M&A Threatens Client Loyalty: Actions that Can Minimize Defections

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M&A Integration Challenges: The Process Doesn't Stop at Closing, an article included in the October 2010 issue of this publication, emphasized the value and importance of anticipating and preventing some of the issues commonly encountered when melding one or more firms into a unified organization. This article further addresses the challenges of converting clients of the merged or acquired firm to clients loyal to the newly formed firm. The processes and principles presented here are equally valid in converting seemingly satisfied clients into loyal clients without the added pressures of a merger or acquisition.

The three primary objectives of this article are to:

1. highlight the major causes that promote a culture that discourages sufficient attention to the cultivation and retention of clients;
2. review and summarize the often-discounted benefits of a positive, productive relationship with existing clients; and
3. recommend an approach to creating a culture that values and rewards the retention and conversion of existing clients to loyal clients equally with acquiring new clients.

Cultures evolve from prior experience

Early-stage accounting firms often follow similar development patterns. Professionals come together, usually bringing experience from other firms, to form a partnership. Determined to succeed, and driven by a myriad of pressures, they begin the arduous task of creating a firm. Foremost in their minds in the beginning, and seemingly the only priorities, are securing new clients and developing the professional staff to serve them. That is not to suggest a lack of commitment to high-quality professional work and superior client service. On the contrary, without unwavering attention to professional excellence, the risk of failure is enormous, if not certain. Nevertheless, the feelings of triumph and satisfaction of winning new clients are powerful motivators that, when reinforced by the performance-evaluation and reward system, become even more compelling.

Resolute focus on new client development tends to become embedded in the firm's culture and frequently diverts attention from the considerable benefits and opportunities available within the existing client base. Failure to continuously invest in building trusting relationships and demonstrating a sincere interest in clients' unmet and emerging needs not only undervalues meaningful incremental profit opportunities, but also elevates the risk of losing important clients to competitors.

Bad habits linger

Practices inconsistent with an adjusted mission are often driven primarily by a firm's organizational structure and by its performance-evaluation and reward system. From these motivators, other practices and attitudes evolve and vary by firm because of a particular firm's unique traditions or leadership style.

Accounting firms are usually organized by line of business (*e.g.*, assurance, tax, and management advisory services), with each department operating relatively autonomously. Because partner compensation and evaluation are often influenced by a department's performance, a singular focus on the department emerges fostering a reluctance to introduce the firm's other services to their clients for fear of putting client relationships at risk. These attitudes are frequently observed producing adverse results, including services provided by staff either marginally qualified or overqualified for the job. This, of course, can threaten the firm's reputation. Moreover, they may tempt a client to use another firm's services, thus allowing a competitor, with a menu of comparable services, the opportunity to strengthen its relationship and position with that client, hoping to become the client's next service provider. This threat should serve as a reminder that *the only group that the reigning department can directly prevent from offering services to their clients is the group from their own firm.*

A "my clients in lieu of the firm's clients" attitude can damage the firm in ways that extend beyond losing an incremental revenue opportunity and include increased potential for a quality failure, unwanted publicity, a reason for clients to actively listen to a firm's rivals, and anxiety among a firm's staff, leading to higher turnover.

Most importantly, the performance-evaluation and reward system, designed initially to ensure a successful launch of the firm, inevitably reinforces practices that favor attracting new clients over incremental revenue from existing clients. Without adjustment to motivate a balanced focus between developing business from new and existing relationships, the system tends to discourage the behaviors and practices necessary to effectively cultivate relationships that promote client loyalty.

Benefits of a loyal client base

As we regularly remind our clients and prospects, clients with a loyal, long-term relationship with an accounting firm are apt to:

- be ambassadors for the firm, providing free marketing through referrals and positive word of mouth;
- be more likely to pay bills on time;
- be less expensive to serve:
  - fewer complaints,
  - reduced rework, and
  - less nonbillable time spent on problem resolution;
- have decreased sensitivity to fees:
  - fees average 10 to 15 percent higher; and
  - have greater inclination to buy multiple services.

