



Productizing the Professional Services Business

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Most professional services businesses start small and grow organically. These businesses face a number of growth challenges...most pretty well known. However, few services firms ever break out beyond a certain revenue and profitability level due to the constraints of their original business model and the failure to reorient their focus from technical operations to more of a business and market focus.

This white paper will explore the key challenges of market focus and profitability facing the professional services firm and explore a methodology for achieving significantly higher revenues and profit through the “productization” of the services business.

These firms tend to have growth problems at certain, pre-defined stages. One such stage is the point at which the founders and the rest of the senior management team become managers rather than service deliverers. They must change roles – helping other people to grow and to deliver service rather than to do the business.

A second stage is an important revenue stage – typically at the \$2-\$5M annual revenue range. At this point, the organization has grown somewhat, yet the company has not developed efficiencies in systems and processes (billing, accounting, human resources, project management, etc.) to support the larger organization. The company has the cost infrastructure of a larger company, yet is stuck with the profit model of a smaller consulting firm. (For more detail on the various stages for a professional services business, please refer to the chart from First Albany Corporation on the following page.)

Both of these challenges become relatively obvious...although typically not without significant friction. Neither of these challenges is insurmountable. By their nature, they are obvious problems that demand attention...typically after some blow-up.

The business model challenge, however, is one that few of these entrepreneurs surmount. In short, the business model challenge is reflected in the selling, marketing and billing models, and is an insidious problem rather than one that demands immediate attention. The company must break out of its small consulting firm profit model to be able to support the infrastructure expense of the larger company. If it does not, it will die.

Stages of Development for a Professional Services Firm

	<ul style="list-style-type: none"> • One office • Founder driven • Narrow focus 	<ul style="list-style-type: none"> • Case study based marketing • Initial diversification of services offering • Introduction of project management discipline 	<ul style="list-style-type: none"> • Formalized business development • Regional expansion • Formalized recruiting/training • Fully functioning systems infrastructure (knowledge management, project management, PSA) • Campus recruiting • Extensive partnerships • Vertical market strategy 	<ul style="list-style-type: none"> • Super-regional or national footprint • Expanding number of served verticals • Abandonment of middle market • Productization of services offerings • Integration of vertical selling and horizontal delivery • Add strategy component 	<ul style="list-style-type: none"> • National or international footprint • Migration into systems or business process outsourcing • Complex alliance and partner network • Subsegment verticals • Shift to package or systems integration • Larger, more multi-disciplinary project teams 	
Revenue	\$2M	\$10M	\$50M	\$100M	\$250M	\$500M+
Billable Heads	10	50	250	500	1250	2500+

Source: First Albany Corporation, 2002

The Problem

Early stage (and many later stage) services firms tend to sell opportunistically, taking business wherever they find it. Frequently sales engagements drive the direction and growth of the company, occasionally clashing with industry trends or profitability issues.

In our experience, most firms continue to sell technical services on a T&M basis (hourly or daily billing), rather than stepping back to consider the business benefits experienced by the customer. It is this technical focus that constrains the growth of the business.

The technical entrepreneur may find it difficult (or uncomfortable) to look beyond the wiring, or coding, or hand-holding of the day-to-day service delivery. He or she may be task oriented...and in addition, like many entrepreneurs, may be a perfectionist or be

bored unless he or she is working on multiple simultaneous projects. It is therefore quite difficult for the entrepreneur to step back and ask the big picture question:

What business problem are we solving for my customers?

Until the entrepreneur asks this question, he or she will never identify the leverage points in the business. At the ground level, the customer's problem may seem to be a wiring problem or a coding problem or similar...but at a higher level, the customer's problem can be described rather differently, typically in business terms that ultimately relate to the customer's profitability or revenue issues.

Answering this question represents just the first step to higher profitability, growth and business stability. The other two key questions involve customer focus and leverage.

A directly related question is:

Who is the customer?

It is sometimes more convenient to answer the "problem" question first, but it will always lead us back to this more basic question of identifying the customer. And a strong understanding of the customer is absolutely critical to both answering the "pain" question and in conducting the follow on work.

Customer focus can be accomplished through a well-known set of activities in marketing...but few IT services firms have the discipline to rule out specific customers. Instead they prefer to provide services to anyone engaging them, losing the opportunity for both service and marketing leverage.

Customer Focus

In our experience, many, if not most technology companies are started by the creation and development of a technology product or a service rather than to solve a specific customer problem. In other words, many IT products are invented not because a customer needs the product but because someone built something interesting...and the company focuses inward on its capabilities rather than outward on the customer's requirements.

Product- or service-driven companies belatedly (if ever) evaluate their offerings in the context of customer "pain points." And effective marketing cannot be conducted outside the context of customer pain points. If the product or service does not solve an important (Type 1) problem, the growth of the

Hierarchy of Customer Pain		
Level	Urgency of problem	Importance of Problem
Type I	High	High
Type II	Medium	Medium
Type III	Low	Low

Source, Acelera Group 2002.

