Part III

Implementation

SIX

Enhancing Client Relationship Capabilities

Implementing Key Client Programs

The real value in knowledge-based relationships is in making them happen. However attractive the concepts, they are worth nothing until they are implemented in the organization, and can bring benefits to both clients and the firm. If they are brought into practice, this allows far more value creation than in traditional black-box relationships.

This third part of the book is devoted to implementation; that is, how to bring knowledge-based relationships into reality in your organization. Much of the action that needs to be taken is in the field, bringing practices to bear in working with specific high-value clients. However, there also needs to be an overarching framework within which this is done. This chapter introduces this skeletal frame, which is fleshed out in the subsequent five chapters.

Since the 1980s, many firms have implemented programs to improve how they work with their most important clients. However, the first phase of this movement was largely driven by industrial and consumer products firms, usually labeling the focus of their initiatives "key accounts." Diversified technology vendors were innovators in their account management approaches, though their orientation was very strongly toward closing sales rather than deepening relationships. Large financial services firms were next to follow, at least in establishing early and often simple versions of these programs.

It was only in the late 1990s that many professional services firms began in earnest to work to apply their efforts more effectively to client relationships. Part of the fault lay in organizational structures. Partners or senior professionals were allocated client relationship responsibilities without the mind-set or skill base to develop the relationship actively, rather than simply performing work for the client. In addition, firms in many professional services industries were still too fragmented across country operations, service lines, and partners to be able to develop effective, coherent practices and processes. Marketing functions within firms until recently have all too often been focused on producing brochures and managing entertainment. The 2003 annual conference of one association of professional services marketing executives was titled "Beyond Golf Balls and T-Shirts." One would certainly hope that most of them had gone way beyond that stage by then.

However, by now, most professional services firms around the world are at least beginning to get their act together. Firm leaders are recognizing that the major competitive field of play in their industries is the ability to develop deeper, stronger client relationships. If they are not effective at this, they are in the process of becoming commodities.

Many firms are focusing on increasing their sales capabilities. This can be a worthwhile endeavor. However, this must be done within the context of developing relationship capabilities. Sales efforts should be subsumed under relationship initiatives. The most important emphasis is developing deeper, more profitable relationships. Sales activities need to be positioned to create and concretize specific revenue opportunities within those relationships.

Enhancing Client Relationship Capabilities

Every firm has a certain set of capabilities in developing high-value client relationships. All successful firms will have at least reasonable capabilities in this domain, even if this has not been an overt focus in their management activities. The issue, whatever the current state of those capabilities, is how to continually enhance them. As you saw in Chapter 1, doing quality work is not enough. At every level from the top end of the market down, differentiation will increasingly stem from how well firms manage their client relationships. What was good enough a few years ago is not good enough today, and what is good today will simply not be adequate a few years from now. As illustrated in Figure 6-1, there are five key domains firms must address in order to enhance their client relationship capabilities on an ongoing basis.

- Strategies
- Structures
- Processes
- Skills
- Culture

Professionals must understand that these five domains are inseparable. Any initiatives must take into account each domain and how it interacts with the others. For example, for many firms the first step will be to introduce foundational structures for selecting and dealing with key clients. However, for this to be effective the design must stem from a clear understanding of the firm's strategic directions, and frontline professionals must have the relevant skills in building broad client relationships. Certainly it would be challenging at best to obtain significant business results from these initiatives without a firm culture and behaviors that support the initiatives. As such, firms must identify where they should focus their initial efforts in enhancing their overall client relationship capabilities, while always keeping in mind the broader context.

Here I will introduce the five key elements of enhancing client relationship capabilities. Each of these is discussed in more detail in the next five chapters, with a consolidation of these themes in regard to creating an action plan presented in Chapter 12.

Culture

Attitude of client partnership, collaboration, and respect
Collaboration and effective communication with relationship team members
Transparency with the client and inside the firm
Using firm-wide client relationship processes and systems

Skills

Setting and implementing relationship objectives and strategy
Leading and participating effectively in relationship teams
Customizing relationship and communication styles to clients
Managing client expectations

Processes

Selection of client relationship team members
Relationship team communication and collaboration
Developing and monitoring client relationship strategies
Ongoing client feedback and its application

Structures

Key client selection and segmentation
Selection and allocation of client relationship leaders
Cross-selling remuneration and recognition systems
Account management and customer relationship management systems

Strategy

Role of client relationship style in firm differentiation
Targeted client profiles, client industries, service lines, and service delivery
Role of online service delivery within firm strategy
Long-term strategic directions and positioning

FIGURE 6–1 *The five domains of enhancing client relationship capabilities.* Copyright © 2004 Advanced Human Technologies. Reprinted with permission.

