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BUSINESS DEVELOPMENT IN RECESSION

Part 6 – Just green shoots.....or a green field?

By James Newberry and Maeve Jackson of People Scope

It is a year since we began this series of recession-focused articles. In that time many of the signs and predictions raised have become realities, as in:

- marked reductions in deal flows with clients spending less and taking work in-house where possible
- client demand for significant discounts and an accelerated move away from hourly rate charging
- clients taking longer to pay or requesting extended terms
- remuneration freezes or reductions for most professional service staff and partners/owners
- redundancies both for professional and support staff, as well as alternatives to termination (sabbaticals, reduced time working etc.)
- cutting of current year marketing and business development budgets (well over half of all firms in one survey, with nearly 40% predicting 'more of the same')
- the inertia and navel-gazing behaviours of many professionals when faced with reducing existing work flows and a barren pipeline of new work.

Despite a stock market rally, there is little sign of a rapid bounce back towards growth. Going forward, most predictions are for a period of 'bumping along the bottom' without any clear timescale for an upturn. In some sections of the professions, business confidence has risen from the sink of early 2009[1], but most are very cautious about any really significant improvement in the business environment.

[1] Nearly 60% of partners expect revenue growth at their own firms over the next 12 months (*Legal Week*, Quarterly Survey of Business Confidence, October 2009).

So how should firms prepare best for economic and business growth, assuming that it will come? Can we expect just the green shoots from an existing model ("business as usual"), or will the recession have provoked more fundamental changes to the professional services landscape – something akin to a newer, green field approach? In this last part of the **Business Development in Recession** series, we look at answers or at least possible solutions in six key related areas. Our observations are drawn primarily from the legal sector in the UK, but have relevance for any professional service environment.

The end of the day for the hour?

The shock of the credit crunch has been witnessed first from its effects on how professionals can charge for the work they do. We have already remarked upon the impact of discount demands from clients and a hastening of the call for alternative, cost-fixing, capping or reducing arrangements[2]. Figures from a number of sources suggest that at least 40% of firms now use hourly rates less and expect this to continue.

But this is a client genie that had been threatening to burst its bottle before recession struck. We do not believe that the client world will go back willingly to unsustainable, ever-increasing hourly rates. By its nature, this pricing system encourages systemic inefficiency on the part of professional providers. Fixed price and outcome or value-based charging will become the new norms for some types of client and/or transaction - particularly at the bigger and more sophisticated end.

In the UK legal sector, these price pressures will come also at the other end of the spectrum, driven by new market entrants with ideas and more efficient business models, as a result of the Legal Services Act.

[2] **Business Development in Recession Series - Part 3: the blueprint for existing clients** and **Part 4: the blueprint for prospective clients** – both available to download free at www.peoplescope.com.

First, professional providers have to recognise the validity of this transition. Second, to implement successfully the change of tack required will mean changes to many firms' current practices in a number of areas. These include: how they resource - and outsource – particular elements of a transaction; how they measure and manage profitability at the individual client level; and the deeper involvement of marketing professionals in determining and packaging service provision.

'Out' through the 'in' door (and vice versa)

Outsourcing is another ripple that recession is turning into a wave. When the elevated likes of Slaughter & May in the legal sector go public on their use of subcontract suppliers for parts of their service - then you know it has arrived. The internal drive for outsourcing comes from the need to reduce costs via headcount. The external pressure is from clients to fix or reduce prices, and in recognition of where traditionally they see many firms making most of their profits – from providing large amounts of 'grunt' at inflated prices.

We believe that the trend will progress, but that it raises a number of concerns. Moving significantly to out-of-house providers furnishes any professional firm with hitherto unseen challenges in vetting (hiring and monitoring of providers), security (of data/knowledge), risk management (deciding on a buying strategy, addressing all the 'what if' operational issues), and contract management (doing the right deal, proactive management of the supply relationship). With a few notable exceptions (e.g. the law firm Simmons & Simmons employing a procurement and outsourcing specialist), our worry is that professional firms are not awash with people skilled in doing any or all of this! Our fear is that it will not be seen as a priority and delegated to partners[3] who are entirely ill-equipped to perform and who will fail – with potentially disastrous consequences for the firm and its (often key) client relationships.

[3] A practice influenced by recessionary pressure – see **Business Development in Recession Part 1**: **Recognise the implications of recession**, page 7, for the phenomenon evidenced in marketing/business development.

To make outsourcing work, firms must invest in specialist staff at all levels who have the experience and skill to perform in these areas, **and who must be empowered to act on the firm's behalf**. In other words, they should be investing in the type of senior purchasing professionals and teams that they come across more and more when pitching for clients' business. However, we wonder how many firms proceeding down the outsourcing road will have the will to make these staff investments, especially at a time when they may still be laying off other staff and professionals.

WIPped into shape?

