

From FAMILY WEALTH REPORT

Action items: Working with unprofitable clients

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Every wealth-management firm has them: small, unprofitable clients who take up much more time and energy than they give back in fees. An unceremonious dump might not be in the cards, however -- and for several very good reasons.

Obstacles

You may have an emotional attachment to them. These unprofitable clients may have helped get you where you are today, as members of the first wave of clients you took on, back when it was exciting to get *anyone* aboard. Over time, you may have grown fond of such clients and come to feel responsible for their well being.

In a related category are clients who represent bad bets on your part. These clients -- business owners maybe or apparently up-and-coming professionals -- may have struck you as worth wooing in order to "grow" the relationship over time. But for one reason or another they never grew into the kind of client you thought they would. Meanwhile though, you may have developed an attachment to them -- or you simply avoid reviewing the relationship because it reminds you of the mistake you made.

Other unprofitable clients may be linked -- if only in your mind -- to *profitable* clients or other work-related relationships. You may have taken on such a client as a favor to a partner, an employee or a more substantial client.

Solutions

No matter how you got your unprofitable clients, and no matter how you feel about them as individuals, they are a drain on your resources. That makes it worth your while to address.

So what can you do about it?

Do you abandon the client that helped to you to achieve success? Do you fire everyone under a certain level? Do you increase fees until the client becomes profitable?

There are no easy answers, so most wealth managers put off grappling with these questions forever. But you can't pin all your hopes on new business and fancy client-service techniques. You have, sooner or later, to review your client base and understand your fee and profitability structure.

So again: what do you do when realize that you have too many small, low-fee clients?

Well, here are some things you can think about.

- *Pinpoint the market you are trying to build your client base around.* What kind of clients stay with you longest, cause you the least trouble and work best with your firm and its personnel? The answers to that will help you define a profile for your firm and give you a sense of how you should be marketing and promoting it. Then try to cull your client base to conform to your firm's profile and then *stick to the market you know.*
- *Understand the relationships between, and the growth potential and cachet of, your clients.* Sometimes fee income isn't everything: clients can be profitable to the firm in other ways -- and sometimes those clients you take on as "favors" are worth the trouble. Do you know each client well enough to make this determination? If you don't, *make a point of doing so. Take a hard look at your fees.* Are your services underpriced? Are you giving clients more than they pay for? Are you giving them more than they need? Ensure your fee model makes sense for the type of business you run. If you have to raise fees, be sure to communicate with your clients so that they know what you're doing and why you're doing it -- and then keep driving that message home. It's on you to *help your clients understand that they are receiving value from you firm.*
- *Finally, sit down with all your clients, even the smallest ones.* You'll often find that your clients have assets elsewhere. It may be possible to grow the share of wallet and keep the client in the firm. Most clients don't want to feel like a drain on firm resources or a "bad guy" so *help them to help you.*

And if there are a few who are content to be a drain on your resources, then maybe it's time to show them the door -- decorously, of course.

The main point: if there's a problem in your relationship with a client, don't run from the problem; work with your client to try to resolve it. It's worth the effort. -FWR

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