Service Performance Insight, LLC

2015 Professional Services
Global Pricing Report

October 2015

Service Performance Insight

Service Performance Insight (SPI) is a global research, consulting and training organization dedicated to helping professional service organizations (PSOs) make quantum improvements in productivity and profit. In 2007, SPI developed the PS Maturity Model™ as a strategic planning and management framework. It is now the industry-leading performance improvement tool used by over 10,000 service and project-oriented organizations to chart their course to service excellence.

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

➢ **Leadership**
➢ **Client Relationships**
➢ **Human Capital Alignment**
➢ **Service Execution**
➢ **Finance and Operations**

The SPI Advantage – Research

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

The SPI Advantage – Consulting

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

To provide us with your feedback on this research, please send your comments to:

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Table of Contents

Figures

Tables

1. Foreword

The growth engine of the world's economy has shifted from manufacturing to project-based, people-centric services businesses. As PS organizations struggle to improve margins, determining winning pricing targets and strategies has never been so important.

The cause and effect of higher bill rates

Price realization based on realized bill rates in combination with billable utilization is a leading indicator of the overall quality and differentiation of the professional services (PS) organization. The fact that PS organizations with the highest bill rates and price realization tend to reinvest profit into their employees leads to a continuing improvement cycle.

Highly skilled, well-trained, motivated and loyal consultants undoubtedly produce the best client results. In turn, satisfied clients provide referrals and buy additional services resulting in improved sales effectiveness.

One of the consistent themes we have seen through eight years of benchmarking over 2,000 service organizations is that high realized bill rates lead to employee investment. High levels of employee investment result in superior project delivery and return financial profit. But bill rates only tell a small part of the story. Rates are primarily governed by the market, the types of services provided, and the reputation of the firm. SPI Research has seen management consulting senior partner daily rates as high as $8,000, but the top strategic management consultancies do not publish their rates, nor are they visible to their clients. These rates are justified based on the significant "bet your business" types of projects these firms deliver; high rates are indicative of the strategic business value provided.

At the other end of the spectrum, the lowest bill rates are shown in the hardware and networking sector, where providers are still primarily focused on implementation and have not yet moved to more strategic consulting services. Staff augmentation garners low rates because the client assumes almost all of the responsibility for successful business outcomes – clients are buying a "body" with a specific skillset as opposed to a project based on a defined business outcome.

Which is better – raising rates or increasing billable utilization?

As part of this pricing study, SPI Research created Figure 1 to demonstrate the important role bill rates play in generating profit. This chart depicts a 100 billable person PS organization (PSO) and shows the effect bill rates have on profit (the left axis in $millions). We have normalized consultant cost to reflect a 100-person workforce with an average loaded per person cost of $135,000 ($100K base, $20K fringe benefits, $10K bonus and $5K in non-billable discretionary spending). The chart allows an organization to determine optimum utilization and bill rates. This organization will be profitable at an average bill

rate exceeding $250 per hour with average utilization of only 30% (600 billable hours/year/person). Conversely with average rates below $175 per hour, average utilization must be 60% (1,200 hours/year/person) or higher to achieve a minimal amount of profit.

Figure 1: 100 Billable Employee PSO - Bill Rate / Utilization / Profitability Sensitivity
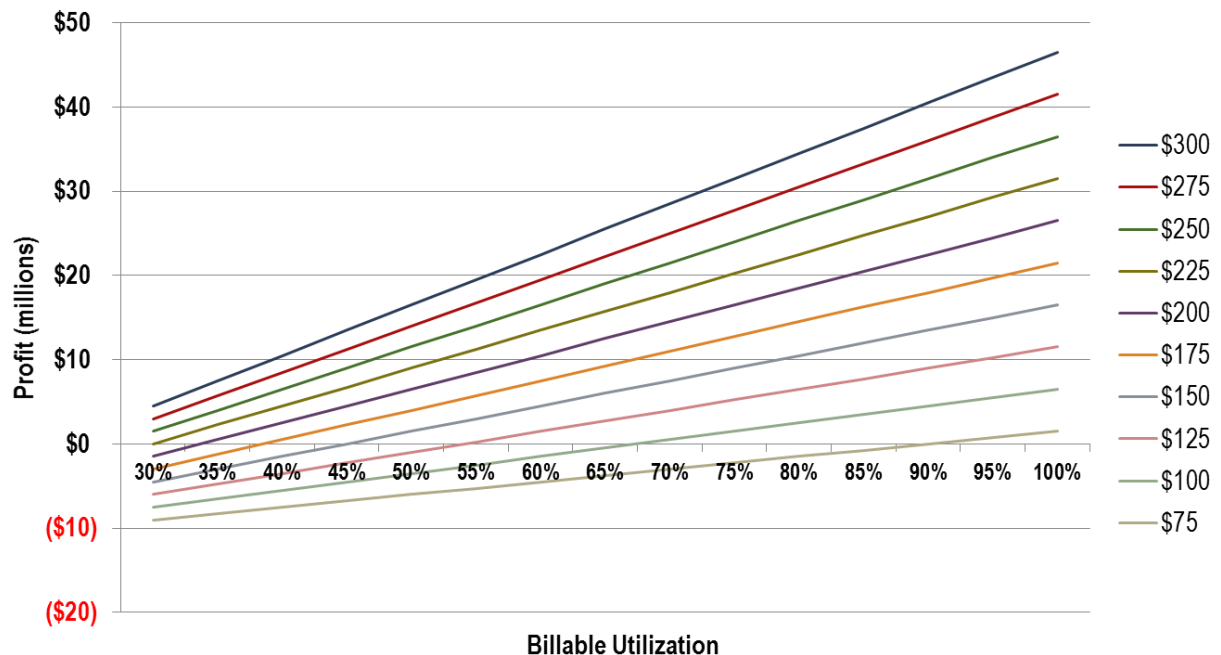
The optimum pricing strategy is based on a clear understanding of burdened consultant costs and the scope, complexity and business value of the project. Typically, one-off projects tend to take longer and cost more than planned so firms must focus on service packaging to develop a repeatable service portfolio. Project outcomes and quality improve with repetition because project teams are able to leverage previous knowledge, experience and deliverables.

Why is pricing important?

In a labor-based business like professional services, profit comes from the right balance of revenue and costs. PSOs have a very high fixed labor cost so the two primary profitability levers are *either lowering costs* (sourcing strategies, limiting benefits and overhead, virtual business models, limiting discretionary spending on IT, travel, training and recruiting) or *increasing revenue* (higher bill rates, higher revenue per person, higher billable utilization). Throughout the recession, PSOs focused intently on the cost side of the equation, reducing headcount, reducing the number of non-billable roles and cutting back on facilities, travel and discretionary spending. Now with economic improvement it is time to focus on growing revenue through a combination of rate, market expansion and productivity enhancements.

2. Report Summary

Building on the success of the 2011 PS Global Pricing report, in this report Service Performance Insight, LLC provides a comprehensive study of global PS bill rates, workforce composition and utilization. This independent study profiles published and realized bill rates and billable utilization across 12 job roles. The report profiles 13 service industry segments such as IT and management consulting as well as embedded PS roles within Software, SaaS, hardware, networking and security product organizations. Insights are provided by region for 9 geographic regions.

This PS Pricing report also focuses on key metrics and business applications to effectively price and win consulting proposals.

What this report contains:

1. Pricing trends and challenges.
2. Job roles and job descriptions for 12 consulting positions.
3. Workforce composition and structure – PS sub-vertical profiles of workforce composition, pricing, utilization metrics and annual revenue targets.
4. Utilization – for 12 job titles by PS industry vertical, organization size and geography.
5. Bill rates - published and realized bill rates for 12 job titles by PS industry vertical, organization size and geography.
6. Professional Service business applications.

Published versus realized rates

This study compares PSOs' published bill rates versus realized bill rates. In other words, the actual hourly bill rate firms receive. In general, realized rates are approximately 85 percent of published list rates. The difference between published and realized rates reflects both discounts and written-off consulting hours.

The report looks at four primary job categories (management, project management, business consulting, and technical consulting), with three corresponding experience levels per job family. For the 12 job titles SPI Research analyzes in this report, senior business consultants achieved the highest percentage of realized rates at 90 percent of the published rate while the project management role experienced the highest level of discounting (14.1%). Typically, SPI Research has found the greatest disparity between published and realized rates was associated with the most senior level positions in each job category. In other words, the most senior resources in any job category commanded the highest list rates but reported the highest levels of discounting. Key questions around lower price realization are: is the high level of discounting due to an excessively high target bill rate? Or is there more room for discounting because of a higher list rate? Or are senior resources accepting lower rates to run large projects to ensure they are successful? Or is it hard to establish incremental value for more senior resources? SPI Research suspects the answer is based on a combination of these factors.

In Table 1, based on the weighted average across all job categories, the typical PS organization in this study was comprised of approximately 104 billable people. Management comprises 13% of the workforce, project management 16%, business consultants 29% and technical consultants 42% respectively. As expected, the majority of the work, billable hours and revenue is produced by business consultants and technical consultants. Both business consultants and technical consultants work on-site approximately 50% of their time.

Table 1: Bill Rate Summary – All PS Markets and Geographies

Role	Level	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Disc.
Management	VP / Executive Management	2.7	17.9%	706	$271	$235	13.5%
	Director	3.9	21.8%	785	242	213	11.8%
	Manager	7.2	25.4%	879	202	176	12.9%
Project Management	Program Manager	5.2	48.0%	1,368	200	174	12.8%
	Senior Project Manager	4.5	46.0%	1,472	202	177	12.4%
	Project Manager	6.5	42.8%	1,505	190	164	14.1%
Business Consulting	Principal Business Consult.	6.0	50.6%	1,450	232	196	15.6%
	Sr. Business Consultant	11.0	49.0%	1,519	189	169	10.8%
	Business Consultant	13.8	47.9%	1,512	173	149	14.0%
Technical Consulting	Solution Architect	9.5	46.9%	1,391	205	178	12.9%
	Senior Technical Consultant	15.2	53.6%	1,563	194	168	13.2%
	Technical Consultant	19.1	47.7%	1,566	167	146	13.0%
Total	**Weighted Average**	**104.4**	**41.3%**	**1,363**	**$202**	**$175**	**13.1%**

Source: Service Performance Insight, October 2015

2011 to 2015 PS Pricing Comparison

Table 2 provides a snapshot comparison by role of the 2011 PS Pricing survey compared to the 2015 survey. The headline reads "lower bill rates" are offset by "significantly higher billable utilization targets" resulting in "significant increases in consulting revenue yields and profits". What this means is that the consulting industry is demanding more from their workforces to offset rate erosion. These productivity advances are a direct result of more virtual (off-site) consulting delivery, stronger consulting demand (more work) and productivity tools (less time spent on non-billable activities). The question which must be asked is "can the consulting industry continue to ratchet up consultant productivity and billability, or are we near a breaking point?"

Table 2: Bill Rate Summary – All PS Markets and Geographies – 2011 compared to 2015

Level	2011			2015			Target Revenue Yield Delta (k)
	Target Annual Billable Hrs.	Realized Hourly Bill rate	Target Revenue Yield PP (k)	Target Annual Billable Hrs.	Realized Hourly Bill rate	Target Revenue Yield PP (k)	
VP / Executive Management	743	$265	$197	706	$235	$166	($31)
Director	771	217	167	785	213	167	0
Manager	852	178	152	879	176	155	3
Program Manager	1,211	167	202	1,368	174	238	36
Senior Project Manager	1,289	166	214	1,472	177	260	46
Project Manager	1,272	153	195	1,505	164	246	51
Principal Business Consult.	1,113	217	242	1,450	196	284	42
Sr. Business Consultant	1,298	193	251	1,519	169	256	4
Business Consultant	1,330	152	202	1,512	149	225	23
Solution Architect	1,316	185	243	1,391	178	248	5
Senior Technical Consultant	1,374	166	228	1,563	168	263	35
Technical Consultant	1,401	151	212	1,566	146	228	16
Non-weighted average	**1,249**	**$177**	**$214**	**1,353**	**$175**	**$237**	**$23**

Source: Service Performance Insight, October 2015

Key findings from comparing the 2011 to 2015 PS Pricing surveys:

Δ   Target annual billable hours have increased dramatically for all job categories except Executive Management. Target annual hours across all roles and geographies have increased from 1,249 in 2011 to 1,353 hours in 2015! The average PS consultant is targeted to bill almost 200 more hours per year! Most consulting job roles are now targeted at 75% billable utilization or higher.

Δ   The only job category which has not experienced a decline in realized bill rates is the Project Management job category. At the same time, project managers are being asked to bill more hours. The combined impact of slightly higher rates and significantly higher utilization targets manifests in the greatest increase in per capita target revenue. A contributing factor to these increases is that the project management category has experienced the most significant decline in employee numbers as a percent of the overall consulting workforce. This means the remaining project managers are being asked to do more and scarcity has led to higher rates.

Δ   The Business Consulting job category has experienced the steepest decline in realized bill rates at the same time this job category has experienced a sharp increase in billable utilization targets. The increase in billability has more than offset the decrease in rates, making the business consulting job category the richest revenue producers in the study.

Δ   The Technical Consulting job category has experienced a moderate decline in realized rates and a moderate increase in annual billable targets. The net result manifests in moderately increased revenue targets.

Δ   In the technical consulting job category, only senior technical consultants have experienced a slight increase in realized bill rates from $166 to $168 per hour. However, their billable utilization targets have soared from 1,374 hours in 2011 to 1,563 hours in 2015. The net result is they are targeted to generated $263K in annual revenue, up from $228K in 2011!

Pricing changes over the past seven years

SPI Research has included bill rate questions in its Professional Services Maturity™ Benchmark survey since 2007. This tumultuous economic period saw rates grow to their highest levels (2008) and then subside as the economy stalled and moved into a prolonged recession. Table 3 highlights bill rate trends over the past seven years by role. It shows rates for the primary consulting job categories of project management, business consulting and technical consulting have remained flat or have slightly declined. Only senior manager and solution architect roles have experienced a moderate increase over this seven-year period.

Rate erosion offers proof that the technology consulting market is maturing and commoditizing. The huge wave of outsourcing to India and Eastern Europe has compressed

Table 3: Published Bill Rate Comparisons: 2008 to 2015

Level	2008	2009	2010	2011	2015
Senior Manager	$222	$232	$222	$211 - $239	$202 - $271
Project/Program Manager	191	186	191	173 - 205	190 - 202
Business Consultant	176	171	179	174	173
Technical Consultant	170	158	166	168 - 185	167
Solution Architect	186	181	181	211	205

Source: Service Performance Insight, October 2015

domestic rates in North America and EMEA, the largest consumers of consulting services. Over this same seven-year period, the cost of living and particularly housing and medical costs have skyrocketed, putting pressure on consultants to work and bill more hours just to break even.

No significant increase in consulting bill rates can be foreseen for the future. The hottest new technology areas like security and big data and analytics will command the highest rates but also require the most specialized education, knowledge and skill. It is doubtful that either consulting clients or other more established professional service fields like medicine, law or architecture will feel much sympathy for technology professional service providers for to them the idea that a java coder could bill and make more than a surgeon always seemed out of whack. Clearly, the success formula for the technology service industry going forward is to hold a tight lid on overhead and discretionary spending while investing in tools and techniques to improve worker productivity. Now, integrated business applications will be more important than ever before to streamline administrative tasks and reduce non-billable time, because increases in bill rates are extremely unlikely.

Target utilization rates have climbed significantly

One of the biggest surprises in the survey is the precipitous increase in target utilization rates compared to the 2011 PS Pricing report. To be able to provide an accurate comparison, SPI Research has normalized available billable hours to 2,000 throughout this report. In 2011, almost all of the 200 participating organizations targeted fewer than 1,400 billable hours annually per role, which equates to less than 70 percent utilization (on the basis of a 2,000-hour work year). Now, four years later, target billable hours have climbed to 75% for the business consultant job category (up from 62% in 2011) and 75% for the technical consultant job category (up from 68% in 2011). This represents approximately 250 more billable hours per year for business consultants and 140 more hours per year for technical consultants. In 2015 the project management job category averaged billability targets of 72%, up from 63% in 2011, so they are targeted to bill approximately 200 more hours per year.

This dramatic increase in billable utilization has had a profound impact on PS profit. To make it simple, based on a realized rate of $200 per hour, business consultants are targeted to generate $50,000 more revenue per year; technical consultants are targeted to generate $28,000 more per year and project managers are targeting $40,000 more per year compared to the 2011 PS Pricing report.

Based on SPI's 2015 PS Maturity™ benchmark, average net profit for the entire PS sector is 13.5% compared to only 6.9% in 2011. What this means is that while bill rates have been stagnant for the past four years, target billable utilization has skyrocketed! Almost all of the additional profit now generated by PS organizations has come from consultant productivity improvements. Consultants are being asked to bill more hours and most now work more than 2.080 hours per year; often not taking their allotted PTO. The primary productivity gain has come from reducing administrative and non-billable time through the use of integrated business applications. The growing acceptance of virtual, off-site project delivery has greatly reduced the time and cost of travel, also contributing to improved consultant productivity.

Target utilization rates have increased around the world

On a global basis, all geographies reported a significant increase in target billable hours. For the business consulting job category, North America business consultants surged from a billable utilization target of 64.3% in 2011 to 77.4% in 2015. Since North America represents both the largest consulting market and number of participating firms, this 13% jump in target billable utilization is very significant. EMEA, the second largest consulting market, saw business consultant target billable utilization surge from 64.2% in 2011 to 73.7% in 2015, a 9.5% increase. Western Europe, with its generous paid time off (20 vacation days and 8 to 10 public holidays) and less than 40-hour work weeks in some countries, reports one of the lowest levels of target utilization at 65% (across all roles) in 2015 compared to 56% in 2011; but compensates for fewer work days with some of the highest overall bill rates of any geography ($183 per hour across all job roles).

Figure 2: 2011 vs. 2015 Business Consultant Target Utilization by Geography – All PS Markets
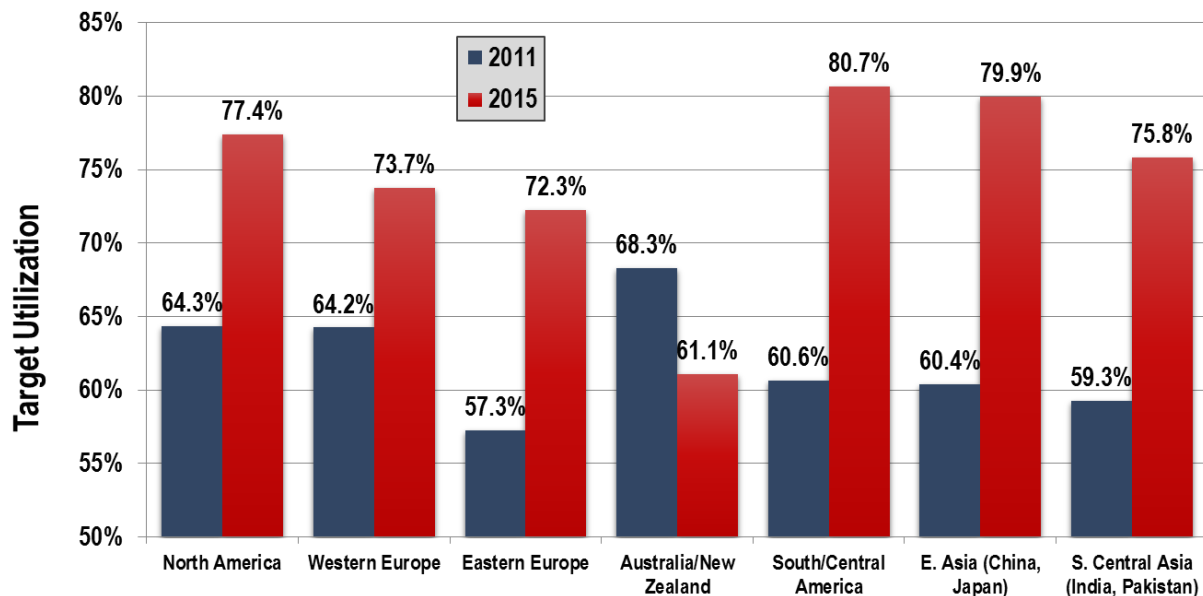
Source: Service Performance Insight, October 2015

Pricing Strategies

For simplicity, throughout this report we depict bill rates per hour in US dollars. We used hourly bill rates to normalize the data; however, pricing strategies vary dramatically by market and geography. European PSOs prefer daily rates which may or may not include travel expense. Based on the 2015 PS Pricing survey, the percentage of time and materials priced contracts across all markets and geographies was reported to be 58.8%, up from 56.3% in 2011.

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. Until 2014 the percentage of fixed fee work steadily increased from 35.5% in 2009 to 44% in 2013 (Table 4).

Table 4: Fee Structure by Organization Type and Geographic Region

Fee Structure	2013 Survey	2014 Survey	ESO	PSO	Americas	EMEA	APac
Time & Expense	51.7%	58.8%	56.3%	59.8%	58.5%	61.5%	55.1%
Fixed Time / Fixed Fee	44.0%	36.3%	38.9%	35.2%	36.0%	36.0%	39.9%
Shared Risk / Performance-based	2.8%	2.1%	1.3%	2.4%	2.5%	0.8%	1.3%
None of the Above	1.5%	2.9%	3.5%	2.6%	3.1%	1.7%	3.8%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: 2015 PS Maturity™ Benchmark, February 2015

According to the [2015 PS Maturity™ benchmark](), in 2014 we saw a resurgence in time and expense priced contracts – signaling increased demand for services. This is the first time in eight years that we have seen an increase in time and materials based contracts; time and materials revenues moved from 51.7% in 2013 to 58.8% in 2014. This KPI is important to watch. Time and expense based pricing relies on accurate resource management, time collection and reporting. Fixed price pricing relies on accurate estimates, project costing and change management. Either way, Professional Services Automation (PSA) solutions are critical to support accurate resource planning, time and expense capture and billing.

By vertical market, 2014 heralded a reversal in the move to more fixed price contracts and a resurgence of time and materials based contracts (Table 5). The greatest shift occurred with SaaS PSOs as they moved from 40.9% time and expense based contracts in 2013 to 59.8% in 2014.

Table 5: Fee Structure by Service Market Vertical – Percentage of Overall Revenue by Contract Type

Fee Structure	Software PS	SaaS PS	Hardware PS	IT Consult	Mgmt. Consult.	Advertise	Arch./ Engr.	Other PS
Time & Expense	57.2%	59.8%	28.0%	68.8%	48.0%	34.3%	46.5%	52.0%
Fixed Time / Fixed Fee	37.2%	38.3%	72.0%	28.0%	43.4%	59.5%	43.5%	42.6%
Shared Risk / Perform.-based	1.2%	1.8%	0.0%	2.2%	3.4%	6.3%	2.5%	1.3%
None of the Above	4.4%	0.0%	0.0%	1.1%	5.2%	0.0%	7.5%	4.0%
Total / Average	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: 2015 PS Maturity™ Benchmark, February 2015

As the SaaS market has matured a greater emphasis is being placed on customer adoption so SaaS firms focus on "time to value" with fixed price rapid implementation contracts.

Sadly, many PS organizations report they are doing time and materials work but in reality they are working on a time and materials basis up to a certain cap or budget. Time and materials with a predefined cap or budget is actually the worst of all worlds! The firm does not get any of the advantage of fixed fee pricing, with clearly defined scope, limitations and deliverables, while potentially forfeiting change orders, even when they are warranted. This pricing problem, may be a contributor to higher utilization as consultants are asked to work more hours to get the work done within an expense cap.

Accurate estimates, continuous quality oversight and managing scope with change orders are best practices regardless of contract type. Net profit is not necessarily tied to pricing structure as it is possible to make good service margins with either time and materials or fixed price contracts. Accurate estimating, excellent project management, good communication and change control are the most important elements in ensuring quality services are delivered at planned margins.

Important Changes in Workforce Composition

Worldwide the traditional consulting pyramid is alive and well with the percentage of resources in management (13%), project management (16%), business consulting (29%) and technical consulting (42%) reflecting the majority of work is performed by business consultants and technical resources at the base of the pyramid (Figure 3).

Since the 2011 PS Pricing report, the business consulting job category has experienced the greatest growth; growing from 22% of the global PS workforce in 2011 to 29.4% in 2015. The percentage of PS workers in billable management roles has declined from 14.8% in 2011 to 13.2% in 2015. Project management roles have declined from 20.8% to 15.5% while technical consulting roles have slightly declined from 42.5% to 41.9% of the workforce.

Figure 3: Comparison 2011 to 2015 Workforce Distribution by Employee Role
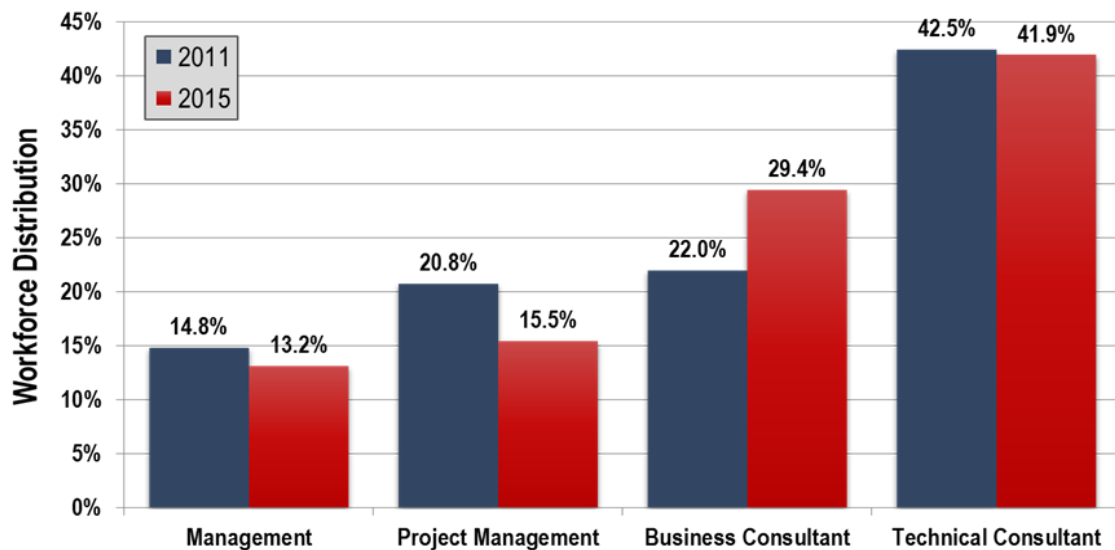
Source: Service Performance Insight, October 2015

This shift to more business consulting and less technical consulting reflects shifts in technology from complex and custom to social, mobile and cloud-based technologies. These changes in workforce demographics clearly mirror changes in the overall technology sector as software and hardware moves to the cloud, requiring less customization and integration, so fewer technical consultants and project managers are required.

As technology buying has shifted from IT to business buyers, significantly more industry, business process, workflow and change management skills are required. Increasingly, Professional Services firms are starting to recruit and hire consultants who not only possess strong analytic and technical skills but are also able to communicate effectively. This workforce change has significant implications for business and academic leaders as education and management systems must change to support an increasingly virtual, mobile and technology savvy workforce.

The shape of the consulting workforce pyramid varies dramatically by vertical market and geography with Management Consultancies typically supporting a top-heavy partnership structure while traditional outsourcing destinations like India rely on a high constituency of technical resources. Across the technology consulting industry, a significant employee distribution change towards more business, industry and process consultants reflects the underlying technology shift to easy-to-use-and-configure products (Figure 4). Consultants today spend more time analyzing and improving their clients' business problems and processes as opposed to software development (writing code).

Today's consulting workforce is becoming increasingly virtual; with only 41% of work now delivered on-site compared to 48% in 2011. Even the smallest consultancies are starting to take advantage of off-shore and near-shore skilled labor both to reduce cost and to fill hard-to-find competencies.

Figure 4: Survey Workforce Composition by Job Title
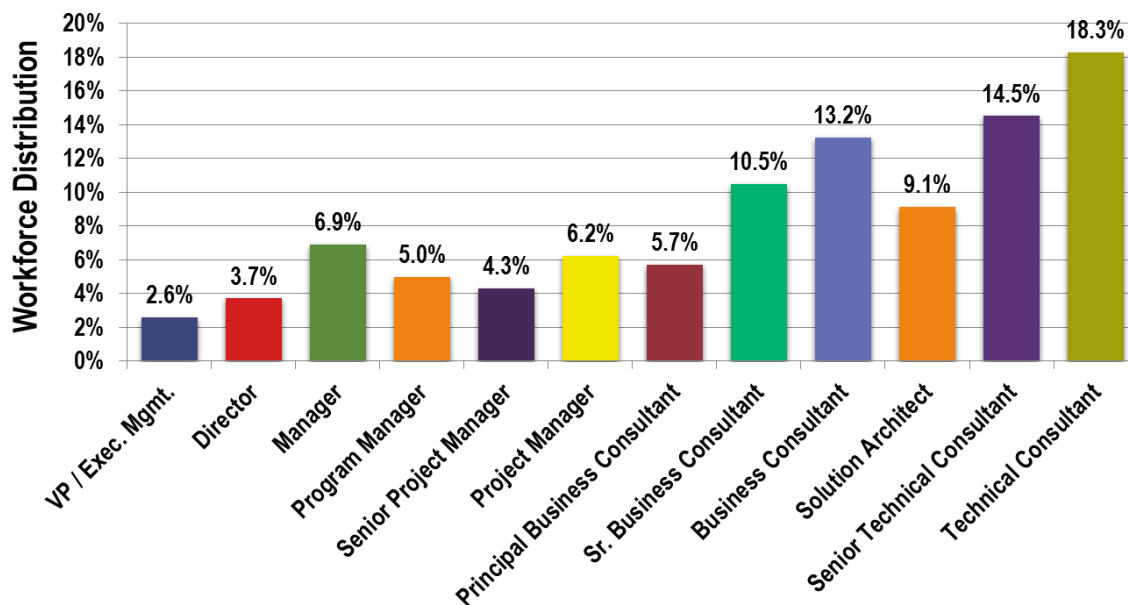
Source: Service Performance Insight, October 2015

Future expectations for bill rates

Signs point to an unstable global economy for some time to come. Bill rates are certainly not uniform around the world. Across the board, global consulting bill rates are stagnant while target utilization rates appear to have skyrocketed. In general, this is a bleak trend for service providers and consultants because it signifies rate commoditization will increase the pressure to work excruciating hours. Combined with the reality of increased consulting demand outstripping available supply, expect to see average billable hours to continue to increase beyond today's targets – perhaps to the point where the consulting industry will not be able to attract the workers it needs to support its growth.

Around the world, there is a significant price disparity for the same job categories within the same industry segments. If an organization can establish its brand and reputation as the highest-quality supplier in its market space, it will be able to command the best rates. The hottest new technology areas like Social, Mobile, Analytics and the Cloud drive consulting demand producing higher rates. Commoditizing technologies like on-premise ERP lead to consulting rate pressure as lower demand produces excess consulting supply.

Conversely, for service providers stuck in a commoditizing space, the only viable strategy is to head for higher ground by expanding into a more lucrative market. For example, low-end enterprise resource planning providers will find new opportunities and premium rates if they add vertical expertise or take on new cloud services. To stay ahead of the market, today's PS executives need instantaneous visibility as well as trend analysis to see what skills are hot and which are not, to amplify in-demand skills and retrain languishing skills before it is too late. SPI's research indicates the unlimited possibilities for establishing new, exciting and profitable service lines will require significant leadership vision and courage.

The use of a global workforce is not constrained to the largest service providers as small boutique consultancies have started to take advantage of labor arbitrage. Firms that offer management consulting (strategy, IT, etc.) along with implementation (new applications, business process reengineering, etc.) are in greater demand and can charge higher rates.

The bottom-line is that the consulting industry is thriving. Expect stagnant bill rates combined with significant labor shortages ahead. Top-performing firms will focus on both recruiting and retaining top talent while making sure they take advantage of rate increases for hard to find skills to fund these investments. In this market, pricing is and may always be, part art and part science. We hope this report provides the benchmark information you need to improve the science part of your pricing strategies.

3. Participant Demographics

For this report, SPI Research surveyed 140 billable Professional Services Organizations (PSOs) from around the world from June through August, 2015. One of the largest PS pricing studies ever conducted, this report represents pricing, utilization and business model information based on 11,659 consultants.

The following sections breakdown the 2015 PS Pricing report demographics in a number of key areas (market, organization size, and geographic region) to help PS firms compare their individual results to the benchmark.

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, 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 6)". 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. The industry is **highly fragmented** as the top 200 largest firms (with more than 5,000 employees) account for less than 7 percent of revenue.

