

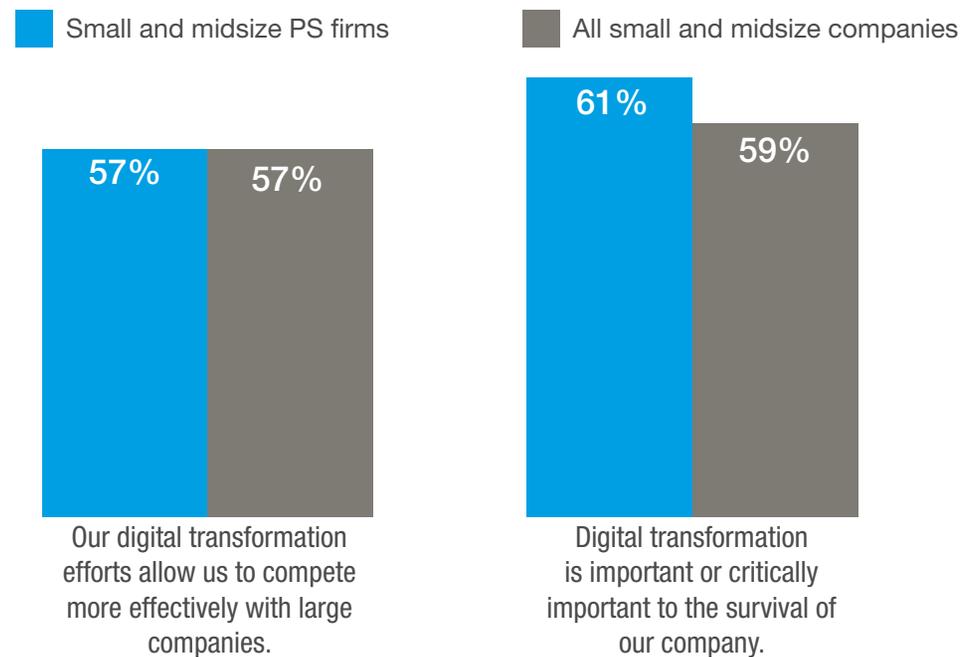
The Transformation Imperative for Small and Midsize Professional Services Firms

Technology is transforming the way small and midsize companies do business. Our global, cross-industry survey shows that professional services firms with less than \$1 billion in revenue are committed to digital transformation and optimistic about the payoffs they will see from their efforts in the next two years. This transformation is a strategic necessity: as lean, digital-first competitors challenge existing business models within the industry, professional services firms are forced to use technology to increase efficiency and maximize the value of their talent and knowledge base.

Compared with other industry sectors, professional services firms are roughly on par with other small and midsize businesses in most aspects of digital transformation we measured in the survey, including their focus on core technologies and their expected value from these efforts.

As these firms depend on IP and human capital, they can derive great value from tools such as augmented reality, blockchain, machine learning, artificial intelligence, and voice-controlled user interfaces. These innovations can help to improve project profitability, make better use of resources, and allow real-time insight into project operations and outcomes.

While professional services firms have work to do to prepare for sweeping change (for example, creating more agile and responsive organizational structures), their growing investment in emerging technologies and digital strategy shows their commitment to making digital transformation a reality.



