A MILLS GROUP WHITE PAPER

PROFITS UNDER SIEGE

Growing Your Practice In Tough Times

Harry Mills

The professional service market place has become a dog-eat-dog battleground where the winners – the highly profitable few – are getting richer while the rest – the vast majority of firms – struggle to maintain margins and growth.

Double-digit profitable growth for most firms has become a dream.

Now is the time to rethink your marketing strategy.

Dog Eat Dog Marketplace

The huge $900 billion dollar professional services marketplace has become a dog eat dog battleground, where you need more than a big bark. The winners – the hugely profitable few – are getting richer while the rest – the vast majority of firms – struggle to maintain margins and growth. As a result, double-digit profitable growth for most professional service firms has become a distant dream.

Even practices such as the elite law firms once seen as immune to market forces are finding the going tough. A McKinsey Quarterly analysis of the worlds largest law firms warns, "all but the most profitable are in peril".[1]

The Virtuous Cycle Of Growth

The high-profit winners are growing their practices around a distinctive value proposition, which will sustain high profits and double-digit revenue growth.

These high-profit, high revenue growth firms are locked into a virtuous cycle where they can cherry-pick top talent from their less profitable competitors and invest in expansion, new services and cutting edge technologies.

The Vicious Cycle Of Decline

The low-profit, low growth stragglers are locked in a vicious downward spiral losing talent, prestige at an accelerating pace until they shrink, get acquired, or simply become bit "commodity players".

[1] Wendy M. Becker, Miriam F. Herman, Peter A. Samuelson, Allen P. Webb, *Lawyers Get Down To Business*, McKinsey Quarterly, 2001, Number 2, p. 45.

Day 29 Is Here

The drive towards commoditisation and price contraction continues to accelerate. A child's riddle, The Lily Pad captures the essence of the challenge.

> On day one, a large lake contains just one tiny lily pad. But every day the number of lily pads doubles, until on the thirtieth day the lake is completely clogged with lilies. On what day was the lake half full?

The answer, as bright kids love to exclaim, is day twenty-nine. It takes twenty-nine days for the first half of the lake to fill with lily pads. But it takes just twenty-four extra hours for the rest of the lake to become submerged in vegetation.

Day twenty-nine is here. Three giant lily pads in the form of globalization, deregulation and technological change are choking the professional services pond.

Lily One: Globalization

Globalization has caused the creation of huge global professional service firms who can service clients across the planet. To meet client demand and stay ahead of competitors, professional service firms have merged and consolidated at breakneck pace. Over 50 percent of the world's accounting services are now provided by the top ten firms. In HR Consulting, the top ten firms control 80 percent of the total market. In IT Consulting, the top ten players share is 45 percent. In Management Consulting, the top ten control 35 percent.

Only the legal profession, where the top ten firms control less than five percent of the total world market, has largely been able to resist the pull. Even so, worldwide practices such as Linklaters & Alliance have formed consortiums based around a global network of offices.

At the same time, mergers and acquisition activity has exploded. Between 1985 and 1990 there were 1140 professional service firm M&A deals in the United States worth $27 billion. Between 1995 and 2000 the number rocketed to 7,638 worth $471 billion.

The evidence is compelling. Firms in every professional service sector have aggressively invested in size and geographic coverage. A few representative examples: In 1975 strategy consultants McKinsey & Co had 24 offices. Today McKinsey has 82 offices in 44 countries. Accounting giant PwC, formed from a merger of Pricewaterhouse and Coopers & Lybrand in 1998, has 140,000 staff and 8,000 partners in offices criss-crossing the planet. IT services giant IBM Global Services has over 150,000 staff serving 150 countries. Advertising and communications giant Grey Worldwide has offices in 159 cities in 90 countries. Executive search firm Korn Ferry has more than 70 offices across North America, Europe, Asia Pacific and Latin America.

Global giants such as these have the financial muscle, talent and global stretch to compete aggressively in any market they enter.

Lily Two: Deregulation

Deregulation, the second lily, has further increased competitive intensity. The Big Four accounting firms are the best example of the forces of deregulation in action. Even though they have been forced to shed their huge consultancy practices, collectively the "Big Four" still employ over 400,000 staff. Together they still employ more lawyers than the four largest specialist legal firms combined. They still compete directly with the merchant banks for M&A work and they still challenge HR consultants for their most lucrative consulting work.

Lily Three: Technological Change

Technological change is the third lily engulfing the lake. Accountants have watched bargain priced software such as QuickBooks and TurboTax damage margins for certain types of routine accounting work. Clients no longer need an expensive law firm to conduct basic research when they have access to sophisticated electronic legal databases such as Lexis-Nexis and Westlaw. Who needs to talk to a fee charging recruitment consultant when you can skim a low cost collection of online C.V.s?

