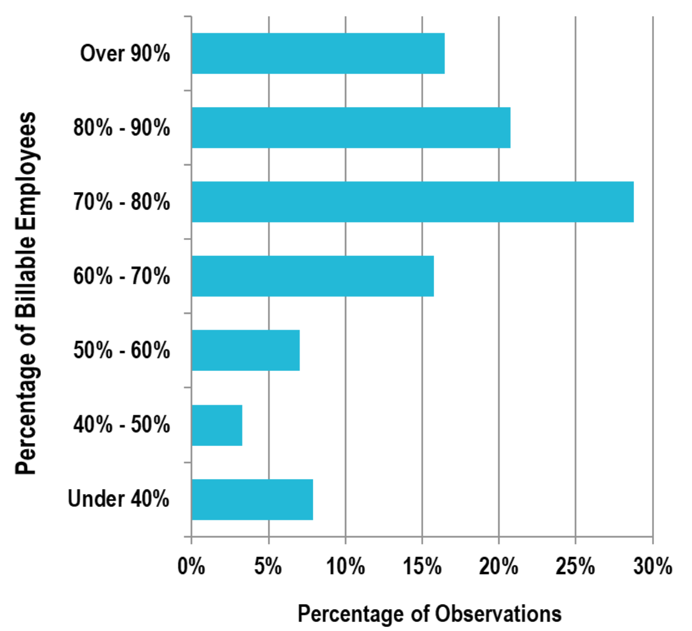
*Source: SPI Research, February 2024*

## *Percentage of Employees Billable (or Chargeable)*

SPI Research found the percentage of billable employees decreased to 71.5% in 2023, its lowest level in five years (Figure 22).

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 is a necessary component of leadership and developing infrastructure, systems and tools which support growth, consistency, and quality.

**Figure 22: Percentage of Employees Billable**

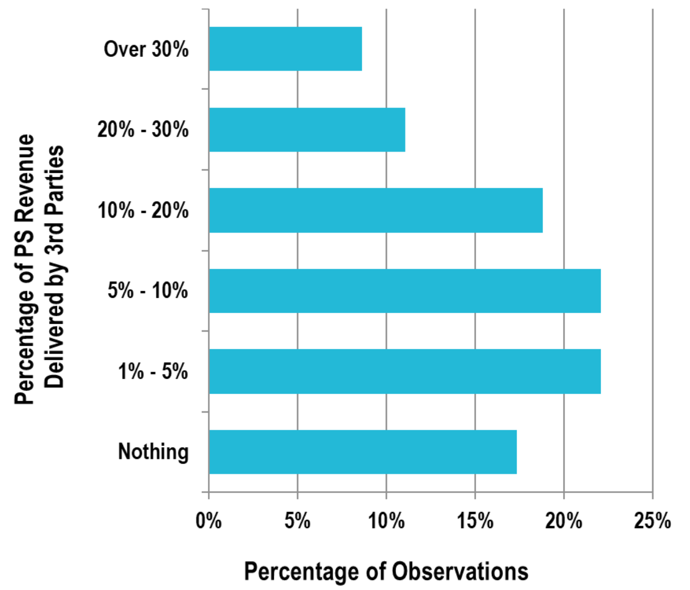



*Source: SPI Research, February 2024*

## Percentage of PS Revenue Delivered by Third Parties

A viable third-party (subcontractors) is important to most PSOs, especially as they grow in size. They offer additional services that might not be core to the PSO, or additional "bodies" when there is more work than they can manage with the internal workforce. Every year this KPI has averaged between 10% - 15%. Figure 23 shows the distribution of survey responses in terms of the amount of revenue generated by third-party resources. The average percentage of PS revenue generated by subcontractors was 10.2%, down from 11.2% in 2022. ESOs used a third-party workforce to generate 10.0% of revenue, whereas independents reported 10.3%. APac used a third-party workforce to generate 11.8% of revenue; the Americas 10.3% and EMEA averaged 9.2%.

Figure 23: Percentage of PS Revenue Delivered by 3rd-parties




*Source: SPI Research, February 2024*

By vertical, Healthcare and Management Consultancies used outside subcontractors most, generating 10.6% and 10.1% of revenues, respectively. Agencies used outside contractors the least at 8.9%. Subcontractor use tends to grow proportionately with organization size.

# Chapter 4

# High-Performance Professional Service Organizations

## HIGH-PERFORMANCE PROFESSIONAL SERVICES ORGANIZATIONS

SPI Research annually analyzes the top 20% (in terms of overall maturity score) of PS Maturity™ benchmark participants to uncover the reasons for their superlative performance. The focus of this chapter is on these ***High-Performance PSOs*** (Level 4 and 5 performers). They have all performed very well, but not with targets so high that other PSO's cannot aspire to operate like them.

In this year's benchmark, SPI Research analyzed the top 115 firms (20% of 575), according to aggregate PS Maturity™ scores. Each of the 575 participating organizations is scored across all five service performance pillars to determine an individual score as well as overall maturity ranking. The following sections highlight some of the findings comparing the high-performance organizations to the rest of the survey participants.

**Table 18: High-Performance PSO Comparison – Demographics**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| Number of firms | 115 | 460 | |
| Size of PS organization (employees) | 756 | 429 | 76% |
| Annual company revenue (mm) | $196.0 | $142.7 | 37% |
| Total professional services revenue (mm) | $113.8 | $61.9 | 84% |
| Year-over-year change in PS revenue | 13.6% | 6.3% | 116% |
| Year-over-year change in PS headcount | 9.7% | 4.1% | 139% |
| % of employees billable or chargeable | 78.0% | 69.8% | 12% |
| % of PS revenue delivered by 3rd-parties | 11.3% | 10.0% | 13% |

*Source: SPI Research, February 2024*

### Demographics

Table 18 highlights the 115 High-Performance PSOs (HPOs). 69% were independents while 31% were embedded services organizations (ESOs). IT consultancies represented 31% of the highest performers followed by SaaS PS at 17%.

HPOs averaged 76% more employees than the less employees than the others, at 756 employees. They also averaged 37% more annual revenue than the others, at $196mm, and 84% more annual PS revenue than the others, at $114mm.

### Leadership

The leading firms tend to be highly specialized and concentrate on specific high-growth technology or IT segments or vertical industries. The executives of high-performing organizations are seasoned professionals – often with a track record of founding and growing multiple prior consulting organizations. In early-stage organizations there is a tendency to "chase shiny objects" with dramatic strategic shifts not necessarily backed by analysis or investments.

**Table 19: High-Performance Planning Comparison (1-5 Scale)**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| Forecasted revenue growth in 2024 (over 2023) | 15.4% | 10.4% | 48% |
| Plan to embark on any major performance initiatives in 2024 | 64.2% | 57.3% | 12% |
| Have a documented methodology for quantifying value added to clients | 67.1% | 49.3% | 36% |
| Planned geographic expansion in 2024 | 48.2% | 32.3% | 49% |
| Have initiated outcome-based billing models | 42.1% | 30.2% | 39% |

*Source: SPI Research, February 2024*

Although high performing leaders are competitive and consistently in search of new growth opportunities, they are more balanced in their investments to ensure rapid payback with a goal of expanding recurring revenues.

**Table 20: High-Performance AI Concentration Comparison (1-5 Scale)**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| Artificial Intelligence (AI) / Machine Learning (ML) is important to the PSO going forward | 3.98 | 3.66 | 9% |
| Artificial Intelligence (AI) / Machine Learning (ML) is important to the PSO's clients going forward | 3.93 | 3.61 | 9% |
| AI/ML will impact PSO's delivery models of the future | 3.87 | 3.68 | 5% |
| How well the PSO is incorporating AI/ML to increase efficiencies | 3.27 | 2.83 | 15% |

*Source: SPI Research, February 2024*

Artificial Intelligence (AI) will play a larger role in Professional Services. Table 20 highlights leaders' opinions of how AI will impact them going forward. They also believe their ability to use both AI and machine learning (ML) will help increase organizational efficiency. The market is just beginning to experience the rebirth of AI. While the technology has been around for over 30 years, 2024 should be the year where PSO's rapidly increase their use and consulting in this exciting market.

Leaders at the HPOs 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.

**Table 21: High-Performance PSO Comparison – Leadership (1-5 Scale)**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| Well understood vision, mission and strategy | 4.37 | 3.67 | 19% |
| Confidence in PS leadership | 4.53 | 3.80 | 19% |
| Ease of getting things done | 4.30 | 3.54 | 21% |
| Goals and measurement alignment | 4.42 | 3.58 | 24% |
| Employees have confidence in PSO's future | 4.43 | 3.64 | 22% |
| Effectively communicates w/employees | 4.37 | 3.70 | 18% |
| Embraces change - nimble and flexible | 4.29 | 3.60 | 19% |
| Innovation focused | 4.18 | 3.45 | 21% |
| Data-driven | 4.20 | 3.34 | 26% |
| **Total** | **39.1** | **32.3** | **21%** |

*Source: SPI Research, February 2024*

Leadership is one of the most important factors driving success in the professional services market. In today's virtual work environment, maintaining a personal connection while fostering collaboration, "fun" and personal growth are important leadership roles. Increasingly leading firms are focused on promoting from within with investments in skill and career building to ensure young workers stay with the firm and are continually presented with growth opportunities.

Table 21 compares the leadership metrics of the highest performing organizations with the remainder of the survey. The highest differential score is "data-driven," while second was in the "Goals and measurement alignment."

Some leadership principles remain constant: Leaders take on challenges that others are not able to handle, and they invest in the future with a focus on innovation. Leaders are clear and decisive in defining their vision of the future and their firm's place in the universe. Strategic clarity is further cemented by abundant communication which manifests in confidence in leadership and trust. Leading PSOs cultivate egalitarian, non-hierarchical, flat organizations in which all employees are invested 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 which fosters customer loyalty.

**Table 22: High-Performance PSO Improvement Focus**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| Revenue Growth | 36.2% | 35.6% | 1% |
| Organizational Profit | 22.9% | 23.6% | -3% |
| Client Satisfaction | 22.1% | 23.5% | -6% |
| Talent Optimization | 18.8% | 17.3% | 9% |
| **Total** | **100.0%** | **100.0%** | |

***Source: SPI Research, February 2024***

## Client Relationships

SPI found it interesting the high performers averaged over 40% of their revenue from IT consulting. Most high-performers firms push management consulting with its higher bill rates. The high performers sold about 12% more services to new clients than the others. 2023 was somewhat of a down year in professional services, and these firms showed success can still be achieved through persistence and hard work. The high-performance firms also had more employees dedicated to service sales, and with a higher annual selling requirement. Overall, their focus on sales helped them to drive superior results.

**Table 23: High-Performance PSO Comparison – Client Relationships**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| Current clients - existing services | 51.6% | 52.4% | 2% |
| Current clients - new services | 15.4% | 16.7% | 8% |
| New logo clients - existing services | 22.5% | 20.1% | 12% |
| New logo clients - new services | 10.5% | 10.8% | -3% |
| Deal pipeline relative to qtr. bookings forecast | 201% | 142% | 41% |
| Bid-to-win ratio (per 10 bids) | 55.4% | 46.2% | 20% |
| % of the quarterly revenue target in backlog | 51.4% | 41.8% | 23% |
| Service discount given | 8.9% | 7.9% | -12% |
| Percentage of referenceable clients | 74.9% | 67.2% | 11% |
| Solution development effectiveness | 4.05 | 3.50 | 16% |
| Service sales effectiveness | 4.00 | 3.42 | 17% |
| Service marketing effectiveness | 3.41 | 3.08 | 11% |
| Efficiency of quoting service engagements | 3.92 | 3.26 | 20% |
| The technology infrastructure supports growth | 3.98 | 3.37 | 18% |

***Source: SPI Research, February 2024***

In this year's benchmark, high performers generated about double the revenue compared to the others. HPOs usually generate more new logo client revenue than average firms as they are continually expanding their client base. HPOs generated 33% of their revenue from new logo clients compared to 30% for average firms. The high-performing firms were much more productive at sales in large part because their clients are much happier and more referenceable (Table 23). Leaders kept a significantly larger pipeline, bigger backlog, and won more bids. Sales success does help eliminate issues in other areas of firms, as growing PSO's tend to have happier consultants and make more money. It is always imperative for all professional service organizations to succeed in the sales process, with better and more targeted marketing combined with value-based selling. Client references, or more satisfied clients, tend to go a long way in terms of driving growth, profit, and employee satisfaction. Many firms have implemented client success programs to ensure their clients are satisfied with the work, and if not, they rapidly work to fix it.

SPI Research found it interesting that high-performance sold a much higher percentage of Time and Materials based work (46.3% vs. 37.6%) than the others. With consultants in short supply, there is little wonder they can sell more T&M work.

## Talent

Talent is central to all PSOs and is always a hot topic. In a hyper-competitive talent market, HPOs have become laser-focused on their employment brand. Organizations embrace technology to help reinvent the workplace with knowledge-sharing, team building, transparency, and collaboration at the core of their continuous learning cultures. Support for a virtual workforce includes use of the best virtual tools and technologies with an emphasis on productivity, knowledge sharing and collaboration.

**Table 24: High-Performance PSO Comparison – Talent**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| Average tenure at the firm of consultants (years) | 6.73 | 6.07 | 11% |
| Employee annual attrition - voluntary | 7.5% | 7.3% | -4% |
| Employee annual attrition - involuntary | 6.0% | 4.9% | -22% |
| Days to recruit and hire for standard positions | 62.5 | 66.8 | 6% |
| Days for a new hire to become productive | 58.4 | 63.5 | 8% |
| Guaranteed annual training days / employee | 11.0 | 9.8 | 13% |
| **Employee billable utilization** | **75.4%** | **67.7%** | **11%** |
| Annual fully loaded cost per consultant (k) | $143 | $124 | 16% |
| Recommend company to friends/family | 4.66 | 3.94 | 18% |
| Well-understood career path for all emp. | 4.15 | 3.39 | 22% |
| Employees have the tools they need to deliver quality services efficiently and effectively | 4.44 | 3.80 | 17% |
| **Onsite delivery** | **29.4%** | **45.6%** | **-35%** |

*Source: SPI Research, February 2024*

Table 24 compares Talent Pillar KPIs between the High-Performance PSOs and the others. Employee attrition, whether voluntary or involuntary, went up this year to 13.5% for HPOs compared to 12.2% for the rest. This increase in attrition could be the result of dissatisfaction or the competition has come in with greater packages. Two of the more significant differences between HPOs and the rest are that high-performance firms have much higher billable utilization (75.4% vs. 67.7%) than the rest. This year, HPO firms averaged over 150 additional billable hours per year per consultant. While they had higher fully loaded costs than the others, the HPO firms made up for it in terms of higher billable utilization. They also did a superior job of supporting remote employees, which reduced nonproductive time, while impacting billable utilization very positively.

High-performing organizations place a premium on quality recruiting and on-boarding programs, which result 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. Some create rotational assignments to give their employees greater exposure to other technologies and clients. Employees who continually learn and expand their knowledge base tend to stay with their employer. When the work is not challenging or interesting, morale suffers, and attrition rises. Over the past few years, leading firms have moved to a 70% virtual environment, but the high performers had already moved to support virtual operations long before COVID forced them. This environment means they don't invest in expensive facilities but keep morale high with in-person meetings and company retreats and team building events to enhance communication.

## Service Execution

Solid sales growth and a motivated and talented workforce are critical to success. However, if the firm cannot deliver efficiently and effectively it doesn't matter how much is sold and the quality of the people.

Table 25 compares Service Execution pillar metrics between the high-performance organizations and the rest. Quality service execution is what really sets top performing organizations apart. They tend to be highly disciplined in all facets of service execution. The table points out leaders tackling 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 can 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.

**Table 25: High-Performance PSO Comparison - Service Execution**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| Revenue per project (k) | $291 | $155 | 88% |
| Project staff (people) | 4.99 | 4.28 | 17% |
| Project duration (months) | 5.91 | 5.72 | 3% |
| No. of projects a PM manages at a time | 5.55 | 5.85 | -5% |
| No of projects a consultant works on at a time | 3.83 | 4.32 | -11% |
| Our firm uses a project mgmt. office (PMO) | 47.0% | 33.3% | 41% |
| Use a standardized delivery methodology | 77.8% | 61.5% | 27% |
| The frequency on a project the contract needs to be modified due to scope change | 1.39 | 1.50 | 8% |
| Projects delivered on-time | 85.3% | 73.1% | 17% |
| Project overrun | 7.6% | 10.2% | 25% |
| Project margin for time & materials projects | 40.0% | 31.9% | 25% |
| Project margin for fixed price projects | 39.9% | 32.4% | 23% |
| Project margin — subs, offshore | 34.4% | 25.7% | 34% |
| Resource management process effectiveness | 4.10 | 3.38 | 21% |
| Estimating processes and review effectiveness | 4.01 | 3.35 | 20% |
| Change control process effectiveness | 4.00 | 3.27 | 22% |
| Project quality process effectiveness | 4.10 | 3.55 | 15% |
| Knowledge mgmt. processes effectiveness | 3.84 | 3.36 | 14% |
| **Onsite delivery** | **29.4%** | **45.6%** | **-35%** |

*Source: SPI Research, February 2024*

Because the best firms deploy the best consultants and effectively use PSA solutions to exceed client expectations, every facet of their projects are more profitable. The table also shows improvement in virtually every Service Execution pillar metric. High performers did an excellent job of generating much more revenue per project, utilizing standard delivery methodologies, minimizing scope creep and delivering services on time, on budget at much higher margins. This success is what one would expect from the top performing firms.

## Finance and Operations

High-Performers generate profit! They are focused on financial success as a means of growth. The Professional Services Maturity Model™ scoring over-weights financial success, meaning leaders in this survey were much more profitable than their peers.

Table 26 shows the enviable financial results from this year's HPOs. They had significantly higher revenue per billable employee as well as per overall employee. They were much more successful at reaching both target revenue and margin goals. Proper planning with talented employees and a schedule that is met tend to drive these figures much higher. The high performers had a somewhat higher day sales outstanding (DSO) but did better at meeting forecasts, emphasizing the need for superior planning tools. Profitability for the high performers was nearly 60% higher than the others. At 20.3%, compared to 12.7% for the others, the profitability of these organizations goes a long way to fueling future growth. PS leaders at top performing firms always have their eye on the bottom line.

**Table 26: High-Performance PSO Comparison – Finance and Operations**

| Key Performance Indicator (KPI) | HPO | Rest | ▲ |
|---|---|---|---|
| **EBITDA** | **20.3%** | **12.7%** | **59%** |
| Annual revenue per billable consultant (k) | $253 | $193 | 31% |
| Annual revenue per employee (k) | $220 | $154 | 42% |
| Percent of annual revenue target achieved | 97.2% | 88.7% | 10% |
| Percent of annual margin target achieved | 94.6% | 85.6% | 11% |
| Revenue leakage | 3.9% | 4.9% | 20% |
| % of inv. redone due to error/client rejections | 1.8% | 2.0% | 12% |
| Days sales outstanding (DSO) | 46.8 | 43.1 | -9% |
| Quarterly non-billable expense per employee | $1,685 | $1,725 | 2% |
| Days to incorporate a new acquisition | 169 | 164 | -3% |
| Executive real-time wide visibility | 4.02 | 3.26 | 23% |
| PS can accurately forecast revenue and skills | 3.99 | 3.11 | 28% |
| Direct labor as a percent of direct revenue | 64.0% | 64.6% | 1% |

***Source: SPI Research, February 2024***

## The High-Performance PSOs Use PS Applications

As noted in the prior section, high performance PSO's have better information visibility than lower performing firms. The adjacent table highlights the use of business solutions to better run the business. High-Performance PSO's use the five core information solutions to improve their performance:

- ∆ Corporate Financial Management (CFM)
- ∆ Client Relationship Management (CRM)
- ∆ Professional Services Automation (PSA)
- ∆ Human Capital Management (HCM)
- ∆ Planning (PL) / Business Intelligence (BI)

In professional services, PSA is the core solution to drive operational success. As can be noted from the table nearly 90% of HPOs use PSA, and nearly over half have it integrated with the core financial management solution, which gives executives the ability to understand project related data in real-time.

Table 27 depicts the level of commercial business application use and integration for top performing organizations versus the rest. In all core business applications categories, top performers invested more in business applications. Because they use these applications to run the business, they are much more satisfied with their application infrastructure.

**Table 27: High-Performance PSO Comparison – Business Applications**

| Solution | HPO | Rest | Delta |
|---|---|---|---|
| Corporate financial mgmt. solution (CFM) | 97.4% | 94.0% | 4% |
| Satisfaction with financial solution | 4.03 | 3.68 | 9% |
| Commercial CRM solution | 93.0% | 79.5% | 17% |
| Satisfaction with CRM solution | 4.15 | 3.68 | 13% |
| CRM is integrated with CFM | 48.9% | 51.9% | -6% |
| Commercial PSA | 89.5% | 70.4% | 27% |
| Satisfaction with PSA solution | 4.19 | 3.63 | 15% |
| PSA is integrated with CFM | 45.0% | 51.0% | -12% |
| Level of CRM and PSA Integration | 67.6% | 50.8% | 33% |
| Commercial HCM solution | 78.1% | 65.1% | 20% |
| Satisfaction with HCM solution | 3.82 | 3.45 | 11% |
| HCM is integrated with CFM | 56.6% | 59.5% | -5% |
| Use a commercial Planning / BI solution | 63.4% | 51.7% | 23% |
| Satisfaction with Planning / BI solution | 4.18 | 3.53 | 19% |
| Planning / BI is integrated | 46.6% | 54.3% | -14% |

*Source: SPI Research, February 2024*

In this year's survey the HPOs had less integration of the core business solutions than their peers, with one notable exception – CRM and PSA integration was significantly higher this year. This integration is important because the two groups that directly interact with clients – sales and delivery – must have consistent information to coordinate the best way to plan, sell, staff and deliver professional services. SPI Research often discusses the importance of information integration. Visibility throughout the PSO ensures everyone is operating with the same information to achieve organizational goals.

## High-Performance Conclusions

The High-performing organizations in this year's benchmark demonstrated very strong results. Each year the KPIs change, but regardless of economic conditions, the competition, or other geopolitical issues, HPOs figure out a way to succeed. SPI Research has worked with many of these firms to improve performance. And like the game of golf, a great score in one year doesn't necessarily mean a great score the next. Focus is the key and high performers always look for improvements, utlizing information to drive superior results.

# Chapter 5

# Professional Services Business Applications

## PROFESSIONAL SERVICES BUSINESS APPLICATIONS

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 quite different from classic manufacturing and supply-chain focused Enterprise Resource Planning (ERP) applications as they must include functionality for managing resources (people) and projects (tasks). Increasingly, project-based ERP (PBERP) application providers added rich talent management capabilities to support recruitment, on-boarding, compensation and rewards for the employees who are their core asset. The fact is that as globalization continues to evolve, PS firms need the tools to help them operate more efficiently and effectively.

Professional services organizations must, at a bare minimum, sustain initiatives to perform at the highest level possible. However, they must also innovate in both market-facing and internal systems. Transformation begins with building the internal excellence that is foundational to the quality of services delivered externally. PSOs must continue to hire, train, and retain the most talented employees available, as they create innovative services with far-reaching demand. These ongoing initiatives require that PSOs have the capital necessary to invest and the informed ability to invest that capital wisely in areas that they can grow.

Professional Services organizations are increasingly compelled to quantify the value of the work they deliver to justify the premium prices that fuel growth. Their mandate has become to demonstrate a quantifiable return for work they deliver, and in foreshortened time cycles. The information tools must support the five phases of organizational execution that SPI Research has identified as the critical success disciplines for PSOs of all sizes:

1. ***Analysis and Business Planning***: Establish annual plans with the knowledge that change (organizational, geopolitical, etc.) can force PSOs to adapt to their unfamiliar environment without deterring its mission, goals and performance.
2. ***Client Acquisition***: Create, package, market and sell of services and products that are unique, in demand, and have a quantifiable value.
3. ***Talent Optimization***: Build a "talent portfolio" — recruit, hire, train and keep the best and brightest people, with both strong professional and personal skills.
4. ***Service Delivery***: Innovate, add quality, collaborate, maximize utilization, collect project information.
5. ***Financial Performance***: Assurance the organization optimizes both its inflow and outflow of capital — maintain healthy cash flow and margins, invoice accurately and completely, and collect in a timely manner.

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. The solutions highlighted in this chapter help PSOs optimize operational effectiveness through increased visibility, streamlined business processes and cost management.

***This study is not intended to be an overall application market adoption survey and should not be relied on as such.***

## Primary Professional Services Business Applications

The primary business applications used by Professional Services organizations include (Figure 24):


***Planning (PL) / Business Intelligence (BI)***: The assembly and use of information to improve decision-making, extensively used to plan and analyze. In prior reports SPI Research termed this application as Business Intelligence (BI), but the market has moved to be more planning oriented.


***Client Relationship Management (CRM)***: The automation of client relationship processes to improve sales and marketing efficiency and effectiveness.

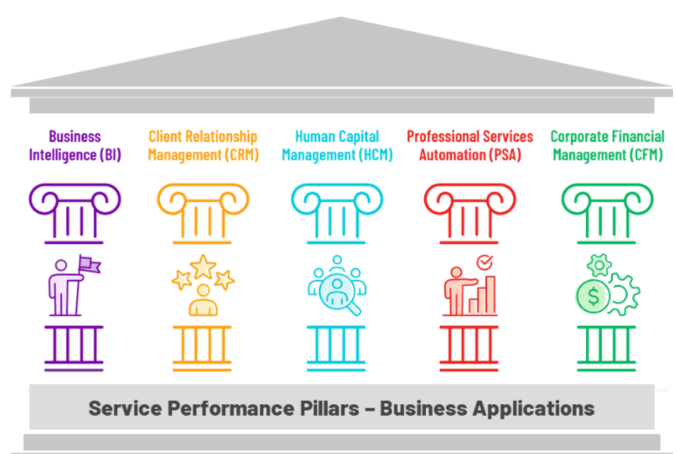

***Human Capital Management (HCM)***: Talent management solutions for recruiting, hiring, compensation, goal setting and career and performance management which rely on integration with and extracts from the employee database.


***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.


***Corporate Financial Management (CFM)***: The fundamental solution required to accurately collect and report financial transactions.

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. Figure 25 highlights the Importance of these solutions to optimize operations from annual planning through the achievement of high levels of profit, what SPI Research calls the **Plan-to-Profit (P2P)** process.

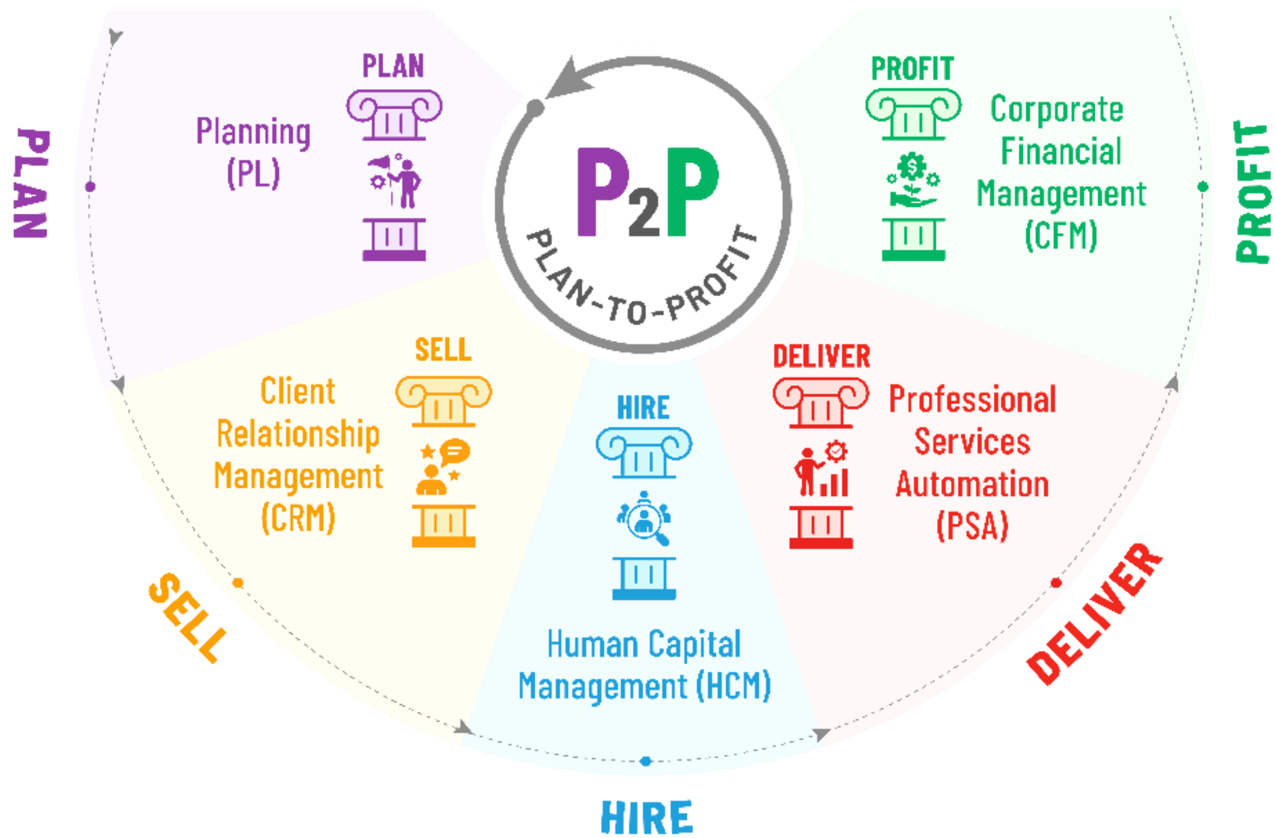
**Figure 24: Professional Services Primary Business Applications**




***Source: SPI Research, February 2024***

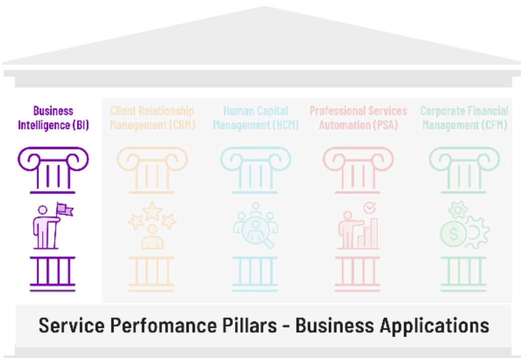
The importance of business applications supporting the Plan-to-Profit process is that information in one phase (for example Plan) must be passed on to the next phase (Sell) so that the individuals responsible for marketing and sales understand what is expected of them and can create plans and tools to sell professional services more efficiently and effectively. Likewise, sales plans don't work well without qualified people. Therefore, information must then be passed on to the group responsible for hiring talent, so they understand not only the skills required, but the cost of those skills as well. This process continues as now with the optimal talent pool, PSO's can staff and deliver projects at a price that meets both timeliness, quality *and* margin requirements. Finally, PSOs can invoice and collect from their clients. This process is difficult enough to begin with and without the necessary real-time information, it is extremely hard for PSOs to meet both revenue and margin requirements.

**Figure 25: Applications Must Support the Plan-to-Profit Business Process**




*Source: SPI Research, February 2024*

## Planning (PL) / Business Intelligence (BI)



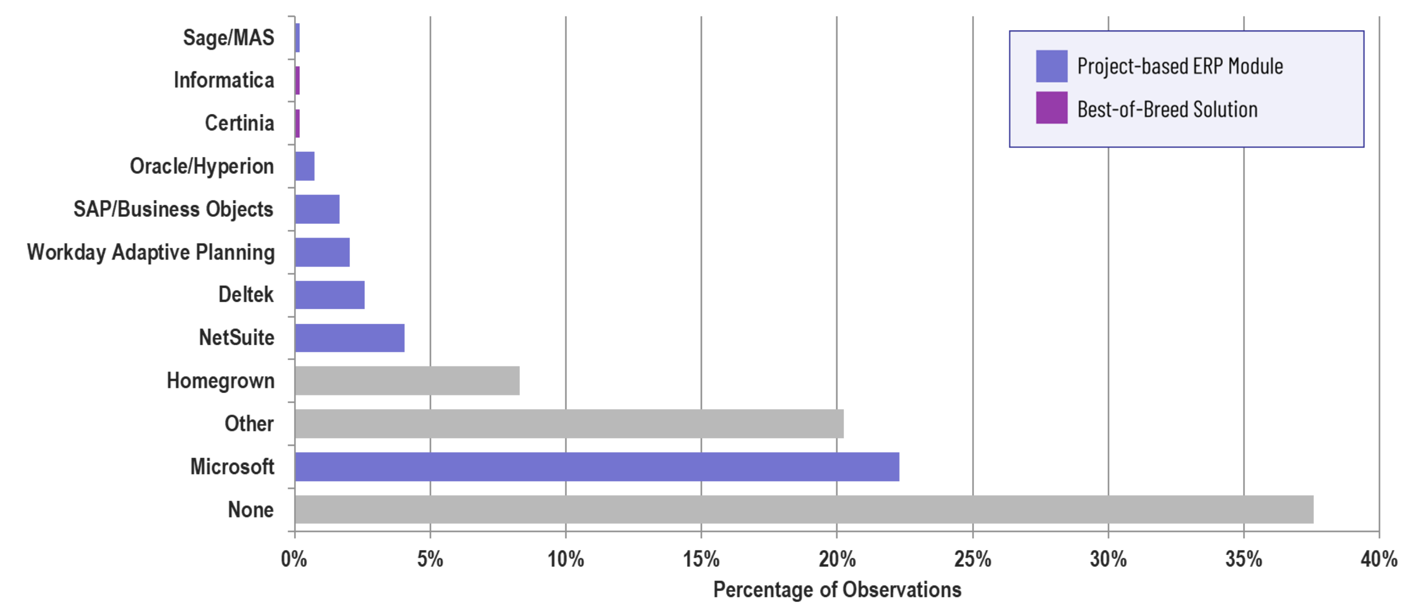

Planning / Business Intelligence integrates information from core business applications to improve strategic analysis, demand and capacity planning, budgeting, forecasting, and financial planning. Planning (PL) and BI solutions continue to increase adoption in PSOs, whether they are offered as stand-along tools or part of integrated business applications for reporting and analysis. As professional services organizations mature, PL/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 is an important solution for annual planning, as PS executives try to uncover areas where additional growth and profit can be extracted.

**Planning / Business Intelligence (BI)**

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

Figure 26 shows relatively low adoption levels of Planning/Business Intelligence in this year's survey. Like prior surveys, no solution, Microsoft, other and homegrown are the most prevalent PL/BI solutions. Of the Project-based ERP (suite) providers, NetSuite/Oracle/ Hyperion; SAP/ Business Objects, Deltek, and Workday Adaptive Planning; each have a wide following. SPI Research found it interesting that most of the solutions in this survey were part of a Project-based ERP suite.

**Figure 26: Planning (PL) / Business Intelligence (BI) Solution used by Firms Completing this Survey**




***Source: SPI Research, February 2024***

The results in Table 28 highlight some of the core benefits organizations have achieved that use BI solutions. While each improvement is impressive, growth in revenues and headcount and size of the deal pipeline stand out. The fact is PL/BI is a strategic tool that helps PSOs plan, budget and forecast their business. Its powerful "what if" analysis tools help PSOs model capacity and resource plans to achieve optimal results.

**Table 28: Impact – Planning / Business Intelligence (BI) Use**

| Key Performance Indicator (KPI) | PL / BI Used | PL / BI Not Used | ▲ |
|---|---|---|---|
| Survey % | 51.1% | 43.3% | |
| Deal pipeline / quarterly bookings forecast | 159% | 149% | 7% |
| Revenue per project (k) | $217 | $137 | 58% |
| Project duration (man-months) | 33.4 | 24.5 | 36% |
| Annual revenue per employee (k) | $173 | $163 | 6% |
| **Project margin** | **35.4%** | **33.5%** | **5%** |

*Source: SPI Research, February 2024*

Surprisingly to SPI Research, as shown in Table 29, PL/BI solutions are fully integrated with the core financial application by 50% of the organizations surveyed. Where there is no integration, it suggests those organizations are not taking advantage of the integrated capabilities Project-based ERP offer.

**Table 29: Impact – Planning / BI Integration**

| PL/BI is integrated | Survey | Revenue growth | On-time project delivery | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | % of ann. margin target |
|---|---|---|---|---|---|---|
| No | 53.0% | 8.0% | 82.0% | $204 | $169 | 88.9% |
| Yes | 47.0% | 8.7% | 77.9% | $229 | $190 | 89.1% |
| **Total/Average** | **100.0%** | **8.3%** | **80.1%** | **$215** | **$179** | **89.0%** |

*Source: SPI Research, February 2024*

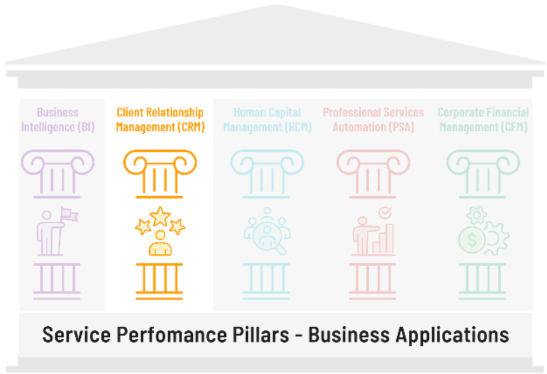
SPI Research also saw that over half the organizations surveyed are satisfied (Table 30) with their Planning / BI solution. The net results are impressive as project margin and profitability improve with user satisfaction.

**Table 30: Impact – PL / BI Satisfaction**

| Satisfaction with PL / BI solution | Survey % | Org. size (emp) | Deal pipeline | Billable utilization | Project margin | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| Very Dissatisfied | 4.9% | 301 | 137% | 65.8% | 36.3% | 8.3% |
| Somewhat Dissatisfied | 6.7% | 457 | 130% | 68.4% | 31.7% | 11.0% |
| Indifferent | 32.2% | 517 | 145% | 68.8% | 33.3% | 13.1% |
| Somewhat Satisfied | 37.6% | 804 | 153% | 70.3% | 34.7% | 16.6% |
| Very Satisfied | 18.6% | 426 | 190% | 71.5% | 39.1% | 13.5% |
| **Total/Average** | **100.0%** | **593** | **155%** | **69.7%** | **34.9%** | **14.1%** |

*Source: SPI Research, February 2024*

## Client Relationship Management (CRM)



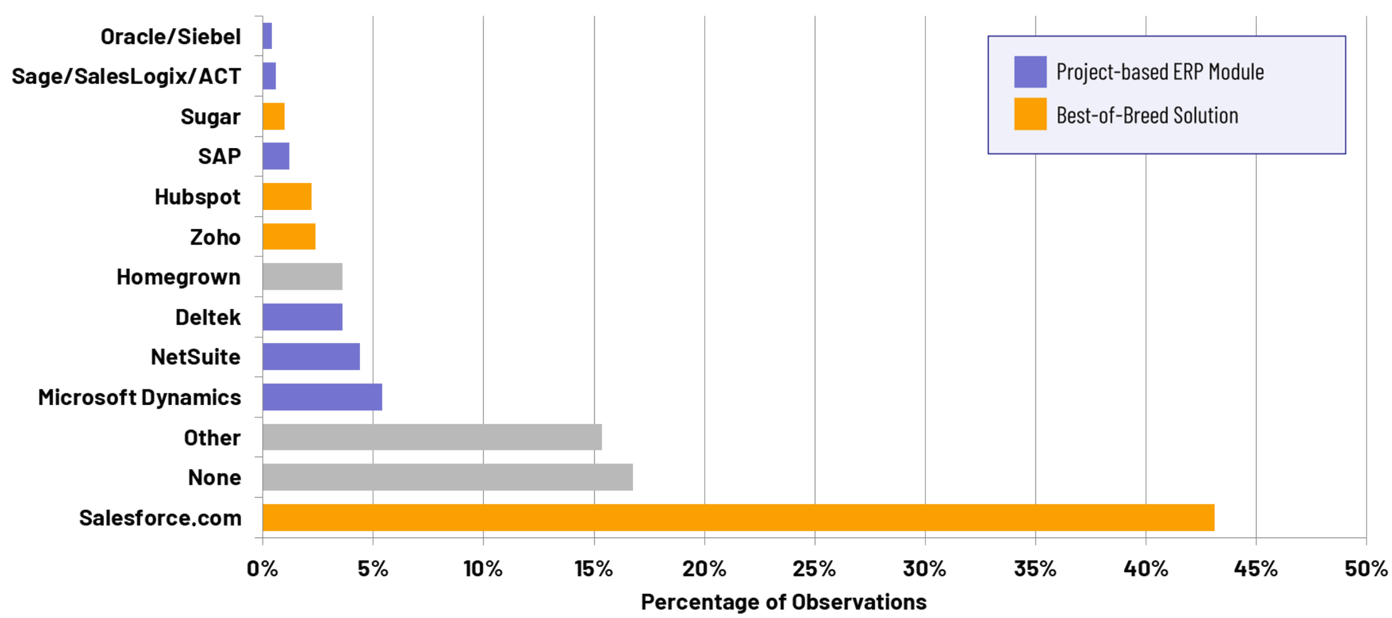

CRM supports the management of client relationships and is designed to improve sales and marketing effectiveness. CRM automates lead, contact and campaign management, sales pipeline, territory and contract management. Many CRM applications also provide powerful call center functionality for issue management;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

**Client Relationship Management (CRM)**

- Client Analytics
- Marketing
- Partner Relationship Mgmt.
- Proposals
- Sales
- Service
- Quote-to-Cash

Figure 27 shows Salesforce.com dominance once again with use by 43.1% (216) of the organizations surveyed. Microsoft moved into second place, followed by NetSuite and Deltek. Salesforce dominance in the PS industry is slipping somewhat from 60% market share three years ago.

**Figure 27: Client Relationship Management (CRM) Solution used by Firms Completing this Survey**




*Source: SPI Research, February 2024*

Table 31 compares organizations using CRM to those who do not. 17.8% 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 31: Impact – Client Relationship Management (CRM) Use**

| Key Performance Indicator (KPI) | CRM Used | CRM Not Used | ▲ |
|---|---|---|---|
| Survey % | 82.2% | 17.8% | |
| Deal pipeline / quarterly bookings forecast | 162% | 119% | 37% |
| Backlog % (of revenue target) | 44.6% | 39.7% | 12% |
| Project duration (man-months) | 30.3 | 26.1 | 16% |
| Annual revenue per employee (k) | $213 | $181 | 18% |
| **Project margin** | **35.2%** | **30.8%** | **14%** |

*Source: SPI Research, February 2024*

**Table 32: Impact – CRM Integration**

| CRM is integrated | Survey | New clients | Deal pipeline | % of bids won | Backlog | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| No | 50.5% | 28.3% | 159% | 48.7% | 44.7% | 13.8% |
| Yes | 49.5% | 33.9% | 172% | 49.3% | 47.3% | 15.6% |
| **Total/Average** | **100.0%** | **31.0%** | **166%** | **49.0%** | **46.0%** | **14.7%** |

*Source: SPI Research, February 2024*

Table 32 highlights the benefits organizations receive as they move from nonintegrated CRM to integrated CRM with significantly pipeline and the 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.

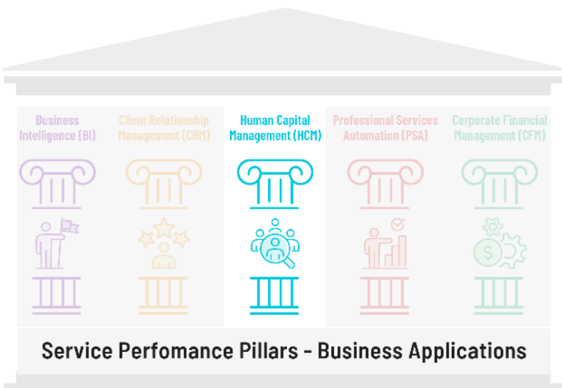
**Table 33: Impact – CRM Satisfaction**

| Satisfaction with CRM solution | Survey | Deal pipeline | Backlog | Project margin | Exec real-time visibility | EBITDA |
|---|---|---|---|---|---|---|
| Very Dissatisfied | 4.7% | 154% | 41.7% | 30.9% | 3.35 | 11.8% |
| Somewhat Dissatisfied | 6.1% | 160% | 35.5% | 31.6% | 2.85 | 13.9% |
| Indifferent | 23.7% | 146% | 41.4% | 32.4% | 3.22 | 17.5% |
| Somewhat Satisfied | 40.1% | 161% | 45.4% | 35.8% | 3.52 | 15.7% |
| Very Satisfied | 25.4% | 173% | 47.1% | 36.5% | 3.64 | 13.6% |
| **Total/Average** | **100.0%** | **160%** | **44.1%** | **34.7%** | **3.43** | **15.3%** |

*Source: SPI Research, February 2024*

Table 33 shows that over 65% of the organizations surveyed are satisfied with CRM. The table highlights improvements in sales and profitability metrics as satisfaction increases. Satisfaction typically means "uses," as those organizations that like their solutions tend to use in more and reap its benefits.

## Human Capital Management (HCM)




**Human Capital Management (HCM)**

- Workforce Planning
- Recruitment
- Skills Tracking
- Compliance
- Payroll
- Rewards
- Career Development
- Performance Management
- Workforce Management
- Reporting and Analytics

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 progression, HCM helps PSOs create and maintain a high-performance workforce.

HCM benefits PSOs by maintaining a database of skills, benefits and pay rate information that is used for resource scheduling, recruiting and performance and career management. HCM solutions provide rich applications that allow consultants to manage their own careers and skill development (training) and bid on the projects of greatest interest for them. They may also include workforce management functionality for time capture, time off and time and attendance tracking including workforce forecasting, budgeting and scheduling. Employee and manager self-service are now embedded roles in HCM business processes. Mobile access has become a fundamental component of HCM to support virtual operations, approvals and reporting. Table 34 highlights how the PSOs using HCM in this year's benchmark are much larger in size, but also are growing faster and have much higher financial KPIs as well.

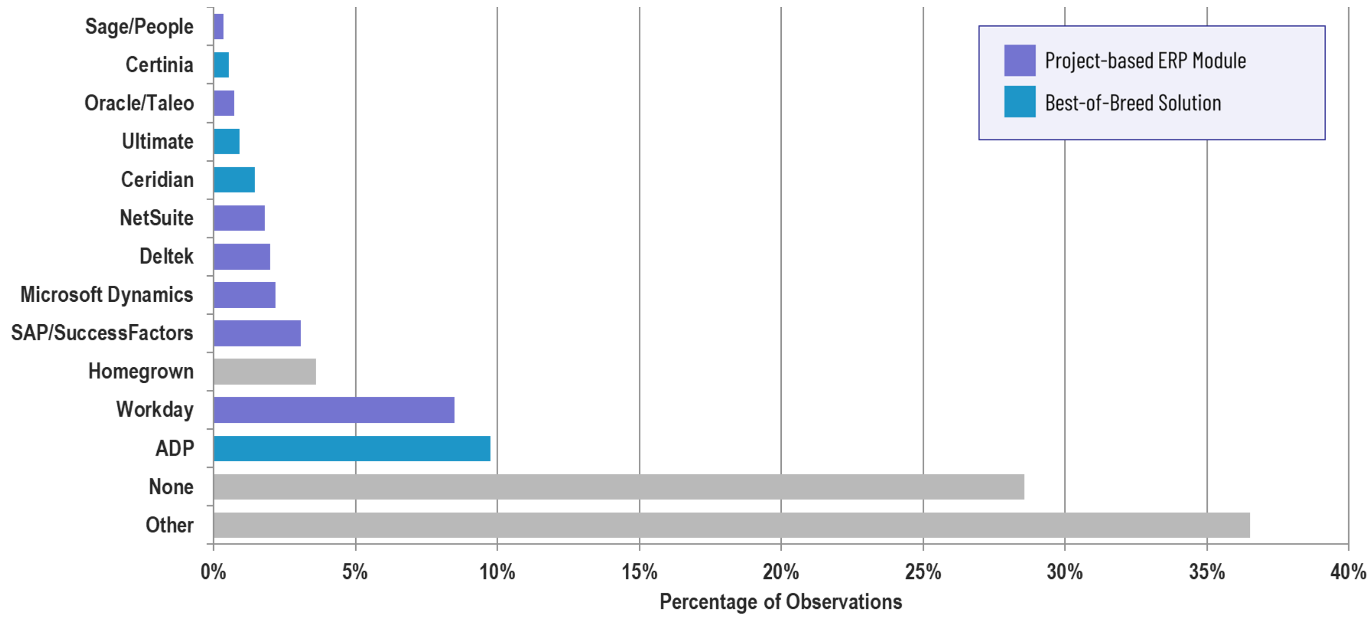
**Table 34: Impact – Human Capital Management (HCM) Use**

| Key Performance Indicator (KPI) | HCM Used | HCM Not Used | ▲ |
|---|---|---|---|
| Survey % | 67.8% | 32.2% | |
| Size of PS organization (employees) | 609 | 270 | 126% |
| Year-over-year change in PS revenue | 8.1% | 6.6% | 22% |
| Year-over-year change in PS headcount | 5.7% | 4.0% | 43% |
| Annual revenue per billable consultant (k) | $216 | $191 | 13% |
| Annual revenue per employee (k) | $176 | $158 | 12% |
| **Profit %** | **16.2%** | **12.5%** | **30%** |

*Source: SPI Research, February 2024*

Figure 28 shows that HCM continues its growth in the Professional Services market. Several years ago, HCM was used by less than one-third of PSOs – in 2023 it was used by 65.2% although "none" is still near the top. HCM prevalence among the largest PSOs is significant. The average size of the PS organization using HCM is 609 employees compared to 270 for non-users. Cloud-based solutions offer power and flexibility, helping companies manage the entire employee lifecycle from recruitment and hiring through training to retirement, as well as reach smaller organizations.

**Figure 28: Human Capital Management (HCM) Solution used by Firms Completing this Survey**




***Source: SPI Research, February 2024***

HCM solutions, in conjunction with PSA, drive greater billable utilization, which results in higher revenue and profit per employee. 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 vendors have added 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 35 shows HCM benefits are amplified with better integration with the core financial management solution. This integration drives higher billable utilization resulting in significantly higher revenue per consultant and employee which in turn produces better net Profit (EBITDA).

