SUPERSTEP CAPITAL

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The Metrics That Drive Enterprise Value in Digital Services

The Superstep Capital guide to operating metrics for digital services leaders and investors. A diagnostic framework for the lower middle market, validated against more than twenty industry studies.

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ABOUT THE AUTHORS

Operators first.
Investors second.

Superstep Capital is a growth-oriented private equity firm exclusively focused on digital services. We invest in visionary founders building specialist firms in the lower middle market, and we operate the playbook we publish.

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MANAGING PARTNER & CO-FOUNDER

Stu started his career as an investment banker before joining MDC Partners (now Stagwell Group) as Corporate Development. He has spent two decades scaling, acquiring, and selling digital services firms.

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Ben started his career at The Richards Group, IPG, and Omnicom. He joined T3 as Director of Mobile in 2009 and later became its CEO, scaling the firm into a leading digital agency.

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Dave started his career in Silicon Valley, first at software startups and then on the consulting side where he built digital practices across multiple platforms before joining Superstep.

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William joined Superstep in 2024 and is responsible for managing the portfolio and pursuing new investment opportunities across the digital services landscape.

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Neil joined Superstep in 2026 and supports diligence, portfolio analytics, and sourcing across the firm's digital services investments. Prior experience spans growth equity and corporate finance.

INTRODUCTION

Why metrics discipline defines enterprise value.

At Superstep Capital, we invest exclusively in technology services businesses. Systems integrators, technology implementation consultancies, managed services providers, specialist practices built around platforms like Snowflake, ServiceNow, Salesforce, and SAP. We have spent our careers building, operating, and investing in these companies, and we have learned (sometimes the hard way) that operational discipline is not a nice-to-have in technology services. It is the primary determinant of enterprise value.

Technology services firms monetize human capital, technical specialization, and execution quality. Revenue is earned when consultants, engineers, architects, and analysts deploy their skills against client problems, whether that means building a Snowflake-based data platform for a mid-market manufacturer, implementing ServiceNow CRM for a global enterprise, standing up a data governance practice, or migrating a B2B commerce stack to a modern architecture. Every dollar of topline growth carries a corresponding labor cost that must be actively managed.

The businesses this framework addresses are specific. Firms that implement and support enterprise technology platforms such as SAP, Oracle, Salesforce, ServiceNow, Snowflake, Workday, or NetSuite. Consulting practices organized around capabilities like data & AI, cloud engineering, cybersecurity, digital commerce, or Office of the CFO advisory. Managed services providers running application support, infrastructure operations, or security operations centers. Vertical specialists delivering technology solutions into higher education, healthcare, financial services, government, or industrial sectors. These firms share a common economic model — they sell expertise delivered by people, often tied to a technology platform or domain specialization — and the metrics that govern their performance are fundamentally similar even when their end markets differ.

For investors evaluating or operating these firms in the lower middle market (typically $10M to $50M+ of revenue with $2–8M of EBITDA), the challenge is not merely identifying which metrics to track, but understanding what those metrics actually signal about the durability of earnings, the scalability of the operating model, and the sustainability of competitive advantage. We have seen technology services firms generating $4M of EBITDA on $25M of revenue valued anywhere from 5x to 15x+ depending on the quality and perceived durability of that margin. The difference almost always traces back to the metrics analyzed in this framework.

$6T
Worldwide IT services spend in 2026
GARTNER 2025

9.8%
Industry EBITDA margin, 2024
SPI RESEARCH 2025

68.9%
Industry billable utilization, after a three-year decline
SPI RESEARCH 2025

8,000+
IT services M&A deals analyzed for valuation context
AVENTIS ADVISORS

HOW THIS FRAMEWORK WAS BUILT

Operator experience meets rigorous benchmarking.

This framework is not a theoretical exercise. It is the product of two converging inputs: deep, firsthand operating experience across more than 60 years of collective careers in digital services, and a rigorous external benchmarking analysis spanning 20+ third-party studies, industry reports, and longitudinal datasets.

The operator lens. The Superstep partners have collectively built, scaled, acquired, and sold digital services businesses ranging from $5M to $150M+ in revenue. We have managed P&Ls, negotiated complex commercial structures, run go-to-market organizations, and lived through the operational realities the metrics in this document describe.

The research lens. To validate and strengthen our operator-derived benchmarks, we conducted an extensive external benchmarking analysis. The studies that informed this work include SPI Research's Professional Services Maturity Benchmark, Hinge Research's High Growth Study, Aventis Advisors' analysis of 8,000+ IT services M&A transactions, McKinsey's Net Revenue Retention Advantage, and primary sales data from Outreach, HubSpot, and Ebsta.

THE INDUSTRY CONTEXT

The external data paints a stark picture of an industry under pressure — and an equally compelling picture of the opportunity for disciplined operators. SPI reports professional services EBITDA at 9.8% in 2024, with utilization down to 68.9% from 73.2% in 2021. Yet within this landscape, top-maturity firms continue to achieve 25%+ profitability while growing 41% — a widening gap between operators who treat metrics as a system and those who treat them as a scoreboard.

FRAMEWORK ORGANIZATION

Five interconnected diagnostic systems.

A final note before you begin: metrics are diagnostic, not prescriptive. No single metric tells a complete story. The power of this framework lies in reading metrics together. A high win rate means something different in a firm with depleted pipeline than in one with abundant inflow. A strong gross margin means something different in a firm with declining utilization than in one with rising bench discipline.

SECTION

I

Go-to-Market and Revenue Operations

Revenue predictability is the single most important driver of valuation premium in digital services. These metrics answer: does this firm have a repeatable, scalable engine for converting demand into contracted engagements?

SECTION I · OVERVIEW

The valuation premium lives in the *revenue engine*.

> **Revenue predictability is the single most important driver of valuation premium in technology services. An acquirer or growth equity investor underwriting to a 5–15x+ EBITDA multiple is implicitly making a bet on the durability and growth trajectory of future cash flows. The go-to-market metrics in this section are the leading indicators that either validate or undermine that bet. They answer the question: does this firm have a repeatable, scalable, and efficient engine for converting market demand into contracted engagements?**

In the lower middle market, the transition from founder-led selling to an institutionalized revenue operation is one of the highest-value inflection points a technology services firm can navigate. We see this pattern repeatedly: firms at $10–30M of revenue where two or three senior leaders personally originate most new business. The founder who closes every deal over $200K. The practice director who has been the sole relationship holder for the firm's top five accounts. The partner channel that generates 80% of qualified leads because no one has invested in building an inbound or outbound engine. This model works until those individuals hit capacity, leave, or retire — and creates a valuation ceiling, because acquirers heavily discount businesses where revenue depends on a small number of people rather than a scalable process.

What distinguishes strong operators is not pipeline volume, but the quality and efficiency of that activity. A high-performing go-to-market operation produces sufficient qualified pipeline with clear visibility into conversion timing, does so at a cost structure that allows for profitable growth, and demonstrates consistency quarter over quarter. Inconsistency — feast-or-famine booking patterns driven by a single large implementation landing or slipping, wildly variable win rates across practice areas, ballooning sales cycles on multi-phase engagements — signals execution risk and directly compresses valuation multiples.

A NOTE ON PARTNER CHANNEL

Many firms at our stage rely heavily on the partner channel as a primary demand source. Referrals from **Snowflake, Salesforce, ServiceNow, SAP, AWS** and others can be an extremely cost-effective lead engine and a legitimate competitive advantage.

But when it is the *only* engine, it creates both concentration risk and a ceiling on growth. The partner channel is most valuable when it operates alongside self-generated demand from inbound, outbound, and referral sources.

For every metric ahead, segment by source channel:

`Inbound Direct` `Referral` `Partner Channel` `Outbound`

...then by deal type and practice area.

I.1 · METRIC

Unweighted Pipeline Coverage

LOW	MEDIAN	BEST
< 2.5x	3.0–4.0x	4.0–5.0x

DEFINITION

Total open pipeline value divided by period bookings target. The primary leading indicator for near-term revenue attainment.

WHY IT MATTERS

In digital services, where deal sizes are lumpy and cycles are long, sufficient pipeline volume is the prerequisite for predictable revenue. A coverage ratio below 3.0x typically signals immediate attainment risk, while ratios above 5–6x often indicate pipeline inflation or poor qualification.

IF HIGH

Strong demand generation or poor qualification. Examine win rates and pipeline aging — high coverage with low conversion signals a quality problem, not a volume win.

IF LOW

Demand generation bottleneck, over-dependence on a small number of partner referral relationships, or concentration in a few large opportunities. Immediate risk to near-term attainment.

