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Services Strategy—Four Paths to Greatness

by James A. Alexander, Ed.D. and Mark Hordes

Customers classify all services providers into one of four types (quadrants), like it or not. To be successful, the services executive must adopt one, and only one, services strategy that aligns with the customer's viewpoint and is compatible with the overall business strategy. However, it is possible to reinvent your services business in the eyes of the marketplace. Let professional services strategists Jim Alexander and Mark Hordes help you re-brand your image and migrate into a new strategic quadrant most compatible with your long-range business goals. *Starts on page 1.*

Mastering the Use of Core Values: Using them to "Parent" a Great Company

by Verne Harnish

Continually reinforcing your organization's core values is no different than teaching a two-year-old right from wrong. Young or old, people need to know what marks they're supposed to be hitting. They want to understand how they can conduct themselves to please you (and your customers). They appreciate a reminder when they goof up. And they want to know the rules aren't a moving target or prone to selective enforcement. "Growth Guru" Verne Harnish shows you how your core values will do all of that for you, if you take the time to find out what they are and how you can best make use of them. *Starts on page 7.*

Uncover the Assumptions That Stall Business Growth

by Pamela S. Harper

The creep toward strategic gridlock is hard to catch because many business leaders view problems such as unexpected changes with customers, low product sales, and acquisition integration difficulties as isolated executional issues. However, by looking at patterns of events, it's frequently possible to trace these problems back to common themes. Management consultant Pam Harper shows you how to prevent strategic gridlock and move your business forward. *Starts on page 13.*

An Interview with David Maister

The *Professional Services Leadership Report* sat down for a one-on-one interview with David H. Maister, author of the best-selling *Practice What You Preach* and the just-released *First Among Equals* and a leading authority on the management of professional services firms. David is widely acknowledged as a leading authority on the management of professional services firms. *Starts on page 14.*



Services Strategy—Four Paths to Greatness

by Jim Alexander and Mark Hordes

Note: This article is an excerpt from Alexander and Hordes' new book, *S-Business: Reinventing the Services Organization*. With a combined experience base of over 50 years in the services marketplace, Alexander and Hordes are recognized thought leaders in the services industry. Both are well-known speakers, authors, and trusted advisors to leading services organizations worldwide.

No matter how talented your organization is, if you don't have the right strategy, you'll always suffer spotty customer satisfaction, fight problems with morale, and have to live with sub-par performance. This article will help you improve your services strategy by:

- Thinking about strategy, starting with what the customer values and how the customer perceives your professional services organization.
- Learning the differences among the four types of services providers.
- Explaining the core elements and key enablers of each of the four services strategies.

A Brief Word about Strategy

Business strategy has been looked at in many ways for many years, with many books devoted to the subject. Although several factors influence strategic decisions, for the most part we will try and focus on the ones unique and/or vital to services businesses. For example, segmentation is a core element of any strategy, but a topic that we will touch on only briefly.

Our point of view is that the simplest and most powerful way to analyze services strategy is by emphasizing two factors: (1) the **importance** of your portfolio of services offerings to the customer, and (2) the **uniqueness** of your offerings in the marketplace. This outside-in approach forces an ongoing reality check and helps to minimize the myopia that often seems to set in when strategic planners and executives develop strategy without a constant and healthy dose of customer reality. As an aside, we will wager that *all* of your main customers

would have no trouble in quickly placing you and your main competitors in one of the strategy quadrants about to be described. So to start with, it makes sense to ground our thinking in how the customer views and classifies services providers.

The Four Types of Services Providers

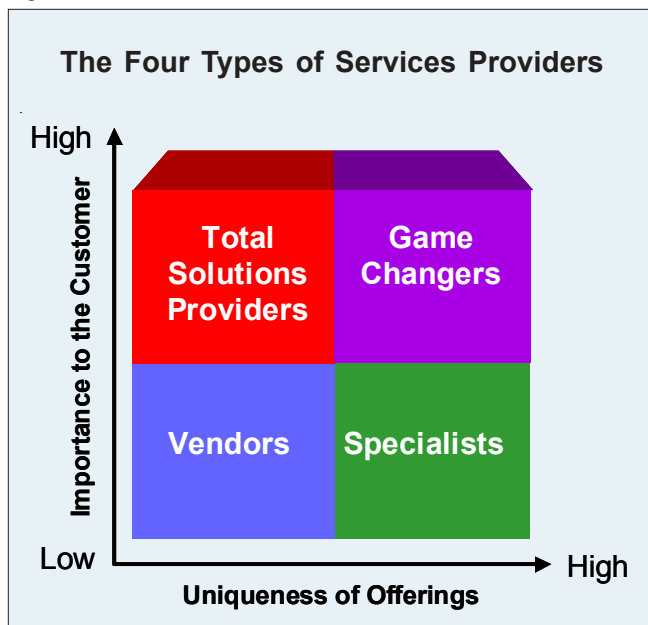
Figure 1 shows services providers classified by services importance and services uniqueness. The names we've chosen to represent these classifications help to quickly describe who they are: Vendor, Specialist, Total Solutions Provider, or Game Changer.

