Cross-Selling Professional Services - A Case Study

A professional firm specializing in pension fund audits wanted to extend its relationships with existing clients in the Philippines by offering consulting services. But the first attempt at cross-selling was a flop. What went wrong and why?

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Juan Miguel Duavit, a new partner and co-director in the Manila office of Bouleau & Huntley, pondered over what had gone wrong earlier in the day at his meeting with the National Metals Corporation, a Philippines-based major metals manufacturer, where his carefully prepared consulting presentation had been greeted by a bewildered silence.

THE FIRM

Duavit, 42, joined Bouleau & Huntley three months earlier, in March 2012. Bouleau & Huntley is a multinational corporation with headquarters in New York that specialized in pension funds auditing and human resource management. Its Manila office has been servicing clients in the Philippines for the past 14 years.

The firm was founded in 1923 by Robert Bouleau, a New York actuary, and William Huntley, an insurance executive, who had noted that American corporations were rapidly creating new pension funds for their executives. The two men recognized that this trend would create vast new opportunities for a professional firm that could advise firms properly and audit their plans every year, as required by US laws at the time.

Within 10 years, Bouleau & Huntley had become the leader of a new profession, with a well-established presence in the United States. Subsequently, it began opening offices overseas. By 2012, Bouleau & Huntley was a worldwide firm with 42 offices, 325 partners, and revenues in excess of US $1.2 billion. The firm continued to flourish with its combination of high-quality professionalism and aggressive marketing. New divisions had been launched in four areas closely related to pension funds: executive compensation, personnel management, insurance consulting, and re-insurance consulting.

EXPANSION INTO THE PHILIPPINES

The Philippines has a Retirement Act, the Republic Act No. 7641, which requires that an employee facing compulsory retirement at age 65 must receive from his employer a retirement benefit based on his final monthly salary and the number of years worked with the firm. Most companies turn to the private insurance industry for pension schemes.

Having repeatedly been sought out by various prestigious clients in the Philippines, Bouleau & Huntley opened its Manila office in 1998. By 2012, the office had 11 partners and 120 employees in the Philippines, operating from its headquarters in Metro Manila, with small satellite offices in Cebu and Luzon. The firm's total revenues in the Philippines were 545 million pesos (approximately US $13 million).[1]

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[1] Peso is the Philippine currency. The exchange rate in January 2012 was 100 = US $2.26.

The firm's mission for its Philippines office, as stated by its geographic director, Jose Arellano, was "to serve large international companies active in the Philippines and to develop a national clientele among leading Filipino companies." In keeping with Bouleau & Huntley's firm-wide growth goals for selected lines of business in its total portfolio of services, the Manila office had been assigned the task of experimenting with expansion into other types of professional activities that could be adopted worldwide throughout Bouleau & Huntley.

DUAVIT CHANGES JOBS

Duavit graduated from the well-respected University of the Philippines (UP). After a two-year stint with Oracle Corporation as a brand manager, he spent two years in the United States, obtaining an MBA from the Wharton School. Upon returning to the Philippines, he joined the glass division of Glasscore, holding several jobs in marketing and strategic planning over a four-year period. Through a UP classmate, he was recruited by the Manila office of Ascent Strategic Consultants (ASC), where he enjoyed a very successful career for 12 years, spending the last seven as a partner in ASC. However, over time, he began to feel anxious. His personal interest in the "soft" side of consulting problems, dealing with people rather than profits and efficiency alone, was not shared by the leader in ASC.

It was through Jose Arellano, one of his neighbors in the plush Sangun district, that Duavit first became familiar with Bouleau & Huntley. Both men served on the board of the private school attended by their children and had come to know each other socially. Over dinner one evening, Arellano suggested that his friend think seriously about joining Bouleau & Huntley. "I've been working with our strategy committee in New York to develop new lines of professional activity," he told Duavit. "We believe strategy consulting is a natural added service line that our current clients would find valuable. What you have done with ASC is of real interest to us, and I am sure you would enjoy working with our personnel management and compensation partners." Warming to his point, Arellano continued:

> We've been hugely successful in our major activity of pension fund auditing. Worldwide, we have 350 Fortune 500 companies as our steady clients. Historically, it's been a very profitable business, enjoying steady growth as the pension funds themselves grow in size. However, this has attracted new competition, and the business is becoming more price sensitive than in the past. In addition, it is strongly influenced either positively or negatively by regulatory and national political decisions totally beyond our control.
>
> In the Philippines, we have decided to explore entering new professional areas, such as the strategy and general management consulting that you know so well. We think the synergies of cross-selling your strategy consulting services with our main line of pension fund auditing services are obvious. There are two international trends that have informed our thinking about this idea.

