

Transformation of Professional Services

The Audit, Tax and Advisory
“Firm of the Future”

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**Authored by: Nita Sanger, & Xena
Ugrinsky**



Idea
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Transforming businesses for growth

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Professional Services firms offering Audit, Tax and Advisory services are recognizing that the industry is ripe for disruption driven by changing needs of customers, increased use of technologies in the business, and Private Equity investment in the industry, and are taking actions to transform their business to meet these challenges. However, business transformation is hard. According to a recent McKinsey study “While organizations have made massive tech-driven changes over the past two years, they have captured much less value than they initially expected: 89% of large companies globally have a digital and AI transformation journey underway, but they’ve captured only 31% of expected revenue lift and 25% of expected cost savings”.⁽¹⁾ But that’s to be expected in a seismic shift that the business is experiencing today. Bain & Company research shows that companies that take a wait and see approach in terms of AI are at risk of being left behind, and nowhere is this more critical to future success than in professional services today.⁽²⁾ A successful transformation will require firm leadership to focus not just on technology, but on their own client targeting (size of clients) & growth strategy (organic or inorganic), what services to offer (services & products), who will deliver those services (people), how the

services will be delivered (business operations), and how much to charge for those services (pricing). Where professional services firms struggle is where to drive technology-enabled transformation, how that translates to staffing and organizational restructuring, and changes to billing rates as customer expectations evolve relative to the value delivered.

Drivers of Change in Professional Services

There are three key drivers of change in Professional Services

- (i) **Changing Needs of Customers** – Clients’ needs from their Professional Service provider are evolving and will vary by service line and type of clients being targeted / served.
 - **Audit & Tax** - All clients need to get their Audit and Tax return done for regulatory reasons. However, the Audit and Tax are both backward looking and do not add value to the client, as they do not provide any guidance to the client to run their business more effectively. Clients are looking for their

provider to use the insights gleaned from audit and tax engagement, to give them business and competitive insights, benchmarking information, and advice to run their business more effectively and efficiently.

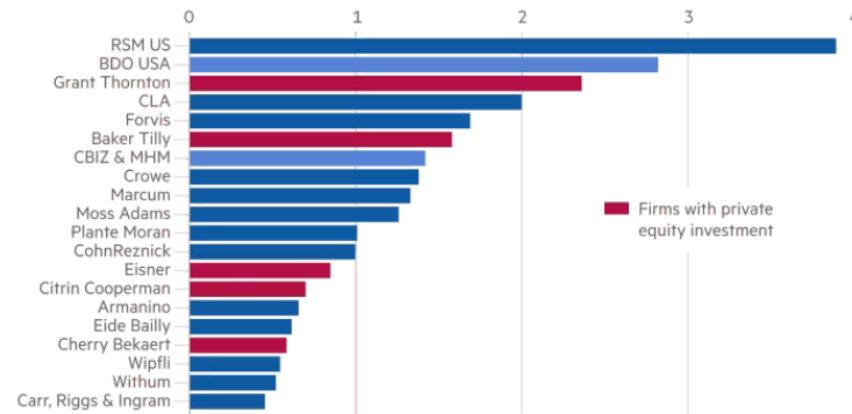
- **Advisory** – Given the increasing use of technologies, all clients are looking for advanced analytics, security & privacy support from their service provider. Additionally, depending on the size of the firm, the services they need from their provider vary:
 - a. **Large Entities** – Large entities tend to have a lot of technical debt and often have long established processes and are more likely to spend on digital transformation, technology upgrades, new ERP systems, etc. Additionally, industry dynamics directly impact the spend on specific areas of needs, i.e. regulatory changes in financial services or healthcare, supply chain or industry disruption in consumer retail, manufacturing, etc.
 - b. **Small to Mid-Sized Entities (SMEs)** - SME's have less money to spend on external advisory services, but are looking for ways to focus on their core business, and are willing to outsource or use managed service providers for their non-revenue generating activities, i.e., accounting, technology support & help desks, security & privacy support, fractional C-suite services, etc. When they do utilize advisory services, these tend to be market strategy and service line expansion related.
 - c. **Private Equity (PE) & PE-Funded companies** – For PE, advisory services will focus on activities directly impacting EBITDA multiples for portfolio companies. Data

monetization, competitive differentiation, and streamlining operations tend to be prioritized. PE-funded companies are a slightly separate breed from other entities, as they may be smaller in size, but due to their need to grow rapidly to meet investor revenue and growth requirements, they are strategic acquirers and need services such as M&A advisory, tax advisory, carveout support, pre- and post-acquisition integration, and optimization, etc.

