

Firm Metrics + Client Metrics = Best Success

by Mike Phillips, AIA, IIDA

Achieving consistent project profitability while maintaining strong client relationships is the formula that positions firms to achieve success. However, our research shows more than 9 out of 10 design firms are still only measuring the internal/financial portion of the equation. This leaves them to guess at the strength of their client relationships. If these guesses are inaccurate, the decisions made will very likely be off course and may be very detrimental to the firm's success.

When you measure the strength of your client relationships as well as your financial data, you are giving your firm a more complete picture. And, by incorporating that data into your strategic decision-making process you are able to quickly track your value to clients for greater overall success.

Incomplete Data = Incomplete Understanding

Figure 1 shows the impact of making decisions based upon incomplete data. If you only measure financial performance, the accuracy of your understanding of the situation and the quality of the resulting decisions are diminished.

This figure also illustrates that the effect of more complete data is typically exponential. As you collect and incorporate more data, decision quality improves substantially. While the law of diminishing returns does apply, having no data to track your clients' perception of your value limits your firm's understanding, hampers decision making, and reduces your ability to respond to potential problems.

Incomplete data will also limit your staff's ability to build strong client bonds. If your firm only measures



Figure 1: The best decisions are made with the most complete data. Gathering complete data means measuring metrics for both financial performance and client satisfaction.

financial outcomes and internal efficiency, your staff will focus on working more efficiently. While this focus will work to reduce costs, it will often encourage your staff to do the very things that will reduce your value to clients.

As Mark Twain said, "There is only one business that can be successful by having as its goal 'To Make Money'. That business is the US Mint." Professional service firms will always be more successful by focusing on being valuable to their clients; solving their problems and helping them achieve their goals.

When you measure your clients' reactions to your process, you increase the accuracy of your understanding. This increased understanding will:

- Improve your firm's decision-making process
- Identify elements of your project delivery process that clients feel provide great value

- Identify elements of your project delivery process that clients feel could be modified to provide greater value
- Send the message to your staff that client satisfaction is an essential component of your firm's success.

Our work during the past decade has included harvesting more than a quarter-million metrics on the expectations and perceptions of design firm clients. We have helped A/E firms in five countries effectively measure and understand what really matters to their clients.

Our clients have found that measuring client perceptions and adding those metrics to their decision-making process has let them enjoy a greatly improved understanding of what each client expects. They also understand how to most efficiently perform the work in alignment with those expectations and become more valuable to those clients.

This improved focus on their clients' expectations (awareness) and enhanced ability to operate in concert with those expectations (flexibility) leads to increased profitability and stronger, more loyal client relationships.

Financial Metrics Alone = Not Enough

Figure 2 illustrates the information your firm has available when you track project results with financial metrics. You can certainly see which clients are providing your firm with the highest and lowest profit margins. However, if you are not collecting metrics on your clients perception of your value, this is all the data you have to review. While certainly helpful, tracking profit alone can lead to misunderstandings of project outcomes and best strategies going forward.

For instance, in Figure 2, projects with Client D typically show a higher than average profit. The tendency is to applaud these results and encourage staff to maintain the process used going forward. The problem with this strategy is that the client may feel that they were underserved or overcharged. They may be frustrated and ready to fire the firm, delay or reduce payment or even file a claim. If any of these scenarios were the case, acting like everything is fine would tend to aggravate the client further.

The results of projects with Client C on the other hand show profits lower than average. The tendency here is to change how the team performed the project and seek an increased profit. The problem here is that the client may be delighted with the service the team provided. In that scenario, the last thing you want is for the team to make changes to that service, particularly ones that reduce the responsiveness and helpfulness provided. Yet, this is what often happens when profit is low. Design teams seek to cut costs by trimming scope/service to the client. If you knew the client was delighted, they

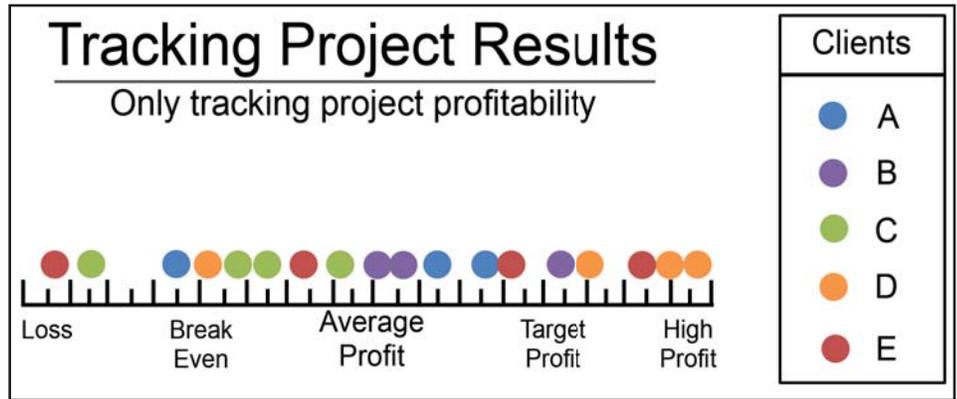


Figure 2: Tracking only profitability encourages firms to applaud the process of high profit projects while seeking to change the process of low profit projects.

may accept a more fair and profitable fee for the requested services. Or, they may be willing to pay for relevant additional services.

client expectations and perceptions, there is no data on how satisfied the client is with the firm's process and deliverables.

