Who ARE Your Best Clients? And What Do You Do Once You Know?

Key Client Evaluation Is a Strong Practice Management Tool

By Michelle Golden

Client selection is the core element of firm profitability and appropriate allocation of precious firm resources. Selection of future clients should begin with determining who your best clients—your Key Clients—really are. Should the qualities and traits that constitute a Key Client be the same across all firm service and all client sectors? Perhaps. But should the order of importance among those many traits be universal? Absolutely not.

Traditional client grading methods are flawed

The 80/20 Rule. Historically, identifying a firm's best clients typically meant listing top revenue generators and possibly demoting those with low realization. This approach is flawed, though. If it weren't, you would simply apply the Pareto Principal—also known as the 80/20 rule, wherein the top 20% of clients represents 80% of revenues—and you'd sack the remaining 80% of your clients. Think how much capacity you'd create! What holds you back is the knowledge that those remaining clients aren't all bad; if they were, it would be a no-brainer to let them go.

The reality is that your top-dollar clients may not always have the greatest potential for expanding the scale and scope of the work you do. Ask yourself whether working with them is a genuine pleasure and whether they appreciate and value your services more than your other clients. You may find that, with extra nurturing, some lower-tier clients could really thrive in their businesses—you could add enormous value—and they could become A clients.

It bears mention that low realization results from one or more internal project management shortcomings, such as: little or no pre-engagement due diligence, poor pricing, not keeping scope creep in check and not managing client expectations well. Keeping that in mind, realization is not a fair measure of a particular client's quality, and it could be argued that revenue isn't either if there's any chance you sold yourself short on price. Would it be fair to conclude, then, that there are Key Clients who aren't top revenue generators and who might reflect low realization?

A-B-C grading system. A slightly better—but still intrinsically flawed—approach to grading clients is to distribute client lists to your client relationship managers, asking them to rate each client as an A, B or C. You will find vast inconsistencies from one grader to the next. In addition, even the most well-intentioned graders begin to waffle as they consider their relationships with their clients (*e.g.*, "but we went to college together") or the clients' relationships to one another (*e.g.*, "Joe *is* a lousy client, but his sister owns XYZ Co. so we tolerate Joe"). It isn't long before the inconsistencies lead to a grading system without integrity. But at the basis of this inconsistency is an important truth: *the soft stuff matters*. This further underscores the inherent mistakes in using revenue as *the* measure of client quality.

These traditional methods of grading clients might seem to work initially, but they fall flat when it's time for action because those who are expected to act on the information know that it is incomplete. In our hearts and our guts, we know we didn't consider certain important facts. There is enormous value in the nature or longevity of relationships, a client's standing in the community, or the personal satisfaction of working with the client. The grading approach must be "bought into" by everyone for action to occur.

What to do for your firm's Key Clients

- Explore to better understand their needs
- Devote extra resources (R&D) to proactively seek and address those needs
- Build products and promotions around Key Clients
- Devote more time to nurturing them (focus where it matters most)
- Implement contact programs for consistent "touches"
- Prioritize routine contacts and workload to favor key Clients

	Ptn A	Ptn B	Ptn C	Ptn D	Ptn E	Total
Objective Criteria						
Great Price for Work Performed	4	3	1	5	2	15
Acceptance of Pricing Structure	1	1	7	3	4	16
Client Preparedness (on schedule)	6	2	4	4	6	22
Client's Business is Profitable and Strong	8	5	3	6	1	23
Recent Avg Collected	5	9	6	1	5	26
Prompt Payment	7	4	2	10	8	31
Provides Off-Season Work	11	7	5	7	3	33
Client Buys Multiple Svcs from Firm	2	6	8	9	10	35
Client Has Multiple Points of Contact with Us	3	11	10	2	12	38
Client is in our 3 Core Industries	9	8	11	8	9	45
Each Partner's Weight for "Objective Criteria"	60%	70%	60%	40%	60%	58%
Subjective Criteria						
Accepts/Applies our Advice	4	7	5	3	1	20
Attitude/Appreciation Toward Firm	6	9	2	1	6	24
Client's Service Needs/Potential	11	5	6	2	2	26
Ethical & Honest	9	2	1	7	9	28
Communication/Dialogue (2-way)	2	4	10	5	8	29
Potential for Longevity	7	13	4	4	3	31
Potential to Produce Over $20K in Firm Revenue	1	10	11	6	5	33
Calls Me First	3	8	8	9	7	35
Client Reputation/Standing in Community	12	3	7	12	4	38
Quality Leadership	10	1	9	10	10	40
Each Partner's Weight for "Subjective Criteria"	40%	30%	40%	60%	40%	42%

- Returning calls to Key Clients first
- Scheduling priority of audits and other projects (think American Express Platinum card or Frequent Flyer privileges)

Why 'grade' clients

There are a number of reasons for firms to familiarize themselves with their client makeup and become more aware of how important one client is relative to another.

