The right client with the right 'wallet'

Let clients drive profitable growth in your firm, says Peter Mathias.

Peter Mathias

The economic downturn of the past three years has made many professional service firms acutely aware of the imperative to grow revenue in a consolidating market place. The pressures on revenue growth are likely to be even more intense, as clients have begun to seek greater efficiency in their purchases of professional services and to rationalise the number of firms they use in disparate parts of their business. Many professional service firms have initiated more active cross selling and marketing programmes in response to flat or declining client 'wallets' for their services. The results of these programmes have often been disappointing. Firms need to tackle the challenge of revenue growth through a much more systematic and disciplined approach. Since revenue growth comes from clients and client service is everyone's business, overcoming the growth challenge touches all parts of the firm. Firms need to develop comprehensive answers to three fundamental questions:

- Who are the 'right' clients for your firm?
- What is the right type of relationship with these clients?
- How does your firm want to cover these clients to deliver superior service to the client and profitable growth for the firm?

Getting a professional service firm to agree to the appropriate answers to these questions and then developing a programme to implement a client coverage discipline across all practice areas of the firm is a formidable challenge but one that is an essential foundation to delivering sustained and profitable growth.

WHO ARE THE RIGHT CLIENTS FOR YOUR FIRM?

Selecting the right clients is the essence of firm strategy. Clients that turn out to be long term spenders on services are likely to drive success for their service providers. In a very concrete sense the right clients can define your success. Who are your defining clients and how were they selected, and how are their wallets for services likely to evolve? Consider the following issues:

a) Are your top tier clients, clients of the 'future' or clients of the 'past'?

Given the high level of consolidations in today's global economy many of today's household names are not likely to make it to the next decade. Investing in building intense client relationships with companies that are likely to be acquired is not as effective as investing in client relationships that are likely to be future winners. For example, Vodafone as a company did not exist 18 years ago, and the Hedge Fund industry has gone from \$150bn in Assets in 1998 to \$650bn today, while entire sets of well known corporate names have been consolidated into larger global enterprises.

b) Are your clients long term spenders? What is the structure of their wallet? How is it evolving?

For many companies, the professional services area makes or buys decision. In a recent survey we completed, we found that \$10bn+ companies spend three times as much as a percentage of sales on legal expenses as \$1bn companies, however the smaller companies outsourced 70% of their legal work to external counsel, while the \$10bn companies outsource only 30% of the much larger wallet. Furthermore the compensation per attorney was 65% higher in the larger companies thus attracting more specialised talent who are more demanding of their external counsel. Hence the smaller companies used external counsel for a much broader set of matters, and were much more dependent on them. Which of these two types of clients might be most suited to your type of firm?

c) There needs to be a tight linkage between the type of clients selected and your firm's perceived strengths.

We believe that a firm's senior partners should give considerable thought to careful selection of the strategic client portfolio. Strategic clients are those that directly alter your firm's strategy. In many ways the relationships with these strategic clients are the firm's most important assets and if carefully selected these relationships are likely to provide truly long term value. What does your firm's strategic client portfolio look like? Does it have a good balance between smaller,

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faster growing client wallets and larger but more stable wallets? Do you have a 'hedged' portfolio of clients? All of us are familiar with practice areas that are counter cyclical and provide the ballast for professional service firms in difficult markets, but having client diversity and depth is often even more critical. The objective of the strategic client portfolio is to identify a meaningful but limited number of clients that will be managed rigorously to create long term relationships that will drive the firm's growth and define its identity.

Clients provide a validation of a firm's strategy. Obviously if your firm's strategy is to be a global provider of services then you need to have a global set of clients, and these clients need to see you as a global provider. Very often a firm's strategic intent does not match its existing client set, should it change its client set or its strategic intent? This is often the case when a firm maintains close relationships with 'clients of the past'. While 'clients of the future' force their service providers to continuously develop new capabilities, the more sedate 'clients of the past' foster a mindset of complacency. Changing your client set and your service capabilities simultaneously is a risky undertaking unless there is reasonable assurance that a large number of your top tier clients are entirely supportive of your new direction.

