The 2014 Benchmark Report

Becoming a Dynamic Services Firm

People Process SPI Research Capital

Microsoft Dynamics

Service Performance Insight

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- Service Execution
- Finance and Operations

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Greetings from Microsoft Dynamics

Dear Reader,

Professional services firms around the world have long used Microsoft software and services to author documents, communicate with clients and colleagues, and collaborate across geographic, organizational and even cultural boundaries. Indeed, power users in various professions are among our lead users – individuals who test the limits of what can be done and help Microsoft identify simpler as well as more powerful ways to apply our software and devices to productive outcomes.

As Microsoft intensifies our focus on mobile and cloud-based computing experiences, now more than ever, we are delving deeply into the ways in which professional services firms engage with clients and deliver services. We are constantly improving our understanding of how day-to-day client service and practice support activities tie to levers of the business. And we are rethinking what is possible at every step, all with a clear objective to deliver solutions that are easier than ever to deploy and use, can better anticipate and enable user actions, and do more to deliver practical business results.

Our continuing association with SPI Research and sponsorship of the annual Benchmark Report is an essential bridge in this endeavor. Microsoft partners with Service Performance Insight (SPI) to help build shared insight into the professional services industry across our diverse customer base, field team and partner ecosystem. The Benchmark Report offers both a quantitative and qualitative framework for understanding how firms operate, which is an essential foundation for collaborative discussion of what's working and what's not in a given firm. Points of reference enable discussion of transformational change that may deliver next level performance. And performance measures establish goals for planning and execution of initiatives that evolve people, process, technology and culture towards a compelling future-state.

Many firms use this report as a comparative baseline for an annual health check. Some view it as a tool for collaboration with business partners to improve shared business practices. However you choose to leverage the information herein, we encourage you to invest the time to explore this year's results and consider whether your market strategies, operational practices and administrative policies position your firm for success.

As always, as opportunities arise for refinement of strategies and tactics, we invite you to reach out to Microsoft and our partners for insights into information technology practices that help make change easier to execute and improve ongoing organizational agility.

Best wishes for an informative read and healthy dialog!

Sincerely,

Elliott Ichimura

Global Industry Director, Service Industries
Microsoft Dynamics

Ted Kempf

US Service Industries Director
Microsoft Dynamics

Service Industries at Microsoft: http://www.microsoft.com/en-us/dynamics/service-industries.aspx

1. INTRODUCTION

Service Performance Insight (SPI Research) is proud to introduce the seventh-annual Professional Services Maturity™ Benchmark. Over the past seven years we have researched, benchmarked and built a maturity model to help professional services (PS) executives better understand how their organization compares to others that are both similar in size and scope of work, as well as to the broader professional services market. The maturity model and the concepts behind it have gained international attention. SPI Research has consulted with organizations around the globe to implement its concepts and to provide focus on the most important areas for performance improvement.

In May, 2013 SPI Research was highlighted in the prestigious ***Harvard Business Review***. There is no doubt the benchmark and maturity model have gained international recognition. Whether small or large, embedded or independent, Professional Service teams around the world use the PS Maturity Model™ and its 195 Key Performance Indicators (KPIs) to benchmark and improve performance.

Why Benchmark?

The concepts underlying the Professional Services Maturity™ Benchmark were developed eight years ago to better understand how professional services organizations compared to others in similar markets. For instance, if last year a professional services organization (PSO) had a net profit of 10%, was that good or bad relative to the marketplace? If profit went up to 12% the following year, was that a significant improvement? The problem is most PS executives only understand how their own organization operates; they don't have visibility into how the overall market is performing and how they compare.

The purpose of the benchmark is to show both averages of major key performance indicators as well as compare year-over-year changes, challenges and trends. These annual comparisons help the market better understand how the professional services market is growing or contracting, and what the associated metrics predict about its future.

During the past seven years over 10,000 organizations have used this benchmark to support organizational transformation initiatives and quantify the benefits of change. By analyzing the benchmark data by vertical market, geographic region and organization size, PS executives have an "apples-to-apples" comparison to their peers and the market at large. Over 1,500 firms have completed SPI's benchmarking surveys over the past seven years.

What SPI Research has found interesting, and hope you do too, is how the market changes on an annual basis, and where PS executives have concerns, and therefore how they prioritize initiatives to better compete in the marketplace. The professional services market has been on a roller coaster ride that mirrors the global economy at large. It truly provides a leading indicator of things to come as executives in other industries depend on its advice and guidance. Therefore, the professional services market must always look ahead to spot trends before they happen to better understand where the economy is going and what they can do to help its propulsion.

2014 – Stormy Seas Ahead?

2013 turned out to be a tough year for the PS industry – most major PS metrics declined, propelled by slowing revenue growth (Table 1). 2013 year-over-year revenue growth (10%) slowed considerably from 2011 (13.7%) when embedded and independent professional service firms alike experienced a dramatic uptick in business after weathering the recession. The PS industry is a bell-weather for the global economy as PS engagements typically portend global business shifts. A case in point, for the PS industry, growth stalled but never declined during the depths of the recession in 2009; PS started a full-scale recovery in 2010 in advance of the overall economy. Likewise, PS organizations curtailed hiring in 2009 but resumed adding employees in 2010 in advance of traditional businesses.

Table 1: Five Year PS Key Performance Metrics

Key Performance Indicator (KPI)	2009	2010	2011	2012	2013
Annual PS revenue growth	3.6%	7.6%	13.7%	11.5%	10.0%
Annual PS headcount growth	2.8%	6.9%	10.1%	8.9%	7.5%
Percentage of billable personnel	69.6%	70.8%	74.2%	75.2%	71.2%
Employee Attrition	6.1%	6.8%	7.4%	7.2%	8.3%
Annual revenue per consultant (k)	$205	$184	$197	$206	$193
Annual revenue per employee (k)	$177	$156	$167	$168	$155
Profit (EBITDA %)	**NA**	**16.1%**	**13.5%**	**16.8%**	**11.4%**

Source: Service Performance Insight, February 2014

A tale of two extremes underlying the benchmark average is that 38% (88 firms) of the 238 organizations in the 2014 benchmark reported year-over-year revenue growth of less than 5%. 14.4% (33 firms) reported negative growth. These metrics compare unfavorably to 2011 in which only 13.3% (28 firms) reported negative growth. In 2013 only 30.9% (71 firms) reported year over year revenue growth in excess of 15% compared to 45.2% (75 firms) in 2011.

In PS the link between growth and profitability is undeniable as this people-based business always operates at its best when it is running at full capacity. Having more work is always preferable to not having enough work because PSOs are adept at rising to the challenge of too much work whereas they become complacent and disenfranchised when not enough work is available.

Slowing growth manifested in excess capacity, lower utilization, lower revenue per person and higher levels of attrition. ***Slowing PS industry growth hit the bottom-line hard as we saw net profit decline precipitously from 16.8% last year to 11.4% this year.*** These negative trends are very disturbing and

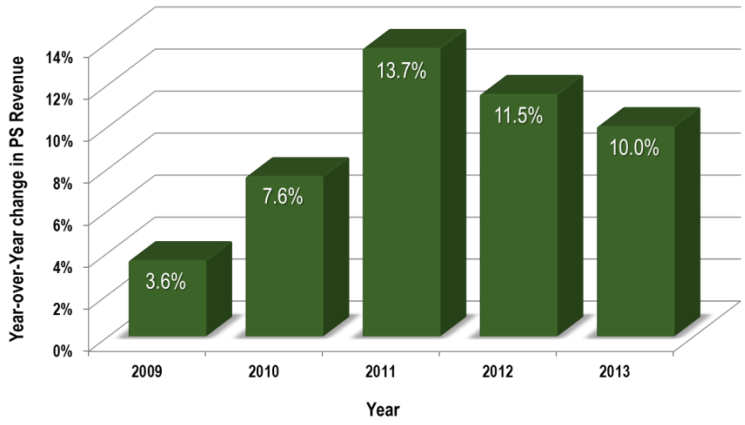
may indicate the technology PS market has become over-saturated with too many firms chasing too little business. This slow-down also reflects the general malaise in enterprise software and hardware as technology growth has shifted to consumers with smart phones, tablets, social media and the cloud; away from large-scale enterprise IT.

SPI Research recommends caution in 2014 for traditional enterprise PS suppliers. Now is the time to revisit strategies and make adjustments to ensure your organization is in-front of shifting business trends.

Slowing Growth – watch out!

The professional services market is accustomed to high levels of growth. Back in the early 2000's annual revenue growth rates of 15% to 20% were the norm. As the global economy dipped into a protracted recession the professional services market also retrenched but never to the point of flat or negative growth. In SPI Research's seven years of benchmarking the average annual growth rate has never been negative (Figure 1). 2009 represented the low point of year over year revenue growth at 3.6% while 2007 growth of 17.2% was the most recent high point.

Figure 1: Year-over-year Change in PS Revenue



Source: Service Performance Insight, February 2014

The 2013 survey showed an average growth rate of 10%, which was 13% lower (on a relative basis) than 2012 growth of 11.5%. This sharp decline from 2011/2 affected all geographies and all PS sub-segments except Marketing and Communications and SaaS. Hardest hit were accountancies, architects and engineers, and hardware PS organizations. By geography, APac experienced the greatest slowdown while EMEA experienced the highest relative growth after weathering a prolonged recession and sovereign debt crisis. Even this year's Best-of-the-Best experienced a dramatic decline in revenue growth from 18.7% last year to only 11% this year.

With stock markets reaching all-time highs, SPI Research was shocked to discover the malaise in the PS industry. Only the smallest organizations, those with less than 10 employees, grew more in 2013 than they did in 2012 while the largest organizations were disproportionately disadvantaged, reporting revenue growth of 4.8% this year compared to 10% last year. SPI Research is starting to see commoditization and rate erosion in many markets – average bill rates for independents declined year-over-year, which also contributed to the sharp decline in revenue per person and net profit. The low end of the market – staff augmentation and managed services – is experiencing contraction and

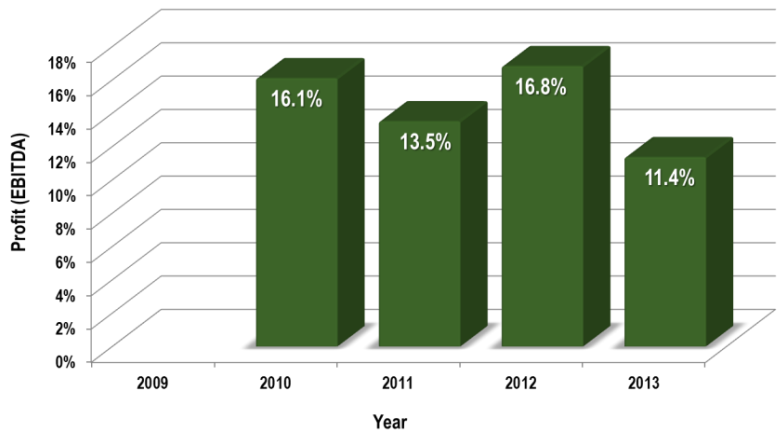
significant rate pressure, but the upper end of the market for unique, specialized expertise is still growing and profitable. Growth rates over 10% generally portend increased hiring. Growth below 10% can be managed through efficiency gains, increased utilization and use of third-party contractors, which means most sectors of the PS market will not expand hiring substantially if slow growth persists.

Plummeting Profit

In the PS industry, slowing growth is a powerful predictor of profit declines. This year's benchmark reflected a net profit deterioration of more than 5 basis points from 16.8% in 2012 to 11.4% in 2013 – erasing all the sector profit improvements made since the recession (Figure 2).

Although PS profit is still acceptable compared to other industry sectors like manufacturing and retail, where razor-thin margins are the norm, the sharp decline in this benchmark should be cause for alarm and could indicate a more dangerous trend of overcapacity.

Figure 2: Professional Services Profit



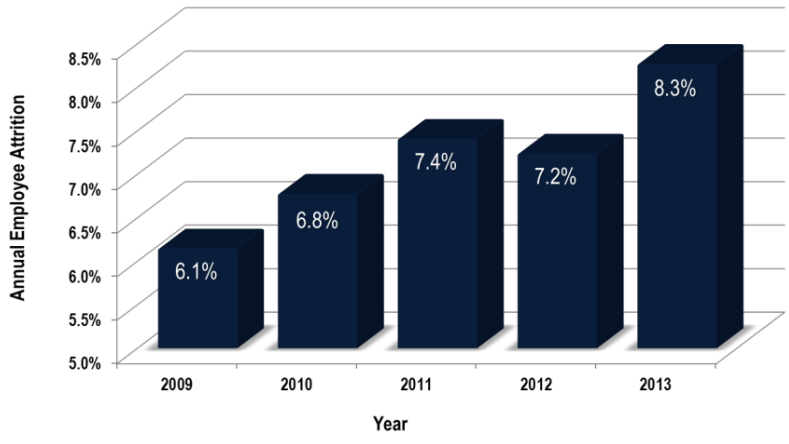
Source: Service Performance Insight, February 2014

Attrition Rises While Utilization Declines

Two of the most important metrics – attrition and billable utilization – took a nose dive in 2013. SPI Research has been predicting attrition would rise as the economy improved and employees took advantage of new opportunities outside of their current firms. In 2013, attrition hit the highest level (8.3%) since the recession of (Figure 3).

Attrition is an important metric because the cost to replace a

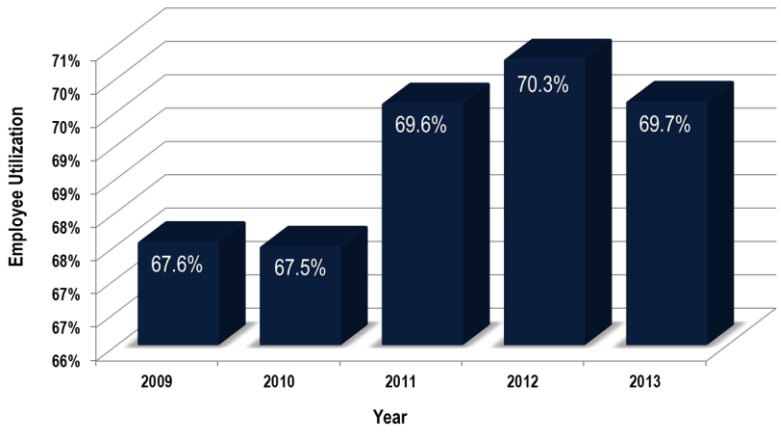
Figure 3: Annual Employee Attrition – 2009-2013



Source: Service Performance Insight, February 2014

consultant is so high. On average it takes 130 business days to find, hire and ramp a new consultant translating into a replacement cost of nearly $200,000 per consultant. Organizations faced with significant attrition are unable to grow and expand while quality suffers from a knowledge exodus. 2013 saw attrition increase in all geographies, verticals and organization sizes as the job market heated up and the war for talent led to defections. This problem is not going away due to the growing talent shortage in critical Science, Technology, Engineering and Math skills.

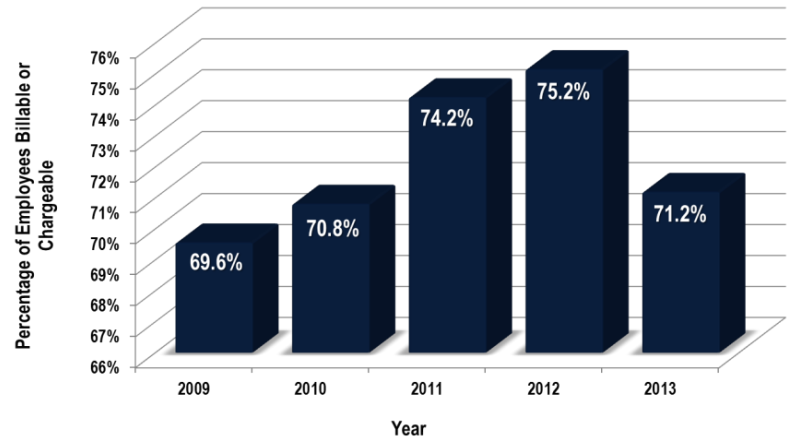
Figure 4: Billable Utilization – 2009-2013



Source: Service Performance Insight, February 2014

PSOs experienced a double-whammy this year because not only did attrition increase but at the same time billable utilization declined. Embedded PS organizations improved utilization from 65.1% in 2012 to 68.3% in 2013 while independents experienced a steep decline from 73.2% to 70.2%. By vertical; SaaS, Software and Management consultancies all reported billable utilization of 67%; hardware reported 75% and managed services reported 80%. Billable utilization in combination with realized bill rates is the most important profit lever. Declining utilization trends signal overcapacity. Corrective action in terms of improving sales and marketing and increased emphasis on resource management is warranted to avoid staff reductions.

Figure 5: Percentage of Billable Employees



Source: Service Performance Insight, February 2014

Too much overhead

Another key performance indicator that plummeted this year is the percentage of employees who are billable as compared to non-billable management, sales and administrative personnel. In 2009 this metric was less than 70%, but it improved significantly in 2011 and 2012 but dramatically declined in

2013. The percentage of billable staff is now 71.2% of total staff (Figure 5). While this change might not sound significant, it bodes negatively for profitability, as billable staff must carry the cost of non-billable staff against a backdrop of slowing top-line revenue. Firms can afford to increase non-billable staff when the market is robust and business is plentiful but non-billable staff becomes an expensive burden when growth slows. ***Now is a good time for PS organizations to take stock and frankly appraise whether they have over-hired non-billable staff in anticipation of robust business expansion which did not materialize.*** Are they carrying too much administrative overhead because they haven't invested in integrated business applications? Besides the administrative cost of non-integrated systems; inaccuracies, delays, and lack of real-time information visibility can have a crushing impact on long term growth. ***PS executives should closely monitor this key performance indicator to ensure their organizations have not become top-heavy with excessive non-billable staff as morale and profit will certainly be impacted.***

Bill Rates Decline

In 2012 SPI Research saw a dramatic increase in bill rates of almost 3% across the board, which fueled profit. This positive trend was reversed in 2013 particularly for independents that experienced bill rate erosion of more than 2%. Embedded organizations were able to hold their own and even reported rate increases for most positions. The rate disparity between embedded and independents has widened with a spread of more than $40 per hour for most positions. ***This decline in bill rates combined with more management overhead and lower consultant productivity and billable utilization explains the dramatic decline in net profit shown in this year's survey. 2013 turned out to be a lackluster year for PS across almost all verticals and geographies. Caution is advised going into 2014. Now is a good time to take stock of the overall business and make hard decisions about where investments should be made.***

Table 2: Hourly Bill Rate by Role and Organization Type

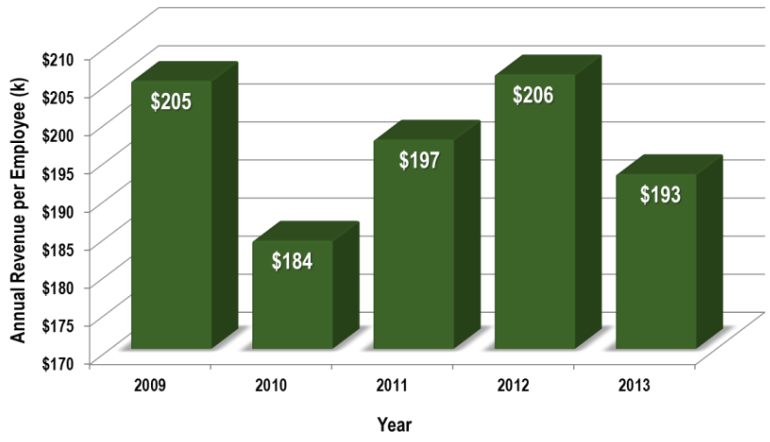
Role	Survey			ESOs			PSOs		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$253	$208	-17.8%	$243	$242	-0.4%	$256	$198	-22.7%
Director	213	213	0.0%	223	231	3.6%	208	204	-1.9%
Delivery Manager	194	209	7.7%	216	230	6.5%	184	198	7.6%
Project/Program Mgr.	183	179	-2.2%	202	207	2.5%	171	167	-2.3%
Business Consultant	180	172	-4.4%	195	200	2.6%	172	160	-7.0%
Sr. Tech. Consult./Engr.	182	186	2.2%	202	203	0.5%	168	175	4.2%
Tech. Consultant/Engr.	161	161	0.0%	183	188	2.7%	145	150	3.4%
Solution Architect	190	185	-2.6%	213	214	0.5%	173	170	-1.7%

Source: Service Performance Insight, February 2014

Per Person Revenue Declines

The gloom and doom continues as SPI Research looked at the impact of lower rates, lower billable utilization and too much non-billable overhead on revenue yield per person. Both billable revenue per consultant and overall revenue per employee sharply declined in 2013. Average revenue per consultant reached a dangerous low of $193,000 (Figure 6). This figure is even more ominous when increases in base and variable compensation are factored in.

Figure 6: Annual Revenue per Billable Consultant



Source: Service Performance Insight, February 2014

Although SPI Research did not see significant increases in compensation in 2013, we certainly did not see compensation decline. This $13,000 decline in revenue per consultant translated directly to lower bottom-line profit which was amplified in larger organizations. SPI Research has always recommended a 2X revenue labor multiplier for billable staff. This KPI means consultants should be expected to generate at least twice their loaded cost to produce enough profit to sustain and grow the PS practice.

If the decline in revenue per consultant was not bad enough, the deterioration in revenue per employee was even worse (Figure 7). Revenue per employee is an important metric because it speaks directly to the productivity and profitability of the entire PS business. In 2013 the benchmark declined $13,000 per employee from $168,000 to $155,000. The spread between the cost of employees and their yield is dangerously thin. If this trend continues, few PSOs will be able to make a respectable profit. The decline in this metric means PSOs are overstaffed and should consider downsizing and cost cutting if revenue per employee continues at this low level or declines further.

Figure 7: Annual Revenue per Employee

Source: Service Performance Insight, February 2014

Looking ahead to 2014

The high levels of growth and profit the professional services market experienced in 2011 and 2012 deteriorated in 2013 manifesting in lower per person revenue yields and sharply lower net profit. PSOs appear to have taken their eyes off the ball, resulting in weakening productivity and excessive overhead. The primary question going forward is will growth in the PS market continue to deteriorate leading to overcapacity and intensified competition or was 2013 an aberration? Certainly the global economy is improving daily which portends a robust PS market, but increasing commoditization in hardware and enterprise software will have a negative impact on PS providers in those sectors. The hot growth areas of SMAC – Social, Mobile, Analytics and the Cloud mean well-run service providers in those sectors will grow and thrive. While enterprise software and hardware suppliers will be faced with increased competition and rate erosion. Caution is advised to ensure PSOs do not increase overhead and hiring in anticipation of growth which may not happen.

The focus on greater efficiency and productivity were major reasons for success in 2013. 2014 will require greater creativity, as increased burdens, such as healthcare costs and taxes, could not only limit profitability for PSOs, but could also inhibit growth as PS clients face similar challenges.

The professional services marketplace has grown and succeeded because a majority of the organizations offer innovative services to help clients manage change and improve performance. As market dynamics change, leading PSOs have been able to adapt to take advantage of new technologies and knowledge to create leading edge solutions. 2014 will be no different in terms of the need for continuous improvement. But, the headwinds are much stronger and the need for repeatable service offers and organizational efficiency and effectiveness will become increasingly critical to remain competitive and profitable.

2. THE PROFESSIONAL SERVICES MATURITY™ MODEL

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

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

The original concept behind the SPI Research's PS Maturity Model was to investigate whether increasing levels of standardization in operating processes and management controls improve financial performance. ***SPI Research's 2014 PS Maturity™ Benchmark demonstrates that increasing levels of business process maturity do indeed result in significant performance improvements (Table 3).*** 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.

Table 3: Maturity Matters!

Key Performance Measurement	Maturity Level 1-2	Maturity Level 3	Maturity Level 4-5
Percentage of Respondents	55%	25%	20%
Annual revenue growth	8.8%	12.3%	10.1%
Billable utilization (2,000 hours)	71.8%	72.4%	71.6%
Project gross margin	34.7%	39.4%	39.0%
Revenue per billable consultant (k)	$166	$205	$235
PS EBITDA	**-1.3%**	**10.2%**	**26.9%**

Source: Service Performance Insight, February 2014

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

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

1. Leadership – Vision, Strategy and Culture
2. Client Relationships

3. Human Capital Alignment
4. Service Execution
5. Finance and Operations

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

Service Performance Pillars™

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

Figure 8: Service Performance Pillars™

Source: Service Performance Insight, February 2014

1. **Leadership - Vision, Strategy and Culture:** (*CEO*) a unique view of the future and the role the service organization will play in shaping it. A clear and compelling strategy provides a focus for the organization and galvanizes action. Effective strategies bring together target customers, their business problems, and how a solution solves those problems differently, uniquely, or better than its competitors. For a service strategy to be effective, the role and charter of the service organization must be defined, embraced, communicated and supported throughout the company. Depending on whether the service strategy is to primarily support the sale of products, or to drive service revenue and profit; service organization goals and measurements will vary. Leadership skills and competencies must mature as the organization matures. Culture is the unwritten customs, behaviors and beliefs that determine the "rules of the game" for decision making, structure and power.
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 improving relationships to better understand client needs, while ensuring clients will continue to buy and provide references and testimonials.
3. **Human Capital Alignment:** (*Human Resources*) the ability to attract, hire, retain and motivate a high quality consulting staff. With changing workforce demographics, talent management has

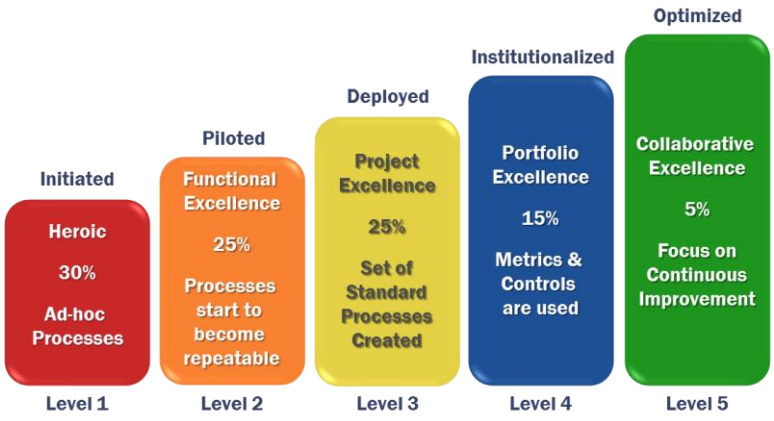
increased in importance. High-caliber employees represent the essence, brand and reputation of the firm. PSOs are starting to adopt hybrid on and off-site staffing models which put increased pressure on customer-facing staff to develop client relationships and more carefully define client requirements. Demands for career planning, skill development and flexible work options have intensified.

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 a number of 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, 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 focuses 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 execute professional services or complement the sale of products with services. Figure 9 depicts maturity level progression and outlines primary characteristics for each maturity level:

Figure 9: Services Maturity™ Model Levels



Source: Service Performance Insight, February 2014

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

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

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

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

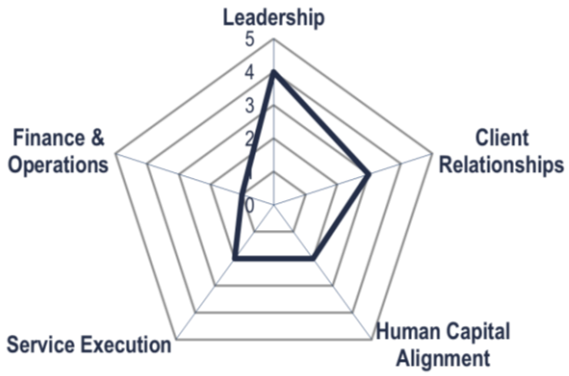
- ***Level 5 — Optimized "Collaborative"*:** (approximately 5% of PSOs) at maturity level 5 *executives focus on continual improvement of all elements of the five performance pillars*. A disciplined, controlled process is in place to measure and optimize performance through both incremental and innovative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

Over the past seven years, over 10,000 PSOs have studied the PS Maturity Model ™ and are using 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. It provides an invaluable tool to analyze current performance and prioritize future improvement initiatives.

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

Figure 10: Service Performance Pillar Maturity™



Source: Service Performance Insight, February 2014

Building the Professional Services Maturity™ Model

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

Table 4: Performance Pillars Mapped Against Service Maturity

	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 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. 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 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. High quality references.

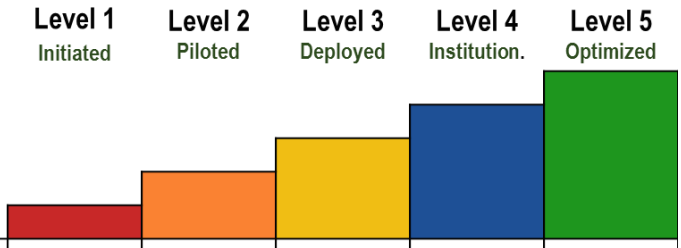
Human Capital Alignment	Hire as needed. Generalist skills. Chameleons, Jack of all Trades. Individual heroics. May perform presales as well as consulting delivery.	Begin forecasting workload. Start developing job and skill descriptions & compensation plans. Rudimentary career paths. Start measuring employee Satisfaction	Resource, skill and career management. Employee satisfaction surveys. Training plans. Goals and measurements aligned with compensation. Attrition <15%	Business process and vertical skills in addition to technical and project skills. Career ladder and mentoring programs. Training investments to support career. Low attrition, high satisfaction	Continually staff and train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peak demand. Sophisticated variable on and off-shore workforce model.
Service Execution	No scheduling. Reactive. Ad hoc. Heroic. Scheduling by spreadsheet. No consistent project delivery methods. No project quality controls or knowledge management.	Skeleton methodology in place. Centralized resource mgmt. Initiating project mgmt. and technical skills. Starting to measure project satisfaction and harvest knowledge.	PSA deployed for resource and project management. Collaborative portal. Earned Value Analysis. Project dashboard. Global Project Management Office, project quality reviews and measurements. Effective change management.	Integrated project and resource management. Effective scheduling. Using portfolio management. Global PMO. Global project dashboard. Global Knowledge Management. Global resource management.	Integrated solutions. Continual checks and balances to assure superior utilization and bill rates. Complete visibility to global project quality. Multi-disciplinary resource management.
Finance and Operations	The PSO has been created but is not yet profitable. Rudimentary time & expense capture. Limited financial visibility and control. Unpredictable financial performance. Rudimentary contract management.	5 to 20% margin. PS becoming a profit center but still immature finance and operating processes. Investment in ERP and PSA to provide financial visibility. May not have real-time visibility or BI. Standard Library of Contracts and Statements of Work.	20 to 30% margin. PS operates as a tightly managed P&L. Standard methods for resource mgmt., time & expense mgmt., cost control & billing. In depth knowledge of all costs at the employee, sub-contractor & project level. Processes in place for contract management, legal and pricing decisions.	PS generates > 20% of overall company revenue & contributes > 30% margin. Well-developed finance and operations processes and controls. Systems have been implemented for CRM, PSA, ERP and BI. IT integration and real-time visibility. Systems have been implemented for contract management, legal and pricing decisions.	> 40% 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: Service Performance Insight, February 2014

Why Maturity Matters

SPI Research believes wide support for the PS Maturity™ model is due to its holistic approach to measuring performance. ***Maturity is determined through alignment and focus both within and across functions.*** For example, although financial measurements are of primary importance they are equally weighted and correlated with leadership and sales and quality measurements to ensure organizations improve across all dimensions, not just in terms of financial performance. However, if the organization is profit-motivated (which most are), increasing maturity levels do show up in significant bottom-line profit. Figure 11 highlights major key performance measurements by maturity level, and should alone be an important reason why PS executives should look deeper into using it to increase profits.

Figure 11: Professional Services Maturity™ Progression



	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institution.	Level 5 Optimized
Well understood vision, mission and strategy	3.57	3.64	3.93	4.33	4.38
Bid-to-win ratio (per 10 bids)	4.05	5.24	5.00	5.32	6.88
Referenceable Clients	68.2%	71.4%	76.9%	81.9%	84.6%
Employee billable utilization	61.4%	69.6%	72.7%	74.4%	78.1%
Projects delivered on-time	73.0%	76.1%	79.9%	79.6%	85.8%
Annual revenue per billable consultant (k)	$115	$165	$222	$258	$281
Quarterly revenue target in backlog	27.6%	40.0%	49.2%	62.1%	64.2%
Earnings before Income Taxes, Depreciation & Amortization (EBITDA)	**3.8%**	**9.2%**	**9.7%**	**18.5%**	**22.5%**

Source: Service Performance Insight, February 2014

Pillar Importance and Organizational Maturity

The results and insights gained in the past seven 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 particular service performance pillar does not create overall organizational success – rather it is the ***appropriate balance and alignment within and across performance pillars***, which ultimately leads to sustainable success.

Table 5 depicts the relative service performance pillar importance by organizational maturity level. Many professional service organizations are established without a particular initial focus toward optimizing performance. They begin with the goal of establishing a client and reference base.

Table 5: Service Pillar Importance by Organizational Maturity Level

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

Source: Service Performance Insight, February 2014

They may be operated as a cost center or as an adjunct to the product function to establish alpha and beta customers and to provide early product feedback. Initially they often perform presales, training, quality assurance and service delivery tasks. They hope to deliver services that are both profitable to them as well as valued by their clients, but in reality, they take the position that "just about any deal is a good deal." The emphasis at Level 1 maturity is on building client references and recruiting highly skilled generalist consultants who are experienced enough and flexible enough to perform heroic feats to ensure early customer success.

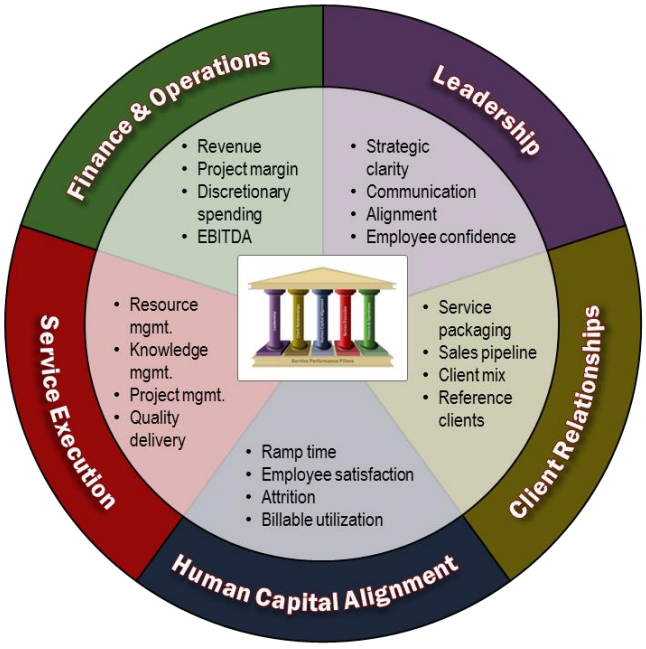
By Level 2, although primary focus is still on creating reference customers, more emphasis is placed on human capital alignment for recruiting and ramping skilled employees, partners and contractors. Service execution focus is on developing repeatable project delivery methods and quality processes. At these early stages, many embedded professional service 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.

At Level 4 the organization has implemented structured business processes and utilizes integrated information systems to assure there is "one view of the business".

Finally, at Level 5 the organization is running very efficiently and the focus is on continual improvement and innovation. Very few firms achieve sustained Level 5 performance.

Figure 12: PS Performance Pillars – Core KPIs



Source: Service Performance Insight, February 2014

3. SURVEY DEMOGRAPHICS

SPI Research surveyed 238 billable Professional Services Organizations (PSOs) from October through December, 2013. The following sections breakdown the 2013 survey demographics in a number of key areas (market, size, and geographic region) to help PS firms compare their individual results to the benchmark.

The Service Market is Huge and Growing

According to Gartner's ***2013 IT Spending*** report, IT and Telecom services represent almost 70 percent of all IT spending with vast global revenues in excess of $2.7 trillion. Although the pace of service revenue growth has slowed, unlike most other industries, year-over-year IT service revenue has only declined once in the past ten years (2008-2009).

"The global steady growth rates are a calm ocean that hides turbulent currents beneath," writes John Lovelock, research vice president at Gartner. "The Nexus of Forces — social, mobile, cloud and information — are reshaping spending patterns across all of the IT sectors that Gartner forecasts. Consumers and businesses will continue to purchase a mix of IT products and services; nothing is going away completely. However, the ratio of this mix is changing dramatically and there are clear winners and losers over the next three to five years, as we see more of a transition from PCs to mobile phones, from servers to storage, from licensed software to cloud, or the shift in voice and data connections from fixed to mobile."

According to Gartner, the worldwide IT services market will grow 4.4% in constant currency in 2013, reaching $921.7 billion, and will exceed $1.1 trillion by 2017. Outsourcing will contribute more than half of market growth (Table 6).

Table 6: The Service Market is Huge, and Growing

	2013 Spending	2012/13 Growth	2014 Spending	2013/14 Growth	2015 Spending	2014/15 Growth
Hardware	$496.6	9.2%	$540.5	8.8%	$603.5	11.7%
Software	308.4	7.1%	329.4	6.8%	350.9	6.5%
IT Services	**921.7**	**4.4%**	**960.8**	**4.2%**	**1004**	**4.5%**
Telecom Equipment	514.2	7.1%	543.4	5.7%	571.7	5.2%
Telecom Services	1,803.7	3.1%	1,860.5	3.2%	1,913.9	2.9%
All IT	**$4,044.6**	**4.9%**	**$4,234.6**	**4.7%**	**$4,444**	**4.9%**

Source: Gartner, 2013

Vertical PS Markets — the North American Industry Classification System

SPI Research uses the North American Industry Classification System (NAICS) to analyze the PS market. The following sections define the Professional Services markets (Code 54). The NAICS defines these industries 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 on the basis of the particular expertise and training of the services provider (Table 7). According to the US Census, professional, scientific, and technical services revenue for 2012 was $1.4 trillion, up 4.1 percent from 2011. Within the sector, the revenue for marketing and advertising firms for 2012 was $39.8 billion, up 12.4 percent from $35.4 billion in 2011. Marketing and advertising and management consulting are the hottest growth sectors within the PS industry with 10 year growth forecasted at 10% and 6.2% respectively.

Revenues from the US PS industry have grown 22% in the past five years. The U.S. professional services industry comprises ~ 770,000 firms and employs over 7.7 million people.

Table 7: Vertical PS Markets — the North American Industry Classification System

Code	Market	Description	US Census 2010 Revenue	Employees (1,000s)	CAGR 2008-18
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.	$240bn	1,114	2%
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.	$116bn	888	
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.	$226bn	1,277	2%
5414	Specialized Design Services	This industry group comprises establishments providing specialized design services (except architectural, engineering, and computer systems design).	$16bn	111	3.8%
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.	$284bn	1,442	3.8%

Code	Market	Description	US Census 2010 Revenue	Employees (1,000s)	CAGR 2008-18
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.	$153bn	991	6.2%
5417	Scientific Research and Development 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.	$117bn	620	2.3%
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).	$89bn	408	10%
5419	Other Professional, Scientific, and Technical Services	(Other PS) – This industry group comprises establishments engaged in professional, scientific, and technical services (except legal services; accounting, tax preparation, bookkeeping, and related services; architectural, engineering, and related services; specialized design services; computer systems design and related services; management, scientific, and technical consulting services; scientific research and development services; and advertising and related services).	$63bn	573	
54XX	**2010 Total**	**US Estimated Professional, Scientific and Technical Services Revenue**	**$1,305bn**	**7,424**	

Source: US Census and Service Performance Insight, February 2014

Many of the concepts and uses of technology described in this report also exist within product-driven organizations. As a result, Service Performance Insight uses the term "services-driven organization", or embedded service organization (ESO) to describe the rapidly expanding market or service organizations within product companies.

PS Maturity™ Benchmark Vertical Market Demographics

The following sections breakdown the 2013 survey demographics of the 238 participating organizations in a number of key areas that will help PS firms compare their individual organizations to the benchmark. This year's benchmark provides comprehensive information on 238 firms who employ more than 60,000 consultants worldwide.

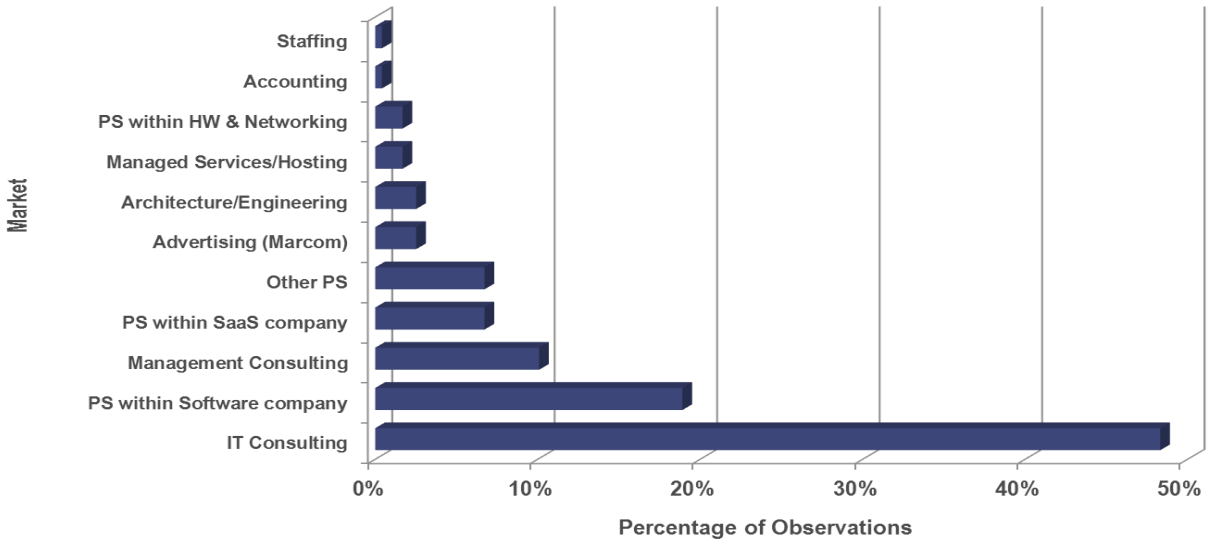
The percentage of completed surveys representing nine vertical segments in the benchmark is:

- ***IT Consulting***: Systems Integrators and developers – 48.3% representing ~ 17,000 consultants;

- ***Software PS***: Service divisions within software companies – 18.9% representing ~ 17,000 consultants;
- ***Mgmt. Consulting***: Management consultancies – 10.1% representing ~ 3,000 consultants;
- ***SaaS PS***: Service divisions within software as a service providers – 6.7% representing ~ 1,000 consultants;
- ***Marketing and Advertising***: Advertising, marketing, communication firms – 2.5% representing ~ 1,100 consultants;
- ***Arch./Engr.***: Architects and engineers – 2.5 representing ~ 600 architects and engineers;
- ***Hardware (and Networking) PS***: Service divisions within hardware and networking, manufacturers – 1.7% representing ~ 3,500 consultants;
- ***Managed Services:*** Provide hosting and managed and outsourced services – 1.7%;
- ***Other PS***: Research and Development; business optimization, training – 6.7%; "Other PS" includes other types of PSOs such as accounting, legal, research, staffing and those organizations that did not squarely fit into other specific professional services verticals. The two markets with the greatest number of observations are IT consulting and software professional services organizations.

Figure 13 highlights the vertical markets included in this year's report.

Figure 13: Vertical Market Distribution



Source: Service Performance Insight, February 2014

Table 8 shows participant demographics for the past seven years. For the past three years IT consultancies have been the largest market participating, closely followed by PS within software firms.

Table 8: Number of Participating Firms by Vertical Market (2007 through 2013)

Market	Type	2007	2008	2009	2010	2011	2012	2013	Total
IT Consulting	PSO	13	24	50	67	61	69	115	**399**
PS within Software company	ESO	34	66	89	57	56	45	45	**392**
Management Consulting	PSO	2	12	22	22	31	34	24	**147**
Other PS	PSO	2	13	30	22	13	31	21	**132**
PS within SaaS company	ESO	0	0	18	19	26	23	16	**102**
PS within Hardware/Network.	ESO	1	3	12	9	10	9	4	**48**
Architecture / Engineering	PSO	0	0	4	6	7	8	6	**31**
Advertising (Marcom)	PSO	0	0	0	6	10	11	6	**33**
Accounting	PSO	0	0	0	6	2	4	1	**13**
Total		**52**	**118**	**225**	**214**	**216**	**234**	**238**	**1,297**

Source: Service Performance Insight, February 2014

Table 9 further analyzes the survey demographics by vertical market, highlighting the seven largest markets surveyed. Growth slowed substantially for all market segments except SaaS and Marketing and Communications. With the advent of social media, the fastest growing market segment was marketing and advertising firms who reported 20.8% year over year revenue growth.

Table 9: Demographics by Vertical Market

Demographic	Software PS	SaaS PS	Hardware PS	IT Consult.	Mgmt. Consult.	Marcom	Arch./ Engr.
Number of firms reporting	45	16	4	115	24	6	6
Average Size of PS organization (employees)	374	61	873	146	108	175	85
Annual company revenue ($mm)	$239	$117	$753	$73	$53	$42	$28
Professional service revenue ($mm)	$53.7	$13.2	$96.3	$31.4	$29.0	$41.7	$28.0
PS percentage of total revenue	22%	11%	13%	43%	54%	100%	100%
Year-over-year change in PS revenue	8.7%	12.2%	5.0%	11.4%	4.8%	20.8%	0.8%
Year-over-year change in PS headcount	5.8%	9.2%	2.5%	8.7%	4.9%	15.0%	6.7%
% of employees billable or chargeable	70.0%	72.5%	80.0%	71.2%	74.4%	83.3%	75.0%
% of PS revenue delivered by 3rd-parties	10.7%	8.4%	17.5%	13.4%	10.5%	12.5%	8.0%
M&A over the past 3 years	1.78	0.66	1.75	0.58	0.14	0.33	0.42

Source: Service Performance Insight, February 2014

Architect and engineering firms were hit hardest by slowing growth going from 8.2% in 2012 to a meager 0.8% in 2013. This sector still has not recovered from the recession but is hoping to rebound in

2014. In the embedded software segment, growth slowed substantially from 13% in 2012 to only 8.7% in 2013. SaaS PS improved the billability of the workforce substantially moving from 67.6% to 72.5%. This reflects SaaS belt-tightening as Wall Street places increased pressure on SaaS companies to become profitable.

The marketing and advertising and architect and engineering firms in the survey are pure-play professional service firms while the percentage of top-line revenue produced from PS varies from 11% for embedded SaaS to 54% for management consultancies. IT consultancies derive substantial revenue from hardware and software sales in addition to consulting, training, managed services and support.

A new statistic reflecting the number of mergers and acquisitions the firm has been involved in (either as the acquirer or acquired) the past three years was added this year. SaaS and hardware firms led in mergers and acquisitions; marketing and communications firms reported the least.

Table 10 shows the demographics for embedded and independents as well as by macro-geographic region. Independents reported higher growth than embedded PSOs but growth for both sectors declined substantially from 2012 with ESOs declining from 12.6% to 9.3% and PSOs declining from 11% to 10.3%. By geography, growth slowed from 11.9% to 10.2% in the Americas and 11% to 10.3% in EMEA. Only APac expanded revenue growth from 6.8% to 7.8%. The average organization in this year's survey has 253 employees, which is larger than last year's survey average of 209. Embedded service organizations averaged 318 employees this year compared to 252 last year. Independents averaged 226 employees this year compared to 186 last. ESOs participated in three times more acquisitions as compared to independents.

Table 10: Demographics by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2013	ESO	PSO	Americas	EMEA	APac
Size of PS organization (employees)	253	318	226	269	263	82
Annual company revenue (mm)	$132	$237	$90	$147	$94	$74
Total professional services revenue (mm)	$49	$46	$50	$53	$49	$11
Year-over-year change in PS revenue	10.0%	9.3%	10.3%	10.2%	10.3%	7.8%
Year-over-year change in PS headcount	7.5%	6.5%	7.9%	8.5%	4.5%	5.4%
% of employees billable or chargeable	71.2%	70.1%	71.6%	73.5%	62.8%	68.2%
% of PS revenue delivered by 3rd-parties	11.4%	10.1%	12.1%	11.7%	10.8%	9.1%
No. of firms acquired over 3 years	0.83	1.41	0.54	0.88	0.52	0.95

Source: Service Performance Insight, February 2014

By organization size, only the smallest organizations experienced more growth this year than last. The largest organizations participated in the most acquisitions which led to a higher percentage of billable employees because management span of control increased. Only organizations with 10 to 30 employees had less than 70% of their workforce chargeable – most PS employees including leadership are billable (Table 11).

Table 11: Demographics by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Size of PS organization (employees)	5	20	65	200	500	3,058
Annual company revenue (mm)	$4.2	$32.3	$46.3	$116.3	$350.7	$1,156.7
Total PS revenue (mm)	$2.5	$3.5	$15.2	$31.5	$81.0	$598.3
Year-over-year change in PS revenue	14.7%	6.8%	11.1%	11.3%	12.0%	4.8%
Year-over-year change in PS headcount	11.6%	3.8%	8.3%	10.1%	10.3%	4.1%
% of employees billable or chargeable	73.5%	63.8%	73.2%	72.6%	82.3%	74.1%
% of PS revenue delivered by 3rd-parties	8.0%	14.6%	10.2%	11.4%	8.0%	15.5%
M&A over the past three years	0.13	0.34	0.43	0.81	2.93	3.13

Source: Service Performance Insight, February 2014

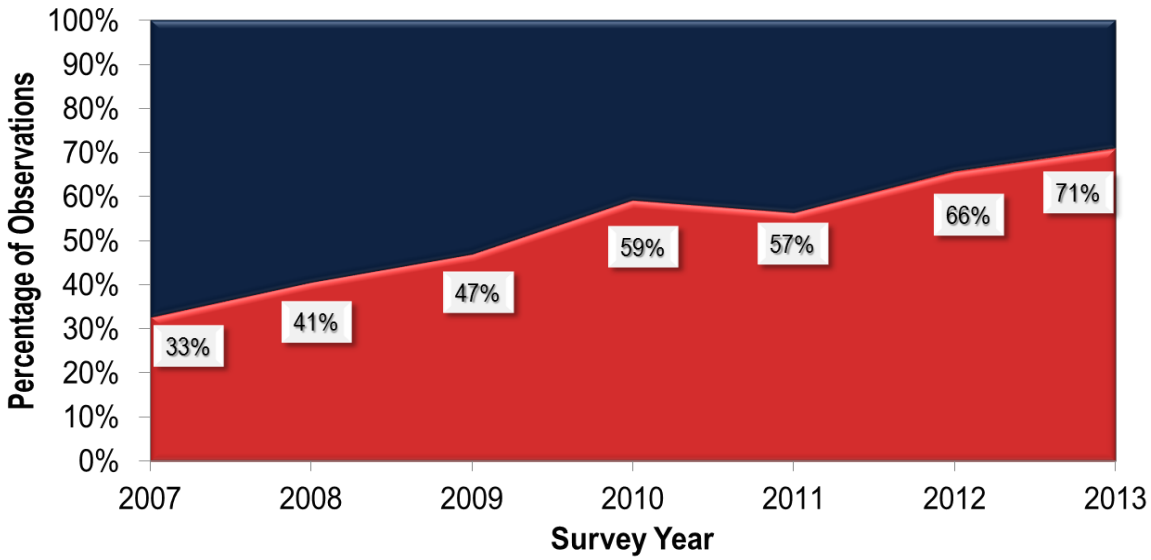
PSO Type

SPI Research analyzes billable PSOs in a number of 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) and Value-Added Resellers (VARs) 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) and Accountants, Marketing and Advertising and Architects and Engineers. The participating PSOs represented a spectrum from some of the largest independent service providers in the world to extremely small, independent regional and specialty service providers. The majority of responding independent PSO's were 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 and time to value. While they are focused on professional service revenue and profit, they often are 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. In this survey a majority of the ESOs were part of independent software vendors (ISVs) who provide on-premise software however the percentage of respondents

representing SaaS (cloud) providers is rapidly growing. SPI Research shows both on-premise and SaaS results.

