Firing Clients: A Case for Letting Go

By LawVision on June 24, 2014

In Disney's aquatic adventure, *Finding Nemo*, there is a moving scene where Nemo saves the lives of hundreds of fish, including his dad's friend Dory. Trapped with a school of grouper in a fisherman's net, Dory is being dragged to the surface of the water. Through a stroke of ingenuity, Nemo realizes if all of the fish encased in the net were to swim downward simultaneously their joint force will upset the boat. The plan works and, ultimately, forces the fisherman to jettison their catch in order to save their ship from sinking.

Like that fishing boat, many law firms today are being dragged down by the collective force of sometimes thousands of sub-par clients. We analyzed the client portfolios of dozens of law firms over the past year and found that well more than half of these firms have a disproportionately large number of clients that generate less than $5k in annual billings. In some instances as many as 65% of clients – by count – generated as little as 3 or 4% of total fee revenue. For law firms, this pattern represents a unique and daunting challenge which can have broad implications – and not just financial ones. Consider:

1. ***Potential conflicts –real or business – preventing your firm from taking on more lucrative clients***
   Skadden became one of the first firms to lead the way in securing ongoing retention fees. An unintentional result was for companies to use these retainers as a way to protect themselves from becoming a target in a Skadden-led hostile takeover. Today, General Counsel regularly employ tactics – by design or inadvertently – that serve to tie up top-notch law firms and keep them from representing the competition. For a law firm, conflicts created by a low-billing client with poor prospects for near-term growth can impose severe limitations with real long-term consequences.
2. ***Impingements on your law firm's ability to deliver optimal client service***
   Client service investments rarely distinguish between client types – and rightly so. When establishing protocols or setting standards for client-facing behaviors the goal is to create a uniformly superior client experience. Yet delivering optimal client service requires time – and time is money. For the majority of clients at the lower end of the billing spectrum, the payoff to the firm for great service diminishes. Furthermore, this type of client may not value or expect a superior client experience…just a reasonably good one. If this is the case then the firm's value proposition is not being applied consistently in the marketplace – an act that can confuse the value proposition and confuse the firm's strategic positioning.
3. ***Opportunity costs associated with the time to complete the work***
   When the almighty billable hour presents itself, it is an act of formidable restraint to resist the temptation to tackle even the smallest of projects – particularly in light of current slow-growth market conditions. Yet the value of those hours invested wisely in joint business development efforts, a visit to a top client or a leadership role in an industry organization can dwarf the incremental revenue opportunity. The trick is in identifying which of those small projects truly holds value.
4. ***The pure economics of the relationship***
   Many large or mid-sized firms invest a few thousand dollars to take on a new client, excluding business development costs. This cost reflects the combined time and effort dedicated to performing a conflict check, completing intake forms, establishing client codes, documenting basic information and opening an initial account for invoicing. For clients generating $10,000 or less in annual billings, this required start-up cost can materially cut into profits. For those bringing in less than $2,000, the sheer act of servicing the client can put the profitability of

the matter in the red.Many firm leaders also observe that realization rates among smaller scope and one-off clients tend to be lower, on average, than those clients with material, ongoing relationships with the firm. Furthermore, these small clients generally pay their bills more slowly for the same reason (they are not building a business relationship but simply addressing an issue). Lower realization and slower payment times exacerbate already weak financial benefits.

So where do all these small “grouper” clients come from and what can your firm do about them? The way to reduce the impact of too-small clients on your firm’s financial performance will depend on a variety of factors. For example, some small relationships are budding opportunities with high-potential prospects. Others are part of the business development training ground for Senior Associates and young partners. The majority, though, are simply opportunities to deliver legal services – what lawyers do best – with little or no thought to the bigger business impact.

As with any problem, the first steps to resolution are identification, acceptance and awareness. For some law firms or practices, an onslaught of “grouper” clients is exactly how they would like to grow. In this instance, take inventory and batten down the hatches. Streamline operations and processes to ensure profitability with a slew of smaller fish and sail on.

For firms aspiring to broaden their net and focus on the bigger catch, it’s time to cut ties. Offer partners the big picture and present alternative, higher ROI ways to spend those valuable hours. Establish team-oriented approaches to generate bigger leads and projects and quantify the pay-off of investment time and effort. Analyze profitability by client and determine exactly which types of client relationships deliver the best rates of return. Give your partners the tools they need to make better decisions about targeting clients and building relationships. Then, hold them accountable, because without accountability the pace of change will be glacial, allowing the sheer weight of carrying too many “grouper” clients to be a perpetual drag on your firm. Happy firing!