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STRATEGY

Unlocking Growth in Professional Services by Saying 'No'

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Value generating resources can make for counterintuitive strategic decisions.

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In 2001, fresh off the dot-com collapse, Silicon Valley Bank made a major strategic shift, moving from a roughly equal distribution of business clients across technology, real estate, and small business to being over 99% focused on technology-driven firms and the wine industry (with a heavy emphasis on tech). Many clients were politely asked to leave the bank. Yet, revenues rose and the bank's stock doubled over the next decade while the Nasdaq Bank Index halved. SVB has outperformed the broad Nasdaq index over the last 20 years.

This didn't just work for a regional bank. Citibank made large cuts in its target market in 1995: purely domestic firms in the developed world would no longer be clients. As reported at the time, "Notably absent from the strategy was lending money or providing investment banking services to large companies in the United States or Europe, the market most sought after by other big banks."[1] Citibank's corporate banking revenue grew in 1996 despite cutting their account base by more than half.

Why did cutting clients work so well for these two banks? It's due to how the value generating resources in professional service firms work and it makes for some counterintuitive strategic decisions.

Industrial firms sell what they can make. Whatever resources the company possesses become embodied in the product and/or the production process. Firms produce as many products as they can as long as customers keep buying at a good price, and strategy seeks to optimize all that.

IT firms are also happy to have all the customers that they can get. The beauty of software is in its scalability and substantial network effects often accrue, such that each new customer is *better* than the last. Strategy is all about attracting more customers.

For these types of firms, particularly tech, the more customers the merrier. Why would saying 'no' have led to growth for Silicon Valley Bank?

In professional service firms value comes from their people. Banks provide capital market access but that's both commoditized and dependent on the client, not the bank. Success in banking (and all professional services) comes from human capital management.[2] Human capital, though, doesn't scale. Humans can only do one cognitive task at a time. Software's value doesn't diminish as more people use it – it often increases. But people are not the same. With professional services, more won't necessarily be better.

Professional service firms add value when they know more than their clients. Their information asymmetry comes from two places. The first is their professional training: law degrees, financial expertise, etc. However, when that training and certification is common, it loses its competitive power.[3]

The second piece of information asymmetry firms can develop is specific to the ecosystem that a client's company operates in. Good bankers, consultants, and lawyers know things about their clients' businesses that their clients don't know.

Adding domains can dilute firms' information asymmetries by pushing professionals to learn a little about a lot of things instead of a lot about a few. A banker that knows a little about a lot won't know more than the client about the subject of interest to that client – their own business.

Many of these firms organize their people into practices based on industry. But, as SVB showed, there's strategic value in extending this specialization up *to the firm level*. It sets clear boundaries and ensures strategic focus. It also increases innovation, because it closes off what can erroneously look like easy options for growth. Professionals that might think the grass is greener in a new arena instead find creative new ways to add value to the target clients.

SVB built their business around their bankers' expertise – the technology and wine worlds, while Citi built their business around the expertise of their bankers across the globe. In each case, the firms' strategic limits helped them to develop specific, unique, and valuable human capital that they successfully deployed to the right clients.

This is more than a market strategy. Saying no strengthens capabilities and brings added purpose to the organization. Everyone knows what the business does and where it's going. They'll self-select to be a part of something that interests and motivates them. In SVB, the focus on technology attracted employees that found it interesting and exciting. The culture around the firm coalesced around the strategy, such that both helped the other.

This approach to professional services – being willing to say a hard 'no' - transformed SVB into an exciting place to work and a powerful partner for their clients.

These steps help this strategic focus:

1. **Aim to be the top provider to your target clients.** Your KPI should be the firm's ranking with your clients – your total share of their wallet.

2. **Get the resources that complement your people and make your strategy work.** When SVB decided to focus on tech, they recognized that they needed a broader product set and people outside the U.S., particularly in China. Those investments were purposeful and impactful, given the strategic focus.

3. **Make the strategy clear and the boundaries firm.** People will question your sanity when you tell them to fire customers and avoid segments unless you've made a strong case for why. And, they'll the push the limits if you let them.

4. **Rethink risk.** Cutting clients appears to increase risk. But deeper relationships and targeted products improve margins, which reduces risk. Plus, many segments themselves (like tech) are inherently diversified, such that reducing client segments isn't as risky as it seems.

The unique aspects of professional service work create some unique strategic choices. Saying 'no' to customers can lead to growth by creating a more purposeful, skilled, smart firm.

References

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