Figure 14: Independent vs. Embedded Survey Organizations Surveyed (2007 – 2013)



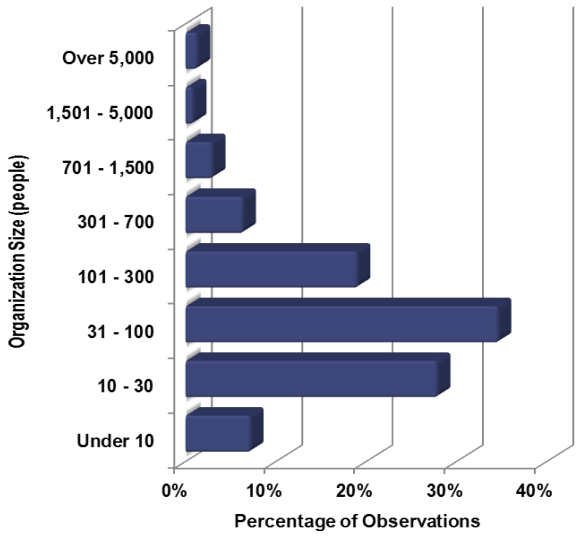
Source: Service Performance Insight, February 2014

SPI Research uses this segmentation because independent consultancies must fund sales and 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 successful and profitable projects are often subordinate to customer adoption.

Organization Size

Figure 15 shows the distribution of survey participants by organization size. The highest percentage of firms has between 30 and 100 employees. The average size of the organization in the survey grew to 253 this year as compared to 209 last year. This year's survey is based on firms who employee more than

Figure 15: Organization Size



Source: Service Performance Insight, February 2014

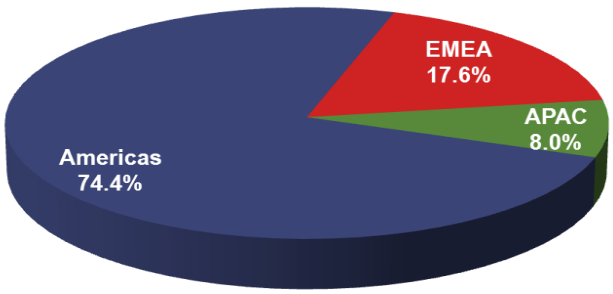
60,000 consultants worldwide making it the most comprehensive study of the Professional Service industry.

SPI Research works to encourage larger organizations to participate, which generally skews the average organization size to somewhat larger than is found industry-wide, but it is critical that larger organizations are represented to ensure professional services organizations of all sizes can compare and contrast attributes by organization size, with sufficient statistical accuracy.

Headquarters Location

Service Performance Insight encourages professional service organizations from around the world to participate in the benchmark survey. Survey participation from firms headquartered outside of the ***Americas*** [Europe, Middle East, Africa (***EMEA***) and Asia Pacific (***APac***)] is over 25% and growing (Figure 16).

Figure 16: Headquarters Location – Region



Source: Service Performance Insight, February 2014

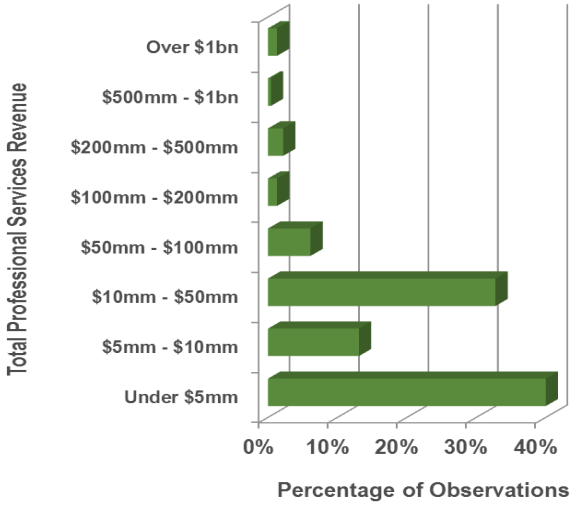
Regardless of the headquarters location, many employees are located outside of North America. Interest in the Professional Services Maturity™ benchmark comes from around the world, and SPI Research has begun partnering with organizations globally to increase its reach and use.

Total Professional Services Revenue

Figure 17 shows the majority of firms surveyed have less than $50 million in annual PS revenue. The majority of the organizations also have less than 100 employees. The total professional services revenue ($49.0mm) is higher than in last year's survey ($42.6mm).

Independent service providers averaged $50.0mm in PS revenues compared to $46.4mm for embedded service organizations. Organizations from the Americas had the highest ($52.8mm) total professional services revenue in the survey, while those from APac had the lowest ($11.4mm).

Figure 17: Total Professional Services Revenue



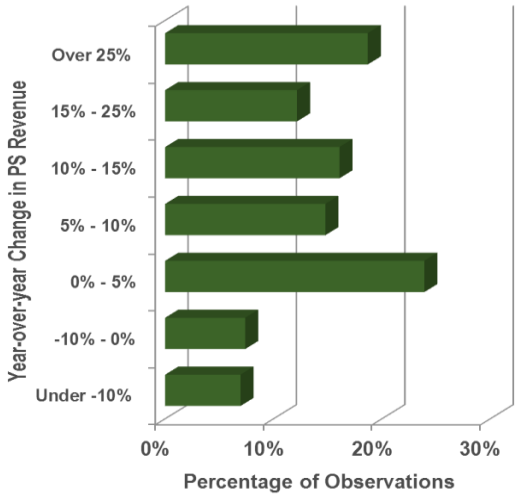
Source: Service Performance Insight, February 2014

Year-over-Year change in PS Revenue

PS sector growth slowed substantially in 2013 yet 18.7% of the organizations surveyed reported growth rates of over 25%. Ominously, 38.3% (88 firms) of the participants reported less than 5% to negative year-over-year PS revenue growth. This trend is extremely serious as PS profitability and productivity is directly linked to revenue growth.

The average PS sector revenue growth rate in 2013 was 10%, nearly 15% lower than 2012 (on a relative basis), it was still much higher than 2009 and 2010. The professional services market can absorb growth rates of 5% to 10% through efficiency gains and better management of external subcontractors without significant increases in hiring. However, when growth rates rise above 10%, professional services organizations must add full-time employees.

Figure 18: Year-over-Year Change in PS Revenue



Source: Service Performance Insight, February 2014

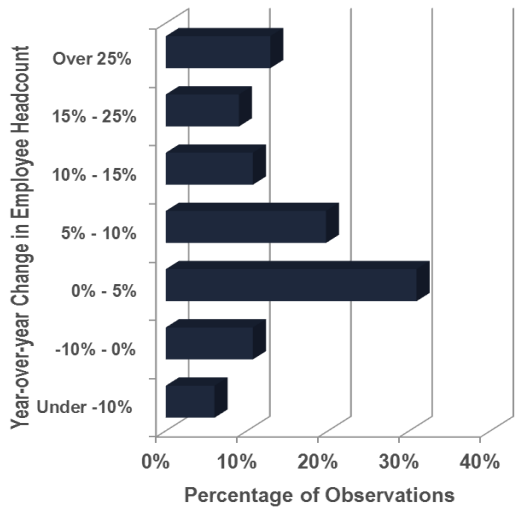
Year-over-Year change in PS Headcount

Just when SPI Research thought the global economy was out of the woods, in 2013 a substantial number of firms (39 firms) reported flat to negative PS headcount growth. Figure 19 shows 16.7% of the organizations reported flat or negative headcount growth. 21.9% (51 firms) of the organizations grew headcount by more than 15%. Professional service organizations grew revenue at a rate of 10% in 2013 but average headcount growth was only 7.5%.

Each year SPI Research has seen revenue growth exceed headcount growth, meaning PSOs continue to ratchet up productivity. At some point incremental productivity improvements will not be possible but these figures demonstrate just how flexible PSOs are.

Independents reported higher headcount growth (7.9%) than embedded (6.5%). By geography, the Americas grew headcount 8.3%; EMEA 5.1% and APac 5.4%.

Figure 19: Year-over-Year Change in PS Headcount



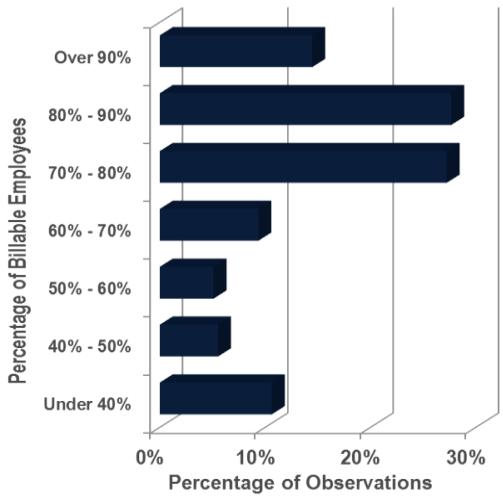
Source: Service Performance Insight, February 2014

% of Employees Billable or Chargeable

Figure 20 shows most professional services organizations have at least 70% of their employees billable, meaning the costs associated with non-billable employees is less than 30%. This metric is important as excessive non-billable headcount places a burden on billable employees to work harder and charge more to achieve profitability goals

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 developing infrastructure, systems and tools which support growth, consistency and quality.

Figure 20: Percentage of Employees Billable/Chargeable



Source: Service Performance Insight, February 2014

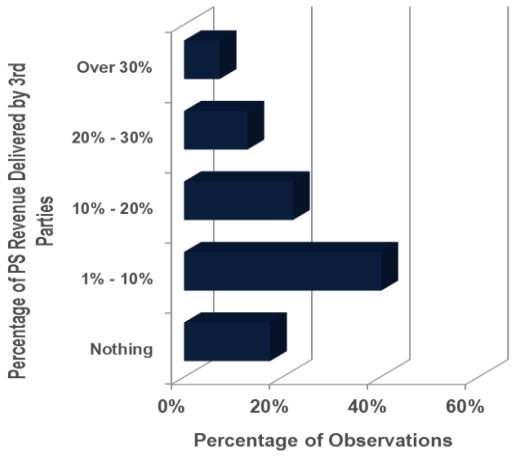
Independent service providers reported 71.6% billable employees compared to 70.1% for embedded. Organizations from North America had the highest (73.5%) percentage of billable employees, while those from EMEA had the lowest (62.5%).

% of PS revenue delivered by 3rd-parties

Figure 21 shows the majority of organizations derived between 1% and 10% of total revenue from subcontractors, which has been consistent for the past six years. As growth rates exceed 10% PSOs begin to hire more, however, utilizing third-party contractors continues to be a good way to manage the volatility in service demand.

The percentage of PS revenue delivered by 3rd-parties (11.4%) is almost the same as 2012 (11.1%). This statistic shows more and more qualified consultants are choosing full-time employment over the more mercenary highs and lows of operating as an independent consultant.

Figure 21: Percentage of PS Revenue Delivered by 3rd-parties

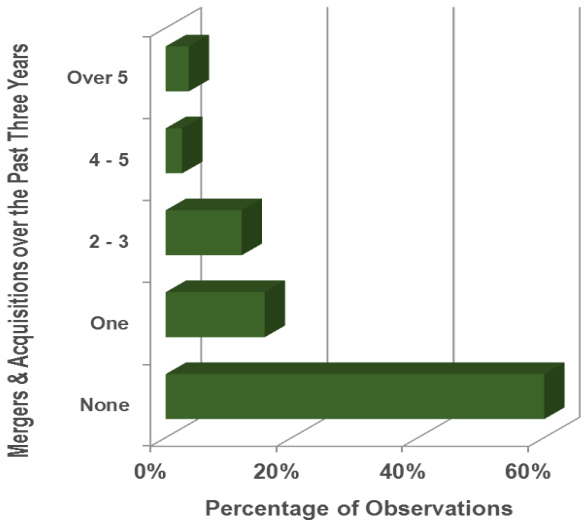


Source: Service Performance Insight, February 2014

Mergers and Acquisitions over the Past Three Years

For the first time, SPI Research asked "How many mergers and acquisitions has your organization been involved in over the past three years?" The vast majority of firms – both embedded and independent have not been involved in either a merger or acquisition.

Figure 22: Mergers & Acquisitions over the Past Three Years



Source: Service Performance Insight, February 2014

But the embedded PS firms reported on average, they had been involved in 1.5 mergers while the independents reported 0.54 (Figure 22). The organizations most likely to have experienced M&A activity are the largest embedded PSOs – those with over 300 consultants reported involvement with more than three acquisitions. By geography, the most acquisitive was APac with at least one acquisition; closely followed by the Americas which reported 0.88 while EMEA reported 0.50. By vertical, staffing experienced the most M&A activity as vendor service agreements have eroded staffing margins causing many firms to consider acquisitions to increase their economies of scale.

4. PROFESSIONAL SERVICES BUSINESS APPLICATIONS

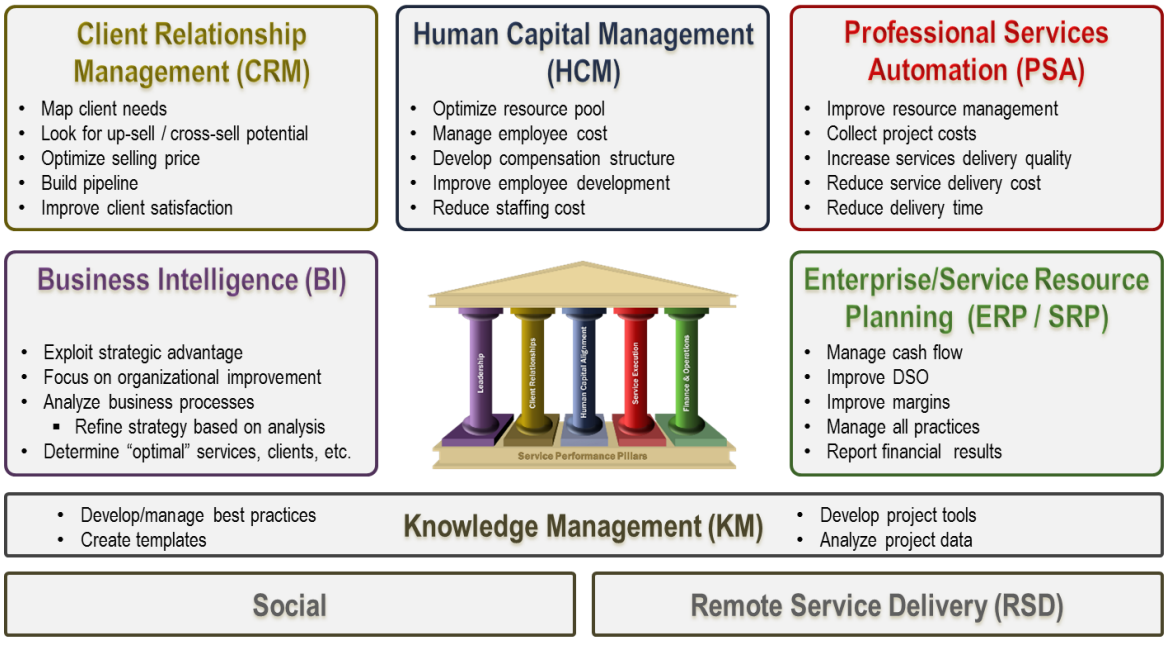
Rapid growth and change in the Professional Services (PS) industry demands a comprehensive information infrastructure. SPI Research's seven years of benchmarking has shown increasing adoption of business solutions and other analytic and collaboration tools to improve operations, effectiveness and cash flow. Recently, a greater emphasis has been placed on "social," enabling workers to communicate, collaborate and build their own personal brand and communities within the information infrastructure. The continuing adoption of cloud-based solutions has enabled both small and large PSOs to increase their use and adoption of these solutions.

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. It is not an overall application adoption survey. The solutions highlighted in this chapter help PSOs optimize operational effectiveness through increased visibility, streamlined business processes and cost management.

Primary Professional Services Business Applications

Professional Service software providers segment their products into a variety of core application modules that emphasize the management of costs, clients and resources. The most commonly used applications are shown in Figure 23.

Figure 23: Core Professional Services Business Applications



Source: Service Performance Insight, February 2014

Table 12 compares PS solution adoption across the main applications used by PSOs. Enterprise Resource Planning (ERP) will always be the most utilized solution in professional services. The reason SPI Research does not see 100% adoption is that some firms still manage the business with spreadsheets. Embedded PSOs may not have reported a core ERP solution for PS in their division. However, there was a corporate ERP solution that the business is run on. Again, this benchmark is not intended to be a market adoption survey.

Table 12: Commercial Solution Adoption

Solution	2012	2013
Enterprise Resource Planning (ERP)	86.3%	89.5%
Client Relationship Management (CRM)	85.7%	88.5%
Social Media (SM)	80.1%	87.9%
Remote Service Delivery (RSD)	82.7%	82.0%
Professional Services Automation (PSA)	73.5%	73.4%
Knowledge Management (KM)	54.4%	56.5%
Human Capital Management (HCM)	48.2%	42.6%
Business Intelligence (BI)	29.7%	33.7%

Source: Service Performance Insight, February 2014

In general, this year's survey shows increased adoption of professional services solutions. Human Capital Management (HCM) and Business Intelligence (BI) solutions continue to lag core business application adoption; they are more prominent in larger organizations. Social media and other collaboration tools continue to increase in usage in professional services, as PSOs use them to attract potential employees and to build individual and corporate brands.

Cloud solutions have had a tremendously positive impact on the PS industry. Many smaller PSOs have begun to use cloud-based professional services business applications, and cloud solution growth in larger organizations continues to excel. Software vendors have reported to SPI Research their cloud solution sales are more than double their on premise sales.

Table 13 compares business solution adoption and satisfaction along with the level of ERP integration. The level of solution adoption is generally higher within embedded PS organizations. APAC solution adoption significantly lags use in the Americas and EMEA in all areas except knowledge management.

Table 13: Business Application Use by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2013	ESO	PSO	Americas	EMEA	APac
Commercial ERP solution used	88.9%	87.9%	89.5%	90.4%	91.3%	63.6%
Satisfaction with ERP solution	3.74	3.65	3.79	3.71	4.11	3.29
Commercial CRM solution	88.5%	92.5%	86.3%	90.4%	91.3%	54.5%
Satisfaction with CRM solution	4.04	4.21	3.95	4.05	4.21	3.50
CRM is integrated	34.1%	52.4%	22.3%	33.6%	34.4%	41.7%
Commercial PSA (or Proj. Mgmt.) sol.	77.6%	80.6%	76.0%	77.7%	83.3%	63.6%
Satisfaction with PSA solution	3.85	3.67	3.96	3.92	3.53	3.43
PSA is integrated	61.2%	71.4%	55.4%	60.9%	53.6%	83.3%

Key Performance Indicator (KPI)	2013	ESO	PSO	Americas	EMEA	APac
Commercial HCM solution	42.6%	48.4%	39.5%	45.3%	40.9%	9.1%
Satisfaction with HCM solution	3.55	3.47	3.60	3.53	3.44	4.50
HCM is integrated	37.7%	50.0%	29.6%	36.7%	50.0%	25.0%
Commercial BI solution	33.7%	40.6%	30.0%	34.0%	34.8%	27.3%
Satisfaction with BI solution	3.65	3.55	3.71	3.67	3.50	3.50
BI is integrated	65.7%	59.4%	71.1%	61.5%	80.0%	75.0%
Commercial KM solution	56.5%	64.2%	52.1%	57.2%	42.9%	72.7%
Satisfaction with KM solution	3.56	3.66	3.49	3.50	4.17	3.63
Comm. Remote service delivery tool	82.0%	83.8%	81.0%	86.5%	54.5%	72.7%
Satisfaction with RSD solution	4.05	4.21	3.95	4.09	3.90	3.63
Commercial Social networking tool	87.9%	83.3%	90.3%	87.0%	88.0%	100.0%
Satisfaction with social networking tool	3.91	3.97	3.89	3.94	4.00	3.44
CRM / PSA integration	30.7%	34.6%	28.7%	31.4%	30.4%	22.7%

Source: Service Performance Insight, February 2014

The table shows much lower adoption of solutions in the Asia-Pacific region, compared to the Americas and EMEA, which should be expected. CRM is used more in embedded service organizations than in independents (PSOs), but that is to be expected because embedded service organizations (ESOs) tend to be larger and have a strong product-oriented sales force who is responsible for bringing services into deals.

As one might expect, Table 14 shows greater solution adoption as organizations grow in size. And for the most part, greater solution integration with core financials also increases as organizations grow. Even with most solutions being offered in the cloud, the smallest organizations will always lag in their adoption rates. But SPI Research has seen adoption increase in the smaller organizations over the past few years.

Table 14: Business Application Use by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Commercial ERP solution used	91.7%	84.4%	87.9%	92.7%	86.7%	100.0%
Satisfaction with ERP solution	3.91	3.97	3.68	3.76	3.50	3.14
Commercial CRM solution	75.0%	82.6%	89.4%	95.1%	100.0%	85.7%
Satisfaction with CRM solution	3.60	4.28	3.98	3.95	4.36	4.00
CRM is integrated	27.5%	40.3%	30.4%	35.7%	45.5%	17.5%
Commercial PSA (or Proj. Mgmt.) sol.	58.3%	76.1%	84.8%	73.8%	73.3%	85.7%
Satisfaction with PSA solution	4.38	3.79	4.00	3.74	3.77	3.00
PSA is integrated	42.9%	48.0%	58.3%	77.8%	72.2%	60.0%

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Commercial HCM solution	0.0%	26.7%	41.5%	51.4%	71.4%	85.7%
Satisfaction with HCM solution	N/A	3.40	3.67	3.61	3.45	3.50
HCM is integrated	N/A	21.4%	25.0%	50.0%	50.0%	40.0%
Commercial BI solution	25.0%	20.0%	25.0%	46.2%	64.3%	66.7%
Satisfaction with BI solution	2.67	4.09	3.36	3.73	3.90	3.33
BI is integrated	50.0%	90.0%	57.1%	60.7%	58.3%	100.0%
Commercial KM solution	36.4%	48.9%	52.4%	65.0%	78.6%	57.1%
Satisfaction with KM solution	4.25	3.68	3.30	3.64	3.22	4.00
Comm. Remote service delivery tool	72.7%	71.1%	81.3%	88.1%	93.3%	100.0%
Satisfaction with RSD solution	4.50	4.17	3.96	3.97	4.00	4.00
Commercial Social networking tool	92.3%	84.4%	89.2%	92.7%	78.6%	71.4%
Satisfaction with social networking tool	4.10	3.76	3.83	4.13	4.13	3.80
CRM / PSA integration	22.7%	28.9%	33.8%	32.5%	36.7%	14.3%

Source: Service Performance Insight, February 2014

Table 15 shows embedded services organizations having somewhat higher adoption rates than independents. Generally, these organizations are part of a larger product organization, and therefore larger organizations depend more heavily on business applications to improve performance.

Table 15: Business Application Use by Vertical Service Market

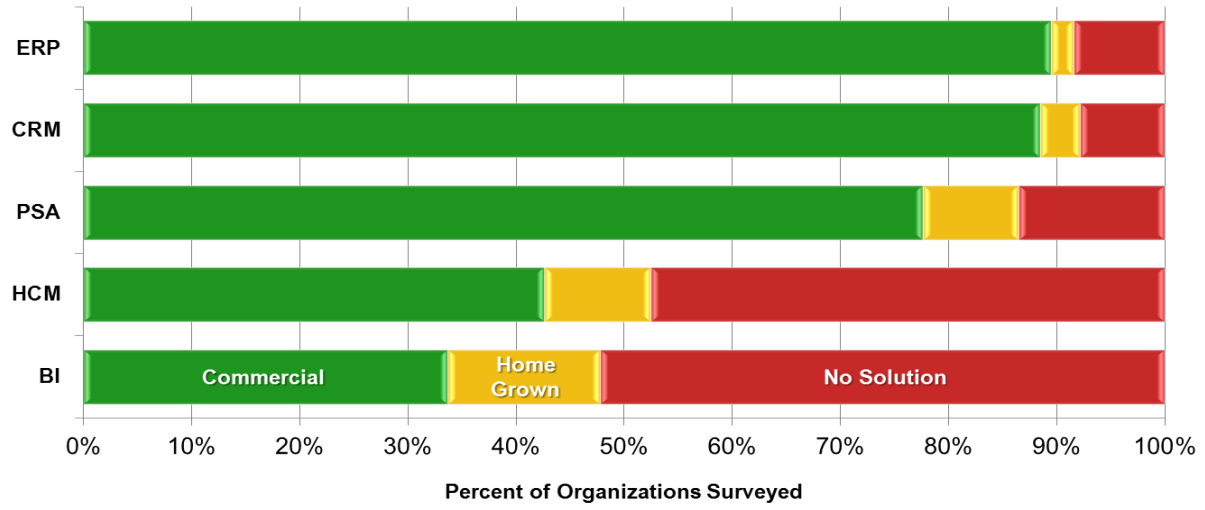
Key Performance Indicator (KPI)	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.
Commercial ERP solution used	88.6%	86.7%	100.0%	88.9%	82.6%	100.0%	100.0%
Satisfaction with ERP solution	3.65	3.62	4.00	3.81	3.75	3.50	3.67
Commercial CRM solution	95.6%	86.7%	75.0%	93.1%	78.3%	66.7%	50.0%
Satisfaction with CRM solution	4.43	3.69	3.67	4.12	3.87	3.33	4.00
CRM is integrated	51.9%	60.0%	50.0%	29.2%	0.0%	16.7%	20.0%
Commercial PSA (or PM) sol.	86.4%	66.7%	75.0%	69.9%	87.0%	83.3%	83.3%
Satisfaction with PSA solution	3.58	3.90	4.00	4.17	3.94	3.75	4.00
PSA is integrated	71.0%	71.4%	100.0%	69.0%	20.8%	37.5%	90.0%
Commercial HCM solution	48.8%	26.7%	75.0%	46.4%	40.9%	33.3%	16.7%
Satisfaction with HCM solution	3.33	4.00	3.50	3.71	3.50	3.00	4.00
HCM is integrated	41.7%	83.3%	50.0%	41.2%	6.7%	25.0%	0.0%
Commercial BI solution	45.2%	26.7%	50.0%	37.1%	18.2%	33.3%	16.7%
Satisfaction with BI solution	3.58	3.60	3.67	3.86	2.67	3.00	4.00
BI is integrated	54.5%	75.0%	100.0%	76.7%	#DIV/0!	25.0%	100.0%

Key Performance Indicator (KPI)	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.
Commercial KM solution	72.7%	33.3%	100.0%	56.7%	45.5%	50.0%	33.3%
Satisfaction with KM solution	3.60	3.00	4.67	3.53	3.63	3.50	3.00
Comm. Remote service delivery tool	88.9%	66.7%	100.0%	84.3%	81.8%	100.0%	50.0%
Satisfaction with RSD solution	4.16	4.22	4.50	4.09	3.75	4.00	4.00
Commercial Social networking tool	90.7%	60.0%	100.0%	91.7%	81.8%	83.3%	83.3%
Sat. with social networking tool	4.07	3.83	3.67	4.07	3.43	3.75	3.67
CRM / PSA integration	34.9%	40.0%	37.5%	33.1%	21.7%	10.0%	16.7%

Source: Service Performance Insight, February 2014

Figure 24 compares the adoption of commercial solutions versus home grown, and organizations that still rely on spreadsheets. The figure shows over 10% of the organizations surveyed have no formal ERP solution, meaning they probably use Excel, paper and email to run the business. Many of these are smaller organizations or divisions of product firms who do not use the company's ERP solution.

Figure 24: Commercial Solution Adoption



Source: Service Performance Insight, February 2014

Both embedded and independent professional service organizations require most of the functionality and information of larger PSOs. The service industry's use of technology has typically lagged the manufacturing sector but the global size and complexity of today's service businesses has increased the need for specialized applications and the demand for real-time information. Table 16 shows the various departments within a typical professional services organization (with more than 30 people), and depicts departmental requirements and core business applications.

Table 16: PSO Departments and Information Needs

Department	Core Requirements	Core Applications
Executive & Administrative	Strategic planning, budgeting, management reporting, decision support	Business Intelligence, Budgeting & Planning
Human Resources	Payroll, Benefits, Recruiting, Hiring, Training, Compensation, Performance and Career Management	Human Capital Management
Legal	Patents, law suits, contract management and approvals	Case Management
Finance & Accounting	Financial management, operations, planning, forecasting, budgeting. Time & expense capture, billing, collections.	Financials, Budgeting & Planning, BI
Marketing & Sales	Marketing automation, sales force automation, account, contact and territory management, pricing & proposals.	Client Relationship Management, Project Portfolio Management
Purchasing	Material, equipment and external service procurement.	Procurement
Service Delivery	Estimating, Project Management, Resource management and staffing, Knowledge Management and Collaboration, Quality Management. Web 2.0 social networking tools and web and video conferencing and remote service delivery tools.	Professional Services Automation: (Project Management, Resource Management, Knowledge Management, Collaboration) Remote Service Delivery
Information Technology	Project scheduling, technology evaluation, systems development and implementation	Application Lifecycle Mgmt., Project Portfolio Management
Research & Development	New service development; knowledge sharing; template, tool and methodology development	Knowledge Management, Product Management

Source: Service Performance Insight, February 2014

The following sections analyze the survey findings for each of the core business applications. For a more detailed analysis of business applications used in the Professional Services sector, please refer to SPI Research's 2010 Professional Services Business Application Market Adoption report: http://www.spiresearch.com/spi-research/reports/2010psba.html

Solution Satisfaction

Table 17 shows application satisfaction (1: very dissatisfied to 5: very satisfied) has increased slightly from the 2012 survey. Remote service delivery and collaboration tools continue to offer the highest levels of satisfaction given their cost, ease-of-use and power in terms of helping PSOs deliver more work virtually and support more

Table 17: Solution Satisfaction

Solution	2011	2012	2013
Remote Service Delivery and Collaboration	4.21	4.50	4.05
Client Relationship Management (CRM)	4.09	3.92	4.04
Social Media	N/A	4.02	3.91
Professional Services Automation (PSA)	3.86	3.84	3.85
Enterprise Resource Planning (ERP)	3.80	3.67	3.74
Business Intelligence (BI)	3.80	3.66	3.65
Knowledge Management (KM)	3.65	3.67	3.56
Human Capital Management (HCM)	3.65	3.66	3.55

Source: Service Performance Insight, February 2014

clients simultaneously.

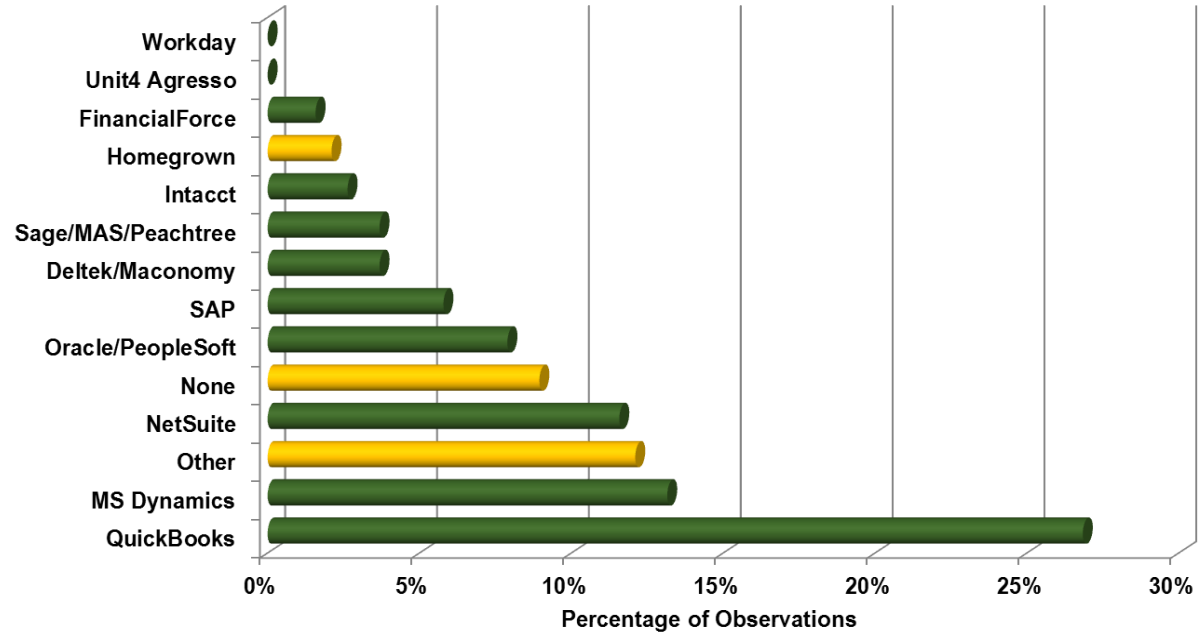
CRM also has a strong showing as PSO executives understand its importance in helping to drive sales and better support clients. Social media took a slight dip in user satisfaction in this year's benchmark, but is still very high. Professional Services Automation (PSA) solutions have stayed relatively consistent in user satisfaction over the past three years.

Financial Management Applications (Enterprise or Service Resource Planning)

Finance and Accounting, (ERP or SRP), is the primary application required to accurately collect, bill and report financial transactions. It collects and manages all financial information (expenses, invoices, etc.) to provide management reporting and visibility into total service cost and profitability.

Figure 25 shows once again QuickBooks from Intuit was the leading financial solution in this year's benchmark at over 25%. Like last year, Microsoft Dynamics was the number two provider in this year's survey, slightly ahead of NetSuite. While this chart (and all of the subsequent charts on solutions) is not meant to be a market penetration survey, it does reflect the leading application providers in the professional services vertical.

Figure 25: Financial Management Solution Used



Source: Service Performance Insight, February 2014

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.

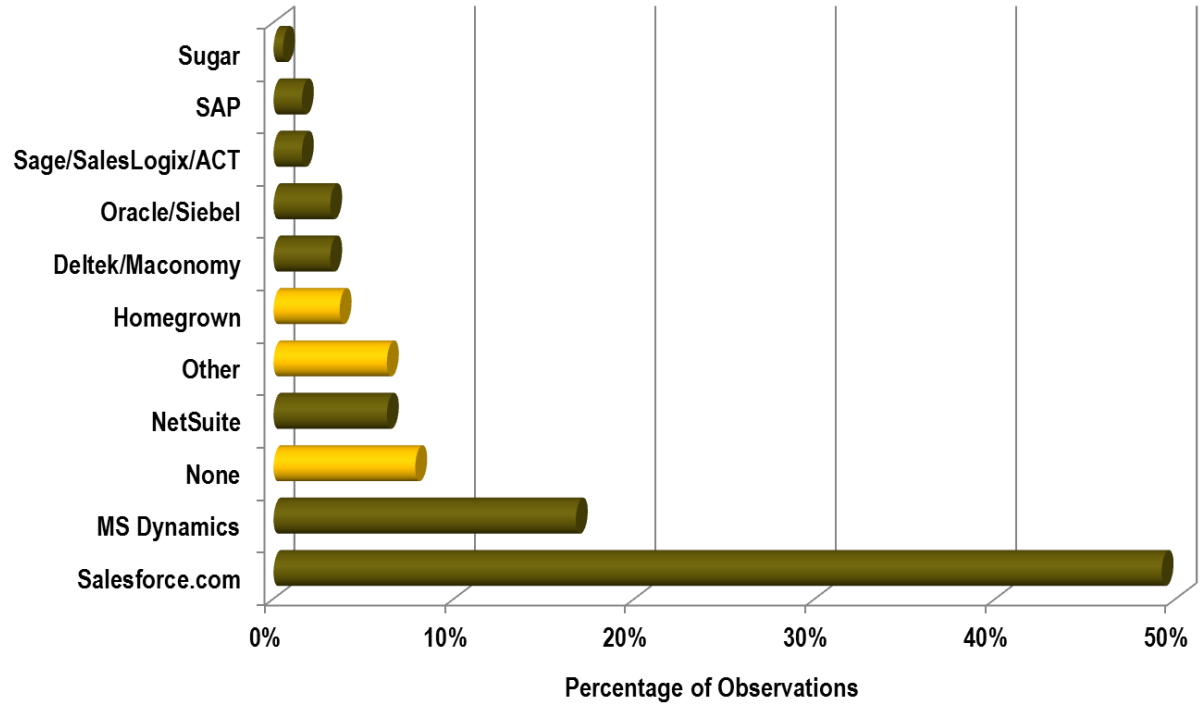
The figure also highlights (in yellow) that a number of firms use either homegrown solutions, other commercial solutions not included on the list, or no official financial solution at all. Generally, some of the smaller firms use Microsoft Excel as their financial management solution. The financial management solution is critical for managing PS finance and accounting, regulatory reporting and profit analysis.

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 forecasting and territory 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 client, geographic and portfolio analysis.

Figure 26 shows Salesforce.com dominance again with penetration into approximately 50% of the organizations surveyed. Microsoft Dynamics CRM, is again number two, and with its cloud offering is growing rapidly in market adoption. NetSuite is the third leading CRM provider in this year's benchmark. Because of the dominance of Salesforce.com, there are very few independent CRM providers found in the benchmark. Most of the others are part of an ERP suite, which tends to support SPI's research that shows approximately 50% of organizations prefer independent solutions, while the other 50% prefer comprehensive integrated solutions provided by the ERP vendors.

Figure 26: Client Relationship Management (CRM) Solution Used



Source: Service Performance Insight, February 2014

Table 18 compares organizations using CRM to those not using it. Less than 10% of the organizations surveyed do not use any type of CRM solution. The table highlights organizations using CRM are on average much smaller than those using it. However, this sample is somewhat biased due to a few large firms that do not use CRM in their professional services organization.

The other key performance indicators in this table should come as no surprise. Firms utilizing CRM generally perform much better than those that do not. CRM is critical in enabling PSOs to market, sell and manage clients. The organizations utilizing CRM can target more and new clients, enabling them to grow revenue at a much higher rate. The table highlights a much larger deal pipeline and significantly higher average revenue per project. Both of these KPI's help drive much higher revenue than

Table 18: Impact – Client Relationship Management (CRM) Use

KPI	CRM Used	CRM Not Used	▲
Survey responses	169	22	
PSO size (employees)	240	438	-45%
Year-over-year change in PS revenue	9.9%	7.6%	30%
New clients	30.7%	29.3%	5%
Deal pipeline relative to qtr. bookings forecast	215%	166%	29%
Average revenue per project (k)	$201	$139	44%
Quarterly revenue target in backlog	48.8%	39.4%	24%
EBITDA	**11.3%**	**10.0%**	**13%**

Source: Service Performance Insight, February 2014

those organizations that do not utilize CRM.

Table 19 further breaks down CRM impact, comparing those organizations not using CRM to those organizations using non-integrated CRM solutions, and comparing them to organizations utilizing CRM integrated to the core financial solution. This table shows slight improvements across a variety of KPIs. While not every key performance indicator shows improvement as CRM is integrated with the core financial solution, integration provides greater visibility from which to make informed decisions regarding clients, segments and services.

Table 19: Impact – Commercial CRM Integration

KPI	CRM Not Used	Used, Not Integrated	Used, Integrated
Survey responses	22	78	49
Year-over-year change in PS revenue	7.6%	10.1%	10.1%
New Clients	29.3%	29.7%	33.4%
Deal pipeline relative to qtr. bookings forecast	166%	232%	219%
Quarterly revenue in backlog	39.4%	49.0%	48.2%
% of annual target margin achieved	86.4%	87.7%	88.7%

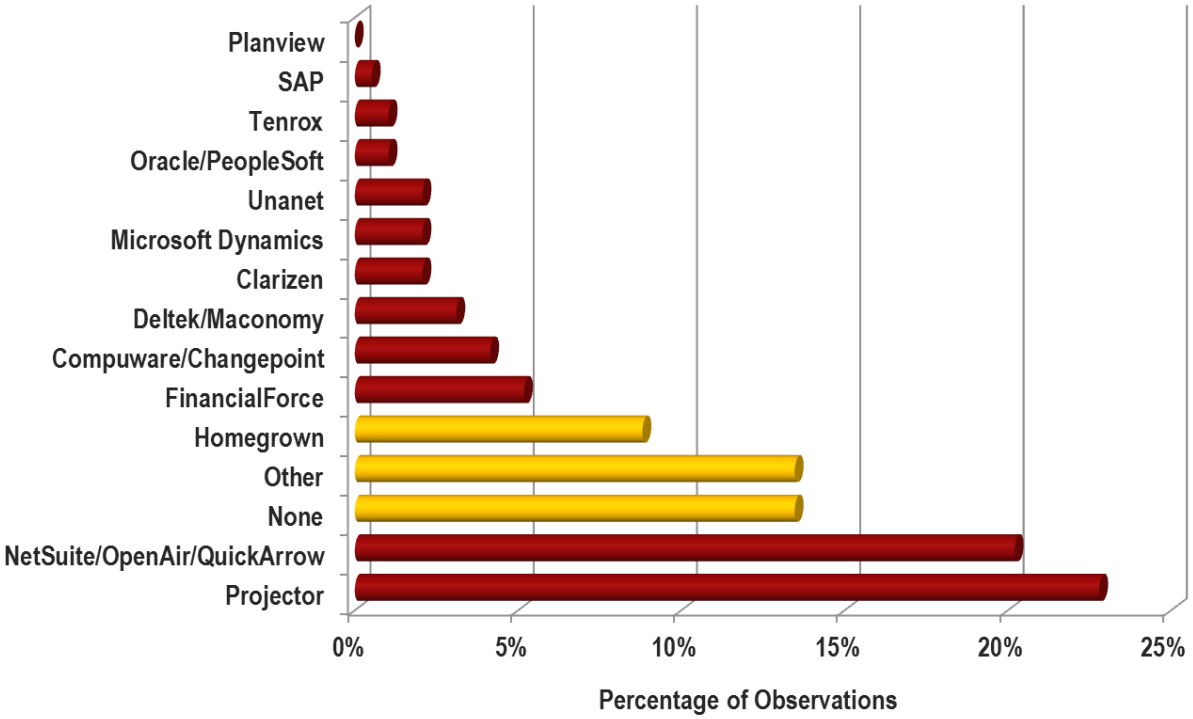
Source: Service Performance Insight, February 2014

Professional Service Automation (PSA)

PSA provides the systems basis for initiation, planning, execution, close and control of projects and service delivery. It helps manage key service execution processes including resource management and staffing, project management and collaboration, along with time and expense capture and billing. As management and control of service execution has become more important, and the applications have matured to become easy to use and implement, PSA solutions have become increasingly popular. Some software vendors use the term "Services Resource Planning (SRP)" to distinguish their solutions from PSA. SRP solutions typically include both CRM and invoicing capabilities, as those are generally handled by the core CRM and ERP modules. Larger PSOs rely more heavily on their core ERP solutions to manage any external transaction which means PSA integration is imperative as billing, collection, expenses and payroll are all managed in the ERP solution.

Figure 27 shows Projector as the most adopted PSA solution in this year's survey with approximately 23% of the survey, closely followed by NetSuite at 20%. While PSA solutions are utilized by a large percentage of professional services organizations, there are still approximately 30% of the organizations that do not utilize PSA, or have created their own home grown solution.

Figure 27: Professional Services Automation (PSA) Solution Used



Source: Service Performance Insight, February 2014

Table 20 compares PSOs using PSA solutions to those that do not. The results in this table speak for themselves. Professional Services Automation solutions drive significant operational performance benefits, which ultimately yield higher revenue and profit for professional services organizations. The use of Professional Services Automation 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. PSA solutions yield a number of core benefits to PSOs, but most executives only need to look to the 5% to 7% increase in billable utilization, as the reason to select PSA. Almost all key metrics improve with PSA adoption. As shown in the table these systems pay for themselves with a 24% improvement in net profit.

Table 20: Impact – Professional Services Automation (PSA) Use

KPI	PSA Used	PSA Not Used	▲
Survey responses	149	43	
PSO size (employees)	275	220	25%
Deal pipeline relative to qtr. book. forecast	214%	193%	11%
Concurrent projects managed by PM	5.37	4.55	18%
Employee billable utilization	72.2%	67.8%	7%
Annual revenue per billable consultant (k)	$216	$192	12%
Annual revenue per employee (k)	$172	$161	7%
EBITDA	**11.6%**	**9.4%**	**24%**

Source: Service Performance Insight, February 2014

Because the delivery of services is where PSOs make their money, and because PSA is the primary application utilized 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 cloud-based solutions now available, PSA can even be used by much smaller organizations.

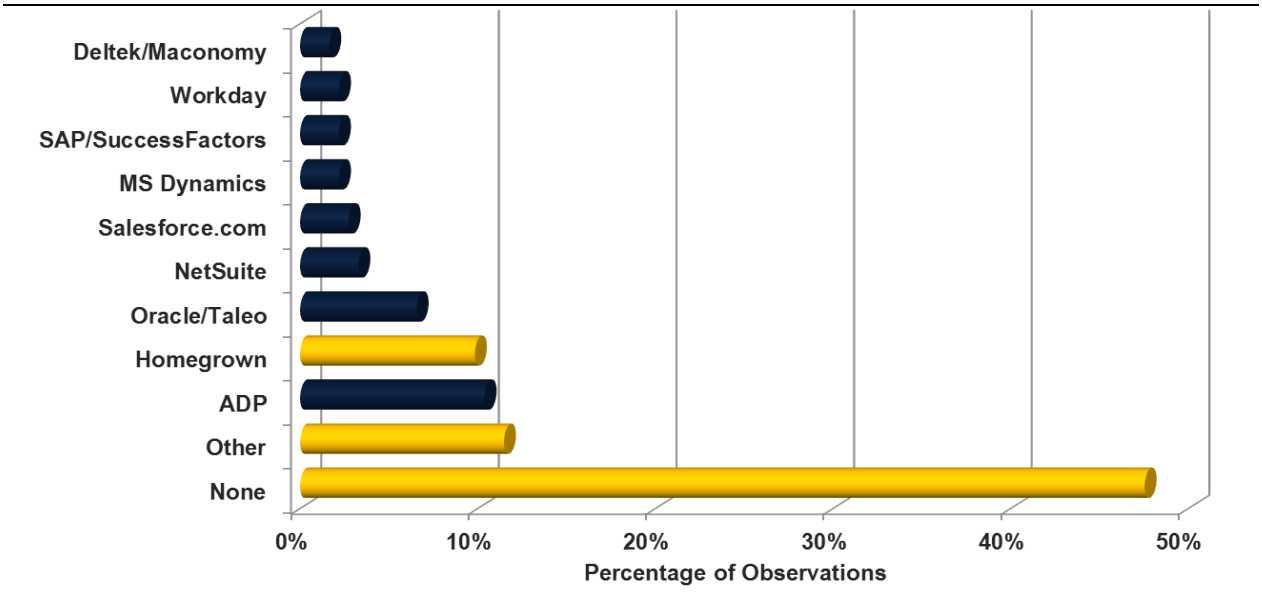
Human Capital Management (HCM)

Human Capital Management (HCM) solutions (also known as talent management solutions) give employers the tools to effectively recruit, manage, 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 employee learning, skills, compensation, performance management, policy compliance, and succession planning — each of which help organizations manage personnel growth and development.

HCM benefits the PSO by maintaining a database of skills, benefits and pay rate information that is used for resource scheduling, recruiting and performance and career management. Effective HCM solutions provide rich applications that allow consultants to manage their own careers and skill development (training) and bid on the projects of greatest interest for them.

Figure 28 shows most professional services organizations do not use HCM solutions. However, their prevalence among the largest PSOs is significant. With new cloud-based solutions coming to market that specifically target the management of human capital, coupled with the need to better manage resources from recruitment and hiring through training and retention, may increase their use significantly in the upcoming years.

Figure 28: Human Capital Management (HCM) Solution Used



Source: Service Performance Insight, February 2014

Most of the solutions found in this benchmark are provided by ERP solution providers, who generally offer some type of integration with other solutions in their suites. The leading provider, ADP, with approximately 10%, and Salesforce.com, are the only solutions in this survey that are not part of a larger suite.

As stated earlier, PSOs that utilize HCM are generally larger in employee headcount. But HCM is not only for large organizations, it is for organizations focused on keeping the best employees, while recruiting new talent. With PSOs struggling to find, hire and retain highly qualified individuals, HCM will only gain in importance.

Table 21 highlights some of the differences between firms utilizing HCM and those not. 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 ultimately results in higher revenue per employee and profitability to the organization.

Table 21: Impact – Human Capital Management (HCM) Use

KPI	HCM Used	HCM Not Used	▲
Survey responses	78	105	78
PSO size (employees)	499	94	430%
Annual revenue growth	11.2%	8.4%	33%
Deal pipeline relative to qtr. book. forecast	224%	199%	12%
Management-to-employee ratio	11.62	9.66	20%
Employee billable utilization	73.3%	69.9%	5%
Annual revenue per employee (k)	$172	$165	4%
EBITDA	**12.6%**	**10.5%**	**21%**

Source: Service Performance Insight, February 2014

HCM solutions provide greater visibility into employee skills, preferences, training and career advancement. They ensure equitable compensation and are an integral component of pay for performance and reward systems and metrics. Talent management is central to PS performance as the skills and attitudes of the consulting workforce provide tangible evidence of consulting value.

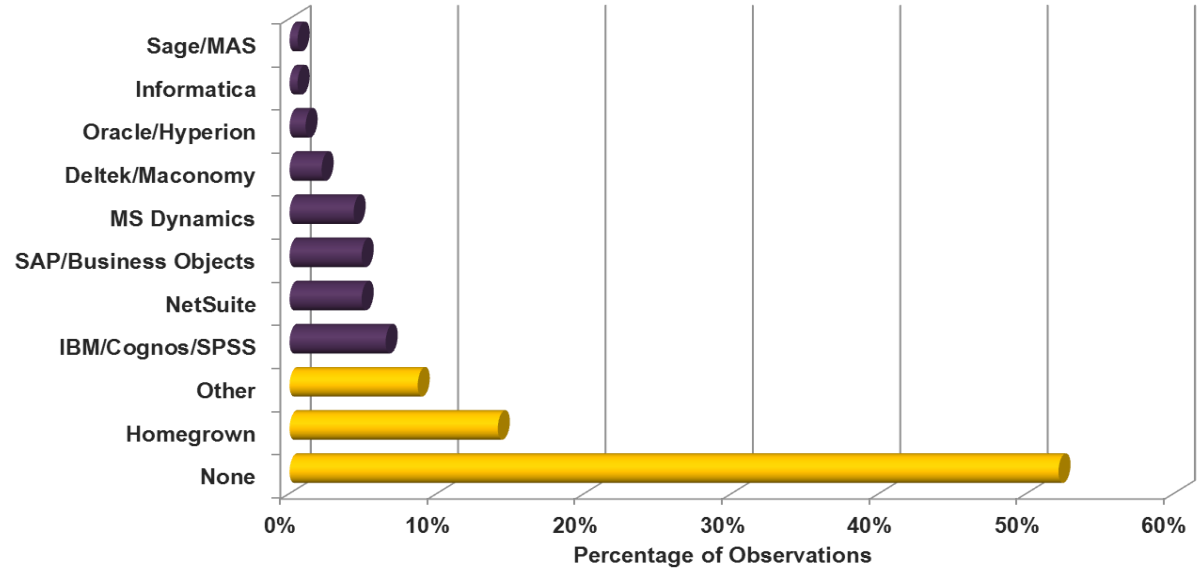
Business Intelligence (BI)

Business Intelligence integrates information from core business applications to improve analysis, demand and capacity planning, budgeting, forecasting and financial planning. BI solutions continue to increase their adoption in PSOs. 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 used in annual planning, as PS executives try to uncover areas where additional growth and profit can be extracted.

