Cross-selling and Client Stickiness

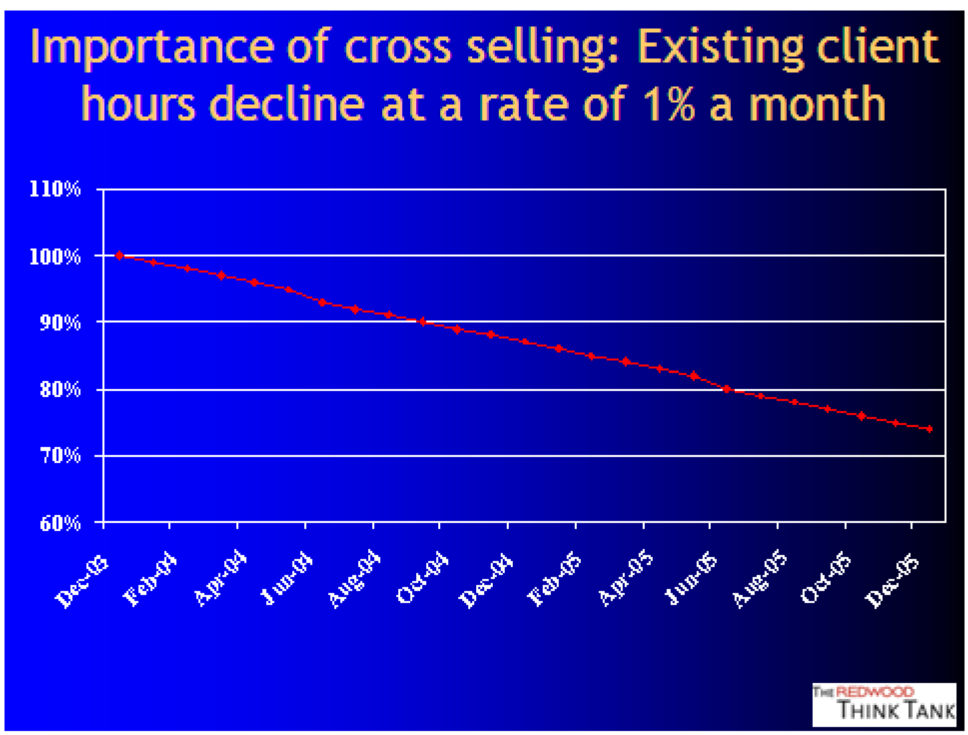
By Larry Bodine, Esq. is a business development advisor based in Tucson, AZ, and Glen Ellyn, IL. Larry is an editor of *Originate!* – the business development newsletter for lawyers at www.pbdi.org/originate. With the Apollo Business Development Program, he has helped law firms nationwide get new clients and generate millions of dollars of new revenue. He can be reached at 630.942.0977 and www.larrybodine.com.

In this interview, Ron Paquette, a former analyst for the Redwood Think Tank, discusses research that proves that cross selling is essential for a lawyer to keep a client. The evidence shows that a lawyer is more likely to retain a client if he:

- Has several other partners working for the client.
- The firm serving the client in multiple areas of law.

The reverse is true as well. If a client is being served by a single partner or in a single area of law, there is an increased likelihood that the client will leave the firm within two years. Further, the time to cross-sell your partners is *now*, because all other factors being equal, revenue from a typical client will decrease 12% per year.

The Redwood Think Tank is composed of law firm senior partners and executives who have shown an interest in keeping their competitive edge in the market.



