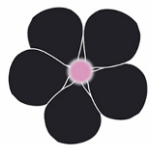


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**45th ICCA Congress &  
Exhibition – Rhodes / Greece**  
Category A&C meeting,  
Sunday 29 October 2006



**Management aspects  
of growth and development  
in a service company**

**Jurriaen Sleijster**  
Executive Vice President - MCI





# Management aspects of growth and development in a service company

## About **MCI**:

- Event -, Communication & Association Management Company
- "Building Community"
- Founded in 1987, ± 450 staff
- 14 Offices in 10 countries:  
Geneva (HQ) - Barcelona - Berlin - Brussels - Dubai - Lyon - Madrid - Paris - Petersfield/London - Singapore - Stockholm - Stuttgart - Vienna - Zurich



# Agenda





# Management aspects of growth and development in a service company

## AGENDA

- Objective & scope of this presentation
- Management challenges in growth
- Management opportunities in growth
- Management trends in the service industry
- Final conclusions & Recommended readings & references

# Objective & scope of this presentation





# Management aspects of growth and development in a service company

## Objective:

- Share theory & practical experiences that influence MCI Management
- Exchange with the audience
- Contribute to raising the standards in our service industry

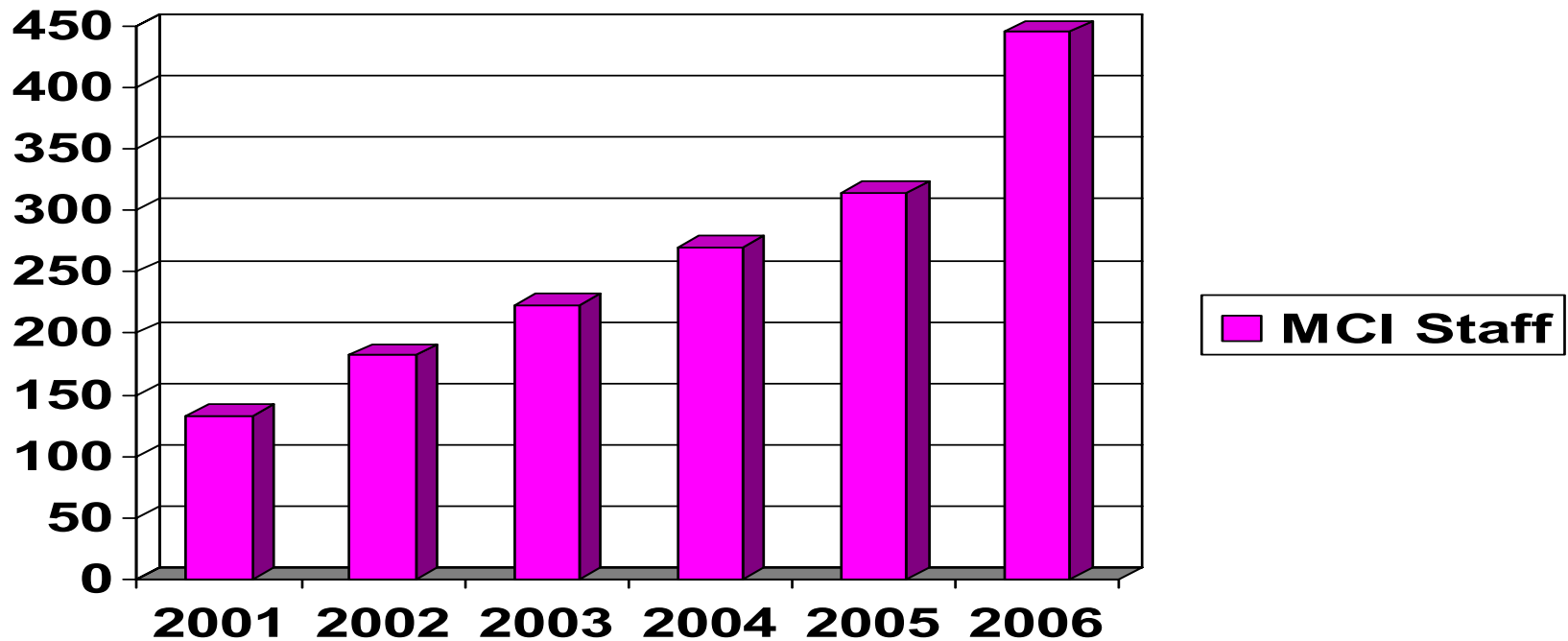
## Scope of this presentation:

- "Management Aspects"
- "Growth & Development"
- "Service Company"



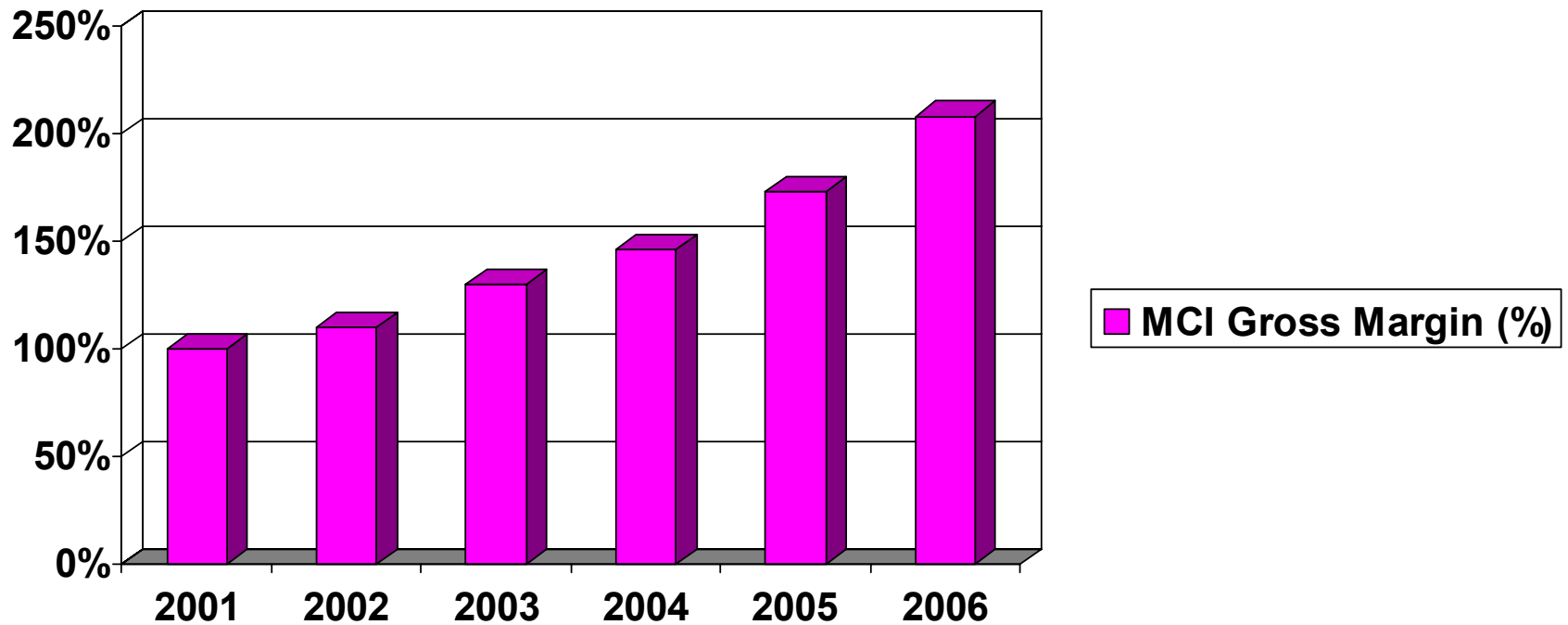


# MCI is familiar with growth and development...





# MCI is familiar with growth and development...



# Management challenges in growth





# Management challenges in growth

What management challenges do we face in growth?

- Stages of organizational growth & crises
- From loose management style to processes & control systems
- Managing the leverage structure (skills available versus skills needed)
- The lifecycle of the professional service company





# Management challenges in growth

Most professional service firms have a mission along these lines:

