Marketing the Professional Services Firm

Applying the Principles and the Science of Marketing to the Professions

Laurie Young

John Wiley & Sons, Ltd

Marketing the Professional Services Firm

Marketing the Professional Services Firm

Applying the Principles and the Science of Marketing to the Professions

Laurie Young

John Wiley & Sons, Ltd

Telephone (+44) 1243 779777

Email (for orders and customer service enquiries): cs-books@wiley.co.uk
Visit our Home Page on www.wiley.com

Other Wiley Editorial Offices

John Wiley & Sons Inc., 111 River Street, Hoboken, NJ 07030, USA

Jossey-Bass, 989 Market Street, San Francisco, CA 94103-1741, USA

Wiley-VCH Verlag GmbH, Boschstr. 12, D-69469 Weinheim, Germany

John Wiley & Sons Australia Ltd, 42 McDougall Street, Milton, Queensland 4064, Australia

John Wiley & Sons (Asia) Pte Ltd, 2 Clementi Loop #02-01, Jin Xing Distripark, Singapore 129809

John Wiley & Sons Canada Ltd, 22 Worcester Road, Etobicoke, Ontario, Canada M9W 1L1

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

Library of Congress Cataloging-in-Publication Data

Young, Laurie.
Marketing the professional services firm : applying the principles and the science of marketing to the professions / Laurie Young.
p. cm.
Includes bibliographical references and index.
ISBN 13 978-0-470-01173-7 (cloth : alk. paper)
ISBN 10 0-470-01173-4 (cloth : alk. paper)
1. Service industries—Marketing. 2. Professional corporations—Marketing. I. Title.
HD9981.5.Y68 2005
658.8—dc22

2005010793

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN 13 978-0-470-01173-7 (HB)
ISBN 10 0-470-01173-4 (HB)

Typeset in 11/15 pt Goudy by SNP Best-set Typesetter Ltd., Hong Kong
Printed and bound in Great Britain by TJ International Ltd, Padstow, Cornwall, UK
This book is printed on acid-free paper responsibly manufactured from sustainable forestry in which at least two trees are planted for each one used for paper production.

To Paul, Chris and Mark, who make me more proud every day

Contents

Foreword

This is the third marketing book that I've written and has been, by far, the hardest. The previous two were on technical subjects (strategic management of customer care and the design of new services), but this aims to bridge a large gap. The gap is between the immediate needs of a huge and diverse industry, the professional services sector of modern economies, and the evolving competence of the marketing profession in service businesses.

I now have quite extensive experience of professional services. I have been a marketing director in an IT services business trying to launch professional services, a global marketing partner in a leading firm and have advised various professional service firms (from single partner practices to some of the world's largest businesses). I have also founded, built and sold one of these businesses. Yet I also have long experience of service marketing and remain fascinated by the development and application of the subject. It is frustrating, therefore, to see so many consummate and successful professionals missing out on the value of modern service marketing practice because of ignorance, prejudice or poor experience.

Until recently the phrase 'professional services marketing' was, largely, an oxymoron. For many these words were as unwelcome together as 'good' and 'morning' after a hard night out. Some professionals regard marketing as a sales-driven or advertising-focused activity which is completely at odds with excellent client service and good technical execution. When they do discuss business needs with marketing specialists, many find the experience and language to be more suited to consumer products than high end expertise.

As a result, many of the people who carry a marketing title in professional services firms are not career marketers. From the administrator who arranges client events to the outgoing partner doing their development stint in marketing management, there are a good number of people who are trying to interpret marketing jargon and practice for the benefit of their firm.

Nevertheless, the industry does engage in a wide range of marketing activities and those activities are increasing due to unprecedented changes to law, ownership, competition and regulation. Leaders of professional services firms take decisions about the direction of their firm based on market insight and changing competitive landscapes. These strategic marketing issues range from brand development, sector penetration, and client service to new market entry and client relationship management. Client service and support staff also engage in marketing projects and decisions. They might run client hospitality events, design a new service or create a thought leadership piece. In a very real sense, everyone in a professional services firm is likely to get involved in marketing to some extent.

Yet, as with other specialisms, marketing involves a wide range of concepts, techniques and processes which, properly used, make it cost-effective and successful. Anyone can use common sense and business experience to build their own house, to conduct their own legal defence or to manage their finances. However, they are likely to do it better if they use well-worn approaches and rely on the advice of a professional.

So it is with marketing. Expertise added to common sense and business knowledge can make the firm more successful. Many professional services firms now face changes to their market which will affect the returns and success of everyone within their business. They will need to think about how they grow their business and how they manage the process of client development. At the same time, the marketing community now has a range of concepts, techniques and processes which are reliable and relevant to service businesses. I hope that this book will help to make them accessible to the industry.

Laurie Young

Acknowledgements

Writing this book has been like running a long race. It took planning, effort and endurance, especially for the very long last lap. I could not have finished it without the help of several people.

My thanks go particularly to my head ‘coach’ Laura Mazur of Writers 4 Management. She has been encouraging and goading in equal measure at appropriate times. She teased out and refined the case studies and helped me with the very detailed task of pinning down references to published work. The Wiley team, particularly Francesca Warren and Jo Golesworthy, have also provided invaluable support and help.

A number of people provided case studies. Many thanks to the following: Kevin Bishop of IBM Business Consulting Services, Rae Sedel of Russell Reynolds, Mike Stevenson of Michael Page, Gillian Kahn of Berwin Leighton Paisner, Simon Hardaker of QinetiQ, Mark Allatt of Deloitte, Alan Brooks of Clarkson Hyde, Jan Lindemann of Interbrand, David Munn of ITSMA, David Wallace of Shepherd + Wedderburn, David Haigh of Brand Finance, Paul Fifield of the Fifield Practice, Walter McKone, Joel Kurtzman and Keith Arundale of PricewaterhouseCoopers.