Table 6: Vertical PS Markets — the North American Industry Classification System

Code	Market	Description	US Census 2010 Revenue	Emp. (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	2.0%
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	

Code	Market	Description	US Census 2010 Revenue	Emp. (1,000s)	CAGR 2008-18
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	2.0%
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%
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	10.0%
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, October 2015

Many of the concepts and uses of professional services 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 for service organizations within product companies.

Most PS verticals require specialized training, certification and licensing to ensure practitioners are qualified to perform the work. Many PS verticals are self-regulated by powerful industry associations and standards to ensure ethical and quality standards are developed and enforced.

Demographics by Geography

The Professional Service Industry is unique because it is almost 100% people-based. The products PS firms sell are expertise and advice. PS firms are comprised of specialized experts who focus on solving complex business problems for their clients. Professional Services is the fastest growing segment of the global economy because companies in all other vertical industries are increasingly outsourcing and out-tasking their none-core business processes to specialized PS providers.

Table 7 depicts the pricing survey participation by geography. North American firms and consultants dominated the study with rates reported for 7,265 consultants located in North America. Western European rates are based on completed surveys representing 1,583 consultants while Australia and New Zealand provided rates based on 1,406 consultants.

Table 7: Employees in Survey by Geography

Geography	People	Percent.
North America	7,265	62.3%
Western Europe	1,583	13.6%
Eastern Europe	109	0.9%
Australia/New Zealand	1,406	12.1%
South/Central America	173	1.5%
E. Asia (China, Japan)	421	3.6%
S. Central Asia (India, Pakistan)	416	3.6%
Middle East	215	1.8%
Africa	71	0.6%
Total	**11,659**	**100.0%**

Source: Service Performance Insight, October 2015

Demographics by Industry

Table 8 shows the thirteen vertical markets analyzed in this report. Market demographics are based on consultant percentage survey participation:

- Δ   *IT Consulting (40.9%)*: Systems Integrators and developers;
- Δ   *Software PS (29.4%)*: Services divisions within software suppliers;
- Δ   *Management Consulting (7.6%)*: Management consultancies;
- Δ   *SaaS PS (7.4%)*: Services divisions within software as a service suppliers;
- Δ   *Other PS (4.9%)*: business optimization, training, legal. "Other PS" includes other types of PSOs such as legal, and those organizations that did not squarely fit into other professional services verticals.

Δ *Architecture/Engineering (3.3%)*: Architects and engineers

Δ *Hardware and Networking PS (3%)*: Service divisions within hardware and networking manufacturers;

Δ *VAR (2.4%)*: Value-added resellers of technology products and services;

Δ *Staffing (0.6%)*: Staffing and temporary employment agencies;

Δ *Research and Development (0.4%)*: research, analyst and engineering development organizations;

Δ *Managed Services/Hosting (0.2%) firms who primarily provide managed services and hosting services;*

Δ *Accounting (<0.05%)*: Accountancies;

Δ *Advertising and Marketing (<0.05%)*: Advertising, marketing and communications;

Table 8: Survey Participation Headcount by Market

Market	People	Percent.
IT Consulting	4,764	40.9%
PS within Software company	3,423	29.4%
Management Consulting	885	7.6%
PS within SaaS company	858	7.4%
Other PS	567	4.9%
Architecture/Engineering	388	3.3%
PS within HW & Networking	350	3.0%
VAR	276	2.4%
Staffing	75	0.6%
Research & Development	43	0.4%
Managed Services/Hosting	25	0.2%
Accounting	3	0.0%
Advertising (Marcom)	2	0.0%
Total	**11,659**	**100.0%**

Source: Service Performance Insight, October 2015

4. Business Applications used by Professional Service Organizations

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

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

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

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

Enterprise Resource Planning (ERP)

Enterprise Resource Planning (ERP)

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

Globalization, centralization, modernization and regulatory compliance are the key drivers for continued ERP investment among large project-based organizations. But the service industry is dominated by small and midsize firms; their growth has consistently outpaced the overall market. According to SPI's extensive service economy research, merely 5% of more than 2,000 organizations surveyed have not yet invested in an enterprise financial management system. Only the smallest organizations still rely on spreadsheets to manage finance and accounting. Small and mid-size service-oriented firms are buying new project-based ERP systems to replace legacy, on-premise solutions and to consolidate a hodge-podge of point solutions and spreadsheets onto a single platform.

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. 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.

Figure 5: Enterprise Resource Planning (ERP) Solution Used
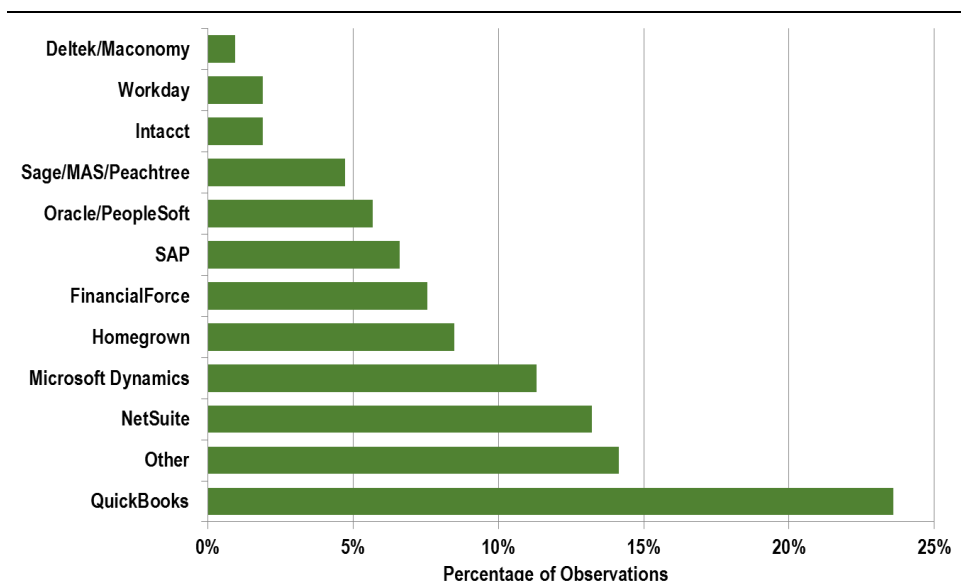
Source: Service Performance Insight, October 2015

Figure 5 shows QuickBooks from Intuit was the leading financial solution in this year's benchmark at over 24%. In this year's survey NetSuite took over as the number two provider of financial solutions as it continues to gain a strong foothold in the professional services market. Microsoft Dynamics and FinancialForce are also strong competitors in this market. Legacy on-premise ERP applications from SAP, Oracle and Sage are increasingly being replaced by modern, more cost-effective cloud applications. NetSuite, FinancialForce, Intacct and Workday, all fast-growing independent cloud ERP suppliers are making big inroads into the service sector, expect this growth to continue to accelerate as these solutions are a better alternative for today's virtual, knowledge-based businesses.

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 analysis by client, geography and portfolio.

Client Relationship Management (CRM)

- Client Analytics
- Marketing
- Partner Relationship Management
- Proposals
- Sales
- Service

Figure 6 shows Salesforce.com dominance once again with penetration into over 50% of the organizations surveyed. Microsoft Dynamics CRM, at 17% is number two, with its new cloud offering rapidly gaining acceptance. 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 support SPI's research that shows approximately 50% of organizations prefer independent best-of-breed solutions, while the other 50% prefer comprehensive integrated solutions provided by the ERP vendors.

Figure 6: Client Relationship Management (CRM) Solution Used
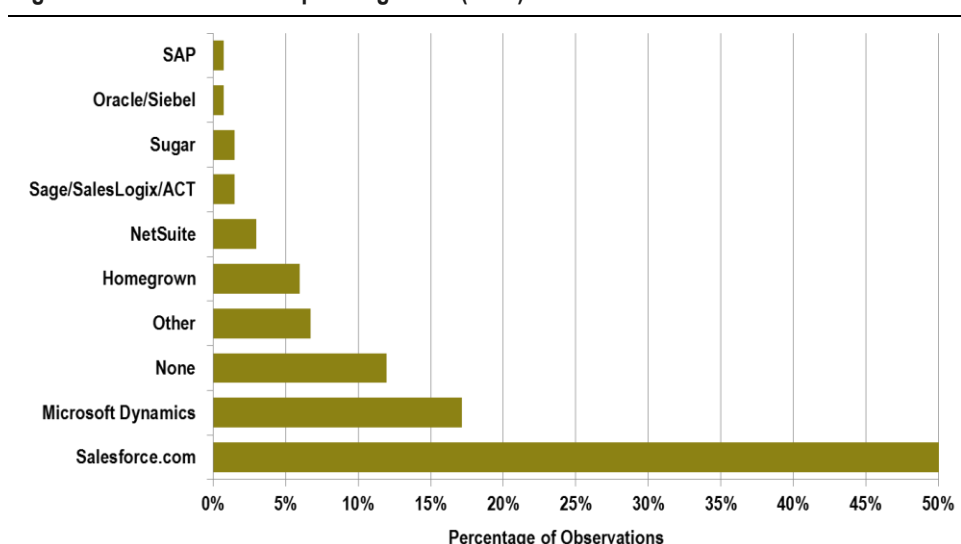
Source: Service Performance Insight, October 2015

Professional Services 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 external transactions which means PSA integration is imperative as billing, collection, expense management and payroll are all managed in the ERP solution.

Professional Services Automation (PSA)

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

Figure 7 shows "None" at 25% is the most cited PSA solution, representing significant market potential for both SRP and PSA vendors. NetSuite is the most used commercial PSA solution based on approximately 15% of the survey. FinancialForce, a modern cloud PSA, based on the Salesforce1 platform has rapidly gained market share moving into third place with 14% of the market. Other and homegrown comprise 26% of the market. Kimble, a PSA provider based on the Salesforce 1 platform, has gained considerable market momentum particularly in Europe with 7% of survey participants using it. While PSA solutions are utilized by a large percentage of professional services organizations, this study showed none (25%), other (14%) and homegrown (12%) are still dominant in this market, providing plenty of room for expansion by both the PSA and Project-Based ERP providers.

Figure 7: Professional Services Automation (PSA) Solution Used
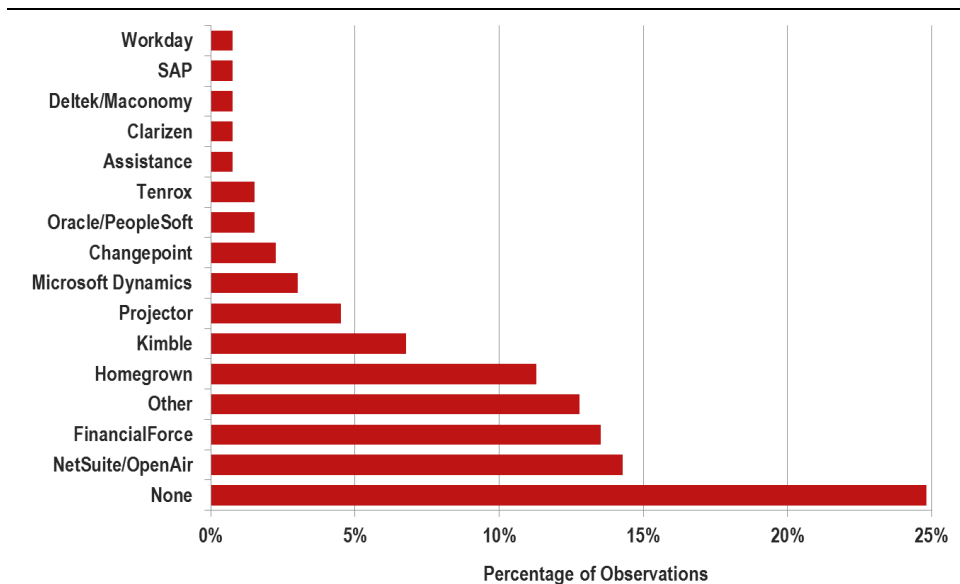
Source: Service Performance Insight, October 2015

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 tracking, compensation, performance management, policy compliance, and succession planning — each of which help organizations manage personnel growth and development.

Human Capital Management (HCM)

- Benefits
- Payroll
- Recruitment
- Time and Labor
- Training Administration
- Workforce Analytics

HCM benefits the PSO by maintaining a database of skills, benefits and pay rate information that is used for resource scheduling, recruiting and performance and career management. 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 8 shows most professional services organizations (42%) do not yet use HCM solutions. However, their prevalence among the largest PSOs is significant. With new cloud-based solutions coming to market that specifically target human capital management, coupled with the need to better manage resources from recruitment and hiring through training and retention, HCM use will undoubtedly increase significantly in the coming years. Of the solutions highlighted in this year's benchmark, ADP and Oracle's Taleo are the two leaders, however, SAP Successfactors, Workday and Microsoft Dynamics are not far behind. These cloud-based solutions are beginning to gain acceptance as professional services organizations realize talent is their most valuable asset.

Figure 8: Human Capital Management (HCM) Solution Used
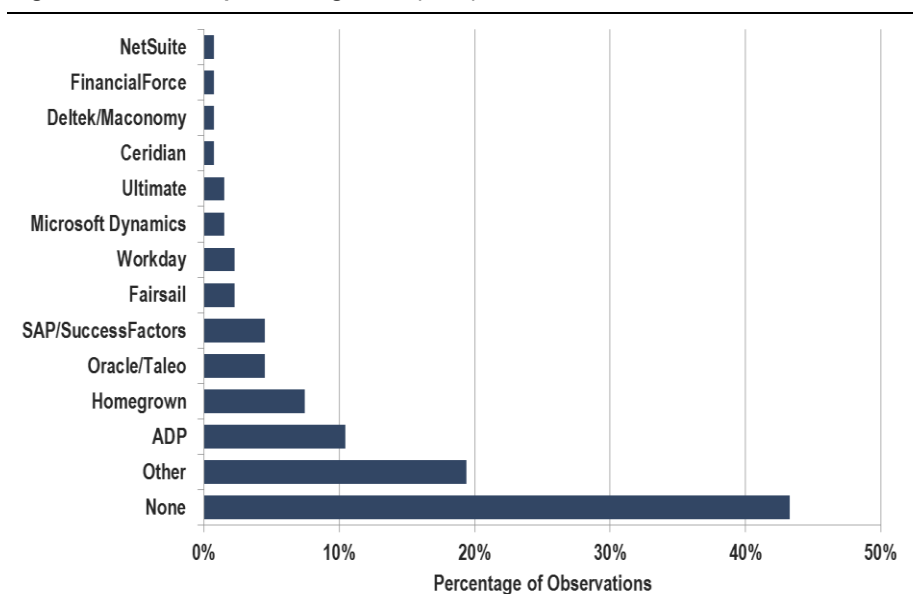
Source: Service Performance Insight, October 2015

Project Portfolio Management (PPM)

Project portfolio management (PPM) solutions enable PSOs to plan and align project-based work with corporate strategy, as well as to monitor and measure performance. PPM provides visibility into operational data to better control project costs and to support audit requirements as part of the corporate governance infrastructure. It also enables companies to efficiently depict and manage a portfolio of projects to make priority decisions. It also helps model and manage business processes.

PPM is used to plan, prioritize, manage, assess value and provide insight into the people, processes and capital used throughout a project's lifecycle. PPM provides integration with project opportunities, resources, time and cost, and is built upon a robust reporting engine that gives executives greater visibility and decision-making to link enterprise strategy with operational activities. These solutions are most often found in IT and internal services organizations.

PPM is both critical and necessary given the complexity of many project-based initiatives. In many cases one group sponsors a project and another group delivers the work, while a third group is responsible for managing performance. Complexities arise as executives require the necessary information to understand how budgeted funds are actually spent on a particular project, by what organization, and the value realized at the end of the project. However, all PPM solutions are not alike. An ideal solution should provide for financial management capabilities that deliver both top-down guidance coupled with bottom-up execution.

In professional services organizations, PPM is used to help develop new services, as well as manage projects in the internal IT and other departments. Less than 30% of the organizations surveyed utilize PPM solutions. Billable consulting organizations prefer to use Professional Services Automation (PSA) to accurately capture and bill for time as making project portfolio decisions is not as important.

Figure 9: Project Portfolio Management (PPM) Solution Used
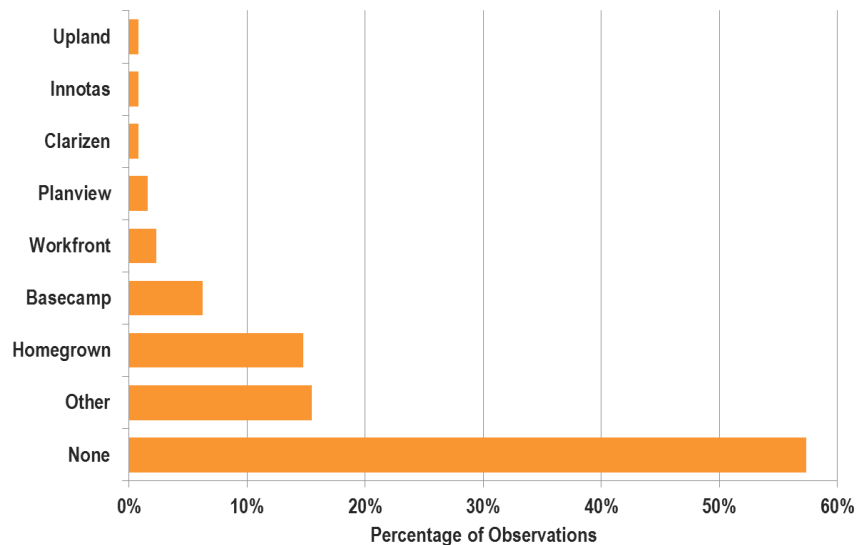
Source: Service Performance Insight, October 2015

5. The Professional Service Pyramid

The traditional consulting pyramid (Figure 10) is a workforce model based on "Finders, Minders and Grinders." The Managing Partner (PS VP) is the chief client relationship manager, responsible for developing a trusted advisor relationship with key clients. The Managing Partner is responsible for developing new business and managing the profitability of the practice. The "Minders" are the regional managers, project managers, engagement managers and case team leaders responsible for translating the customer's requirements into a project plan and then managing all aspects of project delivery. In the traditional consulting pyramid, the "Grinders" are the technology and business consultants who perform the majority of the work. In the traditional model, the "Grinders" (young consultants fresh out-of-college or graduate school), deliver the majority of project billable hours and profit.

Figure 10: The Consulting Pyramid - Finders, Minders and Grinders
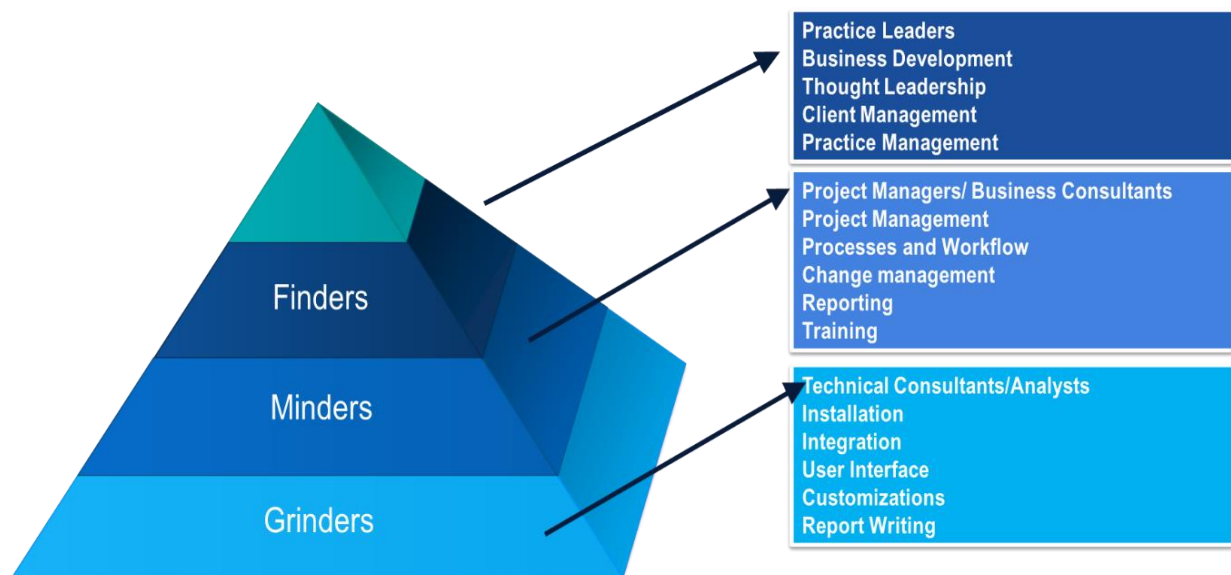
Source: Service Performance Insight, October 2015

Many independent PS firms have developed a solution selling sales force, often with lackluster results. The fundamental reason why the classic consulting pyramid has lasted for hundreds of years is that PS clients do not want to be "sold" – they seek consulting firms based on their demonstrated ability in solving specific business problems. Prospective consulting clients require the senior practice leader to help them articulate and design a solution. On the other hand, embedded PSOs rely heavily on the product sales force to bring them into deals so the role of embedded PS leaders is one of forging alliances with other cross-functional executives as well as building the overall PS governance structure.

What Shape is Your Pyramid?

The most fascinating discovery from this pricing study is the significant differences in workforce roles and skill distribution by market. SPI Research discovered the traditional pyramid is alive and well within IT consulting and embedded software and SaaS organizations where the majority of work and revenue is generated by business and technical consultants at the bottom of the pyramid. The pyramid takes on a diamond shape in management consultancies, meaning the firm is more heavily weighted with industry and business consultants with a lower percentage of project managers and technical consultants. In management consultancies the majority of work is delivered by business consultants combined with high rates and revenues generated by senior partners and managers.

Figure 11 depicts the overall makeup of the global consulting marketplace based on organizations with 30 or more billable consultants. Since the 2011 PS Pricing report, the business consulting job category has experienced the greatest growth; growing from 26.2% of the PS workforce in 2011 to 29.4% in 2015. The percentage of consultants in project management job categories has declined from 18.9% to 15.5% as more work has moved to agile methodologies with fast sprints and staged deliverables. With smaller, faster, more iterative projects, the project management role may be an unaffordable luxury so this role is increasingly being played by managers and senior business and technical consultants. This reshaping of the consulting pyramid is a reflection of technology trends – where business buyers have transcended technical and IT buyers, demanding more industry, business process and change management support from their consulting providers. Expect changes in the consulting pyramid to be constant as new skills and competencies, for example, SMAC (Social, Mobile, Analytics and the Cloud) continue to transform the world of business and work.

Figure 11: The Professional Services Pyramid – All PS Markets (based on firms with 30+ consultants)

Pyramid levels (top to bottom): Mgmt., Project Mgmt., Business Consultant, Technical Consultant

Mgmt.
- Percentage of workforce – 13.2%
- Target billable hours per person – 819
- Annual revenue per person – $160k
- Percentage of total revenue – 9.0%

Project Mgmt.
- Percentage of workforce – 15.5%
- Target billable hours – 1,452
- Annual revenue per person – $247k
- Percentage of total revenue – 16.3%

Business Consultant
- Percentage of workforce – 29.4%
- Target billable hours – 1,503
- Annual revenue per person – $247k
- Percentage of total revenue – 31.0%

Technical Consultant
- Percentage of workforce – 41.9%
- Target billable hours – 1,527
- Annual revenue per person – $244k
- Percentage of total revenue – 43.7%

Source: Service Performance Insight, October 2015

The IT Consulting Pyramid

The traditional consulting pyramid within both independent IT consultancies and embedded software and SaaS organizations is heavily weighted towards business and technology consultants. Today's smaller, faster projects require nimbler consultants who can effectively manage projects and clients as well as deliver the work. This new paradigm requires more senior technical consultants with excellent client-facing skills. Quite a tall order! On small, inexpensive projects, traditional project managers are an unaffordable luxury. This new model requires "Super Consultants." This change is one of the reasons why many firms take six months to a year to ramp new consultants.

Unfortunately, a generalist, "Super Consultant" model is not viable. Rather than tasking "Super Consultants" to be excellent at client, business, financial and technical management, firms should consider investing in project coordinators who can manage the financial, business and client aspects of many small projects, freeing consultants to focus on project delivery. By creating multiple, more specialized roles firms can shorten both recruiting and ramping time and cost.

Comparing the IT Consulting Pyramid from the 2011 PS Pricing study to 2015, the management job category has increased slightly from 12.3% to 13%, the project management category has decreased from 13.6% of the workforce to 12.8%. Business consulting roles have increased from 28.3% to 31.7% and technical consulting roles have declined from 45.9% to 42.5%. Target billable hours have increased dramatically from 1,325 to 1,604 for project managers; 1,380 to 1,581 hours for business consultants and 1,514 to 1,660 hours for technical consultants; driving revenue per person to high new levels.

Figure 12: IT Consulting PS Pyramid (based on firms with 30+ consultants)

Mgmt
- Percentage of workforce – 13.0%
- Target billable hours per person – 790
- Annual revenue per person – $140k
- Percentage of total revenue – 8.1%

Project Management
- Percentage of workforce – 12.8%
- Target billable hours – 1,604
- Annual revenue per person – $263k
- Percentage of total revenue – 14.9%

Business Consultant
- Percentage of workforce – 31.7%
- Target billable hours – 1,581
- Annual revenue per person – $236k
- Percentage of total revenue – 33.2%

Technical Consultant
- Percentage of workforce – 42.5%
- Target billable hours – 1,660
- Annual revenue per person – $233k
- Percentage of total revenue – 43.8%

Source: Service Performance Insight, October 2015

The Management Consulting Pyramid

In management consultancies the consulting pyramid takes on a diamond shape with the majority of revenues generated by industry and business consultants. Project managers make up less than 30% of the workforce as this role is played by case team leaders who are responsible for both managing the client and project team while also delivering the work. Depending on the focus of the firm, technical consultants or analysts are responsible for data analysis and design. A typical strategy project ranges from $50 to $500K and is comprised of a portion of a senior manager or partner, a dedicated case team leader and several business consultants and analysts.

Comparing the Management Consulting Pyramid (based on firms with more than 30 consultants) from the 2011 PS Pricing study to 2015, workforce composition has changed more than in any other sub-vertical. The management job category has decreased significantly from 29.3% to 14.8%; project management roles have increased dramatically from 16.3% of the workforce to 26.2% as project managers or case team leaders have taken on running most projects. Business consulting roles have increased from 32% to 43% and technical consulting roles have declined from 22.4% to 16%. Target billable hours have increased dramatically from 1,371 to 1,659 for project managers; 1,319 to 1,663 hours for business consultants and 1,586 to 1,603 hours for technical consultants. In 2015 it is clear that Management Consultancies are much more focused on billability and worker productivity as they are no longer able to command exorbitant rates with multi-year strategy and transformation projects.

Figure 13: Management Consulting PS Pyramid (based on firms with 30+ consultants)

Management
- Percentage of workforce – 14.8%
- Target billable hours per person – 920
- Annual revenue per person – $221k
- Percentage of total revenue – 12.0%

Project Management
- Percentage of workforce – 26.2%
- Target billable hours – 1,659
- Annual revenue per person – $337k
- Percentage of total revenue – 32.2%

Business Consultant
- Percentage of workforce – 43.0%
- Target billable hours – 1,663
- Annual revenue per person – $252k
- Percentage of total revenue – 39.6%

Technical Consultant
- Percentage of workforce – 16.0%
- Target billable hours – 1,586
- Annual revenue per person – $279k
- Percentage of total revenue – 16.3%

Source: Service Performance Insight, October 2015

The Software and SaaS Pyramids

Both embedded Software and SaaS PS organizations are based on a classic consulting pyramid with a heavy reliance on business and technical consultants to perform the majority of the work (Figure 14). Interestingly, SaaS PSOs have a higher concentration of managers (17.3% compared to 11.1%) and a lower percentage of project managers (13.1% compared to 18.4%) than their more traditional software counterparts. SaaS project managers generate higher revenue per person ($249K versus $227K) but SaaS business consultants ($230K versus $249K) and technical consultants ($212K versus $240K) now generate less revenue than their enterprise software counterparts (Figure 15). Until recently, SaaS PSOs significantly outperformed their enterprise software counterparts but the situation has now reversed as SaaS PSOs have shifted to focus on customer adoption, rather than PS productivity and profit.

The SaaS PSOs represented in this study are still achieving double digit annual revenue and headcount growth while the traditional software PSOs are relatively stagnant. The SaaS firms are taking market-share from their more traditional enterprise software competitors and are able to charge higher rates. SaaS PSOs also have the advantage of delivering the majority of their work remotely which reduces travel burden and enhances their ability to multi-task and handle multiple clients at the same time.

Interestingly, SaaS PSO billable utilization targets are slightly higher than enterprise software for project management (1,386 versus 1,364) and business consultants (1,403 versus 1,357). However technical consulting billability targets are lower (1,312 versus 1,399). As more and more enterprise software providers move their products to the cloud the lines of demarcation between SaaS and traditional software consulting delivery are blurring.

Figure 14: Software (over 30 consultants)

Pyramid tiers (top to bottom): Mgmt; Project Management; Business Consultant; Technical Consultant

Mgmt
- Percentage of workforce – 11.1%
- Target billable hours per person – 731
- Annual revenue per person – $138k
- Percentage of total revenue – 6.6%

Project Management
- Percentage of workforce – 18.4%
- Target billable hours – 1,364
- Annual revenue per person – $227k
- Percentage of total revenue – 18.2%

Business Consultant
- Percentage of workforce – 31.5%
- Target billable hours – 1,357
- Annual revenue per person – $249k
- Percentage of total revenue – 34.2%

Technical Consultant
- Percentage of workforce – 39.0%
- Target billable hours – 1,399
- Annual revenue per person – $240k
- Percentage of total revenue – 40.9%

Source: Service Performance Insight, October 2015

Figure 15: SaaS (all SaaS)

- Percentage of workforce – 17.3%
- Target billable hours per person – 694
- Annual revenue per person – $188k
- Percentage of total revenue – 15.0%

- Percentage of workforce – 13.1%
- Target billable hours per person – 1,386
- Annual revenue per person – $249k
- Percentage of total revenue – 15.1%

- Percentage of workforce – 21.3%
- Target billable hours per person – 1,403
- Annual revenue per person – $230k
- Percentage of total revenue – 22.6%

- Percentage of workforce – 48.2%
- Target billable hours per person – 1,312
- Annual revenue per person – $212
- Percentage of total revenue – 47.3%

Source: Service Performance Insight, October 2015

6. Global Bill Rate Analysis by Job Title

The world's greatest economic asset is the hard work, motivation and resilience of its workers. When employees have the opportunity to master new skills, contribute their full talents, and be rewarded for it, businesses, families and communities thrive. However, too many workers do not progress to more senior roles, despite their desire to learn new skills and earn higher-paying jobs. Increasingly developed nations are creating initiatives to realize the full potential of their workforces, by empowering workers with the education and training they need to contribute more, earn higher wages and build a fulfilling career.

In the technology professional services space, the war for talent continues unabated. In fact, the gap between the demand for technology consulting workers and the talent with the requisite critical thinking, analytic and communication skills to fill these roles is widening. The world's economy has become knowledge and project-based yet a looming talent cliff threatens to derail economic growth.

By 2018, the US will face a projected **shortfall of 223,800** workers with background in Science, Technology, Engineering and Math. By 2022, the U.S. is projected to have a deficit of at least one million college-trained workers in science- and technology-related fields.

A trifecta of forces has come together to produce this talent cliff tsunami:
- Δ   Baby Boomers (born between 1946 and 1964) are exiting the workforce without enough skilled gen X, gen Y and millennial workers to replace them. The first baby boomers starting turning 65 in 2011. 80 million will exit the workforce over 20 years—which yields 4 million a year, or *10,000* a day who must be replaced.
- Δ   Underfunding of education particularly in Science, Technology, Engineering and Math meaning not enough college graduates with the requisite skills. Education systems are struggling to keep up with the need to arm the workers of tomorrow with active, hands-on technology-based learning. At the same time, efforts must be made to overcome the traditional gender bias which persists for learners, employees and employers in technology fields.
- Δ   Combined with unenlightened immigration policies which have capped the number of visas for skilled knowledge workers in the United States. This year, 233,000 foreigners applied for the H-1B, the most common visa for high-skilled foreign workers. That's up significantly from 2014 (172,500 applications) and nearly double the applicants from two years ago (124,000) but only 85,000 H1B visas were granted, primarily for workers with Masters' degrees.

All of this at exactly the same time that growth in professional service revenue is surging and "buy local" has become a new mantra! Highly skilled workers are in great demand, making it critical for organizations to become a "talent magnet" to create a steady pipeline of top people.

Job Descriptions

For the purposes of this study, Service Performance insight created four job families, each containing three job levels to describe the roles, skills, target utilization and bill rates in use across the world of

technology professional services (Table 9). Of course, the roles, skills, compensation and rate structure for the 140 firms represented in this study vary significantly. Nevertheless, these job families and roles form the basis for gathering reliable bill rate information.

