

## MARKETING ECONOMICS



**N**ow, let's talk a bit about marketing economics. Client retention is what drives profitability in a service business. It's not your ability to get people to the door for the first time. It's your ability to keep clients once they come to the door, to get them to come back to you for additional purchases, and to get them to make referrals which truly drive profitability in a service business.

The first question I want to ask is, do you know what the cost of obtaining a new client is? Let's choose an example. I deal with many service businesses that use the Yellow Pages to generate new clients. Typically, they might get a 6 - 1, 8 - 1, or even a 4 - 1 return on their marketing investment. What does that mean? It means that, 15% - 25% of the gross revenue of that client matter goes to the cost of getting that client to the door. That's what it costs to get a new client.

What does it cost you to get a new client if you're able to

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retain them or generate a referral? Rather than spending 15% - 25% of the total fee, it typically costs you only 2% - 4% of the client fee in order to get that business. When we're talking about making money in a service business, are you going to make more money if you're spending 15% - 25% of new revenue to attract business, or are you going to make more money if you're spending only 2% - 4% of the gross value of that new fee in order to get the business? Obviously, you're going to make more money if you're only spending 2% - 4% of the fee to get that new piece of business. This means that client retention is what drives your profit.

Keep a few statistics in mind. The most successful service businesses have a client retention rate or ratio in the 90% - 95% range. The client retention rate is the rate at which clients tend to come back to you or to make referrals to you. Most service businesses are in the 70% - 85% range when it comes to client retention. Under-performing service businesses always have client retention rates that are less than 70%.

Let me share with you a fact that will amaze you. If you're looking to improve your marketing, what you're really looking to do is increase your profits. The profits are affected by your client retention rate. If you can increase your client retention rate by only 5%, you will increase the profitability

of your service business by 10% - 25%.

If you are like many business owners, when you start thinking about how to make more money with your business, your first thoughts are to invest a lot of time and money with a big marketing splash to get strangers to your door. However, I encourage you not to do that if you're not currently paying attention to your current and previous clients. If you can focus just a little money on your current and previous clients, get them to come back, make referrals, and increase the client retention rate by just 5%, then you're going to increase the profitability of your service business by 10% - 25%.

How you get business to the door influences your client retention rate. Let's face it, if someone doesn't have a connection with you, they may see an ad and come to your firm, but they are less likely to come back to you again or make referrals, simply because they do not have a connection with you. It has been proven that the average client retention rate of a client that initially comes to your service business as a result of advertising is about 65%. But, clients who are referred to a service business tend to have a client retention rate of 92%. So, how you obtain your business influences your client retention rate, which is the most important factor as to whether your service business is the most profitable. Here's another fun fact. If you spend a dollar to keep a client, you're going to need to spend \$6 to get a new client. It's been

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proven again and again, that if it only costs \$1 to keep a client, it costs six times as much money to get a new client to your door. You need three new clients to equal the lost profits of just one lost client, so focus on your client retention rate.

I want to give you one last example to illustrate this point. I read a study done by the Xerox corporation. They had analyzed what effect a client's level of satisfaction had on a client's willingness to re-purchase from them or make referrals to them. They had clients fill out a form and they interviewed them. They then rated them according to their client satisfaction on a scale of 1- 5. The difference in client retention rate of a client who was very satisfied with their service was astounding. They found that when a client who was rated as a five (who was extremely enthusiastic about the service they provided) was compared to a client who was rated as a four (who was very satisfied with their service), the clients who rated a five were six times more likely to repurchase from them or to make referrals to them.

If you can move beyond clients being very satisfied with you to being enthusiastic about your services, you're going to have a tremendous impact on your client retention rate. Because a higher client retention rate leads to much higher profits, your going to increase your bottom line in a much more substantial manner.

Let's now go back to the example of me with my local auto shop. What did they really do that made me so enthusiastic about them? They made phone calls to me to keep me informed, when I came in they paid attention to me, and when I presented myself to them they tangibly demonstrated to me what they had done (via the computer printout). Those little things moved me from being very satisfied with what they were doing for me to being very enthusiastic about what they were doing for me. Because of that, I remained a loyal client and I referred more business to them.