Figure 29 shows relatively low adoption levels of Business Intelligence in this year's survey, similar to those in the past. SPI Research has seen increased adoption over the past seven years, but levels are still very low. Most of the leading BI solutions providers have been acquired by larger ERP solution providers over the past few years, and this shift should result in higher BI sales, but only as part of an

integrated suite. As most of the leading providers now offer BI in the cloud, it will become easier for PSOs to deploy.

Figure 29: Business Intelligence (BI) Solution Used



Source: Service Performance Insight, February 2014

Table 22 compares organizations using commercial Business Intelligence solutions to those that do not. Approximately 25% of the organizations surveyed this year use BI. The table shows BI most prevalent in larger PSOs. BI use improves most metrics. .

BI is both a strategic and tactical solution. Many firms do not use it to its fullest potential, because they lack the personnel to optimize its use.

Table 22: Impact – Business Intelligence (BI) Use

KPI	BI Used	BI Not Used	▲
Survey responses	62	122	
PSO size (employees)	447	166	169%
Annual revenue growth	11.7%	8.9%	31%
% of employees billable or chargeable	76.5%	72.3%	6%
Percent of annual revenue target achieved	91.6%	89.3%	3%
Percent of annual margin target achieved	91.4%	86.8%	5%
Revenue per employee (k)	$171	$167	3%
EBITDA	**10.3%**	**11.8%**	**-13%**

Source: Service Performance Insight, February 2014

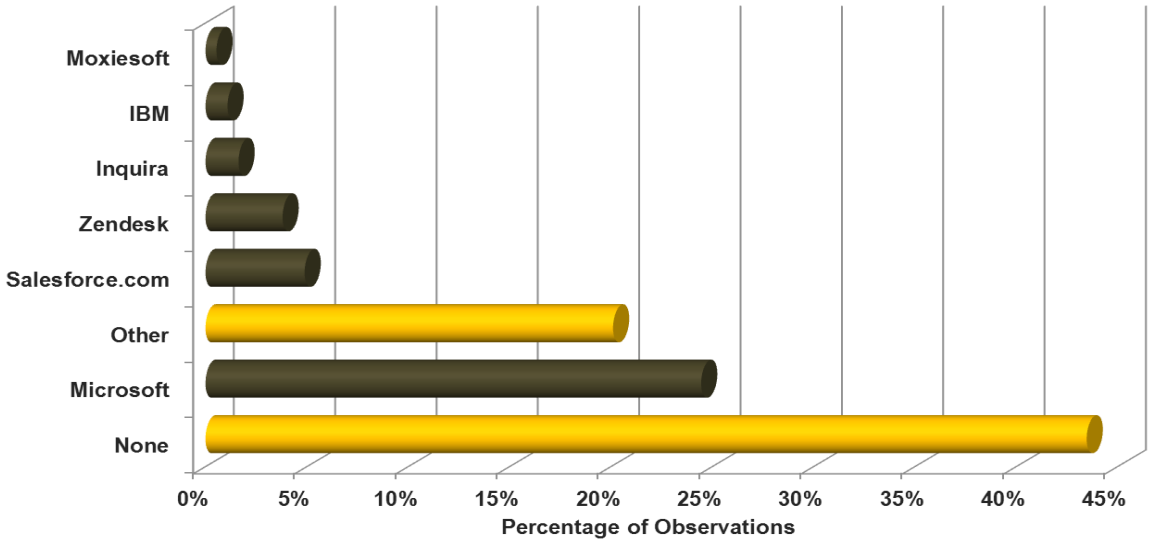
Knowledge Management (KM)

Knowledge Management should be a core application for all PSOs as knowledge, unique intellectual property, methods and tools are the primary source of service provider differentiation. About half of the organizations surveyed reported they do not use a knowledge management application. As the

workforce becomes more global and intellectual property more valuable, it becomes increasingly important to have shared processes, procedures and templates. SPI Research sees Knowledge Management as a key source of differentiation, consistency and quality. With the advent of inexpensive cloud-based knowledge management applications we expect significant investment in this area.

Figure 30 shows once again Microsoft's SharePoint is the market leader with nearly 25% of the market in this survey. SharePoint's dominance has led to a rich after-market for add-ons, which make the product easier to use and more powerful. While these are not official market penetration numbers, they are fairly representative of the market in general. There are a variety of solutions available, SPI Research found Microsoft's SharePoint to be the industry leader by a wide margin. Salesforce.com is the second most prevalent KM application, but has less than 5% of the market. Many service providers are initially investing Salesforce.com take advantage of its collaboration and document management functionality.

Figure 30: Knowledge Management (KM) Solution Used



Source: Service Performance Insight, February 2014

Table 23 compares organizations using knowledge management solutions to those that do not. The organizations using Knowledge Management are roughly three-times the size of those not using it. Knowledge Management solutions are especially important in the sales and delivery of services. The table shows, organizations utilizing KM are more efficient and have greater structure to their delivery processes. The net result is higher

Table 23: Impact – Knowledge Management (KM) Use

KPI	KM Used	KM Not Used	▲
Survey responses	104	80	
PSO size (employees)	377	126	200%
Deal pipeline relative to qtr. bookings forecast	227%	190%	19%
On-time project delivery	79.3%	73.6%	8%
Standardized project delivery is used	69.8%	63.1%	11%
Annual revenue per employee (k)	$175	$161	8%
Average revenue per project (k)	$224	$153	46%

Source: Service Performance Insight, February 2014

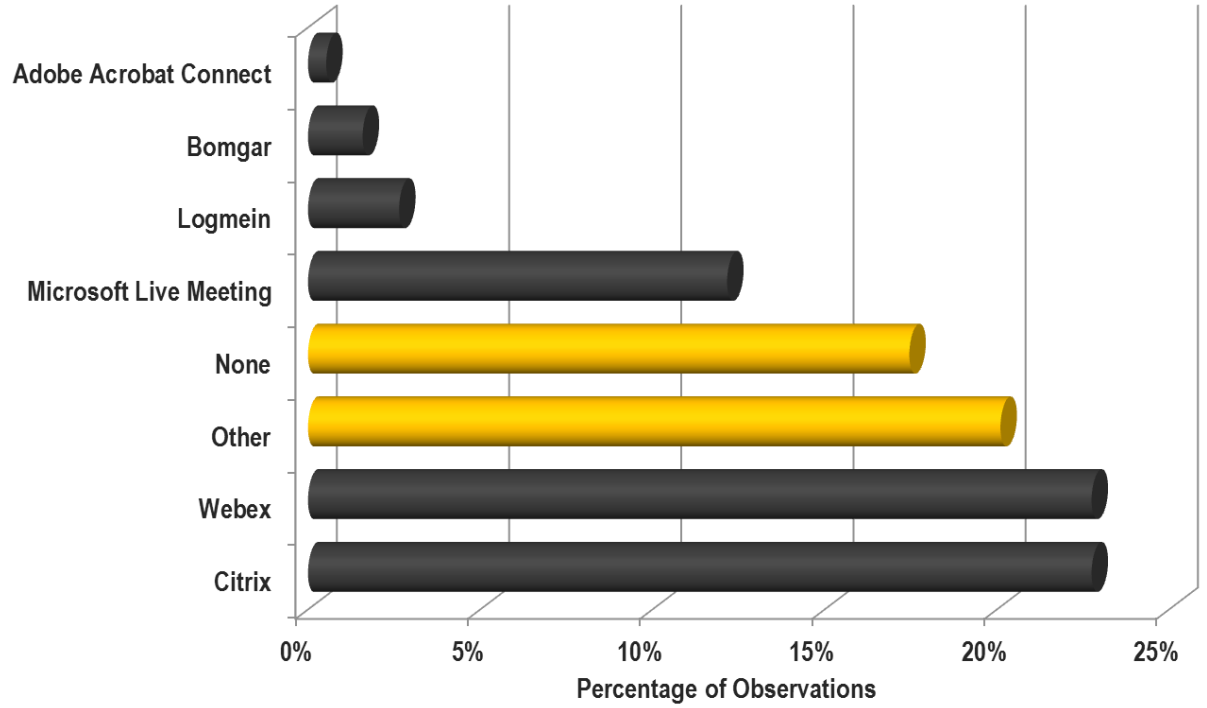
financial results to the organization.

Remote Service Delivery (RSD) and Collaboration Tools

Like Knowledge Management (KM), Remote Service Delivery and collaboration tools have become increasingly important for virtual project delivery and collaboration. They provide a platform for individuals and clients to work together, regardless of physical location. Professional services consultants utilize these technologies to serve several clients on a daily basis, whereas in the past they could only serve one, with expensive and time-consuming travel the norm. Advances over the past years have added video, recording, editing and white-boarding functionality, meaning team members can now see each other (if desired) along with sharing information and computer screens.

Figure 31 shows results similar to most years of the benchmark. WebEx, Citrix and Microsoft lead in adoption. Microsoft, in particular, has purchased and integrated tools to make live meetings more prevalent in professional services. Given their relatively low cost and ease of deployment, remote service delivery tools should be used in most professional services organizations.

Figure 31: Remote Service Delivery and Collaboration Tool Used



Source: Service Performance Insight, February 2014

Social Media

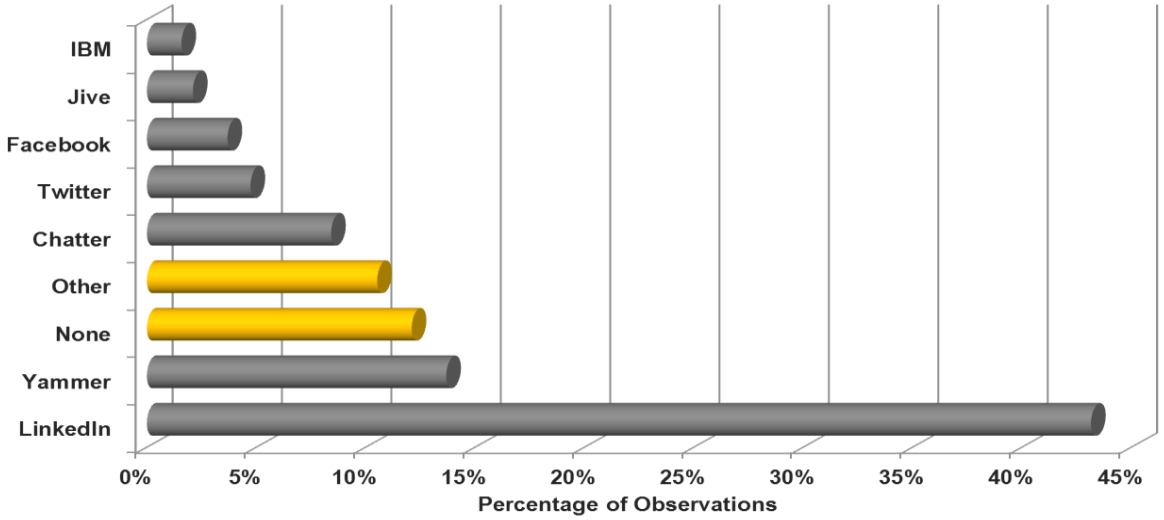
In last year's benchmark, SPI Research included social media as part of its application analysis. These tools are being relied on, now more than ever, as organizations work both internally and externally to find, hire the best people. Social media also helps professional services organizations build their brand

through thought leadership and market outreach. They have become especially popular in larger organizations that wish to get their message out and can do so in a relatively inexpensive way.

Last year SPI Research stated that it expects over the next 3 to 5 years social media will take on even greater importance in the professional services market. Most PS projects are collaborative and social so including broadcast updates and status alerts has become an attractive alternative for keeping all informed. Not only will organizations further utilize this technology, but so will individual consultants regardless of whether the platform has been approved as a corporate standard or not. Even the most controlling organizations must recognize and support the trend toward personal devices and social media if they wish to attract and retain young, connected workers. The downside of the social media explosion is that it can easily become a time-sink and source of unproductive web-surfing hours so the trick is to exploit collaboration, knowledge-sharing and crowd-sourcing without lost productive time.

Figure 32 shows LinkedIn is the dominant social media platform, with over 40% of the organizations surveyed using it. Yammer has moved into the second position in adoption, and is rising fast.

Figure 32: Social Media (SM) Solution Used



Source: Service Performance Insight, February 2014

Application Integration

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

Table 24 shows a higher level of integration than in last year's benchmark. SPI Research believes complete integration between CRM, PSA and core financials is an essential ingredient in superlative performance. Integration provides visibility to all parts of the organization and reduces 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. The two main solutions, CRM and PSA, show significantly higher levels of integration this year. Many firms that have worked with SPI Research over the past several years have concentrated on application integration as they have learned its benefits and worked with their vendors to ensure the integration happens.

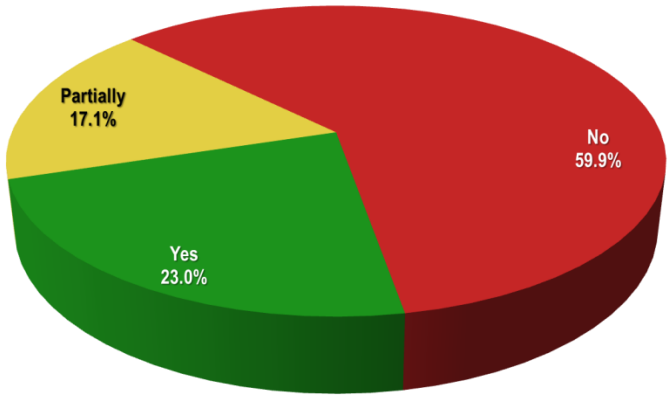
Table 24: Integration with Core Financials

Solution	2011	2012	2013
Client Relationship Management (CRM)	34.1%	25.4%	34.1%
Professional Services Automation (PSA)	51.1%	46.4%	61.2%
Business Intelligence (BI)	55.5%	52.9%	65.7%
Human Capital Management (HCM)	43.4%	31.0%	37.7%

Source: Service Performance Insight, February 2014

For the third year, participants were asked if CRM and PSA were directly integrated, highlighting the importance of connecting sales and service delivery for a more complete view of clients (Figure 33). This year's survey showed once again only 23% of the PSOs surveyed integrated CRM with PSA. Not surprisingly, the organizations without this integration reported lower performance than those who partially or fully integrate CRM and PSA. Obviously, cost and complexity comes into play when the solutions are developed by different providers. Typically, application suites, such as Deltek, FinancialForce.com, Microsoft, NetSuite and SAP offer out-of-the-box integration between their core business solutions making a 360-degree view of clients and projects possible.

Figure 33: Is CRM Integrated with PSA?

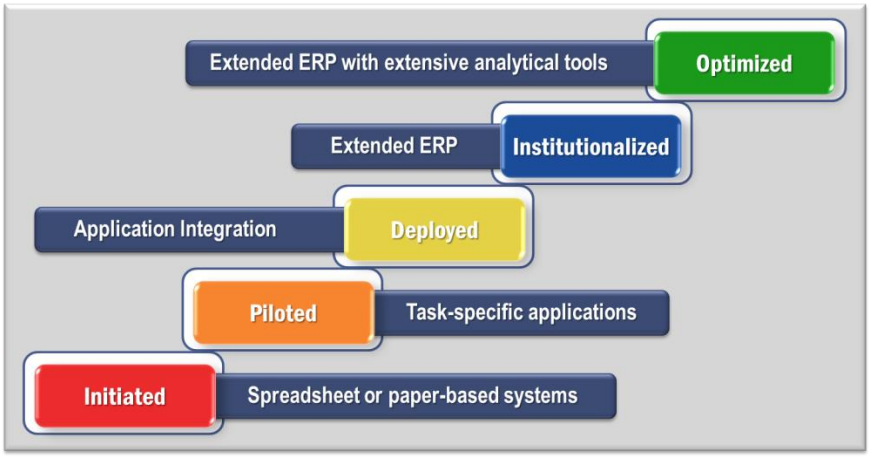


Source: Service Performance Insight, February 2014

The Professional Service IT Maturity™ Model

While every PSO uses technology somewhat differently — with different applications and varying levels of integration — SPI Research believes one of the best ways to improve organizational performance is to deploy integrated applications to provide a 360 degree view of clients and projects to facilitate decision-making. Figure 34 highlights the PS IT Maturity™ Model.

Figure 34: Professional Service IT Maturity™ Level



Source: Service Performance Insight, February 2014

As PSOs move from "manual" solutions (spreadsheet or paper-based) toward integrated and single user-interface solutions, performance improves. The following section provides insight into SPI Research's PS IT Maturity™ Model levels.

- **Level 1: Initiated** – ***Ad Hoc***: Most PSOs begin with manual or spreadsheet-based tools to run the business. Time and expense capture is manual, sporadic and ad hoc. Billing is performed manually or through the backend financial application.
- **Level 2: Piloted** – ***Application Specific***: As they grow and engage in more structured processes, organizations deploy task specific applications (time and expense), project management (PM) and Knowledge Management (KM), Client Relationship Management (CRM), etc. to better manage work and to create an audit trail, albeit rudimentary, for tracking work. Many of these task specific applications provide a database to improve reporting.
- **Level 3: Deployed** – ***Integrated Applications***: As organizations mature they deploy greater integration of business applications with the core financials (Enterprise Resource Planning (ERP)) solution. At this Level they begin to evaluate the time and cost factors associated with integration of various point releases. Emphasis at this level is on creating effective management reports to provide visibility into all facets of the business.
- **Level 4: Institutionalized** – ***Extended ERP***: An increasing number of PSOs at this level of maturity begin to add various components of ERP applications rather than continually integrate disparate applications. SPI Research uses the term extended ERP or SRP (Service Resource Planning). Now professional services organizations are purchasing both core financials as well as other pre-integrated application suites from the same ERP solution provider. Currently CRM is the most popular application that is purchased pre-integrated with financials, closely followed by Professional Services Automation (PSA). Other applications that are being acquired from the same ERP vendor include human capital management, business intelligence, and procurement.

- **Level 5: Optimized – *Extended ERP and Analytics***: Finally, as the PSO has significant integration in its application infrastructure it turns the solution loose to efficiently surface and report data to optimally measure and transform the organization. Most, if not all, core applications are integrated to provide visibility into the work being sold, executed, and closed.

While not every PSO is run with a completely integrated set of business applications, SPI Research has seen the level of integration increase significantly over the past five years. This development will continue regardless of the economy as many PS firms see IT as a way to not only cut costs, but also as a means to improve operational efficiency and effectiveness.

5. LEADERSHIP PILLAR

It's nearly impossible to read about leadership and come to the conclusion that leadership does not matter. Most of us already acknowledge leadership's importance, but few studies have been able to quantify its benefit. This study does just that. Service Performance Insight has developed a Leadership index that focuses on the most important aspects of leadership to measure its impact. SPI Research believes readers will be as astounded as we were to discover that great or poor leadership permeates every facet of PSO performance.

In the 2013 PS Maturity™ survey, SPI Research 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 dictate the goals and objectives for the organization, the types of clients to pursue, the types of services to offer and the interrelationship between functions.

Table 25: The Leadership Maturity Model

	Phase 1 Initiated	Phase 2 Piloted	Phase 3 Deployed	Phase 4 Institutionalized	Phase 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 and 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: Service Performance Insight, February 2014

Great service leaders must wear many hats simultaneously. They manage and inspire the human side of the business — developing a vision, walking the talk and building a great team. They are constantly on

the lookout to find ways to improve execution by streamlining the business, while searching for new avenues for growth. They have an innate sense of what tomorrow's business should be, and steer their organization into a position to prosper even more in the future. Based on Best-of-the-Best firm interviews, the leading firms are captained by strong, visionary, hands-on leaders who play to win. A consistent theme from the Best-of-the-Best firms is their demand for excellence – they are driven to be the absolute best, most respected and preferred service provider in their space. These firms are built from the ground-up to be focused and specialized with zero tolerance for mediocrity.

Symptoms of Leadership Issues

Service Performance Insight's experience has shown that when things go wrong, it most often starts at the top and then cascades downward throughout the organization, ultimately showing up in lackluster 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 and marketing execution.
- ***Murky service charter*** – particularly a problem for embedded PSOs – with conflict between driving financial PS revenue and margin versus helping the overall company achieve its objectives of market expansion and client delight.
- ***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?
- ***Skills imbalance*** – the logical extension of organizational silos… where all parties are not aligned … not selling what we can deliver or not being able to deliver what has been sold. Not enough or too many people with the right skills, excessive non-billable headcount, sub-par utilization, difficulty in recruiting, ramping, retaining and inability to quickly, easily staff projects.
- ***Immature processes*** – disparate or poor systems and tools. Inconsistent project methods; lack of tools and intellectual property leading to low repeatability and inability to drive efficiency and reuse.
- ***Poor quality and customer satisfaction*** – Failed projects, cost overruns, difficulty securing references. No quality review processes and/or poor project visibility into budget to actuals.
- ***Poor financial performance*** – Revenue and margin below targets, poor forecasting accuracy, unpredictability and high levels of risk.

Based on more than 30 years of facilitating meaningful and lasting change, SPI Research has found the most common reasons for these issues include:

- The leadership team's inability to effectively confront the reality of the current business environment with a realistic fact base and competitive benchmarks.
- Focused on too many — sometimes competing and overlapping — priorities.

- Δ Lack of alignment across all parts of the organization around a core set of measurable improvement initiatives.
- Δ Inability to rapidly engage the full organization in translating improvement plans into operational tactics and job-level objectives.
- Δ No follow-through to accelerate the learning and performing cycle while creating committed leaders at all levels of the organization.

Does Leadership Matter?

SPI Research asks a series of questions related to key aspects of leadership. 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: not well - 5: very well)":

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

SPI Research has created a "***Leadership Index***" by ranking the aggregate leadership scores for all eight questions by survey participant. The minimum score for the leadership index would be eight, if the survey participant stated "1 - not well" for each of the eight questions. The maximum would be 40, if the participant stated "5 - very well", for each question.

Table 26 depicts the percentage of survey respondents by overall leadership index rating compared to key operational measurements. As shown in the table, effective leadership has a powerful impact on all aspects of performance. More than any other factor, good, or poor leadership impacts all facets of the business delivering higher profits, larger pipelines and more revenue per employee.

Table 26: The Leadership Index

Leadership Score	Survey	EBITDA	Bid-to-Win Ratio	Pipeline	New Clients	Revenue / Billable Emp. (k)	Revenue / Employee (k)
8 - 25	13.0%	10.7%	4.25	177%	25.8%	$205	$166
26 - 30	31.1%	10.5%	4.46	202%	29.1%	$203	$160
31 - 35	39.9%	11.3%	5.28	225%	32.6%	$212	$172
36 - 40	16.1%	11.8%	5.44	207%	32.7%	$226	$184
Total/Avg.	**100.0%**	**11.1%**	**4.92**	**209%**	**30.6%**	**$210**	**$169**

Source: Service Performance Insight, February 2014

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

With strong leadership, employees understand what's required of them, and can go about conducting their daily business with the confidence their work meets corporate objectives. Strong leadership helps employees get on the same page working toward a common goal. With this knowledge, employees are more productive, ultimately delivering higher levels of client satisfaction and profitability to the organization.

Organizational Culture

When organizational culture is strong — employees do things because they believe it is the right thing to do and feel they will be rewarded for their actions. However, if the leadership team lacks integrity or squelches diversity, powerful cultures can morph into "cults", "cliques", "castes" and "insider clubs".

Organizational Culture Definitions

- ***Creative***: In Creative cultures, the primary driver is self-expression. Leaders (like Steve Jobs of Apple) focus on creative brilliance and celebrate individuals and teams who "break the mold" by discovering new innovations. The organization structure is fluid and typically based on self-organizing work teams and collaborative project groups. Creative cultures foster an environment where discontinuous innovation is possible, for example, Apple moving from PCs to the wildly successful iPod. ***The unbalanced form of power representative of creative cultures are "cults", fashioned after a dynamic and visionary leader who can inspire the team to "drink the Koolaid" regardless of the consequences.*** Favored functions are Research and Development and Professional Services.
- ***Competitive***: In Competitive cultures, the primary driver is personal and team achievement, often defined as "winning". Leaders (like Scott McNealy of Sun or Larry Ellison of Oracle) are focused on "beating the competition" and often create quarterly "competitive hit lists" to squash the competitive enemy of the month. Personal knowledge and "killer instincts" are valued. Individual achievement is celebrated above teamwork. Competitive cultures and leaders focus intently on "management dashboards" showing competitive trends and market-share gains. The organization structure is typically based on "tiger teams" tasked to achieve specific, measurable goals. ***The unbalanced form of competitive culture is characterized by winning at any cost. Overly competitive cultures often blur the line between "competing" and "cheating" with personal value based on unnatural competitive wins and compensation (like Barry Bonds in baseball). Overly competitive cultures may form "cliques" organized around sales superstars.*** Favored functions are Sales and Product Development.

- ***Controlled***: In Controlled cultures, the primary driver is order and alignment based on clear goals and objectives. Leaders (like Lou Gerstner of IBM) tend to create hierarchical reporting structures where power and authority are vested at the top. Operational excellence is valued based on quarterly improvement metrics and benchmarks. The organization focuses intently on creating annual and quarterly business plans and key performance measurements. Negative aspects of controlled cultures can be excessive bureaucracy, red tape and "rules". ***The unbalanced form of a controlled culture is represented by "castes" where individual competency and achievement are relegated to a backseat in favor of maintaining order and the status quo***. The worst form of an unbalanced, controlling culture is represented by the Mafia where "loyalty" and direction from the top-level Godfather overcome personal morals and convictions. Favored functions are Finance and Manufacturing or Supply Chain.
- ***Collaborative***: In Collaborative cultures, the primary driver is teamwork and building consensus. Leaders (like Dave Packard of HP) tend to focus on solving a problem based on building a shared view of the result. The negative aspects of collaborative cultures can be slow decision-making and excessive time to evaluate alternatives. Trustworthiness and teamwork are valued above creativity and aggressiveness. Collaborative companies seek to develop deep, long-lasting relationships with their clients and tend to measure the entire organization on customer satisfaction. Matrix management and complex double and triple line reporting structures are typical of collaborative companies. ***The unbalanced form of collaborative culture is "insider clubs" and "analysis paralysis" where unwarranted time and effort is spent on reaching group consensus.*** Favored functions are Marketing and Customer Service.

The positive aspect of organizational culture is that the unwritten code of behavior helps team members prioritize activities and make decisions. The negative aspects of culture come from unbalanced forms of power which exclude individuals and teams from decision-making. Employees who challenge group norms are often rejected or seen as a negative influence by the rest of the group, because they upset the status quo.

Which Term Best Describes Your Organization's Culture?

In this year's survey, Service Performance Insight continued its research on corporate culture's impact on operational effectiveness, when we asked "Which of the following terms best describes your organization's culture?" To keep answers impartial, the PS Maturity benchmark survey provided no definitions or guidelines for this question.

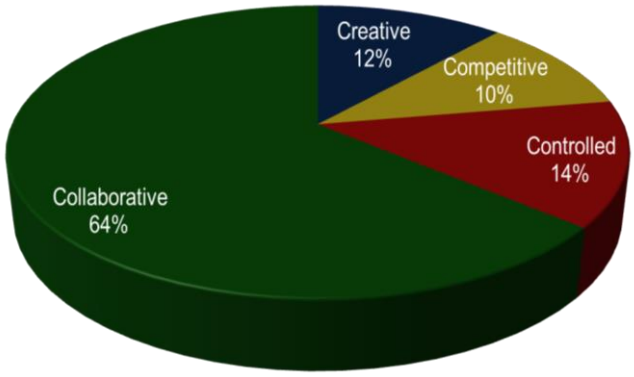
1. ***Creative***: The organization spurs creativity as a primary means to grow and prosper;
2. ***Competitive***: The organization encourages competition and "winning" as a primary driver of success;
3. ***Controlled***: Executives carefully manage major processes in an effort to preserve stability rather than unbridled growth; or
4. ***Collaborative***: Teams strive for consensus and prefer team work as opposed to individual "superstars" based on a belief that the whole is greater than the sum of its parts.

Culture results are highlighted in Figure 35. A collaborative culture is the dominant cultural type (64%) for PS organizations which makes sense because by nature, professional services organizations are

based on dynamic, self-governing, mutually supportive teams of experts who come together to deliver client projects.

SPI Research's analysis shows there is no right or wrong answer for cultural type. The predominant culture for both embedded and independent organizations is collaborative. In 2013, creative organizations experienced the highest year-over-year revenue growth (13.6%) and billable utilization (71.5%) compared to controlled cultures that experienced the lowest revenue growth (2.6%) and utilization (62.7%). Interestingly, in this year's survey the creative organizations are the largest with an average of 450 consultants and the competitive organizations are the smallest with an average of 211 consultants. Both competitive and controlled cultures appear to be the least productive for PS organizations as these cultural types score below both creative and collaborative cultures in revenue per person, project margin and on-time project completion.

Figure 35: Organizational Culture



Source: Service Performance Insight, February 2014

By sector, independents tend to be more collaborative than embedded PS. The Americas is more collaborative than either EMEA or APac. APac firms have a higher percentage of controlling cultures than either EMEA or the Americas. Across all geographies, the fewest organizations described their culture as competitive.

Table 27: Organizational Culture by Organization Type and Region

Culture	2013	ESO	PSO	Americas	EMEA	APac
Collaborative	63.8%	54.7%	68.5%	67.5%	50.0%	45.8%
Competitive	10.6%	15.6%	8.1%	8.4%	20.0%	20.8%
Controlled	13.8%	20.3%	10.5%	11.7%	20.0%	25.0%
Creative	11.7%	9.4%	12.9%	12.3%	10.0%	8.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Responses	**188**	**64**	**124**	**154**	**10**	**24**

Source: SPI Research, February 2014

Most PSOs are predominantly collaborative except embedded HW PS which is either competitive or controlled. Embedded SaaS PS organizations and IT Consultancies are predominantly collaborative while Marketing and Advertising firms are either collaborative or creative.

Table 28: Organizational Culture by PS Market

Culture	IT Consult.	Mgmt. Consult.	Advertise.	Arch./ Engr.	Software PS	SaaS PS	Hardware PS	Other PS
Collaborative	74.0%	63.6%	50.0%	83.3%	54.8%	73.3%	0.0%	50.0%
Competitive	11.0%	0.0%	0.0%	0.0%	14.3%	6.7%	50.0%	15.0%
Controlled	6.8%	22.7%	0.0%	16.7%	21.4%	6.7%	50.0%	15.0%
Creative	8.2%	13.6%	50.0%	0.0%	9.5%	13.3%	0.0%	20.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Responses	**73**	**22**	**6**	**6**	**42**	**15**	**4**	**20**

Source: SPI Research, February 2014

Survey Results

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 service vision, mission and strategy have no ability to work toward achieving it whereas those who comprehend, espouse and support the vision of the organization will work tirelessly to achieve it.

Table 29 shows the significant impact strategic clarity has on all other aspects of the firm. With clarity, organizations are able to achieve high levels of growth and profit.

Table 29: Well understood vision, mission and strategy

Well understood vision, mission and strategy	Survey %	EBITDA	Rev. Growth	New Clients
1 – Not very well	2.1%	10.4%	2.0%	20.0%
2	8.1%	5.2%	6.4%	25.0%
3	21.3%	10.3%	5.7%	26.2%
4	40.4%	10.9%	11.1%	33.0%
5 – Very well	28.1%	14.8%	13.1%	34.5%
Total/Average	**100.0%**	**11.4%**	**9.9%**	**31.0%**

Source: Service Performance Insight, February 2014

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 create their own economic stimulus plan. SPI Research continues to discover every critical key performance measurement improves as confidence in leadership increases. According to survey results, few other factors have the same profound impact on the overall health and well-being of the service organization. Poor leadership creates a negative spiral effect — poor human capital results (high attrition, low morale, poor employee satisfaction) — which in turn lead to low levels of client satisfaction and poor financial results.

Because PSOs rely on the quality and commitment of the consulting staff, poor leadership produces an immediate and long-lasting negative effect. Fortunately, positive changes in leadership can also produce immediate improvements because PSOs exhibit resiliency and are able to heal and regenerate themselves rapidly. Unlike product-based organizations, extremely rapid turnarounds are possible in people-based PS organizations.

Table 30: Confidence in PS leadership

Confidence in PS leadership	Survey %	Rev. Growth	New Clients	Percent of annual margin target achieved
1 – Not much	0.5%	30.0%	60.0%	70.0%
2	2.0%	4.4%	17.5%	84.1%
3	17.9%	4.5%	19.3%	85.8%
4	52.0%	9.3%	32.3%	89.5%
5 – Very much	27.6%	13.6%	35.2%	90.8%
Total/Average	**100.0%**	**9.6%**	**30.6%**	**88.2%**

Source: Service Performance Insight, February 2014

Goals and Measurements in Alignment

Another survey question asked, "Are goals and measurements in alignment for the service organization?" Alignment speaks to a clearly articulated strategy with goals and measurements reinforcing the organization's purpose and stimulating action. It appears that alignment has steadily improved year-over-year with ESOs reporting slightly better alignment than PSOs. Hardware PSOs reported the lowest level of alignment while Marketing and Advertising firms reported the best.

Table 31: Goals and measurement in alignment

Goal and measurement alignment	Survey %	Billable Utilization	% of emp. billable	Quarterly revenue target in backlog
1 – Not much	4.3%	57.2%	52.0%	33.3%
2	6.8%	60.0%	65.6%	36.0%
3	23.4%	70.2%	67.7%	44.1%
4	42.6%	71.1%	73.5%	46.3%
5 – Very much	23.0%	71.3%	75.4%	48.5%
Total/Average	**100.0%**	**69.6%**	**71.1%**	**45.0%**

Source: Service Performance Insight, February 2014

Alignment or lack of alignment has a significant impact on bottom-line performance. Lack of alignment emanates from a lack of clarity and conflicting or too many priorities. It is characterized by low levels of employee engagement and functional silos or factions. The highest performing service organizations exhibit clarity of purpose and alignment around a succinct set of core values and initiatives. Effective measurements and compensation reinforce those values, linking strategy to execution.

Employees Have Confidence in the PSO's Future

The level of employee confidence in the future of the PS organization has a profound impact on almost all key performance measurements. Firms with the highest levels of employee confidence experienced the highest levels of revenue and employee growth, and had the highest levels of billable utilization. They also reported the highest levels of strategic clarity, ease of getting things done and alignment between goals and measurements. In fact, almost every key performance measurement, from project margins to attrition to annual revenue target attainment had a positive correlation with employee confidence in the future of the PS organization. "The world loves a winner" seems to be an appropriate description for the positive results of the organizations with the highest level 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 to take better advantage of the future.

Table 32: Employees have confidence in the PSO's future

Confidence in PSO's future	Survey %	Billable Util.	% of annual revenue target achieved	% of annual margin target achieved
1 – Not much	0.5%	40.0%	70.0%	70.0%
2	3.1%	60.8%	81.0%	77.0%
3	18.4%	67.8%	85.3%	83.3%
4	51.0%	71.0%	90.3%	88.7%
5 – Very much	27.0%	75.1%	94.9%	93.4%
Total/Average	**100.0%**	**71.1%**	**90.3%**	**88.5%**

Source: Service Performance Insight, February 2014

Ease of Getting Things Done

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

Table 33 shows the majority of firms believe it is relatively easy to get things done. As ease of getting things done improves, so do other metrics

Table 33: Ease of getting things done

Ease of getting things done	Survey %	Billable Utilization	% of annual revenue target achieved	Head-count growth
1 – Not easy	0.9%	40.0%	70.0%	-8.8%
2	5.5%	56.5%	85.9%	1.5%
3	31.1%	68.2%	88.5%	5.8%
4	43.8%	71.2%	90.4%	7.8%
5 – Very easy	18.7%	73.0%	92.8%	12.0%
Total/Average	**100.0%**	**69.5%**	**89.9%**	**7.5%**

Source: Service Performance Insight, February 2014

including billable utilization and revenue attainment. Interestingly, the fastest growing firms reported the greatest ease of getting things done while contracting organizations reported difficulty in getting things done.

Effective Employee Communication

Respondents were asked to rate "Our organization effectively communicates with employees". Independents reported better communication than ESOs. The level of effective communication declined directly in proportion to the size of the organization. In other words, the smallest organizations exhibited the best communication while the largest showed the worst. By geography, APac communicates the best, followed by North America then EMEA.

The most startling aspect of poor communication is its effect on employee morale and attrition (Table 34). Firms with poor communication experienced higher levels of attrition; low confidence in leadership and the future; lack of goal alignment; and would not recommend their company as a great place to work. Talk may be cheap but without bidirectional communication, employees quickly become disenfranchised. Creating an effective communication plan should make the short list for any improvement initiative.

Table 34: Effectively communicates w/employees

Effective Communication	Survey %	Billable Utilization	Confid. in the future	Recom-mend	Attrition
1 – Bad	0.9%	57.5%	3.23	2.00	18.8%
2	7.7%	65.9%	3.90	3.50	8.3%
3	28.5%	69.1%	3.96	4.06	9.0%
4	44.3%	70.2%	4.58	4.44	7.8%
5 – Great	18.7%	71.3%	3.23	4.64	7.7%
Total/Average	**100.0%**	**69.6%**	**4.01**	**4.27**	**8.3%**

Source: Service Performance Insight, February 2014

Organization Embraces Change, is Nimble and Flexible

Change is a way of life for 21st century professional service organizations. One of the primary reasons why more and more companies out-task IT, accounting, law, strategy and research to specialized PS organizations is that the amount of change and complexity is impossible to keep up with so they must reply on consultants and specialists.

Table 35 shows most PSOs feel their organization does a good job of

Table 35: Organization Embraces Change, is Nimble and Flexible

Organization Embraces Change	Survey %	Percent of male employees	Percent of workforce over 40	Recom-mend
1 – Not well	0.4%	90.0%	46.8%	1.00
2	3.8%	61.9%	48.3%	3.78
3	20.2%	61.3%	40.7%	4.10
4	37.0%	63.7%	43.7%	4.33
5 – Very well	21.0%	70.1%	46.8%	4.57
Total/Average	**100.0%**	**65.1%**	**43.5%**	**4.30**

Source: Service Performance Insight, February 2014

embracing change. Perhaps the PSO motto should be "change or die" as PSOs must constantly focus on "new" technologies, regulations and policies and their impact on their client's business.

Each leadership dimension impacts all other leadership dimensions. Nimble organizations that are able to easily adapt to change have higher levels of strategic clarity, confidence in leadership and lower levels of attrition. The table depicts workforce demographics – interestingly the least and most nimble organizations have more employees over 40 so age does not appear to impact change receptiveness nor does gender as the least and most change receptive organizations have higher percentages of male employees.

Innovation Focused

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

Table 36: Impact – PS Innovation Focus

Innovation Focused	Survey %	Billable utilization	% of emp. billable	Reference
1 – Not at all	2.1%	56.3%	51.3%	62.5%
2	5.6%	64.1%	65.0%	67.7%
3	34.4%	67.6%	69.0%	70.7%
4	36.4%	72.9%	77.3%	77.8%
5 – Very much	21.5%	77.0%	80.2%	79.8%
Total/Average	**100.0%**	**71.1%**	**73.9%**	**74.9%**

Source: Service Performance Insight, February 2014

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.

Organizational Challenges

In the 2013 survey SPI Research asked participants to rank the key challenges facing them. This year "improving sales and marketing" overtook "talent management" as the number one challenge. 2011 was a watershed year in PS with annual growth of 13.7%. In 2012 top-line growth slowed to 11.5% as PSOs struggled to find and ramp the talent they needed to handle all the new business landed the year before. In 2013, top-line growth slowed further to 10% shifting the focus to sales and marketing to stimulate growth. Although achieving revenue and margin targets is a constant challenge, with lower growth and on-going talent shortages, firms are intently focused on execution. This focus has

manifested in higher levels of productivity and profit across most PS sub-verticals. For the first time, improving quality and consistency has become a top 3 challenge – this speaks to levels of intensified competition and client demands for on-time, on-budget project delivery. With more choices than ever before, PS buyers are demanding higher levels of quality and consistency from their PS providers. Going forward the ever-growing technical talent shortage will continue to be a top challenge across PS as attracting the best and brightest talent is becoming more and more difficult without enough workers with requisite Science, Technology, Math and Engineering (STEM) skills.

Table 37: Year-over-year Change in Top Challenges

Challenge	2011	2012	2013
Improve sales and marketing	3.99	4.18	4.21
Achieve revenue and margin targets	4.06	4.18	4.18
Improve quality and consistency	4.00	4.20	4.12
Support rapid growth and expansion	4.15	4.09	4.06
Talent attract, retain high-quality staff	4.13	4.28	3.94
Improve communication	N/A	N/A	3.93
Improving & expand portfolio & markets	3.71	3.82	3.83
Clarity of vision and strategy	N/A	N/A	3.79
Alignment - between functions or groups	3.60	3.72	3.59
IP - creation, harvesting and reuse	3.51	3.63	3.42

Source: Service Performance Insight, February 2014

After two years of torrid growth and expansion, many firms are now struggling to keep up with the tremendous growth they have experienced. In interviews, several firms reported they plan to slow growth and acquisitions because their infrastructure and culture cannot keep up. For the fastest growing firms, 2014 will be an investment year – they plan to update or replace systems; enhance training and invest in their culture to ensure they will be able to recruit and retain a high quality workforce.

When comparing the key challenges of embedded versus independent service providers (Table 38), the number one challenge for ESO's is "achieving revenue and margin targets". In 2013 ESOs struggled to make their numbers – they experienced the lowest growth rates we have seen since the recession. Embedded Software PS growth slowed to 8.7% compared to 13% in 2012 while net profit slightly declined from 19.4% to 18.3%. The turbulent growth experienced by embedded SaaS PSOs accelerated from 11.6% in 2012 to 12.2% in 2013 but profit took a nose-dive from 25.9% to 4.3% as the charter for many SaaS PSOs shifted to "client adoption" based on worries that users are not adopting new cloud products. Hot new social and mobile SaaS firms are having difficulties securing renewals as the ROI of these technologies has not lived up to the hype. SPI Research sees keen interest from ESOs around service packaging, knowledge management and methodology development – all designed to help them improve the quality and consistency of service delivery.

When analyzing key challenges by geography, an interesting picture emerges. Double digit growth in the Americas in 2011 and 2012 slowed to 9.8% in 2013 while EMEA appears to have finally started to recover from a prolonged recession with 10.9% growth. Growth almost stopped in Australia and New Zealand with a sharp decline to 1.2% while in China and Japan PS growth surged to 16.3%.

The changing economy led to improving sales and marketing as the number one challenge in the Americas and EMEA while the top challenge in APac was achieving revenue and margin targets. Based on lower than expected revenue growth in the APac region in both 2012 and 2013, "achieving revenue and margin targets" has become the number one challenge closely followed by "improving communication".

At the same time, assimilating the big uptick in business over the past two years has led to quality and consistency concerns as the number two challenge in the Americas and APac. If the US is unable to fix its education system, immigration policies and spiraling healthcare costs it may lose its dominance as the number one producer and exporter of Professional Services.

Table 38: Organizational Challenges by Organization Type and Geographic Region

Organizational Challenge	Survey	ESO	PSO	Americas	EMEA	APac
Improve sales and marketing	4.21	4.01	4.29	4.19	4.20	4.42
Achieve revenue and margin targets	4.18	4.15	4.20	4.19	3.95	4.58
Improve quality and consistency	4.12	3.87	4.23	4.16	3.90	4.26
Support rapid growth and expansion	4.06	3.88	4.14	4.09	3.85	4.26
Talent management	3.94	3.93	3.95	3.94	3.75	4.32
Communication across PSO	3.93	3.85	3.96	3.89	3.80	4.53
Improve / expand portfolio and markets	3.83	3.93	3.79	3.76	3.83	4.42
Vision and strategy	3.79	3.77	3.80	3.79	3.67	4.09

Source: Service Performance Insight, February 2014

Whether growing or holding their own, these challenges point to the critical supply and demand balancing act which is characteristic of the professional service industry. Feast years lead to talent and quality concerns followed by famine years where sales and marketing and achieving revenue targets become the primary stress points.

Improvement Priorities

For the past three years SPI Research has asked "What steps will your organization take to improve profitability?" At the highest level most PSOs are focused on improving sales effectiveness – in other words improving the relationship between sales and service delivery, winning more bids and achieving sales targets. A key focus to improve sales effectiveness is integration between Client Relationship Management (CRM) and Professional Services Automation (PSA) solutions, yet less than one-third of all organizations in the benchmark have successfully integrated these two core applications. The rewards for those that have are significant with higher sales and marketing effectiveness scores; significantly improved win to bid ratios, larger sales pipelines and stronger project backlogs.

Table 39 compares improvement priorities for the past three years. The priority of improvement initiatives has remained fairly constant with improving sales effectiveness topping the list. The steps

that the Best-of-the-Best have taken in this area include a focus on dedicated solution sellers, investments in service packaging and a continual focus on establishing rainmakers and thought leaders.

Table 39: Steps Taken to Improve Profitability Comparison

Key Performance Indicator (KPI)	2011	2012	2013
Improve sales effectiveness	3.77	3.91	3.92
Improve utilization	3.68	3.86	3.71
Improve methods and tools	3.64	3.78	3.69
Improve marketing effectiveness	3.53	3.72	3.68
Improve solution portfolio	3.37	3.65	3.59
Improve hiring and ramping	3.46	3.55	3.51
Reduce non-billable time	3.25	3.51	3.34
Increases rates	2.87	3.04	2.83

Source: Service Performance Insight, February 2014

Utilization improvements remain a constant focus – steps taken here most often involve skill building, investment in PSA and dedicated resource management functions. Improving methods and tools speaks to the on-going need to improve repeatability, knowledge-sharing and sales and delivery quality and consistency. Here again systems – like PSA, and Knowledge management are most often a cornerstone of these improvement priorities. Improving marketing effectiveness has come to the fore as firms seek to establish a brand, generate leads and burnish the firm's reputation. Improvement steps here often include investments in a dedicated marketing function; enhanced branding primarily through the website and thought leadership content and lead generation from in-person events and tradeshows as well as outbound and inbound marketing activities. Improving the solution portfolio shows the highest level of emphasis increase. SPI Research believes the prominence of solution portfolio improvement is indicative of the tremendous surge in service productization interest as a path to repeatability and differentiation.

6. CLIENT RELATIONSHIPS PILLAR

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

In this chapter SPI Research provides the PS sales and marketing maturity models along with statistics showing the benefits of sales and marketing investments. This report will examine service sales roles, compensation, client mix and a host of sales and marketing effectiveness metrics. Since referrals are a primary driver of repeat business SPI Research will also explore the correlation between client satisfaction and business success.

Cultivating new and repeat clients is the lifeblood of the service industry. Professional services organizations are in business to provide knowledge and expertise. Their sales and marketing organizations must define target markets and clients by crafting unique solutions. The job of service sales and marketing is to generate awareness and identify and close opportunities. Services are intangible so the job of service sales and marketing has the added difficulty of creating concrete proof of the firm's knowledge, experience and differentiation.

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

The following table highlights the five levels of maturity in the Client Relationship 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 and reference building.

Table 40: Client Relationship Business Process Maturity

	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 new customers and reference building. Individual heroics, no consistent sales, marketing or partnering plan or methodology. Ad hoc, one-off projects.	Start to use marketing to drive leads. Multiple sales models. Start investing in sales training, CRM & sales methodology. Manual integration with PSA. Start measuring sale effectiveness & customer satisfaction. Start developing partners and partner programs. Some level of proposal reviews and pricing control.	Marketing, inside sales, solution sales with defined solution sets. CRM integrated with PSA. Deal, pricing and contract reviews. Partner plan and scorecard. Tight pricing and contract mgmt. controls. High levels of customer satisfaction.	CRM, PSA, ERP 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. Thought leadership. Brand building and awareness. High customer satisfaction. Integrated sales, marketing and partnering programs. High quality references.

Source: Service Performance Insight, February 2014

PS Sales Maturity

As part of the PS Sales and Marketing Maturity Model™, Service Performance Insight focuses on key success criteria and processes associated with PS sales. 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 41).

Table 41: PS Sales Maturity Definitions

	Level 1	Level 4	Level 2	Level 3	Level 5
	Ad Hoc, Opportunistic, Heroic	**Institutionalized, in the Company DNA / Fabric**	**Piloted, Experimental, Pockets of Excellence**	**Deployed, Basics in Place for All Key Elements**	**Visionary, Agile, Innovative, Continuous Renewal and Improvement**
Client Value	Handcrafted projects, unique, highly dependent on individual team member skills.	Client-centric, high value services developed and packaged. Demonstrated, measurable business value.	Limited replication or codification of service solutions. Point product solutions primarily focused on rapid implementation.	Clear, value-based sales and marketing messages developed for product / vertical /geographic audiences.	Partnerships exist with most strategic, forward-thinking clients to develop and enhance leading edge services.
Sales Process	Opportunistic and instinctive with ad hoc service offerings. No consistent sales methodology. Variation in pricing methods. Limited to no investment in sales training, methods or tools.	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.	Dedicated solution selling teams. Repeatable process for point solutions. Implementing sales methodology, reinforced in CRM. Reusable proposal boilerplate. Informal proposal roles and self-governing proposal teams. Standard price list and discount authority. Developing standard estimating tools.	Consistent solution selling methods & tools reinforced and supported in CRM. Solution-oriented best practices. Consistent estimating and risk evaluations. Bid qualification criteria. Standard contracts and statements of work. Clear roles, responsibilities and timelines. Sales organization trained to effectively sell solutions.	Established thought leadership and trusted advisor at highest levels. Continual investment in improving and expanding service portfolio as a means of market expansion. Effective proposal center delivers timely, high-quality estimates, proposals, contract and risk reviews.
Partners	Ad hoc and opportunistic without clearly defined roles.	Co-development with partners. Partners are integral part of service packaging and rollout.	Partner plan in place, but conflicts still exist. Defined partner programs to extend market reach.	Whole service products. Solution sets designed with partners in mind (defined roles and deliverables for prime, hybrid, sub)	Co-opetition. Partners contribute to company's overall service innovation by providing SME feedback and insights.
Client Sat Programs	Ad hoc reference requests. No formal program. Heroic.	Client advisory board influences roadmap, participates in beta programs.	Client reference programs established to extend market reach.	Proof, testimonials and references to support solution client value.	Strategic clients are company and service evangelists.

Source: Service Performance Insight, February 2014

Table 42 depicts PS sales maturity progression. As organizations enhance their solution selling capabilities, methods, systems and tools, overall sales effectiveness improves dramatically. These efforts pay for themselves in higher percentages of sales quota achievement; better sales forecasting

accuracy; improved pricing and estimating accuracy resulting in fewer project overruns; faster sales cycles due to better deal qualification; larger deals; more PS revenue by account; larger pipelines and significantly better reference clients.