Finally, I want to pay tribute to the specialists and academics whose work I point to in the text. I know very few, having met some fleetingly at conferences over the years, but I admire their work. I want to particularly acknowledge the thorough and careful work of Phillip Kotler, Christian Gronroos, Leonard Berry and Valarie Zeithaml. On many occasions I have used their concepts and tools in day-to-day marketing work and found them to work for the benefit of the shareholders who employed me. That is the highest compliment I can pay them and I hope this text contributes a little to the further use of their body of work.

About the Author

Laurie Young is a specialist in the marketing of services and customer care. His career includes senior positions with PricewaterhouseCoopers, BT and Unisys. In the 1990s he founded, built and sold his own professional service firm, focussing on service marketing. Over the years he has advised a number of firms, from small, single partner, practices to large, multinational organisations on the contribution of services marketing to shareholder value.

Also by Laurie Young: *Competitive Customer Care* with Merlin Stone and *Making Profits From New Service Development*.

Introduction: setting the scene

Overview

The professional services industry is one of the largest and most diverse sectors of modern economies. The common attribute that all firms within it share, whether they are business-to-business or consumer-oriented businesses, is that professional skills form the basis of what they offer to clients and the qualifications needed are generally a barrier to entry for aspiring newcomers. How each firm approaches its market and the processes it develops, however, differ according to its skill set, its size, the ownership structure and the type of projects it takes on. This introduction to the industry details each of these and their relevance to the firm. It also examines the role that professional services marketing should increasingly play in what is, in many instances, a maturing market. This is a challenge for firms where the concept of marketing is still underdeveloped, and for marketers who have been trained in more traditional product marketing.

Profile of the professional services industry

The professional services industry is a vast and varied sector of modern economies which is estimated to be worth up to $700 billion worldwide

(Scott, 1998). Subsectors within it are also large. For instance, US legal services have been estimated to reach $156 billion by 2005, whereas the UK legal services sector is said to be worth £6 billion and growing at 20% per annum.

The industry encompasses a wide range of businesses, from accountancy partnerships, executive search firms, education, training and coaching providers, legal and architectural specialists, through to consultancies in various specialisms, marketing agencies and the growing services arms of publicly listed companies. It includes an array of medical practitioners such as doctors, dentists, optometrists/opticians, pharmacists, psychotherapists, osteopaths and physiotherapists. There are also a variety of retail professionals such as hairdressers, veterinarians and realtors/estate agents, which range from single shops to large chains.

The industry comprises any business for which professional skill is the basis of their offer to clients and qualifications provide a barrier to entry against new suppliers. It can be categorised by skill set, size, ownership and type of project. Each affects the approach that leaders of the business take to their market and the processes they adopt to grow their revenues.

Skill set

The most obvious defining characteristic of a professional services firm is the skill set it offers to its clients. The training and experience involved in becoming a professional, in any of the wide range of services, is the basis of the offer to clients. The expertise is what clients seek and pay for.

However, there are different returns within each area of expertise and different market forces. For example, professionals can charge and earn more if they acquire deeper knowledge or join leading firms in their own sector. An accountant will earn different returns as an individual practitioner than as a partner in a major firm. They would also earn differently as a generalist or a forensic expert or as a due diligence specialist in a merger and acquisitions deal. A strategy consultant will earn differently as a single practitioner, as part of a merchant bank or as a consultant in a niche firm.

The way they market themselves during their career also affects their route and their earnings, while the marketing of the businesses they are part of, which can be different in different corners of their markets, affects their returns as well. In one they might benefit from the brand, in another they might focus on personal reputation, and in yet another they might offer packaged services. Exploiting the principles of marketing in the development of a professional's career and the marketing of the firms they are part of, whether intuitive or formal, therefore affects their success.

There are also differential earnings between the sectors of the industry. The returns of a merchant banker or corporate lawyer are radically different from those of a human resources (HR) consultant or hairdresser. In addition, each sector of the industry has characteristics, networks and approaches which are established within it, so that marketing approach, strategy and technique have to vary according to the skills offered by the firm. A change of skill must, therefore, change the way the firm acts in its market. For instance, when different professionals merge their skills to form a multidisciplinary practice, the new entity can falter while it finds a new market momentum across the different sectors it now serves. Similarly, when firms build their skills into packaged services or software, their market approach must change radically.

Size

The size of a professional services firm gives it characteristics which affect its business growth. There are several major inflection points in this growth which should be taken into account in marketing strategy and programmes. They are:

- **Single practitioners:** smaller firms based around a single fee earner.
- **Boutiques:** based around two or more fee earners, which often become rooted in a particular geographic location or a certain set of skills. Properly focused, these firms can often return good earnings to their owners by becoming niche suppliers.
- **International networks:** these are professional services firms which operate internationally with local offices in many countries. They can be a unitary firm with one profit pool, an association of either smaller firms or independent partners, or an integrated federation of locally formed firms.
- **Publicly listed firms** or professional services businesses within such firms.

The sole practitioner

The first inflection point is when a sole practitioner sets up a business based around a particular skill. This might be an accountant setting up their own practice, a hairdresser or pharmacist establishing a shop or a redundant middle manager becoming a consultant in a particular speciality. Many internationally famous firms started this way.