In which quadrant a customer places you has a direct relationship with how you will be viewed, how much time will be spent on you, how high up in the organization your offerings will be considered, and how much money you will be allowed to make. Obviously, this categorization is an important one for your services organization. Four elements—value potential, expectations, who buys, and the buying strategy—help to shape the customer's decision.

1. Value Potential

At the most basic level, value is defined as benefits minus cost (see Figure 2). With low importance and low uniqueness, customers see little value in the offerings of Vendors. Specialists however, provide services that are unique—usually not big-ticket items, but a special service that is required, nonetheless. Hence, the value potential to the customer is medium. Select providers offer big-dollar, high-profile services (usually bundled with products), yet there are competitors that (the customer feels) can do the same thing equally well. Therefore, the services are not unique, but important nonetheless, and are thus of

Figure 1



high potential value to the customer. Game Changers are the few services providers that possess highly unique offerings that are mission-critical to customers. The potential value of this relationship is extremely high to the customer, as successful implementation directly impacts his critical business issues.

2. Customer Expectations

The customer expectations we are interested in are the ones most important—the ones the customer will pay for (see Figure 3).

Because of their low potential value, customers buying offerings from Vendors don't want to spend much time or energy in the purchasing process—all they want is an offering of *acceptable* quality, one that is easy to buy, at a low price. All things being seen as equal, the lowest price always wins.

Because the Specialist has unique capabilities, the customer expects best-in-class services. Since there are very few (sometimes only one) providers of these services, the customer is always wary of being taken advantage of. Customers don't mind paying a premium for these services (they have to have them), but they're always concerned about not having the services available when they need them. Hence, the customer is always looking for other options to meet their specific needs.

When buying from a Total Solutions Provider, the purchase is high visibility (and high risk to the backers of the selected services provider). First on the list of expectations is reliability—the sign of assurance that the services provider can do what it says it will do. Next, the customer wants one-stop shopping, as many big, complex purchases involve many suppliers, and the customer wants one, and only one, organization to act as their agent to address the initiative. Finally, of

Figure 2

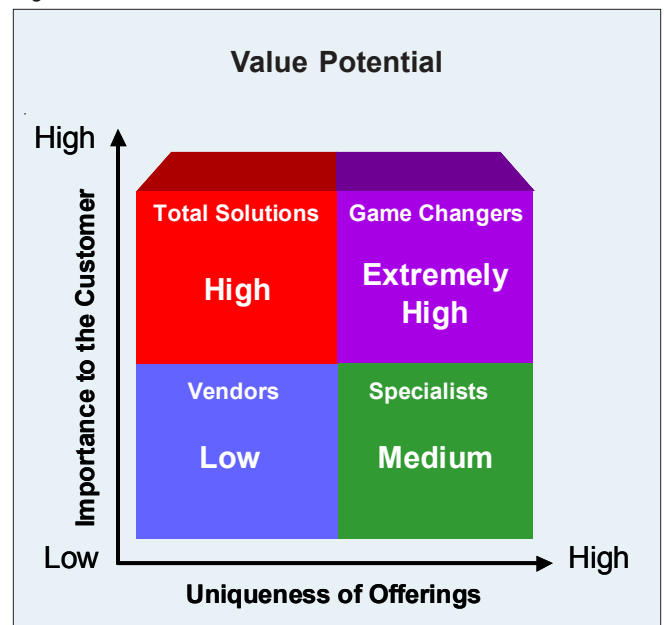


Figure 3



course, the customer wants the solution to work, however (and although they will seldom admit it) they are not looking for the very best answers, otherwise they would have hand-picked the team of diverse specialists required to do the job.

Customers expect only one thing from Game Changers—innovative answers that positively impact business performance.

3. Buyers

Although there may be influencers, sponsors, and users of services offerings, there is only one person (or group) tasked with making the actual purchase (see Figure 4).

