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MANAGEMENT

When and Why Clients Want You to Collaborate

Firms that can offer value-adding, multiexpert advice grow loyal clients and greater profits.

By Heidi K. Gardner

PICTURE A MAJOR CONSUMER OF HIGH-END legal services today, your ideal client. "I don't have legal problems," this general counsel says. "I have problem problems. Nearly any issue that rises to my level is complex and multifaceted. My chief executive is worried about regulatory issues, environmental problems, cybersecurity. If I take only a constricted legal view, I'm not doing my job."

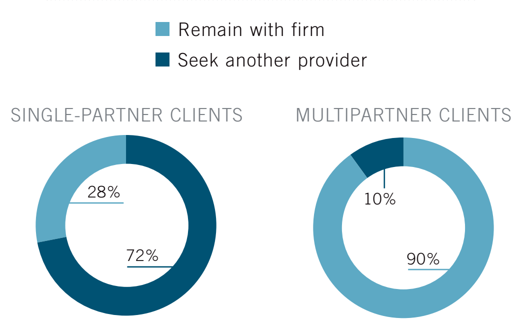
Increasingly, clients describe their world as VUCA: volatile, uncertain, complex and ambiguous. They understand that solutions to the kinds of legal challenges they face in that world often require input from multiple legal skill sets.

And what does it look like from your side of the table? In recent decades, under pressure from the marketplace, you and your colleagues have felt compelled to specialize—to become expert in one necessarily narrow aspect of the law. Collaboration with your colleagues isn't at the top of your list; in fact, insecurity about your own job makes you skittish about collaboration. Even when you are inclined to collaborate internally, the payback can feel prohibitively long. The costs of collaboration tend to be immediate and steep, while the benefits—referrals from your colleagues, increased revenues and higher business generation—take time.

For those reasons and more, efforts at collaboration at many major law firms today mean swimming against the current.

Over the past several years, I've conducted extensive interviews with clients, including general counsel, board members, heads of procurement, and many more senior people, in companies spanning almost all geographies, sizes and sectors. I've interviewed clients who had a reputation for being tough negotiators—the kind of client who, I'd been told, "wouldn't pay for collaboration."

If your relationship partner departed, would you seek another provider?



Source: H.K. Gardner

Here's my core finding: Clients want their professional service providers to collaborate within their own firms. They care about the quality of partner-to-partner collaboration. Why? In part because they know it's the only way to get their thorniest problems solved. But it's also because they've learned that buying collaboration-informed advice is the best way to get efficient,

Illustration by Carlos Zamora

high-quality, customized counsel on a host of less risky issues ["Why It Pays to Collaborate," March 2015].

Back to your side of the table: Lawyers who have developed the capabilities and confidence to open conversations with their clients about how to add value through collaboration are winning more loyal clients and greater profits.

TOP CLIENTS AND ACCOUNTS

The best metrics for determining whether clients value collaboration are client longevity and account profitability.

Across multiple law firms, as in consulting and accounting firms, our empirical analyses show the clear relationship between collaboration and client longevity: The more partners serving a client, the longer that client remains with the firm, even when an important partner leaves.

A review of one firm's relationships with its 300 biggest clients revealed a scary truth: Of those clients served by a single partner, roughly three-quarters said they'd consider moving their business to a competitor if their relationship partner left. But of those served by two or more partners, 90 percent said they'd remain loyal to their existing firm. The chart at left illustrates this point.

Sounds obvious, you say? Then why are so many clients in most firms served by a single partner? Have you even looked at the data in your firm? The graphic on page 51 shows a typical distribution for the U.S. client base of a major international firm.

If you're following my logic, that graphic should be even scarier. In effect, the chart at left tells firms how much collaboration promotes client stickiness, and the graphic shows that even well-managed firms aren't taking that message to heart.

Having lasting clients is one thing, but are they willing to pay for collaboration? The other key metric for gauging clients' appetite for intrafirm collaboration is account profitability.

