

# Perceiving and demonstrating value

Research study on measuring return on investment in professional services marketing and business development

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Two contrasting views on measuring return on investment in professional services marketing and business development:

“ I strongly believe the success of marketing at this firm is due to being able to demonstrate the return on investment and bring people along with us in a language they understand.”

and

“ It’s a busy world and it [measurement] is not perceived as a priority.”

# Introduction

The comment from one respondent to this research – “I don’t think many firms have the systems in place to measure return on investment effectively” – stands as a good summary of where the professional services marketplace is when it comes to understanding the effectiveness of how they conduct their marketing and business development and what that means in terms of a return on investment.

Marketing and business development should be part of the strategic decision making process, able to provide insights from the marketplace. This is a claim that not all practice support functions could support. It should be a guardian of market perceptions. But that role has to be earned and it is through taking a very close interest in the bottom line and the numbers that drive the business to talking the language of the practice professionals themselves that the transition from support to true business partner takes place. Act and behave as if you were a joint owner of the business and – ultimately – you get treated like one and become part of its decision making. It also requires you to work closely with other functions, notably finance and human resources, to put together the measures that you feel are the most appropriate for the firm, creating the systems that enable you to show value. However, senior management have to be willing and active in their support of marketing and business development. If that support and cultural enthusiasm is lacking then the job itself becomes infinitely harder.

Some marketing professionals within the industry already operate at this level, holding roles on the executive committee or board. But they are few and far between and their position is a reflection of their skills as individuals rather than any particular given right that their role might entitle them to.

If talking the language of the business and behaving like an owner is the key to the boardroom door, then one of the critical issues is being able to demonstrate the value that the marketing or business development function brings; hence this focus on return on investment. Measuring this in the professional services context is difficult and the industry is more at the beginning of a process than at the end. Firms are developing a number of different measures that enable them to make some estimation of what they are getting for their money. But in an industry where nearly everyone in the firm has some form of relationship with the client, the ability to track back to where success in growing or landing a particular client may have come from is very hard. Some have attempted to develop measures that are non-financial in nature for this, basing their return on investment measures on performance around opportunities for the client to meet, see or hear members of the firm across a variety of different media. Alternative non-financial measures might link through to the attitudes that existing or potential clients or employees might have about the firm. Others are taking a view based more on the amount of money spent versus income obtained.

The money involved is not small. Looking at just the legal profession, PricewaterhouseCoopers estimated at the end of 2004 that the top 25 law firms spent on average £3.39m each every year on marketing and business development, with the top 100 law firms spending an average of £1.79m each. The largest areas of expenditure were salaries, corporate entertaining, public relations and sponsorships. The PwC research also showed that between 2003 and 2004 the top 25 law firms upped their expenditure on marketing per fee earner from £4,795 to £5,769, an increase of 20%. In the same period the top 100 law firms decreased their expenditure from £5,078 to £4,957 per fee earner.

As this debate continues over what makes for effective measurement of return on investment, the Professional Services Marketing Group (PSMG) will be making its contribution, based on the views and experiences of the market and its members. On 2 March 2006 the PSMG’s annual conference will focus on measuring return on investment, trying to identify practical ways in which professional services marketing and business development specialists can demonstrate value. We hope you will join us.

December 2005

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# Survey findings

## Background

During the Spring of 2005, the PSMG decided to respond to the challenge being posed by the market on the topic of measuring the return on investment that the professions in the UK make in marketing and business development.

Sixty eight senior marketing professionals took part in the research, which was conducted through a carefully targeted online questionnaire. The main professions from which respondents took part were law, accountancy, real estate consultancy and management consultancy.

This survey provides research-based insights to help senior management as well as marketing and business development professionals better understand the measuring return on investment issue as well as helping to start the process of identifying best practices in the market.

