



SME BAROMETER 2018

Sector Report
Professional Services

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PREFACE



It's back! The 2018 edition of the independent SME Barometer is here again. For the 3rd year in a row, you'll find out what is happening among Belgium service providers.

And that's very important. Because thriving SMEs form the true growth engine of a stable economy.

Please dive in, it's a refreshing take on these matters and can lead to a rethink of your current 2018/2019 strategy.

How we approached the research? It has been executed by Pb7, an independent IT research agency, from the start of the SME Barometer. At the end of 2017, they interviewed as many as 1,779 companies in Europe via an online panel survey. Between these European companies, there were 375 Belgian SMEs with between 1 and 50 employees.

The sample is representative for all Belgian SMEs (up to 50 employees). The sheer number of interviews within all the industries we asked them to survey makes the data reliable. On top of that, the datasets were weighed during the analysis, further guaranteeing representativeness and statistical reliability.

In this report, we've summarised the most important results and related conclusions.

Enjoy!

SME BAROMETER FOR PROFESSIONAL SERVICES 2018

Service providers reap the rewards from the overall uptick in economic growth. With a 16% rise in profit margins and 9% in revenue, things aren't looking as bleak as they did a few years ago.

A typical sign of healthy growth is when businesses stop focussing on controlling costs and start concentrating on innovation.

It's no surprise then to see the former pushed out of the top 3 business challenges while innovation now sits on the 2nd and 3rd steps of the podium.

Improving the quality of products and services gets 41% of the vote while designing new products or services 36%. Lonely at the top is finding new customers with 73%. But that's expected given the nature of the work and the industry.

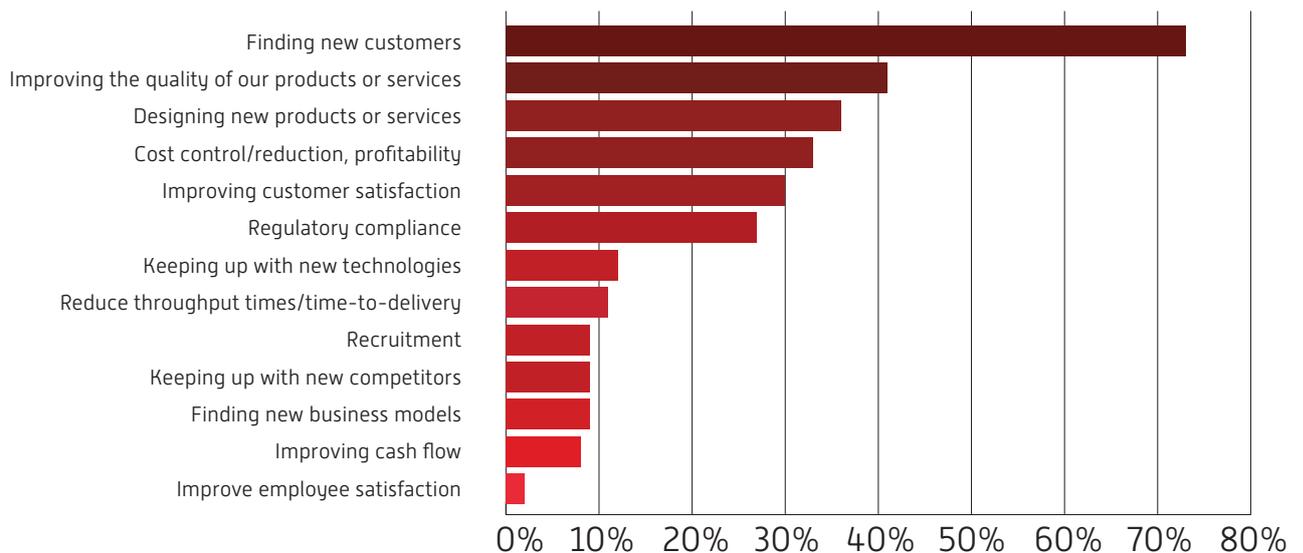
Compliance is on the rise with 27% marking it as a challenge. This is also expected because of GDPR. It's not as high on the list as with other industries though.

When it comes to the top industry challenges, we see less focus on efficiency than in years past. Customer acquisition is on the top step with 54%, closely followed by delivering projects on time and within budget with 50% and adding more value for customers with 47%.

Improving billability (26%) and getting invoices paid on time (24%) make up the top 5. Those 2 will always be necessary for an industry still made up of businesses that mainly make their money by selling their time.

Figure 1: Key business challenges

What are the top-3 business challenges for your company?