While the Web hasn't caused the terminal damage to relationship based services that some pundits predicted at the peak of the dotcom boom, the Internet has spawned a new generation of firms such as E-Law.com which provide commoditized professional services. Online recruiting has become a billion dollar industry. Online recruiting now accounts for nearly 40 percent of recruiting giant TMP Worldwide's U.S. revenue. Even the Big Four accounting firms will deliver cut-price fixed tax advice via the web for answers to routine questions.

The firms that have flourished in this new hyper-competitive world have made marketing a central focus. They live and breathe Peter Druckers precept: "Because its purpose is to create a customer, the business has two – and only two - basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are 'costs'".

By contrast, the underachieving laggards suffer from what I call Marketing Deficiency Syndrome (MDS).

Marketing Deficiency Syndrome is a disease that can afflict any lethargic, sclerotic professional service firm. MDS is usually contracted by lead-footed firms that fail to inoculate themselves against market driven changes caused by globalization, deregulation and technological change.

The Symptoms Of MDS

The symptoms of MDS appear whenever profits and growth rates stagnate and decline.

Firms suffering from MDS typically:

- Compete primarily on price, selling undifferentiated, commoditized services
- Remain heavily dependent for their survival on the continued loyalty of a few key clients
- Have a dangerously high percentage of their clients at risk of defection
- Lack a defined strategy for their high value clients and highly growable clients
- Hold onto their unprofitable and toxic clients far too long
- Suffer from serious deficiencies in rainmaking talent
- Lack a distinctive brand persona
- Use an inadequate and misleading set of marketing measures to track performance.

Symptom # 1 – Firms compete primarily on price, selling undifferentiated services

"The 'surplus society' has a surplus of ***similar*** companies, employing ***similar*** people, with ***similar*** educational backgrounds, working in ***similar*** jobs, coming up with ***similar*** ideas, producing ***similar*** things, with ***similar*** prices and ***similar*** quality."

Jonas Ridderstrale and Kjell Nordstrom

Funky Business

To compete in this world the challenge is: differentiate or die, or as Tom Peters says, "be distinct or become extinct."

Yet the vast majority of professional service firms still for the most part sell undifferentiated services, in a form which can be bought from dozens of neighbouring or competing firms.

There are essentially only two ways to compete for business. You can compete on price or you can differentiate on value and command a price premium. It really is that simple. In professional services, differentiation is the only long-term viable strategy. The reason is simple. Staff are a professional firm's main costs. Slash your staff costs and you place your quality and reputation in serious jeopardy.

Firms who differentiate their services in ways that really matter to clients can be highly profitable regardless of their size.

Look at the *American Lawyer's* list of Second Hundred Firms. Conventional wisdom says these firms are too small to compete with their much larger counterparts that populate the list of the First One Hundred law firms. Yet seven Second Hundred firms are among the U.S.A's 50 most profitable law firms. What distinguishes these firms? "Each one is known for a dominant practice area" where it clearly excels, be it litigation, media law or intellectual property, reports Jim Schroder in the *American Lawyer*.[2]

Firms such as these who differentiate on expertise, charge premium fees for premium work and prosper.

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[2] Jim Schroeder, *The Am Law 200 : The Second Hundred's Hidden Strength*, The American Lawyer, 08-01-2002

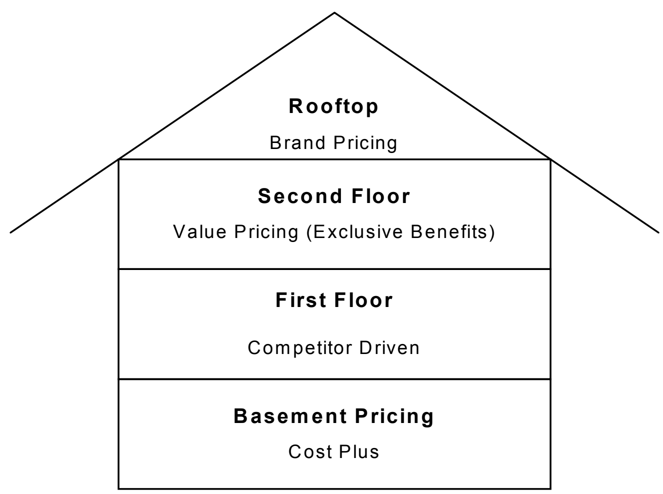
Sadly, most firms who suffer from MDS continue to practice **S.O.S** or Same Old Service marketing.

The Pricing Test

It's amazing the number of partners in professional service firms who kid themselves they have a distinctive advantage over their competitors.

The acid test for differentiation is, are your clients prepared to pay a price premium for what you sell. If they are, they are recognizing your ability to differentiate yourself in a way that delivers value to them. Look at the House of Pricing model below.