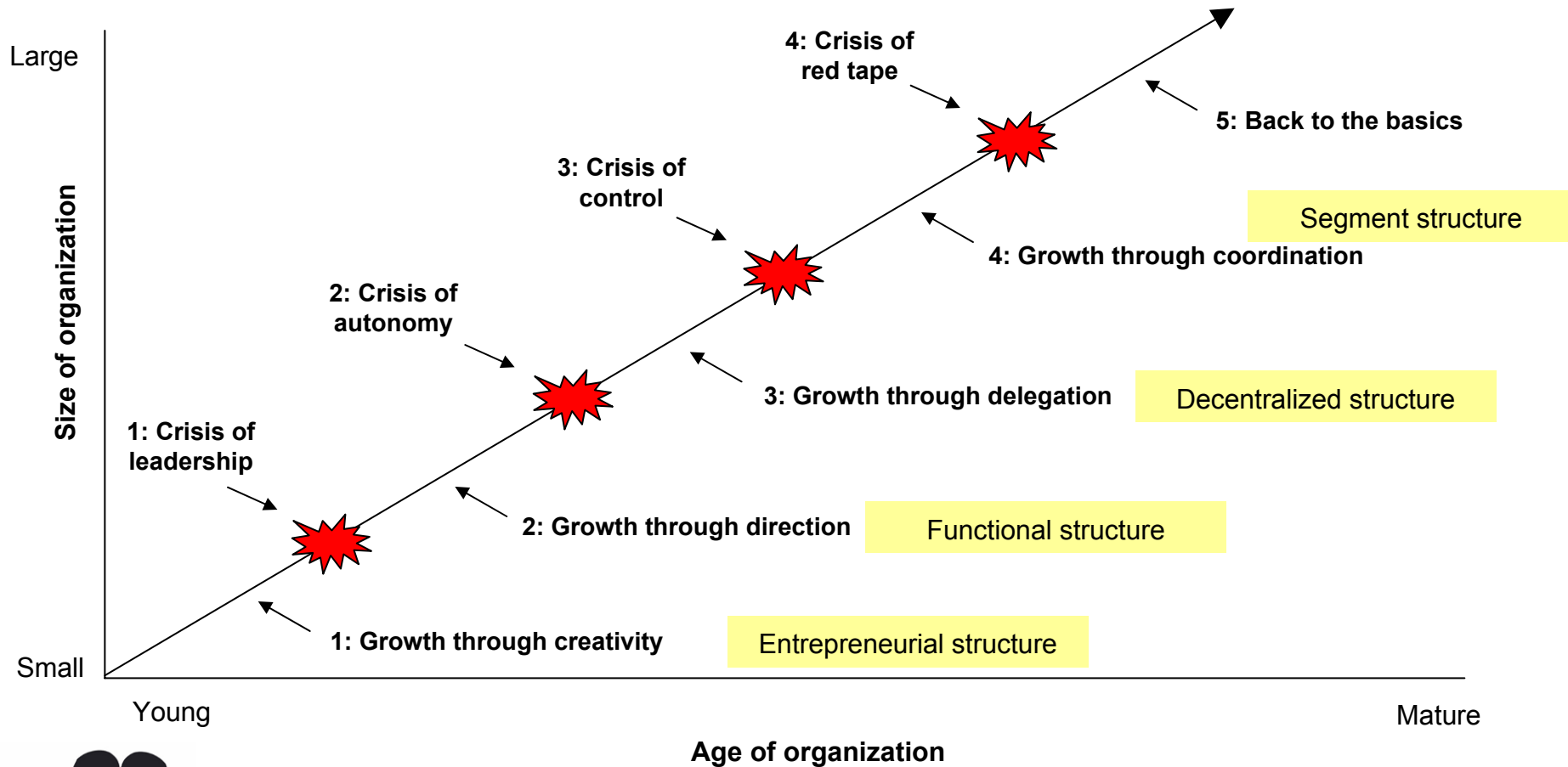
- To deliver *outstanding client service*
- To provide *fulfilling careers and professional satisfaction* to our people
- To achieve *financial success* so that we can *reward* ourselves and *grow*





