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Foreword

We have entered into a new, services-driven economy.

I see more opportunity for businesses in the services sector than at any other time in my 30 years of experience in related industries. Economic forces are driving a tremendous amount of demand for a myriad of services. During the last decade, the workforce has shifted dramatically as companies are required to act more quickly while being more nimble than ever before. To compete, high-performing businesses have created a more fluid workforce by strategically leveraging external service providers in increasingly large numbers, and developing a go-to network of on-demand contractors and vendors. These “talent networks” have given companies the ability to scale at will.

The benefits of this network workforce model are compelling. External providers allow a business to better engage the right skills and resources at the right moment, and reduce large investments of time and costs associated with recruiting, training, and managing resources and careers for company personnel. Organizations, therefore, can stay lean and focus on their core business while leveraging highly specialized expertise that drives their businesses forward. It’s a model that maximizes flexibility and speed while optimizing costs — networked business for a networked economy.

Today, the global professional services industry represents a staggering, $3 trillion commercial opportunity. For most businesses, taking advantage of the opportunity has proved challenging. Saddled with antiquated business systems, processes, and inadequate
frameworks for managing high-performance, services providers struggle to adapt quickly to this new world order. It’s an intersection of disruption and transformation.

I speak with services leaders every day and what they share in common is an overall sense of anxiety. What used to work just fine has become inadequate today. Services leaders know if they can’t figure out how to manage their businesses through these pressing challenges, they will fade. And they’re right.

The State of the Services Economy report and its underlying market research were driven by our desire to better understand the transformation taking place, and use data to identify the stages of evolution currently facing us. Hundreds of executives from the consulting, IT services, and marketing services industries participated in the survey to talk about their current business practices and share their perception of opportunities and challenges. The results are both illuminating and compelling.

It’s an exciting time. The new Service Level Economy is creating an environment that encourages the elevation of the art and science of professional services. It is a pivotal transformation which will propel us into the next era of business. What is required to compete in this new economy will reshape services firms as we know them, and what will emerge are highly efficient, scalable, networked, and geographically-diverse organizations.

We view this data and findings as a manifesto for change. We hope it serves you well as you begin your journey into the Service Level Economy.
Executive Summary

We all sense that the world is spinning faster: the pace of technological change and innovation continues to increase, relentlessly driving the economy forward. Business models in all sectors are adapting to this reality.

Gigaom in conjunction with leading third-party market research firm ResearchNow and research underwriter, Mavenlink, surveyed 480 executives working in the services industry to assess the current state of the services economy. The research confirms that the services sector is not immune to these changes. There is overwhelming consensus that the services industry is in the midst of major change. This feeling of unrelenting pressure is the key driver of everything that follows in this report.

The question that remains is how far along are we in this transformation.

One of the most interesting findings we uncovered was the distinction between firms that seem to be proactively adapting to these changes, versus those that are not. Those firms that have adopted new models and practices to thrive in the new economy are generally more optimistic about their business, while those that have been more reluctant or slow to change are generally more pessimistic.

This implies change is imminent, and urgent. The question then becomes, are you ready for that disruption?

In the following pages we reveal the economy and technology trends that are shaping services delivery. We hope that what we’ve learned in this research will help companies in the services economy understand the forces at work in greater depth, and then, be able to make better plans for the future and execute them.
The extent to which enterprise organizations function has reached a breaking point.

BRIAN SOLIS
Speaker, Author, and Principal Analyst, Altimeter Group
The Services Industry is Exploding

When referring to the services industry, we are specifically referring to the diverse range of organizations that deliver professional or creative services.

Services can either be the core revenue model (common at a consulting firm, IT services, or marketing agency), or a portion of the business revenue model (common at a software company that also delivers professional services for a fee).

One thing is clear when you are looking at the state of the economy for these services organizations — business is absolutely exploding. The practice of services outsourcing has been growing rapidly since manufacturing went into decline.

Why? The speed and complexity of businesses today have rendered traditional enterprise models inadequate. With rapid evolution in markets and competition, organizations must become continuously more lean and agile. External providers allow a business to tap the right resources at the right moment, in order to innovate and leverage new technologies at speed. Furthermore, globalization provides access to the world’s best and brightest resources, making it easier than ever to collaborate with a global team.
Growth of the Services Economy, by the Numbers

Today, we can affirmatively state that the United States is a services economy. All the evidence from our research points in this direction, and it is strongly supported by other research, as well.

