

Numerica Group

Mining client data

Company: Numerica Group
Industry: Accountancy
Product: InterAction

The second case in this section about how professional service firms Dig Deeper explores data mining – the practice of analysing raw data in a database to describe past trends and obtain future perspectives on strategic marketing issues. It is a competency that is in its infancy for most professional service firms. The story features a look at Numerica Group, a new company that built its entire competitive plan around data mining.

Numerica's strategic approach to data mining signals a new shift in the management of professional service firms. In the "olden days," a firm's human resource department had the responsibility to integrate new employees into the fabric of the organisation. Numerica's model requires that the information technology unit is as much involved, if not more so, in that integration. Why? Because a professional firm's core competency is expertise and knowledge; therefore, taking formal steps to collect evidence of new employees' knowledge and expertise and to inculcate them into the firm's philosophy of information sharing and management, must of necessity become an element of the integration of new hires. We will see more firms taking this approach, as they become more market- and technology-driven.

I should note before I tell Numerica's story that it could be said that Numerica's data mining strategy has worked because it became a public company, and is no longer a partnership. Some observers could claim that it would be much more difficult to select this strategy and successfully implement it if the firm was still a fusion of equity-based colleagues. Perhaps this is so. But this argument ignores

the reality that Numerica has been shrewd to embrace: with increasingly robust technological capabilities, most professional service firms – regardless of their corporate structure -- will move to initiate data mining strategies. Numerica's early-mover advantage offers significant opportunity for its successful achievement of its growth goals.

The Numerica Story

Data mining. There has never been a market-driven practice that causes quite as much of a thrill -- and simultaneously such a pit in the stomach -- for market-focused leaders in professional service firms.

At the pit-of-the-stomach level, data mining represents the ultimate in behavioural change for professionals. It requires information; the more the better. And capturing data means work. Indeed, professional information cannot be captured as easily as it can as with products (scanning bar codes at the checkout lane) or in retail ("May we have your telephone number and zip / postal code?").

For professionals, the practice of data mining means they must embrace database and other technological applications fully; they must overcome whatever reticence they may have about them. It requires them to understand and make use of the ever-expanding capabilities of most of these tools. It also requires them to slow the normal rhythm of working on client problems, just to make sure information gets input into a common repository of facts and figures. In a small firm, this may mean professionals typing information themselves. In a large firm, this may mean reviewing reams of client and project information that someone else has entered (possibly incorrectly!) into a database.

Finally, the practice of data mining requires a behavioural change that goes much deeper than resistance to learning new things, or the dislike of boring and time-consuming tasks. It requires professionals to share their deep knowledge of and exclusive access to clients. In most professional service firms, these are areas that historically had been sacrosanct.

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Julian Synett, Chief operating officer

But, ah, the thrill of the competitive gains because of data mining! The profit potential of astutely-managed client relationships! The promise of data mining runs deep.

In fact, data mining touches upon every one of the market-driven competencies that are discussed in this book: As part of a Looking Out initiative, the data mining of client research can reveal the nuances of clients' perceived value. As part of a Digging Deeper initiative, the data mining of client preference patterns can lead to competitively advantageous differentiation strategies and increased client retention and attraction success. As part of an Imbedding Innovation initiative, data mining can drive the development of new services that solve clients' latest problems.

Many professional service firms are beginning to use data mining as a part of their client research function. And many are taking early steps to build the systems and processes that will support effective data mining initiatives. But, as our research has shown, much of their data mining work is in its early stages; many firms do not yet broadly consider data mining to be an integral element of their marketing strategies.

They would do well to read the following case about Numerica Group plc. The story of this UK-based accounting and business consultancy offers a fascinating look at a professional service enterprise that built its entire go-to-market strategy around client data mining -- making data mining itself one of the company's core competencies, and using that competency to make competitive gains.