> One is that large strategy consulting firms like the Boston Consulting Group and McKinsey & Company are beginning to sell strategy work in what they call emerging markets like the Philippines. Also, as I'm sure you understand, the Big Four accounting firms are forbidden from selling strategy work to their audit clients in the United States. But they recognize that, in Europe and many Asian countries, the rules are looser, and they are working hard to offer "one-stop shopping" to their clients.
>
> It won't surprise you that we are keen to capture our share of the strategy consulting market and to consolidate our hold on our pension audit clients before the strategy consultancies or Big Four accounting firms can take away our market share. With someone like you on board and with the team we will help you develop, it should be possible to bring new value to our pension fund audit clients, generate additional cash flow from them, gain new clients for the firm, and protect our competitive position.

Duavit and Arellano had discussed these opportunities further in conversations during the subsequent months and confirmed their mutual interest. Both men agreed that a vast potential existed in the Philippines among leading Filipino companies, as well as with the Asian affiliates of multi-national groups headquartered in Manila. Arellano made several calls and exchanged confidential e-mails with the managing director and several senior partners of the firm about hiring Duavit on a quasi-equal basis to himself, in recognition of his extensive experience and in anticipation of expected cross-selling results.

Finally, over lunch at Manila Hotel one day, Arellano answered Duavit's discerning questions about the cross-selling environment at Bouleau & Huntley. Arellano provided Duavit with several examples that the firm, although new at cross-selling in the Philippines, had effectively supported cross-selling in other countries and regions. Arellano offered Duavit immediate directorship, a new departure for Bouleau & Huntley, plus a compensation package so generous that it was "impossible to refuse." Not only would Duavit receive a fixed compensation package equal to his current total remuneration, but there was a provision for a large bonus (up to 30% of his salary) on incremental business from existing clients and up to 50% for the successful acquisition of new clients.

WORKING AT BOULEAU & HUNTLEY

Duavit joined the Manila office of Bouleau & Huntley in March 2012. His new colleagues welcomed him warmly, but he was surprised to find them somewhat reticent about discussing their own clients. Duavit ascribed this to professional norms about confidentiality. He set to work, following up several leads of his own. Within three months, he brought in two new consulting clients. He was also involved in arranging for Bouleau & Huntley to audit a supplementary pension fund that one of his former employers was creating for its senior

executives. He had started building up a team of four younger consultants, including one bright young man who, after spending two years in Bouleau & Huntley's compensation practice, had decided to move on to strategic work.

Duavit was already looking forward to the day when he could suggest that this enthusiastic consultant should become the first junior partner of the new Manila practice. Despite these early successes, he remained concerned about the reserved attitude of his colleagues. One day, when he was lunching with three of them, he answered their questions about his work at ASC. Describing a project that he had directed the previous year to reorganize a large oil company, he encountered a mixture of disbelief and incomprehension.

"Do you mean that you and your colleagues actually restructured this enormous company last year?" one of them asked.

"Yes," Duavit replied. "We helped them simplify their structure, reduce the number of levels from 11 to 6, and even helped them relocate 482 people, saving about 644 million pesos (US $14.9 million) in overhead costs. Then we streamlined their management information and planning systems. Total fees amounted to 81 million pesos (US $1.9 million) for 15 months of continued work by a team that ranged in size from four to seven consultants."

"Hey, what happened to their pension funds?" interjected another of his colleagues.

"Nothing, I believe," responded Duavit, slightly puzzled. "Do you want an introduction to their CEO to sell him a pension fund audit?"

"No, we were just curious about the name of the guy who set up their last pension fund," another replied.

