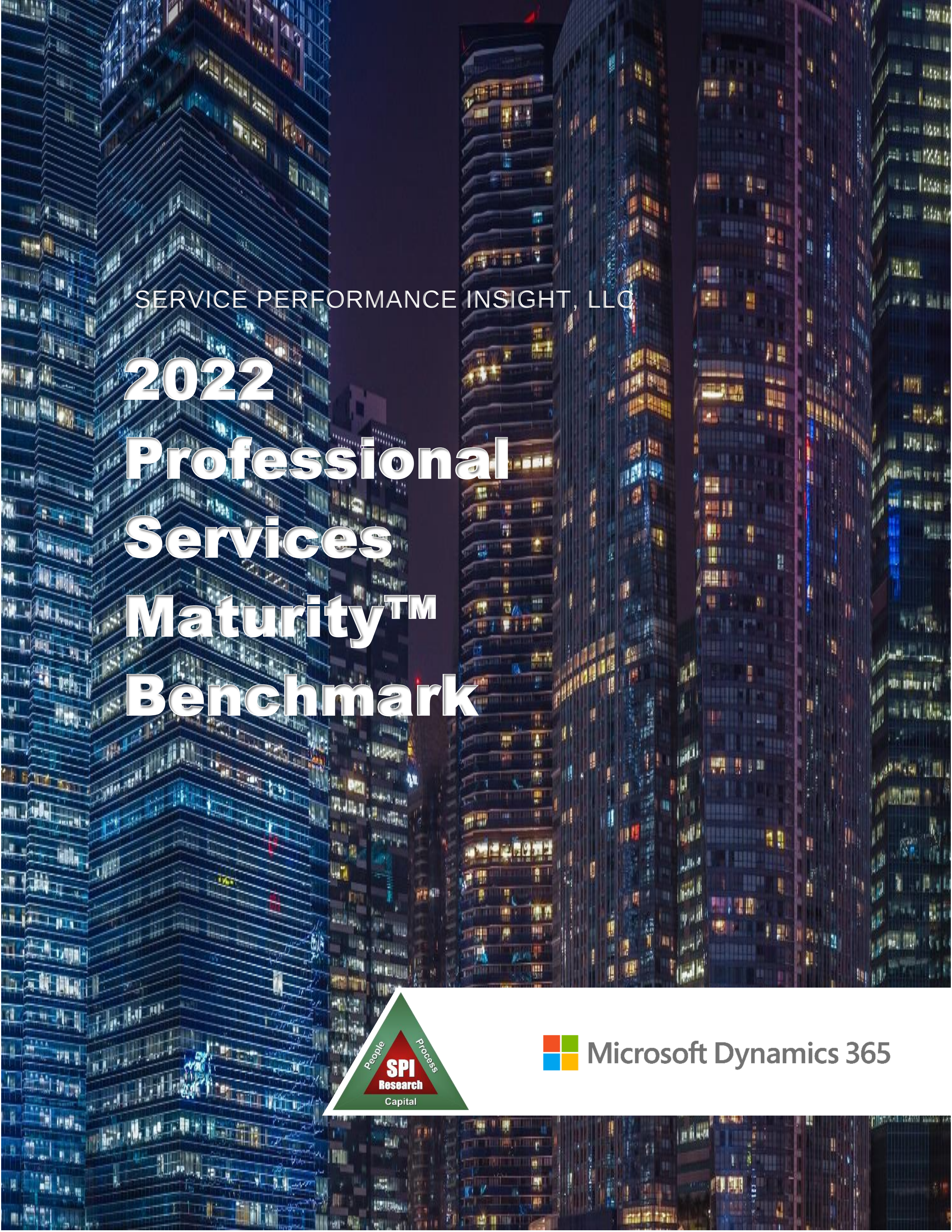

SERVICE PERFORMANCE INSIGHT, LLC

2022 Professional Services Maturity™ Benchmark

People Process SPI Research Capital

Microsoft Dynamics 365

Service Performance Insight

Service Performance Insight (SPI) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 35,000 service and project-oriented organizations to chart their course to service excellence.

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

- **Leadership**
- **Client Relationships**
- **Talent**
- **Service Execution**
- **Finance and Operations**

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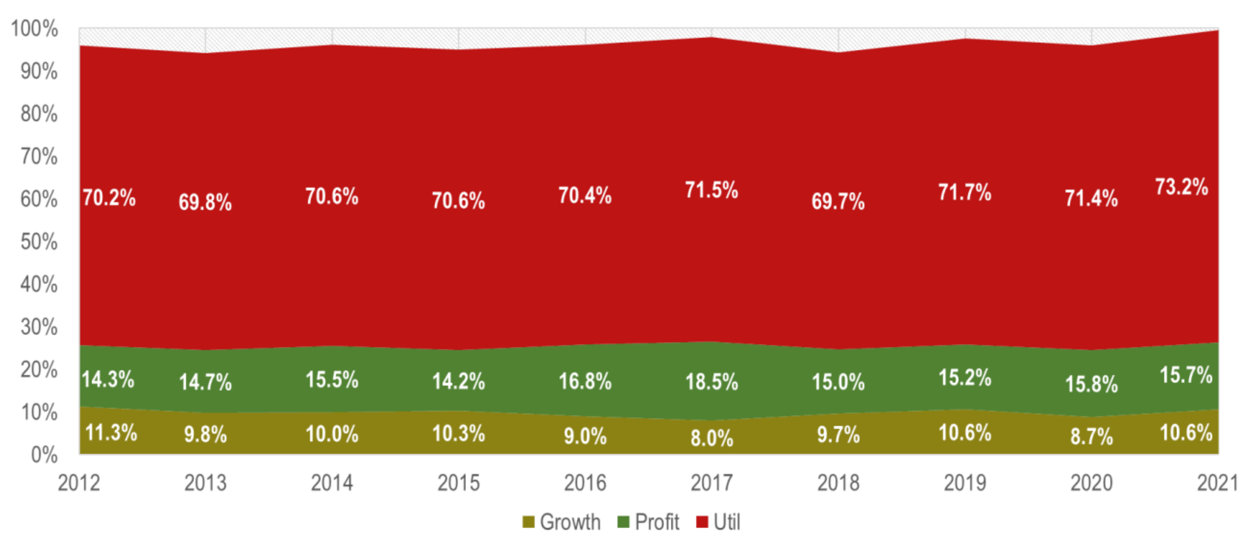
Foreword

Welcome to the 15th annual Professional Services Maturity™ Benchmark report! For the 15th year in a row Service Performance Insight has surveyed professional services organizations (PSOs) from around the world to analyze market dynamics, with the goal of providing project and services-based businesses a conclusive, fact-based benchmark for comparison. 15 years is a long time, especially in technology, but with your help this benchmark has grown from 52 participating organizations in 2007 to 540 in 2021. Over this time span, 5,174 organizations representing over 2 million consultants have contributed to this body of work, making it one of the most comprehensive industry benchmarks available.

The US economy grew 5.7% in 2021, the strongest growth since 1984, as the government provided nearly $6 trillion in pandemic relief. The gains of 2021 more than made up for the losses of 2020 when Covid-19 caused GDP to contract 3.4%, the biggest drop in 74 years. 2021 was the first time in 20 years that the U.S. economy grew faster than the Chinese economy. Despite worsening labor shortages, continued Covid concerns and high inflation, economists predict continued prosperity in 2022. Growth estimates for 2022 top 4%. The global Professional Services market mirrors world economic growth. In 2021 PS year-over-year revenues increased 22% to 10.6%, making it one of the best years in history. Most other major metrics improved as well with average billable utilization notching up to 73.2%, while net profit remained strong at 15.7%.

Figure 1: Professional Services Growth, Profit and Utilization Trends (2012 – 2021)



Source: SPI Research, February 2022

The past two years have been like no others in our survey's history. Covid has changed global dynamics and firms that did not, or could not, respond have faced difficulties, if they survived at all. The good news is that the professional services market was better prepared than most as it has been moving to provide more and more virtual consulting delivery for years. The virus has broken through cultural and technological barriers that prevented remote work in the past, setting in motion a permanent shift in how and where professional services work takes place. The pandemic has completely changed employment relationships. Those firms who could not respond with caring, compassion and support for isolated workers faced unprecedented attrition.

Then and Now - what has changed over the past 15 years?

A lot and a little! The fundamental building blocks of professional services have changed relatively little. The industry is still based on highly skilled workers who provide advice, guidance and know-how to help businesses improve their performance. However, the percentage of businesses that use consultants and the size of the IT services market, which includes consulting and managed services, has grown exponentially from $297 billion in 2007 to $1.3 trillion in 2022.

Table 1: Then and Now – 15-year Comparison

Key Performance Indicator (KPI)	2007	2021	▲
Year-over-year change in PS revenue	15.3%	10.6%	-30%
% of employees billable or chargeable	68.1%	73.9%	9%
Win ratio (per 10 bids)	5.36	5.17	-4%
Deal pipeline / to qtr. bookings forecast	213%	183%	-14%
Length of the sales cycle (days)	98	89	-10%
Total attrition	7.7%	14.0%	82%
Percentage onsite delivery	55.9%	33.9%	-39%
Employee billable utilization	65.3%	73.2%	12%
Annual revenue per billable consultant (k)	$197	$206	4%
Annual revenue per employee (k)	$134	$165	22%
Project margin for T&M projects	**32.2%**	**35.9%**	**12%**

Source: SPI Research, February 2022

Within the professional services industry, productivity and profit have soared (Table 1)! 15 years ago, only 68% of PS employees were in billable rolls compared to 74% in 2021 (a 9% increase) while average consultant billable utilization has notched up from 65% to 73% (12%). These productivity improvements have extended directly to the bottom line with revenue per employee skyrocketing from $134K to $165K (22%) while project margins have climbed from 32% to 36% (12%).

The work itself has changed dramatically as technology consultants no longer focus on custom-building applications, interfaces and reports from scratch, nor do they have to focus on plumbing as low code and no code applications have become the norm. Even better, the majority of professional services can now be performed virtually with on-site work declining from 56% to 34%, a 39% change. This means the highly skilled employees who comprise the professional services industry can work remotely, freeing them from the extreme travel requirements which have traditionally characterized the industry.

What changed from 2020 to 2021?

With a spike in consulting demand, year-over-year revenues grew by 22% and hiring almost doubled with year-over-year headcount growth of 67%.

As SPI Research predicted a year ago, employee attrition rose in 2021, as economic conditions improved giving employees more options. Voluntary attrition increased from 6.9% in 2020 to 9.8% in 2021. However, involuntary did not, it went down from 4.7% in 2020 to 4.2% in 2021. Few organizations resorted to letting employees go. The reduction in involuntary attrition helped PSOs keep overall attrition somewhat manageable, with a rise from 11.6% to 14.0% year-over-year.

Virtual consulting delivery dramatically reduced travel and business expense (20%), as consultants were only on site for 33.9% of billable hours in 2021, down from 40.2% in 2020. Hopefully, this trend will continue as clients and employers realize the benefits of remote service delivery with lower facility and travel expense combined with improved productivity.

Project size and duration increased in 2021 with average project revenue increasing to $181,000 based on average project duration of 25.9 man-months (Table 2). Profitability stayed about the same in 2021 (slightly down -0.1%), moving from 15.8% to 15.7%. Subcontractor expense and general and administrative costs went up. Otherwise, most professional services costs as a percentage of revenue went down in 2021.

Table 2: What Changed from 2020 to 2021? KPI Comparison

Key Performance Indicator (KPI)	2020	2021	▲
Year-over-year change in PS revenue	8.7%	10.6%	22%
Year-over-year change in PS headcount	5.5%	9.1%	67%
Revenue per project (k)	$154	$181	17%
Project duration (man-months)	22.7	25.9	14%
Employee annual attrition - voluntary	6.9%	9.8%	-42%
Employee annual attrition - involuntary	4.7%	4.2%	11%
Onsite delivery	40.2%	33.9%	-16%
Non-billable travel exp. as % of total revenue	1.5%	1.2%	20%
Profit (EBITDA %)	**15.8%**	**15.7%**	**0%**

Source: SPI Research, February 2022

Many organizations used 2021 to focus on business improvement initiatives. While the survey showed a decrease in the percentage of information systems used in 2021, those that implemented business solutions reported much higher levels of integration with their core financial management applications. This study is not a market adoption study, however, increases in integration go a long way to improving visibility and the overall performance shown in 2021.

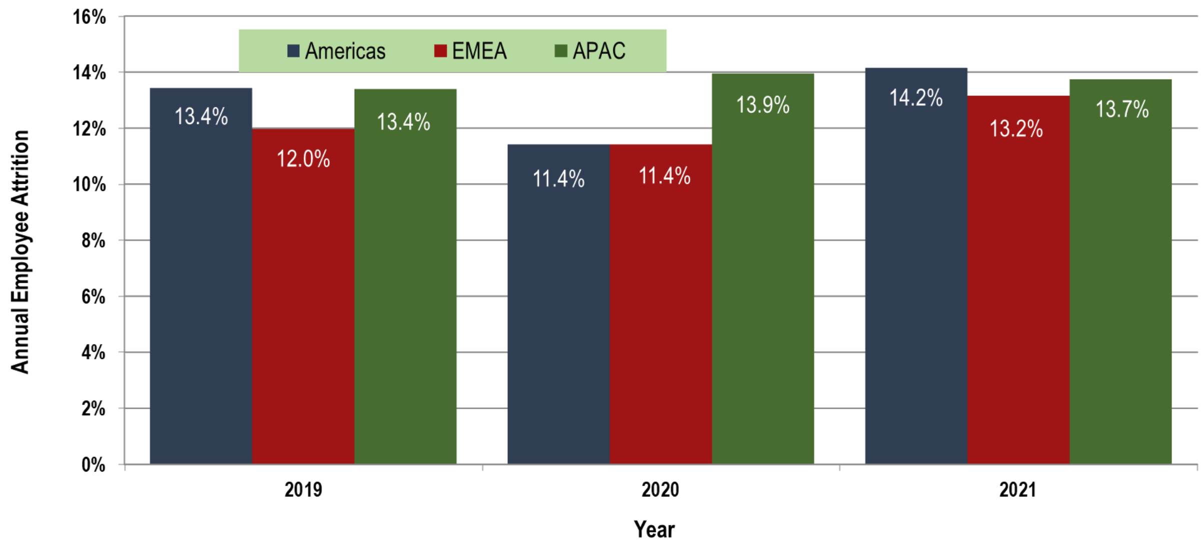
Talent Remains the Central Issue

Talent remains the central issue for professional services. What began a decade ago with the "talent cliff," in which technology executives realized there were not enough qualified candidates with the analytic and communication skills to replace retiring baby boomers, to the current climate, in which people are just plain tired of dealing with Covid, masks, closed facilities and too many Zoom meetings, which has led to "the great resignation". Whether consultants leave for greener pastures, leave the industry all together or decide to retire early, there simply are not enough talented people to fill the need. Professional Services is a talent-driven market, so PS executives must continue to scramble to find, hire, train and retain quality people.

Coming out of the crisis, the professional services market must accept a "new normal" in which over 75% of employees may never want to return to fulltime onsite work. The highly talented and skilled employees who make up professional services will have more input and control over the projects they work on, and the hours and locations from which they work. Leaders must support and celebrate working from home while adapting to new, more inclusive management styles and more targeted communication. Fortunately, as more employees become attuned to remote work, they will be able to move to lower cost locations and establish a work-life balance that allows them to accomplish leading edge work while still caring for themselves and their families.

Attrition continues to rise as consultants are lured away by better offers, signing bonuses and lucrative salary increases along with the promise of more interesting work and career advancement (Figure 2). A top priority for all organizations must be to establish themselves as "a great place to work".

Figure 2: Annual Employee Attrition Comparison by Geographic Region (2019 – 2021)

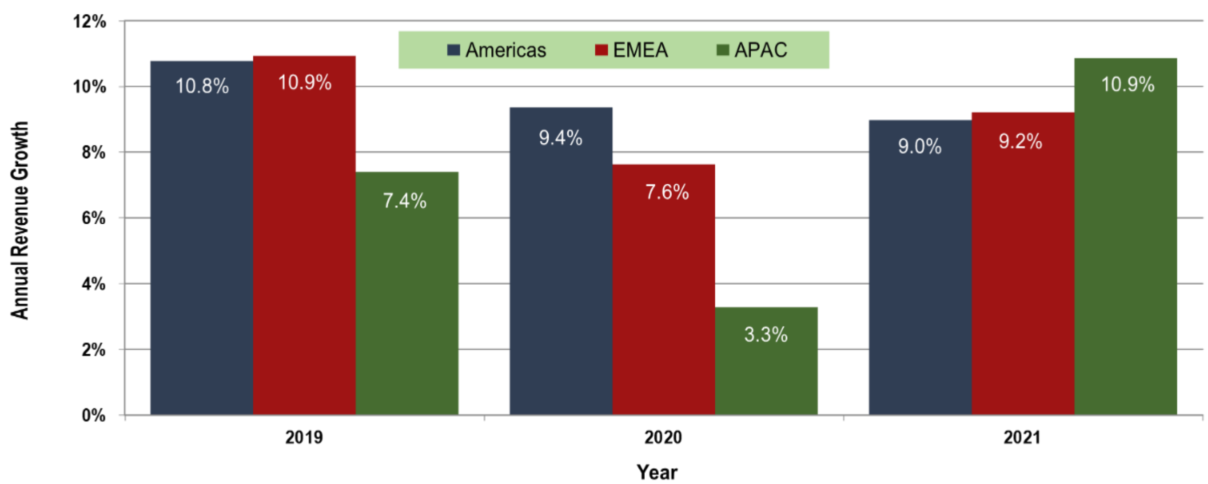


Source: SPI Research, February 2022

Professional Services is Back in Growth Mode

Growth is good for any industry, but it was particularly good for the PS market in 2021. Strong demand will continue as global businesses retool to become more and more digital and cloud-based. After the dampening impact of Covid in 2020, in which year-over-year revenue growth declined almost 2%, growth came roaring back in 2021 with a 22% increase to 10.6% (Figure 3).

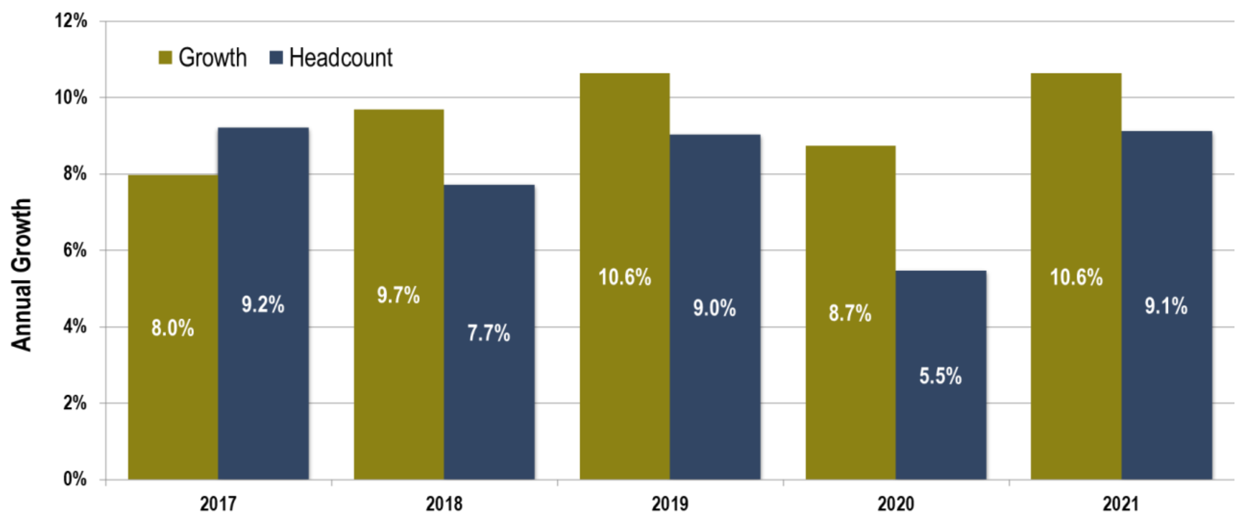
Figure 3: Annual Revenue Growth Comparison by Geographic Region (2019 – 2021)



Source: SPI Research, February 2022

Gartner predicts that businesses will continue to increase their reliance on external consultants as the accelerated rate of change and urgency of digital transformation outpaces their ability to hire and train their own employees to keep up with a mass migration to the cloud. In 2020, within the enterprise application software market, the cloud market became larger than the non-cloud market for the first time, due in part to the coronavirus pandemic. By 2025, Gartner expects it to be double the size of the non-cloud market. Cloud is responsible for nearly all the 11% spending growth within the enterprise software segment in 2022 as organizations focus on upgrading their software stack to software-as-a-service (SaaS) to support continued flexibility and agility.

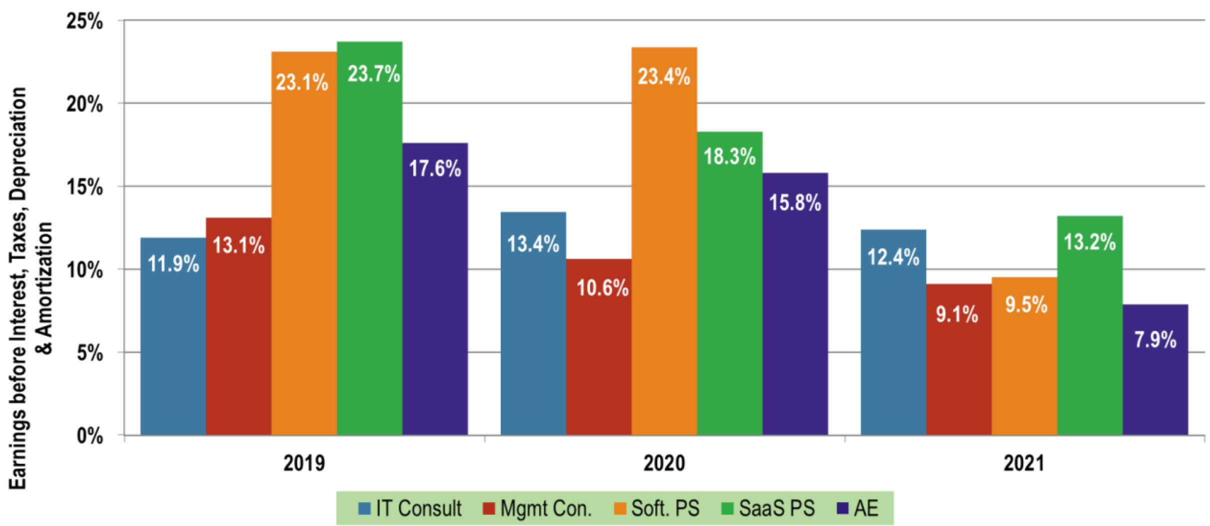
Figure 4: Professional Services Revenue Growth vs. Headcount Growth (2017-2021)



Source: SPI Research, February 2022

Headcount growth eclipsed revenue growth with a spike of 67% to bring year-over-year headcount growth to record setting 9.1%. Both revenue and headcount growth were extremely strong in 2021 which bodes well for continued prosperity in 2022. Unfortunately, much of the hiring went to replace leaving workers which may dampen revenue growth in 2022. Although year-over-year revenue growth actually declined in the top 5 vertical markets represented in this benchmark, other markets such as managed services, VARs, staffing and R&D reported double digit growth, propelling average PS year-over-year revenue growth to 10.6%.

Figure 5: Annual Revenue Growth Comparison by Sub-vertical PS Market (2019 – 2021)

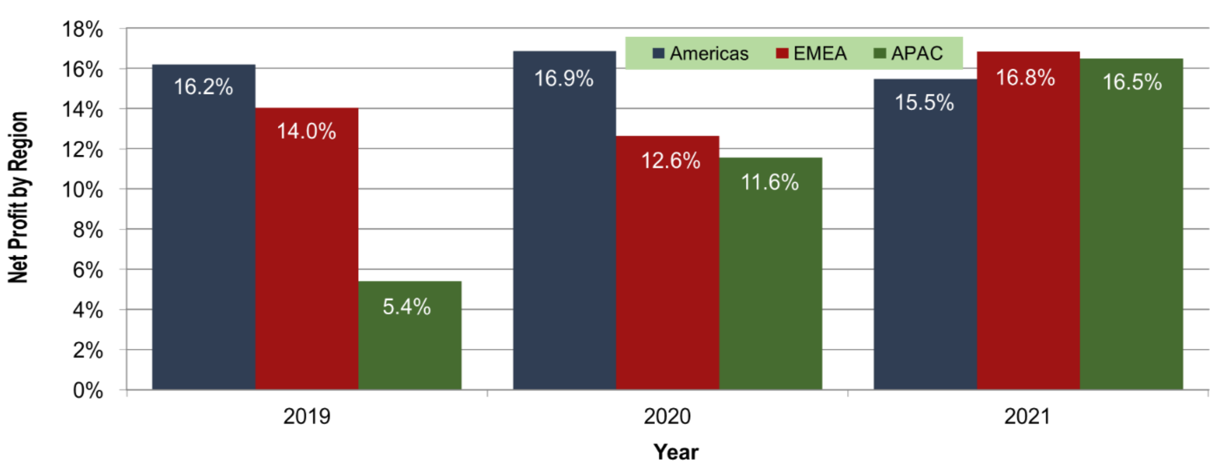


Source: SPI Research, February 2022

Profitability Remains Strong

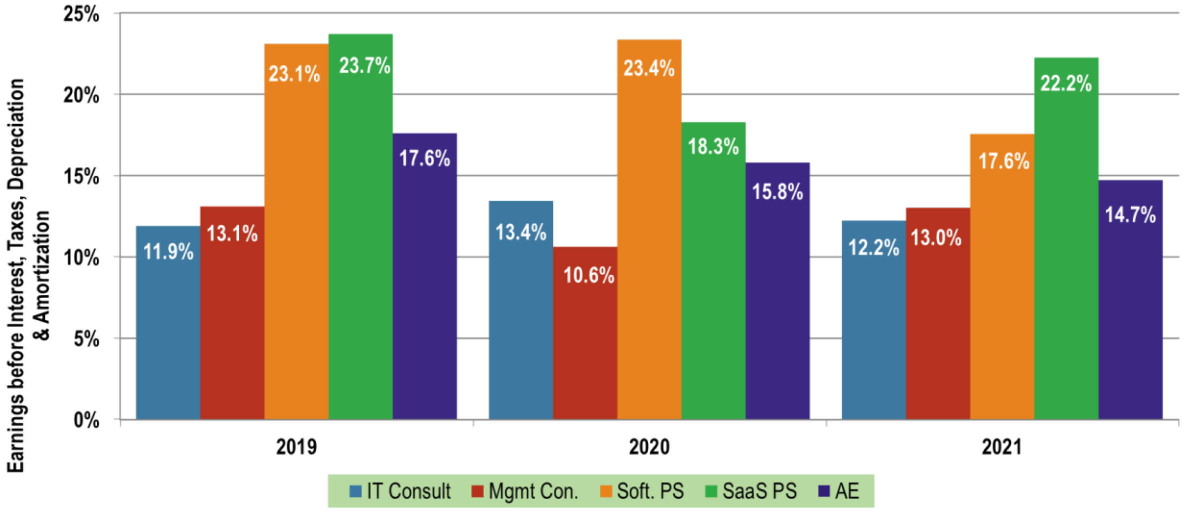
Over the past 15 years SPI has witnessed "boom" and "bust" cycles across the PS industry. Often, firms experience tremendous growth one year and are challenged to keep all their new employees and clients busy the next. In 2021 we see a "bust" to "boom" cycle in which the Covid cancelled or postponed projects of 2020 were replaced with a sense of urgency in 2021 – propelling record billable utilization while firms still tightly managed costs, resulting in strong industry average net profit achievement of 15.7%. 24 out of 540 organizations reported a net loss in 2021 compared to 25 out of 561 in 2020 but the gap between the best and the worst organizations narrowed considerably in 2021. As usual, the most profitable PS organizations are embedded PS within enterprise software and SaaS.

Figure 6: Net Profit Comparison by Geographics Region (2019 – 2021)



Source: SPI Research, February 2022

Figure 7: Annual Net Profit Comparison by Sub-vertical PS Market (2019 – 2021)



Source: SPI Research, February 2022

Thanks for supporting our work for the past 15 years! We hope you find loads of nuggets and insights in this report to help you grow and improve your organizations in 2022 and beyond! Dave and Jeanne

Chapter 1 – The Professional Services Maturity™ Model

SPI Research has spent the past 15 years benchmarking varying levels of operational control or process "maturity" to determine the characteristics and appropriate behaviors for Professional Services Organizations based on their organizational lifecycle stage. The fundamental questions SPI Research was seeking to answer when the PS Maturity™ Benchmark was first conceived remain our primary focus:

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

The original concept behind SPI Research's PS Maturity Model™ was to investigate whether increasing levels of standardization in operating processes and management controls improve customer satisfaction and financial performance. ***The 2022 PS Maturity™ Benchmark demonstrates that increasing levels of business process maturity do indeed result in significant performance improvements (Table 3).***

Table 3: Maturity Matters!

Key Performance Measurement	Maturity Level 1-2	Maturity Level 3	Maturity Level 4-5
Percentage of respondents	54.8%	25.0%	20.2%
Year-over-year change in PS revenue	9.5%	9.8%	14.5%
Deal pipeline / qtr. bookings forecast	135%	189%	227%
Employee billable utilization	68.0%	74.7%	77.0%
Projects delivered on-time	70.2%	80.7%	86.7%
Annual revenue / billable consultant (k)	$114	$208	$259
Annual revenue / employee (k)	$89	$169	$215
PS EBITDA	**3.2%**	**14.6%**	**22.5%**

Source: SPI Research, February 2022

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

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

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

1. **Leadership** – Vision, Strategy and Culture
2. **Client Relationships**
3. **Talent**
4. **Service Execution**
5. **Finance and Operations**

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

Service Performance Pillars™

Fifteen years ago, SPI Research developed a model that segments and analyzes a PSO into five distinct areas of performance that are both logical and functional. We call the five underpinning elements Service Performance Pillars™ because they form the foundation for all professional services organizations (Figure 7):

Figure 7: Service Performance Pillars™

Source: SPI Research, February 2022

1. **LEADERSHIP - VISION, STRATEGY AND CULTURE**: (*CEO*) a unique view of the future and the role the service organization will play in shaping it. A clear and compelling strategy provides a focus for the organization and galvanizes action. Effective strategies bring together target customers, their business problems, and how a solution solves those problems differently, uniquely, or better than its competitors. For a service strategy to be effective, the role and charter of the service organization must be defined, embraced, supported and 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 determine the "rules of the game" for decision making, structure and power. The core leadership pillar processes include setting strategy, business planning, goal setting and management.

2. **CLIENT RELATIONSHIPS**: (*Marketing and Sales*) the ability to communicate effectively with employees, partners and customers to generate and close business and win deals. Effective client management involves developing a clear and compelling go-to-market strategy which defines target buyers, their requirements and how our solution solves those challenges in a differentiated way.

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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 a high-quality consulting staff. With changing workforce demographics, talent management has increased in importance. High-caliber employees represent the essence, brand and reputation of the firm. PSOs have adopted hybrid on, near, and off-shore staffing models which put increased pressure on customer-facing staff to develop client relationships and more carefully define client requirements. Demands for career planning, skill development and flexible work options have intensified. The core talent management processes include recruiting, hiring, on-boarding, training, compensation, performance and career management.

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

5. **FINANCE AND OPERATIONS**: (*CFO*) the ability to manage services profit and loss — to generate revenue and profit while developing repeatable operating processes. The finance and operations pillar focus on revenue, margin and cost and the financial, contractual and IT operating processes and controls required to run a profitable and predictable business.

Professional Services Maturity™ Model Benchmark Levels

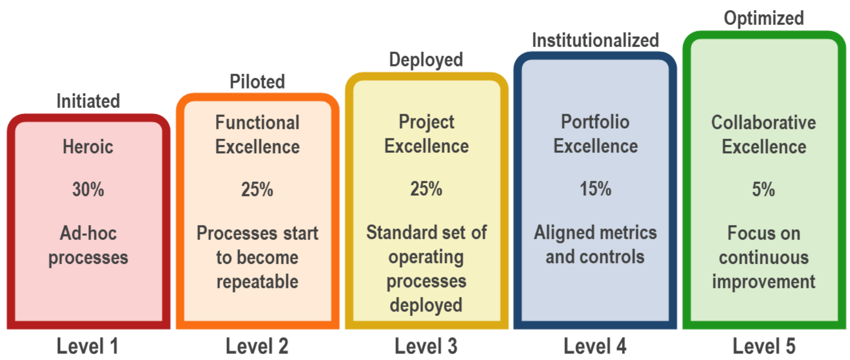
The model is built on the same foundation as the Capability Maturity Model (CMM), which has been adopted for software development; but is specifically targeted toward billable PSOs, that either exclusively sell and deliver professional services or complement the sale of products with services. Figure 8 depicts maturity level progression and outlines primary characteristics for each maturity level:

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

Figure 8: Services Maturity™ Model Levels



Source: SPI Research, February 2022

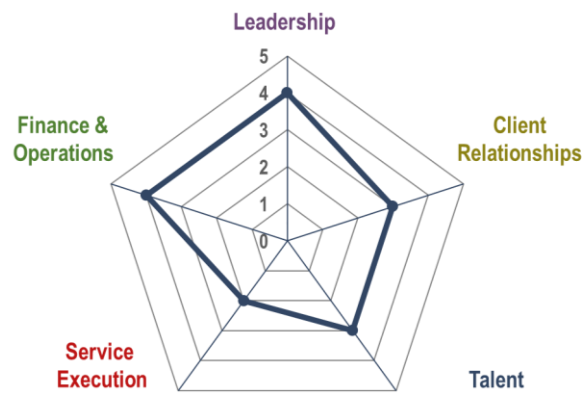
- ***LEVEL 3* — DEPLOYED "PROJECT EXCELLENCE"**: **(APPROXIMATELY 25% OF PSOS)** at maturity level 3, *the PSO has created a set of standard processes* and operating principles for all major service performance pillars, but renegades and "hold-outs" may still exist. Management has established and started to enforce financial and quality objectives on a global basis. Processes have been established to focus on effective execution and there is spotlight on alignment between and across functions. By level 3 project delivery methodologies and quality measurements are in place and enforced across the organization. ***Level 3 organizations should exhibit "Project Excellence" with a consistent, repeatable project delivery methodology.***
- ***LEVEL 4* — INSTITUTIONALIZED "PORTFOLIO EXCELLENCE"**: **(APPROXIMATELY 15% OF PSOS)** at maturity level 4, *management uses precise measurements, metrics and controls, to effectively manage the PSO*. Each service performance pillar contains a detailed set of operating principles, tools and measurements. Organizations at this level set quantitative and qualitative goals for customer acquisition, retention and penetration, in addition to a complete set of financial and quality operating controls and measurements. Processes are aligned to achieve leverage. The portfolio is balanced with a focus on project selection and execution. ***Level 4 organizations should exhibit "Portfolio Excellence".***
- ***LEVEL 5* — OPTIMIZED "COLLABORATIVE"**: **(APPROXIMATELY 5% OF PSOS)** at maturity level 5 *executives focus on continual improvement of all elements of the five performance pillars*. A disciplined, controlled process is in place to measure and optimize performance through both incremental and innovative technological improvements. Quantitative process-improvement objectives for the organization are established. They are continually revised to reflect changing business objectives and used as criteria in managing process improvement. Initiatives are in place to ensure quality, cost control and client acquisition. The rough edges between disciplines, functions, and specialties have been smoothed to ensure unique problems can be addressed quickly without excessive bureaucracy or functional silos. ***Level 5 organizations are visionary and collaborative both internally and with clients and external business partners.***

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

SPI Research summarizes individual PSO performance in a SPIder chart (Figure 9). The maturity scorecard provides a measurement for each organization in comparison to the benchmark maturity definitions and peer organizations. It provides an invaluable tool to analyze current performance and prioritize future improvement initiatives.

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

Figure 9: Service Performance Pillar Maturity™



Source: SPI Research, February 2022

Building the Professional Services Maturity™ Model

With core benchmark information gleaned across all primary business functions, SPI Research built the Professional Services Maturity™ Model that determines organizational maturity — by pillar — and provides guidance to advance to the next level (Table 4).

Table 4: Performance Pillars Mapped Against Service

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Leadership	Initial strategy is to support product sales and provide reference customers while providing workarounds to complete immature products. Leaders are "doers".	PS has become a profit center but is subordinate to product sales. Strategy is to drive customer adoption and references profitably. Leaders focus on P&L and client relationships.	PS is an important revenue and margin source, but channel conflict still exists. Services differentiate products. Leadership development plans are in place. Leaders have strong background & skills in all pillars.	Service leads products. PS is a vital part of the company. Solution selling is a way of life. PS is included in all strategy decisions. Succession plans are in place for critical leadership roles	PS is critical to the company. Service strategy is clear. Complimentary goals and measurements are in place for all functions. Leaders have global vision and continually focus on renewal & expansion.

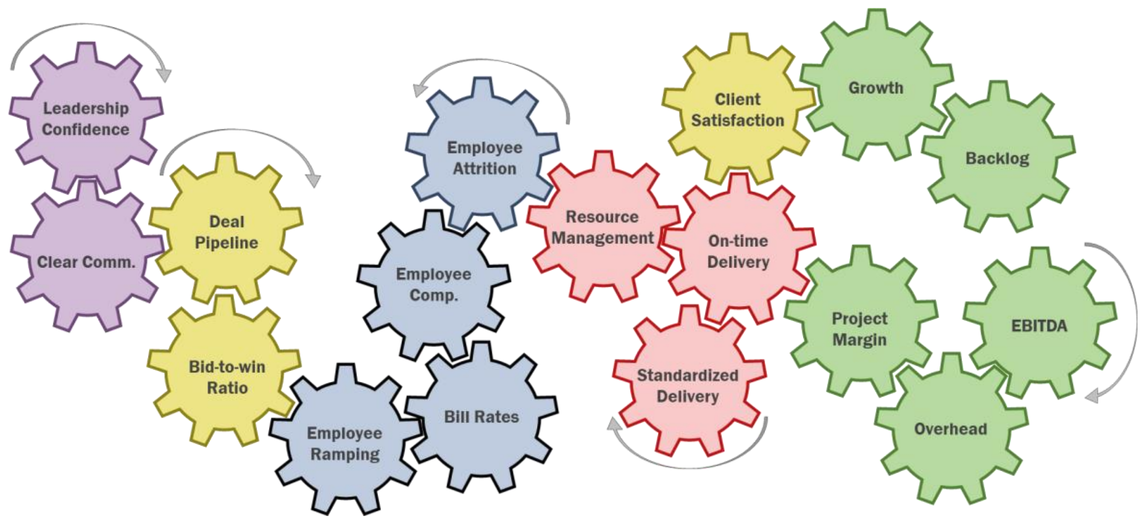
	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Client Relationships	Opportunistic. No defined solution sets or Go to Market plan. Focus is on new customers and reference building. Individual heroics, no consistent sales, marketing or partnering plan or methodology. No consistent estimating, quoting or contract management processes. Ad hoc, one-off projects.	Start to use marketing to drive leads. Multiple sales models. Start investing in sales training, CRM & sales methodology. Start measuring sales effectiveness & client satisfaction. Start developing partners and partner programs. Some level of proposal reviews and pricing control.	Marketing, inside sales, solution sales with defined solution sets. CRM integrated with financials and PSA. Deal, pricing and contract reviews. Partner plan and scorecard. Tight pricing and contract mgmt. controls. High levels of customer satisfaction.	CRM, PSA, ERP/CFM integration provides 360-degree view of client relationships. Business process, vertical and horizontal solutions. Vertical client centers of excellence. Top client and partner programs. Global contract and pricing management. Key partner relationships. Strong customer reference programs.	Executive relationships. Thought leadership. Brand building and awareness. High customer satisfaction. Integrated sales, marketing and partnering programs. Consistent, high quality marketing, sales, contract management and pricing processes, systems and measurements. High quality references.
Talent	Hire as needed. Generalist skills. Chameleons, Jack of all Trades. Individual heroics. May perform presales as well as consulting delivery and project management.	Begin forecasting workload. Start developing job and skill descriptions & compensation plans. Rudimentary career paths. Start measuring employee satisfaction.	Resource, skill and career management. Employee satisfaction and engagement surveys. Training plans. Aligned goals and measurements with compensation. Attrition <15%	Business process and vertical skills in addition to technical and project skills. Career ladder and mentoring programs. Training investments to support career. Low attrition, high satisfaction	Continually staff and train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peak demand. Sophisticated variable on and off-shore workforce models.
Service Execution	No scheduling. Reactive. Ad hoc. Heroic. Scheduling by spreadsheet. No consistent project delivery methods. No project quality controls or knowledge management.	Skeleton methodology in place. Centralized resource mgmt. Initiating project mgmt. and technical skills. Starting to measure project satisfaction and harvest knowledge.	PSA deployed for resource and project management. Collaborative portal. Earned Value Analysis. Project dashboard. Global Project Mgmt. Office, project quality reviews and measurements. Effective change mgmt.	Integrated project and resource management. Effective scheduling. Using portfolio management. Global PMO. Global project dashboard. Global Knowledge Management. Global resource management.	Integrated solutions. Continual checks and balances to assure superior utilization and bill rates. Complete visibility to global project quality. Multi-disciplinary resource management.
Finance and Operations	The PSO has been created but is not yet profitable. Rudimentary time & expense capture. Limited financial visibility and control. Unpredictable financial performance. Rudimentary contract and risk management.	5 to 15% margin. PS becoming a profit center but still immature finance and operating processes. Investment in CFM and PSA to provide financial visibility. May not have real-time visibility or BI. Standard Library of Contracts and Statements of Work.	15 to 25% margin. PS operates as a tightly managed P&L. Standard methods for planning, resource mgmt., time & expense mgmt., cost control & billing. In depth knowledge of all costs at the employee, sub-contractor & project level. Processes in place for contract management, legal and pricing decisions.	PS generates > 20% of overall company revenue & contributes > 30% margin. Well-developed finance and operations processes and controls. Systems have been implemented for CRM, PSA, CFM and BI. IT integration and real-time visibility. Systems have been implemented for contract management, legal and pricing decisions.	> 30% margin. Continuous improvement and enhancement. High profit. Integrated systems. Global with disciplined process controls and optimization. Completely integrated financial, CRM, resource management, contracts and pricing systems, processes and controls.

Source: SPI Research, February 2022

Why Maturity Matters

SPI Research believes wide support for the PS Maturity™ model is due to its holistic approach to measuring performance. ***Maturity is determined through alignment and focus both within <u>and</u> across functions*** (Figure 10).

Figure 10: Performance in one Area Impact Others Performance



Source: SPI Research, February 2022

For example, although financial measurements are of primary importance, they are equally weighted and correlated with leadership and sales and quality measurements to ensure organizations improve across all dimensions, not just in terms of financial performance. However, if the organization is profit-motivated (which most are), increasing maturity levels do show up in significant bottom-line profit. Figure 11 highlights major key performance measurements by maturity level and should alone be an important reason why PS executives should look deeper into using it to increase profits.

Figure 11: Professional Services Maturity™ Progression

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Firms	161	135	135	81	28
Year-over-year change in PS revenue	9.4%	9.6%	9.8%	13.5%	17.4%
Deal pipeline / quarterly bookings forecast	110%	165%	189%	213%	265%
Bid-to-win ratio (per 10 bids)	2.90	4.21	5.54	6.41	7.54
Employee billable utilization	57.3%	68.2%	77.2%	77.5%	82.5%
Projects delivered on-time	65.0%	76.5%	80.7%	85.6%	89.6%
Project margin	15.4%	26.4%	37.7%	47.2%	55.0%
Annual revenue per billable consultant (k)	$84	$150	$208	$253	$276
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

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Pillar Importance and Organizational Maturity

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

540 firms are represented in this year's survey, however, not every firm answered every question. Therefore, if a firm did not answer a specific question no analysis will be conducted on its impact. The following table shows the correlation of EBITDA (profit) and annual revenue growth. This table compares all the surveys with those that answered this specific question. SPI Research will eliminate the 21 firms that did not complete this question and therefore the EBITDA is 15.8% vs. the actual survey average of 15.7%. This 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	19	3.5%	0.8%	
Under -10%	41	7.6%	11.1%	11.1%
-10% - 0%	38	7.0%	7.5%	7.5%
0% - 5%	88	16.3%	13.0%	13.0%
5% - 10%	93	17.2%	21.3%	21.3%
10% - 15%	83	15.4%	14.3%	14.3%
15% - 25%	75	13.9%	17.4%	17.4%
Over 25%	103	19.1%	18.3%	18.3%
Total/Avg.	**540**	**100.0%**	**15.7%**	**15.8%**

Table 5 depicts the relative service performance pillar importance by organizational maturity level. Many professional services organizations are established without an initial focus toward optimizing performance. PSOs begin with the goal of establishing a client and reference base. They may be operated as a cost center or as an adjunct to the product function to establish alpha and beta customers and to provide early product feedback. Initially they often perform presales, training, quality assurance and service delivery tasks. They hope to deliver services that are both profitable to them as well as valued by their clients, but in reality, they take the position that "just about any deal is a good deal."

Table 5: Service Pillar Importance by Organizational Maturity Level

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

Source: SPI Research, February 2022

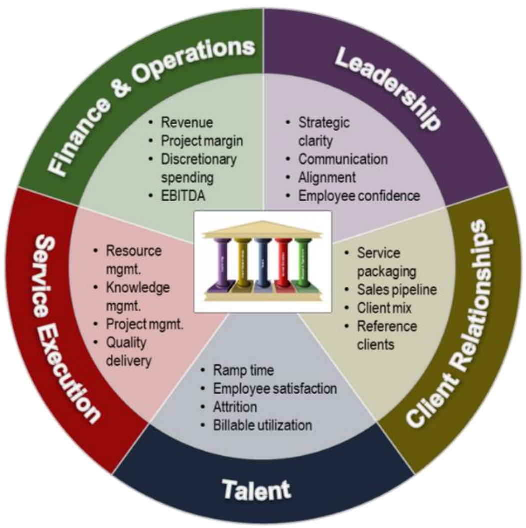
The emphasis at **Level 1** maturity is on building client references and recruiting highly skilled generalist consultants who are experienced enough and flexible enough to perform heroic feats to ensure early customer success.

By **Level 2**, although primary focus is still to create reference customers, more emphasis is placed on human capital alignment for recruiting and ramping skilled employees, partners and contractors.

Service execution focus is on developing repeatable project delivery methods and quality processes. At these early stages, many embedded professional services organizations have a strong product-driven focus, and the role of the service organization is subordinate to products. Conflicts between service profit, client success and driving product revenue are often characteristic of Level 2 embedded service organizations.

By **Level 3** the organization must move toward a more balanced focus on all elements of the business by investing in systems, operating processes, and repeatable methods to sustain growth and ensure quality. Level 3 maturity should be the aspirational target of all PS organizations because it is at level 3 that an on-going, profitable and sustainable business has emerged. At level 3 the charter of the PS organization is clear. If the organization is an embedded PS organization within a product company, PS has a seat at the executive table and is seen as adding value that transcends product implementation, integration and customization. Increasingly, embedded PS has become a critical component of ensuring customer adoption and may play a leading role in driving product management direction and strategy. Independent Level 3 PSOs are financially and operationally strong with a clear focus on 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.

Figure 12: PS Performance Pillars – Core KPIs



Source: SPI Research, February 2022

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

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

Chapter 2 – Survey Demographics

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

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

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

Each year SPI Research has expanded vertical market coverage to include additional specialized service segments to depict the nuances and metrics which pertain to these sub-verticals. This year the benchmark provides in-depth analysis of the accounting, architecture, engineering and marketing and advertising segments in addition to IT and Management Consultancies and embedded PS within software and SaaS companies. The legal industry is the only major professional services market which is not covered in this report as the requirements, processes and systems used by the legal industry tend to be very specialized.

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

For this benchmark, SPI Research surveyed 540 billable Professional Services Organizations (PSOs) from October through December 2021. The following sections outline the key markets which comprise the global professional services industry and breakdown the 2021 survey demographics in several key areas (market, organization size, and geographic region) to help PS firms compare their individual results to the benchmark.

Ebullient IT Spending

“Worldwide IT spending is projected to total $4.5 trillion in 2022, an increase of 5.1% from 2021, according to the latest forecast by Gartner, Inc. Despite the potential impacts of the Omicron variant, economic recovery with high expectations for digital market prosperity will continue to boost technology investments.”

2022 is the year that the future returns for the CIO, said John-David Lovelock, distinguished research vice president at Gartner. “They are now in a position to move beyond the critical, short term projects over the past two years and focus on the long term. Simultaneously, staff skills gaps, wage inflation and the war for talent will push CIOs to rely more on consultancies and managed service firms to pursue their digital strategies."

Gartner forecasts that the IT services segment – which includes consulting and managed services – is expected to have the second highest spending growth in 2022, reaching $1.3 trillion, up 7.9% from 2021 (see Table 6). Business and technology consulting spending, specifically, is expected to grow 10% in 2022.

Table 6. Worldwide IT Spending Forecast (Millions of U.S. Dollars)

	2021 Spending	2021 Growth (%)	2022 Spending	2022 Growth (%)	2023 Spending	2023 Growth (%)
Data Center Systems	216,337	11.4	226,475	4.7	237,021	4.7
Enterprise Software	604,946	14.4	671,732	11.0	751,937	11.9
Devices	787,417	13.0	813,699	3.3	804,253	-1.2
IT Services	1,186,103	10.7	1,279,737	7.9	1,391,742	8.8
Communications Services	1,444,324	3.4	462,712	1.3	1,494,167	2.2
Overall IT	**4,239,127**	**9.0**	**4,454,354**	**5.1**	**4,679,119**	**5.0**

Source: Gartner (January 2022)

Through 2025, organizations will increase their reliance on external consultants, as the greater urgency and accelerated pace of change widen the gap between organizations' digital business ambitions and their internal resources and capabilities, according to Gartner.

"This will be particularly poignant with cloud as it serves as a key element in achieving digital ambitions and supporting hybrid work," said Lovelock. "Gartner expects the vast majority of large organizations to use external consultants to develop their cloud strategy over the next few years."

In 2020, within the enterprise application software market, the cloud market became larger than non-cloud market for the first time, due in part to the coronavirus pandemic. By 2025, Gartner expects it to be double the size of the non-cloud market. Cloud is responsible for nearly all of the 11% spending growth within the enterprise software segment in 2022 as organizations focus on upgrading their software stack to software-as-a-service (SaaS) to support continued flexibility and agility."

