



THE SEVEN MEGATRENDS OF PROFESSIONAL SERVICES

The Forces That Are Transforming Professional
Services Industries and How To Respond

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THE SEVEN MEGATRENDS

INTRODUCTION

Not so long ago now, professional services were a solid, predictable domain, performed by gentlemen (and only rarely ladies) who played by gentlemen's rules. The world has changed, and pine as they might, those who yearn for the "good old days" are finding that the nature of their chosen occupation has irreversibly shifted.

Those who protest that professional services has been a stable haven in a world of change, and that they work just as they did decades ago when they began their careers, need only look at email to belie their statements. It is just 10 years since it became commonplace for professional firms to use email internally and with their clients. Today the vast majority of internal communication, and much client communication, happens by email. Even those who refuse to stoop to using a computer themselves, insisting that their assistants print out all their messages, find that it changes how clients communicate and their expectations. For example, a reasonable time to respond in writing to a letter posted by a client may have been a week. Today many clients fume if they have to wait 24 hours for a response to an email.

Yet technology is far from the only factor changing the nature of professional services. Public perception of business ethics ("what ethics?") is a powerful industry driver on multiple levels. Domestic and international politics play a powerful role in shaping the competitive landscape at home and abroad.

The ever-increasing access to professional education and information changes the role and value of specialist knowledge. Generational change, with baby boomers shifting into retirement, and impatient, switched-on Gen-Yers wanting their share, shakes traditional structures.

Professional services firms must strive to understand the critical shifts that are driving their businesses now and into the future. In this paper we will study the seven MegaTrends of professional services. This will provide us with a sound foundation for responding strategically, and taking advantage of these fundamental changes.

The seven MegaTrends are:

- Client Sophistication
- Governance
- Connectivity
- Transparency
- Modularization
- Globalization
- Commoditization

Let us now examine the MegaTrends in detail.

CLIENT SOPHISTICATION

What do you prefer? A sophisticated client, or an unsophisticated one? It's an interesting issue to debate with professionals. Some say they like unsophisticated clients, because, as they usually express a little more euphemistically, they can take advantage of them (for a little while, anyway). Others prefer sophisticated clients, as they know what to expect, they know how to work effectively with professionals, the professionals can learn from their clients (as they must to keep ahead!), and usually the opportunities are far larger.

Irrespective of what professionals want, the reality is that professional services clients are becoming increasingly sophisticated. The rubes off the street that you can awe into silence and charge like a wounded bull without protest are rather thin on the ground these days.

The drive to greater client sophistication has in turn been created by other broad shifts in the business environment. The most powerful is the ever-increasing pressure on corporations to reduce costs. Whenever business conditions turn down, the edict goes out to cut expenses. In order to cut supplier costs, companies need to understand what they're buying. In 1992 DuPont established its "DuPont Legal Model", which consolidated its legal suppliers from 350 to 35, and established clear processes for how its law firms would work for the corporation. This program established a precedent that has been copied by many other companies, and is highly innovative in how it aligns the objectives of the company and its service providers. However the initiative was initially driven by the then-chairman's drive to cut \$1 billion from DuPont's costs.

Across every professional sector, clients have consistently been hiring the best professionals from their suppliers so they know how to deal with them. Consultants, lawyers, investment bankers, accountants, advertising creatives, and consulting engineers all find themselves across the table from their former peers, who know all the tricks of the trade. Specialist firms are frequently brought in to assist clients in getting the best from their professionals.

The downside of increasing client sophistication is that you can't fleece your clients, and you can't survive your whole career on what you learned in college. The upside is that sophisticated clients help you to develop your own capabilities, they understand what rewards they need to provide to get the best, and they know how to work with you so you can do your best. Investment bank ABN Amro runs a training program for its fund manager clients that gets them to play the roles of banker and fund manager in order to teach them trading techniques, how to use their high-value research, and even how to use ABN Amro's proprietary trading models. The advantage for ABN Amro is that their clients understand better how their bankers work, and in turn what it takes to get great service from them.

GOVERNANCE

The cowboy days are over. In the space of a couple of years at the beginning of the century, the business world shifted dramatically. Enron, WorldCom, Arthur Andersen, and similar debacles in other parts of the world, such as Parmalat in Italy and HIH in Australia, demonstrated to the investing public that companies weren't to be trusted. Ever-ready with voter-friendly legislation, US Congress swiftly enacted the Sarbanes-Oxley bill, which put strict measures in place on public companies and their auditors to ensure strong governance.

