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THE SHIFTING TIDE:

Predictions for Professional Services in 2020 and Beyond

Introduction

In many ways, the future of the professional services industry is uncertain. Accountants, architects, engineers, lawyers, consultants, and others who make a living off of their expertise are poised to see their field change drastically within the coming years.

Some analysts see the sector expanding rapidly. It's predicted that the professional services market will see a 5.4% growth rate through 2020, reaching almost $5 trillion.[i] The US Bureau of Labor Statistics, meanwhile, forecasts the following growth among different professional verticals in terms of job creation through 2026.[ii]

- Financial Services: 10%
- Law: 9.1%
- Architecture and Engineering: 7.5%

Others foresee a more turbulent path, with many professionals' roles being usurped by automation, artificial intelligence, and the expansion of knowledge that was once reserved for those who earned postgraduate degrees at physical universities. Technology will, in other words, "dismantle" traditional professions.[iii] This prediction holds that software advances will render many skills and specialities obsolete, as machines will be able to do much of the work of professionals faster, more accurately, and for a lower price. Meanwhile, as previously niche information becomes more accessible, it's possible clients won't look to professionals for advice as frequently.

While these two visions seem contradictory, it appears likely that both will, at least partially, come to fruition. In this white paper, we will lay out the three most important factors that are putting the professional services industry at the precipice of incredible change. Then, we will discuss the three key recommendations for thriving in the coming years.

THE FORCES AT WORK:

- Automation & AI
- Increasing Competition
- Workforce Shifts

THE ESSENTIAL STRATEGIES:

- Embrace New Technology
- Incorporate Data-Based Policies
- Nurture a Culture of Flexibility

Three Trends at a Convergence

While many transformations are taking place in today's business environment, three are of particular interest to service professionals. Experts agree that they will only intensify over the next decade.

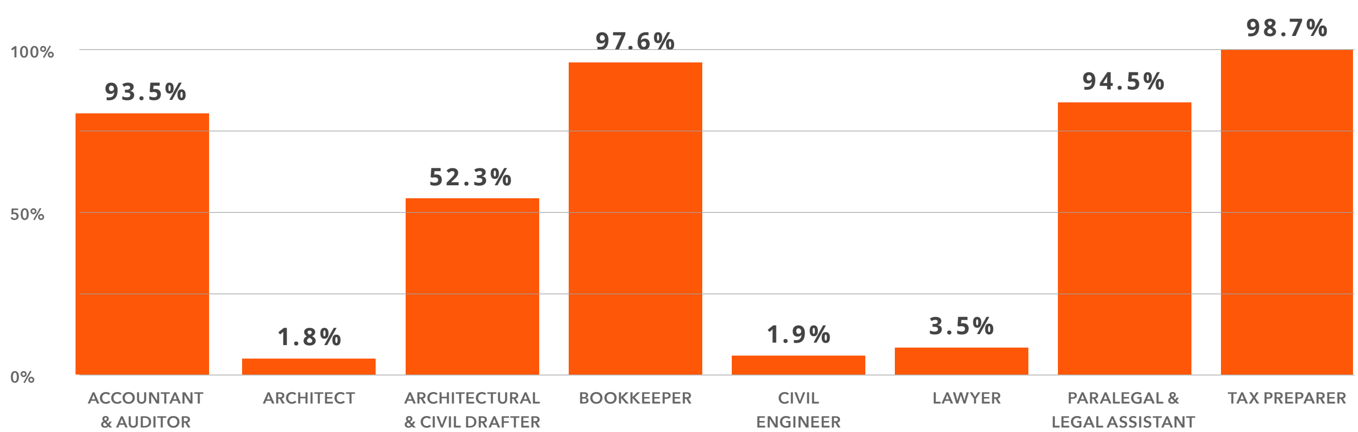
ROBOT FRIENDS OR FOES?

Automation and artificial intelligence (AI) two distinct concepts. The former is the use of technology to make processes run on their own—that is, automatically. AI, meanwhile, refers to computer systems that can perform tasks that normally require human intelligence, like speech recognition, decision-making, translation, and so on. The key difference between the two is that automation follows pre-programmed rules, while AI is designed to simulate human thought.

