



Professional Practice Solutions

“Fit for purpose finance – keeping score and adding value”
It’s the little details that make a big difference

Insight Dinner – 29 June 2017 – post-event summary

KPMG’s Professional Practice Solutions team were again proud to host another successful dinner on Tuesday 29 June in KPMG’s client meeting and engagement space at Number Twenty Grosvenor Street, London.

The event was hosted by Jane Crotty, Professional Practice Solutions Head of Tax; David Pike, Head of our Operational Performance team, and Mark Raddan, a Partner in our Transformation and Liquidity team who shared their thoughts, insights and experiences in delivering permanent improvements to profit and liquidity.

Whenever we have conversations with clients, it is striking that the issues/actions are on everyone’s agenda. Many firms have embarked upon either targeted actions or investments required to deliver an improvement programme. What is also striking, is the variability of outcome of those programmes; as well as the use of technology, external input and overall governance.

For those of you who have already implemented an operational improvement program, with the benefit of hindsight, how might you amend your approach if you were to do this now?

With the right approach and methodology, little is conceptually difficult. However, without fit-for-purpose core business processes, sponsorship and governance, the risk is that permanent transformations become initiatives- and to undershoot the potential impact.

Below, David and Mark share their high level summary of topics discussed and some further themes to consider – please do get in touch if you would like to explore any topics that you feel would be beneficial to you and/or your Partner group.

Keeping score and adding value

In a dynamic and changing market, now more than ever we need *the hard facts to make the hard decisions*. The modern finance function has key roles in this regard including:

— The referee and transformation agent

- Provides high quality MI where stakeholders understand the key drivers of performance (and deviation) with information which is consistent and recognised operationally.
- Can size the prize and measure payback in a robust way to prioritise competing investment decisions.
- Creates irrefutable KPIs operationally recognised throughout the organisation.

— The insight professional

- Identifies opportunities to create investable resources.
- Explores how to adapt to and monetise new commercial models.

— Stakeholder management

- Provides the information to enthuse and satisfy key stakeholders, both within and outside organisation.

Typically, many years of under investment and maintaining legacy systems creates inconsistency in providing the high quality insight that a modern firm craves. A significant systems investment is not always possible or indeed the answer. Agile big data platforms can increasingly help play a role in helping the finance function deliver on its enhanced terms of reference.

- Do you know what fit-for-purpose looks like, where the gaps are and how to close them?
 - How do you prioritise competing investment decisions?
 - Whether you're a CFO or CEO, have you got adequate sponsorship and governance in place to make yourself more effective?
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Business intelligence and technology

Professional services firms are often blighted by being '*data rich, but insight poor*'. Over recent years IT solutions such as Alteryx, Qlik, Tableau and Power BI have revolutionised the way we handle and present enormous swathes of transactional data, often from disparate sources.

As a firm, KPMG has successfully deployed big data platforms to tame the data beast to create real time dashboard information which shows engagement leaders and management WIP, client profitability, pipeline, lock-up and red light exceptions. This does not need a major IT overhaul.

- What are the key metrics you would like to track, but currently cannot?
 - Does your finance function have the tools to be a transformation agent?
 - What Business Intelligence systems are you using?
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Funding and capital

In terms of bank funding, professional service firms have received a heightened credit profile within banks. Contracting businesses have been under additional scrutiny for a while and by extension, and following experiences such as KWM, law firms are too and no longer assumed to be low risk.

If bank finance makes up a proportion of your capital structure, be prepared for a more robust relationship with your bank which may feel different. Banks want to see a clear strategy and direction, a demonstrably well-run firm, as well as one which is realistic about its areas for improvement and has a plan to address these.

- Do your financial stakeholders understand your strategy and your progress against key improvement initiatives? Are you getting enough credit for these?
- Are you confident the information and insight provided to your bank leaves no scope for things to get lost in translation through the layers of your bank?

With greater scrutiny from banks, the preferable funding source should be derived from leveraging your balance sheet assets. This is a hugely important part of providing longer term investment resources, whilst mitigating the impact on the financial expectations of partners today.

- Is your balance sheet working hard enough? Is there scope to make it work harder?
 - How do you plan for a major capital investment programme in the current environment?
 - With interest rates expected to rise, is the window to refinance about to close?
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Working capital

It is crucial to have a clear working capital strategy, understood across the whole Partnership and to stick to it. As we advise all clients, in the modern world if you don't have a firm policy, then chances are you are part of someone else's.

It is surprising how few professionals really understand the financial shape of the business, or the links between profit and cash, and this can be a key factor in resistance to change. Some timely, straightforward, simple financial training can be really effective.

Understanding and measuring your matter-to-cash cycle is central to understanding where inefficiency is building up. Giving fee earners clarity on your expectations and having effective measurement is central to driving accountability and results.

- Do you know what your 'target' level of working capital investment should be?
 - Do you promote best practice throughout the year- or do you periodically purge?
 - How do you measure and track the quality of lock-up?
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Economic profitability

At the dinner we talked a lot about the concept and practical application of economic profitability: allowing businesses to see the 'real' contribution of an activity towards maximising shareholder wealth. Professional services firms can tend to look at certain activities and associated costs in aggregation.

Economic profitability doesn't just focus on the gross margin of our work.

First, it layers in the 'fully-loaded' costs to serve of that work- linked to the underlying drivers of activity (i.e. allocating 'hidden costs', things like; account management, compliance, finance, IT, business development time, all the semi variable costs that go into winning and delivery).

Then, as this is economic profitability, we actually go a stage further and think about the costs of having cash tied up as lock-up on the balance sheet as well. Taking the lockup, applying a cost of capital, and then taking this to P&L analysis.

The advances in big data technology have transformed our ability to take this from 'theoretical' to accessible insight. Once these costs have all been included, in combination with business intelligence tools, we can look at true engagement, or client, profitability statistics from a number of different perspectives.

- What does economic profitability mean for your firm?
- Do you try to measure economic profitability?
- Would you be surprised if some of your 'Crown Jewel' clients were less profitable than you thought?

If you would like to know more, you can view our proposition [here](#). If you would like to explore any topics that you feel would be beneficial to you and/or your Partner group, please do get in contact with [David Pike](#).

Our events in the legal sector

This dinner was in a series aimed to bring you real 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. We will also be running events specifically aimed at CEOs, CFOs; CIOs; HRDs and NEDs so if you'd like your colleagues to be invited, do [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 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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