Table 9: Position Roles, Levels and Responsibilities

Role	Level	Responsibilities
Management	VP / Executive Management	Vice Presidents and Executive Management have profit and loss and operational responsibility for all aspects of a geography, practice, major account(s) or the entire organization. Many PS firms are based on a partnership model, where the senior practitioners are also owners. The role of senior management within service firms is to generate business (Rainmaker) while also establishing key partnerships and alliances. The senior partners determine the strategy and direction for the firm and make key personnel/new partner decisions. VP's typically have multiple Director-level reports and are responsible for overall profit and loss of a significant geographic or industry area.
	Director	Directors are responsible for managing client relationships and project delivery for a geography, line of business, major account, or functional area like operations or service engineering. Directors typically manage a team of consulting and project managers. They have significant sales, profit and loss and talent management responsibilities. They are typically measured on a combination of revenue, profit and client and employee satisfaction metrics.
	Manager	PS Managers are responsible for managing project delivery to one or more accounts. Managers typically manage a team of consultants, project managers, and/or business consultants. Managers are accountable for profit and loss and/or project execution for a number of accounts, a practice area or geography.
Project Management	Program Manager	A program manager is responsible for running complex programs and projects. A program manager is involved in managing all aspects of a major project, including planning, scheduling, risk management, project execution, tracking and reporting progress. He must plan and set project goals and milestones, clearly define requirements, manage the resources and the schedule, create and maintain project documentation and provide client and project team communication and coordination. Program managers have a minimum of five years of senior project management experience and are able to manage large, complex programs and projects involving significant risk, multiple geographies, languages and cultures.
	Senior Project Manager	Responsible for the planning, execution and successful completion of major projects. A project manager is accountable for accomplishing the stated project objectives within the stipulated time period and budget. He ensures that the three constraints (quality, cost and time) that face every project are properly managed. Involved in the recruitment and management of project staff including project reporting, administration and communication. Senior project managers have a minimum of three years of project management experience.
	Project Manager	Responsible for the coordination and completion of projects. Oversees all aspects of projects. Sets deadlines, assigns responsibilities, and monitors and summarizes project progress. Prepares reports for upper management regarding status of the project. Relies on extensive experience and judgment to plan and accomplish goals. Performs a variety of tasks. Leads and directs the work of others. Typically reports to a consulting manager, Project Management Office (PMO) or Program Manager.

Role	Level	Responsibilities
Business Consulting	Principal Business Consultant	Principal Business consultants are experts on various business practices and are tasked with measuring business processes so they can make recommendations to improve productivity and profitability. The primary responsibility of a business consultant is to analyze, plan, evaluate and implement or change business processes. Principal business consultants are recognized industry experts and are able to carry out extensive research on business and market trends and incorporate those results into functional business processes and strategies. Data collection and analysis on different aspects of the industry is also part of the job.
	Sr. Business Consultant	Reviews, analyzes, and evaluates business processes, systems and user needs. Formulates business processes, systems and user change management to achieve improvements in productivity, profitability and overall business strategies. Writes detailed description of user needs, program functions, and steps required to develop or modify computer programs or business processes. Requires 4 to 6 years of experience in the field or in a related area. Performs a variety of complicated analysis and recommendation tasks. May lead and direct the work of others. May report directly to a project lead or manager.
	Business Consultant	Reviews, analyzes, and evaluates business systems, processes and user needs. Formulates processes and systems to achieve overall business strategies. Requires a bachelor degree in a related area and 3-5 years of experience in the field. Has knowledge of commonly-used concepts, practices, and procedures within a particular field. Works under immediate supervision. Typically reports to a manager.
Technical Consulting	Solution Architect	Solution Architects are very experienced technical consultants with cross-domain, cross-functional and cross-industry expertise. He outlines solution architecture descriptions, then monitors and governs their implementation. The Solution Architect is often a highly seasoned senior technical consultant who has led the design and technical implementation of multiple projects. He has the ability to share and communicate ideas both orally and in writing, to executive staff, business sponsors, and technical resources in clear and concise language. Solutions Architects decide which technologies to use and then work closely with developers to ensure proper implementation. Provides advanced technical and/or business consultative services during both the pre-sales and post sales cycle. Provides technical or business analytical leadership for specific product groups to implement and optimize technical performance. Requires a bachelor's degree and at least 5-7 years of experience in the field or in a related area. May lead and direct the work of others. May report to an executive or a manager.
	Senior Technical Consultant	Senior technical consultants provide technical support and advice to companies and organizations. They solve technical issues, answer employees' questions and trouble-shoot problems. Works with end user groups to evaluate and solve technical problems. Evaluates existing systems and/or user needs to analyze, design, recommend, and implement system changes. Requires a bachelor's degree and at least 5 years of experience in the field or in a related area. Familiar with a variety of the field's concepts, practices, and procedures. Relies on experience and judgment to plan and accomplish goals. Performs a variety of complicated tasks. May lead and direct the work of others. May report to an executive or a manager.
	Technical Consultant	Works with end user groups to evaluate and solve technical problems. Evaluates existing systems and/or user needs to analyze, design, recommend, and implement system changes. Requires a bachelor's degree and 3 to 5 years of experience in the field or in a related area. Familiar with a variety of the field's concepts, practices, and procedures. Relies on experience and judgment to plan and accomplish goals. Performs a variety of complicated tasks. May lead and direct the work of others. Typically reports to a manager.

Source: Service Performance Insight, October 2015

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Bill Rates by Role

An interesting comparison emerges when we compare aggregate pricing information by job level. For this analysis we combined all the survey data across all PS industry segments, geographies and organization sizes to depict an overview of pricing and discounting strategy by job level. The job level picture that emerges is fascinating:

Δ   Executives command the highest overall average bill rates ($271 published, $235 realized) with average billable utilization targets of 706 hours (35%) yielding $166K in target annual revenue/person. However, this role is critical for the success of the PSO. Key responsibilities include setting the direction for the firm and forging relationships with top clients and partners plus attracting critical new executives to guide the business. Larger organizations do not task their executives with personal billable targets; they are responsible for overall business development and practice revenue.

Δ   Principal Business Consultants produce the highest per capita revenue of $284K based on realized bill rates of $196 and target utilization of 1,450 hours. But this role also experienced the highest average discount of 15.6%.

Table 10: Bill Rate Summary – All PS Markets and Geographies

Role	Level	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Target Revenue Yield (k) per person	Disc.
Management	VP / Executive Mgmt.	2.7	17.9%	706	$271	$235	$166	13.5%
	Director	3.9	21.8%	785	242	213	167	11.8%
	Manager	7.2	25.4%	879	202	176	**155**	12.9%
Project Management	Program Manager	5.2	48.0%	1,368	200	174	238	12.8%
	Senior Project Manager	4.5	46.0%	1,472	202	177	260	12.4%
	Project Manager	6.5	42.8%	1,505	190	164	246	14.1%
Business Consulting	Principal Bus. Consult.	6.0	50.6%	1,450	232	196	**284**	**15.6%**
	Sr. Business Consultant	11.0	49.0%	1,519	189	169	256	**10.8%**
	Business Consultant	13.8	47.9%	1,512	173	149	225	14.0%
Technical Consulting	Solution Architect	9.5	46.9%	1,391	205	178	248	12.9%
	Senior Tech. Consult.	15.2	53.6%	1,563	194	168	263	13.2%
	Technical Consultant	**19.1**	47.7%	**1,566**	167	**146**	228	13.0%
Total	**Non-weighted average**	**104.4**	**41.3%**	**1,363**	**$202**	**$175**	**$239**	**13.1%**

Source: Service Performance Insight, October 2015

Δ   Technical consultants bill the most hours (1,566) at an average realized bill rate of $146 per hour to yield per person target revenue of $228K. Interestingly, this role (with the largest employee

population worldwide) has experienced a decline in realized bill rates of $5 per hour ($151 in 2011 compared to $146 per hour in 2015).

Δ   Based on the non-weighted average across all roles, verticals and geographies, target utilization is 1,363 hours with a realized hourly bill rate of $175, producing $239K revenue per person.

In order to show the wide variability in bill rates, SPI Research has included the standard deviation for each job level (Table 11), its minimum (as reported in the survey), and maximum, and then we also show the mean (average) plus and minus one standard deviation. Wikipedia provides a clear definition of standard deviation:

> *Standard deviation is a widely used measurement of variability or diversity used in statistics and probability theory. It shows how much variation or "dispersion" there is from the average (mean, or expected value). A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data are spread out over a large range of values.*

Providing the standard deviation in rates is important so PS executives can more easily compare their rates to their competitors (market-based, geographically-based, etc.) to determine, where, if any they have a competitive advantage or disadvantage.

Table 11: Global Summary – Published Hourly Bill Rates - Standard Deviation

Role	Level	Min.	– 0.5 Std. Dev.	Average	+ 0.5 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$81	$215	$271	$328	$750
	Director	100	196	242	287	580
	Manager	42	170	202	234	387
Project Management	Program Manager	63	168	200	232	350
	Senior Project Manager	42	173	202	230	380
	Project Manager	80	163	190	218	380
Business Consulting	Principal Business Consultant	105	189	232	276	600
	Sr. Business Consultant	65	164	189	214	350
	Business Consultant	50	145	173	201	359
Technical Consulting	Solution Architect	39	171	205	239	500
	Senior Technical Consultant	45	164	194	224	320
	Technical Consultant	40	139	167	196	286

Source: Service Performance Insight, October 2015

Workforce Composition

Across the technology consulting industry, a significant workforce distribution change towards more business, industry and process consultants reflects the underlying technology shift to easy-to-use-and-configure products (Figure 16). Consultants today spend more time analyzing and improving their clients' business problems and processes as opposed to software development (writing code).

Figure 16: Entire Survey Workforce Distribution by Job Title
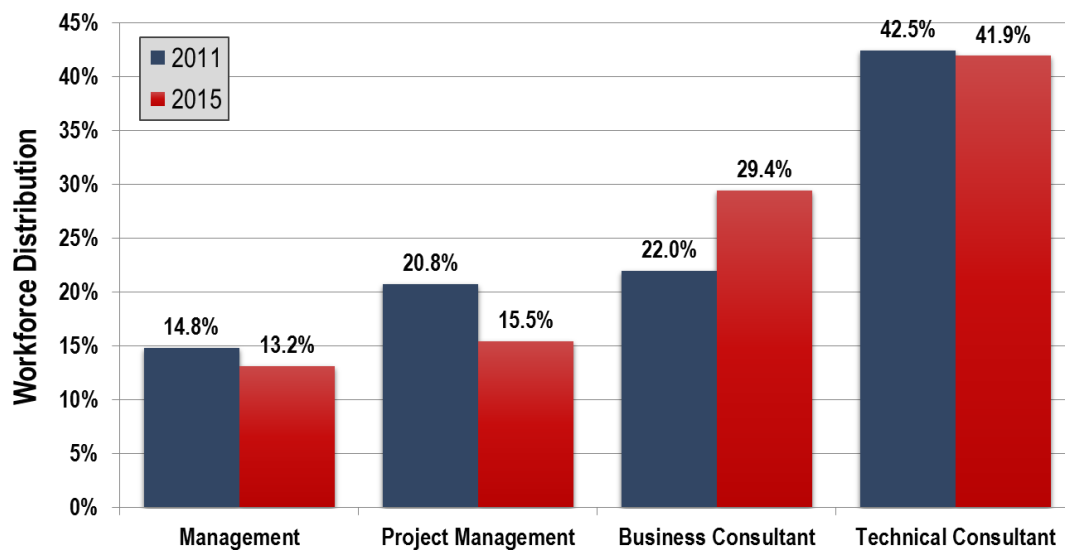
Source: Service Performance Insight, October 2015

Figure 17: Entire Survey Workforce Distribution by Job Title
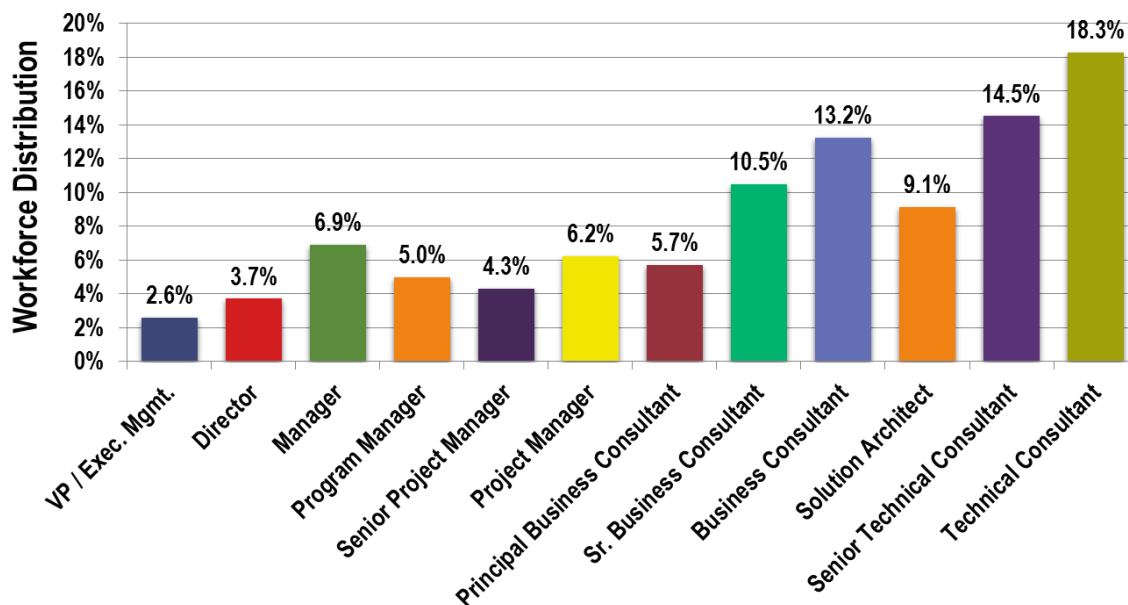
Source: Service Performance Insight, October 2015

VP / Executive Management

Although the size of organizations varied significantly by geography, for the average organization represented in this study, in general 2.7 VP's or billable Executive Managers were reported per 104-person organization with target billable utilization averaging 706 hours (Table 12). European managers bill the least while the few South American leaders who responded to the survey reported billing 100% of their time. Average realized bill rates are $235, reflecting an average discount of 13.5%.

North America is typically the harbinger of consulting rates and policies which will eventually be deployed throughout the rest of the world. Today, North American firms expect their executives to bill 1/3 (33%) of their time. European managers have the lowest billability targets at 20.3% (407 annual hours). With improvement in the global economy, executives are billing fewer hours.

Within embedded PSOs (PS organizations within product companies) executive turnover is very high, reflecting constant changes in the executive ranks. In owner-managed businesses, executive turnover may actually be too low as owners hold on, inhibiting career progression for the next line of managers.

Table 12: VP/Executive Management Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	3.0	17.7%	658	$290	$251	13.6%
Western Europe	1.8	10.7%	407	265	216	18.7%
Eastern Europe	1.0	6.3%	351	223	201	10.0%
Australia/New Zealand	3.8	11.0%	460	233	225	3.6%
South/Central America	2.3	32.0%	2,080	243	214	12.2%
East Asia	1.0	48.3%	1,300	116	99	14.6%
South/Central Asia	1.0	20.0%	758	162	140	13.7%
Middle East	2.3	20.0%	900	140	126	N/A
Africa	1.0	N/A	N/A	N/A	N/A	N/A
Total Weighted Average	**2.7**	**17.9%**	**706**	**$271**	**$235**	**13.5%**

Source: Service Performance Insight, October 2015

Director

Across all geographies and verticals, the average firm expects directors to bill 785 hours at a target bill rate of $242 (Table 13). This rate is typically discounted 11.8% resulting in a realized rate of $213 per hour. On average, 104 person consulting organizations support 3.9 billable directors.

Table 13: Director Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	4.9	23.7%	827	$248	$217	12.5%
Western Europe	3.5	17.7%	636	272	232	14.5%
Eastern Europe	3.0	19.7%	887	190	171	10.0%
Australia/New Zealand	1.4	13.1%	679	236	225	4.4%
South/Central America	2.0	28.8%	1,057	161	142	12.2%
East Asia	3.8	33.1%	442	169	157	7.2%
South/Central Asia	1.4	25.8%	975	141	135	4.2%
Middle East	4.3	16.7%	1,100	221	199	N/A
Africa	1.5	30.0%	N/A	348	320	8.0%
Total / Average	**3.9**	**21.8%**	**785**	**$242**	**$213**	**11.8%**

Source: Service Performance Insight, October 2015

Manager

Managers are expected to bill slightly more hours than Directors (879 versus 785) but at a significantly lower realized bill rate ($176 versus $213). This results in a target revenue yield of $155K for Managers versus $167K for Directors. On average, a 104 person consulting organization supports 7 billable managers (Table 14).

Table 14: Manager Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	9.4	26.1%	979	$217	$188	13.5%
Western Europe	5.1	27.9%	883	224	190	15.2%
Eastern Europe	2.5	30.2%	1,307	87	78	10.0%
Australia/New Zealand	6.5	23.5%	700	189	176	7.2%
South/Central America	2.0	12.0%	667	183	178	2.7%
East Asia	1.7	22.9%	566	191	157	17.6%
South/Central Asia	1.8	25.0%	672	81	79	1.7%
Middle East	5.3	26.9%	1,175	149	134	N/A
Africa	18.3	35.0%	630	160	135	15.6%
Total / Average	**7.2**	**25.4%**	**879**	**$202**	**$176**	**12.9%**

Source: Service Performance Insight, October 2015

Program Manager

The Program Management job category experienced higher realized rates in 2015 ($174) compared to the 2011 realized rate of $167 (Table 15). Billable utilization targets have increased from 1,211 to 1,368 hours.

Table 15: Program Manager Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	5.5	49.9%	1,403	$206	$177	14.2%
Western Europe	8.6	41.8%	1,439	236	197	16.5%
Eastern Europe	2.0	61.5%	1,330	155	139	10.0%
Australia/New Zealand	2.8	34.8%	1,099	203	191	6.1%
South/Central America	2.0	48.3%	1,508	153	147	3.6%
East Asia	6.0	56.2%	1,316	187	173	7.8%
South/Central Asia	3.0	87.1%	1,841	81	78	3.9%
Middle East	2.0	30.0%	700	138	124	10.0%
Africa	N/A	N/A	N/A	N/A	N/A	N/A
Total / Average	**5.2**	**48.0%**	**1,368**	**$200**	**$174**	**12.8%**

Source: Service Performance Insight, October 2015

Figure 18: Program Manager Target Utilization by Geography
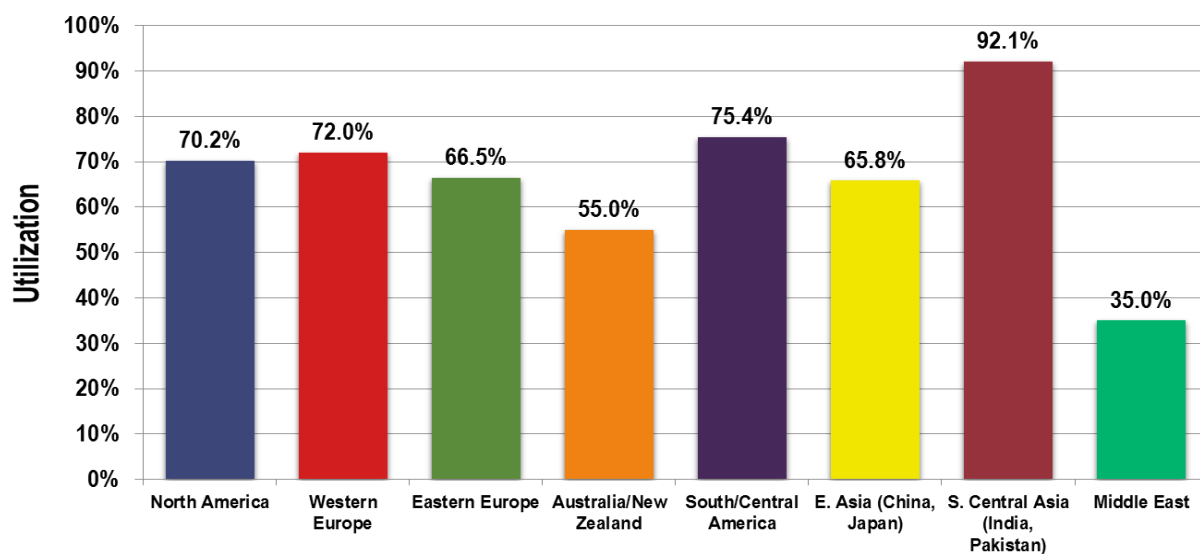
Source: Service Performance Insight, October 2015

Senior Project Manager

Comparing the 2011 to the 2015 PS Pricing study, Senior Project Management rates have increased from $166 to $177 while target annual billable hours have increased from 1,289 to 1,472 (Table 16).

Table 16: Senior Project Manager Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	4.8	51.4%	1,500	$208	$181	12.7%
Western Europe	3.7	42.7%	1,379	229	192	16.1%
Eastern Europe	5.0	24.3%	1,561	106	95	10.0%
Australia/New Zealand	5.2	41.6%	1,384	199	180	9.7%
South/Central America	2.1	35.9%	1,466	184	178	3.3%
East Asia	8.6	49.6%	1,441	122	116	5.4%
South/Central Asia	1.7	31.7%	1,700	76	74	2.8%
Middle East	2.0	41.3%	1,750	154	138	10.0%
Africa	2.0	N/A	N/A	N/A	N/A	N/A
Total / Average	**4.5**	**46.0%**	**1,472**	**$202**	**$177**	**12.4%**

Source: Service Performance Insight, October 2015

Figure 19: Senior Project Manager Target Utilization by Geography

Source: Service Performance Insight, October 2015

Project Manager

Project Management realized bill rates have increased from $153 to $164 per hour while billable utilization targets have increased from 1,272 to 1,505 hours (Table 17).

Table 17: Project Manager Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	7.9	44.5%	1,525	$193	$166	14.2%
Western Europe	5.3	41.0%	1,469	205	174	14.9%
Eastern Europe	2.3	34.4%	1,420	156	133	14.3%
Australia/New Zealand	6.1	46.8%	1,466	196	175	10.5%
South/Central America	3.3	17.5%	1,456	194	104	46.6%
East Asia	2.9	55.4%	1,445	139	121	N/A
South/Central Asia	3.8	41.0%	1,688	190	170	N/A
Middle East	9.0	36.4%	1,556	87	78	N/A
Africa	2.0	N/A	N/A	N/A	N/A	N/A
Total / Average	**6.5**	**42.8%**	**1,505**	**$190**	**$164**	**14.1%**

Source: Service Performance Insight, October 2015

Figure 20: Project Manager Target Utilization by Geography

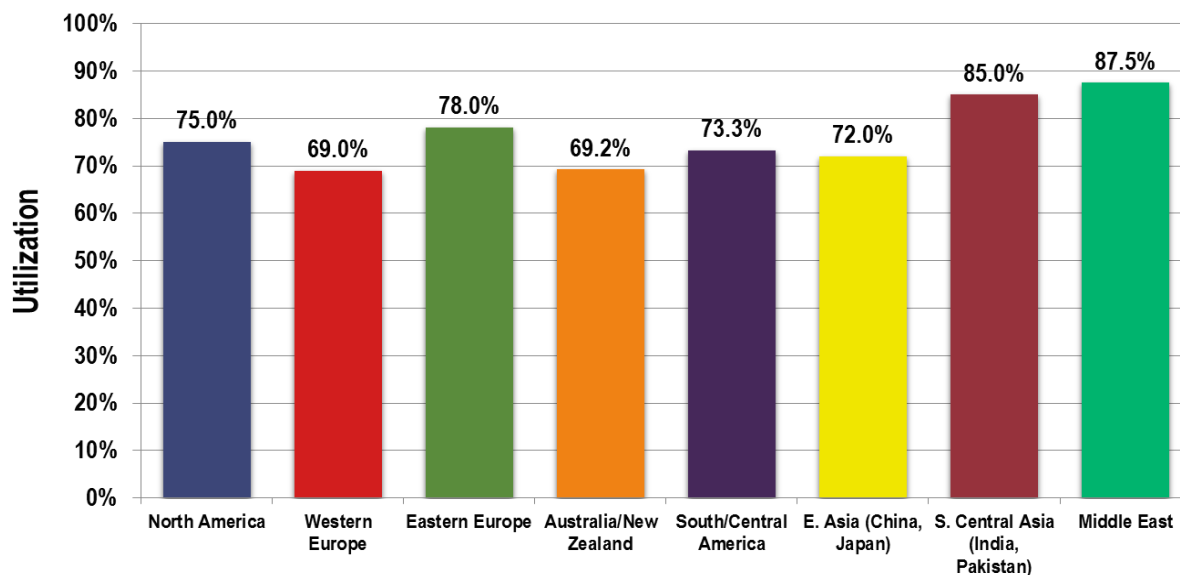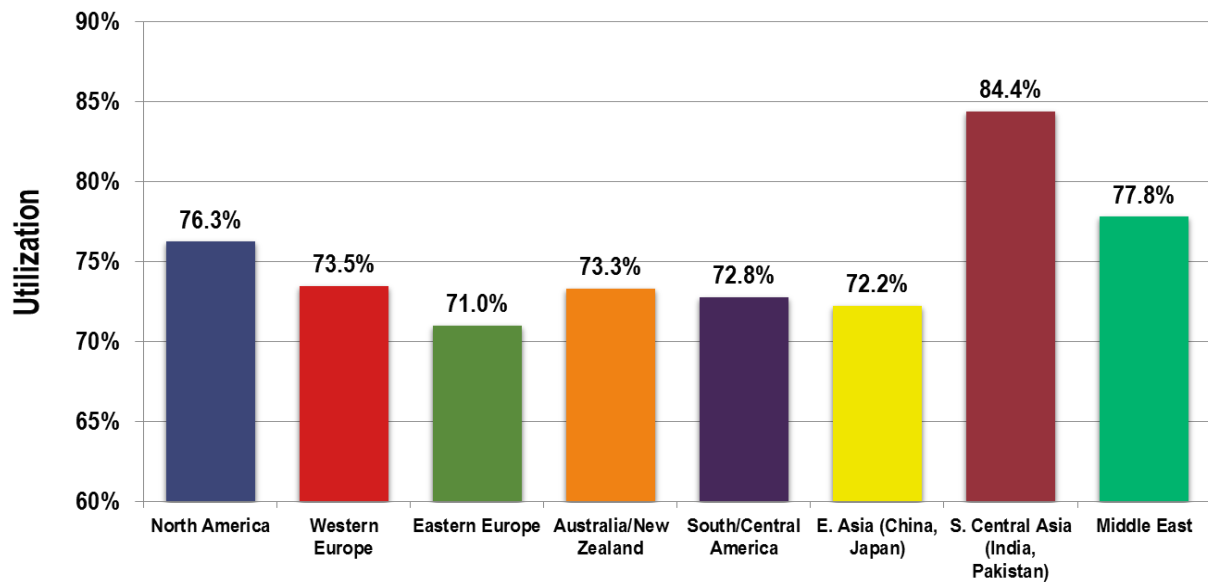*Source: Service Performance Insight, October 2015*

Principal Business Consultant

Principal Business consultant realized rates have declined from $217 to $196 while billable targets have increased from 1,113 to 1,450 hours per year (Table 18).

Table 18: Principal Business Consultant Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	5.9	59.1%	1,476	$220	$196	10.7%
Western Europe	10.1	46.8%	1,225	218	185	15.4%
Eastern Europe	1.0	10.0%	1,290	273	199	26.9%
Australia/New Zealand	5.0	32.5%	1,317	291	232	20.5%
South/Central America	3.3	48.8%	1,724	246	196	20.6%
East Asia	5.2	44.2%	1,421	211	165	21.9%
South/Central Asia	3.5	60.0%	1,424	150	125	16.7%
Middle East	N/A	N/A	N/A	N/A	N/A	N/A
Africa	N/A	N/A	N/A	N/A	N/A	N/A
Total / Average	**6.0**	**50.6%**	**1,450**	**$232**	**$196**	**15.6%**

Source: Service Performance Insight, October 2015

Figure 21: Principal Business Consultant Target Utilization by Geography
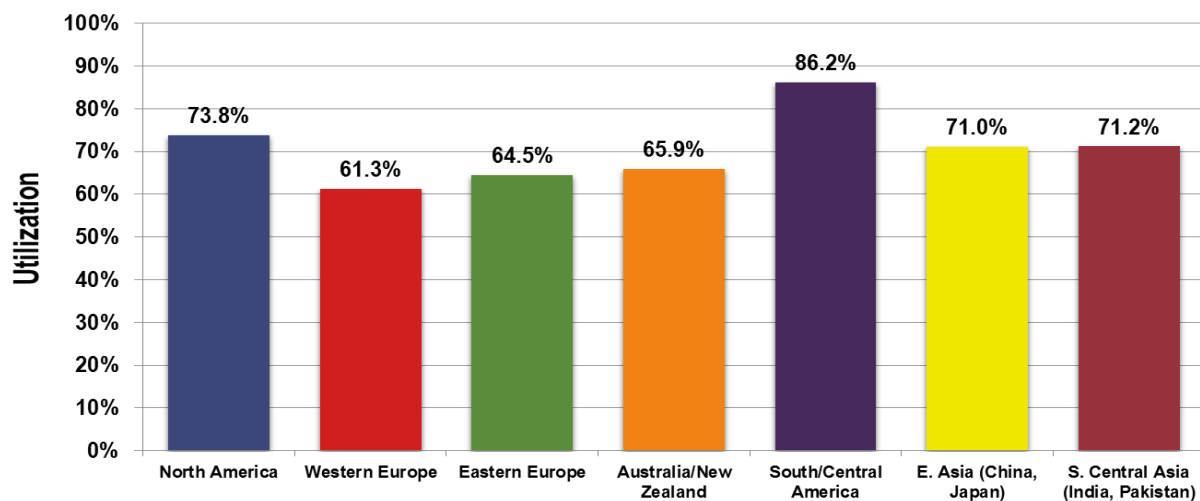
Source: Service Performance Insight, October 2015

Sr. Business Consultant

Sr. Business consultant realized rates have declined dramatically from $193 to $169 per hour while billable targets have increased significantly from 1,298 to 1,519 hours per year (Table 19).

Table 19: Sr. Business Consultant Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	14.2	49.9%	1,515	$194	$173	10.6%
Western Europe	7.3	60.9%	1,456	191	165	13.7%
Eastern Europe	3.5	N/A	N/A	N/A	N/A	N/A
Australia/New Zealand	11.1	52.8%	1,487	210	194	7.5%
South/Central America	3.0	55.0%	1,572	178	164	7.6%
East Asia	4.5	64.0%	1,644	146	126	14.2%
South/Central Asia	4.3	6.7%	1,650	65	65	0.0%
Middle East	2.0	N/A	N/A	N/A	N/A	N/A
Africa	2.0	N/A	N/A	N/A	N/A	N/A
Total / Average	**11.0**	**49.0%**	**1,519**	**$189**	**$169**	**10.8%**

Source: Service Performance Insight, October 2015

Figure 22: Sr. Business Consultant Target Utilization by Geography
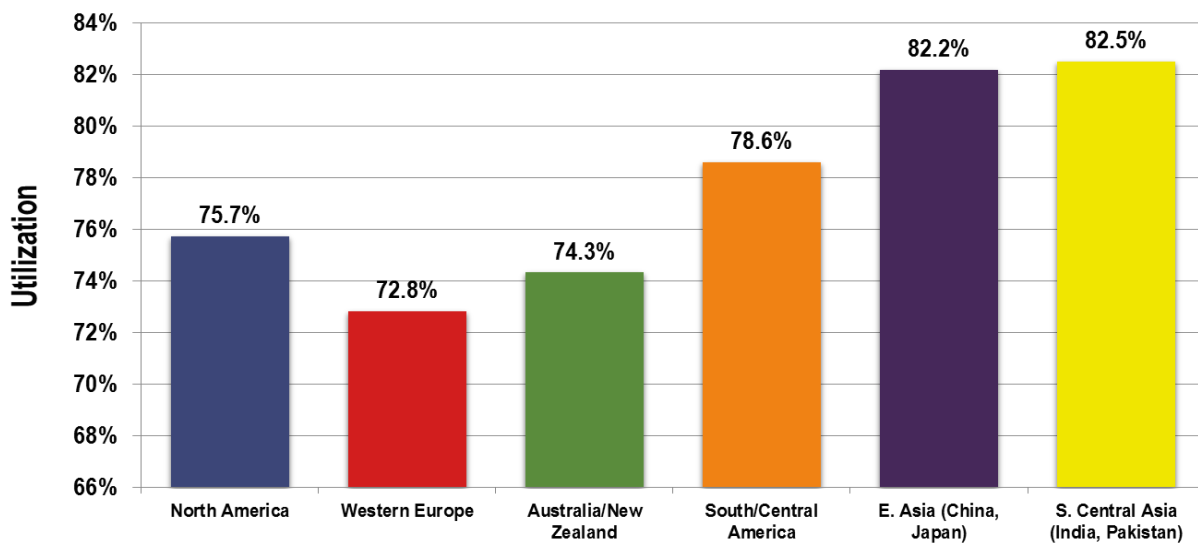
Source: Service Performance Insight, October 2015

Business Consultant

Business consultant realized rates have declined from $152 to $149 per hour while annual billable targets have increased from 1,330 to 1,512 hours per year (Table 20).