# Management challenges in growth

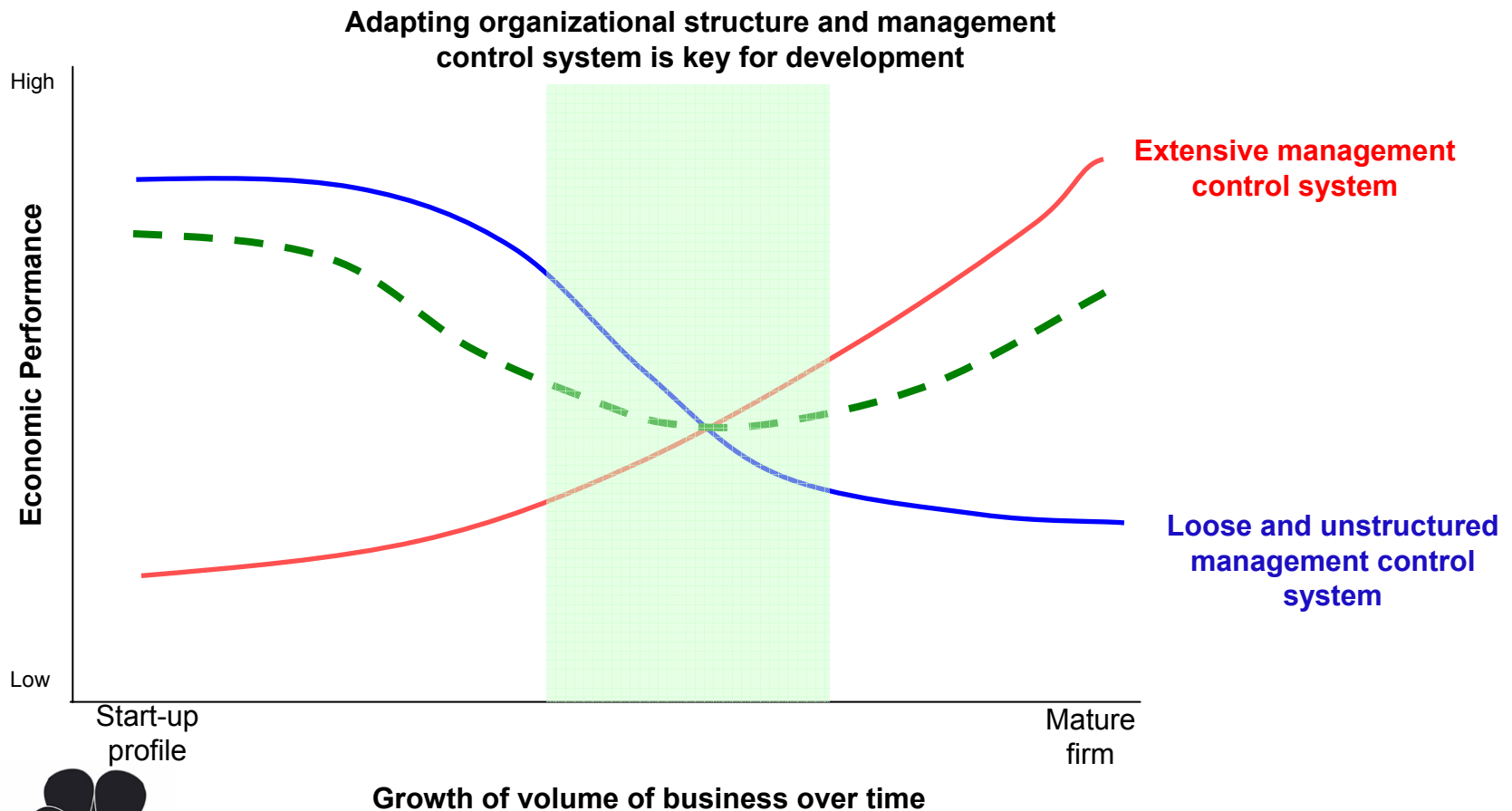
## - Stages of organizational growth & crises -





# Management challenges in growth

- From loose management to processes and control systems -





# Management challenges in growth

- Managing the leverage structure (skills available versus skills needed) -

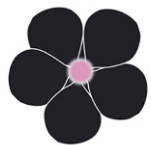
Three types of client work<sup>(\*)</sup>:

(D. Maister – *Managing the Professional Service Firm*)

- Brains
  - "Hire us because we're smart"
- Grey Hair
  - "Hire us because we've been through this before, we have practice at solving this type of problem"
- Procedure Projects
  - "Hire us because we know how to do this and can deliver it effectively"