For the business-to-business practitioner, such as an accountant, the limit to growth at this point is the number of days or hours that can be sold. For a retail service aimed at consumers, like an optometrist/optician, the growth limit will be based upon the number of appointments that can be handled in a day, plus the extra margin from the sale of physical products like glasses and contact lenses. The common concerns of these fledgling businesses are: gaining clients, building a pipeline of business and cash flow. These must be managed while maintaining the quality of work that motivated the fee earner to get into the field of practice in the first place.

Marketing and business development is therefore as important to these small firms as it is to any larger business containing a sophisticated marketing department. The fee earner, although alone and cash constrained, needs to have a marketing strategy. They need to enhance reputation, gain recognition and manage client service. Those who have thrived have found ways to handle this demanding mix of needs.

As revenues grow, the proprietor begins to consider one of the major issues of all professional services businesses: the nature and amount of ‘support’. Support is an ill-defined term for functions of the business which are non-fee earning. Larger firms may have a director or partner responsible for ‘support’ or ‘operations’. However, they share with these fledgling businesses the prime consideration of engaging support: whether the cost enables the fee earner to earn more for the firm, increasing both revenue and margin. Poorly done, the firm ends up increasing the former but not the latter.

Support can be varied. It can be directly employed or subcontracted. For instance, sole practitioners might employ a secretary as demand increases. This frees them from basic administrative tasks in order to carry out more client work. Similarly, a consumer-based retail professional might employ a receptionist. In the early days of growth, mimicking the desire of larger firms to keep down non-fee earning overheads, this task is often done by friends, part-timers or family members.

Many of these sole practitioners will stay at this level of fees quite happily, with the cap on the amount that can be earned compensated by relatively good margins. If they want to grow, however, the next inflection point comes when the sole practitioner begins to hire junior professionals to execute work. Business-to-business practitioners might hire recently qualified professionals to work on projects, while retail professionals, on the other hand, will usually look for growth by extending the brand franchise. A hairdresser or pharmacist, for instance, might acquire or join forces with a counterpart in a different location to broaden the reach of the business or they may try to create a unique franchise by mentoring junior professionals to do work 'their way'.

Again, the success of these growth strategies depends on the ability of these newly hired people to 'leverage' the fee earner by releasing their time to bring in more work. However, without the right marketing and business growth strategy, sole practitioners can become trapped by their own success. Growth in demand can cause them to take on more support to administer the business and more professional staff to execute it.

Yet, if they do not have some form of competitive differentiation that allows higher fees or the generation of a healthy pipeline, margins will not increase and may, particularly in times of recession, decrease. They then become trapped by a need to generate income to feed the machine they have created. As years go by, the stress caused by generating work that increases revenue but not margin causes some to get out of the business altogether. Others will try to recruit employees who will also bring in revenues. Yet others will move on to the next inflection point: partnership with other fee earners.

Brand Finance moves to the next stage

Brand Finance is a niche consultancy with offices in a number of countries around the world, including the UK, US, Canada, Brazil, Spain, Holland, Singapore, Malaysia, Hong Kong and Australia. The chairman is the respected American marketing academic/expert, Don Schultz.

The firm, an unquoted plc, offers services in brand valuation, brand due diligence, value-based marketing and brand licensing. Founded in

London in 1996 by David Haigh, it illustrates how to grow professional services beyond the single practitioner inflection point.

Taking a clear stance

When he set the firm up, Haigh already had a high profile in the area of brand valuation, stemming both from his previous jobs, in accountancy and marketing, and from his numerous publications and conference presentations. Rather than use his own name for the firm, he chose 'Brand Finance' so that it wouldn't be anchored to just one person as it grew. He also wanted the firm to have a clear positioning statement ('bridging the gap between marketing and finance' is the firm's trademarked strapline) from the start.

One of the key elements of the firm's marketing was his decision to brand proprietary processes and product descriptions. These include: a brand risk analysis methodology, a demand drivers analysis (to identify the percentage of intangible earnings attributable to brands), and a structured process for evaluating brand strength.

By 2000 the firm had grown to 30 people, although at that stage Haigh himself was still the only principal 'rainmaker'. In addition, he had begun to expand overseas by establishing offices in other countries. By the middle of 2001, however, with the demise of the dot.com boom, business had begun to slow. With declining revenue and a fixed cost base, a new strategy was needed.

First, the staff in the head office were reduced by about half, to lower fixed costs. At the same time, a new model of ownership was introduced to the subsidiaries in other countries. A 49% stake was offered to local management who were closer to the demands of the particular markets. This had the effect of creating entrepreneurial energy in the young network.

Spreading its wings

By 2004 the business employed an equal number of direct employees and freelancers, with 20 full-time staff and about the same on a consultancy basis. It was showing healthy annual growth from two main lines of work. The first was technical valuation for tax, legal and accountancy specialists. The other was the work done for marketing specialists as a basis for commercial and marketing decisions, including brand architecture, brand modelling, brand portfolio reviews and return on investment.

The firm's strategy is now to achieve sustainable growth from two main sources: finding the right people to keep the business pipeline full and nurturing the international network. The firm has begun to broaden further its 'rainmaker' group substantially with key appointments in the US, UK, India, Singapore and Australia.

Partnership with other fee earners

The next inflection point is when the business grows to the point where the single practitioner will no longer be able to cope with being the only fee earner. Colleagues who can actively generate new business are needed. By finding others who can generate revenue, the firm can earn greater returns and margin. Options include: joining forces with other practitioners to form a partnership; merging with, or selling out to, another firm; or recruiting potential fee earners. It is notoriously difficult to negotiate this inflection point successfully and it is the graveyard of many ambitious and talented professional services firms, for several reasons.

