

Client Attrition

More Tools to Stem the Trickle of Lost Work

By **Kris Satkunas**

One of the best ways to hone a firm's business strategy is to dig deeper into the assumptions relied upon to devise that firm's business strategy. At the Redwood Think Tank, we reported not too long ago that law firms, on average, lose work from existing clients at the rate of 1% per month. See "Client Attrition Analytics: Firms Can Control Whether Clients Stay or Go," *Accounting and Financial Planning for Law Firms*, January 2007. We based our estimate on a study of four firms that experienced remarkably similar rates of attrition.

Since then, we were asked whether our estimate would hold up if we studied a larger number of firms. We also wondered whether some firms experience lower rates of attrition, and if so, why.

So we set out to do a follow-up study, and pulled data from 23 random Redwood Analytics clients that participate in the Redwood Benchmarking Program. We cataloged the clients that

had provided work in 2005, and evaluated the attrition associated with those clients on a monthly basis through December 2007.

RESULTS

Our follow-up study provided some interesting results. First, our client attrition estimate held up, even with the much larger sample size. In our second study, we found that average monthly attrition of hours from existing clients was 1.2% per month (or annual attrition of about 15%). Eighteen of the 23 firms studied fell within 1 standard deviation of this average. [See Fig. 1, Attrition of Existing Client Hours.]

Second, we found that one of the 23 firms experienced much lower client attrition than the rest — half that of the

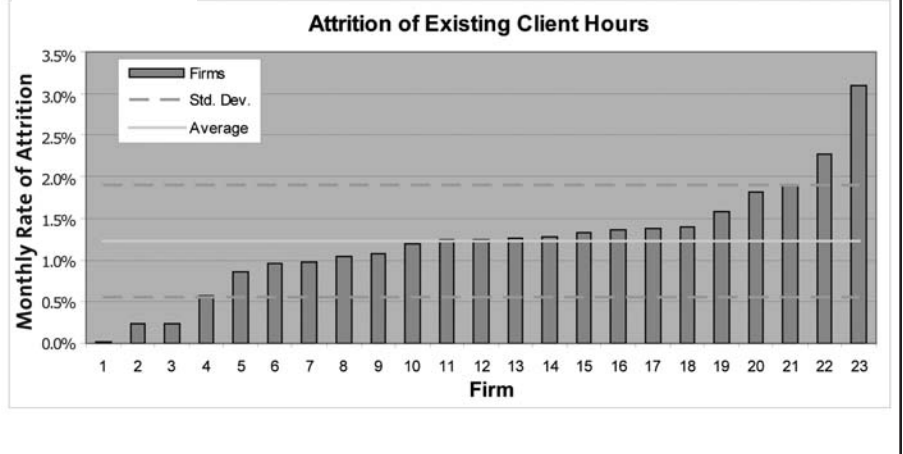
We know from our original study that smaller clients generally are more likely to attrite than larger clients.

other firms. When we looked at this firm's client base, we discovered a very low mix of litigation work. So we hypothesized that firms that have a high percentage of litigation within their practice mix were likely to suffer higher rates of attrition than firms with less litigation.

After testing this hypothesis, we came to two conclusions: 1) Firms ought to be aware of their client attrition rates, and have a plan in place to

Kris Satkunas is the Director of the Redwood Think Tank and leads Redwood's research efforts in studying and formulating solutions to law firm management issues. She may be reached at ksatkunas@redwoodanalytics.com or 804-288-5185 ext. 222.

Figure 1



keep the work they consider crucial. 2) Firms with substantial or growing litigation practices should recognize the susceptibility for attrition and plan accordingly.

THE BIG GUNS

We know from our original study that smaller clients generally are more likely to attrite than larger clients. They often don't have a long history with firms or the deep, multiple ties to firms that generally result in client loyalty. So, to look at what client attrition looked like among firms' core business — their larger clients — we decided the next step

[Firms with higher concentrations in litigation suffered greater rates of attrition ...

was to separate out the smaller clients.