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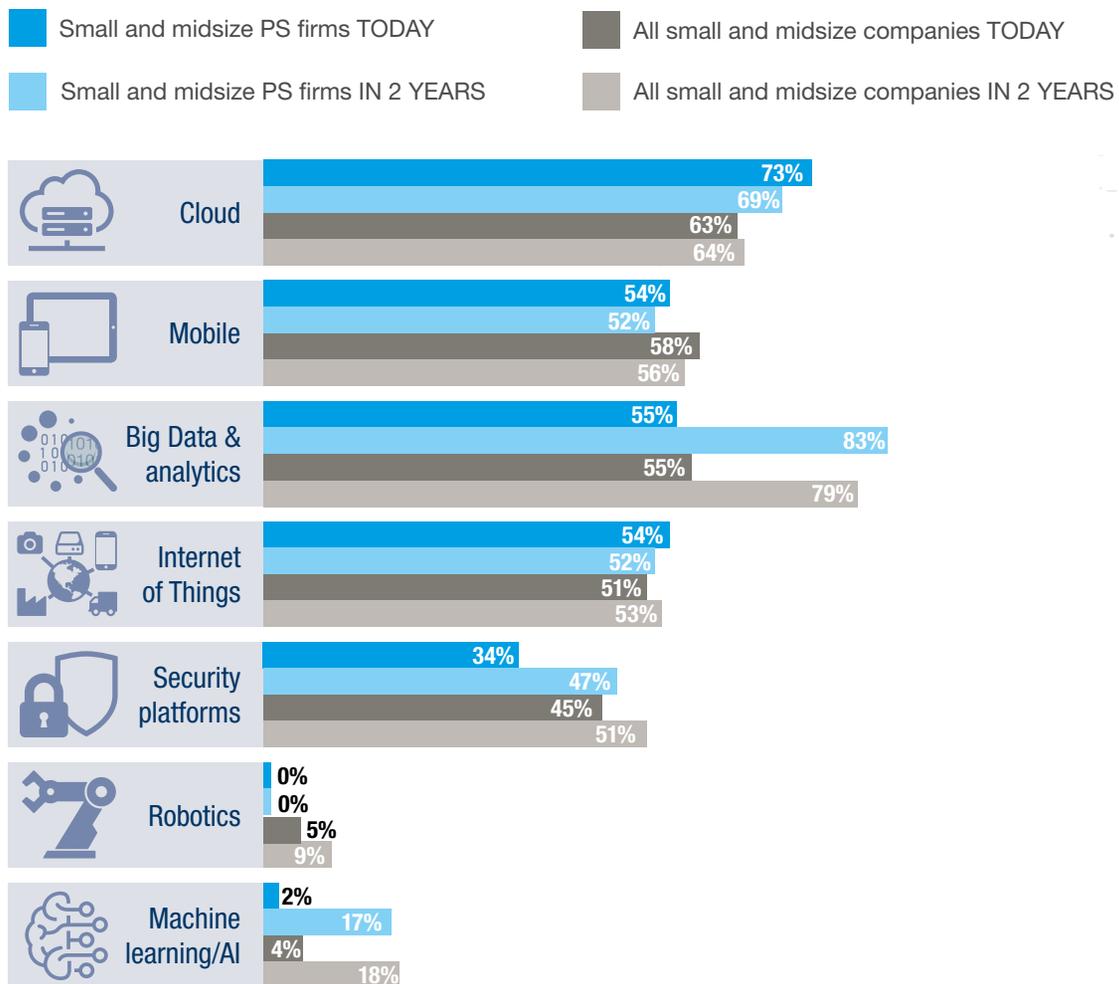
Professional services firms are focused on cloud

Digital transformation revolves around investment in emerging technologies. Spending on cloud is above average compared to other industries, possibly because industry professionals must be able to communicate with coworkers and easily access information as they travel to work with their clients or work remotely. Cloud also will serve as an innovation platform for more advanced technologies critical to their future. Today's investments will help them catch up to other small and midsize businesses: professional services firms expect to invest in Big Data and mobile at roughly the same rate as their peers within two years. They also expect to broaden their focus to include machine learning—a powerful addition for a business built on brainpower.

Our survey suggests that small and midsize professional services firms are less focused on some digital technologies such as security platforms. This could be due to an emphasis on client needs over internal investments, or a lack of clarity on the value of digital technology to their business. The smallest companies in the sector are furthest behind in this area.

Professional services firms regard their digital transformation efforts with urgency, with over 60% saying it is important or critically important to their survival today. (The smallest firms are less likely to say so—52% of respondents with sales of \$100 million to \$250 million, vs. 58% of those between \$500 million and \$1 billion.) Yet many across the sector have not prioritized transformation as a strategic plan. Small and midsize professional services companies—like those from other sectors—are less likely than larger enterprises to say digital transformation is a core business goal (56%, vs. 75% of larger professional services firms).

Q: Which technologies are you investing in most heavily, today and in two years?
Respondents could select all that apply.



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Technology investments are expected to deliver value across the business

These growing investments in technology are expected to yield dividends in the next two years. Small and midsize professional services firms anticipate the greatest value in terms of customer satisfaction and engagement (66%, vs. 63% overall), revenue growth (60% vs. 54%), data analysis (58% vs. 54%), and innovation (54% vs. 58%). They also expect technology to help streamline internal processes (54% vs. 54%); such improvements could include better managing cash flow and automating contract renewals.

