

PROFESSIONAL SERVICES

HOW BUYERS BUY

RESEARCH SUMMARY

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AT A GLANCE

- Interviewed 137 buyers of professional services
- 53% government buyers, 47% private sector buyers
- Services purchased included:
 - › Architecture, Engineering and Construction
 - › Technology
 - › Management Consulting
 - › Accounting & Finance
- Topics included:
 - › Firm selection process
 - › Competitive marketing approaches
 - › Expanding the relationship
 - › Referrals
 - › Reasons clients leave
- A special section on strategic analysis of client segments is included

INTRODUCTION

In this study, we wanted to understand the dynamics of the decision-making process throughout the life of an engagement.

What do buyers of professional services firms really want? How do they make decisions? What's the best way to expand the professional relationship and garner referrals?

These are some of the questions that professional services firm owners and executives struggle with every day. The purpose of this research is to provide some practical answers.

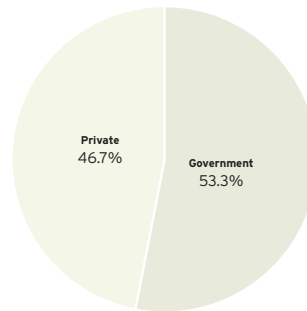
In this study, we wanted to understand the dynamics of the decision-making process throughout the life of an engagement.

Rather than ask a large number of buyers a series of relatively superficial questions, we conducted in-depth one-on-one interviews with a carefully targeted group of buyers. Instead of asking buyers about firm selection in general, we crafted our questions to reveal the details of the selection process and how buyers work with a firm over time.

METHODOLOGY

Professional service buyers were sampled from two main groups: government buyers and private buyers.

SAMPLE BREAKDOWN



We further segmented them depending on the type of service purchased.

WHAT SERVICES WERE YOU BUYING?

Segments	Percentage
Architectural / Engineering / Construction	38.7%
Management Consulting	37.2%
Information Technology	12.4%
Accounting & Finance	11.7%

We conducted a series of 137 comprehensive phone interviews with the buyers covering a range of topics, including:

- > Firm selection process
- > Competitive marketing approaches
- > Maintaining and expanding the professional relationship
- > Referrals
- > Reasons clients leave

Questions included both open-ended discussion items and specific rating scales. We asked respondents to think in terms of a particular firm they had selected. This encouraged more specific responses.

In some cases we were able later to follow up with the selected firm and get a view of the relationship from the professional services provider. In several instances this yielded a valuable perspective on how buyers and sellers of professional services see things differently.

SELECTING A FIRM



REACHING THE PROFESSIONAL SERVICES BUYER

Professional services firms use a variety of approaches to connect with potential new customers.

CURRENT MARKETING APPROACHES EXPERIENCED BY BUYERS

Approach	Percentage
Cold calls	23.5%
Email	14.0%
Networking	14.0%
Direct mail	11.2%
They don't market	8.9%
Personal visits	8.4%
Conferences	7.3%
Follow our structured process	5.0%
Existing relationships	2.2%
Ads in trade pubs	1.7%
All other approaches	4.1%

How do service firms market to prospects? Cold calls, at 23.5%, email and networking, at 14.0% each, top the list as perceived by the buyers themselves. A surprising 8.9% of buyers report that firms are not trying to market to them.

IN THEIR OWN WORDS

“I don’t want to be ‘sold to.’ Have a good understanding of my situation, then sit down with me and lay out a detailed solution. Show me how it’s worked before.”

Insight

Who’s your competitor?

We asked a limited sample of buyers to identify all the competitors of their current firm. We then asked the firm to identify all their competitors. Both the buyer and the firm identified similar numbers of competitors (typically 15-20). When we compared the two lists, there was less than 20% overlap.

KEY TAKEAWAY

Be careful. You may be positioning your firm against the wrong competitors.

When asked how to improve the way that professional services firms market to them, buyers painted a clear picture. To paraphrase one of the respondents, “I don’t want to be ‘sold to.’ Have a good understanding of my situation, then sit down with me and lay out a detailed solution. Show me how it’s worked before.” That sentiment is reflected broadly in the results shown below.