- (ii) **Increase use of technologies** - The AI technologies that have and will continue to impact, Professional Services are Machine Learning (ML), Natural Language Processing (NLP), Robotics Process Automation (RPA) and Data/Predictive Analytics, to automate repetitive tasks performed by professionals. However, the single AI technology that is likely to have the biggest impact on firms is Generative AI. Generative AI will augment traditional technology and inform where to apply data science related automation. The most productive use of Generative AI won't be about replacing people but will instead focus on arming employees with tools that help them advance and accelerate their productivity, knowledge and creativity which, in turn, will help drive innovation in the enterprise. ⁽²⁾
- (iii) **PE investment in the industry** – In the past few years, PE have found the accounting industry to be a great investment. Accountancy's position as a stable, recession-proof, low risk industry with high rates of client retention makes it attractive to private equity firms. PE firms can expand the capabilities of accounting firms by increasing the caliber of talent, better aligning incentives, and enabling access to new technologies resulting in better services and solutions for clients. ⁽³⁾

Private equity courts accountancies

Largest US accounting firms, excluding Big Four, by annual revenue (\$bn)



Grant Thornton and Baker Tilly deals are expected to close in the second quarter. BDO converted from a partnership to an employee share ownership plan, funded by private debt. CBIZ is publicly traded
 Source: Accounting Today
 © FT

The Professional Services (Audit, Tax and Advisory) “Firm of the Future”

As a result of the drivers of change, the Professional Services “Firm of the Future” is likely to operate differently from the Audit, Tax and Advisory firms of today, and the visual on the following page depicts the new delivery and operating model for the modern professional services firm.

ORGANIZATIONAL IMPACTS

People

Auditors, Tax and Advisory professionals are the knowledge professionals for the business, focusing on delivering services to clients, with support staff in the areas of marketing, sales, knowledge management and technology operations, supporting the client-facing professionals and firm operations. In the “Professional Services Firm of the Future,” talent will need to be different, in terms of skills & capabilities, location, and success metrics:

- Professionals will be comfortable with the tools that exist today and be better equipped to

“connect the dots” to cross sell other services offered.

- The extensive use of technology for delivery of services will impact the “pyramid” structure of firms, as a significant amount of the work done by the junior professionals will get automated over time.
- Professionals will be enabled to seamlessly work with client data on-site, remotely, and offshore, which will require providing them with access to mobile desktops, files, and cases, from any location and fully secure.
- The mix of professionals with knowledge in technology, analytics, data science, etc., to support the growing technology needs of clients and firm professionals, will increase significantly.
- The firm will need to adjust to a staffing model in which they need fewer junior and senior professionals to generate the same level of revenues and determine what training is needed, in an individual approach, all the while managing



PROFESSIONAL SERVICES “FIRM OF THE FUTURE”

Meeting client needs more effectively

TYPE OF CLIENTS

Large

SME

PE & PE-funded

CLIENT SERVICE

How you deliver to clients



TECH –ENABLED CLIENT-SERVICE PROFESSIONALS



SELF-SERVE DIGITAL PLATFORMS

SERVICES & PRODUCTS

What you deliver to clients

Audit



Tax



Risk & Reg.



Digital Transform



Analytics & Insights



M&A & Related



Outsourced Svcs



Managed Svcs



FIRM OPERATIONS

Supported by the Technology-Services & Strategic Alliances Ecosystem



People

- Tech-savvy Audit, Tax & Advisory Professionals
- Technologists
- Data Scientists, Storytellers, Cognitive Psychologists
- Other, i.e. Marketing, Sales, Knowledge Management, etc.
- On-site, Remote, Off-shore
- Freelance, Gig & Crowdsourced



Process

- Tech-enabled Delivery Processes
- Standardized, Streamlined & Optimized Processes
- Real-time Metrics & Analytics
- Client, Industry & Business Insights
- Continuous Tracking & Reporting
- Pro-active Decision Making



Technology

- Integrated Platforms
- ERP & CRM Systems
- Time & Entry Systems
- Chatbots & Voice Integrations
- Large Language Models (LLM)
- Data Lakes
- Data & Visualization
- Experimentation Sandboxes



