

PART

I

Strategy and Planning

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1

What Marketing Can Do for a Firm

The sole purpose of marketing is to sell more to more people, more often, and at higher prices. There is no other reason to do it.

—Sergio Zyman

Marketing is the single most important function within a modern professional services firm.

This might strike some as overly bold given the widespread lack of respect that marketing receives within many firms. More than a few of today's principals believe marketing is only loosely connected to the success of their firms.

To be fair, the way marketing is done in many firms is of limited value. But it doesn't have to be that way. To understand why, we need only to look at today's most successful firms.

Inside the High-Growth Professional Services Firm

About five years ago, we began a series of studies that looked at high-growth professional services firms.¹ To qualify for the study, these firms had to have a minimum compound annual organic growth rate of 20 percent or more. And these firms were exceptional on many fronts.

Compared with their peers, these firms showed:

- Growth rates that were 5 to 10 times greater
- Profitability that was 2 to 5 times greater
- Valuations that were 2 to 10 times higher
- Marketing costs that were slightly *less* than average

How did these firms do it? What did they do differently?

As it turned out, there was not a single industry, strategy, or size that defined this group. These firms existed to varying degrees in all professional services industries. They included firms of all sizes and categories, served target clients of every ilk, and pursued a wide variety of different strategies.

So what characteristics did they share in common? For one thing, they tended to have a clear target client group that they understood very well. Their services were tailored to solve their clients' important problems. And they usually had clear, easy-to-understand differentiators that were believable and relevant to their target clients.

The marketing strategies they used gave them easier access to their target audience, both online and in the traditional offline world. And although their business strategies were diverse, they were easily understood and communicated.

As you step back and reflect on some of these characteristics, it becomes clear that all of them are related to the discipline of marketing. Understanding and selecting the right markets and target clients, offering the right services, and building a firm's visibility and reputation in the marketplace are what marketing does (or should do) in a professional services firm. When combined with a capable sales operation, marketing should produce a steady stream of well-qualified prospects and new clients. We know of no other

¹Lee W. Frederiksen and Aaron E. Taylor, *Spiraling Up: How to Create a High Growth, High Value Professional Services Firm* (Reston, VA: Hinge Research Institute, 2010).

functional area that can have such a profound and far-reaching impact on a firm's success.

But that's not the end of the story. You see, the modern professional services marketplace is anything but stable.

The Revolution in the Professional Services Marketplace

Once upon a time, professional services marketing was a small player in a comfortable and familiar marketplace, driven almost exclusively by personal relationships.

Slowly at first, but with increasing speed, that marketplace has changed. And with that change, marketing has become more essential for a firm's success and even its survival.

What are those changes? We have identified five major interrelated trends that are reshaping the professional services marketplace.

1. **There is a new generation of buyers and influencers.** Anyone who has worked for 20 years or less has not known a workplace without computers. Increasingly, these digital natives are becoming decision makers or influencing the selection of professional service providers. For this rising category of leaders, using online resources to learn about and evaluate providers is second nature.
2. **Technology offers new options.** You see it everywhere. Technology has reshaped so many industries, from entertainment to medicine. And it is reshaping the professional services, too. From low-cost communications technologies to the automation of "professional" tasks, the professional world is changing—fast. Need to incorporate your company? Do it yourself online. Need to understand a new piece of technology? Google it. Want to meet a potential vendor across the country (or even the world)? Use Skype.
3. **Geography is collapsing.** Today's low-cost communications technologies are shrinking the business world. It is becoming as easy and natural to work remotely with a professional service provider as with a colleague who works from home. Of course, some activities require on-site work. But that list is shrinking day by day.
4. **Transparency is expected.** We are becoming used to a culture that expects, and even demands, transparency. We want to know the "user ratings" of our plumber or home remodeler. Why not our accountant or

structural engineer? If a firm isn't forthcoming about its expertise and thought process, will people think it has something to hide?

5. **Excellence is expected.** The Internet has made it easy to find the best of practically anything. We are no longer restricted by the limitations of our local communities. Our favorite wines, those hard-to-find books, the clothes we love from that tiny specialty retailer—if we want these things, they are but a few clicks away. So why should it be any different for buying professional services? Businesses today don't have to settle for the best local option. They can get online and find the best option . . . period. This gives a tremendous advantage to the specialist.