Figure 4



Purchasing from Vendors usually is delegated to a junior member of a support function, such as purchasing. Since the services offerings of Vendors aren't seen as important, it makes sense to give the responsibility to a lower-level person.

The buyers of Specialist offerings are often subject-matter experts who understand the intricacies and sophistication of these offerings and act to help determine requirements and rate performance.

Because of the size of the sale, the complexity of its implementation, and the breadth of functions its application impacts, a buying committee is the standard purchasing mechanism for purchasing total solutions. Usually headed by a department senior manager, the team usually is composed of cross-functional professionals and sponsored by an executive.

The buyers of the services of Game Changers can only be top management, because only this group is charged with strategic decisions. In most cases, this responsibility falls to the CEO.

4. Buying Strategy

The buying strategy is the organization's philosophy on their approach to purchasing.* (See Figure 5.)

When buying from Vendors, the buying strategy is always to shop around for the best deal. An important consideration here, though, is that not much time will be spent. Hence, a deal that looks good after only two or three comparisons may appear so due to not taking the time required for a thorough search.

When purchasing from Specialists, the buying strategy is to continually investigate other potential suppliers and substitute services.

When considering purchasing from Total Solutions Pro-

Figure 5



viders, there are always at least two or three services businesses that customers feel can do the job adequately. Since there are only minor areas of uniqueness, once the shortlist is finalized, the buying strategy is to negotiate—offer better terms, toss in a few more services, lower the cost a bit.

When the critical business issues of the organization are at stake, customers will aggressively try and partner with those they see as Game Changers, as they realize that organizations with these capabilities are few and far between. They will pay just about anything (within reason) to get the job done “world class.”

Out of One Box and into Another

That’s it...like it or not, all of your customers have put you in one of the four boxes along with your competitors. Do customers see you where you think you are? Sadly, often they do not. Unfairly pegged? Want to make a move? All is not lost! You can reinvent yourself. You can change their perceptions over time through smart marketing, focused communications, and innovative communication strategies that “tell your story” from a new and fresh perspective. It is a slow and deliberate process, but doable, nonetheless.

However, see the sidebar “Oh, no! We’re a Vendor!” for a quick example of what to do if the senior management team cries out in unison, “But I don’t want to be a Vendor!”

The Four Services Strategies

We have seen how customers view services providers. We know that they think and act quite differently in addressing each type of provider. The smart services executive realizes that the most successful services strategy is the one that best aligns with how the marketplace sees you. There is a corresponding services strategy that is appropriate for each of the four types of services providers. Starting from the customer perspectives outlined above, each strategy has distinct pluses and minuses, yet one and only one services strategy is appropriate. Trying to be all things to all people leads to confusion, poor performance, and gross inefficiencies.

It is important to note that any of these strategies, appropriately implemented, can lead to prosperity, even greatness. The services organizations that will be the most successful will be the ones that most effectively align their services strategy with issues, wants, needs, and expectations of customers addressing their particular type (see *Figure 6*).

The Lean and Mean strategy is appropriate for Vendors. No matter what your capabilities are, how superior your services are over the competition, or what your promotional literature says, if the customer pegs you as a Vendor, you better act like a Vendor if you wish to survive. Therefore, since customers see your offerings as generic, you might as well accept it as a fact and do the specific things necessary for imple-

menting this particular strategy. Examples of services businesses following the Lean and Mean strategy include Unysis and the large Indian IT company, Tata.

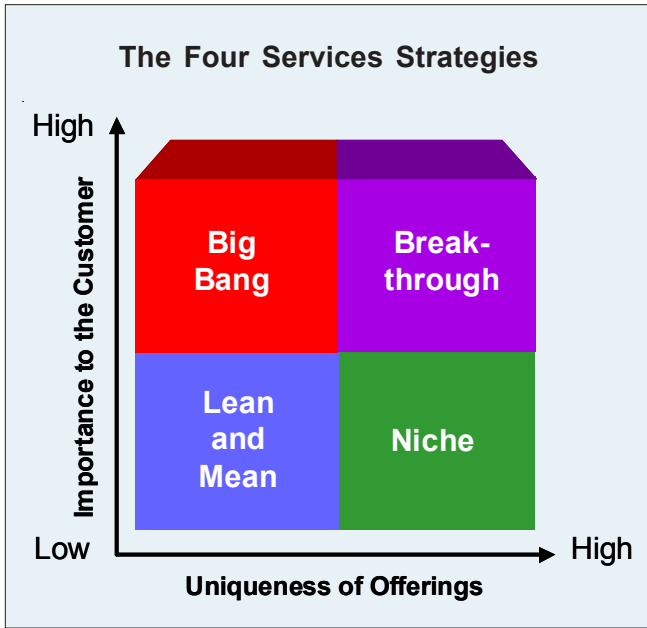
The Niche strategy is appropriate when you are seen by your customers as a Specialist—a mile deep in your particular expertise. The flip side is that they don’t see you as playing in other areas and will discount you if you try to expand beyond your expert core. Because services businesses employing a Niche strategy are highly specialized and often smaller firms, there is a good chance you may not have heard of them outside of your industry. For example, Datatel targets its IT professional services solely on the higher education marketplace, and PRTM focuses almost entirely on supply chain management.