To separate out the white noise created by the smaller clients, we ranked clients by decile. Clients are ranked according to size in terms of billable hours provided to a firm, and the top 10% of clients by this measure are contained in Decile 1. The other 90 percent fall in Deciles 2 through 10.

Client decile rankings are a tool we use at the Redwood Think Tank to focus on a firm's most crucial relationships. Because Decile 1 contains the top 10% of the firm's largest clients, this decile represents the vast majority of a firm's billable hours. In fact, the clients in Decile 1 typically account for 80% of a law firm's workload.

In our current study, we examined the hourly attrition rates of participating firms' Decile 1 clients. Our analysis produced results that at first glance, appeared surprising. We found the attrition rate of hours among Decile 1 clients was 1.6% per month — or 19%

Figure 2

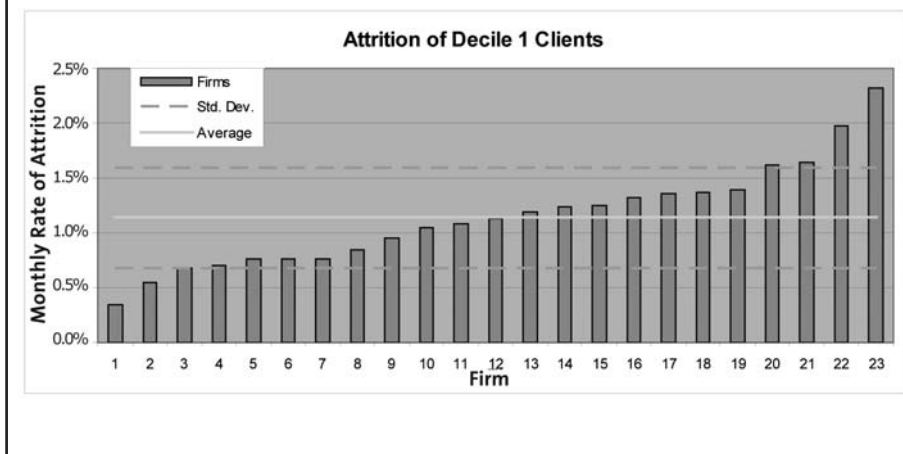
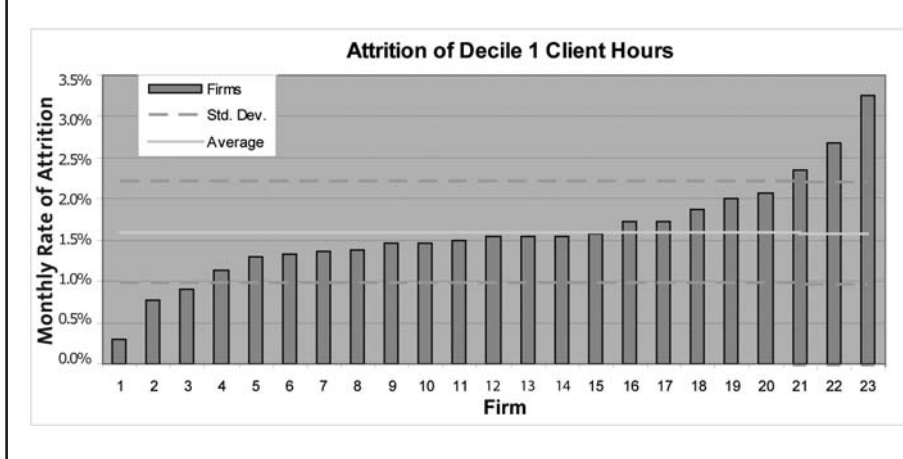


Figure 3



annual attrition. This was higher than the average attrition rate of clients overall, which was 1.2% per month (or 15% annual attrition).

If smaller clients attrite at a higher rate than larger clients, why was the attrition of hours from Decile 1 clients higher than the average rate of overall client attrition? As is so often the case, the devil resides in the details. In this case, our answer lay in comparing the attrition of the number of clients providing work to the firm — with the attrition of billable hours provided by each client. For example, one firm may have had two clients that ceased sending the firm business in a particular month. Another firm may have lost no clients, but several clients reduced the

number of billable hours of work they provided to the firm.

