

Playing for Keeps

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Programmes designed to support better management of a law firm's most important clients have three distinct stages – acquiring, developing and managing. You start by acquiring the client and securing it from competitors; then move on to deepening the relationship through maximising the current business stream, broadening your services, and taking advantage of cross-selling opportunities; and then settle into the ongoing management, maintenance and relationship development of the account. Such programmes are now *de rigueur* for many managing partners. Few, however, can point to outstanding successes in either their development or implementation. Why is this so, and how should firms ensure that the significant investment they make delivers results? The answer, I believe, lies in the way in which firms embed a key client philosophy across their business.

Why Key Clients Matter

Implementing a key client strategy represents a shift in emphasis away from a singular focus on the acquisition of new clients, and towards a more balanced approach, with proper weight placed on the firm's existing clients. This shift has far-reaching implications for, among other things, how the firm prioritises its investments, measures and rewards its people, and goes about its business development.

Implementing such process changes may be time-consuming and complex, but the change will also bring real benefits for the firm. Strategically, the approach is founded on maximising the retention of profitable clients, the advantages of which can be thought of in three main areas:

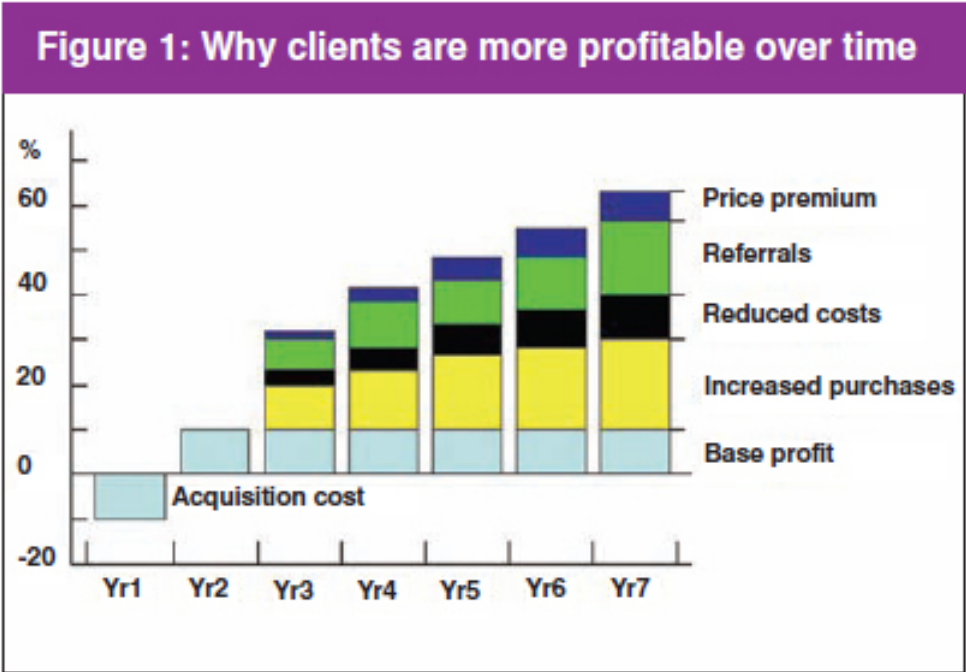
1. Clients are more profitable over time.
2. Prioritising clients with a high "lifetime value" will reduce acquisition costs and make your retention costs appropriate to each client.

3. If you don't retain high value clients, you will face the challenge of replacing your client base in a mature market and difficult economic conditions.

Each of these is considered in more detail below.

Profitability

The evidence is strong that, with effective relationship management systems in place, the profitability of any client relationship increases over time. The sources of this increase in annual profit are illustrated in Figure 1.



You may not have the evidence to hand in your own firm, as it is still relatively unusual for law firm accounting systems and procedures to track profitability on a client-by-client basis, but it should be intuitively apparent that the acquisition costs of a new client will have an impact on the profitability of that relationship in the first year.

As a client relationship develops, additional contributions to profit can arise from a combination of increased purchases of the original service, and improvements in efficiency as the firm and the client get to know each other. This will often lead to the development of a more

bespoke service, streamlining of communications, and the creation of interfaces that benefit both parties. A successful relationship will also lead to opportunities to expand into other areas of the client's business through referrals, and to offer a broader range of services, without incurring the same level of acquisition cost.

Finally, if approached correctly, there is the potential to increase pricing where added value can be demonstrated to an established client. In times of austerity, this pricing advantage may be evidenced by the ability to hold prices or discount less, rather than to change premium rates. An annuity relationship carries greater pricing benefits than one of a more transactional nature.

Acquisition Costs

With the cost of winning a new client many times that of retaining an existing one, the logic of investing in effective relationship management strategies, systems, processes and behaviours is self-evident. In a law firm, the key non-monetary resource is partner time – for most partners, a focus on current clients will reap greater rewards.

The concept of client lifetime value (CLV) is appealing to the strategist. In accounting terms, it is the net present value of the cash flows attributed to a particular client relationship. In theory, this can then be used to guide the level of investment that would be appropriate to secure that relationship, enabling a firm to identify and prioritise those clients which will generate high lifetime values. The more such clients a firm can retain, the higher its overall profits and the lower its acquisition costs will be.

