Service Performance Insight, LLC

2023 Professional Services Maturity™ Benchmark

Service Performance Insight, LLC

PROJECTOR By BIGTIME

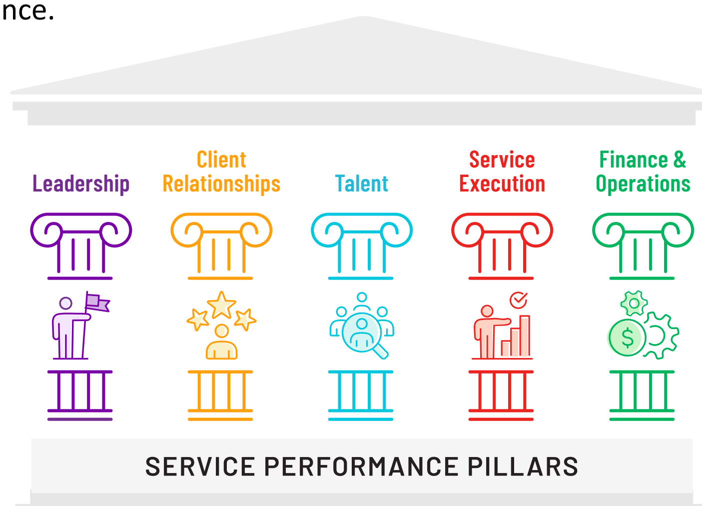
Service Performance Insight

ABOUT US

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



THE SPI ADVANTAGE – RESEARCH

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

THE SPI ADVANTAGE – CONSULTING

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

COMMENTS? To provide us with your feedback on this research, please send your comments to:
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For more information on Service Performance Insight, please visit:
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About the Professional Service Maturity Benchmark

The Professional Services Maturity Benchmark is designed to give professional service organizations (PSOs) a reliable basis to view their performance relative to a well-established benchmark of peers.

This benchmark provides visibility into critical business processes and key performance metrics. Organizations can easily compare their own performance against these findings to understand, analyze and improve business outcomes.

A hallmark of this benchmark is SPI Research's Professional Services Maturity Model, first introduced in 2008. Adopted by more than 35,000 organizations, the model has been enriched over time by their collective experience. The benchmark guides its users to locate their organization on this maturity model, providing prescriptive advice for formulating practical steps to advance to the next level.

This year, 709 firms completed the survey in the Fall of 2022. Their insight adds to that of 3,000 participant firms over the past five years. The combined insight gives SPI Research a rich database from which to analyze and trend.

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

- Software PS
- SaaS PS
- Hardware and Networking PS
- IT Consulting
- Management Consulting
- Accounting
- Marketing and Advertising
- Architects and Engineers
- Other PS

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

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

Introduction to the Professional Services Maturity Model

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

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

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

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

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

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

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

- **Level 1 — Initiated "Heroic":** The PSO is in an early stage, so operating processes are ad hoc and fluid. The business environment is opportunistic and primarily focused on new client acquisition and reference building. Employees wear many hats and perform multiple roles.
- **Level 2 — Piloted "Functional Excellence":** Core operating processes are repeatable but unenforced. The company may demonstrate best practices in some functional areas or geographies, but those practices are not documented or codified for the entire firm.
- **Level 3 — Deployed "Project Excellence":** The PSO has standard processes and operating principles for all major service performance pillars. However, renegades, holdouts, and outliers are tolerated where they persist.
- **Level 4 — Institutionalized "Portfolio Excellence":** Management uses precise measurements, metrics and controls to effectively manage the PSO. Each performance pillar is supported by a detailed set of operating principles, tools and measurements.
- **Level 5 — Optimized "Collaborative":** The PSO focuses on continual improvement of all elements of the five performance pillars. A disciplined, controlled process is in place to measure and optimize performance through both incremental and innovative technological improvements. Management has established both quantitative and qualitative process improvement objectives and continually revises them to reflect changing business targets.

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

Does Professional Services Maturity Matter?

SPI Research has spent the past 16 years benchmarking varying levels of operational control or "maturity" to determine the characteristics and behaviors that are appropriate for PSOs based on their organizational lifecycle stage. The primary questions SPI Research's Professional Services Maturity Model Benchmark addresses are:

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

The original concept behind SPI Research's Professional Services Maturity Model was to investigate the impact of increasing levels of standardization in operating processes and management controls on financial performance.

SPI Research's 2023 Professional Services Maturity Benchmark demonstrates that increasing levels of business process maturity do result in significant performance improvements. This quantifiable finding is based on in-depth surveys of 709 service organizations over the past year.

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 goals and measurements are aligned with the overall mission, and PSOs make investments in 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.

As the adjacent table shows, the payoff from investing in a program to assess current maturity and prioritize maturity improvements can be substantial. Based on the 2023 benchmark of 709 service organizations, 55% performed at financial maturity levels 1 and 2, 25% at level 3, and 20% performed at maturity levels 4 and 5. The 143 organizations at levels 4 and 5 significantly outperformed their peers by generating considerably higher amounts of revenue per billable consultant combined with higher project and subcontractor margins.

Table 1: Maturity Matters!

Key Performance Measurement	MATURITY LEVEL 1-2	MATURITY LEVEL 3	MATURITY LEVEL 4-5
Percentage of respondents	54.7%	25.1%	20.2%
Year-over-year change in PS revenue	6.3%	13.3%	17.1%
Deal pipeline / qtr. bookings forecast	122%	183%	220%
Employee billable utilization	67.1%	72.8%	75.7%
Projects delivered on time	70.7%	78.7%	83.4%
Annual revenue / billable consultant (k)	$131	$216	$270
Annual revenue / employee (k)	$102	$174	$224
PS Profitability (EBITDA)	**9.0%**	**16.1%**	**20.7%**

Report Organization

The report is organized by Service Performance Pillars and shows benchmark comparisons by type and size of organization for 151 key performance measurements. It provides maturity definitions and levels for most major business processes to demonstrate how each Service Performance Pillar can be optimized. The report offers prescriptive guidance to help organizations advance their business process maturity and improve bottom-line results. The purpose of the five performance pillars is to delineate core functional elements and related business processes while providing guidance on how PSOs can move forward.

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

The overall benchmark highlights industry averages. But every year, the mix in the types of professional services organizations change. Therefore, the best way to take advantage of this report is to look at individual market figures, as well as geographic region and organization size. From there, PS executives can determine exactly how well they are performing relative to their peers. SPI research offers services to help organizations score themselves and their performance improvement initiatives.

➨ Please contact SPI Research (david.hofferberth@spiresearch.com) if you are interested in learning more.

Chapter 1

Executive Summary

Executive Summary

Service Performance Insight, LLC (SPI Research) is proud to introduce the sixteenth annual Professional Services Maturity™ Benchmark (PSMB). Since its inception SPI has researched, benchmarked, and built a maturity model to give professional services executives:

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

In 2007, SPI Research developed the Professional Services Maturity Model™ as a strategic planning and management framework. The Professional Services Maturity Model helps executives compare and analyze their own performance so they can build consensus around the actions to take, where to start, and how to quantify the benefits of change. 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.

Analyzing the benchmark data by vertical market, geographic region and organization size gives PS executives an accurate basis of comparison to their peers and the market at large. Nearly 6,000 firms have completed SPI's benchmarking surveys over the past sixteen years (see "About the Professional Service Maturity Benchmark" for a description of the benchmark and the maturity model).

This year, a record number of respondents (709) completed the benchmark survey. With growth in the number of participants, data accuracy improves and enables us to expand coverage into more sub-verticals and geographies. This wealth of data means the depth, breadth and accuracy of the benchmark continues to grow.

2022 marked the beginning of a strong recovery for the professional service market. Growth and profitability have strengthened following the shockwave of 2020. PSOs are well positioned going forward. However, not all went well in 2022. Many of the KPIs associated with service delivery went down. If the past few years have taught us nothing else, it is that market forces shift rapidly and those PSOs that operate (perform) the best will also do the best at weathering future storms.

The Professional Services Market

According to the North American Industry Classification System (NAICS), in 2021 there were over 40 million people working for consulting firms based in the US. Many of those people work outside US borders. This number represents nearly an 80% increase over the past three years. Approximately 75% of those individuals are billable, making the professional services market extremely important in the United States as well as around the world.

Leading markets include:

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

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

Professional Services Performance Trends

The past five years saw a lot of change in the professional services market. 2018 and 2019 were years of growth and success in the market. Then came 2020, with COVID and a whole host of problems impacting the global market. 2021 was a rebound year as firms truly felt they were getting back to work, but a hangover effect from COVID lingered. 2021 saw positives in overall sales growth and profitability. But one might say PSOs worked harder in 2022, but not necessarily smarter. The fact that many performance metrics deteriorated, albeit in a minor way, serves as a warning bell to PS executives.

Table 2: Key Performance Metrics 5-Year Trends

Key Performance Indicator (KPI)	5-YEAR AVERAGE	2018	2019	2020	2021	2022
Number of firms surveyed	**589**	622	513	561	540	709
Year-over-year change in PS revenue	**10.0%**	9.7%	10.6%	8.7%	10.6%	10.4%
Deal pipeline relative to qtr. bookings forecast	**177%**	181%	181%	179%	183%	162%
Total attrition	**13.3%**	13.9%	13.2%	11.6%	14.0%	13.8%
Employee billable utilization	**71.3%**	69.7%	71.7%	71.4%	73.2%	70.7%
Onsite service delivery	**34.5%**	53.0%	47.5%	40.8%	33.9%	34.9%
Projects delivered on time	**78.3%**	76.9%	79.3%	79.7%	80.2%	76.2%
Project margin	**35.4%**	34.7%	35.4%	35.4%	36.5%	35.0%
Annual revenue per billable consultant (k)	**$205**	$206	$207	$203	$206	$204
Percentage of annual revenue target achieved	**93.6%**	93.8%	93.6%	92.1%	96.2%	92.7%
Percentage of annual margin target achieved	**90.2%**	90.3%	87.7%	90.3%	92.1%	88.8%
Profit (EBITDA %)	**16.3%**	18.5%	15.2%	15.8%	15.7%	16.1%

Source: SPI Research, February 2023

As shown in Table 2, many of the most important metrics went down in 2022, most notably deal pipelines, billable utilization, project margin, and achievement of both projected annual revenue and margin goals. Although attrition went down slightly, it is still above the five-year average. It's encouraging that profitability increased from 2021 to 2022, but this alone is not enough. The movement to remote service delivery appears to have stalled at around 66%, or two-thirds of all billable hours. This number may turn out to be the optimal level because it is important for consultants to spend ample face-to-face time with their clients. While Zoom and Microsoft Teams are necessary, a true handshake goes a long way in a people-based market, such as professional services.

Trends by Geographic Region

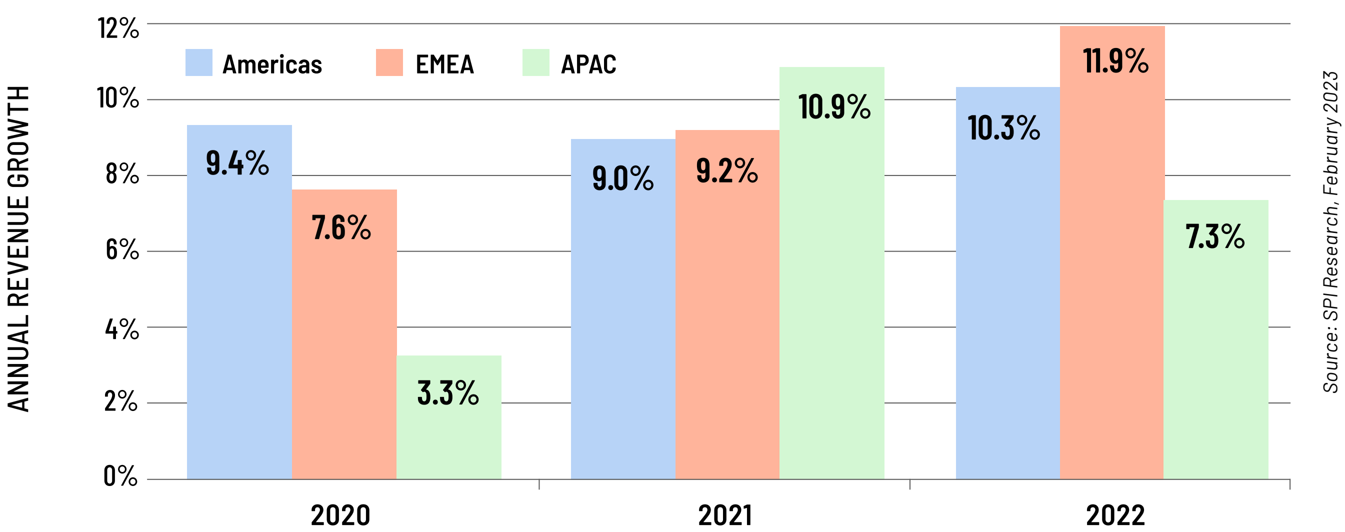
Overall market trends are interesting, but the devil is in the detail. It is important that PS executives have detailed information to understand where they are relative to their peers and where they should focus their improvement efforts. At a high level, they understand all regions of the world are not the same.

Revenue Growth by Geographic Region

Figure 1 shows that the annual revenue growth in Europe, the Middle East, and Africa (EMEA) increased for the past three years. This expansion bodes well for the regions as COVID knocked down many areas in the world and EMEA is now recovering strongly.

Likewise, the Americas are on the rebound from COVID, posting their highest annual revenue growth increase in a few years. The Asia Pacific (APAC) region, still battling COVID more than any other area of the world, had fairly stable growth after the lows and highs of 2020 and 2021. This figure shows where the work is being done, and SPI Research expects it to improve in 2023.

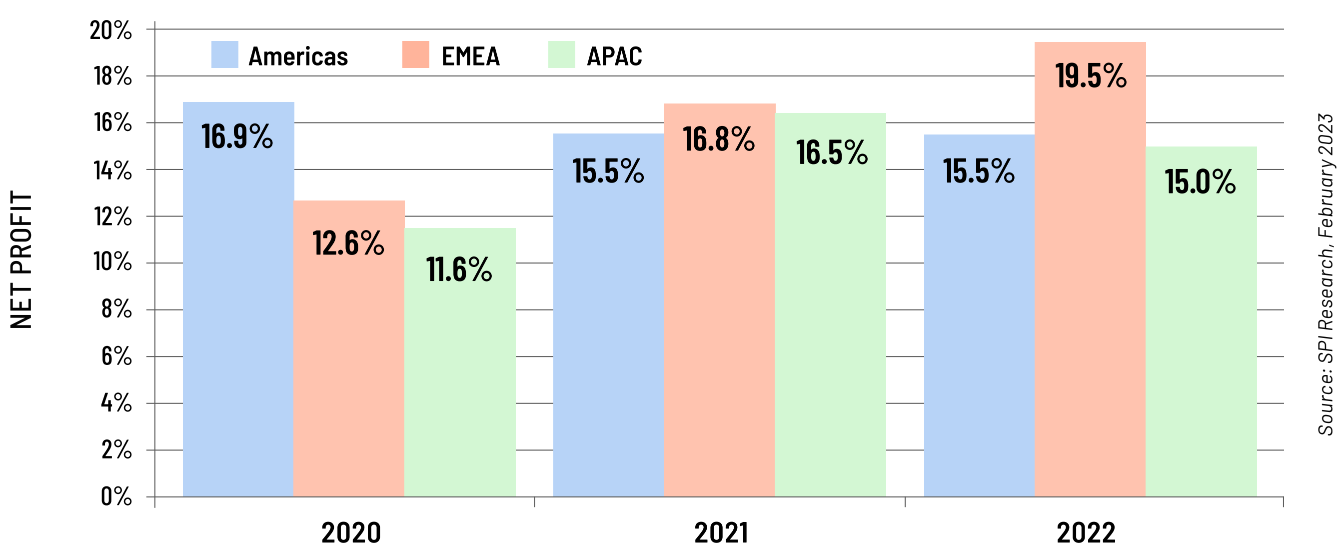
Figure 1: Revenue Growth Comparison by Geographic Region (2020 – 2022)



Profitability by Geographic Region

From an annual profitability standpoint, EMEA again had quite a year in 2022. The region saw profitability go up by over 50% from 2020 through last year. Europe is back in action. The Americas also showed stable profitability at 15.5% over the past two years (Figure 2). SPI Research has always set 15% profit as the baseline each year, and the study showed that each region attained at least that level. Profit can be used to invest in the future by adding more training, enhancing sales processes, and placing a greater emphasis on project delivery for PSOs in 2023.

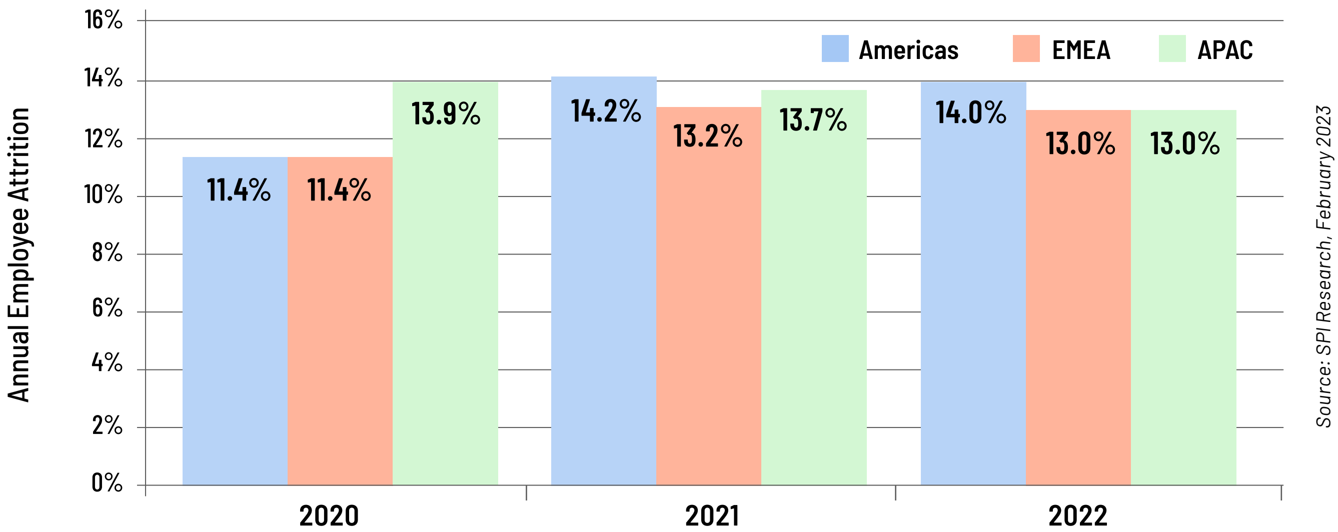
Figure 2: Net Profit Comparison by Geographic Region (2020 – 2022)



Attrition by Geographic Region

SPI Research expected employee attrition to rise post-COVID. It did so around the world but seems to have stayed flat for two years now. While employee attrition over 10% is not usually a positive rate, considering economic uncertainty and the events happening globally, under 15% is not all that bad (Figure 3).

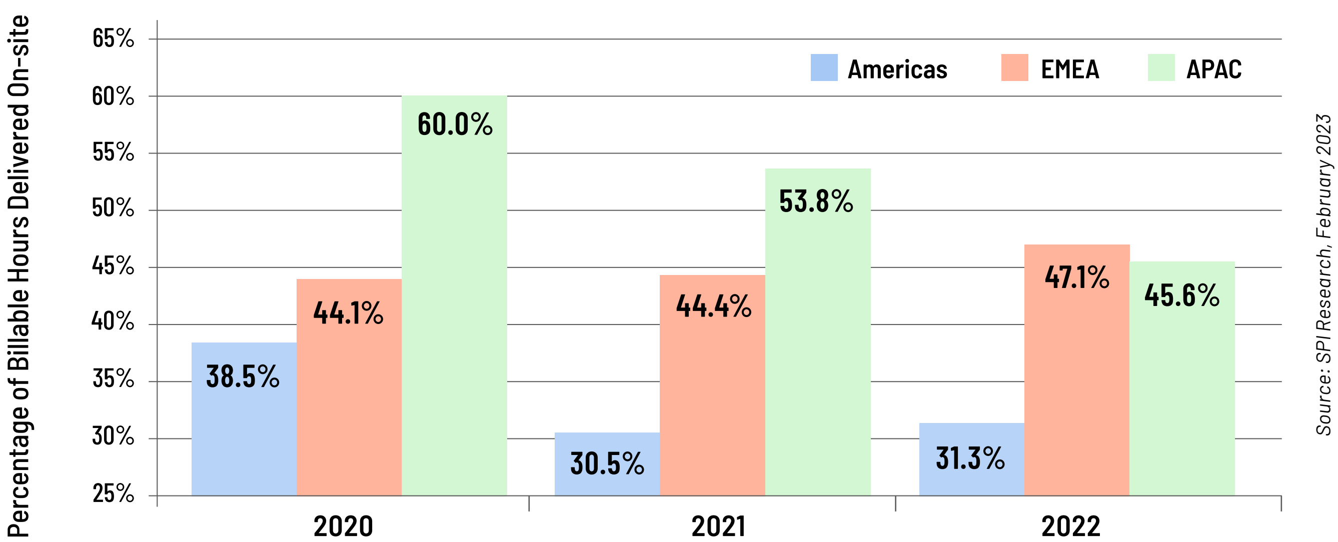
Figure 3: Total Employee Attrition Comparison by Geographic Region (2020 – 2022)



On-site Billable Hours by Geographic Region

COVID changed the way many industries look at remote work. The professional services market has been doing remote work for many years. Consultants travel enough already, so the use of home offices has benefitted PSOs greatly. Working remotely (at home, usually) means consultants can work on several projects each day, and with several clients. In 2020, SPI Research saw profitability rise, as travel lessened (Figure 4).

Figure 4: Percentage of Billable Hours Delivered Onsite by Geographic Region (2020 – 2022)

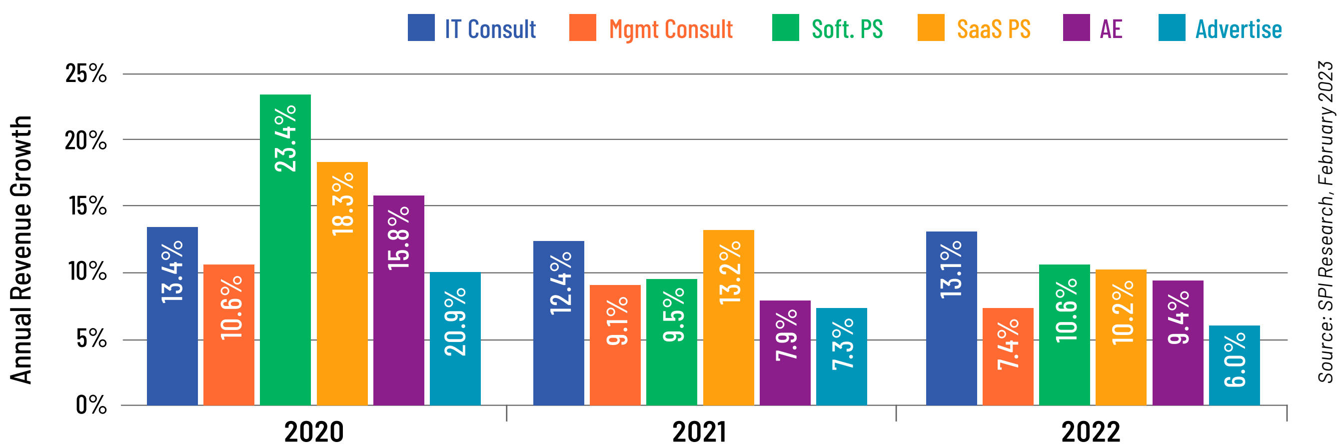


Trends by PS Market

Revenue growth by market

Figure 5 shows just how different annual performance numbers can be. The trends are important. For instance, software professional services organizations still grow at an acceptable level, but that level is down significantly from 2020. The same could be said for SaaS PS organizations. Advertising agencies, which peaked in 2020, are back down to a normal level. Management consultancies have seen a reduction in growth rates over the past several years. Could 2023 be the year growth rates go up?

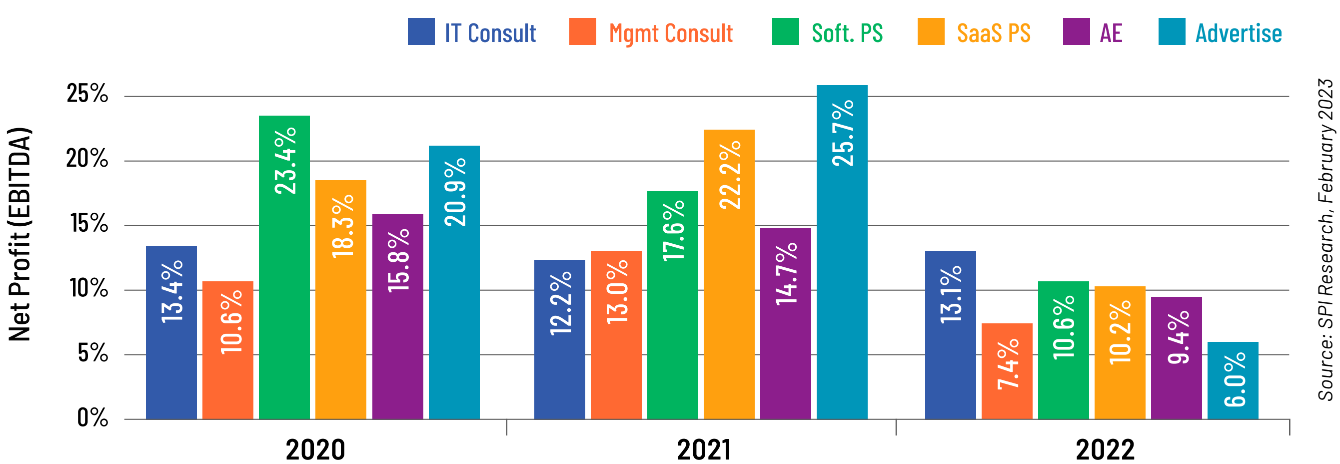
Figure 5: Revenue Growth Comparison by PS Market (2020 – 2022)



Profit by market

Figure 6 shows a wide variety of profitability when comparing markets. 2022 was a year for lower profitability for the major PS markets SPI Research monitors. IT consultancies have been very consistent in terms of delivering profit over the past three years, while management consultancies have experienced highs and lows. Other markets, such as software and SaaS professional services, have gone down following the end of COVID. Many firms are gearing up for 2023. If all the outside factors don't become overly burdensome, 2023 should be an improved year for all markets.

Figure 6: Profit Comparison by PS Market (2020 – 2022)



What Changed From 2021 to 2022?

Performance maturity is only one aspect to this benchmark (Table 3). PS executives do not work to achieve high levels of performance, they work to achieve goals. In this report, SPI Research defines and highlights the four major goals most PSOs have:

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

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

Table 3: What Changed From 2021 to 2022? KPI Comparison

Key Performance Indicator (KPI)	2021	2022	▲
Year-over-year change in PS revenue	10.6%	10.4%	-3%
Year-over-year change in PS headcount	9.1%	8.5%	-7%
New clients	21.4%	29.3%	37%
Deal pipeline / quarterly bookings forecast	183%	162%	-12%
Project duration (man months)	21.7	33.9	56%
Projects delivered on-time	80.2%	76.2%	-5%
Project overrun	8.1%	9.9%	-21%
Percentage of annual revenue target achieved	96.2%	92.7%	-4%
Percentage of annual margin target achieved	92.1%	88.8%	-4%
Profit (EBITDA %)	15.7%	16.1%	2%

Source: SPI Research, February 2023

In this year's benchmark, Service Performance Insight added questions concerning PS executive concerns and how important they were for the upcoming year. The results are enlightening, but perhaps not as varied as one might think. The analysis is in the Leadership Pillar chapter and should make interesting reading.

Maturity Trends

Figure 7 highlights the variability in annual numbers for the benchmark. The importance of this figure is to show that each year performance improvements should be at or near the top of a PS executive's list. For example, one year of 15% profitability is great, but the next year, perhaps not so much. Each year, there are changes and challenges that face executives in every market and utilizing this benchmark aids in a better understanding of how they compare.

Figure 7: Profitability Maturity Trends (2020 – 2022)

YEAR	FIRMS	LEVEL 1 Initiated	LEVEL 2 Piloted	LEVEL 3 Deployed	LEVEL 4 Institutionalized	LEVEL 5 Optimized
2018	622	5.0%	8.3%	17.8%	21.8%	32.5%
2019	513	4.4%	11.1%	15.1%	19.4%	25.6%
2020	561	-10.1%	5.0%	16.1%	19.5%	32.0%
2021	540	0.6%	6.3%	14.6%	19.9%	30.1%
2022	**709**	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

The figure shows that in 2022, the leading firms did not achieve as high a level of profitability as in past benchmarks. However, even the poorest-performing firms made money. This figure highlights the variability of performance on an annual basis so that executives can better understand and target future goals.

The Technology Sector

The Professional Services technology landscape continues to improve. It wasn't too many years ago that PSOs invested very little in information technology for internal use. Now, the market has clearly demonstrated the benefits of information, especially in real time. PSOs continue to work in new ways to leverage that data.

Newer technologies are being implemented in professional services solutions. Capabilities such as collaboration tools, machine learning (ML), artificial intelligence (AI), and automation will only aid PSOs going forward. The goals of these technologies are operational visibility, automation efficiency, performance improvement, and goal achievement. Visibility into the data enables employees at all levels to better perform tasks. At a high level, it represents more accurate information reporting and clear guidance on how and where the firm should proceed.

A Snapshot of the Service Performance Pillars in 2022

Leadership

SPI Research annually asks how strongly PSOs agree with various leadership KPIs. In 2022, each KPI went down, albeit slightly. Much of the reduction has to do with the economic conditions of 2022 as uncertainty rose in every market. A changing workforce coupled with the movement toward greater remote service delivery gives PSOs continuing cause for concern.

Client Relationships

Revenue growth has averaged 10% over the past five years. In the past two, it has been over 10% for the first time in a long time. Over the past five years, PSOs pivoted to increase revenue from management consulting. These engagements tend to have higher margins than pure technology, subscription, or managed services. This movement is not by accident. Clients look for help in all aspects of their business as they navigate events of the past three years. Plus, as new technologies become available, more clients look for assistance in adopting and implementing these advances.

SPI Research finds it interesting that the percentage of time and materials work has gone up over the past five years. For the first decade of conducting this benchmark, that number was in decline. However, the talent cliff and the ability for PSOs to adequately staff resources have changed the market. PSOs have become more selective in the types of engagements they sell. Fixed-time and fixed-fee work will continue to grow, and PS executives should particularly notice an increase in shareholder risk and performance-based work.

Talent

SPI Research finds that in 2022 it takes an average of 10 days longer to recruit and hire and for those new hires to become productive. Time is money in professional services and the additional days in the process have added expense to an already increasingly expensive asset.

For the first time in several years, guaranteed annual training days, which are offered but not always taken, have increased to more than 10 days annually. This change is a positive trend since PSOs work not only to increase broaden the skills of their consultants, but also to provide an environment where consultants can learn new skills. That environment may increase their loyalty to the PSO.

The annual fully loaded cost per consultant has gone up slightly over the past five years, from $122k per consultant in 2018 to $129k in 2022. Most PS executives saw this increase coming, but question whether they can raise rates high enough to keep margins intact.

While every industry grapples with how to create a workforce that works remotely, the professional services market has prepared for this scenario for years. In 2018, consultants delivered 671 billable hours remotely, and in 2021 this number peaked at 937. Probably good news for the market is that in 2022, more hours were delivered onsite than in the prior year. SPI Research uses a rule of thumb of approximately 33% of their hours on site versus 67% offsite. This mix allows consultants to be more productive on a daily basis yet have time in front of clients to continue to grow relationships.

Service Execution

SPI Research saw a degrading of almost all KPIs associated with service delivery. This change will be important to follow in 2023 as PSOs work to become more efficient. Services delivery is where profit is made in professional services. If PSOs cannot improve margins in 2023, it will be difficult to grow in 2024.
PSOs have begun to sell larger projects, which is positive, but the delivery has suffered. More late projects, higher overruns, and smaller margins have contributed to this degradation. PS executives should increase the use of standardized (or structured) delivery methodologies to improve service execution. This structure will enable project managers to improve work at a task level and implement quality checks. PS tools will help, in particular, Professional Services Automation (PSA), which helps PSOs better manage resources, project delivery, time and cost.

Finance & Operations

Profits grew in 2022, but many other Finance & Operations KPIs went down. The ability to make both revenue and margin targets is critical for future planning and growth. In 2022, SPI Research saw the percentages go down, which means that the planning and execution (or both) deteriorated in 2022.

Information – In SPI's annual benchmark survey, the percentage of organizations using a commercial financial management (CFM) solution, client relationship management (CRM), and professional services automation (PSA) remained consistent. What has changed over the past five years is greater use of human capital management (HCM). The growth in adoption has to do with issues associated with the talent lifecycle. PSOs are always looking for ways to more efficiently hire consultants, train them, make them billable, and retain them as long as possible. In an environment where there is a limited supply of talented individuals, HCM provides PSOs with the tools to better manage their organization.

Things can Change Quickly

There is never a dull moment in Professional Services. Take, for example, the February 2020 cover of SPI Research's 13th annual Professional Services Maturity™ Benchmark report. It featured sailboats, with several references to "smooth sailing ahead." The market had seen a few years of solid growth and profit, and with new government spending proposed, all PS sub-markets seemed poised for the future……then…. Boom….30 days later in March along came COVID, bringing with it a disruption like most had never seen before.

SPI Research immediately noticed a change in how the professional services market operated. Delivering services remotely was a trend that had begun long before COVID. PS executives had recognized changing times and they changed with it. In came a variety of new services and a more streamlined focus on what they did well and how to accelerate it.

As a result of this innovation, the professional services market fared quite well in 2020 and 2021, with 2022 offering new opportunities and challenges. Of course, there will be other events, changes and challenges that will happen in 2023. But leading professional services organizations are now well positioned to manage through the maze of uncertainty.

Looking Ahead to 2023

The professional services market has experienced solid levels of growth over the past two years. COVID, supply chain disruption, inflation, and war have slowed the economy. But the market continues to evolve, and the focus in 2023 must return to improved project and services delivery. Talent will continue to be an issue in 2023. However, the wave of recent technology layoffs means that the pool of available, qualified workers has grown. A recession could slow business expansion, but not for long. All signs point to a robust economy by the second half of 2023.

SPI Research would like to thank everyone for their support over the past 16 years! I hope this report provides important concepts and KPIs to help you navigate the sometimes-choppy waters that lie ahead.

Chapter 2

The Professional Services Maturity™ Model

THE PROFESSIONAL SERVICES MATURITY™ MODEL

In 2007, SPI Research begin the development of the professional services maturity model. The model is designed to help PSO's benchmark and understand their relative level of performance "maturity" compared to their peers and all professional services organizations. While the model has changed somewhat, it still seeks to answer specific questions that impact organizational performance:

- ∆ 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 2023 PS Maturity™ Benchmark demonstrates that increasing levels of business process maturity do indeed result in significant performance improvements (Table 4).***

Table 4: Maturity Matters!

Key Performance Measurement	Maturity Level 1-2	Maturity Level 3	Maturity Level 4-5
Percentage of respondents	54.7%	25.1%	20.2%
Year-over-year change in PS revenue	6.3%	13.3%	17.1%
Deal pipeline / qtr. bookings forecast	122%	183%	220%
Employee billable utilization	67.1%	72.8%	75.7%
Projects delivered on-time	70.7%	78.7%	83.4%
Annual revenue / billable consultant (k)	$131	$216	$270
Annual revenue / employee (k)	$102	$174	$224
PS Profitability (EBITDA)	**9.0%**	**16.1%**	**20.7%**

Source: SPI Research, February 2023

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™ to be described in the next section:

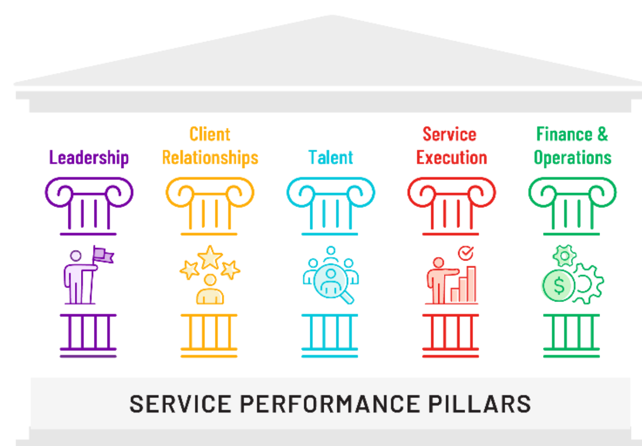
1. **Leadership**
2. **Client Relationships**
3. **Talent**
4. **Service Execution**
5. **Finance and Operations**

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™

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

Figure 8: Service Performance Pillars™



Source: SPI Research, February 2023

1. **LEADERSHIP**: (*CEO*) a unique view of the future and the role the service organization will play in shaping it. A clear and compelling strategy provides a focus for the organization and galvanizes action. Effective strategies bring together target customers, their business problems, and 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. 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.

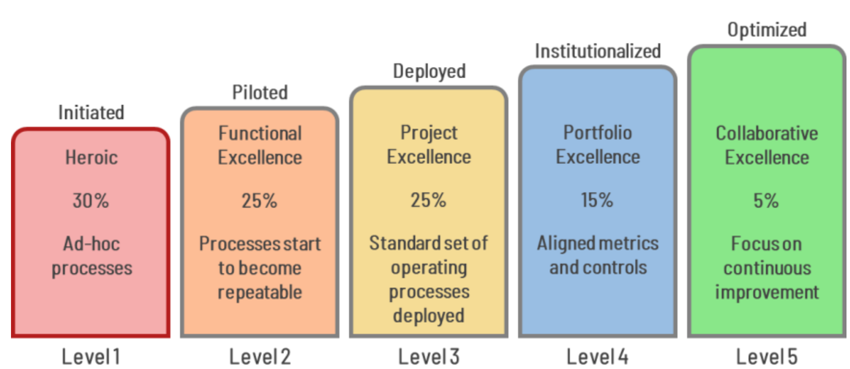
5. **FINANCE AND OPERATIONS**: (*CFO*) the ability to manage services profit and loss — to generate revenue and profit while developing repeatable operating processes. The finance and operations pillar focus on revenue, margin and cost and the financial, contractual and IT operating processes and controls 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 9 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".***

Figure 9: Services Maturity™ Model Levels



Source: SPI Research, February 2023

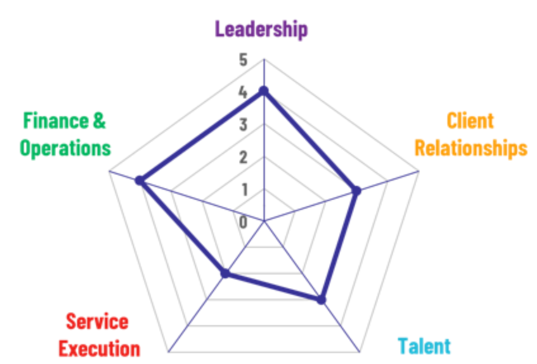
- ∆ ***LEVEL 2* — *PILOTED "FUNCTIONAL EXCELLENCE"*: (APPROXIMATELY 25% OF PSOS)** at maturity level 2, *processes have started to become repeatable*. Best practices may be demonstrated in discrete functional areas or geographies, but they are not yet documented and codified for the entire organization.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

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

Over the past 16-years, 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 10). The maturity scorecard provides a measurement for each organization in comparison to the benchmark maturity definitions and peer organizations. It provides an invaluable tool to analyze current performance and prioritize future improvement initiatives.

Figure 10: Service Performance Pillar Maturity™



Source: SPI Research, February 2023

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.

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 5).

Table 5: Performance Pillars Mapped Against Service

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

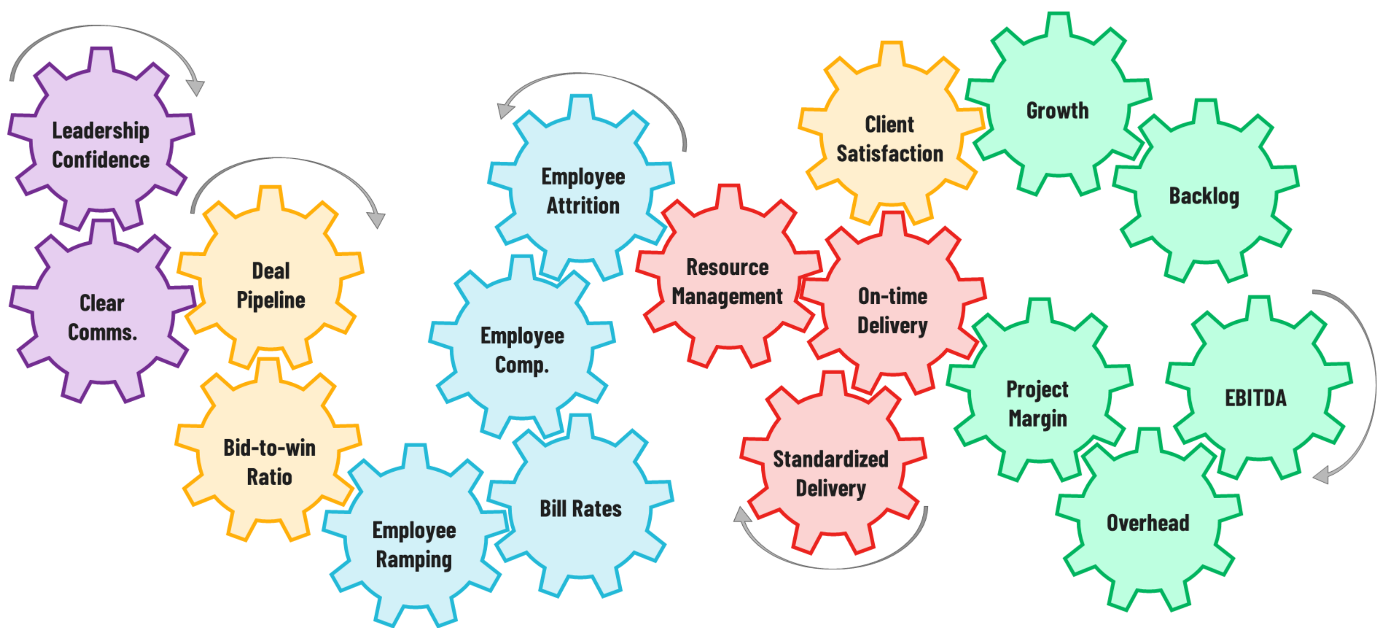
	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Finance and Operations	The PSO has been created but is not yet profitable. Rudimentary time & expense capture. Limited financial visibility and control. Unpredictable financial performance. Rudimentary contract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

Source: SPI Research, February 2023

Why Maturity Matters

An aspect that sets the Professional Services Maturity™ Model apart from others is due to its holistic approach to measuring performance. ***Maturity is determined through alignment and focus both within and across functions*** (Figure 11).

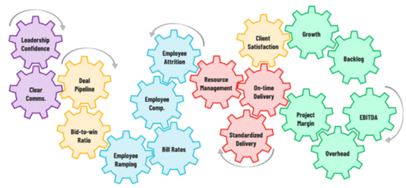
Figure 11: Performance in One Area Impact Others Performance



Source: SPI Research, February 2023

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 12: Professional Services Maturity™ Progression



	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Firms	211	177	178	106	37
Year-over-year change in PS revenue	5.7%	7.1%	13.3%	16.5%	18.8%
Deal pipeline / quarterly bookings forecast	101%	148%	183%	202%	269%
Bid-to-win ratio (per 10 bids)	34.4%	48.7%	52.9%	64.0%	73.8%
Employee billable utilization	66.4%	68.0%	72.8%	75.0%	77.7%
Projects delivered on-time	67.0%	75.0%	78.7%	81.5%	88.6%
Project margin	20.0%	28.7%	39.3%	48.1%	57.1%
Annual revenue per billable consultant (k)	$105	$163	$216	$260	$299
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

Figure 12 highlights major key performance measurements by maturity level and should alone be an important reason why PS executives should look deeper into using it to increase profits.

Pillar Importance and Organizational Maturity

The results and insights gained in the past 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.

709 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 20 firms that did not complete this question and therefore the EBITDA is **16.2**% vs. the actual survey average of **15.9**%. This elimination is done because showing blank answers does not really provide value to the reader (unless there is a high percentage of blanks).

Annual Revenue Growth	Surveys	Comp. %	EBITDA w/ Blanks	EBITDA w/o Blanks
Blank	20	2.8%	9.9%	
Under -10%	52	7.3%	13.2%	11.1%
-10% - 0%	31	4.4%	7.9%	7.5%
0% - 5%	116	16.4%	15.6%	13.0%
5% - 10%	157	22.1%	16.0%	21.3%
10% - 15%	124	17.5%	19.6%	14.3%
15% - 25%	96	13.5%	15.6%	17.4%
Over 25%	113	15.9%	17.1%	18.3%
Total/Avg.	**709**	**100.0%**	**15.9%**	**16.2%**

Table 6 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 6: Service Pillar Importance by Organizational Maturity Level

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

Source: SPI Research, February 2023

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 focuses 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.

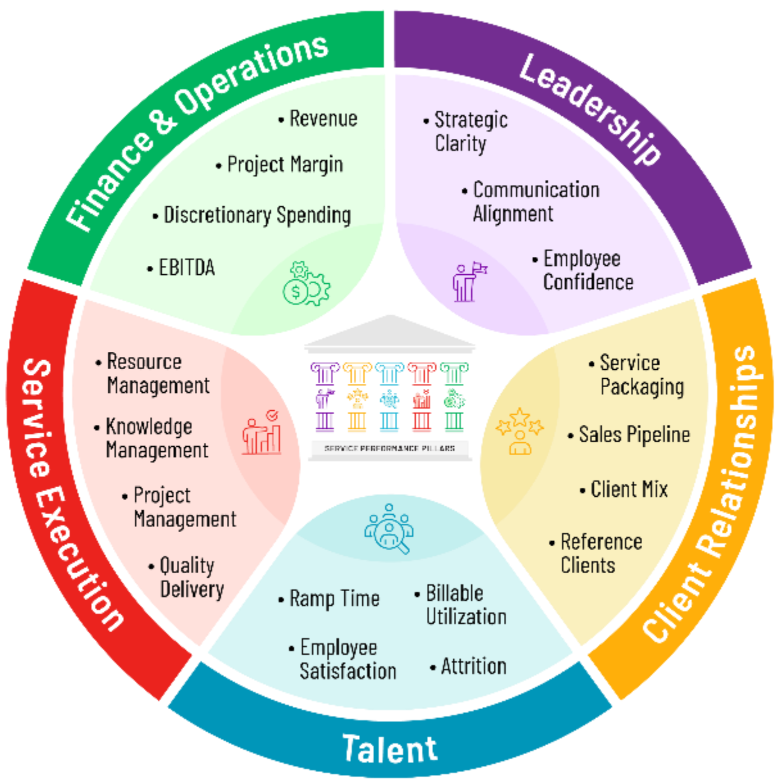
By **Level 3** the organization must move toward a more balanced focus on all elements of the business by investing in systems, operating processes, and repeatable methods to sustain growth and ensure quality. Level 3 maturity should be the aspirational target of all PS organizations because it is at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

At **Level 4** the organization has implemented structured business processes and utilizes integrated information systems to assure there is "one view of the business". Level 4 organizations are seen as true industry leaders in their target markets. They have developed a unique and differentiated culture which attracts industry-leading consultants and clients. More than average firms, Level 4 organizations are 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 runs 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.

Figure 13 highlights some of the critical areas PSOs should continually monitor to achieve higher levels of maturity. And there are more, many more! This report highlights over 140 Important metrics to capture, analyze and improve, as well as the tools leading firms use to run their business.

Figure 13: PS Performance Pillars – Core KPIs



Source: SPI Research, February 2023

Chapter 3

Survey Demographics

SURVEY DEMOGRAPHICS

The Professional Services market 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 increasingly outsource and out-task their non-core business functions, processes and technology to specialized service providers.