Exhibit 1.1 The House of Pricing



The House of Pricing model is a simple way of looking at the way you price. [3]

[3] Idea adapted from Scott Davis, *Brand Asset Management*, Jossey Bass, 2000, pp. 208-212.

Basement Pricing is the lowest price you can charge and still stay in business. In essence this is a cost plus pricing. You work out a price you need to cover your costs and add a minimum amount of profit to stay in business.

First Floor Pricing is competitor driven pricing. You primarily base your prices on what your competitors charge. This is what most professional service firms do.

Second Floor Pricing is value pricing. You charge a price premium because you have the ability to offer exclusive benefits, which your competitors can't match.

Rooftop Pricing is brand pricing. This is the additional premium that comes from having a brand that communicates superiority, peace of mind, prestige and other intangible benefits for which clients are prepared to pay extra.

I estimate less than five percent of professional service firms have the ability to rooftop or brand price. Some fifteen percent of firms value price and reside on the second floor. The vast majority of firms, some seventy percent, use competitor driven pricing and live on the first floor. The rest, approximately 10 percent, live in the basement, surviving on the returns from cost plus pricing.

The challenge for most firms suffering from Marketing Deficiency Syndrome is how to move from competitor driven pricing to value pricing.

Symptom # 2 – Firms remain heavily dependent for their survival on the continued loyalty of a few key clients

The prosperity of the vast majority of professional firms hinges on the continued loyalty of a small proportion of clients.

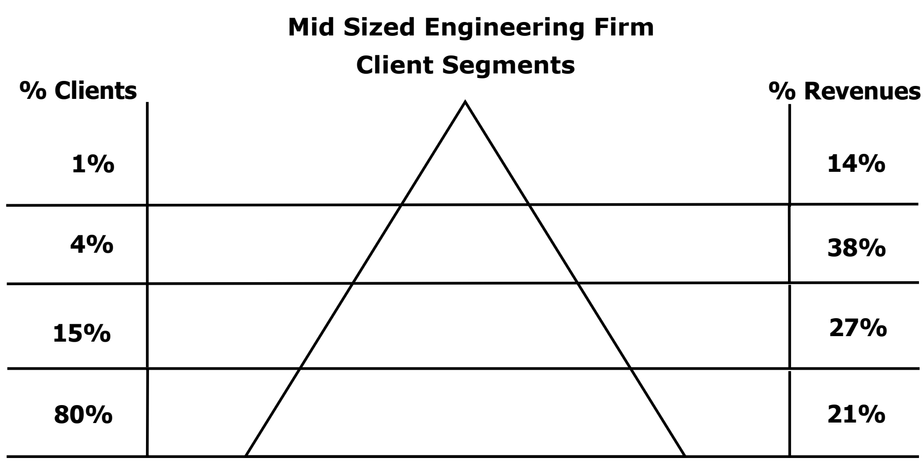
The Pareto principle – the 80/20 rule – dominates most professional services client pyramids. Year after year the top 20 percent of clients generate 80 percent of the revenues. Sometimes the figure varies slightly. The figure may be 90/10 or 75/25 but in every case a small proportion of clients deliver the great bulk of practice revenues.

Dissect the client pyramid further and it's not uncommon to find:

- The top 1 percent of clients generate up to 25 percent of practice revenues.
- The top 5 percent of clients generate 50 percent of revenues.

Below is an example taken from one of our engineering clients. A mere five percent of their clients are responsible for over half of the firms income.

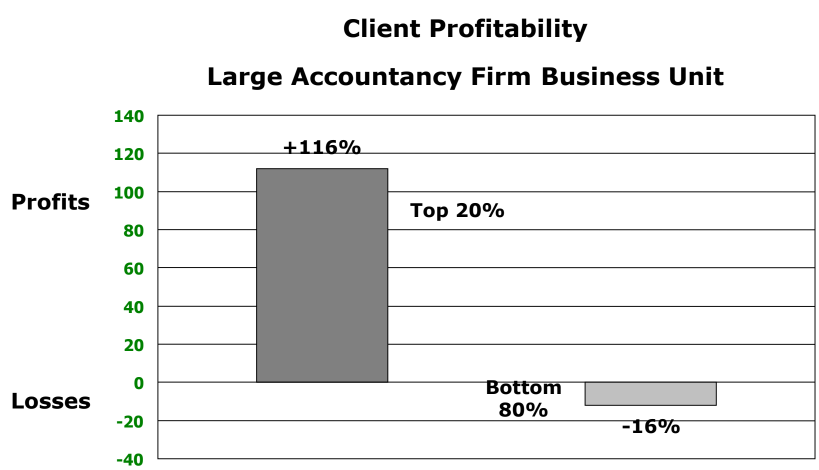
Exhibit 1.2. 5% of the Clients Generate 52% of the Fees



To make matters worse the top 20 percent of clients in most firms suffering from MDS usually generate over 100 percent of practice profits. In other words, the top 20 percent of clients commonly subsidize the other 80 percent.

