



# Professional Practice Solutions

**It's the little details that make a big difference**



## Post-event summary

### Insight Dinner – Tuesday 21 May 2019

#### The effectiveness and efficiency of operating models and cost management improvement.

KPMG's Professional Practice Solutions team hosted another successful Insight Dinner on Tuesday 21 May 2019 at KPMG's client meeting and engagement space at Number Twenty Grosvenor Street, London.

The event was led by Paul Spicer, Head of Professional Practice Solutions; Sarah Willows, KPMG UK's Chief Financial Officer; and Jon Hughes, Head of Professional Practice Operations Consulting.

The topic of discussion was "The effectiveness and efficiency of current professional services operating models, and how to improve cost management". Sarah and Jon share their high level summary of topics discussed and themes to consider below.

Please do get in touch if you would like to explore anything you feel would be beneficial to you and/or your firm.

#### Overview

The Professional Services sector continues to be a challenging industry to operate within for organisations of all sizes - costs continue to rise and profits are under pressure across the sector. Now more than ever, the importance of a clearly defined, agreed and efficient operating model is central to the ability to operate sustainably in the market.

The discussions at our Insight Dinner highlighted the improvements in financial performance that every part of a practice can play a part in, ensuring that the journey from client to cash is value enhancing rather than value eroding. Costs are capable of being centrally controlled and require constant review and reassessment to ensure they remain relevant to the practice, and fit for purpose.

#### From Sarah Willows

Sarah has been CFO for KPMG in the UK for 3 years. She shared her own experiences and highlighted some of the key lessons for any of her peers responsible for finance in any professional practice. Some of the key observations made included:

1. Understand where the money is made (or lost) and seek out hidden value. All practices have different business drivers which need to be well understood to make commercial decisions and allocate investment capital. If you encounter challenges or issues, ensure you deal with them, as they don't go away without action. Overall all businesses have to focus hard on lock-up.
2. It's a privilege to be one of the few to see the full picture, as you can do when sat in finance; use this knowledge wisely. If you understand what makes money, either services or markets, ensure you also look at the profit made, i.e. those bits of business minus aggregate pay of that group; sometimes you will find a profitable part of the business is not capable of funding all of its partners' profit share! Move to a position where you allocate all costs to practice groups, as this will create a healthy tension between demand and supply of the services which result in these costs.
3. Reassess your attitude to business services teams, which include finance. Often they feel treated like second class citizens and they are called "overheads". Whereas they represent a team full of experts – and therefore unharnessed potential which could add further value.
4. Balancing short term return with investment for long term growth is hard, intergenerational issues impact most decisions. Of course most partners want their legacy to be a stronger partnership. However the balance between the desire for higher in year earnings versus investment for the future tends to be different in your first and last year.

To address this, there are a few principles to follow:

- Stay true to strategy.
- Naked in, naked out – most partners enter partnership with nothing owed or owing; therefore once you leave there is no right to future return or payment of monies relating to historic matters.
- Be fair and transparent.

5. There is consistent cost pressure; margins are continually being squeezed. Cost control is never finished. On this the CFO needs to be relentless, therefore:
  - Look at non fee earning activity - most non client facing activity is good but none of us can afford to deliver on all ideas proposed to improve our businesses. Challenge your practice on:
    - i. What to stop?
    - ii. If you can't do that what can you automate?
    - iii. If you can't automate what can you offshore? (if cost effective)
    - iv. If you can't offshore what activity can you get out of London?
  - Control all types of spend – ensure you have looked hard at all expense policies to confirm fair and transparent. Then put in systems to execute the policy and only pay at policy levels. If not already done, look hard at procurement introducing a P2P system. Also look hard at key suppliers to ensure you are getting the best out of them – are there clauses where you can get better service and pay less?
  - Apply zero-base budgeting – split activity into:
    - i. What do you need to do because of regulation?
    - ii. What else do you spend money on?
    - iii. What is the risk of not having this spend?
    - iv. Let's stop [x%] of the least valuable (looking at risk and return).
6. There are many businesses that need to correct decades of under investment in non-client digitalisation. You will need to have had some tough conversations and get investment prioritised amongst partner generations. Everybody knows that technology and data are key these days – we all advise clients daily on these matters and therefore need to drink our "own medicine".
7. Lastly, the pace of change needs to become faster if you wish to compete in future markets... if you snooze you lose!