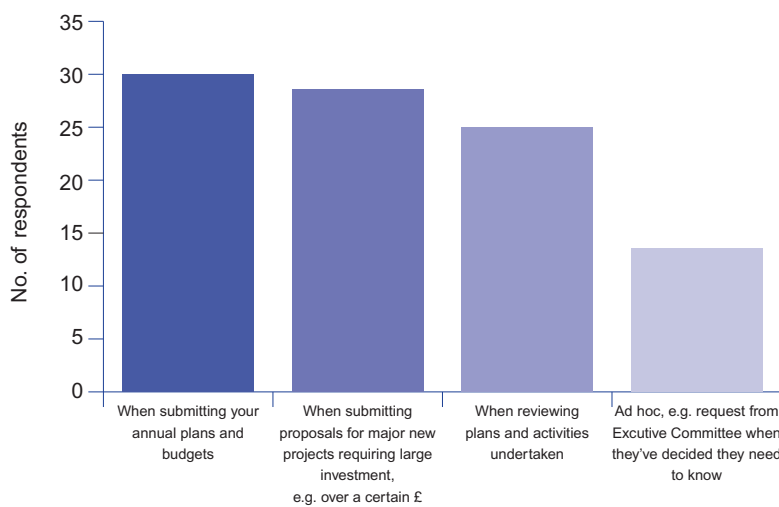
## The demand for measurement

*The survey findings show*

- Just under a half of the participants in the survey were being asked to demonstrate the return on investment in marketing in their firm. Of those that were not being asked to measure return on investment, nearly a third did so anyway.
- Just under a third of the participants said that the request to provide information on return on investment had come in the last three years, with around half that group saying that the demand had come in the last year. Around a sixth of the respondents said that they had been providing such information for more than three years.
- In terms of when survey participants were being asked to demonstrate return on investment, the most common occasion was when submitting annual marketing plans, very closely followed by when submitting proposals for major new projects. Around a fifth of respondents indicated that they were providing information in response to ad hoc requests from senior management (Figure 1).
- The demand for information around return on investment appears to be driven by two main factors: a desire by the firm to know what does and doesn't work in marketing terms and a desire to control costs (Figure 2).
- Nearly half the participants indicated that they were measuring return on investment across a broad range of non-financial criteria although there were a significant minority of

“Be selective and focus on fewer activities that support specific business objectives rather than do lots of things on an ad hoc basis.”

Figure 1. Circumstances where information on return on investment is requested

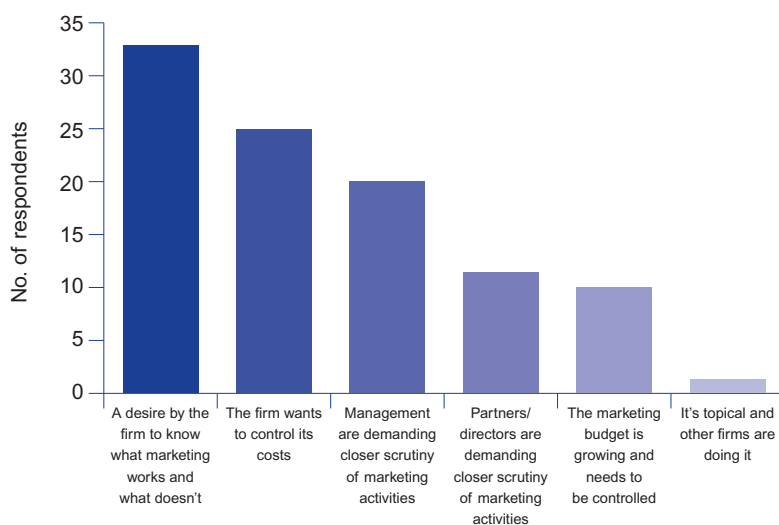


respondents who indicated that they were just using financial measures in a variety of different combinations including tracking fees against marketing expenditure and even profits against time and money invested in marketing.

*Commentary*

As the professions have grown and developed significantly over the past ten years, their desire to identify where their money is being spent on building market profile and client relationships has also evolved. Firms are becoming more sophisticated in how they approach this topic, rather than making assumptions that any form of practice development is, by its very definition, a good thing.

