

CRM – The Truth in Professional Services 2008

A study conducted by The Thriving Company Limited



in association with Professional Marketing Forum

Summary report

An MOT for your firm's CRM system

It gives me great pleasure that the annual CRM study jointly organised by The Thriving Company and PM Forum attracted responses from some 150 firms, significantly more than last year.

One of the consequences of the current economic climate is that professional firms need to become far more efficient if they wish to retain historic profitability levels. Clients have allowed firms to be inefficient for too long.

Few people are capable of servicing their car so rely on independent certificates of roadworthiness (the infamous MOT). It is no fun to be stuck on the hard shoulder in a car that has broken down. Think of the stress, extra expense and wasted time, not to mention letting people down. Poor quality service can have an equally adverse impact on your clients!

This important study allows firms to benchmark their performance against their peers on five key gaps: understanding client expectations; setting service standards; directing service delivery; communications to clients; and CRM programme readiness.

Personal recommendations have their limits. Think of gap analysis as an MOT for your firm's CRM system. It is a well-established practical tool based on extensive academic research that has enabled management in many sectors to focus on the real issues impacting client service and profitability.

It may be a bridge too far for some, but I believe that an independent audit of comparative service gaps would be incredibly helpful to any client wanting to find out how likely an adviser is to keep their CRM promises. This study is an important step towards a new level of transparency.

**Richard Chaplin
Founder & Chairman
PM Forum**

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The role of this report

The vast majority of professional services firms across the globe would report that client service and client relationships are important to them. It is difficult to find a website for any firm which does not promote its focus on these issues.

But can firms deliver consistently on these promises? What really is the truth in professional services? This report provides this and covers the activities undertaken by nearly 150 firms. It builds on the previous study undertaken in 2007. But we don't just look at CRM as an end in its own right. The report provides information on:

- the model used in the study, which focuses on how to reduce the risk of client loss and increase the probability of being able to extend client relationships
- the results, financial and otherwise, that participants in the study report

As the most effective CRM efforts require concerted action across a number of areas, are they really worth it? Is there a pay back? This is of course, of particular relevance to partners and firm managers in the current environment. So this study doesn't just report on CRM activity but results gained, the constraints on success that participants noted, and some of the correlations between CRM activity and the benefits gained.

We know that firms undertaking CRM practice can achieve results such as increased revenue, far higher growth of revenue from key clients, significant reductions in client loss and even an improvement in communication across functions and offices. However we have gathered detailed data based on the experiences of nearly 150 firms. This summary can't report all of the data and findings, but it does provide some of the findings about the level of activities when CRM efforts provide no benefit, compared to those which provide significant financial and strategic benefits.

As such we hope it will help all participants and readers review, renew and improve their own CRM strategies and activities.

Overview of participants

A total of 147 participants provided information for the study.

We have gathered the experience and activity associated with CRM across a range of different sizes of firms. For example, while 32% of the participants worked for firms which had 250 or fewer employees, around 13% were from firms with over 10,000 staff.

The study is also international in its range and outlook. A quarter of participants noted that they worked for firms which were truly global, with 49% being headquartered in the UK, and a further 16% in North America. The balance emanated from other geographies.

Just over a third of responses were from managing partners or heads of function, with a further 44% being from those in managerial positions or from other fee earners.

Law firms was the most represented sector in the study, with a total of 59% of respondents. Accountancy firms provided a further 19% of responses, with other sectors such as property management also taking part.

Many respondents functional area of expertise was in marketing or HR/training (64%) with communications and general management accounting for 16% and 5% respectively

The background to the study – the Service gaps model

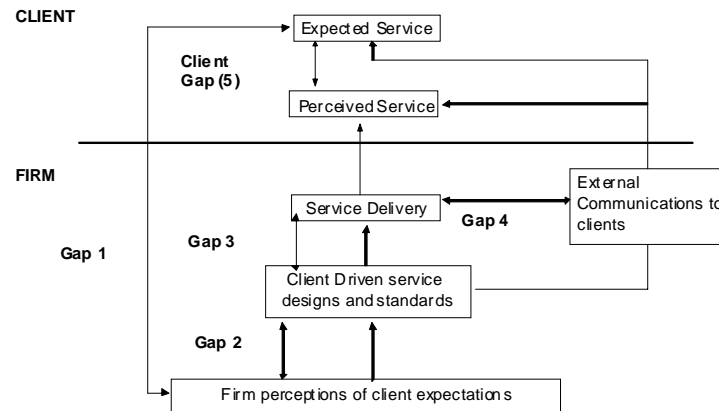
Unashamedly, this report starts from the premise that CRM activities are valuable *if* they are an effective means to an end. That end, is around gaining more robust revenue streams – through reducing the incidence of client loss and increasing the ability to extend and deepen relationships with key clients.

