

PROFESSIONAL SERVICES | Research Publication

The State of Professional Services 2017

PS in the “Year of Services
Convergence”

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The State of Professional Services: 2017

PS in the “Year of Services Convergence”

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Executive Overview

Let us start with a newsflash for TSIA PS members: Myriad industry disruptions are impacting—and will continue to impact—technology professional services in multiple ways, including the very business models and organizational structures of PS functions within tech firms. What these impacts are, how they are currently affecting PS practices and performance, and how PS leaders should seek to adapt and thrive amidst all the changes taking place are the main subjects of this paper.

But to answer those questions, we first need to set the table with some context around industry transformation and disruption. Since publishing *Consumption Economics*¹ in 2011, TSIA has been focused on understanding the disruption “as a service” technology offers are having on traditional technology business models. In 2016, we published the *Technology-as-a-Service Playbook*,² which provides even finer detail on how to understand and respond to these disruptions.

A useful summary of these disruptions can be found in the “TSIA 2017 Service Capability Heatmap”³ paper by TSIA executive director, Thomas Lah. The summary begins with an undeniable statement of fact: More technology markets are migrating to “as a service.” This means customers are looking to purchase technology as a service, not as an asset they own. As technology companies are being pushed to subscription business models, many industry trends are impacting almost every company with which we interact. These trends are:

1. Declining Product Revenues
2. Extreme Cost Optimization
3. Commoditization of Feature Functionality
4. From EBITDA to ARR
5. Customer Success at Scale
6. Blurring of Sales and Services
7. Search for Profitable XaaS

These industry trends are covered at length in the “TSIA 2017 Service Capability Heatmap.” But one of the biggest downstream implications of industry transformation, and the one that is the de facto subject of this report, is organizational convergence. In fact, 2017 is arguably the “[Year of Services Convergence](#).” It’s the subject of a major white paper that we just published, “Primer on Services Convergence,” and it’s one of the key themes of our Technology Services World conference in May 2017.

Thomas Lah defines services convergence as the merging of previously independent service lines into organizational structures that improve the customer experience and reduce the cost to deliver. That part is pretty straightforward. What is less clear is why we at TSIA have become so focused on services convergence this year. The truth is that it has long been the common practice in the tech industry for tech firms to establish independent services organizations and P&Ls as a way of, among other things, forcing each service line to optimize its cost structure and fund its own operations and investments. For many years, TSIA has expounded on the virtues of defining and managing to clear services financial business and organizational models. This is an approach, TSIA has consistently argued, that has served the tech industry, and technology professional services in particular, very well over the years.

But there are reasons to believe that all of this could be changing...dramatically and soon. In “Primer on Services Convergence,” TSIA describes the drivers underlying the trend toward organizational convergence. In a sense, we’ve been outlining these dynamics for years, beginning at least with *Consumption Economics*, continuing through *B4B*,⁴ and culminating in our latest book, the *Technology-as-a-Service Playbook*.

The thinking on organizational convergence culminates in the “Primer on Services Convergence” paper, which specifically calls out four particularly important sources of services organizational convergence: the growth of managed services, the rise of customer success, portfolio proliferation, and the confused customer. We would add to this by highlighting the increasing push and pull being exerted on tech companies to drive customer business outcomes, versus just pushing technology onto their customers. This brings about a directly related need to deal with customers based on a simple, single, streamlined customer engagement model.

These drivers are significant and real. Ultimately, they will undoubtedly change the way the PS function is typically organized within tech firms. As Thomas' paper suggests, there are lots of good reasons and benefits to be had from a more integrated organizational concept for services, both for the tech firm and for the tech firm's customers. The "O" in PSO will almost certainly give way to the larger trend in the direction of organizational convergence.

How exactly is organizational convergence presenting itself in professional services today? What PS organizational models are ideal, given services convergence? What does TSIA recommend that PS leaders should do to adapt and thrive amidst the changes taking place? To address the last question, we need to take on the first two.

Key PS Trends

As in past years, a white paper called "The State of Professional Services" probably ought to comment on the state of professional services. In many important ways, the state of professional services is where it's been for some time and where it promises to remain, at least in the near future. This is true for metrics and results as well as practices that we track, including those on the topic of organizational models for PS. This is an important theme to which we will return.

Against the backdrop of industry transformation and organizational convergence, the vast majority of professional services organizations are finding that success is increasingly being determined by their ability to "defend and protect" AND "adapt and transform" at the same time. They must continue to optimize their Level 2 businesses, which means they must squeeze more efficiency and economic impact out of their traditional businesses. But they also need to build and mature their Level 3 and Level 4 initiatives. And they also have to deal with organizational change that is happening all around them.