First, recruitment of fee earners is not as straightforward a route as it sounds. Finding the right people can be very difficult, because people capable of generating large fees (see Chapter 8 on 'rainmakers') tend to be very driven individuals, with large social networks. They are unlikely to be found at affordable rates in existing firms. They are also not likely to be attracted by a reward package which consists of a simple salary plus bonus. If professionals are talented enough to be both technically excellent and able to build a pipeline of business, they will be ambitious for more than a salaried role in a small firm.

The other route to growth, forming a partnership, also has its drawbacks. Partnerships can be quite risky because the fee earners need to work very closely together and are interdependent. However, the working relationship can deteriorate due, for example, to different approaches to work or different fee earning capabilities. In addition, the partners' assets are vulnerable in adverse circumstances, adding strains to the professional relationship because partnerships can be so hard to dissolve.

Nevertheless, banding together with other fee earners, by whatever route is chosen, is the way sole practitioners can break through this inflection point in business growth. Potential partners may operate in a similar field and help maintain the focus of the growing firm. Alternatively, they might be sought because they have supplementary business skills (for example, a surveyor and an architect might work together) creating a multidisciplinary practice to reduce risks by supplementing revenue streams. Once there are four to five rainmakers, these small boutiques can grow their fees substantially.

Clarkson Hyde develops its brand to expand into new services

Clarkson Hyde began life as a small, UK-based accountancy practice but has embraced more skills in a bid to grow the business into a multidisciplinary professional services firm. It is a good example of a geographically based boutique broadening its skill base to even out cash flow while building the brand to differentiate itself in its market.

The firm is rooted in a particular geographic area of the UK, the southeast, which includes London. It has a number of clients in other parts of the country, while it services international work through a network of associate firms. The majority of clients are manufacturing and service organisations which are focused on growth and/or adding value to their business and which fall mainly into the £1 million ($1.9 million) to £20 million ($37 million) bracket, although it also works with a number of significantly larger companies.

Becoming multidisciplinary

It was founded as an accountancy practice in 1923 by two partners, John Clarkson and Frank Hyde. It was bought by current senior partner Malcolm Coomber in 1979 and in the last few years has been actively pursuing growth by expanding beyond its core accountancy offer. As of 2004, the Hyde group consisted of eight partners, four directors and 30 staff. It comprised a number of different services based on a mix of partnership and limited companies in its business.

For instance, Hyde Law was set up in October 2003 by a senior legal practitioner. He had worked with large law firms but was keen to set up his own commercial law practice in association with an organisation which could offer both resources and a client base. Other businesses have been established as limited companies: Hyde Consulting, which has built up a strong track record over the past few years in corporate finance; Hyde Marketing, which offers marketing and business development consultancy; and Paradigm Hyde Films, specialists in film finance. CH International, an international network of like-minded associate firms in 23 countries, has also been developed.

Changing to a market approach

By January 2004 the company was aware that it needed a new approach to marketing if it was to get the best income for its different businesses. The head of Hyde Marketing, Alan Brooks, with a background in professional services marketing, also took the role of the firm's marketing director. His brief was to use the principles of strategic marketing and business development to help achieve the firm's growth objectives across the various disciplines.

This process has included a number of key elements:

- Increase the flow of potential business for the new services.
- Develop and implement a clear differentiating strategy for the Hyde brand.
- Establish business development processes to maximise sales opportunities from both existing clients and 'introducers' (such as banks and brokers), who are a potential source of new business.
- Maximise the partners' time by filtering leads.
- Establish a series of regular and ad hoc marketing activities to raise the firm's profile and generate 'warm' leads.
- Launch and integrate the marketing of new services as they are added to the mix.

One of the first steps was to gain an understanding of the brand's positioning and how to exploit its strengths. In a firm of that size this is obviously intimately related to the senior practitioners themselves. He found a fair degree of unanimity around the firm about its perceived values, which he incorporated into a formal brand framework which underpins all the marketing communications and relationships with clients, prospects and introducers.

Living the values

Those values include: an emphasis on the quality of work; being easily accessible (the firm avoids using voicemail, for example); and being unpretentious. It particularly values a small number of key introducer relationships (rather than being 'all things to all people'). A commercial approach to client issues is reinforced by recruiting senior staff with experience in commerce as well as the professions.

The marketing activities which flow from this include:

- A reputation-building programme.
- Networking based upon a clear account/relationship management programme.
- A constant flow of contact with clients, prospects and introducers to maintain visibility – using regular events, direct mail, email shots and newsletters.
- A monthly email to all staff to update them on the firm's progress.
- Monthly marketing and sales reports to partners and managers which show the impact the marketing activity has had on business development.

This more structured approach has saved the time of the professionals across the network and enables marketing activities which would not otherwise happen.

International networks

The next inflection point is when the boutique becomes part of a bigger network. Some firms achieve this by selling out to one of the large global networks. This might be one of the big marketing services group, a publicly quoted firm, one of the large accounting practices or a consulting firm. The smaller firm might be integrated into the parent firm, or it may be kept intact because it is perceived to have a certain value either through brand reputation, client access or specialist skill. The acquiring firm may have sought the boutique because of any of these attributes.

The acquiring firm will normally be able to increase both revenue and margin through the acquisition. Revenue might be enhanced by giving the boutique access to its major clients and marketing programmes, while margins might be improved because the newly acquired firm will benefit from the stripping out of administration and support costs through gaining access to firm-wide central services. For the partners of the boutique, there is normally a capital sum available over a three- to five-year earn-out period, and the staff gain enhanced career opportunities in a wider group.

Growth strategies for the larger firms themselves vary according to their size and structure. An integrated international firm that has one profit pool is likely to emphasise natural growth through development of fee earners or sector penetration. A decentralised network, or federation of practices, on the other hand, is more likely to grow by acquisition, gaining access into new geographic territories, skill areas or industrial sectors.