So how does your firm navigate this shifting landscape? The answer is through the competent application of modern professional services marketing. But what are the specific ways it can help your firm succeed?

Effective marketing at a professional services firm produces four measurable outcomes:

1. New conversations with potential buyers
2. Better odds of winning client engagements
3. Higher revenue per engagement and per client and higher fees for services
4. Increased affinity with the actual and potential workforce

Let's explore each of these outcomes.

Generate New Conversations with Potential Buyers

Call it lead generation, call it business development, or call it prospecting. Whatever term is used, firms need to create *conversations* with potential clients before they can make a sale. That might sound basic. That's because it is.

But more often than not, the concept of creating an external conversation, one that can produce a new client and new revenue, never finds its way into firms' marketing plans. Why? Because for many firms, repeat business and referrals have always been sufficient to attract new clients and grow revenue.

Although repeat business and referrals still provide an important—and often the *most* important—source of new leads at many firms, they are no longer sufficient by themselves to sustain growth. During the halcyon days of

flowing referrals, less competition, and simpler industry dynamics, many professional services firms operated less like businesses and more like country clubs. Answering the phone was pretty much all the lead generation they did. Times certainly have changed.

To examine how buyers go about finding new service providers, our study sampled 822 professional purchasers.² The results are shown in Figure 1.1.

By far the most common response—more than 70 percent—was to ask a friend or colleague for a recommendation. Naturally, when people ask the question, you want your firm to be on the list of those recommended.

The research indicates that it is important to have a good reputation and high marketplace visibility. This is the essence of a strong professional services brand. Marketing can help you strengthen your brand by building your reputation and increasing your visibility.

The next most frequent response (24 percent) was that the buyers believed they already knew all of the firms that they needed to know. Is your

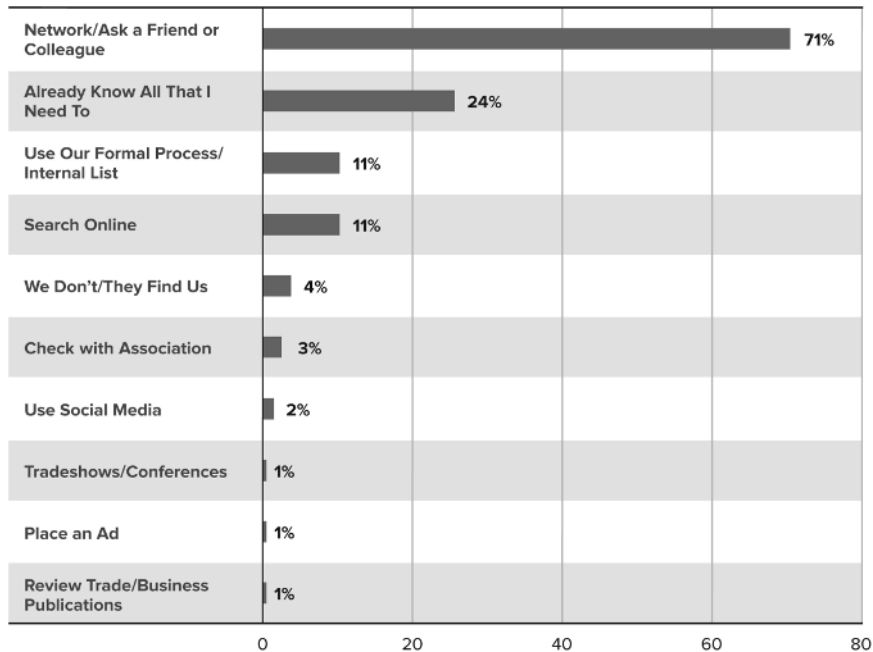


Figure 1.1 Top 10 Ways Buyers Search for a New Professional Services Firm

² *How Buyers Buy* (Reston, VA: Hinge Research Institute, 2009).

firm on that list of alternatives? Marketing can answer that question. If the answer is no, you will need to find a way to break through this resistance to new alternatives.

Some buyers are constrained by a formal procurement process. Governments and some large institutional purchasers are good examples. Here, marketing can help you understand the process and develop a favorable impression in advance of a solicitation.

