



## PROFESSIONAL SERVICE FIRMS 2010

*Professional Service Firms globally have commenced a change process but to date efforts have been around marketing and sales techniques. This paper outlines a complete “package” of change required to make firms competitive and successful in the rationalization that the industry is facing in the next few years.*

The professional service firms of the world have only now started to feel a pressure to change. Shrinking margins and an increasing difficulty in attracting and retaining staff have been the early signs. The early adopters of the industry, no more than 16 percent of the industry can see the pressure coming. The next 34 percent, the early majority, sense something is happening. They can't work out what it is, but they are starting to feel the winds of change. The next 34 percent, the late majority, read about the likely changes but until they see the early majority adopt the new structure they will continue to procrastinate about change. The last 16 percent are the laggards. They never change and, fortunately for the industry, will retire, go into low level industry jobs or somehow leave the profession, over the next five to ten years. This pattern, known as the diffusion of innovation, applies to all industries. This paper, Professional Service Firm 2010, will only initially appeal to the “early adopters”. If you are not in this group, file the paper away for a few years and then read it again. When the time is right for you, the changes required will make sense.

### LESSONS FROM OTHER INDUSTRIES

The automotive component manufacturing sector has many lessons for the Professional Service Firm of 2010. The concepts of lean manufacturing have been embraced over the last 20 years. Manufacturers know that to survive they need to be more competitive. To be competitive in a commodity market continuous cost reduction is the only strategy. Every year costs must be reduced. Waste reduction is usually the first step, often yielding a massive 15 to 20 percent savings of operating costs. It is essential that complacency does not come with such savings as annual cost reductions of 2 to 5 percent are still available. Manufacturers strive to achieve error rates of 5 to 10 parts per million, an error rate of between 0.0005% and 0.010%. Manufacturers

have a good understanding of their process capability. They know any variation to the standard process is due to a normal cause or a special cause. They search for the special causes, not to blame someone but to remove the waste. They even more aggressively search for the normal causes as these factors point to system problems. System problems can be solved by project teams. Project teams use the Plan-Do-Check-Act cycle which results in changes to the Standard Operating Procedures (SOP) The SOPs' are visible all around the workplace.

Control Charts, the tool for monitoring process capability are constantly updated and monitored. All key operators know how to measure process capability. They don't over react to minor variations. They continuously improve their processes, often in conjunction with key customers. Spending time in a process improvement team is just part of every employee's job.

Visual management is in evidence everywhere. Targets, actual results and variance on thirty or forty key operations are graphically monitored on performance boards located in the centre of the work area. Stand up meetings, lasting only 10 minutes, are held at the start of each work shift to brief all team members of developments, problems and opportunities. Most of the time is used talking about how to improve the processes.

To get the best utilization of the assets of the business, the operation runs 24 hours a day, 7 days per week. On the sales side there are key account management programs with the 20 percent of customers who provide 80 percent of the sales and profit. There is a continuous exchange of personnel between customer and supplier. Long term planning, joint product development and service initiatives are standard aspects of the customer/supplier relationships.

How does this compare to the culture of professional service firms? What lessons are relevant? What savings are available? Who will have the courage to adopt these innovative processes? How will they learn how to do it? What will be the structure? What is the competitive advantage of the Professional Service Firm and what issues does it throw up?

## COMPETITIVE ADVANTAGE

The following competitive advantage is almost impossible for the traditional Professional Service Firm to adopt because of the changes it will drive in the firm. The Sustainable Competitive Advantage (SCA) that will ensure you will win is, "We will win by being the single biggest factor in the profit improvement of each of our Clients".

Imagine if you were the single biggest factor in your Clients profit improvement on a continuous basis, what will it do for your firm? For starters you are likely to retain the Client for life. Your fees become a self funded investment. There is no need for writing off time or waiting to be paid.

Referrals and word of mouth sales become your major growth mechanisms. The average fees per Client would double every few years.

What needs to change? Partners and Managers of the Professional Service Firm need to become specialists at profit improvement and strategic growth. Their current knowledge of accounting and tax issues is a natural stepping stone to becoming specialists in waste reduction, sales and marketing. Some will be generalists and some specialists but the services will be packaged into profit and growth modules and sold on a retainer basis.

Why is something so simple impossible to adopt? The aging Partners lack the confidence to lead the way. They are still making good incomes from traditional accounting but remain un-leveraged. They know if they stop working the fees dry up. Partners intellectually understand the need for change and that their Clients desperately need help with their profit, growth and exit strategies. They are un-willing to learn the new skills or risk applying them to Clients. The structure in a Professional Service Firm makes it difficult to make the required strategic decisions.