Measure the profitability of the top 20 percent of clients and you'll often find that they typically earn over 100 percent of practice profits. Look at the figures in exhibit 1.3 taken from a large accountancy firms business unit. The top 20 percent of clients earn 116 percent of the business units profits.

Exhibit 1.3. The Top 20% of Clients Subsidize the Bottom 80%



Mills Research

When the profit for each client is accurately measured and allocated, it is not uncommon for professional firms to suffer losses on 80 percent of their clients.

When firms earn the vast majority of their profits from a tiny percentage of clients the consequences of the loss of one, two or three important clients can be catastrophic.

Symptom # 3 – Firms have a disturbingly high percentage of clients at risk of defection

"A high defection rate makes profitable growth almost impossible to achieve", says marketing professor, Peter Doyle. "It is like a leaky bucket. The bigger the hole the harder the marketing has to work to fill it and keep it full."[4]

If management can increase the retention rate of 90 percent to 95 percent, then it can enormously boost a firm's growth.

Compare two firms; the first loses 10 percent of its clients annually, the second loses just 5 percent. If both firms win 10 percent new clients, the first will have no net growth; the second will grow at 5 percent per annum. Over 15 years the first firm will be unchanged; the second firm will double its client numbers.

Chris Fritsch reports, research on U.S. law firms carried out by Earl Sasser of Harvard Business School and Merry Neitlich of Extreme Marketing found a 5 percent improvement in client retention can improve profits by 25-85 percent.[5]

Most professional firms foolishly think that all they have to do to keep clients loyal is to keep them satisfied. Yet client-satisfaction-survey after client-satisfaction-survey shows 60 to 80 percent of lost clients report they are satisfied prior to defection. A large part of the problem comes from the errors professionals make when they interpret their client satisfaction surveys.

The data from most client satisfaction surveys should be broken into three categories: dissatisfied customers, just satisfied and delighted customers.

Dissatisfied customers. On a ten-point scale where 10 is delighted, dissatisfied clients score 1 to 5. Because of perceived shortfalls in service performance, this group are highly likely to switch to another firm.

[4] Peter Doyle, *Value Based Marketing*, Wiley, 2000, pp. 80-81.
[5] Chris Fritsch, reported in *Initiating an Effective Client Survey Program*, LawMarketing.com, Dec 18 2001

Just satisfied customers will score your service 6, 7 or 8 on a 10-point scale. These scores show you have met, *but not exceeded* expectations. Your service is viewed as being on a par with competitors. The client may come back but they are vulnerable to competitive pitches.

Delighted customers rate you 9 or 10. Because your performance has clearly exceeded their expectations, these clients are highly likely to remain loyal. Most delighted clients won't even look at an approach from a competitor.[6]

Add up all the clients in the dissatisfied and just satisfied categories and you have a true measure of the potential at risk clients in a practice.

In most practices this figure makes frightening reading. Research on U.S. law firms carried out by Earl Sasser of the Harvard Business School and Merry Nietlich of Extreme Marketing found:

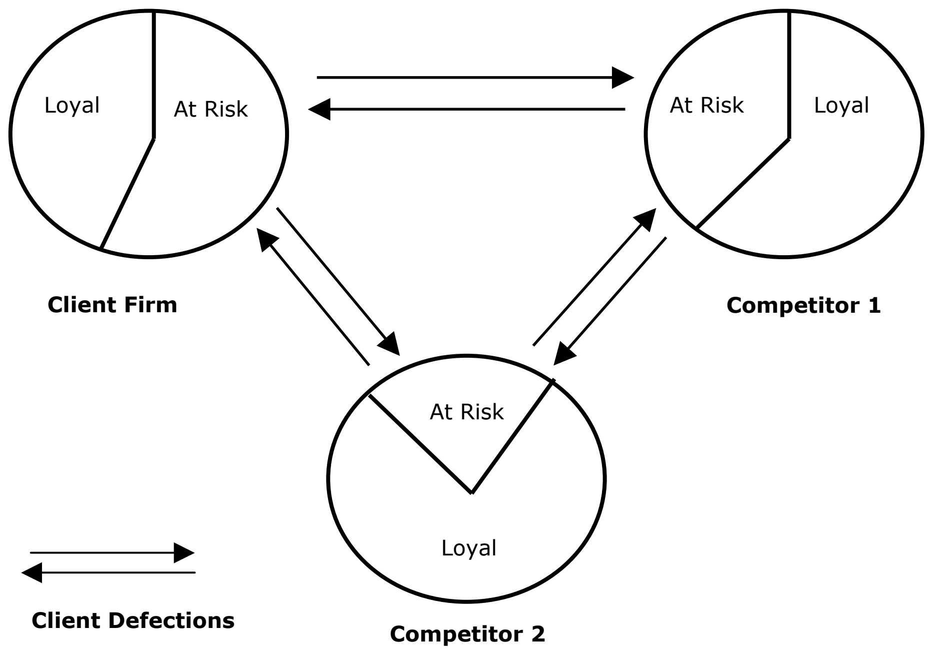
- "22 percent of all law firm clients [will] consider switching firms because of problems with their current firms.
- Only 25-30 percent of a firm's clients are totally satisfied.
- 70 percent of the firm's clients may be open to pitches from competing firms."[7]

We like to graph the at risk clients of a firm and compare them to the at risk figures of major competitors.

