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August 2016

# Professional Services: Small and Midsize Firms Are Turning to Technology to Advance their Business Goals

## THE BRIEF

Small and midsize professional services firms around the world (typically with fewer than 1,000 employees) face competition from not only similar firms but also larger firms looking to disrupt current relationships. Rather than simply react to new threats, successful professional services firms are leveraging technology in new ways to sharpen business practices, improve agility, and better serve clients.

## INDUSTRY DEFINITION AND CORE ATTRIBUTES

Firms in the professional services industry provide accounting, architectural, consulting, engineering, IT, managed, legal, recruiting, and marketing and scientific research services.

While many firms have significant investments in technology, at the heart of operations are “knowledge workers” who provide critical services to customers. Salaries, rent, and support, rather than capital equipment, account for the largest share of business expenses. And often intellectual property, methodologies, and insights represent the greatest assets that provide competitive advantage.

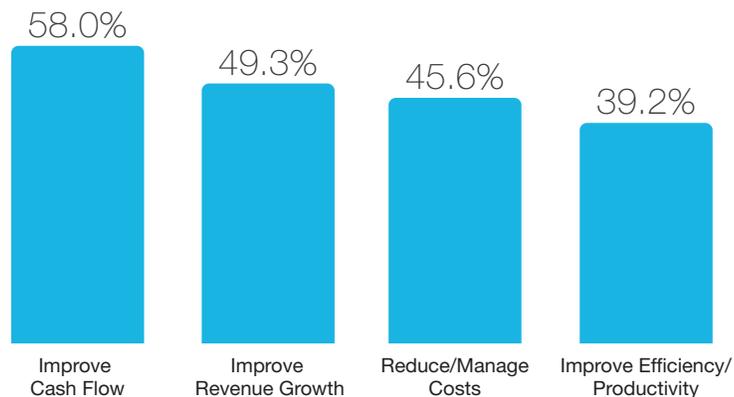
Professional services firms can have a local or regional focus, though a growing share of small and midsize firms are expanding their reach in response to increasing competition from larger firms. The importance of customer intimacy means that larger firms may not be able to displace smaller firms that have established a strong performance track record with their clients.

## KEY BUSINESS PRIORITIES: REVENUE GROWTH AND CASH FLOW FOCUS

Firms in the professional services industry use a diverse set of skills to meet different customer requirements. While the nature of the professional services business can be quite variable across different service segments, long-term success is closely tied to effective staff utilization. It is also understandable that professional services firms are among the industries most focused on improving cash flow and driving revenue growth. Those two business objectives are the top 2 priorities for professional services firms for the next 12 months (see Figure 1).

**FIGURE 1**

Top Business Priorities for Professional Services: Focus on Financials



*Note: Multiple responses were allowed.*

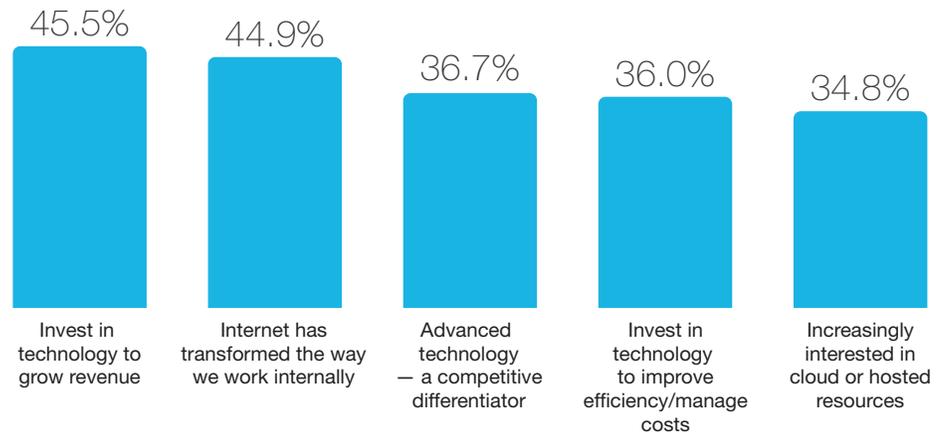
*Source: IDC Worldwide SMB Survey Q4 2015 (US, UK, Germany, Japan, India, China, Brazil) n=1889, n= 179 for SMB Professional Services Firms Only*

## TECHNOLOGY INVESTMENT TIED TO REVENUE GROWTH: CONNECTIVITY HAS TRANSFORMED BUSINESS OPERATIONS

Technology has been helping not only drive revenue growth for small and midsize professional services firms but also transform operations and improve efficiency and effectiveness. While firms in some industries automate business practices to do things faster, the most successful professional services firms continue to transform processes and themselves for competitive advantage (see Figure 2).

**FIGURE 2**

Small and Midsize Professional Services Firms Look to Technology to Make Difference



**Base:** Percentage of SMB professional services firms citing 6 or 7 on agree/disagree scale (7 = strongly agree), respectively.

