

Client Attrition Analytics *Firms Can Control Whether Clients Stay or Go*

By Kris Satkunas

While the managers of professional services firms often view market pressures as the driving force that determines whether clients remain loyal or choose to shop elsewhere for added services, a new study by the Redwood Think Tank indicates that firms have tremendous sway over which clients become long-term business partners.

(The Redwood Think Tank was formed in the spring of 2006 to study significant law firm management issues and formulate solutions that serve as a catalyst for change in the industry, thereby keeping Redwood Analytics attuned to the evolving competitive needs of law firms. The Think Tank's members are a diverse set of senior partners and executives.)

In a study of five large law firms, the Think Tank found that firms are increasingly likely to retain a client when their relationship with the client:

- Provides the firm a large amount of legal work;
- Has a mature, established relationship with the firm;
- Sends the firm work in more than two practice areas; and/or
- Has more than two firm partners significantly involved in the management of the client's matters.

Most firm managers recognize these four markers as achievements toward broadening and deepening their relationships with clients — hence the emphasis on cross selling in many firms. However, the results of the Redwood Think Tank's analysis reveal just

how dramatically these indicators affect the outcome of client attrition. Indeed, firms that obtain all four of these relationship criteria with a client are highly unlikely to lose that client. This analysis plays out nearly uniformly with every law firm examined.

STUDY PARAMETERS

On average, firms experience a decline in billable hours from existing clients at a rate of 1% a month. For any professional services manager, this statistic should be cause for concern, and client attrition should be an important metric to evaluate and manage.

The Think Tank's study on client attrition was initiated by Think Tank member John Alber, who serves as the Technology Partner at the international law firm Bryan Cave LLP.

The client attrition study was designed to address the following questions posed by Mr. Alber:

- Can clients most likely to "stick" with the firm be identified?
- How strong is the correlation between certain firm or client behavior and client retention?
- What factors best predict client retention and departure?
- Can a reliable index be developed?
- How much can client retention be influenced?
- How can this information be used by lawyers and firm management?

The study was segmented into two phases — the first comprised a statistical examination of Bryan Cave's client base; the second was a study of four other Think Tank member firms to see whether the conclusions reached at Bryan Cave held true for other firms. They did.

TOP-LINE ANALYSIS

Given the economic reality that the top 20% of Bryan Cave's clients accounted for more than 90% of hours billed, the study was designed to focus analysis on the clients that brought in the bulk of the work. (The concentration of revenue among the top tiers of clients is similar at most firms, with the exception of those that offer specialized services to many clients.)

Hence, Bryan Cave's clients were organized into 10 deciles based on the number of billable hours provided to the firm in 2003. Analysis focused on the top three deciles. Within the top three deciles, clients active in 2003 were evaluated according to multiple metrics for correlation to attrition by the end of 2005. Those metrics included:

- Client size (in terms of billable hours);
- Breadth of work;
- Client age;
- Partner involvement; and
- Billing realization.

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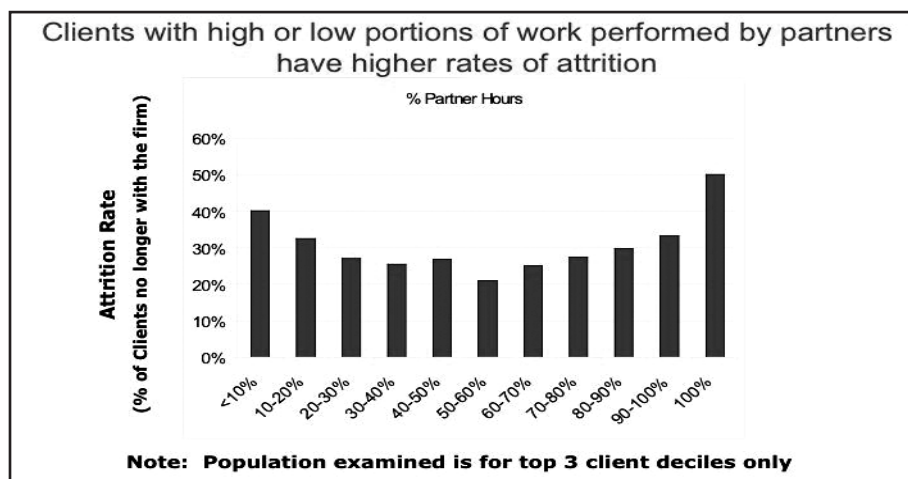


Figure 1

STUDY RESULTS

The study produced some astounding statistics and strong predictable trends. First, here are the findings for the relationship criteria considered separately.

Size Matters

Clearly, there was a correlation between a client's total billable hours and attrition. Some 70% of the clients that fell in the 10th decile (those that used Bryan Cave for minimal amounts of work) in 2003 no longer were using the firm at all two years later. However, during the same time period, the firm lost less than 20% of its major clients — those that were ranked in the first decile.

