Deltek

Insight to Action

The future of the professional services industry

A Wake-up Call for Business Leaders

Professional services firms must grapple with greater competition and new technology if they are to thrive

Historically, the professional services industry has played a vital role in helping businesses to fulfil their core goals and achieve efficiencies, covering fields as diverse as IT, engineering, management consulting, architecture, legal, audit, and advertising. Providers support their clients in a myriad of ways, from helping them to formulate strategy, cut costs, and predict risk, to strengthening their processes for managing talent, staying compliant, and auditing accounts.

The industry's credibility is thus closely aligned with its capacity to stay ahead of the curve while providing robust advice and expertise. Lately this mission has become harder, as the professional services sector itself undergoes a period of change and uncertainty. Firms face an increasingly competitive market, in which tighter margins are the norm and project complexity has increased.

They also must confront a stream of new regulations and deal with skills shortages, not to mention having to adapt to the wave of technological change that is sweeping the world and disrupting all in its wake.

To understand the problems facing the professional services industry more fully—and explore possible solutions—we surveyed 700 senior decision-makers from around the globe.

These individuals ranged from divisional heads to chief executives, chief finance officers to chief operating officers, and worked for a variety of companies—from boutique consultancies right up to enterprises with revenues of $1bn-plus employing tens of thousands of people. They hailed from more than a dozen countries, including the UK, the USA, Australia, Germany and Sweden, revealing that the broader challenges facing the sector are far from country-specific.

The results of the survey reflect a pervasive concern about the future. Many feel their firms are ill-equipped to tackle current challenges and future risks, expressing a desire for the strengthening of internal systems and processes, as well as core business models. The c-suite and other business leaders lack the foresight needed to prepare effectively for what lies ahead.

A majority believe technology could help overcome these obstacles—but many warn that their firms are not taking full advantage of the tools available. Digital business transformation can unlock the knowledge and capabilities firms need if they are to succeed, but this requires investment and planning. Complacency in a more competitive universe may leave professional services firms dangerously exposed.

Balancing Past, Present, and Future

Firms must actively embrace technical and cultural innovations to retain their position in the industry

As pressure mounts on the professional services sector, the economics of the industry are fundamentally changing. It no longer enjoys the monopoly on specailized knowledge that it once boasted, and margins are tighter. Corporate buyers have become pickier, pushing back against concepts such as billable hours, and requiring fixed fees and more transparency on costs. They are also using different providers for different tasks, rather than just sticking to one.

To thrive in this environment, professional services firms must be agile, nimbly responding to new threats and opportunities while improving back-office efficiencies. And yet too few have taken decisive action to prepare for the risks ahead.

AN UNCERTAIN FUTURE

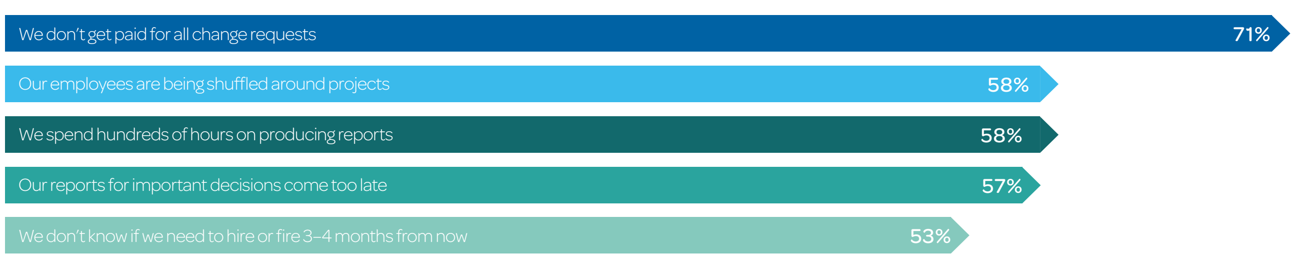
For now, the professional services industry continues to enjoy robust growth, with average revenue up 8 percent globally in 2017 and headcount up by 9.3 percent, according to research from Service Performance Insight. The Big Four consulting firms all recorded expansion in 2017, with sales at Deloitte up 5 percent to $41.25bn (£29.52bn), PwC by 2 percent, to $40.23bn (£28.79bn), EY by 3 percent, to $29.84bn (£21.35bn), and KPMG by 4 percent, to $28.5bn (£20.39bn).

Revenue growth, however, has been in decline, dropping from 10 percent in 2015 to 9 percent in 2016 and 8 percent in 2017. As our survey shows, many decision-makers are worried about the future. Some 91 percent of chief executives say they do not think their firm is prepared for regulatory risk, while 51 percent globally consider price pressures to be a top business development challenge over the next 12 months. Only 19 percent expect their firms to be digitally "mature" or "advanced" within five years.

As competition increases, tackling such deficits will be vital. New players are entering the market, and alternative business structures are being deployed. Take, for example, the way the Big Four consulting firms are encroaching on the marketing services industry; or the rise of private equity–backed commercial law firms challenging the traditional partner-based law firms.

> "Having the right foresight has never been more important, and yet many decision-makers feel in the dark"

Current challenges in professional services



Rivals from emerging economies are also giving traditional incumbents a run for their money, in both their home markets and Western ones. Chinese tech giants Tencent and Alibaba have spent a combined $6.7bn (£4.76bn) in establishing 23 cross-border deals in recent years, acquiring interests in companies including Spotify, Snapchat, and Tesla.

New technologies have added to the threat, allowing corporate buyers to handle more of their complex problems in-house and reducing the need to outsource. Clients are able to gain online access to a much greater level of insight into how their profession works, either for free or at much lower prices, and can increasingly do so in real time. Automation is also taking on more of the lower-end tasks once handled manually by professional services firms—a trend likely to continue right up the value chain.

PUSHING BACK

As profits are squeezed and wages and overhead costs continue to rise, professional services companies are feeling the heat. Having the right foresight to remain competitive has never been more important, and yet many decision-makers complain that they feel in the dark.

Our findings reveal that 58 percent of firms spend "hundreds of hours" working on reports to enhance business performance and planning. But 53 percent say these reports too often "look backwards and offer limited insight into the future," while 57 percent say reports for "important decisions" come too late.

In this climate, professional services firms must focus on three key ingredients in order to gain a clear view of the risks and opportunities ahead: pipeline, projects, and people. That means knowing what kind of deals they are going to bring into the business, and when; how much it will cost to deliver those projects; and whether they have the right skills for the job.

76%

of CEOs say their reports for important decisions come too late

67%

of CEOs do not know if they need to hire or fire 3-4 months from now

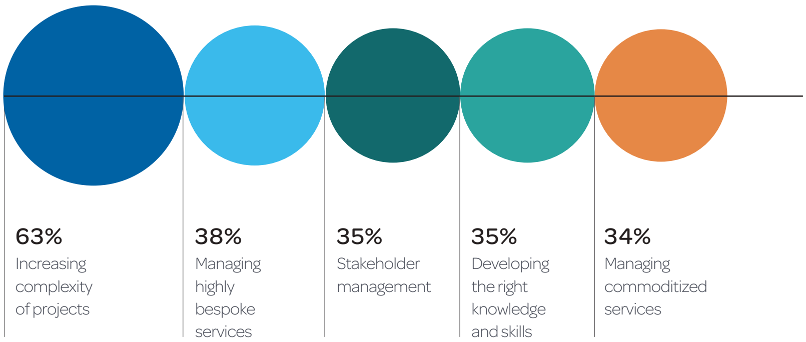
53%

of respondents note that their reports look backwards and offer limited insight into the future

ACTION POINTS

- **Be proactive about risks and opportunities within your business and market**
- **Improve visibility of pipeline, projects, and people**
- **Invest in enterprise resource planning systems to support planning and control**
- **Embrace digital transformation across the organization**

Top challenges expected in five years



Regulatory Risk: The Elephant in the Room

In an increasingly complex regulatory environment, compliance and cyber security become harder to achieve

91%

of CEOs do not think their business is prepared for regulatory risk

33%

of CEOs say compliance is a top improvement priority

"High-value information can cause havoc if it falls into the wrong hands. That makes professional services companies obvious targets"

With tougher data-protection rules coming into force this year in Europe, and new tax reforms impacting firms in the US, companies across all industries are facing increased pressure to remain compliant in a more complex environment. For professional services companies, many of which offer their clients expert regulatory advice, the challenge of staying on top of new legislation while applying it to their own internal operations is clearly crucial. Yet, according to the results of our survey, many are struggling to keep up with the deluge of new rules being introduced across the globe.

