



Professional Services Firms: FP&A Leads to Increased Profitability



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Introduction

Sustained headwinds in 2023 continue to affect every industry. Professional services firms are no exception as they continue to deal with inflation, increasing project backlogs, and labor shortages.

Financial planning and analysis (FP&A) can be a time-consuming, highly manual task for professional services firms. Even in an age where technology can streamline manual processes, many firms still use cumbersome and error-prone Excel spreadsheets. If professional services firms wish to weather this storm, they will need to become more agile to quickly pivot and address operational changes.

Let's break down the steps you can take to plan ahead for shifts in the economy and improve your planning and analysis to become an agile and profitable firm.





Tackling FP&A Challenges Specific to Professional Services Firms

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Many professional services firms, particularly those with multiple locations and different disciplines, struggle with FP&A because they lack the right processes and technology to support them.

The right technology can make budgeting, planning, forecasting, reporting, and analysis easier, more accurate, and more efficient. Without it, professional services firms face multiple challenges when it comes to manual reporting, project planning, and personnel planning. Additionally, project profitability analysis and other cost control measures are difficult and labor-intensive.

Challenges specific to professional services firms include:

- Prolific use of spreadsheets throughout the planning process—from revenue planning to project planning and personnel planning—can impact decision-making and profitability. This is compounded when there are multiple stakeholders relying on data in the spreadsheet. Sharing spreadsheets via email can result in broken or deleted formulas as they are passed from plan owner to plan approver. Because [accurate forecasting is at the heart of effective decision-making](#), decisions made using spreadsheets are at risk for using incorrect data due to changed formulas or broken links.
- Lack of technology to streamline processes. The right technology in place can simplify FP&A processes and act as a single source of truth (SSoT) for stakeholders. A single platform that caters to analysis and planning will make analysis and decision-making easier and more accurate.
- Risks associated with data security and protecting data integrity that can lead to incorrect planning of costs. How can you ensure that the data you are using is up to date so that every stakeholder is using the same data for analysis? Without integrated and centralized data sources, it is difficult to get a complete view into all areas of your firm.

Effective cost, revenue, and profitability management requires a foundation of understanding, awareness of the problem, and the ability to act based on your data. There are some measures that you can take today to increase your firm's profitability.



5 Paths to Organizational Profitability



5 Paths to Organizational Profitability

There are several ways that you can increase the profitability of your firm that center on more accurate planning.

1. Scenario Planning

Scenario planning is a strategic planning model that helps you look at different possibilities and trends to help reduce errors. By looking at different scenarios, you can avoid under- and over-predictions of costs associated with projects and positions.

Trends are particularly important in scenario planning. You'll need to look at situations such as:

- The impact of inflation on the economy
- How backlogs affect your firm
- A tight labor market and the cost of vacant positions
- Uncertainty that may be associated with unpredictable events such as a pandemic

Looking at possible scenarios can help you understand the potential challenges, warning signs, and even opportunities, such as establishing a new discipline. You can easily pivot from one outcome to another with scenario planning and 'what-if' analysis so you can make better decisions.

2. Collaboration

Collaboration between stakeholders across your firm is important to ensure that all project managers have a SSoT in terms of workflows, data entry, and forecasting.

To be resilient, every project manager needs to be working with the same version of a report or template versus multiple versions to ensure accurate data.

Collaboration among stakeholders also builds trust, encourages group problem-solving, and helps multiple disciplines across your firm become more efficient, thereby increasing productivity and profitability.

3. Project Planning

An agile project planning process can maximize financial health across a firm. Increasing the accuracy and frequency of in-depth analysis of project metrics helps to identify trends, potential roadblocks, and tracks financial performance in real-time. This analysis allows you to adjust assumptions as project and economic conditions change.

Inflation and labor shortages impact the operations of every firm. Analyzing your data from multiple angles helps to determine opportunities for additional efficiencies. You can use this data for informed decision-making and take a proactive approach to your future versus reacting.



4. Position Planning

Given that people costs make up the largest portion of operating expenses for most firms, an accurate workforce plan is fundamental to good organizational fiscal health.

Most firms start with personnel planning and the current projects in progress. Ideally, this plan is informed by the budgeted projects by discipline. There are several items to consider, including:

- Beginning with last year's positions to help inform current needs
- Linking personnel planning to project planning
- Using vacancy trends to plan for future staffing gaps
- Automating the personnel planning process with employee drivers for tax and other benefit calculations

The bottom line is that in the face of global staffing shortages, accurate position planning and execution is a priority for every firm.










5. Use of Technology

You may not even be aware that technology exists to help streamline your firm and drive efficiency. Technology can help you to make decisions quickly and confidently, and better manage the costs and profitability of your firm.

