

What are Professional Services Firms?

Professional services firms sell pure services in a business-to-business or business-to-consumer context ("knowledge brokers"). This executive briefing is relevant to lawyers, accountants, management consultants, architects and construction consultants, advertising agencies, and health care professionals.

Professional services firms characteristically have highly-educated and professionally-regulated (often licensed) staff; complex and customised offerings; and high and lasting interaction with clients (Figure 1).

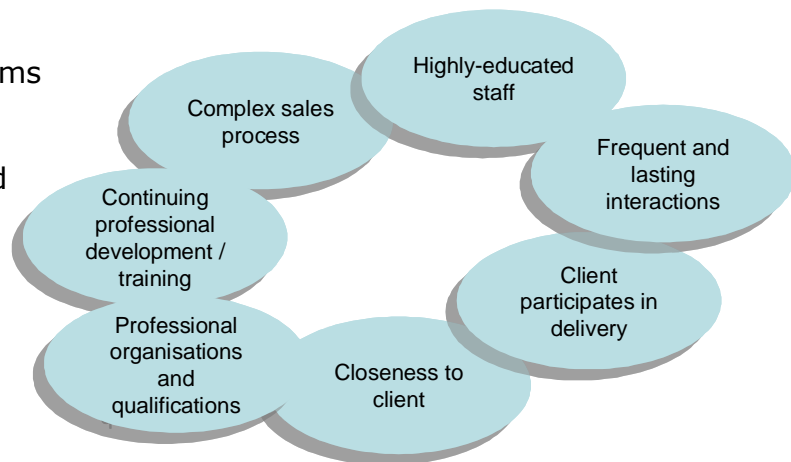


Figure 1: Characteristics of professional services

Is KAM Important for Professional Services Firms?

There has been a noticeable shift in recent years across a number of industries towards more customer-focused organizational structures. Our research into why companies are increasingly adopting KAM practices and processes has shown that this shift is associated with the opening up of global markets and customer concentration, leading to the emergence of fewer, larger and more international customers.

Similarly, industry restructuring leading to consolidation of suppliers, combined with opening up of markets to global competition, tends to lead to the emergence of KAM practices. This trend has been particularly marked amongst many clients of professional services firms (automotive, banking, aerospace...). There has also been substantial industry consolidation amongst the top firms in legal, accounting, consultancy and financial services, so it is surprising that the adoption of KAM by professional services firms is not a more widespread phenomenon.

However, there have recently been some signs that professional services firms are re-thinking their client management strategy, driven by the need to focus on cost, efficiency and quality and by market pressures.

Why KAM is Relevant to Professional Services Firms

Effective relationship management in professional services firms is essential, given that many relationships between professional services firms and their clients are complex, lasting, and there can be many conflicts (whether potential or actual), such as those relating to ownership of intellectual property, different agendas, conflicts of timing, and conflicts of interest. Moreover, unlike other industries, in professional services firms a great deal of time is spent in a client's premises so the boundaries between the two firms can become blurred.

It is important to note that the clients of professional services firms have different levels of interest in developing a relationship with their professional services provider, so careful client selection is an important part of professional services KAM (see below). However, co-production between professional services firms and clients is linked to perceived quality, so where professional services KAM works, it can be very powerful.

How to Make KAM Work in Professional Services Firms

Professional services firms typically tend to try to expand through cross-selling to clients. However, a classic problem is that they are too product-focused and do not think enough about the client's overall market situation. Another issue that inhibits the successful adoption of KAM in professional services is failure to resolve the internal question 'who owns the client'. Turf wars can make both cross-selling and client management very difficult to adopt. Regular internal meetings have been suggested as a mechanism for addressing the problem.

There are said to be three elements to creating successful professional services firms, and all three are highly relevant to KAM: client selection; the knowledgebase or resource base of the firm; and the value-creating processes that it uses.

Selecting Key Clients

For professional services firms, large clients (or large *potential* clients) may be considered key. However, other factors also need to be taken into account. Several researchers have identified 'fit' of values and philosophy as important. In his book 'Getting Partnering Right' Neil Rackham emphasises that it is shared *underlying* values, rather than, say, shared objectives, that are important.

