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Using Reality as Your Targeting Guide

By Darryl Cross

As their marketing and business development programs continue to evolve, many law firms realize that there are natural limits to the amount of time, resources and money they can commit to proactive growth initiatives.

The realities of the legal industry, where the practitioners are often the primary sales force, have led many to start exploring business development strategies that target a small subset of their top clients for generating new sources of income. The escalating price of mass marketing campaigns, the increasing fickleness of clients and the consolidation of legal providers have also contributed to this trend.

This is in contrast to traditional companies such as those that make up the *Inc* 500, which is a list of companies with the fastest growing annual revenues over the past 3 years. *Inc* 500 companies spend over five times more per year on marketing when measured as a percentage of total revenue.

There are an infinite number of choices on where to seek new streams of income. Offering new service lines, pursuing prospects, increasing overall market awareness and focusing on the existing client base are all reasonable choices. However, since the purchase decision in the legal industry is so heavily dependent on deep, long-term relationships it is this latter choice, targeting existing clients, that has the most promise for those seeking to proactively find new profit sources. Since it is also five times less expensive to keep a client than find a new one, it also is the most efficient way to control the firm's financial destiny.

Decisions have been made in Executive Committee meetings around the nation to focus a large share of time and resources on "top clients." For some, this may be a simplistic exercise of ranking clients by their total revenue contribution to the firm. The list generated might be a list of twenty clients, for example, that each brought in a million dollars over the past 12 months. However, not all million-dollar clients have equal potential for future growth. When deciding which specific clients to target for business development efforts, one must weigh both the ability to increase familiarity of the firm's services to the client as well as its future growth potential.

The Box

A useful tool to use when selecting targeted clients is to use the Business Development Reality Box (the Box). The Box (see Figure 1 on page 3) is defined as a four quadrant cube with two main axes. One axis is an increasing measure of the level of familiarity the client has with the firm's expertise, comprehensive services and ability to deliver complex legal solutions that differentiate it from similar law firms. The other axis is an increasing measure of the future revenue *growth* potential of the client's legal business. The growth axis is not meant to measure what work we are doing today for the client, but rather what opportunities can be tapped for tomorrow.

As shown in the illustration, there are hard boundaries that limit what can be achieved. These form the walls of the Box. For example, there is a limit as to how

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the firm's services and resident expertise. This may be defined by client perception or delivery capacity. Likewise, there are limits on future growth potential since there may be only so much more the client may be willing or able to give in the form of new legal work.

Selecting Clients On Which to Focus

Business development, also known as sales, is a discipline that attempts to proactively affect the buying decision of a client through a series of one-on-one, relationship driven action steps. It differs from marketing, retention and service actions that attempt to influence opinions or attitudes over time. Business development's goal is to influence immediate action, whether that involves a new transaction or the next step along the road to one. Therefore, picking target clients for concentrated efforts should not be as simple as generating a list of clients sorted by gross billings. A list of such clients would show a wide range of client profiles.

At a typical law firm, a top-20 client list may be made up of several $1 million clients. However, one might be due to a one-time event such as a bankruptcy filing. Another might be one that has been with the firm for over 20 years, but has never been open to additional services. Yet another may be generating sizable revenue, but it is 50% less than it was just 2 years ago. There may be a few that have contributed more and more to the firm for several years and their businesses are rapidly expanding. Thus, a simple sort-and-print exercise based on a cash column is too unsophisticated for an industry that requires business development to be extremely fine tuned. Different metrics must be used.

Using the aforementioned Box, a firm can begin to make strategic judgments on client targets. For example, a firm could generate a list of its top 100 clients over the past 36 months and plot them based on their current familiarity with the firm in conjunction with their potential revenue growth. Gauging familiarity should be based on how many attorneys and services the client is using today, how complex are the matters the firm is handling for them and how regular is the client being communicated with about how the firm can help their business. Potential revenue growth is based on elements of the client's company or industry, their willingness to offer a greater share of the work to the firm as well as the reality of current work recurring in the future.

The Box requires a realistic approach and the acknowledgment of limits. Not every client has room to grow. Every piece of work is not a foreshadowing of future opportunity. Some clients just are not willing or able to use more of your services in the future. In short, you should only focus client-oriented, business development resources on those targets where you have room to move them towards the upper right quadrant of the Box.

The Targeting Goal

Ideally, you need to target those clients where you can use targeted business development initiatives to increase familiarity with the firm to clients with a high revenue growth potential. Your strategy should be that movement of clients in the Box should always have a positive slope (upward and to the right).

Spending time on increasing familiarity with no growth potential (a flat slope), may be a good retention or service initiative, but it is a bad use of business development resources. Spending time trying to move clients that are close to their limits of expansion is also a poor use of limited resources (see Figure 2, at right).

In addition, expecting continued growth from a client with no efforts to increase familiarity and expand relationships is dependent more upon the charitable attitudes of a company to give "gifts" that take the form of new work. This may be based on past results, but rewards from technical expertise should not be confused with business development execution. Likewise, it is important to maintain relationships with important clients, but retention and service efforts have completely different objectives. Targeting clients to expand (that are known as "important clients of some of our top lawyers"), but do not have room for growth is a futile exercise.