Source: IDC Worldwide SMB Survey Q4 2015 (US, UK, Germany, Japan, India, China, Brazil) n=1889, n= 179 for SMB Professional Services Firms Only

## EFFECTIVENESS OF CURRENT/POTENTIAL TECHNOLOGY: SHARPEN PRACTICES TODAY, EXPAND OPPORTUNITIES TOMORROW

The professional services business model — whether a legal firm, an architecture firm, or an IT services firm — revolves around a perishable asset: time. Given the goal of providing services that are highly relevant, and often highly customized to a client's specific issue, optimizing the staff time spent on appropriate client-directed projects is essential. At the same time, there are inevitably periods of time when staff is less fully utilized, which results in lags between hours expended and cash received. There are four essential dimensions for professional services firms' success:

- Manage cash flow
- Establish new business and secure contract renewals
- Maximize the value of service professionals
- Operate on a modern, flexible, and powerful technology infrastructure

Elements of cash flow management for professional services firms:

1. **Standardize and improve project delivery**
2. **Achieve consistent service delivery**
3. **Improve cost controls and manage contract profitability**
4. **Consider value-based pricing**



## Manage Cash Flow

For a large proportion of professional services firms, managing cash flow and having greater insight into cash flow cycles and profitability are high business priorities. This typically involves several related elements and priorities:

1. **Standardize and improve project delivery:** This entails understanding and consistently executing the common elements of a project appropriate to both the type of firm and the nature of the project. These might include proposal development, kickoff, team assembly, standard deliverable development, and internal and external review. Among the most effective ways to improve project delivery are rigorous project planning and the development of standard ways to identify and manage project risk.
2. **Achieve consistent service delivery:** Consistent delivery typically involves leveraging reusable elements and common practices among staff, between offices, and — to the extent appropriate — even between practice disciplines.
3. **Improve cost controls and manage contract profitability:** Few firms have the luxury of “throwing bodies” at a client’s problem. However, a constant challenge for most professional services firms is managing the time spent on various phases of a project to ensure that value provided exceeds the cost. To improve contract profitability, firms should develop and consistently leverage standard approaches to project status reporting, billing, and expense management.
4. **Consider value-based pricing:** More customers in more circumstances are asking professional services firms to provide “value based” pricing options, including variations such as gain share, coinvestment, and value-based billing. These options all require professional services firms to take the client’s perspective and understand the ultimate value or risks of the services they are offering, in addition to closely managing their own delivery costs. These programs sometimes involve delayed payment for the value to be realized, further putting pressure on the organization’s cash flow. Calculating the appropriate “value price” is complicated and risky. To properly leverage value pricing, professional services firms should be willing to have a frank conversation with the client and should accept the arrangement only when the value and risks are clear.

While the goal is highly customized, relevant results for the client, successful firms balance the “standard” with the “unique” to ensure a high degree of relevance to the client with as “streamlined” a process of delivery as possible.

Elements of business development for professional services firms:

1. Contextual marketing
2. Right business at the right price
3. Client and opportunity management
4. Digital transformation



## Establish New Business and Secure Contract Renewals

Closely associated with managing cash flow is increasing revenue through business development across two dimensions: establishing relationships with new firms and securing contract renewals, extensions, or projects with existing clients. Service professionals naturally focus on “delivery,” leaving less time-sensitive business development overlooked or undervalued. However, there are four elements of business development that are essential to business success:

1. **Contextual marketing:** Increasingly, small and midsize professional services firms are leveraging contextual marketing on the Internet to present their expertise to potential clients that are likely to be in need of relevant services. Effectively identifying potential clients also keeps the firm and its services in front of existing clients and creates a low-touch mechanism for demonstrating and reinforcing relevance.
2. **Right business at the right price:** Whether a professional services firm has dedicated account executives or relies on practitioners for business development, a common understanding of the types of engagements that the firm hopes to undertake is important to profitability and service delivery excellence. Ensuring the project is properly estimated and bid requires insight into the delivery process, staff availability, and staff competence.
3. **Client and opportunity management:** Managing relationships with potential and existing clients and ensuring effective ongoing communication can be the difference between a thriving professional services business and failure. Leveraging insight developed during prospecting, proposal, or delivery demonstrates a sensitivity and understanding of client needs and can lead to additional engagement opportunities, increase deal size, and improve sales effectiveness.
4. **Digital transformation of commerce:** Digital transformation is rapidly changing service delivery in professional services firms — from automating routine or repetitive work to helping identify potential strategies more quickly. But the greatest near-term potential for most small and midsize firms revolves around digital commerce for a firm’s existing intellectual property — essentially selling the firm’s capabilities more efficiently. In some cases, it means rapidly identifying and contracting for a service or establishing a subscription for a particular type of knowledge-based offering or service delivery.