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

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

For this benchmark, SPI Research surveyed 709 billable Professional Services Organizations (PSOs) from September through November 2022. The following sections outline the key markets which comprise the global professional services industry and breakdown the 2022 survey demographics in several key areas (market, organization size, and geographic region) to help PS firms compare their individual results to the benchmark.

The North American Professional Services Market

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

of this subsector are defined based on the particular expertise, training and credentials of the services provider (Table 7)".

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).
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 2023

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

Table 8: 2021 NAICS Services Rollup (Number of Firms)

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

Source: US Census and SPI Research, February 2023

Table 9: 2021 NAICS Services Rollup (Employees and Revenue)

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

Source: US Census and SPI Research, February 2023

Tables 8 and 9 provide a rollup of 2021 US Census data for these NAICS codes. There are 2.4mm firms in these market segments; only 88,160 (3.7%) employ more than 20 people the remaining 96.3% employ less than 20 people. In other words, the industry is dominated by very small firms particularly in accounting; legal; management consulting and staffing.

PS Maturity™ Benchmark Vertical Market Demographics

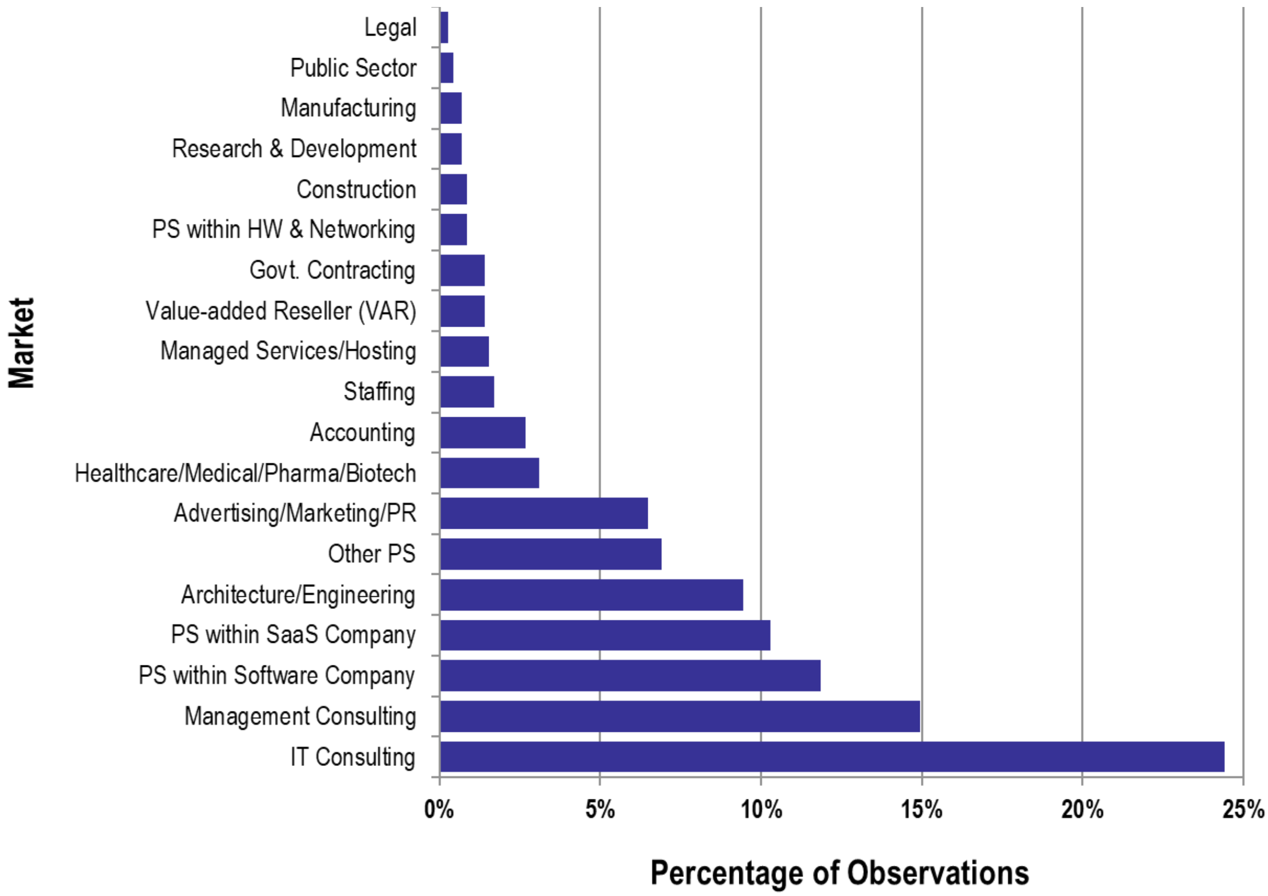
Table 10 and Figure 14 show the demographics of the 709 survey participants by PS vertical market. As usual, the IT and Management Consulting markets provide approximately 40% of the overall surveys. This year SPI Research received 46 Advertising/PR surveys, the most ever by a wide margin. These surveys will help SPI Research provide greater analysis than in the past.

Table 10: 2023 Professional Services Maturity™ Benchmark Vertical Market Participation

Market	Surveys	Survey %	Consultants
IT Consulting	173	24.4%	93,000
Management Consulting	106	15.0%	35,000
PS within Software Company	84	11.8%	74,000
PS within SaaS Company	73	10.3%	43,000
Architecture/Engineering	67	9.4%	25,000
Other PS	49	6.9%	29,000
Advertising/Marketing/PR	46	6.5%	6,000
Healthcare/Medical/Pharma/Biotech	22	3.1%	36,000
Accounting	19	2.7%	17,000
Staffing	12	1.7%	12,000
Managed Services/Hosting	11	1.6%	16,000
Value-added Reseller (VAR)	10	1.4%	2,000
Govt. Contracting	10	1.4%	12,000
PS within HW & Networking	6	0.8%	11,000
Construction	6	0.8%	1,000
Research & Development	5	0.7%	5,000
Manufacturing	5	0.7%	9,000
Public Sector	3	0.4%	1,000
Legal	2	0.3%	3,000
Total/Average	**709**	**100.0%**	**430,000**

Source: SPI Research, February 2023

Figure 14: Benchmark Participant Vertical Market Distribution



Source: SPI Research, February 2023

Table 11 shows participant demographics for the past 16-years. Historically, IT consultancies have been the largest participating market. Together PS within software and SaaS firms represented 26% of survey respondents. The popularity of this benchmark continues to grow, averaging more than 580 participating firms for each of the past five years, making this **the most comprehensive global Professional Services benchmark**.

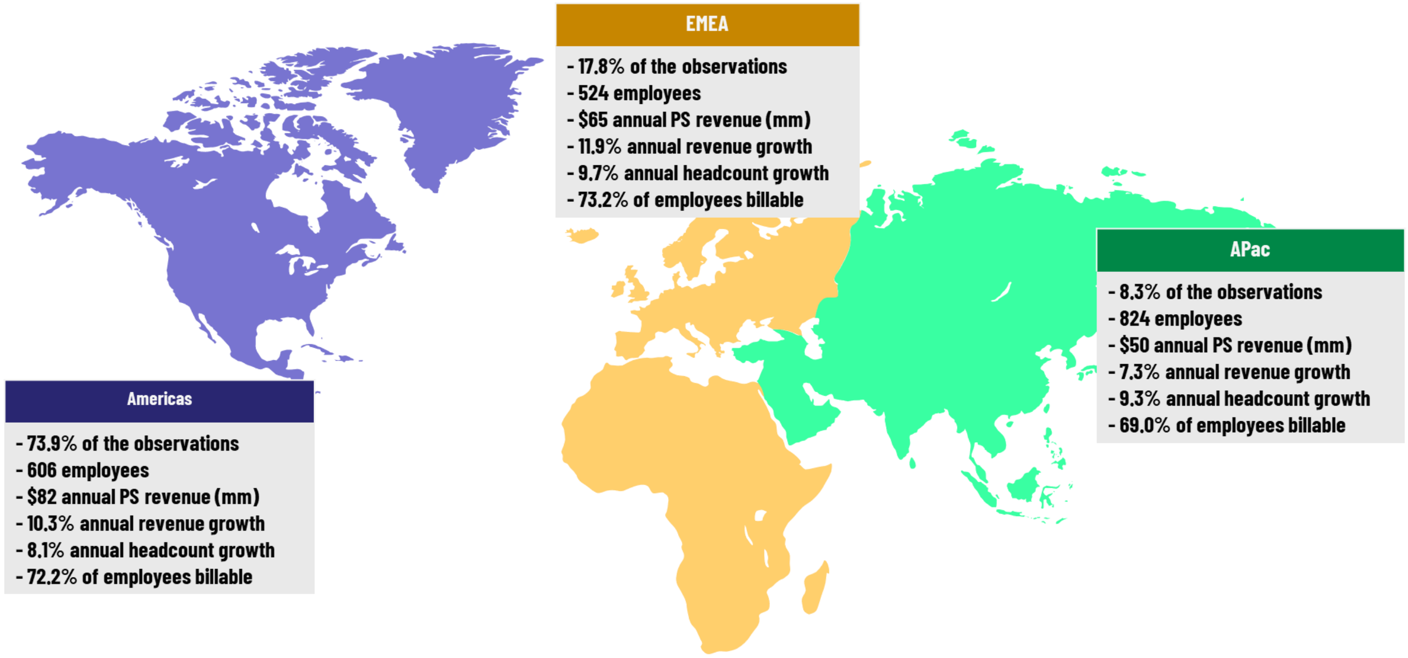
Table 11: Number of Participating Firms by Vertical Market (2007 through 2022)

Market	Type	2007-11	2012-16	2017	2018	2019	2020	2021	2022	Total
IT Consulting	PSO	215	593	103	155	143	143	133	173	**1,658**
PS within Software	ESO	302	283	45	78	73	55	58	84	**978**
Mgmt. Consulting	PSO	89	199	45	75	68	84	102	106	**768**
Other PS	PSO	80	135	49	62	62	82	81	97	**648**
Arch./Engr.	PSO	17	109	153	100	44	35	41	67	**566**
PS within SaaS	ESO	63	136	29	70	55	64	56	73	**546**
Advertising	PSO	16	42	8	20	6	31	29	46	**198**

Market	Type	2007-11	2012-16	2017	2018	2019	2020	2021	2022	Total
Accounting	PSO	8	32	8	19	14	14	13	19	**127**
PS within HW/Net	ESO	35	39	6	12	14	6	4	6	**122**
VAR	ESO	0	28	4	14	21	17	10	10	**104**
Managed Serv.	ESO	0	25	4	9	3	13	2	11	**67**
Res. & Dev.	PSO	0	22	0	4	7	7	7	5	**52**
Staffing	PSO	0	14	2	4	3	10	4	12	**49**
Total		**825**	**1,657**	**456**	**622**	**513**	**561**	**540**	**709**	**5,883**

Source: SPI Research, February 2023

Figure 15: Regional Demographics



Source: SPI Research, February 2023

Figure 15 highlights key regional demographics and Table 12 shows 495 surveys came from independent firms while 214 came from ESOs (Embedded Service Organizations within product companies). North American headquartered firms dominate the study with 524 surveys while 126 came from EMEA-headquartered firms and 59 came from Asia Pacific (predominantly Australia and New Zealand). The average size organization this year employs 609 employees, double the number in 2021.

Headcount growth was solid at 8.5%, down from 9.1% in 2021. While the pandemic has subsided, other issues including inflation, rate hikes and geopolitical tensions slowed growth in 2022. Finding and retaining talent is consistently the greatest challenge and opportunity area in the labor intense world of professional services. SPI expects increased hiring in 2023 following layoffs in the tech sector in 2022.

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

Key Performance Indicator	2021	2022	ESO	PSO	Amer.	EMEA	APac
Surveys	540	709	214	495	524	126	59
Size of PS organization (employees)	301	609	899	484	606	524	824
Annual company revenue (mm)	$112.4	$319.9	$118.3	$186.4	$136.2	$194.1	$319.9
Total PS revenue (mm)	$48.0	$98.5	$67.1	$82.1	$65.3	$49.8	$98.5
YoY change in PS revenue	10.6%	10.2%	10.4%	10.3%	11.9%	7.3%	10.2%
YoY change in PS headcount	9.1%	8.5%	9.1%	8.2%	9.7%	9.3%	9.1%
% of employees billable	73.9%	69.5%	73.2%	72.2%	73.2%	69.0%	69.5%
% of PS rev. delivered by 3rd-parties	11.3%	10.8%	11.4%	11.8%	8.8%	11.3%	10.8%

Source: SPI Research, February 2023

By organization size, PSOs with between 301 – 700 employees grew the fastest and added the most PS headcount (Table 13). They also 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.

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	83	120	198	154	67	87
Size of PS organization (employees)	5	20	65	200	500	4,047
Annual company revenue (mm)	$4.6	$42.2	$63.5	$159.4	$243.7	$776.1
Total professional services revenue (mm)	$2.7	$4.9	$21.5	$38.8	$95.1	$426.2
Year-over-year change in PS revenue	6.0%	10.0%	10.4%	12.0%	12.4%	10.5%
Year-over-year change in PS headcount	1.4%	6.2%	8.7%	10.6%	12.6%	11.0%
% of employees billable or chargeable	71.0%	74.0%	72.7%	73.5%	74.2%	64.9%
% of PS revenue delivered by 3rd-parties	9.9%	11.0%	11.5%	10.2%	14.3%	11.7%

Source: SPI Research, February 2023

Tables 14 and 15 further analyze the survey demographics by vertical market, highlighting the markets surveyed. According to this year's survey, Accountancies (17.2%) and IT Consultancies (13.1%) grew the fastest, while Advertising Agencies (4.2%) grew the least following their COVID-driven boom.

Table 14: Survey Participant Demographics by Vertical Market

Key Performance Indicator (KPI)	IT Consulting	Mgmt. Consulting	Software PS	SaaS PS	Arch./ Engr.
Surveys	173	106	84	73	67
Size of PS organization (employees)	538	334	881	585	375
Annual company revenue (mm)	$126.0	$85.8	$391.2	$243.4	$96.1
Total professional services revenue (mm)	$67.3	$66.6	$122.2	$71.9	$32.9
Year-over-year change in PS revenue	13.1%	7.4%	10.6%	10.2%	9.4%
Year-over-year change in PS headcount	11.5%	4.3%	8.2%	9.7%	7.8%
% of employees billable or chargeable	73.9%	74.0%	70.5%	68.9%	75.8%
% of PS revenue delivered by 3rd-parties	12.6%	8.9%	12.3%	9.2%	13.0%

Source: SPI Research, February 2023

Table 15: Survey Participant Demographics by Market

Key Performance Indicator (KPI)	Advertise. / PR	Health / Med / Pharm	Acct	Staffing	All Others
Surveys	46	22	19	12	107
Size of PS organization (employees)	134	1,658	908	1,035	835
Annual company revenue (mm)	$118.9	$309.7	$123.6	$106.0	$215.8
Total professional services revenue (mm)	$36.6	$55.4	$106.7	$117.1	$106.4
Year-over-year change in PS revenue	6.0%	7.4%	17.2%	7.3%	10.8%
Year-over-year change in PS headcount	4.2%	7.6%	12.0%	7.3%	8.9%
% of employees billable or chargeable	69.5%	69.3%	78.9%	54.5%	70.5%
% of PS revenue delivered by 3rd-parties	13.8%	12.4%	9.6%	10.0%	9.9%

Source: SPI Research, February 2023

Type of Work Sold

SPI Research analyzed the type of work sold, (Table 16). Technology and IT consulting represents over 38% of the work sold by Embedded Services Organizations. ESOs no longer just sell implementation, integration and customization on either a time and materials or fixed priced basis; now those services, just like software, are being sold "as a service". This business model shift heightens the need for 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 nearly 11% (up from 9% in 2021).

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

Key Performance Indicator (KPI)	2021	2022	ESO	PSO	Amer.	EMEA	APac
Business / management consulting	34.0%	30.6%	17.6%	36.3%	29.7%	32.9%	34.3%
Technology or IT consulting	34.4%	31.7%	38.3%	28.8%	31.6%	30.8%	34.3%
Subscription services	6.0%	7.6%	14.3%	4.6%	7.4%	8.9%	5.7%
Managed services	9.0%	10.6%	13.2%	9.5%	10.5%	13.7%	5.4%
Staff augmentation	5.6%	6.4%	6.6%	6.3%	6.9%	4.3%	6.4%
Hardware, software or equipment	2.4%	3.1%	5.4%	2.1%	3.0%	3.4%	3.3%
Other	8.6%	10.0%	4.5%	12.4%	10.9%	6.0%	10.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2023

This year in Europe the percentage of business or management consulting was higher than technology consulting. As the North American technology services market matures, service providers have begun to shift 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.

The breakdown of services sold becomes even more interesting as organizations are parsed by size (Table 17). As one might expect' smaller firms tend to sell more business or management consulting than the larger firms as most 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.

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	64.1%	32.1%	31.6%	19.8%	19.6%	22.3%
Technology or IT consulting	16.1%	30.4%	30.7%	40.5%	34.3%	33.3%
Subscription services	3.7%	6.4%	6.0%	9.8%	11.3%	9.6%
Managed services	5.2%	10.3%	10.5%	11.8%	11.3%	14.0%
Staff augmentation	3.7%	5.6%	7.2%	6.2%	8.6%	6.8%
Hardware, software or equipment	0.4%	4.2%	2.2%	2.5%	4.6%	6.0%
Other	6.8%	11.1%	11.9%	9.5%	10.3%	8.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

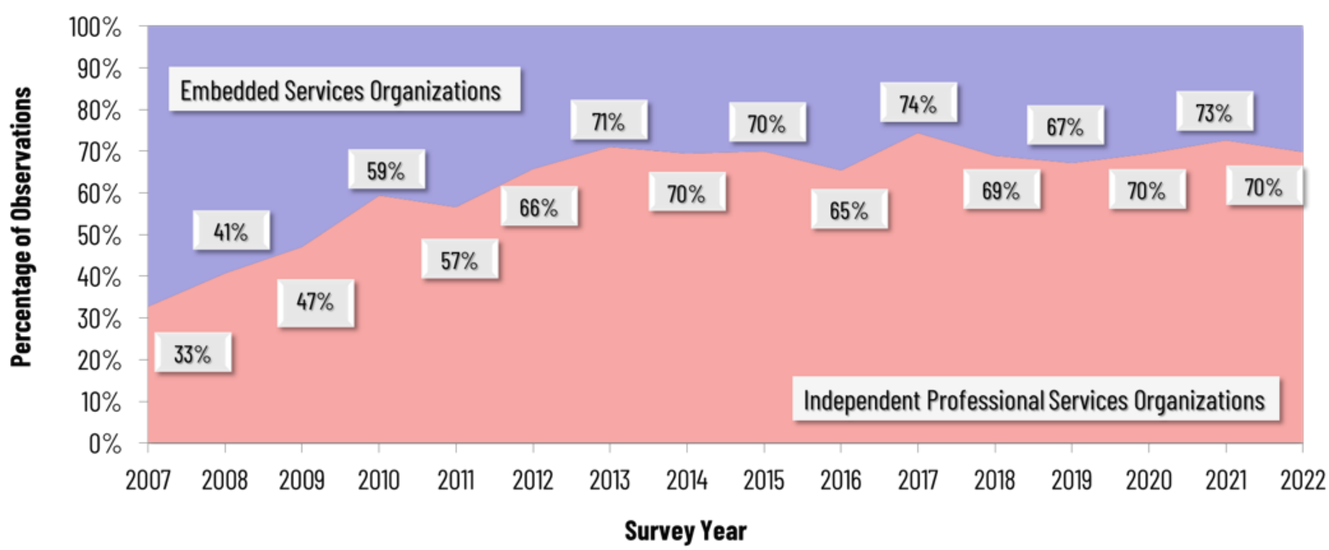
Source: SPI Research, February 2023

PSO Type

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

There are more than 70,000 software, hardware, IT and managed services companies in the United States; more than 99% are small and medium-sized firms (i.e., under 500 employees). This total includes software publishers, suppliers of custom computer programming services, computer systems design firms, and Managed Services providers. This segment of the PS industry draws on a highly educated and skilled US-based workforce of over 6.4 million people. Figure 16 shows 70% of this year's benchmark participants are independent firms.

Figure 16: Independent vs. Embedded Organizations Surveyed (2007 - 2022)



Source: SPI Research, February 2023

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.

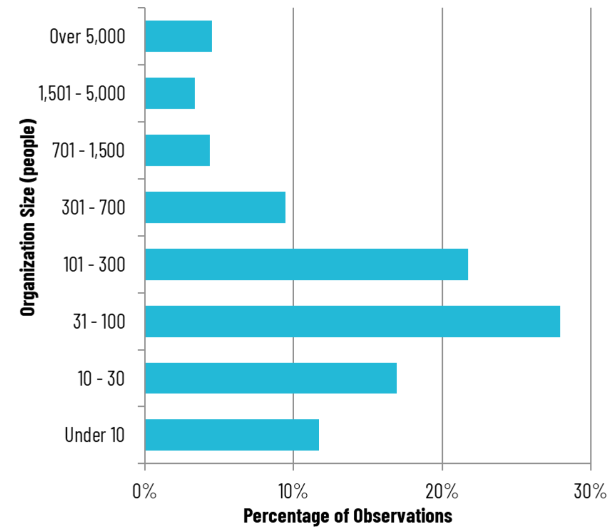
For ESOs, lead generation, marketing and sales are primarily provided by the product sales organization however as they mature, many are starting to develop their own "sales selling service" organizations. In this survey a majority of the ESOs were part of software and cloud solution vendors (ISVs). 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 609 PS employees, double the 301 PS employees last year. This year's survey is based on firms that employ over 430,000 consultants worldwide making it the most comprehensive study of the Professional Service industry. Figure 17 highlights survey distribution by PS headcount. Each year the largest percentage of firms have between 31 and 100 employees. Embedded services organizations averaged 899 PS employees whereas independents averaged 484. Firms headquartered in the Americas averaged 606; EMEA averaged 524 PS employees; and

Figure 17: Organization Size



Source: SPI Research, February 2023

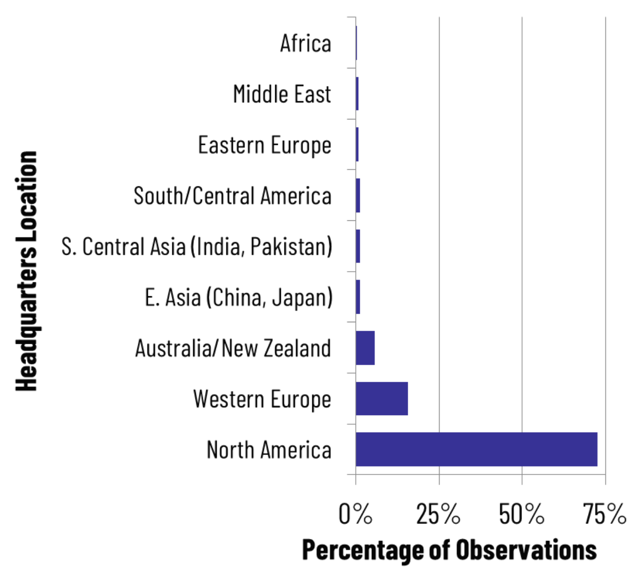
APac averaged 824 PS employees per firm. Software PS organizations averaged 881 PS employees and SaaS averaged 585, underscoring the importance of embedded PS within these organizations. IT consultancies (538) and management consultancies (334) also had a substantial PS workforce. Architecture and engineering firms averaged 375 employees while marketing and advertising agencies averaged 134 PS employees.

Headquarters Location

SPI Research works with professional services organizations from around the world and encourages them to participate in the benchmark survey. Survey participation from firms headquartered outside of North America, (Europe, Middle East, Africa (*EMEA*) and Asia-Pacific (*APac*)) represented over 26% of the survey. (Figure 18).

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

Figure 18: Headquarters Location – Region

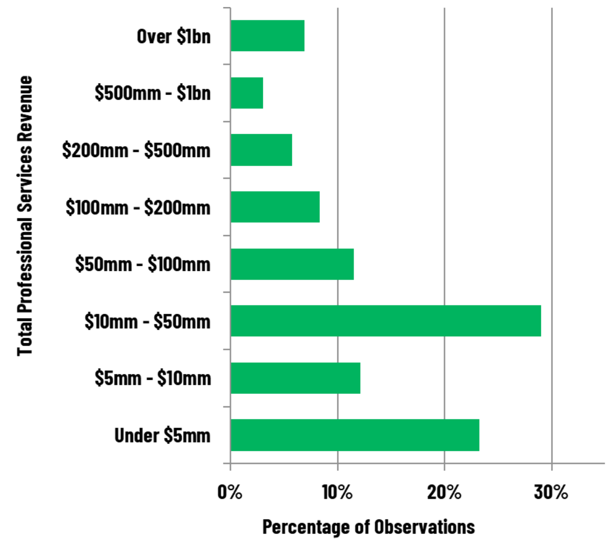


Source: SPI Research, February 2023

Total Company Revenue

Many of the ESOs are part of a larger enterprise that also sells a variety of other products and services. As well, many of the independent professional service providers also sell products or the responding group is an individual practice within a larger firm. 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 $178 million in total revenue including $76.2 million in PS revenue (Figure 19). The percentage of total revenue produced by PS represented 42.8% this year, nearly the same percentage as in 2021, with much larger organizations. The percentage of overall PS revenue contribution has steadily increased, reflecting the importance of the new "everything as a service" economy.

Figure 19: Total Company Revenue

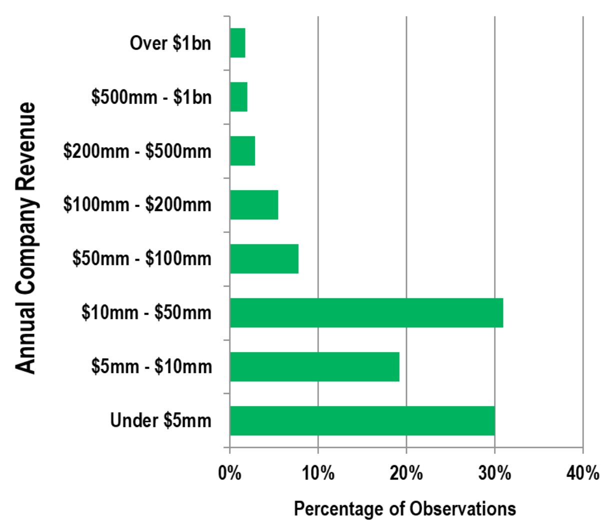


Source: SPI Research, February 2023

Total PS Revenue

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

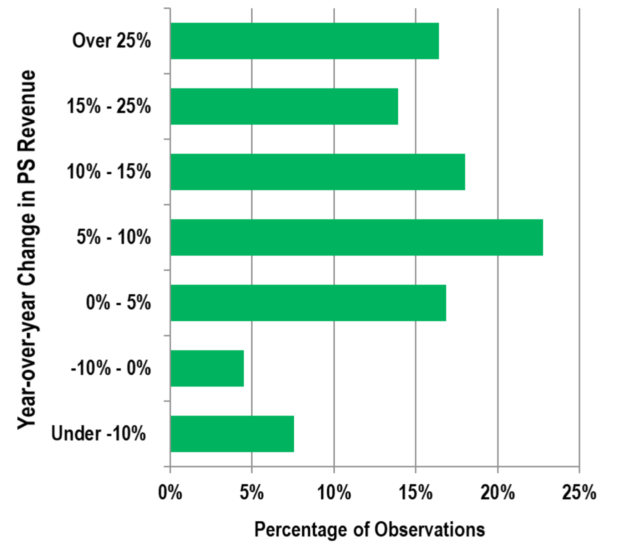
Figure 20: Total Professional Services Revenue



Source: SPI Research, February 2023

Year-over-year change in PS Revenue

Figure 21: YoY change in PS Revenue



Source: SPI Research, February 2023

For the past five years, PS annual revenue growth has averaged 10% (Figure 21). In 2020, due to COVID-19, annual PS revenue growth declined to 8.7%, down from 10.6% in 2019. In 2021 things improved with hiring back up to 10.6%. 2022 saw a slight decline in revenue growth (10.4%).

Independent providers averaged 10.4% revenue growth whereas embedded service providers grew at 10.2%. Firms with 300 - 700 employees grew the fastest at 12.4%. This metric is important 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.

Tables 18 through 20 highlight annual changes in PS revenue growth for the survey by type, headquarters region and market. While growth occurred everywhere it went down significantly in SaaS, management consultancies and advertising agencies.

Table 18: YoY change in PS Revenue

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	10.6%	11.0%	10.5%	10.4%	11.5%	10.0%
2022	10.4%	10.2%	10.4%	10.3%	11.9%	7.3%
Change	**-3%**	**-7%**	**-1%**	**-1%**	**3%**	**-27%**

Source: SPI Research, February 2023

Table 19: YoY change in PS Revenue by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	12.4%	9.1%	9.5%	13.2%	7.9%	7.3%	4.3%	13.5%
2022	13.1%	7.4%	10.6%	10.2%	9.4%	6.0%	7.4%	17.2%
Change	**5%**	**-19%**	**11%**	**-22%**	**19%**	**-18%**	**74%**	**28%**

Source: SPI Research, February 2023

Table 20: YoY change in PS Revenue by Organization Size

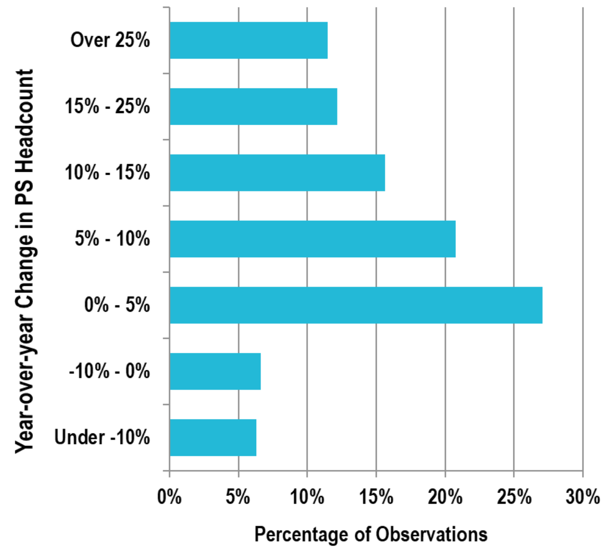
Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	5.3%	10.3%	12.2%	11.0%	14.1%	12.0%
2022	6.0%	10.0%	10.4%	12.0%	12.4%	10.5%
Change	**13%**	**-3%**	**-15%**	**9%**	**-12%**	**-13%**

Source: SPI Research, February 2023

Year-over-year Change in PS Headcount

Due to COVID, employee headcount growth in 2020 hit a low at 5.5%. In 2021 hiring grew at its highest level at 9.1%, and in 2022 came down a little to 8.5% (Figure 22), still above the five-year average of 7.9%.

Figure 22: YoY change in PS Headcount



Source: SPI Research, February 2023

Architecture / engineering firms increased headcount from 5.7% in 2021 to 7.8% in 2022, representing a 38% increase. Management consultancies had a reduction in head count from 7.3% in 2021 down to 4.3% in 2022. Smaller firms lost headcount in 2021 and eked a small gain of 1.4% in 2022. All the firms with over 30 employees grew headcount at over 10%.

2021 was characterized as the year of the "Great Resignation" with employees leaving in droves for better opportunities or to improve their life/work balance. In 2022, PSOs worked to grow their workforce, adding more training and working with employees more than ever to improve morale.

Table 21: YoY change in PS Headcount

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	9.1%	10.0%	8.8%	9.0%	9.2%	10.9%
2022	8.5%	9.1%	8.2%	8.1%	9.7%	9.3%
Change	**-7%**	**-9%**	**-7%**	**-10%**	**5%**	**-15%**

Source: SPI Research, February 2023

Table 22: YoY change in PS Headcount by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	12.2%	7.3%	7.2%	12.0%	5.7%	5.0%	15.2%	6.9%
2022	11.5%	4.3%	8.2%	9.7%	7.8%	4.2%	7.6%	12.0%
Change	**-6%**	**-41%**	**14%**	**-19%**	**38%**	**-16%**	**-50%**	**74%**

Source: SPI Research, February 2023

Table 23: YoY change in PS Headcount by Organization Size

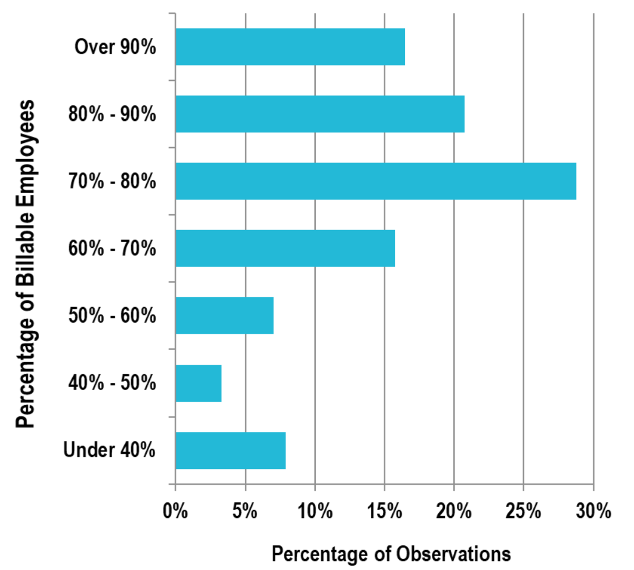
Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	-0.4%	9.8%	10.6%	11.4%	13.0%	11.6%
2022	1.4%	6.2%	8.7%	10.6%	12.6%	11.0%
Change	**-510%**	**-36%**	**-18%**	**-7%**	**-3%**	**-5%**

Source: SPI Research, February 2023

Percentage of Employees Billable (or Chargeable)

SPI Research found the percentage of billable employees grew to 73.9% in 2021 (Figure 23). In 2022 the number slipped a little to 72.1%. IT and management consultants have the largest percentage of their workforce billable with approximately 74%. SaaS PS organizations were the low at nearly 69%. Organizations with over 700 employees saw a reduction in billable employees from 2021 to 2022 (74.4% versus 64.9%), a 13% reduction. By geography, Asia Pacific has the highest billable percentage at 73.2%, while the Americas were second at 72.1% and EMEA at 69.5%.

Figure 23: Percentage of Employees Billable



Source: SPI Research, February 2023

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.

Table 24: YoY change in the Percentage of Employees Billable

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	73.9%	72.7%	74.3%	75.1%	68.5%	76.5%
2022	72.1%	69.5%	73.2%	72.2%	73.2%	69.0%
Change	**-2%**	**-4%**	**-2%**	**-4%**	**7%**	**-10%**

Source: SPI Research, February 2023

Table 25: YoY change in the Percentage of Employees Billable by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	75.7%	75.7%	71.3%	73.5%	77.9%	72.6%	79.5%	67.5%
2022	73.9%	74.0%	70.5%	68.9%	75.8%	69.5%	69.3%	78.9%
Change	**-2%**	**-2%**	**-1%**	**-6%**	**-3%**	**-4%**	**-13%**	**17%**

Source: SPI Research, February 2023

Table 26: YoY change in the Percentage of Employees Billable by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	69.2%	74.7%	74.4%	75.0%	76.0%	74.4%
2022	71.0%	74.0%	72.7%	73.5%	74.2%	64.9%
Change	**3%**	**-1%**	**-2%**	**-2%**	**-2%**	**-13%**

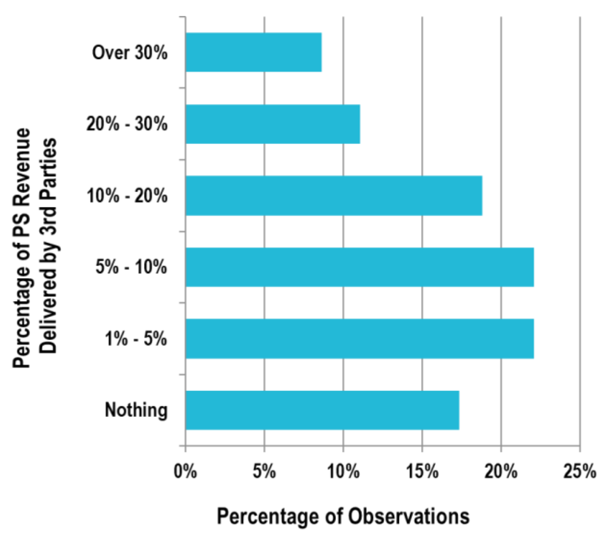
Source: SPI Research, February 2023

Percentage of PS Revenue Delivered by Third Parties

Figure 24 shows the distribution of survey responses in terms of the amount of revenue generated by third-party resources. The average percentage of PS revenue generated by subcontractors was 11.2%, a 1% reduction from 11.3% in 2021. ESOs used a third-party workforce to generate 10.8% of revenue, whereas independents reported 11.4%. APac used a third-party workforce to generate 11.3% of revenue; the Americas 11.8% and EMEA averaged 8.8%.

By vertical, Advertising agencies used the most outside subcontractors, generating 13.8% of revenues. SaaS used the least. At 9.2%, subcontractor use grows proportionately with organization size.

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



Source: SPI Research, February 2023

Table 27: YoY change in the Percentage of PS Revenue Delivered by 3rd-parties

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	11.3%	11.8%	11.2%	11.8%	9.4%	12.4%
2022	11.2%	10.8%	11.4%	11.8%	8.8%	11.3%
Change	**-1%**	**-9%**	**2%**	**1%**	**-7%**	**-9%**

Source: SPI Research, February 2023

Table 28: YoY change in the Percentage of PS Revenue Delivered by 3rd-parties by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	13.4%	10.3%	14.1%	9.3%	7.7%	8.0%	15.2%	7.9%
2022	12.6%	8.9%	12.3%	9.2%	13.0%	13.8%	12.4%	9.6%
Change	**-6%**	**-13%**	**-12%**	**-1%**	**68%**	**72%**	**-19%**	**21%**

Source: SPI Research, February 2023

Table 29: YoY change in the Percentage of PS Revenue Delivered by 3rd-parties by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	10.0%	11.1%	12.8%	10.1%	12.0%	12.3%
2022	9.9%	11.0%	11.5%	10.2%	14.3%	11.7%
Change	**-1%**	**0%**	**-10%**	**1%**	**19%**	**-5%**

Source: SPI Research, February 2023

Chapter 4

High-Performance Professional Services Organizations

HIGH-PERFORMANCE PROFESSIONAL SERVICES ORGANIZATIONS

SPI Research annually conducts in-depth analysis of the top 20% of PS Maturity™ benchmark participants to uncover the reasons for their superlative performance. The focus of this chapter is on the top 20%, or as SPI Research likes to call it, ***High-Performance PSOs*** (Level 4 and 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 operate more like them.

In this year's benchmark, SPI Research analyzed the top 141 (20%) firms according to aggregate PS Maturity™ scores. Each of the 709 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 30 highlights the 141 High-Performance PSOs. 73% were independents while 27% were embedded services organizations (ESOs).

The HPPs had 28% fewer employees than the others but had only 18% less in total revenue and 9% less in PS revenue. 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. High performing firms grew much faster, which tends to correlate strongly with performance and profit. The high performers used a smaller percentage of third party resources.

Table 30: High-Performance PSO Comparison – Demographics

Key Performance Indicator (KPI)	HPP	Rest	▲
Number of firms	141	568	
Size of PS organization (employees)	463	646	-28%
Annual company revenue (mm)	$152	$185	-18%
Total professional services revenue (mm)	$70.8	$77.8	-9%
Year-over-year change in PS revenue	17.3%	8.6%	101%
Year-over-year change in PS headcount	12.8%	7.4%	73%
% of employees billable or chargeable	79.1%	70.3%	13%
% of PS revenue delivered by 3rd-parties	10.1%	11.5%	-12%

Source: SPI Research, February 2023

Leadership

The leading firms tend to be highly specialized. They concentrate on specific high-growth technology or IT segments or vertical industries. The executives of high-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 high-performance firms foster a work environment that is fair and well-managed with ample rewards and career progression. Because employees understand and share in the success of these organizations, the atmosphere is one of collaboration, trust and loyalty.

Leadership is one of the most important factors driving success in the professional services market. 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 31: High-Performance PSO Comparison – Leadership (1-5 Scale)

Key Performance Indicator (KPI)	HPP	Rest	▲
Well understood vision, mission and strategy	4.21	3.80	11%
Confidence in PS leadership	4.43	3.99	11%
Ease of getting things done	4.20	3.60	17%
Goals and measurement alignment	4.02	3.60	12%
Employees have confidence in PSO's future	4.30	3.84	12%
Effectively communicates w/employees	4.13	3.87	7%
Embraces change - nimble and flexible	4.22	3.78	12%
Innovation focused	4.06	3.60	13%
Data-driven	3.85	3.37	14%
Total	**37.4**	**33.4**	**12%**

Source: SPI Research, February 2023

Table 31 compares the leadership metrics of the highest performing organizations with the remainder of the survey. The highest differential score is in the "ease of getting things done", and second was "data-driven," which is a new question in 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, both high performers and the rest generated revenue for approximately the same number of new and existing clients. HPP organizations usually generate more new logo client revenue than average firms as they are continually expanding their client base. It did not happen in this year's benchmark. HPPs generated 29.8% of their revenue from new logo clients compared to 29.2% for average firms. The high-performing firms were much more productive at sales in large part because their clients are much happier and more referenceable (Table 32). Leaders kept a significantly larger pipeline, bigger backlog, and won more bids. Sales success does help eliminate issues in other areas of firms, as growing PSO's tend to have happier consultants and make more money. It is always imperative for all professional service organizations to succeed in the sales process, with better and more targeted marketing combined with value-based selling. Client references, or more satisfied clients, 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 32: High-Performance PSO Comparison – Client Relationships

Key Performance Indicator (KPI)	HPP	Rest	▲
Current clients - existing services	55.2%	53.3%	3%
Current clients - new services	15.1%	17.5%	-14%
New logo clients - existing services	19.4%	18.9%	2%
New logo clients - new services	10.4%	10.3%	1%
Deal pipeline relative to qtr. bookings forecast	199%	151%	32%
Bid-to-win ratio (per 10 bids)	60.8%	47.3%	28%
Average service discount given	6.8%	8.4%	19%
Percentage of referenceable clients	78.3%	69.4%	13%
Solution development effectiveness	3.87	3.59	8%
Service sales effectiveness	3.74	3.56	5%
Service marketing effectiveness	3.25	3.22	1%

Source: SPI Research, February 2023

SPI Research found it interesting that high-performance sold much more Time and Materials based work (56.1% vs. 46.0%) than the others. With consultants in short supply, it is no wonder they can sell more T&M work.

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 continually learn and expand their knowledge base tend to stay with their employer. When the work is not challenging or interesting, morale suffers, and attrition rises. Over the past few years, most firms have moved to a 70% virtual environment, but the high performers had already moved to support virtual operations before COVID forced them to. This environment means they don't invest in expensive facilities but keep morale high with in-person meetings and company retreats and team building events to enhance communication and esprit de corps.

Table 33 compares Talent Pillar KPIs between the High-Performance PSOs and the others. Employee attrition, whether voluntary or involuntary went down this year to 13.2% for HPPs compared to 14.0% 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 2022. In 2020 the pandemic limited the ability of employees to seek new opportunities but 2021 brought an avalanche of resignations. In 2022 PSOs are beginning to settle in to the new normal.

Table 33: High-Performance PSO Comparison – Talent

Key Performance Indicator (KPI)	HPP	Rest	▲
Employee annual attrition - voluntary	8.5%	9.6%	11%
Employee annual attrition - involuntary	4.7%	4.4%	-8%
Days to recruit and hire for standard positions	63.3	64.8	2%
Days for a new hire to become productive	53.2	65.3	19%
Guaranteed annual training days / employee	10.5	10.3	2%
Employee billable utilization	**75.7%**	**69.3%**	**9%**
Annual fully loaded cost per consultant (k)	$143	$125	14%
Recommend company to friends/family	4.65	4.33	8%
Well-understood career path for all emp.	3.79	3.43	11%
Onsite delivery	**31.0%**	**36.3%**	**-15%**

Source: SPI Research, February 2023

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 (75.7% vs. 69.3%) than the rest. On average their employees bill over 100 additional hours per year per consultant. 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 superior job of supporting remote employees, which reduced nonproductive time, while impacting billable utilization very positively.

Service Execution

Table 34 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 can deliver most of them on-time and on-budget. They deliver projects with quality and integrity and are far more likely to use a standardized delivery methodology which results in more projects delivered on-time, fewer project overruns and fewer project cancellations. 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 also shows improvement in virtually every Service Execution Pillar metric, except the overall project duration (in man-months).

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 34: High-Performance PSO Comparison – Service Execution

Key Performance Indicator (KPI)	HPP	Rest	▲
Revenue per project (k)	$277	$181	53%
Project staff size (people)	4.37	4.55	-4%
Project duration (months)	6.27	6.49	-3%
Projects delivered on-time	85.7%	73.4%	17%
Project overrun	7.8%	10.5%	26%
Use a standardized delivery methodology	72.2%	60.8%	19%
Project margin for time & materials projects	46.6%	30.6%	52%
Project margin for fixed price projects	46.5%	30.5%	53%
Project margin — subs, offshore	39.1%	23.7%	65%
Onsite delivery	**31.0%**	**36.3%**	**-15%**

Source: SPI Research, February 2023

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.

Finance and Operations

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.

Table 35: High-Performance PSO Comparison – Finance and Operations

Key Performance Indicator (KPI)	HPP	Rest	▲
EBITDA	**20.4%**	**13.6%**	**50%**
Annual revenue per billable consultant (k)	$252	$187	35%
Annual revenue per employee (k)	$207	$149	39%
Quarterly revenue target in backlog	52.5%	41.7%	26%
Percentage of annual revenue target achieved	99.4%	90.4%	10%
Percentage of annual margin target achieved	96.8%	86.0%	13%
Revenue leakage	4.16%	5.17%	20%
Invoices redone due to error/client rejections	1.8%	2.2%	20%
Days sales outstanding (DSO)	47.2	46.6	-1%
Quarterly non-billable expense per employee	$1,550	$1,521	-2%
Executive real-time wide visibility	3.88	3.31	17%
Direct labor / direct labor revenue	58.5%	65.0%	-10%

Source: SPI Research, February 2023

Table 35 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 2022 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 2022, PSO's must respond. 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 36 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. The adjacent table highlights the use of business solutions to better run the business. High-Performance PSO's use the five core information solutions to improve their performance:

- ▲ Corporate Financial Management (CFM)
- ▲ Client Relationship Management (CRM)
- ▲ Professional Services Automation (PSA)
- ▲ Human Capital Management (HCM)
- ▲ 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 over half 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 almost half 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 36: High-Performance PSO Comparison – Business Applications

Solution	HPP	Rest	Delta
Corporate financial mgmt. solution (CFM)	96.4%	95.2%	1%
Satisfaction with financial solution	3.95	3.79	4%
Commercial CRM solution	89.8%	83.9%	7%
Satisfaction with CRM solution	4.11	3.83	7%
CRM is integrated with CFM	44.0%	46.1%	-4%
Commercial PSA	82.6%	77.4%	7%
Satisfaction with PSA solution	4.00	3.73	7%
PSA is integrated with CFM	53.1%	54.4%	-2%
Level of CRM and PSA Integration	47.5%	42.3%	12%
Commercial HCM solution	69.9%	70.7%	-1%
Satisfaction with HCM solution	3.60	3.63	-1%
HCM is integrated with CFM	40.0%	39.4%	2%
Use a commercial BI solution	56.5%	52.2%	8%
Satisfaction with BI solution	4.05	3.83	6%
BI is integrated	57.9%	46.6%	24%

Source: SPI Research, February 2023

High-Performance Conclusions

The firms highlighted in this chapter had extremely strong results, and its leaders manage their firm judiciously. Each year the KPIs change, but regardless of economic conditions, the competition, or other geopolitical issues, high performing firms figure out a way to succeed. SPI Research has worked with many of these firms to improve performance. And like the game of golf, a great score in one year doesn't necessarily mean a great score the next. Focus is the key and high performers always look for improvements.

