



Special Report

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Defining and delivering 'value' in professional service firms

***By
Ian Berry and Simon Tupman***

be Remarkable



*In this special report, **Remacue** Managing Director **Ian Berry** and **Remacue** Preferred Provider **Simon Tupman** examine the concept of 'value' and illustrate how, by understanding and establishing value and implementing strategies to price and deliver it, firms can become remarkable and in turn more profitable.*

Key Points:

- **The concept of 'delivering value' has to be a value or guiding principle within a firm**
- **Unless a firm demonstrates to its stakeholders how much they value them, initiatives to deliver value will fail.**
- **Every firm's value is determined by the extent to which it improves people's businesses or lives**
- **Simply by asking probing questions, firms will be able to better establish the true value of their offering to their customer**
- **To deliver value, firms must continually ask their customers what results they demand and then intervene accordingly**
- **Wherever they can, firms should be flexible in their pricing, even if it means taking on some additional risk**
- **By defining and delivering 'value', firms will not only improve. They can also become remarkable and in turn, more profitable.**

All organizations have a primary reason for existing: to create value. Professional service firms such as accountants, architects, dentists, medical practitioners, lawyers, orthodontists, financial planners, chiropractors and physiotherapists are no different.

To be successful in a competitive climate, they have to offer something that is valued by customers¹ more than that of their competitors so that they become the preferred provider in the eyes of the customer.

This special report sets out to explain how they can achieve that objective. In doing so, it addresses the following questions:

- * Why should firms have 'values'?
- * Why should firms make their stakeholders feel 'valued'?
- * How can firms make their stakeholders feel 'valued'?
- * What is 'value'?
- * How can you establish 'value'?
- * How can you deliver 'value'?
- * How can you price for 'value' when there are some many variables in delivering it?
- * Why bother doing any of this?

We hope that the arguments posited in this special report will challenge conventional thinkers in professional service firms; even if readers accept our arguments, we do not underestimate the effort and cultural change that can be required to introduce a system of successfully delivering value and pricing accordingly. Indeed, we maintain that initiatives aimed at enhancing and delivering value will not succeed unless firms understand and implement the inter-dependent concepts of 'Values', 'Being Valued' and 'Delivering Value'.

¹ (We use the word 'customers' generically to include 'clients' and 'patients' throughout this report.)

'Values'

We argue that **the concept of 'delivering value' has to be a value or guiding principle within a firm.** Of course, many firms already recognise the need for articulated values or guiding principles. These are often displayed prominently in fancy frames in reception areas or foyer walls. However, the extent to which these stated 'values' truly represent what a firm stands for is debatable.

Words like '*Communication*', '*Respect*', '*Integrity*', and '*Excellence*' sound impressive and possibly resemble your own firm's values. However, generally they are absolutely meaningless. Indeed, these were the corporate values of Enron, as claimed in its 2000 annual report. Most values statements, writes Patrick Lencioni² recently in the Harvard Business Review are 'bland, toothless, or just plain dishonest'. He maintains that unless they are deeply ingrained principles that guide all the organisation's actions, they can create cynical and dispirited employees and undermine managerial credibility. They should be inherent and sacrosanct; they should never be compromised, either for convenience or short-term gain.

Firms need to have a set of values that are true and transparent and that reflect what the firm stands for. If you believe in delivering value for your customers, then that has to be a value or a guiding principle of the firm. Lip service won't do. If those values are not consistent with those of your employees (and vice versa), then you will never win over their hearts and minds – something that is critical when delivering value to customers. Conversely when they are, you will attract like-minded people who are motivated to work for your firm and support those values rather than people who chose to work with you because it's another job that simply pays the bills and adds to the resumé.

² '*Make Your Values Mean Something*' (HBR 1 July 2002) by Patrick Lencioni

'Being Valued'

We argue that **unless a firm demonstrates to its stakeholders how much they are valued, initiatives to deliver value will fail.**

By 'stakeholders' we mean those people who support your business including your customers, your team members and your suppliers. As the psychologist and philosopher William James famously observed:

*"The deepest principle in human nature is the craving to be appreciated."*³

Here are 9 key ways⁴ to show your key stakeholders they are valued and appreciated:

- 1) Continually ask them what they need, expect and desire and provide these.
- 2) Say 'please' and 'thank you' a lot.
- 3) Communicate with one another with genuine enthusiasm.
- 4) Praise each other publicly for service beyond the norm.
- 5) Provide constructive critique in private when you feel performance is not up to its usual high standard.
- 6) Keep your promises.
- 7) Be open, honest and trustworthy.
- 8) Go out of your way to create a sense of inclusion in the workplace where 'delivering value', 'integrity', 'respect', and 'collaboration' are not just words, but values you live by.
- 9) Support and encourage others as if your life depends on it. (In our opinion, it does!).