**Table 35: Impact – HCM Integration**

| HCM is integrated | Survey | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | % of ann. rev. target | % of ann. margin target | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| No | 57.7% | $204 | $170 | 90.5% | 87.5% | 14.4% |
| Yes | 42.3% | $214 | $173 | 90.8% | 88.1% | 16.6% |
| **Total/Average** | **100.0%** | **$208** | **$171** | **90.6%** | **87.8%** | **15.3%** |

***Source: SPI Research, February 2024***

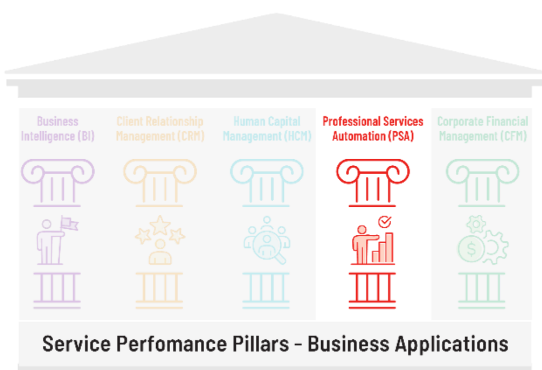
**Table 36: Impact – HCM Satisfaction**

| Satisfaction with HCM solution | Survey | Percentage of referenceable clients | Recommend company to friends / family | On-time project delivery | % of ann. rev. target | Executive real-time wide visibility |
|---|---|---|---|---|---|---|
| Very Dissatisfied | 4.6% | 66.3% | 3.90 | 72.9% | 88.6% | 3.00 |
| Somewhat Dissatisfied | 10.9% | 64.1% | 3.96 | 77.7% | 92.2% | 3.15 |
| Indifferent | 32.1% | 67.0% | 3.88 | 73.7% | 88.9% | 3.45 |
| Somewhat Satisfied | 35.1% | 68.1% | 4.16 | 76.3% | 90.8% | 3.37 |
| Very Satisfied | 17.3% | 72.1% | 4.35 | 76.8% | 93.3% | 3.76 |
| **Total/Average** | **100.0%** | **67.9%** | **4.07** | **75.6%** | **90.7%** | **3.42** |

***Source: SPI Research, February 2024***

Although HCM satisfaction lags other core PS business applications, the benefits are significant for those organizations that fully exploit HCM to enhance recruiting, skill building and compensation (Table 36). Increased user satisfaction is also correlated with a higher percentage of employees in billable roles, more engaged workers who would strongly recommend their company as a great place to work, and higher performance in both completing projects on time and meeting annual revenue goals.

## 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

PSA solutions provide accurate time and expense capture, and most offer billing modules with some level of revenue recognition by type of billing method – time and materials, work in process or fixed price. 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 a core solution for business planning with a view of the best services, best projects, best clients, and the best people to translate the business plan into reality.

***This year adoption of a commercial PSA decreased from 78.4% to 74.3%. PSA satisfaction went down slightly this year from 3.79 out of 5 to 3.77. However, most of the key metrics improve with the use of PSA.***

As the PSA market has matured, SPI Research sees solution providers coalescing by ecosystem. Certinia, and Kantata are part of the Salesforce ecosystem and AppExchange (Kantata also offers an open application solution). Microsoft Dynamics, Rocketlane, Timelog and Unit4 are focused on the Microsoft platform. NetSuite has been owned by Oracle for several years and years ago moved its applications to Oracle's Cloud Infrastructure. Workday and Deltek have created their own ecosystems.

**Table 37: Impact - Professional Services Automation (PSA) Use**

| Key Performance Indicator (KPI) | PSA Used | PSA Not Used | ▲ |
|---|---|---|---|
| Survey % | 74.3% | 25.7% | |
| Year-over-year change in PS revenue | 7.9% | 7.0% | 14% |
| Deal pipeline / quarterly bookings forecast | 161% | 137% | 17% |
| **Employee billable utilization** | **71.0%** | **64.6%** | **10%** |
| Project duration (man-months) | 31.1 | 25.0 | 24% |
| Annual revenue per billable consultant (k) | $213 | $193 | 10% |
| Annual revenue per employee (k) | $175 | $159 | 10% |
| **Project margin** | **35.7%** | **31.3%** | **14%** |
| **Profit (EBITDA %)** | **15.9%** | **12.4%** | **28%** |

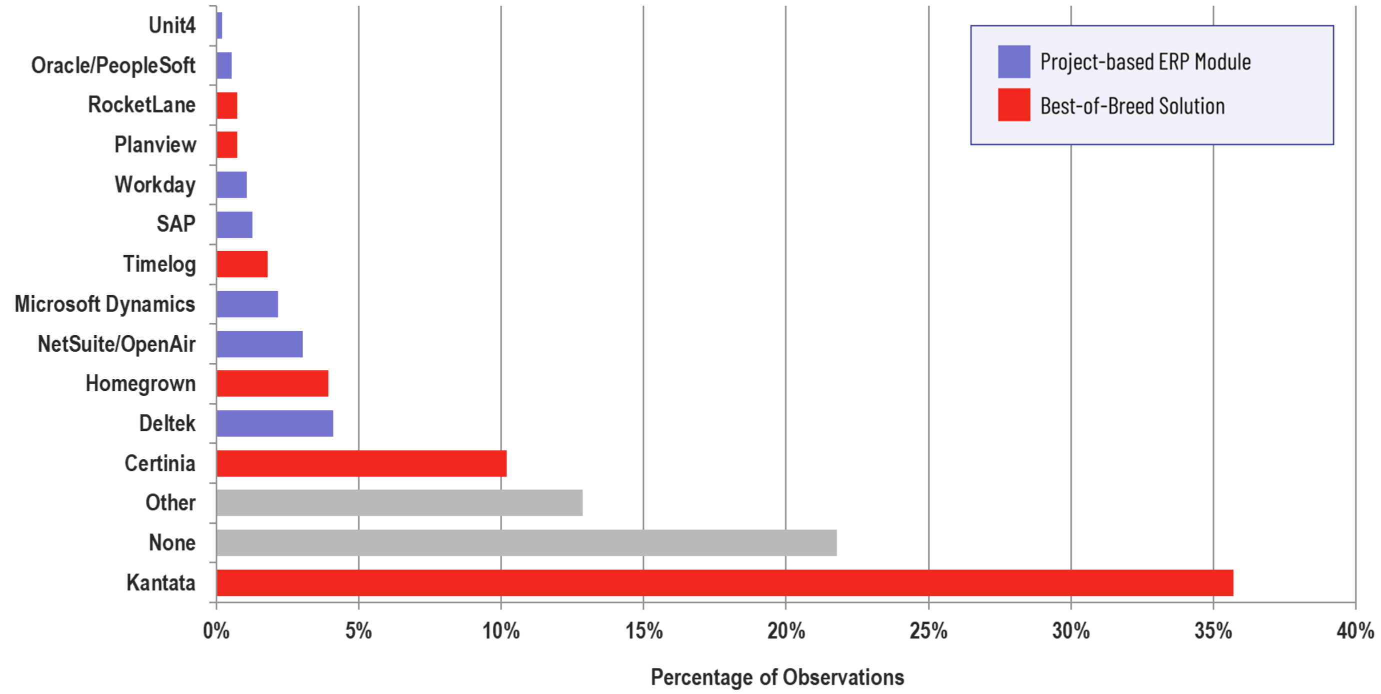
*Source: SPI Research, February 2024*

Table 37 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 trend in the use of PSA is on the rise due to a more virtual workforce, 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 relative10% (from 64.6% to 71.0%) increase in billable utilization as a primary reason to select PSA. For a 100-person PS organization, 6.4% translates to 12,800 more billable hours per year. With average bill rates of $200 per hour, the PSO can produce $2.5mm in incremental revenue!*** Almost all key metrics improve with PSA adoption. PSA pays for itself with substantially higher consultant revenue yields, better project margins and more bottom-line EBITDA profit.

Figure 29 shows this year Kantata as the most adopted PSA solution in the survey with 35.7% (200 firms) of the survey. Certinia (rebranded from FinancialForce) was the second-most prevalent solution with 10.2% (57 firms). Deltek was third with 4.1% (23 firms). Certinia, Planview, Deltek and NetSuite won the top honors for client satisfaction.

Go to [https://spiresearch.com/spi-research/reports/2022psaeusreport.html](https://spiresearch.com/spi-research/reports/2022psaeusreport.html) for more information on the benefits and ROI of PSA.

**Figure 29: Professional Services Automation (PSA) Solution used by Firms Completing this Survey**




***Source: SPI Research, February 2024***

Table 38 highlights the benefits of integrated PSA versus standalone PSA. Again, the results demonstrate integrated PSA enables organizations to operate at higher levels of efficiency.

**Table 38: Impact – PSA Integration**

| PSA is integrated | Survey | Revenue growth | Billable utilization | Project margin | % of ann. margin target | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| No | 52.1% | 7.6% | 69.3% | 34.1% | 87.8% | 12.8% |
| Yes | 47.9% | 7.8% | 70.6% | 35.5% | 87.8% | 16.9% |
| **Total/Average** | **100.0%** | **7.7%** | **69.9%** | **34.8%** | **87.8%** | **14.7%** |

***Source: SPI Research, February 2024***

Because the delivery of services is where PSOs make their money, and because PSA is the primary solution 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 use PSA. With the affordable cloud-based solutions now available, PSA should also be considered by even smaller organizations.

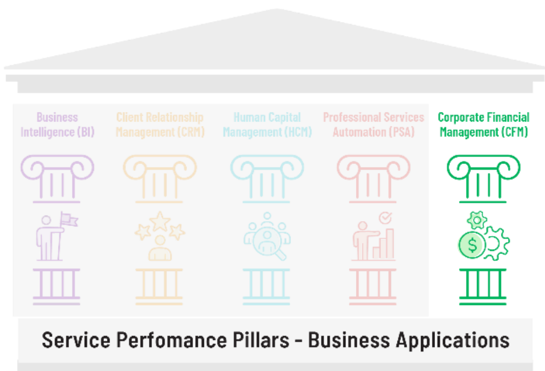
Table 39 highlights the correlation between PSA satisfaction and performance. It is one thing to use PSA, it is another to embrace what PSA can do for PSOs and use it to its maximum capabilities. Satisfaction comes from seeing the benefits PSA provides, and users who are satisfied with it tend to drive better results.

**Table 39: Impact – PSA Satisfaction**

| Satisfaction with PSA solution | Survey | Billable utilization | Project duration (man-mnth) | Std. del. method. used | On-time project delivery | Project margin |
|---|---|---|---|---|---|---|
| Very Dissatisfied | 5.1% | 69.1% | 27.1 | 62.4% | 74.5% | 32.8% |
| Somewhat Dissatisfied | 9.8% | 70.4% | 28.5 | 65.1% | 71.6% | 34.9% |
| Indifferent | 21.5% | 67.7% | 33.9 | 58.0% | 71.8% | 34.5% |
| Somewhat Satisfied | 35.8% | 69.7% | 23.8 | 65.9% | 76.1% | 36.0% |
| Very Satisfied | 27.7% | 72.5% | 38.3 | 69.5% | 76.7% | 36.6% |
| **Total/Average** | **100.0%** | **70.1%** | **30.6** | **65.0%** | **74.8%** | **35.6%** |

***Source: SPI Research, February 2024***

## Corporate Financial Management (CFM)




Corporate Financial Management (CFM) [Finance and Accounting, or ERP, is the primary application required to accurately collect, invoice 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 and is one reason why so many PSOs have moved to Project-based ERP. Revenue recognition is also complex and must conform to local accounting and taxation rules while providing support for multicurrency, multilingual transactions for global firms. Seamless integration between the system of record (PSA) for managing resources and projects and the financial management solution for payroll, expense management, invoicing, revenue recognition and project accounting is critical.

**Corporate Financial Management (CFM)**

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

Project- and service-based extensions to enterprise ERP applications started to appear in the late 1990's at the same time stand-alone Professional Service Automation (PSA) solutions supporting resource scheduling and time capture and billing became available. Over the past 25 years, project accounting, resource management and time capture and billing modules have been added to many ERP applications. Now most project-based ERP providers also add Human Capital Management (HCM) or talent management extensions to accentuate the important role that recruitment and engagement of a talented workforce has in today's economy.

Support for specialized billing methods and complex revenue recognition rules for subscriptions, time and materials, work-in-process, deliverables-based or percentage completion are important project-based ERP extensions. Architects, Engineers and Government Contractors require purchasing modules and cost-plus accounting for materials and labor pricing as well as support for DCAA and FARS compliance. With the advent of COVID in 2020 almost all organizations were forced to move to virtual operations, making mobile access to financial systems mandatory. In 2021 and 2022 even more firms took advantage of virtual operations including mobile cash management. Interviews with CFOs reveal top selection criteria for business applications include powerful yet easy to use reporting capability with mandatory mobile access. In 2023 PSOs began to move work back at their clients' sites when needed, but definitely embraced remote service delivery where possible.

Every organization surveyed with over 20 employees uses a CFM solution. As shown in Table 40, many PSOs now use Project-based ERP, and most are cloud-based. Cloud-based financials provide significant benefits compared to legacy on-premise solutions. They make it easier and less expensive to stay current on new releases; they provide greater adoption and ease of use; they provide support for new digital capabilities including artificial intelligence, machine-learning and robotic process automation; and faster introduction for advanced billing, revenue recognition; multi-entity; multi-lingual and multi-currency accounting and taxation. They also provide much greater security for PSO information, which is becoming of greater concern every year.

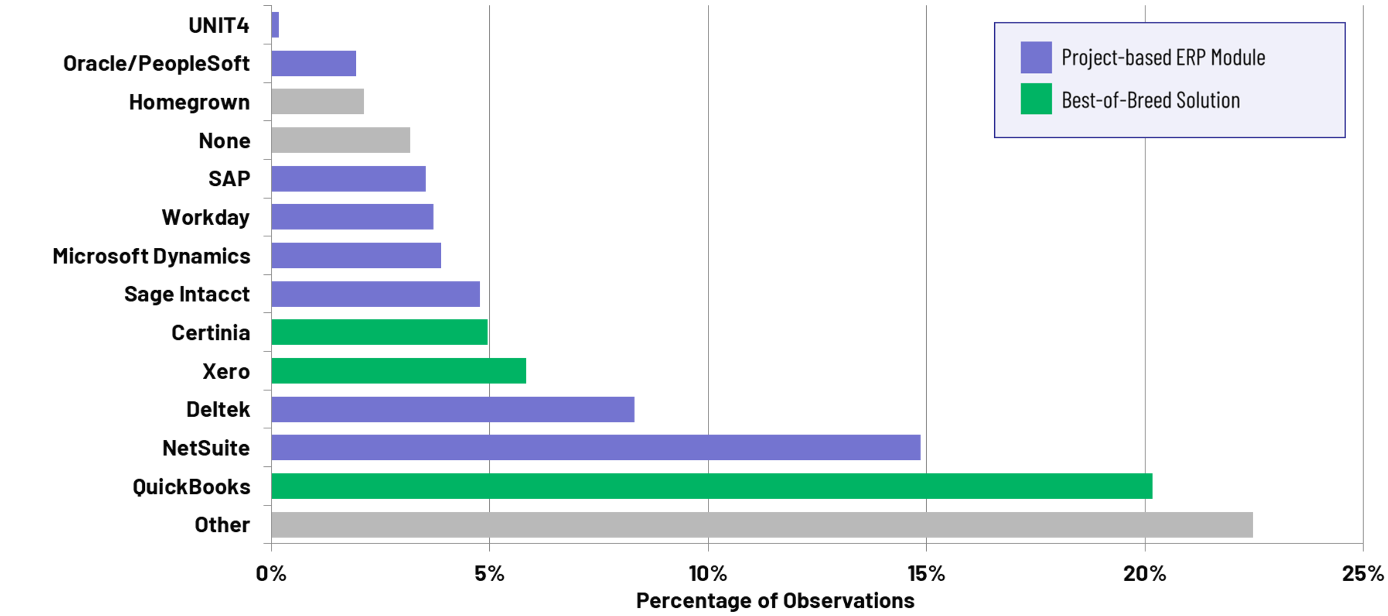
**Table 40: Impact – Project-based ERP Use**

| Key Performance Indicator (KPI) | PBE Used | PBE Not Used | ▲ |
|---|---|---|---|
| Survey % | 41.4% | 58.6% | |
| Year-over-year change in PS revenue | 8.4% | 7.2% | 16% |
| Year-over-year change in PS headcount | 5.5% | 5.1% | 8% |
| Quarterly revenue target in backlog | 46.5% | 41.6% | 12% |
| Project duration (man-months) | 35.6 | 24.5 | 45% |
| Use a standardized delivery methodology | 69.7% | 61.3% | 14% |
| Annual revenue per billable consultant (k) | $214 | $201 | 6% |
| **Profit (EBITDA %)** | **17.3%** | **13.7%** | **26%** |

*Source: SPI Research, February 2024*

This year's survey included responses from 114 QuickBooks; 84 NetSuite; 47 Deltek; 33 Xero; 28 Certinia (FinancialForce) and 27 Sage Intacct 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).

**Figure 30: Corporate Financial Management (CFM) Solution used by Firms Completing this Survey**




*Source: SPI Research, February 2024*

## CRM / PSA Integration

CRM and PSA solutions are used by both client-facing groups – sales and service delivery. It is essential these two groups communicate and collaborate effectively. Integrated CRM and PSA help sales and service delivery collaborate better to ensure sales are selling what the service delivery team can deliver. Table 41 shows just a few of the benefits achieved when PSO integrate CRM and PSA. Increased backlog and much higher financial metrics are achieved when these two solutions are integrated.

**Table 41: Impact – CRM / PSA Integration**

| PSA and CRM are integrated | Survey | Backlog | Std. del. method. used | Project overrun | Project margin | Ann. rev./ consult. (k) |
|---|---|---|---|---|---|---|
| No | 50.1% | 42.3% | 61.4% | 9.8% | 31.4% | $201 |
| Partially | 22.8% | 42.8% | 63.9% | 9.5% | 35.4% | $204 |
| Yes | 27.1% | 47.0% | 72.8% | 9.3% | 39.1% | $219 |
| **Total/Average** | **100.0%** | **43.7%** | **65.0%** | **9.6%** | **34.4%** | **$207** |

*Source: SPI Research, February 2024*

## PS Solution Adoption

In this year's survey, commercial adoption decreased in all the primary business applications except for Planning / Business Intelligence (Table 42). SPI's clients emphasized the importance of business and capacity planning tools to help them navigate a challenging year. HCM usage, while down in 2023, continues an upward trend in use as more and more firms realize the benefits of integrating payroll with recruiting and skill building. The integration of HCM and PSA gives employers and employees visibility to upcoming projects and the skills they need to be part of them. The abundance of high quality, affordable cloud-based solutions has enabled greater numbers of PSOs to adopt commercial business applications, yet a surprisingly large number of firms still rely on antiquated homegrown applications and spreadsheets. Excel remains the most-used business applications.

**Table 42: Commercial Solution Adoption**

| Solution | 2021 | 2022 | 2023 |
|---|---|---|---|
| Planning (PL) / Business Intelligence (BI) | 57.4% | 53.1% | 54.1% |
| Client Relationship Management (CRM) | 82.4% | 85.1% | 79.6% |
| Human Capital Management (HCM) | 65.2% | 70.5% | 67.8% |
| Professional Services Automation (PSA) | 76.1% | 78.4% | 74.3% |
| Corporate Financial Management (CFM) | 94.7% | 95.5% | 94.7% |

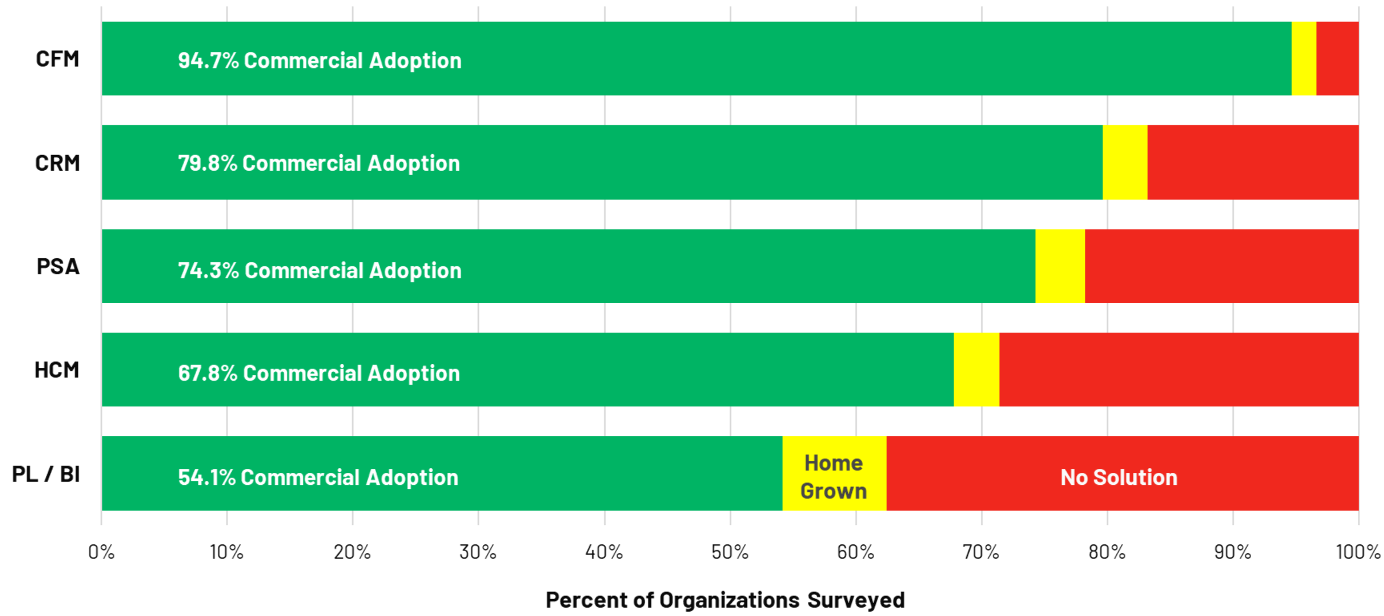
*Source: SPI Research, February 2024*

Cloud-based applications are outselling non-cloud by a factor of ten-to-one. Cloud solutions are especially important in the professional services market, as today's virtual consulting organizations may have skilled employees located around the world, 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 several 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 firms are also investing in Marketing Automation to generate leads, track prospects and build the brand. Corporate Performance Management applications for capacity and resource planning along with budgeting and forecasting are becoming essential as are communication and collaboration platforms like Slack, Jira, Microsoft Teams and Zoom (Figure 31).

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 31: Commercial Solution Adoption**




*Source: SPI Research, February 2024*

**Table 43: Business Application Use by Organization Type and Geographic Region**

| Key Performance Indicator (KPI) | 2023 | ESO | PSO | Americas | EMEA | APac |
|---|---|---|---|---|---|---|
| Commercial CFM solution used | 94.7% | 94.6% | 94.7% | 96.5% | 86.7% | 98.0% |
| Satisfaction with CFM solution | 3.76 | 3.66 | 3.80 | 3.71 | 3.82 | 4.00 |
| Commercial CRM solution | 82.2% | 85.9% | 80.7% | 84.7% | 75.2% | 78.4% |
| Satisfaction with CRM solution | 3.79 | 3.87 | 3.76 | 3.78 | 3.76 | 3.97 |
| CRM is integrated | 51.1% | 44.5% | 54.0% | 49.1% | 56.7% | 59.3% |
| Commercial PSA solution | 74.3% | 83.5% | 70.5% | 77.2% | 64.9% | 72.0% |
| Satisfaction with PSA solution | 3.77 | 3.72 | 3.79 | 3.77 | 3.73 | 3.84 |
| PSA is integrated | 49.6% | 53.3% | 47.8% | 50.0% | 46.8% | 51.7% |
| Commercial HCM solution | 67.8% | 73.9% | 65.2% | 73.9% | 48.1% | 62.0% |
| Satisfaction with HCM solution | 3.54 | 3.52 | 3.56 | 3.53 | 3.60 | 3.53 |
| HCM is integrated | 58.8% | 64.1% | 56.4% | 57.6% | 64.1% | 60.4% |
| Commercial PL / BI solution | 54.1% | 57.9% | 52.6% | 54.8% | 48.6% | 61.2% |
| Satisfaction with PL / BI solution | 3.68 | 3.65 | 3.69 | 3.64 | 3.73 | 3.88 |
| PL / BI is integrated | 52.4% | 45.3% | 55.6% | 49.7% | 57.5% | 65.9% |
| CRM / PSA integration | 55.6% | 65.9% | 50.2% | 57.3% | 53.9% | 42.9% |

*Source: SPI Research, February 2024*

Table 43 compares business solution adoption and satisfaction along with the level of financial management (CFM) integration. APac's usage of CFM surpasses that of EMEA and the Americas. Recently European and Asia Pacific headquartered firms have made big investments in PSA. HCM continues to receive the lowest overall satisfaction ratings because SPI's 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.

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

Table 44 shows higher levels of solution adoption as organizations grow. 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 44: 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 | 77.9% | 91.5% | 96.0% | 100.0% | 100.0% | 100.0% |
| Satisfaction with CFM solution | 3.94 | 3.86 | 3.87 | 3.67 | 3.44 | 3.52 |
| Commercial CRM solution | 54.2% | 80.9% | 84.7% | 88.8% | 92.3% | 88.9% |
| Satisfaction with CRM solution | 3.57 | 3.73 | 3.76 | 3.93 | 3.79 | 3.85 |
| CRM is integrated | 76.1% | 51.7% | 51.4% | 46.0% | 53.4% | 43.8% |
| Commercial PSA solution | 33.3% | 69.9% | 76.7% | 83.9% | 90.2% | 87.1% |
| Satisfaction with PSA solution | 3.58 | 3.67 | 3.93 | 3.70 | 3.83 | 3.64 |
| PSA is integrated | 52.8% | 57.5% | 48.0% | 46.3% | 46.4% | 51.0% |
| Commercial HCM solution | 17.9% | 65.6% | 74.7% | 76.1% | 81.6% | 80.3% |
| Satisfaction with HCM solution | 3.64 | 3.73 | 3.50 | 3.57 | 3.46 | 3.42 |
| HCM is integrated | 80.0% | 69.8% | 56.7% | 55.0% | 61.4% | 51.1% |
| Commercial PL / BI solution | 22.1% | 48.4% | 55.4% | 65.1% | 68.1% | 65.6% |
| Satisfaction with PL / BI solution | 3.50 | 3.69 | 3.64 | 3.77 | 3.69 | 3.67 |
| PL / BI is integrated | 95.5% | 57.9% | 48.7% | 48.2% | 50.0% | 50.0% |
| CRM / PSA integration | 30.8% | 46.2% | 59.0% | 59.2% | 56.8% | 58.7% |

*Source: SPI Research, February 2024*

Table 45 shows embedded services organizations (Software & SaaS PS) have higher adoption rates of CRM and PSA than independents in almost all solution categories. Generally, these organizations are part of a larger technology-focused product organization, larger organizations tend to rely more heavily on business applications to improve performance. Architects and Engineers and Management Consultancies reported lower levels of application usage across most categories except core financials which they rely on to run the business.

**Table 45: Business Application Use by Market**

| Key Performance Indicator (KPI) | IT Consult | Mgmt Cons | Soft PS | SaaS PS | Arch/Engr | Agency | Healthcare |
|---|---|---|---|---|---|---|---|
| Commercial CFM solution used | 94.6% | 90.1% | 97.8% | 97.1% | 96.6% | 94.1% | 85.0% |
| Satisfaction with CFM solution | 3.75 | 4.03 | 3.73 | 3.56 | 3.89 | 3.55 | 3.27 |
| Commercial CRM solution | 82.6% | 85.1% | 95.7% | 97.1% | 62.1% | 82.7% | 81.0% |
| Satisfaction with CRM solution | 3.85 | 3.83 | 4.14 | 3.90 | 3.31 | 3.39 | 3.67 |
| CRM is integrated | 53.0% | 60.2% | 47.3% | 32.4% | 53.4% | 60.6% | 75.0% |
| Commercial PSA solution | 74.8% | 56.9% | 93.6% | 94.1% | 58.2% | 76.5% | 66.7% |
| Satisfaction with PSA solution | 3.84 | 3.73 | 3.69 | 3.68 | 3.81 | 3.89 | 3.83 |
| PSA is integrated | 47.8% | 48.7% | 62.8% | 58.2% | 35.7% | 50.0% | 54.5% |
| Commercial HCM solution | 67.4% | 47.1% | 78.0% | 82.6% | 60.7% | 78.4% | 72.2% |
| Satisfaction with HCM solution | 3.60 | 3.48 | 3.56 | 3.60 | 3.64 | 3.41 | 4.00 |
| HCM is integrated | 50.7% | 46.6% | 69.2% | 67.1% | 57.4% | 71.6% | 68.2% |
| Commercial PL / BI solution | 54.7% | 44.9% | 61.9% | 67.7% | 35.8% | 62.7% | 41.2% |
| Satisfaction with PL / BI solution | 3.88 | 3.60 | 3.61 | 3.64 | 3.67 | 3.35 | 3.44 |
| PL / BI is integrated | 48.2% | 66.7% | 59.5% | 35.9% | 50.0% | 56.7% | 57.1% |
| CRM / PSA integration | 56.1% | 48.5% | 57.9% | 73.7% | 40.5% | 30.0% | 50.0% |

*Source: SPI Research, February 2024*

## Application Integration with the Corporate Financial Management Solution

While the core business solutions support individual departments in their efforts to become more productive and profitable, when these solutions are integrated with the core financial management solution (CFM) they create additional insight and value (Figure 32). 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, talent, delivery and finance become blurred. Table 47 shows a three-year trend on the solution's integration with core financials.

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.

**Figure 32: Success Depends on Inter-departmental Cooperation**


*Source: SPI Research, February 2024*

Except for PSA, the table shows mixed but improving 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. Client satisfaction and profit achievement in professional services requires tight coordination between demand and supply which can only be achieved through integrated business applications. 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 47: Solution Integration with Core Financials**

| Solution | 2021 | 2022 | 2023 |
|---|---|---|---|
| Professional Services Automation (PSA) | 61.2% | 54.1% | 49.6% |
| Client Relationship Management (CRM) | 44.6% | 45.7% | 51.1% |
| Planning (PL) / Business Intelligence (BI) | 47.0% | 49.2% | 52.4% |
| Human Capital Management (HCM) | 38.5% | 39.5% | 58.8% |

*Source: SPI Research, February 2024*

## Solution Satisfaction

Table 46 shows application satisfaction (1: very dissatisfied to 5: very satisfied). Satisfaction with CRM tops the list followed by PSA and BI. PSOs have begun to exploit the functionality of HCM more fully beyond payroll for recruiting, learning management, career management and skill building and certification.

**Table 46: Solution Satisfaction**

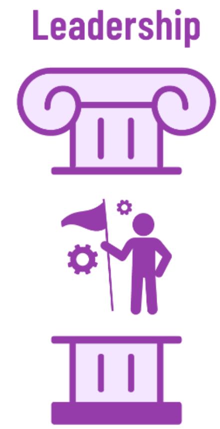
| Key Performance Indicator (KPI) | 2021 | 2022 | 2023 |
|---|---|---|---|
| Client Relationship Management (CRM) | 4.04 | 3.89 | 3.79 |
| Planning (PL) / Business Intelligence (BI) | 3.89 | 3.89 | 3.68 |
| Corporate Financial Management (CFM) | 3.85 | 3.82 | 3.76 |
| Professional Services Automation (PSA) | 3.98 | 3.79 | 3.77 |
| Human Capital Management (HCM) | 3.75 | 3.62 | 3.54 |

*Source: SPI Research, February 2024*

# Chapter 6

# Leadership Pillar

## LEADERSHIP PILLAR

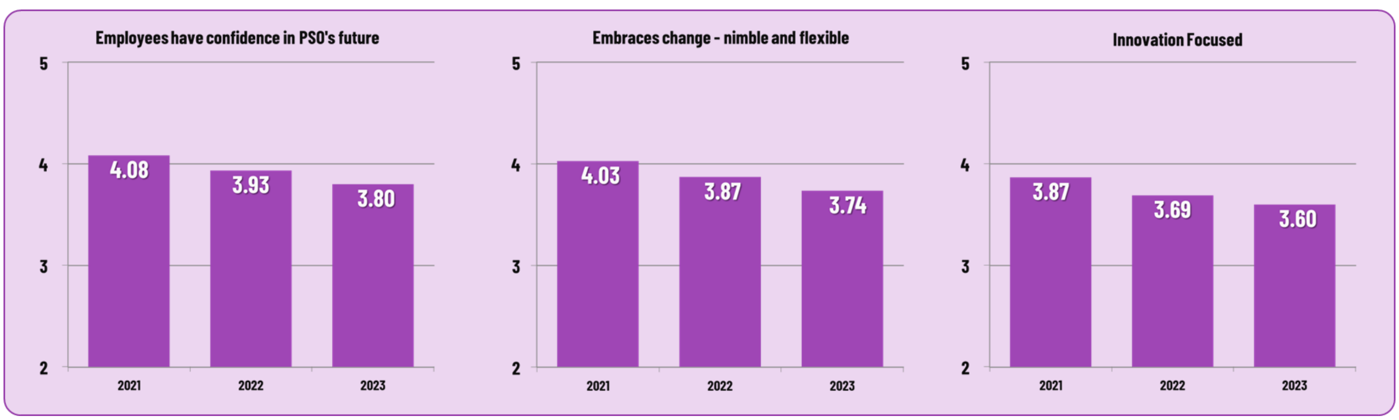



Leadership has been tested over the past five years. From a roaring economy, to COVID, supply chain congestion, high inflation and interest rates, PS leaders have been tested to navigate a variety of issues facing their firms and their clients. The leaders in SPI's 2024 Professional Services Maturity™ Benchmark survey succeeded due to better planning and the agility their firms showed.

Leadership is essential in every industry and is especially important in people-based organizations like professional services. But how is leadership really measured? Benchmarks cannot measure leadership per se but can determine leadership success by organizational success. The 2024 Professional Services Maturity™ Benchmark does just that as it correlates leadership with success in all the other areas within PSOs.

SPI Research highlighted the leadership trends in Figure 33 because they are highly correlated with professional services success. Unfortunately, over the past three years SPI Research has seen a deterioration in leadership metrics, mirroring the economic uncertainty faced in every industry. With economic uncertainty, these capabilities will be needed as PSOs navigate change.

**Figure 33: Leadership Trends of Note**




***Source: SPI Research, February 2024***

2024 should bring political gridlock, which is typically good for the economy, along with greater supply chain efficiency and declining interest rates. It should be a good year for most industries and especially for the Professional Services market as continual change, coupled with the rise in AI, dictates a need for strategy and technology services.

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 PSOs win the best deals and turn those deals into very 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 (Table 48).

**Table 48: 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. The 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.<br><br>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 a 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. The 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 2024*

But growth comes at 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 increase 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 cannot 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 since 2007 has shown a powerful correlation between financial success and confidence in leadership. In smaller organizations, leadership by walking around works just fine. But as the organization grows, scope and complexity; geographic dispersion, communication and alignment become issues. PS leaders 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. Leaders must be vigilant to break down silos and discourage the formation of cliques or factions which exclude diverse thoughts and viewpoints.

## Leadership Maturity

Improvements in performance, or as SPI Research would call "maturity", yield greater results for professional services organizations. Effective leadership translates into a more motivated and productive workforce. It enables organizations to grow and prosper. It also shows up in increased client satisfaction and greater growth and profit. Everything begins with leadership and those organizations that perform at the highest levels also have the best leaders. Figure 34 highlights how PSOs score at each level of leadership on a 5-point scale (from 1-very ineffective to 5-very effective). While the questions are subjective, the results are not. The best leaders achieve the highest profit. Surprisingly, as confidence in leadership grows, all other facets of the organization improve as well.

**Figure 34: Leadership Maturity Matters**

| | Level 1 Initiated | Level 2 Piloted | Level 3 Deployed | Level 4 Institutionalized | Level 5 Optimized |
|---|---|---|---|---|---|
| **Firms** | **172** | **144** | **144** | **86** | **29** |
| Well understood vision, mission and strategy | 2.95 | 3.88 | 4.08 | 4.53 | 4.93 |
| Confidence in PS leadership | 3.21 | 3.93 | 4.18 | 4.70 | 4.97 |
| Ease of getting things done | 2.96 | 3.66 | 3.91 | 4.47 | 4.79 |
| Goals and measurement alignment | 2.92 | 3.66 | 4.04 | 4.57 | 5.00 |
| Employees have confidence in PSO's future | 3.02 | 3.76 | 4.09 | 4.51 | 4.97 |
| Effectively communicates w/employees | 3.11 | 3.79 | 4.10 | 4.53 | 4.83 |
| Embraces change - nimble and flexible | 2.89 | 3.66 | 4.13 | 4.50 | 4.83 |
| Innovation focused | 2.83 | 3.57 | 3.88 | 4.26 | 4.86 |
| Data-driven | 2.71 | 3.39 | 3.80 | 4.31 | 4.97 |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

*Source: SPI Research, February 2024*

## The Leadership Index

It is impossible to work in a people-based industry like Professional Services and conclude that leadership does not matter. Most intuitively understand leadership's importance, but few studies have been able to quantify its benefit. This study does just that. SPI Research developed a ***Leadership Index*** that focuses on the most important aspects of leadership to measure its impact. It should make sense that great or poor leadership permeates every facet of PSO performance!

To build the Leadership Index Research asked a series of questions regarding various aspects of professional services mission, 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, the types of employees who will thrive and the interrelationship between functions.

The leadership questions have evolved into nine 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 can rapidly take advantage of changing market conditions.
9. The organization is focused on becoming more data driven.

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 nine, if the survey participant stated "1 – very ineffective" for each of the nine questions (a new question was added in the 2023 survey). The maximum would be 45, if the participant stated "5 - very effective", for each question.

It turns out the dimensions of leadership correlate highly with performance. As the leadership dimensions improve, so do all major key performance metrics (Table 49). 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. SPI Research finds it interesting how strategic clarity permeates all aspects of operational performance. If the strategy is clear and compelling, people-based organizations will find a way to accomplish it.

With strong leadership, employees understand what is required of them, and can go about conducting their daily business with confidence that 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.

More than any other factor, good or poor, leadership impacts all facets of the business driving stronger growth, profits, and both client and employee 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, infighting and burnout. Many high-performance 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.

**Table 49: Impact Based on Leadership Maturity Scores**

| Key Performance Indicator (KPI) | 9 - 30 | 30 - 34 | 34 - 37 | 38 - 45 |
|---|---|---|---|---|
| Survey % | 22.6% | 28.0% | 25.2% | 24.3% |
| Year-over-year change in PS revenue | 4.5% | 6.5% | 9.9% | 9.7% |
| Year-over-year change in PS headcount | 3.1% | 5.2% | 5.8% | 6.5% |
| % of employees billable or chargeable | 66.6% | 72.6% | 71.6% | 74.8% |
| Percentage of bids won | 41.8% | 48.2% | 51.3% | 50.0% |
| Recommend company to friends/family | 3.39 | 4.13 | 4.17 | 4.60 |
| Employee billable utilization | 65.8% | 69.6% | 70.4% | 70.8% |
| Projects delivered on-time | 67.0% | 75.4% | 78.1% | 81.7% |
| Annual revenue per billable consultant (k) | $180 | $208 | $218 | $218 |
| Annual revenue per employee (k) | $142 | $170 | $177 | $185 |
| Percent of annual revenue target achieved | 87.0% | 90.3% | 91.9% | 93.0% |
| Exec. real-time wide visibility (1-5 scale) | 2.73 | 3.28 | 3.75 | 3.87 |
| **Project margin** | **30.3%** | **33.2%** | **37.3%** | **36.0%** |

***Source: SPI Research, February 2024***

## 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 goes 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 staff projects quickly and easily.
- ∆ ***Immature processes*** – disparate or poor systems and tools. Inconsistent project methods, lack of tools and intellectual property lead to low repeatability and inability to drive efficiency and reuse.
- ∆ ***Poor quality and client 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.

## Survey Results

For this year's survey, SPI Research also added questions in the Leadership Pillar designed to assess both growth plans as well as leaders focusing on Artificial Intelligence for use internally, as well as consulting AI to clients. The questions associated, listed below, with growth plans in 2024 are in Table 50.

- ∆ Forecasted revenue growth in 2024 (over 2023).
- ∆ Do you plan to embark on any major performance initiatives in 2024?
- ∆ Do you have a documented methodology for quantifying value added to your clients?
- ∆ Planned geographic expansion in 2024.
- ∆ Have you initiated Outcome-based billing models?

The responses were very telling. Anticipated growth appears to be headed north of 10% in 2024 for both embedded and independent service organizations. The Americas had the least forecasted growth but still over 10%. As one might expect, as the PSOs grow, there is better documentation for value as well as planned geographic expansion. Obviously, larger organizations can take on larger strategic initiatives.

SPI Research found consultancies as well as SaaS professional service organizations planned to grow the fastest.  AI should help them in this area. Both architecture and engineering firms as well as agencies show the lowest forecasted growth, but much of that is due to economic uncertainty.

**Table 50: 2024 Executive Plans**

| | Forecasted Revenue Growth in 2024 | Major Performance Initiatives in 2024 | Documented Meth, for Client Value Quantification | Planned Geographic Expansion | Outcome-based Billing Model Initiation |
|---|---|---|---|---|---|
| **Survey Total** | 11.4% | 58.7% | 52.9% | 35.5% | 32.6% |
| Org. Type - ESO | 12.3% | 59.5% | 56.9% | 38.8% | 33.3% |
| Org. Type - PSO | 11.1% | 58.3% | 51.2% | 34.1% | 32.3% |
| Region - Americas | 11.0% | 60.4% | 54.5% | 35.1% | 31.2% |
| Region - EMEA | 12.4% | 51.5% | 48.0% | 32.1% | 34.5% |
| Region - APac | 12.0% | 61.6% | 51.0% | 46.7% | 39.6% |
| Employees - Under 10 | 12.2% | 43.1% | 45.0% | 22.3% | 23.4% |
| Employees - 10 - 30 | 11.9% | 66.9% | 52.6% | 32.3% | 28.7% |
| Employees - 31 - 100 | 11.6% | 58.5% | 50.8% | 36.0% | 29.7% |
| Employees - 101 - 300 | 12.0% | 57.9% | 48.4% | 38.1% | 36.3% |
| Employees - 301 - 700 | 8.7% | 63.8% | 64.2% | 39.2% | 40.0% |
| Employees - Over 700 | 10.4% | 61.9% | 67.0% | 46.0% | 44.1% |
| Market - IT Consulting | 12.9% | 60.6% | 49.7% | 44.1% | 29.7% |
| Market - Mgmt. Consulting | 11.7% | 56.5% | 58.4% | 30.0% | 39.2% |
| Market - Software PS | 11.5% | 76.2% | 52.8% | 26.0% | 31.1% |
| Market - SaaS PS | 14.2% | 65.5% | 72.2% | 39.7% | 36.8% |
| Market - Architecture & Engineering | 7.7% | 44.7% | 29.2% | 31.2% | 20.7% |
| Market - Agencies | 8.8% | 56.5% | 61.2% | 23.5% | 35.8% |
| Market - Healthcare | 11.9% | 57.1% | 47.6% | 34.3% | 41.0% |

***Source: SPI Research, February 2024***

## Organizational Concerns Over the Next Year

SPI Research asked PS leaders to rate the importance of some of the more major concerns to their organization over the next year, with 1: very unimportant - 5: very important. They are listed below and summarized in Table 51.

- ∆ ***Business development***: create and implement new services and campaigns, find new clients, etc.
- ∆ ***Talent management***: find, hire, train, manage and retain employees.
- ∆ ***Resource utilization***: work to optimize skill levels, increase billable hours per consultant.
- ∆ ***Profitability growth***: deliver more efficiently and effectively, manage cost, reduce revenue leakage.
- ∆ ***Inflation***: manage cost increases in people, tools, travel, and other expenses.

**Table 51: Summary Organizational Concerns**

| | Business Development | Talent Management | Resource Utilization | Profitability Growth | Inflation |
|---|---|---|---|---|---|
| **Survey Total** | **4.38** | **4.14** | **4.26** | **4.32** | **3.68** |
| Org. Type - ESO | 4.34 | 4.09 | 4.19 | 4.31 | 3.63 |
| Org. Type - PSO | 4.40 | 4.16 | 4.30 | 4.32 | 3.71 |
| Region - Americas | 4.41 | 4.18 | 4.28 | 4.35 | 3.72 |
| Region - EMEA | 4.37 | 4.08 | 4.23 | 4.23 | 3.56 |
| Region - APac | 4.16 | 4.00 | 4.25 | 4.29 | 3.65 |
| Employees - Under 10 | 4.29 | 3.58 | 3.68 | 3.86 | 3.32 |
| Employees - 10 - 30 | 4.53 | 4.19 | 4.40 | 4.36 | 3.66 |
| Employees - 31 - 100 | 4.41 | 4.28 | 4.30 | 4.34 | 3.62 |
| Employees - 101 - 300 | 4.43 | 4.29 | 4.37 | 4.37 | 3.83 |
| Employees - 301 - 700 | 4.28 | 4.22 | 4.46 | 4.54 | 3.88 |
| Employees - Over 700 | 4.16 | 3.98 | 4.27 | 4.46 | 3.89 |
| Market - IT Consulting | 4.39 | 4.27 | 4.29 | 4.27 | 3.73 |
| Market - Mgmt. Consulting | 4.63 | 4.30 | 4.34 | 4.30 | 3.51 |
| Market - Software PS | 4.49 | 4.17 | 4.62 | 4.70 | 3.87 |
| Market - SaaS PS | 4.39 | 4.13 | 4.28 | 4.39 | 3.68 |
| Market - Architecture & Engineering | 4.24 | 4.27 | 4.10 | 4.22 | 3.71 |
| Market - Agencies | 4.31 | 3.62 | 4.21 | 4.31 | 3.65 |
| Market - Healthcare | 4.19 | 3.90 | 4.10 | 4.38 | 3.67 |

***Source: SPI Research, February 2024***

As expected, both revenue growth and profits were the two top-ranked concerns for PS executives. These top concerns were the same for embedded and independent organizations. The APac region had a higher concern about resource utilization than growth.

## Artificial Intelligence (AI)

As discussed earlier in this report, 2023 began the reemergence of Artificial Intelligence. It was probably mentioned more often in the media in 2023 that the prior 25 years put together. SPI Research has spoken with close to 100 PS executives over the past year and the future looks bright for AI in the Professional Services market. As a result, in this year's benchmark report SPI has just begun to analyze AI and its impact for PSOs. There is a long way to go on this topic, and *every* PSO should discuss if and where they want to take AI internally and/or externally.

SPI asked respondents to rate the importance on Artificial Intelligence to their organization (1: very unimportant - 5: very important) in the following three areas:

1. Artificial Intelligence (AI) / Machine Learning (ML) is important to our firm going forward.
2. Artificial Intelligence (AI) / Machine Learning (ML) is important to our clients going forward.
3. AI/ML will impact your delivery models of the future?

The results are summarized below in Table 52.

**Table 52: AI's Importance and Impact**

| | Importance to Firm (internal) | Importance to Clients (external) | AI/ML will impact delivery models |
|---|---|---|---|
| **Survey Total** | 3.73 | 3.67 | 3.71 |
| Org. Type - ESO | 3.79 | 3.69 | 3.73 |
| Org. Type - PSO | 3.70 | 3.67 | 3.71 |
| Region - Americas | 3.70 | 3.65 | 3.70 |
| Region - EMEA | 3.80 | 3.72 | 3.72 |
| Region - APac | 3.80 | 3.78 | 3.80 |
| Employees - Under 10 | 3.44 | 3.52 | 3.37 |
| Employees - 10 - 30 | 3.62 | 3.52 | 3.61 |
| Employees - 31 - 100 | 3.71 | 3.67 | 3.68 |
| Employees - 101 - 300 | 3.77 | 3.62 | 3.80 |
| Employees - 301 - 700 | 3.85 | 3.88 | 4.00 |
| Employees - Over 700 | 4.06 | 4.02 | 3.97 |
| Market - IT Consulting | 3.73 | 3.83 | 3.75 |
| Market - Mgmt. Consulting | 3.71 | 3.77 | 3.82 |
| Market - Software PS | 3.96 | 3.77 | 3.72 |
| Market - SaaS PS | 3.96 | 3.90 | 3.74 |
| Market - Architecture & Engineering | 3.41 | 3.15 | 3.42 |
| Market - Agencies | 3.58 | 3.50 | 3.77 |
| Market - Healthcare | 3.86 | 3.76 | 3.86 |

***Source: SPI Research, February 2024***

The AI numbers at a high level are similar between types of organizations in the regions, with the Americas stating slightly lower levels of importance. SPI Research saw smaller firms to have a reduced level of perceived importance to their firm and to their clients as well as how it will impact delivery models. What SPI Research found interesting was in the PS submarkets. Both software and SaaS expect AI to be very important to their organizations as well as their clients and of course it will impact delivery models. The numbers were slightly lower in management and IT consultancies but still show a higher level of importance. Some of the other markets that aren't directly leading with AI showed lower figures, but that is to be expected now as AI has just started to ramp up in the marketplace.

SPI Research asked PS leaders about how well they incorporated AI/ML to increase efficiencies? Their answers were as follows (Table 53):

1. Do not plan to
2. Have not begun yet
3. Not very well
4. Doing alright
5. Very well

The results show PSOs are just beginning the transformation to embedded AI in their organizations. Leaders, as one might expect, large PSOs and both Software and SaaS PS, are the forefront of this technology. SPI Research plans to ask the same question in next year's benchmark to see how much progress has been made on AI.