We've been making this point since at least the "2014 State of Professional Services" white paper. The industry trends discussed in the introduction to this paper and others have been putting pressure on traditional tech business models and conventional services fundamentals for many years, and they continue to do so. The unremitting, industry-wide transformation toward new technology consumption models is generally undermining PS's traditional, core cash cows and competencies (product-led, project-based, deployment-oriented services) and forcing them to explore and deliver on new ways of being relevant in a B4B context.

When we looked at this last year, we made the argument that we were not seeing widespread, systematic evidence that PS fundamentals were profoundly changing. Yet, if everything we're saying about industry transformation—and now organizational convergence—is true, we ought to see evidence in PS metrics. We ought to see clearly declining revenues, worsening utilization, dropping rates, pressure on margins, and so forth. In addition, in the "Year of Services Convergence," we ought to see evidence that PS organizational models and organizational responses are changing. Are we?

PS Metrics: Messages in the Data

In this respect, data from the TSIA Professional Services Benchmark Study are, as always, very instructive. The PS Benchmark Study contains approximately 140 items, roughly equally divided between metrics and results (things you can measure like utilization and margin), and practices (things you can either do or not do, or do in one way instead of another way). To try and understand the current state of PS and what trends are evident, we will look at both.

For the purpose of analysis, we've selected 38 metrics and results, representing all six core benchmark modules (*Table 1a* through *Table 1e*). For each metric, we've calculated the industry average for the Q1 2016 and Q1 2017 snapshots (each including a company/respondent N of around 190) and the percent delta between the two snapshots to standardize across data types. Anything trending at 10% or higher or -10% or lower was labeled Trending Strongly Up or Trending Strongly Down, respectively. Trends between 5% and 9.9% and -5% and -9.9% were labeled Trending Up or Trending Down, respectively. Finally, trends tracking at between 5% and -5% were labeled as Flat.

Table 1a: Key Metrics and Results – Trending Strongly Up

Module	Metric/Result	2016 vs. 2017 % Change	Trend
Business Model	% of engagements value realization or adoption	189%	Trending Strongly Up
Business Model	% of revenues value realization or adoption	162%	Trending Strongly Up
Business Model	Product growth rate	27%	Trending Strongly Up
Sales and CRM	% of engagements value-based pricing	27%	Trending Strongly Up
Business Model	PS percent growth rate	23%	Trending Strongly Up
Business Model	% of revenue from large enterprises	17%	Trending Strongly Up
Operations	% projects surveyed for C-Sat	17%	Trending Strongly Up
Partner Management	Subcontracting margins	16%	Trending Strongly Up
Business Model	% of revenue from technology subscription	14%	Trending Strongly Up

Table 1b: Key Metrics and Results – Trending Up

Module	Metric/Result	2016 vs. 2017 % Change	Trend
Business Model	Total OpEx	10%	Trending Up
Business Model	% consulting services percent engagements	9%	Trending Up
Business Model	% consulting services percent revenue	9%	Trending Up
Sales and CRM	Average PS deal size	9%	Trending Up
Delivery	% customer engagements with project review	8%	Trending Up
Delivery	% projects with an assigned PM	7%	Trending Up
Operations	Business days contract to project sourced	6%	Trending Up
Sales and CRM	% of engagements fixed price	6%	Trending Up
Business Model	Project GM	5%	Trending Up

Table 1c: Key Metrics and Results – Flat

Module	Metric/Result	2016 vs. 2017 % Change	Trend
Business Model	Professional services % of services revenue	3%	Flat
Delivery	Revenue per consultant	3%	Flat
Business Model	% of revenue from product or license	1%	Flat
Delivery	Rate realization	0%	Flat
Delivery	Billable utilization	-1%	Flat
Delivery	Annual attrition rate	-1%	Flat
Business Model	Field GM	-1%	Flat
Sales and CRM	Hit ratio (percentage)	-2%	Flat
Delivery	Hourly actual market rate	-2%	Flat
Delivery	% virtual resources	-2%	Flat
Services Engineering	% repeatable revenues	-3%	Flat
Business Model	Professional services % of TOTAL revenue	-4%	Flat

Table 1d: Key Metrics and Results – Trending Down

Module	Metric/Result	2016 vs. 2017 % Change	Trend
Business Model	% of revenue Implementation or integration	-5%	Trending Down
Business Model	% of engagements Implementation or integration	-5%	Trending Down
Sales and CRM	Attach rate	-5%	Trending Down
Marketing	% marketing demand generation	-6%	Trending Down
Business Model	Services % of total revenue	-7%	Trending Down