In this respect CRM can be defined as *“The approach taken by a firm to retain and develop relationships with those clients and intermediaries it wishes to serve, in order to increase revenue and profit.”*

The key principles here are:

- The ability to retain and grow a relationship depends on the ability to deliver *at least* what a client expects from the firm, in terms of service and value. Delivering this creates financial reward.
- Some clear pointers allow you to maximise the likelihood that the firm does this, and minimise any risks that it does not.

A powerful way of working through these issues is the “Gaps model of service quality”, originally developed by Parasuraman, Zeithaml and Berry. The graphic shown below is substantially based on their work but revised for a professional firm context.



The key principle, as we define it, is that the extent to which a firm can retain and develop relationships rests on its ability to ensure that clients are satisfied with the service and value they receive from the firm. Thus reducing the risk that clients aren't satisfied is key. Thus this theory suggests there are 4 key gaps or risks that firms should manage and that their CRM activity should address.

1. *Is there a gap between what clients expect and your firm's current knowledge and understanding of what they expect?*
2. *Is there a gap between your firm's knowledge of your client expectations and the way you design your service to clients?*
3. *Is there a gap between the service you design and intend to provide, and what fee earners and front line staff actually deliver day to day?*
4. *Is there a gap between what your firm can deliver (as a result of 1-3 above) and what the client has understood will be delivered (based on communication, marketing, promises made by fee-earners etc)?*

The study focuses on the activities firms undertake which should reduce the risks that clients are dissatisfied, and increase the likelihood that they wish to a firm again, and potentially use that firm for a broader range of services. It shows how well professional services firms are currently working to minimise the gaps noted above, and thus to get strategic and financial benefits from CRM

We also uncover how well firms are managing CRM programmes, and the associated implementation of new processes or technologies to improve the results from such programmes.

The study also looks at the constraints currently hampering the success of CRM efforts, but in particular we look at the benefits that have been delivered. We also provide information about how the activities of firms which report major benefits arising from CRM differ from other firms.

In addition, within this summary report we provide initial insight as to whether the CRM activities defined by this approach do indeed lead to benefits for firms.

Activities undertaken by firms

Closing Gap 1: Understanding client expectations

The following table lists the activities that should enable firms to more clearly understand client expectations and needs, and hence contribute to lessening the risk of client loss - and being better placed to win more business.

In this area, and across all of the other “service gaps”, this summary report shows the proportion of participants that reported that their firm undertook an activity “completely” or “to a large extent”. This provides an overview of how many firms have embedded, or begun to embed these activities, as a normal, key part of what they do.

If anything, slightly fewer firms report that they undertake activities which provide a rigorous understanding of client expectations than in the 2007 study. Other insight gathered by PM Forum also suggests that firms have recently under invested in client and market research, and understanding their market needs. This may also be an area where budgets are now under pressure in more trying economic conditions.

Activity	% of respondents to 2008 survey saying “completely or to a large extent”
<i>Do you understand – based on recent unbiased information – what key factors drive choice between you & competitors?</i>	59%
<i>Do you systematically and objectively uncover why pitches to strategic clients were won or lost?</i>	44%
<i>Do you regularly review how your clients feel after major transactions, or on a regular basis through an ongoing relationship, in a way which allows lessons to be learnt?</i>	43%
<i>Where you get feedback from clients, is it attributable and do you give someone clear accountability and authority to resolve any problems?</i>	63%
<i>Do all your staff with significant client contact fully understand the commercial and strategic pressures faced by their key contacts?</i>	44%
<i>Do you develop strategic account plans jointly with your key clients?</i>	31%

Later in this report we note the correlation between these activities and increased revenue benefits. Those firms who undertake these activities do report improved results. Other firms would thus appear to be competitively disadvantaged in respect of their capability to maintain and grow client relationships.