Table 42: PS Sales Maturity Progression

	Initiated Level 1	Piloted Level 2	Deployed Level 3	Institution Level 4	Optimized Level 5
Percent in each level	**29.4%**	**24.6%**	**25.1%**	**15.0%**	**5.9%**
Service selling spend as a % of service revenue	10.0%	7.5%	10.3%	6.0%	4.6%
FTEs dedicated to service sales	7.19	9.60	8.11	9.18	2.86
Annual service sales revenue quota / person (mm)	$1.13	$1.47	$1.86	$1.95	$1.92
% of service sales people achieving annual quota	63.0%	63.9%	68.1%	72.2%	75.0%
Average quarterly sales bookings forecast variance (Forecast/Actual)	21.2%	19.3%	16.9%	14.3%	7.5%
Service pricing accuracy (proposed price to actual delivery cost)	80.5%	83.5%	82.9%	83.6%	84.2%
Length of sales cycle from qualified lead to contract signing (in days)	109	97	94	89	125
Average closed deal size (k)	$77	$111	$124	$121	$171
Average annual service revenue by account (k)	$148	$142	$157	$345	$271
Percentage of revenue from new clients	25.0%	26.3%	25.9%	29.8%	31.4%
Bid-to-win ratio (per 10 bids)	4.30	5.05	5.58	5.93	6.20
Deal pipeline relative to qtr. bookings forecast	147%	203%	187%	209%	200%
Annual days of sales training taken / sales rep.	2.17	3.54	5.11	3.95	4.30
Service sales effectiveness (1 to 5 scale)	2.76	3.04	3.02	3.18	3.91
% of "Referenceable" Clients	71.1%	67.9%	71.6%	76.5%	84.1%

Source: Service Performance Insight, February 2014

PS Sales Effectiveness Metrics

Table 43 provides an overview of sales effectiveness metrics and shows the differences between ESOs and PSOs. Embedded PS organizations reported lower sales quotas but a higher percentage of sales people who achieve them. ESOs reported better forecasting and pricing accuracy than their independent counterparts. ESOs have shorter sales cycles but their average closed service deals and revenue by account are significantly lower than independents. ESOs generate more business from new accounts and have higher win to bid ratios than independents yet they give lower sales effectiveness scores and have significantly fewer reference clients.

Table 43: Sales Effectiveness Metrics

Sales and Marketing KPIs	Survey	ESOs	PSOs
Annual service sales revenue quota per person (mm)	$1.59	$1.32	$1.72
Percentage of service sales people who achieve annual quota	66.7%	70.2%	65.0%
Avg. quarterly sales bookings forecast variance (Forecast/Actual)	17.6%	14.8%	19.0%
Service pricing accuracy (proposed price to actual delivery cost)	82.7%	84.1%	82.0%
Length of sales cycle from qualified lead to contract signing (days)	101	92	105
Average closed deal size ($k)	$112	$98	$119
Average annual service revenue by account ($k)	$185	$118	$221
Percentage of revenue from new clients	27.5%	29.2%	25.0%
Bid-to-win ratio (per 10 bids)	5.18	5.45	5.00
Deal pipeline relative to qtr. bookings forecast	184%	186%	183%
Service sales effectiveness (1 to 5 scale)	3.03	2.95	3.08
% of "Referenceable" Clients	72.0%	66.1%	75.9%

Source: Service Performance Insight, February 2014

Service Sales Effectiveness

Service Sales Effectiveness is a subjective question but typically refers to the percentage of sales people who achieve quota and the probability that the sales organization will achieve its targets. SPI Research asked respondents to rank the effectiveness of the service sales organization on a scale from 1 to 5 with 5 representing perfection (Table 44). Sales effectiveness has a profound impact on all aspects of PS but unfortunately 17.4% give sales effectiveness a failing grade of 1 or 2; 45% give sales effectiveness an "OK" score of 3 while only 37.6% give sales effectiveness high marks.

Table 44: Impact – Service Sales Effectiveness Impact on Performance

Sales Effect.	Survey	Annual Rev. Growth	New Clients	Bid-Win Ratio	Headcount Growth	% of Billable Employees	On-time project delivery	Rev. per billable consultant	Rev. per employee
1	2.1%	4.4%	17.5%	3.00	1.9%	67.5%	73.8%	$131	$109
2	15.3%	2.8%	25.3%	4.07	4.3%	67.8%	74.7%	$153	$185
3	45.0%	9.2%	29.5%	4.74	6.7%	74.4%	74.7%	$162	$178
4	30.7%	12.9%	34.4%	5.55	11.0%	77.5%	79.4%	$185	$241
5	6.9%	11.5%	40.0%	5.81	13.5%	77.7%	85.4%	$198	$242
Avg.	**100%**	**9.4%**	**30.8%**	**4.93**	**8.0%**	**74.4%**	**76.8%**	**$170**	**$201**

Source: Service Performance Insight, February 2014

PS Marketing Maturity

The global economy has evolved into a service economy with services like health care, technology and consulting representing the hottest areas of growth. Marketing services is an important skill – and a tough one – for businesses to develop. 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. Service marketing has become big business with a focus on establishing the service brand, generating awareness and leads while providing powerful tools to support service sales and delivery.

Relationships Are Key

In service marketing, because there is no tangible product, relationships are key – both with the service 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 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.

Marketing Mix

The tools available to service marketers are rapidly evolving – with social media and digital marketing becoming the most prevalent means of market communication. However, as service selling and marketing is still primarily based on establishing the firm's reputation and building trusted relationships, in-person events such as tradeshows and speaking engagements remain the areas of greatest market investment. Service marketing involves many touch-points – from portraying the brand, the values and competencies of the firm to tactical marketing activities like generating leads. These touch-points work together to establish a positive perception in the target client's mind. Because professional services are intangible, the challenge for the service marketer is to somehow make her services stand out from the crowd. Marketers must think of ways to communicate the benefits of the services they offer in language that reflects client need and value.

Service 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 repeatable service delivery methods and tools, which we include in the larger scope of service lifecycle management. SPI Research recommends organizations start with service marketing – creating sales tools, service descriptions and

value-based presentations. All 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 service execution with repeatable tools and systems.

Table 45: 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 marketing messages developed for product / vertical / audience.	Client-centric, high value services developed and packaged. Demonstrated, measurable business value.	Partnerships exist with most strategic, forward-thinking clients to develop leading edge services.
Marketing	Tactical. Limited to no investment in service marketing.	Campaign-driven, focused initiatives. Service marketing includes collateral, web and in-person seminars, and other promotions with voice of the customer for specific service offers.	Programmatic and comprehensive. Service marketing - target-market and segment focus to establish differentiation.	Strategic and global, service portfolio reflects and supports brand and industries. Service portfolio management and strategic marketing efforts aligned.	Brand, thought leadership, and innovation are established and supported through all marketing activities. High brand value.
Team Definition and Composition	None. Lack of service marketing organizational definition.	Organizational structure includes borrowed or rotational roles to support service marketing efforts.	Permanent service marketing roles defined and staffed.	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.	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: Service Performance Insight, February 2014

Table 46 depicts the PS Marketing Maturity™ progression. As organizations enhance their focus and investment in dedicated service marketing teams who are equipped to build the brand and support solution selling, overall marketing effectiveness improves dramatically. These efforts pay for themselves in higher quality leads, larger sales pipelines and significantly more and better reference clients.

Table 46: PS Marketing Maturity™ Progression

	Initiated Level 1	Piloted Level 2	Deployed Level 3	Institution Level 4	Optimized Level 5
Percent in each level	**29.4%**	**24.6%**	**25.1%**	**15.0%**	**5.9%**
Service marketing spend as a % of service revenue	1.4%	0.8%	1.4%	1.3%	0.6%
Value Clients Derive from Services (1 to 5 scale)	3.05	2.88	3.37	3.55	3.43
Service Marketing Approach (1 to 5 scale)	1.81	2.20	2.40	2.07	3.55
Service Partner Approach (1 to 5 scale)	1.74	2.61	2.23	2.11	2.27
Client Satisfaction Programs Approach	2.07	2.41	2.13	2.25	2.64
FTEs dedicated to service marketing	1.62	2.07	2.15	2.93	2.00
Average cost to generate a lead	$65	$57	$65	$69	$54
% of qualified leads that become closed deals	10.3%	13.3%	15.6%	17.0%	19.6%
Service marketing effectiveness	2.06	2.33	2.24	2.75	3.09
% of "Referenceable" Clients	71.1%	67.9%	71.6%	76.5%	84.1%

Source: Service Performance Insight, February 2014

Service Marketing Effectiveness

For those organizations with a service marketing group, SPI Research asked how effective service marketing was on a scale of 1 to 5, with 5 representing excellent. Having a service marketing focus is not enough. Marketing must develop effective thought leadership, marketing campaigns, sales tools and provide sales enablement to increase the firm's brand awareness, showcase thought leadership and bring in qualified leads. The most successful PS marketing efforts require a strategic focus to ensure they augment and enhance the firm's strategy. Marketing should be charged with bringing the firm's vision and strategy to light through effective positioning. Without a seat at the executive table, marketing will be relegated to tactical lead generation. Effective marketing requires dedicated, skilled personnel along with sustained funding.

Marketing effectiveness has consistently been given an even worse score than sales effectiveness (2.61 out of 5). The majority of firms (42.1%) give their marketing organizations a failing grade of 1 or 2. For the 23.9% of firms who gave their marketing efforts a passing score of 4 or 5, marketing had a significant positive impact on most client relationship metrics. Organizations with high service marketing effectiveness showed high customer satisfaction scores, larger pipelines and higher revenue per employee. However, marketing effectiveness did not have a significant impact on financial metrics like project margin.

Table 47: Impact – Marketing Effectiveness Impact on Performance

Marketing Effectiveness	Survey	Confidence in Leadership	Annual Rev. Growth	New Clients	On-time project delivery	Reference Clients	Rev. per consultant
1	14.4%	3.89	7.5%	28.3%	74.3%	68.5%	$183
2	27.7%	3.98	8.4%	30.0%	74.4%	76.1%	$203
3	34.0%	4.06	9.3%	31.2%	76.9%	76.9%	$218
4	20.7%	4.11	12.2%	32.8%	82.5%	75.8%	$236
5	3.2%	4.83	12.5%	32.5%	67.0%	74.0%	$188
Avg.	**100%**	**4.05**	**9.5%**	**30.8%**	**76.7%**	**74.5%**	**$193**

Source: Service Performance Insight, February 2014

Survey Results

The following section reviews and analyzes 2014 PS Maturity™ benchmark results from 238 participating Professional services organizations. In this section SPI Research analyzes 31 Client Relationship key performance measurements that are critical for measuring sales and marketing effectiveness.

The size of the deal pipeline is an important predictor of future revenue. Table 48 shows the size of the deal pipeline in relationships to the quarterly bookings forecast is stronger for embedded ESOs. The Americas pipeline at 208% of forecast is much stronger than EMEA (140%) and APac (142%).

Table 48: Client Relationships KPIs by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2013	ESO	PSO	Americas	EMEA	APac
New clients	31.1%	33.7%	30.0%	31.9%	30.0%	26.3%
Bid-to-win ratio (per 10 bids)	4.96	4.94	4.97	5.09	4.34	5.14
Deal pipeline relative to qtr. bookings forecast	190%	230%	175%	208%	140%	142%
Sales cycle (days: qualified lead to contract signing)	95	118	85	98	91	78
Service sales effectiveness (1 to 5 scale)	3.24	3.22	3.26	3.30	2.96	3.09
Service marketing effectiveness	2.70	2.48	2.81	2.78	2.08	2.91
% of "referenceable" clients	74.5%	66.7%	77.7%	76.1%	72.9%	63.9%
Solution development effectiveness	2.99	2.98	3.00	3.01	2.92	2.91

Source: Service Performance Insight, February 2014

By organization size, the deal pipeline is strongest for the largest organizations and weakest for the smallest. The smallest firms tend to live deal to deal with limited future visibility.

Table 49: Client Relationships KPIs by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
New clients	39.1%	31.0%	32.5%	30.0%	25.3%	20.0%
Bid-to-win ratio (per 10 bids)	5.44	4.78	4.94	4.80	5.61	4.90
Deal pipeline relative to qtr. bookings forecast	143%	163%	198%	215%	211%	240%
Sales cycle (days: qualified lead to contract signing)	72	93	94	104	103	107
Service sales effectiveness	3.47	2.98	3.32	3.21	3.60	3.18
Service marketing effectiveness	2.50	2.60	2.67	2.95	2.93	2.40
% of "referenceable" clients	76.2%	74.8%	77.7%	71.8%	68.7%	64.5%
Solution development effectiveness	3.14	2.72	3.11	3.11	2.87	3.00

Source: Service Performance Insight, February 2014

By vertical, embedded hardware PSOs reported the strongest deal pipeline while management consultancies showed the weakest. In general, management consultants had a hard year in 2013 with low growth, rate and profit erosion.

Table 50: Client Relationships KPIs by Vertical Service Market

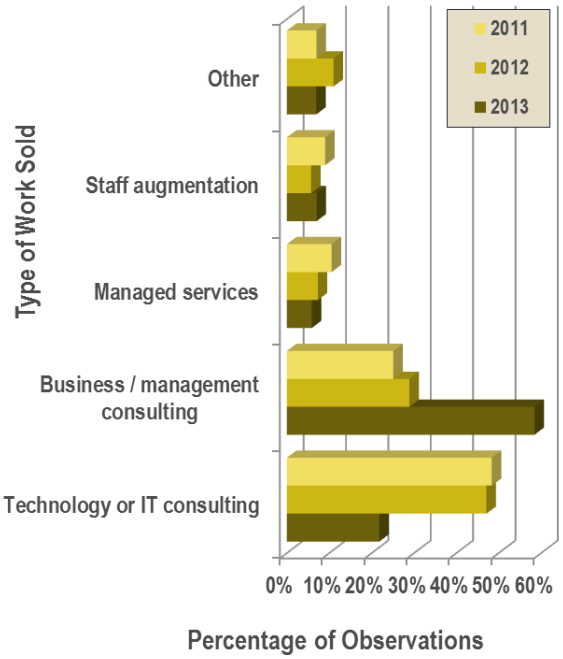
Key Performance Indicator (KPI)	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.
New clients	34.5%	39.7%	15.0%	32.1%	24.8%	30.8%	31.7%
Bid-to-win ratio (per 10 bids)	5.13	5.04	4.00	4.91	5.05	4.50	6.08
Deal pipeline relative to qtr. bookings forecast	227%	229%	250%	182%	137%	142%	150%
Sales cycle (days: qualified lead to contract signing)	123	114	98	85	83	90	75
Service sales effectiveness	3.16	3.50	2.75	3.29	2.89	3.67	3.50
Service marketing effectiveness	2.40	2.73	2.50	2.88	2.65	3.50	2.67
% of "referenceable" clients	66.0%	66.4%	73.8%	77.5%	82.4%	75.8%	76.7%
Solution development effectiveness	2.96	2.93	3.00	2.95	3.38	3.00	3.33

Source: Service Performance Insight, February 2014

Type of Work Sold

Although IT consultancies dominated this year's benchmark with 48.3% of the participants, the mix of work sold has changed dramatically (Figure 35). Both embedded and independent PSOs are delivering more and more business and management consulting – encroaching on the pure play management consultancies.

Figure 35: Type of Work Sold



Source: Service Performance Insight, February 2014

Today most IT consultancies have an equal number or more business analysts than technical consultants – they focus on business process improvement and streamline cumbersome business processes. Increasingly technology-focused PS providers are adding industry and domain experts to ensure horizontal technologies can be modified to reflect the unique needs of vertical industry clients. The underlying technologies no longer require customization and integration; they have become easier to install and integrate with standard data loaders and connectors. Ensuring user adoption has become a primary concern. This means today's consultants need to understand business and what business users want and need.

Technology consulting now includes mapping workflows and business processes and focusing on user adoption, rollouts and training. In this benchmark both staff augmentation and managed services have declined for the past three years as staffing providers have been squeezed by vendor service agreements and have moved upstream to offer business and IT consulting. The promise of managed services has not been realized because technology vendors have grabbed these opportunities from independents with better economies of scale. For technology service providers both of these business lines are drifting toward commoditization – with too many competitors chasing too few opportunities. The margins in this low end of the market have become razor thin as large buyers demand vendor service agreements with low rates for common skills. Mergers and acquisitions in both staff augmentation and managed services are common as suppliers seek to improve their economies of scale.

Table 51 depicts the results by both embedded and independent service providers and by major geographic regions. The results are not surprising considering a majority of the embedded service providers are part of software, SaaS or hardware firms, and therefore a majority of their work is technology consulting. One interesting finding from this table is that the Asia Pacific region is focused more heavily on technology than organizations based in the rest of the world. This heavy Asia Pacific

focus on technology could lead to price pressure if suppliers are not able to add more valuable business and management consulting services.

Table 51: Type of Work Sold by Organization Type and Geographic Region

Type of Work Sold	Survey	ESO	PSO	Americas	EMEA	APac
Technology or IT Consulting	58.4%	52.8%	60.7%	54.4%	66.2%	78.2%
Business / Management Consulting	21.8%	25.4%	20.3%	22.5%	24.0%	10.9%
Managed Services	5.9%	9.5%	4.4%	6.1%	7.0%	1.6%
Staff Augmentation	7.0%	5.3%	7.7%	8.9%	0.6%	3.7%
Other	6.9%	7.0%	6.9%	8.2%	2.2%	5.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Service Performance Insight, February 2014

New Client Penetration

Table 52 shows the powerful effect of continually adding new clients. 52.9% of the benchmark participants produced less than 30% of their revenue from new clients which inhibited their growth and profitability. SPI Research believes at least 30% of annual revenue must come from new clients for PS organizations to remain vibrant and viable. Throughout this study we have demonstrated the strong correlation between growth and profitability. The bottom-line is PS organizations must constantly expand their markets, clients and repertoire to stay in touch with market changes and ahead of competition. New clients allow PSOs to reap the benefits of previous client experiences and knowledge without the baggage of long-term relationships in which both provider and client may have become complacent. New clients provide the opportunity to expand knowledge, skills and service portfolio.

Table 52: Impact – Percentage of Business from New Clients

% of revenue from new clients	Survey	Annual Revenue Growth	Employee Growth	Size of Pipeline	Util.	Revenue per project (k)	Rev. per billable consult. (k)
Under 10%	9.6%	3.5%	4.0%	167%	63.0%	$116	$180
10% - 20%	23.2%	5.9%	6.5%	165%	68.2%	$151	$180
20% - 30%	21.1%	11.2%	6.5%	195%	71.5%	$129	$197
30% - 40%	15.8%	9.0%	5.8%	210%	69.9%	$218	$211
40% - 50%	12.3%	9.3%	6.3%	198%	73.5%	$246	$207
Over 50%	18.0%	17.9%	13.4%	206%	72.3%	$295	$185
Total	**100%**	**10.0%**	**7.5%**	**190%**	**69.7%**	**$189**	**$193**

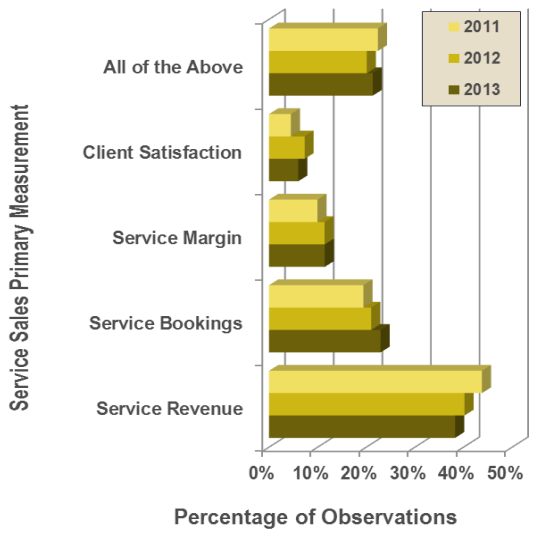
Source: Service Performance Insight, February 2014

Primary Service Sales Measurement

In the 2013 survey, SPI Research asked about the primary measurement for service sales people. The overwhelming answer was "Service Revenue" with 38.3% (Figure 36). The second-most prevalent sales measurement is "service bookings" with 23% closely followed by "all of the above" with 21.3% meaning service reps are measured on service revenue, service bookings, margin and client satisfaction. 11.5% of the organizations measure their service sales people on margin; 6% on client satisfaction. The prevalence of these sales measurements remained virtually unchanged from the prior year.

SPI Research frequently receives questions regarding how the service sales force should be measured. Table 53 provides a fascinating view of the cause and effect of service sales measurements.

Figure 36: Primary Service Sales Measurement



Source: Service Performance Insight, February 2014

Table 53: Impact – The Effect of Sales Measurements on Performance

Primary Service Sales Measurement	Survey	Annual Revenue Growth	Bid-Win Ratio	Size of Pipeline	Refer. Clients	Util.	On-time project delivery	Rev. per billable consult.	Project Margin
Service Revenue	38.3%	8.5%	4.80	224%	71.7%	70.0%	78.2%	$195	36.6%
Service Bookings	23.0%	11.2%	4.89	213%	76.1%	70.4%	75.7%	$222	37.1%
Service Margin	11.5%	12.4%	4.74	225%	76.0%	71.4%	76.0%	$231	35.5%
Client Satisfaction	6.0%	9.3%	6.40	117%	74.5%	68.5%	68.0%	$173	30.2%
All of the Above	21.3%	6.9%	4.68	193%	78.6%	74.6%	78.2%	$227	33.5%
Survey Average	**100.0%**	**9.3%**	**4.88**	**209%**	**74.8%**	**71.1%**	**76.8%**	**$211**	**35.5%**

Source: Service Performance Insight, February 2014

Although service revenue measurements are the most common (48.3%), they appear to produce mediocre performance in several areas. ***Overall the best results correspond with service margin as the primary sales measurement with the highest revenue growth; largest sales pipelines and highest revenue per consultant.*** Service margin targets are harder to measure and calculate plus they can only be measured after the project has been completed. Many firms are switching to "Service Margin" as a primary metric but they use "average cost" figures to calculate deal margin to simplify sales compensation. Interestingly, service margin as the primary sales measurement appears to have few

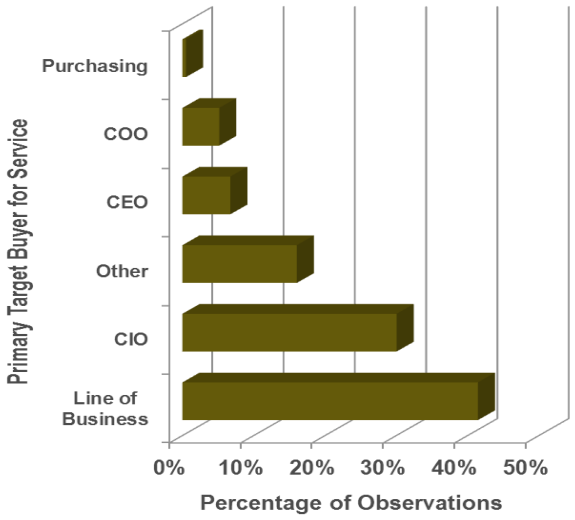
draw-backs. ***Surprisingly, the worst service sales measurement is "client satisfaction" although it is used by only 6% of the benchmark respondents***.

With client satisfaction as the primary measurement, service sales people have a vested interest in the quality and timeliness of project delivery although in this year's survey this primary measurement produced the poorest on-time project delivery. Client satisfaction as the primary sales metric resulted in the smallest sales pipeline; lowest utilization; poorest revenue per consultant and the lowest project margin. The pursuit of client satisfaction at any cost incents the sales force to drive service delivery "to do whatever it takes" without regard to margin. A "blended – all of the above" metric is used by 21.3% of benchmark respondents; this analysis shows this strategy produces reasonably good performance across the board and is the best measurement for producing reference clients. A big drawback is incenting sales with too many metrics because metrics become hard to measure and enforce. Regardless of primary sales measurement, clarity and fairness drives the best results. SPI recommends an open book approach to allow sales people to measure and improve their own performance.

Primary Service Target Buyer

SPI Research asked "who is the primary buyer for your services"? For the 238 benchmark respondents, the primary target buyer is most likely to be a line of business executive (41.5%); CIO (30.1%); other (16.1%); CEO (6.7%); COO (5.2%); only one firm out of 238 primarily sells to purchasing (Figure 37).

Figure 37: Primary Service Target Buyer



Source: Service Performance Insight, February 2014

Table 54 correlates primary buyer type with other key metrics. Without knowing other aspects besides the primary buyer it is hard to come up with definitive best practices but this analysis does reveal some interesting comparisons. Although "calling at the top" is a favored strategy, it appears firms who primarily sell to the CEO experience low levels of growth and low revenue per consultant; presumably because it is hard to get to the CEO and if the CEO is really the decision-maker the project is either very strategic or the organization is very small.

Firms that sell to the Chief Operating Officer reported the highest levels of growth and largest pipeline. The majority of firms sell to a line of business executive. Selling to this buyer type produced mixed results but yielded the highest revenue per consultant. Selling to the CIO produced reasonably good results with the largest pipeline. In general complex consulting services should not be sold to purchasing. Only one respondent reported this as the primary buyer type so the results are not

statistically valid but are nonetheless the worst across the board. Selling professional services to purchasing is a sure indication that the services or bodies have become commoditized.

Table 54: Impact – The Effect of Primary Buyer Type on Performance

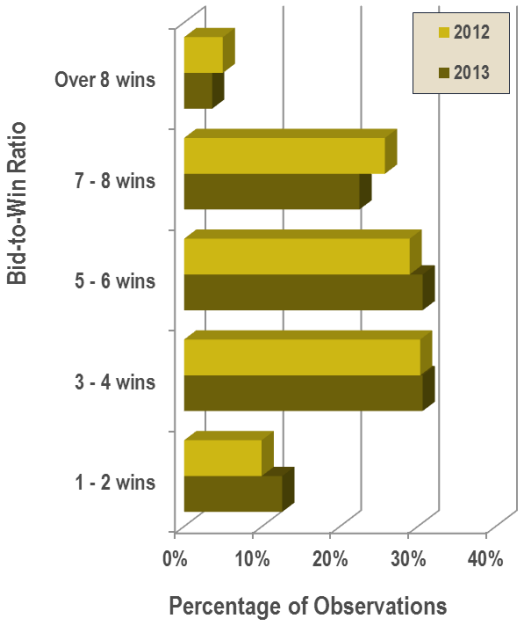
Primary Target Buyer	Survey	Annual Rev. Growth	Bid-Win Ratio	Size of Pipeline	Reference Clients	Util.	On-time project delivery	Rev. per billable consultant	Proj. Margin
CEO	6.7%	8.7%	4.67	214%	70.0%	68.8%	80.8%	$188	36.1%
COO	5.2%	17.0%	4.25	255%	81.0%	70.5%	75.5%	$206	41.9%
CIO	30.1%	9.6%	4.89	230%	77.7%	73.4%	75.4%	$210	34.8%
Line of Business	41.5%	8.8%	5.20	197%	74.6%	70.3%	78.0%	$222	34.5%
Purchase.	0.5%	2.5%	1.50	100%	85.0%	85.0%	95.0%	$175	45.0%
Other	16.1%	9.7%	4.59	183%	70.0%	68.8%	73.6%	$192	39.5%
Average	**100.0%**	**10.0%**	**4.96**	**189.4%**	74.3%	**69.3%**	**77.4%**	**$189**	**35.0%**

Source: Service Performance Insight, February 2014

Bid-to-Win Ratio

Another critical KPI in the Client Relationship pillar is the Bid-to-Win ratio which measures the number of wins per ten bids. Bid-to-win ratio is a powerful metric for judging sales and marketing effectiveness, but must be analyzed in conjunction with the size of the pipeline; the length of the sales cycle and the cost to pursue the bid. If the bid-to-win ratio is too high it may be an indication that the organization is not aggressive enough in targeting new clients and new services. If it is extremely low it is an indication the firm is competing in a commoditized market or it is not well-positioned or is not calling at the right level. The best deals of all are those that don't require a bid (sole source) because the client has done business with the firm before and knows they will do a good job on the current project. Bid-to-win ratios were very similar year to year. 31% reported bid to win ratios of 3 to 4 and 5 to 6. 13% reported 1 to 2; 23% reported 7 to 8 and 4% over 8 (Figure 38).

Figure 38: Bid-to-Win Ratio



Source: Service Performance Insight, February 2014

Table 55 depicts the positive impact of improving win to bid ratios through better deal qualification; reference selling; improving positioning to target the right markets and clients and improving overall quality and client satisfaction resulting in more and better referrals.

Table 55: Impact – The effect of improving the Bid-to-Win Ratio

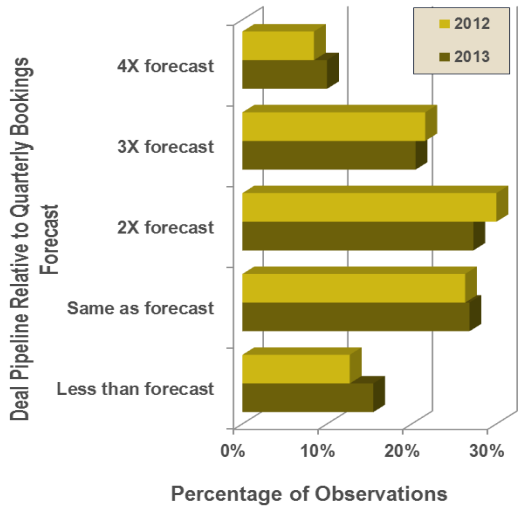
Bid-to-win ratio	Survey %	EBITDA	Revenue Growth	Revenue / Employee	Recommend	Sales Effectiveness
1 - 2 wins	12.6%	7.0%	8.7%	$140	3.93	2.96
3 - 4 wins	30.6%	10.6%	7.0%	$150	4.27	3.07
5 - 6 wins	30.6%	11.5%	12.9%	$156	4.35	3.25
7 - 8 wins	22.5%	15.3%	10.9%	$157	4.38	3.50
Over 8 wins	3.6%	19.6%	4.1%	$214	4.63	4.43
Total	**100.0%**	**11.8%**	**9.8%**	**$155**	**4.29**	**3.25**

Source: Service Performance Insight, February 2014

Deal Pipeline Relative to Quarterly Bookings Forecast

The deal pipeline as compared to the quarterly bookings forecast is an important leading indicator that provides insight into sales effectiveness and future revenue. The size of the deal pipeline shows direct correlation to all major growth indicators – revenue growth; revenue per billable employee; percentage achievement of the annual revenue plan and billable utilization. A sure sign of trouble ahead is that 42.3% of benchmark participants reported their deal pipeline was the same or less than forecast. 35.5% reported their deal pipelines were three times or larger than their forecasts which leads to strong growth and profitability (Figure 39). SPI Research recommends firms pay very careful attention to this metric and take corrective action if their pipelines dip below 200% of forecast.

Figure 39: Deal Pipeline Relative to Quarterly Bookings Forecast



Source: Service Performance Insight, February 2014

Length of the Sales Cycle

The length of the sales cycle measures the time it takes to move a qualified lead to a signed contract. The overall average length of the sale cycle has stayed relatively constant at 96 days for the past five years. Embedded PSOs reported much longer sales cycles (118 days) than independents (85 days). The

length of the sales cycle increases proportionately with the size of the organization as larger organizations have more players involved and focus on larger, more complex deals.

Organizations from EMEA showed the most improvement in reducing the length of the sales cycle from 113 days in 2012 to 89 in 2013. This reflects overall improvement in the European economy as buyers are more likely to make purchasing decisions. The shortest sales cycles were correlated with higher win to bid ratios and on-time project delivery.

Table 56: Impact – Length of Sales Cycle on Performance

Sales Cycle	Survey %	Bid-to-Win	Revenue Growth	On-time Delivery	Confidence In Leadership
Under 30 days	4.0%	**5.44**	9.1%	**81.9%**	**4.29**
30 - 60 days	19.4%	5.23	9.0%	80.5%	4.11
60 - 90 days	23.3%	5.19	**13.5%**	76.5%	3.98
90 - 120 days	26.0%	4.74	6.9%	77.9%	3.90
120 - 150 days	17.6%	4.72	9.7%	74.6%	4.18
Over 150 days	9.7%	4.43	9.4%	74.3%	4.05
Total	**100%**	**4.93**	**9.7%**	**77.3%**	**4.04**

Source: Service Performance Insight, February 2014

Referenceable Clients

The percentage of reference clients is considered one of the most important KPIs in the professional services sector. This year average "client referenceability" was 74.5%. Table 57 shows 46.1% of the benchmark respondent's claim over 80% of their clients are referenceable. On the other hand, 31.2% report less than 70% of their clients are referenceable.

Table 57: Impact – Client Referenceability

Score	Survey %	Revenue Growth	Billable Utilization	Rev./ Consultant (k)
Under 50%	13.6%	4.6%	63.4%	$171
50% - 60%	9.5%	6.0%	71.8%	$164
60% - 70%	8.1%	8.6%	71.2%	$186
70% - 80%	22.6%	11.9%	66.9%	$206
80% - 90%	22.6%	10.9%	72.9%	$187
Over 90%	23.5%	10.2%	72.9%	$217
Total	**100.0%**	**10.0%**	**69.7%**	**$193**

Source: Service Performance Insight, February 2014

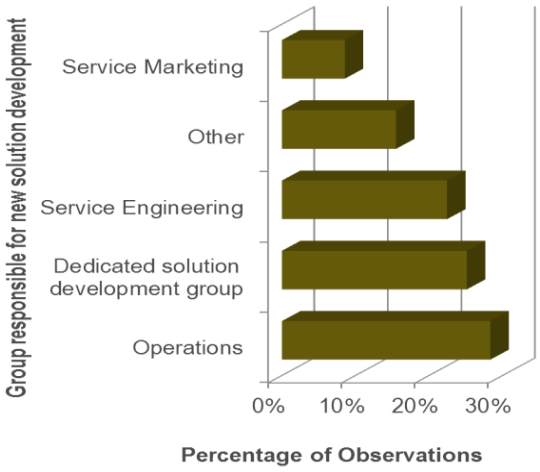
Client references have a strong correlation with service sales effectiveness; the length of the sales cycle; ease of getting things done and whether employees would recommend the PSO as a great place to work. The relationship between client and employee satisfaction is irrefutable.

Client references are a leading indicator of organizational success. As this percentage increases, so does the probability of high levels of growth; higher bid-to-win ratios and lower sales costs. Any maturity improvement plan must address measuring and improving client satisfaction and building references.

Primary Responsibility for New Solution Development

For the past three years SPI Research has focused intently on solution development, and developed a new Service Lifecycle Management methodology, toolkit and training program. This focus has proven the impact of solution development and demonstrated how nascent the discipline of solution development is within PS. Our research has shown the PS industry is keenly interested in moving to more repeatable service offers with the goal of making it easier to sell and deliver consistent, high quality services, but most often solution development is assigned to part-time resources that lack both the discipline and time to fully develop solutions. This benchmark show 25.1% has now created a dedicated solution development group and 22.5% have a service engineering function (Figure 40). The majority (28.3%) rely on operations to develop solutions. Across the benchmark the least successful solutions are developed by service marketing as these firms reported the lowest net profit and revenue growth.

Figure 40: Primary Group Responsible for New Solution Development



Source: Service Performance Insight, February 2014

Table 58: Impact - The Impact of Solution Development Effectiveness on Performance

Solution Effect.	Survey	Org. Size	Rev. Growth	Recommend as a great workplace	Reference Clients	Rev. Target Achievement	On-time delivery
1 - Low	5.5%	339	8.3%	3.55	74.5%	90.9%	75.8%
2	22.1%	204	11.9%	4.08	71.0%	90.4%	76.5%
3	41.5%	181	12.1%	4.24	74.9%	91.0%	78.3%
4	26.3%	122	10.4%	4.49	77.5%	92.0%	79.6%
5 - High	4.6%	107	18.1%	4.80	85.0%	96.9%	85.0%
Avg.	**100.0%**	**209**	**11.5%**	**4.29**	**75.4%**	**91.2%**	**78.6%**

Source: Service Performance Insight, February 2014

Table 58 shows the impact of solution development effectiveness. Solution Development effectiveness went up as the size of the organization decreased, in other words, smaller organizations gave higher marks to solution development than larger ones did. Solution Development effectiveness had a

dramatic, positive impact on revenue growth; employee satisfaction; reference clients; annual revenue target attainment and on-time project delivery.

This KPI highlights satisfaction, or frustration, with the solution development process and demonstrates a focus on solution development is worth the effort. High-growth organizations tended to have effective solution development methods which involve expert resources in the process. The slowest growing organizations gave the poorest marks to solution development suggesting a direct correlation between solution development and market expansion.

Pricing and Deal Structure

Every year, SPI Research has seen a shift in pricing and deal structure, as clients have become increasingly concerned about risk and cost overruns, and have pushed more accountability to the PSO through fixed fee or shared risk contracts. The percentage of fixed fee work has steadily increased each year from 35.5% in 2009 to 44% in 2013. At the same time the percentage of time and materials work has declined from 59.8% in 2009 to 51.7% in 2013. This is an important KPI to watch. Time and expense based pricing puts emphasis on accurate resource management, time collection and reporting. Fixed price pricing puts an emphasis on accurate estimates, project profitability and change management. Either way PSA applications are critical to support accurate time and expense capture and billing.

Table 59 compares billing models for embedded and independent PSOs. ESOs have been steadily shifting to fixed fee contracts – moving from 34% in 2009 to 46.6% in 2013. Independents still prefer time and materials contracts but they too have been shifting to more fixed price work from 37% in 2009 to 42.9% in 2013. By Geography, time and materials is still the prevalent pricing structure in the Americas and APac but in EMEA fixed fee contracts are favored.

Table 59: Fee Structure by Organization Type and Geographic Region

Fee Structure	Survey	ESO	PSO	Americas	EMEA	APac
Time & Expense	51.7%	49.0%	52.9%	53.7%	43.2%	51.7%
Fixed Time / Fixed Fee	44.0%	46.6%	42.9%	42.5%	52.5%	39.4%
Shared Risk / Performance-based	2.8%	0.6%	3.7%	1.9%	3.8%	8.9%
None of the Above	1.5%	3.8%	0.5%	1.8%	0.6%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Service Performance Insight, February 2014

Table 60 shows both the smallest and largest organizations favor fixed fee contracts. This year the number of shared risk or performance-based contracts doubled from 1.4% to 2.8% of total deals.

Table 60: Fee Structure by Organization Size

Fee Structure	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Time & Expense	42.3%	49.8%	51.0%	62.6%	55.4%	41.0%
Fixed Time / Fixed Fee	54.9%	46.4%	43.0%	34.3%	42.6%	54.4%
Shared Risk / Performance-based	2.6%	2.2%	3.8%	1.9%	1.3%	4.7%
None of the Above	0.1%	1.5%	2.2%	1.2%	0.7%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Service Performance Insight, February 2014

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 fixed price rapid implementation contracts.

Table 61: Fee Structure by Service Market Vertical

Fee Structure	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.	Other PS
Time & Expense	54.9%	40.9%	40.0%	55.8%	57.9%	27.5%	51.7%	33.2%
Fixed Time / Fixed Fee	42.7%	47.3%	58.8%	39.7%	39.8%	64.2%	46.7%	63.1%
Shared Risk / Perform.-based	0.8%	0.1%	1.3%	4.4%	0.5%	8.3%	1.7%	2.3%
None of the Above	1.5%	11.8%	0.0%	0.1%	1.8%	0.0%	0.0%	1.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Service Performance Insight, February 2014

Who Sells Services?

The survey asked respondents "Who sells professional services?" Tables in the following sections show the types of service sales representatives; their bookings targets; annual base compensation and on-target variable.

Embedded PS organizations rely primarily on the product sales force for service leads and sales; many of these organizations compensate their product sales reps equally for products and services. In other cases, the product sales force receives a lower commission on services as compared to products but achievement of the service quota is a requirement for achieving "club".

Embedded PSOs do not carry the entire cost of sales or marketing in their profit and loss statements. Top-performing embedded PS organizations have developed service packages and service estimating tools to help the product sales force articulate and sell the value of services. In many cases, the product sales organization is allowed to price and quote service packages as long as no discounts are given. SPI Research found the parent companies of top-performing embedded PS organizations also showed strong year-over-year revenue growth meaning they were well-positioned in a growing market so it was relatively easy for the captive PS organization to prosper. Product sales reps are backed up with PS

engagement managers or solution architects based on a team selling approach. This "hunter-skinner" model is reasonably effective with "hunters" focused on new business development while skinners bring in business domain and consulting knowledge to develop requirements and proposals.

Independents have two primary sales models: senior partner-led or dedicated solution sales. There are pluses and minuses with both approaches. In the traditional consulting pyramid, new college hires (at the bottom of the pyramid) work their way up to partner status over a period of years or even decades. The traditional consulting pyramid relies on junior consultants, fresh out of college or graduate school, to perform the majority of analysis and technical work. As they grow in domain knowledge, consulting and leadership skills they move up the pyramid to become case team leaders, project leaders, program leaders and ultimately, if they are good enough, they are offered partnership status to share in the firm's direction and profits. The benefit of the traditional consulting pyramid is that it provides a constant source of fresh new talent and ideas from leading universities while offering significant rewards to those who stay with the firm and make it to the top. The downside is that it is an expensive model, and the cost to recruit the top students from the top universities has become prohibitive. Further, today's top college graduates are no longer apt to stay with the same firm for decades to repay their years of apprenticeship.

The new model for independents is to hire dedicated solution sellers – often from technology firms. This model is far less expensive – the cost to recruit and ramp a new hire is a fraction of the apprenticeship model but the downside is that very few product sales people are able to become effective solution sellers. There simply is no substitute for domain knowledge and experience gained from years of delivering consulting. So in this model SPI Research sees a revolving door of sales people who don't make the grade because they are unable to develop new opportunities without substantial support from the consulting organization.

The most effective model is a hybrid combination of the two whereby senior solution consultants are groomed to become solution sellers. This new approach ensures domain expertise and intimate knowledge of consulting delivery without the overhead of partnership profit and loss management. The challenge is to convince senior consultants and solution architects to move into full-time business development roles. Selling aptitude, training and compensation are required.

Professional Services Sales Quotas

Table 62 shows the powerful impact of sales quotas. Surprisingly 60 percent of the firms in the benchmark assign individual annual sales quotas of less than $1.5 million yet the firms with the highest sales quotas of $2.5 million and higher clearly produce the best results as measured by deal size, revenue per billable employee and net profit.

Table 62: Annual Service Sales Revenue Quota per Person

Annual Sales Quota	Survey %	% of reps who achieve quota	Average closed deal size	Revenue / Billable Employee (k)	% of Annual Revenue Target Achieved	% of Margin Target Achieved	EBITDA
Under $1.0 mm	37.0%	60.4%	$85	$191	87.3%	83.4%	13.1%
$1.0 to $1.5 mm	23.3%	65.6%	$104	$213	82.1%	74.1%	8.3%
$1.5 to $2 mm	13.7%	70.0%	$107	$205	88.5%	83.0%	9.8%
$2.0 to $2.5 mm	5.5%	75.0%	$103	$233	106.7%	96.7%	12.5%
$2.5 to $3 mm	8.2%	67.5%	$179	$225	98.3%	90.8%	14.2%
Over $3 mm	12.3%	80.0%	$140	$228	91.1%	96.1%	15.9%
$1.59 mm Avg.	**100.0%**	**66.7%**	**$112**	**$208**	**88.7%**	**84.1%**	**11.9%**

Source: Service Performance Insight, February 2014

Table 63 shows the stark reality of sales quota achievement. Fully 25% of the organizations surveyed reported less than 50% of their services sales people achieve quota while less than 20% of service sales people attain better than 90% of their annual quota. Interestingly, higher levels of quota achievement are directly correlated with larger quotas. Quota achievement has a direct impact on overall revenue and margin target attainment as well as net profit.

Table 63: Percentage of Service Sales Representatives Who Achieve Annual Quota

% of Reps Who Achieve Quota	Survey %	Quota per rep (mm)	Deal pipeline relative to qtr. bookings forecast	Revenue / Billable Employee (k)	% of Annual Revenue Target Achieved	% of Annual Margin Target Achieved	EBITDA
Under 50%	24.6%	$1.10	163%	$222	76.2%	73.5%	12.2%
50% - 60%	15.9%	$1.59	218%	$183	86.0%	81.5%	11.0%
60% - 70%	14.5%	$1.68	175%	$190	92.0%	86.0%	7.8%
70% - 80%	14.5%	$1.65	220%	$223	93.0%	87.5%	9.3%
80% - 90%	11.6%	$1.97	179%	$218	102.9%	92.1%	11.7%
Over 90%	18.8%	$1.85	196%	$221	90.8%	90.0%	17.0%
Total	**100.0%**	**1.60**	**184%**	**$210**	**88.3%**	**83.9%**	**11.8%**

Source: Service Performance Insight, February 2014

Table 64 is interesting because it shows (in general) independent service sales people carry higher quotas than their embedded counterparts. Dedicated service sales professionals carry higher service quotas but also have a higher base than product sales people who also sell services. Firm or practice managers carry the highest service quotas but also receive the highest base and variable. For both product sales and service sales quotas and compensation are higher in APac and the Americas and lower in EMEA.

Table 64: Professional Services Sales KPI's by Organization Type and Geography

Key Performance Indicator (KPI)	Survey	ESO	PSO	Americas	EMEA	APac
Organization Size (people)	253	318	226	269	263	82
Product Sales number of reps selling	17.1	29.4	9.0	17.7	17.5	7.5
Prod. Sales Ann. PS Bookings Target (mm)	$1.71	$1.64	$1.79	$1.74	$1.63	$1.50
Product Sales Annual Rep. Base Pay (k)	$95	$104	$87	$93	$98	$112
Product Sales On-target Variable	23.3%	23.4%	23.2%	23.2%	25.3%	20.0%
Service Sales number of reps selling	4.6	2.7	5.7	4.3	6.4	4.1
Service Sales Ann. PS Book. Target (mm)	$2.33	$2.26	$2.36	$2.37	$1.55	$2.50
Service Sales Annual Rep. Base Pay (k)	$102	$103	$101	$102	$80	$118
Service Sales On-target Variable	24.7%	19.9%	26.5%	25.0%	18.0%	27.1%
Service Mgr. number of reps selling	6.0	6.9	5.5	6.5	4.3	3.7
Service Mgr. Ann. PS Bookings Target (mm)	$1.70	$1.88	$1.59	$1.83	$1.13	$1.25
Service Managers Annual Base Pay (k)	$111	$109	$111	$113	$88	$120
Service Managers On-target Variable	17.0%	16.1%	17.4%	17.6%	11.8%	18.1%
Partner Annual number of reps selling	4.8	6.1	4.2	5.3	2.8	3.2
Partner Annual PS Booking Target (mm)	$1.94	$1.86	$1.98	$2.10	$0.86	$1.13
Partner Annual Base Pay (k)	$138	$133	$140	$140	$120	$135
Partner On-target Variable	19.5%	18.5%	19.9%	19.8%	11.4%	31.7%

Source: Service Performance Insight, February 2014

Table 65 shows that both quotas and compensation go up with the size of the organization. It also shows the largest organizations shift to a higher component of leveraged compensation; in other words, lower base salary and a higher component of commission or variable compensation.

Table 65: Professional Services Sales KPI's by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Organization Size (people)	4	23	61	141	353	1,784
Product Sales number of reps selling	1.9	7.4	10.6	16.0	44.6	63.7
Prod. Sales Ann. PS Bookings Target (mm)	$0.88	$1.54	$1.79	$1.55	$1.50	$2.75
Product Sales Annual Rep. Base Pay (k)	$85	$90	$99	$93	$108	$88
Product Sales On-target Variable	16.7%	18.5%	22.3%	26.2%	26.3%	30.3%
Service Sales number of reps selling	0.8	2.4	2.3	3.6	7.1	25.8
Service Sales Ann. PS Book. Target (mm)	$0.88	$1.75	$2.40	$2.56	$3.08	$3.00
Service Sales Annual Rep. Base Pay (k)	$73	$78	$110	$111	$125	$102
Service Sales On-target Variable	5.0%	23.6%	22.9%	27.6%	31.7%	27.1%
Service Mgr. number of reps selling	2.3	2.2	3.1	5.9	12.3	30.8

Key Performance Indicator (KPI)	Under 10	10 - 30	31 - 100	101 - 300	301 - 700	Over 700
Service Mgr. Ann. PS Bookings Target (mm)	$0.75	$1.10	$1.64	$2.29	$2.50	$2.92
Service Managers Annual Base Pay (k)	$98	$98	$105	$123	$131	$115
Service Managers On-target Variable	7.5%	15.0%	14.3%	18.0%	32.5%	17.0%
Partner Annual number of reps selling	1.6	2.2	2.7	3.3	8.3	30.0
Partner Annual PS Booking Target (mm)	$0.83	$1.59	$2.08	$2.41	$1.89	$2.75
Partner Annual Base Pay (k)	$105	$127	$141	$150	$147	$128
Partner On-target Variable	19.5%	16.0%	15.1%	23.2%	28.9%	22.5%

Source: Service Performance Insight, February 2014

Table 66 compares the base, service bookings quota and variable by PS Market. For embedded PS, software product and service sales people receive the highest base salary while their hardware counterparts have the highest variable percentage. SaaS product and service sales people have the highest service bookings quotas but receive a lower base than their enterprise software counterparts. SaaS PS leaders (firm or practice managers) receive the highest base compensation while their hardware counterparts have the highest variable (leveraged) compensation component.

Table 66: Professional Services Sales KPI's by Position by PS Market

Key Performance Indicator (KPI)	SW PS	SaaS PS	HW PS	IT Consult	Mgmt. Consult.	Advert.	Arch./ Engr.	Other PS
Organization Size (people)	374	61	873	146	108	175	85	810
Product Sales number of reps selling	31.6	18.5	46.5	9.3	9.3	NA	2.4	11.7
Prod. Sales Ann. PS Bookings Target (mm)	$1.81	$1.41	$0.50	$1.72	$2.08	NA	$1.25	$2.03
Product Sales Annual Rep. Base Pay (k)	$106	$104	$90	$87	$79	NA	$68	$96
Product Sales On-target Variable	24.8%	18.2%	26.9%	24.9%	8.8%	NA	18.3%	18.8%
Service Sales number of reps selling	2.9	1.9	1.5	5.2	6.0	3.0	2.1	9.0
Service Sales Ann. PS Book. Target (mm)	$2.52	$1.56	$1.13	$2.30	$2.71	$2.38	$0.50	$2.97
Service Sales Annual Rep. Base Pay (k)	$107	$102	$90	$102	$106	$98	$78	$101
Service Sales On-target Variable	22.2%	11.9%	21.3%	27.7%	25.7%	21.3%	7.5%	25.6%
Service Mgr. number of reps selling	7.9	5.2	6.0	5.5	7.6	3.0	5.5	3.7
Service Mgr. Ann. PS Bookings Target (mm)	$2.01	$0.50	$1.50	$1.55	$1.21	$2.00	$2.75	$1.88
Service Managers Annual Base Pay (k)	$111	$110	$100	$114	$114	$110	$118	$89

Key Performance Indicator (KPI)	SW PS	SaaS PS	HW PS	IT Consult	Mgmt. Consult.	Advert.	Arch./ Engr.	Other PS
Service Managers On-target Variable	14.0%	NA	23.1%	20.3%	8.0%	23.8%	7.5%	13.0%
Partner Annual number of reps selling	5.6	1.5	24.8	5.0	3.3	4.5	1.5	2.2
Partner Annual PS Booking Target (mm)	$1.99	$0.92	$1.50	$1.96	$1.92	$2.33	$1.50	$2.42
Partner Annual Base Pay (k)	$135	$148	$100	$139	$147	$175	$115	$139
Partner On-target Variable	18.2%	13.8%	23.1%	23.3%	8.9%	11.3%	23.8%	14.3%

Source: Service Performance Insight, February 2014

7. HUMAN CAPITAL ALIGNMENT PILLAR

The Human Capital Alignment pillar encompasses all elements of the PSO's workforce strategy. Human Capital Alignment focuses on both the people and management processes required to recruit, attract, retain and motivate a high quality consulting workforce. Changing workforce dynamics and a critical technical skills shortage have dictated that talent management must be a primary focus.

The new world of work depends on a multi-lingual, global, technically-skilled, project-based workforce. Today's professional service leaders must squarely confront the realities of attracting and retaining a new generation of consultants against the backdrop of technical labor shortages as skilled baby boomers retire. Globalization has significantly impacted workforce strategies with many service organizations providing hybrid teams of on and off-site resources via regional and global competency centers.