Some 47 percent of chief finance officers say their human resources data does not meet the European Union (EU)'s new General Data Protection Regulation (GDPR), which comes into force in 2018, or other data protection regulations. Globally, 79 percent do not think their business is prepared for regulatory risk more generally—a view shared by 91 percent of chief executives. Sweden, Denmark, the UK, and the Netherlands stand out as feeling particularly underprepared.

THE DATA DILEMMA

Data breaches pose a particularly serious threat. The industry handles an enormous volume of confidential client information, both commercial and personal: high-value information that can cause havoc if it falls into the wrong hands. That makes professional services companies obvious targets—and yet many are dangerously complacent about the risks.

The GDPR, which will be rolled out across Europe this year, will compel organizations to take "appropriate technical and organizational measures" to protect themselves. This may reduce the chances of a breach, but it will also increase the difficulty of remaining compliant.

Under GDPR, the EU will increase fines for data breaches to up to €20m, or 4 percent of annual global turnover—whichever is higher. That would be a heavy blow to a company's bottom line; but arguably more concerning is a new rule that will force firms to publicize a breach within 72 hours.

That is more stringent than current rules require and, while clearly beneficial for consumers and individuals, is likely to increase public embarrassment for firms that fail to protect data. With trust serving as a precious commodity in the professional services industry, it cannot afford to be complacent.

GDPR also mandates that companies must scrupulously maintain internal records of their processing activities—although the sheer volume of communications they have to monitor continues to grow by the day. Social media, chat tools, and other relatively new channels of communication have added to more traditional forms of communications, creating a mountain of data to handle.

To defend themselves, firms must implement all the necessary protections against breaches, ensure that they have a crisis plan in place, and have purchased cyber-security insurance.

A MORE PUNITIVE CLIMATE

Since the global financial crisis, the conduct of professional services firms in general has been under greater scrutiny. Those who operate outside the law, knowingly or otherwise, risk big fines and reputational damage.

When the UK construction and outsourced services firm Carillion collapsed into administration in January 2018, carrying debts of $2.1bn (£1.5bn), its directors faced tough questions about their leadership. But its accountants PwC were also put under investigation over their audits for the company.

Fines for misconduct can be harsh. In the US last year, 30 companies were fined a total of $2.4bn (£1.69bn) for non-compliance under the country's Foreign Corrupt Practices Act as regulators cracked down. In the UK, regulators fined EY $2.5m (£1.8m) in 2017 over misconduct in relation to an audit. And in 2016, Deloitte received a record $5.6m (£4m) fine, after it emerged that misconduct by the Big Four firm had led the now-defunct aircraft parts wholesaler, Aero Inventory, to provide misleading financial information to investors.

New technologies will also play an important role. Using so-called "pseudonymization" and encryption as part of their defenses could mean the difference between having to publicize a breach or not. They must also work with trusted partners to strengthen internal systems and manage large data flows.

SOLVING THE PROBLEM

Staying compliant has become harder as professional services firms have become more globalized. When operating across borders, they face a battery of different regulations—from rules around market abuse to data protection, and from certification to accounting practices.

Some of the bigger firms may have hundreds of subsidiary companies around the world employing hundreds of thousands of staff. Ensuring that differing rules are followed from country to country, subsidiary to subsidiary, by everyone in the group, can be tough. A typical enterprise-sized global professional services firm can have between 10 and 15 variations of revenue recognition to manage—a huge undertaking, raising the risk of unintended errors.

Instigating the right compliance processes is central. Firms must devise a detailed compliance strategy and back it up with an enterprise resource planning (ERP) system designed to manage project-based businesses, to ensure that processes are followed by all staff globally. In this way, compliance can be monitored at the highest levels of a business, and progress reported back to senior leaders, instigating a compliance culture across the firm.

Firms must also ensure connectivity and coherence across their distinct business operations, so that compliance (and other common corporate goals) can be delivered. Recent research by risk consultancy Control Risks found that a quarter of large companies spent less than US$25 (£17.70) a year per staff member on compliance, and a similar proportion have five or fewer people on their compliance teams.

It also found that less than a third of executives responsible for compliance attended all board meetings to check that it was treated as a priority. In reality, compliance should be a fundamental part of business strategy, and not become siloed, or positioned outside strategic decision-making processes.

ACTION POINTS

- **Devise a detailed compliance strategy, backed up by the right software tools**
- **Establish a crisis plan for data breaches, and purchase cyber security insurance**
- **Maintain scrupulous internal records**
- **Create a compliant culture by promoting communication between divisions**
- **Ensure that compliance is center stage in decision-making processes, not siloed**

47%

of CFOs surveyed say their HR data does not meet GDPR or other data protection regulations

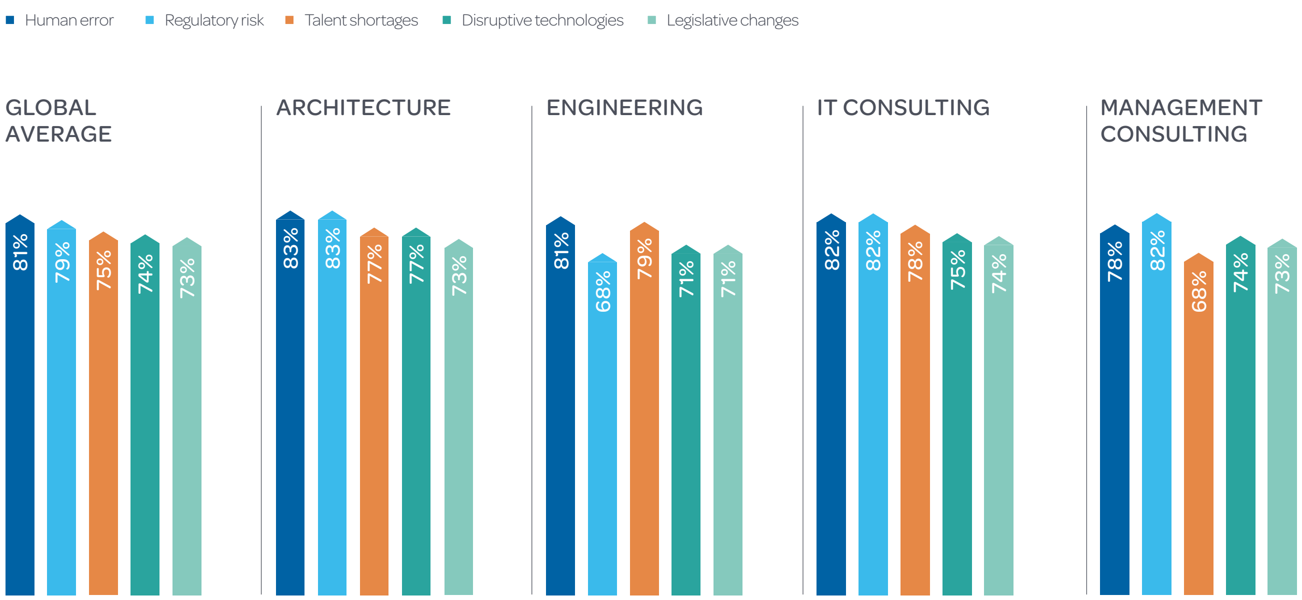
90%

of respondents from Sweden think they are unprepared for regulatory risk vs

36%

in Norway

Industry comparison: top five risks businesses feel unprepared for



Emerging Tech: Are CEOs in Denial?