Strategies

Many professional service firms fail to specify adequately how their business development initiatives relate to their strategic directions. Simply in order to be able to allocate relationship development efforts appropriately across existing and prospective clients, firms must have a clearly articulated vision of which industries, service lines, and types of service delivery they wish to develop. This requires examining how their business environment is shifting. One of the most useful approaches is to apply scenario planning to "the future of the client," examining how in 5 to 10 years your clients and client industries may have evolved, especially in how they want and expect service delivery. This will inform current strategies and emphasis of business development activities. Whatever approach is used, it is critical to build a vision of how your clients and the marketplace are changing, and how you want your firm to be positioned in this future world.

Structures

Many firms have tended to focus on the relatively easy issues of underlying relationship structures, including selecting and segmenting key clients and establishing account management planning and customer relationship management (CRM) software. Other key issues include implementing effective remuneration and recognition systems for cross-selling, and clear approaches to allocating client relationship leaders to key clients. Some of these can be overlaid on existing firm structure, but in other cases they require reappraisal of the formal structures. A common example is how many firms have substantially reorganized around industry lines in order to more effectively bring together disparate practice areas in creating client value.

Processes

Clearly defined processes should to be in place to support professionals in relationship development activities. These include processes for client relationship team formation, developing and monitoring client relationship strategies, and gathering useful client feedback. One of the most important issues is having clear processes in place for effective relationship team communication and collaboration, discussed in more detail in Chapter 9. Some of the processes can be formalized as standard practice. However, many of the processes are essentially tools made available for relationship leaders to apply in running smooth and effective client relationship teams.

Skills

A core challenge for professional service firms is that their senior executives have all come from a deep functional specialization, and have rarely had specific skill development in client relationship management. The issue is taking technical professionals and making them into true leaders that can inspire aligned action across the firm to address client challenges. High-level communication skills are required to manage client expectations effectively in complex relationships, and to customize service delivery and client communication according to the client's relationship style. Leading client relationship teams in particular requires key skills in setting and implementing relationship objectives and strategies, and fostering collaboration across diverse teams. Leadership development is discussed in Chapter 12.

Culture

Even if all of the other four key elements are in place, success is unlikely unless the firm has a culture that supports the development of deep client relationships. Professionals need to be driven not only to enhance client service and client knowledge but also to collaborate with colleagues across different service lines and locations. Every firm must focus on continually enhancing their culture in supporting client relationship capabilities, through consistent and aligned communication, relevant remuneration structures, and effective leadership.

Implementing Key Client Programs

The general intent of a key client program is to identify the most important current and potential clients of the organization, and to create focus around building those relationships. However, the specific intent is often still mired in a sales-oriented mentality: "How do we sell more to our clients?" I am far from suggesting that this is not an appropriate objective. Absolutely, you want to generate higher, more consistent flows of profitable business from current and existing clients. However, the most effective route to this is not in focusing on how to sell more services to them. It is in striving to build deep, trusting, knowledge-based relationships with your clients that allow you to create greater value for them. If you can do that, it will then be extremely easy to sell specific projects and services. The mentality behind the design of a key client program is critical. I have seen major firms implement programs in which the rhetoric is about relationships, but the reality is that they are predicated on feeding the sales pipeline. If the focus is on meeting quotas, the relationship will suffer, and revenue will eventually dry up. If the focus is on the relationship, sales will prosper.

The program needs to establish structures, processes, and activities implemented across the organization. It also needs to provide approaches and tools that will assist the relationship teams that work on the most important clients for the firm. Below is an overview of firm-wide initiatives and work on key client relationships. This provides a foundation that will be expanded on over the following five chapters, notably in Chapter 9 on relationship teams and in Chapter 12 on creating action plans.

Launching the Program

Launching a key client program is not something to do halfheartedly. A failed initiative will set you back rather than advance you, and it is therefore critical to do it well. Support from senior executives is crucial. If that is not in place, it is possible to implement "stealth" programs that gradually create results and buy-in across the firm. However, this is a path for the brave only. The most important issue is establishing a staged program, which does not bite off too much initially, and allows successes in limited domains to build over time. Particularly when shifting how professionals and business development executives work, incremental change is preferable.

Establishing an identity for the program is important as a reference point, so that it can be branded internally. This could be as simple as "key client program," or a more adventurous title. From the outset key stakeholders need to be provided with initial education on the concept, intentions, and benefits in order to gain buy-in, and to bring into the open and address concerns. There are two key aspects to developing and launching a key client program.

- Establish a firm-wide program
- Enhance selected key client relationships

The firm-wide program is most importantly about establishing the structures and processes that guide and support client initiatives, including how firm resources are allocated to clients. This provides a framework within which initiatives can be established to develop relationships with selected clients. In the following two sections I describe some of the broader issues involved in establishing a firm-wide program and in enhancing selected client relationships. The client relationship efforts are the primary responsibility of the client relationships teams. This is covered in detail in Chapter 9.