Table 1e: Key Metrics and Results – Trending Strongly Down

Module	Metric/Result	2016 vs. 2017 % Change	Trend
Operations	Business days new hires billable	-10%	Trending Strongly Down
Sales and CRM	PS share of blended deals	-10%	Trending Strongly Down
Business Model	PS net OI	-17%	Trending Strongly Down

Judging from these KPI trends, it's undeniable that we're seeing some interesting movement. Many of the observed trends would seem to follow from industry business model transformation; others, not so much. The following are our observations based on the data trends contained in *Table 1a* through *Table 1e*:

- Some of the trend observations are definitely consistent with what we would expect based on our understanding of industry transformation:
 - PS net OI and the PS revenue share of product/PS blended deals are both trending strongly downward.
 - PS OpEx is strongly up, helping explain the downward pressure on NOI.
 - PS revenue share of company revenue is trending down, as is the share of PS revenue and engagements classified as implementation or integration.
 - Attach rates (typically of deployment engagements) is down, which follows from the previous item.
 - Engagements and revenues from value realization or adoption services are trending strong up.
 - Engagements leveraging value-based pricing are trending strongly up.
 - Revenue from technology subscriptions (company level) is trending up.

- However, many of the results either run counter to what you'd expect based on industry transformation or they can't be properly understood in that context:
 - Product growth rate is up, probably driven by SaaS and other companies moving toward technology as a service. However, technology subscription revenues are still only about 20% of total revenues, on average, for PS members.
 - PS as a percentage of company revenue is basically flat, even though services as a percentage of overall revenue is trending somewhat down, the latter not really consistent with what we've been predicting.
 - PS annual revenue growth is up, as is average PS deal size, though industry trends would predict a flat or downward trend in both of these metrics.
 - Repeatable revenues are flat; it really ought to be increasing strongly.
 - Use of remote or virtual delivery in the delivery mix is also flat, though it also should be increasing markedly.
 - Project margin is up and billable utilization is flat, both of which should arguably be heading down, based on what we understand to be the effects of industry transformation.

So looking at key metrics and results trends over the last year, we have a decidedly mixed bag. Some of what we're seeing is right in line with what we'd expect, some is the opposite of expected, and still other results are just head-scratchers.

PS Practices, Programs, and Processes: Messages in the Data

In truth, metrics and results are lagging indicators. They follow, or should follow, from practices or processes—things that you do or don't do; things that you do in one way instead of another way. If you alter your charter to emphasize PS revenue growth, and then invest in sales, demand generation, pricing, and resourcing practices that are aligned to the goal of accelerating the growth of PS revenues, your PS revenues ought to grow. If this is happening across the industry, we should see an indication that changes in practice are resulting in changes in the resulting measurable indicators.

We've already seen that there is a mixed bag of messages in the KPI data. What does a view of PS processes and practices tell us about the state of professional services in 2017? To assess this, let's look at two views of 45 practices that we have flagged as key practices from the PS Benchmark Study: (1) a view of what's trending up and down, and (2) a view that isolates majority practices (*Table 2a* through *Table 2e*).

Table 2a: Key Practice Trends – Trending Strongly Up

Module	Practice	2016 vs. 2017 % Change in Frequency	Trend
Partner Management	Formal partner segmentation process	115%	Trending Strongly Up
Partner Management	Formal partner enablement process	107%	Trending Strongly Up
Sales and CRM	PS minimums for product sales	35%	Trending Strongly Up
Services Engineering	Corporate and field alignment for SE function	27%	Trending Strongly Up
Delivery	Centralized PMO does project cost estimations	18%	Trending Strongly Up
Marketing	Formal demand gen tracking	17%	Trending Strongly Up
Operations	Some staff with C-Sat Compensation	16%	Trending Strongly Up
Operations	ERP PSA module	16%	Trending Strongly Up
Operations	Formal PS C-Sat	10%	Trending Strongly Up
Sales and CRM	Dedicated PS sales	10%	Trending Strongly Up

Table 2b: Key Practice Trends – Trending Up

Module	Practice	2016 vs. 2017 % Change in Frequency	Trend
Business Model	Revenue share part of PS strategy	8%	Trending Up
Sales and CRM	Formal sales methodology	7%	Trending Up
Operations	Formal talent management	7%	Trending Up
Sales and CRM	Formal discounting guidelines	5%	Trending Up
Sales and CRM	Product rep owns PS proposal pricing	5%	Trending Up