A similar number of respondents preferred to search online for options. Firms that harness the power of search engine optimization (SEO) and social media have the advantage with these buyers.

Of course, if you are everywhere the buyer looks, your firm will have maximum advantage.

Further down the list are some of the more traditional approaches, such as trade associations, tradeshow/conferences, and trade and business publications. Although it may be tempting to dismiss marketing methods that don't make the top 10 list, that could be a dangerous mistake. Remember, the dominant response will be to inquire among friends or colleagues or to go with an already familiar firm. How do you make sure the right people know your firm and have a positive impression of it? That is marketing's job.

Of course, there are other ways to encourage conversations about your firm. Thought leadership and content marketing can create an itch that prospects can't help but scratch. But we'll cover those topics in detail in Chapters 14 and 15.

Marketing's Four Measurable Outcomes

Marketing can deliver:

1. New conversations with potential buyers.
2. Better odds of winning client engagements.
3. Higher revenue per engagement and per client and higher fees for your services.
4. Increased affinity with the actual and potential workforce.

If marketing is not delivering some subset of these outcomes, it's not good marketing.

Improve the Odds of Winning New Client Engagements

Not only can effective marketing help you get on the short list of firms, it can increase the likelihood that you will be selected. This is nicely illustrated by a recent experience of Lee's.

For some time, our firm had been pursuing a content marketing strategy. We've been researching our target client audience (professional services firms) through our research arm, the Hinge Research Institute, and publishing our findings in a series of free research reports, webinars, books, executive guides, and blog posts. We are also active in social media and speak at professional associations and conferences. As a result, a growing number of professional services firms follow our work and contact us when they need the kind of branding and marketing services that we offer. (So far, this illustrates marketing's first two outcomes.)

One day a professional services firm that was headquartered a couple of miles from our offices in Virginia called us up and asked us to submit a proposal for a full rebranding of their firm. When we asked if they wanted to meet the Hinge team, the firm declined, saying that they had been "following Hinge's work for a while" and didn't feel the need. After some time, we were awarded the project.

Only at the project's kickoff meeting did we learn the full story. The firm had gone through a full request for proposal (RFP) process and conducted in-depth reviews of several other firms before they chose Hinge. Prior to our selection, we never had a single meeting or formal review with this firm. We asked them why they didn't put us through the same scrutiny. After all, we were practically down the street.

The response was very telling. "Since we've been following you, we understand how you think through issues and approach challenges. We were completely comfortable with your approach."

Although this situation may seem a bit extreme, it's not as uncommon as you may think.

Potential clients can and do develop trust based on indirect experience with a firm. A firm's reputation, commentary from referral sources, the content it produces, and the familiarity that builds up over repeated online interactions can create a tremendous amount of trust—which can have a profound impact on your ability to close new business.

Marketing, when done right, can create a trust effect (Figure 1.2). Instead of receiving the transferred trust that comes from the referral source,

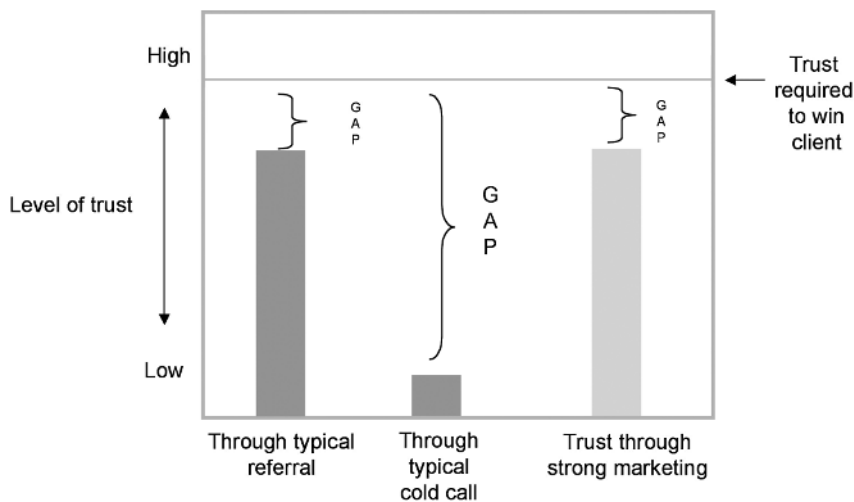


Figure 1.2 Trust to Win

the company builds up the trust itself over time through its marketing activities. Is it the same kind of trust that comes after having worked with a company and having gone through thick and thin for several years? Of course not, but it's enough trust and affinity to make the sales process kickoff that much stronger, go that much more smoothly, and have that much more chance of success.