Many firms have basic statistics on their client bases. Almost without exception, revenues are higher for clients served by multiple partners, especially cross-practice and cross-geography. And the increase is typically far more than additive. The revenue for a client served by three practices, for instance, is far higher than the revenues from any three single-practice clients added together.

Some skeptics ask whether multipractice service increases revenues without enhancing profits. The fear is that once your firm is deeply embedded within a client, with teams engaged from across your firm, that client will use its buying power to demand discounted rates and other freebies. Does collaboration mean doing more work for lower margins?

Initially, the answer is probably yes. But on average, clients served with multipractice engagements are more profitable in the long run, according to our analyses. At first, as the account size grows, clients often exert fee pressure. When firms broaden the scope of their services from one to a few practice groups, discounts rise by several percentage points. But after that, discounting levels off.

At one firm, the pattern of discounts looked like the (slightly disguised) graph on page 50. The firm lowered its rates by about 1 percent for each additional practice that was added to the client service mix. But once the clients were served broadly, with seven or more practices, presumably deeply embedded in its clients' most meaty problems, the fee pressure dropped back.

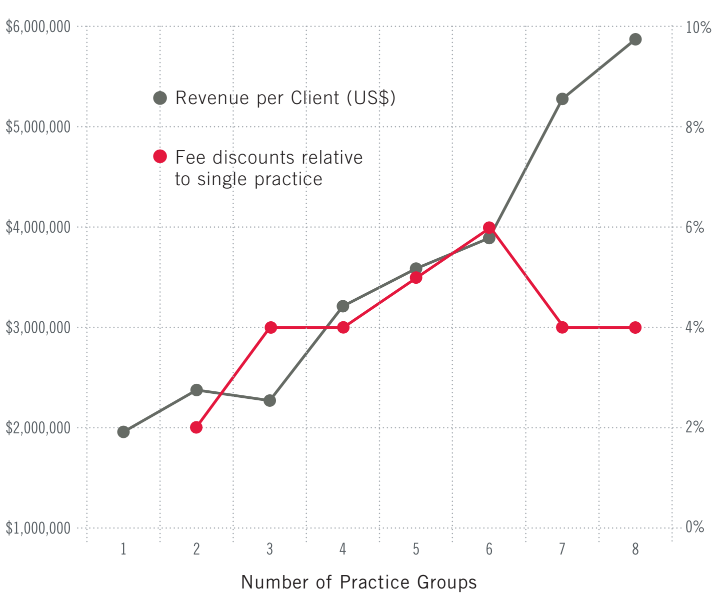
Those numbers can shift, especially depending on which practice anchored the initial relationship. Some firms have what I call their "magnet practice"—a flagship practice that typically engages first with clients, then draws in other services. In Wall Street firms, the magnet practice is usually the high-profit M&A group. When that practice draws in environmental or employment lawyers who charge lower hourly rates, margins can be diluted. But up to a point, that's a good problem to have. A slightly lower percentage margin applied to much bigger revenue numbers is still good money.

And don't forget to include trade-offs for the lower cost of generating that revenue from existing clients. When you consider the time, effort, marketing expense and risk involved in developing a new client, you'll appreciate even more the overall profitability of expanding the scope of a relationship with one of your current clients.

Is this just a way to fleece your clients? Absolutely not. I've shown these graphs to dozens of sophisticated executives, and they realize they need to pay for the value that comes from having their toughest problems addressed. One chief legal officer said, "That's what we call strategy! We deliberately wring out the cost from the low-end, single-discipline work because most of it has become commoditized. Then we invest those savings in addressing the high-end work." The CFO of a major multinational summed it up this way: "Margins rise with complexity."

If you've run the numbers on your firm and they look a lot different, investigate your mix of services and the nature of your internal and external negotiations. Surprisingly, many firms haven't analyzed their own data well enough to uncover these patterns. So when partners tell me that their clients "won't pay for collaboration," I show them how to look for and assess the evidence, which generally shows the contrary.