Really living your values and truly valuing your stakeholders are prerequisites to defining and delivering value for your customers.

³ William James on Approval

⁴ Adapted from an article written by Ian 'Internal Customers Must Be Raving Fans Too'
You can read the full article at www.ianberry.au.com Click on resources.

What is 'value'?

Value is a word that has been used ubiquitously and sometimes carelessly by professional service firms. Our dictionary⁵ offers several definitions of the word. The one that best applies to the theme behind this special report is '*material or monetary worth*'. To that definition we would add the word 'emotional'. As British business author David Freemantle writes⁶,

"Where there is no emotional value in a relationship, there is effectively no relationship, at best an incidental and momentary interaction as a customer undertakes a transaction and walks away...those companies that are consistently successful in business excel at adding emotional value to virtually everything they do."

We argue that **every firm's value is determined by the extent to which it improves people's businesses or lives**. In providing and pricing their services, firms should remember that the emotional dimension is just as important as the monetary or material. For example, the value of a surgeon who successfully removes a potentially dangerous tumour from a patient can be measured by the life that is saved and the dissipation of the emotional trauma associated with the consequences of an unsuccessful operation.

However, it is our experience that many firms fail to understand or establish the true value of their services, and as a consequence price their services around the nature of their intervention (such as the time it took to deliver the service) rather than the results of the service. In so doing they market themselves by selling and pricing the wrong things (it'll cost you about 10 hours of our time and we charge \$300 an hour) rather than the value that their customers experience ('we'll save your life and the fee will be \$10,000').

Saving a life of course is the ultimate emotional value firms can provide but not one they are always required to deliver. Other forms of emotional value might include:

- A sense of belonging
- Enjoyment
- Escape from boredom

⁵ *Macquarie Essential Dictionary*, 1st edition.

⁶ '*What Customers Like About You*' (Nicholas Brealey 1998) by Dr David Freemantle

- Feeling good
- Fun
- Happiness
- Stimulation
- Safety
- Stress Relief
- Surprise
- Wonder

There is an old saying 'beauty is in the eye of the beholder'. Adapting this phrase, we argue that 'value is in the eye of the customer'. Consequently, when we refer to the word 'value', we refer to it from the customer's objective perspective rather than the firm's subjective perspective.

"We judge ourselves by what we feel capable of doing, while others judge us by what we have already done."

Henry Wadsworth Longfellow, American Poet

How do you go about establishing 'value'?

So what are the best ways to establish the value of your intervention with a customer? We argue that, **simply by asking probing questions, firms will be able to better establish the true value of their offering to their customer.** Remember, it's the outcome, not the time, nor the task that matters.

The challenge for every trusted advisor in a firm is to get the heart of the matter; to understand what is really troubling the customer, to ascertain whether he or she can offer a solution and if so, to offer to provide it at a price that reflects the value. Advisors can do this by asking probing questions at the outset of a matter, such as:

- How would conditions in your business (or life) improve as a result of this project?
- What is this project worth to you?
- What would you like to accomplish?
- What does this mean to you personally?
- What would happen if you did nothing?
- Why do you think I am the right person to undertake this project?⁷

Sometimes the answers to such questions might be obvious, for example in the case of an injured or ill patient of a medical practitioner. However in other circumstances the answers are less obvious.

An excellent example of this appears in Bill Bachrach's book *Values-Based Selling*⁸ in which financial planners are encouraged to establish the true value of their intervention by asking a key question that will diagnose what is truly important to the customer: *'what is important about money to you?'* followed by a series of probing qualifying questions. This allows a financial planner to identify exactly what the customer wants to achieve financially and to appreciate the emotional drivers behind such aspirations. The financial planner's 'product' might be a financial strategy but the value to the customer is the comfort of knowing that (s)he will have sufficient money on retirement to enjoy life.

⁷ For a comprehensive set of questions, refer to *Value-Based Fees* by Alan Weiss (Pfeiffer) 2002

⁸ *Values-Based Selling*, (Bachrach & Assoc); 1st edition (May 1996)

Let's look at a couple of examples of professional service firms who traditionally are not good at establishing value.

Accountants. Traditionally accountants have been in the business of giving tax advice, auditing and filing tax returns so that they accurately give a picture of the financial performance of a business or an individual customer. However, while these services comprise the basic service provided by every accountant, relatively few accountants work proactively with each customer to help them to create wealth through running their business better or planning to protect their assets. As Ron Baker⁹ and Paul Dunn¹⁰ have written, too many accountants have been in the business of reporting on their customers' history rather than helping them to create it.