Gartner goes on to say, "There is no business strategy without a cloud strategy," said Milind Govekar, distinguished vice president at Gartner. "The adoption and interest in public cloud continues unabated as organizations pursue a "cloud first" policy for onboarding new workloads. Cloud has enabled new digital experiences such as mobile payment systems where banks have invested in startups, energy companies using cloud to improve their customers' retail experiences or car companies launching new personalization services for customer's safety and infotainment."

In 2022, global cloud revenue is estimated to total $474 billion, up from $408 billion in 2021. Over the next few years, Gartner analysts estimate cloud revenue will surpass non-cloud revenue for relevant enterprise IT markets.

Low-Code and No-Code Technologies Use Will Nearly Triple by 2025

Application development will shift to application assembly and integration. The applications will be assembled and composed by the teams that use them. "The technological and organizational silos of application development, automation, integration and governance will become obsolete," said Govekar. "This will drive the rise of low-code application platforms (LCAPs) and citizen development."

By 2025, 70% of new applications developed by organizations will use low-code or no-code technologies, up from less than 25% in 2020. The rise of low-code application platforms (LCAPs) is driving the increase of citizen development, and notably the function of business technologists who report outside of IT departments and create technology or analytics capabilities for internal or external business use."

The North American Professional Services Market

SPI Research uses the North American Industry Classification System (NAICS) to analyze the U.S. services market. The primary Professional Services designation is NAICS 54xx which defines PS sub-verticals as ***"Those in this subsector engage in business processes where human capital is the major input. These establishments provide the knowledge and skills of their employees, often on an assignment basis, where an individual or team is responsible for the delivery of high value services to the client. The individual industries of this subsector are defined based on the particular expertise, training and credentials of the services provider (Table 7)".***

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

Table 7: 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).

Code	Market	Description
5415	Computer Systems Design Services Related Services	(IT Consulting) – This industry comprises establishments primarily engaged in providing expertise in the field of information technologies through one or more of the following activities: (1) writing, modifying, testing, and supporting software to meet the needs of a particular customer; (2) planning and designing computer systems that integrate computer hardware, software, and communication technologies; (3) on-site management and operation of clients' computer systems and/or data processing facilities; and (4) other professional and technical computer-related advice and services.
5416	Management Science and Technical Consulting Services	(Management Consulting) – This industry comprises establishments primarily engaged in providing advice and assistance to businesses and other organizations on management issues, such as strategy and organizational planning; financial planning and budgeting; marketing objectives and policies; human resource policies, practices, and planning; production scheduling; and control planning.
5417	Scientific Research and Develop. Services	This industry group comprises establishments engaged in conducting original investigation on a systematic basis to gain new knowledge (research) and/or the application of research findings or other scientific knowledge for the creation of new or significantly improved products or processes (experimental development). The industries within this industry group are defined on the basis of the domain of research; that is, on the scientific expertise of the establishment.
5418	Advertising and Related Services	(Marketing and Communications) – This industry comprises establishments primarily engaged in creating advertising or public relations campaigns and placing advertising in periodicals, newspapers, radio and television, or other media. These firms are organized to provide a full range of services (i.e., through in-house capabilities or subcontracting), including advice, creative services, account management, production of advertising material, media planning, and buying (i.e., placing advertising).
5419	Other Professional, Scientific, Technical Services	(Other PS) – This industry group comprises establishments engaged in professional, scientific, and technical services not listed above.
5613	Employment Services	Staffing, temporary employment, placement and employment search services.

Source: US Census and SPI Research, February 2022

Tables 8 and 9 provide a rollup of 2017 US Census data for these NAICS codes. There are 178,072 firms in these market segments; only 76,445 (42.9%) employ more than 20 people the remaining 57% employ less than 20 people. In other words, the industry is dominated by very small firms particularly in accounting; legal; management consulting and staffing.

Table 8: 2018 NAICS Services Rollup (Number of Firms)

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

NAICS	Market	Firms	Firms with over 20 employees	Employees in firms with over 20 emp.	% of total emp. in firms with over 20 emp.
5613	Staffing	22,720	5,674	2,609,315	91.9%
	Other PS	4,640	1,584	219,495	31.1%
	Total / Average	**178,072**	**76,445**	**16,337,480**	

Source: US Census and SPI Research, February 2022

Table 9: 2018 NAICS Services Rollup (Employees and Revenue)

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

Source: US Census and SPI Research, February 2022

PS Maturity™ Benchmark Vertical Market Demographics

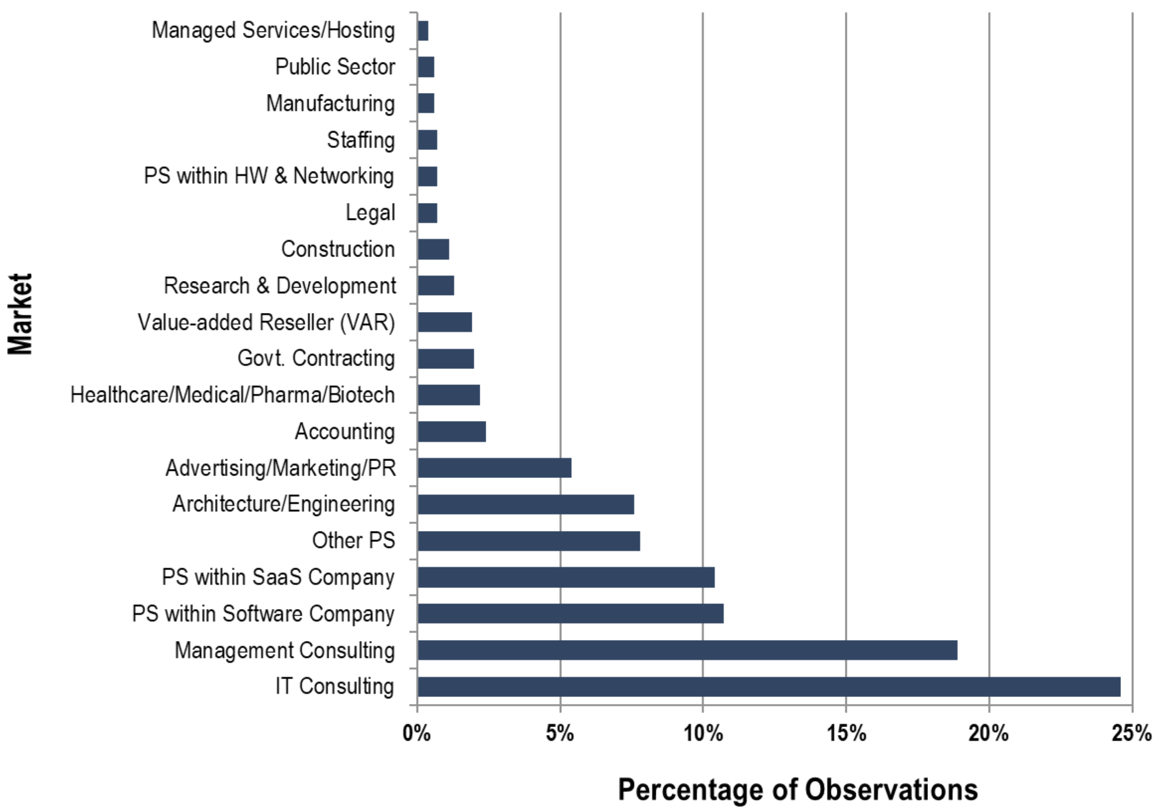
Table 10 shows the demographics of the 540 survey participants by PS vertical market.

Table 10: 2022 Professional Services Maturity™ Benchmark Vertical Market Participation

Market	Surveys	Survey %	Consultants
IT Consulting	133	24.6%	52,545
Management Consulting	102	18.9%	10,500
PS within Software Company	58	10.7%	22,340
PS within SaaS Company	56	10.4%	10,015
Other PS	42	7.8%	7,535
Architecture/Engineering	41	7.6%	7,660
Advertising/Marketing/PR	29	5.4%	6,000
Accounting	13	2.4%	1,610

Healthcare/Medical/Pharma/Biotech	12	2.2%	11,835
Govt. Contracting	11	2.0%	1,885
Value-added Reseller (VAR)	10	1.9%	1,610
Research & Development	7	1.3%	440
Construction	6	1.1%	15,095
Legal	4	0.7%	230
PS within HW & Networking	4	0.7%	3,310
Staffing	4	0.7%	7,830
Manufacturing	3	0.6%	765
Public Sector	3	0.6%	75
Managed Services/Hosting	2	0.4%	1,165
Total	**540**	**100.0%**	**162,445**

Figure 13: Benchmark Participant Vertical Market Distribution



Source: SPI Research, February 2022

Table 11 shows participant demographics for the past 15-years. Historically, IT consultancies have been the largest participating market, closely followed by management consultancies. Together PS within software and SaaS firms represented 21.1% of survey respondents. The popularity of this benchmark continues to grow, averaging more than 500 participating firms for each of the past seven years, making this **the most comprehensive global Professional Services benchmark**.

Table 11: Number of Participating Firms by Vertical Market (2007 through 2021)

Market	Type	2007-11	2012-16	2017	2018	2019	2020	2021	Total
IT Consulting	PSO	215	593	103	155	143	143	133	**1,485**
PS within Software	ESO	302	283	45	78	73	55	58	**894**
Mgmt. Consulting	PSO	89	199	45	75	68	84	102	**662**
Other PS	PSO	80	135	49	62	62	82	81	**551**
Arch./Engr.	PSO	17	109	153	100	44	35	41	**499**
PS within SaaS	ESO	63	136	29	70	55	64	56	**473**
Advertising	PSO	16	42	8	20	6	31	29	**152**
PS within HW/Net	ESO	35	39	6	12	14	6	4	**116**
Accounting	PSO	8	32	8	19	14	14	13	**108**
VAR	ESO	0	28	4	14	21	17	10	**94**
Managed Services	ESO	0	25	4	9	3	13	2	**56**
Res. & Dev.	PSO	0	22	0	4	7	7	7	**47**
Staffing	PSO	0	14	2	4	3	10	4	**37**
Total		**825**	**1,657**	**456**	**622**	**513**	**561**	**540**	**5,174**

Source: SPI Research, February 2022

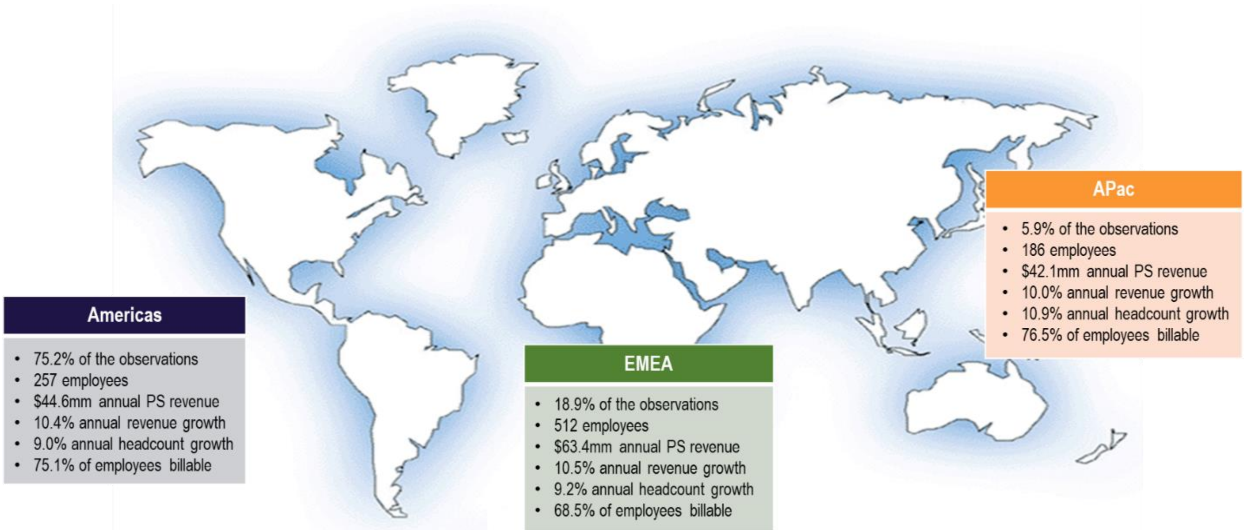
Table 12 shows 392 surveys came from independent firms while 148 came from ESOs (Embedded Service Organizations within product companies). North American headquartered firms dominated the study with 406 surveys while 102 came from EMEA-headquartered firms and 32 came from Asia Pacific (predominantly Australia and New Zealand). The average size organization this year employs 301 employees.

Table 12: Survey Participant Demographics by Organization Type and Geographic Region

Key Performance Indicator	2020	2021	ESO	PSO	Amer.	EMEA	APac
Surveys	561	540	148	392	406	102	32
Size of PS organization (employees)	548	301	345	284	257	512	186
Annual company revenue (mm)	$175.7	$112.4	$250.8	$61.5	$117.4	$90.7	$119.0
Total PS revenue (mm)	$81.4	$48.0	$67.1	$41.0	$44.6	$63.4	$42.1
YoY change in PS revenue	8.7%	10.6%	11.0%	10.5%	10.4%	11.5%	10.0%
YoY change in PS headcount	5.5%	9.1%	10.0%	8.8%	9.0%	9.2%	10.9%
% of employees billable	73.7%	73.9%	72.7%	74.3%	75.1%	68.5%	76.5%
% of PS rev. delivered by 3rd-parties	11.5%	11.3%	11.8%	11.2%	11.8%	9.4%	12.4%

Source: SPI Research, February 2022

Figure 14: Regional Demographics



Source: SPI Research, February 2022

By organization size, PSOs with between 301 – 700 employees grew the fastest and added the most PS headcount (Table 13). The PSOs with between 30 – 100 employees relied the most heavily on subcontractors to generate incremental revenue. In the high-growth professional services world, mergers and acquisitions are increasingly seen as one of the fastest ways to augment growth and to expand into hot new service and technology segments. Increasingly, the largest firms are augmenting their capabilities in SMAC (Security, Mobile, Analytics and the Cloud) while also investing in more strategic and vertical industry-focused practices.

Table 13: Survey Participant Demographics by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	87	101	156	116	46	34
Size of PS organization (employees)	5	20	65	200	500	3,049
Annual company revenue (mm)	$7.3	$10.9	$67.2	$122.2	$249.5	$696.6
Total professional services revenue (mm)	$2.5	$3.8	$15.2	$37.4	$97.6	$430.4
Year-over-year change in PS revenue	5.3%	10.3%	12.2%	11.0%	14.1%	12.0%
Year-over-year change in PS headcount	-0.4%	9.8%	10.6%	11.4%	13.0%	11.6%
% of employees billable or chargeable	69.2%	74.7%	74.4%	75.0%	76.0%	74.4%
% of PS revenue delivered by 3rd-parties	10.0%	11.1%	12.8%	10.1%	12.0%	12.3%

Source: SPI Research, February 2022

Tables 14 and 15 further analyze the survey demographics by vertical market, highlighting the markets surveyed. According to this year's survey, SaaS PS (embedded PS organizations within cloud companies) reported the highest year-over-year PS revenue growth at 13.2%. They were followed by IT consultancies and management consultancies.

Table 14: Survey Participant Demographics by Vertical Market

Key Performance Indicator (KPI)	IT Consulting	Mgmt. Consulting	Software PS	SaaS PS	Arch./ Engr.
Surveys	133	102	58	56	41
Size of PS organization (employees)	395	103	385	179	187
Annual company revenue (mm)	$87.0	$33.4	$275.2	$241.5	$29.4
Total professional services revenue (mm)	$48.9	$21.9	$81.6	$30.7	$25.1
Year-over-year change in PS revenue	12.4%	9.1%	9.5%	13.2%	7.9%
Year-over-year change in PS headcount	12.2%	7.3%	7.2%	12.0%	5.7%
% of employees billable or chargeable	75.7%	75.7%	71.3%	73.5%	77.9%
% of PS revenue delivered by 3rd-parties	13.4%	10.3%	14.1%	9.3%	7.7%

Source: SPI Research, February 2022

In 2017, PS industry hiring reached an all-time high with a 9.7% increase in headcount. In 2017, for the first time, SPI Research saw PS headcount growth exceed revenue growth. All of this hiring led to ebullient PS revenue growth of 9.7% in 2018 as all those new employees contributed to a surge in revenue. In 2019 the industry again experienced near-record hiring with 9.0% headcount growth and strong revenue growth (10.6%). With the onset of the Covid pandemic, both headcount growth and revenue growth slowed considerably in 2020 to 5.5% and 8.7% respectively. In 2021 SPI saw headcount growth rise again to 9.1%. Unfortunately, attrition also rose in 2021 so much of the hiring was to replace leaving workers. Finding and retaining talent is consistently the greatest challenge and opportunity area in the labor intense world of professional services. SPI predicts robust hiring will continue throughout 2022.

Table 15: Survey Participant Demographics by Market

Key Performance Indicator (KPI)	Advertise. / PR	Acct.	Health/ Med/Pharm	Govt. Contact	All Others
Surveys	29	13	12	11	85
Size of PS organization (employees)	207	124	986	171	448
Annual company revenue (mm)	$37.2	$41.5	$315.3	$45.0	$114.4
Total professional services revenue (mm)	$24.9	$41.5	$180.3	$45.0	$70.4
Year-over-year change in PS revenue	7.3%	13.5%	4.3%	7.0%	11.9%
Year-over-year change in PS headcount	5.0%	6.9%	15.2%	4.1%	9.2%
% of employees billable or chargeable	72.6%	67.5%	79.5%	69.1%	70.1%
% of PS revenue delivered by 3rd-parties	8.0%	7.9%	15.2%	10.9%	11.8%

Source: SPI Research, February 2022

Type of Work Sold

SPI Research analyzed the type of work sold, (Table 16). Technology and IT consulting represents almost 45% of the work sold by ESOs. ESOs are no longer just selling implementation, integration and customization on either a time and materials or fixed priced basis; now those services, just like software, are being sold "as a service". This business model shift heightens the need for PSA or project-based accounting solutions. Providers must not only track labor and utilization costs but also ensure those costs are within committed subscription cost levels. Additionally, systems must now support complex multi-element contracts and billing. The percentage of managed service, recurring revenue has risen over the past five years and now stands at 9.0% (down from 9.2% in 2020).

Table 16: Type of Work Sold by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Business / management consulting	27.8%	34.0%	18.8%	39.7%	35.3%	30.0%	29.9%
Technology or IT consulting	34.6%	34.4%	44.7%	30.5%	34.3%	35.2%	33.3%
Subscription services	9.6%	6.0%	12.2%	3.7%	5.7%	7.1%	6.4%
Managed services	9.2%	9.0%	8.9%	9.1%	9.0%	10.6%	4.4%
Staff augmentation	6.3%	5.6%	5.3%	5.7%	5.3%	6.5%	6.0%
Hardware, software or equipment	3.5%	2.4%	4.0%	1.8%	1.8%	3.1%	7.2%
Other	9.0%	8.6%	6.1%	9.6%	8.6%	7.5%	12.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2022

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

Table 17: 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	56.3%	37.1%	34.1%	22.6%	18.1%	26.0%
Technology or IT consulting	19.1%	33.5%	37.4%	40.3%	40.2%	35.0%
Subscription services	7.0%	4.5%	3.7%	8.8%	6.3%	8.8%
Managed services	5.1%	5.4%	10.1%	10.5%	17.4%	9.2%
Staff augmentation	2.7%	4.4%	5.4%	6.7%	7.0%	10.9%
Hardware, software or equipment	1.3%	2.5%	2.2%	2.3%	3.4%	4.6%
Other	8.5%	12.6%	7.0%	8.8%	7.6%	5.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2022

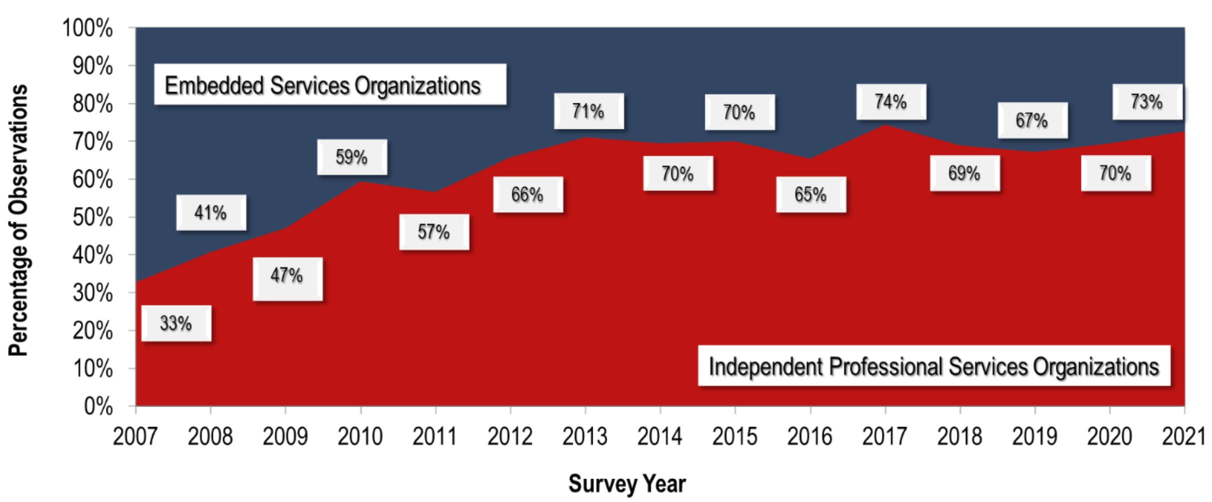
The breakdown of services sold becomes even more interesting as organizations are parsed by size. Smaller firms tend to sell more business or management consulting than the larger firms as the vast majority of management consultancies are quite small boutiques. Technology consulting lends itself to economies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

PSO Type

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

There are more than 25,000 software, hardware, IT and managed Services companies in the United States; more than 99 percent are small and medium-sized firms (i.e., under 500 employees). This total includes software publishers, suppliers of custom computer programming services, computer systems design firms, and Managed Services providers. This segment of the PS industry draws on a highly educated and skilled US-based workforce of over 5.4 million people. Figure 15 shows nearly 75% of this year's benchmark participants are independent firms.

Figure 15: Independent vs. Embedded Organizations Surveyed (2007 – 2021)



Source: SPI Research, February 2022

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

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

Embedded Services Organizations (ESOs): ESOs operate much like PSOs; however, they are part of a product-driven organization. The majority of ESO participants focus exclusively on their company's own technology but many of the largest ESOs like IBM and HP services provide global IT consulting, managed services and outsourcing not associated with their company's products. For the small to mid-size ESOs, their primary charter is to successfully implement their company's products. Increasingly the charter of embedded PS has expanded to include client adoption with a focus on reducing time to value. While they are focused on professional service revenue and profit, they are often asked to perform non-billable presales, proof of concept and customer satisfaction services at little to no charge. They enable external clients but must also support internal sales, support and engineering constituencies. At maturity levels 1 and 2, their primary focus is on project delivery and building a reference base.

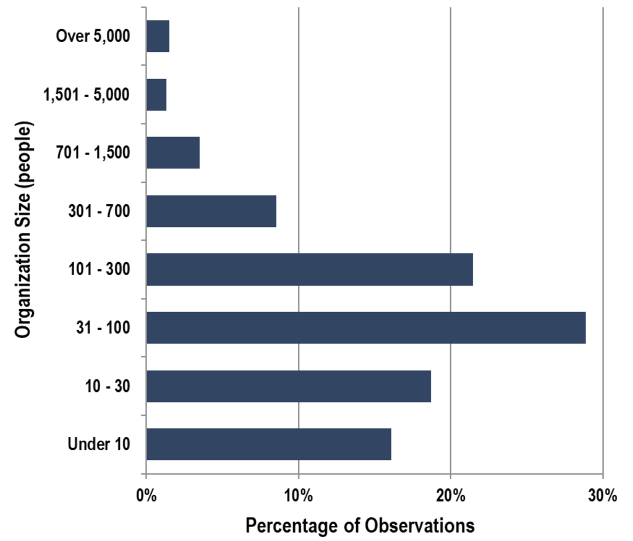
For ESOs, lead generation, marketing and sales are primarily provided by the product sales organization however as they mature, many are starting to develop their own "sales selling service" organizations. In this survey a majority of the ESOs were part of software and cloud solution vendors (ISVs). 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.

Organization Size

The average size organization in the Professional Services Maturity™ Benchmark was 301 PS employees this year. This year's survey is based on firms who employ over 160,000 consultants worldwide making it the most comprehensive study of the Professional Service industry. Figure 16 highlights survey distribution by PS headcount. The largest percentage of firms have between 31 and 100 employees, which has been the case for several years now. Embedded services organizations average 345 PS employees whereas independents averaged 284. Firms headquartered in EMEA averaged 512 PS employees; the Americas averaged 257 and Asia-Pacific averaged 186 PS employees per firm. Software PS organizations averaged 385 PS employees and SaaS averaged 179, underscoring the importance of embedded PS within these organizations. IT consultancies (395) and Management consultancies (103) also had a substantial PS workforce. Architect and engineering firms averaged 187 employees while marketing and advertising agencies averaged 207 PS employees.

Figure 16: Organization Size



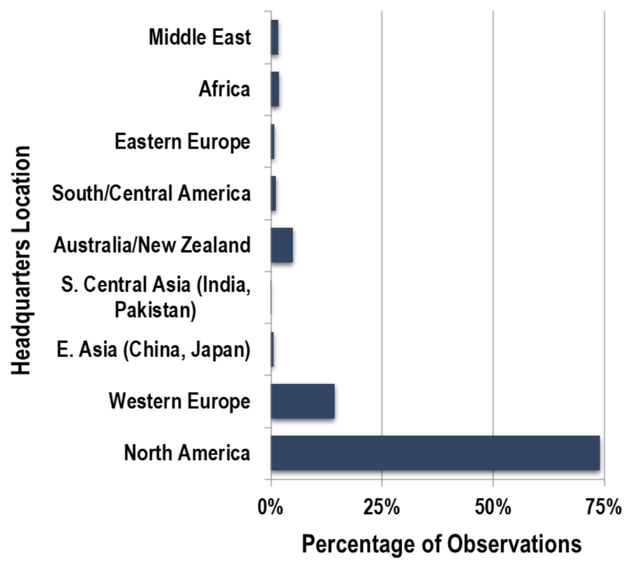
Source: SPI Research, February 2022

Headquarters Location

SPI Research works with professional services organizations from around the world and encourages them to participate in the benchmark survey. Survey participation from firms headquartered outside of North America, (Europe, Middle East, Africa (*EMEA*) and Asia-Pacific (*APac*)) represented nearly 25% of the survey. (Figure 17).

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

Figure 17: Headquarters Location – Region



Source: SPI Research, February 2022

Total Company Revenue

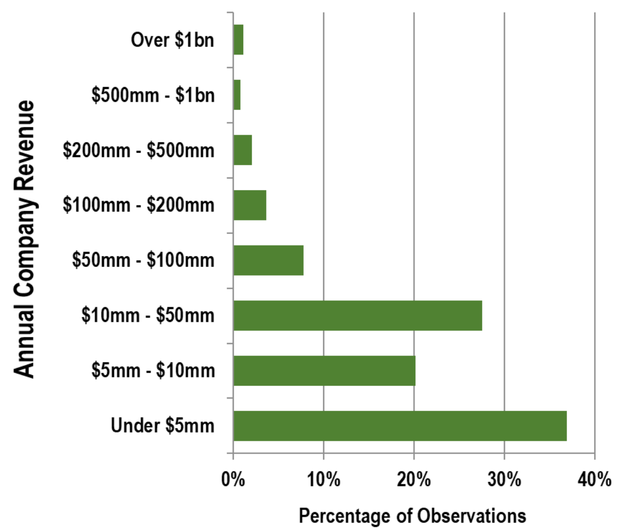
In this survey, many of the PS organizations are part of a larger enterprise that also sells a variety of other products and services. Many of the independent professional service providers also sell products or the responding group is an individual practice within a larger firm. Many technology service organizations have multiple lines of business which may include management consulting, managed services, outsourcing and staffing. Therefore, it is important to note total annual company revenue. In this year's survey the average organization generated $112.4 million in total revenue including $48.0 million in PS revenue (Figure 18). The percentage of total revenue produced by PS represented 42.7% this year. The percentage of overall PS revenue contribution has been steadily increasing, reflecting the importance of the new "everything as a service" economy.

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 18).

Embedded PSOs averaged $67.1 million in PS revenue and the independents averaged $41.0 million. The average across all 540 participants was $48.0 million compared to $81.4 million in 2020. In this year's survey firms headquartered in the Americas produced $44.6mm compared to $63.4mm for EMEA and $42.1mm for APac headquartered firms.

Figure 18: Total Professional Services Revenue



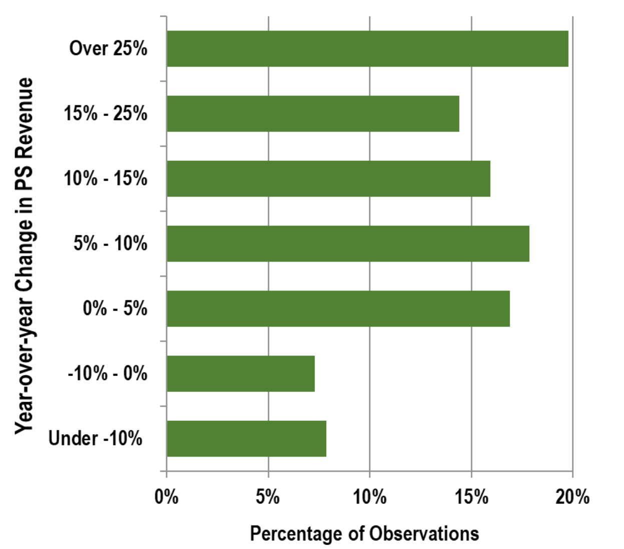
Source: SPI Research, February 2022

Year-over-year change in PS Revenue

For the past five years, PS annual revenue growth has averaged 9.5%. In 2020, due to Covid-19, annual PS revenue growth declined to 8.7%, down from 10.6% in 2019. In 2021 things got better, with hiring back up to 10.6%. Despite the pandemic, all PS subsegments reported 2021 revenue growth. The slowest growth was reported by advertising agencies (7.3%) and architecture / engineering (7.9%). 50% of the firms grew revenues by over 10% (Figure 19). 32% of the firms grew revenues by less than 5% and the rest grew revenues by 5 to 10%.

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

Figure 19: Year-over-year Change in PS Revenue



Source: SPI Research, February 2022

Table 18: Year-over-year Change in PS Revenue

	Total	ESO	PSO	Americas	EMEA	APac
2020	8.7%	10.6%	7.9%	9.4%	7.6%	3.3%
2021	10.6%	11.0%	10.5%	10.4%	11.5%	10.0%
Change	**22%**	**3%**	**32%**	**12%**	**51%**	**205%**

Source: SPI Research, February 2022

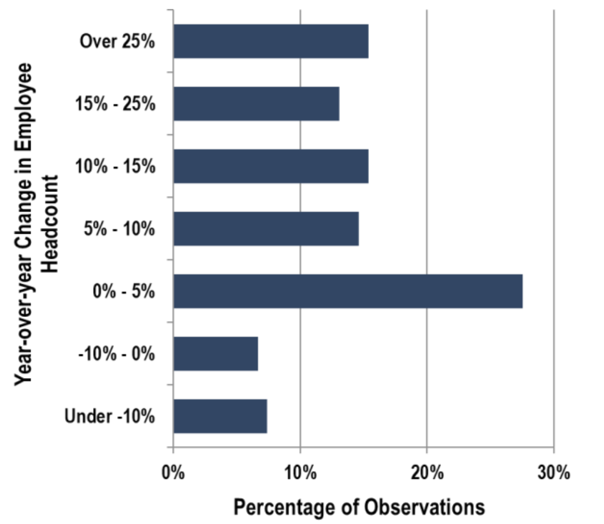
Table 19: Year-over-year Change in PS Revenue by Market

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	6.6%	8.8%	7.2%	11.6%	6.5%	10.0%
2021	12.4%	9.1%	9.5%	13.2%	7.9%	7.3%
Change	**89%**	**4%**	**33%**	**14%**	**20%**	**-27%**

Source: SPI Research, February 2022

Year-over-year Change in PS Headcount

Figure 20: Year-over-year Change in PS Headcount



Source: SPI Research, February 2022

2017 saw a surge in headcount growth which tapered off slightly in 2018 but rebounded in 2019. Typically, headcount growth trails revenue growth by approximately 3 percentage points. In 2021 SPI Research found the spread to be 1.5% (10.6% revenue growth, 9.1% headcount growth). This lowered difference is due to PSOs working to add talent following the slowdown caused by the pandemic in 2020.

Despite skilled talent shortages, SPI Research still has not seen significant wage growth. Although hiring bonuses and huge salaries are prevalent for senior, experienced resources.

2021 has been characterized as the year of the "Great Resignation" with employees leaving in droves for better opportunities or to improve their life/work balance. In November 2021 alone, roughly 4.5 million US workers voluntarily left their jobs. Organizations are scrambling to understand why, and strategies abound to stop the talent exodus. Research has shown there is no single reason to explain the highest worker attrition in a lifetime. Rather it is a combination of factors including the strain and pressure from working from home which are taking a toll. Women have been disproportionally burdened with childcare, home schooling and elder care responsibilities on top of grueling and inflexible work schedules. Quick fixes to hire and retain top talent have fallen flat but enduring support for a virtual and collaborative work environment is of greater importance than ever before as is continuing education and skill building to advance the knowledge and careers of all employees.

Table 20 shows overall professional services hiring nearly double with the greatest surge coming from EMEA and APac.

Table 20: Year-over-year Change in PS Headcount

	Total	ESO	PSO	Americas	EMEA	APac
2020	5.5%	6.3%	5.1%	6.2%	2.9%	1.3%
2021	9.1%	10.0%	8.8%	9.0%	9.2%	10.9%
Change	**67%**	**59%**	**73%**	**44%**	**217%**	**718%**

Source: SPI Research, February 2022

By vertical market, IT consulting reported the highest headcount growth at nearly 3 times the pace of 2020. All verticals experienced a surge in hiring.

Table 21: Year-over-year Change in PS Headcount by Market

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.8%	5.9%	6.7%	7.0%	2.1%	5.6%
2021	12.2%	7.3%	7.2%	12.0%	5.7%	5.0%
Change	**156%**	**24%**	**7%**	**70%**	**175%**	**-11%**

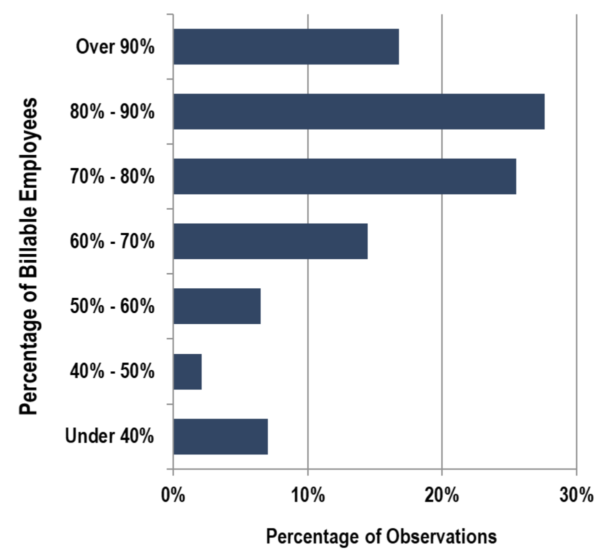
Source: SPI Research, February 2022

Percentage of Employees Billable or Chargeable

SPI Research found the percentage of billable employees grew from 72.8% in 2018 to 73.3% in 2019 and 73.7% in 2020 and now 73.9% in 2021 (Figure 21). PSOs have worked hard to eliminate non-revenue producing positions but the span of management control has remained fairly constant at 1:10. Table 22 shows independents have a slightly higher percentage of billable employees. Independents reported 74.3% billable employees compared to 72.7% for ESOs. Organizations with 301 to 700 employees reported the highest billable percentage (76.0%). By vertical, Architecture & Engineering firms reported the highest billable percentage (77.9%).

By geography, Asia Pacific has the highest billable percentage while EMEA has the lowest. The EMEA region reported 68.5% of their employees billable; APAC 76.5% and Americas 75.1%.

Figure 21: Percentage of Employees Billable



Source: SPI Research, February 2022

Table 22: Year-over-year Change in % of Employees Billable or Chargeable

	Total	ESO	PSO	Americas	EMEA	APac
2020	73.7%	71.7%	74.6%	73.7%	72.1%	78.0%
2021	73.9%	72.7%	74.3%	75.1%	68.5%	76.5%
Change	**0%**	**1%**	**0%**	**2%**	**-5%**	**-2%**

Source: SPI Research, February 2022

By vertical market, architects and engineers employ the highest percentage of billable employees while embedded software PSOs have the least.

Table 23: Year-over-year Change in % of Employees Billable or Chargeable by Market

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	75.4%	78.2%	71.4%	74.6%	75.0%	74.5%
2021	75.7%	75.7%	71.3%	73.5%	77.9%	72.6%
Change	**0%**	**-3%**	**0%**	**-2%**	**4%**	**-3%**

Source: SPI Research, February 2022

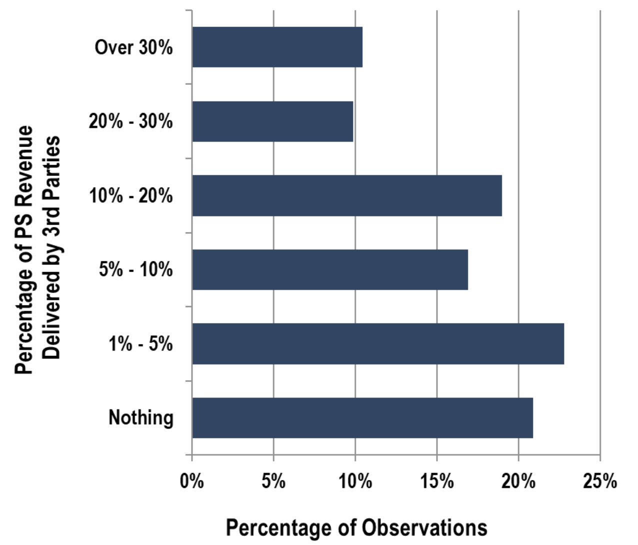
Excessive non-billable headcount creates a top-heavy organization or is a symptom of poor sales and marketing effectiveness and/or poor systems. But as in all things PS, there is a delicate balance that must be maintained. Non-billable headcount and time is a necessary component of leadership and developing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

Percentage of PS Revenue Delivered by Third Parties

Figure 22 shows the distribution of survey responses in terms of the amount of revenue generated by third-party resources. The average percent of PS revenue generated by subcontractors was 11.3%. ESOs used a third-party workforce to generate 11.0% of revenue, whereas independents reported 10.5%. APac used a third-party workforce for to generate 12.4% of revenue; the Americas 11.8% and EMEA averaged 9.4%.

By vertical, IT Consultancies used the most outside subcontractors, generating 13.4% of revenues. Subcontractor use grows proportionately with organization size.

Figure 22: Percentage of PS Rev. Delivered by 3rd-parties



Source: SPI Research, February 2022

Table 24: Year-over-year Change in % of PS Revenue Delivered by 3rd-parties

	Total	ESO	PSO	Americas	EMEA	APac
2020	11.5%	10.9%	11.8%	11.1%	14.1%	11.1%
2021	11.3%	11.8%	11.2%	11.8%	9.4%	12.4%
Change	**-2%**	**8%**	**-5%**	**6%**	**-33%**	**12%**

Source: SPI Research, February 2022

Table 25: Year-over-year Market Change in % of PS Revenue Delivered by 3rd-parties

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	14.4%	10.1%	11.4%	10.0%	11.6%	9.4%
2021	13.4%	10.3%	14.1%	9.3%	7.7%	8.0%
Change	**-7%**	**2%**	**23%**	**-7%**	**-33%**	**-15%**

Source: SPI Research, February 2022

Chapter 3 – High Performance PSOs

SPI Research annually conducts in-depth analysis of the top 20% of PS Maturity™ benchmark participants to uncover the reasons for their superlative performance. This year the focus of this chapter is on the top 20%, or as SPI Research likes to call it, ***High-Performance PSOs*** (Level 4 and Level 5 performers). The top 20% represent organizations that have performed exceptionally well, but not with targets so high that other PSO's cannot aspire to become like them.

In this year's benchmark, SPI Research focuses on the top 108 firms according to aggregate PS Maturity™ scores. Each of the 540 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-performing organizations to the rest of the survey participants.

Pillar Performance

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

Demographics

Table 26 highlights the 108 High-Performance PSOs. 71% were independents while 29% were embedded services organizations (ESOs).

Table 26: High-Performance PSO Comparison – Demographics

Key Performance Indicator (KPI)	HPP	Rest	▲
Number of firms	108	432	
Size of PS organization (employees)	268	309	-13%
Annual company revenue (mm)	$134.1	$106.8	26%
Total professional services revenue (mm)	$59.3	$45.1	31%
Year-over-year change in PS revenue	14.7%	9.6%	54%
Year-over-year change in PS headcount	14.1%	7.9%	79%
% of employees billable or chargeable	78.8%	72.6%	9%
% of PS revenue delivered by 3rd-parties	14.6%	10.5%	39%

Source: SPI Research, February 2022

The HPPs were slightly smaller in terms of numbers of employees, but they had both much higher revenue growth and headcount growth compared to their peers. SPI has continually found a direct correlation between growth and high performance. The fastest growing firms typically outdistance their slow or no growth peers by a wide margin. Leading firms exhibit voracious expansion while lesser firms struggle to survive. Nearly 79% of the employees in high performance firms are billable compared to only 72.6% for the others. Anyone who works in the professional service market knows there is "no shade" as each and every employee must continually demonstrate their worth vis a vis the generation of client revenues. High performance organizations supplement their growth by employing a higher percentage of third-parties (subcontractors).

Leadership

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

Leaders at the best firms foster a work environment that is fair and well-managed with ample rewards and career progression. Because employees understand and share in the success of these organizations, the atmosphere is one of collaboration, trust and loyalty. "No jerks allowed" characterizes leading firms with a low tolerance for abusive bosses.

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 27 compares the leadership metrics of the highest performing organizations with the remainder of the survey. The highest differential score is in the "clarity of vision, mission and strategy" and "innovation focus".

Table 27: High-Performance PSO Comparison – Leadership Pillar (1-5 Scale)

Key Performance Indicator (KPI)	HPP	Rest	▲
Well understood vision, mission and strategy	4.29	3.88	11%
Confidence in PS leadership	4.42	4.09	8%
Ease of getting things done	4.11	3.77	9%
Goals and measurement alignment	4.07	3.73	9%
Employees have confidence in PSO's future	4.34	4.01	8%
Effectively communicates w/employees	4.31	3.92	10%
Embraces change - nimble and flexible	4.21	3.97	6%
Innovation focused	4.19	3.77	11%

Source: SPI Research, February 2022

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

Client Relationships

In this year's benchmark, high performers focused on fewer clients and generated much greater revenue per client, indicating deeper and more valuable client relationships. HPP organizations tend to generate more new logo client revenue than average firms as they are continually expanding their client base. HPPs generated 31.3% of their revenue from new logo clients compared to 26.2% for average firms. The high-performing firms were much more productive at sales in large part due to the fact that their clients are much happier and more referenceable with a 7% better net promoter score. (Table 28) They 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. The largest differentiator in terms of key performance indicators other than the total number of active clients was that of references. Client reference ability, or more satisfied clients, tends to go a long way in terms of driving growth, profit and employee satisfaction. Many firms have implemented customer success programs to ensure their clients are satisfied with the work, and if not, they rapidly work to fix it.

Table 28: High-Performance PSO Comparison – Client Relationships Pillar

Key Performance Indicator (KPI)	HPP	Rest	▲
Total annual number of active closed clients	241	891	-73%
Current clients - Existing services	57.6%	59.3%	-3%
Current clients - New services	11.1%	14.5%	-23%
New Logo Clients - Existing services	23.4%	16.3%	43%
New Logo Clients - New services	7.9%	9.9%	-20%
Win-to-bid ratio (per 10 bids)	6.29	4.77	32%
Deal pipeline relative to qtr. bookings forecast	228%	168%	36%
Sales cycle	89	89	0%
Average service discount given	5.8%	6.8%	15%
Solution development effectiveness	4.11	3.57	15%
Service sales effectiveness	3.84	3.56	8%
Service marketing effectiveness	3.42	3.18	8%
Percentage of referenceable clients	80.2%	72.9%	10%
Overall Net Promoter Score	53	50	7%
FTE services sales employees	7.3	9.2	-21%
Ann. service sales revenue quota / person (mm)	$1.92	$1.31	46%
Average realized hourly bill rate	$203	$190	7%

Source: SPI Research, February 2022

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

Talent

Talent is a primary focus and hot topic for all service firms. In an increasingly competitive talent market, HPPs have become laser-focused on their employment brand. Organizations are embracing technology to help 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 technologies with an emphasis on knowledge sharing and collaboration.

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

Just finding talent is not enough. This year's High-Performance firms focused on ramping and employee training to develop a qualified workforce. Some create rotational assignments to give their employees greater exposure to other technologies and clients. Employees who are continually learning and expanding their knowledge base tend to stay with their employer. When the work is not challenging or interesting, morale suffers, and attrition rises. By necessity, most firms have moved to a 100% virtual environment but the high performers had already moved to support virtual operations before Covid forced them to. This 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 and esprit de corps.

Table 29 compares Talent Pillar KPIs between the High-Performance PSOs and the others. Employee attrition, whether voluntary or involuntary went up this year to 15% for HPPs compared to 13.6% for the rest. SPI Research found voluntary attrition went up, as leading firms lost people to others, while involuntary attrition went down, meaning leading firms did not eliminate headcount as much in 2021. In 2020 the pandemic limited the ability of employees to seek new opportunities but 2021 brought an avalanche of resignations.

Table 29: High-Performance PSO Comparison – Talent Pillar

Key Performance Indicator (KPI)	HPP	Rest	▲
Percentage of workforce that is male	58.6%	56.1%	4%
Employee annual attrition - voluntary	10.3%	9.6%	-8%
Employee annual attrition - involuntary	4.7%	4.0%	-18%
Recommend company to friends/family (1 to 5)	4.67	4.35	7%
Days to recruit and hire for standard positions	62.1	65.9	6%
Days for a new hire to become productive	51.7	61.8	16%
Guaranteed annual training days / employee	8.23	9.44	-13%
Well-understood career path (1 to 5 scale)	3.48	3.21	8%
Employee billable utilization	77.6%	71.6%	8%
Annual fully loaded cost per consultant (k)	$142	$121	18%
Onsite delivery	**21.5%**	**39.4%**	**-45%**

Source: SPI Research, February 2022

SPI Research also found high performers bring employees in faster because they have better recruiting and onboarding programs resulting in faster ramp times to billability. Two of the more significant differences between HPPs and the rest are that high-performance firms have much higher billable utilization then the rest. On average their employees bill an additional 200 hours per year per consultant (8%). And while they had higher fully loaded costs than the others, the HPP firms made up for it in terms of higher billable utilization. They also did a much better job of supporting remote employees, which reduced nonproductive time, while impacting billable utilization very positively.

Service Execution

Table 30 compares service execution metrics between the High-Performance organizations and the rest. High quality service execution is what really sets top performing PSOs apart. They tend to be highly disciplined in all facets of service execution. The table points out leaders tackle larger, more mission critical projects. Their projects require more staff for longer periods of time. Given the scale and complexity of their projects, remarkably, they are able to deliver most of them on-time and on-budget. They deliver projects with quality and integrity and are far more likely to use a standardized delivery methodology which results in more projects delivered on-time, fewer project overruns and fewer project cancellations. Because the best firms deploy the best consultants and effectively use PSA to exceed client expectations, every facet of their projects are more profitable.

The table shows improvement in virtually every Service Execution Pillar metric, except the number of projects delivered. HPP firms were able to staff projects much faster than the others. They also sold much larger projects in terms of revenue, people and project duration.

Perhaps the most notable differences were the ability of high-performance firms to deliver projects on-time and minimize project overruns. These are two critical KPI's that have a direct correlation with client satisfaction. They also impact employee satisfaction, as no one wants to work on projects that are over-budget and delivered late.

Table 30: High-Performance PSO Comparison – Service Execution Pillar

Key Performance Indicator (KPI)	HPP	Rest	▲
Average project staffing time (days)	9.37	9.66	3%
Number of projects delivered per year	312	501	-38%
Average revenue per project (k)	$260	$151	72%
Average project staff (people)	4.22	4.13	2%
Average project duration (months)	6.36	6.18	3%
Projects delivered on-time	86.9%	77.6%	12%
Average project overrun	6.3%	8.8%	29%
Use a standardized delivery methodology	75.0%	66.9%	12%
Project margin for time & materials projects	46.3%	31.8%	46%
Project margin for fixed price projects	47.4%	31.5%	50%
Average project margin — subs, offshore	40.2%	23.0%	75%
Onsite delivery	**21.5%**	**39.4%**	**-45%**

Source: SPI Research, February 2022

Many of the HPP firms used a structured, or standardized, delivery methodology to deliver projects, enabling consultants to better understand what is expected on every project and to visualize deliverables and duration to make sure they meet their commitments. What was also notable was that on-site delivery was much lower for HPPs, as they had the ability to support more projects simultaneously while working virtually. Project margins were also significantly higher for these firms, which impacts organizational profit.

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Finance and Operations

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

Table 31 shows the enviable financial results from this year's High-Performance PSOs. Notable is the annual revenue per billable consultant and per employee. These figures are significantly higher for the high performing firms. What should also be noted is that the HPPs do a much better job of planning both revenue and margin. In 2021 this capability was seriously tested. SPI Research is impressed at how close the high performing firms came to meeting their financial goals. The table shows just how important proper planning is up front, and when circumstances change, as they certainly did throughout 2021, PSO's must respond.

Table 31: High-Performance PSO Comparison – Finance and Operations Pillar

Key Performance Indicator (KPI)	HPP	Rest	▲
EBITDA	**18.9%**	**13.9%**	36%
Annual revenue per billable consultant (k)	$246	$187	32%
Annual revenue per employee (k)	$209	$144	44%
Quarterly revenue target in backlog	56.8%	40.1%	41%
Percent of annual revenue target achieved	101.8%	93.6%	9%
Percent of annual margin target achieved	99.5%	88.6%	12%
Revenue leakage	3.41%	4.61%	26%
% invoices redone due to error/client rejections	1.7%	2.0%	17%
Days sales outstanding (DSO)	44.0	43.3	-2%
Quarterly non-billable expense per employee	$1,283	$1,294	1%
Executive real-time wide visibility	3.93	3.56	11%

Source: SPI Research, February 2022

Leaders kept their non-billable expenses lower than the others, but not by much, and had much higher better real time information visibility, which helps drive operational success, as executives can see and react to changes more quickly and appropriately.