Client Replacement

The corporate which is a serial purchaser of a large range of services and which has a significant legal budget is the client sine qua non of any commercial law firm. Since they know their own importance, such clients will strike a hard bargain with their lawyers. The challenge for a firm lies in shaping its client management and service model to make money at these fee levels. However, this will still generally be a better outcome for the firm than the alternative scenario, of losing its entire book of business and having to replace it – an increasingly difficult task given the troubled economy, heightened competitive forces and the increased sophistication of purchasers. There just simply aren't many big serial purchasers about!

Today's commercial challenges mean that firms that do not build the bedrock of their business on client strategies based on profitable retention face increasingly difficult trading conditions.

Why Size Doesn't Matter

Hopefully, all this has helped to convince you that there is benefit in retaining key clients. But I know that a number of firms will still feel that they aren't big enough to warrant a key client programme.

There is, of course, a judgment to make in allocating the appropriate emphasis and resources within the context of other priorities. The nature of the client base will be a factor in arriving at the right decision.

For instance, a small number of clients contributing a very significant proportion of overall fee income would be a strong indicator of the need for a comprehensive and wide-ranging key client programme. If, on the other hand, the general client base comprises a large number of lower value accounts, an approach which balances key client strategy with other aspects of marketing and sales activity may be indicated. But note that, in both scenarios, a key client mentality will bear fruit.

Given the natural disinclination of lawyers towards anything with the merest whiff of bureaucracy, the maxim of "as much as necessary, as little as possible" should be assiduously applied to every stage of development. This will not only maximise the chances of initial success, but also enduring success, as managing resources carefully should help to ensure that there are sufficient resources to keep the programme going in the longer term.

Which Clients You Should Select

There are two main types of clients who will be your priority when making your selection for your key client programme:

1. those which are crucial to the current success (or even viability) of the firm; and
2. those with the potential to be significant contributors to future profits for the firm.

As I mentioned above, the nature of a high value repeat client means that they are in short supply, so it is imperative for your programme to include, at least initially, strategies to "lock in" such existing clients. Any current profitability issues around these clients should also be addressed by the programme.

As for clients with high future potential, this potential can come in a number of forms. For instance, there may be significant untapped revenue in areas where the firm is already active, or opportunities to widen the scope of services provided.

There is often also a third group of clients which those within the firm will see as a priority, but which is really dictated by the history and politics of the firm, rather than by actual value to the firm. For instance, a client may have had historical importance which is waning, or may be championed by a high-status partner. While the academic would argue that such suggestions should be rejected

out of hand, the more pragmatic approach will often be to find a way of accommodating these clients while minimising any compromise on the main thrust of the programme.

Why Programmes Fail

There are many reasons why key client programmes fail. The three that are most commonly encountered – implementing generic solutions without understanding their application; including too many clients in the programme; and not committing to the programme in the long term – are summarised below.

Generic Solutions

Many firms have implemented a generic programme without considering their own strategic context and stage of development. This is akin to putting new tyres on car, but leaving the same engine in place, and somehow expecting performance to improve markedly. Unsurprisingly, many such initiatives have failed to deliver against expectations, and subsequently cast a long, dark shadow over the whole concept.

This is often not an issue with the programme per se (indeed, many present best practice concepts, respun for the legal sector, very effectively), but is rather a result of a failure by the firm to understand that such a programme should only ever be one component of a wider strategic jigsaw. Couple this with a paucity of implementation skills, and it is unsurprising that failure looms!