Current economic conditions also provide a compelling incentive to invest in retaining and converting existing clients to loyal clients. For example, in the March 1, 2010, issue of *Crain's Chicago Business*, it was reported that the Big Four firms were targeting smaller clients, therefore creating new and potent competition for mid-size firms.

The spotlight is on client retention

Client retention continues to be the primary issue facing accounting firms, and the challenge is intensified when a merger or acquisition occurs. The cost of winning a new client is five to ten times the cost of retaining an existing client, and as much as 95 percent of a firm's profits can come from its long-term clients. Research has also shown that a five-percent reduction in client defections can generate an increase in profitability of up to 125 percent. But the intensity of the quest for new clients too often inspires behavior that eclipses the demand to cultivate existing clients and ensure that satisfied clients become and remain loyal clients.

Breaking outmoded habits

Accountants understand that committed, trusted client relationships are formed initially by delivering reliable, professional work and superior client service. Mutual confidence and respect often evolve from that foundation and are essential factors to a long-term relationship.

Relationships change over time and the "quality work, great service" model that was successful in the beginning of the client relationship must also adapt and change to meet the evolving needs of clients. What may have worked to strengthen a client relationship, such as a round of golf, a meal at a fine restaurant, and a football game viewed from a private suite, is no longer valued. Today, continuously increasing value, as perceived by the client, may take the form of competitive analyses, referrals, peer forums, and continuing education. The profession is rapidly changing and firms that fail to change with it will not succeed.

Challenge of cultural change

Changing a firm's traditions to adapt to the emerging trends in the profession and among its clients requires challenging the culture through a disciplined, organized, and coordinated effort. As Niccolo Machiavelli observed in *The Prince*, "There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things." Clearly, effecting the cultural change described in this article is difficult and can only be accomplished through visionary, courageous leadership, firm-wide commitment, and planning for superior client service.

Visionary, courageous leadership. The firm's leadership must meet the challenge of fostering an environment that values and strives to retain and cultivate lasting relationships with existing clients. Leadership must ensure that clients are not taken for granted or ignored and that the opportunity they represent to increase revenue and the bottom line is fully exploited. Signals that a firm is failing to recognize the value of its existing clients must be recognized and addressed quickly before they become destructive. These signals include failure to use the firm for more than one service, frequent and continuous complaints, lengthening receivable days, and failure to respond promptly to e-mails and phone calls.

Firm-wide commitment. A firm-wide commitment to a cultural adjustment must, of course, be championed by the chief executive officer (CEO). He or she should be supported in this effort by a representative committee of key partners recognized for their leadership skills and ability to think strategically. The committee should include the most respected and influential leadership of the firm, such as:

- leaders of each line of business;
- heads of the industry practices;
- office managing partners in multiple office firms; and
- others in leadership roles such as partners with area or regional responsibility.

The committee's objective should be to formulate a strategic plan that fosters unity and a singular, one-firm focus. This simply stated but complex objective must be clear, widely communicated, easily understood, and supported by specific strategies and tactics. One of the most important strategies will be to establish a performance evaluation and reward system that recognizes and motivates staff to modify their behavior, attitude, and commitment to meet the firm's objective.

Examples of other strategies that support this objective are:

- managing clients as clients of the firm, not of individual partners;
- staffing engagements with professionals best suited to the tasks, regardless of their firm assignment or location;
- seeking, sharing, and acting on feedback from clients on a regular, periodic, and proactive basis; and
- rewarding new business generation from both existing and new clients.

This desired change in behavior and attitude must be monitored, and there must be little tolerance for deviations from the policies and practices supporting it.

Client service planning. Formulating client service plans (CSPs) is an essential element in the conversion of satisfied clients to loyal clients and is especially important for clients of a merged or acquired firm. Our experience suggests that the best CSPs are:

- built on a solid understanding of the client from the client's perspective;
- short and focused;
- relevant and actionable;
- documented and memorialized;
- monitored and measured for achieving clearly defined expectations;
- developed by a multifunctional team; and
- shared with the team serving the client.

