Profiting from Key Clients

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It is widely accepted that the 'Pareto effect' applies to most businesses, with 80 per cent of turnover coming from 20 per cent of the client base. Indeed, my experience of many professional-service firms operating in the commercial sphere is that the numbers are even more compelling. It is not at allunusual for 90 per cent of revenue to emanate from the top tenper cent of client relationships.

In this light, it is understandable that firms have made deliberate and decisive moves to ensure that these highimportance relationships are a strategic priority. This has been achieved through a plethora of techniques, including key-client programmes, 'client listening' systems and advanced approaches to relationship management. Today any firm worth its salt has an initiative of some description to ensure that this part of its client base is well managed.

In general, there should be clear and sequential priorities in managing a key-client approach. Initially, the objective must be to secure the relationship and protect it from the predatory interests of other firms. Without this foundation, future work carries the same risk as any house built on sand.

Once the relationship is secure, the focus can shift to maximising revenue streams from current lines of business, while at the same time exploring opportunities for service expansion through cross-selling.

The final stage focuses more strongly on the implementation of these cross-selling initiatives. This forms the third apex of the keyclient strategy triangle. If successful, the approach creates, not only extremely valuable, but also durable, long-standing relationships.

While revenue growth is often the core objective of such programmes, there is also a compelling profit motive that firms neither fully understand nor adequately exploit. If properly managed, long-standing key clients contribute disproportionately not only to turnover but also to profit. With an understanding of why this is the case, firms can build strong strategies to maximise their position.

Research outside the professional-services sector points to five reasons why enhanced profitability can be derived from clients with longevity, as compared to the 'base profit' one might expect from a one-off client interaction. While there may be some debate as to how much such thinking applies

to professional services, there can be little question whether it has relevance. The highly leveraged way in which profit is impacted in firms by relatively minor adjustments to the economic model must make exploring the potential of even marginal changes attractive to managing partners.

The first profitability impact of longstanding clients arises from savings in acquisition costs. The statistic that it costs (at least) seven times as much to win a new client as to retain an existing one is well known. What is not so commonly enunciated is the impact of this cost-saving for the firm - which, of course, is enhanced profit.

The second profit enhancer flows from increased purchases from the same client (remember the key client objectives of maximising existing revenues and then introducing new services?). Increased purchases are made with a lower marginal acquisition cost and enhanced internal utilisation, both of which improve profit.

Over time, as client and firm get to know each other better, there are opportunities to reduce costs. Systems can be aligned, project management can be made more efficient and reporting can be streamlined, for example. Managed correctly, cost reductions flow to the bottom line.

Referrals are a very effective way through which long-term clients impact positively on the margin of professional advisors. Referrals may be within the client organisation, for example, to a different business division, or to a potential client. Their value, once again, lies in the significant acquisition cost saving the firm enjoys, and that contributes to net profit.

In the current climate, incredulous eyebrows may rise at the suggestion that longer-term clients allow for a pricing premium. It might, perhaps, be better to say that longer-term client relationships allow for less pressure on rates and forced price reductions. Regardless of which position one believes to be true, the net effect will be a contribution to profit (either its building or the limiting of its erosion) arising directly from that client relationship.

But why should it be easier to maintain quality pricing with a longstanding, satisfied client? The cost of switching professional advisor is often much more significant than firms appreciate. This is especially so when the firm has a deep knowledge of the client’s business, its history, its culture, its objectives, the way it likes to operate, and enjoys the trust and respect of key decision makers. This all has a value reflected in a pricing advantage.

By applying more insight, understanding and management to these five drivers, firms will create more profitable long-term client relationships.