## STRUCTURE

The Partnership structure used by the most Professional Service Firms is now outdated. Partners have three roles, Shareholder, Director and Employee, and they like to choose what role they adopt whenever it suits them. Common sense says “management by committee” must result in inefficiencies, frustration and slow response to change.

The structure of a Professional Service Firm will be slow to change because many people will resist giving up the status of their position. It will be a small number of innovative firms around the world who will make the move first. The question is, move to what?

The corporate structure used by most businesses has worked well. Shareholders own the business and receive a dividend. A Board, representing the interests of the shareholders, set policy. A Chief Executive oversees the day to day activities. Senior Managers run the divisions and departments. An individual can be a Shareholder, a Chief Executive or even an employee. The roles for each level are clearly defined. The authority and responsibility at each is understood and applied without fuss.

It would not be difficult to adopt a “phantom” corporate structure in a Partnership. Some of the philosophies may be threatening to some Partners. For example, salaries would be linked to responsibility and performance. A Board of Directors would be appointed. A Chief Executive would have the autonomy to run the business without running every idea past the Shareholders first. Poor performers would be counselled and, if unable or unwilling to change, would be removed. A year or two operating under a phantom structure would provide the degree of confidence required to make the structure permanent.

## PRODUCTION CULTURE

If a corporate culture is adopted one of the first “Departments” that needs to be developed is the Production Department. A more attractive name such as “Business Support” or “Accounting Services” Department/Division will be required. A specialist production person should head up the Department. This person will have a manufacturing type focus, a good working knowledge of process capability and statistical process control. They must be capable of developing a continuous improvement culture that results in a steady cost reduction without sacrificing quality or service levels. Production tools such as FMEA and TPM need to be adopted. Technology will need continuous improvement as it will be the tool the Production Manger will use to control the processes and to lower cost. Many roles will be deskilled, automated and the human cost lowered. Data entry will be redesigned. Checking at all levels will be automated. Work scheduling and capacity planning will become the theme of meetings rather than lengthy discussions about fee write offs. The production department will be a “black box”, work coming in, value being added, work coming out, on time, on cost and to specification. Error rates will be parts per million.

Centralised Production Departments will be the norm. Technology and twenty four hour operations will allow a set of accounts to be completed overnight. Even if the Client doesn’t need it that quickly it will develop efficiency and a new service culture. Billing will occur on a daily basis, closely linking the value provided to the bill. The Production Department will be measured on turn around times, error rates, cost and service.

## VALUE ADDED SERVICES

The professional service firms have known of the need to develop value added services for the last decade. The problem is that they have tried to do this at the same time as maintaining their existing business. Partners are given the job to develop the new service whilst at the same time being required to maintain an existing Client portfolio and level of chargeable hours. This results in “Compliance lock”, frustration and sometimes Partner “burn-out”.

The partner concerned has usually tried to manage the increased work load without complaint as the retention of compliance work is an insurance policy if the value added project doesn’t work out. The result is a no-win. The current clients don’t get serviced as well as before, the specialist skills in Tax or Corporate law slip and insufficient effort is put into the new service.

An added pressure is the lack of cross selling from the Partners cocooned in their compliance roles. They don’t want to risk one of their hard won clients by recommending the service of their overworked and under skilled colleague. There is a lot of talk about support and help but few referrals. The Compliance Partner doesn’t understand the value added service well enough to feel confident in the selling process. The Value Added Partner believes that he/she needs to find their own Clients, resents the lack of support from the Compliance Partner and so becomes alienated from the rest of the

Practice. The temptation to "go it alone" increases and friction within the Practice increases. "Why did we want to move into value-added services?" is the cry, Partners losing sight of the original vision.

Is there a path through this maze of problems? Of course! The starting point is the application of the value added services on the firm. This is the most effective way of learning the value added tools and processes and provides first hand experience in the application of the profit and growth products. The sales process is enhanced if the firm can point to their own experiences as a success story.

The value added services eventually need the status and resources of their own Department. The firm needs to invest full time resources and sufficient time to make the value added service pay. Strategic partnerships with firms like Mindshop can provide the "technology" and support but the firm has to provide the investment. If the firm cannot afford the investment then it is probably doomed to following the downward spiral of pressured margins in the compliance sector.

All members of the firm must be trained in the value added product at least to the generalist level. They must participate in the profit and growth teams where the firm applies the value added products. Compliance Partners and staff need to be measured in part on their cross selling of the value added services. Partners and Managers in the Value added department need to cross and up sell the compliance products. The value added services often attract new Clients which then require significant compliance work done. Experience has shown a 5 to 1 spin off from value added to compliance work.