**Table 53: How well PSOs incorporated AI/ML to increase efficiencies**

| Key Performance Indicator (KPI) | Score |
|---|---|
| **Survey Total** | 2.91 |
| Org. Type - ESO | 2.93 |
| Org. Type - PSO | 2.92 |
| Region - Americas | 2.90 |
| Region - EMEA | 2.97 |
| Region - APac | 2.98 |
| Employees - Under 10 | 2.85 |
| Employees - 10 - 30 | 2.75 |
| Employees - 31 - 100 | 2.94 |
| Employees - 101 - 300 | 2.93 |
| Employees - 301 - 700 | 2.90 |
| Employees - Over 700 | 3.21 |
| Market - IT Consulting | 3.00 |
| Market - Mgmt. Consulting | 3.03 |
| Market - Software PS | 3.15 |
| Market - SaaS PS | 3.03 |
| Market - Architecture & Engineering | 2.45 |
| Market - Agencies | 2.98 |
| Market - Healthcare | 2.76 |

***Source: SPI Research, February 2024***

SPI Research also asked which service performance pillar is the most important for adopting AI and ML. Table 54 highlights over 40% of the respondents stated the Service Execution Pillar show the highest potential impact for adopting AI. Also, nearly one-quarter of all respondents stated that it would have a high impact in all five of the service performance pillars. The results were close across embedded versus independent professional services organizations and SPI Research found that in APac both the Leadership and Talent pillars were not considered at all.

**Table 54: Which Pillars do PS executives See the Highest Impact for Adopting AI**

| | Leadership | Client Relation. | Talent | Service Execution | Finance & Operations | All Pillars | None |
|---|---|---|---|---|---|---|---|
| **Survey Total** | **3.0%** | **8.3%** | **2.5%** | **41.7%** | **10.9%** | **22.8%** | **10.9%** |
| Org. Type - ESO | 3.6% | 9.5% | 0.6% | 41.4% | 11.2% | 25.4% | 8.3% |
| Org. Type - PSO | 2.8% | 7.8% | 3.3% | 41.8% | 10.8% | 21.8% | 12.0% |
| Region - Americas | 3.5% | 7.2% | 2.7% | 39.2% | 10.7% | 23.8% | 12.9% |
| Region - EMEA | 2.6% | 10.3% | 2.6% | 50.0% | 12.9% | 15.5% | 6.0% |
| Region - APac | 0.0% | 12.0% | 0.0% | 42.0% | 8.0% | 32.0% | 6.0% |
| Employees - Under 10 | 5.9% | 8.8% | 2.9% | 41.2% | 17.6% | 7.4% | 16.2% |
| Employees - 10 - 30 | 2.2% | 7.5% | 2.2% | 43.0% | 16.1% | 16.1% | 12.9% |
| Employees - 31 - 100 | 2.2% | 7.9% | 2.8% | 44.9% | 9.6% | 20.2% | 12.4% |
| Employees - 101 - 300 | 0.9% | 10.4% | 2.6% | 40.9% | 7.0% | 31.3% | 7.0% |
| Employees - 301 - 700 | 7.7% | 5.8% | 0.0% | 30.8% | 9.6% | 34.6% | 11.5% |
| Employees - Over 700 | 3.2% | 7.9% | 3.2% | 41.3% | 7.9% | 31.7% | 4.8% |
| Market - IT Consulting | 4.6% | 6.9% | 2.3% | 40.5% | 13.0% | 20.6% | 12.2% |
| Market - Mgmt. Consulting | 2.8% | 9.9% | 5.6% | 50.7% | 8.5% | 15.5% | 7.0% |
| Market - Software PS | 0.0% | 6.5% | 0.0% | 50.0% | 6.5% | 30.4% | 6.5% |
| Market - SaaS PS | 2.9% | 11.6% | 1.4% | 43.5% | 7.2% | 27.5% | 5.8% |
| Market – Arch. & Engr. | 3.4% | 6.8% | 1.7% | 44.1% | 10.2% | 15.3% | 18.6% |
| Market - Agencies | 0.0% | 9.6% | 7.7% | 42.3% | 5.8% | 23.1% | 11.5% |
| Market - Healthcare | 0.0% | 0.0% | 0.0% | 47.6% | 4.8% | 33.3% | 14.3% |

***Source: SPI Research, February 2024***

## Goal Focus

The improvement of performance is important, but PS executives must always keep their eye on the prize — the achievement of organizational goals. For the first time in the 17-year history of the Professional Services Maturity™ Benchmark SPI Research asked leaders which goals they were most focused on for the coming year. The results surprised SPI Research as it expected a more concentrated effort on talent. However, with major changes in the technology market, there appear to be more available consultants than in past years. PS executives show over 35% of their efforts will be focused on revenue growth, followed by profitability improvement.

The results were consistent across PSO types, geographic regions, markets and organization size (Tables 54 - 56). Every year PS executives face new challenges, and in the short term it will be sales.

**Table 55: Goal Focus by Organization Type and Geographic Region**

| Goal Focus | 2023 | ESO | PSO | Amer. | EMEA | APac |
|---|---|---|---|---|---|---|
| Grow Revenue | 35.8% | 33.9% | 36.5% | 35.5% | 37.7% | 33.3% |
| Increase Organizational Profit | 23.5% | 23.8% | 23.3% | 23.1% | 23.3% | 26.7% |
| Improve Client Satisfaction | 23.2% | 24.9% | 22.5% | 23.7% | 21.8% | 22.4% |
| Improve Talent Satisfaction and Optimization | 17.6% | 17.4% | 17.7% | 17.7% | 17.1% | 17.6% |

*Source: SPI Research, February 2024*

**Table 56: Goal Focus by Market**

| Goal Focus | IT Cons | Mgmt Cons | Soft PS | SaaS PS | Arch/ Engr | Agency | Health |
|---|---|---|---|---|---|---|---|
| Grow Revenue | 38.6% | 41.6% | 34.4% | 30.1% | 28.6% | 37.8% | 37.9% |
| Increase Organizational Profit | 23.7% | 21.8% | 22.6% | 23.6% | 23.3% | 26.4% | 29.5% |
| Improve Client Satisfaction | 20.8% | 22.2% | 26.8% | 29.6% | 23.9% | 19.2% | 19.0% |
| Improve Talent Satisfaction and Opt. | 16.9% | 14.3% | 16.3% | 16.7% | 24.2% | 16.5% | 13.6% |

*Source: SPI Research, February 2024*

**Table 57: Goal Focus by Organization Size**

| Goal Focus | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Grow Revenue | 46.8% | 36.6% | 35.0% | 33.3% | 31.7% | 31.9% |
| Increase Organizational Profit | 17.4% | 21.5% | 23.5% | 24.8% | 29.2% | 25.9% |
| Improve Client Satisfaction | 24.2% | 23.4% | 21.7% | 22.9% | 23.8% | 26.1% |
| Improve Talent Satisfaction and Optimization | 11.6% | 18.5% | 19.8% | 19.0% | 15.2% | 16.2% |

*Source: SPI Research, February 2024*

## Leadership Trends and Results

The following tables highlight the past five years of benchmark surveys. While typically there are not large changes at a high level, individual markets are at different phases of change, demand, talent and capital. The leadership results declined from 2022 to 2023, which makes it two years in a row leadership KPIs have gone down. 2023 was a difficult year for many firms as their clients reduced consulting costs. 2024 will be another interesting year with the economy recovering and the US elections will cause more uncertainty.

**Table 58: Leadership Pillar 5-year Trend**

| Key Performance Indicator (KPI) | 5-year avg. | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Well understood vision, mission and strategy | 3.91 | 3.94 | 3.99 | 3.97 | 3.89 | 3.81 |
| Confidence in PS leadership | 4.10 | 4.06 | 4.21 | 4.17 | 4.08 | 3.95 |
| Ease of getting things done | 3.78 | 3.81 | 3.88 | 3.85 | 3.72 | 3.70 |
| Goals and measurement alignment | 3.76 | 3.80 | 3.84 | 3.81 | 3.68 | 3.75 |
| Employees have confidence in PSO's future | 3.97 | 4.00 | 4.07 | 4.08 | 3.93 | 3.80 |
| Effectively communicates w/employees | 3.95 | 3.88 | 4.03 | 4.01 | 3.92 | 3.83 |
| Embraces change - nimble and flexible | 3.90 | 3.84 | 3.97 | 4.03 | 3.87 | 3.74 |
| Innovation focused | 3.74 | 3.70 | 3.85 | 3.87 | 3.69 | 3.60 |
| Data-driven | | | | | 3.47 | 3.51 |

*Source: SPI Research, February 2022*

**Table 59: Leadership Pillar Results by Organization Type and Geographic Region**

| Key Performance Indicator (KPI) | 2022 | 2023 | ESO | PSO | Amer. | EMEA | APac |
|---|---|---|---|---|---|---|---|
| Well understood vision, mission and strategy | 3.89 | 3.81 | 3.75 | 3.83 | 3.81 | 3.76 | 3.92 |
| Confidence in PS leadership | 4.08 | 3.95 | 3.89 | 3.98 | 3.96 | 3.91 | 3.92 |
| Ease of getting things done | 3.72 | 3.70 | 3.59 | 3.74 | 3.68 | 3.73 | 3.73 |
| Goals and measurement alignment | 3.68 | 3.75 | 3.82 | 3.71 | 3.74 | 3.82 | 3.64 |
| Employees have confidence in PSO's future | 3.93 | 3.80 | 3.74 | 3.82 | 3.82 | 3.83 | 3.59 |
| Effectively communicates w/employees | 3.92 | 3.83 | 3.81 | 3.84 | 3.85 | 3.86 | 3.69 |
| Embraces change - nimble and flexible | 3.87 | 3.74 | 3.77 | 3.72 | 3.74 | 3.82 | 3.53 |
| Innovation focused | 3.69 | 3.60 | 3.68 | 3.57 | 3.60 | 3.63 | 3.55 |
| Data-driven | 3.47 | 3.51 | 3.47 | 3.53 | 3.54 | 3.43 | 3.49 |

*Source: SPI Research, February 2024*

**Table 60: Leadership Pillar Results by Organization Size**

| Key Performance Indicator (KPI) | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Well understood vision, mission and strategy | 3.76 | 3.85 | 3.74 | 3.90 | 3.77 | 3.86 |
| Confidence in PS leadership | 3.92 | 4.02 | 3.98 | 3.93 | 3.87 | 3.89 |
| Ease of getting things done | 3.86 | 3.69 | 3.75 | 3.68 | 3.54 | 3.52 |
| Goals and measurement alignment | 3.76 | 3.68 | 3.75 | 3.75 | 3.79 | 3.76 |
| Employees have confidence in PSO's future | 3.62 | 3.90 | 3.80 | 3.88 | 3.71 | 3.78 |
| Effectively communicates w/employees | 3.72 | 3.93 | 3.88 | 3.78 | 3.79 | 3.84 |

| Key Performance Indicator (KPI) | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Embraces change - nimble and flexible | 3.79 | 3.85 | 3.82 | 3.60 | 3.54 | 3.68 |
| Innovation focused | 3.61 | 3.54 | 3.62 | 3.52 | 3.60 | 3.78 |
| Data-driven | 3.27 | 3.39 | 3.58 | 3.52 | 3.60 | 3.68 |

*Source: SPI Research, February 2024*

**Table 61: Leadership Pillar Results by Market Continued**

| Key Performance Indicator (KPI) | IT Cons | Mgmt Cons | Soft PS | SaaS PS | Arch/ Engr | Agency | Health |
|---|---|---|---|---|---|---|---|
| Well understood vision, mission and strategy | 3.89 | 4.03 | 3.87 | 3.91 | 3.68 | 3.55 | 3.71 |
| Confidence in PS leadership | 3.99 | 4.12 | 4.04 | 4.06 | 3.95 | 3.73 | 3.76 |
| Ease of getting things done | 3.88 | 3.80 | 3.60 | 3.74 | 3.58 | 3.53 | 3.38 |
| Goals and measurement alignment | 3.79 | 3.80 | 3.83 | 4.01 | 3.45 | 3.49 | 3.86 |
| Employees have confidence in PSO's future | 3.91 | 3.81 | 3.89 | 3.83 | 3.83 | 3.53 | 3.67 |
| Effectively communicates w/employees | 3.90 | 3.93 | 3.98 | 3.96 | 3.73 | 3.65 | 3.71 |
| Embraces change - nimble and flexible | 3.87 | 3.77 | 3.94 | 3.88 | 3.41 | 3.45 | 3.71 |
| Innovation focused | 3.68 | 3.73 | 3.45 | 3.80 | 3.29 | 3.33 | 3.86 |
| Data-driven | 3.66 | 3.53 | 3.68 | 3.61 | 3.20 | 3.37 | 3.67 |

*Source: SPI Research, February 2024*

Overall, management consultancies scored very high in the leadership KPI's. Architecture and engineering firms scored lower than average. Smaller firms tend to score higher on Leadership KPI's than the larger firms. The reasoning behind the higher scores most likely has to do with a small number of people being better able to communicate and collaborate across the organization. Also, they tend to work in an environment where being nimble is critical. Larger firms tend to have more structured processes and have greater levels of bureaucracy. But the larger firms typically have more stability and the ability to take their time to make sure they make the right decision.

## There is a 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 and support the organization's mission will work tirelessly to realize it. In this year's survey, clarity of vision, mission and strategy directly correlated with revenue and headcount growth, on time service delivery, propensity to recommend as a great place to work and revenue per consultant and employee (Table 62).

**Table 62: Impact – Well understood vision, mission and strategy**

| Well understood vision, mission and strategy | Survey % | Revenue growth | Recommend company to friends/family | On-time delivery | Ann. rev./ consult. (k) | Exec real-time visibility |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 2.3% | 1.7% | 2.54 | 62.3% | $210 | 2.55 |
| 2 | 6.3% | 10.3% | 3.61 | 69.7% | $181 | 2.85 |
| 3 | 21.7% | 5.7% | 3.74 | 70.1% | $194 | 3.00 |
| 4 | 47.9% | 8.2% | 4.16 | 77.7% | $208 | 3.54 |
| 5: Very effective | 21.9% | 8.6% | 4.58 | 80.4% | $225 | 3.83 |
| **Total / Average** | **100.0%** | **7.7%** | **4.09** | **75.8%** | **$207** | **3.42** |

*Source: SPI Research, February 2024*

## Employees have 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, PSOs can manage their own destiny. SPI Research continues to discover most key performance measurements improve as confidence in leadership increases. According to survey results, a few other factors have the same impact on the overall health and well-being of the service PSO.

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 plays a critical role in growth. As millennials become dominant in the workforce, effective leadership is more critical than ever before. Younger workers need more guidance, handholding, and constructive feedback to hone both their technical and interpersonal skills.

As shown in Table 63 a key aspect of confidence in leadership is based on clarifying the growth strategy which translates to pursuing the right opportunities and having the right resources to effectively deliver. Alignment leads to success, cementing the firm's value proposition.

**Table 63: Impact – Confidence in PS leadership**

| Confidence in PS leadership | Survey % | Rec. to family/ friends | Employee attrition | Client reference | Annual revenue/ emp. (k) | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 1.4% | 2.25 | 16.0% | 68.8% | $217 | 8.0% |
| 2 | 3.7% | 3.00 | 19.5% | 58.3% | $102 | 9.0% |
| 3 | 17.7% | 3.52 | 13.3% | 65.1% | $157 | 14.0% |
| 4 | 53.1% | 4.17 | 11.9% | 68.7% | $169 | 15.7% |
| 5: Very effective | 24.1% | 4.59 | 11.5% | 72.6% | $185 | 16.3% |
| **Total / Average** | **100.0%** | **4.09** | **12.4%** | **68.6%** | **$169** | **15.2%** |

*Source: SPI Research, February 2024*

## The Ease of Getting Things Done

The ease with which work gets done directly impacts productivity and morale. SPI Research asked participants whether it was easy to get things done within their organization, meaning minimal red tape, able to assign qualified resources quickly and easily, and with limited bureaucracy. PSOs that provide an infrastructure that supports employee productivity enhance both employee satisfaction and financial success. Table 64 shows most firms reported it is relatively easy to get things done. As ease of getting things done improves, less overhead is needed and PSOs operate more efficiently, leading to higher margins and profit.

**Table 64: Impact – Ease of getting things done**

| Ease of getting things done | Survey % | % of emp. billable | Std. del. method. used | On-time project delivery | Recommend company to friends/family | Project margin |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 1.2% | 67.9% | 58.6% | 67.9% | 2.86 | 26.2% |
| 2 | 7.4% | 67.4% | 60.5% | 70.9% | 3.38 | 28.1% |
| 3 | 28.0% | 69.5% | 60.7% | 72.0% | 3.87 | 33.5% |
| 4 | 47.5% | 72.4% | 67.2% | 77.0% | 4.20 | 35.9% |
| 5: Very effective | 15.9% | 74.6% | 68.2% | 81.5% | 4.56 | 34.7% |
| **Total / Average** | **100.0%** | **71.5%** | **64.9%** | **75.8%** | **4.09** | **34.3%** |

*Source: SPI Research, February 2024*

## PS Goals and Measurement Alignment

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

**Table 65: Impact – Goals and Measurement Alignment**

| GPS goals and measurement alignment | Survey % | On-time project delivery | Project margin | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | Exec real-time visibility |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 1.1% | 68.0% | 34.0% | $263 | $238 | 2.50 |
| 2 | 8.9% | 67.7% | 31.4% | $189 | $155 | 2.55 |
| 3 | 24.2% | 70.2% | 33.7% | $190 | $158 | 2.99 |
| 4 | 46.0% | 77.5% | 34.1% | $204 | $162 | 3.63 |
| 5: Very effective | 19.8% | 82.6% | 37.0% | $238 | $205 | 3.92 |
| **Total / Average** | **100.0%** | **75.8%** | **34.3%** | **$207** | **$170** | **3.42** |

*Source: SPI Research, February 2024*

## Employees Have Confidence in PSO's Future

The level of employee confidence in the future of the PS organization has a significant impact on almost every key performance measurement. Firms with the highest levels of employee confidence experienced the highest levels of revenue growth, were more often seen as a great place to work, and experienced lower attrition and higher utilization (Table 66). To cap it all off, they were also more profitable.

**Table 66: Impact – Employees have Confidence in PSO's Future**

| Employees have confidence in PSO's future | Survey % | Project margin | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | % of ann. rev. target | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 1.2% | 27.4% | $200 | $133 | 84.2% | 0.9% |
| 2 | 5.6% | 29.5% | $183 | $138 | 84.3% | 4.9% |
| 3 | 25.0% | 32.4% | $196 | $153 | 87.8% | 17.7% |
| 4 | 48.4% | 35.7% | $208 | $172 | 91.5% | 14.7% |
| 5: Very effective | 19.8% | 35.1% | $225 | $194 | 94.1% | 17.4% |
| **Total / Average** | **100.0%** | **34.3%** | **$207** | **$169** | **90.6%** | **15.3%** |

*Source: SPI Research, February 2024*

"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.

## Effective Communication with Employees

**Table 67: Impact – Effectively Communicates with Employees**

| Effectively communicates w/employees | Survey % | Client reference | On-time project delivery | Project overrun | Project margin | Exec real-time visibility |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 0.9% | 71.3% | 76.3% | 13.1% | 26.7% | 2.25 |
| 2 | 5.6% | 65.5% | 64.8% | 11.4% | 26.8% | 2.93 |
| 3 | 23.1% | 67.3% | 72.9% | 10.0% | 33.2% | 2.95 |
| 4 | 50.2% | 68.7% | 75.9% | 10.0% | 35.1% | 3.55 |
| 5: Very effective | 20.3% | 70.8% | 81.9% | 7.7% | 36.0% | 3.80 |
| **Total / Average** | **100.0%** | **68.7%** | **75.8%** | **9.6%** | **34.3%** | **3.42** |

*Source: SPI Research, February 2024*

Organizational communication helps align organizations to achieve common goals and objectives. It becomes increasingly difficult as the PSO grows and expands into new geographies. Respondents were asked to rate how effectively the organization communicates with employees. Talk may be cheap but without bidirectional communication, employees quickly become disenfranchised. The creation of an effective communication plan should be part of any improvement plan. Poor or no communication has a profound impact on marketing and sales and service delivery (Table 67). Low project margins are exacerbated by poor communication.

## Embraces Change – PS is Nimble and Flexible

Change is never easy, and most people and organizations have a difficult time with it. 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 (Table 68). The survey shows nimbleness and adaptability diminish as organizations grow. But these organizations do expand their client base and win more bids as the embrace change. They also show better service delivery and project profitability as they embrace change and are especially nimble and flexible.

**Table 68: Impact – Embraces Change - Nimble and Flexible**

| Embraces change - nimble and flexible | Survey % | Revenue growth | Rec. to family/ friends | Project margin | Ann. rev./ consult. (k) | Exec real-time visibility |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 2.6% | 3.5% | 2.87 | 29.1% | $190 | 2.38 |
| 2 | 7.9% | 5.3% | 3.69 | 30.2% | $203 | 2.95 |
| 3 | 25.6% | 7.2% | 3.88 | 34.1% | $204 | 3.16 |
| 4 | 41.2% | 7.6% | 4.20 | 34.4% | $203 | 3.58 |
| 5: Very effective | 22.8% | 9.7% | 4.42 | 36.7% | $221 | 3.70 |
| **Total / Average** | **100.0%** | **7.7%** | **4.09** | **34.4%** | **$207** | **3.42** |

***Source: SPI Research, February 2024***

## Leadership is Innovation Focused

Innovation is critical to the long-term growth and success of PSOs. Firms that create new services, and products in many cases, have a growth path built for them. 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 (Table 69). Innovation focus is not organization size dependent. High-Performance PSOs report a core belief in "great ideas come from anywhere". They build a culture of empowerment, embracing innovation.

**Table 69: Impact – Innovation Focus**

| Innovation focused | Survey % | Org. size (emp) | Revenue growth | Headcount growth | Rec. to family/ friends | Billable utilization |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 1.9% | 181 | 3.6% | -1.8% | 3.09 | 65.0% |
| 2 | 10.5% | 269 | 3.3% | 3.0% | 3.55 | 67.7% |
| 3 | 29.2% | 460 | 5.3% | 4.1% | 3.97 | 67.8% |
| 4 | 42.5% | 497 | 9.1% | 6.2% | 4.19 | 70.4% |
| 5: Very effective | 15.9% | 750 | 11.8% | 6.8% | 4.53 | 70.5% |
| **Total / Average** | **100.0%** | **496** | **7.7%** | **5.2%** | **4.09** | **69.3%** |

*Source: SPI Research, February 2024*

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. Approximately 60% of survey participants gave high marks for innovation. With innovation, revenues grow, and clients are pleased. Those that did grew much faster and made much more money than those with lower levels of innovation. They also had greater engagement from their workforce, coupled with greater efficiency.

## Professional Services is Data-driven

Businesses in every industry are moving to take a more data-driven approach to operations. It is no different in the professional services market. Over the past 25 years SPI Research has seen leaders in the PS market adopt technology to better plan and run their businesses. But the data must not be kept in silos, it must be shared across the organization to ensure each decision maker has the information necessary to make changes to improve performance.

Table 70 shows PSOs with a stronger data focus succeed in both revenue growth and the achievement of significantly higher revenue. As one might expect, those organizations with a strong data focus run more efficiently than those that do not. The results show up also in greater financial achievement. SPI Research expects this issue to become increasingly important as PSOs use data and AI to drive better business results.

**Table 70: Impact – Professional Services is Data-driven**

| Data-driven | Survey % | Rec. to family/ friends | Std. del. method. used | On-time project delivery | Project overrun | Project margin |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 3.5% | 3.20 | 51.1% | 69.7% | 11.2% | 30.6% |
| 2 | 13.5% | 3.94 | 57.6% | 70.3% | 10.3% | 29.7% |
| 3 | 27.6% | 3.95 | 63.7% | 72.8% | 9.2% | 32.7% |
| 4 | 39.3% | 4.18 | 66.6% | 78.0% | 10.1% | 36.5% |
| 5: Very effective | 16.1% | 4.42 | 72.5% | 81.4% | 8.1% | 36.8% |
| **Total / Average** | **100.0%** | **4.09** | **65.0%** | **75.8%** | **9.6%** | **34.4%** |

*Source: SPI Research, February 2024*

# Chapter 7

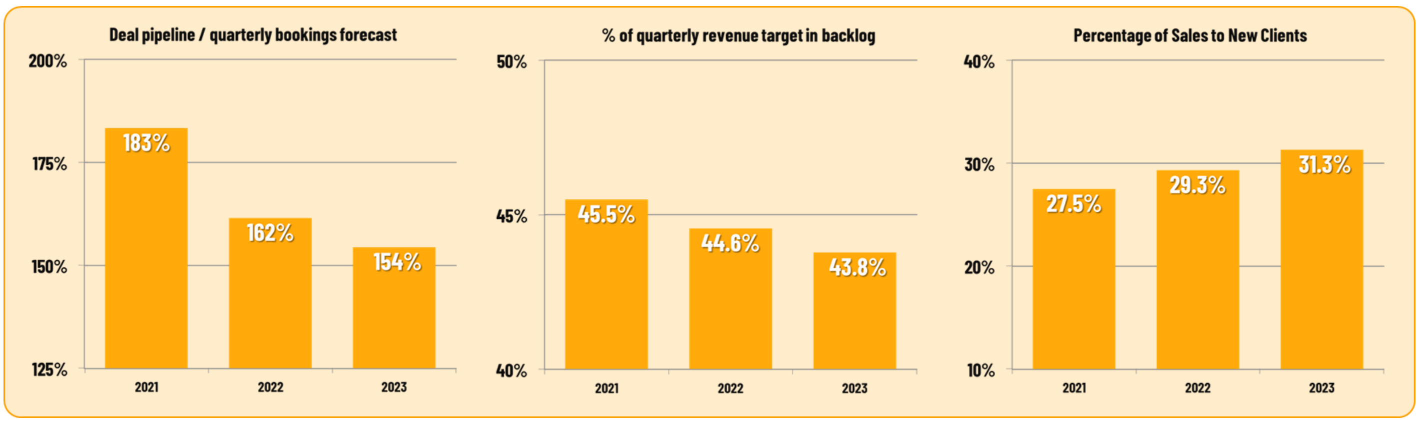
# Client Relationships Pillar

## CLIENT RELATIONSHIPS PILLAR


The Client Relationships pillar focuses on the activities associated with business development and client management. PSOs spend significant time and capital to find and retain clients, which is a primary means of growing a business and is always one of the top challenges for PS firms.

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

**Figure 35: Client Relationships Trends of Note**




*Source: SPI Research, February 2024*

SPI Research highlighted three of the client relationships trends in Figure 35 because they are some of the most important KPIs for the Client Relationships pillar. While the good news is the PSOs in this study had over 30% of their clients being new, both their deal pipeline and the backlog went down again in 2023. SPI Research believes the deal pipeline should be over 200% of the quarterly bookings forecast and the backlog should be over 50% at the beginning of each quarter. The trends of these two KPIs should be monitored to avoid further deterioration.

In 2023 most of the Client Relationships KPI's went down. SPI Research expects a major effort in 2024 to grow revenue. While the KPI's went down, they weren't much lower than the prior year. 2023 was a year of uncertainty, especially with inflation, interest rates and AI taking center stage. Now, things have begun to settle down and PSOs can get back to selling.

Table 71 describes 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 71: PS Sales and Marketing Maturity Model™**

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

***Source: SPI Research, February 2024***

The effectiveness of the organization's sales and marketing efforts determines the quality and size of the pipeline; win ratios; discounts; client satisfaction and referenceability and the length of the sales cycle. Effective sales and marketing organizations continually uncover new opportunities while ensuring existing customers continue to buy and refer. Today's successful PSO, whether embedded or independent, is increasingly taking charge of its own destiny by investing in sales, marketing and service packaging.

## Client Relationships Maturity Model™

Improvements in sales and marketing performance, or as SPI Research calls it, "maturity", yield fantastic results for professional services organizations. Effective client relationships translate into greater growth as PSOs increase deal pipelines, win more bids, and build backlog. With robust sales and market demand, PSOs can be more selective around the deals they pursue and the types of clients they serve. They become adept at pushing back on lousy terms and conditions or excessive discounting which puts the firm at risk while minimizing profit. In the new virtual sales and delivery world, prospective clients in all industries are scrambling to select and implement cloud-based business applications. Every industry has had to shift to on-line self-service applications which has created robust demand for IT and management consultancies. Figure 36 shows the powerful results as PSOs improve their sales, marketing, service packaging and client reference-building programs.

Improving client relationship maturity produces significant advantages in terms of market expansion (a higher percentage of new logo client revenue); win ratios; size of the sales pipeline and reductions in discounting. More mature organizations report significantly better client referenceability and net promoter scores which in turn lead to referrals, more clients and larger projects. More mature PSOs need fewer salespeople but with much higher sales quotas and win ratios. Improved sales effectiveness not only costs less in direct sales and marketing costs but also produces much better results with higher realized bill rates and lower discounts.

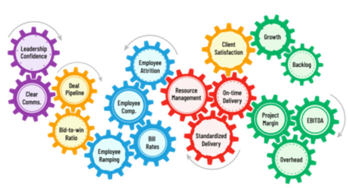
High-performing organizations understand sales and marketing effectiveness is not achieved in isolation; it is the combination and alignment between strategy, marketing, sales and service delivery, which makes the difference. Leading organizations are aligned from strategy to execution with all elements of the business working in concert to delight clients.

**Figure 36: Client Relationships Maturity Matters**


| | Level 1 Initiated | Level 2 Piloted | Level 3 Deployed | Level 4 Institutionalized | Level 5 Optimized |
|---|---|---|---|---|---|
| **Firms** | **172** | **144** | **144** | **86** | **29** |
| Deal pipeline / quarterly bookings forecast | 106% | 140% | 175% | 201% | 262% |
| % of bids won | 37.4% | 48.2% | 50.8% | 58.4% | 63.8% |
| % of the quarterly revenue target in backlog | 29.6% | 42.3% | 47.7% | 57.2% | 66.6% |
| Service discount given | 7.2% | 7.1% | 9.6% | 8.6% | 8.9% |
| % of referenceable clients | 60.3% | 68.0% | 70.8% | 76.0% | 86.4% |
| Service sales effectiveness | 3.24 | 3.40 | 3.69 | 3.88 | 4.10 |
| Time & materials % of work sold | 32.3% | 37.6% | 37.7% | 54.2% | 53.7% |
| New clients | 19.7% | 31.5% | 36.5% | 42.2% | 40.3% |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

***Source: SPI Research, February 2024***

**Figure 37: Bill Type of Work Sold by Maturity Level**




| | Level 1 Initiated | Level 2 Piloted | Level 3 Deployed | Level 4 Institutionalized | Level 5 Optimized |
|---|---|---|---|---|---|
| **Firms** | **172** | **144** | **144** | **86** | **29** |
| Time & materials % of work sold | 32.3% | 37.6% | 37.7% | 54.2% | 53.7% |
| Fixed time / fixed fee % of work sold | 38.4% | 39.2% | 39.1% | 26.2% | 28.8% |
| Shared risk / performance-based % of work sold | 3.0% | 2.0% | 2.1% | 2.9% | 1.5% |
| Subscription % of work sold | 9.4% | 9.9% | 7.8% | 5.9% | 8.2% |
| Managed Services % of work sold | 12.1% | 8.6% | 9.8% | 8.5% | 6.9% |
| None of the above % of work sold | 4.8% | 2.8% | 3.5% | 2.3% | 0.9% |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

***Source: SPI Research, February 2024***

An examination of the type of work sold (Figure 37) shows high-performing firms sell more time and materials work as the market for professional services expands, and talent becomes harder to find. The pendulum continues to swing toward more power in the hands of PSOs, which should lead to higher bill rates and profits going forward. In this benchmark, firms that primarily use time and materials pricing are significantly more profitable than those that favor fixed pricing.

In today's incredibly tight talent market firms assume more risk with fixed pricing as they may not be able to find the resources they need to deliver on time. More service providers now offer subscription and "managed services" as monthly, quarterly or annual contracts to drive more predictable, recurring revenue. Buyers want predetermined monthly costs, putting the onus on service providers to correctly package, price and deliver contracts. Shared risk contracts are gaining steam, but still have a long way to go to being a preferred method of use.

## 5-Year Client Relationships Trends

Table 72 highlights the past five years of benchmark surveys. The table shows most Client Relationship metrics achieved their highest performance in 2021. The market started becoming healthier in 2021 and 2022 as PSOs learned how to market and sell during the pandemic while consulting demand skyrocketed. However, in 2023 the market took a step back due to so much economic uncertainty. Now, the biggest concerns amount to a smaller deal pipeline, a lower percentage of bids won, and increased discounts. The results show slower growth and the lowest client reference scores in over five years.

**Table 72: Client Relationships Pillar 5-year Trend**

| Key Performance Indicator (KPI) | 5-year avg. | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Current clients - existing services | 54.6% | 51.9% | 56.2% | 58.9% | 53.7% | 52.3% |
| Current clients - new services | 16.0% | 17.3% | 15.6% | 13.6% | 17.0% | 16.4% |
| New logo clients - existing services | 19.1% | 19.5% | 18.1% | 18.1% | 19.0% | 20.6% |
| New logo clients - new services | 10.3% | 11.3% | 10.0% | 9.4% | 10.3% | 10.7% |
| Deal pipeline relative to qtr. bookings forecast | 171.1% | 181% | 179% | 183% | 162% | 154% |
| Percentage of bids won | 48.2% | 48.1% | 47.0% | 47.0% | 50.2% | 48.1% |
| % of quarterly revenue target in backlog | 44.3% | 44.7% | 43.0% | 45.5% | 44.6% | 43.8% |
| Average service discount given | 7.6% | 7.6% | 7.6% | 6.6% | 8.0% | 8.1% |
| Percentage of referenceable clients | 71.9% | 72.2% | 72.7% | 74.8% | 71.3% | 68.7% |
| Solution development effectiveness | 3.68 | 3.72 | 3.69 | 3.71 | 3.65 | 3.62 |
| Service sales effectiveness | 3.58 | 3.61 | 3.56 | 3.64 | 3.60 | 3.54 |
| Service marketing effectiveness | 3.18 | 3.21 | 3.12 | 3.24 | 3.22 | 3.15 |

*Source: SPI Research, February 2024*

## Survey Results

The following sections analyze specific Client Relationships KPIs, their impact on performance and how they have changed over the past year. The professional services market is fluid, and agile firms have the highest probability of growth and prosperity.

### Service revenue breakdown by new vs. existing clients and new vs. existing services

*Breakdown of sales by new logo clients (less than 1-year) vs. existing, and new services (offered for less than one year) vs. existing (over one year).*

Table 73 shows an overall increase of new logo clients in 2023. Embedded service organizations, driven by both software and SaaS firms, increased new clients significantly, whereas architecture and engineering firms did not. All three regions had approximately 30% of the services sold to new clients.

**Table 73: Service Revenue Breakdown**

| Revenue & Client Source | 2022 | 2023 | ESO | PSO | Americas | EMEA | APac |
|---|---|---|---|---|---|---|---|
| Current clients - existing services | 53.7% | 52.3% | 46.2% | 54.8% | 52.7% | 51.0% | 51.6% |
| Current clients - new services | 17.0% | 16.4% | 16.7% | 16.3% | 16.1% | 16.9% | 18.5% |
| New logo clients - existing services | 19.0% | 20.6% | 23.0% | 19.6% | 20.4% | 22.8% | 17.3% |
| New logo clients - new services | 10.3% | 10.7% | 14.1% | 9.3% | 10.9% | 9.3% | 12.7% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Source: SPI Research, February 2024*

**Table 74: Service Revenue Breakdown by Market**

| Revenue & Client Source | IT Cons. | Mgmt Cons | Soft PS | SaaS PS | Arch/Engr | Agency | Health |
|---|---|---|---|---|---|---|---|
| Current clients - existing services | 55.5% | 54.3% | 40.7% | 36.3% | 64.8% | 60.9% | 51.7% |
| Current clients - new services | 15.9% | 15.8% | 19.2% | 16.7% | 14.7% | 16.2% | 17.9% |
| New logo clients - existing serv. | 19.0% | 20.9% | 27.0% | 28.3% | 14.0% | 16.4% | 18.8% |
| New logo clients - new services | 9.5% | 9.0% | 13.1% | 18.7% | 6.5% | 6.5% | 11.6% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Source: SPI Research, February 2024*

**Table 75: Service Revenue Breakdown by Organization Size**

| Revenue & Client Source | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Current clients - existing services | 54.4% | 52.3% | 54.0% | 50.4% | 54.0% | 46.9% |
| Current clients - new services | 14.6% | 15.9% | 16.4% | 16.1% | 16.5% | 20.2% |
| New logo clients - existing services | 22.0% | 22.1% | 19.9% | 21.4% | 18.9% | 18.6% |
| New logo clients - new services | 9.0% | 9.7% | 9.7% | 12.1% | 10.7% | 14.4% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

***Source: SPI Research, February 2024***

## Size of the Deal Pipeline in Comparison to the Quarterly Bookings Forecast

*The size of the pipeline (in dollars) is divided by the forecasted revenue.* ***Only*** *include the pipeline revenue for the quarter for those potential engagements that span multiple quarters.*

The size of the deal pipeline shows a direct correlation to all major growth indicators – revenue growth; new, clients, backlog, revenue per billable employee; percentage achievement of annual revenue and margin targets and billable utilization.

A sign of caution and continued market turbulence is that 58.2% of benchmark participants reported their deal pipeline was less than two times the size of their forecast. Table 76 illustrates the positive impact of a strong sales pipeline on revenue growth; backlog; billable utilization and real-time visibility.

**Table 76: Impact – Size of deal pipeline in comparison to quarterly bookings forecast**

| Size of deal pipeline in comparison to quarterly bookings forecast | Survey % | Revenue growth | Headcount growth | Backlog | Billable utilization | Exec real-time visibility |
|---|---|---|---|---|---|---|
| Less than forecast | 17.5% | 3.4% | 1.8% | 33.6% | 67.8% | 3.29 |
| Same as forecast | 40.7% | 7.7% | 5.2% | 43.6% | 69.3% | 3.42 |
| 2X forecast | 24.5% | 9.7% | 6.4% | 47.8% | 70.0% | 3.45 |
| 3X forecast | 13.2% | 9.8% | 6.9% | 47.4% | 70.1% | 3.48 |
| 4X forecast | 4.1% | 12.0% | 8.2% | 52.3% | 71.0% | 3.68 |
| **Total / Average** | **100.0%** | **7.9%** | **5.3%** | **43.7%** | **69.4%** | **3.42** |

***Source: SPI Research, February 2024***

Table 77 shows the average size of the deal pipeline went down to 154% after being 162% in 2022. ESOs reported lower pipelines of 161% of forecast while independents also reported leaner pipelines of 152%. EMEA had the lowest (138%) deal pipeline relative to quarterly bookings forecast in 2023. SPI Research will wait to see if this decrease becomes a trend, or just a one-year reduction in pipeline as the market adjusts.

**Table 77: YoY Change in Deal Pipeline / Quarterly Bookings Forecast**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 162% | 154% | -4% | Under 10 emp. | 128% | 115% | -10% |
| ESO | 174% | 161% | -8% | 10 - 30 | 155% | 149% | -4% |
| PSO | 156% | 152% | -3% | 31 - 100 | 164% | 158% | -4% |
| Amer | 163% | 158% | -3% | 101 - 300 | 172% | 166% | -3% |
| EMEA | 157% | 138% | -12% | 301 - 700 | 165% | 164% | -1% |
| APac | 161% | 160% | -1% | Over 700 | 177% | 169% | -4% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 175% | 175% | 0% | Arch. / Engr. | 151% | 130% | -14% |
| Mgmt. Consulting | 141% | 149% | 6% | Agency | 113% | 109% | -4% |
| Software PS | 190% | 190% | 0% | Healthcare | 158% | 180% | 14% |
| SaaS PS | 158% | 167% | 5% | Other PS | 167% | 142% | -15% |

*Source: SPI Research, February 2024*

## Percentage of Bids Won

*The percentage of client bids submitted that are awarded with contracts.*

The percentage of bids won is a culmination of good marketing, sales and pricing. If the percentage of bids won is too high, it may be an indication that the organization is not aggressive enough in targeting new clients and new services (Table 78). If it is extremely low, it is an indication the firm is competing in a commoditized market or is not well-positioned or is not doing a good job of qualifying deals. The best deals are those that do not require a bid (sole source) because the client has done business with the firm before and knows they will do a good job, or they are so clearly the premium supplier that no other providers need be considered.

**Table 78: Impact – Percentage of Bids Won**

| Percentage of Bids Won | Survey % | Revenue growth | Backlog | Client reference | On-time project delivery | % of ann. rev. target |
|---|---|---|---|---|---|---|
| Under 20% | 9.9% | 0.8% | 28.5% | 61.6% | 67.6% | 82.3% |
| 20% - 40% | 27.0% | 6.6% | 40.8% | 65.2% | 75.0% | 87.6% |
| 40% - 60% | 34.5% | 9.4% | 47.7% | 69.2% | 75.0% | 91.4% |
| 60% - 80% | 20.1% | 9.5% | 46.3% | 73.0% | 79.4% | 94.7% |
| Over 80% | 8.5% | 9.0% | 48.8% | 76.3% | 82.6% | 97.7% |
| **Total / Average** | **100.0%** | **7.8%** | **43.8%** | **68.8%** | **75.8%** | **90.7%** |

*Source: SPI Research, February 2024*

The percentage of bids won went down to 48.1% from 50.2% the year earlier. Table 79 shows the positive impact of an improving percentage of bids won through higher revenue growth, greater backlog and improved client references and on-time service delivery. This year the optimal percentage is over 80% with the highest backlog.

**Table 79: YoY Change in Percentage of bids won**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 50.2% | 48.1% | -4% | Under 10 emp. | 55.2% | 54.2% | -2% |
| ESO | 49.7% | 49.8% | 0% | 10 - 30 | 52.5% | 51.3% | -2% |
| PSO | 50.5% | 47.4% | -6% | 31 - 100 | 49.0% | 47.7% | -3% |
| Amer | 49.7% | 47.4% | -5% | 101 - 300 | 48.4% | 47.9% | -1% |
| EMEA | 52.1% | 49.1% | -6% | 301 - 700 | 47.1% | 40.6% | -14% |
| APac | 51.1% | 51.2% | 0% | Over 700 | 50.5% | 43.7% | -14% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 51.2% | 48.6% | -5% | Arch. / Engr. | 50.6% | 49.0% | -3% |
| Mgmt. Consulting | 50.6% | 52.7% | 4% | Agency | 42.5% | 39.0% | -8% |
| Software PS | 52.4% | 44.9% | -14% | Healthcare | 47.9% | 52.1% | 9% |
| SaaS PS | 45.7% | 50.9% | 11% | Other PS | 52.4% | 47.0% | -10% |

***Source: SPI Research, February 2024***

## 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 PSOs measure quarterly backlog as the amount of already sold work plus the amount of work from a factored sales forecast.

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

Table 80 shows how other key performance indicators change as PSOs increase their backlog. Backlog is driven by a larger pipeline and higher win ratios. Part of this success is driven by an increase in new clients, but also by PSOs performing well, as evidenced by the achievement of annual revenue and margin goals.

**Table 80: Impact – Quarterly Revenue Target in Backlog**

| Quarterly revenue target in backlog | Survey % | Project margin | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | % of annual revenue target | % of annual margin target |
|---|---|---|---|---|---|---|
| Under 20% | 18.0% | 31.2% | $172 | $139 | 86.3% | 83.7% |
| 20% - 40% | 25.3% | 33.2% | $189 | $154 | 89.9% | 86.7% |
| 40% - 50% | 18.9% | 35.2% | $192 | $157 | 90.9% | 87.7% |
| 50% - 60% | 11.7% | 35.2% | $217 | $181 | 89.1% | 87.3% |
| 60% - 70% | 9.3% | 38.0% | $224 | $188 | 93.3% | 91.3% |
| Over 70% | 16.8% | 36.0% | $263 | $215 | 95.8% | 91.6% |
| **Total / Average** | **100.0%** | **34.4%** | **$206** | **$168** | **90.6%** | **87.7%** |

***Source: SPI Research, February 2024***

Overall, backlog went down slightly, but in embedded services organizations it went down by 6%. It also went down in IT consultancies but did much better in Software PS, Agencies and Healthcare PS (Table 81). The larger firms did the best, increasing backlog while the smaller firms decreased it slightly.

**Table 81: YoY Change in the Quarterly Revenue Target in Backlog at the Beginning of the Quarter**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 44.6% | 43.8% | -2% | Under 10 emp. | 36.5% | 38.3% | 5% |
| ESO | 44.7% | 42.0% | -6% | 10 - 30 | 45.1% | 43.1% | -4% |
| PSO | 44.5% | 44.5% | 0% | 31 - 100 | 44.8% | 44.5% | 0% |
| Americas | 44.5% | 44.8% | 1% | 101 - 300 | 48.1% | 46.8% | -3% |
| EMEA | 46.9% | 41.5% | -12% | 301 - 700 | 46.5% | 48.4% | 4% |
| APac | 40.4% | 41.0% | 1% | Over 700 | 42.8% | 39.4% | -8% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 45.7% | 44.6% | -2% | Arch. / Engr. | 52.1% | 49.4% | -5% |
| Mgmt. Consulting | 43.5% | 43.0% | -1% | Agency | 32.7% | 37.1% | 13% |
| Software PS | 48.2% | 53.6% | 11% | Healthcare | 35.0% | 43.2% | 24% |
| SaaS PS | 44.4% | 45.0% | 1% | Other PS | 43.1% | 39.2% | -9% |

***Source: SPI Research, February 2024***

## Service Discount Given Clients

*The average discount or price concession from list price for a proposed service.*

The average discount percentage highlights how much off the standard price the organization must discount its services to win bids. This percentage is very important as it cuts right into PS margins. Professional services organizations build, sometimes elaborate, pricing models to optimize revenue and profitability. As competition heats up in services, differentiation is not enough to win the bid, and PS executives must discount their services.

In professional services, it is far more difficult to develop a pricing strategy than in product-based organizations. It is easy to do comparative shopping at a grocery store or for products on-line. In professional services, pricing is more art than science with wider variability in terms of costs, estimates, proposals and pricing. Professional services executives cannot just look at expected project cost, sales forecasts, or some other key metric to set pricing. Supply and demand come into play. The more unique the offering; the more demonstrable the return on investment; the larger the reference base; the harder it is to find the required skills; the more premium pricing is warranted. Table 82 shows over 70% of organizations discount less than 10%. Those organizations that discount heavily (greater than 20%) have significantly higher employee attrition and much lower client references.

**Table 82: Impact – Service discount given clients**

| Service discount | Survey % | Revenue growth | % of bids won | Std. delivery method. used | Employee attrition | Client reference |
|---|---|---|---|---|---|---|
| None | 18.7% | 6.8% | 49.8% | 64.5% | 9.6% | 73.4% |
| Under 5% | 22.6% | 7.4% | 51.6% | 64.5% | 10.9% | 70.9% |
| 5% - 10% | 30.8% | 9.2% | 45.5% | 64.1% | 13.1% | 67.9% |
| 10% - 20% | 20.5% | 7.5% | 45.3% | 64.9% | 14.3% | 65.6% |
| 20% - 30% | 5.2% | 9.7% | 53.4% | 70.7% | 14.8% | 60.0% |
| Over 30% | 2.1% | 4.2% | 46.7% | 75.0% | 21.8% | 67.9% |
| **Total / Average** | **100.0%** | **7.9%** | **48.1%** | **65.0%** | **12.5%** | **68.7%** |

***Source: SPI Research, February 2024***

Past win percentages 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 are 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.

Although limiting discounting might impact growth, it enhances win ratios, billable utilization, on-time project delivery and client references. Firms that 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. Table 83 shows increases in discounting across the survey. Ideally, there would be no discounting, but most firms must discount occasionally.

**Table 83: YoY Change in Service discount given**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 8.0% | 8.1% | -1% | Under 10 emp. | 6.1% | 4.6% | 33% |
| ESO | 11.9% | 9.4% | 27% | 10 - 30 | 6.9% | 6.4% | 8% |
| PSO | 6.4% | 7.6% | -15% | 31 - 100 | 8.5% | 8.7% | -2% |
| Americas | 8.4% | 8.3% | 1% | 101 - 300 | 8.2% | 8.6% | -5% |
| EMEA | 7.5% | 7.1% | 6% | 301 - 700 | 8.8% | 8.8% | 0% |
| APac | 6.3% | 9.0% | -31% | Over 700 | 9.7% | 11.5% | -15% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 8.1% | 8.4% | -4% | Arch. / Engr. | 3.0% | 4.7% | -36% |
| Mgmt. Consulting | 5.3% | 5.9% | -11% | Agency | 8.1% | 8.5% | -5% |
| Software PS | 11.7% | 10.9% | 8% | Healthcare | 5.9% | 8.1% | -27% |
| SaaS PS | 15.5% | 14.6% | 6% | Other PS | 7.1% | 5.8% | 24% |

***Source: SPI Research, February 2024***

## Percentage of Referenceable Clients

*The percentage of customers who would provide a reference to help the PSO sell more services. Ideally this KPI would be captured from an outside service.*

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

Client references are a leading indicator of organizational success. As the percentage increases, so does the probability of high levels of growth, better win ratios and lower sales costs. Any maturity improvement plan must address measuring and improving client satisfaction and building references. Best practices include post-project engagement interviews and surveys, acquiring client references and testimonials as part of project close-out process along with frequent and consistent project quality reviews. Executive teams should review the project dashboard at weekly meetings and immediately assign resources to intervene with troubled projects. Table 84 shows higher references yield higher sales win rates and revenue per consultant and employee. Referenceable clients also help PSOs meet revenue and margin targets.