Understanding the profitability of each discipline and maximizing revenues while minimizing costs and risk are paramount to longevity in professional services. As we mentioned earlier, manual processes and spreadsheets limit visibility and agility because they are difficult to manage and update on a regular basis.

The use of technology to increase profitability in professional services firms can:






- Centralize your workflows that facilitate the planning process by using only one data-entry template for all disciplines
- Centralize modeling to reduce or eliminate overly complex spreadsheets
- Run different scenarios to assess various potential outcomes
- Combine historical data with budget data to easily plan for the future
- Involve stakeholders in the planning process for higher accuracy
- Facilitate collaboration among project managers and management to build more profitable plans
- Report and analyze data at a higher cadence so you can see trends, roadblocks, and financial performance in real-time
- Bring data together from all sources to minimize switching between systems

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- Routine analytics that help to identify project changes in schedule and cost early on
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- Create dashboards customized by stakeholder that visualize the key performance metrics of their specific discipline and/or project
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- Integrate data sources that provide a complete view of all areas of your firm, including:
-  Project Planning and Analysis
 -  Personnel Expense Planning and Analysis
 -  Operating Expense Planning and Analysis
 -  Scenario Planning and Analysis
 -  Capital Projects Planning and Analysis
 -  Financial Reporting and Analysis

Organizational effectiveness can be measured by how well a firm works together to foster continuous improvement, strong financial health, and support the firm's mission. Financial planning and analysis, which involves developing and managing a firm's revenue, personnel, and other expenses while ensuring financial viability, is key to addressing this challenge head on.

As professional services firms continue to readjust their planning processes to be more fiscally responsible, the need for a financial performance platform, like Prophix for Professional Services, becomes paramount to organizational profitability.

Why Spreadsheets No Longer Work for FP&A

-  Lack of agility with time- and labor-intensive manual review and consolidation
-  Higher margin for error as formulas can break or be deleted during sharing
-  Difficult month-end, board, and other reporting
-  Financial agility does not happen
-  Hinders the data analysis needed for sound decision-making



What's Ahead for Professional Services Firms



What's Ahead for Professional Services Firms

There are several challenges and opportunities ahead for professional services firms coming out of a few challenging years. With ongoing labor shortages, economic fluctuations, and increasing backlogs, effective action is paramount to both your firm's mission and its financial health.

A [blog](#) by Stambaugh Ness discusses highlights from their recent survey of professional services firms. 85-percent of firms identify the recruitment of new staff to be one of the biggest challenges for 2023. Adding to this challenge is the ongoing difficulty of employee retention. What is striking about the Stambaugh Ness survey is that four out of the five challenges are people or resource related.

According to Deltek's [The Consulting Year in Review](#), the economy is the most significant area of concern heading into 2023. Discussion points included how to manage an increasingly longer sales cycle, how to use uncertainty to create opportunity, and how to find the right mix of virtual and on-site meetings.

ACEC recently published its [engineering business sentiment](#) for first quarter 2023. One of the hot topics was the continued struggle with project backlogs. While backlog did decline in the first quarter from 12 months to ten, 46-percent of firms believe backlogs will be higher 12 months from now.





Benefits of Using a Technology Solution to Increase Profitability

- ⬡ Standardize your processes across finance, accounting, and project managers
- ⬡ Streamline your FP&A and financial close activities
- ⬡ Standardize your data and workflows
- ⬡ Increase stakeholder productivity
- ⬡ Self-serve capabilities for stakeholders
- ⬡ Increase efficiency
- ⬡ Have a single source of truth (SSoT) to drive your decision-making
- ⬡ Improve business agility to make decisions faster
- ⬡ Increase financial health

Innovative technology platforms will be a critical investment to help accelerate cost analysis, optimize projects and staffing, and reduce the need for spreadsheets and manual tasks. An FP&A process can help improve profitability. Stakeholders across your organization can work together to foster collaboration and make data-informed decisions that impact your financial health. The right technology will help you plan for tomorrow, today, so you can minimize risk and impact the long-term success of your firm.

Ready to get started?

See how you can improve your agility and profitability with Prophix.

[Try it now](#)

About Prophix®

Ambitious finance leaders engage with Prophix to drive progress and do their best work. Leveraging Prophix One™, a Financial Performance Platform, to improve the speed and accuracy of decision-making within a harmonized user experience, global finance teams are empowered to step into the next generation of finance with no reservation. Crush complexity, reduce uncertainty, and illuminate data with access to best-in-class automated insights and planning, budgeting, forecasting, reporting, and consolidation functionalities. Prophix is a private company, backed by Hg Capital, a leading investor in software and services businesses. More than 3,000 active customers across the globe rely on Prophix to achieve organizational success. Additional information at www.prophix.com.

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