The Big Bang strategy is appropriate for the Total Solutions Provider, when an organization’s services are basically generic in the customer’s eyes, yet the services are important to the buying organization due to the overall cost or potential

“Oh, No! We’re a Vendor!”

If you are placed in the Vendor box (rightly or wrongly) and want to make a move, your best bet is trying for the Specialist position. This has the least risk and is the most plausible change from the customer’s perspective. For the next two to three years, add new capabilities in a specialty area and plow the profits of your services business into a repositioning and rebranding campaign. Start by conducting some serious market research with some serious dollars behind it to investigate the top competitors who play in the specialty box you wish to occupy. Find out what services they offer, how they sell, how they price, and how they deliver. Discover what customers like and dislike about them and where the opportunities lie. Bring in outside experts to learn their thinking on the targeted space today and the trends for tomorrow. Find your niche and start to break that box wide open. Next, incubate a few new specialty services and make a big play with it to select customers on a “pilot” basis. With some learning and success behind you, now it is time to start the promotional efforts. Hire PR support and take your successes and tout them in the appropriate industry rags with strong testimonials. Make it an organizational issue to write (and publish) white papers and articles. Sponsor selected conferences or symposia and make sure that you (and/or your customers) demonstrate your expertise and tell your story to the right people. Develop the new market message and communicate it both outside and inside your organization. Soon you will be seen as a Specialist with all the benefits and minuses that accompany that services provider position.

Figure 6



impact. This is the realm of the very big players, such as IBM and Accenture.

Finally, a Breakthrough strategy is appropriate for Game Changers, when your organization's services are very unique and address the mission-critical issues of customers. Here customers will gladly treat you as a partner, as you have something very important that they want. Good examples here would be the strategy firms Boston Consulting Group and Marakon.

1. Value Proposition

The value proposition is your benefit communication vehicle. It is what you need to be known for to be successful (see

Figure 7

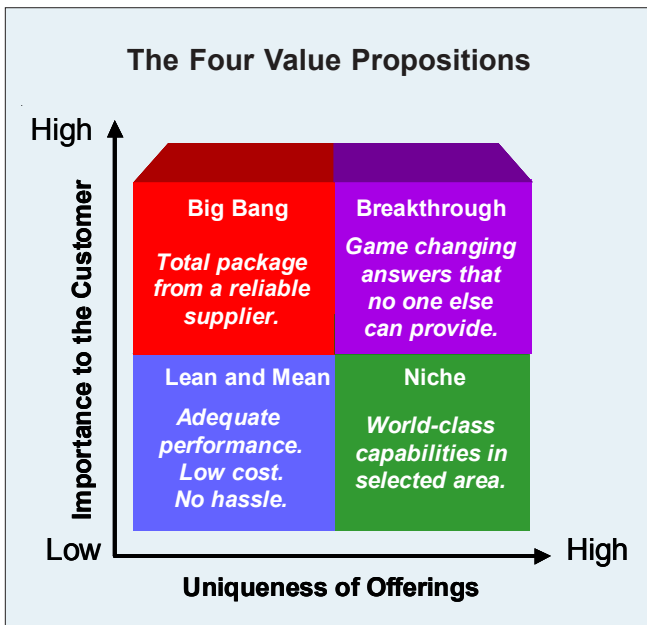


Figure 7).

Services companies following a Lean and Mean strategy know they are in the commodities business. Customers are always putting pressure on price, so to make money, services providers pursuing a Lean and Mean strategy must be the low-cost provider. The low-cost leader can do well in this category, the second best in cost can seek out a living, while all others are doomed to a slow (and probably painful) death.

The value proposition of the Niche services provider is one built upon world-class capabilities in a narrow specialty. Because the issues are often complex and involve many players, the appropriate value proposition for a Total Solutions Provider trying to implement a Big Bang strategy is one that provides a total hassle-free package. The appropriate value proposition of the Breakthrough strategy must be dramatic and attempt to change the game through capabilities that only this service provider possesses.