SLOWLY WAVING GOODBYE TO HOURLY RATES

When we look at how service providers charge, time & materials still leads the way with 37%. That’s not a very sustainable method as time is a finite resource. Once you’ve maximised your efficiency and rates, your growth path stalls: the only practical option being to add more or cheaper personnel.

Whether you hire them on a freelance basis or take them in-house, this will cause more costs on your balance sheets. Think of costs due to new inefficiencies in the short run because you need to make them familiar with your procedures, tools and customers. More importantly, you’ll get higher costs in the long run due to rising wages or rates to keep that well-performing employee or freelancer happy.

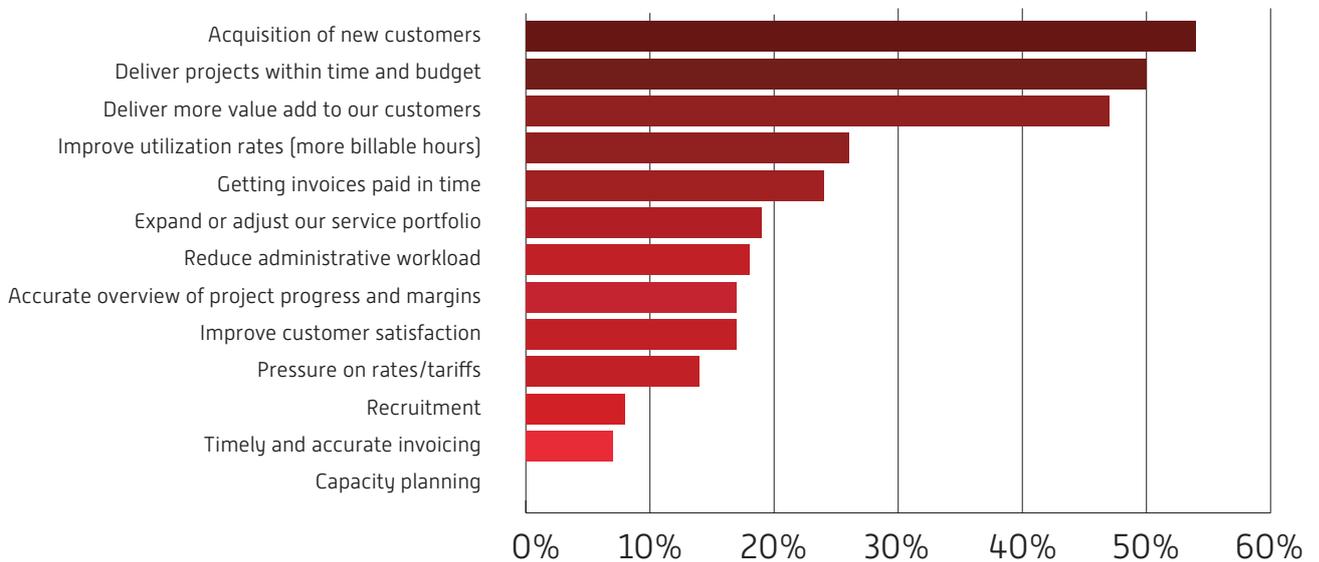
Another by product of charging by the hour is customers focussing on hours alone - not necessarily on the quality of the work delivered. In practice, this leads to lower quality projects and service providers who don’t bill every hour they should be for fear of losing the customer. With that, billability goes down.

Case in point is the drop to 71% of projects that were delivered on time, within budget and of top quality. Service providers also had to write off 10% of their project hours as those were deemed unbillable, a rise compared to 2016.

Nevertheless, that last figure is quite good as the average is 14% when compared to surrounding countries. But it’s still a considerable percentage.

Figure 2: Key industry challenges

Your company is active in Professional services. What are the 3 most important, industry specific, business challenges?



FIXING PROJECT PRICING

Fixed-price projects are closing in with 36% using them. That's a good thing, but it's likely that most service providers use multiple methods and variations.

For example, they can charge a fixed price for a specific project and bill extra hours that exceed the scope of the project by the hour.

Fixed-price projects are a good thing because you can focus more on the quality of the work and reap the rewards of your efficiency efforts. If you get both right, you'll have a satisfied customer and a higher margin.

Another upshot is the predictability for both the customer and the service provider. The customer will know from the start what the price vs budget ratio is. That makes it easier to repeat specific

projects. Especially if they need to get permission from internal budget holders.

