Primetric
BY BIGTIME

Profitability & Utilization European Report

2023 Edition - Full Version

Introduction

For the last 20 years, Executives and Managers from U.S.-based professional services firms have been comparing each other and building competitive advantages based on benchmarks and market trends, thanks to designated reports & analysis. To this day, it wasn't possible for European companies, as such reports focusing on the IT services industry did not exist.

#1 European Profitability and Utilization Report aims to fill that gap and arm you with data, benchmarks, and insights to build a scalable and bulletproof company. When we asked C-Level Executives what indicators are most essential for them, they gave us a simple answer: We want to build a perfect balance between market demand, people's happiness, and economic ambitions while growing fast. That's why the report focuses on two critical metrics: profitability and utilization.

When we talk about profitability and utilization, not only results matter, but also how you achieve them. That said, we decided to dive deeper into the subject and created the Primetric Maturity Score Index. Thanks to that, you can evaluate a company's operational excellence and understand how specific operations affect profitability.

We invite you to explore the results, compare yourself to others, and maybe learn something new about those key metrics that impact your revenue and profitability the most.

We hope that this report will be a good piece of information and guide you to build a bulletproof and scalable professional services firm.

Primetric BY BIGTIME

Arkadiusz Terpiłowski
Co-founder & CMO
@ Primetric by BigTime

Industry partners

ITCORNER

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CLUJ IT

CROATIAN INDEPENDENT SOFTWARE EXPORTERS

zit Združenje za informatiko in telekomunikacije

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Index

Introduction 5

Who participated in the research? 10

Key Takeaways 15

I Pillar:
Primetric Maturity Score Index 21

- Target audience 26
- Implemented operations 45

II Pillar:
Personalized insights 56

III Pillar: Benchmarks 58

- Sales markets 68
- Company size 75
- Main focus area 82
- Client industry 89
- Billing models 96
- N < 10 100

Wrap up 104

Methodology 107

Definitions & Formulas 110

About Primetric by BigTime 111

Who will benefit from this report most?

If you are:

- C-level executive managing IT professional services firm (especially VP of Finances/Operations, CEO, COO, CFO, CSO),
- Operations Manager (Head/Director of Operations / Delivery / Finances),
- or person responsible for overseeing operations, finances, and projects portfolio.

And looking for:

- Benchmarks related to Utilization, 1st-degree Profitability, EBIT Margin, and Profit Margin to see where the company stands – at the beginning of the peloton, in the middle, or maybe in front?
- Ideas on what and how to implement processes in the near future.

To answer this question:

- How can I scale the company faster while improving profitability, reducing bench time/overutilization, and delivering projects on time and within budget?
- Have we already hit the ceiling of possibilities, or do we still have room for improvement? If so, where and why it's important?
- Do we have a proper strategy? What business lines and markets might be the next cash cows?
- And many more.

Let's deep dive together into the Report and find out.

What does the report include?

Profitability & Utilization Benchmarks

- What is my company's profitability vs my industry colleagues?
- How is my business different from others with lower / higher profitability?
- How does this break down by size / servi-ce type and customer / location?

Primetric Maturity Score Index

- How developed is my business vs what is the industry standard?
- What do I need to do to get to the next „level" of the business? In other words, what management processes do I need to implement, and what ones do I already have in place?
- How to protect yourself from the coming market recession?

Comments from experts and opinion leaders

- Insights from industry and opinio leaders.
- Showing perspectives of different European markets.
- Representation and voice of the market through cooperation with major associa-tions.

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Your Maturity Score Index is:

Level: ?

Didn’t participated in EPUR 2023? You still can get your Maturity Score Index

Get your
Maturity Score Index

Why measuring Maturity Score Index matters?

Go to page 24

Maturity Score Index’s impact on financial success

Go to page 34

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CEO, Escola

European Profitability and Utilization – Expert comment

If you want to increase the profitability of any company, there are effectively four ways of doing that, and you can even see what will happen if you improve them by 5% without changing anything else): 1) you either increase the volume of units sold (a 5% improvement translates to 30.3% in profits); 2) increase the price of units (a 5% improvement translates to 30.3% in profits); 3) decrease variable costs (5% improvement translates to 5.0% in profits); 4) decrease fixed costs (5% improvement translates to 4.2% in profits).

Regarding professional services companies (and software development belongs here), only two provide the best bang for the buck: increased volume via better utilization and better unit economics with increased price per billable hour.

Now, there are multiple ways to raise prices (i.e., fee levels): you can earn higher fees through better specialization, innovation, finding the niche; add more value, e.g., becoming a consulting company vs. a software vendor; use your marketing to try getting „better" work with clients that have a higher willingness to pay; speed up the staff's skill-building process so that you can charge more for them and last but not least, invest in products or new services that are not yet there.

There are multiple ways you can improve on pricing. However, the cafeteria of choices is much smaller regarding increasing volume. You simply need to boost your utilization.

On utilization, though, focus on these four things: 1. Tracking – you need to track your employees' time ruthlessly and endlessly; 2. Reporting – you need a good overview of how your projects and team perform; 3. Analyzing – you need to see the data to make informed decisions; 4. Forecasting – you need to plan your future resources accordingly.

Good luck in your profitability quest!

Maciej Wilczyński, PhD

Managing Partner, Founder, Valueships

Valueships

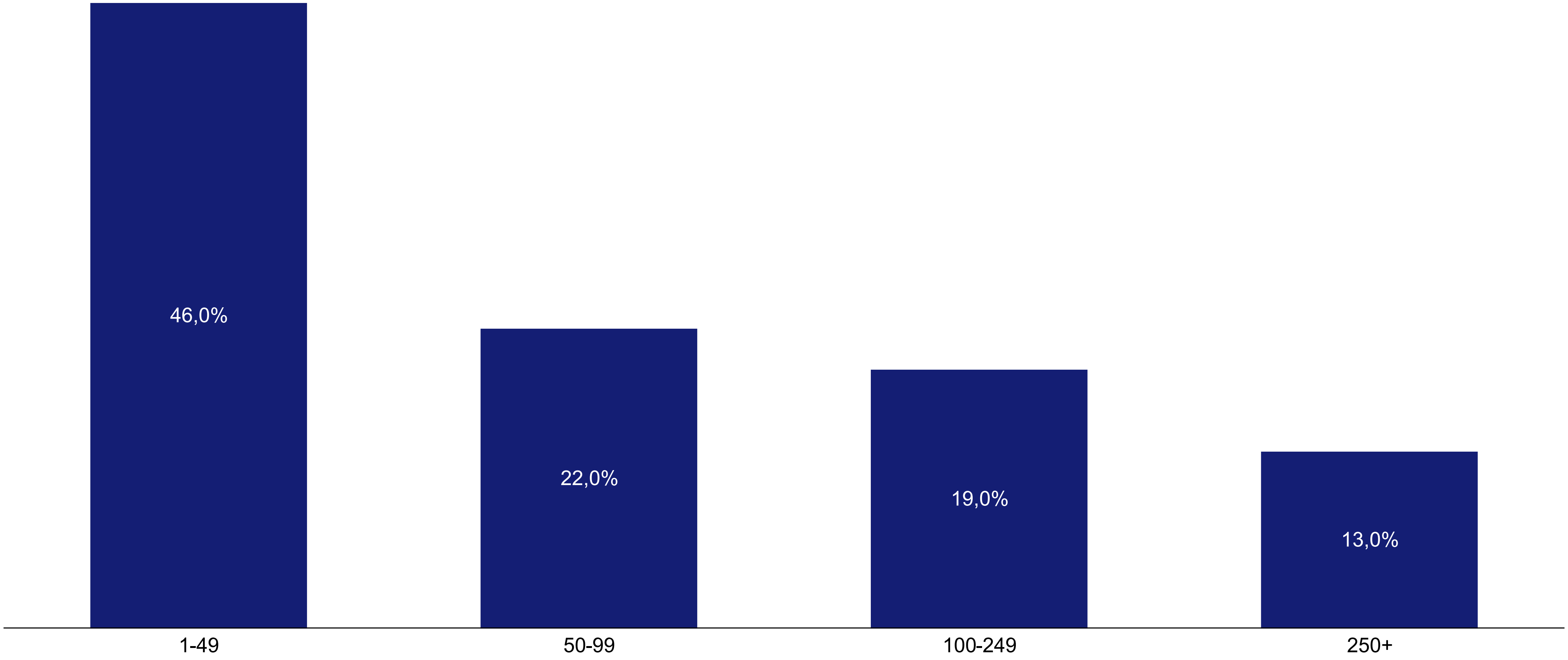
Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Who participated in the research?

In this section, you'll find information about respondents.

Target Audience

The research targeted C-level and High-level Management at European IT professional services firms. Data was collected via an online survey during May and June of 2023. The study had 250 respondents representing leaders from IT professional services firms - 68,1% were C-Level Executives, while 31,9% were Heads/Directors. Job positions were CEO, COO, CFO, and Head of Delivery, Operations, and Finance. More than 85% of respondents are Custom Software Development and IT Consulting companies, while distribution across companies size is similar to the market distribution.

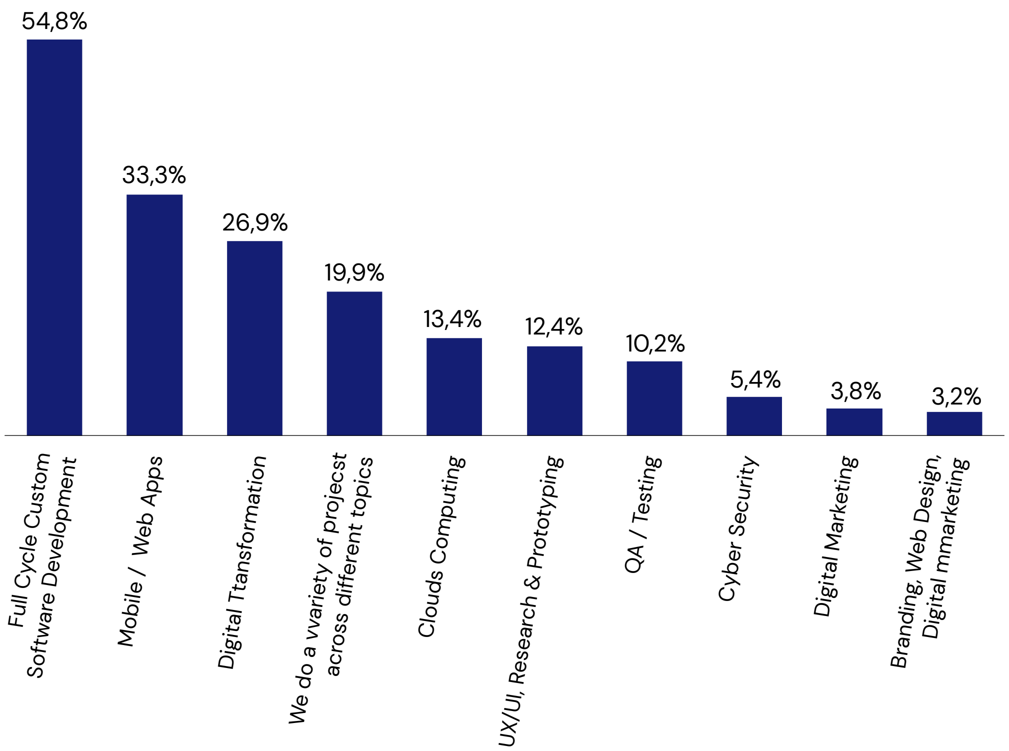


Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn’t include answers with N<10

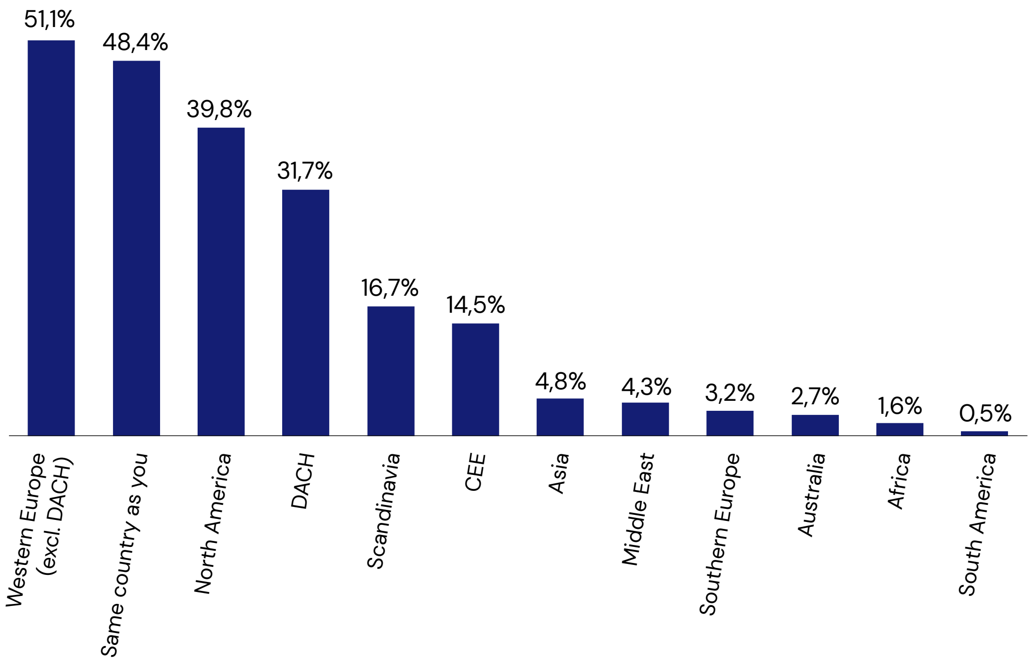
Target Audience

Over 56% focus on selling to the Western Markets (Western Europe, DACH, North America), while only 6% sell to Asia, Africa, Australia, and the Middle East. Most companies focus on providing Full Cycle Custom Software Development, Mobile/Web Apps, and Digital Transformation services, while only a few offer Cybersecurity and Digital Marketing services.

Company Focus Area Chart



Company Clients Geo Chart

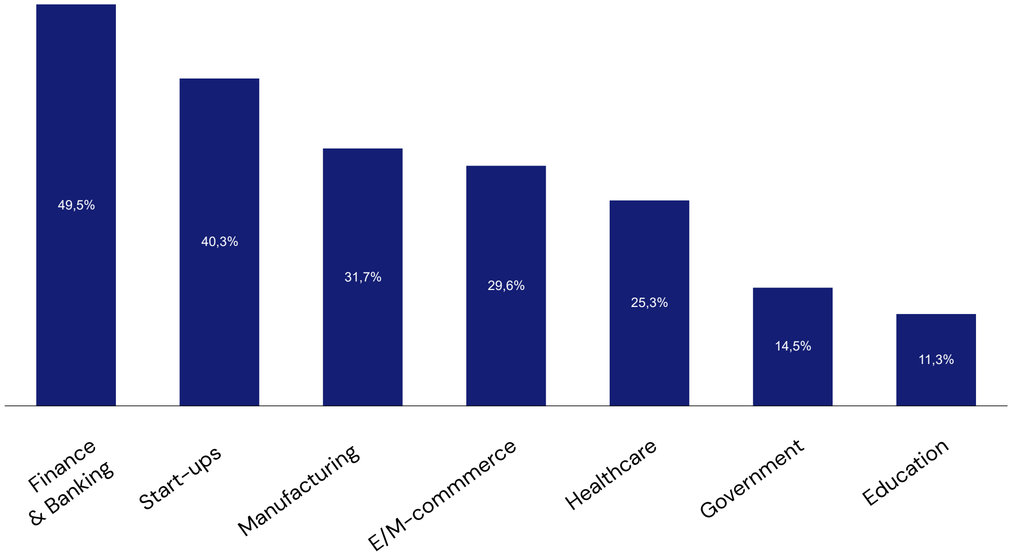


Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

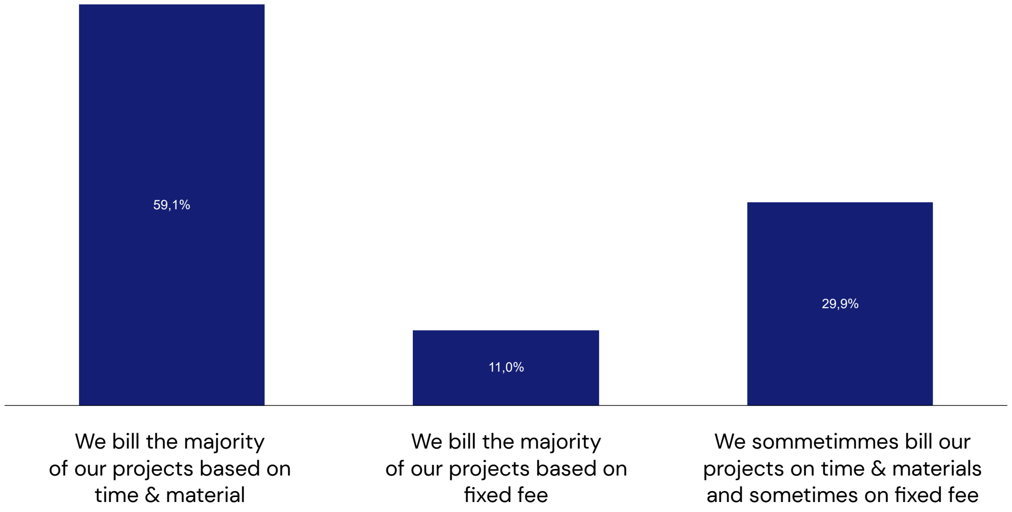
Target Audience

Most of the industry focuses on clients from the Finance & Banking, Start-up, and Manufacturing sectors, while the least popular are the Healthcare, Government, and Education sectors.

Company Clients Industry Chart



Billing Models Chart



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

European Profitability and Utilization – Expert comment

SoDA (Software Development Association Poland) brings together over 200 companies of various sizes and stages of development. Most of them are surprised that in such an environment, you do not have to compete, but you can also learn from each other and draw from experiences similar to your company's. T**hanks to the European Profitability and Utilization Report 2023, companies can look at their indicators to assess the level of advancement and development.**

Additionally, the report allows you to compare yourself with similar companies in the country and the entire CEE region, which is extremely important since almost all SoDA companies export their services abroad and cooperate with international clients.

The EPUR and Maturity Score Index will help represent the successes of the Polish IT industry, including exchanges with foreign clients and may be a response to inquiries from the media and stakeholders from around the world. It's a long-awaited document which can be a precious guide for everyone.

Angelika Siudzińska

Head of Marketing, SoDA

SoDA

Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

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Key Takeaways

In this section, you'll find the most important takeaways from the Report. For a better understanding of takeaways - please read the full Report.

Key Takeaways

We know that not everyone has time to analysis the entire report, so we have prepared the most important conclusions from the Report in a nutshell for you.

1. The Maturity Score Index is pivotal for achieving operational excellence in professional services companies, aiding management boards in implementing best practices. Based on operational excellence, successful utilization and profitability management enable companies to adapt to market changes, ensuring stability and rapid growth.

2. Optimizing operational excellence is crucial for success; raising rates indefinitely is not the sole approach. To maintain a thriving and profitable organization, selling at high prices in challenging markets is unnecessary, but selling at high prices combined with operational excellence will boost your profit.

3. There is as much as a 33% difference in profit margin between low-developed companies according to the Maturity Score Index (1st and 2nd level) and the most developed companies (5th level), in favor of developed companies.

4. The difference is even more noteworthy for companies with over 100 employees, up to 280%. In large organizations, complexity grows exponentially, so managing it using basic operations ultimately destroys a company's profits.

5. Most respondents were at level 3 on the Maturity Score Index, thanks to mastering the essential category: Measuring. Still, most failed in the advanced categories such as Forecasting and Reporting & Scalability, which are more than three times less developed.

Key Takeaways

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6. The higher the Maturity Score Index, the less dependent the company is on individual large customers. The difference is as high as 16.8% (the better operationally developed the company, the less revenue it has from its single largest customer). A more diversified customer portfolio makes the company more resilient to the potential loss of a particular revenue stream.

7. On average, companies that proactively work with utilization have a 50% higher EBIT margin, 30% higher profit margin, and 13% higher 1st-degree profitability.

8. 47% do not forecast long-term utilization. Those forecasting it based on various scenarios related to project uncertainty or uncertain allocations achieve, on average, 21% higher EBIT, 15% higher profit margin, and 13% higher 1st-degree profitability.

9. Half of the companies do not forecast uncertain allocations. Those who implemented this process with dedicated, integrated tools have an average of 33% higher profit margin and 42% higher 1st-degree profitability.

10. Proactive utilization management significantly influences financial performance, particularly in managing the bench. Setting and optimizing utilization KPIs are crucial in decision-making despite being complex to implement.

Key Takeaways

We know that not everyone has time to analysis the entire report, so we have prepared the most important conclusions from the Report in a nutshell for you.

11 Companies with a high utilization rate have up to 1.5 to 2 times higher financial performance indicators than those with a utilization rate below 80%.

12 As the company grows, administrative costs increase, causing EBIT and profit margins to decrease. There is no correlation between company size and the ability to sell at higher prices, so 1st-degree profitability is the same regardless of size.

13 Strategically composing production teams based on client/project needs optimizes leverage and profit margin. Best companies emphasize the ongoing challenge of balancing work distribution between senior and junior staff, underscoring the critical role of leverage as a KPI for effective team and project management.

14 While some European IT services firms may succeed in the domestic market's digital transformation, scaling and growth may be limited. Local operations offer cost advantages and cultural understanding, but geographic diversification reduces dependence on a single market, mitigating long-term risks.

15 Dunbar's number supports the efficiency of companies with 50-99 employees, maintaining a flat structure. This fosters effective communication, quick responses to market changes, and close leader-team connections, enhancing project execution and client satisfaction.

Key Takeaways

We know that not everyone has time to analysis the entire report, so we have prepared the most important conclusions from the Report in a nutshell for you.

16

Profit optimization in mid-sized firms involves leveraging size for operational efficiency and lowering variable or fixed costs. This includes effective project management, staff skills utilization, resolving under-performers, and implementing universal strategies like specialization, innovation, and efficient resource management. Flexibility and continual adaptation to market conditions are crucial to success.

17

Amid challenges, changing the sector focus may not be viable for IT services. Central East European companies are losing their price advantage, emphasizing the importance of building competencies unique to specific specializations, industries, or geographies.

18

Cloud-based biggest companies have up to 50% gross margins. CEE companies can compete by efficiently managing infrastructure, data centers, networks, and personnel. Software services, with direct client involvement, introduce complexity in project delivery, influencing profit-risk within the scope/budget/time triangle. Segments like Web and Mobile development face resource utilization challenges, requiring strategic management of project timelines and sales pipelines for optimal results.

19

The billing model in IT projects is transitioning back to Fixed Price (FP) or Target Price (TP) from Time&Material (T&M). A reduction in agile projects accompanies this shift. The choice between FP, TP, or T&M billing depends on the project's uncertainty, variability, and risk. Research and high-risk projects may not be suitable for waterfall or FP models, while experienced teams can leverage FP for higher margins based on knowledge or intellectual property.

20

Surprisingly, there is no correlation between financial performance and the billing model (T&M or Fixed Price).

European Profitability and Utilization – Expert comment

IT services companies are currently operating in a highly uncertain business environment. The fast, easy growth in the technology industry we saw in the COVID-19 boom is a hazy memory today. Current conditions often force entrepreneurs to redefine the fundamentals of previously prosperous businesses. **The annual participation in the profitability report that we, as a strong representation of the industry, have initiated in Europe should be regarded by every CEO as a duty. Comparative insights into management indicators and critical analysis of one's performance can now fundamentally impact the dynamics and relevance of sometimes crucial company decisions.**

It's a first step, a kind of hygiene factor, allowing you to track down mistakes, make corrections, and look at obstructions. With this, it is easier to create your competitiveness consciously. Building an inspiring environment that realistically helps technology industry leaders achieve their goals is the point of ITCORNER. The exchange of highly substantive knowledge and business experience among a trusted group of entrepreneurs is one of the main goals of our organization. The report, or relatively regular industry reporting (for internal or external purposes), will significantly influence the scope of data exchanged and discussed and the conclusions drawn. It will contribute to strengthening our companies. It will, therefore, directly affect the dynamics and quality of the environment we create at ITCORNER.

So I am delighted that on the 10th anniversary of our organization, at a time when we have matured as an environment and decided to upgrade our industry annually through vital summaries, analysis, and lessons learned from market trends, the first industry profitability report in Europe is coming out.

I am also extremely pleased that it is coming out with our ITCORNER participation – at the initiative and in cooperation with one of our member companies. I hope that in the near future, the scope of the report will cover a broader European context, going beyond CEE. I also believe that promoting the study and working wisely with its results will help influence Polish IT companies' competitiveness, and participation in the profitability report will be a mandatory part of the sector's annual upgrade.

Karolina Charewicz-Jakubowska, PhD

Managing Director & Board Member, ITCORNER

ITCORNER

I Pillar: Primetric Maturity Score Index

In this section, you'll find analysis and benchmarks for firms' operational excellence and key operations that affect profitability most.

Primetric Maturity Score Index designated for Professional Services Firms.

Culmination of the knowledge → **Primetric Maturity Score Index**

Primetric data methodology and best profitability practices + **Valueships analysis & consulting expertise** + **Literature and benchmarks** = **Scoring for the industry**

As experts in terms of measuring profitability and utilization, we have gathered a lot of data, experience, and ideas, on how those metrics should be approached.

We have seen both very successful and some not so good applications of those key metrics. Based on our learnings, we have managed to highlight key points that need to be met in order to achieve a true operational excellence.

As consultants working for the IT industry, Valueships have seen and worked on many profitability & utilization projects throughout the years.

As they have successfully implemented many projects in that matter, they were able to put valuable insights, on how to organize companies to prepare them for optimization of profitability processes.

Our own experience is not everything. There are many great books, journals, reports, and publications that are focused on profitability & utilization.

That's why together we have made a comprehensive literature review in order to create non-biased model that will allow companies to objectively assess their profitability processes. It's great to learn from others, and hopefully you will do so, beacause of the Model.

Each company receives a score between 1 and 5, where 1 means the lowest operational excellence in terms of profitability, and 5 means the highest.

The overall rule is simple – the more, and the better you measure, organize, and report those metrics, the better your score is.

