

Professional Services



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Industry Overview

Professional services account for a large portion of the United States economy, producing about \$600 billion in annual revenue for 600,000 individual firms. Legal services make up the largest chunk at \$130 billion followed by engineering services (\$120 billion); computer-related services (\$110 billion); accounting (\$60 billion); management consulting (\$60 billion); advertising (\$50 billion); and scientific research (\$25 billion). If included, brokerage services, would add another \$200 billion of revenue. This subsector includes securities brokerage (\$80 billion), insurance brokerage (\$60 billion), and real estate brokerage (\$40 billion).

The majority of all professional firms are small. In fact, the vast majority operate from a single office. Only about 5,000 firms have annual revenue over \$10 million.

Competitive Landscape

The health of the country's economy, particularly corporate profits, drives the demand in the professional services industry. While some services are necessary for the day-to-day functioning of most companies, some of the most profitable services are not considered as essential and are often postponed when corporate profits are low. Typical, professional service firms' have fixed costs. Excellent marketing can

influence their profitability. Small firms can compete successfully with larger, more established firms in their segment if they offer special expertise.

Business Challenges

Corporate Spending Sharply Affects Revenue

Corporate customers typically cut outside expenses or delay major projects when profits dip. The revenue of many professional firms dropped during the last recession. Engineering, computer-related services, and advertising firms, in particular, were hard-hit. Spending decreased 20 percent for corporate construction and 8 percent for business equipment.

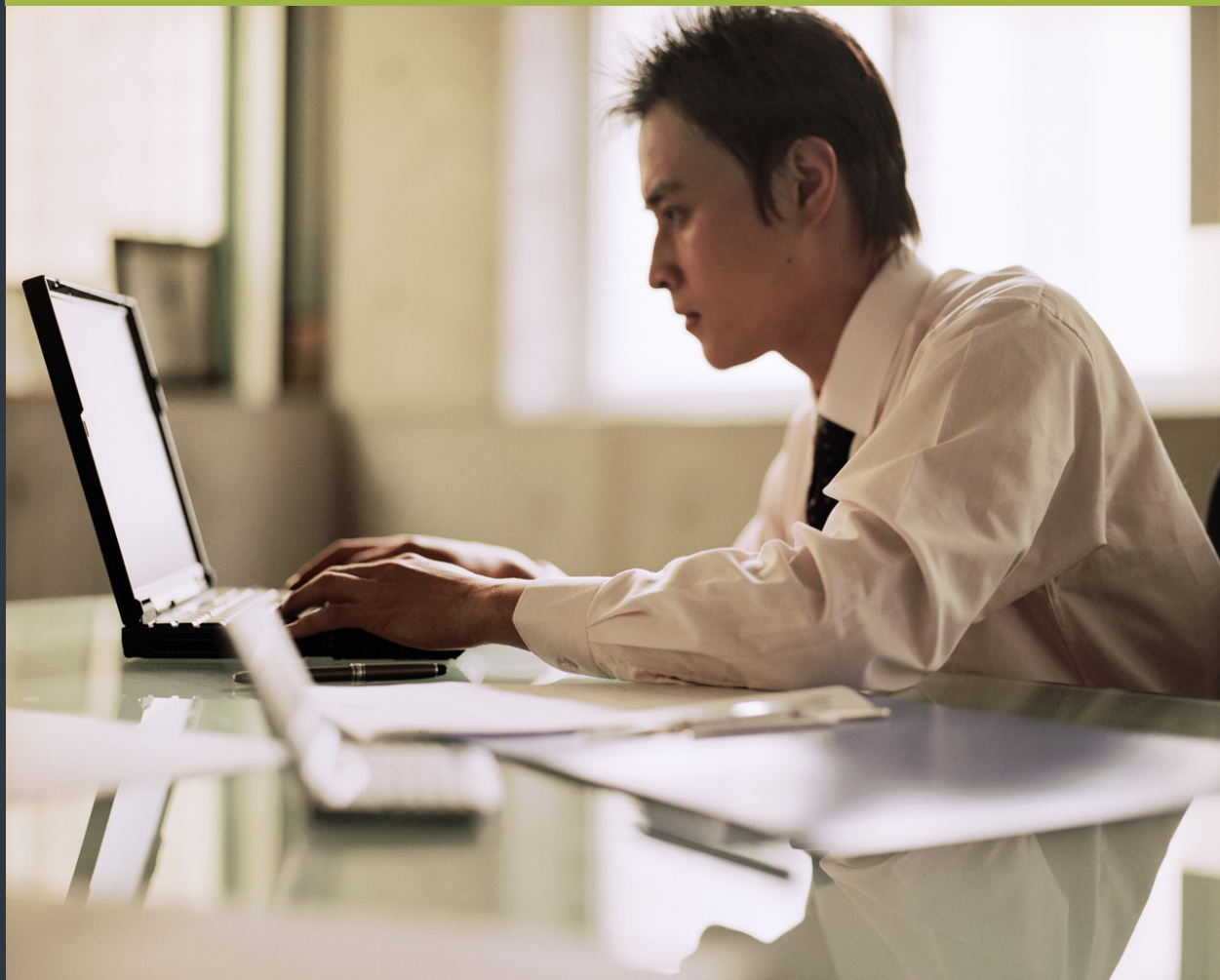
Greater Liability for Professional Advice

Professional service firms now face a greater risk of blame or liability when their advice proves faulty as they become more involved in the operations of their corporate clients. Customers are more apt to blame advisors, and regulators are more likely to impose penalties.

Industry Concentration

Many professional firms specialize in a particular industry, such as real estate, manufacturing or technology. They are disproportionately hurt





if that industry is in a downturn. Larger firms have the resources to serve a range of industries. Middle market firms, often grown by expanding within an industry, are particularly vulnerable.

Customer Concentration

Commonly, small professional firms get a large portion of revenue from a few large customers. These large customers can demand lower prices, affecting a firm's profitability, or they may take their business to another firm, severely affecting revenue.

Trends

Professional Service Firms Often Lag Economy

The revenue of the professional service industry lags the performance of the rest of the economy. Before the last recession, professional services grew at almost twice the pace of the rest of the economy, 7 percent versus 4 percent annually. Right after the recession, demand grew just 1 percent per year.

Employment Trends

Certain segments of the professional services industry are more vulnerable to economic fluctuations. During the last recession, jobs decreased 11 percent in advertising, 14 percent in computer services, 7 percent in accounting and 4 percent in engineering.

More Value-Oriented Billing

Professional service firms bill on an hourly basis, but some firms also bill according to the value of their services. Value-oriented billing is easiest to apply for services where the value is explicit, such as tax savings, damage awards, ad placements or the size of an acquisition or merger. Value billing will become more prevalent as professional service firms become "advisers" rather than hourly workers.

More International Business

Many professional services firms are reaping the rewards of greater global as more foreign business is handled according to US business standards. These professional services are easily transferable to foreign customers.