Closing Gap 2: Setting service designs and standards

Again, there has been no obvious uplift across the range of activities that firms can use to clearly design and define their service since 2007.

We continue to see that fully *two thirds of firms* may not be gaining all the value from any client research undertaken, as clear expectations of service and value are not gathered.

It does seem that there a greater appetite for tracking and measurement may be emerging, with firms recognising that “what is measured, matters”. However there are still important gaps in the ability of many firms to make this meaningful and actually impact on the service which clients (consistently) receive. Fewer than a third of participants report that their firm does this completely, or to any large extent.

Thus relatively few firms are currently able to feed client expectations through to clear intentions for how they deliver service. There may be potential for some firms to differentiate themselves based on this.

Activity	% of respondents to 2008 survey saying “completely or to a large extent”
<i>Do you specifically identify what customers’ expectations are through research processes?</i>	34%
<i>Do the critical expectations impact on how you define or deliver what you do?</i>	44%
<i>Are specific standards quantified – e.g. exactly how quickly you will respond to client requests, or time taken to complete an analysis?</i>	41%
<i>Are the results of customer surveys regularly and consistently tracked?</i>	43%
<i>Do you specify “hard” and “soft” measures to measure your firms, or practice/team performance?</i>	42%
<i>Do you describe, in measurable ways how you expect your key front-line staff (partners, client relationship managers, project managers) to behave, and then measure this?</i>	32%

Closing Gap 3: Directing Service Delivery

The study also covers how well firms are able to manage and reduce the risk that the service and client relationship management they *actually provide* is markedly different from that which is intended. This centres on what actually happens through the day to day actions of fee earners, partners and business developers.

Again it is noticeable that only two-fifths of firms provide training on client service that is focused on the key elements of client expectations. So nearly 60% of firms are either not focusing on service issues within training, or are potentially training on things which may not be critical to clients. This inevitably impacts on the return gleaned from training investments, in terms of ability to develop client relationships. This adds to the barriers to providing excellent service and being able to develop the relationships which already exist. Recruiting predominantly on the basis of technical skill has a weak *negative* correlation with gaining successful results from CRM – but a majority of participants reported that their firms did this.

It is also interesting that there appears to be a greater appetite for measuring the value provided by internal staff to their clients, rather than the value provided by externally facing staff. Only just over a quarter of participants reported that the latter was part of everyday life, and this proportion is somewhat below that seen in 2007.

Most firms do discuss their understanding of client expectations in team meetings, and a slim majority of line managers do focus on customer service. There is still a way to go here for firms to be more effective at managing the risks of poor service delivery and client loss. And, of course there may be financial repercussions for those that do not effectively deal with these issues.

Activity	% of respondents to 2008 survey saying "completely or to a large extent"
<i>Does your firm recruit people predominantly on the basis of technical skill?</i>	59%
<i>Does your firm train people in service delivery, based on the key elements of client value or expectations uncovered?</i>	41%
<i>Are externally facing staff measured by the value they provide to clients?</i>	26%
<i>Are internal staff measured by the support they give to those with client contact?</i>	37%
<i>Are client needs and expectations discussed in team or other key meetings?</i>	65%
<i>Is partner or team performance on satisfying client needs published internally?</i>	25%
<i>Does your line manager visibly focus on delivering great customer service?</i>	56%

Closing Gap 4: Communications to Clients

In broad terms, about half the study's participants reported that communications to clients are consistent and exactly what was intended. The good news is that over two-thirds of professional staff can consistently deliver what is offered, representing a slight improvement on 2007.

Equally though, only a minority report that partners and professional staff consistently communicate in accordance with the brand and service offering. It may be that this is connected with the training issue noted previously. There has been a slight improvement in the incidence of HR and Training working together to define client training, though this still only happens in 40% of cases.

The incidence of firms communicating to clients what is expected of them, or being explicit about the service offered, appears to have fallen noticeably in the last year. Again this is an area where firms who manage this can create a competitive advantage and, based on our further analysis, drive more effective performance and financial results.