Based on advances in technology, emphasis is shifting toward business process and vertical industry expertise while demand for horizontal application and technical skills also remains high. A handful of Goliath service organizations are no longer the only ones to offer everything from strategy to implementation to business process outsourcing. Now, in addition to the Goliaths, thousands of boutique PS organizations provide a comprehensive portfolio of high-quality services at competitive prices.

A perennial top challenge is "attracting, retaining and energizing a high quality workforce". The recession did not alleviate the pace of globalization nor assuage skilled talent shortages; it only exacerbated them as emerging markets have become the new centers of growth.

The following table shows how PSOs mature across the Human Capital Alignment pillar:

Table 67: Performance Pillars Mapped Against Service Maturity

	Level 1 Initiated	Level 2 Piloted	Level 3 Deployed	Level 4 Institutionalized	Level 5 Optimized
Human Capital Alignment	Hire as needed. Generalist skills. Chameleons, Jack of all Trades. Individual heroics. May perform presales as well as consulting delivery. Inconsistent performance & compensation mgmt.	Begin forecasting workload. Start developing job and skill descriptions & compensation plans. Performance management. Rudimentary career paths & mentoring programs. Start measuring employee satisfaction.	On-boarding, ramping and mentoring programs. Resource, skill and career management. Effective Performance Mgmt. 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 growth. Low attrition, high satisfaction.	Continually staff and train to meet future needs. Highly skilled, motivated workforce. Outsource commodity skills or peak demand. Sophisticated variable on and off-shore workforce model.

Source: Service Performance Insight, February 2014

As a people-based business, a PSO's success depends on attracting, hiring, retaining, and motivating a highly skilled workforce. PSOs face increased competition for global talent along with pressure to lower

their bill rates. Many best-in-class PSOs solve that conundrum by investing in their employees' career growth to enhance retention, guaranteeing training for skill development and certification.

Human Capital Alignment Trends

In 2000, approximately 605 million people were 60 years or older. By 2050, that number is expected to be close to 2 billion. At that time, seniors will outnumber children 14 and under for the first time in history. Every day over 10,000 Americans turn 60. That equates to 3,650,000 new seniors every year. If you are in the nursing home business these numbers are music to your ears but if you are in professional services there is growing awareness and concern that a whole generation of skilled baby boomer knowledge workers are exiting the workforce – at an alarmingly fast pace – without enough skilled millennials to replace them. According to the OECD over the period from 1990 to 2010 employment rates for the youngest age group (15 to 24) have declined by more than 10 percentage points leading to an ever increasing problem of marginalized and disenfranchised youth. Clearly these statistics show PS organizations must make talent development a cornerstone of their growth strategies.

Table 68: An Aging Workforce – Marginalized Youth

Age Group (years)	1990	2000	2005	2010
Persons 15-24 employed	59.8%	59.7%	53.9%	45.0%
Persons 25-54 employed	79.7%	81.5%	79.3%	75.1%
Persons 55-64 employed	54.0%	57.8%	60.8%	60.3%

Source: OECD Factbook 2011-2012

Creating the changing workforce

Changing workforce dynamics are driving PS executives to create a different type of workforce that requires technical and client management competency with equal parts of flexibility, autonomy and accountability. This change means one of the most important challenges for today's PS 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 human capital alignment challenges include:

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

According to a Towers Watson Global Workforce Study, competitive base pay, an organization's reputation as a great place to work and a senior management team who is sincerely interested in employee well-being are the top drivers of employee attraction, retention and engagement. Surveys continually show that creating a high-performance employee culture involves leadership, effective

teamwork, access to high-quality training and career development plans rather than compensation alone.

One of the more interesting aspects of Service Performance Insight's research is the importance of an integrated human capital strategy. Finding, hiring, motivating and retaining key employees is just the beginning. SPI Research found human capital alignment metrics contain the highest number of performance indicators with *extremely strong* correlation to success — meaning how employees perform once onboard dictates ultimate success or failure.

Service Performance Insight's research shows major growth in the use of flexible scheduling options — 40 percent more organizations have telecommuting programs compared to a year ago. And more than half of all companies now offer flextime so employees can adjust work hours to minimize commutes and accommodate required travel and childcare. Remote service delivery has rapidly become standard for PSOs; 40 percent or more of all PS work is now delivered virtually from an off-site location.

Table 69: Most Effective Retention Strategies by Generation

Rank	Generation Y (Under 30)	Generation X (Ages 30 to 44)	Baby Boomers (Ages 45 to 64)	Veterans (Over Age 65)
1	Company Culture (21%)	Additional Bonus or financial incentives (21%)	Additional benefits (health & pensions) (26%)	Additional Bonus or financial incentives (25%)
2	Flexible Work Arrangements (20%)	Additional compensation (19%)	Additional Bonus or financial incentives (23%)	Additional benefits (health & pensions) (24%)
3	New Training Programs (19%)	Strong leadership/ organizational support (19%)	Additional compensation (21%)	Flexible Work Arrangements (20%)
4	Recognition from supervisors (19%)	Customized/individual career planning (18%)	Strong leadership /organizational support (21%)	Corporate social responsibility (20%)
5		Succession Planning (18%)		

Source: Deloitte Talent Edge 2020

The Talent Cliff

The talent cliff is a hot topic. PS organizations are seeing a trifecta of forces come together to produce a talent tsunami: Baby Boomers exiting the workforce without enough skilled gen X and gen Y workers to replace them; underfunding of education particularly in Science, Technology, Engineering and Math (STEM) meaning not enough college graduates with the requisite skills; combined with unenlightened immigration policies which have capped the number of visas for skilled knowledge workers. All of this at exactly the same time that growth in professional service revenue is surging and "buy local" has become a new mantra!

According to Gartner "A big data talent shortage looms large, and until more workers are educated to meet the demand, nothing can save us from going over the talent cliff. Big Data will drive $34 billion of IT spending in 2013; by 2015 4.4 million IT jobs will be created globally to support big data. Of these, 1.9 million will be in the US. However, Gartner predicts only one-third of these jobs will be filled because

there is not enough talent in the industry to support these demands." ***Peter Sondergaard, Gartner, Says Big Data Creates Big Jobs***

Talent Strategies

To fill the workforce void, more and more PSOs are developing innovative new talent strategies: close partnerships with local universities; new hire internships; job-sharing programs; flexible work – study – childcare options; on-boarding programs; on-the-job training and mentoring combined with extensive "on-shore" assignments for "off-shore" employees. Increasingly the reputation of the firm as a "great place to work" is just as important as "client referrals". What this all boils down to is that talent is fast becoming the number one make-it or break-it element in professional service growth….or even survival.

To meet these demands, top PSOs:

- Δ Focus on programs to hire and train entry-level talent with skills in science, technology, math and engineering (STEM)
- Δ Include personality and time management testing to ensure new hires possess excellent communication and organizational skills in addition to technical skills
- Δ Invest in internships and college hiring to groom the next generation of consultants
- Δ Cross-train current employees who have strong analytic abilities
- Δ Sponsor training and work visas for international workers with strong background and skills
- Δ Offer flexible work arrangements – work from home, job-sharing, remote service delivery, child care options
- Δ Build a culture of excellence – the best and brightest are attracted by leading edge technologies, clients and projects plus a culture that supports collaboration and innovation
- Δ Pay for performance – link compensation to knowledge and skills growth along with contributions to the practice – not just revenue generation alone
- Δ Invest in employee engagement - Communication, training and recognition are essential to keep a talented workforce engaged

Workforce distribution

Workforce distribution is anther operational challenge impacting talent management. Service Performance Insight's research shows the new world of work is increasingly global, making remote service delivery, collaboration and communication tools critical for success. While almost 75% of this survey's participants are North American-based PSOs, over 40% of the workforce is located overseas, and less than 25% are based within the confines of corporate headquarters. Having workers in many locations worldwide can create serious issues in employee productivity and efficiency.

Over the past several years, the amount of work PS consultants deliver on the client's site has reduced significantly. Based on client and service-provider desire to reduce the cost of travel and the availability of powerful remote service delivery tools, consultants are performing more and more PS work virtually. These changes have caused PS executives to reevaluate their hiring practices, globally sourcing

employees with solid core skills and with the ability and attitude to work independently. Except for the most difficult technical problems, a "can do attitude" combined with a strong work ethic and great communication skills are the most-prized virtues of today's consultants.

Virtual Teams

Clients and professional service providers have moved to virtual project teams. The benefits of "virtual" projects are reduced travel costs and the ability to use the best available resources, regardless of location. The negative aspect of global project delivery is more hours spent on administration, communication and quality management. Often global projects require both an onshore and an offshore project manager. The onshore manager is responsible for client relationships, requirements, budget and timeline, while the offshore project manager keeps the offshore team on schedule and ensures the client requirements are translated into a detailed work plan.

More project overhead and management duality is a necessary component of ensuring offshore teams meet schedules, and client requirements are reflected in the work product. This area cannot be underestimated, as project management and administrative time account for a greater percentage of work-hours than ever before. Over the past year, SPI Research has seen the percentage of work monitored by a project management office (PMO) go from 37 percent to 42 percent.

Survey Results

The following section reviews and analyzes the 2014 PS Maturity™ benchmark results from 238 participating professional services organizations. In this section SPI Research analyzes 57 Human Capital Alignment key performance measurements that are critical to attaining superior employee performance.

Table 70 summarizes important talent management questions by organization type and location. Independents are more likely to refer their firm as a great place to work than their embedded counterparts. APac is more likely to recommend the firm as a great place to work than in the Americas or EMEA. Embedded and Americas-based organizations have larger management spans of control. The average time to recruit and hire a new consultant is 130 business days which translates (at $150 per hour) to a cost of $155,880. Obviously, reducing the time and cost of finding and ramping new employees has a major impact on growth and profitability. Interviews with this year's best of the best revealed innovative college hiring and ramping programs – with intense on-boarding programs of three months or more to ensure new consultants will be successful and productive. The need for training has resulted in a big increase in the days of guaranteed training – moving from 3.8 days in 2008 to over 9 days on average in 2013. PS organizations of all types and sizes have found they simply cannot steal enough experienced consultants from their competitors to support their growth.

At the same time, PS organizations are finally starting to realize the importance of providing career opportunities for their employees – this has led to a slight improvement in the benchmark of "a well-understood career path," which has advanced from a score of 2.67 out of 5 (53%) in 2009 to 3.23 (65%)

in 2013. 2013 saw a slight drop in average billable utilization from 70.3% to 69.7%. Although this may not seem like a big deal, given the scope of this benchmark (which reflects over 60,000 consultants), this drop meant the average consultant billed 1,394 hours versus 1,407 hours the year before resulting in a revenue loss (at $150 per hour) of $1,950 per consultant or $11.7 mm for the benchmark at large.

Table 70: Human Capital Alignment by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2013	ESO	PSO	Americas	EMEA	APac
Employee annual attrition	8.3%	7.6%	8.6%	8.9%	7.0%	5.2%
Recommend company to friends/family	4.28	4.09	4.35	4.36	3.88	4.42
Management to employee ratio	10.13	10.52	9.97	10.29	9.88	9.21
Time to recruit and hire for standard positions (days)	61.2	63.4	60.4	60.8	64.8	57.6
Time for a new hire to become productive (days)	68.7	85.3	61.9	67.4	76.1	63.9
Guaranteed training per employee per year (days)	9.01	8.96	9.03	8.62	8.84	13.06
Well-understood career path for all employees	3.23	3.09	3.28	3.22	3.05	3.68
Employee billable utilization	69.7%	68.3%	70.2%	71.2%	59.7%	75.8%

Source: Service Performance Insight, February 2014

Table 71 shows the human capital alignment scores by organization size. Attrition rises in direct proportion with organization size as employees feel less ownership and their work becomes more impersonal. Interestingly, most PS organizations, regardless of size, would recommend their firm as a great place to work. The management-to-employee ratio increases with the size of the organization due to economies of scale and investments in systems and tools which improve management visibility. The time to recruit, hire and ramp a new consultant increases with the size of the organization due to bureaucracy and approval levels. Larger organizations clearly need to focus on reducing their recruiting and ramping time and costs. Billable utilization increases with organization size with organizations from 300 to 700 employees reporting the highest utilization of 77%.

Table 71: Human Capital Alignment by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Employee annual attrition	6.6%	8.4%	7.5%	9.6%	9.1%	10.3%
Recommend company to friends/family	4.35	4.09	4.36	4.36	4.27	4.25
Management to employee ratio	7.33	7.94	10.79	11.51	13.00	12.27
Time to recruit and hire for standard positions (days)	66.6	66.3	58.0	54.4	58.9	76.4
Time for a new hire to become productive (days)	69.4	73.8	63.7	67.3	71.0	79.1

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Guaranteed training per employee per year (days)	6.88	8.91	9.49	8.87	8.17	10.75
Well-understood career path	3.40	2.95	3.23	3.45	3.47	3.33
Employee billable utilization	62.9%	63.3%	72.9%	73.0%	77.0%	70.0%

Source: Service Performance Insight, February 2014

Table 72 shows key human capital alignment metrics by market. Both growth and attrition are highest for marketing and communication firms. Embedded hardware and software PSOs have the largest management span of control which may be a contributor to the length of time to recruit and ramp new consultants which is much longer than their independent counterparts. Hardware PSOs offer the most training which may be a reason why they report the highest billable utilization.

Table 72: Human Capital Alignment by Vertical Service Market

Key Performance Indicator (KPI)	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.
Employee annual attrition	8.2%	6.7%	6.5%	7.5%	9.1%	20.8%	8.2%
Recommend company to friends/family	4.07	4.07	4.75	4.37	4.29	4.33	4.50
Management to employee ratio	11.22	8.00	11.25	10.27	8.91	8.33	12.50
Time to recruit and hire for standard positions (days)	67.0	59.0	52.5	59.2	57.3	57.0	55.0
Time for a new hire to become productive (days)	94.3	70.0	63.8	62.3	55.4	35.0	55.0
Guaranteed training per employee per year (days)	9.89	6.83	7.50	10.05	6.43	6.25	5.00
Well-understood career path for all emp.	3.13	2.93	3.00	3.40	2.77	3.50	2.67
Employee billable utilization	67.7%	67.0%	75.0%	70.6%	67.8%	71.7%	70.0%

Source: Service Performance Insight, February 2014

Workforce Age and Gender

For the first time, SPI Research asked questions about the age and gender of the global PS workforce. Embedded PS organizations are apt to have younger workforces as they tend to provide better on-boarding programs than their independent counterparts. APac had the oldest workforce with the fewest under 30 employees but the most 30 to 40 year olds. ESOs and EMEA are the most male-dominated (almost 70%). Overall, the technology professional service workforce is predominantly male with 65.1% (representing 60,000 consultants) reported to be male. The only PS sub-vertical which is predominantly female is marketing and advertising where creativity trumps technical prowess. PS is a young man's game with 56.5% of the workforce under 40.

Table 73: Workforce Age and Gender by Organization Type and Geographic Region

Workforce Age (yrs)	2013	ESO	PSO	Americas	EMEA	APac
Under 30	21.6%	24.4%	20.2%	21.6%	24.3%	15.1%
30 - 40	34.9%	36.5%	34.2%	34.8%	33.2%	39.8%
40 - 50	29.4%	28.2%	30.0%	29.6%	28.6%	28.5%
Over 50	14.1%	10.9%	15.7%	13.9%	13.9%	16.6%
Average Age (Yrs)	**39.0**	**37.8**	**39.5**	**38.9**	**38.6**	**40.1**
Percentage Male	**65.1%**	**69.5%**	**62.8%**	**64.5%**	**68.3%**	**65.0%**

Source: Service Performance Insight, February 2014

By organization size, the smallest organizations have the oldest employees as highly skilled consultants leave larger firms to start their own. Organizations with 300 to 700 consultants have both the youngest and most male-dominated workforces. PS is a man's world; over 65% of the workforce is male.

Table 74: Workforce Age and Gender by Organization Size

Role	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Under 30	11.6%	17.3%	24.6%	22.7%	28.9%	22.3%
30 - 40	20.2%	33.6%	37.0%	36.3%	39.5%	39.9%
40 - 50	42.6%	33.1%	27.3%	27.6%	21.3%	21.4%
Over 50	25.6%	16.1%	11.0%	13.4%	10.3%	16.4%
Average Age (Yrs)	**43.9**	**40.2**	**37.8**	**38.5**	**36.5**	**38.6**
Percentage Male	**65.7%**	**64.4%**	**62.3%**	**67.6%**	**70.8%**	**68.6%**

Source: Service Performance Insight, February 2014

Table 75: Workforce Age and Gender by Vertical Service Market

Role	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.	Other PS
Under 30	23.7%	26.0%	23.0%	19.3%	15.2%	46.0%	20.5%	21.6%
30 - 40	34.8%	41.6%	36.8%	35.1%	28.6%	29.7%	28.2%	39.8%
40 - 50	30.1%	24.9%	25.8%	30.3%	32.4%	20.5%	35.0%	26.8%
Over 50	11.4%	7.6%	14.5%	15.4%	23.8%	3.8%	16.3%	11.8%
Average Age (Yrs)	**38.2**	**36.6**	**38.5**	**39.6**	**42.1**	**33.3**	**40.1**	**38.2**
Percentage Male	**67.6%**	**73.3%**	**77.5%**	**67.3%**	**55.0%**	**44.2%**	**77.5%**	**56.3%**

Source: Service Performance Insight, February 2014

Table 75 shows Marketing and Advertising and SaaS organizations have the youngest workforces. Marketing and Advertising is the only PS sub-vertical that is female-dominated with 55% of the workforce reported to be female. Hardware PS and architects and engineers are by far the most male-dominated sub-verticals with over 77.5% male employees. Management consultancies employ the

oldest workforce; this makes sense as grey-hair and experience are virtues when it comes to management consulting strategy and operational improvement.

Employee Annual Attrition

Employee attrition is defined as the average number of employees who left the company, either voluntarily or involuntarily, over the past year divided by the number of starting employees. Voluntary attrition, employees who leave that are not asked to leave, is one of the most important key performance indicators in the services sector as employees are the most valuable resource. Annual attrition in the professional services sector has been steadily climbing since the recession ended. With the economy continuing to pick up, and more new jobs available, SPI Research expects attrition to climb back to historic levels of 10% or higher

Three years of layoffs and general cost-cutting reduced bench strength. It now takes management longer to approve positions, and to hire, train and deploy new employees. The current average length of time to hire is 61.2 days, and it takes an additional 68.7 days for a new hire to become productive — making it hard to increase revenue and margins when firms must backfill leaving employees.

Table 76 shows the correlation between happy employees and revenue growth. This table shows the negative consequences of high attrition rates. As attrition rises, PSOs lose talent necessary to broaden the client base. The probability of on-time project delivery decreases while average project overruns increase. Remaining employees have to pick up the pieces from exiting workers and must quickly come up to speed and reestablish client relationships. Clients are forced to back-track to reestablish previous decisions and vendor commitments.

Table 76: Impact – Annual Employee Attrition

Annual Employee Attrition	Survey Percent	Project Staff. Time (days)	Rev. Growth	New Clients
None	10.5%	**6.4**	11.8%	28.1%
1% - 5%	28.9%	**9.0**	9.3%	31.7%
5% - 10%	28.9%	**9.6**	10.1%	32.4%
10% - 15%	19.7%	**10.1**	8.2%	29.7%
15% - 25%	7.9%	**11.7**	11.1%	26.2%
Over 25%	3.9%	**10.6**	18.8%	40.6%
Total/Average	**100.0%**	**9.4**	**10.1%**	**31.0%**

Source: Service Performance Insight, February 2014

Organizations with high levels of attrition often turn to third-party contractors to supplement or temporarily backfill positions. While subcontractors can help keep costs down, too heavy a reliance on them has the potential negative consequence of reducing morale, overall productivity and quality. Contract workers have less loyalty to their temporary employers so communication and teamwork can suffer. Intellectual property and security concerns are amplified with contingent workers.

During the dot.com era, attrition in many professional services organizations averaged over 25% annually. Studies show young employees just out of college may try up to 10 different jobs in the first ten years after college while older employees are more likely to stay three years or more. Finding

employees who are a good fit for the job and culture is an important component of increasing engagement and retention.

Why Employees Leave

Why do employees leave? Obviously, employees leave for a variety of reasons, but in many cases there is one primary motivation which is the catalyst for moving on. Figure 41 shows the top reasons why employees leave professional services organizations. The number one rationale is "better opportunity" which translates to a better work environment and perhaps better compensation. As the economy continues to improve and the talent shortage worsens, attrition will only rise. "Other" covers a magnitude of issues – "work/life" balance or leaving the industry entirely. "Lack of career advancement" moved into the third most prevalent reason employees leave as 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.

Figure 41: Why Employees Leave

Source: Service Performance Insight, February 2014

"Travel" is and will continue to be a major reason consultants quit, oftentimes for less-interesting, but more stable internal positions. Fortunately, remote service delivery tools and the ability to deliver more work virtually are having a beneficial effect on reducing travel time, cost and employee burnout. The Best-of-the-Best firms place a premium on their employees – finding ways to include career development; challenging and exciting projects with family/life/work balance and a measure of fun.

Recommend Company to Friends and Family

One of the most important employee engagement measurements is whether an employee would recommend their company "as a great place to work" to their friends and family. More than any other key performance measurement in the Human Capital Alignment pillar, recommending one's company as a great place to work is considered the litmus test of employee engagement.

Table 77 shows the impact of workplace satisfaction. The good news is 86.2% of the organizations in the survey would highly recommend their work environment. Great places to work are characterized by employee engagement, a strong culture of achievement and confidence in the future. In a people-based business like PS, the quality of the work environment translates directly to the bottom-line in terms of more billable employees and a higher probability of target margin achievement.

Table 77: Impact – Recommend to Family and Friends

Score	% Surveys	Well understood career path	Confid. In PSO future	% of billable employees	Achieve margin targets
1 - No	0.4%	1.00	1.00	20.0%	70.0%
2	2.6%	1.83	3.00	49.2%	83.3%
3	10.8%	2.92	3.50	69.8%	85.4%
4	41.4%	3.10	3.78	70.6%	86.2%
5 - Yes	44.8%	3.55	4.41	74.1%	90.7%
Avg.	**100.0%**	**3.24**	**4.00**	**71.3%**	**88.0%**

Source: Service Performance Insight, February 2014

Management-to-Employee Ratio

The management-to-employee ratio divides the number of employees by the number of people managers. Management-to-employee ratio (also referred to as "span of control") is an important measurement of management effectiveness and is an indication of lean or excessive management overhead. The average management-to-employee ratio in 2011 rose to 1:10 after a steep decline to 1:8.9 in 2010 during the depths of the recession suggesting firms laid off proportionately more individual contributors than managers.

In 2013, with a significant upturn in business, firms are starting to hire again and are finding the burden of recruiting and ramping new employees is putting tremendous pressure on already stretched managers. Few small and medium-size firms have effective management training programs so we are seeing a significant number of "battle-field" promotions without the requisite support structure. The Best-of-the-Best organizations are starting to add a "team leader" position to groom the next generation of leaders.

Table 78 is interesting because it shows the effect of management to employee ratios. It appears that a larger management span of control has a beneficial effect on performance. Of course this implies that employees clearly understand the work they are asked to perform and have a rich support structure of mentors, tools and knowledge to guide them so they don't have to rely

Table 78: Impact – Management-to-Employee Ratio

Management-to-Employee Ratio	Survey Percent	Revenue / Billable Employee (k)	Billable Utilization	EBITDA
1:5	33.0%	$196	67.0%	9.4%
1:10	44.3%	189	69.3%	9.9%
1:15	13.9%	212	75.0%	17.2%
1:20	4.3%	161	72.5%	17.7%
Over 1:20	4.3%	214	72.5%	18.6%
Total/Average	**100.0%**	**$194**	**69.6%**	**11.5%**

Source: Service Performance Insight, February 2014

solely on management for direction.

The table compares the management-to-employee ratio to other key performance indicators for the 238 PSOs in the survey. Over 77% of the organizations maintain a less than 1:10 management to employee ratio. As the ratio increases, so do many of the key financial metrics. The key to profitable growth is finding the right balance of respected managers to employees. Integrated business applications and strong communication practices along with standardized methods, tools and knowledge sharing all contribute to higher productivity with less reliance on management overhead.

Time 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 of 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 ramping process.

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

Table 79 compares the time required to recruit for standard positions (such as consultants) to other key performance indicators for the 238 PSOs answering the question. This table highlights that as it takes longer to recruit and hire, billable utilization suffers, as current employees spend more time helping out with the process, which limits their billable time. However, the profitability results improve with longer recruiting and ramping time. Although expensive and time consuming, recruiting and ramping time does not appear to be a major determinant of bottom-line profitability.

Table 79: Impact – Time to Recruit and Hire for Standard Positions

Time to recruit and hire for standard positions	Survey Percent	Billable Util.	On-time Projects	EBITDA
Under 1 month	8.3%	75.8%	73.9%	9.2%
30 - 60 days	47.4%	71.3%	78.1%	8.5%
60 - 90 days	32.2%	65.1%	76.0%	13.1%
90 - 120 days	8.3%	71.8%	77.1%	19.5%
Over 120 days	3.9%	66.9%	85.0%	16.2%
Total/Average	**100.0%**	**69.5%**	**77.3%**	**11.2%**

Source: Service Performance Insight, February 2014

Time for a New Hire to Become Productive

Once employees are hired, there is always some "ramp time" involved in preparing consultants to become billable. Many firms report they invest a minimum of six to nine months in new-hire orientation, training programs and on-the-job mentoring before a new-hire is able to become fully

billable. Due to the high cost of employee ramping, during periods of rapid expansion, ramping time and cost must be factored into growth plans because overall profitability will take a hit.

Table 80 shows 52.2% of the PSOs in the survey reported over 60 days for a new consultant to become productive. Well-structure n-boarding and mentoring programs are mandatory for organizations planning on significant growth.

Table 80: Impact – Time to Become Productive

Time to become productive	Survey Percent	Billable Util.	Rev. / Employee (k)	EBITDA
Under 1 month	20.3%	73.4%	$168	7.1%
30 - 60 days	27.6%	70.4%	153	13.0%
60 - 90 days	23.3%	68.6%	153	13.2%
90 - 120 days	16.8%	66.7%	153	11.4%
Over 120 days	12.1%	66.7%	150	11.9%
Total/Average	**100.0%**	**69.5%**	**$156**	**11.4%**

Source: Service Performance Insight, February 2014

Guaranteed Training Days per Employee per Year

The guaranteed number of training days per employee per year is the average number of training days budgeted each year per employee. Similar to 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. Best-of-the-Best organizations mandate more than a week of training per year. Some firms provide over four weeks of training per year. Several best of the best firms put new hires through intensive three month scenario-based training programs where they work as a team to develop requirements, architect and implement real-world solutions.

Table 81: Impact – Guaranteed Training

Guaranteed Training Days per Employee per Year	Survey Percent	Well-under. Career path	Rev. / Emp. (k)	EBITDA
None	1.3%	2.67	$192	N/A
Under 5 days	24.2%	2.70	166	10.1%
5 - 10 days	44.1%	3.19	165	9.5%
10 - 15 days	16.3%	3.57	154	15.0%
15 - 20 days	6.2%	3.79	138	18.2%
Over 20 days	7.9%	4.00	85	13.5%
Total/Average	**100.0%**	**3.23**	**$156**	**11.3%**

Source: Service Performance Insight, February 2014

PSOs find investments in both technical and interpersonal skill building pays dividends. 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 Best-of-the-Best firms include significant

others and spouses in their annual events to thank them for holding down the fort while their road-warrior partners delight clients.

Well-Understood Career Path for all Employees

The survey asked if the organization provides a well understood employee career path, meaning as employees are hired and move within different positions, is there a planned next step for their career progression (Table 82)? This KPI is important because it shows the firm's commitment to employee skill growth and career development. Even though this question is subjective, and answered by PS executives, who might have a bias, the results show how important career development is. It shows employees with a well-defined career path are much more engaged with their work, delivering higher levels of billable utilization and on-time project completion.

Table 82: Impact – Well-understood Career Path

Well-understood Career Path	Survey Percent	Billable Util.	Meet Revenue Target	Meet Margin Target
1 – Not very well	5.2%	63.3%	87.7%	78.3%
2	17.3%	65.5%	88.7%	87.1%
3	38.1%	69.5%	89.8%	88.3%
4	28.6%	73.0%	90.7%	89.1%
5 – Very well	10.8%	71.3%	93.0%	92.5%
Total/Average	**100.0%**	**69.7%**	**90.1%**	**88.2%**

Source: Service Performance Insight, February 2014

The table highlights the important role management plays in helping employees plan their careers while ensuring they have both the tools and opportunity for career growth. Numerous studies have shown that employees become increasingly productive with longer tenure with the same firm so keeping them engaged is an investment worth making.

Consultant Billable Utilization

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

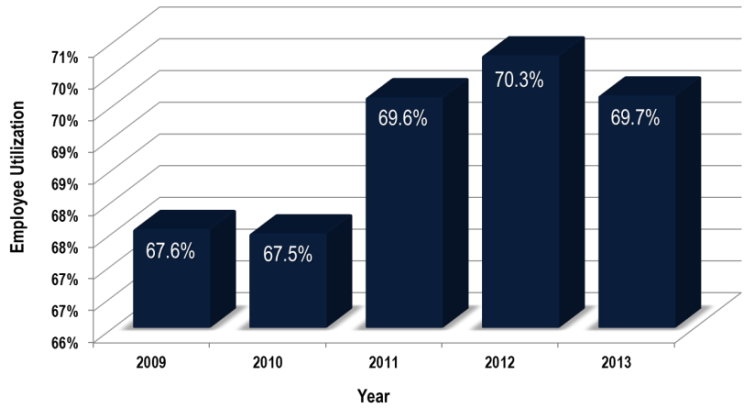
To improve margins, PS executives must continually focus on increasing employee billable utilization, as well as increase the percentage of billable employees. The primary gain from increased utilization is a significant increase in revenue per employee.

Interestingly, PSOs with higher employee utilization also reported a larger win-to-bid ratio, probably because more work was completed on time, making it easier to sell more work. This dynamic

combination (high utilization and a high percentage of billable employees) leads to better financial performance.

Figure 42 shows utilization trends for the past five years. After a significant rise in 2012 utilization declined in 2013. This decrease in productivity is a key component of sharply lower PS net profit.

Figure 42: Billable Utilization – 2009-2013



Source: Service Performance Insight, February 2014

Table 83 shows the actual (not theoretical) benefits this year's firms experienced from increasing employee utilization. As one might expect, billable utilization is critical in terms of meeting deadlines and profit margin targets. High billable utilization is directly tied to the percentage of employees who are billable. This chart shows firms with very high utilization are also very lean with the least number of non-billable roles.

Table 83: Impact – Billable Utilization

Billable Utilization	Survey Percent	On-time Projects	Staffing time (days)	Project Staff Size (people)	Revenue / billable consult.	% Annual Revenue Target	% Annual Margin Target	EBITDA
Under 50%	9.5%	83.1%	6.6	2.10	$127	80.0%	77.6%	4.2%
50% - 60%	12.7%	73.0%	8.3	3.26	$167	84.8%	84.3%	12.6%
60% - 70%	22.2%	78.6%	9.0	3.31	$196	89.8%	87.4%	12.0%
70% - 80%	32.6%	75.6%	9.8	4.25	$212	92.4%	90.6%	11.2%
80% - 90%	14.5%	78.2%	10.5	4.50	$204	93.3%	91.1%	10.0%
Over 90%	8.6%	80.3%	12.3	4.66	$234	95.3%	93.9%	19.0%
Total/Average	**100.0%**	**77.4%**	**9.5**	**3.78**	**$195**	**90.0%**	**88.2%**	**11.4%**

Source: Service Performance Insight, February 2014

Although PS firms would like to abandon the billable utilization metric (and all the accompanying time tracking it entails), unfortunately there is no other metric which provides as good a picture of workforce productivity. Perhaps as more and more firms shift to fixed price work the focus on billable utilization will decline but if this is the case firms will have to 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?

Target Billable Utilization

Target billable utilization is much higher for independents than embedded service organizations as embedded organizations must contend with more non-billable work to support product sales or to fix product or relationship issues. Target utilization rates by geography are very comparable although the Americas work the most hours and EMEA the least.

Table 84: Target Utilization by Organization Type and Geographic Region

Role	2013	ESO	PSO	Americas	EMEA	APac
Vice President	46.3%	41.6%	47.7%	44.1%	47.2%	62.5%
Director	47.5%	44.6%	49.1%	47.2%	53.8%	40.0%
Delivery Manager	54.8%	50.3%	57.2%	55.7%	50.6%	48.6%
Project/Program Mgr.	68.9%	65.8%	70.3%	70.1%	60.2%	72.9%
Business Consultant	73.6%	70.3%	75.1%	75.7%	63.6%	73.2%
Sr. Tech. Consult./Engr.	75.1%	70.6%	78.2%	75.9%	70.4%	73.3%
Tech. Consultant/Engr.	74.7%	73.5%	75.2%	77.0%	65.2%	72.6%
Solution Architect	69.3%	64.6%	71.8%	71.1%	60.5%	68.4%

Source: Service Performance Insight, February 2014

As SPI Research has seen throughout this study, the largest organizations tend to pay their consultants the most but also expect the highest levels of billable utilization. Smaller organizations require even their most senior staff and owners to bill most of the time. Across the board business and technical consultants are expected to deliver the highest levels of productivity.

Table 85: Target Utilization by Organization Size

Role	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Vice President	60.0%	48.8%	45.7%	44.4%	40.0%	40.0%
Director	59.0%	51.5%	45.8%	46.7%	45.5%	40.0%
Delivery Manager	55.0%	57.4%	52.9%	56.5%	56.5%	47.0%
Project/Program Mgr.	56.3%	65.5%	70.2%	71.6%	72.1%	66.3%
Business Consultant	64.0%	67.9%	75.3%	76.3%	77.7%	73.8%
Sr. Tech. Consult./Engr.	57.0%	71.3%	77.5%	75.2%	80.8%	76.3%
Tech. Consultant/Engr.	60.0%	69.3%	76.6%	76.4%	81.4%	78.8%
Solution Architect	N/A	67.1%	70.9%	71.3%	67.3%	62.5%

Source: Service Performance Insight, February 2014

Until this year, utilization targets for Software and SaaS PSOs were almost identical but now SPI Research sees SaaS utilization targets have decreased reflecting the new focus on "customer adoption" which means consultants are now given non-billable hours to ensure clients will repurchase. Hardware

target utilization is slightly higher for technical roles than for embedded software organizations. All of the independents drive higher levels of target utilization than the embedded firms

Table 86: Target Utilization by Vertical Service Market

Role	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.	Other PS
Vice President	40.0%	40.0%	51.3%	46.6%	50.0%	60.0%	45.0%	50.0%
Director	42.5%	46.5%	40.0%	46.6%	55.7%	57.5%	52.5%	52.2%
Delivery Manager	49.6%	47.1%	51.7%	56.0%	56.7%	65.0%	52.5%	65.5%
Project/Program Mgr.	66.0%	58.2%	80.0%	68.6%	77.5%	81.7%	70.0%	71.8%
Business Consultant	71.3%	62.8%	78.3%	73.7%	84.1%	85.0%	75.0%	73.9%
Sr. Tech. Con./Engr.	70.8%	66.4%	77.5%	78.0%	82.8%	75.0%	75.0%	77.5%
Tech. Consult./Engr.	73.1%	71.5%	81.7%	73.9%	83.8%	75.0%	75.0%	82.5%
Solution Architect	63.7%	60.5%	81.7%	70.3%	81.4%	85.0%	75.0%	77.2%

Source: Service Performance Insight, February 2014

Annual Hours

Always one of the most anticipated metrics from the annual PS Maturity™ benchmark survey is the breakdown of work hours. Most organizations put a lot of focus on consultant time spent on both billable and non-billable tasks.

Table 87: Annual Hour Comparison by Organization Type

Annual Hours	Survey			ESO			PSO		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vacation/personal/holiday	168	169	0.6%	169	169	0.0%	168	169	0.6%
Education/training	65	68	4.6%	77	68	-11.7%	58	68	17.2%
Administrative	150	174	16.0%	189	184	-2.6%	126	170	34.9%
Non-billable project hours	225	226	0.4%	300	276	-8.0%	178	203	14.0%
Total Billable Hours	1,437	1,438	0.1%	1,317	1,397	6.1%	1,512	1,457	-3.6%
▪ Billable hours on-site	792	812	2.5%	558	643	15.2%	938	892	-4.9%
▪ Billable hours off-site	645	626	-2.9%	759	753	-0.8%	574	565	-1.6%
Total Hours	**2,046**	**2,075**	**1.4%**	**2,051**	**2,094**	**2.1%**	**2,042**	**2,067**	**1.2%**

Source: Service Performance Insight, February 2014

Table 87 provides a year-over-year comparison of annual work hours by comparing embedded to independent organizations. It shows ESOs improved billable time and employees worked more hours; in particular billable on-site time increased dramatically (15.2%). On the other hand, independent productivity worsened with 34.9% more time spent on non-billable administrative activities. Non-

billable project hours also increased by 14%; while education hours increased by 17.2%. ***The startling loss of billable hours and productivity for independents hit their bottom-line with a reduction in net profit from 13.5% to 10.0%.***

Table 88 shows Americans work more hours than either European or APac consultants. EMEA PS firms work the least primarily due to taking the most vacations. In 2012 APac firms invested the most in education and training followed by EMEA; in 2013 this metric reversed. Americans spend the least amount of time on training. All geos reported an increase in non-billable administrative time which is an ominous sign. Excessive administrative time usually results from not having enough billable work combined with poor systems and processes. By region, North American firms billed more hours this year while APac and EMEA firms billed less. EMEA delivers more hours off-site than on-site.

Table 88: Annual Hour Comparison by Region

Annual Hours	Americas			EMEA			APac		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vacation/personal/holiday	165	161	-2.4%	175	217	24.0%	214	155	-27.6%
Education/training	64	64	0.0%	70	78	11.4%	80	85	6.3%
Administrative	155	161	3.9%	133	216	62.4%	131	236	80.2%
Non-billable project hours	218	220	0.9%	268	279	4.1%	215	181	-15.8%
Total Billable Hours	1,468	1,488	1.4%	1,276	1,209	-5.3%	1,388	1,364	-1.7%
▪ Billable hours on-site	820	836	2.0%	627	660	5.3%	788	880	11.7%
▪ Billable hours off-site	647	652	0.8%	650	548	-15.7%	600	483	-19.5%
Total Hours	**2,068**	**2,094**	**1.3%**	**1,922**	**1,999**	**4.0%**	**2,027**	**2,021**	**-0.3%**

Source: Service Performance Insight, February 2014

Table 89: Annual Hour Comparison by Organization Size (< 100 employees)

Annual Hours	Under 10			10 - 30			31 - 100		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vacation/personal/holiday	144	163	13.2%	174	174	0.0%	162	163	0.6%
Education/training	84	60	-28.6%	54	79	46.3%	59	65	10.2%
Administrative	178	228	28.1%	169	190	12.4%	142	169	19.0%
Non-billable project hours	340	208	-38.8%	241	290	20.3%	213	206	-3.3%
Total Billable Hours	1,325	1,452	9.6%	1,371	1,325	-3.4%	1,484	1,474	-0.7%
▪ Billable hours on-site	502	655	30.5%	768	774	0.8%	789	702	-11.0%
▪ Billable hours off-site	823	797	-3.2%	603	550	-8.8%	695	772	11.1%
Total Hours	**2,071**	**2,111**	**1.9%**	**2,010**	**2,056**	**2.3%**	**2,060**	**2,077**	**0.8%**

Source: Service Performance Insight, February 2014

Table 89 shows firms become more productive as they grow from very small to large. Total work hours decrease while billable hours per year increase as firms grow. The benefits of growing from a small to

mid-size firm show up in more vacation hours and fewer hours spent on administration and non-billable project hours. More work is delivered on-site as firms grow.

Table 90 shows mid-size organizations bill over 1,500 hours (75%) annually – making them generally more productive than their smaller counterparts. They also can afford to take more vacation days, spend more time on training and less on administration. Firms with more than 300 consultants reported billing fewer hours per consultant in 2013 as compared to 2012. This chart is a good reminder of the economies of scale that larger people-based organizations are able to achieve if they are appropriately sized and skilled for the amount of work available.

Table 90: Annual Hour Comparison by Organization Size (> 100 employees)

Annual Hours	101 - 300			301 – 700			Over 700		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vacation/personal/holiday	192	167	-13.0%	156	162	3.8%	200	207	3.5%
Education/training	68	58	-14.7%	94	70	-25.5%	67	64	-4.5%
Administrative	107	160	49.5%	170	130	-23.5%	145	165	13.8%
Non-billable project hours	186	202	8.6%	155	184	18.7%	223	176	-21.1%
Total Billable Hours	1,464	1,521	3.9%	1,521	1,507	-0.9%	1,448	1,445	-0.2%
▪ Billable hours on-site	947	1,049	10.8%	902	910	0.9%	982	1,072	9.2%
▪ Billable hours off-site	517	472	-8.7%	619	598	-3.4%	466	373	-20.0%
Total Hours	**2,016**	**2,108**	**4.6%**	**2,096**	**2,053**	**-2.1%**	**2,082**	**2,056**	**-1.2%**

Source: Service Performance Insight, February 2014

For embedded service organizations, SaaS PSOs made the greatest improvement this year with a 12.7% increase in billable hours. Software and hardware PSOs saw their billable hours increase due to fewer training and administrative hours.

Table 91: Annual Hour Comparison by Embedded Service Organization Type

Annual Hours	Software PS			SaaS PS			Hardware/Network PS		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vacation/personal/holiday	170	185	8.8%	176	117	-33.5%	145	188	29.7%
Education/training	91	70	-23.1%	59	58	-1.7%	66	79	19.7%
Administrative	157	173	10.2%	246	249	1.2%	190	103	-45.8%
Non-billable project hours	268	276	3.0%	336	254	-24.4%	236	248	5.1%
Total Billable Hours	1,362	1,397	2.6%	1,256	1,415	12.7%	1,389	1,420	2.2%
Billable hours on-site	567	679	19.8%	394	393	-0.3%	927	1,145	23.5%
Billable hours off-site	795	718	-9.7%	862	1,023	18.7%	462	275	-40.5%
Total Hours	**2,048**	**2101**	**2.6%**	**2,073**	**2093**	**1.0%**	**2,026**	**2038**	**0.6%**

Source: Service Performance Insight, February 2014

Slowing cloud growth is shown as SaaS PSOs continued to decelerate hiring. Their PS headcount increased by only 5.8% in 2013 compared to 8.5% in 2012 and 12% in 2011. SaaS PSOs made the greatest improvement in non-billable project hours by decreasing them from 336 to 254 (24.4% improvement) but unfortunately this did not show up in the bottom-line as their net profit declined.

Table 92: Annual Hour Comparison by IT and Management Consultancy

Annual Hours	IT Consulting			Management Consulting		
	2012	2013	Change	2012	2013	Change
Vacation/personal/holiday	178	173	-2.8%	161	159	-1.2%
Education/training	64	78	21.9%	68	49	-27.9%
Administrative	133	148	11.3%	112	217	93.8%
Non-billable project hours	159	195	22.6%	219	238	8.7%
Total Billable Hours	1,506	1,464	-2.8%	1,413	1,437	1.7%
▪ Billable hours on-site	990	912	-7.9%	836	884	5.7%
▪ Billable hours off-site	515	552	7.2%	577	553	-4.2%
Total Hours	**2,040**	**2,058**	**0.9%**	**1,973**	**2,099**	**6.4%**

Source: Service Performance Insight, February 2014

Nonetheless, embedded PSOs still spend 276 non-billable project hours per consultant averaging 73 more hours per consultant than independents. The high number on non-billable project hours represents a significant productivity drain on embedded organizations as more than 12% of their time is spent helping clients or internal organizations with no direct economic benefit. Table 92 shows IT consultancies are slightly more productive (73% billable utilization) than management consultancies (72%) as they bill 27 hours more per year per consultant. Unfortunately their high levels of productivity are more than offset by their low rate structure In this year's benchmark the average Mgmt. Consulting rate is $192/hour while the average IT Consulting rate is only $154/hour for billable consultants.

Table 93: Annual Hour Comparison by PS Market (Advertising, Arch./Engr., Other PS)

Annual Hours	Advertising			Architecture/Engineering			Other PS		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vacation/personal/holiday	153	180	17.6%	155	158	1.9%	159	161	1.3%
Education/training	33	58	75.8%	42	43	2.4%	42	45	7.1%
Administrative	88	173	96.6%	134	208	55.2%	136	220	61.8%
Non-billable project hours	254	220	-13.4%	270	187	-30.7%	184	244	32.6%
Total Billable Hours	1,498	1,502	0.3%	1,570	1,485	-5.4%	1,572	1,380	-12.2%
▪ Billable hours on-site	1,120	1,210	8.0%	484	733	51.4%	1,013	685	-32.4%
▪ Billable hours off-site	378	292	-22.8%	1,086	752	-30.8%	559	695	24.3%
Total Hours	**2,025**	**2,133**	**5.3%**	**2,170**	**2,082**	**-4.1%**	**2,093**	**2,051**	**-2.0%**

Source: Service Performance Insight, February 2014

Table 93 shows marketing and communication consultants worked more hours (2,133) than any other PS category. Architects and engineers and other PS worked fewer hours in 2013 than they did in 2012 unfortunately because they reported a sharp drop in billable utilization. Architects and engineers reported a significant increase (30.7%) in non-billable project time.

Employee Location

A fascinating topic is the composition and location of employees in the new world of project-based work. This year SPI Research saw an increase in the percentage of the workforce working from headquarters or home while the percentage of workers based in branch offices or offshore declined. Over one-third of American PS workers work from home while only 5.1% and 2.1% of EMEA and APac based workers work from home. EMEA and APac have a larger concentration of employees working from a headquarters office but almost a quarter of EMEA workers work offshore. The percentage of offshore workers in the US increased slightly from 10.9% to 11.3%. ESOs are more likely (15.9%) to use offshore workers than independents (12.3%). Independents added more offshore workers in 2013 while embedded firms reduced their dependence on offshore workers.

Table 94: Workforce Location by Organization Type and Geographic Region

Employee Location	2012	2013	ESO	PSO	Americas	EMEA	APac
Headquarters	23.1%	27.9%	17.6%	32.4%	20.2%	50.2%	50.3%
Branch offices	36.6%	32.6%	34.3%	31.9%	35.0%	23.5%	45.1%
Home based	24.7%	26.1%	32.2%	23.5%	33.5%	5.1%	2.1%
Offshore / Nearshore	15.5%	13.4%	15.9%	12.3%	11.3%	21.2%	2.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Service Performance Insight, February 2014

Table 95 shows the use of offshore workers increases with organization size while the percentage of home-based workers declines. Large organizations are becoming increasingly comfortable with virtual work teams with less than 20% of their workforces co-located at the headquarters location.

Table 95: Workforce Location by Organization Size

Employee Location	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Headquarters	66.1%	50.6%	51.0%	40.5%	21.1%	19.3%
Branch offices	6.5%	17.2%	17.5%	30.3%	48.5%	33.4%
Home based	27.4%	29.7%	25.3%	18.9%	23.0%	29.2%
Offshore / Nearshore	0.0%	2.5%	6.1%	10.3%	7.4%	18.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Service Performance Insight, February 2014

By vertical market, Software ESOs use the largest percentage of home-based workers, closely followed by management consultancies. SaaS PSOs use the most offshore workers (23.3%). Architect and

engineering firms use almost no offshore workers. Marketing and advertising firms have the fewest employees who work from home. Architects and Engineers have the highest concentration of workers at the headquarters location.

Table 96: Workforce Location by Service Market Vertical

Employee Location	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.	Other PS
Headquarters	20.1%	31.3%	2.7%	21.2%	28.5%	42.8%	49.9%	51.0%
Branch offices	21.4%	37.5%	70.7%	43.1%	22.3%	40.7%	38.2%	12.2%
Home based	41.6%	7.8%	15.6%	28.0%	39.7%	3.3%	8.8%	15.1%
Off /Nearshore	16.9%	23.3%	11.0%	7.7%	9.5%	13.2%	3.1%	21.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Service Performance Insight, February 2014

Compensation

In this section SPI Research provides base salary and variable compensation information for eight core job titles, which include:

- Vice President / Senior VP
- Director
- Delivery Manager
- Project / Program Manager
- Business Consultant
- Senior Technical Consultant or Engineer
- Technical Consultant or Engineer
- Solution Architect

SPI Research created standard job roles to keep the information consistent and comparable across the variety of firms in the study. ***A word of caution: each year survey respondents change; the reported compensation increases and decreases represent the survey averages for each year. This does not necessarily mean that individual firms increased or reduced their employee compensation but does show the trend across the sector. Rates shown are reported averages. Survey information has been normalized to US dollars based on the currency exchange rates in effect during the fourth quarter of 2013.***

Compensation Trends

For the seven job titles SPI Research has surveyed for the past five years, Table 97 shows the change in average base and variable compensation. ***It should be noted that this is an average across all PS organizations in the survey (regardless of size, location or vertical); it shows the overall compensation trend within the PS industry based on 1,297 consultancies representing almost 300,000 individual***

consultants. For the first time, average base salaries for all positions declined from 2012 to 2013 while variable on-target compensation declined slightly except for business consultants. This change was brought on by an increase in the overall percentage of IT consultancies comprising the 2013 benchmark; IT consultancies tend to pay their employees less than embedded PSOs and other PS verticals. The decrease in compensation reflects the relatively soft year experienced by many PSOs in 2013. ***Across the board for all PS sectors, geographies and size of organizations, 2013 was tough year for employees. In general, both base salary and variable compensation stayed the same or declined.***

Table 97: Five Year Total Average Compensation by Job Title

Job Title	2009	2010	2011	2012	2013
Vice President – Base Salary (k)	$142	$136	$148	$156	$140
Vice President – Variable	19.0%	19.6%	22.5%	25.6%	22.8%
Project/Program Mgr. – Base (k)	$95	$103	$109	$104	$99
Project/Program Mgr. – Variable	12.9%	12.5%	14.3%	12.3%	12.8%
Business Consultant – Base (k)	$82	$95	$99	$98	$89
Business Consultant – Variable	11.3%	11.6%	14.2%	10.8%	12.2%
Sr. Technical Consultant/Engr. – Base (k)	$71	$87	$90	$103	$103
Sr. Technical Consultant/Engr. – Variable	11.2%	10.9%	11.8%	11.2%	11.1%
Technical Consultant/Engr. -- Base (k)	$71	$87	$90	$86	$83
Technical Consultant/Engr. – Variable	11.2%	10.9%	11.8%	10.7%	10.6%
Solution Architect – Base (k)	$93	$101	$104	$110	$106
Solution Architect – Variable	11.6%	12.2%	12.8%	12.8%	12.4%

Source: Service Performance Insight, February 2014

Base Salary

Table 98 provides a year-over-year base salary comparison for embedded and independent organizations. In 2010 and 2011 we saw significant salary increases across the board but base salaries leveled off or declined starting in 2012. The decline accelerated in 2013 for independents. ESOs also reported base salary declines for senior positions. In the 2010 survey, embedded service organizations made the greatest gain with a 20% base salary increase while independents eked out a miserly 1.8% increase. In 2011 the base salary increase trend was reversed with independents increasing base salaries by 7.9% while ESOs only increased base salaries by 1.7%. In 2012 the only position with a significant base salary increase was solution architect; all other positions remained the same or decreased. Now in 2013 we see leveling off or declining base salaries for all positions. Across the board, independents report significant declines in base salary for all positions.