5 levels to become operational excellence expert.

Primetric Maturity Score Index assesses a company's excellence on a five-degree maturity scale using more than 60 indicators. Based on the answers provided by respondents, a special algorithm measures company operational excellence in three categories: Measuring, Forecasting, and Reporting & Scalability. Depending on the answers given, the company earns a certain number of points, which places it on a five-degree maturity scale. Based on the answers and the data from the Report, the algorithm determines what further processes will increase profitability in the organization, and so that it can be placed at a higher level of maturity.

Congrats! You are here!

You are amon the 20% of companies thath have reached level 3!

Level 1

★☆☆☆☆

- Financial information only from accounting
- No time-tracking process implemented
- +6 more

Level 2

★★☆☆☆

- Cost tracking from different perspectives
- Accuracy of working time estimation to actuals at the level of over 70%
- +6 more + all level 1

Level 3

★★★☆☆

- Ability to plan long-term employee utilization (at least 3 months in advance)
- Forecasting 1st degree profitability on projects
- +13 more + all level 2

Level 4

★★★★☆

- The company monitors projects margins, taking into account corporate overheads
- Meaasuring costs of unutilized people, and non-bilable projects
- +8 more + all level 3

Level 5

★★★★★

- Creating utilization and profitability taking into account various scenarios (uncertain projects, uncertain allocations)
- Introduced utilization goals for each person, broken down by seniority and position as well as profitability goals for each project
- +15 more + all level 4

Didn't have a chance to get your own personalized Primetric Maturity Score Index? We have prepared a dedicated survey so that you will receive your own result with recommendations. The survey is 100% anonymous and secure. The data is processed on the basis of response ID by a prepared algorithm. Tips are delivered to your email automatically. Survey takes approx. 10 minutes to complete.
Click here to get your own Primetric Maturity Score Index.

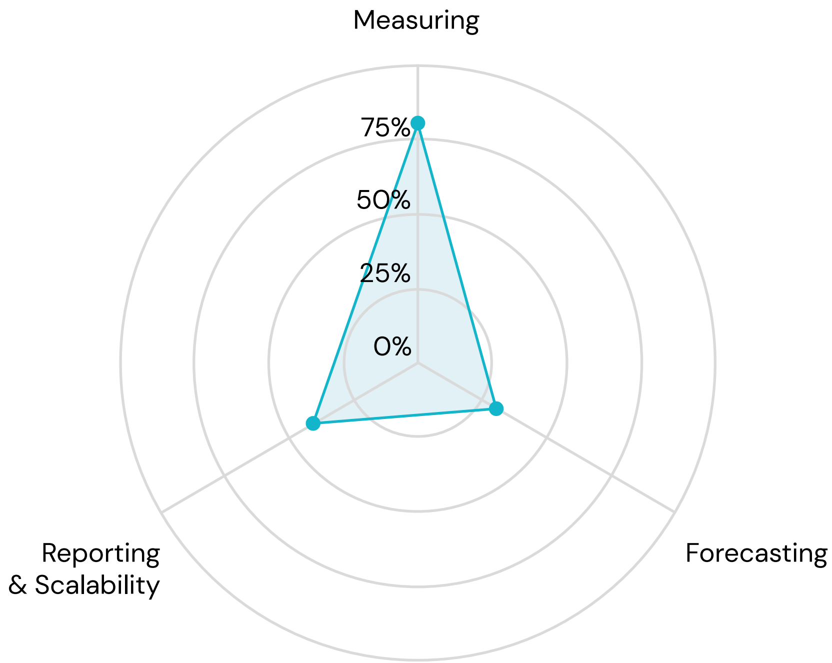
Why measuring Maturity Score Index matters?

Every professional services firm, during its development, follows an operational excellence maturity lifecycle. Today's competitive landscape, even from the minor players, requires building operations at the highest possible level to deliver projects on time, within budget, and with satisfied customers on board.

When a company grows, operational complexity increases exponentially. Hence, managers need to implement processes and tools allowing them to manage and oversee operations to scale faster while improving profitability and fulfilling market demand quickly.

Primetric Maturity Score Index allows for identifying strengths and weaknesses in firms' operations based on three main categories: Measuring, Forecasting, and Reporting & Scalability.

Thanks to Primetric Maturity Score Index, you can see how mature the industry is and which processes are the one that impacts profitability most.



Did you know that...

Companies being at the top of operational excellence have up to 33% Profit Margin, 13% EBIT Margin and 18% 1st-degree Profitability higher than immature firms?

Source: Primetric by BigTime European Profitability & Utilization Report;

5 levels to become operational excellence expert.

Level 1

Model company description according to the stage of development.

Typical company stage: <30 employees

Description

At this stage, the company can estimate the time spent on a project well. Advanced projects are decomposed into small elements and estimated individually (tasks). The company compares estimates with actuals regularly and tracks time spent on individual projects and tasks. It can accurately indicate how much a given project costs based on the costs of people involved in it. By monitoring the time spent on projects, it can offer a Time&Material billing model. Thanks to a proper task management process, the company knows which tasks people spend their time during the day.

Thanks to this, PMs can see the progress of work and can compare estimates to the work actually performed on a given task. Sometimes it happens that the company does not need project management tools, or that employees are not required to log in to specific tasks, then the time tracker becomes the first serious tool in the company.

Used tools & processes

At this stage, fundamental is having time tracking software allowing the company to keep records of tracked time, settle with the client and send invoices, compare estimated time with real-time spent to optimize productivity, and track costs and revenues on projects, and by specific individuals.

In the beginning, to fulfill some of those, time can be tracked in employees' calendars, in spreadsheets, or in a custom-developed tool. Most often, however, companies choose professional time-tracking software.

Most project management systems have their time trackers. Since it is only an addition to the project management functions, they are not extensive and rarely have mechanisms related to calculating budgets or other mechanisms described above. Hence, companies decide to introduce external tools.

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5 levels to become operational excellence expert.

Level 2

Description

At this stage, the company can estimate the time spent on a project well. Advanced projects are decomposed into small elements and estimated individually (tasks). The company compares estimates with actuals regularly and tracks time spent on individual projects and tasks. It can accurately indicate how much a given project costs based on the costs of people involved in it. By monitoring the time spent on projects, it can offer a Time&Material billing model. Thanks to a proper task management process, the company knows which tasks people spend their time during the day.

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Used tools & processes

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5 levels to become operational excellence expert.

Level 3

Description

At this stage, the company can plan the long-term workload of its employees in the future. Managers know projects' portfolios and which projects are confirmed or tentative. On this basis, it is also possible to predict what demand for specialists will be needed in individual projects, what the planned utilization looks like, and assess whether the current specialists will be sufficient or additional people should be employed. On the other hand, the company can predict the bench in advance and react.

At the start, forecasting is more of a micromanagement nature. The company tries to provide employees with work a few days/weeks in advance based on the backlog of tasks included in individual projects. Over time, managers learn how to estimate what team is needed to implement a given project, when such a project will be implemented, and then find the right people based on skills, seniority, and available capacity. Then, it's time to create long-term plans (at least 1-3 months ahead). They use soft booking for uncertain projects or phases in ongoing projects to create different-scenario forecasts. Based on such assignments, it is possible to accurately indicate what the revenue and costs of individual projects will be in the future. By combining data about the future with the present, they can check how predictions compare to reality and, based on this, correct further predictions. It is also an introduction to better distributing your employees' work and maximizing the profitability of individual projects (better distribution of juniors to seniors). Some companies have dedicated people to manage employee workload (resource manager, traffic manager).

Used tools & processes

A company that is at this stage often uses a spreadsheet or widgets/add--ons for their time tracking tools to predict the future. while some of them uses designated resource management software. Such software, allows to predict the Utilization for the coming months of its employees, forecasts costs and revenues, and then compares this with the actuals (based on worklogs). However, most of the planning refers to the aspect of productivity and making sure that a person has proper utilization level.

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5 levels to become operational excellence expert.

Level 4

Description

A company at this stage also monitors the time employees spend outside of billable projects. It knows the cost of individual non-billable projects. The company knows how much the bench will cost in the future. It also monitors overhead costs on a project and employee level. Thanks to that, a company can see the real profitability of each project and person and is able to identify wastes to increase overall company profitability. Managers realize the real costs generated by in-house projects (people costs + opportunity cost + lower utilization resulting in higher markup) and that these will have to be covered by billable projects. At this stage, company can optimize the cost of corporate and operational overheads.

Used tools & processes

Most companies do that in spreadsheets, custom BIs or designated tools such as PSA or FP&A.

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Level 5

Description

At this stage, the company is fully aware of all ongoing and planned operations. It knows what its strengths are; it knows what services bring it the most profit. It looks just for such projects; this is how it communicates to the market. It can make informed decisions about which projects to engage in and which not. It invests in developing employees to carry out demanding projects so the company can focus on delivering more profitable projects.

The company knows very well which projects need which skills and ensures that employees who are too good don't perform tasks that are too simple in relation to their skills. Thus, it uses leverage to generate more revenue by using less capital-intensive workers in a project.

Moreover, the company has such a predictable process that it is able to achieve its goals with min. 80% effectiveness. Indicators such as 1st degree profitability, utilization, seniority index and many others are understood by managers in the same way, and the company has a centralized source of truth with unified data flow.

Thanks to this, managers are able to see the data in the real-time, being sure that they are up-to-date and exchange information while being at the same level of understanding.

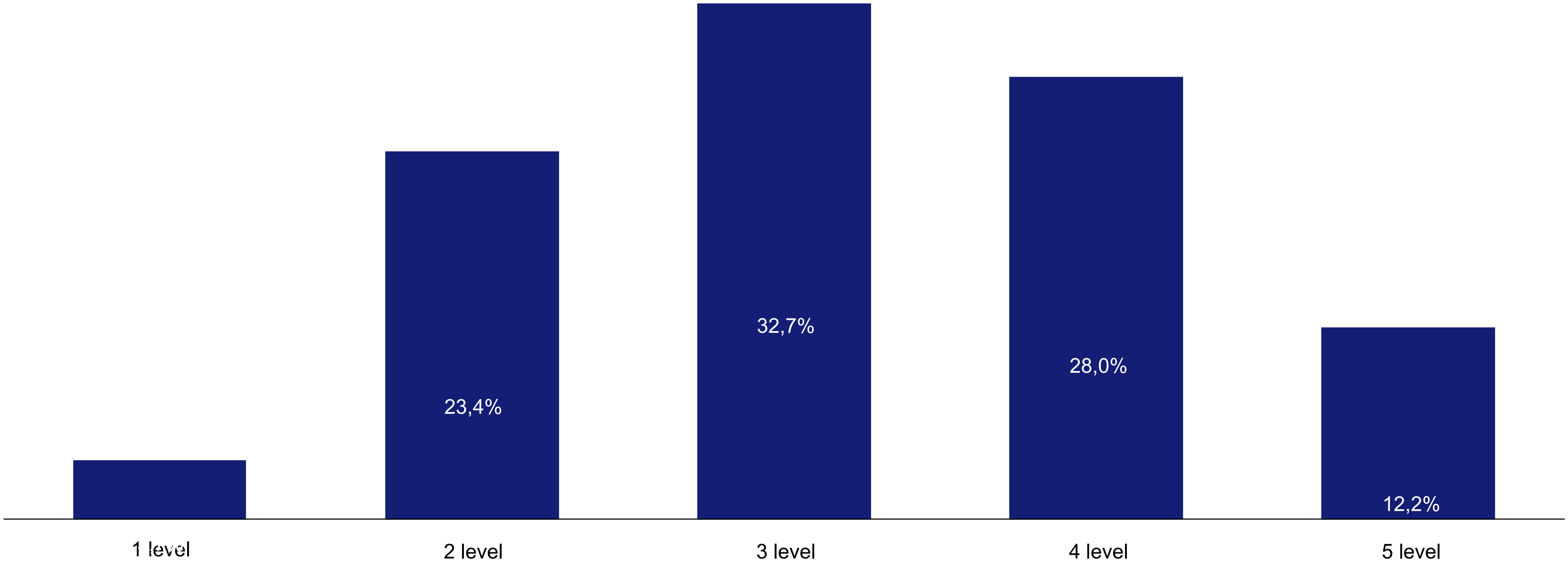
Used tools & processes

At this stage, companies often use custom BIs or PSA software to create different data accesses based on roles in the organization. Thanks to that, managers use the same source of truth, and make any updates or adjustments in a single place.

Didn't have a chance to get your own personalized Primetric Maturity Score Index? We have prepared a dedicated survey so that you will receive your own result with recommendations. The survey is 100% anonymous and secure. The data is processed on the basis of response ID by a prepared algorithm. Tips are delivered to your email automatically. Survey takes approx. 10 minutes to complete.
Click here to get your own Primetric Maturity Score Index.

The Primetric Maturity Score Index for the industry is at level 3.

Maturity Level Breakdown (N=87)



Source: Primetric by BigTime European Profitability & Utilization Report;

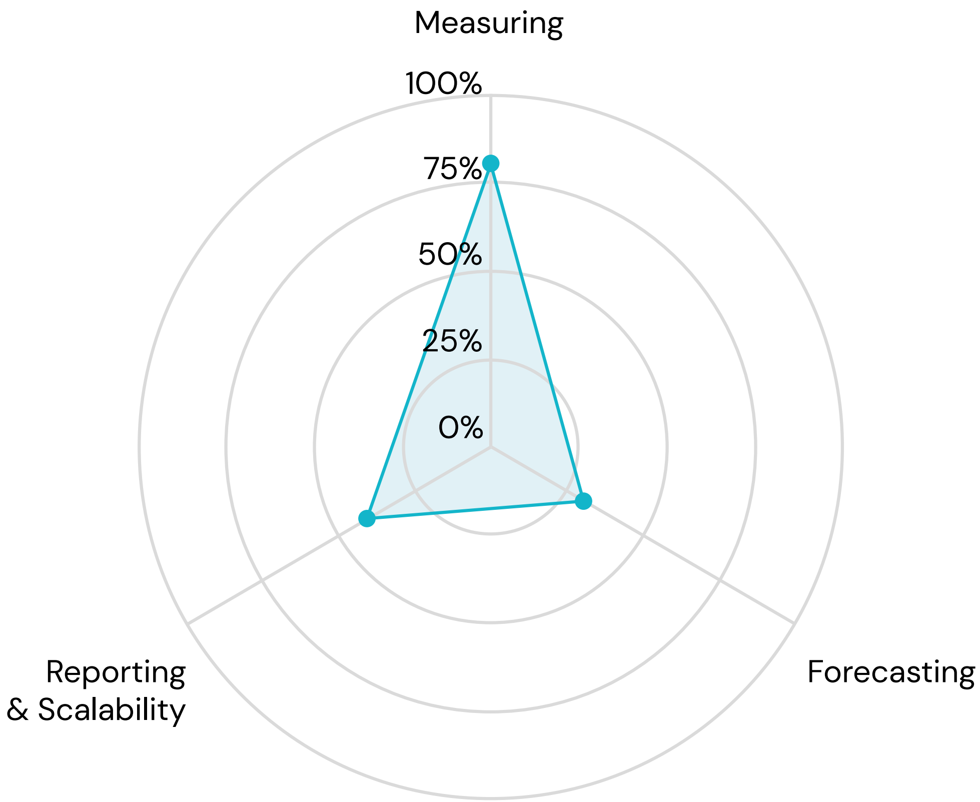
The most developed area in organizations is Measuring. Forecasting and Reporting & Scalability are areas that are at a much more beginner level.

The most operationally developed area is Measuring. All companies start with it – without measurement it is difficult to estimate, forecast or report. It is therefore not surprising that this is what companies feel best about and start with.

However, Forecasting, and Reporting & Scalability are at a much more beginner level. While companies tend to report, forecasting is unclear for most of them.

The biggest challenges for companies are:

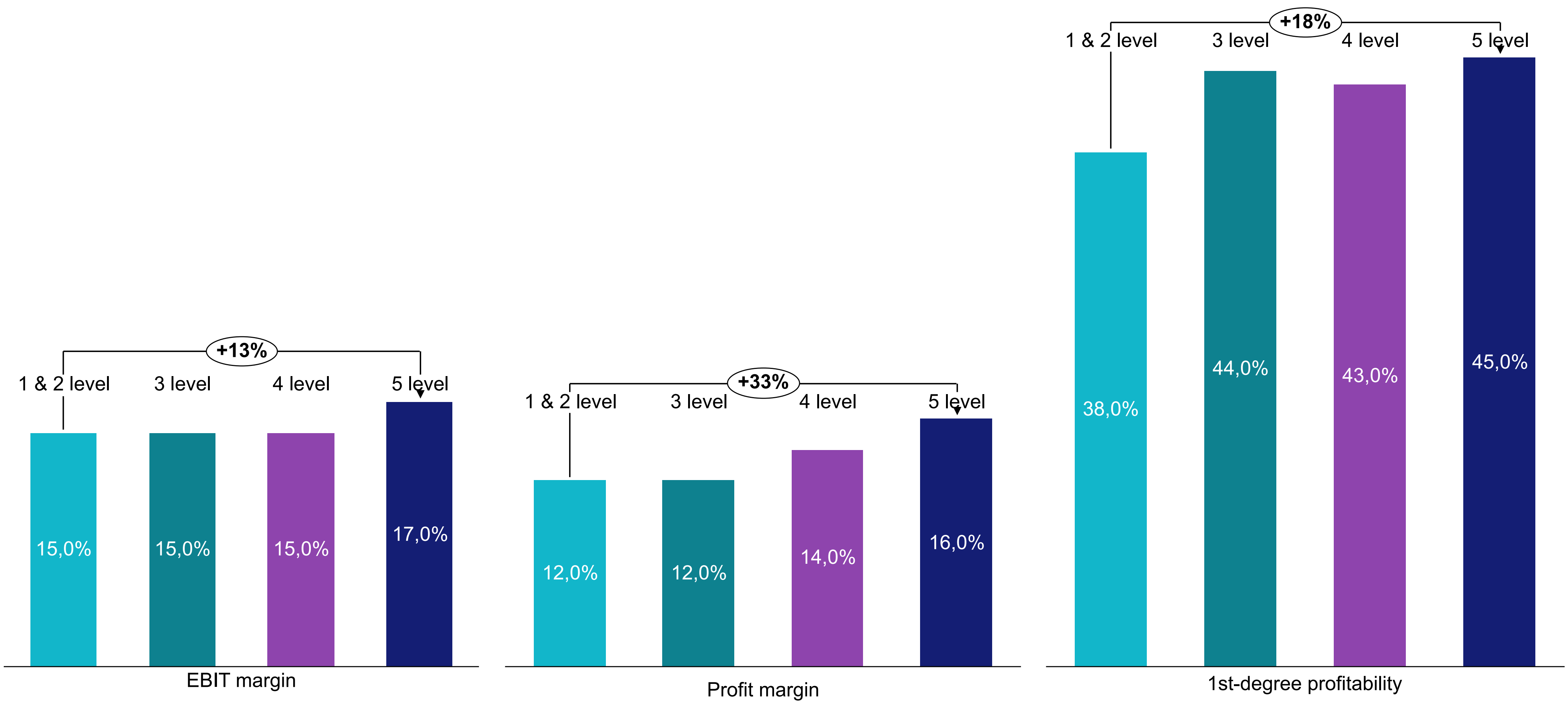
- Long-term financial and utilization planning – most of them do it ad--hoc or in short-term periods,
- Different-scenarios forecasting – a lot of companies believe that this should only happen for confirmed projects,
- Reporting by different profitability dimensions – very few companies measure the profitability of individual employees and teams
- Reporting by different utilization dimensions – both resource utilization and resource profitability reporting



Source: Primetric by BigTime European Profitability & Utilization Report;

There is a direct correlation between maturity level and better financial performance. Companies at level 5 of the Maturity Score Index have up to 33% better financial indicators than those at level 1.

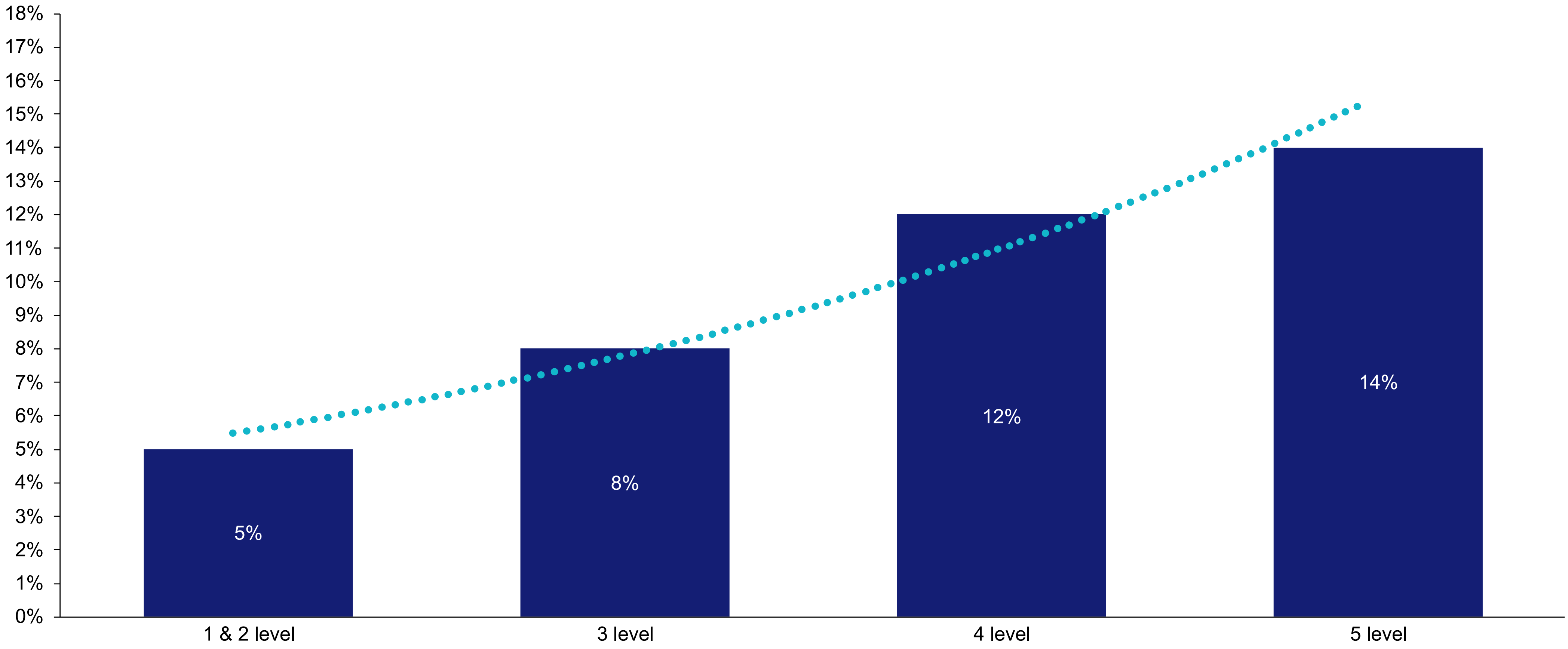
Agency Financial Performence by Maturity Index Level



Source: Primetric by BigTime European Profitability & Utilization Report;

The correlation between maturity level and financial performance becomes even stronger when we look at companies with 100+ employees. The profit margin between levels 1 & 2 and level 5 differs by an average of 280%!

Agency (with 100+ headcount) Profit Margin by Maturity Index Level (N=35)



Source: Primetric by BigTime European Profitability & Utilization Report;

Conclusion.

The holy grail of companies is not to raise rates indefinitely (especially when you operate in very competitive markets) but to optimize operational excellence.

Thanks to that, you have a better margin and a healthy and profitable organization.

Maturity Score Index - Expert comment

The Maturity Score Index is an essential resource for companies focused on operational excellence. As the Head of the Client Success department at Primetric by BigTime, with experience in implementing MSI-compliant best practices, they are one of the primary tools we use when working with management boards of professional services companies.

Operational excellence is the foundation on which successful utilization and profitability management are based. Skillful management of these indicators allows companies to adapt to dynamic market changes, which determines their success.

Having participated in over 100 Primetric by BigTime implementations, I have noticed that companies focusing on operational excellence through long-term forecasting supported by solid processes understood and applied by middle management achieve rapid yet stable growth. These companies can also respond quickly to changing market needs, translating into visible financial successes.

MSI plays an essential role in facilitating operational excellence efforts. Standardization of processes, the introduction of measurability, and effective data management enable faster identification of areas for improvement. **MSI provides knowledge that improves operations and simultaneously allows for adaptation to the specificity of the industry. The introduction of standards allows for better control and monitoring of results, which facilitates making informed management decisions affecting the company's success.**

A key element of managing a professional services firm is striving for operational excellence.

