# Getting Down to Business

## *Instructional Development for a Profit*

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David Maister (1982), writing about professional service organizations, observed that the subject of managing professional service firms (such as law, consulting, investment banking, accounting, architecture, engineering, and others) has been relatively neglected by management researchers. In our own field of instructional development, this is also true. Very little has been written about those firms which do instructional development as a business. In recent years the instructional development literature has seen more and more contribution by those authors working in industry or writing about the world of instructional development in industry, but few articles have been concerned with doing instructional development for a profit. This article focuses on several issues important to professional service firms which sell instructional design services and custom developed training programs to clients in the private sector:

- Profitability
- Selling the Service
- Competition
- Defining the Need/Proposing the Solution
- Project Management
- Project Mix and Staffing
- Quality

### Profitability

First things first. A company which sells training programs and instructional design services exists to make a profit on the work it does. Whether the company is owned by stockholders, is privately held, or is a subsidiary of a larger company, the goal is the same—to make a profit after taxes which meets or exceeds the amount projected at the beginning of a given fiscal year. When all is said and done, the sales effort, design work, client contact, and production work all flow to the bottom line of the company's balance sheet.

Working toward targeted profitability affects *every* function in a proprietary training and development firm. Sales personnel must achieve targeted orders goals to assure that sufficient work is generated. Project managers must keep timelines and costs in control so that each project makes its required contribution to the profit line. Sufficient project work must be completed within a year to permit billing for work completed so that revenues may be recognized on that year's balance sheet. Staffing levels and other fixed costs must be based on projected levels of business expected so that fixed costs do not outrun incoming revenues. Project decisions such as who to use on a project, how to produce a videotape, and how many revisions are "enough" are also business decisions since they all affect the profitability of the firm.

This all adds up to a different "climate" for a profit-making ID and training company from that found in the inhouse training and development operations of companies or in university and public sector organizations. The inhouse training and development operation is certainly aware of the profit and loss requirements of the overall company but usually does not operate as a profit center itself. Rather, it is usually a cost center operating in a staff capacity similar to a long-range planning or public relations office. Staff in such operations are no less competent, quality oriented, or concerned with costs than their counterparts in profit-making ID and training companies. They simply have different organizational goals. ID centers in universities and public sector organizations usually operate on a similar cost-center approach, providing services within the limits of budgeted costs. The difference is not so much sensitivity to costs but reason for being.

### Selling the Service

Unless a company is a "Mom and Pop" operation operating on a comfortable level of referral business, the lifeblood of the organization is the sale of services and products. Unless an ID and training company is engaging in the development of an "off the shelf" product, (e.g., a generic training course) which it can sell, the task is to sell the *professional services* of a group of people capable of solving problems for clients. Companies such as The Forum Corporation, Wilson Learning Systems, Tratec, Spectrum Training Corporation, National Training Systems, and others sell both "off the shelf" programs designed with general training needs in mind and custom program development services to solve specific training problems. These organizations excel at sales and marketing with staffs of professional salespeople whose responsibility it is to prospect for new business, collect data about customer needs (general information), present proposed solutions, and close orders. A key question is *how* professional services are sold and who sells them.

Maister (1982) observed that what a professional service firm sells to its clients is "frequently less the services of the firm *per se* than the services of particular individuals (or a team of such individuals)" (p. 63). Wittreich's (1966) work supports this contention by pointing out the difference between selling and buying *goods* (such as packaged programs) and selling and buying *services.* He noted that a key difference lies in what the client is buying.

In the case of professional services he argued that the client is buying the professional, not just the service. To Wittreich this meant that it is difficult to separate the *selling* of the service from the *rendering* of the service. This distinction is much simpler in the selling and buying of goods such as pre-packaged, off-the-shelf training programs. A salesperson calls on a prospect and closes an order for delivery of the programs which were sold. The next step is the transfer of money from the buyer to the seller and the shipment of materials from the seller to the buyer. In the selling and delivery of professional services such as the development of training programs, however, the process is not so simple and neat.

Wittreich drew a distinction between professional salespeople and the professional who can also sell. Professional salespeople, he said, think of themselves first as salespeople whose primary role is selling, whose primary skill is "being able to sell." Wittreich pointed out, of course, that salespeople often have substantial professional and technical credentials, but he argued that they typically do not see those qualifications as their major strength. Professional salespeople are not required to be specialists in the technical areas in which they sell but specialists in selling. They often depend on internal specialists for support during the development of specifications and proposals for technical analysis and presentation.