Table 98: Annual Base Salary by Organization Type (k)

Role	Survey			ESOs			PSOs		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$156	$140	-10.3%	$164	$161	-1.8%	$151	$133	-11.9%
Director	134	$132	-1.5%	136	$135	-0.7%	133	$131	-1.5%
Delivery Manager	117	$115	-1.7%	113	$114	0.9%	119	$116	-2.5%
Project/Program Mgr.	104	$99	-4.8%	105	$105	0.0%	104	$96	-7.7%
Business Consultant	98	$89	-9.2%	95	$92	-3.2%	100	$87	-13.0%
Sr. Tech. Consult./Engr.	103	$103	0.0%	99	$101	2.0%	106	$104	-1.9%
Tech. Consultant/Engr.	86	$83	-3.5%	84	$87	3.6%	88	$82	-6.8%
Solution Architect	110	$106	-3.6%	106	$115	8.5%	113	$102	-9.7%

Source: Service Performance Insight, February 2014

For the past three years APac firms have reported the highest salaries for most positions by a wide margin. This is due to the fact that most APac survey respondents are headquartered in either Australia or New Zealand where the standard of living is high and the Aussie and Kiwi dollar have been relatively strong. In 2013 EMEA salaries declined across the board. The primary reason for this is weakness in the Euro in comparison to the US dollar. This benchmark normalizes compensation to US dollar currency. The Euro has moved from a high of 1.5 Euro/US Dollar in 2011 to 1.35 in 2013 (14% decline).

Table 99: Annual Base Salary by Region (k)

Role	Americas			EMEA			APac		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$155	$149	-3.9%	$157	$112	-28.7%	$162	$112	-30.9%
Director	132	134	1.5%	136	111	-18.4%	154	162	5.2%
Delivery Manager	117	115	-1.7%	102	91	-10.8%	133	147	10.5%
Project/Program Mgr.	103	103	0.0%	100	84	-16.0%	126	94	-25.4%
Business Consultant	98	92	-6.1%	89	76	-14.6%	113	85	-24.8%
Sr. Tech. Consult./Engr.	104	104	0.0%	89	84	-5.6%	129	129	0.0%
Tech. Consultant/Engr.	87	87	0.0%	72	65	-9.7%	107	84	-21.5%
Solution Architect	112	114	1.8%	91	77	-15.4%	123	95	-22.8%

Source: Service Performance Insight, February 2014

For small and mid-size PSOs, salaries for all positions increase with organization size. The smallest organizations pay far less than mid-size firms – so the benefit of "being your own boss" is somewhat dampened by much lower earning potential. It is interesting to note that organizations of all sizes reported a significant decline in base salary with the smallest organizations taking the hardest hit.

Table 100: Annual Base Salary by Organization Size (< 100 employees) (k)

Role	Under 10			10 – 30			31 – 100		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$131	$115	-12.2%	$150	$123	-18.0%	$152	$140	-7.9%
Director	114	100	-12.3%	128	126	-1.6%	133	132	-0.8%
Delivery Manager	94	85	-9.6%	104	108	3.8%	124	114	-8.1%
Project/Program Mgr.	94	79	-16.0%	97	87	-10.3%	104	99	-4.8%
Business Consultant	82	67	-18.3%	93	80	-14.0%	102	91	-10.8%
Sr. Tech. Consult./Engr.	95	85	-10.5%	97	98	1.0%	109	105	-3.7%
Tech. Consultant/Engr.	64	60	-6.3%	83	80	-3.6%	92	83	-9.8%
Solution Architect	78	95	21.8%	104	100	-3.8%	116	103	-11.2%

Source: Service Performance Insight, February 2014

For medium-size to large organizations, senior management salaries increase with size but the highest base pay scale for individual contributors was reported by firms from 300 to 700 employees in size. The only positions which reported an across the board increase are delivery managers and solution architects.

Table 101: Annual Base Salary by Organization Size (> 100 employees) (k)

Role	101 – 300			301 – 700			Over 700		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$169	$155	-8.3%	$175	$171	-2.3%	$175	$175	0.0%
Director	137	136	-0.7%	148	150	1.4%	151	151	0.0%
Delivery Manager	117	119	1.7%	127	131	3.1%	113	117	3.5%
Project/Program Mgr.	110	108	-1.8%	114	117	2.6%	105	107	1.9%
Business Consultant	95	94	-1.1%	109	101	-7.3%	93	102	9.7%
Sr. Tech. Consult./Engr.	106	110	3.8%	103	96	-6.8%	87	99	13.8%
Tech. Consultant/Engr.	87	93	6.9%	87	75	-13.8%	85	82	-3.5%
Solution Architect	111	117	5.4%	109	117	7.3%	102	107	4.9%

Source: Service Performance Insight, February 2014

Market momentum and demand is a powerful force. Throughout this benchmark we have seen a decline in base salaries but Table 102 shows the only winners were software and SaaS PSOs. Even in these perennially strong markets, base salaries declined for non-technical roles. Following a rise of 19.8% in 2010, software PSOs saw another sizable increase of 5% in 2011 but base salaries flattened out in 2012 and 2013. SaaS PSOs saw a rise of 14.6% in 2010 but experienced a -2.2% decline in 2011 and flattening in 2012 and 2013. Software and SaaS base salaries are very comparable with SaaS on top. Hardware PSO employees are now paid comparably to their Software and SaaS counterparts as both

their base and variable have increased substantially over the past three to bring them to parity with software firms. With that said hardware PSOs reported significant base salary declines in most jobs.

Table 102: Annual Base Salary by Embedded Service Organization Type (k)

Role	Software PS			SaaS PS			Hardware PS		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$161	$162	0.6%	$164	$169	3.0%	$175	$129	-26.3%
Director	137	133	-2.9%	140	144	2.9%	120	118	-1.7%
Delivery Manager	114	109	-4.4%	112	124	10.7%	109	110	0.9%
Project/Program Mgr.	103	106	2.9%	112	101	-9.8%	102	106	3.9%
Business Consultant	95	90	-5.3%	93	96	3.2%	101	95	-5.9%
Sr. Tech. Consult./Engr.	99	102	3.0%	102	100	-2.0%	101	96	-5.0%
Tech. Consultant/Engr.	81	86	6.2%	90	90	0.0%	86	88	2.3%
Solution Architect	108	114	5.6%	106	123	16.0%	101	97	-4.0%

Source: Service Performance Insight, February 2014

By vertical, management consultants pay more than their IT consulting counterparts with a $10,000 to $30,000 premium per position for management consultancies. Both groups experienced a year over year base salary decline for all job titles except Solution Architect.

Table 103: Annual Base Salary by IT and Management Consultancy (k)

Role	IT Consulting			Management Consulting		
	2012	2013	Change	2012	2013	Change
Vice President	$152	$125	-17.8%	$156	$156	0.0%
Director	135	134	-0.7%	131	128	-2.3%
Delivery Manager	123	122	-0.8%	116	110	-5.2%
Project/Program Mgr.	107	94	-12.1%	105	103	-1.9%
Business Consultant	99	87	-12.1%	106	97	-8.5%
Sr. Tech. Consult./Engr.	106	103	-2.8%	115	111	-3.5%
Tech. Consultant/Engr.	88	79	-10.2%	97	96	-1.0%
Solution Architect	117	100	-14.5%	114	129	13.2%

Source: Service Performance Insight, February 2014

Architects and Engineers are paid more than their IT counterparts while marketing consultants are paid less. With more marketing and advertising companies participating in this year's survey, base salaries appear to have increased but they are still substantially lower than in most other PS verticals.

Table 104: Annual Base Salary by PS Market (Advertising, Arch/Engineering Other PS) (k)

Role	Advertising			Architecture/Engineering			Other PS		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$155	$149	-3.9%	$153	$153	0.0%	$145	$146	0.7%
Director	93	97	4.3%	162	175	8.0%	130	129	-0.8%
Delivery Manager	95	85	-10.5%	126	135	7.1%	110	108	-1.8%
Project/Program Mgr.	78	88	12.8%	102	105	2.9%	93	98	5.4%
Business Consultant	78	78	0.0%	95	110	15.8%	94	79	-16.0%
Sr. Tech. Consult./Engr.	N/A	85	N/A	97	135	39.2%	98	100	2.0%
Tech. Consultant/Engr.	60	78	30.0%	68	118	73.5%	83	81	-2.4%
Solution Architect	N/A	78	N/A	102	135	32.4%	86	105	22.1%

Source: Service Performance Insight, February 2014

Variable Compensation

This year SPI Research saw a shift to higher levels of variable compensation for independents and lower levels for embedded PSOs. The recession caused employees to become risk adverse – favoring a higher base salary and lower variable component of compensation. The trend is continuing with employers and employees now more focused on base compensation. These tables reflect on-target variable compensation but do not show the upside potential for overachievement.

Table 105: Variable Compensation by Organization Type (k)

Role	Survey			ESOs			PSOs		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	25.6%	22.8%	-10.9%	27.3%	24.9%	-8.8%	24.7%	22.0%	-10.9%
Director	18.8%	19.3%	2.7%	18.6%	18.5%	-0.5%	18.9%	19.7%	4.2%
Delivery Manager	15.2%	16.4%	7.9%	15.5%	15.5%	0.0%	15.1%	17.0%	12.6%
Project/Program Mgr.	12.3%	12.8%	4.1%	12.8%	11.7%	-8.6%	12.0%	13.3%	10.8%
Business Consultant	10.8%	12.2%	13.0%	12.5%	11.0%	-12.0%	9.8%	12.7%	29.6%
Sr. Tech. Consult./Engr.	11.2%	11.1%	-0.9%	12.1%	10.6%	-12.4%	10.5%	11.4%	8.6%
Tech. Consultant/Engr.	10.7%	10.6%	-0.9%	12.0%	10.3%	-14.2%	9.8%	10.6%	8.2%
Solution Architect	12.8%	12.4%	-3.1%	12.8%	12.3%	-3.9%	12.8%	12.5%	-2.3%

Source: Service Performance Insight, February 2014

By geography, the Americas lead with the highest incentive compensation although EMEA is not far behind. APac pays the highest salaries but the lowest incentive or variable compensation. In general the survey shows VP on target bonuses of 15 to 25%; 15 to 20% for Directors and 10 to 15% for all other job titles.

Table 106: Variable Compensation by Region (k)

Role	Americas			EMEA			APac		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	26.0%	24.7%	-5.0%	23.0%	19.3%	-16.1%	23.3%	13.0%	-44.2%
Director	19.3%	19.8%	2.6%	16.7%	19.1%	14.4%	15.8%	13.8%	-12.7%
Delivery Manager	15.7%	17.7%	12.7%	13.2%	8.5%	-35.6%	12.9%	12.5%	-3.1%
Project/Program Mgr.	12.3%	13.7%	11.4%	13.8%	10.2%	-26.1%	7.5%	10.3%	37.3%
Business Consultant	11.1%	13.3%	19.8%	11.8%	9.6%	-18.6%	5.6%	9.7%	73.2%
Sr. Tech. Consult./Engr.	11.7%	12.0%	2.6%	10.0%	8.1%	-19.0%	5.7%	5.0%	-12.3%
Tech. Consultant/Engr.	11.2%	11.7%	4.5%	9.3%	7.5%	-19.4%	7.1%	7.5%	5.6%
Solution Architect	13.3%	13.6%	2.3%	11.2%	9.5%	-15.2%	10.0%	8.8%	-12.0%

Source: Service Performance Insight, February 2014

Small to mid-size firms not only pay lower base salaries but also lower variable compensation than larger firms. The cost of "being your own boss" and the flexibility of working within a small but growing firm shows up in the paycheck. Many consider the price of freedom and creativity to be well worth it.

Table 107: Variable Compensation by Organization Size (< 100 employees)

Role	Under 10			10 - 30			31 – 100		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	27.1%	18.3%	-32.5%	25.3%	18.9%	-25.3%	24.3%	21.6%	-11.1%
Director	9.2%	21.0%	128.3%	16.6%	13.6%	-18.1%	19.9%	18.2%	-8.5%
Delivery Manager	17.5%	25.0%	42.9%	14.1%	14.0%	-0.7%	16.3%	15.5%	-4.9%
Project/Program Mgr.	11.3%	15.0%	32.7%	13.1%	11.6%	-11.5%	12.5%	13.8%	10.4%
Business Consultant	10.0%	7.0%	-30.0%	12.3%	12.4%	0.8%	10.0%	12.3%	23.0%
Sr. Tech. Consult./Engr.	11.7%	8.8%	-24.8%	11.0%	9.2%	-16.4%	11.0%	11.7%	6.4%
Tech. Consultant/Engr.	6.7%	10.0%	49.3%	11.4%	8.8%	-22.8%	11.0%	11.0%	0.0%
Solution Architect	0.0%	NA	NA	12.1%	9.1%	-24.8%	13.9%	13.0%	-6.5%

Source: Service Performance Insight, February 2014

The largest organizations pay the highest percentage of variable compensation on top of the highest base salaries – somewhat ameliorating the problem of being a small fish in a big sea. SPI Research sees far greater variability in incentive compensation as compared to base salaries. Consulting delivery roles favor a higher base and lower variable compensation than in sales and executive roles where higher risk, higher (variable) reward is the norm.

Table 108: Variable Compensation by Organization Size (> 100 employees)

Role	101 - 300			301 - 700			Over 700		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	24.6%	25.6%	4.1%	27.9%	33.9%	21.5%	33.3%	33.3%	0.0%
Director	19.8%	21.0%	6.1%	19.2%	25.5%	32.8%	27.0%	31.0%	14.8%
Delivery Manager	13.1%	17.6%	34.4%	16.7%	22.2%	32.9%	17.5%	16.0%	-8.6%
Project/Program Mgr.	10.4%	12.3%	18.3%	12.4%	12.5%	0.8%	16.7%	12.5%	-25.1%
Business Consultant	9.4%	13.6%	44.7%	10.4%	10.6%	1.9%	17.0%	10.8%	-36.5%
Sr. Tech. Consult./Engr.	10.6%	11.8%	11.3%	11.9%	11.5%	-3.4%	13.3%	10.8%	-18.8%
Tech. Consultant/Engr.	9.6%	11.7%	21.9%	11.3%	11.1%	-1.8%	13.3%	10.8%	-18.8%
Solution Architect	11.8%	14.3%	21.2%	12.1%	13.9%	14.9%	16.7%	14.2%	-15.0%

Source: Service Performance Insight, February 2014

In 2013 SPI Research sees a significant decline in SaaS and Hardware variable compensation. Software PSOs also experienced a decline in variable compensation but to a far lesser degree. For Software, SaaS and Hardware consultants in 2013 the average Business Consultant received a $90k - $95k base with a 10 to 13% bonus. The average senior technical consultant received a $102k base with an 8.8% to 11% bonus. The average Solution Architect received a $97 to $123k base with a 10% to 13% bonus.

Table 109: Variable Compensation by Embedded Service Organization Type

Role	Software PS			SaaS PS			Hardware PS		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	26.2%	25.5%	-2.7%	26.2%	19.3%	-26.3%	34.0%	30.0%	-11.8%
Director	16.5%	19.2%	16.4%	21.4%	16.5%	-22.9%	17.5%	16.7%	-4.6%
Delivery Manager	14.1%	14.8%	5.0%	18.8%	17.5%	-6.9%	18.3%	16.7%	-8.7%
Project/Program Mgr.	11.6%	11.5%	-0.9%	15.0%	11.3%	-24.7%	13.3%	13.8%	3.8%
Business Consultant	10.4%	10.3%	-1.0%	16.1%	13.1%	-18.6%	15.0%	10.0%	-33.3%
Sr. Tech. Consult./Engr.	11.4%	10.6%	-7.0%	13.2%	11.0%	-16.7%	13.6%	8.8%	-35.3%
Tech. Consultant/Engr.	10.4%	11.2%	7.7%	14.6%	7.5%	-48.6%	13.6%	10.0%	-26.5%
Solution Architect	12.4%	12.7%	2.4%	12.2%	11.1%	-9.0%	17.0%	10.0%	-41.2%

Source: Service Performance Insight, February 2014

Across both IT and Management Consultancies the percentage of variable compensation increased for delivery managers and technical consultants. IT consultancies increased variable compensation for all positions except VP and Solution Architect. Management consultancies decreased variable compensation for project managers, business consultants and senior technical consultants but increased variable for technical consultants and solution architects. In 2013 the lines between management consultancies and IT consultancies became blurred as both types of firms moved into the other's space.

Table 110: Variable Compensation by IT and Management Consultancy

Role	IT Consulting			Management Consulting		
	2012	2013	Change	2012	2013	Change
Vice President	25.3%	22.4%	-11.5%	27.4%	23.5%	-14.2%
Director	20.8%	20.8%	0.0%	17.9%	17.3%	-3.4%
Delivery Manager	15.8%	19.2%	21.5%	17.5%	21.7%	24.0%
Project/Program Mgr.	12.6%	14.1%	11.9%	13.8%	12.0%	-13.0%
Business Consultant	8.8%	13.8%	56.8%	12.9%	11.2%	-13.2%
Sr. Tech. Consult./Engr.	10.9%	12.7%	16.5%	8.8%	8.5%	-3.4%
Tech. Consultant/Engr.	10.6%	11.1%	4.7%	7.5%	9.4%	25.3%
Solution Architect	13.9%	13.0%	-6.5%	6.4%	7.9%	23.4%

Source: Service Performance Insight, February 2014

Marketing and communication firms tend to pay very low bonuses but increased the percentage of variable compensation dramatically this year. Architects and engineers and other PS favor higher base salaries with small bonuses which decreased this year.

Table 111: Variable Compensation by PS Market (Advertising, Arch./Engr., Other PS)

Role	Advertising			Architecture/Engineering			Other PS		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	20.0%	18.3%	-8.5%	30.0%	18.3%	-39.0%	20.3%	20.0%	-1.5%
Director	11.7%	15.0%	28.2%	18.3%	NA	NA	17.5%	19.1%	9.1%
Delivery Manager	2.5%	8.3%	232.0%	17.5%	10.0%	-42.9%	10.0%	7.3%	-27.0%
Project/Program Mgr.	2.5%	15.0%	500.0%	11.7%	15.0%	28.2%	9.3%	9.2%	-1.1%
Business Consultant	2.5%	10.0%	300.0%	15.0%	NA	NA	10.0%	7.0%	-30.0%
Sr. Tech. Consult./Engr.	N/A	5.0%	NA	20.0%	7.5%	-62.5%	8.5%	9.4%	10.6%
Tech. Consultant/Engr.	5.0%	5.0%	0.0%	10.0%	7.5%	-25.0%	7.5%	9.4%	25.3%
Solution Architect	N/A	22.5%	NA	11.7%	NA	NA	11.0%	10.5%	-4.5%

Source: Service Performance Insight, February 2014

8. SERVICE EXECUTION PILLAR

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

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

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

Table 112 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 112: Service Execution Performance Pillar Mapped Against Service Maturity

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

Source: Service Performance Insight, February 2014

Strategic Resource Management for PSOs

Given market growth and an increasing talent shortage, effective resource management has become critical as the supply of qualified professionals decreases in relation to the demand for services. Baby boomers are retiring at a rate twice that of individuals entering the marketplace with the analytic and technical skills required for technology-focused professional services. Improving and maintaining high levels of billable utilization is a constant challenge requiring a delicate balance between demand and

supply. The following sections highlight service execution trends and alternatives for improving resource management.

Changing client demand

An area impacting utilization is client demand. There is no doubt PSOs are being asked to demonstrate the value they deliver in greater depth than in the past. Each year, clients are less willing to accept time and materials contracts and are shifting more risk and greater accountability for success to their suppliers through fixed-price and shared-risk contracts. This demand increases administrative effort and reduces billable hours, as consultants must spend more time in presales, "proof of concepts" and documentation to prove the worthiness of their services.

To ensure projects meet their value and budget requirements, clients are starting to divide projects into sub-projects, which they can monitor more closely, using tools such as earned value analysis. Clients also demand the ability to cancel at a moment's notice if the project fails to fulfill expectations.

Which resource management strategy is best?

To improve utilization, executives must improve resource management effectiveness. As the following chart shows, there are pluses and minuses to all flavors of resource management strategies. Green shading indicates “Best in Class” and red shading indicates “Worst in class” based on responses from 195 firms.

Table 113: Impact – Resource Management Strategy

Resource Mgmt. Strategy	Survey Percent.	Annual Revenue Growth	Revenue Per Project (k)	Employee Billable Utilization	On-time Delivery
Centrally Managed	64.1%	9.1%	$212	72.2%	78.2%
Locally Managed	20.3%	10.3%	196	68.0%	70.0%
Center of Excellence	3.6%	5.4%	169	70.7%	85.0%
By Account	5.2%	14.0%	130	70.0%	73.0%
By Horizontal Skill Set	5.2%	5.8%	142	70.5%	80.5%
Other	1.6%	11.7%	288	65.0%	85.0%
Total	**100.0%**	**9.4%**	**$200**	**71.7%**	**76.7%**

Source: Service Performance Insight, February 2014

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

1. **Centrally-managed** – Most resource management pundits favor "centralized" resource management. It appears to provide superior management visibility into the entire project backlog

and level of skills required both today and in the future. Central control may be best for fast-growing organizations with large projects but may not produce the highest levels of billable utilization because a certain amount of churn and resource and client unhappiness can result from impersonal centralized staffing policies.

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.

3. **By horizontal skill sets** – 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 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 expertise while still enjoying the efficiency of centralized management.

4. **Account-based** – Resource management by account may be a good strategy for very large accounts where there is a strong backlog of projects, but account-based resourcing can cause big issues if account revenue dries up. An example was Electronic Data Systems' (EDS) reliance on revenue from General Motors. As the relationship with General Motors soured, and its fortunes began to wane, Electronic Data Systems was left holding the bag.

5. **Centers of excellence** – The current trend towards vertical Centers of Excellence (COE) was pioneered by Accenture over the last decade. The advantage of industry-specific "Centers of Excellence" is the development of deep business-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 "oh, so special" unique industry. The downside of COE can be excessive overhead, the creation of an ivory tower mentality and 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.

It is important to remember professional service organizations are based on the unique knowledge, skills and personalities of a highly motivated and compensated workforce. So, erring too far in making resource management more science than art may not take best advantage of hard-to-find experts. Leading firms understand the skills required and available, and work toward providing additional training to improve employee performance, while ensuring individual travel and project-types are factored in.

Investment in people, process and systems allows these organizations to minimize employee attrition and drive utilization to extremely high levels. SPI's research shows PSOs that create standard job

positions clarify the skills their workers must have. Providing visibility and additional training helps increase both productivity and morale, both of which improve organizational performance.

Survey Results

The following section reviews and analyzes 2014 PS Maturity™ benchmark results from 238 participating professional services organizations. In this section SPI Research analyzes 14 Service Execution KPIs that are critical to attaining superior service delivery performance.

Table 114 highlights virtually no difference in the average project staffing times between embedded and independent service organizations. Both also have the same average project staff size. Embedded organizations have a significantly higher number of projects managed by each project manager, which helps reduce cost, but unfortunately negatively impacts on-time delivery. As should be expected, embedded service organizations generally use a standardized delivery methodology given their focus on relatively standard products (software and hardware).

When comparing the three geographic regions, APac projects are much longer, in terms of man months, than both the Americas and EMEA. When comparing the three geographic regions, both the Americas and APac use a standardized delivery methodology more frequently than in EMEA, which translates to the highest average project overrun in EMEA. This comparison should help convince PS executives to implement standardized methodologies for project delivery.

Table 114: Service Execution KPIs by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2013	ESO	PSO	Americas	EMEA	APac
Average project staffing time (days)	9.5	9.5	9.5	9.4	9.5	10.9
Average project staff (people)	3.76	3.75	3.76	3.74	3.09	5.34
Concurrent projects managed by PM	5.16	6.97	4.17	5.24	5.00	4.41
Average project duration (months)	5.15	5.39	5.06	5.20	4.58	5.97
Projects delivered on-time	77.3%	75.2%	78.3%	77.3%	77.4%	77.4%
Projects canceled	1.9%	1.9%	1.9%	2.0%	1.5%	1.9%
Average project overrun	8.5%	9.8%	7.9%	7.9%	11.0%	8.1%
Use of a standardized delivery meth.	65.1%	73.6%	61.5%	66.1%	60.0%	66.8%
Effect. of resource management	3.47	3.33	3.55	3.53	3.28	3.18
Effect. of estimating and reviews	3.49	3.54	3.47	3.52	3.36	3.53
Effect. of change control	3.36	3.43	3.33	3.32	3.64	3.36
Effect. of project quality	3.38	3.30	3.41	3.39	3.23	3.58
Effect. of knowledge management	3.04	2.99	3.07	3.05	2.96	3.00

Source: Service Performance Insight, February 2014

Table 115 shows a trend of longer staffing times as organizations grow in size. Also, average project staff sizes and project durations increase as the organization grows. What should be disturbing is that as organizations grow in size their ability to deliver projects on time is reduced. In larger organizations, this metric contrasts with the use of a standardized delivery methodology, which usually equates to better levels of on-time delivery.

Table 115: Service Execution KPIs by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Average project staffing time (days)	6.9	8.4	8.8	11.7	9.5	12.9
Average project staff (people)	2.00	2.82	4.18	4.68	3.86	5.13
Concurrent projects managed by PM	4.67	5.28	5.40	4.79	5.79	4.33
Average project duration (months)	3.97	4.04	5.76	6.31	5.11	5.08
Projects delivered on-time	86.3%	78.2%	75.7%	78.0%	76.8%	70.5%
Projects canceled	2.0%	1.8%	1.8%	1.9%	2.8%	1.5%
Average project overrun	4.7%	9.0%	8.6%	8.6%	9.6%	8.5%
Use of a standardized delivery meth.	60.0%	60.2%	67.0%	71.5%	67.1%	64.5%
Effect. of resource management	3.79	3.33	3.50	3.55	3.57	3.09
Effect. of estimating and reviews	3.44	3.52	3.53	3.53	3.43	3.27
Effect. of change control	3.36	3.34	3.30	3.55	3.43	3.09
Effect. of project quality	3.38	3.26	3.46	3.43	3.29	3.45
Effect. of knowledge management	3.29	2.91	3.07	3.18	2.79	2.82

Source: Service Performance Insight, February 2014

Table 116 shows the differences in key performance indicators by the main services markets covered within this study. With the exception of hardware PS and management consultancies, none of the verticals show projects completed on time greater than 80%, which should be the minimum threshold for acceptability. Also, only software and SaaS PS use a standardized delivery methodology on more than 70% of their projects, which should also be a minimum consistency threshold.

Table 116: Service Execution KPIs by Vertical Service Market

Key Performance Indicator (KPI)	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.
Average project staffing (days)	10.7	7.3	7.5	10.8	7.4	7.0	6.7
Average project staff (people)	3.89	3.25	4.13	3.77	3.25	5.30	4.08
Concurrent proj. managed by PM	6.89	8.28	4.88	3.81	2.89	8.60	4.50
Average project duration (months)	5.93	4.38	4.75	4.73	5.11	7.00	7.33
Projects delivered on-time	75.3%	69.3%	90.0%	79.7%	83.3%	72.0%	60.0%
Projects canceled	2.0%	2.0%	1.0%	1.8%	1.9%	4.0%	3.3%
Average project overrun	9.1%	13.5%	2.5%	7.0%	8.4%	7.0%	14.4%

Key Performance Indicator (KPI)	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.
Use of a std. delivery method.	75.0%	74.0%	55.0%	61.5%	66.0%	42.0%	60.0%
Effect. of resource management	3.27	3.47	3.50	3.70	3.65	2.80	3.33
Effect. of estimating and reviews	3.58	3.25	4.25	3.56	3.35	3.20	3.33
Effect. of change control	3.44	3.38	3.50	3.44	3.16	3.00	3.17
Effect. of project quality	3.22	3.33	3.75	3.37	3.50	3.40	3.67
Effect. of knowledge management	2.87	3.07	3.75	2.99	3.21	2.80	3.33

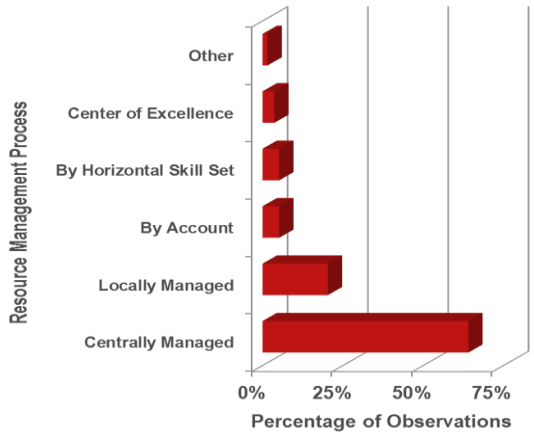
Source: Service Performance Insight, February 2014

Resource Management Process

SPI Research asked respondents to describe how the resource management process was conducted, either through central management, local management, center of excellence, by account, by horizontal skill sets or some other method. A more organized resource management process generally yields better results in terms of billable utilization. Depending on the size of the firm as well its geographic coverage, varying resource management methods could be applied.

Figure 43 shows over 60% of respondents manage resource management centrally with locally managed resource management coming in second at approximately 20%. Both of these techniques lead to the highest project margins and growth rates.

Figure 43: Resource Management Process

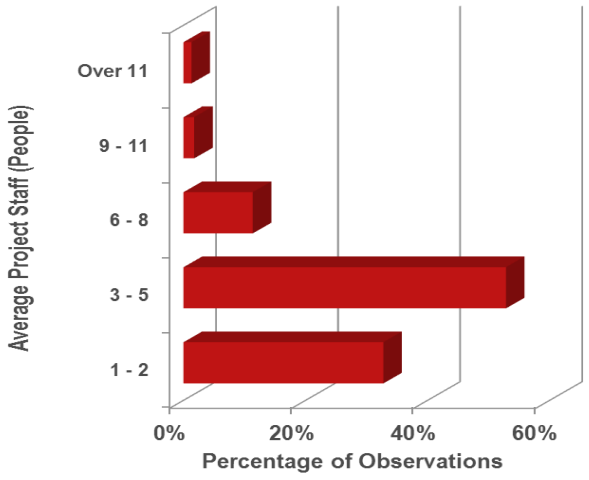


Source: Service Performance Insight, February 2014

Project Staffing Time

As PSOs grow in size and the scope of projects increases, project staffing complexity increases exponentially. Now, many PSOs take days or weeks to staff projects, waiting to find the "right" resources. This key performance indicator is important because it is an early warning sign of too much demand when it takes longer and longer to assemble the right team. It is a leading indicator of tightening resource availability and can be a signal to start recruiting and hiring. Rapid resource deployment can only be attained with accurate visibility to current and future demand along with the right mix of required resource skills, schedules and preferences.

Figure 44: Project Staffing Time (days)



Source: Service Performance Insight, February 2014

Project Staff Size

Based on technology advancements in ease of use, integration and configurability, there has been a trend toward shorter project durations with smaller project team sizes. Shorter, more iterative "agile" projects usually result in improved project value and ROI plus clients can cancel projects that fail to meet objectives. Smaller, faster projects make it more difficult to plan and schedule resources, increasing resource management complexity and bench time, which reduces overall profitability. This situation creates more resource churn, and must be accounted for in terms of higher bill rates or greater projected hour padding.

Table 117: Impact – Project Team Size (people)

Project Team Size (people)	Survey Percent	Billable Utilization	Revenue / Billable Emp. (k)	EBITDA
1 - 2	32.8%	62.2%	$164	9.8%
3 - 5	52.8%	73.2%	212	12.1%
6 - 8	11.4%	69.6%	199	7.2%
9 - 11	1.7%	77.5%	125	12.7%
Over 11	1.3%	91.7%	150	N/A
Total/Average	**100.0%**	**69.5%**	**$193**	**10.7%**

Source: Service Performance Insight, February 2014

Table 117 shows that over 85% of projects have five or fewer people. Because those projects with nine or more people are not very prevalent in the survey, it is very difficult to analyze the performance impact. Comparing those projects with less than nine individuals per project shows the best performance metrics are when 3 to 5 individuals represent the average staff size per project.

Concurrent Projects Managed by Project Manager

The number of concurrent projects managed by a project manager is a measurement of project management efficiency and effectiveness. Larger more complex projects require more skilled, dedicated project or program managers while multiple, smaller concurrent projects tax the scheduling and multi-tasking ability of even the most skilled project managers. It is also a good indicator of project complexity and risk. Typically firms use a 20-20 rule for project management, 20% of the overall cost of the project is allocated to project management and a project manager is usually assigned at least 20% of his/her time to a given project. Project management effort is most intense at the beginning and end of the project.

Table 118: Impact – No. of Concurrent Projects Managed by Project Mgr.

Concurrent Projects Managed	Survey Percent	Billable Utilization	Ann. Margin Target Achieve.	EBITDA
1 - 2	27.9%	73.7%	90.3%	11.1%
3 - 5	43.7%	70.6%	87.0%	8.5%
6 - 8	11.1%	73.3%	93.1%	12.9%
9 - 11	5.3%	65.5%	82.8%	14.7%
Over 11	12.1%	67.0%	87.5%	12.4%
Total/Average	**100.0%**	**71.1%**	**88.4%**	**10.5%**

Source: Service Performance Insight, February 2014

Table 118 shows that billable utilization tends to go down, the more projects managed by each project manager. However, the greater the number of projects managed shows a higher net profit, meaning less overhead on a per project basis.

Project Duration

The average project duration, expressed in months, depicts the effectiveness, or lack thereof, of selling longer term projects. The average project duration, like average project staff size, is important in that it shows the average length and scale of today's projects. Longer projects are easier to staff but are not necessarily more profitable because longer and larger projects may involve significantly more risk and complexity.

Table 119: Impact – Project Duration

Project Duration (months)	Survey Percent	Billable Utilization	Revenue per Project (k)	Revenue Growth
Under 1	7.9%	50.9%	$29	6.7%
1 - 3	25.4%	68.4%	$83	9.6%
3 - 6	33.8%	73.5%	$163	9.6%
6 - 9	18.9%	70.3%	$280	8.0%
9 - 12	9.6%	71.4%	$457	14.1%
Over 12	4.4%	73.0%	$375	13.8%
Total/Average	**100.0%**	**69.6%**	**$192**	**9.7%**

Source: Service Performance Insight, February 2014

Table 119 shows the majority of projects take between one and nine months. Obviously, revenue per project generally increases as the duration increases, and billable utilization also rises as the

duration increases. But what is perhaps most important about this table is that organizations with the largest projects tend to grow at a much higher rate than those organizations focused on very quick projects.

Project On-time Delivery

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. Unfortunately, on-time project delivery rates tend to be less than 80% on average for PSOs.

On-time delivery is an extremely important key performance indicator because it impacts both client satisfaction and the ability to take on new projects. When projects are delivered late, client satisfaction suffers. It also causes new projects to be delayed because of the lack of available resources. PS executives strive to keep employees utilized. However, when they cannot start work because prior projects are late, everyone suffers.

Table 120 compares the average number of concurrent projects managed by a project manager to other key performance indicators for the 226 PSOs answering the question. The results in this table are as expected, but highlight the importance of on-time project delivery. The effectiveness of both quality and knowledge management processes correlate highly with on-time delivery, and ultimately help drive revenue per employee upward.

Table 120: Impact – On-time Delivery

On-time Project Delivery	Survey Percent	Rev. per Employee (k)	Effect. Quality Processes	Effect. Knowledge Mgmt.
Under 40%	3.5%	$104	2.88	2.33
40% - 60%	11.5%	$118	3.17	2.57
60% - 70%	10.2%	$114	3.17	2.78
70% - 80%	17.7%	$167	3.20	3.05
80% - 90%	32.3%	$169	3.45	3.25
Over 90%	24.8%	$166	3.63	3.14
Total/Average	**100.0%**	**$154**	**3.37**	**3.03**

Source: Service Performance Insight, February 2014

Project Cancellation

The project cancellation rate represents the number of projects canceled divided by total projects. In billable professional services organizations, the project cancellation rate is typically quite low when compared to internal IT organizations. However, it is important because if projects are canceled the organization must scramble to reallocate resources to keep utilization rates high.

This low project cancellation rate is due to the scrutiny most projects undergo before they are officially initiated. Unlike internal projects, contracts are signed and therefore clients must be confident their work will be initiated and not canceled.

Table 121 highlights very few projects (5.3%) are cancelled, but when they are, they negatively impact financial performance, as PSOs are less successful in meeting annual financial goals.

Table 121: Impact – Project Cancellation

Average project overrun	Survey Percent	Annual Rev. per employee (k)	% of Annual Revenue Target Achieved	Percent of Annual Margin Target Achieved
Under 2%	73.6%	$125	98.3%	98.3%
2% - 5%	21.1%	$154	89.2%	87.9%
5% - 7%	2.6%	$171	92.8%	90.0%
7% - 10%	1.8%	$125	92.5%	89.2%
Over 10%	0.9%	$125	80.0%	82.5%
Total/Avg.	**100.0%**	**$155**	**89.7%**	**88.1%**

Source: Service Performance Insight, February 2014

Project Overrun

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

Table 122: Impact – Average Project Overrun

Average project overrun	Survey Percent	On-time Completion	Billable Utilization	EBITDA
Never	6.4%	88.6%	69.6%	18.3%
0% - 5%	38.6%	85.8%	68.1%	11.7%
5% - 10%	28.2%	75.4%	73.3%	10.4%
10% - 20%	16.4%	69.3%	69.1%	12.1%
20% - 30%	8.2%	55.6%	62.5%	9.8%
Over 30%	2.3%	56.0%	64.0%	-4.0%
Total/Average	**100.0%**	**77.2%**	**69.3%**	**11.3%**

Source: Service Performance Insight, February 2014

Project overruns, like projects not delivered on time, limit future work and client satisfaction. In many instances project overruns indicate a lack of project governance, which negatively impacts bottom-line results.

Table 122 highlights how average project overruns significantly impact billable utilization and organizational profitability (EBITDA).

Standardized Delivery Methodology

SPI Research asked PSOs what percentage of the time they used a standard delivery methodology to manage projects. Mature firms invest significant time and attention to methodology development as a means to standardize project 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, resource management, cost and profitability. PSOs that can accurately plan and execute services in a structured way, are not only more productive but also more likely to deliver quality results.

There is significant effort involved in developing, implementing and adhering to standardized delivery methodologies, but the net impact for PSOs is beneficial.

Table 123 compares the percentage of time a standardized delivery methodology is used to other key performance indicators for the 224 PSOs answering the question. The table shows that PSOs using a standardized delivery methodology have improved billable utilizations which ultimately positively impacts net profit (EBITDA).

Table 123: Impact – Standardized Delivery Methodology Use

Standardized Delivery Methodology Use	Survey Percent	On-time Completion	Billable Utilization	EBITDA
Under 20%	12.5%	61.2%	74.5%	9.3%
20% - 40%	4.5%	69.5%	73.0%	13.0%
40% - 60%	20.5%	72.4%	74.0%	10.3%
60% - 80%	20.1%	68.9%	76.2%	12.0%
Over 80%	42.4%	70.5%	80.6%	11.4%
Total/Average	**100.0%**	**69.4%**	**77.3%**	11.1%

Source: Service Performance Insight, February 2014

Effectiveness of the Resource Management Process

SPI Research asked survey respondents to rate the effectiveness of their resource management process with 1 = poor and 5 = great. Although subjective, this key performance indicator is an important measurement of how effective the organization views its resource management processes. Resource management is critical to project planning and execution. PSOs that effectively and efficiently manage their resources show much higher utilization rates, and ultimately higher project margins and company profitability.

Table 124: Impact – Resource Management Effectiveness

Resource Management Effectiveness	Survey Percent	Billable Utilization	On-time Completion	Rev. / Billable Employee (k)
1 - Low	2.1%	55.0%	61.3%	$175
2	13.2%	66.6%	73.1%	198
3	31.6%	69.3%	73.8%	201
4	41.6%	74.2%	78.1%	218
5 - High	11.6%	72.1%	86.5%	229
Total/Average	**100.0%**	**71.0%**	**76.7%**	**$210**

Source: Service Performance Insight, February 2014

Table 124 compares the effectiveness of resource management processes to other key performance indicators for the PSOs answering the question. The table shows a strong correlation between resource management effectiveness, billable utilization, on-time completion and profitability. While this question

is subjective in nature, the results are compelling enough to show how important resource management is to improving performance.

Effectiveness of Estimating Processes and Reviews

SPI Research asked survey respondent to rate the effectiveness of their estimating processes and estimate reviews, with a rating of 5 being excellent to one being poor. This key performance indicator is important as accurate estimates hold the key to all other service delivery metrics. Inaccurate estimates lead to miss-set client expectations; project overruns and poor client satisfaction. While this subjective KPI might be hard to fathom, its results show how some of the most important KPIs improve as the organization becomes more effective in their estimating processes.

Table 125: Impact – Effectiveness of estimating processes and reviews

Effectiveness of estimating processes & estimate reviews	Survey Percent	On-time Complet.	Rev. / Billable Employee (k)	EBITDA
1 - Low	1.8%	70.0%	$150	-9.5%
2	9.3%	67.1%	$153	7.7%
3	37.0%	72.3%	$179	10.4%
4	42.3%	82.9%	$212	12.7%
5 - High	9.7%	83.2%	$209	14.3%
Total/Average	**100.0%**	**77.3%**	**$193**	**11.1%**

Source: Service Performance Insight, February 2014

Table 125 compares the effectiveness of estimating processes to other key performance indicators for the 225 PSOs answering the question. The table shows significant improvement as PSOs are more effective at implementing solid estimating processes and reviews. Again, estimating can be difficult, but obviously from this table it is well worth the executives' time ensuring accuracy and completeness.

Effectiveness of Change Control Processes

SPI Research asked executives their opinion of the effectiveness of their change control processes, with a rating of one being poor, five being excellent. All projects involve risk and change. The important question is how the organization manages change and risk. Mature PSOs invest in developing change and risk management policies; PM training and PMO oversight and guidance. They must also consider the impact of the change and how it will impact 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 may be signs of scope creep as well as inadequate executive sponsorship and poor communication.

Table 126 compares the effectiveness of change control processes to other key performance indicators for the PSOs answering the question. Again, similar to the organizations with high levels of resource management and estimating effectiveness, those organizations that manage change the best

demonstrate significantly higher KPIs in both the service execution and finance and operations pillars. What these past several key performance indicator analysis has shown is that the devil is in the detail and organizations that focus on basic issues such as resources, estimating and change control drive superior results compared to those organizations that place less emphasis on these critical issues.

Table 126: Impact – Effectiveness of change control processes

Effectiveness of change control processes	Survey Percent	On-time Completion	Annual Rev. Target Achieve.	EBITDA
1 - Low	3.2%	81.0%	78.3%	0.7%
2	16.3%	67.3%	89.5%	9.4%
3	30.0%	76.5%	89.7%	10.0%
4	41.6%	78.4%	91.3%	12.4%
5 - High	8.9%	85.0%	91.3%	14.5%
Total/Average	**100.0%**	**76.7%**	**90.1%**	**11.0%**

Source: Service Performance Insight, February 2014

Effectiveness of Project Quality Processes

SPI Research asked executives their opinion of the effectiveness of their project quality processes, with a rating of five being excellent down to one being poor. Quality must be a core organizational attribute that is built into projects and project management processes. Most leading professional services organizations build in quality checks and balances to assure the work is done correctly.

Table 127: Impact – Effectiveness of Project Quality Processes

Effectiveness of Project Quality Processes	Survey Percent	Billable Utilization	Annual Rev. Target Achieve.	EBITDA
1 - Low	0.9%	40.0%	70.0%	-10.5%
2	10.6%	60.7%	88.7%	9.5%
3	44.5%	70.5%	89.6%	12.5%
4	37.9%	71.9%	90.6%	11.0%
5 - High	6.2%	70.4%	91.5%	12.9%
Total/Average	**100.0%**	**69.7%**	**89.8%**	**11.4%**

Source: Service Performance Insight, February 2014

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 127 shows results similar to other questions related to effectiveness of Service Execution processes – improved service delivery KPIs and stronger financial results.

Effectiveness of Knowledge Management Processes

SPI Research asked benchmark respondents their opinion of the effectiveness of their of knowledge management processes, with a rating of five being excellent down to one being poor. Knowledge management has become a critical component of service execution. Best practices and other quality-

driven initiatives are built-in into project delivery. Assuring the right information is available to all those who need it is paramount to success. Over the past five years knowledge management, especially through the use of social media and collaboration tools, has moved to the forefront of service execution. Team members now work more collaboratively to achieve project objectives.

Table 128: Impact – Effectiveness of Knowledge Management processes

Effectiveness of Knowledge Mgmt. processes	Survey Percent	On-time Completion	Billable Utilization	EBITDA
1 - Low	5.8%	75.5%	66.8%	13.8%
2	20.1%	68.0%	69.2%	11.2%
3	42.3%	76.9%	70.8%	9.8%
4	27.0%	81.9%	73.3%	12.1%
5 - High	4.8%	82.5%	70.0%	13.8%
Total/Average	**100.0%**	**76.6%**	**70.9%**	**11.0%**

Source: Service Performance Insight, February 2014

Table 128 shows that effectiveness of Knowledge Management processes have a positive impact on both service delivery and financial results.

9. FINANCE AND OPERATIONS PILLAR

The Finance and Operations pillar represents the realm of the CFO for large PS organizations, and is an intrinsic part of the role of the chief service executive for all PS organizations, regardless of size. In this service performance pillar SPI Research examines 38 key performance measurements for revenue, margin and operating expense. SPI Research has added detailed profit and loss statements and expense ratios by organization size and vertical. As in 2013, SPI Research has included detailed bill rate analysis representing over 60,000 consultants worldwide.

In 2013 both annual revenue per billable consultant and revenue per employee decreased by approximately 7.5%, and profit (EBITDA) went down significantly, from 16.8% in 2012 to 11.4% in in 2013, a 32% reduction. The positive news is that project margins improved moderately, so PSOs continued to do a good job of improving service delivery but this mild project execution improvement was more than offset by increased overhead and costs. PS executives must ask if this negative trend was due to the talent cliff, overall global economic conditions or some other factor, or is it an anomaly? The truth probably lies somewhere in between, and despite solid market growth, PS executives must double-down efforts to improve overall operations and rein in costs.

Table 129 highlights attributes of the Finance and Operations pillar as the organization matures.

Table 129: Finance and Operations Performance Pillar Maturity

	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 management.	5 to 20% margin. PS becoming a profit center but still immature finance and operating processes. Investment in ERP and PSA to provide financial visibility. May not have real-time visibility or BI. Standard Library of Contracts and Statements of Work.	20 to 30% margin. PS operates as a tightly managed P&L. Standard methods for resource mgmt., time & expense mgmt., cost control & billing. In depth knowledge of all costs at the employee, sub-contractor & project level. Processes in place for contract management, legal and pricing decisions.	PS generates > 20% of overall company revenue & contributes > 30% margin. Well-developed finance and operations processes and controls. Systems have been implemented for CRM, PSA, ERP and BI. IT integration and real-time visibility. Systems have been implemented for contract management, legal and pricing decisions.	> 40% margin. Continuous improvement and enhancement. High profit. Integrated systems. Real-time visibility. Global with disciplined process controls and optimization. Completely integrated financial, CRM, resource management, contracts and pricing systems, processes and controls.

Source: Service Performance Insight, February 2014

Survey Results

The following section reviews and analyzes 2014 PS Maturity™ benchmark results from 238 participating professional services organizations. In this section SPI Research analyzes 38 finance and operations key performance measurements that are critical to attaining superior financial performance.

Table 130 compares the finance and operations key performance indicators by the type of organization and by region. This year, embedded service organizations achieved much higher revenue per billable consultant than the independents, one of the reasons why profit was down so much for the independents. As we have seen for the past seven years, the Americas had the highest revenue per billable consultant and employee in this year's survey although EMEA was the winner in net profit.

Table 130: Finance & Operations KPIs by Organization Type and Geographic Region

Key Performance Indicator (KPI)	2013	ESO	PSO	Americas	EMEA	APac
Annual revenue per billable consultant (k)	$193	$205	$187	$207	$153	$149
Annual revenue per employee (k)	$155	$167	$150	$168	$125	$110
Average revenue per project (k)	$189	$189	$190	$191	$128	$288
Project margin for fixed price projects	36.3%	35.1%	36.8%	37.9%	31.0%	34.5%
Project margin for time & materials projects	37.6%	38.0%	37.5%	38.8%	33.5%	35.8%
Average project margin — subs, offshore	28.8%	29.7%	28.3%	29.8%	26.1%	19.4%
Quarterly revenue target in backlog	45.0%	48.2%	43.6%	46.9%	35.5%	45.8%
Percent of annual revenue target achieved	89.9%	91.5%	89.2%	90.7%	86.7%	89.2%
Percent of annual margin target achieved	88.2%	91.2%	87.0%	89.0%	86.1%	85.8%
Revenue leakage	4.17%	4.62%	3.92%	4.11%	4.95%	3.45%
Invoices redone due to error/client reject.	2.1%	2.1%	2.1%	2.1%	1.8%	3.2%
Days sales outstanding (DSO)	44.1	46.4	42.8	44.5	47.0	32.5
Quarterly non-billable expense per employ.	$1,392	$1,786	$1,173	$1,373	$1,261	$1,909
% of billable work is written off	3.00%	3.85%	2.65%	2.88%	3.42%	3.21%
Executive real-time wide visibility	3.57	3.63	3.53	3.64	3.26	3.18
2014 Net Profit (EBITDA)	**11.4%**	**15.4%**	**10.0%**	**11.6%**	**12.7%**	**7.3%**
2013 Net Profit Comparison	**16.8%**	**22.5%**	**13.5%**	**17.7%**	**14.2%**	**10.7%**

Source: Service Performance Insight, February 2014

Project margins for fixed price projects were less than those for time and materials. Fixed price engagements continue to be preferred by clients, so PSOs must work to improve this number. Backlog is always a very important KPI; firms in EMEA had only 35.5% starting quarter backlog indicating extremely light demand. SPI Research recommends at least a 50% backlog. Quarterly non-billable expense per employee skyrocketed for embedded service organizations, as well as those located in the Asia-Pacific region. Excessive non-billable expense is a danger signal directly related to poor cost management and ineffective business development processes.

Net profit (Earnings before Income Taxes, Depreciation & Amortization) was way down in this year's survey, from 16.8% last year to 11.4% this year! Profit was down across the board, from embedded service organizations to independent, as well as in each of the geographic regions. Embedded PSO profit took a nose-dive led by a big drop in net profit reported by SaaS and hardware PSOs.

Table 131 compares Finance and Operations KPI's by organization size. It is very noticeable that larger organizations did a much better job of keeping revenue per consultant and revenue per employee at much higher levels than in smaller organizations. They also had larger projects which improve predictability and ease staff scheduling. SPI Research found it interesting that project margins for fixed price projects were fairly high in the larger organizations, especially when compared to time and materials work. This difference bodes well for the larger firms as the market moves to more fixed price engagements.