Growing retail professional services

Retail professional services have a unique dynamic to their business which means they need to be grown in a particular way. They tend to provide low margin, high volume services which are supplemented by relevant product sales. They are characterised by the ‘footfall per square metre’ of the retail industry, i.e. the number of clients coming through the store. Growth considerations must therefore take into account consumer needs and choice, store location and design, increase in footfall, sales promotion and product merchandising.

Owners can take a ‘premium’ approach, earning high margins (e.g. hairdressers such as Nicky Clarke or John Frieda), or a least-cost approach, creating a chain of stores which employs young professionals while their earnings are low to keep costs down. There have been a number of notable successes in this field, where integrated chains have been created to take advantage of the inefficiencies of a market dominated by single practitioners, as the case studies on Walgreens, Specsavers and Coldwell Banker in Chapter 1 show.

Marketing for these firms is about the site of shops and effective merchandising as much as the client service and reputation management typical of the rest of the professional services industry.

Ownership

The ownership structure is also a defining characteristic of professional services firms because it affects the firm's culture and decision-making process. Sole partnerships are, by their very nature, dominated by a single owner, usually the principal who started it. That person will probably have built up a personal reputation and be strongly motivated by the business concept. So the culture of the firm will revolve around the character, moods and the style of that individual.

As the number of partners increases, a management structure will evolve. For instance, one partner may be elected as 'managing partner' and, if growth continues, may have to give up client work in order to dedicate their time to management issues. Partners generally do not like being managed and, as the partners being managed are also the owners of the firm who vote the managing partner into position, the leadership must work by consensus. Decisions and initiatives which are not supported by a majority will eventually lead to management change. From time to time, leaders do need to take a clear and urgent decision which partners will live with. If, however, a sequence of dictatorial decisions appears to be leading the firm in a direction which threatens partner take, leadership will be changed by the partnership.

Partnerships can be wonderfully collegiate, liberating and flexible for the partners. Once consensus is reached, the whole firm can act with a speed that large corporate firms find hard to emulate. However, reaching a consensus in the first place can be difficult and so decision-making can be slow in routine areas of business that do not demand immediate or senior attention. In fact, there is often very little clear decision-making. Initiatives in a partnership are often created by a wide consultation or 'buy-in' process which creates a momentum for an idea. Providing no one strongly disagrees with the initiative, it will become, more or less, common practice within the firm.

Partnerships also tend to be hesitant about making investment decisions because partners tend to look for annual profit share. Many are suspicious of longer-term investment projects, not distinguishing between current and capital budgets. In the long run, then, a partnership that competes against a corporate firm which is investing in systems and processes is likely to find itself at a competitive disadvantage.

In addition, there is usually a very clear demarcation between the partners, client service professionals and the support staff, unlike a publicly quoted company where everyone is an employee. This can cause a two-tier status which, unless properly managed, can be resented by staff, affecting motivation and client service. (The equivalent division in corporate firms is between those who have stock options and those who do not. However, as stock options can be more ubiquitous than partnerships, this causes less division within client service teams.)

As a result of this culture, marketing can also be relatively fluid in a partnership. First, client service staff may themselves undertake a wide range of marketing activities, from arranging seminars to producing published reports. Second, any specialist marketing resources will be constrained by the firm's caution at investing in non-fee earning 'support'. The specialist function is rarely given exclusive responsibility for the approach to the market, and often there is no formal link between marketing specialists across the network.

This type of ownership is in sharp contrast to firms that are accountable to shareholders. There is a common perception that the professional services industry is characterised by a partnership-dominated culture. While this is the case among many accounting and law firms, an increasing number of the world's biggest professional services firms are owned by publicly traded companies (such as IBM Global Services, or WPP). Yet others are publicly traded firms in their own right, such as search consultants Heidrich & Struggles, recruitment firm Michael Page (see case study in Chapter 7), and merchant bank Goldman Sachs. These firms have a different leadership style which affects their culture and approach to market.

In a publicly quoted business shareholders delegate day-to-day management to a senior executive team. They, in turn, delegate their authority, through approved methods of governance, to various specialists in the business such as operations, IT, marketing and human resources, who have the authority and budget to make decisions pertinent to their areas of responsibility.

IBM Business Consulting Services: building a new professional services company

IBM Business Consulting Services is the world's largest consulting services organisation and part of IBM Global Services, the world's largest business and technology services provider. It was formed in mid-2002 by combining IBM's existing Business Innovation Services division with the $3.9 billion acquisition of PwC Consulting, the biggest in IBM's history. By the end of 2004 there were 60 000 consultants and staff in more than 160 countries in the $13 billion-a-year business. (see Chapter 11 for an analysis of how the firm ensures quality of service).

A new competitive positioning

This has placed IBM in a new competitive space by blending the depth of business insight and client knowledge of the former PwC Consulting professionals with existing services and technology expertise of IBM's Business Innovation consultants. The company-wide positioning of 'new answers, real business outcomes' reflects IBM's determination to be recognised for its ability to deliver measurable business results for clients as well as for the technology solutions underpinning them.

The driving force behind creating Business Consulting Services was IBM's desire to maintain its lead in the rapidly changing IT space and combine it with a parallel lead in the professional services market, according to Kevin Bishop, Business Consulting Services strategy and marketing leader for Europe, the Middle East and Africa. While the industry has profited from the flow of technological innovation for the last 10–15 years, the environment is increasingly shifting to one where clients are demanding that their suppliers have a comprehensive understanding of their business in order to deliver strategic business benefits. The creation of IBM Business Consulting Services was thus seen as an integral part of IBM's total value proposition in its overall move from a technology-oriented company to a full service company.