Focus on the basics – but there's no hiding place from the transformative effects of AI, big data, and cloud computing

Technology is having an unprecedented impact on professional services firms. Emerging innovations are disrupting traditional delivery models and enhancing business capabilities, creating both opportunities and threats. Professional services firms must also continually update their knowledge of new technology in order to give expert advice to their clients.

As our survey shows, many business leaders have been slow to react to the recent wave of technological change sweeping the industry. Some 60 percent of decision-makers surveyed said that maintaining an innovation portfolio would be a top business-development priority in five years. And yet there is a clear divide between how those on the ground perceive the importance of certain emerging technologies for optimizing operational processes and what senior leaders are planning to do.

While, on average, 44 percent of chief technology officers expect their firms to invest in at least one type of emerging technology over the next five years, only 16 percent of chief executives and managing directors share that expectation. In fact, almost a fifth of chief executives said they wouldn't be investing in emerging technologies at all over the coming five years.

Innovations such as artificial intelligence, big data, and cloud computing point to more change ahead for the industry. But professional services companies must first get the basics right, before worrying about the future. The real risk is that of suddenly finding a key system is out of date or unsupported, rendering even the most basic tasks impossible.

DIGITAL DISRUPTION

Once a strong technological foundation is in place, a professional services firm must look forwards. The full impact of bleeding-edge technologies remains to be seen, but companies cannot afford to ignore them. And yet according to our survey, 81 percent of chief executives consider their business unprepared for the risk of disruptive technologies.

This is true despite the fact that disruptive tech is already deployed in the professional services market, and is threatening to undermine traditional business models in some cases. The online service Wikistrat, for example, offers a radically new approach to solving clients' problems by crowdsourcing solutions through a global network of experts. Big data is also transforming the audit function at the major accounting firms, where it is used to parse massive, disparate databases of information when looking for "red flags."

Freelancer portals such as Upwork and PeoplePerHour are connecting millions of professionals globally – for example, freelancers

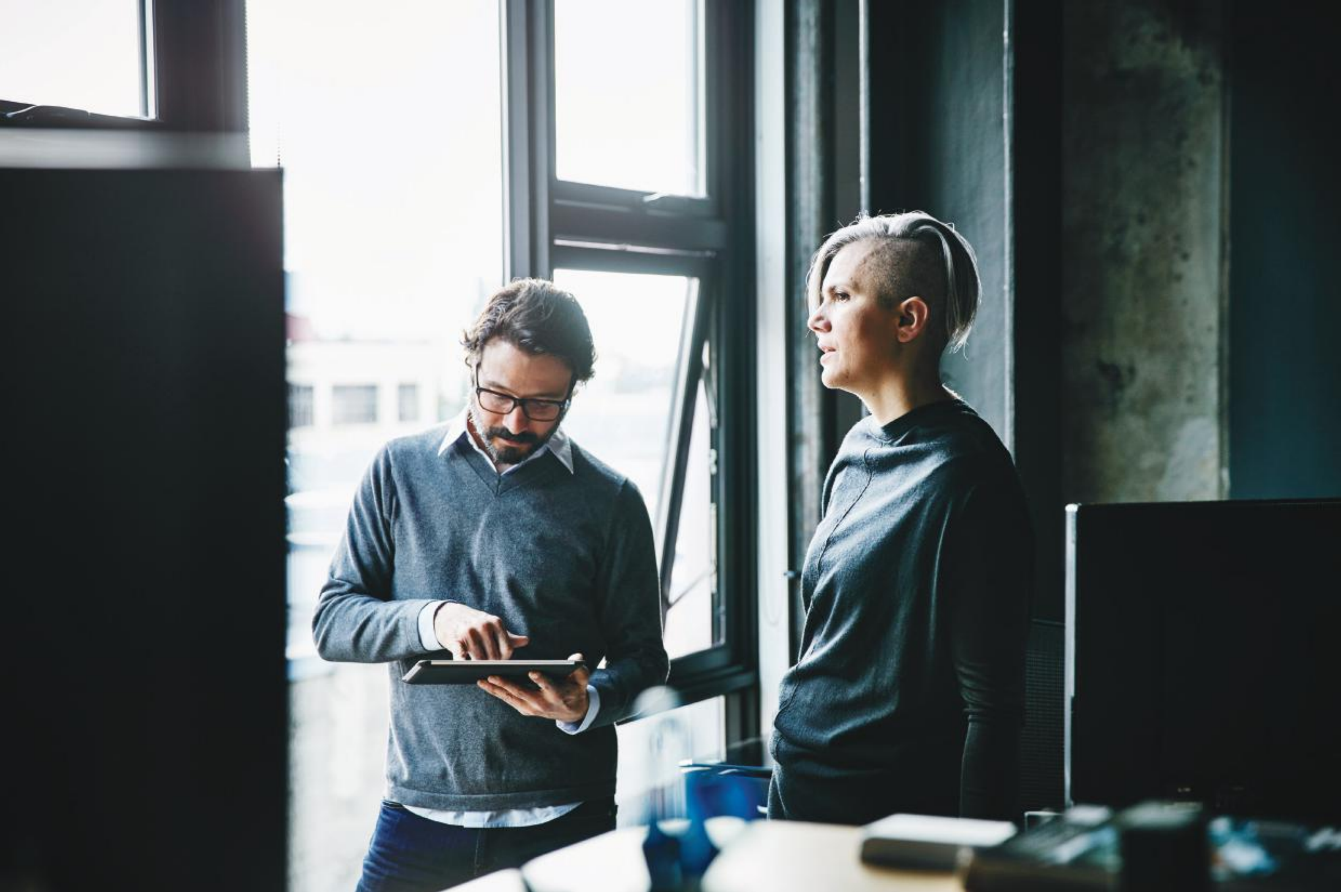
19%

of CEOs state they won't be investing in any emerging technology over the next five years

59%

of CEOs say maintaining an innovation portfolio will be a top business development priority in five years

> "Professional services companies must first get the basics right, before worrying about the future"



in Southern Asia with clients in the US. This is putting huge pressure on freelancer rates and eliminates the need for professional services companies to act as middlemen.

The evolution of mobile technology has also created a seismic shift in the sector, enabling stakeholders to gain instant access to project information on the go. It presents project managers with the challenge of staying on top of their projects within a more dynamic data environment, but also gives them opportunities to engage more closely with stakeholders during a project.

Other innovations will fundamentally change the way most traditional professional services firms work over time. Blockchain, best known for its role in underpinning the cryptocurrency Bitcoin, could have a big impact. Its largely anonymous record-keeping system will be used in a wide variety of ways, experts predict, and professional services firms will need to adapt quickly if this pans out.

There is widespread concern about what the current wave of tech disruption—often referred to as the "fourth industrial revolution"—might mean for the staff and skills mixes of professional service firms. New roles may need to be created, and existing workers reskilled or replaced.

Conversely, the industry will need to be wary of making overblown promises as new platforms are launched. While the pace of change is exciting, firms must ensure that they are not lured into making unsuitable systems choices by the hype and buzzwords surrounding emerging ideas. Ultimately, a company's top priority must always be to achieve a strong correlation between technology and profitable growth.