Figure 2. Reasons for asking for information on return on investment



This rise in interest can be seen as being driven by the increased corporate decision-making nature of professional services firms, especially in professions such as law and accountancy. There has been a trend towards increasing centralisation of management within these firms, which in turn puts the support functions within those organisations under greater scrutiny. For some firms, this is the first time that there is a management team in place that is sufficiently experienced and competent enough to ask the right questions about the money that it is spending across all its areas of

practice support – from information technology to human resources to knowledge management to marketing and business development.

In addition, a full generation has now passed since marketing was introduced into professional firms in the way that we understand it today. The honeymoon period is over and the good news is that the value that marketing and business development can bring is starting to be recognised, but it needs to link directly to what is occurring on the ground in the practice. Debates over the value of the 'brand' are all well and good but for the majority of practice professionals they are sometimes too abstract in nature – they want to know what it will mean in terms of their clients and their income.

That the time of greatest attention being paid on measuring return on investment in marketing is when the

“Be persistent and professional. Demonstrate that you are keen for measurement mechanisms.”

budget is being set or when a major project is being proposed should come as a surprise to no one. However, marketers themselves might be missing a trick in terms of being more forthcoming with information throughout the year, taking the lead in this area and setting the agenda for the practice professionals rather than waiting for some form of demand to be delivered from the Olympian heights. Quarterly reporting to the board or executive committee shouldn't be unreasonable – it keeps the leadership focused on marketing issues such as reputation and business development as well as ensuring that the marketing or business development director remains directly accountable and visible. Critically, if marketing professionals believe that they should be measured across a number of different criteria and not against a crude measure of “money in versus money out” then they have to take that lead.

Some marketing professionals may argue that they are far too busy to focus on creating measures or tools that may, if mishandled, end up being used against them. After all, if the demand isn't there then why create the demand and a potential rod for your own back?

Such thinking misses the point, and the research shows that even in

those firms where measurement is not yet demanded, a significant number of marketing professionals are already engaged in measuring what they do. They, and colleagues in those firms that do require measurement, are being proactive in their thinking as well as having a measure of professional pride. The very best realise that by being able to demonstrate the value that they bring to the organisation, they are putting themselves in a strong position to make the case for any additional resources required to do the job. Alternatively, when the business enters a period of economic downturn or radical change, such as experienced during a merger, those that can clearly point to the value that they and their teams bring are going to be in a stronger position than those that cannot.

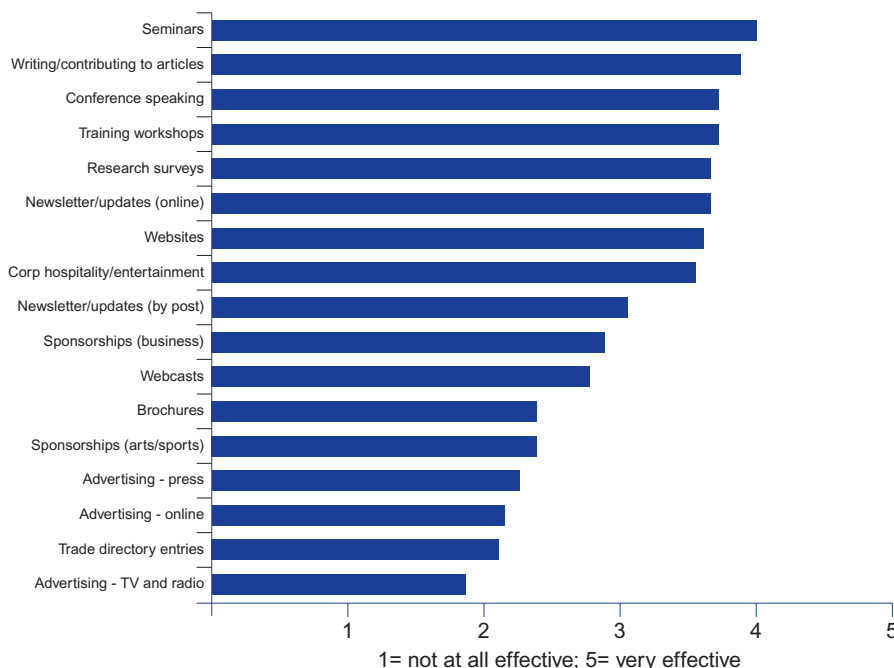
### **What makes for effective marketing and what measures can demonstrate return on investment?**