Professionals (such as trainers or instructional designers) who can also sell usually think of themselves first and foremost as members of the profession whose intellectual interest and emotional gratifications come from working with substantive problems. In summary, the professionals are the people who can actually do the work (perform the service) which the company sells.

Wittreich argued that the practical consequences of this dichotomy are important to professional services companies because the *buyers* of professional services usually prefer, and often require, that professionals who will deliver the service sell the service (or at least participate in the sales process). This is, after all, logical. If a company is buying a professional service, it is reasonable to meet and judge the people who will be doing the work, since buying the service is in essence buying the people.

For the firm selling professional ID and training services this means that, in many instances, contact between a salesperson and the buyer during which the salesperson describes the firm's approach to a problem and its resources may not be sufficient. It is often necessary for designers to play an *active* selling role. This is typically accomplished in one of two ways: (1) having designers take time from their development tasks to assist in specific sales situations; or (2) using personnel with design skills in a full-time sales and marketing support role assisting in custom program sales situations.

## Competition

Selling ID and training services is a highly competitive business, both for the sale of packaged programs and the sale of custom program development services. A sales opportunity is often highly competitive, with the prospective buyer receiving proposals (bids) from several firms with similar qualifications. There are several large, nationally-known firms doing business selling ID and training programs and literally hundreds of small firms and individuals competing in the marketplace. Each major segment of the marketplace such as technical training, sales training, product training, supervisory training, and management development training has firms actively competing for business in that segment.

A salesperson from Firm A, for example, may call the Vice President for Training and Development at a company to prospect for business only to find that a salesperson from the competition at Firm B has beaten him/her to the punch and has already closed a deal to design a new sales course. This motivates salespeople to prospect aggressively for new business, follow up on leads, and move sales situations from prospects to closed business as rapidly as possible. That same salesperson from Firm A may call a client with whom Firm A has done business for years and find that Firm C has proposed on business which, in past years, might have been "safe." Firm A is thus put in a position of "defending" or "protecting" the account from penetration by competition. Still another telephone call may offer Firm A an opportunity to propose on business which Firm B had considered safe—an opportunity to expand into a new account.

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As could be expected, competition results in predictable downward pressure on prices, but price is not the only issue which is important in a competitive situation. Quality of service, the degree to which the proposed solution matches the needs, delivery timelines, company reputation, and other factors play an important role.

Instructional developers working in profit-making ID firms become sensitive to competition's type of work and the competitive advantages of their own firm in given situations. To win business in certain situations requires proposing designs which will be less costly to produce than the competitive proposal. In other situations what is required is to propose a more thorough or comprehensive approach to the problem than the competition. Most of the time, though, what the competition has proposed is not known in detail, and competitive price is often unknown.

In many situations, the competitive win can be ascribed to the careful orchestrating of the sales approach by an account executive who brought the professional resource (senior instructional designer) into the situation early to work with the client in defining the problem and proposing a solution. In such situations the client often has more confidence that the firm understands the problem and is proposing a workable solution since he/she has met and worked with a person who has the professional expertise to solve the problem (as was noted earlier).

## Defining the Need/ Proposing the Solution

Nearly every reference to the ID process begins with the exhortation to first define the problem. Wittreich (1966), in his work on selling professional services, argued that a firm should first identify the problem and define it in meaningful terms. This is known as "needs-based selling." The salesperson collects data about the problem and proposes solutions which will meet the client's needs. This is a deceptively simple concept which is as hard, if not harder, to do in the ID-for-profit world as it is in any other ID context.

Many designers working in profit-making firms will report receiving excited calls from salespeople who say things like, "I just met with LeftBank, and they need a two-day customer service program for their tellers!" Questions such as "What problems exist? What can't the tellers do now that they should be able to do? Why two days?" often generate a long, silent pause—no answers.

Textbook ID approaches to needs assessment simply do not work well in the competitive environment as tools to be used *prior* to a sale. Several reasons can be cited:

1. Such approaches are far too expensive to be used as tools *prior to a sale.* Firms cannot invest the required effort to produce that level of information.

2. Time often works against prudent needs analysis. In many instances, the competition already has a proposal on the prospect's desk, and there is only one week until the deadline for making a decision.

3. The client believes that he/she already knows quite clearly what the needs are (even though the ID firm may have had only limited access to the client's data or does not trust the quality of the data and would like to do a thorough analysis).