Zurich Financial Services

Zurich Financial Services is an insurance-based provider of financial services, operating in 50 countries, with 62,000 employees. In 2003 its operating profit reached $2.3 billion. The provision of complex insurance and risk management services is challenging because major multinational clients direct their insurance business through brokers, creating a three-way relationship among insurer, client, and broker. In addition, insurance in any specific business domain, which can range across shipping, property, technology, and many other areas, must be assessed, priced, and offered by a specialist underwriter. However, there are many benefits to more focused client relationships to both clients and the insurer, including developing a greater understanding of client issues, providing integrated offerings, and sometimes clients being able to learn more about their own global operations and issues.

In mid 2000, having experimented with providing clients with multiple service lines on a single contract, Zurich chose to establish a division called Zurich Strategic Relationship Management (SRM), responsible for representing all of Zurich's business units to its major global clients. The unit has hired and trained relationship managers, selected key clients, established structures and processes, and established a central role in the global organization. SRM received a strong boost when James Schiro joined Zurich as CEO from PricewaterhouseCoopers (PwC), where he had been CEO and the architect of PwC's relationship management model. Terje Lovik, CEO of Zurich SRM, says that it is impossible to implement a strategic management unit without top management support.

Zurich SRM has grown to 18 strategic relationship managers covering 150 key clients. The unit has built a rigorous process for introducing clients to the program and developing deeper relationships over time. It has established three categories of clients: Suspect, Target, and Hot. These reflect the potential value of the client to Zurich. It also has defined three levels of client relationships: Start, Good, and Deep. Each of the categories of clients and client relationships has strict criteria. For example, with a Hot client with a Deep relationship, Zurich would expect to get a final opportunity to make the best offer for any deal the client was considering.

Much of the relationship managers' activities are centered on developing greater client knowledge, and on bringing together key resources from across the company. They often come from a high-level enterprise risk management background, and can thus more easily broaden their relationship beyond their clients' risk managers to senior management such

(Continued)

as the CFO. One of the tools they use is introducing a two-way confidentiality agreement early in the relationship, in order to encourage more open discussions. A strong emphasis is placed on customizing products and service delivery to best suit the client, for example by creating tailored claim-handling mechanisms or risk-sharing structures.[1] This has to be based on deep client knowledge.

Strategic plans are established for all strategic clients, and these are visible only to key client stakeholders. The plans include key client information, short-term and strategic goals, and relationship activities. These are used to create briefing sheets for senior executives when they are going to meet clients, either formally or in a social context. Every key client has an executive sponsor from Zurich's top management team, helping to ensure resources are available when required, and building visibility for SRM through the company.

Developing Strategic Clarity

Most professional firms have a reasonable idea of their current market positioning. However, if you start to explore a little deeper there is often a lack of clarity, particularly on how the firm's positioning will evolve over the next few years. A clear picture both of the clients that fit your current desired profile and the specific types of clients and client work that will assist the firm to create its future vision is an essential foundation of any key client program.

Two of the most fundamental questions are the firm's target clients and its targeted types of services. Target industries can be examined both from the perspective of likely growth and shifts in the demand for the services offered by the firm. The relative desirability of smaller and larger clients is an important issue, as is determining the most appropriate criteria in assessing this. For example, a human resources consulting firm will be more interested in a prospective client's number of employees and employee turnover than in its revenues. The service offerings the firm expects to be most attractive in the next few years can be examined using the steps for responding to commoditization described in Chapter 2.

The professional services models framework (see Chapter 2) provides one approach to thinking through firm positioning in terms of service delivery style. As for other issues, these should be considered in terms of both current desired profile and how the firm would like this to evolve over the coming years. In creating a future vision for the organization, it is important not only to envisage how the firm and its client relationships will shift over the next few years but to imagine a timeline for how this is expected to progress. A key question is specifically what new types of services and offerings will be in the firm's portfolio in, for example, three years. Lack of any intended changes should be a loud warning bell of business risk.

A key aspect of strategy clarity is a high degree of alignment among the firm's executives. This is best achieved through getting broad involvement in developing the firm's strategy. The discussions and interactions in examining key challenges and dimensions for the firm's present and future are essential to moving to a common understanding. A written outline of the firm's strategic positioning, including targeted clients, industries, service lines, and service delivery, will provide a reference point for clarifying to what degree a particular client or client engagement fits the firm's core directions.

One of the most noteworthy outcomes of this process is identifying the characteristics of the clients that will help the firm move toward its strategic vision. Targeted industries in which the firm does not currently have a significant presence means that clients in that industry are highly desirable. Penetrating these sectors requires the development of industry experience and a reference client. Where the firm wants to develop new service lines, it will want to seek specific opportunities to showcase these, or sometimes to help develop the necessary capabilities and experience.

