How to Lock-in Your Clients

How Professional Services Firms Can Create Compelling Value for Clients Using Collaborative Technologies

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>> A STRATEGIC WHITE PAPER FROM MICROSOFT BUSINESS SOLUTIONS

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>> Introduction

Cast your mind back to 1993. It was the year that the web browser was invented. Online search engines didn't yet exist. The latest cell phones on the market were the first to weigh less than a brick, and there were still long queues for public telephones at conference breaks. Just a handful of organizations had given their staff access to external email. Few senior executives had a PC on their desk. Letters—stuck in an envelope, affixed with a stamp, and hopefully entrusted to the Post Office—were central to business communication.

In just over a decade, business has become connected, and we all too easily forget how much has changed. Most people can't imagine life without a cell phone, professionals are completely lost if their PCs fail, email is central to business communication, and many can happily run all their daily work and communication from a laptop or mobile device. This is just the beginning. We are likely to see far more change over the next ten years than over the last ten. One reason is that we have all been through the process of becoming familiar with basic technologies like PCs and email. Now that we take them for granted we can readily explore emerging technologies' power to transform work. Industry leaders will find new ways of working that create more value for their clients and themselves. These innovators will break away from their competitors that still do business the same way they always have, despite the world having dramatically changed.

Many managers of professional services firms seem to believe that the future will look much like the past. It is true that professional services will remain based on creating value from the expertise of highly-specialized professionals. However soaring connectivity is changing the entire nature of professional client relationships, including not only client communication and service delivery, but also how value is created.

In this White Paper we examine the implications of connectivity and emerging technologies for professional services firms, and the steps they must take to succeed in this new world.

Unhappy with what you're paying for the big-firm lawyer who's working on your account, just a few years out of graduate school? Go to the Greedy Associates website[1], and you can find out what he's earning, and calculate how much of your invoice is heading for his partner's new sports car fund. Alongside, you can see what your lawyer is earning relative to his peers at other law firms in your city. Some clients of law firms are asking to see detailed breakdowns of who is working on their accounts. Many are issuing tenders so their legal service providers are forced to bid their lowest price to get the business.

If you're in advertising, you are likely to have recently experienced key clients demanding total transparency of your agency's costs, and naming the profit margin they will graciously allow you to earn. Other agencies have pre-emptied this by voluntarily exposing their cost structure to clients.

These examples illustrate two of the most powerful trends in professional services: *transparency* and *commoditization.*

There are many drivers to increasing transparency in business and society. The most important one is simply that in a connected world, information flows freely. A useful metaphor for the Internet is that of a "cloud". If you touch the vast cloud of the Internet at any point, you can access anyone or anything else that touches that cloud at any other point. This means that it only takes one person to want to disclose information, and everyone in the world can access it. Secrets have become very hard to keep. Those secrets often include pricing and margins.

Another key driver of transparency is changing expectations. Do you like being kept in the dark by your suppliers? Increasingly, we have the choice. Clients usually prefer greater transparency, so firms find there is competitive advantage in being more transparent, and as a result the practices in entire industries gradually shift. Transparency is not an enemy, however it's a reality.

The second trend is commoditization. The global free flow of information means products and services can easily be duplicated, and then offered at a lower cost. Clients can now quickly source alternative local and international suppliers. As a result, in every industry there is an ongoing shift of power to clients, who have the ability to call the shots, and increasingly use that power. In many cases, clients are choosing to treat their suppliers as commodities, eschewing loyalty, and continually trying to find equivalent offerings for a lower price. Professional services are no different.

In addition to these industry drivers, we have to understand the primary technology driver today. The key word is *integration.*

Sure, we're connected. We can send anyone an email with text or an attachment. But it still takes a person to read the email and make sense of it. The next phase of the connected economy is allowing information to flow easily between different computer systems. XML (eXtensible Markup Language) is a standard for attaching descriptions to pieces of information, so that any computer will know what any incoming information means, and how to treat it. Web services, as for example implemented in Microsoft's .NET family of products, allow applications on different computers to interact and mesh seamlessly together.