The more practices that serve a client, the higher the revenue. Discounts increase, but only up to a point.



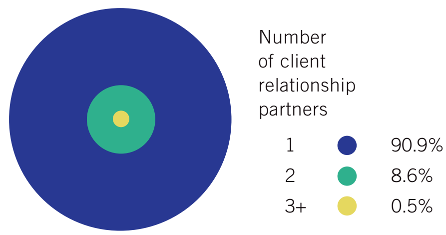
Source: H.K. Gardner

10 REASONS CLIENTS VALUE A TEAM APPROACH

Access to the firm's best knowledge and experts. Clients with the thorniest, most complex problems (which, by now, you should read as "highest potential for me to add value and get paid handsomely") expect their outside counsel to seek advice from anyone who has the right expertise.

Sounds obvious, right? But many partners are afraid to admit to clients that they don't know everything. "If I'm supposed to become their trusted adviser," said a worried partner, "then surely they expect me to be more than a mere gatekeeper to the firm's 'real experts,' right?" In fact, the answer is "no." Clients uniformly told me that they don't trust someone who purports to know everything. And if you assume that collaboration only matters to the most sophisticated clients, you're wrong. In-house legal officers in small and medium-sized companies, nonprofits, and public sector organizations also need and expect their external lawyers to team up, precisely because their own operations are leaner. You have a larger, more accessible network of legal expertise, and they want you to use it.

The vast majority of firms have only one partner-level contact with clients.



Source: H.K. Gardner

Deeper understanding of their own business. Most likely, some of your clients are deeply siloed. If you've got colleagues who are advising in other parts of their organization and your team shares business intelligence with each other, you can use that information to enlighten your clients about important issues inside their own company. Has one division just negotiated a cut-rate contract with its software supplier that other divisions could also leverage? In-house lawyers are increasingly expected to act as "business partners" to their own internal clients; if you can help them be wiser in that role, you can earn serious brownie points.

Insights from across their sector. "If you can tell me just one thing that my competitor is doing better than we are," said a GC recently on a panel, "then I'll give you all the time in the world." How good are you at leveraging insights from your colleagues serving different clients in the same industry? Many firms today list a dozen or more "industries served" on their websites. But only a few are doing more than paying lip service to developing truly functional, value-adding sector-based organizations. Many clients have told me how frustrating it is for them to peruse a website that brags about your firm's "focus" on their industry while feeling as if they're never benefiting from that knowledge. It's a short step from that frustration to feeling underserved.

Innovation. When clients face a novel issue, they tackle it with a team. Many read the business press and books on management best practices, and they know that research overwhelmingly shows that teams are more innovative than individuals. Many extend that organizational wisdom to their outside advisers. Even when the issue doesn't demand blue-sky thinking, you may still need to appropriately customize your standard advice to the client's precise context and constraints. "They should adapt the way their advice is presented," one manager in a health care context told me with some frustration about his outside law firm. "We have to spend too much time to use it." Given how hard it is for lawyers to carve out a competitive advantage, shouldn't you collaborate with your colleagues to give your clients advice that is so tailored that it delights them?

Global perspective. If you're in a global firm, even clients that don't have international aspirations might expect that you'll provide a global perspective. A leader of a European regional retail bank told me that his organization didn't do any business in the United States, and didn't expect to in the future. "But I want my lawyers to help me understand the regulatory environment there, because it'll prepare us better for what might be coming here eventually," he said. "At a minimum, I need to know that I don't need to worry. It's the unknown that provokes anxiety. I want my advisers to help me rest easier."

Collaborative capacity. Clients may view your interactions with your colleagues as a signal of whether you're capable of collaborating more generally. As companies pull more legal work in-house, GCs need confidence that you'll be an effective thought-partner and low-friction technical adviser with their internal resources. And as clients seek savings through disaggregation and outsourcing, they need their advisers to work seamlessly with other firms.