Key Client Selection

The next step is for firms to apply to specific clients the insights gained in refining their strategic vision. It is critical for firms to allocate their efforts and resources where they will have the most impact and also further the firm's core directions. In Chapter 1 you saw that the relationship style of your client is a major factor in the effort you put into developing the relationship. If they will never provide you with an opportunity to build strong relationships and create superior value for them, you will not want to invest excessive resources into the account.

There are a range of other reasons you will choose to focus firm resources on developing a particular client, ranging from profitability to prestige. It is essential to bring these together into a clear framework, so that firms can readily decide which are their key clients that merit preferential attention. This framework should be able to be implemented at two levels. It should provide a clear guide for the firm to allocate resources to its relationship development initiatives. It should also be a useful tool for individual relationship leaders in assessing the potential of their existing and prospective clients, and in allocating their own time and energy. There are three key factors in assessing client value and potential.

- Direct value
- Indirect value
- Relationship investment

The client's potential value is the sum of the direct value and indirect value, divided by the relationship investment. Each of these needs to be assessed in order to get a clear idea of the priority of the client in allocating resources.

Direct Value

A client's direct value needs to be assessed both in current terms as well as in future potential. Wherever possible this should be measured by profitability rather than revenue. There are still relatively few firms that have reliable profitability measures for their clients. Whether the model used for client profitability is simple revenue and cost assessment or more complex approaches such as Economic Value Added,[2] the difficulty lies in allocating costs to activities. There is no "correct" way to do this, and the process is fraught with the perils of internal politics. Yet even a preliminary exercise can start to uncover the relative profitability of clients, which can provide a basis for effective decision making. If you do not have any profitability measures, you are flying blind. This is particularly relevant when major clients attract significant discounts, sometimes to the point of them becoming unprofitable to the firm without this being apparent to firm management.

It is important in relationship strategy to know your client's total spending on the range of services you offer, and thus your current share of this pie. The first issue is simply in defining the scope of where you are competing, that is the total pie for which you are competing. Sometimes this is clear, but redefining this scope, particularly as the organization changes its positioning over time, will affect how you assess the potential value of the client.

Often you will not know your client's total spending on the services you provide. One approach is to make an educated guess. The other is to ask your client. This brings us back to the nub of building knowledge-based relationships. If you are currently not comfortable asking your clients their total spending on your services, clearly you must build further trust, and clearly demonstrate to the client why it is valuable for them to be more open with you.

Indirect Value

Indirect value is any way in which working with a client provides value that is not in direct billings. The first way is flow-on revenue, in which you gain revenue from other clients as a direct result of working for an organization. This could be through direct referrals or when organizations are closely tied. For example, one bank that was working for a credit union association began providing services to members of that association as a direct result of the work performed.

The other aspects of indirect value are all aspects of "strategic fit." There are four key ways in which clients can support strategic objectives.

- Reputation enhancement
- Enter new client industry
- Enter new product or service market
- Develop intellectual property or enhance capabilities

Firms need to have developed a high degree of strategic clarity in order to know which potential clients meet these objectives. Once the profile of what forms a fit with the firm's strategy has been developed, clients or prospects can immediately and easily be assessed as to how well they fit the firm's strategy.

Relationship Investment

The third key aspect of assessing client potential is relationship investment. This includes how good a match there is between the firms, the effort required to achieve results, and how stable the revenues or relationship are likely to be. Depending on the industry, the key criteria are likely to include the following.

- Ability to provide superior value to the client
- Competitive intensity
- Cultural fit and ease of working together
- Sales or relationship investment required
- Existing industry experience
- Stability of client, relationship, and revenue

It is not uncommon to put in massive effort in developing a strong relationship, and then seeing your key contact at the client replaced by an alumnus of your arch rivals, or even more decisively the client going out of business. These types of events cannot be predicted, but an assessment of their likelihood should inform your decisions as to how much effort to put into developing the relationship.

In assessing client priorities, it is critical to assess the likely investment required to build a solid, mutually valuable relationship. If you only assess the potential value of clients, you may neglect what is required to realize that value, meaning firm resources are misallocated. Taking a wider approach allows this to be an effective tool for managing the firm's clients and prospects as a true portfolio, allocating resources where they are the most likely to be fruitful.

The type of framework for assessing client potential just presented can be applied both in selecting the firm's key clients and as a tool for individual relationship managers to allocate their efforts effectively. It is all too easy to get caught up in specific opportunities and lose sight of where energy is most likely to achieve worthwhile results. A simple framework covering the key criteria of direct value, indirect value, and relationship investment can be encapsulated in either paper or online form as a tool for relationship managers. Some firms implement systems such as these by ranking each of the selected criteria on a scale of 1 to 10, attributing an importance weighting to each of these from a total of 100 points, and multiplying these to come up with a single number to assess the client's potential. This can be useful. However, just as often it can obscure key criteria in the all-important decisions of allocating firm resources.