However, for the purposes of shifts in the professional service sector, automation and AI go hand in hand. Both are already deployed throughout society, and will only become more prevalent in the near future. Automation has existed for centuries, if not longer, and can be seen in now-simplistic cases like automatic telephone switchboards, ice makers, and calendar reminders. As for AI, just look to Amazon's Alexa, the estimated time of arrival feature in Google Maps, or the fraud detection used by most financial institutions for examples.

It's clear that the pace of innovation in both automation and AI has hastened, and this poses specific challenges for service professionals. Administrative work within all professional fields has a high risk of being automated, and accountancy in general is highly susceptible. Certain roles—like those of lawyers, architects, and civil engineers—are relatively "safe" from becoming redundant, but the day-to-day lives of these professionals will still be transformed by new technology.[iv]

RISK OF AUTOMATION



> "... AUTOMATION ALSO COMPLEMENTS LABOR, RAISES OUTPUT IN WAYS THAT LEAD TO HIGHER DEMAND FOR LABOR, AND INTERACTS WITH ADJUSTMENTS IN THE LABOR SUPPLY."

While automation is much more widespread, as it stands, only 15% of enterprises use AI, and 31% say it is on the agenda for the next 12 months.[v] Its use across various industries is uneven—accounting professionals are well-acquainted with smart tax assistants, but architects don't encounter AI nearly as much. In the relatively near future, though, AI is set to help clients in the advisory role that professionals have always filled. It's already in use for applications in investment management, tax preparations, audits, evaluating uncertainties in engineering, reading contracts, and so much more.

The news isn't all bad, though. Automation and AI also provide professionals with significant assistance, improving productivity and thus profitability. It's straightforward to now automate many essential back-office processes, from billing to data entry to bank account reconciliation. These innovations reduce overhead and give employees and firm owners the freedom to pursue profit-generating activities.

AI, in turn, relieves professionals of the most mundane components of research, note-taking, scheduling, and the like. These technologies similarly help cut down on workloads and increase efficiency.

While some experts foresee considerable job destruction thanks to automation and AI, others have a calmer outlook. MIT professor David H. Autor, for one, states that "automation and technical progress have not made human labor obsolete...Automation does indeed substitute for labor—as it is typically intended to do. However automation also complements labor, raises output in ways that lead to higher demand for labor, and interacts with adjustments in the labor supply."[vi]

What's not up for debate is the atmosphere of heightened competition in the professional services industry.

A CROWDED SPACE

80% of respondents to one 2018 survey of professionals say that competition has increased in their field. Just a year earlier, that figure was 62%.[vii] Reported effectiveness of sales and marketing tactics, win to bid ratios, and client relationship metrics are also on the decline.[viii]

This intense competition is due to a variety of sources. In order to stay on top, many larger professional service organizations are branching out into new areas and conducting mergers as a safety and growth strategy. It's been increasingly common for companies that traditionally specialized in accounting to branch out into legal and consulting work. Meanwhile, big law firms are announcing mergers left and right.

Additionally, the same technology discussed earlier in this paper is enabling small businesses and new firms to quickly scale their capabilities without the major investments that used to be necessary. If a lawyer can simply use software to function as her paralegal, billing manager, and accountant, overhead and subsequent barriers to entry are greatly reduced.

It's essential to also consider the effects of globalization on the professional services market.

Thanks to technology, it's simple to both support clients in other countries and to hire staff to work half a world away. While this particular transformation has been in the works for some time now, the advent of cloud computing and collaboration tools has hastened the rise of international remote work.

Feeding into this competition is the perception that client expectations are also burgeoning. 93% of executives agree, stating that demands about quality, speed, cost, transparency, and accountability are all on the rise.[xi] With the bevy of options that technology and increased competition have given clients, these trends aren't surprising.

All in all, 63% of executives feel that it's become more difficult to operate their services business. Changes in talent are only compounding the hurdles that competition presents.

