

Building the Resilient Professional Services Firm

Part 1: Assessing and Strengthening Your Foundation

As I look at the news recently it seems that uncertainty abounds. In the US we are in the second half of an election year and the country seems divided. Global uncertainty exists in Ukraine and the Middle East. Economic uncertainties loom large, with many economists predicting a potential recession. In our world of Professional Services, technological disruption continues to reshape client expectations and service delivery models. Meanwhile, the talent market remains fiercely competitive, with top performers commanding premium compensation and seeking purpose-driven work environments.

Any firm will be tested and stressed when operating in this kind of environment. These external forces demand a new level of adaptability and resilience from professional services firms. But what does it truly mean for a firm to be resilient?

Resilience in professional services should go far beyond mere survival. It's our capacity to adapt, evolve, and even thrive in the face of adversity. For our firms, resilience means maintaining financial stability when project pipelines become unpredictable. It means retaining and engaging key talent even as competitors aggressively recruit. Most critically, it means continuing to deliver exceptional value to clients, regardless of external pressures or internal constraints.

This article, the first in a short series on the Resilient Professional Services firm, focuses on the foundational elements of building a resilient firm: conducting a brutally honest assessment of your current position and implementing robust financial management practices to help weather any storm.

Assessing Your Starting Position: A Brutally Honest Look in the Mirror

Before implementing any resilience-building strategies, it's crucial to understand your firm's current state with ruthless objectivity. This assessment will serve as a baseline, helping you identify areas of vulnerability and strength. It's not about assigning blame or dwelling on past decisions, but about establishing a clear-eyed view of where you stand today.

Conduct a comprehensive health check of your firm, focusing on these key areas:

Financial Stability

Analyze your cash reserves, debt levels, and client concentration. The key question here is: How long could your firm operate if revenue suddenly dropped by 20%? 30%? 50%?

At a minimum, examine the following on a regular basis and follow and understand how your data points are trending. Being prepared with this information, and developing the ability to spot potential trouble points early is a key to building resilience.

- Cash on hand and easily liquidated investments
- Accounts receivable aging and collection trends

- Debt obligations and covenants
- Fixed vs. variable costs
- Revenue concentration (by client, industry, and service line)

For example, leading into the 2008 downturn, an analysis of my firm showed that nearly 40% of revenue came from one client and nearly 70% came from only four clients. While there is nothing inherently wrong with growing clients, the history of professional services is littered with now defunct firms that were too reliant on a small number of clients. This realization led to an immediate push for diversification and a goal to reduce any single client concentration to no more than 15% of total revenue. I want to state obvious here and point out that the goal was not to do less business with these clients – it was to do more business with more clients.

This led to sales compensation plan changes to reward new client acquisition. And a weekly and quarterly tracking of our client concentrations. There is, as with most data points and statistics, a nuance to this. Firms want large, reliable and repeat clients. As we will read later, it is these clients that often get us through the most difficult times. The goal here is balance.

Service Portfolio

Use the Resource Efficiency Value Index (REVI)[™] or something similar to evaluate the profitability and strategic value of your service lines. Which services generate the most value relative to the resources they consume?

For each service line, calculate:

- Gross margin
- Utilization rates
- Average project duration
- Client satisfaction scores
- Growth rate (year-over-year)

Plot these factors against each other to identify your "star" services and those that may be draining resources without commensurate returns.

If you have not undertaken an exercise like this previously, you may be surprised at what you discover. You may, for example, find that your fastest-growing service line has the lowest gross margins. Further investigation might reveal the causes such as:

- Underbidding projects to win business in a competitive space.
- Your team lacks some specialized skills, leading to inefficiencies and occasional rework.
- You didn't factor in the full cost of ongoing support and maintenance in your pricing model.

This isn't to say that there is any blame for this. It is typically the case when breaking into new markets, offerings or technologies. However, this kind of analysis may lead you to take a closer look at the service and make decisions on whether investing in training, revising your pricing model or creating standardized methodologies and deliverables would mitigate the issues.

Talent Strength

As a leader of a Professional Services firm, you need to continually assess the skills, adaptability, and engagement of your workforce. Do you have the right mix of specialists and generalists? How easily could your team pivot to new service areas if needed?

