



the cloud, the crowd
&
the demise of professional services as we know it

JOESTRATEGY

Greetings! I'll be the first to admit that the title of this White Paper is designed to be a bit inflammatory and generate a reaction. However, that doesn't change the reality that the world of professional services (accountants, lawyers, consultants, creative and web designers, etc.) is changing dramatically. And, if you are one of those service providers and set in your ways, it's not changing for the better.

Much like technology transformed manufacturing and created an expectation of faster, cheaper and better when it came to products like televisions, computers and the like; this paradigm is now impacting the fields of professional services. Today our customers expect to reach us at a moment's notice, regardless of the time of day and they expect/demand almost immediate response to their needs. Oh, and they want it as cheap as possible. In short, we've lost control of our customers.

For most professional service providers, it can't continue. There is not enough time in the day, talent in the marketplace or capital to invest in what we can consider the traditional approach to service delivery. It's time for professional service providers to wake up and realize that the old ways of doing business are gone – not only is the three martini lunch not coming back, we'll be lucky to even have time for lunch if the customer continues to control our businesses!

Fortunately, it's not too late. In as much as technology has taken away, it can also give back if we allow it to. In the coming years, success in the field of professional services will be defined not by how large the firm is, but by how lean it is. Lean firms will be profitable firms. The most successful will be those who have figured out how to profitably take back control of the customer relationship. Our objective is to help you become one of the successful ones.

This White Paper is the first in a three-part series that is designed to educate professional service firms about the opportunity that exists for firms that embrace strategies that incorporate technology as a solution to service delivery.

- This part introduces the reader to two technological developments -- cloud computing and crowd sourcing -- and introduces the concept of "cloudsourcing". It also explains how to assess the feasibility of turning your service into a cloud sourced service.
- Part two will outline the process of assessing the market and identifying what a successful cloudsourcing solution will need in order to be disruptive.
- Part three will provide the details on how to create a business strategy for a professional services company that wants to transform their business.

If you would like to receive parts II and III of this White Paper series, sign up for our newsletter at JoeStrategy.com.

On the one hand, information wants to be expensive, because it's so valuable. The right information in the right place just changes your life. On the other hand, information wants to be free, because the cost of getting it out is getting lower and lower all the time. So you have these two fighting against each other.

*Stewart Brand, Author
The Whole Earth Catalog*

Introduction

Capitalism is governed by a simple concept – I sell you what I have and what you want at a price we mutually agree upon. The value of a good or service is what someone is willing to pay for it; therefore value, like beauty is in the eye of the beholder. As such, capitalism has a tendency to be effective and inefficient at the same time. Leveraging this inefficiency is how capitalists are able to consistently make money and ensure their position on the top of the economic ladder.

In the last half of the 20th century, no group has been able to maximize the benefits of this inefficiency more than the class of individuals and organizations that comprise the world of professional service providers. This ability to maximize compensation can be directly attributed to the perceived scarcity of their knowledge/service and the level of need by all others. Everyone knows that the tax code is complicated, that the law is confusing as are countless other specialized subjects. Compliance, creativity and the fear of the unknown are powerful drivers. These drivers have served the professional service provider well as they have allowed them to retain the perception of their talents as being scarce and therefore valuable.

Over the past ten years, the cloak of scarcity has been slowly unraveling. Each segment of the professional services industry can point to a time or event where they began to lose control of their customer. For accountants it was the arrival of Quick Books; for lawyers it began with do-it-yourself legal forms from Staples; for creative types, it was when Microsoft and Apple rolled out desktop publishing, etc.

When these do-it-yourself options began to emerge, the vast majority of professional service providers turned a blind eye to this trend. They knew they possessed superior knowledge, skills and abilities. Further, they knew that the quality of the DIY options wasn't as good and the commitment to change was too much of a resource drain for their customer. Most concluded that they couldn't be replaced by alternatives, as the vast majority of their customers really didn't want faster and cheaper, they still wanted better. Service providers succumbed to hubris and believed their own press and marketing materials.

Then a funny thing happened. Customers of all types began to realize that they not only wanted faster and cheaper, they also wanted better. Unfortunately, professional service providers aren't capable of delivering all three, as the traditional knowledge and creation process doesn't allow it. Sadly, the customer doesn't care. For professional service providers, the day of reckoning is upon us. Two choices exist – adapt or become extinct.

Change is never easy, but with knowledge and understanding it is possible. The following sections of this White Paper are designed to educate professional service providers about the two powerful forces that will drive their fields in the coming years. Those providers who understand and embrace them will find a way to take control of their customers; those that don't will go the way of the carbon copier.