**Table 84: Impact – Percentage of referenceable clients**

| Percentage of referenceable clients | Survey % | % of bids won | Rec. to family/ friends | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | % of ann. rev. target |
|---|---|---|---|---|---|---|
| Under 50% | 16.9% | 44.5% | 3.98 | $182 | $143 | 88.0% |
| 50% - 60% | 17.3% | 40.8% | 4.00 | $195 | $155 | 88.6% |
| 60% - 70% | 14.7% | 42.8% | 3.85 | $203 | $172 | 88.2% |
| 70% - 80% | 19.2% | 49.3% | 4.14 | $221 | $179 | 92.0% |
| 80% - 90% | 17.8% | 50.8% | 4.14 | $218 | $181 | 93.5% |
| Over 90% | 14.0% | 59.6% | 4.49 | $219 | $187 | 92.4% |
| **Total / Average** | **100.0%** | **47.8%** | **4.10** | **$206** | **$169** | **90.5%** |

*Source: SPI Research, February 2024*

**Table 85: YoY Change in Percentage of Referenceable Clients**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 71.3% | 68.7% | -4% | Under 10 emp. | 78.1% | 76.9% | -2% |
| ESO | 67.9% | 67.0% | -1% | 10 - 30 | 71.6% | 70.8% | -1% |
| PSO | 72.8% | 69.5% | -5% | 31 - 100 | 72.2% | 69.3% | -4% |
| Americas | 71.5% | 70.0% | -2% | 101 - 300 | 68.7% | 65.6% | -5% |
| EMEA | 71.8% | 65.9% | -8% | 301 - 700 | 69.8% | 63.7% | -9% |
| APac | 68.5% | 64.9% | -5% | Over 700 | 67.6% | 64.8% | -4% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 70.7% | 69.2% | -2% | Arch. / Engr. | 77.4% | 75.2% | -3% |
| Mgmt. Consulting | 74.9% | 73.8% | -2% | Agency | 72.7% | 66.0% | -9% |
| Software PS | 65.8% | 62.7% | -5% | Healthcare | 71.8% | 71.3% | -1% |
| SaaS PS | 68.5% | 64.4% | -6% | Other PS | 70.4% | 67.5% | -4% |

*Source: SPI Research, February 2024*

## Primary Strategy for Growth

2023 was a more difficult year than normal for selling professional services. PS leaders continue to develop new ways to sell and new services to drive revenue growth. For the first time, SPI Research asked PS executives what their primary strategy for growth would be in 2024. These strategies include:

- Mergers & Acquisitions
- New services offerings
- Adding headcount

- Multiple strategies
- No current strategy

**Table 86: Summary Organizational Concerns**

| | M&A | New services | Add headcount | Multiple strategies | No current strategy |
|---|---|---|---|---|---|
| **Survey Total** | 3.9% | 14.4% | 15.1% | 60.2% | 6.5% |
| Organization Type - ESO | 5.4% | 16.7% | 7.7% | 64.9% | 5.4% |
| Organization Type - PSO | 3.2% | 13.4% | 18.2% | 58.2% | 7.0% |
| Region - Americas | 4.0% | 13.1% | 13.1% | 64.2% | 5.7% |
| Region - EMEA | 2.6% | 18.3% | 20.0% | 50.4% | 8.7% |
| Region - APac | 6.0% | 16.0% | 20.0% | 50.0% | 8.0% |
| Employees - Under 10 | 1.4% | 26.8% | 14.1% | 45.1% | 12.7% |
| Employees - 10 - 30 | 2.1% | 13.8% | 18.1% | 61.7% | 4.3% |
| Employees - 31 - 100 | 1.1% | 8.5% | 16.4% | 66.7% | 7.3% |
| Employees - 101 - 300 | 7.8% | 12.1% | 14.7% | 62.1% | 3.4% |
| Employees - 301 - 700 | 5.9% | 19.6% | 15.7% | 49.0% | 9.8% |
| Employees - Over 700 | 8.2% | 18.0% | 8.2% | 62.3% | 3.3% |
| Market - IT Consulting | 3.8% | 17.4% | 22.0% | 53.0% | 3.8% |
| Market - Mgmt. Consulting | 1.4% | 10.8% | 12.2% | 68.9% | 6.8% |
| Market - Software PS | 0.0% | 13.3% | 2.2% | 75.6% | 8.9% |
| Market - SaaS PS | 4.3% | 18.8% | 5.8% | 69.6% | 1.4% |
| Market – Arch. & Engr. | 3.4% | 3.4% | 32.2% | 45.8% | 15.3% |
| Market - Agencies | 2.0% | 17.6% | 9.8% | 64.7% | 5.9% |
| Market - Healthcare | 4.8% | 14.3% | 4.8% | 66.7% | 9.5% |

*Source: SPI Research, February 2024*

Table 86 shows most firms have multiple strategies to add headcount, offer new services and become involved with M&A activity. Smaller firms were very focused on adding new services, whereas IT consultants and AE firms look to add headcount.

## Effectiveness of Service Development, Marketing and Sales Processes

*The effectiveness of solution development, service marketing, and sales on a 1-5 scale, with 1=very ineffective and 5=very effective.*

To successfully create, market and sell professional services, PSOs must go through a process of analyzing market trends, past and future services commitments and understanding client needs and translating them into solutions. The following sections analyze how effective PSOs are in solution development, marketing and sales.

### *Solution Development Effectiveness*

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

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

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

SPI Research asked how effective solution development was on a scale of 1 to 5, with 5 representing very effective (Table 87). Solution Development effectiveness has traditionally been given a lower score than sales effectiveness but higher marks than marketing effectiveness. This year's overall solution development effectiveness was rated higher than sales effectiveness with a score of 3.62 compared to 3.54 for sales effectiveness and 3.15 for marketing effectiveness. All the measures of solution development, sales and marketing effectiveness decreased from the 2022 survey. For 58.1% of firms who gave their solution development efforts a good score of 4 or 5, solution development had a positive impact on the size of the percentage of bids won, project overrun and meeting annual revenue and margin goals.

**Table 87: Impact – Solution Development Effectiveness**

| Solution Development Effectiveness | Survey % | Revenue growth | Client reference | Rec. to family/ friends | Project duration (man-mnth) | Ann. rev./ consult. (k) |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 2.2% | 4.0% | 55.8% | 2.92 | 23.0 | $178 |
| 2 | 7.7% | 4.8% | 67.4% | 3.84 | 24.7 | $195 |
| 3 | 32.0% | 8.0% | 65.9% | 3.96 | 25.7 | $190 |
| 4 | 42.5% | 8.5% | 69.9% | 4.15 | 28.7 | $213 |
| 5: Very effective | 15.6% | 7.8% | 72.4% | 4.40 | 41.1 | $234 |
| **Total / Average** | **100.0%** | **7.8%** | **68.5%** | **4.08** | **29.2** | **$207** |

*Source: SPI Research, February 2024*

**Table 88: YoY Change in Solution Development Effectiveness**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.65 | 3.62 | -1% | Under 10 emp. | 3.53 | 3.52 | 0% |
| ESO | 3.68 | 3.69 | 0% | 10 - 30 | 3.71 | 3.66 | -1% |
| PSO | 3.64 | 3.59 | -1% | 31 - 100 | 3.64 | 3.60 | -1% |
| Americas | 3.69 | 3.66 | -1% | 101 - 300 | 3.57 | 3.62 | 1% |
| EMEA | 3.52 | 3.44 | -2% | 301 - 700 | 3.73 | 3.69 | -1% |
| APac | 3.64 | 3.69 | 1% | Over 700 | 3.81 | 3.66 | -4% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.62 | 3.62 | 0% | Arch. / Engr. | 3.67 | 3.41 | -7% |
| Mgmt. Consulting | 3.76 | 3.72 | -1% | Agency | 3.57 | 3.51 | -2% |
| Software PS | 3.56 | 3.48 | -2% | Healthcare | 3.60 | 3.63 | 1% |
| SaaS PS | 3.80 | 3.74 | -2% | Other PS | 3.62 | 3.68 | 2% |

*Source: SPI Research, February 2024*

### *Service Marketing Effectiveness*

Service Marketing must develop an effective online presence, thought leadership, lead generation campaigns, sales tools and sales enablement to amplify the firm's brand awareness and to showcase thought leadership while nurturing 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 which supports on-going campaigns.

SPI Research asked how effective service marketing was on a scale of 1 to 5, with 5 representing very effective (Table 89). Marketing effectiveness has consistently been given an even lower score than sales effectiveness. For 38.3% of firms that gave their marketing efforts a strong score of 4 or 5, marketing has a positive impact on revenue growth, size of the sales pipeline, and project margins. Marketing is certainly worth the expense if it is well-staffed, fully funded and strategically positioned.

**Table 89: Impact – Service Marketing Effectiveness**

| Service Marketing Effectiveness | Survey % | Revenue growth | Client reference | Employee attrition | Rec. to family/ friends | Billable utilization |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 5.9% | 9.0% | 61.2% | 14.3% | 3.70 | 67.4% |
| 2 | 19.1% | 6.6% | 69.9% | 12.9% | 4.02 | 68.6% |
| 3 | 36.7% | 7.3% | 67.2% | 11.4% | 4.05 | 69.4% |
| 4 | 31.1% | 8.7% | 69.6% | 12.8% | 4.14 | 70.4% |
| 5: Very effective | 7.2% | 8.6% | 72.1% | 12.6% | 4.49 | 70.3% |
| **Total / Average** | **100.0%** | **7.8%** | **68.5%** | **12.4%** | **4.08** | **69.5%** |

*Source: SPI Research, February 2024*

**Table 90: YoY Change in Service Marketing Effectiveness**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.22 | 3.15 | -2% | Under 10 emp. | 2.87 | 3.02 | 5% |
| ESO | 3.19 | 3.03 | -5% | 10 - 30 | 2.99 | 3.08 | 3% |
| PSO | 3.24 | 3.19 | -1% | 31 - 100 | 3.20 | 3.05 | -5% |
| Americas | 3.24 | 3.16 | -3% | 101 - 300 | 3.30 | 3.32 | 0% |
| EMEA | 3.16 | 3.00 | -5% | 301 - 700 | 3.60 | 3.31 | -8% |
| APac | 3.20 | 3.37 | 5% | Over 700 | 3.53 | 3.23 | -9% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.14 | 3.05 | -3% | Arch. / Engr. | 3.79 | 3.23 | -15% |
| Mgmt. Consulting | 3.00 | 3.27 | 9% | Agency | 3.48 | 3.48 | 0% |
| Software PS | 3.14 | 2.96 | -6% | Healthcare | 3.35 | 3.00 | -10% |
| SaaS PS | 3.14 | 2.90 | -8% | Other PS | 3.21 | 3.23 | 0% |

*Source: SPI Research, February 2024*

### *Service Sales Effectiveness*

SPI Research asked respondents to rank the effectiveness of the service sales organization on a scale from 1 to 5 with 5 representing very effective (Table 91). Sales effectiveness has a profound impact on all aspects of PS but unfortunately 12.3% of respondents give sales effectiveness a failing grade of 1 or 2; 30.2% give sales effectiveness an "OK" score of 3; but 57.6% gave sales effectiveness high marks. This year's average rating of sales effectiveness decreased from 3.60 (72.0%) to 3.54%.

**Table 91: Impact – Service Sales Effectiveness**

| Service Sales Effectiveness | Survey % | Revenue growth | Deal pipeline | % of bids won | Std. del. method. used | On-time project delivery |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 3.1% | 0.9% | 144% | 44.1% | 55.3% | 73.0% |
| 2 | 9.2% | 4.6% | 155% | 44.9% | 62.9% | 74.2% |
| 3 | 30.2% | 6.7% | 136% | 46.4% | 63.1% | 74.6% |
| 4 | 45.8% | 9.2% | 162% | 49.1% | 66.0% | 75.9% |
| 5: Very effective | 11.8% | 10.5% | 183% | 50.9% | 73.2% | 81.9% |
| **Total / Average** | **100.0%** | **7.9%** | **156%** | **48.0%** | **65.4%** | **76.0%** |

***Source: SPI Research, February 2024***

**Table 92: YoY Change in Service Sales Effectiveness**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.60 | 3.54 | -2% | Under 10 emp. | 3.38 | 3.28 | -3% |
| ESO | 3.63 | 3.49 | -4% | 10 - 30 | 3.54 | 3.51 | -1% |
| PSO | 3.58 | 3.56 | -1% | 31 - 100 | 3.51 | 3.51 | 0% |
| Americas | 3.63 | 3.59 | -1% | 101 - 300 | 3.59 | 3.70 | 3% |
| EMEA | 3.48 | 3.32 | -5% | 301 - 700 | 3.98 | 3.67 | -8% |
| APac | 3.60 | 3.67 | 2% | Over 700 | 3.81 | 3.54 | -7% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.60 | 3.55 | -2% | Arch. / Engr. | 3.70 | 3.54 | -4% |
| Mgmt. Consulting | 3.52 | 3.61 | 3% | Agency | 3.62 | 3.56 | -2% |
| Software PS | 3.56 | 3.43 | -3% | Healthcare | 3.70 | 3.26 | -12% |
| SaaS PS | 3.67 | 3.60 | -2% | Other PS | 3.57 | 3.53 | -1% |

***Source: SPI Research, February 2024***

## Efficiency of Quoting Service Engagements

PSO's not only work to generate quotes that are accurate and provide sufficient margins, they also work to become more efficient in the process. This process continually creates additional time and cost, and if not done so in a timely manner the PSO will not win the bid. Table 93 highlights approximately 50% of the organizations surveyed did an effective job of being efficient in the quoting process. The results show higher revenue growth and on-time delivery.  Success in the quoting phase helps drive financial results.

**Table 93:  Impact – Service Engagement Quoting Efficiency**

| Service Engagement Quoting Efficiency | Survey % | Revenue growth | Std. del. method. used | On-time project delivery | Ann. rev./ emp. (k) | Exec real-time visibility |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 2.3% | 2.9% | 60.9% | 72.3% | $164 | 2.73 |
| 2 | 14.0% | 8.1% | 62.2% | 72.8% | $152 | 3.00 |
| 3 | 34.5% | 7.1% | 63.8% | 74.3% | $163 | 3.40 |
| 4 | 40.0% | 8.4% | 65.8% | 76.8% | $173 | 3.56 |
| 5: Very effective | 9.2% | 9.6% | 74.1% | 84.8% | $211 | 3.67 |
| **Total / Average** | **100.0%** | **7.9%** | **65.3%** | **76.0%** | **$170** | **3.42** |

***Source: SPI Research, February 2024***

## The Technology Infrastructure Supports Growth

The SPI Research principals have spent over 25 years analyzing technology in the Professional Services market. CRM solutions have been around for decades, but PSOs that have integrated it with PSA have generally delivered superior results. SPI Research asked this year for the first time "does the technology infrastructure of the organization support growth of the firm?" The results highlighted in Table 94 show over 50% of the responses believe the technology infrastructure does support growth. The results are impressive in terms of helping the organization not only grow revenue, but also build pipeline and win more bids.

**Table 94:  Impact – Technology Infrastructure Growth Support**

| Tech. Infrastructure Growth Support | Survey % | Revenue growth | New clients | Deal pipeline | % of bids won | Backlog |
|---|---|---|---|---|---|---|
| 1: Very ineffective | 2.2% | 5.8% | 32.9% | 188% | 43.3% | 40.4% |
| 2 | 11.7% | 5.0% | 34.1% | 145% | 45.6% | 39.2% |
| 3 | 33.6% | 8.1% | 28.7% | 139% | 46.4% | 43.6% |
| 4 | 39.6% | 7.8% | 33.6% | 159% | 50.1% | 46.2% |
| 5: Very effective | 12.9% | 10.7% | 30.6% | 193% | 48.9% | 40.4% |
| **Total / Average** | **100.0%** | **7.9%** | **31.6%** | **155%** | **48.0%** | **43.6%** |

***Source: SPI Research, February 2024***

## 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.*

SPI Research has seen a shift in pricing and deal structure every year. As clients have become increasingly concerned about risk and cost overruns, they have pushed for more accountability to PSOs through fixed fee and shared risk contracts. Until 2014 the percentage of fixed fee work steadily increased from 35.5% in 2009 to 44.7% in 2022. In 2023 it was 36.5% and 48.1% of all contracts were priced as time and materials.

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. Regardless of pricing strategy, PSA and now new service CPQ (Configuration, Pricing and Quoting) applications are critical to support accurate estimates and time and cost capture and billing.

Table 95 compares billing models for embedded and independent PSOs. ESOs have been steadily shifting away from fixed fee contracts in favor of subscription and managed service pricing. Independents have always preferred time and materials contracts; with increased demand, they are moving away from fixed price work due to the cost and time overruns which are inherent in fixed price contracts. By geography, time and materials are 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 95: Percentage of Work Sold**

| Bill structure | 2022 | 2023 | ESO | PSO | Amer | EMEA | APac |
|---|---|---|---|---|---|---|---|
| Time & Materials | 48.1% | 39.3% | 34.3% | 41.4% | 38.6% | 43.9% | 34.9% |
| Fixed time/fixed fee | 44.7% | 36.5% | 34.4% | 37.3% | 38.6% | 30.5% | 33.2% |
| Shared risk/perform-based | 4.0% | 2.4% | 2.3% | 2.5% | 2.3% | 1.2% | 6.8% |
| Subscription | NA | 8.5% | 13.7% | 6.3% | 8.9% | 8.3% | 5.9% |
| Managed Services | NA | 9.8% | 9.5% | 10.0% | 8.8% | 11.3% | 14.9% |
| Other | 3.2% | 3.4% | 5.8% | 2.4% | 2.9% | 4.8% | 4.3% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Source: SPI Research, February 2024*

By vertical, architects, agencies and consultancies rely on fixed price contracts approximately 45% of the time (Table 96). IT consultancies favor time and materials contracts. As the SaaS market has become more mature a greater emphasis is being placed on customer adoption, so SaaS firms focus on "time to value" with subscription pricing which includes the cost of software and implementation services. Net profit is not necessarily tied to pricing structure as it is possible to make good service margins with any type of contract if costs, deliverables and client expectations are properly set. Accurate estimating, excellent project management, good communication and change control are the most important elements in ensuring quality services are delivered at planned margins.

**Table 96: Percentage of Work Sold by Market**

| Bill structure | IT Cons | Mgmt. Cons | Soft PS | SaaS PS | Arch/ Engr | Agency | Healthcare |
|---|---|---|---|---|---|---|---|
| Time & Materials | 52.3% | 35.2% | 39.1% | 33.3% | 44.7% | 27.0% | 31.0% |
| Fixed time/fixed fee | 26.2% | 48.9% | 37.8% | 38.4% | 45.0% | 43.7% | 29.4% |
| Shared risk/perform-based | 1.7% | 2.6% | 1.6% | 1.2% | 0.9% | 4.6% | 2.9% |
| Subscription | 6.3% | 4.9% | 10.9% | 17.9% | 1.0% | 6.3% | 18.6% |
| Managed Services | 10.5% | 6.5% | 9.9% | 8.8% | 5.8% | 16.3% | 16.2% |
| Other | 3.0% | 1.9% | 0.6% | 0.4% | 2.5% | 2.2% | 1.9% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

***Source: SPI Research, February 2024***

**Table 97: Percentage of Work Sold by Organization Size**

| Bill structure | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Time & Materials | 42.1% | 37.3% | 43.0% | 39.6% | 38.8% | 28.6% |
| Fixed time/fixed fee | 40.4% | 42.0% | 37.1% | 35.5% | 28.7% | 30.1% |
| Shared risk/perform-based | 1.6% | 0.7% | 2.2% | 2.4% | 3.8% | 5.6% |
| Subscription | 9.2% | 8.8% | 5.7% | 5.8% | 14.5% | 15.5% |
| Managed Services | 2.9% | 9.4% | 8.9% | 11.9% | 11.9% | 15.6% |
| Other | 3.8% | 1.8% | 3.2% | 4.8% | 2.2% | 4.6% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

***Source: SPI Research, February 2024***

## Other Client Relationships KPIs

SPI Research reintroduced several questions not asked recently but given some of the difficulties in growing revenue in 2023, SPI felt it was important to ask these questions again. SPI found many firms did not know the meaning of Net Promoter Score (NPS). Fortunately, enough understood its meaning in that it can go from -100 to +100.

SPI also wanted to know how many full-time equivalent (FTE) employees were dedicated to service sales in the PS organization, as well as what their annual service sales revenue quota was, the deal size of the contract, and how long it took from qualified lead to signing of a contract. The information is summarized in the following three tables (Table 98 – 100). SPI found interesting the uniformity of the NPS across the survey, PS types and regions. Software and SaaS organizations tend to capture Net Promoter Scores more often than the other markets and their scores were also lower than the other markets. Not as much is known about this area yet within the professional services make to make any concrete analysis. In terms of full-time employees dedicated to service sales, management consultants had very few relative to software and SaaS firms. This difference could be due to the size of the organizations, but management consultancies in general do not have a large sales force, as partners tend to do more of the selling.

**Table 98: Other Client Relationships KPIs**

| | 2023 | ESO | PSO | Amer | EMEA | APac |
|---|---|---|---|---|---|---|
| Net Promoter Score? | 64.0 | 61.6 | 65.1 | 64.6 | 61.3 | 66.1 |
| Full-time equivalent emp. dedicated to service sales | 7.54 | 9.00 | 6.91 | 7.69 | 6.57 | 8.77 |
| Annual service sales revenue quota per person ($mm) | $1.43 | $1.33 | $1.46 | $1.55 | $1.04 | $1.46 |
| Deal size (contract value) (k) | $239 | $205 | $254 | $246 | $203 | $269 |
| Sales cycle from qual. lead to contract signing (days) | 88 | 88 | 88 | 91 | 81 | 81 |

*Source: SPI Research, February 2024*

**Table 99: Other Client Relationships KPIs by Market**

| | IT Cons | Mgmt. Cons | Soft PS | SaaS PS | Arch./ Engr. | Agency | Health. |
|---|---|---|---|---|---|---|---|
| Net Promoter Score? | 64.4 | 67.5 | 57.6 | 57.1 | 63.0 | 67.5 | 63.3 |
| Full-time equivalent emp. dedicated to service sales | 8.32 | 2.83 | 10.37 | 10.57 | 4.50 | 6.90 | 9.67 |
| Annual service sales revenue quota per person ($mm) | $1.74 | $1.12 | $1.47 | $1.33 | $1.21 | $1.47 | $1.31 |
| Deal size (contract value) (k) | $309 | $161 | $222 | $221 | $244 | $247 | $246 |
| Sales cycle from qual. lead to contract signing (days) | 87 | 78 | 110 | 97 | 93 | 82 | 86 |

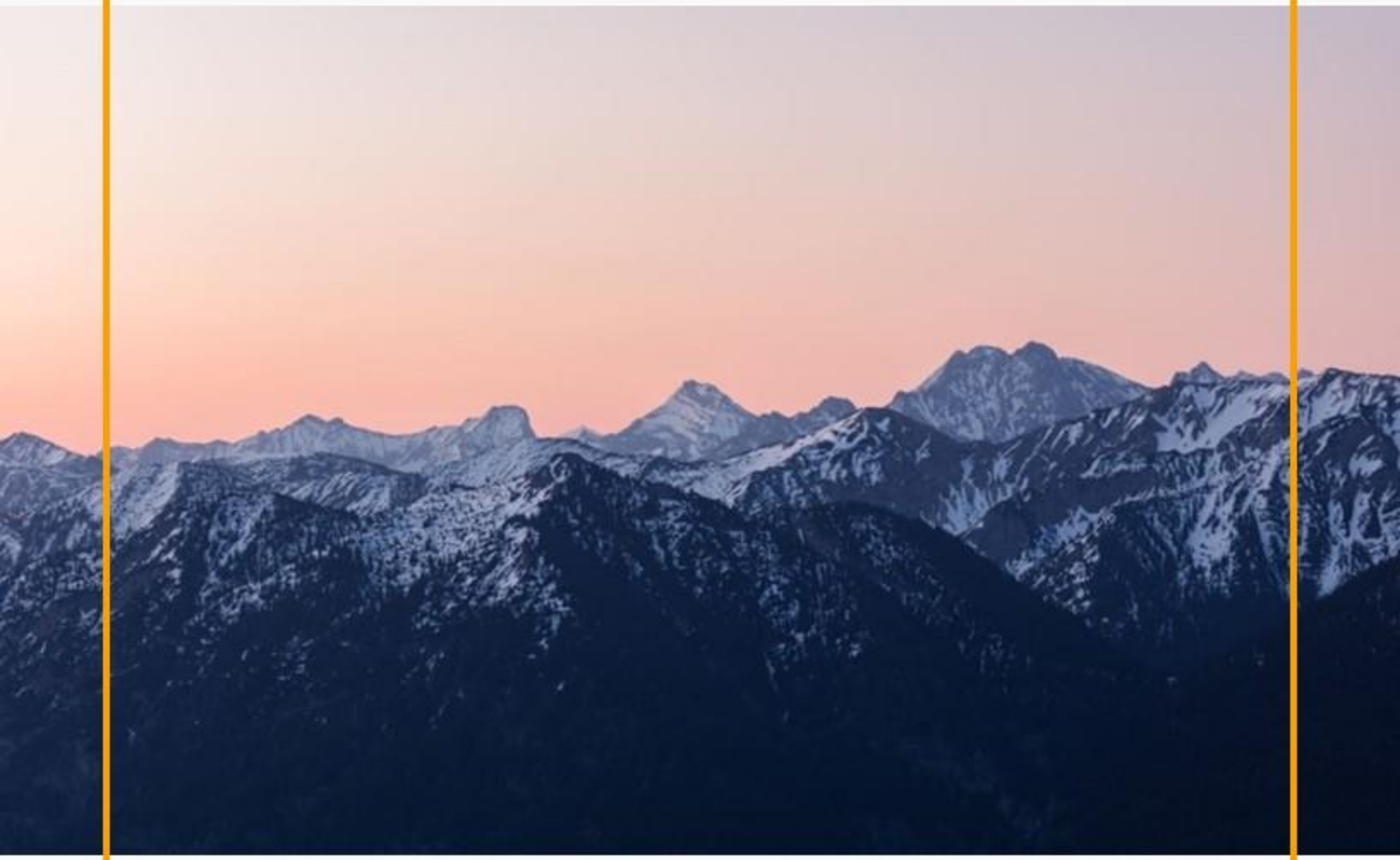
*Source: SPI Research, February 2024*

**Table 100: Other Client Relationships KPIs by Organization Size**

| | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Net Promoter Score? | 68.9 | 60.8 | 61.4 | 65.3 | 71.0 | 63.8 |
| Full-time equivalent emp. dedicated to service sales | 0.00 | 2.22 | 2.99 | 6.07 | 9.00 | 31.16 |
| Annual service sales revenue quota per person ($mm) | $0.60 | $1.08 | $1.48 | $1.76 | $2.09 | $1.81 |
| Deal size (contract value) (k) | $64 | $104 | $212 | $312 | $338 | $483 |
| Sales cycle from qual. lead to contract signing (days) | 67 | 81 | 91 | 92 | 102 | 99 |

*Source: SPI Research, February 2024*

# Chapter 8



# Talent Pillar

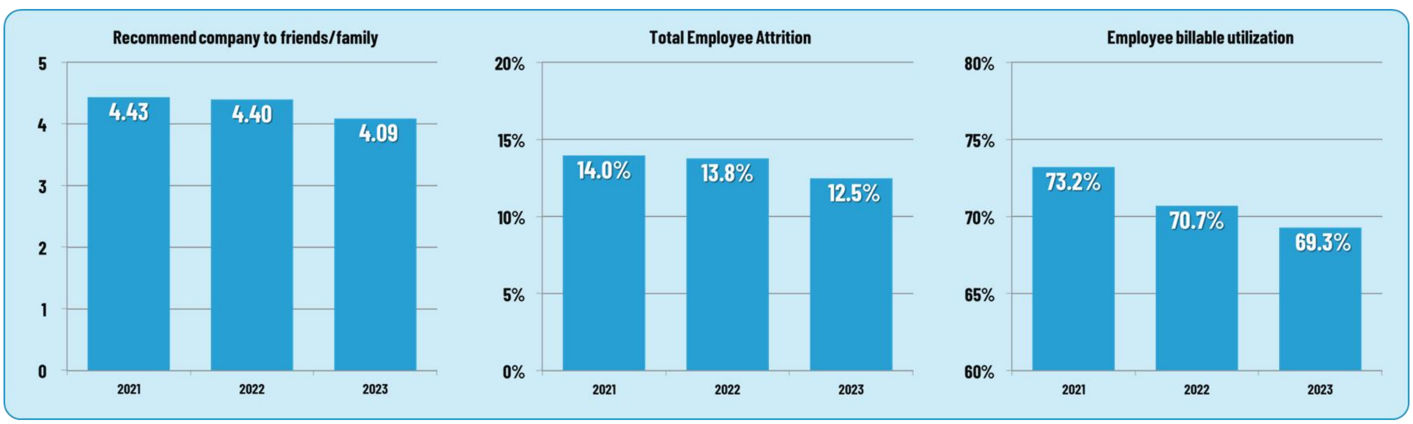
# TALENT PILLAR


The Talent Pillar is the central pillar in Service Performance Insight's Professional Services Maturity™ Model. It encompasses every element of the PSO's workforce strategy. Talent focuses on both the people, processes and systems required to recruit, attract, train, motivate, and retain a high-quality consulting workforce. It requires more attention than ever before due to changing workforce dynamics.

In 2023 talent remains at center stage as both a top challenge and a top improvement priority in professional services. Inflation, interest rates, global conflict and the new skills required due to emergence of AI in both professional and private lives have transformed the world of work. A trend that was exacerbated by COVID, today's consulting workforce has become increasingly virtual, with 58% of the consulting hours delivered off-site. The new world of consulting work depends on a multi-lingual, multi-generational, multi-cultural, technically skilled, project-based workforce. Based on technological advances, emphasis is shifting toward business process and vertical expertise however demand for horizontal application and technical skills remains high.

> ***The bottom line in the Talent Pillar is that known best practices of providing clear roles and job descriptions, timely performance reviews, fair compensation, career planning and skill building pay huge dividends in employee satisfaction, billable utilization, and on-time project completion. Executing an effective talent strategy produces a long-lasting payback and should make a short list for any maturity improvement plans.***

**Figure 38: Talent Trends of Note**




***Source: SPI Research, February 2024***

SPI Research highlighted the talent trends in Figure 38 because they show the movements in the whether employees recommend their firm to others, employee attrition, and billable utilization. Both recommending their firm to others and billable utilization went down, just as they both did in 2022. Fortunately, employee attrition also went down, which bodes well for the organization. There is a long way to go in 2024!

One of the most important challenges for today's Professional Service leaders is competing for top talent. Some of the professional services challenges include:

- Attract, compensate, train, motivate, and retain top talent.
- Manage through a technical labor shortage.
- Manage a global, multi-lingual, multi-cultural workforce; and,
- Manage a variable and/or contingent workforce.

Professional services organizations are judged by the quality of the people within the firm, as well as its subcontractors and partners. All PSOs must place a premium on the attraction, motivation and retention of the consultant workforce. Regardless of an organization's size and performance maturity level, the firm's people are the essence of the organization. They determine financial viability, brand quality and client satisfaction. They define the effectiveness of service marketing, sales and delivery. From inception, all PSOs must intently focus on their people.

During COVID, the PS market had moved toward virtual consulting delivery.  Now, the trend has slightly reversed itself and consultants have begun to work more at the clients' sites, but a long way from just a few years ago.  High-performance firms accentuate the benefits of remote work with collaboration tools and team and skill building combined with flexible hours and childcare.

## Talent Maturity

SPI Research's "Talent" pillar encompasses all elements of the Professional Services workforce strategy. It focuses on the people, processes and systems required to recruit, hire, ramp, retain and motivate a high-quality consulting workforce. Table 101: shows how PSOs mature across the Talent pillar.

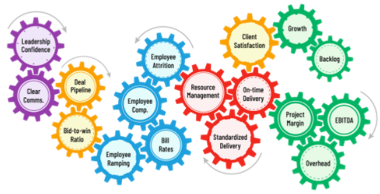
**Table 101:  Talent Maturity Model**

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

***Source: SPI Research, February 2024***

SPI's PS Maturity™ research over the past seventeen years supports the notion that only a handful (less than 20%) of Professional services organizations achieve greatness. These leaders can quickly seize market opportunities and drive best-in-class performance through the effective use of technology in conjunction with enlightened management and workforce practices (Figure 39). Improving talent maturity is the best and fastest way to improve overall results and must always be a priority. The pillar also highlights how attrition goes up as the firm matures, making it imperative PSOs do everything in their power to limit start employees from leaving.

**Figure 39: Talent Maturity Matters**




| | Level 1 Initiated | Level 2 Piloted | Level 3 Deployed | Level 4 Institutionalized | Level 5 Optimized |
|---|---|---|---|---|---|
| **Firms** | **172** | **144** | **144** | **86** | **29** |
| Annual fully loaded cost per consultant (k) | $120 | $124 | $134 | $130 | $156 |
| Onsite service delivery | 43.6% | 48.5% | 38.1% | 41.3% | 30.7% |
| Total attrition | 9.6% | 13.1% | 11.8% | 14.6% | 22.3% |
| Recommend company to friends/family | 3.40 | 4.04 | 4.41 | 4.66 | 4.97 |
| Well-understood career path for all emp. | 3.00 | 3.42 | 3.77 | 4.19 | 4.34 |
| Employees have the tools they need to deliver quality services efficiently and effectively | 3.39 | 3.86 | 4.19 | 4.43 | 4.52 |
| Employee billable utilization | 56.7% | 68.0% | 74.4% | 79.5% | 83.6% |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

***Source: SPI Research, February 2024***

Figure 40 highlights just how billable hours grow as PSOs improve organizational maturity. Productive hours go up while non-productive administrative hours go down significantly, leaving plenty of time for personal time off and education.

**Figure 40: Annual Hours by Maturity Level**


| | Level 1 Initiated | Level 2 Piloted | Level 3 Deployed | Level 4 Institutionalized | Level 5 Optimized |
|---|---|---|---|---|---|
| **Firms** | **172** | **144** | **144** | **86** | **29** |
| Vacation / personal / holiday hours | 190 | 182 | 173 | 174 | 146 |
| Education / training hours | 85 | 77 | 75 | 71 | 68 |
| Administrative hours | 204 | 156 | 141 | 121 | 94 |
| Non-billable business development/sales support | 172 | 116 | 93 | 68 | 58 |
| Non-billable project hours | 188 | 144 | 99 | 110 | 55 |
| Billable hours on-site | 533 | 661 | 554 | 626 | 494 |
| Billable hours off-site | 671 | 709 | 922 | 907 | 1,165 |
| **Total billable hours** | 1,204 | 1,370 | 1,477 | 1,533 | 1,659 |
| **Percentage of billable hours delivered remotely** | 56.4% | 51.5% | 61.9% | 58.7% | 69.3% |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

***Source: SPI Research, February 2024***

## 5-Year Talent Trends

Talent continues to take center stage as the number one priority for all service providers. Over the past five years, there has not been real growth in annual billable hours (Table 102), gravitating between 1,386 and 1,464. The big change has been the movement to deliver services remotely, rather than on the clients' sites. On-site delivery has gone down for years but looks like it has stabilized at approximately 40% of the billable hours. Almost all PS productivity improvement has come from the effective use of technology to lower overhead and administrative costs in combination with the move to virtual (remote) consulting delivery.

**Table 102: Talent Pillar 5-year Trend**

| Key Performance Indicator (KPI) | 5-yr. avg. | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Consultant tenure at firm (yrs.) | | | | | | 6.20 |
| Employee annual attrition - voluntary | 8.4% | 8.5% | 6.9% | 9.8% | 9.3% | 7.3% |
| Employee annual attrition - involuntary | 4.6% | 4.7% | 4.7% | 4.2% | 4.4% | 5.1% |
| Days to recruit and hire for standard positions | 64.0 | 61.9 | 62.6 | 64.9 | 64.5 | 65.9 |
| Days for a new hire to become productive | 60.5 | 59.5 | 58.0 | 59.1 | 62.7 | 62.5 |
| Guaranteed annual training days / employee | 9.8 | 9.3 | 9.8 | 9.1 | 10.3 | 10.0 |
| **Employee billable utilization** | **71.2%** | **71.7%** | **71.4%** | **73.2%** | **70.7%** | **69.3%** |
| Annual fully loaded cost per consultant (k) | $127 | $127 | $124 | $127 | $129 | $128 |
| Recommend company to friends/family | 4.34 | 4.37 | 4.42 | 4.43 | 4.40 | 4.09 |
| Well-understood career path for all emp. | 3.40 | 3.33 | 3.31 | 3.28 | 3.51 | 3.55 |
| Employees have the tools they need to deliver quality services efficiently and effectively | | | | | | 3.93 |
| Billable hours | 1,424 | 1,434 | 1,429 | 1,464 | 1,414 | 1,386 |
| **Percentage of billable hours on site** | **39.5%** | **47.5%** | **40.8%** | **33.9%** | **35.4%** | **41.5%** |

***Source: SPI Research, February 2024***

PS employees begin work with the same number of annual hours (2,080 hours) but they work smarter using agile development methodologies; virtual consulting delivery (limiting travel time); maximizing multi-tasking across multiple projects while limiting administrative time for time and expense capture and meetings. They take advantage of knowledge sharing and service productizing to quickly support and propel employees to greater levels of expertise and productivity. Virtual consulting delivery acceptance has been a boon for the entire PS industry.

## Survey Results

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

SPI Research analyzed 19 talent key performance measurements that are critical to attaining superior employee performance. Table 103 portrays trends in the Talent pillar. The chief issues facing PS employers are recruiting and retention. Skilled employees have more career choices than ever before resulting in high levels of voluntary attrition. This year, the number of employees who would recommend their company as a great place to work decreased. Some overwhelmed consultants have chosen to leave professional services altogether, preferring the stability and lower stress of corporate positions.

**Table 103: Talent Pillar Results by Organization Type and Geographic Region**

| Key Performance Indicator (KPI) | 2022 | 2023 | ESO | PSO | Amer. | EMEA | APac |
|---|---|---|---|---|---|---|---|
| Consultant tenure at firm (yrs.) | | 6.20 | 5.70 | 6.41 | 6.44 | 6.06 | 4.59 |
| Employee annual attrition - voluntary | 9.3% | 7.3% | 6.9% | 7.5% | 7.2% | 6.2% | 10.8% |
| Employee annual attrition - involuntary | 4.4% | 5.1% | 4.3% | 5.5% | 5.5% | 3.5% | 5.8% |
| Days to recruit and hire for standard positions | 64.5 | 65.9 | 66.2 | 65.7 | 68.0 | 62.5 | 56.2 |
| Days for a new hire to become productive | 62.7 | 62.5 | 69.9 | 59.4 | 62.3 | 65.1 | 57.6 |
| Guaranteed annual training days / employee | 10.3 | 10.0 | 11.3 | 9.5 | 10.0 | 9.4 | 11.7 |
| **Employee billable utilization** | **70.7%** | **69.3%** | **68.8%** | **69.5%** | **70.0%** | **66.4%** | **70.2%** |
| Annual fully loaded cost per consultant (k) | $129 | $128 | $128 | $128 | $132 | $111 | $133 |
| Recommend company to friends/family | 4.40 | 4.09 | 4.08 | 4.09 | 4.09 | 4.11 | 4.04 |
| Well-understood career path for all emp. | 3.51 | 3.55 | 3.51 | 3.56 | 3.55 | 3.50 | 3.59 |
| Employees have the tools they need to deliver quality services efficiently and effectively | | 3.93 | 3.91 | 3.93 | 3.94 | 3.82 | 4.10 |

**Source: SPI Research, February 2024**

Tables 104 and 105 break down the Talent KPIs by organization market and size. By market, IT consultancies had the highest billable utilization while Healthcare PS had the lowest. Attrition was very uniform across the different vertical markets and as one might expect management consultancies, along with software PS, had the highest fully annual loaded cost per employee.

**Table 104: Talent Pillar Results by Market**

| Key Performance Indicator (KPI) | IT Consult | Mgmt. Consult | Soft PS | SaaS PS | Arch /Engr | Agency | Health. |
|---|---|---|---|---|---|---|---|
| Consultant tenure at firm (yrs.) | 5.73 | 6.41 | 6.40 | 4.63 | 9.40 | 5.87 | 4.38 |
| Employee annual attrition - voluntary | 8.7% | 7.2% | 6.1% | 5.7% | 6.1% | 7.8% | 9.3% |
| Employee annual attrition - involuntary | 6.5% | 5.0% | 4.6% | 3.8% | 3.7% | 6.7% | 5.6% |
| Days to recruit and hire for std. positions | 58.6 | 65.4 | 71.2 | 66.5 | 83.9 | 64.7 | 71.3 |
| Days for a new hire to become productive | 52.8 | 66.6 | 76.6 | 84.3 | 57.1 | 51.6 | 56.3 |
| Guaranteed annual training days / emp. | 9.5 | 8.2 | 12.5 | 13.2 | 8.7 | 10.4 | 9.9 |
| **Employee billable utilization** | **72.2%** | **67.7%** | **68.8%** | **68.9%** | **71.0%** | **68.5%** | **65.8%** |
| Annual fully loaded cost per consultant (k) | $126 | $135 | $131 | $132 | $119 | $123 | $161 |
| Recommend company to friends/family | 4.17 | 4.24 | 3.87 | 4.14 | 4.28 | 3.90 | 4.05 |
| Well-understood career path for all emp. | 3.68 | 3.65 | 3.26 | 3.54 | 3.57 | 3.31 | 3.45 |
| Employees have the tools they need to deliver quality services efficiently and effectively | 4.08 | 3.99 | 3.66 | 4.00 | 4.11 | 3.65 | 4.05 |

***Source: SPI Research, February 2024***

**Table 105: Talent Pillar Results by Organization Size**

| Key Performance Indicator (KPI) | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Consultant tenure at firm (yrs.) | 9.40 | 6.10 | 5.25 | 6.01 | 5.32 | 6.40 |
| Employee annual attrition - voluntary | 4.1% | 6.0% | 7.6% | 8.9% | 8.4% | 8.6% |
| Employee annual attrition - involuntary | 1.8% | 5.1% | 5.4% | 5.3% | 6.4% | 6.9% |
| Days to recruit and hire for standard positions | 59.1 | 66.9 | 65.7 | 68.9 | 65.9 | 66.8 |
| Days for a new hire to become productive | 62.8 | 70.1 | 61.7 | 58.2 | 59.7 | 63.3 |
| Guaranteed annual training days / employee | 8.6 | 10.9 | 9.9 | 9.9 | 10.3 | 11.0 |
| **Employee billable utilization** | **61.1%** | **69.8%** | **69.2%** | **71.9%** | **70.7%** | **71.9%** |
| Annual fully loaded cost per consultant (k) | $122 | $123 | $127 | $132 | $137 | $130 |
| Recommend company to friends/family | 3.99 | 4.30 | 4.08 | 4.13 | 4.00 | 3.89 |
| Well-understood career path for all emp. | 3.39 | 3.68 | 3.47 | 3.63 | 3.45 | 3.65 |
| Employees have the tools they need to deliver quality services efficiently and effectively | 3.74 | 4.02 | 3.97 | 3.97 | 3.79 | 3.90 |

***Source: SPI Research, February 2024***

Larger organizations had higher billable utilization, reflecting better scheduling and adherence to standard methodologies. But larger companies had higher loaded costs for their employees. Voluntary and involuntary attrition rose as the organizations grew. This issue must be tackled by leaders to continue their organizations' path to prosperity.

## Consultant Tenure

In this year's survey, SPI Research asked the average consultant tenure. With higher employee attrition rates, it has become more difficult to achieve high levels of performance. Many consultants stay a few years and then move on. In this year's survey, SPI Research found that over 58% of the consultants averaged less than five years at the firm. Longer duration is highly correlated with better client references and higher on-time delivery (Table 106).

**Table 106: Impact – Consultant Tenure**

| Consultant Tenure (years) | Survey % | Revenue growth | Headcount growth | Client reference | Employee attrition | On-time project delivery |
|---|---|---|---|---|---|---|
| Under 3 years | 18.8% | 9.5% | 7.0% | 63.3% | 14.6% | 73.3% |
| 3 - 5 years | 39.5% | 6.8% | 5.0% | 67.9% | 13.5% | 75.1% |
| 5 - 10 years | 29.7% | 8.8% | 6.4% | 69.5% | 11.2% | 77.1% |
| 10 - 20 years | 8.8% | 5.2% | 1.2% | 76.9% | 8.8% | 75.5% |
| Over 20 years | 3.2% | 7.6% | -2.5% | 80.9% | 6.4% | 84.7% |
| **Total/Average** | **100.0%** | **7.8%** | **5.2%** | **68.7%** | **12.4%** | **75.7%** |

***Source: SPI Research, February 2024***

## The Primary Reason Employees Leave

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

Turnover will always be an important issue facing PS executives. Employees leave for a variety of reasons. In many cases there is a primary catalyst which is the reason for moving on. Table 107 shows the top reasons why employees leave. The number one rationale (37.8%) is "better opportunity" which translates to a better work environment, better compensation, a better boss or more opportunity for advancement.

**Table 107: Why employees leave**

| Why employees leave | Survey % | Revenue growth | New clients | Employee attrition | Billable utilization | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| Better opportunity | 37.8% | 8.1% | 30.0% | 13.0% | 70.6% | 13.7% |
| Travel | 21.8% | 7.6% | 32.6% | 9.3% | 68.6% | 18.4% |
| Money | 17.8% | 7.9% | 32.8% | 12.6% | 69.7% | 19.4% |
| Management dissatisfaction | 10.1% | 5.0% | 34.4% | 12.1% | 66.9% | 16.1% |
| Other | 4.6% | 8.4% | 28.0% | 16.8% | 66.5% | -1.8% |
| Stress | 4.3% | 10.5% | 37.9% | 15.9% | 67.4% | 12.8% |
| Lack of career advancement | 3.6% | 8.2% | 27.0% | 15.7% | 71.8% | 14.9% |
| **Total/Average** | **100.0%** | **7.8%** | **31.7%** | **12.4%** | **69.3%** | **15.2%** |

***Source: SPI Research, February 2024***

Travel is in second place at 21.8%. Travel, whether too much or not enough, is always an issue in PSOs. Younger workers generally enjoy travel before they settle down with a family. However, considering now most consultants work remotely, this result could mean the desire to travel more, which is why this percentage moved into second place from a traditionally lower ranking.

Money is in third place with 17.8%. 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.

## Employee Attrition

*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).*

### *Employee Annual Attrition - Voluntary*

Voluntary attrition, employees who leave but are not asked to leave, is one of the most important key performance indicators in the PS market as employees are the most valuable resource. Annual attrition in the professional services market rose until 2020, when COVID hit. But in 2021 and 2022 it began to rise again and rose to 9.3% in 2022. Fortunately, in 2023 it went down to a more manageable 7.3%, the second lowest percentage in the past five years. As the economy heats up in 2024, which SPI expects, this number could rise again.

**Table 108: Impact - Employee annual attrition - voluntary**

| Voluntary Attrition | Survey % | Revenue growth | Headcount growth | Std. del. method. used | Project overrun | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| None | 15.1% | 7.9% | 3.9% | 65.6% | 6.3% | 20.0% |
| 1% - 5% | 31.6% | 8.3% | 5.4% | 65.6% | 9.3% | 17.9% |
| 5% - 10% | 27.8% | 6.4% | 4.9% | 67.0% | 10.3% | 16.1% |
| 10% - 15% | 14.7% | 10.3% | 7.3% | 64.3% | 10.6% | 11.6% |
| 15% - 25% | 7.8% | 6.5% | 4.1% | 58.8% | 13.0% | 12.7% |
| Over 25% | 3.0% | 5.1% | 5.7% | 58.2% | 10.6% | 6.7% |
| **Total/Average** | **100.0%** | **7.8%** | **5.2%** | **65.0%** | **9.6%** | **16.1%** |

***Source: SPI Research, February 2024***

Table 108 shows the correlation between organization size, headcount growth, project overruns and profitability, demonstrating the negative consequences of high voluntary attrition rates. As attrition rises, most other aspects of performance suffer. Less success in sales and on-time project delivery decreases while project overruns increase. Achieving financial goals, especially profitability, also suffers as voluntary attrition rises. 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.

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 of replacing employees that leave shows up in 128 workdays on average to find, recruit, hire and ramp new consultants. But this lost time is just the tip of the iceberg, as it does not measure lost productivity time for recruiters and managers nor the impact on the remaining workforce from taking over work after a valuable employee has left or the time spent ramping and mentoring a replacement hire.

SPI Research believes the real cost to replace a valuable consultant is more than $150,000, creating a big bottom-line profit divot and making it hard to increase revenue and margins when firms must backfill employees who leave. Table 109 shows voluntary attrition went down from 2022 to 2023 in both embedded and independent firms.  Unfortunately, APac was one area where attrition rose, perhaps due to a sluggish economy and uncertainty, like during the COVID period.

**Table 109:  YoY Change in Employee Annual Attrition - Voluntary**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 9.3% | 7.3% | 27% | Under 10 emp. | 4.9% | 4.1% | 17% |
| ESO | 8.8% | 6.9% | 28% | 10 - 30 | 8.4% | 6.0% | 40% |
| PSO | 9.5% | 7.5% | 27% | 31 - 100 | 9.3% | 7.6% | 22% |
| Americas | 9.3% | 7.2% | 28% | 101 - 300 | 10.6% | 8.9% | 18% |
| EMEA | 9.5% | 6.2% | 53% | 301 - 700 | 12.7% | 8.4% | 51% |
| APac | 9.4% | 10.8% | -13% | Over 700 | 10.5% | 8.6% | 22% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 9.2% | 8.7% | 6% | Arch. / Engr. | 9.9% | 6.1% | 63% |
| Mgmt. Consulting | 9.0% | 7.2% | 26% | Agency | 10.1% | 7.8% | 31% |
| Software PS | 9.0% | 6.1% | 47% | Healthcare | 9.2% | 9.3% | -2% |
| SaaS PS | 9.0% | 5.7% | 57% | Other PS | 9.5% | 7.5% | 26% |

***Source: SPI Research, February 2024***

### *Employee Annual Attrition - Involuntary*

Involuntary attrition or layoffs have a temporary positive impact on revenue per consultant and employee, as well as utilization because the 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 110 shows the correlation between involuntary attrition and performance in several pillars.