Digital transformation in services firms also means reimagining part of the professional services firm’s business model to a less perishable, possibly long-tail model. By digitizing intellectual property (IP) or creating self-service tools, standardized assessments or products can help firms achieve greater growth and fund expansion. In the past, both the

creation and the maintenance of this intellectual property was time consuming. And the complexity of pricing, or bundling of “products” with “services,” made the expansion to nonservice assets less appealing. However, creation, knowledge capture, and commerce engines make these types of capabilities cost effective for small and midsize firms.

## Maximize the Value of Service Professionals

It is obvious — by definition, professional services is a people business. Because of the perishable and often high-pressure nature of the work, service professionals must be committed to the organizational mission and be fully capable of performing the tasks they are assigned while feeling fully supported by the organization to deliver the best possible service to clients. At the same time, the competition for candidates with both high capability and high potential is steep. Some firms are seeing advantage in leveraging contingent staff — ramping up or down head count on a project basis or, in many cases, supporting back-office requirements. Professional services firms that can effectively attract, retain, and grow the staff with the skills necessary to deliver the services important to clients will have a sustainable competitive advantage. Talent management for professional services firms is made up of two interrelated elements:

1. **Insightful workforce planning and analytics:** The ability to anticipate and maintain the right distribution of capabilities of staff in the right location is important to business development, project profitability, and overall staff utilization rates. The availability or usefulness of contingent staff — accountants, lawyers, or subject matter experts for consultants — also impacts workforce planning and influences the demand to increase organizational head count.
2. **Retain and grow staff:** Consistent and thoughtful talent management — including recruiting, onboarding, developing, goal setting, and compensation — ensures staff is both prepared for, and motivated to represent, the firm most effectively, reduces turnover and ramp-up expenses, and ensures clients of the most relevant services and solutions.

## Operate on a Modern Technology Infrastructure

To reduce time spent on administrative activities and improve utilization, professional services firms must leverage and rely on information and insight from their CRM, billing, finance, and talent management systems. If those systems are outdated, inaccurate, or not effectively integrated, high-value staff must spend precious time to reconcile or revise critical information. Modern technology infrastructure for professional services firms revolve on four elements:

Elements of talent management for professional services firms:

1. **Insightful workforce planning and analytics**
2. **Retain and grow staff**



Elements of modern technology infrastructure for professional services firms:

1. **Modern applications and tools**
2. **Efficient IT management**
3. **Relevant and accessible analytics**
4. **Robust security**



1. **Modern applications and tools:** Modern business management applications provide real-time, detailed, and integrated access to essential information. They also support service delivery through effective collaboration, relevant federated search, and content management. Tools that can connect (e.g., location with client and engagement) facilitate effective and timely time capture, billing, cash flow, and profitability. Modern talent management and human capital management can help rapidly identify staff with specific skills or experience to help prepare proposals or ultimately assign to projects. This helps both win rates and project effectiveness.
2. **Efficient IT management:** Controlling IT costs while providing reliable service is important in many industries. For professional services firms in particular, access to client information or prior work is essential to continued business operations, which makes reliable IT performance particularly important. Leveraging software-as-a-service (SaaS) applications or cloud deployments can reduce IT administration costs while increasing flexibility and scalability.
3. **Relevant and accessible analytics:** For some professional services firms (e.g., legal or architecture), analytics are important for management, though less essential for staff/client engagement. For other professional services firms (e.g., consulting, IT services, or scientific or engineering services), analytics are a core activity. Every firm needs the right type of analytics to support its business and clients. Some consulting firms are leveraging prior project billing and utilization data to help anticipate new engagement profitability, revenue streams, and staffing requirements.
4. **Robust security:** Both identity and access management and application and infrastructure security are important for professional services firms. Protecting client information and sensitive intellectual property or providing compliance assurance requires an integrated and comprehensive security program.

## Takeaways

New tools and techniques — especially modern business management tools leveraging cloud-based SaaS capabilities — can improve efficiency and effectiveness in key areas:

- **Cash flow:** Tools to manage receivables, monitor expenses, and even optimize team composition can dramatically improve both cash position and service delivery effectiveness.
- **New business and renewals:** Customer relationship management and opportunity management tools can increase consistency and decrease effort of maintaining highly relevant relationships with prospects and clients.

- **Value of service professionals:** Talent management suites can improve service professionals' competence and motivation through regular, thoughtful engagement and development.
- **Expanding business models:** Leveraging tools to package and monetize intellectual property or other nonlabor assets can help improve cash flow and profitability.
- **Competitiveness and flexibility:** Overall, leveraging modern technologies enabled by the cloud can allow small and midsize firms to expand business opportunities and respond more effectively.

Leveraging new tools and technologies can help small and midsize firms better compete with larger firms by improving delivery effectiveness and administrative efficiency, helping small and midsize firms meet their business goals. Begin with an assessment of your organizational priorities and pain points, and evaluate the tools that might help you increase effectiveness while reducing administrative overhead.

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