Choice of project types influences the structure of the company,

- More "brain surgery" = more seniors; more "procedural" = more juniors



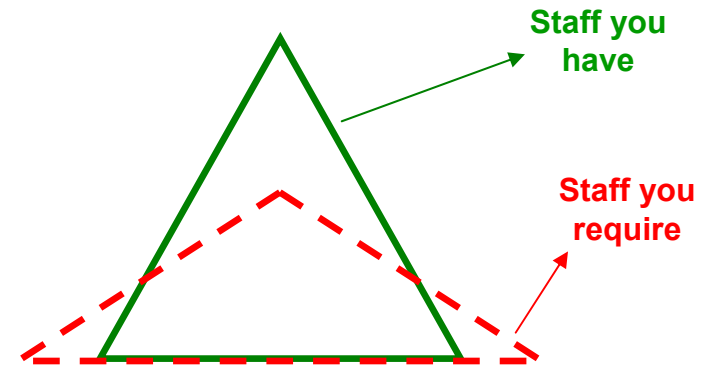


# Management challenges in growth

- Managing the leverage structure (skills available versus skills needed) -

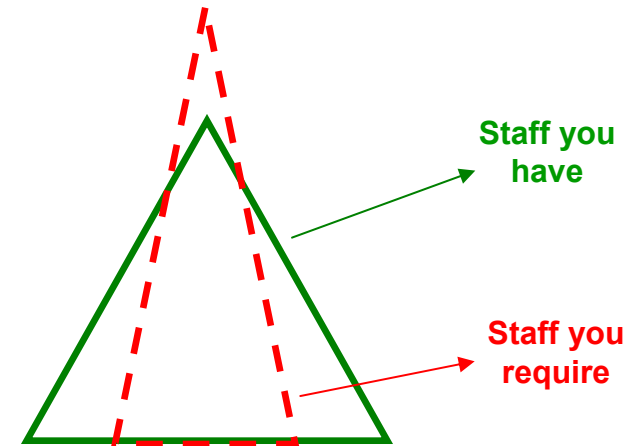
If there is too much procedural work:

- Higher-priced people end up doing low-fee work
- Losing senior people



If there is too much brains work:

- Quality at risk
- Shortfall of senior staff





## Management challenges in growth

- Managing the leverage structure (skills available versus skills needed) -

- "Brains" projects > "Grey hair" projects > "Procedure" projects
  - So: Project teams may have to evolve over time.
  - Company slides to "procedure projects"
  - Staff promotion/career: lack of senior positions
  - Need to adapt HR & professional development procedures
- To maximize profitability: "lead the market" by selling fully customized services with increasingly reproducible, standardized elements



# Management challenges in growth

## - The life cycle of the professional service company -

Clients seek three key benefits from a service company:

- Expertise
  - Client looks for "Brain surgeons"
- Experience
  - Clients look for "past experience" as proof of capabilities
- Efficiency
  - Clients look for the "efficient firm", to be the most cost-effective





# Management challenges in growth

- The life cycle of the professional service company -

Two important trends:

- Clients become more sophisticated
  - They get better at determining what they need (3 E's)
- The evolution through the 3 E's is becoming very rapid
  - What was "Brains" yesterday is "Grey hair" or even "Procedure" today





# Management challenges in growth

- The life cycle of the professional service company -

Companies therefore face a dilemma:

- Follow the practice area down in its life cycle
  - Adapting organization structures, staffing, pricing, leadership styles, etc.
  - The life cycle of the practice becomes the life cycle of the company
- Gradually abandon maturing practice areas and move into new ones
  - Maintaining stability in firm culture and management
- Maintaining diverse practices at various stages of the life cycle
  - Managerial challenge
  - Most common solution: create departments & divisions
  - Monitor mix of practice area "maturities"





# Management challenges in growth

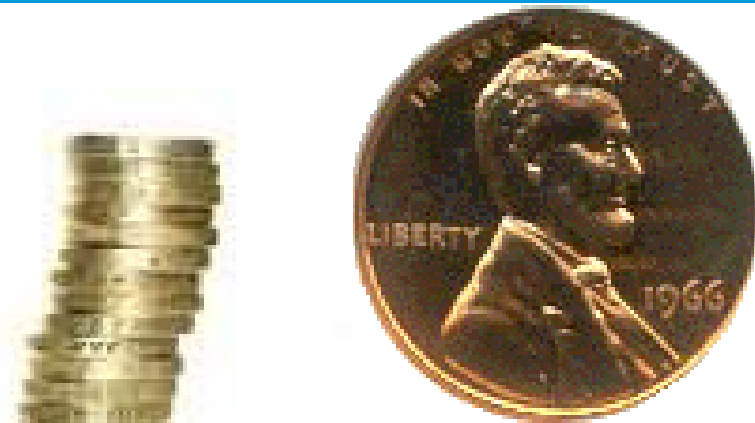
- The life cycle of the professional service company -