4. A form of solution statement often is required in the sales proposal. A client spending $50,000 to $100,000 or more for the development of a training program has a legitimate interest in wanting to know what the eventual solution will look like. It is usually not sufficient to say in a proposal "We will use the following ID process to define the needs and design an appropriate solution." In many instances, based on the information gathered during the sales call, the designer must sketch out a proposed solution which will be "tested" during the define/design stages of the development process.

5. The client is under pressure to produce something (e.g., a two-day program on performance appraisal.) In such situations, it is difficult to generate interest in doing a needs assessment because it is against the political tide of the organization.

How then does a firm cope with this level of uncertainty? Target marketing of its services is one answer. A firm which does a great deal of business developing sales training programs for banks, for example, learns after a while what the key issues are likely to be for sales training in most banks. Consequently, when an opportunity arises to propose to do sales training for yet another bank, a salesperson and/or designer can collect enough data during sales calls to propose a tentative solution that is "more right than wrong." It may then be refined during the define/design stages of a project.

If the same firm is proposing on the development of a supervisory training curriculum for another client and has not done that kind of work before, developing a proposed design becomes much more difficult with limited information. In such instances it is necessary to try to sell the client a define/design contract during which time the problem will be studied and a firm solution proposed along with a price for developing the solution itself. This will work providing that (a) the client is willing to work on such a tentative, yet binding relationship and (b) the competition has not proposed a "hard" design with fixed specifications and costs which may appear attractive to the client.

This lack of formal needs assessment prior to closing on a business deal often comes back to haunt professional service ID and training firms as they find out that what was sold is not what was needed.

This problem can manifest itself in four ways:

1. **Creeping Scope Change.** In this situation working through the ID process uncovers the need to make small changes in the design and materials specifications as the project unfolds—the kinds of things all instructional developers encounter regularly. The problem is that in the ID and training firm this can increase the costs of doing the project in little ways which are not passed on to the client because no single change was big enough. For example, the project may have specified 10 photographs and 20 were needed; 8 charts specified and 12 were needed. Such costs are small, but when repeated over the life of a project they can eat away voraciously at the profit margin of the business.

2. **Major Scope Change.** As the designers work on the project, they discover, through the needs analysis begun *after* the contract was signed, that there are major problems with the proposed design. This, then, requires the designer and the salesperson to go back to the client to request a change in the contracted price to cover the new specifications. Most times the parties can work out arrangements to meet the new situation. Sometimes, however, the client takes the position of, "You said you would solve my problem for X thousand dollars. It's your responsibility to do the work for that amount." The situation then becomes a difficult negotiation.

3. **Underestimated Costs.** This situation results from inaccurate budgeting of the project while developing the sales proposal. The result is that, while the scope of work may not have changed, the amount of time and money needed to complete the work was underestimated. Completing the actual work required more than was budgeted, and the project did not make its projected profit margin. Since it was the firm's error, there is no avenue available to increase the price.

4. **Poorly Specified Project Deliverables.** This situation occurs in circumstances in which the project deliverables have been loosely described to the client. For example, the sales representative may describe the project to the client without specifying (through oversight) whether or not the material will be typeset. Yet if the client had been shown a copy of similar materials which had been typeset, it would be logical for him/her to conclude that the firm would deliver typeset materials. It becomes very difficult in such situations to "unsell" the typeset materials or to negotiate a price increase to include the additional costs because the firm would appear to be dealing in bad faith. The result is a cost overrun which has serious profit margin effects.

These problems are not unique to the for-profit ID firm, but they are very im-

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portant. The determination of needs and specification of project costs when preparing sales proposals is very important and difficult to do well with as little information as is often available at the time during the sales cycle when a proposal is being developed. Accurate historical costs from similar projects, experienced staff, well-drawn specifications, and a high level of data gathering to uncover needs during the sales process all play a role in reducing this source of profit drain and help assure project quality.

## Project Management

There are two primary keys to profitability in the professional service ID and training firm: (1) excellence in selling, specifying, and pricing business; and (2) excellence in project management. Project management cannot be underestimated as a key to profitability of such firms. Since the primary productive resource of a professional service firm is the time, effort, and skill of its staff, management of this resource is of primary importance. Several areas are worth noting for special mention:

**Client Relations.** Delivering custom ID and training program design services requires frequent interaction between the members of the firm and clients. Consequently, the quality of the service delivered is determined not only by the technical competence of the staff but by the ways in which frontline professionals communicate and deal with clients. The general advice provided by Block (1981), Bratton (1979-80), Coscarelli and Stonewater (1979-80), Davies (1975), Rosenberg (1978), Rutt (1979-80), Silber (1975), and others about managing client-developer interactions is highly valid in the context of the professional service ID and training firm as well. Since the client buys the professional as well as the professional service, the quality of their interaction is very important. Clients must perceive that the designer understands their needs, is highly competent, and will deliver.