Tomasz Gmur

Head of Client Success, Primetric by BigTime

Primetric BY BIGTIME

Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

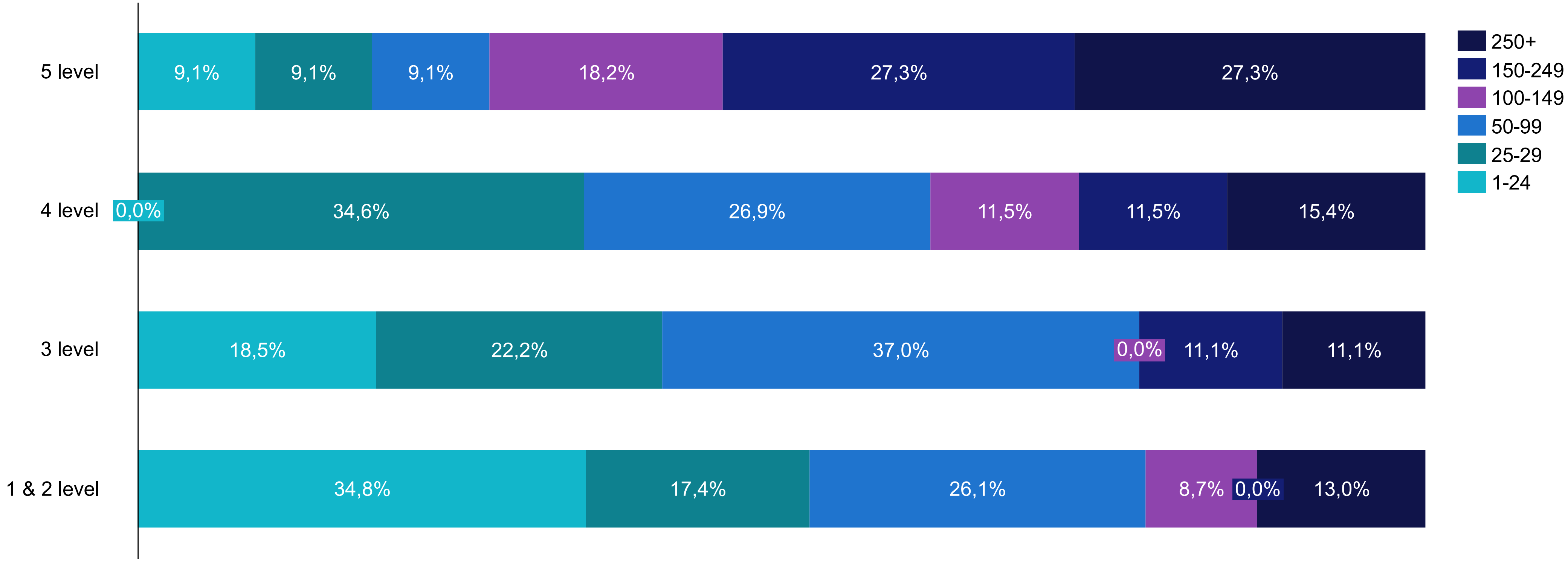
Primetric
BY BIGTIME

Target Audience

I Pillar: Primetric Maturity Score Index

As the company grows, its Maturity Score Index also increases. It's typical as at some point, it's tough to manage a company if you don't have basic operations built. Those who build them faster, benefit faster.

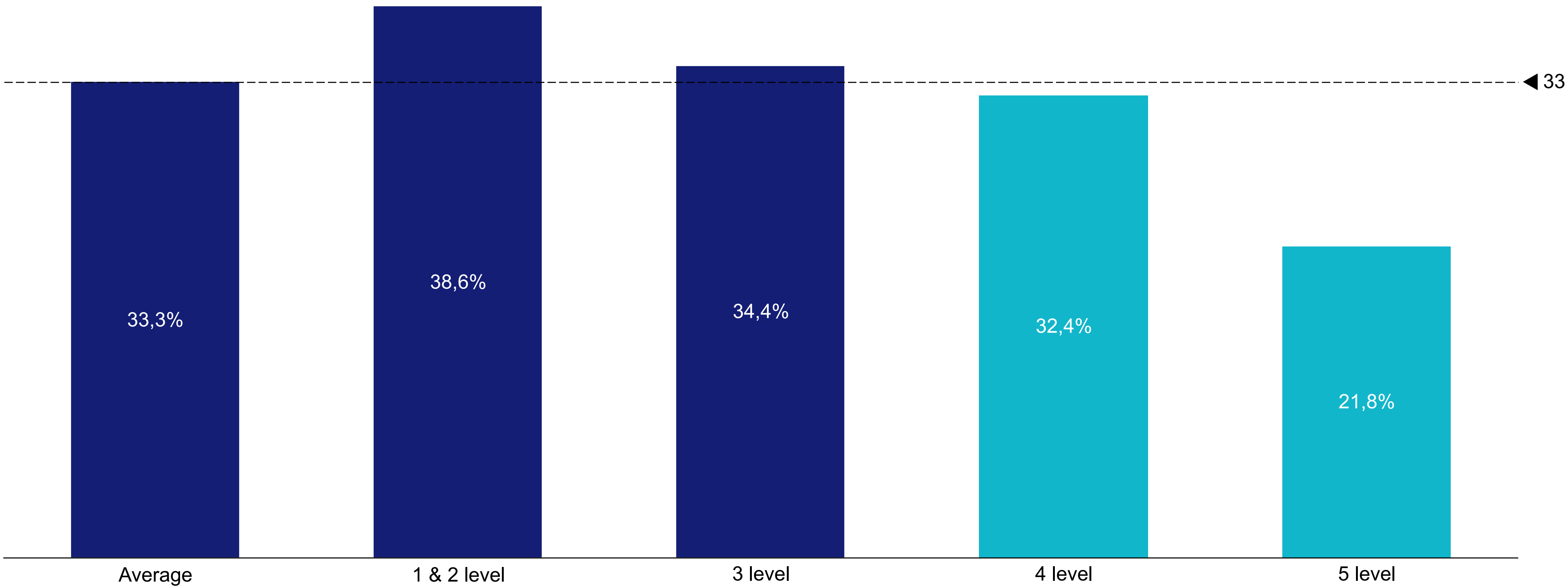
% of company headcount per maturity level (N=87)



Source: Primetric by BigTime European Profitability & Utilization Report;

The higher the Maturity Score Index, the less reliance a company has on individual large customers. This makes the organization more resilient – especially in times of recession.

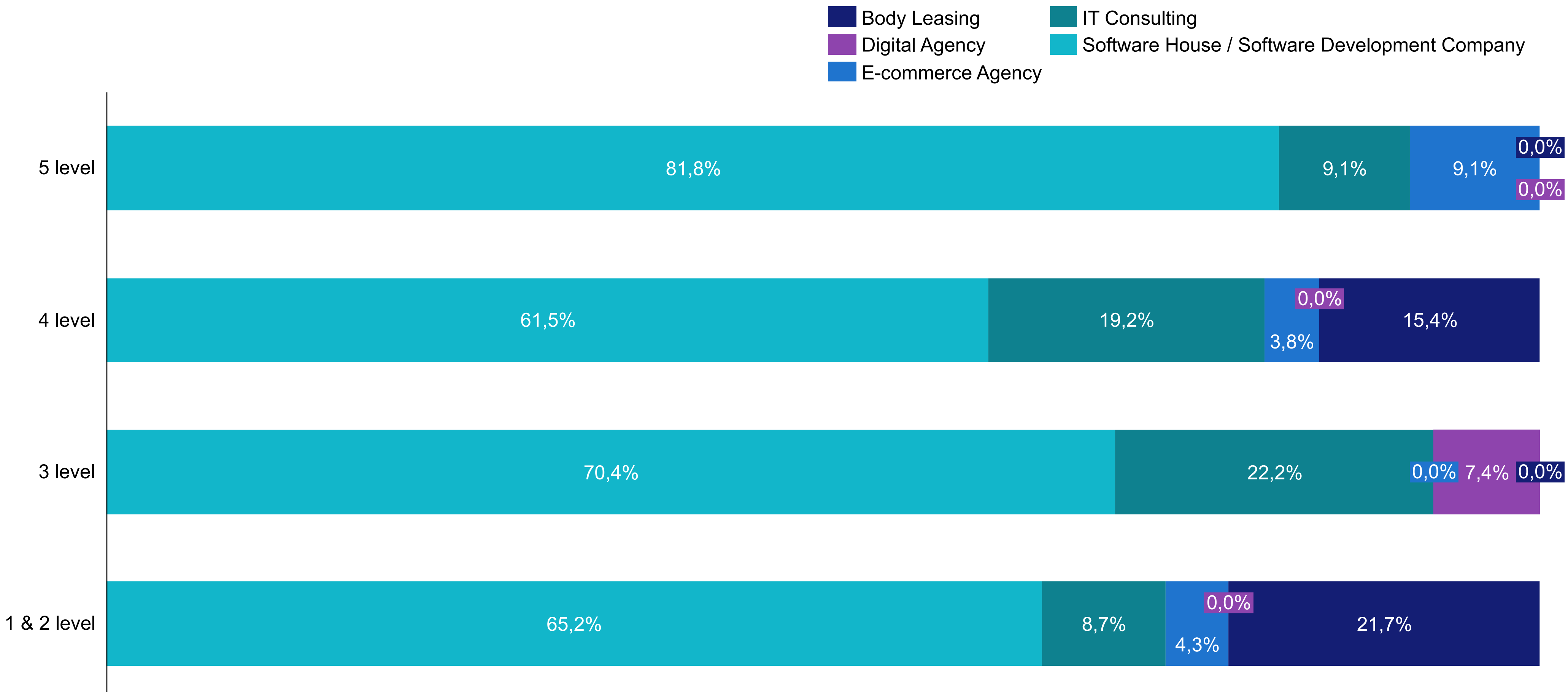
Approximately what percentage of your revenue was generated by your biggest client last year? (N=87)



Source: Primetric by BigTime European Profitability & Utilization Report;

Software Development Companies and IT Consulting companies tend to have higher Maturity Scores, while Body Leasing and Digital Agencies have lower scores.

Company type per maturity level (N=87)



Conclusion.

Body Leasing (Staff Augmentation) companies have a simpler busines model than Software Development Agencies or IT Consulting companies. That's why they can last longer at lower levels. Digital Agencies, especially with marketing and creative projects, might have more chaotic processes, often caused by customers.

Conversely, IT Consulting companies and Software Development Agencies typically offer more complex services requiring better operations management.

Source: Primetric by BigTime European Profitability & Utilization Report;

Maturity Score Index - Expert comment

The Maturity Score Index serves as a valuable tool for visualizing the operational level of a company and identifying areas for improvement to achieve higher results. Comparing the Maturity Score Index to similar companies in nature and size allows for a comprehensive assessment of your company's competitive positioning. Regularly evaluating the MSI is crucial to monitor its progression as the company expands.

Elevating the Maturity Score Index is essential and a „must-have" requirement. **Failing to enhance operational maturity during growth can lead to low profitability, cash flow issues, and vulnerability to market crises. The significance of increasing the company's maturity score is evident in its correlation with improved diversification in the customer base across industries, regions, and the share of the largest customer in revenue.**

For instance, Transition Technologies PSC's transformation over the last decade, moving from a scenario where a single customer contributed 99% of revenue to one where the most significant customer accounts for 15%, underscores the imperative of rapid development in operational maturity.

Examining the reasons behind the variance in Maturity Scores among different business types reveals that Software Development Companies and IT Consulting firms often score higher. In contrast, Body Leasing and Digital Agencies tend to have lower scores. Transition Technologies PSC, as a hybrid of Software House and Global System Integrator, provides a practical example of the distinct operational maturity requirements for each business line.

For example, our primary focus on extending R&D departments of software technology companies involves long-term Time and Materials (T&M) contracts. Managing such projects is operationally simpler, given the straightforward planning, measurement, and forecasting involved. In contrast, our business in providing solutions for industrial and manufacturing companies, handling short to mid-term end-to-end projects, demands a higher maturity level in progress measurement, risk management, and forecasting. Achieving a Maturity Score Index of 4-5 is crucial in this context.

Marcin Wilczura

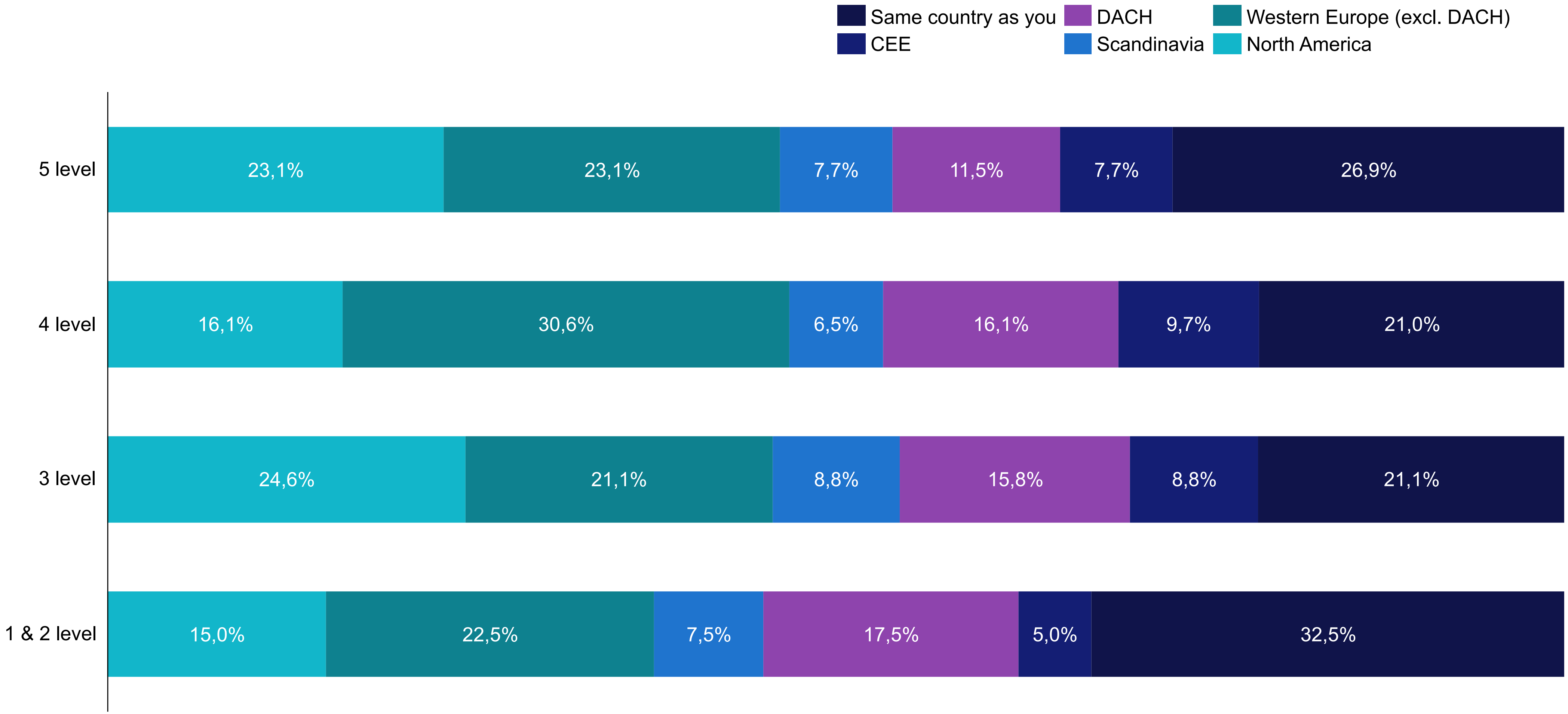
COO, Transition Technologies PSC

psc_ TRANSITION TECHNOLOGIES

Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Main focus area

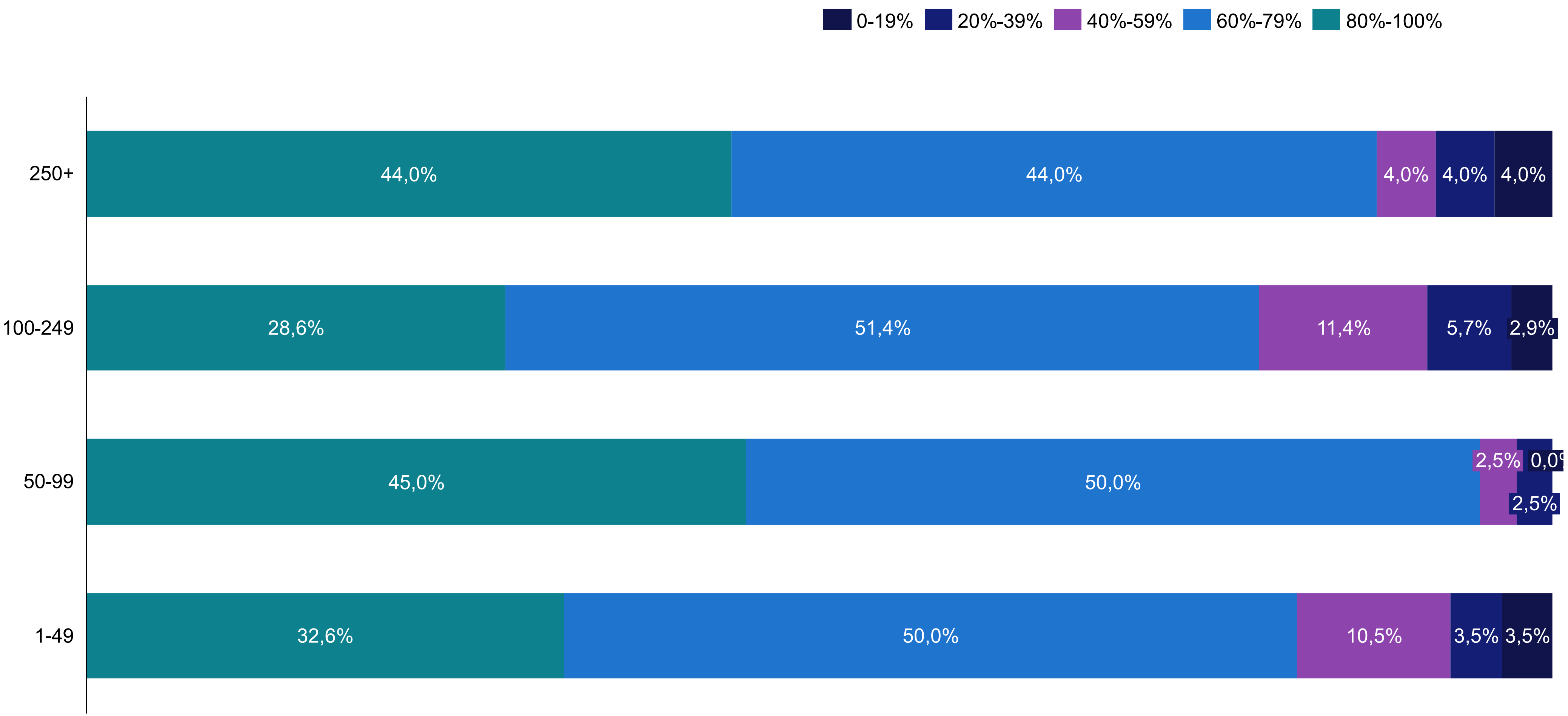
Main focus area per maturity level (N=87)



Maturity Score Index – Target audience

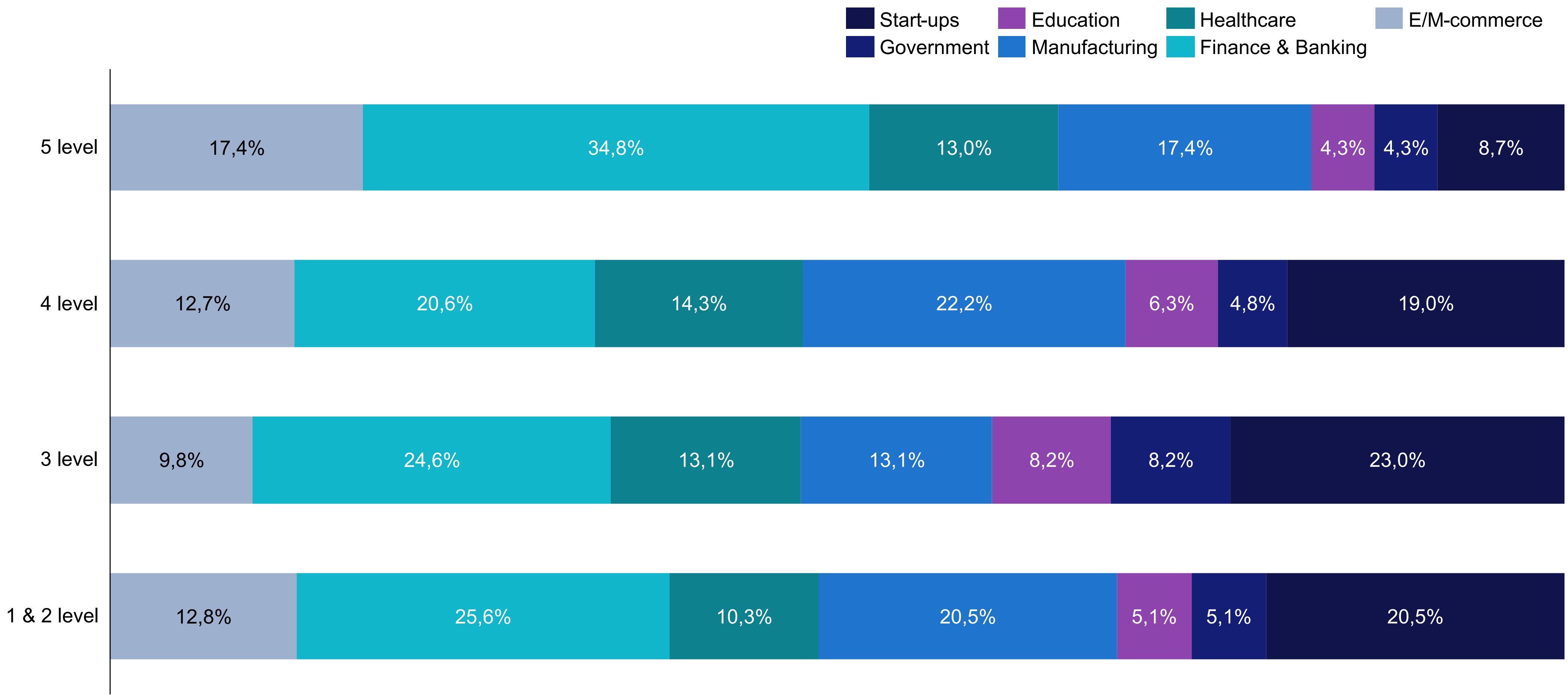
Clients region.

Region of clients per maturity level; (N=87)



Client's industry.

Client's industries per maturity level (N=87)



Source: Primetric by BigTime European Profitability & Utilization Report;

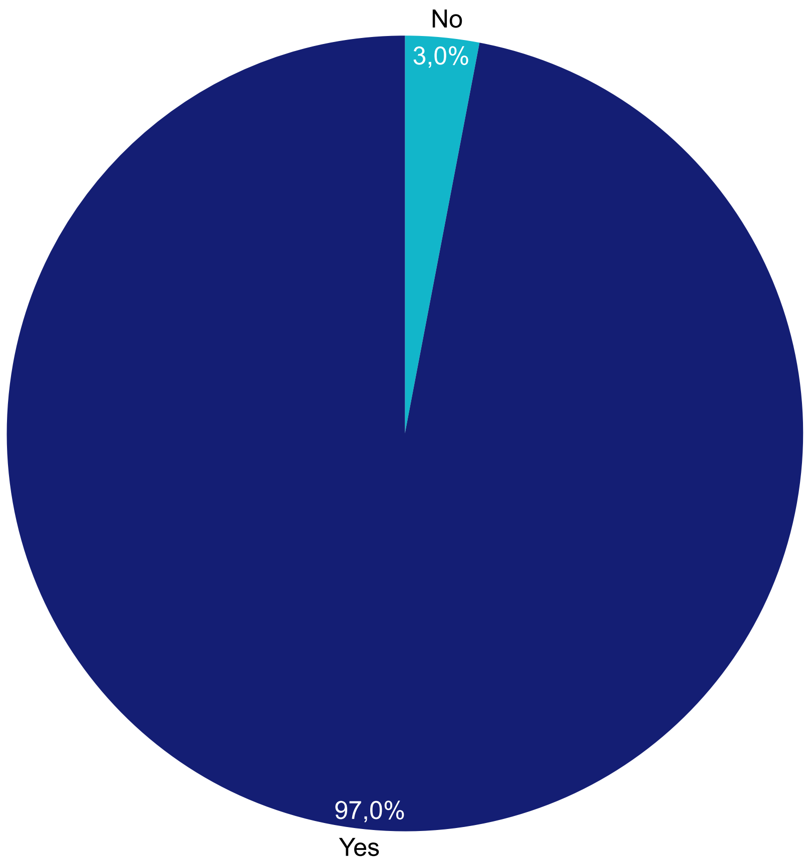
Primetric
BY BIGTIME

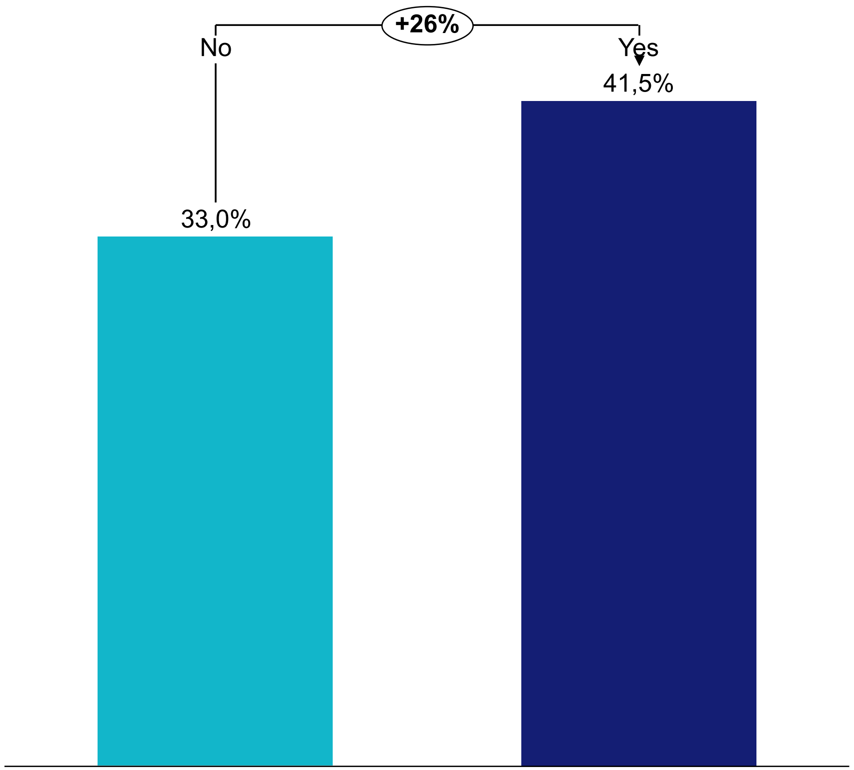
Implemented Operations

I Pillar: Primetric Maturity Score Index

Let's start from the basics. Only 3% of companies do not track time in any form, and this is reflected in the financial results: companies that do not track work time have, on average, 26% lower 1st-degree profitability.