Chapter 5

Professional Services Business Applications

PROFESSIONAL SERVICES BUSINESS APPLICATIONS

In developed nations the growth engine of the world's economy has shifted from manufacturing to project-based, people-centric services businesses. Service Performance Insight began as an analyst firm focused on the tools project-based professional services organizations use to improve performance. It began with Professional Services Automation (PSA) and how it helps PSO's optimize service delivery. Over the following years SPI began to evaluate the other four core solutions professional services organizations use to achieve their desired goals and performance objectives (CFM, CRM, HCM and BI). 25 years ago, very few PSOs used tools other than an accounting package to manage money. As professional services organizations are increasingly under the microscope to meet time and quality objectives, as well as financial and regulatory goals, the tools they began to use were necessary, if not mandatory.

Business Intelligence (BI) solutions are relatively new to PSOs, but due to the importance of planning in an uncertain market, these tools have become depended on by PS leaders. Client Relationship Management (CRM) solutions have been around over 25 years, and most large PSO's use them to manage marketing and sales activities. Human Capital Management (HCM) has also been around for years but has gained increased popularity in firms of all sizes as the need to optimize talent becomes imperative. Each of these solutions should ideally be integrated so that PSOs will have visibility and process automation to ensure they work at their highest level of performance.

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 added rich talent management capabilities to support recruitment, on-boarding, compensation and rewards for the employees who are their core asset. The fact is that as globalization continues to evolve, PS firms need the tools to help them more efficiently and effectively operate.

This chapter provides PS executives and software application providers insight into the level of market adoption, integration and satisfaction with core Professional Services business applications from this year's benchmark survey. The solutions highlighted in this chapter help PSOs optimize operational effectiveness through increased visibility, streamlined business processes and cost management.

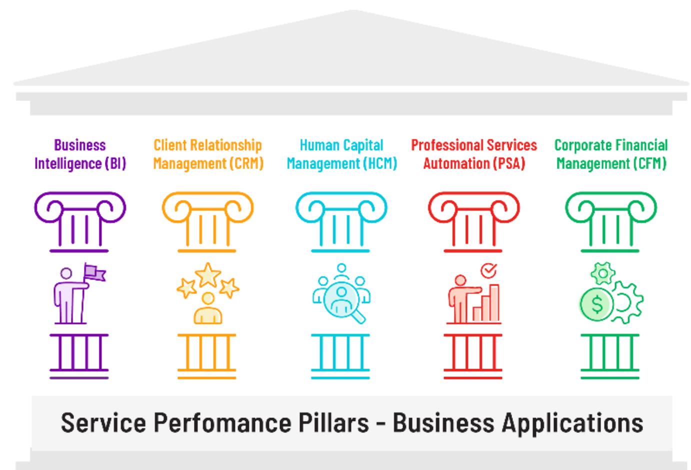
This study is not intended to be an overall application market adoption survey and should not be relied on as such.

Primary Professional Services Business Applications

The primary business applications used by Professional Services organizations include (Figure 25):

- **Business Intelligence (BI)**: The assembly and use of information to improve decision-making, extensively used in planning and analysis.
- **Client Relationship Management (CRM)**: The automation of client relationship processes to improve sales and marketing efficiency and effectiveness.
- **Human Capital Management (HCM)**: Talent management solutions for recruiting, hiring, compensation, goal setting and career and performance management which rely on integration with and extracts from the employee database.

Figure 25: Professional Services Primary Business Applications

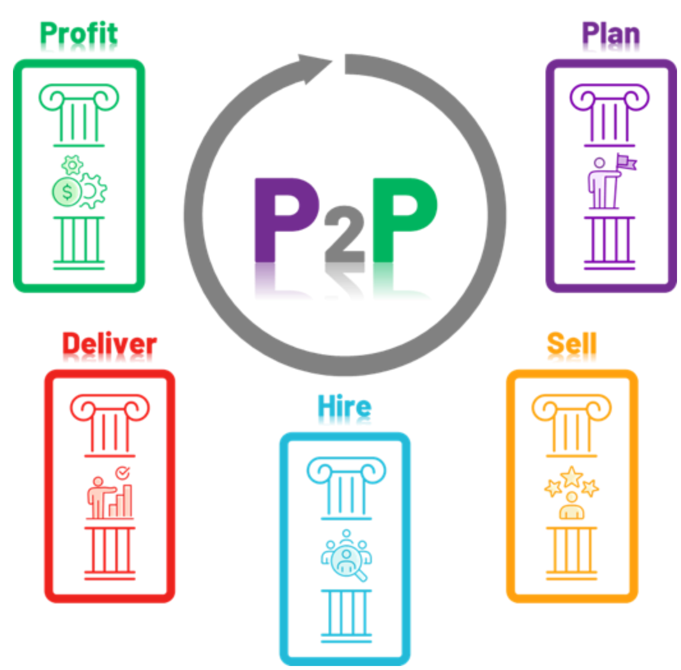


Source: SPI Research, February 2023

- **Professional Services Automation (PSA)**: The initiation, planning, execution, close and control of projects and services through the management and scheduling of resources that include people (both internal and partners), materials and equipment.
- **Corporate Financial Management (CFM) or Enterprise Resource Planning (ERP)**: The fundamental solution required to accurately collect and report financial transactions.

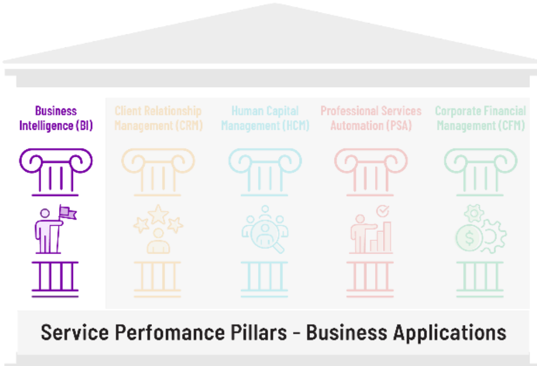
Both embedded and independent professional services organizations require similar functionality. The service industry's use of technology has typically lagged the manufacturing sector, but the global size, complexity and growth of today's service businesses has accentuated the need for specialized applications along with an increased demand for real-time information. Figure 26 highlights the Importance of these solutions to optimize operations from annual planning through the achievement of high levels of profit, what SPI Research calls the **Plan-to-Profit** process.

Figure 26: PS Business Applications Support the Plan-to-Profit



Source: SPI Research, February 2023

Business Intelligence (BI)



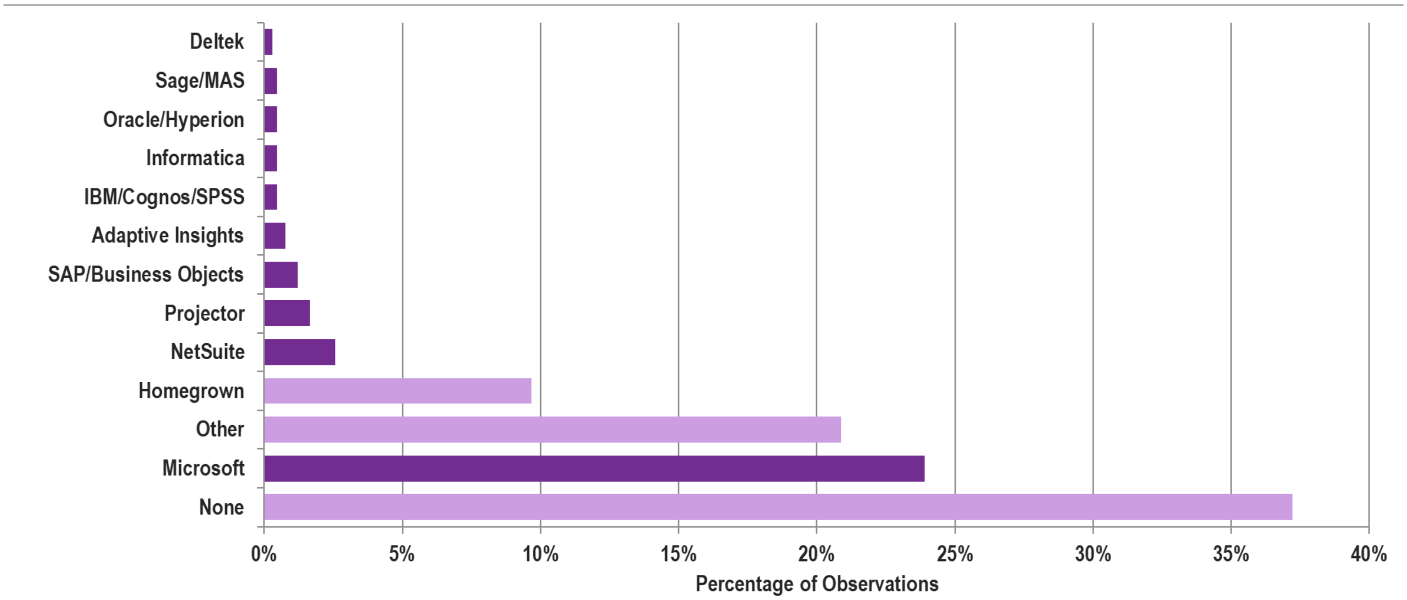
Business Intelligence integrates information from core business applications to improve strategic analysis, demand and capacity planning, budgeting, forecasting and financial planning. BI solutions continue to increase adoption in PSOs, whether they are offered as stand-along tools or part of the business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

Business Intelligence (BI)

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

Figure 27 shows relatively low adoption levels of Business Intelligence in this year's survey, like previous results. None, Microsoft, other and homegrown are the most prevalent BI solutions. Of the application suite providers, NetSuite/Oracle/ Hyperion; SAP/ Business Objects and Workday/ Adaptive Insights; each have a wide following.

Figure 27: Business Intelligence (BI) Solution used by firms completing this survey



Source: SPI Research, February 2023

The results in Table 37 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.

Surprisingly to SPI Research, as shown in Table 38, BI solutions are fully integrated with the core financial application by less than 30% of the organizations surveyed. This lack of integration suggests most organizations are still relying on standalone planning and analysis tools along with excel.

Table 37: Impact – Business Intelligence (BI) Use

Key Performance Indicator (KPI)	BI Used	BI Not Used	▲
Survey %	53.1%	46.9%	
Year-over-year change in PS revenue	11.2%	10.3%	9%
Year-over-year change in PS headcount	9.2%	8.3%	12%
Deal pipeline / quarterly bookings forecast	168%	153%	10%
Project duration (man-months)	35.7	31.2	14%
Profit (EBITDA %)	**17.3%**	**15.5%**	**11%**

Source: SPI Research, February 2023

Table 38: Impact – BI Integration

BI is integrated	Survey %	Revenue growth	Discount	Pipeline	Ann. rev./ consult. (k)	Profit (EBITDA)
No	44.5%	9.5%	7.3%	149%	$199	14.2%
Partially	26.8%	11.6%	9.8%	165%	$202	17.0%
Yes	28.6%	11.8%	10.1%	179%	$222	18.3%
Total/Average	**100.0%**	**10.4%**	**8.0%**	**162%**	**$204**	**16.1%**

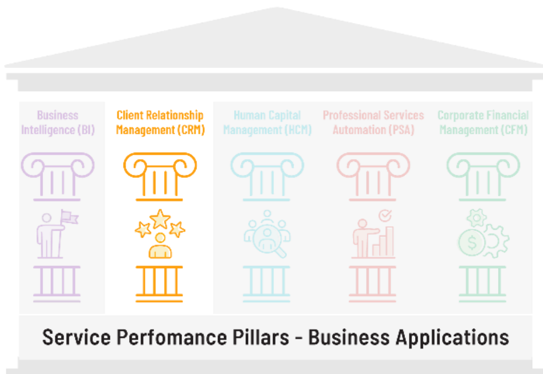
Source: SPI Research, February 2023

Table 39: Impact – BI Satisfaction

Satisfaction with BI solution	Survey %	Pipeline	% of bids won	Billable utilization	Revenue per project (k)	on-time delivery
Very Dissatisfied	3.0%	135%	45.4%	65.8%	$134	63.8%
Somewhat Dissatisfied	5.3%	148%	47.4%	70.2%	$201	73.3%
Indifferent	28.3%	154%	51.3%	72.0%	$230	77.0%
Somewhat Satisfied	38.3%	170%	49.5%	71.3%	$205	75.5%
Very Satisfied	25.1%	173%	53.5%	71.7%	$213	76.3%
Total/Average	**100.0%**	**164%**	**50.8%**	**71.4%**	**$212**	**75.6%**

Source: SPI Research, February 2023

Client Relationship Management (CRM)



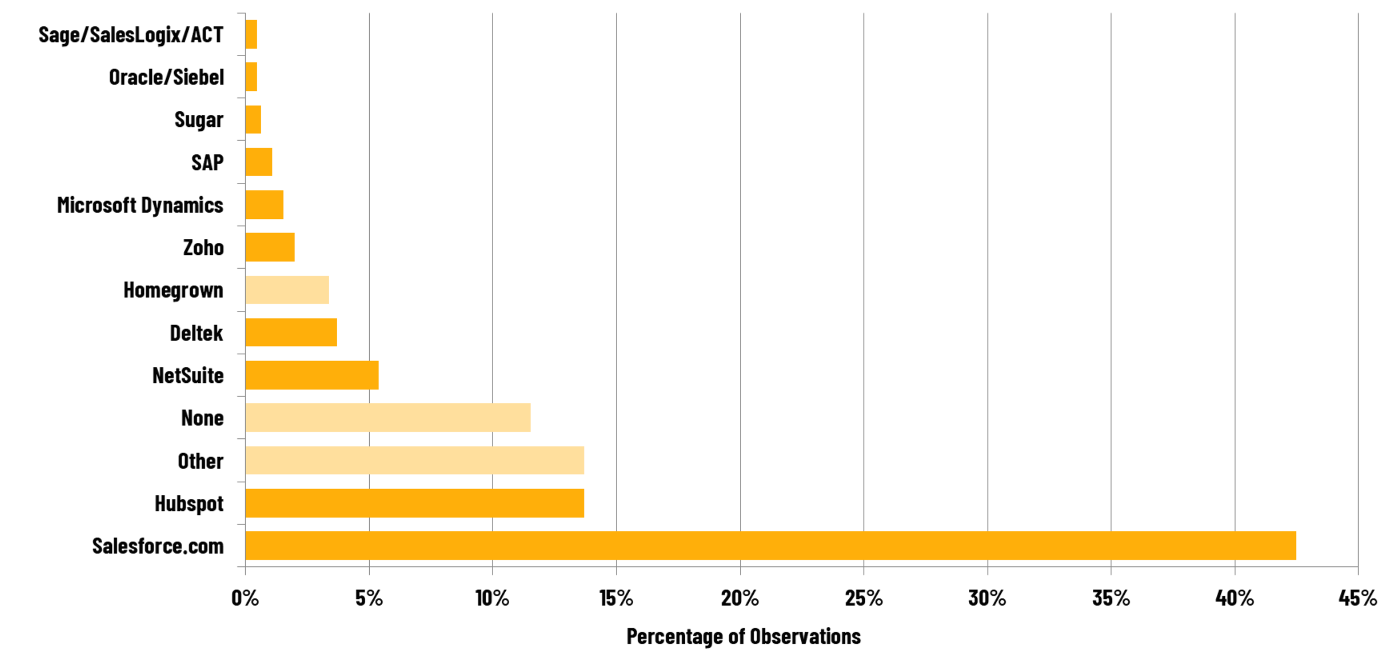
CRM supports the management of client relationships and is designed to improve sales and marketing effectiveness. CRM automates lead, contact and campaign management, sales pipeline, territory and contract management. Many CRM applications also provide powerful call center functionality for issue management; 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 28 shows Salesforce.com dominance once again with use by 42.5% (276) of the organizations surveyed. HubSpot moved into 2nd place, followed by NetSuite and Deltek. Salesforce dominance in the PS industry is slipping somewhat from 60% market share two years ago.

Figure 28: Client Relationship Management (CRM) Solution used by firms completing this survey



Source: SPI Research, February 2023

Table 40 compares organizations using CRM to those who do not. 14.9% 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 41: Impact – CRM Integration

CRM is integrated	Survey	Year-over-year change in PS revenue	Deal pipeline / quarterly bookings forecast	Percentage of bids won	Direct labor / Revenue	Profit (EBITDA %)
No	41.8%	10.1%	155.1%	49.1%	62.7%	14.9%
Partially	29.1%	11.2%	171.2%	51.5%	63.5%	16.7%
Yes	29.1%	11.0%	166.8%	52.2%	61.0%	17.6%
Total/Average	**100.0%**	**10.8%**	**163.2%**	**50.7%**	**62.4%**	**16.2%**

Source: SPI Research, February 2023

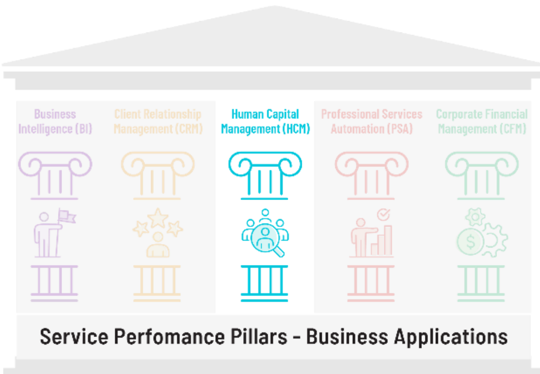
Table 41 highlights the benefits organizations receive as they move from no CRM to nonintegrated CRM to integrated CRM with significantly higher growth, especially in their ability to land new clients. With a stronger sales pipeline, revenue yields soar for billable consultants because there is a predictable and steady stream of work. These benefits underscore the importance of providing greater visibility and improved alignment between sales and service delivery. These benefits are amplified as organizations grow.

Table 42: Impact – CRM Satisfaction

Satisfaction with CRM solution	Survey	Revenue growth	Deal pipeline	Percentage of bids won	Project margin	Profit (EBITDA %)
Very Dissatisfied	3.2%	6.9%	160.5%	50.0%	31.5%	4.6%
Somewhat Dissatisfied	8.7%	13.0%	176.5%	47.6%	35.9%	8.6%
Indifferent	15.9%	10.7%	147.3%	48.7%	33.5%	22.6%
Somewhat Satisfied	43.9%	9.9%	162.0%	49.8%	35.8%	17.9%
Very Satisfied	28.4%	11.9%	174.0%	53.6%	37.7%	14.1%
Total/Average	**100.0%**	**10.8%**	**164.3%**	**50.6%**	**35.8%**	**16.3%**

Source: SPI Research, February 2023

Human Capital Management (HCM)



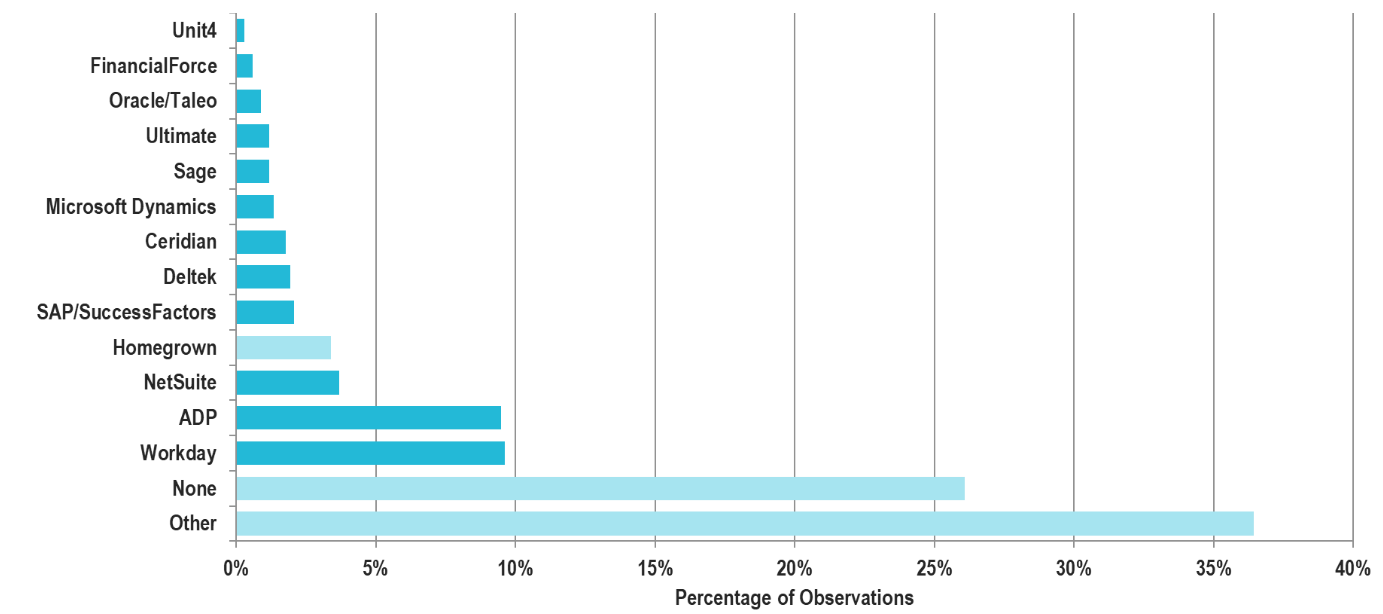
Human Capital Management (HCM) solutions (also known as talent management solutions) give employers the tools to effectively recruit, hire, onboard, train, evaluate and compensate employees. By tracking performance, skills and career progression, HCM helps companies create and maintain a high-performance 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.

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. They may also include workforce management functionality for time capture, time off and time and attendance tracking including workforce forecasting, budgeting and scheduling. Employee and manager self-service are now embedded roles in HCM business processes. Mobile access has become a fundamental component of HCM to support virtual operations, approvals and reporting.

Human Capital Management (HCM)

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

Figure 29: Human Capital Management (HCM) Solution used by firms completing this survey



Source: SPI Research, February 2023

Figure 29 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 70.5% of them although "none" still has top billing. HCM prevalence among the largest PSOs is significant. The average size of the PS organization using HCM is 726 employees compared to 366 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, as well as reach smaller organizations.

Table 43: Impact – Human Capital Management (HCM) Use

Key Performance Indicator (KPI)	HCM Used	HCM Not Used	▲
Survey %	70.5%	29.5%	
Size of PS organization (employees)	726	366	98%
Year-over-year change in PS revenue	11.4%	8.3%	38%
Year-over-year change in PS headcount	9.7%	6.5%	51%
Annual revenue per billable consultant (k)	$211	$190	11%
Annual revenue per employee (k)	$168	$158	7%

Source: SPI Research, February 2023

Of the solutions highlighted in this year's benchmark, ADP, Workday, NetSuite, SAP and Deltek 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 have added rich predictive analytics, providing visibility into levels of employee engagement to provide early warning for employees who are likely to quit. Their recruiting tools are very powerful with out-of-the-box integration to all the top job sites.

Table 44 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 44: Impact – HCM Integration

HCM is integrated	Survey	Profit (EBITDA %)	Total PS revenue (mm)	Direct labor / revenue	YoY change in PS revenue	Project overrun
No	51.3%	13.0%	$64	65.5%	11.1%	9.3%
Partially	26.2%	15.5%	$110	62.7%	10.8%	9.9%
Yes	22.5%	24.5%	$131	58.4%	11.4%	10.8%
Total/Average	**100.0%**	**16.3%**	**$91**	**63.2%**	**11.1%**	**9.8%**

Source: SPI Research, February 2023

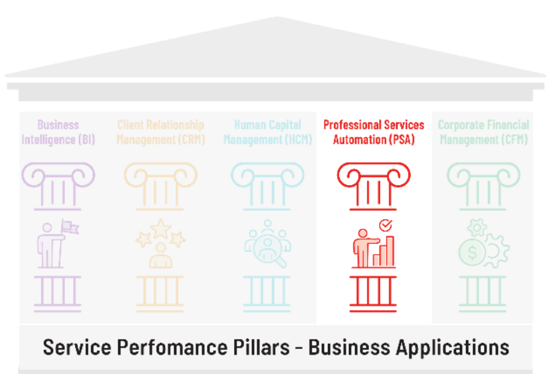
Table 45: Impact – HCM Satisfaction

Satisfaction with HCM solution	Survey	Well understood vision, mission and strategy	Percentage of referenceable clients	Recommend company to friends/family	Executive real-time wide visibility	Profit (EBITDA %)
Very Dissatisfied	4.7%	3.56	64.1%	4.16	3.56	12.3%
Somewhat Dissatisfied	8.8%	3.60	69.4%	4.21	3.18	12.8%
Indifferent	31.5%	3.77	70.7%	4.37	3.41	19.0%
Somewhat Satisfied	35.2%	3.99	71.0%	4.42	3.49	15.0%
Very Satisfied	19.9%	4.11	72.3%	4.59	3.76	18.5%
Total/Average	**100.0%**	**3.89**	**70.7%**	**4.41**	**3.49**	**16.7%**

Source: SPI Research, February 2023

Although HCM satisfaction lags 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.

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

Professional Services Automation (PSA)

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

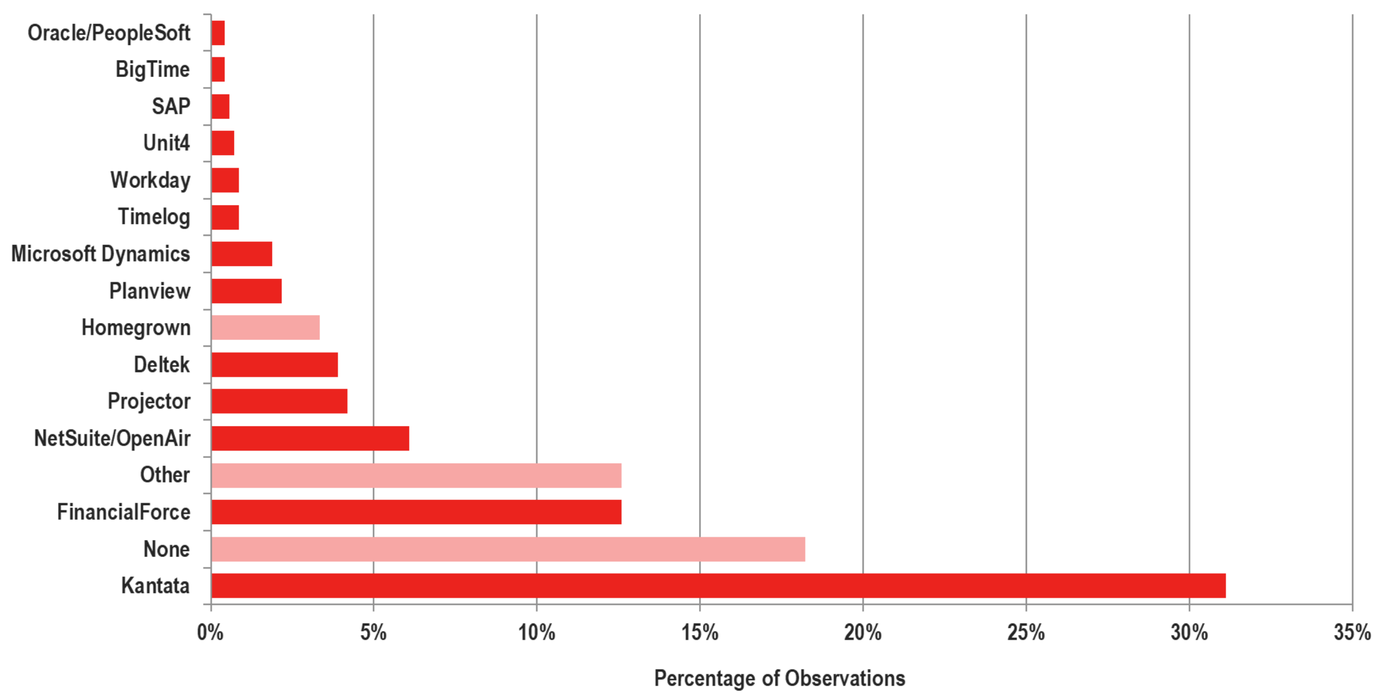
contractor database. It is used to collect time and expense by project and resource down to the task level, so it is the system of record for resource utilization and project cost and estimating.

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

This year adoption of a commercial PSA increased from 76.4% to 78.4%. PSA satisfaction went down slightly this year from 3.98 out of 5 to 3.74. Every key metric improves with the use of PSA.

Figure 30 shows this year Kantata as the most adopted PSA solution in the survey with approximately 31.1% (215 firms) of the survey. FinancialForce was the second-most prevalent solution with 12.6% (87 firms). NetSuite is third with 8.9% (43 firms). Kimble is fourth with 6.1% (42 firms). Projector, Deltek and FinancialForce won the top honors for client satisfaction with 93.6%, 82.2% and 81.2% respectively. As the PSA market has matured, SPI Research sees solution providers coalescing by ecosystem. FinancialForce and Kantata 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.

Figure 30: Professional Services Automation (PSA) Solution used by firms completing this survey



Source: SPI Research, February 2023

Table 46 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 6% (from 67.6% to 71.5%) increase in billable utilization as a primary reason to select PSA.*** **For a 100-person PS organization, 6% translates to 7,800 more billable hours per year. With average bill rates of $200 per hour, the PSO can produce $1.5mm in incremental revenue!** Almost all key metrics improve with PSA adoption. PSA pays for itself with substantially higher consultant revenue yields, better project margins and more bottom-line EBITDA profit. Go to https://spiresearch.com/spi-research/reports/2022psaeusreport.html for more information on the benefits and ROI on PSA.

Table 46: Impact – Professional Services Automation (PSA) Use

Key Performance Indicator (KPI)	PSA Used	PSA Not Used	▲
Survey %	78.4%	21.6%	
Year-over-year change in PS revenue	11.0%	8.9%	24%
Deal pipeline / quarterly bookings forecast	167%	141%	18%
Employee billable utilization	**71.5%**	**67.6%**	**6%**
Project duration (man-months)	35.4	28.8	23%
Annual revenue per billable consultant (k)	$206	$197	5%
Annual revenue per employee (k)	$166	$160	4%
Project margin	**35.6%**	**32.9%**	**8%**

Source: SPI Research, February 2023

Table 47 highlights the benefits of integrated PSA versus standalone PSA. Again, the results demonstrate integrated PSA enables organizations to operate at higher levels of efficiency.

Table 47: Impact – PSA Integration

PSA is integrated	Survey	Employee billable utilization	Revenue per project (k)	Use a standardized delivery methodology	Annual revenue per billable consultant (k)	Profit (EBITDA %)
No	35.2%	69.8%	$179	62.2%	$192	15.7%
Partially	30.5%	70.8%	$227	63.6%	$204	16.1%
Yes	34.3%	72.6%	$228	65.2%	$219	14.7%
Total/Average	**100.0%**	**71.0%**	**$211**	**63.6%**	**$205**	**15.4%**

Source: SPI Research, February 2023

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

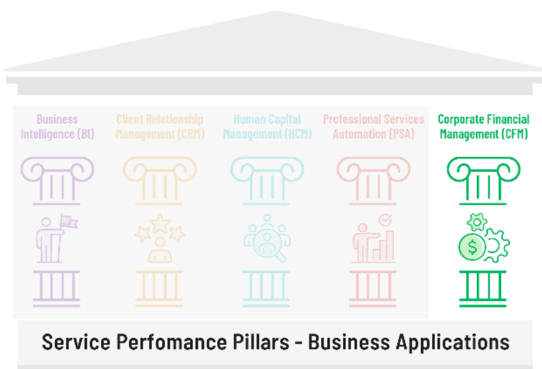
Table 48: Impact – PSA Satisfaction

Satisfaction with PSA solution	Survey	% of employees billable	Billable utilization	Project staff (people)	Project duration (months)	Project margin
Very Dissatisfied	5.2%	68.2%	67.6%	4.98	6.29	32.1%
Somewhat Dissatisfied	9.0%	73.3%	72.1%	4.09	6.51	32.2%
Indifferent	15.9%	68.7%	70.1%	4.38	5.71	32.4%
Somewhat Satisfied	46.1%	72.8%	70.7%	4.58	6.42	36.2%
Very Satisfied	23.8%	74.1%	72.6%	4.61	6.47	37.7%
Total/Average	**100.0%**	**72.2%**	**71.0%**	**4.53**	**6.32**	**35.4%**

Source: SPI Research, February 2023

Table 48 highlights the correlation between PSA satisfaction and performance. It is one thing to use PSA solutions, it is another to embrace what PSA can do for PSOs and use it to its maximum capabilities. Satisfaction comes from seeing the benefits PSA provides and users who are satisfied with it tend to drive better results.

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 five years, project accounting, resource management and time capture and billing modules have been added to many ERP applications. Now most project-based ERP providers also add Human Capital Management (HCM) or talent management extensions to accentuate the important role that recruitment and engagement of a talented workforce has in today's economy. Support for specialized billing methods and complex revenue recognition rules for subscriptions, time and materials, work-in-process, deliverables-based or percentage completion are important project-based ERP extensions. Architects, Engineers and Government Contractors require purchasing modules and cost-plus accounting for materials and labor pricing as well as support for DCAA and FARS compliance. With the advent of COVID in 2020 almost all organizations were forced to move to virtual operations, making mobile access to financial systems mandatory. In 2021 and 2022 even more firms took advantage of virtual operations including mobile cash management. Interviews with CFOs reveals top selection criteria for business applications include powerful yet easy to use reporting capability with mandatory mobile access.

As shown in Table 49, most services-driven organizations use CFM, and most now are cloud-based. Cloud-based financials provide significant benefits compared to legacy on-premise solutions. They make it easier and less expensive to stay current on new releases; they provide greater adoption and ease of use; they provide support for new digital capabilities including artificial intelligence, machine-learning and robotic process automation; and faster introduction for advanced billing, revenue recognition; multi-entity; multi-lingual and multi-currency accounting and taxation.

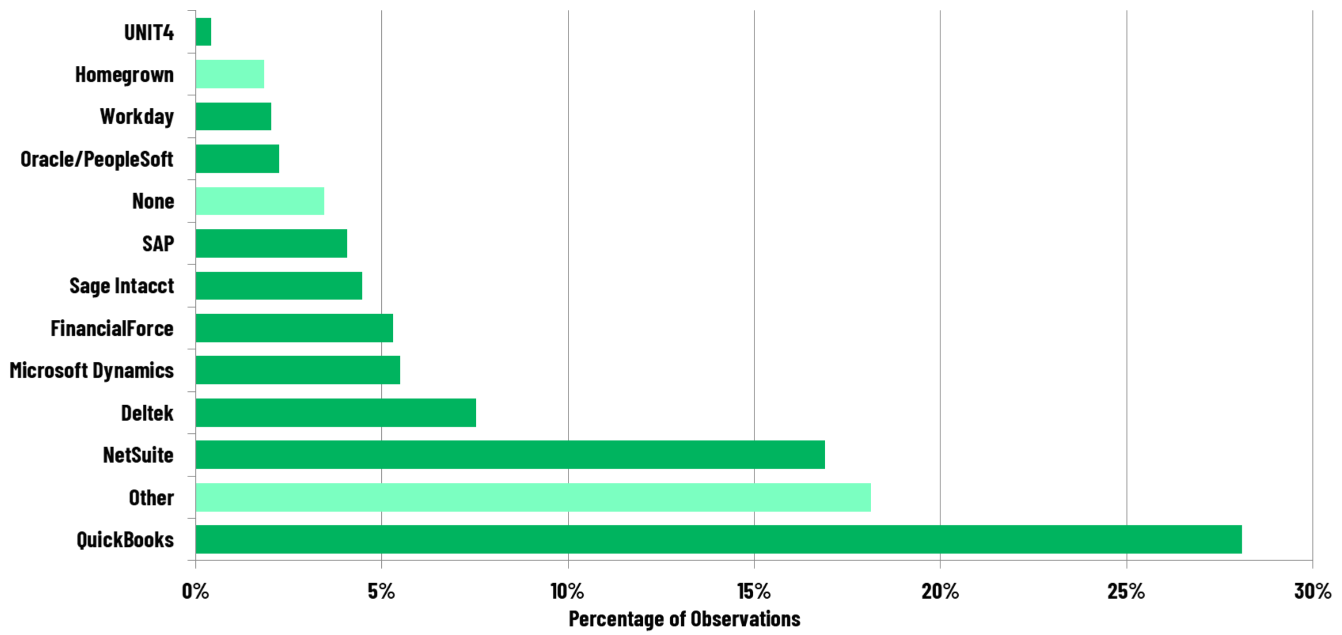
Table 49: Impact – Corporate Financial Management (CFM) Use

Key Performance Indicator (KPI)	CFM Used	CFM Not Used	▲
Survey %	95.5%	4.5%	95.5%
Year-over-year change in PS revenue	10.7%	6.0%	78%
Year-over-year change in PS headcount	8.9%	3.2%	176%
Quarterly revenue target in backlog	45.2%	30.0%	51%
Annual revenue per billable consultant (k)	$207	$139	48%
Annual revenue per employee (k)	$166	$124	34%
Project margin	35.1%	32.9%	7%
Profit (EBITDA %)	**16.4%**	**-3.2%**	

Source: SPI Research, February 2023

This year's survey included responses from 141 QuickBooks; 110 NetSuite; 49 Deltek; 45 Microsoft; 44 FinancialForce and Sage; financials clients. QuickBooks is perennially the leading financial solution for small and medium sized PSOs with 20% of survey respondents using it. QuickBooks market-share has not declined despite the plethora of cost-effective low-end solutions that have come to market with the project accounting and resource management functionality needed by PS firms (Figure 31).

Figure 31: Corporate Financial Management (CFM) Solution used by firms completing this survey



Source: SPI Research, February 2023

CRM / PSA Integration

CRM and PSA solutions are both used by client-facing groups. It is essential sales and service delivery employees communicate effectively. Integrated CRM and PSA help sales and service delivery better collaborate to ensure sales is selling what service delivery can deliver. Table 50 shows just a few of the benefits achieved when PSO integrate CRM and PSA. Increased pipelines and a higher percentage of bids won help drive revenue growth, even with larger discounts given.

Table 50: Impact – CRM / PSA Integration

PSA and CRM are integrated	Survey	Revenue growth	Deal pipeline	Percentage of bids won	Service discount given	Annual revenue/ emp. (k)
No	46.3%	10.1%	152$	48.1%	6.9%	$157
Partially	20.8%	11.4%	156%	50.3%	8.8%	$167
Yes	32.9%	10.4%	179%	52.8%	9.4%	$171
Total/Average	**100.0%**	**10.4%**	**162%**	**50.1%**	**8.1%**	**$164**

Source: SPI Research, February 2023

PS Solution Adoption

In this year's survey, commercial adoption increased in all the primary business applications except for Business Intelligence (Table 51). SPI Research found this surprising as PSOs have been challenged to better plan, budget and replan throughout the year as the economy changes. SPI's clients emphasized the importance of business and capacity planning tools to help them 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 integration of HCM and PSA gives employers and employees visibility to upcoming projects and the skills they need to be part of them. The abundance of high quality, affordable cloud-based solutions has enabled greater numbers of PSOs to adopt commercial business applications, yet a surprisingly large number of firms still rely on antiquated homegrown applications and spreadsheets. Excel and Google sheets remain the most-used business applications.

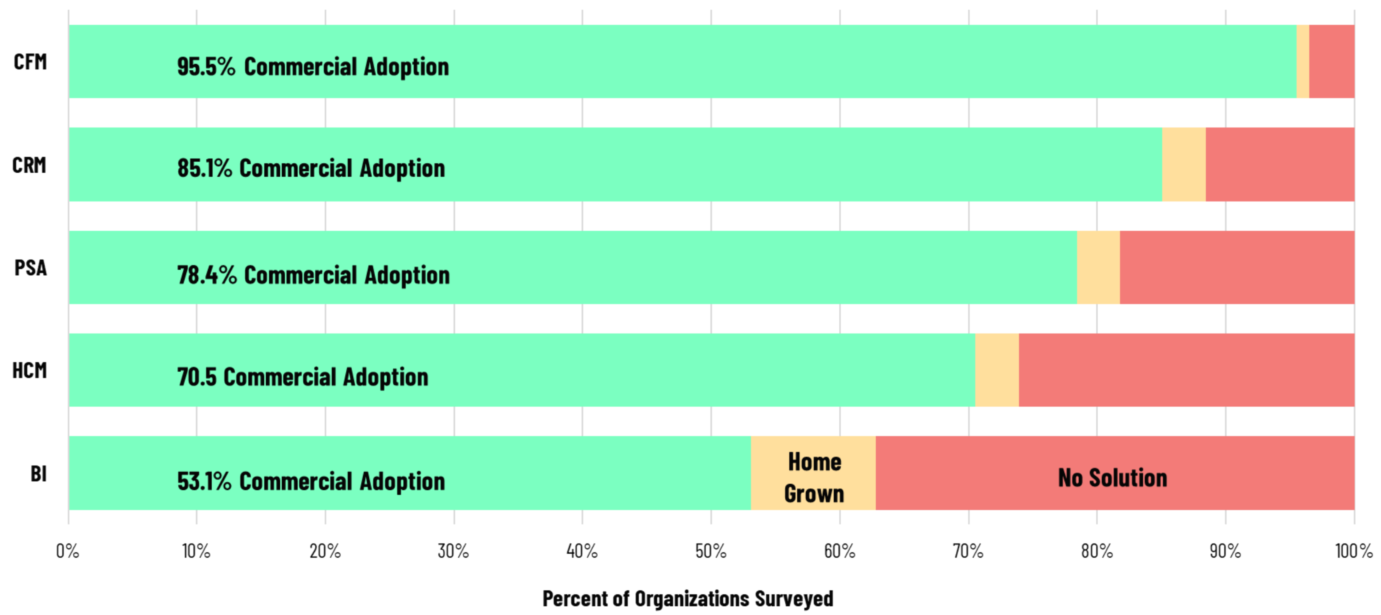
Table 51: Commercial Solution Adoption

Solution	2020	2021	2022
Business Intelligence (BI)	53.4%	57.4%	53.1%
Client Relationship Management (CRM)	83.4%	82.4%	85.1%
Human Capital Management (HCM)	69.7%	65.2%	70.5%
Professional Services Automation (PSA)	79.0%	76.1%	78.4%
Corporate Financial Management (CFM)	94.4%	94.7%	95.5%

Source: SPI Research, February 2023

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.

Figure 32: Commercial Solution Adoption



Source: SPI Research, February 2023

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 firms are also investing in Marketing Automation to generate leads, track prospects and build the brand. Corporate Performance Management applications for capacity and resource planning along with budgeting and forecasting are becoming essential as are communication and collaboration platforms like Slack, Jira, Microsoft Teams and Zoom (Figure 32).

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.

Table 52 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. Now EMEA and the Americas have the same PSA usage. BI and CRM had the highest user satisfaction in the survey. 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 SPI's research shows much of HCM's functionality has not been fully deployed or adopted. Effective HCM usage requires effective talent management processes including change management along with leadership training and development. Unfortunately, the role of human resources has not yet become strategic for many consultancies.

Table 52: Business Application Use by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2022	ESO	PSO	Americas	EMEA	APac
Commercial CFM solution used	95.5%	97.6%	94.6%	97.3%	91.5%	88.1%
Satisfaction with CFM solution	3.82	3.68	3.89	3.83	3.76	3.93
Commercial CRM solution	85.1%	95.9%	80.4%	86.7%	80.0%	80.8%
Satisfaction with CRM solution	3.89	3.97	3.85	3.94	3.78	3.64
CRM is integrated	45.7%	57.9%	39.3%	45.7%	44.6%	47.4%
Commercial PSA solution	78.4%	89.0%	73.9%	78.7%	78.7%	75.9%
Satisfaction with PSA solution	3.79	3.75	3.81	3.76	3.89	3.89
PSA is integrated	54.1%	52.5%	55.0%	54.6%	53.3%	51.2%
Commercial HCM solution	70.5%	84.7%	64.4%	72.7%	65.8%	60.7%
Satisfaction with HCM solution	3.62	3.58	3.65	3.63	3.56	3.76
HCM is integrated	39.5%	40.7%	38.8%	40.3%	33.1%	45.6%
Commercial BI solution	53.1%	61.4%	49.6%	51.7%	56.2%	58.9%
Satisfaction with BI solution	3.89	3.77	3.95	3.88	3.83	4.08
BI is integrated	49.2%	56.7%	44.7%	49.6%	50.8%	42.4%
CRM / PSA integration	43.3%	57.6%	37.3%	44.4%	40.9%	38.8%

Source: SPI Research, February 2023

The level of solution adoption is much higher within embedded PS organizations. The table shows CRM and PSA are 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 that is responsible for bringing services into deals. Product companies tend to value and invest more in IT than independent service providers.

Table 53 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 53: 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	69.6%	94.1%	100.0%	100.0%	100.0%	100.0%
Satisfaction with CFM solution	4.10	3.89	3.90	3.66	3.72	3.75
Commercial CRM solution	64.5%	85.7%	82.3%	92.1%	93.4%	92.1%
Satisfaction with CRM solution	3.92	3.79	3.99	3.90	3.74	3.89
CRM is integrated	36.7%	35.7%	38.7%	48.4%	58.3%	64.2%
Commercial PSA solution	43.4%	75.2%	82.8%	85.7%	80.6%	89.4%
Satisfaction with PSA solution	3.61	3.80	3.94	3.82	3.40	3.78
PSA is integrated	43.5%	50.6%	47.1%	58.6%	59.0%	66.0%
Commercial HCM solution	38.7%	57.9%	67.6%	85.3%	90.8%	80.7%
Satisfaction with HCM solution	3.88	3.67	3.68	3.47	3.53	3.72
HCM is integrated	42.0%	42.9%	34.4%	34.8%	42.0%	51.5%
Commercial BI solution	34.2%	49.5%	43.5%	65.3%	56.5%	72.8%
Satisfaction with BI solution	4.09	3.98	3.86	3.81	3.96	3.80
BI is integrated	29.2%	45.2%	47.7%	47.4%	65.1%	54.0%
CRM / PSA integration	20.1%	28.2%	44.7%	50.7%	55.3%	60.0%

Source: SPI Research, February 2023

Table 54 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 54: Business Application Use by Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.
Firms	173	106	84	73	67
Commercial CFM solution used	95.8%	86.4%	98.8%	95.8%	100.0%
Satisfaction with CFM solution	3.93	3.92	3.61	3.58	4.03
Commercial CRM solution	89.0%	77.6%	97.3%	98.6%	71.0%
Satisfaction with CRM solution	3.97	3.80	3.89	4.01	3.66
CRM is integrated	41.9%	30.9%	52.1%	65.4%	50.0%
Commercial PSA solution	81.3%	65.3%	85.2%	100.0%	68.3%
Satisfaction with PSA solution	3.88	3.91	3.74	3.80	3.86
PSA is integrated	58.7%	49.2%	52.8%	52.2%	74.4%
Commercial HCM solution	69.5%	56.1%	84.8%	92.9%	62.9%
Satisfaction with HCM solution	3.67	3.50	3.59	3.56	3.69
HCM is integrated	35.8%	41.5%	43.3%	37.7%	51.4%
Commercial BI solution	55.4%	42.4%	61.8%	62.9%	47.3%
Satisfaction with BI solution	4.10	3.89	3.68	3.89	3.77
BI is integrated	56.4%	33.0%	51.7%	62.5%	54.0%
CRM / PSA integration	45.3%	30.9%	56.2%	69.7%	38.1%

Source: SPI Research, February 2023

Table 55 shows a mixed bag of business application use by Advertising, Accountancies, Healthcare providers and other PS. Accountancies typically have lower levels of business application use except for BI tools.

Table 55: Business Application Use by Market Continued

Key Performance Indicator (KPI)	Advertise. / PR	Healthcare/ Pharma	Acct	Staffing	All Others
Firms	46	22	19	12	119
Commercial CFM solution used	95.3%	100.0%	94.7%	100.0%	97.4%
Satisfaction with CFM solution	3.97	3.67	3.50	3.91	3.80
Commercial CRM solution	82.2%	84.2%	77.8%	90.9%	79.4%
Satisfaction with CRM solution	4.00	3.44	3.36	3.89	3.97
CRM is integrated	30.6%	50.0%	54.2%	43.8%	44.1%
Commercial PSA solution	78.3%	76.2%	68.4%	91.7%	75.0%
Satisfaction with PSA solution	3.62	3.65	3.50	3.36	3.68
PSA is integrated	39.7%	53.1%	45.0%	50.0%	50.0%

Key Performance Indicator (KPI)	Advertise. / PR	Healthcare/ Pharma	Acct	Staffing	All Others
Commercial HCM solution	54.5%	81.0%	52.6%	91.7%	72.2%
Satisfaction with HCM solution	3.88	3.35	3.00	4.00	3.73
HCM is integrated	43.2%	44.1%	28.6%	50.0%	35.3%
Commercial BI solution	44.2%	52.6%	68.4%	41.7%	50.9%
Satisfaction with BI solution	3.85	3.55	3.83	4.14	3.87
BI is integrated	42.1%	40.0%	27.8%	80.0%	44.4%
CRM / PSA integration	31.4%	27.5%	34.2%	45.8%	37.7%

Source: SPI Research, February 2023

Solution Satisfaction

Table 56 shows application satisfaction (1: very dissatisfied to 5: very satisfied). Satisfaction with CRM tops the list followed by PSA and BI. PSOs have begun to exploit the functionality of HCM more fully beyond payroll for recruiting, learning management, career management and skill building and certification.