EXTERNAL VALIDATION

Industry sources consistently cite 3–4x as the baseline for B2B organizations, with complex enterprise deals requiring 4–6x coverage to offset lower conversion rates and longer cycles.

SALESHIVE PIPELINE COVERAGE

INTERACTIONS Must be read alongside win rate and stalled deal percentage. High coverage with high stall rate is misleading.

I.2 · METRIC

Weighted Pipeline Coverage

LOW	MEDIAN	BEST
< 1.0x	1.2–1.5x	1.5–2.0x

DEFINITION

Sum of (opportunity value × stage-calibrated close probability) divided by period bookings target.

WHY IT MATTERS

Translates raw pipeline volume into expected value. When a firm maintains 1.2–1.5x weighted coverage and consistently achieves 100% attainment, it demonstrates exceptional forecasting discipline — a quality that premium acquirers pay for.

IF HIGH

Strong demand with calibrated probabilities, or inflated assignments. Validate by comparing weighted pipeline to actual conversion by stage over trailing 4–6 quarters.

IF LOW

Insufficient volume, deals concentrated in early stages, or overly conservative probability assignments. Common in firms whose pipeline is loaded with large early-stage opportunities at 10–20% probability.

INTERACTIONS Compare with unweighted coverage to assess pipeline maturity. Also track alongside PBE ratio for conversion efficiency.

I.3 · METRIC

Dollar SQL Inflow Ratio

LOW	MEDIAN	BEST
< 0.8x	1.0–1.5x	> 2.0x

DEFINITION

Dollar value of new SQLs created in a period divided by ACV bookings closed in the same period.

WHY IT MATTERS

Measures pipeline replenishment. A single quarter of weak inflow creates a compounding deficit that typically takes two to three quarters to overcome — a dynamic that shows up in lagging revenue attainment.

IF HIGH

Strong demand, healthy ecosystem positioning, or high partner referral activity. Check SQL quality: high volume with low downstream progression signals definition inflation.

IF LOW

Demand weakness, partner relationship deterioration, loss of preferred partner status, or channel concentration risk.

INTERACTIONS Low inflow eventually degrades unweighted pipeline coverage. Also check MQL-to-SQL conversion rate.

I.4 · METRIC

MQL → SQL Conversion

LOW	MEDIAN	BEST
< 15%	20–30%	35–50%+

DEFINITION

Number of SQLs created divided by number of MQLs generated in a period.

WHY IT MATTERS

Measures marketing-to-sales alignment and the quality of demand generation. In digital services, ideal customer profiles are narrower than in broad B2B SaaS — a 20% conversion reflects tighter ICP discipline, not underperformance.

IF HIGH

Tight ICP definition, relevant platform-specific content, effective lead scoring. High conversion often correlates with marketing targeting specific ecosystem events.

IF LOW

Broad or unfocused marketing spend, generic thought leadership rather than ecosystem-specific demand generation, or misaligned ICP.

> **EXTERNAL VALIDATION**
>
> *B2B funnel data shows MQL-to-SQL conversion averaging 15–21% across industries, with best performers reaching 40%+. Our range is calibrated for firms with tighter ICP definitions.*
>
> DIGITAL BLOOM PIPELINE BENCHMARKS

INTERACTIONS Impacts cost per SQL and overall S&M efficiency. Connects directly to SQL inflow ratio.

I.5 · METRIC

Win Rate (ACV Basis)

LOW	MEDIAN	BEST
< 20%	20–30%	35–45%+

DEFINITION

Sum of ACV of won deals divided by sum of ACV of all resolved deals (won + lost + disqualified). ACV-weighting is essential.

WHY IT MATTERS

Win rate directly determines required pipeline coverage. A firm with a 25% win rate needs ~4.0x coverage; one with 40% needs only 2.5x. In digital services, pre-sales investment in scoping and architecture is substantial — win rate improvements are among the highest-leverage activities available.

IF HIGH

Strong competitive positioning, deep technical credibility (Premier Partner status), or effective scoping. May also indicate the firm is only pursuing deals within a narrow comfort zone.

IF LOW

Competitive weakness against larger SIs or niche specialists, poor qualification, pricing misalignment, or capability gaps on larger implementations.

EXTERNAL VALIDATION

HubSpot's 2024 Sales Trends Report found average B2B win rates at ~21%. Outreach's 2025 data shows the largest group of sellers now at 21–25%, down from 31–40% the prior year.

HUBSPOT SALES TRENDS · OUTREACH 2025 DATA

INTERACTIONS Inversely related to required pipeline coverage. Directly impacts cost per booking.

I.6 · METRIC

Avg. Sales Cycle (New)

LOW	MEDIAN	BEST
> 150 days	90–120 days	60–90 days

DEFINITION

Average calendar days from qualified opportunity to closed-won, decomposed by stage.

WHY IT MATTERS

Determines the tempo of the revenue engine. Pre-sales investment in scoping and architecture is substantial — longer cycles burn expensive non-billable hours. Stage-level decomposition reveals bottlenecks: a 90-day aggregate might hide a 20-day SOW bottleneck.

IF HIGH

Complex enterprise procurement, multi-stakeholder evaluation, or slow SOW production. Decompose by stage to identify where deals stall.

IF LOW

Efficient sales process, strong partner channel pipeline, repeat buying, or smaller deal sizes. Confirm short cycles aren't achieved by avoiding complex engagements.

EXTERNAL VALIDATION

Outreach reports 34% of revenue teams now experience average cycles of one to two full quarters. Opportunities closed within 50 days show a 47% win rate versus 20% or lower after that threshold.

OUTREACH 2025 SALES DATA

OPERATOR TAKEAWAY

A firm with a 90-day aggregate cycle may have a 20-day bottleneck simply because the team takes too long to produce SOWs. Turning SOWs around in 2 days instead of 5 compresses the cycle and drives meaningful in-year EBITDA lift.

INTERACTIONS Impacts pipeline coverage requirements. Often correlates with stalled deal metrics.

I.7 · METRIC

Stalled Deal % of Pipeline

LOW	MEDIAN	BEST
> 40%	15–25%	< 10%

DEFINITION

Stalled deal dollar value as a percentage of total unweighted pipeline. 'Stalled' = no stage progression in 30–45 days (consulting) or 45–60 days (implementation).

WHY IT MATTERS

Stalled deals are the silent killers of revenue operations. They consume management attention, inflate coverage ratios, and rarely convert. In digital services, each stalled deal typically represents senior architecture or scoping hours invested with zero return.

IF HIGH

Severe pipeline hygiene problems, deals lingering past decision points, or a culture that values pipeline inflation over accuracy.

IF LOW

Rigorous pipeline management, active deal progression discipline, and defined exit criteria at each stage.

INTERACTIONS Directly inflates pipeline coverage and sales cycle length while suppressing win rate and rep productivity.

I.8 · METRIC

Pipeline Load / Full-Time Seller

LOW	MEDIAN	BEST
< $500K or > $5M	$1M–$3M	$2M–$4M

DEFINITION

Total unweighted pipeline divided by quota-carrying sales professionals (adjusted for ramp status).

WHY IT MATTERS

Connects aggregate pipeline to individual execution capacity. Adequate overall coverage might hide the fact that 80% of the pipeline is held by 20% of the reps — a concentration risk that breaks when key sellers leave.

IF HIGH

Strong demand or insufficient selling capacity. If win rates decline or stalled deals rise alongside high load, the pipeline exceeds management capacity.

IF LOW

Demand shortfall, over-hiring, or pipeline concentrated among a few senior partners.

INTERACTIONS Drives coverage metrics. High load often leads to increased stalled deal percentages.

I.9 · METRIC

Annual ACV / Rep (New)

LOW	MEDIAN	BEST
< $750K	$1.0M–$2.0M	$2.5M–$3.0M+

DEFINITION

Total new ACV bookings divided by ramped quota-carrying reps over trailing 6–12 months. Excludes reps in their first 6 months.

WHY IT MATTERS

The ultimate measure of sales force efficiency. A firm where ramped reps generate $2M+ annually has a fundamentally different scaling profile and margin trajectory than one at $500K — and this gap compounds quickly at scale.

IF HIGH

Effective sales motion, strong demand, efficient support infrastructure. Sustained high productivity justifies additional headcount investment.

IF LOW

Market saturation, competitive pressure, poor enablement, inadequate lead flow, or excessive admin burden.

INTERACTIONS Strongly influenced by pipeline load, win rate, and sales cycle. Critical input for S&M spend efficiency.