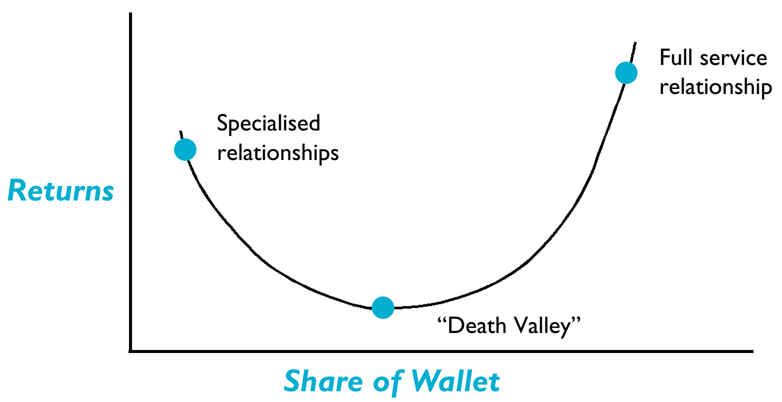
WHAT TYPE OF RELATIONSHIP DO YOU WANT TO HAVE WITH YOUR STRATEGIC CLIENTS?

Service providers can play different 'roles' in the client's overall set of needs, and participate in different parts of the client's wallet. Each of these decisions have very different implications for the economics of these client relationships and overall firm profitability. Some of the considerations in arriving at these decisions include:

a) Which parts of the client's wallet do you want the firm to participate in?
In analysing client wallets for professional services, we see three distinct components of the overall wallet:
The stable wallet – for routine and largely predictable needs. Clients carefully manage their stable wallet and are not inclined to accommodate rate increases. In fact over the past few years they have often demanded (and received) rate reductions in the stable wallet. Given the lack of pricing power for most companies, they reasonably expect real price declines in their stable wallet and this has often resulted in concentrating their businesses in fewer but more substantiated relationships with their service providers.
The cyclical wallet – where companies are executing two to three years expansion plans that require sustained capital expenditure over this period. For example the China strategy of most companies creates a sustained wallet for service companies in that region, just as the e-commerce investments of these companies created similar wallets only a few years ago.
The event driven wallet – where companies need to use professional services under time pressure or external events force the company to take action, if only for defensive reasons. Examples would be a merger or a government audit. Event wallets tend to be far less frequent occurrences than the other two parts of the total client spend. However the event wallet has less pricing pressure because of the greater urgency to act and dependence of the client on the provider to help the client address the issue at hand immediately.

Which one of these clients wallet does your firm want to pursue on a particular client or your defining clients?
Do you want to have the base of your relationship in the stable wallet or the event driven wallet? For example, a high value legal advisor that focuses on cross border legal deals obviously begins with the event wallet and then seeks to cross sell into the cyclical wallet. A larger firm with global resources might focus on the stable wallet and then cross sell into other parts of the wallet. Leading with the event wallet implies that the firm cannot afford the same level of continuous coverage of the client when there is no available spend, quite unlike a firm that has a major role in the stable wallet and so is practically wired into the client's ongoing operations.

b) Do you want to have a full service or a specialised relationship with your client?
In our experience, there are two generic types of client relationship, which consistently deliver high returns. A full service relationship, which is based on a broad coverage of the client's needs, effective cross selling into the various parts of the client wallet, and a high share of wallet relative to the cost of coverage is often used by large global service firms. The specialised relationships with clients are based on a relatively deep participation in only one part of the client's wallet, with limited cross sell, and a tightly controlled cost of coverage. In our view firms need to choose which way to go. If they are to build full service relationships they need to capture maximum share of wallet, relative to the cost of coverage, if they



seek to maintain specialised relationships they need to position themselves accordingly (see graph below).