**Budgets.** As with any business or any project, project managers must work within budgeted constraints. Though budgeted amounts may be larger for the development of a course than would be the case in higher education institutions, for example, the budgets must still be carefully prepared and monitored. Cost overruns in projects can damage project profitability. Accounting systems must be designed to provide timely and accurate reports of accumulating project costs so that project managers may manage from an accurate and timely database.

**Use of Resources.** The firm's resources are its people, but not all resources are equal in skill or in internal costs. Since all time on projects is charged to the project budget, project managers must carefully select the appropriate mix of senior resources (expensive and widely experienced) and junior resources (less expensive and less experienced) to get the work done.

**External Timelines.** Projects have very real deadlines both from the client's point of view and the firm's point of view. In many instances the timelines are set by outside events in the client's organization (a national sales meeting, the opening of a new company division, the introduction of a new product, etc.), and projects must conform to those time constraints. On-time delivery of services is no less important to the reputation of a professional service firm than it is to Federal Express.

**Internal Timelines.** On-time completion of work also affects the profitability of the firm. Following generally accepted accounting principles, a firm cannot count income as revenue unless work has been completed. So, for example, if a $100,000 project is scheduled to be completed in a fiscal year in five, $20,000 phases, the company can only "take into revenue" the amount of money equal to the work done. If the project slips behind time schedules so that only the first four phases are completed in the fiscal year, only $80,000 of the revenue can be recognized in that year. The firm then has a $20,000 revenue shortfall for the year. Consequently, keeping projects on schedule is a very important task for the project manager. This means keeping things moving internally as well as keeping the client on time for review of materials, scheduling of pilot tests, and the like.

**Role Clarity.** Since both the project manager and the salesperson become intimately involved in the account, there may be confusion about who is playing what role. The salesperson who sold the business may have been working with the client for several years providing ongoing "off the shelf" business. The project manager who becomes heavily involved in the account knows all the details of the specific project and builds a working relationship with the client. It is important that the firm clarify roles on a project so that the client knows who is responsible for what elements of the project. For example, when something goes wrong, the client is likely to call the salesperson and complain. The appropriate role for the salesperson is to act as a fact-finder and to help work out a solution. If the salesperson promises to have the project manager fix the problem in a certain way (e.g., "We'll revise the chapter." "We'll re-shoot the videotape."), this obligates the company to certain design revisions when the project manager may have had other remedies in mind. The difficulty is to avoid confusing the selling role with the delivery role while keeping the client satisfied. Concepts described by Leitzman, Walter, Earle and Myers (1979-80) in developing working "contracts" and agreements on roles are useful in the business/industry context as well.

## Project Mix and Staffing

Maister (1982) described the selection of the types of projects that a firm chooses to undertake as among the most important decisions facing the firm. The project mix has important effects on dimensions such a profitability and attracting and keeping high quality staff. Maister observed that while many dimensions characterize the different types of projects a service firm may undertake, one in particular is crucial: the degree of customization required in the delivery of the service. He suggested that projects could be characterized into three types: "Brains," "Grey Hair," and "Procedure" projects.

"Brains" projects are those in which solving the problem or designing a solution requires the cutting edge of technical or professional knowledge. The firm sells "Brains" projects on the basis of the high professional skill of its staff. As Maister puts it, they tell clients, "hire us because we're smart" (p. 176). "Brains" projects require creativity, innovation, and the development of new solutions.

"Grey Hair" projects, according to Maister, require customized output to meet the client's needs but involve a lesser requirement for pure creativity and innovation than would a "Brains" project. "Grey Hair" projects address problems which are generally familiar, and solutions may require activities or approaches similar to those used on other projects. Firms selling "Grey Hair" projects tell clients, "Hire us because we've been through this before; we have practice at solving this type of problem" (p. 176). For example, an ID and training firm which specializes in developing user training systems for new computer hardware could sell services to computer companies on a "Grey Hair" basis—"We've designed programs like this before."

