PROFESSIONAL SERVICES SPECIAL REPORT

Navigating the new normal

Innovative strategies to help you re-set for business recovery and success.

Zooming in on recovery

Where are the pressure points for professional services – and what opportunities might they present?

Grappling with the unexpected economic crisis that's accompanied the global coronavirus pandemic has surfaced some unprecedented challenges for all businesses.

Beyond the immediate health emergency, professional services firms have a unique vantage point on the scope of the impact on organisations and individuals, as they work with clients across a gamut of industries.

Simultaneously, firms must manage the fallout from the crisis on their own operations.

At Westpac, we're working hard to help support professional services firms as they tackle these challenges and make decisions on how to re-set for the future, with many discovering opportunities in the process.

One standout observation is that firms that were tech-ready, leveraging the benefits of streamlined and automated processes, and analytics, were immediately ahead of the game as the economic crisis unfolded, and they remain so.

That preparedness reflects good foresight and strong leadership as these firms remain able to confidently fulfil their documented plans.

It's not news that innovation pays, but discovering substantiating proof-points and defining the extent of the difference it makes from frontrunning firms and other industry experts is both engaging and satisfying.

It's not news that innovation pays, but discovering substantiating proof-points is both engaging and satisfying.

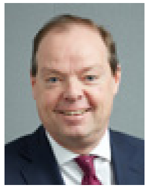
We've produced this 'Professional Services special report' report to share some of our learnings, explore salient industry trends and solutions, and to tap into the expertise and insights of professional services leaders, globally and locally.

On the pages that follow we zoom in on three of the crucial pressure points for professional services firms, from strategic planning and innovation, to working capital and the management of governance and risk, and we consider fresh approaches towards economic recovery for law and accounting firms, in particular.

We have also produced a webcast series for customers, which brings together many of the bank's key experts to discuss COVID-19-related issues, specifically for professional services firms, and for businesses in other sectors.

If you have any queries or comments, or need help with any aspect of your business, please be sure to get in touch. We are here to help and we look forward to hearing from you.

In the interim, I hope you find this report useful.



Paul Goessler
National Head of Professional Services, Westpac Commercial Bank

The way ahead: 2021 and beyond

Firms that will survive and thrive post-crisis share key attributes.

The first six months of 2020 were surely the most challenging to date. Just as Australia began to assess the damage caused by the devastating bushfires at the beginning of the year, the world was staring down a health and economic crisis of unprecedented scale.

The COVID-19 pandemic has crushed economies globally. No industry has escaped its impact, and professional services firms are no exception.

A 2020 report from the Association of Chartered Certified Accountants (ACCA), the global professional accounting body with more than 200,000 members worldwide, showed that over half of respondents expected revenues and profits to be down by more than 25 per cent year-on-year as a result of the virus.

However, while the longer-term effects of the pandemic remain difficult to predict, key business attributes are emerging that will determine which companies survive – and ultimately thrive – beyond the crisis.

A strong focus on cash management and liquidity is vital if firms are to remain viable. Investment in technology and innovative operational processes will be post-pandemic game-changers, especially optimising working capital. As remote working becomes the new normal, firms must also ensure their corporate governance is fit for purpose.

Jamie Lyon, Head of Business Management at ACCA, says that while COVID-19 continues to present significant challenges, now is the time to review strategies for 2021 and beyond.

"As firms begin planning their recovery, I think they will be asking some existential questions," he says. "How do we secure our business model for the future? How do we engage with customers and suppliers? How do we drive greater efficiencies?"

This report explores the answers to these questions to help legal and accounting firms limit exposure to the pandemic's commercial impact and re-set with success.

Driving greater efficiency

Organisations that have invested in technology stand a better chance of bouncing back from the crisis.

National law firm Gadens has long recognised the value of technology in driving efficiency.