Prioritization. The big reason that comes to mind is today's increasing capacity problem. With qualified people harder to find and keep, many firms are challenged to complete the work they already have, on time and as promised. When choosing between two files to pick up, or making the tough choice to be late with something, wouldn't you want a quick and reliable way for you and your team members to determine which file is most important?

Better service. Once you know who your Key Clients really are, you can focus your limited energy around serving them at the highest possible level. (See sidebar for some ideas.)

Purposeful growth. Client assessment goes hand-in-hand with marketing. Broad, general marketing to the "world" consumes enormous time, energy and dollars—and it's much less effective than targeted marketing. If you seek new clients, the first question any marketer, and most referral sources, will ask you is "what clients are you looking for?" Quite frankly, most firms don't know. Yet once you have a solid understanding of what traits and qualities you most greatly value, you will find you're able to answer that question once and for all. Only then can you most effectively apply your marketing energy and resources to bring in the "right" sort of clients.

Trimming excess. One of the things you don't want to think about—much less do—is fire clients. Yet, when you don't shed poor clients, you end up: (1) serving customers that you (or your team) probably don't like; (2) continuing to work for people who don't value your services, balk at every bill or just don't pay; (3) burning out your good people (who aren't easy to replace) by burdening them with unnecessary work hours during peak times; and (4) robbing your best clients of yourself because you're too busy or tired to be as proactive as you'd like to be with them. If those reasons don't convince you, try tallying up the revenue of those "wrong" clients, then consider the potential revenue if you were to spend the newly opened capacity providing Key Clients with high-value services. Or how about just releasing the capacity and enjoying a better quality practice and an improved work/life balance?

Performing an effective client evaluation

Most firms are comfortable assuming that their top revenue clients are their Key Clients. But after embarking on an exercise to define what actually constitutes a great client (for them!), and then, measuring their clients against their unique criteria, firms often find little correlation between prior year receipts and client quality.

Measuring the soft stuff along with statistics takes a bit of work, but it is possible to "account for" the human side of the client relationship—the subjective factors. These are ultimately "judged" rather than measured, but by following the steps outlined below, you can develop a questionnaire that captures individual judgments and perceptions so they can be compiled and even measured.

To effectively assess your client base, you should consider the perspective of everyone in your firm who interacts with a given client. Then, strike an appropriate balance between subjective criteria and the objective, or scientifically measurable, criteria.

Step 1. Develop and rank criteria most/least important to firm.

a. Identify all potential criteria your firm wishes to consider (See sample)
b. Sort criteria into objective and subjective categories
c. Narrow these criteria to a manageable number of items (say, 10 of each) through facilitated discussion
d. Allow decision-makers (partners and managers, or a designated Key Client Evaluation Team comprised of people of multiple levels (my favorite choice)) to individually prioritize the 10 objective criteria, ranking them 1 to 10 ("1" being of highest importance). Repeat for subjective criteria.

e. Align results side-by-side (criteria down the left, voters across the columns), and add the scores for each row (see sample). Sort the lists by lowest total score (most important) to highest.

f. Facilitate a discussion about the results. Bring your group to conclusion that the result, or a modified result (through the discussion) is, in fact, a satisfying representation of the core elements of a Key Client of your firm.