Numerica Group plc was established in July 2001 as an organisation dedicated to providing high quality business services to entrepreneurial organisations, high net worth individuals and other professional firms. For entrepreneurs and high net worth individuals, its services include corporate finance, fundraising, flotations, mergers & acquisitions, transaction support, tax planning, Value Added Tax (VAT) services, consultancy, corporate advice, outsourcing, insurance, internal audit, international tax, personal wealth management, tax investigations. For other professional service firms, including lawyers and other accountants, its services include business recovery, corporate finance, corporate insolvency, financial planning, forensic accounting and dispute resolution, international tax, tax planning and investigations, training, VAT services and investigations, and wealth management.

Calling itself "the business for business," Numerica's objective is to be the preferred choice of business service provider in the U.K. for the entrepreneur. The strategy is to build a single national integrated business through acquisition and organic growth. Using this approach, Numerica acquires businesses that provide business services and that already have strong synergies and shared cultures.

The firm's goal is to grow rapidly, and so it did. On October 30, 2001, Numerica acquired the non-audit business of Levy Gee, which was then the thirteenth largest accounting practice (outside of the Big Five) in the U. K., to be the "cornerstone firm" for the Group. (Since then, it has integrated more than a half dozen firms.) Numerica also successfully raised £30m on its admission to the London Stock Exchange's

Alternative Investment Market. By September 30, 2002, Numerica's turnover was £20.5 million (approximately \$33 million USD).

As a result of these integrations, by 2003 Numerica was the eleventh largest accountancy in the United Kingdom (outside of the "Big Four," the world's largest accounting firms). It employs about 1000 people in nine locations, and has six key service lines and multiple areas of developing industry profiles.

Critical Considerations

The decision to design Numerica to be a data-driven professional service company was rooted in the marketplace experiences of the firm's founders. Chief operating officer Julian Synett, formerly Levy Gee's managing partner prior to its integration into Numerica, recalled four key areas of focus on which he and his colleagues were determined to concentrate as they prepared to join the new organisation. They were: exceeding client expectations that continuously evolve, increasing the ROI of marketing, competing more effectively, and integrating people's knowledge as rapidly as possible.

- Exceeding client expectations through knowledge management. "Our targeted clients expect us to have deep familiarity with their commercial sector and a keen understanding of their particular business, so we knew that knowledge management would be a crucial element to growing our firm successfully," Synett said. Numerica leaders decided that the firm would need to adopt platforms and processes to organise, manage and extract its knowledge.

Moreover, these platforms and processes had to be able to help the company catch early signals of how clients' expectations were evolving. From this operational base, they reasoned, Numerica could go beyond merely claiming to be a knowledge-rich firm; it could demonstrate actually its knowledge about particular industry groups and sectors.

- Increasing the return on marketing investments. "At Levy Gee, we realised we had put a lot of money into marketing, but we felt we were not getting an appropriate ROI," Synett declared. "I came to the conclusion that spending money promoting your business is fine, but that it wasn't enough simply to create a profile in the marketplace that is warm and comfortable." Numerica's marketing initiatives would have to be better tracked and more productive.
- Competing more assertively and with more acumen. "We can't operate like 20-30 years ago, where you could wait for new business to come to you," Synett acknowledged. "Now you have to go get the business, and you have to give your people the knowledge to be effective." Numerica decided to bring a sales function into the business. Synett continued, "In order to make the sales function work, we had to provide the appropriate tools -- access to information and knowledge."
- Connecting and integrating professionals' knowledge. Numerica's strategy is to grow by integrating other firms, not consolidating them. "We mean integration literally, across service lines and industries and sector groups and offices," said Synett. "The key to bringing this together is to align the entire business around the most effective technological tools." Numerica's leaders believed that the firm couldn't compete effectively if it relied on an increasingly far-flung group of professionals to exchange information about their work with clients and prospects. They believed their efforts, however heartfelt, would be too unorganised and anecdotal to allow the company to address clients' needs and marketplace shifts proactively. They resolved that Numerica would acquire integrated software packages that could enable it to work across internal lines, connecting its people together as they collaborated on marketing, selling and serving clients. "We decided that flexible and scalable software applications would be the glue for our strategy," said Synett.