In 2019 it was singled out as one of Australia's most innovative law firms by the Australasian Lawyer, and it continues to invest in the development of its Gadens Portfolio Solutions technology, which provides online business-to-business programs, legal analysis and management tools for conducting and managing high volumes of transactions.

Mark Pistilli, Chief Executive Officer of Gadens' Melbourne and Sydney partnership, says investment in technology is part of a broader strategic vision to optimise processes, efficiency and outcomes for clients.

"Our view is to be a market leader, rather than a market follower," he says.

"This will see us innovating or investing in technology to drive efficiency where we've got high volume, as opposed to developing highly intricate bespoke solutions."

> **"COVID-19 has been a wake-up call for digital investment. Technology isn't the panacea, but there's no doubt that it will enable those who have invested well to better plan their recovery."**
>
> **Jamie Lyon**, Head of Business Management, ACCA

Pistilli also sees technology transforming operational services across the broader industry.

"Business models will be changing. Some firms are already outsourcing their back-office functions, or using technology to provide a smart solution, whether that be in business development, HR, credit control or working capital management. It may be that some law firms will only have lawyers in their office."

INVESTING IN THE FUTURE

Top five areas of technology investment for the leading 100 accounting firms in 2018[1]:

Development of inhouse skills and expertise in IT:
37% of firms.

Adoption and use of cloud options for client interface and servicing:
32% of firms.

Provision of business insights from data analytics as a new service offering:
29% of firms.

Using technology to expand geographical reach in servicing their clients:
29% of firms.

Recruitment of non-accountants (e.g. IT specialists, data scientists):
23% of firms.

25 of the leading 50 Australian law firms have hired or appointed an innovation specialist, or established an innovation committee[2].

SOURCES: 1. IFAC Global SMP Survey, 2018 2. 2019 Australia: State of the Legal Market, Thomson Reuters, 2019

Automated cash controls

Innovation kicks off with smart business processes.

Legal and accounting firms that have more sophisticated transaction banking systems, like a payment gateway, have been more proactive in managing their cash flow and were ahead of the game before the crisis hit, observes Paul Goessler, National Head of Professional Services at Westpac.

Smart solutions include FeeSynergy Collect, which provides accounting and legal firms with an end-to-end automated debtor management platform to boost their cash flow.

Powered by Westpac's PayWay solution, FeeSynergy Collect features an embedded online payment gateway, an integrated direct debit feature and a fee finance offering, and it can be easily integrated with leading practice management systems.

"The vast majority of accounting firms still don't have an online payment gateway, so they cannot receive credit card payments easily in the current environment," says Goessler. "They may have an EFTPOS machine, but it's in their office, and clients just don't come in to make payments during lockdowns."

Process optimisation

While technology can help to fast-track recovery, it is not a silver bullet. Graeme Grovum, Principal, Innovation & Technology at legal industry consulting firm Alpha Creates, says innovation starts with smart business processes.

"Law firms are very interested in playing with new shiny toys like artificial intelligence and robotic process automation, but they often aren't set up to start meaningfully engaging with new technologies. A lot of the work involves stepping back and saying, 'Look, let's get our house in order'."

Data from Alpha Creates shows that 25 of the 50 largest law firms in Australia have now formalised an innovation function.

"Now is a perfect opportunity to improve internal processes and to get a leg up on the competition by reshaping the way you approach the market," says Grovum. "A lot of the work that we do is helping law firms position themselves to become data-driven, rather than always trying to reinvent the wheel."

Case study: Countplus

Streamlining systems to create value.

When professional accounting and advisory network CountPlus acquired financial advice group Count Financial in October 2019, it set about building greater efficiencies in its systems and processes.

Matthew Rowe, CEO and Managing Director of CountPlus, says it quickly identified duplications and processes that weren't adding value to the client experience.

> **"So far, we've saved 37,000 person hours per annum."**
>
> **Matthew Rowe**, CEO and Managing Director, CountPlus

"You don't need to build in tech capabilities that could launch a space shuttle," he says. "People talk about how important the technology is, but unless you've got the right back office processes, it doesn't matter what technology you are using."