In our consulting work at RAIN Group and Hinge, we consistently hear stories that support this argument. Time and time again, clients report that a white paper download, a newsletter, and a speech they made at a conference have all contributed to their ability to connect more quickly or more deeply with their prospective new clients.

Research supports the argument as well. According to a CIMS Business Influencer Study, there are 49.7 million technology influencers in the United States alone. Some 3.3 million (7 percent) reside in the management information systems/information technology (MIS/IT) department, 11 million (23 percent) are senior management, and 34.5 million (70 percent) are departmental heads. Of these IT decision makers, 43.8 percent will strongly consider purchasing from a company with high brand recognition. Only 18.6 percent would consider buying from a brand they never heard of.

Higher Revenue and Higher Fees

It can be just as difficult to sell a \$15,000 engagement as it is to sell a \$150,000 engagement as it is to sell a \$1,500,000 engagement. Although the nitty-gritty of that leap might be just a bit off, the essence of the statement is true.

You can grow your firm by adding new clients, or you can increase the size of your deals. What is the average revenue you generate with your clients? Say it is \$50,000 per year in revenue to the firm. What can you do to increase that by 20 percent, 80 percent, or even 100 percent?

Marketing plays a role in increasing this average in a number of ways.

Packaging the Services

Marketing your services as a package can increase differentiation, perception of the value of the service, and a client's trust that the service firm will deliver on the promise of the service. Indeed, service packaging can have a significant impact on the average size of client engagements.

At our firms we have offered service packages covering issues common to our target client audiences. The outcomes for our own firms were higher average client engagement revenue *and* higher client satisfaction (which went hand in hand).

Positioning Your Value Proposition Compellingly

It is marketing's role to highlight the value of a firm or a particular service. Consider a service such as profitability analysis and consulting. You could position its value by stating, for example, "We can analyze the profitability of your divisions by product and service lines and geographic divisions and give you a report detailing where you can improve your revenue and profit," a reasonably attractive approach.

Or you could position the same service by saying, "We help our clients in manufacturing save millions of dollars. We have accomplished these results for dozens of companies, such as Companies A, B, and C, through our profitability consulting work." This is a much stronger and compelling positioning of your value for potential clients.

Cross-Selling the Entire Firm

Cross-selling is usually an untapped area of opportunity for firms. In our research on professional services buyers,^{3,4} We have found that between half and three-quarters of buyers admit to being unaware of all the services their providers have to offer. When asked if there were other services they wished their provider would offer, up to three-quarters have specific services in mind.

The really telling statistic comes when you ask the service provider about those services. In about 8 out of 10 cases, *they already offer one or more of the services* their clients want from them.

Clearly there is an opportunity to increase services to existing clients. This is an area where marketing and sales efforts can provide measurable income improvement.

Crafting and Communicating Value Messages

Most firms of any size believe there is significantly more business they should be doing with their existing accounts. Among the top challenges reported by firms seeking to expand their business with their strategic accounts is *having the knowledge to build and communicate messages of value we can bring to bear on strategic accounts*.

About one-third of the high performers—firms that achieved the best revenue and profit growth from their strategic accounts—were challenged by this, as were about half of the average and below average performers. (See Figure 1.3.)

Marketing is often the key for the firms that do this exceptionally well.

³Lee W. Frederiksen and Aaron E. Taylor, *Spiraling Up: How to Create a High Growth, High Value Professional Services Firm* (Reston, VA: Hinge Research Institute, 2010).

⁴*How Buyers Buy* (Reston, VA: Hinge Research Institute, 2009).