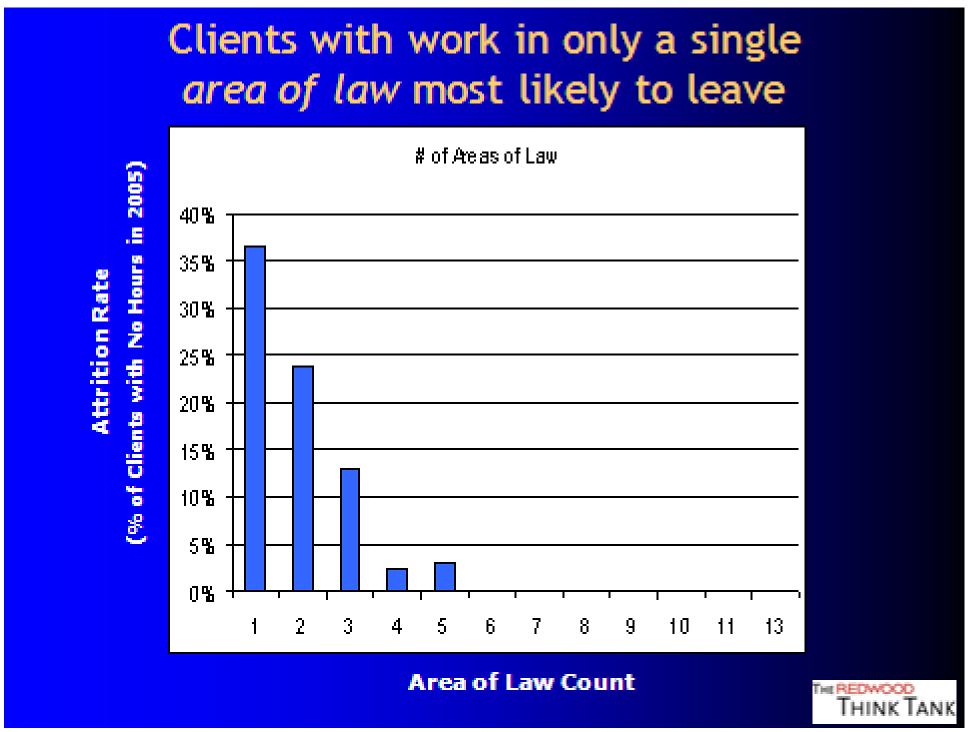
Ron Paquette: Initially we were calling this kind of a "client stickiness" analysis. What we set out to do was see if there were any attributes about a client that would say, "This client is more or less likely to leave." Then, "Is there anything actionable we can do?"

All the results are a meshing of four firms from the Think Tank; however, we've actually validated this with another four firms. All the results look exactly the same across all of the firms, so we feel pretty good that this is going to be held true at your firm as well.

The first thing we wanted to do was assess what impact does attrition have on firm revenue?

In the chart on page one, you can see as the x-axis moves from December 2003 all the way to December of 2005, so we've got two years of data here. All of the clients that are in this were active in 2003, and what we did was we held them as a static pool and saw if we added no new clients to the firm, what would the volume in work hours do over time?

On average what we're seeing is about a one percent degradation per month. So, if we look at December 2005, what we see is that we're just about 75 percent. About two years from now, if you add no new clients, you're going to lose about a quarter of your business volume between now and then, so it's important to keep in mind that business development is absolutely critical to moving your firm forward. Obviously, most firms don't see this decline because they are adding new clients, but what we wanted to talk about was another way that you could slow this down was by finding those clients that were more at risk and maybe doing some things to help retain those clients.



Attrition rate

The next charts are going to look similar in the structure; what I mean by that is that we've got on the y-axis – you can see it goes from 0 to 40 percent – that's our attrition rate. Here's how it's defined: of the clients in 2003, what percent of them were no longer around in 2005?

As a side note, everyone's heard of the 80-20 rule – and we've done this for 20 different firms – it's really the 90-20 rule when it comes to law firms. What I mean by that is that **90 percent of your work volume and your revenue comes from the top 20 percent of your clients**. A little bit more concentrated than we're used to, but that helps because now we can not focus as much on the small clients because we want to get the most return for any effort that we expend.

What we see here is if you are serving a clients in only one area of law – their attrition is over 35 percent. So we've always heard that cross-selling is a good thing. Now we can see data here proven why it is important to be doing cross-selling.

Larry Bodine: An interesting thing is I notice that clients that are served in four to five different areas have the very lowest attrition rate. In fact, it's approaching zero.

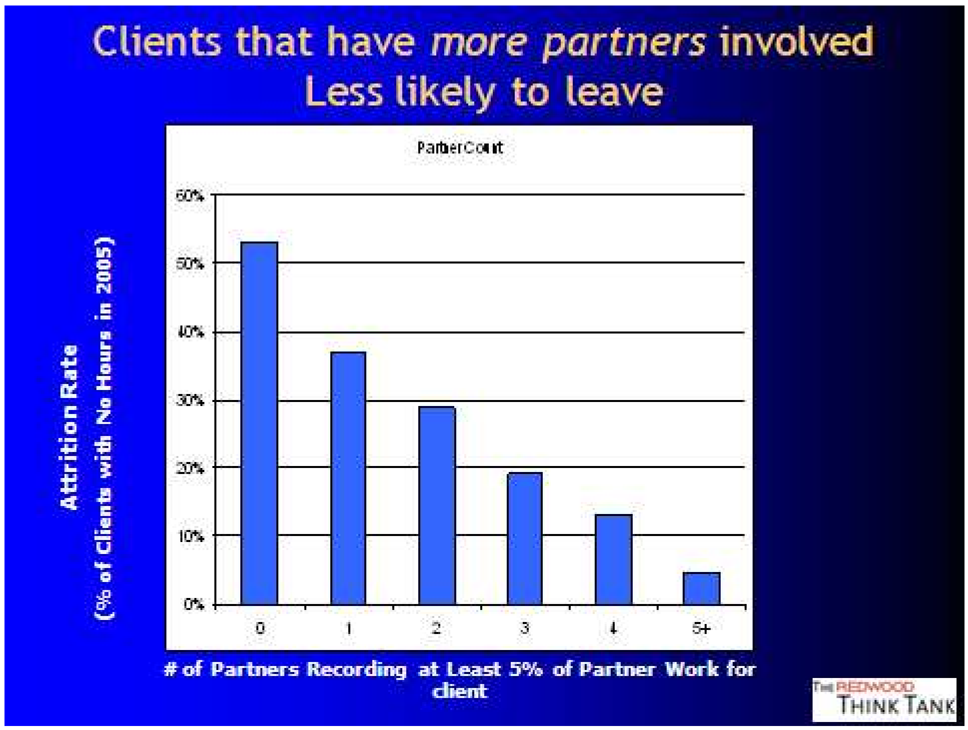
Ron Paquette: Right. And we do have some data points in the sixth plus as well that had zero attrition.