In order to meet its goals for each of the four focus areas above, the firm acquired a robust client relationship management database application, InterAction (developed by Interface Software in the United States). Numerica uses InterAction to monitor, organise and report on its ongoing relationships with clients and contacts.

Client Relationship Management

"Our business model is premised upon each business unit being able to leverage the resources of the collective whole, such as contacts, relationships, experience and expertise," said Ross Mullenger, Numerica's chief technology officer. "This is why we had to have the IT infrastructure that makes this business model possible." The day Numerica debuted on the London Stock Exchange; the firm began a rigorous process to implement InterAction. The software application had the ability to support three critical areas:

- Sales and New Business Opportunities. Mullenger pointed out that the sales cycle for intellectual assets such as consulting, financial, insurance and other services is not about sales force automation, but about managing complex relationships. "If one of our professionals is able to uncover a strategic relationship connected with a sales opportunity, the chances of closing that deal rise exponentially," he said. "InterAction can track the complex relationships that our company members have with those contacts, and the relationships contacts have with one another. This capability means we manage information such as who knows whom, the subtle connections existing among contacts, and which relationships are essential to closing business."

Mullenger described an example that underscores the importance of this capability to the firm's standards for a high level of service quality:

In 2001, we acquired a firm based in Bristol, west of London. One of the focus areas for our London office is our Business Recovery Group (liquidations, receiverships, turnaround management and insolvency advice). This business recovery unit's clients are typically banks and lending institutions. When these banking clients become concerned about the financial health of their clients, they ask our Business Recovery Group to investigate or to act as their investigating accountant. Historically, many of these services had been delivered by our founding firms through their long-standing relationships with Bristol-area banks and lenders. Levy Gee had successfully developed standards of service that were adopted upon the creation of Numerica. These had become the Numerica format. Therefore it was essential that the newly joining firms worked at the same standards. Our new Bristol office, before our formal acquisition, had just inked a contract to provide detailed investigation support

for one of our Numerica banking clients. Our relationship management system flagged this, and not only helped us communicate together about our mutual relationships with this bank, but also helped us deliver our service at the Numerica level of quality. Without our IT infrastructure supporting a relationship- and service delivery connection, our new colleagues' reports not only might have diverged from Numerica standards, it is possible the entire client relationship could have been compromised.

Numerica's marketing director Catriona Russell also relies on the data mining capabilities of InterAction. One of her responsibilities is to discern patterns and monitor performance on the company's sales and new business in its multiple industry focus areas. "Even prior to implementing InterAction, we tracked the company's gains and losses and sources of business," she reported. "But now, I can examine which of our industry groups has a high conversion rate (the number of leads the company garners compared to the rate at which it converts them into engagement letters and then into clients). She can also review client retention and prospect inquiry rates.

Numerica also monitors its profitability by client and by sector. This data mining approach gives the company the ability to be strategic and competitively savvy about managing its accounts and targeting its hottest prospects. "We have identified a watch list of approximately 1,000 hot relationships," Russell affirmed. "We alert our professionals as to exactly where to direct their focus on these relationships."

- **Cross Selling.** For Numerica, cross-selling is seen as an imperative. It can be especially challenging to effect, though, especially within an organisational structure that resembles a "diverse confederation," and is complicated by the fact that the company is continuously acquiring new business units and perpetually evolving its inventory of service offerings. "Tax clients might naturally be interested in wealth management, insurance and other services, provided our professionals can spot the opportunity and understand the inventory of services available to that client," Mullenger cited as an example. "Our relationship management software provides our users with immediate access to the firm's collective expertise and experience, which information is then used to identify new opportunities and upsell to clients."
- Numerica sales director

Douglas Shanks described how Numerica uses the application to motivate its selling teams and directly aide them in their conversations with targeted clients. "InterAction helps our team members to recognise all of their collective sales, marketing and networking activities. Team members know that if they record these activities properly, they will be recognised and rewarded. Also, access to this information will give all our directors the confidence to pursue opportunities, and give the younger ones a significant head start when it comes to developing their own networks and client lists."