Pricing

- Value-based Pricing
- Recurring Fees
- Combination pricing, i.e., time & materials, fixed fee & technology fee

ENTIRE PROFESSIONAL SERVICES FIRM

TECHNOLOGY-SERVICES & STRATEGIC ALLIANCES ECOSYSTEM

- Artificial Intelligence (incl RPA, Gen AI, NLP, etc.)
- Regulatory Technology
- Compliance Solutions
- Document Automation
- Inventory Count
- Data Ingestion
- Chat Bots
- Big Data
- Predictive Analytics
- Industry & Regulatory Insights
- Data Visualization
- Industry & Regulatory Insight Providers
- Core Technology & Communication Providers
- Data Providers
- Other Providers

Process

It will be important to understand key activities being performed by firm professionals, by service line. For Audit and Tax, the opportunity exists to create journey maps for the tasks that are the most time consuming, and determine ways to optimize delivery of services, using a combination of alternate business and talent models, offshoring and technology automation. Some examples of process improvement include:

- Optimize business delivery using an evolving mix of automated processes, in-house professionals and offshore delivery centers to align with fluid client demand.
- Form strategic alliances, with technology providers to provide advisory services to implement and/or leverage their solutions to better serve client needs, i.e. GenAI, Machine Learning, Robotics Process Automation, ERP systems, Data visualization, Cloud services, Core Technology, etc.
- Utilize in-house or external expert firms for technology management and support, security and privacy, risk, and regulatory issues.

Technology

Technology will be the critical driver as well as enabler of change. Each aspect of the business will need to be tech-enabled. The role of the Chief Technology/Information Officer at the firm will become even more critical as they:

- Upskill the workforce of the future, to be comfortable with both the tools available and a collaborative compensation model that rewards cooperation across functions more effectively.
- Develop a service portal for use by professionals, aligned with the new service delivery journey, enabled by emerging tech

outsourced services that are increasingly powered by tech enabled automation solutions, which reduces the friction within the client delivery process.

- Ensure that all legal, risk and regulatory issues related to the use of various technologies are addressed.
- Create and deliver an ecosystem of technology, information, service providers, and outsourced talent, to better meet the needs of the professionals.
- Provide guidance and training to practice leaders on new technology enabled best practices as an ongoing process.
- Establish client specific sandbox environments, where professionals can create “mini” ChatGPTs that can produce financial documents and respond to specific strategic questions related to the client and their industry and market position.

Pricing

Artificial Intelligence (AI) & Gen AI is expected to improve the productivity of audit, tax or advisory professionals. This will translate to fewer billable hours needed for the professional to generate the desired outcome. AI’s productivity enhancement will result in a decline in revenue and profit margins for Professional Services firms if the billable hours model does not change. To address this issue, firms will need to:

- Consider moving away from billing based on time & materials and move to value-based pricing. This will increasingly be market and customer expectation.
- Charge clients using a combination of time & material, deliverables based, and technology related pricing.

- Focus on expanding recurring revenues for their products or services, by offering managed and

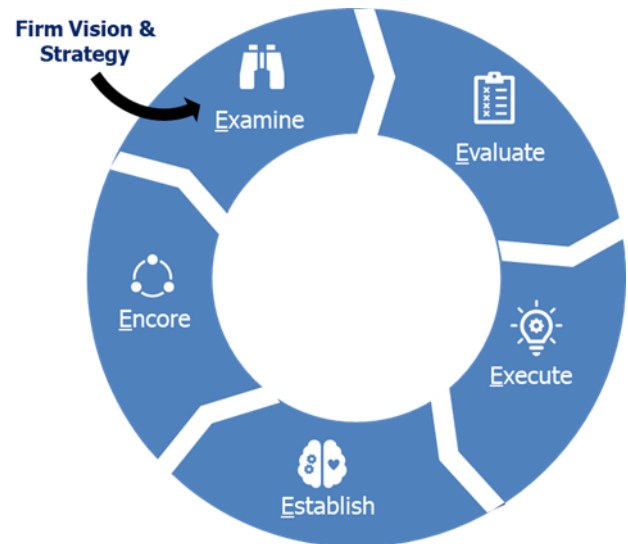
Approach to Digitally Transform a Professional Services Firm

For Professional Services firms, doing “business as usual” is no longer an option. Continued success requires a different approach to the business. Many leading firms are already acting and re-evaluating their product offerings, current business models, talent needs, business processes and procedures. Most firms are still in the early stages of their change journey – and some may have yet to begin.