A key part of this is what the company calls Business Performance Transformation Services (BPTS). This moves well beyond handling a company's data warehouse and sees IBM exploiting its own internal strengths to improve, redesign and sometimes run significant parts of a client's operations, allowing them to focus on their core activities. For example, IBM now manages most of the human resources for Procter & Gamble, Sprint's call centres and the after-sales support for Philips Consumer Electronics. By using the same asset base across different companies, unit costs are driven down for multiple clients. The formation of IBM Business Consulting Services is, therefore, at the heart of IBM's ability to deliver these complex engagements.

Combining different cultures

Any combination of cultures is difficult and in moving private professionals into a publicly quoted company this is particularly felt around the demands and obligations of regular fiscal reporting, notes Bishop.

Closely allied to that is the need for predictability of outcome. In sharp contrast to a partnership, companies need to manage expectations carefully, since stock market behaviours often seem to reward meeting or exceeding expectations rather than good performance as such.

This learning experience has not been purely one way. IBM was also keen to learn from the consultants steeped in the professional services environment. For instance, in a product business much of the profit in a project is determined on making the sale since quality and price are largely determined in the software development lab or factory. However, in this new environment, a 'sale' is just the start of an engagement. It is the *delivery* of the outcome that matters, especially if contractual terms are framed around the delivery of specified business benefits.

This means forming much closer relationships with clients than even IBM, an acknowledged leader in key account management for many years, has been used to. So the company is looking to the Business Consulting Services consultants to act as agents of change within IBM. They should identify changes the company needs to make and help introduce the expertise that a professional services culture can bring (in terms of pinpointing benefit opportunities in clients, coaching, support and delivery excellence).

IBM has found the majority of former PwC Consulting partners have embraced the move as it has given them expanded opportunities to engage with clients and, more importantly, to feel the satisfaction of seeing their ideas turned into actual business outcomes across a wider range of a clients' needs than they may have had previously. Other groups such as human resources and marketing have also welcomed becoming part of IBM because of the breadth of career opportunities, strength of organisational structure and enhanced prestige.

The role of marketing

The marketing department operates through a matrix structure with the most important axis being an industry specialism. The other axis is about understanding the challenges being faced by functions such as human resources, finance or logistics. As Bishop has noted, research into the attributes most valued by clients of a professional services firm include: 'knows my industry' and 'has real business process expertise'.

One particular focus of the marketing process is therefore gaining a detailed appreciation of the 'hot' issues in the market and guiding where the company should be targeting its efforts – a key client requirement in the professional services environment. Portfolio management is a widely used technique within the marketing group for this. Grids of market attractiveness are analysed against market capability and set within the framework of a rich mathematical database – this then allows a clear 'choice of the attractive places to play'.

Alongside some of the more traditional activities (such as running events and promotions), marketing also supports new service design and development by helping to identify those engagements that could become the basis of new business stream by being 'mass customised' for new clients, such as the business transformation deals with Philips or Sprint. This complements the new service design and development work done out in the field by consultants with their clients.

Maintaining professional excellence

Another key differentiator is that of 'high calibre people'. There are two main functions that play a role in continuing professional development. While they are not a formalised part of the marketing department, marketing plays a key role in getting everything aligned around the right subject matter, the right message, and the right timing.

The first is learning and knowledge, which is considered so central to the company that there are professional knowledge managers who oversee the collection and transfer of knowledge by codifying it and entering it into internal reference databases. Marketing then takes subsets of this knowledge and builds wider communications plans around them. The other is internal communications, which creates both 'push' communications such as newsletters, and 'pull' communications, particularly with intranets, so that people can get the information they need when they need it, whether they are in the firm or out at client sites.

At the most basic level, the need of publicly traded firms to report results to the financial markets means that leaders must be more disciplined about forecasting and reporting revenues than those operating in a private partnership. These public companies tend to use more systematic marketing, sales and account management processes. They are also able to employ first class professionals to lead projects without partner-level profit sharing. Their reward is based partly on share options, whose value increases according to the views of the capital markets on performance criteria such as future earnings. Quoted firms, therefore, frequently have a cost advantage, which affects their pricing and allows them to penetrate markets, previously dominated by partnerships, with a different price and quality offer.

This difference in ownership structure therefore leads to a difference in the approach to marketing and sales. Marketing in corporate firms tends to be functional. Specialists are usually given a clear role in a hierarchically structured department with a clear mandate, budget, tasks and processes. No one else in the company is expected to initiate marketing programmes.

Sales and account management can also be different. For example, corporate firms seem to find it easier to deploy consistent and ubiquitous standards of service internationally than partnerships because of their more centralised structure. Partnerships, on the other hand, have to mobilise a complex network of relationships to achieve the same end.

Type of project

Professional services firms can also be categorised according to the type of project work they engage in. David Maister, in his definitive work on the subject (Maister, 1993), describes three main kinds of client work firms undertake:

- 'Brains'. This is where the firm sells its services on the basis of the highly professional and technical skills of its staff, dealing with unique and particularly complex situations. The key elements involved are creativity, innovation, and the development of new approaches, concepts and techniques. These types of firms will be top-heavy with highly skilled and highly paid professionals.
- 'Grey hair' projects, on the other hand, while needing a certain amount of customisation and intellectual flair, are addressing areas in which the firm has already had experience and can sell its knowledge, experience and judgement. More junior staff can be employed to do some of the tasks.
- Finally, 'Procedure' projects involve well-recognised and familiar types of problems. However, because the client believes an outside firm will be more efficient, or lacks the staff capabilities to do the work itself, it will bring in a professional firm with demonstrable experience. There will be a far higher proportion of junior staff for this type of project than for the previous two.

