Keeping Clients When the Rainmaker Leaves

Rethinking organisational ties: Don't let the departure of an executive drain your client base.

When Tesco severed its £50 million account with advertising giant, Interpublic to follow former Interpublic executive and veteran ad man, Sir Frank Lowe to his new start-up, there was always going to be fallout. The multinational took legal action, accusing the original "Mad Man" of breaching a non-compete clause. Lowe responded by threatening to sue the group for defamation.

While this is an extreme example, potential client loss is an immediate fear when an executive – or in some cases executive team - jumps ship. For service industries like advertising, law and consulting, where clients are attracted to the human assets rather than the production side of the business relationship, the likelihood of significant client losses when a team leader leaves is even greater.

Getting executives to sign a non-compete clause has been a way to address the problem. But these contracts are notoriously easy to get around and difficult to uphold prompting firms to look for alternative structural rather than legal ways to hold onto their clients.

Binding Gulliver

One way of doing this is through multiplexity - diluting the control held by individual executives by creating a number of different ties between the client and the company. It's a strategy used by firms like Procter & Gamble, which include cross-functional teams when meeting with clients, and McKinsey, a consultancy renowned for making sure that only rarely will they have a single partner serving a single customer.

A senior partner at a large management consultancy has likened the tactic to "binding Gulliver".

"Each of these individual strings may not be tough enough to hold (the client) so you're much better to try and have a whole range of small connections. This actually creates more strength than one strong piece of rope which can be cut with a knife leaving you with nothing".

Multiplexity increases stability in a client-firm relationship, encouraging information sharing across ties. By having more than one contact at a company the client has access to different pools of expertise, making them less likely to rethink the relationship based on the actions of one executive.

But, unlike the Gulliver example where the strength of the bond depended on the number of ties or connections, a recent study suggests not all multiplex ties are capable of holding the client. In my recent study, Executive Departures Without Client Losses: The Role of Multiplex Ties in Exchange Partner Retention multiplexity diminished the chance of clients following a departing executive only when two important conditions were met - when the ties were spread across different units of the firm, (rather than held within the same unit) and when those units viewed one another as collaborators not competitors.

Strength of ties depends on relationships

Using archival data on the advertising industry covering several years, I examined both multiplex ties within a single agency and multiplex ties linking the same client to a number of different agencies in the same advertising firm. The research showed that, in general, when a single agency held all the strings, the likelihood of losing clients was reduced. However, this did not safeguard the firm against the loss of clients following a departing executive. In fact when control of the client is concentrated within a single agency or division, it could actually be easier for an executive, or in some cases a team of executives, to lift their client relationship out of the agency and take it with them.

In contrast, when the multiplex ties were held by several agencies in the firm, no single agency or executive could control the relationship, and the likelihood of client loss following an executive departure was significantly lower. This isn't surprising; particularly when the executives serving the client are in different geographical locations, such as London and New York, and are less able to coordinate with each other on ways to poach the client.

Further analysis however, revealed an additional, important condition to the effectiveness of these types of multiplex relationships. Rather than assuming that because the agencies were in the same holding company they were working towards the same goal, the study examined the extent to which the agencies competed with each other. Such competition is not uncommon in the advertising industry where sister agencies bid against one another for the same client accounts.

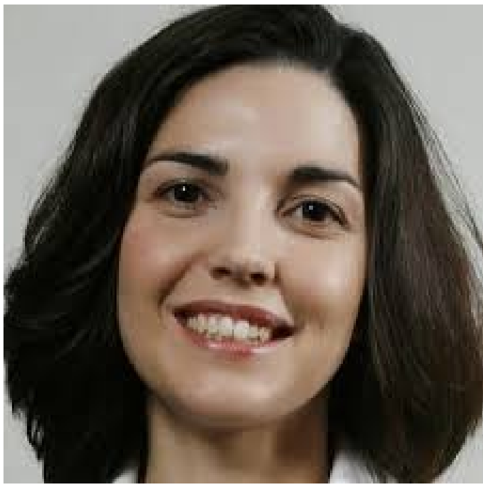
Analysis showed that when sister agencies serving the same client viewed one another as competitors, the improvements in client retention from multiplex ties went away. In other words, when the distribution of control of a client relationship across agencies is accompanied by diverging goals and interests among the agencies, the multiplex ties have no impact on whether a client stays or follows a departing executive. Conversely, if the sister agencies cooperated with one another (or at a minimum did not view one another as competitors), the multiplex ties significantly reduced the likelihood that a client would leave following a departing executive.

Manage the structure of client relationships to reduce client loss

The results highlight the need for companies to carefully consider the structure of multiplex relationships with clients when developing ties and to pay particular attention to which units of the firm connect and how those units relate to one another.

Multiplex relationships can create a false security for guarding against the poaching of clients by executives. Without careful attention to the nature of the relationships among units sharing client ties - whether these are competitive or collaborative - firms will continue to risk losing valuable clients on executive coat tails.

But, by connecting clients to units which work together rather than compete, companies have a real chance of keeping relationships when even the most charismatic of executives departs for greener pastures. Gulliver can be bound – as long as the Lilliputians are working on the same side!



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