Key factors to evaluate in this area include:

- Skills inventory (technical and soft skills)
- Utilization rates by role and level
- Employee engagement scores
- Turnover rates (voluntary and involuntary)
- Succession plans for key roles

Undertaking this kind of review regularly may lead to previously unknown discoveries. You may realize you have a gap in your mid-level management tier or that your current skill set is not matching the opportunities that are coming into the top of the pipeline. Implementing additional training sooner rather than later is always best practice. In terms of succession planning, you may have identified individuals who you would turn to, but are you spending the time needed to mentor and prepare them to step into a larger role?

Client Relationships

In every difficult economic time I faced, it was always our longest tenured clients who helped bring us through. Even in the worst economic situations, business continues to be transacted. It is always the strong relationships, the trusted partnerships, that made all of the difference. When the good times are rolling, client rosters are growing and we are busy building our businesses, it is easy to move away from the relationship building that got you there in the first place. It is critical that your client relationships are continually reviewed and improved.

Evaluate the depth and breadth of your client relationships. How diverse is your client base? What percentage of your revenue comes from your top five clients? Within your key client accounts, are you building relationships with many people at the client and are you doing it with multiple people from your firm? Here are some items you can be constantly reviewing during regular client updates:

- Number of relationships between the client and your firm
- Average Tenure of your Clients – Where are they in your typical Client Lifecycle
- Client satisfaction and Net promoter scores
- Cross-selling success rates – How many parts of the client company are you engaged with
- Client profitability (not just revenue)

This Starting Point assessment will help you determine your "resilience readiness" level. Are you starting from a position of strength, with diversified revenue streams and a robust talent bench? Or do you have significant vulnerabilities that need immediate attention, such as over-reliance on a single client or service line?

The goal here is not to achieve perfection in all areas – that's neither realistic nor necessary. Instead, you're looking to identify your most pressing vulnerabilities and your greatest strengths. This knowledge will guide your resilience-building efforts, helping you prioritize where to focus your limited time and resources.

Financial Management for Resilience: Building Your Fiscal Foundation

Strong financial management is the bedrock of firm resilience. Even firms that excel in client service and talent management can falter if they lack financial stability. Here are some key strategies to strengthen your financial foundation, along with specific implementation advice:

Implement rolling 13-week cash flow forecasting

Traditional annual budgets quickly become obsolete in fast-changing environments. Instead, implement a rolling 13-week cash flow forecast. This approach provides a more accurate picture of your near-term financial position and allows for quicker adjustments.

Best practice: Update your forecast weekly, involving key stakeholders from across the firm. This isn't just a finance exercise – project managers, sales leaders, and department heads should all contribute their insights and understand what the forecast is indicating. It is a small step to move from the [Capacity Sold Over Time™](#) metric to a full rolling cash flow forecast. This kind of report will also be one of the first things your lending bank will ask for if business starts to slow.

Implementation steps:

- Designate a cash flow "owner" to drive the process
- Create a standardized template for data collection
- Set up weekly review meetings with key stakeholders
- Establish clear protocols for addressing variances

During uncertainty: Increase the frequency of updates to twice-weekly and expand the range of scenarios considered. Pay particular attention to early warning indicators like changes in accounts receivable aging or shifts in client payment patterns.

If not previously implemented: Start immediately, even with imperfect data. Your first few forecasts may be rough, but the act of creating them will surface important questions and data gaps. Refine your process over time, aiming for increasing accuracy and broader organizational involvement.

Establish a "war chest" of liquid reserves

A robust cash reserve can mean the difference between weathering a downturn and facing existential threat. Aim to maintain reserves sufficient to cover 3-6 months of operating expenses.

Best practice: Consistently allocate a portion of profits to building reserves. Treat this as a non-negotiable "expense" in your budgeting process.

Implementation steps:

- Determine your target reserve level based on your firm's risk profile and operating model
- Create a separate, high-yield savings account for your reserves
- Automate monthly transfers to your reserve account
- Establish clear guidelines for when and how reserves can be accessed

During uncertainty: Reassess reserve targets and accelerate reserve building if possible. Consider temporary measures like partner distribution holdbacks or non-essential expense cuts to bolster reserves more quickly.