The dominance of the type of work affects the marketing approach of the firm. A 'Brains' dominated firm will tend to communicate the individual skills of its gurus and focus upon 'thought leadership'. A procedural firm, on the other hand, will put its focus on efficient proposal management, profit through contracting, scalable service propositions and generic campaigns. It is more likely to stress a range of different services that are available.

Another way of categorising the work is by 'annuity' or 'project'. Annuity contracts, such as a financial audit or regular benchmarking projects, give reliable cash flow and, often, a steady client relationship. Annuity work, however, tends to have lower margins than high quality project work. The dominance of this type of work affects the marketing approach of the firm. Annuity providers will try to raise their margins and use the contract to win other work, whereas a firm dominated by project work will experience erratic cash flow and will tend to focus on building a healthy pipeline of business. One viable strategy for a firm of this sort might be to create new offers which are annuity based. For example, a research company may try to create a membership-based omnibus programme to which clients regularly subscribe.

ITSMA: creating an annuity model

The Boston-based Information Technology Services Marketing Association (ITSMA) offers advice on service marketing to firms in the IT, telecom and professional services sector. It has operations in the US, Europe, Japan and India. Current members in the US include leading businesses such as IBM, Microsoft, Cisco, Hewlett-Packard, Nokia, SAP, Accenture and BearingPoint.

The business model is an annuity-based one, offering its corporate members a range of benefits in return for annual membership fees. These include:

- Continuous insight into marketing and sales trends, benchmarks, best practices and new ideas through research reports, briefings, information services and a research library.
- Advice and guidance on key marketing and sales challenges.
- Special member pricing for events and multi-client research studies.
- Customised research, consulting, training and events.
- Being part of a community which can share ideas and further state-of-the-art knowledge and understanding.

ITSMA was founded in 1994 by Richard Munn, whose career comprised extensive experience in market research, latterly as president of the IT specialists Dataquest. In 1992, he began to consider doing something to address what he felt was the underserved but growing group of professional service marketers in the IT industry.

He could see the potential for building a workable business model based on a community of like-minded professionals with their similar needs and concerns. It would be one that would develop and advance the profession by sharing best practice, publishing thought leadership research and providing advice. A key component of ITSMA's success was creating a company different from and complementary to the traditional IT market research and analyst firms.

Having worked in leading research companies, Munn was aware of the risk to stability and cash flow arising from a project-based business. He therefore created ITSMA as an annuity business, inspired by other member-based organisations. Munn refined the concept further by offering benefits that would breed affinity and loyalty among the membership and thus be sustainable over time. He set up a board of advisors from senior representatives of leading member firms. By the end of the first year, ITSMA had 40 corporate members, and by the time it celebrated its 10th birthday in 2004, it had over 120.

A changing market

The professional services industry has been in existence for several centuries. Lawyers, designers, accountants and architects have been operating for many hundreds of years. However, the volume and diversity of this market has grown markedly over the past half century. This growth has also seen the advent of new types of services, or the reinvention of older ones. For example, executive search and direct marketing agencies are, primarily, an invention of the latter half of the twentieth century. On the other hand, executive training is, in some cases, now being replaced by a new service called 'executive coaching'.

Although there are always new concepts and growth areas in professional services, much of the industry is showing signs of maturing. This has been for a number of reasons, probably the most profound of which is the education of modern buyers. In the past, clients tended to look to the learned professions for help and assistance in an unquestioning way. The huge barriers created by years of training made the public dependent and unquestioning.

That attitude has now changed. Not only are people much more willing to question and challenge the views of professionals, but business buyers are more informed, often subjecting firms to competitive pitches. They will ask for explanations, sometimes ask for a second opinion and even demand service in the form of excellent 'bedside manner' in addition to technical advice.

On top of that, there has been an unprecedented onslaught on the stature of the professions through changes in regulation. A prime example of this is the well-publicised regulatory rigours imposed on the accountancy profession after the Enron debacle.

Like other industries before it, the professional services sector is faced with new market dynamics which mean that it cannot take natural demand for granted and this has implications for the way the businesses are run. The huge growth in professional services over the last 50 years means that many firms are currently geared towards structuring resources in response to largely unstimulated demand. When demand falls off, their response tends to be to cut resources rather than stimulate the market. This strategy, however, is not viable in a mature market. As the sector is indeed maturing in developed countries, firms need to become more sophisticated in the way they go to market, learning to become more market oriented rather than supplier driven (Kotler *et al.*, 2000).

The fundamental drivers of revenue growth

There is a natural momentum to the revenue growth of a professional services firm and at its centre is the reputation that flows from doing excellent work. Clients approaching a professional services firm for the first time are unsure. They have few means of assessing the quality of the work they will receive because it is not tangible or manufactured in advance. They can only judge by certain clues such as referrals from people they trust, the nature of the employees they meet or the impression created by the firm's offices, website or brochures.

In addition, clients must surrender themselves to the supplier's process, increasing their discomfort. Research shows that the surrender of personal control to the supplier in this way invokes emotions of discomfort and distress (Bateson and Hoffman, 1999). As a result, once a project is successfully completed, the client feels a sense of relief and will talk about the service to others. Positive (and negative) stories then begin to proliferate about the firm, creating a reputation. If that reputation is positive it will generate repeat business from the same client or referrals to different clients.