The rise of governance as a key driver in business impacts professional services firms across the board. The first driver is in how clients deal with their professional services providers. Sarbanes-Oxley specifically legislates how audit firms can and cannot work with their clients. However in a world in which regulators, investors, and media commentators are keenly seeking potential transgressions, few companies are prepared to test the boundaries.

The heart of Sarbanes-Oxley is the concept of conflict of interest. You do not want an auditor to be swayed by personal considerations in how they assess the validity of a company's accounts. If expressing doubt on a company's accounts may lose a valuable consulting contract, will it come to light? While this is very specific to the auditing profession, companies have become paranoid about the potential for conflicts of interest among their professional services providers.

More broadly, there has been a significant erosion of trust in business. Certainly individuals and investors are less trusting of the corporate world. In addition, scandals in the major professions have made corporations more cautious about how they deal with all of their professional service providers.

For many years deregulation was one of the key drivers across the professions. Not least, the boundaries between professions were falling. The Gramm-Leach-Bliley Act of 1999 allowed financial services sectors to come together under the same roof. Talk of multi-disciplinary practices predominated, with the major audit firms all establishing legal services operations, consulting firms becoming venture capitalists, and flurries of acquisitions and mergers between professional firms. However since the first couple of years of this century the tide has most definitely turned, and today professional services firms have become careful to stick to their knitting. Everyone in business today is aware of the new constraints within which they have to work.

CONNECTIVITY

As we bustle about with Blackberries, mobile phones, WiFi laptops, and for the novelty seekers sometimes an entire armful of devices, we can now consider ourselves connected. Aside from when they're out hiking in vast expanses, airplanes are for most businesspeople the last space where they're more than minutes from a broadband connection. *Not for much longer.*

For knowledge workers, most of whose daily working material can be zipped about the globe in seconds, this is indeed a different world from when phone, letter, and fax were the primary ways of communicating. Certainly the first implication is clients' expectation of faster responses. But it goes far beyond this. For example instant messaging, which allows you to see whether your counterpart is present and to rapidly exchange brief missives, is the antithesis of ponderous, formal communication. Thirty-six percent of over 400 professionals who participated in a webcast I did last year indicated they use instant messaging with their clients. This is just the beginning. These new forms of interaction start to change the entire client-professional relationship. The use of informal, highly interactive communication throughout a professional engagement means that clients feel they are part of the process. Increasingly, they are. Professional work is becoming visible, and the path towards client participation has begun.

One of the less obvious implications of the MegaTrend of Connectivity is that clients increasingly expect professional firms to be great at connecting their professionals to each other. In most cases, clients hire large firms in the belief that they can access all the resources of the firm, not just the individuals they deal with. There are no longer valid excuses for not being able to deliver that to the client. Yet most professional firms have a long way to go at managing their knowledge effectively, not least by making sure that their best experts are connected to each other in how they work and deliver value to clients.

TRANSPARENCY

On October 25, 2004, the board of directors of financial services conglomerate Marsh & McLennan announced *“significant reforms to the business model... which will be rooted in transparency.”* The controversy on the payments its Marsh insurance brokerage arm was making to insurers, unbeknownst to its clients, resulted in a settlement of \$850 million to policyholders. While this tale relates to another MegaTrend - that of Governance - the result is greater transparency. Transparency to clients, to the market, to regulators, and often even to competitors.

Transparency is in fact one of the most powerful trends across all of business and society, hardly just professional services. One of the early catch-cries of the digital revolution was “information wants to be free.” In a world of email and the Internet, it’s certainly very easy for it to escape. The Internal Memos website claims to be the Internet’s largest collection of corporate documents and internal communication, providing a home for any company documents that may have been liberated by disgruntled employees. Clients and competitors can login and have a peek if they wish. At a broader social level, the presence of cameras - often video cameras - in many mobile phones today means that incidents, accidents, and misbehavior can be seen by all, whether or not a television crew is there to capture the moment.