*The survey findings show*

- Three quarters of respondents feel that partners and directors in their firms are aware that some marketing techniques are more effective than others.
- When asked for their own views on what makes effective marketing, respondents state

“It takes guts to judge and evaluate your marketing and business development activities critically and generate fresh ideas.”

Figure 3.  
Effective marketing techniques for professional services firms



that seminars, writing articles, speaking at conferences and providing training workshops are the best ways of reaching clients and potential clients (Figure 3). This is followed by: conducting research surveys, providing newsletters or updates on developments in their areas of expertise, websites and corporate hospitality. Bottom of the field are all forms of advertising including directory advertising. Participants from property consultancies rate brochures and some forms of advertising as more effective than the overall respondent base.

- Others forms of effective marketing identified by participants include: good client relationship management, corporate and social responsibility activity, client or industry secondments and lobbying.
- When asked to identify the main non-financial performance indicators used to measure return on investment, the leading performance indicators identified by respondents were: improved success rates when pitching or tendering for new work, increased levels of client

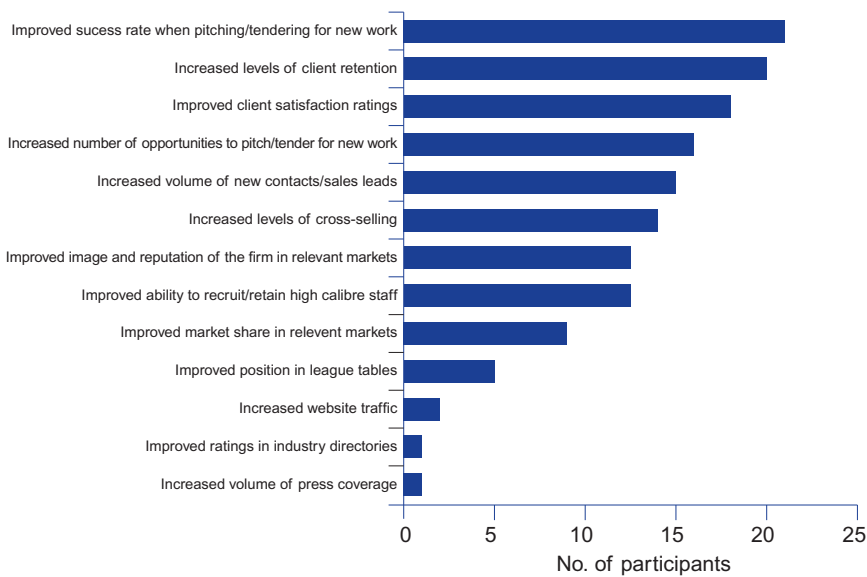
retention, and improved client satisfaction ratings. Other measures include: an increase in the number of opportunities to pitch or tender for new work, increased volumes of potential sales leads, and increased levels of cross selling (Figure 4).

- However, when asked which measures are not used, more than a third of participants do not measure pitch or tendering success rates and just under half do not measure the number of potential opportunities to pitch or tender for new work (Figure 5). Nearly half of the participants do not use client satisfaction ratings. Other measures not widely used to track return on investment include: improved market share, positions in league tables, increased levels of client retention, and improved ability to recruit or retain high quality staff.