Lawyers. In a recent survey¹¹, 50% of lawyers stated they still charged by the hour, implicitly reflecting a belief that their value is determined by their time. Only 11% reported that they value-bill their customers based on agreed criteria. It begs the question why? After all, customers are not buying a lawyer's time but a solution to their problems. The answer is to be found in history. It has only been in the last 40 years that law firms have come to use billable hours as a yardstick for performance. What started off as a productivity measure has become a pricing tool and its impact has been corrosive. It does not reflect value; it does not provide any predictability of cost for the customer and it does not incentivize effective and entrepreneurial lawyering. Instead it transfers the risk of the lawyer's incompetency or inefficiency to the customer.¹²

The reason firms continue to bill in this way is because of the simplicity of the system and the general acceptance of it. It's easy to multiply the number of hours worked on a matter by the hourly rate. Any other forms of billing are regarded as being more complicated and riskier.

We believe the time has come for firms to challenge the status quo and be more proactive in establishing value. Exemplar Law Partners¹³ of Boston have done just that and become the first corporate law firm

⁹ <http://www.verasage.com>

¹⁰ See *The Firm of the Future* (John Wiley & Sons) 2003

¹¹ *Lawyers With A Life Pricing Survey 2006* (<http://www.lawyerswithalife.com>)

¹² ABA Commission on Billable Hours Report (2001-2002, pg 21)

¹³ <http://www.exemplarlaw.com>

in the USA to abolish time sheets and to exclusively adopt a fixed price model.

As Christopher Marston, its CEO states on the firm's website,

'For over a decade, both legal experts and corporations have been calling for the demise of the billable hour in favor of a model that is more intuitive and incentivizes service-oriented relationships with customers. Meanwhile, in a time where professional satisfaction in the law is at historic lows and attrition rates are at all-time highs, attorneys alike are crying out for change. I am everyday inspired by Malcolm X's saying, "If you are not a part of the solution, you are part of the problem." In an industry where the only service is lip service, Exemplar Law Partners proudly chooses to be a part of the solution.'

We predict it is only a matter of time before other follow suit in this and other professions.

How do you deliver value?

In response to customer demands and competitive pressures, many firms try to deliver value by giving better customer service. A worthy initiative but we question whether improved service equates to delivering value. As Thomas J. Winninger has observed:

"The creation of value is not about increasing your customer's satisfaction. It is about taking responsibility for your customer's results."¹⁴

We argue that, **to deliver value, firms must continually ask their customers what results they demand and then intervene accordingly**. In other words, while improvements to customer service can help to improve perceptions of value, such initiatives need to contribute to the desired outcome or result that the customer is seeking. This can be done in a number of ways. Here are just a few examples:

- Ask every prospective customer the first time you meet them what results they will require from you in order to be overjoyed with your performance.
- Ask every customer at the completion of every service what they believe were the remarkable results you delivered for them.
- At least once a year ask your customers to complete an online survey about the results you produced for them.
- At least bi-annually have an outside expert interview a selection of your customers to obtain an independent view of the results you produced for them.
- End every interaction with a customer with this question; What do you feel we accomplished today?
- Wherever possible provide something of value to your customer as a part of transactions.

¹⁴ Page 27 Thomas J. Winninger, *'Full Price – competing on value in the new economy'*, Dearborn Trade, A Kaplan Professional Company, Chicago, 2000

How can you price for value when there are so many variables in delivering it?

The next and somewhat trickier piece of the jigsaw is putting a price on your intervention. We argue that, **wherever they can, firms should be flexible in their pricing, even if it means taking on some additional risk.**

Traditionally, many professional service firms have priced themselves on a cost-plus basis, that is to say, before they set a price, they work out what it costs them; then, they add on a bit for profit and sell at that price to a customer. As Ron Baker writes,¹⁵ this approach has its limitations:

“Cost pricing became dominant because most firms implicitly understood their cost structures and could easily calculate a fair rate of return. It is much easier to look inside of a firm and determine the cost than to look outside to the customer to determine the value. In fact, cost-plus pricing provides a nice, neat, objective formula on which to base their calculations. However, given the realities of the subjective theory of value, they have little to do with the value provided to the customer.”

Authors Nagle and Holden argue that firms should move towards value-pricing whereby the price determines their costs, and not the other way round.¹⁶

“The only way to ensure profitable pricing is to let anticipated pricing determine the costs incurred rather than the other way round. Value-based pricing must begin before investments are made.”