I.10 · METRIC

PBE Ratio

LOW	MEDIAN	BEST
> 5.0x	3.0–4.0x	2.0–3.0x

DEFINITION

Beginning-of-period pipeline divided by period ACV bookings. A backward-looking measure of conversion efficiency.

WHY IT MATTERS

Answers: what did it actually cost in pipeline terms to generate a dollar of bookings? While coverage is forward-looking, PBE is the retrospective check on whether pipeline is being converted or accumulated.

IF HIGH

Low conversion efficiency — significant pipeline not converting. Could indicate qualification weakness, competitive losses, or pricing misalignment.

IF LOW

Strong conversion discipline. Below 2.0x may be unsustainable unless inflow is exceptionally strong.

INTERACTIONS Validates coverage assumptions. Links back to win rate, stalled deal %, and SQL inflow.

I.11 · METRIC

S&M % of Revenue

LOW	MEDIAN	BEST
> 18%	10–15%	6–10%

DEFINITION

Total S&M expense (headcount + commission + marketing + T&E) as a percentage of total revenue.

WHY IT MATTERS

The primary GTM cost efficiency measure. In digital services where gross margins range from 35–60%, every point of S&M directly compresses EBITDA. A firm with 48% gross margins spending 15% on S&M has consumed nearly a third of its gross margin before G&A.

IF HIGH

Either intentional growth investment (validate with bookings trajectory) or structural inefficiency. Diagnose by examining rep productivity and cost per booking.

IF LOW

Efficient GTM engine, strong referral or expansion dynamics, or potential under-investment. If growth is also low, the firm may be coasting.

INTERACTIONS Compare against gross margin, rep productivity, and cost per booking.

I.12 · METRIC

Cost Per MQL

LOW	MEDIAN	BEST
> $1,000	$300–$700	< $250

DEFINITION

Total marketing spend divided by number of MQLs generated in a period.

WHY IT MATTERS

Isolates variable demand generation cost per qualified lead, enabling apples-to-apples comparison across channels. Firms that drive leads primarily through ecosystem events and partner co-marketing routinely achieve sub-$250 CPL.

IF HIGH

Inefficient demand generation, expensive channels, or low MQL definition standards.

IF LOW

Efficient demand generation, strong referral pipeline, or high partner-channel leverage.

INTERACTIONS Directly tied to MQL-to-SQL conversion rate. A $400 CPL with 40% SQL conversion is more efficient than $200 CPL with 10% conversion.

I.13 · METRIC

Cost Per $1 ACV Booked

LOW	MEDIAN	BEST
> $0.40	$0.20–$0.30	< $0.15

DEFINITION

Total S&M expense divided by total ACV bookings — the all-in customer acquisition cost as a ratio.

WHY IT MATTERS

Spending $0.25 to acquire a dollar of ACV in a $500K engagement returns 4x the value of the same spend in a $125K engagement. This ratio normalizes acquisition cost across deal size and is directly comparable across firms.

IF HIGH

Inefficient GTM or low win rates inflating cost of won deals.

IF LOW

Efficient conversion, strong referral pipeline, or high account expansion bookings at lower acquisition cost.

INTERACTIONS Heavily impacted by win rate, MQL-to-SQL conversion, and total S&M spend.

I.14 · METRIC

Gross Client Retention

LOW	MEDIAN	BEST
< 80%	83–90%	90–95%+

DEFINITION

Percentage of clients from the prior period who contracted again in the current period, excluding any expansion revenue.

WHY IT MATTERS

Gross retention is the floor on NRR. A firm with 80% gross retention cannot have sustainable NRR above 100% unless its surviving accounts expand enough to offset the lost clients — an increasingly difficult math problem at scale.

IF HIGH

Strong client relationships, sticky delivery, or multi-year MSA structures. Validate that renewal isn't driven by contractual lock-in without genuine satisfaction.

IF LOW

Client dissatisfaction, project delivery failures, competitive displacement, or rate pressure. Below 80% is a structural problem.

INTERACTIONS Directly feeds Net Revenue Retention. Low gross retention forces higher new logo acquisition spend.

I.15 · METRIC

Net Revenue Retention

LOW	MEDIAN	BEST
< 90%	95–105%	110–130%+

DEFINITION

(Beginning revenue + expansion − contraction − churn) / beginning revenue × 100. Includes all changes from the existing client base.

WHY IT MATTERS

NRR above 100% means the business grows even without new logos. It is the single most leveraged driver of enterprise value across B2B tech companies — and it separates firms with durable earnings from those that are constantly refilling a leaky bucket.

IF HIGH

Strong account management, effective cross-sell and upsell, deepening client platform dependency. NRR above 120% indicates significant land-and-expand dynamics.

IF LOW

Client churn, scope contraction, competitive displacement, or rate pressure. NRR below 90% overwhelms new business efforts.

EXTERNAL VALIDATION

McKinsey's 2025 analysis of 100+ B2B tech companies found top-quartile NRR firms command median EV/Revenue multiples of 24x versus 5x for bottom-quartile peers.

MCKINSEY NRR ADVANTAGE

INTERACTIONS Relates to gross margin and S&M efficiency. Expansion revenue is typically lower-cost than new logo acquisition.

I.16 · METRIC

Book-to-Bill Ratio

LOW	MEDIAN	BEST
< 0.90x	1.0x–1.10x	1.20x–1.30x+

DEFINITION

Period ACV bookings divided by period revenue. Measures whether the firm is building or depleting its future revenue base.

WHY IT MATTERS

The simplest real-time indicator of business momentum. Sustained above 1.2x indicates acceleration; two or more consecutive quarters below 1.0x is a structural concern that will manifest in revenue deceleration 1–2 quarters later.

IF HIGH

Growing backlog, strong demand, increasing revenue visibility.

IF LOW

Depleting backlog, demand weakness, or large project completions without new bookings.

INTERACTIONS Tied to pipeline coverage on the front end and NRR on the back end.

SECTION I · TAKEAWAY

A healthy GTM function is not a high coverage ratio or a strong win rate; it is those numbers moving together, quarter after quarter. Pipeline coverage tells you whether the top of the funnel is adequate. Win rate and cycle time tell you whether it converts. PBE and stalled percentage tell you whether the system actually finishes what it starts. Read on their own, any of them can flatter or mislead. Read together, they are the difference between revenue that is a forecast and revenue that is a mechanism.

SECTION

II

Gross Margin and Delivery Economics

Gross margin is the clearest indicator of pricing power, delivery efficiency, and long-term EBITDA potential. It separates revenue from the cost of doing the work.

SECTION II · OVERVIEW

Where revenue becomes *value*.

> If go-to-market metrics determine whether the firm can generate revenue, gross margin and delivery economics determine whether that revenue creates value. Gross margin is the clearest, most consequential indicator of pricing power, delivery efficiency, and long-term EBITDA potential.

It is the line that separates revenue from the cost of actually doing the work. In technology services, where the "product" is human capital deployed against client technology problems, everything about the business model flows through this metric — bill rates, utilization, leverage, mix, subcontractor strategy, and the structural ceiling on what the firm can ultimately earn.

The metrics in this section unpack gross margin into the four levers that drive it: rate (what you charge), realization (what you collect), utilization (how much of capacity you sell), and leverage (the cost shape of the team delivering the work). Read them together — no single number tells the story.

COGS DEFINITION

FTE (Full Time Equivalent) refers to any individual — W-2 employee or 1099 contractor — working a full-time equivalent schedule of approximately **40 hours per week**.

Part-time subcontractors (e.g., a contractor engaged for 20 hours of specific work) should be *excluded* from utilization and headcount denominators — their hours are always fully utilized by definition and would distort the metric.

Cost of Goods Sold includes:

- Base Compensation
- Benefits
- Payroll Taxes
- PTO Burden
- Direct Subcontractors

...for all personnel who bill time to client engagements.

II.1 · METRIC

Gross Margin

LOW	MEDIAN	BEST
< 35%	40–50%	50–60%+

DEFINITION

(Revenue – direct delivery cost) / revenue. Includes all billable headcount cost, subcontractors, and direct project expenses.

WHY IT MATTERS

Gross margin is the foundation of EBITDA. In digital services, it is determined by the combination of bill rate, utilization, delivery mix (onshore vs. nearshore/offshore), and seniority leverage. A 5-point margin improvement on $20M of revenue is $1M of additional EBITDA.

IF HIGH

Strong pricing power, efficient delivery, favorable engagement mix, or high offshore leverage. Validate that margin isn't being maintained by deferring bench cost.