The High-Performance PSOs Use and Integrate PS Applications

Table 32 depicts the level of commercial business application use and integration for top performing organizations versus the rest. In all dominant business applications categories, top performers invest more in business applications and do a better job of integrating them. Because they use these applications to run the business, they are much more satisfied with their application infrastructure.

As noted in the prior section, high performance PSO's have better information visibility then lower performing firms. Table 32 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)
- Business Intelligence (BI)

In professional services, PSA is the core solution to drive operational results. As can be noted from the table over 83% of HPP firms use PSA, and nearly two-thirds have it integrated with the core financial management solution, which gives executives the ability to understand project related data in real-time. Also important is the fact that three quarters of the HPP firms integrated PSA with the core CRM solution. This integration is important because the two groups that directly interact with clients, sales and delivery, must have consistent information to coordinate the best way to plan, sell, staff and deliver professional services. SPI Research has discussed for years the importance of information integration. Visibility throughout the PSO ensures everyone is operating with the same information to achieve organizational goals.

Table 32: High-Performance PSO Comparison – Business Applications

Solution	HPP	Rest	Delta
Corporate financial mgmt. solution (CFM)	99.1%	93.5%	6%
Satisfaction with financial solution	3.90	3.84	1%
Commercial CRM solution	84.3%	76.4%	10%
Satisfaction with CRM solution	4.17	4.00	4%
CRM is integrated with CFM	40.2%	46.0%	-12%
Commercial PSA	83.3%	74.1%	13%
Satisfaction with PSA solution	4.10	3.93	4%
PSA is integrated with CFM	72.4%	57.4%	26%
Level of CRM and PSA Integration	51.9%	36.3%	43%
Commercial HCM solution	67.0%	64.7%	4%
Satisfaction with HCM solution	3.59	3.80	-6%
HCM is integrated with CFM	37.1%	38.9%	-5%
Use a commercial BI solution	60.6%	50.8%	19%
Satisfaction with BI solution	4.00	3.85	4%
BI is integrated	62.3%	42.0%	48%

Source: SPI Research, February 2022

High-Performance Conclusions

This chapter focuses on the superlative results and best practices of the top 20% of organizations in the benchmark, highlighting how leading firms perform. It takes dedication, insight and hard work to stay ahead of the competition and the market. Firms from around the world have used SPI's benchmarks and scorecards to measure and improve their businesses. Excellence is within reach with the right strategy supported by the great people and integrated tools and repeatable processes. Now is the time to analyze these results to create your own High Performance plan.

Chapter 4 – Professional Services Business Applications

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

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

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

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

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

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

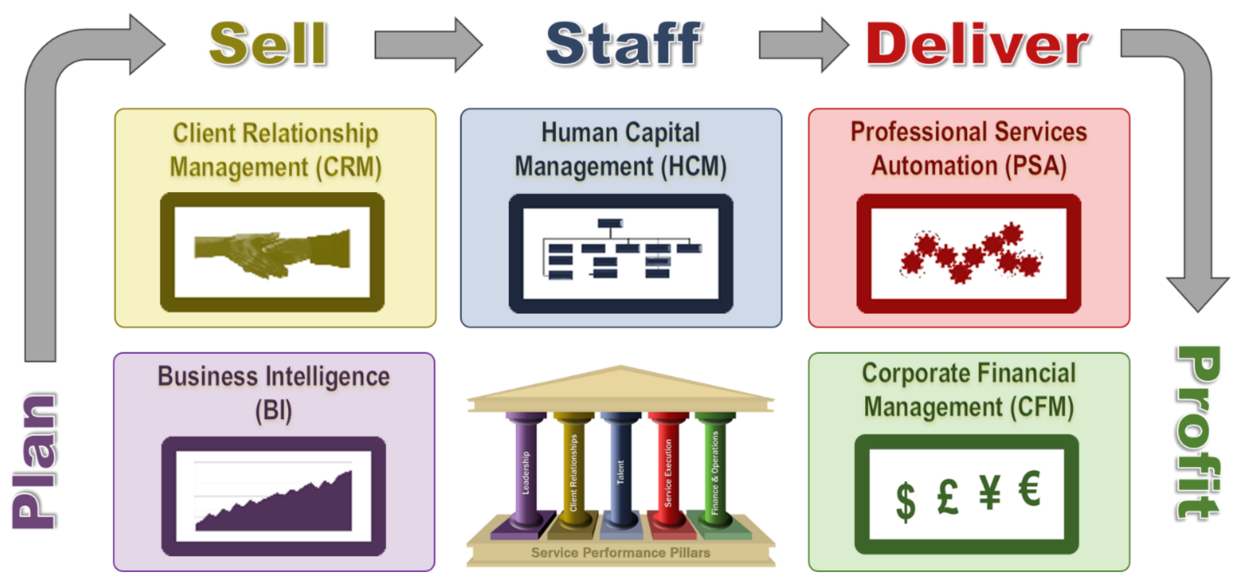
survey and should not be relied on as such. The solutions highlighted in this chapter help PSOs optimize operational effectiveness through increased visibility, streamlined business processes and cost management.

Primary Professional Services Business Applications

The primary business applications used by Professional Services organizations are:

- Δ ***Corporate Financial Management (CFM) or Enterprise Resource Planning (ERP)***: The fundamental solution required to accurately collect and report financial transactions.
- Δ ***Client Relationship Management (CRM)***: The automation of client relationship processes to improve sales and marketing efficiency and effectiveness.
- Δ ***Professional Services Automation (PSA)***: The initiation, planning, execution, close and control of projects and services through the management and scheduling of resources that include people (both internal and partners), materials and equipment.
- Δ ***Human Capital Management (HCM)***: Talent management solutions for recruiting, hiring, compensation, goal setting and career and performance management which rely on integration with and extracts from the employee database.
- Δ ***Business Intelligence (BI)***: The assembly and use of information to improve decision-making.
- Δ ***CPQ***: New solutions are coming to market to improve service quoting. The missing link between traditional PSA and CRM tools has been the ability to harvest past project templates and costs to propel accurate quotes and proposals. New services CPQ (Configuration, Pricing and Quoting) tools aim to improve the effectiveness and accuracy of services quoting by acting as glue between the sales cycle and delivery cycle by bringing quoting and estimating together.

Figure 23: Core Professional Services Business Applications



Source: SPI Research, February 2022

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.

PS Solution Adoption

In this year's survey, commercial adoption slightly declined in the primary business applications of CRM, HCM and PSA while adoption increased in CFM and BI. In 2021 every organization was challenged to budget, plan and replan throughout the year as the pandemic ravaged certain business segments and energized others. SPI's clients emphasized the importance of business and capacity planning tools to help then navigate a challenging year. HCM usage continues to gain in importance as more and more firms realize the benefits of integrating payroll with recruiting and skill building. The new killer application will be integrating HCM with PSA to give employers and employees visibility to upcoming projects and the skills they need to be part of them. The abundance of high quality, affordable cloud-based solutions has enabled greater numbers of PSOs to adopt commercial business applications, yet a surprisingly large number of firms still rely on antiquated homegrown applications and spreadsheets. Excel and Google sheets remain the most-used business applications.

Table 33: Commercial Solution Adoption

Solution	2019	2020	2021
Corporate Financial Management (CFM)	94.8%	94.4%	94.7%
Client Relationship Management (CRM)	86.7%	83.4%	82.4%
Professional Services Automation (PSA)	84.8%	79.0%	76.1%
Human Capital Management (HCM)	68.1%	69.7%	65.2%
Business Intelligence (BI)	44.7%	53.4%	57.4%

Source: SPI Research, February 2022

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 across the globe, not collocated in physical offices. The cloud has enabled PS executives and workers at all levels greater mobile access to the information they need to improve visibility and management control of resources and projects.

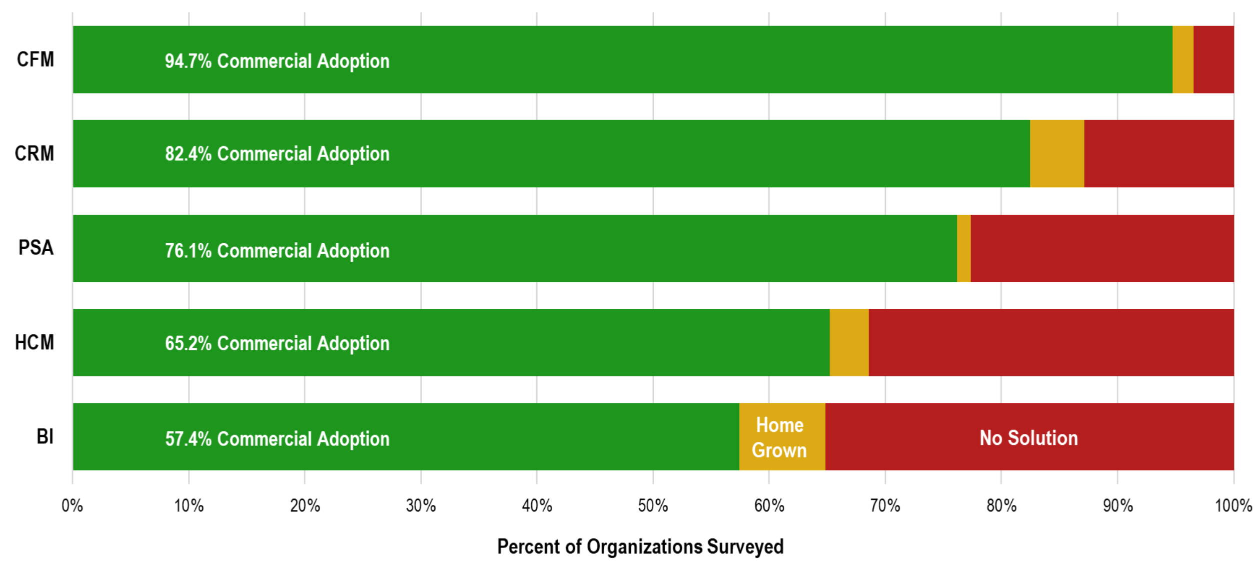
CRM adoption surpassed PSA adoption seven years ago, when cloud-based CRM applications, primarily from Salesforce.com, became the standard. CRM usage is often misleading as firms may only purchase a limited number of sales seats whereas they require PSA functionality (and licenses) for all billable members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

This year we saw a slight decline in commercial PSA adoption from 79.0% to 76.1%. The reason for this is that many PSOs are moving to integrated financial solutions away from standalone PSA. SPI's benchmarking studies show the undeniable impact PSA has on all aspects of service execution. Effective resource management manifests in better staff retention, higher levels of billable utilization and significant improvements in on-time, on-budget project delivery. Time and expense capture and billing simply cannot be managed effectively with antiquated spreadsheets.

Human Capital Management (HCM) applications had experienced the greatest growth in PS adoption in recent years, but reported adoption moved down slightly in 2021. As new cloud based powerful HCM applications have come to market expect to see adoption continue to rise to equal or even surpass PSA. It only makes sense that people, the crown jewels of the consulting profession, will benefit from applications which empower employees to manage their own skill and career development. Further, HCM solutions provide benefits in improved recruiting and learning management which can be significant as the average PSO spends more than 1% of total revenue on recruiting and another 1 to 2% on training. HCM applications are starting to provide powerful learning management platforms, so employees have a single system of record to enhance skills and manage certifications and credentials.

Remote service delivery and collaboration tools have become prevalent, enabling consultants to work on client projects and machines from anywhere. One could characterize 2020-21 as the years of Zoom and Microsoft Teams with over 300 million daily Zoom/Teams participants powering the new virtual world. These powerful tools have ushered in the wave of virtual service delivery which has radically improved consulting productivity. Interestingly, knowledge management still lags other application areas despite the productivity and quality improvements it provides. A plethora of open-source knowledge and collaboration solutions are starting to encroach on Microsoft's SharePoint and Teams as the dominant knowledge management tool with SLACK and Jira topping the list. Stand-alone BI applications are losing market-share across the PS industry because new Artificial Intelligence, reporting and analytic functionality is now built into core CFM business applications, erasing the need to buy a standalone Business Intelligence solution. In 2021, capacity and business planning tools were essential to help businesses understand and react to market changes.

Figure 24: Commercial Solution Adoption



Source: SPI Research, February 2022

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

Table 34 compares business solution adoption and satisfaction along with the level of financial management (CFM) integration. The Americas usage of CFM surpasses that of EMEA and APAC. Recently European and Asia Pacific headquartered firms have made big investments in PSA. Both EMEA and APac PSA usage now surpasses the Americas. Application satisfaction is highly correlated with usage. Typically, application satisfaction improves as business applications become more widely adopted. CRM and PSA satisfaction outstripped all other solutions this year. Many of firms in this benchmark use Salesforce CRM. Some are becoming disenchanted with its high price and bloated functionality. HCM continues to receive the lowest overall satisfaction ratings because our research shows much of HCM's functionality has not been fully deployed or adopted. Effective HCM usage requires effective talent management processes including change management along with leadership training and development. Unfortunately, the role of human resources has not yet become strategic for many consultancies.

Table 34: Business Application Use by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2021	ESO	PSO	Americas	EMEA	APac
Commercial CFM solution used	94.7%	91.3%	96.0%	95.2%	92.9%	92.9%
Satisfaction with CFM solution	3.85	3.66	3.93	3.88	3.74	3.81
Commercial CRM solution	78.2%	90.8%	73.2%	77.9%	82.7%	67.9%
Satisfaction with CRM solution	4.04	4.16	3.99	4.05	4.10	3.81
CRM is integrated with CFM	44.6%	56.5%	39.2%	44.4%	49.2%	31.6%
Commercial PSA solution	76.1%	84.1%	73.0%	75.3%	78.8%	78.6%
Satisfaction with PSA solution	3.98	3.84	4.04	3.96	4.04	3.91
PSA is integrated with CFM	61.2%	55.1%	63.9%	61.1%	62.9%	56.8%
Commercial HCM solution	65.2%	81.8%	58.7%	66.1%	61.3%	64.3%
Satisfaction with HCM solution	3.75	3.72	3.77	3.74	3.78	3.81
HCM is integrated with CFM	38.5%	45.6%	34.8%	38.3%	38.5%	40.6%
Commercial BI solution	53.0%	64.9%	48.2%	51.7%	52.4%	71.4%
Satisfaction with BI solution	3.89	3.73	3.97	3.87	3.94	3.95
BI is integrated with CFM	47.0%	50.5%	45.1%	45.8%	57.8%	34.2%
CRM / PSA integration	39.8%	50.0%	35.6%	38.0%	47.6%	39.3%

Source: SPI Research, February 2022

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

As one might expect, the table 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 35: 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	86.1%	96.7%	96.5%	96.3%	93.3%	96.7%
Satisfaction with CFM solution	3.95	3.91	3.94	3.80	3.60	3.64
Commercial CRM solution	60.3%	76.1%	77.0%	86.8%	86.0%	88.9%
Satisfaction with CRM solution	3.98	3.89	4.13	4.13	4.05	3.92
CRM is integrated	33.7%	34.6%	39.4%	56.7%	50.0%	62.5%
Commercial PSA solution	51.4%	69.2%	76.4%	91.5%	88.9%	80.0%
Satisfaction with PSA solution	4.14	4.21	4.05	3.81	3.85	3.67
PSA is integrated	53.1%	60.7%	54.7%	68.0%	68.9%	64.6%
Commercial HCM solution	26.5%	47.7%	71.9%	85.2%	79.1%	82.8%
Satisfaction with HCM solution	4.15	3.93	3.81	3.59	3.53	3.75
HCM is integrated	50.0%	48.8%	31.1%	36.0%	38.9%	50.0%
Commercial BI solution	40.0%	48.3%	46.6%	62.6%	63.6%	75.9%
Satisfaction with BI solution	3.76	4.00	3.92	3.97	3.69	3.75
BI is integrated	28.6%	39.8%	51.4%	52.3%	42.4%	60.0%
CRM / PSA integration	21.4%	37.8%	36.4%	51.4%	43.3%	56.7%

Source: SPI Research, February 2022

Table 36 shows embedded services organizations (Software/SaaS/Hardware 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 36: Business Application Use by Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.
Firms	133	102	58	56	41
Commercial CFM solution used	96.7%	91.2%	90.6%	92.5%	100.0%
Satisfaction with CFM solution	4.05	3.98	3.86	3.53	3.45
Commercial CRM solution	80.9%	68.2%	94.2%	90.6%	55.3%
Satisfaction with CRM solution	4.15	3.97	4.18	4.22	3.67
CRM is integrated	35.9%	33.1%	52.1%	67.3%	40.9%
Commercial PSA solution	82.8%	65.2%	86.8%	92.6%	62.9%
Satisfaction with PSA solution	4.21	4.05	3.84	3.71	3.55
PSA is integrated	71.2%	54.8%	52.3%	54.3%	52.4%
Commercial HCM solution	64.2%	46.0%	84.6%	86.3%	52.8%
Satisfaction with HCM solution	3.91	3.70	3.80	3.60	3.70
HCM is integrated	33.1%	37.2%	30.2%	60.7%	17.5%
Commercial BI solution	52.5%	46.1%	65.4%	71.7%	23.5%
Satisfaction with BI solution	4.12	3.98	3.50	3.85	3.83
BI is integrated	53.0%	39.5%	36.1%	59.2%	36.4%
CRM / PSA integration	44.5%	29.8%	44.2%	60.4%	19.4%

Source: SPI Research, February 2022

Table 37 shows a mixed bag of business application use by Advertising, Accountancies, Healthcare providers and other PS. Government Contractors providers reported the lowest use.

Table 37: Business Application Use by Market Continued

Key Performance Indicator (KPI)	Advertise. / PR	Acct	Healthcare /Med/Pharm	Govt. Contract.	All Others
Firms	29	13	12	11	85
Commercial CFM solution used	96.3%	100.0%	100.0%	100.0%	94.7%
Satisfaction with CFM solution	3.96	4.78	3.20	4.60	3.68
Commercial CRM solution	89.3%	66.7%	88.9%	60.0%	75.4%
Satisfaction with CRM solution	4.04	4.67	4.00	4.57	3.68
CRM is integrated	43.5%	50.0%	50.0%	71.4%	44.0%
Commercial PSA solution	79.2%	100.0%	63.6%	50.0%	66.7%
Satisfaction with PSA solution	3.78	4.56	4.14	4.20	3.88
PSA is integrated	55.9%	77.8%	70.0%	60.0%	63.5%
Commercial HCM solution	72.0%	77.8%	88.9%	50.0%	62.5%

Key Performance Indicator (KPI)	Advertise. / PR	Acct	Healthcare /Med/Pharm	Govt. Contract.	All Others
Satisfaction with HCM solution	3.94	4.00	3.86	4.20	3.49
HCM is integrated	44.1%	21.4%	70.0%	60.0%	40.0%
Commercial BI solution	64.0%	44.4%	55.6%	50.0%	50.7%
Satisfaction with BI solution	4.06	4.25	3.33	4.75	3.70
BI is integrated	38.5%	75.0%	50.0%	50.0%	45.7%
CRM / PSA integration	36.0%	50.0%	38.9%	25.0%	38.1%

Source: SPI Research, February 2022

Solution Satisfaction

Table 38 shows application satisfaction (1: very dissatisfied to 5: very satisfied). Satisfaction with CRM tops the list followed by PSA and BI. By vertical, IT Consultancies give the highest satisfaction ratings and embedded SaaS and Accountancies give the lowest ratings. Satisfaction levels are relatively low for Human Capital Management. Human Capital Management perennially receives the lowest satisfaction ratings because these applications have for the most part remained standalone with limited integration with either CFM or PSA. Organizations are starting to more fully exploit the functionality of HCM beyond payroll for recruiting, learning management, career management and skill building and certification.

Table 38: Solution Satisfaction

Key Performance Indicator (KPI)	2019	2020	2021
Client Relationship Management (CRM)	4.03	3.98	4.04
Professional Services Automation (PSA)	3.87	3.89	3.98
Business Intelligence (BI)	3.87	3.71	3.89
Corporate Financial Management (CFM)	3.81	3.77	3.85
Human Capital Management (HCM)	3.53	3.48	3.75

Source: SPI Research, February 2022

Corporate Financial Management (CFM)

Corporate Financial Management (CFM) [Finance and Accounting, (ERP or SRP)], 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. Revenue recognition is also complex and must conform to local accounting and taxation rules while providing support for multicurrency, multilingual transactions for global firms. Seamless integration between the system of record (PSA) for managing resources and projects and the financial management solution for payroll, expense management, invoicing, revenue recognition and project accounting is critical.

Corporate Financial Management (CFM)

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

Project- and service-based extensions to enterprise ERP applications started to appear in the late 1990's at the same time stand-alone Professional Service Automation (PSA) solutions supporting resource scheduling and time capture and billing became available. Over the past twenty years, project accounting, resource management and time capture and billing modules have been added to many ERP applications. Now most project-based ERP providers also add Human Capital Management (HCM) or talent management extensions to accentuate the important role that recruitment and engagement of a talented workforce has in today's economy. Support for specialized billing methods and complex revenue recognition rules for subscriptions, time and materials, work-in-process, deliverables-based or percentage completion are important project-based ERP extensions. Architects, Engineers and Government Contractors require purchasing modules and cost-plus accounting for materials and labor pricing as well as support for DCAA and FARS compliance. With the advent of Covid-19 in 2020 almost all organizations were forced to move to virtual operations, making mobile access to financial systems mandatory. In 2021 even more firms took advantage of virtual operations including mobile cash management. Interviews with CFOs reveals top selection criteria for business applications include powerful yet easy to use reporting capability with mandatory mobile access.

Table 39: Impact – Corporate Financial Management (CFM) Use

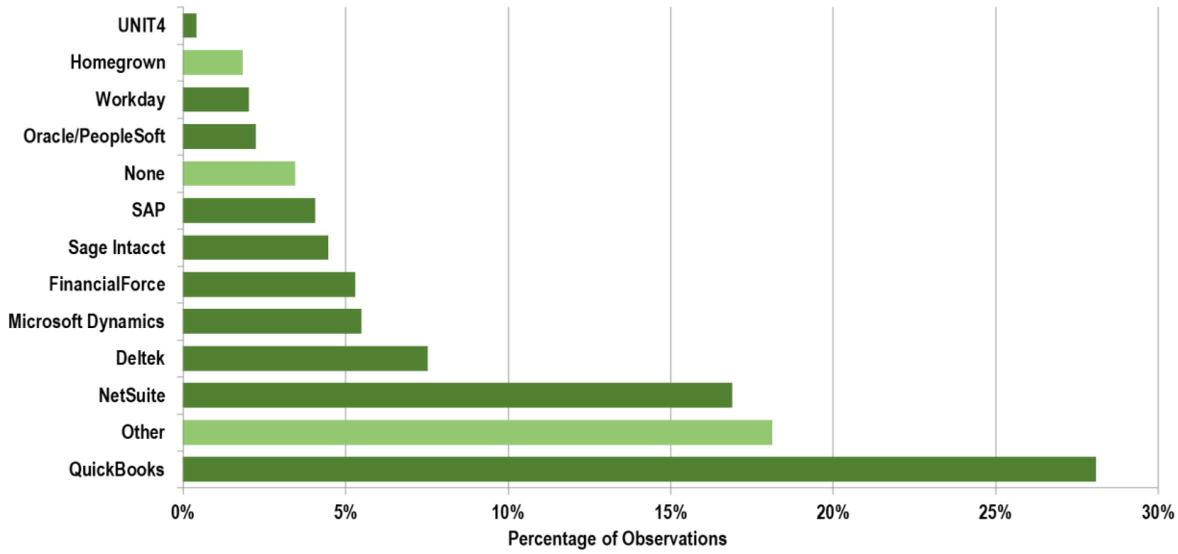
Key Performance Indicator (KPI)	CFM Used	CFM Not Used	▲
Survey %	94.7%	5.3%	
Year-over-year change in PS revenue	11.0%	7.0%	58%
Year-over-year change in PS headcount	9.8%	6.3%	57%
Quarterly revenue target in backlog	46.1%	32.5%	42%
Annual revenue per billable consultant (k)	$207	$171	21%
Annual revenue per employee (k)	$165	$146	13%
Project margin	36.7%	29.0%	26%
Profit (EBITDA %)	**15.8%**	**10.0%**	**58%**

Source: SPI Research, February 2022

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

This year's survey included responses from 138 QuickBooks; 83 NetSuite; 37 Deltek; 26 FinancialForce; 27 Microsoft; and 22 Sage/Intacct financials clients. QuickBooks is perennially the leading financial solution for small and medium sized PSOs with 28% 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 25).

Figure 25: Corporate Financial Management (CFM) Solution Used



Source: SPI Research, February 2022

Client Relationship Management (CRM)

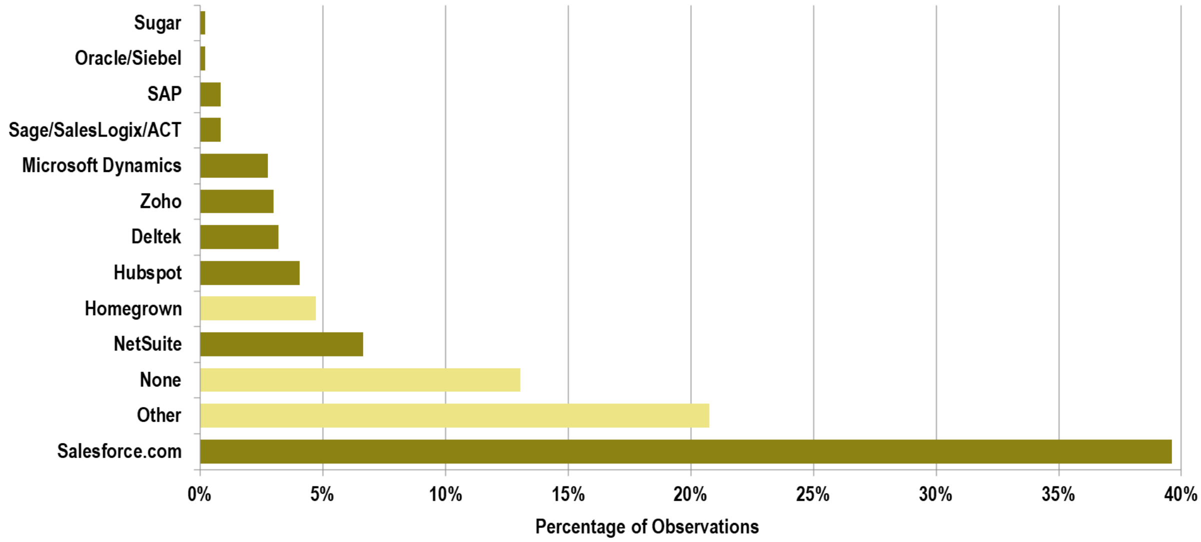
CRM supports the management of client relationships and is designed to improve sales and marketing effectiveness. CRM automates lead, contact and campaign management, sales pipeline, territory and contract management. Many CRM applications also provide powerful call center functionality for issue management;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

Client Relationship Management (CRM)

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

Figure 26 shows Salesforce.com dominance once again with use by 39.6% (185) of the organizations surveyed. NetSuite moved into 2nd place, followed by HubSpot and Deltek. Salesforce dominance in the PS industry is slipping somewhat from 60% market share two years ago.

Figure 26: Client Relationship Management (CRM) Solution Used



Source: SPI Research, February 2022

Table 40 compares organizations using CRM to those who do not. 21.8% 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 40: Impact – Client Relationship Management (CRM) Use

Key Performance Indicator (KPI)	CRM Used	CRM Not Used	▲
Survey %	78.2%	21.8%	
Year-over-year change in PS revenue	11.5%	9.3%	23%
High revenue growth organizations (>15%)	34.8%	28.4%	22%
Deal pipeline / quarterly bookings forecast	196%	153%	28%
Quarterly revenue target in backlog	46.1%	41.4%	11%
Project margin	36.9%	33.2%	11%
Profit (EBITDA %)	**16.1%**	**15.4%**	**5%**

Source: SPI Research, February 2022

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

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

Table 41: Impact – CRM Integration

CRM is integrated	Survey %	Revenue growth	Headcount growth	% of ann. rev. target	% of ann. margin target	EBITDA
Yes	27.6%	12.0%	11.3%	98.4%	94.6%	18.1%
Partially	30.0%	12.7%	10.0%	98.0%	92.6%	16.2%
No	42.4%	10.8%	9.6%	94.2%	90.6%	15.3%
Total/Average	**100.0%**	**11.7%**	**10.2%**	**96.5%**	**92.3%**	**16.3%**

Source: SPI Research, February 2022

Table 42: Impact – CRM Satisfaction

CRM Satisfaction	Survey %	Revenue growth	Headcount growth	% of ann. rev. target	% of ann. margin target	Exec real-time visibility
Very Dissatisfied	2.1%	10.6%	9.4%	93.3%	83.6%	4.14
Somewhat Dissatisfied	5.9%	12.8%	11.6%	88.2%	85.6%	2.82
Indifferent	14.2%	9.9%	8.6%	97.8%	97.0%	3.23
Somewhat Satisfied	43.6%	11.1%	10.0%	96.3%	92.2%	3.64
Very Satisfied	34.1%	12.9%	11.1%	97.8%	92.3%	3.99
Total/Average	**100.0%**	**11.6%**	**10.2%**	**96.5%**	**92.3%**	**3.66**

Source: SPI Research, February 2022

Professional Services Automation (PSA)

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

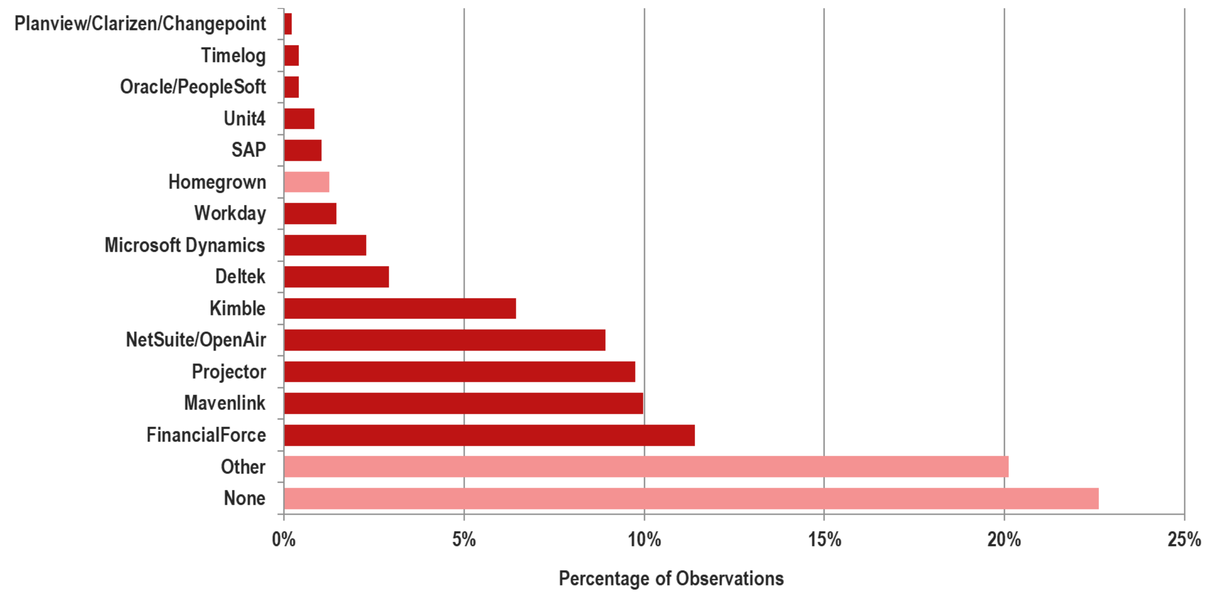
Professional Services Automation (PSA)

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

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

This year adoption of a commercial PSA declined from 79.5% to 76.4%. PSA satisfaction went up slightly this year from 3.89 out of 5 to 3.98. All key metrics improve with the use of PSA.

Figure 27: Professional Services Automation (PSA) Solution Used



Source: SPI Research, February 2022

Figure 27 shows FinancialForce garnered first place this year as the most adopted PSA solution with approximately 11.4% (55 firms) of the survey. Mavenlink is the second-most prevalent solution with 10.0% (48 firms). Projector PSA is third with 9.8% (47 firms) and NetSuite is fourth with 8.9% (43 firms). Kimble is fifth with 6.4% (31 firms). Projector wins top honors for client satisfaction with 95.1% satisfaction. Kimble is second in client satisfaction at 84.5%. Interestingly, the average size of the organizations that do not use a PSA is quite large at 354 PS employees. As the PSA market has matured, SPI Research sees solution providers coalescing by ecosystem. FinancialForce, Kimble and Mavenlink are part of the Salesforce ecosystem and AppExchange. Microsoft Dynamics, Timelog and UNIT4 are focused on the Microsoft platform. NetSuite has been owned by Oracle for several years and has moved its applications to Oracle's Cloud Infrastructure. Workday and Deltek have created their own ecosystems.

Table 43 compares PSOs using PSA solutions to those that do not. The results in this table are very powerful. Professional Services Automation solutions continue to drive significant operational performance benefits, yielding higher revenue and profit for professional services organizations. The use of PSA is on the rise due to the need to better manage projects and resources, especially in more technical disciplines, as it has become increasingly difficult to find, hire, retain and deploy talent. PSA solutions help match the right resources, with the right skills at the right time to the right projects. ***PSA solutions yield several core benefits to PSOs, but most executives only need to look to the relative 11%***

(from 68.1% to 75.3%) increase in billable utilization as a primary reason to select PSA. Just start to multiply what an 11% improvement in utilization means to revenue improvements. **For a 100-person PS organization, 11% translates to 15,000 more billable hours per year. With average bill rates of $200 per hour, the PSO can produce $3mm in incremental revenue!** Almost all key metrics improve with PSA adoption. These systems pay for themselves with substantially higher consultant revenue yields, better project margins and more bottom-line EBITDA profit.

Table 43: Impact – Professional Services Automation (PSA) Use

Key Performance Indicator (KPI)	PSA Used	PSA Not Used	▲
Survey %	76.1%	23.9%	
Year-over-year change in PS revenue	11.8%	8.7%	36%
Deal pipeline / quarterly bookings forecast	192%	166%	15%
Employee billable utilization	**75.3%**	**68.1%**	**11%**
Annual revenue per billable consultant (k)	$208	$196	6%
Annual revenue per employee (k)	$168	$152	10%
Project margin	37.6%	33.1%	13%
Profit (EBITDA %)	**16.5%**	**13.6%**	**22%**

Source: SPI Research, February 2022

Table 44 highlights the benefits of integrated PSA versus standalone PSA. Again, the results demonstrate integrated PSA enables organizations to operate at higher levels of efficiency. Perhaps most notable in this table is the fact that PSA users reported almost double the headcount growth of non-users because they were far more successful throughout the challenging year of 2021.

Table 44: Impact – PSA Integration

PSA is integrated	Survey %	Revenue growth	Headcount growth	Win-to-bid ratio	Billable util.	Project margin
Yes	41.6%	12.8%	12.1%	5.55	75.8%	39.0%
Partially	30.4%	11.0%	10.2%	5.06	75.4%	38.5%
No	28.0%	10.1%	7.8%	4.76	73.7%	33.3%
Total/Average	**100.0%**	**11.5%**	**10.3%**	**5.18**	**75.1%**	**37.3%**

Source: SPI Research, February 2022

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

Table 45: Impact – PSA Satisfaction

Satisfaction with PSA solution	Survey %	Project overrun	Project margin	% of ann. rev. target	% of ann. margin target	Exec real-time visibility
Very Dissatisfied	3.9%	7.5%	37.3%	96.7%	88.3%	3.78
Somewhat Dissatisfied	9.0%	11.3%	37.0%	96.8%	89.8%	3.18
Indifferent	14.0%	9.6%	38.3%	97.6%	95.4%	3.32
Somewhat Satisfied	38.8%	8.4%	35.4%	97.7%	92.5%	3.67
Very Satisfied	34.4%	7.8%	40.7%	94.9%	91.2%	3.99
Total/Average	**100.0%**	**8.6%**	**37.9%**	**96.6%**	**92.1%**	**3.69**

Source: SPI Research, February 2022

Human Capital Management (HCM)

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

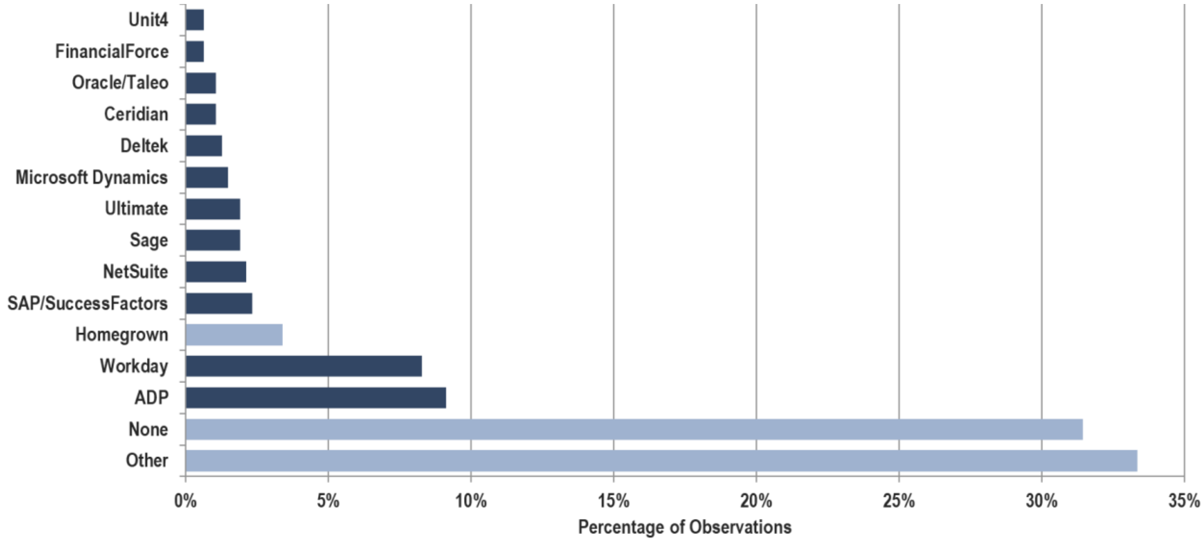
Human Capital Management (HCM)

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

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

Figure 28 shows that HCM has made significant strides in PS adoption. Several years ago, HCM was used by less than one-third of PSOs – now it is used by 65.2% of them although "other" and "none" still have top billing. HCM prevalence among the largest PSOs is significant. The average size of the PS organization using HCM is 399 consultants compared to 129 for non-users. New cloud-based solutions offer power and flexibility, helping companies manage the entire employee lifecycle from recruitment and hiring through training to retirement.

Figure 28: Human Capital Management (HCM) Solution Used



Source: SPI Research, February 2022

Table 46: Impact – Human Capital Management (HCM) Use

Key Performance Indicator (KPI)	HCM Used	HCM Not Used	▲
Survey %	65.2%	34.8%	
Size of PS organization (employees)	399	129	209%
Year-over-year change in PS revenue	11.1%	10.6%	5%
Year-over-year change in PS headcount	10.8%	7.7%	41%
Use a standardized delivery methodology	70.2%	67.1%	5%
Project duration (man-months)	25.7	21.7	18%

Source: SPI Research, February 2022

Of the solutions highlighted in this year's benchmark, ADP, Workday, SAP and NetSuite are leaders. Workday continues to focus on the service industry with powerful HCM functionality linked with their PSA and Financials solution to provide skill and career mapping aligned with projects. HCM usage will continue to grow within service-centric organizations as talent is their most valuable asset. Most of the solutions found in this benchmark are provided by financial solution providers, who offer HCM integration with financials to support workforce planning, costing and reporting. Talent management is central to PS performance as the skills and attitudes of the consulting workforce provide tangible evidence of consulting value. And with better management of personnel, PSOs can ensure talent is on staff and available when needed, which helps the organization grow faster.

HCM solutions, in conjunction with PSA, drive greater billable utilization, which results in higher revenue 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 HCM vendors are adding rich predictive analytics, providing visibility into levels of employee engagement to provide early warning for employees who are likely to quit. Their recruiting tools are very powerful with out-of-the-box integration to all the top job sites.

Table 47 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 47: Impact – HCM Integration

HCM is integrated	Survey %	Billable util.	Project duration (man-month)	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	EBITDA
Yes	20.6%	77.3%	27.7	$220	$178	17.4%
Partially	28.1%	74.3%	27.1	$196	$155	17.8%
No	51.3%	73.3%	25.4	$206	$168	14.3%
Total/Average	**100.0%**	**74.4%**	**26.3**	**$206**	**$166**	**15.9%**

Source: SPI Research, February 2022

Although HCM satisfaction lags behind other core PS business applications, the benefits are significant for those organizations who fully exploit HCM to enhance recruiting, skill building and compensation with more employees in billable roles, more engaged workers who would strongly recommend their company as a great place to work and much larger projects.

Table 48: Impact – HCM Satisfaction

Satisfaction with HCM solution	Survey %	% of emp. billable	Rec. to family/ friends	Project duration (man-month)	Std. del. method. used	Exec real-time visibility
Very Dissatisfied	3.0%	66.0%	4.17	20.2	63.3%	3.50
Somewhat Dissatisfied	8.7%	73.8%	4.27	24.4	63.6%	3.43
Indifferent	23.1%	76.5%	4.27	24.1	67.9%	3.62
Somewhat Satisfied	46.4%	74.0%	4.50	27.4	70.5%	3.63
Very Satisfied	18.9%	74.8%	4.63	27.9	71.3%	3.79
Total/Average	**100.0%**	**74.5%**	**4.44**	**26.3**	**69.2%**	**3.64**

Source: SPI Research, February 2022

Business Intelligence (BI)

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

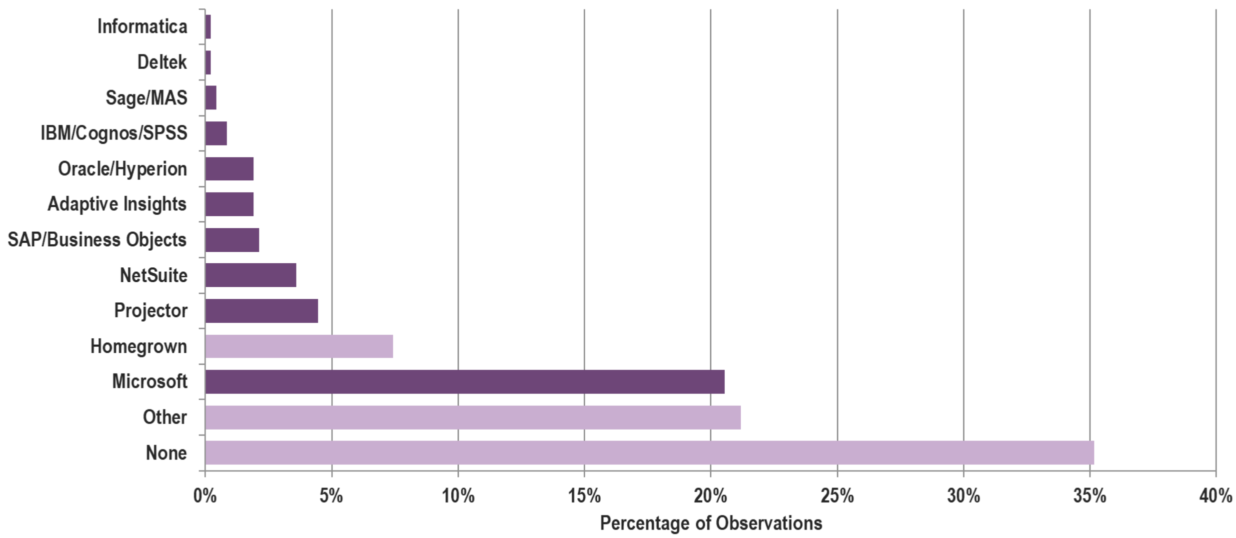
Business Intelligence (BI)

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

annual planning, as PS executives try to uncover areas where additional growth and profit can be extracted.

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

Figure 29: Business Intelligence (BI) Solution Used



Source: SPI Research, February 2022

Figure 29 shows relatively low adoption levels of Business Intelligence in this year's survey, similar to previous results. None, Microsoft, other and homegrown are the most prevalent BI solutions. Of the application suite providers, Projector's new BI solution, along with NetSuite/Oracle/ Hyperion; SAP/ Business Objects and Workday/Adaptive Insights; each have a wide following.

The results in Table 49 highlight some of the core benefits organizations have achieved that use BI solutions. While each improvement is impressive, growth in revenues and headcount and size of the deal pipeline stand out. The fact is BI is a strategic solution that helps PSOs plan, budget and forecast their business. Its powerful "what if" analysis tools help PSOs model capacity and resource plans to achieve optimal results.

Table 49: Impact – Business Intelligence (BI) Use

Key Performance Indicator (KPI)	BI Used	BI Not Used	▲
Survey %	53.0%	47.0%	
Year-over-year change in PS revenue	12.4%	10.0%	25%
Year-over-year change in PS headcount	10.3%	9.4%	9%
Deal pipeline / quarterly bookings forecast	198%	170%	16%
Employee billable utilization	74.9%	71.5%	5%
Profit (EBITDA %)	**17.7%**	**13.5%**	**32%**

Source: SPI Research, February 2022

Surprisingly as shown in Table 50 BI solutions are fully integrated with the core financial application by less than 30% of the organizations surveyed. This suggests most organizations are still relying on standalone planning and analysis tools along with excel.

Table 50: Impact – BI Integration

BI is integrated	Survey %	Revenue growth	Headcount growth	Project margin	% of ann. rev. target	% of ann. margin target
Yes	28.9%	13.8%	12.8%	38.4%	98.9%	95.8%
Partially	28.9%	10.8%	9.3%	37.3%	96.3%	91.2%
No	42.2%	10.8%	8.9%	33.9%	95.2%	88.6%
Total/Average	**100.0%**	**11.7%**	**10.2%**	**36.2%**	**96.6%**	**91.4%**

Source: SPI Research, February 2022

Table 51: Impact – BI Satisfaction

Satisfaction with BI solution	Survey %	Billable util.	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	% of ann. margin target	EBITDA
Very Dissatisfied	2.2%	81.7%	$221	$154	85.0%	8.6%
Somewhat Dissatisfied	6.0%	72.2%	$227	$195	93.0%	19.4%
Indifferent	25.4%	73.3%	$173	$139	89.2%	14.9%
Somewhat Satisfied	39.0%	73.8%	$204	$166	91.2%	18.7%
Very Satisfied	27.3%	78.1%	$220	$178	93.8%	16.3%
Total/Average	**100.0%**	**74.9%**	**$202**	**$164**	**91.4%**	**16.9%**

Source: SPI Research, February 2022

CRM / PSA Integration

CRM and PSA solutions are both used by client-facing groups. It is essential the left hand knows what the right hand is doing. Therefore, integrated CRM and PSA help sales and service delivery better collaborate to ensure sales is selling what service delivery can deliver. Table 52 shows just a few of the benefits achieved when PSO integrate CRM and PSA.

Table 52: Impact – CRM / PSA integration

CRM / PSA integration	Survey %	Revenue growth	Headcount growth	New clients	Win-to-bid ratio	Billable util.
Yes	29.6%	11.9%	10.7%	27.1%	4.30	76.4%
Partially	20.3%	11.6%	10.5%	26.6%	4.44	73.4%
No	50.1%	10.4%	8.7%	20.3%	4.92	71.7%
Total/Average	**100.0%**	**11.1%**	**9.7%**	**23.6%**	**5.18**	**73.4%**

Source: SPI Research, February 2022

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 30). For instance, CRM integrated with CFM provides sales executives with the insight necessary to develop a pricing strategy, supporting the highest probability of winning the bid with maximum profitability. Without this integration, it would be much more difficult to conduct this type of analysis. Today's PSOs simply cannot operate with functional silos as the lines between sales, delivery and finance become blurred.

Figure 30: Success Depends on Inter-departmental Cooperation

Source: SPI Research, February 2022

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 53: Solution Integration with Core Financials

Solution	2018	2019	2020
Professional Services Automation (PSA)	54.1%	57.8%	61.2%
Business Intelligence (BI)	44.7%	45.4%	47.0%
Client Relationship Management (CRM)	49.0%	43.3%	44.6%
Human Capital Management (HCM)	31.4%	34.1%	38.5%

Source: SPI Research, February 2022

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. Achieving client delight and profit 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.

Chapter 5 – Leadership Pillar

2021 could have seen a continuation of the uncertainty and paralysis encountered in 2020. But it didn't. Despite the on-going pandemic and new COVID strains, the professional services market got back to business, and business growth was robust. Leaders grew revenues and profited handsomely, but choppy waters lie ahead. The pandemic has caused shifts in every industry, and considering PS supports every industry, PSOs must continue to evolve in order to grow and thrive.

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

But growth comes 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 is when firms must move from heroic to repeatable and founders must move from doers and fire fighters who wear all the hats to leaders and visionaries. The leaders who can't make this transition must have the courage to bring in new talent who can take the firm to the next level.

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

Leadership development, succession planning and funding growth are big challenges for independent PSOs. Many consider mergers and acquisitions to augment organic growth. Employee ownership is a viable option as founders near retirement. A chief concern is "How best to monetize value while building a firm for the future?" Table 54 shows the Leadership Maturity model and the optimal leadership style for each level of maturity.

Table 54: The Leadership Maturity Model

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

Source: SPI Research, February 2022

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

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 31 highlights how PSOs score at each level of Leadership. 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 31: Leadership Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Well understood vision, mission and strategy	3.56	3.67	4.04	4.52	4.86
Confidence in PS leadership	3.77	3.88	4.29	4.64	4.93
Ease of getting things done	3.48	3.48	3.98	4.40	4.64
Goals and measurement alignment	3.46	3.51	3.83	4.35	4.79
Employees have confidence in PSO's future	3.69	3.76	4.16	4.65	4.89
Effectively communicates w/employees	3.57	3.74	4.13	4.47	4.82
Embraces change - nimble and flexible	3.66	3.66	4.20	4.51	4.82
Innovation focused	3.55	3.46	3.98	4.41	4.82
Total Leadership Maturity Score (out of 40)	**28.75**	**29.16**	**32.61**	**35.94**	**38.57**
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

The Leadership Index

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

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

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

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

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

As statisticians, a perfect day is when a key performance measurement clearly correlates with most measures of performance. Well, the dimensions of leadership are one of those perfect statistics. As the leadership dimensions improve, so do all major key performance metrics (Table 55). One might expect “Confidence in Leadership” and “Confidence in the Future” to improve along with “Clarity of vision and strategy” but the truly remarkable finding around leadership is that all the major operational metrics – revenue per person, utilization, project margin and on-time project completion improve as well. It is amazing how strategic clarity permeates all aspects of operational performance. If the strategy is clear and compelling, people-based organizations will find a way to accomplish it.