HOW TO IMPROVE MARKETING

Approach	Percentage
Personalized understanding of my situation	19.9%
No high pressure sales calls	13.5%
Share relevant case studies	12.2%
Present detailed solution	10.9%
Meet with me personally	9.0%
Show that you want our business	6.4%
Follow our structured process	4.5%
All other marketing	21.8%

The contrast is striking. Many professional services firms are using phone calls, emails and the like to offer services. But buyers want a dialogue around solving their problems, not another sales pitch.

SELECTION CRITERIA

Most professional services buyers start out with some sense of what they are looking for in a firm. We asked buyers to name their top 2-3 selection criteria when evaluating firms.

We compiled a list of over 30 different criteria. To make sense of these data we grouped the results into 11 focused categories.

MOST MEANINGFUL SELECTION CRITERIA

Criteria	Percentage
Expertise / technical skills	19.8%
The project team	18.1%
Firm experience	14.9%
Knowledge of my industry / situation	12.5%
Reputation	11.1%
Firm size and reach	5.6%
Availability / flexibility	5.6%
Personal relationship	4.5%
Price	4.2%
Firm management approach	3.1%
Firm resources	0.7%

We found that Expertise/Technical Skills lead the selection criteria, cited by almost 20% of buyers. Note that many of the other frequently listed criteria relate to a firm's ability to complete the work. By way of contrast, cost is identified as a top criterion by only 4.2% of buyers.

IN THEIR OWN WORDS

“If I get any whiff of arrogance, I’m just not going to hire them.”



PITFALLS TO AVOID

We also asked buyers what they tried to avoid when selecting a professional services firm. This provided a different perspective on the buyer’s psychology.

The most frequently cited concern is that the service provider will deliver poor results. Either the service firm will fail to understand the problem or will lack the skills and expertise necessary to overcome it.

WHAT WERE YOU TRYING TO AVOID?

Concern	Percentage
Poor results	47.9%
Project team problems	38.7%
High fees / cost overrun	10.9%
Wrong size firm	9.2%

The next level of concern is with project team behavior. They want to avoid troublesome behavior such as poor communications, conflict, rigidity or arrogance.

The focus then shifts to concerns regarding uncontrolled costs or hiring a firm that is the wrong size – too small to perform or too large to care.

Not surprisingly, these are many of the same reasons buyers eventually fire their firms. In the hiring process, buyers are trying to avoid situations that have been troublesome in the past.

IN THEIR OWN WORDS

“The people who pitched the business were the same people who would be doing the work. That was key for us.”

Insight

Why does price so frequently tip the scale?

Does the old stereotype, “buyers are liars,” hold true and buyers underplay the importance of price when identifying important selection criteria? That may be true in some cases, but it is at least as likely that professional services firms are failing to differentiate themselves. When competing firms are perceived as equivalent, a buyer will usually pick the least expensive option.

KEY TAKE AWAY

Make sure you know how to differentiate your firm or you will be forced to compete on price.

TIPPING THE SCALE

Another way to understand the decision-making process is to focus on the factors that actually tip the scale in favor of a specific firm. To perform this analysis, we compared buyers’ responses to what “tipped the scale” against the original selection criteria. What we learned was that most criteria became less important in the final selection than their original ranking would indicate.

In fact, only four criteria took on greater significance as the selection process unfolded. These criteria are Price, Availability/Flexibility of the firm, Senior-level Commitment/Consistency (are the people who sold the job available to do the actual work?) and Disappointment with other firms under consideration.

WHAT TIPPED THE SCALE?

Price
Availability / flexibility
Senior-level commitment / consistency
Disappointment with alternatives

WHAT DO BUYERS REALLY WANT?

After a careful analysis of buyers' responses, we conclude that buyers want professional services firms to provide answers to just three fundamental questions:

1/ Can you fix my problem?

The bulk of a buyer's selection criteria and process is aimed at determining whether a prospective firm can solve their problem. Do they understand my issues? Have they solved similar problems in the past? Does the specific team have the necessary skills and experience? This is the threshold issue. If a firm can't convince the buyer that it can solve the problem, that firm will not be selected.

IN THEIR OWN WORDS

"They listen and understand how we operate... have built a relationship of trust."



2/ Will you make my life easier?

Once the threshold of basic qualifications has been crossed, the focus shifts. Will you make my life easier or more difficult? At this point cost, availability, flexibility and customer service come into play. If two or more firms are perceived as being equally capable of solving the problem, the choice then hinges on these second-level considerations.