Despite his successful selling and high-quality client work in his first three months at the firm, Duavit was surprised to see that his kind of work did not interest them at all. He made a mental note to work harder to better understand the obscure workings of his actuarial colleagues' assignments. He marveled at the enormous fees the firm charged for what seemed to him was boring, arcane, and repetitive work. He was also deeply impressed by two things: their extensive use of standardized software systems that seemed to be doing all the work, and the ease with which they captured repeat business year after year without any need for the costly and time-consuming "developmental" work required in his own area of consulting. All his pension auditing colleagues did was send a letter of renewal at the end of each year, with a prepared space for the company to sign. It seemed so easy! One Friday afternoon, just before 5:00 p.m., Duavit was beginning to check a 50-page report due at the client's the upcoming Monday and he still had to write a proposal before going home for the weekend. Two of his partner colleagues poked their heads in at his open doorway. They were carrying their briefcases and were obviously leaving for home. Quickly sizing up the situation, one of them, Victor Vasquez, remarked cheerily, "My dear *pare* (the Filipino equivalent of "pal" or "chap"), you're obviously in the wrong business! You should have gotten an actuarial degree like us, instead of wasting your time at Wharton! See you on Monday! Cheers!"

Duavit immediately sent Arellano an e-mail outlining his concerns that his new colleagues didn't seem very enthusiastic to help him build the firm's Philippines strategy-consulting revenues. Isn't cross-selling a strategic mandate, he asked Arellano? Arellano replied promptly, and promised to encourage Vasquez (and other Bouleau & Huntley actuaries) to introduce Duavit to their pension fund audit clients.

A PRESENTATION AT THE NATIONAL METALS CORPORATION

Two weeks later, Duavit felt Arellano's support was at last coming to fruition. Vasquez had agreed to introduce him to his largest client, the National Metals Corporation, a company involved in refining and marketing copper, chromium, and nickel. Since Duavit had led an ASC consulting team for Amix, a large mill for primary and semi-finished iron and steel in Indonesia, several years earlier, he knew the metal business and was certain that he could do something advantageous for Vasquez's client.

Vasquez and Duavit briefly communicated about an upcoming meeting that Vasquez had arranged. Duavit generally outlined his plan to present a quick overview of his work to the client. Although he didn't say so directly, he felt certain Vasquez understood his real goals, which were to impress Vasquez's client and seek an introduction to one of his colleagues.

At the National Metals Corporation's main administrative office in Makati City, Vasquez led Duavit along a series of winding corridors to the office of Carlos Aseniero. Duavit was a bit nonplussed to find that his colleague's principal contact was a harassed-looking little man in a cluttered office. Aseniero greeted them politely and cleared several files off the chairs so the two visitors could be seated.

After the introductions were made and Vasquez confirmed that the audit report would be ready on the promised date, Duavit launched into his presentation. He delivered a thorough but succinct analysis of five years of published figures, complete with diagrams he had developed that very morning. He compared overall profitability, days of inventory, and asset rotation for the National Metals Corporation against three of its main Asian competitors. Duavit concluded what he considered to be a stimulating 15-minute presentation by inviting Aseniero to introduce him to the appropriate National Metals colleague who could make use of Bouleau & Huntley's strategic consulting services to help the company increase market share and improve profitability.

Expecting an interested answer, Duavit was amazed to be greeted by complete silence in the room. Not only Aseniero but also Vasquez appeared somewhat bewildered by what they had just heard.

Seeking to regain the initiative, Duavit asked Aseniero, “Do you think that your boss would be interested in pursuing these issues further?”

Looking slightly ill at ease, Aseniero answered, “You have to understand that my office reports to the assistant finance director, reflecting the immense amounts of money the company is investing in this pension fund. The fund is also used as collateral for some of the company’s borrowings. I don’t believe that my boss, Mr. Perez, participates in strategy conversations with our board. Of course, I could ask him to arrange an appointment with our director general (CEO), but I’m told he’s a very busy executive.

“Thank you, Mr. Aseniero,” Vasquez said rising to his feet and holding out his hand. “My colleague and I truly appreciate your willingness to take time out of your busy schedule.”