Larry Bodine: **So the lesson that I get from this is that if a lawyer is working for a client in a single service area, there's a high likelihood – a one out of three chance – that they'll leave the firm. But if you have four or five service areas, the chances that they'll leave approach zero.**

Ron Paquette: Yes.

Larry Bodine: That's a compelling argument for cross-selling if I ever heard it.

Ron Paquette: Yes. The next chart focuses on partner involvement. Regardless of how many total hours were worked, if there were 100 partner hours, how many partners did at least 5 of those hours? **What we see here is that the more partners involved, the lower the attrition.**



There are a lot of different theories here. We actually had a good population where there were zero partners involved at that level and we can see very, very high attrition.

As you would expect, most clients do have partner involvement, but even looking at the difference between those who have one partner approaching 40 percent attrition all the way down to if you look at four partners just barely peaking over the 10 percent mark. So the more partners involved, the lower the likelihood that these clients are going to leave or take their work elsewhere.

Larry Bodine: **Therefore, if you've got a partner that isn't sharing a client, that's a high risk.**

Ron Paquette: As a side note, I'm sure some of the more analytically savvy people are thinking, "With more partners involved, that probably means there's more different types of work, and that this is related to the other variable that we looked at with the cross-sell." It does make sense that that would be true, but we've had a statistician take a look, and these variables, while there is some relation, they are separate enough to look at and evaluate on their own merits. So having more partners does not necessarily mean more types of work or vice-versa.

Larry Bodine: So what you're saying is if you have two partners working for a client and they're in the same practice, that reduces the likelihood that they'll leave.

Ron Paquette: Right. **But having multiple partners and multiple types of work reduces it even further.** They're not basically the same variable from a different angle. They are independent is basically what I was trying to say.

Larry Bodine: Understood. Sum up what this all means for us.

Ron Paquette: The biggest thing is that there are huge opportunities now because we have evidence to show about attorneys who didn't want to cross-sell or they didn't want to share. If they're truly a team player, then we can show the data to them and to create a business case around some of the marketing. In our research we had one firm that had none of those clients leave out of a couple hundred. All were still providing work two years later.

Larry Bodine: That's a goal to aim for. I know it's true with law firms, particularly litigators: **The bane is that you get a client who will give you one assignment, and then that's the last you see of them. Ideally, what you want is the opposite where you have some clients that come back to you over and over again. If you sell them work in a variety of different areas, and you don't lose any business at all.**

Ron Paquette: Right.

Larry Bodine: This should be considered with the fact that if you do nothing, you're going to lose 12 percent of your revenues, according to the data, over a year's time.

Ron Paquette: If a firm is staying flat from year to year, chances are what they're doing is their new originations are just barely making up for their client attrition, for their natural attrition. So by just changing that attrition, we can change a flat growth curve into one that is actually increasing year over year.

Larry Bodine: So for planning purposes, if you’re undertaking an initiative to build revenue, the bottom line is you've got to develop at east 12 percent, but that's just going to keep you where you're at. So realistically, if you want to add new business, you've got to increase more than 12 percent. So if you want to add 10 percent, you've got to bring in 22 percent more business.

Ron Paquette: Absolutely, and the way to add that is it could be new business originations or it could be to slow that 12 percent down. By taking this information that we see here and trying to better cross-sell, get partners involved, and maybe take extra effort in the first couple years of that client relationship, maybe that 12 percent for your firm can be slowed down to 9 percent or 8 percent by maintaining those clients more and continuing that relationship.