**Table 110: Impact – Employee Annual Attrition - involuntary**

| Involuntary Attrition | Survey | Revenue growth | Percentage of bids won | Project overrun | % of annual margin target | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| None | 24.2% | 9.5% | 53.8% | 6.9% | 87.9% | 18.0% |
| 1% - 5% | 42.4% | 8.2% | 47.7% | 9.5% | 86.9% | 17.2% |
| 5% - 10% | 18.4% | 7.2% | 44.5% | 10.8% | 89.8% | 15.6% |
| 10% - 15% | 9.5% | 5.4% | 43.3% | 11.5% | 88.5% | 8.0% |
| 15% - 25% | 3.5% | 0.6% | 37.4% | 16.9% | 85.3% | 13.6% |
| Over 25% | 1.9% | 3.6% | 53.6% | 11.8% | 84.4% | 4.8% |
| **Total/Average** | **100.0%** | **7.7%** | **47.9%** | **9.6%** | **87.7%** | **15.9%** |

*Source: SPI Research, February 2024*

Involuntary attrition rose from 4.4% to 5.1% in 2023. Embedded organizations showed a reduction while independent professional services organizations had a significant increase. The APac region had the highest involuntary attrition. Agencies had high involuntary attrition, along with IT consultancies.

**Table 111: YoY Change in Employee Annual Attrition - Involuntary**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 4.4% | 5.1% | -13% | Under 10 emp. | 2.9% | 1.8% | 61% |
| ESO | 4.4% | 4.3% | 5% | 10 - 30 | 4.6% | 5.1% | -9% |
| PSO | 4.4% | 5.5% | -19% | 31 - 100 | 4.1% | 5.4% | -24% |
| Americas | 4.8% | 5.5% | -14% | 101 - 300 | 4.5% | 5.3% | -15% |
| EMEA | 3.5% | 3.5% | 2% | 301 - 700 | 5.7% | 6.4% | -12% |
| APac | 3.6% | 5.8% | -38% | Over 700 | 5.3% | 6.9% | -22% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 5.0% | 6.5% | -22% | Arch. / Engr. | 4.1% | 3.7% | 11% |
| Mgmt. Consulting | 4.0% | 5.0% | -22% | Agency | 3.8% | 6.7% | -44% |
| Software PS | 3.9% | 4.6% | -16% | Healthcare | 5.4% | 5.6% | -3% |
| SaaS PS | 5.2% | 3.8% | 35% | Other PS | 4.3% | 4.6% | -8% |

*Source: SPI Research, February 2024*

## Days To Recruit and Hire for Standard Positions

SPI Research considers the length of time to recruit and ramp new employees to be very important determinants in overall performance and sustainable growth. Ramp time is critical because it not only focuses to make 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 in PS – 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 112 compares 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 billable time. On-time delivery is reduced because more seasoned employees are tasked with time to hire and ramp new employees plus new hires are not available to fill required roles and may make mistakes due to inexperience. Clearly organizations with long recruiting times need to do a better job of defining roles and starting the recruiting process in time to fill critical resource requirements. Maintaining a “warm pool” of candidates is a good practice.

**Table 112: Impact – Days to Recruit and Hire for Standard Positions**

| Days to recruit and hire for standard positions | Survey | On-time project delivery | Project overrun | Project margin | Exec real-time visibility | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| Under 1 month | 8.9% | 82.4% | 6.8% | 34.5% | 3.63 | 23.0% |
| 30 - 60 days | 39.6% | 75.7% | 9.1% | 35.2% | 3.51 | 15.1% |
| 60 - 90 days | 33.6% | 74.2% | 10.7% | 35.1% | 3.32 | 17.1% |
| 90 - 120 days | 11.9% | 77.4% | 8.6% | 33.6% | 3.29 | 14.8% |
| Over 120 days | 6.0% | 73.7% | 14.1% | 29.3% | 3.56 | 6.9% |
| **Total / Average** | **100.0%** | **75.9%** | **9.7%** | **34.6%** | **3.44** | **15.9%** |

*Source: SPI Research, February 2024*

The time it takes to recruit and hire for standard positions went up by nearly a day-and-half a day in 2023. Embedded service organizations showed a four day decrease while the independents reduced it by 2.5 days. The APac region takes the least amount of time to recruit and hire. IT and management consultancies did very well.

**Table 113: YoY Change in Days to Recruit and Hire for Standard Positions**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 64.5 | 65.9 | -2% | Under 10 emp. | 64.5 | 59.1 | 9% |
| ESO | 70.0 | 66.2 | 6% | 10 - 30 | 68.3 | 66.9 | 2% |
| PSO | 62.2 | 65.7 | -5% | 31 - 100 | 63.7 | 65.7 | -3% |
| Americas | 65.4 | 68.0 | -4% | 101 - 300 | 64.1 | 68.9 | -7% |
| EMEA | 65.0 | 62.5 | 4% | 301 - 700 | 61.2 | 65.9 | -7% |
| APac | 55.4 | 56.2 | -1% | Over 700 | 64.1 | 66.8 | -4% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 57.9 | 58.6 | -1% | Arch. / Engr. | 68.7 | 83.9 | -18% |
| Mgmt. Consulting | 64.3 | 65.4 | -2% | Agency | 64.8 | 64.7 | 0% |
| Software PS | 76.6 | 71.2 | 8% | Healthcare | 64.3 | 71.3 | -10% |
| SaaS PS | 62.1 | 66.5 | -7% | Other PS | 65.2 | 62.6 | 4% |

***Source: SPI Research, February 2024***

## Days For a New Hire to Become Productive

Well-structured on-boarding and mentoring programs are mandatory for PSOs that plan for significant growth. In 2023 the average time for a new hire to become productive decreased from 62.7 days in 2022 to 62.5 in 2023. PSOs have focused on this metric for some time, but over the past few years lately it has risen due to the war for talent. It was good to see its reduction in 2023.

**Table 114: Impact – Days for a New Hire to Become Productive**

| Days for a new hire to become productive | Survey | % of emp. billable | Project duration (man-months) | Billable utilization | On-time project delivery | Project overrun |
|---|---|---|---|---|---|---|
| Under 1 month | 20.3% | 72.9% | 37.2 | 72.5% | 80.5% | 8.2% |
| 30 - 60 days | 32.3% | 71.0% | 28.9 | 70.6% | 75.8% | 8.9% |
| 60 - 90 days | 26.1% | 71.7% | 29.5 | 68.6% | 75.0% | 10.3% |
| 90 - 120 days | 14.8% | 71.3% | 22.0 | 65.7% | 72.9% | 10.9% |
| Over 120 days | 6.5% | 66.4% | 21.3 | 64.6% | 71.7% | 11.1% |
| **Total / Average** | **100.0%** | **71.3%** | **29.2** | **69.3%** | **75.8%** | **9.6%** |

***Source: SPI Research, February 2024***

Embedded service organizations typically take much longer for a new hire to become productive. The reason is that their software, hardware or other technologies tend to be more difficult to learn than the average independent consultant who typically has the skills already. The Asia Pacific region did the best job of minimizing days for a new hire to become productive. As expected, IT consultants had low numbers too, as most new employees already have enough technical skills to become productive fast. The largest firms took longer to make employee productive due to greater complexity and more bureaucracy.

**Table 115: YoY Change in Days for A New Hire to Become Productive**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 62.7 | 62.5 | 0% | Under 10 | 56.8 | 62.8 | -10% |
| ESO | 77.6 | 69.9 | 11% | 10 - 30 | 69.9 | 70.1 | 0% |
| PSO | 56.6 | 59.4 | -5% | 31 - 100 | 61.8 | 61.7 | 0% |
| Americas | 64.2 | 62.3 | 3% | 101 - 300 | 63.0 | 58.2 | 8% |
| EMEA | 63.6 | 65.1 | -2% | 301 - 700 | 58.8 | 59.7 | -2% |
| APac | 48.3 | 57.6 | -16% | Over 700 | 62.8 | 63.3 | -1% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 50.0 | 52.8 | -5% | Arch. / Engr. | 60.0 | 57.1 | 5% |
| Mgmt. Consulting | 62.4 | 66.6 | -6% | Agency | 67.0 | 51.6 | 30% |
| Software PS | 84.3 | 76.6 | 10% | Healthcare | 58.6 | 56.3 | 4% |
| SaaS PS | 81.9 | 84.3 | -3% | Other PS | 57.0 | 60.6 | -6% |

***Source: SPI Research, February 2024***

## Guaranteed Annual Training Days Per Employee

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

Like the annual training budget, this indicator, while promised to employees, is not necessarily utilized. It does reflect the organization's commitment to employee development and shows the organization is investing in the future of its employees. Across the benchmark the average cost of training is approximately 1.0% of total revenue. Leading organizations mandate more than two weeks of training per year. Approximately 20% of firms provide three weeks or more of training per year. Several leaders 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. PSO leaders find investments in both technical and interpersonal skill building pay dividends. In this year's benchmark, higher numbers of guaranteed training days positively correlate with project durations and margin (Table 116).

**Table 116: Impact – Guaranteed Annual Training Days per Employee**

| Guaranteed annual training days / employee | Survey | Project duration (man-mnth) | Std. del. method. used | On-time project delivery | Project margin | Exec real-time visibility |
|---|---|---|---|---|---|---|
| None | 3.7% | 22.5 | 61.6% | 71.1% | 27.6% | 2.94 |
| Under 5 days | 20.1% | 31.4 | 63.7% | 75.8% | 34.5% | 3.31 |
| 5 - 10 days | 37.7% | 30.0 | 65.5% | 75.1% | 34.4% | 3.40 |
| 10 - 15 days | 19.4% | 24.8 | 63.7% | 76.5% | 35.1% | 3.43 |
| 15 - 20 days | 6.7% | 30.5 | 75.3% | 77.4% | 35.0% | 3.71 |
| Over 20 days | 12.5% | 33.4 | 63.6% | 77.0% | 35.8% | 3.66 |
| **Total / Average** | **100.0%** | **29.5** | **65.1%** | **75.8%** | **34.5%** | **3.42** |

*Source: SPI Research, February 2024*

Access to high quality training is a major 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 high-performance PSOs 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 117: YoY Change in Guaranteed Annual Training Days / Employee**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 10.3 | 10.0 | -3% | Under 10 | 9.4 | 8.6 | -9% |
| ESO | 11.5 | 11.3 | -2% | 10 - 30 | 10.2 | 10.9 | 7% |
| PSO | 9.8 | 9.5 | -3% | 31 - 100 | 10.7 | 9.9 | -8% |
| Americas | 10.6 | 10.0 | -5% | 101 - 300 | 10.3 | 9.9 | -4% |
| EMEA | 9.8 | 9.4 | -5% | 301 - 700 | 9.4 | 10.3 | 10% |
| APac | 9.0 | 11.7 | 30% | Over 700 | 11.0 | 11.0 | -1% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 10.4 | 9.5 | -8% | Arch. / Engr. | 8.8 | 8.7 | -2% |
| Mgmt. Consulting | 9.2 | 8.2 | -12% | Agency | 12.1 | 10.4 | -14% |
| Software PS | 12.0 | 12.5 | 4% | Healthcare | 10.5 | 9.9 | -6% |
| SaaS PS | 11.6 | 13.2 | 13% | Other PS | 9.5 | 9.6 | 1% |

*Source: SPI Research, February 2024*

In this year's survey the guaranteed annual training days per employee went down from 10.3 in 2022 to 10.0 in 2023 (Table 117). Both embedded and independent professional services organizations increased training.

The largest increase was in APac, which added nearly three days. Both the Americas and EMEA reduced training days over the past year.

## Employee Billable Utilization

*SPI Research defines employee utilization on a 2,000 hour per year basis. Employee billable utilization is calculated by dividing the total annual billable hours by 2,000.*

Employee billable utilization 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 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 118 shows the benefits this year's firms experienced from increasing employee utilization. The results favor organizations who reported billable utilization over 80%. Understandably, firms that report the highest levels of utilization also deliver the largest projects, making it easier to keep utilization high without the churn associated with 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 as employees' burnout and leave. At the other end of the spectrum, organizations that reported less than 50% utilization reported the worst metrics in all categories except attrition. The key to success is to have the right balance of meaningful work with enough time set aside for skill and client relationship building.

**Table 118: Impact – Employee Billable Utilization**

| Employee billable utilization | Survey | Std. delivery method. used | On-time project delivery | Project overrun | Annual rev./ consult. (k) | % of annual margin target |
|---|---|---|---|---|---|---|
| Under 50% | 8.3% | 56.7% | 78.2% | 6.9% | $146 | 81.9% |
| 50% - 60% | 13.4% | 60.7% | 70.7% | 10.6% | $203 | 86.3% |
| 60% - 70% | 24.7% | 65.4% | 72.7% | 10.5% | $213 | 87.4% |
| 70% - 80% | 34.3% | 67.9% | 76.6% | 10.0% | $210 | 88.0% |
| 80% - 90% | 15.2% | 67.6% | 79.6% | 8.8% | $213 | 89.8% |
| Over 90% | 4.1% | 68.2% | 80.7% | 8.3% | $229 | 90.3% |
| **Total / Average** | **100.0%** | **65.4%** | **75.6%** | **9.7%** | **$206** | **87.5%** |

***Source: SPI Research, February 2024***

Although many PS firms would prefer to abandon the billable utilization metric (and all the accompanying time tracking it entails), there is no other metric that provides as good a picture of workforce productivity. Perhaps as more and more firms shift to 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 hours?

Billable utilization went down in 2023 – to its lowest level over the past five years – at 69.3% (Table 119)! Except for Software and SaaS PS and Agencies, every market showed lower billable utilization. SPI Research believes PSOs should try to attain at least 75%, meaning 1,500 billable hours annually.

**Table 119: YoY Change in Employee Billable Utilization**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 70.7% | 69.3% | -2% | Under 10 | 67.6% | 61.1% | -10% |
| ESO | 68.4% | 68.8% | 1% | 10 - 30 | 69.8% | 69.8% | 0% |
| PSO | 71.6% | 69.5% | -3% | 31 - 100 | 71.4% | 69.2% | -3% |
| Americas | 70.7% | 70.0% | -1% | 101 - 300 | 71.5% | 71.9% | 1% |
| EMEA | 71.2% | 66.4% | -7% | 301 - 700 | 73.6% | 70.7% | -4% |
| APac | 69.8% | 70.2% | 1% | Over 700 | 69.6% | 71.9% | 3% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 73.4% | 72.2% | -2% | Arch. / Engr. | 72.9% | 71.0% | -3% |
| Mgmt. Consulting | 69.0% | 67.7% | -2% | Agency | 67.8% | 68.5% | 1% |
| Software PS | 66.8% | 68.8% | 3% | Healthcare | 72.5% | 65.8% | -9% |
| SaaS PS | 68.3% | 68.9% | 1% | Other PS | 71.6% | 67.6% | -6% |

***Source: SPI Research, February 2024***

## Annual Fully Loaded Cost Per Consultant

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

Annual fully loaded cost per consultant was originally thought of as a negative KPI, as the more a PSO paid consultants, the lower the profit. That assumption turned out to be incorrect as SPI study after study has shown ***as the fully loaded cost increases, so does performance maturity***. Over 55% of firms reported a fully loaded cost between $100k - $150k (Table 120). Only 3.9% pay more than $200,000. The firms that pay the most are larger and have some of the best financial results.

**Table 120: Impact – Annual Fully Loaded Cost Per Consultant**

| Annual fully loaded cost per consultant (k) | Survey | Revenue growth | On-time project delivery | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | EBITDA |
|---|---|---|---|---|---|---|
| Under $100k | 22.4% | 6.8% | 75.2% | $157 | $123 | 11.3% |
| $100k - $120k | 27.2% | 6.9% | 74.0% | $183 | $147 | 13.8% |
| $120k - $150k | 27.9% | 8.5% | 74.7% | $226 | $184 | 21.8% |
| $150k - $200k | 18.6% | 9.2% | 79.5% | $259 | $220 | 15.2% |
| Over $200k | 3.9% | 10.5% | 79.5% | $264 | $236 | 14.1% |
| **Total / Average** | **100.0%** | **7.9%** | **75.7%** | **$206** | **$169** | **15.8%** |

*Source: SPI Research, February 2024*

For 2023, the fully loaded cost decreased by 1%, from $129k to $128k. Embedded organizations saw a reduction of 3%, whereas independents saw a decrease of only 1%.

**Table 121: YoY Change in Employee Billable Utilization**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | $129 | $128 | -1% | Under 10 | $127 | $122 | -4% |
| ESO | $132 | $128 | -3% | 10 - 30 | $123 | $123 | -1% |
| PSO | $128 | $128 | -1% | 31 - 100 | $129 | $127 | -2% |
| Americas | $134 | $132 | -1% | 101 - 300 | $131 | $132 | 1% |
| EMEA | $110 | $111 | 1% | 301 - 700 | $132 | $137 | 3% |
| APac | $132 | $133 | 1% | Over 700 | $138 | $130 | -6% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | $127 | $126 | -1% | Arch. / Engr. | $118 | $119 | 0% |
| Mgmt. Consulting | $140 | $135 | -4% | Agency | $118 | $123 | 4% |
| Software PS | $140 | $131 | -6% | Healthcare | $131 | $161 | 23% |
| SaaS PS | $124 | $132 | 6% | Other PS | $129 | $124 | -4% |

*Source: SPI Research, February 2024*

## Recommend Company to Friends and Family

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

Recommending a company to others is an excellent barometer of employee satisfaction. Table 122 shows the powerful impact of workplace satisfaction. The good news is 38% of the organizations surveyed would strongly recommend their firm. Great places to work are characterized by high employee engagement, a strong culture of achievement and confidence in the future.

**Table 122: Impact – Recommend Company to Friends and Family**

| Recommend company to friends/family | Survey | Revenue growth | Client reference | Employee attrition | Billable utilization | Annual revenue/ employee (k) |
|---|---|---|---|---|---|---|
| 1 - Do not recommend | 1.8% | 9.3% | 62.8% | 15.8% | 63.3% | $146 |
| 2 | 4.0% | 3.7% | 65.0% | 14.6% | 63.8% | $152 |
| 3 | 15.9% | 4.8% | 65.3% | 14.1% | 67.9% | $160 |
| 4 | 40.3% | 7.9% | 67.0% | 12.1% | 70.0% | $164 |
| 5 - Strongly recommend | 38.0% | 9.4% | 72.5% | 11.8% | 70.2% | $182 |
| **Total / Average** | **100.0%** | **7.8%** | **68.7%** | **12.4%** | **69.4%** | **$169** |

*Source: SPI Research, February 2024*

**Table 123: YoY Change in Recommend Company to Friends and Family**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 4.40 | 4.09 | -7% | Under 10 | 4.29 | 3.99 | -7% |
| ESO | 4.43 | 4.08 | -8% | 10 - 30 | 4.50 | 4.30 | -5% |
| PSO | 4.38 | 4.09 | -7% | 31 - 100 | 4.46 | 4.08 | -8% |
| Americas | 4.44 | 4.09 | -8% | 101 - 300 | 4.32 | 4.13 | -4% |
| EMEA | 4.28 | 4.11 | -4% | 301 - 700 | 4.43 | 4.00 | -10% |
| APac | 4.26 | 4.04 | -5% | Over 700 | 4.28 | 3.89 | -9% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 4.41 | 4.17 | -5% | Arch. / Engr. | 4.36 | 4.28 | -2% |
| Mgmt. Consulting | 4.39 | 4.24 | -3% | Agency | 4.23 | 3.90 | -8% |
| Software PS | 4.35 | 3.87 | -11% | Healthcare | 4.57 | 4.05 | -11% |
| SaaS PS | 4.48 | 4.14 | -8% | Other PS | 4.41 | 3.95 | -10% |

*Source: SPI Research, February 2024*

Table 123 shows employee engagement trends by geography, vertical and size of organization. 2023 results showed this KPI down across all regions, organization sizes and markets, which should be a sign to all PSOs that there could be issues with employee satisfaction, which is a major driver of client satisfaction and overall productivity.

## Well-Understood Career Path for All Employees

*A well-understood career path is a very important KPI to measure PSO commitment and employee motivation and retention.*

The survey asked if the organization provides a well understood employee career path, meaning as employees are hired and move within different roles, and was there a planned next step for their career progression (Table 124)? This KPI is important because it shows the firm's commitment to employee skill growth and career development. Even though the question is subjective, and answered by PS executives, who might show bias, the results demonstrate how important career development is.

**Table 124: Impact – Well-Understood Career Path for All Employees**

| Well-understood career path for all emp. | Survey | Revenue growth | Rec. to family/ friends | Billable utilization | % of ann. rev. target | % of ann. margin target |
|---|---|---|---|---|---|---|
| 1 - Strongly disagree | 2.6% | 6.5% | 2.13 | 67.5% | 86.3% | 85.0% |
| 2 | 12.5% | 7.1% | 3.52 | 67.8% | 91.0% | 85.7% |
| 3 | 30.0% | 8.0% | 3.75 | 69.0% | 89.4% | 86.8% |
| 4 | 37.5% | 8.1% | 4.34 | 69.9% | 91.0% | 88.7% |
| 5 - Strongly agree | 17.4% | 7.5% | 4.83 | 70.2% | 92.6% | 89.1% |
| **Total / Average** | **100.0%** | **7.8%** | **4.09** | **69.4%** | **90.7%** | **87.7%** |

***Source: SPI Research, February 2024***

The table 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 to deliver larger projects on time and with higher margins. The results show significantly higher profits as employees see a career path for themselves.

**Table 125: YoY Change in Well-Understood Career Path for All Emp.**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.51 | 3.55 | 1% | Under 10 | 3.49 | 3.39 | -3% |
| ESO | 3.51 | 3.51 | 0% | 10 - 30 | 3.41 | 3.68 | 8% |
| PSO | 3.51 | 3.56 | 1% | 31 - 100 | 3.43 | 3.47 | 1% |
| Americas | 3.51 | 3.55 | 1% | 101 - 300 | 3.47 | 3.63 | 4% |
| EMEA | 3.50 | 3.50 | 0% | 301 - 700 | 3.62 | 3.45 | -5% |
| APac | 3.47 | 3.59 | 3% | Over 700 | 3.85 | 3.65 | -5% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.47 | 3.68 | 6% | Arch. / Engr. | 3.54 | 3.57 | 1% |
| Mgmt. Consulting | 3.44 | 3.65 | 6% | Agency | 3.38 | 3.31 | -2% |
| Software PS | 3.62 | 3.26 | -10% | Healthcare | 3.29 | 3.45 | 5% |
| SaaS PS | 3.50 | 3.54 | 1% | Other PS | 3.62 | 3.56 | -2% |

*Source: SPI Research, February 2024*

## Employees Have the Tools They Need to Deliver Quality Services More Efficiently and Effectively

SPI Research asked for the first time whether employees have the tools they need to deliver quality services efficiently and effectively. This question is highly correlated with some of the more important key performance indicators. As is shown in Table 126, firms where employees with the right tools grow faster, recommend their firm to others, and have higher levels of billable utilization and on time delivery, which translates into higher margins. This is a very important KPI, as it leads to greater productivity and profitability in the professional services market.

**Table 126: Impact – Employees have the tools required to deliver quality services efficiently & effectively**

| Employees have the tools they need to deliver services | Survey % | Revenue growth | Rec. to family/ friends | Billable utilization | On-time project delivery | Project margin |
|---|---|---|---|---|---|---|
| 1 - Strongly disagree | 1.8% | 1.5% | 1.90 | 61.1% | 64.4% | 25.8% |
| 2 | 4.4% | 5.5% | 3.32 | 65.0% | 59.8% | 27.9% |
| 3 | 19.2% | 6.6% | 3.50 | 67.2% | 69.0% | 32.9% |
| 4 | 48.9% | 8.2% | 4.13 | 70.8% | 76.9% | 35.4% |
| 5 - Strongly agree | 25.8% | 8.7% | 4.71 | 69.9% | 82.6% | 35.2% |
| **Total / Average** | **100.0%** | **7.8%** | **4.09** | **69.4%** | **75.9%** | **34.4%** |

*Source: SPI Research, February 2024*

## Annual Hours

PS executives always ask SPI Research how professional services consultants spend their time. Most executives want to keep their people billable for at least 75% of the available hours annually (1,500 hours). For senior consultants, where they might have many other duties other than just billing, utilization could be less than 25%. For new (or junior level) consultants, utilization could exceed 100% (over 2,000 hours annually). Annual hours are always one of the most anticipated metrics from the annual PS Maturity™ benchmark survey. Most organizations put a lot of focus on consultant time spent on both billable and non-billable tasks. ***Across the benchmark, billable hours increased slightly in 2023 to 1,413 from 1,404 in 2022 (Table 127).*** Larger PSOs provide more training and fewer hours on non-billable administrative time, but still provide plenty of training hours.

**Table 127: Annual Hours by Organization Type and Geographic Region**

| Annual Hours | 2022 | 2023 | ESO | PSO | Amer. | EMEA | APac |
|---|---|---|---|---|---|---|---|
| Vacation / personal / holiday hours | 180 | 177 | 172 | 179 | 165 | 217 | 194 |
| Education / training hours | 86 | 76 | 85 | 73 | 71 | 92 | 89 |
| Administrative hours | 154 | 152 | 181 | 140 | 158 | 134 | 135 |
| Non-billable business dev./sales support | 109 | 109 | 110 | 109 | 101 | 139 | 109 |
| Non-billable project hours | 130 | 129 | 147 | 121 | 130 | 123 | 130 |
| **Total non-billable hours** | **659** | **643** | **694** | **622** | **625** | **705** | **657** |
| Billable hours on-site | 497 | 586 | 457 | 639 | 523 | 785 | 688 |
| Billable hours off-site | 907 | 826 | 919 | 789 | 915 | 556 | 669 |
| **Total billable hours** | **1,404** | **1,413** | **1,376** | **1,428** | **1,438** | **1,341** | **1,357** |
| **Total hours** | **2,063** | **2,056** | **2,070** | **2,050** | **2,063** | **2,046** | **2,014** |
| **Percentage of remote delivery hours** | **64.6%** | **58.5%** | **66.8%** | **55.3%** | **63.6%** | **41.5%** | **49.3%** |

***Source: SPI Research, February 2024***

**Table 128: Annual Hours by PS Market**

| Annual Hours | IT Cons | Mgmt. Cons | Soft PS | SaaS PS | Arch./ Engr. | Agency | Healthcare |
|---|---|---|---|---|---|---|---|
| Vacation / personal / holiday hours | 185 | 167 | 168 | 172 | 170 | 195 | 203 |
| Education / training hours | 81 | 84 | 81 | 106 | 47 | 63 | 43 |
| Administrative hours | 109 | 165 | 115 | 188 | 134 | 203 | 238 |
| Non-billable business dev./sales support | 104 | 127 | 127 | 109 | 87 | 104 | 131 |
| Non-billable project hours | 100 | 118 | 192 | 171 | 107 | 121 | 110 |
| **Total non-billable hours** | **579** | **661** | **684** | **746** | **544** | **686** | **726** |
| Billable hours on-site | 462 | 638 | 485 | 322 | 1,020 | 783 | 665 |
| Billable hours off-site | 1,004 | 765 | 890 | 996 | 479 | 589 | 655 |
| **Total billable hours** | **1,466** | **1,403** | **1,376** | **1,317** | **1,499** | **1,372** | **1,320** |
| **Total hours** | **2,045** | **2,064** | **2,059** | **2,064** | **2,043** | **2,058** | **2,046** |
| **Percentage of remote delivery hours** | **68.5%** | **54.5%** | **64.7%** | **75.6%** | **31.9%** | **42.9%** | **49.6%** |

***Source: SPI Research, February 2024***

**Table 129: Annual Hours by Organization Size**

| Annual Hours | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Vacation / personal / holiday hours | 174 | 188 | 175 | 177 | 184 | 165 |
| Education / training hours | 57 | 83 | 78 | 57 | 97 | 102 |
| Administrative hours | 161 | 140 | 159 | 156 | 156 | 121 |
| Non-billable business dev./sales support | 124 | 131 | 90 | 105 | 132 | 107 |
| Non-billable project hours | 91 | 144 | 128 | 130 | 157 | 119 |
| **Total non-billable hours** | **608** | **686** | **631** | **624** | **726** | **613** |
| Billable hours on-site | 666 | 550 | 605 | 551 | 484 | 647 |
| Billable hours off-site | 732 | 839 | 816 | 888 | 837 | 824 |
| **Total billable hours** | **1,398** | **1,390** | **1,420** | **1,439** | **1,322** | **1,471** |
| **Total hours** | **2,006** | **2,076** | **2,052** | **2,064** | **2,048** | **2,084** |
| **Percentage of remote delivery hours** | **52.3%** | **60.4%** | **57.4%** | **61.7%** | **63.4%** | **56.0%** |

***Source: SPI Research, February 2024***

### *Billable Hours*

The following sections highlight how much the market has changed over the past year in terms of delivering services remotely. PS executives realize this trend will continue for some time. In fact, most consultants favor remote working or hybrid working and will probably leave firms that mandate returning to on-site work.

To have the right tools and infrastructure that support remote employees will be more critical than ever. Firms would be well-advised to not force a "return to work" policy without continuing to offer more flexibility.

### Billable Hours On-site

The number of hours worked on-site increased from 497 to 586, reflecting a large change in the remote service delivery strategy. But by no means does SPI Research expect on-site billable work to go back to over 60%.

**Table 130: YoY Change in Billable Hours On-Site**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 497 | 586 | 18% | Under 10 | 397 | 666 | 68% |
| ESO | 373 | 457 | 23% | 10 - 30 | 547 | 550 | 1% |
| PSO | 549 | 639 | 16% | 31 - 100 | 539 | 605 | 12% |
| Americas | 452 | 523 | 16% | 101 - 300 | 386 | 551 | 43% |
| EMEA | 651 | 785 | 20% | 301 - 700 | 634 | 484 | -24% |
| APac | 626 | 688 | 10% | Over 700 | 493 | 647 | 31% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 404 | 462 | 14% | Arch. / Engr. | 792 | 1,020 | 29% |
| Mgmt. Consulting | 583 | 638 | 9% | Agency | 549 | 783 | 43% |
| Software PS | 354 | 485 | 37% | Healthcare | 436 | 665 | 53% |
| SaaS PS | 272 | 322 | 18% | Other PS | 605 | 553 | -8% |

*Source: SPI Research, February 2024*

### Billable Hours Off-site

Most PSOs have thoroughly reexamined their operations on the topic of onsite versus offsite delivery. They have invested in mobility (through laptops, VPNs, videoconferencing, and "virtualization" tools) but are also wary of "Zoom" fatigue and scheduling too many meetings. SPIs own experience is that PSOs have used the past four years wisely to invest in streamlining business processes and try to eliminate the annoying tasks which alienate workers. Timely, relevant communication with remote workers and customers is critical. One source of the truth regarding upcoming projects, available resources and project status has become a necessity which is why there has been a surge in demand for project-based ERP and standalone PSA applications. Remote hours went down by 9% in this year's benchmark (Table 131). Organizational size did not really matter but by vertical market it did. AE firms, agencies and Healthcare PS moved work back to the client site in 2023.

**Table 131: YoY Change in Billable Hours Off-Site**

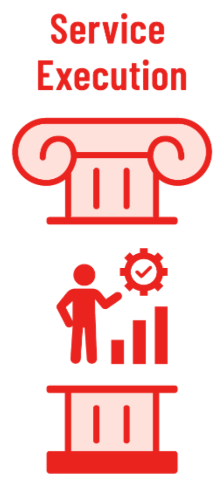
| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 907 | 826 | -9% | Under 10 | 929 | 732 | -21% |
| ESO | 957 | 919 | -4% | 10 - 30 | 832 | 839 | 1% |
| PSO | 886 | 789 | -11% | 31 - 100 | 881 | 816 | -7% |
| Americas | 967 | 915 | -5% | 101 - 300 | 1,045 | 888 | -15% |
| EMEA | 699 | 556 | -20% | 301 - 700 | 815 | 837 | 3% |
| APac | 743 | 669 | -10% | Over 700 | 882 | 824 | -7% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 1,061 | 1,004 | -5% | Arch. / Engr. | 718 | 479 | -33% |
| Mgmt. Consulting | 780 | 765 | -2% | Agency | 761 | 589 | -23% |
| Software PS | 933 | 890 | -5% | Healthcare | 973 | 655 | -33% |
| SaaS PS | 1,026 | 996 | -3% | Other PS | 858 | 856 | 0% |

***Source: SPI Research, February 2024***

# Chapter 9

# Service Execution Pillar

# SERVICE EXECUTION PILLAR

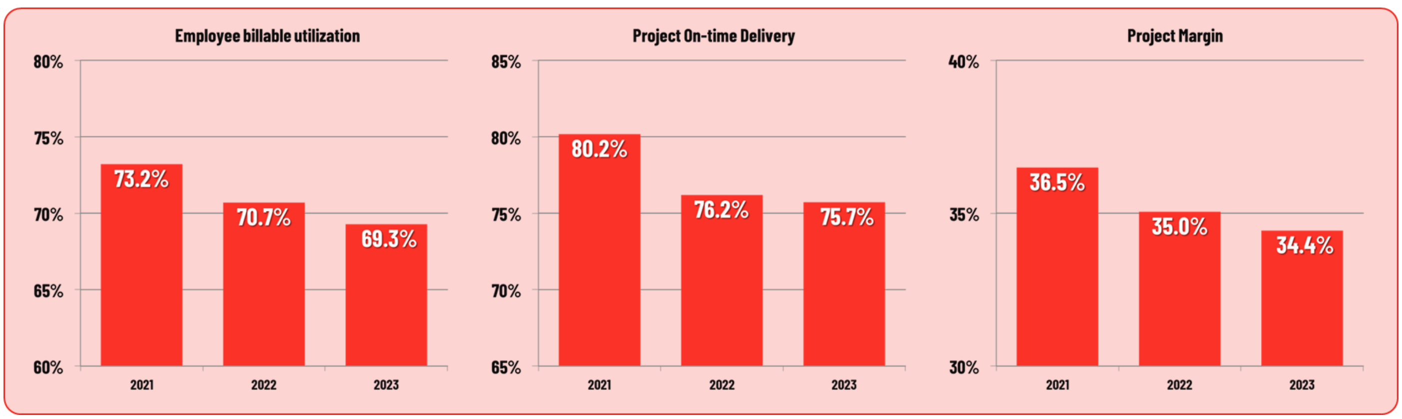



The Service Execution Pillar measures the quality, efficiency and repeatability of service delivery. It focuses on the core activities for planning, scheduling and delivery of service engagements. Regardless of the maturity of every other area of the PSO, it will not succeed unless it can successfully 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 to generate revenue and maximize project margin. The alignment of sales, HR, 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.

SPI Research highlighted the Service Execution pillar trends in Figure 41 because they are important to project delivery success. As discussed earlier, billable utilization is one of the most important KPIs in Professional Services. Unfortunately, it went down as did both on-time project delivery and project margin. These lower figures could negatively impact PSO's ability to grow in 2024.

**Figure 41: Service Execution Trends of Note**




***Source: SPI Research, February 2024***

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.

## Service Execution Maturity

SPI has analyzed most aspects of service delivery for decades. This area has experienced the most improvement as firms have realized resource specialization and visibility to all facets of project delivery are critical. PSOs have incorporated automation, virtualization, analytics and integrated business applications into their service delivery fabric. The technology underpinning service execution has been a major catalyst for improvement as resource management, project management, collaboration, time and expense capture and billing have all benefited from the emergence of a host of cloud-based tools. The other big advancement is the nature of the work itself. Today, few firms worry about fixing the plumbing before they can focus on simplifying business processes as agile delivery methods have become the norm along with advanced workflow, reporting, process automation and artificial intelligence. Every facet of service execution has been improved and benefited from new technologies, making it far more enjoyable to be a consultant in today's world. The necessity and now acceptance of remote service delivery has removed some of the stress of travel and allowed consultants to work from home.

Figure 42 shows just how important performance maturity is in the Service Execution pillar. The figure shows the importance of selling larger projects and utilizing effective resource management processes.  Firms that use a standardized (repeatable) delivery methodology show improved on-time delivery, project margins, and higher profit.

**Figure 42:  Service Execution Maturity Matters**


| | Level 1 Initiated | Level 2 Piloted | Level 3 Deployed | Level 4 Institutionalized | Level 5 Optimized |
|---|---|---|---|---|---|
| **Firms** | **172** | **144** | **144** | **86** | **29** |
| Revenue per project (k) | $114 | $163 | $220 | $175 | $478 |
| Project duration (man-months) | 26.4 | 27.6 | 32.0 | 25.3 | 56.3 |
| Resource management process effectiveness | 2.76 | 3.43 | 3.75 | 4.09 | 4.34 |
| Use a standardized delivery methodology | 54.3% | 61.5% | 68.2% | 77.7% | 81.7% |
| Projects delivered on-time | 62.9% | 71.4% | 82.4% | 87.8% | 92.2% |
| Project overrun | 11.4% | 10.6% | 9.3% | 5.9% | 8.5% |
| Project margin | 25.7% | 33.8% | 36.1% | 40.4% | 50.5% |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

***Source: SPI Research, February 2024***

Table 132 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 132: Service Execution Performance Pillar Mapped Against Service Maturity**

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

*Source: SPI Research, February 2024*

## Survey Results

In 2023 SPI Research found a reduction in size of projects in terms of revenue, people and project duration from 2022 (Table 133). For the most part service execution suffered.

**Table 133: Service Execution Pillar 5-year Trend**

| Key Performance Indicator (KPI) | 5-year avg. | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Revenue per project (k) | $179 | $164 | $154 | $181 | $203 | $183 |
| Project staff (people) | 4.26 | 4.05 | 4.09 | 4.16 | 4.51 | 4.42 |
| Project duration (months) | 5.94 | 5.56 | 5.55 | 6.23 | 6.44 | 5.76 |
| No. of projects a **project manager** manages at a time | | | | | | 5.79 |
| No. of projects a **consultant** works on at a time | | | | | | 4.21 |
| Our firm uses a project management office (PMO) | | | | | | 36.2% |
| Use a standardized delivery methodology | 65.9% | 67.4% | 65.9% | 69.2% | 63.3% | 64.9% |
| Scope change frequency forcing contract mod. | | | | | | 1.48 |
| Projects delivered on-time | 78.1% | 79.3% | 79.7% | 80.2% | 76.2% | 75.7% |
| Project overrun | 9.1% | 9.1% | 8.3% | 8.1% | 9.9% | 9.6% |
| Project margin for time & materials projects | 34.9% | 35.6% | 35.3% | 35.9% | 34.3% | 33.6% |
| Project margin for fixed price projects | 34.9% | 35.2% | 35.4% | 36.0% | 34.2% | 34.0% |
| Project margin – subs, offshore | 28.0% | 27.4% | 29.3% | 28.3% | 27.6% | 27.6% |
| Resource management process effectiveness | 3.59 | 3.59 | 3.65 | 3.62 | 3.56 | 3.54 |
| Estimating processes and review effectiveness | 3.56 | 3.58 | 3.60 | 3.61 | 3.54 | 3.50 |
| Change control process effectiveness | 3.44 | 3.38 | 3.51 | 3.45 | 3.42 | 3.43 |
| Project quality process effectiveness | 3.66 | 3.67 | 3.69 | 3.69 | 3.60 | 3.67 |
| Knowledge management processes effectiveness | 3.43 | 3.43 | 3.43 | 3.43 | 3.39 | 3.47 |

*Source: SPI Research, February 2024*

The reduction in performance from 2022 to 2023 shows up in both embedded and independent service organizations, as well as by region. 2020 was an anomaly, and in 2021 PSOs tried to get their footing back on the ground. In 2022, SPI Research expected PSOs should have performed admirably, but 2022 was another one of "those years", with all the economic uncertainty and supply chain issues. Most performance suffered as the effects of the past three years continued to linger. 2023 brought more issues, ranging from inflation and interest rates, which hurt growth and delivery suffered.

**Table 134: Service Execution Pillar Results by Organization Type and Geographic Region**

| Key Performance Indicator (KPI) | 2022 | 2023 | ESO | PSO | Amer. | EMEA | APac |
|---|---|---|---|---|---|---|---|
| Revenue per project (k) | $203 | $183 | $147 | $199 | $178 | $158 | $274 |
| Project staff (people) | 4.51 | 4.42 | 3.82 | 4.68 | 4.42 | 4.17 | 4.97 |
| Project duration (months) | 6.44 | 5.76 | 4.92 | 6.12 | 5.71 | 6.07 | 5.52 |
| No. of projects a **PM** manages at a time | | 5.79 | 6.88 | 5.32 | 6.20 | 4.41 | 5.41 |
| No. of projects a **consultant** works on at a time | | 4.21 | 5.15 | 3.82 | 4.39 | 3.78 | 3.82 |
| Our firm uses a project mgmt. office (PMO) | | 36.2% | 36.4% | 36.1% | 37.4% | 32.0% | 35.5% |
| Use a standardized delivery methodology | 63.3% | 64.9% | 68.8% | 63.3% | 66.6% | 60.4% | 61.2% |
| Scope change frequency forcing contract mod. | | 1.48 | 1.38 | 1.52 | 1.47 | 1.58 | 1.39 |
| Projects delivered on-time | 76.2% | 75.7% | 75.7% | 75.7% | 75.8% | 76.6% | 72.8% |
| Project overrun | 9.9% | 9.6% | 9.0% | 9.9% | 9.6% | 9.1% | 10.8% |
| Project margin for time & materials projects | 34.3% | 33.6% | 31.8% | 34.4% | 33.8% | 34.6% | 30.3% |
| Project margin for fixed price projects | 34.2% | 34.0% | 32.8% | 34.5% | 34.1% | 34.3% | 32.6% |
| Project margin — subs, offshore | 27.6% | 27.6% | 27.1% | 27.9% | 28.8% | 23.0% | 28.4% |
| Resource management process effectiveness | 3.56 | 3.54 | 3.50 | 3.56 | 3.54 | 3.44 | 3.75 |
| Estimating processes and review effectiveness | 3.54 | 3.50 | 3.47 | 3.51 | 3.49 | 3.39 | 3.73 |
| Change control process effectiveness | 3.42 | 3.43 | 3.49 | 3.41 | 3.44 | 3.34 | 3.56 |
| Project quality process effectiveness | 3.60 | 3.67 | 3.72 | 3.65 | 3.70 | 3.44 | 3.92 |
| Knowledge mgmt. processes effectiveness | 3.39 | 3.47 | 3.55 | 3.44 | 3.47 | 3.38 | 3.65 |

Source: SPI Research, February 2024

Smaller PSOs did a much better job of completing projects on time and on budget, with fewer overruns. PMO use became more prevalent as the size of the firm grew.

**Table 135: Service Execution Pillar Results by Organization Size**

| Key Performance Indicator (KPI) | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Revenue per project (k) | $91 | $94 | $166 | $216 | $276 | $331 |
| Project staff (people) | 2.13 | 3.16 | 4.29 | 5.11 | 5.44 | 7.02 |
| Project duration (months) | 5.51 | 5.52 | 5.45 | 6.33 | 6.41 | 5.72 |
| No. of projects a **PM** manages at a time | 4.85 | 6.80 | 5.98 | 5.73 | 5.50 | 5.11 |
| No. of projects a **consultant** works on at a time | 4.05 | 5.12 | 4.21 | 4.01 | 3.86 | 3.75 |
| Our firm uses a project mgmt. office (PMO) | 15.4% | 30.1% | 35.7% | 40.2% | 47.0% | 52.4% |
| Use a standardized delivery methodology | 60.5% | 63.7% | 65.8% | 62.4% | 69.6% | 69.7% |
| Scope change frequency forcing contract mod. | 1.11 | 1.29 | 1.49 | 1.61 | 1.59 | 1.78 |
| Projects delivered on-time | 79.7% | 77.7% | 75.4% | 74.8% | 73.0% | 73.5% |
| Project overrun | 5.7% | 9.5% | 9.9% | 10.8% | 9.9% | 10.9% |
| Project margin for time & materials projects | 35.5% | 32.2% | 32.9% | 33.6% | 36.9% | 33.2% |
| Project margin for fixed price projects | 35.6% | 33.7% | 32.3% | 34.8% | 36.5% | 33.9% |
| Project margin — subs, offshore | 23.1% | 28.3% | 27.8% | 26.3% | 31.8% | 29.2% |
| Resource management process effectiveness | 3.44 | 3.53 | 3.52 | 3.61 | 3.54 | 3.60 |
| Estimating processes and review effectiveness | 3.55 | 3.61 | 3.49 | 3.37 | 3.35 | 3.62 |
| Change control process effectiveness | 3.34 | 3.41 | 3.38 | 3.45 | 3.61 | 3.53 |
| Project quality process effectiveness | 3.61 | 3.60 | 3.64 | 3.74 | 3.87 | 3.67 |
| Knowledge mgmt. processes effectiveness | 3.50 | 3.44 | 3.43 | 3.49 | 3.67 | 3.40 |

***Source: SPI Research, February 2024***

**Table 136: Service Execution Pillar Results by Market**

| Key Performance Indicator (KPI) | IT Cons | Mgmt. Cons | Soft PS | SaaS PS | Arch./ Engr. | Agency | Health |
|---|---|---|---|---|---|---|---|
| Revenue per project (k) | $229 | $204 | $179 | $119 | $129 | $193 | $181 |
| Project staff (people) | 5.07 | 3.54 | 4.55 | 3.31 | 4.19 | 6.00 | 3.73 |
| Project duration (months) | 5.26 | 5.63 | 6.01 | 3.57 | 8.12 | 6.82 | 6.18 |
| No. of projects a **PM** manages at a time | 4.64 | 4.60 | 6.45 | 6.93 | 7.23 | 5.27 | 5.85 |
| No. of projects a **consultant** works on at a time | 2.92 | 3.93 | 4.91 | 5.79 | 5.05 | 3.51 | 3.95 |
| Our firm uses a project mgmt. office (PMO) | 45.3% | 22.0% | 51.7% | 41.0% | 19.8% | 40.6% | 31.6% |
| Use a standardized delivery methodology | 62.0% | 62.2% | 70.0% | 73.9% | 68.1% | 60.4% | 66.8% |
| Scope change frequency forcing contract mod. | 1.58 | 1.12 | 1.64 | 1.15 | 1.93 | 1.63 | 1.37 |
| Projects delivered on-time | 75.0% | 79.6% | 73.7% | 72.9% | 75.9% | 73.7% | 83.3% |
| Project overrun | 10.6% | 7.2% | 12.3% | 10.0% | 10.8% | 10.8% | 7.5% |
| Project margin for time & materials projects | 35.3% | 36.9% | 41.8% | 31.4% | 25.6% | 32.4% | 34.1% |
| Project margin for fixed price projects | 35.1% | 37.6% | 38.8% | 31.6% | 26.1% | 35.6% | 33.3% |
| Project margin — subs, offshore | 31.5% | 27.4% | 33.0% | 28.2% | 15.1% | 32.1% | 31.9% |
| Resource management process effectiveness | $229 | $204 | $179 | $119 | $129 | $193 | $181 |
| Estimating processes and review effectiveness | 5.07 | 3.54 | 4.55 | 3.31 | 4.19 | 6.00 | 3.73 |
| Change control process effectiveness | 5.26 | 5.63 | 6.01 | 3.57 | 8.12 | 6.82 | 6.18 |
| Project quality process effectiveness | 4.64 | 4.60 | 6.45 | 6.93 | 7.23 | 5.27 | 5.85 |
| Knowledge mgmt. processes effectiveness | 2.92 | 3.93 | 4.91 | 5.79 | 5.05 | 3.51 | 3.95 |

***Source: SPI Research, February 2024***

## Resource Management Processes

*Resource management process shows how organizations staff projects, from a centralized management process, to local, account based, horizontal or center of excellence.*

SPI's research shows there is not one 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 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 the level of skills required both today and in the future. In centralized resource management, a dedicated resource management team is responsible for managing the master resource schedule and making staffing decisions based on skills, availability, location, cost, preference, etc. Centralized management is the most efficient way to manage a large workforce. In this year's benchmark, centralized management produced some of the best results with fewer project overruns and the best revenue per consultant and project margins.
2. **Local resource management** – Local resource management is the preferred form of resourcing for young organizations where the workforce is small enough to foster real esprit de corps, and employees wear many hats. Smaller organizations can't afford the overhead of a dedicated resource management function, as relationships and roles are fluid, requiring more local control and finesse. Staffing locally also provides the benefit of closer client relationships and less travel.
3. **Account-based** – Resource management by account may be a good strategy for very large accounts where there is a strong backlog of projects, but account-based resourcing can cause big issues if account revenue dries up. 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. Further teams run the risk of "going native" – feeling more affinity with their clients than their employers, which may mean they cannot push back on unreasonable requests.
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.

To improve utilization, PSOs must improve resource management effectiveness. As Table 137 shows, there are pluses and minuses to different resource management strategies. Green shading indicates "Best" while red shading indicates "Worst" based on responses from 575 firms (Other PS not included). This year "By Centrally Managed" comes out on top with the highest number of "best" scores.

The table shows just how different the performance levels are with each resource management process. It makes sense that on-time project delivery would be high when the resource management process is done by account. Account managers can have greater control over project deliverables. But managing resources by skill set leads to greater efficiency and thus higher margins. PS leaders must balance their primary goals of revenue growth, organizational profit, and both client and employee satisfaction to ensure the firms progresses in a positive way.

**Table 137: Impact - Resource Management Processes**

| Resource management process | Survey | Revenue growth | Total attrition | On-time delivery | Project margin | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| Centrally Managed | 45.8% | 7.7% | 12.7% | 77.4% | 37.1% | 15.6% |
| Locally Managed | 20.3% | 7.9% | 10.2% | 74.2% | 29.8% | 14.0% |
| Center of Excellence | 10.0% | 4.7% | 15.0% | 71.0% | 33.8% | 21.7% |
| By Account | 10.9% | 10.6% | 12.3% | 77.2% | 34.3% | 10.8% |
| By Horizontal Skill Set | 10.0% | 9.2% | 14.6% | 76.2% | 35.0% | 16.3% |
| Other | 3.1% | 6.6% | 8.8% | 77.2% | 29.3% | 12.6% |
| **Total / Average** | **100.0%** | **7.9%** | **12.5%** | **76.0%** | **34.5%** | **15.4%** |

*Source: SPI Research, February 2024*

## 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.*

The average revenue per project is important from a planning and execution perspective. PS executives would naturally prefer large projects with many billable consultants and for extended durations. This format is preferable to forecasting personnel and revenue. However, the market is changing, and PS executives now do a much better job of planning to meet revenue and profitability targets.

Unfortunately, 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 $179k. In 2023 it was $183k, which is down from $203k in 2022.