$3T
TRILLION

Global services revenue to be generated in 2016. This is expected to climb to $3.8 trillion by 2025.*

5.6M
MILLION

Number of professional and creative services businesses globally.*

2x

Services revenue is growing at more than double the rate of US GDP.*

40%

Percentage of American workers that will be contractors, service providers, and freelancers by 2020.**

*From 2015 IBIS Market Research  **From Intuit On-demand Economy Study
Over three-quarters (78%) of our survey’s respondents say business conditions are changing fast, and 20% say it’s faster than ever before. This sets the background for everything else we will discuss in this report: an unrelenting pressure to adapt to a rapidly changing business context, one that—at least for some—is changing as quickly as it ever has. This intersection of innovation and disruption is also creating anxiety—more than half of the respondents state that in the last 12 months, it has gotten harder to operate a services organization.

How quickly is the services economy changing? There is no historical precedent for the speed of change we are witnessing.
Over the past year, it has become harder to operate a services business.

While more than half found this true, some respondents found no change and a small percentage found it easier.

An underlying theme in my conversations with global CEOs and senior business executives is that the acceleration of innovation and the velocity of disruption are hard to comprehend or anticipate and that these drivers constitute a source of constant surprise, even for the best connected and most well informed.

KLAUS SCHWAB
Founder and Executive Chairman
World Economic Forum
The Fourth Industrial Revolution
One major trend that appears to be endemic is the shift away from retainer-based work to projects.

The average contract length is shortening. Engagements today are often measured in weeks versus years. The research reveals that nearly 90% of respondents have a majority of project-based work (58%), or 50/50 project- and retainer-based work (27%), so the shift away from retainers is pretty far along. Eighty-nine percent of respondents also say they are either trending toward more project-based work (53%) or are doing the same amount of project-based work (36%). The bigger the company, the more quickly they are moving to project-based work. We believe the move to projects is being driven primarily by clients that are increasingly demanding delivery at an unprecedented speed, as well as looking to create clearer models that represent an improvement in billing transparency. Whatever the drivers, from the service provider perspective, the shift is clearly a response to economic forces, and the need to remain competitive.
Project-Based work is on the rise

Businesses are billing more work as project-based than retainers.

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>PROJECT-BASED</td>
<td>58%</td>
</tr>
<tr>
<td>50% PROJECT/50% RETAINER</td>
<td>27%</td>
</tr>
<tr>
<td>RETAINER-BASED</td>
<td>14%</td>
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</tbody>
</table>

Shifting from retainer-based to project-based work is important for more flexibility and agility.

MARTIN GAEDKE
Professor, Technical University Chemnitz
researching Distributed and Self-organizing Systems

89%
BELIEVE PROJECT-BASED WORK IS UP OR THE SAME AS LAST YEAR

Most engagements last less than 1 year

- Less than 1 year: 69%
- Less than 6 months: 39%
- 0-3 months: 17%
- 3-6 months: 22%
- 6-12 months: 29%
- 1-2 years: 29%
- 2+ years: 8%
Eighty-nine percent of respondents stated that it’s important, or even critical, to be able to tap subcontractors to scale their workforce to meet surges in demand. Furthermore, 96% are actively seeking new subcontractor relationships. Obviously, this is a well-established practice.

We believed, at the outset, that at the core of the changing economics of the services economy is the rise of an on-demand sub-provider and contractor network.
Businesses Consider Access to Contractors Important to Success

89%

CRITICAL 23%

VERY IMPORTANT 47%

SOMewhat IMPORTANT 19%

Almost All Are Actively Seeking New Contractor Relationships

96%

CONSTANTLY 49%

AS NEEDED 47%

“Larger consultancies and service-oriented companies still have an advantage due to larger reach and deeper relationships. But this will change.”

JOACHIM STROH
Creative Director, Co-Founder
Change Agents Worldwide
Thirty-five percent of respondents say the primary driver for working with on-demand subcontractor firms and independent contractors is specialized skills that full-time or in house teams do not have, while 45% say it’s the core need to scale up to meet client demand. This is evidence of a new working style, one that’s critical for building strong client relationships in today’s environment. While 21% stated that it’s easy to scale up to take on new work, 30% stated that it is challenging to do so. And as much as 36% stated they had to turn down work recently because they didn’t have adequate resources.

Meeting Demand is the Primary Driver for Using Outside Resources

The primary drivers for businesses to use outside resources.

- **To meet demand**: 45%
- **To leverage specialized skills**: 35%
- **To reduce costs**: 20%

Scaling Up Can Be Difficult

While most found it somewhat easy to scale up, 33% still found it challenging.

36% of businesses turned down work due to inadequate resources.
Technology has made it easier to both find and employ contingent workers. What was once unusual, today is quite common. Organizational structures with a command and control hierarchy has a fundamental flaw, it is neither flexible or responsive, thus it requires finding those outside of this structure to do what needs to be done.

DAVID COLEMAN
Collaboration Technology Analyst, and President of Collaborative Strategies
As services organizations increasingly rely on external networks to be able to deliver work, the ability to do so effectively becomes a competitive advantage.