Table 20: Business Consultant Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	15.7	52.3%	1,548	$174	$151	13.2%
Western Europe	13.2	55.0%	1,475	187	155	17.0%
Eastern Europe	2.5	35.0%	1,445	129	114	12.2%
Australia/New Zealand	27.0	41.7%	1,221	197	187	4.9%
South/Central America	2.8	34.0%	1,613	164	116	29.7%
East Asia	3.8	58.4%	1,599	121	97	20.1%
South/Central Asia	16.3	22.5%	1,516	147	133	9.5%
Middle East	1.5	N/A	N/A	N/A	N/A	N/A
Africa	1.5	N/A	N/A	N/A	N/A	N/A
Total / Average	**13.8**	**47.9%**	**1,512**	**$173**	**$149**	**14.0%**

Source: Service Performance Insight, October 2015

Figure 23: Business Consultant Target Utilization by Geography

Source: Service Performance Insight, October 2015

Solution Architect

Solution Architect realized rates have declined from $185 to $178 per hour while billable targets have increased slightly from 1,316 to 1,391 hours per year (Table 21).

Table 21: Solution Architect Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	9.3	46.5%	1,421	$216	$188	13.0%
Western Europe	10.8	40.1%	1,351	209	183	12.4%
Eastern Europe	23.0	68.5%	1,470	204	172	15.6%
Australia/New Zealand	6.7	49.9%	1,127	212	187	11.7%
South/Central America	3.4	37.7%	1,252	179	153	14.6%
East Asia	25.3	66.3%	1,480	170	142	16.5%
South/Central Asia	5.6	57.3%	1,680	79	71	10.0%
Middle East	36.0	86.0%	1,820	111	100	10.0%
Africa	N/A	N/A	N/A	N/A	N/A	N/A
Total / Average	**9.5**	**46.9%**	**1,391**	**$205**	**$178**	**12.9%**

Source: Service Performance Insight, October 2015

Figure 24: Solution Architect Target Utilization by Geography
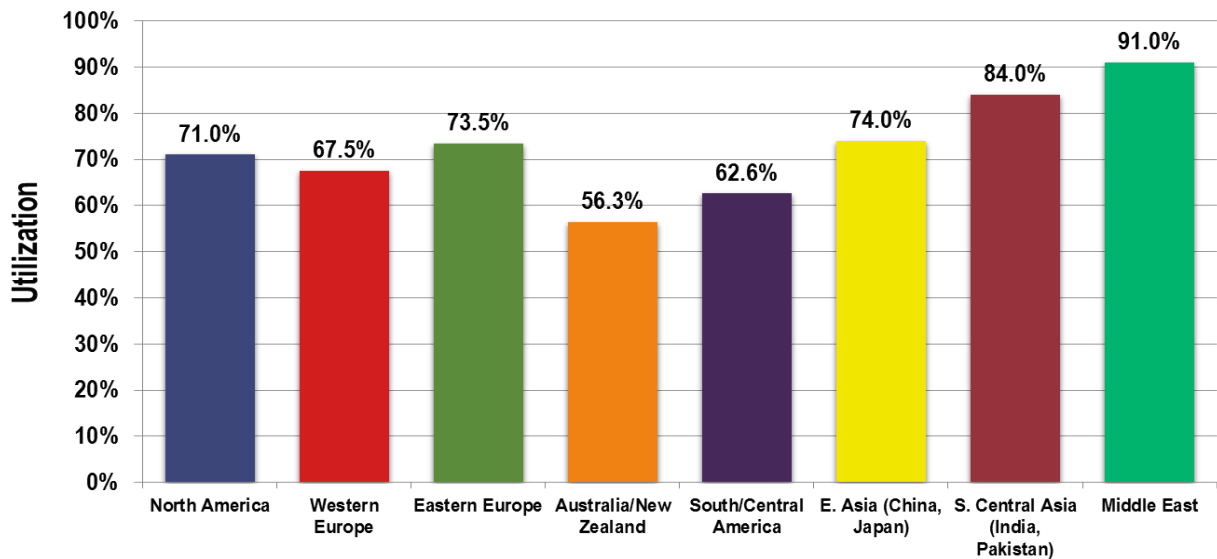
Source: Service Performance Insight, October 2015

Senior Technical Consultant

Senior Technical Consultant realized rates have increased slightly from $166 to $168 per hour while billable targets have increased significantly from 1,374 to 1,563 hours per year (Table 22).

Table 22: Senior Technical Consultant Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	14.2	54.5%	1,586	$191	$170	11.3%
Western Europe	11.8	48.8%	1,480	223	188	15.7%
Eastern Europe	9.5	76.0%	1,704	220	192	12.5%
Australia/New Zealand	24.3	54.8%	1,530	209	181	13.6%
South/Central America	2.8	46.4%	1,515	181	147	18.9%
East Asia	26.0	48.3%	1,430	158	135	14.9%
South/Central Asia	25.0	41.1%	1,775	105	91	13.4%
Middle East	31.5	68.5%	1,440	170	115	32.1%
Africa	1.0	80.0%	1,900	250	200	20.0%
Total / Average	**15.2**	**53.6%**	**1,563**	**$194**	**$168**	**13.2%**

Source: Service Performance Insight, October 2015

Figure 25: Senior Technical Consultant Target Utilization by Geography

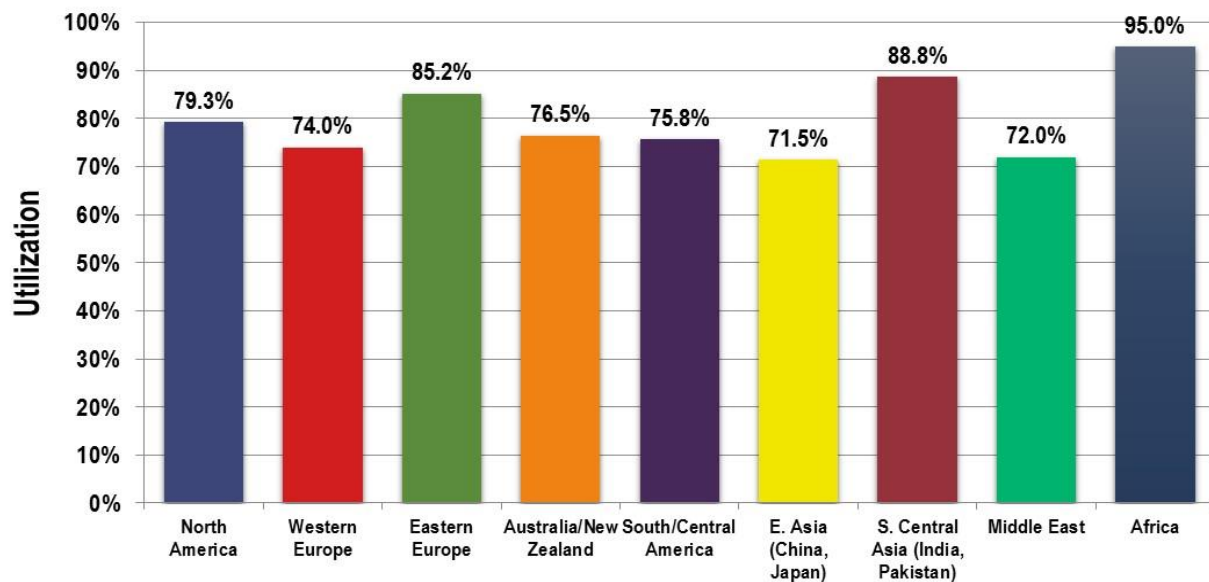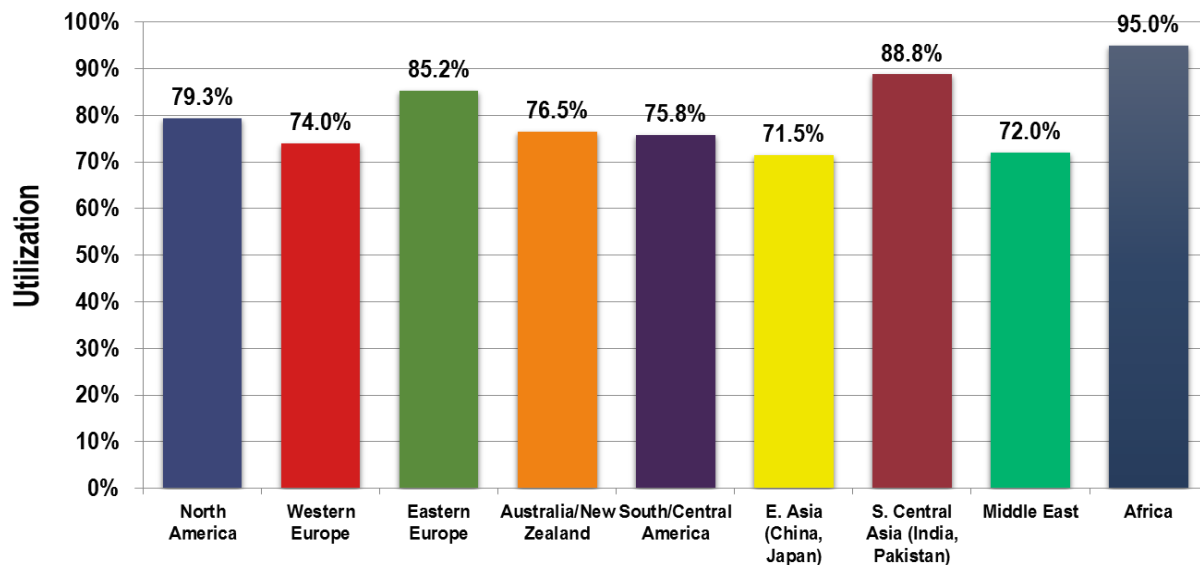*Source: Service Performance Insight, October 2015*

Technical Consultant

Technical Consultant realized rates have decreased from $151 to $146 per hour while billable targets have increased from 1,401 to 1,566 hours per year (Table 23).

Table 23: Technical Consultant Bill Rate Summary

Region	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Discount
North America	21.2	51.7%	1,605	$167	$144	13.3%
Western Europe	12.5	35.0%	1,431	188	161	14.1%
Eastern Europe	4.5	46.4%	2,029	171	167	2.4%
Australia/New Zealand	33.8	55.1%	1,499	163	149	8.3%
South/Central America	4.2	30.5%	1,637	114	79	30.7%
East Asia	6.0	49.7%	1,369	141	129	8.4%
South/Central Asia	22.5	51.4%	1,713	179	158	11.9%
Middle East	15.3	47.3%	1,490	159	106	33.6%
Africa	1.0	N/A	N/A	N/A	N/A	N/A
Total / Average	**19.1**	**47.7%**	**1,566**	**$167**	**$146**	**13.0%**

Source: Service Performance Insight, October 2015

Figure 26: Technical Consultant Target Utilization by Geography

Source: Service Performance Insight, October 2015

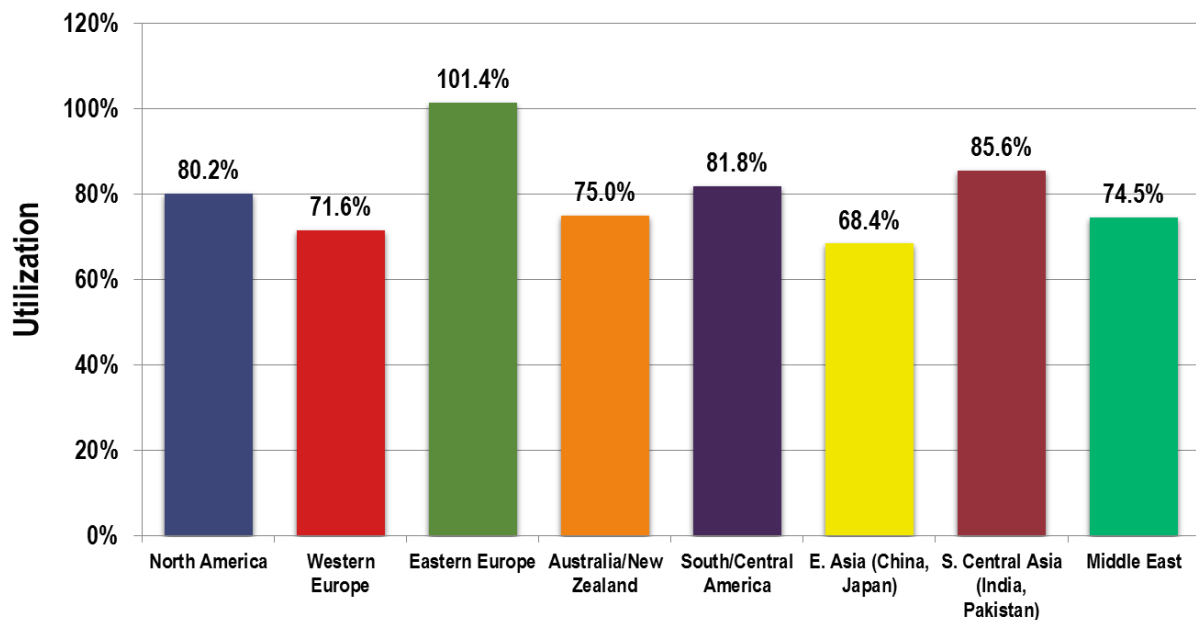## 7. Global Bill Rate Analysis by Vertical Market

An interesting picture emerges when SPI Research compares aggregate pricing information by PS vertical market. For this analysis we combined all the survey data across all geographies and job titles to depict an overview of pricing and discounting strategy by PS vertical market.

Embedded service organizations discount more than independent IT consultancies but they can afford to because they have higher list and realized rates. The survey results show embedded service organizations achieved a realized rate of approximately 84 percent of their published rate, whereas independent IT consultancies averaged 90 percent of their published rate.

The vertical market picture that emerges shows:

∆ Embedded hardware and networking PSOs reported the highest list ($285) and realized bill rates ($205). This is a significant change from the 2011 study in which they reported some of the lowest realized rates ($163 per hour);

∆ Management Consultancies command high published ($233 per hour) and realized ($197) rates but also experience a high level of discounting at 15.3%; they deliver the most work on-site (54.2%);

∆ Embedded SaaS and Software PS organizations are able to charge more than independent IT consultancies. The realized rate across all job titles for SaaS PSOs is $186 compared to $177 for enterprise software PSOs and $163 for IT consultancies. For the past five years SaaS rates have consistently been higher than enterprise software rates due to significantly greater demand and a lower supply of SaaS consultants. Another example of market demand at work!

∆ Architects and engineers and IT consultancies have the highest billable utilization targets at 1,457 and 1,448 respectively.

Table 24: Global Rate Comparison by PS Industry segment – 2011 to 2015

PS Industry Segment	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	2011 Realized Rate/Hr.	2015 Realized Rate/Hr.	Discount
Management Consulting	54.2%	1,406	$233	$215	$197	15.3%
IT Consulting	45.5%	1,448	180	160	163	9.2%
PS within Software	45.7%	1,322	210	173	177	15.9%
PS within SaaS	22.1%	1,311	222	194	186	16.2%
Architecture / Engineering	45.3%	1,457	165	N/A	154	7.1%
PS within Hardware/Network.	5.9%	1,410	285	163	205	28.1%
Other PS	43.9%	1,227	204	155	184	9.9%

Source: Service Performance Insight, October 2015

Pricing Strategies

A comparison of pricing strategies across PS vertical markets reveals IT consultancies and SaaS PSOs rely most heavily on time and materials based pricing. Hardware and Networking providers have shifted the majority of their work to service packages and fixed price contracts. Management Consultancies and Software PSOs have significantly shifted to fixed price, deliverables and milestone-based pricing with only 35% of their contracts priced as time and materials (Table 25).

Table 25: Percentage of Time & Materials Work by Market

Market	2011	2015
Management Consulting	57.4%	35.0%
IT Consulting	62.6%	43.1%
PS within Software	60.2%	35.9%
PS within SaaS	52.8%	41.7%
PS within Hardware/Network.	22.8%	22.1%
Other PS	52.3%	28.3%

Source: Service Performance Insight, October 2015

SPI Research sees a shift in engagement and billing methods, as clients have become increasingly concerned about risk and cost overruns, and push more risk to PSOs through fixed fee, milestone based or shared risk billing arrangements. This situation has led to an increase in Fixed Time/Fixed Fee pricing, putting the onus on PSOs to accurately estimate, deliver effectively and create change orders when they are warranted. Embedded services organizations must contend with VSOE and arcane revenue recognition rules which make it difficult to bundle services with products and to recognize revenue for work-in -process or milestone billings. They overcome these obstacles with fixed fee service packages.

Use of Third-party Contractors

Embedded hardware and networking PSOs rely heavily on subcontractors (they deliver 16% of their revenues) while SaaS PSOs tend to use their own employees, rarely deploying subcontractors. Due to the intellectual property and unique domain knowledge required, management consultancies use subcontractors to deliver less than 10% of their revenue (Table 26). Based on the PS Maturity™ benchmark, the use of subcontractors has remained fairly constant across the PS industry for the past 8 years at approximately 13% of overall revenue.

Table 26: Percentage of PS Revenue delivered by Third-Parties

Market	2011	2015
Management Consulting	10.5%	8.9%
IT Consulting	14.5%	10.6%
PS within Software	17.2%	11.5%
PS within SaaS	8.3%	4.8%
Architecture / Engineering	10.0%	6.1%
PS within Hardware/Network.	13.5%	16.0%
Other PS	8.7%	10.7%

Source: Service Performance Insight, October 2015

Discounting by Vertical Market

Interestingly, the markets with the highest list and realized rates also reported the highest level of discounting. Conversely, the markets with the lowest rates (IT Consulting, and Other PS) reported the lowest level of discounting (Table 27). Level of discounting is an important metric because it often points to poor sales and marketing effectiveness. PS organizations who are unable to demonstrate their value are often forced to compete on price. To get an accurate picture of sales and marketing effectiveness one must

Table 27: Discounting by Market

Market	2011	2015
Management Consulting	16.8%	15.3%
IT Consulting	10.2%	**9.2%**
PS within Software	11.9%	15.9%
PS within SaaS	15.5%	16.2%
PS within Hardware/Networking	13.4%	**28.1%**
Other PS	4.3%	9.9%

Source: Service Performance Insight, October 2015

look at additional KPI's including: marketing effectiveness (Number of leads, lead conversion rates, cost per Lead, brand awareness and client reference- ability) in combination with sales effectiveness metrics (Bid-to-Win ratio, on-target sales performance, length and cost of the sales cycle, size of the pipeline, forecasting accuracy, project profitability, etc.). SPI Research examines these metrics and their correlation with overall performance in detail in the PS Maturity™ Benchmark report http://www.spiresearch.com/spi-research/reports/2015psmb.html

Management Consulting

Global demand for strategic management consulting is strong. This industry supports a high rate structure. In fact, although the survey shows management consulting rates from $50 to $409 per hour, (Table 29) the actual list rates reported for the most senior executives were as high as $1,000 per hour (Table 28)! The average realized rate for management consultants across all geographies and job titles is $197 per hour. However, the variability and level of discounting in management consulting is also the highest of any PS vertical. Unlike other industry segments, management consulting rates have increased for almost all job categories while utilization rates have remained relatively constant. This is good news for management consultancies; they are generating more profit without working their consultants to death!

Business consultants and analysts comprise almost ½ of the management consulting workforce. On average Senior Business consultants generate $260K in annual revenue by billing over 1,696 hours per year.

Table 28: Management Consulting Bill Rate Summary

Role	Level	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	2011 Realized Bill rate	2015 Realized Bill rate	Disc.
Management	VP / Executive Mgmt.	2.3	42.9%	1,051	$322	**$361**	$244	**24.2%**
	Director	3.1	44.7%	902	292	323	**247**	15.6%
	Manager	5.2	45.7%	1,063	269	177	230	14.5%
Project Management	Program Manager	3.4	50.2%	1,459	231	155	212	**8.1%**
	Senior Project Manager	4.5	74.9%	1,597	230	147	191	16.7%
	Project Manager	10.3	72.7%	1,655	214	**119**	182	14.9%
Business Consulting	Principal Business Consult.	5.6	52.4%	1,353	208	258	189	9.2%
	Sr. Business Consultant	18.2	58.3%	1,696	176	232	153	13.4%
	Business Consultant	8.8	55.1%	1,647	158	132	**139**	11.7%
Technical Consulting	Solution Architect	2.3	53.8%	1,456	274	195	236	14.0%
	Senior Technical Consult.	6.6	57.9%	1,555	219	134	189	13.8%
	Technical Consultant	6.4	53.8%	1,677	182	131	155	15.0%

Source: Service Performance Insight, October 2015

As SPI Research has reported throughout this study, the composition of the workforce is changing dramatically. Nowhere is this more evident than in management consultancies. These firms have reported a surge in business consultants and a corresponding decline in senior management and technical consultants. In 2015 even the likes of the Big 4 Strategy Management consultancies – McKinsey, Bain, Boston Consulting and Deloitte have started taking on IT and line of business process improvement projects, shifting more work to Business Consultants and analysts.

Figure 27: Management Consulting Workforce Distribution by Employee Level
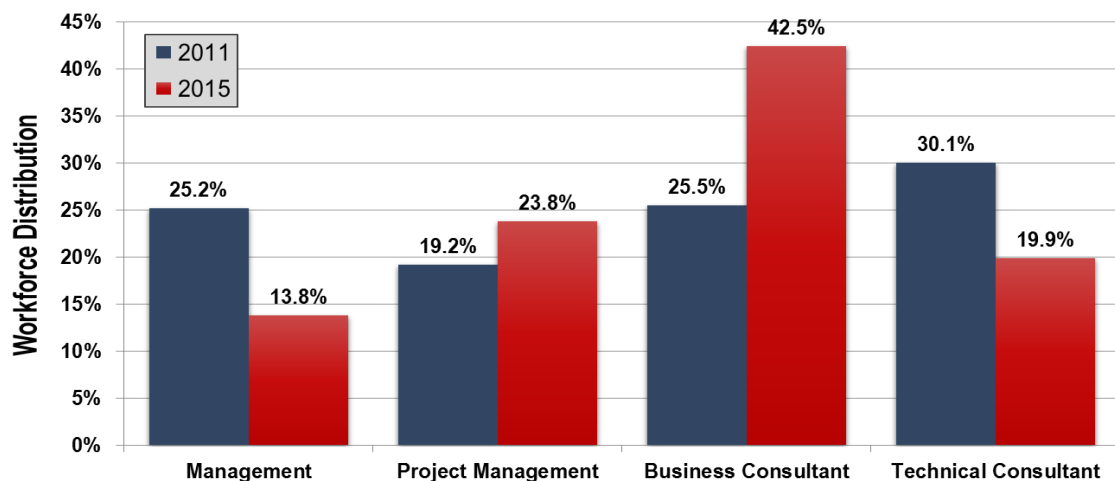
Source: Service Performance Insight, October 2015

Figure 28: Management Consulting Workforce Distribution by Employee Level
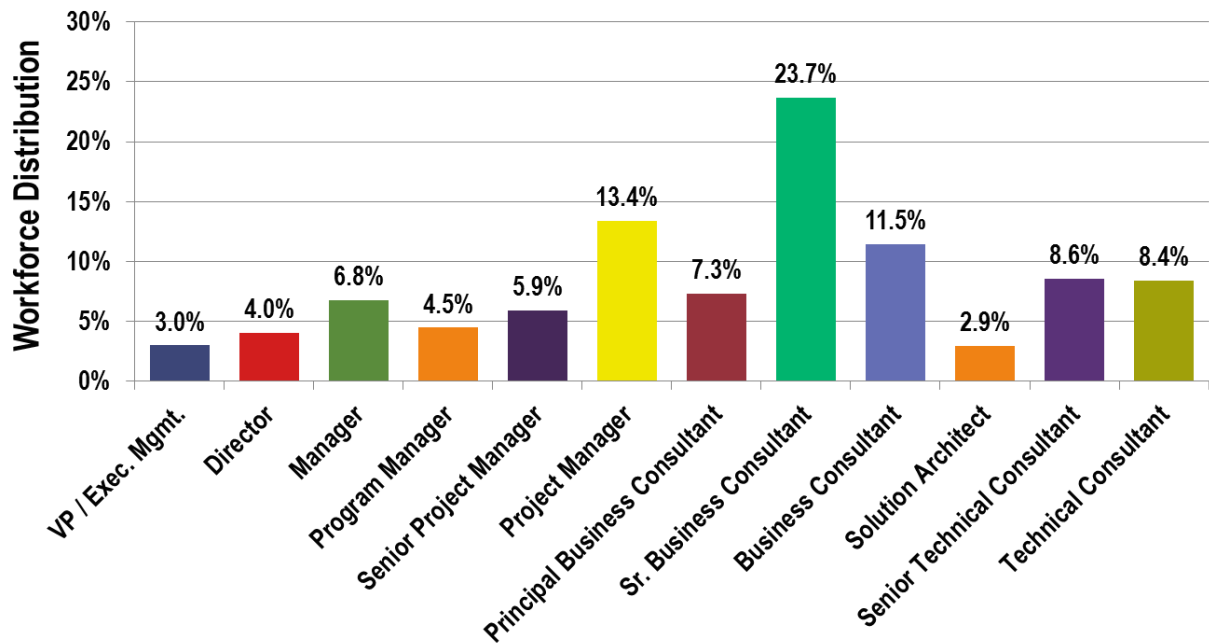
Figure 29: Management Consulting Target Annual Hours by Employee Level
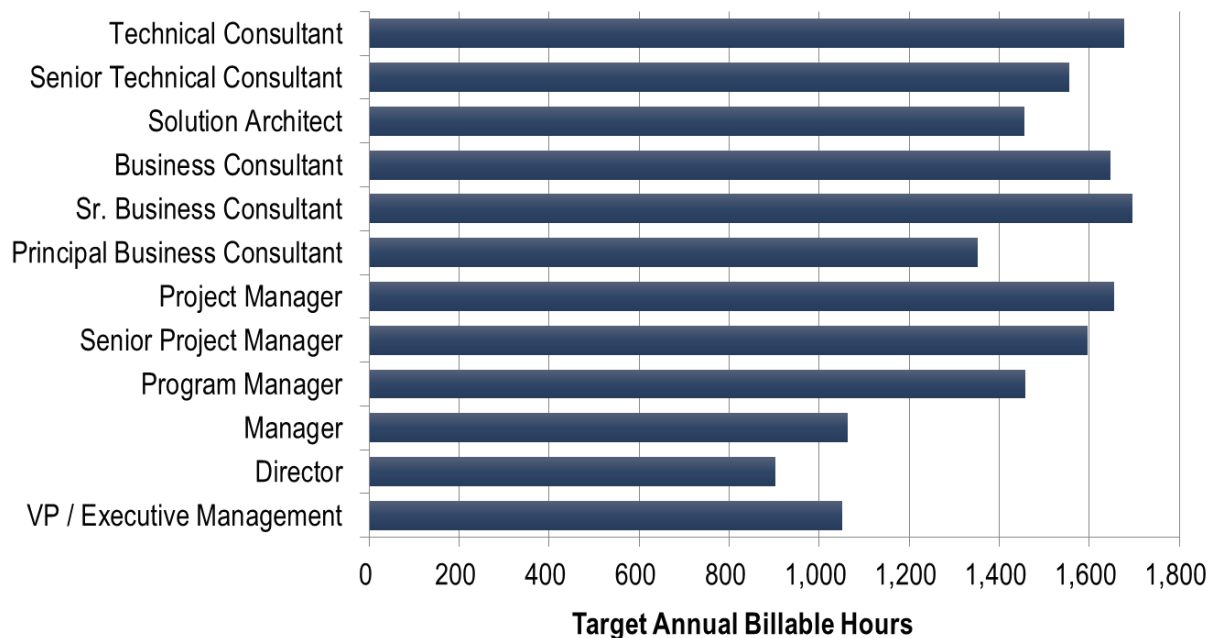
The top management consultancies are very secretive about their bill rates and pricing structure. The Big Four are still able to charge exorbitant fees but even they are confronting the reality of smaller

project teams and rate pressure. Their level of discounting is significant and reflects intense competition.

Figure 30: Management Consulting Levels – Published vs. Realized Rates
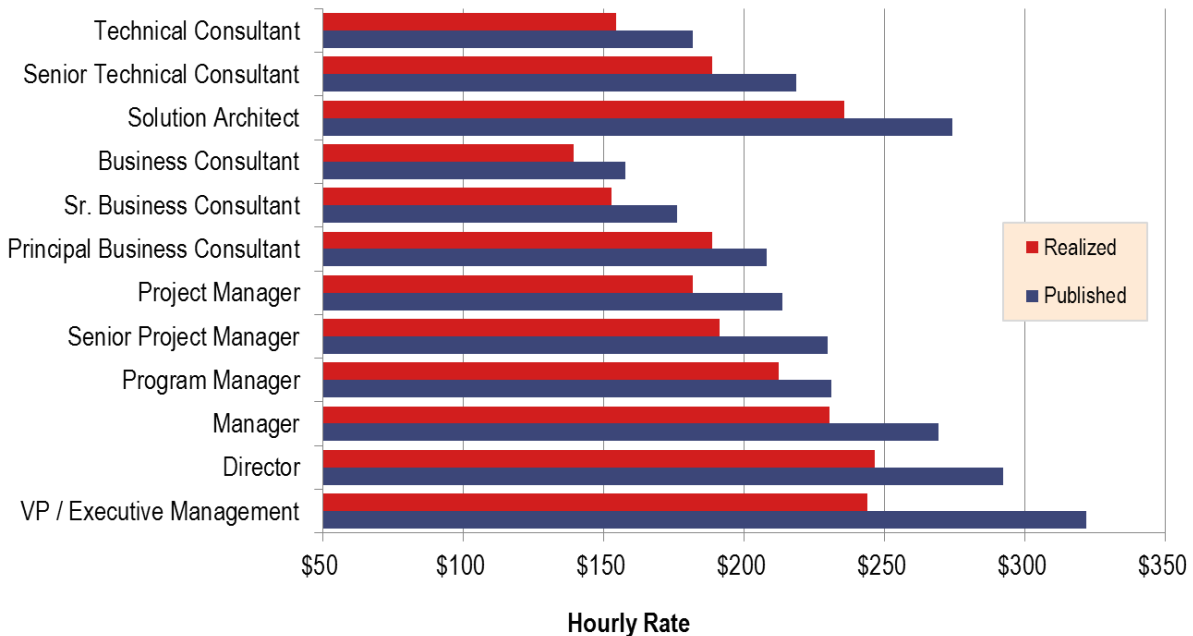
Source: Service Performance Insight, October 2015

Table 29: Management Consulting Published Hourly Bill Rates – Standard Deviation

Role	Level	Min.	– 1 Std. Dev.	Average	+ 1 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$81	$235	$322	$409	$750
	Director	100	227	292	357	580
	Manager	140	214	269	325	387
Project Management	Program Manager	140	185	231	277	350
	Senior Project Manager	100	183	230	276	380
	Project Manager	150	177	214	250	380
Business Consulting	Principal Business Consultant	116	144	208	271	600
	Sr. Business Consultant	116	146	176	206	320
	Business Consultant	50	129	158	186	258
Technical Consulting	Solution Architect	197	241	274	307	350
	Senior Technical Consultant	140	188	219	249	320
	Technical Consultant	90	151	182	212	260

Source: Service Performance Insight, October 2015

Management consulting role versus revenue distribution shows Project Managers (case team leaders) and technical consultants produce the majority of profit. Since these firms typically augment their workforce each year with undergraduates and MBA's, these firms actually do not make significant profit

from their young new hires. However, their business model is based on constantly developing new and unique solutions to client's strategic business problems so the expense of constantly ramping undergraduate and MBA new hires is justified by the high rates senior partners are able to command. In Management Consultancies, everyone sells and bills with very few non-billable roles.

