

The Most Effective Law Firm Marketing Campaign has Nothing to do with Marketing

Client Retention - The Missed Opportunity for Growth

“Client defections cost Portland law firms more than **\$200 million** each year.”

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More than half of in-house counsel terminated work with at least one of their law firms within the past year, and nearly two-thirds of those cited a lack of responsiveness as one of the reasons.¹ A call to action? Perhaps, yet according to a recent study conducted by Lexis-Nexis², the majority of law firms don't track their client retention at all, and only one in five law firms conducts formal client satisfaction studies on at least a biannual basis. With numbers like these it is not surprising clients continue to shop their legal relationships.

Retention as a growth tool

Every professional realizes that without clients, the professional service organization fails to exist. However, few recognize the true economic opportunity in slight improvements to client retention rates. As noted "loyalist" and former Bain consultant, Fredrick Reicheld's research has shown, a 5% increase in retention often leads to as much as a 50% to 125% improvement in pretax profit.³ Even utilizing a slightly more conservative model, the Inavero Institute for Service Research has found that an improvement in client retention of just 5% would have more than doubled the revenue growth of the average Portland law firm over the last decade (Figure 1).

Retention as a client acquisition tool

While the positive effects of keeping more of your clients happy, and therefore engaged with your firm

are fairly simple to comprehend, increased satisfaction and retention has a measurable, positive impact on client acquisition efforts as well. Inavero's research shows that client ambassadors", those who give their service firm the highest score possible, are three times as likely to refer a professional service firm to a friend or colleague. In fact, a recent Harvard Business Review article found that the revenue a happy client generates through referrals may be two to five times as valuable or more than the revenue they contribute as a client.⁴

The math is simple. More clients stay because they are, on average, happier with your law firm. These happier clients refer you more often, which leads to an increase in new clients. Sounds reasonable, right? It gets better.

A recent study has shown that over the course of working with you, clients you get from referrals will likely stay with you longer and may actually spend almost twice as much with you over the course of their tenure as those acquired through traditional marketing avenues⁵, furthering the economic argument for loyalty and retention. Again, instinctively this makes sense. Those who "self selected" themselves as your clients are likely a better fit for your firm, and start the relationship more engaged than those who have no experience or point of reference prior to their first engagement.

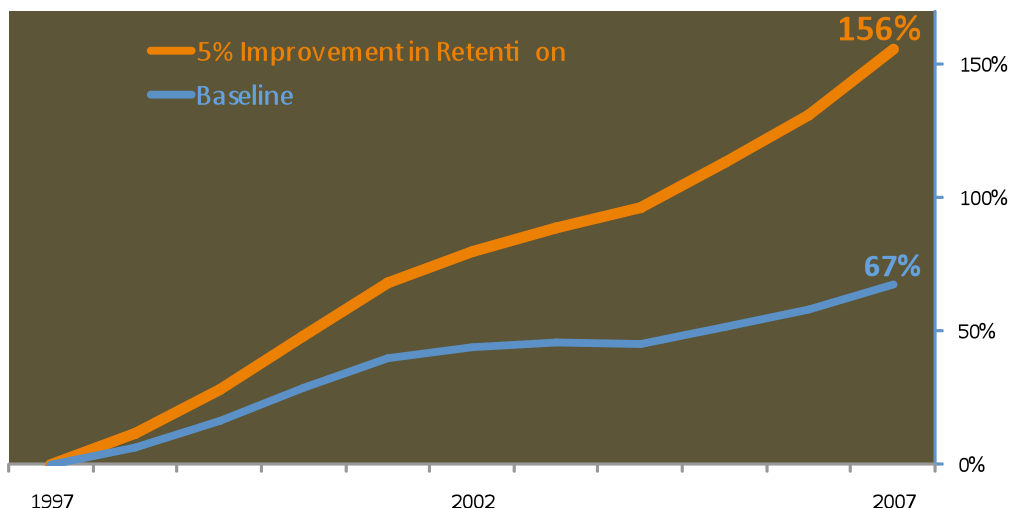


Figure 1: Slight Increase in Retention Nearly Triples Revenue Growth over a 10 Year Period.