Table 56: Solution Satisfaction

Key Performance Indicator (KPI)	2020	2021	2022
Client Relationship Management (CRM)	3.98	4.04	3.89
Business Intelligence (BI)	3.71	3.89	3.89
Corporate Financial Management (CFM)	3.77	3.85	3.82
Professional Services Automation (PSA)	3.89	3.98	3.79
Human Capital Management (HCM)	3.48	3.75	3.62

Source: SPI Research, February 2023

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 33). 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.

Figure 33: Success Depends on Inter-departmental Cooperation

Source: SPI Research, February 2023

Today's PSOs simply cannot operate with functional silos as the lines between sales, HR, delivery and finance become blurred.

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 57: Solution Integration with Core Financials

Solution	2020	2021	2022
Professional Services Automation (PSA)	52.7%	61.2%	54.1%
Client Relationship Management (CRM)	40.2%	44.6%	45.7%
Business Intelligence (BI)	40.4%	39.8%	43.3%
Human Capital Management (HCM)	31.2%	38.5%	39.5%

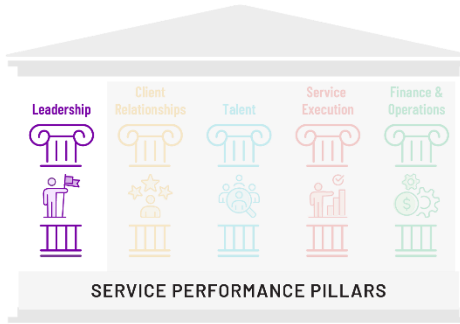
Source: SPI Research, February 2023

Except for PSA, the table shows mixed but improving levels of integration in this year's benchmark. SPI Research believes integration between CRM, PSA and core financials is an essential ingredient in superlative performance. Integration provides visibility to all parts of the organization and helps break down organizational silos. 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 6

Leadership Pillar

LEADERSHIP PILLAR

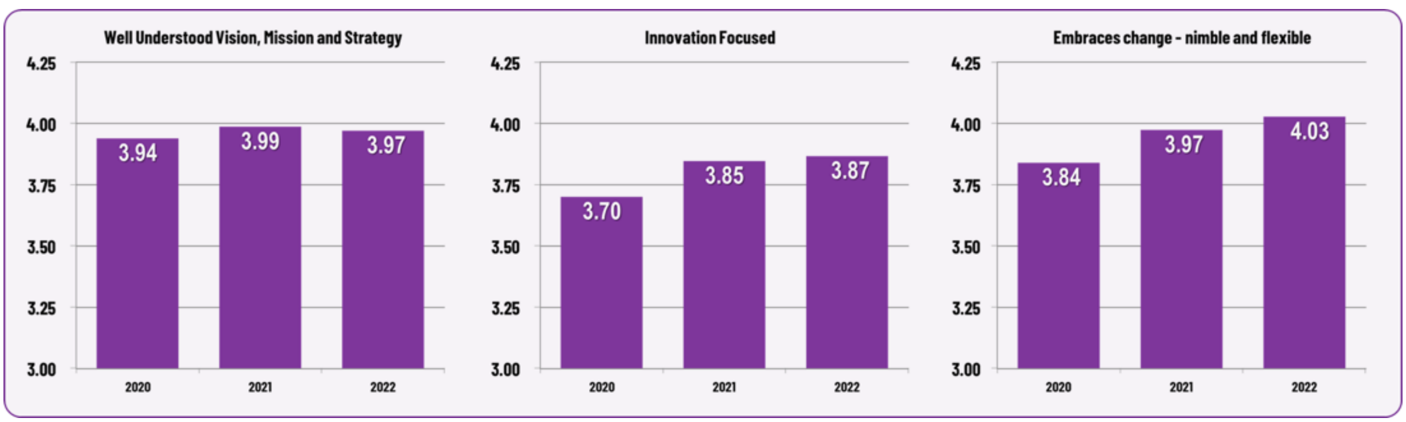


By 2022, COVID had "virtually" ended, although there were areas still severely impacted. Travel was coming back. But then came inflation, rate hikes, war, supply chain issues, geopolitical uncertainty and a new strain of COVID in China. Some wonder how the economy continued to grow. The leaders in SPI's 2023 Professional Services Maturity™ Benchmark survey did just that and have better prepared themselves for the year that lies ahead.

Leadership is the key. But how is leadership really measured? Benchmarks cannot measure leadership per se but can determine leadership success by organizational success. The 2023 Professional Services Maturity™ Benchmark does just that as it correlates leadership with success in all the other areas of professional services organizations.

SPI Research highlighted the leadership trends in Figure 34 because they are highly correlated with professional services success. While clear communication and understanding of the vision, mission and strategy went down slightly in 2022, both innovation focused and embracing change went up, showing the organizations commitment to be agile. With economic uncertainty, these capabilities will be needed as PSOs navigate change.

Figure 34: Leadership Trends of Note



Source: SPI Research, February 2023

2023 should bring political gridlock, which is typically good for the economy, greater supply chain efficiency and declining interest rates. It should be a good year for most industries and especially for the Professional Services market as continual change dictates a need for strategy and technology services.

Each year SPI Research finds a direct correlation between growth and success in Professional Services. Given that the PS industry is built on the application of unique knowledge and domain expertise, it is sometimes hard to understand why the growth dynamic is so important, but it is. In professional services and the wider world of technology, leading firms create dominant market positions. There is a compounding effect of how customers make decisions, the networks and ecosystems that are created, and the ability to scale as a firm that means there is a significant advantage for the companies that grow the fastest. By establishing market-leading positions, premium 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.

Table 58: 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 2023

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

Leadership development, succession planning and funding growth are big challenges for independent PSOs, especially in the era of COVID, where direct communication has been lessoned. 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?"

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

Figure 35: Leadership Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Well understood vision, mission and strategy	3.29	3.80	4.11	4.43	4.89
Confidence in PS leadership	3.47	3.99	4.31	4.67	4.89
Ease of getting things done	3.14	3.54	3.97	4.36	4.70
Goals and measurement alignment	3.09	3.63	3.79	4.36	4.70
Employees have confidence in PSO's future	3.29	3.89	4.17	4.50	4.84
Effectively communicates w/employees	3.31	3.92	4.12	4.42	4.81
Embraces change - nimble and flexible	3.27	3.71	4.19	4.40	4.81
Innovation focused	3.10	3.55	3.94	4.26	4.70
Data-driven	2.92	3.31	3.71	4.07	4.38
Total Leadership Maturity Score (out of 40)	**28.9**	**33.3**	**36.3**	**39.5**	**42.7**
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

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 35 highlights how PSOs score at each level of leadership on a 5-point scale (from 1-very ineffective to 5-very effective). While the questions are subjective, the results are not. The best leaders achieve the highest profit. Surprisingly, as confidence in leadership grows, all other facets of the organization improve as well.

The Leadership Index

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

For over a decade, 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 can rapidly take advantage of changing market conditions.
9. The organization is focused on becoming more data driven.

SPI Research created a "***Leadership Index***" by ranking the aggregate leadership scores for all eight questions by survey participant. The minimum score for the leadership index would be nine, if the survey participant stated "1 – very ineffective" for each of the nine questions (a new question was added in the 2023 survey). The maximum would be 45, if the participant stated "5 - very effective", for each question.

Well, the dimensions of leadership correlate highly with performance. As the leadership dimensions improve, so do all major key performance metrics (Table 59). One might expect "Confidence in

Leadership" and "Confidence in the Future" to improve along with "Clarity of vision and strategy" but the truly remarkable finding around leadership is that all the major operational metrics – revenue per person, utilization, project margin and on-time project completion improve as well. It is amazing how strategic clarity permeates all aspects of operational performance. If the strategy is clear and compelling, people-based organizations will find a way to accomplish it.

With strong leadership, employees understand what is required of them, and can go about conducting their daily business with confidence their work supports corporate objectives. Strong leadership helps employees get on the same page, working toward a common goal. Happy employees are more productive and deliver higher levels of client satisfaction and profitability. The table depicts the percentage of survey respondents by overall leadership index rating compared to key operational measurements. As shown in the table, effective leadership has a powerful impact on all aspects of performance.

Table 59: Impact Based on Leadership Maturity Scores

Key Performance Indicator (KPI)	9 - 29	30 - 34	35 - 37	38 - 45
Survey %	22.2%	28.7%	23.4%	25.7%
Year-over-year change in PS revenue	7.9%	9.7%	12.3%	11.6%
Year-over-year change in PS headcount	7.3%	7.3%	9.4%	10.3%
% of employees billable or chargeable	69.9%	72.6%	74.6%	75.5%
Percentage of bids won	42.6%	49.9%	52.5%	54.0%
Recommend company to friends/family	3.64	4.33	4.63	4.82
Employee billable utilization	68.8%	70.7%	71.4%	72.4%
Projects delivered on-time	69.6%	75.1%	76.5%	82.8%
Annual revenue per billable consultant (k)	$183	$202	$212	$216
Annual revenue per employee (k)	$152	$157	$168	$180
Percent of annual revenue target achieved	88.8%	91.6%	94.5%	95.9%
Exec. real-time wide visibility (1-5 scale)	3.02	3.22	3.64	3.94
Project margin	**32.5%**	**33.8%**	**35.1%**	**37.6%**

Source: SPI Research, February 2023

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 staff projects quickly and easily.
- ∆ ***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.

Survey Results

For this year's survey, SPI Research introduced a series of questions that look at executive concerns for the coming year. They are centered on each of the five performance pillars and are designed to understand where PS executives will concentrate their efforts in 2023. As usual, there are overall survey numbers, and then the analysis is divided by organization type, region, vertical market and organization size. This breakdown in Tables 60 - 64 allow executives to better understand where their peers have concerns and will concentrate their efforts in the coming year. The scores for each question are on a 1-5 scale, where 1 equates to *unimportant*, to 5, which is *very important*.

Table 60: Organizational Concerns by Organization Type and Geographic Region

Organizational Concern	2022	ESO	PSO	Americas	EMEA	APac
Mergers and Acquisitions	2.87	3.05	2.80	2.87	2.97	2.71
Digital Transformation	3.66	3.74	3.63	3.63	3.76	3.69
Regulatory compliance	3.46	3.68	3.36	3.42	3.55	3.64
Business development	4.27	4.11	4.35	4.28	4.18	4.39
Competition	3.67	3.63	3.69	3.67	3.61	3.75
Client success, satisfaction, loyalty	4.50	4.50	4.50	4.52	4.47	4.39
Talent management (recruit - retain)	4.17	4.13	4.19	4.18	4.10	4.29
Remote workforce	3.67	3.75	3.64	3.74	3.47	3.46
Resource utilization	4.23	4.29	4.20	4.28	4.13	3.95
Delivery standardization	3.95	4.17	3.86	4.01	3.71	3.90
Project staffing time	3.85	3.99	3.79	3.89	3.72	3.78
Service delivery cost	3.91	4.05	3.85	3.97	3.73	3.80
Profitability growth	4.23	4.11	4.29	4.27	4.08	4.22
Cashflow management	3.74	3.45	3.86	3.75	3.68	3.75
Financial management complexity	3.48	3.43	3.50	3.51	3.38	3.41

Source: SPI Research, February 2023

Table 61: Organizational Concerns by Organization Size

Organizational Concern	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Mergers and Acquisitions	2.53	2.60	2.92	2.84	3.11	3.35
Digital Transformation	3.47	3.69	3.54	3.66	3.84	3.92
Regulatory compliance	3.11	3.37	3.40	3.39	3.84	3.87
Business development	4.18	4.45	4.34	4.21	4.27	4.08
Competition	3.54	3.70	3.72	3.58	3.84	3.66
Client success, satisfaction, loyalty	4.41	4.64	4.58	4.48	4.46	4.30
Talent management (recruit - retain)	3.44	4.47	4.26	4.31	4.16	4.01
Remote workforce	3.49	3.66	3.71	3.71	3.70	3.69
Resource utilization	3.73	4.40	4.29	4.28	4.37	4.08
Delivery standardization	3.66	4.23	3.96	3.93	3.94	3.87
Project staffing time	3.51	4.05	3.96	3.73	4.00	3.74
Service delivery cost	3.56	4.02	3.96	3.93	4.14	3.78
Profitability growth	4.03	4.37	4.27	4.28	4.30	4.02
Cashflow management	3.75	3.99	3.71	3.54	3.79	3.74
Financial management complexity	3.22	3.53	3.45	3.35	3.71	3.74

Source: SPI Research, February 2023

Table 62: Organizational Concerns by Market

Organizational Concern	IT Consulting	Mgmt. Consulting	Software PS	SaaS PS	Arch./ Engr.
Mergers and Acquisitions	2.95	2.63	3.09	2.96	2.70
Digital Transformation	3.74	3.56	3.76	3.76	3.31
Regulatory compliance	3.44	2.99	3.56	3.72	3.39
Business development	4.32	4.56	4.05	4.14	4.03
Competition	3.63	3.69	3.63	3.75	3.82
Client success, satisfaction, loyalty	4.47	4.58	4.44	4.61	4.27
Talent management (recruit - retain)	4.22	4.06	4.20	4.14	4.07
Remote workforce	3.59	3.56	3.70	3.89	3.52
Resource utilization	4.28	4.15	4.33	4.32	3.99
Delivery standardization	4.02	3.73	4.21	4.35	3.58
Project staffing time	3.80	3.62	4.03	4.03	3.88
Service delivery cost	3.92	3.66	4.09	4.04	3.75
Profitability growth	4.30	4.21	4.08	4.18	4.09
Cashflow management	3.81	3.90	3.49	3.38	3.82
Financial management complexity	3.40	3.41	3.39	3.49	3.67

Source: SPI Research, February 2023

Table 63: Organizational Concerns by Market

Organizational Concern	Advertise. / PR	Healthcare/ Pharma	Acct	Staffing	All Others
Mergers and Acquisitions	2.51	3.36	3.22	2.92	2.87
Digital Transformation	3.67	3.45	4.06	4.25	3.68
Regulatory compliance	3.22	4.05	4.00	4.08	3.61
Business development	4.51	4.05	4.17	4.50	4.29
Competition	3.64	3.64	3.67	4.17	3.61
Client success, satisfaction, loyalty	4.71	4.27	4.50	4.83	4.57
Talent management (recruit - retain)	4.24	4.09	4.22	4.42	4.25
Remote workforce	3.78	3.82	3.89	4.33	3.72
Resource utilization	4.29	4.05	4.17	4.58	4.25
Delivery standardization	3.84	3.64	3.78	4.25	3.96
Project staffing time	3.82	3.82	3.83	4.08	3.91
Service delivery cost	4.04	3.73	3.89	4.25	4.00
Profitability growth	4.51	3.91	4.06	4.42	4.36
Cashflow management	3.78	3.64	3.83	4.25	3.80
Financial management complexity	3.47	3.32	3.78	4.33	3.58

Source: SPI Research, February 2023

Table 64: Summary Organizational Concerns

	Leadership	Client Rel.	Talent	Execution	Operations	Total
Survey Total	**10.0**	**12.4**	**12.1**	**11.7**	**11.4**	**57.7**
Org. Type - ESO	10.5	12.2	12.2	12.2	11.0	**58.1**
Org. Type - PSO	9.8	12.5	12.0	11.5	11.6	**57.5**
Region - Americas	9.9	12.5	12.2	11.9	11.5	**58.0**
Region - EMEA	10.3	12.3	11.7	11.2	11.1	**56.5**
Region - APac	10.1	12.5	11.7	11.5	11.4	**57.1**
Employees - Under 10	9.1	12.1	10.7	10.7	11.0	**53.6**
Employees - 10 - 30	9.7	12.8	12.5	12.3	11.9	**59.2**
Employees - 31 - 100	9.9	12.6	12.3	11.9	11.4	**58.1**
Employees - 101 - 300	9.9	12.3	12.3	11.6	11.2	**57.2**
Employees - 301 - 700	10.8	12.6	12.2	12.1	11.8	**59.5**
Employees - Over 700	11.1	12.0	11.8	11.4	11.5	**57.9**
Market - IT Consulting	10.1	12.4	12.1	11.7	11.5	**57.9**
Market - Mgmt. Consulting	9.2	12.8	11.8	11.0	11.5	**56.3**
Market - Software PS	10.4	12.1	12.2	12.3	11.0	**58.0**
Market - SaaS PS	10.4	12.5	12.3	12.4	11.0	**58.8**
Market - Architecture & Engineering	9.4	12.1	11.6	11.2	11.6	**55.9**
Market - Advertising / PR	9.4	12.9	12.3	11.7	11.8	**58.0**
Market - Healthcare / Pharma	10.9	12.0	12.0	11.2	10.9	**56.8**
Market - Accountancies	11.3	12.3	12.3	11.5	11.7	**59.1**

Source: SPI Research, February 2023

While SPI Research was somewhat surprised at the closeness of the results, several areas are worth noting. Embedded service organizations have greater concerns about leadership, while independents about sales. That difference makes sense as the market changes and independents are always focused on selling. The Americas have concerns with talent and service delivery, areas most already knew, but nonetheless will be critical to their ongoing success. Both EMEA and larger firms showed concerns with leadership as changes in the professional services market are inevitable.

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 65: Leadership Pillar 5-year Trend

Key Performance Indicator (KPI)	5-year avg.	2018	2019	2020	2021	2022
Well understood vision, mission and strategy	**3.94**	3.84	3.94	3.99	3.97	3.89
Confidence in PS leadership	**4.13**	4.04	4.06	4.21	4.17	4.08
Ease of getting things done	**3.81**	3.80	3.81	3.88	3.85	3.72
Goals and measurement alignment	**3.78**	3.79	3.80	3.84	3.81	3.68
Employees have confidence in PSO's future	**4.02**	3.94	4.00	4.07	4.08	3.93
Effectively communicates w/employees	**3.96**	3.81	3.88	4.03	4.01	3.92
Embraces change - nimble and flexible	**3.93**	3.84	3.84	3.97	4.03	3.87
Innovation focused	**3.77**	3.77	3.70	3.85	3.87	3.69
Data-driven						3.47

Source: SPI Research, February 2022

Table 66: Leadership Pillar Results by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2021	2022	ESO	PSO	Amer.	EMEA	APac
Well understood vision, mission and strategy	3.97	3.89	3.95	3.86	3.92	3.73	3.95
Confidence in PS leadership	4.17	4.08	4.15	4.05	4.11	3.96	4.02
Ease of getting things done	3.85	3.72	3.67	3.74	3.70	3.67	3.97
Goals and measurement alignment	3.81	3.68	3.80	3.64	3.69	3.60	3.80
Employees have confidence in PSO's future	4.08	3.93	3.92	3.94	3.94	3.90	3.92
Effectively communicates w/employees	4.01	3.92	3.97	3.90	3.96	3.82	3.78
Embraces change - nimble and flexible	4.03	3.87	3.93	3.85	3.88	3.83	3.85
Innovation focused	3.87	3.69	3.79	3.65	3.68	3.69	3.80
Data-driven		3.47	3.56	3.43	3.49	3.39	3.49

Source: SPI Research, February 2023

The leadership results declined from 2021 to 2022. It primarily had to do with the changes and challenges faced in 2022, and the fact that many thought 2022 would be a much better year as COVID had subsided.

Table 67: Leadership Pillar Results by Market

Key Performance Indicator (KPI)	IT Consulting	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.
Well understood vision, mission and strategy	3.85	4.02	3.95	3.92	3.78
Confidence in PS leadership	4.02	4.20	4.19	4.10	3.97
Ease of getting things done	3.72	3.87	3.60	3.67	3.67
Goals and measurement alignment	3.56	3.87	3.73	3.71	3.58
Employees have confidence in PSO's future	3.94	4.10	3.88	3.90	3.90
Effectively communicates w/employees	3.83	4.11	3.95	3.89	3.84
Embraces change - nimble and flexible	3.81	4.04	3.73	4.04	3.64
Innovation focused	3.63	3.75	3.63	3.92	3.60
Data-driven	3.43	3.46	3.48	3.66	3.43

Source: SPI Research, February 2023

Table 68: Leadership Pillar Results by Market Continued

Key Performance Indicator (KPI)	Advertise. / PR	Healthcare/ Pharma	Acct	Staffing	All Others
Well understood vision, mission and strategy	3.84	4.14	3.39	4.08	3.87
Confidence in PS leadership	4.04	4.05	3.83	4.25	4.08
Ease of getting things done	3.64	3.73	3.89	3.92	3.72
Goals and measurement alignment	3.56	4.09	3.67	4.25	3.69
Employees have confidence in PSO's future	3.82	3.95	3.72	4.33	3.93
Effectively communicates w/employees	3.93	4.27	3.56	4.67	3.91
Embraces change - nimble and flexible	3.96	3.86	3.89	4.33	3.90
Innovation focused	3.40	3.73	4.17	4.42	3.70
Data-driven	3.33	3.77	3.94	4.00	3.36

Source: SPI Research, February 2023

Table 69: Leadership Pillar Results by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Well understood vision, mission and strategy	3.89	3.90	3.84	3.85	3.92	4.02
Confidence in PS leadership	4.16	4.14	4.08	4.04	4.00	4.03
Ease of getting things done	4.01	3.92	3.71	3.47	3.59	3.73
Goals and measurement alignment	3.82	3.64	3.71	3.62	3.56	3.78
Employees have confidence in PSO's future	3.97	4.01	3.94	3.87	3.91	3.92
Effectively communicates w/employees	4.09	4.00	3.95	3.77	3.94	3.85
Embraces change - nimble and flexible	4.23	4.05	3.95	3.58	3.70	3.74
Innovation focused	3.90	3.85	3.72	3.44	3.66	3.69
Data-driven	3.53	3.31	3.53	3.41	3.55	3.55

Source: SPI Research, February 2023

Overall, management consultancies scored very high in the leadership KPI's. Architecture and engineering firms scored lower than average. Data-driven was a new question added this year to better understand how organizations take advantage of information, especially from their core business solutions. The question scored somewhat low this year, but as the needs of professional services organizations grow, data will become increasingly important part of their success.

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

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, on time service delivery, propensity to recommend as a great place to work and revenue per consultant and employee (Table 70).

Table 70: Impact – Well understood vision, mission and strategy

Well understood vision, mission and strategy	Survey	Revenue growth	Recommend company to friends/family	On-time delivery	Annual revenue/ consult. (k)	Annual revenue/ emp. (k)
1: Very ineffective	1.0%	6.1%	3.00	63.6%	$125	$125
2	6.8%	8.4%	3.84	71.9%	$173	$131
3	16.9%	9.1%	4.06	72.4%	$188	$159
4	52.8%	10.5%	4.43	76.1%	$210	$165
5: Very effective	22.5%	11.7%	4.77	81.2%	$214	$178
Total / Average	**100.0%**	**10.4%**	**4.39**	**76.2%**	**$204**	**$164**

Source: SPI Research, February 2023

Tables 71 - 73 show annual changes in clarity and understanding of the vision, mission and strategy. When looking at annual changes in this KPI, SPI Research finds it interesting that larger organizations improved their ability to communicate the vision mission and strategy, whereas the smaller organizations took a step back. Embedded service organizations did somewhat better as independents performed worse. EMEA also showed losses. And while the accounting sector went down by 15%, it could be due to a lack of surveys in 2021.

Table 71: YoY change in Well understood vision, mission and strategy

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.97	3.85	4.02	3.97	3.95	4.07
2022	3.89	3.95	3.86	3.92	3.73	3.95
Change	**-2%**	**3%**	**-4%**	**-1%**	**-6%**	**-3%**

Source: SPI Research, February 2023

Table 72: YoY change in Well understood vision, mission and strategy by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.03	4.18	3.78	3.69	3.79	3.93	4.40	4.00
2022	3.85	4.02	3.95	3.92	3.78	3.84	4.14	3.39
Change	**-5%**	**-4%**	**4%**	**6%**	**0%**	**-2%**	**-6%**	**-15%**

Source: SPI Research, February 2023

Table 73: YoY change in Well understood vision, mission and strategy by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.03	4.12	3.86	4.06	3.79	3.83
2022	3.89	3.90	3.84	3.85	3.92	4.02
Change	**-4%**	**-5%**	**-1%**	**-5%**	**4%**	**5%**

Source: SPI Research, February 2023

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.

As shown in Table 74 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 74: Impact – Confidence in PS leadership

Confidence in PS leadership	Survey	Revenue growth	% of employees billable	Annual revenue/ consult. (k)	Annual revenue/ emp. (k)	Profit (EBITDA %)
1: Very ineffective	0.3%	NA	60.0%	NA	NA	NA
2	3.6%	4.4%	64.0%	$163	$139	22.0%
3	14.3%	7.7%	67.7%	$188	$152	9.0%
4	51.6%	10.6%	72.2%	$207	$164	16.0%
5: Very effective	30.3%	12.1%	75.8%	$211	$173	18.3%
Total / Average	**100.0%**	**10.4%**	**72.3%**	**$204**	**$165**	**15.9%**

Source: SPI Research, February 2023

Tables 75 - 77 show the major change was that independents reduced their confidence in leadership by about 3%. Most of this reduction came from IT consultancies as well as management consultancies. Areas such as healthcare pharma and accountancies did not have enough surveys back in 2021 to truly compare these results. Smaller organizations also showed a reduction in confidence, which corresponds to the well understood vision and strategy question asked earlier. Both are highly correlated as when management translates and communicates strategy well, employees will have greater confidence in the organization.

Table 75: YoY change in Confidence in PS leadership

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	4.17	4.15	4.17	4.19	4.05	4.25
2022	4.08	4.15	4.05	4.11	3.96	4.02
Change	**-2%**	**0%**	**-3%**	**-2%**	**-2%**	**-5%**

Source: SPI Research, February 2023

Table 76: YoY change in Confidence in PS leadership by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.25	4.32	4.12	4.08	3.87	4.07	4.50	4.29
2022	4.02	4.20	4.19	4.10	3.97	4.04	4.05	3.83
Change	**-6%**	**-3%**	**2%**	**0%**	**3%**	**-1%**	**-10%**	**-11%**

Source: SPI Research, February 2023

Table 77: YoY change in Confidence in PS leadership by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.28	4.34	4.14	4.14	4.02	3.79
2022	4.16	4.14	4.08	4.04	4.00	4.03
Change	**-3%**	**-5%**	**-2%**	**-2%**	**-1%**	**6%**

Source: SPI Research, February 2023

Ease of getting things done

The ease at which work gets done directly impact productivity and morale. SPI Research asked participants whether it was easy to get things done within their organization, meaning minimal red tape, able to assign qualified resources quickly and easily, and with limited bureaucracy. PSOs that provide an infrastructure that supports employee productivity enhance both employee satisfaction and financial success.

Table 78 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, billable utilization, on-time project delivery and minimized overruns.

Table 78: Impact – Ease of getting things done

Ease of getting things done	Survey	Revenue growth	Percentage of bids won	Billable utilization	Recommend company to friends/family	Well-understood career path for all emp.
1: Very ineffective	0.9%	5.0%	36.7%	60.0%	2.80	2.20
2	8.8%	9.6%	46.1%	68.5%	3.95	2.91
3	25.5%	8.6%	47.0%	69.8%	4.09	3.33
4	47.0%	11.1%	51.6%	71.2%	4.54	3.59
5: Very effective	17.9%	11.6%	53.4%	72.1%	4.72	3.87
Total / Average	**100.0%**	**10.4%**	**50.2%**	**70.7%**	**4.39**	**3.50**

Source: SPI Research, February 2023

Tables 79 – 81 show the ease to get things done in professional services went down by 3%, primarily due to independent professional services providers. IT consultancies showed greater difficulties from 2021 to 2022 as bureaucracy and uncertainty increased.

Table 79: YoY change in Ease of getting things done

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.85	3.72	3.90	3.85	3.86	3.75
2022	3.72	3.67	3.74	3.70	3.67	3.97
Change	**-3%**	**-1%**	**-4%**	**-4%**	**-5%**	**6%**

Source: SPI Research, February 2023

Table 80: YoY change in Ease of getting things done by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	3.96	4.01	3.59	3.71	3.62	3.89	4.00	4.14
2022	3.72	3.87	3.60	3.67	3.67	3.64	3.73	3.89
Change	**-6%**	**-4%**	**0%**	**-1%**	**2%**	**-6%**	**-7%**	**-6%**

Source: SPI Research, February 2023

Table 81: YoY change in Ease of getting things done by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.13	3.99	3.82	3.65	3.79	3.66
2022	4.01	3.92	3.71	3.47	3.59	3.73
Change	**-3%**	**-2%**	**-3%**	**-5%**	**-5%**	**2%**

Source: SPI Research, February 2023

Goals and measurement alignment

Alignment speaks to a clearly articulated strategy with goals and measurements reinforcing the organization's purpose and stimulating action. Alignment or lack thereof has a significant impact on bottom-line performance. Lack of alignment emanates from a lack of clarity and 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 82 goals and measurements in alignment had a profound impact on revenue growth, win ratios and client referenceability.

Table 82: Impact – Goals and measurement alignment

Goals and measurement alignment	Survey	Billable utilization	Recommend company to friends/family	Well-understood career path for all emp.	% of ann. revenue achieved	% of ann. margin achieved
1: Very ineffective	2.0%	67.7%	3.54	2.23	89.6%	81.2%
2	9.9%	68.8%	3.89	3.14	91.5%	86.4%
3	23.9%	69.8%	4.17	3.21	91.7%	87.9%
4	45.8%	70.9%	4.52	3.61	92.7%	88.7%
5: Very effective	18.3%	72.7%	4.78	3.97	96.0%	93.0%
Total / Average	**100.0%**	**70.7%**	**4.40**	**3.51**	**92.9%**	**88.9%**

Source: SPI Research, February 2023

Tables 83 - 85 show independents felt less confident the goals and measurements were in alignment. Overall, no region improved this KPI, and IT consultancies and advertising agencies especially had difficulty over the past year. Much of these problems eventually turn into performance problems, which can impact a PSO's ability to make money.

Table 83: YoY change in Goals and measurement alignment

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.81	3.77	3.82	3.82	3.76	3.89
2022	3.68	3.80	3.64	3.69	3.60	3.80
Change	**-3%**	**1%**	**-5%**	**-3%**	**-4%**	**-2%**

Source: SPI Research, February 2023

Table 84: YoY change in Goals and measurement alignment by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	3.83	4.01	3.65	3.76	3.59	3.96	4.10	3.71
2022	3.56	3.87	3.73	3.71	3.58	3.56	4.09	3.67
Change	**-7%**	**-4%**	**2%**	**-1%**	**0%**	**-10%**	**0%**	**-1%**

Source: SPI Research, February 2023

Table 85: YoY change in Goals and measurement alignment by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	3.92	3.72	3.80	3.89	3.74	3.69
2022	3.82	3.64	3.71	3.62	3.56	3.78
Change	**-2%**	**-2%**	**-2%**	**-7%**	**-5%**	**2%**

Source: SPI Research, February 2023

Employees have confidence in PSO's future

The level of employee confidence in the future of the PS organization has a significant impact on almost every key performance measurement. Firms with the highest levels of employee confidence experienced the highest levels of revenue growth, were more often seen as a great place to work, and experienced lower attrition and higher utilization. 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 86: Impact – Employees have confidence in PSO's future

Employees have confidence in PSO's future	Survey	Deal pipeline	Percentage of bids won	Qtr. backlog	On-time delivery	Project margin
1: Very ineffective	0.6%	67%	30.0%	35.0%	63.3%	23.6%
2	5.3%	130%	42.3%	33.3%	66.9%	29.4%
3	17.3%	149%	44.8%	43.7%	70.7%	32.4%
4	53.5%	162%	50.7%	44.6%	76.8%	35.5%
5: Very effective	23.3%	181%	55.0%	47.6%	81.4%	37.4%
Total / Average	**100.0%**	**162%**	**50.1%**	**44.5%**	**76.2%**	**35.0%**

Source: SPI Research, February 2023

Tables 87 - 89 show nearly every type of firm in every geographic region and of every size with the exception of the largest, lowered their confidence in their organization's future. The uncertainty created due to economic conditions as well as geopolitical made many people in the professional services market wonder how hard it will be to survive. The economic difficulties coupled with the increased number of mergers and acquisitions during 2022 accelerated stress within the organization. In 2023 PS executives must work harder to ensure their employees things are fine, assuming things really are fine. Organizations that focus on performance improvement tend to give their employees a feeling that they will be one of the winners in the marketplace.

Table 87: YoY change in Employees have confidence in PSO's future

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	4.08	3.99	4.12	4.12	3.93	4.07
2022	3.93	3.92	3.94	3.94	3.90	3.92
Change	**-4%**	**-2%**	**-4%**	**-4%**	**-1%**	**-4%**

Source: SPI Research, February 2023

Table 88: YoY change in Employees have confidence in PSO's future by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.17	4.19	3.84	3.96	3.90	4.07	4.50	4.43
2022	3.94	4.10	3.88	3.90	3.90	3.82	3.95	3.72
Change	**-6%**	**-2%**	**1%**	**-1%**	**0%**	**-6%**	**-12%**	**-16%**

Source: SPI Research, February 2023

Table 89: YoY change in Employees have confidence in PSO's future by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.10	4.19	4.07	4.15	3.90	3.79
2022	3.97	4.01	3.94	3.87	3.91	3.92
Change	**-3%**	**-4%**	**-3%**	**-7%**	**0%**	**3%**

Source: SPI Research, February 2023

Effectively communicates with employees

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

Table 90: Impact – Effectively communicates with employees

Effectively communicates w/employees	Survey	Revenue growth	Deal pipeline	Percentage of bids won	Billable utilization	Project margin
1: Very ineffective	0.7%	NA	NA	NA	NA	NA
2	4.8%	8.7%	145%	37.7%	67.4%	33.6%
3	19.4%	9.1%	161%	49.4%	69.4%	34.0%
4	51.2%	10.7%	161%	49.9%	71.0%	34.3%
5: Very effective	23.9%	11.0%	169%	53.4%	71.7%	37.3%
Total / Average	**100.0%**	**10.4%**	**162%**	**50.1%**	**70.7%**	**35.0%**

Source: SPI Research, February 2023

Tables 91 – 93 show larger organizations gave higher marks in 2022 to effective communication. Independents, like with every other leadership KPI, showed a reduction ineffective communication. All regions showed a reduction as well.

Table 91: YoY change in Effectively communicates with employees

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	4.01	3.92	4.04	4.04	3.87	3.96
2022	3.92	3.97	3.90	3.96	3.82	3.78
Change	**-2%**	**1%**	**-3%**	**-2%**	**-1%**	**-5%**

Source: SPI Research, February 2023

Table 92: YoY change in Effectively communicates with employees by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.01	4.24	3.76	3.86	3.69	4.22	4.60	4.29
2022	3.83	4.11	3.95	3.89	3.84	3.93	4.27	3.56
Change	**-4%**	**-3%**	**5%**	**1%**	**4%**	**-7%**	**-7%**	**-17%**

Source: SPI Research, February 2023

Table 93: YoY change in Effectively communicates with employees by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.23	4.09	3.98	3.95	3.88	3.72
2022	4.09	4.00	3.95	3.77	3.94	3.85
Change	**-3%**	**-2%**	**-1%**	**-5%**	**1%**	**3%**

Source: SPI Research, February 2023

Embraces change – nimble and flexible

Change is never ending, and it seems to be more so post COVID. 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. But these organizations do expand their client base and win more bids as the embrace change. They also show better service delivery and project profitability as they embrace change and are especially nimble and flexible.

Table 94: Impact – Embraces change - nimble and flexible

Embraces change - nimble and flexible	Survey	New clients	Percentage of bids won	Recommend company to friends/family	On-time delivery	Project margin
1: Very ineffective	1.2%	18.6%	41.4%	3.57	61.4%	30.0%
2	8.1%	24.0%	43.0%	4.00	72.4%	35.0%
3	19.6%	29.1%	47.4%	4.10	73.7%	31.3%
4	43.6%	29.3%	50.9%	4.41	76.3%	35.6%
5: Very effective	27.5%	31.4%	53.2%	4.73	79.4%	36.7%
Total / Average	**100.0%**	**29.3%**	**50.1%**	**4.39**	**76.1%**	**34.9%**

Source: SPI Research, February 2023

Tables 95 – 97 show most organizations different markets, geographies and size showed a reduction in nimble and flexibility in 2022. Market uncertainty does this. The goal for the PS market will be to emphasize nimbleness as 2023 progresses and adapt to change.

Table 95: YoY change in Embraces change - nimble and flexible

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	4.03	3.97	4.05	4.03	3.94	4.21
2022	3.87	3.93	3.85	3.88	3.83	3.85
Change	**-4%**	**-1%**	**-5%**	**-4%**	**-3%**	**-9%**

Source: SPI Research, February 2023

Table 96: YoY change in Embraces change - nimble and flexible by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.06	4.26	3.80	3.98	3.67	4.15	4.20	4.43
2022	3.81	4.04	3.73	4.04	3.64	3.96	3.86	3.89
Change	**-6%**	**-5%**	**-2%**	**2%**	**-1%**	**-5%**	**-8%**	**-12%**

Source: SPI Research, February 2023

Table 97: YoY change in Embraces change - nimble and flexible by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.25	4.20	3.99	3.96	3.79	3.72
2022	4.23	4.05	3.95	3.58	3.70	3.74
Change	**-1%**	**-4%**	**-1%**	**-10%**	**-2%**	**1%**

Source: SPI Research, February 2023

Innovation focused

Innovation is critical to the long-term growth and success of professional services organizations. Firms that create new services, and products in many cases, have a growth path built for them. In professional services, innovation comes from exploring and embracing new business models, processes and technologies to improve productivity and quality. To the extent thought leadership can be considered a component of innovation, PSOs excel at innovation. The benchmark results depict the importance of striving for new and innovative solutions to problems. Innovative organizations provide employees with the confidence to know the organization will be around for years to come, and they will be continually challenged and personally grow as the organization expands. Innovation focus is not organization size dependent. High-Performance PSOs report a core belief in "great ideas come from anywhere". They build a culture of empowerment, embracing innovation.

Table 98: Impact – Innovation focused

Innovation focused	Survey	Revenue growth	Headcount growth	Recommend company to friends/family	Executive real-time wide visibility	Profit (EBITDA %)
1: Very ineffective	1.6%	7.5%	4.1%	3.30	2.78	8.9%
2	9.8%	8.0%	6.2%	4.06	2.97	12.5%
3	26.4%	10.0%	7.9%	4.17	3.43	18.0%
4	42.4%	10.5%	8.8%	4.48	3.51	15.9%
5: Very effective	19.9%	12.2%	10.8%	4.74	3.73	17.2%
Total / Average	**100.0%**	**10.4%**	**8.6%**	**4.39**	**3.47**	**16.3%**

Source: SPI Research, February 2023

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

Tables 99 - 101 show embedded services organization improved their innovation focus slightly, while independents went down. This reduction for independents was driven by both IT and Management consultancies. As one might expect smaller firms showed lower score in innovation focus.

Table 99: YoY change in Innovation focused

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.87	3.78	3.90	3.86	3.83	4.14
2022	3.69	3.79	3.65	3.68	3.69	3.80
Change	**-5%**	**0%**	**-6%**	**-5%**	**-4%**	**-8%**

Source: SPI Research, February 2023

Table 100: YoY change in Innovation focused by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.00	4.08	3.61	3.76	3.74	3.44	4.11	4.29
2022	3.63	3.75	3.63	3.92	3.60	3.40	3.73	4.17
Change	**-9%**	**-8%**	**1%**	**4%**	**-4%**	**-1%**	**-9%**	**-3%**

Source: SPI Research, February 2023

Table 101: YoY change in Innovation focused by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.10	4.06	3.75	3.79	3.71	3.76
2022	3.90	3.85	3.72	3.44	3.66	3.69
Change	**-5%**	**-5%**	**-1%**	**-9%**	**-2%**	**-2%**

Source: SPI Research, February 2023

Data-driven

Businesses in every industry are moving to take a more data-driven approach to run operations. It is no different in the professional services market. Over the past 25 years SPI Research has seen leaders in the PS market adapt technology to better plan and run their businesses. But the data must not be kept in silos, it must be shared across the organization to ensure each decision maker has the information necessary to make changes to improve performance. This question was asked for the first time in 2022, and the results should be more interesting going forward.

Table 102 shows PSOs with a stronger data focus succeed in both revenue growth and the achievement of significantly higher revenue. As one might expect, those organizations with strong data focus have greater visibility than those that do not. The results show up also in greater financial achievement. This KPI will be tracked for the next several years as SPI Research expects this issue to become increasingly important as PSOs use data to drive better business results.

Table 102: Impact – Data-driven

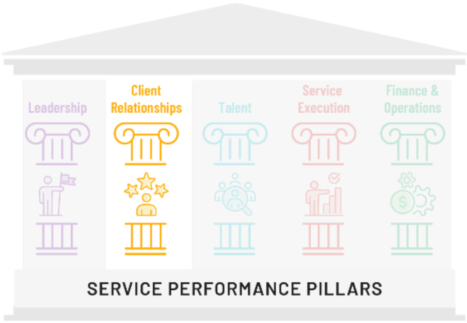
Data-driven	Survey	Percentage of bids won	Annual revenue/ consult. (k)	Annual revenue/ emp. (k)	Executive real-time wide visibility	% of ann. margin achieved
1: Very ineffective	3.4%	37.4%	$165	$125	2.50	79.3%
2	13.0%	47.6%	$192	$157	3.03	87.3%
3	28.4%	49.9%	$196	$157	3.34	88.1%
4	40.5%	51.3%	$212	$171	3.60	89.4%
5: Very effective	14.7%	52.4%	$218	$177	3.95	92.3%
Total / Average	**100.0%**	**50.1%**	**$204**	**$165**	**3.46**	**88.8%**

Source: SPI Research, February 2023

Chapter 7

Client Relationships Pillar

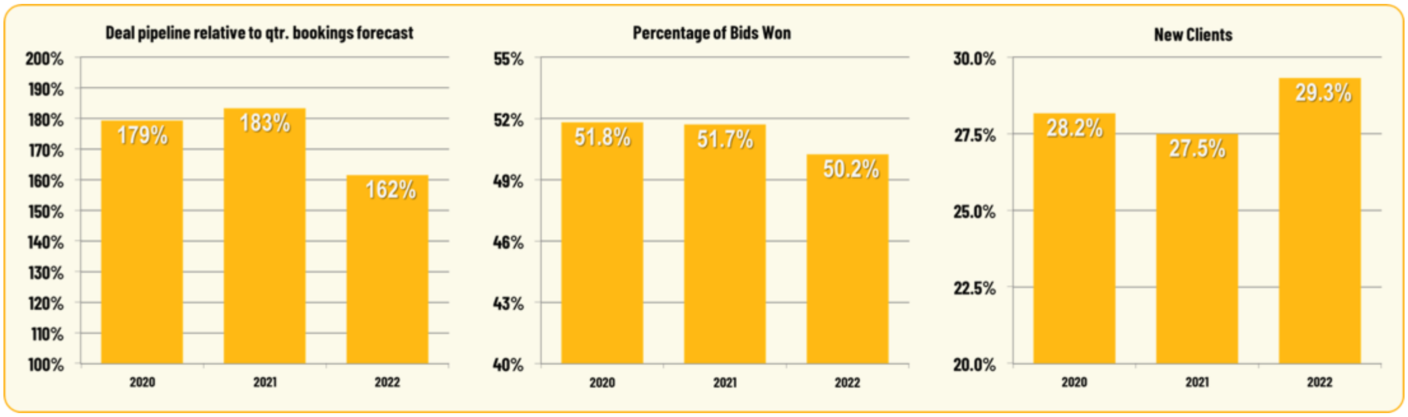
CLIENT RELATIONSHIPS PILLAR



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

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

Figure 36: Client Relationships Trends of Note



Source: SPI Research, February 2023

SPI Research highlighted the client relationships trends in Figure 36 because they are three of the most important KPIs for the Client Relationships pillar. While the good news is the PSOs in this study had almost 30% of their clients being new, both their pipeline and the percentage of bids won went down. SPI Research believes the deal pipeline should be over 200% of the annual bookings forecast and the percentage of bids won should be over 50%. The trends of these two KPIs should be monitored to avoid further deterioration.

In 2023 the Client Relationships KPI's improved in some areas and not in the others. While PSOs focused their efforts on new client acquisition, their deal pipeline lowered causing the need for larger discounts. Fortunately, they improved slightly on the percentage of bids won. But client references did go down, which could result in greater sales difficulty going forward. An area to watch going forward is the movement to shared risks or performance based work. While not a great percentage, it is increasing. Economic uncertainty always makes it more difficult to sell, but 2023 should see improvement over 2022.

Table 103 highlights the five levels of maturity in the Client Relationships pillar. As sales and service delivery processes mature, organizations move from selling anything and everything to anyone, to a more careful and selective approach to client selection, solution creation, deal capture, contract and pricing management, reference building and partnering.

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 103: 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 2023

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 can be more selective around the deals they pursue and the types of clients they serve. They become adept at pushing back on lousy terms and conditions or excessive discounting which 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 37 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 37: Client Relationships Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Current clients - existing services	53.8%	53.3%	52.2%	56.6%	53.8%
Current clients - new services	19.7%	17.9%	14.1%	15.4%	16.6%
New logo clients - existing services	16.8%	17.0%	23.3%	18.5%	20.4%
New logo clients - new services	9.6%	11.7%	10.3%	9.6%	9.2%
Deal pipeline / quarterly bookings forecast	101%	148%	183%	202%	269%
Percentage of bids won	34.4%	48.7%	52.9%	64.0%	73.8%
Service discount given	9.0%	8.5%	7.6%	7.7%	5.1%
Percentage of referenceable clients	59.8%	68.3%	75.5%	81.0%	87.8%
Service marketing effectiveness	3.12	3.31	3.19	3.36	3.03
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

The figure shows why 'improving marketing and sales effectiveness' is 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 (Figure 38) 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. Shared risk contracts are gaining steam, but still have long way to go to being a preferred method of use.

Figure 38: 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	41.5%	45.4%	49.3%	56.4%	63.6%
Fixed time / fixed fee % of work sold	50.5%	46.0%	43.3%	39.6%	31.6%
Shared risk / performance-based % of work sold	4.2%	3.8%	4.9%	2.5%	4.6%
None of the above % of work sold	3.7%	4.8%	2.6%	1.5%	0.1%
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

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 104).

Table 104: 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 2023

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.

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 105).

Table 105: 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.
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 2023

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.

5-Year Client Relationships Trends

Table 106 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. The biggest concerns are amount to a smaller deal pipeline, a lower percentage of bids won, and increased discounts. The results show up in the lowest client reference scores in over five years.