Figure 31: Management Consulting Role vs. Revenue Distribution
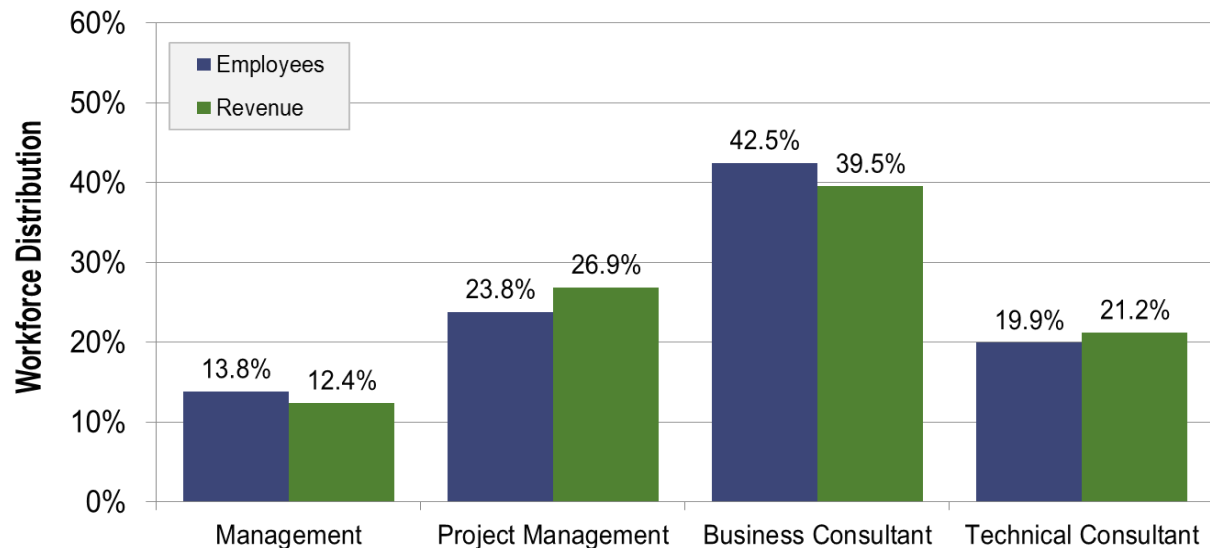
Source: Service Performance Insight, October 2015

IT Consulting

Based on this study and the larger PS Maturity™ Benchmark, running a small or medium-size independent IT consultancy is a tough job. Most IT consultancies got their start by implementing large-scale ERP systems, working for technology companies or the Big Five. They affinitized around specific technologies - Oracle and SAP for enterprise clients, or Intuit, Microsoft and Sage for small and medium-sized businesses. Although the IT service market is huge ($2.5 trillion and still growing 6% per year according to Gartner) it has experienced the greatest encroachment by low-cost off-shore suppliers, industry consolidation and new cloud-based technologies. The effect of technology change and rate commoditization brought on by off-shore competition has caused a surge of IT consultancy consolidation. When many IT consultancies reach 100 consultants they become acquisition targets. Deloitte, EY and IBM have been gobbling up specialized providers at a brisk pace.

Of all the dominant PS verticals, IT consultancies work the most hours (1,448 per year) at the lowest rates ($163 per hour). However, ample opportunity exists for IT consulting firms to reenergize themselves. Many IT consultancies are adding lucrative managed services/hosting service lines; others are opening offshore and onshore development centers to take advantage of areas with lower costs and good education systems. To thrive, IT Consultancies must constantly find new ways to differentiate themselves by either adding new service lines; new vertical industries or competencies (Social, mobile,

analytics, cloud, security, etc.). Competently installing hardware, software and networks is not enough of a value proposition to survive and thrive in an increasingly global and competitive marketplace.

Across almost all job titles, IT Consultancies reported lower realized rates compared to their embedded Software and SaaS PS counterparts. Typically, IT Consulting realized rates are 10 to 15% lower than embedded software rates for similar positions with the widest rate disparity shown in technical consulting roles. IT consultancies must concentrate on improving their differentiation so they can increase their rate structure. Table 30 shows rates have remained fairly constant from 2011 to 2015 with increases in program and project management as well as for solution architects and senior technical consultants. As the economy has improved creating more consulting demand, combined with a technical talent shortage; billable utilization has increased for almost all job titles.

Table 30: IT Consulting Bill Rate Summary

Role	Level	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	2011 Realized Bill rate	2015 Realized Bill rate	Disc.
Management	VP / Executive Mgmt.	3.4	12.7%	437	$253	$213	$226	10.7%
	Director	5.0	14.4%	635	206	185	182	11.5%
	Manager	13.8	31.3%	946	194	179	173	10.9%
Project Management	Program Manager	5.9	51.2%	1,530	189	144	167	**11.6%**
	Senior Project Manager	6.2	52.9%	1,532	179	174	165	7.9%
	Project Manager	8.9	47.5%	1,568	170	148	158	**7.1%**
Business Consulting	Principal Business Consult.	7.0	63.5%	1,497	192	189	171	11.2%
	Sr. Business Consultant	22.7	57.8%	1,565	171	165	157	8.7%
	Business Consultant	25.9	60.0%	1,557	155	148	142	8.3%
Technical Consulting	Solution Architect	6.5	45.1%	1,551	187	165	169	9.9%
	Senior Technical Consult.	21.5	57.7%	1,692	178	150	164	7.7%
	Technical Consultant	36.4	49.9%	1,619	137	132	126	7.8%

Source: Service Performance Insight, October 2015

Since the 2011 PS Pricing survey, IT consultancies have added more business, industry and user experience consultants, while the percentage of technical consultants has declined. IT Consultancies should strive to move up the value chain by adding more strategic management and business process consulting to improve their rates, differentiation and margins.

Figure 32: IT Consulting Workforce Distribution by Employee Level

Chart showing Workforce Distribution comparing 2011 and 2015:

Category	2011	2015
Management	14.4%	13.6%
Project Management	15.4%	12.9%
Business Consultant	25.5%	34.1%
Technical Consultant	44.7%	39.5%
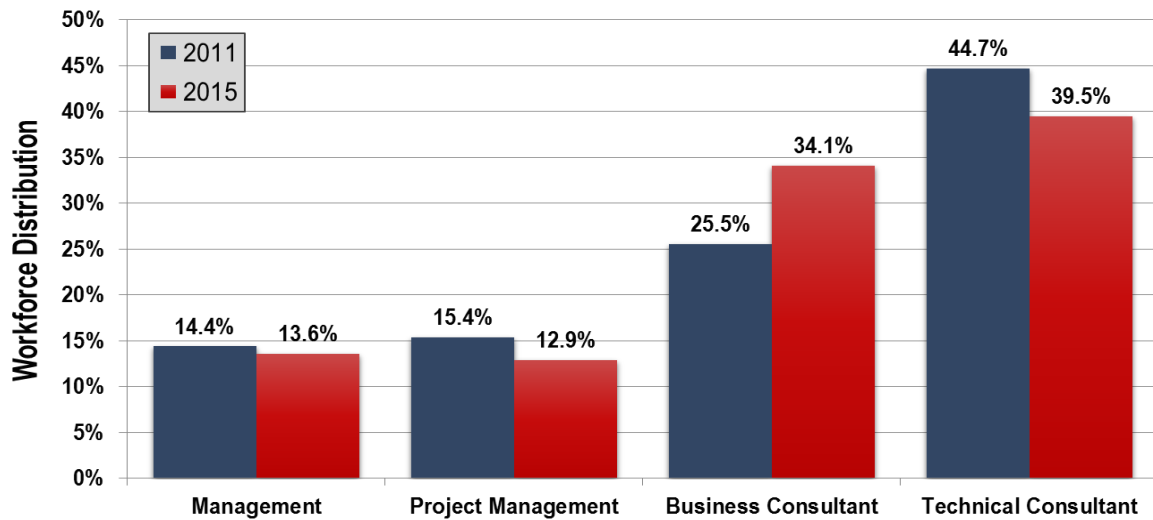
Source: Service Performance Insight, October 2015

Figure 33: IT Consulting Workforce Distribution by Employee Level

Employee Level	Workforce Distribution
VP / Exec. Mgmt.	2.1%
Director	3.1%
Manager	8.5%
Program Manager	3.6%
Senior Project Manager	3.8%
Project Manager	5.5%
Principal Business Consultant	4.3%
Sr. Business Consultant	13.9%
Business Consultant	15.9%
Solution Architect	4.0%
Senior Technical Consultant	13.1%
Technical Consultant	22.3%
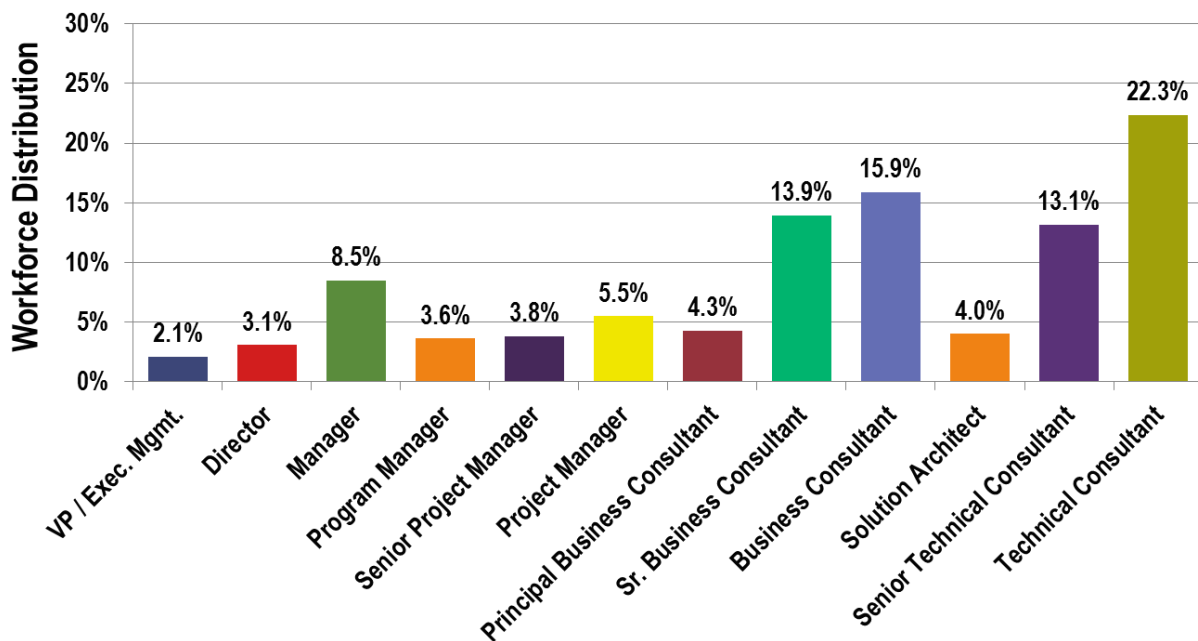
Source: Service Performance Insight, October 2015

Figure 34 shows IT consultancies are targeting billable utilization at 70 to 75% for their business consultants and project managers. Technical resources bill 1,600 to 1800 hours per year (80 to 90%).

Figure 34: IT Consulting Target Annual Hours by Employee Level
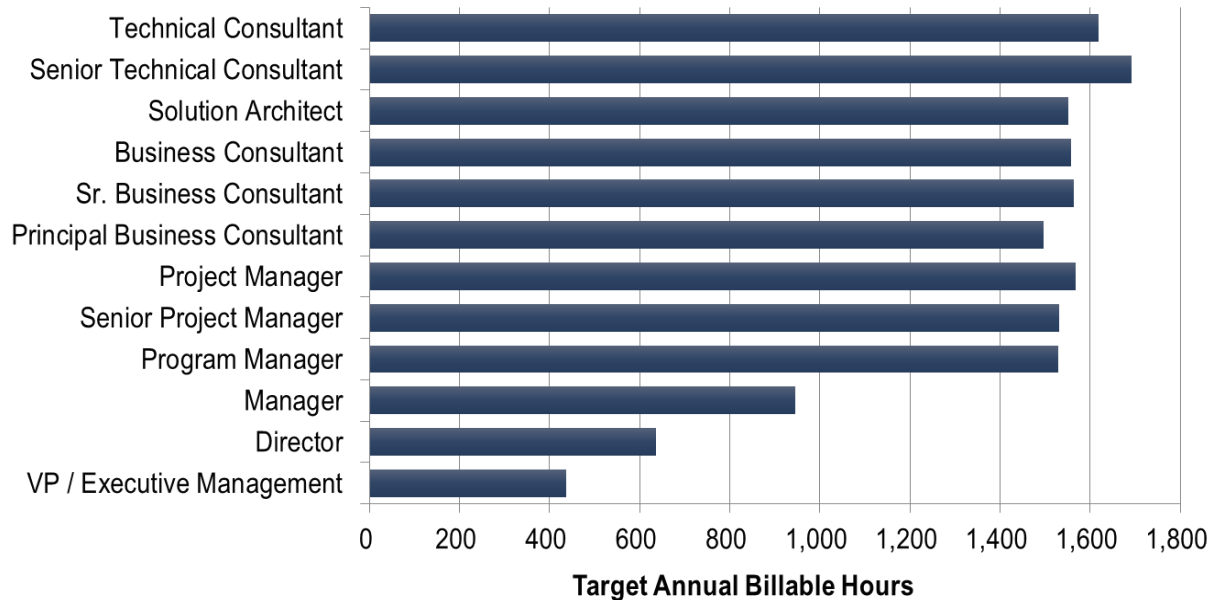
Source: Service Performance Insight, October 2015

IT Consultancies did a good job of limiting discounting. In general, they reported realized rates at 90+% of list rates. This shows IT Consultancies understand their markets and are pricing effectively.

Figure 35: IT Consulting Levels – Published vs. Realized Rates
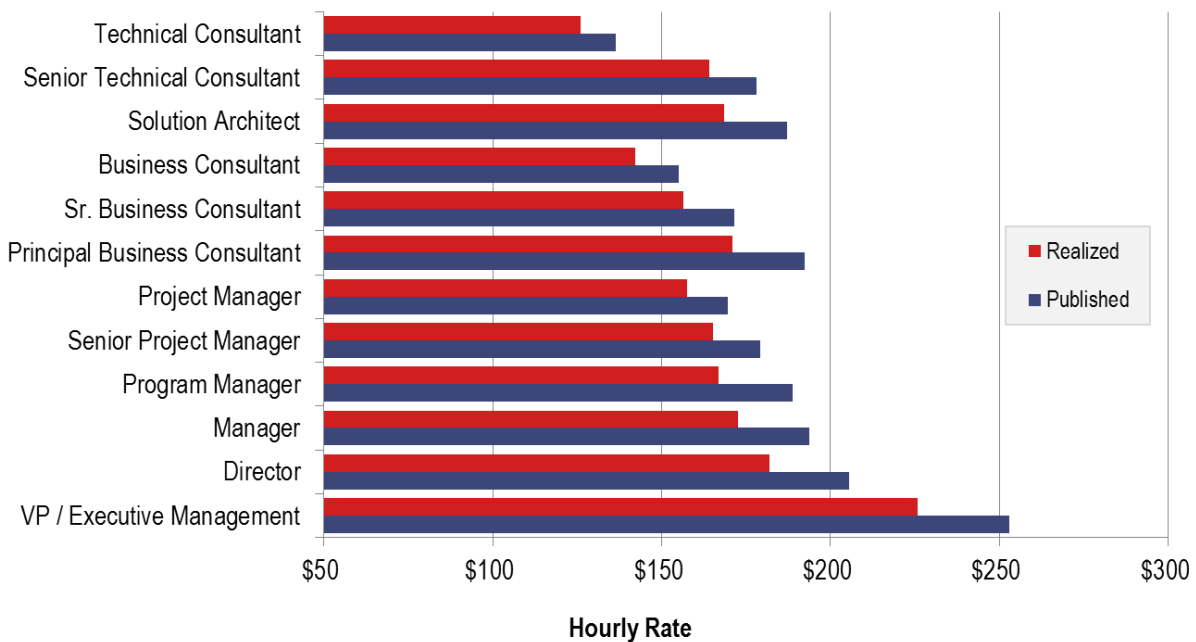
Source: Service Performance Insight, October 2015

Table 31: IT Consulting Published Hourly Bill Rates – Standard Deviation

Role	Level	Min.	– 1 Std. Dev.	Average	+ 1 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$150	$215	$253	$291	$500
	Director	100	174	206	237	375
	Manager	100	170	194	218	313
Project Management	Program Manager	100	162	189	215	312
	Senior Project Manager	100	164	179	194	225
	Project Manager	90	154	170	185	225
Business Consulting	Principal Business Consultant	150	178	192	207	250
	Sr. Business Consultant	110	155	171	188	220
	Business Consultant	90	135	155	175	200
Technical Consulting	Solution Architect	95	166	187	208	287
	Senior Technical Consultant	70	152	178	204	275
	Technical Consultant	40	115	137	158	200

Source: Service Performance Insight, October 2015

Figure 36 shows IT Consultancies are doing a good job of generating revenue and profit from all their consultant job categories. According to this survey, their project managers produced the highest margins. In the past, business and technical consultants were responsible for the majority of profit. Interestingly technical consultants have declined from 45.9% of the workforce in 2011 to only 39.5% of the workforce in 2015.
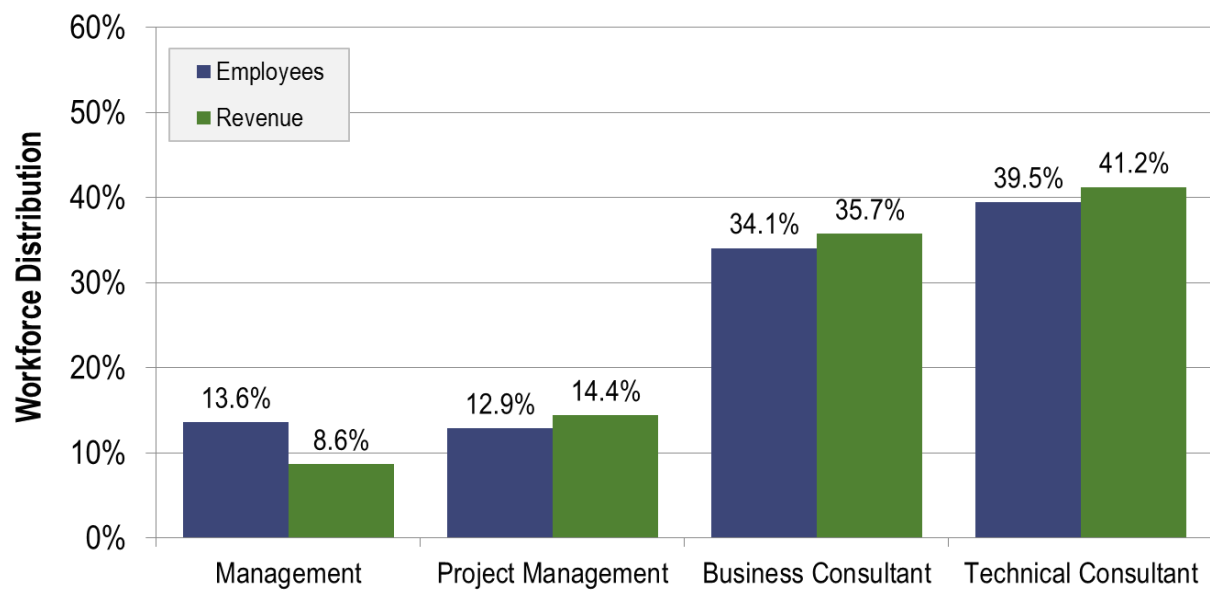
Figure 36: IT Consulting Role vs. Revenue Distribution

Source: Service Performance Insight, October 2015

PS within Software Companies

The lines between software and SaaS embedded PSOs are blurring as almost all enterprise software vendors are moving their products to the cloud. For the past five years we have seen a growing disparity between on-premise enterprise software PSOs compared to pure-play cloud PSOs. Growth has slowed for on-premise providers and their rates are typically 10 to 15% lower than their SaaS counterparts; but these classic on-premise PSOs may be significantly more profitable as they are chartered to be profit centers. Compared to the 2011 PS Pricing survey, software consultants are billing more hours and their rates have remained relatively constant so they are generating more profit (Table 32). They reported high levels of discounting (in excess of 15% for most roles).

**Table 32: PS within Software Company Bill Rate Summary**

Role	Level	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	2011 Realized Bill rate	2015 Realized Bill rate	Disc.
Management	VP / Executive Mgmt.	2.2	13.3%	513	$264	$219	$237	10.1%
	Director	3.9	16.0%	689	236	181	207	12.2%
	Manager	5.8	29.4%	849	193	177	165	14.7%
Project Management	Program Manager	6.5	53.6%	1,235	204	184	168	17.7%
	Senior Project Manager	5.8	52.1%	1,386	208	170	177	15.0%
	Project Manager	6.8	46.0%	1,449	204	158	165	19.0%
Business Consulting	Principal Business Consult.	9.4	49.5%	1,287	235	198	198	15.7%
	Sr. Business Consultant	5.6	61.4%	1,461	215	181	184	14.6%
	Business Consultant	13.8	56.3%	1,530	201	158	162	19.3%
Technical Consulting	Solution Architect	12.6	50.2%	1,327	217	193	183	15.7%
	Senior Technical Consult.	15.3	59.5%	1,498	207	173	172	17.1%
	Technical Consultant	11.7	49.2%	1,555	187	153	159	15.1%

Source: Service Performance Insight, October 2015

Software PSOs have significantly increased their concentration of Solution Architects and Sr. Technical Consultants while reducing their junior technical consulting roles. Management roles comprise 12% of the workforce; project management roles 19%; business consulting roles 29% and technical consulting roles comprise 40% of the Software PSO workforce. These ratios are virtually the same as those reported in 2011.

Figure 37: PS within Software Company Workforce Distr. by Employee Level
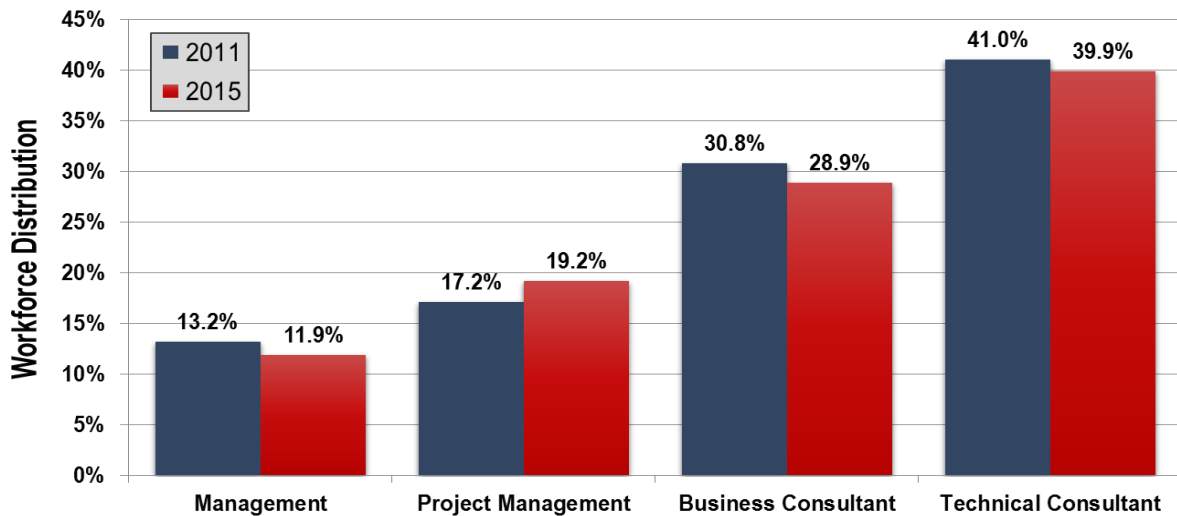
Source: Service Performance Insight, October 2015

Figure 38 depicts a relatively even mix of juniors to seniors in each job category.

Figure 38: PS within Software Company Workforce Distr. by Employee Level
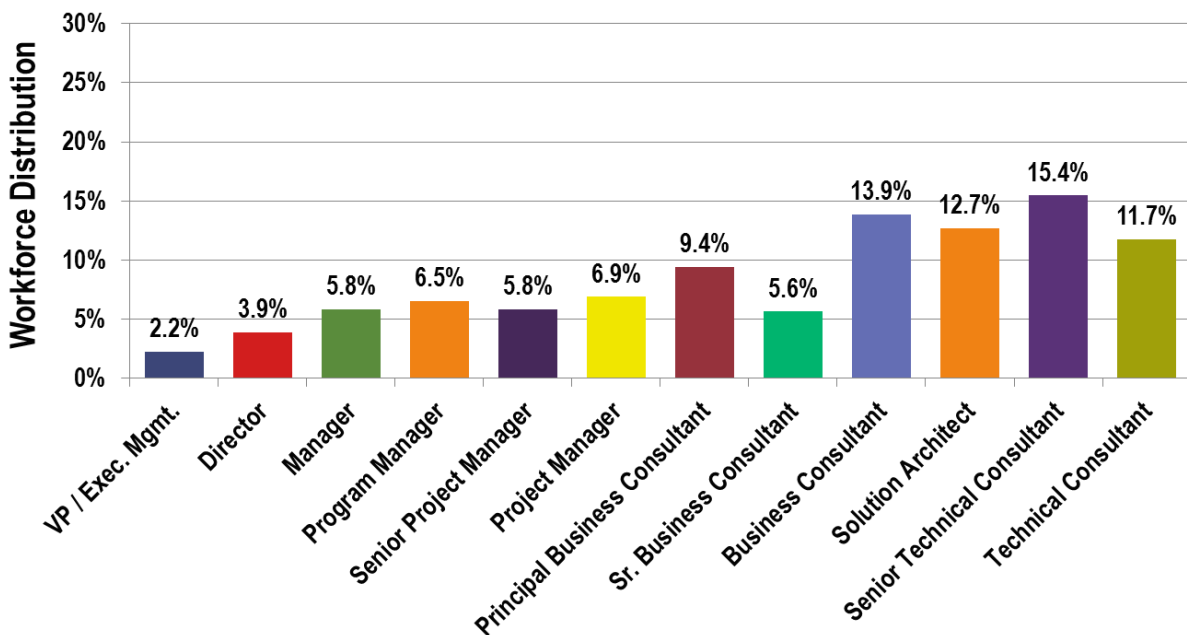
Source: Service Performance Insight, October 2015

Software PSOs target project and business consultants at 70% billable utilization; technical consultants at 75% and management at 30%+.

Figure 39: PS within Software Company Target Annual Hours by Employee Level
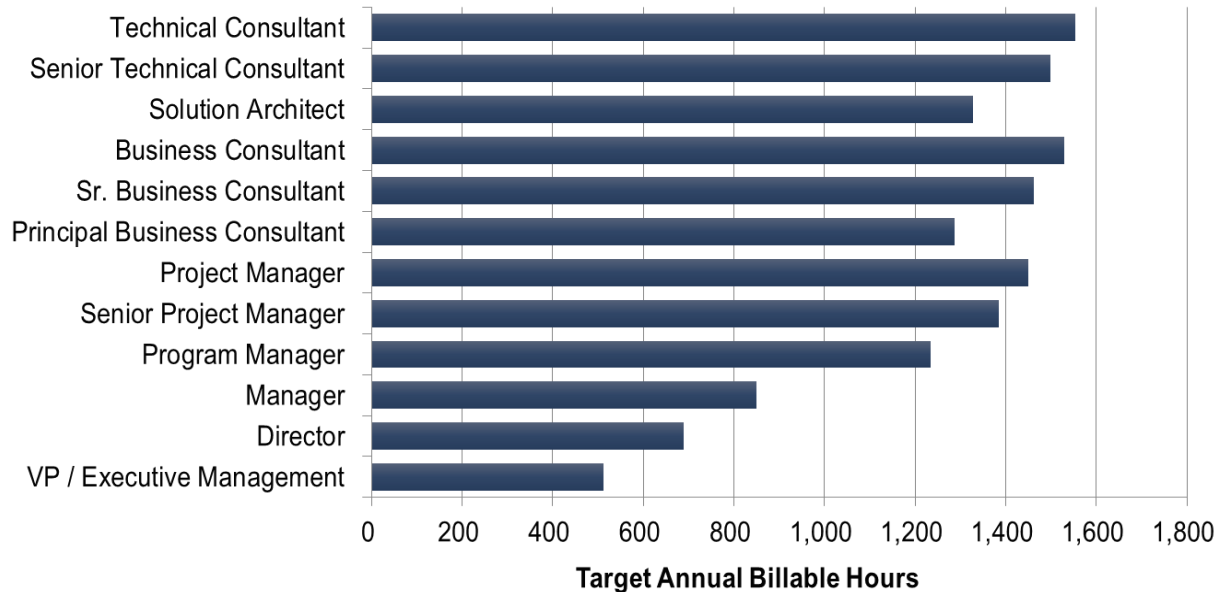
Software PSOs demonstrate a high level of discounting averaging 15.9% across all positions with discounts of almost 20% for project managers and business consultants. Often product sales people demand consulting price concessions, whether they are warranted or not. This inordinately high level of discounting undermines consulting value and erodes consulting profit.

Figure 40: PS within Software Company Levels – Published vs. Realized Rates
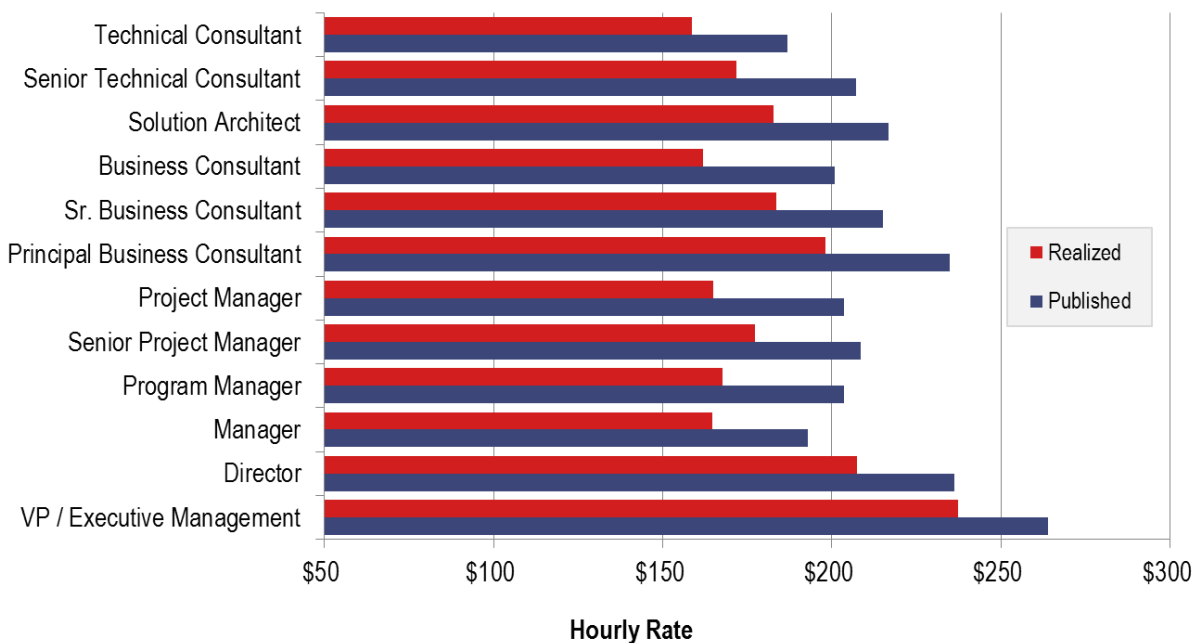
Table 33: PS with Software Company Published Hourly Bill Rates – Standard Deviation

Role	Level	Min.	– 1 Std. Dev.	Average	+ 1 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$140	$216	$264	$312	$450
	Director	117	199	236	273	450
	Manager	42	167	193	219	250
Project Management	Program Manager	63	169	204	239	325
	Senior Project Manager	42	176	208	241	340
	Project Manager	81	175	204	232	301
Business Consulting	Principal Business Consultant	157	212	235	257	325
	Sr. Business Consultant	125	191	215	239	350
	Business Consultant	87	173	201	229	359
Technical Consulting	Solution Architect	39	177	217	257	500
	Senior Technical Consultant	52	177	207	238	310
	Technical Consultant	66	160	187	213	286

Source: Service Performance Insight, October 2015

Figure 41 shows Software PSOs achieve 74% of their revenues from business and technical consultants. These job categories produce the majority of revenue and profit for Software PSOs.