In our experience, we find that, as business consultants, our customers regularly expect us to scope out a project and to quote a fixed fee. The level of that fee is determined in discussion with our customers, but the level is set to reflect the value to the customer. Other factors inevitably influence the customer’s decision on this; for example, the size of their budget, what other consultants are likely to charge or the urgency of the matter.

¹⁵ *The Firm of the Future* by Baker and Dunn (John Wiley & Sons) 2003, pg166

¹⁶ *The Strategy and Tactics of Pricing: A guide to profitable decision making* (Prentice Hall) 2002

Establishing the value of a project to a customer requires skill and self-belief in one's value. In many cases we have encountered customers who have a set financial budget for a matter that is in fact worth much more than the customer, (up until that point) has been prepared to pay. The challenge then has been to educate the customer about the consequences of inaction or not taking a recommended course of action. It has then been possible to change the mindset of the customer and to gain acceptance of a much higher level of investment that reflects the true value to the customer.

Here's an example. A firm might be considering engaging an external consultant to conduct a survey of its top 10 customers. Collectively, their business is worth \$500,000 profit annually to the firm.

The firm is only prepared to invest \$30,000 in the project. The consultant asks the questions, 'what if just one of those top customers stopped giving you its business? What would be the effect on your profitability? A loss of \$50,000 maybe and that is just over the next 12 months. How about over the next 5 years?'

One can see from this example that a survey that diagnoses defects in customer service or dissatisfaction with the value delivered and which minimises the risk of customer defections would be worth considerably more than the original planned investment of \$30,000. How much might the firm be prepared to pay once it understands the consequences of losing a good customer? \$100,000?

We suspect that many firms (and consultants!) may be selling themselves short by pricing in a manner that fails to reflect the value (as the above example illustrates). Certainly those firms that charge by the hour fit this category.

Firms that recognise the inadequacy and inflexibility of cost-plus pricing and pricing by the hour have experimented with alternatives with varying degrees of success. For example,

- Fixed fees (especially for transactional work)
- Fixed fees in stages (especially for work with uncertain phases)
- Discounted fees for volume
- Contingency fees (no win, no fee)
- Base fees plus a success fee
- Taking equity in the customer's business

When thinking about how to price their intervention, firms should aim for a win/win situation so that both parties feel they are getting a good deal. The firm is making a profit while the customer is getting value and a significant return on investment. The price should be fixed with measures in place to ensure value is provided and experienced.

It is not just the level of the fee that counts. The terms that firms include in their agreement can make an important contribution to the success of value pricing. For example, firms might also consider including a service guarantee and a price guarantee. A service guarantee assures the buyer that a certain level of service is guaranteed throughout a matter. If for any reason the customer feels the firm has broken a 'service promise', then that customer has the option of withholding payment or part thereof. A price guarantee guarantees the price as outlined in the initial agreement with the customer. Some firms reserve the right to change the fixed price in the event of unforeseen circumstances including provision in their terms of reference for a 'changing order'.

Recently, Simon, in his capacity as a customer, persuaded his accountant to change the way he charged from a 'by-the-hour' approach to an annual, fixed price. This is a much better arrangement for both Simon and the accountant in that he can manage his cashflow better and doesn't have to pay for every call he makes throughout the year! It's also a better arrangement for the accountant in that there is no work-in-progress but a regular monthly payment and improved cashflow.

Why bother doing any of this?

We argue that **by defining and delivering 'value', firms will not only improve. They can also become remarkable and in turn, more profitable.**

For some firms this is not a choice. They are being forced by their customers to deliver value. However the benefits that flow for both the firm and the customer are considerable. For example, many law firms who sell their services to commercial customers (many of whom have in-house lawyers) are being forced to charge for value rather than time in accordance with performance criteria and desired results that are agreed upon between advisor and customer before any transaction. For example,

- Outcome or importance to the customer
- Problem solving
- Commercial judgment
- Availability
- Timeliness
- Project management
- Understanding of customer's business drivers
- Staffing levels
- Management of fee expectations
- Generally helpful relationship

During and at the end of the transaction, the customer scores the firm on a scale of 1-5 (where 1 = poor, 5 = outstanding). Payment and bonuses are triggered by performance.

The impact of such a system appears to have been very favourable. For example, Telecom New Zealand introduced such a value-billing system and reported¹⁷ that it had a number of benefits:

- It improved quality service;
- It led to more sustained, consistent delivery of value-add services, with direct correlation to factors that actually mattered to the customer; and

¹⁷ Article by Ron Pol, ACCA Docket, 2003, pg 32

- It enabled its external lawyers to truly understand what added value means to the customer, to deliver that value and to be recognized as having done so.