ACTION POINTS

- **Get the basics right before worrying about bleeding-edge technology**
- **But do not overlook emerging technologies such as AI and the cloud, which are already disrupting markets**
- **Implement integrated CRM and ERP systems to enhance lead generation and resource planning**
- **Use mobile to connect employees across projects in real time**
- **Establish the rights skills mix for a digital future**

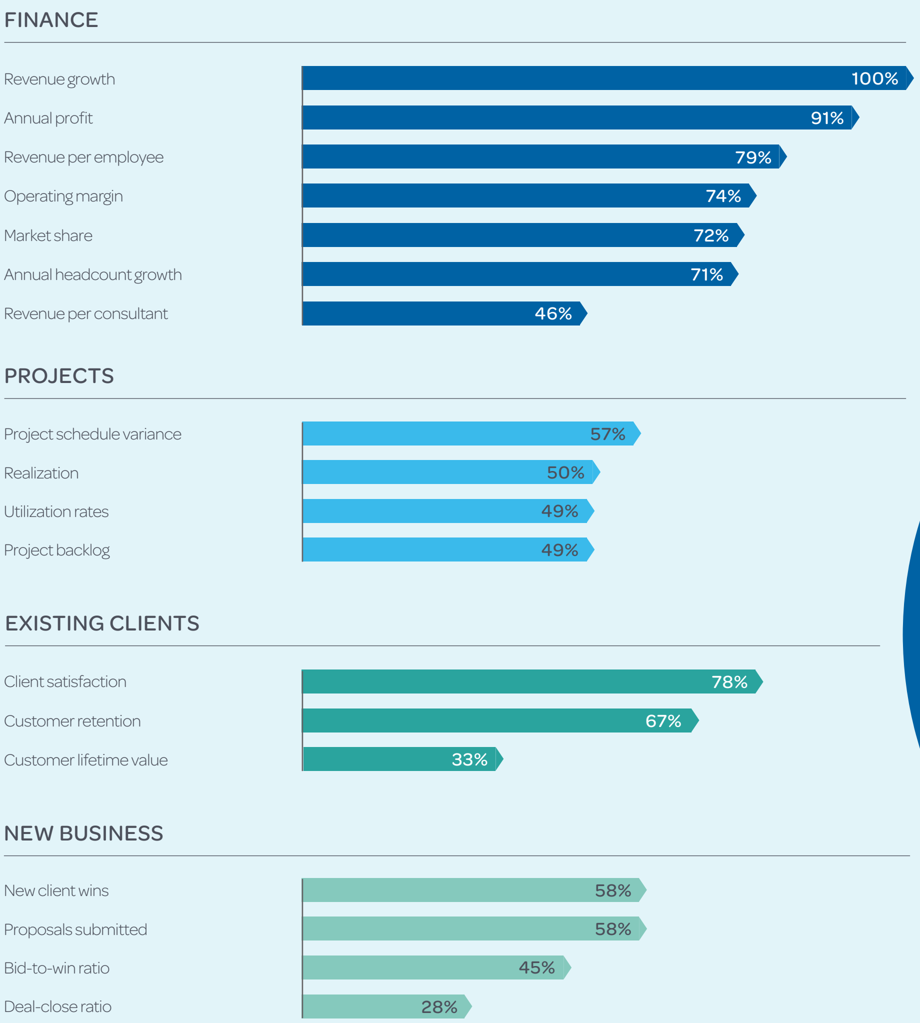
Average expectation to invest across emerging technologies

What The C-Suite Don’t Know…

Leaders in professional services need accurate and timely insight to steer toward prosperity

The c-suite in professional service industries need to have knowledge of past and current controls of their business as well as access to robust forecasts. With this holistic view of the firm’s strengths, weaknesses, opportunities, and threats, they can make decisions that drive positive strategic outcomes and protect the organization from penalties and loss.

KPIs currently used to track and measure activity



Over

1 in 4

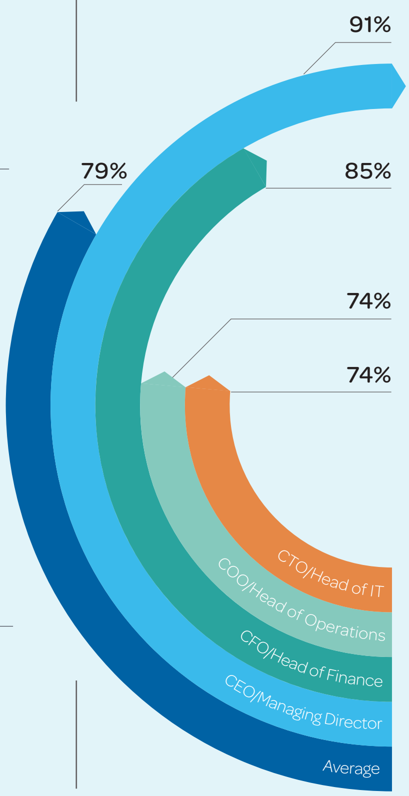
say improving compliance is a top priority over the next five years

