

Thanks for Your Business...You're Fired!

by Brian M. Fraley

Fire your bad clients. Fire them for the same reason you prune dead branches from a tree. Like dead branches, bad clients drain the life out of your business and must be removed so that the rest of the business can thrive.

But I can't turn away cash, you say. That's counterintuitive. Let me assure you that no one is more sensitive than me since I started Fraley A/E/C Solutions, a start-up agency providing marketing and public relations services to the A/E/C industry. Cash flow is the Holy Grail, especially for a start-up, and the reason for the existence of a business. So how can you turn away revenue? Ask yourself a more important question. What if we don't?

Allow me to illustrate with a story. I once knew of a civil engineering firm that enjoyed a long relationship with a developer. Together, they rode the land development bubble until it burst in 2008. This developer was from the old school and wasn't afraid of a battle or potential litigation. They also retained payments, and sometimes didn't pay at all. It wasn't a healthy customer-client relationship, but the engineer appreciated the volume of business and tolerated the client.

It was apparent that the developer secretly valued the firm's land development and survey capabilities, even though they would never admit to it. Land development is fast-paced, costly, and unforgiving. The expertise of the engineer is essential to getting a project approved. The developer refused to acknowledge that they valued this engineer's expertise, even when asked directly. Perhaps they felt that by admitting their satisfaction

they would be subject to paying promptly.

There came a day that the developer called the engineer's surveyor into question on a housing project. The executives hovered over the plans to evaluate the claim and concluded that the developer's complaint was unjustified. The executives ended up in a heated discussion where neither side would yield. The result was that the engineer fired the developer. It took a lot to turn away the business, but the situation had come to a head.

Tolerating a bad client is a lot like avoiding marketing in the sense that you can't fully measure the negative impacts to your business. You can calculate the amount of cash that moves to the bad debt column, or the possible legal or accounting fees. You can even measure lost productivity to some extent. The immeasurable aspects are the effects of negativity on the morale of your staff or your potential to pursue better clients that pay on time and value your expertise.

Consider the time spent collecting money or defending your position. Consider the hourly rate of your executives when they are summoned to intervene. Consider the time and money spent on extra phone calls, e-mails, and mailing costs. The list goes on. Now apply these extra costs to the project budget.

The problem with tracking hard costs related to bad clients is that it often goes untracked. In order to understand what a client is truly costing you, you

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must look at the costs over time. Most professional services firms measure these costs on a project-by-project basis. But to understand the true profitability of a client, you must evaluate the cumulative costs over time. Kudos to the diligent firms that are drilling down to this level, but most firms don't have the time to stare into the rearview mirror. There are too many opportunities and obstacles ahead.

Think about your clients. Most businesses have at least one dead branch that should be pruned. Pull together your project files, invoices, plans, and all related correspondence and get the right people together in a focus group. Include the executive, key project team members, and the accounting and business development staff. Give the group the ability to speak openly about its experiences with the client. Evaluate your expenses and profits over time. If you conclude that the client is undermining your business, fire them immediately and begin your search for a better client. Firing a bad client will come with a collective sense of empowerment and relief. Prune your business like a tree and watch it thrive over time. ●



Brian M. Fraley is the manager and founder of Fraley A/E/C Solutions, LLC, a marketing and public relations firm serving the architecture, engineering, and construction industry. He has more than 20 years of experience in the construction and design industry throughout the Mid-Atlantic region. Brian's expertise includes marketing, public relations, writing, and business development. He can be reached at bmfraley@fraleysolutions.com.

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the percentage of the top 25 A/E firms that are diversified across five or more market segments, according to the **2013 DesignIntelligence Almanac of Architecture & Design**. The majority of that group tends to have one or two primary focuses of practice along with a few smaller ones.