The Cloud & The Crowd

For many, the terms cloud and crowd create distinct images of something very tangible and real that is easily recognizable and understood. However, most would be surprised to learn that there is something far more abstract yet no less real to the terms than what we typically associate with these images. In the world of technology, clouds and crowds are beginning to revolutionize the way in which we transact business because they can substantially reduce the cost of transacting business.

Cloud computing is a broad description for anything that involves delivering hosted services over the Internet. Cloud services work like a utility as the customer only pays for what they use, allowing users to avoid significant capital costs for software and hardware. The cloud generally comprises three types of service categories¹:

- **Infrastructure-as-a-Service** (IaaS) is the purchase of computer infrastructure as a service. Rather than purchasing servers, software, data center space or network equipment, clients instead buy those resources as a fully outsourced service.
- **Platform-as-a-Service** (PaaS) is a paradigm for delivering operating systems and associated services over the Internet without downloads or installation.
- **Software-as-a-Service** (SaaS) is a model of software deployment whereby a provider licenses an application to customers for use as a service on demand.

Whereas the cloud is focused on minimizing the cost of ownership for hard assets, the crowd is focused on minimizing the cost of engaging people for tasks that require human effort. Crowd sourcing, as defined by Wikipedia is the act of taking tasks traditionally performed by an employee/contractor and outsourcing it to an undefined and generally large group of people or community in the form of an open call².

Examples of clouds and crowd services that directly impact professional service providers include the following companies:

- **Filings Made Easy** (cfs247.com) provides users with the ability to quickly incorporate a business in any state for less than \$329.
- **Legal Zoom** (legalzoom.com) provides a full compliment of legal agreements and activities, ranging from incorporation to filing for trademarks and patents.
- **Buildabrand.com** is a service that allows the user to instantly create a complete brand identify for about the price of registering a domain.

¹ Definitions provided by Wikipedia and Whatis.com

² <http://en.wikipedia.org/wiki/Crowdsourcing>

- **99Designs.com** is a crowdsourcing marketplace where individuals and companies post graphic work they need done and award it via a competition where the prize is a set price.
- **eCratchit** (ecratchit.com) is a provider of web-based bookkeeping and accounting solutions for small/mid-size businesses.
- **ELance** (elance.com) is an online marketplace where businesses can post work and professionals can bid on the projects.
- **Funding Roadmap (fundingroadmap.com)** is an electronic system that allows businesses to quickly develop and archive business plans and deal due diligence.
- **Zintro** (zintro.com) is a web based knowledge exchange system that matches researchers with experts in virtually any field.

Each of these companies has an offering that leverages either the cloud or the crowd to deliver services that have been the domain of traditional professional service providers. As interesting as each of these companies and their offerings are, it is relatively easy to categorize them as either cloud or the crowd. And, while they are changing business, none of them are game-changing disruptive to their segment of the professional service market.

True disruption comes when these are merged as their combination can create a dynamic and disruptive paradigm that has the ability to deliver knowledge driven **services faster, cheaper and better** than traditional methods.

Cloudsourcing

The merging of the cloud and the crowd, a combination that we are terming “cloudsourcing”, can be defined as the practice of applying web-based technologies to the digitization of business processes, the execution of standardized tasks and the global sourcing of low cost resources. The combination of the three results in a solution that optimizes the delivery of knowledge based services. A cloudsourcing company will exhibit the following characteristics:

1. Its infrastructure required to transact business is in the cloud. Both customer interaction and business processes are predominantly web-based.
2. Many of its business tasks are automated, requiring only that data be entered into the cloud to be completed. Tasks that can't be automated are outsourced.
3. Its outsourced workforce is largely derived of low cost resources that are located across the globe.

4. Its workforce has a dynamic structure that constantly changes. They are engaged per activity, likely via a competitive bidding process to ensure the lowest cost.
5. Its tasks and activities are largely repetitive, resulting in a workforce that is highly specialized so it can generate a consistent and repeatable result.
6. Its fixed cost structure allows it to provide cost savings to customers via lower prices and subscription based revenue models that minimize upfront costs.

Not every aspect of a professional service can be delivered via a pure crowdsourcing model, as there is a point where human intelligence will be required to make a decision or engage the customer on an emotional level. However, as technology advances, the point of intersection will rise, allowing more knowledge tasks to be automated, outsourced to low cost providers or simple enough to do it yourself. As an example, consider the impact of technology on the accounting profession:

- Ten years ago, bookkeeping functions in a business were largely undertaken by trained bookkeepers; the introduction of QuickBooks changed that, allowing anyone who could use a computer to handle bookkeeping tasks.
- Five years ago, accounting firms or specialists like H&R Block largely performed tax return preparation. The introduction of Turbo Tax and other software applications changed that, allowing anyone who could use a computer to file their own tax return.