Table 2c: Key Practice Trends – Flat

Module	Practice	2016 vs. 2017 % Change in Frequency	Trend
Sales and CRM	Product reps compensated on PS	4%	Flat
Sales and CRM	Formal sales skill assessment	4%	Flat
Services Engineering	Central IP repository	2%	Flat
Business Model	Formal PS strategy	2%	Flat
Operations	PS-specific education and training	2%	Flat
Operations	Commercial PSA	1%	Flat
Sales and CRM	Dedicated PS sales support	1%	Flat
Services Engineering	Dedicate services engineering	1%	Flat
Sales and CRM	Formal customer methodology	1%	Flat
Delivery	Company owns customer relationship	0%	Flat
Delivery	Formal PMO in place	0%	Flat
Sales and CRM	Product reps compensated dollar for dollar	0%	Flat
Delivery	Formal delivery methodology	-1%	Flat
Business Model	PSE reports to CEO, COO, or CFO	-1%	Flat
Operations	Formal skill assessment program	-2%	Flat
Partner Management	TPS organization qualifies new partners	-3%	Flat
Partner Management	TSP organization enables new partners	-3%	Flat
Business Model	Formal investment plan in PS strategy	-4%	Flat
Delivery	Formal risk management program	-4%	Flat

Table 2d: Key Practice Trends – Trending Down

Module	Practice	2016 vs. 2017 % Change in Frequency	Trend
Delivery	Formal project management methodology	-5%	Trending Down
Delivery	Consultants compensated on utilization	-6%	Trending Down
Services Engineering	Formal SDLC	-6%	Trending Down
Sales and CRM	PS sales reports align to PS organization	-8%	Trending Down

Table 2e: Key Practice Trends – Trending Strongly Down

Module	Practice	2016 vs. 2017 % Change in Frequency	Trend
Partner Management	Formal overall partner management program	-11%	Trending Strongly Down
Partner Management	Charge partners for IP	-11%	Trending Strongly Down
Operations	Real-time project financial tracking	-12%	Trending Strongly Down
Operations	Centralized/global RM function	-14%	Trending Strongly Down
Operations	Standalone PSA application	-15%	Trending Strongly Down
Marketing	Dedicated PS marketing	-17%	Trending Strongly Down
Marketing	Formal product adoption methodology	-20%	Trending Strongly Down

The practices, programs, and processes trending up also show us a mixed bag of expected and not-so-unexpected trends. As tech companies become more focused on customer success and shift business models, organizational models, and delivery models in that direction, we should generally see decreasing evidence of PS-specific organizational practices. Generally, PS leaders should arguably be less focused on driving PS-specific outcomes and more focused on the broader needs of customer engagement and customer success. Yet, if that's a general tendency, you wouldn't necessarily expect to see increased adoption of formal PS sales methodology, higher incidence of dedicated PS sales, increased likelihood of formal discounting policies, formal demand tracking, or increased focus on formal PS talent management.

On the other hand, we do believe that an increased focus on partner segmentation and enablement, increased emphasis on customer satisfaction, and increased concern with the role that PS revenue plays in the overall corporate economic engine all make sense in this context. A mixed bag here, for sure.

As for practices and processes that are trending down, many of them make perfect sense in the context of industry transformation. For instance, we probably should see a general decline in the frequency of dedicated PS marketing, formal project management methodology, compensating for utilization, a centralized resource management function, a dedicated/formal PS services development life cycle, and certainly PS sales reporting directly to the PS organization. Yet, the practice trending most sharply down is having a formal product adoption methodology in place—the one thing we ought to be seeing more of as the industry moves toward technology as a service and outcomes. And the fact is that an awful lot of practices are trending neither up nor down.

Interestingly, as we shall see in *Table 3*, a great many of these practices are majority practices. They were majority practices in Q1 2016, and they are majority practices in Q1 2017. Let's take a closer look at these majority practices.