Here is a graphic portrait of what we typically find.

[6] Anthony J. Zahorik, Roland T. Rust, Timothy L. Keiningham, *Estimating the Return on Quality*, Handbook of Services Marketing, ed: Teresa A. Swartz, Dawn Iacobucci, Sage, 2000, p. 235.
[7] Quoted in Chris Fritsch, *Initiating an Effective Client Survey Program,* Lawmarketing.com, Dec 18 2001

Exhibit 1.4. Loyal and At Risk Clients



The stark fact is few professionals appreciate how vulnerable their client base is to competitor attack. The bad news for most firms is that a remarkably high percentage of their clients are at risk. The good news is most of their competitors suffer from the same problem.

Symptom # 4 – Firms lack a defined strategy for their high value clients and highly growable clients

High Value Clients (HVCs) are the crown jewels in any client pyramid. The first priority in any relationship strategy must be to hold and grow your HVC business.

Highly Growable Clients (HGCs) are your future HVCs. These are *good* clients who have potential to grow into *great* clients.

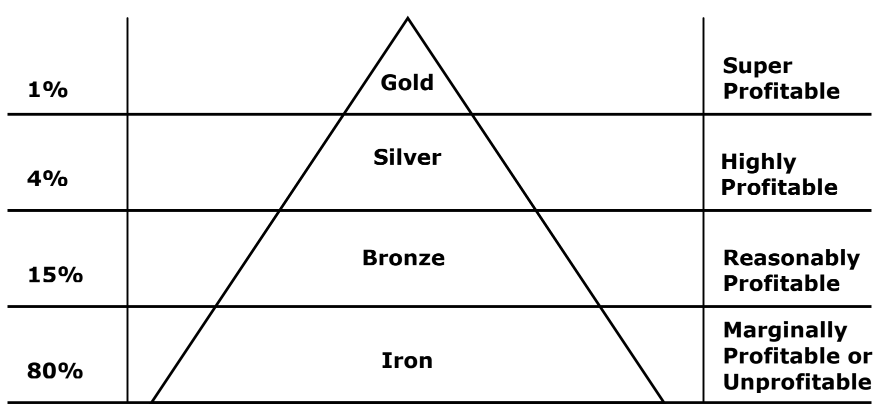
Identifying, servicing and growing your HVCs and HGCs lies at the heart of any high profit relationship strategy.

Firms with Marketing Deficiency Syndrome usually know who their HVCs are. However firms with MDS lack any strategic or key account development process to lock up the business and fortify it against competitive attack.

Firms with MDS, however, often fail to even identify their Highly Growable Clients. HGCs don't stand up and shout help, "I want to be your next HVC". They are usually someone else's HVC. And since they don't spend enormous sums on your services, you won't find out what you need to turn them into a HVC without serious effort on research and rainmaking.

The first step in creating a strategy for your high value clients is to rank your clients by value. We like to start with a four-tier division based on profits similar to the one shown below.

Exhibit 1.5. A Four Tier Client Pyramid Segmented by Profit



As soon as you segment clients by profit, insights into client buying patterns begin to surface.

- **The Gold tier** (the top 1%) typically contains the firm's super profitable clients. Typically, these clients generate large high margin fees, are highly loyal, purchase multiple services and aren't fee driven.
- **The Silver tier** (the next 4%) contains clients that are highly profitable. Silver clients may selectively purchase only one or two of your services and often use other suppliers.
- **The Bronze tier** (the next 15%) clients are reasonably profitable, but are usually more fee sensitive, often less loyal and may use multiple suppliers.
- **The Iron tier** (the bottom 80%) contains the marginal or unprofitable clients. Iron clients contribute to overheads, but their low-spend or lack of loyalty means they don't deserve exceptional service.

Ranking your clients by value allows you to turn the 20/80 rule to your advantage. You can focus your service efforts on the clients who will generate the super profits and revenue you need to prosper.

You will also discover the different segments often have remarkably different needs. We've found gold and silver clients typically adopt a much more sophisticated attitude when purchasing professional services. Top tier clients are much more concerned about the demonstrable expertise of the service provider and by the speed of response and delivery time than the bottom 80 percent of clients. Top tier clients are much more relationship than transaction driven. Top tier clients respond positively to professionals who anticipate their needs and come up with highly customized solutions.