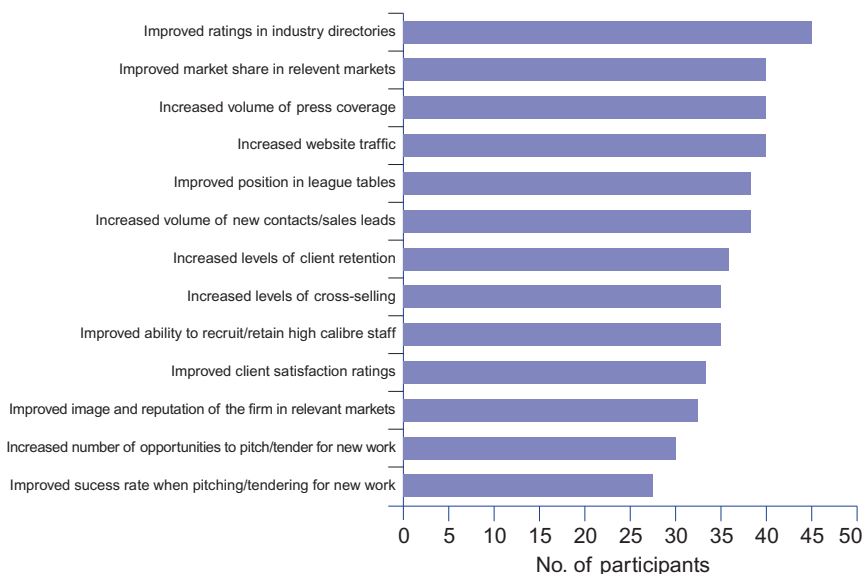
#### Commentary

For the most part, marketers have a strong degree of confidence in the knowledge and understanding of their practice professionals of what makes good marketing and business development. Most senior practice professionals are now likely to have been exposed to the thoughts of professional services gurus, although the constant promotion of new partners and directors means that

**Figure 4.**  
The best non-financial indicators of measuring return on investment



**Figure 5.**  
Non-financial measures that are **not** used to measure return on investment



this education process should never end. As a result of this exposure to client development and marketing best practice, there is good reason to believe that at an intellectual level there is support for what should be done when it comes to developing the profile and reputation of the firm and its practitioners.

However, before we celebrate the passing away of random acts of advertising and corporate hospitality (more commonly known as corporate hostility to those who have to organise them), there is a core of around a quarter of respondents who feel that their partners and directors are not aware of what makes for effective marketing and those individuals clearly face challenges. Equally, do not underestimate the immense difficulties sometimes faced in educating and advocating to senior and experienced practice professionals about the importance of linking marketing activity to the overall reputation of the firm.

The research indicates that there is a need to be much clearer about what the different ways are of reaching the client (“channels” to marketing people) and what is said to the client (the “content”) through those channels. For example – the content might be insights into the interpretation of market and regulatory issues such as the impact

of the Sarbanes-Oxley Act on foreign private issuers while the channels are seminars or media relations. Where firms are more likely than not to be struggling is in getting that content right and expressing a clear point of view around the issue rather than struggling with the mechanics of getting that content to their clients through seminars, one-on-one meetings or the use of media relations or webcasts.

That success in winning proposals is seen as a measure of effective marketing and business development should also not be surprising. Client relationship management programmes are also of critical importance since they enable the firm to build the relationship with the client, develop revenue opportunities and institutionalise relationships so that competitors find it difficult, if not

impossible, to dislodge the incumbent. Yet how many firms could put their hands on their hearts and say that they have a programme that truly works for their major clients? These programmes can be very hard to measure. How can you even know that the client decided to use you and not to go out to tender on a project unless they tell you? So good is the relationship that the very idea of going out to tender might not have crossed their minds.

Tracking client satisfaction ratings now appears to have become ingrained as a valuable tool, although the fact that one in five of the firms in the survey does not track client satisfaction means that there is still a long way to go. And, with the exception of a few firms who have made the necessary investment in people and systems, it is simply not done well. Instead, tracking these measures might be

more reliant on anecdotal information than anything that might be regarded as robust and independent.

What is disappointing is the finding that some 40 per cent of participants do not use some of the most effective measures of assessing return on investment. There should be much greater focus to ensure that the market as a whole is able to benefit from the lessons learned by individual firms.