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

Table 55: Impact Based on Leadership Maturity Scores

Key Performance Indicator (KPI)	8 - 25	26 - 30	31 - 35	36 - 40
Percentage of respondents	25.0%	16.1%	34.3%	24.6%
% of employees billable or chargeable	69.0%	74.5%	74.6%	75.9%
Deal pipeline / quarterly bookings forecast	146%	198%	199%	177%
Win-to-bid ratio (per 10 bids)	4.53	5.15	5.18	5.55
Percentage of referenceable clients	68.2%	75.0%	74.3%	79.5%
Employee billable utilization	66.9%	69.8%	74.2%	75.3%
Projects delivered on-time	72.2%	73.5%	80.3%	86.9%
Project overrun	10.2%	10.8%	8.0%	6.3%
Annual revenue per billable consultant (k)	$193	$199	$210	$220
Annual revenue per employee (k)	$141	$157	$172	$179
Percent of annual revenue target achieved	91.6%	92.7%	97.1%	97.2%
Percent of annual margin target achieved	88.7%	89.2%	91.4%	95.1%
Profit (EBITDA %)	**6.4%**	**11.4%**	**16.5%**	**19.1%**

Source: SPI Research, February 2022

confidence their work supports corporate objectives. Strong leadership helps employees get on the same page, working toward a common goal. Happy employees are more productive and deliver higher levels of client satisfaction and profitability. The table depicts the percentage of survey respondents by overall leadership index rating compared to key operational measurements. As shown in Table 55, 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, higher billable utilization, better on-time project delivery, more winning proposals and higher levels of customer satisfaction. The reverse is also true. Poor leaders can sabotage cross-functional alignment, leading to organizational alienation, functional silos and chaos. Leaders who are not able to transition to more strategic roles can create heroic, reactive organizations characterized by firefighting, in-fighting and burnout. Many top-performing organizations have reported adding SPI's leadership questions to their employee surveys to help them measure and quantify employee confidence in leadership. This year, independent firms gave higher marks across the leadership dimensions than embedded service organizations particularly for clarity of vision and ease of getting things done.

Leadership Issues

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

- ***Unclear strategy*** – lack of clarity around target markets, target clients and why we win. Inability to capitalize on market opportunities due to lack of alignment, lack of employee engagement or leadership and cultural issues. No leverage to drive repeat sales, limited competitive differentiation, poor sales, marketing and service delivery execution.
- ***Lack of alignment –*** unclear service charters – particularly a problem for embedded service organizations – with conflict between driving revenue and margin versus helping the overall company achieve its objectives of market expansion and client adoption.
- ***Silos*** – exist in all companies – they usually occur in the choppy waters between groups or functions where responsibility and accountability are blurry. A classic example… who is responsible for driving new service revenues – is it sales or delivery? How can disconnected processes and poor handoffs be improved?
- ***Reactive not proactive*** – because the organization lacks real-time visibility into all facets of the business, leaders must rely on past business performance rather than being able to spot trends and take advantage of them in real-time. Running the business by spreadsheet makes administration overly burdensome with endless rounds of error prone manual spreadsheet inputs. Managers have no ability to analyze and recalibrate to take advantage of changing market conditions leading to missed targets and a demoralized workforce.
- ***Skills imbalance*** – the logical extension of organizational silos… where all parties are not aligned … not selling what we can deliver or not being able to deliver what has been sold. Not enough or too many people with the right skills, excessive non-billable headcount, sub-par utilization, difficulty in recruiting, ramping, retaining and inability to quickly, easily staff projects.

- ∆ ***Immature processes*** – disparate or poor systems and tools. Inconsistent project methods; lack of tools and intellectual property leading to low repeatability and inability to drive efficiency and reuse.
- ∆ ***Poor quality and customer satisfaction*** – Failed projects, cost overruns, difficulty securing references. No quality review processes and/or poor project visibility into budget to actuals.
- ∆ ***Poor financial performance*** – All of the above factors – lack of strategic clarity, poor alignment, silos, and of out-of-date information contribute to reactive, rearview mirror business forecasting and planning. The net result is revenue and margin below targets, poor forecasting accuracy, unpredictability and high levels of risk.

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.

Table 56: Leadership Pillar 5-year Trend

Key Performance Indicator (KPI)	5-year avg.	2017	2018	2019	2020	2021
Well understood vision, mission and strategy	**3.93**	3.79	3.84	3.94	3.99	3.97
Confidence in PS leadership	**4.12**	4.04	4.04	4.06	4.21	4.17
Ease of getting things done	**3.84**	3.82	3.80	3.81	3.88	3.85
Goals and measurement alignment	**3.81**	3.77	3.79	3.80	3.84	3.81
Employees have confidence in PSO's future	**4.02**	3.97	3.94	4.00	4.07	4.08
Effectively communicates w/employees	**3.93**	3.75	3.81	3.88	4.03	4.01
Embraces change - nimble and flexible	**3.92**	3.78	3.84	3.84	3.97	4.03
Innovation focused	**3.80**	3.68	3.77	3.70	3.85	3.87

Source: SPI Research, February 2022

Table 57: Leadership Pillar Results by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Well understood vision, mission and strategy	3.99	3.97	3.85	4.02	3.97	3.95	4.07
Confidence in PS leadership	4.21	4.17	4.15	4.17	4.19	4.05	4.25
Ease of getting things done	3.88	3.85	3.72	3.90	3.85	3.86	3.75
Goals and measurement alignment	3.84	3.81	3.77	3.82	3.82	3.76	3.89
Employees have confidence in PSO's future	4.07	4.08	3.99	4.12	4.12	3.93	4.07
Effectively communicates w/employees	4.03	4.01	3.92	4.04	4.04	3.87	3.96
Embraces change - nimble and flexible	3.97	4.03	3.97	4.05	4.03	3.94	4.21
Innovation focused	3.85	3.87	3.78	3.90	3.86	3.83	4.14

Source: SPI Research, February 2022

Table 58: 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	4.03	4.12	3.86	4.06	3.79	3.83
Confidence in PS leadership	4.28	4.34	4.14	4.14	4.02	3.79
Ease of getting things done	4.13	3.99	3.82	3.65	3.79	3.66
Goals and measurement alignment	3.92	3.72	3.80	3.89	3.74	3.69
Employees have confidence in PSO's future	4.10	4.19	4.07	4.15	3.90	3.79
Effectively communicates w/employees	4.23	4.09	3.98	3.95	3.88	3.72
Embraces change - nimble and flexible	4.25	4.20	3.99	3.96	3.79	3.72
Innovation focused	4.10	4.06	3.75	3.79	3.71	3.76

Source: SPI Research, February 2022

Table 59: Leadership Pillar Results by PS Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Well understood vision, mission and strategy	4.03	4.18	3.78	3.69	3.79	3.93
Confidence in PS leadership	4.25	4.32	4.12	4.08	3.87	4.07
Ease of getting things done	3.96	4.01	3.59	3.71	3.62	3.89
Goals and measurement alignment	3.83	4.01	3.65	3.76	3.59	3.96
Employees have confidence in PSO's future	4.17	4.19	3.84	3.96	3.90	4.07
Effectively communicates w/employees	4.01	4.24	3.76	3.86	3.69	4.22
Embraces change - nimble and flexible	4.06	4.26	3.80	3.98	3.67	4.15
Innovation focused	4.00	4.08	3.61	3.76	3.74	3.44

Source: SPI Research, February 2022

Well understood vision, mission and strategy

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

Table 60: Impact – Well understood vision, mission and strategy

Well understood vision, mission, and strategy	Survey %	% of emp. billable	Billable util.	On-time project delivery	Project overrun	Ann. rev./ emp. (k)
1: Very ineffective	1.1%	52.0%	51.7%	66.7%	15.0%	$113
2	4.6%	69.3%	69.7%	71.8%	11.1%	$148
3	16.7%	74.0%	71.5%	75.3%	8.9%	$152

4	51.5%	74.7%	73.4%	79.9%	8.5%	$160
5: Very effective	26.2%	76.2%	75.2%	85.8%	6.3%	$183
Total/Average	**100.0%**	**74.5%**	**73.2%**	**80.1%**	**8.2%**	**$164**

Source: SPI Research, February 2022

Table 61: Year-over-year Change in Well understood vision, mission and strategy

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.99	3.89	4.03	4.00	3.90	3.96
2021	3.97	3.85	4.02	3.97	3.95	4.07
Change	**0%**	**-1%**	**0%**	**-1%**	**1%**	**3%**

Source: SPI Research, February 2022

Table 62: Year-over-year Vertical Market Change in Well understood vision, mission and strategy

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.96	4.28	4.04	3.71	3.71	4.17
2021	4.03	4.18	3.78	3.69	3.79	3.93
Change	**2%**	**-2%**	**-6%**	**-1%**	**2%**	**-6%**

Source: SPI Research, February 2022

Confidence in PS leadership

The tools for effective leadership, clarity of purpose and alignment exist within all service organizations. By investing in these critical aspects, service organizations can manage their own destiny. SPI Research continues to discover most key performance measurements improve as confidence in leadership increases. According to survey results, few other factors have the same impact on the overall health and well-being of the service organization. Poor leadership creates a negative spiral effect —high attrition, low morale, poor employee engagement — which in turn lead to low levels of client satisfaction and poor financial results. Leadership 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.

Table 63: Impact – Confidence in PS Leadership

Confidence in PS leadership	Survey %	Revenue growth	% of emp. billable	New clients	Client reference	Project margin
1: Very ineffective	0.6%	4.2%	50.0%	45.0%	60.0%	25.0%
2	2.7%	8.1%	59.2%	25.7%	61.5%	26.4%
3	10.8%	8.8%	72.3%	21.2%	71.2%	34.8%
4	51.1%	11.3%	74.6%	24.0%	74.1%	36.6%
5: Very effective	34.8%	11.2%	76.7%	25.5%	78.4%	37.6%
Total/Average	**100.0%**	**10.8%**	**74.5%**	**24.4%**	**74.8%**	**36.4%**

Source: SPI Research, February 2022

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 64: Year-over-year Change in Confidence in PS Leadership

	Total	ESO	PSO	Americas	EMEA	APac
2020	4.21	4.11	4.25	4.20	4.33	4.11
2021	4.17	4.15	4.17	4.19	4.05	4.25
Change	**-1%**	**1%**	**-2%**	**0%**	**-6%**	**3%**

Source: SPI Research, February 2022

Table 65: Year-over-year Vertical Market Change in Confidence in PS Leadership

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.21	4.43	4.12	4.12	3.96	4.28
2021	4.25	4.32	4.12	4.08	3.87	4.07
Change	**1%**	**-3%**	**0%**	**-1%**	**-2%**	**-5%**

Source: SPI Research, February 2022

Ease of getting things done

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

Table 66 shows a majority of firms reported it is relatively easy to get things done. As ease of getting things done improves, so do other metrics including revenue and headcount growth, on-time project delivery and minimized overruns.

Table 66: Impact – Ease of getting things done

Ease of getting things done	Survey %	Client reference	Employee attrition	Billable util.	Project margin	Exec real-time visibility
1: Very ineffective	1.1%	58.8%	3.0%	57.5%	17.5%	2.50
2	4.9%	68.9%	14.9%	69.2%	31.4%	3.00
3	22.6%	72.3%	14.2%	69.6%	34.9%	3.30
4	51.2%	75.4%	11.5%	74.0%	37.4%	3.73
5: Very effective	20.3%	78.3%	10.6%	76.6%	37.5%	4.12
Total/Average	**100.0%**	**74.8%**	**12.0%**	**73.1%**	**36.3%**	**3.66**

Source: SPI Research, February 2022

Table 67: Year-over-year Change in Ease of getting things done

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.88	3.72	3.96	3.89	3.88	3.78
2021	3.85	3.72	3.90	3.85	3.86	3.75
Change	**-1%**	**0%**	**-1%**	**-1%**	**0%**	**-1%**

Source: SPI Research, February 2022

Table 68: Year-over-year Vertical Market Change in Ease of getting things done

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.92	4.12	3.79	3.74	3.71	4.11
2021	3.96	4.01	3.59	3.71	3.62	3.89
Change	**1%**	**-3%**	**-5%**	**-1%**	**-3%**	**-5%**

Source: SPI Research, February 2022

Goals and measurements in alignment

Another survey question asked, "Are goals and measurements in alignment for the service organization?" Alignment speaks to a clearly articulated strategy with goals and measurements reinforcing the organization's purpose and stimulating action. Alignment or lack of alignment has a significant impact on bottom-line performance. Lack of alignment emanates from a lack of clarity and conflicting or too many priorities. It is characterized by low levels of employee engagement and functional silos or factions. The highest performing service organizations exhibit clarity of purpose and alignment around a succinct set of core values and initiatives. Effective measurements and compensation reinforce those values, linking strategy to execution. As shown in Table 69 goals and measurements in alignment had a profound impact on revenue growth, win ratios and client referenceability.

Table 69: Impact – Goal and measurement alignment

Goal and measurement alignment	Survey %	Rec. to family/ friends	Billable util.	Project duration (man-months)	Project overrun	Project margin
1: Very ineffective	0.6%	5.00	75.0%	7.5	2.5%	25.0%
2	7.0%	3.96	67.5%	23.4	10.8%	28.3%
3	24.1%	4.27	72.4%	25.5	9.3%	36.0%
4	47.5%	4.41	72.9%	26.1	8.2%	36.2%
5: Very effective	20.9%	4.83	76.7%	21.5	6.1%	40.1%
Total/Average	**100.0%**	**4.43**	**73.2%**	**24.7**	**8.1%**	**36.3%**

Source: SPI Research, February 2022

Table 70: Year-over-year Change in Goal and measurement alignment

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.84	3.83	3.85	3.83	3.93	3.78
2021	3.81	3.77	3.82	3.82	3.76	3.89
Change	**-1%**	**-2%**	**-1%**	**0%**	**-4%**	**3%**

Source: SPI Research, February 2022

Table 71: Year-over-year Vertical Market Change in Goal and measurement alignment

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.81	4.05	3.84	3.83	3.57	3.94
2021	3.83	4.01	3.65	3.76	3.59	3.96
Change	**1%**	**-1%**	**-5%**	**-2%**	**1%**	**1%**

Source: SPI Research, February 2022

Employees have confidence in the PSO's future

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

"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.

Table 72: Impact – Employees have confidence in PSO's future

Employees have confidence in PSO's future	Survey %	Revenue growth	Client reference	Billable util.	On-time proj. delivery	Project margin
1: Very ineffective	0.6%	15.0%	60.0%	75.0%	80.0%	17.5%
2	2.7%	9.8%	59.0%	62.5%	72.2%	30.2%
3	15.6%	5.8%	68.4%	70.6%	75.5%	34.9%
4	49.8%	11.3%	76.1%	73.8%	79.2%	35.8%
5: Very effective	31.2%	12.7%	77.8%	74.5%	84.7%	39.1%
Total/Average	**100.0%**	**10.9%**	**74.8%**	**73.2%**	**80.2%**	**36.4%**

Source: SPI Research, February 2022

Table 73: Year-over-year Change in Employees have confidence in PSO's future

	Total	ESO	PSO	Americas	EMEA	APac
2020	4.07	3.97	4.11	4.07	4.05	4.07
2021	4.08	3.99	4.12	4.12	3.93	4.07
Change	**0%**	**1%**	**0%**	**1%**	**-3%**	**0%**

Source: SPI Research, February 2022

Table 74: Year-over-year Market Change in Employees have confidence in PSO's future

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.03	4.30	3.83	4.03	4.07	4.06
2021	4.17	4.19	3.84	3.96	3.90	4.07
Change	**4%**	**-3%**	**0%**	**-2%**	**-4%**	**0%**

Source: SPI Research, February 2022

Effective communication with employees

Respondents were asked to rate "our organization effectively communicates with employees". ESOs reported better communication than independents. Talk may be cheap but without bidirectional communication, employees quickly become disenfranchised. Creating an effective communication plan should be part of any improvement plan. Poor or no communication has a profound impact on employee engagement, client satisfaction and attrition. Project overruns and their negative consequences are exacerbated by poor communication.

Table 75: Impact – Effectively communicates w/employees

Effectively communicates w/employees	Survey %	Client reference	Rec. to family/ friends	On-time proj. delivery	Project margin	Ann. rev./ emp. (k)
1: Very ineffective	0.8%	66.3%	4.67	65.0%	19.5%	$88
2	3.6%	59.6%	3.29	58.6%	25.6%	$136
3	17.5%	74.0%	4.03	78.7%	33.5%	$156
4	50.2%	74.2%	4.47	79.3%	36.0%	$166
5: Very effective	27.8%	78.8%	4.76	86.1%	41.0%	$171
Total/Average	**100.0%**	**74.9%**	**4.43**	**80.2%**	**36.5%**	**$164**

Source: SPI Research, February 2022

Table 76: Year-over-year Change in Effectively communicates w/employees

	Total	ESO	PSO	Americas	EMEA	APac
2020	4.03	3.94	4.07	4.03	4.00	4.07
2021	4.01	3.92	4.04	4.04	3.87	3.96
Change	**-1%**	**0%**	**-1%**	**0%**	**-3%**	**-3%**

Source: SPI Research, February 2022

Table 77: Year-over-year Vertical Market Change in Effectively communicates w/employees

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.00	4.30	3.96	3.97	3.89	4.17
2021	4.01	4.24	3.76	3.86	3.69	4.22
Change	**0%**	**-2%**	**-5%**	**-3%**	**-5%**	**1%**

Source: SPI Research, February 2022

Embraces change – nimble and flexible

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

Table 78: Impact – Embraces change - nimble and flexible

Embraces change - nimble and flexible	Survey %	% of emp. billable	On-time project delivery	Project margin	Ann. rev./ emp. (k)	% of annual rev. target
1: Very ineffective	1.3%	59.2%	78.8%	22.3%	$75	86.7%
2	4.4%	64.5%	68.1%	32.1%	$127	92.2%
3	17.3%	73.5%	76.9%	38.1%	$165	94.6%
4	44.2%	74.5%	80.0%	35.6%	$166	96.6%
5: Very effective	32.8%	77.0%	83.8%	37.9%	$168	97.3%
Total/Average	**100.0%**	**74.5%**	**80.2%**	**36.5%**	**$164**	**96.1%**

Source: SPI Research, February 2022

Table 79: Year-over-year Change in Embraces change - nimble and flexible

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.97	3.96	3.98	4.01	3.70	4.00
2021	4.03	3.97	4.05	4.03	3.94	4.21
Change	**1%**	**0%**	**2%**	**0%**	**6%**	**5%**

Source: SPI Research, February 2022

Table 80: Year-over-year Market Change in Embraces change - nimble and flexible

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.89	4.32	4.00	3.98	3.64	4.17
2021	4.06	4.26	3.80	3.98	3.67	4.15
Change	**4%**	**-1%**	**-5%**	**0%**	**1%**	**0%**

Source: SPI Research, February 2022

Innovation focused

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

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

Table 81: Impact – Innovation focused

Innovation focused	Survey %	Revenue growth	Client reference	Rec. to family/ friends	Project margin	Ann. rev./ emp. (k)
1: Very ineffective	1.7%	5.0%	53.6%	4.00	23.5%	$125
2	5.9%	7.1%	72.5%	4.13	31.8%	$137
3	22.8%	9.4%	73.4%	4.14	33.8%	$153
4	43.1%	11.5%	75.6%	4.42	37.5%	$168
5: Very effective	26.4%	12.4%	76.8%	4.79	38.7%	$175
Total/Average	**100.0%**	**10.9%**	**74.8%**	**4.43**	**36.4%**	**$164**

Source: SPI Research, February 2022

Table 82: Year-over-year Change in Innovation Focus

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.85	3.80	3.87	3.89	3.58	3.85
2021	3.87	3.78	3.90	3.86	3.83	4.14
Change	**1%**	**-1%**	**1%**	**-1%**	**7%**	**8%**

Source: SPI Research, February 2022

Table 83: Year-over-year Vertical Market Change in Innovation Focus

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.81	4.17	3.89	3.76	3.46	3.78
2021	4.00	4.08	3.61	3.76	3.74	3.44
Change	**5%**	**-2%**	**-7%**	**0%**	**8%**	**-9%**

Source: SPI Research, February 2022

Steps Taken to Improve Profitability

Table 84 depicts improvement priorities. In 2021, as in 2020 and 2019 the number one and two improvement priorities were improving the 'solution portfolio' and 'marketing'. These priorities have risen to the top as most organizations are dealing with business model disruption. Traditional time and materials or fixed price contracts are giving way to "pay as you go" subscription services or multiyear managed services contracts with service level agreements. 'Improving marketing effectiveness' is a priority as organizations are reexamining their marketing strategies and looking to both expand and consolidate their solutions portfolio. Improving sales effectiveness is a perennial challenge and opportunity because it is so difficult to develop business development experts. In professional services the best solution sellers tend to be the best and most knowledgeable consultants as they bring value to executive relationships and can quickly assess client issues and codevelop solutions. This year 'improving methods and tools' is a priority, as it should be.

Table 84: Steps Taken to Improve Profitability by Organization Type and Geographic Region

Key Performance Indicator	2020	2021	ESO	PSO	Amer.	EMEA	APac
Surveys	**561**	**540**	**148**	**392**	**406**	**102**	**32**
Improve solution portfolio	4.07	4.03	4.16	3.98	4.02	4.05	4.11
Improve marketing effectiveness	4.07	4.02	3.87	4.08	4.00	4.03	4.18
Improve sales effectiveness	3.94	3.92	3.96	3.90	3.92	3.99	3.61
Improve methods and tools	3.89	3.46	3.25	3.54	3.52	3.23	3.36
Improve hiring and ramping	3.69	3.96	4.02	3.94	3.99	3.80	4.11
Improve utilization	3.59	3.92	4.05	3.87	3.96	3.79	3.78
Expand business models	3.49	3.59	3.74	3.53	3.63	3.49	3.32
Reduce non-billable time	3.28	3.21	3.35	3.16	3.27	3.05	3.00
Increase rates	3.06	3.34	3.66	3.22	3.31	3.44	3.46

Source: SPI Research, February 2022

Consulting excellence comes with knowledge, effectively harvesting that knowledge and making it accessible. PSOs are least likely to increase rates. Table 85 shows the steps to improve profitability change as organizations grow. For the smallest organizations, the number one priority is 'improving marketing effectiveness' while the top improvement priority for the largest organiztaions is 'improving the solution portfolio'.

Table 85: Steps Taken to Improve Profitability by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	**87**	**101**	**156**	**116**	**46**	**34**
Improve solution portfolio	3.90	3.90	4.15	3.98	4.16	4.24
Improve marketing effectiveness	4.10	4.02	4.01	4.02	3.93	3.97
Improve sales effectiveness	3.72	3.82	3.88	4.09	4.02	4.03
Increases rates	3.21	3.59	3.46	3.54	3.42	3.45
Improve hiring and ramping	3.30	3.99	4.07	4.14	4.14	4.07
Improve methods and tools	3.73	3.99	3.93	3.96	3.88	3.97
Improve utilization	3.28	3.44	3.67	3.78	3.53	3.76
Reduce non-billable time	2.94	3.16	3.29	3.30	3.21	3.34
Expand business models	3.04	3.08	3.26	3.57	3.70	3.96

Source: SPI Research, February 2022

Tables 86 and 87 further analyze the steps to be taken to improve profitability by vertical market. IT Consultancies plan to concentrate on 'improving marketing effectiveness' while embedded software and SaaS PSOs are concerned with 'improving the solution' portfolio to more effectively package services into a cogent solution portfolio, making it easier to sell and buy solutions.

Table 86: Steps Taken to Improve Profitability by Vertical Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.
Surveys	**133**	**102**	**58**	**56**	**41**
Improve solution portfolio	4.17	4.14	4.02	4.23	3.56
Improve marketing effectiveness	4.30	4.24	3.78	3.73	3.77
Improve sales effectiveness	4.03	4.01	3.84	4.04	3.67
Increase rates	3.73	3.37	3.20	3.13	3.74
Improve hiring and ramping	4.23	3.65	3.92	4.15	3.92
Improve methods and tools	4.09	3.88	3.94	4.17	3.79
Improve utilization	3.71	3.38	3.69	3.69	3.85
Reduce non-billable time	3.23	3.00	3.29	3.29	3.33
Expand business models	3.56	3.13	3.67	3.60	2.85

Source: SPI Research, February 2022

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

Table 87: Steps Taken to Improve Profitability by Vertical Market

Key Performance Indicator (KPI)	MarCom	Acct	Healthcare /Med/Pharm	Govt. Contact	All Others
Surveys	**29**	**13**	**12**	**11**	**85**
Improve solution portfolio	4.07	3.43	4.50	3.57	3.84
Improve marketing effectiveness	3.89	3.50	4.10	3.57	3.95
Improve sales effectiveness	3.70	3.63	4.10	3.86	3.81
Increase rates	3.22	4.50	3.20	3.57	3.43
Improve hiring and ramping	3.93	4.43	3.70	3.71	3.88
Improve methods and tools	3.74	3.63	4.11	4.00	3.64
Improve utilization	3.67	3.50	4.10	2.86	3.36
Reduce non-billable time	3.41	3.88	3.78	3.00	3.08
Expand business models	3.27	4.00	4.20	3.00	3.03

Source: SPI Research, February 2022

Chapter 6 – Client Relationships Pillar

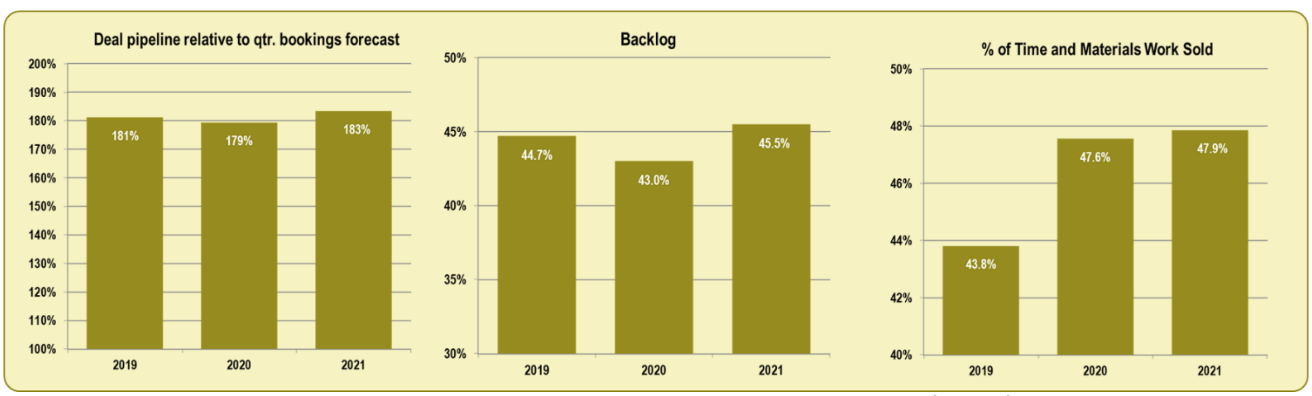
The Client Relationships pillar focuses on the activities associated with business development and client management. Finding and retaining customers is a primary means of growing a business and is always one of the top challenges for PS firms.

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

New this year, SPI has added a series of questions which more fully explore the impact of client referenceability; Net Promoter Scores and types of client reference programs. We also examine service packaging investments; sales quotas and realized bill rates.

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 32: Client Relationships Trends of Note



Source: SPI Research, February 2022

In 2021 most Client Relationships metrics improved slightly. Notably, forward-looking metrics like the size of the deal pipeline and backlog ticked up slightly as did the overall percentage of time and materials work. Typically, higher levels of time and materials work signal a stronger market as PSOs are not forced to take on the risk associated with fixed price contracts. The pandemic is still with us in 2022, but SPI Research thinks these predictive metrics signify relatively strong market demand.

Table 88 highlights the five levels of maturity in the Client Relationships pillar. As sales and service delivery processes mature, organizations move from selling anything and everything to anyone, to a

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more careful and selective approach to client selection, solution creation, deal capture, contract and pricing management, reference building and partnering.

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

Table 88: 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 2022

Client Relationships Maturity Model™

Improvements in sales and marketing, or as SPI Research calls "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 are able to 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 put the firm at risk while minimizing profit. In the new virtual post-Covid 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 33 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. Interestingly, more mature organizations 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. Top 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 make the difference. Leading organizations are aligned from strategy to execution with all elements of the business working in concert to delight clients.

Figure 33: Client Relationships Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Total annual number of active closed clients	2,358	861	365	180	132
Current clients - Existing services	63.4%	57.6%	60.1%	55.4%	60.3%
Current clients - New services	16.7%	15.0%	12.8%	11.9%	9.8%
New Logo Clients - Existing services	10.9%	16.0%	18.8%	22.8%	24.6%
New Logo Clients - New services	8.9%	11.4%	8.3%	9.9%	5.3%
Win-to-bid ratio (per 10 bids)	2.90	4.21	5.54	6.41	7.54
Deal pipeline / quarterly bookings forecast	110%	165%	189%	213%	265%
Sales cycle (days: qualified lead to contract signing)	99	91	87	81	98
Service discount given	8.7%	7.5%	5.5%	6.0%	5.7%
Solution development effectiveness	3.42	3.56	3.67	4.01	4.21
Service sales effectiveness	3.40	3.52	3.60	3.88	4.00
Service marketing effectiveness	3.19	3.19	3.15	3.46	3.32
Percentage of referenceable clients	61.9%	70.0%	76.3%	81.6%	88.9%
Net Promoter Score	37.9	51.3	50.7	56.8	53.2
FTE employees dedicated to service sales	9.09	9.79	8.18	9.43	2.92
Annual service sales revenue quota per person	$1.05	$1.23	$1.49	$1.88	$1.98
Realized hourly bill rate	$158	$190	$198	$194	$229
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

Figure 33 shows why 'improving marketing and sales effectiveness' is always a top enhancement priority. Perennially sales, marketing and solution development effectiveness scores are some of the lowest in the benchmark. Dissatisfaction with service marketing continually makes the top of the dissatisfaction list as PS organizations are never satisfied with the number and quality of leads; brand reputation or the sales tools produced by marketing. These are subjective questions in which survey respondents are asked to 'rate the effectiveness' of sales, marketing and solution development.

An examination of the type of work sold shows high performance firms sell more time and materials work as the market for professional services expands, and talent becomes harder to find. The pendulum has swung toward more power in the hands of PSOs, which should lead to higher bill rates and profits going forward. In this benchmark, firms who primarily use time and materials pricing are significantly more profitable than those who 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.

Figure 34: Type of Work Sold by Maturity Level

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Time & materials % of work sold	34.5%	41.8%	41.3%	52.7%	70.1%
Fixed time / fixed fee % of work sold	42.8%	36.9%	43.0%	28.8%	20.8%
Shared risk / performance-based % of work sold	1.6%	2.8%	2.0%	2.3%	0.4%
Subscription services % of work sold	4.3%	7.1%	3.9%	4.6%	3.5%
Managed services % of work sold	7.9%	8.0%	7.7%	9.6%	2.3%
None of the above % of work sold	8.8%	3.3%	2.1%	2.1%	3.0%
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

The PS Sales Maturity Model™

As part of the PS Sales and Marketing Maturity Model™, SPI Research focuses on key success criteria and processes associated with PS sales, marketing, solution development and partnering. SPI Research charts its definitions of sales maturity levels and shows how they progress as the organization enhances the knowledge and practice of solution selling resulting in superior client value (Table 89).

Table 89: PS Sales Maturity Model™

	Level 1	Level 2	Level 3	Level 4	Level 5
	Ad Hoc, Opportunistic, Heroic	**Piloted, Experimental, Pockets of Excellence**	**Deployed, Basics in Place for All Key Elements**	**Institutionalized, in the Company DNA / Fabric**	**Visionary, Agile, Innovative, Continuous Renewal and Improvement**
Client Value	Handcrafted projects, unique, highly dependent on individual team member skills.	Limited replication or codification of service solutions. Point product solutions primarily focused on rapid implementation, integration and customization. Starting to focus on adoption.	Clear, value-based sales and marketing messages developed for product / vertical /geographic audiences. Some level of client value and ROI measurement.	Client-centric, high value services developed and packaged. Demonstrated, measurable business value.	Partnerships exist with most strategic, forward-thinking clients to develop and enhance leading edge services. Solutions deliver clear and significant value.
Client Sat Programs	Ad hoc reference requests. No formal program. Heroic.	Client satisfaction and reference programs established to extend market reach.	Proof, testimonials and references to support solution client value. Consistent, ongoing satisfaction measures.	Client advisory board influences roadmap participates in beta programs.	Strategic clients are company and service evangelists.

	Level 1	Level 2	Level 3	Level 4	Level 5
Sales Process	Opportunistic and instinctive with ad hoc service offerings. No consistent sales methodology. Variation in pricing methods. Inconsistent proposals, quotes, contracts. Limited to no investment in sales training, methods or tools.	Dedicated solution selling teams. Repeatable process for point solutions. Implementing sales methodology, reinforced in CRM. Reusable proposal boilerplate. Informal proposal roles and self-governing proposal teams. Standard price list and discount authority. Developing standard contracting and estimating tools.	Consistent solution selling methods & tools reinforced and supported in CRM. Solution-oriented best practices. Consistent estimating and risk evaluations. Bid qualification criteria. Standard contracts and statements of work. Clear roles, responsibilities and timelines. Sales organization trained to effectively sell solutions.	Solution and value selling is a way of life with appropriate measurements and controls with fully integrated supporting systems and tools. Sophisticated selling strategies including quantified client value with improved KPIs and positive ROI.	Established thought leadership and trusted advisor at highest levels. Continual investment in improving and expanding service portfolio as a means of market expansion. Effective proposal center delivers timely, high-quality estimates, proposals, contract and risk reviews.
Partners	Ad hoc and opportunistic without clearly defined rules, certification or quality metrics.	Partner plan in place, but conflicts still exist. Defined partner programs to extend market reach. Piloting certification, training & quality metrics.	Solution sets designed with partners in mind (defined roles and deliverables for prime, hybrid, sub). Top partner program.	Co-development with partners. Partners are integral part of service packaging and rollout.	Co-opetition. Partners contribute to company's overall service innovation by providing SME feedback and insights.

Source: SPI Research, February 2022

As organizations enhance their solution selling capabilities, methods, systems and tools, overall sales effectiveness improves. These efforts pay for themselves in a higher percentage of sales quota achievement; better sales forecasting accuracy; less churn; higher levels of adoption; improved pricing and estimating resulting in fewer project overruns; shorter sales cycles due to better deal qualification; larger deals; more PS revenue by account; larger pipelines and significantly stronger reference clients. Figure 35 illustrates the powerful impact of sales effectiveness.

Figure 35: PS Sales Maturity Matters!

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Size of PS organization (employees)	348	367	231	266	148
Total professional services revenue (mm)	$56.5	$36.8	$47.2	$57.4	$32.4
Service sales effectiveness	3.40	3.52	3.60	3.88	4.00
FTE employees dedicated to service sales	9.09	9.79	8.18	9.43	2.92
Annual service sales revenue quota per person	$1.05	$1.23	$1.49	$1.88	$1.98
Realized hourly bill rate	$158	$190	$198	$194	$229
Win-to-bid ratio (per 10 bids)	2.90	4.21	5.54	6.41	7.54
Deal pipeline / quarterly bookings forecast	110%	165%	189%	213%	265%
Sales cycle (days: qualified lead to contract signing)	99	91	87	81	98
Net Promoter Score	37.9	51.3	50.7	56.8	53.2
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

PS Marketing Maturity Model™

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

Relationships Are Key

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

Services Marketing versus Service Lifecycle Management

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

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

Table 90: PS Marketing Maturity™ Levels

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

Source: SPI Research, February 2022

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

5-Year Client Relationships Trends

The following table highlights the past five years of benchmark surveys. The table shows most client relationship metrics achieved their best performance in 2021. The market has gotten healthier over the past year as PSOs have learned how to market and sell during the pandemic while consulting demand has skyrocketed.

Table 91: Client Relationships Pillar 5-year Trend

Key Performance Indicator (KPI)	5 Year Avg.	2017	2018	2019	2020	2021
New logo client % of total revenue	**27.8%**	24.2%	29.8%	30.8%	28.2%	27.5%
Deal pipeline relative to qtr. bookings forecast	**180%**	174%	181%	181%	179%	183%
Win-to-bid ratio (per 10 bids)	**5.07**	4.80	4.92	5.27	5.18	5.17
Sales cycle (days: qualified lead to contract signing)	**89**	90	89	87	90	89
Average service discount given	**6.7%**	4.9%	6.7%	7.6%	7.6%	6.6%
Solution development effectiveness (1 to 5 scale)	**3.66**	3.52	3.64	3.72	3.69	3.71
Service sales effectiveness (1 to 5 scale)	**3.56**	3.42	3.53	3.61	3.56	3.64
Service marketing effectiveness (1 to 5 scale)	**3.21**	3.20	3.25	3.21	3.12	3.24
Percentage of referenceable clients	**73.2%**	74.7%	71.9%	72.2%	72.7%	74.8%
Time & materials % of work sold	**46.5%**	49.9%	43.8%	47.6%	47.9%	44.5%
Fixed time / fixed fee % of work sold	**36.7%**	40.7%	38.9%	34.1%	33.0%	37.0%
Shared risk / performance-based % of work sold	**2.2%**	2.2%	2.6%	2.3%	1.7%	2.2%
Subscription services	**4.0%**	NA	NA	7.7%	7.3%	5.0%
Managed Services	**7.6%**	4.4%	10.3%	6.7%	7.6%	7.8%
Other	**3.0%**	2.8%	4.3%	1.6%	2.4%	3.4%

Source: SPI Research, February 2022

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.

Table 92: Client Relationships Pillar Results by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
New logo client % of total revenue	28.2%	27.5%	35.7%	24.5%	27.9%	27.4%	22.1%
Deal pipeline / to qtr. bookings forecast	179%	183%	195%	179%	184%	189%	160%
Win-to-bid ratio (per 10 bids)	5.18	5.17	4.88	5.29	5.13	5.29	5.31
Sales cycle (days)	90	89	99	85	92	84	65
Average service discount given	7.6%	6.6%	10.2%	5.2%	6.8%	6.6%	3.3%
Solution development effect. (1 to 5 scale)	3.69	3.71	3.72	3.71	3.74	3.61	3.75
Service sales effect. (1 to 5 scale)	3.56	3.64	3.50	3.69	3.65	3.59	3.63
Service marketing effect. (1 to 5 scale)	3.12	3.24	3.17	3.27	3.26	3.14	3.29
Percentage of referenceable clients	72.7%	74.8%	68.0%	77.5%	76.0%	69.7%	74.2%
Overall Net Promoter Score	NA	51	42	56	52	52	40

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
FTE services sales employees	NA	8.7	11.3	7.7	8.4	10.2	8.0
Annual service sales revenue quota per person (mm)	NA	$1.48	$1.54	$1.45	$1.51	$1.37	$1.41
Average realized hourly bill rate	NA	$193	$190	$195	$182	$242	$237
Time & materials % of work sold	47.9%	44.5%	43.2%	45.0%	44.8%	40.8%	51.9%
Fixed time / fixed fee % of work sold	33.0%	37.0%	36.6%	37.2%	39.0%	30.9%	29.3%
Shared risk / perf.-based % of work sold	1.7%	2.2%	0.7%	2.7%	1.8%	3.8%	1.7%
Subscription services	7.3%	5.0%	9.2%	3.5%	4.4%	7.4%	6.5%
Managed Services	7.6%	7.8%	7.5%	8.0%	6.9%	13.2%	4.3%
Other	2.4%	3.4%	2.9%	3.6%	3.1%	3.9%	6.2%

Source: SPI Research, February 2022

Table 93: Client Relationships Pillar Results by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
New client % of total revenue	29.3%	28.8%	27.4%	26.4%	26.2%	25.0%
Deal pipeline relative to qtr. bookings forecast	148%	171%	193%	189%	187%	235%
Win-to-bid ratio (per 10 bids)	4.34	5.72	4.99	5.44	5.33	5.07
Sales cycle (days)	78	83	93	92	90	98
Average service discount given	6.0%	5.3%	6.5%	7.2%	8.5%	7.4%
Solution development effect. (1 to 5 scale)	3.83	3.61	3.73	3.72	3.69	3.71
Service sales effect. (1 to 5 scale)	3.52	3.63	3.59	3.76	3.58	3.75
Service marketing effect. (1 to 5 scale)	3.10	3.15	3.14	3.33	3.44	3.71
Percentage of referenceable clients	72.0%	79.6%	77.0%	73.8%	69.4%	66.7%
Overall Net Promoter Score	47	53	49	54	48	52
FTE services sales employees	3.8	3.8	5.3	12.9	18.7	27.1
Annual service sales revenue quota per person (mm)	$0.85	$1.09	$1.50	$1.84	$2.33	$1.80
Average realized hourly bill rate	$235	$199	$174	$186	$202	$167
Time & materials % of work sold	38.5%	45.3%	48.6%	47.0%	39.3%	33.9%
Fixed time / fixed fee % of work sold	38.6%	40.2%	34.0%	36.9%	36.8%	39.1%
Shared risk / performance-based % of work sold	2.5%	2.8%	0.9%	1.3%	4.1%	6.2%
Subscription services	7.0%	3.6%	4.2%	6.0%	3.9%	7.0%
Managed Services	6.9%	6.5%	8.5%	6.0%	12.8%	11.5%
Other	6.5%	1.8%	3.7%	2.9%	3.1%	2.3%

Source: SPI Research, February 2022

Table 94: Client Relationships Pillar Results by PS Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
New client % of total revenue	27.2%	27.3%	33.9%	40.7%	15.9%	22.2%
Deal pipeline relative to qtr. bookings forecast	199%	162%	193%	194%	188%	129%
Win-to-bid ratio (per 10 bids)	5.61	5.02	4.70	4.66	5.36	4.76
Sales cycle (days)	83	85	99	106	90	75
Average service discount given	6.5%	5.2%	9.6%	13.0%	1.7%	4.3%
Solution development effect. (1 to 5 scale)	3.79	3.76	3.62	3.85	3.58	3.78
Service sales effect. (1 to 5 scale)	3.70	3.62	3.43	3.51	3.73	3.83
Service marketing effect. (1 to 5 scale)	3.28	3.21	3.11	3.07	3.42	3.57
Percentage of referenceable clients	78.0%	76.2%	63.5%	67.5%	80.2%	76.1%
Overall Net Promoter Score	57	54	41	33	59	39
FTE services sales employees	9.1	4.8	14.9	10.1	7.8	7.5
Annual service sales revenue quota per person (mm)	$1.94	$1.18	$1.66	$1.47	$1.15	$0.99
Average realized hourly bill rate	$185	$225	$180	$187	$197	$189
Time & materials % of work sold	61.5%	35.8%	46.6%	34.7%	39.8%	25.4%
Fixed time / fixed fee % of work sold	25.0%	44.3%	35.3%	45.8%	51.0%	47.6%
Shared risk / perf.-based % of work sold	1.3%	4.8%	0.6%	0.5%	3.5%	3.0%
Subscription services	3.0%	4.4%	9.9%	11.1%	1.4%	5.4%
Managed Services	8.5%	5.3%	5.1%	7.8%	3.9%	11.4%
Other	0.9%	5.4%	2.4%	0.2%	0.5%	7.2%

Source: SPI Research, February 2022

Effectiveness of marketing and sales processes

The effectiveness of solution development, service marketing, and sales on a 1-5 scale, with 1=poor and 5=great.

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. Getting all the constituent groups – professional services, sales, marketing, product management and channel partners – on the same page to create compelling solutions for targeted markets is a tough but worthwhile task.

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

- ∆ 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 excellent (Table 95). Solution Development effectiveness has traditionally been given a lower score than sales effectiveness but higher marks than marketing effectiveness. This year overall solution development effectiveness was rated higher than sales effectiveness with a score of 3.71 compared to 3.64 for sales effectiveness and 3.24 for marketing effectiveness. All the measures of solution development, sales and marketing effectiveness increased from the 2020 survey. For the 63.4% of firms who gave their solution development efforts a good score of 4 or 5, solution development had a positive impact on the size of the deal pipeline, project margins and revenue yield by consultant and employee.

Table 95: Impact – Solution development effectiveness

Solution development effectiveness	Survey %	Win-to-bid ratio	Deal pipeline	Project margin	% of ann. margin target	Ann. rev./ consult. (k)
Very Ineffective	1.5%	4.88	150%	29.0%	90.0%	$200
Ineffective	6.8%	4.96	167%	31.7%	87.5%	$180
Neither Effective nor Ineffective	28.3%	4.57	186%	32.8%	90.6%	$193
Effective	45.6%	5.45	187%	37.9%	92.6%	$214
Very Effective	17.8%	5.55	193%	41.6%	94.8%	$220
Total/Average	**100.0%**	**5.18**	**186%**	**36.6%**	**92.0%**	**$206**

Source: SPI Research, February 2022

Table 96: Year-over-year Change in Solution development effectiveness

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.69	3.75	3.66	3.69	3.75	3.50
2021	3.71	3.72	3.71	3.74	3.61	3.75
Change	**1%**	**-1%**	**1%**	**1%**	**-4%**	**7%**

Source: SPI Research, February 2022

Table 97: Year-over-year Vertical Market Change in Solution development effectiveness

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.63	3.77	3.77	3.85	3.62	3.68
2021	3.79	3.76	3.62	3.85	3.58	3.78
Change	**5%**	**0%**	**-4%**	**0%**	**-1%**	**3%**

Source: SPI Research, February 2022

Service Marketing Effectiveness

Having a service marketing focus is not enough. Marketing must develop an effective online presence, thought leadership, lead generation campaigns, sales tools and sales enablement to 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 support on-going campaigns.

Table 98: Impact – Service marketing effectiveness

Service marketing effectiveness	Survey %	Org. size (emp)	Rec. to family/ friends	Billable utilization	Ann. rev./ emp. (k)	EBITDA
Very Ineffective	4.2%	77	4.00	65.0%	$150	11.9%
Ineffective	15.7%	100	4.35	72.0%	$166	16.2%
Neither Effective nor Ineffective	38.5%	312	4.41	73.0%	$171	13.6%
Effective	35.3%	334	4.51	75.5%	$159	18.2%
Very Effective	6.4%	563	4.63	77.3%	$175	19.4%
Total/Average	**100.0%**	**293**	**4.43**	**73.6%**	**$166**	**15.9%**

Source: SPI Research, February 2022

SPI Research asked how effective service marketing was on a scale of 1 to 5, with 5 representing excellent (Table 98). Marketing effectiveness has consistently been given an even worse score than sales effectiveness. Marketing effectiveness has consistently declined from a poor score of 3.25 (65%) in 2018 to a failing score of 3.12(62%) in 2021. For the 41.7% of firms who gave their marketing efforts a strong score of 4 or 5, marketing has a positive impact on revenue growth, size of the sales pipeline, client reference-ability and project margins. Marketing is certainly worth the expense if it is well-staffed, fully funded and strategically positioned.

Table 99: Year-over-year Change in Service marketing effectiveness

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.12	3.06	3.15	3.14	3.00	3.18
2021	3.24	3.17	3.27	3.26	3.14	3.29
Change	**4%**	**4%**	**4%**	**4%**	**5%**	**4%**

Source: SPI Research, February 2022

Table 100: Year-over-year Vertical Market Change in Service marketing effectiveness

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.00	3.21	3.00	2.92	3.15	3.68
2021	3.28	3.21	3.11	3.07	3.42	3.57
Change	**9%**	**0%**	**4%**	**5%**	**9%**	**-3%**

Source: SPI Research, February 2022

Service Sales Effectiveness

Service sales effectiveness is a subjective question but typically refers to the percentage of salespeople who achieve quota and the probability that the sales organization will achieve its forecast and targets. SPI Research asked respondents to rank the effectiveness of the service sales organization on a scale from 1 to 5 with 5 representing very effective (Table 101). Sales effectiveness has a profound impact on all aspects of PS but unfortunately 6.7% of respondents give sales effectiveness a failing grade of 1 or 2; 33.7% give sales effectiveness an "OK" score of 3; but nearly 60% give sales effectiveness high marks. This year's average rating of sales effectiveness increased to 3.64 (72.7%) from to 3.56 (71.2%) last year.

Table 101: Impact – Service sales effectiveness

Service sales effectiveness	Survey %	Employee attrition	On-time proj. delivery	Project margin	% of ann. margin target	Backlog
Very Ineffective	1.5%	9.8%	85.0%	32.7%	88.8%	28.3%
Ineffective	5.2%	12.9%	73.1%	33.7%	90.0%	39.4%
Neither Effective nor Ineffective	33.7%	14.0%	79.8%	35.6%	91.9%	46.5%
Effective	47.7%	12.8%	80.2%	36.8%	91.9%	47.2%
Very Effective	12.0%	15.1%	83.4%	40.6%	94.1%	43.9%
Total/Average	**100.0%**	**13.4%**	**80.2%**	**36.6%**	**92.0%**	**45.9%**

Source: SPI Research, February 2022

ESOs gave lower marks for sales effectiveness (3.50 or 70.0%) than independents (3.69 or 73.8%). By geography, Americas gave the highest score of 3.65 (73%) and EMEA gave the lowest of 3.59 (71.8%).

Table 102: Year-over-year Change in Service sales effectiveness

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.56	3.64	3.53	3.56	3.59	3.50
2021	3.64	3.50	3.69	3.65	3.59	3.63
Change	**2%**	**-4%**	**5%**	**2%**	**0%**	**4%**

Source: SPI Research, February 2022

Table 103: Year-over-year Vertical Market Change in Service sales effectiveness

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.52	3.49	3.70	3.54	3.62	3.63
2021	3.70	3.62	3.43	3.51	3.73	3.83
Change	**5%**	**4%**	**-7%**	**-1%**	**3%**	**5%**

Source: SPI Research, February 2022

Total annual number of active clients

The average number of clients your organization serves on an annual basis.

The more clients a PSO has, the less risk from losing one. Most PSOs have excellent relations with their client base, but for one reason or another, current clients may not sign up for services the next year. Some firms in the government contracting market service only a handful of clients, so if a project's funding is eliminated, it can have a devastating impact on the PSO. However, the more clients a PSO has, the greater risk there is for inconsistency and spotty service quality. PSOs must balance new client levels with the number of resources and the complexities of the relationships.

