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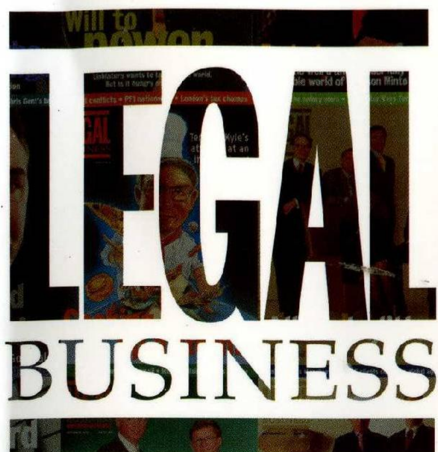

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Client retention under scrutiny

With reviving budgets bringing clients back to the market, it's time to be proactive about building loyalty, says Dr Bill Nichols

There are a few law firms – the Manchester United or Real Madrid equivalents – that go to the market, often very justifiably, on internationally recognised expertise. They have partners with finely honed, superstar personal brands. They provide consultations. They, quite simply, don't do relationships.

This article is for the rest. For those who must compete at the highest levels by leveraging the power of teams and shared professional brands. Those who will take the long-term view of building inherent, and saleable, asset value. Those for whom sustained client loyalty and effective relationship building truly matters. That is, if only they could identify how to manage it effectively firm wide.

New research serves to clarify both the concept and the required tool kit. First, it highlights some very necessary structural and strategic preliminaries.

DECLINING INCUMBENCY

Not so long ago, clients were for life (well, decades). Inertia ruled. But, research suggests, incumbency periods for law firms have declined by more than half since the mid-1980s. Although corporate clients' increasingly common habit of retaining multiple firms makes exact churn levels difficult to discern, annualised fee income rates of 25 to 33% are realistic – more than £5m on a mid-size £20m firm. That should make retention number one priority on partners' monthly meeting agendas. But, a few resigned shrugs aside, it's unlikely to figure.

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For many, the villain is the perceived delinquency of client relationship management (CRM). Conceptually, effective CRM makes sense. It ought to be every firm's heartbeat. But the expensive failure of CRM has done relationship advocates few favours. Some heap opprobrium on marketing and its alleged deficiencies in understanding professional relationship sensitivities. Others ritually blame IT for excessive and mechanical demands on precious fee-earning time, and (among non-IT savvy legal folk) for difficult-to-use interfaces.

All understandable, largely true, but unfair. Detailed analysis of CRM actually identifies a much more serious suspect. Although over-zealous vendors may have mispositioned it, CRM is not, and never could be, a panacea for all professional organisational ills. The installation of expensive software will not of itself remove the reinforced concrete boundaries between practice areas. Nor will it alleviate understandable partner fears about data sharing and the risks to 'their' clients. Least of all will it devise the type of finely cross-wired compensation and incentive schemes that are a prerequisite of a team-based, professionally managed brand. As a result, it cannot begin to address the logical consequence: personal partner loyalty, which (such as it is) regularly outweighs the often negligible 'firm' or 'brand' variety.

WINDOW OF OPPORTUNITY

Two years' worth of recessionary storms, rapidly changing professional firm structures and the increasing focus of partnerships on the long-term value of the business have facilitated opportunities in many firms for 'root-and-branch' structural reforms. They also enable us to return to client loyalty with fresh insight.

As a premise, CRM critics are right: relationships are difficult. In marketing terms, the professional services landscape is a difficult one. Legal marketers lack obvious firepower. Their colleagues in services such as restaurants or theatres, for example, have high visibility and quick benefits on their side. By contrast, legal services are characterised by ultra-low visibility (the client being directly present perhaps less than 1% of the service time) and often slow benefits. Small wonder that, following an international study, a Henley Business School colleague, Thomas Lu, dubbed professional offerings 'investing services'.

MEASURING GOODWILL

Practitioners and academic researchers alike have adopted a range of empirical satisfaction and loyalty metrics over the last 20 years. These capture clients' evaluations of, and beliefs about, perceived service quality. In varying degrees, they also relate to business outcomes, such as growth and profitability. Some, including the Net Promoter Score (NPS) customer loyalty metric, have attracted much attention. But although often successfully applied in mainstream services, they have proved far less potent at predicting behaviour in professional services.