IF LOW

Rate pressure from clients, over-reliance on expensive senior delivery resources, high bench cost, or unfavorable project mix.

EXTERNAL VALIDATION

SPI reports project margins averaging 35.9% in 2024. Our median range targets above this for technology implementation firms with stronger platform specialization.

DELTEK / SPI BENCHMARKS

INTERACTIONS Directly determines EBITDA ceiling. Interacts with utilization, leverage ratio, and offshore %.

II.2 · METRIC

Eff. Bill Rate (Staff Aug)

LOW	MEDIAN	BEST
< $75/hr	$85–$120/hr	$130–$160/hr

DEFINITION

Actual realized revenue per billable hour for staff augmentation engagements, net of discounts.

WHY IT MATTERS

Effective bill rate captures pricing power and rate discipline. Firms with platform certifications and preferred partner status routinely command 30–50% rate premiums over non-specialized firms competing on availability.

IF HIGH

Strong platform specialization, premium talent positioning, or low-competition market. Validate by checking client renewal rates — premium rates only hold with premium delivery.

IF LOW

Rate pressure, undifferentiated talent profile, or competition from lower-cost offshore staffing firms.

INTERACTIONS Directly drives revenue per FTE and gross margin. Losing $10/hr in bill rate on 100 consultants at 75% utilization = $1.56M revenue loss annually.

II.3 · METRIC

Eff. Bill Rate (Consulting)

LOW	MEDIAN	BEST
< $150/hr	$175–$250/hr	$275–$400+/hr

DEFINITION

Actual realized revenue per billable hour for consulting and advisory engagements, net of discounts.

WHY IT MATTERS

Advisory and implementation consulting commands a significant premium over staff augmentation when the firm can demonstrate thought leadership, methodology, and delivery outcomes. The spread between staff aug and consulting bill rates is a measure of positioning power.

IF HIGH

Strong advisory positioning, proprietary methodology, or top-tier certifications commanding premium pricing.

IF LOW

Difficulty differentiating from staff augmentation, client pushback on advisory rates, or lack of documented methodology.

EXTERNAL VALIDATION

GSA data shows top-tier management consultants billing $250–$1,100/hr by level. Mid-market specialist consultancies typically operate in the $175–$350/hr range.

SLIDEWORKS CONSULTING FEES

II.4 · METRIC

Revenue / Delivery FTE

LOW	MEDIAN	BEST
< $120K	$150K–$220K	$250K–$350K+

DEFINITION

Annual revenue divided by total delivery FTEs (including subcontractors on a blended FTE basis).

WHY IT MATTERS

Revenue per FTE is a single number that captures the combination of bill rate, utilization, and leverage. It determines how much revenue the business can generate from each incremental hire and sets the ceiling for EBITDA margin.

IF HIGH

Efficient delivery model, high utilization, strong leverage ratio, or premium pricing.

IF LOW

High bench cost, low utilization, unfavorable seniority mix, or rate pressure eroding revenue per head.

EXTERNAL VALIDATION

SPI reports revenue per consultant at $199K in 2024. Consultancy.org cites global functional specialists at $300K–$400K. Our benchmark reflects digital services specifically.

CONSULTANCY.ORG FEES & RATES

II.5 · METRIC

GP / Delivery FTE

LOW	MEDIAN	BEST
< $30K	$50K–$80K	$100K–$150K+

DEFINITION

Gross profit (revenue minus direct delivery cost) divided by total delivery FTEs.

WHY IT MATTERS

GP per FTE is the clearest measure of delivery economics — it factors in both the revenue generated and the cost of the people generating it. A firm at $100K+ GP/FTE is operating a premium delivery model; one at $30K is barely covering overhead.

IF HIGH

Strong bill rates, high utilization, favorable leverage ratio. Sustainable only with deep technical specialization.

IF LOW

High compensation relative to bill rates, significant bench cost being absorbed, or high subcontractor margins compressing GP.

II.6 · METRIC

Senior % of Delivery

LOW	MEDIAN	BEST
> 40%	25–35%	15–25%

DEFINITION

Senior delivery professionals (Principal, Director, Partner level) as a percentage of total billable headcount.

WHY IT MATTERS

An inverted pyramid — too many seniors relative to junior practitioners — compresses gross margin dramatically. Seniors cost more and typically can't be fully loaded, while structured engagements allow more of the work to be delivered at lower cost by junior talent under senior oversight.

IF HIGH

Founder-led delivery model, insufficient junior pipeline, or growth-stage firm without formal leverage structure.

IF LOW

Well-structured engagement model with proper leverage, strong training pipeline, or managed services model.

II.7 · METRIC

Nearshore/Offshore %

LOW	MEDIAN	BEST
< 10%	20–40%	40–60%

DEFINITION

Percentage of billable hours delivered by nearshore or offshore resources.

WHY IT MATTERS

Offshore leverage is one of the most powerful gross margin levers available. Moving 20% of delivery hours from onshore to nearshore at 50% of the cost can add 300–500 bps of gross margin on a typical engagement. The challenge is maintaining delivery quality and client acceptability.

IF HIGH

Efficient delivery model with successful nearshore/offshore execution. Validate client CSAT and delivery quality metrics.

IF LOW

Onshore-only delivery model, client preference for onshore resources, or inability to build offshore delivery capability.

II.8 · METRIC

Utilization (2,080 Basis)

LOW	MEDIAN	BEST
< 65%	68–75%	78–85%

DEFINITION

Billable hours as a percentage of total available hours (2,080 per year), excluding PTO and holidays.

WHY IT MATTERS

Utilization is the heartbeat of professional services economics. Every point of utilization above 70% drops almost entirely to gross margin. A 200-person firm improving from 70% to 75% utilization generates approximately $1.5M of incremental gross profit on typical fully-loaded costs.

IF HIGH

Strong demand, efficient scheduling, minimal bench time. Approaching 85%+ can signal delivery quality risk if it prevents pre-sales and training investment.

IF LOW

Excess bench capacity, demand shortfall, poor scheduling discipline, or high bench cost from overhiring ahead of demand.

EXTERNAL VALIDATION

SPI shows industry utilization fell to 68.9% in 2024, declining three consecutive years from 73.2% in 2021. Top-maturity firms maintain 78–85%.

SPI BILLABLE UTILIZATION

II.9 · METRIC

Bench Cost % of COGS

LOW	MEDIAN	BEST
> 15%	8–12%	< 8%

DEFINITION

Cost of non-billable delivery headcount (bench time) as a percentage of total cost of goods sold.

WHY IT MATTERS

Bench cost is unavoidable but must be actively managed. It represents the cost of capacity that exists but isn't generating revenue. In a 100-person delivery organization, every 5% increase in bench cost is approximately $400–600K of additional unrecoverable expense.

IF HIGH

Overhiring relative to demand, poor demand forecasting, or inability to redeploy bench staff to new engagements quickly.

IF LOW

Tight utilization management, strong demand matching, or flexible workforce model using contractors to absorb demand volatility.

II.10 · METRIC

Realization Rate

LOW	MEDIAN	BEST
< 85%	90–95%	95%+

DEFINITION

Actual revenue collected as a percentage of maximum billable amount (hours worked × standard rate).

WHY IT MATTERS

Realization captures all forms of revenue leakage: write-downs, write-offs, fixed-fee overruns, and unauthorized discounts. A 90% realization on $20M of revenue means $2M of delivered value isn't being captured — almost entirely an avoidable loss.

IF HIGH

Tight contract management, minimal write-downs, effective fixed-fee scoping, and disciplined rate cards.

IF LOW

Scope creep without change orders, excessive write-downs on fixed-fee projects, or informal discounting by client-facing partners.

II.11 · METRIC

Recurring / Retainer % of Rev

LOW	MEDIAN	BEST
< 20%	30-50%	55-75%+

DEFINITION

Revenue from recurring or retainer-based contracts as a percentage of total revenue.

WHY IT MATTERS

Recurring revenue commands a multiple premium in any M&A context and dramatically reduces the volatility of earnings. Moving from 20% to 50% recurring revenue can expand EBITDA multiples by 2–4x on the same absolute EBITDA — the difference between a 7x and an 11x exit.

IF HIGH

Strong managed services component, successful retainer model, or well-structured multi-year agreements.

IF LOW

Project-based model, episodic client engagement, or inability to convert project relationships to managed services.

