



## Honing the Client Base

Just as not every firm is right for every client, not all clients are right for every firm. In challenging times when achieving revenue targets is particularly demanding it is an unusual firm that introduces more stringent client acceptance policies and an exceptionally brave firm that raises the bar in terms of those clients that it wishes to continue to represent.

The most enlightened and assured firms are, however, doing precisely this. They recognize that implementing such strategies may have a short term impact on their top line revenue but equally they know that there is a real cost associated with working for inappropriate clients in terms of profitability, reputational risk, commercial conflict and market profile or some combination of all. Furthermore, they know that there is a real opportunity cost of partners and other lawyers servicing such clients when their time would be better spent attracting more of the clients and work that the firm aspires to undertake and investing in existing core clients.

Such firms are becoming ever more robust in evaluating clients at the acceptance stage and, in parallel, refining their client base over time to make sure that it aligns with their strengths, with their desired market position and with their key financial goals.

Adopting a more rigorous approach to client intake and retention starts with an analysis of the firm's current client base. This involves understanding the number or volume of clients, the profitability of each (or each type), the fit with the firm's service mix, the strength and depth of the relationship, and potential client or business conflicts which may impede achieving strategic priorities.

In many cases, this analysis of the firm's current client base may reveal a challenging reality - an oversized client base. In our [November 2012 Insight](#), we discussed the relative benefits and drawbacks of client concentration and diversification at the top of a firm's client list. There can also be challenges associated with a very long tail of clients – those who pay the firm very little. Through years of analyzing the client bases of firms we have observed that most firms generate very limited revenue, and often negligible or no profits, from their smallest clients. The demands and costs associated with managing a high volume of low fee paying clients are, however, substantial – administrative processing, non-billable time setting up and approving files, poor utilization, the risks of client dissatisfaction or worse malpractice liability, potential for conflicts, etc.

The challenges associated with a large volume of potentially non-strategic and unprofitable clients underline the importance of developing a rigorous approach to the active management of a firm's client base and the need to refine the client base over time. This element of strategic focus comes in two forms: first, through establishing and implementing a robust process at the point of client intake/acceptance; and second, through on-going reviews of existing clients to ensure that they continue to meet the criteria that the firm has set concerning the clients it wishes to act for.

### Initial Intake

Given the strategic importance of new business intake, firms need to evaluate potential new clients from a variety

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of perspectives, including: conflict, strategic fit, pricing/fee arrangement, and staffing. This involves designing and adopting a client intake process which considers each new client from a number of angles:

- Does this client present legal, ethical, business or strategic conflicts?
- Are there legal, ethical or reputational risks associated with representing the client?
- Does representation of this client align with the firm's overall strategy and the practice group's strategy?
- Is the work priced appropriately given the firm's strategy, desired market position, and profit targets?
- Is the fee arrangement appropriate? If an investment is required what is the likely return on this?
- What is the financial health and stability of the potential client?
- Do we have the staff to provide the appropriate expertise, maintain quality and service standards and contribute to profitability?
- Is there potential to develop a long term and profitable relationship with the client?

Effective operation of a robust client intake approach usually requires centralized client intake decision-making and experienced professional staff to support the function. Centralized decision-making leads to greater consistency in implementing the firm's strategy, reduces risk, and drives greater profitability through a gradual honing of new clients/matters accepted. Irrespective of whether the centralized structure takes the form of an individual partner, a small committee, or department or practice heads, the function requires a high degree of involvement and significant influence within the firm, and the ability to incorporate judgment as appropriate in the process. In combination with a centralized structure, firms are also focusing on including high caliber staff to support the new business evaluation process. This typically involves both non-billable lawyers and professional staff, with a combination of financial and legal backgrounds, allocated the various responsibilities and charged with thoroughly assessing clients and matters.

### Ongoing Review and Management

Having adopted a robust process and structure for evaluating clients at the time of intake, most firms also need to address the challenges associated with existing clients. Reviews of a firm's existing client base provide an opportunity to re-evaluate each client's fit with the firm's overall financial goals and strategy, and practice group specific strategies. A formal review process helps to establish a framework for the identification of existing clients that are no longer consistent with the firm's desired market position and strategy. Over time, such a process assists firms focus on those clients that it really desires and shed (in a discreet and professional manner) high risk clients, unprofitable clients, and clients that produce long term conflicts inconsistent with the firm's strategy.

There are numerous forms of client review processes utilized by law firms - some formal and others informal. The most typical approach is closely linked to the process of initial screening of clients at the intake stage based on conflicts, risk profile, strategic fit, pricing and profitability, ability to service the client, etc., with re-screening at the time of new matter intake. In other cases, firms conduct periodic client reviews, taking into account factors such as client satisfaction, fit with strategy, potential of conflict losses, etc. In addition, firms also perform ongoing assessment of financial performance against established metrics such as profitability at the client or matter level, leverage ratio, realization targets, etc.

Regardless of the process adopted communicating with clients about any change or discontinuation in the relationship will require judgment, open discussion and sensitive management in order to determine with each affected client the best outcome.

The approach for broaching such discussions may be related to pricing, total fees/retainers, strategic fit, conflicts or other rationale which precludes the firm from proceeding under the current terms of the relationship. If the firm as a result discontinues entirely from working for the client, referring them and assisting with the transfer of work to another firm will contribute to a more positive client perception about the change. In addition, firms will also

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sometimes need to provide assistance to the partners who have been affected, supporting them in replacing such relationships with clients which are more appropriate.

Maximizing a firm's investment in its client base requires a variety of approaches. Our experience shows that a thorough process for evaluating new business opportunities and ongoing client reviews represent important processes in optimizing a firm's client base. Having developed a clear understanding of the firm's existing client base, and by instituting approaches to refine that client base over time, firms can best position themselves to ensure that their client base supports the achievement of their strategic and financial goals.

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