The most pointed dimension of transparency for professional services firms is the newfound visibility clients have of their suppliers. The shift to digital communication means that clients are increasingly inclined to ask to see what is happening while their professionals are at work. Ketchum PR, part of the Omnicom communications group, has for some years been using an online space so its major clients can see all work underway as it develops media campaigns, and provide input. Ketchum PR’s CIO at the time described it as letting the client see how they “make sausage”, and the reality that it can be a messy process. London law firm Kemp Little has set up an extranet so its clients can see at any point in time exactly what has been happening on their matters and what fees have been incurred. On a broader level, advertising agencies have been reluctantly placed in the vanguard of fee transparency. It is now common practice for major advertisers to demand complete visibility of costs incurred by their agency, including labor, and choosing the profit margin they allow the agency to earn. The challenge for professional firms is to acknowledge the MegaTrend of Transparency, and to respond in ways that will build value and relationships.

MODULARIZATION

One of the most important, yet least visible, implications of the current phase of information technology is the ability to break down business processes and activities into their components. Web services is a standard for how computer applications - or parts of them - can be integrated. For example, Microsoft's .NET framework, which it launched with its \$200 million "one degree of separation" campaign to emphasize how it enables different organizations to mesh their business processes together, is founded on web services.

The implications for professional services firms are profound. Services can now easily be "unbundled," or broken down into their components. This allows clients to pick and choose which of these elements they prefer to do themselves, if they have the resources and expertise available. They can then allocate the other elements to different service providers, based on which one can do the best job at the lowest price. Technology now makes it straightforward to integrate these different elements into a single business process that results in the desired outcome.

London-based Lovells, an international law firm with over 3,000 people, has squarely addressed the issue of modularization in its offerings. For Prudential Property Investment Managers, the largest property investor in the United Kingdom, Lovells created an entirely new way of servicing its client, which it calls Mexican Wave. Prudential sends its property legal work to Lovells. If the work is complex, it allocates it to its crack lawyers who will do a great job. If it is a simple, commoditized transaction, Lovells farms it out to regional process-oriented law firms that can do the work well at a low cost. In this case, the work comes back to Lovells for it to do quality assurance before being sent to the client.

Throughout, the client has access to an extranet that gives it complete visibility of where and how all work is being performed. Lovells recognized that there were different kinds of work, and it wasn't the best firm to do all of them, not least because of its high cost structure. However this didn't mean it couldn't control the client relationship, assume responsibility for allocating the work into its elements, and send them to where they could best be performed.

An interesting aspect of Lovells' Mexican Wave is the light it sheds on the perennial debate on "one-stop shops." Yes, clients do value being able to go to a single provider that understands them well and that they trust. Yet they also want to go to the best value provider for each class of work. For some corporations, they will be swayed by the convenience of a single provider. For others - generally the more sophisticated clients - the advantages of superior cost and specialization outweigh that. Lovells has created a model which, at its best, provides the advantages of both of these models to its clients. The firm has recognized and responded to the MegaTrend of the Modularization of professional work.

GLOBALIZATION

Across the board, boundaries and borders are blurring almost into non-existence. It is no longer possible to ignore the fact that the economy is global.

A pointed example is eLance, the world's largest online services exchange. eLance allows organizations to specify the services they require, whether they be web development, graphic design, writing, administration or whatever else they need done. Service providers bid for the jobs posted, and the client can choose the best provider with the lowest bid. Over 40% of the services are provided across country borders. You may run a one-person show in Missouri, but you too can outsource services to bright, eager, highly-educated professionals in India, Eastern Europe, and other low-cost centers.

Competition is global.

Jurisdictional differences protect some professionals from direct offshore competitors, however the MegaTrend of Modularization means that competition today is not only on the complete service, but often on its components. Clients can identify the service elements that don't need a highly trusted local provider, and find an offshore provider to do those tasks.

Another aspect of globalization is that clients increasingly expect services to be delivered globally. However you do not have to be a global company to get business from these clients. In advertising and PR, major clients often appoint different agencies in each country or region, with one lead agency to coordinate global campaigns. Global networks of small to medium-sized law and accounting firms allow professionals to provide services to companies that are operating or exploring possibilities internationally, an increasingly common phenomenon. In order to exploit these opportunities, professionals need to be able to work with other firms. You can have a global reach, as long as you are good at collaboration.

COMMODITIZATION

A commodity is quite simply a product or service for which the customer sees only one significant difference between what's on offer: the price. The drive towards commoditization is perhaps the most powerful force in business today.