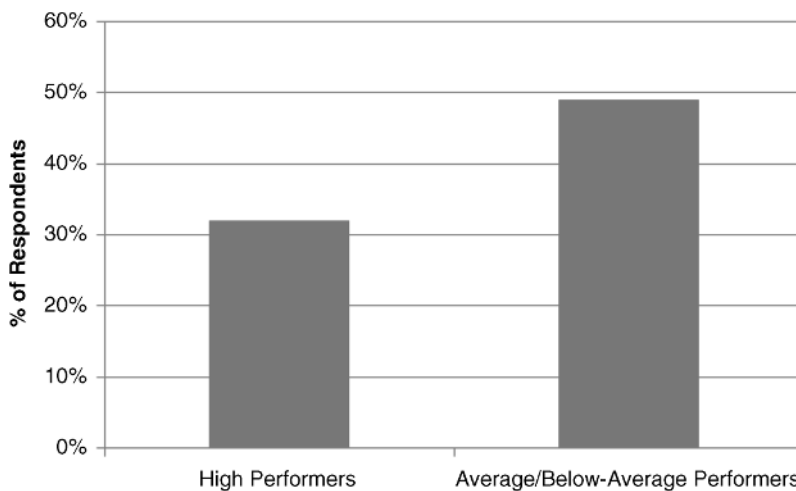


Figure 1.3 Percent of Firms Reporting “Having the Knowledge to Build and Communicate Messages of Value We Can Bring to Bear for Strategic Accounts” as a Top Challenge

Establishing and Strengthening Brand

Marketing can also affect the strength of the fees you command for your services. We published a series of *Fees and Pricing Benchmark Reports*⁵ for the following industries:

- Consulting
- Marketing, advertising, and public relations (PR)
- Architecture, engineering, and construction
- Law
- Accounting and financial services

Among the findings were nuggets about brand leader firms and the fees they command in, for example, the consulting industry. Brand leaders:

- Priced their services at a higher level than their competitors in the market (42 percent of brand leaders were considered premium-priced versus 28 percent of lesser-known firms).

⁵Mike Schultz and John Doerr, *Fees and Pricing Benchmark Report: Consulting Industry 2008* (Framingham, MA: RainToday.com, 2008).

- Realized higher actual hourly rates compared to the lesser-known firms in all categories of professionals. (See Figures 1.4 and 1.5.)

Although brand leaders and their “best-kept secret” firm brethren both reported that, on average, their standard or published fees for top-level professionals were \$300 per hour (Figure 1.4), the brand leaders reported realizing \$300 in actual fees at this level (Figure 1.5). In contrast, lesser-known firms reported realizing \$250, or 20 percent less than the leading firms. Data across the other professional services industries were largely similar to the consulting industry data.

When we ask leaders of strategy consulting firms what companies they consider their competition, we hear comments such as, “We compete with firms like McKinsey, Bain, Boston Consulting Group, and other major firms, and we charge fees similar to theirs.” Of course, the firms mentioned are extremely well known and respected.

Upon further investigation, we discover that although this is sometimes true, more often than not, the lesser-known firm in reality charges less in fees per hour than the better-known firm and is willing to discount engagements more often than brand leaders to win deals. If given the choice, would they want to discount or charge lower fees? No. But they do, largely because if they proposed similar fees, many clients would opt to give the business to the better-known firm—the power of brand in evidence once again.

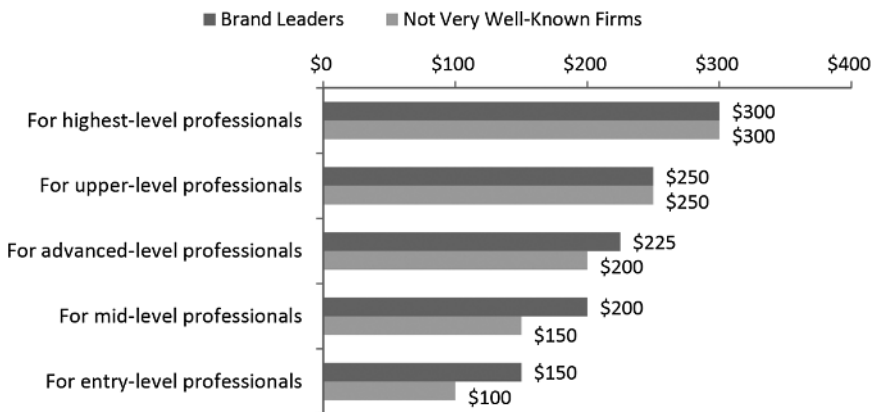


Figure 1.4 Median Hourly Billable Rates for Consulting Industry—Standard/Published, by Brand Reputation



Figure 1.5 Median Hourly Billable Rates for Consulting Industry

Increased Affinity with Workforce

This final major outcome is not a primary focus of this book. However, it does bear comment as it plays such an important role in many professional services firms. The battle to attract and retain a quality workforce is a key success driver in many professional services industries.