More than

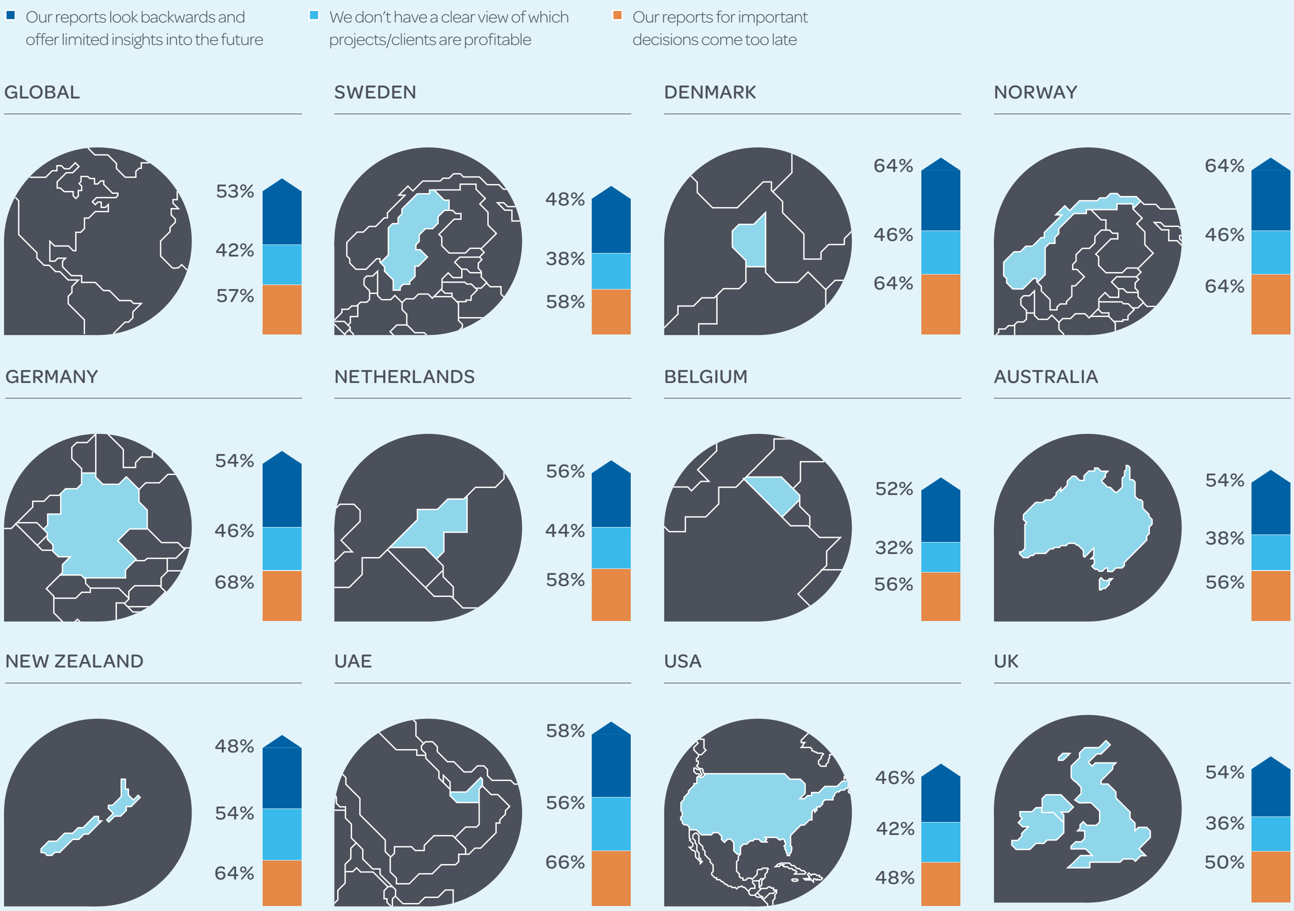
1 in 5

say better dashboards and analytics is a top financial priority

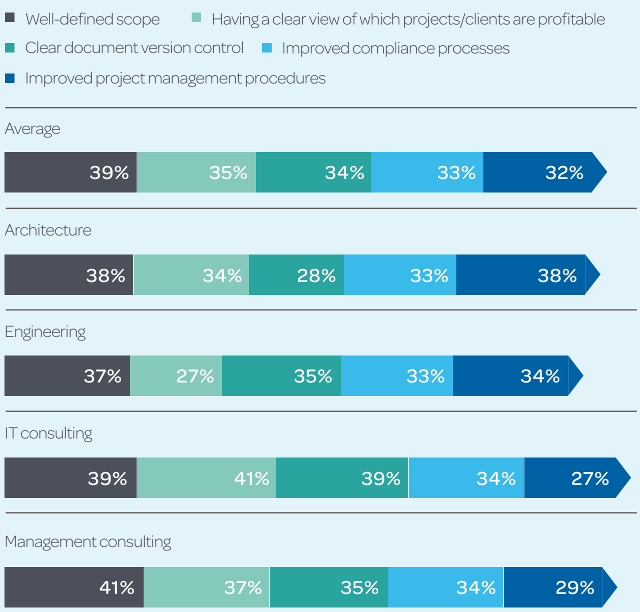
Feeling unprepared for regulatory risk



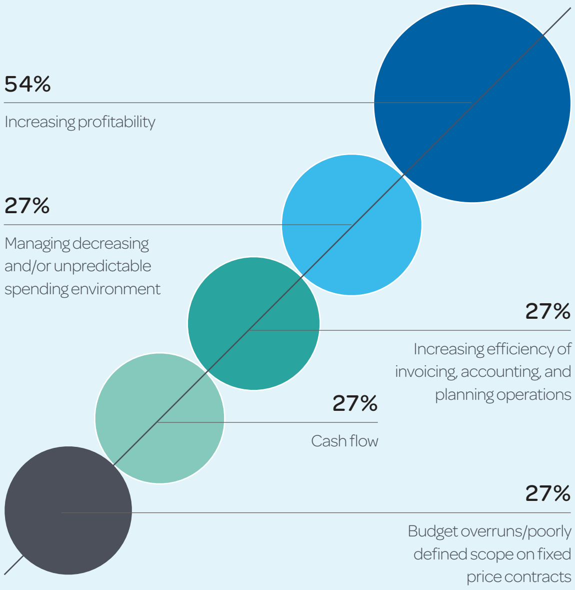
Firms aren't currently getting the information they need. Respondents state:



Top project management goals for the next 12 months by industry



Top-ranking short-term financial priorities



Taming Project Complexity

The challenge of project complexity is delivering at both a faster rate and a lower cost

As professional services firms have grappled with an array of problems, the job of delivering projects profitably has become more difficult. Firms also face an ever more complex macro environment in which they must continue to provide superlative advice. For example, the UK's changing relationship with Europe and the inauguration of a new US president have both created change and uncertainty for businesses, not to mention the professional services companies tasked with guiding them.

The global nature of the industry adds to the problem, as firms increasingly deliver projects in other countries via multiple subcontractors. Delivering a project itself is not the issue—the challenge is doing so faster and more cheaply, while continuing to satisfy customer needs.

It's easy to see why sector leaders deem "project complexity" one of their biggest challenges. Our survey found that 52 percent of decision-makers thought the issue would be the number one challenge for project management in five years' time. Some 35 percent thought that having a clear view of which projects and clients were profitable would be crucial, while 25 percent stated that having a better idea of project scope was a priority.

Creative solutions must be deployed to ensure that margins are maintained. To tackle complexity, clients need a good understanding of their projects in terms of expected costs, schedules, risk, required resources, and revenues. This allows teams to focus their resources appropriately and maximize efficiency, making their organization more competitive in the process.

SCOPE CREEP

But this is easier said than done. The big risk is "scope creep"—the continuous or uncontrolled growth of a project's scope after it begins. Costs and resource needs change continually during a project's lifetime, making forecasting a tricky balance.

This often occurs when the scope of a project is not properly defined, documented, or controlled from the outset. Other factors include weak project management, poor communication between the parties involved in a project, or absence of the necessary controls.

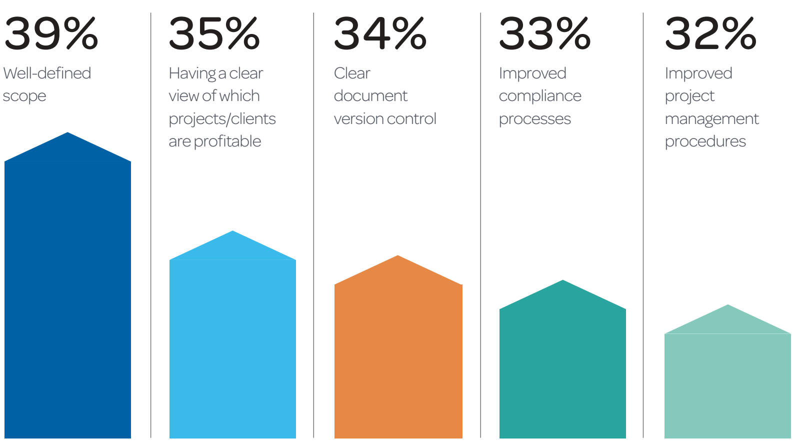
This can result in the instability of resource management and project delivery, as well as employee burnout and unpredictable forecasting. Not surprisingly, 34 percent of our survey respondents said that clear document version control was a key business priority going forward, while 33 percent felt that improving compliance processes was vital, and 32 percent called for improved project management procedures.

THE WAY FORWARD

In order to tackle scope creep, teams must devise a work plan laying out the necessary steps to deliver a project. This should take into account the scope, schedule, and costs of the job, as well as breaking down the project into manageable chunks: deliverables, milestones, tasks, deadlines, and processes.

Such "modularization" or agile management of projects is increasingly deployed by professional services firms in sectors such as advertising and consultancy as a means of managing project deviation and ensuring the timely delivery of tasks. Using so-called milestone management, managers can control delivery costs and prevent overruns, paying for work only when targets are hit.

Top five project management goals over next 12 months



52%

think the increasing complexity of projects will be the number-one challenge for project management in five years' time

71%

globally do not get paid for all change requests

Modularization also makes it easier to deploy the appropriate human capital to different aspects of a job, unbundling tasks that can be handled in-house, outsourced, or automated.

Choosing the right team is also crucial, as deploying the wrong staff to a job creates delays. Firms may have to borrow talent from other departments internally, but this can have a knock-on effect across a business. Globally, 58 percent of businesses report that they have shuffled employees around projects, which highlights the importance of good stakeholder management.

Every member of a project team must also be fully engaged to ensure a positive outcome, and managers must empower their team members or broader organization. This builds trust and communication, which in turn boost employee engagement and commitment. If there is a lack of trust within an organization and intolerance of mistakes, it is harder for firms to learn and improve.

PROJECT MONITORING

The rate of failure for complex projects is high, so it is incumbent upon senior leaders to ensure that projects are well managed. Once a work plan is completed and a project begins, it is important to monitor a work plan on a regular basis.

This allows firms to quickly determine the degree to which a project is proceeding in accordance with their original thinking—in terms of schedule and costs, who is responsible for a deviation (the client or professional services firm), or how the issue should be managed. Firms should also implement a comprehensive enterprise resource planning solution that unifies all business activity into a single view of people, work, time, and financial results.