The senior management personnel in the value added department need to be the Relationship Managers for the total business. The technical skills of these people will become less important, the Client relationship skills more important. Title such as "Director" and "Manager" will become more relevant than "Partner". The Relationship Managers will spend most their time in Client contact. Networking will become more important. The Relationship Managers will be measured on total work won.

## CLIENT INFLUENCERS

Banks, Chambers and other Professionals have always been good sources of referrals. The referral activity has, however, been fragmented. The "Client Influences" such as the Banks have tried to share out the referrals to their Clients and those firms which refer work to the Bank. With Banks under increasing pressure for competitiveness, the time is now right for a more structured approach. The Professional bodies such as the Institutes have tried but haven't recognised the importance or logistics of the Bank linkages. They have reacted to proposals to sponsor conferences but don't have the know-how to enable them to develop a fully integrated structure.

Trading referrals is the answer. If an Accounting firm refers a specific amount of work to a Legal firm then they should expect an equivalent amount of referred work in return. Quarterly meetings to review progress and to plan

joint marketing activities are essential. Budgets need to be set for referrals on both the incoming and outgoing sides of the equation.

## KEY ACCOUNT MANAGEMENT

Most Professional Service Firms are clogged with low value clients. Twenty percent of the Clients cause 80 percent of the problems, the bad debts, the write offs and the loss in employee morale. Few Firms have a Client Review Process which filters out the unworthy Clients. Even fewer have Client Selection Processes which stops them getting into the Firm in the first place.

Mindshop does an annual review of its Clients against ten factors. If a target score is not achieved corrective action is taken, if the score remains an issue, the Client is asked to leave.

The 20 percent of Clients that create 80 percent of the Sales, profit, referrals and job satisfaction deserve special treatment. These Category A clients need their own strategy. The Mindshop one page plan is the ideal vehicle for the strategy.

The steps to achieving a Key Account Management program involve auditing the existing client base, identifying the 20 percent Category A clients and the 20 percent Category X Clients and implementing the required corrective action.

Each Relationship Manager is responsible for managing his/her Client base. Independent reviews of the Client mix is recommended so that personal relationships do not cloud the judgement of the Relationship Manager. Exiting low value Clients is a healthy activity and is to be encouraged. It is better to spend time attracting new Clients or up-selling or cross-selling existing Clients than working (probably at a loss) for low value Clients.

Some of the new Customer Relationship Manager (CRM) programs make the key account management activities easier to manage. Mindshop has adopted Salesforce.com as it's CRM package. It provides integration with Outlook, performance dash-boards and database management for a relatively low investment. There is no excuse to not be professional in Professional Service Firm marketing and sales.

## LEADERSHIP

As previously mentioned there needs to be a CEO leading the organisation. The CEO needs to be selected on leadership capability rather than technical skills or seniority. There is no way a guaranteed performance can be certain, trial and error is the ultimate test. Leadership in most firms is a full time occupation yet most CEO's retain Client contact to protect themselves in case of losing their CEO role. Leading with one arm tied behind their back is difficult if not impossible and only exceptional CEO's can pull it off. They achieve this balancing act through working long hours resulting ultimately in burn out. Younger Partners have no ambition to pay the price of poor life balance so succession planning is also a problem.

The solution is to make the CEO's role full time after a 2 year trial of the best candidate. Dropping off the chargeable work and replacing it with new fee generation activities will ensure the CEO maintains the respect of the organisation. Which is better for the firm, 1200 chargeable hours or new business of 2400 hours?

## VALUE BILLING

The concept of value billing has been pushed by the practice management consultants for the last ten years. It is important and is generally well understood today by the progressive firms. Selling hours at standard rates is limiting. Negotiating with Clients a specific fee for a specific outcome is good for everyone. This approach provides certainty for the Client, there are no surprises in the bill and the cash flow can be planned. There is incentive for the Professional Service Firm to reduce costs as that directly impacts positively on profit. Cost reduction when done correctly impacts positively on service delivery.

## GROWTH

Growth rates tell you a lot about the health of a professional service firm. Imagine if a firm had compound growth of 25% for the next five years. With "sales" of three times the starting point what would that mean for issues such as leadership, products, staffing levels, training, recruitment, succession planning and profit? This sort of growth creates cultural change. Who would be attracted to such a firm? Who wouldn't make the grade? An aggressive growth target even with its inherent problems and risks is essential for firms wishing to win in the future.