Do you track your employee's work time (i.e. the number of hours your employee works during a day or period of time)? (N=99)

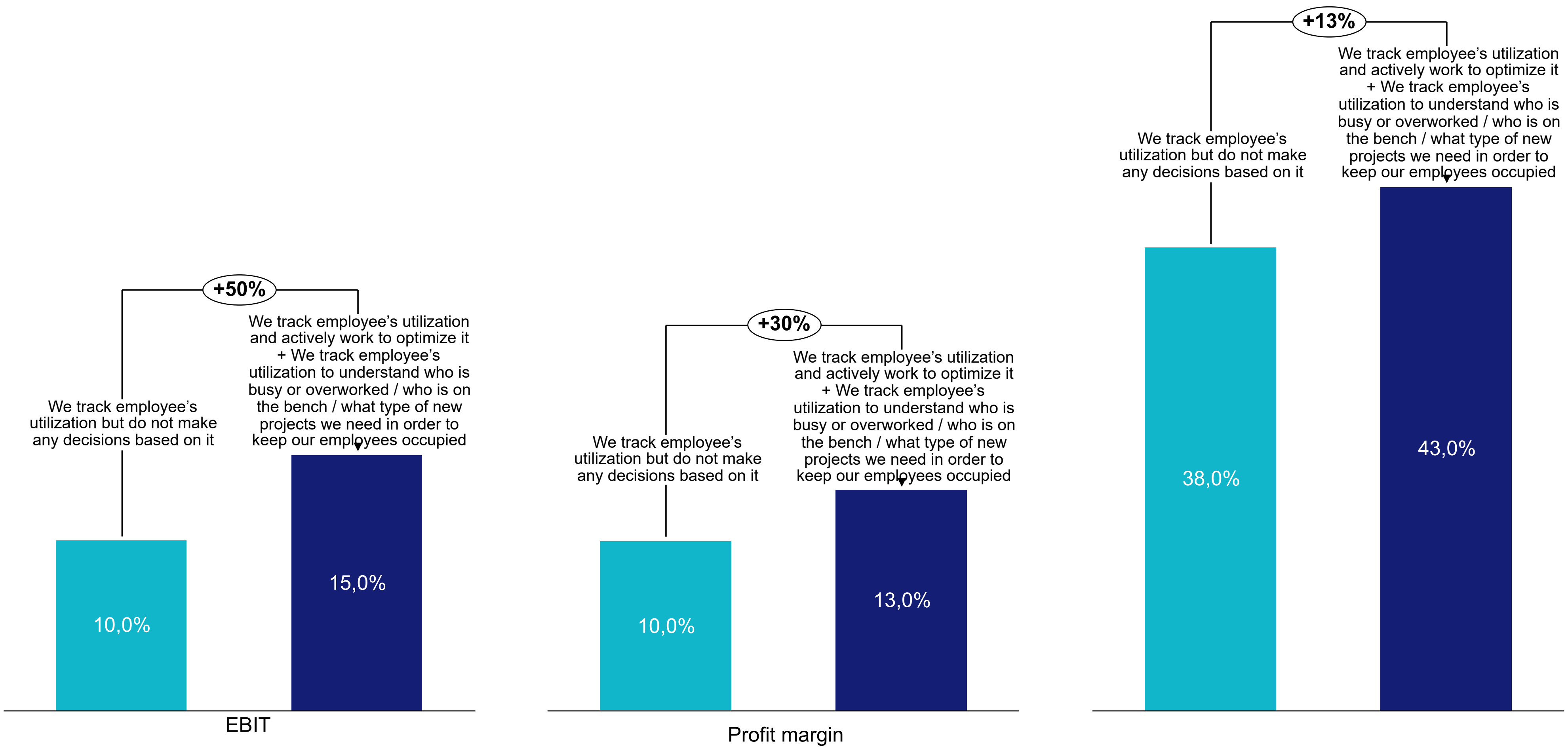




Source: Primetric by BigTime European Profitability & Utilization Report;

On average, companies that actively work with utilization have a 50% higher EBIT Margin, 30% higher Profit Margin, and 13% higher 1st-degree profitability.

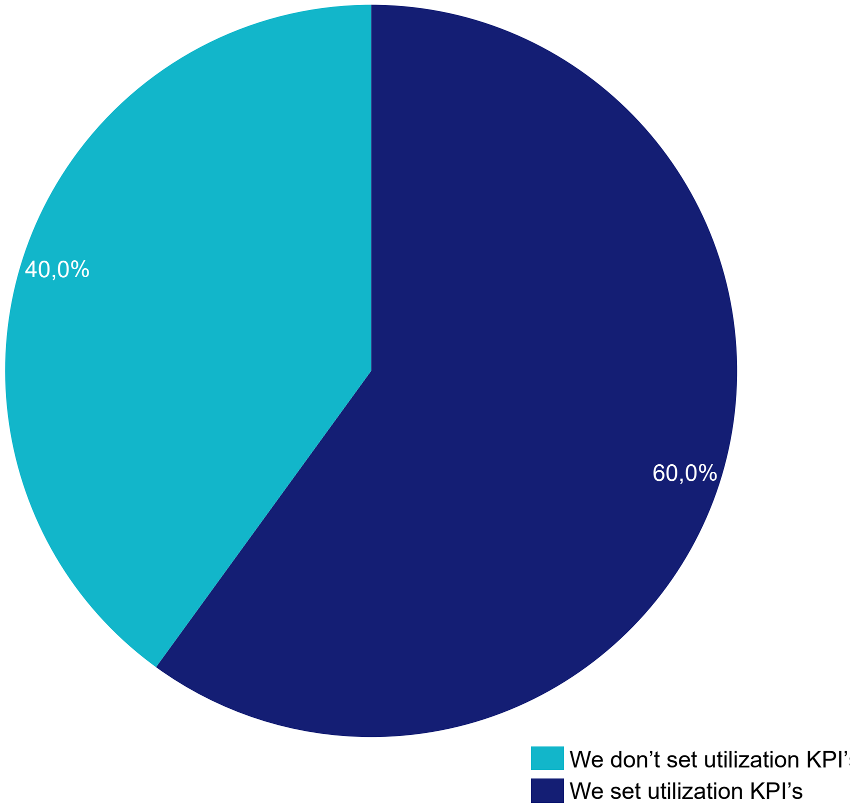
Why do you track employee utilization? (N=82)

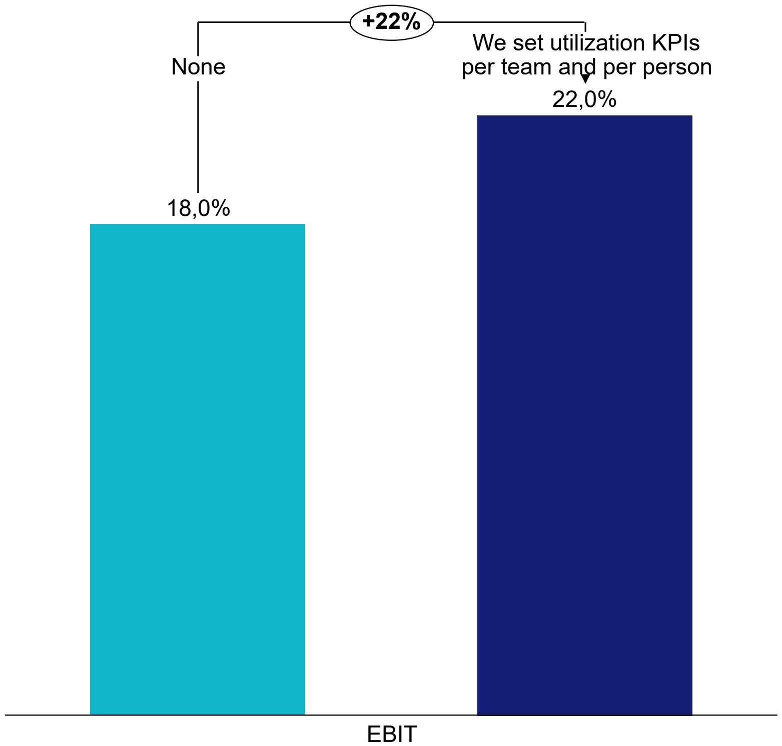


Source: Primetric by BigTime European Profitability & Utilization Report;

40% of companies have no KPIs related to Utilization, and those that do have a higher EBIT Margin by as much as 22%.

What utilization KPIs do you track? (N=90)

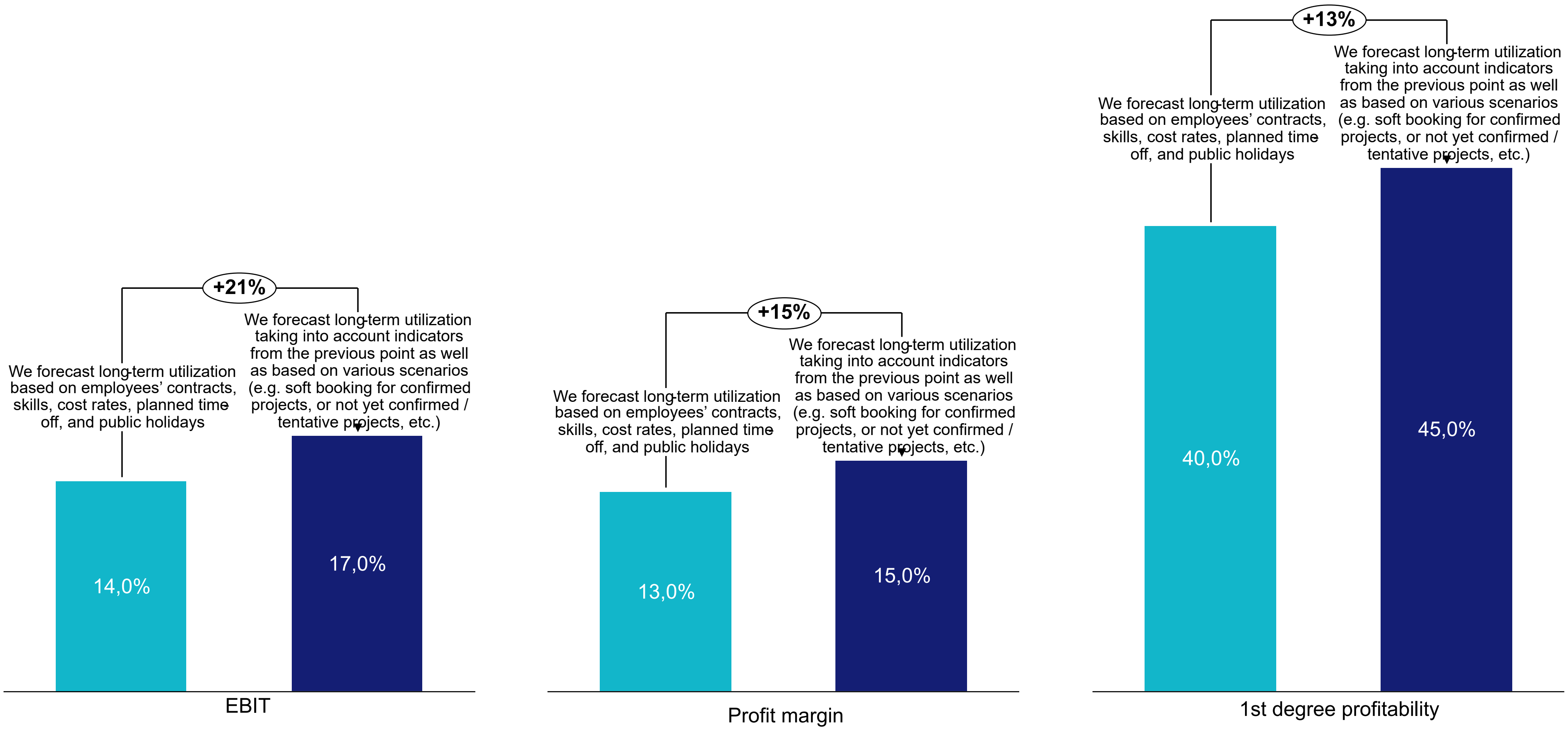




Source: Primetric by BigTime European Profitability & Utilization Report;

47% do not forecast long-term Utilization, and those that do it based on various scenarios related to project uncertainty or uncertain allocations have on average 21% higher EBIT Margin, 15% higher Profit Margin, and 13% higher 1st-degree Profitability.

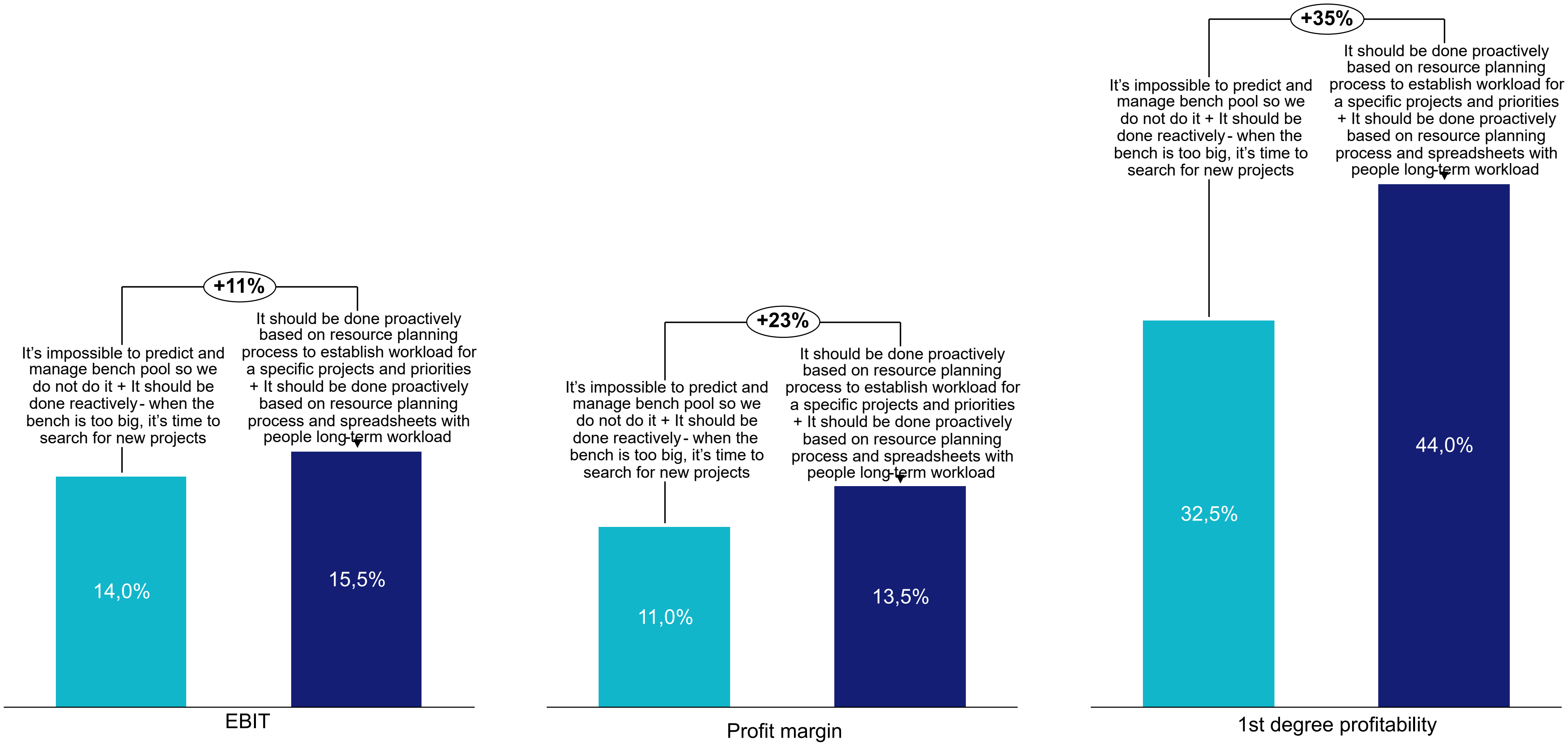
Do you forecast long-term? (N=90)



Source: Primetric by BigTime European Profitability & Utilization Report;

86% of companies proactively manage the bench, translating into increased financial performance: on average, 11% higher EBIT margin, 23% Profit Margin, and 35% 1st-degree profitability.

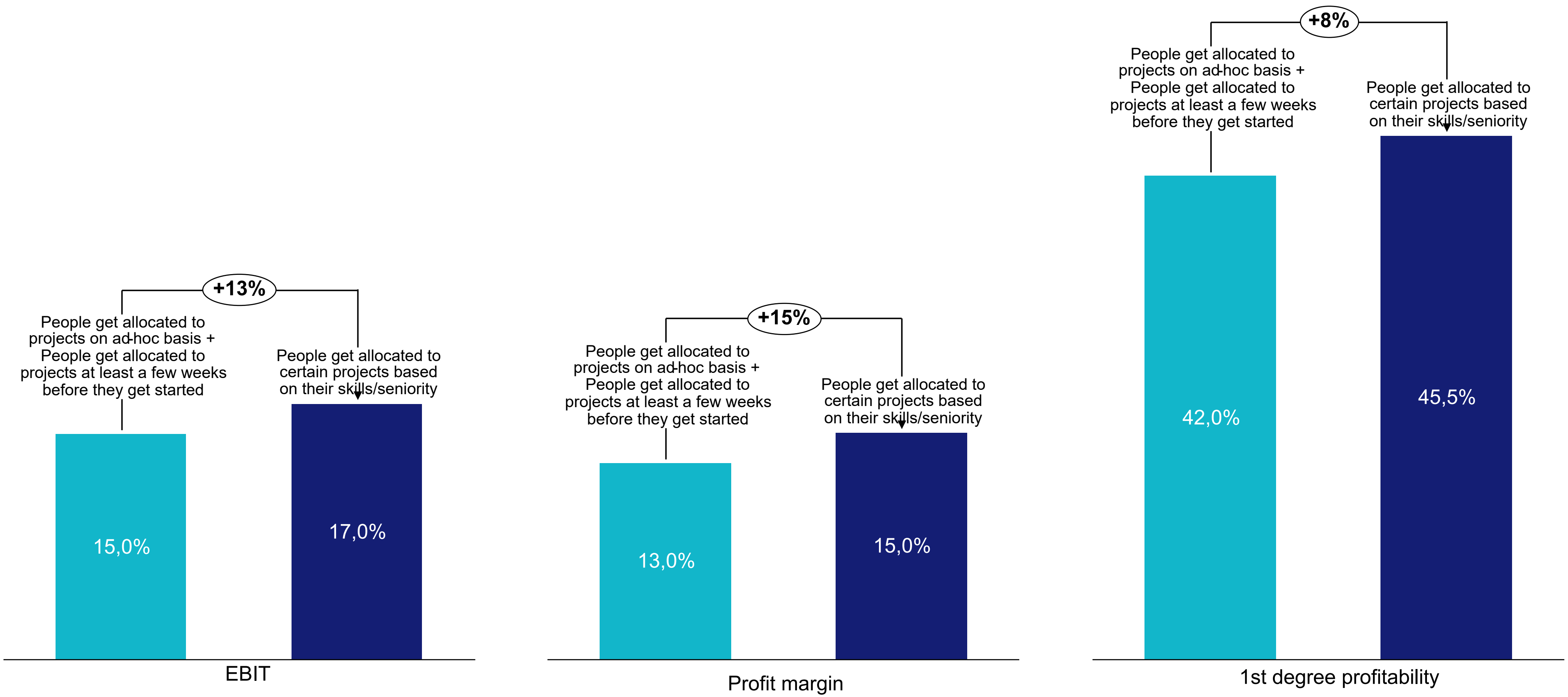
Do you manage the bench? (N=88)



Source: Primetric by BigTime European Profitability & Utilization Report;

As many as 42% of companies do not plan people based on their skills and seniority. Those that do, on average, achieve a 13% higher EBIT Margin, 15% Profit Margin, and 8% 1st-degree profitability.

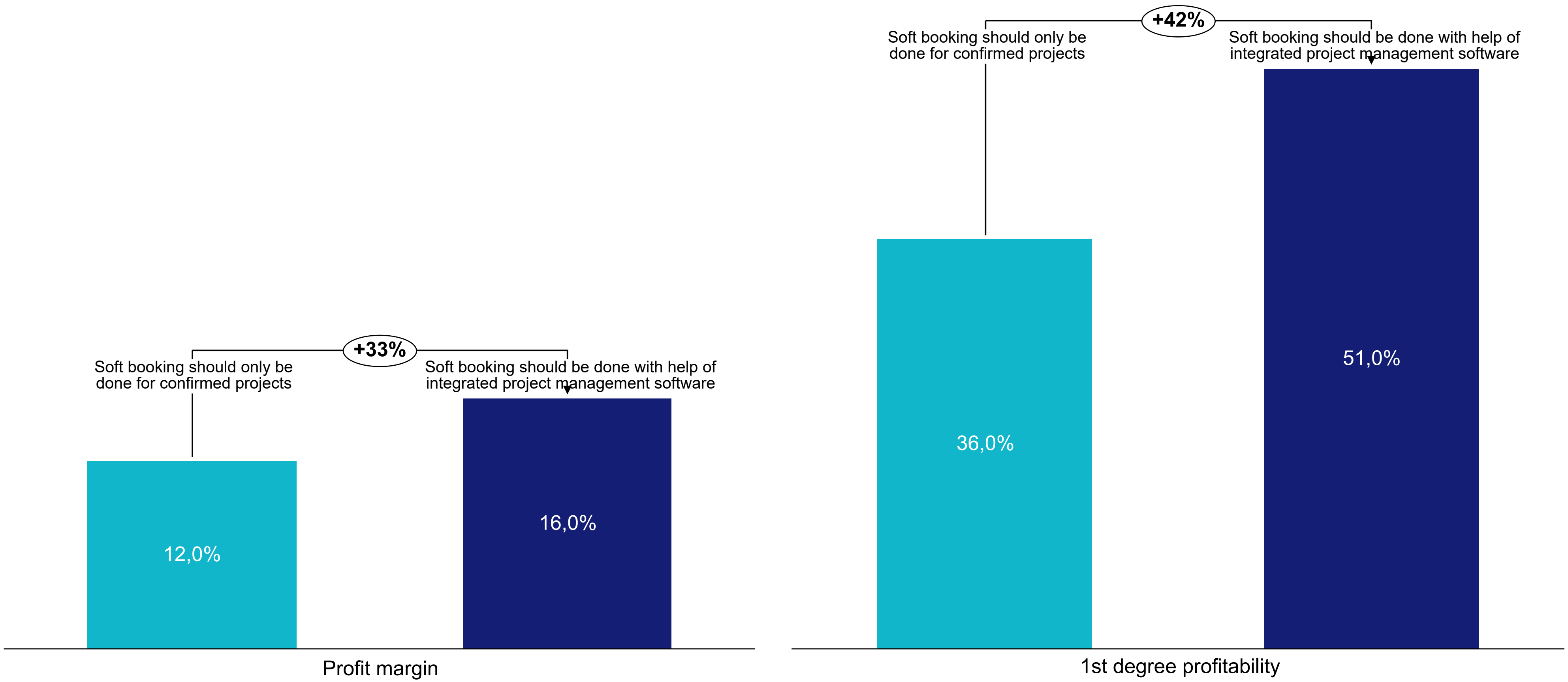
How do you schedule people work? (N=88)



Source: Primetric by BigTime European Profitability & Utilization Report;

Half of the companies do not forecast uncertain allocations, and those that do with integrated tools have, on average, 33% higher Profit Margin and 42% 1st-degree Profitability.

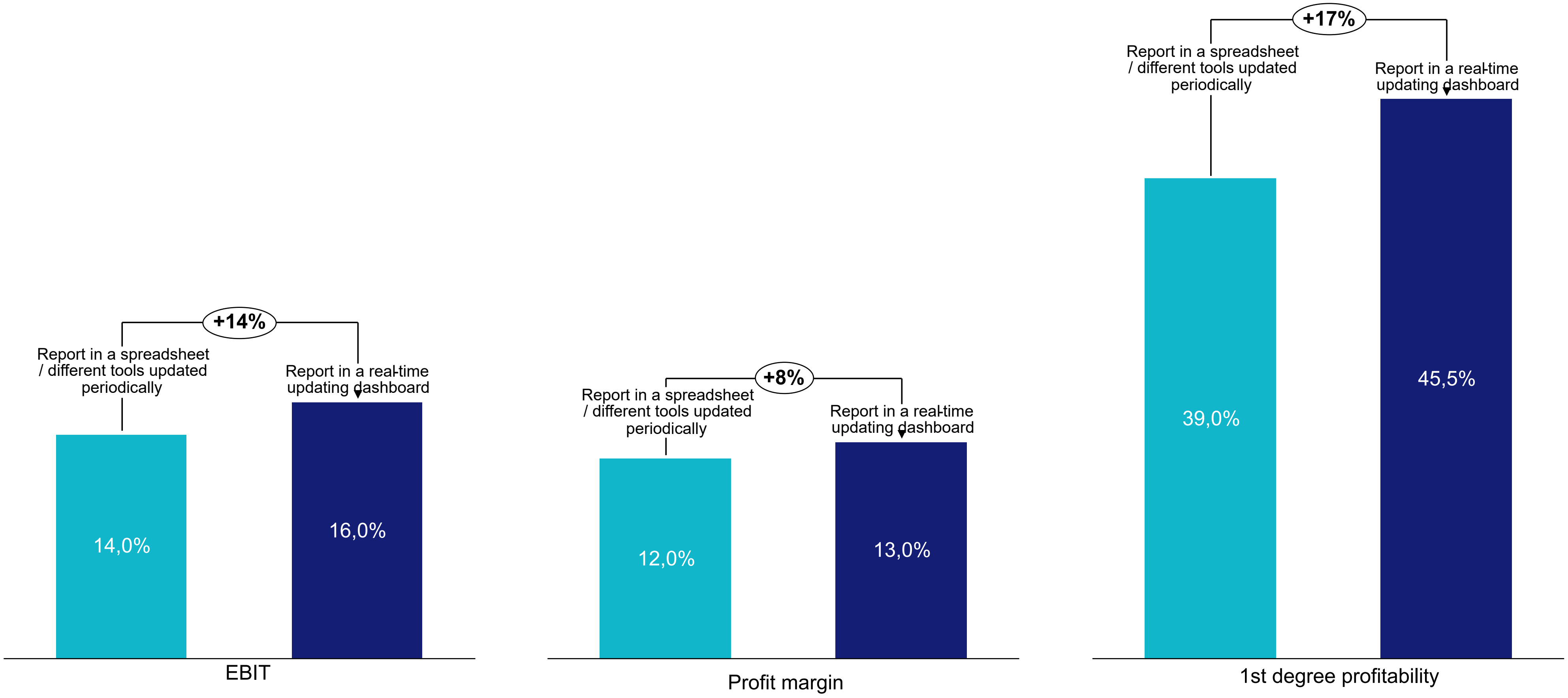
How do you handle soft bookings? (N=88)



Source: Primetric by BigTime European Profitability & Utilization Report;

Companies that use real-time data provided by dedicated tools (custom BI, PSA tools, other) have better financial results: EBIT Margin greater by 14%, Profit Margin by 8%, and 1-degree Profitability by 15%.