Table 104: Year-over-year Change in Total annual number of active closed clients

	Total	ESO	PSO	Americas	EMEA	APac
2020	874	1,211	739	1,025	258	188
2021	729	2,144	216	507	489	4,451
Change	**-17%**	**77%**	**-71%**	**-51%**	**89%**	**2273%**

Source: SPI Research, February 2022

Table 105: Year-over-year Vertical Market Change in Total annual number of active closed clients

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	284	693	562	954	243	153
2021	169	87	2,736	2,310	477	87
Change	**-41%**	**-87%**	**387%**	**142%**	**97%**	**-43%**

Source: SPI Research, February 2022

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

Characterize clients as new (less than 1-year) vs. existing. For each determine the percentage of services sold as new services (offered for less than one year) vs. existing (offered over 1 year).

Understanding both the client and service mix helps PSOs grow. At the beginning of the pandemic, it was hard to develop relationships with new clients so most PSOs relied on sales to their installed base. However, in 2021, as the realities of a long-lasting virtual work world became apparent, well-positioned firms with strong reputations found new clients "jumping in the boat" as PS sales cycles accelerated. Another subtle but welcome change happened. Potential consulting buyers had the time and executive attention to focus on shoring up antiquated systems and cumbersome business processes. Technology spending and particularly PS spending has risen to new heights. A critical talent shortage has only added fuel to the PS fire as clients simply cannot find and keep skilled technical talent, so they are increasingly bringing in consultants. No matter how well-positioned and comfortable existing client relationships may be, all firms must aim to develop new client relationships. New clients bring new ideas, new challenges and the potential for new services, which can then be sold to the existing client base. New clients and new services are essential for growth. The following sections analyze how the mix has changed over the past year.

Current Clients – Existing Services

Table 106: Year-over-year Change in Current clients - Existing services

	Total	ESO	PSO	Americas	EMEA	APac
2020	56.2%	42.6%	62.0%	54.8%	60.9%	65.3%
2021	58.9%	47.2%	63.2%	58.0%	59.4%	68.5%
Change	**5%**	**11%**	**2%**	**6%**	**-2%**	**5%**

Source: SPI Research, February 2022

Table 107: Year-over-year Vertical Market Change in Current clients - Existing services

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	63.9%	59.1%	46.8%	32.8%	66.2%	65.3%
2021	59.6%	60.6%	44.8%	42.3%	72.3%	67.1%
Change	**-7%**	**2%**	**-4%**	**29%**	**9%**	**3%**

Source: SPI Research, February 2022

Current Clients – New Services

Table 108: Year-over-year Change in Current clients - New services

	Total	ESO	PSO	Americas	EMEA	APac
2020	15.6%	20.8%	13.4%	16.5%	13.9%	6.7%
2021	13.6%	17.1%	12.3%	14.0%	13.2%	9.4%
Change	**-13%**	**-18%**	**-8%**	**-15%**	**-5%**	**39%**

Source: SPI Research, February 2022

Table 109: Year-over-year Vertical Market Change in Current clients - New services

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	11.1%	13.6%	24.4%	18.9%	12.3%	13.3%
2021	13.1%	12.1%	21.3%	17.0%	11.8%	10.7%
Change	**19%**	**-11%**	**-13%**	**-10%**	**-4%**	**-20%**

Source: SPI Research, February 2022

New Logo Clients – Existing Services

Table 110: Year-over-year Change in New Logo Clients - Existing services

	Total	ESO	PSO	Americas	EMEA	APac
2020	18.1%	20.0%	17.3%	18.0%	18.0%	20.6%
2021	18.1%	18.6%	17.9%	18.2%	17.8%	18.0%
Change	**0%**	**-7%**	**3%**	**1%**	**-1%**	**-13%**

Source: SPI Research, February 2022

Table 111: Year-over-year Vertical Market Change in New Logo Clients - Existing services

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	16.4%	21.6%	13.9%	26.8%	12.8%	16.5%
2021	19.9%	20.0%	18.4%	16.9%	11.4%	16.0%
Change	**21%**	**-7%**	**32%**	**-37%**	**-11%**	**-3%**

Source: SPI Research, February 2022

New Logo Clients – New Services

Table 112: Year-over-year Change in New Logo Clients - New services

	Total	ESO	PSO	Americas	EMEA	APac
2020	10.0%	16.6%	7.3%	10.7%	7.2%	7.3%
2021	9.4%	17.1%	6.5%	9.8%	9.6%	4.2%
Change	**-6%**	**3%**	**-10%**	**-9%**	**33%**	**-43%**

Source: SPI Research, February 2022

Table 113: Year-over-year Vertical Market Change in New Logo Clients - New services

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	8.5%	5.7%	14.8%	21.5%	8.8%	4.8%
2021	7.3%	7.3%	15.5%	23.8%	4.5%	6.2%
Change	**-14%**	**27%**	**4%**	**11%**	**-48%**	**29%**

Source: SPI Research, February 2022

Primary target buyer for services

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

SPI Research asked, "who is the primary buyer for your services"? For the 540 benchmark respondents, the primary target buyer is most likely to be a Line of Business executive, as business leaders have increasingly taken charge of their applications and have wrested control from the IT organization.

Table 114 correlates primary buyer type with other key metrics. Without knowing other aspects, it is hard to come up with definitive best practices, but this analysis does reveal some interesting comparisons. This year selling to the CEO produced the best EBITDA again. Selling to the CIO produced the highest win rate, while selling to the COO produced the highest revenue growth.

Table 114: Impact – Primary target buyer for services

Primary target buyer for services	Survey %	Revenue growth	New clients	Deal pipeline	Win-to-bid ratio	Project margin	EBITDA
CEO	13.0%	6.9%	29.7%	160%	4.77	33.7%	21.9%
COO	8.7%	14.1%	34.5%	211%	4.81	39.8%	10.9%
CIO	15.3%	12.0%	23.5%	218%	5.32	39.6%	13.3%
Line of Business	44.1%	10.5%	26.3%	181%	5.16	35.3%	15.8%
Purchasing	0.5%	11.3%	26.5%	150%	3.50	28.7%	-24.4%
Other	18.4%	9.7%	25.6%	166%	5.80	36.9%	17.2%
Total / Average	**100.0%**	**10.4%**	**26.9%**	**184%**	**5.21**	**36.4%**	**15.8%**

Source: SPI Research, February 2022

Size of deal pipeline in comparison to your quarterly bookings forecast

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

A sign of caution and continued market turbulence is that 45.8% of benchmark participants reported their deal pipeline was less than two times the size of their forecast. Table 115 illustrates the positive impact of a strong sales pipeline on revenue growth; backlog; revenue per consultant and employee and project margin.

Table 116 shows the average size of the deal pipeline went up to 183% after falling to 179% in 2020. ESOs reported healthy pipelines of 195% of forecast while independents reported leaner pipelines of 179%, but both showed improvement from 2020; Asia Pacific had the lowest (160%) deal pipeline relative to quarterly bookings forecast in 2021 compared to the strongest in 2020, while EMEA had the highest at 189%.

Table 115: Impact – Deal pipeline / quarterly bookings forecast

Deal pipeline relative to qtr. bookings forecast	% of obs.	Revenue growth	Backlog	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	Project margin
Less than forecast	9.5%	8.3%	39.1%	$199	$142	32.8%
Same as forecast	36.3%	8.9%	39.8%	$205	$166	33.9%
2X forecast	27.1%	11.7%	51.6%	$190	$154	37.0%
3X forecast	20.4%	11.0%	47.3%	$224	$175	39.3%
4X forecast	6.7%	11.7%	48.3%	$233	$194	40.8%
Total / Average	**100.0%**	**10.3%**	**45.0%**	**$206**	**$164**	**36.2%**

Source: SPI Research, February 2022

Table 116: Year-over-year Change in Deal pipeline / quarterly bookings forecast

	Total	ESO	PSO	Americas	EMEA	APac
2020	179%	197%	172%	172%	203%	213%
2021	183%	195%	179%	184%	189%	160%
Change	**2%**	**-1%**	**4%**	**7%**	**-7%**	**-25%**

Source: SPI Research, February 2022

Table 117: Year-over-year Vertical Market Change in Deal pipeline / quarterly bookings forecast

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	190%	175%	197%	209%	150%	144%
2021	199%	162%	193%	194%	188%	129%
Change	**5%**	**-7%**	**-2%**	**-7%**	**25%**	**-11%**

Source: SPI Research, February 2022

Win-to-bid ratio (per 10 bids)

For every 10 client bids submitted, the number that are awarded with contracts.

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

In 2021 the win-to-bid ratio went down slightly to 5.17 vs. 5.18 in 2020. Table 118 shows the positive impact of improving win to bid ratios through better deal qualification; reference selling; improved positioning to target the right markets and clients; and improving overall quality and client satisfaction resulting in more and better referrals. This year the optimal ratio is over 8 wins with the highest revenue growth; highest revenue per consultant and employee, and client references. The pent-up demand for professional services could have impacted these numbers more than normal.

Table 118: Impact – Win-to-bid ratio (per 10 bids)

Win-to-bid ratio (per 10 bids)	% of obs.	Revenue growth	Backlog	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	Client reference
1 - 2 wins	10.6%	4.6%	31.8%	$150	$127	67.5%
3 - 4 wins	25.2%	11.0%	45.9%	$208	$160	70.1%
5 - 6 wins	38.5%	11.1%	45.4%	$210	$168	75.5%
7 - 8 wins	20.0%	10.1%	47.9%	$220	$179	78.8%
Over 8 wins	5.7%	14.1%	53.5%	$220	$186	87.0%
Total / Average	**100.0%**	**10.4%**	**45.0%**	**$206**	**$165**	**74.6%**

Source: SPI Research, February 2022

Table 119: Year-over-year Change in Win-to-bid ratio (per 10 bids)

	Total	ESO	PSO	Americas	EMEA	APac
2020	5.18	5.13	5.20	5.22	5.02	5.00
2021	5.17	4.88	5.29	5.13	5.29	5.31
Change	**0%**	**-5%**	**2%**	**-2%**	**5%**	**6%**

Source: SPI Research, February 2022

Table 120: Year-over-year Vertical Market Change in Win-to-bid ratio (per 10 bids)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	5.02	5.51	5.45	5.06	5.18	4.32
2021	5.61	5.02	4.70	4.66	5.36	4.76
Change	**12%**	**-9%**	**-14%**	**-8%**	**4%**	**10%**

Source: SPI Research, February 2022

Length of sales cycle from qualified lead to contract signing

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

The sales cycle went down slightly from 2020 (90 days) to 89 days in 2021.

Table 121: Impact – Sales cycle (days: qualified lead to contract signing)

Sales cycle (days: qualified lead to contract signing)	% of obs.	Revenue growth	Backlog	Ann. rev./ consult. (k)	Total attrition	Project margin
Under 30 days	5.6%	3.1%	28.6%	$186	10.8%	36.5%
30 - 60 days	22.3%	10.6%	41.5%	$192	13.9%	36.8%
60 - 90 days	28.1%	10.7%	46.2%	$214	12.7%	38.3%
90 - 120 days	21.3%	13.6%	50.7%	$207	15.3%	36.2%
120 - 150 days	13.1%	8.3%	48.4%	$221	12.1%	34.1%
Over 150 days	9.7%	9.4%	51.0%	$213	13.1%	33.6%
Total / Average	**100.0%**	**10.4%**	**45.9%**	**$207**	**13.4%**	**36.4%**

Source: SPI Research, February 2022

Table 122: Year-over-year Change in Sales cycle (days: qualified lead to contract signing)

	Total	ESO	PSO	Americas	EMEA	APac
2020	90	103	84	90	89	76
2021	89	99	85	92	84	65
Change	**1%**	**5%**	**-2%**	**-1%**	**6%**	**18%**

Source: SPI Research, February 2022

Table 123: Year-over-year Vertical Market Change in Sales cycle

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	86	85	102	111	82	68
2021	83	85	99	106	90	75
Change	**3%**	**1%**	**3%**	**5%**	**-9%**	**-10%**

Service discount given clients

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

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 definitely come into play. The more unique the offering; the more demonstrable the return on investment; the larger the reference base; the harder to find required skills; the more premium pricing is warranted.

Table 124 shows nearly 80% of organizations discount less than 10%. Those organizations that discount heavily (greater than 20%) have slightly higher rates of new client penetration, but much higher employee attrition and have more difficulty delivering projects on time.

Table 124: Impact – Service discount given

Service discount given	Survey %	New clients	Win-to-bid ratio	Employee attrition	On-time proj. delivery	Project overrun
None	23.4%	19.3%	5.61	11.1%	83.2%	5.9%
Under 5%	28.5%	29.3%	5.23	13.8%	82.1%	7.2%
5% - 10%	28.0%	29.2%	5.05	13.5%	80.4%	8.4%
10% - 20%	15.1%	29.7%	4.73	14.2%	75.2%	11.0%
20% - 30%	3.2%	35.8%	5.17	14.8%	68.8%	10.8%
Over 30%	1.7%	33.1%	4.29	25.1%	62.5%	23.3%
Total / Average	**100.0%**	**27.3%**	**5.17**	**13.4%**	**80.1%**	**8.2%**

Source: SPI Research, February 2022

Past win ratios are critical but must be viewed in conjunction with past and projected project margins to determine the optimal pricing strategy. Professional services executives should not mind losing bids when they hurt margin because "bargain basement" pricing rarely results in win-win partnerships. If firms are continually asked to discount pricing it is a sure sign that something is wrong. Either they have not properly demonstrated their value, or they are moving into a commodity market or they have not done a good job of differentiating their services. There is absolutely no way service organizations can make up in volume the amount they lose per deal because margins are too thin and there is no way to recoup hours worked at cheap rates.

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

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

Table 125: Year-over-year Change in Service discount given

	Total	ESO	PSO	Americas	EMEA	APac
2020	7.6%	10.9%	6.2%	7.8%	6.9%	5.4%
2021	6.6%	10.2%	5.2%	6.8%	6.6%	3.3%
Change	**15%**	**6%**	**20%**	**15%**	**4%**	**61%**

Source: SPI Research, February 2022

2021 saw the average service discount go down to 6.6% from 7.6% in 2020. Independents averaged half the discounts of embedded service organizations at 5.2% compared to 10.2%, and while both the

Americas and EMEA were over 6 .5% last year, the Asia Pacific region averaged only 3.3%, which bodes well for both growth and profitability.

Table 126: Year-over-year Vertical Market Change in Service discount given

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	7.0%	6.3%	9.8%	14.4%	3.7%	5.1%
2021	6.5%	5.2%	9.6%	13.0%	1.7%	4.3%
Change	**9%**	**21%**	**2%**	**11%**	**113%**	**19%**

Source: SPI Research, February 2022

Percent of referenceable clients

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

The percentage of reference clients is considered one of the most important KPIs in the professional services 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 this percentage increases, so does the probability of high levels of growth; better win ratios and lower sales costs. Any maturity improvement plan must address measuring and improving client satisfaction and building references. Best practices include post-project engagement interviews and surveys; acquiring client references and testimonials as part of project close-out process along with frequent and consistent project quality reviews. Executive teams should review the project dashboard at weekly meetings and immediately assign resources to intervene with troubled projects.

Table 127 shows higher references yield higher sales win rates, improved employee satisfaction and better project delivery metrics. Of course, the reverse could be said that better on-time delivery and lower overruns yield higher refences as well.

Table 127: Impact – Percentage of referenceable clients

Percentage of referenceable clients	Survey %	Win-to-bid ratio	Rec. to family/ friends	On-time proj. delivery	Project overrun	Exec real-time visibility
Under 50%	11.3%	4.20	4.24	72.8%	9.9%	3.36
50% - 60%	12.3%	4.32	4.23	75.1%	9.6%	3.52
60% - 70%	8.4%	5.12	4.33	73.0%	10.5%	3.73
70% - 80%	22.2%	5.22	4.37	80.3%	8.8%	3.74
80% - 90%	20.9%	5.35	4.56	81.1%	8.4%	3.52
Over 90%	24.9%	5.79	4.63	86.3%	5.9%	3.94
Total/Average	**100.0%**	**5.15**	**4.44**	**79.9%**	**8.4%**	**3.67**

Source: SPI Research, February 2022

Table 128 shows client references grew to 74.8% in 2021 versus 72.7% in 2020. Independents led embedded at 77.5% to 68.0%. The Americas had the highest at 76% compared to 69.7% in EMEA and 74.2% in APac.

Table 128: Year-over-year Change in Percentage of referenceable clients

	Total	ESO	PSO	Americas	EMEA	APac
2020	72.7%	67.2%	75.0%	73.1%	70.9%	71.2%
2021	74.8%	68.0%	77.5%	76.0%	69.7%	74.2%
Change	**3%**	**1%**	**3%**	**4%**	**-2%**	**4%**

Source: SPI Research, February 2022

Table 129: Year-over-year Vertical Market Change in Percentage of referenceable clients

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	74.2%	81.5%	66.0%	69.2%	76.4%	67.4%
2021	78.0%	76.2%	63.5%	67.5%	80.2%	76.1%
Change	**5%**	**-7%**	**-4%**	**-3%**	**5%**	**13%**

Source: SPI Research, February 2022

Net Promoter Score

The net promoter score is the percentage of detractors subtracted from the percentage of promoters. The formula is simple: (number of promoters – number of detractors)/number of respondents X 100.

Net promoter scoring was developed by Bain Consulting in 2003 to simplify and refine customer satisfaction metrics. Instead of asking a number of survey questions about service quality, net promoter asks clients whether they are willing to stand up to be a reference for your products and services. In essence, you are asking your clients whether they will be brand advocates. In NPS surveys, the survey starts with a very basic but very powerful question: “How likely is it that you would recommend this company to a friend or colleague?” Clients are asked to respond on a 1 to 10 scale, with “10” representing absolute advocacy. One of the beauties of NPS scoring is that it has become widely accepted as a good test of client referenceability. The other benefit is that the question is straight forward and NPS measurements are simple and ubiquitous.

If we compare the responses regarding NPS to the previous question about client referenceability we see that fewer firms actually achieved the highest NPS level of over 80%. It appears NPS scoring is more accurate than the open-ended question about client referenceability but the impact is similar. Good things come to those firms with high NPS scores but surprisingly bad things don’t necessarily happen to those firms with extremely low NPS scores.

Table 130: Impact – Net Promoter Score (NPS)

Net Promoter Score	Survey %	Rec. to family / friends	On-time delivery	Annual rev. growth	Billable utilization	Ann. rev./ consult. (k)
Under 20	26.3%	4.54	79.5%	10.1%	72.3%	$212
20 - 40	12.1%	4.32	66.2%	15.3%	71.0%	$180
41 - 60	17.7%	4.31	78.3%	9.8%	74.4%	$196
61 - 80	26.8%	4.49	81.3%	11.0%	74.2%	$210
Over 80	17.2%	4.67	83.3%	9.9%	76.5%	$231
Total / Average	**100.0%**	**4.48**	**78.9%**	**10.9%**	**73.8%**	**$208**

Source: SPI Research, February 2022

Client Satisfaction Programs

In the 2021 survey, SPI added a question regarding the nature and impact of client satisfaction programs. Surprisingly, over one-third of the 540 firms in the survey have no formal client satisfaction program yet they state they have high client referenceability. One must wonder if they know what they are talking about. On the other hand, the 20% of firms who use at least rudimentary customer satisfaction metrics reported relatively low levels of client referenceability. The very few firms (2.5%) who have developed a programmatic plan for building client evangelists are clearly reaping benefits with the highest revenue yields for both consultants and employees and enviable project margins. Building a culture of client delight with commensurate client satisfaction programs is well worth the investment.

Table 131: Impact – Client satisfaction programs

Client satisfaction programs	Survey %	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	New clients	Project margin	Client reference
No formal program	34.9%	$206	$170	25.6%	36.1%	75.8%
Customer Satisfaction metrics	20.3%	$180	$149	22.2%	36.6%	69.5%
Client satisfaction, reference & testimonial programs	36.5%	$212	$166	29.2%	36.0%	75.9%
Client advisory board & programs	5.8%	$243	$184	33.2%	37.4%	76.1%
Programmatic plan for building client evangelists	2.5%	$250	$215	31.5%	41.4%	80.0%
Total / Average	**100.0%**	**$206**	**$166**	**26.8%**	**36.4%**	**74.7%**

Source: SPI Research, February 2022

Service Packaging

In this year's survey, SPI asked respondents to describe the organization's service packaging efforts. Surprisingly, 41.7% of organizations have either no or an ad hoc approach to service packaging while almost an equal number (40%) have invested in a dedicated team and processes. Service packaging pays off in higher project margins, more new client revenue and better backlog.

Table 132: Impact – Organization's service packaging efforts

Organization's service packaging efforts	Survey %	Revenue growth	Backlog	New clients	Project margin
None	13.7%	8.1%	39.9%	25.1%	33.6%
Ad hoc	28.0%	10.4%	42.7%	22.8%	35.3%
In pilot stages	18.3%	12.0%	46.4%	25.3%	39.4%
Dedicated team & processes	24.2%	10.6%	48.6%	28.3%	33.5%
Service packaging is a way of life	8.7%	12.7%	44.7%	30.8%	43.3%
Service packaging is a source of renewal and innovation	7.1%	10.8%	42.5%	33.5%	43.0%
Total / Average	**100.0%**	**10.6%**	**44.6%**	**26.4%**	**36.6%**

Source: SPI Research, February 2022

Service Sales Employees

In this year's survey, SPI asked "the number of full-time equivalent (FTE) employees dedicated to service sales". Obviously, the number of salespeople is directly related to the size of the organization but across the entire benchmark, the average number of salespeople is 8.7 with an average sales quote of $1.48M. 61 firms reported they do not employ service salespeople as they rely on PS leaders to generate revenue. Table 133 shows total PS revenue, sales quotas and realized bill rates based on the number of dedicated salespeople. In all scenarios, a sizable percentage of total revenue is not generated by dedicated salespeople.

Table 133: Impact – FTE employees dedicated to service sales

FTE employees dedicated to service sales	Survey %	PS Revenue (m)	Sales Quota (m)	Bill Rate	Revenue growth	Backlog	Ann. rev./ consult. (k)	Rev./ emp. (k)	Project margin
None	15.3%	$26	$.75	$210	10.6%	48.2%	$217	$175	36.4%
1 - 5	55.3%	$16	$1.49	$193	11.1%	44.1%	$214	$169	36.6%
6 - 10	10.0%	$44	$1.91	$207	11.2%	40.8%	$177	$144	39.8%
11 - 20	8.8%	$63	$1.79	$146	7.0%	41.3%	$185	$160	35.5%
21 - 50	7.0%	$116	$1.51	$218	9.1%	48.0%	$198	$141	33.5%
Over 50	3.8%	$406	$1.63	$154	12.0%	38.8%	$197	$181	31.5%
Total / Average	**100.0%**	**$48m**	**$1.48**	**$193**	**10.6%**	**44.2%**	**$206**	**$165**	**36.4%**

Source: SPI Research, February 2022

PS Sales Quota

In this year's survey, SPI asked "what is the annual **service** sales revenue quota per person?". Surprisingly almost 50% of the 540 organizations in the survey reported anemic sales quotas of less than $1m. The average PS sales quota is $1.48m. Higher sales quotas yield superior revenues per consultant and employee as well as much higher project margins. Surveys show less than 25% of sales people achieve their annual quota.

Table 134: Impact – Annual service sales revenue quota per person

Annual service sales revenue quota per person	Survey %	Sales FTE	Revenue growth	Backlog	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	Project margin
Under $1mm	44.8%	7.4	8.5%	41.5%	$193	$150	34.1%
$1mm - $1.5mm	16.1%	8.8	14.9%	39.0%	$191	$149	35.8%
$1.5mm - $2.0mm	9.1%	11.1	11.8%	51.0%	$206	$181	38.7%
$2.0mm - $2.5mm	9.3%	8.8	4.2%	52.3%	$226	$171	35.3%
$2.5mm - $3.0mm	5.7%	16.8	14.1%	59.4%	$235	$182	36.1%
Over $3mm	15.0%	10.2	14.4%	47.4%	$234	$198	43.4%
Total / Average	**100.0%**	**8.7**	**10.6%**	**44.8%**	**$205**	**$164**	**36.4%**

Source: SPI Research, February 2022

Realized Hourly Bill rate

Price realization in combination with billable utilization is a leading indicator of the overall quality and differentiation of the professional services (PS) organization. The fact that PS organizations with the highest bill rates and best price realization tend to reinvest profit into their employees leads to a virtuous improvement cycle. Highly skilled, well-trained, motivated and loyal consultants undoubtedly produce the best client results. In turn, satisfied clients provide referrals and buy additional services resulting in improved sales effectiveness and profitability. We are seeing much greater pricing disparity from firm to firm and within PS industry verticals as the top-rated organizations command premium rates of 20%+ more than their competitors. Consulting buyers increasingly recognize the cost of failure is much steeper than the incremental cost of premium suppliers. They would rather pay a premium based on a higher probability the project will be done right as opposed to selecting the low-priced supplier who may not have or be able to keep the experts required to deliver quality projects.

Table 135: Impact – Realized Hourly Bill Rate

Realized Hourly Bill rate	Survey %	Revenue growth	Win-to-bid	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	Profit (EBITDA)
Under $100	12.5%	10.2%	4.18	$131	$114	13.4%
$100 - $150	29.3%	9.6%	5.26	$184	$146	16.8%
$150 - $200	28.7%	11.2%	5.54	$209	$171	16.4%
$200 - $250	17.4%	11.5%	5.00	$236	$176	13.8%
Over $250	12.2%	11.5%	5.36	$262	$206	22.4%
Total / Average	**100.0%**	**10.7%**	**5.17**	**$204**	**$163**	**16.5%**

Source: SPI Research, February 2022

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.

Each year SPI Research has seen a shift in pricing and deal structure. As clients have become increasingly concerned about risk and cost overruns, they have pushed more accountability to the PSO through fixed fee and shared risk contracts. Until 2014 the percentage of fixed fee work steadily increased from 35.5% in 2009 to 44% in 2013. In the 2021 survey, 44.5% 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 136: Pricing and Deal Structure by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Time & materials % of work sold	47.9%	44.5%	43.2%	45.0%	44.8%	40.8%	51.9%
Fixed time / fixed fee % of work sold	33.0%	37.0%	36.6%	37.2%	39.0%	30.9%	29.3%
Shared risk / perf.-based % of work sold	1.7%	2.2%	0.7%	2.7%	1.8%	3.8%	1.7%
Subscription services	7.3%	5.0%	9.2%	3.5%	4.4%	7.4%	6.5%
Managed Services	7.6%	7.8%	7.5%	8.0%	6.9%	13.2%	4.3%
Other	2.4%	3.4%	2.9%	3.6%	3.1%	3.9%	6.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2022

Table 136 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 with fixed price contracts. By geography, time and materials is the prevalent pricing structure. EMEA predominantly sells time and materials contracts although they are often “daily” contracts which are far less favorable for the service provider than hourly contracts.

Table 137 compares deal structure by size of organization. The percentage of managed services and subscription or recurring revenues went up proportionately with the size of the organization while the percentage of T&M contracts went down.

By vertical, architects, marketing and advertising firms rely on fixed price contracts almost 50% of the time (Table 138). IT consultancies favor time and materials contracts (61.5%). As the SaaS market has become more mature a greater emphasis is being placed on customer adoption, so SaaS firms focus on “time to value” with subscription pricing which includes the cost of software and implementation services. Net profit is not necessarily tied to pricing structure as it is possible to make good service margins with any type of contract as long as costs, deliverables and client expectations are properly set. Accurate estimating, excellent project management, good communication and change control are the most important elements in ensuring quality services are delivered at planned margins.

Table 137: Pricing and Deal Structure by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Time & materials % of work sold	38.5%	45.3%	48.6%	47.0%	39.3%	33.9%
Fixed time / fixed fee % of work sold	38.6%	40.2%	34.0%	36.9%	36.8%	39.1%
Shared risk / performance-based % of work sold	2.5%	2.8%	0.9%	1.3%	4.1%	6.2%
Subscription services	7.0%	3.6%	4.2%	6.0%	3.9%	7.0%
Managed Services	6.9%	6.5%	8.5%	6.0%	12.8%	11.5%
Other	6.5%	1.8%	3.7%	2.9%	3.1%	2.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2022

Table 138: Pricing and Deal Structure by PS Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Time & materials % of work sold	61.5%	35.8%	46.6%	34.7%	39.8%	25.4%
Fixed time / fixed fee % of work sold	25.0%	44.3%	35.3%	45.8%	51.0%	47.6%
Shared risk / perf.-based % of work sold	1.3%	4.8%	0.6%	0.5%	3.5%	3.0%
Subscription services	3.0%	4.4%	9.9%	11.1%	1.4%	5.4%
Managed Services	8.5%	5.3%	5.1%	7.8%	3.9%	11.4%
Other	0.9%	5.4%	2.4%	0.2%	0.5%	7.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2022

Time & Materials

Table 139: Year-over-year Change in Time & Materials % of work sold

	Total	ESO	PSO	Americas	EMEA	APac
2020	47.9%	38.8%	51.7%	46.1%	59.2%	47.9%
2021	44.5%	43.2%	45.0%	44.8%	40.8%	51.9%
Change	-7%	11%	-13%	-3%	-31%	8%

Source: SPI Research, February 2022

Table 140: Year-over-year Vertical Market Change in Time & Materials % of work sold

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	61.3%	54.2%	43.7%	36.9%	38.4%	28.9%
2021	61.5%	35.8%	46.6%	34.7%	39.8%	25.4%
Change	**0%**	**-34%**	**7%**	**-6%**	**4%**	**-12%**

Source: SPI Research, February 2022

Fixed time / fixed fee

Table 141: Year-over-year Change in Fixed time / fixed fee % of work sold

	Total	ESO	PSO	Americas	EMEA	APac
2020	33.0%	35.5%	32.0%	33.4%	28.5%	37.6%
2021	37.0%	36.6%	37.2%	39.0%	30.9%	29.3%
Change	**12%**	**3%**	**16%**	**17%**	**8%**	**-22%**

Source: SPI Research, February 2022

Table 142: Year-over-year Vertical Market Change in Fixed time / fixed fee % of work sold

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	23.2%	33.6%	35.4%	38.3%	53.5%	45.2%
2021	25.0%	44.3%	35.3%	45.8%	51.0%	47.6%
Change	**8%**	**32%**	**0%**	**20%**	**-5%**	**5%**

Source: SPI Research, February 2022

Shared risk / performance-based

Table 143: Year-over-year Change in Shared risk / performance-based % of work sold

	Total	ESO	PSO	Americas	EMEA	APac
2020	1.7%	1.2%	2.0%	1.7%	1.0%	3.3%
2021	2.2%	0.7%	2.7%	1.8%	3.8%	1.7%
Change	**24%**	**-41%**	**37%**	**4%**	**290%**	**-48%**

Source: SPI Research, February 2022

Table 144: Year-over-year Market Change in Shared risk / performance-based % of work sold

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	1.2%	3.5%	0.9%	0.5%	1.3%	1.4%
2021	1.3%	4.8%	0.6%	0.5%	3.5%	3.0%
Change	**9%**	**37%**	**-33%**	**2%**	**178%**	**120%**

Source: SPI Research, February 2022

Subscription Services

Table 145: Year-over-year Change in Subscription services

	Total	ESO	PSO	Americas	EMEA	APac
2020	7.3%	14.3%	4.3%	8.2%	2.8%	4.1%
2021	5.0%	9.2%	3.5%	4.4%	7.4%	6.5%
Change	**-31%**	**-36%**	**-19%**	**-47%**	**161%**	**59%**

Source: SPI Research, February 2022

Table 146: Year-over-year Vertical Market Change in Subscription services

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.1%	2.6%	14.7%	19.2%	3.1%	9.1%
2021	3.0%	4.4%	9.9%	11.1%	1.4%	5.4%
Change	**-27%**	**71%**	**-32%**	**-42%**	**-56%**	**-41%**

Source: SPI Research, February 2022

Managed Services

Table 147: Year-over-year Change in Managed services

	Total	ESO	PSO	Americas	EMEA	APac
2020	7.6%	8.2%	7.4%	8.0%	7.5%	2.7%
2021	7.8%	7.5%	8.0%	6.9%	13.2%	4.3%
Change	**3%**	**-10%**	**8%**	**-14%**	**76%**	**57%**

Source: SPI Research, February 2022

Table 148: Year-over-year Vertical Market Change in Managed services

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	9.0%	4.2%	4.7%	4.9%	3.3%	8.9%
2021	8.5%	5.3%	5.1%	7.8%	3.9%	11.4%
Change	**-6%**	**26%**	**8%**	**58%**	**18%**	**29%**

Source: SPI Research, February 2022

Other Services Sold

Table 149: Year-over-year Change in None of the above % of work sold

	Total	ESO	PSO	Americas	EMEA	APac
2020	2.4%	1.9%	2.7%	2.5%	0.9%	4.4%
2021	3.4%	2.9%	3.6%	3.1%	3.9%	6.2%
Change	**42%**	**53%**	**37%**	**24%**	**306%**	**41%**

Source: SPI Research, February 2022

Table 150: Year-over-year Vertical Market Change in None of the above % of work sold

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	1.2%	1.9%	0.5%	0.2%	0.4%	6.6%
2021	0.9%	5.4%	2.4%	0.2%	0.5%	7.2%
Change	**-27%**	**178%**	**373%**	**33%**	**34%**	**9%**

Source: SPI Research, February 2022

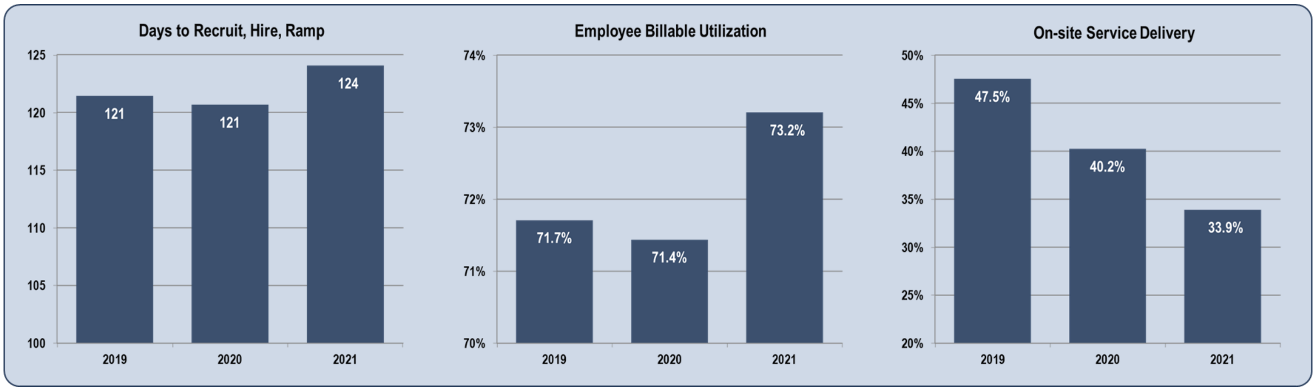
Chapter 7 – Talent Pillar

2021 has been termed the year of "the great resignation" due to massive workforce turnover. Since April 2021 more than 19 million US workers, and the numbers are still growing, have left their jobs. In the highly skilled jobs of the professional services industry, high rates of attrition have always been an issue but they are even more acute now.

Experts are discovering a multitude of underlying causes for historic levels of attrition but most of them point to employment burnout and a breakdown in the social contract and sense of purpose which binds employers and employees. According to a recent McKinsey study, 40% of the employees in the survey said they are at least somewhat likely to quit in the next three to six months. 18% of the respondents said their intentions range from likely to almost certain. These findings held across countries and industries. The top factors employees cited as reasons for quitting were that they didn't feel valued by their organizations (54%) or their managers (52%) or because they didn't feel a sense of belonging at work (51%). 45% of those who left cited the need to take care of their families as a primary influence.

More than ever before, employers must build a culture and a purpose which transcends billable hours. Top performing organizations emphasize their unique, employee-centered cultures as the number one element in their business success. Culture is defined as the system of values, beliefs and behaviors that define how work really gets done. Culture brings together the implicit and explicit reward systems that define how an organization actually works in practice, no matter what an organizational chart, business strategy, or corporate mission statement may say. PS employees in particular are looking for opportunities to improve skillsets and advance their careers but they also need to feel a sense of community and belief that their managers and employers really care about the work they are doing.

Figure 36: Talent Trends of Note



Source: SPI Research, February 2022

The Covid-19 pandemic has rewritten traditional employment practices and norms across all industries. Fortunately, the global professional services industry had been moving toward virtual consulting delivery for decades but now the trend has been accelerated in more traditional PS verticals like legal, accounting and architecture. Leading firms are accentuating 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. Talent focuses on both the people processes and systems required to recruit, hire, ramp, retain and motivate a high-quality consulting workforce. The following table shows how PSOs mature across the Talent pillar:

Table 151: Talent Maturity Model

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

Source: SPI Research, February 2022

SPI's PS Maturity™ research over the past fifteen years supports the notion that only a handful (less than 20%) of Professional services organizations achieve greatness. These leaders are able to quickly seize market opportunities and drive best-in-class performance through the effective use of technology in conjunction with enlightened management and workforce practices (Figure 37). Improving talent maturity is the best and fastest way to improve overall results and must always be a priority.

Figure 37: Talent Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Percentage of workforce that is male	50.3%	56.1%	58.4%	57.3%	61.8%
Employee annual attrition - voluntary	8.7%	9.4%	10.4%	9.4%	11.1%
Employee annual attrition - involuntary	3.9%	3.4%	4.5%	4.7%	4.6%
Recommend company to friends/family	4.11	4.29	4.46	4.64	4.86
Time to recruit and hire for standard positions (days)	65.9	67.8	65.3	61.2	59.5
Time for a new hire to become productive (days)	66.8	61.3	60.2	53.8	47.1
Guaranteed annual training days / employee	8.45	9.94	9.03	8.41	8.98
Well-understood career path for all emp.	3.16	3.12	3.29	3.49	3.61
Employee billable utilization	**65.5%**	**71.0%**	**74.7%**	**76.1%**	**79.4%**
Annual fully loaded cost per consultant	$119	$120	$124	$136	$151
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

Figure 38 highlights just how much billable hours grow as PSOs improve organizational maturity. Productive hours go up while non-productive administrative hours go way down, leaving plenty of time for personal time off and education.

Figure 38: Annual Hours by Maturity Level

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Vacation / personal / holiday hours	145	160	173	186	179
Education / training hours	62	79	75	67	62
Administrative hours	187	160	157	133	137
Non-billable business development/sales support	153	150	119	122	87
Non-billable project hours	236	147	114	99	99
Billable hours on-site	470	571	544	313	348
Billable hours off-site	728	782	919	1,152	1,188
Total billable hours	1,198	1,353	1,462	1,466	1,536
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

Figure 39 shows that age is not a factor in overall maturity or profitability as the PS average workforce age is 40 years across all maturity levels. However, PSOs must continually seek new ideas by fostering an appropriate balance between younger (perhaps more technology savvy) and older, more experienced employees. Growing and equipping new first line managers is an imperative.

Figure 39: Average Age by Maturity Level

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Percentage of workforce under 30 yrs. old	21.2%	21.3%	21.4%	20.4%	18.1%
Percentage of workforce between 30 - 40 yrs. old	29.2%	31.3%	33.2%	32.4%	33.5%
Percentage of workforce between 40 - 50 yrs. old	25.9%	26.0%	25.5%	24.7%	23.6%
Percentage of workforce over 50 yrs. old	23.6%	21.4%	19.9%	22.5%	24.8%
Average Age	**40.2**	**39.7**	**39.4**	**39.9**	**41.1**
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

5-Year Talent Trends

In 2021 US wages surged at an 8.9% rate before adjustment for inflation, reflecting a labor market that is experiencing an acute shortage of workers, with 10.6 million job openings at the end of November.

This benchmark did not examine PS workforce compensation or bill rates but it did reveal that the average loaded cost per consultant grew 3% year-over-year from $124K in 2020 to $127K in 2021. For hard to find senior skilled consultants signing bonuses and large salary increases have become the norm.

The war for talent has never been as acute or critical as it is in 2022 with historic levels of attrition, a record number of vacancies in hard to fill roles, huge consulting demand and wage growth. Talent must take center stage as the number one priority for all service providers.

Over the past five years, real growth in billable hours (utilization) has been miniscule (Table 152). Almost all PS productivity improvement has come from the effective use of technology to lower overhead and administrative costs in combination with the move to virtual (remote) consulting delivery. PS employees are working the same number of annual hours (2,080 hours per year) but they are working smarter through the use of agile development methodologies; virtual consulting delivery (limiting travel time); maximizing multi-tasking across multiple projects while limiting administrative time for time and expense capture and meetings. They are taking advantage of knowledge sharing and service productizing to quickly support and propel employees to greater levels of expertise and productivity. Virtual consulting delivery acceptance has been a boon for the entire PS industry.

Table 152: Talent Pillar 5-year Trend

Key Performance Indicator (KPI)	5 Year Avg.	2017	2018	2019	2020	2021
Voluntary attrition	**8.3%**	7.5%	8.5%	8.5%	6.9%	9.8%
Involuntary attrition	**4.4%**	4.7%	5.4%	4.7%	4.7%	4.2%
Recommend company to friends/family (1-5 scale)	**4.4**	4.38	4.41	4.37	4.42	4.43
Days to recruit and hire for standard positions	**62.0**	60.7	59.9	61.9	62.6	64.9
Days for a new hire to become productive	**57.4**	52.4	57.4	59.5	58.0	59.1
Guaranteed annual training days / employee	**9.00**	7.78	8.83	9.31	9.78	9.13
Well-understood career path for all employees (1-5)	**3.28**	3.20	3.28	3.33	3.31	3.28
Employee billable utilization	**71.5%**	71.5%	69.7%	71.7%	71.4%	73.2%
Annual fully loaded cost per consultant (k)	**$122**	$108	$122	$127	$124	$127
On-site service delivery	**46.5%**	**57.6%**	**53.0%**	**47.5%**	**40.8%**	**33.9%**

Source: SPI Research, February 2022

Survey Results

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

Table 153: Talent Pillar Results by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Voluntary attrition	6.9%	9.8%	9.6%	9.8%	9.8%	9.3%	10.9%
Involuntary attrition	4.7%	4.2%	4.3%	4.1%	4.4%	3.9%	2.8%
Recommend company to friends/family (1-5)	4.42	4.43	4.45	4.43	4.45	4.27	4.64
Days to recruit and hire for std. positions	62.6	64.9	66.3	64.4	66.2	63.0	54.6
Days for a new hire to become productive	58.0	59.1	73.8	53.6	59.5	65.1	37.8
Guaranteed annual training days / employee	9.78	9.13	10.05	8.78	8.82	10.00	10.40
Well-understood career path for all emp. (1-5)	3.31	3.28	3.30	3.28	3.24	3.38	3.56
Employee billable utilization	71.4%	73.2%	72.0%	73.7%	72.8%	74.7%	74.1%
Annual fully loaded cost per consultant (k)	$124	$127	$127	$126	$131	$110	$121
On-site service delivery	**40.2%**	**33.9%**	**25.2%**	**36.7%**	**30.5%**	**44.4%**	**53.8%**

Source: SPI Research, February 2022

SPI Research expected voluntary attrition to rise in 2021 as the economy improved, and it did, going up to 9.8% from 6.9% the prior year. Employees, frustrated with working from home and lacking social connection, joined other firms where the promise of more exciting work, a better work environment and more lucrative paychecks reigned supreme. Involuntary attrition went down as PS leaders worked to keep the people they had. Embedded and independents experienced similar voluntary and involuntary attrition. APac had the greatest voluntary attrition at 10.9% followed by the Americas at 9.8%. EMEA had 9.3%.

Also as expected, it took longer to recruit, hire and ramp new consultants. While the numbers may not seem significant, each day it takes to fill a position represents lost billable time and revenue. Top firms are constantly recruiting while also building college hire and internship programs to attract younger workers. In today's virtual work world, on-boarding programs must not only acclimate new hires to systems, procedures and tools but must also start laying the foundation for a sense of community amongst new hire cohorts and mentors. Independent professional services organizations tend to seek experienced hires so new employees become billable faster. Asia Pacific firms did a better job of making new hires productive faster. Employee training continues to be a concern for SPI Research. Training days actually went down in 2021, from 9.78 days to 9.13. Educated and highly skilled employees perform better. Firms must provide skill building and growth opportunities to keep top talent.

On a positive note, billable utilization went up from 71.4% in 2020 to 73.2% in 2021. The percentage of onsite service delivery continues to go down. SPI Research saw the largest change ever, going from 40.2% of the billable hours down to 33.9% in 2021. Going forward firms must reevaluate their facility spending and shore up their support for working from home. Surveys indicate as many as 63% of employees do not want to go back to working full-time in an office. 52% want to work from home at least 3 days a week and 11% never want to work from an office. Only 37% favor working on-site.

Table 154: Talent Pillar Results by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Voluntary attrition	5.6%	7.7%	10.7%	11.5%	13.8%	10.6%
Involuntary attrition	2.4%	3.0%	4.3%	5.4%	5.9%	4.9%
Recommend company to friends/family (1-5)	4.37	4.54	4.50	4.43	4.20	4.17
Days to recruit and hire for standard positions	59.7	67.3	66.9	62.5	63.3	71.7
Days for a new hire to become productive	53.9	65.0	59.1	54.5	62.1	65.2
Guaranteed annual training days / employee	9.66	9.88	8.35	8.92	9.51	9.35
Well-understood career path for all emp. (1-5)	3.36	3.22	3.28	3.25	3.25	3.48
Employee billable utilization	69.9%	74.7%	72.2%	74.6%	74.1%	74.8%
Annual fully loaded cost per consultant (k)	$122	$122	$130	$131	$122	$125
On-site service delivery	**31.5%**	**37.7%**	**31.0%**	**29.7%**	**44.8%**	**42.2%**

Source: SPI Research, February 2022

Larger firms had higher voluntary attrition, as well as involuntary. As one might expect it also took longer to hire and make employees productive in the larger firms. SPI Research found it interesting that the larger firms had a much higher percentage of work done onsite compared to the smaller firms.

Table 155: Talent Pillar Results by PS Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Voluntary attrition	11.2%	8.1%	10.2%	10.3%	9.7%	10.2%
Involuntary attrition	5.2%	3.2%	4.7%	4.2%	3.6%	4.6%
Recommend company to friends/family (1-5)	4.49	4.53	4.30	4.44	4.31	4.36
Days to recruit and hire for standard positions	60.9	58.0	72.7	65.1	78.8	68.9
Days for a new hire to become productive	47.8	52.4	76.0	84.9	59.2	50.5
Guaranteed annual training days / employee	9.63	8.38	10.39	10.81	7.08	8.75
Well-understood career path for all emp. (1-5)	3.26	3.38	3.13	3.27	3.25	3.14
Employee billable utilization	75.6%	72.9%	68.8%	72.0%	70.7%	72.6%
Annual fully loaded cost per consultant (k)	$128	$134	$119	$133	$111	$109
On-site service delivery	**26.4%**	**33.3%**	**36.1%**	**13.9%**	**58.8%**	**52.3%**

Source: SPI Research, February 2022

Workforce Age

The average age of the workforce by age category

SPI Research asked questions about the age and gender of the global PS workforce (Table 156). ***This benchmark reflects statistics from a global PS workforce of more than 162,000 employees. PS continues to be a young man's game with 53% of the workforce under age 40 while 56.8% are male.***

This year the percentage of employees under 30 decreased slightly from 21.2 to 21.0% while over age 50 employees increased slightly from 20.6% to 21.6%.

Table 156: Employee Age by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Under 30	21.2%	21.0%	22.1%	20.5%	19.6%	26.9%	20.5%
30 - 40	32.4%	32.0%	35.1%	30.9%	31.5%	33.5%	34.6%
40 - 50	25.8%	25.4%	25.8%	25.3%	26.6%	20.6%	23.7%
Over 50	20.6%	21.6%	17.1%	23.3%	22.2%	19.0%	21.2%
Average Age (Years)	**40.1**	**40.3**	**39.2**	**40.7**	**40.7**	**38.6**	**40.1**
Percentage Male	**61.1%**	**56.8%**	**60.4%**	**55.4%**	**56.3%**	**58.3%**	**57.4%**

Source: SPI Research, February 2022

Embedded SaaS PSOs employ younger workforces than independents as they tend to provide better on-boarding programs and they require the latest technical skills. The Americas has the oldest workforce with the most employees over 50 (22.2%). EMEA is the most male-dominated with 58.3% male PS employees.

Table 157: Employee Age by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Under 30	13.2%	15.3%	21.6%	25.0%	32.5%	25.2%
30 - 40	20.7%	36.6%	32.9%	33.9%	32.9%	31.9%
40 - 50	23.3%	26.1%	25.7%	26.1%	21.6%	29.6%
Over 50	42.8%	22.1%	19.9%	14.9%	12.9%	13.3%
Average Age (Years)	**45.6**	**41.1**	**39.9**	**38.5**	**36.8**	**38.4**
Percentage Male	**50.5%**	**55.5%**	**57.2%**	**59.0%**	**61.4%**	**59.6%**

Source: SPI Research, February 2022

Just as we have seen in past benchmarks, Management Consultants employ the oldest workforce. If you are going to provide business insight and advice it pays to have a few gray hairs.

Table 158: Employee Age by PS Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Under 30	23.9%	13.8%	23.2%	26.2%	22.1%	32.0%
30 - 40	34.5%	28.3%	36.2%	37.8%	32.8%	29.4%
40 - 50	23.3%	26.9%	24.8%	25.0%	25.7%	21.9%
Over 50	18.3%	31.0%	15.8%	11.0%	19.3%	16.8%
Average Age (Years)	**39.1**	**43.3**	**38.7**	**37.4**	**39.7**	**37.8**
Percentage Male	**62.4%**	**49.9%**	**64.9%**	**57.5%**	**67.8%**	**41.1%**

Source: SPI Research, February 2022

Percentage of workforce that is male

The percentage of the consulting workforce that is male.

There is finally a shift to more female workers in Professional Services! In all regions and PS markets this change is happening. Will it ever get to 50-50 overall? It did in management consultancies and marketing and advertising! No wonder their profits are on the rise! You go girls!