<i>Activity</i>	<i>% of respondents to 2008 survey saying "completely or to a large extent"</i>
<i>Do your partners and client facing staff consistently communicate in accordance with what your brand and service offering is?</i>	<i>47%</i>
<i>Is this communication consistent with your external messages?</i>	<i>54%</i>
<i>Do Marketing and HR/Training work together to define the training on client delivery, relationship and service issues?</i>	<i>40%</i>
<i>Can your professional staff consistently deliver what you are offering?</i>	<i>68%</i>
<i>Do you communicate to clients exactly what is expected of them (e.g. provision of information, time by which they need to respond etc?)</i>	<i>55%</i>
<i>Do you explicitly differentiate service offerings, or explicitly tell customers what you will NOT do</i>	<i>42%</i>

Section 5: CRM programme readiness

There have been some positive developments in the way in which firms manage CRM (and associated technology) programmes for benefit.

For example, more firms say they include users in requirements gathering, and indeed gaining of feedback from users and managers appears to have improved significantly from the results we saw in 2007. In the majority of cases, partners and senior staff are defining the management information they need. From additional analysis not covered in this summary report, we do know that these elements are relatively strongly correlated with gaining real benefits from CRM.

However, the fact that half of the study's participants reported that their firm has no CRM vision remains broadly unchanged from last year. This means that many firms are still unable to gain major benefits from CRM and technology programmes.