It is possible to build more complex models for assessing potential client value, for example using net present value (NPV) measures to discount the value of future revenue streams and incorporate uncertainty factors. However, the inputs to these models are highly judgmental, and in most cases this more quantitative approach yields little or no improvement to providing a loose framework for judgment by front-line professionals.

In a staged key client program, the firm is likely to choose not to establish a complete set of key clients in the first stage, but rather identify the most promising candidates in a first round. One approach is to allow relationship leaders to propose one or more of their clients to enter the key client program. These can be assessed within a broader framework to ensure that the initial key client list is representative of the firm's current and desired client mix.

In building a more comprehensive program, the firm needs to ensure that it is addressing both existing and potential clients. A common way of allocating target clients in a key client program is to place them into the categories of current high-value clients, existing clients with significant untapped potential, and companies that are not currently clients but that match the firm's strategic profile for targets. Allocating responsibilities for relationships with the top companies on each of these lists ensures that both near-term and long-term opportunities are being addressed.

Segmentation and Migration

Not all clients are equal. The single most important way of segmenting clients is through the key client selection process presented above. However, there are many other dimensions that can be applied to segment clients usefully. For high-value clients, the most important outcome of this segmentation is creating customized service delivery. Some of the more obvious segmentation issues involved in achieving this include client size, service spending, industry sector, organizational style, relationship style, and buying behaviors.

In knowledge-based relationships, the most important issue is client value relative to service delivery styles. Figure 6–2 charts the types of relationships that stem from the client value and client's desire to interact. This relates strongly to the client leadership framework presented in Figure 1–2 in Chapter 1. However, it applies these dimensions to how to change interaction and service delivery with key clients. If a client has low current and potential value, but wishes to interact extensively in the course of service delivery, this will be a loss-making relationship. Depending on firm strategy, it can be appropriate to deal with low-value clients. However, in this situation it is essential to focus on resource efficiency in service delivery. In this case, the firm will want to migrate its clients to more efficient ways of dealing with the client, often using online tools and process-oriented offerings. Here the balance of power resides with the service provider, who can offer incentives to clients or simply restrict their choices. For example, some banks with online foreign exchange services offer

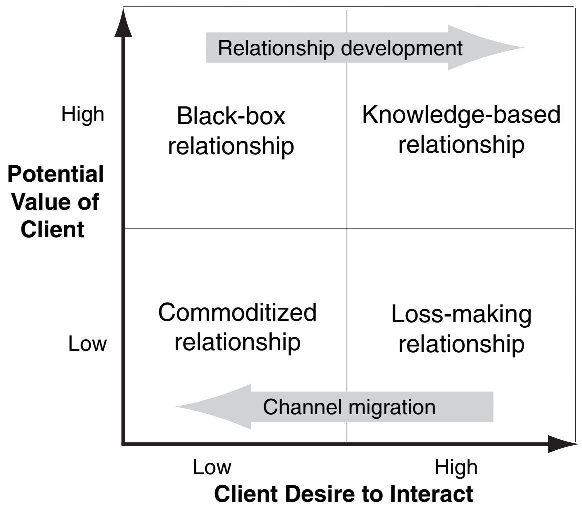

Figure 6–2 *Segmentation and migration in knowledge-based relationships.* Copyright © 2004 Advanced Human Technologies. Reprinted with permission.

preferential pricing to their corporate clients that use the service rather than deal on the phone with their foreign exchange dealers.

At the other end of the spectrum are high-value clients that are happy to be in a black-box relationship that requires little interaction with their service providers. The firm's efforts should then be focused on migrating its clients to a richer and more interactive relationship style. In this case, the power rests with the client, so the firm must educate the client as to the range of service delivery styles, and the benefits of more interactive approaches. In one case, a bank chose to show a major corporate client its internal measures of the client's profitability to the bank. The client was surprised to find that its extensive relationship was only marginally profitable to the bank. Since it valued the relationship, it promised to direct more profitable types of business to the bank.

The migration process needs to be implemented at both firm and relationship manager levels. Companies must establish a clear plan for how to migrate their clients. This needs to be more detailed than the very simple framework presented above. For each meaningful client segment, it should examine the current array of communication and service delivery models used, and establish a desired balance of client communication channels. For instance, a law firm looking at a segment of medium-size property investors may decide it wishes to deal with its regular property transactions primarily through an online interface it has developed, but ensure that all senior executive contact is directly with its relationship partners. It then needs to introduce a strategy to introduce any new channels to the client, and shift interactions to their desired balance. If the intended balance of client interaction is not clear, it will happen by accident or according to the client's preferences rather than yours.

The reality is that the migration process is implemented by the relationship managers responsible for the clients. They need to have the necessary conversations with the clients on how they would like to deal with the client, and why. This requires subtlety, and can be supported by effective training. The most important principle is that the migration process takes time. It can be a disastrous mistake to decide on how you want to migrate your clients and trying to make it happen immediately. If the migration period is expected to happen over an extended period, a phased approach to leading clients into new relationship styles is far more likely to be effective.