The Reason to Cross Sell

Breadth of work had a similar effect on client attrition. More than 35% of clients that used the firm for only one area of law attrited by the end of 2005. The more varied the legal services provided to a client, the less likely they were to leave. Less than 15% of clients using the firm for three areas of law left the firm in that same time period, and less than 5% of clients that had retained the firm for four or five areas of law ceased using the firm.

Golden Anniversaries

The study also bore out a correlation between the age of a client relationship and attrition. Of the clients in 2003 that had used the firm for less than a year, half were no longer with the firm by the end of 2005. By contrast, clients that had already retained the firm for at least four years were only 20% likely to leave. And those clients that had retained the firm for more than 20 years had an attrition rate of only 8%.

Spreading the Wealth

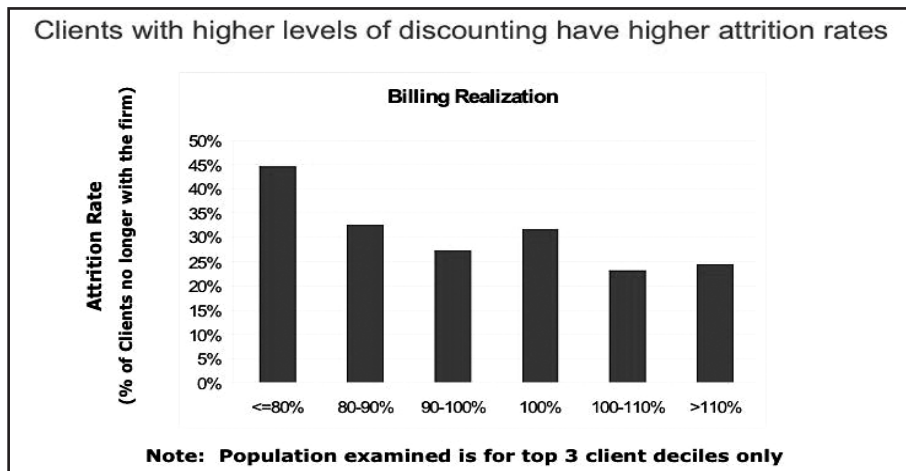
In addition, there was a very direct relationship between the number of partners materially involved in a client's work, and the client's likelihood to stick with the firm over time.

When no partners were involved with a client's work, more than half of the clients left the firm. On the other hand, less than 10% of clients left the firm if more than five partners worked on their matters.

However, when it comes to partner inclusion, there can be too much of a good thing. (See *Figure 1 on page 1*.) When studied by percentage of total hours worked by partners — regardless of the number of partners involved — 40% of clients that only had 10% of their work performed by partners left the firm. But more than 50% of clients that had 100% of their work performed by partners ceased using the firm. (And remember that these were significant clients, all from the firm's top three deciles.)

This reinforces the pragmatic principle that it's important to deliver the right mix of partner work to the client. Staffing a matter with too many relatively inexperienced associates can

Figure 2



lead to client attrition, but so can top-loading matters with too many partners.

Discounts Are No Bargain

Study organizers also examined how client attrition correlates to billing realization — with some heartening results for firm managers seeking ammunition against the pressure to discount rates.

Clients with the highest rates of attrition were those with realization rates of less than 80%. (See *Figure 2, above*) While professionals often argue that clients will leave if they don't cede to pressure to discount their rates, the statistics indicate that bargain shoppers are likely to leave anyway.

CAUSE AND EFFECT: FACTOR ANALYSIS

Do clients that are well cross-sold have broader partner involvement? Are larger clients better cross-sold than small clients? The interdependence of the metrics used was statistically analyzed, and some additional metrics to those discussed in this article were thrown out as a result.

The bottom line that the analysis bore out is that these five metrics are independently correlated to attrition, and their correlation becomes stronger as they are aggregated.

LOOKING BEYOND BRYAN CAVE

After the Redwood Think Tank team ran its analysis on Bryan Cave, the study was expanded to examine the same metrics at other member firms. The exact numbers varied from firm to firm, but at the end of the two-year period studied, the results for all firms were largely the same.

That is, clients most likely to remain with a firm were those that relied on the firm for large amounts of work, retained the firm across several areas of law, had used the firm for several years, and had multiple partners working on their matters.

FROM ANALYSIS TO ACTION

Stemming client attrition can improve revenue stability. Moreover, it is axiomatic that fewer resources are needed to keep current clients than to acquire new clients.

Given the ability to identify clients that are statistically at risk for leaving, firms can provide this strategic information to practice area leaders, client managers and marketing professionals, among others. Partners and associates can be educated in ways to improve client relationships. A list of at-risk clients can be provided to client responsible attorneys.

Attrition analysis itself forms the basis for an educational initiative. John Alber refers to what he has shared with Bryan Cave's management as the "rules of thumb of client attrition."

While the Redwood Think Tank limited its study to base attrition levels, the next logical step for firms may be to parse the statistics to determine which instances of client attrition are actually beneficial to the firm's business, and which clients would be in the best interests of the firm to keep. Client exit surveys are one method to gain such insight.

Client attrition is a business reality. Employing analytic tools to understand attrition rates provides firms with the power to act — and to change that reality.



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