5 Steps to Improving Client Retention

Step 1 – Over-Communicate

While open, honest and frequent communication have been ingredients in a successful client relationship for years, root cause analysis of client relationships gone awry still find a lack of communication at the forefront of many soured relationships. The practice of law is often a black box for clients. They see only the outcome, not the work or quality control efforts that are involved in the process. That is, of course, unless you tell them. While delivering a desired outcome will always trump delivering a desirable process, communicating helps alleviate irreparable damage from occurring if the outcome doesn't meet the client's hopes or expectations.

Step 2 – Build Relationships Three Deep

Inavero's research has found that even fantastic relationships with the lead professional on a project can sour if the relationships with others in the firm and "backups" falls short of expectations. Clients complain of a drop in responsiveness when their project lead is unavailable, and cite support players as often not having enough knowledge of their needs or the project at hand. Often, senior professionals guard their client relationships from junior associates, instead of helping the associates become a trusted resource for the client, further exasperating the situation.

Step 3 – Engage Your Clients in the Process

To truly understand how to get better, simply ask. Ask often and act on what your clients tell you. In a recent study, bank clients who were asked to participate in a formal satisfaction survey were half as likely to defect and more profitable, on average, than clients who were not surveyed.⁶ If done correctly, the process should reinforce the message that your law firm is committed to true client focus.

To get the greatest impact on retention, ask clients for their feedback, act on it, and communicate the findings back to them.

Step 4 – Act Like a Partner

Inavero's research has shown the perception of a professional service firm as their clients' "partner" is the best single predictor of client retention. A bit ambiguous, you say? Not as much as you might expect. Partners are proactive in helping their clients, forthcoming with potential issues that affect them, and will, at times, make decisions that are clearly not in their own best interests.

An improvement in client retention of just 5% would more than double the revenue growth of the average Portland law firm over the next decade."

When was the last time you showed true empathy toward your clients? Occasionally recommending a solution that directly lowers your own billable time can have an enormous impact on future engagements and client retention. It shows empathy and trustworthiness; two characteristics of those who are viewed as partners, yet sorely lacking from many service providers.

Step 5 – When Things Go Wrong – Recover!

Mistakes happen. In fact, it is a common misperception that our clients won't forgive an occasional mistake. Often, the disconnect comes in how the law firm responds when a mistake occurs. Acknowledge the mistake head on and determine what the client expects in terms of a suitable recovery. By focusing on exceeding, not just meeting, the expectations for recovery, there is an opportunity to put the mistake behind you and increase the loyalty that client feels to your firm at the same time.

Improving client retention doesn't necessarily involve an unreasonable investment of time or resources. What it does require is focus, measurement and desire. Does your firm have what it takes to be one of the best?

The Inavero Institute is a leading provider of client and employee feedback systems for professional service firms. The firm's feedback systems have been used in eight countries and more than 215 professional service firm locations throughout North America. Inavero professionals analyze feedback from more than 100,000 professional service firm clients, job candidates, and employees annually, and have published numerous articles on the subject of client retention.

SOURCES:

¹ACC/Serengeti. (2007). *Managing Outside Counsel Survey Report*. Chicago.

²Lexis Nexis. (2006). *The Large Law Firm Client Retention Study*. New Providence.

³Reicheld, F. F. (1996). *The Loyalty Effect*. Boston: Harvard Business School Press.

⁴Kumar, V., & Petersen, J. A. (2007). *How Valuable is Word of Mouth?* Harvard Business Review (October).

⁵Vllanueva, J., & Yoo, S. a. (2008). *The Impact of Marketing-Induced Versus Word-of-Mouth Customer Acquisition on Customer Equity Growth*. Journal of Marketing Research , XLV (February 2008).

⁶Dholakia, P. M., & Morwitz, V. G. (2002). *Forethought: How Surveys Influence Customers*. Harvard Business Review (May).

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