The ultimate form of downward migration is sacking the client. Again, this needs to be done with subtlety. Engendering ill will means you will likely never be able to deal with this client again, and certainly has the potential for a negative impact on your reputation in the client's industry. If you do want to stop dealing with the client, it is preferable to do this in a phased manner so that it is not a surprise to the client. Informing them along the path of shifts in your firm's strategy, criteria for dealing with clients, and effective timing help them to understand this is a business decision. It is even possible to offer an "outplacement" style of service that helps them to find and transition to an alternative supplier. Regional accounting practice Vanacore, DeBennictus, DiGiovanni, Weddell chose to fire a group of clients, suggesting they switch to an alternative accounting firm and assisting the transition.[3]

Remuneration and Recognition

One chief executive of a leading investment bank told me that his single highest priority was finding effective ways to allocate rewards for major client work across operating divisions and key staff. Dealing with remuneration across complex multidivisional multilocational clients is highly problematic, but is an essential element to supporting client relationship capabilities.

The starting point has to be the ethos and existing reward structures for the firm. Lock-step partnerships, which in principle allocate shares in firm profits only on the basis of seniority, have no scope for rewards for generating revenue. The theory is that the systems engender a more collaborative attitude than those driven by individual performance, and for a number of the remaining firms that use this type of structure this indeed appears to be the case. The situation is easier when dedicated salespeople or relationship managers are in place. However, for most professional services firms practicing professionals are responsible for client relationships and business development.

Almost all firms have implemented some form of performance measurement system for their senior professionals, including direct financial measures such as personal or team billings, indirect financial measures such as firm business development and cross-selling, and nonfinancial measures including staff development and teamwork. For example, Ernst & Young U.K. shares profits among its partners by allocating units relating to personal objectives, including client service, revenue growth, and operational excellence.[4] Other firms explicitly use a balanced scorecard covering key areas. Before its acquisition by Pfizer, Pharmacia & Upjohn used in its key client team remuneration a balanced scorecard covering nine measures in four groups: financial, operational efficiency, innovation/creativity, and customer/team satisfaction.[5] Across these systems, the issue is identifying the behaviors or outcomes (preferably measurable) the firm wants to encourage and reward. For example, at several leading investment banks individuals are assessed by people they have worked with on a client team or project during the year. Each individual is asked to nominate who they would like to assess them. However, everyone has the opportunity to assess any other team member if desired. The outputs from this process provide a significant input into year-end bonus allocations.

There is an array of quantitative techniques used to reward cross-selling, each technique with its own problems. No single system will provide effective incentives for the desired behaviors at the level of the firm.[6] Probably more important are the nonfinancial rewards and recognition. Usually the most powerful reward in a professional services firm is promotion. If this is explicitly tied to collaborative behaviors, or even more powerfully if promotion is denied to executives that do not build client relationships beyond their own practice area, this can be a strong enabler of effective relationship development. Recognition by peers — implemented in the right way — provides very powerful support to desired behaviors.

Developing Client Strategies

Enhancing client relationship capabilities at the level of the firm constitutes the big picture. However, the reality is that where the rubber meets the road is in working with individual major clients of the firm. Ultimately, the responsibility for working on and developing key clients resides with the relationship leaders and their teams. Chapter 9 covers in detail the selection and responsibilities of client relationship leaders and team members. Here I examine the process of developing and implementing client strategies.

Developing powerful, profitable, knowledge-based client relationships does not happen by accident. The intent needs to be there from the start, and consistent aligned action taken to get there. The critical enabler is effective strategic thinking and action. In Chapter 1 you saw how relationships must have continued forward momentum. Too often professionals focus on their current projects or the next sale rather than work on the level of the long-term client relationship. Though many firms get their salespeople or relationship managers to write "account plans," this is usually a rather linear process focused on feeding the sales pipeline internal accounting machine. Professionals need to have a clear vision on where the relationship can go, how the client can begin to see its supplier as a true partner, and how the firm can effectively lock in its client through consistently superior value creation. Using that to generate strategies that flow through into focused action is the only way this level of value creation can be achieved.

The Client Strategy Process

Client strategy should be set by the relationship team under the guidance of the relationship leader. If a completed strategy is handed to relationship team members, they are unlikely to feel a high degree of commitment to the implementation. In addition, the strategy must be based on the deepest possible knowledge of the client, which will come from everyone who has had any contact or dealings with the client. A full identification of potential opportunities for value creation is difficult for any single individual.

The basic client strategy process is illustrated in Figure 6–3. In the initial stage of *client assessment* the relationship leader applies the assessment framework used at the level of the firm in order to examine the likely client potential and to prioritize relationship efforts. The second, third, and fourth stages are *strategy analysis*, *setting objectives*, and *establishing a roadmap*, described below. The next stage is *strategy alignment*, which involves sharing strategies with the client. This is discussed in Chapter 9, as this is implemented by the relationship team. The final stage is one of *execution and revision*, in which the action plan is implemented and client feedback used as critical input to refining the strategy. The process of gaining and applying client feedback is also covered in Chapter 9.