The reality is that we live in a desperate "me-too" economy, in which most companies, apparently entirely deficient in any creative instinct, look at what other companies are offering, and imitate them. The true innovators are in the minority. Today, the MegaTrend of Transparency means that their innovations are seen by and copied by competitors almost as soon as they get to market, or even before. Unfortunately, the imitators find no way to differentiate their offering other than price. The MegaTrend of Globalization means those competitors can emerge from anywhere.

In short, the MegaTrend of Commoditization is the culmination of all of the other MegaTrends. Many professionals claim that their clients come to them because of their outstanding expertise. That may be true, however it is very likely also true that their clients believe that there are many professionals with equivalent expertise. Being highly capable rarely differentiates professionals at the top end. That's what it takes to get into the game.

Now we are seeing clients use requests for proposal, tenders, panels, and a legion of other devices to specify what they want, and get the lowest price for it. The corporate procurement function, which used to focus on stationery and widgets, has broadened its ambit to include many professional services. Companies are increasingly likely to shop abroad as well as at home for the best service providers. Loyalty is increasingly trumped by pragmatism. One professional I know bemoaned the fact that 20 years or more of servicing a client can count for nothing when it comes to choosing providers for a new project.

RESPONDING TO THE MEGATRENDS

The first imperative for any professional and professional services firm leader is to recognize the reality of the MegaTrends. Denial does not help. The days of working towards becoming an equity partner of a professional services firm, and then cozily tapping that sinecure until retirement, are well gone. However the changing environment, for those that work with it rather than fight it, offers the promise of intense stimulation and challenge, and even greater rewards.

There are four key action steps that professional services firms must take to respond to the seven MegaTrends.

1. Lead your clients into knowledge-based relationships.

If you provide services as a “black-box,” where you do something for your clients, but they do not see what is done, and you literally leave them none the wiser, it is easy for competitors to replicate what you do, and difficult for you to build meaningful relationships with your clients. You quickly become a commodity. In contrast, you can build “knowledge-based” relationships, which are founded on deep mutual knowledge of your organizations and respective expertise, and where the outcome is that clients develop capabilities and learn. This kind of relationship cannot be copied or replicated, and enables the creation of value far beyond that possible with black-box services.

Knowledge-based relationships are fundamentally about getting collaboration between professional firms and their clients, where clients truly view the relationship as a partnership. If that attitude is not present on both sides, this kind of relationship will not be possible. Professionals cannot expect their clients to have this attitude. They are responsible for leading their clients into deep, collaborative relationships, by over time demonstrating to their clients the value of being more open, discovering effective ways to work together, and drawing on the complementary expertise of the two organizations. In my book *Developing Knowledge-Based Client Relationships: Leadership in Professional Services*, recently out in its second edition, I describe in detail how to implement knowledge-based relationships in professional services firms. One of the most important aspects is the role of relationship leaders, whose responsibility for major client relationships requires a specific set of skills, attitudes, and behaviors. Their challenge is both to lead their clients into collaborative relationships, and to lead highly diverse teams of professionals to create massive value for their clients.

2. Build strategic transparency.

Don't fight the trend - you'll only end up getting run over. The MegaTrend of Transparency can be your friend, if you take a thoughtful, strategic approach. Rather than waiting until clients demand transparency, if you provide it proactively on your own terms, you can make it work for you, and in the process create real differentiation from your competitors. The first step is to create greater visibility of work-in-progress. This is a challenge for most professional services firms, both in implementing supporting processes, and in shifting culture. Professionals are used to providing clients with a clean end-product. However there is massive value in getting clients involved along the way. They gain comfort from being able to see what is going on, the understand the value being created, they feel they are participating in what is created, you gain deeper knowledge of the client and what they want, you build stronger relationships, and you demonstrate how you are different from competitors, all of which begin to create client lock-in.

It is now relatively straightforward to give clients access to everyday information on the projects and matters you are undertaking for them. However your relationship leaders need to understand the benefits of working in this way. Internal education is required in order to show professionals how and why to use these tools. Client education is required to show them how to get value from seeing and getting involved in the professional process. The intention is not to be absolutely open to clients about everything, at least not in the early stages of the relationship. The issue is how to use the MegaTrend of Transparency to build deeper, more embedded client relationships. Done the right way, that's exactly what it can do.