SECTION II · TAKEAWAY

Gross margin is not a pricing story or a utilization story; it is the product of four levers moving together. Bill rates and realization tell you whether the firm is capturing the value of its work. Utilization and bench cost tell you whether capacity is funded or idle. Senior mix and nearshore ratio tell you what the work actually costs to deliver. Recurring share tells you how much of that margin will still be there next quarter. Any single reading can look healthy, over a narrow window, and hide a problem in the lever next to it. Read together, they reveal whether the operating model is engineered for margin or leaking it quietly.

SECTION

III

Client Health and Delivery Quality

Revenue durability is a function of whether current clients are satisfied enough to continue, expand, and refer. These metrics determine whether a firm's EBITDA is repeatable.

SECTION III · OVERVIEW

Whether the firm will *continue to earn it*.

> Revenue and margin metrics tell you what the firm has earned. Client health and delivery quality metrics tell you whether it will continue to earn it. In technology services, where client relationships are the foundation of recurring revenue, expansion opportunity, and referenceability, the quality of delivery is not just an operational concern — it is a commercial one.

Acquirers and investors underwrite future cash flows on the assumption that today's client base will renew, expand, and refer. Each of those outcomes is a downstream effect of how well the firm is delivering right now. A red project on a top-five account does not just risk that engagement; it risks the renewal, the next statement of work, the case study, and the partner-channel referral the account would have generated. The metrics in this section are how diligence-grade buyers test whether that downstream value is real or fragile.

This section reads delivery health through three lenses moving in tandem: **execution quality** (on-time delivery, project status, sold-as vs. delivered margin), **client concentration and retention** (top-account exposure, logo and revenue retention, NPS), and **commercial expansion** (net revenue retention, account growth, referenceability). Strength in one lens cannot compensate for weakness in another — and the firms that command premium multiples show consistency across all three.

WHY DILIGENCE CARES

The premise of every growth or M&A model is that **existing clients keep buying**. Delivery quality is the leading indicator of whether that premise holds.

A firm with strong revenue and margin but deteriorating delivery health is, in valuation terms, a firm whose *future* revenue and margin are already compromised — diligence simply hasn't priced it in yet.

Three lenses to read together:

- `Execution Quality`
- `Concentration & Retention`
- `Commercial Expansion`

...segmented by account tier and practice area.

III.1 · METRIC

Client / Project Margin (Target)

LOW	MEDIAN	BEST
< 45%	50–60%	60–70%+

DEFINITION

Gross margin at the individual client or project level, measured against internal cost targets set at contract signing.

WHY IT MATTERS

Client-level margin reveals which relationships are structurally profitable versus which are subsidized by others. In a firm with 47% overall gross margin, a client at 30% margin is consuming disproportionate capacity that would be better deployed elsewhere.

IF HIGH

Well-scoped engagements, effective leverage structure, on-budget delivery. Validate that high margin isn't achieved by under-delivering versus contracted scope.

IF LOW

Scope creep, poor initial scoping, rate concessions, or delivery inefficiency on specific client engagements.

III.2 · METRIC

Sold-As to Delivered Gap

LOW	MEDIAN	BEST
> 10 pts	3–7 pts	< 3 pts

DEFINITION

Difference in gross margin percentage between the engagement as sold and the engagement as delivered. Measured in margin points.

WHY IT MATTERS

The gap between sold and delivered margin is the most important diagnostic for delivery execution. A consistent 8-point gap means the firm's scoping methodology is systematically wrong, and every new project is already guaranteed to underperform against expectations.

IF HIGH

Poor initial scoping, inadequate risk pricing, or optimistic assumptions about delivery efficiency.

IF LOW

Mature scoping methodology, strong change order discipline, and effective project financial management.

III.3 · METRIC

Red Projects (% Active)

LOW	MEDIAN	BEST
> 15%	5–10%	< 5%

DEFINITION

Percentage of active projects currently rated as 'at risk' due to schedule, scope, budget, or client satisfaction issues.

WHY IT MATTERS

Red projects consume disproportionate management attention, senior delivery resources, and often result in write-downs or client attrition. In a 50-project portfolio, 10 red projects means 20% of your delivery engine is fighting fires rather than generating margin.

IF HIGH

Systematic delivery problems, poor project scoping, insufficient delivery management capacity, or over-stretched senior resources.

IF LOW

Mature delivery methodology, effective risk management, realistic project scoping, and proactive client communication.

III.4 · METRIC

On-Time Delivery Rate

LOW	MEDIAN	BEST
< 70%	75–85%	90%+

DEFINITION

Percentage of projects delivered on time per original committed milestones.

WHY IT MATTERS

On-time delivery is the most visible indicator of delivery quality from a client's perspective. Below 75%, firms start experiencing elevated client attrition and difficulty winning contract renewals — even when work quality is good.

IF HIGH

Mature delivery methodology, realistic scoping, effective resource management, and proactive scope management.

IF LOW

Optimistic project planning, resource unavailability, scope creep, or insufficient delivery management capability.

> **EXTERNAL VALIDATION**
>
> *SPI reports on-time delivery fell to 73.4% in 2024, down from 80.2% in 2021. Project overruns rose to 11.3%. Top-maturity firms consistently achieve 90%+.*
>
> DELTEK / SPI BENCHMARKS

III.5 · METRIC

Billings vs. Backlog Variance

LOW	MEDIAN	BEST
> ±10%	±3–7%	±0–3%

DEFINITION

Difference between actual billings and beginning-of-period backlog-implied revenue, as a percentage.

WHY IT MATTERS

Low variance indicates that committed backlog reliably converts to revenue on schedule. High variance signals either optimistic backlog recognition, project delays, or scope changes that aren't captured in backlog management — all warning signs for revenue predictability.

IF HIGH

Aggressive backlog recognition, project delays, or systematic scope changes reducing actual billings.

IF LOW

Conservative backlog recognition, excellent project execution, or outperformance against committed timelines.

III.6 · METRIC

Recurring / Retainer % of Rev

LOW	MEDIAN	BEST
< 20%	30–45%	50–65%+

DEFINITION

Revenue from recurring or retainer-based contracts as a percentage of total revenue.

WHY IT MATTERS

Recurring revenue is the primary driver of valuation multiple expansion in digital services. Acquirers pay a significant premium for revenue that renews without a full sales cycle — and the market for managed services continues to grow as clients seek outcome-based relationships.

IF HIGH

Strong MSP component, successful retainer contracts, or multi-year professional services agreements.

IF LOW

Project-based episodic model, limited managed services offering, or inability to convert project clients to recurring relationships.

III.7 · METRIC

Top Client % of Revenue

LOW	MEDIAN	BEST
> 20%	10–15%	< 10%

DEFINITION

Revenue from the single largest client as a percentage of total revenue.

WHY IT MATTERS

Client concentration is the primary single-factor risk in digital services M&A. Any top-client revenue above 20% creates acquirer concern about earnings durability post-close — and often results in earnout structures or escrow requirements that effectively reduce the seller's realized multiple.

IF HIGH

High concentration risk. Validate client stability, contract duration, and multi-stakeholder relationships. A single contract cancellation becomes a P&L event.

IF LOW

Diversified revenue base, strong new logo growth, or successful cross-sell across multiple client relationships.

III.8 · METRIC

Top 5 Clients % of Revenue

LOW	MEDIAN	BEST
> 50%	30–45%	< 30%

DEFINITION

Revenue from the five largest clients as a percentage of total revenue.

WHY IT MATTERS

Even when no single client exceeds 15–20%, a highly concentrated top-5 that accounts for 60%+ of revenue creates fragility. The departure of two or three clients in the same quarter can be a structural business event rather than manageable variance.

IF HIGH

Portfolio concentration risk requiring active diversification investment. Map relationship depth beyond the primary contact.

IF LOW

Healthy diversification. Sub-30% top-5 at meaningful revenue scale ($20M+) is a premium quality indicator.

III.9 · METRIC

Rate Leakage

LOW	MEDIAN	BEST
> 15%	5–10%	< 5%

DEFINITION

Percentage of contracted rate value lost to informal discounts, unauthorized rate reductions, or unbilled work.

WHY IT MATTERS

Rate leakage is the silent margin destroyer in services businesses. It accumulates from dozens of small concessions — a partner tells a client 'we'll absorb those hours,' a manager approves a 10% discount without approval — that individually seem minor but aggregate to significant P&L erosion.

IF HIGH

Lack of rate card discipline, partner-level pricing authority without oversight, or competitive pressure leading to informal concessions.

IF LOW

Strong rate card governance, clear discount approval process, and effective contract management.

III.10 · METRIC

Managed / Contracted Rev %

LOW	MEDIAN	BEST
< 20%	30–50%	55–75%+

DEFINITION

Revenue under formal MSA, SLA, or long-term contract with defined terms and renewal structure.

