

## **As Brexit uncertainty reduces, professional firms are focusing on talent at a time of very rapid growth in demand for their services**

The Forum's 10th annual Trends & Priorities survey was conducted in January 2018. The primary purpose of the series is to provide a reliable benchmark for Forum members and Government. This report, the associated data tables and verbatim comments will be shared with the media, survey respondents, Forum members, the MPF Advisory Board, Government officials, the Professional & Business Services Council (PBSC) and the House of Lords.

### **KEY FINDINGS**

- **Activity levels** - Current levels of activity, new work flow and headcount are reported to be above normal by 51% of firms, the highest level that the index has reached in the past seven years.
- **Growth** - 84% of respondents expect their firm to grow in the coming three years but only 51% expect their sector to grow.
- **Investment** – Technology is the key area for investment, with 92% of firms looking to increase their expenditure in this area.
- **Priorities** - 'Developing the skills and capabilities of the firm's people' is seen as the top priority to facilitate growth over the next year. Marketing and expansion in international markets are given lower priority.
- **Constraints** - The most important constraints on growth are 'fee pressures' and 'political uncertainty (eg Brexit)'. There is a big reduction in political uncertainty compared with 2017.
- **Messages to Government** - 40% of respondents highlighted the adverse impact of uncertainty over Brexit, followed by the need for enhanced regulation (20%), a more stable environment (20%), and greater investment in infrastructure (10%).

### **DETAILED COMMENTARY**

- **Activity levels:** Current levels of activity, new work flow and headcount are reported to be above normal by 51% of firms and below normal by just 6%. This compares with 32% above and 24% below in the 2017 survey. The associated diffusion indices (*see note below for calculation*) are 72.4 (73.8 and 71.4 for SMEs and larger firms respectively). 72.4 represents the highest level that the activity index has reached in the seven years that the Forum has conducted its Trends & Priorities surveys, for example the index in the 2017 survey was just 54.2 (61.0 and 45.0 for SMEs and larger firms respectively). The 2018 indices are also incredibly high for most subsectors, with law at 81.5, accountancy at 70.6 and consultancy at 70.0. By contrast, property and construction services activity is reported as being below normal at 47.1. To put these Forum indices into a broader context, the definitive monthly [IHS Markit/CIPS UK Services PMI®](#) index declined from 54.5 in January 2017 to 54.2 in January 2018. We view Forum indices as complementing the Markit/CIPS benchmark as the latter is based on input from procurement people at corporates who typically have very limited involvement in the purchase of most professional services.
- **Firm growth:** 84% of respondents expect their firm to grow in the coming year with just 5% expecting a decline in revenues (an index of 89.8). SMEs are more optimistic than larger firms. This compares with an index of 66.2 (58% up and 26% down) in the 2017 survey. A similar pattern applies to forecast growth in the coming three years.
- **Sector growth:** Respondents consider that their firm will significantly out-grow their sector, with 51% of sector firms expected to grow and 11% to decline (an index of 69.9). This compares with

an index of 60.6 (51% up and 30% down) in the 2017 survey. A similar pattern applies to forecast sector growth in the coming three years.

- **Investment plans:** The key area for investment in the 2018 survey remains technology, with 92% of firms looking to increase their expenditure in this area (an index of 95.9) compared with 82% (86.6) in the 2017 survey. As regards other areas, high levels of investment are planned in client-facing advisers (86.2), leadership training (85.2), marketing (84.7), workplace environment (82.7) and technical training (82.1). These indices are between 10 and 15 points higher than their equivalents in the 2017 survey, with the most significant changes being 20 point increases in investment by larger firms in client-facing advisers, leadership training and the workplace environment. By contrast, planned levels of headcount investment in leadership & management and in business services & support at 60.2 and 62.2 respectively are only five points higher than those found in the 2017 survey.
- **Priorities:** 'Developing the skills and capabilities of the firm's people' is seen as the top priority to facilitate growth over the next year, with 65% of firms including it in their top five priorities. This represents a significant increase by SMEs (from 56% in the 2017 survey to 74% in the 2018 survey). 'Developing skills and capabilities' is also the activity most expected by SMEs to increase in priority to facilitate growth over the next year. Next comes 'Developing and maintaining a clear purpose and strategy' - included in their top five priorities by 60% of firms. The third on the list - 'Increased use of technology' - is also the activity most expected by larger firms to increase in priority over the next year. Few firms include marketing activities such as 'thought leadership', 'differentiating the brand' and 'demonstrating to clients that a firm is well managed' in their top five priorities. Further, given the UK's anticipated departure from the EU Single Market, it is worrying that 'expansion in international markets' shows a modest increase from 20% to 23% for larger firms but a decline from 15% to 12% for SMEs.
- **Constraints:** The most important constraints on growth over the next year are 'fee pressures' and 'political uncertainty (eg Brexit)'. There is a small increase in the firms including 'fee pressures' in their top five constraints, and a big reduction in those including 'political uncertainty' (from 80% of large firms in the 2017 survey to just 59% in the 2018 survey). As regards the extent that a materially adverse change would impact ability to grow over the next year, larger firms are most sensitive to adverse changes in their assumptions over 'Brexit' and the 'economic outlook', while SMEs are more concerned over adverse changes in their assumptions over 'margin erosion' and the 'availability of skills or talent'.
- **Messages to Government:** Respondents were given the opportunity to share the one thing that Government could do either to facilitate their firm's growth or to alleviate the constraint with the highest impact on the firm's growth. Some 40% highlighted the adverse impact of uncertainty over Brexit, followed by the need for enhanced regulation (20%), a more stable environment (20%), and greater investment in infrastructure (10%).

### Demographics and indices

- **Survey:** 98 responses had been received from named firms when the survey closed on 26 January 2018 (42 SMEs - defined as a firm with UK headcount of less than 250 - and 56 larger firms). This represents an increase of 38% on the 71 respondents to the 2017 survey. The Forum does not publish a list of participating firms.
- **Firms:** 55% of the firms in the 2018 survey were law firms, followed by accountancy and property sectors with 17% each, and consultancy at 10%. As regards footprint, regional firms constitute 31%, followed by global firms (29%), national firms (22%) and London firms with 17%. The 2017 survey had comparable demographics.
- **Respondents:** 56% are based in London and 44% elsewhere in the UK. 73% are firm-wide leaders and 19% C-Suite or divisional leaders. While the location demographics are identical to the 2017 survey, respondents to the 2018 survey are noticeably more senior.

- **Indices:** The diffusion indices are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of respondents report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 ( $100 \times 0.5$ ), and so on.