Top tier clients also as a matter of course, expect service providers to have an intimate knowledge of their culture, personnel, expectations and idiosyncrasies.

Here is a breakdown of how one of our clients, a mid sized law firm began to differentiate their clients, based on needs.

Exhibit 1.6. Differentiation by Client Needs

	Mid Sized Law Firm
Top 20%	▪ Relationship driven ▪ Motivated by value ▪ Expect intimate understanding of needs ▪ Demand access to top partners ▪ Expect high-speed turn around.
Bottom 80%	▪ Transaction driven ▪ Motivated by price ▪ Expect competent delivery ▪ Value friendly service

* Source: Mills Group Research © 2000

From this preliminary needs analysis, the client went on to develop highly customized service offerings for their gold and silver clients (their top 5%).

Once you segment your client base by value and then differentiate your clients by need, you can start to exploit the full value of your current client base. Although it varies enormously from practice to practice and business unit to business unit, one in four clients have the potential to be upgraded.

It is not hard to identify gold, silver and bronze clients with upgrade potential.

For a start, professional firms often fail to fully exploit the opportunities to sell their gold clients additional services. Silver clients can usually easily be upgraded to gold status with improved service and highly personalized offerings.

The real potential comes from upgrading clients for whom you currently provide a small share of their services. These are typically bronze clients, who are some other professional firm's gold clients.

It is much more profitable to raise service levels to your top clients, rather than to raise service levels to your lower tiered clients. The reason is simple. Gold, silver and bronze clients already trust you. They know what you can offer. All you have to do is prove you can provide extra value-added services and demonstrate your superiority to their existing provider.

By contrast the Iron clients (the bottom 80 percent) are often price and transaction driven. Iron clients often don't attach high value to the benefits an in-depth ongoing relationship can bring. They will often spurn service initiatives that will allow you to achieve a deeper, more intimate understanding of their needs.

Because of the high profitability of top tier work, a small increase in gold tier revenues will dramatically boost practice profits.

In the example below, a mere 5 percent increase in gold client numbers increases practice revenues by 12 percent, which leads to a 40 percent boost in practice profits.

Exhibit 1.7. A 5% Increase in Gold Clients Increases Profits 40%.

Whitton Strategy Consultants

Tier One Gold Clients	Fees	Profits
81	$1,400,000	$600,000
85	$1,568,000	$840,000
Increase 5%	**Increase 12%**	**Increase 40%**

Symptom # 5 Firms hold onto loss-making and toxic clients far too long

No business can afford to carry large numbers of loss generating clients. Yet that is what most struggling businesses do. They subsidize large numbers of loss making clients. The unpalatable truth is, firms often spend more time serving their loss making clients than they do courting and recognizing their high value clients.

When clients do pick up the courage to fire their loss making clients and refocus on their HVCs, the results can be spectacular.

I've watched clients double their profits within twelve months simply by firing half their clients and refocusing their efforts totally on their HVCs and HGCs.

Loss making clients aren't the only ones who need to be fired. Within most client pyramids there are toxic clients. Toxic clients are problem clients because they don't pay their bills, are impossible to please or, even worse, push you to compromise your ethical standards.

Toxic clients can cause irreparable damage. Enrons pressure on Big 5 accounting giant Arthur Andersen to legitimize their shady accounting practices caused one of the world's strongest professional service firms to disintegrate. Blue chip investment bank Goldman Sachs suffered enormous financial and reputational damage in the early 1990's by continuing to deal with British media tycoon Robert Maxwell, knowing "he was a liar and in serious financial trouble," writes Lisa Endlich in her history of Goldman Sachs.[8]

When it comes to loss making and toxic clients, it pays to heed the words of Kenny Rogers, "You've got to know when to hold 'em, know when to fold 'em, know when to walk away, and know when to run."

Symptom # 6 – Firms suffer serious deficiencies in rainmaking talent

It's virtually impossible to generate double-digit growth without superior rainmaking or sales talent.

Just keeping up with normal client attrition requires a serious rainmaking commitment. Client turnover in many professional service firms fluctuates around 20 percent per year. So the ongoing sales effort for the great majority of firms has to be substantial.

"Rainmakers fish where the big fish are", says Jeffrey Fox, the author of *How to Become a Rainmaker.*[9]

The difference between a good and a great rainmaker is often the size of the fish they land. Superior rainmakers catch bigger fish by focusing on lucrative clients. They know from experience it takes just as much time to lure and land big fish as it does to

[8] Lisa Endlich, Goldman Sachs, *The Culture of Success,* Warner, 1999, p. 238.
[9] Jeffrey J. Fox, *How to Become a Rainmaker,* Hyperion, 2000, p. 18.

land medium sized ones.