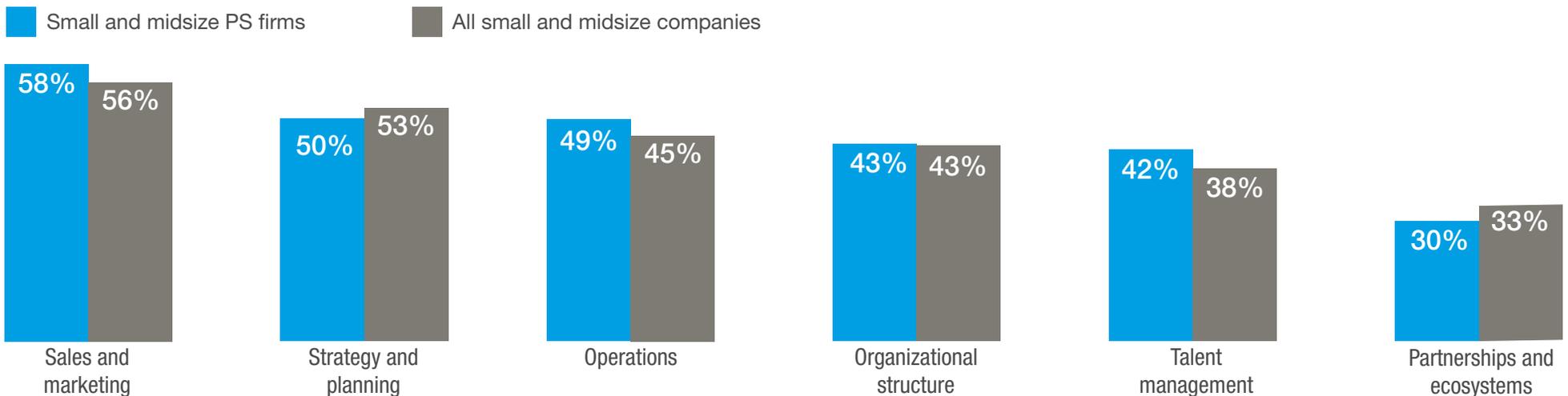
Broader digital transformation efforts—involving the processes and business goals that surround technology investments—also will affect business performance. Most small and midsize professional services firms have not yet seen transformative change from their digital efforts. Less than one-quarter report dramatic improvements to sales and marketing (19%), and even fewer say they

have seen substantial or transformative change to strategy and planning, operations, or other business functions. But greater impact is expected in the future. Small and midsize professional services firms anticipate meaningful positive changes to sales and marketing, strategy and planning, and operations. However, just 30% expect their technology investments to deliver substantial value in partnerships and ecosystems within two years—a critical area of the business for this industry.

Increasing brand recognition and the quality of talent recruitment and retention are seen as top revenue drivers for small and midsize professional services firms over the next two years, more so than in other sectors. Talent issues are a vital concern in an industry that relies on its expert talent base and strong pipeline of potential recruits. Technology-driven improvements to business functions will support these core strategic goals—if professional services firms can build the culture to facilitate the necessary changes.

Q: To what extent do you expect digitization to change the following areas of your organization?

“Substantially” and “It will be transformative” responses combined are shown here.



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Engineering a digital culture