ACTION POINTS

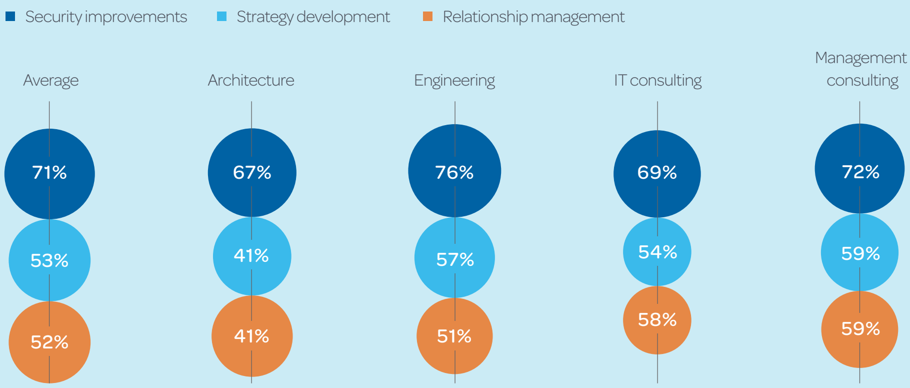
- **Devise a work plan, laying out the necessary steps to deliver a project**
- **Use milestone management to control delivery costs and prevent overruns**
- **Choose the right team to avoid delays**
- **Promote employee engagement and trust within an organization**
- **Monitor project progress constantly**
- **Implement a comprehensive enterprise resource planning solution that unifies all business activity within a single view**

Where to Play and How to Win

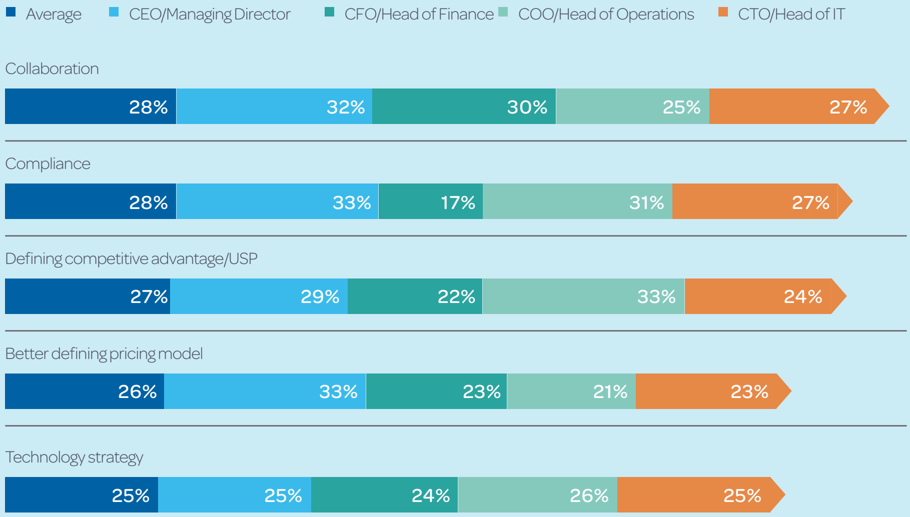
Professional service firms must invest and innovate with purpose to achieve meaningful outcomes

Making intelligent decisions about where to invest, who to work with, and how to prioritize change initiatives is crucial to achieving competitive advantage and winning client trust. There is no silver bullet when it comes to business transformation, but combining accurate performance insight and forecasting with clear strategic goals will keep you on track to achieving longevity and financial success.

