

# Cracking the Acorn Theory: DO SMALL CLIENTS GROW TO BE BIG CLIENTS

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IF YOUR FIRM'S GROWTH STRATEGY DEPENDS AT ALL ON GROWING SMALL CLIENTS INTO LARGER, MORE PROFITABLE CLIENTS, THINK HARD ABOUT THE LIKELIHOOD THAT THIS WILL HAPPEN. COMPETITIVE INTELLIGENCE CAN HELP IDENTIFY WHICH CLIENTS HAVE THE BEST CHANCE OF BECOMING MAJOR CLIENTS, AS WELL AS IMPROVE THE LIKELIHOOD THAT SUCH CLIENTS WILL BE RETAINED IN THE CRUCIAL, EARLY YEARS OF THE CLIENT RELATIONSHIP.

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Many law firms have a theory. Winning a small amount of work from a desirable client can be a good way to bring that client into the firm's fold and begin a new relationship. Over time, the theory goes, if this client is nurtured properly, it can be coaxed to provide increasing amounts of work and eventually become a major client.

It's called the acorn theory — from a tiny seed of work in one legal area can grow a mature oak of a client, which provides work across many practices. Nice theory. But how often does it happen in practice?

At our organization, we thought this theory was largely a myth. Our professionals have long assisted leading law and other professional services firms in undergoing sophisticated business analysis. We've observed that regardless of the firm involved, most large clients appeared to have retained the firm for significant matters from the start of the relationship.

While we had observed this trend on an anecdotal basis, we wondered whether the acorn theory would be supported by a quantitative study. Our researchers decided to conduct analysis on one firm to see what they'd find, and spark wider conversation on the topic.

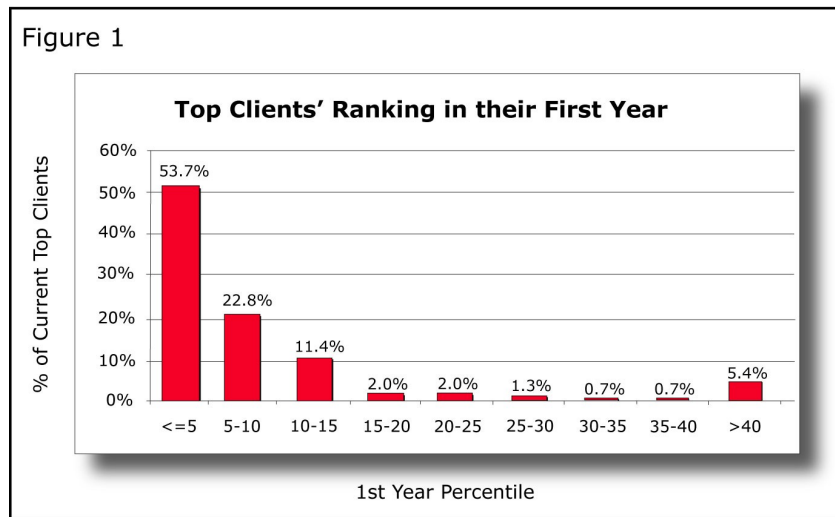
Because we wanted to look at how client relationships developed over time, we needed a firm that was able — and willing — to provide statistics on clients for several decades. Because many firms have changed internal platforms and merged with other firms several times in recent years, this was no easy task.

We identified an AmLaw 100 firm that could provide us with information concerning clients that stemmed back 23 years. The firm is an international law firm with multiple offices and approximately 700 lawyers. We have decided not to name the firm to protect client relationships, since the study involved tracking these relationships.

We focused on the top 5% of the firm's current clients, based on billable hours provided. We then

eliminated the clients from that group that had a relationship with the firm that dated back further than 23 years, because this was the longest period of time for which the firm could provide detail. We also eliminated clients for which there had been a two-year gap or more in the work they provided the firm, because it would be hard to judge whether to treat them as new or old clients when they resumed retaining the firm.

Hence, we began with a universe of 183 clients, eliminated 24 clients for which there were gaps in work and 10 more because their relationships with the firm were longer than 23 years. This left 149 clients to analyze.



Even given our hypothesis, we were stunned with the analytic results. More than 50% of the clients that currently ranked in the top 5% of the firm's clients started out in the top 5% in the year when they initially retained the firm. And more than 90% of these clients started their relationship with the firm in the top 20% of clients [Figure 1].

### **Planting the Acorn at a Smaller Firm**

While we'd demonstrated that the oak trees of a large firm had not started at that firm as acorns, we wondered if this would hold up for a smaller firm. We decided to look at the current clients of a firm outside of the AmLaw 200. That firm has one primary office, and more than half its work is concentrated in one practice area.

In that firm there were 76 clients contributing to the top 5% of the firm's billable hours that met our criteria of having their complete history available in the firm's billing system and of not having significant gaps in work provided to the firm. Of these 76 clients, 84% started their relationship with the firm in the top 20% of clients. Same answer.

All of this reinforces that firms should be highly selective with regard to small clients. It is commonly held that small clients are on average less profitable than large clients. If your firm's growth strategy depends at all on growing small clients into larger and more profitable clients, think hard about the likelihood that this will happen.

More importantly, our analysis emphasizes the importance of protecting large client relationships,

whether they were large to begin with or were grown successfully from a smaller relationship.

### **The Flip Side**

An important take-away from this analysis is that firms should reexamine their approach to bringing in small clients. While the percentage is low, some small clients do grow to become major firm clients. So firms need not avoid the intake of small clients altogether.

Competitive intelligence can help identify which clients have the best chance of becoming major clients, as well as improve the likelihood that such clients will be retained in the crucial, early years of the client relationship. (According to our research on client attrition, attrition rates fall by 50% for clients that stick with a firm for more than three years.) Client intake should begin with a careful analysis of the potential relationship presented by a new client. Those that map well into firm strategy and appear promising should be treated with care. For example, a detailed conflict analysis should be conducted to ensure the firm is not conflicted out of major areas of work. And other relationships should be carefully overseen to provide the client with the maximum potential to take advantage of the firm's services.

Once clients are in the door, the work to grow them from an acorn to an oak has only begun. Firms need to track their progress. Most acorns will not grow to become mighty oaks, but careful relationship management can provide the fertile ground that will maximize the chances that promising small clients will have the best chances to become major clients.

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