Lessons learned:

- For many companies it may be wiser to consistently select practices
  - Allows for a single approach to management
- A consistent image in the market place is a valuable asset
  - Few companies seem to have a clear picture of their true positioning (3 E's)
- There is a natural temptation to underestimate a practice life cycle
- Anonymous surveys: "under-delegation" seniors (30-40%) > juniors
- There is a need for all 3 E's > choose, & apply the right management style



# Management opportunities in growth





# Management opportunities in growth

Some of the management opportunities we have:

- Proper leverage & management style (discussed before)
- Don't fight but innovate: "Blue Ocean Strategy"
- Grow through acquisitions: how to pick your targets





# Management opportunities in growth

- Don't fight but innovate: "Blue Ocean Strategy" -

"Competing in overcrowded industries cannot sustain high performance. The real opportunity is to create Blue Oceans of uncontested market space."

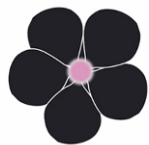
- "Blue Ocean Strategy"

(W. Chan Kim & R. Mauborgne: *Blue Ocean Strategy*)

- Theory of Red & Blue Oceans...

- Red Oceans:

- Red Oceans = all industries in existence today
  - Outperform competitors for a greater market share
  - Space crowded > less profits & growth > products / services = commodities
  - Increasing competition "turns the water bloody"!





# Management opportunities in growth

- Don't fight but innovate: "Blue Ocean Strategy" -

- Blue Oceans
  - All the industries that do not yet exist today; no competition
  - Demand created, not fought over; & growth both profitable & rapid

There are two ways of creating Blue Oceans:

- Create an absolutely new industry
  - eBay (On-line auctions)
- Alter the boundaries of an existing industry
  - Cirque du Soleil (Circus / Theatre / Event mix); Ford (Car assembly line)



## Management opportunities in growth

- Don't fight but innovate: "Blue Ocean Strategy" -

The term "Blue Ocean" may be new, but the concept isn't:

- 100 years ago: no/little...
  - Automobile industry; music recording; aviation; management consulting; etc.
- 30 years ago: no/little...
  - Mutual funds; cellular phones; express package delivery; home videos, etc.
- So what will there be in 20 years from now...?



## Management opportunities in growth

- Don't fight but innovate: "Blue Ocean Strategy" -

Highlights of a recent study of business launches in 108 companies:

- 86% were "line extensions" – incremental improvements to existing industry offerings
  - Accounted for 62% of revenues, but only 39% of total profits
- 14% were aimed at creating new markets or industries
  - Delivered 38% of total revenue and 61% of total profits
- We are used to "compete", "fighting" on "known territory"
- Creativity & innovation is more difficult for many
- Blue Ocean Strategy never uses the competition as benchmark





# Management opportunities in growth

- Grow through acquisitions: how to pick your targets -

## Acquisitions

- World-class company  $\neq$  organic growth alone... acquire!

Research carried out by Bain & Company shows:

- Major deals only make sense under two circumstances:
  - If strengthens company's current basis of competition
  - If allows company to keep up with/ lead its industry if shifting basis of comp.





# Management opportunities in growth

- Grow through acquisitions: how to pick your targets -

Major deals:

- If already best: big acquisition only siphons money/resources/time/etc.

1st step in every acquisition (big/small):

- Define how money is made in your business
- Define how the acquisition builds on that





# Management opportunities in growth

- Grow through acquisitions: how to pick your targets -

- If basis of competition in industry changes, acquisition to transform your basis of competition can make sense...
  - Example: a PCO buying a specific technology leader
- ... if you cannot adapt fast enough organically to new market
- Bain & Company research: continual acquirers & small deals = consistently higher returns than few & big deals

(Bain & Company Global Learning Curve Study 2002/2003)

- Bain: "the best *plan for opportunity*"
  - They know their basis for competition, and how to capitalize on it
- Maintain relationship with each target: be ready to go if opportunity





## Management opportunities in growth

- Grow through acquisitions: how to pick your targets -

Research<sup>(\*)</sup> of 1'700 acquirers between 1986 and 2001:

(\* = Bain & Company)

- Most successful acquirers do a lot of deals
- More or less continually
- Average deal size is small

The numbers:

- 20+ deals / 15 years = 2x shareholder return than "none-dealers"
- Frequent acquirers: 1.7 x better than those  $\leq 5$  deals
- Those that bought companies  $< 15\%$  of own size = average 6x the returns of those that bought companies  $\geq 35\%$  of their size



# Management trends in the service industry





# Management trends in the service industry

Two important management trends are we facing:

- Commoditization of processes
- Competition for qualified human resources



# Management trends in the service industry

## - Commoditization of processes -

Service industry: difficult to compare - services rarely standardized

- So two criteria:
  - Faith that the provider will do a good job
  - Cost
- Because of lack of comparability, cost becomes the main argument

Up and coming in many service industries:

- Development of "process standards"
  - Allows for better comparison
  - Allows for evaluation of cost/benefit of outsourcing



# Management trends in the service industry

- Commoditization of processes -

How would this development of "process standards" work?

Three steps:

(Model developed by T. Davenport)

1. Developing *Process Activity and Flow* standards
  - Agree on what activities constitute a process
2. Developing *Process Performance* standards
  - To measure and compare results
3. Developing *Process Management* standards
  - Indicating how well processes are managed and measured, & improved

Example: SEI's Capability Maturity Model

- 5-level *Process Management* standard for software development



## Management trends in the service industry

- Commoditization of processes -

- *A Process Standard* only has an impact if the world adopts it
- If *Process Capabilities* are commoditized: find other differentiation
  - E.g. by providing ideas, innovations, consulting etc.

*Conclusion: Commoditization of processes in the service industry will change the way we position ourselves, and how we compete.*



# Management trends in the service industry

## - Competition for qualified human resources -

Professional service firms compete in two marketplaces: Clients & Staff

- Staff increasingly important: impact of demographics!
- Past: staff *abundant*. 1960's - mid-80's: entrants in workforce increased
  - Women & baby-boomers; better skilled staff
- Since mid-80's: going down in developed countries
  - Less educated people with several years of business experience
  - Graying of the population
  - Also: change in demand > shift to knowledge economy
  - Younger generations have more options to build a career

(theory by D. Maister)



# Management trends in the service industry

- Competition for qualified human resources -

The result of this development?

- Scarcity (not enough of the right people available)
- High costs (salaries will escalate)
- Retention problems (direct- & indirect competition)

Solutions?

- Improve productivity of expensive resources
  - Better allocation of staff to projects (fight "under-delegation")
  - Develop methodologies in work processes: Juniors > higher-value work



# Management trends in the service industry

- Competition for qualified human resources -

- Find ways to reduce the need for costly resources
  - Withdraw from services and markets that cannot support the new salary levels
  - Remember the Practice Life Cycle...
- Investigate the possibilities of substitution for costly resources
  - Use technology to substitute for labor
  - Hire "non-traditional candidates" and offset by training
  - Non-monetary advantages: part-time, flex-time, alternate lifestyle workers etc.

*Note:*

*Don't under-estimate the difficulties in implementing these strategies*



# Final conclusion & Recommended readings & references





## Final Conclusions

- Recognize the stages of organizational growth & crises of a company
- Understand the differences in positioning in service companies
- Consider the life cycle of practices
- Try innovation rather than head-on competition
- Use acquisitions, but use them wisely
- Remember the changing market of human resources

Running a service company requires a good understanding of  
***Management Issues***

Look around, learn from others, apply, verify, adapt, look around... etc.





# Management aspects of growth and development in a service company

# Questions?



## Recommended readings & references

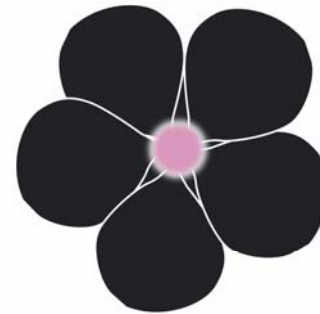
- Managing the Professional Service Firm (David Maister)
- Levers of Organization Design (Robert Simons)
- The Coming Commoditization of Processes (Thomas Davenport)
  - (Harvard Business Review – June 2005)
- Blue Ocean Strategy (W. Chan Kim & Renée Mauborgne)
  - (Harvard Business Review – October 2004)
- Building Deals on Bedrock (David Harding & Sam Rovit)
  - (Harvard Business Review – September 2004)



# Management aspects of growth and development in a service company

# Thank you!





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