Activity	Accountability is clear/already achieved
A clear CRM vision has been defined which describes the beneficial impact it will have on the business; Senior Management have bought into this	49%
Key success metrics of CRM programmes have been defined and are tracked	37%
Key business managers and sponsors have defined the reports & management information they need	56%
Definition of who is accountable for external client relationships and how the system shows this	60%
We have mapped and designed key sales, relationship management and marketing processes	43%
Users are included in ongoing requirements gathering	53%
We get formal and informal feedback from heads of functions and key users of CRM	55%
We have defined a clear process to identify, prioritise and implement requested system changes	43%
Performance standards have been set for the system; these are also tracked	35%

The next section of this report summarises the benefits which Professional Services Firms report from their current CRM activities

Do firms achieve benefits from CRM activities?

An overwhelming majority of firms – indeed, around 95% - report that they have achieved at least some benefits from CRM.

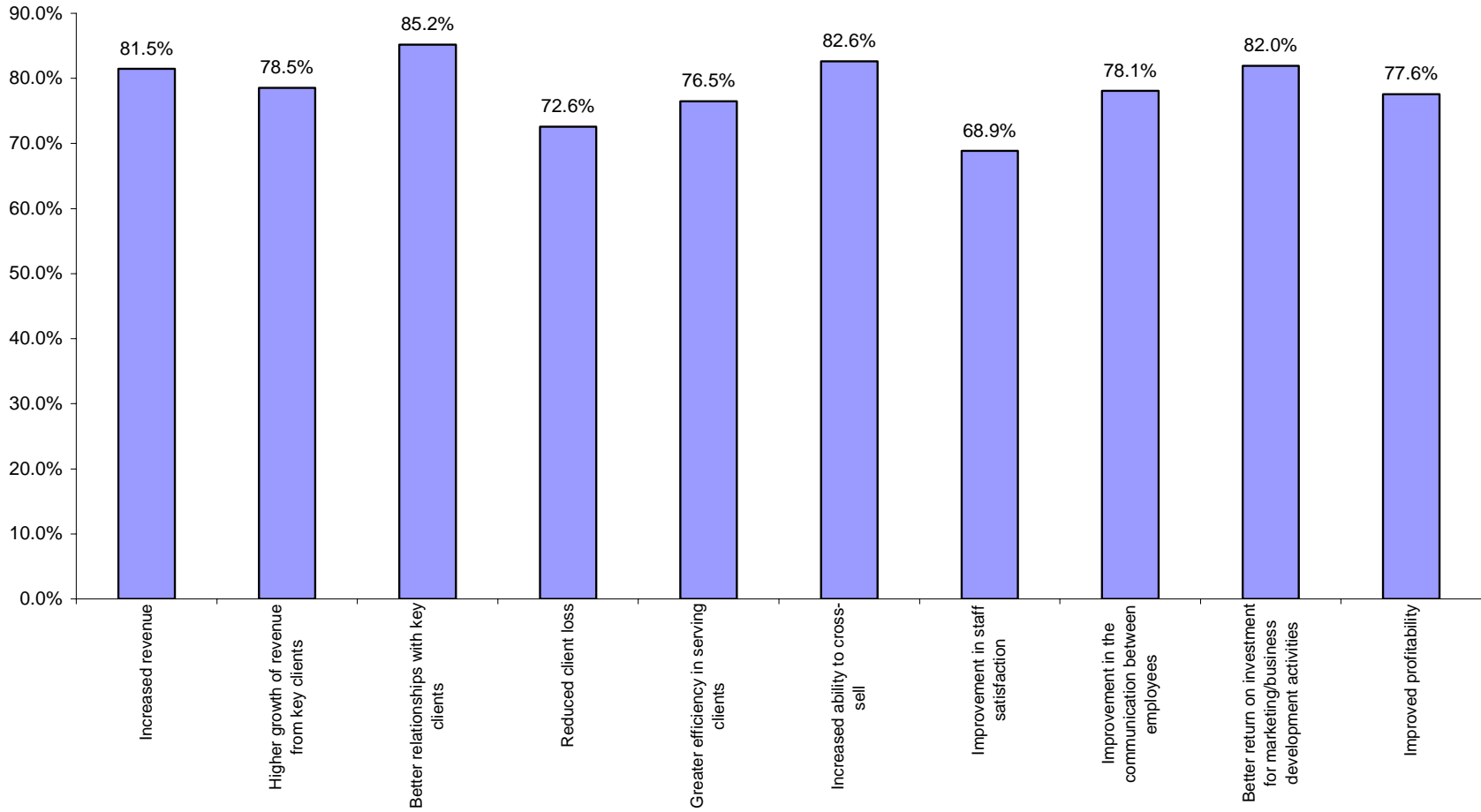
Even the benefit which has been achieved less frequently than any other – an improvement in staff satisfaction – has been achieved by some 69% of this study's participants. More firms have achieved every other result, with that most often achieved – better relationships with key clients – being delivered in over 85% of cases.