3. Create a highly networked firm.

Many professional services organizations are not really firms, they are a set of individual professionals working under the one banner. If, however, firms can bring together deep specialist expertise across their organizations, and integrate and apply it in ways designed specifically for their clients, they can create a uniquely relevant offering that no other firm can match. The value firms can create in this way both transcends and takes advantage of the seven MegaTrends of professional services.

Cross-selling is a hot topic in most professional services firms. In order to cross-sell services to existing clients, four conditions must be met. The first is that the relationship leader must be aware of the expertise of his or her colleagues. The second is a broad understanding of that person's or department's expertise, and how it can be applied to create value for clients. The third is confidence in the capabilities of the colleague. The fourth is personal trust that the colleague will do the right thing and effectively fulfil their role as a team member in working with the client.

The reality is that in larger firms, spanning a variety of practices, locations, major clients, and even countries, these four conditions are met in only a fraction of cases. The perfectly networked firm, where all professionals are able and willing to draw in any other professional in the firm, is a pipe dream. Yet even slightly improving the internal networks in the firm along these four key dimensions will result in significantly better performance.

A rapidly emerging domain of management science, social network analysis, helps professional services leaders to gain deep insights into the essence of their structure and how their resources are combined to work with clients. These kinds of tools can assist greatly, by identifying blockages and opportunities, and providing a template for building truly networked organizations.

4. Evolve your business models.

In 1748 Benjamin Franklin first wrote the credo that seems to have become the foundation of modern society: "Time is money." In 1865 Karl Marx supported that, proposing the "labor theory of value," stating that value is proportional to the labor used. Contemporary professionals, by charging clients based on the time they spend working for them, are in effect modern-day Marxists. Hourly billing, the strategic foundation of many professional services firms, is a major constraint on success in a world driven by the seven MegaTrends. In order to create more value for clients and to lock them in, professionals need to find ways of charging that are more clearly related to the value created for the client.

An excellent example is providing risk services to clients. The MegaTrend of Governance means that companies have an entire array of new risks to manage, in addition to the usual strategic and operational risks.

CEOs and CFOs who watch their peers regularly head off to the penitentiary are pointedly reminded of the personal risks involved. Yet assisting organizations to manage risk is not best done by the hour. Ernst & Young has introduced a suite of online services to help their clients manage risk effectively, including a board governance tool that clients can use first to identify and analyze risks, and then to generate action plans to mitigate those risks. The world's largest law firm, Clifford Chance, has introduced a similar range of tools and systems to help clients manage their compliance risk.

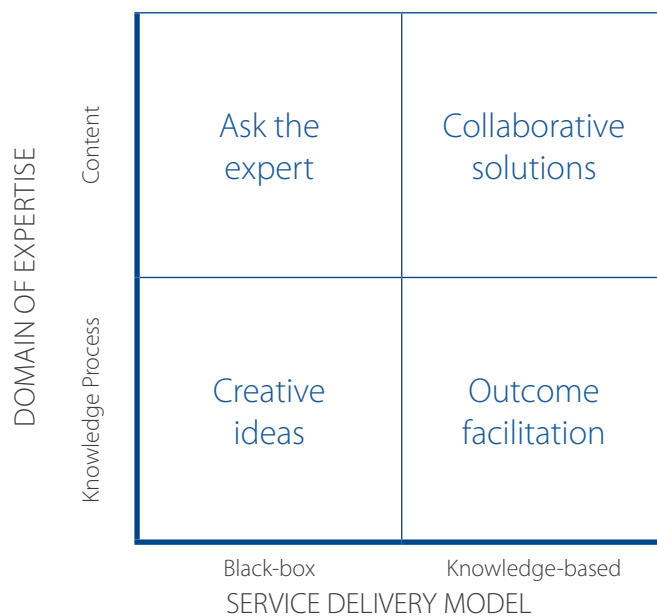
Working with clients in knowledge-based relationships requires new approaches to creating value, and to extracting part of that value for yourself. While hourly billing is not set to die in a hurry, new pricing models are rapidly gaining currency. US regional law firm Powell Goldstein works with its clients that have implemented Six Sigma to meet their internal Six Sigma targets, and charges fees by how it assists its clients in achieving those objectives. Professionals must innovate not just in their field of expertise, but also in how they deliver value to clients.