Table 106: Client Relationships Pillar 5-year Trend

Key Performance Indicator (KPI)	5-year avg.	2018	2019	2020	2021	2022
Current clients - existing services	**56.0%**	52.8%	51.9%	56.2%	58.9%	53.7%
Current clients - new services	**15.5%**	17.3%	17.3%	15.6%	13.6%	17.0%
New logo clients - existing services	**18.6%**	17.6%	19.5%	18.1%	18.1%	19.0%
New logo clients - new services	**9.9%**	12.2%	11.3%	10.0%	9.4%	10.3%
Deal pipeline relative to qtr. bookings forecast	**177%**	181%	181%	179%	183%	162%
Percentage of bids won	**51.0%**	49.2%	52.7%	51.8%	51.7%	50.2%
Average service discount given	**7.3%**	6.7%	7.6%	7.6%	6.6%	8.0%
Percentage of referenceable clients	**72.5%**	71.9%	72.2%	72.7%	74.8%	71.3%
Solution development effectiveness	**3.68**	3.64	3.72	3.69	3.71	3.65
Service sales effectiveness	**3.59**	3.53	3.61	3.56	3.64	3.60
Service marketing effectiveness	**3.21**	3.25	3.21	3.12	3.24	3.22

Source: SPI Research, February 2023

Table 107: Type of Work Sold 5-year Trend

Bill Type	5-year avg.	2018	2019	2020	2021	2022
Time & materials % of work sold	**46.4%**	43.8%	47.6%	47.9%	44.5%	48.1%
Fixed time / fixed fee % of work sold	**38.0%**	38.9%	34.1%	33.0%	37.0%	44.7%
Shared risk / performance-based % of work sold	**2.6%**	2.6%	2.3%	1.7%	2.2%	4.0%
Other	**12.9%**	14.6%	16.0%	17.4%	16.3%	3.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2023

Survey Results

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

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

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

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. In 2022, technology spending and particularly PS spending rose to new heights. A critical talent shortage added fuel to the PS fire as clients simply cannot find and keep skilled technical talent, so they increasingly bring 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.

Tables 108 - 110 show an overall increase of new logo clients in 2022. Embedded service organizations, driven by both software and SaaS firms increased new clients significantly, whereas architecture and engineering firms did not. The Americas led the way with approximately 30% of the services sold to new clients. Smaller firms were equally successful as they drove new revenue from over 30% of the organizations.

Table 108: Service Revenue Breakdown

Revenue & Client Source	2021	2022	ESO	PSO	Americas	EMEA	APac
Current clients - existing services	58.9%	53.7%	44.0%	57.8%	52.3%	58.6%	55.9%
Current clients - new services	13.6%	17.0%	20.1%	15.7%	17.7%	14.1%	16.4%
New logo clients - existing services	18.1%	19.0%	21.4%	18.0%	19.1%	18.9%	18.7%
New logo clients - new services	9.4%	10.3%	14.5%	8.5%	10.9%	8.5%	9.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2023

Table 109: Service Revenue Breakdown by Market

Revenue & Client Source	IT Cons.	Mgmt. Cons.	Soft PS	SaaS PS	Arch/ Engr	Advertise /PR	Health/ Pharm	Acct.
Current clients - existing services	54.5%	56.8%	47.4%	33.9%	61.2%	65.3%	51.1%	62.7%
Current clients - new services	15.1%	15.3%	19.0%	21.2%	18.3%	12.5%	17.4%	16.8%
New logo clients - existing serv.	18.9%	21.5%	19.8%	26.5%	13.9%	17.4%	19.4%	11.0%
New logo clients - new services	11.5%	6.5%	13.8%	18.3%	6.6%	4.8%	12.2%	9.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2023

Table 110: Service Revenue Breakdown by Organization Size

Revenue & Client Source	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Current clients - existing services	48.8%	52.6%	56.9%	55.2%	52.4%	51.0%
Current clients - new services	17.3%	15.5%	16.0%	16.7%	16.4%	21.8%
New logo clients - existing services	22.1%	20.2%	18.5%	18.6%	17.9%	16.8%
New logo clients - new services	11.8%	11.6%	8.6%	9.5%	13.3%	10.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2023

Size of deal pipeline in comparison to quarterly bookings forecast

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

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

A sign of caution and continued market turbulence is that 53.9% of benchmark participants reported their deal pipeline was less than two times the size of their forecast. Table 111 illustrates the positive impact of a strong sales pipeline on revenue growth; backlog; revenue per consultant and employee and project margin.

Table 111: Impact – Size of deal pipeline in comparison to quarterly bookings forecast

Size of deal pipeline in comparison to quarterly bookings forecast	Survey %	Revenue growth	% of emp. billable	New clients	Backlog	Ann. rev./ consult. (k)
Less than forecast	17.2%	4.7%	71.0%	29.3%	36.2%	$190
Same as forecast	36.7%	10.5%	71.5%	26.2%	44.0%	$195
2X forecast	28.5%	12.2%	72.3%	35.7%	45.1%	$210
3X forecast	11.3%	12.2%	74.0%	29.8%	52.5%	$214
4X forecast	6.3%	16.0%	78.0%	24.5%	53.2%	$248
Total / Average	**100.0%**	**10.5%**	**72.3%**	**29.8%**	**44.5%**	**$204**

Source: SPI Research, February 2023

Table 112 shows the average size of the deal pipeline went down to 162% after being 183% in 2021. ESOs reported lower pipelines of 174% of forecast while independents reported leaner pipelines of 156%. EMEA had the lowest (157%) deal pipeline relative to quarterly bookings forecast in 2022 compared to the strongest in 2021, while EMEA had the highest at 163%. SPI Research will wait to see if this reduction becomes a trend, or just a one-year reduction in pipeline as the market adjusts.

Table 112: YoY change in Size of deal pipeline in comparison to quarterly bookings forecast

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	183%	195%	179%	184%	189%	160%
2022	162%	174%	156%	163%	157%	161%
Change	**-12%**	**-10%**	**-13%**	**-12%**	**-17%**	**0%**

Source: SPI Research, February 2023

Table 113: YoY change in size of deal pipeline in comparison to quarterly bookings forecast by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	199%	162%	193%	194%	188%	129%	145%	140%
2022	175%	141%	190%	158%	151%	113%	158%	126%
Change	**-12%**	**-13%**	**-1%**	**-18%**	**-20%**	**-12%**	**9%**	**-10%**

Source: SPI Research, February 2023

Table 114: YoY change size of deal pipeline in comparison to quarterly bookings forecast by Org. Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	148%	171%	193%	189%	187%	235%
2022	128%	155%	164%	172%	165%	177%
Change	**-13%**	**-10%**	**-15%**	**-9%**	**-12%**	**-25%**

Source: SPI Research, February 2023

Percentage of Bids Won

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

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

Table 115: Impact – Percentage of Bids Won

Percentage of Bids Won	Survey %	Revenue growth	Backlog	% of emp. billable	Client reference	On-time project delivery
Under 20%	7.2%	5.6%	39.3%	63.4%	61.7%	70.4%
20% - 40%	23.9%	9.0%	40.0%	70.3%	68.0%	74.3%
40% - 60%	37.3%	11.3%	46.0%	72.1%	70.0%	75.5%
60% - 80%	23.9%	11.7%	47.4%	76.5%	76.4%	79.2%
Over 80%	7.8%	12.5%	49.0%	77.3%	82.1%	83.2%
Total / Average	**100.0%**	**10.5%**	**44.7%**	**72.5%**	**71.4%**	**76.3%**

Source: SPI Research, February 2023

The percentage of bids won went up from slightly to 47.0% in 2021 to 50.2% in 2022. Table 116 shows the positive impact of improving percentage of bids won through higher revenue growth, greater backlog and improved client references and on-time service delivery. This year the optimal ratio is over 80% with the highest revenue growth, highest revenue per consultant and employee, and client references.

Table 116: YoY change in Percentage of Bids Won

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	47.0%	44.0%	48.2%	46.6%	48.1%	48.3%
2022	50.2%	49.7%	50.5%	49.7%	52.1%	51.1%
Change	**7%**	**13%**	**5%**	**7%**	**8%**	**6%**

Source: SPI Research, February 2023

Tables 117 - 118 show IT consultancies had a slightly lower percentage of bids won whereas management consultancies improved quite a bit. Both software and SaaS firms did much better in 2022. The smallest and largest firms did better than any other, increasing the percentage of bids won from 38.5% in 2021 to 55.2% in 2022.

Table 117: YoY change in Percentage of Bids Won by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	51.6%	45.4%	42.1%	41.7%	48.8%	42.6%	52.0%	46.0%
2022	51.2%	50.6%	52.4%	45.7%	50.6%	42.5%	47.9%	54.4%
Change	**-1%**	**11%**	**24%**	**10%**	**4%**	**0%**	**-8%**	**18%**

Source: SPI Research, February 2023

Table 118: YoY change Percentage of Bids Won by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	38.5%	52.8%	45.1%	49.8%	48.3%	45.7%
2022	55.2%	52.5%	49.0%	48.4%	47.1%	50.5%
Change	**43%**	**-1%**	**9%**	**-3%**	**-2%**	**11%**

Source: SPI Research, February 2023

Service discount given clients

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

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

In professional services, it is far more difficult to develop a pricing strategy than in product-based organizations. It is easy to do comparative shopping at a grocery store or for products on-line. In professional services, pricing is more art than science with wider variability in terms of costs, estimates, proposals and pricing. Professional services executives cannot just look at expected project cost, sales forecasts, or some other key metric to set pricing. Supply and demand come into play. The more unique the offering; the more demonstrable the return on investment; the larger the reference base; the harder to find required skills; the more premium pricing is warranted.

Table 119 shows nearly 75% of organizations discount less than 10%. Those organizations that discount heavily (greater than 20%) have slightly higher rates of new client penetration, a lower percentage of bids won.

Table 119: Impact – Service discount given clients

Service discount	Survey %	Revenue growth	New clients	% of bids won	Deal pipeline	Client reference
None	20.5%	9.0%	25.3%	48.9%	150%	74.0%
Under 5%	23.7%	10.4%	27.3%	54.0%	174%	70.9%
5% - 10%	28.0%	11.3%	28.5%	50.7%	149%	70.4%
10% - 20%	19.6%	9.1%	34.1%	47.4%	176%	70.7%
20% - 30%	5.8%	16.4%	37.9%	52.1%	178%	68.9%
Over 30%	2.4%	11.1%	42.8%	36.3%	130%	72.2%
Total / Average	**100.0%**	**10.5%**	**29.5%**	**50.2%**	**162%**	**71.3%**

Source: SPI Research, February 2023

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 no way service organizations can make up in volume the amount they lose per deal because margins are too thin and there is no way to recoup hours worked at cheap rates.

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

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

Tables 120 - 122 show increases in discounting across embedded, independents as well as the regions. Ideally, this number should be zero, but most firms must discount occasionally. Architects and engineers increased their discounting significantly, but it was still much lower than any of the other PS markets surveyed.

Table 120: YoY change in Service discount given clients

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	6.6%	10.2%	5.2%	6.8%	6.6%	3.3%
2022	8.0%	11.9%	6.4%	8.4%	7.5%	6.3%
Change	**23%**	**17%**	**25%**	**23%**	**13%**	**87%**

Source: SPI Research, February 2023

Table 121: YoY change in Service discount given clients by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	6.5%	5.2%	9.6%	13.0%	1.7%	4.3%	5.4%	5.5%
2022	8.1%	5.3%	11.7%	15.5%	3.0%	8.1%	5.9%	8.6%
Change	**25%**	**2%**	**22%**	**19%**	**72%**	**87%**	**10%**	**57%**

Source: SPI Research, February 2023

Table 122: YoY change Service discount given clients by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	6.0%	5.3%	6.5%	7.2%	8.5%	7.4%
2022	6.1%	6.9%	8.5%	8.2%	8.8%	9.7%
Change	**2%**	**28%**	**32%**	**15%**	**4%**	**31%**

Source: SPI Research, February 2023

Percentage of referenceable clients

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

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

Client references are a leading indicator of organizational success. As 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 123 shows higher references yield higher sales win rates, on-time service delivery and project overrun, and the firms meet both their revenue and margin targets. Of course, the reverse could be said that better on-time delivery and lower overruns yield higher refences as well.

Table 123: Impact – Percentage of referenceable clients

Percentage of referenceable clients	Survey %	% of bids won	On-time project delivery	Project overrun	% of ann. revenue target	% of ann. margin target
Under 50%	14.7%	42.0%	69.2%	12.5%	89.6%	85.0%
50% - 60%	12.1%	41.8%	72.4%	9.6%	88.6%	85.5%
60% - 70%	15.9%	50.0%	76.3%	9.6%	91.3%	85.3%
70% - 80%	20.6%	50.6%	75.3%	11.4%	93.5%	89.7%
80% - 90%	18.7%	53.8%	80.6%	8.5%	95.7%	91.4%
Over 90%	18.0%	59.2%	82.1%	7.0%	95.3%	94.0%
Total / Average	**100.0%**	**50.3%**	**76.4%**	**9.7%**	**92.7%**	**88.9%**

Source: SPI Research, February 2023

Table 124: YoY change in Percent of referenceable clients

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	74.8%	68.0%	77.5%	76.0%	69.7%	74.2%
2022	71.3%	67.9%	72.8%	71.5%	71.8%	68.5%
Change	**-5%**	**0%**	**-6%**	**-6%**	**3%**	**-8%**

Source: SPI Research, February 2023

Table 125: YoY change in Percent of referenceable clients by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	78.0%	76.2%	63.5%	67.5%	80.2%	76.1%	79.5%	79.0%
2022	70.7%	74.9%	65.8%	68.5%	77.4%	72.7%	71.8%	66.1%
Change	**-9%**	**-2%**	**4%**	**2%**	**-3%**	**-4%**	**-10%**	**-16%**

Source: SPI Research, February 2023

Table 126: YoY change Percent of referenceable clients by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	72.0%	79.6%	77.0%	73.8%	69.4%	66.7%
2022	78.1%	71.6%	72.2%	68.7%	69.8%	67.6%
Change	**8%**	**-10%**	**-6%**	**-7%**	**1%**	**1%**

Source: SPI Research, February 2023

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. The work to have 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 great (Table 127). Solution Development effectiveness has traditionally been given a lower score than sales effectiveness but higher marks than marketing effectiveness. This year's overall solution development effectiveness was rated higher than sales effectiveness with a score of 3.65 compared to 3.60 for sales effectiveness and 3.22 for marketing effectiveness. All the measures of solution development, sales and marketing effectiveness decreased from the 2021 survey. For the 61.9% of firms who gave their solution development efforts a good score of 4 or 5, solution development had a positive impact on the size of the percentage of bids won, project overrun and meeting annual revenue and margin goals.

Table 127: Impact – Solution Development Effectiveness

Solution Development Effectiveness	Survey %	Revenue growth	% of bids won	Project overrun	% of ann. revenue target	% of ann. margin target
1 - Poor	2.9%	5.5%	45.6%	14.1%	90.0%	83.6%
2	7.4%	13.1%	49.2%	11.3%	91.1%	84.0%
3	27.8%	9.5%	47.7%	10.0%	91.1%	88.6%
4	45.3%	10.8%	51.4%	9.5%	93.0%	88.9%
5 - Great	16.6%	11.3%	53.1%	8.7%	96.9%	93.1%
Total / Average	**100.0%**	**10.5%**	**50.3%**	**9.8%**	**92.9%**	**89.0%**

Source: SPI Research, February 2023

Table 128: YoY change in Solution Development Effectiveness

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.71	3.72	3.71	3.74	3.61	3.75
2022	3.65	3.68	3.64	3.69	3.52	3.64
Change	**-2%**	**-1%**	**-2%**	**-1%**	**-2%**	**-3%**

Source: SPI Research, February 2023

Table 129: YoY change in Solution Development Effectiveness by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	3.79	3.76	3.62	3.85	3.58	3.78	3.88	3.40
2022	3.62	3.76	3.56	3.80	3.67	3.57	3.60	3.26
Change	**-4%**	**0%**	**-2%**	**-1%**	**3%**	**-6%**	**-7%**	**-4%**

Source: SPI Research, February 2023

Table 130: YoY change Solution Development Effectiveness by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	3.83	3.61	3.73	3.72	3.69	3.71
2022	3.53	3.71	3.64	3.57	3.73	3.81
Change	**-8%**	**3%**	**-2%**	**-4%**	**1%**	**3%**

Source: SPI Research, February 2023

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.

SPI Research asked how effective service marketing was on a scale of 1 to 5, with 5 representing great (Table 131). Marketing effectiveness has consistently been given an even worse score than sales effectiveness. For the 43.6% 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, and project margins. Marketing is certainly worth the expense if it is well-staffed, fully funded and strategically positioned.

Table 131: Impact – Service Marketing Effectiveness

Service Marketing Effectiveness	Survey %	Revenue growth	Deal pipeline	Project duration (man-months)	% of annual revenue target	% of annual margin target
1 - Poor	5.5%	9.4%	151%	27.6	91.3%	85.0%
2	18.9%	9.8%	152%	29.3	90.0%	87.6%
3	31.9%	10.3%	164%	31.4	93.2%	89.9%
4	35.1%	11.7%	167%	36.4	94.0%	88.5%
5 - Great	8.5%	8.0%	155%	44.1	94.4%	92.6%
Total / Average	**100.0%**	**10.5%**	**161%**	**33.7**	**92.9%**	**88.9%**

Source: SPI Research, February 2023

Table 132: YoY change in Service Marketing Effectiveness

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.24	3.17	3.27	3.26	3.14	3.29
2022	3.22	3.19	3.24	3.24	3.16	3.20
Change	**-1%**	**1%**	**-1%**	**-1%**	**0%**	**-3%**

Source: SPI Research, February 2023

Table 133: YoY change in Service Marketing Effectiveness by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	3.28	3.21	3.11	3.07	3.42	3.57	3.38	3.40
2022	3.14	3.00	3.14	3.14	3.79	3.48	3.35	3.06
Change	**-4%**	**-7%**	**1%**	**2%**	**11%**	**-2%**	**-1%**	**-10%**

Source: SPI Research, February 2023

Table 134: YoY change Service Marketing Effectiveness by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	3.10	3.15	3.14	3.33	3.44	3.71
2022	2.87	2.99	3.20	3.30	3.60	3.53
Change	**-7%**	**-5%**	**2%**	**-1%**	**4%**	**-5%**

Source: SPI Research, February 2023

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 135). Sales effectiveness has a profound impact on all aspects of PS but unfortunately 11.9% of respondents give sales effectiveness a failing grade of 1 or 2; 28.8% 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 3.60 (72.0%) from to 3.64 (72.7%) last year.

Table 135: Impact – Service Sales Effectiveness

Service Sales Effectiveness	Survey %	Revenue growth	Deal pipeline	Std. del. method. used	Ann. rev./ consult. (k)	EBITDA
1 - Poor	2.3%	3.5%	113%	51.5%	$188	7.2%
2	9.6%	9.9%	137%	60.2%	$196	11.9%
3	28.8%	10.1%	160%	62.3%	$199	15.9%
4	44.7%	10.9%	168%	64.3%	$204	16.4%
5 - Great	14.6%	11.6%	169%	66.7%	$226	19.2%
Total / Average	**100.0%**	**10.5%**	**162%**	**63.4%**	**$205**	**16.0%**

Source: SPI Research, February 2023

Table 136: YoY change in Service Sales Effectiveness

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.64	3.50	3.69	3.65	3.59	3.63
2022	3.60	3.63	3.58	3.63	3.48	3.60
Change	**-1%**	**4%**	**-3%**	**-1%**	**-3%**	**-1%**

Source: SPI Research, February 2023

Table 137: YoY change in Service Sales Effectiveness by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	3.70	3.62	3.43	3.51	3.73	3.83	3.50	4.00
2022	3.60	3.52	3.56	3.67	3.70	3.62	3.70	3.22
Change	**-3%**	**-3%**	**4%**	**5%**	**-1%**	**-5%**	**6%**	**-19%**

Source: SPI Research, February 2023

Table 138: YoY change Service Sales Effectiveness by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	3.52	3.63	3.59	3.76	3.58	3.75
2022	3.38	3.54	3.51	3.59	3.98	3.81
Change	**-4%**	**-3%**	**-2%**	**-5%**	**11%**	**2%**

Source: SPI Research, February 2023

Pricing and Deal Structure

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

SPI Research has seen a shift in pricing and deal structure every year. As clients 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. However, in the 2022 survey, 48.1% of all contracts were priced as time and materials. Managed service contracts bundle hardware, software, services and technology refresh into a monthly or annual contract price, often with response time and service level agreements. Time and materials-based pricing puts emphasis on accurate resource management, time collection and reporting. Fixed price pricing puts an emphasis on accurate estimates, project costing and change management. Regardless of pricing strategy, PSA and now new service CPQ (Configuration, Pricing and Quoting) applications are critical to support accurate estimates and time and cost capture and billing.

Table 139 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 139: Percentage of work sold

Bill structure	2021	2022	ESO	PSO	Amer	EMEA	APac
Time & Materials	44.5%	48.1%	46.4%	48.8%	46.8%	54.6%	45.3%
Fixed time/fixed fee	37.0%	44.7%	45.6%	44.4%	46.5%	36.5%	46.2%
Shared risk/perform-based	2.2%	4.0%	3.8%	4.1%	3.6%	4.7%	6.4%
Other	16.3%	3.2%	4.3%	2.7%	3.0%	4.2%	2.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2023

By vertical, architects, marketing and advertising firms rely on fixed price contracts approximately 60% of the time (Table 140). IT consultancies favor time and materials contracts. As the SaaS market has become more mature a greater emphasis is being placed on customer adoption, so SaaS firms focus on "time to value" with subscription pricing which includes the cost of software and implementation services. Net profit is not necessarily tied to pricing structure as it is possible to make good service margins with any type of contract if costs, deliverables and client expectations are properly set. Accurate estimating, excellent project management, good communication and change control are the most important elements in ensuring quality services are delivered at planned margins.

Table 140: Percentage of work sold by Market

Bill structure	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/ Engr	Advert. /PR	Health/ Pharma	Acct.
Time & Materials	62.7%	41.7%	52.4%	36.7%	40.8%	31.3%	40.4%	55.4%
Fixed time/fixed fee	32.1%	51.1%	37.8%	59.7%	50.6%	62.5%	42.2%	35.2%
Shared risk/perform-based	3.7%	4.8%	3.9%	2.4%	5.4%	3.0%	3.3%	3.2%
Other	1.5%	2.5%	5.9%	1.2%	3.2%	3.2%	14.0%	6.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2023

Table 141: Percentage of work sold by Organization Size

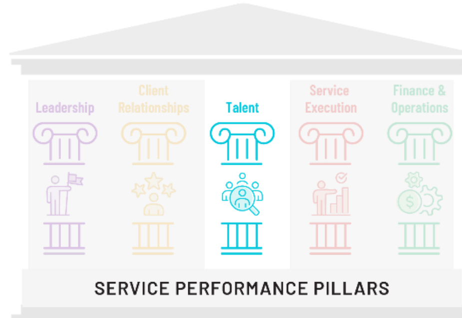
Bill structure	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Time & Materials	46.0%	50.0%	51.2%	46.1%	44.3%	46.5%
Fixed time/fixed fee	45.5%	44.6%	45.1%	45.9%	44.5%	41.3%
Shared risk/perform-based	4.6%	3.5%	2.8%	3.9%	5.2%	6.4%
Other	3.8%	1.8%	0.9%	4.1%	6.0%	5.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: SPI Research, February 2023

Chapter 8

Talent Pillar

TALENT PILLAR

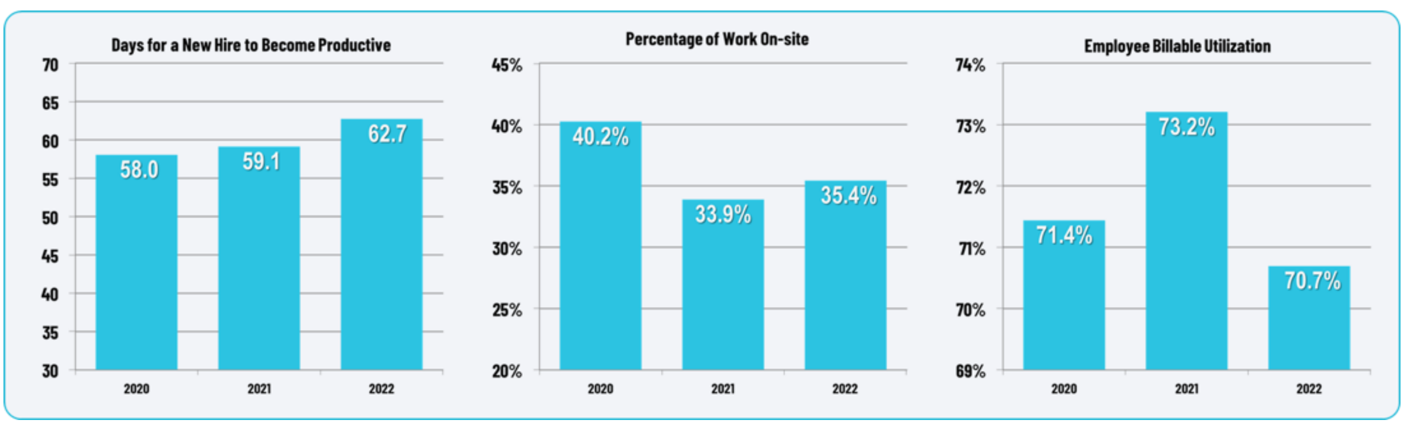


The Talent Pillar encompasses all elements of the PSO's workforce strategy. Talent focuses on both the people, processes and systems required to recruit, attract, retain and motivate a high quality consulting workforce. It requires more attention than ever before due to changing workforce dynamics.

In 2023 talent remains at center stage as both a top challenge and a top improvement priority in the world of professional services. Global economic recovery, changing workforce dynamics and technology pervasiveness in both our professional and private lives have transformed the world of work. A trend that was exacerbated by COVID, today's consulting workforce has become increasingly virtual, with 65% of the consulting hours delivered off-site. The new world of consulting work depends on a multi-lingual, multi-generational, multi-cultural, technically skilled, project-based workforce. Based on technology advances, emphasis is shifting toward business process and vertical expertise however demand for horizontal application and technical skills remains high.

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

Figure 39: Talent Trends of Note



Source: SPI Research, February 2023

SPI Research highlighted the talent trends in Figure 39 because they show the trends in the length of time it takes to make new hires billable is rising, along with billable utilization retreating from 2022's levels. These two KPIs negatively impact project margins and organizational profit. Also, the percentage of work on site appears to have stabilized at approximately one-third of the billable hours, which is probably at an acceptable level.

One of the most important challenges for today's Professional Service leaders is competing for top talent in a level, global, web-enabled playing field of "Digital natives" who value collaboration and "cool" new technologies more than security and remuneration. Today's Talent challenges include:

- Attracting, compensating, retaining and motivating top talent;
- Managing through a technical labor shortage;
- Managing a global, multi-lingual, multi-cultural workforce; and,
- Managing a variable and/or contingent workforce.

Professional services organizations are judged by the quality of the people within the firm. All PSOs must place a premium on attracting, retaining and motivating superlative consultants. Regardless of an organization's size and maturity level, the firm's people are the essence of the organization. They determine financial viability, brand quality and customer satisfaction. They define the effectiveness of service delivery, sales and marketing. From inception, all PSOs must intently focus on attracting, hiring, retaining and motivating a high quality staff. Figure 40 shows the essential elements of the PS Workforce plan.

Figure 40: Workforce Priorities

Source: SPI Research, February 2023

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 accentuate the benefits of remote work with collaboration tools and team and skill building combined with flexible hours and childcare.

Talent Maturity

SPI Research's "Talent" pillar encompasses all elements of the Professional Services workforce strategy. It focuses on both the people processes and systems required to recruit, hire, ramp, retain and motivate a high-quality consulting workforce. Table 142 shows how PSOs mature across the Talent pillar:

Table 142: 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 offshore workforce model.

Source: SPI Research, February 2023

SPI's PS Maturity™ research over the past sixteen years supports the notion that only a handful (less than 20%) of Professional services organizations achieve greatness. These leaders can quickly seize market opportunities and drive best-in-class performance through the effective use of technology in conjunction with enlightened management and workforce practices (Figure 41). Improving talent maturity is the best and fastest way to improve overall results and must always be a priority.

Figure 41: Talent Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Employee annual attrition - voluntary	9.5%	8.7%	10.3%	8.9%	8.5%
Employee annual attrition - involuntary	3.8%	4.1%	5.0%	4.8%	4.7%
Days to recruit and hire for standard positions	63.1	67.1	64.6	60.4	69.6
Days for a new hire to become productive	62.2	71.4	62.7	52.0	54.2
Guaranteed annual training days / employee	9.7	10.9	10.2	10.5	9.7
Employee billable utilization	66.4%	68.0%	72.8%	75.0%	77.7%
Annual fully loaded cost per consultant (k)	$116	$124	$135	$141	$148
Recommend company to friends/family	4.17	4.33	4.47	4.65	4.59
Well-understood career path for all emp.	3.34	3.38	3.58	3.70	3.95
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

Figure 42 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 42: Annual Hours by Maturity Level

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Vacation / personal / holiday hours	162	183	186	185	181
Education / training hours	83	88	77	97	89
Administrative hours	175	181	142	126	121
Non-billable business development/sales support	111	128	101	99	92
Non-billable project hours	162	145	130	94	83
Billable hours on-site	490	503	513	478	478
Billable hours off-site	863	837	911	999	1,021
Total billable hours	**1,353**	**1,340**	**1,424**	**1,477**	**1,499**
Percentage of billable hours delivered remotely	**64.9%**	**63.8%**	**64.2%**	**67.3%**	**68.2%**
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

Figure 43 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 43: 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	25.8%	24.6%	23.1%	23.6%	27.9%
Percentage of workforce between 30 - 40 yrs. old	31.0%	32.2%	31.9%	34.8%	26.9%
Percentage of workforce between 40 - 50 yrs. old	23.5%	23.8%	24.6%	22.3%	18.7%
Percentage of workforce over 50 yrs. old	19.8%	19.4%	20.5%	19.3%	26.5%
Average Age	**38.7**	**38.6**	**39.1**	**40.2**	**38.6**
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

5-Year Talent Trends

The war for talent has never been as acute or critical as it is in 2022 with high 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, there has not been real growth in annual billable hours (Table 143), gravitating between 1,404 and 1,435. The big change has been the movement to delivering services remotely, rather than on the clients' site. On-site delivery has gone down for years but looks like it has stabilized at approximately one-third of the billable hours. Almost all PS productivity improvement has come from the effective use of technology to lower overhead and administrative costs in combination with the move to virtual (remote) consulting delivery.

Table 143: Talent Pillar 5-year Trend

Key Performance Indicator (KPI)	5-year avg.	2018	2019	2020	2021	2022
Employee annual attrition - voluntary	9.5%	8.5%	8.5%	6.9%	9.8%	9.3%
Employee annual attrition - involuntary	4.3%	5.4%	4.7%	4.7%	4.2%	4.4%
Days to recruit and hire for standard positions	62.8	59.9	61.9	62.6	64.9	64.5
Days for a new hire to become productive	59.5	57.4	59.5	58.0	59.1	62.7
Guaranteed annual training days / employee	9.50	8.83	9.31	9.78	9.13	10.30
Employee billable utilization	**71.3%**	**69.7%**	**71.7%**	**71.4%**	**73.2%**	**70.7%**
Annual fully loaded cost per consultant (k)	$126	$122	$127	$124	$127	$129
Recommend company to friends/family	4.4	4.41	4.37	4.42	4.43	4.40
Well-understood career path for all emp.	3.35	3.28	3.33	3.31	3.28	3.51
Billable hours	1,417	1,428	1,435	1,406	1,418	1,404
Percentage of billable hours on site	**34.5%**	**53.0%**	**47.5%**	**40.8%**	**33.9%**	**34.9%**

Source: SPI Research, February 2023

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

Survey Results

Today's Professional Services leaders 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 remains high. SPI Research found Talent metrics contain some of the highest number of performance indicators with extremely strong correlation to success — meaning, employees, and how they perform once onboard determine success or failure.

SPI Research analyzed 21 Talent key performance measurements that are critical to attaining superior employee performance. Table 144 portrays trends in human capital alignment. The chief issues facing PS employers are recruiting and retention. Skilled employees have more career choices than ever before resulting in high levels of voluntary attrition. This year, the number of employees who would recommend their company as a great place to work increased slightly. Some overwhelmed consultants are choosing to leave professional services altogether, preferring the stability and lower stress of corporate positions.

Table 144: Talent Pillar Results by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2021	2022	ESO	PSO	Amer.	EMEA	APac
Employee annual attrition - voluntary	9.3%	8.8%	9.5%	9.3%	9.5%	9.4%	9.3%
Employee annual attrition - involuntary	4.4%	4.4%	4.4%	4.8%	3.5%	3.6%	4.4%
Days to recruit and hire for standard positions	64.5	70.0	62.2	65.4	65.0	55.4	64.5
Days for a new hire to become productive	62.7	77.6	56.6	64.2	63.6	48.3	62.7
Guaranteed annual training days / employee	10.30	11.51	9.81	10.57	9.85	8.98	10.30
Employee billable utilization	**70.7%**	**68.4%**	**71.6%**	**70.7%**	**71.2%**	**69.8%**	**70.7%**
Annual fully loaded cost per consultant (k)	$129	$132	$128	$134	$110	$132	$129
Recommend company to friends/family	4.40	4.43	4.38	4.44	4.28	4.26	4.40
Well-understood career path for all emp.	3.51	3.51	3.51	3.51	3.50	3.47	3.51

Source: SPI Research, February 2023

Tables 145 and 146 break down the Talent KPIs by organization size and market. By market, IT consultancies had the highest billable utilization while software PS had the lowest. Attrition was very uniform across the different vertical markets and as one might expect management consultancies, along with software PS had the highest fully annual loaded cost per employee.

Table 145: Talent Pillar Results by Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch /Engr	Advert. /PR	Health/ Pharma
Employee annual attrition - voluntary	9.2%	9.0%	9.0%	9.0%	9.9%	10.1%	9.2%
Employee annual attrition - involuntary	5.0%	4.0%	3.9%	5.2%	4.1%	3.8%	5.4%
Days to recruit and hire for std. positions	57.9	64.3	76.6	62.1	68.7	64.8	64.3
Days for a new hire to become productive	50.0	62.4	84.3	81.9	60.0	67.0	58.6
Guaranteed annual training days / employee	10.36	9.24	11.99	11.60	8.81	12.07	10.50
Employee billable utilization	**73.4%**	**69.0%**	**66.8%**	**68.3%**	**72.9%**	**67.8%**	**72.5%**
Annual fully loaded cost per consultant (k)	$127	$140	$140	$124	$118	$118	$131
Recommend company to friends/family	4.41	4.39	4.35	4.48	4.36	4.23	4.57
Well-understood career path for all emp.	3.47	3.44	3.62	3.50	3.54	3.38	3.29

Source: SPI Research, February 2023

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

Table 146: Talent Pillar Results by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Employee annual attrition - voluntary	4.9%	8.4%	9.3%	10.6%	12.7%	10.5%
Employee annual attrition - involuntary	2.9%	4.6%	4.1%	4.5%	5.7%	5.3%
Days to recruit and hire for standard positions	64.5	68.3	63.7	64.1	61.2	64.1
Days for a new hire to become productive	56.8	69.9	61.8	63.0	58.8	62.8
Guaranteed annual training days / employee	9.39	10.18	10.72	10.34	9.39	11.04
Employee billable utilization	**67.6%**	**69.8%**	**71.4%**	**71.5%**	**73.6%**	**69.6%**
Annual fully loaded cost per consultant (k)	$127	$123	$129	$131	$132	$138
Recommend company to friends/family	4.29	4.50	4.46	4.32	4.43	4.28
Well-understood career path for all emp.	3.49	3.41	3.43	3.47	3.62	3.85

Source: SPI Research, February 2023

Workforce Age

PS continues to be a young man's game with 56.5% of the workforce under age 40. This year the percentage of employees under 30 increased from 21% to 24.5% while over age 50 employees decreased from 20.1% from 21.6%. Embedded PSOs reported slightly younger workforces as they tend to provide better on-boarding programs than their independent counterparts and require the latest technical skills. This year the Americas has the youngest workforce with the most employees under 40 (55.2%).

Table 147: Employee Age by Organization Type and Geographic Region

Age Percentage	2021	2022	ESO	PSO	Amer.	EMEA	APac
Under 30	21.0%	24.5%	24.8%	24.3%	23.3%	29.9%	22.9%
30 - 40	32.0%	32.0%	35.1%	30.6%	31.9%	32.4%	31.7%
40 - 50	25.4%	23.4%	24.8%	22.8%	24.3%	19.7%	23.9%
Over 50	21.6%	20.1%	15.3%	22.2%	20.5%	17.9%	21.6%
Average Age (Years)	**40.3**	**39.4**	**38.4**	**39.9**	**39.7**	**38.0**	**40.0**

Source: SPI Research, February 2023

Just as has been seen in past benchmarks, management consultants employ the oldest workforce. If PSOs desire to provide business insight and advice it pays for their consultants to have a few gray hairs.

Table 148: Employee Age by PS Market

Age Percentage	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch /Engr	Advert. /PR	Health/ Pharma
Under 30	26.8%	15.4%	23.7%	30.4%	23.9%	31.5%	26.5%
30 - 40	32.6%	23.9%	34.4%	39.4%	29.4%	33.4%	30.8%
40 - 50	23.4%	24.3%	25.8%	21.7%	24.3%	18.7%	22.3%
Over 50	17.2%	36.4%	16.1%	8.6%	22.4%	16.4%	20.4%
Average Age (Years)	**38.5**	**44.1**	**38.8**	**36.1**	**40.1**	**37.4**	**39.2**

Source: SPI Research, February 2023

Table 149: Employee Age by Organization Size

Age Percentage	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Under 30	9.0%	22.0%	28.4%	27.5%	27.5%	27.0%
30 - 40	19.5%	33.5%	32.9%	35.4%	34.3%	32.6%
40 - 50	20.2%	24.8%	23.6%	23.4%	23.7%	23.9%
Over 50	51.4%	19.7%	15.1%	13.7%	14.5%	16.4%
Average Age (Years)	**47.7**	**39.7**	**37.9**	**37.7**	**37.9**	**38.4**

Source: SPI Research, February 2023

The primary reason employees leave

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

Turnover will always be an important issue facing PS executives. Employees leave for a variety of reasons. In many cases there is a primary catalyst which is the reason for moving on. Table 150 shows the top reasons why employees leave. The number one rationale (36.2%) is "better opportunity" which translates to a better work environment, better compensation, a better boss or more opportunity for advancement.

Table 150: Why employees leave

Why employees leave	Survey %	Revenue growth	% of employees billable	Billable utilization	Recommend firm	EBITDA
Better opportunity	36.2%	10.2%	70.8%	70.8%	4.48	15.2%
Money	23.8%	10.9%	72.0%	71.0%	4.34	15.8%
Other	15.5%	10.0%	76.2%	71.3%	4.64	17.9%
Lack of career advancement	10.5%	9.0%	71.8%	69.1%	4.38	16.6%
Stress	7.7%	13.1%	72.7%	69.7%	4.18	11.8%
Management dissatisfaction	4.8%	9.4%	73.7%	69.8%	3.52	27.5%
Travel	1.4%	11.9%	75.0%	72.8%	4.56	43.8%
Total/Average	**100.0%**	**10.4%**	**72.4%**	**70.6%**	**4.39**	**16.1%**

Source: SPI Research, February 2023

Money is in second place with 23.8%. A younger, less traditional workforce requires challenging projects; exposure to hot new technologies and leading-edge clients plus training, communication and teamwork to remain engaged but money is often a determining factor.

"Other (15.5%)" is in third. "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.

"Lack of career advancement" was cited as the primary reason to leave by 10.5%, down from 2021. 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.

Employee Attrition

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

Employee Annual Attrition - Voluntary

Voluntary attrition, employees who leave 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 rose until 2020, when COVID hit. But in 2021 and 2022 it began to rise again and hit 9.3% in 2022.

Table 151: Impact – Employee annual attrition - voluntary

Voluntary Attrition	Survey %	Percentage of bids won	On-time delivery	% of ann. revenue achieved	% of ann. margin achieved	Profit (EBITDA %)
None	11.0%	57.5%	81.2%	91.7%	89.5%	20.6%
1% - 5%	23.1%	51.5%	79.6%	93.7%	89.3%	14.7%
5% - 10%	30.1%	48.4%	74.2%	93.3%	89.3%	15.9%
10% - 15%	18.1%	51.1%	74.6%	94.0%	87.9%	19.6%
15% - 25%	11.8%	48.6%	74.2%	92.0%	89.1%	13.4%
Over 25%	5.8%	46.7%	70.7%	86.3%	86.3%	9.0%
Total/Average	**100.0%**	**50.5%**	**76.1%**	**92.8%**	**88.9%**	**16.1%**

Source: SPI Research, February 2023

Table 151 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. Less success in sales and on-time project delivery decreases while project overruns increase. Achieving financial goals and profitability also suffer as voluntary attrition rises. Remaining employees must pick up the pieces from exiting workers and must quickly come up to speed to reestablish client relationships. Clients are forced to back-track to reestablish previous decisions and vendor commitments.

The costs of high voluntary attrition permeate all aspects of the firm. Lower employee engagement influences the firm's ability to recruit new top talent. The very real cost to replace leaving employees shows up in 127 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 152 shows voluntary attrition trends by geography, vertical and size of organization. ESOs improved from 2021 to 2022, as did independents. APac reduced attrition the most. Larger organizations experience more voluntary attrition than smaller ones, but the impact of voluntary attrition is enormous on small organizations.

Table 152: YoY change in Voluntary Attrition

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	9.8%	9.6%	9.8%	9.8%	9.3%	10.9%
2022	9.3%	8.8%	9.5%	9.3%	9.5%	9.4%
Change	**-4%**	**-9%**	**-3%**	**-5%**	**2%**	**-14%**

Source: SPI Research, February 2023

Table 153: YoY change in Voluntary Attrition by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	11.2%	8.0%	10.2%	10.3%	9.7%	10.2%	7.6%	20.6%
2022	9.2%	9.0%	9.0%	9.0%	9.9%	10.1%	9.2%	7.4%
Change	**-17%**	**13%**	**-11%**	**-13%**	**2%**	**-1%**	**20%**	**-64%**

Source: SPI Research, February 2023

Table 154: YoY change in Voluntary Attrition by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	5.5%	7.7%	10.7%	11.5%	13.8%	10.6%
2022	4.9%	8.4%	9.3%	10.6%	12.7%	10.5%
Change	**-12%**	**9%**	**-14%**	**-8%**	**-8%**	**-1%**

Source: SPI Research, February 2023

Employee Annual Attrition - Involuntary

Involuntary attrition or layoffs 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 long term 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 155 shows the correlation between involuntary attrition and on-time project delivery.

Table 155: Impact - Employee annual attrition - involuntary

Involuntary Attrition	Survey	Revenue growth	Percentage of bids won	Percentage of referenceable clients	On-time delivery	Profit (EBITDA %)
None	26.8%	7.4%	53.5%	73.2%	81.3%	16.1%
1% - 5%	44.9%	11.9%	49.3%	70.4%	75.3%	15.5%
5% - 10%	17.3%	10.6%	48.9%	70.1%	73.0%	15.6%
10% - 15%	7.2%	10.9%	51.9%	67.1%	73.2%	21.3%
15% - 25%	2.6%	15.4%	50.0%	78.0%	70.3%	14.6%
Over 25%	1.2%	11.9%	45.0%	76.3%	75.0%	5.4%
Total/Average	**100.0%**	**10.5%**	**50.5%**	**71.2%**	**76.2%**	**15.9%**

Source: SPI Research, February 2023

Involuntary attrition rose from 4.2% to 4.4% in 2022. Both embedded and independent professional services organizations had the same amount. The Americas had the highest involuntary attrition, which is normal in SPI's benchmarks. Advertising agencies, software professional services and management consultancies had the lowest annual turnover. Accountancies had higher involuntary attrition, but it could be due to a lack of surveys. The largest organizations had the highest involuntary attrition.

Table 156: YoY change in Involuntary Attrition

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	4.2%	4.3%	4.1%	4.3%	3.9%	2.8%
2022	4.4%	4.4%	4.4%	4.8%	3.5%	3.6%
Change	**7%**	**4%**	**8%**	**10%**	**-8%**	**28%**

Source: SPI Research, February 2023

Table 157: YoY change in Involuntary Attrition by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	5.2%	3.1%	4.7%	4.2%	3.6%	4.6%	5.9%	6.9%
2022	5.0%	4.0%	3.9%	5.2%	4.1%	3.8%	5.4%	8.0%
Change	**-3%**	**27%**	**-16%**	**23%**	**13%**	**-19%**	**-8%**	**17%**

Source: SPI Research, February 2023

Table 158: YoY change in Involuntary Attrition by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	2.3%	3.0%	4.3%	5.4%	5.9%	4.9%
2022	2.9%	4.6%	4.1%	4.5%	5.7%	5.3%
Change	**25%**	**55%**	**-4%**	**-16%**	**-3%**	**9%**

Source: SPI Research, February 2023

Days To Recruit and Hire for Standard Positions

SPI Research considers the length of time to recruit and ramp new employees to be very important determinants in overall performance and sustainable growth. "Ramping" time is critical because it not only focuses on making employees productive faster, but also reduces the non-billable time and cost of other resources who support the hiring and on-boarding process.

Most firms do not track the full cost of recruiting and hiring, but it is substantial (in many cases over 50% of the first-year new hire base salary). This year the average cost of recruiting is 1.0% of total revenue. The most mature firms create a dedicated recruiting function, armed with in-depth skill and personality profiles for targeted positions. Since all indicators point to a continuing talent shortage in PS – firms would be well-served to examine and improve their recruiting, on-boarding and training functions. Recruiting must be closely aligned with the sales pipeline and resource management plan.

Table 159 compares the time required to recruit for standard positions (such as consultants) to other key performance indicators. As it takes longer to recruit and hire, billable utilization suffers, because current employees must spend more time helping with the process, which limits their billable time. On-time delivery is reduced because more seasoned employees are tasked with time to hire and ramp new employees plus new hires are not available to fill required roles and may make mistakes due to inexperience. Clearly organizations with long recruiting times need to do a better job of defining roles and starting the recruiting process in time to fill critical resource requirements. Maintaining a "warm pool" of candidates is a good practice.

Table 159: Impact – Days to Recruit and Hire for Standard Positions

Days to recruit and hire for standard positions	Survey	Revenue growth	New clients	Annual attrition - involuntary	Billable utilization	On-time delivery
Under 1 month	9.0%	7.6%	33.7%	4.9%	71.9%	83.5%
30 - 60 days	39.4%	11.1%	30.1%	4.2%	70.6%	77.1%
60 - 90 days	35.9%	10.9%	28.9%	4.8%	71.1%	74.7%
90 - 120 days	11.2%	9.9%	27.5%	4.7%	69.6%	73.1%
Over 120 days	4.5%	8.9%	24.3%	3.3%	68.9%	77.0%
Total / Average	**100.0%**	**10.5%**	**29.4%**	**4.5%**	**70.7%**	**76.4%**

Source: SPI Research, February 2023

The time it takes to recruit and hire for standard positions went down by nearly half a day in 2022. Embedded service organizations showed a four day increase, independents reduced it by two days. The APac region takes the least amount of time to recruit and hire. IT consultancies do very well, and so do accountancies.

Table 160: YoY change in Days to Recruit and Hire for Standard Positions

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	64.9	66.3	64.4	66.2	63.0	54.6
2022	64.5	70.0	62.2	65.4	65.0	55.4
Change	**-1%**	**6%**	**-3%**	**-1%**	**3%**	**1%**

Source: SPI Research, February 2023

Table 161: YoY change in Days to Recruit and Hire for Standard Positions by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	60.9	58.0	72.7	65.1	78.8	68.9	65.6	67.5
2022	57.9	64.3	76.6	62.1	68.7	64.8	64.3	54.5
Change	**-5%**	**11%**	**5%**	**-5%**	**-13%**	**-6%**	**-2%**	**-19%**

Source: SPI Research, February 2023

Table 162: YoY change in Days to Recruit and Hire for Standard Positions by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	59.7	67.3	66.9	62.5	63.3	71.7
2022	64.5	68.3	63.7	64.1	61.2	64.1
Change	**8%**	**1%**	**-5%**	**3%**	**-3%**	**-11%**

Source: SPI Research, February 2023

Days For a New Hire to Become Productive

Well-structured on-boarding and mentoring programs are mandatory for PSOs planning on significant growth. In 2022 the average time for a new hire to become productive increased from 59.1 days in 2021 to 62.7 in 2022. PSOs have been focused on this metric for some time, but lately it has gone up due to the war for talent.