The most important implication of this next phase of IT development is that organizational boundaries will blur, sometimes beyond recognition. Business processes and workflow can just as easily happen across organizations as within them. In an increasingly complex world, no firm can stand alone. Companies must collaborate with others to create value.

A powerful example is the US Joint Strike Fighter project. Lockheed-Martin won the contract to lead the development of the next generation of strike fighter, which is expected to cost $200 billion. There is no way any single company could do this alone. The project will involve 40,000 professionals across 80 companies, using a whole new suite of collaborative technologies to work together. The design and creation of the fighters will take place across all these firms, using software tools that make it irrelevant whether professional colleagues are in the same building, or working in different companies on opposite sides of the planet.

[1]www.infirmation.com/shared/insider/payscale.tcl

For professionals, the implications of these industry and technology trends are clear. Commoditization is a grim reality. If you are experiencing this, it means your clients are not recognizing your ability to create greater value by engaging more deeply with them. The challenge is to build true partnerships with your clients by working collaboratively, working *with* them rather than for them. Clients demonstrate a range of attitudes or "relationship styles" to their services providers, from treating them as replaceable commodities, to seeking to work with them as full partners. Similarly, professionals' styles of working cover the spectrum from (all too often) presenting themselves to their clients as commoditized providers, to seeking highly interactive client partnerships.

How these relationship styles of clients and professionals mesh together Is shown in figure 1. If your client wants a partner relationship and you are acting as a commoditized provider, not actively seeking to collaborate with them, at best you'll lose opportunities, and most likely you'll lose the client. If your client treats its professional services providers as commodities, and you're spending all your energy trying to work with them as a partner, it will probably be an unprofitable relationship, as you're getting minimal return on a large effort. What professional services firms must do is lead their clients into partner relationships, by over time demonstrating the value of greater interaction and collaboration, where both parties share in the value creation process.
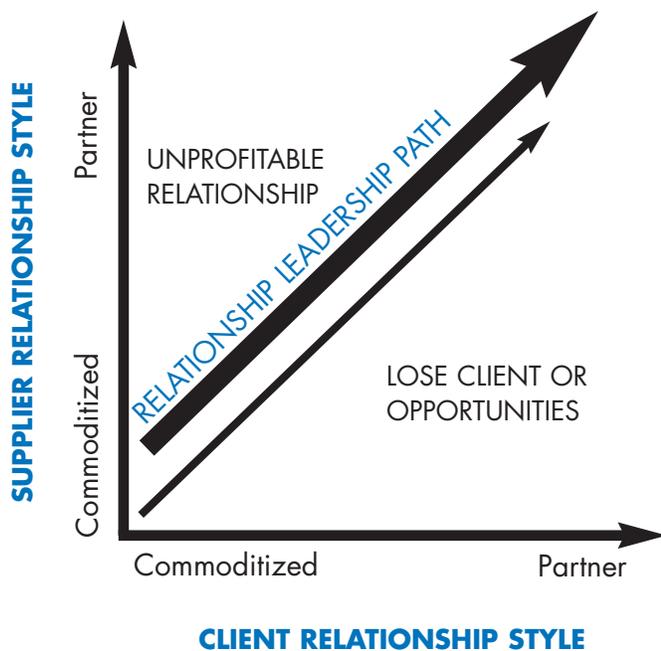

Figure 1: The path of client leadership

Knowledge-based Client Relationships

There are two kinds of professional services:

> **Black-box.**
Many professional services firms deliver service in ways that the client receives a result, but doesn't see what is happening or how it is done, and is literally none the wiser as a result of the engagement. These "black-box" services are opaque to the client. Since the only reference point the client has is the result, it is relatively easy for other firms to replicate that result and then compete primarily on price. In other words they are commoditizing the services. In addition, the only opportunities for interaction with the client in a black-box engagement are during the briefing and the presentation of outcomes, leaving little scope for personal or organizational relationships to develop.