Another big issue in identifying and managing key clients in professional services firms is the issue of trust and its relationship to commitment and client retention. This whole major issue is discussed in a separate section, 'Satisfying and retaining clients', later.

The Resources of the Firm

One aspect of professional services KAM that researchers agree on is the importance of knowledge management in these relationships. The successful delivery of professional services often depends on a clear understanding of the clients and of their needs, so internal knowledge management within the supplier firm is vital.

Professional services solutions are not created *ab initio* for each client but instead are rooted in the collective capabilities and experience of the firm. The possession of an extensive knowledgebase gives a professional services firm a competitive advantage, tending to make larger professional services firms more attractive to clients than smaller ones. This phenomenon helps to explain the tendency for professional services firms to engage in mergers with other professional services firms, in an attempt to gain a larger base of knowledge.

Interestingly, the development of this knowledge base results in a tension between the best interests of the professional services and of the client. Should the professional services firm use its knowledge to enhance innovation and creativity (i.e. building new knowledge) or to apply that knowledge to improve the efficiency of client firms? Recent research showed that leveraging existing knowledge through the development of routine processes and tools is, surprisingly, destructive of value in management consulting firms because of the 'commodification' of their knowledge. So, professional services firms have a delicate balancing act to perform between creating valuable new knowledge and not allowing their existing knowledge to become a low-priced commodity.

Value Creation Processes in Professional Services

Research has shown a link between KAM and stronger business performance across a number of industries. Two of the processes that are particularly strongly associated with effective KAM are cross-functional KAM and top management involvement. Some planning and process development is also important for effective KAM although, interestingly, too much formalisation can reduce performance because it reduces the flexibility and responsiveness that are so important in professional services. Again, this requires a balancing act between the need for some key client planning and client management processes, but not doing so much that creativity and flexibility get stifled in red tape.

How Clients Judge the Quality of Professional Services Firms

There is usually a 'knowledge asymmetry' between a professional services provider and the client, with the professional services provider having a great deal of information and technical expertise that is not available to the client unless they, too, have specialist training. For this reason, it is difficult for clients to judge the quality of their professional services provider.

Previous research has shown that clients use two measures of quality when evaluating their professional services provider (Figure 2):

- Technical quality; and
- Functional quality (manner of delivery)

Technical quality refers to the intrinsic quality of the advice – how good it was. This may be difficult to judge until a considerable period after the advice has been given (examples include investment, taxation, and building consultancy).

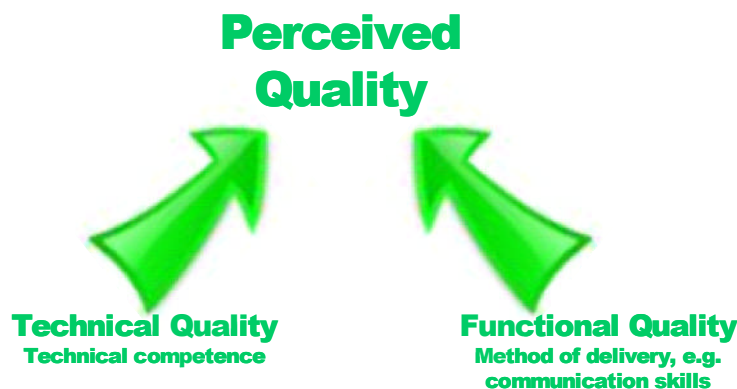


Figure 2: How clients judge quality in professional services

Prospective clients have to take technical quality on trust, so will often use information such as membership of professional bodies as a measure of the probable technical quality of the professional services firm. It is also increasingly common for clients to use the Internet to search for technical information, which reduces the information asymmetry and helps them evaluate the technical quality of the advice they are given (health care is a good example of this phenomenon).

However, it is still hard for a non-technical buyer of professional services to evaluate the quality of technical advice so, instead, clients will use functional quality – the manner in which the service is delivered – as an indicator. The more complex and intangible the service and the higher the risk, the more reliance the client will place on functional quality.