Communication is crucial. The team to communicate with the client must be assembled using the media best suited to each client based on the strata or classification to which it is assigned and which is appropriate for the particular circumstances. For a firm's most important strategic clients, key messages delivered in-person by the firm's CEO to the client's CEO are preferable.

It is often necessary, for a variety of reasons, to reassign teams or their members. Team leaders or other key partners may be transferred, promoted, or reassigned for valid reasons. When such change is necessary, it is essential that the client be given ample notice and involved in the discussions regarding the rationale, timing, and replacement arrangements for its engagement team

Gather and use relevant facts. An underlying goal of the process that has been described is to periodically gather information and gain insight into the clients' unmet and emerging needs and expectations. The most important learnings should be reflected in the CSP and may include:

- broadening the base of relationships within the client;
- introducing other members and services of the firm to the client;
- asking the client for quality referrals;
- planning for a change in the composition of the team serving the client;
- conducting follow-up visits to determine client satisfaction on a regular basis; and
- identifying ways to deliver unexpected value, value that is not included in billings to clients.

Finally, it is vitally important to track clients that have defected to rivals to determine the reasons for their decision to change firms. The information gained should be considered when developing new CSPs, as it is likely to be objective and unfiltered.

Be prepared for resistance

In spite of the undeniable benefits of a firmwide commitment to create and maintain client loyalty, the efforts will probably meet with some resistance from various factions. One of our mentors often observed "there is no constituency for change." It is human nature to resist being forced out of one's comfort zone. The following examples describe the various forms of this resistance to change.

Barry Bully. There is always at least one partner who is highly effective at securing new clients and developing revenue streams from existing clients. Barry will likely exploit his success to his best advantage. He is usually overly protective of his clients and tries to hold the firm hostage by not allowing anyone to communicate or have contact with them. Barry's posture is often driven by a need for power, control, ego, insecurity, or all of these characteristics.

Charlie Charger. Many new or even veteran partners are hard chargers, committed to furthering their career goals through the ability to develop a personal relationship with clients and become their primary business advisor. Charlie may view the introduction of other services and professionals as a threat to his ability to own his clients, dominate the relationships, and use clients as a vehicle to achieve his ambitions.

Shrinking Violet. Many partners find solace in serving their clients of many years and are reluctant to become involved in firm activities that may remove them from their haven of security. Consequently, Violet tends to resist introducing other services or partners to her clients and will also likely be threatened to have her work reviewed by others in the firm for fear of damage to her reputation, importance, and future with the firm.

Rita Rigid. An established routine to successfully discharge one's responsibilities is compelling and difficult to resist, especially when the results from following such a routine have been successful and rewarded in the past. Change disrupts routines and creates discomfort, both initially and perhaps well into the future. Rita finds multiple creative ways to avoid change.

Dorothy Despot. Increasingly, firms seem to add partners from larger, more-sophisticated firms. Often, these partners are very good at bringing in business and enter the firm with a "the way we did it was better" attitude. If not already present, they may also develop an offensive, superior manner. Dorothy soon sends a message that she has all the answers, should not be challenged, and will not change the way she works. Change is acceptable to Dorothy, as long as it fits into her routine. Her disdain for members of the "inferior" firm is hard to conceal.

The forms of resistance described above are deeply engrained and difficult to change. The effectiveness of a firm's leadership will be tested in securing a firmwide commitment to developing and executing client service plans. Persistence, consistency, commitment, and time will eventually overcome this resistance and result in at least passive acceptance to the firm's new order.

The processes described and the decisions recommended in this article are intended to foster a mindset and behavior that will enhance a firm's ability to convert "satisfied clients" to "loyal clients," those not only less likely to defect to the competition, but who actively support the firm by providing referrals, using more of the firm's services, and growing the bottom line. The essence of our recommendations lie in the preparation of creative, sharply focused, executable CSPs. Positive results occur because the plans have the visible support of the firm's leadership and are developed by client service teams that span the spectrum of the firm's services and recognize the significant benefits of creating loyal clients. An ensuing article that further explores the challenges following a merger or acquisition, stressing the causes of partner and professional staff turnover, will be included in a future issue of this publication.

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