Table 3: Majority Practices and Trends

Module	Practice Item	Q1 2017 Frequency	Finding	Category
Operations	PS-specific education and training	97%	Flat	Clear Majority Practice
Delivery	Company owns customer relationship	93%	Flat	
Sales and CRM	Product reps compensated on PS	86%	Flat	
Business Model	Revenue share part of PS strategy	82%	Trending Up	
Operations	Formal PS C-Sat	79%	Trending Strongly Up	
Delivery	Formal project management methodology	74%	Trending Down	
Operations	Best-of-breed PSA application	74%	Trending Strongly Down	
Business Model	Formal investment plan in PS strategy	74%	Flat	
Delivery	Formal delivery methodology	73%	Flat	
Services Engineering	Central IP repository	68%	Flat	
Partner Management	Formal partner management program	68%	Trending Strongly Down	
Sales and CRM	Formal discounting guidelines	68%	Trending Up	
Operations	Formal skill assessment program	68%	Flat	
Sales and CRM	Product reps compensate dollar for dollar	67%	Flat	
Sales and CRM	Dedicated PS sales support	67%	Flat	
Operations	Commercial PSA	64%	Flat	
Business Model	Formal PS strategy	60%	Flat	
Operations	Formal talent management	59%	Trending Up	Majority Practice
Services Engineering	Dedicated services engineering	58%	Flat	
Sales and CRM	Formal customer methodology	58%	Flat	
Delivery	Formal risk management program	56%	Flat	
Sales and CRM	PS sales aligns to PS organization	56%	Trending Down	
Partner Management	TSP organization enables new partners	54%	Flat	
Delivery	Formal PMO in place	53%	Flat	
Partner Management	TPS organization qualifies new partners	53%	Flat	
Partner Management	A formal partner enablement	51%	Trending Strongly Up	
Services Engineering	Formal SDLC	51%	Trending Down	
Delivery	Consultants compensated on utilization	51%	Trending Down	

Whether or not a practice is a majority practice is critical in our view. Majority practices set the benchmark standards in the TSIA benchmark methodology. Member practices that line up with majority practices are rated as “on target” in our benchmarking model. Without making judgments about whether the practices are “good” or “recommended,” we do believe understanding what practices are common helps us also understand what is normal or reasonable. Accordingly, understanding how majority practices are trending is a crucial aspect of understanding the state of professional services in 2017.

And so, perhaps, the best indications of the nature and pace of industry transformation on PS can be found in *Table 3*. Several observations present themselves. First, of the 17 key practices that we’re highlighting here as “Clear Majority Practices” (with a 60% industry frequency or higher), 14 of them are trending flat or up. That is, they are majority practices that are staying majority practices or becoming even stronger majority practices. These include A LOT of practices that help comprise the nuts-and-bolts of a mature professional services ORGANIZATION: formal PS strategy, dedicated sales, commercial PSA, formal delivery methodology, formal partner management, and others.

For the 11 “Majority Practices” (with 50% to 59% industry frequency), we likewise see most of them (8 out of 11) either ticking up or remaining flat. These practices, again, include many items that represent things that mature or maturing PS ORGANIZATIONS (not just PS capabilities or functions, but organizational entities) should have in place, for example, dedicated services engineering, formal customer and risk management processes, dedicated PMO and formal service development life cycle, and formal partner enablement, just to name a few.

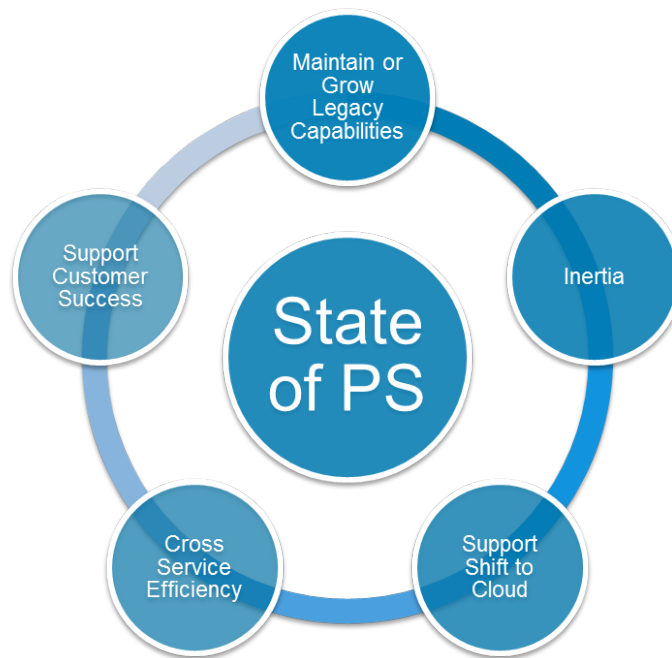
In short, 22 out of the 28 key majority practices are seeing either steady or increasing frequencies at the industry level. Of the practices trending down, many remain very strong majority practices, such as having a formal project management methodology, a formal partner management program, and having a “standalone” or best-of-breed PS application in place (versus a homegrown or ERP module). The practices trending up are interesting too, and many are indications of increasing “disciplinization” and formal organization of PS, such as formal project C-Sat, formal PS talent management, and formal discounting processes.