## ATTRACTING GOOD PEOPLE

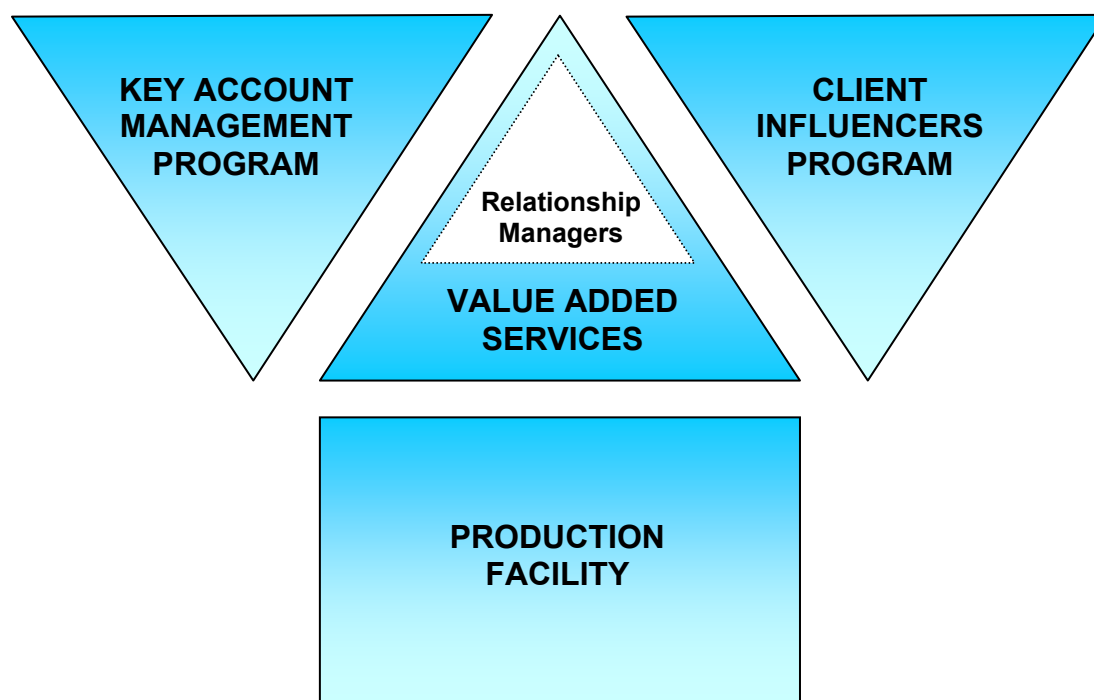
How to attract and retain good people is a key success factor for professional service firms. The good news is that the same strategy works for both new and existing staff. Career plans, training, recognition, job variety and professional image are the key elements that need to be added to factors such as leadership, quality Clients, growth and value added services. Even basics such as the recruitment process impact significantly on the ability to attract and retain good people. Mindshop's recruitment process provides this level of professionalism and innovation to appeal to the best people.

## CELEBRATING SUCCESS

Having fun at work is an essential aspect often ignored. The old fashioned view that “we are paying them aren’t we” is not enough for younger staff. They are mobile and will not endure a boring work environment. Successful firms look for opportunities to celebrate success. A good month, a major new Client, retirement, births and birthdays are all good excuses to celebrate. Install “fun” as one of your core values, take the seriousness out of work and morale will increase.

## SUMMARY

The model which brings together all these elements is shown below. The challenge is how this can be achieved.



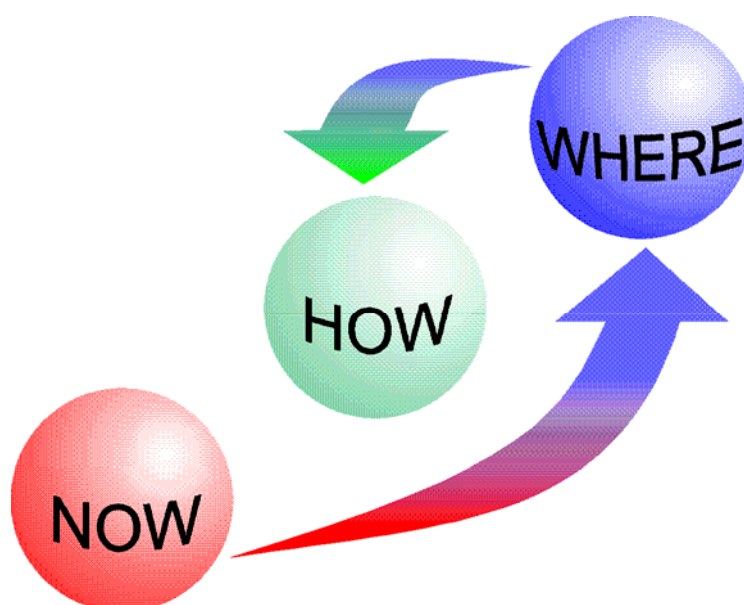
The Key Account Management program generates demand for the Value Added Services that are supported by the Client Influencers and the Production Facility does the work. The culture in each element is different and needs to be managed and measured in separate ways.