For most practices, big clients are the source of super profits. If you don't land your share of big fish, the chances are you'll go hungry or at least struggle to prosper.

"To a Rainmaker, the big sale is the trophy fish on the wall", says Jeffrey Fox.[10]

Top rainmakers stand out for their superior sales, negotiation and strategic account management skills.

Our research shows that the top 10 percent of rainmakers sell five to seven times as much as their poor performing colleagues who sit in the bottom 10 percent. The top 10 percent also sell twice as much business as their mid range performing colleagues. Top rainmakers are much more efficient at closing sales. They can move a prospect through the sale process much faster than their less skilled colleagues.

When it comes to face-to-face skills, top rainmakers are much more persuasive. Top rainmakers in most professional firms stand out for their superior ability to:

- Establish credibility quickly
- Convert a client problem into a specific need for their firm's service
- Create urgency in a client's mind to take action
- Sell high value tailored solutions
- Anticipate and prevent objections
- Outflank competitors
- Win client commitment and close the deal.

[10] Jeffrey J. Fox, *How to Become a Rainmaker,* Hyperion, 2000, p. 18.

Top rainmakers typically close a sale in 25-30% fewer meetings than their less skilled counterparts. Combine that with a low bid-to-win-proposal success ratio and you can see why top rainmakers are so productive.

When it comes to negotiating fees and retaining margin top rainmakers perform better. Most professionals are ineffective negotiators. Most consistently leave money on the table and walk away from profitable deals.

Because they always sell the full value of the solution before they ever talk price, top rainmakers negotiate from a position of strength. They are also more skilled at win-win bargaining; trading what is cheap for them for what is valuable for their client. In simulations of fee negotiations we've carried out, the top ten percent of rainmakers typically retain 25-40% more margin than that of their less skilled colleagues.

Top rainmakers are invariably superior sales strategists. A big sale involves influencing multiple decision makers and managing a complex time-consuming account management process. Top rainmakers approach their account management like grandmasters tackle a chess game – always thinking and planning three or four moves in advance.

Symptom # 7 – Firms lack a distinctive brand persona

In *The Invisible Touch*, bestselling author and brand expert, Harry Beckwith, tells the tale of "how to double your fees overnight".

"A consultant with an excellent but virtually unknown New York consulting firm arrived at David Schlossberg's office in New Jersey one day, offering his services to David's firm. David was impressed with the consultant's presentation, which addressed the firm's critical need for tax consulting. David, however, was concerned about the consultant's price, which was $1,250 a day.

Within two weeks, the consultant had taken a job with a Big Six firm in New York. A week after taking the job, the consultant approached David Schlossberg again. David asked how much the consulting firm was charging. "Twenty-five hundred dollars a day," the consultant answered.

They signed an agreement that morning.

In three weeks, the consultant's market value had doubled. He had acquired no new skills and only fifteen working days of additional knowledge. He had done nothing to increase his real value; he had, however, dramatically increased both his perceived value and his price by simply acquiring a brand."[11]

Beckwith's message: "Acquire, build or align yourself with a brand".

The big professional service firms treat branding seriously, because most know the value a brand makes to the bottom line.

Remarkably, 7 out of 8 small and medium professional service firms continue to ignore branding.

Symptom # 8 – Firms use an inadequate and misleading set of marketing measures to monitor performance

Most professional firms focus on just four measures when measuring and evaluating marketing success:

- Gross fees earned
- The gross fees of the new business being acquired
- Staff utilization
- Surveys of client satisfaction

[11] Harry Beckwith, *The Invisible Touch*, Warner Books 1997, pp. 98-99.

The focus on such a limited range of measures means client profitability, client loyalty and competitive differentiation are virtually ignored.

As a result, practice leaders operate like the first aviators who had nothing but an airspeed indicator and a fuel gauge to tell them where they are going. In other words, the current measures provide practice managers a rough idea where they are, but provide few clues where they are going.

Is it any wonder so many firms lose their way?

To allocate marketing resources in a way that maximizes client profitability and by extension, firm profitability, you have to be able to also measure at a bare minimum:

- The profitability of individual clients
- The share of each client's total work or share of wallet you hold
- The lifetime value of each client
- How your firm rates in your client's eyes when they compare you to your key competitors
- The strength of the loyalty bond that exists between your practice and your clients.

We Need a New Marketing Model

The root cause of Marketing Deficiency Syndrome is that our marketing hasn't kept pace with changes in our marketplace. The old traditional product driven transaction based 4P market model (Product, Price, Promotion, Place) which has driven the thinking in many professional service firms, has always lacked relevance.

We need a new relationship-based model, one which shows professional practices how to grow, multiply and sustain highly profitable relationships.

The Mills 8R's Client Relationship Marketing Framework

For the last three years The Mills Group team has been researching and field-testing a relationship driven model and methodology that, when implemented, consistently delivers double-digit profits and growth.