> **Knowledge-based.**

All professional services are based on specialized knowledge. When professionals engage with their clients to make them more knowledgeable, they are implementing knowledge-based services. The outcome is that clients are more knowledgeable, they are able to make better decisions, they have enhanced capabilities. In short, the client is different as a result of the engagement. Professional firms and clients are pooling their capabilities to create results they could not achieve individually. The entire engagement is based on rich interaction, meaning there are many opportunities to develop a valuable and lasting relationship.

One of the fundamental issues in knowledge-based relationships is that of gaining greater knowledge of the client. The better you know your client, the more able you are to create value. This is expressed in the virtuous circle of knowledge-based relationships, shown in figure 2.
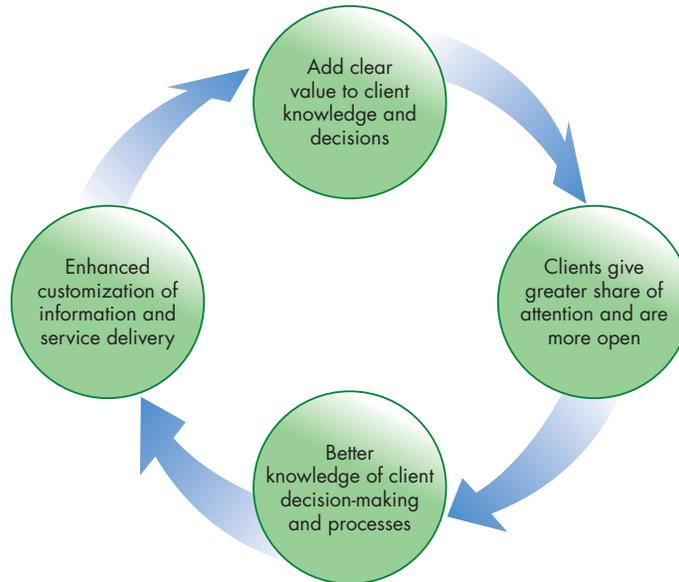
Figure 2: The virtuous circle of knowledge-based relationships

Let us examine the four key phases of this virtuous circle:

> **Adding value with knowledge.**
Increasingly, clients value knowledge-based outcomes. They seek to gain greater knowledge, be able to make better business decisions, to have enhanced capabilities.

> **Client openness.**
Demonstrating the ability to add value with knowledge means that clients are willing to give you more of their scarce attention, listen to what you have to say, take your calls, and spend time with you. They're also more open in telling you about themselves, their operations, and their issues and concerns, because you have proven to them the benefits of doing so.

> **Greater client knowledge.**
It is critical to use greater client openness not just to sell more projects, but to gain a deeper understanding of their internal processes, how key executives think, how they use information about changes in the business environment to adjust their strategies. You want to understand how they engage with knowledge and the external world to make business decisions.

> **Enhanced customization.**
One of the most challenging aspects of the virtuous circle of knowledge-based relationships is applying the deep client knowledge you have gained to customize how you communicate with key clients, how you provide information about projects and issues that are relevant to them, how you tailor service delivery so that it integrates smoothly into their internal processes. This is at the heart of creating true knowledge-based relationships, closing the loop by demonstrating the ability to create vastly more value with knowledge than your competitors can.

There is no such thing as a static relationship. If a key client relationship is not moving forward, then it's going backwards. To progress, you must be engaged in the virtuous circle of knowledge-based relationships, gaining deeper client knowledge and applying it to creating greater value. If you fail to continuously enhance your relationships in this way, increasing competition and transparency will gradually erode them, leaving you struggling as a commoditized provider.