Table 159: Impact – Percentage of workforce that is male

Percentage of workforce that is male	Survey %	Org. size (emp)	Revenue growth	% of emp. billable	New clients	% of ann. margin target
None	2.7%	28	9.1%	57.3%	15.9%	95.0%
1% - 30%	6.5%	78	8.9%	70.4%	21.1%	94.4%
30% - 50%	26.1%	238	9.0%	74.0%	26.3%	91.9%
50% - 80%	51.7%	327	10.9%	76.2%	27.9%	92.2%
Over 80%	13.0%	242	12.0%	78.6%	29.5%	91.2%
Total/Average	**100.0%**	**269**	**10.4%**	**75.0%**	**26.9%**	**92.2%**

Source: SPI Research, February 2022

Table 160: Year-over-year Change in Percentage of workforce that is male

	Total	ESO	PSO	Americas	EMEA	APac
2020	61.1%	63.6%	60.0%	59.8%	68.2%	63.1%
2021	56.8%	60.4%	55.4%	56.3%	58.3%	57.4%
Change	**-7%**	**-5%**	**-8%**	**-6%**	**-14%**	**-9%**

Source: SPI Research, February 2022

Table 161: Year-over-year Vertical Market Change in Percentage of workforce that is male

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	66.1%	54.3%	67.8%	62.6%	64.0%	43.2%
2021	62.4%	49.9%	64.9%	57.5%	67.8%	41.1%
Change	**-6%**	**-8%**	**-4%**	**-8%**	**6%**	**-5%**

Source: SPI Research, February 2022

The primary reason employees leave

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

Why do employees leave? Obviously, employees leave for a variety of reasons. In many cases there is a primary catalyst which is the reason for moving on. Table 162 shows the top reasons why employees leave. The number one rationale (39.2%) is "better opportunity" which translates to a better work environment, better compensation, a better boss or more opportunity for advancement. "Other (18.6%)" is in second place. "Other" covers a magnitude of issues – "work/life" balance, lack of diversity or leaving the industry entirely. A key factor in the great resignation is juggling a challenging PS career with home schooling, childcare or taking care of family members. The PS industry has perennially seen workers with young children leave the industry. Many return to the industry when their children get older. In the past, excessive travel took its toll but now it is the burden of family care.

“Money” is the third most prevalent reason employees leave (18.4%). A younger, less traditional workforce requires challenging projects; exposure to hot new technologies and leading-edge clients plus training, communication and teamwork to remain engaged but money is often a determining factor. “Lack of career advancement” was cited as the primary reason to leave by 12.5%, which is up from 2020. Interestingly these firms experienced the least growth which would explain why career opportunities are limited. Younger workers are far more likely to leave for money or better opportunities than older workers. 32.1% of older workers cited management dissatisfaction as the number one reason to leave.

Table 162: Why employees leave

Why employees leave	Survey %	Employee attrition	Recommend to family/ friends	Billable utilization	% workforce under 30 yrs. old	EBITDA
Better opportunity	39.2%	15.1%	4.43	73.4%	23.5%	16.6%
Other	18.6%	9.7%	4.66	74.9%	14.3%	17.3%
Money	18.4%	15.5%	4.55	73.9%	25.3%	16.0%
Lack of career advancement	12.5%	13.3%	4.29	70.5%	20.2%	11.4%
Stress	6.4%	17.8%	4.00	76.0%	23.6%	11.1%
Management dissatisfaction	2.9%	10.9%	3.64	63.8%	11.2%	15.2%
Travel	2.0%	7.7%	4.75	78.8%	19.3%	14.5%
Total/Average	**100.0%**	**13.8%**	**4.44**	**73.4%**	**21.0%**	**15.6%**

Source: SPI Research, February 2022

Professional Services employee voluntary annual 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).*

Voluntary attrition, employees who leave who are not asked to leave, is one of the most important key performance indicators in the services market as employees are the most valuable resource. Annual attrition in the professional services market has been steadily climbing since the 2008 recession ended and now averages 9.6%.

Table 163 shows the correlation between organization size, headcount growth, on-time delivery, project overruns and project duration, demonstrating the negative consequences of high voluntary attrition rates. As attrition rises, most other aspects of performance suffer. The probability of on-time project delivery decreases while project overruns increase. Remaining employees must pick up the pieces from exiting workers and must quickly come up to speed to reestablish client relationships. Clients are forced to back-track to reestablish previous decisions and vendor commitments.

Table 163: Impact – Employee annual attrition - voluntary

Employee annual attrition - voluntary	% of firms	Org. size (emp)	Headcount growth	On-time proj. delivery	Project overrun	Project duration (man-month)
None	13.0%	12	1.8%	86.4%	4.3%	16.3
1% - 5%	21.3%	283	8.4%	81.4%	7.4%	24.4
5% - 10%	27.5%	344	9.0%	80.8%	8.9%	31.8
10% - 15%	16.7%	341	11.5%	77.9%	9.0%	31.4
15% - 25%	14.7%	302	12.3%	75.2%	11.2%	29.4
Over 25%	6.9%	205	12.4%	75.4%	7.5%	43.7
Total/Average	**100.0%**	**272**	**9.1%**	**80.0%**	**8.2%**	**28.6**

Source: SPI Research, February 2022

The costs of high voluntary attrition permeate all aspects of the firm. Lower employee engagement influences the firm's ability to recruit new top talent. The very real cost to replace leaving employees shows up in 124.1 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 leaving employees.

Table 164 shows Voluntary Attrition trends by geography, vertical and size of organization. ESOs had a lower voluntary attrition rate than independents, but it grew quite a bit in 2021. APac experienced the highest attrition. Larger organizations experience more voluntary attrition than smaller ones, but the impact of voluntary attrition is enormous on small organizations. Voluntary attrition is the most acute in IT consulting and lowest in Management Consulting.

Table 164: Year-over-year Change in Employee annual attrition - voluntary

	Total	ESO	PSO	Americas	EMEA	APac
2020	6.9%	6.2%	7.2%	6.6%	6.9%	10.1%
2021	9.8%	9.6%	9.8%	9.8%	9.3%	10.9%
Change	**-30%**	**-36%**	**-27%**	**-32%**	**-26%**	**-8%**

Source: SPI Research, February 2022

Table 165: Year-over-year Vertical Market Change in Employee annual attrition - voluntary

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	8.0%	6.9%	6.0%	5.7%	4.7%	6.8%
2021	11.2%	8.1%	10.2%	10.3%	9.7%	10.2%
Change	**-28%**	**-14%**	**-41%**	**-45%**	**-52%**	**-34%**

Professional Services employee involuntary annual attrition

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

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

Table 166: Impact – Employee annual attrition - involuntary

Employee annual attrition - involuntary	Survey %	Rec. to family/ friends	Billable util.	On-time proj. delivery	Project overrun	Project margin
None	30.1%	4.42	73.0%	81.1%	7.0%	34.6%
1% - 5%	44.9%	4.44	73.4%	81.1%	8.2%	36.4%
5% - 10%	15.7%	4.51	71.8%	79.2%	8.3%	40.7%
10% - 15%	5.1%	4.15	74.0%	71.2%	14.1%	34.4%
15% - 25%	2.5%	4.33	77.2%	78.1%	6.9%	37.3%
Over 25%	1.7%	4.57	85.0%	77.1%	9.6%	31.5%
Total/Average	**100.0%**	**4.43**	**73.4%**	**80.1%**	**8.1%**	**36.4%**

Source: SPI Research, February 2022

Table 167 shows involuntary attrition trends by geography, vertical and size of organization. Involuntary attrition declined in both embedded and independent PSOs as the concern for losing talent meant PSOs held on to their employees, even if they were not as strategic or profitable. EMEA and APac experienced a big decrease in involuntary attrition as did Marketing and Advertising and Architecture and Engineering firms.

Table 167: Year-over-year Change in Employee annual attrition - involuntary

	Total	ESO	PSO	Americas	EMEA	APac
2020	4.7%	4.8%	4.6%	4.8%	4.5%	3.9%
2021	4.2%	4.3%	4.1%	4.4%	3.9%	2.8%
Change	**12%**	**12%**	**12%**	**10%**	**18%**	**38%**

Source: SPI Research, February 2022

The changes in 2021 are encouraging as the emotional cost of involuntary attrition is significant for both the terminated employee and his colleagues. High involuntary attrition means firms are not hitting their revenue and growth targets or they have done a poor job of forecasting demand. Involuntary attrition also signifies broken recruiting and new hire reference checking processes if employees are terminated for cause. With the high cost of finding, hiring and ramping a new employee, firing or laying off an employee should be a last resort.

Table 168: Year-over-year Vertical Market Change in Employee annual attrition - involuntary

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.4%	4.0%	5.0%	4.5%	4.4%	6.1%
2021	5.2%	3.2%	4.7%	4.2%	3.6%	4.6%
Change	**-16%**	**28%**	**7%**	**8%**	**22%**	**32%**

Source: SPI Research, February 2022

How strongly would you recommend your company as a great place to work (1=not at all – 5=very)

Recommending one's company to family and friends as a "great place to work" is an important measure of employee engagement. It is based on a 1-5 scale with 1 (not at all) to 5 (absolutely).

Table 169 shows the powerful impact of workplace satisfaction. The good news is 54.6% of the organizations in the survey would highly recommend their work environment. Great places to work are characterized by high employee engagement, a strong culture of achievement and confidence in the future. Tables 169 and 170 show employee engagement trends by geography, vertical and size of organization. The most engaged employees this year work within Management and IT consultancies. The least engaged are Software PS employees. Employee engagement diminishes as the size of the organization increases. European employees are less engaged than their counterparts in the Americas and APAC.

Table 169: Impact – Recommend the PSO as a Great Place to Work

Recommend company to friends/family	Survey %	% of emp. billable	Win-to-bid ratio	Employee attrition	Billable util.	On-time proj. delivery
1	0.5%	37.5%	2.50	5.3%	52.5%	42.5%
2	1.9%	54.4%	4.25	16.2%	68.3%	66.3%
3	6.1%	71.3%	4.50	15.6%	67.6%	77.0%
4	36.9%	76.9%	4.94	14.7%	72.3%	78.3%
5	54.6%	75.8%	5.56	12.6%	75.2%	82.5%
Total/Average	**100.0%**	**75.3%**	**5.22**	**13.6%**	**73.5%**	**80.1%**

Source: SPI Research, February 2022

Table 170: Year-over-year Change in Recommend company to friends/family

	Total	ESO	PSO	Americas	EMEA	APac
2020	4.42	4.34	4.46	4.44	4.26	4.52
2021	4.43	4.45	4.43	4.45	4.27	4.64
Change	**0%**	**3%**	**-1%**	**0%**	**0%**	**3%**

Source: SPI Research, February 2022

Table 171: Year-over-year Vertical Market Change in Recommend company to friends/family

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.47	4.50	4.41	4.34	4.57	4.06
2021	4.49	4.53	4.30	4.44	4.31	4.36
Change	**0%**	**1%**	**-2%**	**2%**	**-6%**	**8%**

Source: SPI Research, February 2022

Length of time to recruit and hire for standard positions

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

SPI Research considers the length of time to recruit and ramp new employees to be very important determinants in overall performance, sustainable growth and profit. "Ramping" time is critical because it not only focuses on making employees productive faster, but also reduces the non-billable time and cost of other resources who support the hiring and on-boarding process. Most firms do not track the full cost of recruiting and hiring, but it is substantial (in many cases over 50% of the first-year new hire base salary). ***This year the average cost of recruiting remained constant (compared to 2020) at 0.7% of total revenue.*** The most mature firms create a dedicated recruiting function, armed with in-depth skill and personality profiles for targeted positions. Since all indicators point to a continuing talent shortage for years to come, firms would be well-served to examine and improve their recruiting, on-boarding and training functions. Recruiting must be closely aligned with the sales pipeline and resource management plan.

Table 172 shows recruiting time trends by geography, vertical and organization size. ESOs take longer to recruit than independents. APac has the shortest recruiting time and EMEA has the longest. Architecture and Engineering firms spend the longest time recruiting; IT Consultancies the least. When comparing the time required to recruit for standard positions (such as consultants) to other key performance indicators, as it takes longer to recruit and hire, billable utilization suffers, because current employees must spend more time helping with the process, which limits their own bandwidth and billable time.

Project overruns increase because more seasoned employees are tasked with hiring and ramping new employees plus new hires are not available to fill required roles and may make mistakes due to inexperience. A key factor in longer recruiting times is the fact that these organizations report poor visibility to the sales and resource pipeline. Maintaining a "warm pool" of recruiting candidates with clearly defined job roles is a good practice. In the current tight talent market, firms risk losing candidates with arduous and lengthy recruiting, interviewing and reference checking processes.

Table 172: Impact – Time to recruit and hire for standard positions

Time to recruit and hire for standard positions (days)	Survey %	Revenue growth	% of emp. billable	Employee attrition	Rec. to family/ friends	Project margin
Under 1 month	9.8%	12.5%	84.3%	9.7%	4.64	39.8%
30 - 60 days	39.3%	12.3%	75.2%	15.9%	4.53	36.5%
60 - 90 days	33.9%	8.6%	73.2%	12.9%	4.39	35.7%
90 - 120 days	11.3%	8.0%	74.3%	12.9%	4.22	34.5%
Over 120 days	5.7%	6.6%	74.3%	13.8%	4.22	37.0%
Total/Average	**100.0%**	**10.3%**	**75.3%**	**13.8%**	**4.44**	**36.3%**

Source: SPI Research, February 2022

Table 173: Year-over-year Change in Time to recruit and hire for standard positions (days)

	Total	ESO	PSO	Americas	EMEA	APac
2020	63	64	62	63	67	51
2021	65	66	64	66	63	55
Change	**-4%**	**-3%**	**-4%**	**-5%**	**6%**	**-7%**

Source: SPI Research, February 2022

Table 174: Year-over-year Market Change in Time to recruit and hire for standard positions (days)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	56	61	64	68	76	62
2021	61	58	73	65	79	69
Change	**-8%**	**4%**	**-12%**	**5%**	**-4%**	**-10%**

Source: SPI Research, February 2022

Once hired, how long until fully billable?

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

It is becoming increasingly difficult to prepare new hires to begin fieldwork. 42.3% of the PSOs in the survey reported over 60 days for a new consultant to become productive once hired, which is much higher than the 34% in 2020. Well-structured on-boarding and mentoring programs are mandatory for organizations planning on significant growth. This year the average time for a new hire to become productive increased to 59.1 days in 2021 from 58 in 2020. Each extra day of ramping time is significant. At $200 per hour, each extra on-boarding day translates to a potential loss in revenue per consultant of $1,600 per day. This is one metric that has shown considerable degradation over the years. ESOs take longer than independents. PS within SaaS and Software companies take the longest to ramp employees, averaging 84.9 days versus 47.8 in IT consultancies. Smaller organizations take longer than larger ones as they require employees to perform more roles and have less well-defined on-boarding programs in person.

Table 175: Impact – Time for a new hire to become productive

Time for a new hire to become productive (days)	Survey %	Rec. to family/ friends	Billable util.	On-time proj. delivery	Project overrun	Ann. rev./ consult. (k)
Under 1 month	29.0%	4.53	79.5%	85.5%	6.2%	$211
30 - 60 days	28.7%	4.48	72.7%	80.8%	7.9%	$203
60 - 90 days	22.1%	4.39	70.9%	76.5%	8.5%	$195
90 - 120 days	11.2%	4.31	70.8%	77.7%	10.4%	$220
Over 120 days	9.0%	4.30	66.1%	74.9%	11.4%	$200
Total/Average	**100.0%**	**4.44**	**73.4%**	**80.3%**	**8.2%**	**$205**

Source: SPI Research, February 2022

In the time of Covid, it is much harder to onboard new employees as firms don't have the luxury of in-person on-boarding programs or classes of new hires. Many employers are worried about the long-term impact of bringing new employees into an environment in which they have never met anyone in the firm

Table 176: Year-over-year Change in Time for a new hire to become productive (days)

	Total	ESO	PSO	Americas	EMEA	APac
2020	58	69	53	61	49	44
2021	59	74	54	59	65	38
Change	**-2%**	**-6%**	**0%**	**2%**	**-25%**	**16%**

Source: SPI Research, February 2022

Table 177: Year-over-year Market Change in Time for a new hire to become productive (days)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	46	54	70	75	62	59
2021	48	52	76	85	59	50
Change	**-5%**	**2%**	**-8%**	**-12%**	**4%**	**17%**

Source: SPI Research, February 2022

Annual number of training days per employee

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

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

Across the benchmark the average cost of training remained the same as in 2020 at 0.9% of total revenue but the number of guaranteed training days went down from 9.78 in 2020 (highest ever reported) to 9.13 in 2021. The pandemic continues to inspire employees to take advantage of working from home to improve their skills. Companies like Pluralsight and Udemy offer thousands of online technical development classes making training and certification easy and affordable. Top performing organizations mandate more than two weeks of training time per employee per year.

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

Table 178: Impact – Guaranteed annual training days / employee

Guaranteed annual training days / employee	Survey %	Client reference	Employee attrition	Rec. to family/ friends	On-time proj. delivery	Project margin
None	1.7%	72.0%	14.8%	4.14	91.7%	36.8%
Under 5 days	27.1%	74.4%	14.6%	4.34	80.0%	36.8%
5 - 10 days	36.9%	75.3%	13.9%	4.49	80.0%	37.4%
10 - 15 days	17.7%	73.5%	12.3%	4.39	78.0%	35.3%
15 - 20 days	8.9%	71.6%	14.4%	4.40	78.2%	34.8%
Over 20 days	7.6%	77.9%	11.7%	4.71	86.6%	35.0%
Total/Average	**100.0%**	**74.5%**	**13.7%**	**4.43**	**80.2%**	**36.5%**

Source: SPI Research, February 2022

In this year's benchmark, higher numbers of guaranteed training days positively correlate with net profit (Table 178). Access to high quality training is a major workplace attraction driver. Pre-pandemic, many firms reported they bring together the entire consulting team twice a year for skill-building, reinforcing the company's direction and strengthening collaboration and team building. Team meetings give road warriors a break and allow them to establish new friendships and partnerships while rejuvenating.

While overall trainings days went down in 2021, both EMEA and APac showed increases. Investing in employee training typically leads to increased performance.

Table 179: Year-over-year Change in Guaranteed annual training days / employee

	Total	ESO	PSO	Americas	EMEA	APac
2020	9.8	10.1	9.6	9.8	9.4	10.3
2021	9.1	10.0	8.8	8.8	10.0	10.4
Change	**-7%**	**-1%**	**-9%**	**-10%**	**7%**	**1%**

Source: SPI Research, February 2022

Table 180: Year-over-year Vertical Market Change in Guaranteed annual training days / employee

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	9.9	9.3	11.1	9.3	8.6	8.8
2021	9.6	8.4	10.4	10.8	7.1	8.8
Change	**-2%**	**-10%**	**-6%**	**16%**	**-17%**	**0%**

Source: SPI Research, February 2022

There is a well-understood career path for all employees (1-strongly disagree, 5-strongly agree)

How strongly employees feel about their career path and career opportunities at the PSO. It is based on a 1-5 scale with 1 (strongly disagree) to 5 (strongly agree).

The survey asked if the organization provides a well understood employee career path, meaning as employees are hired and move within different roles, is there a planned next step for their career progression (Table 181)? This KPI is important because it shows the firm's commitment to employee skill growth and career development. Even though this question is subjective, and answered by PS executives, who might have a bias, the results show how important career development is. It shows employees with a well-defined career path are more likely to recommend their firm as a great place to work and are less likely to leave. Interestingly, employees work harder and are happier at firms with well-defined career paths. Numerous studies have shown that employees become increasingly productive with longer tenure so keeping them engaged is an investment worth making.

Table 181: Impact – Well-understood career path for all employees

Well-understood career path for all emp.	Survey %	Employee attrition	Rec. to family/ friends	Billable util.	On-time proj. delivery	EBITDA
1	4.1%	12.5%	3.76	68.8%	73.2%	11.8%
2	15.3%	17.0%	4.19	72.0%	75.2%	14.4%
3	37.0%	13.6%	4.35	71.7%	80.9%	14.5%
4	35.3%	13.2%	4.63	75.3%	81.8%	17.6%
5	8.3%	11.8%	4.82	78.5%	83.9%	14.9%
Total/Average	**100.0%**	**13.8%**	**4.44**	**73.5%**	**80.3%**	**15.5%**

Source: SPI Research, February 2022

Table 182: Year-over-year Change in Well-understood career path for all emp.

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.31	3.28	3.32	3.31	3.38	3.15
2021	3.28	3.30	3.28	3.24	3.38	3.56
Change	**-1%**	**1%**	**-1%**	**-2%**	**0%**	**13%**

Source: SPI Research, February 2022

Table 183: Year-over-year Vertical Market Change in Well-understood career path for all emp.

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.26	3.43	3.50	2.94	3.36	3.33
2021	3.26	3.38	3.13	3.27	3.25	3.14
Change	**0%**	**-1%**	**-11%**	**11%**	**-3%**	**-6%**

Source: SPI Research, February 2022

Annual consultant billable utilization percentage (2,000 hr. base)

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

SPI has tracked the number of annual consulting hours delivered off-site versus on the client's site for the past 15 years. Each year more and more work has been delivered virtually but the Covid pandemic, beginning in 2020, has permanently caused a shift to virtual operations. Firms are finding productivity has been improved with virtual operations plus the cost and time of travel and commuting has been slashed. As the world emerges from the pandemic, we expect many PSOs will move to hybrid operations with far fewer employees required to travel to a client's site or work in a headquarters office. Long term this means firms can hire the best available employees, regardless of location and employees themselves can move to lower cost locales or nearer family, enhancing their life-work balance.

Today's consulting workforce is increasingly virtual, with more consulting hours delivered off-site as on the client's site this year. In this year's benchmark, over 65% of billable hours were delivered virtually. The new world of consulting work depends on a global multi-lingual, multi-generational, multi-cultural, technically skilled, project-based workforce. Analytic, organization and communication skills are fueling this new world of work, supported by virtual meeting and collaboration tools.

Table 184: Impact – Employee billable utilization

Employee billable utilization	Survey %	Std. del. method. used	On-time proj. delivery	Project overrun	% of ann. margin target	Exec real-time visibility
Under 50%	5.5%	58.8%	77.4%	11.2%	86.4%	3.00
50% - 60%	8.0%	60.3%	79.5%	10.1%	90.6%	3.15
60% - 70%	21.2%	69.3%	76.2%	9.2%	91.2%	3.70
70% - 80%	37.2%	71.6%	80.9%	8.2%	92.9%	3.80
80% - 90%	18.0%	68.8%	81.7%	6.7%	93.3%	3.55
Over 90%	10.2%	71.5%	86.7%	4.7%	92.7%	4.03
Total/Average	**100.0%**	**69.0%**	**80.3%**	**8.1%**	**92.1%**	**3.66**

Source: SPI Research, February 2022

Table 185: Year-over-year Change in Employee billable utilization

	Total	ESO	PSO	Americas	EMEA	APac
2020	71.4%	69.4%	72.3%	71.5%	71.1%	71.8%
2021	73.2%	72.0%	73.7%	72.8%	74.7%	74.1%
Change	**2%**	**4%**	**2%**	**2%**	**5%**	**3%**

Source: SPI Research, February 2022

Table 186: Year-over-year Vertical Market Change in Employee billable utilization

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	73.0%	73.4%	68.8%	69.4%	70.2%	71.5%
2021	75.6%	72.9%	68.8%	72.0%	70.7%	72.6%
Change	**4%**	**-1%**	**0%**	**4%**	**1%**	**2%**

Source: SPI Research, February 2022

Annual fully loaded cost per consultant (salary, bonus, fringe benefits)

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

Average fully loaded employee cost increased slightly to $127k compared to $124k last year. Over 50% of the firms reported loaded cost per consultant of more than $120K. 30% (125) of firms reported a fully loaded cost of $100k to $120k. Another 27% reported a fully loaded cost of $120k to $150k. 3.4% of firms pay employees more than $200k. Interestingly, firms that pay the most are growing the fastest; and have the highest on-time delivery, project margins and profit.

Table 187: Impact – Annual fully loaded cost per consultant

Annual fully loaded cost per consultant	Survey %	Revenue growth	On-time proj. delivery	Project margin	Ann. rev./ consult. (k)	EBITDA
Under $100k	22.3%	9.1%	76.4%	35.8%	$152	14.6%
$100k - $120k	27.0%	10.0%	78.4%	33.8%	$186	15.4%
$120k - $150k	30.4%	8.9%	82.6%	37.7%	$214	15.4%
$150k - $200k	16.9%	14.8%	81.3%	38.3%	$268	16.3%
Over $200k	3.4%	14.4%	88.3%	42.3%	$291	20.1%
Total/Average	**100.0%**	**10.4%**	**80.1%**	**36.5%**	**$204**	**15.5%**

Source: SPI Research, February 2022

Table 188: Year-over-year Change in Annual fully loaded cost per consultant

	Total	ESO	PSO	Americas	EMEA	APac
2020	$124	$125	$124	$127	$108	$124
2021	$127	$127	$126	$131	$110	$121
Change	-2%	-2%	-2%	-3%	-2%	3%

Source: SPI Research, February 2022

SaaS PS and Management Consultancies pay their employees the most, advertising the least.

Table 189: Year-over-year Vertical Market Change in Annual fully loaded cost per consultant

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	$128	$131	$116	$130	$110	$114
2021	$128	$134	$119	$133	$111	$109
Change	0%	-2%	-3%	-2%	-1%	4%

Source: SPI Research, February 2022

Annual hours are spent by average billable employee?

Always one of the most anticipated metrics from the annual PS Maturity™ benchmark survey is the breakdown of work hours. Most organizations put a lot of focus on consultant time spent on both billable and non-billable tasks. ***Across the benchmark, billable utilization increased from 1,406 hours on average in 2020 to 1,418 in 2021 (Table 190).***

Table 190: Billable Hours by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Vacation / personal / holiday hours	177	170	180	167	164	200	177
Education / training hours	75	72	90	66	70	84	71
Administrative hours	142	154	151	155	153	152	177
Non-billable business dev./sales support	113	129	124	130	128	136	119
Non-billable project hours	151	129	188	108	140	94	71
Total non-billable hours	**658**	**654**	**732**	**626**	**654**	**666**	**615**
Billable hours on-site	573	480	335	531	435	610	761
Billable hours off-site	833	937	994	917	992	765	654
Total billable hours	**1,406**	**1,418**	**1,329**	**1,449**	**1,427**	**1,375**	**1,415**
Total hours	**2,063**	**2,072**	**2,061**	**2,075**	**2,081**	**2,042**	**2,030**
Percentage of remote delivery hours	**59.2%**	**66.1%**	**74.8%**	**63.3%**	**69.5%**	**55.6%**	**46.2%**

Source: SPI Research, February 2022

Billable hours go up with organization size as employees don't need to wear additional non-billable hats. The largest organizations provide more training and fewer hours on non-billable administrative time.

Table 191: Billable Hours by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Vacation / personal / holiday hours	134	183	173	171	183	185
Education / training hours	94	67	63	65	85	100
Administrative hours	142	147	164	172	119	130
Non-billable business dev./sales support	177	125	115	131	96	126
Non-billable project hours	134	140	136	111	110	134
Total non-billable hours	**680**	**662**	**652**	**651**	**593**	**674**
Billable hours on-site	419	535	438	431	664	612
Billable hours off-site	911	885	975	1,020	819	839
Total billable hours	**1,330**	**1,419**	**1,413**	**1,450**	**1,483**	**1,451**
Total hours	**2,010**	**2,081**	**2,065**	**2,102**	**2,076**	**2,125**
Percentage of remote delivery hours	**68.5%**	**62.3%**	**69.0%**	**70.3%**	**55.2%**	**57.8%**

Source: SPI Research, February 2022

By vertical market, architects and engineers work the most hours and bill the most hours. SaaS PS works the fewest hours and bills the least.

Table 192: Billable Hours by PS Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Vacation / personal / holiday hours	178	163	201	175	147	146
Education / training hours	72	75	82	94	51	36
Administrative hours	138	157	182	160	179	182
Non-billable business dev./sales support	109	162	151	106	105	160
Non-billable project hours	96	117	206	230	135	120
Total non-billable hours	**594**	**675**	**822**	**765**	**616**	**644**
Billable hours on-site	389	467	459	176	871	745
Billable hours off-site	1,088	935	813	1,093	609	680
Total billable hours	**1,477**	**1,402**	**1,272**	**1,268**	**1,479**	**1,425**
Total hours	**2,072**	**2,077**	**2,095**	**2,033**	**2,096**	**2,069**
Percentage of remote delivery hours	**73.6%**	**66.7%**	**63.9%**	**86.1%**	**41.2%**	**47.7%**

Source: SPI Research, February 2022

Billable Hours

The following two 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 who mandate returning to on-site work. Having the right tools and infrastructure to 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 flexible work arrangements.

Billable Hours On-site

Table 193: Year-over-year Change in Billable hours on-site

	Total	ESO	PSO	Americas	EMEA	APac
2020	573	388	652	540	625	852
2021	480	335	531	435	610	761
Change	**-16%**	**-14%**	**-19%**	**-20%**	**-2%**	**-11%**

Source: SPI Research, February 2022

Table 194: Year-over-year Vertical Market Change in Billable hours on-site

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	665	739	422	212	646	596
2021	389	467	459	176	871	745
Change	**-41%**	**-37%**	**9%**	**-17%**	**35%**	**25%**

Source: SPI Research, February 2022

Billable Hours Off-site

Most PSOs are thoroughly reexamining their operations, questioning long-held views about which in-person steps truly add value over remote options. Organizations must invest in mobility (through laptops, VPNs, videoconferencing, and "virtualization" tools) but also be wary of "Zoom" fatigue and scheduling too many meetings. SPIs own experience is that PSOs have used the past two years wisely to invest in streamlining their quote to cash processes and are trying to eliminate the annoying tasks which alienate workers. Timely, relevant communication with remote workers and customers is absolutely 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.

Table 195: Year-over-year Change in Billable hours off-site

	Total	ESO	PSO	Americas	EMEA	APac
2020	833	881	812	862	793	567
2021	937	994	917	992	765	654
Change	**13%**	**13%**	**13%**	**15%**	**-4%**	**15%**

Source: SPI Research, February 2022

Table 196: Year-over-year Vertical Market Change in Billable hours off-site

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	820	751	926	1,029	737	614
2021	1,088	935	813	1,093	609	680
Change	**33%**	**24%**	**-12%**	**6%**	**-17%**	**11%**

Source: SPI Research, February 2022

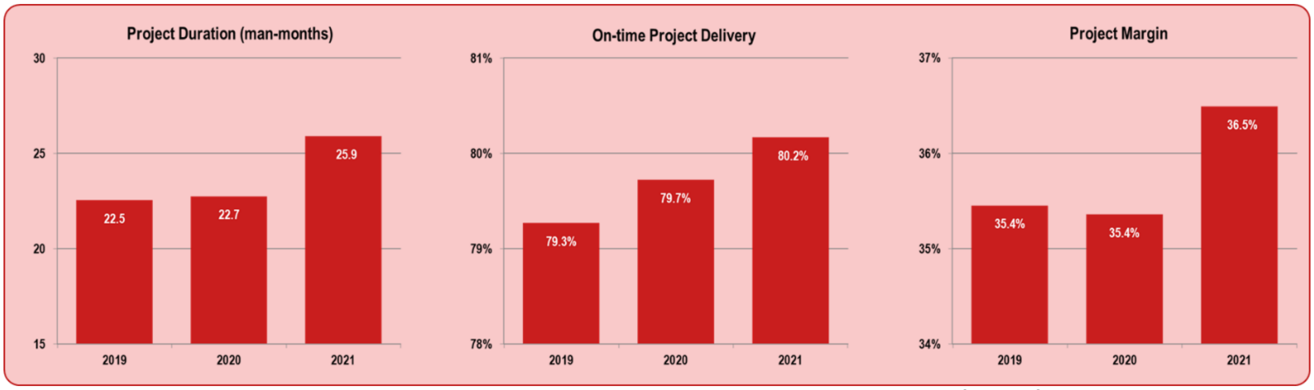
Chapter 8 – Service Execution Pillar

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

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

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

Figure 40: Service Execution Trends of Note



Source: SPI Research, February 2022

SPI has analyzed all 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 are incorporating 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 project management, collaboration, resource management, time 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 have to worry about fixing the plumbing before they can focus on simplifying business processes as low code, no code and 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 the stress of travel and allowed consultants to work from home.

Table 197 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 197: Service Execution Performance Pillar Mapped Against Service Maturity

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

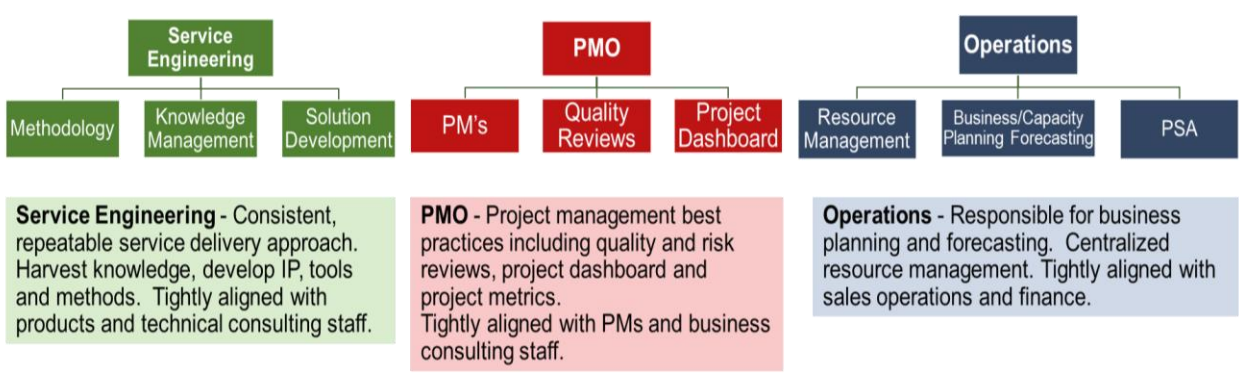
Source: SPI Research, February 2022

In 2021, SPI Research saw the subjective self-assessment metrics of "effectiveness" in resource management; estimating and pricing; change control; quality and knowledge management were about the same as in 2020, showing some stability in the Service Execution pillar. Most of the objective service execution metrics improved with more projects delivered on-time; fewer project overruns and better use of standardized delivery methods and tools. Service execution financial metrics improved as well with better time and materials and fixed price margins based on larger deals and greater revenue per project. 2021 was an extension of 2020 in that that many PSOs used the lockdown to focus on assessing and improving operations as we saw a surge of much-needed internal improvement projects.

Service Execution Best Practices

Becoming a top performing service delivery organization does not happen overnight but it certainly won't happen at all without clear roles, tools and methods designed to enhanced repeatable service delivery best practices. In this section we outline the key headquarters functions which define and

Figure 41: Professional Services Headquarters Functions



Source: SPI Research, February 2022

improve service operations. By the time a PS organization grows to 20 consultants, a PS operations function becomes mandatory. By the time a PS organization grows to 100 consultants, some combination of a service engineering and a PMO function is warranted. Best run service organizations not only invest in these key functions but they also capitalize on best-in-class tools and business applications to support the goal of repeatable, consistent, high quality and profitable service delivery.

Operations

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

Project Management Office

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

Service Engineering

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

Strategic Resource Management for PSOs

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

Resource management business processes

One of the most important elements of service execution is resource management and scheduling. SPI Research has developed a "Resource Management Maturity Model™" shown in Table 198:

- ***Sales Pipeline:*** Integration of the sales project pipeline with resource requirements and availability.
- ***Resource Management:*** The process for scheduling and deploying resources. Resource management can be centralized or decentralized.
- ***Functional Interlock:*** Alignment between the sales project pipeline, the resource management process, the recruiting process, the human resource onboarding and skill development processes and the resources themselves.
- ***Human Resource Processes:*** Recruiting, onboarding, ramping, and resource skill development.
- ***Resources:*** The consultants and contractors available to deliver projects and engagements.

Table 198: The Resource Management Maturity Model™

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Service Execution	No scheduling. Reactive. Ad hoc. Heroic. Scheduling by spreadsheet. No consistent project delivery methods. No project quality controls or knowledge management.	Skeleton methodology in place. Beginning to centralize resource mgmt. Initiating project mgmt. discipline. Starting to measure project satisfaction and harvest knowledge.	PSA deployed for resource and project management. Collaborative portal. Earned value analysis. Project dashboard. Global Project Management Office, project quality reviews and measurements. Effective change management.	Integrated project and resource management. Effective scheduling. Using portfolio management. Global PMO. Global project dashboard. Global knowledge management. Global resource management.	Integrated solutions. Continual checks and balances to ensure superior utilization and bill rates. Complete visibility to global project quality. Multi-disciplinary resource management.
Sales Pipeline	Sales pipeline and forecast is disconnected from scheduling. Reactive or no sales resource demand forecast or plan.	Standalone CRM and resource forecast. Limited visibility into resource schedule or available skills.	CRM and resource management applications deployed. Sales starts forecasting future resource and skill requirements by engagement.	Fully integrated CRM and Resource management. High levels of pipeline forecast accuracy. Ability to dynamically and automatically map the sales forecast to resource requirements.	Optimized and integrated CRM and resource management. Sales visibility into resource availability and skills. Strong analytic and query tools.

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Functional Interlock	Reactive resource brokering and bartering. Sales picks and commits resource "favorites." Time-consuming manual scheduling.	Weekly resource brokering meetings to assign resources and discuss future projects and resources requirements.	Centralized resource management function handles the majority of resource requests and schedules. At least manual integration between CRM and PSA.	Centralized resource management function handles resource requests and schedules. Integrated with HR for recruiting and resource skill development.	Completely optimized and seamless sales -> resource management -> recruiting -> skill and career development processes.
Consulting Resources	Reactive and ad hoc scheduling. No visibility to future projects. No career or skill plan. Broad job requirements but limited training or support. Firefighting leads to consultant burnout.	Project initiation and closeout processes. Some visibility into future projects. Some ability to plan and express project preferences. Training support to improve skills.	Central PMO and resource management provide methodology guidance and oversight. Ability to input skill and role preferences. Visibility to upcoming projects. Reasonable notice given for schedule changes. Integrated career & skill development plans.	Fully integrated systems and tools to support career and skill growth. Self-service employee portal allows employees to continually maintain and update skills and preferences. Visibility to preferred assignments. Career planning and training. Predictable schedule.	Global, on-site, off-site roles. Ability to view and bid on preferred assignments. Employees have input to and control over their career and skill progression. Specialized horizontal, vertical and technical roles. Career growth. High employee satisfaction.

Source: SPI Research, February 2022

Service Execution Maturity

Figure 42 shows Service Execution metrics as the organization matures. Service execution maturity is not dependent on project or organization size. Maturity is based on the quality, consistency and repeatability of service delivery processes. More than in any other area, excellence is achieved through disciplined attention to the quality and consistency of service delivery. Top performing organizations have developed "run books" for each element of service execution from estimating, to quoting, to opening projects, staffing them, accounting for time and expense, reviewing budget to actuals and harvesting and repurposing tools, techniques and know how to ensure improved subsequent delivery. While project size is not necessarily a determinant, improvements in on-time, on-budget delivery (which positively impacts both client and employee satisfaction), reduced project overruns, and higher project margins come with maturity. Service delivery is where profit is generated; delivery efficiency, quality and productivity are essential to consistently yield the highest margins.

Figure 42: Service Execution Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Project staffing time (days)	8.90	9.58	9.63	10.49	7.22
Number of projects delivered per year	726	336	590	412	189
Revenue per project (k)	$152	$143	$156	$276	$217
Project staff (people)	3.83	4.34	3.90	4.49	3.80
Project duration (months)	4.71	6.58	6.31	5.93	6.34
Projects delivered on-time	65.0%	76.5%	80.7%	85.6%	89.6%
Project overrun	14.4%	8.6%	8.1%	6.6%	5.9%
Use a standardized delivery methodology	52.9%	67.5%	66.7%	75.2%	82.9%
Project margin for time & materials projects	15.3%	25.5%	37.1%	47.1%	53.6%
Project margin for fixed price projects	13.8%	24.8%	37.6%	47.2%	56.8%
Project margin — subs, offshore	10.0%	17.5%	26.4%	37.7%	53.4%
Effectiveness of resource management process	2.73	3.49	3.63	3.80	4.07
Effectiveness of estimating processes and reviews	2.64	3.48	3.60	3.81	4.07
Effectiveness of change control processes	2.64	3.24	3.46	3.65	4.00
Effectiveness of project quality processes	2.86	3.64	3.62	3.90	4.07
Effectiveness of knowledge management processes	3.21	3.41	3.31	3.58	3.71
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

5-Year Service Execution Trends

Table 199 shows 5-year trends for Service Execution KPIs. 2021 saw a decrease in project staffing times, more projects delivered and at a higher price per project. On-time delivery was up to over 80% for the first time, and project margins improved. In fact, 2021 saw most Service Execution KPIs exceed their five-year average, which bodes well for 2022. This benchmark highlights services-driven organizations have become more focused on efficiency than they were five years ago. Project overruns go down as the use of standardized delivery methodologies increase.

Table 199: Service Execution Pillar 5-year Trend

Key Performance Indicator (KPI)	5 Year Avg.	2017	2018	2019	2020	2021
Project staffing time (days)	**9.44**	8.94	9.14	9.79	9.73	9.58
Number of projects delivered per year	**556**	399	871	584	411	449
Revenue per project (k)	**$164**	$171	$152	$164	$154	$181

Key Performance Indicator (KPI)	5 Year Avg.	2017	2018	2019	2020	2021
Project staff size (people)	**4.22**	4.45	4.36	4.05	4.09	4.16
Project duration (months)	**5.87**	6.37	5.71	5.56	5.55	6.23
Projects delivered on-time	**79.1%**	79.7%	76.9%	79.3%	79.7%	80.2%
Project overrun	**8.5%**	8.2%	8.6%	9.1%	8.3%	8.1%
Use a standardized delivery methodology	**67.5%**	69.7%	66.1%	67.4%	65.9%	69.2%
Project margin for time & materials projects	**34.8%**	31.7%	34.9%	35.6%	35.3%	35.9%
Project margin for fixed price projects	**34.6%**	31.8%	34.4%	35.2%	35.4%	36.0%
Project margin — subs, offshore	**26.9%**	23.1%	25.8%	27.4%	29.3%	28.3%
Effectiveness of resource management process	**3.60**	3.50	3.63	3.59	3.65	3.62
Effectiveness of estimating processes and reviews	**3.58**	3.56	3.56	3.58	3.60	3.61
Effectiveness of change control processes	**3.44**	3.38	3.45	3.38	3.51	3.45
Effectiveness of project quality processes	**3.67**	3.62	3.69	3.67	3.69	3.69
Effectiveness of knowledge management processes	**3.41**	3.31	3.42	3.43	3.43	3.43

Source: SPI Research, February 2022

Survey Results

Table 200 compares the 2021 results to those of 2020. Overall, the results this year look promising. While the pandemic is not over, PSOs are now focused on organizational improvement in how they deliver services. While all three regions reported solid results, North America excelled at delivering more projects, while EMEA and APac showed impressive project margins.

Table 200: Service Execution Pillar Results by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Project staffing time (days)	9.73	9.58	11.00	9.05	9.48	11.31	5.87
Number of projects delivered per year	411	449	659	367	476	373	326
Revenue per project (k)	$154	$181	$204	$172	$183	$195	$119
Project staff size (people)	4.09	4.16	4.12	4.17	4.11	4.51	3.74
Project duration (months)	5.55	6.23	6.02	6.30	6.55	5.68	3.59
Projects delivered on-time	79.7%	80.2%	74.8%	82.2%	80.4%	79.4%	79.8%
Project overrun	8.3%	8.1%	10.4%	7.3%	8.1%	8.4%	7.8%
Use a standardized delivery methodology	65.9%	69.2%	74.3%	67.2%	70.2%	68.2%	59.2%
Project margin for time & materials projects	35.3%	35.9%	35.8%	36.0%	35.3%	38.9%	35.5%
Project margin for fixed price projects	35.4%	36.0%	33.1%	37.0%	35.8%	35.6%	38.7%
Project margin — subs, offshore	29.3%	28.3%	30.3%	27.7%	29.1%	25.9%	25.5%
Effect. of resource management process	3.65	3.62	3.62	3.62	3.60	3.68	3.71

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Effect. of estimating processes and reviews	3.60	3.61	3.54	3.64	3.61	3.68	3.38
Effect. of change control processes	3.51	3.45	3.43	3.46	3.46	3.40	3.48
Effect. of project quality processes	3.69	3.69	3.55	3.74	3.69	3.82	3.43
Effect. of knowledge management processes	3.43	3.43	3.39	3.44	3.46	3.42	3.10

Source: SPI Research, February 2022

Table 201 shows smaller PSOs had a much higher on-time delivery percentage when while larger organizations showed solid project margins.

Table 201: Service Execution Pillar Results by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Project staffing time (days)	8.33	8.10	9.31	10.96	10.83	11.67
Number of projects delivered per year	42	137	186	601	1,853	1,461
Revenue per project (k)	$59	$95	$182	$264	$284	$314
Project staff size (people)	2.17	3.22	4.15	5.15	5.76	6.39
Project duration (months)	4.69	5.67	6.45	6.90	6.74	7.44
Projects delivered on-time	85.8%	79.5%	78.8%	78.7%	80.7%	79.8%
Project overrun	5.0%	7.8%	8.4%	9.5%	9.1%	8.4%
Use a standardized delivery methodology	66.3%	67.2%	72.8%	68.7%	70.6%	65.7%
Project margin for time & materials projects	35.0%	33.3%	35.8%	38.0%	39.2%	34.3%
Project margin for fixed price projects	36.8%	34.9%	35.7%	36.4%	35.9%	37.5%
Project margin — subs, offshore	26.7%	29.0%	27.4%	30.1%	28.4%	27.5%
Effect. of resource management process	3.74	3.72	3.57	3.50	3.61	3.75
Effect. of estimating processes and reviews	3.61	3.63	3.58	3.51	3.82	3.80
Effect. of change control processes	3.57	3.45	3.37	3.46	3.33	3.70
Effect. of project quality processes	4.00	3.74	3.69	3.55	3.45	3.85
Effect. of knowledge management processes	3.78	3.31	3.46	3.35	3.18	3.60

Source: SPI Research, February 2022

Table 202: Service Execution Pillar Results by PS Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Project staffing time (days)	10.02	8.00	11.25	11.60	7.64	6.79
Number of projects delivered per year	172	149	560	696	1,627	284
Revenue per project (k)	$212	$152	$226	$113	$126	$96
Project staff size (people)	4.55	3.41	4.65	3.37	4.30	4.69
Project duration (months)	6.00	5.70	5.88	5.83	7.57	5.48

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Projects delivered on-time	80.4%	86.1%	74.1%	72.0%	78.1%	80.2%
Project overrun	8.0%	4.9%	11.0%	11.2%	11.7%	8.5%
Use a standardized delivery methodology	71.8%	62.3%	71.4%	79.0%	71.8%	57.0%
Project margin for time & materials projects	39.5%	35.1%	39.1%	30.4%	31.0%	33.2%
Project margin for fixed price projects	38.9%	39.7%	36.0%	26.9%	30.2%	34.8%
Project margin — subs, offshore	33.2%	27.7%	30.5%	28.7%	15.8%	26.8%
Effect. of resource management process	3.74	3.60	3.64	3.50	3.38	3.57
Effect. of estimating processes and reviews	3.69	3.67	3.46	3.50	3.56	3.48
Effect. of change control processes	3.58	3.51	3.41	3.31	3.21	3.20
Effect. of project quality processes	3.77	3.92	3.38	3.58	3.50	3.52
Effect. of knowledge management processes	3.38	3.51	3.10	3.64	3.58	3.52

Source: SPI Research, February 2022

Resource Management Process

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

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

1. **Centrally managed** – Most resource management pundits favor "centralized" resource management. It provides superior management visibility into the entire project backlog and level of skills required both today and in the future. In centralized resource management, a dedicated resource management team is responsible for managing the master resource schedule and making staffing decisions based on skills, availability, location, cost, preference, etc. Centralized management is the most efficient way to manage a large workforce. In this year’s benchmark, centralized management produced some of the best results with fewer project overruns and the best revenue per consultant and project margins.

2. **Local resource management** – Local resource management is the preferred form of resourcing for young organizations where the workforce is small enough to foster real esprit de corps, and employees wear many hats. Smaller organizations can't afford the overhead of a dedicated resource management function, as relationships and roles are fluid, requiring more local control and finesse. Staffing locally also provides the benefit of closer client relationships and less travel.

3. **Account-based** – Resource management by account may be a good strategy for very large accounts where there is a strong backlog of projects, but account-based resourcing can cause big issues if account revenue dries up. 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.

Table 203: Impact – Resource Management Strategy

Resource Mgmt. Strategy	Survey %	Billable utilization	On-time proj. delivery	Project overrun	Revenue / Consult (k)	Project margin
Centrally Managed	47.5%	74.3%	81.3%	7.8%	$217	38.3%
Locally Managed	20.0%	70.4%	76.0%	8.7%	$193	30.5%
Center of Excellence	8.2%	77.7%	84.4%	6.9%	$185	37.8%
By Account	8.7%	70.3%	81.4%	8.4%	$200	33.8%
By Horizontal Skill Set	11.1%	77.3%	78.4%	9.0%	$201	38.7%
Other	4.5%	66.5%	85.0%	9.5%	$202	35.6%
Total / Average	**100.0%**	**73.4%**	**80.3%**	**8.2%**	**$205**	**36.2%**

Source: SPI Research, February 2022

To improve utilization, PSOs must improve resource management effectiveness. As Table 203 shows, there are pluses and minuses to different resource management strategies. Green shading indicates "Best" while red shading indicates "Worst" based on responses from 540 firms. This year "Center or Excellence" comes out on top with the highest number of "best" scores. "Other" resourcing showed the some of the best and worst results, because resources may be hoarded by account, prohibiting redeployment to more lucrative clients and services.

Project Staffing Time

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

The impact of project staffing time is shown in Table 204. 62% of organizations staff in less than 10 days. The best service execution metrics were reported for the organizations who can staff the fastest as they do the best job of taking advantage of standardized delivery methods resulting in the best on-time project delivery with the least project overruns.

Table 204: Impact – Project staffing time

Project staffing time (days)	Survey %	Employee attrition	Std. del. method. used	Project margin	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)
Under 5 days	36.0%	10.5%	70.0%	36.4%	$216	$170
5 - 10 days	26.4%	13.9%	67.7%	35.2%	$205	$168
10 - 15 days	15.6%	15.9%	72.8%	35.1%	$202	$158
15 - 20 days	9.8%	18.1%	68.5%	42.2%	$183	$148
Over 20 days	12.1%	15.0%	67.8%	35.4%	$205	$168
Total/Average	**100.0%**	**13.5%**	**69.4%**	**36.3%**	**$206**	**$165**

Source: SPI Research, February 2022

Table 205: Year-over-year Change in project staffing time (days)

	Total	ESO	PSO	Americas	EMEA	APac
2020	9.7	10.8	9.3	9.7	10.4	9.0
2021	9.6	11.0	9.1	9.5	11.3	5.9
Change	**2%**	**-1%**	**2%**	**2%**	**-8%**	**54%**

Source: SPI Research, February 2022

Table 206: Year-over-year Market Change in project staffing time (days)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	9.8	9.3	12.6	8.9	7.1	5.7
2021	10.0	8.0	11.3	11.6	7.6	6.8
Change	**-2%**	**16%**	**12%**	**-23%**	**-7%**	**-15%**

Source: SPI Research, February 2022

Number of projects delivered per year

The total number of projects the PSO delivers on an annual basis.