Figure 41: PS within Software Company Role vs. Revenue Distribution
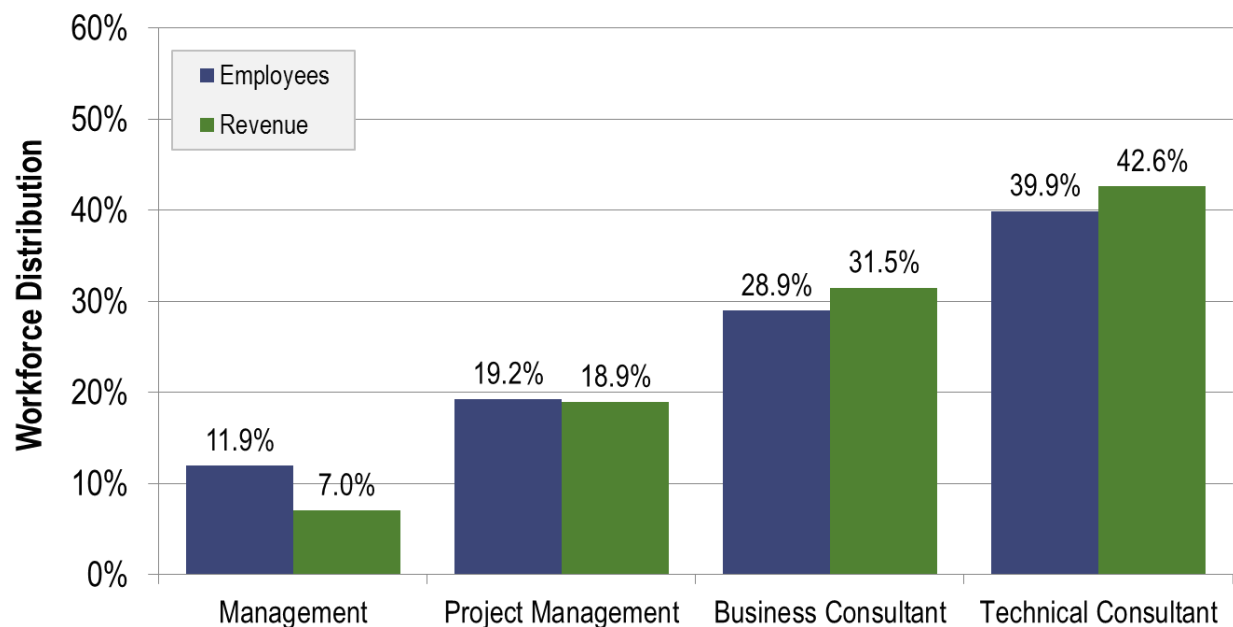
Source: Service Performance Insight, October 2015

PS within SaaS Company

Table 34 provides an overview of SaaS rates and utilization as well as a comparison to realized bill rates for on-premise enterprise software PSOs. Until recently, SaaS organizations reported higher realized bill rates and significantly higher net profits. That all began to change over the past four years as cloud software companies began to mature. They changed the focus of their embedded PS organizations from rapid implementation to driving customer adoption. Across the industry, the role of installed base account management and PS was combined into a new Customer Success function – charged with not only installing new clients but also with ensuring existing clients take full advantage of their software. A new metric of "customer adoption" based on the number of licenses, the breadth of the licenses and usage statistics has emerged. What all of this means is that embedded SaaS PSOs have seen their charters change overnight. Yesterday, SaaS PS was run as a profit center, today it is run as a customer adoption center where PS revenue and margin have become subordinate to recurring license revenue.

Table 34: PS with SaaS Company Bill Rate Summary

Role	Level	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	SaaS Published Bill rate	2015 Software Realized Bill rate	2015 SaaS Realized Bill rate	Disc.
Management	VP / Executive Management	1.8	3.3%	1,093	$329	$237	$289	12.2%
	Director	3.7	2.2%	575	353	$207	353	0.0%
	Manager	4.8	6.1%	631	237	$165	201	15.1%
Project Management	Program Manager	2.0	52.0%	1,195	222	$168	204	8.0%
	Senior Project Manager	2.7	22.3%	1,516	217	$177	187	13.7%
	Project Manager	3.1	22.5%	1,395	183	$165	**158**	13.4%
Business Consulting	Principal Business Consult.	2.6	25.5%	1,777	313	$198	224	28.3%
	Sr. Business Consultant	2.3	9.3%	1,225	175	$184	**174**	0.8%
	Business Consultant	7.8	26.6%	1,329	161	$162	**134**	17.2%
Technical Consulting	Solution Architect	6.9	40.4%	958	205	$183	183	10.9%
	Senior Technical Consultant	8.6	47.0%	1,485	209	$172	**171**	17.9%
	Technical Consultant	13.2	48.0%	1,384	181	$159	**148**	18.5%

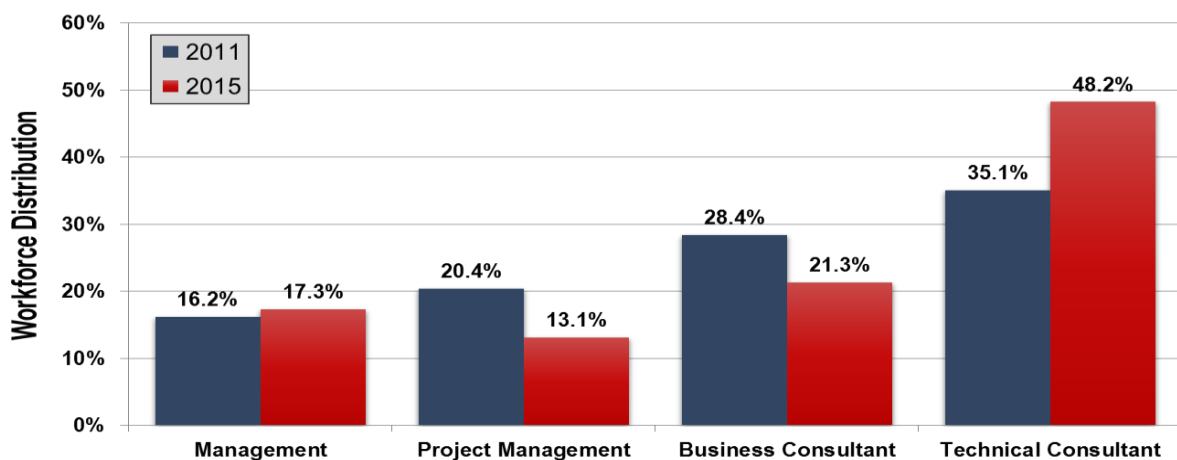*Source: Service Performance Insight, October 2015*

The table shows SaaS PSOs still command higher bill rates than enterprise software PSOs, particularly for more senior roles. However, for the first time, SaaS rates for project managers and business consultants are lower than those in Software PSOs. One of the secrets to SaaS profitability is their ability to deliver

almost 60% of their work off-site which enables them to take advantage of lower cost off-shore resources. Because the majority of their work is delivered off-site they are able to build centers of excellence, thereby improving knowledge-sharing and collaboration. Another reason for their success is that they spend most of their time configuring, integrating and developing reports instead of customizing and writing code.

SaaS PSOS are comprised of 17.3% management; 13.1% project management; 21.3% business and 48.2% technical consulting roles. Compared to the 2011 PS Pricing survey, they have significantly grown their technical consulting population. Led by Salesforce.com, many enterprise SaaS companies have developed and promote their software as a development platform, hence the increase in technical roles to develop new applications on these platforms.

Figure 42: PS with SaaS Company Workforce Distribution by Employee Level

Source: Service Performance Insight, October 2015

Figure 43: PS with SaaS Company Workforce Distribution by Employee Level
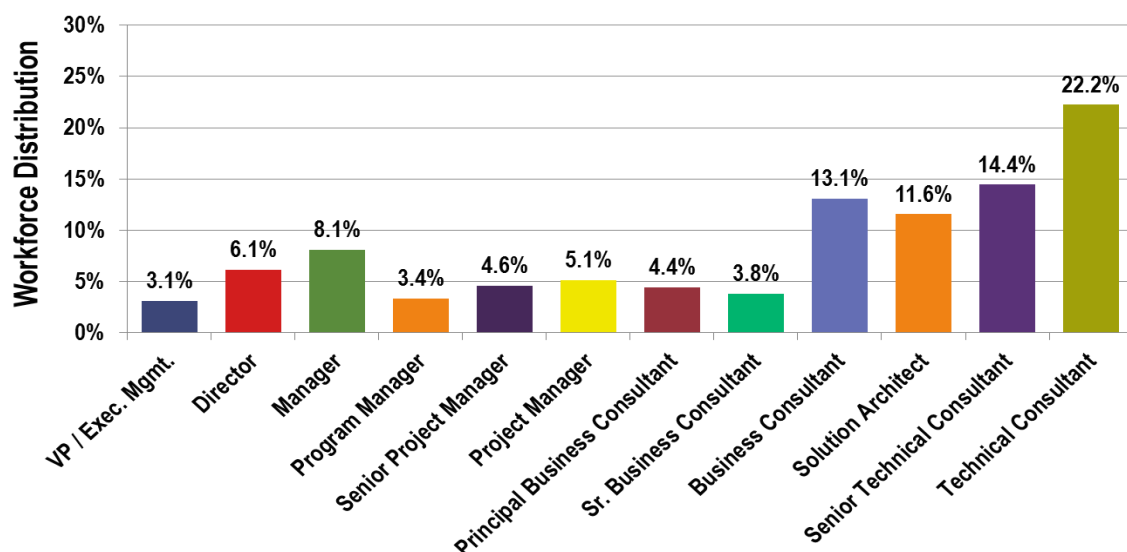
Source: Service Performance Insight, October 2015

Perhaps due to their new charter of driving customer adoption, SaaS PSOs are targeting much lower levels of billable utilization than either Software PSOs or independent IT consultancies. Billable utilization targets are approximately 30% for managers; 65% for project managers; 70% for business consultants and 70% for technical consultants but Solution Architect targets are only 50%.

Figure 44: PS with SaaS Company Target Annual Hours by Employee Level
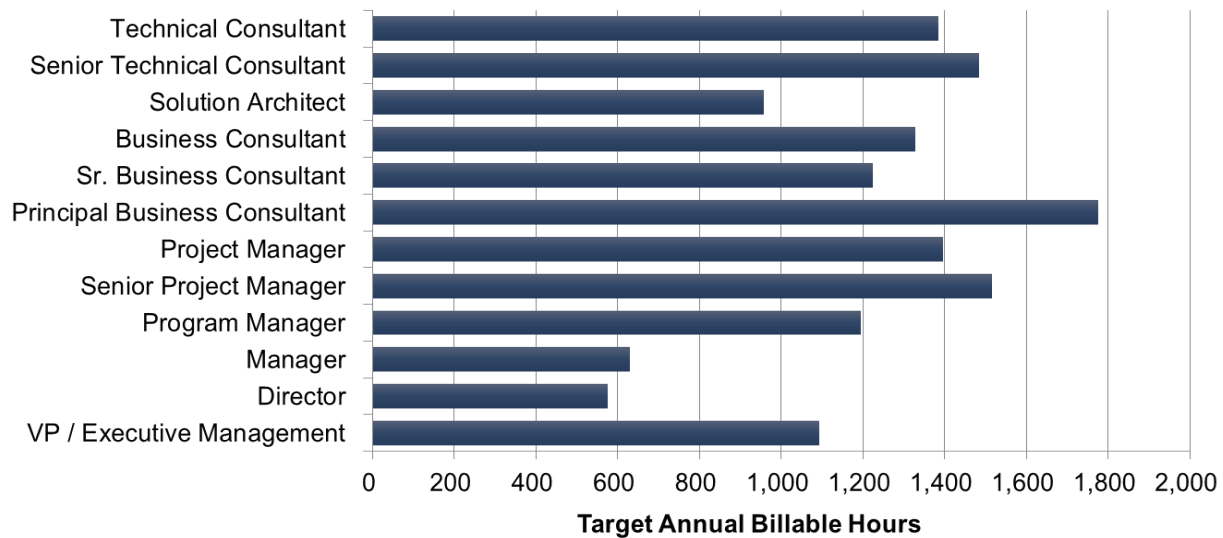
Source: Service Performance Insight, October 2015

SaaS PSOs are heavily discounting almost all roles with an average discount of 13%. They are still profitable because they have been able to establish higher list rates than their software counterparts but should pay attention to their high level of discounting.

Figure 45: PS with SaaS Company Levels – Published vs. Realized Rates
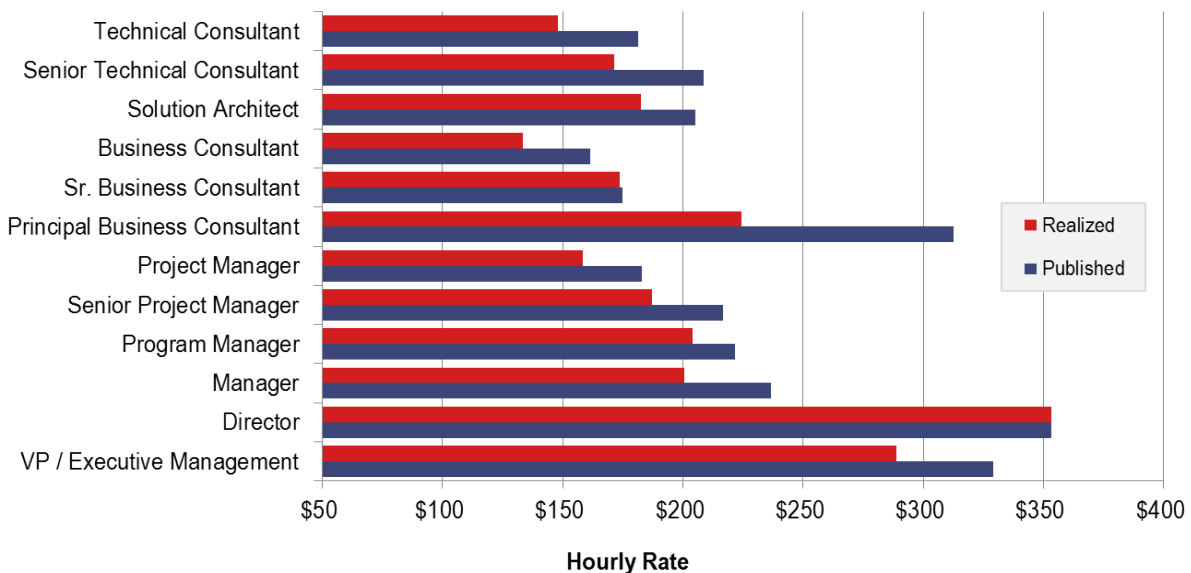
Source: Service Performance Insight, October 2015

Table 35: PS within SaaS Company Published Hourly Bill Rates – Standard Deviation

Role	Level	Min.	– 1 Std. Dev.	Average	+ 1 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$195	$271	$329	$387	$400
	Director	300	330	353	376	380
	Manager	174	217	237	256	275
Project Management	Program Manager	165	197	222	246	250
	Senior Project Manager	160	198	217	235	267
	Project Manager	105	155	183	211	260
Business Consulting	Principal Business Consultant	105	255	313	370	392
	Sr. Business Consultant	150	157	175	193	200
	Business Consultant	84	131	161	191	250
Technical Consulting	Solution Architect	49	166	205	244	300
	Senior Technical Consultant	49	179	209	239	250
	Technical Consultant	49	148	181	215	250

Source: Service Performance Insight, October 2015

SaaS PSOs are making a profit margin on their project management and business consulting roles. Their low levels of billable utilization and steep discounting have compromised the profitability of their technical consulting roles.

Figure 46: PS with SaaS Company Role vs. Revenue Distribution
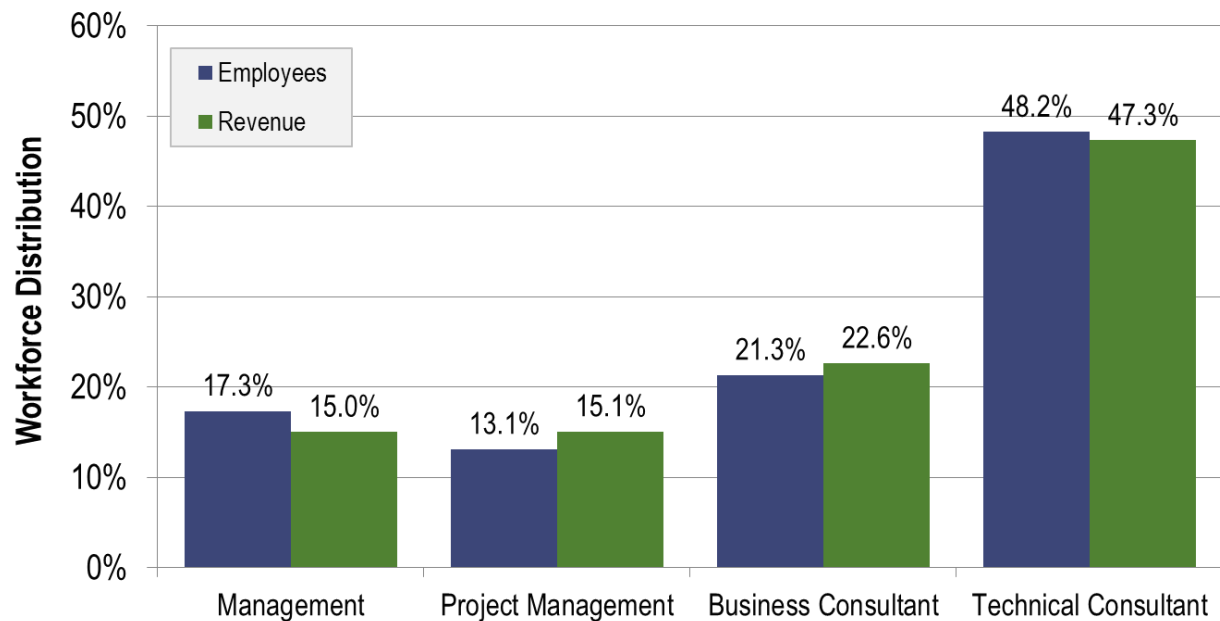
Source: Service Performance Insight, October 2015

8. Global Bill Rate Analysis by Geographic Region

Based on the 2015 PS Maturity™ benchmark, conducted in the fourth quarter of 2014, Table 36 shows consultants in Asia work more hours than either their American or European counterparts. EMEA PS firms work the least due to more vacation and training time. In 2014 EMEA firms invested the most in education and training followed by APac. Workaholic Americans spend the least amount of time on vacations and training but the most on non-billable project hours. Americans reported an increase in non-billable administrative time which is a bad sign. Excessive administrative time usually results from not having enough billable work combined with poor systems and processes. By region, APac firms reported the sharpest increase in both billable time and total work hours. *In fact, the average consultant in APac worked 130 more hours than their European counterparts!*

Table 36: Annual Hour Comparison by Region

Annual Hours	Americas			EMEA			APac		
	2013	2014	Change	2013	2014	Change	2013	2014	Change
Vacation/personal/holiday	161	160	-0.7%	217	222	2.2%	155	196	26.2%
Education/training	64	67	4.4%	78	86	10.5%	85	76	-11.1%
Administrative	161	173	7.3%	216	210	-2.7%	236	170	-28.1%
Non-billable project hours	220	242	10.1%	279	201	-27.9%	181	237	30.5%
Total Billable Hours	1,488	1,457	-2.1%	1,209	1,327	9.7%	1,364	1,458	6.9%
▪ Billable hours on-site	836	801	-4.1%	660	821	24.3%	880	869	-1.3%
▪ Billable hours off-site	652	655	0.6%	548	506	-7.8%	483	589	21.8%
Total Hours	**2,094**	**2,099**	**0.2%**	**1,999**	**2,046**	**2.4%**	**2,021**	**2,136**	**5.6%**

Source: 2015 PS Maturity™ Benchmark, February 2015

Geographic Comparison

An interesting comparison emerges when SPI compares aggregate pricing information by geography. For this analysis we combined all the PS Pricing survey data across all PS industry segments and job titles to depict an overview of pricing and discounting strategy by geography. The geographic picture that emerges is fascinating (Table 37):

∆ Australia and New Zealand with their relatively high cost of living, now charge the highest rates of $186 per hour. However their rates have dropped from $210 per hour in 2011.

∆ Central Asia (India and Pakistan) still command the lowest average bill rate of $114 per hour but this is up from $90 per hour in the 2011 study and has risen dramatically from an average rate of $25 per hour a few years ago.

∆ Western Europe, which has typically commanded the highest overall average bill rates (based on the strength of the Euro and Pound) has seen average rates drop from $211 in 2011 to $183 in 2015. In 2011 the Euro to dollar exchange rate was approximately 1.4; it is approximately 1.1 in

2015, a 27% decline. During this same time period, average bill rates have declined 15%, so in constant currency, EMEA rates have actually risen over this time period.

Δ   Across all job titles and vertical segments, all geographies are now targeting over 1,400 billable hours for their workforces (70%). This is up significantly from the 2011 PS Pricing survey.

Δ   Across all job roles, Indian consultancies are expected to bill the most hours (1,480), while Australia and New Zealand consultancies bill the least (1,232).

Table 37: Global Geography Rate Comparison across all PS segments

Geography	% billable work on site	2011 Target Billable Hours	2015 Target Billable Hours	2015 Published Hourly Bill rate	2011 Realized Bill Rate	2015 Realized Bill rate	Discount
North America	43.3%	1,260	1,386	$207	$182	$181	12.6%
Western Europe	39.3%	1,208	1,307	216	211	183	15.3%
Eastern Europe	31.8%	1,235	1,417	185	144	159	14.1%
Australia/New Zealand	39.8%	1,304	**1,232**	206	210	**186**	9.7%
South/Central America	35.5%	905	1,448	183	107	156	14.8%
E. Asia (China, Japan)	49.6%	1,272	1,338	155	176	133	14.2%
S. Central Asia (India, Pakistan)	37.3%	1,345	**1,480**	127	90	**114**	10.2%
Middle East	31.5%	1,266	1,412	171	139	134	**21.6%**

Source: Service Performance Insight, October 2015

For the past five years, SPI Research has closely followed the trend toward more off-site delivery of consulting services. We feel this is one of the most positive, if not **the** most positive trend to affect the professional service industry. Growing client and service provider acceptance of virtual project teams offers a host of cost, productivity and life-style benefits.

Δ   The cost benefits include: lower travel expense; reduced facility costs; lower commuting costs and improved management span of control.

Δ   The productivity benefits include: the ability to use the best-available (and lowest cost) resources regardless of location; ability to multi-task; higher productivity due to fewer on-site interruptions; improved on-time, on-budget performance through enhanced project management and scope control; ability to work 24x7 by taking advantage of a global workforce; ability to offer just-in-time training and mentoring.

Δ   The lifestyle benefits include: reduced non-billable travel time and cost; ability to work from home or remote locations; reduced consultant burn-out from excessive travel; ability to work on projects of interest because location is irrelevant and the ability to access knowledge and collaborate is enhanced if tools are in place to support a virtual workforce.

Table 38 shows the Middle East and Eastern Europe are taking the greatest advantage of remote service delivery while China and Japan still favor on-site service delivery as does North America.

It is important to note that the amount of on-site hours declined significantly from the 2011 PS Pricing study in all geographies except China and Japan. As the technology world continues to move to a virtual business model expect the trend to more and more off-site consulting delivery to continue. This will continue to be the primary catalyst for improved productivity in the PS industry.

Table 39 shows a comparison of target billable hours by role for the major geographies represented in this PS Pricing study. India clearly expects the most from its consultants with annual target hours of 92% for its program managers; 82.5% for its senior business consultants and 86% for its technical consultants. EMEA targets the fewest billable hours.

Table 38: Percentage of On-site Billable Hours by Geography

Region	2011	2015
North America	48.7%	**43.3%**
Western Europe	50.1%	39.3%
Eastern Europe	44.5%	31.8%
Australia/New Zealand	56.6%	39.8%
South/Central America	55.8%	35.5%
E. Asia (China, Japan)	41.5%	49.6%
S. Central Asia (India, Pakistan)	40.6%	37.3%
Middle East	40.3%	31.5%

Source: Service Performance Insight, October 2015

Table 39: Target Billable Hours by Geography

Role	Level	Target Billable Hours				Target Billable Utilization			
		NA	West. Europe	ANZ	India	NA	West. Europe	ANZ	India
Mgmt.	VP / Executive Mgmt.	658	407	460	758	32.9%	20.3%	23.0%	37.9%
	Director	827	636	679	975	41.4%	31.8%	34.0%	48.8%
	Manager	979	883	700	672	49.0%	44.2%	35.0%	33.6%
Project Mgmt.	Program Manager	1,403	1,439	1,099	1,841	70.2%	72.0%	55.0%	92.1%
	Senior Project Manager	1,500	1,379	1,384	1,700	75.0%	69.0%	69.2%	85.0%
	Project Manager	1,525	1,469	1,466	1,688	76.3%	73.5%	73.3%	84.4%
Business Consulting	Principal Business Consult.	1,476	1,225	1,317	1,424	73.8%	61.3%	65.9%	71.2%
	Sr. Business Consultant	1,515	1,456	1,487	1,650	75.7%	72.8%	74.3%	82.5%
	Business Consultant	1,548	1,475	1,221	1,516	77.4%	73.7%	61.1%	75.8%
Technical Consulting	Solution Architect	1,421	1,351	1,127	1,680	71.0%	67.5%	56.3%	84.0%
	Senior Technical Consult.	1,586	1,480	1,530	1,775	79.3%	74.0%	76.5%	88.8%
	Technical Consultant	1,605	1,431	1,499	1,713	80.2%	71.6%	75.0%	85.6%

Source: Service Performance Insight, October 2015

North America

The interesting news is that domestic rates in the U.S. have remained relatively constant since 2000 because of increased global labor arbitrage and pressure from low-cost offshore providers. Another factor influencing the billable labor rate is enhanced product quality and ease of use, enabling technology professional service providers to use lower-skilled and less expensive resources (Table 40).

Table 40: North American Bill Rate Summary

Role	Level	No. of People in the role	% billable work on site	2011 Target Hours	2015 Target Hours	2015 Published Hourly Bill rate	2011 Realized Bill Rate	2015 Realized Bill rate	Disc.
Management	VP / Executive Management	3.0	17.7%	786	658	$290	$239	$251	13.6%
	Director	4.9	23.7%	839	827	248	210	217	12.5%
	Manager	9.4	26.1%	800	979	217	179	188	13.5%
Project Management	Program Manager	5.5	49.9%	1,182	1,403	206	175	177	14.2%
	Senior Project Manager	4.8	51.4%	1,298	1,500	208	171	181	12.7%
	Project Manager	7.9	44.5%	1,286	1,525	193	161	166	14.2%
Business Consulting	Principal Business Consult.	5.9	59.1%	1,124	1,476	220	204	196	10.7%
	Sr. Business Consultant	14.2	49.9%	1,364	1,515	194	198	173	10.6%
	Business Consultant	15.7	52.3%	1,358	1,548	174	160	151	13.2%
Technical Consulting	Solution Architect	9.3	46.5%	1,303	1,421	216	195	188	13.0%
	Senior Technical Consultant	14.2	54.5%	1,400	1,586	191	172	170	11.3%
	Technical Consultant	21.2	51.7%	1,467	1,605	$167	157	$144	13.3%

Source: Service Performance Insight, October 2015

Premium rates still exist ($250 to $1000 per hour) for highly skilled management consultants and technology gurus — particularly in the areas of strategy, business process design, business intelligence, big data analytics, security, service-oriented architecture and enterprise integration.

Flat bill rates have placed pressure on professional services organizations to increase utilization and reduce overhead and benefit costs to produce margin. Increasingly, organizations are investing in labor-enhancing technology and tools — remote services delivery, knowledge management, collaboration, mobile solutions, professional services automation and quality control and project management tools to wring the greatest productivity out of their work forces.

Many factors influence bill rates, but in general the companies experiencing the highest growth (particularly cloud service providers) also reported the highest rates. This correlation indicates that demand (and scarcity of qualified resources) significantly influence rates.

In North America, comparing the 2011 PS Pricing study to 2015, rates for senior managers and project managers have increased while rates for the work horses of the industry, business and technical consultants have declined. Survey respondents reported their greatest concern is finding well-qualified consultants, not landing more work. This scenario has allowed them to slightly adjust rates upward for the most in-demand resources as the need for their expertise starts to outstrip supply.

As has been shown throughout this study, billable utilization targets for all roles except management have increased substantially.

Despite a technical labor shortage, discounting is still prevalent across the consulting industry. Given the intangible nature of Professional Services, it is apparent that negotiating by price is rampant. This is probably a good thing, as the purchase and delivery of consulting services is a very intimate exchange. Both the provider and the purchaser must feel good about the contract price and the value of the engagement, so a little bit of price negotiation is probably not unwarranted.

**Figure 47: North American Workforce Distribution by Employee Level**
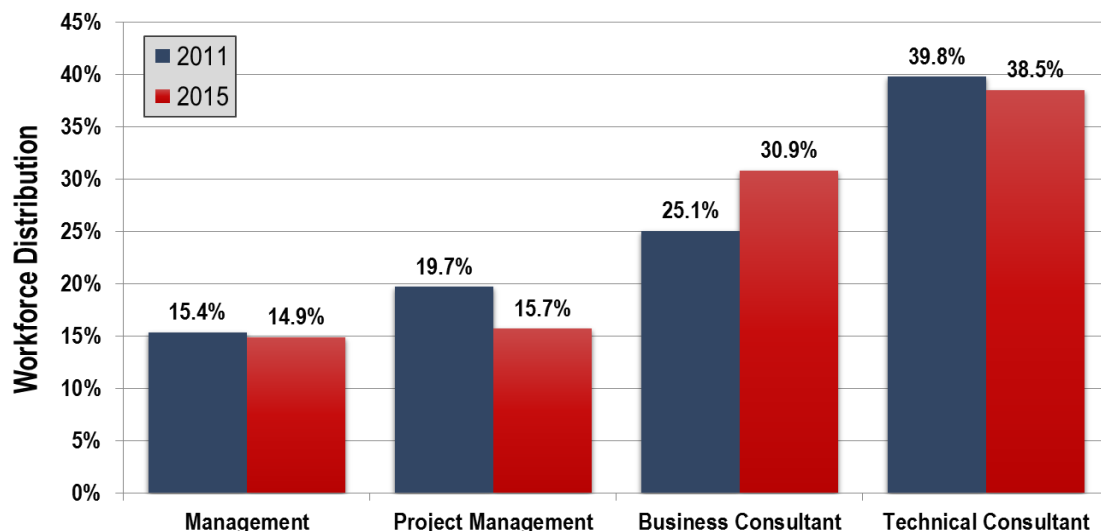
Source: Service Performance Insight, October 2015

Figure 47 shows 38.5% of the North American PS workforce is comprised of technical consulting roles. This is down slightly from 39.8% in 2011. Business consulting roles have increased from 25.1% to 30.9% of the workforce as clients demand more business process and industry knowledge. The shift towards more business consultants is being driven by the requirement for industry and change management

knowledge combined with more configurable, easier-to-use products which require less customization and technical development. Pure project management roles have decreased from 19.7% to 15.7% of the workforce as projects have become smaller, faster and more iterative. Business consultants now perform project management tasks in addition to business and industry process design. Management roles have remained constant at approximately 15% of the workforce. In North America, the majority of billable employees in each job category are at the most junior level.