Figure 6–3 *The relationship strategy process.* Copyright © 2004 Advanced Human Technologies. Reprinted with permission.

Setting Client Objectives

Too often client relationship objectives are stated in purely financial terms. Financial objectives are clearly fundamental to commercial relationships. However, if the focus is purely on the numbers the mentality and activities of client engagement are always focused on generating sales, with no attention to the issues that will impact the progress (or otherwise) of the relationship. Clients readily understand what the true focus is of their suppliers, and more often than not they seek service providers that are more interested in building relationships than driving short-term revenue.

It is critical to implement what I call 360-degree objectives, which provide clear direction to client relationship development activities. There are three key categories of objectives that should be set for major clients.

- *Financial:* Aside from the obvious financial objectives of current and future revenue (or preferably profitability), often a more important objective is increased "share of wallet" (i.e., share of client spending on the services you provide). In addition, you can set objectives for direct flow-on business, as described above.
- *Relationship:* Relationship objectives measure progress in the relationship. These can include meeting specific new client executives; developing relationships with senior executives such as the CEO; establishing contact with new divisions, offices, country operations; selling specific new products or services to the client; gaining preferred supplier status or presence on a panel; and meeting or exceeding satisfaction levels on surveys. As for any other objectives, these need to be specific, measurable, and set to a time frame. These relationship objectives form the core milestones mapped out in the action plan, discussed below.
- *Strategic:* As described above, clients can be desirable not just for their revenue potential but in terms of how working with them can contribute to firm objectives and positioning. For any individual client, these strategic objectives could include gaining entry and profile in a new industry sector or service market, developing specific marketable intellectual property or new capabilities, or enhanced reputation or positive media attention.

The objectives that have been set across these three domains set the directions out of which the client strategy will emerge. They can then be used to monitor progress on the relationship, with the relationship objectives particularly valuable in indicating the strength of relationship momentum.

Citibank's Global Relationship Banking program has implemented a balanced scorecard for its operations that measures client momentum in terms of increased penetration of its client's wallet, or share of spending on banking services. However, relationship reviews across its key clients also provide critical inputs.

Designing Knowledge-Based Leverage Points

One of the most critical aspects of a sound relationship strategy is applying the concepts of knowledge-based relationships to identifying key leverage points. If you review the virtuous circle of knowledge-based client relationships, you can note the four key elements of the circle. When you are trying to enhance progress around the virtuous circle, the key issue is not each of the elements in itself but how all of the elements are linked and flow one to the next, as illustrated in Figure 6–4.

In examining the circle, we start from client knowledge, the element at the bottom, and move backward around the circle, as each element depends on the one preceding it. This uncovers five key issues on

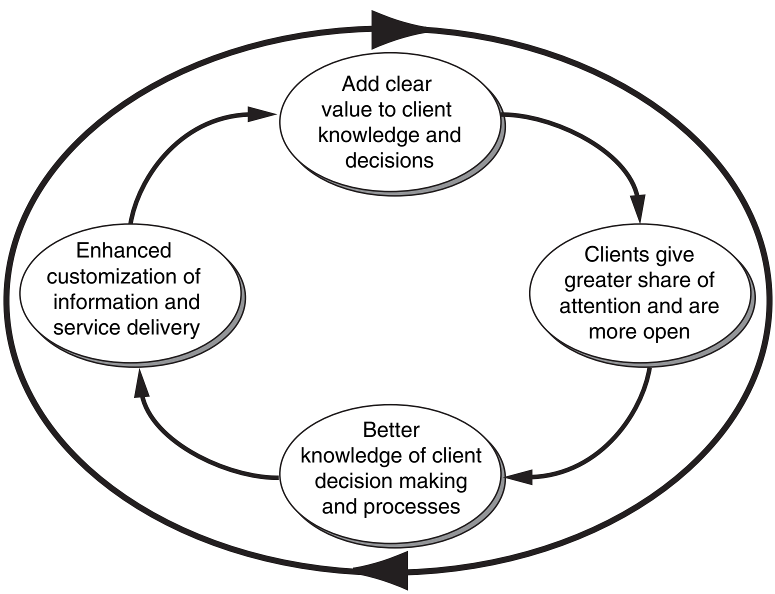

Figure 6–4 *Identifying leverage points in the virtuous circle.* Copyright © 2004 Advanced Human Technologies. Reprinted with permission.

which to focus in developing knowledge-based client strategies. Each of these throws up a series of key questions that need to be answered in order to enhance the circle. The most important issue is using these questions to generate specific action items that can be included in the client action plan.

