

Commercial Logic’s Client-based Management White Paper Series

Client Retention Part I

To put forth the obvious: the largest, most predictable and most controllable source of revenue is recurring engagements with existing clients. But don’t let terms like “existing”, “recurring”, and “predictable” fool you into thinking that no effort needs to be put forth to protect and enhance that revenue stream. Especially in tough economic times, knowing and caring for your client base is critical to keeping them. CPA firm managers agree: A survey by the AICPA recently identified client retention as the #1 priority of CPA firms with more than 20 professionals.

Existing client evaluation, relationship management and cross-selling are all important aspects of CPA Firm Practice Management, and deserve the attention of the highest levels of firm management.

Fortunately, many of the disciplines and tools involved in maintaining and improving client relationships are the very same ones required for staying in touch with prospects and new business development.

The essential steps in Client Retention are to establish:

- A client evaluation system
- A formal relationship management process
- Regular reviews of cross-selling opportunities
- Procedures for tracking and measuring the effectiveness of cross-selling.

In this article we will focus on client evaluation.

Client Evaluation

The evaluation and grading of clients can be accomplished by deciding upon what factors are important to measure (if objective) or grade subjectively. Here are some examples of objective and subjective factors that might be considered, with possible ranges and weighting.

| Factor | Picklist, sorted from highest to lowest score | Weight (1-5) |
|--------------------|---|--------------|
| Annual Fees | 3: Over \$50K 2:\$10-50K 1: Less than \$10K | 5 |
| Profit margin | 3: Over 60% 2: 40% to 59% 1: Below 39% | 2 |
| # Services Engaged | 3: More than 3 2: 2 or 3 0: Single service | 4 |
| Referrals | 3: More than 4 2: 1 to 3 0: None | 3 |
| Risk | 3: Low risk 2: Medium Risk 0: High Risk | 5 |

Two clients might then be graded as follows:

| CLIENT A: | Selection | Weight | Score |
|--------------------|--|--------|-----------|
| Annual Fees | 3: Over \$50K Annual Fees | 5 | 15 |
| Profit margin | 2: 40% to 59% Profit margin | 2 | 4 |
| # Services Engaged | 0: Single service | 4 | 0 |
| Referrals | 2: 1 to 3 Referrals | 3 | 6 |
| Risk | 0: High Risk | 5 | 0 |
| Total Score | | | 25 |
| Grade | A: >40 B: 26-40 C: 15-25 F: <15 | | C |

| CLIENT B: | Selection | Weight | Score |
|--------------------|--|--------|-----------|
| Annual Fees | 2:\$10-50K Annual Fees | 5 | 10 |
| Profit margin | 2: 40% to 59% Profit Margin | 2 | 4 |
| # Services Engaged | 3: More than 3 services | 4 | 12 |
| Referrals | 2: 1 to 3 Referrals | 3 | 6 |
| Risk | 2: Medium Risk | 5 | 10 |
| Total Score | | | 42 |
| Grade | A: >40 B: 26-40 C: 15-25 F: <15 | | A |

A simple Excel model of the grading system can help you evaluate various factor choices and weights and check results to fine-tune your model. Populate the model with factors for 15-20 varied clients. You may well find that the resulting grades both surprise and educate.

Using the combination of objective and/or subjective factors and the weight given, clients should be evaluated and treated according to the resulting grade. It may sound crass, but otherwise good clients will slip through the cracks, and you may find your client base deteriorating in quality if not quantity.

Objective measures such as Annual Fees, Realization, Profitability, Collection History, Number of Services Engaged, and Referrals, when measured and applied to each client, can also be used to evaluate whole market segments, industries, or services offered. Subjective factors (relationship, networking, honesty, risk) might well modify a client's grade based on objective factors alone.

These factors should be created as attributes with pick-list selections of appropriate choices to ensure consistency of data. Your practice management system reporting should be able to provide (and hopefully even populate) the objective factors. It should also be able to store subjective factors and other information such as industry and market segment, as well as the

resulting client grade. Ideally the scoring and grading should be automated based on the selections made for the various factors for each client.

Sometimes the most valuable information that comes from evaluating your clients is the discovery of a group who don't generate a good rate of return for the firm. Spending valuable resource capacity on these clients can result in missed opportunities as well as a drain on finances and staff morale.

How might this apply to new business development? First – the most likely source of new business is additional service to your existing clients. Clients engaging firms for more than one service are vastly more likely to stay with their current CPA firm than single-service clients. Ranking clients will help you focus your efforts where the results can be most beneficial. In addition, this discipline will help you better evaluate prospective clients and the potential value of their business. Contacts that are neither clients nor prospects (referral sources, other professionals, etc.) can also be evaluated as to their value to the firm, and treated appropriately.

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