Duavit also shook hands with Aseniero and thanked him but found it difficult to hide his disappointment. The two partners left the office and retraced their way back to the reception area.

“What happened?” Duavit asked, as the two of them climbed back into Vasquez’s new top-of-the range Audi. “I thought that I gave him a very convincing line. Wasn’t he interested? Or did he simply not understand?”

Vasquez eased the Audi out of the parking lot and frowned. “Duavit, I owe you an apology. I didn’t really comprehend what you wanted to present to Aseniero, nor did I have a good grasp of your expertise. I didn’t support you very well in that meeting. I think your presentation overwhelmed him rather than impressed him. And it made us look like we hadn’t done our homework about what our client needs. I’ll never be that unprepared again!”

Duavit remained silent for a time. It was becoming clear to him that, despite Arellano’s individual encouragement to Vasquez, the actuarial partners in general appeared to be more interested in using him and his work to bring in new clients for their own practice, rather than the other way around. Duavit also realized that he and Vasquez didn’t really understand each other’s perspectives at all. Yet he liked what Jose Arellano had told him about Bouleau & Huntley’s combination of professionalism and aggressive marketing. Obviously, a lot still needed to be done before the synergies he and Arellano had dreamed about could be realized.

“Well, let’s use this situation to help us improve,” Duavit said eventually, as Vasquez accelerated onto Ayala Avenue. “Victor, let’s think this experience through and decide, together with our other partners, what we should do differently to implement our firm’s cross-selling strategies. I know we want to succeed as a team. Our clients depend on us to bring them value, and today we acted quite tactically. What do you think?”

“I agree, Juan,” Vasquez answered. “In fact, Jose has given me the task of setting up the agenda for our yearly Manila Partners meeting in Makati City next month. I still have nothing for

the morning of the third day. Let's work together to develop our ideas on cross-selling key strategies and propose cross-selling processes that could be used by all the partners to improve their results. How much time do you think we'll need?"

APPENDIX: THE AUDITING AND CONSULTING WORLD IN 2012

Until the 1970s, auditing firms had focused mostly on auditing activities. However, with the rise of information technology (IT), many firms, including the Big Six (now Big Four) accounting firms, branched into IT and management consulting. Soon, revenues from consulting activities far outpaced their auditing revenues.

Things came to a head after the collapse and bankruptcy of the energy giant, Enron, in December 2001 and the document-destruction scandal and subsequent indictment of its auditor Arthur Andersen by the US Justice Department. Arthur Andersen's dual role of auditor and consultant for Enron put it in the spotlight, raising concern about the issue of conflict of interest from serving corporate managers and auditing (i.e., protecting public interest).

Critics argued that the provision of non-audit services by audit firms could interfere with the independence of auditors and compromise the quality of their audits. In fact, a few academic studies found that there was more "creative accounting" among companies that also engaged their auditors in large consulting projects than in firms that made little use of their auditors for non-auditing-related services. As a result, Ernst & Young's decision to sell off its consulting arm to Gemini Consulting two years before the Enron collapse was hailed as a stroke of genius. After the Enron incident, PricewaterhouseCoopers sold its PwC Consulting unit to IBM Corporation, while Andersen Worldwide sold its IT consulting practices on a piecemeal basis.

Over the next decade, the world's economies evolved, making more "mundane" work like operations management and auditing attractive again for big accounting and management consultancies. The trend was globally noticeable by mid-2011.

Moreover, also by mid-2011, cross-selling of pension fund auditing and consultancy services appeared to present much less conflict of interest, especially in emerging markets. Pension funds were generally managed separately from other financial aspects of a business. Thus, unlike auditing of accounts, pension fund auditing was not concerned with the operations of a firm. Hence, it would be easier for pension fund auditors to maintain independence, even if their firm provided consultancy services to their audit clients. Nevertheless, Bouleau & Huntley would have to be sensitive to potential conflict of interests and how its activities were perceived in the market.

STUDY QUESTIONS

1. What do you see as the key differences between pension fund auditing and management consulting? How good is the fit between these two?

2. Evaluate the visit to the National Metals Corporation. What happened?

3. What are the lessons of this experience?

4. What actions might Bouleau & Huntley take now?

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