What if everything we think we know is wrong?

Lee Grunnell believes that we should test whether our long-held assumptions about what is and isn't true are still valid.

This article originally appeared in *PM* magazine. For further details go to www.pmforum.co.uk

The natural order

Every business wins customers, keeps customers and loses customers. This is the natural order of things. It's a pattern seen in all kinds of industries in all kinds of markets.

We see the same pattern in professional services. Over the course of a year there will be existing clients you work with and new clients you win.

There will also be some existing clients you don't work with. They might not have any work to give you. You may have lost a place on a panel. In rare cases, something may have gone wrong and the client may have ended the relationship for good.

It's a pattern that begs one simple question. What contributes more to growth and market share? Keeping existing clients or winning new clients? Is retention and loyalty or acquisition and penetration more important?

The unnatural order?

Within professional services we've decided the answer is retention and loyalty.

For the last 15 years (at least) key account management has dominated our business development thinking. Because of Pareto we believe it's quicker, cheaper and easier to win work from existing clients than it is to win new clients.

But are we right?

Too often firms select their key accounts on the basis that they're big, successful and growing. We shouldn't be surprised that the same accounts remain big, successful and continue to grow. It's an impressive piece of circular logic.

And how accurate is it to attribute the success of key accounts to the efforts of the key account programme?

> *Perhaps firms actually grow more because of acquisition and penetration than retention and loyalty.*

Most programmes measure the overall revenue of accounts. They don't measure the incremental revenue delivered after the account becomes a key account. We need to remember that correlation is not causality.

Consider this as an example. Imagine your firm has enjoyed the three year revenues below:

Year	*1*	*2*	*3*
£m revenue	242	251	257
% growth	2.1	3.7	2.4

Then imagine that you won no new business in year two. What would your overall revenue and growth have been?

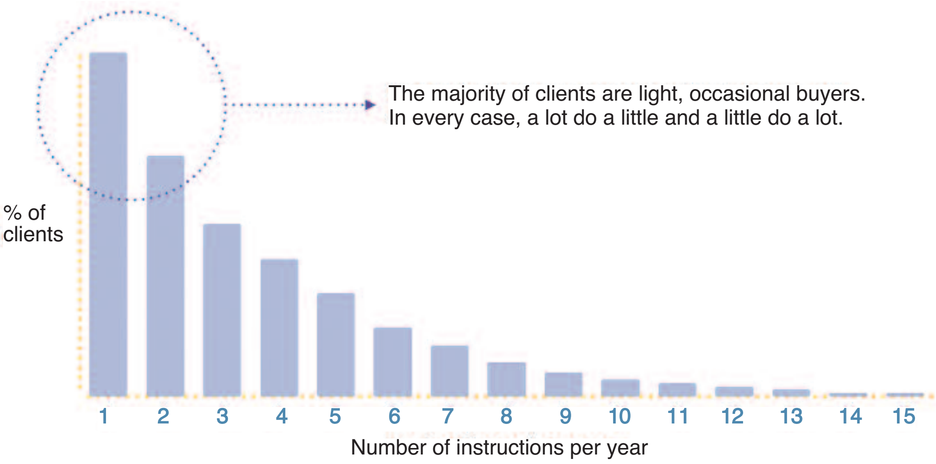
How much growth would you have seen if your year two revenues were entirely dependant on your existing clients and key account programme?

What if the same were true for year three? Those growth figures would be significantly lower.

The same pattern

The research and findings from other industries and markets is the opposite. Growth comes from acquisition and penetration, not loyalty and retention.

Time and again, it's been shown by the likes of the Ehrenberg Bass Institute for Marketing Science, the Account Planning Group and the Institute of Practioners in Advertising that winning new customers is more important for growth than selling more to existing clients.



In *The Long and the Short of It, Media in Focus and Effectiveness in Context*, Les Binet and Peter Field examined thousands of marketing campaigns from thousands of companies across decades.

They conclusively showed it's three times more common to grow through acquisition than loyalty; that brands who only talk to existing customers grow less than brands that talk to everyone.

In *How Brands Grow* – perhaps the most important marketing book of the last 10 years – Byron Sharp demonstrated that big brands are big simply because they have more customers. In turn, these customers are slightly more loyal than usual.

There's even a name for this law-like pattern. Natural Monopoly. It also dictates that brands with more market share attract a greater proportion of light buyers.

The converse is called Double Jeopardy – brands with less market share have far fewer buyers (the first jeopardy), who in turn buy from them slightly less frequently than usual (the second jeopardy.)

The Natural Monopoly and Double Jeopardy effects have been seen in all kinds of businesses, in all kinds of markets in all kinds of geographies.

Washing powder in the UK. Personal banking in Indonesia. Shampoo in the US. Insurance in South Africa. Toothpaste in Brazil. Financial institutions in Australia. Soft drinks in Turkey. Automobiles in France.

The list goes on.

A different pattern?

So do Natural Monopoly and Double Jeopardy apply in professional services? Put simply, we don't know because we've never tested it.

However. The client distribution graph above will look familiar to anyone in professional services marketing. It's typically referred to as the long tail of clients. Firms have a small number of higher revenue clients and a large number of lower revenue clients.

But guess what? This is exactly the same pattern seen in virtually every other industry. In every case, a little do a lot and a lot do a little. Rather than seeing it as something to be fixed – like most firms do – we should accept it as perfectly normal.

Accepting this distribution as normal then has implications for the mix of heavy, medium and light buyers a firm has – see table below.

In the last 12 months, how many clients instructed you:		
7 times or more	3 to 6	1 to 2 times
Total revenue delivered by clients instructing you that many times (£m)		

If Natural Monopoly and Double Jeopardy do apply, we should see that larger firms in each sector have more clients than smaller firms, with a higher proportion of light buyers.

The implications

Too often we think that professional services is different. Marketing works differently. Selling works differently. People buy differently.

Every industry has its quirks and nuances. But the client distribution pattern in professional services is remarkably similar to other industries. If that's the same, what else might be the same?

Perhaps it's time to accept we're not so different after all. That – just perhaps – firms actually grow more because of acquisition and penetration than retention and loyalty.

This isn't a call to chase any business at any cost. I'm not suggesting we abandon key account management completely. I'm not suggesting we shouldn't be clear about what work we do and don't want to win.

I am suggesting we explore the empirical evidence from other markets. That we apply more rigour and analysis to what we do. That we test whether our long-held assumptions about what is and isn't true are still valid. That we measure the results of our work more effectively.

And we can. We have all the data we need to test if Natural Monopoly and Double Jeopardy exist in our market. We can see if bigger firms are bigger simply because they have more clients. We can see if they have a greater proportion of clients who only instruct them infrequently.

Imagine if, for the first time, we had some empirical evidence about what does and doesn't work. How much easier life would be. Easier to put together a marketing strategy. To allocate budget. To explain the decisions we make. To increase our influence at board level.

I'm conducting such a study. It's the first of its kind and will give marketers access to research they've never had before.

Because here's the question – what if everything we think we know is wrong?

Lee Grunnell is the brand strategy director of Thirteen and former in-house marketing director. Contact: lee@thirteenideas.com