CountPlus' financial adviser network has expanded by 60 per cent since the acquisition, with an additional 160 firms joining the group. Rowe says that the re-engineering of processes has generated significant savings.

"So far, we've saved 37,000 person hours per annum and, if you assume that a firm's average rate is A$200 an hour, that's A$7.4 million just in process improvement," says Rowe.

COUNTPLUS: ESTIMATED SAVINGS

Estimated annual savings for CountPlus, created by re-engineering systems and processes:

37,000 person hours

$7.4million in savings

Recalibrating cash management

Transparency on cash flow is vital in an uncertain climate.

COVID-19 has disrupted day-to-day business operations. Revenue-generation streams have been impacted, forecasting is challenged and there is significant pressure on the lifeblood of business: working capital.

Streamlining payables

Some payables are negotiable during the economic downturn, but operating expenses such as staff costs and rent are likely to remain fixed.

"The real value comes from having a prudent approach to controlling what goes out – and when – and ensuring the right level of oversight so that money goes to where it needs to go," says Sasha Rudik, National Manager, Transaction Banking at Westpac.

"Our transactional banking solutions automate accounts payable processes to help streamline cash management and reduce manual handling. Digital payments also provide greater transparency, which is especially important in times of uncertainty, and products like commercial or corporate cards can provide reporting insights for tax purposes."

Optimising accounts receivables

ACCA's COVID-19 Global Survey shows that almost 40 per cent of respondents were experiencing cash flow issues.

"It's worth bearing in mind that the survey was done in mid-to-late March of 2020, so we'd actually expect that figure to have increased by now," says Lyon. "In terms of strategies that determine which companies will survive, you'd start with cash flow and cash management controls."

Fast-tracking receivables with solutions like FeeSynergy Collect will provide the operational efficiency that is vital for limiting exposure to the pandemic's commercial impact.

Key take-outs:

- **Investment in tech may fast-track recovery – but it must be supported by astute business processes.**
- **Smart solutions to back-office functions, such as debtor management, will increase cash flow and free up more time to focus on service delivery.**

Reducing debtor days

How online payments change the game.

A 2020 East & Partners survey showed that SMEs were waiting an average of 56-66 days to be paid – figures that have reportedly blown out further during the COVID-19 crisis.

Malcolm Ebb, Co-founder and Managing Director of FeeSynergy says the FeeSynergy Collect platform has enabled companies to reduce their debtor days from an average of 90 to below 30 days.

"This has been transformational for businesses," he says. "When we developed our payment gateway with Westpac five years ago, less than one per cent of the accounting industry had an online payment presence. Suddenly, a new world of debtor management opened up for them, because their clients could pay online easily and securely."

FeeSynergy Collect is also integrated with Westpac's direct debit services, which gives businesses more control over their debt collection and provides their clients with flexible and secure payment options.

"If a direct debit payment is not honoured due to insufficient funds in an account, Westpac technology sends an alert in the FeeSynergy Collect platform, so the business knows to contact the client," says Ebb.

"This kind of technology gives businesses much greater visibility and control over cash flow," adds Ebb. "In a post-COVID-19 world, firms will have to be a lot tighter on their collections."

"Debtors are the most important financial asset on a professional services balance sheet, and often neglected."

Paul Goessler, National Head of Professional Services, Westpac

Key to survival.

David Cox, a director at mid-tier accounting firm Moore Stephens says FeeSynergy Collect has significantly improved its cash flow management.

"Before transitioning to FeeSynergy our debtors function wasn't automated and was run by a full-time team member. This resulted in debtors of approximately A$2.5 million at an average 67 debtor days. ▸

OPTIMISING WORKING CAPITAL WITH FEESYNERGY COLLECT

Westpac has partnered with FeeSynergy to provide accounting and legal firms with an end-to-end automated debtor management solution – FeeSynergy Collect.