Keep your clients coming back with positive lock-in

Wouldn't it be wonderful if you could lock-in your clients, make them yours forever more? It's a nice idea, however the reality is we live in an increasingly open world. Today it's almost impossible to get clients to buy closed systems that would mean substantial switching costs if they then chose to move to another supplier. Given a choice, clients will always go for the option that gives them more flexibility. The trick is to create lock-in in a business environment in which systems and standards are more and more open.

In this world, the only way to lock-in clients is by consistently being able to create more value for them than your competitors can. This is a positive form of lock-in, in contrast to the negative lock-in of trying to make it expensive for clients to leave you. There are three key foundations for how professional services firms can keep clients coming back through positive lock-in.

> **You know your client better.**
  It is nothing new for professionals to have to know their clients well. It is just that now doing this better is the primary field of competition. Today, it is important not just to know your client better, but also to apply it in customizing your communication and service delivery, as discussed above. If you do, this creates a very powerful form of lock-in through the unique value you can create.

> **Your client knows you better.**
  If your clients understand the way you work, your people, your processes, and your capabilities, this means that they can get more value from you. They can align their processes with yours, and more easily apply your services internally. In order to switch suppliers, they would have to start from scratch in learning about how another company works to achieve these benefits.

> **You are embedded in your clients' processes.**
  The fact that business processes can now be readily allocated across organizational boundaries has uncovered a whole new domain for professional services firms to embed themselves in their clients' workflow. Once you have put in the effort required to become an intrinsic part of your clients' work processes, they can experience how much more value you can get for them.

It is not enough to generate these three foundations of lock-in. You must take each one that critical step further: to creating greater value for clients. For example, some professionals know their clients very well, yet they fail on two scores: first in effectively applying that deep client knowledge to tailoring absolutely every aspect of client interaction and service delivery, and second in continuously working to enhance that client knowledge. As such, their knowledge can have little practical value.

Through this decade, the field of play in professional services will be largely about gaining and applying ever-deeper mutual knowledge with clients. However now that collaborative technologies allow professional firms to embed themselves in their clients' processes, entirely new ways of creating lock-in and superior value for clients are unfolding. Let us now examine this point in more detail.

The new professional services workflow

Email is a basic form of collaborative technology. It allows professionals to send each other documents they're working on, make modifications, set up meetings, and so on. Email alone has had a dramatic impact in how professionals work internally and with their clients. However there are major limitations to using email for project-based collaboration. For example, it is very difficult to track different versions of documents as they get distributed, discussed, and updated.

Browser-based systems such as intranets have helped by providing a single repository for documents and work on a particular project or client. Other new collaborative tools allow efficient, effective online meetings in which participants can propose ideas, discuss options, and make modifications to documents in real-time, visible to all.

The current generation of collaborative technologies allow workflow to be completely flexible. Anyone, anywhere, can participate in developing ideas and content. The first implication for professional firms is that they can easily get virtual teams to work on projects. Professionals may work in different offices, different countries, from home, or for other companies. Organizational boundaries become meaningless.

If you've participated in a *Mexican wave* in a stadium, you'll have seen how large groups can coordinate smoothly. UK legal firm Lovells has appropriated the name for a newly launched service, in which all of the property transaction work of its large corporate clients are communicated directly into its systems. The firm then selects the difficult, high-value work to be performed in-house, and sends out the rest of the transactions to be executed by low-cost regional law firms. It coordinates all workflow within and beyond its boundaries, so its key clients get consistent, excellent work done, at the best possible price. Corporate writing and editing firm Editor Group works with trusted sub-contractors to perform work. Its clients could easily go to an online professional service exchange such as eLance.com and get the work done far more cheaply. What they willingly pay for is the quality assurance and project management functions of the firm.

All companies, professional services firms included, have to recognize that they are not the most efficient or effective at every element and aspect of the services they provide. If they do not allocate workflow outside the firm, they will in the end simply not be competitive. However doing this well requires developing new capabilities.