“What makes effective marketing? Establishing and building relationships with both customers and key targets. Defining clear positioning in the market and marketing activity aimed at well defined target market segments. Regular and appropriate follow-up once contact is established.”

## Some confidence...

The survey findings show

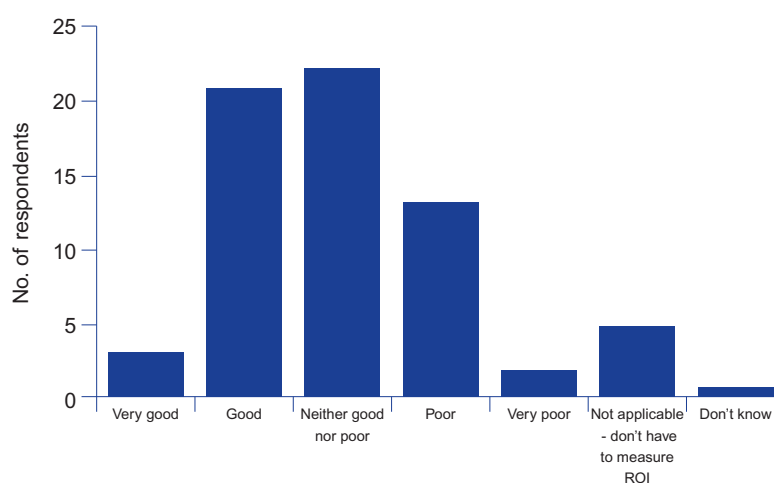
- Just under a third of survey participants felt that their ability to demonstrate return on investment on marketing expenditure was either good or very good. Approximately the same number took the view that they were neither good nor poor (Figure 6).
- More than half of the participants felt that they had been more successful at measuring return on investment than a year ago, with a third feeling it was about the same.
- Nearly three quarters of the survey participants felt that the professional services sector is worse than other industry sectors when it comes to measuring return on investment in marketing.

### Commentary

That participants in the survey are capable of expressing some confidence around their abilities to demonstrate return on investment in marketing expenditure, and that they are getting better at it, is encouraging. However, given the relatively few return on investment measures being used, serious

Figure 6.

Ability to demonstrate return on investment in marketing during the last 12 months



questions must be asked as to whether there is a good enough job being done. In this process let us also not forget that participants are having to create measures that are relevant to the needs and understanding of the practice professionals themselves. It can still be a major struggle to convince the managing partner or director of the importance of undertaking and acting on client satisfaction research.

These findings also need to be seen in the context of the majority of participants also feeling that the professional services sector is worse than other industry sectors when it comes to measuring its performance

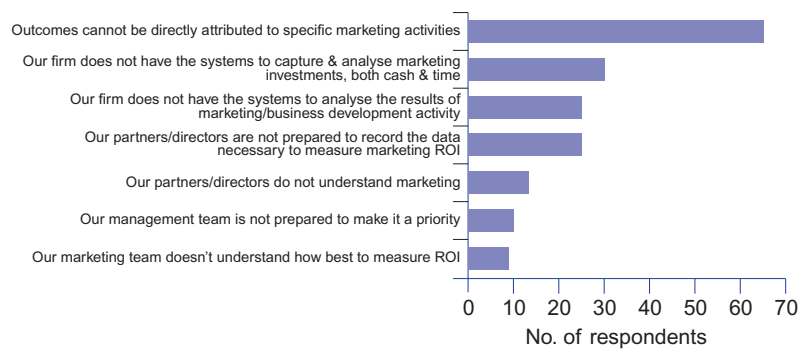
in this area. It needs to be recognised that professional services is very different to the fast moving consumer goods (FMCG) markets – the drivers for buying services can be different, the method of purchasing is different, and the way in which the product or service itself is experienced is totally different. As a consequence it should be possible to argue that the methodologies for measuring success should also be different and that professional services marketers are evolving methods of measuring their return on investment using metrics that are appropriate to the services their firms deliver in the markets in which they operate.