3/ Do I enjoy you as a person?

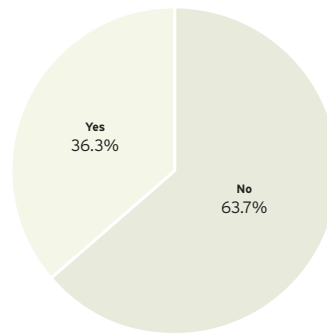
Before a final decision is made, criteria related to the quality of the personal relationship become important. Do I like this person? Will I enjoy working with them? If the first two levels are reasonably comparable, the selection will be made on personal relationships or rapport. These relationships, while important, are never a substitute for the ability to get the job done.

EXPANDING THE RELATIONSHIP

AWARENESS OF SERVICES OFFERED

Do your clients understand the range of services you offer? When we asked buyers whether they were aware of the services offered by their current firm, a large majority of buyers (63.7%) said they were not.

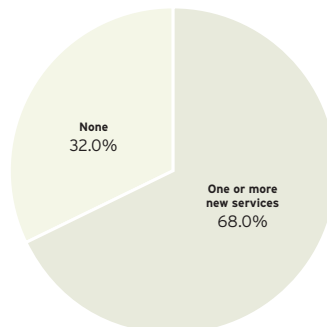
AWARE OF SERVICES OFFERED BY CURRENT FIRM



INTEREST IN ADDITIONAL SERVICES

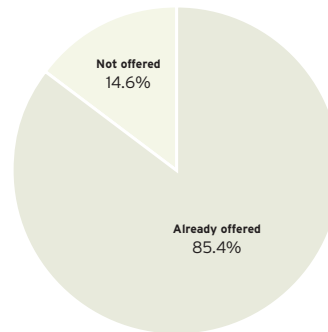
We then asked buyers if they had an interest in any new services from their current firm or a competitor. More than two out of three respondents (68.0%) were interested in one or more new services.

DESIRED SERVICES FROM EXISTING FIRM



To check the relevance of this interest we contacted those incumbent firms we could identify. We then presented them with the list of desired services and asked them if their firm currently offered these services. The results were striking. In over 85% of the cases, the service that the client wanted was already offered by their current firm – but the client didn't know it.

DESIRED SERVICES ALREADY OFFERED



It's easy to understand why a satisfied client might turn to one of your competitors for a service you provide. In many instances, they don't know better.

IN THEIR OWN WORDS

“Have a senior person sit down with me and discuss my business situation. If there is a way they can help me, make a recommendation.”

OFFERING NEW SERVICES

When introducing new services, firms announce their new offerings in newsletters, on their website, in press releases or at trade shows. These are all legitimate ways to communicate to your marketplace, but your clients don't favor them. In fact, only about 20% of current clients favored any of these modes of communication for communicating additional services.

OFFERING NEW SERVICES

Approach	Percentage
Senior person makes <i>personal visit</i> and discusses business situation and makes recommendations	45.4%
Senior person makes <i>personal call</i> and discusses business situation and makes recommendations	15.9%
Senior person sends <i>personal email</i> and discusses business situation and makes recommendations	13.6%
Follow our structured process	4.5%
All other marketing e.g., Direct mail, newsletters, website, trade show	20.4%

With very minor variations this sentiment was widely shared: some buyers preferred to have this dialogue by phone (15.9%) or email (13.6%) but the basic precept of the conversation was consistent across the vast majority of responses.

Among government buyers, however, the response was a bit different. A small percentage (4.5%) of buyers wanted their providers to follow a structured acquisition process rather than engage in a discussion of needs. Anecdotally, this pattern tended to be found in buyers who were at a relatively low level in their respective organizations.

Insight

Who's job is it to figure out how your services can help your clients? Well, if you believe it's your client's responsibility to ask for the services they need, you miss a lot of opportunities. They don't even know what you do! How about your project manager? Project managers know the client, but they are focused on delivering results; when operational priorities conflict with business development, operations always win.

KEY TAKE AWAY

You can't leave it to the project manager. Be sure to assign a senior person who can focus on the client's organization and identify opportunities to help your client achieve their objectives.