If not previously implemented: Start small but start now. Even setting aside 1-2% of revenue can build a meaningful cushion over time. As your reserves grow, resist the temptation to tap them for non-emergency purposes.

Develop multiple financial scenarios with specific trigger points

Scenario planning helps you anticipate potential challenges and opportunities. Develop at least three scenarios: best case, most likely case, and worst case.

Best practice: Review and update scenarios quarterly. Involve a cross-functional team in the scenario development process to capture diverse perspectives. This is an excellent agenda item for quarterly leadership meetings.

Implementation steps:

- Identify key drivers that could impact your firm's performance (e.g., economic indicators, regulatory changes, technological shifts)
- Develop narratives for each scenario, considering the interplay of various factors
- Quantify the potential impact on revenue, costs, and cash flow
- Define specific trigger points or thresholds that would necessitate shifting to a different scenario plan

During uncertainty: Increase the frequency of reviews to monthly and broaden the range of scenarios. Pay special attention to leading indicators that might signal a shift from one scenario to another.

If not previously implemented: Start with simple scenarios focused on revenue fluctuations. As you become more comfortable with the process, expand to include more variables and longer time horizons.

Nurture banking relationships

Strong banking relationships can provide a lifeline during challenging times. Don't wait until you need help to build these relationships.

Best practice: Maintain open lines of communication with multiple banks. Regularly update them on your firm's performance and strategy.

Implementation steps:

- Identify 2-3 banks that have experience with professional services firms
- Schedule quarterly meetings with your banking partners, even when you don't need anything
- Provide regular financial updates and insights into your firm's strategy and market position
- Explore the full range of services your banks offer, beyond just checking and loans

During uncertainty: Increase the frequency of updates to monthly. Proactively discuss potential needs for credit lines or other financial instruments. Be transparent about challenges you're facing, but also highlight the steps you're taking to address them.

If not previously implemented: Quickly establish relationships with multiple banks. Prepare a comprehensive overview of your firm, including historical financials, projections, and key differentiators. Be prepared to explain what makes your firm resilient and why you're a good long-term banking partner.

Conclusion: Laying the Foundation for Long-Term Resilience

Building resilience is not a one-time effort, but an ongoing process of assessment, implementation, and refinement. By starting with a clear-eyed assessment of your current position and strengthening your financial management practices, you lay the foundation for a more resilient firm.

The basic strategies outlined in this article – from conducting a comprehensive health check to implementing rolling cash flow forecasts and nurturing banking relationships – are not just defensive measures. They're offensive strategies that position your firm to capitalize on opportunities, even in challenging times.

Remember, these practices are valuable not just in preparing for potential downturns, but in positioning your firm for growth and success in any economic climate. Firms that embrace these practices as part of their DNA, rather than as reactive measures, will be best positioned to thrive amidst uncertainty.

As you implement these strategies, I encourage you to keep in mind a few key points:

- Consistency is key. Make these practices part of your regular operations, not just crisis measures.
- Involve your entire leadership team. Resilience-building is a collective effort that requires buy-in and input from across the organization.
- Be prepared to make tough decisions. The insights you gain may reveal uncomfortable truths about your firm's vulnerabilities. Have the courage to address these head-on.
- Communicate transparently with your team. Bringing your employees along on this journey can boost morale and uncover valuable insights from those on the front lines.
- Stay agile. The business landscape is constantly evolving. Your resilience strategies should evolve too.

In the next article in this series, we'll explore strategies for optimizing your service portfolio and strengthening client relationships to further enhance your firm's resilience. We'll dive into how to use the

REVI metric to make data-driven decisions about your service mix, and how to deepen client relationships in ways that create mutual value and loyalty.

Building resilience isn't easy, but it's essential. The firms that commit to this work now will be the ones not just surviving but thriving in the years to come. The question is: Will your firm be one of them?

About the Author

John Quirk has over 30 years of experience leading successful professional services firms. John has a proven track record of building high-performing teams, fostering award-winning cultures, and delivering exceptional client value. His previous white papers have explored innovative approaches to talent management, metrics, and organizational success. You can read those at [Quirk's Next Thing](#). You can reach John at john.quirk@gmail.com.