Here is a true story that exemplifies the deep-rooted problem for some areas of the professions when it comes to MONEY.

A ripple of panic spread through the firm's third quarterly management board meeting as the financial results were reviewed. Far from being at the expected levels, revenues were at least 25% behind target. The managing partner decided on decisive action – drastic cuts to all budgets, and marketing bearing the brunt with immediate reductions that were to have a major negative impact on activity and achievements over the next six to 12 months. Imagine their surprise then...when at the final year review, revenues had improved so drastically that the budget had not only been met but exceeded by a significant amount. Large bundles of WIP had become "miraculously" uncovered as partners raced to invoice their clients before the year-end.

The impact on client perceptions of this sort of neglect of the business fundamentals is no less destructive. The constant complaint of clients is about the total disregard of many professional providers for the regular, frequent financial data on billing and service usage that they need to stay within ever-shrinking budgets; and that, in the worst cases, submitting invoices YEARS after work was done is more than just "not cricket".

With deal volumes down so drastically and money really being so tight, you would have thought that professionals would be assiduous in their adherence to the "a job is not a job until it's paid for" principle that drives every other business? For some, yes; but for many, still the same sins are being committed[4]. Why? Well, they continue to over-identify the substance of a commercial conversation (and especially the more difficult ones e.g. bill queries, unpaid bills) with themselves. To many, it is "personal" not just "business". Therefore, they run a mile from it.

Generally, this attitude is upheld by deep-rooted underlying beliefs that a lot of professionals have about themselves and the job they do e.g. "we are expert practitioners – we didn't sign up to chase debt or sell!". As such, we believe that there will be no magical transformation, and any that does come will be contingent upon the professional services business model more resembling a corporate one: possibly a long way to go then. Until that time, the successful firms will be those that provide active encouragement for and canvass feedback from clients to influence their more self-aware professionals, backed by target-setting linked directly and significantly to partner remuneration for the die-hards and recidivists who cannot see nor do it by themselves.

Budgeting a drag, forecasting a black hole

"Here's the problem. My marketing budget has just been cut by 45% for next year, having been halved last year. The firm is suffering revenue and profit-wise but not by that much: maybe we'll be at the same overall income level as last year. Some parts of the business are doing well, others badly. But I fear two things. Firstly, that the cuts seriously compromise our ability to make things happen regarding future revenue generation. Secondly that, when the upturn comes, my budgets will increase from where they are – but only incrementally by maybe five per cent at a time. Meanwhile our competitive position slips even further, because I know that there are firms out there who haven't followed the 'slash and burn' herd and who are investing now for the future."

[4] A topical example of the phenomenon can be viewed online at http://www.rollonfriday.com/ThisWeek/News/tabid/58/Id/325/fromTab/36/Default.aspx

This marketing director is by no means rare. Professional firms are notoriously bad when it comes to budgeting: particularly for support like marketing and business development. When the skids are on, decisions are taken by firm owners primarily to protect their income streams rather than for the good of the business: uninformed decisions that, we have no doubt, are going to stunt future growth prospects for many. But ways do exist to overcome such ‘knee-jerkism’.

Some firms have got a bit more sophisticated about it to the extent that they now employ a form of scenario-based budgeting. Different key external and internal variables (economic growth, sector growth, firm revenues, deal volumes, profitability, staff numbers/costs, client retention etc.) are incorporated into a defined number of projections of how the next year(s) might look. For each scenario, investment levels in marketing and other spend areas are forecast in a business-orientated manner. These scenarios allow the firm to track performance against them in real time, initiating different (and more logical) spend options as required. It’s not fool-proof, but does put such decision-making on a more rational footing.

However, the tyranny of recession has also highlighted other un-businesslike traits that have dogged professional firms. Around this time last year or before, the first question any good managing partner should have been asking of his/her departments was “what is your revised budget forecast for the full year?”. Of course, this assumes that a forecast existed in the first place; **and** that it was based upon more than just barely educated finger-wetting and waving in the air. Unfortunately, the land of ‘digit waving’ is where many professionals are when it comes to this important business skill. Indeed, responses to the above question would have been interesting to hear.

Currently, most professional firms place little significance on forecasting as a management tool – it sits firmly in the “too difficult” box (along with a lot of other management activities). Training on the subject is patchy to non-existent; and many firms lack adequately skilled or experienced support from marketing or finance to work successfully with their professionals.

Simply this will not now wash, particularly when clients continue to put the price squeeze on, with their pesky insistence that a bigger slice of what professionals provide must be boxed off and costed accurately.

Having clarity over costs and therefore being able to price (and negotiate) with confidence is an increasingly essential skill. It means that partners are able to manage individual client profitability (not just revenue), forecast bottom line income, and engage in meaningful win/win dialogue over fees. Of course, client profitability is not just about getting the front end right, but is also about good housekeeping and being paid the right amount on time, as mentioned earlier.