Figure 48: North American Workforce Distribution by Employee Level
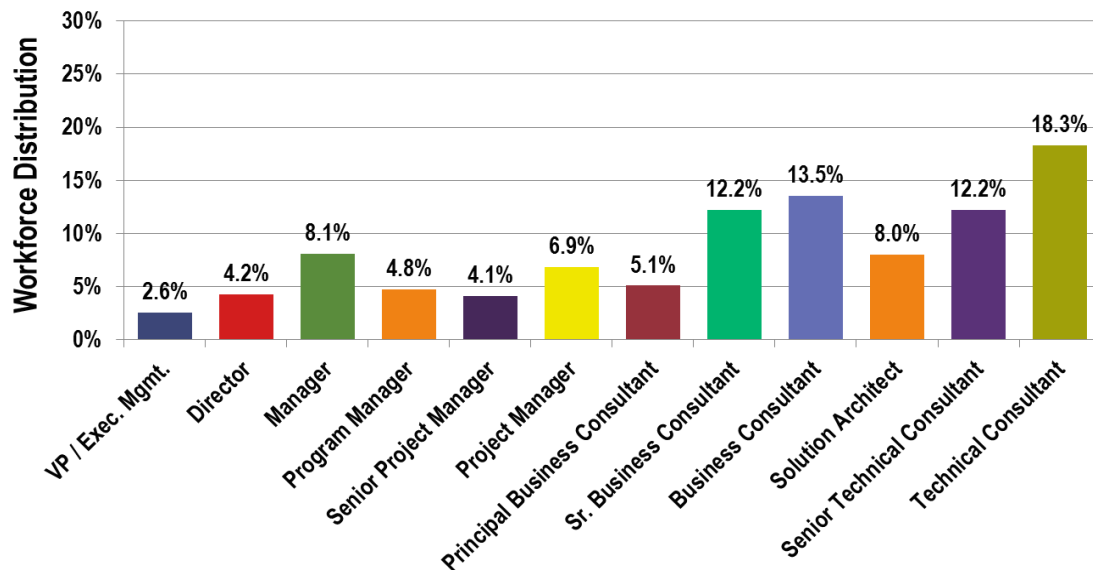
Source: Service Performance Insight, October 2015

**Figure 49: North American Target Annual Hours by Employee Level**
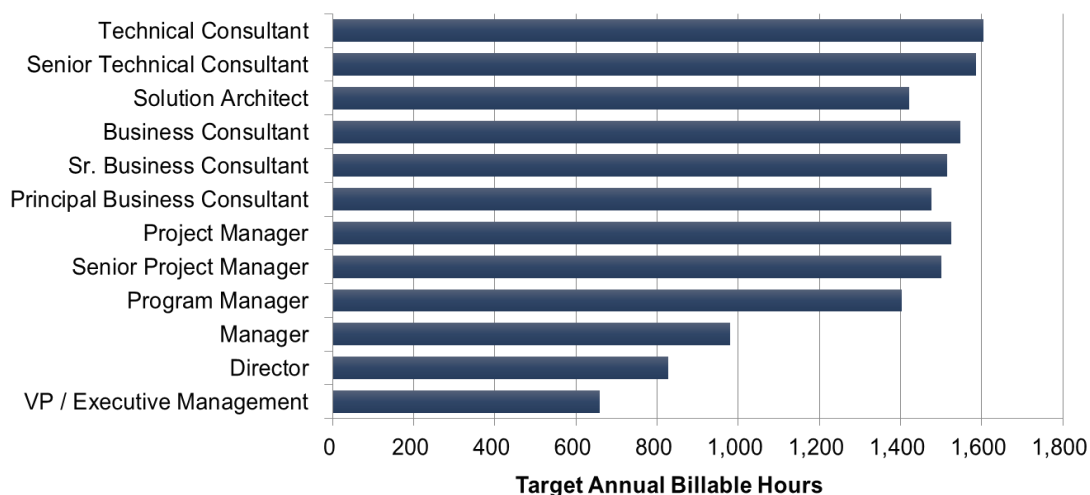
Source: Service Performance Insight, October 2015

North American target billable hours are shown in Figure 49. Across the management job category, the billability target is 41%. The project management job category is expected to bill 70 to 75%; business consultants are expected to bill 75%+; technical consultants are expected to bill 75 to 80%.

North American published versus realized rates reflect significant discounting, averaging 13% across all job categories with the highest levels of discounting occurring at the most senior positions in each job category where discounts averaging 15% are prevalent.

Figure 50: North American Levels – Published vs. Realized Rates
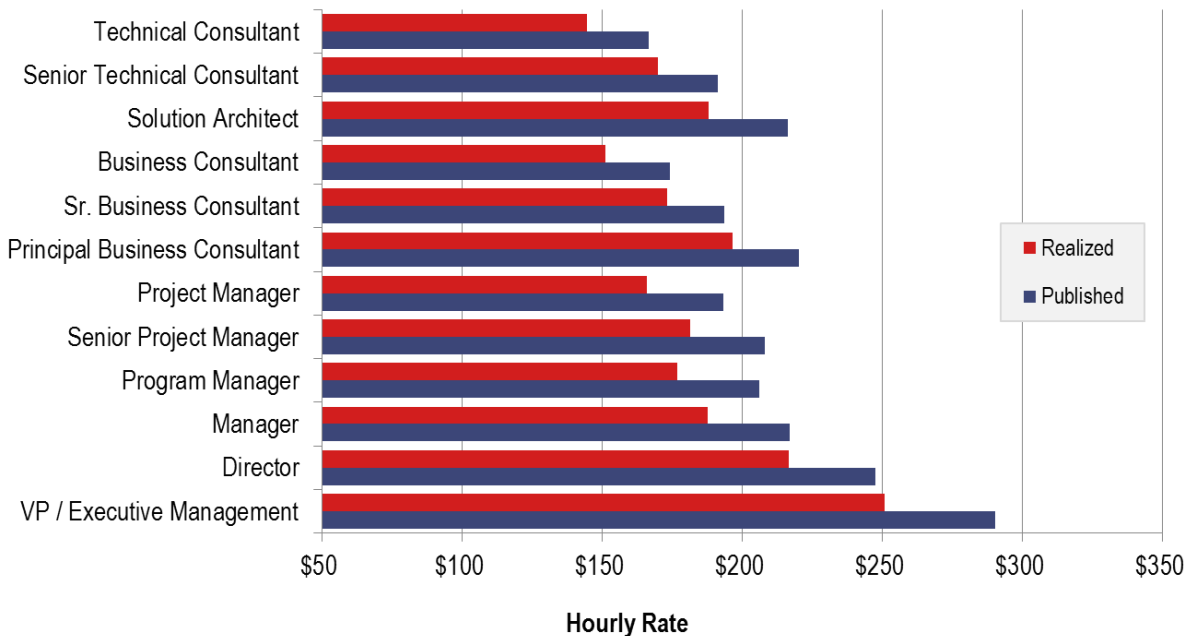
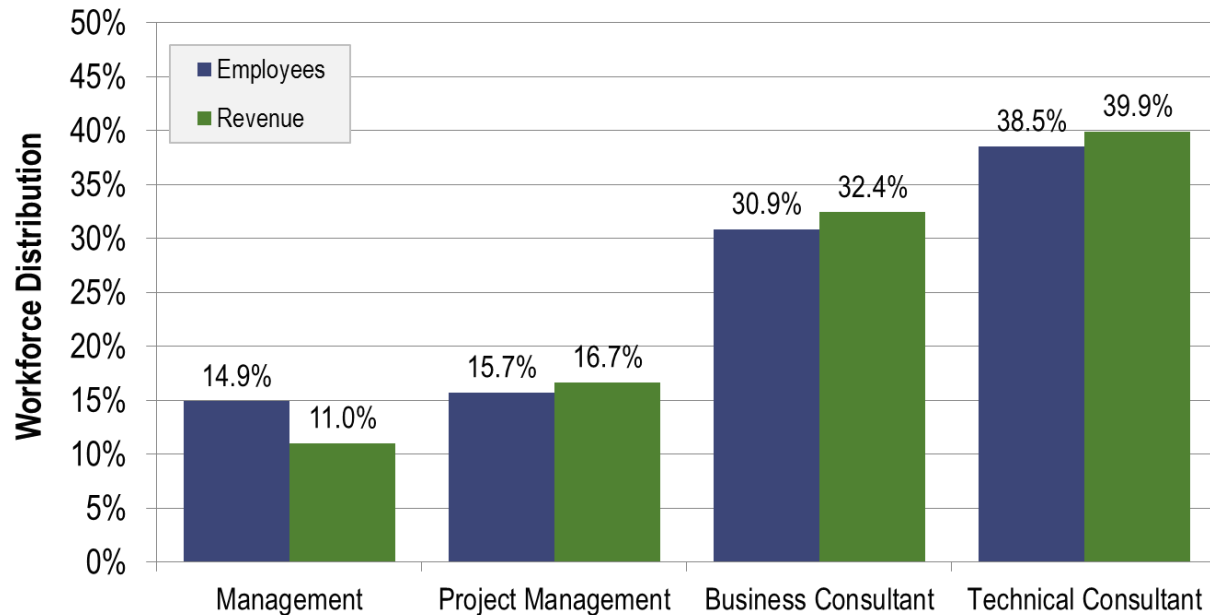*Source: Service Performance Insight, October 2015*

Table 41: North America Published Hourly Bill Rates – Standard Deviation

Role	Level	Min.	– 1 Std. Dev.	Average	+ 1 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$125	$231	$290	$350	$750
	Director	125	206	248	289	450
	Manager	100	189	217	245	380
Project Management	Program Manager	100	177	206	235	350
	Senior Project Manager	100	180	208	236	380
	Project Manager	90	167	193	219	380
Business Consulting	Principal Business Consultant	116	179	220	261	600
	Sr. Business Consultant	110	169	194	219	350
	Business Consultant	90	150	174	198	274
Technical Consulting	Solution Architect	115	184	216	248	500
	Senior Technical Consultant	70	165	191	218	320
	Technical Consultant	54	141	167	192	285

Source: Service Performance Insight, October 2015

Figure 51 shows all job categories except management produce more revenue than their costs. Business consultants are the most productive job category in North America, closely followed by technical consultants.

Figure 51: North American Role vs. Revenue Distribution

Source: Service Performance Insight, October 2015

Western Europe

Western Europe is still recovering from a prolonged recession, sovereign debt crisis and the possibility of the breakup of the European Union… or at least the Euro. Western European rates reflect heightened competition and a significant decline in the Euro and Pound compared to the US dollar over the last four years. The Euro to dollar exchange rate has declined 27% over this time period, while the British pound has fared much better, only losing 6% of its value in comparison to the US dollar. Regardless, based on US dollars, Table 42 shows a significant decline in Western European consulting rates for all positions except Program managers. This decline in rates has been somewhat offset by increased utilization targets however Western European consultants are expected to bill far fewer hours than their North American counterparts, putting European consultants at a distinct cost and billability disadvantage. Many North American-based PSOs are developing centers of excellence in Eastern European countries to avoid the arcane work rules, high cost of living and generous time-off policies which make Western European consultancies unaffordable.

Table 42: Western Europe Bill Rate Summary

Role	Level	No. of People in the role	% billable work on site	2011 Target Billable Hours	2015 Target Billable Hours	2015 Published Hourly Bill rate	2011 Realized Rate	2015 Realized Rate	Disc.
Management	VP / Executive Management	1.8	10.7%	528	407	$265	$501	$216	18.7%
	Director	3.5	17.7%	952	636	$272	$391	$232	14.5%
	Manager	5.1	27.9%	956	883	$224	$261	$190	15.2%
Project Management	Program Manager	8.6	41.8%	1,116	1,439	$236	$181	$197	16.5%
	Senior Project Manager	3.7	42.7%	1,204	1,379	$229	$214	$192	16.1%
	Project Manager	5.3	41.0%	1,285	1,469	$205	$176	$174	14.9%
Business Consulting	Principal Business Consult.	10.1	46.8%	1,075	1,225	$218	$250	$185	15.4%
	Sr. Business Consultant	7.3	60.9%	1,250	1,456	$191	$206	$165	13.7%
	Business Consultant	13.2	55.0%	1,223	1,475	$187	$157	$155	17.0%
Technical Consulting	Solution Architect	10.8	40.1%	1,258	1,351	$209	$229	$183	12.4%
	Senior Technical Consultant	11.8	48.8%	1,295	1,480	$223	$198	$188	15.7%
	Technical Consultant	12.5	35.0%	1,333	1,431	$188	$174	$161	14.1%

Source: Service Performance Insight, October 2015

Table 43 offers an interesting comparison of utilization, rates and target revenue yield per role between North America and Western Europe. Target annual revenue yield is calculated by multiplying the realized bill rate by target billable hours. North America is by far the largest consulting market, followed by the UK and then by Germany. Based on generous time-off policies, vacations and bank holidays, Europeans pride themselves on working less than their North American counterparts. Unfortunately, in the labor-based business of Professional Services this means EMEA consultancies have traditionally been less profitable than those in North America or less-developed regions like India and Eastern Europe. The table 43 the target revenue yield for most Western European roles is substantially lower than their North American counterparts.   The disparity is most obvious for management and business consulting roles. To remain competitive in this global industry, EMEA consultancies must improve productivity.

Table 43: North America Rate, Utilization and Target Revenue Comparison to Western Europe

| Role	Level	North America			Western Europe			Target Revenue Yield Delta (mm)
		Target Annual Billable Hrs.	Realized Hourly Bill rate	Target Revenue Yield PP (mm)	Target Annual Billable Hrs.	Realized Hourly Bill rate	Target Revenue Yield PP (mm)	
Management	VP / Executive Management	658	$251	$165	407	$216	$88	($77)
	Director	827	217	$179	636	232	$148	($32)
	Manager	979	188	$184	883	190	$167	($16)
Project Management	Program Manager	1,403	177	$248	1,439	197	$283	$35
	Senior Project Manager	1,500	181	$272	1,379	192	$265	($8)
	Project Manager	1,525	166	$253	1,469	174	$256	$3
Business Consulting	Principal Business Consult.	1,476	196	$290	1,225	185	$227	($63)
	Sr. Business Consultant	1,515	173	$262	1,456	165	$240	($22)
	Business Consultant	1,548	151	$234	1,475	155	$229	($5)
Technical Consulting	Solution Architect	1,421	188	$267	1,351	183	$247	($20)
	Senior Technical Consultant	1,586	170	$269	1,480	188	$278	$9
	Technical Consultant	1,605	144	$232	1,431	161	$230	($1)

Source: Service Performance Insight, October 2015

Figure 52 shows the Western European PS workforce is comprised of technical consultants (37.5%); business consultants (32.7%); project management roles (18.7%) and 11.1% in senior management roles. Interestingly, Western European role distribution is now almost identical to the composition of North American PSOs. Western European consultancies appear to have dramatically increased their business consulting ranks while diminishing their technical consulting roles. This may be a result of greater rate commoditization in technical consulting roles making Western European technical consultants an unaffordable luxury. It also is a reflection of the same workforce changes we have cited throughout this study as the demand for industry and business process expertise has accelerated as technology buying has shifted to line of business executives, away from IT.
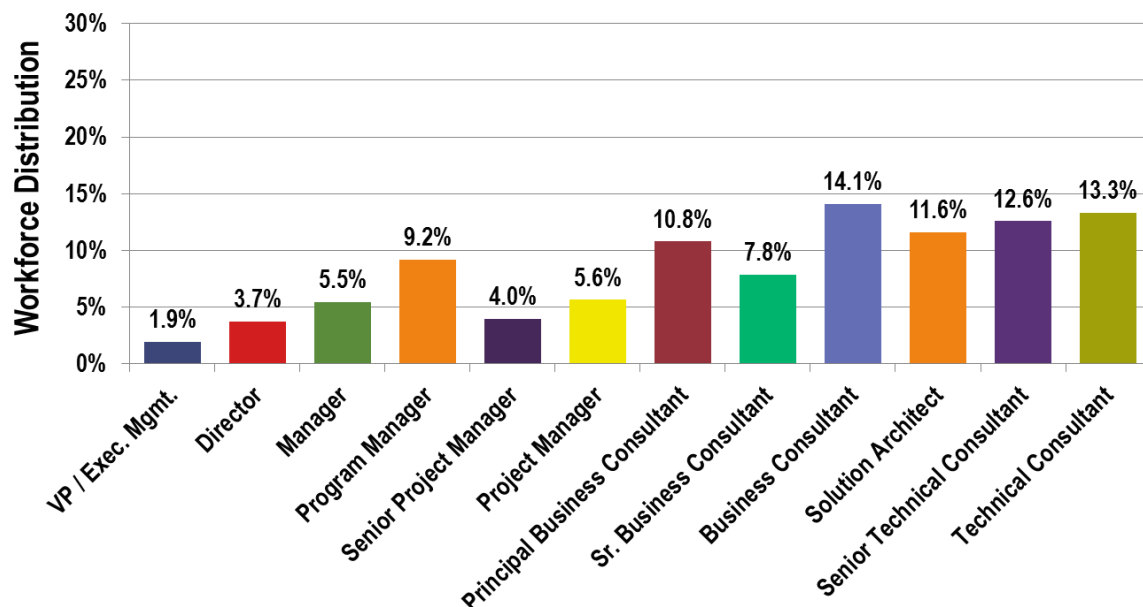
Figure 52: Western Europe Workforce Distribution by Employee Level
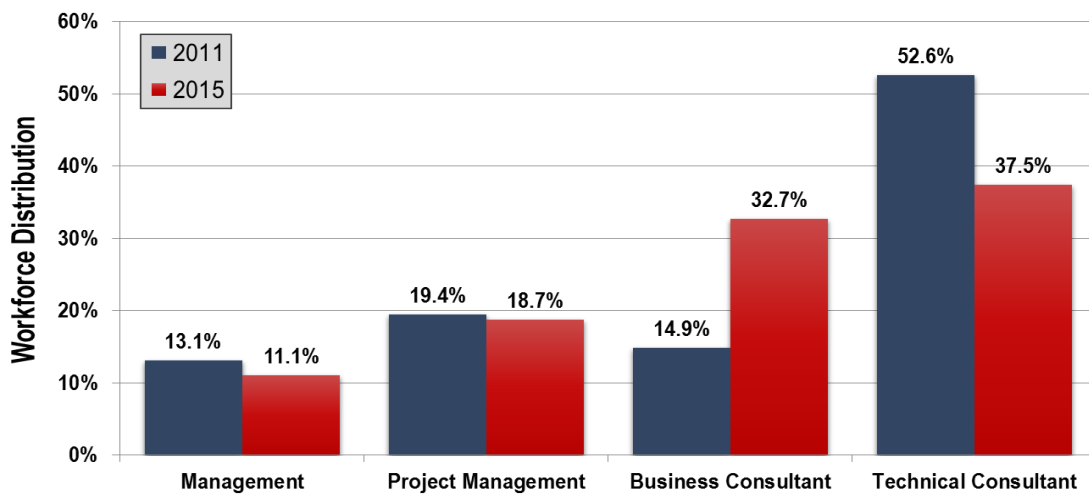
Source: Service Performance Insight, October 2015

By job category, Western European consultancies show more senior resources in each role than their North American counterparts, where juniors are most prevalent.

**Figure 53: Western Europe Workforce Distribution by Employee Level**

Source: Service Performance Insight, October 2015

Target utilization rates are shown in Figure 54. European management has a lower billability target of 32% compared to 41% for their North American counterparts; the project management job category is targeted at 71% compared to 74% for NA; the business consulting job category is targeted at 69% compared to 76% for NA; and the technical consulting job category is targeted at 71% compared to 77% for NA. Europeans may have to start sacrificing their luxurious life/work balance to become competitive or shift to higher end, more complex and quality-intensive services as the automotive industry has done.

Figure 54: Western Europe Target Annual Hours by Employee Level
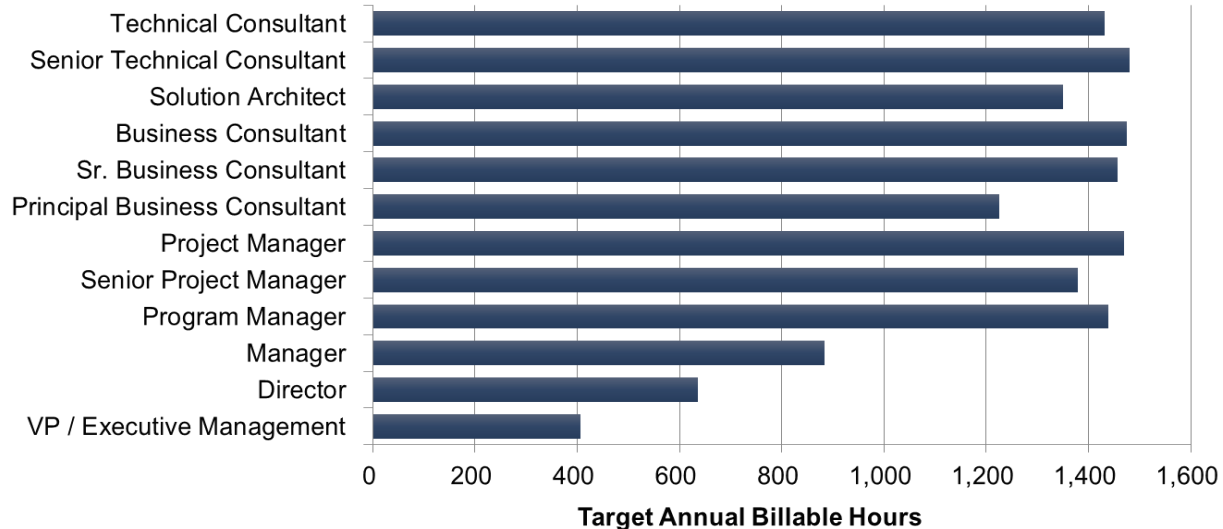
Source: Service Performance Insight, October 2015

Despite lower annual utilization targets and lower realized rates, EMEA consultancies reported a very high level of discounting, averaging 15 to 20%. UK-based firms relate the market is very competitive, with substantial consolidation. Larger EMEA consultancies are actively acquiring smaller firms. EMEA-based consultancies are generally not able to export their consulting services to other areas of the world because of their high cost of living (labor rate) and generous life/work balance (low target utilization). However, the quality and consistency of their work is extremely high.

Figure 55: Western Europe Levels – Published vs. Realized Rates
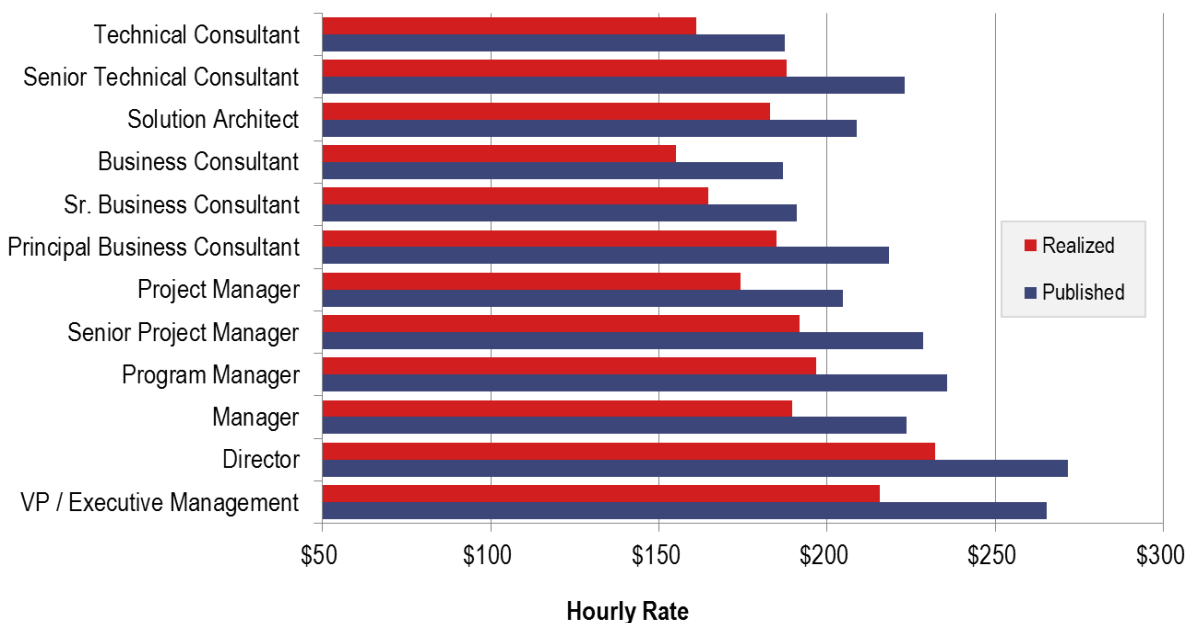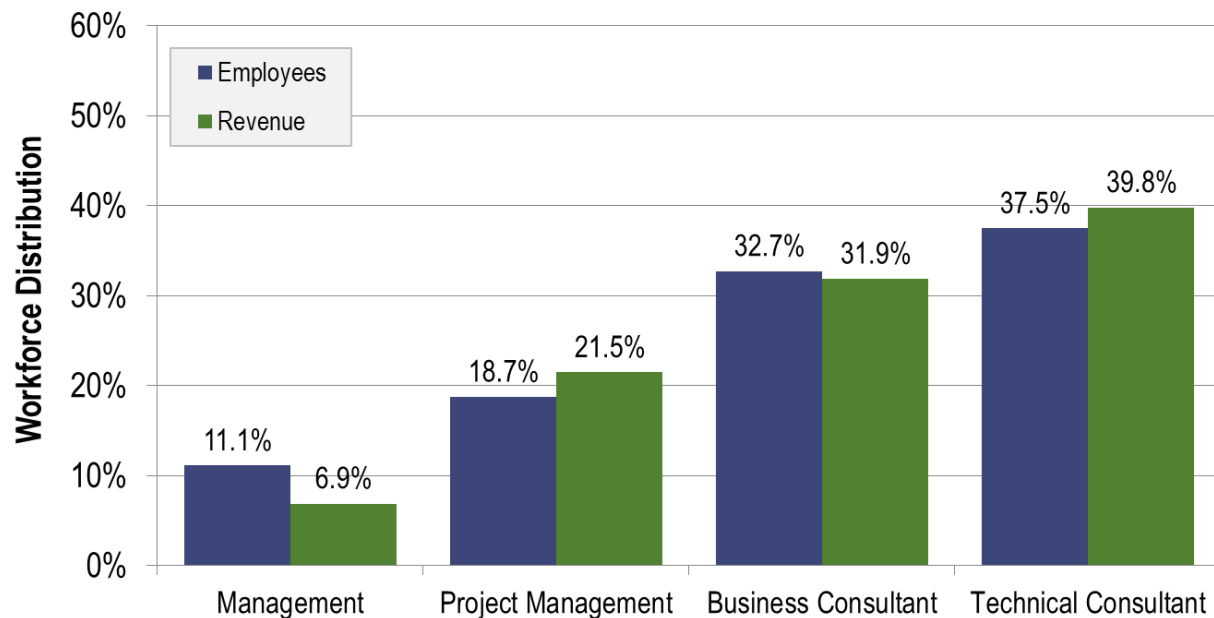

Source: Service Performance Insight, October 2015

Table 44: Western Europe Published Hourly Bill Rates – Standard Deviation

Role	Level	Min.	– 1 Std. Dev.	Average	+ 1 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$201	$239	$265	$292	313
	Director	150	215	272	329	580
	Manager	150	190	224	257	387
Project Management	Program Manager	132	193	236	278	348
	Senior Project Manager	156	210	229	247	293
	Project Manager	81	181	205	229	266
Business Consulting	Principal Business Consultant	161	185	218	251	392
	Sr. Business Consultant	118	164	191	218	310
	Business Consultant	50	152	187	222	359
Technical Consulting	Solution Architect	100	177	209	241	376
	Senior Technical Consultant	125	200	223	246	310
	Technical Consultant	80	164	188	211	256

Source: Service Performance Insight, October 2015

Western European technical consultants and project managers are more productive than business consultants. Senior managers are significantly less billable than their North American counterparts but there are fewer of them (11.1% in EMEA compared to 14.9% in NA). There is substantial room for improvement in terms of higher billable utilization for the business consulting category.

Figure 56: Western Europe Role vs. Revenue Distribution

Source: Service Performance Insight, October 2015

Australia / New Zealand

Service Performance Insight's following in Australia and New Zealand continues to grow with 12.1% of the participating organizations representing 1,406 consultants in this PS Pricing study. The survey shows that Australia and New Zealand have a strong and vibrant professional service industry with a strong rate structure and high levels of profitability. Despite the loss of almost 40% of the value of an Australian dollar compared to the US dollar over the past four years, ANZ commands the highest global average rates ($186) compared to their Western European counterparts ($183 per hour) and North American ($181). Also admirable is the relatively low level of discounting averaging 9%. Today only 39% of work in this region (compared to 56.6% in 2011) is performed on-site. Just as we have seen in other affluent regions, ANZ is experiencing a significant talent shortfall necessitating in-sourcing consultants from around the world to fulfill the demand (Table 45).

**Table 45: Australia / New Zealand Bill Rate Summary**

Role	Level	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Disc.
Management	VP / Executive Management	3.8	11.0%	460	$233	$225	3.6%
	Director	1.4	13.1%	679	236	225	4.4%
	Manager	6.5	23.5%	700	189	176	7.2%
Project Management	Program Manager	2.8	34.8%	1,099	203	191	6.1%
	Senior Project Manager	5.2	41.6%	1,384	199	$180	9.7%
	Project Manager	6.1	46.8%	1,466	196	175	10.5%
Business Consulting	Principal Business Consult.	5.0	32.5%	1,317	291	232	20.5%
	Sr. Business Consultant	11.1	52.8%	1,487	210	194	7.5%
	Business Consultant	27.0	41.7%	1,221	197	187	4.9%
Technical Consulting	Solution Architect	6.7	49.9%	1,127	212	187	11.7%
	Senior Technical Consultant	24.3	54.8%	1,530	209	181	13.6%
	Technical Consultant	33.8	55.1%	1,499	163	149	8.3%

Source: Service Performance Insight, October 2015

Figure 57 shows ANZ organizations are more top heavy (18.9%) than their Western European (11.1%) counterparts but ANZ senior managers are far more productive as they generate substantially more revenue. Interestingly, the ANZ technical consulting category is the least productive due to extremely low utilization targets, especially for Solution Architects. As we have seen throughout this study, ANZ organizations are shifting to a greater concentration of business consulting roles and a lower concentration of technical consulting roles. Close proximity to cheap technical labor in India and central Asia has compromised ANZ technical consulting rates.

Figure 57: Australia / New Zealand Workforce Distribution by Employee Level
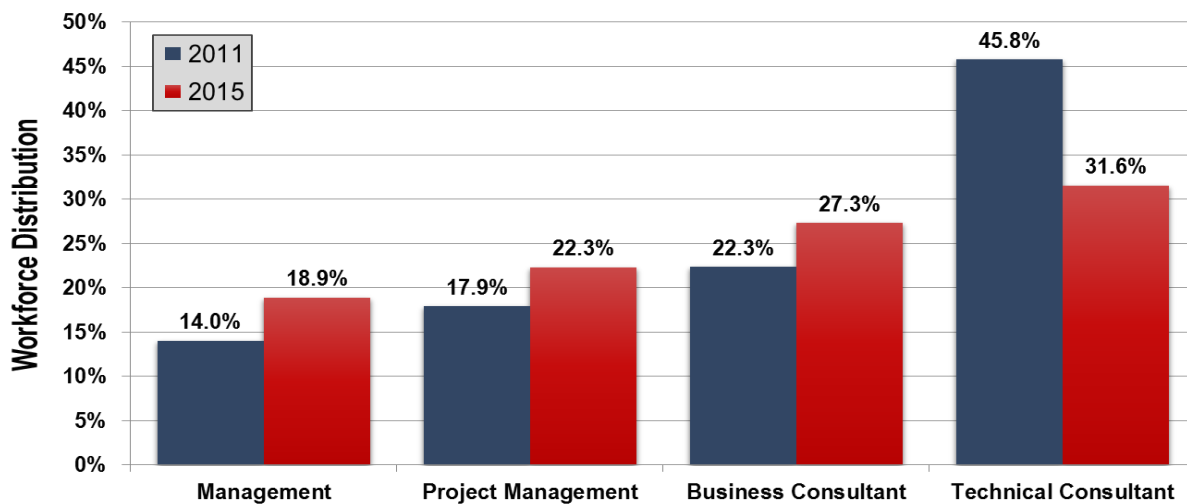
Source: Service Performance Insight, October 2015

With ANZ consulting market growth, a considerably higher percentage of business and technical consultants are in entry-level positions compared to the 2011 report. Figure 58 shows a very even distribution across seniority levels in each job category.