The fact that CRM activities indeed tend to generate benefits, according to these 147 participants, seems clear. However this study also investigates the truth in professional services about the capability of firms to achieve MAJOR benefits.

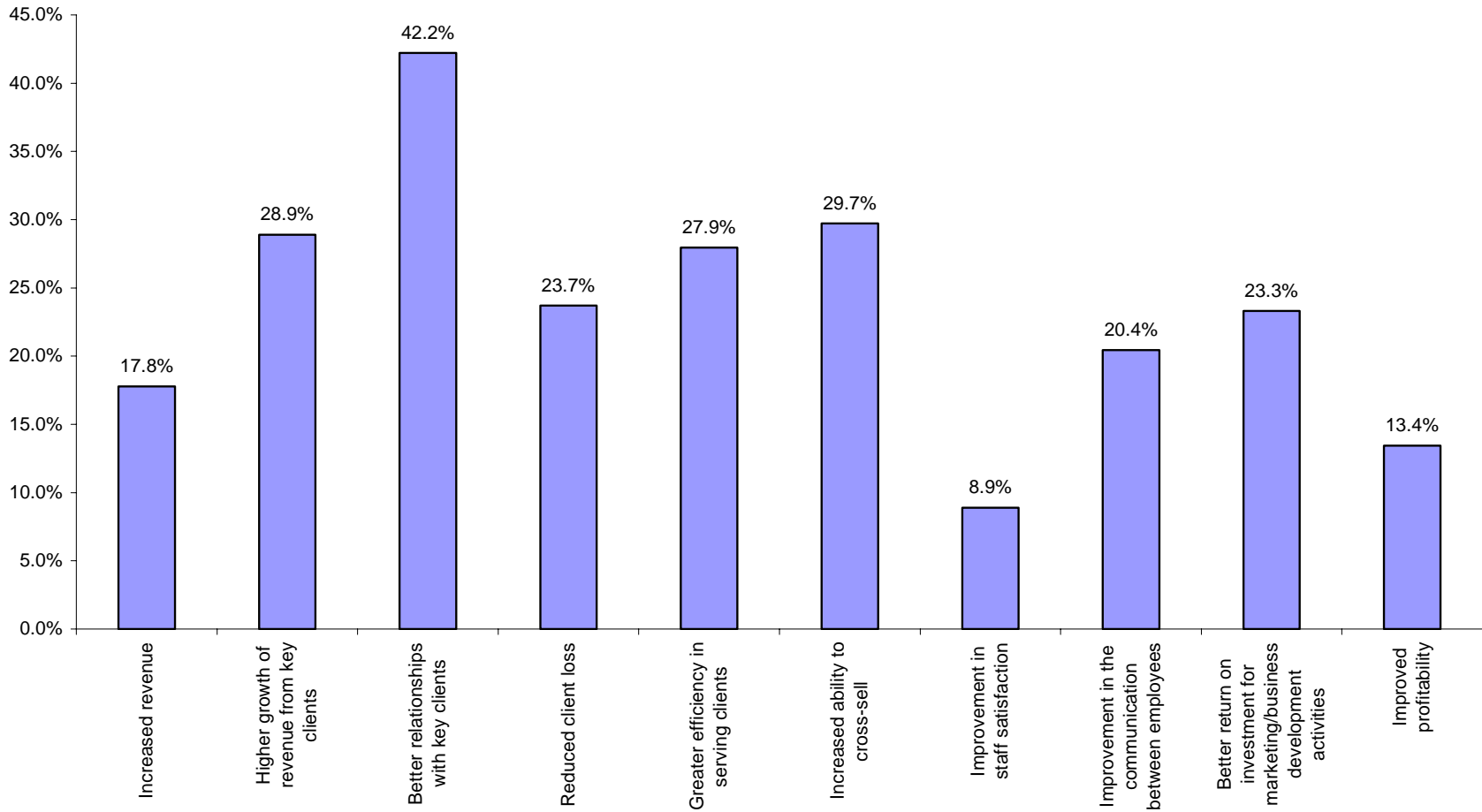
As the graph on page 14 shows, the number of firms achieving major benefits is significantly lower – with many benefits being achieved by 20-30% of the participating firms. For example, only 18% of firms have achieved a major increase in revenue. These of course, are the firms who are undertaking the right activities in the right way, and optimising the payback from them.

Later in this report we will review some of the elements that are correlated with increased revenue. But it is interesting to note that there appear to be fairly widespread constraints on more successful adoption of CRM by professional services firms. These are covered on page 16.

% achieving benefit from CRM efforts



% achieving major benefit



Constraints on CRM Success

A total of 137 participants noted one or more constraints. Several were regularly mentioned, as shown in the table below:

Top 4 issues constraining more effective CRM performance	%age of respondents citing constraint
Lack of senior partner/partnership board understanding of CRM	53%
Lack of clear strategic direction for CRM effort	48%
Lack of measurement	47%
Insufficiently effective technology	45%

These then are key issues for professional services firms; resolving them will improve the results from CRM activity and enhance the firm's performance. As can be seen, the performance of technology is but one of these issues.