Only 57% of respondents had formal policies in place for managing the on-demand network.
New Geographies Allow Business To Expand

And when we asked about the geographic dimension of subcontractor use, we found that 68% are reaching into new geographies to source outside resources. We were surprised at the drivers, though. Only 15% of those using subcontractors in new geographic areas did so because of greater availability, and only 18% did so to reduce costs. The top drivers were clients explicitly requesting work in those geographies (38%), and the need for specialized skills (27%).
Trust is Paramount

But a contingent workforce does not mean that relationships don’t matter. On the contrary, it appears to matter a great deal. Nearly two-thirds say they use the same outside resources consistently. And for those working with the same contractors, the primary drivers are not principally a lack of new resources (only 11%), or cost (only 15%) — 40% say they use the same contractors because the contractors are familiar with the business processes and the work being done for the end customer, and 33% say it’s due to trust they’ve established. As these organizations are required to deploy resources that are not owned by their organization, and facilitate much more complex coordination of expertise and activities with outside resources, there are much higher risks associated with project delivery.

However, for those that frequently change the mix of their subcontractors, 54% say they do so because of the need for specialized skills. Relative to earlier discussions about balancing the need to scale with the need to innovate, a rule of thumb might be for companies look to new subcontractors for new or higher skills, and established subcontractors for flexible and dependable scaling.

You work with people you trust, and you get new people you will trust in the future through the people you trust now.

MADDIE GRANT
Digital Strategist, Speaker, Author on Culture Change
Most Use the Same Contractors Over and Over Again

- **Consistently Use the Same Outside Resources**: 57%
- **Frequently Change Outside Resources**: 41%

Primary drivers for using the same outside resources.

- **Familiarity**
  - WITH PROCESSES & CLIENTS: 40%
- **Trust**
  - PREVIOUSLY ESTABLISHED: 33%
- **Cost**
  - BETTER ECONOMICS: 15%
- **Lack of Options**
  - FOR NEW RESOURCES: 11%

Primary drivers for frequently changing outside resources.

- **Specialized Skills**
  - ACCESS TO A VARIETY OF SKILLS: 54%
- **Higher Quality**
  - OF WORK: 28%
- **No Availability**
  - FROM REGULAR RESOURCES: 17%
We find that there is a wide variation in what the respondents consider the most significant challenge when using subcontractors. Thirty-eight percent say it’s finding the right fit for the role, 26% say it’s getting them up to speed quickly, 19% say the challenge is trusting the subcontractors to interact appropriately with clients, and 16% say it’s integrating the outside workers into company processes. Again, these findings confirm that gaining the capacity to manage scaling and expansion through subcontractors is increasingly essential.
With the continuously stronger move of society into the information age, we’re becoming more and more globally connected. Future society has to be prepared for the flexibility and agility of the specialized work force.

MARTIN GAEDKE
Professor, Technical University Chemnitz
researching Distributed and Self-organizing Systems
The Expanding and Increased Complexity of Business

A majority (85%) of respondents state that in the last 12 months, they have expanded to offer an increasing variety of services.

This expansion seems to be driven, at least in part, by customer demand. More than two-thirds responded that clients are pushing them to expand on their service offering. What is clear is that the new realities of the services economy are forcing companies to expand their range and depth of offerings. Companies need capacity to scale to meet demand for larger and more complex projects. We conclude that the companies that are finding it difficult to expand and scale may be lacking the required skills for some projects: the demand is outpacing supply.
The past year showed a need for more services from businesses.

85% of companies delivered a greater variety of services to clients.

68% of companies were asked by clients to deliver a new service.

"Services need to be more fluid and adaptable. We don’t fit—or the work needed does not fit—in boxes like it perhaps used to."

MADDIE GRANT
Professor, Technical University Chemnitz Researching Distributed and Self-Organizing Systems

THE ABILITY TO

Scale
IS CRITICAL TO MEET CLIENT
Demand
Customers are increasingly at the epicenter of the economy, whether business customers or consumers.

This is also impacting services providers today—customer expectations appear to be higher than they’ve ever been. Our respondents indicate the major areas of customer demands are speed of delivery, quality, and specialization of services. And those factors line up pretty well with the survey respondents’ thoughts on what are the most important attributes to compete and thrive today, including speed of innovation, specialization of services, and trust. Interestingly absent is that customers don’t seem to be demanding lower costs, although those surveyed consider it the fifth most essential competitive factor.
## Client Expectations

Businesses highlighted these as the most common demands from clients.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed of Delivery</td>
<td>24%</td>
</tr>
<tr>
<td>Quality</td>
<td>23%</td>
</tr>
<tr>
<td>Specialization</td>
<td>20%</td>
</tr>
<tr>
<td>Accountability</td>
<td>18%</td>
</tr>
<tr>
<td>Transparency</td>
<td>13%</td>
</tr>
</tbody>
</table>

## Attributes Needed for Businesses to Thrive

Businesses were asked to select the most important attributes for success.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed of Innovation</td>
<td>23%</td>
</tr>
<tr>
<td>Specialization of Services</td>
<td>22%</td>
</tr>
<tr>
<td>Trust</td>
<td>18%</td>
</tr>
<tr>
<td>Accountability</td>
<td>18%</td>
</tr>
<tr>
<td>Most Value / Lowest Cost</td>
<td>17%</td>
</tr>
<tr>
<td>Scalability</td>
<td>14%</td>
</tr>
</tbody>
</table>
A New Competitive Landscape

Another major change in the market conditions is a shift in the competitive landscape.