WHY IT MATTERS

Contracted revenue provides the revenue predictability that supports premium valuations. Beyond the multiple impact, it allows better workforce planning, reduces bench cost volatility, and lowers the cost of revenue relative to entirely project-based businesses.

IF HIGH

Strong client lock-in and revenue predictability. Validate that contracts include appropriate fee escalation provisions.

IF LOW

Episodic project model, weak contracting discipline, or limited managed services offering.

SECTION III · TAKEAWAY

Client health is not a delivery story or a concentration story; it is the product of three lenses moving together. Execution quality (on-time delivery, red projects, sold-as vs. delivered gap) tells you whether the work is being done as sold. Commercial hygiene (rate leakage, sold-to-delivered margin, billings-versus-backlog) tells you whether the economics of each engagement survive contact with reality. Book composition (top client share, top five concentration, recurring and managed revenue) tells you how much of next year's P&L is already earned and how much is still up for renewal. Any single reading can look steady while the others quietly erode. Read together, they are the difference between revenue that renews itself and revenue that has to be re-won every year.

SECTION

IV

Operating Expenses and EBITDA Structure

EBITDA margin in digital services is determined not just by top-line growth and gross margin, but by how efficiently the firm invests in growth. These metrics reveal whether the operating model is sustainable.

SECTION IV · OVERVIEW

The distance between gross profit and *EBITDA*.

> Operating expenses represent the cost of management, growth, and support infrastructure. The distinction between gross profit and EBITDA is entirely determined by the efficiency and intentionality of this spending. A firm can have excellent gross margins and still produce weak EBITDA if its OpEx structure is bloated, undisciplined, or misaligned with its growth stage.

The metrics in this section read OpEx through three investment decisions moving in tandem: **how much the firm spends to grow** (S&M as a percentage of revenue, GTM efficiency), **how much it spends to run** (G&A intensity, leadership cost ratio, real estate and tooling), and **how much it spends to build** (R&D, IP, and reusable accelerators). The right ratio between these three is stage-dependent — a firm growing 40% should look very different from one growing 10% — but the discipline of being intentional about each line is what separates premium operators from the rest.

It is worth noting that AI is changing these economics in real time. The best firms are finding structural advantages in their operating base through AI adoption — whether that means eliminating redundant IT tools, automating reporting processes, reducing the need for certain back-office roles, or enabling leaner teams to accomplish more. The OpEx ratios that defined a "good" firm in 2022 are not the ratios that will define one in 2027.

AI IS THE NEW DIFFERENTIATOR

Two recent benchmarks make the case directly. **SPI's 2025 benchmark** explicitly identifies AI as a key differentiator between leaders and laggards in professional services.

Hinge's 2025 High Growth Study shows that high-growth firms are measurably more digitally mature and are actively leveraging AI for competitive advantage — across delivery, sales, and back office.

Three OpEx investment lenses:

- `Spend to Grow (S&M)`
- `Spend to Run (G&A)`
- `Spend to Build (R&D)`

...calibrated to growth stage and ambition.

IV.1 · METRIC

Adj. EBITDA (Growth Stage)

LOW	MEDIAN	BEST
< 8%	10–15%	15–20%

DEFINITION

Adjusted EBITDA margin for firms investing actively in growth (typically $10–25M revenue range, growing 20%+).

WHY IT MATTERS

In the growth stage, EBITDA margin should reflect deliberate investment in S&M, new practice development, and delivery infrastructure — not operational inefficiency. The benchmark range accommodates intentional growth investment while ensuring the core business is profitable.

IF HIGH

Strong margin discipline with growth investment; or under-investing in growth. Validate that margin is not being maintained by deferring necessary investment.

IF LOW

Either deliberate growth investment (validate with bookings growth) or structural inefficiency. Diagnose by examining each cost category.

EXTERNAL VALIDATION

SPI reports industry EBITDA at 9.8% in 2024, down from 16.1% in 2022. Hinge High Growth firms achieve 25% profitability while growing at 41% median growth rate.

DELTEK / SPI BENCHMARKS · HINGE HIGH GROWTH STUDY

IV.2 · METRIC

Adj. EBITDA (Mature Stage)

LOW	MEDIAN	BEST
< 12%	15–20%	20–28%+

DEFINITION

Adjusted EBITDA margin for mature, stable businesses ($25M+ revenue, growth rate 10–15%).

WHY IT MATTERS

At maturity, EBITDA margin reflects the fundamental economics of the operating model. A mature digital services firm operating at sub-12% EBITDA has either structural cost issues or is over-investing in growth without corresponding return — both of which suppress valuation multiples.

IF HIGH

Efficient operations, strong gross margin, controlled overhead. Validate against growth investment — under-investing in S&M and headcount can temporarily inflate margin.

IF LOW

Structural overhead, pricing pressure, or over-investment in growth without productivity return.

IV.3 · METRIC

G&A % of Revenue

LOW	MEDIAN	BEST
> 18%	12–16%	8–12%

DEFINITION

General and administrative expenses as a percentage of revenue, including finance, HR, IT, facilities, and executive overhead.

WHY IT MATTERS

G&A is largely fixed and scales with firm complexity rather than revenue. As revenue grows, G&A should decline as a percentage — firms that maintain 15%+ G&A at $25M+ revenue have not achieved the operating leverage that justifies a premium multiple.

IF HIGH

Bloated overhead relative to revenue scale, over-investment in infrastructure relative to current size, or inefficient organizational structure.

IF LOW

Lean operating model, appropriate infrastructure investment relative to revenue, or highly leveraged service delivery with minimal overhead.

IV.4 · METRIC

Bonus Expense % of Rev

LOW	MEDIAN	BEST
> 5%	2–4%	1.5–3%

DEFINITION

Total bonus and variable compensation expense as a percentage of revenue.

WHY IT MATTERS

Bonus structures that are too high relative to revenue compress EBITDA without necessarily driving performance. Structures that are too low fail to retain key personnel. The goal is a bonus framework that is performance-contingent, measurable, and linked to metrics that actually drive enterprise value.

IF HIGH

Overly generous bonus structures, guaranteed bonuses paid regardless of performance, or discretionary bonuses that function as retention without performance linkage.

IF LOW

Lean variable compensation framework, potentially indicating retention risk if pay is below market.

IV.5 · METRIC

Recruitment Costs % of Rev

LOW	MEDIAN	BEST
> 5%	2–4%	1–2%

DEFINITION

Total recruitment and talent acquisition costs (agency fees, job boards, referral bonuses, recruiter headcount) as a percentage of revenue.

WHY IT MATTERS

High recruitment costs signal either high attrition (requiring constant replacement) or reliance on expensive external agencies versus internal recruiting infrastructure. A firm spending 5%+ on recruitment is typically experiencing 20%+ attrition — the two problems compound each other.

IF HIGH

High attrition requiring constant replacement, over-reliance on expensive external agencies, or lack of internal recruiting capability.

IF LOW

Low attrition, strong employer brand, internal recruiting capability, or effective referral program.

IV.6 · METRIC

Training & Development % of Rev

LOW	MEDIAN	BEST
< 1%	1.5–2.5%	2.5–4%

DEFINITION

Total investment in employee training, certification, and professional development as a percentage of revenue.

WHY IT MATTERS

Under-investment in training is a leading indicator of declining platform competency, increasing attrition, and eroding client confidence. Digital services firms that don't invest in continuous upskilling find their certification status degrading relative to competitors within 18–24 months.

IF HIGH

Strong learning culture, deliberate capability investment, or high certification requirements driving necessary spend.

IF LOW

Under-investment in capability development, potentially leading to skill obsolescence and attrition. Below 1% is a structural concern.

IV.7 · METRIC

IT Software & Subscriptions

LOW	MEDIAN	BEST
> 5%	2–4%	1.5–3%

DEFINITION

Total internal IT software, SaaS tools, and technology subscription costs as a percentage of revenue.

WHY IT MATTERS

Digital services firms are sometimes over-indexed on the tools they sell to clients while under-scrutinizing their own software costs. At scale, shadow IT and tool proliferation can add 100–200 bps of unnecessary cost.

IF HIGH

Tool proliferation, shadow IT, or legacy system costs without clear productivity justification.

IF LOW

Lean, well-managed technology stack with clear cost-benefit rationale for each subscription.

IV.8 · METRIC

Total S&M % of Revenue

LOW	MEDIAN	BEST
> 18%	10–15%	6–10%

DEFINITION

Total sales and marketing expense including all headcount, commissions, marketing programs, and T&E.