Table 138 shows both revenue growth and billable utilization increase significantly as the project size increases. This bodes well for the financial metrics as revenue goals are attained and higher project margins. Larger projects are preferable, but PSOs must have the structure in place to deliver efficiently and effectively.

**Table 138: Impact – Revenue Per Project**

| Revenue per project | Survey % | Revenue growth | Billable utilization | On-time project delivery | Annual revenue/ employee (k) | % of ann. margin target |
|---|---|---|---|---|---|---|
| Under $25k | 14.1% | 6.4% | 62.7% | 74.4% | $132 | 84.4% |
| $25k - $50k | 18.3% | 7.4% | 67.9% | 75.1% | $159 | 86.3% |
| $50k - $100k | 23.1% | 7.6% | 68.0% | 77.6% | $156 | 86.5% |
| $100k - $250k | 24.9% | 8.2% | 71.4% | 74.8% | $181 | 87.7% |
| $250k - $500k | 11.9% | 10.1% | 74.9% | 76.2% | $212 | 92.0% |
| $500k - $1mm | 4.6% | 4.5% | 74.8% | 72.6% | $177 | 91.0% |
| Over $1mm | 3.1% | 11.9% | 77.9% | 82.8% | $210 | 95.3% |
| **Total / Average** | **100.0%** | **7.8%** | **69.5%** | **75.8%** | **$169** | **87.6%** |

*Source: SPI Research, February 2024*

**Table 139: YoY Change in Revenue Per Project (K)**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | $203 | $183 | -10% | Under 10 | $61 | $91 | 49% |
| ESO | $179 | $147 | -18% | 10 - 30 | $146 | $94 | -36% |
| PSO | $212 | $199 | -6% | 31 - 100 | $173 | $166 | -4% |
| Americas | $218 | $178 | -18% | 101 - 300 | $246 | $216 | -12% |
| EMEA | $180 | $158 | -12% | 301 - 700 | $324 | $276 | -15% |
| APac | $123 | $274 | 122% | Over 700 | $330 | $331 | 0% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | $274 | $229 | -16% | Arch. / Engr. | $193 | $129 | -33% |
| Mgmt. Consulting | $160 | $204 | 27% | Agency | $188 | $193 | 3% |
| Software PS | $179 | $179 | 0% | Healthcare | $321 | $181 | -44% |
| SaaS PS | $93 | $119 | 27% | Other PS | $209 | $181 | -14% |

*Source: SPI Research, February 2024*

## Project Staff Size

The project staff size is the number of full-time equivalent (FTE) employees dedicated to projects. Shorter, more iterative, "agile" projects cause more scheduling issues but may result in improved project value and ROI. Table 140 shows projects with a larger staff show the highest percentage of standardized delivery methodologies used, but lower on-time delivery, meaning PSOs have much to do to improve. Ideally, PSOs should sell larger projects but staff them with fewer resources, which is no easy task. It is more difficult to sell large projects and they tend to be the most prevalent for larger PSOs, that can handle global scale and complexity. In the 2023 study, the average project size in terms of staff was 4.42 people, down from 4.51 in 2022 (Table 141).

**Table 140: Impact – Project Staff Size**

| Project staff (people) | Survey % | Org. size (emp) | Revenue growth | Project duration (man-mnth) | Std. del. method. used | On-time project delivery |
|---|---|---|---|---|---|---|
| 1 - 2 | 28.7% | 216 | 9.1% | 6.8 | 63.6% | 78.8% |
| 3 - 5 | 46.9% | 432 | 7.6% | 22.3 | 66.6% | 75.3% |
| 6 - 8 | 16.0% | 605 | 7.5% | 46.5 | 59.2% | 73.4% |
| 9 - 11 | 4.4% | 1,774 | 6.7% | 82.1 | 65.0% | 71.3% |
| Over 11 | 4.0% | 1,793 | 4.2% | 154.0 | 73.6% | 68.1% |
| **Total / Average** | **100.0%** | **511** | **7.8%** | **29.6** | **64.8%** | **75.5%** |

*Source: SPI Research, February 2024*

**Table 141: YoY Change in Project Staff (People)**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 4.51 | 4.42 | -2% | Under 10 | 2.45 | 2.13 | -13% |
| ESO | 4.49 | 3.82 | -15% | 10 - 30 | 3.57 | 3.16 | -11% |
| PSO | 4.52 | 4.68 | 4% | 31 - 100 | 4.09 | 4.29 | 5% |
| Americas | 4.60 | 4.42 | -4% | 101 - 300 | 5.21 | 5.11 | -2% |
| EMEA | 4.44 | 4.17 | -6% | 301 - 700 | 6.18 | 5.44 | -12% |
| APac | 3.89 | 4.97 | 28% | Over 700 | 6.34 | 7.02 | 11% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 4.80 | 5.07 | 6% | Arch. / Engr. | 4.84 | 4.19 | -14% |
| Mgmt. Consulting | 3.29 | 3.54 | 8% | Agency | 5.44 | 6.00 | 10% |
| Software PS | 4.58 | 4.55 | -1% | Healthcare | 5.66 | 3.73 | -34% |
| SaaS PS | 3.95 | 3.31 | -16% | Other PS | 4.70 | 4.38 | -7% |

*Source: SPI Research, February 2024*

## Project Duration

The average project duration, expressed in months, refers 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.

The average project duration has gone up from 5.56 months in 2019 to 5.76 in 2023, peaking in 2022 at 6.44, and with a five-year average of 5.94 months. Table 142 shows larger projects increase billable utilization but may cause higher attrition as employees finitize more with their clients and less with their employers. Larger projects help with predictability but may also involve greater complexity and risk resulting in more project overruns. Projects under three months in duration stress resource scheduling, resulting in poor billable utilization.

**Table 142: Impact – Project Duration**

| Project duration (months) | Survey % | Revenue growth | Backlog | Client reference | Billable utilization | Ann. rev./ consult. (k) |
|---|---|---|---|---|---|---|
| Under 1 | 3.8% | 4.0% | 33.5% | 63.3% | 59.8% | $170 |
| 1 - 3 | 19.3% | 7.1% | 41.8% | 67.5% | 67.5% | $199 |
| 3 - 6 | 31.6% | 7.6% | 44.8% | 70.1% | 69.9% | $209 |
| 6 - 9 | 19.5% | 9.4% | 46.7% | 68.8% | 71.0% | $223 |
| 9 - 12 | 13.5% | 8.0% | 43.2% | 69.0% | 68.8% | $195 |
| Over 12 | 12.3% | 7.9% | 45.9% | 69.9% | 71.9% | $209 |
| **Total / Average** | **100.0%** | **7.8%** | **44.1%** | **68.9%** | **69.4%** | **$206** |

*Source: SPI Research, February 2024*

Table 143 shows a significant decrease in project duration, from 6.44 months in 2022 to 5.76 months in 2023. Embedded service organizations had the greatest reduction year-over-year, from 5.96 months to 4.92.

**Table 143: YoY Change in Project Duration (Months)**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 6.44 | 5.76 | -11% | Under 10 | 5.54 | 5.51 | -1% |
| ESO | 5.96 | 4.92 | -18% | 10 - 30 | 5.76 | 5.52 | -4% |
| PSO | 6.63 | 6.12 | -8% | 31 - 100 | 6.45 | 5.45 | -16% |
| Americas | 6.64 | 5.71 | -14% | 101 - 300 | 6.83 | 6.33 | -7% |
| EMEA | 6.21 | 6.07 | -2% | 301 - 700 | 7.33 | 6.41 | -13% |
| APac | 5.22 | 5.52 | 6% | Over 700 | 6.92 | 5.72 | -17% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 6.45 | 5.26 | -18% | Arch. / Engr. | 7.55 | 8.12 | 8% |
| Mgmt. Consulting | 5.98 | 5.63 | -6% | Agency | 6.78 | 6.82 | 1% |
| Software PS | 5.84 | 6.01 | 3% | Healthcare | 6.61 | 6.18 | -7% |
| SaaS PS | 5.02 | 3.57 | -29% | Other PS | 7.18 | 5.93 | -17% |

*Source: SPI Research, February 2024*

## Concurrent Projects Managed

In 2023, SPI Research asked PS executives the number of projects a project manager manages concurrently. The more projects managed means greater efficiency, but performance could suffer if the project manager is overwhelmed with work. Table 144 shows the breakdown in the number of projects managed by a project manager. What stands out is there tends to be a higher percentage of new clients as the number of projects managed grows. Fortunately, project managers can manage more projects if a standard delivery methodology is used. Unfortunately, on time delivery and project overrun suffer as the number of projects increases. SPI Research believes project managers should probably manage no more than five projects concurrently.

**Table 144: Impact – Number of Projects a Project Manager works on at a time**

| PM projects managed | Survey % | New clients | Backlog | Std. del. method. used | On-time project delivery | Project overrun |
|---|---|---|---|---|---|---|
| 1 project | 6.9% | 25.3% | 37.1% | 62.1% | 80.7% | 7.6% |
| 2 projects | 13.0% | 28.3% | 39.4% | 64.4% | 76.0% | 8.0% |
| 3 - 5 projects | 42.3% | 32.7% | 43.1% | 63.8% | 75.8% | 9.5% |
| 6 - 10 projects | 21.2% | 30.4% | 49.8% | 65.4% | 75.5% | 10.5% |
| Over 10 projects | 16.6% | 34.0% | 45.6% | 68.9% | 72.9% | 11.0% |
| **Total/Average** | **100.0%** | **31.4%** | **44.1%** | **65.0%** | **75.6%** | **9.6%** |

*Source: SPI Research, February 2024*

## Concurrent Projects Worked by Consultants

In 2023, SPI Research also asked PS executives the number of projects consultants work on concurrently. Like the project managers, the more projects managed means greater efficiency, but performance could suffer if the consultant is overwhelmed with work. Table 145 shows the breakdown in the number of projects managed by a project manager. Interestingly to SPI Research, employee attrition goes down as they work on more projects concurrently, but unfortunately on time delivery and project overrun suffer as the number of projects increases. SPI Research believes consultants should probably limit their number of projects to less than five.

**Table 145: Impact – Number of projects a consultant works on at a time**

| Consultant projects | Survey % | New clients | Employee attrition | On-time project delivery | Project overrun | Project margin |
|---|---|---|---|---|---|---|
| 1 project | 14.3% | 28.6% | 13.7% | 82.0% | 7.0% | 35.2% |
| 2 projects | 22.7% | 29.9% | 13.1% | 75.0% | 9.4% | 34.0% |
| 3 - 5 projects | 40.1% | 30.5% | 11.9% | 75.1% | 9.9% | 35.0% |
| 6 - 10 projects | 14.5% | 36.3% | 12.7% | 71.1% | 10.6% | 34.4% |
| over 10 projects | 8.3% | 34.9% | 11.2% | 78.2% | 11.4% | 32.1% |
| **Total / Average** | **100.0%** | **31.3%** | **12.5%** | **75.7%** | **9.6%** | **34.5%** |

*Source: SPI Research, February 2024*

## Project Management Office (PMO)

The use of a project management office aids project teams in terms of efficiency and quality. SPI Research asked how often PSO's utilize the PMO. The results are highlighted in table 146. The results are interesting to SPI Research in terms of organizations that utilize a PMO sell bigger projects and utilize standardized delivery methodologies more often. However, project overrun rose as PMO's were used, but the project margin increased. The project management office is good for larger organizations with more complex projects.

**Table 146: Impact – Project Management Office (PMO) Use**

| Our firm uses a project management office (PMO) | Survey % | Project duration (man-months) | Std. del. method. used | On-time project delivery | Project overrun | Project margin |
|---|---|---|---|---|---|---|
| Never | 38.0% | 23.2 | 61.2% | 77.4% | 8.8% | 34.3% |
| Sometimes | 28.2% | 29.7 | 62.0% | 73.5% | 8.8% | 33.8% |
| Most of the time | 18.5% | 38.6 | 67.8% | 76.5% | 10.6% | 34.4% |
| Always | 15.3% | 34.6 | 76.0% | 74.8% | 12.1% | 36.1% |
| **Total/Average** | **100.0%** | **29.6** | **64.9%** | **75.7%** | **9.6%** | **34.5%** |

*Source: SPI Research, February 2024*

## Standardized Delivery Methodology Use

*The percentage of projects where a standardized (or structured) delivery methodology is used.*

Standardized delivery methodologies incorporate best-practices, time and quality into projects. These repeatable frameworks include tools, templates and knowledge. Mature firms invest significant time and attention into methodology development 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 that can accurately plan and execute services in a structured way are not only more productive but also more likely to deliver on time and 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 147 shows the use of standardized delivery methods and tools has a positive impact on growth, billable utilization and revenue target achievement.

**Table 147: Impact – Standardized Delivery Methodology Use**

| Use a std. delivery methodology | Survey % | Revenue growth | New clients | Rec. to family/ friends | Billable utilization | % of ann. rev. target |
|---|---|---|---|---|---|---|
| Under 20% | 6.0% | 6.2% | 22.0% | 3.61 | 65.3% | 87.9% |
| 20% - 40% | 11.0% | 7.8% | 29.6% | 3.83 | 67.7% | 88.1% |
| 40% - 60% | 20.7% | 7.8% | 31.3% | 3.96 | 68.1% | 90.8% |
| 60% - 80% | 26.7% | 7.4% | 32.1% | 4.18 | 69.9% | 90.9% |
| Over 80% | 35.5% | 8.6% | 33.2% | 4.24 | 71.3% | 91.5% |
| **Total / Average** | **100.0%** | **7.9%** | **31.4%** | **4.08** | **69.5%** | **90.6%** |

*Source: SPI Research, February 2024*

The good news, as shown in Table 148, is that standardized delivery methodology rose overall, which should benefit PSOs going forward.

**Table 148: YoY Change in Standardized Delivery Methodology Use**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 63.3% | 64.9% | 3% | Under 10 | 59.4% | 60.5% | 2% |
| ESO | 65.8% | 68.8% | 4% | 10 - 30 | 64.2% | 63.7% | -1% |
| PSO | 62.3% | 63.3% | 2% | 31 - 100 | 63.9% | 65.8% | 3% |
| Americas | 64.2% | 66.6% | 4% | 101 - 300 | 62.9% | 62.4% | -1% |
| EMEA | 60.3% | 60.4% | 0% | 301 - 700 | 65.5% | 69.6% | 6% |
| APac | 62.1% | 61.2% | -2% | Over 700 | 63.0% | 69.7% | 11% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 62.6% | 62.0% | -1% | Arch. / Engr. | 68.7% | 68.1% | -1% |
| Mgmt. Consulting | 60.1% | 62.2% | 4% | Agency | 61.5% | 60.4% | -2% |
| Software PS | 66.7% | 70.0% | 5% | Healthcare | 56.3% | 66.8% | 19% |
| SaaS PS | 66.6% | 73.9% | 11% | Other PS | 61.9% | 62.8% | 2% |

*Source: SPI Research, February 2024*

## The frequency on a project the contract needs to be modified due to scope change

*The number of times the scope and contract are modified during a project.*

Project scope change can drive performance negatively if not managed correctly. Project managers must manage changes in scope with the appropriate hours and cost. In many instances clients realize they need more help with the project and then ask for modifications that incorporate more activity. This change could give the PSO more money if managed correctly, but in many instances the hours and dollars don't add up to a sufficient margin and the PSO suffers. Table 149 shows the impact of more scope change. On time delivery and margin are reduced when this happens and overrun increases.

**Table 149: Impact – The frequency on a project the contract needs to be modified due to scope change**

| Frequency of project contract modification | Survey % | % of bids won | On-time project delivery | Project overrun | Project margin | Exec real-time visibility |
|---|---|---|---|---|---|---|
| Never | 12.7% | 50.0% | 78.9% | 6.7% | 34.6% | 3.47 |
| Once | 49.5% | 48.2% | 76.5% | 8.2% | 34.5% | 3.47 |
| Twice | 24.7% | 47.7% | 73.5% | 11.9% | 34.2% | 3.29 |
| Three times | 8.1% | 44.9% | 70.9% | 14.6% | 34.2% | 3.49 |
| Over three times | 5.0% | 47.8% | 76.1% | 12.7% | 33.6% | 3.20 |
| **Total/Average** | **100.0%** | **48.0%** | **75.6%** | **9.7%** | **34.4%** | **3.41** |

*Source: SPI Research, February 2024*

## Projects Delivered On-Time

*The number of projects completed on time is divided by the total number of projects.*

The percentage of projects delivered on time is a critical measurement for billable service organizations, because when it decreases, both profitability and client satisfaction decline. Over 25% of PSOs reported delivering less than 70% of their projects were delivered on time (Table 150). PSOs that could not deliver on time had much lower levels of billable utilization and client references. They had ineffective processes for change control, project quality and knowledge management. They also did not have visibility into resource availability, which meant they missed their annual margin targets. The bottom line is on-time delivery is one of the most important KPIs, and its success or failure impacts the overall organization. Clearly project overruns are one of the root causes of missing on-time delivery milestones but so are poor communication; miss set expectations; lack of change orders and scope creep.

**Table 150: Impact – Projects Delivered On-Time**

| Projects delivered on-time | Survey % | Client reference | Std. del. method. used | Billable utilization | % of ann. rev. target | % of ann. margin target |
|---|---|---|---|---|---|---|
| Under 40% | 4.6% | 64.8% | 54.0% | 64.1% | 86.3% | 80.9% |
| 40% - 60% | 9.7% | 59.6% | 56.2% | 67.5% | 87.4% | 83.2% |
| 60% - 70% | 13.6% | 66.8% | 58.1% | 68.0% | 88.7% | 86.4% |
| 70% - 80% | 24.2% | 70.5% | 62.2% | 70.3% | 90.8% | 89.0% |
| 80% - 90% | 25.5% | 69.3% | 69.0% | 70.9% | 92.0% | 89.4% |
| Over 90% | 22.4% | 73.0% | 74.0% | 69.4% | 92.5% | 88.9% |
| **Total / Average** | **100.0%** | **68.9%** | **65.0%** | **69.4%** | **90.7%** | **87.8%** |

***Source: SPI Research, February 2024***

Fortunately, over 20% of firms reported 90% or better on-time project delivery. On-time, 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 sells services that the PSO 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 references, lowest employee attrition and highest employee engagement and billable utilization. PSOs that struggle with on-time delivery must closely examine and improve their sales, estimation, contract and delivery processes as the benefits of on-time delivery are significant.

**Table 151: YoY Change in Projects Delivered On-Time**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 76.2% | 75.7% | -1% | Under 10 | 84.1% | 79.7% | -5% |
| ESO | 72.4% | 75.7% | 5% | 10 - 30 | 77.5% | 77.7% | 0% |
| PSO | 77.7% | 75.7% | -3% | 31 - 100 | 75.3% | 75.4% | 0% |
| Americas | 76.0% | 75.8% | 0% | 101 - 300 | 73.5% | 74.8% | 2% |
| EMEA | 76.3% | 76.6% | 0% | 301 - 700 | 76.8% | 73.0% | -5% |
| APac | 77.5% | 72.8% | -6% | Over 700 | 72.9% | 73.5% | 1% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 75.9% | 75.0% | -1% | Arch. / Engr. | 74.5% | 75.9% | 2% |
| Mgmt. Consulting | 82.7% | 79.6% | -4% | Agency | 78.0% | 73.7% | -5% |
| Software PS | 71.9% | 73.7% | 2% | Healthcare | 78.7% | 83.3% | 6% |
| SaaS PS | 69.8% | 72.9% | 4% | Other PS | 77.1% | 76.1% | -1% |

***Source: SPI Research, February 2024***

## Project Overrun

*Project overrun is the percentage of actual-to-budgeted cost, or actual-to-budgeted time.*

Project overrun 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 PS profitability. Project overrun has a profoundly negative impact on almost all aspects of service execution as it puts stress on service delivery and forestalls new project initiation. For the 9.7% of firms that reported greater than 20% project overruns, performance suffers (Table 152).

**Table 152: Impact – Project Overrun**

| Project overrun | Survey % | Project duration (man-mnth) | Employee attrition | Rec. to family/ friends | Billable utilization | On-time project delivery |
|---|---|---|---|---|---|---|
| Never | 7.1% | 31.6 | 7.8% | 4.13 | 64.4% | 84.6% |
| 0% - 5% | 26.5% | 23.2 | 10.7% | 4.27 | 70.5% | 83.2% |
| 5% - 10% | 30.8% | 28.4 | 12.5% | 4.13 | 69.4% | 78.0% |
| 10% - 20% | 25.8% | 30.3 | 14.0% | 3.95 | 70.3% | 68.8% |
| 20% - 30% | 7.5% | 33.9 | 14.5% | 3.85 | 68.9% | 63.6% |
| Over 30% | 2.2% | 54.5 | 24.0% | 3.83 | 68.0% | 55.8% |
| **Total / Average** | **100.0%** | **28.7** | **12.5%** | **4.09** | **69.5%** | **75.9%** |

***Source: SPI Research, February 2024***

Like on-time delivery, project overruns hurt both cashflow and margins. Project overruns are most likely to occur when delivering new services or attempting to implement unproven technologies. Clearly, the first step towards minimizing project overruns is to understand where and why the project went awry. Project reflection reviews and lessons learned will help reduce future overruns.

**Table 153: YoY Change in Project Overrun**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 9.9% | 9.6% | 3% | Under 10 | 7.9% | 5.7% | 39% |
| ESO | 10.8% | 9.0% | 20% | 10 - 30 | 10.6% | 9.5% | 12% |
| PSO | 9.5% | 9.9% | -4% | 31 - 100 | 9.3% | 9.9% | -6% |
| Americas | 9.8% | 9.6% | 2% | 101 - 300 | 10.4% | 10.8% | -4% |
| EMEA | 9.9% | 9.1% | 8% | 301 - 700 | 10.6% | 9.9% | 7% |
| APac | 10.7% | 10.8% | -1% | Over 700 | 10.8% | 10.9% | -2% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 9.7% | 10.6% | -9% | Arch. / Engr. | 10.0% | 10.8% | -8% |
| Mgmt. Consulting | 7.5% | 7.2% | 3% | Agency | 10.9% | 10.8% | 1% |
| Software PS | 10.4% | 12.3% | -16% | Healthcare | 10.3% | 7.5% | 37% |
| SaaS PS | 11.7% | 10.0% | 18% | Other PS | 10.3% | 8.0% | 29% |

*Source: SPI Research, February 2024*

## Project Margin

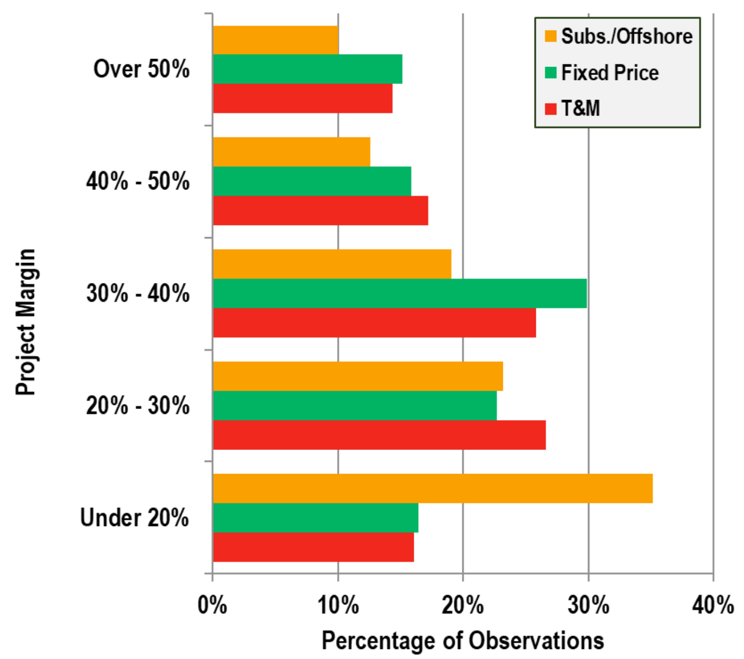
*Project margin is the percentage of revenue which remains after accounting for the direct costs of project delivery.*

Effective resource management and driving high billable utilization is a key ingredient in project margins but so are repeatability and quality of project delivery along with effective project management. Regardless of the size of the organization, SPI always recommends maintaining a project dashboard with visibility to project budget to actual performance. Figure 43 shows average project margins vary greatly but have been close to the five-year average of 35.5%. The overall project margin in 2023 was 34.4%, down from 35.0% a year earlier. This metric underscores the importance of a holistic view of PS, as one important metric like project margin can cause a ripple effect leading to lower overall net profit.

Leading PSOs strive to achieve project margins over 40% but as the figure shows, 32% of the organizations surveyed consistently achieve project margins greater than 40%. Low project margins are caused by a variety of issues including poor estimates, scope change, lack of a clear project charter, poor project management, poor execution and communication combined with not having enough or poorly prepared consultants. PSOs with lower project margins struggle to meet annual margin targets. Very few organizations make more than 30% margin on subcontractors.

Projects can be structured in a variety of ways – fixed price, milestone based, time and materials or cost plus. Typically, time and materials-based projects produce the best margins if 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 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 focus on paying fairly for work that delivers promised results. If the project benefit is substantial, then assuring successful delivery should be the primary focus (Table 154).

**Figure 43: Project Margin**




*Source: SPI Research, February 2024*

**Table 154: Impact – Project Margin**

| Project margin | Survey % | On-time project delivery | Project overrun | Project margin | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) |
|---|---|---|---|---|---|---|
| Under 20% | 15.0% | 71.3% | 10.9% | 11.8% | $166 | $128 |
| 20% - 30% | 23.4% | 75.7% | 8.2% | 25.3% | $195 | $159 |
| 30% - 40% | 29.6% | 75.3% | 9.5% | 34.6% | $213 | $175 |
| 40% - 50% | 16.4% | 78.4% | 9.5% | 44.6% | $226 | $189 |
| Over 50% | 15.6% | 80.0% | 10.4% | 59.0% | $228 | $196 |
| **Total / Average** | **100.0%** | **76.0%** | **9.5%** | **34.4%** | **$206** | **$170** |

*Source: SPI Research, February 2024*

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 high billable utilization, on-time, on-budget delivery and revenue per consultant and employee. Standardized delivery methods and tools combined with project quality reviews and training investments all correlate with the highest margins. When projects are delivered on time, time and materials project margins increase, and so does revenue per consultant and employee. And since project margin is where most of the profit is made in PS, overall EBITDA increases as T&M project margins rise.

### *Time and Materials Project Margin*

Table 155 highlights the benefit of higher time & materials project margins. They are typically driven by standardized delivery methodologies, coupled with high billable utilization and on time delivery. The net results benefit many of the financial aspects of the PSO.

**Table 155: Impact – Time & Materials Project Margin**

| Project margin | Survey % | Billable utilization | On-time project delivery | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | % of ann. rev. target |
|---|---|---|---|---|---|---|
| Under 20% | 16.1% | 66.4% | 71.2% | $173 | $132 | 87.9% |
| 20% - 30% | 26.6% | 69.5% | 75.1% | $195 | $162 | 89.9% |
| 30% - 40% | 25.8% | 71.1% | 77.1% | $218 | $175 | 91.1% |
| 40% - 50% | 17.2% | 72.7% | 77.1% | $219 | $182 | 92.3% |
| Over 50% | 14.3% | 67.5% | 80.0% | $234 | $202 | 92.5% |
| **Total / Average** | **100.0%** | **69.7%** | **76.0%** | **$207** | **$170** | **90.7%** |

***Source: SPI Research, February 2024***

**Table 156: YoY Change in Project Margin for Time & Materials Projects**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 34.3% | 33.6% | -2% | Under 10 | 34.1% | 35.5% | 4% |
| ESO | 34.1% | 31.8% | -7% | 10 - 30 | 33.1% | 32.2% | -3% |
| PSO | 34.4% | 34.4% | 0% | 31 - 100 | 34.4% | 32.9% | -4% |
| Americas | 34.0% | 33.8% | -1% | 101 - 300 | 35.9% | 33.6% | -7% |
| EMEA | 34.5% | 34.6% | 0% | 301 - 700 | 34.5% | 36.9% | 7% |
| APac | 36.5% | 30.3% | -17% | Over 700 | 33.2% | 33.2% | 0% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 37.4% | 35.3% | -5% | Arch. / Engr. | 28.5% | 25.6% | -10% |
| Mgmt. Consulting | 35.7% | 36.9% | 3% | Agency | 32.7% | 32.4% | -1% |
| Software PS | 36.1% | 41.8% | 16% | Healthcare | 31.1% | 34.1% | 10% |
| SaaS PS | 32.4% | 31.4% | -3% | Other PS | 33.2% | 32.4% | -2% |

***Source: SPI Research, February 2024***

### *Fixed Price Project Margin*

Table 157 shows 31% of organizations achieved fixed price margins of more than 40% but unfortunately nearly 40% 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, and scarce resources. In general, most service providers do a poor job of managing change orders.

**Table 157: Impact - Fixed Price Project Margin**

| Project margin | Survey % | % of emp. billable | On-time project delivery | Project overrun | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) |
|---|---|---|---|---|---|---|
| Under 20% | 16.4% | 70.7% | 68.8% | 10.6% | $163 | $130 |
| 20% - 30% | 22.7% | 70.8% | 75.1% | 8.6% | $195 | $156 |
| 30% - 40% | 29.9% | 71.3% | 76.4% | 9.9% | $213 | $177 |
| 40% - 50% | 15.9% | 72.4% | 77.6% | 9.7% | $230 | $191 |
| Over 50% | 15.1% | 72.5% | 80.9% | 9.2% | $230 | $193 |
| **Total/Average** | **100.0%** | **71.4%** | **75.7%** | **9.6%** | **$206** | **$169** |

*Source: SPI Research, February 2024*

**Table 158: YoY Change in Project Margin for Fixed Price Projects**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 34.2% | 34.0% | -1% | Under 10 | 35.8% | 35.6% | 0% |
| ESO | 33.3% | 32.8% | -2% | 10 - 30 | 32.5% | 33.7% | 3% |
| PSO | 34.5% | 34.5% | 0% | 31 - 100 | 33.6% | 32.3% | -4% |
| Americas | 34.1% | 34.1% | 0% | 101 - 300 | 35.3% | 34.8% | -2% |
| EMEA | 34.1% | 34.3% | 1% | 301 - 700 | 34.2% | 36.5% | 7% |
| APac | 34.5% | 32.6% | -6% | Over 700 | 34.2% | 33.9% | -1% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 36.0% | 35.1% | -2% | Arch. / Engr. | 24.9% | 26.1% | 5% |
| Mgmt. Consulting | 40.1% | 37.6% | -6% | Agency | 35.8% | 35.6% | 0% |
| Software PS | 35.4% | 38.8% | 10% | Healthcare | 32.9% | 33.3% | 1% |
| SaaS PS | 31.3% | 31.6% | 1% | Other PS | 32.5% | 33.6% | 3% |

*Source: SPI Research, February 2024*

### *Subcontractor, Offshore Margin*

Subcontractor, or third-party use has remained relatively constant across this benchmark, averaging 11.0% of revenue over the past five years. Although service providers would prefer to use more contingent labor, only a few are available on an on-going basis. Further, highly skilled independent consultants understand their value, which is why average subcontractor margins have hovered at 28% for the past five years.

**Table 159: Impact – Subcontractor/Offshore Project Margin**

| Project margin | Survey % | % of emp. billable | Client reference | Project margin | Ann. rev./ consultant (k) | Ann. rev./ employee (k) |
|---|---|---|---|---|---|---|
| Under 20% | 35.1% | 68.9% | 67.0% | 26.6% | $178 | $144 |
| 20% - 30% | 23.2% | 70.9% | 68.1% | 32.8% | $193 | $153 |
| 30% - 40% | 19.1% | 71.3% | 68.3% | 37.0% | $226 | $186 |
| 40% - 50% | 12.6% | 71.5% | 70.4% | 41.5% | $231 | $200 |
| Over 50% | 10.0% | 76.3% | 72.1% | 48.1% | $268 | $223 |
| **Total/Average** | **100.0%** | **70.9%** | **68.4%** | **34.1%** | **$206** | **$169** |

*Source: SPI Research, February 2024*

Table 159 shows significant benefits for the few firms that enjoy greater than 40% subcontractor margin with commensurate overall project margins and annual revenue per consultant and employee. These organizations are more likely to judiciously use subcontractors because they use standardized methods and tools. A word of caution – excessive use of subcontractors undermines quality and knowledge capture leading to commoditization.

**Table 160: YoY Change in Project Margin — Subs, Offshore**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 27.6% | 27.6% | 0% | Under 10 | 26.1% | 23.1% | -12% |
| ESO | 28.4% | 27.1% | -5% | 10 - 30 | 25.8% | 28.3% | 10% |
| PSO | 27.3% | 27.9% | 2% | 31 - 100 | 27.2% | 27.8% | 2% |
| Americas | 28.3% | 28.8% | 2% | 101 - 300 | 27.7% | 26.3% | -5% |
| EMEA | 25.4% | 23.0% | -9% | 301 - 700 | 29.3% | 31.8% | 9% |
| APac | 26.7% | 28.4% | 6% | Over 700 | 31.2% | 29.2% | -6% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 28.9% | 31.5% | 9% | Arch. / Engr. | 15.8% | 15.1% | -4% |
| Mgmt. Consulting | 28.5% | 27.4% | -4% | Agency | 37.0% | 32.1% | -13% |
| Software PS | 29.0% | 33.0% | 14% | Healthcare | 20.8% | 31.9% | 53% |
| SaaS PS | 29.2% | 28.2% | -3% | Other PS | 26.8% | 25.0% | -7% |

*Source: SPI Research, February 2024*

## Service Delivery Effectiveness

Process effectiveness analyzes how organizations manage various service delivery processes (estimating, resource management, change control, quality, knowledge management) on a scale from 1 (very ineffective) to 5 (very effective). Because project/service delivery is where money is made in professional services, SPI

Research analyzes the various processes associated with it. The following sections highlight the results of the five aspects of project/service delivery.

### *Resource Management Effectiveness*

SPI Research asked survey respondents to rate the effectiveness of their resource management process. Resource management is critical to project planning and execution. PSOs who effectively and efficiently manage resources show much higher client referenceability, utilization rates, larger projects with less overrun and higher revenue per billable consultant. Clearly, resource management effectiveness directly improves with the use of PSA solutions.

**Table 161: Impact – Resource Management Effectiveness**

| Resource Management Effectiveness | Survey % | Rec. to family/ friends | On-time project delivery | Project overrun | Project margin | Exec real-time visibility |
|---|---|---|---|---|---|---|
| 1 - Very ineffective | 2.2% | 3.27 | 65.5% | 14.5% | 27.3% | 2.73 |
| 2 | 11.4% | 3.55 | 67.8% | 10.5% | 30.4% | 2.70 |
| 3 | 27.4% | 3.92 | 72.8% | 9.0% | 33.3% | 3.23 |
| 4 | 48.2% | 4.26 | 77.1% | 10.0% | 36.2% | 3.61 |
| 5 - Very effective | 10.8% | 4.58 | 85.3% | 8.9% | 33.8% | 3.96 |
| **Total / Average** | **100.0%** | **4.10** | **75.5%** | **9.8%** | **34.3%** | **3.42** |

*Source: SPI Research, February 2024*

**Table 162: YoY Change in Resource Management Process Effectiveness**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.56 | 3.54 | -1% | Under 10 | 3.78 | 3.44 | -9% |
| ESO | 3.58 | 3.50 | -2% | 10 - 30 | 3.61 | 3.53 | -2% |
| PSO | 3.55 | 3.56 | 0% | 31 - 100 | 3.45 | 3.52 | 2% |
| Americas | 3.56 | 3.54 | 0% | 101 - 300 | 3.50 | 3.61 | 3% |
| EMEA | 3.59 | 3.44 | -4% | 301 - 700 | 3.49 | 3.54 | 2% |
| APac | 3.57 | 3.75 | 5% | Over 700 | 3.74 | 3.60 | -4% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.51 | 3.60 | 3% | Arch. / Engr. | 3.48 | 3.34 | -4% |
| Mgmt. Consulting | 3.70 | 3.63 | -2% | Agency | 3.38 | 3.46 | 2% |
| Software PS | 3.43 | 3.61 | 5% | Healthcare | 3.53 | 3.60 | 2% |
| SaaS PS | 3.72 | 3.59 | -3% | Other PS | 3.63 | 3.49 | -4% |

*Source: SPI Research, February 2024*

### *Estimating Process and Review Effectiveness*

SPI Research asked survey respondent to rate the effectiveness of their estimating processes and estimate reviews. This key performance indicator is important as accurate estimates hold the key to all other service delivery metrics. Inaccurate estimates and poor pricing controls lead to miss-set client expectations, project overruns and poor client satisfaction. While this subjective KPI might be hard to fathom, its results show how some of the most important KPIs improve as the organization becomes more effective in pricing and estimating. Billable utilization, longer duration projects and revenue per employee rise as firms are more effective with their estimating and process review processes. Estimating requires significant investment in methodology development and scoping projects to the task level, but obviously from this table it is well worth the effort to ensure accuracy and continual improvement.

**Table 163: Impact – Estimating Process and Review Effectiveness**

| Estimating Process and Review Effectiveness | Survey % | Rec. to family/ friends | Std. del. method. used | On-time project delivery | Project overrun | Project margin |
|---|---|---|---|---|---|---|
| 1 - Very ineffective | 0.8% | 3.25 | 45.0% | 62.5% | 11.3% | 28.9% |
| 2 | 14.9% | 3.68 | 56.8% | 64.7% | 13.3% | 33.1% |
| 3 | 29.0% | 3.93 | 63.5% | 73.1% | 9.8% | 34.5% |
| 4 | 44.8% | 4.22 | 66.7% | 78.2% | 9.2% | 34.4% |
| 5 - Very effective | 10.6% | 4.65 | 74.8% | 85.6% | 7.7% | 35.1% |
| **Total / Average** | **100.0%** | **4.10** | **65.0%** | **75.4%** | **9.8%** | **34.3%** |

*Source: SPI Research, February 2024*

**Table 164: YoY Change in Estimating Processes and Review Effectiveness**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.54 | 3.50 | -1% | Under 10 | 3.78 | 3.55 | -6% |
| ESO | 3.46 | 3.47 | 0% | 10 - 30 | 3.58 | 3.61 | 1% |
| PSO | 3.58 | 3.51 | -2% | 31 - 100 | 3.47 | 3.49 | 1% |
| Americas | 3.53 | 3.49 | -1% | 101 - 300 | 3.48 | 3.37 | -3% |
| EMEA | 3.52 | 3.39 | -4% | 301 - 700 | 3.40 | 3.35 | -1% |
| APac | 3.75 | 3.73 | 0% | Over 700 | 3.69 | 3.62 | -2% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.52 | 3.52 | 0% | Arch. / Engr. | 3.46 | 3.25 | -6% |
| Mgmt. Consulting | 3.63 | 3.67 | 1% | Agency | 3.68 | 3.33 | -10% |
| Software PS | 3.30 | 3.63 | 10% | Healthcare | 3.33 | 3.67 | 10% |
| SaaS PS | 3.64 | 3.52 | -3% | Other PS | 3.63 | 3.47 | -4% |

*Source: SPI Research, February 2024*

### *Change Control Effectiveness*

SPI Research asked survey respondents to rate the effectiveness of their change control processes. All projects involve risk and scope change. The important question is how these variables are managed. Mature PSOs invest in the development of change and risk management policies along with project management oversight and guidance. 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 165 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. PSOs 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.

**Table 165: Impact – Change Control Effectiveness**

| Change Control Effectiveness | Survey % | Revenue growth | Rec. to family/ friends | Std. del. method. used | On-time project delivery | Exec real-time visibility |
|---|---|---|---|---|---|---|
| 1 - Very ineffective | 1.6% | -1.4% | 3.00 | 40.0% | 50.7% | 2.63 |
| 2 | 15.2% | 4.7% | 3.84 | 58.6% | 67.3% | 2.88 |
| 3 | 32.6% | 6.6% | 3.92 | 61.5% | 74.4% | 3.36 |
| 4 | 39.3% | 9.3% | 4.25 | 69.2% | 78.1% | 3.57 |
| 5 - Very effective | 11.3% | 10.1% | 4.58 | 72.1% | 82.5% | 3.88 |
| **Total / Average** | **100.0%** | **7.7%** | **4.10** | **64.9%** | **75.3%** | **3.42** |

***Source: SPI Research, February 2024***

**Table 166: YoY Change in Change Control Process Effectiveness**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.42 | 3.43 | 0% | Under 10 | 3.74 | 3.34 | -11% |
| ESO | 3.43 | 3.49 | 2% | 10 - 30 | 3.43 | 3.41 | 0% |
| PSO | 3.42 | 3.41 | 0% | 31 - 100 | 3.30 | 3.38 | 2% |
| Americas | 3.43 | 3.44 | 0% | 101 - 300 | 3.25 | 3.45 | 6% |
| EMEA | 3.30 | 3.34 | 1% | 301 - 700 | 3.47 | 3.61 | 4% |
| APac | 3.53 | 3.56 | 1% | Over 700 | 3.67 | 3.53 | -4% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.38 | 3.43 | 1% | Arch. / Engr. | 3.26 | 3.12 | -4% |
| Mgmt. Consulting | 3.53 | 3.48 | -2% | Agency | 3.46 | 3.20 | -8% |
| Software PS | 3.40 | 3.71 | 9% | Healthcare | 3.33 | 3.80 | 14% |
| SaaS PS | 3.39 | 3.59 | 6% | Other PS | 3.49 | 3.41 | -2% |

***Source: SPI Research, February 2024***

### *Project Quality Process Effectiveness*

SPI Research asked executives to rate the effectiveness of project quality processes. 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 167 shows results improve across the board as quality processes are implemented.

**Table 167: Impact – Project Quality Process Effectiveness**

| Project Quality Process Effectiveness | Survey % | Std. del. method. used | On-time project delivery | Project overrun | Ann. rev./ emp. (k) | Exec real-time visibility |
|---|---|---|---|---|---|---|
| 1 - very ineffective | 1.4% | 47.1% | 66.4% | 14.3% | $121 | 2.43 |
| 2 | 9.0% | 53.5% | 67.8% | 14.3% | $150 | 2.78 |
| 3 | 26.1% | 59.2% | 71.9% | 9.7% | $154 | 3.16 |
| 4 | 47.9% | 68.8% | 76.9% | 9.2% | $176 | 3.60 |
| 5 - very effective | 15.5% | 71.5% | 82.2% | 8.9% | $193 | 3.78 |
| **Total / Average** | **100.0%** | **65.0%** | **75.5%** | **9.8%** | **$170** | **3.42** |

***Source: SPI Research, February 2024***

**Table 168: YoY Change in Project Quality Process Effectiveness**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.60 | 3.67 | 2% | Under 10 | 3.74 | 3.61 | -3% |
| ESO | 3.58 | 3.72 | 4% | 10 - 30 | 3.66 | 3.60 | -2% |
| PSO | 3.61 | 3.65 | 1% | 31 - 100 | 3.60 | 3.64 | 1% |
| Americas | 3.65 | 3.70 | 1% | 101 - 300 | 3.41 | 3.74 | 9% |
| EMEA | 3.48 | 3.44 | -1% | 301 - 700 | 3.64 | 3.87 | 6% |
| APac | 3.50 | 3.92 | 12% | Over 700 | 3.72 | 3.67 | -1% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.53 | 3.60 | 2% | Arch. / Engr. | 3.74 | 3.64 | -3% |
| Mgmt. Consulting | 3.57 | 3.76 | 5% | Agency | 3.78 | 3.74 | -1% |
| Software PS | 3.43 | 3.54 | 3% | Healthcare | 3.73 | 3.93 | 5% |
| SaaS PS | 3.52 | 3.75 | 7% | Other PS | 3.73 | 3.65 | -2% |

*Source: SPI Research, February 2024*

### *Knowledge Management Process Effectiveness*

PSOs have begun to improve the capture, package and repurpose of knowledge. High-performance 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 169: Impact – Knowledge Management Process Effectiveness**

| Knowledge Management Process Effectiveness | Survey % | % of bids won | Employee attrition | Rec. to family/ friends | Executive real-time visibility |
|---|---|---|---|---|---|
| 1 - Very ineffective | 2.0% | 36.0% | 25.9% | 3.50 | 2.50 |
| 2 | 13.9% | 47.7% | 12.9% | 3.76 | 2.94 |
| 3 | 32.4% | 47.8% | 13.5% | 3.94 | 3.28 |
| 4 | 38.5% | 48.3% | 11.8% | 4.24 | 3.59 |
| 5 - Very effective | 13.2% | 49.1% | 11.6% | 4.52 | 3.88 |
| **Total / Average** | **100.0%** | **47.9%** | **12.7%** | **4.10** | **3.42** |

*Source: SPI Research, February 2024*

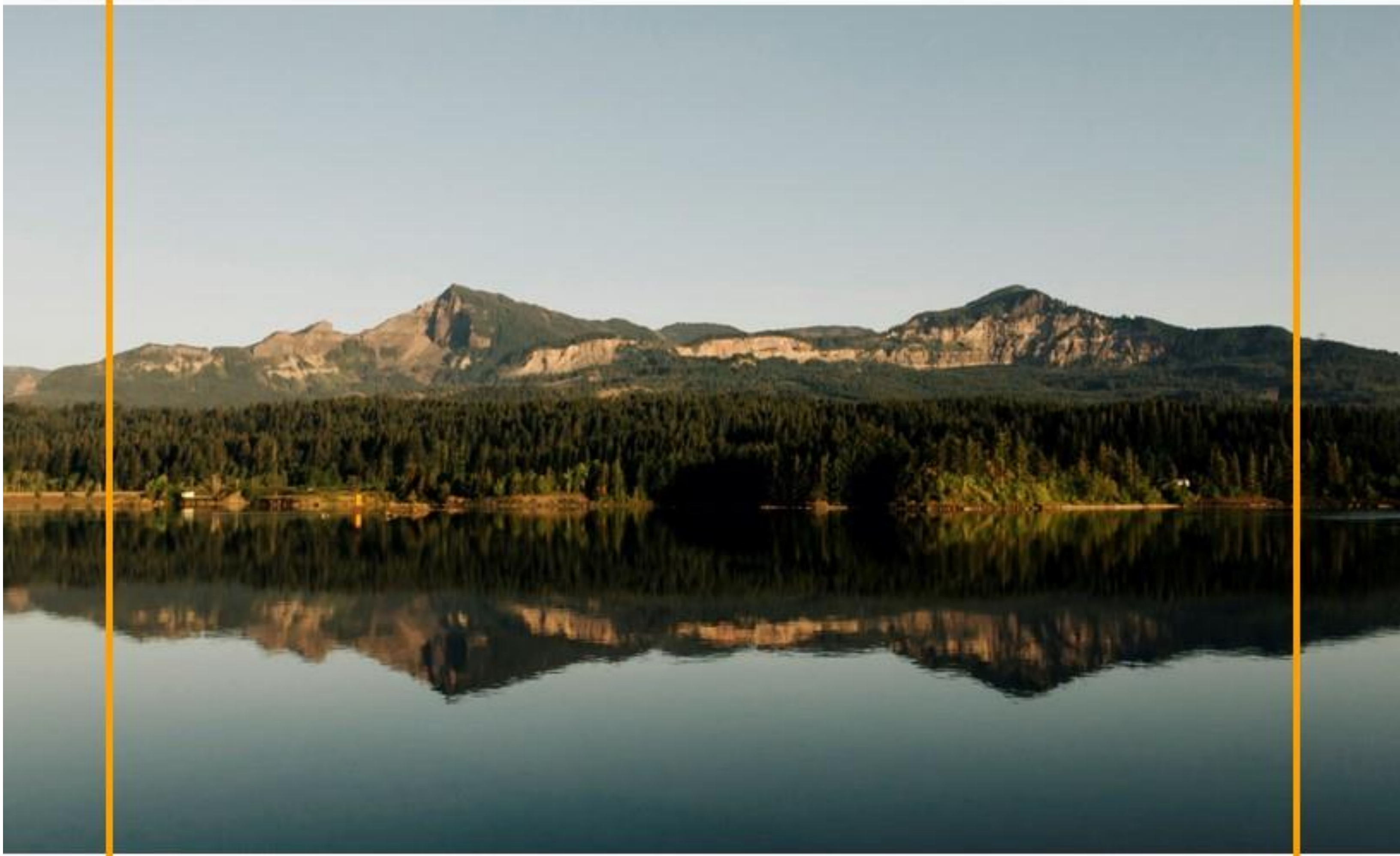
SPI Research asked benchmark respondents their opinion of the effectiveness of their knowledge management processes, with a rating of 1 = very ineffective to 5 = very effective (Table 169). Knowledge management has become a critical component of service execution. Best practices and other quality-driven initiatives are built into project delivery. Assurance that the right information is available to those who need it is paramount to success. Over the past five years knowledge management, especially using social media and collaboration tools, has moved to the forefront of service execution. Team members now work more collaboratively to achieve project objectives. The table shows that effectiveness of Knowledge Management processes has a positive impact on both service delivery and financial results.