So, What’s Happening to the “O” in PSO?

That the organizational markers of professional services appear to be so resilient is evidence that there is more to determining the right organizational model for PS than simply observing industry trends and adjusting accordingly. The truth is that there is no one-size-fits-all model for PS organizational structure, any more than there’s a one-size-fits-all model for PS performance or practices. Industry transformation and the drive toward organizational convergence are factors that do not land evenly across all tech companies. And there are many factors impinging themselves onto the PS function that may be driving greater or lesser organizational convergence, depending on the circumstances.

Figure 1 illustrates five competing, overlapping, and simultaneous pressures on the state of professional services in general. These five pressures also influence, and should influence, tech firms' thinking regarding the correct organizational model for professional services.

Figure 1: Organizational Model for Professional Services



The drivers of change, including the drivers of organizational convergence, can be extremely strong, but they can and do come into conflict with the drivers of stability. No PS organization stands completely still or is in constant, dramatic change mode. Rather, most strike some kind of balance between the two ends of the continuum.

Currently, that balance appears to be falling toward the side of organizational maturity for most PS capabilities. That's the message in the trend data shared above. We believe that some of this can be attributed to organizational inertia...the sheer natural tendency of organizations to perpetuate their own existence. But how, then, do we separate inertia with the entirely legitimate and rational need to maintain or even grow existing PS capabilities?

This is not a rhetorical question, but rather one that's central to the analysis. The need for PS to support a shift to technology as a service, the importance of PS or expert services in driving customer success, and the increasing need to drive organizational efficiency across services are all hugely important drivers of organizational transformation. But it actually doesn't follow that what's good for supporting technology as a service and what's good for driving customer success automatically create a

drive to transform away from traditional PS capabilities or even traditional PS organizational and financial models.

In the “Primer on Services Convergence,” Thomas Lah offers the following definition: “The merging of previously independent service lines into organizational structures that improve the customer experience and reduce the cost to deliver.” So, if driving cross-discipline efficiency is the overriding priority in itself—and it may legitimately be so for a variety of reasons, including a need to reduce overhead costs in the short term—then organizational convergence should be dramatic and relatively rapid.

But the evidence provided by the latest PS benchmark data indicates that there is an element of PS organizational capability that is not resilient to the pressures of convergence ONLY by sheer virtue of inertia. Very likely, there’s good reason rooted in the need to positively respond to the other drivers (supporting a move the cloud, helping with customer success) for the continued pursuit of mature PS organizational capabilities for formal organizational manifestations. Exactly what that correct balance entails may be different for each firm. But each firm must go through the process of determining its own right answer based on the myriad factors in play.

At the time of this writing, TSIA is in the process of fielding its services organization member survey that will provide fresh data on the basic organizational status of PS, as well as all the other service disciplines we track. To get a pulse on this prior to the availability of the results from the broader services organization structure survey, we recently conducted a poll of TSIA’s Professional Services Advisory Board companies (16 global PS leaders from a wide cross-section of leading tech firms) probing on this very topic. We asked each of them which of the following three categories best described the current organizational state of the PS businesses for which they were responsible:

1. Fully separate line of business: PS today is more or less a completely independent entity, separate P&L, distinct delivery pool, unique offers, own tools, etc.
2. Partially integrated: PS today is partly independent, partly integrated with other services. Example: separate P&L, but shared COE, delivery pool, tools.
3. Fully converged: PS today is not an independent entity in virtually any way and really just describes an offer/delivery type rather than any kind of organizational entity.

We obviously can’t say for sure that this “survey” is representative of the tech industry overall, but the results are interesting and instructive. Only one leader responded with a “3,” while the remaining responses showed a nearly perfect balance between “1” and “2.” By and large, most of the characteristics and features of the “O” in PSO are remaining common. We believe that we’ll gradually see fewer “1”s, a growing convergence around “2,” and will still only very rarely see a true “3.” Our guess is as good as yours, but the evidence does seem to clearly point in this direction at this time.

