

NPD – So near yet so far

There is a certain irony in the fact that professional services firms prosper from keeping abreast with copious amounts of technical information via internal training and the management of know-how. Yet surprisingly, few firms successfully build New Product Development (NPD) into their training, knowledge management or business development processes. This article explores why many firms are so near, yet so far from profiting from an innovative culture.

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Whilst most firms traditionally service their clients' requirements by responding with solutions, few have fulfilled the latent demand for proactively creating novel services or products for new or existing markets. Although understandable, this seems too conservative at a time when competition within certain professional sectors continues to intensify, service offerings are increasingly homogenous and client expectations of value added are more demanding than ever. Good NPD can even help fee earners to sell more confidently - as long as the client benefits are compelling!

Refreshing evidence in support of new product development lies all around, with compelling benefits in store for firms that properly implement an innovative culture. World class firms such as McKinsey, Accenture, IBM and the Big Four are well known for their abilities to 'make markets' through investing in a NPD structure. Some law firms have also been effective at creating new services, and/or 'productising' their legal services for specific markets. The list of reasons to innovate is far from short.

It will be no surprise that in a research project we conducted recently, few professional firms qualified as innovators in their market sectors. Management consultants, perhaps naturally, led the table, followed by accountants, with lawyers trailing well behind. Large organisations were seen to do better, as they were thought to have the resources and processes to implement innovative ideas. But NPD is certainly not the prerogative of large firms alone.

Barriers to innovation

NPD is neither the BD panacea nor a replacement for the (sometimes) excellent key account management and client care programmes which have brought in the fees to date. In fact, we advocate that NPD should be an integral part of a firm's CRM, key account or business development strategy. It should be a concept which is contemplated by the senior management of the firm to a degree that the meaning of NPD is properly understood: what is required to make it happen, and what the benefits will be of making it happen.

Sadly, for many firms, the list of reasons against NPD appears longer than that in favour. Risk averse by nature, partners in many professional services firms take longer to act upon decisions involving business development. They are inherently cautious about introducing too much process, another layer of strategy and yet another hat for the fee earner to wear. Management teams fear to dedicate resource to NPD as this would mean reducing the chargeable hours of fee earners or parting the already stretched purse strings. What's more, most partners, directors and senior management in charge of business development are only just beginning to see the rewards of recently implemented key account management and sales training programmes. Weaving another component into the BD strategy will prove difficult for some firms.

Firms don't manufacture "products" do they?

So, what is meant by the term 'product'? In this article we apply the term 'product' to a service or a solution which has been developed and promoted for a certain purpose. A product can be defined as:

- having clearly defined characteristics;
- dealing with a particular issue or combination of issues;
- satisfying a common need among clients;
- having the same value proposition for each client or group of clients;
- charging similar fees for each client, and
- having the ability to articulate the product's features and benefits via marketing collateral.

Those firms that have invested in a NPD structure have succeeded in differentiating their fee earners as forward thinking, innovative individuals..... a good perception to be creating when value added is critical to the client engagement. Fee earners also like to be better equipped with tools, a motive, or a worthy agenda for squeezing into the client's diary. They start to enjoy presenting compelling value propositions that interest the client and lead on to proposals for new work. Furthermore, some fee earners find it easier and more profitable to replicate the sale of a product to another company with similar needs, instead of working up a bespoke solution for each client.

Types of product

So where are the new products and who is making them? Well, from our experience of dealing with clients, products among the leading accounting, legal and consulting sectors, tend to fall within several categories. When creating products, the two most important factors are the market's demand and the market value of the product. In the same way, figure 1 below shows a number of product types and generalises their position in respect of market demand and value.

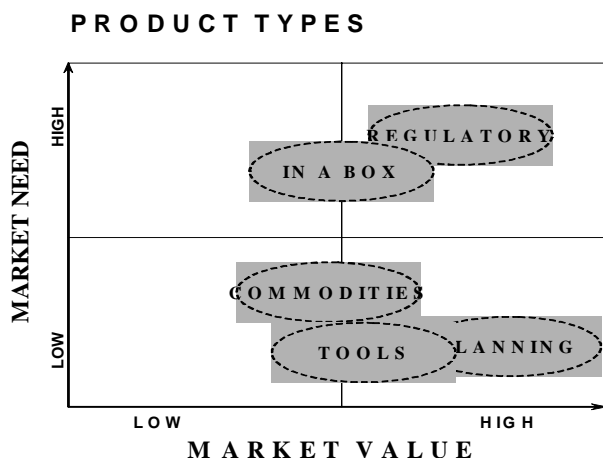


Fig. 1

Regulatory - The most successful product category is often Regulatory. Driven by changes in European legislation and locally implemented regulations, clients have little choice but to comply with proposed deadlines and, in many cases, seek the support of external advisors. A few well known regulations which triggered products among leading firms are Basel II, Cadbury Report and the Data Protection Act Revision. Firms are attracted to product development in this category for the prompts provided by external regulatory change and, perhaps, the potential ease with which they can side-step from one market segment to another.

Tools - Large firms have the best resources to capitalise on the combination of technical knowledge and software. For example, Deloitte's tax computation software, 'Abacus', reports a 40% market share of the FTSE 100. Linklaters established a new category of legal services with "Blue Flag". Law firm, Morgan Cole, has broken the mould in its sector to combine legal policies with embedded code via 'Policy Matter'. Andersen was on the crest of the dot.com wave with its 'duty calculator' for goods purchased via the internet.

Planning - This category is certainly the most valuable to the area of taxation. Accountants are, by and large, better at capitalising on changes in tax legislation than lawyers. Often aimed at very narrow markets, tax planning products in themselves can vary enormously from structures designed to make the increasing number of high net worth individuals wealthier, or ingenious schemes that benefit large mobile phone operators recover VAT from 'roaming' charges incurred in Europe, through to complex structures that help investment banks reduce their tax liabilities via particular shell schemes. The financial benefits of such products are often so great that the providing firms might take fees of up to about 40% of the tax saving.

Commodities - Reviews, training, non-statutory audits and evaluations are all services which over time have become homogenous commodities. They resemble most closely the definitions expressed earlier in the article.

In a box - The last 5 years has seen an increase in this category. For example, the deregulation of the telecoms and utilities sectors in the 1990's gave rise to instant solutions from the leading consultants. 'Telco in a box', offered by McKinsey, allowed overseas telecoms operators the chance to set up a subsidiary company in emerging eastern European markets in reduced time-frames. Similarly, 'Magic Circle' law firms have assembled their matrices in a way that cross practice teams can, on a project management basis, service the diverse requirements of clients embarking on large outsourcing deals.

When looked at like this, producing new ideas and creative solutions may appear quite straightforward – hardly the complex process of innovation that this might seem cracked up to be. But the challenge in creating a real competitive advantage is to spot the market need more quickly; to bring the product/service to market more swiftly; to enable your professionals to sell and deliver it well; and to package and communicate it more effectively than other firms. How many organisations succeed in all these areas?

Contact us

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