

What is different about buying professional services?

01

If you think it's expensive to hire a professional to do the job, wait until you hire an amateur. (RED ADAIR)

We are seeing a rapid change in many segments of the professional services world. Firms have for some time become more sophisticated and demanding with respect to their suppliers and the last two decades saw this phenomenon spill over into the PSF world. Hitherto quasi-sacrosanct professionals are finding themselves treated more and more just like their clients' other suppliers – and they don't like it. The greater use of procurement as well as the availability of technology, in particular the internet, and the advent of artificial intelligence and natural language analysis capabilities, have resulted in an unprecedented assault on long-established PSF working practices and margins. Unfortunately, precious few PSFs have found ways to deal with this. A number of factors have exacerbated the impact of this trend. These include:

- The general nature and personality of professionals working within PSFs: most professionals see themselves as technical experts and specialists. They will have spent a decade or longer acquiring their technical skills and qualifications. Many may also have had to undergo some kind of apprenticeship before qualifying, reinforcing established working practices and perspectives and a 'we are different' mindset.
- Commercial skills, including negotiation, are simply not included in most professional curricula and play an insignificant role in either the route to qualification or in the early years of a professional's career development.

Many of the larger PSFs have recently realized this and it is noticeable that leading firms in a number of professional services areas have started to offer partners and associates such training and development.

- There is also something in the technical nature of the professions themselves that results in many practitioners wishing to avoid the commercial or relationship aspects of their businesses. Many professionals advance by focusing on technical issues, facts or techniques, as part of their professional development. Commercial issues, especially fee management, are not just about facts and figures but also about ambiguity, wants, needs and ill-defined limitations and sometimes about such subjective issues as emotions and fears. Most professionals are not equipped to handle these. In fact, many have taken up their professions precisely because they wanted to avoid having to deal with such issues.

There is, however, an even more fundamental difference in why so many PSF firms and professionals experience difficulties with the commercial aspects of their work. This applies in particular to winning work and negotiating fees. This issue is very closely tied to the very nature of a professional's work. To understand this, consider the purchase of a tangible product such as a car.

When planning to buy a car, prospective buyers will first define their needs or wants such as fun, commuting, carrying capacity, size, power, number of seats and other selection criteria (eg convertible, hatchback, colour, transmission type, fuel type). They will also consider any constraints such as price, available budget, annual running costs, financing, insurance, delivery dates or maybe the size of available parking space.

Having defined these more or less precisely the prospective buyer goes out and looks at available options. Once the options have been narrowed down to a short list of preferred models the buyer will engage with one or several dealers (if they haven't done so already as part of the broader selection process). In the course of these discussions the buyer will be able to test the various options (ie different cars) in terms of their attributes and in particular how well they answer his or her need. (The 'brand' also has an impact on purchasing decisions – for cars and for PSFs. Although very important, this will not be explored further in this book.) Finally a purchasing decision is made and, subject to some last minute negotiations, the car is bought and delivered.

Whereas a car salesperson may have been involved in the selection and purchasing process to a greater or lesser extent, once the car has been delivered the salesperson is no longer involved in the interactions between the

owner and the car (leaving aside issues such as service). Although a car salesperson may influence the purchasing process (and certainly the final price) the decision to buy is heavily based on the attributes of the car, which can be tested in advance. The personal attributes of the salesperson involved (or for that matter the people who built the car) are of very little relevance to the decision on which car to buy and certainly don't matter once the car has been delivered.

Now consider buying a professional service such as legal or tax advice or an architect's services. Some readers, especially those who had to undergo a long and arduous qualification process, may argue that technical expertise and in particular the quality of their work will be far more important than any of the 'soft skills' in winning work. I constantly receive feedback, from a broad range of clients and professionals, confirming that in the vast majority of cases clients 'pre-qualify' potential service providers on quality, ie by the time an adviser is considered for an instruction, quality is a given. In fact, most clients find it impossible to distinguish between the technical qualification or competencies of their advisers, taking these almost for granted. What they can distinguish is how well their adviser understands their needs, how creative or reliable they are in meeting these needs and how good the 'service' has been. Quality has become a hygiene factor. To explain why this is so consider the following.

A number of issues are very different from here on when compared to the car buying example described above. To keep matters simple let's assume that a prospective client has a fairly good idea of the professional service they need or want. First of all, most professional services tend to be high impact decisions. Whereas the value of a car is more or less what we pay for it (at least to start with), the value of most professional services to the purchaser tends to be a multiple of the cost of the actual service. We may pay £10,000 for the drafting of a contract but the value of profits associated with this contract is likely to be a large multiple of the lawyer's fees. Likewise, whatever the cost of getting tax advice or architect's designs for a house, the total tax saved or the profits from renting or selling the house are likely to be a significant multiple of the cost of the work commissioned.

Second, most clients can't objectively assess the quality of work received. By the very nature of going to a professional the buyer is going to someone (who should be) more expert in that particular field. The buyer is therefore at a disadvantage in terms of judging the quality of the work and furthermore has little visibility of the quality of work processes going on in the background. Even when the work is delivered, as in the case of a contract, tax opinion or architect's designs, clients are rarely in a position to be able

to judge the quality of the work that went into producing the 'deliverable'. It is often several years before the client finds out for sure if the contract was suitably clear and enforceable, the tax authorities agreed with the tax opinion or the architect's design did not result in cracks or other defects to the building.

Third, and probably most important, when buying professional services clients buy the service, ie advice, opinion or designs as well as the people delivering the work. Once a car has been purchased there is no need for any further contact with the car salesperson. The decision to mandate a professional is almost always the beginning of a relationship or series of relationships that may last months or even years.