As readers might expect, smaller clients left firms at higher rates than did the larger clients. The monthly attrition rate by client count was 2.8% for all 2005 clients, but only 1.1% for 2005 clients in Decile 1. [See Fig. 2, Attrition of Decile 1 Clients.]

However, because the clients in Decile 1 account for 80% of a firm's billable hours, losing clients from that Decile has a far greater impact on a firm's total billable hours than losing smaller clients. So it was with our study. The monthly attrition of client hours was 1.2% (15% annually) for all 2005 clients, but 1.6% (19% annually) for billable hours from 2005 clients in Decile

1. [See Fig. 3, Attrition of Decile 1 Client Hours.]

The attrition rates for billable hours from Decile 1 clients were remarkably consistent; 17 of the 23 firms fell within 1 standard deviation of the norm.

An attrition rate of nearly 20% among the hours provided by Decile 1 clients — which represent 80% of the firm's workload — should cause firms to take notice. That's a substantial amount of billables to replace before you even can begin to grow the firm.

DEFINING 'ATTRITION'

Readers may be inclined to want to define "attrition" only as either a complete loss of client business or as loss of work from clients. But it is important to track the attrition of Decile 1 clients by both client count and billable hours to gain insight as to how well a firm is managing these important relationships.

For example, take a firm that loses 2% per month of its Decile 1 clients by client count — but the hours from those clients only attrite by 1% per month. One potential explanation for this variance is that the firm is losing the smallest of its Decile 1 clients, rather than its larger, more crucial clients. Alternatively, the firm may be obtaining more work from the clients that are being retained.

Either way, the lower hours' attrition rate may be some good news that helps counterbalance the 2% client attrition rate.

On the flip side, if the monthly attrition of a firm's Decile 1 clients is 0.5%, but the firm's hours attrition from Decile 1 clients is 2%, this could mean that while the firm is holding onto its largest clients, it is not expanding these key relationships. A firm that pays attention to this type of early indicator may be able to jump-start important relationships before attrition takes off.

ATTRITION AND LITIGATION

Did our hypothesis about dependence on litigation work and rates of client attrition hold up? It did. We found a strong correlation between the amount of litigation work within a firm and its attrition rates. [See Fig. 4, on page 6, Litigation Composition and Monthly Attrition of Existing Client Hours.] According to our results, firms with higher concentrations in litigation suffered greater rates of attrition (whether defined as loss of entire client relationships or billable hours). These results are not surprising; churn is an expected issue with litigation — once a matter is concluded, the work goes away and needs to be replaced.

There was one outlier firm, which carried a 40% litigation load and experienced extremely low attrition. This firm had almost no loss of Decile 1 client relationships, and in fact, saw significant growth from many Decile 1 clients, virtually offsetting the effect of a high concentration of litigation work.

Given that litigation appears to be particularly susceptible to client attrition, firm managers have a few options. They can educate partners as to the tendency for this work to attrite — and undertake efforts to replace such work. Knowing that litigation matters end, but that client relationships needn't, firms should strengthen their ties with clients that provide such work so that when individual matters conclude, others are likely to come down the pike.

LESSONS LEARNED

One thing Redwood hears a lot is that certain norms don't apply to a particular firm because of its size. They are told, "Oh, that doesn't apply to us, because our firm is so large." Or in the alternative, "That may be true for most firms, but we're a special case; we're a small firm."

Not so for attrition. According to our study, there was no correlation between attrition and firm size. The 1% per month rule held up for firms of all sizes.

The key takeaway from The Redwood Think Tank's client attrition studies is that attrition matters. The billable hours lost each month to attrition stand to impact a firm's bottom line unless firm managers counteract this trickle with affirmative measures.

This is particularly the case now that firms are entering uncertain economic times. As the competition for dwindling business stiffens, firms can successfully differentiate themselves by harnessing the power of analytics and strategically investing in client relationship building.