Sixty-two percent of companies said they are seeing increased competition. Of those that are seeing more competition, the greatest threat is from new entrants into their markets. As services organizations expand their services, others are rapidly assailing their core market. Michael Roth, chairman and CEO of IPG, recently stated, “There’s no question that we’re competing against companies that we never competed against before: Deloitte Consulting, Accenture, IBM. It’s a very difficult competitive market out there, and we just have to be on our game.”

The competition is coming from:

- **NEW ENTRANTS** 23%
- **EXISTING BUSINESSES** 16%
- **BOTH NEW & EXISTING** 23%

62% are seeing increased competition across markets
The authority of entrenched companies is diminishing across the board. My sense is that there is an overall shift toward ‘Merit’ beating out ‘Established’ as criteria.

JEAN RUSSELL
Facilitator and Social Ecosystem Designer
The services economy and all the participants within it are experiencing major change.

Data suggested this before our report, and our findings reinforced this as well.

With this report we set out to determine what stage of the transformation we are in—have we reached a tipping point, are executives currently devising strategies and plans to adapt for the future, or is there reluctance or confusion about the changes required?

As we analyzed the research, we initially found some of the results to be mixed. It was not a consistent picture across the industry. However as we began to dig deeper, we uncovered a distinction that stems from response to the question, “How quickly are you adopting new technologies to adapt to changing business conditions?”

Those that responded they are quickly adopting technology to adapt to current market conditions are 17% more likely to state it’s easy to scale resources quickly. We extended this further, and those that responded it’s easy to scale resources quickly, were 20% more likely to state that margins and utilization are trending up.

“A thread going through these findings: smaller entrants, faster speed of delivery and innovation, more trust and specialization. Seems to me the remnants of the industrial age and the beginning of the network age.”

JOACHIM STROH
Creative Director, Co-Founder
Change Agents Worldwide
On the other hand, those who answered they are slowly adopting new technologies were more likely to respond margins are trending down, and it’s harder than ever to operate their business.

This is an indication of a separation happening between firms and organizations that are proactively adapting to changing market conditions, as compared to those that are reluctant or slower to adapt. Firms that have adopted best practices are generally more optimistic about their business, while those that have been more reluctant or slow to change are generally more pessimistic. The adoption of new strategies and technologies is helping organizations grow and scale confidently.

So, in conclusion, what stage are we in with this transformation? It would be difficult to say where the industry is as a whole. However it’s clear that there are known forces that are driving services models forward and in new and different directions. In the future, services will need a more flexible, connected and transparent philosophy for their business. We believe that the adoption of these best practices has the potential to help firms stand out among the competition.

Business leaders and senior executives need to understand their changing environment, challenge the assumptions of their operating teams, and relentlessly and continuously innovate. Now, more than ever, is the time to be thinking and planning for your future.
Methodology

Gigaom, in conjunction with leading third-party market research firm ResearchNow and research underwriter, Mavenlink, surveyed 480 executives working in the services industry in June 2016. All respondents were based in the US. We asked a wide set of questions about the trends impinging on their companies, and we collected their responses.

This report is the first in a series. Subsequent reports will reveal specific impact to verticals within the services industry.

Company Size

By numbers of employees.

- **21%** SMALL (1–49)
- **35%** MID SIZE (50–499)
- **12%** MID–LARGE (500–999)
- **22%** LARGE (1,000–9,999)
- **10%** ENTERPRISE (10,000+)

Positions

- **32%** Director / Department Head
- **17%** Vice President
- **10%** CEO
- **13%** Partner / Principal
- **6%** President
- **9%** CIO/CTO
- **4%** COO
- other positions

**480 EXECUTIVES WORKING IN SERVICES INDUSTRIES WERE INTERVIEWED**

Working in these industries.

- **188** CONSULTING, BUSINESS SERVICES
- **184** COMPUTER SERVICES, COMPUTER SOFTWARE
- **108** MARKETING, ADVERTISING, MEDIA
Research Panel

We would like to thank the following futurists and visionaries for their thoughtful input on the findings of this research.

Brian Solis
A digital analyst, speaker and author. He is a principal analyst studying disruptive technology and its impact on business at Altimeter Group.
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