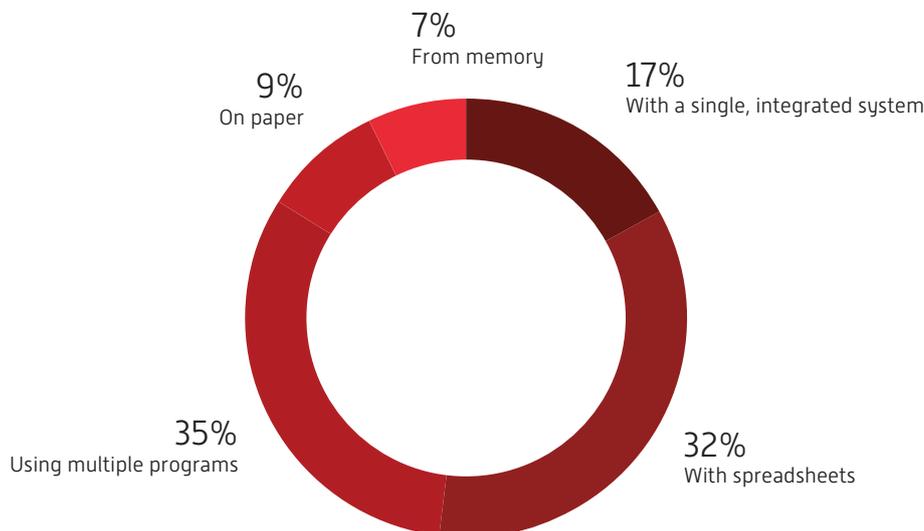
For the service provider, this predictability means they can bill (partly) in advance and better forecast their revenue, so they don't have to needlessly put effort into selling new projects to customers or finding new customers to sell projects to.

Another positive side-effect is that a project can be templated and easily resold, reducing the time and effort spent for future acquisitions.

With this method it's extremely important to agree on the project scope beforehand and detail this in a legally binding agreement you both sign.

Figure 3: We manage projects...

Which of the following best describes how you have automated your project administration?



SUBSCRIBE TO THE FUTURE

Subscriptions are lagging behind with 15% overall. That's quite low compared to neighbouring countries. When asked if they were considering using it, 32% said yes and 20% is experimenting with it.

No, and neither are our competitors scored 18%, while 13% said no, but some of our competitors are. To better understand this we asked what the key challenges are.

40% says their customers aren't interested, 23% can't translate their services into subscriptions and 16% doesn't know how to implement the process behind it.

Compared to 2016 more service providers say their customers aren't interested or don't know how to implement the process behind it. The number of service providers who say they can't translate their services into subscriptions is stable compared to 2016.

The benefits of having a predictable monthly or yearly recurring revenue have never gone away and are more relevant than ever in 2018. But because this type of business model requires a rethink on almost all levels, it proves to be a headache for most.

In addition to the 16% who don't know how to implement the processes behind it, 11% doesn't know how to turn a profit using this model, 7% doesn't know how to make this happen technically, while 15% worries about customer acquisition.

This sounds like the naysayers need to seek guidance on how to make this happen. The tools and expertise in the market are already there, while customers are used to the model.

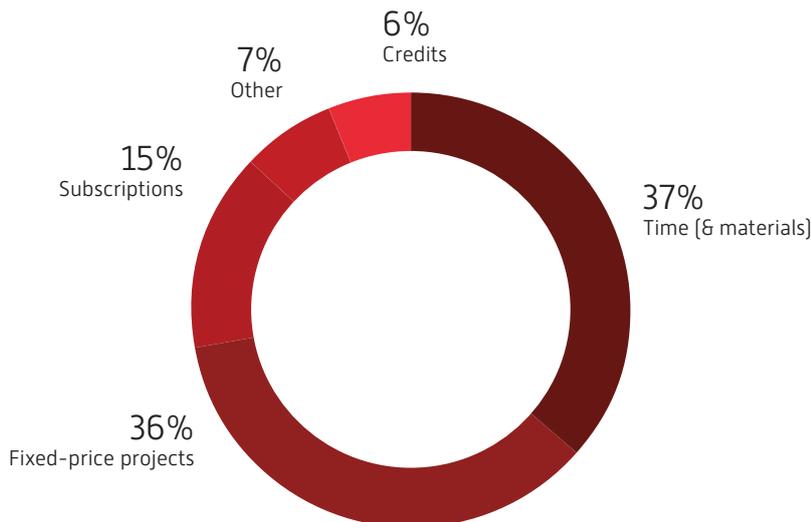
The only 2 hurdles left are creating products or services that customers are interested in and implementing everything.

That's very solvable in 2018. And since 55% says they will use software if it solves a business challenge it shouldn't be a problem to take action.