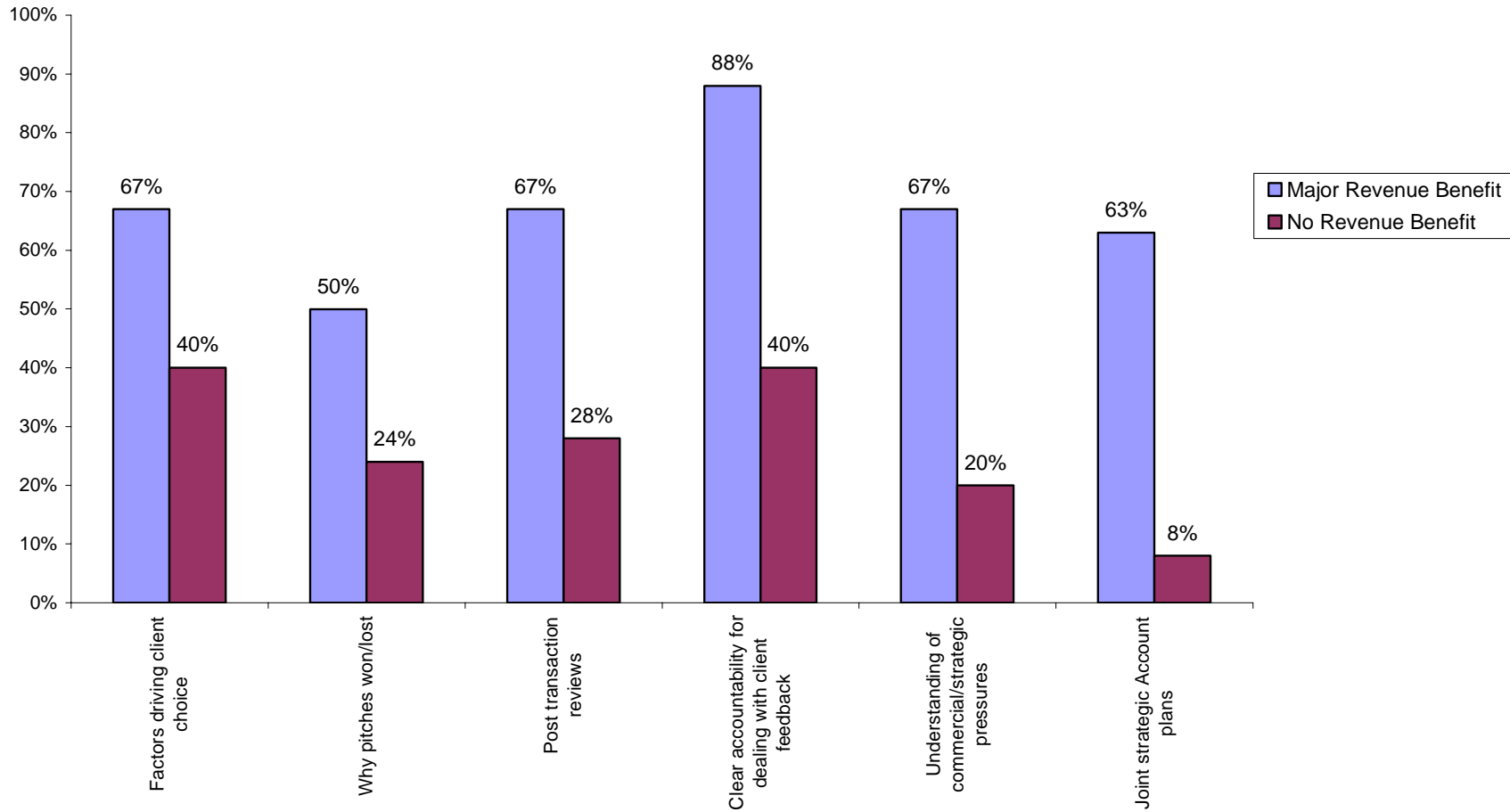
The greater constraints on performance relate to clarity around strategy and the ability to strategically manage change. We should not be too dismissive of the performance of firms. As noted earlier in this report, a clear majority of firms undertaking CRM activities report that benefits are delivered, and even the benefit least often reported, improvement in staff satisfaction, accrues in more than 2 out of 3 cases.

But are there other aspects which drive the gaining of more substantial benefits; full details and analysis of this is available, but outside the scope of this report.

However the following pages note how frequently some key activities are undertaken in firms who achieve major benefit, in comparison with those who achieve no benefit. The graphs show how many firms which report a major benefit in terms of increase revenue, undertake the activities described in the sections on Understanding Client Expectations and in Setting Service Designs and Standards. In other words, they indicate the impact that firms which have focused on closing gaps 1 and 2 have secured.