Research has shown that perceptions of professional services quality are strongly influenced by four functional quality factors (Figure 3):

- meeting deadlines and keeping promises;
- being knowledgeable about the client's firm and industry;
- relating well to the client's employees; and
- being available when needed

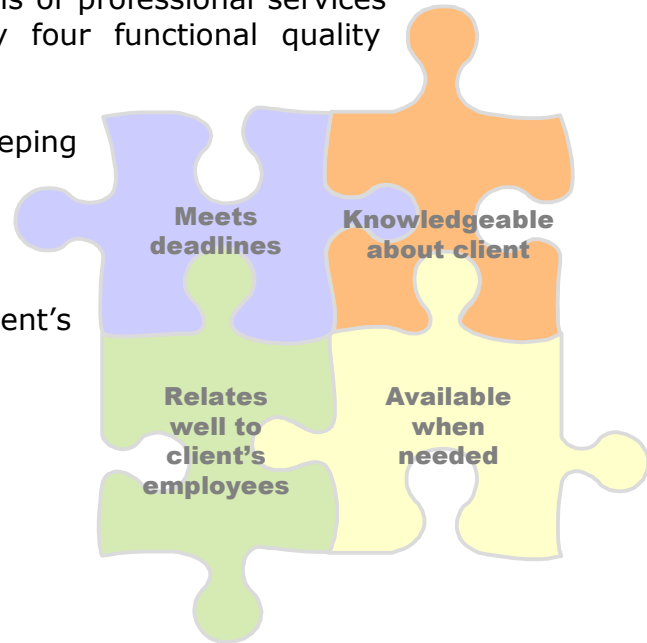


Figure 3: four aspects of functional quality

Of these, the first two - meeting deadlines and being knowledgeable about the client - are particularly important. Although these don't seem to be very demanding factors, a study showed that very few clients were 'wowed' by their professional services provider.

The Role of Price in Professional Services Selection

Although there has been little research into the role of price in the selection of professional services firms, we know from other contexts that value-in-use is a powerful concept.

Where companies are buying professional services, they are generally looking to improve the performance of their firms and they will generally view the risk / return trade-off in this light. This means that price may play less of a role in the buyer decision than is generally thought. However, it is known that professional services clients associate higher price with higher quality

Another consideration when pricing professional services is that, unlike product sales, client involvement in the delivery of services affects the productivity of the supplier. Sometimes this can be positive, because the client will help with some of the development and delivery. In other cases this may be negative, if the client is badly-organised and holds up the completion of an audit or needs a lot of hand-holding.

When pricing professional services, therefore, the price should reflect the quality message that the professional services firm wants to send out and should also take into account the ease or otherwise of working with the client. Often, there is a temptation to discount fees to high-profile clients; this is probably an unwise course of action unless there are very solid commercial reasons for doing so.

Satisfying and Retaining Clients

One of the four aspects of functional quality shown in Figure 3 above is "relates well to client's employees". It seems that this has a substantial impact not just on the client's perception of quality, but also on their overall satisfaction level. Research has indicated that empathy is closely related to customer satisfaction amongst clients of professional services firms, as is courteous communication.

However, it is important to note that customer satisfaction is not just affected by actual service quality; client expectations prior to delivery also affect subsequent customer satisfaction and perception of service quality, although firm image is less important. This means that professional services firms should manage the client acquisition process carefully so as to set expectations at a realistic level.

Another area in which care is required is where things go wrong. Because there is no tangible product, negative incidents have a disproportionate effect on satisfaction, especially in the short-term. The news is not all bad, though, because the client's trust of the service provider is a longer-term consequence of the relationship and of ongoing service quality, so trust is less likely to be affected by one poor experience.

What Makes Client Relationships Endure

The usual development of a relationship between a supplier and customer is that satisfaction arises first, followed by trust, followed by longer-term commitment. However, this progression may not hold good for professional services because clients *need to trust their professional services firm before the relationship begins*. In a professional services context, clients make an early decision to trust their professional services providers (a 'leap of faith') based on such factors as word of mouth, reputation and credentials. This initial trust has been called 'placed trust'. Information exchange is an important mechanism for generating and maintaining placed trust.

There is clearly a relationship between trust, satisfaction and client retention. The role of technical skills and performance has been disputed. Some studies have found that clients will not tolerate below-par performance from their professional services firms, but good technical performance is no guarantee of client loyalty. Yet, in a study of accounting firms, other researchers found a high degree of tolerance of service failures on the part of the professional services firm and a reluctance on the part of clients to switch, perhaps because of the high financial costs of switching and low expectations of a legally-required service such as audits. Where service failures did take place, clients expected financial recompense and not just an apology - a rather different state of affairs from consumer marketing.

