

Entertaining Clients? Save Your Money

BY [Kathryn Tuggle](#) 10/09/13

NEW YORK ([TheStreet](#)) -- As the holidays approach, many companies are asking the question: How much should I spend to keep my best clients happy? Although the occasional small gift is expected, the down economy and increased corporate scrutiny have put a damper on how much companies give each year. If you're tempted to give lavish vacations or tickets to the Super Bowl, experts warn that going "all out" will send the wrong message, and might actually cost you some loyal clients -- or trusted employees.

"In the 1980s, you couldn't spend enough money," says Bruce Bachenheimer, director of the Entrepreneurship Lab at Pace University in New York. "But today clients are saying, 'Forget the hunting trip, forget the lavish treatment -- just give me a better price.'"

Client spending -- and the perception of what "acceptable" client spending is -- has evolved over the past decade, Bachenheimer says. The dot-com crash in 2000 inspired companies to re-examine their investment priorities, and after 9/11 companies saw more urgency in preparing for the inevitable "rainy day." The "final straw" occurred most recently in 2008, when businesses were forced to pare down to their most essential operating costs -- and extravagant client treatment just didn't make the cut.

"Nowadays there's just a level of uncomfortability for the giver and the receiver," Bachenheimer says. "If you're rolling out the red carpet for a customer, they're going to assume you have incredibly high margins to do all that spending. They're going to think, 'Oh, he's overcharging everyone -- including me -- in order to afford all this.'"

Some of them may even start to wonder, "Did I sign this contract because I was effectively bribed?" Bachenheimer says.

Unfortunately, your clients aren't the only ones who may start to question your methods, says Meghan Daniels, senior director of advisory services at **SAI Global**. Employees will start to take note and wonder why -- if the company is doing so well -- they aren't getting raises or bonuses.

"Especially at a smaller company, everyone knows what's happening. If you buy a client a lavish vacation, you run the risk of angering your team," Daniels says. "Employees really want to be proud of their company. Everyone has to be committed ethically."

Sometimes, whether or not your customer gifts raise eyebrows depends on whether your client's company has a committed corporate compliance program, Daniels says. Today, many companies have limits in place for what their employees can get, and the limit is usually around \$100. Before giving a client anything, it's important to understand their corporate policy.

"If you take someone to a game and the ticket says it cost \$700, even if you got them for free, it can be a problem," Daniels says. "We typically say face value is the best way to judge cost."

National and international laws have also put a damper on gift giving in many industries, Daniels says -- pharmaceutical companies are no longer allowed to shower doctors and medical staffs with freebies, and those doing **business** overseas must be mindful of the Foreign Corrupt Practices Act. Yet even without legal scrutiny, Daniels says that most modern companies seem to have a genuine desire to "play by the rules."

"The companies we have been working with are cutting back and taking this more seriously. They're looking at the landscape and saying, 'This could reflect poorly on our organization. We do business the right way, we don't do bribes, we don't do kickbacks, and we don't get someone to do business with us by buying it,'" she says.

With that said, a company's business is much easier to buy than it was just a few years ago, Bachenheimer says.

"American firms spend roughly 10% of their revenue on marketing. That's not a lot, and gifts and entertainment can eat up a lot of that," he says. "But when you start looking at how cheap digital marketing is -- more importantly, how effective it is -- suddenly, spending big money to wine and dine doesn't seem very cost effective, and companies have realized this."

But there are always a few exceptions to the rule, Bachenheimer says.

"Companies need to examine the cost of new customer acquisition and the lifetime value of a customer. If you're forced to compete with a slew of other companies for someone's business, but that relationship will be lifelong, then it's worth the extra expense," he says.

"Also, if you're in an industry where your clients are very high net worth individuals, you're not going to get their business by going by their home in Greenwich and sticking a flier under the windshield wiper of their Rolls-Royce."

Another interesting exception is if your client is potentially sitting on the "next big thing," in business, Bachenheimer says.

"Say there's a hot new social media company. It could be just a bunch of kids, but if everyone believes it will be the next **Instagram** or **Twitter**, then it's worth getting them on your side," he says.

Today, most client expectations are "scaled to size," says David Mattson, CEO of sales training company **Sandler Training**. Clients understand that when they're dealing with a small or family-owned business that they'll be more likely to enjoy the occasional nice lunch or dinner than a trip to the Caribbean.

"The job market and workplace environment has gotten more competitive and clients aren't as concerned with entertainment as they are concerned with proving they made the right vendor decisions, showing value and receiving recognition for their work," he says.

"Entertain, if possible, with lunches, dinners and open houses, but also bring value to your clients through introductions to grow their business and by inviting them to lunch-and-learns and industry events to help them build their knowledge base," he says.