Step 2. Develop the tool (internal questionnaire) that will be used to evaluate clients.

a. Use multiple-choice format rather than 1-5 scoring. This promotes thoughtfulness when answering and helps prevent "gaming" the system.

b. Craft questions carefully to avoid injecting bias. Develop one question per criteria item. To help prevent gaming the system, try to switch the order of answer choices (*i.e.*, don't always place the optimal answer at the top).

c. Quantify answer choices to prevent differing interpretations. For instance, if asking "What is your sense of this client's longevity with our firm?" put years beside each choice to clarify, such as: long-term potential (7+ years); average potential (4-6 years); low potential (2-3 years); very low potential (one year or less). Or, if asking "How would you rate this client's leadership?" elaborate on single-word answers in this way: Visionary—willing to experiment or take some risk; Average—hesitant to

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Sample Criteria

Objective Criteria	Subjective Criteria
Client Taps Into Multiple Points of Contact at Firm	Organized (Not Always in Crisis Mode)
Currently Uses Multiple Services of Firm	Attitude/Appreciation Toward Firm
Provides (Quality) R06Feb07-ltripr-h.zipeferrals	Client Service Needs (Potential)
Provides Off-season Work	Ethical & Honest
Client is in our Core Industry(s)	Communication/Dialogue (2-way) is Strong
Client's Business or Product is Solid, Exceptional	Potential for Longevity
We Have Added Wealth (or Well-Being) to Client	Accepts/Applies Advice, Respects Our Opinion
Consistently Prompt Payment	Level of Business Sophistication/Savvy
Client Preparedness (e.g. PBC list complete on schedule)	Client Reputation, Standing in the Community (we are proud to be associated with them)
Risk Level Inherent in Work	Demonstrates Loyalty Toward Firm
Client is the Right Size for us (perhaps by Annual Sales/ Receipts of Client's Business)	Client has Quality Leadership and Hires High-Quality (Qualified) People
Client Stability (in business 3 years, expects to stay in business)	Price Acceptance (Doesn't Balk at Initial Prices or Change Orders)
Client's Business Performance is Profitable and Strong	Have Made a Difference in their Life/Business
Allowance for Teaching Opportunties	Potential to Produce over $(X) in Firm Revenue
	Client Desires Business Development/Growth
ITEMS BELOW ARE IN FIRM'S CONTROL, BUT VALID CONSIDERATIONS:	Client Has Good "Social Capital"
Receive Good/Great Price for the Work*	Fun and Challenging (or Favorite Type of) Work
We Have a Succession Plan for this Relationship*	Seems Receptive to Additional Services
(X)% of Work is Delegated and Performed at the Right Level*	We Like The People
Average Collected*	
Three-year Collections on Upward Trend*	
We Have the Right People in Place to Perform This Work*	

try new things without assurance; Poor—unable to see the big picture or unwilling take action.

d. Create your scoring mechanism (a scoring key) that takes into consideration the items your firm ranked as most and least important. This is your firm's unique weighting.

e. Remove from the questionnaire all objective criteria to be provided by management (prior year's revenues, average days in accounts receivable, *etc.*) so people don't waste time guessing or looking up answers that management can easily obtain.

Step 3. Decide whether to evaluate all clients, or just some. Some approaches are:

a. Use a certain revenue threshold; $5,000 is a popular cutoff.

b. Focus on a certain industry, service area or office.

c. Select a certain number of clients per relationship manager.

d. Start with "top-revenue" clients, but invite everyone to include any additional clients they wish.

Step 4. Begin the process.

a. Every involved team member completes one questionnaire per client to be assessed. You want to include the perspective of everyone who interacts with that client.

b. Instruct team members to skip questions if they are unsure. Guessing affects results, but skipping questions doesn't.

Step 5. Tabulate the data.

a. Collect and tabulate the data. Report by listing clients sorted according to your unique prioritization and weighted scoring.

b. To effectively leverage the newly captured information, results must be interpreted and discussed. Experience has shown me that initial reactions of surprise (at clients' relative positions) are followed by a lot of head nodding and agreement.

c. Incorporate the findings with firm processes, priorities and marketing plans to ensure the firm uses resources in the most beneficial manner.

Note that many of these items are *firm*-controlled (profitability, pricing, staffing, *etc.*) and should certainly be reviewed, but never held against the client. For instance, complaints about bills for services not discussed and approved in advance also shouldn't be held against the client. Rather, such queries should be expected since they are due to having failed to manage the client's expectations about the work and the price before the work was performed. It would be equivalent to your mechanic replacing parts of your car without your pre-authorization. It simply shouldn't happen.

The sample criteria shown are merely a starting point. Your firm may have very different ideas. While you could certainly assess clients against more than ten criteria of each type, we find that it becomes too difficult to prioritize a large number of criteria. Keep it simple, and keep it relevant. An assessment true to your firm's values will prove enormously useful to your firm today, and it provides a valuable strategic knowledge-base through which to direct your firm well into the future.

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