The two main drivers of future revenue growth are therefore the quality of work and the quality of client service. This creates a strong reputation, which eventually turns into a brand, and this, in turn, draws in more work, as illustrated in Figure I.1. This 'demand-pull' has two very powerful benefits for professional services firms. First, it keeps the cost of sales low because the firm does not have to go out and get work. Second, it enables firms to keep prices high because, if clients come to them, practitioners can focus on

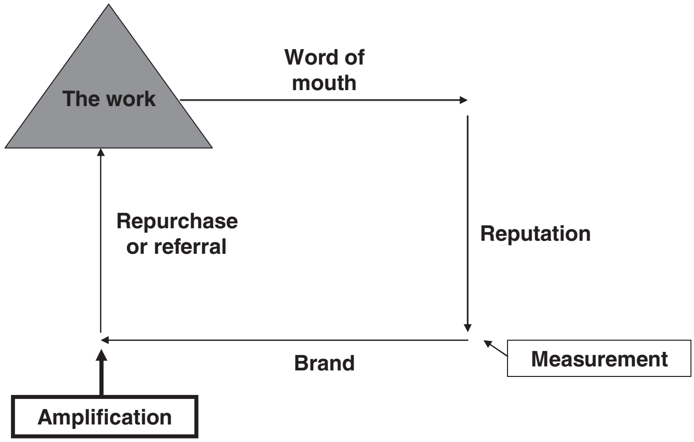

Figure I.1 *The role of reputation in generating work.*

diagnosing the need. Pricing becomes a consequence, not a focus, of discussion. Reputation enhancement is thus the essence of how professional services grow and flourish, creating demand-pull, while keeping cost of sales low and prices high.

It follows, then, that marketing activity should be aimed at enhancing the firm's reputation. This can be achieved by individuals in the firm making themselves more visible by finding ways to illustrate their expertise. For example, they might write articles, be interviewed by relevant media representatives and speak at high profile conferences.

The issue for the industry is whether structured marketing techniques, as introduced by other industries, can enhance the natural momentum of the firm in order to increase revenue and margin still further. The growing experience of firms, marketing specialists and academics who study this area is that it is possible for various marketing activities to be built into the normal business of the firm, as illustrated in Table I.1. Properly done, this will increase revenues and control or reduce cost of sale.

To be successful, however, the leadership needs to find ways to engage with the marketing profession, making its techniques, processes and approach relevant to the firm's needs. For the corporate firms, particularly those with a product heritage, this may involve investigating and institutionalising the techniques of service (rather than product) marketing. For partnerships, it may mean adopting a more systematic approach to marketing and introducing new skills.

Table I.1 *Linking marketing to the firm's growth.*

What grows a professional service business?	Why?	How 'marketing' can contribute
• Good work through good people	• Clients talk • Reputation grows • Reputation creates demand	• Amplify 'word of mouth' • Turn reputation into a brand • Create 'demand-pull' • Objective quality measurement
• Networking	• Relationships help sales	• Structured relationship management • Create events
• Speeches on public platforms	• Visibility helps sales and reputation	• PR – media appearances • Conferences • Thought leadership • Editorial/articles
• Good strategy	• Focuses resources on opportunities	• Identification • Prioritisation and targeting • Coordinated approach

Unfortunately, the history of marketing as a specialism, with its bias towards consumer products, tends to deter professional services practitioners from using it as fully as they could. Yet there are relevant, practical techniques which can improve the health of the business for those willing to explore them.

A brief history of marketing

Marketing encompasses a range of techniques that grow revenue. It is defined and explored in depth in Chapter 7. The term is used to cover a wide range of activities (from account management and sales through to press management and advertising) and a broad supply industry (involving research, brand, design and consulting firms). As with other specialisms, business leaders can succeed with its techniques using instinct, business experience and common sense.

However, at a time when the professional services sector faces unprecedented issues concerning the way it deals with its clients and markets, the industry should take advantage of the well-established tools, techniques, processes and perspectives marketing has to offer. Leaders readily engage a range of specialists (such as lawyers, human resources managers and accountants) to improve business performance. It is thus sensible to engage specialists in service marketing to help focus the firm's approach to its market.

Unfortunately, the history of marketing has, until relatively recently, made such relevant marketing expertise difficult for the leaders of professional services firms to access. They do not see it as applicable to their businesses when marketing specialists seek to contribute their skills. After all, the marketing function came to the fore in the consumer goods sector and much of its approach and theory is still based upon the experience of these businesses. In the mid-twentieth century, as markets matured and became more saturated, consumer goods companies needed to move their stock more effectively. This led them to institutionalise the discipline of marketing, with a focus on advertising and branded goods aimed at clear segments of buyers. Companies like Procter & Gamble, Unilever and Mars flourished by becoming marketing led and creating branded value propositions. The theories of marketing, developed by academics at this time, were thus largely based on the experience of the consumer goods industry.

However, over the next few decades marketing became more significant in other industries, such as the car industry in the early 1970s and the computer industry during the early 1990s, as they, in turn, matured. Then, in the second half of the twentieth century, the combination of two powerful forces saw marketing increasingly being applied to service businesses.

First, new sectors of the economy were opened to market forces. Companies in the leisure, utilities and financial services sectors all had to rethink the way they go to market, as competition increased and buyers became more sophisticated and demanding. For example, the privatised utilities found themselves having to compete for the first time, while European banks saw their steady market disrupted by new legislation. As a result they have had to invest in marketing techniques and create new sales and marketing functions.

Second, there has been a progressive shift in most developed economies from manufacturing to service dominance, to the point where services are estimated to account for almost two-thirds of most Western countries' gross national product. This demanded the attention of marketing academics. The differences between product and service marketing were first explored in earnest by various academics in the early 1980s. There are now schools of academics in the US, Asia and Europe which have