Professional service buyers therefore not only have to address uncertainties about the scope and quality of the final deliverable but also have to take a view on the quality of ongoing service during the project as well as the personalities of the delivering team.

Ironically, car salesmen working for established firms get high quality negotiation training on a regular basis!

The implications for fee management and fee negotiation

Given the differences between PSF and non-PSF purchasing processes highlighted above it should come as no surprise that PSF fee management and in particular fee negotiations are different to other more conventional supplier-buyer negotiations:

- 1 PSF purchasing and selling is personal. Buyers will not just chose a provider on the basis of quality but also on the basis of the people involved. The implication for professionals is that they are not just being judged on their technical skills but also on their personality, their personal impact and issues such as perceived integrity. Given the comments above about the difficulties most buyers will have in judging the quality of work, it is not surprising that the personal attributes of the professional or team will equal or outweigh any objective quality criteria. The importance of quality is further eroded in many purchasing processes where buyers 'pre-qualify' potential PSFs and assume that any short-listed bidders will be 'good enough'.
- 2 Because of the importance of the personal attributes of the delivering professional or team most buyers will want to see and experience them

during the selection process. This usually means that they want to buy professional services from the people who are going to be delivering the work or at least lead the charge. It means that successful PSF professionals have to be both good producers and good sellers of their work.

- 3 Trust thus becomes incredibly important for professional services sales. As subjective attributes such as personality, character and integrity cannot be established 100 per cent during a selection process, buyers have to trust their prospective advisers will act and deliver in line with what they have promised during the selection process.
- 4 Given the importance of trust, anything and everything a professional service provider does before, during and after an instruction, including fee negotiations, must serve to strengthen the trust of the client in the professional and their team.

Many professionals know this instinctively. They often cite the importance of personal relationships and trust and emphasize how much theirs is a 'people business' when discussing an upcoming fee negotiation or pitch. However, many have not understood the full implications of the issues raised above and consequently tend to hide behind technical issues, especially at times of difficulties.

When it comes to fee negotiations and their objectives, PSF practitioners need to consider a series of connected 'success measures' such as:

- *Price*: What is the appropriate price? Is price the appropriate measure? Could there be other factors that are more important to them or their client in the long run, eg will the work generate other benefits, such as know-how, track record, training, relationships, contacts, reputation? How will the negotiation improve on what is already on offer?
- *Scope*: Is the scope of work clear? Is it appropriate and accurate? What will happen if the scope changes – do we have the resources to deliver on time, to budget? Will the client understand potential changes to the scope? Can we manage such changes? How could the negotiation help improve scope-related issues?
- *Time frame*: How quickly does the work have to be done? How much time can we spend negotiating? When should we call it a day and get on with it?
- *Build trust*: Will the negotiations help clarify issues? Will they help manage client expectations? How compliant do we want to be seen to be, how independent?

- *Capturing future work*: Will the negotiations help open up the client for future work? How much short-term profit are we willing to sacrifice in return for long-term work and revenues? How can the negotiations help ‘lock-in’ this trade-off?
- *Understanding of interest/objectives/constraints*: How can the negotiations help us get to a full understanding of the client and their interests, objectives and any constraints? Are the negotiations helping generate the two-way flow of information that we would want or need?
- *Impact on relationship*: Will these negotiations help build the relationship/make it more resilient against the inevitable bumps in the road or are we just antagonizing the client with little to show for it in return? This aspect is particularly challenging as recent advances in neuroscience suggest that giving large discounts can in fact destroy client loyalty (Murray and Fortinberry, 2015)

These are difficult questions to answer at the best of times. When work is being won on the basis of a competitive selection process it may seem impossible to address all of them – but that should not stop practitioners from asking themselves: why do I want to do the work? Are the terms and conditions acceptable? If not what needs to change so that they become acceptable?

The only way that this can be done is by combining well-honed fee negotiation skills with experience and knowledge of the relevant markets and the client. Although in my opinion it has always been a central aspect of professional work, client sophistication and commercial competition have grown in the last few years, both in relative and absolute terms. It is all the more surprising therefore that even now the average ‘Avon Lady’ and her modern day equivalent continue to receive more training in this than most professionals.

Clients have become savvier at putting professionals through their paces when looking to hire them. It is rare now that a major assignment is awarded purely on the basis of some personal contact or a historic relationship between client and PSF or practitioner. Cost management improvements and increasing competition in the global market have prompted management teams to be more demanding regarding value for money and to be more outspoken.

As part of this we have also seen the rise of the procurement department in the sourcing of professional services (see Chapter 5 for more details on this). As a result, professionals are being forced to spend more and more of their time responding to professionally managed purchasing or selection

processes and are more frequently confronted by professional buyers leading or supporting the client negotiations. Life has become tougher for professionals and this is not likely to change.

Involvement of procurement will throw greater clarity and transparency on relationships and selection processes and professionals had better prepare to deal with the implications of these trends. One way is for professionals themselves to become more professional about the way that they source business and in the way that they negotiate terms and conditions, not just at the beginning of a project but throughout the life of the project. This is what fee management is all about.

To understand better the barriers to adopting good fee management within PSFs and by professionals we first need to understand the key workings and characteristics of PSFs and professional service fees. This is the subject of the following chapter.

COPYRIGHT MATERIAL
NOT FOR REPRODUCTION

COPYRIGHT MATERIAL
NOT FOR REPRODUCTION