Especially since 32% says they need to change their current business model to still exist in 5 years and 49% admits to actively exploring new business models.

Figure 4: Revenue type

Can you please estimate how your revenue is split across the following types of engagement?



THE BACK OFFICE NEEDS TIDYING UP

When it comes to the back office, it's a mixed bag. There is still 25% who say they lack a clear overview of current project hours and costs in relation to the budget.

Another 30% don't have clear insight into their project backlog and 37% don't keep actively track of their billable hours! That means they don't know how much they need to invoice per project. A scary idea for businesses that depend on billability to survive.

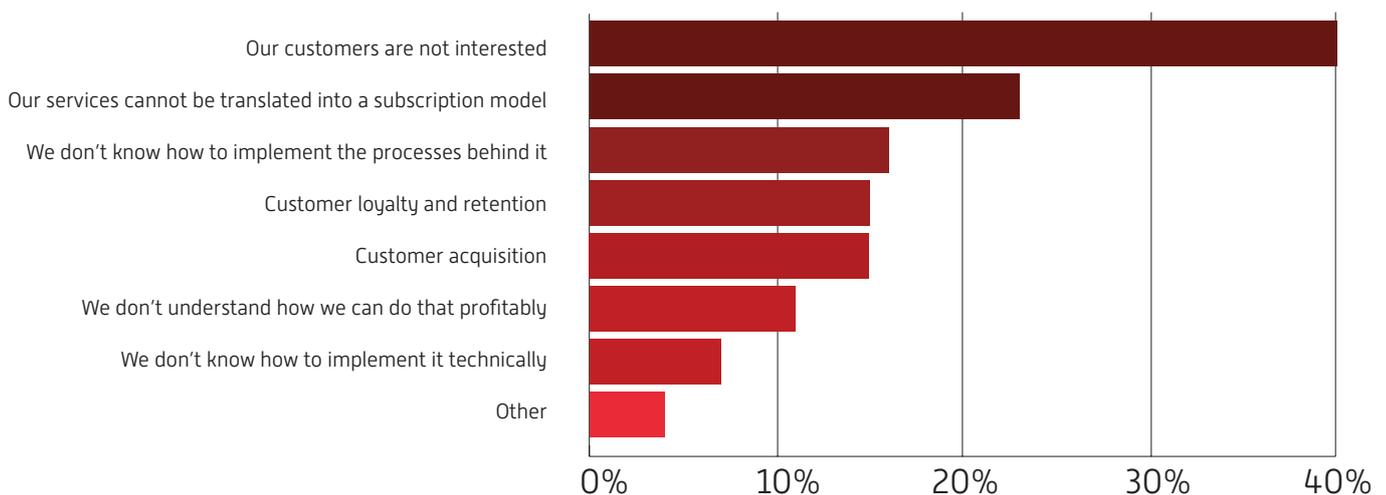
There's 30% that don't outline the project scope in advance. So service providers don't know what's extra work or not. And even if they do, they have no leg to stand on and are at the complete mercy of the customer.

There is still 42% that don't know how their billability compares to the market average, 48% lacks clear KPIs to realise their targets and 21% either don't know or admit that 1 in 10 invoices is incomplete or has mistakes.

That's not all, 55% say they would like to have better insight into the status of their projects.

Interestingly, 25% would trust a robot or automated system to take over back-office tasks. Not a big surprise given the state of the back office of many service providers.

Figure 5: Key challenges of a subscription model
What do you see as the key challenges of a subscription based model?



BETTER BE INTEGRATING



If we focus on project management alone, it's clear there's still work to do. Just 17% have a single, integrated system in place and 35% use multiple software packages.

We get into more dubious territory now with 32% going all-in on the spreadsheets, 9% primarily using paper and 7% using nothing at all, just their memory or internal cloud so to speak.

The thing with the latter 3 methods is that they're extremely error-prone. Especially if you need to pull it from memory. Even if you only have 3 customers, it turns into a royal mess before you know it. Can you recall up to the minute what you did 5 days ago? How about 10? 20?

Paper isn't very helpful in project management as tasks and priorities change often. You're mostly wasting trees and lack detailed insights into your projects. It's hard spotting actual trends looking at a pile of paper.

Spreadsheets may be easy to make, but they're up there in the error-prone top 5 tools. Various studies suggest somewhere between 88% to 95% of all spreadsheets have mistakes in them. And once there, they're hard to spot.

Multiple systems are a step up from spreadsheets. But here the errors creep in during data exports or imports. While best-of-breed may have its advantages, those rapidly disappear when you lack a clear overview of your entire business behind it. The number of service providers who say they can't translate their services into subscriptions is stable compared to 2016.