In our experience there are many firms where strategy is mismatched with the portfolio of existing client relationships. These firms find themselves at the bottom of 'death valley' with neither the focus, value and productivity advantages of specialised relationships nor the scale advantages of full service relationships. The choice of the type of relationship that a firm wants to have with its defining clients is central to a long term strategy of managed client driven growth.

c) How much do you want to 'invest' in your client relationships to create the 'wallet of the future'?

Regardless of the type of client relationship that a firm wants to have, it is imperative that a firm views its client relationships as 'assets'. The asset view of client relationships implies the need to invest in these relationships in order to keep them engaged with your firm over several spending cycles. Investing in client relationships involves the commitment of resources in advance of the time the spending cycle begins. Clearly the further in advance of the start of the client spending cycle the dialog with the client begins, and the education of the client takes place, the more likely it is that the firm will be selected as the 'first choice' to share in the wallet. The greater the investment in the client, the greater the likelihood of 'share of mind'. Today's share of mind is tomorrow's share of wallet. The greater the investment in client relationships, the greater the likelihood the firm will dominate the 'wallet of the future' versus having a firm that continues to have a high share of the wallet of the past but is not well positioned for the 'wallet of the future'.

Defining the type of relationship that the firm wants to have with its strategic clients is essential to defining the economics and identity of the firm. The broader the definition of the relationship, the more the firm needs to leverage its platform into larger 'share of wallet' on the clients, the narrower and more targeted the relationships, the more it becomes essential for the firm to achieve 'share of mind' on well defined parts of the wallet. Failure to choose clearly and definitively, results in a confused set of client relationships and uneven financial performance.

HOW DOES YOUR FIRM WANT TO COVER YOUR STRATEGIC CLIENTS?

The ultimate test for a professional service firm success is to become the 'first choice' of the 'right' set of customers, in the 'right' part of the client wallet. However, in order to execute effectively on this, the firm needs to address three fundamental issues around client coverage and service delivery:

a) What is the right coverage model for the client strategic relationship?

Many firms have moved towards the single relationship manager for their large complex and global relationships. While this might well be the most effective model in many high value service industries, we are beginning to see other equally effective approaches to client coverage. To begin, many clients are moving to specialised relationships in different buying centers. Hence, cross selling is becoming more difficult; 'cross referrals' are more likely. To the extents that cross selling, (ie. the bundling of service from different parts of the firm) is possible, the more a single relationship manager for the entire relationship becomes something to consider. The more the firm is engaged in cross referrals rather than cross selling, the more likely it is that the firm will adapt a collective coverage model with different people handling discrete parts of the relationship but sharing client information and insights.

b) How to achieve alignment of different practice areas around strategic clients?

One of the reasons why cross selling (or cross referrals) has not been as effective in professional service firms is that the different practice areas have different client level priorities. A strategic account for one area may not be important for another area either because of lack of the appropriate resources, or the inability to service this client profitably. The lack of alignment between the practice areas often makes it difficult to realise the full potential of a coordinated approach to strategic clients. The greater the cross linkage of practice areas at the client level the greater the 'economies of client scale' that the firm can achieve and the greater the potential overall intensity of the client relationship.

c) How can client coverage technology and information improve the effectiveness of the coverage team?

The challenge for most professional service firms is to leverage the client insight and knowledge of their colleagues to build differentiated coverage and service delivery so that the client perceives a superior service. As firms have become larger and more global, the ability to integrate the work of all professionals covering the client becomes more challenged. Professional service firms work best when everyone is within 'line of sight' – unfortunately the economics of the client and the firm require much larger geographically dispersed terms of people. Without the widespread use of simple 'universal' technology the productivity advantages interest in larger teams is not realised.

Firms that develop a systematic process around clients – selecting the right clients, defining the right type of relationships and developing an efficient coverage model that can be scalable and productive – will likely deliver superior client relationships and premium financial returns.

Peter Mathias has a doctorate at the Harvard Business School and worked at Goldman Sachs before setting up his own firm Mathias & Co to address the unique challenges of high value professional service relationships. Contact: peter.mathias@mathiasco.com

This article originally appeared in ***professional marketing*** magazine. For further details go to www.pmint.co.uk