The features and benefits for business include:

Features:

- Partner dashboard and analytics.
- A simple user interface that enables users to identify risks, trends and exposure at a glance.
- Automated payment reminders.
- Tailored email reminder to prompt clients to settle their accounts without the need for manual follow-up.
- Online payment gateway.

Benefits:

- Outstanding payments are reduced because clients have the flexibility to pay quickly and simply.
- Free up working capital.
- Secure online payments available at any time.
- Increase productivity.
- Have your collection business rules automated to improve speed of collection and productivity.

For more information visit: www.westpac.com.au/professionalservices

"Since the transition to FeeSynergy, we have freed up our debtors team to pursue other tasks, with our total debtors reduced to approximately A$1.1 million and debtor days are down to 34.

"Cash flow is critical for all businesses and FeeSynergy has delivered exceptional results in managing our cash flow."

The importance of cash flow

At CountPlus Matthew Rowe notes that an accountant's work-in-progress and debtors are the biggest assets under management control.

"Your lockup number of days for working capital is a proxy for client satisfaction," he says.

"If it's taking six or 12 weeks to do a job and then bill for it and you then wait another two months to be paid, that tells me you're taking too long to turn around jobs for clients. In the current environment, when real-time information is key, firms that have high work-in-progress balances are going to have problems."

Rowe adds that working capital is an asset that should be generating a return for your firm. "I'd much rather that the money is sitting in the bank as cash. Anybody who has allowed their work-in-progress and debtors to just drift along is going to be in trouble. Stop thinking like accountants and start thinking like financiers."

> **"Anybody who has allowed their work-in-progress and debtors to just drift along is going to be in trouble. Stop thinking like accountants and start thinking like financiers."**
>
> **Matthew Rowe**, CEO and Managing Director, CountPlus

Key take-outs:

- **Automated accounts payable processes will enhance cash flow visibility during times of uncertainty.**
- **A smart approach to debtor management can significantly reduce debtor days to free up working capital – faster.**

Case study: HLB Mann Judd

This mid-sized chartered accounting group with firms across Australia, New Zealand and Fiji is planning for the future, not the past.

Melbourne office Managing Partner, Jeff Long, says its healthy balance sheet is based on nimble business practices, a close eye on debt collection and a promise to pay out its profits only when budgeted cash is in the bank. When it comes to cash flow, Long says the firm follows its own advice.

"We advise clients to prioritise working with businesses with the capacity to pay them. That's how we operate. We set out clear expectations about how we can help clients – and how we'll be paid. 90-day credit terms is no longer acceptable."

HLB Mann Judd integrated FeeSynergy Collect into its cash flow management two years ago. Long says it has helped to reduce debtor days across the group.

"It has also helped our partners in having the courage to have the upfront conversation with clients," says Long.

"No one has ever been offended by us asking how they'd like to do business with us, and agreeing to terms of engagement up front.

"Too many accountants base their business on what happened yesterday. We base ours on what's happening tomorrow. It's a sound principal – I'm sure that when we get through this crisis, more businesses will be doing the same."

> **"Too many accountants base their business on what happened yesterday. We base ours on what's happening tomorrow."**
>
> **Jeff Long**, Melbourne office Managing Partner, HLB Mann Judd

Why governance rules

A cultural shift is underway with multiple implications.

COVID-19 has created a fundamental shift in ways of working. The slow march towards remote working across professional services firms has gathered pace. According to Gartner, "A Gartner HR survey[1] reveals 88 per cent of organisations have encouraged, or required, employees to work from home due to coronavirus."

Gadens' CEO Pistilli describes remote working for firms as an 'inevitability'. "The pandemic accelerated a move that would have been made at some point," he says. "There's trust in the workforce, there's technology that enables remote working and there's an acceptance that you don't always need face time to do your work. I think we're all seeing a massive cultural shift."