WILLINGNESS TO REFER



Almost everyone recognizes the value of referral business. It can add tremendous credibility and markedly shorten the business development cycle. So how willing are clients to make referrals? As it turns out, most are quite willing.

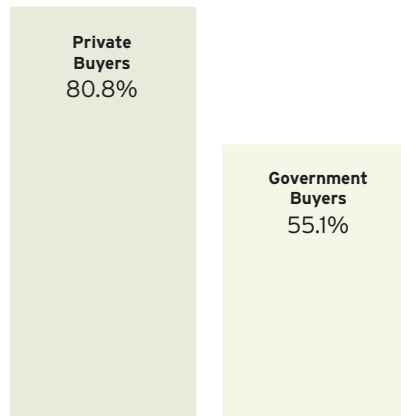
MAKING A REFERRAL

Rating	Percentage	Already Referred
9 - 10	66.9%	79.6%
7 - 8	24.2%	52.9%
6 or less	8.9%	0.0%

We assessed their willingness using a 0-10 probability-to-refer scale based on the work of Reichheld and others.¹ About two thirds of buyers (66.9%) rated their willingness to refer as a 9-10. These are the most likely to refer and almost 80% of this group has already made one or more referrals.

Another quarter of buyers rated their willingness to refer a 7 or 8. Slightly over half of this group (52.9%) had made a referral. The remaining 8.9% had made no referrals.

PERCENTAGE ALREADY REFERRED



IN THEIR OWN WORDS

“It came up in casual conversation. A subcontractor of ours needed help, so I made the referral.”

While the willingness to refer was quite consistent across the various buyers groups, we learned that Government buyers were less likely to have already made a referral. To understand why, it helps to look at the circumstances under which professional services buyers make referrals.

WHEN DO YOU REFER?

	Circumstance	Percentage
Reactive	Friend or colleague asked me	45.6%
	Formal internal request	12.3%
Proactive	Came up in conversation	28.1%
	I brought it up	12.3%
	Topic at industry event	1.8%

In almost 60% of the cases the referral is made in response to a request, either a formal internal request (12.3%) or an informal request from a colleague (45.6%). In short, someone asked for a recommendation. The remaining 42% of referrals are more proactive, with the buyer either bringing it up or offering it in a conversation or industry event.

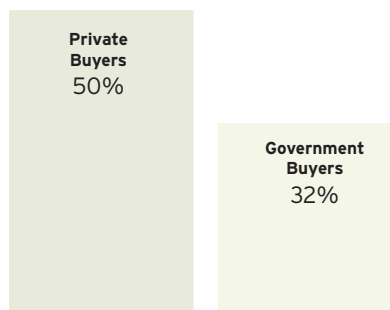
Insight

What is a reasonable expectation for referrals from a satisfied client?
In this sample, about 60% of the referrals were made within the last 6 months. Another 12% were made between 6-12 months ago. The remaining 28% of referrals were made at least a year ago.

KEY TAKE AWAY

As a rule of thumb, you should target two referrals a year from each active source.

PERCENTAGE PROACTIVE REFERRALS



Government buyers are somewhat less likely to make a proactive referral (32% vs. 50%). They are expected to be more impartial than their private sector peers. Fear of showing a bias may explain this difference. This also helps explain the gap between the willingness to refer and actually making a referral. More insights can be gleaned from analyzing the reasons buyers cite for not referring.

WHY NOT REFER?

Reason	Percentage
No one asked me	68.9%
They haven't performed	20.7%
Not allowed	6.9%
Too soon	3.4%

In about one in five cases, a buyer opts not to refer because the firm did not meet their expectations. In the vast majority of cases (68.9%), however, no referral was made because no one has asked for one. While willing to refer, they were not proactive. In only a small number of cases (7%), buyers felt that they were prohibited from making referrals. These were all Government buyers, which further explains the referral rate discrepancy.

REASONS CLIENTS LEAVE

LOYALTY

We asked the respondents to assess the probability that they would still be working with the same firm in a 2-3 year time frame. As with the referral question, responses were divided into three groups. The results show that just over 60% believe they will be working with their current firm and about 13% are very unlikely to. The remaining 25% are poised to move in either direction.