Case studies such as this one suggest that the pendulum of power is swinging from firms to customers; budgetary control is now with the customer rather than with the firm providing the 'value'. In effect, customers are saying 'this is what we expect from you, this is what we'll pay you and this is how we want to pay. If you want our business, sign here!'

Conclusion

We believe that firms can either wait for their customers to call the shots or they can be proactive and take action themselves to define and deliver value. We are confident that, when the day arrives when all firms are defining and delivering value and pricing accordingly, everyone will be better off –the customer, the firm and all its other stakeholders. Not only will their lives and businesses improve; they can also become remarkable and in the process more profitable.

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Defining and delivering 'value' in professional service firms

Spend an inspiring, insightful, half day

with

Ian Berry and Simon Tupman

..and discover how to revolutionise your practice!

You will leave with ideas you can turn into innovation

In just 4 hours you will change the way your colleagues think about the value of their work. At a time when firms are aiming to be more customer focussed, this experience will show you how you can achieve that objective and will also explain why many firms struggle.

Both presenters have been working in the professional service firm sector for collectively over 50 years. They know the mistakes some firms make and what needs to be done to avoid them. Their studies of successful firms during that time have led them to the same conclusion: *that firms who define and deliver 'value' will become more profitable.*

We invite you to invest in Ian and Simon to understand their concepts so that you can apply them subsequently.

This experience will show you:

- * Why should your firm have 'values'?
- * Why should your firm make its stakeholders feel 'valued'?
- * How can your firm make its stakeholders feel 'valued'?
- * What is 'value'?
- * How can you establish 'value' in your firm?
- * How can you deliver 'value' in your firm?

- * How can you price for 'value' when there are so many variables in delivering it?
- * Why bother doing any of this?

This experience is not just theory. The focus is on *practical application* of insights presented in a professional service firm environment.

Ian Berry will show you how to:

- align personal and business values and measure the living of them
- value all your stakeholders at the same time by engaging them in unprecedented ways
- be on the cutting edge of talent leadership and management – the essential role all modern leaders must be remarkable at
- ensure internal customers are raving fans of their suppliers

Simon Tupman will then show you techniques that you can use that your customers will value and that will ensure your firm maintains an external focus.

Simon will show you:

- how value-pricing can revolutionise your firm and thrill your customers
- techniques that truly 'add-value'
- why hourly billing is a thing of the past
- case studies of other firms who are revolutionising their practices

What's your investment?

Well, that's for you to decide! We believe this experience could be worth hundreds of thousands to some firms. However, practising what we preach, we like to value-bill. **Our guarantee is value.** After discussing the needs of your particular practice, we will propose and agree on a fixed fee with you for the day. *At the conclusion of the half day it is for you to decide whether to pay us the agreed amount.* If for any reason the experience has not met your expectations, you are free to pay us what you think it was worth. If it has exceeded your expectations, then likewise you are free to adjust our fee upwards!

What to do next?

To discuss the possibility of engaging Ian and Simon for this half day experience for your practice, contact Ian Berry or Simon Tupman:

Email ian.berry@remacue.com **Telephone** +61 418 807 898

<http://www.remacue.com>

About the Authors



Ian Berry is the Managing Director of Remacue.

He is the author of two books and a contributing author of two more.

A Fellow of the Australian Institute of Management, Ian has been a practicing leader for more than 30 years. He has been a small business owner, a senior executive in two major companies, has worked as a board member for several organisations, and has played an active role as an advisor in the cultural upgrading of many diverse organisations.

"Thank you for your great presentation and inspiration to fuel that flicker of flame."

John Owen, President, Australasian Orthodontic Group

"I have been ever so lucky to have had the opportunity to observe, work, and be mentored by you."

Kieran Olsen, Operations Leader, Horwath Brisbane

For more information visit <http://www.ianberry.au.com>



Simon Tupman was born in the United Kingdom, Simon holds degrees from Nottingham Trent University (BA Hons), City University Business School (MBA) and is a Solicitor of the Supreme Court of England and Wales. He is a member of the Law Society of England and Wales, the Law Council of Australia and the International Federation of Professional speakers. He is the founder of Lawyers With A Life, a legal practice development consultancy. He has authored two books, and numerous articles that have been published globally.

"Simon Tupman's key strengths are imagination, enthusiasm and common sense. You don't often find all three in one place."

Dave Clark, Former Director of Training and Development, Eversheds, UK

"Simon added a personal and educative 'coaching' dimension to his work for me. I found this very helpful and it was easier for me to take an objective stance on some critical issues. I have no hesitation in recommending him."

Tony Gray, Principal, Stacks Gray, Surfers Paradise, Queensland, Australia

For more information visit <http://www.lawyerswithalife.com>

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