- **Rapid Staff Integration.** Numerica's concentrated acquisition and integration of new organisations and their staff forces a constant learning curve and repeated ramp-up periods during which new employees become familiar with the resources of the larger organisation, and the existing staff become familiar with the new business units joining the group. "We wanted to avoid the cycles of disruption we've seen when other organisations have acquired companies," said Mullenger. "We see our relationship management database as the equalising infrastructure capable of providing immediate visibility into people, companies, relationships, experience and expertise. For newly-acquired firms, Numerica embarks on a program of immediately bringing into its database the contacts, relationships and profile information of each entity's staff. "As a result, users are right away tied into the resources of all our business units," noted Mullenger. "They are therefore capable of leveraging the knowledge base of our entire integrated organisation as soon as possible." Mullenger underscored that new staff people are highly motivated to get information about their personal experience and expertise into the system, because Numerica client managers mine the database to find the capabilities of particular professionals when they staff up for a project. It means specialised professionals can be tapped for projects sooner, and can increase their profile within Numerica more effectively.

Integrating Three Systems

With its embrace of a comprehensive relationship management software application, Numerica took a significant step – one that many other professional service firms also have begun to take. But by itself, a relationship management database could not deliver professional service firms a powerful competitive edge. The real strategic

marketing leverage from such a step is applied when the software is integrated with a firm's financial and practice management infrastructure.

Upon its formation as a new company, Numerica expanded its use of its practice management system, Novient (developed by Solution 6, a public Australian company). Novient, a highly scalable application, supports the details of the professional and commercial side of Numerica's work on client engagements, such as developing budgets and monitoring the company's performance against project budgets, recording professionals' time, amounts billed to the client, and engagement write-offs. A third system, sitting "behind" the other two systems, is Numerica's accounting system, Sun Accounts (developed by an English public company called Systems Union). This application handles the financial accounting elements, including purchases, ledgers, net profits, overhead costs and the like.

Data mining occurs primarily between the practice management and client relationship management systems. Mullenger offered an example of how the two work together: "If we are making a pitch to a new client, we might want to know who else we know in that market sector (this would be a relationship management query). If we want to know how many of our managers have done this type of work before, the value of their hours, the value of any write offs, or even Numerica's market share in that sector, this would be a practice management query." Queries begin through a Numerica-specific portal; the systems "figure out" from which application to pull information, which can be pumped into a set of reports.

True Grit: The Challenge of "Living" an Information-Sharing Manifesto

For its employees, Numerica has drawn a metaphorical line in the sand. In essence, Numerica says, "If you work here, you will divulge professional information as a routine part of your job. The ownership and analysis of information is so deeply critical to the achievement of our strategic growth goals that we will do everything we can to emphasise this practice and to enable it."

A declaration like this, even obliquely delivered, would make many professional service practitioners run for the hills. But Numerica expends time and effort to communicate the personal and business value of its information-sharing philosophy and technology heavy infrastructure. Here is how they have done it.

- Use the database to give everyone credit for selling new business. "We have shifted our behavioural requirement," said Russell. "We tell our people, 'Please let us give you credit for helping the company win a new project! To get this credit, you must input all the relevant data into our database.'" In order to encourage full participation across project and selling teams, Numerica drives this behaviour deep: everyone who had a part in bringing in the business gets credit, not just a rainmaker. But they must share the required information first.
- Apply liberal amounts of elbow grease. Julian Synett recalled the magnitude of the logistics required to bring all the desired data into a centralised location. "To-date, we have integrated 19 principal databases operated by the different firms that have joined Numerica; also, we have brought in more than 300 individual contact databases," he confirmed. "We knew this would be a big issue: cleaning and validating data and maintaining its integrity. In hindsight, we should have started this effort sooner, and worked faster." In order to move faster, Numerica resolved to apply even more elbow grease. It designated a data steward who will make sure that data is entered properly and validated.
- Influencing the information guardians to let go. Numerica implements an assertive and ongoing internal promotion campaign that emphasises the soundness of its information-sharing ideology. "We were prepared to address the resistance of those people who have guarded their contacts jealously over many years," remembered Synett. "We actively sold this conceptually throughout the organisation, promoting the 'greater good' that all could enjoy with information sharing, and what they can get out of it if they do this." Secondly, the company tries to keep the collection of information as uncomplicated as possible, by linking the relationship management system to the contacts and calendar applications that people were already using. The idea was to keep as much control as possible in the hands of the fee earners. "When you make a business appointment in your calendar software, or a change in the address of your client contact, our system flags this information for inclusion in our relationship management database," said Mullenger. Russell added, "We knew that this had to work without adding any time to the already frenetic life of professionals. Also, we wanted to avoid the messy process of having information get bottle-necked in the marketing