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DIGITISING IMPORTANT



Seeing all this it's no surprise that 57% agree that digitising the business is a high priority. Those changes are partly driven by the demands of a younger generation of customers say 41%.

While 31% already claim they have a realtime overview of the performance of the business, 52% only have a few scattered automated reports and 12% need to combine data from different systems in a spreadsheet to get up to speed.

38% actively look for new software to optimise processes. When it comes to the type of software it becomes interesting as online is not the most popular, on-premise is!

For example, when it comes to project management 54% still like to have that trusty server humming along in the basement or closet, while 21% jumped into hosting / the private cloud and only 10% uses cloud software.

According to 40% that's because of security concerns, while 33% says it has to do with privacy and 28% are just satisfied with the way it is running now.

Those concerns overlook the fact that having your software on-premise means you stand to lose all your data in case of a fire, theft or other serious calamity.

Add to this the fact that the IT department of your average service provider lacks the budget to afford the expertise and means to keep your systems secure like a modern-day data centre does, (because they can scale!) and you've got a very compelling reason to make a run for the cloud. Interestingly only 18% chooses the cloud for security reasons, which is probably the most compelling feature of it.

Instead, service providers say the most important reasons to aim for the cloud is lower IT costs & no need for an IT admin (40% and 27%), better productivity for users (29%) and easy mobile access (26%).

If we look at service providers who have used online software, the top-3 benefits they rave about most is as follows. Ease of use is number 1 with 41%, easy collaboration with customers and suppliers number 2 with 34%, while reduced IT costs end up 3rd with 33%. Finally, anytime, anywhere access to essential data crosses the finish line in 4th with 28%.

ANALYSIS

It's a great time to be a service provider in Belgium. The economy is on the up and up, which ensures profit margins and revenue are rising too.

This leads to more focus on innovation and less on cost control and efficiency efforts. The undisputed number 1 challenge is still finding new customers. But that's mostly due to the nature of the work in this industry.

Service providers are clinging on to last-century business models by charging by the hour. A model that makes up 37% of this particular pie chart but is fundamentally flawed as time is finite and the focus is on the number of hours made, instead of quality of the work.

That's what partly leads to fewer quality projects delivered on time and within budget as that figure drops to 71%. Add to this the rate of unbillable hours rising to 10% and you know things need to change to fully profit from the current economic tiding.

A better answer is using fixed project prices. This is a more predictable model for both service providers and customers and currently stands at 36%. It allows for better margins and more satisfied customers.

Subscriptions aren't a hit... yet. It gets 15% of the business model pie chart. This figure is quite low compared to neighbouring countries.

32% is undoubtedly interested and 20% is experimenting with subscriptions. The reasons not to jump onto the bandwagon vary, in the end, it comes down to creating products or services that interest customers and implementing it.

That means it's instantly solvable. According to 55%, they will use software if it solves a business challenge. Meaning it's just a matter of getting the right tooling and expertise and fix it once and for all.

The back office is a bit of a mess. 55% need better insight into their projects. It gets worse. Relatively high numbers lack insight into billability, project backlog or don't even bother to actively track their billable hours. That's 37% for the latter. Quite scary, given they depend on it to maintain a healthy cash flow.

Another percentage that makes you go hmmm is the 21% that admit to making mistakes in 1 out of every 10 invoices.

Again, we're talking about business that need to bill to survive.

It's not hard to see then why 25% would trust a robot or automated system to handle the back office for them.

When we look at project management alone, there's still 7% that manage projects from memory, 9% use paper while 32% are hardcore spreadsheet-users. Another 35% use multiple software packages. While they may have their merits, these 'systems' are error-prone and don't give you an overview of the entire business. Only 17% work with a single integrated system.

That might explain the 57% who agree that digitising the business is a high priority. And it's easy enough to do, there are plenty of online tools available that will digitise and automate your project organisation from top to bottom.

69% don't have a realtime overview of the performance of their business, so there's some work ahead for them.

There is notable mismatch between the reason why a lot of service providers aren't working entirely online yet.

They think they are more secure when choosing on-premise software, while your average SME IT team lacks the budget to attract the expertise and build the fortress-like infrastructure a modern-day data centre has.

Service providers who already use the cloud rave about the ease of use, online collaboration and reduced IT costs. They aim to save on IT FTEs by moving into the cloud.

In the end, there are plenty of opportunities for service providers to strike out and make the difference. Even though a lot worry about whether they even exist in 5 years, you can still be around with the right tools, business models and mindset.



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