Instead, according to recent research, satisfaction and loyalty should be aggregated into a single richer measure of 'goodwill'. Conceptually, this goodwill is the currency for 'bank accounts' that a firm notionally holds with each of its clients. Keep it strongly in credit and you will ride out unanticipated service issues. Conversely, run it down carelessly and the smallest 'critical service incident' may prove terminal.

CAPTURING AND SPENDING GOODWILL

Turning to an offensive scenario, acquiring goodwill is fundamental to managing desirable client behaviour. Implementing such a strategy depends on understanding the client's perception of service quality, its four principal dimensions and their effects in a professional service environment. Sadly for devotees of left-brained rationalism, unless you are one of the superbrands referred to above, expertise accounts for as little as 10 to 15% of clients' perceptions. A similarly low weighting is attached to overall ethics and reputation, and only marginally more may be attributed to the outcome – not least since, for many clients, the nature of an outcome is more or less impossible to determine or quantify.

Instead, the dominant force is rapport. This does not refer to the touchy-feely rapport of alcohol-friendly lunches. Rather it describes the harder practical rapport engendered by consistent cross-firm process and presentation; effective and proactive reporting; and, not least, clear strategic engagement with the client in terms of recognising and understanding problems.

Once established, this rapport feeds into six principal aspects of goodwill. These are all payable individually and collectively into your client 'bank account'. Assume, for example, that structural reform has enabled a consistent, trackable and firm-wide strategic engagement process that can be leveraged through CRM. Such consistency encourages the client to commit to the firm's brand, which gives the firm credibility and leaves the client satisfied with the appointment. In turn, this will influence positively those higher up the decision-making chain. This sits one step below the second aspect of goodwill: the 'big win' of public client advocacy, such as a willingness to appear on a conference platform or make a public case study endorsement. This layer is triggered by a client's experience of pleasure (technically, hedonic satisfaction) in the relationship.

Alternatively, if your goal is to encourage more private advocates who will recommend your firm to their business associates, you'll most likely activate them with high utilitarian and general service satisfaction scores. This requires that you get the process basics right consistently and reliably in order to generate positive value perceptions – both financial and equitable. Interestingly, this path's positioning at the least-engaged base of the goodwill hierarchy explains the strange but well-known phenomenon of the 'ex-client advocate'. Satisfaction, based on reliable service, may drive advocacy but does not guarantee retention.

It's also worth highlighting a major innovation in this model – the power of perceived influence. If the client believes your firm to be fundamentally well-intentioned, you will generate significant goodwill 'funds'. These are vital to securing exclusive preference behaviour that facilitates active retention when briefs and budgets return and true feelings emerge.

PROFILING DIFFERENT CLIENT TYPES

The above is, of course, not universal. To help professional services firms segment and target their established client bases for retention, our recent research also identified two key drivers: the level of importance placed by the client on value/performance and relationships. Applying these drivers identified some six principal types.

Inevitably, every business developer's favourite will be the well-balanced 'active partner'. Usually fewest in number, they are most profitable and most valued. Typically, they signal their commitment by empowering the legal team; treating them like an in-house extension; and encouraging creative strategic thinking.

Conversely, firms should beware the siren voice of the 'relationship seeker' (or 'midnight caller'). Often very senior and knowledgeable, their ever-changing personal/organisational needs are frequently a drain on resources. They may also switch emotionally and without notice. The similarly one-dimensional 'performance pro' has an equally lightly rooted connection. Marketers will pay special interest to the 'old reliables'. Sometimes very senior, their long commitment may be founded originally in inertia. They rarely generate better than average fee income and may appear equally uninterested in firm, service or network opportunity. Yet they are a strong and regularly untapped source of recommendations.

Finally, a marketing team will ignore the 'process junkies' (or gatekeepers) at their peril. Although apparently unmoved by either performance or relationships, they will remain clients for so long as the correct process boxes are ticked reliably, painlessly and without surprises.

Each segment merits a customised approach, while traditional 'one-size-fits-all' client initiatives and special incentives are to be avoided. A special low-cost offer may pull a few occasional 'butterflies', but permanently unsettle the process junkies' reports and disturb the active partners. Emerging tactics in this area are a hot topic for future development.

Dr Bill Nichols