department.” Third, even before it has the opportunity to apply these internal methods, Numerica works to ensure that it integrates similarly-minded firms to begin with. The company actively seeks a good cultural fit with target firms that appear willing to embrace its information sharing mindset and software application infrastructure. “Building up trust amongst like-minded professionals is a lot easier than forcing integration on those who don’t want it,” said Shanks.

- Giving information in order to gain information. There are two aspects to this approach. The first is formal reporting on marketing and sales progress. Russell developed a series of marketing and sales progress reports using InterAction. From a basic master report, she can slice and dice the information in several ways to analyse patterns and to gain new perspectives. During her monthly meetings with the company’s industry group leaders, she uses these reports (the living results of the data mining she has done) to manage the industry groups toward marketplace opportunities or to forewarn them of unfavourable shifts. Even beyond these formal reports, however, is Numerica’s commitment to give people plenty of information back. This includes giving staffers adequate notice about how and when the company plans to collect their information. For example, Numerica will announce to its people, “Next week, we will download your contacts; make sure you mark those contacts that are private (like your dentist or your grandmother).” This demonstration of consideration goes a long way to helping people feel respected.
- Encourage information sharing by making it a performance issue. A senior management appraisal initiative that motivates cross selling is planned. In the interim, most Numerica directors clearly see the value of recording their efforts, for the common good. “By and large they accept that they can hardly claim credit for contributing to a new client, or winning a new instruction cross-sold into an existing one, if they don’t use the system to document what they’ve done,” said Shanks. “And we’re training a new generation of senior managers and associate directors in a variety of sales and marketing techniques - including knowledge management software.”

The Results

In the later years of the twentieth century and the early years of the new millennium, the U.K. business environment began to undergo dramatic changes: concerns about auditor independence, regulatory developments, heightened client expectations and increased pressure for professional firms, entrepreneurs and financial institutions to be more effective in serving their clients. Numerica’s move was to respond to these environmental changes by delivering an even better quality of expert service to its clients at prices that are cost effective. Data mining is the vehicle.

Its practice of data mining has allowed the company to realise strong results.

- Profitability. Since its public debut, when Numerica Group began to implement the three integrated systems together, especially the relationship management element, it has outperformed the market and is operating profitably despite its high acquisition expenditures. “Our rate of growth couldn’t have been achieved without our IT infrastructure,” said Shanks.
- Streamlined marketing and sales processes. “Our integrated use of InterAction and Novient has become second nature to the whole process by which we go to market,” stated Mullenger. “Without these tools, conducting our business would be impossible. We’d just be an amalgamation of disparate offices.”
- Service quality. In addition to the example cited earlier, there have been many times that Numerica professionals have been able to spot and avert potential service quality lapses that could have hurt the company. But as important as averting disaster is the focus on the positive. Numerica’s data mining orientation has allowed it to discern the subtleties of evolving client needs; it has supported the development of increasingly creative and valuable service offerings.
- Sales and marketing ROI. These days, Julian Synett likes what he sees. He has increased capabilities to track Numerica’s marketing and selling investments and their results. “With our data mining practices, we are managing our marketplace more effectively – literally,” he smiled.