### From Jon Hughes

Jon Hughes leads KPMG's Operational Transformation practice in the North. His expertise includes target operating model design and implementation, enterprise cost reduction, IT enabled transformation and procurement transformation. Jon has worked with a number of Professional Services organisations, supporting them to respond to the changing market pressures. Some of the key trends which we continue to see are:

**Fee Income Growth** – Despite challenging market conditions and competition, 90% of the Top 100 Law Firms have seen fee income growth over the last two years.

**Profit Margin** – Profit Margin however continues to fall for many – hampered by increasing staff costs and challenges in fee rates and recovery.

**Staff costs** – Firms continue to focus on efficiencies of support staff – and balancing the number of Partners to more junior resource to enable better resource leveraging.

**Customer experience** – Changing client requirements are driving renewed focus on a 'client centric' operating model. Clients are demanding more, often for less.

**Investment** – Investment in new and innovative technologies is one of the key focus areas, enabling a drive in efficiency of staff costs, and the agility to respond to changing customer needs.

### Operating model – What do we mean?

An operating model is distinct from the 'business model', which summarises what the organisation is going to do – the markets you will serve, the propositions and brands which you use to go to market, and the client segments and channels which you use to attract and do business.

The operating model is the blueprint of how you work and should document how the component elements of the business will work together to support you to achieve the strategy, including the:

- Core business processes.
- Operational infrastructure and technology.
- Organisational structure, risk and governance controls.
- People & Culture.
- Measurements & incentives.

By understanding the current operating model – and defining the target operating model for the future, professional service firms can ensure that they understand the capabilities which are required to support the business strategy.

### Strategies to drive an improved operating model

KPMG's work across a variety of professional service firms in the last two years has demonstrated a number of areas which are consistently being leveraged through the operating model to reduce cost, ensure the business is able to respond in an agile way to changing client expectations, and improve the colleague experience.

### Legal services delivery

- Formalise the client offering and define the skill requirements and charging model. Increasingly firms are looking to centralise some of the more traditional activities to leverage resource, resulting in an increase of 5% in average utilisation.
- Centralise fragmented activities to achieve economies of scale.
- Organisational redesigns to eliminate the number of layers in the organisation, increase the span of control & utilisation.

### Business support transformation

- Shift of labour to lower cost areas and utilisation of automation technologies. As automation and AI gain traction, the level of outsourcing and off-shoring is reducing, and there is a move to centralise more processes into shared services in lower cost geographies.
- Formalise the services and service levels to be provided – prevent 'gold plating'.

## Process re-engineering

- Implement workflow and a standard process model, and allow minimal process customisation. This is the third highest priority across professional service firms, and will further enable an organisation's ability to centralise and leverage junior resource models.
- Assign single process owners to increase accountability.

## Technology enablement

- Rationalise the technology landscape and case management.
- Enhanced self-service abilities for employees and clients, with over 50% of firms having implemented mobile apps, client collaboration tools and automated document processing. Whilst this presents opportunity, the risks and costs involved in further technology change (such as robotic process automation) in particular in firms with a legacy estate, can be high.

## Agile working

- Technology enabled working – enabling transfer of work across location and team.

- Reduce and optimise floor space.
- Only effective where the operating model is truly defined and understood.

## Key learning – Professional services and other sectors

Most sectors have been moving towards centralised operating models over the last 10 years, although the legal sector is behind many others in driving efficient and effective operating models. In Business Support services the trend has been towards the development of shared service centres and then global business sourcing.

In technology application, the legal sector is years behind others, which have applied cloud, RPA & AI into business services and omni channel (mobile, internet, customer facilities) in customer journeys.

Whilst this presents a clear requirement for investment and resource at a time when many budgets are constrained, it also demonstrates the scale of the opportunity within the Legal sector. Utilising operating model transformation will provide a platform for sustainable cost reduction and revenue growth, for those who have the foresight to invest in these changes now.



## Our events in the legal sector

This dinner is one in a series aimed to bring you thought-provoking insight into real-time topical issues and challenges that you're likely to be grappling with. If you're receiving this email you're already on our invite list for this event. If you'd like a colleague to receive our invitations and insights, please [get in touch](#).

If there are any subjects you'd like to see covered at a future event, please [let us know](#).

## KPMG in the legal sector

We have brought together some of the best professionals from across our firm with relevant insight and experience in the legal sector. We strive to co-ordinate and deliver a collaborative approach to your business whatever challenges you encounter – looking to the future and the bigger picture with you. Our [service offering document](#) gives an overview of our specialists. Please [get in touch](#) if you would like to speak to our specialists.

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