Table 163: Impact – Days for a New Hire to Become Productive

Days for a new hire to become productive	Survey	Revenue growth	Annual attrition - involuntary	Billable utilization	Revenue per project (k)	On-time delivery
Under 1 month	22.8%	11.7%	4.8%	76.2%	$263	80.3%
30 - 60 days	29.6%	10.9%	4.2%	70.2%	$209	75.8%
60 - 90 days	25.9%	9.9%	4.6%	69.1%	$202	75.5%
90 - 120 days	13.3%	10.4%	3.7%	67.1%	$163	74.6%
Over 120 days	8.4%	7.9%	5.3%	68.1%	$100	71.3%
Total / Average	**100.0%**	**10.5%**	**4.5%**	**70.7%**	**$204**	**76.2%**

Source: SPI Research, February 2023

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

Table 164: YoY change in Days for a New Hire to Become Productive

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	59.1	73.8	53.6	59.5	65.1	37.8
2022	62.7	77.6	56.6	64.2	63.6	48.3
Change	**6%**	**5%**	**6%**	**8%**	**-2%**	**28%**

Source: SPI Research, February 2023

Table 165: YoY change in Days for a New Hire to Become Productive by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	47.8	52.4	76.0	84.9	59.2	50.5	50.6	93.8
2022	50.0	62.4	84.3	81.9	60.0	67.0	58.6	57.6
Change	**5%**	**19%**	**11%**	**-3%**	**1%**	**33%**	**16%**	**-39%**

Source: SPI Research, February 2023

Table 166: YoY change in Days for a New Hire to Become Productive by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	53.9	65.0	59.1	54.5	62.1	65.2
2022	56.8	69.9	61.8	63.0	58.8	62.8
Change	**5%**	**8%**	**4%**	**16%**	**-5%**	**-4%**

Source: SPI Research, February 2023

Guaranteed Annual Training Days Per Employee

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

Like the annual training budget, this indicator, while promised to employees, is not necessarily utilized, but does reflect the organization's commitment to employee development and shows the organization is investing in the future of its employees. Across the benchmark the average cost of training is 1.0% of total revenue. Leading organizations mandate more than two weeks of training per year. Over 20% of firms provide three weeks or more of training per year. Several leaders put new hires through intensive three-month scenario-based training programs where they work as a team to develop requirements, architect and implement real-world solutions. PSOs find investments in both technical and interpersonal skill building pay dividends. In this year's benchmark, higher numbers of guaranteed training days positively correlate with project durations and margin (Table 167).

Table 167: Impact – Guaranteed Annual Training Days per Employee

Guaranteed annual training days / employee	Survey	Well-understood career path for all emp.	Project duration (man-months)	Project margin	Revenue per project (k)	On-time delivery
None	1.9%	2.83	23.3	32.4%	$74	71.3%
Under 5 days	20.5%	3.19	31.9	35.3%	$212	76.0%
5 - 10 days	35.2%	3.52	31.2	34.6%	$213	77.2%
10 - 15 days	22.0%	3.64	35.8	35.3%	$188	75.3%
15 - 20 days	9.5%	3.75	38.1	32.5%	$236	77.1%
Over 20 days	10.9%	3.70	39.8	38.4%	$192	75.6%
Total / Average	**100.0%**	**3.51**	**33.8**	**35.1%**	**$205**	**76.2%**

Source: SPI Research, February 2023

Access to high quality training is a major attraction driver. Many firms report they bring together the entire consulting team twice a year for skill-building, reinforcing the company's direction and strengthening collaboration and team building. Team meetings give road warriors a break and allow them to establish new friendships and partnerships while rejuvenating. Several of the high-performance PSOs include significant others and spouses in their annual events to thank them for holding down the fort while their road-warrior partners delight clients.

In this year's survey professional services organizations increased annual training days by 13%. Both embedded and independent professional services organizations increased training. The largest increase was in the Americas, which added two days. Both EMEA and the Asia-Pacific region actually reduced training days over the past year. Software and SaaS firms offered the most training, but architects and engineers increased theirs by 24% and advertising agencies by 38%. The largest firms offered the most training.

Table 168: YoY change in Guaranteed Annual Training Days per Employee

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	9.1	10.0	8.8	8.8	10.0	10.4
2022	10.3	11.5	9.8	10.6	9.8	9.0
Change	**13%**	**15%**	**12%**	**20%**	**-2%**	**-14%**

Source: SPI Research, February 2023

Table 169: YoY change in Guaranteed Annual Training Days per Employee by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	9.6	8.4	10.4	10.8	7.1	8.8	7.1	14.4
2022	10.4	9.2	12.0	11.6	8.8	12.1	10.5	10.1
Change	**8%**	**10%**	**15%**	**7%**	**24%**	**38%**	**47%**	**-29%**

Source: SPI Research, February 2023

Table 170: YoY change in Guaranteed Annual Training Days per Employee by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	9.7	9.9	8.3	8.9	9.5	9.3
2022	9.4	10.2	10.7	10.3	9.4	11.0
Change	**-3%**	**3%**	**28%**	**16%**	**-1%**	**18%**

Source: SPI Research, February 2023

Employee Billable Utilization

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

Employee billable utilization is central to organizational profitability. Utilization is consistently the most measured key performance indicator but must be examined in conjunction with overall revenue and profit per person along with leading indicators like backlog and size of the sales pipeline to become truly meaningful. Utilization is a major indicator of opportunity and workload balance. It provides a signal to expand or contract the workforce.

To improve margins, PS executives must continually focus on increasing employee billable utilization, as well as increasing the percentage of billable employees. The primary gain from increased utilization is a significant increase in net profit.

Table 171 shows the actual (not theoretical) benefits this year's firms experienced from increasing employee utilization. This year the results favored organizations who reported billable utilization over 80%. Understandably, firms reporting the highest levels of utilization also deliver the largest projects, making it easier to keep utilization high without the churn associated with short projects. Running a growing PS organization at greater than 80% utilization can produce strong profits but may not be sustainable over the long run as employees' burnout and leave. At the other end of the spectrum, organizations that reported less than 50% utilization reported the worst metrics in all categories except attrition. The key to success is to have the right balance of meaningful work with enough time set aside for skill and client relationship building.

Table 171: Impact – Employee Billable Utilization

Employee billable utilization	Survey	Percentage of referenceable clients	On-time delivery	% of ann. margin achieved	Project margin	Profit (EBITDA %)
Under 50%	4.0%	64.4%	67.4%	83.3%	30.7%	8.3%
50% - 60%	15.1%	67.1%	71.2%	83.7%	32.9%	12.2%
60% - 70%	26.4%	69.3%	75.2%	88.8%	33.8%	15.8%
70% - 80%	32.5%	72.5%	77.1%	90.4%	36.3%	16.4%
80% - 90%	16.2%	75.0%	79.1%	90.6%	37.0%	19.4%
Over 90%	5.8%	76.7%	85.7%	92.2%	37.7%	15.8%
Total / Average	**100.0%**	**71.2%**	**76.1%**	**88.8%**	**35.1%**	**15.7%**

Source: SPI Research, February 2023

Although many PS firms would like to abandon the billable utilization metric (and all the accompanying time tracking it entails), there is no other metric which provides as good a picture of workforce productivity. Perhaps as more and more firms shift to fixed price work the focus on billable utilization will decline but if this is the case firms must ratchet up their focus on project accounting and budget to actual performance. But here again, how can budget to actual performance be measured without tracking work hours?

Billable utilization went down across the board in 2022. Except for Architecture & Engineering firms, every market, region and sized organization showed lower billable utilization. SPI Research believes PSOs should try to attain at least 75%, meaning 1,500 billable hours annually.

Table 172: YoY change in Employee Billable Utilization

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	73.2%	72.0%	73.7%	72.8%	74.7%	74.1%
2022	70.7%	68.4%	71.6%	70.7%	71.2%	69.8%
Change	**-3%**	**-5%**	**-3%**	**-3%**	**-5%**	**-6%**

Source: SPI Research, February 2023

Table 173: YoY change in Employee Billable Utilization by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	75.6%	72.9%	68.8%	72.0%	70.7%	72.6%	76.3%	77.5%
2022	73.4%	69.0%	66.8%	68.3%	72.9%	67.8%	72.5%	74.4%
Change	**-3%**	**-5%**	**-3%**	**-5%**	**3%**	**-7%**	**-5%**	**-4%**

Source: SPI Research, February 2023

Table 174: YoY change in Employee Billable Utilization by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	69.9%	74.7%	72.2%	74.6%	74.1%	74.8%
2022	67.6%	69.8%	71.4%	71.5%	73.6%	69.6%
Change	**-3%**	**-7%**	**-1%**	**-4%**	**-1%**	**-7%**

Source: SPI Research, February 2023

Annual Fully Loaded Cost Per Consultant

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

Over 55% of firms reported a fully loaded cost between $100k - $150k (Table 175). Only 5.5% pay more than $200,000. The firms that pay the most are larger and have the best financial results.

Table 175: Impact – Annual Fully Loaded Cost Per Consultant

Annual fully loaded cost per consultant (k)	Survey	PS revenue (mm)	Percentage of referenceable clients	On-time delivery	Annual revenue/ consult. (k)	Annual revenue/ emp. (k)
Under $100k	22.0%	$41	68.0%	73.2%	$140	$111
$100k - $120k	26.5%	$52	70.3%	74.3%	$186	$144
$120k - $150k	28.9%	$98	72.3%	77.5%	$220	$180
$150k - $200k	17.2%	$102	72.9%	79.9%	$260	$208
Over $200k	5.5%	$121	73.5%	77.3%	$280	$240
Total / Average	**100.0%**	**$75**	**71.0%**	**76.1%**	**$203**	**$164**

Source: SPI Research, February 2023

For 2022, the fully loaded cost increased by 2%, from $127k to $129k. Embedded organizations saw the largest increase of almost 4%. IT consultancies reduced their cost by 1% but software professional services had to increase theirs by 17% driving up the cost of software, at a time when SaaS dominates. The largest organizations saw the largest increase.

Table 176: YoY change in Annual Fully Loaded Cost per Consultant

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	$127	$127	$126	$131	$110	$121
2022	$129	$132	$128	$134	$110	$132
Change	**2%**	**4%**	**2%**	**2%**	**0%**	**10%**

Source: SPI Research, February 2023

Table 177: YoY change in Annual Fully Loaded Cost per Consultant by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	$128	$134	$119	$133	$111	$109	$118	$131
2022	$127	$140	$140	$124	$118	$118	$131	$117
Change	**-1%**	**5%**	**17%**	**-7%**	**6%**	**8%**	**11%**	**-11%**

Source: SPI Research, February 2023

Table 178: YoY change in Annual Fully Loaded Cost per Consultant by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	$122	$122	$130	$131	$122	$125
2022	$127	$123	$129	$131	$132	$138
Change	**4%**	**1%**	**-1%**	**-1%**	**8%**	**10%**

Source: SPI Research, February 2023

Recommend Company to Friends and Family

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

Table 179 shows the powerful impact of workplace satisfaction. The good news is 54.0% of the organizations in the survey would strongly recommend their firm. Great places to work are characterized by high employee engagement, a strong culture of achievement and confidence in the future.

Table 179: Impact – Recommend Company to Friends and Family

Recommend company to friends/family	Survey	Revenue growth	Well understood vision, mission and strategy	Billable utilization	On-time delivery	Annual revenue/ emp. (k)
1 - Do not recommend	0.5%	2.5%	2.67	60.0%	63.3%	$108
2	2.3%	3.2%	2.73	69.3%	66.5%	$125
3	8.5%	6.3%	3.47	69.6%	70.8%	$155
4	34.8%	10.0%	3.64	70.0%	71.4%	$163
5 - Strongly recommend	54.0%	12.0%	4.18	71.4%	80.7%	$169
Total / Average	**100.0%**	**10.6%**	**3.89**	**70.7%**	**76.2%**	**$164**

Source: SPI Research, February 2023

Table 180 shows employee engagement trends by geography, vertical and size of organization. The 2022 results only slightly went down, as independents saw a 1% decrease. The most engaged employees are healthcare and SaaS workers; the least engaged are advertisers. Employee engagement diminishes as the size of the organization increases. American employees are more engaged than their counterparts in the EMEA and APac. Employee engagement was lowest in the largest and smallest organizations.

Table 180: YoY change in Recommend Company to Friends and Family

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	4.43	4.45	4.43	4.45	4.27	4.64
2022	4.40	4.43	4.38	4.44	4.28	4.26
Change	**-1%**	**0%**	**-1%**	**0%**	**0%**	**-8%**

Source: SPI Research, February 2023

Table 181: YoY change in Recommend Company to Friends and Family by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.49	4.53	4.30	4.44	4.31	4.36	4.78	5.00
2022	4.41	4.39	4.35	4.48	4.36	4.23	4.57	4.37
Change	**-2%**	**-3%**	**1%**	**1%**	**1%**	**-3%**	**-4%**	**-13%**

Source: SPI Research, February 2023

Table 182: YoY change in Recommend Company to Friends and Family by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.37	4.54	4.50	4.43	4.20	4.17
2022	4.29	4.50	4.46	4.32	4.43	4.28
Change	**-2%**	**-1%**	**-1%**	**-3%**	**6%**	**3%**

Source: SPI Research, February 2023

Well-Understood Career Path for All Employees

The survey asked if the organization provides a well understood employee career path, meaning as employees are hired and move within different roles, is there a planned next step for their career progression (Table 183)? This KPI is important because it shows the firm's commitment to employee skill growth and career development. Even though this question is subjective, and answered by PS executives, who might have a bias, the results show how important career development is.

Table 183: Impact – Well-Understood Career Path for All Employees

Well-understood career path for all emp.	Survey	Rec. to family/ friends	Revenue per project (k)	On-time delivery	Project Overrun	Profit (EBITDA %)
1 - strongly disagree	2.9%	3.00	$97	70.0%	12.5%	4.4%
2	12.7%	3.90	$123	73.1%	12.0%	11.4%
3	31.0%	4.26	$189	75.4%	9.6%	16.2%
4	37.3%	4.58	$231	76.8%	9.7%	17.4%
5 - Strongly agree	16.0%	4.88	$261	80.8%	8.6%	18.5%
Total / Average	**100.0%**	**4.40**	**$205**	**76.3%**	**9.9%**	**16.1%**

Source: SPI Research, February 2023

The table shows employees with a well-defined career path are more likely to recommend their firm as a great place to work and are less likely to leave. Interestingly, employees work harder deliver larger projects on time and with higher margins. The results show significantly higher profits as employees see a career path for themselves.

SPI Research found it very interesting that organizations increased this KPI across the board. Perhaps it was due to a lack of uncertainty and clarity in 2021, but organizations everywhere, except in the Asia Pacific region, where there is still much uncertainty, improved their employees understanding of a career path. This improvement bodes well for the professional services market. People are the product, and it is critical they can see the future for themselves and their families.

Table 184: YoY change in Well-Understood Career Path for All Employees

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.28	3.30	3.28	3.24	3.38	3.56
2022	3.51	3.51	3.51	3.51	3.50	3.47
Change	**7%**	**7%**	**7%**	**8%**	**4%**	**-2%**

Source: SPI Research, February 2023

Table 185: YoY change in Well-Understood Career Path for All Employees by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	3.26	3.38	3.13	3.27	3.25	3.14	3.56	3.50
2022	3.47	3.44	3.62	3.50	3.54	3.38	3.29	3.95
Change	**6%**	**2%**	**16%**	**7%**	**9%**	**8%**	**-8%**	**13%**

Source: SPI Research, February 2023

Table 186: YoY change in Well-Understood Career Path for All Employees by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	3.36	3.22	3.28	3.25	3.25	3.48
2022	3.49	3.41	3.43	3.47	3.62	3.85
Change	**4%**	**6%**	**4%**	**7%**	**11%**	**11%**

Source: SPI Research, February 2023

Annual Hours

How do professional services organizations spend their time? Most executives want to keep their people billable at least 75% of the available hours annually (1,500 hours). For senior consultants, where they might have many other duties other than just billing, the utilization could be less than 25%. For new (junior level) consultants, utilization could exceed 100%. Just ask a new lawyer in a big firm.

Annual hours are always one of the most anticipated metrics from the annual PS Maturity™ benchmark survey. Most organizations put a lot of focus on consultant time spent on both billable and non-billable tasks. ***Across the benchmark, billable hours decreased in 2022 to 1,404 from 1,418 in 2021 (Table 187).***

Table 187: Annual Hours by Organization Type and Geographic Region

Annual Hours	2021	2022	ESO	PSO	Amer.	EMEA	APac
Vacation / personal / holiday hours	170	180	194	175	171	220	187
Education / training hours	72	86	103	79	85	95	73
Administrative hours	154	154	166	149	158	132	159
Non-billable business dev./sales support	129	109	105	111	104	128	126
Non-billable project hours	129	130	175	111	131	118	139
Total non-billable hours	**654**	**659**	**743**	**624**	**649**	**693**	**684**
Billable hours on-site	480	497	373	549	452	651	626
Billable hours off-site	937	907	957	886	967	699	743
Total billable hours	**1,418**	**1,404**	**1,330**	**1,435**	**1,419**	**1,351**	**1,370**
Total hours	**2,072**	**2,063**	**2,073**	**2,059**	**2,068**	**2,044**	**2,054**
Percentage of remote delivery hours	**66.1%**	**64.6%**	**72.0%**	**61.7%**	**68.2%**	**51.8%**	**54.3%**

Source: SPI Research, February 2023

The largest organizations provide more training and fewer hours on non-billable administrative time, but sill provided plenty of training hours. By vertical market, architects and engineers work the most hours and bill the most hours. SaaS PS worked the fewest hours and bills the least.

Table 188: Annual Hours by PS Market

Annual Hours	IT Cons	Mgmt. Cons	Soft PS	SaaS PS	Arch./ Engr.	MarCom	Health/ Pharma
Vacation / personal / holiday hours	176	185	197	206	153	182	185
Education / training hours	92	81	104	101	48	90	125
Administrative hours	134	173	182	176	135	186	151
Non-billable business dev./sales support	93	161	120	99	98	141	89
Non-billable project hours	98	103	185	184	124	150	140
Total non-billable hours	**593**	**703**	**788**	**765**	**558**	**749**	**690**
Billable hours on-site	404	583	354	272	792	549	436
Billable hours off-site	1,061	780	933	1,026	718	761	973
Total billable hours	**1,465**	**1,363**	**1,287**	**1,298**	**1,509**	**1,310**	**1,408**
Total hours	**2,058**	**2,066**	**2,075**	**2,063**	**2,068**	**2,059**	**2,098**
Percentage of remote delivery hours	**72.4%**	**57.2%**	**72.5%**	**79.1%**	**47.6%**	**58.1%**	**69.1%**

Source: SPI Research, February 2023

Table 189: Annual Hours by Organization Size

Annual Hours	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Vacation / personal / holiday hours	157	164	188	194	188	174
Education / training hours	79	80	91	93	63	92
Administrative hours	180	169	139	158	129	158
Non-billable business dev./sales support	194	119	95	78	93	141
Non-billable project hours	106	151	126	113	145	149
Total non-billable hours	**716**	**682**	**639**	**636**	**617**	**714**
Billable hours on-site	397	547	539	386	634	493
Billable hours off-site	929	832	881	1,045	815	882
Total billable hours	**1,326**	**1,379**	**1,420**	**1,431**	**1,449**	**1,375**
Total hours	**2,041**	**2,061**	**2,059**	**2,067**	**2,066**	**2,090**
Percentage of remote delivery hours	**70.1%**	**60.3%**	**62.1%**	**73.0%**	**56.2%**	**64.1%**

Source: SPI Research, February 2023

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 that 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

The number of hours worked on-site increased from 480 to 497, reflecting a slight change in the remote service delivery strategy. But by no means does SPI Research expect on site billable work to go back to over 60%. Because of COVID uncertainty in APac, annual onsite annual billable hours went down to 626, still higher than the benchmark average. Management consultancies and SaaS PS increased their onsite activity significantly in 2022.

Table 190: YoY change in Billable Hours On-site

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	480	335	531	435	610	761
2022	497	373	549	452	651	626
Change	**4%**	**11%**	**3%**	**4%**	**7%**	**-18%**

Source: SPI Research, February 2023

Table 191: YoY change in Billable Hours On-site by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	389	467	459	176	871	745	227	1,000
2022	404	583	354	272	792	549	436	579
Change	**4%**	**25%**	**-23%**	**55%**	**-9%**	**-26%**	**92%**	**-42%**

Source: SPI Research, February 2023

Table 192: YoY change in Billable Hours On-site by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	419	535	438	431	664	612
2022	397	547	539	386	634	493
Change	**-5%**	**2%**	**23%**	**-10%**	**-4%**	**-19%**

Source: SPI Research, February 2023

Billable Hours Off-site

Most PSOs have thoroughly reexamined their operations on the topic of onsite versus offsite delivery. PSOS have invested 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 three years wisely to invest in streamlining business processes and try to eliminate the annoying tasks which alienate workers. Timely, relevant communication with remote workers and customers is critical. One source of the truth regarding upcoming projects, available resources and project status has become a necessity which is why there has been a surge in demand for project-based ERP and standalone PSA applications.

Remote hours went down by 3% in this year's benchmark. Except for the APac region, which still have fewer remote hours, all the other major category's type of firm, geographic location) showed a reduction. The more "technology oriented" firms, IT and SaaS PS spent most of their hours delivering services remotely.

Table 193: YoY change in Billable Hours Off-site

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	937	994	917	992	765	654
2022	907	957	886	967	699	743
Change	**-3%**	**-4%**	**-3%**	**-3%**	**-9%**	**14%**

Source: SPI Research, February 2023

Table 194: YoY change in Billable Hours Off-site by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	1,088	935	813	1,093	609	680	1,217	570
2022	1,061	780	933	1,026	718	761	973	1,000
Change	**-2%**	**-17%**	**15%**	**-6%**	**18%**	**12%**	**-20%**	**75%**

Source: SPI Research, February 2023

Table 195: YoY change in Billable Hours Off-site by Organization Size

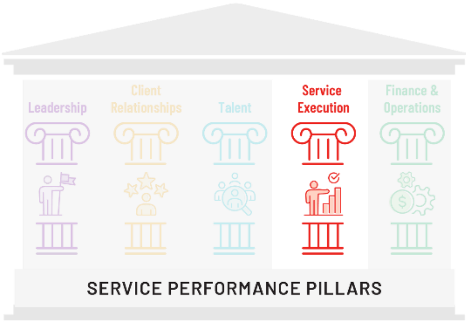
Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	911	885	975	1,020	819	839
2022	929	832	881	1,045	815	882
Change	**2%**	**-6%**	**-10%**	**2%**	**0%**	**5%**

Source: SPI Research, February 2023

Chapter 9

Service Execution Pillar

SERVICE EXECUTION PILLAR

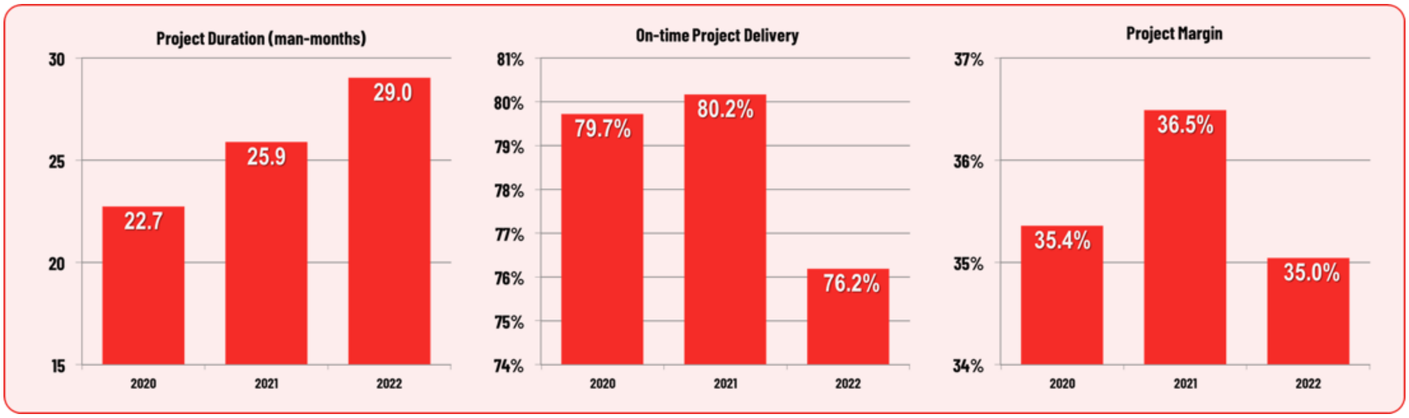


The Service Execution Pillar measures the quality, efficiency and repeatability of service delivery. It focuses on the core activities for planning, scheduling and delivery of service engagements. Regardless of the maturity of every other area of the PSO it will not succeed unless it can successfully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

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

SPI Research highlighted the service execution trends in Figure 44 because they are important to project delivery success. Longer projects offer greater economic stability for PSOs, so this trend is good. Unfortunately, both on-time project delivery and project margin went down in 2022, which could negatively impact PSO's ability to grow in 2023.

Figure 44: Service Execution Trends of Note



Source: SPI Research, February 2023

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.

SPI has analyzed most aspects of service delivery for decades. This area has experienced the most improvement as firms have realized resource specialization and visibility to all facets of project delivery are critical. PSOs 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 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.

Figure 45: Service Execution Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Revenue per project (k)	$179	$166	$190	$276	$313
Project staff (people)	4.88	4.13	4.49	4.55	4.84
Project duration (months)	6.71	6.61	5.96	6.58	6.51
Projects delivered on-time	67.0%	75.0%	78.7%	81.5%	88.6%
Project overrun	11.5%	10.1%	9.4%	9.0%	7.7%
Use a standardized delivery methodology	59.5%	59.1%	62.5%	70.6%	80.0%
Project margin for time & materials projects	19.8%	28.0%	37.6%	47.7%	56.9%
Project margin for fixed price projects	18.2%	27.8%	39.3%	47.2%	56.4%
Project margin – subs, offshore	14.7%	20.7%	28.1%	37.7%	51.4%
Resource management process effectiveness	3.21	3.45	3.63	3.75	4.11
Estimating processes and review effectiveness	3.30	3.41	3.62	3.71	3.92
Change control process effectiveness	3.25	3.27	3.41	3.61	3.95
Project quality process effectiveness	3.35	3.58	3.57	3.75	4.08
Knowledge management processes effectiveness	3.15	3.38	3.42	3.39	3.84
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

Table 196 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 196: 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 2023

Survey Results

In 2022 SPI Research found PSOs larger projects in terms of revenue, people and project duration than in 2021 (Table 197). However, those were the only improvements. For the most part service execution suffered. Some of the more negative KPIs included the reduced use of a standardized delivery methodology, which probably caused a reduction in on time delivery and a larger project overrun. These reductions resulted in lower margins for projects.

Table 197: Service Execution Pillar 5-year Trend

Key Performance Indicator (KPI)	5-year avg.	2018	2019	2020	2021	2022
Revenue per project (k)	$172	$152	$164	$154	$181	$203
Project staff size (people)	4.25	4.36	4.05	4.09	4.16	4.51
Project duration (months)	5.93	5.71	5.56	5.55	6.23	6.44
Projects delivered on-time	78.3%	76.9%	79.3%	79.7%	80.2%	76.2%
Project overrun	8.9%	8.6%	9.1%	8.3%	8.1%	9.9%
Use a standardized delivery methodology	66.2%	66.1%	67.4%	65.9%	69.2%	63.3%
Project margin for time & materials projects	35.2%	34.9%	35.6%	35.3%	35.9%	34.3%
Project margin for fixed price projects	35.0%	34.4%	35.2%	35.4%	36.0%	34.2%
Project margin – subs, offshore	27.6%	25.8%	27.4%	29.3%	28.3%	27.6%
Effect. of resource management process	3.61	3.63	3.59	3.65	3.62	3.56
Effect. of estimating processes and reviews	3.58	3.56	3.58	3.60	3.61	3.54
Effect. of change control processes	3.44	3.45	3.38	3.51	3.45	3.42
Effect. of project quality processes	3.67	3.69	3.67	3.69	3.69	3.60
Effect. of knowledge management processes	3.42	3.42	3.43	3.43	3.43	3.39

Source: SPI Research, February 2023

The reduction in performance from 2021 to 2022 shows up in both embedded and independent service organizations, as well as by region. 2020 was an anomaly, 2021 is when organizations tried to get their footing back on the ground, in 2022 is when they should have performed admirably. But 2022 was another one of "those years", with all the economic uncertainty and supply chain issues. Most performance suffered as the effects of the past three years continued to linger. Things are looking up in 2023, but PSOs must remain vigilant.

Table 198: Service Execution Pillar Results by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2021	2022	ESO	PSO	Amer.	EMEA	APac
Revenue per project (k)	$181	$203	$179	$212	$218	$180	$123
Project staff size (people)	4.16	4.51	4.49	4.52	4.60	4.44	3.89
Project duration (months)	6.23	6.44	5.96	6.63	6.64	6.21	5.22
Projects delivered on-time	80.2%	76.2%	72.4%	77.7%	76.0%	76.3%	77.5%
Project overrun	8.1%	9.9%	10.8%	9.5%	9.8%	9.9%	10.7%
Use a standardized delivery methodology	69.2%	63.3%	65.8%	62.3%	64.2%	60.3%	62.1%
Project margin for time & materials projects	35.9%	34.3%	34.1%	34.4%	34.0%	34.5%	36.5%
Project margin for fixed price projects	36.0%	34.2%	33.3%	34.5%	34.1%	34.1%	34.5%
Project margin — subs, offshore	28.3%	27.6%	28.4%	27.3%	28.3%	25.4%	26.7%
Effect. of resource management process	3.62	3.56	3.58	3.55	3.56	3.59	3.57
Effect. of estimating processes and reviews	3.61	3.54	3.46	3.58	3.53	3.52	3.75
Effect. of change control processes	3.45	3.42	3.43	3.42	3.43	3.30	3.53
Effect. of project quality processes	3.69	3.60	3.58	3.61	3.65	3.48	3.50
Effect. of knowledge management processes	3.43	3.39	3.45	3.36	3.42	3.38	3.12

Source: SPI Research, February 2023

Smaller PSOs did a much better job of completing projects on time and on budget, with few overruns. However, their margins were not very high, which will hurt them down the road.

Table 199: Service Execution Pillar Results by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Revenue per project (k)	$61	$146	$173	$246	$324	$330
Project staff size (people)	2.45	3.57	4.09	5.21	6.18	6.34
Project duration (months)	5.54	5.76	6.45	6.83	7.33	6.92
Projects delivered on-time	84.1%	77.5%	75.3%	73.5%	76.8%	72.9%
Project overrun	7.9%	10.6%	9.3%	10.4%	10.6%	10.8%
Use a standardized delivery methodology	59.4%	64.2%	63.9%	62.9%	65.5%	63.0%
Project margin for time & materials projects	34.1%	33.1%	34.4%	35.9%	34.5%	33.2%

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Project margin for fixed price projects	35.8%	32.5%	33.6%	35.3%	34.2%	34.2%
Project margin — subs, offshore	26.1%	25.8%	27.2%	27.7%	29.3%	31.2%
Effect. of resource management process	3.78	3.61	3.45	3.50	3.49	3.74
Effect. of estimating processes and reviews	3.78	3.58	3.47	3.48	3.40	3.69
Effect. of change control processes	3.74	3.43	3.30	3.25	3.47	3.67
Effect. of project quality processes	3.74	3.66	3.60	3.41	3.64	3.72
Effect. of knowledge management processes	3.64	3.49	3.30	3.18	3.36	3.60

Source: SPI Research, February 2023

Management consultancies operated the most efficiently in this year's survey with the highest on time delivery lowest project overrun and decent margins for a fixed time in fixed price engagements. While not a banner year in the industry, firms in 2023 now understand what faces them and what they should do to improve.

Table 200: Service Execution Pillar Results by Market

Key Performance Indicator (KPI)	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch /Engr	Advert. /PR	Health/ Pharma
Revenue per project (k)	$274	$160	$179	$93	$193	$188	$321
Project staff size (people)	4.80	3.29	4.58	3.95	4.84	5.44	5.66
Project duration (months)	6.45	5.98	5.84	5.02	7.55	6.78	6.61
Projects delivered on-time	75.9%	82.7%	71.9%	69.8%	74.5%	78.0%	78.7%
Project overrun	9.7%	7.5%	10.4%	11.7%	10.0%	10.9%	10.3%
Use a standardized delivery methodology	62.6%	60.1%	66.7%	66.6%	68.7%	61.5%	56.3%
Project margin for time & materials projects	37.4%	35.7%	36.1%	32.4%	28.5%	32.7%	31.1%
Project margin for fixed price projects	36.0%	40.1%	35.4%	31.3%	24.9%	35.8%	32.9%
Project margin — subs, offshore	28.9%	28.5%	29.0%	29.2%	15.8%	37.0%	20.8%
Effect. of resource management process	3.51	3.70	3.43	3.72	3.48	3.38	3.53
Effect. of estimating processes and reviews	3.52	3.63	3.30	3.64	3.46	3.68	3.33
Effect. of change control processes	3.38	3.53	3.40	3.39	3.26	3.46	3.33
Effect. of project quality processes	3.53	3.57	3.43	3.52	3.74	3.78	3.73
Effect. of knowledge management processes	3.26	3.32	3.25	3.57	3.57	3.35	3.47

Source: SPI Research, February 2023

Resource Management Processes

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

SPI's research shows there 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 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.

To improve utilization, PSOs must improve resource management effectiveness. As Table 201 shows, there are pluses and minuses to different resource management strategies. Green shading indicates "Best" while red shading indicates "Worst" based on responses from 709 firms (Other PS not included). This year "By Horizontal Skill Set" comes out on top with the highest number of "best" scores., but also the highest number of worst scores.

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

Table 201: Impact – Resource Management Processes

Resource management process	Survey	Revenue growth	Total attrition	On-time delivery	Project margin	Profit (EBITDA %)
Centrally Managed	46.3%	11.8%	12.8%	77.0%	36.8%	16.1%
Locally Managed	22.5%	9.4%	14.7%	74.4%	31.0%	16.9%
Center of Excellence	9.1%	8.7%	13.0%	78.1%	34.3%	15.4%
By Account	9.4%	7.4%	14.2%	80.4%	33.8%	8.2%
By Horizontal Skill Set	8.3%	13.1%	16.0%	71.0%	38.1%	17.3%
Other	4.5%	9.6%	11.6%	75.7%	34.7%	12.6%
Total / Average	**100.0%**	**10.6%**	**13.6%**	**76.3%**	**35.0%**	**15.4%**

Source: SPI Research, February 2023

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.

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

Unfortunately, PSOs complete many small projects along with a few larger ones, which may skew revenue per project. Wide variability in project size stresses resource management predictability and may make project management unaffordable. Most financial metrics improve with project size as it is easier to staff and forecast large projects. Larger organizations build "rapid response" teams to handle short, unpredictable projects. The 5-year average revenue per project is $172k. In 2022 it was $203k, which is up from $152k in 2018.

Table 202 shows both revenue growth and billable utilization increase significantly as the project size increases. This bodes well for the financial metrics as revenue goals are attained and higher project margins. Larger projects are preferable, but PSOs must have the structure in place to deliver efficiently and effectively.

Table 202: Impact – Revenue Per Project

Revenue per project (k)	Survey %	Revenue growth	Billable utilization	Annual revenue/ consultant (k)	Annual revenue/ employee (k)	Project margin
Under $25k	12.8%	6.6%	66.1%	$143	$110	30.1%
$25k - $50k	18.0%	8.7%	66.4%	$186	$146	34.4%
$50k - $100k	23.7%	9.5%	69.8%	$206	$169	34.7%
$100k - $250k	22.5%	11.7%	72.7%	$220	$177	36.5%
$250k - $500k	14.1%	12.8%	74.8%	$225	$184	37.3%
$500k - $1mm	4.6%	16.3%	76.0%	$244	$196	39.3%
Over $1mm	4.3%	16.3%	74.1%	$252	$210	37.1%
Total / Average	**100.0%**	**10.4%**	**70.7%**	**$204**	**$164**	**35.0%**

Source: SPI Research, February 2023

Tables 203 - 205 show independent service organizations increased the average revenue per project by 23% in 2022, which is significant. Much of this increase had to do with IT consultancies, which raised their project size by 29%. SPI Research notes the average organization size increased significantly in 2022, and this difference could have an impact on average project size. The bottom line is PSOs should continue to try and sell large projects. Their efforts will only succeed if they can demonstrate they can deliver larger products efficiently, with high quality and on time and on budget.

Table 203: YoY change in Revenue Per Project

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	$181	$204	$172	$183	$195	$119
2022	$203	$179	$212	$218	$180	$123
Change	**12%**	**-12%**	**23%**	**19%**	**-7%**	**4%**

Source: SPI Research, February 2023

Table 204: YoY change in Revenue Per Project by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	$212	$152	$226	$113	$126	$96	$142	$94
2022	$274	$160	$179	$93	$193	$188	$321	$102
Change	**29%**	**6%**	**-21%**	**-17%**	**53%**	**95%**	**126%**	**9%**

Source: SPI Research, February 2023

Table 205: YoY change in Revenue Per Project by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	$59	$95	$182	$264	$284	$314
2022	$61	$146	$173	$246	$324	$330
Change	**3%**	**54%**	**-5%**	**-7%**	**14%**	**5%**

Source: SPI Research, February 2023

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 206 shows projects with a larger staff show the highest employee attrition and overrun, meaning PSOs have much to do to improve. Ideally, PSOs should sell larger projects but staff them with fewer resources, which is no easy task. It is more difficult to sell large projects and they tend to be the most prevalent for larger PSOs who can handle global scale and complexity. In the 2022 study, the average project size in terms of staff was 4.51 people.

Table 206: Impact – Project Staff Size

Project staff (people)	Survey %	PS revenue (mm)	Total attrition	Project overrun	Annual revenue/ consultant (k)	Annual revenue/ employee (k)
1 - 2	25.5%	$26	11.4%	7.7%	$196	$156
3 - 5	49.7%	$60	13.6%	10.3%	$206	$166
6 - 8	16.7%	$135	15.3%	10.3%	$208	$171
9 - 11	4.2%	$190	16.9%	11.3%	$229	$184
Over 11	3.9%	$222	18.6%	15.7%	$200	$166
Total / Average	**100.0%**	**$75**	**13.7%**	**9.9%**	**$205**	**$165**

Source: SPI Research, February 2023

Tables 207 - 209 show the number of people working on a project increased by about 8%, from 4.2 in 2021 to 4.5 people in 2022 in both embedded and independent service organizations. The Americas increased the project staff size the most from a percent as well as SaaS and Architecture & Engineering firms.

Table 207: YoY change in Project Staff Size

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	4.16	4.12	4.17	4.11	4.51	3.74
2022	4.51	4.49	4.52	4.60	4.44	3.89
Change	**8%**	**9%**	**8%**	**12%**	**-2%**	**4%**

Source: SPI Research, February 2023

Table 208: YoY change in Project Staff Size by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.55	3.41	4.65	3.37	4.30	4.69	5.25	3.50
2022	4.80	3.29	4.58	3.95	4.84	5.44	5.66	3.89
Change	**6%**	**-4%**	**-2%**	**17%**	**13%**	**16%**	**8%**	**11%**

Source: SPI Research, February 2023

Table 209: YoY change in Project Staff Size by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	2.17	3.22	4.15	5.15	5.76	6.39
2022	2.45	3.57	4.09	5.21	6.18	6.34
Change	**13%**	**11%**	**-2%**	**1%**	**7%**	**-1%**

Source: SPI Research, February 2023

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.

The average project duration has gone up from 5.71 months in 2018 to 6.44 in 2022, with a five-year average of 5.93 months. Table 210 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 210: Impact – Project Duration

Project duration (months)	Survey %	PS revenue (mm)	Revenue growth	Total attrition	Billable utilization	Annual revenue/ consult. (k)
Under 1	3.4%	$26	6.9%	10.5%	67.3%	$169
1 - 3	17.8%	$52	8.5%	11.1%	68.8%	$193
3 - 6	33.8%	$88	11.7%	14.0%	69.6%	$216
6 - 9	20.9%	$56	10.3%	15.4%	72.0%	$204
9 - 12	14.1%	$109	11.2%	13.2%	73.1%	$204
Over 12	10.0%	$81	11.3%	14.9%	73.3%	$198
Total / Average	**100.0%**	**$75**	**10.6%**	**13.6%**	**70.7%**	**$204**

Source: SPI Research, February 2023

Tables 211 - 213 show Both EMA and APac have significantly increased project duration. IT Consultancies showed an 8% increase and smaller PSOs increased the project duration by 18%.

Table 211: YoY change in Project Duration

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	6.23	6.02	6.30	6.55	5.68	3.59
2022	6.44	5.96	6.63	6.64	6.21	5.22
Change	**3%**	**-1%**	**5%**	**1%**	**9%**	**45%**

Source: SPI Research, February 2023

Table 212: YoY change in Project Duration by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	6.00	5.70	5.88	5.83	7.57	5.48	5.33	4.38
2022	6.45	5.98	5.84	5.02	7.55	6.78	6.61	7.14
Change	**8%**	**5%**	**-1%**	**-14%**	**0%**	**24%**	**24%**	**63%**

Source: SPI Research, February 2023

Table 213: YoY change in Project Duration by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	4.69	5.67	6.45	6.90	6.74	7.44
2022	5.54	5.76	6.45	6.83	7.33	6.92
Change	**18%**	**2%**	**0%**	**-1%**	**9%**	**-7%**

Source: SPI Research, February 2023

Projects Delivered On-Time

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

Over 25% of PSOs 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 had ineffective processes for change control, project quality and knowledge management. 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, nearly 25% of firms reported 90% or better on-time project delivery. Ontime, on-budget project delivery is one of the best quality measurements, as it indicates alignment and visibility across the entire quote to cash process. Sales is selling services that the organization has the capability to accurately estimate and staff. Resources are aligned with project requirements so they can deliver within promised timelines. The rewards for on-time delivery are ample with the best client references, 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 214: Impact – Projects Delivered On-Time

Projects delivered on-time	Survey %	% of employees billable	Change control process effectiveness	Project quality process effectiveness	Knowledge mgmt. processes effectiveness	% of ann. margin achieved
Under 40%	5.2%	65.2%	3.03	3.21	3.03	77.1%
40% - 60%	9.4%	66.2%	3.05	3.23	3.09	84.1%
60% - 70%	11.3%	70.0%	3.20	3.42	3.23	86.5%
70% - 80%	23.8%	73.8%	3.32	3.45	3.26	88.9%
80% - 90%	25.5%	73.8%	3.53	3.67	3.53	89.7%
Over 90%	24.9%	75.9%	3.70	3.96	3.62	92.7%
Total / Average	**100.0%**	**72.7%**	**3.41**	**3.60**	**3.39**	**88.7%**

Source: SPI Research, February 2023

Tables 215 - 217 show on-time delivery went down in 2022 (76.2%) from 80.2% in 2021. This reduction is noteworthy as it reflects several different issues. The embedded service organizations fared the best, but still not good. Every sized organization showed lower results in 2022, meaning 2023 is a year when PS executives must better manage delivery, which impacts so many other areas of the PSO including client and employee satisfaction, growth and profitability.

Table 215: YoY change in Projects Delivered On-Time

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	80.2%	74.8%	82.2%	80.4%	79.4%	79.8%
2022	76.2%	72.4%	77.7%	76.0%	76.3%	77.5%
Change	**-5%**	**-3%**	**-5%**	**-5%**	**-4%**	**-3%**

Source: SPI Research, February 2023

Table 216: YoY change in Projects Delivered On-Time by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	80.4%	86.1%	74.1%	72.0%	78.1%	80.2%	82.9%	76.3%
2022	75.9%	82.7%	71.9%	69.8%	74.5%	78.0%	78.7%	79.4%
Change	**-6%**	**-4%**	**-3%**	**-3%**	**-5%**	**-3%**	**-5%**	**4%**

Source: SPI Research, February 2023

Table 217: YoY change in Projects Delivered On-Time by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	85.8%	79.5%	78.8%	78.7%	80.7%	79.8%
2022	84.1%	77.5%	75.3%	73.5%	76.8%	72.9%
Change	**-2%**	**-2%**	**-4%**	**-7%**	**-5%**	**-9%**

Source: SPI Research, February 2023

Project Overrun

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

Project overrun has 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 11.4% of firms that reported greater than 20% project overruns, performance suffers. 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 218: Impact – Project Overrun

Project overrun	Survey %	% of employees billable	Billable utilization	On-time delivery	% of referenceable clients	Annual attrition - involuntary
Never	6.3%	73.8%	71.8%	86.2%	80.5%	2.1%
0% - 5%	28.9%	73.0%	70.8%	83.9%	72.2%	3.7%
5% - 10%	31.0%	73.0%	70.3%	76.2%	70.7%	4.7%
10% - 20%	22.3%	71.9%	71.3%	70.8%	71.5%	4.9%
20% - 30%	7.4%	73.5%	69.0%	60.7%	65.5%	5.4%
Over 30%	4.0%	64.8%	69.2%	60.2%	61.0%	6.4%
Total / Average	**100.0%**	**72.5%**	**70.6%**	**76.0%**	**71.2%**	**4.4%**

Source: SPI Research, February 2023

Tables 219 - 221 show the overall survey saw a 21% increase in project overruns from 8.1% to 9.9%. This increase was especially severe in independent professional services as project overruns ran up 30%. Both Asia Pacific and the Americas had the largest increase in project overruns, and by market IT and management consultancies had a difficult year as well. Accountancies are not part of this analysis as there were not enough surveys in 2021. Organizations of all sizes increased project overrun in 2022 meaning the market must improve in 2023.

Table 219: YoY change in Project Overrun

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	8.1%	10.4%	7.3%	8.1%	8.4%	7.8%
2022	9.9%	10.8%	9.5%	9.8%	9.9%	10.7%
Change	**21%**	**4%**	**30%**	**21%**	**18%**	**37%**

Source: SPI Research, February 2023

Table 220: YoY change in Project Overrun by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	8.0%	4.9%	11.0%	11.2%	11.7%	8.5%	7.5%	6.9%
2022	9.7%	7.5%	10.4%	11.7%	10.0%	10.9%	10.3%	12.3%
Change	**20%**	**54%**	**-6%**	**5%**	**-15%**	**29%**	**37%**	**80%**

Source: SPI Research, February 2023

Table 221: YoY change in Project Overrun by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	5.0%	7.8%	8.4%	9.5%	9.1%	8.4%
2022	7.9%	10.6%	9.3%	10.4%	10.6%	10.8%
Change	**56%**	**35%**	**10%**	**9%**	**16%**	**27%**

Source: SPI Research, February 2023

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 that can accurately plan and execute services in a structured way, are not only more productive but also more likely to deliver on time and with quality. There is significant effort involved in developing, implementing and adhering to standardized delivery methodologies, but the net impact for PSOs is beneficial.

Table 222 shows the use of standardized delivery methods and tools has a positive impact on project overrun and margin, and revenue targets achieved.

Table 222: Impact – Standardized Delivery Methodology Use

Use a std. delivery methodology	Survey %	% of employees billable	Project overrun	Resource mgmt. process effectiveness	% of ann. revenue achieved	Project margin
Under 20%	9.2%	71.5%	10.6%	3.25	89.2%	29.6%
20% - 40%	10.5%	68.4%	11.0%	3.36	89.4%	32.5%
40% - 60%	19.0%	70.0%	10.3%	3.46	91.6%	34.3%
60% - 80%	27.4%	72.4%	10.3%	3.61	93.3%	34.6%
Over 80%	34.0%	76.3%	8.7%	3.75	95.1%	38.0%
Total / Average	**100.0%**	**72.7%**	**9.9%**	**3.57**	**92.8%**	**35.0%**

Source: SPI Research, February 2023

The use of standardized delivery methodologies went down in 2022. There is a cause for concern as the reduction has so many negative impacts. Only APac improved in 2022, from 59.2% to 62.1%. APac is now near the survey average. SPI Research cannot explain why this reduction happened, as the organizations surveyed this year were larger on average than in prior years, and larger organizations tend to have greater structure.