WHY IT MATTERS

S&M as a percentage of revenue is the key GTM efficiency measure at the EBITDA level. Firms growing efficiently at 20%+ revenue growth should be able to hold S&M at 10–13% — those requiring 18%+ of revenue to maintain growth have a cost-of-growth problem.

IF HIGH

High-growth investment (validate with bookings growth) or structural inefficiency in revenue generation.

IF LOW

Efficient GTM engine, strong inbound or partner-driven demand, or high account expansion revenue at lower acquisition cost.

IV.9 · METRIC

Growth-Profitability Index

LOW	MEDIAN	BEST
< 15	25–35	40+

DEFINITION

Revenue growth rate + EBITDA margin percentage. The Rule of 40 equivalent for digital services.

WHY IT MATTERS

The GPI prevents optimizing each metric in isolation. A firm growing at 25% with 12% EBITDA (GPI of 37%) is in a healthier position than one growing at 5% with 20% EBITDA (GPI of 25%). It captures the growth-profitability trade-off that sophisticated acquirers evaluate.

IF HIGH

Exceptional combined performance indicating either strong growth investment with sufficient margin or high margin in a moderately growing business.

IF LOW

Below 15 indicates either very low growth AND low margin — the most concerning combination and the one that most consistently results in sub-7x multiples.

EXTERNAL VALIDATION

Aventis IT services M&A shows median EV/EBITDA of 10.2x across 8,000+ deals. GF Data reports $100–$250M deals averaging 10.0x. Below-market operators consistently underperform this median by 2–4 turns.

AVENTIS IT SERVICES MULTIPLES · FORVIS MAZARS Q2 2025 M&A

SECTION IV · TAKEAWAY

EBITDA in these businesses is not a gross margin outcome or a cost-cutting outcome; it is the product of three investment decisions moving together. How much the firm spends to grow (S&M ratio, recruitment cost) tells you whether demand is being manufactured efficiently or purchased. How much it spends to keep the machine running (G&A %, IT and software) tells you whether scale is producing leverage or absorbing it. How much it spends on its own people (bonus, training, retention cost) tells you whether today's margin is being borrowed from tomorrow's team. Any single line can be cut to flatter a quarter. Read together, the Growth-Profitability Index and its underlying ratios reveal whether EBITDA is a byproduct of the operating model or the result of under-investing in it.

SECTION

V

Talent and People Operations

In digital services, talent is the product. Attrition, engagement, and capability metrics are not HR statistics, they are direct predictors of delivery quality, client satisfaction, and gross margin.

SECTION V · OVERVIEW

In services, *people are the product*.

> In technology services, people are the product. Every dollar of revenue is generated by a human being applying skill, judgment, and technical expertise to a client problem. The firm's ability to attract, develop, retain, and deploy talent is not a support function — it is the core operating capability.

Every metric in the preceding sections — pipeline coverage, utilization, gross margin, on-time delivery, account expansion — is the downstream output of decisions made by people who chose to join the firm, stayed long enough to become productive, and were placed against the right work. When the talent engine breaks, those metrics break with it on a 6–18 month lag. Acquirers and investors who underwrite to scale know to read the talent metrics first, because they are the leading indicators of everything else.

This section reads people operations through three reinforcing loops moving together: **the intake loop** (time to fill, offer acceptance, contractor-to-FTE conversion), **the development loop** (ramp time, internal mobility, leverage progression), and **the retention loop** (regrettable attrition, engagement, top-performer tenure). Strength in one loop cannot compensate for weakness in another — a firm that hires fast but loses its top quartile is not building durable capacity; a firm that retains everyone but cannot ramp them is not building durable margin.

WHY TALENT IS THE LEADING INDICATOR

Talent metrics move **6–18 months ahead** of revenue and margin. Regrettable attrition in Q1 shows up as utilization compression in Q2 and a slipped close in Q4.

This is why diligence-grade buyers read the people metrics *before* the financials. The financials describe a past the talent engine has already decided.

Three reinforcing loops:

`Intake` `Development` `Retention`

...segmented by level, practice, and tenure cohort.

V.1 · METRIC

eNPS (Company-Wide)

LOW	MEDIAN	BEST
< 10	20–40	50–70+

DEFINITION

Employee Net Promoter Score: % promoters (9–10) minus % detractors (0–6) from 'How likely are you to recommend this company as a place to work?'

WHY IT MATTERS

eNPS is the leading indicator for attrition. A firm with eNPS below 10 typically sees elevated voluntary attrition within the next 1–2 quarters. It also predicts the quality of referral-based hiring — employees who wouldn't recommend the firm rarely refer strong candidates.

IF HIGH

Strong culture, clear career path, competitive compensation, and meaningful work. Validate by comparing to actual attrition — high eNPS with high attrition suggests the survey is not representative.

IF LOW

Cultural issues, compensation gaps, unclear career progression, or poor management quality. Below 10 requires urgent intervention.

V.2 · METRIC

eNPS (Delivery Team)

LOW	MEDIAN	BEST
< 5	15–30	35–55+

DEFINITION

Employee Net Promoter Score specifically for the billable delivery team, measured separately from G&A and management.

WHY IT MATTERS

Delivery team eNPS often diverges significantly from company-wide eNPS, particularly in firms with strong executive culture but poor first-line management of technical talent. The delivery team's satisfaction directly determines client delivery quality.

IF HIGH

Engaged delivery team with strong management, clear project assignments, and development opportunities.

IF LOW

Poor delivery management, unclear project expectations, excessive non-billable burden, or compensation gaps versus alternatives.

V.3 · METRIC

Voluntary Attrition (Annual)

LOW	MEDIAN	BEST
> 22%	12–18%	8–12%

DEFINITION

Percentage of delivery headcount voluntarily departing in a 12-month period, annualized.

WHY IT MATTERS

Voluntary attrition is the most expensive hidden cost in digital services. At $15K per head in direct recruitment and ramp cost, 20% attrition in a 150-person firm costs $450K annually in direct costs — before the productivity value of lost institutional knowledge, client relationship disruption, and project delivery continuity.

IF HIGH

Cultural issues, compensation below market, poor career development, project dissatisfaction, or over-competitive talent market.

IF LOW

Strong culture, above-market compensation, clear career path, and meaningful work. Validate that low attrition isn't masking a lack of performance management.

EXTERNAL VALIDATION

SPI reports industry attrition at 11.7% in 2024. Ravio's 2026 report shows U.S. tech voluntary turnover averaging ~13%. Our best-in-class range of 8–12% reflects firms with above-average culture and compensation investment.

RAVIO RETENTION TRENDS · MERCER TECH TALENT

V.4 · METRIC

Involuntary Attrition

LOW	MEDIAN	BEST
> 10%	3–7%	< 5%

DEFINITION

Percentage of delivery headcount involuntarily separated (performance-managed, laid off) in a 12-month period.

WHY IT MATTERS

High involuntary attrition indicates either poor hiring discipline (bringing on talent that doesn't meet delivery standards) or inadequate performance management that allows underperformance to linger. Either way, it adds recruitment, severance, and project continuity cost.

IF HIGH

Hiring bar that's too low, inadequate onboarding, or performance management that runs too long before action.

IF LOW

Strong hiring bar, effective onboarding, and clear performance expectations with early intervention.

V.5 · METRIC

Time to Fill (Delivery)

LOW	MEDIAN	BEST
> 60 days	35–50 days	20–35 days

DEFINITION

Average calendar days from job requisition approval to accepted offer for delivery (billable) roles.

WHY IT MATTERS

Every open billable role is an unbillable day — at $150–250/hr billing rate, a 30-day delay in filling a senior consultant role costs $20–40K in missed revenue. Time to fill is also a leading indicator of employer attractiveness relative to competitors.

IF HIGH

Strong employer brand, proactive pipeline of candidates, efficient interview process, and competitive offers.

IF LOW

Below-market compensation, weak employer brand, slow interview process, or elevated competition for talent in the relevant specialization.

V.6 · METRIC

Offer Acceptance Rate

LOW	MEDIAN	BEST
< 75%	80–88%	90–95%+

DEFINITION

Percentage of formal employment offers accepted.

WHY IT MATTERS

Low offer acceptance rates are expensive and revealing. Each rejected offer means weeks of interviewing wasted, renewed search effort, and often a delayed project start. A rate below 75% signals a systematic issue — either compensation, role clarity, or competitive counter-offers.

IF HIGH

Compelling offers, strong employer brand, or well-matched candidate targeting.