Four Ps not one

The impact of marketing in other business environments is not restricted to *Promotion* - running events, producing brochures and the other fluffiness that often passes for the bulk of 'marketing' in the professions. As all good marketers know, Promotion is only one of the four Ps of marketing. We have already noted the changes that are being wrought by increased outsourcing in *Place* – how, where and by whom a service is delivered to clients.

We believe that change is happening (and will occur) more quickly in these, and the other two Ps of *Price* and *Product*, over the next five years than at any time since the professions began to acknowledge that marketing existed. The implications for delivering such enhanced marketing are potentially profound, particularly when you consider that getting on for half of professional firms in 2009 have no marketing representation at all on their management boards.

Price is proving to be the driver for change, and it is in the area of pricing – and its effects on firms' *Product* (or rather services) – that we feel things are going to get interesting.

If we acknowledge the retreat from hourly rates and the rise of price defining/fixing as a solid trend, then firms can and should be investing marketing research, time, money, and intellectual resource into the development of service packages (possibly even brands?) that they can take to market. The aim (and the prize) will be increased market share at more clearly defined and monitored levels of service provision and profitability.

Where's the problem in this becoming a reality? It is two-fold. First, there is the conservatism and inertia that exists within the professions, especially when faced with something as challenging as a shift in responsibility for setting and agreeing prices (in fact, our experience suggests that some partners would be relieved by extra support in this thorny area). However, the general consequence of this is an inevitable shift in the current organisational 'power base' towards professional managers. Second, there is the dearth of expertise in this 'real' marketing amongst many marketers currently employed by professional firms. We have seen the beginnings of this change in a few firms and our expectation is that it will gather pace.

People matters

It is the view of some observers we have spoken to that people issues are going to be the most difficult to resolve once economic matters show more positively. In their view, professional firms can expect greater mobility from the salaried personnel that remain as they look for higher rates of pay elsewhere. In partnership structures, increased mobility at associate/manager level will be further stimulated by the realisation that achieving equity (a prospect that had been getting tougher before recession) will be an even slower train to arrive, as firms prioritise the reduced incomes of existing partners.

For staff, the long term impact of the outsourcing trend may well mean that there will be fewer permanent jobs to go round, as those firms who get it right move more of their business processes permanently to 'buy in' rather than 'make'.

Certainly, this is the talk heard or read about at this pre-recovery stage of the cycle in the UK, where risk is being kept to a minimum by buying in low levels of expertise rather than going to the expense of hiring or re-hiring staff. Beyond this point, it will not be surprising if the smarter firms realise the longer term business benefits of a more 'flexible' staffing model for their operations.

And the people repercussions continue. If more professionals will be charged with operating a business model that involves more sub-contracted or outsourced labour, surely their skill-set has to include a bigger project management component than is currently the case? Ask a few of your associates or managers (and indeed, clients) what they REALLY think of the project management abilities of their superiors: and you will get a feel for just how far away many professionals are from excelling in this area!

Towards a new organisation?

Our final point sums up the accumulated effects of this recession that we believe are going to affect professional service firms over the next five years and beyond.

The 'New Model' firm that we envisage will need:

- better, more rounded partners who are comfortable dealing in some traditionally un-partner areas: client financial management, project management of external providers etc., supported by systems and processes that guide, encourage and motivate them
- greater emphasis on and power for the 'Cinderella' part of most firms: support services. Specifically, firms will need a new generation of purchasing, marketing and finance experts, of much greater sophistication, skill, and effectiveness than currently exists
- more thought and better application when it comes to retaining and motivating salaried staff, as the way service is delivered to clients changes.

And finally....

By nature, we are not thorough-going cynics (some readers of the previous five articles may disagree with this assertion, but it is true!). But the final words in this article series do require a realistic cast.

We do not underestimate the power of the professional service inertia referred to in this article. Whatever the external pressures, growing operational dysfunctionality, or desire to effect change by their leaders, the professions is a notoriously conservative sector. We see and hear of firms that are sufficiently enlightened in some of their quarters both to smell the winds of change and to put in structures or processes designed to address them. Yet still progress is slow to achieve or actually thwarted.

Therefore, all we can say with any confidence is that the increasing pace of change that we predict is going to create heightened levels of stress for those firms that take the 'ostrich' approach to organisational development. There will be some winners, but many losers. As the ancient Chinese curse goes, these may well be the most 'interesting times' yet for the professions. We hope that firms take heed - and action.

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James Newberry is managing partner of People Scope. Maeve Jackson is a senior executive associate for People Scope. More information can be obtained about the firm on-line at www.peoplescope.com or by contacting James Newberry or Maeve Jackson at People Scope, 6 River Court, Chartham, Canterbury CT4 7JN. Telephone: 01227 730411. Email: james.newberry@peoplescope.com.

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