Industry comparison: top three long-term investment priorities



Top long-term improvement priorities



49%

globally do not feel prepared to meet customer needs

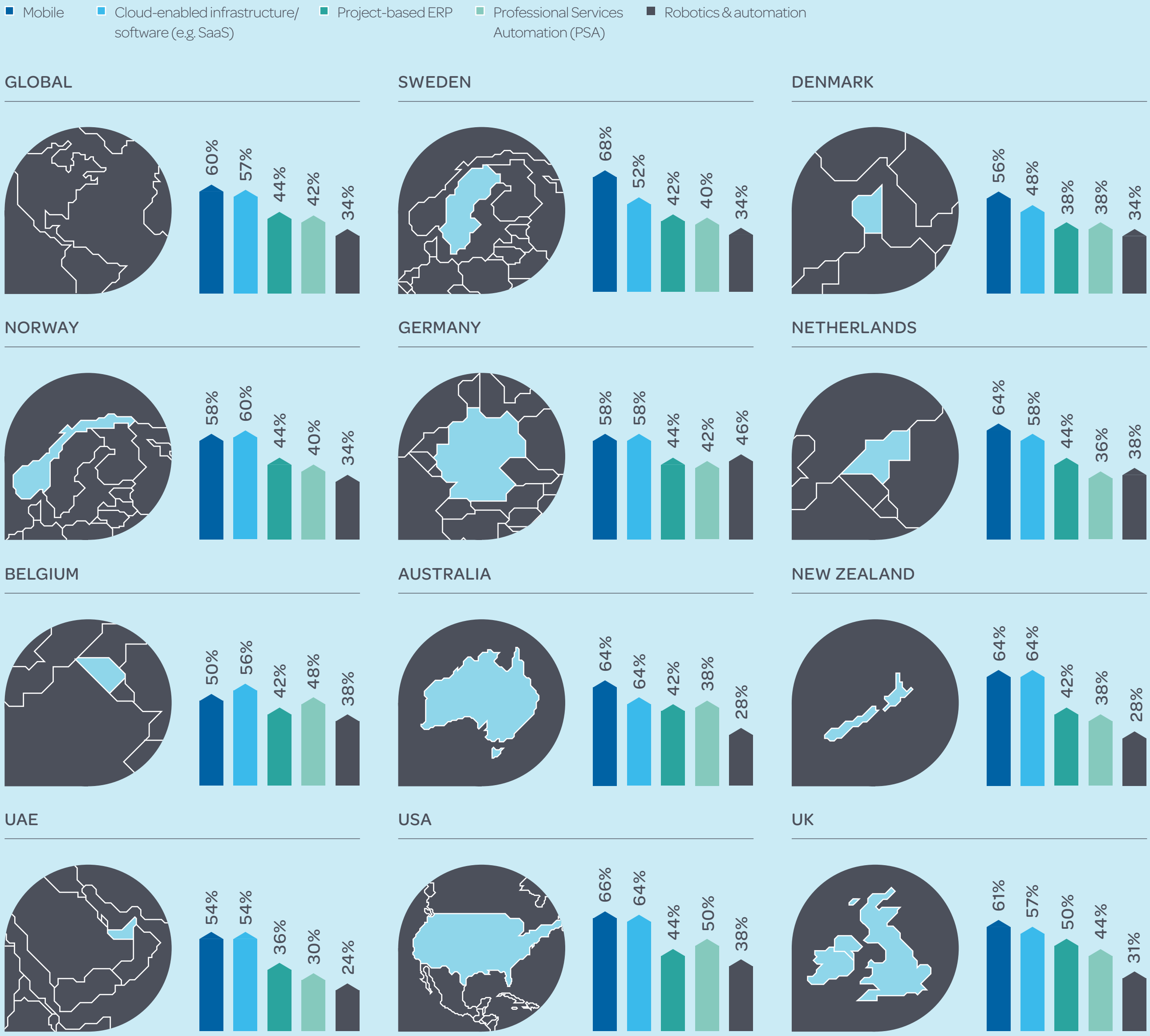
43%

say increase in partnerships is the most challenging future workplace trend

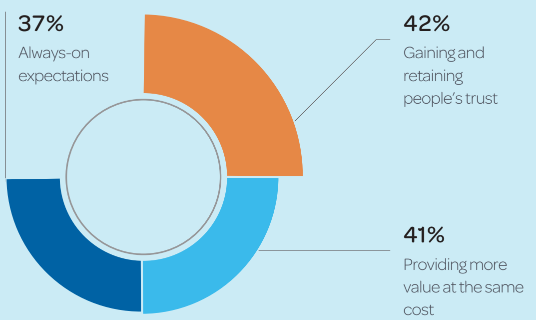
38%

of CEOs say partner selection is the biggest barrier to change

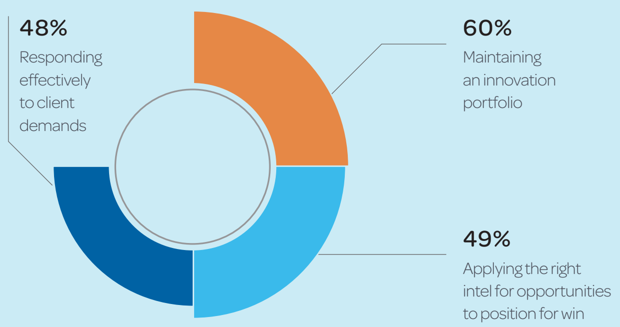
Top emerging technologies firms are expecting to invest in over the next five years



Top three long-term business development priorities



Top three challenges caused by changing client behavior



People Planning in a Time of Shortage

Embracing technology and other changes in business culture is central to attracting younger, more ambitious talent

Talent management has become one of the professional services industry's biggest challenges. Firms need the right staff at the right time to execute projects well. But globally they face skills shortages that new technologies are not ready to fill. This makes allocating resources hard, and can drive up inefficiency and costs.

As the results of our survey show, this issue keeps many senior leaders awake at night. Some 75 percent of respondents thought their business was unprepared to manage the risk of talent shortages, while 38 percent said they lacked successors for various positions. In addition, the top talent-management challenge globally was acquisition, which appeared in the top five for 43 percent of respondents.

DIGITAL DEFICIT

In the digital age, professional services firms require younger workers with new skill-sets—but competition to recruit them is fierce. Millennial workers are less loyal than previous generations, and more inclined to hop between jobs, which makes retention even harder. Recent research from CareerBuilder suggests that, by the age of 35, a quarter of workers have held five jobs or more.

Firms need a strategy to tackle this thorny issue, but there are a range of tools at their disposal. Firstly, they should become "digital champions"—embracing new technologies to remain relevant to prospective employees who are increasingly opting for digitally oriented careers. By always keeping on top of new technologies that streamline your firm, you will compel your workforce to stay rather than leave for another company that might be less digitally aware, with slow manual processes.

During the recruitment process, professional services companies should also provide feedback and updates in a timely manner to prevent candidates from losing interest. Showing that

75%

do not think their business is prepared to manage the risk of talent shortages

52%

in Norway find acquisition of talent a top challenge vs only

37%

in the US

career development opportunities are available is also central, as is strong in-house training. Some 46 percent of respondents expected the emerging trend of self-managed skills development to be a top-three workplace challenge to their organization in the future.

Improving employee engagement is also vital for avoiding churn. Businesses must empower younger, more ambitious staff to make decisions about their work, and train them for new projects. All too often, firms choose to bring in outside freelancers, which can upset existing employees keen to move on to more complex projects. Younger workers also value competitive benefits and a good working environment—although customizing perks by age group is important. Firms should also promote their company culture in their marketing and branding.

CRACKING RESOURCE PLANNING

Skill shortages make it harder for professional services companies to plan their human capital needs in advance, producing another threat to their competitive positioning.

To avoid being caught short, firms need a 360-degree view of their project pipelines, and of the capacity and skills needed to deliver them. This will prevent them from winning business they can't deliver, or from hiring star talent that ends up underused because not enough business has been won. Companies' human resources departments must be primed to recruit responsively, as well as to anticipate who may be leaving, retiring, or asked to leave.

Investing time in implementing a solid and thorough on-boarding program will also save time on training new employees. Professional services firms should appoint an on-boarding leader to help new hires interact with the company culture.

Progress monitoring and feedback are also crucial. Some 52 percent of chief executives surveyed considered performance management and documentation of employee development to be one of their biggest talent-management challenges.

Talent management systems can offer executives a bird's-eye view of their staff, enabling them to map out and identify employees who are ready for advancement, need development, or should be transitioned out. They also help to calculate "risk of loss," identifying those employees who need attention and are critical to the business, as well as developing employee skills with online learning, goal management, and career development plans.

ACTION POINTS

- **Embrace new technologies to remain relevant to prospective employees**
- **Provide feedback to prevent candidates losing interest during recruitment process**
- **Empower younger, more ambitious staff to avoid churn**
- **Offer competitive benefits and a good working environment**
- **Maintain a 360-degree view of project pipelines and capacity needs**
- **Prime HR departments to recruit responsively**
- **Introduce an on-boarding program to ensure services and frontline staff are billable faster**
- **Implement a talent management system to take control of capacity issues**

Protecting Margins Under Threat

Reorganization, specialization, and strategic flexibility are key elements of an ongoing responsiveness to a changing business environment

> "Clients hold more sway than in the past, demanding greater value and flexibility at lower prices. This has hit margins"

The threats to professional services firms are real. New market entrants are blossoming and challenging the incumbent players. Innovative technologies are disrupting the market, making it even harder to compete. Finally, firms' regulatory and talent-management challenges won't simply go away.

That said, those who get ahead of the curve and prepare themselves for the challenges ahead will be better placed to retain market share and drive profitability.

Understandably, clients hold more sway than in the past, and are demanding greater value and flexibility at lower prices. This has hit margins—an issue that concerns many senior decision-makers. Increasing profitability was a top priority for some 54 percent of firms surveyed, followed by managing a contracting and/or unpredictable spending environment (27 percent).

Furthermore, 51 percent considered price pressure a top business development issue over the next 12 months, while 54 percent of chief operating officers said their biggest challenge caused by "changing client behavior" was that of providing more value at the same cost.

Naturally, many feared the increasing competition in the sector, too. Some 55 percent said this would be a major business priority in 2018, while 33 percent of chief operating officers said "defining competitive advantage" was among their top-three priorities for the next five years.

51%

consider price pressure a top business development challenge over the next 12 months

54%

of COOs say providing more value at the same cost is one of the biggest challenges caused by changing client behavior

Over

1 in 3

firms globally are currently losing business to boutique providers

WHAT CAN BE DONE?

In a tougher market, professional services firms will need to be agile, responding more quickly to new opportunities and threats. This may involve rethinking their organizational culture and becoming less risk-averse—for instance, by showing more tolerance of failure in order to spur innovative, profit-generating ideas. Firms may also need to expand in some markets and scale back in others. Specialization and offering unique selling points over rivals will be essential in standing out from the crowd.

It will also pay to empower staff to take chances, promote collaboration between departments, and embrace digital transformation. As traditional pricing models prove inadequate, especially with the continued movement toward outcomes-based service models, time-based fees may also need to be replaced with fixed and outcome-based fees.

Among chief executives and managing directors, 33 percent of those surveyed said that better-defined pricing models were a top priority over the next five years. This was also the number-one challenge caused by changing client behavior identified in both the UK and the US.

Professional services firms need a strong technological underpinning to tackle the challenges ahead, and must invest in the right tools to improve talent management, gain visibility of their project pipelines, and remain compliant in a more complex regulatory environment.