Figure 58: Australia / New Zealand Workforce Distribution by Employee Level
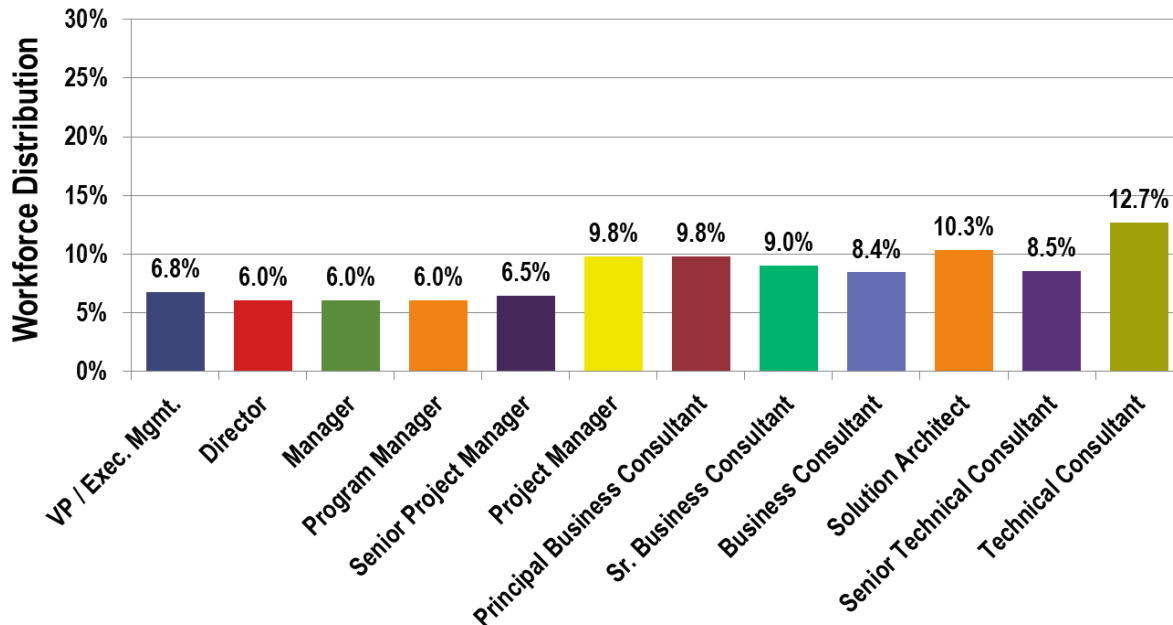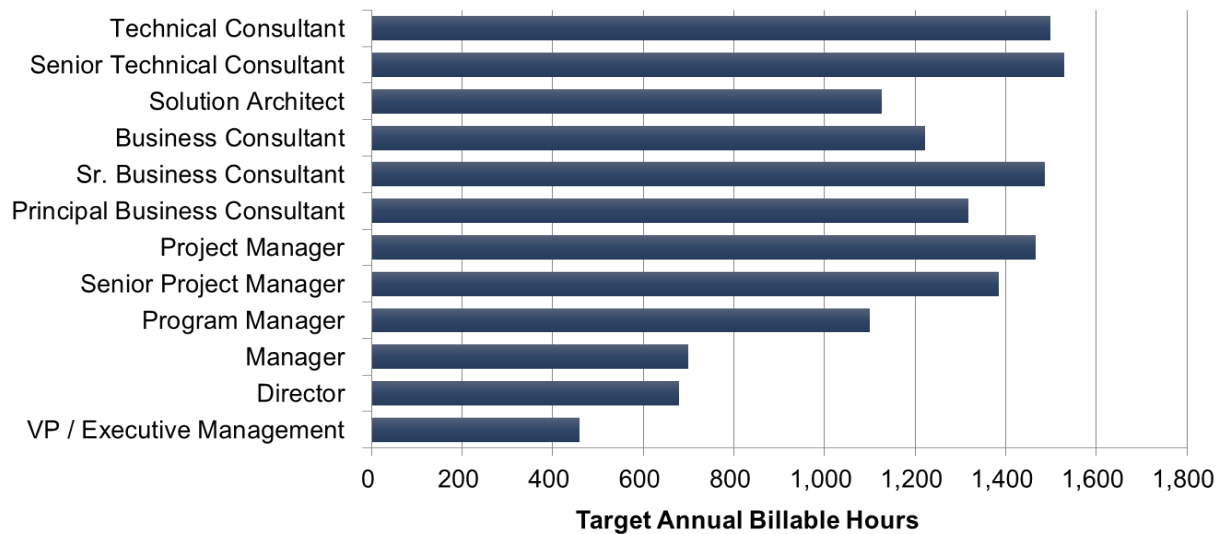

Source: Service Performance Insight, October 2015

Surprisingly, ANZ consultants bill less than either their EMEA or NA counterparts. ANZ management has a lower billability target of 31% compared to 41% for their North American counterparts; the project management job category is targeted at 66% compared to 74% for NA; the business consulting job category is targeted at 67% compared to 76% for NA; and the technical consulting job category is

targeted at 69% compared to 77% for NA. To be competitive on a global basis, ANZ PSOs will need to improve productivity.

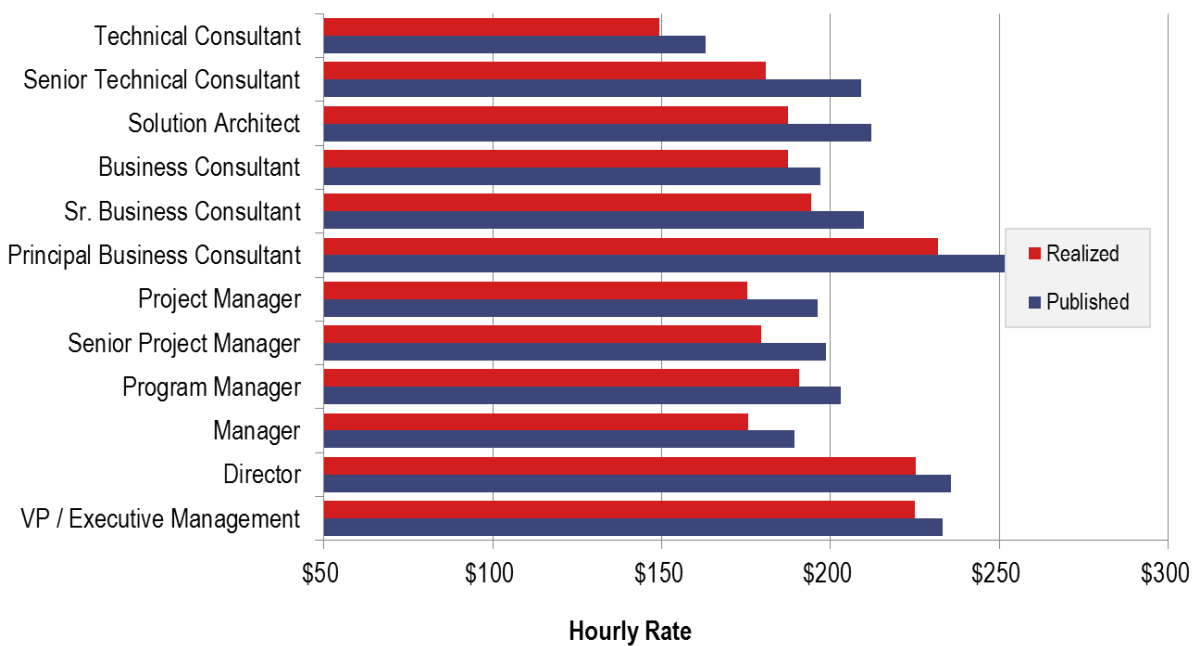**Figure 59: Australia / New Zealand Target Annual Hours by Employee Level**

Source: Service Performance Insight, October 2015

Australia and New Zealand are doing a good job of limiting discounting with average discounts of less than 9% across all consulting roles.

Figure 60: Australia / New Zealand Levels – Published vs. Realized Rates

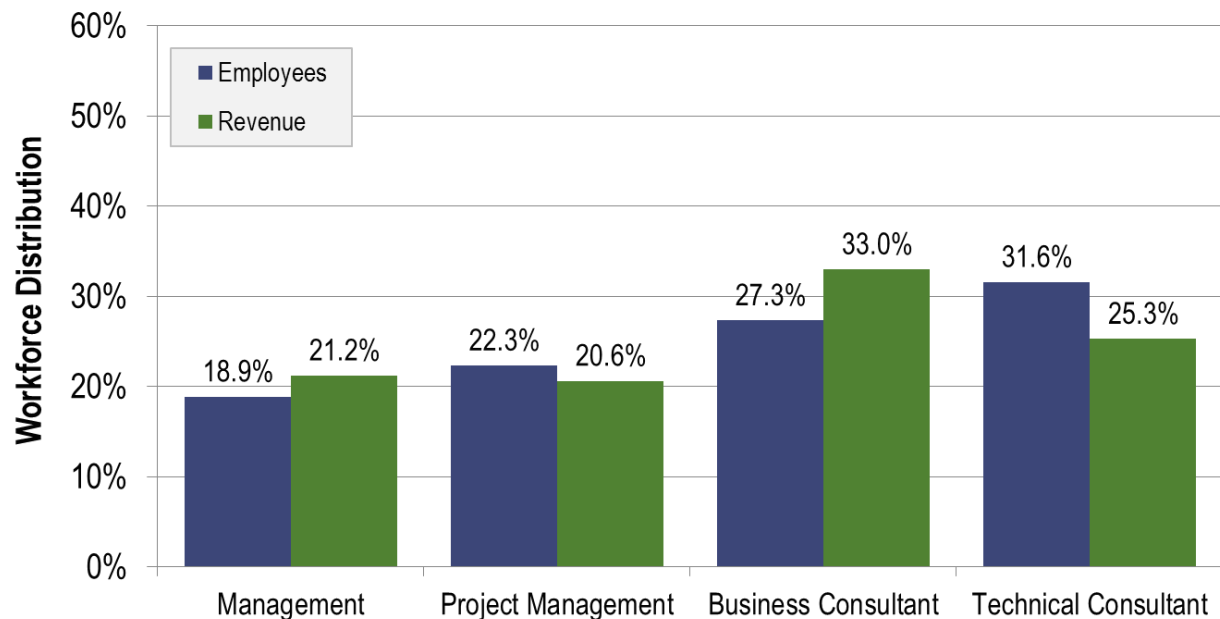*Source: Service Performance Insight, October 2015*

Table 46: Australia / New Zealand Published Hourly Bill Rates – Standard Deviation

Role	Level	Min.	– 1 Std. Dev.	Average	+ 1 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$225	$226	$233	$241	$250
	Director	124	191	236	280	380
	Manager	110	161	189	218	275
Project Management	Program Manager	149	185	203	222	250
	Senior Project Manager	130	178	199	220	250
	Project Manager	110	171	196	221	300
Business Consulting	Principal Business Consultant	225	258	291	325	392
	Sr. Business Consultant	175	194	210	226	260
	Business Consultant	150	179	197	215	250
Technical Consulting	Solution Architect	103	185	212	239	300
	Senior Technical Consultant	105	184	209	234	300
	Technical Consultant	66	140	163	186	225

Source: Service Performance Insight, October 2015

Figure 61 shows the majority of revenue and profit is produced by senior managers and business consultants. The project management and technical consulting job categories are not pulling their own weight, primarily due to very low billable utilization targets.

Figure 61: Australia / New Zealand Role vs. Revenue Distribution

Source: Service Performance Insight, October 2015

Asia

India has long held a leading position in technology services with revenues in excess of $150 billion ($68 billion in IT services; $26 billion in BPM; $18 billion in research and development; $14 billion in ecommerce: $14 billion in hardware and $6 billion in software services). India employs over 3.5 million technology service workers; 1.2 million are women. (Source: NASSCOM)

India continues to be the world's leading outsourcing destination. Mumbai, Bangalore and Chennai are synonymous with the rise of Application Development, Call Center and Business Process Outsourcing. Indian companies are now also starting to focus on engineering services. The economic recession led to significant growth in mergers and acquisitions within Indian tech firms. The leading Indian technology service goliaths (Tata, WIPRO, Infosys and Cognizant) boast global service revenues in excess of $20B.

Driven by the growth in IT investment and China's information sector, revenue for the Chinese IT Services industry has been growing at an annualized rate of 6.3% over the past five years. In 2014, China's IT service revenue is expected to total $111.7 billion, up 7.1% from 2013. (Source: IBIS)

Several regions including Singapore, the Philippines and Malaysia cite professional services as their fastest growing economic sector.

For purposes of this report, we have combined all Asian countries to represent a total Asian survey workforce of 837 consultants. This data sample is a very small fraction of the Asian PS workforce.

Table 47: Asia Bill Rate Summary

Role	Level	No. of People in the role	% billable work on site	Target Annual Billable Hrs.	Published Hourly Bill rate	Realized Hourly Bill rate	Disc.
Management	VP / Executive Management	3.1	9.6%	460	$231	$219	5.1%
	Director	1.6	14.0%	705	230	218	5.0%
	Manager	5.9	24.6%	776	176	163	7.4%
Project Management	Program Manager	2.7	37.8%	1,132	196	183	6.6%
	Senior Project Manager	5.1	37.9%	1,404	188	170	9.7%
	Project Manager	5.1	43.5%	1,458	187	166	11.2%
Business Consulting	Principal Business Consult.	3.7	32.5%	1,308	284	220	22.8%
	Sr. Business Consultant	9.6	42.2%	1,487	210	194	7.5%
	Business Consultant	19.5	39.7%	1,271	182	171	6.1%
Technical Consulting	Solution Architect	8.2	51.6%	1,161	211	185	12.3%
	Senior Technical Consultant	22.3	57.6%	1,555	211	183	13.4%
	Technical Consultant	29.6	53.8%	1,580	165	153	7.0%

Source: Service Performance Insight, October 2015

It should be noted that Indian consultants work more hours at lower rates than their counterparts in other Asian regions. Across the board, Asian consultancies offer higher discounts and disproportionately more of their workforce is in technical consulting job categories.

Figure 62 shows the Asian PS workforce is primarily comprised of technical consultants (51.7% compared to 37.5% in Europe and 38.5% in North America); business consultants (28.1%) make up a smaller proportion of the Asian workforce compared to N. America (30.9%) but this has been the fastest growing job category; while project management roles (11.1%) are constitute a lower proportion than their N. American (15.7%) and European counterparts (18.7%). Asian PSOs run with significantly leaner management organizations (9.2%) than N. America (14.9%).   A majority of employees are at the lowest level of seniority within each job category.

**Figure 62: Asia Workforce Distribution by Employee Level**
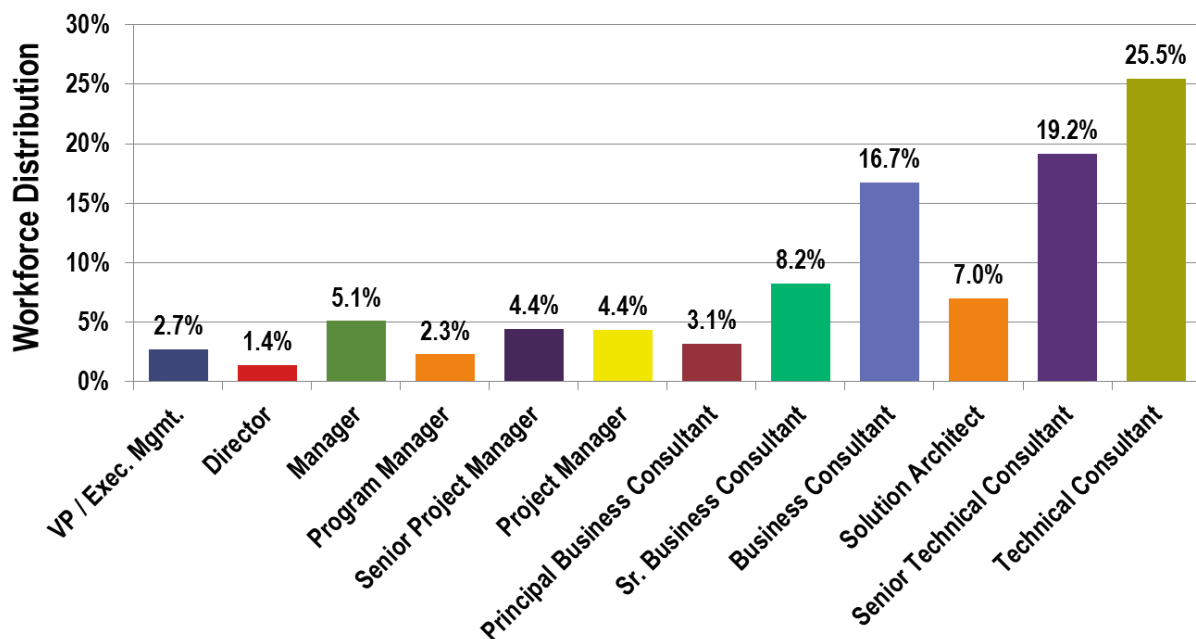
Source: Service Performance Insight, October 2015

Target utilization rates are shown in Figure 63. Management is targeted at 32%: project managers and business consultants at 68% and technical consultants at 72%. Asian workforces have the highest utilization targets in the study.

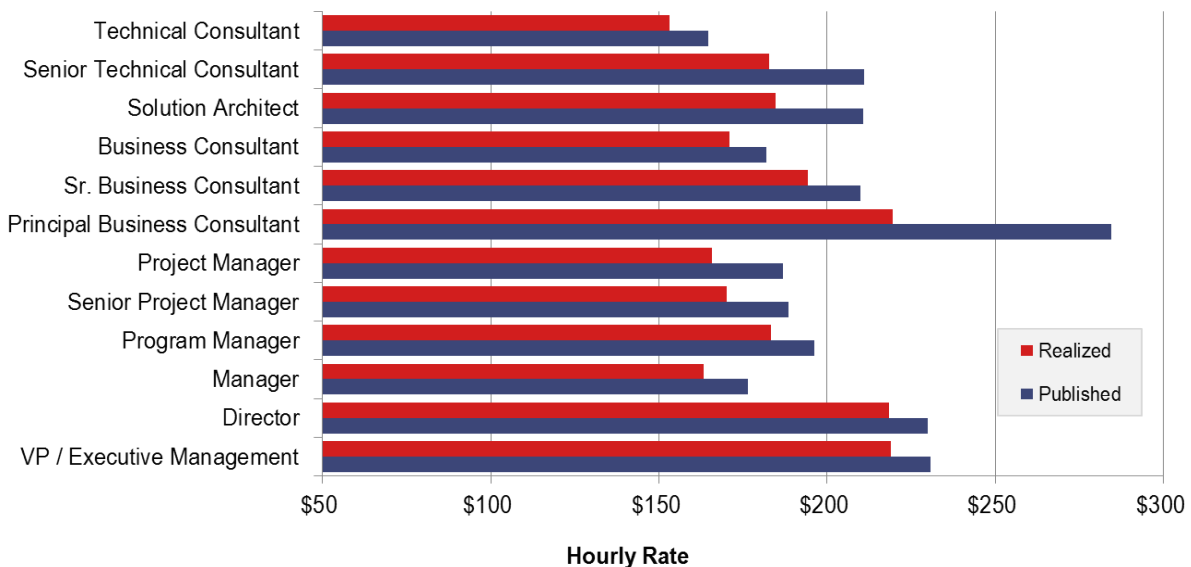**Figure 63: Asia Target Annual Hours by Employee Level**
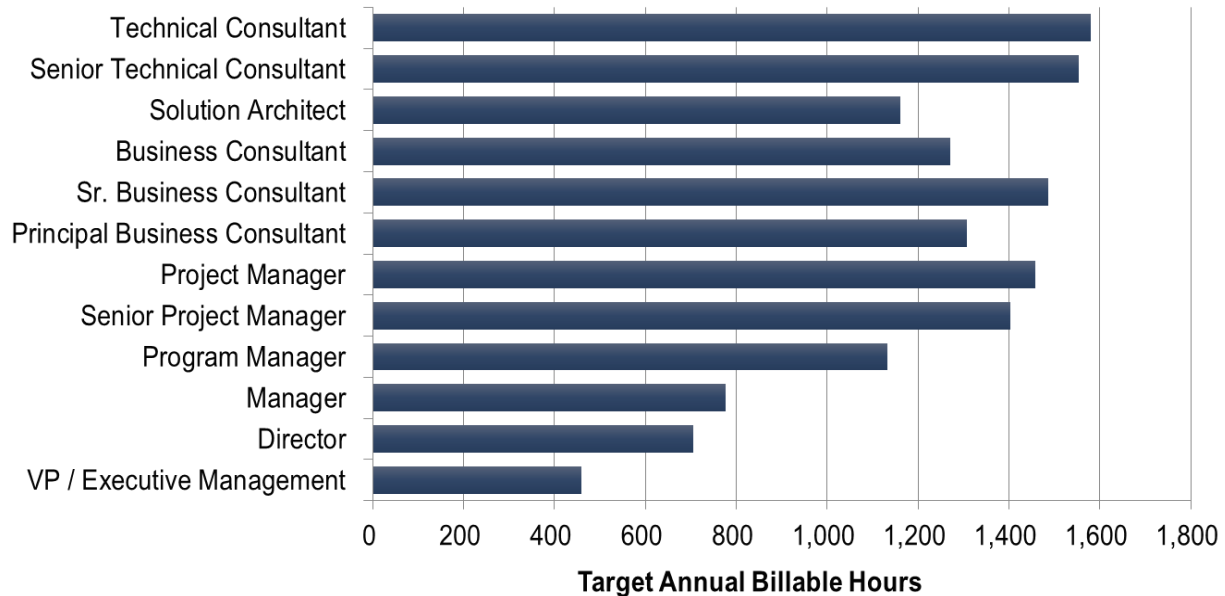
Source: Service Performance Insight, October 2015

Asia has curbed the discounting frenzy reported in the 2011 PS Pricing study. Average discounts across all job titles are now 9.5% compared to more than 20% reported in 2011.

Figure 64: Asia Levels – Published vs. Realized Rates

Source: Service Performance Insight, October 2015

**Table 48: Asia Published Hourly Bill Rates – Standard Deviation**

Role	Level	Min.	– 1 Std. Dev.	Average	+ 1 Std. Dev.	Max.
Management	VP / Executive Mgmt.	$223	$224	$231	$238	$250
	Director	124	185	230	274	380
	Manager	87	148	176	205	275
Project Management	Program Manager	149	178	196	215	250
	Senior Project Manager	130	167	188	210	250
	Project Manager	110	162	187	212	300
Business Consulting	Principal Business Consultant	120	251	284	318	392
	Sr. Business Consultant	130	194	210	226	260
	Business Consultant	84	164	182	200	250
Technical Consulting	Solution Architect	103	184	211	238	300
	Senior Technical Consultant	105	186	211	236	300
	Technical Consultant	66	141	165	188	225

Source: Service Performance Insight, October 2015

Figure 65 shows Asian PSOs derive the majority of their profit from technical and business consultants.

Figure 65: Asia Role vs. Revenue Distribution
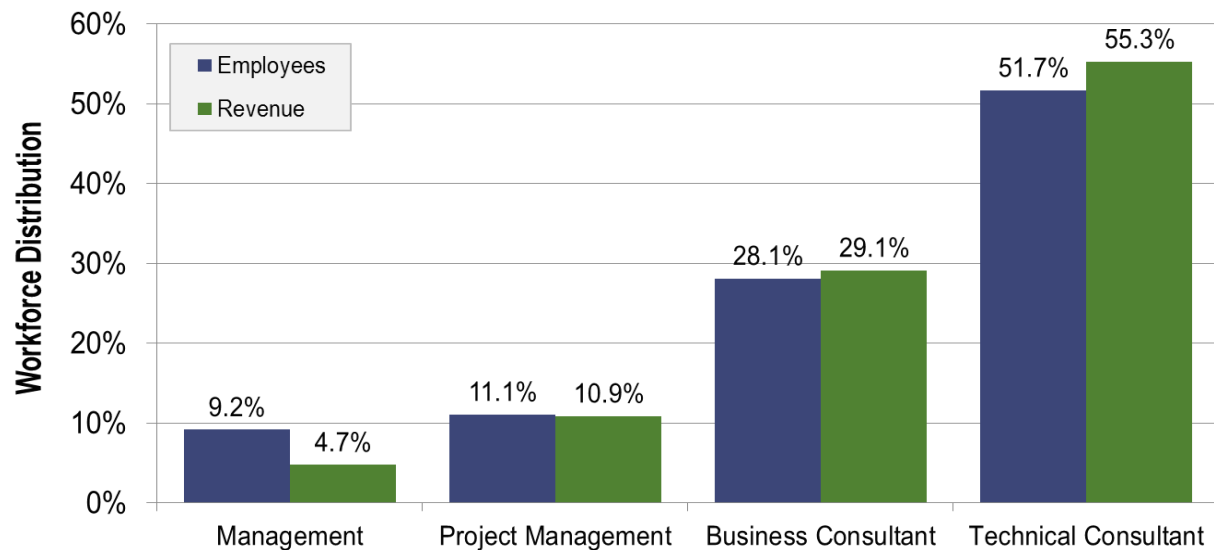
Source: Service Performance Insight, October 2015

9. Selling Value

SPI's research shows an increase in bill rates can have a dramatic positive impact on both profit and the employee work environment. Best-in-class professional services organizations tightly control pricing by carefully managing estimating, discounting and contract terms.

Leading services providers charge premium rates because they are recognized as specialists in their focused competency areas and have a demonstrated track record of producing excellent client results. The leading firms tend to pay more than average to ensure they hire only the best and brightest. They protect their rates by limiting discounting while providing employee incentives for achieving quality and profit targets.

Time after time, SPI Research has seen leading firms create a "circle of excellence," where their hiring practices contribute to building a quality workforce that consistently delivers successful client outcomes. This leads to an excellent reputation, which supports a premium rate structure and ongoing investments in employee development.

Unfortunately, the exact opposite "circle of commoditization" is seen in "me too" services providers that compete on price. Bottom-feeders treat both their clients and their workforce as commodities. Because they have a low rate structure, they cannot pay enough to attract or retain a premium workforce, which means they must continue to compete on price. Once a services provider becomes known as "the low-price leader," the only successful strategy is to run a lean and mean organization with no frills and limited investment in employees and skill building.

Services providers should carefully review their market positioning and pricing to ensure they have not become "staffing providers" when they intended to be "solution providers". The level of accountability for superior client outcomes directly influences pricing strategy.

Establishing a rate sheet

Competitive pressures in the technology professional services industry have created "mini-markets" for technology skills. The most prolific technologies — Microsoft, Oracle and SAP — have well-established bill rates for specific skill sets. Technology services providers who focus on these platforms understand the unwritten "market rate" for consultants, but huge variances in price ranges occur, depending on service provider reputation, specialization, industry knowledge and skill sets.

Bill rates in emerging technology areas are far less predictable, but a best practice for all services providers is to establish a rate sheet based on skill level with uplifts for risk, complexity, geography and contract terms. Rates should be based on analysis of market rates combined with consultant cost, competency and project business value.

In the technology professional services industry, the "rule of thumb" is to establish rates at a minimum of two times (2X) the fully loaded average cost of all the consultants in that job category. In many other

professional services specialties such as legal and accounting, the bill rate rule of thumb is four times (4X) the average base salary for all specialists in that job category.

For project managers, here's a simple example for establishing a published bill rate:

- Δ $100K average annual salary for all the project managers at a particular skill level.
- Δ Add $20K for 20% average uplift for benefits; selling, general and administrative costs, and overhead plus IT and facility cost allocations.
- Δ Add $10K for 10% average annual bonus.
- Δ $130K average loaded cost.
- Δ $260K required average revenue per project manager (2X loaded cost).
- Δ 1,400 billable hours per year (70 percent billable utilization).
- Δ $186 per hour required average bill rate.
- Δ $205 per hour published bill rate accommodates an average 10% discount.

Uplifts are typically applied to standard bill rates based on the risk, contract terms, specialized skills required and location of the project.

- Δ Fixed price contracts typically are based on a 15% uplift over time and materials pricing to accommodate greater risk and the cost of project management and governance to ensure milestones are met.
- Δ Off-site or virtual consulting prices may be less than on-site rates, particularly if lower cost near-shore or off-shore resources are used.
- Δ If business travel is included in the daily rate, it typically results in at least a 10% uplift.
- Δ The typical mark-up on subcontractors is at least 30% and may be as high as 50%.
- Δ In addition to billing for business travel, consultant travel time may be charged at 50% of standard rates. If consultants work on a client's project while travelling, normal hourly bill rates would apply.

The effect of bill rates on financial performance

Table 49 shows the impact on financial metrics as professional services organizations (PSOs) increase bill rates. The firms with higher bill rates can afford the luxury of more overhead and greater investments in employees, tools, sales and marketing than those that charge less.

The table shows PSOs achieve significantly higher professional services contribution margins as bill rates increase, as well as significantly higher annual revenue per employee. Firms that sell services at higher bill rates control discounting and produce greater levels of profitability. Obviously, firms that charge more should make more. But firms can only attain higher bill rates by continually providing high-quality services that offer significant client value.

Table 49: The effect of bill rates (Technical Consultants)

No.	Demographic	PSOs with bill rates below $150/hour	PSOs with bill rates above $200/hour
1	Annual PS revenue (millions)	$61.0	$44.1
2	Percentages of employees billable or chargeable	77.6%	74.8%
3	Average hourly bill rate (Technical consultant)	$116	$236
4	Contribution margin for fixed price projects	32.6%	42.4%
5	Average annual revenue per billable employee	$134	$191
6	Percentage of discounting	6.0%	13.6%

Source: Service Performance Insight, October 2015

10. Conclusions & Recommendations

This year's PS Pricing report shows competition is alive and well in the professional services marketplace. Although consultant wages and benefits, particularly the cost of healthcare, have gone up over the past four years, consulting bill rates have changed ever so slightly. Global competition and rate pressure from offshore providers probably have a lot to do with this stagnation, however economic conditions have also come into play. With low interest rates, inflation has been kept in check. Further, the traditional enterprise companies who are the primary Professional Services consumers are riding a new wave of in-sourcing to combat the security and cost concerns of out-sourcing.

At the same time there is growing technology consulting talent gap as there just aren't enough graduates or others with the prerequisite communication, organizational and analytic skills to do this work. To fill this gap, and to make up for flat to lower bill rates, consultants are now being tasked to work many more hours than in the past. Talent is and will continue to be a primary issue facing the professional services marketplace. As such, PS employees are being asked to work longer hours and increase billable utilization rates. Based on the past eight years of studying the marketplace in our annual Professional Services Maturity™ Benchmark, we find this to be true. However, we also see attrition rising, and the cost of finding talented workers now exceeds $150,000 per consultant if recruiting and ramping costs are factored in.

This year's study showed a significant shift in workforce demographics in favor of the business consulting job category. Business and industry consultants were almost unheard of across the world of technology services fifteen years ago. Now with the advent of cloud-computing and easy-to-use and intuitive user interfaces and beautiful, graphical, out-of-the-box management reporting the need to provide thousands of consulting hours for customization, integration, report writing and user training has gone away.

Cloud-computing has ushered in a whole new wave of faster, more iterative projects which include the business people who will be using the application from project conception. What this means is that project teams are led by business consultants who use automated tools to capture "as is" and "to be" business process workflows into accurate requirements documents. Technical consultants now handle configuration and integration with very limited customization with the aid of powerful development tools. Quality assurance is no longer performed by a big QA team before project go-live as agile methodologies ensure each phase of the project works as promised. The net result of dramatic technology improvements are solutions that really work and provide business value for business people in amazingly short, cost-effective timeframes.

Innovation continues to be a big factor in professional service rates. The big "new" things – social, mobile, big data and analytics, the cloud, security, etc., are where you will find premium rates and the greatest scarcity of qualified resources. Specialized new firms understand and take advantage of the ever-changing technology landscape by developing unique new competencies in these fast growth areas. At the same time, the law of supply and demand delivers a crushing blow to solution providers who try to hold onto the past too long. Just a few short years ago, Oracle and SAP Business Suite

consultants were priced at $300 to $500 per hour….now they are happy to work at $150 per hour because no one is buying big new ERP applications anymore.

How to use this report

The size and scope of this pricing study provide an unprecedented level of pricing information by vertical market, geography and role. We are especially proud of the scope of this study and the number of responding firms and consultants represented.

To take advantage of this report some areas you may want to consider:

- ∆   Use this report to compare your organization to your peers;
- ∆   Consider starting to take advantage of pricing arbitrage by using resources from other regions;
- ∆   Look at your organization's "pyramid" and determine if it is too heavily weighted in one area or too light in another. There may be nothing wrong with your structure, but you should gauge if it optimally supports your strategy;
- ∆   There is a growing trend toward more executive and management billability. If your organization is heavily weighted with non-billable management roles consider shifting more of them toward revenue generation or at least give them business development targets;
- ∆   Look at the dispersion of your workforce – are you too reliant on entry-level technical resources? If so, consider adding more strategic business consulting roles to ensure your solutions reflect an understanding of your client's business. In some markets it is critical to have more senior people to manage client relationships, whereas in markets where there is continual margin pressure, it might be best to utilize more junior level personnel.
- ∆   Consider the impact of increasing the amount of offsite work. Can your consultants support more clients remotely, and simultaneously, without negatively impacting client relationships?
- ∆   Carefully monitor your pricing and discounting strategies. As the bill rate/utilization sensitivity chart shows an increase in bill rates means more profit and better working conditions;
- ∆   As the global economy grows, bill rates and work styles are becoming more uniform around the world. To take best advantage of a global, multilingual, project-based workforce knowledge sharing, collaboration and social networking tools are essential.

Tell us what you think!

Finally, our research relies upon your support, participation and feedback! Please tell us what you think and let us know which areas of this report provided the most and least benefit. We love to hear from you and are happy to answer your questions and provide clarification.

About Service Performance Insight

R. David Hofferberth, PE, Service Performance Insight founder, managing director and licensed professional engineer has served as an industry analyst, market consultant and product director. He is focused on the services economy, especially productivity and technologies that help organizations perform at their highest capacity.

Dave's background includes application and analytical tool development to support business decision-making processes. He has more than 30 years of domestic and international experience with firms including the Aberdeen Group and Oracle.   Contact Hofferberth at david.hofferberth@spiresearch.com or 513-759-5443.

Jeanne Urich, Service Performance Insight managing director, is a management consultant specializing in improvement and transformation for project- and service-oriented organizations. She has been a corporate officer and leader of the worldwide service organizations of Vignette, Blue Martini and Clarify, responsible for leading the growth of their professional services, education, account management and alliances organizations.

Jeanne is a world-renowned thought-leader, speaker and author on all aspects of Professional Services. Contact Urich at jeanne.urich@spiresearch.com or 650-342-4690.

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