Consistency. You know how frustrated clients get when one partner fails to follow billing guidelines, how much they push back on getting billed for time spent re-explaining the same issue to multiple partners, and how foolish you look when the client informs you that one of your own partners is already undertaking a piece of work with them. As a rule, clients will pay for complementary sets of eyes, especially if that gives them wide-open communication today and long-term continuity of service. On this latter point: You may need to consider implementing a system of "laddering"—matching up your professionals at each rank with client counterparts of a roughly similar age—to ensure smooth transitions across generations.

Simplicity in the "vendor base." Clients seek simplicity wherever they can find it. Purchasing a broader range of services from a smaller number of providers is one way of getting there. A decade ago, this trend was limited to the biggest and most sophisticated clients, many of which had powerful procurement functions. The trend has expanded to include smaller clients, many of whom are moving toward what is often called a “core provider” model. When collaboration broadens how the client views your firm, you reinforce or expand your position as a core provider.

Efficiency and economy. This has two facets. First, by tapping multiple experts across your firm, the client gets great advice quickly. Second, if you have the right systems (and of course, the right experts) in place, it should cost less for an expert to address an issue than for a nonexpert, who needs to be paid to get up to speed.

Relationships and respect. Collaboration builds powerful and productive relationships among people, and those relationships translate into demonstrable outcomes. Collaboration makes work more productive, interesting, rewarding and fun—not just for you, but also for the client.

A FEW CAUTIONS

You knew this was coming, didn’t you? The client will only pay for collaboration when certain conditions apply. The problem at hand has to be complicated enough to warrant the input of multiple experts. Absent that complexity, as one client told me, there’s no justification for additional expertise: “Obviously, if my lead partner knows the answer and still rings up a bunch of other people, he’s either incompetent or deliberately overlawyering me.”

Even clients you’ve previously served with teams have to understand the reasons for collaboration if they’re going to pay for a team effort again. Your job is to communicate the rationale as early as possible, always before you bill them.

Let’s close on an up note. I derived my Top 10 list in the previous section from interviews with many clients. No single client articulated all of them. Most clients don’t understand all the ways your firm’s effective collaboration could benefit them.

I recently conducted a workshop for about 15 top clients of a European law firm. Much of what we discussed involved two kinds of collaboration: how general counsel can get in-house lawyers to collaborate better with their internal clients, and how GCs can determine when and how to get their outside lawyers to add the most value through collaborating with their own colleagues.

My research suggests strongly that many clients are not only open to the idea of fostering collaboration, but desperate to find outside lawyers who can help them address their problems and put pure, technical, narrow legal expertise into the context of solving their biggest headaches. But many aren’t sure how to get started. Given the chance to add value, deepen the relationship and increase profits, isn’t it worth it for you to start that conversation?

Heidi K. Gardner, Ph.D., is a Distinguished Fellow at Harvard Law School’s Center on the Legal Profession. Her book “Smart Collaboration: How Professionals and Their Firms Succeed by Breaking Down Silos” will be published later this year.

WHAT YOUR CLIENT SEES

Signs of a collaborative firm

- Each lawyer on the team knows what the client’s core priorities are, no matter where those priorities lie.
- Partners have interpersonal “chemistry.” They give each other credit during a meeting; they look like they’re having fun.
- Lawyers are familiar with each other’s expertise and experience. They’re able to talk in some detail about another’s work with clients.
- A developmental pipeline exists. Partners delegate important, client-facing roles to younger partners or associates and are willing to give up the limelight to give them opportunities.
- There’s consistency in billing, pitch documents, briefs, memos and the like.

Signs you need to do better

- The client needs to introduce lawyers to each other (their own partners!) during a pitch.
- Lumpy bills. Really good collaboration means that people are working in a steady state. When the number of timekeepers gets too big, too fast, or there are uneven spikes, collaboration may be suffering, either because of inefficient work or ineffective work.

—H.K.G.