The Seven Client Types

There are seven main types of clients that can be defined using the Box.

Commodity

These are clients that consistently send the firm a high volume of matters, but they are mostly to just a few lawyers and not overly complex pieces of work. They are highly price sensitive, use a number of other firms and could switch allegiance at any time. It would be very costly to move them to a more ideal state.

Lottery

This type of client is usually referred to the firm due to a conflict, need for local counsel or other random event. The matters may be very large, but

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Figure 1

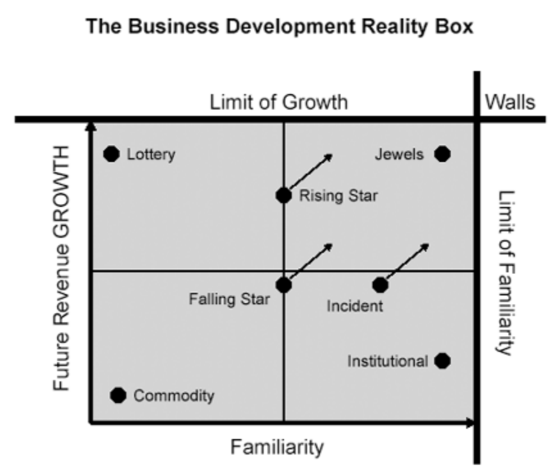
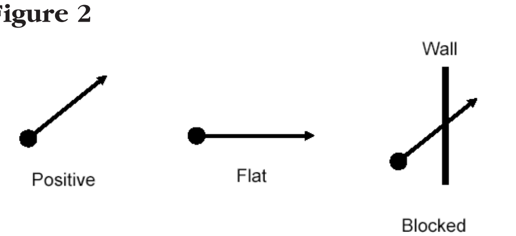


Figure 2



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they came unexpectedly through no proactive effort of the firm. They might turn into a long-term client, but it may be completely out of the firm's control.

Institutional

Many firms have clients that have been with the firm for years and constantly send them large volumes of work. However, the client uses the firm for only one practice or area of the country. They are highly familiar with the firm, but they have demonstrated over time that they have no intentions of expanding the relationship, which is usually based on one attorney.

Jewels

These are the cash cows. Losing them would be detrimental to the financial standing as well as the reputation of the firm. They are loyal clients that already are very familiar with the firm and send it a great deal of work. Trying to wring out every last dollar from them is a risky proposition. This is typically where a great deal of retention and service initiatives should be focused instead of business development.

Incident

These clients are large because of an incident or event. They may be a former mid-level client that was sued, merged with another company or filed bankruptcy. While they generate a great deal of revenue, it is unlikely it will be repeated. They are slightly different from Lottery clients that come out of nowhere. These are from your past client base, and they can be mistakenly viewed as a future "key client" based on a single moment in time that is not representative of reality.

Falling Stars

Clients are known as falling stars when they are still generating significant revenue, but not as much as they used to be. This might be due to retiring partners, the client's business shrinking or a weakness in the relationships that cause the client to start sending portions of the work elsewhere. It is important to view them from the point of view of what they used to generate and how to get them back to that level again.

Rising Stars

These clients represent the future of the firm. Each year, they contribute more and more revenue, use multiple areas of the firm and have relationships with many of the lawyers. In addition, they are companies that are expanding in terms of net income, employees and other factors. They generate a tremendous amount of profitable work from issues such as acquisitions, financing, real estate and litigation that are typical of successful companies in dynamic industries.

WHERE TO FOCUS

If you have limited time and resources, you should spend them on clients you can affect through your own efforts. It is not a question of what *could* occur with a current client. It is predicting what is likely to occur and taking steps to make it happen. That is the essence of strategic business development: making choices, taking action and following through.

If you use the Box and agree with its concepts, you will see that you should spend most of your business development efforts on Incident, Falling Stars and Rising Stars client types. The others are important as well and need to be properly cared for. However, when a group of attorneys only have time to belong to *one* client team, it is critical to make a sophisticated choice on which one. Likewise, if a managing partner can realistically only conduct a handful of client satisfaction interviews per quarter, there must be a strategic selection process.

The other client types mentioned have great importance to the firm. They generate revenue, contribute to the firm's standing, and intellectually engage the lawyers. However, you cannot hitch your wagon to a train of hope. It really would be nice to be able to cross sell, expand and develop every client to match the full capabilities of the firm. That is not reality, and that is why the approach does not mesh with business development.

CHOOSE WISELY

Whenever you have to make choices, you try to take the best information you have and make a reasonable assumption, based on risk and reward, of what to do. Sometimes you do not have all the facts, but you do have ways of eliminating the most risky and low probability options. Business development is highly dependent on this principle. There is a high opportunity cost from wasted time, and this is amplified at most law firms where non-billable time is an extremely scare commodity.

Relationship intelligence is also a key tool in selecting targets and managing the business development process. Firms can use CRM technology and other process-supporting infrastructure to identify who knows whom, communicate across multiple offices and practice silos as well as execute the activity driven plans to create tangible results.

Law firms must also constantly be looking at engaging prospects, proper market positioning, building referral networks and overall awareness building to be successful. So, if only a portion of this time will be spent on business development efforts targeting top clients, choose carefully. And, choose *wisely*.

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