Clearly, there is no once-size-fits-all model, no single organizational concept for PS that everyone needs to march toward. But equally clear is the fact that having mature PS capabilities remains an extremely useful asset for tech companies, regardless of where they are on their industry transformation

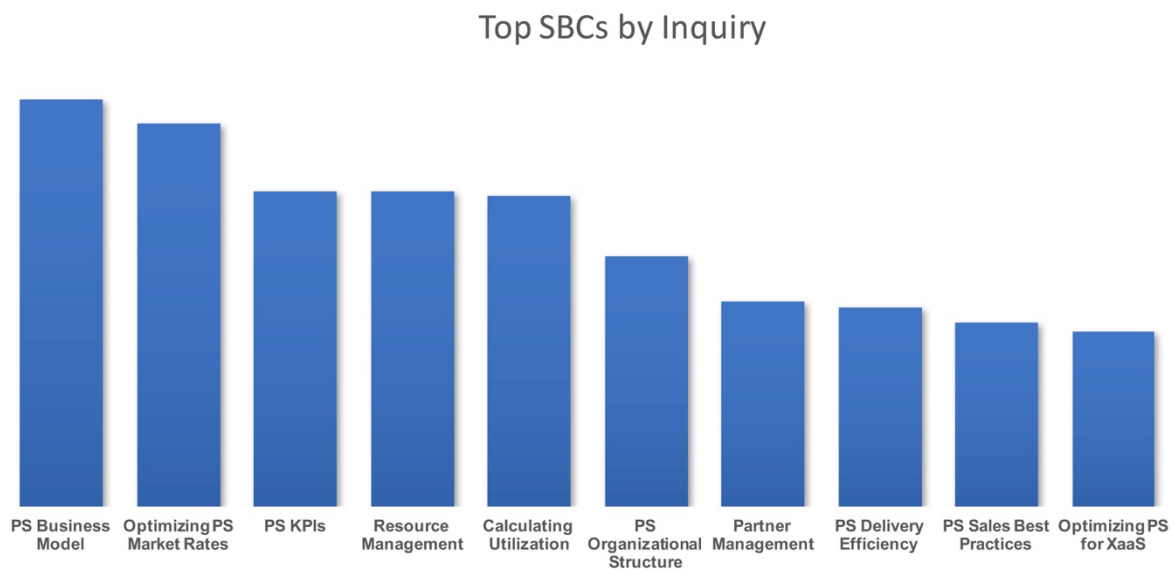
journey. Are you being asked to drive PS revenue and margin? That requires mature PS capabilities. Are you being asked to support customer success? That also requires mature PS capabilities. Are you being asked to support a shift to the cloud? That requires mature PS capabilities as well.

The \$64,000 question is this: what level of organizational independence is required for you to be able to build, cultivate, and maintain the level of maturity you need to fulfill the charter you've been given. So far, it would appear that the answer lies somewhere between Options 1 and 2, above. We will keep an eye on this and will continue to monitor any developments. We will also continue to formulate our point of view on best practices and good practices. For now, the "O" in PSO is hanging on. Is this a good thing or a bad thing? We'll explore this in subsequent papers, blog posts, and studies in our on-going effort to track organizational convergence, so stay tuned!

PS Hot Topics for 2017

TSIA has developed an excellent and extremely useful way to track hot topics for professional services. Our memberships include an inquiry service, which is heavily leveraged. We get thousands of incoming inquiries every year. Every inquiry is tagged with all applicable service business challenges (SBCs). TSIA has catalogued and documented hundreds of SBCs, and this has become the central intellectual organizing principle for all of our content. In short, looking at the top PS SBCs that are coming in via inquiry arguably gives us our best possible pulse on last year's hot topics going into 2017 (*Figure 2*).

Figure 2: Top PS Service Business Challenges



Regular consumers of the “State of Professional Services” papers and other assets from TSIA’s Professional Services discipline will recognize that the top PS SBCs are spectacularly stable. There has been some movement in these SBCs since the last pulse we took. Partner management is trending up. Optimizing PS for XaaS is actually trending down a bit. The rest of the SBCs are staying more or less where they have been, and squarely in the top 10.

2017 Professional Services Research Agenda

The “TSIA 2017 Service Capability Heatmap” report includes a detailed list of all TSIA studies and reports for the upcoming calendar year. For the PS discipline, the research agenda is summarized in *Table 4*.

Table 4: 2017 Major PS Research Studies and Reports

Report/Study Title	Timing
The State of Professional Services: 2017 (Report)	Q1
Professional Services Market Rates Study Summary: 2016 (Report)	Q1
TSIA 2016 PS Compensation (Study)	Q1 – Q2
2017 TSIA Member Technology Spending Report: Professional Services (Report)	Q2
Professional Services Compensation: 2016 (Report)	Q3
TSIA 2017 Professional Services Market Rates Study (Study)	Q3 – Q4
2017 Professional Services Technology Stack (Report)	Q4

Just a few comments about the major research studies for this year in professional services: First, while this year’s studies likely appear to be rather Level 2 focused, ALL of them will include significant focus on, and benchmarks for, folks interested in gearing up for LAER, organization transformation, shift to the cloud, and more. The core benchmark study is giving us a better and better pulse on revenue mix and is offering a XaaS peer group, reflective of the fact that so many of our members are either born in the cloud or making a hard shift in that direction.