A focus on corporate governance

Such rapid transformation has implications for corporate governance. Employer liability for the safety of customers and staff, regardless of where they're working, remains paramount. Robust cyber and financial control frameworks must continue to operate within this environment. However, Lyon says the impact on corporate governance goes beyond standard issues of compliance.

"If you work in a distributed model where employees are suddenly working from home, there is an infrastructure challenge, a communication challenge and potentially an engagement challenge," he says. "There will also be additional risk-management issues and we'll see more corporate governance regulations coming through."

A need for stringent controls

Remote working presents specific risks, not least the threat of cyber crime – which will always be a risk, whether working remotely, or from an office. Web-based products such as FeeSynergy comply with the Payment Card Industry Data Security Standard (PCI DSS), a set of requirements for enhancing payment account data security. The online payment gateway is also reinforced by 3D Secure to provide an extra layer of protection for online payments.

1. Gartner, Press Release, March 19, 2020, "Gartner HR Survey Reveals 88% of Organizations Have Encouraged or Required Employees to Work From Home Due to Coronavirus"

REMOTE RISK MANAGEMENT

As we face towards a future of increased remote staffing, technology security controls must work in tandem with stringent governance processes.

74% of companies plan to permanently shift to more remote work post COVID-19.[2]

39% of data breaches across all legal, accounting and management services in 2019 were due to human error.[3]

THE MOST COMMON CONTROL MEASURES

Organisations are adopting wider governance controls to help them best understand their most likely threats and risks, and to focus investments accordingly.

The top five security control measures that grew in adoption over the past three years were[4]:

1. Establishing Chief Information Security Officer (CISO) roles
2. Implementing Security Operation Centres
3. Rolling out security awareness programs
4. Performing regular third party/vendor risk assessments
5. Implementation of cyber incident response plans.

SOURCES: 2. Gartner, Press Release, April 3, 2020, "Gartner CFO Survey Reveals 74% Intend to Shift Some Employees to Remote Work Permanently" 3. Office of the Australian Information Commissioner Notifiable Data Breaches Scheme 12-month Insights Report, May 2019 4. Cyber Security Survey Report, BDO and AusCERT, 2019

Decisive steps to speed recovery

A roadmap to the new normal is becoming increasingly visible.

COVID-19 has sent shockwaves across global economies, but the new world order for professional services is beginning to take shape.

Technology, underpinned by smart business processes, will escalate recovery. Companies that invested early have the advantage, but now is the time for all firms to reconsider their approach to market and embrace new ways of working.

Management of working capital balances must be a priority. Automation of payables and receivables will drive efficiency and give firms greater control over the lifeblood of their business.

Paul Goessler notes that Westpac is the only major bank with a debtor collection proposition like FeeSynergy Collect. "Cash flow is king, especially at a time like this," he says. "The biggest financial asset on your balance sheet is your debtors, so firms need to tap into cash flow faster."

Looking ahead, he adds: "When we come out of this, many firms will start reviewing their COVID-19 experience. And there's a chance they'll be busier than ever. They will review their technology and the strength of their balance sheets – and those with a turnover of A$4-5 million will suddenly want to double it to get the benefits of scale and improve balance sheet strength.

"Many firms will start reviewing their COVID-19 experience. And there's a chance they'll be busier than ever."

Paul Goessler, National Head of Professional Services, Westpac

"They may want to merge to help cover their cost base and spread technology costs over a larger revenue stream. So, I actually think there maybe a lot more activity."

COVID-19 has created wide-scale uncertainty, but it's clear that innovation will help fuel recovery.

Need to know more?

This information is general in nature and has been prepared without taking your objectives, needs and overall financial situation into account. For this reason, you should consider the appropriateness of the information to your own circumstances and, if necessary, seek appropriate professional advice.

If you have any questions or would like to know more about the information contained in this report, please contact the author:

Paul Goessler
National Head of Professional Services,
Westpac Commercial Bank
M: 0402 892 405
E: pgoessler@westpac.com.au

We're here to help.

www.westpac.com.au/professionalservices