IF LOW

Compensation below market, poor candidate experience, late-stage competition, or role that wasn't well-defined during the interview process.

V.7 · METRIC

Contractor % of Delivery

LOW	MEDIAN	BEST
> 35%	15–25%	10–20%

DEFINITION

Percentage of total billable hours delivered by contractors or subcontractors rather than employees.

WHY IT MATTERS

High contractor dependency creates margin compression, capability gaps, and client relationship fragility. Contractors typically command 1.3–1.8x the fully-loaded cost of equivalent employees while generating less institutional knowledge. Above 35%, the firm may be renting rather than building capability.

IF HIGH

Flexible workforce model absorbing demand volatility, or deliberate contractor-to-employee conversion pipeline.

IF LOW

Strong employee base, efficient workforce planning, or successful contractor conversion program.

EXTERNAL VALIDATION

SPI reports subcontractor reliance at 10.9% of revenue in 2024, reflecting workforce blending trends. Firms above 25% contractor mix typically show lower gross margins and higher client attrition risk.

DELTEK / SPI BENCHMARKS

V.8 · METRIC

Certification Attainment

LOW	MEDIAN	BEST
< 50%	60–75%	80–95%+

DEFINITION

Percentage of delivery staff holding current, active certifications relevant to the firm's core platforms.

WHY IT MATTERS

Platform certifications are the licensing requirement of digital services. Without them, firms lose preferred partner status, referral flow from vendors, and ability to access new client opportunities tied to platform release cycles. A firm with 50% certification may be operating on legacy status without realizing it.

IF HIGH

Strong certification program, investment in continuous learning, and active management of certification expiration.

IF LOW

Under-investment in training, high turnover making certification maintenance difficult, or lack of formal certification program.

V.9 · METRIC

Training Spend % of Rev

LOW	MEDIAN	BEST
< 1%	1.5–2.5%	2.5–4%

DEFINITION

Total investment in employee training, certification, and professional development as a percentage of revenue.

WHY IT MATTERS

Technology platforms release major updates on 6–12 month cycles. Firms that don't invest continuously in upskilling find their teams falling behind client needs within 18–24 months — leading to lost deals, declining delivery quality, and attrition as employees seek employers who invest in their growth.

IF HIGH

Strong learning culture, deliberate platform investment, or requirement-driven spending from vendor certification programs.

IF LOW

Under-investment creating skill obsolescence risk, potential attrition driver, and long-term competitive erosion.

V.10 · METRIC

Avg. Tenure (Delivery)

LOW	MEDIAN	BEST
< 1.5 yrs	2.0–3.0 yrs	3.0–5.0+ yrs

DEFINITION

Average length of employment for current delivery team members.

WHY IT MATTERS

Average tenure is the institutional knowledge metric. In digital services, the first 12 months of employment are largely ramp time — a 3-year employee at 75% utilization generates significantly more value than a 1-year employee at the same utilization rate, because they bring client relationships, project judgment, and platform expertise that can't be recruited.

IF HIGH

Stable culture, competitive compensation, career development opportunities, and meaningful work.

IF LOW

High attrition environment, poor career path, or compensation below market alternatives.

V.11 · METRIC

Non-Billable Cost % of Total

LOW	MEDIAN	BEST
> 35%	25–32%	18–25%

DEFINITION

Total cost of non-billable activities (business development, training, bench time, internal projects) as a percentage of total labor cost.

WHY IT MATTERS

Non-billable cost captures the overhead load on the delivery organization. Best-in-class firms achieve 18–25% non-billable by maintaining tight bench management, efficient BD processes, and targeted training investment rather than free-floating overhead.

IF HIGH

Lean operating model with high billable discipline. Validate that training and BD investment isn't being cut to achieve low non-billable — under-investment in both erodes long-term capability.

IF LOW

High bench cost, excessive BD investment without pipeline results, or over-engineered training programs.

SECTION V · TAKEAWAY

Talent in this business is not an attrition story or an engagement story; it is the product of three reinforcing loops moving together. The intake loop (time to fill, offer acceptance, contractor share) tells you whether the firm can staff the work it has sold without compromising on quality or cost. The retention loop (voluntary attrition, average tenure, eNPS) tells you whether the people who deliver today will be here to deliver next quarter. The capability loop (certification attainment, training spend, non-billable investment) tells you whether the bench is getting more valuable or slowly commoditizing. Any single number can look stable while the loop underneath it is breaking. Read together, these metrics are the earliest leading indicator in the framework, the place where problems in utilization, gross margin, and client health first show up before they reach the P&L.

CONCLUSION

Reading the full picture.

The metrics in this framework do not operate in isolation. The purpose of analyzing them individually is to build the diagnostic vocabulary necessary to read them collectively — to understand the story that emerges when pipeline coverage, win rate, gross margin, utilization, NRR, EBITDA, and attrition are read together as a system.

Consider a digital services firm presenting the following profile: 4.0x unweighted pipeline coverage, 25% ACV-weighted win rate, 75-day average won-deal cycle, 48% gross margin, 75% utilization on a 2,080 basis, 105% net revenue retention, and 12% adjusted EBITDA margin. Each of those numbers is at or near the median for our framework. Read individually, the firm looks healthy. Read together, the picture is more nuanced — and the framework above gives you the language to articulate what that picture is.

The external benchmarking analysis underlying this framework confirms that the professional services industry is at an inflection point. With EBITDA margins compressed, utilization declining for three consecutive years, win rates compressing, and sales cycles lengthening, the gap between disciplined operators and the rest of the field has rarely been wider. SPI's high-maturity firms achieve 25%+ profitability while growing 41%; the median firm grows 4.5% with sub-10% EBITDA. That gap is opportunity for the operator who can read the system.

THE DISCIPLINE THIS FRAMEWORK ENABLES

Not tracking metrics for their own sake, but interpreting them as a system that reveals where value is being created, where it is being leaked, and where the operating model is or is not investing for the next stage of growth. At Superstep, this framework reflects what we have learned across more than 60 years of collective experience building, operating, and investing in digital services businesses.

APPENDIX A · SOURCES & REFERENCES

Research foundation.

The following studies, reports, and data sources were reviewed to validate the benchmark ranges and diagnostic guidance throughout this framework.

SPI Research 2025 PS Maturity Benchmark	spiresearch.com/reports/2025-ps-maturity-benchmark
Hinge Research 2024 High Growth Study	hingemarketing.com/library/article/high-growth-study-2024
Aventis Advisors IT Services Multiples	aventis-advisors.com/it-services-valuation-multiples
Outreach Sales 2025 Data Report	outreach.io/resources/blog/sales-2025-data-analysis
McKinsey NRR Advantage 2025	mckinsey.com/industries/technology-media-and-telecommunications
Ravio 2026 Compensation Trends	ravio.com/blog/employee-retention-trends
U.S. Bureau of Labor Statistics JOLTS January 2026	bls.gov/news.release/pdf/jolts.pdf
Consultancy.org Fees & Rates Global	consultancy.org/consulting-industry/fees-rates
SaaS Capital 2025 Benchmarks	saas-capital.com/blog-posts/benchmarking-metrics
First Page Sage EBITDA Multiples by Industry	firstpagesage.com/seo-blog/ebitda-multiples-by-industry
SPI / Workday 2025 Benchmark Report	blog.workday.com/en-us/4-make-or-break-priorities
Digital Bloom Pipeline Benchmarks 2025	thedigitalbloom.com/learn/pipeline-performance-benchmarks-2025
Hinge Research 2025 High Growth Study	hingemarketing.com/library/article/high-growth-study-2025
Deltek / SPI 2025 PS Benchmarks	deltek.com/en/blog/professional-services-benchmarks
Gartner IT Spending Forecast 2026	gartner.com/en/newsroom/press-releases/2025-10-22
HubSpot 2024 Sales Trends	hubspot.com/sales-trends
GF Data / Forvis Mazars Q2 2025 M&A Insights	forvismazars.us/forsights/2025/09/q2-2025-mma-insights
Mercer Tech Talent Retention	mercer.com/en-us/insights/talent-and-transformation
Mosaic Consulting Profitability Benchmarks	mosaicapp.com/post/consulting-firm-profitability-benchmarks
PwC Global Business Services Index	pwc.com/gx/en/industries/business-services
Benchmarkit 2025 SaaS Metrics Survey	benchmarkit.ai/2025benchmarks
SPI / Kantata 2025 Benchmark Summary	kantata.com/resource/2025-professional-services-maturity-benchmark
Slideworks Consulting Fees Research	slideworks.io/resources/management-consulting-fees