The result of these technological advances is that these services are now commoditized; trained bookkeepers and accountants can no longer receive a premium value for their knowledge and ability to perform these tasks. Technology will likely continue to commoditize activities within the practice of accounting, putting further pressure on the incomes of partners and severely impacting the economic viability of traditional accounting firms. This example and outcome can be applied to virtually any professional service.

Technology has the ability to reduce the lowest common denominator of knowledge required to perform a task. Lowering the knowledge threshold also impacts the value of that knowledge, driving it from a premium to having limited economic value. To avoid this fate, professional service providers need to understand the power of crowdsourcing and apply it to their businesses.

The best way to understand how to apply a new concept like crowdsourcing is to learn from others who have done it. To understand crowdsourcing, one only needs to see what Chris Merrill is up to. Chris is a serial entrepreneur who has successfully applied technology to services. His new venture, Web-O-Matic, will be very disruptive to website designers.

Meet Web-O-Matic

Web-O-Matic (superwebomatic.com) is an example of the new breed of professional services company that has embraced cloud sourcing. In the business of custom website design, development and optimization, the company does not employ a single designer, coder or SEO expert and has no intention of doing so now or in the future. It does this by:

1. Competitively sourcing design and coding through the crowd for each and every site it is engaged to build.
2. Leveraging the cloud to secure hosting services and site management platforms.
3. Contracting out SEO services to a selected group of vendors who specialize in website localization.
4. Leveraging the cloud further by utilizing a proprietary workflow management tool that easily identifies required information and provides for simple data entry that can be accomplished by anyone regardless of his or her location.

By applying the cloud and crowd to its business in this manner, Web-O-Matic is able to drastically decrease the time and cost of building and maintaining a website while also increasing the website's ability to drive business for its customers. More importantly, Web-O-Matic is able to do this while securing margins that far exceed those realized by traditional website design and development firms. And, because its workforce is outsourced it eliminates the fixed cost associated with employees and the related headaches and costs that come from it. This allows the company to focus its efforts on growing the business rather than reacting to the business.

Web-O-Matic is a perfect example of a professional services company that has recognized the power of the cloud and crowd and is utilizing them to disrupt an industry. This isn't to say that Web-O-Matic is going to put design firms out of business – it's just going to make it harder for them. For the foreseeable future Web-O-Matic has a significant competitive advantage because it has the ability to provide its customer with faster, cheaper and better. The bottom line is that it will provide the customer what they want while securing margins significantly higher than a traditional design firm.

The Challenge of the Crowd

Implementation of a cloud sourcing model is not without its challenges. Both the cloud and the crowd are still in their infancy and are continuing to evolve as people figure out the best way to maximize their potential. As both become main stream, several easily identifiable challenges are beginning to emerge, particularly when it comes to people issues. As everyone knows, crowds are unpredictable. One minute everyone is holding hands and singing songs in unison; the next they are turning over cars and looting stores! While the unpredictability of cloud sourcing isn't to this extreme, several challenges are coming to light.

In many ways, crowdsourcing labor is no different than having a dedicated workforce; you still need people to show up. One of the biggest challenges of engaging the crowd is the inconsistency of the workforce. Web-O-Matic found that with some sites it could get a great response and be completely overwhelmed with fantastic designs. Other times, the reaction from the crowd to the opportunity was less than adequate.

The second noticeable challenge with the crowd is managing the quality of what you get back. The saying “garbage in, garbage out” holds true when crowdsourcing an engagement. Web-O-Matic is constantly refining their business processes to ensure that the inputs they provide to the crowd are comprehensive and precise and they are constantly monitoring performance so they get what they want.

The third challenge to utilizing the crowd is dealing with the human touch. In as much as you can outsource tasks and activities, interaction with the resource is critical to making sure the crowd is effective in delivering on your promise. Likewise, it is of paramount importance to understand that just because the execution is not taking place under your roof, it doesn't mean you can ignore the customer during the process. In actuality, the interaction with the customer should be even greater as you shouldn't be burdened by the work.

Of course, the great thing about challenges is that they inevitably create opportunity. The crowd as part of a crowdsourcing model is no different. By understanding these challenges, we are able to begin to identify best practices for building a crowdsourcing company. The initial best practices include:

1. Be prepared for rainy days by creating a flexible yet reliable cadre of talent that you can fall back on in the event that the crowd takes the day off.
2. While the workforce should be variable, the capabilities of the workforce should be fixed. Establish standards and processes that everyone who delivers on your behalf must follow.
3. Don't leave anything to chance. If you're going to create standards and processes: 1) be fanatical about it; and 2) institutionalize it with technology. In doing so, remember the lowest common denominator and build it so the dumbest person you hire can successfully execute their task.
4. Over communicate with your customer and your crowd. Technology can be a huge help on managing communications and information, but proactive interaction will ensure that the crowd delivers what your customer wants.

