

EFFECTIVE CLIENT AND EMPLOYEE RETENTION THE HALLMARKS OF PROFITABLE FIRMS

Doug Hall is the owner of the W.D. Hall Company (www.wdhall.com), an Austin, Texas-based provider of business support services for environmental consulting and engineering companies. He serves as an independent sounding board for business owners and branch managers, listening to them, brainstorming with them, and holding them accountable. He also provides them with information, including feedback from key clients and key employees, to help them make better decisions about growing their firms. Hall founded the W. D Hall Company in 1998 after a 25-year career as a consultant and business owner in the environmental industry. He recently spoke with EBJ about the principal challenges facing today's environmental consulting and engineering firms, and about some of the tools that firms can use to meet those challenges.

EBJ: What prompted you to enter your current line of business after a career in environmental consulting and engineering?

Hall: I spent 25 years in the environmental engineering & consulting business with several firms, including Dames & Moore, Espey-Huston, HydroSearch, Hall Southwest Corp. (my own firm), Groundwater Technology Inc. and Fluor Daniel/GTI. In the late 1990s, I took time off for rest and relaxation. I purchased and operated a small vineyard in the Texas Hill Country. The good news is that one of my wines, called "Challenor," won a blue ribbon award. The bad news: I only had enough "Challenor" grapes to make six bottles of wine. Boy were they expensive! Then one weekend, the goats got into the vineyard, ate the grapes and ate the vines. My brief career in the wine business was over.

I started the W. D. Hall Company to help business owners grow their firms, get more enjoyment from their work, and avoid premature burnout. When I had my own environmental firm, I found that there were very few people I could rely on for both objective feedback and experienced guidance. Venting about the business to my own employees or my family was not very useful or productive—an understatement if there ever was one! I decided I would become a safe outlet for executives to let down their guard and ask the tough questions. My goal is to become a trusted confidant—someone who can be an objective listener, who understands their businesses and who can help executives make better decisions about growing their firms. I could have really used one of these folks when I was an owner. My best clients are owners of environmental and engineering firms, branch managers, and independent consultants.

EBJ: What, in your view, are the principal challenges facing C&E firms today?

Hall: There are internal challenges and there are external challenges. In terms of building a firm, the internal challenges I hear about most are collections and cash management. Many owners can't believe how long it takes to be paid and how hard it is to be profitable. Also, the whole concept of budgeting is problematic for many firms. Some of the most profitable things they can do—and some of the things that they most need to work on—are retention of their best clients and retention of their best employees. We spend a lot of time on these issues.

A big external challenge is outmaneuvering and outperforming the competition. The number of firms in the industry is growing, and it seems as though more and more environmental and engineering work has become a commodity. Low bids are all that matter to many clients. I don't think you can build a solid firm under these conditions. We look for ways to target the best clients and the best projects. In addition, we work hard on positioning and differentiating the firm. All of these actions are necessary for growing a profitable firm.

EBJ: How have those challenges evolved over the last five to ten years, and how has the industry evolved to meet them?

Hall: I would say that the environmental consulting business has become much more price competitive than when I started 25 years ago. There are a whole lot more people in the business, and some of the work isn't as mysterious as it used to be. Petroleum storage tank work, for example, has become a commodity, and you really have to have something special to make any money on those projects.

Although it's hard for me to believe, there are now internet auctions for some consulting and legal services. I don't think you get the best-qualified firms with these auctions. I think taking the personal interactions out

of the selling process is a mistake. For me, this approach to going after work would be very frustrating and not very satisfying.

EBJ: Are the clients for environmental C&E firms still consolidating their vendors?

Hall: Consolidation is still going on. Many of the bigger clients have gone from using literally hundreds of consultants to fewer than ten. Obviously, you want your firm to be one of the ten; however, the ten are often whittled down to five, and margins are whittled down further and further. At some point you probably ask yourself: Is this client still worth all this attention from us?

There's also consolidation of the environmental firms—in part as a response to the client's consolidation of vendors. However, for every consolidation of vendors, there seems to be at least one spin-off, a new vendor starting up somewhere. This keeps the pool of competitors on their toes and alert. I think this constant supply of new energy is good for our industry.

EBJ: Your clients include concerns in a broad range of professional services. When it comes to client or employee retention, do environmental firms face all of the same issues as other professional services firms, or do they have some unique issues?

Hall: I believe the issues are very similar regardless of which type of professional service you provide. Client retention is really about loyalty, and not satisfaction. I think this is where most professional services firms get confused. Satisfaction is an attitude. It's like being satisfied with a hotel: You're okay with it, but you don't necessarily go to that hotel the next time you're in town. Loyalty is more powerful and more desirable than satisfaction. Loyalty is a behavior. A loyal client will say, "we really enjoyed working with you, and we're going to keep you on the team." There are a number of ways to recognize a loyal client; repeat purchases is just one of them.

EBJ: What are some of the most effective techniques for retaining clients?