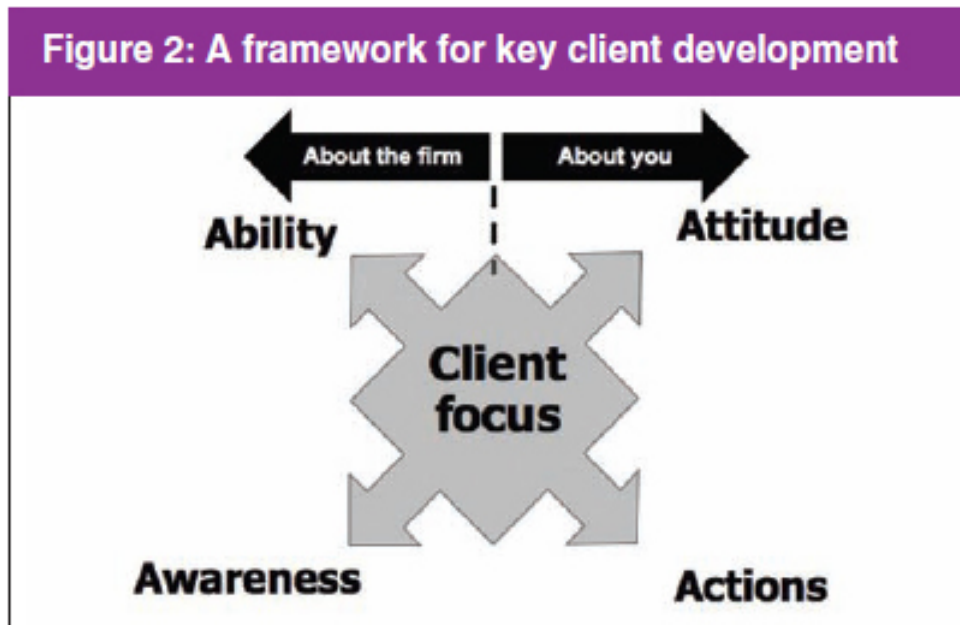
Too Many Clients

A second common error is the seemingly irresistible urge to include large numbers of clients in the programme. Properly executed, a key client initiative use significant resources and, in particular, the time of a select group of partners. If too many clients are included, though, that small group of partners will be engaged with a large group of major clients – consequently, the calls on their time will be multiplied to unsustainable levels.

The best advice is to keep the numbers small and build on the learning from an initial wave, before committing to expansion of the programme. Initially, I would generally recommend that no more than six key clients are considered. Choosing which six will, in itself, often raise interesting issues and challenging debate in terms of which clients really are key, and why.

Short-Termism

Finally, a programme may fail because, although the senior management team of the firm says that programme is important and must be underpinned by changes to the way in which performance is measured and rewarded, they don't reflect this in what they do. This can leave a programme foundering, and all the time, investment and effort the firm put in will amount to nothing.



How To Put It Into Practice

A strategic framework is essential in order to make sure that the fundamentals which support the key client initiative are put in place, including changes to existing processes and practices. Such an approach is not a quick fix – those firms which have implemented effective key client strategies report lead times of over 18 months before significant returns are seen. It will often take more than two years before a programme can be truly considered embedded, and part of the fabric of ‘how we do business around here’.

By creating an environment in which the development of clients is central to the purpose of the business, the management team can achieve a strong alignment of people, processes and systems to this common goal. The model illustrated in Figure 2 was developed to meet the needs of the busy practitioner, while at the same time providing a theoretically robust, yet practically usable, framework.

The model starts with ‘Awareness’, then moves clockwise through ‘Ability’ and then ‘Attitude’, finishing up with ‘Actions’. The positioning of the quadrants is significant in demonstrating the division between the first two areas, in which busy partners should expect direct support, and the latter two, which require them to change behaviours, address cultural norms and demonstrate tenacity. For the first two, the actions of the firm will have primacy, whereas for the latter two, it will be the collective actions of the firm’s lawyers which will be the principal determinant of success.

The processes, activities and knowledge pertinent to each stage of the process are outlined below.

Awareness

The awareness quadrant is concerned with research, knowledge and understanding. It provides the platform for the remainder of the client programme, since, without these foundations, any strategy runs the risk of deploying resources ineffectively or not taking proper account of opportunities and threats. This awareness should be both internal (what we have done, what we are doing, what we could do) and external (where the client is going, where the opportunities are, what the competition is up to).

Ability

Having awareness is one thing, but being able to use it effectively lies at the crux of client strategy. In the ability quadrant lie analytical, interpersonal and operational skills.

Analytical skills are crucial to providing an accurate interpretation of the knowledge that has been surfaced during the awareness phase, and considering its possible implications for the firm. From analysis flows an actionable plan. Realism is also important; while it is necessary to set ambitious targets that stretch the firm and its people, these must also be perceived as achievable.

Aside from the analysis and planning work that is conducted in this phase, interpersonal skills also need to be considered. A skills audit should be conducted to identify gaps, and the results of this then used to inform a structured learning and development programme for the firm to implement.

A strategic approach also encompasses the operational aspects of a firm. Put simply: how can (or must) we operate differently in the future, in order to provide value to the client at a fee level which delivers acceptable levels of profitability for the firm? It is at this interface that deep and systemic changes will often be needed, and where the biggest challenges will reside.

Attitude

Behavioural and attitudinal change is difficult, yet it lies at the heart of making effective progress. The firm's leadership and management team must find ways of breaking down personal 'ownership' of clients and undue protectionism. They need to recognise and reward those who share, while diminishing the power and influence of those who demonstrate destructive behaviours.

Initiatives that build trust, both between clients and the firm, and between partners within the firm, should be prioritised.

Actions

'Running out of steam' is the ultimate cause of failure for many. An initiative may be launched with a fanfare and an initial rush of enthusiasm; the result may be high expectations within the firm that the goals of that initiative are within easy and imminent reach but unfortunately, this is very rarely the case.

Client development is founded on deepening levels of trust, displacing incumbents, and delivering a consistently improving level of service. It will also often require a change to operating models and a new approach to legal service delivery. These things all take time to bear fruit.

What Other Benefits It Brings

The principles underlying the creation of a key client strategy can be applied widely across the firm. The approach could also be used, for example, to manage key intermediaries and multipliers, from whom the firm acquires client business.

The framework also embeds within the firm principles, skills, infrastructure, working practices and attitudes that have wide applicability, enabling the firm to be more effective in developing its general client base, as well as those clients who are of high strategic importance.

By adopting a holistic approach, a relatively small number of strategic clients will be the catalyst for changes which deliver an array of benefits for the whole firm.