Employees, like projects, referral sources, and potential business partners, are influenced by the reputation and visibility of a firm—in short, its brand. If marketing is successful in crafting a strong brand, it will very likely aid in recruiting.

One test of this hypothesis is to look at new hires coming directly through a firm's website. If new employees are seeking you out directly, it is a clear advantage. And, in fact, that is what seems to be happening. When we look at the high-growth, high-value firms we described earlier,⁶ we find that they get more than twice the proportion of new hires from their website as do average growth firms (47.5 percent versus 22.2 percent). Clearly something is working well for them in their marketing efforts.

⁶Lee W. Frederiksen, Sean T. McVey, Sylvia Montgomery, and Aaron Taylor, *Online Marketing for Professional Services* (Reston, VA: Hinge Research Institute, 2012).

Offer the Right Services to the Right Markets

Although not a measurable outcome, a firm's mix of services is critical to business success. And marketing compels a firm to consider the services it offers. Just because you *can* offer a service doesn't mean that you *should*. Similarly, just because you can offer your services to *any industry*, doesn't mean that you should.

Offering a wider and wider range of services has associated costs and downsides. It adds complexity to operations, and it may require more supervision, additional staff, or the development of new skills. The same is true of new industries. Either way, the practice dilutes your marketing dollars, complicates your message, and expands your pool of competitors.

By the same token, if you fail to address the emerging needs of your clients, you may force them into the arms of competitors. And betting everything on a shrinking industry is not a great strategy to achieve robust growth. You don't want to be caught offering yesterday's services to dying industries.

So how can marketing help you get the mix of services and industries right? Finding the answer requires doing some research. Only research will give you the insights you need to truly understand your target client audiences and recognize market opportunities. Figure 1.6 shows how conducting systematic marketing research on target client audiences can have a dramatic effect on firm performance.

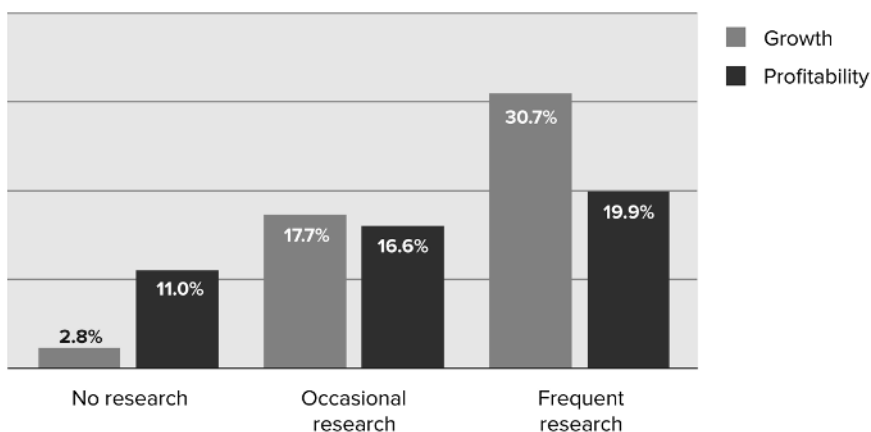


Figure 1.6 The Value of Market Research on Growth and Profitability of Professional Services Firms

What Marketing Can Do for a Firm

21

The study looked at three groups of firms: those that did no systematic research into target client audiences, those that did occasional research, and those that did frequent research (at least quarterly). The results were striking. Doing at least some marketing research increased both growth and profitability. But doing frequent research resulted in still faster growth and greater profitability. What's going on here?

As you better understand your target audience, you can anticipate their emerging needs, understand how to better communicate the benefits of your services, and eliminate approaches that offer little promise. In the absence of this type of intelligence, you have to make critical decisions based on anecdotal evidence, best guesses, and instinct. Not a winning formula.

Now that we've explored marketing's chief benefits, it's time to dive into the process itself. And that begins with good planning.