A WORKFORCE EARTHQUAKE

In recent years, countless ink has been spilled regarding the influx of millennials into the workplace. As never-ending as some of the commentary may seem, there's a reason for it: as these workers in their 20s and 30s reach more managerial positions and continue to start new businesses, baby boomers will keep leaving the workforce. Meanwhile, millennials already make up the largest share of the labor market.[x]

These demographic transitions have already produced—and will continue to cause—growing pains. It's all exacerbated by extremely high competition for qualified workers. The US unemployment rate has been steadily decreasing since 2010, and as of February of 2018 stands at 4.1%.[xi] Consequently, 82% of executives believe that it's increasingly difficult to hire staff with the skills necessary to grow their business.[xii]

"Talent management" is the biggest concern facing professional firms across the board. Examined by vertical, government contractors, accounting professionals, AE employers, and IT consultants all agree that this is their most pressing challenge.[xiii]

Hiring has grown into such a priority that many firms are adding employees in advance of sales. This indicates that they're confident about strategic hires, but also may show that there's desperation for the right talent.

Faced with these conditions, what is the best course for professional services firm management to take? Here are three critical proposals.

AT A GLANCE:

- Roughly 10,000 baby boomers retire every day.
- By 2020, 73% of AICPA members will have reached retirement age.
- By 2030, half of all partners in the Am Law 200 will be of retirement age.
- 35% of AIA members will be over 65 by 2028.

Three Essential Recommendations

While the renaissance of automation and AI, heightened competition, and massive workforce changes may seem daunting, there are ways to tackle these challenges. In fact, businesses that successfully follow the following suggestions will thrive in the coming years.

KEY STRATEGIES:

- Embrace New Technology
- Adopt Data-Driven Approaches
- Champion Flexibility

BECOME A TECHNOLOGICAL FRONTRUNNER

Automation and AI can appear threatening to the livelihood of professionals, but these technologies also provide a major boost to businesses. Moreover, those that don't incorporate them into their own firms will lose out.

As noted earlier in this paper, AI and automation relieve busy professionals of repetitive yet essential tasks, so they can focus on building their client relationships and company. There is tangible evidence for this line of thought:

- 91% of executives believe that their skilled employees spend too much time on administrative tasks, and 93% thinks that reducing these tasks "unleashes employee creativity."
- Businesses with annual revenue growth above 20% are, on average, 61% automated. Those with flat or negative growth are only 35% automated.
- 81% of managers report that automation reduces costs, while 78% believe that it increases client satisfaction.

In the realm of AI, the same concept holds true. Optical character recognition, for example, reads scanned documents for users, automatically recording pertinent data. Voice assistants dramatically shorten the time it takes to look up information, schedule appointments, and the like. Indeed, for the average organization in 2035, AI will have increased profitability by 38% and productivity by up to 40%.[xv]

Solutions that feature predictive technology and automation will only get better with time. Businesses that learn how to work with these types of software early on will have a distinct advantage as they improve. In several years, the firms that haven't yet figured out how to incorporate AI and automation into their day-to-day processes will find that the gap between them and their technologically-savvy competitors will have widened to a daunting degree.

Meanwhile, clients are growing more demanding and competition is intensifying, so it is imperative to use technology that enables better service and higher profits. Solutions that cut down on administrative tasks will even help in the talent wars, as the most skilled, creative candidates will be more drawn to positions that won't bog them down in paperwork.

In addition to automation and AI, cloud technology must be discussed. While cloud software has been widely deployed across the professional services sector, its benefits are too strong to not mention. With it, businesses and employees can:

- Effectively manage risk with automatic off-site backups, straightforward disaster recovery, and stringent vendor security standards
- Lower IT burdens with simple installation and maintenance
- Reduce software budgets and downtime with instant, continuous upgrades
- Enhance productivity using work-from-anywhere technology and scalable user subscriptions
- Easily adhere to compliance requirements and access audit trails

Automation, AI, and cloud software significantly improve outcomes, but these technologies need to be supplemented with more holistic shifts in philosophy and management, including a culture of business intelligence.

INCORPORATE DATA INTO YOUR FIRM'S DNA

Simply put, it's impossible to consistently improve what isn't measured. Firms that want to see systematic improvement in their efficiency and profits—especially given the rapid changes in the industry—must adopt a data-driven outlook on a company-wide level.

This approach involves establishing key performance indicators (KPIs) for every initiative. Good KPIs should act as a compass that guides a team in the right direction – towards achieving strategic goals for their company. Effective KPIs are:

- Well-defined and quantifiable
- Communicated thoroughly to every employee
- Crucial measurements for tracking the progress of objectives
- Applicable to a given business and industry

Professional service firms that work on the basis of projects (also known as engagements, matters, jobs, etc.) should look to a specific methodology to measure and improve their financial KPIs: project accounting. Since these businesses depend on the success of their projects for their livelihood, it only makes sense to examine them more closely.