If your team is only looking at profit, their focus will be on how efficiently they produced the project, not how effectively they brought value to the client. This focus tends to keep fees low, clients underserved and staff feeling under utilized if not unappreciated. The tendency is to discount the value of low-profit clients and overestimate the loyalty of high-profit clients. If the firm is not collecting metrics on

Profit + Feedback = Best Understanding

Figure 3 shows a more strategic tracking of project results. Client perceptions are plotted on the vertical scale with "Met Expectations" at the midpoint. Percentage profit is plotted on the horizontal scale with "Average Percent Profit" at the midpoint. This gives the ability to track both metrics at the same time: efficiency (profit) and effectiveness (value). Having this



Figure 3: Tracking profitability and feedback metrics (by client) allows you to see at a glance those clients that are both profitable and satisfied.

data, your firm has a more accurate method of identifying each client's expectations and the value they perceived from the team's process.

As shown in Figure 1, this second dimension of data is helpful to give your firm's leaders a more accurate understanding. Collecting and circulating feedback from clients to project teams improves the degree of understanding between all parties. This creates stronger firm-client relationships and loyalties and gives firm leaders the data needed to make better decisions.

The additional data provided by Figure 3 gives firm leaders actionable metrics to manage and track project success with each of their clients. Additionally, as each point on this chart represents a specific project, leaders have metrics to track the success of individual projects and teams as well.

Studies have shown that whatever is measured, improves. So by simply giving staff access to measurements regarding their clients' perceptions, they are better able to understand which of their efforts produced the best (and most satisfying) results. This leads them to more productive (and profitable) processes.

Ask Early and Ask Often

A final note, in order for the above system to work best, the client feedback must be gathered throughout the life of the project. If you wait until the end of the project to collect feedback, it is too late to fix problems, it is an autopsy. Instead, ask clients for feedback from the start. Because they know that their feedback has the chance to impact the outcome of their project, they have a strong incentive to give you constructive information on how to be most valuable to them during their project. Remember, they want you to do a great job on their project. Win-Win.

Success Strategies by Quadrant - A look at Phillips Architecture

Phillips Architecture creates Quad Charts like that found in Figure 3 four times a year including once just before our annual Strategic Planning Session. This provides invaluable information about where and how to orient our efforts (marketing, pricing, training and assignments) for the coming year. Below is our firm's basic reading and response by quadrant.

Burn-Out Quadrant

Profit: Above average

Feedback: Did not meet client expectations

Outcome: Client did not think they got their 'money's worth'

Strategy: Review feedback and focus on improving value to client

Fees: Hold and/or offer discounted services on problem areas

Note: Scan and address areas of potential problems

Note: Review team's process for excess efforts

Expert Quadrant

Profit: Above average

Feedback: Exceeded client expectations

Outcome: You are becoming the client's expert

Strategy: Keep improving value to client, stay close to client

Fees: Raise fees slowly while feedback remains high

Note: ID who and how these results are created, clone

Mis-Fit Quadrant

Profit: Below average

Feedback: Did not meet client expectations

Outcome: Client did not think the firm gave them good service

Strategy: Review feedback and focus on improving value to client

Fees: Hold and/or offer discounted services on problem areas

Note: Resist temptation to 'fire' client, better to fix problem

While the above descriptors are somewhat simplistic and work best when the specifics and anomalies of each situation are factored in, the basic concepts are almost always valid:

1. Identify how to exceed each client's expectations
2. Once exceeded, adjust fees to allow team to serve client well (This includes increasing team's level of comfort with charging for additional services.)
3. Identify who tends to work well with each client, project type, etc.
4. Train staff to become better experts; train on strengths, not weaknesses

Potential Quadrant

Profit: Below average

Feedback: Exceeded client expectations

Outcome: Client delighted with team's process

Strategy: Maintain process and focus on continued improvement

Fees: Raise fees moderately while feedback remains high

Mike Phillips AIA is the founder and President of Phillips Architecture PA, a 25 person A/I firm in Raleigh, NC. The firm has received the Best Architectural Workplace and Best Collaborative Firm awards by ZweigWhite as well as being named to PSMJ's Circle of Excellence and recipient of the Leading By Example Award for Client Service.

Mike is also a development partner in Client Feedback Tool, a software system customized for architects and engineers to collect and utilize client metrics. See the tool at www.clientfeedbacktool.com or contact Mike with questions or comments at mike@phillipsarch.com or 866-433-7322.