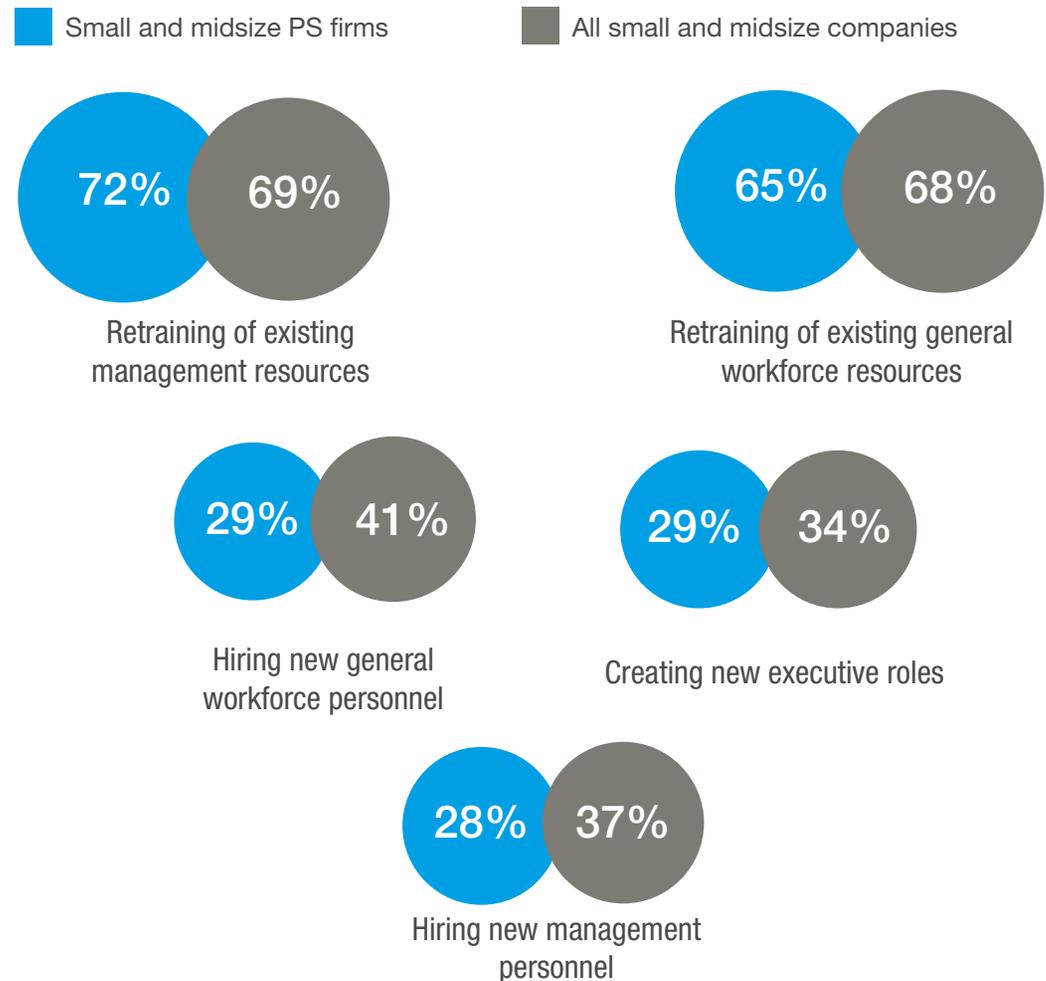
To get digital transformation right, small and midsize businesses must leverage their inherent strengths, including agility and the ability to build a strong and collaborative culture. Professional services firms, like their peers from other sectors, must prepare their organizations for this new era by creating a digital culture, developing change-management strategies, and equipping employees with the collaboration and technology platforms necessary to put strategy into action.

Executive leadership must take a holistic approach to talent, focusing on skills and engagement at all levels of the organization. Professional services firms cite a lack of workforce skills as the top barrier to their digital-transformation initiatives—46% rank it as a top-three challenge, tied with ineffective planning (46%) and slightly ahead of lack of mature technology (45%). Technology investments are expected to affect retraining of general workforce resources and retraining of management resources, yet most are slow to address talent issues; just 12% report well-developed strategies for employee engagement.

Small and midsize professional services firms also must adopt a digital mindset—and communicate it across the company—to make transformation pay off. Currently, complex and bureaucratic organizational structures make it difficult for many of these companies to move quickly. While they are as likely as their peers from other industries to say they are getting value from simpler decision-making (71%, vs. 72% overall) and less bureaucracy (59% vs. 64%), there is room for improvement.

Q: Thinking about the technologies you are investing in, to what extent do you expect them to affect your human capital and HR strategy?

“Minimal increase” and “substantial increase” responses combined are shown here.



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Conclusion

Digital transformation is understood as an issue that helps small and midsize companies thrive—or even survive. Leadership at professional services firms must continue to focus technology investments on the suite of tools (such as machine learning and Big Data) that will help update their business models and support new revenue streams from digital service delivery. They also must develop processes and strategies around the application of these technologies, and encourage continuous learning to build a workforce that can adapt to these changes—and the ones that follow them.

Get the complete story in our [executive summary on small and midsize companies](#).

About the research

Oxford Economics was commissioned by the SAP Center for Business Insight to conduct and analyze a survey of over 3,100 executives around the world about the opportunities and challenges facing companies as they attempt digital transformation.

Our sample includes nearly 2,600 companies with revenues of less than \$1 billion; 295 of these small and midsize companies are from the professional services sector. This paper includes our analysis of the professional services survey results.

Fieldwork took place in 2017 by computer-assisted telephone interviewing. Respondents come from 17 countries or regional groupings, with a significant sample of small, midsize, and large enterprises within each area. Geographies covered were Brazil, Mexico, Australia/New Zealand, Japan, Southeast Asia, India, Greater China, Canada, the US, Germany, Switzerland, Russia/Ukraine, France, the Nordics, the Netherlands, the UK, and the Middle East/North Africa.

Companies surveyed represent a range of industries: professional services, manufacturing, retail, banking/insurance, healthcare, technology, consumer goods, public sector, and wholesale distribution.

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