The model had to pass three tests:

- Offer professionals superior insight on how to find, keep and grow profitable clients
- Focus effort on the key marketing strategies that have greatest impact on creating long term, sustainable and profitable growth
- Be memorable, easy to understand and, above all, practitioner friendly

The last test is much more important in professional service marketing than most professional marketers think, since much of the marketing activity in a professional service firm is carried out by working professionals for whom marketing is very much a secondary activity.

The 8R framework shows you how to maximize profits and growth by adopting a totally integrated approach to marketing. Here is a brief visual overview of the framework.

Exhibit 1.8. The 8R's of Client Relationship Management

R1 – Revitalization: ***Rejuvenate your value proposition with new services, sharper differentiation and premium pricing.*** Marketing success starts with the creation of a compelling value proposition which allows you to sharply differentiate your services from your rivals and charge the premium fees you need to prosper.

R2 – Retention: ***Hold onto your existing golden high profit clients.*** You'll never achieve double-digit profitable growth until you discover how to retain your high value clients longer.

R3 – Reacquisition: ***Win back your valuable inactive and lost clients.*** Few professional firms have any formal win-back program to recapture lost clients. Yet the odds of successfully selling to a lost client are 1 in 3. Compare that to the odds of selling to a fresh prospect of 1 in 8.

R4 – Referrals: ***Network with the right people.*** Everyone knows about referral or word of mouth marketing but few know how to do it well. Referred prospects are the cheapest source of new business. It costs much less and takes much less time to close a referred prospect than a non-referred prospect.

R5 – Regeneration: ***Target and court profitable prospects.*** The key to profitable positioning is to target and pursue profitable niches and segments where you can become the dominant player or the supplier of first choice.

R6 – Rainmaking: ***Close more sales while retaining margin.*** With client loyalty decreasing, you need superior rainmaking and strategic account management skills to identify and win large profitable new accounts.

R7 – Related Sales: ***Up-sell and cross-sell to increase client share of wallet.*** The odds of selling to an existing client are better than 1 in 2. So, up-selling and cross-selling to existing clients to increase your share of wallet represents a golden opportunity – which few exploit well.

R8 – Reputation Building: ***Brand your practice to attract premium business.*** A strong professional services brand attracts and retains clients, simplifies buying decisions and differentiates the firm from competitors. A powerful brand also adds anything from 20 percent to 300 percent to the price premium you can command.

The bottom-line benefits that come from implementing an 8R programme are:

- Higher profits
- Double-digit growth
- Better clients

Author

Harry Mills is one of the world's leading authorities on the selling and marketing of professional services.

The Chief Executive of The Mills Group, an international consulting, marketing and training firm, Harry Mills has spent more than 18 years consulting and training over 3,000 partners and managers in accounting, legal, consulting, IT and professional service firms all over the globe.

Harry Mills' professional service clients include three of the Big Four giants: PricewaterhouseCoopers, KPMG and Ernst & Young plus the likes of IBM, EDS, Cap Gemini and Oracle.

Harry Mills is the best-selling author of 22 books on sales, persuasion and negotiation, including *Clinch That Deal, Sales Secrets* and *The Mental Edge*. *Clinch That Deal* has been translated into 14 languages and was the Executive Book Club's book of the month in the U.K. The American Chamber of Commerce called Harry's latest book *Artful Persuasion: How to command attention, change minds and influence people*, "one of the best books ever written on persuasion".

U.S. business publisher AMACOM have commissioned two further titles: *The StreetSmart Negotiator: How to Outwit, Outfox and Outsmart Your Opponents* and *Bottom-line Marketing for Professional Service Firms: How to out-sell, out-market and out-earn your competitors*.

A regular keynote speaker at international conferences Harry also appears regularly on television and radio to commentate on business issues.

The Mills Group

Over the last seventeen years, The Mills Group has built a reputation as an international leader in the marketing and selling of professional services.

Our reputation is based on:

- Working with the worlds leading professional service and IT consulting firms. Our clients include KPMG, PwC and Ernst & Young, Cap Gemini, IBM, EDS and Oracle. Working with professional service clients from all industry sectors: law, accounting, consulting, IT, recruitment, architecture and engineering.

- Providing world class consulting, training and coaching that produces increased profits, improved productivity and enhanced performance.

- Publishing leading edge business titles in our areas of expertise. Books by our staff on the marketing of professional services, sales, negotiation and motivation have been translated into 18 languages and distributed in more than 42 countries.

- Our proprietary Marketing Makeover® process which delivers breakthrough rather than incremental results.

- Working with Australiasia’s leading companies. These clients include: AMP, Westpac, Toyota, BMW, Ericsson, NEC, Unisys and Qantas.

Mills Group Contact Details:

The Mills Group services an international client base. Our team operates out of Australia and New Zealand. Head office is located in New Zealand.

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