In Part II of this White Paper series we'll discuss how these best practices should influence strategic planning for professional service providers and how that will impact service offerings and messaging.

The Feasibility of Cloudsourcing

How cloudsourcing will specifically disrupt the various segments that comprise professional services is still an unknown as technological advances are occurring every day and the concept is still in its infancy. However, there are ways to begin to assess the potential of creating a disruptive cloudsourcing model for a professional service. This begins with a process called Task Categorization.

Task Categorization is a process for identifying which tasks and activities that a professional service provider performs can be automated, outsourced to a low cost provider or needs to be handled by a specialist. The first step in assessing the feasibility of developing a cloudsourcing solution is to identify all of the tasks and activities that comprise the delivery of the service. These should be placed across the top of a matrix like the one below.

	Task I	Task II	Task III
Repeatability			
Knowledge Depth			
Skill Level			
Consistency			
Locality			
Relationship			
Economic Value			

The second step is to identify the level of emphasis for each task. This is done by honestly answering each qualifier with low, medium or high. These qualifiers are defined as follows:

- **Repeatability** is how standardized the process is to complete the task. A response of low indicates that the process has very little repeatability; a high response indicates that the task is done the same way each and every time.
- **Knowledge Depth** relates to what you need to know to complete the task. A response of low indicates that anyone can easily pick up and do the task while high means there is likely an extensive level of training required to be able to perform.
- **Skill level** is about understanding how good you need to be to have success in completing the task. The lower the response, the lower the talent threshold required for completing the task.

- **Consistency** is all about the need to have an end result that is exactly the same as the last result. A low level of consistency implies that the result can be different; a high level demands it to be exact.
- **Locality** is a way to measure the importance of having the task completed in a centralized location. A low level of locality indicates that the task can be performed anywhere.
- **Relationship** measures the importance of interacting with the customer when performing the task. A low relationship level indicates that the task can be completed with little or no interaction with a customer.
- **Economic value** is how to measure the amount of money a customer is willing to spend on having a task performed, not how you measure its overall value to the customer. A low economic value indicates that the customer thinks of the task as a commodity.

When completed, the chart should be able to quickly identify some noticeable trends about the categorization of the task, which can be analyzed as follows:

- A preponderance of “**low**” responses implies that this task can be **automated**.
- A preponderance of “**medium**” responses implies that this task can be **outsourced to low cost resources**.
- A preponderance of “**high**” responses implies that this task should continue to be performed by in-house or outsourced specialists and should be a **custom solution**.

The result of this exercise is a strategic roadmap for cloud sourcing a professional services business as the greatest opportunity will generally be found by focusing on crafting a solution around the classification with the greatest number of tasks.

	Automate	Outsource	Custom
Task 1	√		
Task 2		√	
Task 3	√		
Task 4	√		
Task 5		√	
Task 6			√
Task 7	√		

Coming in Part II

Part two of this White Paper Series will outline the strategic planning process of assessing the market and identifying what a successful crowdsourcing solution must consist of in order to be disruptive. This will consist of a four-step strategic planning model:

1. The first step is undertaking a process known as the Customer Problem Identification (CPI). The primary approach of this process is to look at a professional service from the negative perspective of the customer.
2. Step two of the process is focused on classifying the problem. This is done by determining the answer to the customers' problem; recognizing there are only three answers.
3. Step three in the process is called Solution Storming. This is a brainstorming process geared towards answering one question about the problem.
4. The last step in the process is a Blue Ocean Strategy exercise geared towards understanding how to differentiate yourself from your competitors and create an offering that gives the customer what they want and need.

About Joe Strategy

Joe Strategy is the creation of Michael Vann, an accidental business strategist and serial entrepreneur, starting with lemonade stands and newspapers routes long before his age hit double digits. Michael is a principal of the Vann Group, a business advisory firm that helps companies in transition identify where they want to be and guiding them in building/executing strategies that help them unlock the value of their businesses.

As a lifelong professional services provider and small business owner, Mike has long understood the many challenges that companies face in building and maintaining a prosperous business. Mike and the Vann Group have created Joe Strategy to help professional service providers build and execute business strategies and solutions to help them be successful in their own businesses and in guiding their clients. Mike hopes that Joe Strategy will become an active, vibrant community that will help small and mid-size businesses and professional service firms identify trends and solutions to these challenges by applying strategic planning best practices and by constantly challenge the assumptions defining the status quo.

The site JoeStrategy.com provides an ever-increasing amount of content, links and insights as well as a frequently updated blog. In addition to the site, you can follow Mike on Twitter at twitter.com/joestrategy or on his blog at www.blog.vann-group.com.