The seven MegaTrends have emerged from a wide variety of factors. The single most important of these is the swift advance of technology and how we as a society are responding.

This certainly does not mean that technology also provides all the solutions. However the seven MegaTrends are equally impacting the nature of business technologies available. Increasingly, technology facilitates modularization, enables transparency, supports governance, and gives firms flexibility in configuring how they apply their expertise to their clients' problems. The challenge for professional firms today is both to implement technologies that will give them great flexibility in their business operations, and to use this enabling platform to build the relationships, transparency, networks, business models, and strategies that will create extraordinary business success.

DEVELOPING AND IMPLEMENTING ROBUST STRATEGIES

Figure 1: The four professional services models



This model certainly has a future, but this is not where the demand lies.

Creative ideas.

In this domain, a company knows how to come up with great ideas, yet just delivers its brilliant ideas to its clients once they're done. This is how the advertising industry, for example, has traditionally worked. Again, this model is becoming harder to sustain, and many professionals in this space are starting to shift their approaches.

Outcome facilitation.

A rapidly growing field is that of assisting clients to come up with the answers for themselves. Many design and innovation firms have build expertise in the processes of creating great ideas, and apply these from within their client organizations. Professionals in many other fields are starting to work with their clients in this way.

Collaborative solutions.

The professionals that have deep content expertise, yet deliver that using knowledge-based approaches, are essentially collaborating with their clients to create solutions. While this is by no means the only way to position yourself as a professional, this is where the market is shifting, not least by client demand.

Professionals tend to focus on their domain of expertise rather than developing and implementing strategies for their firms. Yet in the face of powerful driving trends, it is clear that traditional approaches to providing professional services are under threat. Professionals need to become effective strategists, by setting and implementing strategies that go beyond simply their selection of practice areas and office locations.

One of the key issues for professionals is their positioning. There are four core professional services models, as illustrated in Figure 1. This is created by examining two key aspects to how firms create value for clients.

On the one hand, firms can deliver their services either as a black-box, or using knowledge-based approaches, as described in the previous section. The other dimension is that of the firm's domain of expertise, which can either be content, or the actual process of creating knowledge. Mapping these two dimensions against each other yields four core professional services models:

Ask the expert.

The history and tradition of professional services is centered on humble clients asking experts for their wisdom and advice. The professional has deep knowledge in a specific area of content, and delivers his or her advice as a black-box service.

This framework of professional services models is useful for professionals who want to understand their current market positioning relative to clients, where they want to be positioned, and to establish what steps need to be taken to shift the firm. It is particularly valuable as a focus for discussion by partners or senior executives on firm directions.

The list of professional services MegaTrends in this paper comes together in the most powerful and pervasive of the seven MegaTrends: Commoditization. Professional services firms must grapple with and confront this demon head-on, taking a structured approach to creating specific strategies. The first step sounds simple, but is not that easy: identify the services you provide that are being (or could be) commoditized.

The key challenge is that professionals will almost always deny that what they do is becoming a commodity. Denial does not change reality. Do any of your current direct competitors have a lower cost base than your firm? Are competitors implementing technologies that will enable them to provide similar services more efficiently? Is it possible for someone overseas to provide similar services? Can your services be “modularized” into simpler - and more price-sensitive - components? If the answer to any of these questions is yes - or even maybe - then you are in danger of being commoditized.

When you have an idea of the service elements that can be commoditized, across the firm, across your major clients, and across each practice area of your firm, the next step is to decide what to do about it. Your strategic choices include using technology to make the service more efficient, outsourcing the service, and dropping the service line altogether. Another choice is to ignore what’s happening, and do nothing. In this case it will be sooner rather than later before your business feels the pain far beyond these specific danger points.

The two frameworks for professional services strategy briefly discussed here - firm positioning and dealing with commoditization - provide a taste of the kinds of thinking that professionals need to engage in, both collectively and individually. Responding to rapid change requires far more than an annual strategic plan. It needs ongoing strategic thought, followed by decisive action.

TOWARD THE FUTURE



Despite the fervent wishes of some professionals, the business environment is far from static. The seven MegaTrends described in this paper are changing how business is done, not least in how clients expect to be serviced. Ignore them at your peril. Recognize and respond to them, and you can turn the MegaTrends into massive opportunities for your business.