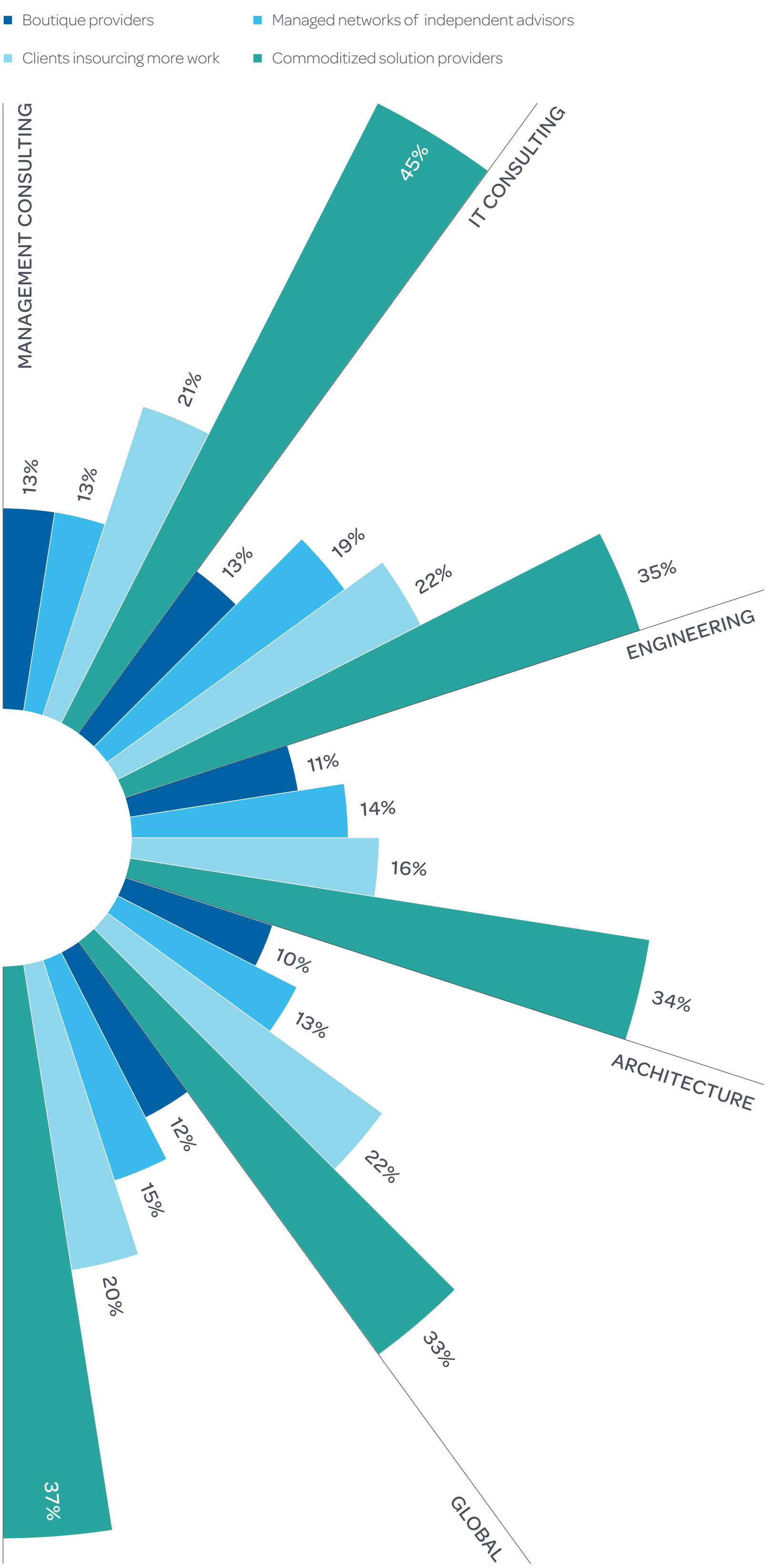
Of course, digital transformation is not easy. Transitioning a global firm with perhaps thousands of people and operations in dozens of markets is a huge undertaking, particularly in light of the sobering Gartner forecast that only 30 percent of digital transformations will succeed. But organizations that seize the initiative, supported by trusted partners, have much to gain.

ACTION POINTS

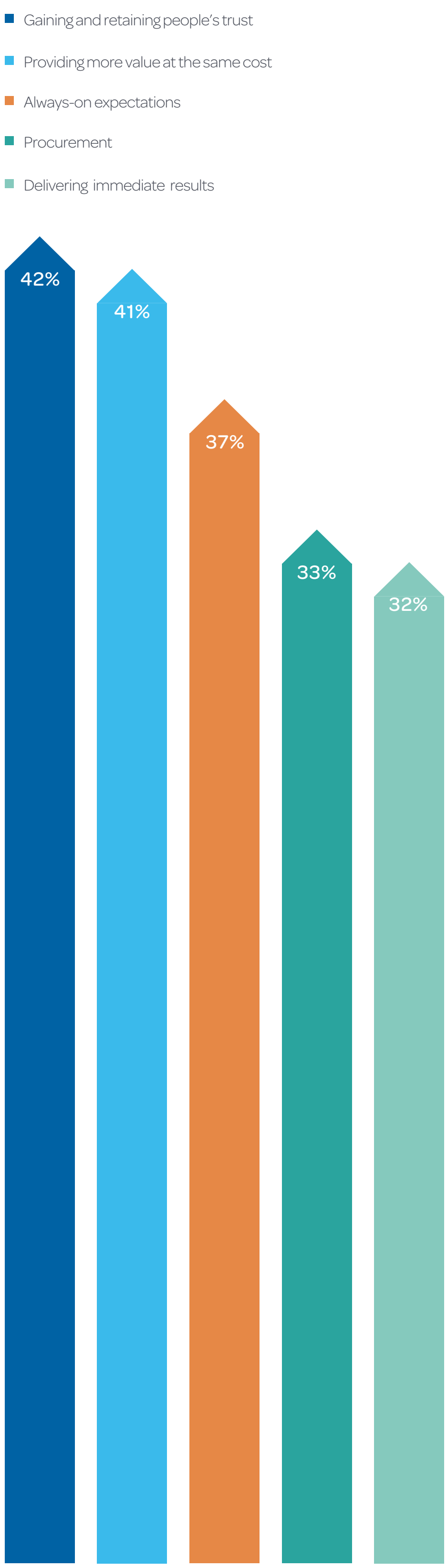
- **Be agile in responding more quickly to threats and opportunities**
- **Rethink organizational culture; become less risk-averse**
- **Consider expanding in some markets and scaling back in others**
- **Specialize to stand out**
- **Empower staff to take chances, promote collaboration between departments, and embrace digital transformation**
- **Consider changing pricing models**

“Specialization and offering unique selling points over rivals will be essential in standing out from the crowd”

Taking business from us now



Top global challenges caused by changing client behavior



Drive Change with Purpose

Professional services business leaders must focus on making meaningful change in their firms to succeed in an ever-changing global landscape

In an industry that's changing dramatically, those who do not adjust may be left behind as new platforms, services, and value propositions take hold. Without the right business strategies and technology platforms, professional services firms cannot hedge against uncertainty or make well-defined strategic choices, leaving them dangerously exposed.

Alongside the challenges laid out in this report, two other forces are likely to have a tectonic impact on the sector going forward. The first is trust in business: there is a broad recognition that firms must be good corporate citizens and play a greater role in society, rather than just prioritizing the bottom line. And yet companies too often find themselves in the news accused of unethical behavior. This issue is reaching a crisis point, with consumers and shareholders now agitating for change.

This is compounded by the second force: a shifting geopolitical landscape. In Europe populism and the Brexit referendum have exposed clear divisions and inequalities within society. Similar forces are at play in the US, where long-held notions about the international order and democracy are being questioned on a daily basis.

In this climate, professional services firms must prove their ethical credentials and show leadership. If they don't, their relationships with the public, corporate buyers, investors, and regulators could become frayed, hastening the decline of weaker operators.

Professional services companies must ready themselves for the challenges ahead, embracing sensible management strategies and processes along with the systems to support them. They must be more nimble and less reactive, better prepared and more competitive. Operational foresight and enterprise agility are central to solving the industry's problems. Improvement in these areas will ensure providers retain and grow their market share in a more competitive future.

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