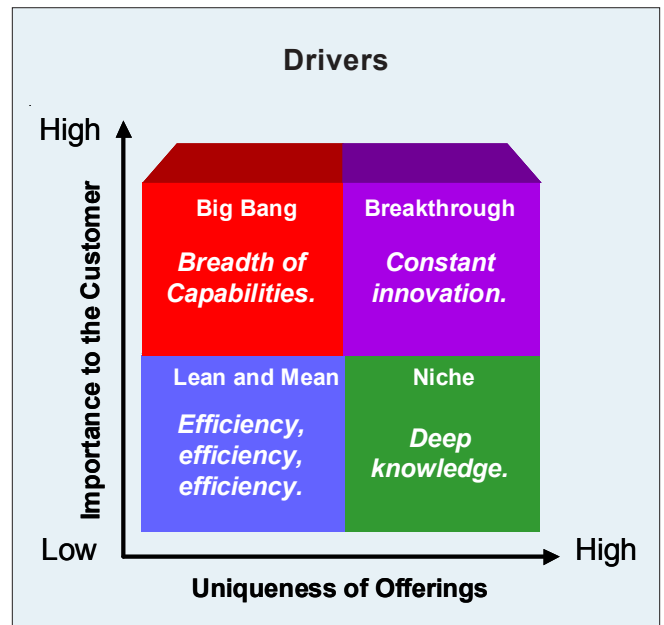
2. Drivers

Drivers are the "Type A" personalities of the services business realm (see Figure 8).

Efficiency is the mantra of Vendors, as they always are looking to do things easier, faster, cheaper. Their internal philosophy is something like this: Don't make a personal visit if a telephone conversation will do. Don't touch the phone if e-mail can handle things. Don't touch the keypad if the customer can use the Web.

To maintain your leadership position, a constant driver of the Niche strategy must be to continue to deepen your already vast knowledge and expertise of your selected specialty. Continually expanding the breadth of offerings by build-

Figure 8



ing, buying, or partnering is the heartbeat of the Big Bang strategy. The driver of the Breakthrough strategy must be innovation, as your people must constantly be on the edge, driving the new and dramatically better.

3. Differentiators

Differentiators are the core competencies most appropriate for supporting your strategy (see *Figure 9*).

A differentiator for a Lean and Mean strategy must support efforts to be the low-cost provider. Two of the most effective options are (1) being very good at streamlining and optimizing core processes, and (2) adopting the appropriate technology to automate and simplify processes and tasks.

The differentiators for the Niche strategy start with the highly specialized expertise of personnel, coupled with a strong, proprietary knowledge management system that captures and distributes the critical information that makes you different from your competitors—you are the keeper of the benchmarks and practices for your industry.

To pull the Big Bang strategy off, high-level selling skills (often internally called senior executive client development capabilities) are a must. Furthermore, strong engagement management capabilities that set and manage customer and partner expectations and deliver results on time, up to quality, and within budget are absolutes to making money.

As a Game Changer, your differentiator in achieving a breakthrough strategy is the extraordinary talent and skills of your “A player” professionals.

4. Critical Metrics

Critical metrics is how we keep score at the end of the day (see

Figure 9

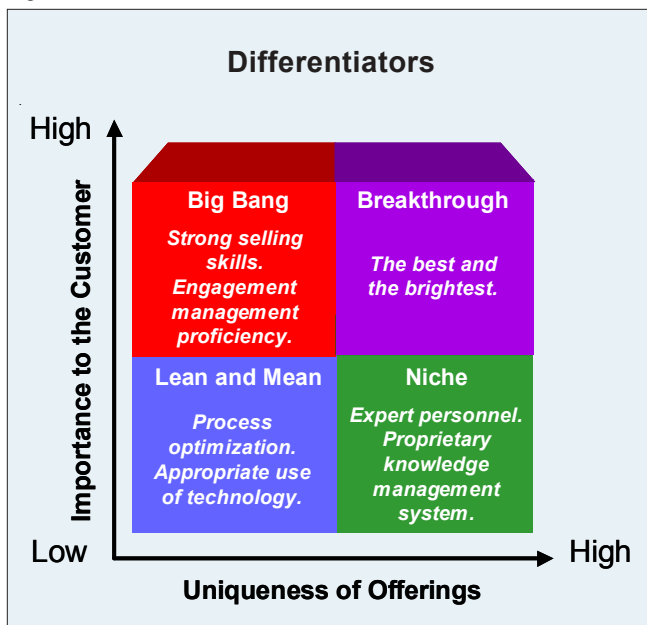


Figure 10).