Table 131: Finance and Operations KPIs by Organization Size

Key Performance Indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Annual revenue per billable consultant (k)	$169	$173	$191	$218	$212	$218
Annual revenue per employee (k)	$156	$130	$152	$174	$179	$197
Average revenue per project (k)	$48	$93	$224	$307	$158	$256
Project margin for fixed price projects	39.6%	31.3%	37.3%	38.3%	42.9%	37.5%
Project margin for time & materials projects	42.3%	31.8%	39.0%	40.0%	43.3%	37.5%
Average project margin — subs, offshore	35.7%	25.3%	30.6%	26.8%	32.9%	27.0%
Quarterly revenue target in backlog	31.8%	35.2%	47.1%	52.9%	58.9%	51.7%
Percent of annual revenue target achieved	86.3%	87.6%	89.9%	91.6%	94.3%	92.5%
Percent of annual margin target achieved	85.8%	85.4%	88.5%	89.5%	95.0%	89.5%
Revenue leakage	2.41%	4.74%	4.05%	4.82%	4.00%	2.39%
Invoices redone due to error/client reject.	0.6%	1.8%	2.1%	2.2%	3.2%	3.2%
Days sales outstanding (DSO)	30.9	40.0	44.9	46.4	49.2	57.1
Quarterly non-billable expense per employ.	$846	$1,225	$1,405	$1,651	$1,804	$1,063
% of billable work is written off	1.96%	2.85%	3.07%	3.98%	2.04%	2.28%
Executive real-time wide visibility	4.08	3.50	3.59	3.51	3.50	3.33
2014 Net Profit (EBITDA)	**17.0%**	**9.1%**	**12.6%**	**8.6%**	**13.2%**	**20.4%**
2013 Net Profit Comparison	**17.9%**	**18.3%**	**15.6%**	**16.1%**	**17.3%**	**18.4%**

Source: Service Performance Insight, February 2014

The larger firms also had a much higher backlog than the smaller firms, again, providing them with greater financial stability going forward. One area of concern as organizations grow in size is the time to collect payment (days sales outstanding (DSO)). The largest firms had a DSO nearly twice that of the smaller firms, which negatively impacts cash flow, and profitability. The largest firms had fairly high non-billable expenses for their employees.

Net profit was down across each of the different sized organizations, with those having between 100 and 300 employees achieving the lowest profit. Their net profit declined almost 100% from 16.1% in 2012 to 8.6% in 2013. SPI Research believes many PSOs face "the valley of death" between 100 and 300 employees as they are too large to rely on the manual processes and systems which sustained their initial growth but are too small to have achieved real economies of scale. For organizations of this size it

is imperative to evaluate major processes and systems to streamline them for the future. Leadership likewise must change to become more operationally and process-focused.

Despite the poor showing for independent services organizations, management consultancies improved net profit with annual revenue per billable employee much higher this year ($229k) compared to last year ($201k). Software professional services providers increased their revenue per billable consultant over last year's survey, but SaaS providers saw revenue per consultant go way down. SaaS PSOs reported a remarkable 11.6% net profit decline (from 25.9% in 2012 to 4.3% in 2013) – making them this year's worst performers. The bloom is off the rose for the SaaS PSOs with the worst reported PS net profit. The net result was lower revenue per billable consultant and per employee for most of the verticals, with the exception of management consultancies.

Table 132: Finance and Operations KPIs by Vertical Service Market

Key Performance Indicator (KPI)	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.
Annual revenue per billable consultant (k)	$218	$179	$175	$175	$229	$210	$200
Annual revenue per employee (k)	$183	$135	$150	$141	$190	$175	$156
Average revenue per project (k)	$225	$82	$109	$200	$197	$143	$210
Project margin for fixed price proj.	37.4%	30.3%	35.0%	36.6%	37.1%	40.0%	47.0%
Project margin for time & materials projects	40.5%	31.7%	32.5%	37.5%	38.9%	37.5%	40.0%
Average project margin — subs, offshore	31.0%	28.3%	26.3%	27.5%	38.8%	38.0%	19.2%
Quarterly revenue target in backlog	51.2%	43.1%	37.5%	45.3%	42.1%	34.0%	50.0%
Percent of annual revenue target achieved	90.6%	94.6%	92.5%	90.2%	84.7%	95.0%	83.3%
Percent of annual margin target achieved	91.1%	91.5%	92.5%	87.9%	87.1%	88.0%	82.5%
Revenue leakage	5.03%	3.54%	4.88%	3.73%	3.03%	3.80%	3.88%
% of inv. redone due to error/client rejections	2.3%	1.9%	0.9%	2.2%	0.9%	1.4%	4.3%
Days sales outstanding (DSO)	48.6	35.8	51.3	39.7	47.6	44.0	48.3
Quarterly non-billable expense per employee	$1,926	$1,536	$1,063	$1,118	$1,094	$1,000	$1,958
% of billable work is written off	3.88%	3.21%	3.88%	2.31%	1.97%	7.63%	6.50%
Executive real-time wide visibility	3.57	3.80	3.50	3.53	3.72	3.40	3.50
2014 Net Profit (EBITDA)	**16.8%**	**4.3%**	**14.9%**	**10.1%**	**12.1%**	**9.4%**	**8.4%**
2013 Net Profit Comparison	**19.4%**	**25.9%**	**30.5%**	**13.5%**	**9.4%**	**11.8%**	**22.4%**

Source: Service Performance Insight, February 2014

Project margins for fixed price projects were higher for hardware professional services providers, as well as advertising and architectures/engineers. Because the trend is towards more fixed price engagements, each of the other verticals must focus on improving this KPI.

Software PS organizations and architecture and engineering firms were the only verticals that met our 50% backlog guideline. Disappointingly, not a single vertical achieved either their annual revenue or margin targets; the miss was even greater than in past years. One area of concern is the amount of money written off. In both advertising and architecture and engineering firms this figure is excessively high, however, because there are a limited number of observations for these verticals it is difficult to derive accurate conclusions.

While net profit was down across the board, it was significantly lower in SaaS firms, going from 25.9% in 2012, to only 4.3% in this year's survey. This is an important KPI to watch, as many organizations are turning to the cloud for their information infrastructure. The SaaS PS profit decline is a direct result of shirting PS charters within cloud companies. As these firms rely on annuity subscription revenue, the PS emphasis has shifted to "customer adoption" meaning many embedded SaaS PSOs now deliver a lot of free consulting to ensure customers are really using the software so they will renew their contracts.

Bill Rates

The following bill rate comparisons are based on the 2014 PS Maturity™ benchmark survey of 238 firms with an average of 253 PS employees. One of the world's largest consulting bill rate studies; this comparison is based on three years of information representing over 180,000 consultants worldwide who supplied detailed bill rate information.

Table 133: Hourly Bill Rates by Organization Type

Role	Survey			ESOs			PSOs		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Vice President	$265	$253	$208	$203	$243	$242	$298	$256	$198
Director	217	213	213	188	223	231	244	208	204
Delivery Manager	166	194	209	168	216	230	164	184	198
Project/Program Mgr.	160	183	179	171	202	207	144	171	167
Business Consultant	152	180	172	162	195	200	140	172	160
Sr. Tech. Consult./Engr.	166	182	186	175	202	203	149	168	175
Tech. Consultant/Engr.	151	161	161	162	183	188	130	145	150
Solution Architect	185	190	185	194	213	214	169	173	170

Source: Service Performance Insight, February 2014

In 2013 bill rates bifurcated with embedded service organizations experiencing slight rate increases while independents experienced a sharp decline. Embedded organizations command a significant price premium over independent consultancies; in 2013 the price disparity widened. Price erosion clobbered independent profitability which explains independent net profit taking a nose dive from 15.6% to 10% in

2013. Embedded services organizations also suffered in 2013, with net profit going down from 23% in 2012 to 15.4% in 2013. Both Independents and embedded services organizations have a long way to go to restore acceptable levels of profit. If rates continue to decline the only answer is to cut costs.

Table 134: Hourly Bill Rate by Role and Organization Type

Role	Survey			ESOs			PSOs		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$253	$208	-17.8%	$243	$242	-0.4%	$256	$198	-22.7%
Director	213	213	0.0%	223	231	3.6%	208	204	-1.9%
Delivery Manager	194	209	7.7%	216	230	6.5%	184	198	7.6%
Project/Program Mgr.	183	179	-2.2%	202	207	2.5%	171	167	-2.3%
Business Consultant	180	172	-4.4%	195	200	2.6%	172	160	-7.0%
Sr. Tech. Consult./Engr.	182	186	2.2%	202	203	0.5%	168	175	4.2%
Tech. Consultant/Engr.	161	161	0.0%	183	188	2.7%	145	150	3.4%
Solution Architect	190	185	-2.6%	213	214	0.5%	173	170	-1.7%

Source: Service Performance Insight, February 2014

Going into 2014 consulting demand is relatively strong with an average of 45% current quarter backlog. Table 134 shows the only increase in bill rates occurred for delivery managers and senior technical consultants. VP's experienced the sharpest decline. The Americas experienced rate increases while all other geographies declined. The EMEA rate decline can primarily be attributed to an 11% decline in the Euro versus the US dollar but the Australian, New Zealand and Canadian dollar all showed increases in 2013 so the APac rate decline must reflect market softening.

Table 135: Hourly Bill Rates by Region

Role	Americas			EMEA			APac		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Vice President	$239	$251	$227	$379	$249	$168	$338	$325	$124
Director	205	212	217	301	199	187	209	235	215
Delivery Manager	167	196	212	179	191	199	149	175	183
Project/Program Mgr.	163	184	187	158	180	163	153	182	141
Business Consultant	155	180	178	138	178	169	157	182	139
Sr. Tech. Consult./Engr.	168	182	186	178	183	194	149	192	181
Tech. Consultant/Engr.	154	162	168	155	160	150	140	158	129
Solution Architect	191	193	195	196	178	169	159	185	139

Source: Service Performance Insight, February 2014

SPI Research has been predicting the shift to more business, management and process consulting for the past several years as cloud technologies are primarily focused on line of business applications. These

new cloud business applications have shifted the consulting focus to business process improvements, requiring less customization and a greater concentration on usability and reporting.

It should be noted that few Indian consultancies participate in the PS Maturity™ benchmark – these firms are great consumers of data but are extremely reluctant to reciprocate by providing data. Indian consulting salaries and bill rates have been steadily increasing, mollifying the Indian rate arbitrage which started the outsourcing craze.

Just as SPI Research saw with base and variable compensation, the smallest firms also charge the lowest bill rates making them a good choice for organizations who appreciate personal touch at competitive rates. The smallest organizations were disproportionately compromised by rate erosion in 2013; small to medium size PSOs also reported lower realized rates for most roles.

Table 136: Hourly Bill Rates for Small Organizations

Role	Under 10 PS Employees			11 to 30 PS Employees			31 to 100 PS Employees		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$240	$168	-30.0%	$254	$204	-19.7%	$264	$188	-28.8%
Director	167	168	0.6%	226	214	-5.3%	220	204	-7.3%
Delivery Manager	145	175	20.7%	201	214	6.5%	204	204	0.0%
Project/Program Mgr.	155	95	-38.7%	188	174	-7.4%	183	176	-3.8%
Business Consultant	123	135	9.8%	187	181	-3.2%	180	165	-8.3%
Sr. Tech. Consult./Engr.	171	155	-9.4%	195	193	-1.0%	179	183	2.2%
Tech. Consultant/Engr.	119	135	13.4%	181	167	-7.7%	157	152	-3.2%
Solution Architect	115	N/A	NA	204	184	-9.8%	187	172	-8.0%

Source: Service Performance Insight, February 2014

Table 137: Hourly Bill Rates for large organizations (> 100 employees)

Role	101 - 300			301 – 700			Over 700		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$226	$230	1.8%	$256	$241	-5.9%	$308	$344	11.7%
Director	186	212	14.0%	220	230	4.5%	250	358	43.2%
Delivery Manager	176	199	13.1%	198	220	11.1%	225	292	29.8%
Project/Program Mgr.	196	182	-7.1%	179	202	12.8%	159	213	34.0%
Business Consultant	189	171	-9.5%	177	181	2.3%	175	208	18.9%
Sr. Tech. Consult./Engr.	179	193	7.8%	184	177	-3.8%	159	192	20.8%
Tech. Consultant/Engr.	159	171	7.5%	163	168	3.1%	149	162	8.7%
Solution Architect	195	199	2.1%	196	205	4.6%	159	213	34.0%

Source: Service Performance Insight, February 2014

The largest consulting organizations command the highest rates. Unlike smaller firms, larger firms reported rate increases for most roles. Larger firms are able to command a significant price premium compared to smaller boutiques as they pursue Fortune 500 clients and win based on their breadth, depth and global scale.

Embedded software PSOs seem to be immune to the price erosion reported by their independent counterparts as rates increased across the board. This year we see greater price disparity between Software and SaaS PSOs. Software organizations raised rates while SaaS rates sharply declined. Hardware rates declined significantly more than SaaS rates making them the lowest embedded rates. Across the board, embedded PS rates are still much higher than independent IT and management consulting rates. In many cases the price disparity between embedded and independent consultancies for similar skills and positions is over $40 per hour.

Table 138: Hourly Bill Rates by Embedded Service Organization

Role	Software PS			SaaS PS			Hardware PS		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Vice President	$219	$217	$241	$204	$275	$240	$0	$325	$250
Director	181	206	239	233	246	208	200	242	233
Delivery Manager	170	212	239	192	219	196	140	225	233
Project/Program Mgr.	171	200	215	192	210	182	145	192	175
Business Consultant	158	196	208	182	193	190	133	195	175
Sr. Tech. Consult./Engr.	173	207	212	188	196	177	175	189	175
Tech. Consultant/Engr.	153	182	195	185	184	180	177	182	148
Solution Architect	193	218	229	203	217	174	201	175	148

Source: Service Performance Insight, February 2014

Table 139: Hourly Bill Rates by Embedded Service Organization Type (k)

Role	Software PS			SaaS PS			Hardware PS		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$217	$241	11.1%	$275	$240	-12.7%	$325	$250	-23.1%
Director	206	239	16.0%	246	208	-15.4%	242	233	-3.7%
Delivery Manager	212	239	12.7%	219	196	-10.5%	225	233	3.6%
Project/Program Mgr.	200	215	7.5%	210	182	-13.3%	192	175	-8.9%
Business Consultant	196	208	6.1%	193	190	-1.6%	195	175	-10.3%
Sr. Tech. Consult./Engr.	207	212	2.4%	196	177	-9.7%	189	175	-7.4%
Tech. Consultant/Engr.	182	195	7.1%	184	180	-2.2%	182	148	-18.7%
Solution Architect	218	229	5.0%	217	174	-19.8%	175	148	-15.4%

Source: Service Performance Insight, February 2014

IT consulting rates decreased sharply in 2013; embedded PSOs are now charging significantly more than independent IT consultancies for similar roles. Management consulting rates increased across the board especially for technical roles which explains why management consulting firms were the only ones to report a year over year increase in net profit. Many management consultancies are adding IT practices and competencies, yielding more annuity projects and augmenting their client wallet-share.

Table 140: Hourly Bill Rates by IT and Management Consultancy (k)

Role	IT Consulting			Management Consulting		
	2012	2013	Change	2012	2013	Change
Vice President	$229	$182	-20.5%	$292	$256	-12.3%
Director	211	197	-6.6%	209	228	9.1%
Delivery Manager	185	198	7.0%	186	225	21.0%
Project/Program Mgr.	173	160	-7.5%	180	196	8.9%
Business Consultant	168	154	-8.3%	190	192	1.1%
Sr. Tech. Consult./Engr.	171	171	0.0%	158	202	27.8%
Tech. Consultant/Engr.	152	146	-3.9%	130	177	36.2%
Solution Architect	185	166	-10.3%	143	203	42.0%

Source: Service Performance Insight, February 2014

Marketing and advertising firms have the greatest rate disparity between the most senior and junior roles. Table 141 shows significant rate improvements for marketing and advertising firms as well as engineers and architects and other PS. These figures show these sectors have recovered nicely from the recession – with higher rates and significant demand.

Table 141: Hourly Bill Rates by PS Market (Advertising, Arch/Engineering Other PS) (k)

Role	Advertising			Architecture/Engineering			Other PS		
	2012	2013	Change	2012	2013	Change	2012	2013	Change
Vice President	$325	$450	38.5%	$238	$163	-31.5%	$206	$221	7.3%
Director	175	225	28.6%	188	200	6.4%	165	208	26.1%
Delivery Manager	175	NA	NA	175	175	0.0%	130	190	46.2%
Project/Program Mgr.	150	225	50.0%	150	143	-4.7%	125	190	52.0%
Business Consultant	150	NA	NA	150	175	16.7%	129	152	17.8%
Sr. Tech. Consult./Engr.	0	175	NA	175	175	0.0%	125	178	42.4%
Tech. Consultant/Engr.	125	175	40.0%	138	142	2.9%	118	165	39.8%
Solution Architect	0	NA	NA	158	225	42.4%	133	183	37.6%

Source: Service Performance Insight, February 2014

Putting it all together – Targets by Role

In this section we bring all the employee survey information together to create an income statement by consulting role. This is a very useful analysis exercise as it provides an overview of base and variable compensation along with on target earnings (OTE) compared to target utilization and bill rates to show on target yield per role. If everything goes according to plan; that is each person achieves his/her utilization targets at the targeted bill rate; then we can calculate yield by role. Yield reflects on target revenue generated above on target earnings. The yield percentage is often called a labor multiplier as it compares revenue per role to on target earnings.

Table 142 shows the work horses in the Americas are Business and Technical Consultants as they generate more than 1.5 times more revenue than their on target earnings.

Table 142: Targets by Role – Americas

Role	Base (k)	Variable	OTE (k)	Bill Rate	Target Util.	Rev. Target (k)	Yield (k)	Yield %
Vice President	$149	24.7%	$185	$227	44.1%	$200	$15	7.8%
Director	134	19.8%	160	217	47.2%	205	45	27.8%
Delivery Manager	115	17.7%	136	212	55.7%	236	101	74.3%
Project/Program Mgr.	103	13.7%	117	187	70.1%	263	146	125.1%
Business Consultant	92	13.3%	105	178	75.7%	270	165	157.8%
Sr. Tech. Consult./Engr.	104	12.0%	116	186	75.9%	282	166	142.9%
Tech. Consultant/Engr.	87	11.7%	97	168	77.0%	259	162	166.7%
Solution Architect	114	13.6%	129	195	71.1%	277	148	114.3%

Source: Service Performance Insight, February 2014

Table 143: Targets by Role – EMEA

Role	Base (k)	Variable	OTE (k)	Bill Rate	Target Util.	Rev. Target (k)	Yield (k)	Yield %
Vice President	$112	19.3%	$133	$168	47.2%	$159	$25	19.1%
Director	111	19.1%	132	187	53.8%	201	69	52.4%
Delivery Manager	91	8.5%	98	199	50.6%	202	104	105.6%
Project/Program Mgr.	84	10.2%	92	163	60.2%	197	104	112.7%
Business Consultant	76	9.6%	83	169	63.6%	215	132	159.1%
Sr. Tech. Consult./Engr.	84	8.1%	91	194	70.4%	273	182	199.4%
Tech. Consultant/Engr.	65	7.5%	70	150	65.2%	196	125	178.3%
Solution Architect	77	9.5%	84	169	60.5%	204	120	142.5%

Source: Service Performance Insight, February 2014

Table 143 shows the big revenue producers in EMEA are senior technical consultants who generate twice their on target earnings in consulting revenue. Most of the EMEA individual consulting roles

generate more than 1.5 times earnings in revenue – a nice labor multiplier! This may be overly optimistic as we assumed a 2,000 hour work year which is probably not the case in most EMEA markets.

Table 144 shows APac produces a much lower consulting yield than the Americas and EMEA. APac yields are the lowest in the survey with a combination of high compensation and low bill rates. Given the extremely low APac labor multiplier achieving acceptable levels of profit will be difficult.

Table 144: Targets by Role – APac

Role	Base (k)	Variable	OTE (k)	Bill Rate	Target Util.	Rev. Target (k)	Yield (k)	Yield %
Vice President	$112	13.0%	$126	$124	62.5%	$155	$29	22.8%
Director	162	13.8%	184	215	40.0%	172	(12)	-6.6%
Delivery Manager	147	12.5%	165	183	48.6%	178	13	7.8%
Project/Program Mgr.	94	10.3%	104	141	72.9%	206	102	98.0%
Business Consultant	85	9.7%	94	139	73.2%	203	109	116.7%
Sr. Tech. Consult./Engr.	129	5.0%	136	181	73.3%	266	130	95.6%
Tech. Consultant/Engr.	84	7.5%	90	129	72.6%	187	97	107.2%
Solution Architect	95	8.8%	104	139	68.4%	191	87	84.0%

Source: Service Performance Insight, February 2014

Steps Taken to Improve Profitability

For the third year in a row SPI Research asked "What steps will your organization take to improve profitability?" At the highest level most PSOs are focused on improving sales effectiveness, in other words improving the relationship between sales and service delivery, winning more bids and achieving sales targets. As a matter of fact, two of the top four improvement areas are focused on improving sales and marketing effectiveness. The other top two enhancement areas involve increasing utilization and the development of better processes, methods and tools to improve quality and on-time project delivery.

Table 145: Steps Taken to Improve Profitability Comparison: 2012-2013

Key Performance Indicator (KPI)	2012	2013	▲
Improve sales effectiveness	3.91	3.92	0.3%
Improve utilization	3.86	3.71	-4.0%
Improve methods and tools	3.78	3.69	-2.4%
Improve marketing effectiveness	3.72	3.68	-0.9%
Improve solution portfolio	3.65	3.59	-1.5%
Improve hiring and ramping	3.55	3.51	-1.2%
Reduce non-billable time	3.51	3.34	-4.9%
Increases rates	3.04	2.83	-7.0%

Source: Service Performance Insight, February 2014

Table 145 compares last year's results with this year's. What SPI Research found interesting is that although the order of importance remained fairly constant, each area decreased in emphasis this year.

The table shows for the third year in a row improving sales effectiveness is the highest improvement priority for PSOs. Why is it so hard to effectively sell professional services? The answer lies in the intangible nature of services and the fact that typically the best consulting sellers are quite often the best consultants – which creates a dilemma around whether to sell or deliver? The initiatives to be undertaken in 2014 will focus on improving sales and marketing effectiveness, and the use of standardized methods and tools.

Annual Revenue per Billable Consultant

Annual revenue per billable consultant depicts the service organization's total revenue divided by the number of 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 forecast by the labor multiplier. SPI Research considers revenue per billable consultant to be one of the most important KPIs, but it must be viewed in conjunction with labor cost. Revenue per billable consultant should minimally equal one to two times the fully loaded cost of the consultant. 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.

Table 146: Impact – Revenue per Billable Consultant

Revenue per Billable Consultant	Survey Percent	Pipeline-to-Book	Rev. per Emp. (k)	% of rev. target achieved
Under $100k	15.2%	119%	$50	83.5%
$100k - $150k	20.4%	167%	101	90.8%
$150k - $200k	19.0%	208%	134	88.9%
$200k - $250k	19.4%	253%	182	91.7%
$250k - $300k	17.1%	193%	225	90.6%
Over $300k	9.0%	253%	281	93.9%
Total/Average	**100.0%**	**196%**	**$193**	**89.8%**

Source: Service Performance Insight, February 2014

Figure 45 tells the story about why PS profit plummeted in 2013. Sharply lower billable consultant revenue yield. Average consultant revenue production declined from $206K in 2012 to $193K in 2013. This is the lowest reported consultant revenue yield since the recession. Simple math shows a $13,000 decline in revenue produced by each of the 60,000 consultants represented in

Figure 45: Year-over-year Change in Revenue per Billable Consultant

Source: Service Performance Insight, February 2014

this benchmark means overall revenue could have declined by $780 million for the 238 firms in this study. ***This is a huge drop in revenue yield and must be a cause for concern and action. Rate erosion is the primary catalyst for this steep decline… which means only one thing… firms are going to have to ask their employees to work more hours. At the same time, they must curtail costs and overhead. 2014 could be a very tough year if this situation doesn't improve!***

Revenue per Employee

This calculation looks at the overall revenue yield for all PS employees – both billable and non-billable. Annual revenue per employee is similar to annual revenue per billable consultant; it divides total revenue by the total number of employees so it includes both billable and non-billable employees. Revenue per employee is a powerful indicator of the overall profitability of the firm because if the average cost per employee is known, profit can be estimated representing the difference in cost per employee and overall revenue per employee. Similar to revenue per consultant, this KPI is highly correlated with profitability, utilization and bill rates.

Table 147: Impact – Annual Revenue per Employee

Revenue per Employee	Survey Percent	Annual Rev. Target Achieved	Ann. Margin Target Achieve.	EBITDA
Under $100k	20.1%	84.4%	81.3%	7.1%
$100k - $150k	25.0%	90.1%	87.8%	9.1%
$150k - $200k	24.0%	90.5%	89.5%	10.9%
$200k - $250k	15.2%	93.4%	93.1%	15.8%
$250k - $300k	9.3%	93.7%	92.9%	12.4%
Over $300k	6.4%	93.5%	93.5%	19.4%
Total/Average	**100.0%**	**90.1%**	**88.5%**	**11.1%**

Source: Service Performance Insight, February 2014

PSOs with a high percentage of non-billable employees have lower annual revenue per employee. Revenue per employee is very important in determining the appropriate size and financial health of the organization. Based on the high cost of talented consulting staff, SPI Research believes this figure should be close to two 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 overall revenue per employee, this is an indication of too much non-billable overhead or lavish discretionary spending.

Figure 46: Year-over-year Change in Revenue per Employee

Source: Service Performance Insight, February 2014

The revenue and profit decline is even worse when we analyze the five-year trend of revenue yield by employee in Figure 46. With an average reported per employee revenue yield of $155,000 there is simply no way PS firms will be able to generate acceptable profit. The average per employee revenue decline was $13,000 – making this year's revenue per employee the worst ever reported in this benchmark. Something must be done… and fast - as this is a going-out-of-business picture!

Revenue per Project

Average revenue per project is calculated by dividing the total revenue of the service organization by the total number of projects. This KPI provides insight into the size, number of employees involved, and duration of projects. Many PSOs have lots of small projects along with a few really large projects which may skew revenue per project.

Table 148: Impact – Revenue per Project Comparison

Revenue / Project	Survey Percent	Billable Util.	Rev./Bill. Employee (k)	On-time Comp.	Revenue in Backlog
Under $25k	17.8%	57.5%	$112	76.4%	21.9%
$25k - $50k	16.8%	64.5%	176	80.4%	38.2%
$50k - $100k	25.0%	73.4%	191	73.9%	45.9%
$100k - $250k	17.3%	70.0%	224	81.1%	49.1%
$250k - $500k	12.5%	74.8%	227	81.3%	58.3%
$500k - $1mm	8.2%	75.9%	263	75.3%	64.4%
Over $1mm	2.4%	81.0%	180	75.0%	80.0%
Total	**100.0%**	**69.1%**	**$190**	**77.8%**	**44.8%**

Source: Service Performance Insight, February 2014

While varying greatly over the past four years, this year revenue per project is down, meaning shorter durations and fewer team members per project. This scenario could cause strain on utilization levels, meaning resource management will become more critical than ever.

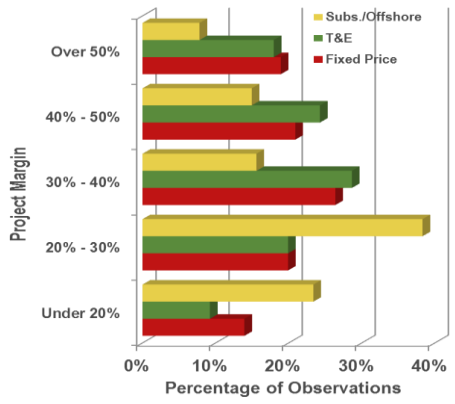
Smaller projects imply greater resource churn and are harder to profitably deliver on-time. If the majority of projects are less than $25k, PSOs must focus on efficiency and repeatability. The worst possible scenario is a series of short projects requiring unique skills and little possibility for repeat business. The trend toward shorter, faster, more iterative projects bodes well for project success and client satisfaction, but adds additional resource scheduling strain to quickly staff projects and dynamically reassign resources.

Table 148 compares the average revenue per project to other key performance indicators. The results show as projects become larger in size, PSOs are able to increase billable utilization. The results also show larger projects yield higher revenue per billable employee, and interestingly a higher on-time completion percentage. Large projects are easier to plan and staff but as the table shows, mega projects (over $1mm) involve substantial risk. If not carefully managed, mega projects can deliver big losses and unwarranted levels of risk.

Project Margin

Project margin is the percentage of revenue which remains after accounting for the direct costs of project delivery. Projects can be fixed-price, milestone-based, "not to exceed" or time and materials, where the PSO essentially charges by the hour with additional payment for any materials used during the engagement. Typically time and materials based projects produce the best profitability as long as bill rates are set appropriately. Not to exceed projects should be avoided as they provide none of the benefit of fixed price projects but all of the risks. Cost plus contracts are also undesirable; they are most prevalent in government work which tends to be penny-wise and pound-foolish. Clients and service providers alike should be focused on paying fairly for work that delivers promised results. If the project benefit is substantial then assuring successful delivery is of paramount importance. Leading professional services organizations strive to achieve project margins over 35% but as Figure 47 shows, less than 20% of organizations consistently achieve project margins greater than 40%.

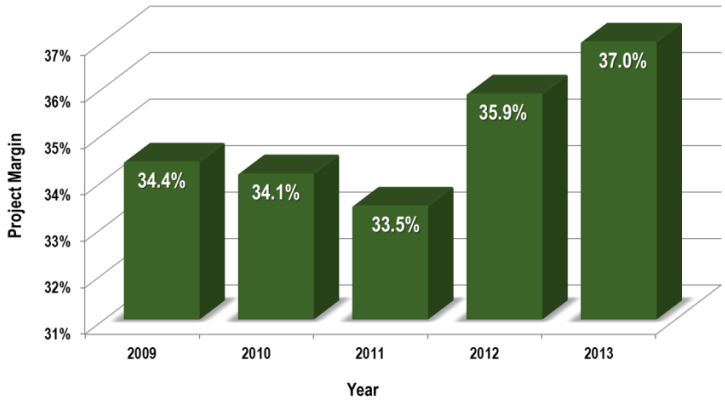
Figure 47: Project Margin



Source: Service Performance Insight, February 2014

Figure 48 shows average project margins improved in 2013 but as we have seen, project margin improvement was more than offset by increased overhead and costs which tanked overall profitability. This metric underscores the importance of a holistic view of PS, as one important metric like project profit can go up but if overall costs and overhead are increased disproportionately, overall profitability will suffer.

Figure 48: Project Margin Five Year Trend



Source: Service Performance Insight, February 2014

Low margin projects usually have a variety of issues including poor estimates, significant scope change, lack of a clear project charter, poor management and poor execution. Organizations with lower project margins struggle to meet annual revenue targets.

Project Margin – Fixed Price Projects

Table 149 compares the average project margin on fixed price projects to other key performance indicators. Every organization strives for high project margins, which ultimately help drive organizational profit to higher levels. This table shows organizations with the highest fixed price project margins completed projects on time better than those with low project margins.

Table 149: Impact – Project Margin – Fixed Price Projects

Project Margin – Fixed Price Projects	Survey Percent	On-time Completion	Annual Margin Target Achieved	EBITDA
Under 20%	13.9%	69.3%	84.1%	4.2%
20% - 30%	19.9%	77.9%	84.4%	12.8%
30% - 40%	26.4%	78.3%	89.8%	12.9%
40% - 50%	20.9%	82.2%	91.8%	10.6%
Over 50%	18.9%	79.2%	89.0%	13.9%
Total/Average	**100.0%**	**78.0%**	**88.2%**	**11.4%**

Source: Service Performance Insight, February 2014

Project Margin -- Time and Expense Projects

Table 150 compares the average project margin on time and expense projects to other key performance indicators SPI Research found similar results when compared to fixed price projects. Most of the key performance indicators improve as project margins rise. However, similar to the table on fixed price projects, very few organizations achieved either their overall margin or revenue targets in 2013.

Table 150: Impact – Project Margin – Time and Expense Projects

Project Margin – Time & Expense Projects	Survey Percent	Rev./Bill. Employee	Ann. Margin Target Achieve.	EBITDA
Under 20%	9.2%	$137	82.5%	0.4%
20% - 30%	19.9%	157	85.9%	12.5%
30% - 40%	28.6%	194	88.0%	11.7%
40% - 50%	24.3%	221	92.5%	11.8%
Over 50%	18.0%	219	89.4%	11.9%
Total/Average	**100.0%**	$192	88.4%	10.9%

Source: Service Performance Insight, February 2014

Project Margin — Subcontractors / Offshore

The margin derived from subcontractors and offshore resources is an extremely important key performance indicator and should be managed very closely, as it can significantly impact net profit. Typically the goal for subcontractor margin is at least 30% but as Table 151 shows less than 40% of the organizations surveyed achieved greater than 30% subcontractor margin. Average subcontractor margin across the benchmark was 28.8%, down slightly from 29.7% the prior year. Interestingly the percentage of overall revenue generated by subcontractors has fluctuated very little over the past years. This year subcontractor generated revenue accounted for 11.4% of total revenue. Obviously as the

percentage of revenue generated by subcontractors increases, adequate subcontractor margin becomes imperative.

Table 151: Impact – Project Margin – Subcontractors/Offshore

Project Margin – Subcontract./ Offshore	Survey Percent	On-time Completion	Ann. Margin Target Achieve.	EBITDA
Under 20%	23.4%	72.4%	85.6%	7.9%
20% - 30%	38.3%	76.4%	88.3%	9.0%
30% - 40%	15.6%	78.5%	89.8%	15.8%
40% - 50%	14.9%	79.5%	93.9%	9.7%
Over 50%	7.8%	81.7%	85.4%	16.9%
Total/Average	**100.0%**	**76.7%**	**88.5%**	**10.5%**

Source: Service Performance Insight, February 2014

Backlog

Quarterly revenue backlog is the amount of 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. ***Increasing backlog levels are a clear indication of economic recovery.*** 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 actually 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 removed as it is unlikely the client will actually use the consulting time they have been sold. This year average backlog was reported at 45%, edging up slightly from 43.3% in 2012. This is a very favorable trend as it indicates consulting demand is on the rise.

Table 152 compares the quarterly revenue target in backlog to other key performance indicators. As one might expect higher backlog is an indication of future demand and produces better financial metrics. This table shows that once PSOs achieve greater than 50% of their quarterly revenue target in backlog their financial results are very impressive.

Table 152: Impact – Quarterly Revenue Target in Backlog

Quarterly Revenue Target in Backlog	Survey Percent	Billable Utilization	Annual Rev. Target Achieve.	EBITDA
Under 20%	19.1%	62.3%	83.2%	7.8%
20% - 40%	27.0%	67.6%	88.3%	8.5%
40% - 50%	9.3%	71.1%	85.8%	5.9%
50% - 60%	12.7%	74.0%	94.2%	15.2%
60% - 70%	11.3%	71.7%	94.8%	15.0%
Over 70%	20.6%	74.4%	95.4%	16.2%
Total/Average	**100.0%**	**69.6%**	**90.0%**	**11.3%**

Source: Service Performance Insight, February 2014

Annual Revenue Target Achieved

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

As Table 153 shows there is a direct correlation between achieving revenue targets, revenue growth and profitability. PSOs that exceeded their revenue goals produced higher margins. Of course there is a strong positive correlation between meeting annual revenue targets and profitability, assuming revenue and profit targets are set appropriately. SPI Research also found organizations who achieved their revenue targets had lower attrition rates, reflecting financial stability and the organization's ability to reward performance and reinvest in the business.

Table 153: Impact – Percentage of annual target revenue achieved

Percentage of annual target revenue achieved	Survey Percent	Revenue Growth	Ann. Margin Target Achieve.	EBITDA
Under 80%	20.4%	2.4%	74.2%	8.9%
80% - 90%	29.4%	8.9%	83.6%	8.2%
90% - 100%	28.4%	10.0%	94.4%	14.7%
100% - 110%	17.1%	16.3%	99.2%	10.4%
Over 110%	4.7%	25.3%	105.6%	18.9%
Total/Average	**100.0%**	**9.9%**	**88.5%**	**11.1%**

Source: Service Performance Insight, February 2014

An extremely dangerous sign is average revenue target attainment declined for the first time since the recession to 89.9%. Underlying this drop is less than 20% of the organizations surveyed achieved their revenue targets.

Annual Margin Target Achieved

The annual margin target achieved, similar to the annual revenue target achieved, is the percentage of the annual profit goal which was attained. SPI Research measures revenue and margin target attainment to calibrate the accuracy of annual business plans. Even if PSOs don't accurately measure all the benchmark metrics they usually do 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 initiatives, potentially limiting growth.

Perhaps one of the most important gauges of financial maturity is the ability to consistently achieve annual margin targets. Every year the percentage of firms who are able to achieve their margin targets is fewer than the percentage of firms who are able to achieve their revenue targets.

This metric shows how hard it is to keep both revenues and costs in balance. Interestingly average margin target attainment improved this year to 88.2% although only 16.8% of all organizations achieved their profit target. Table 154 compares the percentage of annual target margin achieved to other key performance indicators. Similar to the question on achieving annual target revenue, this KPI shows organizations improve financially as they meet their margin targets.

Table 154: Impact – Percentage of Annual Target Margin Achieved

Percentage of annual target margin achieved	Survey Percent	Revenue / Billable Employee (k)	EBITDA	Revenue Growth
Under 80%	26.3%	$168	6.1%	4.6%
80% - 90%	23.0%	176	8.5%	10.2%
90% - 100%	34.0%	205	13.6%	11.1%
100% - 110%	13.9%	236	18.6%	12.7%
Over 110%	2.9%	250	20.0%	25.4%
Total/Average	**100.0%**	**$194**	**11.4%**	**9.8%**

Source: Service Performance Insight, February 2014

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, as in many instances organizations don't even realize the revenue has not been billed, making it a very difficult figure to calculate. It is also a barometer for overall operational efficiency, as PSOs with higher levels of revenue leakage reported lower utilization, lower EBITDA and poorer on-time project delivery than organizations that better managed contracts, capturing hours and expenses and billing. Average reported revenue leakage this year was 4.17% with embedded organizations reporting higher levels of leakage (4.62%) then their embedded counterparts (3.92%).

Table 155: Impact – Revenue Leakage

Revenue Leakage	Survey Percent	EBITDA	Revenue / Employee	% of Target Margin Achieved
Under 2%	40.0%	12.8%	$185	89.5%
2% - 5%	34.7%	11.0%	$178	90.2%
5% - 10%	16.5%	10.5%	$144	87.5%
Over 10%	8.8%	1.5%	$134	76.4%
Total/Average	**100.0%**	**10.8%**	**$171**	**88.2%**

Source: Service Performance Insight, February 2014

Invoices Redone due to Errors or Client Rejections

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.

Table 156: Invoices Redone due to Errors or Client Rejections

Invoices Redone due to Errors or Client Rejections	Survey Percent	Std. Meth. Used	Annual rev./emp. (k)	EBITDA
None	7.3%	65.0%	$158	16.7%
Under 1%	44.4%	68.5%	176	10.5%
1% - 3%	25.8%	67.8%	174	10.2%
3% - 5%	14.0%	67.5%	169	11.5%
5% - 10%	6.2%	62.7%	143	10.6%
Over 10%	2.2%	56.7%	175	8.0%
Total/Average	**100.0%**	**67.3%**	**$171**	**11.0%**

Source: Service Performance Insight, February 2014

Days Sales Outstanding (DSO)

Days Sales Outstanding (DSO) is still 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 credit-worthiness. Average DSO has held steady at a little less than 45 days since the recession. Firms who sell to larger organizations typically experience longer DSO as big corporations and governments are historically slow payers.

Table 157: Days Sales Outstanding (DSO)

Days Sales Outstanding	Survey Percent	Project Margin	Revenue/ Billable Employee (k)
Under 30 days	15.2%	23.8%	$174
30 - 50 days	57.0%	29.8%	221
50 - 70 days	21.2%	28.4%	209
70 - 100 days	4.8%	27.1%	188
Over 100 days	1.8%	26.7%	283
Total/Average	**100.0%**	**28.4%**	**$211**

Source: Service Performance Insight, February 2014

Quarterly Non-Billable Expense per Employee

Quarterly non-billable expense per employee went up this year from $1,266 in 2012 to $1,392. Both figures are significantly below pre-recession discretionary spending of more than $3,000 per employee. Common causes of high non-billable discretionary spending are high business development and training expenses or employee expense misuse. Unlike other metrics, non-billable expense per employee does not appear to have a direct correlation with overall profit, utilization, reference clients or employee satisfaction. In fact, very few key metrics appear to have been greatly impacted by non-billable spending.

Table 158: Quarterly Non-Billable Expense per Employee

Quarterly Non-Billable Expense per Employee	Survey Percent	Revenue / Billable Employee (k)	Revenue / Employee (k)	% of Annual Target Rev.
Under $1,500	71.6%	$209	$171	89.0%
$1,500 - $2,500	19.3%	201	159	93.7%
$2,500 - $5,000	5.7%	278	213	89.5%
$5,000 - $7,500	2.3%	200	156	101.3%
Over $7,500	1.1%	225	200	85.0%
Total/Average	**100.0%**	**$212**	**$171**	**90.2%**

Source: Service Performance Insight, February 2014

By no means is this a recommendation for PSOs to increase expenses, but perhaps those that did so found other ways to improve profit and increase revenue.

Percentage of Billable Work Written-Off

Inaccurate invoicing, improperly accounting for time, project overruns and other project-related issues force many PSOs to write-off billable work, which naturally hurts profits. The formula is simple. The more work written off, the lower the firm's profit.

Table 159: Percentage of Billable Work Written-Off

Percentage of Billable Work Written-Off	Survey Percent	On-time Delivery	Revenue / Employee (k)	% of Annual Target Margin Achieve.
None	10.0%	85.2%	$165	86.2%
Under 1%	29.7%	84.5%	162	89.8%
1% - 3%	27.8%	79.3%	160	89.0%
3% - 5%	16.3%	70.6%	143	87.5%
5% - 10%	10.5%	71.8%	164	87.0%
Over 10%	5.7%	58.2%	127	86.5%
Total/Average	**100.0%**	**78.0%**	**$157**	**88.3%**

Source: Service Performance Insight, February 2014

The differential is significant. Obviously, no PS firm wants to write-off billable hours as doing so implies clients were not satisfied with some aspect of the work. However, to accomplish this feat requires significant effort to clearly define requirements and deliverables; assure

work is scoped correctly; projects are delivered on-time and within budget, and invoices are accurate. SPI Research believes this initiative is well worth the effort.

Table 159 shows a clear correlation between increased levels of work being written off and lower performance in terms of on-time delivery and other financial metrics. Billable work written off does not show up in utilization percentages, but is directly related to essentially throwing money away, which limits an organization's ability to grow and meet profit objectives.

Real-Time Visibility

Real-time information visibility is one of the most important management control KPIs in this research. SPI Research asked survey respondents whether their executives had real-time visibility into all business activities (sales, service, marketing, finance, etc.).

The rewards are significant for organizations who have integrated systems and management dashboards that allow them to pinpoint issues and spot trends in real-time. Executives who have real-time visibility run companies that are much more profitable than those that are not. These results are particularly important during the project delivery phase, as more work is completed on time with higher billable utilization rates and at much higher margins.

Real-time visibility is a very important key performance indicator for professional services executives. As Table 160 shows, organizations that have comprehensive visibility into all areas of their organization can make the decisions necessary to grow and achieve high levels of profitability. And it is not for just those KPI's listed in this table, it is for a majority of the other indicators tracked by SPI Research as well. Many executives have the tools to give them real-time visibility, the question is, do they use them?

Table 160: Real-Time Visibility

Real-Time Visibility	Survey Percent	New Clients	Utilization	On-Time Delivery	Revenue / Billable Employee (k)	Revenue / Billable Employee (k)
1 - None	0.6%	15.0%	40.0%	85.0%	N/A	N/A
2 - Minimal	13.3%	26.5%	69.0%	70.6%	$168	$146
3 - Some	29.4%	28.4%	69.3%	75.4%	217	165
4 - Much	42.2%	31.6%	73.7%	79.3%	224	181
5 - Complete	14.4%	39.4%	70.0%	82.1%	204	174
Total/Average	**100.0%**	**31.0%**	**71.1%**	**77.4%**	**$210**	**$169**

Source: Service Performance Insight, February 2014

Extended real-time visibility is only attained through application integration. SPI Research uses the term "extended" to mean information that flows across departments and functions, so that executives and other employees have a more complete picture of operations, and can make quick, fact-based decisions. Without real-time visibility, decision-making can be subjective and reactive which hurts business

performance. SPI Research believes these results help organizations justify expenditures in IT to provide the systems and tools they need to visualize, monitor and control the business.

Income Statements

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

Revenue

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

Expense

- ***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)
- ***Billable travel and business expense***:
- ***Non-billable travel and business expense***:
- ***Subcontractor/outside consultant expense***:
- ***Pass-thru expense***: (expense for hardware, software, materials, etc.)
- ***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***:
- ***PS IT expense***:
- ***All other G &A***: non-billable headcount, general and admin., facilities, headcount and overhead

As we have seen throughout this study, 2013 was a disastrous year for PS profitability. Both embedded and independent profit declined as did the profit reported by all geographies. Average profit for the entire benchmark decreased to 11.4% in 2013 from 16.8% in 2012. Average net profit was 13.5% in 2011 and 6.9% in 2010. ESO profit dropped to 15.4% from 22.5% while independents saw profit drop from 13.5% to 10%. By geography, the Americas experienced the steepest decline.

Table 161: Income Statement by Organization Type and Embedded Service Type

Key performance indicator (KPI)	Survey	ESO	PSO	Americas	EMEA	APac
Surveys	157	40	117	123	21	13
REVENUE						
Direct gross PS revenue	78.7%	85.8%	76.3%	80.0%	73.9%	74.8%
Reimbursable Travel & Expense revenue	3.4%	3.3%	3.4%	3.2%	2.7%	6.2%
Indirect gross revenue	8.7%	9.4%	8.4%	8.9%	7.9%	8.1%
Pass-thru revenue	9.2%	1.4%	11.9%	8.0%	15.5%	11.0%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
EXPENSES						
Direct Labor	40.9%	43.1%	40.1%	40.8%	40.4%	41.9%
Fringe benefit	6.2%	7.5%	5.7%	6.5%	5.9%	4.0%
Billable Travel & Expense	2.9%	3.4%	2.7%	3.0%	2.7%	2.2%
Non-billable Travel & Expense	1.9%	2.5%	1.7%	1.9%	2.3%	1.6%
Subcontractor /outside consultant	8.7%	8.2%	8.8%	9.0%	8.3%	6.2%
Pass-thru Expense	5.2%	1.4%	6.5%	4.1%	10.8%	6.4%
Sales	6.9%	5.1%	7.6%	7.1%	6.5%	6.3%
Marketing	2.2%	1.3%	2.5%	2.0%	1.9%	4.2%
Education, training, certification	1.4%	0.9%	1.6%	1.3%	1.7%	1.7%
PS IT	1.7%	1.6%	1.7%	1.6%	1.6%	2.6%
All other G&A	10.7%	9.4%	11.2%	11.2%	5.2%	15.6%
Total Expenses	88.6%	84.6%	90.0%	88.4%	87.3%	92.7%
2014 EBITDA	**11.4%**	**15.4%**	**10.0%**	**11.6%**	**12.7%**	**7.3%**
2013 Net Profit Comparison	**16.8%**	**22.5%**	**13.5%**	**17.7%**	**14.2%**	**10.7%**

Source: Service Performance Insight, February 2014

ESOs (embedded service organizations within software and hardware companies) experienced the greatest net profit decline with more than a 7% drop. SaaS PSOs were primarily responsible for this dramatic decline as they saw their profit cut from 25.9% to 4.3%. ESOS are still substantially more profitable than independents. This is not surprising because ESOs do not typically pay for product sales and marketing nor are they charged for corporate overhead. In fact, they may not be charged for corporate IT and may only pay direct IT expense for laptops and smart phones.

All geographies experienced a profit decline with the greatest loss reported in the Americas with more than a 6% profit decline from 17.7% to 11.6%. Due to the precipitous profit drop in the Amercias, for the first time EMEA-headquartered firms moved into first place from a profit perspective. APac takes last place in net profit with a decline from 10.7% to 7.3%.

This year the percentage of indirect revenue decreased again in EMEA from 17.7% in 2011 to 10.3% in 2012 and now 7.9% in 2013. As European firms experienced a protracted recession they firms did a good job of reducing their dependence on subcontractors. APac indirect revenue declined significantly from 19.3% in 2011 to 18.6% in 2012 and now 8.1% in 2013, another sign of slowing growth as firms moved more work to their own employees. Americas' indirect revenue also declined from 14.1% in 2011 to 10.7% in 2012 to 8.9% in 2013. IT spending was 1.6% of total revenue in the Americas and EMEA and 2.6% in APac. Overall average IT spending remained the same as last year at 1.7%.

Table 162: Income Statement by Organization Size

Key performance indicator (KPI)	Under 10	10 - 30	31 – 100	101 - 300	301 - 700	Over 700
Surveys	6	43	60	31	10	6
REVENUE						
Direct gross PS revenue	75.2%	72.8%	82.1%	77.5%	91.1%	74.6%
Reimbursable Travel & Expense revenue	6.6%	2.7%	3.9%	2.9%	3.0%	2.7%
Indirect gross revenue	8.2%	11.3%	7.0%	9.8%	5.3%	8.1%
Pass-thru revenue	10.0%	13.3%	7.0%	9.8%	0.6%	14.6%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
EXPENSES						
Direct Labor	40.1%	36.5%	44.1%	39.6%	51.7%	27.9%
Fringe benefit	3.3%	5.5%	5.9%	7.1%	10.4%	4.7%
Billable Travel & Expense	4.3%	2.7%	2.9%	3.0%	2.5%	2.9%
Non-billable Travel & Expense	3.9%	1.7%	1.6%	2.4%	1.9%	2.2%
Subcontractor /outside consultant	3.3%	10.4%	7.9%	9.2%	4.3%	15.3%
Pass-thru Expense	9.5%	6.4%	3.8%	5.8%	0.1%	12.0%
Sales	4.2%	11.1%	5.6%	5.1%	4.7%	4.7%
Marketing	4.6%	3.0%	2.0%	1.7%	0.6%	0.5%
Education, training, certification	2.2%	2.5%	1.0%	1.0%	0.6%	0.6%
PS IT	3.1%	1.9%	1.8%	1.5%	0.6%	0.8%
All other G&A	4.5%	9.2%	10.9%	14.9%	9.4%	7.9%
Total Expenses	83.0%	90.9%	87.4%	91.4%	86.8%	79.6%
2014 EBITDA	**17.0%**	**9.1%**	**12.6%**	**8.6%**	**13.2%**	**20.4%**
2013 EBITDA Comparison	**26.3%**	**19.7%**	**15.6%**	**16.1%**	**17.3%**	**24.2%**

Source: Service Performance Insight, February 2014

By organization size, the smallest and largest organizations are the most profitable. The smallest organizations experienced the sharpest decline in net profit although all size organizations reported lower profit in 2013 than in 2012. The smallest organizations depend on significantly more hardware and software pass-through revenue because they tend to be VARS. The largest organizations have the

highest direct labor margin at 42%. The other size organizations typically generate a direct labor margin from 30 to 40%. The smallest firms spend the most on non-billable travel but less than their larger peers on corporate G&A. Organizations with 31 to 100 employees spend the most on sales and marketing (14.1%).