**Table 170: YoY Change in Knowledge Management Processes Effectiveness**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.39 | 3.47 | 2% | Under 10 | 3.64 | 3.50 | -4% |
| ESO | 3.45 | 3.55 | 3% | 10 - 30 | 3.49 | 3.44 | -1% |
| PSO | 3.36 | 3.44 | 2% | 31 - 100 | 3.30 | 3.43 | 4% |
| Americas | 3.42 | 3.47 | 1% | 101 - 300 | 3.18 | 3.49 | 10% |
| EMEA | 3.38 | 3.38 | 0% | 301 - 700 | 3.36 | 3.67 | 9% |
| APac | 3.12 | 3.65 | 17% | Over 700 | 3.60 | 3.40 | -6% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.26 | 3.29 | 1% | Arch. / Engr. | 3.57 | 3.56 | 0% |
| Mgmt. Consulting | 3.32 | 3.56 | 7% | Agency | 3.35 | 3.39 | 1% |
| Software PS | 3.25 | 3.56 | 10% | Healthcare | 3.47 | 3.93 | 13% |
| SaaS PS | 3.57 | 3.65 | 2% | Other PS | 3.51 | 3.41 | -3% |

***Source: SPI Research, February 2024***

# Chapter 10



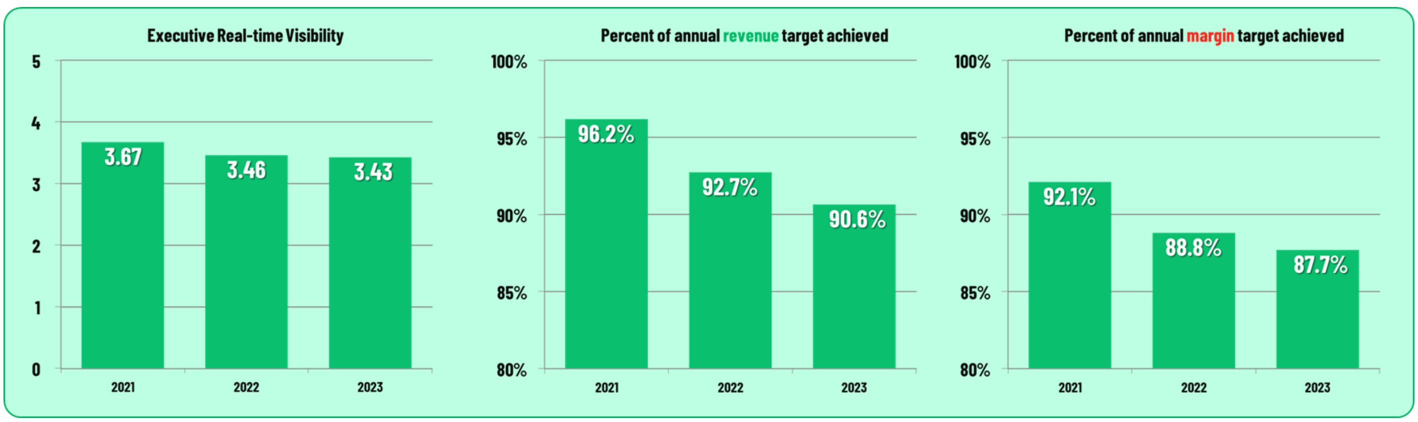
# Finance & Operations Pillar

## 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 38 key performance measurements for revenue and margin achievement and operating expense. The analysis includes detailed profit and loss statements and expense ratios by organization size, geography and vertical.

SPI Research highlighted the operational trends in Figure 44, and they show a deterioration in financial and operational performance. SPI Research found the ability to meet revenue targets (margins as well) worsened in 2023, as there were more problems associated with sales and service delivery. The ability to meet targets and achieve high levels of revenue per consultant is important but is really driven by operational success. These graphs highlight the need for PSOs to take a step back and analyze where sales and delivery underperformed and make modifications to improve both in 2024.

**Figure 44: Finance & Operations Trends of Note**




***Source: SPI Research, February 2024***

## Finance and Operations Maturity

The COVID-19 pandemic was just the beginning of a transformation on how PSOs deliver projects. It forced PSOs to accelerate their own digital transformation efforts while turbocharging client demand for services. For the past three years more than half of the consulting workforce have worked from home, including finance and operations staff who have had to quickly adapt to running the business virtually. Mobile and mobile banking are no longer a nice to have, leading to strong PS demand to replace legacy business applications with modern, integrated suites.

Figure 45 shows the importance of achieving higher levels of performance. The difference between level 1 and Level 5 is significant. Profitability alone is significantly higher at Level 5, which should make executives take note. But profitability is driven by so many factors, they must look at the entire organization to begin improvement. Level 5 organizations operate at a much higher financial level than their peers, and much of this success has to do with structure in the delivery of services as well as visibility across the organization. Change happens quickly and PSOs that can best prepare and manage change efficiently will succeed over the long term.

**Figure 45: Finance & Operations Maturity Matters**


| | Level 1 Initiated | Level 2 Piloted | Level 3 Deployed | Level 4 Institutionalized | Level 5 Optimized |
|---|---|---|---|---|---|
| **Firms** | **172** | **144** | **144** | **86** | **29** |
| Direct labor as a percent of direct revenue | 81.4% | 71.9% | 67.5% | 59.8% | 52.9% |
| Annual revenue per billable consultant (k) | $112 | $187 | $238 | $255 | $297 |
| Annual revenue per employee (k) | $90 | $145 | $198 | $221 | $253 |
| Percent of annual revenue target achieved | 78.9% | 89.4% | 93.8% | 97.6% | 101.4% |
| Percent of annual margin target achieved | 76.2% | 86.5% | 90.6% | 95.1% | 96.6% |
| Revenue leakage | 5.3% | 4.9% | 4.3% | 4.8% | 3.0% |
| Executive real-time wide visibility | 3.01 | 3.30 | 3.65 | 3.67 | 3.83 |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

***Source: SPI Research, February 2024***

## 5-Year Finance and Operations Trends

In 2023 SPI Research saw several financial KPIs go down, including profit. But none of the KPI's went down by more than 6% except for the quarterly non-billable expense per employee which rose by 12% on a relative basis. The good news is that profitability only went down slightly as PS leaders managed very well considering an increase in inflation and interest rates. The setup bodes well for 2024, as inflation has gone down over the past year and interest rates have most likely peaked, and according to many economists, should go down in 2024.

Table 171 provides more information on the past five years in the Finance & Operations pilar. Costs seem to be rising but financial performance has improved during the past five years except for meeting revenue and margin targets. With all the economic turmoil over the past year SPI Research believes the organizations did well. The quarterly non-billable expense per employee is rising, but much of that is due to inflation and greater difficulty in finding qualified employees. With the unemployment rate so low, PS executives will have to pay more over the next few years.

**Table 171: Finance & Operations Pillar 5-year Trend**

| Key Performance Indicator (KPI) | 5-year avg. | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Annual revenue per billable consultant (k) | $205 | $207 | $203 | $206 | $204 | $207 |
| Annual revenue per employee (k) | $167 | $170 | $165 | $165 | $164 | $170 |
| Percent of annual revenue target achieved | 93.0% | 93.6% | 92.1% | 96.2% | 92.7% | 90.6% |
| Percent of annual margin target achieved | 89.7% | 89.7% | 90.3% | 92.1% | 88.8% | 87.7% |
| Revenue leakage | 4.5% | 4.5% | 4.3% | 4.2% | 4.9% | 4.7% |
| % of inv. redone due to error/client rejections | 2.1% | 2.5% | 1.8% | 1.9% | 2.1% | 2.0% |
| Days sales outstanding (DSO) | 44.5 | 45.8 | 41.9 | 43.5 | 46.8 | 43.9 |
| Quarterly non-billable expense per employee | $1,528 | $1,718 | $1,390 | $1,290 | $1,528 | $1,716 |
| Time to incorporate a new acquisition (days) | | | | | | 165 |
| Executive real-time wide visibility | 3.53 | 3.52 | 3.60 | 3.67 | 3.46 | 3.43 |
| PS can accurately forecast revenue and skills | | | | | | 3.31 |
| **Profit (EBITDA %)** | **15.6%** | **15.2%** | **15.6%** | **15.7%** | **16.1%** | **15.4%** |

*Source: SPI Research, February 2024*

## PS's Emphasis Between Client Satisfaction and Profit

In 2023 SPI Research asked whether PSO's were more focused on profits or client satisfaction. The results came in as one might expect. At both ends of the spectrum there was minimal support. Most organizations emphasized a balance between client satisfaction and profitability and second, client satisfaction came first. The health care professional services market was more focused on this balance than others. IT consultancies and large PSOs had the highest percentage for profitability driven.

**Table 172: PS's Emphasis Between Client Satisfaction and Profit**

| | Not profit-driven | Client satisfaction comes first | Client satisfaction / profit balance | Profit comes first | Very profit-driven |
|---|---|---|---|---|---|
| **Survey Total** | **2.7%** | **35.2%** | **55.4%** | **4.8%** | **1.9%** |
| Org. Type - ESO | 5.2% | 32.5% | 57.1% | 3.2% | 1.9% |
| Org. Type - PSO | 1.6% | 36.3% | 54.6% | 5.5% | 1.9% |
| Region - Americas | 2.4% | 34.1% | 56.8% | 5.1% | 1.6% |
| Region - EMEA | 4.2% | 43.8% | 46.9% | 3.1% | 2.1% |
| Region - APac | 2.0% | 26.5% | 61.2% | 6.1% | 4.1% |
| Employees - Under 10 | 1.8% | 39.3% | 57.1% | 1.8% | 0.0% |
| Employees - 10 - 30 | 4.6% | 33.3% | 59.8% | 2.3% | 0.0% |

| | Not profit-driven | Client satisfaction comes first | Client satisfaction / profit balance | Profit comes first | Very profit-driven |
|---|---|---|---|---|---|
| Employees - 31 - 100 | 0.6% | 41.2% | 51.5% | 5.5% | 1.2% |
| Employees - 101 - 300 | 6.7% | 30.5% | 51.4% | 7.6% | 3.8% |
| Employees - 301 - 700 | 0.0% | 34.0% | 61.7% | 2.1% | 2.1% |
| Employees - Over 700 | 1.7% | 26.7% | 60.0% | 6.7% | 5.0% |
| Market - IT Consulting | 0.8% | 35.0% | 55.3% | 7.3% | 1.6% |
| Market - Mgmt. Consulting | 0.0% | 32.8% | 60.9% | 3.1% | 3.1% |
| Market - Software PS | 4.9% | 41.5% | 48.8% | 2.4% | 2.4% |
| Market - SaaS PS | 1.5% | 44.6% | 49.2% | 3.1% | 1.5% |
| Market – Arch. & Engr. | 0.0% | 42.6% | 51.9% | 3.7% | 1.9% |
| Market - Agencies | 4.3% | 28.3% | 60.9% | 4.3% | 2.2% |
| Market - Healthcare | 0.0% | 18.8% | 75.0% | 0.0% | 6.3% |

***Source: SPI Research, February 2024***

## Steps Taken to Improve Profitability

Organizational profitability went down slightly in 2023. But each year, PS executives work on ways to improve it.  Table 173 depicts improvement priorities from 2022 to 2023. Overall, PS Executives believe improving resource utilization will be the most important way to improve profits as higher utilization yields higher margins, which can turn into profit. The same thinking exists in embedded service organizations, but the independents believe improving marketing and sales effectiveness is the best way to increase profitability. There are interesting distinctions between the regions as can be shown in the table below.

**Table 173:  Steps Taken to Improve Profitability**

| Key Performance Indicator | 2022 | 2023 | ESO | PSO | Amer. | EMEA | APac |
|---|---|---|---|---|---|---|---|
| **Surveys** | **709** | **575** | **170** | **405** | **407** | **117** | **51** |
| Improve solution portfolio | 3.06 | 2.75 | 2.83 | 2.72 | 2.74 | 2.79 | 2.79 |
| Improve marketing effectiveness | 3.23 | 2.83 | 2.83 | 2.84 | 2.82 | 2.86 | 2.85 |
| Improve sales effectiveness | 3.24 | 2.82 | 2.78 | 2.84 | 2.80 | 2.84 | 2.94 |
| Increases rates | 3.09 | 2.80 | 2.75 | 2.83 | 2.86 | 2.61 | 2.73 |
| Improve hiring and ramping | 3.09 | 2.67 | 2.61 | 2.70 | 2.70 | 2.61 | 2.58 |
| Improve methods and tools | 3.16 | 2.78 | 2.81 | 2.76 | 2.80 | 2.69 | 2.79 |
| Improve utilization | 3.14 | 2.84 | 2.86 | 2.83 | 2.86 | 2.79 | 2.79 |
| Reduce non-billable time | 2.90 | 2.67 | 2.65 | 2.68 | 2.68 | 2.63 | 2.70 |
| Expand business models | 2.93 | 2.61 | 2.59 | 2.62 | 2.58 | 2.74 | 2.58 |

***Source: SPI Research, February 2024***

**Table 174: Steps Taken to Improve Profitability by Market**

| Steps Taken to Improve Profitability | IT Cons | Mgmt. Cons | Soft PS | SaaS PS | Arch./ Engr. | Agency | Healthcare |
|---|---|---|---|---|---|---|---|
| Improve solution portfolio | 2.88 | 2.62 | 2.90 | 2.94 | 2.58 | 2.62 | 2.93 |
| Improve marketing effectiveness | 2.98 | 2.86 | 2.80 | 2.85 | 2.66 | 2.84 | 2.73 |
| Improve sales effectiveness | 3.06 | 2.97 | 2.85 | 2.89 | 2.48 | 2.62 | 2.60 |
| Increase rates | 2.91 | 2.83 | 2.44 | 2.80 | 3.00 | 2.78 | 2.80 |
| Improve hiring and ramping | 2.74 | 2.84 | 2.39 | 2.72 | 2.90 | 2.67 | 2.67 |
| Improve methods and tools | 2.85 | 2.83 | 2.83 | 2.94 | 2.76 | 2.52 | 3.00 |
| Improve utilization | 2.86 | 2.90 | 3.12 | 2.86 | 2.82 | 2.64 | 3.00 |
| Reduce non-billable time | 2.70 | 2.78 | 2.68 | 2.69 | 2.75 | 2.53 | 2.73 |
| Expand business models | 2.84 | 2.39 | 2.71 | 2.60 | 2.44 | 2.54 | 2.53 |

*Source: SPI Research, February 2024*

**Table 175: Steps Taken to Improve Profitability by Organization Size**

| Steps Taken to Improve Profitability | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Improve solution portfolio | 2.69 | 2.78 | 2.81 | 2.83 | 2.70 | 2.53 |
| Improve marketing effectiveness | 2.83 | 3.04 | 2.75 | 2.90 | 2.83 | 2.68 |
| Improve sales effectiveness | 2.62 | 2.99 | 2.87 | 2.85 | 2.85 | 2.58 |
| Increase rates | 2.67 | 2.81 | 2.73 | 3.06 | 2.85 | 2.64 |
| Improve hiring and ramping | 2.26 | 2.75 | 2.75 | 2.79 | 2.62 | 2.61 |
| Improve methods and tools | 2.52 | 2.81 | 2.82 | 2.83 | 2.83 | 2.71 |
| Improve utilization | 2.45 | 3.00 | 2.85 | 2.96 | 2.81 | 2.78 |
| Reduce non-billable time | 2.34 | 2.84 | 2.67 | 2.73 | 2.70 | 2.63 |
| Expand business models | 2.60 | 2.68 | 2.53 | 2.63 | 2.66 | 2.68 |

*Source: SPI Research, February 2024*

## Survey Results

### Annual Revenue Per Billable Consultant

*The annual revenue per billable consultant depicts the service organization's total revenue divided by the full-time equivalent ( FTE) billable consultants. Alternatively, this metric is calculated 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. Headcount and capacity planning are typically based on expectations of a 2x revenue yield to consultant cost. Revenue multipliers of 3x and higher are typical for engineering and architecture firms while a labor multiplier greater than 3x 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 increased from $204k in 2022 to $207k in 2023. Table 176 depicts the impact of increasing revenue per consultant. All financial metrics improve with higher revenue per consultant. Clearly more revenue per consultant improves as on-time project delivery does, which also drives higher margins and profit.

**Table 176: Impact – Annual Revenue Per Billable Consultant**

| Annual revenue per billable consultant (k) | Survey % | New clients | Backlog | On-time project delivery | Project margin | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| Under $100k | 8.7% | 40.8% | 26.4% | 69.0% | 26.1% | 13.1% |
| $100k - $150k | 17.8% | 31.5% | 35.2% | 72.3% | 32.7% | 12.3% |
| $150k - $200k | 20.3% | 31.2% | 45.0% | 77.6% | 32.5% | 15.0% |
| $200k - $250k | 22.4% | 29.9% | 48.9% | 74.9% | 34.2% | 15.9% |
| $250k - $300k | 17.4% | 29.6% | 50.7% | 76.2% | 36.0% | 17.8% |
| Over $300k | 13.3% | 28.8% | 53.8% | 80.8% | 40.9% | 16.5% |
| **Total / Average** | **100.0%** | **31.2%** | **44.7%** | **75.5%** | **34.1%** | **15.2%** |

*Source: SPI Research, February 2024*

**Table 177: YoY Change in Annual Revenue Per Billable Consultant (K)**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | $204 | $207 | 2% | Under 10 | $171 | $183 | 7% |
| ESO | $205 | $203 | -1% | 10 - 30 | $201 | $197 | -2% |
| PSO | $204 | $209 | 2% | 31 - 100 | $209 | $216 | 3% |
| Americas | $210 | $217 | 3% | 101 - 300 | $212 | $201 | -5% |
| EMEA | $180 | $170 | -6% | 301 - 700 | $214 | $226 | 6% |
| APac | $203 | $204 | 0% | Over 700 | $205 | $216 | 5% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | $213 | $214 | 0% | Arch. / Engr. | $194 | $197 | 1% |
| Mgmt. Consulting | $215 | $212 | -2% | Agency | $193 | $213 | 10% |
| Software PS | $208 | $216 | 4% | Healthcare | $187 | $248 | 33% |
| SaaS PS | $186 | $211 | 14% | Other PS | $199 | $187 | -6% |

*Source: SPI Research, February 2024*

## Annual Revenue Per Employee

*The annual revenue per employee represents the service organization's total revenue divided by the total full-time equivalent (FTE) employees.*

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 success 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. 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 suggests this figure should be at least 1.4 times the fully loaded cost per person to maintain strong financial viability. If the organization achieves an acceptable revenue yield per billable consultant but is below the benchmark for revenue per employee, this is an indication of excessive non-billable overhead.

Table 178 shows just how important it is to increase revenue per employee. As revenue per employee rises, so does on-time delivery and profit, and attrition goes down. The higher the revenue per employee, the more apt the PSO is likely to achieve annual margin targets.

**Table 178: Impact – Annual Revenue per Employee**

| Annual revenue per employee (k) | Survey % | Revenue growth | On-time project delivery | Project margin | % of ann. margin target | Exec real-time visibility |
|---|---|---|---|---|---|---|
| Under $100k | 16.1% | 4.6% | 68.8% | 27.5% | 79.4% | 3.17 |
| $100k - $150k | 27.5% | 6.7% | 74.9% | 32.6% | 86.3% | 3.37 |
| $150k - $200k | 23.2% | 7.2% | 75.4% | 35.4% | 89.7% | 3.46 |
| $200k - $250k | 17.9% | 12.2% | 78.3% | 36.7% | 90.8% | 3.52 |
| $250k - $300k | 9.6% | 7.2% | 79.5% | 38.9% | 92.1% | 3.60 |
| Over $300k | 5.7% | 10.0% | 80.9% | 41.6% | 93.0% | 3.82 |
| **Total / Average** | **100.0%** | **7.7%** | **75.4%** | **34.3%** | **87.7%** | **3.43** |

*Source: SPI Research, February 2024*

Annual revenue per employee went up from 2022 to 2023. It went up in both embedded and independent service organizations. SaaS PS, Agencies and Healthcare PS all increased revenue per employee by over 20% (Table 179).

**Table 179: YoY Change in Annual Revenue Per Employee (K)**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | $164 | $170 | 3% | Under 10 | $139 | $149 | 7% |
| ESO | $160 | $165 | 3% | 10 - 30 | $159 | $165 | 4% |
| PSO | $166 | $172 | 4% | 31 - 100 | $166 | $172 | 3% |
| Americas | $169 | $179 | 6% | 101 - 300 | $171 | $164 | -4% |
| EMEA | $145 | $136 | -6% | 301 - 700 | $183 | $195 | 7% |
| APac | $167 | $164 | -2% | Over 700 | $166 | $180 | 8% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | $169 | $171 | 1% | Arch. / Engr. | $156 | $168 | 7% |
| Mgmt. Consulting | $182 | $175 | -4% | Agency | $149 | $182 | 22% |
| Software PS | $162 | $172 | 6% | Healthcare | $162 | $196 | 21% |
| SaaS PS | $145 | $175 | 21% | Other PS | $163 | $154 | -6% |

***Source: SPI Research, February 2024***

## Percentage Of Annual Revenue Target Achieved

*The annual revenue target achieved is the percentage of the annual revenue goal that is made.*

Many PSOs create detailed annual business plans. It 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 also be missed, 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 dissatisfaction because the organization is understaffed to meet demand.

As Table 180 shows there is a direct correlation between achieving revenue targets and other key metrics. SPI Research also found PSOs that achieved revenue targets had lower attrition rates, reflecting financial stability and the organization's ability to reward performance and reinvest in the business.

**Table 180: Impact – Percentage of Annual Revenue Target Achieved**

| Percent of annual revenue target achieved | Survey % | Revenue growth | Deal pipeline | % of bids won | Backlog | On-time project delivery |
|---|---|---|---|---|---|---|
| Under 80% | 17.9% | 0.3% | 123% | 35.8% | 34.8% | 71.6% |
| 80% - 90% | 25.4% | 5.4% | 161% | 43.2% | 42.2% | 72.5% |
| 90% - 100% | 36.2% | 9.2% | 158% | 51.3% | 46.9% | 77.2% |
| 100% - 110% | 16.5% | 13.5% | 173% | 56.8% | 49.3% | 77.3% |
| Over 110% | 4.0% | 18.4% | 170% | 56.3% | 50.8% | 82.0% |
| **Total / Average** | **100.0%** | **7.7%** | **155%** | **47.6%** | **44.1%** | **75.2%** |

*Source: SPI Research, February 2024*

**Table 181: YoY Change in Percent of Annual Revenue Target Achieved**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 92.7% | 90.6% | -2% | Under 10 | 92.9% | 88.7% | -4% |
| ESO | 93.4% | 91.9% | -2% | 10 - 30 | 92.1% | 90.8% | -1% |
| PSO | 92.5% | 90.1% | -3% | 31 - 100 | 90.9% | 89.8% | -1% |
| Americas | 92.9% | 90.7% | -2% | 101 - 300 | 95.1% | 90.9% | -4% |
| EMEA | 92.6% | 89.9% | -3% | 301 - 700 | 95.4% | 92.6% | -3% |
| APac | 91.6% | 91.7% | 0% | Over 700 | 91.7% | 92.7% | 1% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 92.2% | 91.1% | -1% | Arch. / Engr. | 97.5% | 93.0% | -5% |
| Mgmt. Consulting | 90.8% | 89.2% | -2% | Agency | 90.7% | 89.5% | -1% |
| Software PS | 91.8% | 88.8% | -3% | Healthcare | 97.0% | 91.5% | -6% |
| SaaS PS | 92.3% | 93.7% | 1% | Other PS | 93.3% | 89.1% | -5% |

*Source: SPI Research, February 2024*

## Percentage Of Annual Margin Target Achieved

*The annual margin target achieved, like the annual revenue target achieved, is the percentage of the annual project margin goal that was made.*

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.

The number of firms that achieve their margin target is always less than the percentage of firms that achieve their revenue targets. Only 13.8% of survey respondents achieved 100% or more of their annual margin target! Table 182 shows a direct correlation between margin target attainment and the key performance metrics associated with sales. Also, the percentage of billable employees, annual revenue per consultant, margin and profit went up as margin targets were met or exceeded.

**Table 182: Impact – Percentage of Annual Margin Target Achieved**

| Percent of annual margin target achieved | Survey % | Revenue growth | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | % of ann. rev. target | Project margin |
|---|---|---|---|---|---|---|
| Under 80% | 27.0% | 3.1% | $179 | $138 | 81.5% | 30.7% |
| 80% - 90% | 25.2% | 7.1% | $196 | $162 | 87.9% | 34.8% |
| 90% - 100% | 34.1% | 10.1% | $221 | $184 | 94.7% | 35.2% |
| 100% - 110% | 9.9% | 10.8% | $225 | $191 | 99.4% | 36.5% |
| Over 110% | 3.9% | 16.4% | $287 | $242 | 112.9% | 41.2% |
| **Total / Average** | **100.0%** | **7.8%** | **$206** | **$169** | **90.6%** | **34.3%** |

***Source: SPI Research, February 2024***

Overall, the change in the percentage of annual margin targets achieved went down by 1% relatively as the embedded services organizations rose slightly and the independents saw theirs go down. The percentage in all three regions went down. Virtually every market covered in this report saw margin target achievement go down 1% - 5%, but the largest firms improved.

**Table 183: YoY Change in Percent of Annual Margin Target Achieved**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 88.8% | 87.7% | -1% | Under 10 | 91.2% | 85.1% | -7% |
| ESO | 88.5% | 88.8% | 0% | 10 - 30 | 88.7% | 85.7% | -3% |
| PSO | 88.9% | 87.3% | -2% | 31 - 100 | 86.7% | 87.1% | 0% |
| Americas | 88.4% | 87.9% | -1% | 101 - 300 | 89.9% | 87.5% | -3% |
| EMEA | 90.2% | 86.9% | -4% | 301 - 700 | 88.3% | 91.4% | 4% |
| APac | 89.4% | 88.0% | -2% | Over 700 | 90.3% | 91.9% | 2% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 88.0% | 88.0% | 0% | Arch. / Engr. | 90.1% | 87.1% | -3% |
| Mgmt. Consulting | 91.3% | 86.9% | -5% | Agency | 86.5% | 84.5% | -2% |
| Software PS | 86.9% | 88.1% | 1% | Healthcare | 91.3% | 90.8% | -1% |
| SaaS PS | 86.6% | 89.3% | 3% | Other PS | 89.7% | 87.9% | -2% |

***Source: SPI Research, February 2024***

## 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 higher attrition lower client references, lower utilization, poorer on-time project delivery, and lower margins than organizations that better manage contracts, capturing all hours and expenses and billing accurately (Table 184).

**Table 184: Impact – Revenue Leakage**

| Revenue leakage | Survey % | Ann. rev./ emp. (k) | % of ann. rev. target | % of ann. margin target | Exec real-time visibility | Profit (EBITDA %) |
|---|---|---|---|---|---|---|
| Under 2% | 15.3% | $178 | 91.8% | 88.8% | 3.67 | 16.5% |
| 2% - 5% | 15.4% | $162 | 89.1% | 86.5% | 3.31 | 15.1% |
| 5% - 10% | 11.2% | $168 | 91.8% | 89.8% | 3.29 | 16.8% |
| Over 10% | 4.2% | $163 | 88.1% | 82.2% | 3.33 | 11.3% |
| **Total / Average** | **46.2%** | **$169** | **90.6%** | **87.7%** | **3.43** | **15.6%** |

*Source: SPI Research, February 2024*

The average reported revenue leakage this year was 4.7%, down from 4.9% last year. Embedded firms improved significantly while the independents remained the same (Table 185).

**Table 185: YoY Change in Revenue Leakage**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 4.9% | 4.7% | 4% | Under 10 | 4.3% | 3.5% | 22% |
| ESO | 5.6% | 4.8% | 16% | 10 - 30 | 5.7% | 5.1% | 12% |
| PSO | 4.6% | 4.6% | 0% | 31 - 100 | 4.8% | 4.5% | 7% |
| Americas | 4.9% | 4.7% | 3% | 101 - 300 | 4.5% | 4.6% | -3% |
| EMEA | 4.9% | 4.4% | 11% | 301 - 700 | 5.0% | 5.1% | -1% |
| APac | 5.1% | 5.1% | 0% | Over 700 | 4.9% | 5.4% | -9% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 5.0% | 4.1% | 21% | Arch. / Engr. | 5.4% | 5.1% | 6% |
| Mgmt. Consulting | 3.6% | 3.5% | 5% | Agency | 4.9% | 5.5% | -10% |
| Software PS | 5.5% | 5.3% | 4% | Healthcare | 5.0% | 3.7% | 35% |
| SaaS PS | 6.0% | 5.0% | 20% | Other PS | 4.6% | 5.2% | -12% |

*Source: SPI Research, February 2024*

## Invoices Redone Due to Error/Client Rejections

*The percentage of invoices submitted to clients that are rejected due to errors in the amounts, hours billed, or work done that are rejected and must be modified and resubmitted to the client.*

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

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

Table 186 shows that while invoice rejection doesn't cause higher attrition, it is a sign the PSO is not operating at its highest level. Longer projects tend to show an increase in invoice rejections as project overrun and could be a contributing factor.

**Table 186: Impact – Invoices Redone Due to Error/Client Rejections**

| Invoices redone due to error/client rejections | Survey % | Client reference | Employee attrition | Rec. to family/ friends | On-time project delivery | Project overrun |
|---|---|---|---|---|---|---|
| None | 14.5% | 71.1% | 9.5% | 4.00 | 77.2% | 6.5% |
| Under 1% | 40.2% | 69.4% | 11.2% | 4.35 | 80.2% | 8.3% |
| 1% - 3% | 23.9% | 68.0% | 13.9% | 4.03 | 71.2% | 10.0% |
| 3% - 5% | 13.9% | 68.0% | 14.5% | 3.87 | 73.2% | 12.1% |
| 5% - 10% | 5.0% | 61.0% | 19.2% | 3.60 | 66.8% | 14.5% |
| Over 10% | 2.6% | 68.5% | 16.3% | 3.38 | 62.7% | 21.3% |
| **Total / Average** | **100.0%** | **68.7%** | **12.6%** | **4.10** | **75.5%** | **9.6%** |

*Source: SPI Research, February 2024*

The percentage of invoices redone decreased from 2.1% in 2022 to 2.0% in 2023. A small change, but a positive one (Table 187).

**Table 187: YoY Change in % Of Inv. Redone Due to Error/Client Rejections**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 2.1% | 2.0% | 6% | Under 10 | 1.8% | 0.8% | 110% |
| ESO | 2.4% | 1.8% | 29% | 10 - 30 | 2.0% | 1.7% | 19% |
| PSO | 2.0% | 2.1% | -2% | 31 - 100 | 1.8% | 1.7% | 5% |
| Americas | 2.1% | 2.1% | 2% | 101 - 300 | 2.0% | 2.6% | -20% |
| EMEA | 2.2% | 1.4% | 56% | 301 - 700 | 3.3% | 2.7% | 22% |
| APac | 1.9% | 2.6% | -26% | Over 700 | 2.6% | 2.8% | -7% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 1.9% | 2.3% | -17% | Arch. / Engr. | 2.6% | 2.2% | 18% |
| Mgmt. Consulting | 1.5% | 1.6% | -6% | Agency | 2.1% | 2.0% | 5% |
| Software PS | 2.3% | 1.8% | 29% | Healthcare | 3.6% | 2.0% | 79% |
| SaaS PS | 2.5% | 1.4% | 73% | Other PS | 2.2% | 2.2% | -1% |

*Source: SPI Research, February 2024*

## Days Sales Outstanding (DSO)

*The average amount of time (in days) from when an invoice is generated and sent to the client until the payment is received.*

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. Financial executives are consumed with Days Sales Outstanding (Table 188). While it might not impact other performance pillars, it does reflect the importance of accurately producing invoices and efficiently collecting payment.

**Table 188: Impact – Days Sales Outstanding (DSO)**

| Days sales outstanding (DSO) | Survey % | Revenue growth | New clients | On-time project delivery | Project overrun | Exec real-time visibility |
|---|---|---|---|---|---|---|
| Under 30 days | 26.3% | 6.3% | 33.6% | 79.8% | 7.3% | 3.49 |
| 30 - 50 days | 40.7% | 8.9% | 32.5% | 74.5% | 9.7% | 3.47 |
| 50 - 70 days | 22.2% | 7.3% | 29.2% | 70.9% | 11.2% | 3.34 |
| 70 - 100 days | 7.3% | 6.9% | 27.9% | 74.6% | 12.5% | 3.26 |
| Over 100 days | 3.5% | 4.7% | 21.9% | 78.5% | 9.9% | 3.18 |
| **Total / Average** | **100.0%** | **7.6%** | **31.4%** | **75.3%** | **9.6%** | **3.42** |

*Source: SPI Research, February 2024*

This year the average DSO decreased from 46.8 days in 2022 to 43.9 days in 2023. Both independent and embedded service organizations saw improvement and each region did as well (Table 189). Overall, the largest organizations showed an increase in DSO. For the most part 2023 was a good year in terms of DSO.

**Table 189: YoY Change in Days Sales Outstanding (DSO)**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 46.8 | 43.9 | 6% | Under 10 | 42.0 | 32.1 | 31% |
| ESO | 48.1 | 43.5 | 11% | 10 - 30 | 46.0 | 43.6 | 5% |
| PSO | 46.3 | 44.1 | 5% | 31 - 100 | 45.5 | 43.5 | 5% |
| Americas | 47.9 | 46.4 | 3% | 101 - 300 | 48.1 | 44.0 | 9% |
| EMEA | 44.9 | 38.2 | 18% | 301 - 700 | 58.5 | 52.6 | 11% |
| APac | 42.1 | 36.3 | 16% | Over 700 | 44.6 | 50.1 | -11% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 44.8 | 43.9 | 2% | Arch. / Engr. | 63.2 | 59.0 | 7% |
| Mgmt. Consulting | 42.2 | 38.2 | 11% | Agency | 40.8 | 41.1 | -1% |
| Software PS | 52.0 | 39.9 | 31% | Healthcare | 47.5 | 48.3 | -2% |
| SaaS PS | 45.4 | 42.8 | 6% | Other PS | 43.9 | 42.6 | 3% |

*Source: SPI Research, February 2024*

## Quarterly Non-Billable Expense Per Employee

*All other non-billable expenses spent per employee (cell phones, non-billable travel, training)*

The 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.

The quarterly non-billable expense per employee increased to the highest level since 2019 to $1,716 in 2023. nearly $200 more than in 2022. 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. Other common causes of high non-billable discretionary spending are high business development and training expenses or employee expense misuse. Table 190 shows how many of the KPIs deteriorated as the quarterly expenses grew.

**Table 190: Impact – Quarterly Non-Billable Expense Per Employee**

| Quarterly non-billable expense per employee | Survey % | % of emp. billable | New clients | Deal pipeline | Project duration (man-months) | Ann. rev./ emp. (k) |
|---|---|---|---|---|---|---|
| Under $1,500 | 64.5% | 72.7% | 30.7% | 158% | 28.3 | $164 |
| $1,500 - $2,500 | 18.1% | 72.3% | 32.8% | 150% | 30.3 | $169 |
| $2,500 - $5,000 | 11.2% | 69.0% | 32.5% | 157% | 32.9 | $172 |
| $5,000 - $7,500 | 4.6% | 61.3% | 32.0% | 150% | 45.2 | $197 |
| Over $7,500 | 1.6% | 67.5% | 22.8% | 106% | 47.6 | $254 |
| **Total / Average** | **100.0%** | **71.6%** | **31.2%** | **155%** | **30.3** | **$169** |

*Source: SPI Research, February 2024*

**Table 191: YoY Change in Quarterly Non-Billable Expense Per Employee**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | $1,528 | $1,716 | -11% | Under 10 | $1,360 | $1,431 | -5% |
| ESO | $1,459 | $1,583 | -8% | 10 - 30 | $1,417 | $1,462 | -3% |
| PSO | $1,555 | $1,771 | -12% | 31 - 100 | $1,442 | $1,778 | -19% |
| Americas | $1,527 | $1,768 | -14% | 101 - 300 | $1,400 | $1,449 | -3% |
| EMEA | $1,365 | $1,543 | -12% | 301 - 700 | $2,090 | $2,238 | -7% |
| APac | $1,862 | $1,652 | 13% | Over 700 | $1,858 | $2,254 | -18% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | $1,495 | $1,634 | -9% | Arch. / Engr. | $1,745 | $1,613 | 8% |
| Mgmt. Consulting | $1,596 | $1,667 | -4% | Agency | $1,400 | $1,738 | -19% |
| Software PS | $1,330 | $1,612 | -17% | Healthcare | $1,804 | $1,500 | 20% |
| SaaS PS | $1,316 | $1,647 | -20% | Other PS | $1,645 | $1,979 | -17% |

*Source: SPI Research, February 2024*

## Length of time to incorporate a new acquisition

*The length of time it takes a PSO to bring in a new acquisition – from contract signing through the new organization working as part of the acquirer.*

Mergers and acquisitions have happened more frequently over the past decade as professional services organizations work to build out their capabilities with a limited talent pool available. In 2023 SPI Research asked how long it took to incorporate a new acquisition. Of course, smaller firms are more easily assembled within larger PSO's, and larger firms simply just take longer.

**Table 192: Impact – Length of time to incorporate a new acquisition**

| Invoices redone due to error/client rejections | Survey % | Revenue growth | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | Exec real-time visibility | EBITDA |
|---|---|---|---|---|---|---|
| Less than 30 days | 9.7% | 4.9% | $171 | $139 | 3.55 | 6.0% |
| 30 - 90 days | 15.2% | 7.3% | $173 | $135 | 3.49 | 17.1% |
| 91 - 180 days | 14.6% | 7.9% | $206 | $178 | 3.32 | 16.7% |
| 181 - 365 days | 11.1% | 8.2% | $219 | $177 | 3.26 | 20.6% |
| Over one year | 6.0% | 8.2% | $217 | $155 | 3.11 | 17.9% |
| Not applicable | 43.4% | 8.0% | $220 | $183 | 3.45 | 15.1% |
| **Total / Average** | **100.0%** | **7.6%** | **$206** | **$168** | **3.41** | **15.5%** |

*Source: SPI Research, February 2024*

The results are highlighted in Table 192. The table shows longer durations of incorporating a new acquisition yield higher EBITDA, but that is primarily due to the size of the organization acquired. SPI has just begun to analyze this KPI.

## Executive Real-Time Wide Visibility

*The ease at which executives can look across the entire PSO to assess operational information.*

Real-time information visibility is an important management tool. 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 PSOs that have integrated systems and management dashboards that allow them to pinpoint issues and spot trends in real-time.

Executives who have real-time visibility run companies that are much more profitable than those that do not, as they are able to take advantage of changing market conditions. Surprisingly, despite market turbulence, real-time visibility increased this year. Firms intently focused on their sales pipeline and backlog to ensure they had enough work to keep staff billable.

As Table 193 shows, organizations that have comprehensive visibility can make the decisions necessary to grow and achieve success delivering projects and have much higher financial metrics. Visibility impacts performance across the organization and is a hallmark of firms with a strong culture that prize knowledge and decision-making at all levels, bringing decisions closer to clients and empowering employees.

**Table 193: Impact – Executive Real-Time Wide Visibility**

| Executive real-time wide visibility | Survey % | Client reference | Project margin | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) | % of ann. rev. target |
|---|---|---|---|---|---|---|
| 1 – None | 6.1% | 64.4% | 29.9% | $178 | $143 | 88.5% |
| 2 | 12.9% | 65.9% | 32.0% | $197 | $156 | 90.2% |
| 3 | 30.9% | 67.1% | 33.9% | $200 | $163 | 90.3% |
| 4 | 32.5% | 68.6% | 36.2% | $214 | $179 | 90.8% |
| 5 - Comprehensive | 17.6% | 74.8% | 34.9% | $219 | $183 | 92.7% |
| **Total / Average** | **100.0%** | **68.6%** | **34.3%** | **$206** | **$169** | **90.7%** |

***Source: SPI Research, February 2024***

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 manage the business.

**Table 194: YoY Change in Executive Real-Time Wide Visibility**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 3.46 | 3.43 | -1% | Under 10 | 3.88 | 3.58 | -8% |
| ESO | 3.35 | 3.38 | 1% | 10 - 30 | 3.52 | 3.38 | -4% |
| PSO | 3.50 | 3.45 | -2% | 31 - 100 | 3.48 | 3.43 | -1% |
| Americas | 3.47 | 3.43 | -1% | 101 - 300 | 3.45 | 3.33 | -4% |
| EMEA | 3.33 | 3.39 | 2% | 301 - 700 | 3.27 | 3.61 | 11% |
| APac | 3.60 | 3.46 | -4% | Over 700 | 3.05 | 3.38 | 11% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 3.49 | 3.40 | -3% | Arch. / Engr. | 3.61 | 3.47 | -4% |
| Mgmt. Consulting | 3.63 | 3.57 | -2% | Agency | 3.58 | 3.31 | -7% |
| Software PS | 3.33 | 3.54 | 6% | Healthcare | 3.64 | 3.86 | 6% |
| SaaS PS | 3.21 | 3.51 | 9% | Other PS | 3.31 | 3.25 | -2% |

***Source: SPI Research, February 2024***

## PS can accurately forecast revenue and skills

The importance of planning has already been discussed in this report. The question is, "can professional services organizations accurately forecast their revenue and the skills required to deliver the revenue?" This capability is critical to ensure revenue and margin targets are met. Leading PSO's accurately forecast revenue along with the skills required, so they can better understand their financial position. Table 195 shows the impact of PSOs that do a better job of forecasting revenue and skills. The table highlights higher headcount growth, but equally important, higher billable utilization and project margins, resulting in greater revenue per consultant and employee. Planning and forecasting cannot be understated – both are very important.

**Table 195: Impact – PS can accurately forecast revenue and skills**

| PS can accurately forecast revenue and skills | Survey % | Headcount growth | Billable utilization | Project margin | Ann. rev./ consult. (k) | Ann. rev./ emp. (k) |
|---|---|---|---|---|---|---|
| 1 – Very Inaccurately | 5.7% | 3.5% | 64.3% | 27.9% | $159 | $129 |
| 2 | 13.1% | 4.7% | 68.1% | 32.0% | $188 | $151 |
| 3 | 36.6% | 4.9% | 68.8% | 33.7% | $194 | $158 |
| 4 | 33.7% | 6.1% | 71.3% | 35.7% | $223 | $181 |
| 5 – Very Accurately | 10.9% | 6.3% | 71.3% | 38.4% | $250 | $217 |
| **Total/Average** | **100.0%** | **5.4%** | **69.6%** | **34.3%** | **$207** | **$169** |

***Source: SPI Research, February 2024***

## Professional Services Profit

Net Profit (EBITDA) is always the litmus test for aligning all elements of the business. Every aspect of PS operations has improved over the past 18 years since SPI Research's inception. Twenty years ago, single digit profits were the norm in PS.  Now the aspirational target for most independent firms is 20%, and 25% for embedded organizations. PS has clearly become a profitable and essential component of all technology and project-driven organizations (Table 196).

**Table 196: Impact – Profitability (EBITDA)**

| Profit (EBITDA %) | Survey % | Revenue growth | Revenue growth | Project overrun | Project margin | Ann. rev./ emp. (k) |
|---|---|---|---|---|---|---|
| Negative | 9.2% | -0.3% | -0.3% | 12.5% | 26.7% | $159 |
| 0% - 10% | 26.5% | 7.9% | 7.9% | 8.8% | 32.6% | $180 |
| 10% - 20% | 25.9% | 10.8% | 10.8% | 8.5% | 33.8% | $195 |
| 20% - 30% | 21.6% | 5.3% | 5.3% | 8.1% | 40.9% | $196 |
| 30% - 40% | 9.2% | 12.4% | 12.4% | 6.7% | 35.9% | $182 |
| Over 40% | 7.6% | 7.0% | 7.0% | 12.3% | 38.6% | $189 |
| **Total / Average** | **100.0%** | **7.7%** | **7.7%** | **9.0%** | **34.9%** | **$186** |

***Source: SPI Research, February 2024***

In 2023, ESO profit increased significantly following a decrease in 2022. Unfortunately, independent firms saw a large decrease in profitability, year-over-year (Table 197).

**Table 197: YoY Change in Annual Profit (EBITDA)**

| Summary | 2022 | 2023 | ▲ | Org. Size | 2022 | 2023 | ▲ |
|---|---|---|---|---|---|---|---|
| Total | 16.1% | 15.4% | -4% | Under 10 | 15.4% | 21.0% | 36% |
| ESO | 16.1% | 19.1% | 18% | 10 - 30 | 16.3% | 15.4% | -5% |
| PSO | 16.0% | 14.1% | -12% | 31 - 100 | 13.7% | 14.5% | 5% |
| Americas | 15.5% | 15.3% | -1% | 101 - 300 | 19.1% | 13.9% | -27% |
| EMEA | 19.5% | 19.7% | 1% | 301 - 700 | 16.0% | 11.7% | -27% |
| APac | 15.0% | 9.7% | -35% | Over 700 | 18.0% | 27.8% | 55% |
| **Market** | **2022** | **2023** | **▲** | **Market** | **2022** | **2023** | **▲** |
| IT Consulting | 18.1% | 13.1% | -27% | Arch. / Engr. | 14.6% | 16.1% | 10% |
| Mgmt. Consulting | 14.9% | 11.4% | -23% | Agency | 13.0% | 15.8% | 22% |
| Software PS | 16.5% | 20.6% | 25% | Healthcare | 16.1% | 17.5% | 8% |
| SaaS PS | 16.5% | 18.9% | 14% | Other PS | 15.4% | 17.2% | 12% |

*Source: SPI Research, February 2024*

## Income Statement

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

### Revenue

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

### Expenses

- ∆ ***Direct Labor expense***: (does not include fringe benefits, vacation, sick time or overhead)
- ∆ ***Fringe benefit expense***: as a percentage of direct labor (for healthcare, pensions, vacation and sick pay)
- ∆ ***Subcontractor/outside consultant expense***: cost of subcontractors and outside consultants
- ∆ ***Pass-thru expense***: (expense for hardware, software, materials, etc. that can be billed)
- ∆ ***Billable travel and business expense***: business expense that can be billed to clients
- ∆ ***Non-billable travel and business expense***: business expenses that cannot be billed to clients
- ∆ ***Recruiting expense***: (includes recruiting headcount, fees and signing bonuses)
- ∆ ***Sales expense***: (includes sales headcount, bonus and non-reimbursable sales expense)
- ∆ ***Marketing expense***: (includes marketing headcount, bonus and marketing program expense)
- ∆ ***Education, training and certification expense***: (includes the cost of training and certification)
- ∆ ***PS IT expense***: supporting the IT infrastructure (personnel, applications, networking, etc.)

- ∆ ***General and Administrative***: non-billable headcount, general and administration costs, facilities, non-billable headcount and overhead.

In 2023, direct revenue decreased as a percentage of total revenue, while indirect revenue (subcontractors) increased slightly. Both pass-through hardware and software revenue also increased. Reimbursable travel and expense revenue increased slightly from 2022 (Table 198).

Direct labor and fringe benefits decreased as a percentage of total revenue. Subcontractor revenue and margin both increased.

CFOs should continue to carefully review which costs are essential to grow revenues and which ones can be cut without impacting the business. Hopefully, PSO executives will evaluate the many positive benefits from allowing employees to work from home – think of the long-term positive impact on the climate if business travel and work commutes are permanently reduced!

**Table 198: Annual Income Statement Comparison**

| Income Statement Revenue & Expense | 2022 | 2023 | Delta |
|---|---|---|---|
| Benchmark Surveys | 709 | 575 | |
| **REVENUE** | | | |
| Direct gross PS revenue | 85.9% | 81.6% | -5% |
| Indirect gross revenue (subcontractor) | 10.2% | 12.1% | 19% |
| Pass-thru rev. (hardware, software, mat.) | 2.6% | 4.2% | 63% |
| Reimbursable Travel & Expense revenue | 1.3% | 2.0% | 54% |
| **Total Revenue** | **100.0%** | **100.0%** | |
| **EXPENSES** | | | |
| Direct labor expense | 45.9% | 43.2% | -6% |
| Fringe benefit percentage of direct labor | 7.7% | 7.0% | -9% |
| Subcontractor/outside consult. expense | 8.0% | 9.5% | 19% |
| Pass-thru equipment expense | 2.1% | 2.1% | -2% |
| Billable travel and business expense | 1.6% | 1.8% | 11% |
| Non-billable travel expense | 1.2% | 1.8% | 49% |
| Total recruiting expense | 1.0% | 0.8% | -18% |
| Sales expense | 3.9% | 3.9% | -1% |
| Marketing expense | 1.6% | 2.0% | 27% |
| Education/training/certification expense | 1.0% | 0.9% | -11% |
| PS IT expense | 1.5% | 2.3% | 52% |
| All other G&A expense | 8.6% | 9.4% | 9% |
| **Total Expense** | **83.9%** | **84.6%** | **1%** |
| **EBITDA** | **16.1%** | **15.4%** | **-4%** |

***Source: SPI Research, February 2024***

Table 199 provides income statement comparison for embedded versus independents as well as by geography. Sources of revenue for independents and ESOs were similar this year but independents derived slightly less revenue from subcontractors, reimbursable travel and pass-through hardware and software.

Embedded service organizations reduced costs in several areas, which lead to an 18% relative increase in profitability year-over-year. Unfortunately, independent firms increased most of their costs, which drove profitability down by 12% on a relative basis.

**Table 199: Income Statement by Organization Type and Embedded Service Type**

| Key performance indicator (KPI) | Survey | ESO | PSO | Americas | EMEA | APac |
|---|---|---|---|---|---|---|
| Surveys | 575 | 170 | 405 | 407 | 117 | 51 |
| **REVENUE** | | | | | | |
| Direct gross PS revenue | 81.6% | 81.8% | 81.6% | 82.5% | 85.4% | 69.7% |
| Indirect gross revenue (subcontractor) | 12.1% | 10.6% | 12.6% | 12.2% | 11.2% | 12.5% |
| Pass-thru rev. (hardware, software, mat.) | 4.2% | 5.2% | 3.9% | 3.6% | 2.7% | 11.7% |
| Reimbursable Travel & Expense revenue | 2.0% | 2.4% | 1.9% | 99.1% | 93.8% | 97.8% |
| **Total Revenue** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **EXPENSES** | | | | | | |
| Direct labor expense | 43.2% | 46.5% | 42.0% | 43.7% | 45.3% | 36.0% |
| Fringe benefit percentage of direct labor | 7.0% | 6.7% | 7.1% | 7.0% | 7.1% | 7.0% |
| Subcontractor/outside consultant expense | 9.5% | 7.0% | 10.4% | 9.2% | 8.7% | 13.4% |
| Pass-thru equipment expense | 2.1% | 2.3% | 2.0% | 1.8% | 1.0% | 5.5% |
| Billable travel and business expense | 1.8% | 2.3% | 1.6% | 1.3% | 3.0% | 3.7% |
| Non-billable travel expense | 1.8% | 1.8% | 1.8% | 1.5% | 2.1% | 3.8% |
| Total recruiting expense | 0.8% | 0.7% | 0.9% | 0.8% | 0.8% | 1.2% |
| Sales expense | 3.9% | 2.9% | 4.2% | 4.2% | 2.2% | 3.4% |
| Marketing expense | 2.0% | 1.4% | 2.2% | 2.0% | 1.2% | 3.6% |
| Education/training/certification expense | 0.9% | 0.9% | 0.9% | 0.9% | 0.8% | 0.8% |
| PS IT expense | 2.3% | 2.3% | 2.3% | 2.1% | 2.3% | 3.4% |
| All other G&A expense | 9.4% | 6.1% | 10.5% | 10.1% | 5.9% | 8.5% |
| **Total Expenses** | **84.6%** | **80.9%** | **85.9%** | **84.7%** | **80.3%** | **90.3%** |
| **2022 EBITDA** | **15.4%** | **19.1%** | **14.1%** | **15.3%** | **19.7%** | **9.7%** |
| **2021 EBITDA Comparison** | **16.1%** | **16.1%** | **16.0%** | **15.5%** | **19.5%** | **15.0%** |

***Source: SPI Research, February 2024***

Table 200 shows income statement comparison for the seven primary verticals represented in this benchmark. 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 SPI Research received significantly more complete surveys from both Agencies and Healthcare PS organizations. Both IT and Management Consultancies had lower profits in 2023, but the other major verticals showed improvement year-over-year.