**... but difficulties are very real in measuring return on investment and marketers know it**

*The survey findings show*

- Linking specific outcomes (such as the invitation to pitch to a client) to specific marketing activity is viewed by 90 per cent of participants as the main difficulty associated with demonstrating marketing return on investment. Trailing behind this finding among a third of respondents were the following three other difficulties: lack of systems to capture and analyse investment in marketing activity, lack of systems to analyse the results of marketing activity, and lack of preparedness by partners or directors to record the necessary data to measure return on investment around marketing activity (Figure 7).
- Most firms (78 per cent) have a practice management system in place that lets them capture some or all of the cash costs associated with particular marketing or business development activities. However, one in five were unable to provide that data to the survey participants.
- Approximately two thirds of respondents said that their marketing or business development teams do not

**Figure 7.** Main difficulties associated with demonstrating marketing return on investment



complete timesheets for different marketing or business development initiatives. Law firms were particularly weak in this regard. Compare this with more than half of the respondents who said that the firm’s partners or directors and other fee earners record their time on different marketing or business development initiatives.

*Commentary*

Therein lies the rub when it comes to measuring return on investment in marketing and business development – how do you make the connection between something that you did six months ago and an instruction or invitation to tender that came in today? As one participant phrased it: “Prove to partners that measuring effectiveness gives meaningful results and directly leads to controlled expenditure and revenue.”

“There are no obvious industry standards or benchmarks. The poor level of understanding of marketing and lack of importance attributed to marketing by partners means that the discipline is seen as second class and therefore less important to measure.”

The delivery of the service and the direct management of the relationship with the client is in the hands of the practice professionals, which is where it should be. While professional services marketing and business development professionals may envy their FMCG counterparts, professional services firms have something that most FMCG brands would kill for – a direct, one-on-one relationship with the purchaser and a wealth of rich information about the services they buy. The critical issue is capturing that information so that it can be fed back in to help refine the process of building both the reputation of the firm and creating relationship building and revenue opportunities.

Too many firms probably approach their marketing in a relatively unplanned fashion which is of itself a consequence of them being unsure about their own strategic direction and what it is that they

want to be known for in the market. Instead they are reliant on making a lot of noise about a range of topics to a wide range of potential purchasers in the hope that some of it sticks. A focus on core practice areas, combined with issues and topics that are of crucial importance to the clients the firm has and wants to attract, provides a coherent platform from which marketing and business development can operate. Some participants alluded to that when they talked about measuring the quality of their press coverage, rather than the quantity, although that is a small part of the overall picture. If that strategic focus is lacking then how can marketing and business development ever have measures that are truly meaningful to the overall growth and success of the firm?

A failure by firms to provide the necessary systems or infrastructure to track expenditure is simply

inexcusable. Time can be easily captured – the same recording system that the fee earners use for their clients and individual engagements with those clients, can and should also be used for tracking involvement in individual marketing or business development projects. The amount of money invested by professional services firms each year in marketing and business development is significant – around 2-3 per cent of annual turnover is the approximate industry benchmark. Yet to not have methods of tracking that expenditure, let alone its effectiveness, casts real doubts on the collective willingness of professional services firms to understand where their money is going. In most industries one of the critical measures is “cost of sale”, yet most firms would probably struggle very hard to get even a close approximation of that.

“Take each step one at a time and slowly change will happen. Don't try to do it all at once as you will lose people along the way and make it difficult to make permanent changes.”

# Conclusions and a challenge...

The industry is at the beginning of finding ways of measuring the effectiveness of its marketing and business development and how that translates through to return on investment.

This is a period of challenge and opportunity for marketing and business development directors in professional services firms. The challenges are in making their function deliver the results on a day-to-day basis and, dare we say it, with the creative flair that enables their organisations to be distinctive in the marketplace in a way that delivers value for money to its owners. The opportunity is that there is real scope to lift the department into the real heart of the business, able to influence and direct the strategy of the organisation itself.

