Executive summary

Several professional service firms have been able to successfully grow into large providers of diversified services. Scaling up is challenging for these firms because the process of growing entails reconsidering their value proposition in the market. The typical value proposition allows them to extract a premium price from clients because of highly customized services made possible by tacit knowledge-intensive skills. However, growth ambitions push firms to exploit possible economies of scale and scope which often stem from codifying and standardizing their specialized knowledge. In our study, we tackle this dilemma, and we propose that a key turning point is when firms transition from service to product offers, in particular in the form of software or other ICT-based products. This transition could impact not only their market performance, but also the type of branding strategies that best fit their profile. By studying U.S. management consulting firms, we find that diversification is an important avenue for increasing performance, when confined into the service domain. On the one hand, this means that moving into products entails putting at serious risk the core resources for the professional service firms' competitive advantage. On the other hand, diversification should be coherently managed and fine-tuned with branding strategies. Part of the competitive advantage of these firms lies in their reputation that is channelled through brands protected by trademarks. Our main recommendation to managers is to develop narrow brands specialized for each new segment that is added throughout diversification, rather than to extend consolidated brands into new service niches. This strategy allows avoiding possible negative externalities across segments that might happen under the umbrella of the same brand. Consequently, high coordination between the marketing division and "production" side of a company is advisable in order to understand the role of brands in a particular new niche.