Table 223: YoY change in Standardized Delivery Methodology Use

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	69.2%	74.3%	67.2%	70.2%	68.2%	59.2%
2022	63.3%	65.8%	62.3%	64.2%	60.3%	62.1%
Change	**-8%**	**-11%**	**-7%**	**-9%**	**-12%**	**5%**

Source: SPI Research, February 2023

Table 224: YoY change in Standardized Delivery Methodology Use by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	71.8%	62.3%	71.4%	79.0%	71.8%	57.0%	70.0%	80.0%
2022	62.6%	60.1%	66.7%	66.6%	68.7%	61.5%	56.3%	55.6%
Change	**-13%**	**-3%**	**-7%**	**-16%**	**-4%**	**8%**	**-20%**	**-31%**

Source: SPI Research, February 2023

Table 225: YoY change in Standardized Delivery Methodology Use by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	66.3%	67.2%	72.8%	68.7%	70.6%	65.7%
2022	59.4%	64.2%	63.9%	62.9%	65.5%	63.0%
Change	**-10%**	**-4%**	**-12%**	**-8%**	**-7%**	**-4%**

Source: SPI Research, February 2023

Project Margin

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

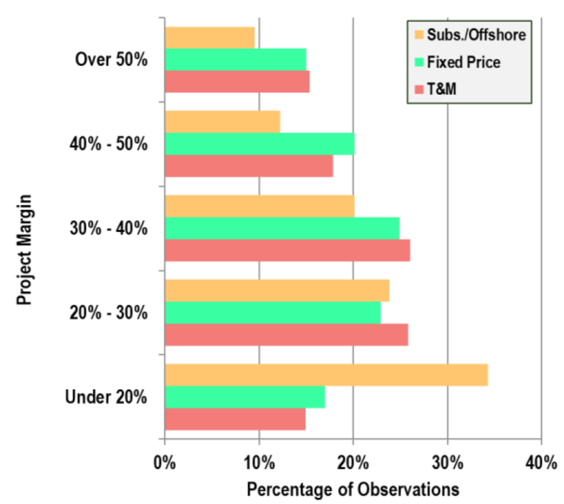
Effective resource management and driving high billable utilization is a key ingredient in project margins but so are repeatability and quality of project delivery along with effective project management. No matter the size of the organization, SPI always recommends maintaining a project dashboard with visibility to project budget to actual performance.

Figure 46 shows average project margins vary greatly but have been close to the five-year average of 35.4%. The overall project margin in 2022 was 35.0%. This metric underscores the importance of a holistic view of PS, as one important metric like project margin can cause a ripple effect leading to lower overall net profit.

Leading PSOs strive to achieve project margins over 40% but as the figure shows, nearly 36% 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 make more than 30% margin on subcontractors.

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

Figure 46: Project Margin



Source: SPI Research, February 2023

Table 226: Impact – Project Margin

Project margin	Survey %	Annual revenue growth	% of emp. billable	Billable utilization	On-time project delivery	Rev. / billable consult. (k)
Under 20%	15.1%	5.7%	67.9%	68.1%	71.6%	$156
20% - 30%	21.5%	10.3%	70.3%	70.4%	75.2%	$196
30% - 40%	27.5%	10.3%	71.0%	69.1%	75.4%	$211
40% - 50%	19.1%	12.5%	77.5%	72.7%	79.3%	$217
Over 50%	16.8%	13.2%	78.1%	73.1%	78.2%	$218
Total / Average	**100.0%**	**10.5%**	**72.8%**	**70.6%**	**76.0%**	**$203**

Source: SPI Research, February 2023

Tables 227 - 229 show a reduction in project margin from 2021 to 2022. Independent professional services organizations went down the most but are still higher than the embedded service organizations. EMEA drove down the average as they reduced margins by 8% on a relative basis. Advertising agencies and SaaS providers increased project margins but are still below the benchmark average.

Table 227: YoY change in Project Margin

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	36.5%	35.5%	36.9%	36.3%	37.8%	35.8%
2022	35.0%	34.6%	35.2%	35.1%	34.7%	35.5%
Change	**-4%**	**-2%**	**-4%**	**-3%**	**-8%**	**-1%**

Source: SPI Research, February 2023

Table 228: YoY change in Project Margin by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	38.8%	38.5%	38.1%	30.4%	30.9%	32.3%	33.4%	44.3%
2022	37.6%	39.1%	36.8%	32.3%	26.1%	34.6%	34.2%	40.9%
Change	**-3%**	**2%**	**-3%**	**6%**	**-16%**	**7%**	**3%**	**-8%**

Source: SPI Research, February 2023

Table 229: YoY change in Project Margin by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	37.9%	34.4%	36.6%	36.7%	38.4%	35.8%
2022	36.5%	33.6%	35.0%	35.7%	36.0%	34.1%
Change	**-4%**	**-2%**	**-5%**	**-3%**	**-6%**	**-5%**

Source: SPI Research, February 2023

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 high billable utilization, on-time, on-budget delivery and revenue per consultant and employee (Table 230). 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 230: Impact – Time & Materials Project Margin

Project margin	Survey %	Revenue growth	% of emp. billable	Billable utilization	Ann. rev./ consultant (k)	Ann. revenue/ employee (k)
Under 20%	14.9%	6.4%	69.3%	69.3%	$156	$118
20% - 30%	25.9%	9.1%	70.4%	70.0%	$204	$164
30% - 40%	26.0%	10.9%	71.8%	69.9%	$207	$166
40% - 50%	17.8%	13.9%	74.9%	72.8%	$216	$174
Over 50%	15.4%	13.2%	79.0%	72.5%	$217	$185
Total / Average	**100.0%**	**10.7%**	**72.7%**	**70.8%**	**$202**	**$163**

Source: SPI Research, February 2023

Fixed Price Project Margin

Table 231 shows 35.1% of organizations achieved fixed price margins of more than 40% but unfortunately nearly 40% reported fixed price margins of less than 30%. Clients appreciate the simplicity of fixed price bids, which transfer risk to the service provider. Fixed pricing is appropriate for standardized projects with clear deliverables but should be avoided for projects involving a lot of unknowns like new technology, new geographies, new deliverables and scarce resources. In general, most service providers do a poor job of managing change orders.

Table 231: Impact – Fixed Price Project Margin

Project margin	Survey %	Std. delivery method. used	On-time project delivery	Project overrun	Ann. rev./ consultant (k)	Ann. rev./ employee (k)
Under 20%	17.0%	58.6%	69.7%	11.8%	$154	$118
20% - 30%	22.9%	62.3%	76.6%	9.1%	$202	$165
30% - 40%	24.9%	58.8%	76.1%	9.9%	$204	$163
40% - 50%	20.1%	66.4%	80.8%	9.6%	$219	$178
Over 50%	15.0%	73.1%	77.9%	9.2%	$229	$193
Total/Average	**100.0%**	**63.3%**	**76.3%**	**9.9%**	**$202**	**$163**

Source: SPI Research, February 2023

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 27.6% for the past five years.

Table 232 shows significant benefits for the few firms that enjoy greater than 40% subcontractor margin with commensurate overall project margins and annual revenue per consultant and employee. These organizations are more likely to judiciously use subcontractors because they use standardized methods and tools. A word of caution – excessive use of subcontractors undermines quality and knowledge capture leading to commoditization. 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 232: Impact – Subcontractor/Offshore Project Margin

Project margin	Survey %	Revenue growth	% of emp. billable	Std. del. method. used	Ann. rev./ consultant (k)	Ann. rev./ employee (k)
Under 20%	34.3%	8.1%	71.2%	60.1%	$174	$137
20% - 30%	23.8%	12.0%	74.2%	61.8%	$209	$170
30% - 40%	20.2%	11.6%	72.3%	61.7%	$226	$179
40% - 50%	12.2%	12.7%	74.7%	68.7%	$206	$172
Over 50%	9.5%	13.9%	77.1%	70.4%	$243	$201
Total/Average	**100.0%**	**10.8%**	**73.1%**	**62.9%**	**$203**	**$164**

Source: SPI Research, February 2023

Service Delivery 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 sections highlight the results of the five aspects of project/service delivery.

Resource Management Effectiveness

SPI Research asked survey respondents to rate the effectiveness of their resource management process Resource management is critical to project planning and execution. PSOs who effectively and efficiently manage resources show much higher client referenceability, utilization rates, larger projects with less overrun and higher revenue per billable consultant. Clearly, resource management effectiveness directly improves with the use of PSA solutions.

Table 233: Impact – Resource Management Effectiveness

Resource Management Effectiveness	Survey %	Org. size (emp)	Employee attrition	Billable utilization	Std. delivery method. used	Exec real-time visibility
1 - very ineffective	1.2%	157	18.5%	65.0%	50.0%	2.71
2	11.0%	481	14.2%	69.7%	53.1%	3.10
3	28.6%	568	15.3%	70.6%	59.4%	3.28
4	48.1%	608	13.7%	71.0%	65.6%	3.57
5 - very effective	11.0%	813	11.5%	71.6%	70.0%	3.90
Total / Average	**100.0%**	**600**	**14.0%**	**70.7%**	**62.7%**	**3.46**

Source: SPI Research, February 2023

Estimating Process and Review Effectiveness

SPI Research asked survey respondent to rate the effectiveness of their estimating processes and estimate reviews. This key performance indicator is important as accurate estimates hold the key to all other service delivery metrics. Inaccurate estimates and poor pricing controls lead to miss-set client expectations, project overruns and poor client satisfaction. While this subjective KPI might be hard to fathom, its results show how some of the most important KPIs improve as the organization becomes more effective in pricing and estimating. Billable utilization, longer duration projects and revenue per employee rise as firms are more effective with their estimating and process review processes.

Estimating requires significant investment in methodology development and scoping projects to the task level, but obviously from this table it is well worth the effort to ensure accuracy and continual improvement. Configuration, Pricing and Quoting (CPQ) tools have come 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 234: Impact – Estimating Process and Review Effectiveness

Estimating Process and Review Effectiveness	Survey %	Client reference	Std. del. method. used	On-time project delivery	Project overrun	Project margin
1 - very ineffective	2.5%	60.4%	51.4%	71.1%	10.4%	28.8%
2	11.1%	69.5%	53.4%	71.6%	12.8%	33.4%
3	27.5%	71.2%	60.1%	72.8%	10.0%	35.3%
4	47.4%	71.6%	65.7%	78.5%	9.4%	36.3%
5 - very effective	11.6%	75.1%	68.1%	85.3%	8.5%	36.8%
Total / Average	**100.0%**	**71.4%**	**62.7%**	**76.8%**	**9.8%**	**35.6%**

Source: SPI Research, February 2023

Change Control Effectiveness

SPI Research asked survey respondents to rate the effectiveness of their change control processes. All projects involve risk and scope change. The important question is how these variables are managed. Mature PSOs invest in the development of change and risk management policies along with project management oversight and guidance. Clients and service providers alike must consider the impact of changes and how they will affect timelines and subsequent projects. A critical component of change control is to ensure project margins do not suffer. Ideally, project changes are clearly outlined; client perception is appropriately managed and change orders are put in place. Too many change orders not only impact the budget and schedule but are signs of scope creep as well as inadequate executive sponsorship and poor communication.

Table 235 compares the effectiveness of change control processes to other key performance indicators. Again, like the organizations with high levels of resource management and estimating effectiveness, those organizations that manage change the best demonstrate significantly better KPIs in both the service execution and finance and operations pillars. PSOs that focus on basic execution issues such as resource management, estimating and change control drive superior results compared to those organizations that place less emphasis on these critical business processes.

Table 235: Impact – Change Control Effectiveness

Change Control Effectiveness	Survey %	Client reference	Rec. to family/ friends	On-time project delivery	Project overrun	Project margin
1 - very ineffective	2.0%	67.3%	3.55	62.3%	10.7%	31.2%
2	12.7%	67.6%	4.29	71.5%	12.8%	31.8%
3	36.0%	70.6%	4.32	74.4%	9.6%	35.1%
4	40.3%	72.8%	4.52	79.2%	9.1%	36.5%
5 - very effective	9.1%	73.8%	4.55	85.7%	9.3%	39.7%
Total / Average	**100.0%**	**71.3%**	**4.40**	**76.8%**	**9.8%**	**35.6%**

Source: SPI Research, February 2023

Project Quality Process Effectiveness

SPI Research asked executives to rate the effectiveness of project quality processes. Quality must be a core organizational attribute that is built into the culture and management practices. Most leading professional services organizations build in quality checks and balances to assure the work is done correctly. As more PSOs work to productize their services offerings, they must incorporate quality processes and procedures, as well as metrics. High quality service delivery underlies client satisfaction and drives referrals and repeat business. Table 236 shows results improve across the board as quality processes are implemented.

Table 236: Impact – Project Quality Process Effectiveness

Project Quality Process Effectiveness	Survey %	% of bids won	Project overrun	Project margin	% of ann. rev. target	% of ann. margin target
1 - very ineffective	1.8%	48.0%	11.3%	29.0%	86.5%	82.0%
2	9.1%	48.7%	14.4%	32.6%	91.3%	87.0%
3	29.3%	49.7%	10.8%	36.2%	91.2%	87.2%
4	46.8%	51.5%	8.5%	35.3%	93.7%	89.2%
5 - very effective	13.0%	53.3%	8.8%	38.1%	94.7%	93.0%
Total / Average	**100.0%**	**50.9%**	**9.8%**	**35.6%**	**92.8%**	**88.8%**

Source: SPI Research, February 2023

Knowledge Management Process Effectiveness

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

Table 237: Impact – Knowledge Management Process Effectiveness

Knowledge Management Process Effectiveness	Survey %	% of bids won	Client reference	Employee attrition	Rec. to family/ friends	Executive real-time visibility
1 - very ineffective	2.7%	39.3%	63.3%	14.9%	3.67	2.71
2	15.0%	46.5%	69.7%	16.5%	4.10	3.00
3	33.4%	50.4%	70.9%	14.5%	4.31	3.43
4	38.9%	53.2%	72.3%	13.3%	4.57	3.65
5 - very effective	10.0%	54.3%	73.7%	10.5%	4.68	3.80
Total / Average	**100.0%**	**51.0%**	**71.4%**	**14.0%**	**4.40**	**3.47**

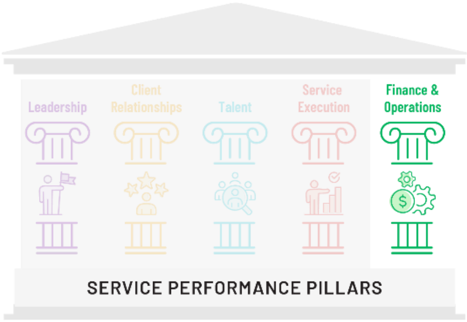
Source: SPI Research, February 2023

SPI Research asked benchmark respondents their opinion of the effectiveness of their knowledge management processes, with a rating of 1 = very ineffective to 5 = very effective (Table 237). 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.

Chapter 10

Finance and Operations Pillar

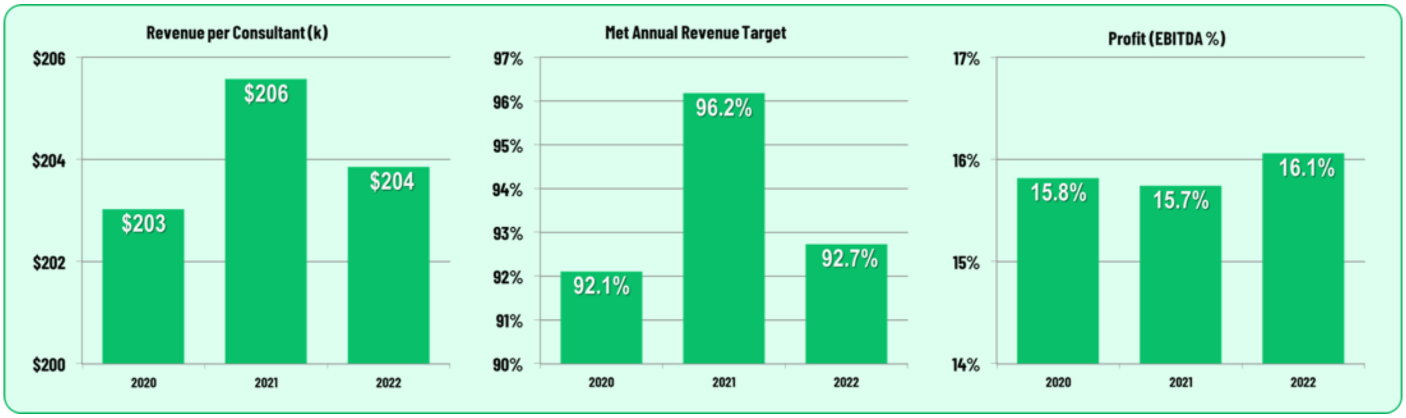
FINANCE AND OPERATIONS PILLAR



The Finance and Operations pillar represents the realm of the CFO for large PS organizations and is an intrinsic part of the role of the chief service executive for all PS organizations, regardless of size. In this service performance pillar, SPI Research examines 36 key performance measurements for revenue, margin and operating expense. The analysis includes detailed profit and loss statements and expense ratios by organization size, geography and vertical.

SPI Research highlighted the operational trends in Figure 47 because they show financial performance and success. The good news is profitability rose in 2022. However, SPI Research finds the ability to meet revenue targets (margins as well) deteriorated in 2022, as there were more problems associated with sales and service delivery. The ability to meet targets and achieve high levels of revenue per consultant are important but are really driven by operational success. These charts highlight the need for PSOs to take a step back and analyze where sales and delivery underperformed and make modifications to improve both in 2023.

Figure 47: Finance & Operations Trends of Note



Source: SPI Research, February 2023

Finance and Operations Maturity

The COVID-19 pandemic was just the beginning of a transformation on how PSOs deliver projects. It forced PSOs to accelerate their own digital transformation efforts while turbocharging client demand for services. For the past three years more than half of the consulting workforce worked from home including finance and operations staff who have had to quickly adapt to running the business virtually. Mobile and mobile banking are no longer a nice to have, leading to strong PS demand to replace legacy business applications with modern, integrated suites.

Figure 48 shows the importance of achieving higher levels of performance. The difference between level 1 and level 5 is significant. Profitability alone is over three-times higher at level 5, which should make executives take note. But profitability is driven by some many areas they must look at the entire organization to begin improvement. Level 5 organizations operate at a much higher financial level than their peers. Much of this success has to do with structure in the delivery of services as well as visibility across the organization. Change happens quickly and organizations that can best prepare and manage change efficiently will succeed over the long term.

Figure 48: Finance & Operations Maturity Matters

Key Performance Indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Annual revenue per billable consultant (k)	$105	$163	$216	$260	$299
Annual revenue per employee (k)	$81	$125	$174	$212	$259
Quarterly revenue target in backlog	29.2%	38.6%	48.1%	50.8%	59.9%
Percent of annual revenue target achieved	80.7%	89.7%	93.8%	97.9%	105.3%
Percent of annual margin target achieved	76.4%	83.8%	89.4%	95.9%	106.5%
Revenue leakage	5.7%	5.5%	4.5%	4.2%	4.8%
% of inv. redone due to error/client rejections	2.6%	2.2%	2.0%	1.8%	2.5%
Days sales outstanding (DSO)	46.1	44.4	47.3	48.5	50.4
Quarterly non-billable expense per employee	$1,517	$1,339	$1,575	$1,587	$1,980
Executive real-time wide visibility	3.07	3.32	3.53	3.64	3.92
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

5-Year Finance and Operations Trends

In 2022 SPI Research saw every major financial KPI go down with one big exception – **PROFIT –** which went up slightly**.** The financial KPIs mirrored those of the Service Execution Pillar in that they retreated from 2021. Few would argue 2021 was a "rebound year" following the year of COVID in 2020. SPI Research expected better performance in 2022 but did not see it. Is this change the start of a new trend, or just a minor retreat from the "get back to business" year of 2021? Regardless, PSOs must double down their efforts in 2023 to ensure future success. It all starts with better planning of revenue and margin, followed up by a tactical strategy to achieve acceptable results.

Table 238 provides more information on the past five years in the Finance & Operations Pilar. While in 2022 some of the performance metrics were not as good as they were in 2021, overall PS profit rose during the year to the highest level since 2018. The question is "can they keep high levels of profitability with declining performance KPIs?"

Table 238: Finance & Operations Pillar 5-year Trend

Key Performance Indicator (KPI)	5-year avg.	2018	2019	2020	2021	2022
Annual revenue per billable consultant (k)	**$205**	$206	$207	$203	$206	$204
Annual revenue per employee (k)	**$166**	$166	$170	$165	$165	$164
Quarterly revenue target in backlog	**44.5%**	44.7%	44.7%	43.0%	45.5%	44.6%
Percent of annual revenue target achieved	**93.6%**	93.8%	93.6%	92.1%	96.2%	92.7%
Percent of annual margin target achieved	**90.2%**	90.3%	89.7%	90.3%	92.1%	88.8%
Revenue leakage	**4.46%**	4.29%	4.54%	4.26%	4.23%	4.90%
% of inv. redone due to error/client rejections	**2.1%**	2.3%	2.5%	1.8%	1.9%	2.1%
Days sales outstanding (DSO)	**45.0**	46.3	45.8	41.9	43.5	46.8
Quarterly non-billable expense per employee	**$1,508**	$1,606	$1,718	$1,390	$1,290	$1,528
Executive real-time wide visibility	**3.56**	3.56	3.52	3.60	3.67	3.46
Profit (EBITDA %)	**16.3%**	**18.5%**	**15.2%**	**15.8%**	**15.7%**	**16.1%**

Source: SPI Research, February 2023

Steps Taken to Improve Profitability

Table 239 depicts improvement priorities from 2021 to 2022. Overall, PS executives were not as concerned with ways to improve profitability in 2022 as they were in 2021. Improving sales and marketing were the two areas highlighted in the survey, which makes sense as the market recovers from COVID and the economic challenges encountered followed it.

Table 239: Steps Taken to Improve Profitability

Key Performance Indicator	2021	2022	ESO	PSO	Amer.	EMEA	APac
Surveys	**540**	**709**	**214**	**495**	**524**	**126**	**59**
Unconcerned with profit	NA	1.94	2.29	1.81	1.96	1.88	1.96
Improve solution portfolio	4.03	3.06	3.11	3.04	3.07	3.01	3.08
Improve marketing effectiveness	4.02	3.23	3.03	3.30	3.23	3.21	3.25
Improve sales effectiveness	3.92	3.24	3.12	3.29	3.23	3.23	3.37
Increase rates	3.46	3.09	2.86	3.18	3.06	3.23	3.06
Improve hiring and ramping	3.96	3.09	3.08	3.10	3.05	3.12	3.41
Improve methods and tools	3.92	3.16	3.14	3.17	3.14	3.22	3.18
Improve utilization	3.59	3.14	3.03	3.19	3.14	3.14	3.18
Reduce non-billable time	3.21	2.90	2.91	2.89	2.93	2.74	2.96
Expand business models	3.34	2.93	2.95	2.92	2.95	2.81	3.04

Source: SPI Research, February 2023

Table 240 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 package services more effectively into a cogent solution portfolio, making it easier to sell and buy solutions.

Table 240: Steps Taken to Improve Profitability by Market

Steps Taken to Improve Profitability	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/ Engr	Advert. /PR	Health/ Pharma	Acct.
Unconcerned with profit	1.69	2.02	2.18	2.45	1.54	1.67	2.67	1.93
Improve solution portfolio	3.20	3.06	3.20	3.08	2.60	3.24	3.29	2.71
Improve marketing effectiveness	3.33	3.45	3.13	2.85	2.94	3.44	3.13	3.13
Improve sales effectiveness	3.35	3.43	3.28	3.06	2.96	3.42	3.20	2.73
Increase rates	3.22	3.15	2.93	2.74	3.17	3.42	3.07	3.43
Improve hiring and ramping	3.11	3.06	3.12	3.00	3.15	3.08	3.27	2.93
Improve methods and tools	3.19	3.15	3.20	3.11	2.96	3.25	3.20	3.40
Improve utilization	3.18	3.17	3.20	2.92	3.13	3.22	3.07	3.36
Reduce non-billable time	2.90	2.76	2.97	2.89	3.00	2.97	3.00	2.79
Expand business models	3.11	2.92	2.85	3.00	2.43	3.00	2.87	3.00

Source: SPI Research, February 2023

Consulting excellence comes with knowledge, effectively harvesting that knowledge and making it accessible. PSOs are least likely to increase rates. Table 241 shows the steps to improve profitability change as organizations grow. For most organizations, improving sales and marketing effectiveness and clarifying and codifying the solution portfolio are top improvement priorities. For the smallest organizations, the number one priority is 'improving marketing effectiveness' while the top improvement priority for the largest organizations is 'improving the solution portfolio'.

Table 241: Steps Taken to Improve Profitability by Organization Size

Steps Taken to Improve Profitability	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Unconcerned with profit	2.15	1.90	1.87	1.82	2.00	2.17
Improve solution portfolio	2.89	3.39	3.06	2.89	3.13	2.98
Improve marketing effectiveness	3.31	3.40	3.26	3.14	3.29	2.89
Improve sales effectiveness	3.20	3.22	3.32	3.21	3.27	3.13
Increase rates	2.93	3.00	3.09	3.23	3.14	3.09
Improve hiring and ramping	2.62	3.21	3.15	3.28	3.04	2.95
Improve methods and tools	2.93	3.20	3.22	3.20	3.19	3.06
Improve utilization	2.80	3.22	3.23	3.17	3.24	3.00
Reduce non-billable time	2.58	2.97	2.96	2.87	2.88	2.98
Expand business models	2.95	3.08	2.90	2.79	2.96	2.98

Source: SPI Research, February 2023

Survey Results

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 calculated 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.

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 went down from $206k in 2021 to $204 in 2022.

Table 242 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 242: Impact – Annual Revenue Per Billable Consultant

Annual revenue per billable consultant (k)	Survey %	Revenue growth	% of PS revenue - 3rd-parties	Revenue per project (k)	On-time delivery	Profit (EBITDA %)
Under $100k	10.6%	6.3%	9.2%	$117	71.9%	8.2%
$100k - $150k	16.3%	8.4%	9.2%	$121	75.5%	14.9%
$150k - $200k	22.1%	10.4%	11.0%	$168	77.1%	15.6%
$200k - $250k	22.1%	12.6%	12.3%	$233	76.8%	14.6%
$250k - $300k	15.0%	13.1%	10.7%	$240	79.6%	17.7%
Over $300k	13.8%	12.8%	13.0%	$329	81.3%	21.5%
Total / Average	**100.0%**	**10.8%**	**11.0%**	**$202**	**77.2%**	**15.6%**

Source: SPI Research, February 2023

Annual revenue per billable consultant went down in 2022, primarily because of the independent PSOs. It remained the same in the Americas yet down in both EMEA and APac. While SaaS organizations showed a decrease of 11% the architecture & engineering firms showed an increase of 11%. The largest organizations improved revenue per billable consultant significantly, whereas the smallest reduced it. PS leaders must continue to focus on this KPI to ensure their organization is making acceptable levels of revenue.

Table 243: YoY change in Annual Revenue Per Billable Consultant

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	$206	$205	$206	$210	$185	$211
2022	$204	$205	$204	$210	$180	$203
Change	**-1%**	**0%**	**-1%**	**0%**	**-3%**	**-4%**

Source: SPI Research, February 2023

Table 244: YoY change in Annual Revenue Per Billable Consultant by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	$211	$209	$191	$209	$175	$211	$267	$200
2022	$213	$215	$208	$186	$194	$193	$187	$193
Change	**1%**	**3%**	**9%**	**-11%**	**11%**	**-8%**	**-30%**	**-4%**

Source: SPI Research, February 2023

Table 245: YoY change in Annual Revenue Per Billable Consultant by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	$191	$215	$210	$206	$208	$172
2022	$171	$201	$209	$212	$214	$205
Change	**-11%**	**-7%**	**0%**	**3%**	**3%**	**20%**

Source: SPI Research, February 2023

Annual Revenue Per Employee

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 like annual revenue per billable consultant; it divides total PS revenue by the total number of employees (FTE) but includes both billable and non-billable headcount. Revenue per employee is a powerful indicator of the overall profitability of the firm. If the average cost per employee is known, profit can be estimated by comparing cost per employee to revenue per employee.

Also, like revenue per consultant, this KPI is highly correlated with profitability, utilization and bill rates. PSOs with a high percentage of non-billable employees or excessive sales, marketing and G&A spending, have lower annual revenues per employee. Revenue per employee is very important in determining the appropriate size and financial health of the organization. Based on the high cost of talented consulting staff, SPI Research suggests this figure should be at least 1.4 times the fully loaded cost per person to maintain strong financial viability. If the organization achieves an acceptable revenue yield per billable consultant but is below the benchmark for revenue per employee, this is an indication of excessive non-billable overhead.

Table 246 shows just how important it is to increase revenue per employee. As revenue per employee rises, so do on-time delivery and profit, and attrition goes down. The higher the revenue per employee, the more apt the PSO is likely to achieve annual margin targets.

Table 246: Impact – Annual Revenue per Employee

Annual revenue per employee (k)	Survey %	Revenue growth	Total attrition	Revenue per project (k)	On-time delivery	Profit (EBITDA %)
Under $100k	17.1%	6.8%	12.2%	$107	73.6%	11.6%
$100k - $150k	26.6%	10.5%	12.6%	$173	75.3%	16.7%
$150k - $200k	27.7%	12.1%	14.9%	$217	77.1%	12.4%
$200k - $250k	15.3%	13.2%	15.0%	$243	78.1%	18.0%
$250k - $300k	8.0%	11.2%	15.5%	$285	83.1%	24.4%
Over $300k	5.2%	14.6%	16.4%	$371	83.4%	27.1%
Total / Average	**100.0%**	**11.0%**	**14.0%**	**$204**	**77.0%**	**16.0%**

Source: SPI Research, February 2023

Annual revenue per employee was nearly the same in 2022 as it was 2021. It went down slightly in embedded service organizations. Architects and engineers increased revenue per employee by 10%, while SaaS PS decreased theirs by 10%. Like revenue per billable consultant, the smaller firms did not do as well in 2022, whereas the largest firms excelled.

Table 247: YoY change in Annual Revenue per Employee

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	$165	$161	$166	$167	$150	$169
2022	$164	$160	$166	$169	$145	$167
Change	**0%**	**-1%**	**0%**	**1%**	**-3%**	**-1%**

Source: SPI Research, February 2023

Table 248: YoY change in Annual Revenue per Employee by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	$170	$174	$149	$161	$143	$150	$175	$144
2022	$169	$182	$162	$145	$156	$149	$162	$166
Change	**-1%**	**5%**	**9%**	**-10%**	**10%**	**-1%**	**-8%**	**16%**

Source: SPI Research, February 2023

Table 249: YoY change in Annual Revenue Per Employee by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	$149	$167	$169	$168	$168	$150
2022	$139	$159	$166	$171	$183	$166
Change	**-7%**	**-5%**	**-1%**	**2%**	**9%**	**11%**

Source: SPI Research, February 2023

Quarterly Revenue Target in Backlog

Quarterly revenue backlog is the amount of already sold (booked) business in backlog (ready to execute) divided by forecasted quarterly revenue.

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

Table 250: Impact – Quarterly Revenue Target in Backlog

Quarterly revenue target in backlog	Survey %	Revenue growth	New clients	Deal pipeline	% of annual revenue achieved	% of annual margin achieved
Under 20%	16.8%	7.0%	32.3%	138%	88.0%	86.0%
20% - 40%	24.7%	12.2%	29.2%	150%	90.1%	86.3%
40% - 50%	19.4%	10.2%	34.9%	160%	91.0%	88.2%
50% - 60%	11.7%	9.3%	29.1%	168%	93.7%	89.2%
60% - 70%	10.8%	13.1%	28.8%	178%	97.8%	93.1%
Over 70%	16.6%	15.4%	25.6%	200%	99.2%	93.6%
Total / Average	**100.0%**	**11.2%**	**30.2%**	**163%**	**92.7%**	**88.9%**

Source: SPI Research, February 2023

Overall, backlog went down slightly, but in embedded services organizations it went down by 11%. It also went down in IT consultancies but did much better in management consultancies and architecture & engineering firms. The smallest firms did the best increasing backlog while the largest firms decreased it significantly.

Table 251: YoY change in Quarterly Revenue Target in Backlog

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	45.5%	50.3%	43.8%	45.8%	48.3%	33.3%
2022	44.6%	44.7%	44.5%	44.5%	46.9%	40.4%
Change	**-2%**	**-11%**	**2%**	**-3%**	**-3%**	**22%**

Source: SPI Research, February 2023

Table 252: YoY change in Quarterly Revenue Target in Backlog by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	50.3%	36.5%	51.9%	51.8%	44.0%	29.1%	53.3%	70.0%
2022	45.7%	43.5%	48.2%	44.4%	52.1%	32.7%	35.0%	49.3%
Change	**-9%**	**19%**	**-7%**	**-14%**	**18%**	**13%**	**-34%**	**-30%**

Source: SPI Research, February 2023

Table 253: YoY change in Quarterly Revenue Target in Backlog by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	30.2%	41.5%	50.4%	47.9%	50.7%	57.9%
2022	36.5%	45.1%	44.8%	48.1%	46.5%	42.8%
Change	**21%**	**9%**	**-11%**	**0%**	**-8%**	**-26%**

Source: SPI Research, February 2023

Percentage Of Annual Revenue Target Achieved

The annual revenue target achieved is the percentage of the annual revenue goal that is made. PSOs create detailed annual business plans; this figure shows how accurate they are in business planning, forecasting and execution.

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 dissatisfaction issues because the organization is understaffed to meet demand.

As Table 254 shows there is a direct correlation between achieving revenue targets and all other key 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 that achieved revenue targets had lower attrition rates, reflecting financial stability and the organization's ability to reward performance and reinvest in the business.

Table 254: Impact – Percentage of Annual Revenue Target Achieved

Percent of annual revenue target achieved	Survey %	Revenue growth	Deal pipeline	Percentage of bids won	Annual revenue/ employee (k)	Profit (EBITDA %)
Under 80%	15.1%	2.6%	126%	43.2%	$138	10.4%
80% - 90%	25.5%	9.2%	140%	47.1%	$145	14.8%
90% - 100%	31.1%	12.2%	177%	52.8%	$177	18.4%
100% - 110%	20.1%	13.8%	190%	56.2%	$177	16.7%
Over 110%	8.2%	21.1%	180%	55.9%	$188	15.2%
Total / Average	**100.0%**	**11.1%**	**163%**	**50.8%**	**$164**	**15.7%**

Source: SPI Research, February 2023

This year the percentage of annual revenue target achieved was 92.7%. The five-year average is 93.6%. Independents achieved 92.5% of their target revenue, ESOs achieved 93.4%. Annual revenue target achievement went down slightly all major PS markets, except architecture & engineering in 2022.

Table 255: YoY change in Percentage of Annual Revenue Target Achieved

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	96.2%	98.5%	95.4%	96.0%	98.0%	93.8%
2022	92.7%	93.4%	92.5%	92.9%	92.6%	91.6%
Change	**-4%**	**-5%**	**-3%**	**-3%**	**-5%**	**-2%**

Source: SPI Research, February 2023

Table 256: YoY change in Percentage of Annual Revenue Target Achieved by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	97.8%	93.8%	99.3%	96.8%	94.1%	93.1%	98.3%	102.5%
2022	92.2%	90.8%	91.8%	92.3%	97.5%	90.7%	97.0%	89.0%
Change	**-6%**	**-3%**	**-8%**	**-5%**	**4%**	**-2%**	**-1%**	**-13%**

Source: SPI Research, February 2023

Table 257: YoY change in Percentage of Annual Revenue Target Achieved by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	91.1%	96.4%	97.1%	95.6%	99.8%	99.7%
2022	92.9%	92.1%	90.9%	95.1%	95.4%	91.7%
Change	**2%**	**-4%**	**-6%**	**-1%**	**-4%**	**-8%**

Source: SPI Research, February 2023

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 made.

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

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 that achieve their margin target is always less than the percentage of firms that achieve their revenue targets. 20.5% of survey respondents achieved 100% or more of their annual margin target!

Table 258 shows a direct correlation between margin target attainment and the key performance metrics associated with sales. Also, the percentage of billable employees, annual revenue per consultant, margin and profit went up as margin targets were met or exceeded.

Table 258: Impact – Percentage of Annual Margin Target Achieved

Percent of annual margin target achieved	Survey %	Revenue growth	Deal pipeline	Percentage of bids won	Annual revenue/ emp. (k)	Project margin
Under 80%	25.2%	8.1%	157%	45.4%	$144	33.2%
80% - 90%	25.4%	10.8%	154%	50.3%	$148	34.0%
90% - 100%	28.8%	11.2%	169%	52.1%	$172	36.5%
100% - 110%	15.6%	14.1%	172%	56.7%	$190	38.6%
Over 110%	4.9%	17.8%	178%	56.9%	$225	41.1%
Total / Average	**100.0%**	**11.1%**	**163%**	**50.9%**	**$164**	**35.6%**

Source: SPI Research, February 2023

Overall, the change in the percentage of annual margin targets achieved went down by 4% relatively as both embedded and independents saw theirs go down. This mirrored the Americas and EMEA, however, APac only went down by 1%. Virtually every market covered in this report saw margin target achievement go down 1 - 10% and only the smallest firms beat their market margin targets in 2022.

Table 259: YoY change in Percentage of Annual Margin Target Achieved

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	92.1%	92.0%	92.1%	91.9%	93.6%	90.5%
2022	88.8%	88.5%	88.9%	88.4%	90.2%	89.4%
Change	**-4%**	**-4%**	**-3%**	**-4%**	**-4%**	**-1%**

Source: SPI Research, February 2023

Table 260: YoY change in Percentage of Annual Margin Target Achieved by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	91.6%	92.4%	92.2%	89.8%	90.0%	95.0%	90.0%	100.0%
2022	88.0%	91.3%	86.9%	86.6%	90.1%	86.5%	91.3%	90.3%
Change	**-4%**	**-1%**	**-6%**	**-4%**	**0%**	**-9%**	**1%**	**-10%**

Source: SPI Research, February 2023

Table 261: YoY change in Percentage of Annual Margin Target Achieved by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	87.3%	94.4%	92.2%	91.0%	94.7%	95.6%
2022	91.2%	88.7%	86.7%	89.9%	88.3%	90.3%
Change	**4%**	**-6%**	**-6%**	**-1%**	**-7%**	**-6%**

Source: SPI Research, February 2023

Revenue Leakage

Revenue leakage refers to revenue that has been earned but is lost before it can be realized. Causes of revenue leakage include billing errors, time the firm is unable to bill for product or project delivery issues and incorrect statements of work or misquotes.

Revenue leakage is difficult to determine in many cases, making it a "silent killer" of profitability. In many instances, organizations don't even realize revenue has not been billed, making it a very difficult figure to calculate. It is also a barometer for overall operational efficiency, as PSOs with higher levels of revenue leakage reported higher attrition lower client references, lower utilization, poorer on-time project delivery, and lower margins than organizations that better manage contracts, capturing all hours and expenses and billing accurately.

Table 262: Impact – Revenue Leakage

Revenue leakage	Survey %	Executive real-time wide visibility	Total attrition	Percentage of referenceable clients	On-time delivery	Project margin
Under 2%	32.4%	3.58	12.6%	74.6%	80.9%	37.0%
2% - 5%	33.7%	3.45	14.1%	68.3%	77.0%	34.5%
5% - 10%	22.5%	3.38	15.6%	71.3%	74.0%	36.7%
Over 10%	11.4%	3.35	15.0%	70.1%	69.5%	31.8%
Total / Average	**100.0%**	**3.47**	**14.1%**	**71.3%**	**76.7%**	**35.5%**

Source: SPI Research, February 2023

Average reported revenue leakage this year was the highest it has been in 5 years at 4.9%. Both embedded and independent organizations reported significantly more revenue leakage (5.6% versus 4.6% respectively). By geography, APac reported the highest revenue leakage.

Table 263: YoY change in Revenue Leakage

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	4.2%	4.8%	4.0%	4.3%	4.4%	2.8%
2022	4.9%	5.6%	4.6%	4.9%	4.9%	5.1%
Change	**16%**	**16%**	**15%**	**14%**	**11%**	**83%**

Source: SPI Research, February 2023

Table 264: YoY change in Revenue Leakage by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	4.2%	3.1%	5.2%	4.9%	4.9%	4.9%	2.3%	10.3%
2022	5.0%	3.6%	5.5%	6.0%	5.4%	4.9%	5.0%	4.3%
Change	**20%**	**17%**	**6%**	**23%**	**10%**	**1%**	**124%**	**-58%**

Source: SPI Research, February 2023

Table 265: YoY change in Revenue Leakage by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	3.6%	4.2%	4.7%	3.9%	4.7%	3.5%
2022	4.3%	5.7%	4.8%	4.5%	5.0%	4.9%
Change	**19%**	**34%**	**2%**	**15%**	**6%**	**42%**

Source: SPI Research, February 2023

Invoices Redone Due to Error/Client Rejections

The percentage of invoices submitted to clients that are rejected due to errors in the amounts, hours billed, or work done that are rejected and must be modified and resubmitted to the client.

Invoices rejected for 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 266 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 266: Impact – Invoices Redone Due to Error/Client Rejections

Invoices redone due to error/client rejections	Survey %	Exec. real-time wide visibility	Total attrition	Percent. of referenceable clients	On-time delivery	Project margin
None	10.7%	3.74	8.8%	78.0%	82.3%	36.8%
Under 1%	35.9%	3.49	15.0%	73.0%	79.9%	36.4%
1% - 3%	30.0%	3.46	13.0%	68.3%	73.0%	36.3%
3% - 5%	16.3%	3.34	15.7%	67.9%	75.8%	32.8%
5% - 10%	5.0%	2.96	17.4%	73.0%	70.0%	33.9%
Over 10%	2.0%	3.64	16.2%	65.5%	72.7%	33.4%
Total / Average	**100.0%**	**3.46**	**14.0%**	**71.1%**	**76.8%**	**35.6%**

Source: SPI Research, February 2023

The percentage of invoices redone grew by over 10% in 2022, with embedded services organizations having the greatest difficulty. Both software and SaaS PS also saw significant increases.

Table 267: YoY change in Invoices Redone Due to Error/Client Rejections

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	1.9%	1.8%	1.9%	1.9%	2.0%	1.4%
2022	2.1%	2.4%	2.0%	2.1%	2.2%	1.9%
Change	**11%**	**28%**	**5%**	**10%**	**12%**	**34%**

Source: SPI Research, February 2023

Table 268: YoY change in Invoices Redone Due to Error/Client Rejections by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	2.0%	1.5%	1.7%	1.9%	2.2%	2.3%	0.5%	4.0%
2022	1.9%	1.5%	2.3%	2.5%	2.6%	2.1%	3.6%	1.9%
Change	**-6%**	**4%**	**35%**	**32%**	**17%**	**-8%**	**614%**	**-52%**

Source: SPI Research, February 2023

Table 269: YoY change in Invoices Redone Due to Error/Client Rejections by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	1.6%	1.6%	1.7%	2.2%	2.4%	2.6%
2022	1.8%	2.0%	1.8%	2.0%	3.3%	2.6%
Change	**10%**	**25%**	**4%**	**-9%**	**38%**	**2%**

Source: SPI Research, February 2023

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. Financial executives are consumed with Days Sales Outstanding. While DSO might not impact other performance pillars, it does reflect the importance of accurately producing invoices and efficiently collecting payment. DSO is also a powerful measurement of client satisfaction, strong operating controls and client credit-worthiness.

Table 270: Impact – Days Sales Outstanding (DSO)

Days sales outstanding (DSO)	Survey %	On-time delivery	Project overrun	Change control process effectiveness	Revenue leakage	Invoices redone due to error/client rejections
Under 30 days	20.3%	79.2%	8.9%	3.50	3.9%	1.2%
30 - 50 days	43.3%	78.8%	8.8%	3.41	4.3%	1.7%
50 - 70 days	23.4%	75.6%	10.5%	3.41	5.6%	2.8%
70 - 100 days	9.4%	73.9%	11.8%	3.56	6.1%	3.4%
Over 100 days	3.7%	70.8%	18.6%	3.17	7.1%	5.1%
Total / Average	**100.0%**	**77.4%**	**9.9%**	**3.43**	**4.8%**	**2.1%**

Source: SPI Research, February 2023

This year the average DSO went up top 46.8 days compared to 43.5 in 2021. Cash collection is extremely important for independents as they must fund operations from cashflow. Table 271 shows longer payment times correlate with longer projects and higher project overruns.

Table 271: YoY change in Days Sales Outstanding (DSO)

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	43.5	41.2	44.3	44.2	44.2	32.3
2022	46.8	48.1	46.3	47.9	44.9	42.1
Change	**8%**	**17%**	**4%**	**8%**	**2%**	**31%**

Source: SPI Research, February 2023

Table 272: YoY change in Days Sales Outstanding (DSO) by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	43.5	38.1	48.3	35.0	61.1	38.7	50.0	43.8
2022	44.8	42.2	52.0	45.4	63.2	40.8	47.5	34.6
Change	**3%**	**11%**	**8%**	**30%**	**3%**	**6%**	**-5%**	**-21%**

Source: SPI Research, February 2023

Table 273: YoY change in Days Sales Outstanding (DSO) by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	30.1	38.7	46.5	48.0	49.3	52.8
2022	42.0	46.0	45.5	48.1	58.5	44.6
Change	**39%**	**19%**	**-2%**	**0%**	**19%**	**-15%**

Source: SPI Research, February 2023

Quarterly Non-Billable 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 increased to the highest level since 2019 at $1,528, nearly $250 more than in 2021. 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 274 shows the average project size grew as the quarterly expense grew.

Table 274: Impact – Quarterly Non-Billable Expense Per Employee

Quarterly non-billable expense per employee	Survey %	Revenue per project (k)	% of PS revenue - 3rd-parties	Annual revenue/ consult. (k)	Annual revenue/ emp. (k)	Profit (EBITDA %)
Under $1,500	68.4%	$188	10.9%	$199	$158	15.4%
$1,500 - $2,500	18.0%	$203	11.2%	$217	$178	19.2%
$2,500 - $5,000	9.8%	$242	11.9%	$206	$171	24.2%
$5,000 - $7,500	2.5%	$226	12.7%	$217	$187	2.2%
Over $7,500	1.3%	$575	10.4%	$246	$225	3.7%
Total / Average	**100.0%**	**$202**	**11.1%**	**$204**	**$164**	**16.5%**

Source: SPI Research, February 2023

Table 275: YoY change in Quarterly Non-Billable Expense Per Employee

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	$1,290	$1,055	$1,371	$1,245	$1,360	$1,675
2022	$1,528	$1,459	$1,555	$1,527	$1,365	$1,862
Change	**18%**	**38%**	**13%**	**23%**	**0%**	**11%**

Source: SPI Research, February 2023

Table 276: YoY change in Quarterly Non-Billable Expense Per Employee by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	$1,235	$1,597	$1,184	$1,014	$1,438	$1,056	$750	$1,500
2022	$1,495	$1,596	$1,330	$1,316	$1,745	$1,400	$1,804	$1,982
Change	**21%**	**0%**	**12%**	**30%**	**21%**	**33%**	**140%**	**32%**

Source: SPI Research, February 2023

Table 277: YoY change in Quarterly Non-Billable Expense Per Employee by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	$1,293	$1,146	$1,304	$1,462	$1,200	$1,171
2022	$1,360	$1,417	$1,442	$1,400	$2,090	$1,858
Change	**5%**	**24%**	**11%**	**-4%**	**74%**	**59%**

Source: SPI Research, February 2023

Executive Real-Time Wide Visibility

The ease at which executives can look across the entire PSO to assess operational information.

Real-time information visibility is 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 that have integrated systems and management dashboards that allow them to pinpoint issues and spot trends in real-time.

Executives who have real-time visibility run companies that are much more profitable than those that do not as they are able to take advantage of changing market conditions. Surprisingly, despite market turbulence, real-time visibility increased this year. Firms intently focused on their sales 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 278 shows, organizations that have comprehensive visibility can make the decisions necessary to grow and achieve success delivering projects and have much high financial metrics. 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.