The most important implication of reallocating workflow is that clients are becoming participants. Transparency means they have shifted from being subjects to observers. Now they are participating in professional services workflow, when they see the value. Because work processes can now easily be "unbundled" into component elements, clients can choose what parts of the services they will perform themselves, because they have the expertise or resources, and what parts will be done by external firms. The different pieces can easily be sewn together to provide seamless workflow that includes the firm and external providers. In the short-term, some of the demand for this style of working is being driven by cost pressures at clients, but increasingly companies are recognizing the power and value of working in this highly flexible fashion with their service providers.

Ketchum PR provides workspaces for many of its clients, so they can see work in progress. They also get them to participate in projects. Some of their approaches are simple but effective, for example getting clients to vote on their preferred draft logos or slogans. Other times their clients are more heavily involved in projects, actively contributing to the creation of the final product.[2]

Sometimes clients prefer a black-box model to services, and it's important to recognize when this is the case. Far more often clients want transparency. They may or may not choose to look into the work processes of their professional services providers, but they want to have the choice. Now we are often seeing clients actively seek to take things a step further to work closely with their professional services firms, to participate in creating valued outcomes.

Some professionals worry about this. They feel that they're losing control, and the ability to demonstrate that they are the ones who have created the end result. However they should be overjoyed. They are engaging in a deep knowledge-based relationship that will allow them to create more value for their clients, understand them better, generate new opportunities for work, and build powerful lock-in by being able to achieve better outcomes for their clients than their competitors can.

Managing client relationships and client relationship teams

The day-by-day life of a senior professional is a combination of doing client work, managing client relationships, and managing the professionals who are working on the project or account. The concept of moving clients to a partner relationship may seem like a laudable objective, but is difficult to keep top-of-mind when in the throes of executing projects to deadline.

[2]Ross Dawson, *Living Networks*, Upper Saddle River, NJ: Financial Times/ Prentice Hall, 2002.

The key issue is for relationship leaders to understand and live the principle of always moving the relationship forward. Figure 3 shows the four stages in relationship development. The first step is **engaging** with the client, mutually exploring compatibility and opportunities. The next step is **aligning** objectives, relationship styles, processes, culture, and technology so you can work together effectively. Having established the relationship, there is a phase of **deepening** and broadening the relationship, bringing in new contacts on both sides and building a true organization-wide relationship. This provides the foundation for **partnering**, which moves beyond the buy-sell relationship to creating value jointly with the client.
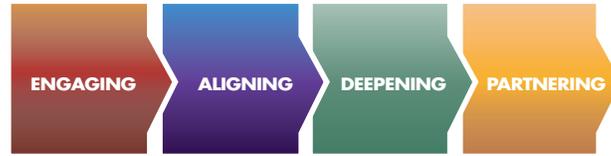
Figure 3: Stages of relationship development

For any significant client, a number of professionals will be involved, who usually work across a number of different areas of specialization, and often in different offices. Typically, each will communicate with different people at the client organization, creating multiple touchpoints between the two firms. The primary determinant of professional firms' ability to move their clients through the relationship stages is how well their relationship teams collaborate and work together. Communication within relationship teams—which bring together a disparate group of professionals under a client relationship leader—must achieve two primary objectives:

> **Consistent communication to the client.**
The client gets aligned messages from across its contacts at the firm, and understands the full scope of the firm's capabilities.

> **Deeper client knowledge.**
The firm learns more about its client across its divisions, locations, and activities, including both recognized and unrecognized opportunities to create value.

Technology, effective meetings, and strong team leadership are all essential in creating these outcomes. Using these platforms to enable effective communication and collaboration within professional teams is the heart of developing powerful client relationships.

Action steps for professional services firms

In this White Paper we have seen how the key trends of transparency, commoditization, and integration are driving professional services. In order to create positive lock-in with their clients and avoid the trap of commoditization, firms must create collaborative, knowledge-based client relationships.