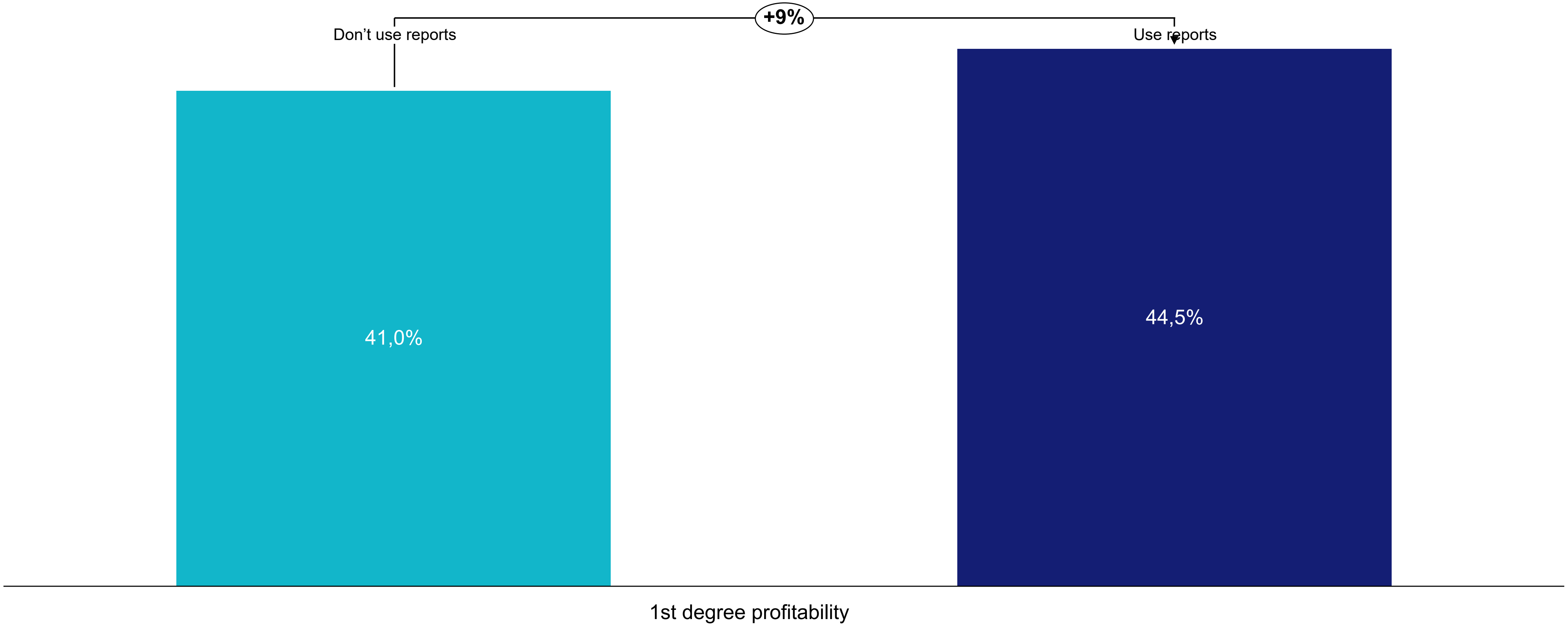
How can you access data on employee utilization and project/company profitability? (N=88)



Source: Primetric by BigTime European Profitability & Utilization Report;

On average, companies that use reports related to management indicators have slightly higher 1st-degree Profitability.

What reports you use? (N=88)



Source: Primetric by BigTime European Profitability & Utilization Report;

Maturity Score Index - Expert comment

Based on our experience over the years, forecasting long-term utilization in a service-based agency has often proven to be the most challenging. So, it doesn't surprise me to see that many companies go through the same struggle. Sometimes, even the things that seem pretty sure fall through at the last stage. Although it represents an essential element in the success of a business and something to strive for, long-term forecasting is often influenced by various external factors that impact future demand and usage patterns. Economic changes, political events, or technological advancements are just some of the events that make it quite challenging to implement a successful forecasting system fully.

It is fascinating to see how big of an impact active work with utilization, especially proactively managing the bench, can have on financial performance. We have seen first-hand the positive aspects of setting utilization KPIs and their optimization on the decision-making process in the company. What surprised me most was the level of influence forecasting uncertain allocations has on profitability. Coincidentally or not, it is also one of the most complicated things to implement.

One of the critical moments in Degordian's growth happened when we integrated our operations into a dedicated platform. This enabled us to unify all of our data sources and use the massive potential of real-time reports for better financial forecasting, resource allocation, improving utilization, and tracking profitability. It was a huge step forward compared to our previous reporting systems that required regular manual inputs, which made them more prone to errors and inconclusiveness. With such significant advancements in data tracking, companies have a fantastic opportunity to quickly create an overview of their critical success.

Daniel Ackermann

CEO,
Degordian

degordian

II Pillar: Personalized Insights

In this section, you'll find personalized prepared based on your answers.

Didn’t take the survey for the report but want to receive your Maturity Score Index with personalized, actionable insights?

You have selected that you do not track utilization KPIs

Companies that set utilization KPIs at the team, individual, and seniority levels have a 22% higher EBIT margin. 60% of companies set utilization KPIs. Utilization targets not only allow you to monitor this metric, but they also force managers to work to optimize it. Remember that the sample of companies with advanced KPIs is relatively small, so the results may not be reliable.

You have selected that you do not manage the bench pool

86% of companies proactively manage their bench. Proactive bench management should be correlated to your sales cycle and the average time to hire a specialist. If your sales cycle is six months, you should aim to have bench information that far in advance. That way, your sales team has time to acquire a new project or sell specialists in the running projects. On the other hand, your HR team will be able to hire the right people when specialists are unavailable. Companies that proactively manage the bench have an average 11% higher EBIT margin, 22% higher profit margin, and 33% higher project profitability.

Get your Maturity Score Index now

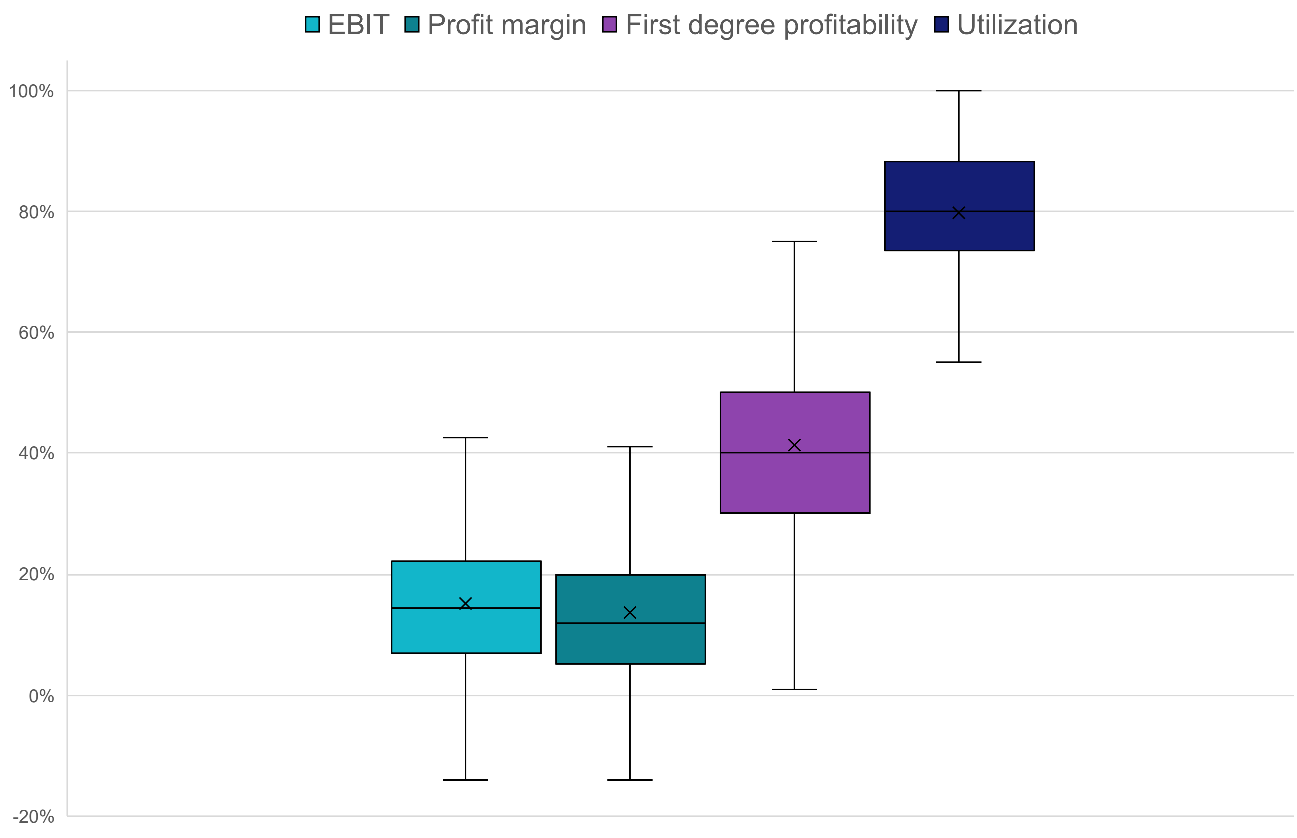
Primetric

BY BIGTIME

III Pillar: Benchmarks

In this section, you'll find analysis and benchmarks for four leading indicators: EBIT Margin, Profit Margin, 1st-degree Profitability, and Utilization.

Let's start with general benchmarks for the industry: 40% 1st-degree profitability, 14% EBIT margin, 12% profit margin, and 80% utilization level.

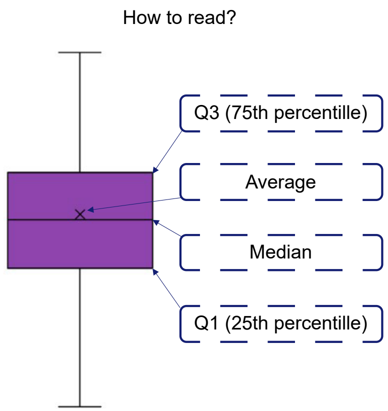


As you can see, the average difference between:

- 1st-degree Profitability vs EBIT Margin: 26%
- EBIT Margin vs Profit Margin: 2%

For utilization at 80%.

In 2022, corporate overheads and other expenses consumed about 28% of the 1st-degree profitability, making companies generate 12% of the net profit margin.



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

1st-degree Profitability doesn't look good in the European IT Services industry.

1st-degree Profitability

is the ratio of income generated by billable people to the cost of wages. It is one of the primary management indicators to evaluate. It allows for measuring how profitable are our projects based on direct incomes and costs.

The best in the industry achieve 1st-degree Profitability even at 100% when the lower limit is 30%.

Depending on the industry and the specialization of services - the average 1st-degree profitability can vary. However, it has been assumed that the recommended value should oscillate around 50-60% to cover other company expenses and keep the organization at about 20-30% Profit Margin.

In general, the 1st-degree Profitability does not look good.

24% of organizations have this ratio at the healthy level (higher than 50%), while, 20% of organizations have it too low (below 30%). Combining this with the fact that non-European markets are becoming increasingly competitive with lower wages, while in Europe wages are constantly growing it means that European companies need to start looking for other strategies than selling cheap resources to the West.

I Pillar: Benchmarks - Expert Comment

The company's profitability is one of the most important KPIs of the company. It depends on the company's goals and creeds at a given stage of development. An appropriate and satisfactory level allows for higher flexibility and enables medium- and long-term growth. At the same time, it allows management to answer whether the company is on the right track or needs a minor adjustment.

We can indicate profitability on many levels: Margin EBIT, Margin EBITDA, Profit Margin, or 1st-degree profitability. However, the one crucial margin when running a business is 1st-degree profitability. Regardless of the stage of business development, we can make a transparent and comparable assessment of the business model's effectiveness.

The key to achieving such a level is continuous analysis and management of this area from revenue and cost. Efficiency at the level of revenue should be measured for each project by headcount or billable hours, equal to cost in the same arrangement, allowing us to determine the profitability of each new person in the team. Conscious pricing with which to reflect our expectations and business goals enables us to achieve our profitability goal.

Defining KPIs, setting expected levels, and implementing the tool allow us to manage the cost area. There are already tools on the market that enable us to manage this area, one of them being Primetric. **Working on 1st-degree profitability is a continuous process that can continuously be improved, but avoiding extremes that may limit business flexibility is essential. The basic package of KPIs is utilization, bench, chargeability (billability), or fast and efficient scheduling. Each of these elements directly affects the level of 1st-degree profitability, which varies with the business models we run.** Proper identification and determination of the correct level of the above KPIs and subsequent monitoring will enable us to improve profitability.

Piotr Cisowski

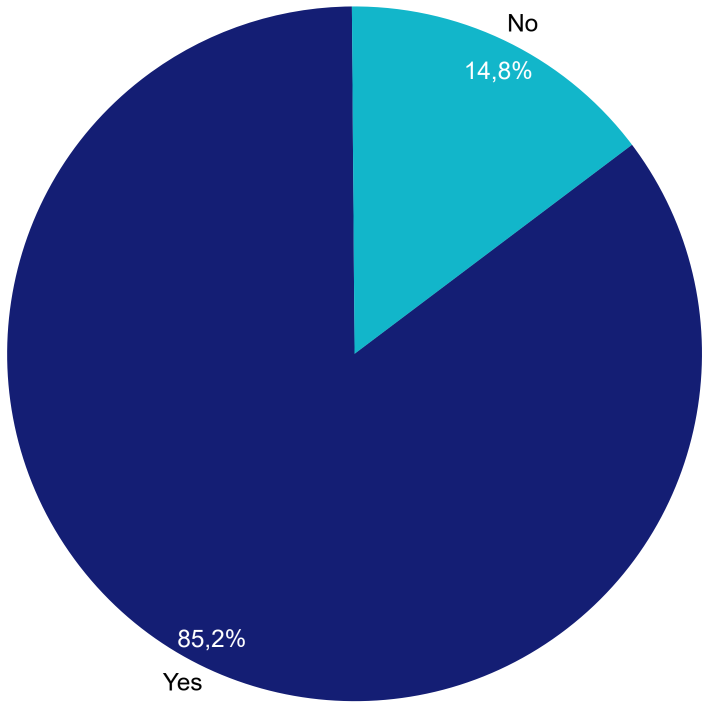
Finance Director, Cloudflight Poland (former Divante)

cloudflight

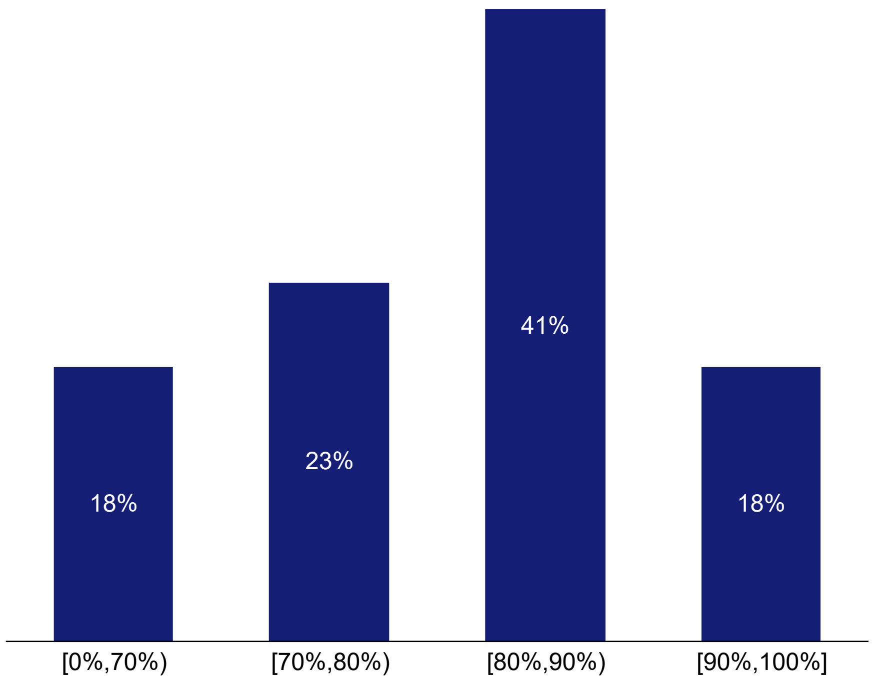
Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

More than 85% of companies track employee utilization, and of those that do, more than half have utilization above 80%.

Do you track employee's utilization? (N=128)



What was your employee's average utilization rate in 2022 (N=102)



Source: Primetric by BigTime European Profitability & Utilization Report

European IT Professional Services Firms are good in balancing the utilization level.

Utilization

is the ratio of billable hours (spent on client projects) to employee capacity. It is one of the primary indicators in the so-called hygiene category. It lets you control whether specific individuals or teams are overloaded with work or have nothing to do. From a management perspective, it provides information on how well the organization distributes and provides work to teams. It affects employee retention, satisfaction, and the organization's profitability.

The average utilization should be between 75 – 85%.

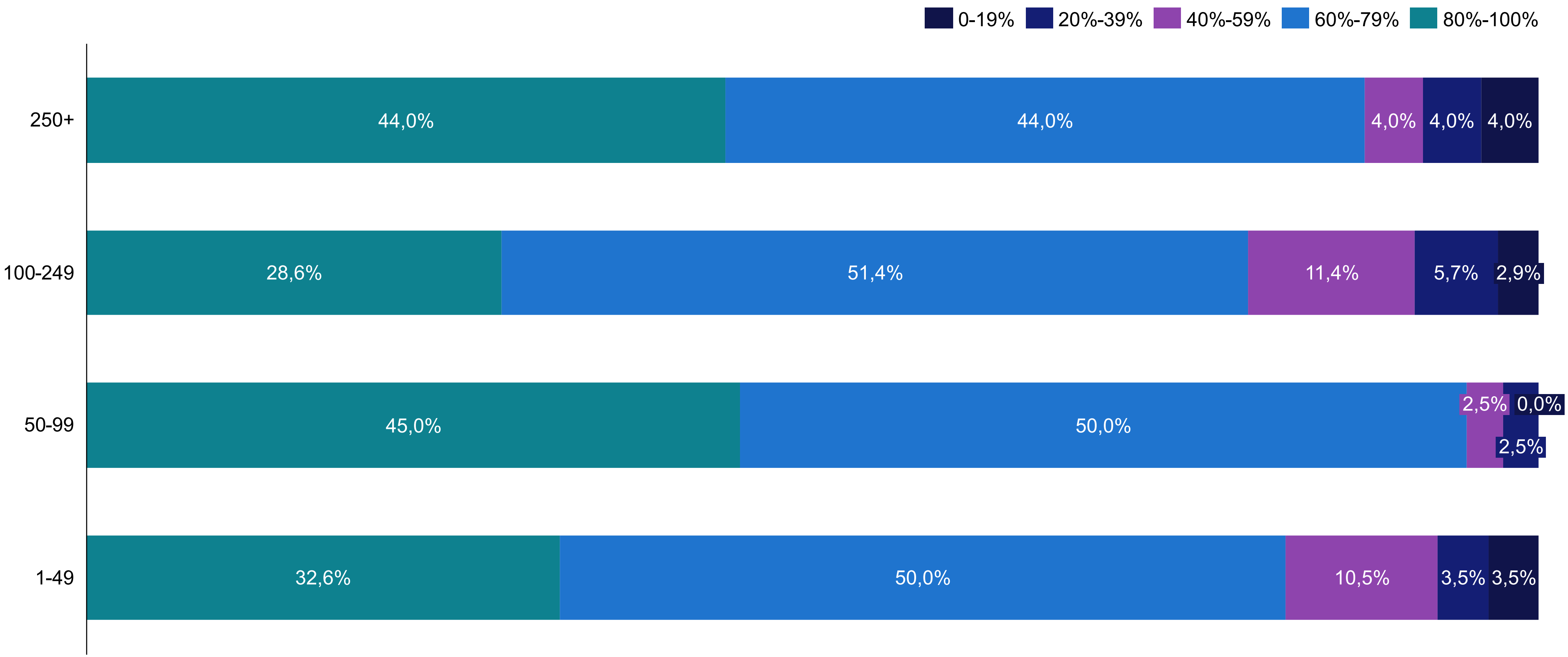
Depending on the industry, service specialization, and seniority of employees - the average utilization rate may vary. However, it has been assumed that the recommended utilization value should oscillate around 75 - 85% to maximize the amount of time spent on billable activities on the one hand, while keeping employees happy.

The utilization rate in Europe looks quite good.

64% of organizations have this indicator at a healthy level. On the other hand, as many as 36% of organizations have this indicator too low (18%) or too high (18%).

More than 80% of all company sizes have at least 60% delivery workforce, while companies with the highest percentage of delivery workforce are companies from the 50–99 and 250+ groups.

Approximately what percentage of your revenue was generated by your biggest client last year? (N=186)



Companies with healthy Utilization levels achieve higher EBIT Margin by up to 80% and Profit Margin by 85% despite 11% lower 1st-degree Profitability.

Average Utilization vs median of EBIT margin, profit margin and first degree profitability in 2022.

Average utilization	EBIT	Profit margin	First degree profitability
N=	76	76	64
[0%; 70%]	10%	7%	48%
[70%; 80%]	9%	8%	41%
[80%; 90%]	18%	13%	43%
[90%; 100%]	15%	12%	43%
Median in 2022*	13%	12%	42%

There is a direct correlation between Utilization and financial ratios. Companies that care about a high utilization rate **have up to 1.5x-2x higher financial ratios** than those that have this rate below 80%.

Moreover, higher 1st-degree Profitability does not guarantee higher profits, as seen from organizations with less than 70% Utilization rates.

Conclusion: Take care of the right Utilization level in your organization. Thanks to that, you can reduce the overhead markup for each specialist hour.

Source: Primetric by BigTime European Profitability & Utilization Report
* Median of people, who measure utilization

Juniors tend to skew down the average. It's a bit unusual as in most cases, seniors have lower Utilization rates.

What is your utilization distribution across the seniority level?

	Junior	Regular	Senior
[0%; 40%]	9%	0%	4%
[40%; 60%]	26%	9%	9%
[60%; 80%]	17%	17%	4%
[80%; 90%]	17%	39%	48%
[80%; 90%]	31%	35%	35%
Average Utilization	71%	82%	80%

European companies tend to keep employees at high utilization rates regardless of seniority. Regulars (74% of respondents) and Seniors (83% of respondents) have exceptionally high utilization rates (over 80%).

Surprisingly, the Juniors represent the lowest percentage of spending the most time on billable projects (only 52%).

This may indicate that companies are still investing quite a lot in developing inexperienced employees through ongoing internal projects. In turn, Regulars and Seniors spend the most time on client projects as the primary driver of revenue.

Source: Primetric by BigTime European Profitability & Utilization Report

I Pillar: Benchmarks - Expert Comment

At Netgen, **we value the importance of the utilization rate as one of the foundational indicators of our financial performance. We consider it a ‚hygienic' metric, indicating the essential health of our operations.**

That being said, **its true potential in assessing and driving profitability is realized when combined with other KPIs. These include leverage, the senior-to-junior staff ratio, and the effective billable rate. Combining these KPIs gives us a more comprehensive overview of profitability, ensuring that we look at operational efficiency, optimal resource allocation, and revenue maximization.**

Our approach to utilization rates varies by seniority. Juniors and apprentices, who are in the nascent stages of their careers, have lower expected rates due to our significant investment in their education and onboarding. Similarly, senior staff take on a lot of non-production tasks, such as mentoring, and are also heavily included in strategic work. They create tools and define processes we use daily, so their utilization goals must be manageable.

We strategically compose our production teams to align with specific client and project requirements in optimizing leverage. Team composition is critical to ensuring the work is well done and provides a healthy profit margin. It is an ongoing struggle to push appropriate work from senior producers towards junior ones, so leverage has to be a critical KPI for team and project managers.

Results of the European Profitability and Utilization Report could indicate that European companies need to invest more into enabling junior staff by leveraging senior producers more at mentoring and onboarding than just focusing on their high utilization rates. This balanced approach maintains operational efficiency and drives sustainable profitability and growth. We at Netgen continue to refine these strategies, aiming for an optimal blend of revenue maximization and employee development.

Igor Vrdoljak

Co-Founder and Managing Director, Netgen

Netgen.

Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

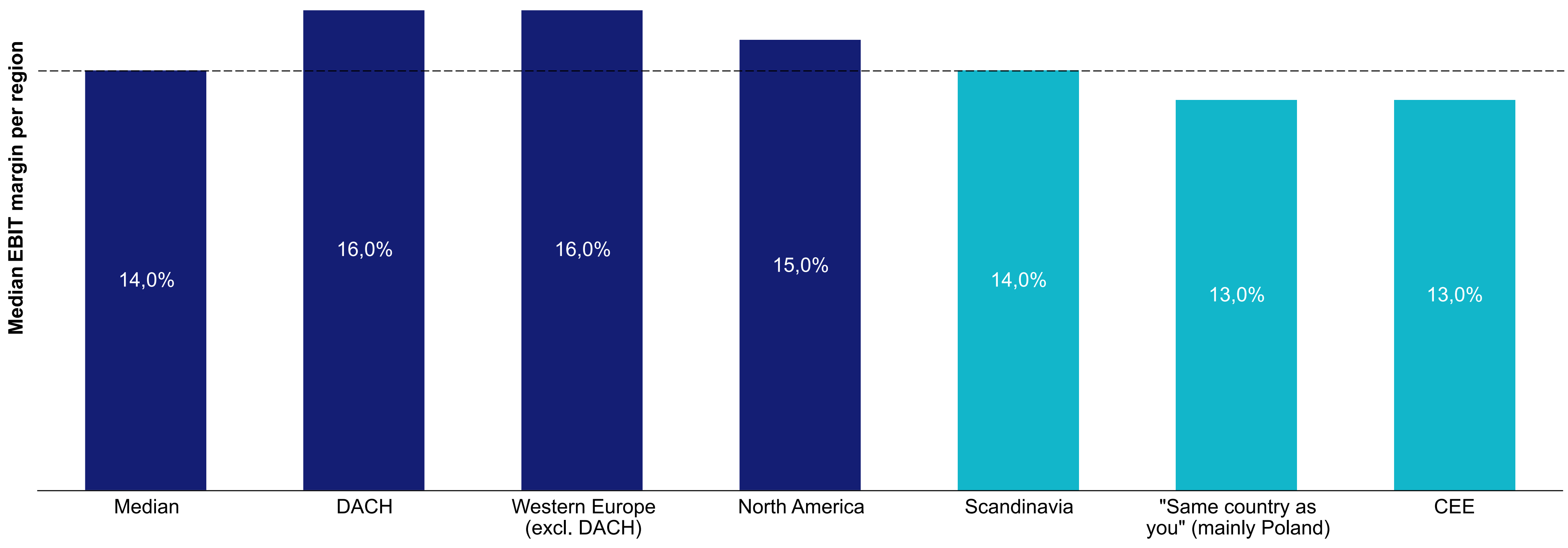
Primetric BY BIGTIME

Sales markets

III Pillar: Benchmarks

Companies focusing on the DACH, Western Europe, and North American markets have up to 23% (3 pp.) higher EBIT Margin than the worst-performing regions, such as CEE or the home countries.

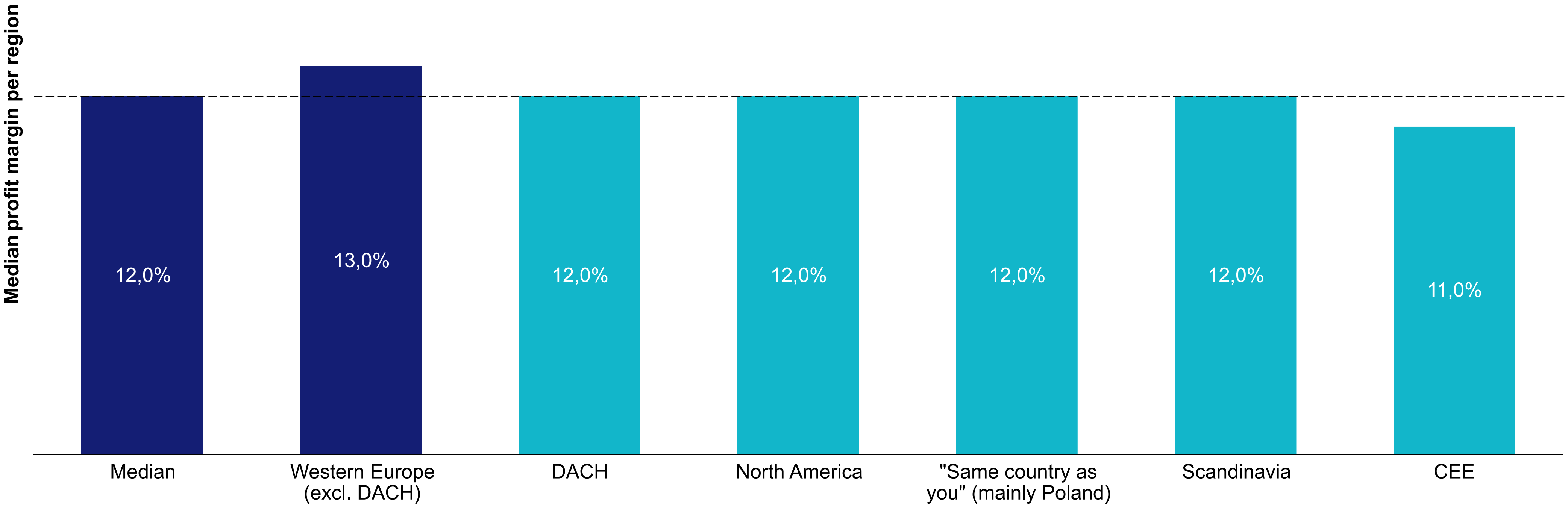
Regions in which clients are typically based vs EBIT margin in 2022* (N=103)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

However, when it comes to Profit Margin, the sales market does not impact it. Western Europe has a 1 pp. higher ratio than the median, while CEE has 1 pp. less.

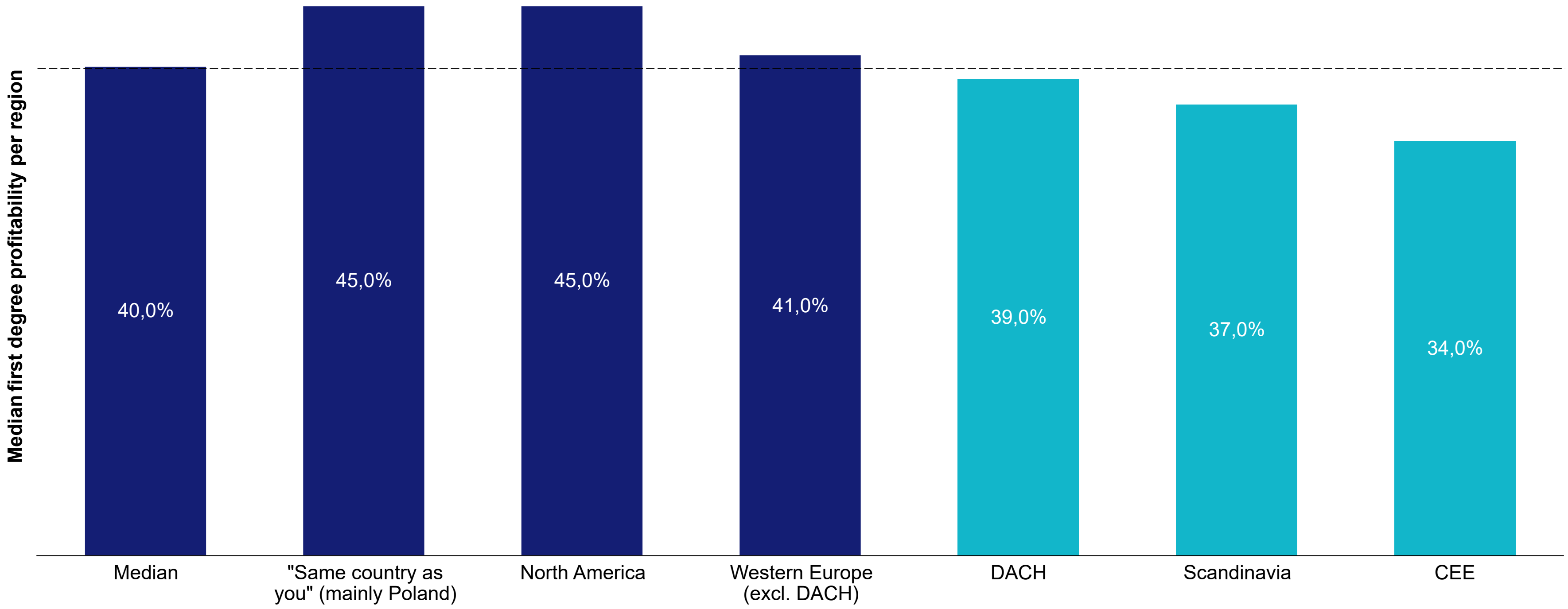
Regions in which clients are typically based vs profit margin in 2022* vs profit margin* (N=101)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

The very surprising is the highest 1st-degree Profitability in the home country, being on the same level as North America and Western Europe. CEE once again occupies the lowest podium.

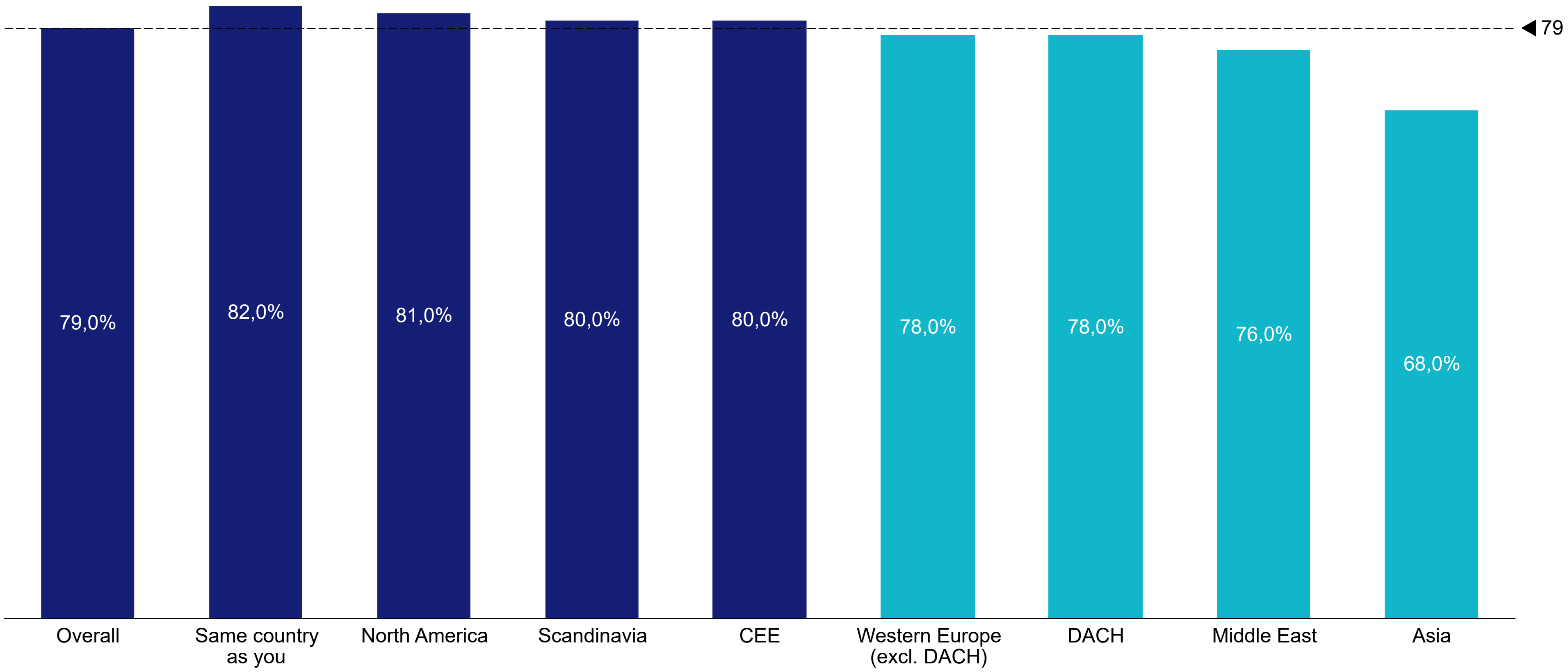
Regions in which clients are typically based vs first degree profitability in 2022* (N=83)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

There is no direct correlation between Utilization and sales markets.

Regions in which clients are typically based vs Utilization level in 2022*; N=102



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Conclusion #1.

Selling to Western markets still allows you to sell at higher rates, resulting in higher 1st-degree profitability, but the organization's profitability at the profit margin level is almost the same regardless of the markets.

Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Sales Markets – Expert Comment

Given that the IT sector is one of the most globalised segments of the global economy, our opportunities for service exports are virtually unlimited. Therefore, the natural tendency is to focus on wealthier markets, where a higher willingness to invest in digitisation and more significant expenditures, enable us to still offer higher prices for the services provided. However, our margins will gradually shrink, primarily due to the industry's continuing high wage costs after the COVID boom. It will become increasingly difficult for us to maintain the competitive rates which we have become accustomed to getting from Western customers. This will force us to look for new market niches or specialisations to offer to our Western customers and to increase our labour productivity in exchange for the ability to dictate higher rates. The fact that software produced in Poland or other regions of Central Europe has a good reputation will continue to work in our favour.

Of course, only some Polish IT companies have to look for customers in Western Europe or the US – **the domestic market, in line with the global trend, is also transforming digitally, and companies are increasing spending for this purpose. If our offer adequately addresses their needs and we have a competitive advantage, developing business in the local market will undoubtedly be more manageable and less costly than acquiring and retaining customers abroad.** Even such mundane issues as cultural or communication factors are not insignificant here and can lower the entry threshold.

On the other hand, if we are planning intensive business growth, operating solely on the local market may inhibit rapid scaling, if only through limited access to new customers. At the same time, it is worth remembering that limiting geographic diversification of revenues makes us overly dependent on a single sales market, which, over time, can become a significant risk to the business's success.

Konrad Weiske

CEO, Spyrosoft Group

spyrosoft

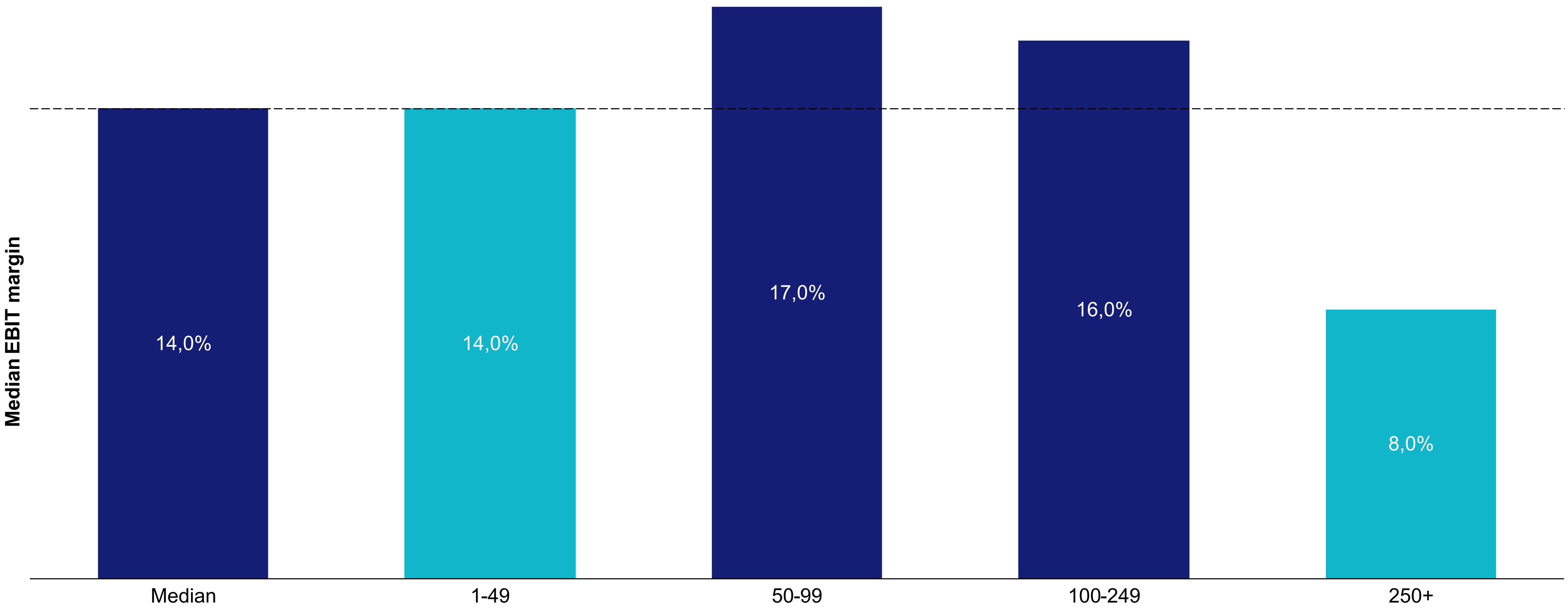
Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Company size

III Pillar: Benchmarks

Except companies up to 50 people, as a company grows, its EBIT Margin decreases.

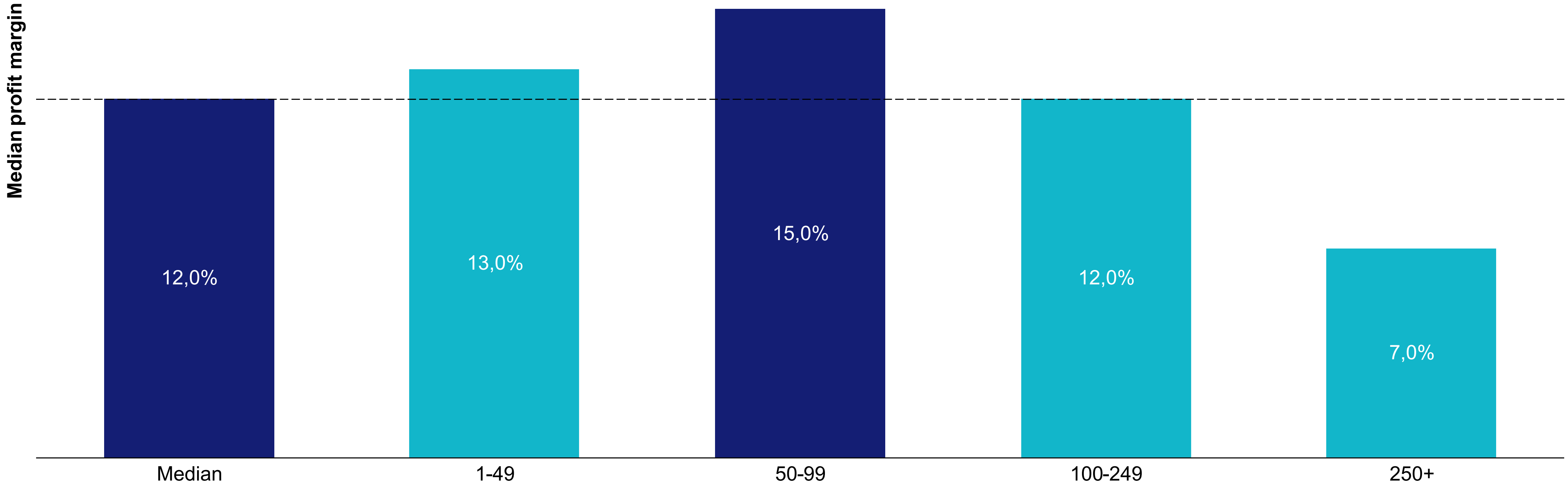
How many employees does your company have? vs EBIT margin in 2022* (N=103)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

The same is true for the Profit Margin.

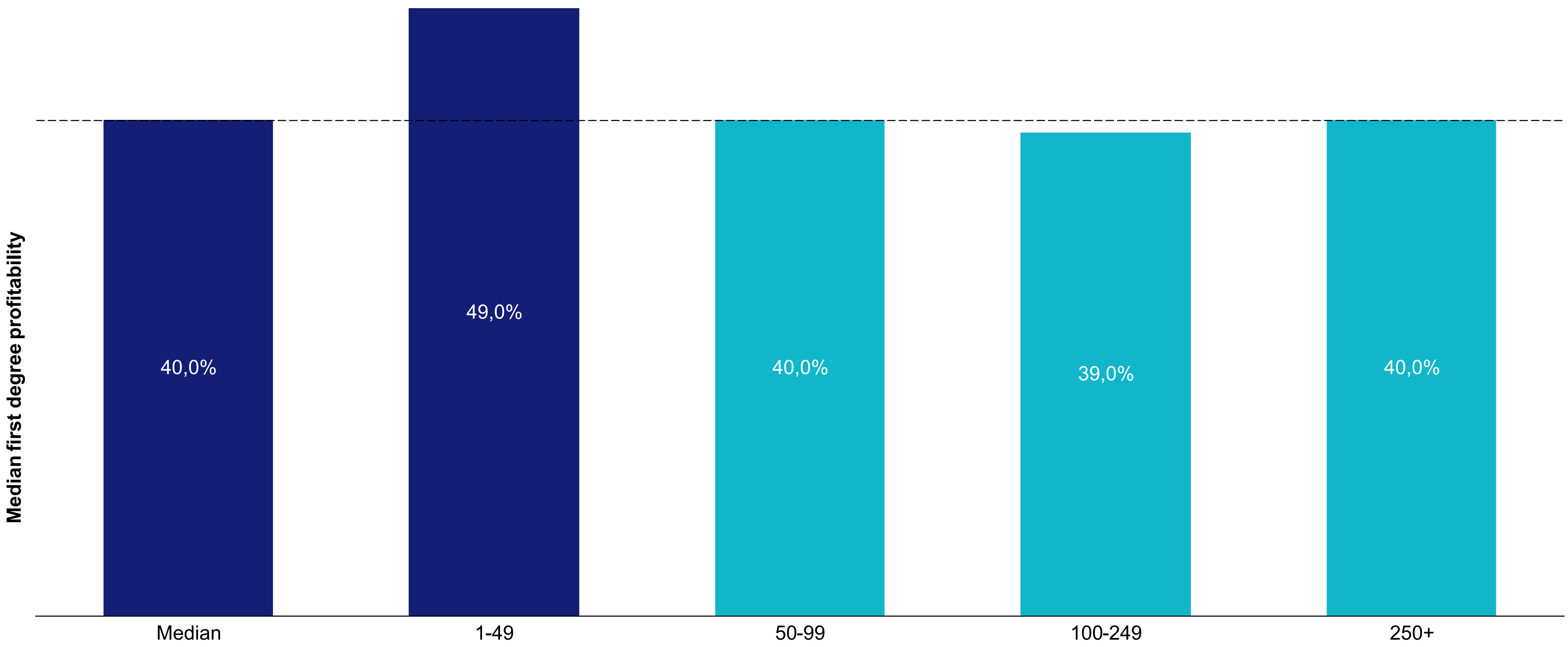
How many employees does your company have? vs profit margin* (N=101)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

The higher EBIT Margin and Profit Margin for companies over 50 people are due to higher 1st-degree Profitability, while for the rest, 1st-degree Profitability is the same.

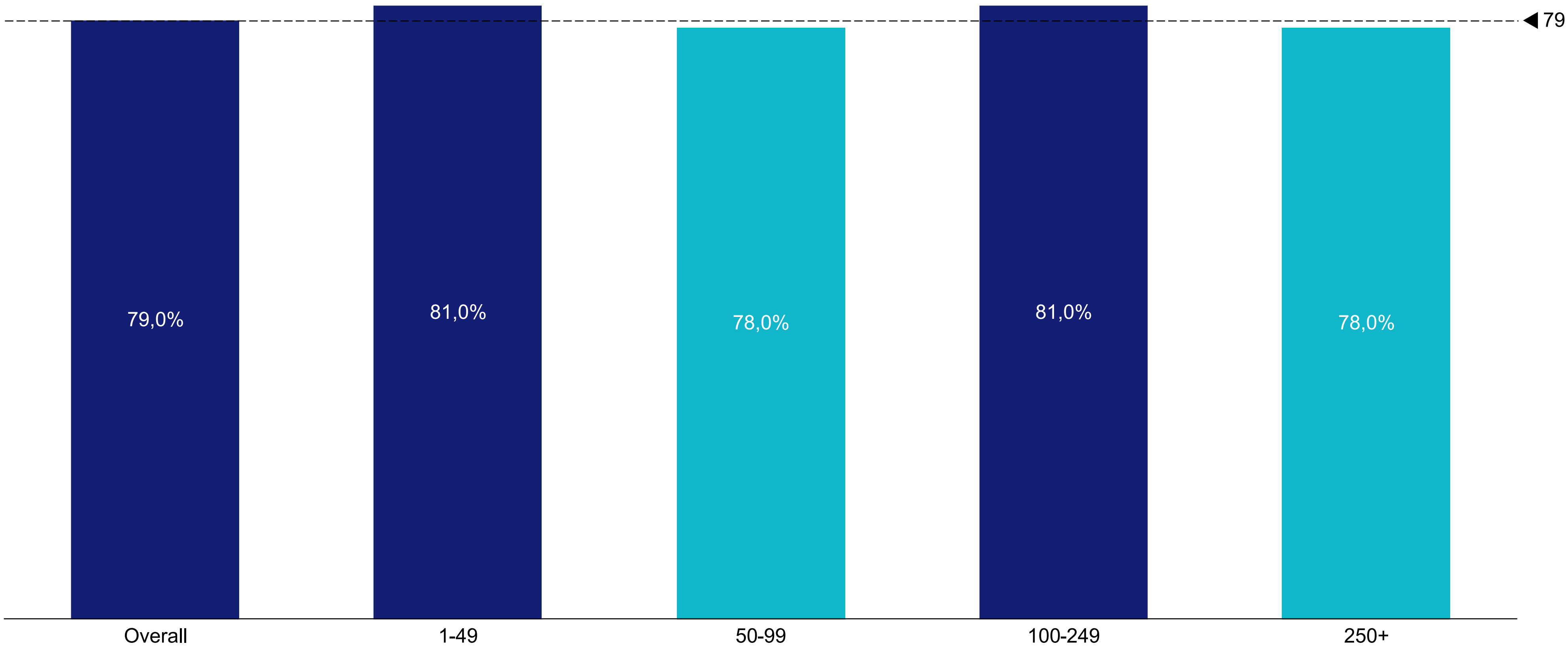
How many employees does your company have? vs first degree profitability in 2022* (N=83)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

There is no direct correlation between Utilization and company size.

Regions in which clients are typically based vs utilization in 2022* (N=102)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Conclusion #2.

As a company grows, so do administrative costs, making Profit and EBIT margins fall. There is no correlation between the size of the company and the ability to sell at higher rates, making 1st-degree profitability the same regardless of size.

Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn’t include answers with N<10

Company Size - Expert Comment

As the Managing Director of Future Processing (FP), I grew up with FP from a company of 10 up to 1000 employees. So, let me share insights on financial efficiency, particularly for companies employing 50 to 99 individuals. Our experiences and observations reveal that such companies often achieve above-average financial results, attributable to several key factors. Firstly, firms of this size maintain a relatively flat organizational structure. According to Dunbar's number, this size allows for effective internal communication without additional costs. A flat structure facilitates quick responses to market changes and closer leader-team connections, enhancing project execution and client satisfaction. Another factor is specialization. These firms can focus on specific areas, yielding higher margins through specialized, value-added services. This is achieved through innovation, new service investments, and accelerated staff skill development.