**Table 200: Income Statement by PS Market**

| Key performance indicator (KPI) | IT Cons | Mgmt. Cons | Soft PS | SaaS PS | Arch/ Engr | Agency | Healthcare |
|---|---|---|---|---|---|---|---|
| Surveys | 132 | 74 | 47 | 69 | 59 | 52 | 21 |
| **REVENUE** | | | | | | | |
| Direct gross PS revenue | 79.7% | 84.1% | 88.7% | 88.8% | 86.5% | 78.5% | 66.7% |
| Indirect gross revenue (subs.) | 12.5% | 13.3% | 10.5% | 8.2% | 9.7% | 14.3% | 30.8% |
| Pass-thru rev. (hw, sw, mat.) | 6.1% | 1.1% | 0.6% | 1.3% | 1.3% | 5.2% | 2.1% |
| Reimbursable Travel & Expense | 1.7% | 1.5% | 0.1% | 1.7% | 2.4% | 2.0% | 0.4% |
| **Total Revenue** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **EXPENSES** | | | | | | | |
| Direct labor expense | 44.0% | 41.7% | 49.9% | 57.3% | 37.5% | 35.5% | 35.8% |
| Fringe benefit % of direct labor | 6.9% | 6.9% | 6.7% | 6.2% | 8.1% | 7.7% | 7.7% |
| Subcontractor/outside consultant | 9.6% | 12.0% | 7.5% | 6.3% | 9.4% | 6.1% | 16.2% |
| Pass-thru equipment expense | 3.6% | 0.4% | 0.0% | 0.5% | 1.1% | 1.7% | 0.8% |
| Billable travel and business | 2.0% | 1.3% | 0.5% | 1.1% | 2.1% | 1.4% | 0.8% |
| Non-billable travel expense | 1.5% | 1.5% | 0.7% | 0.9% | 1.1% | 8.1% | 1.0% |
| Total recruiting expense | 0.9% | 0.8% | 0.8% | 0.4% | 0.5% | 1.7% | 0.7% |
| Sales expense | 5.0% | 4.7% | 3.3% | 2.5% | 3.2% | 4.3% | 5.7% |
| Marketing expense | 1.7% | 2.5% | 2.2% | 1.5% | 2.2% | 3.3% | 1.4% |
| Education/training/certification | 0.7% | 0.7% | 1.3% | 0.7% | 0.8% | 1.2% | 0.6% |
| PS IT expense | 1.9% | 2.3% | 1.9% | 1.3% | 2.4% | 3.2% | 3.6% |
| All other G&A expense | 9.1% | 13.8% | 4.6% | 2.3% | 15.8% | 9.9% | 8.2% |
| **Total Expenses** | **86.9%** | **88.6%** | **79.4%** | **81.1%** | **83.9%** | **84.2%** | **82.5%** |
| **2022 EBITDA** | **13.1%** | **11.4%** | **20.6%** | **18.9%** | **16.1%** | **15.8%** | **17.5%** |
| **2021 EBITDA Comparison** | **18.1%** | **14.9%** | **16.5%** | **16.5%** | **14.6%** | **13.0%** | **16.1%** |

***Source: SPI Research, February 2024***

Table 201 provides analysis of income statements by organization size. Organization size did not really matter in this year's benchmark, as both large and small PSOs showed varying levels of profit.

**Table 201: Income Statement by Organization Size**

| Key performance indicator (KPI) | Under 10 | 10 - 30 | 31 - 100 | 101 - 300 | 301 - 700 | Over 700 |
|---|---|---|---|---|---|---|
| Surveys | 72 | 94 | 178 | 116 | 52 | 63 |
| **REVENUE** | | | | | | |
| Direct gross PS revenue | 77.7% | 86.9% | 81.6% | 77.8% | 83.1% | 76.8% |
| Indirect gross revenue (subs.) | 13.1% | 9.0% | 14.0% | 11.8% | 10.2% | 14.2% |
| Pass-thru rev. (hw, sw, mat.) | 7.5% | 2.7% | 2.8% | 7.7% | 3.8% | 5.5% |
| Reimbursable Travel & Expense | 1.7% | 1.4% | 1.7% | 2.7% | 2.9% | 3.5% |
| **Total Revenue** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **EXPENSES** | | | | | | |
| Direct labor expense | 44.8% | 45.7% | 43.0% | 39.2% | 48.6% | 37.5% |
| Fringe benefit % of direct labor | 7.7% | 8.3% | 6.1% | 7.3% | 8.0% | 5.6% |
| Subcontractor/outside consultant | 11.1% | 6.8% | 11.0% | 8.8% | 11.1% | 7.3% |
| Pass-thru equipment expense | 2.5% | 1.4% | 1.9% | 3.3% | 1.3% | 2.7% |
| Billable travel and business | 1.4% | 1.1% | 2.2% | 2.3% | 0.8% | 1.8% |
| Non-billable travel expense | 0.7% | 1.1% | 2.3% | 2.2% | 0.4% | 2.5% |
| Total recruiting expense | 0.0% | 0.7% | 1.0% | 0.7% | 0.6% | 1.9% |
| Sales expense | 1.6% | 3.4% | 4.7% | 3.9% | 2.4% | 4.3% |
| Marketing expense | 1.8% | 2.2% | 1.8% | 1.8% | 2.8% | 2.8% |
| Education/training/certification | 0.6% | 0.7% | 0.8% | 0.8% | 1.8% | 1.5% |
| PS IT expense | 0.5% | 1.7% | 2.1% | 2.9% | 4.2% | 2.4% |
| All other G&A expense | 6.3% | 11.4% | 8.7% | 12.9% | 6.4% | 2.0% |
| **Total Expenses** | **79.0%** | **84.6%** | **85.5%** | **86.1%** | **88.3%** | **72.2%** |
| **2022 EBITDA** | **21.0%** | **15.4%** | **14.5%** | **13.9%** | **11.7%** | **27.8%** |
| **2021 EBITDA Comparison** | **15.4%** | **16.3%** | **13.7%** | **19.1%** | **16.0%** | **18.0%** |

***Source: SPI Research, February 2024***

# Chapter 11

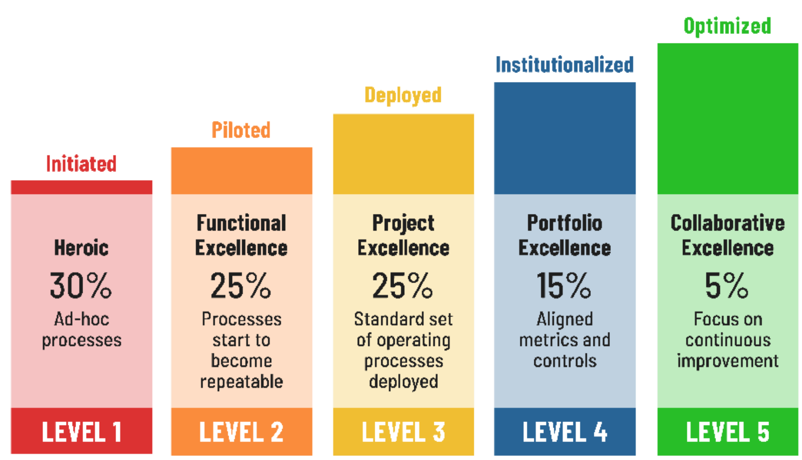
# 2023 Professional Services Maturity™ Model Results

## 2024 PROFESSIONAL SERVICES MATURITY™ MODEL RESULTS

Service Performance Insight built the Professional Services Maturity Model™ 17 years ago to diagnose professional services performance and help PSOs improve. Over 50,000 billable professional services organizations have used the model to benchmark and improve organizational performance. With nearly 6,500 participating billable services organizations (2,898 during the past five years), SPI Research has further refined the model to improve its accuracy. 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 the firms surveyed in late 2023.

575 organizations participated from September through November of 2023 representing nearly 400,000 consultants worldwide, continuing to make this the most comprehensive study of the global PS industry. While over 70% of the participating organizations are headquartered in North America, most 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.

**Figure 46: Professional Services Maturity Model™ Levels**




*Source: SPI Research, February 2024*

## 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 46):

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

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

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

While every organization should strive to attain Maturity Level 5 in each of the five service performance pillars, some areas are more important than others depending on the lifecycle stage 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 a few changes to the questions asked, however, they did not impact the model. 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 that SPI Research felt did not help PSOs improve performance.

## Model Inputs

SPI Research conducted a 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 202. 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 2023 report in most pillars as SPI Research annually adjusts scores based on economic conditions and the feedback received over the past year.

**Table 202: Minimum Normalized Performance Pillar Scores**

| Pillar | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 | Maximum |
|---|---|---|---|---|---|---|
| Leadership (LE) | 0.0 | 56.1 | 66.3 | 75.6 | 89.0 | 100.0 |
| Client Relationships (CR) | 0.0 | 44.1 | 54.1 | 63.0 | 76.8 | 100.0 |
| Talent (TA) | 0.0 | 53.9 | 65.2 | 76.7 | 84.9 | 100.0 |
| Service Execution (SE) | 0.0 | 47.8 | 60.8 | 72.6 | 84.1 | 100.0 |
| Finance and Operations (FO) | 0.0 | 26.4 | 39.9 | 53.1 | 74.0 | 100.0 |

*Source: SPI Research, February 2024*

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.

**Figure 47: Increase performance by focusing on low-performing KPIs**

| Organizational Demographics | Consulting Rus | IT Consult. | Survey Average | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 |
|---|---|---|---|---|---|---|---|---|
| Year-over-year change in PS revenue | Over 25% | 10.4% | 7.8% | | | | | |
| New logo clients - New services (less than 1-year) | 10% | 9% | 11% | | | | | |
| Deal pipeline / quarterly bookings forecast | 2X forecast | 169% | 154% | | | | | |
| Percentage of bids won | 40% - 60% | 50.6% | 48.1% | | | | | |
| % of quarterly revenue target in backlog at the beginning of the quarter | 60% - 70% | 45.0% | 43.8% | | | | | |
| Employee annual attrition - voluntary | 1% - 5% | 8.0% | 7.3% | | | | | |
| Days for a new hire to become productive | 30 - 60 days | 53.9 | 62.5 | | | | | |
| Employee billable utilization | 70% - 80% | 71.9% | 69.3% | | | | | |
| Revenue per project (k) | $250k - $500k | $182 | $183 | | | | | |
| Use a standardized delivery methodology | 40% - 60% | 60.1% | 64.9% | | | | | |
| Projects delivered on-time | 40% - 60% | 75.5% | 75.7% | | | | | |
| Project overrun | 20% - 30% | 10.0% | 9.6% | | | | | |
| Project margin for fixed price projects | 20% - 30% | 35.4% | 34.0% | | | | | |
| Annual revenue per billable consultant (k) | $150k - $200k | $213 | $207 | | | | | |
| Annual revenue per employee (k) | $100k - $150k | $168 | $170 | | | | | |
| Percent of annual revenue target achieved | 90% - 100% | 90.3% | 90.6% | | | | | |
| Percent of annual margin target achieved | 90% - 100% | 86.4% | 87.7% | | | | | |
| **EBITDA** | **24.8%** | **12.9%** | **15.4%** | | | | | |

***Source: SPI Research, February 2024***

SPI Research works with PSOs 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 recommends firms look first at the areas performing poorly (**red**), as opposed to further improving areas where it already does well (**green**). Figure 47 highlights one such example.

## Model Results

SPI Research analyzed each of the 575 participating firms to minimize any bias when comparing PSOs of varied sizes. Table 203 shows most organizations in each size category have similar averages for each pillar. 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. The Asia Pacific region scored highest in all the pillars, followed by the Americas and EMEA.

**Table 203: Average Service Maturity by PSO Type and Region**

| | | Average Maturity Level | | | | | |
|---|---|---|---|---|---|---|---|
| **Demographic** | **Count** | **LE** | **CR** | **TA** | **SE** | **FO** | **Average** |
| ESO | 170 | 2.36 | 2.49 | 2.34 | 2.38 | 2.39 | **2.39** |
| PSO | 405 | 2.42 | 2.37 | 2.43 | 2.41 | 2.40 | **2.40** |
| Americas | 407 | 2.44 | 2.50 | 2.50 | 2.48 | 2.50 | **2.48** |
| EMEA | 117 | 2.22 | 2.15 | 2.07 | 2.10 | 2.00 | **2.11** |
| APac | 51 | 2.53 | 2.24 | 2.39 | 2.49 | 2.51 | **2.43** |
| **Average** | **575** | **2.40** | **2.40** | **2.40** | **2.40** | **2.40** | **2.40** |

*Source: SPI Research, February 2024*

In this year's survey smaller firms scored the lowest levels of maturity. A year ago, they had the highest scores. Smaller firms tend to be nimbler than their larger competitors and can react to changes in market conditions, but do not typically have the processes and procedures in place to manage uncertainty and growth.

**Table 204: Average Service Maturity by PSO Size (People)**

| | | Average Maturity Level | | | | | |
|---|---|---|---|---|---|---|---|
| **Demographic** | **Count** | **LE** | **CR** | **TA** | **SE** | **FO** | **Average** |
| Under 10 | 72 | 2.18 | 2.14 | 1.71 | 2.06 | 1.92 | **2.00** |
| 10 - 30 | 94 | 2.45 | 2.33 | 2.45 | 2.41 | 2.48 | **2.42** |
| 31 - 100 | 178 | 2.42 | 2.43 | 2.42 | 2.37 | 2.47 | **2.42** |
| 101 - 300 | 116 | 2.45 | 2.54 | 2.67 | 2.46 | 2.32 | **2.49** |
| 301 - 700 | 52 | 2.35 | 2.38 | 2.38 | 2.58 | 2.62 | **2.46** |
| Over 700 | 63 | 2.49 | 2.48 | 2.59 | 2.62 | 2.62 | **2.56** |
| **Total / Average** | **575** | **2.40** | **2.40** | **2.40** | **2.40** | **2.40** | **2.40** |

*Source: SPI Research, February 2024*

Table 205 shows the average level of maturity for each of the performance pillars by selected vertical markets. Overall, IT consultancies scored the highest with SaaS PS not far behind. Agencies, while relatively new to this analysis, scored the lowest. IT Consultancies excelled in the Talent, Service Execution and Finance & Operations pillars, while SaaS PS did the same in both the Leadership and Client Relationships pillars.

**Table 205: Average Service Maturity by Market**

| Market | Count | Average Maturity Level: LE | CR | TA | SE | FO | Average |
|---|---|---|---|---|---|---|---|
| IT Consulting | 132 | 2.59 | 2.64 | 2.70 | 2.55 | 2.64 | **2.62** |
| Management Consulting | 74 | 2.51 | 2.38 | 2.39 | 2.51 | 2.26 | **2.41** |
| PS within Software Company | 47 | 2.57 | 2.72 | 2.34 | 2.55 | 2.36 | **2.51** |
| PS within SaaS Company | 69 | 2.61 | 2.87 | 2.48 | 2.45 | 2.58 | **2.60** |
| Architecture/Engineering | 59 | 2.15 | 1.98 | 2.34 | 1.98 | 2.39 | **2.17** |
| Agency | 52 | 1.98 | 1.87 | 2.31 | 2.23 | 2.15 | **2.11** |
| Healthcare | 21 | 2.19 | 2.19 | 2.29 | 2.29 | 2.10 | **2.21** |
| All Others | 121 | 2.28 | 2.24 | 2.16 | 2.39 | 2.31 | **2.27** |
| **Total / Average** | **575** | **2.40** | **2.40** | **2.40** | **2.40** | **2.40** | **2.40** |

***Source: SPI Research, February 2024***

## The Financial Benefits of Moving Up Levels

The PS Maturity Model™ was developed to demonstrate the importance of organizational improvement using benchmarks. SPI Research believes that the importance of the Professional Services Maturity Model™ Benchmark 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 206 highlights some of the key performance indicators by maturity level and should alone be an important reason why PS executives should look deeper into using it to accelerate both productivity and profit.

**Table 206: Key Performance Indicators (KPIs) by Maturity Levels**

| Key performance indicator (KPI) | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 |
|---|---|---|---|---|---|
| Confidence in PS leadership (5 pt. scale) | 3.21 | 3.93 | 4.18 | 4.70 | 4.97 |
| Goals and measurement alignment (5 pt. scale) | 2.92 | 3.66 | 4.04 | 4.57 | 5.00 |
| Year-over-year change in PS revenue | 2.3% | 7.1% | 8.9% | 13.7% | 19.3% |
| Deal pipeline / quarterly bookings forecast | 106% | 140% | 175% | 201% | 262% |
| Percentage of bids won | 37.4% | 48.2% | 50.8% | 58.4% | 63.8% |
| Percentage of referenceable clients | 60.3% | 68.0% | 70.8% | 76.0% | 86.4% |
| Annual fully loaded cost per consultant (k) | $120 | $124 | $134 | $130 | $156 |
| Total attrition | 9.6% | 13.1% | 11.8% | 14.6% | 22.3% |
| Employee billable utilization | 56.7% | 68.0% | 74.4% | 79.5% | 83.6% |
| Our firm uses a project mgmt. office (PMO) | 27.3% | 36.1% | 37.9% | 40.0% | 62.1% |

| Key performance indicator (KPI) | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 |
|---|---|---|---|---|---|
| Use a standardized delivery methodology | 54.3% | 61.5% | 68.2% | 77.7% | 81.7% |
| Projects delivered on-time | 62.9% | 71.4% | 82.4% | 87.8% | 92.2% |
| Resource management process effectiveness | 2.76 | 3.43 | 3.75 | 4.09 | 4.34 |
| Project margin | 25.7% | 33.8% | 36.1% | 40.4% | 50.5% |
| Annual revenue per billable consultant (k) | $112 | $187 | $238 | $255 | $297 |
| Annual revenue per employee (k) | $90 | $145 | $198 | $221 | $253 |
| Percent of annual revenue target achieved | 78.9% | 89.4% | 93.8% | 97.6% | 101.4% |
| Percent of annual margin target achieved | 76.2% | 86.5% | 90.6% | 95.1% | 96.6% |
| Direct labor as a percent of direct revenue | 81.4% | 71.9% | 67.5% | 59.8% | 52.9% |
| **Profit (EBITDA %)** | **-5.0%** | **0.3%** | **13.8%** | **21.3%** | **32.3%** |

***Source: SPI Research, February 2024***

This table shows some of the benefits of moving up levels. Virtually every one of the 155+ 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.

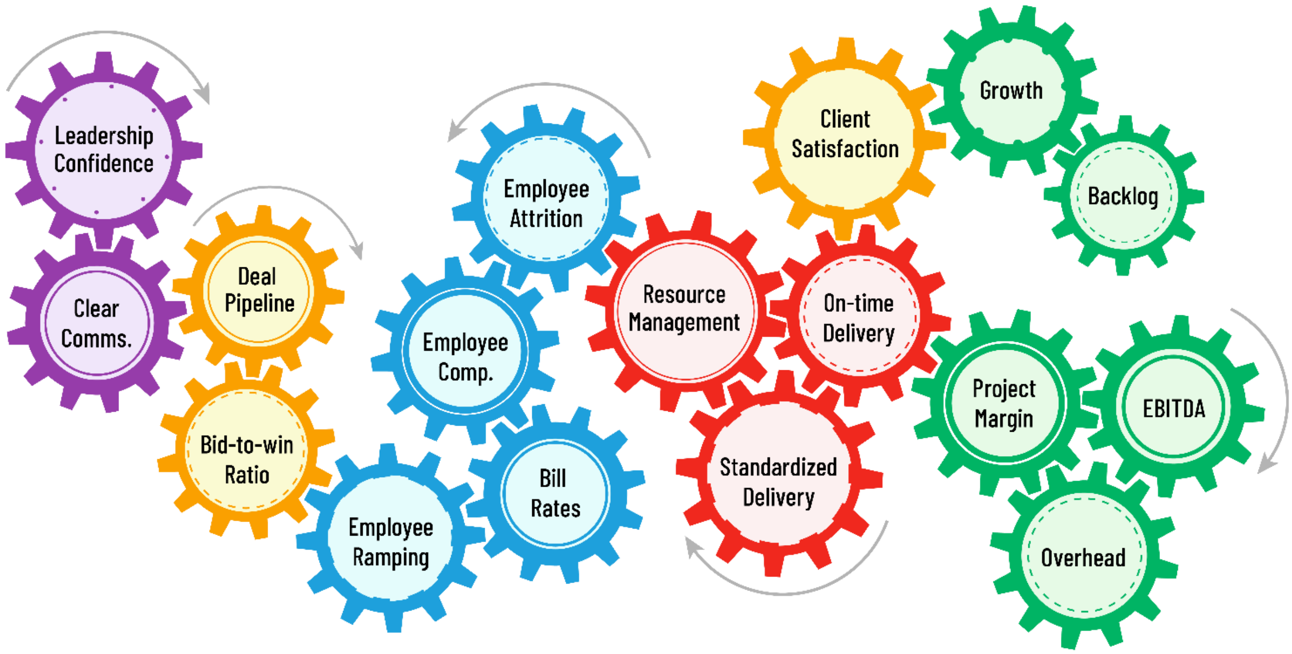
## The Inter-relationship of Pillars

Process improvements 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:

- Leadership issues (**communication, well understood vision, mission and strategy**) can impact the ability to grow (*Finance and Operations*), staffing levels (*Talent*) and the ability to effectively deliver projects (*Service Execution*).
- **Percentage of bids won** (*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.
- If a project is **delivered late** (*Service Execution*) it can negatively impact relations with the client and future sales effectiveness (*Client Relationships*), employee morale (Talent), revenue growth and project profitability (*Finance and Operations*).

SPI Research took these interrelationships into account when building the Professional Services Maturity Model™ (Figure 48). 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 48: Key Performance Indicators (KPIs) are Correlated**




*Source: SPI Research, February 2024*

## Model Conclusions

In 17 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.

Remember, KPIs are correlated, just like departments in PSOs are. Everyone must work together to achieve performance and overall organizational goals. **Contact SPI Research for more information on the Professional Services Maturity Model™.**


Finance & Operations
• Revenue per consultant
• Percentage of target margin achieved
• Days Sales Outstanding (DSO)
• Profit (EBITDA)
Leadership
• Strategic clarity
• Communication alignment
• Employee confidence
Client Relationships
• Sales pipeline
• New clients
• Client references
• Revenue growth
Talent
• Ramp time
• Billable utilization
• Employee satisfaction
• Attrition
Service Execution
• Project size
• Resource management
• On-time delivery
• Project margin
SERVICE PERFORMANCE PILLARS

# Chapter 12

# Conclusions & Recommendations

## CONCLUSIONS AND RECOMMENDATIONS

2023 was a transitional year to say the least. Both inflation and interest rates never seemed to go down, coupled with more global conflict and an uncertain economic environment, created problems for the Professional Services market. However, the market has solid leadership and extremely talented employees. While things did not go as originally planned, PSOs still grew and profited. Artificial Intelligence is a transformational technology that's benefits have just begun to be understood in the market. Uncertainty in a new technology is good for the Professional Services market, as its clients will need plenty of help.

Of course, 2024 will have its own unique challenges as every year does. The largest might be the elections in the US, which could cause executives in every industry to pause, as well as the political bickering and posturing on AI. However, the world keeps turning and those industries that do not continually evolve may never catch up. That is where professional services come in. Add in this movement from lower interest rates to AI and one can see why 2024 should be an exciting year in the Professional Services market.

From a performance perspective, SPI Research saw the market take a step back in 2023, much of it related to all the economic changes and challenges that occurred during the year. SPI Research expects PS executives to concentrate on revenue growth in 2024 and it could be a year approaching 15%. PSO's did go out and record a higher percentage of new clients than in the past, and this should bode well for the future.

Billable utilization declined to under 70% for the first time in a while, which might mean a faster movement to AI and the productivity benefits it can provide. Part of this productivity decline could be related to more consultants working on site than over the past two years. While on-site work will probably never go back up to levels that it was before COVID, it should still increase over the next year or two. Profitability went down slightly in 2023, but most of it was related to independent professional services providers as embedded service organizations had a relative 18% increase in profit year-over-year.

The technology landscape for professional services is maturing. Planning solutions have become instrumental to PSO's, especially in times of uncertainty. PS executives realize and their initial annual plan will not be their final annual plan. Planning must be both art and science for these executives to meet operational and strategic goals. Likewise, SPI Research has seen Project-based ERP gain momentum in the marketplace. Best-of-breed solutions will always be part of the technology landscape, but Project-based ERP has shown significant growth and use as the cloud, AI and cybersecurity become increasingly foundational to the Professional Services market.

### SPI Research Recommends

After 17-years of surveys, and hundreds of PS Maturity™ assessment projects, SPI believes the following steps should be taken to improve overall performance:

1. ***Benchmark and Scorecard:*** Any realistic performance improvement plan must start with a fact-based assessment of strengths and weaknesses. SPI developed this benchmark precisely for that purpose. It will help teams analyze performance while visualizing improvement potential.

2. ***Prioritize:*** Armed with a fact-based assessment, any business planning effort must evaluate and prioritize improvement potential and priorities. SPI uses several business planning and prioritization methods to help teams surface common issues and evaluate alternatives.
3. ***Quick wins:*** Using the assessment as a guide, teams should determine quick wins – improvements that can be accomplished within a year that will significantly move the needle.
4. ***Build your business plan:*** there are many frameworks that help leadership teams formulate, communicate and monitor target results on a regular basis. The most meaningful plans link the company, teams, and personal objectives to align the entire organization around measurable improvement priorities. Typical goal setting frameworks consist of time and measurement-bound objectives, key results and initiatives. Artificial Intelligence (AI) should be part of your planning process, it is just too important not to consider!
5. ***Measure:*** SPI firmly believes you only achieve what you measure. Goals must be specific, measurable, achievable, realistic and time bound (SMART). In today's business climate, measurement and improvement must be constant, not just a quarterly or annual process. Running a service organization is a game of singles and doubles. Small percentage improvements in just a few key performance areas can produce dramatic bottom-line results.
6. ***Continually improve:*** if there is one thing we have learned, PS is a marathon not a sprint. There is no shade. Every element of the business impacts every other element as firms are continually discovering, designing and delivering services around the clock. No client or business problem is identical to the last so the organization must be constantly learning and adapting. This is not a business for those who are not comfortable with being held accountable. There should be very few chiefs and mostly Indians in any organization with employees who are willing and able to add value and make things happen.
7. ***Improve the IT Infrastructure***: One area that tends to bog PS executives down is the lack of actionable information. SPI Research believes that executives should consider the IT infrastructure in any type of business transformation. Many of the firms that SPI Research has met with just do not have the information they need to make real-time decisions. The PS Maturity Model does not work without accurate and timely information.

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

1. ***Leadership***: build leaders for the future. A new young millennial workforce requires strong front-line management and guidance. With changing workforce dynamics, effective, ethical and collaborative leadership is required more than ever before.
2. ***Client Relationships***: selling professional services has become increasingly difficult, as client organizations look for demonstrable value and demand "pay as you go" subscription or consumption-based pricing. Marketing and sales campaigns must address clients' key challenges and provide the means for clients to buy the way they want to. New usage-based business models make it easier for

buyers to buy but more complex for service providers to provide. Measurable business value and adoption are driving references and growth.

3. ***Talent***: your talent pool is your most critical asset, and continued understanding of how the workforce changes, and how they wish to be treated, from training to compensation to social programs, is critical to understand and cultivate a high-quality workforce.
4. ***Service Execution***: delivering services on time and on budget with sufficient margin fosters growth and profitability. Always keep an eye on project budgets to actuals, eliminating overruns before they spiral out of control. You can't have your best people on every project, there must be a mix between higher-level skills and lower level and lower cost talent. Implementing standardized business processes and systems helps you better understand and track the effort for the services delivered.
5. ***Finance and 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 breathing room to make investments into new growth areas. Consider a permanent shift away from expensive facilities and lavish meetings. The last two years have proven these discretionary expenditures make very little difference in either employee well-being or business success.

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

**Stay healthy and best of luck for a prosperous and profitable 2024!**

Dave Hofferberth

# Chapter 13

# Appendices

# APPENDICES

## Appendix A: Report Figures

## Appendix B: Report Tables

## Appendix C: Acronyms Used in This Report

**Table 207: Lexicon of Acronyms and Abbreviations**

| Acronym | Meaning |
|---|---|
| Agency | Marketing Communication / Advertising |
| AI | Artificial Intelligence |
| APac | Asia-Pacific |
| BI | Business Intelligence |
| BPM | Business Process Management |
| BPO | Business Process Outsourcing |
| CEO | Chief Executive Officer |
| CFM | Core/Corporate Financial Management |
| CFO | Chief Financial Officer |
| CIO | Chief Information Officer |
| CRM | Client Relationship Management |
| DSO | Days Sales Outstanding |
| EMEA | Europe, Middle East, Africa |
| ERP | Enterprise Resource Planning |
| ESG | Environmental, Social and Governance |
| ESO | Embedded Service Organization |
| EVM | Earned Value Management |
| FTE | Full-time equivalent |
| HCM | Human Capital Management |
| HPO | High-Performance Organization |
| HR | Human Resources |
| IaaS | Infrastructure as a Service |
| IoT | Internet of Things |
| ISV | Independent Software Vendor |
| IT | Information Technology |
| KPI | Key Performance Indicator |

| Acronym | Meaning |
|---|---|
| ML | Machine Learning |
| NAICS | North American Industry Classification System |
| NPS | Net Promoter Score |
| PA | Project Accounting |
| PaaS | Platform as a Service |
| PBERP | Project-based Enterprise Resource Planning |
| PMI | Project Management Institute |
| PMO | Project Management Office |
| PMP | Project Management Professional |
| PPM | Project Portfolio Management |
| PS | Professional Services |
| PSA | Professional Services Automation |
| PSO | Professional Services Organization |
| ROI | Return on Investment |
| RSD | Remote Service Delivery and Collaboration |
| SaaS | Software as a Service |
| SCM | Supply Chain Management |
| SM | Social media |
| SMAC | Social, Mobile, Analytics, Cloud |
| SLA | Service Level Agreement |
| SLM | Service Lifecycle Management |
| STEM | Science, technology, math and engineering |
| SVC | Service Value Chain |
| VSOE | Vendor-Specific Objective Evidence |
| WBS | Work Breakdown Structure |
| YoY | Year-over-year |

***Source: SPI Research, February 2024***

## Appendix D: 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 and http://www.investopedia.com. 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 208: Standard Key Performance Indicator (KPI) Definitions**

| Term | Definition |
|---|---|
| 70% utilization | ~ 1,400 billable hours/year or 350 hours/quarter. Based on a 2,000 hour work year. |
| Allocations | Corporate allocations refer to a company's policy of distributing the cost of shared resources, for example, facilities, healthcare, IT, Sales, General and Administrative (SG&A) costs to specific functions or departments. |
| Annual Billable Utilization % | Annual Billable Hours/(2080 hours – vacation and holidays) or<br>Billable days/(260 days – 10 vacation – 10 holidays ~ 240 days) |
| ASC606 | Developed jointly by the Financial Accounting Standard's Board (FASB) and International Accounting Standards Board (IASB), ASC 606 provides a framework for businesses to recognize revenue more consistently. The standard's purpose is to eliminate variations in the way businesses across industries handle accounting for similar transactions. This lack of standardization in financial reporting has made it difficult for investors and other consumers of financial statements to compare results across industries, and even companies within the same industry.<br>The rule, "Revenue from Contracts with Customers" standardizes and simplifies how companies record revenue in customer contracts. Effective for fiscal years beginning after Dec. 15, 2017, it covers how businesses report the nature, amount, and timing regarding contracts with customers.<br>The impact might not be as significant for companies, such as retailers, that sell products and receive revenue at one time. But for companies that sell recurring services like subscriptions or licenses, the rule may improve the results.<br>Under the previous law, if a company for example, sold a 12-month software product license, it could apply only six months of revenue to its books. It would not be able to count the next six months of revenue until the following year. But under ASC 606 it can count all the revenue at once. |
| Attrition % | Attrition % = (Voluntary + involuntary) / Total Beginning Employees |
| Backlog | Backlog = Bookings - Billings<br>The total value of contract commitments yet to be executed:<br>Total Backlog = Previous fiscal year's contracts not yet billed<br>+ Latest fiscal year's sales<br>- 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. |

| Term | Definition |
|---|---|
| Capitalization | **Expensed computing equipment:** expenses (typically less than $100k) vs. capitalized (paid for over a time period). Servers for example, are typically capitalized and depreciated over a 3 year period. Capital expenditures usually refer to expenses a company makes for property, buildings or equipment. Capitalized items typically have a useful life of several years. |
| Cash | The value of the most liquid assets within the balance sheet. Cash equivalents are assets such as money market accounts that can be accessed quickly and are not subject to significant change. Does not include the value of accounts receivable. |
| Cash flow | Is the balance of the amounts of cash being received and paid by a business during a defined period of time, sometimes tied to a specific project. The timing of cash flows into and out of projects is used as input to financial models such as internal rate of return, and net present value. |
| Cost per person | Cost Per person = Base + Fringe (~25%) + Bonus |
| Days Sales Outstanding (DSO) | A measure of the average number of days that it takes a company to collect revenue after a sale has been made and a bill has been issued. A low DSO means that it takes a company fewer days to collect its accounts receivable. A high DSO means that a company is selling its product to slow-paying customers and it is taking longer to collect money.<br>Days sales outstanding is calculated as: DSO is a key performance measurement of the credit-worthiness of a company's clients; a general indicator for client satisfaction and the effectiveness of the billing and collection process. DSO is reported either quarterly or annually.<br>$= \frac{\text{Accounts Receivable}}{\text{Total Credit Sales}} \times \text{Number of Days}$<br>OR<br>$= \left[ \frac{\text{Accounts Receivable}}{\left( \frac{\text{Total Credit Sales}}{\text{Number of Days}} \right)} \right]$ |
| 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. EBITDA equals Revenue minus expenses (excluding interest, tax, depreciation and amortization). It 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. |
| 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. FASB sets up and oversees accounting standards for public firms and nonprofits throughout the U.S. that follow GAAP. |
| 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)**<br>The gross profit generated per dollar of services delivered. A company's total sales revenue minus its cost of goods or services sold. This dollar amount represents the gross amount of money the company generated over the cost of producing its goods or services. |
| Gross Margin Percentage | Gross Margin % = (Total Services Revenue – Expense or Cost of Services Delivered) / Total Services Revenue<br>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 | 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). |

| Term | Definition |
|---|---|
| Profit and Loss Statement | |
| Labor Burdened Cost | Labor Burdened Cost per Productive Hour (or Fully-burdened Cost)<br>(Labor Burdened Cost + gross payroll labor cost) ÷ the number of actual work (productive) hours<br>Number of actual productive hours ÷ the total additional cost of the employee<br>= Employee labor burden cost per productive hour |
| Labor Multiplier | Labor multiplier = total $ amount of labor hours billed / fully loaded (burdened) labor cost<br>Note: a labor multiplier of 1.0 indicates a breakeven point.<br>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.<br>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.<br>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.<br>EXAMPLE:<br>base rate/hour (BR)= dollar per hour pay for the staff category<br>OH multiplier (OHM) = firm's overhead (OH) percentage + 100%<br>Profit multiplier (PM)= profit percentage + 100%<br>**"loaded" rate/hour** = BR X OHM X PM<br><br>Base rate/hour= $45.00 per hour<br>overhead multiplier = 135% overhead + 100% = 235% = 2.35<br>Profit multiplier = 10% profit + 100% = 110% = 1.1<br>**"loaded" rate/hour =** $45.00 X 2.35 X 1.1 |
| Lagging Indicators | **Investopedia explains** LAGGING INDICATORS<br>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.<br>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.<br>**What Does the** COMPOSITE INDEX OF LEADING INDICATORS **Mean?**<br>An index published monthly by the Conference Board used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy. These 10 components include:<br><br>1. The average weekly hours worked by manufacturing workers<br>2. The average number of initial applications for unemployment insurance<br>3. The amount of manufacturers' new orders for consumer goods and materials<br>4. The speed of delivery of new merchandise to vendors from suppliers<br>5. The amount of new orders for capital goods unrelated to defense<br>6. The amount of new building permits for residential buildings |

| Term | Definition |
|---|---|
| | 7. The S&P 500 stock index<br>8. The inflation-adjusted monetary supply (M2)<br>9. The spread between long and short interest rates<br>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<br>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.<br>Often referred to as "the bottom line" since net income is listed at the bottom of the income statement.<br>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.<br>Operating income is required to calculate operating margin, which describes a company's operating efficiency.<br>**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.<br>**Operating Margin = Operating Income / Net Sales**<br>Operating Profit = (Total Service Revenue – Total cost of service delivery – Total Operating Expense)/ Total Service Revenue |
| Operating Profit / Margin | The amount of profit realized from a business's own operations. A ratio used to measure a company's pricing strategy and operating efficiency. |
| Overhead Costs | Usually, fixed costs - a business cost that is not directly accountable to a particular function or product; a fixed cost such as facilities.<br>Costs incurred that cannot be attributed to the production of any particular unit of output.<br>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.<br>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. |

| Term | Definition |
|---|---|
| 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<br>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. |
| 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. |

***Source: Investopedia, Wikipedia, and SPI Research, February 2024***

## Appendix E: PS Maturity™ Benchmark Survey Tool (Excel Version)

# Service Performance Insight

**2024 Professional Services Maturity™ Benchmark Survey**

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 2023

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

What percentage of your PS revenue comes from the following:

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

### Information Technology

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

## Section 3 – Performance Pillars - PS Organization only

### Leadership

| | | |
|---|---|---|
| 37 | Forecasted revenue growth in 2024 (over 2023) | |
| 38 | Do you plan to embark on any major performance initiatives in 2024? | |
| 39 | Do you have a documented methodology for quantifying value added to your clients | |
| 40 | Planned geographic expansion in 2024 | |
| 41 | Have you initiated Outcome-based billing models | |
| | Rate the importance of the following concerns to your organization over the next year (1: very unimportant - 5: very important) | |
| 42 | Business development (creating and implementing new services and campaigns, finding new clients, etc.) | |
| 43 | Talent management (finding, hiring, training, managing and retaining employees) | |
| 44 | Resource utilization (working to optimize skill levels, increasing billable hours per consultant) | |
| 45 | Profitability growth (delivering more efficiently and effectively, manage cost, reduce revenue leakage) | |
| 46 | Inflation (managing cost increases in people, tools, travel, other expenses) | |
| | Rate the importance on Artificial Intelligence (AI) to your organization (1: very unimportant - 5: very important) | |
| 47 | Artificial Intelligence (AI) / Machine Learning (ML) is important to our firm going forward | |
| 48 | Artificial Intelligence (AI) / Machine Learning (ML) is important to our clients going forward | |
| 49 | AI/ML will impact your delivery models of the future? | |
| 50 | How well are you incorporating AI/ML to increase efficiencies? | |
| 51 | In which pillar do you see the most impact for adopting AI/ML? | |
| | Rate the following aspects of your organization in terms of how well they operate (1: very ineffective - 5: very effective) | |
| 52 | The vision, mission and strategy of the PSO is well understood and clearly communicated | |
| 53 | Employees have confidence in PS Leadership | |
| 54 | It is easy to get things done w/in the PS organization | |
| 55 | Goals and measurements are in alignment for the service organization | |
| 56 | Employees have confidence in the future of the PS organization | |
| 57 | PS effectively communicates with employees | |
| 58 | PS embraces change, we are nimble and flexible | |
| 59 | PS focuses on innovation and is able to rapidly take advantage of changing market conditions | |
| 60 | PS takes advantage of its information infrastructure to make data-driven decisions | |
| | For the next year how would you divide your effort and capital in the following areas? (must sum up to 100%) | |
| 61 | Grow revenue | |
| 62 | Increase organizational profit | |
| 63 | Improve client satisfaction | |
| 64 | Improve talent satisfaction and optimization | |
| | Total **Error - total must add up to 100%** | 0% |

## Client Relationships

**Less than one year is "new"**

| | | Existing Services | New Services (past year) | Total |
|---|---|---|---|---|
| 65 - 66 Service revenue breakdown by new vs. existing clients and new vs. existing services (under 1-year) 67 - 68 | Current Clients | | | 0% |
| | New Logo Clients | | | 0% |
| | Total | 0% | 0% | 0% |

**Error - total must add up to 100%**

| | | |
|---|---|---|
| 69 | Size of deal pipeline in comparison to quarterly bookings forecast | |
| 70 | Percentage of bids won | |
| 71 | Percentage of the quarterly revenue target in backlog at the beginning of the quarter | |
| 72 | Service discount given clients | |
| 73 | Percentage of referenceable clients | |
| 74 | Primary strategy for growth | |

Rate the effectiveness of the various sales and marketing activities. (1 very ineffective - 5 very effective)

| | | |
|---|---|---|
| 75 | Solution development process effectiveness | |
| 76 | Service sales effectiveness | |
| 77 | Service marketing effectiveness | |
| 78 | Quoting service engagements efficiency | |
| 79 | The technology infrastructure supports growth | |

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

| | | |
|---|---|---|
| 80 | Time & Materials | |
| 81 | Fixed time / fixed fee | |
| 82 | Shared risk / performance-based | |
| 83 | Subscription | |
| 84 | Managed Services | |
| 85 | Other | |
| | Total **Error - total must add up to 100%** | 0% |

| | | |
|---|---|---|
| 86 | What is you overall Net Promoter Score? | |
| 87 | Status of Client/Customer Experience (CX) Program | |
| 88 | The number of full-time equivalent (FTE) employees dedicated to **service sales** | |
| 89 | Annual **service** sales revenue quota per sales person | |
| 90 | PS (only) deal size | |
| 91 | Length of sales cycle from qualified lead to contract signing | |

## Talent

| | | |
|---|---|---|
| 92 | The average tenure at the firm of consultants | |
| 93 | The primary reason employees leave | |
| 94 | Professional Services employee ***voluntary*** annual attrition | |
| 95 | Professional Services employee ***involuntary*** annual attrition | |
| 96 | Length of time to recruit and hire for standard positions | |
| 97 | Once hired, how long until fully billable? | |
| 98 | Annual number of training days per employee | |
| 99 | What is your annual consultant billable utilization percentage (2,000 hr. base)? | |
| 100 | What is your annual fully loaded cost per consultant (salary, bonus, fringe benefits) | |
| | Agreement with the following statements (1-strongly disagree; 5-strongly agree) | |
| 101 | You would recommend your company as a great place to work | |
| 102 | There is a well-understood career path for all employees | |
| 103 | Employees have the tools they need to deliver quality services efficiently and effectively | |
| | How many annual hours are spent in the following categories for your average billable employee? | |
| 104 | Vacation/personal/holiday | |
| 105 | Education/training | |
| 106 | Administrative | |
| 107 | Non-billable business development/sales support | |
| 108 | Non-billable project hours | |
| 109 | Billable hours on-site | |
| 110 | Billable hours off-site | |
| | **(Hours do not have to add up to exactly 2,080)** **Total annual hours per consultant** | 0 |

| Service Execution | | |
|---|---|---|
| 111 | Describe your resource management process | |
| 112 | Revenue per project | |
| 113 | Number of people working on a project | |
| 114 | Project duration (in months) | |
| 115 | Number of projects a **project manager** manages at a time | |
| 116 | Number of projects a **consultant** works on at a time | |
| 117 | Use a project management office (PMO) | |
| 118 | Percentage of projects where a standard delivery methodology is used | |
| 119 | The frequency on a project the contract need to be modified due to scope change | |
| 120 | Percentage of projects delivered on-time, on budget | |
| 121 | Project overrun | |
| 122 | Project margin for time and materials projects | |
| 123 | Project margin for fixed price projects | |
| 124 | Margin for subcontractors and/or offshore resources | |
| | Please rate the effectiveness of the following processes (1: very ineffective – 5: very effective) | |
| 125 | Resource management process | |
| 126 | Estimating processes & estimate reviews | |
| 127 | Change control processes | |
| 128 | Project quality processes | |
| 129 | Knowledge management processes | |

## Finance and Operations

| | | |
|---|---|---|
| 130 | Balance between client satisfaction and profit | |
| | For the coming year, please rate the following steps you will take to improve profitability (1: very unlikely – 5: extremely likely) | |
| 131 | Improve solution portfolio - service packaging, new offers | |
| 132 | Improve marketing effectiveness - brand awareness, lead generation, events | |
| 133 | Improve sales effectiveness - higher close ratio, on-target performance, training | |
| 134 | Increase bill rates | |
| 135 | Improve hiring, ramping, skill-building, training | |
| 136 | Improve methods and tools for reuse, consistency, quality | |
| 137 | Improve billable utilization - increase billable utilization | |
| 138 | Reduce non-billable time - presales, write-offs, admins | |
| 139 | Expand business models (add managed services, subscription, hybrid, etc.) | |
| 140 | Annual revenue per billable employee | |
| 141 | Annual overall revenue/person yield (for the entire PS organization) | |
| 142 | Percentage of annual **revenue** target achieved | |
| 143 | Percentage of annual **margin** target achieved | |
| 144 | Percentage of overall revenue unable to bill (revenue leakage) | |
| 145 | Percentage of invoices that must be redone due to error or client rejection | |
| 146 | Days Sales Outstanding (DSO) | |
| 147 | Quarterly non-billable discretionary expense per employee (cell phones, non-billable travel, training) | |
| 148 | Length of time to incorporate a new acquisition | |
| 149 | PS execs. have real-time visibility into all bus. activities (sales/serv/fin/etc.) (1 none - 5 comprehensive) | |
| 150 | PS can accurately forecast revenue and skills (1 minimally - 5 very well) | |

## 2023 Professional Services Income Statement (in $Millions)

| # | Item | ($millions) |
|---|---|---|
| 151 | Direct gross PS revenue | |
| 152 | Indirect gross PS revenue (revenue delivered by subcontractors, outside resources etc.) | |
| 153 | Pass-thru PS revenue (hardware, software, materials, etc.) | |
| 154 | Revenue from reimbursable PS travel and business expense | |
| | **Annual Gross PS Revenue** (Should be in the range answered in question 10) | $0.00 |
| | | **($millions)** |
| 155 | Total direct PS billable labor expense (does not include fringe ben., vacation, sick time or overhead) | |
| 156 | Total fringe benefit expense as a % of direct billable labor (healthcare, pensions, vacation and sick pay) | |
| 157 | Total subcontractor/outside consultant expense (compare to question 152) | |
| 158 | Pass-thru equipment cost (hardware, software, materials, etc.) (compare to question 153) | |
| 159 | Total billable travel and business expense (compare to question 154) | |
| 160 | Total non-billable travel and business expense | |
| 161 | Total Recruiting expense (recruiters, fees, signing bonus, referrals, etc.) | |
| 162 | Total Sales expense (includes fully loaded headcount expense, bonus and non-reimbursable sales exp.) | |
| 163 | Total Marketing expense (includes all headcount, bonus and marketing program expense) | |
| 164 | Total education, training and certification expense for the entire PS organization | |
| 165 | Professional Services IT expense (fully loaded IT headcount, capital, IT-specific facility expense) | |
| 166 | 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!** |

**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 F: Related SPI Research

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

- **2023 Professional Services Talent Benchmark** (September 2023): *During the second quarter of 2023 SPI Research released a report based on 137 billable professional services organizations, representing over 50,000 consultants. This important 122-page study profiles talent priorities, the move to virtual service delivery, level of employee investment and the impact of business applications. The study provides analysis of target and realized bill rates, compensation and utilization across a broad range of professional service verticals, geographies and 12 job levels around the globe. It provides an unprecedented view of Professional Services workforce distribution and composition by industry segment through an analysis of organization structures for various service segments including IT Consulting; Management Consulting; Architects and Engineers and embedded service organizations within Software-as-a-Service (SaaS) companies.*
- **2022 Professional Services Automation End-user Survey** (September 2022): *During the second quarter of 2022, SPI Research conducted a Professional Services Automation (PSA) end-user survey. This examination of 88 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 44 insightful figures and tables.*
- **2021 Project-Based ERP Buyer's Guide** (October 2021): *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), 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.*
  *The Project-Based ERP Buyer's Guide provides an overview of important trends, business processes and selection criteria to help project-based businesses evaluate and choose ERP applications, which will provide the level of insight, management and control needed to improve productivity and profitability.*
- **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%.*
- **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.*

- **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,** Service Performance Insight's founder and a Managing Director has over 35 years' experience in information technology (IT) serving as a consultant, industry analyst, market consultant, and as a product director with firms including the Aberdeen Group and Oracle. He is focused on the services economy, and on white-collar productivity issues and the technologies that help people perform at their highest capacity.

Dave, with his former partner, is the co-author of the ***Professional Service Maturity Model™*** benchmark used by over 50,000 project-oriented organizations to diagnose and improve their performance. He is a frequent speaker at key industry events on information technology around the world and has provided advisory services to project- and service-driven organizations.

Dave's background includes application and analytical tool development to support business decision-making processes, beginning in the early 1980s. In 1999 he introduced to the market the solution area now known as Professional Services Automation (PSA), when he published the seminal report: ***Professional Services Automation****: Increasing Efficiencies and Profitability in Professional Services Organizations.*

Dave earned an MBA from Duke University and a BS in Industrial Engineering from the University of Tennessee. Earlier in his career he was a licensed Professional Engineer (PE).

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