The number of projects delivered per year is up 9% from 2021, but less than the five-year average of 556. PS clients prefer less expensive and shorter duration projects to help them manage risk.

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Table 207: Year-over-year Change in Number of projects delivered per year

	Total	ESO	PSO	Americas	EMEA	APac
2020	411	707	280	360	742	294
2021	449	659	367	476	373	326
Change	**9%**	**-7%**	**31%**	**32%**	**-50%**	**11%**

Source: SPI Research, February 2022

Table 208: Year-over-year Market Change in Number of projects delivered per year

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	246	135	406	444	559	282
2021	172	149	560	696	1,627	284
Change	**-30%**	**10%**	**38%**	**57%**	**191%**	**1%**

Source: SPI Research, February 2022

Revenue per project

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

PSOs complete many small projects along with a few larger ones, which may skew revenue per project. Wide variability in project size stresses resource management predictability and may make project management unaffordable. Most financial metrics improve with project size as it is easier to staff and forecast large projects. Larger organizations build “rapid response” teams to handle short, unpredictable projects. The 5-year average revenue per project is $164k.

Table 209: Impact – Revenue per project

Revenue per project (k)	Survey %	Revenue growth	Billable util.	Project margin	Ann. rev./ consult. (k)	% of ann. margin target
Under $25k	17.3%	4.8%	72.1%	36.9%	$175	89.4%
$25k - $50k	17.5%	13.9%	70.1%	31.9%	$179	91.3%
$50k - $100k	27.6%	10.2%	71.7%	36.7%	$206	92.3%
$100k - $250k	18.3%	10.7%	77.1%	37.2%	$232	93.6%
$250k - $500k	11.1%	11.7%	75.1%	40.8%	$215	92.1%
$500k - $1mm	4.6%	16.3%	78.6%	33.2%	$264	92.5%
Over $1mm	3.6%	10.2%	79.2%	41.7%	$243	98.6%
Total/Average	**100.0%**	**10.5%**	**73.4%**	**36.5%**	**$206**	**92.1%**

Source: SPI Research, February 2022

Table 210: Year-over-year Change in Revenue per project (k)

	Total	ESO	PSO	Americas	EMEA	APac
2020	$154	$138	$161	$160	$145	$102
2021	$181	$204	$172	$183	$195	$119
Change	**17%**	**48%**	**7%**	**14%**	**34%**	**17%**

Source: SPI Research, February 2022

Table 211: Year-over-year Market Change in Revenue per project (k)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	$183	$173	$132	$117	$99	$70
2021	$212	$152	$226	$113	$126	$96
Change	**16%**	**-12%**	**71%**	**-3%**	**27%**	**38%**

Source: SPI Research, February 2022

Project staff size

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

Table 212 shows projects with a larger staff show the highest project margin and lowest employee attrition making them more desirable. However, it is more difficult to sell large projects and they tend to be the most prevalent for larger PSOs who can handle global scale and complexity.

Table 212: Impact – Project staff size

Project staff (people)	Survey %	Org. size (emp)	Client reference	Employee attrition	Project duration (man-month)	Project margin
1 - 2	30.4%	78	73.6%	9.9%	7.0	35.6%
3 - 5	50.3%	243	75.5%	13.8%	23.6	37.0%
6 - 8	13.0%	309	75.9%	18.5%	57.2	34.8%
9 - 11	2.8%	1,103	64.5%	19.2%	98.6	37.5%
Over 11	3.6%	1,199	72.9%	19.3%	160.5	38.8%
Total/Average	**100.0%**	**260**	**74.6%**	**13.6%**	**29.9**	**36.4%**

Source: SPI Research, February 2022

Table 213: Year-over-year Change in Project staff (people)

	Total	ESO	PSO	Americas	EMEA	APac
2020	4.1	4.0	4.1	4.1	4.3	3.6
2021	4.2	4.1	4.2	4.1	4.5	3.7
Change	**2%**	**2%**	**1%**	**0%**	**5%**	**3%**

Source: SPI Research, February 2022

Table 214: Year-over-year Market Change in Project staff (people)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.2	3.5	4.4	3.8	4.1	5.2
2021	4.6	3.4	4.6	3.4	4.3	4.7
Change	**7%**	**-3%**	**6%**	**-11%**	**5%**	**-9%**

Source: SPI Research, February 2022

Project duration

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

Unlike project staff size, project duration has remained relatively constant, averaging 5.87 months over the past 5 years. Table 215 shows larger projects increase billable utilization but may cause more 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 215: Impact – Project duration

Project duration (months)	Survey %	Employee attrition	Billable util.	Project duration (man-month)	On-time proj. delivery	Ann. rev./ consult. (k)
Under 1	3.5%	9.0%	69.6%	0.9	82.5%	$188
1 - 3	17.7%	12.2%	71.7%	6.2	75.9%	$207
3 - 6	37.2%	13.4%	73.8%	15.5	80.4%	$213
6 - 9	20.8%	14.4%	71.9%	34.1	79.1%	$192
9 - 12	10.9%	13.5%	75.2%	61.5	80.1%	$198
Over 12	9.9%	17.2%	78.6%	91.2	87.1%	$217
Total/Average	**100.0%**	**13.6%**	**73.5%**	**29.7**	**80.0%**	**$206**

Source: SPI Research, February 2022

Table 216: Year-over-year Change in Project duration (months)

	Total	ESO	PSO	Americas	EMEA	APac
2020	5.6	5.0	5.8	5.7	4.9	5.0
2021	6.2	6.0	6.3	6.5	5.7	3.6
Change	**12%**	**21%**	**9%**	**15%**	**15%**	**-29%**

Source: SPI Research, February 2022

Table 217: Year-over-year Vertical Market Change in Project duration (months)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	5.8	5.7	4.9	4.7	6.8	5.6
2021	6.0	5.7	5.9	5.8	7.6	5.5
Change	**4%**	**0%**	**19%**	**25%**	**11%**	**-3%**

Source: SPI Research, February 2022

Projects Delivered On-time

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

Nearly 20% of organizations reported delivering less than 70% of their projects delivered on-time. Those organizations that could not deliver on time had much lower levels of billable utilization and client references. They also did not have visibility into resource availability which meant the missed their annual margin targets. The bottom line is on-time delivery is one of the most important KPIs, and 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.

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

Table 218: Impact – Projects delivered on-time

Projects delivered on-time	Survey %	Billable util.	Client Reference	Project overrun	% of ann. margin target	Exec real-time visibility
Under 40%	2.8%	68.5%	68.6%	17.0%	82.2%	2.75
40% - 60%	7.7%	72.3%	62.9%	15.9%	85.6%	3.04
60% - 70%	9.2%	70.9%	67.8%	14.5%	88.2%	3.38
70% - 80%	17.4%	71.3%	72.2%	10.3%	91.3%	3.54
80% - 90%	30.0%	73.6%	75.9%	6.7%	93.9%	3.62
Over 90%	32.8%	76.5%	80.2%	4.0%	94.7%	4.13
Total/Average	**100.0%**	**73.7%**	**74.7%**	**8.2%**	**92.2%**	**3.68**

Source: SPI Research, February 2022

Table 219: Year-over-year Change in Projects delivered on-time

	Total	ESO	PSO	Americas	EMEA	APac
2020	79.7%	75.0%	81.8%	79.5%	81.3%	79.2%
2021	80.2%	74.8%	82.2%	80.4%	79.4%	79.8%
Change	**1%**	**0%**	**1%**	**1%**	**-2%**	**1%**

Source: SPI Research, February 2022

Table 220: Year-over-year Market Change in Projects delivered on-time

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	81.1%	85.8%	74.1%	75.0%	77.1%	80.0%
2021	80.4%	86.1%	74.1%	72.0%	78.1%	80.2%
Change	**-1%**	**0%**	**0%**	**-4%**	**1%**	**0%**

Source: SPI Research, February 2022

Project Overrun

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

Project overruns have a profoundly negative impact on almost all aspects of service execution as they put stress on service delivery and forestall new project initiation. For the 6.5% of firms that reported greater than 20% project overruns, most KPIs suffer. Client references are down, employee satisfaction suffers and they are unable to meet their annual goals. 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 ameliorate future overruns.

Table 221: Impact – Project overrun

Project overrun	Survey %	Client reference	Rec. to family/ friends	Billable util.	On-time proj. delivery	% of ann. margin target
Never	6.8%	79.4%	4.58	76.0%	92.0%	92.5%
0% - 5%	36.2%	77.4%	4.48	74.8%	87.3%	93.9%
5% - 10%	30.5%	73.9%	4.41	75.0%	80.7%	93.0%
10% - 20%	20.1%	72.0%	4.39	70.9%	69.5%	88.9%
20% - 30%	4.4%	64.7%	4.35	68.5%	59.1%	87.7%
Over 30%	2.1%	70.6%	3.75	59.3%	58.8%	87.5%
Total/Average	**100.0%**	**74.7%**	**4.43**	**73.6%**	**80.2%**	**92.1%**

Source: SPI Research, February 2022

Table 222: Year-over-year Change in Project overrun

	Total	ESO	PSO	Americas	EMEA	APac
2020	8.3%	9.6%	7.8%	8.3%	8.8%	7.3%
2021	8.1%	10.4%	7.3%	8.1%	8.4%	7.8%
Change	**3%**	**-7%**	**7%**	**3%**	**5%**	**-7%**

Source: SPI Research, February 2022

Table 223: Year-over-year Market Change in Project overrun

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	8.2%	5.9%	8.6%	11.0%	11.0%	8.0%
2021	8.0%	4.9%	11.0%	11.2%	11.7%	8.5%
Change	**2%**	**21%**	**-22%**	**-1%**	**-6%**	**-6%**

Source: SPI Research, February 2022

Standardized delivery methodology use

The percentage of projects where a standardized (or structured) delivery methodology is used. It incorporates best-practices 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 who can accurately plan and execute services in a structured way, are not only more productive but also more likely to deliver with quality. There is significant effort involved in developing, implementing and adhering to standardized delivery methodologies, but the net impact for PSOs is beneficial. Table 224 shows the use of standardized delivery methods and tools has a positive impact on revenue growth, employee satisfaction, project margin and profit.

Table 224: Impact – Standardized delivery methodology use

Use a standardized delivery methodology	Survey %	Revenue growth	Rec. to family/ friends	Project margin	Exec real-time visibility	EBITDA
Under 20%	8.8%	5.7%	3.94	34.1%	3.08	9.5%
20% - 40%	6.2%	7.7%	4.29	30.5%	3.36	12.8%
40% - 60%	13.7%	6.6%	4.33	35.5%	3.51	17.8%
60% - 80%	23.2%	14.7%	4.36	36.0%	3.67	17.5%
Over 80%	48.2%	11.0%	4.59	38.1%	3.85	16.0%
Total/Average	**100.0%**	**10.6%**	**4.43**	**36.5%**	**3.66**	**15.8%**

Source: SPI Research, February 2022

Table 225: Year-over-year Change in Use a standardized delivery methodology

	Total	ESO	PSO	Americas	EMEA	APac
2020	65.9%	71.5%	63.4%	66.6%	63.2%	63.1%
2021	69.2%	74.3%	67.2%	70.2%	68.2%	59.2%
Change	**5%**	**4%**	**6%**	**5%**	**8%**	**-6%**

Source: SPI Research, February 2022

Table 226: Year-over-year Market Change in Use a standardized delivery methodology

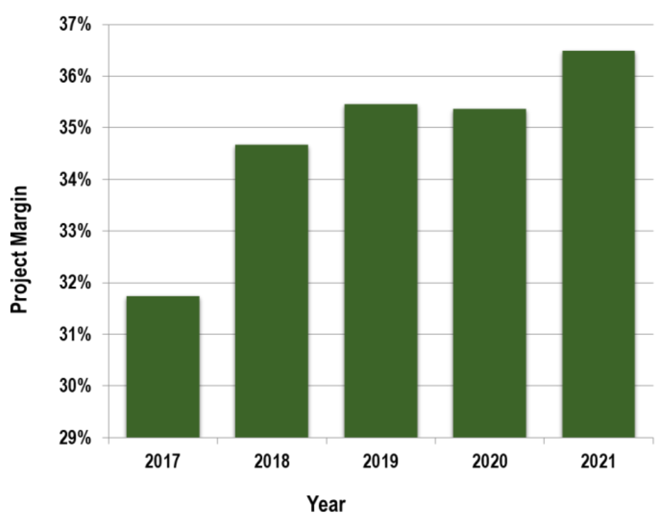
	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	66.0%	62.8%	70.9%	76.0%	63.8%	62.9%
2021	71.8%	62.3%	71.4%	79.0%	71.8%	57.0%
Change	**9%**	**-1%**	**1%**	**4%**	**12%**	**-9%**

Source: SPI Research, February 2022

Project Margin

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

Figure 43: Project Margin Five-year Trend



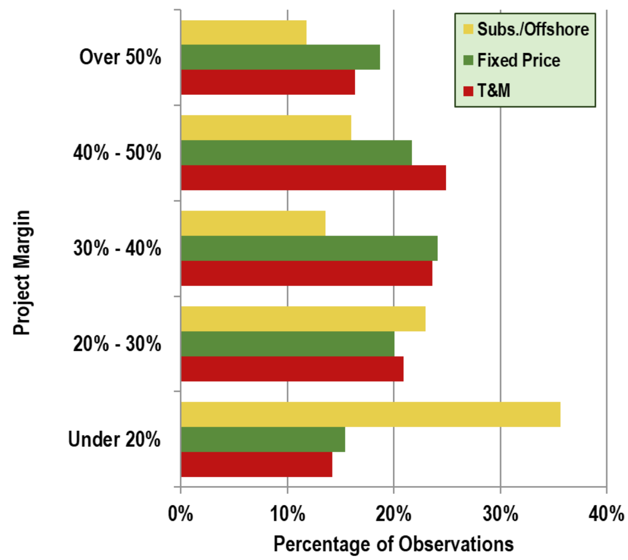
Source: SPI Research, February 2022

Figure 43 shows average project margins have varied greatly but have been steadily increasing from year-to-year. This metric underscores the importance of a holistic view of PS, as one important metric like project margin can cause a ripple effect leading to lower overall net profit.

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. No matter the size of the organization, SPI always recommends maintaining a project dashboard with visibility to project budget to actual performance.

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

Figure 44: Project Margin Comparison by Type



Source: SPI Research, February 2022

Projects can be structured in a variety of ways – fixed price, milestone based, time and materials or cost plus. Typically, time and materials-based projects produce the best margins as long as bill rates are set appropriately. "Not to exceed" projects should be avoided as they provide none of the benefits of fixed price projects but carry all of the risks. Cost-plus contracts are also undesirable; they are most prevalent in government work which tends to be penny-wise and pound-foolish. Clients and service providers alike should be focused on paying fairly for work that delivers promised results. If the project benefit is substantial, then assuring successful delivery should be the primary focus.

Time and Materials Project Margin

Project margin is the essential building block of productivity and profit for all PSOs and is a metric that must be carefully measured and tracked. High project margins are associated with on-time, on-budget delivery. Standardized delivery methods and tools combined with project quality reviews and training investments all correlate with the highest margins. 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.

Table 227: Impact – Project margin for time & materials projects

Project margin for time & materials projects	Survey %	On-time proj. delivery	Project margin	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	EBITDA
Under 20%	14.2%	76.6%	14.6%	$169	$125	11.0%
20% - 30%	20.9%	78.6%	25.0%	$195	$155	13.7%
30% - 40%	23.6%	81.0%	36.1%	$203	$159	15.0%
40% - 50%	24.9%	81.2%	45.3%	$220	$184	15.7%
Over 50%	16.4%	83.2%	57.1%	$219	$186	20.0%
Total/Average	**100.0%**	**80.3%**	**36.4%**	**$203**	**$164**	**15.1%**

Source: SPI Research, February 2022

Table 228: Year-over-year Change in Project margin for time & materials projects

	Total	ESO	PSO	Americas	EMEA	APac
2020	35.3%	33.6%	36.0%	35.4%	35.1%	34.5%
2021	35.9%	35.8%	36.0%	35.3%	38.9%	35.5%
Change	**2%**	**6%**	**0%**	**0%**	**11%**	**3%**

Source: SPI Research, February 2022

Table 229: Year-over-year Market Change in Project margin for time & materials projects

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	39.6%	36.2%	34.7%	30.3%	30.9%	31.4%
2021	39.5%	35.1%	39.1%	30.4%	31.0%	33.2%
Change	**0%**	**-3%**	**13%**	**0%**	**0%**	**6%**

Source: SPI Research, February 2022

Fixed Price Project Margin

Table 230 shows 40.4% of organizations achieved fixed price margins of more than 40% but unfortunately 35.6% 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 230: Impact – Project margin for fixed price projects

Project margin for fixed price projects	Survey %	Billable util.	On-time proj. delivery	Project margin	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)
Under 20%	15.4%	71.3%	71.1%	16.2%	$176	$132
20% - 30%	20.1%	75.9%	82.1%	26.6%	$200	$155
30% - 40%	24.1%	72.7%	78.1%	35.7%	$207	$169
40% - 50%	21.7%	73.5%	84.4%	43.9%	$214	$178
Over 50%	18.7%	75.2%	85.1%	56.1%	$219	$180
Total/Average	**100.0%**	**73.8%**	**80.5%**	**36.4%**	**$205**	**$164**

Source: SPI Research, February 2022

Table 231: Year-over-year Change in Project margin for fixed price projects

	Total	ESO	PSO	Americas	EMEA	APac
2020	37.8%	38.4%	37.2%	30.1%	35.4%	31.0%
2021	38.9%	39.7%	36.0%	26.9%	30.2%	34.8%
Change	**3%**	**3%**	**-3%**	**-11%**	**-15%**	**12%**

Source: SPI Research, February 2022

Table 232: Year-over-year Market Change in Project margin for fixed price projects

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	35.4%	34.0%	36.1%	35.5%	35.6%	33.9%
2021	36.0%	33.1%	37.0%	35.8%	35.6%	38.7%
Change	**2%**	**-3%**	**3%**	**1%**	**0%**	**14%**

Source: SPI Research, February 2022

Subcontractor, Offshore Margin

Use of subcontractors has remained relatively constant across this benchmark, averaging 11.5% of revenue for the past five years. Although service providers would like to use more contingent labor, few great subcontractors are available on an on-going basis. Further, highly skilled independent consultants understand their value which is why average subcontractor margins have hovered at 26.9% for the past five years. Table 233 shows significant benefits for the few firms who are able to 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. Organizations who rely on subcontractors for more than 20% of revenue run the risk of being viewed as transactional staffing providers instead of high value consultancies.

Table 233: Impact – Project margin — subs, offshore

Project margin — subs, offshore	Survey %	Project margin	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	Backlog	Exec real-time visibility
Under 20%	35.6%	30.1%	$180	$140	39.7%	3.65
20% - 30%	23.0%	34.8%	$195	$158	48.0%	3.71
30% - 40%	13.6%	39.7%	$223	$176	48.1%	3.73
40% - 50%	16.0%	43.3%	$239	$205	52.1%	3.75
Over 50%	11.8%	48.2%	$228	$184	48.0%	3.79
Total/Average	**100.0%**	**36.7%**	**$205**	**$164**	**45.7%**	**3.70**

Source: SPI Research, February 2022

Table 234: Year-over-year Change in Project margin — subs, offshore

	Total	ESO	PSO	Americas	EMEA	APac
2020	29.3%	31.0%	28.6%	29.1%	31.5%	27.3%
2021	28.3%	30.3%	27.7%	29.1%	25.9%	25.5%
Change	**-3%**	**-3%**	**-3%**	**0%**	**-18%**	**-6%**

Source: SPI Research, February 2022

Table 235: Year-over-year Market Change in Project margin — subs, offshore

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	32.4%	26.6%	29.2%	29.3%	22.0%	33.8%
2021	33.2%	27.7%	30.5%	28.7%	15.8%	26.8%
Change	**3%**	**4%**	**4%**	**-2%**	**-28%**	**-20%**

Source: SPI Research, February 2022

Project Process Effectiveness

Process effectiveness analyzes how organization 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 section 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 with 1 = very ineffective and 5 = very effective. Resource management is critical to project planning and execution. PSOs who effectively and efficiently manage resources show much higher 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 236: Impact – Effectiveness of resource management process

Effectiveness of resource management process	Survey %	Client reference	Project duration (man-month)	Project overrun	Ann. rev./ consult. (k)	Exec real-time visibility
1 – poor	1.6%	65.8%	16.3	20.5%	$160	2.80
2	8.2%	68.9%	27.9	12.6%	$185	2.86
3	28.2%	72.0%	27.9	9.1%	$199	3.44
4	50.1%	77.0%	30.1	7.2%	$207	3.85
5 – great	11.8%	78.1%	33.0	6.0%	$226	4.25
Total/Average	**100.0%**	**74.9%**	**29.4**	**8.3%**	**$205**	**3.68**

Source: SPI Research, February 2022

Table 237: Year-over-year Change in Effectiveness of resource management process

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.65	3.50	3.72	3.64	3.76	3.62
2021	3.62	3.62	3.62	3.60	3.68	3.71
Change	**-1%**	**3%**	**-3%**	**-1%**	**-2%**	**3%**

Source: SPI Research, February 2022

Table 238: Year-over-year Change in Effectiveness of resource management process

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.70	3.91	3.69	3.42	3.69	3.09
2021	3.74	3.60	3.64	3.50	3.38	3.57
Change	**1%**	**-8%**	**-1%**	**2%**	**-8%**	**16%**

Source: SPI Research, February 2022

Estimating Process and Review Effectiveness

SPI Research asked survey respondent to rate the effectiveness of their estimating processes and estimate reviews, with a rating of 1 for poor to 5 for excellent. This key performance indicator is important as accurate estimates hold the key to all other service delivery metrics. Inaccurate estimates and poor pricing controls lead to miss-set client expectations; project overruns and poor client satisfaction. While this subjective KPI might be hard to fathom, its results show how some of the most important KPIs improve as the organization becomes more effective in pricing and estimating. 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. A new breed of services "CPQ" Configuration, Pricing and Quoting tools are coming to market to bridge the gap between CRM and PSA to improve the accuracy and reliability of services estimating and pricing. Look for these tools to help move estimating from "art" to "science" which will have a dramatic impact on improving price realization.

Table 239: Impact – Effectiveness of estimating processes and reviews

Effectiveness of estimating processes and reviews	Survey %	Billable util.	Project duration (man-month)	Std. del. method. used	Ann. rev./ emp. (k)	% of ann. margin target
1 – poor	1.4%	59.0%	7.4	58.0%	$133	80.0%
2	9.1%	71.3%	20.4	63.3%	$140	85.0%
3	29.1%	72.5%	29.8	65.8%	$159	91.2%
4	47.8%	74.9%	30.6	70.8%	$171	93.6%
5 – great	12.6%	77.1%	32.8	78.3%	$174	94.8%
Total/Average	**100.0%**	**73.9%**	**29.4**	**69.5%**	**$164**	**92.1%**

Source: SPI Research, February 2022

Table 240: Year-over-year Change in Effectiveness of estimating processes and reviews

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.60	3.46	3.66	3.60	3.65	3.50
2021	3.61	3.54	3.64	3.61	3.68	3.38
Change	**0%**	**2%**	**-1%**	**1%**	**1%**	**-3%**

Source: SPI Research, February 2022

Table 241: Year-over-year Market Change in Effectiveness of estimating processes and reviews

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.64	3.75	3.52	3.28	3.69	3.73
2021	3.69	3.67	3.46	3.50	3.56	3.48
Change	**2%**	**-2%**	**-2%**	**7%**	**-4%**	**-7%**

Source: SPI Research, February 2022

Change Control Effectiveness

SPI Research asked survey respondents to rate the effectiveness of their change control processes, with a rating of 1 for poor to 5 for excellent. All projects involve risk and scope change. The important question is how these variables are managed. Mature PSOs invest in developing change and risk management policies along with project management oversight and guidance. 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 242 compares the effectiveness of change control processes to other key performance indicators. Again, like the organizations with high levels of resource management and estimating effectiveness, those organizations that manage change the best demonstrate significantly better KPIs in both the service execution and finance and operations pillars. Organizations that focus on basic execution issues such as resource management, estimating and change control drive superior results compared to those organizations that place less emphasis on these critical business processes.

Table 242: Impact – Effectiveness of change control processes

Effectiveness of change control processes	Survey %	Billable util.	On-time proj. delivery	Project overrun	Project margin	% of ann. margin target
1 – poor	1.4%	66.0%	81.0%	4.2%	46.4%	85.0%
2	12.7%	73.2%	66.5%	11.6%	32.5%	86.3%
3	36.2%	72.6%	78.0%	9.2%	34.0%	92.1%
4	39.2%	75.3%	84.3%	7.3%	38.6%	92.5%
5 – great	10.5%	75.8%	91.1%	4.9%	42.9%	97.8%
Total/Average	**100.0%**	**74.0%**	**80.4%**	**8.2%**	**36.7%**	**92.0%**

Source: SPI Research, February 2022

Table 243: Year-over-year Change in Effectiveness of change control processes

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.51	3.50	3.51	3.51	3.52	3.42
2021	3.45	3.43	3.46	3.46	3.40	3.48
Change	**-2%**	**-2%**	**-2%**	**-2%**	**-3%**	**2%**

Source: SPI Research, February 2022

Table 244: Year-over-year Market Change in Effectiveness of change control processes

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.51	3.65	3.48	3.43	3.35	3.55
2021	3.58	3.51	3.41	3.31	3.21	3.20
Change	**2%**	**-4%**	**-2%**	**-4%**	**-4%**	**-10%**

Source: SPI Research, February 2022

Project Quality Process Effectiveness

SPI Research asked executives to rate the effectiveness of project quality processes, with a rating of 1 for poor to 5 for excellent. Quality must be a core organizational attribute that is built into the culture and management practices. Most leading professional services organizations build in quality checks and balances to assure the work is done correctly. As more PSOs work to productize their services offerings, they must incorporate quality processes and procedures, as well as metrics. High quality service delivery underlies client satisfaction and drives referrals and repeat business. Table 245 shows results improve across the board as quality processes are implemented.

Table 245: Impact – Effectiveness of project quality processes

Effectiveness of project quality processes	Survey %	Std. del. method. used	On-time proj. delivery	Project margin	Ann. rev./ consult. (k)	% of ann. margin target
1 – poor	0.6%	20.0%	75.0%	10.0%	$200	85.0%
2	9.4%	53.6%	71.4%	32.2%	$187	89.3%
3	26.2%	65.7%	74.3%	35.3%	$195	90.8%
4	47.9%	72.3%	82.5%	38.0%	$205	92.0%
5 – great	16.0%	78.4%	90.1%	38.4%	$229	96.3%
Total/Average	**100.0%**	**69.5%**	**80.5%**	**36.7%**	**$204**	**92.1%**

Source: SPI Research, February 2022

Table 246: Year-over-year Change in Effectiveness of project quality processes

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.74	3.85	3.52	3.55	3.69	3.91
2021	3.77	3.92	3.38	3.58	3.50	3.52
Change	**1%**	**2%**	**-4%**	**1%**	**-5%**	**-10%**

Source: SPI Research, February 2022

Table 247: Year-over-year Market Change in Effectiveness of project quality processes

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.69	3.53	3.76	3.70	3.71	3.46
2021	3.69	3.55	3.74	3.69	3.82	3.43
Change	**0%**	**1%**	**0%**	**0%**	**3%**	**-1%**

Source: SPI Research, February 2022

Knowledge Management Process Effectiveness

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

SPI Research asked benchmark respondents their opinion of the effectiveness of their knowledge management processes, with a rating of 1 for poor to 5 for excellent (Table 248). Knowledge management has become a critical component of service execution. Best practices and other quality-driven initiatives are built-in into project delivery. Assuring the right information is available to 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 248: Impact – Effectiveness of knowledge management processes

Effectiveness of knowledge management processes	Survey %	Project duration (man-month)	Std. del. method. used	On-time proj. delivery	Project margin	Ann. rev./ consult. (k)
1 – poor	1.4%	16.2	54.0%	71.3%	27.3%	$150
2	14.6%	22.6	57.7%	76.0%	35.4%	$219
3	34.3%	28.8	70.3%	78.5%	37.9%	$202
4	39.2%	30.1	71.8%	83.0%	35.7%	$202
5 – great	10.5%	38.8	76.1%	85.4%	39.3%	$208
Total/Average	**100.0%**	**29.3**	**69.4%**	**80.5%**	**36.7%**	**$205**

Source: SPI Research, February 2022

Table 249: Year-over-year Change in Effectiveness of knowledge management processes

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.43	3.28	3.49	3.46	3.24	3.46
2021	3.43	3.39	3.44	3.46	3.42	3.10
Change	**0%**	**3%**	**-1%**	**0%**	**6%**	**-11%**

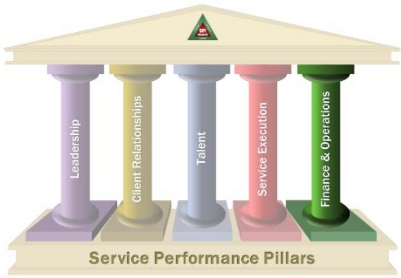
Source: SPI Research, February 2022

Table 250: Year-over-year Market Change in Effectiveness of knowledge management processes

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.42	3.58	3.14	3.40	3.69	3.45
2021	3.38	3.51	3.10	3.64	3.58	3.52
Change	**-1%**	**-2%**	**-1%**	**7%**	**-3%**	**2%**

Source: SPI Research, February 2022

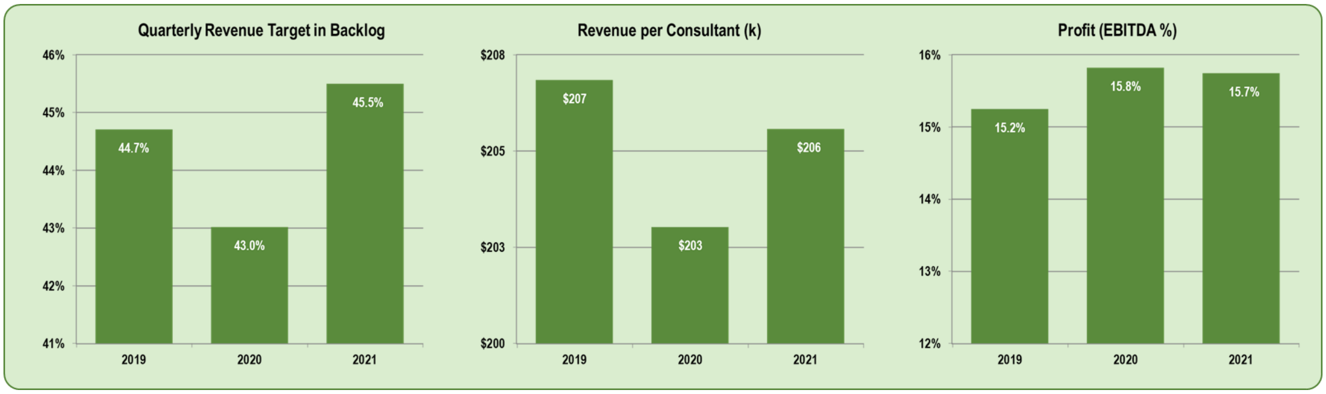
Chapter 9 – Finance and Operations Pillar



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

As shown in Figure 45, the market saw strong PS demand across all verticals, mirroring the strongest US GDP growth since 1984. After the turbulent, pandemic-driven year of 2020, PS firms reported their highest ever achievement of their revenue and margin targets with 73% of 540 firms reporting better than 90% achievement of their annual 2021 revenue targets. Financial hygiene metrics like DSO (Days Sales Outstanding); revenue leakage; non-billable expense per consultant and % of invoices which had to be redone all improved with the move to virtual operations and increased investment in integrated business solutions. All in all, 2021 was a very good year in PS and although rising inflation and on-boing Covid concerns have caused a bit of turbulence, 2022 should bring continued prosperity.

Figure 45: Finance and Operations Trends of Note



Source: SPI Research, February 2022

Finance and Operations Maturity

The COVID-19 pandemic has proven to be a game changer. It has forced PSOs to accelerate their own digital transformation efforts while turbocharging client demand for services. Now more than half of the consulting workforce works 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 46 highlights how important it is for PSOs to improve operational maturity. All of the work done to plan, sell, hire and deliver services won't count if the firm does not achieve its financial goals. Despite rising labor costs, there has been a dramatic reduction in facility and business travel expense which has gone directly to the bottom line. Each year SPI finds a remarkable profitability disparity between top and bottom performers with each element of the business producing a compounding effect.

Figure 46: Finance and Operations Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Annual revenue per billable consultant (k)	$84	$150	$208	$253	$276
Annual revenue per employee (k)	$72	$109	$169	$204	$245
Quarterly revenue target in backlog	28.3%	36.3%	45.2%	51.9%	62.4%
Percent of annual revenue target achieved	74.3%	89.3%	95.9%	102.2%	108.4%
Percent of annual margin target achieved	74.3%	83.1%	91.8%	98.6%	107.7%
Revenue leakage	5.7%	4.5%	4.3%	3.4%	5.1%
Percent of invoices redone due to error/client reject.	3.4%	1.8%	1.9%	1.9%	2.0%
Days sales outstanding (DSO)	53.1	43.2	43.7	42.3	44.1
Quarterly non-billable expense per employee	$2,143	$1,320	$1,204	$1,150	$1,777
Executive real-time wide visibility	2.86	3.54	3.72	3.82	4.11
Direct labor / revenue	82.0%	55.8%	52.9%	50.6%	42.1%
Profit (EBITDA %)	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

5-Year Finance and Operations Trends

In 2021, 18 months into the pandemic, the finance and operations side of the PS business held up remarkably well. After the lockdowns and project shutdowns of 2020, there was strong pent-up demand for consulting services. Organizations were more adept at planning and re-budgeting in 2021 resulting in 96.2% achievement of revenue targets and 92.1% achievement of margin targets – these are the best figures ever reported – significantly beating the five-year average of 93.7% and 90.4%.

Table 251 shows moderately better 2021 performance when compared to the five-year average. CFOs were pleasantly surprised at the enormous cost savings from not having to operate facilities, host meetings or pay for travel. They reinvested those savings into training and skill building for their employees while also shoring up their own finance and operations systems.

In 2021 average net profit dipped slightly to 15.7%. Annual revenue per consultant increased slightly $206k. The PS market performed much better than expected. In many ways, 2020 allowed organizations to take a break from meteoric double-digit growth to hunker down and fix the basics, positioning the PS industry well for 2022 and the future.

Table 251: Finance and Operations Pillar 5-year Trend

Key Performance Indicator (KPI)	5 Year Avg.	2017	2018	2019	2020	2021
Annual revenue per billable consultant (k)	**$204**	$195	$206	$207	$203	$206
Annual revenue per employee (k)	**$165**	$159	$166	$170	$165	$165
Quarterly revenue target in backlog	**44.8%**	46.2%	44.7%	44.7%	43.0%	45.5%
Percent of annual revenue target achieved	**93.7%**	93.0%	93.8%	93.6%	92.1%	96.2%
Percent of annual margin target achieved	**90.4%**	89.1%	90.3%	89.7%	90.3%	92.1%
Revenue leakage	**4.34%**	4.39%	4.29%	4.54%	4.26%	4.23%
% of inv. redone due to error/client rejections	**2.1%**	2.2%	2.3%	2.5%	1.8%	1.9%
Days sales outstanding (DSO)	**45.1**	48.2	46.3	45.8	41.9	43.5
Quarterly non-billable expense per employee	**$1,521**	$1,615	$1,606	$1,718	$1,390	$1,290
Executive real-time wide visibility	**3.60**	3.66	3.56	3.52	3.60	3.67
Profit (EBITDA %)	**16.5%**	**16.8%**	**18.5%**	**15.2%**	**15.8%**	**15.7%**

Source: SPI Research, February 2022

Survey Results

Table 252 compares the 2021 results to those of 2020. It also shows overall performance by organization type and headquarters region. Perhaps the most notable change from 2020 is that firms did a better job of planning and executing to move closer to achieving both revenue and margin targets. Both the EMEA and APac regions were more profitable than the Americas, which rarely happens.

Table 252: Finance and Operations Pillar Results by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2020	2021	ESO	PSO	Amer.	EMEA	APac
Annual revenue per billable consultant (k)	$203	$206	$205	$206	$210	$185	$211
Annual revenue per employee (k)	$165	$165	$161	$166	$167	$150	$169
Quarterly revenue target in backlog	43.0%	45.5%	50.3%	43.8%	45.8%	48.3%	33.3%
Percent of annual revenue target achieved	92.1%	96.2%	98.5%	95.4%	96.0%	98.0%	93.8%
Percent of annual margin target achieved	90.3%	92.1%	92.0%	92.1%	91.9%	93.6%	90.5%
Revenue leakage	4.26%	4.23%	4.84%	4.02%	4.28%	4.44%	2.79%
% of inv. redone due to error/client rejections	1.8%	1.9%	1.8%	1.9%	1.9%	2.0%	1.4%
Days sales outstanding (DSO)	41.9	43.5	41.2	44.3	44.2	44.2	32.3
Quarterly non-billable expense per employee	$1,390	$1,290	$1,055	$1,371	$1,245	$1,360	$1,675
Executive real-time wide visibility	3.60	3.67	3.63	3.69	3.67	3.59	3.94
Profit (EBITDA %)	**15.8%**	**15.7%**	**18.4%**	**14.8%**	**15.5%**	**16.8%**	**16.5%**

Source: SPI Research, February 2022

Table 253: Finance and Operations Pillar Results by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Annual revenue per billable consultant (k)	$191	$215	$210	$206	$208	$172
Annual revenue per employee (k)	$149	$167	$169	$168	$168	$150
Quarterly revenue target in backlog	30.2%	41.5%	50.4%	47.9%	50.7%	57.9%
Percent of annual revenue target achieved	91.1%	96.4%	97.1%	95.6%	99.8%	99.7%
Percent of annual margin target achieved	87.3%	94.4%	92.2%	91.0%	94.7%	95.6%
Revenue leakage	3.59%	4.23%	4.74%	3.92%	4.74%	3.47%
% of inv. redone due to error/client rejections	1.6%	1.6%	1.7%	2.2%	2.4%	2.6%
Days sales outstanding (DSO)	30.1	38.7	46.5	48.0	49.3	52.8
Quarterly non-billable expense per employee	$1,293	$1,146	$1,304	$1,462	$1,200	$1,171
Executive real-time wide visibility	3.90	3.81	3.67	3.52	3.55	3.47
Profit (EBITDA %)	**19.6%**	**15.4%**	**14.4%**	**16.8%**	**17.3%**	**12.1%**

Source: SPI Research, February 2022

Table 254: Finance and Operations Pillar Results by PS Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Annual revenue per billable consultant (k)	$211	$209	$191	$209	$175	$211
Annual revenue per employee (k)	$170	$174	$149	$161	$143	$150
Quarterly revenue target in backlog	50.3%	36.5%	51.9%	51.8%	44.0%	29.1%
Percent of annual revenue target achieved	97.8%	93.8%	99.3%	96.8%	94.1%	93.1%
Percent of annual margin target achieved	91.6%	92.4%	92.2%	89.8%	90.0%	95.0%
Revenue leakage	4.19%	3.11%	5.18%	4.89%	4.88%	4.85%
% of inv. redone due to error/client rejections	2.0%	1.5%	1.7%	1.9%	2.2%	2.3%
Days sales outstanding (DSO)	43.5	38.1	48.3	35.0	61.1	38.7
Quarterly non-billable expense per employee	$1,235	$1,597	$1,184	$1,014	$1,438	$1,056
Executive real-time wide visibility	3.73	3.76	3.65	3.42	3.38	3.90
Profit (EBITDA %)	**12.2%**	**13.0%**	**17.6%**	**22.2%**	**14.7%**	**25.7%**

Source: SPI Research, February 2022

Annual revenue per billable consultant

The annual revenue per billable consultant depicts the service organization's total revenue divided by the FTE (Full-time equivalent) billable consultants. Alternatively, this metric is derived by multiplying the consultant's average bill rate times billable hours.

Annual revenue per billable consultant depicts the service organization's total revenue divided by the FTE (Full-time equivalent) billable consultants. Alternatively, this metric is derived by multiplying the consultant's average bill rate times billable hours. Revenue per consultant provides an indication of consultant productivity; the likelihood the firm will be profitable is foretold by the labor multiplier. SPI Research considers revenue per billable consultant to be one of the most important KPIs, but it must be viewed in conjunction with labor cost. Revenue per billable consultant should minimally equal 1.5 times the fully loaded cost of the consultant. Headcount and capacity planning are typically based on expectations of a 2X revenue yield to consultant cost. Revenue multipliers of three and higher are typical for engineering and architecture firms while a labor multiplier greater than three is standard in management consulting and legal professional services. Billable consultant revenue yield is a strong predictor of PS profit. Average consultant annual revenue production grew from $203k in 2020 to $206k in 2021.

Table 255 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 255: Impact – Annual revenue per billable consultant

Annual revenue per billable consultant (k)	Survey %	On-time proj. delivery	Project margin	Ann. rev./ emp. (k)	% of ann. rev. target	EBITDA
Under $100k	10.2%	77.0%	33.0%	$50	89.4%	10.6%
$100k - $150k	13.6%	75.7%	33.5%	$103	92.3%	13.4%
$150k - $200k	24.7%	79.3%	35.7%	$141	95.6%	15.3%
$200k - $250k	22.6%	81.5%	38.1%	$181	97.9%	16.6%
$250k - $300k	15.7%	82.5%	41.2%	$228	97.7%	17.3%
Over $300k	13.3%	85.5%	40.0%	$257	99.5%	16.6%
Total/Average	**100.0%**	**80.4%**	**37.1%**	**$165**	**95.9%**	**15.3%**

Source: SPI Research, February 2022

Table 256 shows year-over-year trends for revenue per consultant. Revenue yields in APac grew 20%, and Advertising/PR also saw a significant rise in revenue per consultant.

Table 256: Year-over-year Change in Annual revenue per billable consultant (k)

	Total	ESO	PSO	Americas	EMEA	APac
2020	$203	$206	$202	$210	$179	$176
2021	$206	$205	$206	$210	$185	$211
Change	**1%**	**-1%**	**2%**	**0%**	**3%**	**20%**

Source: SPI Research, February 2022

Table 257: Year-over-year Market Change in Annual revenue per billable consultant (k)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	$211	$208	$190	$216	$188	$175
2021	$211	$209	$191	$209	$175	$211
Change	**0%**	**0%**	**1%**	**-3%**	**-7%**	**21%**

Source: SPI Research, February 2022

Annual overall revenue/person yield (for the entire PS organization)

The annual revenue per employee depicts the service organization's total revenue divided by the total FTE (Full-time equivalent) employees.

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

Table 258 shows just how important it is to increase revenue per employee. As this KPI rises, so do on-time delivery and profit. The higher the revenue per employee, the more apt the PSO is likely to achieve annual margin targets.

Table 258: Impact – Annual revenue per employee

Annual revenue per employee (k)	Survey %	% of emp. billable	On-time proj. delivery	Ann. rev./ consult. (k)	% of ann. margin target	EBITDA
Under $100k	16.9%	70.0%	77.3%	$96	83.8%	10.1%
$100k - $150k	26.5%	76.5%	77.7%	$168	90.5%	15.9%
$150k - $200k	27.1%	77.6%	80.2%	$218	94.0%	15.9%
$200k - $250k	19.0%	77.6%	83.7%	$272	94.9%	16.0%
$250k - $300k	5.2%	73.3%	85.8%	$292	97.4%	17.1%
Over $300k	5.2%	76.9%	89.4%	$350	100.3%	19.6%
Total/Average	**100.0%**	**75.8%**	**80.5%**	**$205**	**92.0%**	**15.2%**

Source: SPI Research, February 2022

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 259 shows revenue per employee increased significantly in APac and EMEA but declined in the Americas.

Table 259: Year-over-year Change in Annual revenue per employee (k)

	Total	ESO	PSO	Americas	EMEA	APac
2020	$165	$164	$166	$173	$140	$133
2021	$165	$161	$166	$167	$150	$169
Change	**-1%**	**-2%**	**0%**	**-3%**	**7%**	**27%**

Source: SPI Research, February 2022

Table 260: Year-over-year Market Change in Annual revenue per employee (k)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	$172	$172	$152	$166	$162	$153
2021	$170	$174	$149	$161	$143	$150
Change	**-1%**	**1%**	**-2%**	**-3%**	**-12%**	**-2%**

Source: SPI Research, February 2022

Percentage of the quarterly revenue target in backlog at the beginning of the quarter

Quarterly revenue backlog is the amount of already sold (booked) business in backlog (ready to execute) divided by forecasted quarterly revenue.

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

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 261 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 in a high reference rate.

Table 261: Impact – Quarterly revenue target in backlog

Quarterly revenue target in backlog	Survey %	New clients	Win-to-bid ratio	Deal pipeline	Client reference	Project duration (man-month)
Under 20%	22.3%	28.2%	4.85	165%	72.3%	25.7
20% - 40%	20.1%	22.9%	5.05	199%	72.2%	29.2
40% - 50%	12.7%	24.0%	4.99	171%	73.0%	33.1
50% - 60%	8.7%	30.3%	5.33	194%	75.9%	28.7
60% - 70%	14.9%	33.7%	5.62	214%	78.1%	30.6
Over 70%	21.4%	30.0%	5.61	206%	77.2%	32.0
Total/Average	**100.0%**	**28.0%**	**5.22**	**191%**	**74.6%**	**29.7**

Source: SPI Research, February 2022

Table 262: Year-over-year Change in Quarterly revenue target in backlog

	Total	ESO	PSO	Americas	EMEA	APac
2020	43.0%	45.4%	42.0%	42.7%	45.1%	42.1%
2021	45.5%	50.3%	43.8%	45.8%	48.3%	33.3%
Change	**6%**	**11%**	**4%**	**7%**	**7%**	**-21%**

Source: SPI Research, February 2022

Table 263: Year-over-year Market Change in Quarterly revenue target in backlog

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	44.9%	39.3%	47.2%	44.5%	45.4%	40.0%
2021	50.3%	36.5%	51.9%	51.8%	44.0%	29.1%
Change	**12%**	**-7%**	**10%**	**16%**	**-3%**	**-27%**

Source: SPI Research, February 2022

Percentage of annual revenue target achieved

The annual revenue target achieved is the percentage of the annual revenue goal that is attained. PSOs create detailed annual business plans; this figure shows how accurate they are in business planning, forecasting and execution.

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

This year the percentage of annual revenue target achieved was 96.2%. The five-year average is 93.7%. Independents achieved 95.4% of their target revenue, ESOs achieved 98.5%. Annual revenue target achievement rose in all major PS markets and regions in 2021, signaling excellent performance.

Table 264: Impact – Percent of annual revenue target achieved

Percent of annual revenue target achieved	Survey %	Revenue growth	New clients	Ann. rev./ consult. (k)	Backlog	EBITDA
Under 80%	10.4%	1.7%	24.7%	$175	34.5%	9.3%
80% - 90%	16.7%	5.7%	26.7%	$181	34.2%	10.5%
90% - 100%	34.3%	10.7%	26.9%	$207	47.3%	14.3%
100% - 110%	27.8%	11.1%	28.0%	$215	51.9%	19.1%
Over 110%	10.7%	25.1%	30.7%	$241	51.0%	21.2%
Total/Average	**100.0%**	**10.6%**	**27.4%**	**$205**	**45.4%**	**15.2%**

Source: SPI Research, February 2022

As Table 264 shows there is a direct correlation between achieving revenue targets and all other important metrics. There is a strong positive correlation between meeting annual revenue targets and profitability, assuming revenue and profit targets are set appropriately. SPI Research also found organizations who achieved their revenue targets had lower attrition rates, reflecting financial stability and the organization's ability to reward performance and reinvest in the business.

Table 265: Year-over-year Change in Percent of annual revenue target achieved

	Total	ESO	PSO	Americas	EMEA	APac
2020	92.1%	92.4%	92.0%	92.4%	92.5%	88.1%
2021	96.2%	98.5%	95.4%	96.0%	98.0%	93.8%
Change	**4%**	**7%**	**4%**	**4%**	**6%**	**6%**

Source: SPI Research, February 2022

Table 266: Year-over-year Market Change in Percent of annual revenue target achieved

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	92.2%	91.8%	91.0%	92.4%	92.1%	85.0%
2021	97.8%	93.8%	99.3%	96.8%	94.1%	93.1%
Change	**6%**	**2%**	**9%**	**5%**	**2%**	**9%**

Source: SPI Research, February 2022

Percentage of annual margin target achieved

The annual margin target achieved, like the annual revenue target achieved, is the percentage of the annual profit goal which was attained.

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

Perhaps one of the most important gauges of financial maturity is the ability to consistently achieve annual revenue and margin targets. The number of firms who achieve their margin target is always less than the percentage of firms who achieve their revenue targets. 29.3% of survey respondents achieved 100% or more of their annual margin target!

Table 267 shows a direct correlation between margin target attainment and the percentage of billable employees, annual revenue per consultant, backlog and profit. The percentage of annual margin target achieved was slightly higher in 2021 than in 2020, reflecting an improving economy and better visibility to the business.

Table 267: Impact – Percent of annual margin target achieved

Percent of annual margin target achieved	Survey %	% of emp. billable	Win-to-bid ratio	Ann. rev./ consult. (k)	Backlog	EBITDA
Under 80%	19.7%	74.0%	4.47	$173	42.5%	8.2%
80% - 90%	21.5%	74.0%	5.07	$191	36.1%	13.8%
90% - 100%	29.6%	74.3%	5.36	$218	47.2%	15.5%
100% - 110%	20.9%	78.4%	5.67	$222	50.3%	21.0%
Over 110%	8.4%	82.5%	5.91	$234	58.7%	19.5%
Total/Average	**100.0%**	**75.7%**	**5.24**	**$206**	**45.5%**	**15.2%**

Source: SPI Research, February 2022

Table 268: Year-over-year Change in Percent of annual margin target achieved

	Total	ESO	PSO	Americas	EMEA	APac
2020	90.3%	89.9%	90.5%	90.2%	92.8%	86.9%
2021	92.1%	92.0%	92.1%	91.9%	93.6%	90.5%
Change	**2%**	**2%**	**2%**	**2%**	**1%**	**4%**

Source: SPI Research, February 2022

Table 269: Year-over-year Market Change in Percent of annual margin target achieved

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	89.0%	91.8%	90.6%	88.8%	90.2%	84.4%
2021	91.6%	92.4%	92.2%	89.8%	90.0%	95.0%
Change	**3%**	**1%**	**2%**	**1%**	**0%**	**13%**

Source: SPI Research, February 2022

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

Average reported revenue leakage this year was the lowest it has been in 5 years at 4.23%. This year independents reported significantly more revenue leakage than embedded services organizations (4.02% versus 4.84%). By geography, EMEA reported the most revenue leakage.