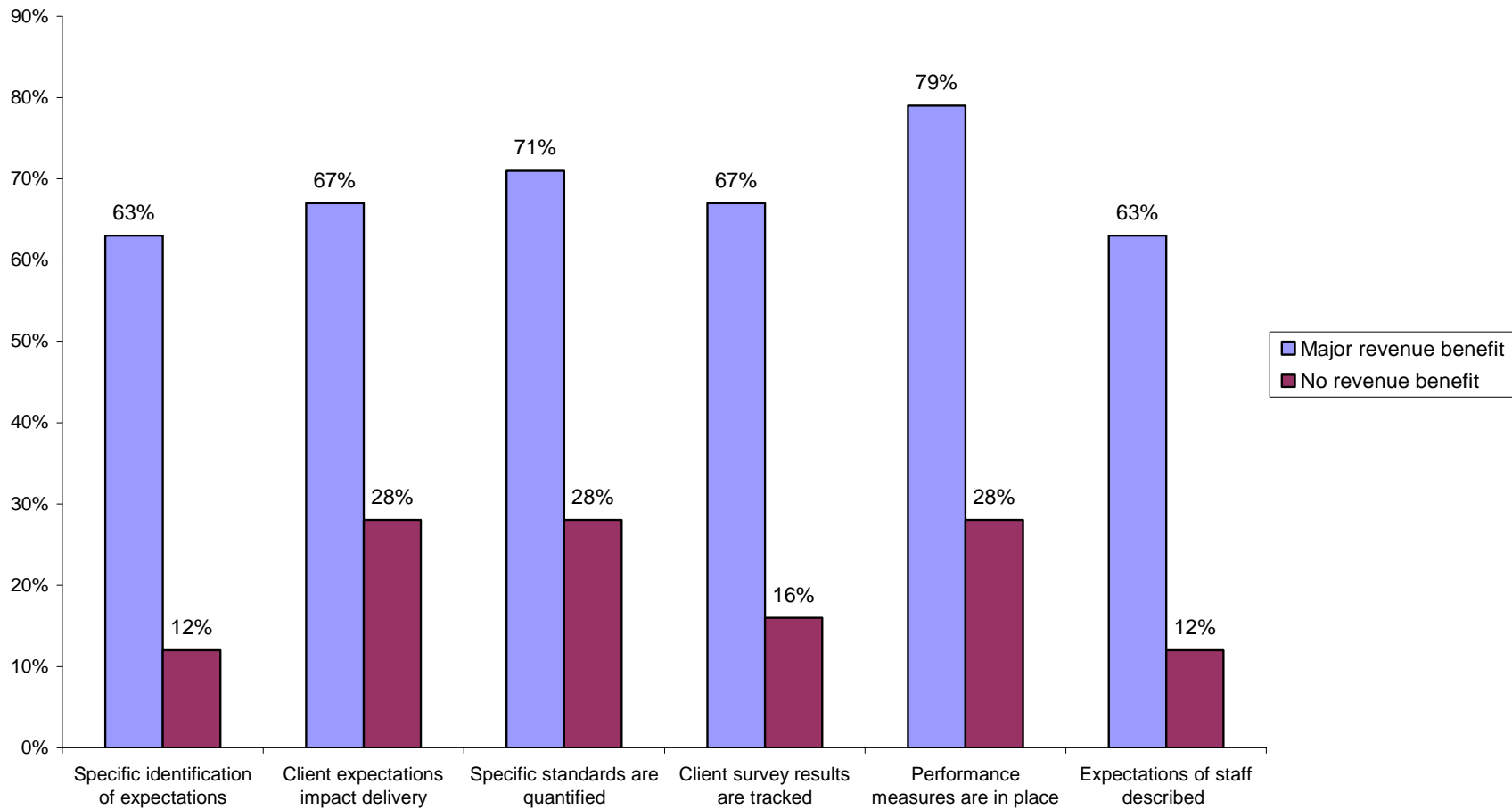
Link between activity and benefit – the impact of Understanding Client Expectations:

How do activities undertaken by those achieving major benefits differ?



Link between activity and benefit – the impact of Setting Service Designs and Standards

How do activities undertaken by those achieving major benefits differ?



Conclusion

Ninety-five percent of the firms which undertake CRM activities achieve at least some benefit, and a strong majority of firms achieve some benefit across a range of factors including increased profitability, improved return on investment from marketing activity, and reduced client loss.

It is nonetheless still the case that effective CRM activities are implemented patchily in many firms. The real winners – those who achieve major benefits from CRM efforts – have adopted best practices and the key activities more consistently. There are clear correlations between certain CRM activities, and the benefits that firms report.

Those firms who – in a time of economic difficulty – would like to improve the robustness of their revenue and profit should review their activities and identify where there are gaps. This is particularly true in respect of those activities which have a major bearing on revenue and which can help drive the ongoing competitive performance of the firm.

***Further data and insight on the results for specific peer groups, and the activities most correlated with improved financial performance, is available from The Thriving Company Limited
Contact Robin Dicks at robin@thrivingcompany.co.uk or on +44 (0)7940 886677***