"Procedure" projects usually involve well-known and well recognized problems with solutions familiar to the professional service firm. There still is a need to customize to some degree, but the steps required are more procedural in nature than creative. Here, Maister says that the professional service firm is selling its efficiency and availability. They are saying, in effect, "Hire us because we know how to do this and can deliver it effectively." For example, a training firm which specializes in developing performance appraisal training for supervisors can sell customized versions of those programs as "procedure" projects since the firm is thoroughly familiar with the problem. For its designers customizing past solutions is more procedural than creative.

What does this mean for the ID and training firm? It has implications for staffing, levels of pricing, staff development, and profitability. "Procedure" projects can be staffed with more junior staff. The "Grey hair" and "Brains" projects usually require more work by senior level resources. Consequently,if a firm has been concentrating primarily on procedural projects and suddenly sells a large number of "Brains" and "Grey Hair" projects, it may not have the required senior level staff to carry out the work. On the other hand, if the firm has been doing mostly "Brains" and "Grey Hair" projects and suddenly begins selling more "Procedure" projects, it may not have sufficient junior (lower cost) resources to apply to the project. This can cause pricing and/or profitability problems. It can also antagonize senior staff who feel that such projects are a waste of their time.

The appropriate mix depends upon the staffing patterns of each firm and the desired business goals and market image it wants to project. In professional service ID and training firms, there is usually a three-tiered structure: (1) senior personnel; (2) middle managers; and (3) junior project staff. Senior personnel are usually heavily involved in managing client relationships and providing sales support and help on complicated "Brains" or "Grey Hair" projects. Middle managers are responsible for the day-to-day supervision of the organization and its design group, coordination of projects, and dayto-day client interface on project work. The junior resources are responsible for completing the work necessary to complete the project (e.g., writing scripts and participant materials, conducting field interviews, analyzing data).

An appropriate mix of projects permits the company to make productive use of all levels of resources, while providing junior level people with the opportunity to learn from working with more senior level staff on projects as well as providing a predictable profit stream.

## Quality

Earlier in the article the point was made that each project must be profitable. In a sense the rule of thumb is "each tub on its own bottom." Unless each project is sold and managed to make a profit, the firm as a whole may miss its target profit objectives. How does this relate to quality?

A constant concern for managers in the ID and training firm is balancing the requirement to deliver quality programs and materials with the need to make a profit on each project. Day-to-day project decisions are also business-oriented profit and loss decisions since all project actions eventually affect the bottom line on the balance sheet. The decision to totally rewrite a troublesome unit rather than to simply revise it must be made with the balance of quality and profitability in mind. To ignore quality and maximize profit is untenable. To ignore profit and maximize quality is also a difficult path to follow, for without profit the firm will cease to exist. In cases where a project is in trouble and will fail if more resources than budgeted are applied, the decision to deliver quality must prevail if the firm is to maintain a good reputation. The balance must lie in delivering high-quality programs that meet client needs while making a profit through proper pricing, the clever use of resources, and excellent project management.

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## Summary

Donald Tosti (1982) has pointed out that the reputation of an ID and training firm on building trust with clients. He characterized trust as having three components: (1) trust in information; (2) trust in judgment; and (3) trust in delivery. There are several messages here for ID and training firms.

**Trust in Information.** Clients must believe that you understand their settings and have knowledge of the solutions being proposed. For a firm to work successfully in the sales training area, for example, the clients must perceive that members of the firm understand sales training issues and the sales environment.

**Trust in Judgement.** Clients must also believe that representatives of the firm "know their stuff." As Wittreich (1966) pointed out, the sales interaction with the people who will deliver the service is very important to the purchase of a professional service. In many ways during a sales situation, the client is testing the judgment and information base of the people who will do the work.

**Trust in Delivery.** A successful project is never over until it has been successfully delivered. The best creative ideas and excellent client relationships are often insufficient to save the reputation of a firm whose delivery is poor (i.e., sloppy work, poor quality, late delivery).

The management of a successful ID and training firm must be concerned with delivering quality programs and services at a reasonable profit in a climate which encourages professional growth of staff and provides an exciting and challenging place to work. It is a highly competitive business whose potential marketplace for services is enormous. Managing the firm requires solid business skill coupled with excellent professional staff to design, manage, and deliver high quality projects.

**The Forum Corporation** provides off-the-shelf programs and custom developed programs to clients in the areas of sales training, management development training, supervisory training, executive services, functional training, and instructor training. Staffed by more than 150 people, its 1982 revenues amounted to nearly 12 million dollars.

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