Table 163: Income Statement by Position by PS Market

Key performance indicator (KPI)	Softwr. PS	SaaS PS	Hardwr. PS	IT Consult	Mgmt. Consult.	Advert.	Arch./ Engr.	Other PS
Surveys	29	6	4	78	18	3	5	14
REVENUE								
Direct gross PS revenue	86.0%	94.8%	75.5%	70.6%	93.3%	83.0%	76.9%	84.0%
Reimbursable T&E rev.	3.9%	2.3%	1.2%	3.9%	2.7%	3.0%	2.4%	1.8%
Indirect gross revenue	9.6%	1.1%	22.1%	9.2%	4.0%	9.5%	10.9%	8.5%
Pass-thru revenue	0.5%	1.8%	1.3%	16.3%	0.0%	4.6%	9.7%	5.8%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
EXPENSES								
Direct Labor	43.5%	49.2%	34.7%	38.1%	43.9%	49.6%	41.7%	42.7%
Fringe benefit	8.0%	6.6%	5.0%	5.7%	4.8%	9.4%	6.0%	6.6%
Billable Travel & Expense	3.9%	2.7%	1.7%	2.9%	2.5%	2.3%	1.6%	2.2%
Non-billable Travel & Exp.	2.8%	2.3%	1.4%	1.8%	1.5%	3.1%	0.8%	1.4%
Sub. /outside consultant	8.4%	5.0%	13.5%	8.7%	9.9%	6.9%	8.5%	8.1%
Pass-thru Expense	0.1%	5.2%	0.0%	8.7%	0.0%	3.2%	8.6%	3.3%
Sales	5.3%	3.4%	7.1%	8.1%	6.7%	2.0%	2.8%	8.3%
Marketing	1.2%	1.7%	1.9%	2.4%	2.3%	1.1%	3.6%	2.5%
Education/ training, cert.	1.0%	1.1%	0.9%	1.9%	1.0%	0.6%	1.0%	0.6%
PS IT	1.3%	3.4%	1.4%	1.7%	1.9%	0.8%	1.3%	1.9%
All other G&A	6.3%	15.1%	17.5%	9.9%	13.4%	11.6%	15.7%	15.6%
Total Expenses	81.7%	95.7%	85.1%	89.9%	87.9%	90.6%	91.6%	93.1%
2014 EBITDA	**16.8%**	**4.3%**	**14.9%**	**10.1%**	**12.1%**	**9.4%**	**8.4%**	**6.9%**
2013 Net Profit Comp.	**19.4%**	**25.9%**	**30.5%**	**13.5%**	**9.4%**	**11.8%**	**22.4%**	**18.3%**

Source: Service Performance Insight, February 2014

By vertical market Table 163 shows a steep decline in net profit for all vertical segments except management consultancies. The decline was most pronounced for embedded SaaS and hardware PSOs. Technology and business model changes were hard on SaaS and hardware PSOs as their charters shifted to customer adoption and supporting product sales and partners. Embedded software PSOs showed the least decline this year so they came out on top with the highest net profit of 16.8%. Hardware PSOs rely the most heavily on subcontractors who generated almost a quarter of their revenue while SaaS PSOs

generated the least indirect (subcontractor) generated revenue at 1.1%. IT consultancies and other PS spend the most on sales and marketing at 10.5% and 10.8% respectively.

The bottom-line is that profit tanked almost across the board for professional service organizations in 2013. Although still not at recession levels, most key financial metrics declined sharply from 2012 to 2013. The benchmark shows softening demand, lower utilization and deterioration in bill rates which precipitated a marked falloff in revenue yield by consultant and employee. Further exacerbating the problem, PSOs continued to add non-billable overhead and accelerated discretionary spending. The overall PS market still grew at 10% but slowed considerably from 11.5% the prior year. SPI Research recommends caution going forward to ensure profit margins are improved and unnecessary spending curtailed.

10. THE PROFESSIONAL SERVICES MATURITY MODEL™

SPI Research has spent seven years developing and improving the Professional Services Maturity™ Model. To date, over 6,500 billable professional services organizations use the model to benchmark and improve organizational performance. With over 1,500 billable services organizations participating over the past seven years, SPI Research has further refined the model to improve its accuracy.

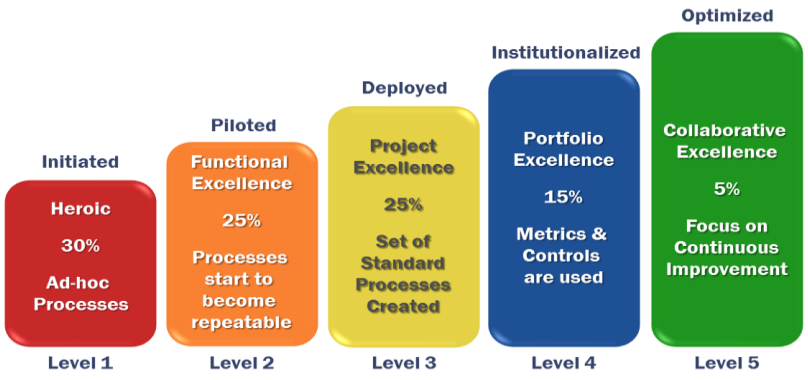
238 firms participated in 2013 representing nearly 60,000 consultants worldwide, continuing to make this one of the most comprehensive studies of the global PS industry. While a majority of the participating organizations are headquartered in North America, the firms surveyed have employees distributed globally, and SPI Research believes it to be an accurate representation of the global PS industry. SPI Research clients continue to use the model to develop, prioritize and implement performance gains.

In this chapter SPI Research reveals the analytic basis of the model and gives insight into our survey techniques. For this year's model, SPI Research used the current database of 238 firms surveyed over the last three months of 2013.

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: Service Performance Insight, February 2014

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

Model Improvements

Every 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 are several changes to the model that should improve its accuracy and validity. These changes include:

- Several questions were added and others deleted based on comments from participants. This year the survey had 200 questions, making it the most comprehensive survey to date.
- Based on client feedback, and increased interest in the impending "Talent Cliff", questions regarding age and gender were added to this year's survey.
- A question concerning organizational culture was added back in for the first time in three years, as several clients considered it important to their organization.
- The model used correlated data from just this year's survey.
- Increased emphasis was placed on maturity scores for each pillar, and questions directly related to a specific pillar were more heavily weighted in the appropriate pillar. For instance, the question regarding "bid-to-win ratio" carried more weight in the Client Relationships Pillar than it did in any of the other four pillars.

As usual, not every question was included in the model. Demographic information in particular is not part of the maturity model but helps PS executives better compare their organizations to the benchmark.

Model Inputs

SPI Research conducted 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 within the same Pillar. 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. Questions in a specific pillar have more weight in their corresponding pillar.
- ***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 KPI 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 1-100 and then assigned a Maturity Level based on a score from 1-5.

The minimum scores for each Pillar are summarized in Table 164. The maximum value is 100, which means the organization is at the "Optimized" level. By design, approximately 5% of organizations perform 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 2013 report as SPI Research annually adjusts scores based on economic conditions and the feedback received over the past year.

Table 164: Minimum Normalized Performance Pillar Scores

Pillar	Level 1	Level 2	Level 3	Level 4	Level 5	Maximum
Leadership (LE)	0.0	48.9	59.9	69.7	80.1	100.0
Client Relationships (CR)	0.0	27.7	34.7	43.9	52.6	100.0
Human Capital (HC)	0.0	36.5	44.4	52.3	58.0	100.0
Service Execution (SE)	0.0	34.7	42.9	50.3	56.6	100.0
Finance & Operations (FO)	0.0	14.6	23.1	38.3	65.2	100.0

Source: Service Performance Insight, February 2014

Model Results

SPI Research analyzed each of the 238 participating firms to minimize any bias when comparing PSOs of different sizes. Table 165 shows the majority of organizations in each size category have similar averages for each pillar.

Table 165: Average Service Maturity by PSO Size (People)

		Average Maturity Level				
Organization Size (people)	**Count**	**LE**	**CR**	**HC**	**SE**	**FO**
Under 10	17	2.71	2.12	1.76	2.24	2.18
10 – 30	66	2.06	1.91	1.83	1.94	1.98
31 – 100	82	2.51	2.65	2.72	2.59	2.70
101 – 300	45	2.62	2.71	2.73	2.76	2.49
301 – 700	15	3.00	2.93	3.20	2.93	2.80
Over 700	13	2.08	2.50	2.58	2.50	2.58
Total	**238**	**2.42**	**2.42**	**2.42**	**2.42**	**2.42**

Source: Service Performance Insight, February 2014

Similar to last year, this year's model shows that organizations with between 300 and 700 employees generally displayed the highest average level of maturity in all pillars. These scores are expected, because as organizations grow they tend to implement greater structure and control around their business processes, and are typically more mature. The largest firms showed slightly higher than average scores with the exception of the leadership pillar, or SPI Research has found. The larger the organization grows, the more difficult it is to be successful in this pillar. Large, global firms tend to have greater difficulty with structure, standards and communication due to their complexity, diversity and dispersion.

This year the smallest organizations actually scored better than those organizations with between 10 and 30 employees. Normally this is not the case, as smaller organizations tend to have higher leadership scores, but lower in every other pillar.

Table 166: Average Service Maturity by PSO Type

		Average Maturity Level				
Organization Size (people)	**Count**	**LE**	**CR**	**HC**	**SE**	**FO**
Embedded	69	2.75	2.65	2.55	2.61	2.57
Independent	169	2.29	2.33	2.37	2.35	2.37
Total	**238**	**2.42**	**2.42**	**2.42**	**2.42**	**2.42**

Source: Service Performance Insight, February 2014

SPI Research analyzed the maturity of PSOs by type (embedded vs. independent), and the results are summarized in Table 166. The results in this year's survey show that embedded service organizations

scored better in each of the five performance pillars. Some of this discrepancy could be attributed to the fact that a larger percentage of the independents were located overseas, and were much smaller in size.

Table 167 shows the average level of maturity for each of the performance pillars by select vertical markets. When comparing vertical markets with more than 20 surveys, professional services within software organizations scored very high compared to IT and management consultancies.

Table 167: Average Service Maturity by Vertical Market

		Average Maturity Level				
Market	**Count**	**LE**	**CR**	**HC**	**SE**	**FO**
Advertising (Marcom)	6	2.67	2.33	2.17	2.00	2.00
Architecture/Engineering	6	2.83	2.83	2.17	2.67	2.67
IT Consulting	115	2.22	2.34	2.43	2.31	2.35
Management Consulting	24	2.42	2.29	2.21	2.63	2.67
PS within HW & Networking	4	3.25	2.75	3.75	3.50	2.75
PS within SaaS company	16	3.06	2.19	2.06	2.25	1.75
PS within Software company	45	2.62	2.89	2.64	2.71	2.96
Other PS	22	2.32	2.09	2.32	2.18	1.95
Total	**238**	**2.42**	**2.42**	**2.42**	**2.42**	**2.42**

Source: Service Performance Insight, February 2014

The Financial Benefits of Moving Up Levels

The PS Maturity Model™ was developed to demonstrate the importance of organizational improvement through the use of benchmarking. SPI Research believes that the importance of the maturity model is to help organizations improve ***balanced performance across the entire organization***, not just in terms of financial performance. However, if the organization is profit-motivated (which most are), increasing maturity levels can show up in significant bottom-line profit. Table 168 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 increase profits.

Table 168: Key Performance Indicators (KPIs) by Maturity Levels

Key performance indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Year-over-Year change in PS Revenue	8.7%	8.4%	7.7%	18.0%	11.9%
Well understood vision, mission and strategy	3.57	3.64	3.93	4.33	4.38
Confidence in PS Leadership	3.71	3.90	4.08	4.36	4.46
Bid-to-Win ratio (per 10 bids)	4.05	5.24	5.00	5.32	6.88
Deal Pipeline Relative to Qtr. Bookings Forecast	110%	178%	212%	266%	308%
Employee Annual Attrition	7.4%	8.2%	10.2%	6.7%	8.2%

Key performance indicator (KPI)	Level 1	Level 2	Level 3	Level 4	Level 5
Billable Utilization (based on 2,000 hours)	61.4%	69.6%	72.7%	74.4%	78.1%
Projects Delivered On-time	73.0%	76.1%	79.9%	79.6%	85.8%
Average Project Overrun	11.0%	8.7%	6.6%	8.1%	6.3%
Annual Revenue per Employee (k)	$89	$128	$170	$220	$238
Project margin for fixed price projects	29.8%	33.1%	40.2%	44.4%	36.7%
Percent of annual revenue target achieved	83.2%	93.4%	86.3%	96.7%	98.1%
Percent of annual margin target achieved	80.8%	88.9%	86.8%	94.3%	103.5%
EBITDA (Profit) %	**3.8%**	**9.2%**	**9.7%**	**18.5%**	**22.5%**

Source: Service Performance Insight, February 2014

This table shows the benefits of moving up levels. Most organizations SPI Research has worked with find that improving by one maturity level annually is about all they can do. While moving up even one level can be difficult, the model shows the investment is well worth it.

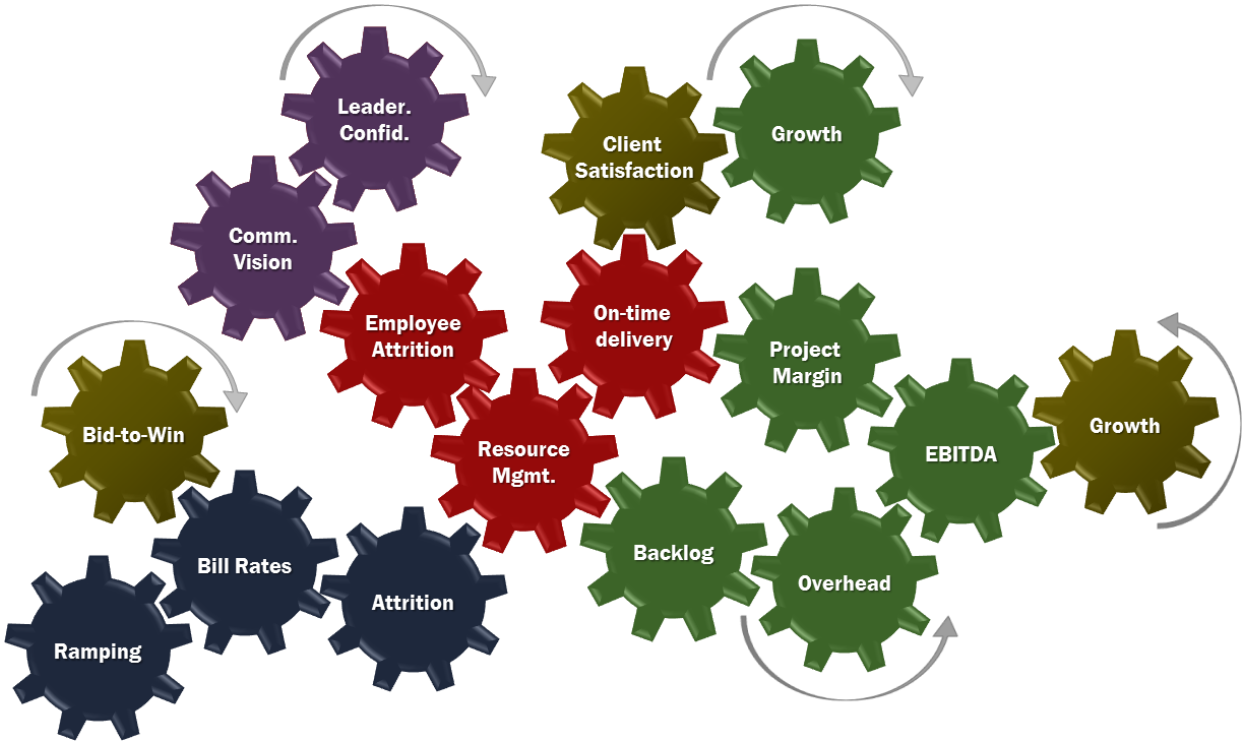
The Inter-relationship of Pillars

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

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

SPI Research took these interrelationships into account when building the Professional Services Maturity Model (Figure 50). It adds complexity to the model, but SPI Research believes it provides a real-world balanced view that improves PS ability to positively enact change.

Figure 50: Key Performance Indicators (KPIs) are Correlated



Source: Service Performance Insight, February 2014

Model Conclusions

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 – 300 employees) should contact SPI Research.

As organizations grow in size, they will gain greater operational efficiency and other advantages, while losing intimacy and ease of communication. And every vertical market has its own constraints, in many cases limiting the ability for high levels of profitability. The key to this maturity model is for executives to hone in on their own vertical market, as well as organization size, to better determine relative performance. Service Performance Insight can further segment this information to help PS executives specifically analyze performance relative to their exact peer group. For more information contact SPI Research.

11. 2014 BEST-OF-THE-BEST

For the past five years, Service Performance Insight has conducted in-depth analysis of the top 5% of PS Maturity™ benchmark participants to uncover the reasons for their superlative performance. The leading (according to the PS Maturity™ model) organizations have been named "Best-of-the-Best" after a careful audit of their survey responses and an in-depth interview with their lead service executive. In this year's benchmark, SPI Research included the top 13 firms, each scoring 20 or above (out of 25) on the PS Maturity™ Model.

Introducing the 2014 Best-of-the-Best Service Organizations

According to Service Performance Insight's "**The 2014 Professional Services Maturity™ Benchmark**" out of 238 participating organizations, thirteen firms (5%) significantly outperformed the benchmark average by excelling in all five service performance dimensions – **Leadership, Client Relationships, Human Capital Alignment, Service Execution and Finance and Operations.** The Top 13 firms outperformed their peers and the benchmark average with significantly higher profit and more satisfied clients. **SPI Research is proud to announce the 2014 top performers:**

Campus Management provides enterprise software products and services to over 1,700 colleges, universities, foundations, and other organizations worldwide. Campus Management is a four-time winner.

TOP Step Consulting improves business efficiency and productivity for Professional Service operations by providing consulting and implementation services for Professional Services Automation (PSA) software. TOP Step Consulting is a five-time Best-of-the-Best winner. Female CEO.

Table 169: Best-of-the-Best Comparison – Demographics

KPI	BoB	Rest	▲
Organizations	13	225	
Size of PS organization (employees)	83	262	-68.5%
Annual company revenue (mm)	$65.8	$135.8	-51.5%
Total professional services revenue (mm)	$17.5	$50.7	-65.5%
Year-over-year change in PS revenue	11.0%	9.9%	11.1%
Year-over-year change in PS headcount	10.6%	7.4%	44.5%
% of employees billable or chargeable	74.6%	71.0%	5.0%
% of PS revenue delivered by 3rd-parties	5.4%	11.8%	-54.3%
Mergers & Acquisitions over the past 3 yrs.	0.50	0.85	-41.5%
EBITDA	**30.2%**	**9.8%**	**209%**

Source: Service Performance Insight, February 2014

Logical Design Solutions, Inc is a strategy and business solutions consulting firm that envisions and designs emerging business ecosystems. LDS moves critical business strategies and operations online using people-centered solutions. LDS is a five-time Best-of-the-Best winner. Female CEO.

TopDown Consulting is an acknowledged leader in designing, implementing, and deploying EPM solutions. Using experience, expertise, and a proven approach, TopDown has successfully delivered over 1000 implementations for more than 500 Global 2000 clients. Top Down is a first-time winner.

SmartERP is a unique organization in the enterprise business applications space providing innovative, cost-effective, and configurable solutions and services to common business problems on the Oracle PeopleSoft platform. Two-time winner. Female CEO.

e4 Services, LLC is a healthcare information technology consulting firm specializing in clinical, hospital information management and revenue cycle services. e4 helps healthcare organizations simplify, manage, implement and transition clinical, health information management, and revenue cycle computer systems, applications, workflow and operations. First-time winner.

Agencyport Software builds software that the world's top insurance carriers use to engage simply and quickly with their product distribution channels and technology partners--differentiating those carriers from their competition, optimizing efficiency and improving the quality of underwriting. First-time winner.

Charles River provides an end-to-end solution to automate front- and middle-office investment management functions across asset classes on a single platform. The solution offers a simplified operating model that includes enterprise software, data, application management/upgrades, hosting and FIX network to improve investment professional productivity, control risk and lower technology costs. First-time winner.

EAC Product Development Solutions has maintained a focus on everything product development for more than fifteen years. Whatever your product development or engineering initiatives, EAC offers world-class tools and services to help ensure you get successful products to market faster. First-time winner.

Varrow is a leader in virtualization, storage, managed services and disaster recovery. Varrow provides world-class technology solutions through advanced consulting and design services from the industry's most talented engineers. First-time winner.

The New Office helps companies adapt their workplace technology to the changing world around them. With a laser-like focus on NetSuite and a highly disciplined delivery approach, The New Office has established itself as one of NetSuite's leading implementation and integration partners. First-time winner.

Informatica Corporation is a leading independent provider of data integration software. Thousands of enterprises worldwide depend on Informatica data integration, data quality, and big data solutions to access, integrate, and trust their information assets residing on premise and in the Cloud. Two-time winner.

Trimble creates unique products and solutions incorporating positioning technologies that help customers streamline workflows and analyze complex information faster and easier. The Trimble

portfolio includes over 1,800 patents and serves as the basis for the broadest positioning offerings across industries, including solutions for building owner/operators to support the lifecycle of planning, design, construction and operation. Female PS executive.

Demographics

Table 170 compares the 13 best-of-the-best performing PSOs to the other 225 in this year's survey. The size of the Best-of-the-Best organizations this year is much smaller than the average firm in the benchmark. Six are embedded PS organizations within either fast-growing Software or SaaS companies; five are IT consultancies and two are management consultancies. Several of the IT consultancies derive a substantial portion of their revenue from the resale of hardware and software products in addition to high value consulting. This year's Best-of-the-Best are characterized by high profit and high levels of client satisfaction. Unlike prior years, only three of the top firms grew revenue greater than 25% in 2013. Surprisingly, three grew annual revenue less than 5% and two saw their PS revenue decline yet they were still able to deliver high profit and client delight. Interestingly, not a single winner this year came from an embedded SaaS PSO. Times sure are a changing as embedded SaaS PSOs have typically garnered top honors; but not this year due to their business model shift to "client adoption" favoring generating client stickiness over PS profit.

While this year's Best-of-the-Best were smaller in size, they did on average, grow their workforce at a much higher rate than the others (Table 170). They also had a higher percentage of billable employees, and depended much less on third-party resources, preferring to recruit and deploy their own talented staff without relying on subcontractors which translated to higher levels of both employee and client satisfaction. Excitingly, four of the top performers are helmed by female leaders. Let's hear it for the lady CEOs who were disproportionately represented in the Best-of-the-Best compared to the PS industry at large. Female PS executives are few in number but these four obviously did a great job this year!

Pillar Performance

Leadership

The leading firms are highly specialized. They concentrate on specific high-growth product segments or vertical industries. The executives of top-performing firms are seasoned professionals – often with a track record of founding and growing multiple prior consulting organizations. They are razor-focused on becoming the best, most reputable supplier in their space – meaning this is not a life-style business although they establish a strong culture based on equal parts excellence and personal growth with a measure of fun and team-building thrown in.

This year's leaders discussed the cohesiveness of the executive team, and how they built a collaborative environment among employees. While each discussed the importance of client satisfaction, they also

discussed the importance of creating satisfied employees to help build the culture and position the firm for future growth.

This year's Best-of-the-Best were somewhat smaller than the general survey population. Leadership in smaller firms is easier to establish and maintain than in large organizations but the leader must wear many hats simultaneously as the chief rainmaker and solution architect.

Table 170 compares the leadership metrics of the highest performing organizations with the remainder of the survey. The comparative scores show the leading firms emphasize innovation and strategic clarity and alignment. The two highest differential scores are innovation and a well understood vision, mission and strategy. Leading PSOs emphasize the importance of communication by providing clear expectations for both their clients and workforce. They embrace change and are nimble and flexible to stay ahead of ever-changing business and technology trends.

Table 170: Best-of-the-Best Comparison – Leadership Pillar (1 to 5 Scale)

KPI	BoB	Rest	▲
Innovation focused (Rating from 1 to 5)	4.33	3.65	18.7%
Well understood vision, mission & strategy	4.50	3.81	18.0%
Effectively communicates w/employees	4.33	3.70	17.0%
Embraces change - nimble and flexible	4.50	3.86	16.7%
Confidence in PS leadership	4.50	4.02	12.0%
Ease of getting things done	4.17	3.73	11.8%
Employees have confidence in PSO's future	4.33	3.98	8.8%
Goals and measurements in alignment	3.92	3.72	5.2%

Source: Service Performance Insight, February 2014

Client Relationships

Interviews with the Best-of-the-Best firms revealed they intently focus on the top clients in their market-space with an intentional push to expand their footprint and share of wallet with industry-leading clients. The smaller organizations in this year's Best-of-the-Best are well organized in terms of developing and managing client relationships. Typically, smaller organizations focus on selling anything in order to grow but not the Best-of-the-Best. They are very deliberate about their

Table 171: Best-of-the-Best Comparison – Client Relationships Pillar

KPI	BoB	Rest	▲
Deal pipeline to qtr. bookings forecast	309%	184%	67.8%
Bid-to-win ratio (per 10 bids)	6.5	4.9	33.4%
Solution development effectiveness	3.83	2.9	30.5%
Service marketing effectiveness	3.17	2.7	18.7%
Service sales effectiveness	3.75	3.21	16.8%
% of "referenceable" clients	84.6%	73.9%	14.4%
New client % of total revenue	31.7%	31.0%	2.0%
Sales cycle (days: qualified lead to contract signing)	112	94	-19.5%

Source: Service Performance Insight, February 2014

market focus and the solutions they need to sell and deliver to succeed. Most of the organizations in this year's Best-of-the-Best have implemented productized services in order to offer high levels of quality and repeatability. Typically, SPI Research does not see this in smaller organizations.

Interviews revealed that while the percentage of new client penetration was virtually the same as all of the other organizations in the survey, they were much more successful in selling, and had a much larger deal pipeline. Many focus on repeat clients and to "land and expand" once on site.

Areas where these organizations excelled was in the size of their pipeline and win-to-bid ratio meaning they are well-positioned in their market due to specialization and a focus on solution development which resulted in much higher levels of sales and marketing effectiveness.

Human Capital Alignment

This year's benchmark showed just how critical talent management has become. While no one would argue that employees are the most valuable resource, in years gone by it was somewhat easier to find skilled talent. The leading firms use a variety of innovative recruiting strategies – from establishing strong partnerships with local universities, to attracting more senior consultants from their competitors. Just as in selling, referrals are a key source of new hires because the best and brightest invite their friends to join them. Once on board, the best firms offer new hire orientation and on-boarding programs which include shadowing and mentoring to quickly bring new hires up to speed. Leading firms have discovered they simply cannot rely on stealing top talent from their competitors – they need to grow their own. Several firms exclusively recruit from local universities (MIS and Engineering) and then invest over 90 days in teaching new hires both the industry and technology. This strategy, although initially expensive, results in qualified consultants who are able to hit the ground running after their on-boarding program has been completed. Other fascinating recruiting strategies include personality testing for cultural fit, communication and organizational skills in addition to technical knowledge.

Table 172: Best-of-the-Best Comparison – Human Capital Alignment Pillar

KPI	BoB	Rest	▲
Guaranteed annual training days per employee	11.14	8.9	25.1%
Management to employee ratio	12.08	10.0	20.6%
Well-understood career path for all employees (1 to 5 scale)	3.83	3.19	20.1%
Employee billable utilization	78.3%	69%	13.3%
Employee annual attrition	7.5%	8.3%	10.3%
Recommend company to friends/family (1 to 5 scale)	4.42	4.27	3.5%
Days for a new hire to become productive	72.5	68.5	-5.9%
Days to recruit and hire for standard positions	72.5	60.6	-19.6%

Source: Service Performance Insight, February 2014

Just finding talent is not enough. This year's Best-of-the-Best firms focused on faster ramping and employee training to develop a qualified workforce. Some create rotational assignments to give their employees greater exposure to other services and clients. Employees who are continually

learning and expanding their knowledge base tend to stay with their employer. When the work is not challenging or interesting, morale suffers and attrition rises.

Several executives stated that travel is an issue, and many of their workers had negative feelings about international work. They try to limit travel whenever possible offering "work from home" and remote service delivery options. Several firms are 100% virtual – in other words, they don't invest in expensive facilities but keep morale high with quarterly meetings to enhance communication and team-building.

Table 172 compares Human Capital Alignment pillar key performance indicators between the Best-of-the-Best organizations and the remainder. The table shows much higher levels of employee training investment, higher management to employee ratios (one of the reasons they are so profitable), clear career paths and high levels of billable utilization. These investments resulted in lower levels of attrition and higher levels of recommending the firm as a great place to work.

Service Execution

This year's Best-of-the-Best were fairly uniform in their commitment to developing standardized methodologies for service delivery. But besides repeatable processes, they were focused on ensuring high quality delivery; changes go through a rigorous evaluation in order to ensure proper risk management and margin analysis. Communication with the client base was very important to delivering services at such a high level.

The use of information-based tools was also mentioned by several of the organizations, as both professional services automation and remote service delivery tools were used to optimize service execution.

Table 173 compares service execution key performance indicators between the Best-of-the-Best performing organizations and the remainder. Most of these key performance indicators show significant differences between the top performers and the other organizations in this study.

Table 173: Best-of-the-Best Comparison – Service Execution Pillar

KPI	BoB	Rest	▲
Projects canceled	1.2%	2.0%	38.2%
Average project overrun	5.9%	8.6%	31.5%
Use a standardized delivery methodology	77.3%	64.5%	19.9%
Average project duration (months)	5.95	5.11	16.5%
Average project staff (people)	4.3	3.73	15.2%
Effectiveness of knowledge mgmt. processes (1 to 5 scale)	3.42	3.01	13.5%
Effect. of est. processes and reviews (1 to 5)	3.92	3.47	12.9%
Effect. of resource management process (1 to 5 scale)	3.83	3.45	11.1%
Projects delivered on-time	84%	77%	9.2%
Effect. of project quality processes (1 to 5)	3.67	3.36	9.1%
Effect. of change control processes (1 to 5)	3.5	3.35	4.4%
Average project staffing time (days)	10.4	9.4	-10.7%
Concurrent projects managed by pm	4.6	5.2	-12.6%

Source: Service Performance Insight, February 2014

The table points out the leaders tend to have fewer projects cancelled, fewer project overruns, higher levels of use of a standardized methodology, and larger projects. Leaders gave much higher marks to their knowledge management, estimating processes and resource management processes resulting in higher levels of on time project delivery.

Finance and Operations

The Best-of-the-Best are very focused on financial success and stability. Most use tools to manage financials and other aspects of their organization that resulted in higher levels of project and organizational profitability. Most of the leading firms have invested in both a CRM and PSA application. Nine of the thirteen use Salesforce.com as their CRM. Six use NetSuite/OpenAir as their PSA; two use ProjectorPSA and one uses FinancialForce. Since many are small, they reported running the financial side of the business on Microsoft Dynamics (3), Quickbooks (3), NetSuite (2) and one each for Financial Force and Oracle.

Table 174: Best-of-the-Best Comparison – Finance and Operations Pillar

KPI	BoB	Rest	▲
EBITDA	**30.2%**	**9.8%**	**209.0%**
Average revenue per project (k)	$413	$178	132.0%
Annual revenue per employee (k)	$236	$150	57.3%
Annual revenue per billable consultant (k)	$291	$187	55.6%
Revenue leakage	2.1%	4.3%	52.7%
Quarterly revenue target in backlog	65.8%	43.7%	50.7%
% of billable work is written off	1.6%	3.1%	48.8%
Average project margin — subs, offshore	40.0%	28.1%	42.5%
Percent of annual margin target achieved	102.9%	87.3%	17.8%
Percent of annual revenue target achieved	99.2%	89.3%	11.1%
Project margin for time & expense projects	40.4%	37.4%	7.9%
Executive real-time wide visibility	3.67	3.56	3.0%
Project margin for fixed price projects	35.9%	36.4%	-1.3%
% of inv. redone due to error/client rejections	2.2%	2.1%	-5.5%
Days sales outstanding (DSO)	49.5	43.7	-13.4%
Quarterly non-billable expense per employee	$1,917	$1,354	-41.6%

Source: Service Performance Insight, February 2014

The Professional Services Maturity Model™ scoring over-weights financial success; meaning the leaders in this survey were much more profitable than their peers. Table 174 shows the enviable financial results from this year's Best-of-the-Best. They produced more than three times the net profit (30.2% compared to 9.8%) of average firms in the benchmark. This high level of profitability is derived from larger projects, higher revenue per employee and consultant, with dramatically lower levels of revenue leakage and higher levels of backlog. All of the Best-of-the-Best can be characterized as running a very tight financial ship. They are frugal with non-essential expense. In particular, they don't invest in fancy offices and non-billable travel, preferring to heavily invest in the skill development of their employees. Several firms are 100% virtual without brick and mortar facilities which translates to significant savings.

The Best-of-the-Best make money on every aspect of the business with high subcontractor margins (40%); and high time and materials project margins (40.4%). Interestingly they have lower margins for

fixed price projects, which should come of some concern, given the market is moving in that direction. The leaders had a significantly higher amount of revenue in backlog, which creates greater financial stability and predictability.

Income Statement

Table 175 compares the Best-of-the-Best survey participants to the others. As the income statement shows, top performing firms are primarily direct-labor based with a lower component of subcontractor and pass-through revenue. This indicator has changed very little in the years SPI Research has conducted the Best-of-the-Best analysis.

Although the Best-of-the Best achieved reasonable levels of top-line growth the area where they really excel is in cost management. They are extremely frugal, with dramatically lower expense across the board except in billable travel but in this area they do a better job of rebilling travel than average firms.

The net result of this analysis is that the Best-of-the-Best firms generated significantly higher levels of profit due to their commitment to keeping costs down.

Table 175: Best-of-the-Best Comparison – Income Statement

	Best-of-the-Best	All Others	▲
REVENUE			
Direct gross PS	84.2%	78.3%	7.7%
Reimbursable T&E	5.6%	3.2%	76.1%
Indirect gross	4.2%	9.0%	-53.9%
Pass-thru	5.9%	9.5%	-37.5%
Total Revenue	**100.0%**	**100.0%**	
EXPENSES			
Direct labor (DL) expense	37.2%	41.2%	9.6%
Fringe benefit % of DL	5.5%	6.2%	12.3%
Billable travel and business	5.1%	2.7%	-89.3%
Non-billable travel	1.9%	1.9%	-2.1%
Subcontractor/outside consult.	3.8%	9.1%	58.2%
Pass-thru	0.2%	5.6%	95.6%
Sales	4.2%	7.2%	41.8%
Marketing	1.9%	2.2%	11.0%
Education/training/certification	0.8%	1.4%	44.8%
PS IT	1.5%	1.7%	10.7%
All other G&A	7.5%	11.0%	31.9%
Total Expenses	**69.8%**	**90.2%**	**22.7%**
EBITDA	**30.2%**	**9.8%**	**208.6%**

Source: Service Performance Insight, February 2014

Best-of-the-Best Conclusions

Unlike prior years, this year's Best-of-the-Best were smaller than most firms in the benchmark; despite their size they have become leaders in very specialized markets. Due to their market dominance, they spend less on sales and marketing, preferring instead to invest in their employees and clients. Their reputations for delivering high quality results manifest in repeat business and referrals.

Interestingly 25% of this year's best were led by female executives – we hope this trend continues as more and more women join the professional service ranks. Their people-centered leadership styles are a good fit for PS.

As these organizations grow, it will become increasingly difficult to maintain their collaborative and innovative cultures. They will no doubt face stiffer market competition. However, focused organizations with solid leadership, great employees and a strong information infrastructure can overcome most hurdles that face them going forward. Congratulations to the 2014 Best-of-the-Best – you delivered truly outstanding performance in 2013!

12. CONCLUSIONS

2014 promises to be another exciting year in the professional services market. SPI Research expects growth, but probably not more than 10%, as we saw in 2013. The real concern is profitability. Can PS executives curtail unnecessary spending and lead their organizations back to higher levels of profit?

To succeed going forward, PS teams must evaluate all areas to determine where and how they can improve. The 2014 Professional Services Maturity™ Benchmark serves as a guide to help executives better understand peer comparison, and offers insight into ways to improve performance. Remember, every department in a professional services organization is linked, and improvements in one area can have positive (and sometimes negative) consequences in others. It is critical for the executive team to determine a short-list of initiatives to chart future growth and higher levels of profitability.

This report reminds you of the importance of benchmarking. While most firms might not measure 195 KPIs, they should have their own departmental metrics and goals. Benchmarking should be the first step toward improvement, as without knowing where you are it is impossible to determine the best road ahead.

This year's survey marks the first time SPI Research has analyzed both gender and workforce age, as we believe these areas will impact professional services organizations going forward. More women and newly minted college graduates are joining the professional services ranks, and their inclusion should open up new ways of thinking, innovation and new services to help professional services organizations grow.

Increasing the number of women and younger consultants in professional services will also help PSOs increase staff at a time when baby boomers are retiring in droves. In the past, the professional services market was known for "gray-haired men" offering guidance on technology, operations and strategy. Of course now the market also offers so much more involving both strategic and tactical initiatives, in addition to technology implementation and optimization.

Professional services executives must leverage information much more effectively. The different technologies and tools available today enable PSOs to focus much better than they could in the past, but will never live up to their promise, if not used correctly. The PS information strategy should be at the top of every executives to-do list, taking advantage of the so-called "big data" available to them.

In this report SPI Research also discussed the concept of SMAC – social, mobile, analytics, and cloud. These technologies are becoming increasingly important, especially to a younger and more connected workforce. They hold a great deal of promise for PSOs, but must be leveraged and managed in order to achieve maximum benefit.

The fact is the professional services market is changing, as it always does. The changing workforce, globalization, new technologies and business models offer exciting challenges for those individuals willing to accept them with the potential of exciting business opportunities going forward.

13. APPENDICES

Appendix A: Acronyms Used in This Report

Table 176: Lexicon of Acronyms and Abbreviations

Acronym	Meaning
APac	Asia-Pacific
BI	Business Intelligence
BPM	Business Process Management
BPO	Business Process Outsourcing
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CRM	Client Relationship Management
DSO	Days Sales Outstanding
EMEA	Europe, Middle East, Africa
ERP	Enterprise Resource Planning
ESO	Embedded Service Organization
EVM	Earned Value Management
HCM	Human Capital Management
HR	Human Resources
ISV	Independent Software Vendor
IT	Information Technology
KPI	Key Performance Indicator
MarCom	Marketing Communication / Advertising
NPV	Net Present Value
PA	Project Accounting
PMI	Project Management Institute
PMO	Project Management Office
PMP	Project Management Professional
PPM	Project Portfolio Management
PS	Professional Services
PSA	Professional Services Automation
PSO	Professional Services Organization
ROI	Return on Investment
SaaS	Software as a Service
SCM	Supply Chain Management
SM	Social Media
SRP	Service Resource Planning
SLA	Service Level Agreement
SLM	Service Lifecycle Management
STEM	Science, technology, math and engineering
SVC	Service Value Chain
VSOE	Vendor-Specific Objective Evidence
WBS	Work Breakdown Structure

Source: Service Performance Insight, February 2014

Appendix B: Financial Terminology

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

Table 177: Standard Key Performance Indicator (KPI) Definitions

Term	Definition
70% utilization	~ 1400 billable hours/year or 350 hours/quarter
Allocations	Corporate allocations refer to a company's policy of distributing the cost of shared resources, for example, facilities, healthcare, IT and Sales, General and Administrative (SG&A) costs to specific functions or departments.
Annual Billable Utilization %	Annual Billable Hours/(2080 hours – vacation and holidays) or Billable days/(260 days – 10 vacation – 10 holidays ~ 240 days)
Attrition %	Attrition % = (Voluntary + involuntary) / Total Beginning Employees
Backlog	Backlog = Bookings - Billings The total value of contract commitments yet to be executed: Total Backlog = Previous fiscal year's contracts not yet billed + Latest fiscal year's sales - Latest fiscal year's revenue
Bid Win Ratio	The ratio of successful bids (resulting in signed contracts) divided by the total number of bids or proposals issued. Bid Win ratio is a good measure of sales and marketing effectiveness because it demonstrates the organization is pursuing appropriate types of business and is able to beat its competitors.
Billings	Completed, accepted work that can been billed (T&M, Work in process, Milestone, Deliverables)
Bookings	Signed Contracts (signed PS Agreement + signed SOW + PO)
Burdened Cost	Typically employee burdened costs are the costs per employee for benefits (Healthcare, Pensions, 401K) and an apportioned cost for the employee's facility and IT usage + all discretionary expense. The difference between burdened cost and fully burdened cost is that fully burdened cost includes an allocation for corporate SG&A costs.
Capitalization	**Expensed computing equipment:** expenses (typically less than $100k) vs. capitalized (paid for over a time period). Servers for example, are typically capitalized and depreciated over a 3 year period. Capital expenditures usually refer to expenses a company makes for property, buildings or equipment. Capitalized items typically have a useful life of several years.
Cash	The value of the most liquid assets within the balance sheet. Cash equivalents are assets such as money market accounts that can be accessed quickly and are not subject to significant change. Does not include the value of accounts receivable.
Cash flow	Is the balance of the amounts of cash being received and paid by a business during a defined period of time, sometimes tied to a specific project. The timing of cash flows into and out of projects is used as input to financial models such as internal rate of return, and net present value.
Cost per person	Cost Per person = Base + Fringe (~25%) + Bonus
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:

Term	Definition
	$$= \frac{\text{Accounts Receivable}}{\text{Total Credit Sales}} \times \text{Number of Days}$$ 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. $$EBITDA = Revenue - Expenses\ (excluding\ tax, interest,\ depreciation\ and\ amortization)$$ EBITDA is essentially net Income with interest, taxes, depreciation, and amortization added back to it. EBITDA can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. However, this is a non-GAAP measure that allows a greater amount of discretion as to what is (and is not) included in the calculation. This also means that companies often change the items included in their EBITDA calculation from one reporting period to the next.
EITF	An organization formed in 1984 by the Financial Accounting Standards Board (FASB) to provide assistance with timely financial reporting. The EITF holds public meetings in order to identify and resolve accounting issues occurring in the financial world. EITF 08-01 and EITF 09-03 are scheduled to go into effect in June, 2010. These new rulings provide revenue recognition guidelines around the value of multi-element contracts which include products and services. These new rulings will allow companies to more accurately recognize revenue as services are delivered for complex multi-element contracts. They create a hierarchy of evidence to support revenue recognition including VSOE (Vendor Specific Objective Evidence), TPE (Third Party Evidence) and ESP (Estimated Selling Price).
FASB	A seven-member independent board consisting of accounting professionals who establish and communicate standards of financial accounting and reporting in the United States. FASB standards, known as generally accepted accounting principles (GAAP), govern the preparation of corporate financial reports and are recognized as authoritative by the Securities and Exchange Commission.
Fixed Costs	Fixed costs are costs that remain the same regardless of changes in the business. For example, facility lease costs remain the same for the life of the lease, regardless of the level of occupancy. If the business is expanding, the percentage of fixed costs may decrease whereas if the business is contracting, the percentage of fixed costs may increase.
Fringe Benefits	A collection of various benefits provided by an employer, which are exempt from taxation as long as certain conditions are met. Fringe benefits commonly include health insurance, group term life coverage, education reimbursement, childcare and assistance reimbursement, cafeteria plans, employee discounts, personal use of a company owned vehicle and other similar benefits.
Gross Margin	**Gross Margin = (Total Services Revenue – Expense or Cost to Deliver the Services)** The gross profit generated per dollar of services delivered. A company's total sales revenue minus its cost of goods or services sold. This dollar amount represents the gross amount of money the company generated over the cost of producing its goods or services.
Gross Margin Percentage	Gross Margin % = (Total Services Revenue – Expense or Cost of Services Delivered) / Total Services Revenue Gross Margin %= Gross Margin / Revenue
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).

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

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

Term	Definition
	valuable and garner a lower price-to-earnings multiple for a company.
Run Rate	How the financial performance of a company would look if you were to extrapolate current results out over a specified period of time.
Revenue Recognition	http://www.mmmlaw.com/publications/article_detail.asp?articleid=103 (Selected excerpts from the article) Any business generating revenue from licensing, selling, leasing or otherwise marketing software will experience serious problems from failure to recognize the significance of the New SOP. This section summarizes the importance of revenue recognition. Revenue recognition is a fundamental component of generally accepted accounting principles (GAAP) and is a key consideration in maintaining the integrity of financial statements. The central issue is one of timing and amount : When should revenue generated in a software transaction be recognized in a software company's income statement, and in what amounts? In most cases, companies strive to recognize revenue as quickly as possible, thereby improving their financial performance. Even private software companies generally try to improve financial performance by accelerating revenues whenever possible. Before issuance of SOP 91-1 in December 1991, there was no specific guidance for recognizing revenue in software transactions. The ensuing lack of uniformity among software companies in their revenue recognition policies led to the inability of third parties to make meaningful comparisons among companies. Similarly, the New SOP is designed to provide even greater uniformity by addressing inconsistent applications of SOP 91-1 in software transactions. Basic Revenue Recognition Criteria. SOP 91-1 and the New SOP each define basic criteria that must be satisfied before revenue can be recognized. Under the New SOP if an arrangement to deliver software does not require significant production, modification, or customization of the software, then the New SOP specifies four criteria which must be met prior to recognizing revenue from a single-element arrangement or for individual elements in a multiple-element arrangement.1 These four criteria are: 1. persuasive evidence of an arrangement exists; 2. delivery has occurred; 3. the software vendor's fee is fixed or determinable; and 4. Collectability is probable. Although these basic revenue recognition criteria are substantially the same as those contained in SOP 91-1, the New SOP takes a fundamentally different approach in certain areas such as: (1) providing detailed guidelines for recognition of revenue in "multiple-element arrangements," and (2) eliminating the concept of remaining "significant vendor obligations" under SOP 91-1. Changing Sales Behavior. A software company's sales force will be critical to implementation of the New SOP. As a general rule, software companies tend to bundle software and services together in order to offer a turn-key software solution to the buyer. Additionally, the description of and the fees for the software and services being offered are typically combined. This bundling makes the sale easier for a sales representative because it makes the offering easier for the buyer to understand and it prevents the buyer from removing elements of the transaction that the buyer might not otherwise pay for if they knew the individual price for the element. However, the result of this bundling could be a deferral of revenue recognition. Therefore, many software companies will have to change the manner in which their sales personnel work in order to achieve their revenue recognition goals. Sales Force Compensation. From an internal perspective, many companies base compensation and bonus arrangements, at least in part, on recognized revenue within a specified time period. If revenue recognition policies are changed, bonus plans may be affected. With the adoption of the New SOP, benefit plans will require further examination to verify the suitability of these plans in achieving a company's objectives and motivating employees to complete all the requirements for revenue recognition as a basis for earning a bonus.
Subcontractor Margin	Subcontractor Margin = (Total subcontractor generated revenue – total subcontractor cost)/ Total subcontractor generated revenue
Variable Costs	Variable costs are costs that vary based upon usage. Training, travel and business expenses are variable, whereas costs for facilities are treated as a "fixed" cost because they do not vary based on use. Commonly variable costs may also be termed "discretionary" because management can make decisions to make or not make the expenditure.
VSOE	**VSOE = Vendor-Specific Objective Evidence (accounting/contracting)** VSOE is the price established by management having relevant authority. Once a firm has established the VSOE price and officially acknowledged it as such, that price must not be expected to change prior to the introduction of that element into the marketplace. The introduction of that deliverable into the marketplace on a separate basis ought to be within a very

Term	Definition
	short period of time after the VSOE price is set. Accounting firms have differing opinions on how long is too long, so make certain you are aware of your accounting firm's guidelines. Vendor Specific Objective Evidence (VSOE) is an agreed-upon value for goods and services. For service organizations, VSOE is usually established by the company's auditors based on historical bill rates or actual realized revenues from service packages. When VSOE service prices are set the effect can be very painful because the firm's auditors review past engagements to set current VSOE rates. This means if a firm's services were significantly discounted in the past the service organization will be penalized with "Past sins" when auditors calculate current VSOE rates. With software companies the accepted practice is to amortize each sale across the contract's lifetime and to apply all labor hours whether billable or not.

Source: Investopedia, Wikipedia, Morris, Manning and Martin, LLP, a**nd Service Performance Insight, February 2014**

Professional Services Performance Acceleration Program

Objective Business Planning for Breakthrough Results — in Just Six Weeks

Service Performance Insight's Professional Service Maturity™ acceleration program will help your company align around a common view of the highest impact areas for the PS business by helping your executive team prioritize and focus on the most critical improvements to drive immediate and sustained productivity and profit growth.

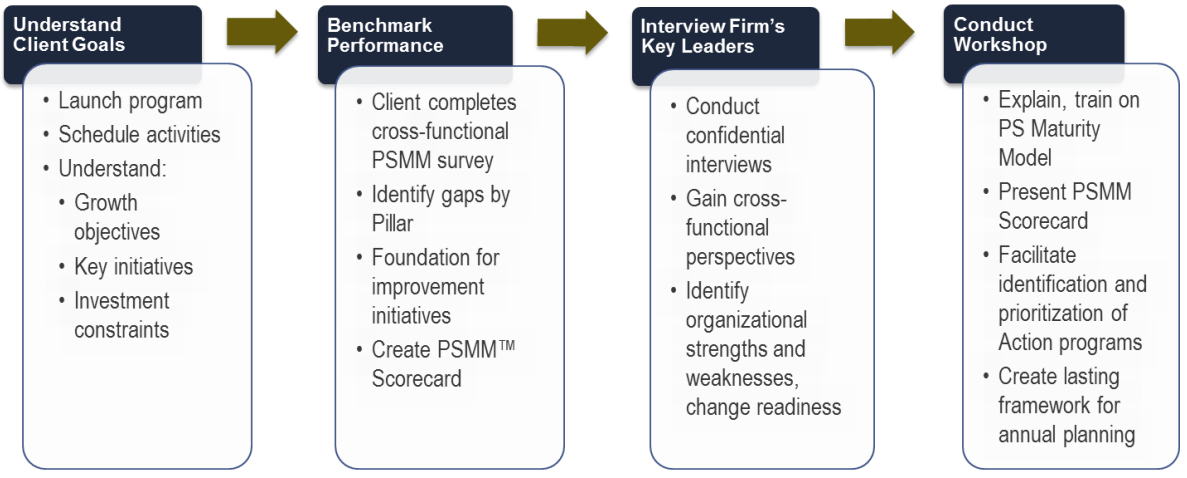
The PS Maturity Model™ is a strategic planning and management framework that is used by over 10,000 service and project-oriented organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communication, and monitor service organization performance against key performance measurements and benchmarks.

SPI's "outside-in" industry-standard assessment helps organizations create a strategic plan to lay the foundation for sustained productivity and profit improvement in the years to come. SPI Research brings more than 100 years of combined experience transforming service, sales and marketing organizations—we are confident we can help you accelerate your organization's business success.

Our senior consultants will work with your leadership team to provide a quantitative and qualitative assessment of overall service organizational maturity. The performance acceleration program will include recommendations for improvement and an executive workshop to identify your company's highest impact initiatives and establish leadership alignment around how to get started implementing them.

SPI uses a proven approach to rapidly and effectively identify significant areas of improvement and help clients prioritize action programs.

The result? Alignment and focus on initiatives that improve performance.



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- Δ Provide a comprehensive assessment of your company's service business, using the objective PS Maturity Model™ and 2014 benchmark to diagnose areas of strength and weakness
- Δ Conduct an employee engagement survey to gauge the level of employee engagement and satisfaction while uncovering Talent Management issues and improvement areas
- Δ Use insights gleaned from confidential leadership and stakeholder interviews to surface hidden issues and disconnects to facilitate alignment around a shared view of PS priorities
- Δ Provide recommendations for priority improvement initiatives, based on experienced third party insight and analysis
    - o Quick-Start initiatives to begin immediately
    - o Create a short-list of strategic priorities
- Δ Ensure executive support and alignment around the PS charter and strategic business plan
- Δ Facilitate executive alignment and commitment to recommended improvements

Contact info@spiresearch.com for more information

About Service Performance Insight

R. David Hofferberth, PE, Service Performance Insight founder, managing director and licensed professional engineer has served as an industry analyst, market consultant and product director. He is focused on the services economy, especially productivity and technologies that help organizations perform at their highest capacity.

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Service Performance Insight (SPI Research) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 10,000 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.

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