The leadership and structure of the Professional Service Firm is a key factor. A Corporate approach is the way forward so that the tried and proven processes of general business are applied to the Professional Service Firm.

This paper was first written in the mid nineties and updated every few years with emerging and proven ideas. This review in May, 2007 builds on a decade of daily working with Professional Service Firms on a global basis. It is interesting to know that the strategies apply whether you are operating out of Los Angeles, Copenhagen or Sydney. Leadership is the key success factor and it is the determining factor regarding the ability to bring about the changes suggested in this paper. Where is your firm Now?

## PROFESSIONAL FIRM AUDIT

To discover where the Firm is NOW, the following audit should be carried out. Simply score each factor on the scale provided.



### 1. RELATIONSHIP MANAGERS

	Poor	Average	Good
	-5	0	+5
1.1 The amount of Client Contact	--- --- --- --- --- --- --- ---		
	-5	0	+5
1.2 The level of cross selling	--- --- --- --- --- --- --- ---		
	-5	0	+5
1.3 The amount of new business	--- --- --- --- --- --- --- ---		
	-5	0	+5
1.4 The removal of “unworthy” Clients	--- --- --- --- --- --- --- ---		
	-5	0	+5
1.5 The level of support they receive from the firm	--- --- --- --- --- --- --- ---		

### 2. VALUE ADDED SERVICES

	Poor	Average	Good
	-5	0	+5
2.1 Range of value added services	--- --- --- --- --- --- --- ---		
	-5	0	+5
2.2 Level of specialist support	--- --- --- --- --- --- --- ---		
	-5	0	+5
2.3 Investment provided	--- --- --- --- --- --- --- ---		
	-5	0	+5
2.4 Control of “Compliance lock”	--- --- --- --- --- --- --- ---		
	-5	0	+5
2.5 Staff training in VA Services	--- --- --- --- --- --- --- ---		

3. **KEY ACCOUNT MANAGEMENT**

	Poor	Average	Good
	-5	0	+5
3.1 Level of networking	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
3.2 Client review process effectiveness	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
3.3 Client selection process effectiveness	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
3.4 Category A Client development plans	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
3.5 Investment in Key Account Management	--- --- --- --- --- --- --- --- ---		

4. **CLIENT INFLUENCERS PROGRAM**

	Poor	Average	Good
	-5	0	+5
4.1 Referrals from Alliance partners	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
4.2 Referrals to Alliance partners	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
4.3 Participation levels with Influencers	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
4.4 Contact levels with Influencers	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
4.5 Effectiveness of Influencers Strategy	--- --- --- --- --- --- --- --- ---		

5. **PRODUCTION FACILITY**

	Poor	Average	Good
	-5	0	+5
5.1 Understanding of production principles	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
5.2 Statistical process control	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
5.3 Continuous improvement culture	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
5.4 Control of costs	--- --- --- --- --- --- --- --- ---		
	-5	0	+5
5.5 Control of errors/quality	--- --- --- --- --- --- --- --- ---		

## 6. MANAGEMENT

	Poor	Average	Good
	-5	0	+5
4.1 Leadership	--- --- --- --- --- --- --- ---		
	-5	0	+5
4.2 Growth	--- --- --- --- --- --- --- ---		
	-5	0	+5
4.3 Quality of Clients	--- --- --- --- --- --- --- ---		
	-5	0	+5
4.4 Value Billing	--- --- --- --- --- --- --- ---		
	-5	0	+5
4.5 Cash generation	--- --- --- --- --- --- --- ---		

## 7. MORALE

	Poor	Average	Good
	-5	0	+5
5.1 Ability to recruit good people	--- --- --- --- --- --- --- ---		
	-5	0	+5
5.2 Retention of good people	--- --- --- --- --- --- --- ---		
	-5	0	+5
5.3 Celebration of success	--- --- --- --- --- --- --- ---		
	-5	0	+5
5.4 Career Planning	--- --- --- --- --- --- --- ---		
	-5	0	+5
5.5 Feedback and Recognition	--- --- --- --- --- --- --- ---		

*Having completed the Now Analysis the next step is the Where Analysis, the Vision. Go back to the audit sheet and indicate where each factor must be for you to achieve the 2010 model. This becomes your vision. The final step is to complete the How. Your gap analysis between the Now and Where points to where you need to invest. How will you bridge the gap?*