- *Client knowledge:* In what areas do we know we need to improve our client knowledge? What action steps will enhance our knowledge in these areas? How can we uncover other issues at the client we do not know to ask about?
- *Client openness:* What can we do to get the client to be more open and disclose more? What will clearly demonstrate to the client the value of being more open? How do we gain greater client access, attention, and interaction?
- *Adding value with knowledge:* How do we add clear value to client knowledge, decision making, and capabilities?
- *Customization:* How do we apply deep client knowledge to customizing information and service delivery in ways that are meaningful to the client? How do we adapt our engagement style and interaction to the client?
- *Client recognition of value:* How do we demonstrate to the client we are using deep knowledge of their business to their benefit? How do we get the client to acknowledge the value of service customization and knowledge transfer? How do we shift to new pricing models that reflect the additional value created for the client?

This last key point of client recognition of value is about closing the circle, bringing each of the elements of the virtuous circle together to accelerate the ongoing deepening and development of the client relationship. To enhance its client relationships, advertising agency DDB Worldwide has implemented a relationship agreement that establishes clearly what each side expects from the other. With one of its major clients, DDB set up an agreement on how the relationship was to be conducted as a complement to the formal work contract.

When the idea was raised in discussions, client executives leaped at the idea, seeing it as a way to establish clarity on expectations. They specified that they expected DDB's work to challenge them, expressed understanding that creative work requires failures, and indicated that they wanted strategic thinking from the agency. On DDB's side, expectations of the client included sharing its business plans, and streamlining the advertisement approval process. Keith Reinhard, then Chairman and CEO of DDB, and the chief executive of the client, signed the relationship agreement, providing a foundation for a great relationship. This is an example of a practical tool that can leverage knowledge-based relationships by bringing key issues into the open. I challenge you to suggest this to your clients.

Establishing Client Action Plans

The relationship action plan is the product of the strategy process, and a living template for all relationship activities. The plan is based around the relationship team and their roles and responsibilities. I examine how this is done in more detail in Chapter 9. Defining responsibilities in this way immediately creates clarity on how the action plan will proceed. Each of the three types of objectives — financial, relationship, and strategic — will be addressed in the action plan.

The development of the action plan needs to be done by the relationship team that will implement the plan. There are many approaches that can be taken to do this effectively. However, the most basic is simply generating a list of potential activities that will further the achievement of the stated objectives, and prioritizing these relative to available resources. The roadmap itself should incorporate all of the objectives, especially the relationship objectives, timed to produce a sequence of identifiable milestones that will indicate whether or not the relationship plan is on track. It is possible, for example, for short-term financial targets not to be met but for there to be clear progress in the relationship. In contrast, all financial objectives may be met, but without any expansion or deepening of the relationship, indicating vulnerability in the relationship.

In Chapter 1 you saw that no relationship is static. If it is not moving forward it is moving backward. A client relationship action plan has to embody this truth by ensuring that there is clear progress in the relationship, as measured by specific and tangible relationship milestones. Chapter 9 examines in more detail how the relationship team uses the action plan as a template for monitoring its activities and success.

Summary: Enhancing Client Relationship Capabilities

Professional services firms need continually to enhance their capabilities at developing client relationships. There are five key domains they must focus on: strategies, structures, processes, skills, and culture. While each firm will have a different area that affords it the greatest return on effort, the five domains must be considered as an interrelated whole.

It is increasingly common for professional services firms to implement key client programs, which select their top-tier clients and provide focused relationship development efforts. A key success factor is starting by developing greater strategic clarity on the firm's directions. For the nominated top-tier clients, strategies need to be developed and implemented that help lead them into deeper, mutually beneficial relationships.

This framework for enhancing client relationship capabilities provides a suitable kickoff on the topic of implementation, the subject of Part three of the book. The following chapters delve into more specific issues in implementing knowledge-based relationships, beginning with an examination of relationship channels in Chapter 7.

NOTES

[1] Terje Lovik, "Meeting the Challenges of SAM in a Service Environment," *Focus: Europe*, vol. 3, no. 2, 2nd Quarter, 2003, pp. 12–15.

[2] Economic Value Added is a registered trademark of Stern Stewart.

[3] Paul Dunn and Ron Baker, *The Firm of the Future: A Guide for Accountants, Lawyers, and Other Professional Services*, Hoboken, New Jersey: John Wiley & Sons, 2003, p. 23.

[4] Ernst & Young U.K., Annual Review 2003, at *www.ey.com/global/content.nsf/UK/UK_Annual_Review_2003_-_Firm_managed*.

[5] Noel Capon, *Key Account Management and Planning: The Comprehensive Handbook for Managing Your Company's Most Important Strategic Asset*, New York: The Free Press, 2001, p. 125.

[6] See Charles J. Santangelo and William G. Johnston, "Tale of Compensation: Even in the Best of Times, Partner Compensation Isn't Easy," *Legal Management*, vol. 19, no. 1, January/February 2000.