Hall: First you have to concentrate on your best clients. The typical firm is probably getting 80% of its work from 20% of the client base. So I recommend to my clients that they segment their clients in A, B, and C groups. "A" companies are ones you like to work with. They're profitable, pay on time, are good sources for referrals, and reliable sources of revenue. At the other end, the "C" clients are a waste of time and resources.
Strategic Information for a Changing Industry

They are unprofitable, they're not a source of growth, they're slow payers, you don't like working with them, and they don't appreciate you. I advise my clients not to spend a dime marketing to the Cs unless they are a huge portion of the revenue stream. The "B" clients are in between. You have to assess them, and you try to cultivate them. If it works great, okay, and if it doesn't, you let them get away.

The best way to keep the As and the promising Bs is go out and talk to them; conduct a client feedback interview. The business owner can do these interviews, or they can be done by senior managers, or you can use an outside consultant. Sometimes the outside consultants are preferred, because they are objective, independent and aren't offended by criticism of the firm. It also flatters the client to recognize that the consultant thought they were important enough to hire someone to sit down with them and find out how things are really going.

I like to do these interviews in person rather than by telephone, because I like to watch the body language. There's also more impact from the interviews when you go to see them in their own office.

Often, you come home with new work for the company. This process triggers new work. You're talking, and your interviewee says, "you know, I forgot to ask Jerry about that. I need to make a note to call." There are some managing partners at law firms that do nothing but these feedback interviews, because they result in so much new work.

To obtain the best outcome from this process, you have to follow up. If you go out and do an interview, and then you bring the results back and they sit in a drawer, you can probably write that client off. You need to follow up. Let's say you hear in the interview, "every time I call their office, I get a receptionist who puts me on hold for ten minutes." You take that back and correct the behavior immediately. If you correct the problem, it's powerful; if you don't, you've really wasted a lot of time and money.

I think the face-to-face feedback interviews are the most productive business development tool I've ever seen.

EBJ: What are some of the most effective techniques in retaining employees?

Hall: I usually get called when there is some sort of internal crisis, some sort of issue that's making it no fun for the owner to run his business. And it's usually an employee prob-

lem. The manager gets burned out managing employee issues. Every manager goes through this.

When this problem arises, I go in and interview the key employees. I provide a safe and comfortable atmosphere for them, because I'm an outside, independent person. And I keep the answers confidential. I produce a trend report. It's almost like a client interview. You sit down, explain that the process will take 35 to 40 minutes, and explain that the answers will be confidential and consolidated with other interviews. I ask a series of questions that I call "growing pains" questions. They identify the big issues, and I quantify the responses.

It turns out that the top seven or eight managers usually have the same issues, so it's not too hard to figure out where to make corrections. What's really interesting is that the owner often answers the questions 180-degree differently from the managers! Resolution of employee issues is frequently a matter of improving internal communications.

EBJ: Are environmental firms facing greater risks today than they did 5-10 years ago, and are the rewards tending to grow commensurately with the risks?

Hall: I think the risks are greater now, and I think the rewards are lower. Competition is tougher, and it seems that there are so many more contract and insurance requirements for jobs than in the past. It was scary back when I was in the business, because we were getting into hazardous waste at a time when many liabilities were poorly understood. Now, however, many of the liabilities are known, and if you miss something, you can really take a tumble. The increased emphasis on lump-sum and fixed-price work also makes environmental projects more challenging from a business standpoint than in the past.

EBJ: What would you identify as the best practices or defining characteristics associated with the most profitable firms in this business sector?

Hall: Client retention and employee retention. You put a team together, and the longer you are together, the stronger you are. It's the same with your clients. After that, it's strategic planning. The farther you look down the road, the more successful you will be. Nobody will be 100% accurate in their forecasts, but if you make the effort to stay ahead of the curve—to understand your

competition and your market—often you can dictate where that curve is going.

EBJ: How has the business development function at firms evolved over the years? Is there a single model that has emerged as the best one for this industry sector?

Hall: I think the approach to business development depends on the size of the firm. The big firms, the national and international firms, usually have good systems in place. Whether everybody buys into it, who knows, but they usually have the software and other resources within the organization to support the business development function. They have people carefully placed with the federal agencies, and they have client managers in touch with the best clients.

The mid-size and smaller firms don't have that systematic an approach. A lot of the business development for them is through word of mouth and referrals. Also, those firms that can put themselves in front of groups within the professional associations do better than those that don't.

EBJ: How has Sarbanes Oxley affected the C&E sector? If we haven't seen major impacts yet, do you think we will, and what will they be?

Hall: I'm no expert, but my gut feeling is that, as a result of Sarbanes Oxley, the big consulting firms have a real advantage. Large, publicly traded client companies know that the big C&E firms are facing the same regulatory and compliance issues. If I'm the client, I like knowing that my vendor has the same concerns I do.

EBJ: The term "corporate culture" is often mentioned by executives as a differentiator, but it often seems to be a very vague term—sometimes a catchall for tautology or basic common sense. Does the term mean something specific to you, and if so, what?

Hall: I struggled with that term for a long time. I now believe corporate culture is very important. I would say that the companies with the best cultures are those that have a vision for the future that is agreed upon by the leadership. In addition, these firms place a big emphasis on ensuring that the employees understand and buy into the vision. These firms have an up-to-date organization chart so that people know where they fit in, who they report to, and what is expected of them. Their internal communication framework is designed to keep employees informed and to discourage the spreading of gossip and rumors. ■