Table 278: Impact – Executive Real-Time Wide Visibility

Executive real-time wide visibility	Survey %	% of employees billable	On-time delivery	Annual revenue/ consult. (k)	Annual revenue/ emp. (k)	Project margin
1 – None	5.5%	63.3%	70.0%	$183	$151	31.6%
2	15.1%	71.5%	72.6%	$192	$149	32.8%
3	27.7%	73.0%	76.9%	$199	$157	35.0%
4	31.8%	74.1%	76.9%	$209	$170	36.1%
5 - Comprehensive	19.9%	76.3%	82.5%	$215	$178	38.4%
Total / Average	**100.0%**	**73.2%**	**77.0%**	**$203**	**$164**	**35.5%**

Source: SPI Research, February 2023

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 279: YoY change in Executive Real-Time Wide Visibility

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	3.67	3.63	3.69	3.67	3.59	3.94
2022	3.46	3.35	3.50	3.47	3.33	3.60
Change	**-6%**	**-8%**	**-5%**	**-5%**	**-7%**	**-9%**

Source: SPI Research, February 2023

Table 280: YoY change in Executive Real-Time Wide Visibility by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	3.73	3.76	3.65	3.42	3.38	3.90	3.50	2.75
2022	3.49	3.63	3.33	3.21	3.61	3.58	3.64	3.47
Change	**-6%**	**-4%**	**-9%**	**-6%**	**7%**	**-8%**	**4%**	**26%**

Source: SPI Research, February 2023

Table 281: YoY change in Executive Real-Time Wide Visibility by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	3.90	3.81	3.67	3.52	3.55	3.47
2022	3.88	3.52	3.48	3.45	3.27	3.05
Change	**0%**	**-7%**	**-5%**	**-2%**	**-8%**	**-12%**

Source: SPI Research, February 2023

Goal Focus

The improvement of performance is important, but PS executives must always keep their eye on the prize, the achievement of organizational goals. For the first time in the 16-year history of the Professional Services Maturity™ Benchmark SPI Research asked leaders which goals they were most focused on for the coming year. The results surprised SPI Research as it expected a more concentrated effort on talent. However, with major changes in the technology market, there appears to be more available consultants than in past years. PS executives show almost 40% of their efforts will be on growing revenue, followed by improving profitability.

The results were consistent across PSO types, geographic regions, markets and organization size (Tables 282 - 285). Every year PS executives face new challenges, and for the short term it will be sales.

Table 282: Goal Focus by Organization Type and Geographic Region

Goal Focus	2022	ESO	PSO	Amer.	EMEA	APac
Grow Revenue	39.1%	39.0%	39.2%	39.7%	34.9%	42.9%
Increase Organizational Profit	23.1%	21.2%	23.9%	22.6%	27.2%	19.9%
Improve Client Satisfaction	21.2%	22.3%	20.8%	21.5%	20.7%	19.5%
Improve Talent Satisfaction and Optimization	16.5%	17.6%	16.1%	16.2%	17.3%	17.7%

Source: SPI Research, February 2023

Table 283: Goal Focus by Market

Goal Focus	IT Consulting	Mgmt. Consulting	Software PS	SaaS PS	Arch./ Engr.
Grow Revenue	42.2%	47.5%	40.9%	36.7%	31.2%
Increase Organizational Profit	21.4%	18.9%	21.1%	23.1%	28.4%
Improve Client Satisfaction	20.0%	21.0%	19.0%	23.5%	20.0%
Improve Talent Satisfaction and Optimization	16.4%	12.6%	19.1%	16.7%	20.4%

Source: SPI Research, February 2023

Table 284: Goal Focus by Market

Goal Focus	Advertise. / PR	Healthcare/ Pharma	Acct	Staffing	All Others
Grow Revenue	40.4%	41.2%	31.2%	37.5%	28.4%
Increase Organizational Profit	25.2%	20.8%	23.0%	25.0%	35.1%
Improve Client Satisfaction	18.3%	18.5%	28.3%	20.0%	21.8%
Improve Talent Satisfaction and Optimization	16.1%	19.6%	17.5%	17.5%	14.7%

Source: SPI Research, February 2023

Table 285: Goal Focus by Organization Size

Goal Focus	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Grow Revenue	52.2%	41.6%	38.9%	31.1%	35.6%	41.3%
Increase Organizational Profit	13.3%	22.7%	24.6%	25.3%	25.5%	23.1%
Improve Client Satisfaction	23.9%	19.1%	19.2%	23.9%	21.8%	21.6%
Improve Talent Satisfaction and Optimization	10.6%	16.6%	17.3%	19.7%	17.1%	14.1%

Source: SPI Research, February 2023

Professional Services Profit

Net profit (EBITDA) is always the litmus test for aligning all elements of the business. Every aspect of PS operations has improved over the past 16 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 2022, ESO profit declined while EMEA and APac achieved new heights.

Table 286: Impact – Profitability (EBITDA)

Profit (EBITDA)	Survey %	Revenue/ consultant (k)	Revenue/ employee (k)	Billable utilization	Margin target achievement	Revenue target achievement
Negative	10.4%	$198	$146	68.6%	77.4%	85.0%
0% - 10%	27.0%	$213	$167	71.4%	87.1%	93.8%
10% - 20%	27.4%	$207	$166	72.0%	92.4%	96.9%
20% - 30%	14.5%	$216	$172	73.9%	92.1%	96.3%
30% - 40%	10.8%	$253	$216	71.9%	91.9%	94.0%
Over 40%	10.0%	$243	$193	74.2%	88.3%	92.6%
Total / Average	**100.0%**	**$217**	**$173**	**72.0%**	**88.8%**	**94.0%**

Source: SPI Research, February 2023

Table 287: YoY change in Profitability (EBITDA)

Year	Total	ESO	PSO	Americas	EMEA	APac
2021	15.7%	18.4%	14.8%	15.5%	16.8%	16.5%
2022	16.1%	16.1%	16.0%	15.5%	19.5%	15.0%
Change	**2%**	**-13%**	**9%**	**0%**	**16%**	**-9%**

Source: SPI Research, February 2023

Table 288: YoY change in Profitability (EBITDA) by Market

Year	IT Consult	Mgmt. Consult	Soft PS	SaaS PS	Arch/Engr	Advertise /PR	Health/ Pharma	Acct.
2021	12.2%	13.0%	17.6%	22.2%	14.7%	25.7%	7.8%	22.7%
2022	18.1%	14.9%	16.5%	16.5%	14.6%	13.0%	16.1%	26.1%
Change	**48%**	**14%**	**-6%**	**-26%**	**-1%**	**-50%**	**108%**	**15%**

Source: SPI Research, February 2023

Table 289: YoY change in Profitability (EBITDA) by Organization Size

Year	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
2021	19.6%	15.4%	14.4%	16.8%	17.3%	12.1%
2022	15.4%	16.3%	13.7%	19.1%	16.0%	18.0%
Change	**-22%**	**6%**	**-4%**	**14%**	**-8%**	**48%**

Source: SPI Research, February 2023

Income Statement

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

Revenue

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

Expenses

- ***Direct Labor expense***: (does not include fringe benefits, vacation, sick time or overhead)
- ***Fringe benefit expense***: as a percentage of direct labor (for healthcare, pensions, vacation and sick pay)
- ***Subcontractor/outside consultant expense***: cost of subcontractors and outside consultants
- ***Pass-thru expense***: (expense for hardware, software, materials, etc. that can be billed)
- ***Billable travel and business expense***: business expense that can be billed to clients
- ***Non-billable travel and business expense***: business expenses that cannot be billed to clients
- ***Recruiting expense***: (includes recruiting headcount, fees and signing bonuses)
- ***Sales expense***: (includes sales headcount, bonus and non-reimbursable sales expense)
- ***Marketing expense***: (includes marketing headcount, bonus and marketing program expense)
- ***Education, training and certification expense***: (includes the cost of training and certification)
- ***PS IT expense***: supporting the IT infrastructure (personnel, applications, networking, etc.)
- ***General and Administrative***: non-billable headcount, general and administration costs, facilities, non-billable headcount and overhead.

In 2022, direct revenue increased as a percentage of total revenue, while indirect revenue (subcontractors) decreased slightly. Both pass through hardware and software revenue declined. Reimbursable travel and expense revenue decreased significantly from 2021.

Both direct labor and fringe benefits increased significantly, causing pressure on margins. Commensurate with lower pass-through revenues, pass through expense also declined as did non-billable travel. Recruiting expenses rose during 2022. Surprisingly sales 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 went down by 19%, which helped PSOs achieve slightly higher profitability in 2022.

CFOs should continue to carefully review which costs are 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 290: Annual Income Statement Comparison

Income Statement Revenue & Expense	2021	2022	Delta
Benchmark Surveys	540	709	
REVENUE			
Direct gross PS revenue	82.9%	85.9%	4%
Indirect gross revenue (subcontractor)	11.4%	10.2%	-10%
Pass-thru rev. (hardware, software, mat.)	4.3%	2.6%	-38%
Reimbursable Travel & Expense revenue	1.4%	1.3%	-12%
Total Revenue	**100.0%**	**100.0%**	
EXPENSES			
Direct labor expense	42.5%	45.9%	8%
Fringe benefit percentage of direct labor	6.7%	7.7%	14%
Subcontractor/outside consultant expense	9.6%	8.0%	-17%
Pass-thru equipment expense	2.6%	2.1%	-20%
Billable travel and business expense	1.8%	1.6%	-9%
Non-billable travel expense	1.2%	1.2%	5%
Total recruiting expense	0.7%	1.0%	38%
Sales expense	4.3%	3.9%	-10%
Marketing expense	1.6%	1.6%	-1%
Education/training/certification expense	0.9%	1.0%	3%
PS IT expense	1.7%	1.5%	-10%
All other G&A expense	10.6%	8.6%	-19%
Total Expense	**84.3%**	**83.9%**	**0%**
EBITDA	**15.7%**	**16.1%**	**2%**

Source: SPI Research, February 2023

Table 291 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 291: Income Statement by Organization Type and Embedded Service Type

Key performance indicator (KPI)	Survey	ESO	PSO	Americas	EMEA	APac
Surveys	709	214	495	524	126	59
REVENUE						
Direct gross PS revenue	82.3%	81.0%	82.8%	82.9%	80.7%	80.0%
Indirect gross revenue (subcontractor)	11.3%	11.4%	11.2%	11.0%	15.0%	7.3%
Pass-thru rev. (hardware, software, mat.)	5.1%	5.6%	4.9%	4.8%	3.4%	10.8%
Reimbursable Travel & Expense revenue	1.3%	2.0%	1.1%	1.3%	0.9%	1.9%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES						
Direct labor expense	42.7%	42.7%	42.7%	42.2%	46.8%	40.6%
Fringe benefit percentage of direct labor	6.7%	7.5%	6.5%	7.3%	5.5%	3.7%
Subcontractor/outside consultant expense	9.1%	9.5%	9.0%	8.0%	15.3%	8.5%
Pass-thru equipment expense	3.7%	3.9%	3.6%	3.5%	2.2%	8.4%
Billable travel and business expense	1.6%	1.8%	1.5%	1.8%	1.1%	0.8%
Non-billable travel expense	1.5%	1.9%	1.3%	1.7%	0.8%	0.7%
Total recruiting expense	0.7%	0.7%	0.7%	0.7%	0.8%	0.5%
Sales expense	4.1%	3.3%	4.3%	4.0%	3.6%	5.4%
Marketing expense	1.7%	1.4%	1.8%	1.8%	0.9%	1.9%
Education/training/certification expense	0.9%	1.0%	0.8%	0.9%	1.0%	0.8%
PS IT expense	2.0%	2.1%	1.9%	2.0%	1.6%	2.2%
All other G&A expense	9.6%	3.3%	11.6%	9.4%	7.8%	14.8%
Total Expenses	**84.2%**	**79.2%**	**85.8%**	**83.1%**	**87.4%**	**88.4%**
2022 EBITDA	**15.8%**	**20.8%**	**14.2%**	**16.9%**	**12.6%**	**11.6%**
2021 EBITDA Comparison	**15.7%**	**18.4%**	**14.8%**	**15.5%**	**16.8%**	**16.5%**

Source: SPI Research, February 2023

Table 292 shows income statement comparison for the six primary verticals represented in this benchmark. In this year's survey, SPI Research received profitability metrics from most of the vertical markets (*only markets with sufficient income statement data are shown*). This year SPI Research received significantly more 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 13.7% of total revenue.

Table 292: Income Statement by PS Market

Key performance indicator (KPI)	IT Consult	Mgmt. Consult	Software PS	SaaS PS	Arch./ Engr.	Advertise. / PR
Surveys	173	106	84	73	67	46
REVENUE						
Direct gross PS revenue	46.3%	44.7%	49.5%	50.2%	39.5%	49.2%
Indirect gross revenue (subs.)	6.8%	7.0%	10.7%	8.7%	7.6%	4.9%
Pass-thru rev. (hw, sw, mat.)	8.5%	5.6%	8.0%	7.4%	12.5%	8.9%
Reimbursable Travel & Expense	1.8%	1.2%	0.9%	3.7%	2.9%	2.3%
Total Revenue	**63.4%**	**58.5%**	**69.2%**	**69.9%**	**62.7%**	**65.3%**
EXPENSES						
Direct labor expense	46.3%	44.7%	49.5%	50.2%	39.5%	49.2%
Fringe benefit % of direct labor	6.8%	7.0%	10.7%	8.7%	7.6%	4.9%
Subcontractor/outside consultant	8.5%	5.6%	8.0%	7.4%	12.5%	8.9%
Pass-thru equipment expense	1.8%	1.2%	0.9%	3.7%	2.9%	2.3%
Billable travel and business	0.9%	2.0%	1.4%	1.8%	1.7%	1.1%
Non-billable travel expense	1.1%	1.1%	1.1%	1.7%	1.0%	1.5%
Total recruiting expense	1.1%	1.2%	1.0%	0.6%	0.6%	0.7%
Sales expense	4.6%	4.9%	2.9%	2.9%	1.9%	7.2%
Marketing expense	1.8%	2.1%	1.0%	0.8%	1.5%	2.2%
Education/training/certification	1.1%	0.9%	1.0%	1.4%	0.7%	1.2%
PS IT expense	1.4%	1.7%	1.3%	1.8%	1.6%	1.5%
All other G&A expense	6.5%	12.7%	4.6%	2.5%	13.7%	6.3%
Total Expenses	**81.9%**	**85.1%**	**83.5%**	**83.5%**	**85.4%**	**87.0%**
2022 EBITDA	**18.1%**	**14.9%**	**16.5%**	**16.5%**	**14.6%**	**13.0%**
2021 EBITDA Comparison	**12.2%**	**13.0%**	**17.6%**	**22.2%**	**14.7%**	**25.7%**

Source: SPI Research, February 2023

Table 293 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 293: Income Statement by Organization Size

Key performance indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Surveys	83	120	198	154	67	87
REVENUE						
Direct gross PS revenue	79.6%	85.5%	80.0%	83.6%	83.3%	79.7%
Indirect gross revenue (subs.)	11.9%	10.0%	11.6%	11.5%	12.9%	10.7%
Pass-thru rev. (hw, sw, mat.)	7.7%	3.3%	7.3%	3.1%	2.6%	8.1%
Reimbursable Travel & Expense	0.8%	1.2%	1.1%	1.7%	1.2%	1.5%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
EXPENSES						
Direct labor expense	44.8%	41.3%	43.6%	42.8%	39.1%	45.1%
Fringe benefit % of direct labor	6.1%	6.5%	6.6%	7.0%	7.1%	7.7%
Subcontractor/outside consultant	8.8%	7.5%	10.5%	8.8%	10.1%	7.5%
Pass-thru equipment expense	4.0%	3.4%	5.4%	1.7%	1.7%	5.2%
Billable travel and business	2.9%	1.5%	1.5%	1.5%	1.2%	2.3%
Non-billable travel expense	0.3%	1.8%	1.8%	1.2%	1.1%	1.0%
Total recruiting expense	0.1%	0.7%	0.6%	1.0%	0.5%	1.3%
Sales expense	4.2%	3.8%	4.8%	3.9%	2.4%	3.1%
Marketing expense	1.1%	2.1%	2.1%	1.3%	0.5%	0.9%
Education/training/certification	0.7%	1.0%	0.8%	1.1%	0.5%	1.3%
PS IT expense	0.4%	2.3%	1.7%	2.3%	1.8%	2.7%
All other G&A expense	7.2%	10.5%	9.1%	10.6%	10.3%	5.6%
Total Expenses	**80.7%**	**82.4%**	**88.5%**	**83.2%**	**76.3%**	**83.7%**
2022 EBITDA	**19.3%**	**17.6%**	**11.5%**	**16.8%**	**23.7%**	**16.3%**
2021 EBITDA Comparison	**19.6%**	**15.4%**	**14.4%**	**16.8%**	**17.3%**	**12.1%**

Source: SPI Research, February 2023

Chapter 11

2023 Professional Services Maturity™ Model Results

2023 PROFESSIONAL SERVICES MATURITY™ MODEL RESULTS

SPI Research has spent over 16 years on the development and improvement the Professional Services Maturity™ Model. Over 35,000 billable professional services organizations have used the model to benchmark and improve organizational performance. With nearly 6,000 participating billable services organizations (2,945 during the past five years), SPI Research has further refined the model to improve its accuracy.

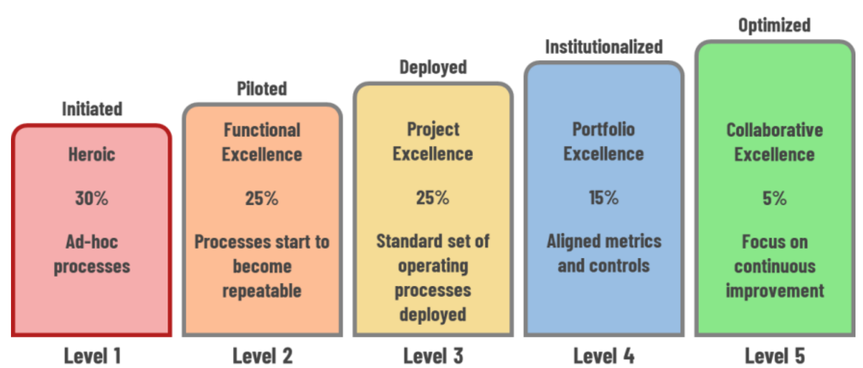
709 firms participated from September through November of 2022 representing over 430,000 consultants worldwide, continuing to make this the most comprehensive study of the global PS industry. While most the participating organizations are headquartered in North America, most firms surveyed have employees distributed globally, and SPI Research believes it to be an accurate representation of the global PS industry. SPI Research clients continue to use the model to develop, prioritize and implement performance gains.

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 709 firms surveyed in late 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 49):

Figure 49: Professional Services Maturity Model™ Levels



Source: SPI Research, February 2023

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

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

The minimum scores for each Pillar are summarized in Table 294. 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 2022 report in most pillars as SPI Research annually adjusts scores based on economic conditions and the feedback received over the past year.

Table 294: Minimum Normalized Performance Pillar Scores

Pillar	Level 1	Level 2	Level 3	Level 4	Level 5	Maximum
Leadership (LE)	0.0	49.2	59.2	67.6	75.8	100.0
Client Relationships (CR)	0.0	30.6	40.4	50.7	61.5	100.0
Talent (TA)	0.0	30.9	41.7	52.9	63.7	100.0
Service Execution (SE)	0.0	30.1	42.0	55.7	70.1	100.0
Finance and Operations (FO)	0.0	30.2	43.9	56.0	66.9	100.0

Source: SPI Research, February 2023

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

Figure 50: Increase performance by focusing on low-performing KPIs

Organizational Demographics	Consulting Rus	IT Consult.	Survey Average	Level 1	Level 2	Level 3	Level 4	Level 5
Year-over-year change in PS revenue	0% - 5%	13.1%	10.4%					
Deal pipeline / quarterly bookings forecast	Same as forecast	175%	162%					
Percentage of bids won	20% - 40%	51.2%	50.2%					
Service discount given	None	8.1%	8.0%					
Percentage of referenceable clients	80% - 90%	70.7%	71.3%					
Employee annual attrition - voluntary	15% - 25%	9.2%	9.3%					
Employee annual attrition - involuntary	5% - 10%	5.0%	4.4%					
Employee billable utilization	60% - 70%	73.4%	70.7%					
Projects delivered on-time	60% - 70%	75.9%	76.2%					
Project overrun	5% - 10%	9.7%	9.9%					
Use a standardized delivery methodology	60% - 80%	62.6%	63.3%					
Project margin for time & materials projects	20% - 30%	37.4%	34.3%					
Project margin for fixed price projects	30% - 40%	36.0%	34.2%					
Annual revenue per billable consultant (k)	$100k - $150k	$213	$204					
Annual revenue per employee (k)	Under $100k	$169	$164					
Percent of annual revenue target achieved	80% - 90%	92.2%	92.7%					
Percent of annual margin target achieved	90% - 100%	88.0%	88.8%					
EBITDA	**18.4%**	**18.1%**	**16.1%**					

Source: SPI Research, February 2023

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 50 highlights one such example.

Model Results

SPI Research analyzed each of the 709 participating firms to minimize any bias when comparing PSOs of varied sizes. Table 295 shows most organizations in each size category have similar averages for each pillar. This year's results show independents scored better in every performance pillar. In the past embedded organizations exhibited greater maturity in all five dimensions. Embedded PSOs are typically early adopters of business applications as they receive the benefit of sophisticated IT investments while independents tend to forego solution acquisition in favor of business development and marketing expenditures. However, in this year's survey the Independents operated at a higher overall level. The Asia Pacific region scored highest in all the pillars, followed by the Americas and EMEA.

Table 295: Average Service Maturity by PSO Type and Region

		Average Maturity Level					
Demographic	**Count**	**LE**	**CR**	**TA**	**SE**	**FO**	**Average**
2022 Survey	709	2.41	2.41	2.41	2.41	2.41	**2.41**
ESO	214	2.31	2.27	2.25	2.25	2.26	**2.27**
PSO	495	2.45	2.47	2.48	2.48	2.47	**2.47**
Americas	524	2.42	2.40	2.41	2.40	2.41	**2.41**
EMEA	126	2.30	2.42	2.32	2.37	2.33	**2.35**
APac	59	2.54	2.46	2.56	2.58	2.58	**2.54**
Average		**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2023

In this year's survey smaller firms scored highest levels of maturity. While not the result SPI typically see, smaller firms tend to be nimbler than their larger competitors and can react to changes in market conditions. 2022 was a year of change, and those organizations having the flexibility to adapt, scored the highest. 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, in 2022, midsize firms showed the lowest overall maturity.

Table 296: Average Service Maturity by PSO Size (People)

		Average Maturity Level					
Organization Size (employees)	Count	LE	CR	TA	SE	FO	Average
Under 10	83	2.55	2.54	2.40	2.42	2.29	**2.44**
10 - 30	120	2.58	2.47	2.44	2.43	2.45	**2.48**
31 - 100	198	2.45	2.42	2.43	2.43	2.45	**2.44**
101 - 300	154	2.19	2.32	2.36	2.38	2.41	**2.33**
301 - 700	67	2.37	2.39	2.51	2.45	2.40	**2.42**
Over 700	87	2.34	2.34	2.33	2.33	2.37	**2.34**
Total / Average	**709**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2023

Table 297 shows the average level of maturity for each of the performance pillars by select vertical markets. Overall, IT and management consultancies scored the highest with accountancies not far behind. The healthcare market, while relatively new to this analysis, scored the lowest. Generally, SPI Research does not analyze those markets when there are less than 20 surveys, but accountancies were close with 19.

Table 297: Average Service Maturity by Market

		Average Maturity Level					
Market	Count	LE	CR	TA	SE	FO	Average
IT Consulting	173	2.46	2.64	2.68	2.68	2.64	**2.62**
Management Consulting	106	2.70	2.58	2.58	2.64	2.64	**2.63**
PS within Software Company	84	2.26	2.35	2.29	2.32	2.30	**2.30**
PS within SaaS Company	73	2.26	2.12	2.15	2.15	2.15	**2.17**
Architecture/Engineering	67	2.45	2.33	2.25	2.01	2.25	**2.26**
Advertising/Marketing/PR	46	2.20	2.11	2.15	2.50	2.30	**2.25**
Healthcare/Medical/Pharma/Biotech	22	2.23	2.14	2.09	2.05	2.00	**2.10**
Accounting	19	2.47	2.53	2.58	2.68	2.47	**2.55**
All Others	119	2.36	2.34	2.34	2.24	2.30	**2.32**
Total / Average	**709**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**	**2.41**

Source: SPI Research, February 2023

The Financial Benefits of Moving Up Levels

The PS Maturity Model™ was developed to demonstrate the importance of organizational improvement using benchmarks. SPI Research believes that the importance of the Professional Services Maturity Model™ Benchmark is to help organizations improve ***balanced performance across the entire organization***, not just in terms of financial performance. However, if the organization is profit-motivated (which most are), increasing maturity levels do show up in significant bottom-line profit. Table 298 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 298: Key Performance Indicators (KPIs) by Maturity Levels

Key performance indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Confidence in PS leadership (5 pt. scale)	3.47	3.99	4.31	4.67	4.89
Goals and measurement alignment (5 pt. scale)	3.09	3.63	3.79	4.36	4.70
Year-over-year change in PS revenue	5.7%	7.1%	13.3%	16.5%	18.8%
Deal pipeline / quarterly bookings forecast	101%	148%	183%	202%	269%
Percentage of bids won	34.4%	48.7%	52.9%	64.0%	73.8%
Percentage of referenceable clients	59.8%	68.3%	75.5%	81.0%	87.8%
Annual fully loaded cost per consultant (k)	$116	$124	$135	$141	$148
Total attrition	13.1%	12.6%	15.1%	13.6%	13.2%
Employee billable utilization	66.4%	68.0%	72.8%	75.0%	77.7%
Revenue per project (k)	$179	$166	$190	$276	$313
Projects delivered on-time	67.0%	75.0%	78.7%	81.5%	88.6%
Project overrun	11.5%	10.1%	9.4%	9.0%	7.7%
Project margin	20.0%	28.7%	39.3%	48.1%	57.1%
Annual revenue per billable consultant (k)	$105	$163	$216	$260	$299
Annual revenue per employee (k)	$81	$125	$174	$212	$259
Percent of annual revenue target achieved	80.7%	89.7%	93.8%	97.9%	105.3%
Percent of annual margin target achieved	76.4%	83.8%	89.4%	95.9%	106.5%
Direct labor / Revenue	71.3%	67.4%	62.8%	58.0%	56.3%
Profit (EBITDA %)	**7.0%**	**11.4%**	**16.1%**	**19.6%**	**23.5%**

Source: SPI Research, February 2023

This table shows some of the benefits in moving up levels. Virtually every one of the 140+ KPIs improve as firms move up from one level to the next. Most organizations SPI Research has worked with find that improving by one maturity level annually is about all they can do. While moving up even one level can be difficult, the model shows the investment is well worth it.

The Inter-relationship of Pillars

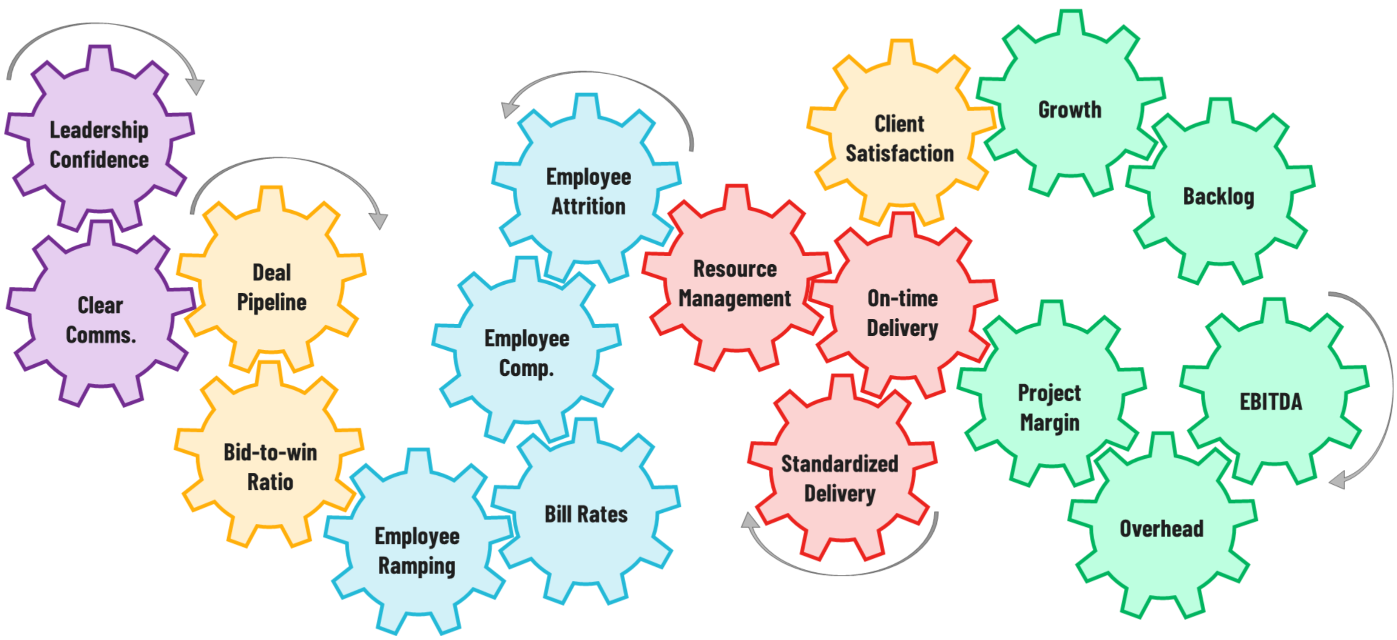
Process improvements can both positively and negatively impact other key performance indicators (KPIs) in the same Service Performance Pillar as well as the other four. Some examples include:

- **Percentage of bids won** (*Client Relationships*) impacts margins and revenue growth (*Finance and Operations*). Winning bids might improve a PSO's sales effectiveness but might worsen its Finance and Operations pillar due to lower profit margins if heavy discounting is required to win the bids.

- Leadership issues (**communication, well understood vision, mission and strategy**) can impact the ability to grow (*Finance and Operations*), staffing levels (*Talent*) and the ability to effectively deliver projects (*Service Execution*).
- If a project is **delivered late** (*Service Execution*) it can negatively impact relations with the client and future sales effectiveness (*Client Relationships*), employee morale (Talent), revenue growth and project profitability (*Finance and Operations*).

SPI Research took these interrelationships into account when building the Professional Services Maturity Model™ (Figure 51). 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 51: Key Performance Indicators (KPIs) are Correlated



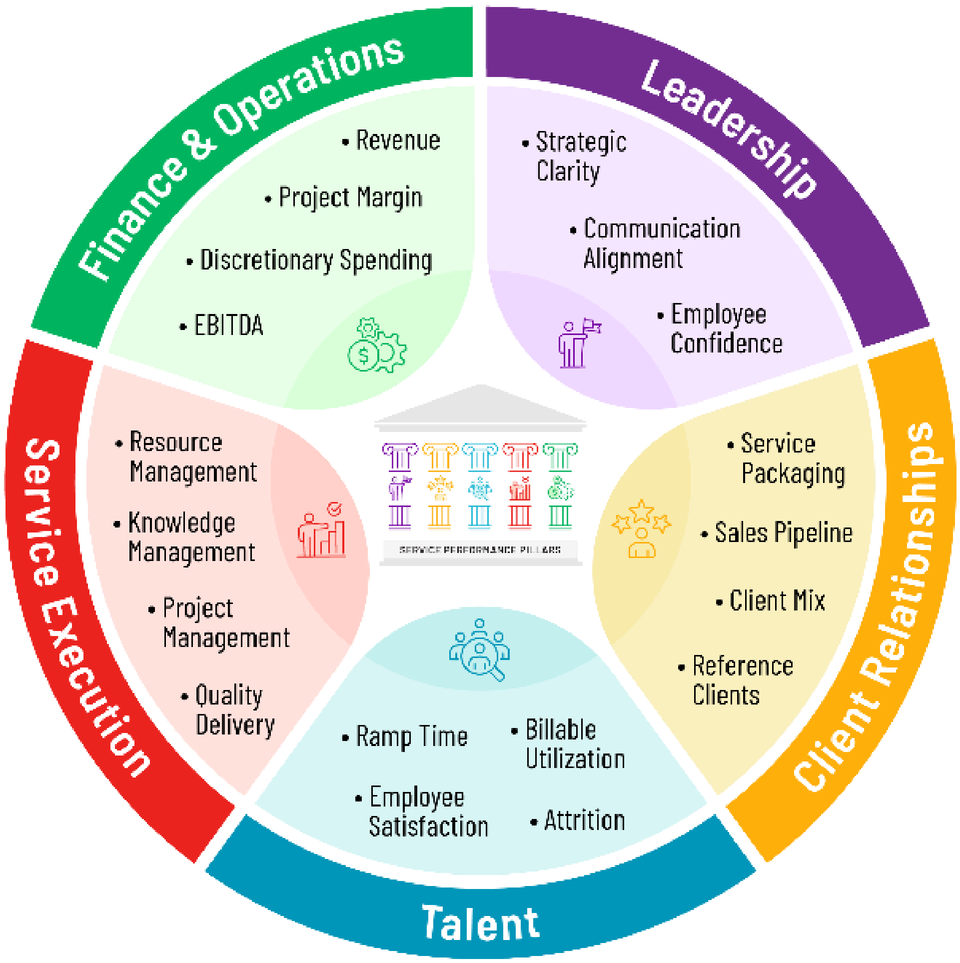
Source: SPI Research, February 2023

Model Conclusions

In 16 years of building the Professional Services Maturity Model™ SPI Research has seen the correlation of KPIs vary from year-to-year, as the economy and competitive environment dictate how PS organizations operate. The model is an aggregate built for PSOs (both embedded and independent), different size organizations, as well as for the different vertical markets surveyed. Therefore, the results will have some type of "generic bias." PS executives who wish to have their organization compared directly to their peer group (i.e., IT Consultants with 100 to 300 employees) should contact SPI Research.

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

Contact SPI Research for more information on the Professional Services Maturity Model™.



Chapter 12

Conclusions and Recommendations

CONCLUSIONS AND RECOMMENDATIONS

The 2023 Professional Services Maturity™ Benchmark showed the PS market had success in 2022, but much work is needed to improve in 2023. Profits matter, and this year's benchmarked showed PSOs delivered! However, not always rosy in the market. While profits went up slightly, many of the performance metrics tracked went down. The professional services market seems to be beyond COVID, and ready to accept the new challenges it faces. And if one thing it 2022 taught us was that the market can survive global disruptions, wars, inflation, supply chain issues and whatever is next.

The Professional Services market is in transformation mode as the global economy is changing and the pandemic accelerated how professional services are sold and delivered. The market faces challenges as PSOs must groom leaders, sell more efficiently, hire and retain talent, and deliver services efficiently and effectively and manage finances. It won't be easy. But the good news is that professional services leaders are increasingly utilize data to better understand where they are succeeding and where they are not. SPI Research believes PSO's should find areas where the KPI's trend negatively and immediately work to improve them. Areas where PSO's are successful are important, but improvements should be placed on the back burner as the best way to improve is to focus where performance is low.

The benchmark also showed that PS leaders utilize data to perform better, but always with high level goals in mind. The four primary goals of facing revenue, delivering profit, satisfying clients, and optimizing talent are important. If PSO's can attain those goals, then there are so many others they can tackle. As society moves to more Environmental, Social and Governance (ESG) initiatives, leaders will be better prepared to achieve additional goals in their organizations. But it all begins with performance. Without it, there will be too many changes, especially at the top of PSOs, for the organizations to achieve much.

What's next in 2023?

With the start of 2023 there is optimism in the professional services market. Whether or not there is a global recession does not appear to negatively impact the PSOs. Even with higher energy costs, a war, a supply chain that is not back to normal, and the typical political issues facing the economy every year, PSO's are out selling and moving forward. SPI Research expects 2023 to be a year of solid growth in professional services.

The technology landscape is changing. Many technology providers over-hired during the pandemic, and now are right sizing their organizations. These changes should help hold down the cost of technology talent. Inflation has begun to subside, but every PS executive understands they must focus on revenue and profit to succeed. Needless to say, information technology continues its push into all markets, and over the past few years many professional services firms have made a serious effort toward digital transformation. These efforts will continue as the benefits of technology continue. Machine learning and artificial intelligence appear to be taking off finally, which is aiding every market. Technology-oriented PSO's will be happy to help their clients implement these new technologies, preparing for the world that lies ahead.

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 the 2023 Professional Services Maturity™ Benchmark is a good place to start, but it is only a starting point. To succeed (and improve performance/maturity) PS executives must use this information to conduct 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. PSOs must not operate in silos, they must become one organization with one clear set of goals.

SPI Research Recommends

After 16-years of surveying, and hundreds of PS Maturity™ assessment projects, SPI believes the following steps should be taken to improve overall performance:

1. ***Benchmark and Scorecard:*** Any realistic performance improvement plan must start with a fact-based assessment of strengths and weaknesses. SPI developed this benchmark precisely for that purpose. It will help teams analyze performance while visualizing improvement potential.
2. ***Prioritize:*** Armed with a fact-based assessment, any business planning effort must evaluate and prioritize improvement potential and priorities. SPI uses several business planning and prioritization methods to help teams surface common issues and evaluate alternatives.
3. ***Quick wins:*** Using the assessment as a guide, teams should determine quick wins – improvements that can be accomplished within a year that will significantly move the needle.
4. ***Build your business plan:*** there are many frameworks that help leadership teams formulate, communicate and monitor target results on a regular basis. The most meaningful plans link the company, teams, and personal objectives to align the entire organization around measurable improvement priorities. Typical goal setting frameworks consist of time and measurement-bound objectives, key results and initiatives.
5. ***Measure:*** SPI firmly believes you only achieve what you measure. Goals must be specific, measurable, achievable, realistic and time bound (SMART). In today's business climate, measurement and improvement must be constant, not just a quarterly or annual process. Running a service organization is a game of singles and doubles. Small percentage improvements in just a few key performance areas can produce dramatic bottom-line results.
6. ***Continually improve:*** if there is one thing we have learned, PS is a marathon not a sprint. There is no shade. Every element of the business impacts every other element as firms are continually discovering, designing and delivering services around the clock. No client or business problem is identical to the last so the organization must be constantly learning and adapting. This is not a business for those who are not comfortable with being held accountable. There should be very few chiefs and mostly Indians in any organization with employees who are willing and able to add value and make things happen.

7. *Improve the IT Infrastructure*: One area that tends to bog PS executives down is the lack of actionable information. SPI Research believes that executives should consider the IT infrastructure in any type of business transformation. Many of the firms that SPI Research has met with just do not have the information they need to make real-time decisions. The PS Maturity Model does not work without accurate and timely information. 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 2023!

Dave Hofferberth

Chapter 13

Appendices

APPENDICES

Appendix A: Report Figures

Appendix B: Report Tables

Appendix C: Acronyms Used in This Report

Table 299: Lexicon of Acronyms and Abbreviations

Acronym	Meaning	Acronym	Meaning
AI	Artificial Intelligence	NAICS	North American Industry Classification System
APac	Asia-Pacific	PA	Project Accounting
BI	Business Intelligence	PaaS	Platform as a Service
BPM	Business Process Management	PMI	Project Management Institute
BPO	Business Process Outsourcing	PMO	Project Management Office
CEO	Chief Executive Officer	PMP	Project Management Professional
CFM	Core/Corporate Financial Management	PPM	Project Portfolio Management
CFO	Chief Financial Officer	PS	Professional Services
CIO	Chief Information Officer	PSA	Professional Services Automation
CRM	Client Relationship Management	PSO	Professional Services Organization
DSO	Days Sales Outstanding	ROI	Return on Investment
EMEA	Europe, Middle East, Africa	RSD	Remote Service Delivery and Collaboration
ERP	Enterprise Resource Planning	SaaS	Software as a Service
ESG	Environmental, Social and Governance	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

Source: SPI Research, February 2023

Appendix D: Financial Terminology

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

Table 300: Standard Key Performance Indicator (KPI) Definitions

Term	Definition
70% utilization	~ 1,400 billable hours/year or 350 hours/quarter. Based on a 2,000 hour work year.
Allocations	Corporate allocations refer to a company's policy of distributing the cost of shared resources, for example, facilities, healthcare, IT, Sales, General and Administrative (SG&A) costs to specific functions or departments.
Annual Billable Utilization %	Annual Billable Hours/(2080 hours – vacation and holidays) or 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**
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.

Term	Definition
	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 2023

Appendix E: PS Maturity™ Benchmark Survey Tool (Excel Version)

Service Performance Insight

2023 Professional Services Maturity™ Benchmark Survey

The information you supply will be kept strictly confidential

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

david.hofferberth@spiresearch.com

Section 1 — Survey Respondent

1	Name	
2	Title	
3	Company	
4	Email	
5	Telephone	

Section 2 — Firm Demographics — Fiscal Year 2022

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 importance of the following concerns to your organization over the next year (1: very unimportant - 5: very important)

37	Mergers and Acquisitions	
38	Digital Transformation	
39	Regulatory compliance	
40	Business development	
41	Competition	
42	Client success, satisfaction, loyalty	
43	Talent management (finding, hiring, training, managing and retaining employees)	
44	Remote workforce	
45	Resource utilization	
46	Delivery standardization	
47	Project staffing time	
48	Service delivery cost	
49	Profitability growth	
50	Cashflow management	
51	Financial management complexity	

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

52	The vision, mission and strategy of the PSO is well understood and clearly communicated	
53	Employees have confidence in PS Leadership	
54	It is easy to get things done w/in the PS organization	
55	Goals and measurements are in alignment for the service organization	
56	Employees have confidence in the future of the PS organization	
57	PS effectively communicates with employees	
58	PS embraces change, we are nimble and flexible	
59	PS focuses on innovation and is able to rapidly take advantage of changing market conditions	
60	PS takes advantage of its information infrastructure to make data-driven decisions	

Client Relationships

61 - 62
63 - 64
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%

65	Size of deal pipeline in comparison to quarterly bookings forecast	
66	Percentage of bids won	
67	Service discount given clients	
68	Percentage of referenceable clients	
69	Solution development process effectiveness (1 poor - 5 great)	
70	Service sales effectiveness (1 poor - 5 great)	
71	Service marketing effectiveness (1 poor - 5 great)	

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

72	Time & Materials	
73	Fixed time / fixed fee	
74	Shared risk / performance-based	
75	Other	
	Total — Error - total must add up to 100%	0%

Talent

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

76	Under 30 years old	
77	30 - 40	
78	40 - 50	
79	Over 50	
	Total **Error - total must add up to 100%**	0%

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

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

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

Service Execution

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

Finance and Operations

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

112	Our organization is not concerned with profit, we have another mission	
113	Improve solution portfolio - service packaging, new offers	
114	Improve marketing effectiveness - brand awareness, lead generation, events	
115	Improve sales effectiveness - higher close ratio, on-target performance, training	
116	Increase bill rates	
117	Improve hiring, ramping, skill-building, training	
118	Improve methods and tools for reuse, consistency, quality	
119	Improve billable utilization - increase billable utilization	
120	Reduce non-billable time - presales, write-offs, admins	
121	Expand business models (add managed services, subscription, hybrid, etc.)	

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

2022 Professional Services Income Statement (in $Millions)

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

		($millions)
136	Total direct billable labor expense for billable PS headcount (does not include fringe ben., vacation, sick time or overhead)	
137	Total fringe benefit expense as a % of direct billable labor (for healthcare, pensions, vacation and sick pay)	
138	Total subcontractor/outside consultant expense (compare to question 133)	
139	Pass-thru equipment cost (hardware, software, materials, etc.) (compare to question 134)	
140	Total billable travel and business expense (compare to question 135)	
141	Total non-billable travel and business expense	
142	Total Recruiting expense (recruiters, fees, signing bonus, referrals, etc.)	
143	Total Sales expense (includes fully loaded headcount expense, bonus and non-reimbursable sales exp.)	
144	Total Marketing expense (includes all headcount, bonus and marketing program expense)	
145	Total education, training and certification expense for the entire PS organization	
146	Professional Services IT expense (fully loaded IT headcount, capital, IT-specific facility expense)	
147	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!**

For the next year how would you divide your efforts in the following areas? (must sum up to 100%)

148	Revenue Growth	
149	Increasing Organizational Profit	
150	Improving Client Satisfaction	
151	Improving Talent Satisfaction and Optimization	
	Total **Error - total must add up to 100%**	0%

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

The information you supply will be kept strictly confidential

Appendix F: Related SPI Research

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

- **2022 Professional Services Automation End-user Survey** (September 2022): *During the second quarter of 2022, SPI Research conducted a Professional Services Automation (PSA) end-user survey. This examination of 88 billable organizations using PSA is truly an independent research study – the PSA solution providers had no input or control over the survey or respondents. The survey asked both quantitative and qualitative questions regarding why firms selected PSA, which attributes were most important, and how buyers perceived their benefits. Most importantly, this study looked at both pre- and post-PSA deployment. The report contains: PSA definition and core modules, why PSA was purchased, how PSA is used, user satisfaction with various components and aspects of PSA, pre- and post-PSA deployment benchmarks, and participant interviews, and long with 44 insightful figures and tables.*
- **2021 Project-Based ERP Buyer's Guide** (October 2021): *The growth engine of the world's economy has shifted from manufacturing to project-based, people-centric services businesses. These businesses rely on project-based Enterprise Resource Planning (ERP), to manage the financial aspects of the firm. These solutions automate core business processes such as quote-to-cash, resource and talent management, time capture and billing, and provide the real-time visibility necessary to improve organizational efficiency and effectiveness.*
  The Project-Based ERP Buyer's Guide provides an overview of important trends, business processes and selection criteria to help project-based businesses evaluate and choose ERP applications, which will provide the level of insight, management and control needed to improve productivity and profitability.
- **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.
- **2019 PS Human Capital Management (HCM) End-user Survey** (September 2019): *The 2019 Human Capital Management (HCM) End-user Survey Report is the first professional services end-user survey. It is based on 52 billable professional services organizations, and details many of the drivers behind the purchase and use of HCM, analyses user satisfaction by module, and both qualifies and quantifies its benefits. The 45-page report consists of 46 figures and tables, and highlights some of the trends in HCM use, most notable its movement to the Cloud. The average firm size was 446 employees, and the organizations showed an annual profit of 11.6%.*

- **2017 Professional Services Automation Buyers Guide** (July 2017): *The growth engine of the world's economy has shifted from manufacturing to project-based, people-centric services businesses. These businesses rely on Professional Services Automation (PSA) solutions. PSA automates core business processes such as quote-to-cash, resource management, project management, time capture and billing. It provides the real-time visibility necessary to improve organizational efficiency and effectiveness. This PSA Buyer's Guide provides an overview of important trends, business processes and selection criteria to help project- and services-based businesses evaluate and choose PSA applications, which will provide the level of insight, management and control needed to improve productivity and profitability.*
- **2013 Professional Services Sales and Marketing Maturity™ Benchmark** (October 2013): *Most professional services organizations are dissatisfied with their sales, marketing (and packaging) effectiveness. For the past eight years, over 1,500 PS organizations that have completed SPI Research's benchmark surveys have consistently given their sales and marketing efforts failing marks. The results for the very few firms that have successfully implemented PS sales, marketing and packaging disciplines, and made these activities central to their value proposition are extraordinary with 47 percent of all services sold as packaged solutions, 28.6 percent net profit and $255,000 annual revenue yield per consultant.*

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

About Service Performance Insight

R. David Hofferberth, PE, Service Performance Insight's founder and a Managing Director has over 35 years' experience in information technology (IT) serving as a consultant, industry analyst, market consultant, and as a product director with firms including the Aberdeen Group and Oracle. He is focused on the services economy, and in particular on white-collar productivity issues and the technologies that help people perform at their highest capacity.

Dave (with his former partner, Jeanne Urich) is the co-author of the ***Professional Service Maturity Model™*** benchmark used by over 35,000 project-oriented organizations to diagnose and improve their performance. He is a frequent speaker at key industry events on information technology around the world and has provided advisory services to project- and services-driven organizations.

Dave's background includes application and analytical tool development to support business decision-making processes, beginning in the early 1980s. In 1999 he introduced to the market the solution area now known as Professional Services Automation (PSA), when he published the seminal report: ***Professional Services Automation***: *Increasing Efficiencies and Profitability in Professional Services Organizations.*

Dave earned an MBA from Duke University and a BS in Industrial Engineering from the University of Tennessee. He is also a licensed Professional Engineer (PE).

Contact Hofferberth at david.hofferberth@spiresearch.com or 239.207.7773.

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.