Project accounting is simply the practice of accounting on the basis of individual projects. It allows businesses to monitor the successes and shortfalls of their projects in real-time, instead of after the fact, so they can make appropriate adjustments to maximize profits. In short, it gives firm management the timely visibility they need to make informed decisions.

Project accounting necessitates extensive collection of data including time and expenses, billing, accounting, and so forth. This is why project accounting software is so crucial. In addition to automating much of this data entry, the right solution will provide business intelligence that helps managers increase efficiency, client satisfaction, and profits. These analytics are essential for thriving in the new world of professional services.

Firms that use business intelligence software see the following average KPI increases in comparison to those that don't.[xvi]

- 318% more revenue
- 49% larger year-over-year revenue growth
- 40% more year-over-year growth in headcount
- 16% more clients

Business intelligence and project accounting are part of the framework that professional service firms need in order to quickly adapt to change. Those that don't have this flexibility won't fare well in the next decade.

NURTURE A CULTURE OF FLEXIBILITY

The message for professionals is clear: things are changing rapidly. If they cannot adapt, the future doesn't look bright. This is why flexibility and innovation must permeate company culture in a number of ways.

For example, many firms are taking different approaches with their pricing strategies. From 2016 to 2017, the popularity of time and materials contracts decreased by over 5%, while that of fixed time/fee arrangements rose by 2%.[xvii] Talk of value billing and managed service contracts is also common as businesses seek to maximize their profits.

The workforce changes discussed earlier also play a major role in the need for versatility, this time in the realm of human capital management. Given the influx of millennial workers and the intensified competition for talent, many professional service organizations are implementing flexible schedules, generous work from home policies, wellness programs, company retreats, and more.

The tale of PwC is an instructive one: Post-recession, the company's management noticed that college graduates were not flocking to the accounting and consulting giant as they once used to. Moreover, young employee attrition was remarkably high, and the employees that did stay on complained about PwC's lack of flexibility.

After surveying 44,000 employees of all generations, the firm found that millennials were just as committed to their jobs as older employees were, and that all staff wanted more liberal schedules. Today, 90% of their employees incorporate flexibility of some kind into their schedule, resulting in "zero negative shift" in productivity and a 33% reduction in real estate footprint costs. PwC also launched a retreat for young employees and a wellness program open to all. Workers are consequently happier and much more invested in their employer.[xviii]

Overall, professional firms that consider themselves to be "innovation-focused" have the highest billable utilization rates and the lowest employee attrition rates. Those that self-report as being effective at embracing change win the most client referrals, have the largest percentages of billable employees, and enjoy real-time visibility.[xix] Additionally, 72% of project managers note that their firms have increased their agility over the past five years. 44% believe that, over the next two years, formulating appropriate strategies for changing market conditions will be "essential."[xx]

The Next Wave in Professional Services

While the professional services field has been immune from disruption for so long, technology is finally good enough to start beating firms at their own game. As the post-industrial economy has kept expanding, meanwhile, the competition has grown fiercer.

The implications for firms are significant. The pattern of industry disruption usually goes like this: New competitors with new business models arrive. Incumbents choose to ignore the new players, or to move to higher-margin activities. A disrupter whose service was once barely good enough achieves a level of quality acceptable to the broad middle of the market, undermining the positions of longtime leaders. Even if those former winners have great services, it won't be enough to see them through.

Businesses that embrace new technology instead of fearing it, continually optimize their processes based on data, and regularly seek to innovate will be able to take advantage of this new landscape. They need a unique mix of talent and innovation to survive due to the increased modularization of the market.

It's now clear that the tide is turning quickly, and that disruption and growth are far from being mutually exclusive. Rather, organizations that take advantage of the rapid shifts in the professional services field will be the ones to come out ahead in a growing—yet potentially chaotic—market. Those that don't are bound to fail. If a business isn't innovating at least as rapidly as its most demanding clients are, it will be pushed out.

THE RULES ARE CHANGING: HOW WILL YOU RESPOND?

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