Regarding profit optimization, leveraging the company's size for operational efficiency is crucial. Lowering variable costs through improved project management, enhancing staff skills utilization, and developing methodologies to avoid effort duplication are vital. In fixed costs, billing speed, efficient collections, minimizing space and equipment costs, and optimization of support staff expenses are significant. Addressing underperformers is equally essential, including resolving issues with non-performing employees, discontinuing unprofitable services and clients, and increasing volume by raising billable hours per person.

No matter the company size, there are universal strategies worth implementing swiftly. These include focusing on specialization, innovation, effective project management, cost optimization, and efficient human resource management. The key to success lies in a flexible management approach and continually adapting strategies to evolving market conditions and client needs. In firms with 50 to 99 employees, we often combine roles within departments or even individuals. For example, the CEO might also lead sales and marketing while the CTO works with clients, contributing directly to revenue. This lean structure helps maintain a low-cost framework. However, as a company grows beyond this size, there's a strong need to develop distinct departments and prepare for scaling, which initially lowers the EBIT margin. In larger firms, diverse competencies increase recruitment and rotation costs, bench time, and sales efforts. Our experience and industry observations suggest that companies between 50-99 or even up to 150 are most efficient, partly due to Dunbar's number, indicating a size where effective communication can be maintained without extra costs. This allows such companies to retain a flat, low-cost structure. As the number of employees increases, so does the management layer, which while not directly generating revenue, often adds substantial costs.

Paweł Pustelnik

Managing Director, Future Processing

Future Processing

Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

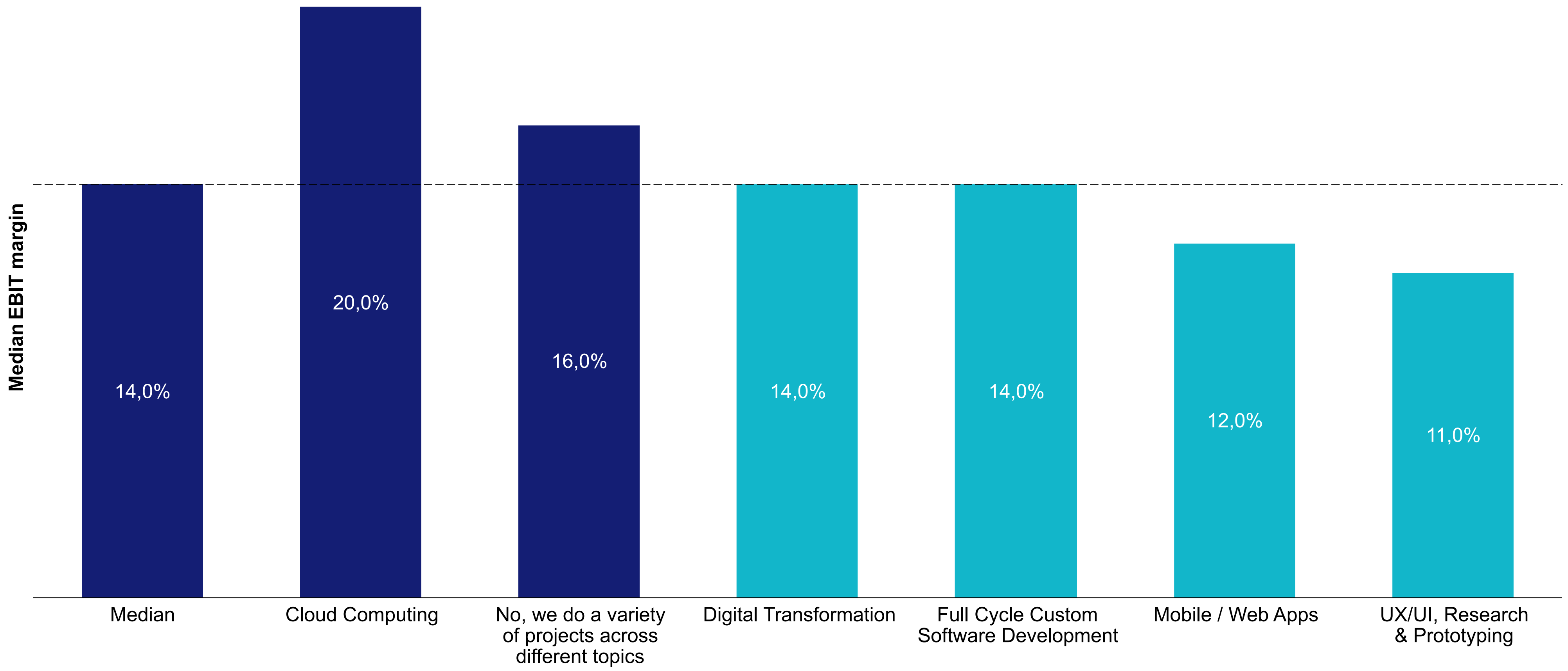
Primetric BY BIGTIME

Main focus area

III Pillar: Benchmarks

Cloud computing leads the way with an EBIT Margin as much as 9 pp. higher than UX/UI, Research&Prototyping. Surprisingly, in second place are companies doing different types of projects.

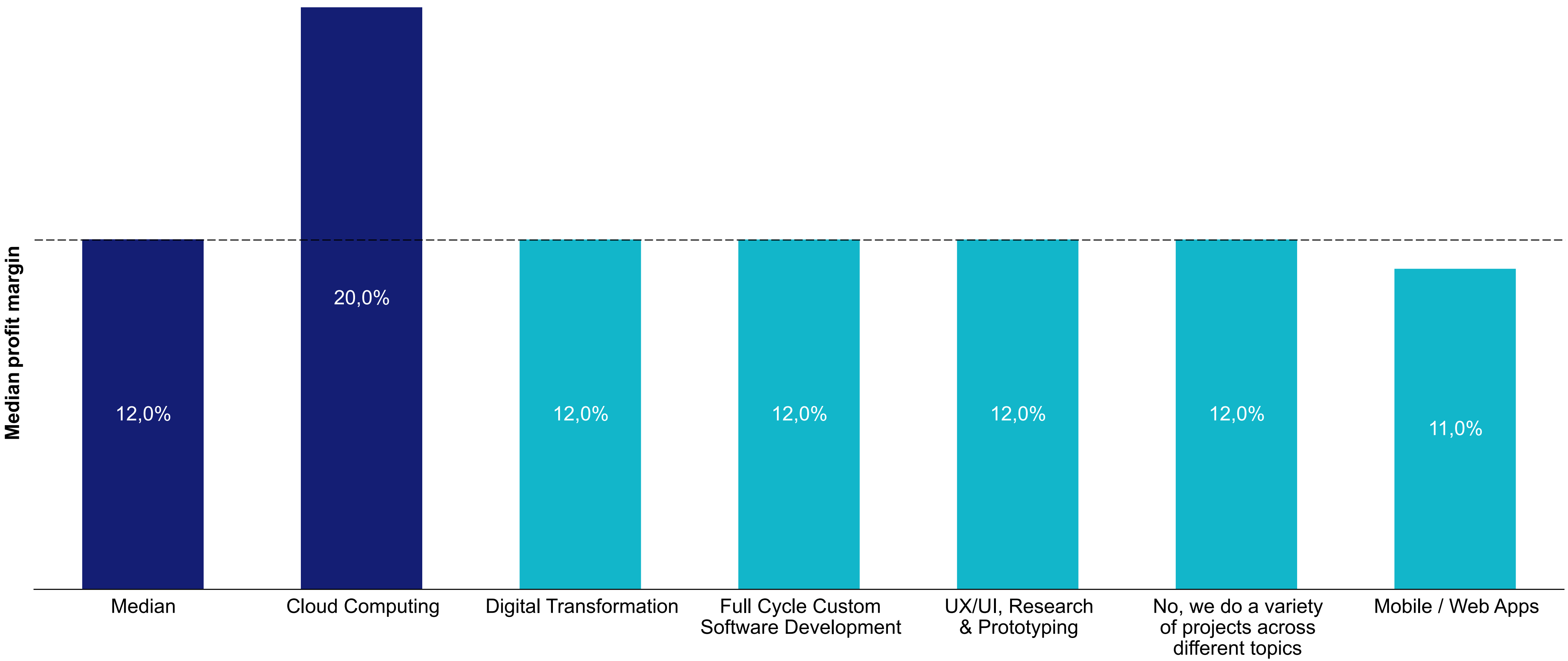
Does your company have a main focus area (choose max. 3)? vs EBIT margin* (N=103)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn’t include answers with N<10

Cloud Computing continues to lead the way when all the rest of the specializations have leveled off to the same level.

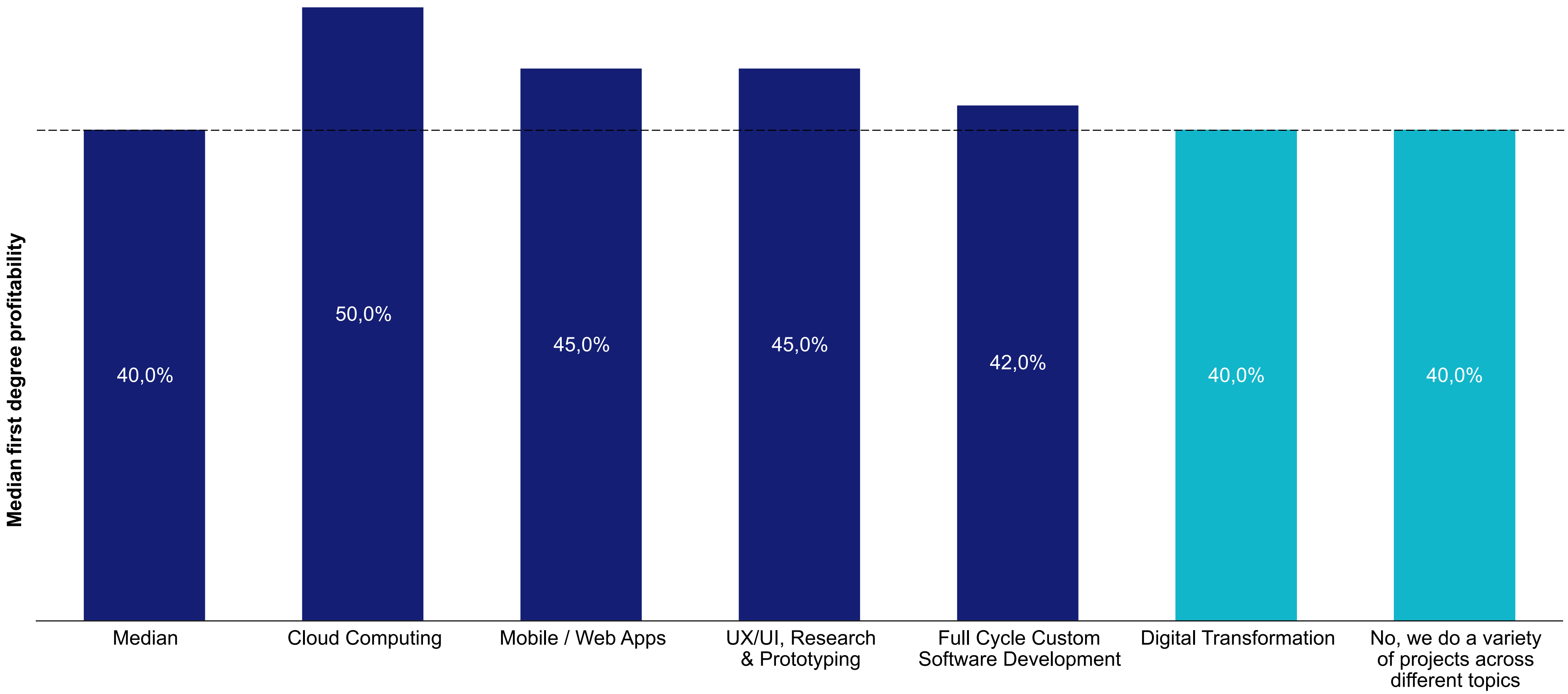
Does your company have a main focus area (choose max. 3)? vs profit margin* (N=101)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Cloud Computing leads the way for the third time. In second place are Mobile / Web Apps and UX/UI, Research & Prototyping.

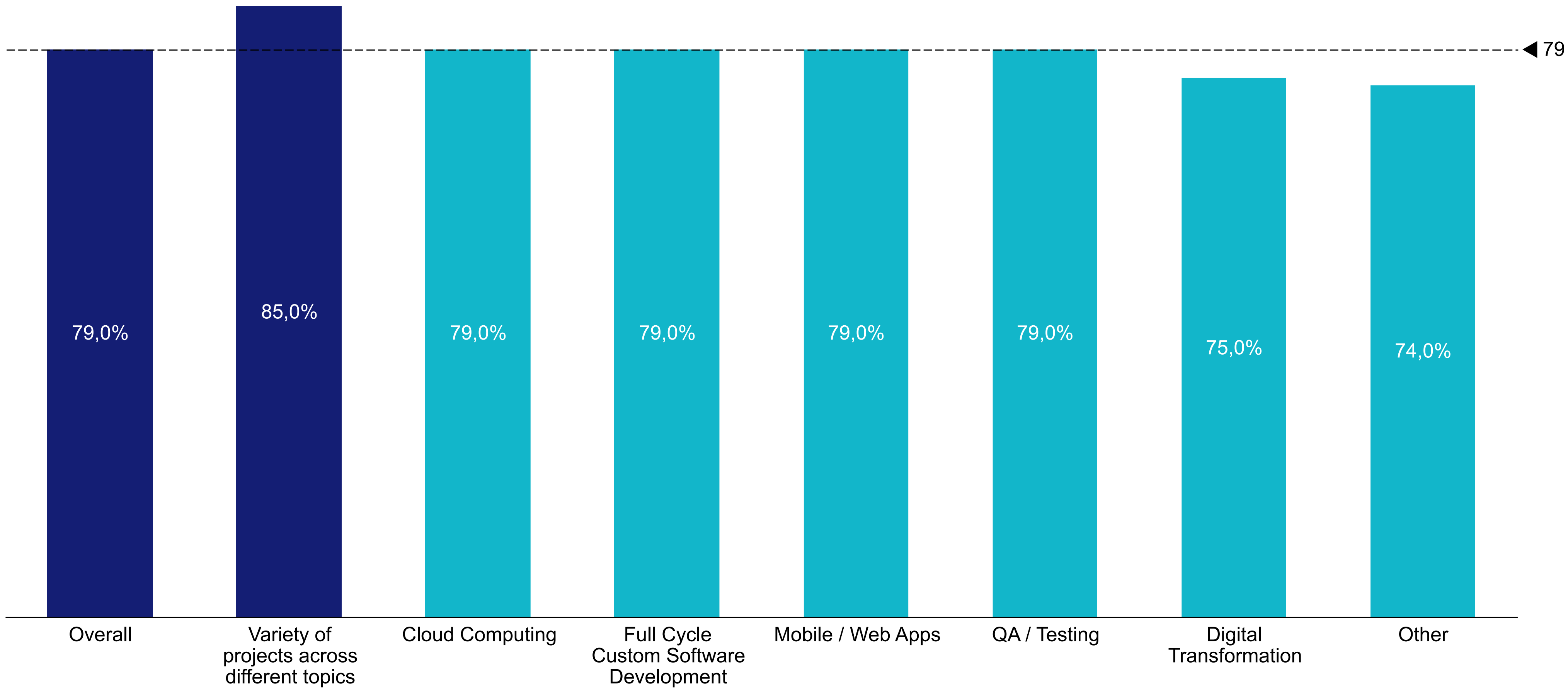
Does your company have a main focus area (choose max. 3)? vs first degree profitability in 2022* (N=83)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Companies focusing on Digital Transformation have 4 pp. lower than Median, while companies without specific focus have 6 pp. higher than Median.

Regions in which clients are typically based vs utilization in 2022* (N=102)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Conclusion #3.

Companies focusing on Cloud Computing services have the highest margins in the industry, making them generally the most profitable. In contrast, companies providing mobile/web app dev and UX/UI services, despite having a 1st-degree profitability above the median and utilization at the median level, have some of the lowest EBIT Margin and Profit Margin in the market.

Main Focus Area - Expert Comment

Education was the most substantial growing area during the pandemic. EdTech experts describe this phenomenon as a hyper-exorcise, in terms of the move to online corresponding to 10 years in a non-pandemic. The chart shows that the sector's profitability is returning or falling below the average for other sectors.

IT services business owners may ask themselves whether it's worth changing the sector we focus on to work under varying circumstances. As the CEO of a software development agency focused on multiple fields (education, energy, finance, entertainment), I don't see such a possibility. Currently, Poland and Eastern European companies are losing their „price" advantage. They should focus on exploring and building competencies unique to the field (industry) and geography (e.g., the Middle East). However, it is worth noting that such an activity, often built on 1-2 clients we have historically added to our client portfolio, has fundamental drawbacks. The biggest of these is the need for more diversification, resulting in greater exposure to risk. For example, companies focusing on health tech and startups significantly increased during the pandemic. All venture capital funds wanted to invest in this business during the pandemic. When the pandemic ended, funding also died out, and the companies providing the services found themselves more complex.

I emphasize that it is worth building competencies inherent to the industry. These competencies can be technical, in terms of quality or speed of delivery, or consulting and supporting customers. It has also become a noticeable pattern for service companies to invest in their own products (or semi-products), giving them a competitive advantage in specific time-to-market ranges.

Krzysztof Wojewodzic, PhD

CEO, Escola

escola

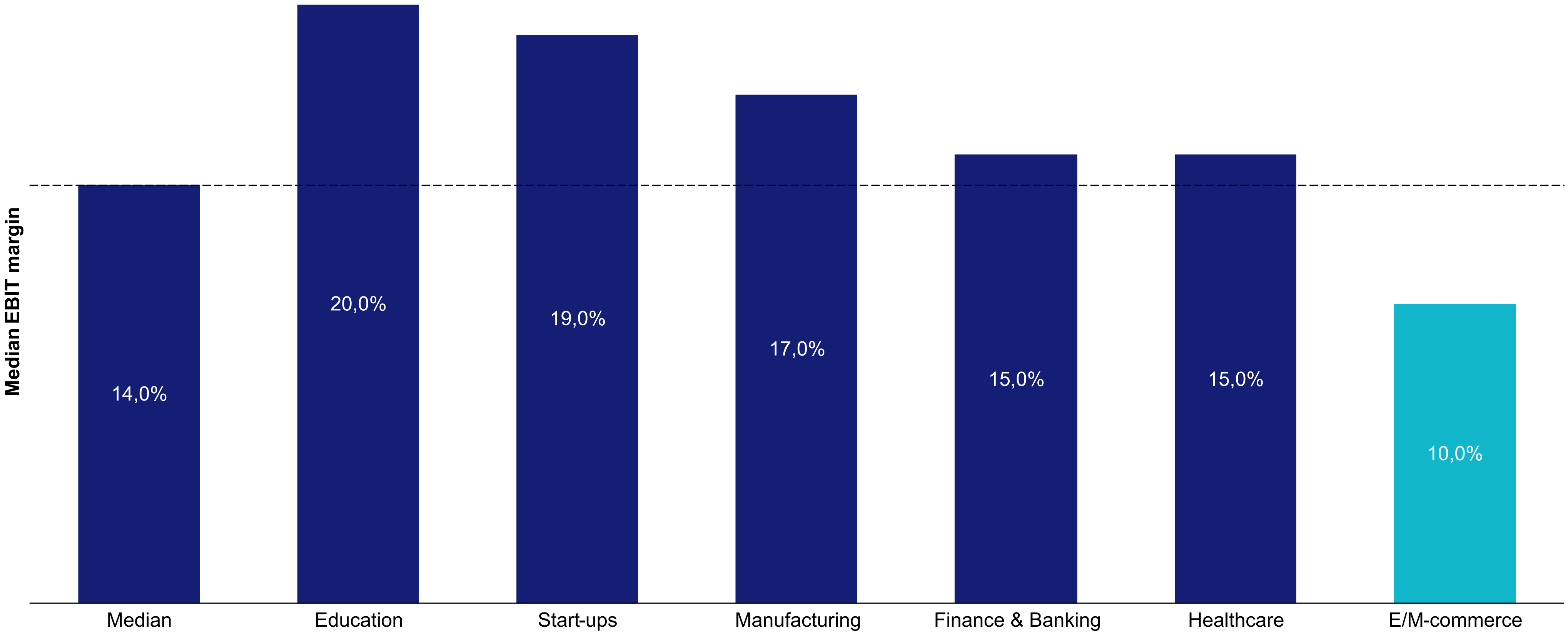
Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Clients Industry

III Pillar: Benchmarks

The highest EBIT Margin goes to Education and Start-ups sectors, while companies that sell to E/M-commerce have only 10% EBIT Margin.

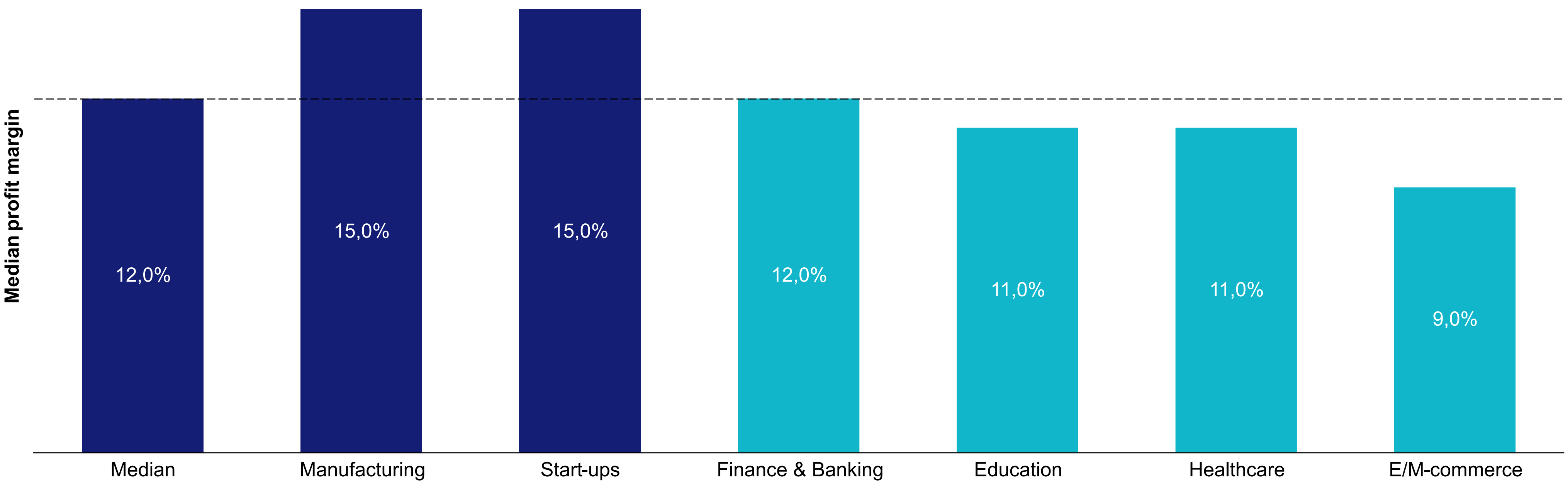
What industries do your clients typically come from? vs EBIT margin* (N=103)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Manufacturing and Start-ups sectors are doing the best, while Education has the most significant drop (9 pp.) in Profit Margin. E/M-commerce is still at the end of the peloton, but with smallest decrease compared to EBIT Margin.

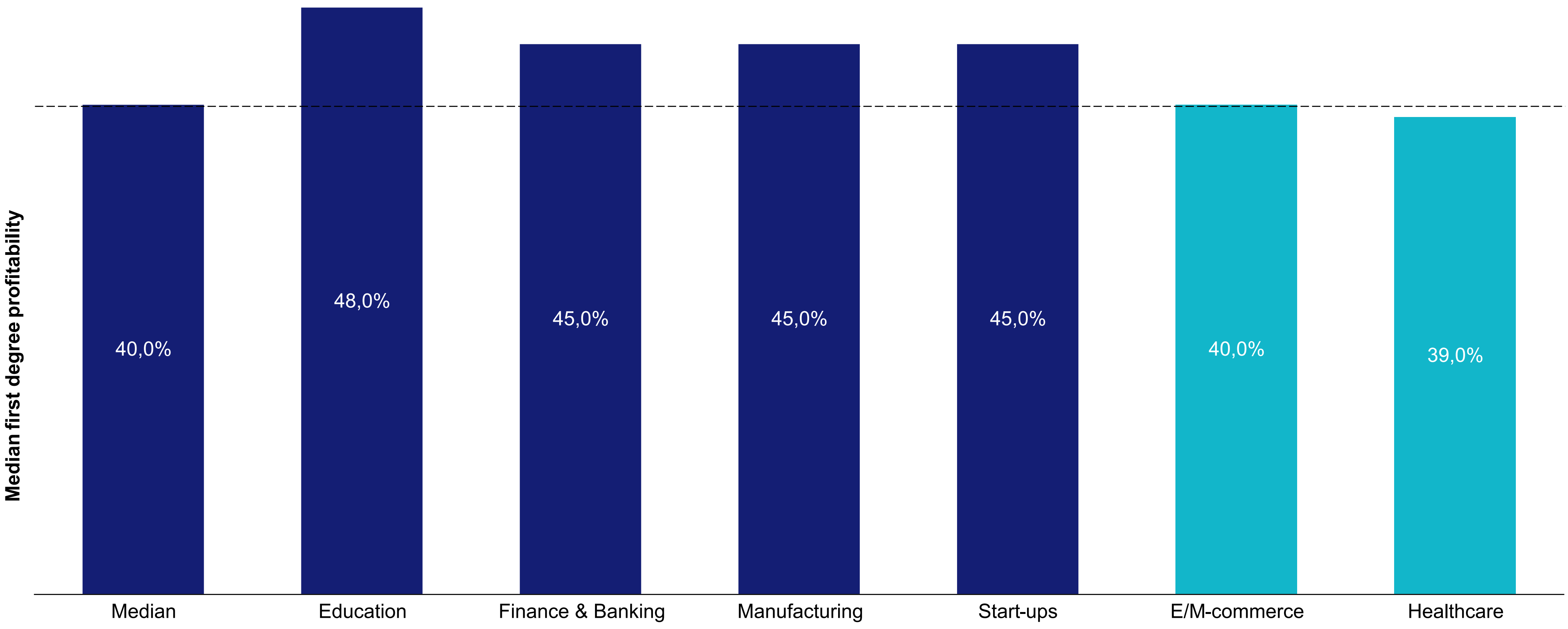
What industries do your clients typically come from? vs profit margin* (N=101)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

The Education sector is again on the podium with the highest 1st-degree Profitability and E/M-commerce with almost the lowest.