There are four key action steps that professional services firms must take to succeed in the intensely connected economy that is rapidly unfolding before us.

CRITICAL ACTION STEPS FOR PROFESSIONAL SERVICES FIRMS

1. Implement technology and processes to enable client collaboration
2. Enhance relationship team collaboration
3. Develop a culture of responsible transparency and collaboration
4. Lead your clients (and professionals) into new ways of working

1. Implement technology and processes to enable client collaboration

To create effective knowledge-based client relationships, you must implement technologies that allow clients to see and participate in workflow. There are a wide variety of commercially-available products that allow this. It is important to select the platforms that best match the nature of your work processes. However you must also establish internal processes that allow client teams to create easily a client-specific collaborative space. One of key issues is establishing permissions for who at the client and the firm can access or modify which content. It may be valuable to integrate collaborative spaces with internal systems, so clients can access relevant information such as billing-in-progress. However the technologies and processes you implement should be focused on getting clients to participate in professional workflow rather than simply providing information to them. The joint creation of valuable knowledge and outcomes with clients is what creates true lock-in.

2. Enhance relationship team collaboration

Effective relationship team collaboration is a key differentiator for professional firms. It determines how clients perceive them, and is at the heart of consistently identifying opportunities to create additional value for clients. Implementing technologies that enable information flow within client teams is a key foundation. However, in addition, relationship team leaders must have the skills to pull together and coordinate diverse teams. They need to establish and get agreement on what formal and informal communication processes will be used by the team, including online and face-to-face meetings. One of the focal points for relationship team collaboration should be developing and implementing client relationship strategies. Everyone on the team should understand where the relationship currently stands, what are the financial and strategic objectives for the relationship, and a comprehensive action plan, including individual responsibilities and a clear timeline. This will identify precisely how the firm will progress the relationship, build new contacts at the firm, broaden the scope of their work, and build true client partnerships.

3. Develop a culture of responsible transparency and collaboration

Technology alone will never create effective collaboration. It enables entirely new forms of work and interaction, but it is useless unless it is applied effectively. A culture of transparency and collaboration must be developed in professional services firms. This requires openness with clients about work and how it is performed, and actively working with clients and partners to create outcomes. The reality is that these behaviors are hard enough to achieve within firms, let alone beyond them. Ketchum PR, mentioned above, worked on implementing the technologies, processes, and culture to enable collaboration within client teams before it opened these up to client participation. One of the key emerging issues is having professionals understand what are appropriate boundaries. It is now critical to provide trusted clients with transparency and collaborative approaches, yet there are still limits to the disclosure of information. The very process of developing and communicating guidelines on this fine balancing act can help to drive the development of an effective collaborative culture, by making professionals highly aware of these issues as they work with clients.

4. Lead your clients (and professionals) into new ways of working

In 1992 DuPont, tired of dealing with a plethora of legal firms that didn't understand its business, established what it calls the DuPont Legal Model. This consolidated its legal firm relationships from several hundred to 35, and provided clear guidelines as to how it would work with them and remunerate them. This single example typifies what has been happening for the last decade—clients are leading professional services firms into new ways of working. Professional firms must turn the tables, and lead their clients. The reality is it can be risky for both clients and their suppliers to work more openly. Yet it is becoming essential in running competitive professional firms. These new collaborative ways of working that enable greater value creation and stronger, more profitable client relationships will only happen if one party takes the initiative. You have the choice of allowing your clients to lead you, most likely into a commoditized relationship, or leading them into new ways of working that enable you to create more value for them. This requires demonstrating to your clients how these new collaborative approaches work, and what the benefits are. If you succeed in leading your clients into collaborative, knowledge-based relationships, you will have effectively locked them into highly rewarding partnerships, simply because you will be able to create vastly more value for your clients than your competitors can.

Microsoft

WINNING STRATEGIES FOR **PROFESSIONAL SERVICES FIRMS**

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