LOYALTY OVER 2-3 YEARS

Rating	Percentage
9 - 10	61.3%
7 - 8	25.2%
6 or less	13.4%



IN THEIR OWN WORDS

“They communicate that the firm knows my business, knows my problems, knows how to solve my problems.”

REASONS FOR STAYING OR LEAVING

The reasons buyers give for continuing the relationship fall into three categories. Almost 70% state that their professional services firm simply did what they said they would. Almost one in five goes on to describe a bond of trust that has developed. The remaining 14% cite contract length as an important factor in driving their expectation of relationship length.

REASON FOR LOYALTY

	Reason	Percentage
Why YES?	They delivered on their promise	67.4%
	Have become a trusted partner	18.6%
	Contract length	14.0%
Why NO?	No ongoing need / end of contract	60.0%
	They did not deliver	40.0%

The reasons for leaving fall into two distinct categories. About 40% have a strong intention to leave because they feel that the firm did not deliver on its promise. The other 60% are satisfied with the performance of the firm but see the underlying need coming to an end or the end of the contract term approaching and are uncertain that the current firm will win a re-compete. These are principally Government buyers.

Insight

Why do clients, who are satisfied with your work, go elsewhere? Most simply don't understand all you can do to help them. They are responding to the problems they recognize using the resources they are aware of.

KEY TAKE AWAY

It's your job to uncover new ways in which you can help them solve the challenges they face. If you don't, you will lose a valuable opportunity.

SPECIAL SECTION

RETHINKING CLIENT

SEGMENTATION

It's easy to get caught up in the day-to-day challenge of providing high quality services to clients. In that quest, your larger strategy can easily get lost. Here's a new way to think about client segmentation and keep a broader strategy in perspective. Think about clients as falling into four segments.



1/ The Happy Core

For most firms, this is the place to start. It is relatively easy to identify your current core clients. They are the group that is most satisfied with your service (ratings of 9-10 on 'Likelihood of Referral') and most loyal (ratings of 9-10 on probability of still working with you in 2-3 years). In this study, this segment represented just over half of the buyers. Our experience also shows that this group is most likely to be profitable as well.

From a strategic point of view, these are the clients to study and evaluate. If you understand who they are and why they are such good clients, you will be in a better position to get additional clients just like them.



2/ Satisfied but Restless

This second group of clients presents a major opportunity. These clients are willing to recommend you but do not expect to be working with you over time. They represent almost 16% of the sample.

As the study shows, they probably don't realize all of the ways that you can help them. If you don't act, they may hire your competitor to provide a service that you are perfectly capable of offering.

From a strategic perspective they are prime targets for an expanded relationship. But you must take the initiative. It's not their job to figure out how you can best help them. That's your job. If you wait for them to approach you, they will be gone.



5.8%

3/ Stuck in a Bad Relationship

This third category is relatively infrequent, representing only 5.8% of clients. These are the folks who are not happy with your services but are likely to continue working with you for some time. Typically this is driven by contractual relationships or lack of good alternatives.

From a strategic perspective they represent a fair opportunity as they will be around long enough for you to have a reasonable chance to turn them around. However, if you simply take them for granted, you are likely to generate increasing hostility and mounting problems.



27.5%

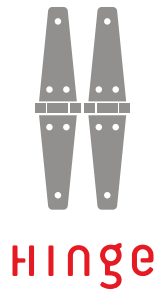
4/ Headed Out the Door

This fourth segment of clients represents over a quarter of the sample (27.5%). They are both unhappy with your services and not likely to stay around for long. Are they worth trying to save? Perhaps not. But at a minimum, they are worth understanding.

What went wrong? Was there a breakdown in your process? Were they a poor fit to begin with?

By understanding this group of clients and contrasting them with your core clients you are likely to gain some very actionable insight. In our experience, it's every bit as valuable to understand who your offerings do not work for as it is to identify your best clients. This allows you to target new prospects more accurately and to tailor your offerings more closely to the needs of your best clients. That is the essence of good strategy.

ABOUT HINGE



Hinge is a branding and marketing firm specializing in professional services companies. Headquartered in Reston, Virginia, they are located at the heart of one of the nation's largest concentrations of professional services firms. Their comprehensive offerings include research and strategy, brand development, award-winning creative and marketing outsourcing. Visit Hinge's website for free educational resources and to learn more about their services.

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