In terms of driving forwards the return on investment debate, the focus for marketing and business development professionals in the sector should be around four critical areas:

## 1. Be brave, be accountable, be transparent.

Without this approach there is a danger that the description “support” will always apply when, with the right individual, the opportunity is always there to grow and develop.

## 2. Focus on what is important to the business and keep it simple

Dump the marketing jargon. Talk to the internal clients on their own terms and in language that is relevant to them. While business development is important to firms it is not the only thing that the managing partner or director has to worry about. Keep the metrics simple and easily communicable and you will achieve better ‘cut-through’ for what you have to say and the message of value that you are trying to get over. Financial measures are not the only form of measurement and you need to be clear about what you are willing to be accountable for.

## 3. Create the linkage between marketing activity and financial performance

Don't wait to have this imposed on you. Look to demonstrate success in financial as well as non-financial terms even if only through a series of anecdotal stories or measures. It demonstrates that you share the focus on financial performance that management is concentrating on.

## 4. Be consistent

Don't keep moving the measurement goal posts from meeting to meeting – it looks indecisive, or worst still, downright slippery. Being able to demonstrate success – however

defined – across the financial quarters helps build a long term reputation for professionalism and focus on delivering the business performance of the firm.

The PSMG welcomes contributions to this debate. It is laying down a challenge to the market and is looking to identify and champion measures of best practice. Tell us yours.

“Senior marketing professionals should make it their business to educate lawyers [and other professionals] to understand how ROI is a valuable tool to measure effectiveness of marketing activities. Work very closely with the FD and management team to analyse the data and base decision making on facts not whims!”

## About the survey

During the middle of 2005, PSMG conducted a survey of marketing and business development professionals in the professional services sector in the UK. The survey was conducted using a self-completed on-line questionnaire.

Approximately two thirds of the 68 respondents came from law firms; accountancy firms represented the next largest group (12 per cent), followed by property and management consultancies (nine per cent each). More than two thirds of the respondents were either directors of marketing or business development. Around a quarter of the respondents came from firms with an annual UK fee income of greater than £100m with nearly half the respondents from firms with annual UK fee income of between £11m - £50m.

In terms of total expenditure on marketing, more than two thirds of respondents estimated that it was equivalent to 2-3 per cent of their firm's annual UK fee income, although a small proportion claimed their expenditure was greater than five per cent.

# About PSMG

## **PSMG is the UK's only not-for-profit professional services marketing association.**

- Membership is drawn from across the professions including law, accountancy, real estate, banking, architecture, actuarial, insurance, management consultancy, marketing communications, engineering and construction as well as those with an interest in professional services marketing.
- It is a national organisation with active groups in key commercial centres in the UK and international links in the United States, Canada, Continental Europe and Australasia.
- It is a not-for-profit group for all those with an interest in marketing within professional services organisations, including practitioners, recognised consultants, suppliers and those who have an interest in this sector.

## **Aims**

- To advance the public benefit of education and training of marketing in professional services.
- To provide a forum for members to meet, discuss common issues and develop leading edge marketing thinking.
- To define, improve and encourage good marketing practice.
- To enhance perception of the value of the marketing function within professional service businesses.
- To comment, as a recognised body, to the media, other professional institutions and the public on professional services marketing issues.

## **Membership Criteria**

All those with an interest in marketing within professional services organisations, including partners, practice professionals, directors, managers and executives working in-house and in recognised suppliers and consultancies, as well as those with an interest in professional services marketing.

## **Membership Types**

- Annual Individual Membership
- Annual Corporate Membership

All our events, news items and job bank are also open to non-members. Subscriptions to the magazine are also available upon request - please visit [www.psmg.co.uk](http://www.psmg.co.uk) for more information about joining.

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## Credits and thanks

This project would not have happened without the support, hard work and enthusiasm of the following people:

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Design & production

Dave Shaw, Saints Printers

“ Be transparent, open and proactive. Reporting and measurement information is key to driving behaviours. It is in your interest to be seen to be leading the way in demonstrating value.”

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