Three of the main metrics that Lean and Mean organizations should track are the cost of sale, cost of delivery, and customer acceptance. The concept of customer acceptance is a vital one to grasp, especially since it goes in the face of all the hoopla over customer satisfaction of the last two decades. If you are implementing a Lean and Mean strategy, approaches that “under-promise and over-deliver” or “knock their socks off” are the kiss of death. Customers will gladly take additional services, but they won’t pay for them. The secret of customer acceptance is to clearly define exact expectations (what they will pay for) and deliver exactly that—no more, no less. Deliver less, and you have an unsatisfied customer. Deliver more, and you have wasted resources and made a customer wonder why you are so foolish as to give away services in a low-cost game.

When pursuing a Niche strategy, your market is limited, so a critical metric is market penetration of all potential customers. Furthermore, retention of key employees is a must, as they carry your intellectual capital between their ears.

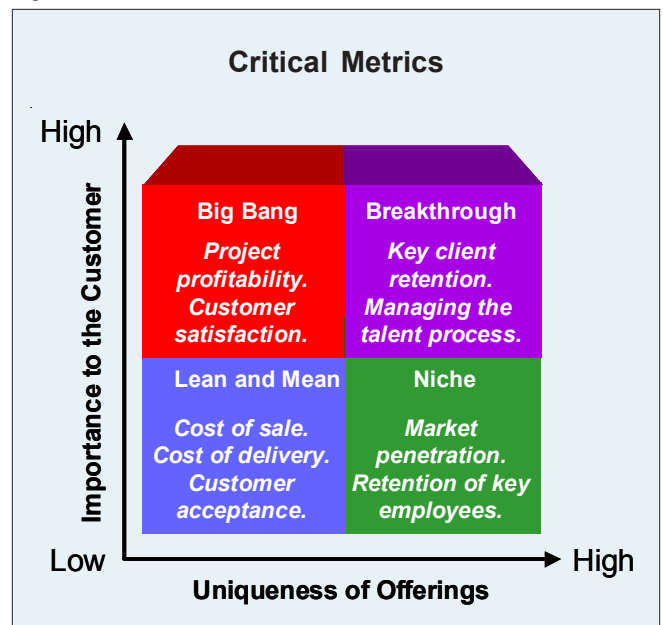
The Big Bang strategy is implemented by a series of big projects. Hence, project profitability is a key indicator of success coupled with satisfied customer ratings.

Finally, the Breakthrough strategy is best measured by key client retention and your ability to manage the talent process: finding, recruiting, hiring, developing, and retaining star performers.

Conclusion

Customers classify all services providers into one of four types, like it or not. To be successful, the services executive must

Figure 10



But What If Services Is a Cost Center?

The only purpose of services organizations that are cost centers is to support the product. Therefore, only the Lean and Mean strategy is appropriate, as the product is intended to be the sole value contributor. However, some of the elements of the Lean and Mean strategy need to be adjusted to meet a different situation. Below are the key considerations of both the Vendor type and the Lean and Mean services strategy:

- Low Importance and Low Uniqueness.
- Value Potential: Very Low.
- Customer Expectations: A product that works.
- Buyers: Maintenance manager.
- Buying Strategy: Give it to me.

- Type of Services Provider: Vendor.
- Market Message: None—trying to be invisible.
- Mission: “Efficient, fast service when you need it.”
- Focus: Lower cost, lower cost, lower cost.
- Differentiators: Not an issue.
- Critical Metrics: Cost of delivery, customer acceptance.

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adopt one, and only one, services strategy that aligns with the customer’s viewpoint and is compatible with the overall business strategy. However, it is possible to reinvent your services business in the eyes of the marketplace. A long-range plan grounded in solid market intelligence, supported by building new capabilities, and backed by a powerful market message can re-brand your image and allow you to migrate into a new strategic quadrant most compatible with your long-range business goals.

*Adapted from *Rethinking the Sales Force: Redefining Selling to Create and Capture Customer Value*, by Neil Rackham and John De Vincentis. 1999. McGraw-Hill.

Jim Alexander and Mark Hordes are partners with Alexander Consulting, a management consultancy that creates and implements strategies for professional services organizations. Contact them at 239-283-7400, ac@alexanderconsultingsbiz, or visit www.alexanderconsultingsbiz.com.

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