And while the compensation and market rates studies have both grown up out of hard-core product services concerns, both will be stretching beyond their traditional confines more and more this year. We’ve already begun “B4B-i-fying” the rates studies by including technical account manager (TAM) services in the mix and residency delivery types. We’ll find other ways to push both studies even farther in that direction this year, including a great emphasis on the TAM/resident role in this year’s compensation study.

Closing Comments

As we enter 2017, TSIA continues to believe service organizations will increasingly find themselves at the epicenter of company success. Furthermore, we believe that professional services organizations will, in turn, find themselves being key drivers of services growth and success, regardless of the overarching organizational model in which they find themselves.

The types of services may gradually change from the traditional land activities to include, or even be replaced by, expand, adopt, and renew activities. But the fact STILL is that change is happening very slowly; an observation that is now clearly annual in nature. So TSIA is reiterating its message that PS leaders really do have to defend and protect AND adapt and transform, with perhaps even more of an emphasis on the former than we had previously expected.

The organizational pressures to reorganize—that is, to move toward an organizational converged model for services—are strong and are likely to become stronger. In some circumstances, this might mean that the focus of the PS function will be paired down to the bare minimum project delivery practices, and it will have to access (rather than own) all other functions through shared services. In other environments, little change to past practice will be detected. As indicated above, we believe that in the vast majority of cases, the right answer, and the answer most tech firms will land on, will be something nearer the middle of these two extremes. So most of you will have to master all or many of the same organizational capabilities that you always have. So get to it! And please let us help.

How TSIA Can Help

At TSIA, our mission is to leverage industry data to document best practices for optimizing technology business models. Specifically, we encourage member companies to leverage the following TSIA capabilities:

1. **TSIA Conferences.** TSIA brings industry professionals together twice a year to share and learn. Our next conference will be focused on organizational structure in a world of recurring revenue. For more information on conferences, visit: <http://www.technologyservices-world.com/>.
2. **Industry Performance Data.** Benchmark your company performance against best-in-class performance. TSIA currently tracks 870 industry performance metrics and financial results related to optimizing technology business models. For more information on TSIA data sets, visit <https://www.tsia.com/research/benchmarking.html>.
3. **TSIA Solution Widgets.** Based on the specific business challenge you are working on, use the TSIA Solution Widget tool to find relevant research and content that can help your company with this challenge. For more information, visit <https://www.tsia.com/tsia-solution-widget.html>.

4. **TSIA Outcome Chains.** TSIA is leveraging new software to build “outcome chains.” Each outcome chain is centered on a specific target outcome, such as “Grow Customer Adoption.” For more information, visit <https://app.outcomechains.com/?ref=tsia.com>.
5. **TSIA Workshops.** Having trouble getting folks aligned? Or looking for ways to jumpstart a team working on a new initiative? Invite a TSIA research expert to help accelerate the discussion. Workshops can last from two hours to two days. They can be delivered on site or virtually. For more information, visit <https://www.tsia.com/strategic-services/about-strategic-services.html#workshops>.
6. **TSIA Outcome Sprints.** TSIA can work with your company in a series of touchpoints designed to achieve specific outcomes you are targeting. For more information on TSIA Outcome Sprints, visit <https://www.tsia.com/strategic-services/about-strategic-services.html#sprints>.
7. **TSIA PS Operational Best Practices Assessments.** TSIA knows what good looks like for a professional services capability or organization, as the case may be. We have taken that know-how and built an operational assessment offer portfolio out of it. There are many different ways to consume these assessments. To find out more, visit <https://www.tsia.com/services-excellence/operational-best-practices/diagnostic-evaluation.html>.

Endnotes

¹ Wood, J.B., Todd Hewlin, and Thomas Lah. 2011. *Consumption Economics: The New Rules of Tech*. San Diego, CA: Point B, Inc.

² Lah, Thomas and J.B. Wood. 2016. *Technology-as-a-Service Playbook: How to Grow a Profitable Subscription Business*. San Diego, CA: Point B, Inc.

³ Lah, Thomas. January 2017. “TSIA 2017 Service Capability Heatmap.” TSIA.

⁴ Wood, J.B., Todd Hewlin, and Thomas Lah. 2013. *B4B: How Technology and Big Data Are Reinventing the Customer-Supplier Relationship*. San Diego, CA: Point B, Inc.