Whilst trust is known to be an essential factor in the development of long-term business-to-business relationships, this does not mean that these relationships develop smoothly along an ever-deepening path. However, trust seems to reduce the risks and uncertainties and, hence, the costs and complexities, of two organisations working together.

Overall, communication effectiveness has a powerful impact both on the client's perception of the technical quality of the service provided, and also on perception of the functional quality as well as impacting the client's commitment to the relationship.

Finally, recent research has suggested that trust, loyalty and advocacy are interrelated in the special sense that a client giving a recommendation 'puts themselves on the line' and is thereby more likely to repurchase. This would be an additional driver for professional services firms to encourage advocacy on the part of their clients, if doing so not only attracted newer clients but also encouraged the client doing the recommending to stay!

How Professional Services Firms Manage their Key Client Relationships

The closeness of a business-to-business professional services relationship seems to be determined by five factors:

- information sharing;
- process adaptation;
- joint working;
- investment in relationship-specific assets; and
- shared goals, particularly those relating to the longer-term.

Structure and Management

Researchers have noted that professional services exhibit a multiplicity of structures for their major relationships. In some cases, there is a partner who deals almost exclusively with one client; in other cases, several partners may deal with the same client, which offers the potential for greater coverage but the downside of possible lack of consistency. Other firms have appointed professional (non-technical) account managers.

One structure that has attracted some attention from researchers is the idea of 'communities of practice' (defined as subgroups within an organisation that influence knowledge transfer. Intracompany working that spans boundaries then becomes an issue of how these different communities of practice communicate – or not – with one another, not just how individuals communicate about the client, though other research has indicated that some internal rivalry and tension leads to better customer satisfaction.

In terms of how professional services firms structure their relationships with clients, various studies have suggested that there are five different relationship structures (e.g. the Cranfield 'bow tie to diamond' relational development model). The underpinning elements in most of these models are related to commitment and trust.

What Kind of People Make Good Key Account Managers in Professional Services?

As we have seen, personal relationships are very important in professional services KAM but they can also become a limiting factor in the sense that too close a relationship with one individual produces problems of 'hand-over' and of succession planning.

The competencies required by key account managers in professional services have been characterised as:

1. Leadership
2. Building relationships
3. Engendering trust
4. Collaboration
5. Coaching
6. Managing relationship outcomes

Although some professional services firms have been experimenting with non-technical client managers, as noted above, it is more usual for major clients in professional services firms to be managed by partners. These partners have typically reached partnership positions as a result of their superior technical skills. As the list above indicates, though, the skills required by a key account manager in professional services firms are not related to technical skills at all; in fact, they are more to do with leadership and people management skills. The case for non-technical client managers in professional services is that they are more likely to have a market orientation than technical managers, and that market orientation, in turn, is associated with firm performance.

Successful client managers, whether technical or non-technical, need to have considerable stamina and tact. Concern has been expressed about the heavy demands on client relationship managers in professional services firms, the need to work very long hours (up to 80 hours per week) and the problems of conflicts between different stakeholders.

Summary: Making KAM Work in Professional Services Firms

As with KAM in other sectors, the existence of a KAM plan is typical of professional services KAM. The quality of the planning quality is unrelated to client satisfaction, although key account plans are be a useful 'back-up' in case something goes wrong.

Two other important factors include careful client selection and a recognition of the investment required to make KAM a success.

Another area that affects the success of KAM in professional services is the notion of communities of practice. Effective internal knowledge transfer is essential in successful relationship management and suggests a need to work cross-functionally. This links to other research across other industries showing that cross-functional teams are increasingly common in KAM and, indeed, in other complex sales situations.

A fourth issue that affects KAM success is the development of suitable key client managers given the importance of interpersonal relationships in professional services.

Other factors that are associated with effective KAM across a range of industries are:

- build esprit de corps among those involved in KAM;
- intensively and proactively initiate activities with key accounts;
- ensure that key account managers have access to key resources within the marketing and sales organization; and
- encourage top management involvement