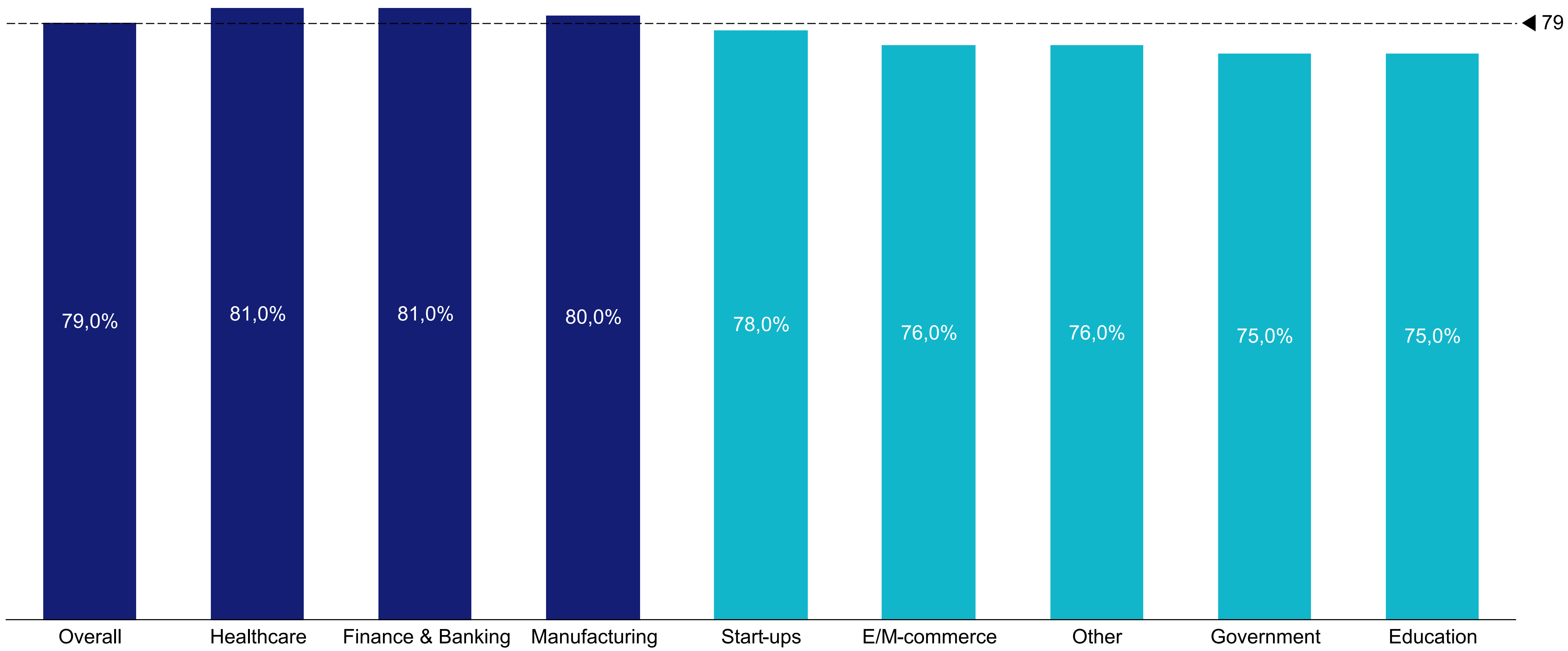
What industries do your clients typically come from? vs first degree profitability in 2022* (N=83)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

The highest Utilization level is in the Healthcare sector, yet it has the lowest profitability. On the other hand, education has the lowest Utilization level while having the highest profitability indicators.

Regions in which clients are typically based vs utilization in 2022* (N=102)



Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Conclusion #4.

Most companies focus on the most profitable industries, such as Startups, Manufacturing, and Finance & Banking. However, only a small proportion of companies sell to the Education industry, which has the highest margins of all sectors besides Profit Margin.

Clients Industry - Expert Comment

It is unsurprising to see cloud service giants like AWS kicking Gross Margin at 50% and above. While reading the European Profitability and Utilization Report, it was interesting that CEE companies can easily catch up with global top-class companies in this segment. Cloud computing services, but their nature, are lucrative in the context of Gross Margin; their space for making good leverage and efficient cost lies in the smart management of infrastructure, data centers, network properties, and operational personnel.

Comparing this business model to the companies oriented to software services, it's clear that the complexity of project delivery is influenced by direct client involvement. Thus, managing clients within the famous triangle scope/budget/time brings more risk to the profit performance. Web and Mobile development and UX/UI, Research & Prototyping segments have shorter project life cycles, making resource utilization challenging, significantly if projects overlap or even worse, there is intermediate time between projects. The efforts invested in leveraging project timelines and resource availability will result in better resource utilization and higher Gross Margin. It's crucial to secure a stable and quality sales pipeline that will feed the operations team with the projects that would fit best to the organization.

In times of growth, as this report includes 2022, sales pipelines were good enough to supply additional projects, making utilization challenges more on the side of just-in-time employment and onboarding rather than managing unutilization within intermediate time between the projects. This would be the main reason for the good results of Gross Margin margins even though the work cost in previous years has constantly increased. EBIT/Profit Margins are lowered since this is the direct effect of the growth. Companies increased investing in marketing, sales, and accompanying administration support.

Diversifying the revenue streams is always intriguing in the company's strategic considerations. It is an exciting approach to tackle profitability and revenue growth. Still, it is crucial not to lose the focus of the company's core business model, know-how, products, and services and to build revenue streams that will not disrupt the organization in this process. The best approach would be to choose business models and segments that are natural expansion, either overlap in know-how or based on customer portfolio.

Dragan Eldic

COO, Notch

Notch

Source: Primetric by BigTime European Profitability & Utilization Report; *Analysis doesn't include answers with N<10

Billing models

III Pillar: Benchmarks

That’s how financial indicators looks like with division to different billing models.

Average Profitability in T&M vs median of EBIT margin, profit margin and 1st-degree profitability in 2022.

	EBIT		Profit margin		1st degree profitability	
Average profitability	T&M	Fixed price	T&M	Fixed price	T&M	Fixed price
N =	64		64		54	
[0%; 20%]	14%	13%	9%	12%	40%	40%
[20%; 40%]	16%	14%	15%	11%	35%	37%
40%+	14%	17%	11%	19%	45%	50%
Median in 2022	15%		12%		40%	

Source: Primetric by BigTime European Profitability & Utilization Report

Billing Models - Expert comment

In recent years, the dominant billing model has been Time & Material (T&M) combined with cost-based pricing, as it was the most accessible and safest pricing model in an employee market with rapidly rising costs. In addition, most projects in this dynamic environment were executed in agile methodologies, where sprints were billed continuously, and the scope was fluid. Clients who understood the market agreed to work in such a model. Today, however, I see a clear return to Fixed Price (FP) or Target Price (TP) billing and a consequent reduction in agile projects.

The model for running and billing an IT project should be based on the level of uncertainty and variability of the business project and the competence of the business and IT team.

Research projects - where the probability of success is lower than failure - and projects marked by high risk should not be carried out in the waterfall methodology, nor should they be billed in the FP model. This contrasts with low--risk projects. If the team has experienced leaders, has done similar projects, and can develop good documentation. The Fixed Price contract allows a higher margin by involving juniors in the unit or supporting the senior with AI tools in code development. This model can build margins based on knowledge or owned intellectual property (IP).

Billing models cannot be evaluated in isolation from the project's methodology.

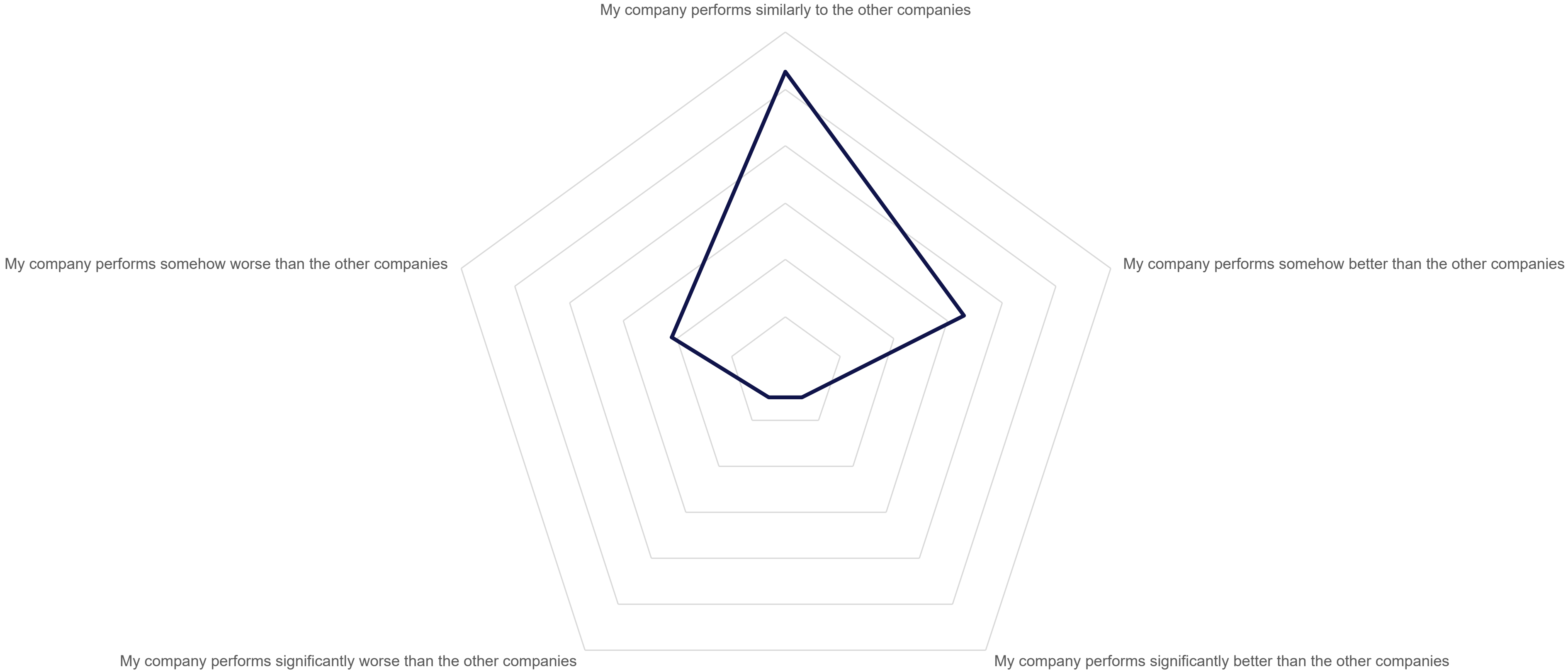
Suppose the client and the contractor want to run the project agilely but cannot determine the Fixed Price. In that case, it is possible to bill in the Target Price model, wherein FX billing is up to a set labor intensity, and then the rate drops but continues to be paid per hour. This model thus motivates both parties to complete the project as quickly as possible.

Grzegorz Rudno-Rudziński

Managing Partner, Unity Group

The vast majority of managers believe their companies perform similarly to others or somehow better than other companies.

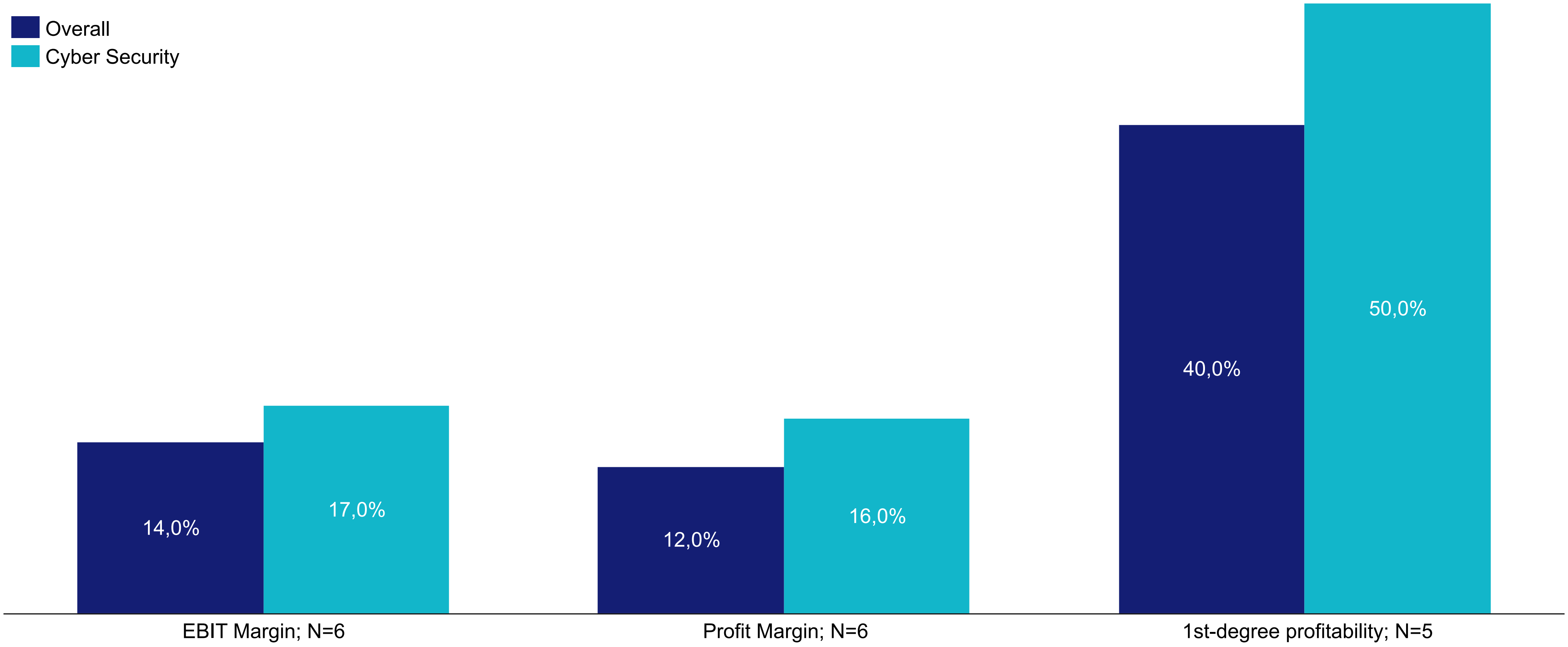
In your opinion, how do you assess your company’s performance relative to other companies in your sector? (N=117)



N < 10

Cybersecurity right next to Cloud Computing has the highest financial metrics.

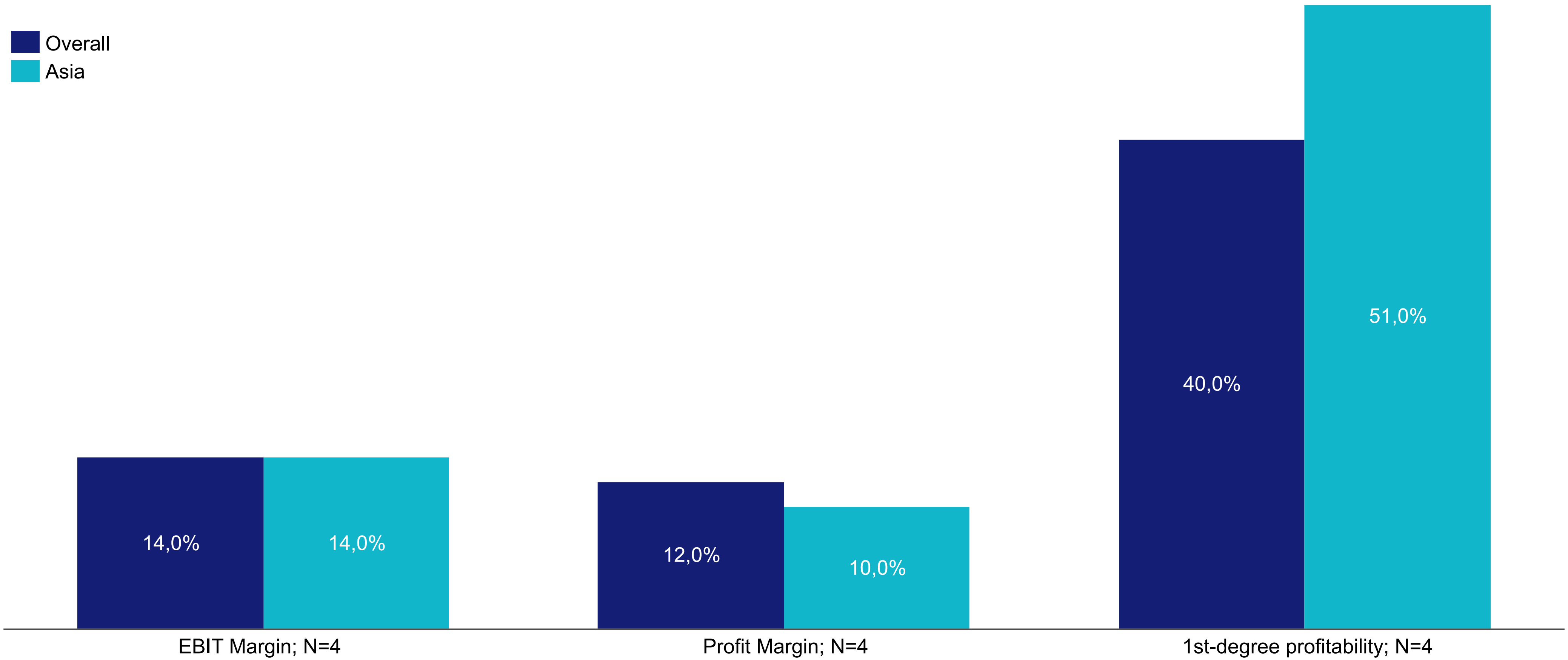
People who choose „Cyber Security” in „Does your company have a main focus area?



Source: Primetric by BigTime European Profitability & Utilization Report;

In the case of sales to the Asian market, the 1st-degree Profitability is the highest, but the EBIT Margin and Profit Margin are at or below the median.

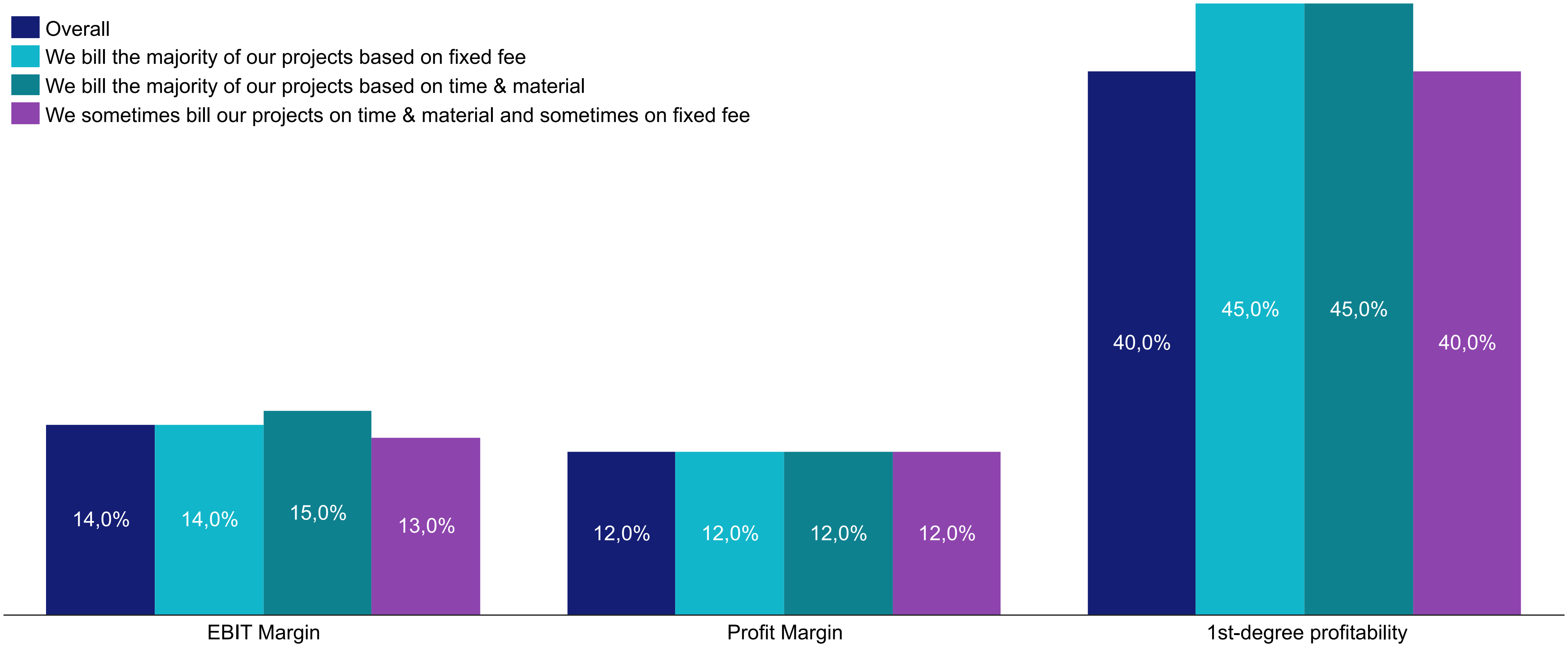
People who choose „Asia" in „Regions in which clients are typically based"



Source: Primetric by BigTime European Profitability & Utilization Report;

Interestingly, the billing model does not affect the financial results.

How do you typically bill your clients? vs EBIT margin, profit margin, first degree profitability



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Wrap up

More learnings and answers to the demanding questions.

- Already have results and thinking about how to start? Book a free consultation with our consultant and discuss the results.
- Do you want to leave feedback? or want to use a part or the whole report in your publications? Email us at: info@primetric.com
- Rate the Report in a few seconds in a scale from 1 to 5 here. Your feedback allows us to make adjustments and prepare better next edition.

Additional materials

- Riding the Dragon: How Leading European IT Professional Services Firms Thrives During a Recession?
- Managing the Professional Services Firm by David H. Maister
- Blog Primetric

Source: Primetric by BigTime European Profitability & Utilization Report;

Summary.

2022 was one of the best years for many IT Professional Services firms in Europe - we know it - from our clients, during long discussions with Executives, and observing how many incredible companies doubled or tripled their headcount.

Nevertheless, 2023 started challenging for the whole world - war in Ukraine, market recession, lay-offs, and switching technology industry from significant investments to calculating ROI hit many services firms as never before. Many needed to lay off some of the team, start calculating finances more precisely and look into the future uncertainly.

That's why we believe benchmarking and looking inside your company for ways to optimize profitability and build competitive advantages is becoming as important as ever.

We hope this report will help you on your journey, and you will be able not only to become an operational expert but you will see an increase in the profitability and performance of your company soon.

Thank you for your time, and pay attention to the next edition!

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Methodology

In this section, you'll find information about methodology.

Methodology

To make the research as objective and helpful as possible, we made three main assumptions:

- answers with N<10 were excluded from all benchmarks. If we decided to consider N<10, then you get information about that,
- companies that completed the financial data in a wrong/impossible way, such as 1st-degree profitability being lower than EBIT Margin or Profit Margin, were not included in calculating benchmarks. The same principle was applied to EBIT Margin and Profit Margin.
- benchmarks were prepared based on the median. We've noticed that using arithmetic mean data was not reliable because some individual companies achieved above-average results that disrupted the average. Still, some data were analysisd using arithmetic means, such as Utilization or Primetric Maturity Score Index, where data that could significantly disturb the normal distribution did not occur.

To provide complete information and transparency, each chart and table has information on the method used and the N size.

In the case of the personalized version, you will also receive information about the answer you gave below the chart/table. If you did not provide the answer for the specific question, you'll find „N/A" / "No Answer". In the case of an answer marked as wrong - you will receive information about its disqualification from the research.

How to read charts?

For charts with multiple colors, colors do not matter.
For two-color charts, the legend can be found below:

Above or equal the median/arithmetic mean

Below the median/arithmetic mean

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Definitions & Formulas

Definitions & Formulas.

1. **Utilization** – in other words, the occupancy of billable persons, is understood as the ratio of the amount of billable time to their capacity.

2. **Capacity** – in turn, is the number of available hours of your specialist in the selected period of time, reduced by all kinds of holidays and public holidays.

3. **Proft Margin** – Net Profit Margin is available on your financial statements. You can calculate it as following:

Formula and Calculation for Net Profit Margin

$$\text{Net Profit Margin} = \frac{R - COGS - E - I - T}{R} * 100$$

$$= \frac{\text{Net income}}{R} * 100$$

where:

R = Revenue
COGS = The cost of goods sold
E = Operating and other expenses
I = Interest
T = Taxes

4. **EBIT Margin** – available on your financial statements.
You can also calculate it according to the formula EBIT Margin = EBIT / A. Net revenues from sales. Where EBIT is understood as item C. in the financial statements (Profit and loss account), i.e. C. Profit (loss) on sales (A-B)

5. **Primetric Maturity Score Index** – identifies the strengths and weaknesses of companies' operational performance based on three main categories: Measuring, Forecasting, and Reporting & Scalability. It assesses a company's operational excellence based on more than 60 indicators. Based on the answers, the company receives a score that places it on a five-level maturity scale.

Source: Primetric by BigTime European Profitability & Utilization Report;

About authors

About Primetric by BigTime.

Primetric's mission is to help managers of growing small and medium-sized Professional Services firms scale their operations while finding the perfect balance between market demand, people workload, and the economic ambitions of their companies. To achieve that, we offer a platform that allows plan, tracking, and forecasting people's workload and translating it to projects' profitability forecasts with surgical precision in a single place. Thanks to that, managers gain clarity, reduce chaos, time spent on administrative work, and have a unified data workflow with always up-to-date reports, allowing them to make data-driven decisions about their business.

Primetric is used by one of the fastest-growing IT professional services firms (according to Deloitte, Forbes, and Financial Times) in 17 countries with more than 17,000 users and is rated as one of the best resource management software, according to G2.com.

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