Note: These are the fundamental levels. Sublevels exist reflecting combinations of high/medium/low values, but ultimately, only problems that fall within the first level (Type 1) represent an opportunity.

company will be highly constrained (at best).

If the decision maker within the company does not consider a problem to be both *urgent* and *important*, the company will not spend any money to solve the problem.

Most entrepreneurs fail to undertake this analysis, instead preferring to focus on the interesting technical challenges of product development.

These entrepreneurs do consider themselves “customer-focused.” After all, customers keep asking them to do more work, and keep paying them for this work. What they fail to identify is that in this relationship, the customer is driving their business by leading them to provide services specific to his needs. The services may not reflect general interest or industry trends, and importantly, the services are typically sold on a T&M basis, rather than reflecting the value of the service to the customer.

Additionally, when customers are engaged at this level, every job is a “one-off” and the company will never identify a group of customers with similar problems to be addressed. In this environment, every client is hard-won, with no leverage of one customer success leading to the next.

Case Study – Pharmaceutical IT Services Firm

One of our clients has almost a decade of experience in providing technical and infrastructure services to large pharmaceutical companies. Before we began working with them, they believed that their core value proposition, in the eyes of their customers, was their:

ability to tie disparate systems together and to keep them running

While this statement certainly did describe the company day-to-day activities, it did not adequately describe the value of those services to their clients. It also did not differentiate them from other service providers that did not specialize in the pharmaceutical industry. After some coaching, the company was able to restate its core value proposition as:

We help drug companies bring drugs to market more quickly.

Note that the second value statement is focused on the business issues of the customer rather than the customer’s technology needs. While the statement remains a bit vague with regard to the actual services offered, it’s certainly a more interesting conversation starter with a CEO or business unit manager at a pharmaceutical company as it more closely aligns with the goals and needs of the company.

Leverage

It is the issue of leverage that trips up most professional services firms.

When the professional services firm responds to customer requests for services, the firm believes that it is being “responsive” to the customer. However, the firm is letting the customer dictate the value proposition.

When, on the other hand, the professional services firm proactively markets its services to customers, the firm controls the discussion of the value proposition. In the case of our pharmaceutical IT services client, it is the difference between responding to a RFP for technology services, and running a marketing campaign stating that their clinical trials data service helps bring drugs to market faster.

In the former case, the discussion revolves around costs, timeframes and capabilities. In the second case, the discussion revolves around business benefits, while the capabilities are assumed and the costs and timeframes are dictated by the IT services firm rather than the purchaser.

We have seen professional services firms raise project billing rates by an order of magnitude or *two* by taking control of the selling environment and proactively marketing their services.

Additionally, the close rate for sales engagements typically rises, as the prospect is now hearing the problem/solution statement described in his business language rather than in technical terms. As part of this discussion, success stories from other engagements will include discussions of ROI or market share gains rather than technical accomplishments.

Productizing the Professional Services Offering

In productizing the professional services offering, we identify a series of commonalities in the offering, including:

- Common user requirements
- Common set of deliverables
- Unique features of service deliverable (could be methodology, custom applications, process, etc.)

We take these common features and describe the service as though it were a product, with a service description and a series of feature/benefit statements that focus on the business benefits for the customer.

The “magic” is in the teasing out of the “special sauce” of the services firm. Most firms cannot readily identify what makes them special...or even capable of delivering reliable solutions engagement after engagement. Many companies will state that they:

- Give great customer service
- Listen to their customers
- Sweat the details

All of this may be true, yet none of it is the “special sauce” that will allow the company to grow. Through a proven process of interviewing and discovery, we identify the high value components of the services and focus the product development and marketing energies on those.

We then work to ensure proper positioning of the service – ensuring the relevancy of the service with regard to the “pain” felt by the end customer. Without the proper matching of the customer pain and the service, the feature/benefit statements will fall on deaf ears.

On the other hand, a good alignment of the customer pain and the service features allows effective marketing and sales processes to take place.

In the case of another client, prospects and even employees found it difficult to understand the core value of the company’s website Visitor Conversion Services until they were described as a “Commerce Funnel,” bringing a large volume of prospects into the top of the funnel and guiding them through the website until a small percentage of them exited the bottom of the funnel as customers.

Next Steps

IT services firms that wish to strengthen their financial base and to continue to grow must think beyond winning the next engagement. The successful firm will take back control of its destiny from its individual clients and begin the hunt for the group of clients that share common business problems.

At the same time, the firm will identify and highlight the high value portions of its services offerings, pricing these services on a value rather than cost basis.

For more information on how the Acelera Group can help to productize and market your services offerings, please contact us at 617 737-7100 or at info@aceleragroup.com.