Table 270: Impact – Revenue Leakage

Revenue leakage	Survey %	Std. del. method. used	On-time proj. delivery	Project overrun	Project margin	Exec real-time visibility
Under 2%	42.7%	69.0%	84.9%	5.4%	38.1%	3.83
2% - 5%	29.7%	70.4%	82.4%	8.0%	35.2%	3.72
5% - 10%	18.4%	69.3%	74.2%	10.8%	37.4%	3.59
Over 10%	9.2%	63.5%	66.9%	15.7%	35.8%	3.19
Total/Average	**100.0%**	**69.0%**	**80.5%**	**8.1%**	**36.9%**	**3.70**

Source: SPI Research, February 2022

Table 271: Year-over-year Change in Revenue leakage

	Total	ESO	PSO	Americas	EMEA	APac
2020	4.3%	4.8%	4.0%	4.4%	3.9%	3.1%
2021	4.2%	4.8%	4.0%	4.3%	4.4%	2.8%
Change	**1%**	**-1%**	**0%**	**3%**	**-11%**	**11%**

Source: SPI Research, February 2022

Table 272: Year-over-year Market Change in Revenue leakage

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	4.0%	3.1%	4.6%	5.3%	5.7%	3.6%
2021	4.2%	3.1%	5.2%	4.9%	4.9%	4.9%
Change	**-4%**	**0%**	**-11%**	**8%**	**17%**	**-27%**

Source: SPI Research, February 2022

Percentage of invoices that must be redone due to errors or client rejection

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

Table 273 shows 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 273: Impact – Percentage of inv. redone due to error/client rejections

% of inv. redone due to error/client rejections	Survey %	Client reference	Employee attrition	Project duration (man-month)	Project overrun	Exec o visibility
None	14.8%	75.4%	9.4%	18.2	5.9%	3.60
Under 1%	39.9%	77.4%	14.6%	25.9	7.2%	3.81
1% - 3%	22.8%	73.0%	14.3%	31.3	6.7%	3.79
3% - 5%	15.1%	71.3%	15.4%	38.3	10.5%	3.58
5% - 10%	6.3%	71.0%	15.8%	41.5	15.8%	2.95
Over 10%	1.1%	77.5%	32.6%	59.4	21.9%	4.00
Total/Average	**100.0%**	**74.8%**	**14.2%**	**29.2**	**8.1%**	**3.69**

Source: SPI Research, February 2022

Table 274: Year-over-year Change in % of inv. redone due to error/client rejections

	Total	ESO	PSO	Americas	EMEA	APac
2020	1.8%	1.8%	1.8%	1.7%	2.2%	1.8%
2021	1.9%	1.8%	1.9%	1.9%	2.0%	1.4%
Change	**-6%**	**-4%**	**-6%**	**-11%**	**12%**	**28%**

Source: SPI Research, February 2022

Table 275: Year-over-year Market Change in % of inv. redone due to error/client rejections

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	2.0%	1.4%	1.9%	1.4%	2.5%	1.5%
2021	2.0%	1.5%	1.7%	1.9%	2.2%	2.3%
Change	**0%**	**-5%**	**9%**	**-27%**	**13%**	**-34%**

Source: SPI Research, February 2022

Days Sales Outstanding (DSO)

The average amount of time (in days) from when an invoice is generated util the payment is made.

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.

This year the average DSO went up top 43.5 days compared to 41.9 in 2020. Cash collection is extremely important for independents as they must fund operations from cashflow. Table 276 shows longer payment times correlate with longer projects and higher project overruns.

Table 276: Impact – Days sales outstanding (DSO)

Days sales outstanding (DSO)	Survey %	Project duration (man-months)	Std. del. method. used	Project overrun	Exec real-time visibility	EBITDA
Under 30 days	24.2%	21.5	71.8%	6.6%	3.96	19.2%
30 - 50 days	45.5%	26.3	70.8%	7.4%	3.70	16.0%
50 - 70 days	19.7%	34.4	64.1%	9.7%	3.39	12.7%
70 - 100 days	8.2%	42.5	55.4%	12.0%	3.38	10.6%
Over 100 days	2.4%	67.2	77.5%	13.1%	4.38	13.3%
Total/Average	**100.0%**	**29.1**	**68.6%**	**8.2%**	**3.69**	**15.6%**

Source: SPI Research, February 2022

Table 277: Year-over-year Change in Days sales outstanding (DSO)

	Total	ESO	PSO	Americas	EMEA	APac
2020	42	42	42	42	45	36
2021	44	41	44	44	44	32
Change	**-4%**	**2%**	**-6%**	**-6%**	**2%**	**13%**

Source: SPI Research, February 2022

Table 278: Year-over-year Market Change in Days sales outstanding (DSO)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	43	39	46	39	47	36
2021	43	38	48	35	61	39
Change	**-2%**	**1%**	**-6%**	**12%**	**-23%**	**-8%**

Source: SPI Research, February 2022

Quarterly non-billable discretionary expense per employee

All other non-billable expenses spent per employee (cell phones, non-billable travel, training)

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 declined to the lowest level ever reported at $1,290, $100 less than in 2020 and less than the 5-year average of $1,521. Excessive non-billable employee expense is usually a symptom of poor or ineffective business expense policies. It may also be a symptom of runaway business development costs with non-essential personnel wasting valuable time and money chasing non-qualified opportunities. Common causes of high non-billable discretionary spending are high business development and training expenses or employee expense misuse. Table 279 shows attrition rose and profits declined as the quarterly expenses rose, but headcount growth grew. The move to virtual operations has significantly reduced discretionary spending.

Table 279: Impact – Quarterly non-billable expense per employee

Quarterly non-billable expense per employee	Survey %	Headcount growth	Employee attrition	Billable util.	Project duration (man-month)	EBITDA
Under $1,500	75.7%	9.0%	14.0%	74.4%	27.1	16.0%
$1,500 - $2,500	16.7%	9.2%	13.6%	73.6%	25.4	14.2%
$2,500 - $5,000	5.3%	11.0%	16.4%	71.7%	58.7	18.2%
$5,000 - $7,500	1.2%	13.8%	15.3%	71.3%	60.8	15.5%
Over $7,500	1.2%	17.5%	24.9%	68.3%	69.5	9.5%
Total/Average	**100.0%**	**9.3%**	**14.2%**	**74.0%**	**29.3**	**15.7%**

Source: SPI Research, February 2022

Table 280: Year-over-year Change in Quarterly non-billable expense per employee

	Total	ESO	PSO	Americas	EMEA	APac
2020	$1,390	$1,222	$1,459	$1,401	$1,255	$1,554
2021	$1,290	$1,055	$1,371	$1,245	$1,360	$1,675
Change	**8%**	**16%**	**6%**	**12%**	**-8%**	**-7%**

Source: SPI Research, February 2022

Table 281: Year-over-year Market Change in Quarterly non-billable expense per employee

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	$1,410	$1,625	$1,283	$1,117	$1,240	$1,175
2021	$1,235	$1,597	$1,184	$1,014	$1,438	$1,056
Change	**14%**	**2%**	**8%**	**10%**	**-14%**	**11%**

Source: SPI Research, February 2022

PS executives have real-time visibility into all business activities

The ease at which executives can look across the entire PSO to assess operational information.

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

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

Real-time visibility is a very important key performance indicator. As Table 282 shows, organizations that have comprehensive visibility can make the decisions necessary to grow and achieve high levels of growth and project profitability. Visibility impacts performance across the organization and is a hallmark of firms with a strong, egalitarian culture who prize knowledge and decision-making at all levels, bringing decisions closer to clients and empowering employees.

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 282: Impact – in Executive real-time wide visibility

Executive real-time wide visibility	Survey %	Revenue growth	Backlog	Ann. rev./ consult. (k)	Ann. rev./ emp. (k)	Project margin
1 - None	4.0%	8.0%	35.0%	$165	$129	27.4%
2 - Minimal	12.4%	12.3%	41.5%	$193	$154	34.3%
3 - Some	24.0%	9.3%	49.0%	$201	$165	34.6%
4 - Substantial	31.6%	13.1%	45.6%	$215	$172	38.8%
5 - Comprehensive	28.0%	10.9%	44.6%	$211	$170	39.0%
Total/Average	**100.0%**	**11.3%**	**45.2%**	**$206**	**$166**	**36.8%**

Source: SPI Research, February 2022

Table 283: Year-over-year Change in Executive real-time wide visibility

	Total	ESO	PSO	Americas	EMEA	APac
2020	3.60	3.44	3.66	3.58	3.66	3.67
2021	3.67	3.63	3.69	3.67	3.59	3.94
Change	**2%**	**6%**	**1%**	**3%**	**-2%**	**8%**

Source: SPI Research, February 2022

Table 284: Year-over-year Market Change in Executive real-time wide visibility

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	3.77	3.80	3.44	3.38	3.74	3.56
2021	3.73	3.76	3.65	3.42	3.38	3.90
Change	**-1%**	**-1%**	**6%**	**1%**	**-10%**	**10%**

Source: SPI Research, February 2022

Professional Services Profit

Net profit or EBITDA is always the litmus test for aligning all elements of the business. Every element of PS operations has improved over the past 15 years. 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. In 2021, ESO profit declined while EMEA and APac achieved new heights.

Table 285: Year-over-year Change in Profit (EBITDA %)

	Total	ESO	PSO	Americas	EMEA	APac
2020	15.8%	20.8%	14.2%	16.9%	12.6%	11.6%
2021	15.7%	18.4%	14.8%	15.5%	16.8%	16.5%
Change	**0%**	**-11%**	**4%**	**-8%**	**33%**	**43%**

Source: SPI Research, February 2022

Table 286: Year-over-year Market Change in Profit (EBITDA %)

	IT Consult	Mgmt Consult	Soft PS	SaaS PS	Arch/Engr	Advert/PR
2020	13.4%	10.6%	23.4%	18.3%	15.8%	20.9%
2021	12.2%	13.0%	17.6%	22.2%	14.7%	25.7%
Change	**-9%**	**23%**	**-25%**	**22%**	**-7%**	**23%**

Source: SPI Research, February 2022

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.)

Δ ***General and Administrative***: non-billable headcount, general and administration costs, facilities, non-billable headcount and overhead.

In 2021, direct and indirect revenue increased slightly while pass through hardware and software revenue declined. Reimbursable travel and expense revenue increased significantly from the "no travel" bans of 2020.

Commensurate with lower pass-through revenues, pass through expense also declined as did non-billable travel. Surprisingly marketing and IT spending declined significantly. Marketing expense profited from fewer business meetings and conventions but the decrease in IT spending is surprising. Top performing organizations accelerated their IT expenditures and, reinvesting facility and business expense savings in replacing legacy business applications.

Sales and G&A expense rose primarily due to increased attrition in billable consulting staff which dampened revenues.

Table 287: Annual Income Statement Comparison

Income Statement Revenue & Expense	2020	2021	Delta
Benchmark Surveys	561	540	
REVENUE			
Direct gross PS revenue	82.3%	82.9%	0.7%
Indirect gross revenue (subcontractor)	11.3%	11.4%	0.9%
Pass-thru rev. (hardware, software, mat.)	5.1%	4.3%	-15.7%
Reimbursable Travel & Expense revenue	1.3%	1.4%	7.7%
Total Revenue	**100.0%**	**100.0%**	
EXPENSES			
Direct labor expense	42.7%	42.5%	-0.5%
Fringe benefit percentage of direct labor	6.7%	6.7%	0.0%
Subcontractor/outside consultant expense	9.1%	9.6%	5.5%
Pass-thru equipment expense	3.7%	2.6%	-29.7%
Billable travel and business expense	1.6%	1.8%	12.5%
Non-billable travel expense	1.5%	1.2%	-20.0%
Total recruiting expense	0.7%	0.7%	0.0%
Sales expense	4.1%	4.3%	4.9%
Marketing expense	1.7%	1.6%	-5.9%
Education/training/certification expense	0.9%	0.9%	0.0%
PS IT expense	2.0%	1.7%	-15.0%
All other G&A expense	9.6%	10.6%	10.4%
Total Expense	**84.2%**	**84.3%**	**0.1%**
EBITDA	**15.8%**	**15.7%**	**-0.6%**

Source: SPI Research, February 2022

As the economy comes out of the pandemic, CFOs should carefully review which costs are really essential to grow revenues and which ones can be cut without impacting the business. Hopefully organizations will evaluate the many positive benefits from allowing employees to work from home – think of the long-term positive impact on the climate if business travel and work commutes are permanently reduced!

Table 288 provides income statement comparison for embedded versus independents as well as by geography. Sources of revenue for independents and ESOs were very similar this year but independents derived slightly less revenue from subcontractors, reimbursable travel and pass-through hardware and software.

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

Table 288: Income Statement by Organization Type and Embedded Service Type

Key performance indicator (KPI)	Survey	ESO	PSO	Americas	EMEA	APac
Surveys	540	148	392	406	102	32
REVENUE						
Direct gross PS revenue	82.9%	81.1%	83.5%	83.1%	84.2%	77.2%
Indirect gross revenue (subcontractor)	11.4%	11.5%	11.3%	11.3%	11.5%	12.2%
Pass-thru rev. (hardware, software, mat.)	4.3%	6.4%	3.5%	4.3%	2.4%	8.8%
Reimbursable Travel & Expense revenue	1.4%	1.0%	1.6%	1.3%	1.8%	1.7%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES						
Direct labor expense	42.5%	45.3%	41.5%	41.8%	46.3%	42.0%
Fringe benefit percentage of direct labor	6.7%	8.4%	6.1%	7.2%	5.5%	3.8%
Subcontractor/outside consultant expense	9.6%	9.2%	9.7%	10.3%	7.7%	6.6%
Pass-thru equipment expense	2.6%	3.5%	2.3%	2.2%	2.5%	7.2%
Billable travel and business expense	1.8%	1.5%	1.9%	1.5%	3.1%	1.9%
Non-billable travel expense	1.2%	0.9%	1.3%	1.2%	1.2%	0.4%
Total recruiting expense	0.7%	0.6%	0.7%	0.7%	0.8%	0.7%
Sales expense	4.3%	3.3%	4.7%	4.1%	3.6%	7.9%
Marketing expense	1.6%	1.0%	1.8%	1.6%	1.8%	1.4%
Education/training/certification expense	0.9%	1.1%	0.9%	0.9%	1.1%	1.0%
PS IT expense	1.7%	1.4%	1.8%	1.8%	1.2%	1.7%
All other G&A expense	10.6%	5.4%	12.5%	11.1%	8.5%	9.0%
Total Expenses	**84.3%**	**81.6%**	**85.2%**	**84.5%**	**83.2%**	**83.5%**
2021 EBITDA	**15.7%**	**18.4%**	**14.8%**	**15.5%**	**16.8%**	**16.5%**
2020 EBITDA Comparison	**15.8%**	**20.8%**	**14.2%**	**16.9%**	**12.6%**	**11.6%**

Source: SPI Research, February 2022

Table 289 provides analysis of income statements by organization size. Net profit improved for all size organizations except those with 31 to 100 employees. These size organizations spent more on subcontractors but were not able to make good margins on them. Smaller organizations spent relatively more on sales and marketing than their larger counterparts.

Table 289: Income Statement by Organization Size

Key performance indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	87	101	156	116	46	34
REVENUE						
Direct gross PS revenue	84.9%	82.1%	83.0%	82.6%	81.1%	88.2%
Indirect gross revenue (subs.)	10.7%	11.1%	12.1%	10.1%	14.5%	9.5%
Pass-thru rev. (hw, sw, mat.)	3.0%	5.6%	3.0%	6.0%	3.4%	1.5%
Reimbursable Travel & Expense	1.4%	1.2%	1.9%	1.3%	1.0%	0.8%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES						
Direct labor expense	45.9%	43.8%	41.9%	40.7%	40.8%	50.4%
Fringe benefit % of direct labor	7.9%	6.3%	7.3%	6.1%	6.3%	6.6%
Subcontractor/outside consultant	7.4%	10.5%	11.1%	7.6%	11.3%	5.7%
Pass-thru equipment expense	1.1%	3.5%	1.9%	3.4%	2.9%	0.6%
Billable travel and business	2.3%	1.6%	1.4%	2.0%	2.2%	2.4%
Non-billable travel expense	1.7%	1.0%	0.6%	1.1%	2.3%	3.8%
Total recruiting expense	0.4%	0.6%	0.7%	0.8%	0.7%	0.9%
Sales expense	1.9%	4.1%	5.2%	4.7%	3.6%	1.3%
Marketing expense	2.4%	1.8%	1.6%	1.4%	1.4%	1.0%
Education/training/certification	2.1%	0.7%	0.9%	0.9%	1.0%	1.1%
PS IT expense	1.7%	1.7%	1.4%	1.9%	2.1%	1.5%
All other G&A expense	5.7%	8.9%	11.6%	12.6%	8.2%	12.6%
Total Expenses	**80.4%**	**84.6%**	**85.6%**	**83.2%**	**82.7%**	**87.9%**
2021 EBITDA	**19.6%**	**15.4%**	**14.4%**	**16.8%**	**17.3%**	**12.1%**
2020 EBITDA Comparison	**19.3%**	**17.6%**	**11.5%**	**16.8%**	**23.7%**	**16.3%**

Source: SPI Research, February 2022

In this year's survey, SPI Research received profitability metrics from most of the vertical markets (*only markets with sufficient income statement data are shown*). This year we received significantly more completed surveys from architects and engineers. With economic improvement, this sector has seen profit improvement year-over-year as well as revenue growth however architects again reported the highest level of G&A overhead spending in the benchmark at 22.2% of total revenue.

Table 290 shows income statement comparison for the six primary verticals represented in this benchmark. Management consultancies, SaaS ESOs and Marketing and Advertising agencies had a very good year from a net profit point of view. Management consultancies and SaaS ESOs have high direct labor costs as they must pay a premium for the unique skills their clients require. Software and SaaS ESOs spend the most on training, architects the least.

Table 290: Income Statement by PS Market

Key performance indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Surveys	133	102	58	56	41	29
REVENUE						
Direct gross PS revenue	77.4%	86.6%	78.7%	87.6%	85.9%	85.7%
Indirect gross revenue (subs.)	15.2%	11.5%	15.0%	5.6%	9.8%	5.4%
Pass-thru rev. (hw, sw, mat.)	6.4%	0.8%	5.1%	6.0%	1.6%	6.8%
Reimbursable Travel & Expense	1.1%	1.0%	1.2%	0.7%	2.7%	2.2%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**		**100.0%**
EXPENSES						
Direct labor expense	41.5%	44.4%	43.2%	52.6%	32.3%	43.0%
Fringe benefit % of direct labor	5.4%	6.4%	8.7%	9.2%	6.9%	6.7%
Subcontractor/outside consultant	11.6%	9.6%	10.4%	4.9%	9.1%	6.8%
Pass-thru equipment expense	3.7%	0.4%	3.0%	2.3%	1.8%	3.5%
Billable travel and business	0.9%	2.4%	1.8%	0.8%	2.4%	1.7%
Non-billable travel expense	1.1%	1.5%	1.2%	0.4%	1.5%	1.3%
Total recruiting expense	0.9%	1.0%	0.3%	1.1%	0.4%	0.2%
Sales expense	6.2%	3.4%	4.1%	0.7%	4.0%	3.6%
Marketing expense	1.7%	2.2%	1.0%	0.5%	1.7%	0.9%
Education/training/certification	1.0%	1.0%	1.2%	1.3%	0.5%	0.9%
PS IT expense	1.8%	1.9%	1.7%	1.3%	2.5%	1.1%
All other G&A expense	12.0%	12.8%	5.8%	2.6%	22.2%	4.6%
Total Expenses	**87.8%**	**87.0%**	**82.4%**	**77.8%**	**85.3%**	**74.3%**
2021 EBITDA	**12.2%**	**13.0%**	**17.6%**	**22.2%**	**14.7%**	**25.7%**
2020 EBITDA Comparison	**13.4%**	**10.6%**	**23.4%**	**18.3%**	**15.8%**	**20.9%**

Source: SPI Research, February 2022

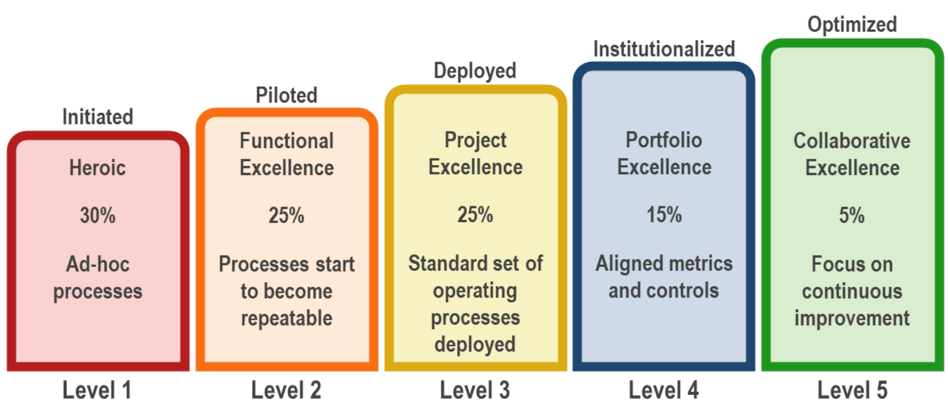
Chapter 10 – 2022 PS Maturity™ Model Results

SPI Research has spent over 15 years developing and improving the Professional Services Maturity™ Model. Over 35,000 billable professional services organizations use the model to benchmark and improve organizational performance. With over 6,000 participating billable services organizations (over 2,500 during the past five years), SPI Research has further refined the model to improve its accuracy.

540 firms participated from September through November of 2021 representing over 160,000 consultants worldwide, continuing to make this the most comprehensive study of the global PS industry. While most the participating organizations are headquartered in North America, the firms surveyed have employees distributed globally, and SPI Research believes it to be an accurate representation of the global PS industry. SPI Research clients continue to use the model to develop, prioritize and implement performance gains.

In this chapter, SPI Research reveals the analytic basis of the model and gives insight into our survey techniques. For this year's model, SPI Research used the current database of the 540 firms surveyed in late 2021.

Figure 47: Professional Services Maturity Model™ Levels



Source: SPI Research, February 2022

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 47):

- 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, which SPI Research felt did not help PSOs improve performance.

Model Inputs

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

- ***Factor***: Respondent's unique answers to the given question. Some questions are answered within a range to reduce the time to complete the survey.
- ***Weight***: The relative value of the question as compared to others. Questions were weighted from 0.0 to 1.0 depending on the overall importance of the question. Questions with a weight of 1.0 are the most important in determining organizational maturity.
- ***Pillar Correlation***: SPI Research incorporates a correlation coefficient for each question to all pillars, reflecting the inter-relationship that exists between different functions and key

performance metrics within PSOs. Correlations range from -1.0 to 1.0 depending on the KPI's negative or positive impact on performance.

- ***Maximum Score***: The maximum score for each question is determined by multiplying the normalized value of the question by its weight. Scores are normalized on a scale from 1 to 100 and then assigned a Maturity Level based on a score from 1 to 5.

The minimum scores for each Pillar are summarized in Table 291. 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 2021 report in most pillars as SPI Research annually adjusts scores based on economic conditions and the feedback received over the past year.

Table 291: Minimum Normalized Performance Pillar Scores

Pillar	Level 1	Level 2	Level 3	Level 4	Level 5	Maximum
Leadership (LE)	0.0	44.9	59.1	69.0	77.8	100.0
Client Relationships (CR)	0.0	26.9	42.0	54.0	65.5	100.0
Talent (TA)	0.0	28.6	45.6	57.5	67.3	100.0
Service Execution (SE)	0.0	23.0	41.6	56.7	69.9	100.0
Finance and Operations (FO)	0.0	21.9	40.3	54.0	64.5	100.0

Source: SPI Research, February 2022

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

SPI Research works with services organizations to improve performance in each Pillar. The analysis highlights how the firm scored relative to its peers (for example, management consultancies with between 100 and 300 employees) and the overall survey. This graphical display highlights areas where the organization performs poorly and where additional attention should be paid to produce improvements. SPI Research recommend firms look first at the areas performing poorly (**red**), as opposed to further improving areas where it already does well (**green**). Figure 48 highlights one such example.

Figure 48: Increase performance by focusing on low-performing KPIs

Organizational Demographics	Consulting Rus	Mgmt. Consult.	IT Consult.	Survey Average
Year-over-year change in PS revenue	-10% - 0%	5.9%	12.9%	10.6%
Total annual number of active closed clients	20	42	345	729
Bid-to-win ratio (per 10 bids)	3 - 4 wins	4.52	5.95	5.17
Deal pipeline / quarterly bookings forecast	Less than forecast	1.39	2.00	1.83
Sales cycle (days: qualified lead to contract signing)	60 - 90 days	77.6	83.4	88.9
Service discount given	10% - 20%	4.8%	6.5%	6.6%
Employee annual attrition - voluntary	None	5.6%	13.3%	9.8%
Employee annual attrition - involuntary	None	1.9%	5.3%	4.2%
Recommend company to friends/family	3	4.60	4.45	4.43
Time to recruit and hire for standard positions (days)	90 - 120 days	58.0	61.4	64.9
Employee billable utilization	Under 50%	70.5%	75.8%	73.2%
Projects delivered on-time	70% - 80%	86.5%	80.9%	80.2%
Project overrun	5% - 10%	5.1%	9.0%	8.1%
Annual revenue per billable consultant (k)	$150k - $200k	$197	$200	$206
Annual revenue per employee (k)	$150k - $200k	$165	$167	$165
Quarterly revenue target in backlog	Under 20%	30.3%	49.1%	45.5%
EBITDA	**-5.0%**	**15.6%**	**13.0%**	**15.7%**

Source: SPI Research, February 2022

Model Results

SPI Research analyzed each of the 540 participating firms to minimize any bias when comparing PSOs of different sizes. Table 292 shows most organizations in each size category have similar averages for each pillar.

Table 292: Average Service Maturity by PSO Type and Region

		Average Maturity Level					
Demographic	**Count**	**LE**	**CR**	**TA**	**SE**	**FO**	**Average**
2022	540	2.41	2.41	2.41	2.41	2.41	**2.41**
ESO	148	2.28	2.30	2.37	2.33	2.40	**2.34**
PSO	392	2.46	2.45	2.42	2.44	2.41	**2.43**
Americas	406	2.44	2.45	2.44	2.45	2.44	**2.44**
EMEA	102	2.25	2.23	2.26	2.23	2.28	**2.25**
APac	32	2.44	2.50	2.50	2.41	2.38	**2.44**
Total		**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2022

Table 293: Average Service Maturity by PSO Size (People)

		Average Maturity Level					
Organization Size (people)	Count	LE	CR	TA	SE	FO	Average
Under 10	87	2.30	1.94	2.00	2.09	2.02	**2.07**
10 – 30	101	2.66	2.67	2.56	2.51	2.56	**2.60**
31 – 100	156	2.38	2.41	2.44	2.40	2.45	**2.42**
101 – 300	116	2.46	2.62	2.56	2.58	2.52	**2.55**
301 – 700	46	2.26	2.37	2.52	2.52	2.52	**2.44**
Over 700	34	2.09	2.12	2.18	2.18	2.21	**2.15**
Total	**540**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2022

Overall, in this year's survey the smallest firms scored highest. The smaller firms scored highest in the Leadership pillar, as they can communicate much more efficiently than larger, global organizations. Smaller firms also scored higher in the Client Relationships pillar, fueling strong growth along the way. However, in Talent, smaller firms scored lower, as many lack the training, compensation and internal growth potential that tend to keep attrition low and employees happy.

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

Table 294: Average Service Maturity by PSO Type

		Average Maturity Level					
PSO Type	Count	LE	CR	TA	SE	FO	Average
Embedded	148	2.28	2.30	2.37	2.33	2.40	**2.34**
Independent	392	2.46	2.45	2.42	2.44	2.41	**2.43**
Total	**540**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2022

SPI Research analyzed the maturity of PSOs by type (embedded vs. independent), and the results are summarized in Table 294. This year's results show independents scored better in every performance pillar. In the past embedded organizations exhibited greater maturity in all five dimensions. Embedded PSOs are typically early adopters of business applications as they receive the benefit of sophisticated IT investments while independents tend to forego solution acquisition in favor of business development and marketing expenditures. However, in this year's survey the Independents operated at a higher overall level.

Table 295 shows the average level of maturity for each of the performance pillars by select vertical markets. IT consultancies, management consultancies and VARs scored the highest in at least one pillar. Accountancies and Government Contractors scored the lowest overall. Several of the markets where SPI Research did not have enough quantitative data showed lower results. However, it is difficult to analyze those markets when there are less than 20 surveys.

Table 295: Average Service Maturity by Market

		Average Maturity Level					
Market	**Count**	**LE**	**CR**	**TA**	**SE**	**FO**	**Average**
IT Consult	133	2.65	2.77	2.72	2.75	2.65	**2.71**
Mgmt. Consult	102	2.63	2.42	2.43	2.47	2.41	**2.47**
Software PS	58	2.07	2.19	2.24	2.40	2.38	**2.26**
SaaS PS	56	2.27	2.20	2.38	2.18	2.36	**2.28**
Arch./ Engr.	41	2.20	2.37	2.17	2.20	2.27	**2.24**
Advertising/PR	29	2.34	2.14	2.17	2.24	2.34	**2.25**
Acct	13	1.77	1.77	1.77	1.77	1.69	**1.75**
Healthcare	12	2.17	2.25	2.17	2.00	2.17	**2.15**
Govt. Contact	11	2.09	1.82	1.91	1.73	1.91	**1.89**
All Others	85	2.38	2.41	2.41	2.35	2.36	**2.38**
Total	**540**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2022

The Financial Benefits of Moving Up Levels

The PS Maturity Model™ was developed to demonstrate the importance of organizational improvement through the use of benchmarking. SPI Research believes that the importance of the maturity model is to help organizations improve ***balanced performance across the entire organization***, not just in terms of financial performance. However, if the organization is profit-motivated (which most are), increasing maturity levels do show up in significant bottom-line profit. Table 296 highlights some of the key performance indicators by maturity level and should alone be an important reason why PS executives should looker deeper into using it to accelerate both productivity and profit.

Table 296: Key Performance Indicators (KPIs) by Maturity Levels

Key performance indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Year-over-year change in PS revenue	**9.4%**	**9.6%**	**9.8%**	**13.5%**	**17.4%**
Year-over-year change in PS headcount	7.0%	7.8%	9.0%	13.4%	15.4%
Well understood vision, mission and strategy (5 pt.)	3.56	3.67	4.04	4.52	4.86
Confidence in PS leadership (5-pt. scale)	3.77	3.88	4.29	4.64	4.93
Deal pipeline relative to qtr. bookings forecast	110%	165%	189%	213%	265%

Key performance indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Win-to-bid ratio (per 10 bids)	2.90	4.21	5.54	6.41	7.54
Employee billable utilization	**57.3%**	**68.7%**	**76.8%**	**77.1%**	**83.2%**
Projects delivered on-time	65.0%	76.6%	80.3%	86.2%	89.6%
Average project overrun	14.4%	8.5%	8.3%	6.3%	6.3%
Annual revenue per billable employee (k)	$89	$150	$208	$253	$276
Annual revenue per employee (k)	$78	$108	$169	$204	$245
Project margin	15.4%	26.7%	37.9%	46.5%	55.1%
Percent of annual revenue target achieved	74.3%	89.3%	95.9%	102.2%	108.4%
Percent of annual margin target achieved	74.3%	83.1%	91.8%	98.6%	107.7%
EBITDA (Profit) %	**0.6%**	**6.3%**	**14.6%**	**19.9%**	**30.1%**

Source: SPI Research, February 2022

This table shows some of the benefits in moving up levels. Virtually every one of the 144 KPIs improve as firms move up from one level to the next. Most organizations SPI Research has worked with find that improving by one maturity level annually is about all they can do. While moving up even one level can be difficult, the model shows the investment is well worth it.

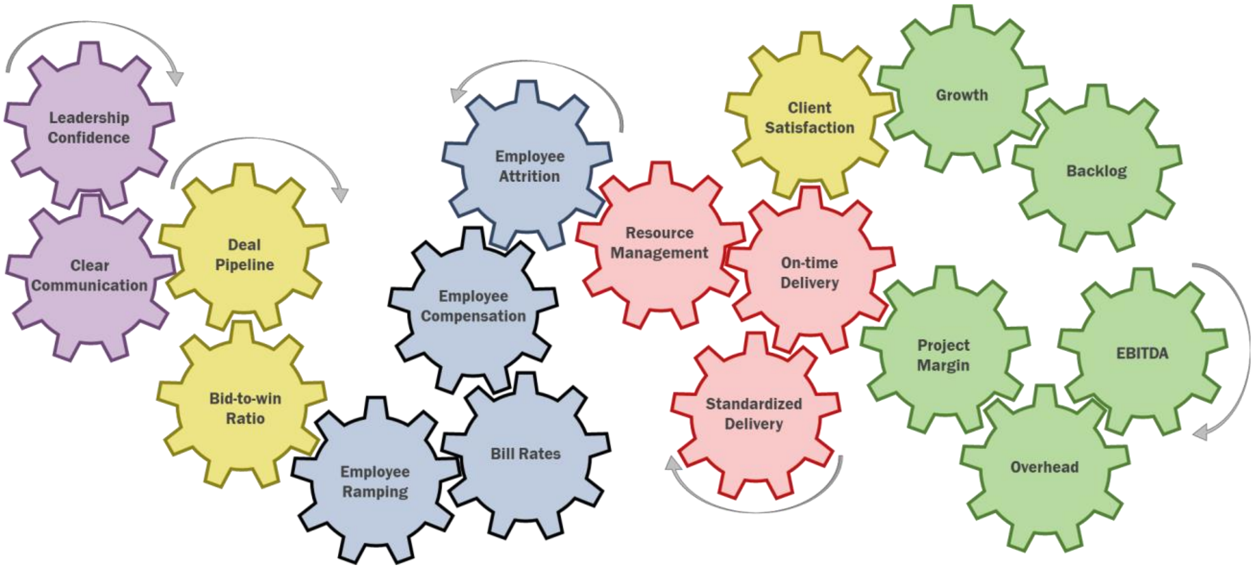
The Inter-relationship of Pillars

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

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

SPI Research took these interrelationships into account when building the Professional Services Maturity Model™ (Figure 49). 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 49: Key Performance Indicators (KPIs) are Correlated



Source: SPI Research, February 2022

Model Conclusions

In 15 years of building the Professional Services Maturity Model™ SPI Research has seen the correlation of KPIs vary from year-to-year, as the economy and competitive environment dictate how PS organizations operate. The model is an aggregate built for PSOs (both embedded and independent), different size organizations, as well as for the different vertical markets surveyed. Therefore, the results will have some type of "generic bias." PS executives who wish to have their organization compared directly to their peer group (i.e., IT Consultants with 100 to 300 employees) should contact SPI Research.

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

Chapter 11 – Conclusions and Recommendations

At the end of 2020 we thought it, at the end of 2021 we now know it, the world has changed – at least in the Professional Services market! This year's Professional Services Maturity™ Benchmark continued to show the changing world of work, as greater numbers of consultants work remotely and power has shifted to employees in terms of what they do, where they work, and how they are compensated. Going forward it will be interesting to see how employees evaluate the past two years with so little face-to-face contact with their clients, employers and peers.

Will it undermine company culture? Will it drive even more people to "the great resignation"? Only time will tell, and these issues add more stress to leaders who must groom and lead others through this changing world.

Where do we go from here?

2020 and 2021 were years of upheaval and change around the world. The US economy, which is still a key driver of the global economy, has started to recover. China's ongoing lockdown has disrupted supply chains but also given the rest of the world a bit of a breather. Europe appears to be recovering, albeit slowly, and other regions may have another year of sluggishness as COVID closures continue. Economists predict 2022 will be relatively strong as long as markets can surmount rising inflation and labor and supply chain shortages while continuing to battle Covid.

The professional services market, represented by diverse organizations responsible for research and development, the creation and implementation of strategic plans, the designs of global infrastructure, and the implementation of information technology, must be a leader in moving the global economy forward. These organizations are charged with "thinking out-of-the-box" to innovate and implement initiatives that will move the world beyond its current malaise.

To drive the global economy forward, PSOs must "double-down" their efforts to improve their own performance. SPI Research believes this benchmark is a good place to start, but it is only a starting point. To succeed (and improve maturity) PS executives must use this information to do a current state assessment while determining future improvement areas where they can achieve the greatest impact in the least amount of time. The benchmark serves as a roadmap and will be the first step in a long-term goal of reaching sustainable success.

SPI Research Recommends

After 15-years of surveying, and hundreds of PS Maturity™ assessment projects, we believe 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 a number of 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.
5. ***Measure:*** SPI firmly believes you only get 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. Needless to say, it is.

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 client's key challenges and provide the means for clients to buy the way they want to. New usage-based business models make it easier for buyers to buy but more complex for service providers to provide. Measurable business value and adoption are driving references and growth.
3. ***Talent***: your talent pool is your most critical asset, and continued understanding of how the workforce changes, and how they wish to be treated, from training to compensation to social programs, is critical to understand and cultivate a high-quality workforce.
4. ***Service Execution***: delivering services on time and on budget with sufficient margin fosters growth and profitability. Always keep an eye on project budgets to actuals, eliminating overruns before they spiral out of control. You can't have your best people on every project, there must

be a mix between higher-level skills and lower level and lower cost talent. Implementing standardized business processes and systems helps you better understand and track effort for the services delivered.

5. ***Finance 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 the 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 2022!

Jeanne Urich and Dave Hofferberth

Appendices

Appendix A: Acronyms Used in This Report

Table 297: Lexicon of Acronyms and Abbreviations

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

Source: SPI Research, February 2022

Appendix B: Financial Terminology

The following table contains a list of standard key performance measurement terms and definitions used in the benchmark report. The terms and definitions have been compiled from our knowledge and experience and a variety of sources including www.wikipedia.org 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 298: Standard Key Performance Indicator (KPI) Definitions

Term	Definition
70% utilization	~ 1,400 billable hours/year or 350 hours/quarter
Allocations	Corporate allocations refer to a company's policy of distributing the cost of shared resources, for example, facilities, healthcare, IT, Sales, General and Administrative (SG&A) costs to specific functions or departments.
Annual Billable Utilization %	Annual Billable Hours/(2080 hours – vacation and holidays) or Billable days/(260 days – 10 vacation – 10 holidays ~ 240 days)
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. 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. 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. 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 The total value of contract commitments yet to be executed: Total Backlog = Previous fiscal year's contracts not yet billed + Latest fiscal year's sales - Latest fiscal year's revenue
Bid Win Ratio	The ratio of successful bids (resulting in signed contracts) divided by the total number of bids or proposals issued. Bid Win ratio is a good measure of sales and marketing effectiveness because it demonstrates the organization is pursuing appropriate types of business and is able to beat its competitors.
Billings	Completed, accepted work that can been billed (T&M, Work in process, Milestone, Deliverables)
Bookings	Signed Contracts (signed PS Agreement + signed SOW + PO)
Burdened Cost	Typically employee burdened costs are the costs per employee for benefits (Healthcare, Pensions, 401K) and an apportioned cost for the employee's facility and IT usage + all discretionary expense. The difference between burdened cost and fully burdened cost is that fully burdened cost includes an allocation for corporate SG&A costs.

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. Days sales outstanding is calculated as: $= \frac{\text{Accounts Receivable}}{\text{Total Credit Sales}} \times \text{Number of Days}$ OR $= \left[\frac{\text{Accounts Receivable}}{\left(\frac{\text{Total Credit Sales}}{\text{Number of Days}} \right)} \right]$ DSO is a key performance measurement of the credit-worthiness of a company's clients; a general indicator for client satisfaction and the effectiveness of the billing and collection process. DSO is reported either quarterly or annually.
Depreciation	An expense recorded to allocate a tangible asset's cost over its useful life. Because depreciation is a non-cash expense, it increases free cash flow while decreasing reported earnings.
Direct Costs	Cost incurred as a direct consequence of producing a good or service, as opposed to overhead or indirect costs.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization. $\text{EBITDA} = \text{Revenue} - \text{Expenses (excluding tax, interest, depreciation and amortization)}$ EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back to it. EBITDA can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. However, this is a non-GAAP measure that allows a greater amount of discretion as to what is (and is not) included in the calculation. This also means that companies often change the items included in their EBITDA calculation from one reporting period to the next.
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.

Term	Definition
Gross Margin	**Gross Margin = (Total Services Revenue – Expense or Cost to Deliver the Services)** The gross profit generated per dollar of services delivered. A company's total sales revenue minus its cost of goods or services sold. This dollar amount represents the gross amount of money the company generated over the cost of producing its goods or services.
Gross Margin Percentage	Gross Margin % = (Total Services Revenue – Expense or Cost of Services Delivered) / Total Services Revenue Gross Margin %= Gross Margin / Revenue
Gross Profit Percentage	A company's total sales or service revenue minus cost of goods or services sold, divided by the total sales revenue, expressed as a percentage. Gross profit and gross margin are used interchangeably.
Income Statement or Profit and Loss Statement	A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year. The statement of profit and loss follows a general format that begins with an entry for revenue and subtracts from revenue the costs of running the business, including cost of goods sold, operating expenses, tax expense and interest expense. The bottom line is net income (profit).
Labor Burdened Cost	Labor Burdened Cost per Productive Hour (or Fully-burdened Cost) (Labor Burdened Cost + gross payroll labor cost) ÷ the number of actual work (productive) hours Number of actual productive hours ÷ the total additional cost of the employee = Employee labor burden cost per productive hour
Labor Multiplier	Labor multiplier = total $ amount of labor hours billed / fully loaded (burdened) labor cost Note: a labor multiplier of 1.0 indicates a breakeven point. Any usability cost-benefit analysis should value people's time based on their fully loaded cost and not simply on their take-home salary. The cost to a company of having a staff member work for an hour is not that person's hourly rate but also includes the cost of benefits, bonuses, vacation time, facility costs (office space, heating and cleaning, computers etc.), and the many other costs associated with having that person employed. The simplest way to derive the average loaded cost of an employee is to add up all corporate or division expenses and divide by the total number of productive hours worked. Commonly, the fully loaded cost of an employee is at least twice his or her salary. This is why consultants charge so much more than regular employees: their billable hours have to cover the many overhead costs that are implicit for full-time employees. In fact, looking at common consulting rates for the kind of staff you are dealing with is a shortcut for estimating the fully loaded value of your employees' time. EXAMPLE: base rate/hour (BR)= dollar per hour pay for the staff category OH multiplier (OHM) = firm's overhead (OH) percentage + 100% Profit multiplier (PM)= profit percentage + 100% **"loaded" rate/hour** = BR X OHM X PM Base rate/hour= $45.00 per hour overhead multiplier = 135% overhead + 100% = 235% = 2.35 Profit multiplier = 10% profit + 100% = 110% = 1.1 **"loaded" rate/hour =** $45.00 X 2.35 X 1.1
Lagging Indicators	**Investopedia explains** LAGGING INDICATORS Lagging indicators confirm long-term trends, but they do not predict them. Some examples are unemployment, corporate profits and labor cost per unit of output. Interest rates are another good lagging indicator as interest rates change after severe market changes. In services, billable utilization, revenue per person and net profits are lagging indicators because they reflect changes in market conditions after the change has already occurred.

Term	Definition
Leading Indicators	A measurable economic factor that changes before the economy starts to follow a particular pattern or trend. Leading indicators are used to predict changes in the economy, but are not always accurate. In services, leading indicators are backlog and sales pipeline because they are predictors of future revenue. **What Does the** COMPOSITE INDEX OF LEADING INDICATORS **Mean?** An index published monthly by the Conference Board used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy. These 10 components include: 1. The average weekly hours worked by manufacturing workers 2. The average number of initial applications for unemployment insurance 3. The amount of manufacturers' new orders for consumer goods and materials 4. The speed of delivery of new merchandise to vendors from suppliers 5. The amount of new orders for capital goods unrelated to defense 6. The amount of new building permits for residential buildings 7. The S&P 500 stock index 8. The inflation-adjusted monetary supply (M2) 9. The spread between long and short interest rates 10.Consumer sentiment
Loaded Cost per Person	Base + Fringe Benefits (~25%) + Target Variable Compensation + % Corporate and Practice Overhead allocation per person. Non-billable time (bench time) must be added to calculate the actual cost per hour of productive time.
Margin %	Margin % = (Revenue - Cost)/Revenue
Markup %	Markup % = (Revenue-Cost)/Cost For example, 60% markup = 40% margin
Measurement Utilization %	Billable Hours + Approved non-billable hours (pre-sales, Customer Satisfaction, Special Projects)/(2080 hours or 260 days - vacation and holidays)
Measurement Utilization	Measurement Utilization = (Billable Hours + Approved non-billable hours)/ (2080 hours – Vacations – Holidays) Approved non-billable hours are usually associated with presales, overtime not billed to clients, customer satisfaction resolution time, internal projects or skills training.
Net Income	A company's total earnings (or profit). Net income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. This number is found on a company's income statement and is an important measure of how profitable the company is over a period of time. The measure is also used to calculate earnings per share. Often referred to as "the bottom line" since net income is listed at the bottom of the income statement. Net income is calculated by starting with a company's total revenue. From this, the cost of sales, along with any other expenses that the company incurred during the period, is removed to reach earnings before tax. Tax is deducted from this amount to reach the net income number.
Non-billable Travel	Non-billable travel expense represents travel expense which cannot be re-billed to a client. Typically consulting non-billable travel is associated with business development or training activities.
On-Target Earnings (OTE)	The typical pay structure for a salesperson is composed of a fairly low basic salary with an additional amount of commission. The package will usually be called OTE or on-target earnings, meaning that if a salesperson hits the specified target, they will be guaranteed that amount of money. A higher commission can be paid if the person performs beyond this target.
Operating Income	Operating income would not include items such as investments in other firms, taxes or interest. In addition, nonrecurring items such as cash paid for a lawsuit settlement are often not included. Operating income is required to calculate operating margin, which describes a company's operating efficiency. **Operating Income = Gross Income – Operating Expenses – Depreciation**

Term	Definition
Operating Margin	Operating margin is a measurement of what proportion of a company's revenue is left over after paying for variable costs of service delivery such as wages and benefits. **Operating Margin = Operating Income / Net Sales** Operating Profit = (Total Service Revenue – Total cost of service delivery – Total Operating Expense)/ Total Service Revenue
Operating Profit / Margin	The amount of profit realized from a business's own operations. A ratio used to measure a company's pricing strategy and operating efficiency.
Overhead Costs	Usually, fixed costs - a business cost that is not directly accountable to a particular function or product; a fixed cost such as facilities. Costs incurred that cannot be attributed to the production of any particular unit of output. The general, fixed cost of running a business such as rent, lighting, and heating expenses, which cannot be charged or attributed to a specific product or part of the work operation.
Profit Margin = Return on Sales (ROS)	The percentage of every dollar of sales that makes it to the bottom line. Profit Margin is Net Income after Tax divided by Net Sales. A ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings.
Project Margin £$€	Project Revenue – Direct Cost of project service delivery
Revenue Estimate	Revenue Estimate = Billable headcount X Billable hours X Average Bill rate X Average Utilization Rate
Revenue	Revenue = Billings that can be recognized within the time period + Re-billable travel and expense The amount of money that a company actually bills during a specific period, including sales discounts.
Revenue per person	Actual Bill Rate * Billable Hours + re-billable travel and expense
Recurring Revenue	The best revenues are those that continue year in and year out, they are often referred to as "recurring" revenue. Examples of recurring revenues are multi-year maintenance contracts and multi-year Software as Service (SaaS) subscription revenues. Temporary revenue increases, such as those that might result from a short-term promotion, are less valuable and garner a lower price-to-earnings multiple for a company.
Run Rate	How the financial performance of a company would look if you were to extrapolate current results out over a specified period of time.
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 2022

Appendix C: PS Maturity™ Benchmark Survey Tool

2022 Professional Services Maturity™ Benchmark

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 2021

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

What percentage of your PS revenue comes from the following:

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

Information Technology

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

Section 3 — Performance Pillars - PS Organization only

Leadership

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

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

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

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

Client Relationships

54	Total annual number of active clients	

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

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

Error - total must add up to 100%

59	Primary target buyer for your services	
60	Size of deal pipeline in comparison to your quarterly bookings forecast	
61	Bid-to-Win ratio (per 10 bids)	
62	Length of sales cycle from qualified lead to contract signing	
63	Service discount given clients	
64	Rate the effectiveness of your solution development process (1 poor - 5 great)	
65	Rate your service sales effectiveness (1 poor - 5 great)	
66	Rate your service marketing effectiveness (1 poor - 5 great)	
67	Percentage of referenceable clients	
68	What is you overall Net Promoter Score?	
69	Describe your client satisfaction programs	
70	Describe the organization's service packaging efforts	
71	The number of full-time equivalent (FTE) employees dedicated to **service sales**	
72	Annual **service** sales revenue quota per person	
73	Average realized hourly bill rate	

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

74	Time & Materials	
75	Fixed time / fixed fee	
76	Shared risk / performance-based	
77	Subscription	
78	Managed Services	
79	Other	
	Total — Error - total must add up to 100%	0%

Talent

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

80	Under 30	
81	30 - 40	
82	40 - 50	
83	Over 50	
	Total **Error - total must add up to 100%**	0%

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

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

95	Vacation/personal/holiday	
96	Education/training	
97	Administrative	
98	Non-billable business development/sales support	
99	Non-billable project hours	
100	Billable hours on-site	
101	Billable hours off-site	
	(Hours do not have to add up to exactly 2,080) Total annual hours per consultant	0

Service Execution

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

Finance and Operations

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

2021 Professional Services Income Statement (in $Millions)

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

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

Please check your EBITDA

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

david.hofferberth@spiresearch.com

The information you supply will be kept strictly confidential

Appendix D: Related SPI Research

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

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

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

businesses evaluate and choose PSA applications, which will provide the level of insight, management and control needed to improve productivity and profitability.

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

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

About Service Performance Insight

R. David Hofferberth, PE, Service Performance Insight founder, managing director and licensed professional engineer has served as an industry analyst, market consultant and product director. He is focused on the services economy, especially productivity and technologies that help organizations perform at their highest capacity.

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Service Performance Insight (SPI Research) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 35,000 service and project-oriented organizations to chart their course to service excellence.

SPI provides a unique depth of operating experience combined with unsurpassed analytic capability. We not only diagnose areas for improvement but also provide the business value of change. We then work collaboratively with our clients to create new management processes to transform and ignite performance. Visit www.SPIresearch.com for more information on Service Performance Insight, LLC.