Since there is no “one-size-fits-all” solution, we recommend that a professional services firm take a more holistic approach to transform their business. Often leadership presumes technology will be the solution to their issue(s). To guide a firm to transform their business, we have developed a systematic Five-E approach to digital transformation.

1. **Examine** – “Outside-in” analysis. Examine the business environment to identify shifts in customer needs, competitive landscape, regulatory environment, new technologies, etc., and their impact.
2. **Evaluate** – “Inside-out” assessment. Evaluate all aspects of the business i.e., products/ offerings, processes, technology, & talent. Design the “business of the future” and determine the tactical steps to get there. Create a digital transformation roadmap.

Five-E Approach to a Digital Transformation



3. **Execute** - A critical and time-consuming step in digital transformation is to execute on the digital transformation roadmap. Change management is an important aspect of this phase.
4. **Establish** - Once the transformation is completed, establish new KPIs, follow new processes, talent and operating models to continue to reap the benefits from the digital transformation.
5. **Encore** – Digital transformation is an iterative process. Firm leadership will need to periodically examine and evaluate their strategy and approaches to meet changing market and business needs.

Conclusion

Given the rapid pace of change, there is a need for Professional Services firms to continue to provide superior Audit, Tax and Advisory services, leveraging technology, to better serve clients and improve their own and client efficiency and effectiveness.

Additionally, the firm needs to enhance the work experience of professionals to move them from performing mundane repetitive tasks, to focusing on more value-added activities.

In order to accomplish that lofty goal, understanding that the associate level resources need to quickly be upskilled, and that the entire rate card structure must reflect the new reality and align with new client expectations. This is a massive shift that the professional services firms have seen coming but have not been able to address. The current interest by private equity in this market will only accelerate the reality that those firms must evolve in order to increase their market share or ever maintain their positions. While that journey is unique to each firm, there are best practices to be applied to every phase of that transformation.

Professional Services firms must develop tangible strategies and execute them to position their business for growth. Speed to market is paramount. The sooner your organization can arm itself to react to a changing market, the more you will preserve existing revenue and capture additional market share. Each firm's journey will be unique, and we can offer guidance to accelerate navigating that path. To discuss this article further, or for additional information, please contact us.

Sources:

⁽¹⁾ [How top-performing companies approach digital transformation](#), McKinsey Research, March 23, 2024

⁽²⁾ [Bain & Company Technology Report 2023](#), September 2023

⁽³⁾ [Tech Trends, 2024](#), Deloitte, January 2024

⁽⁴⁾ [How private equity is transforming accounting for the better](#), IAB Issue 654, World Survey 2024

⁽⁵⁾ [How AI Is Disrupting the Professional Services \(Audit, Tax & Advisory\) Industry, and What We Can Do About It](#), Medium, January 5, 2024

About the Authors:

Nita Sanger is the CEO of Idea Innovate Consulting, She is a business strategy and digital transformational executive with 25+ years of experience in advising large, complex, global, services businesses and high-growth companies to innovate, transform and grow. She worked at a Big Four firm advising large, complex, global services businesses, and transformed two of Deloitte's multi-billion-dollar business lines. Additionally, she developed and executed a transformation and growth strategy at a mid-sized Audit, Tax and Advisory firm that enabled them to get PE funding. Nita also advised and worked as a member of the C-suite, of several high growth companies, taking them to the next level, with revenues ranging from \$10M to \$9B. She has a long history of leading transformative efforts to improve companies and business lines, and maximize value via increased organizational revenues, market share growth and improved margins. She can be reached at nsanger@ideainnovate.com.

Xena Ugrinsky is the founder of Genre X, an AI advisory firm. She is a Technology and Transformation Executive with 25+ years of enterprise-scale advisory, transformation, and change management. She brings deep experience in serving multi-nationals driving value with accelerated tech-enabled transformation efforts. She was a SVP Analytics, Cloud, and Strategy at Booz Allen Hamilton and the National Practice Lead Partner Analytics and Performance Management at KPMG. She can be reached at xena@genrexconsulting.com.



Nita Sanger



Xena Ugrinsky



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