

# Imagine 17% Growth: Client Retention Delivers!

By Jay Kassing

Strategically, you need to head up to 10,000 feet and evaluate what the body of your client base looks like, what they buy, and what they are worth to you. You must develop a Strategy based on this information first, because the information that you don't know about your top clients is of potentially greater risk to your bank's performance than changes the Fed may make.

As you likely know from your own accomplishments, the more success you have growing your bank, the harder it will become to achieve the same success again. That's the reality. Yet your battle for continued growth and domination within your market is a function of Strategy. As Jack Welch, former leader of GE stated, "Control your own destiny, or someone else will." So without an overarching philosophy that you successfully implement, you are left responding to your competitor's tactics. Take a lesson from Yahoo!, the former Internet search engine leader who is now playing catch-up – and trying to "out Google" Google. Control your own destiny.

How can any business have a strategy that doesn't include knowledge of the profitability of their existing clients and the products they buy? Yet most banks have run their business without this fundamental strategic intelligence for decades. It has been written about for years and proven again and again, that it is only 1-2 % of a bank's clients that deliver 100% of a Bank's profit. Forget the 80/20 rule – your bank's profitability looks more like the 100/1 rule. Do you know who these few hundred relationships are, what they buy, and what value they bring you today and/or what they can bring you in the future? No? What are you waiting for? It is imperative that you know this information. Your bank's risk of loss is too great.

In his book "*Good to Great*" which chronicles the common elements of exceptional companies, Jim Collins talks about the importance of the data. "The kind of information available to the average and the great company is about the same. The difference is that the great company turns their information – into information they cannot ignore!" If you knew that each of your top few hundred relationships delivered on average \$15,000 in profit annually, and further, what each relationship was worth and why - would you ignore it?

Is *Retention* a Strategy or a Tactic? Sure. Any way you look at it, a well developed Retention program delivers real bottom-line results. Is there any proof? Yes. Exhaustive research has been done by many including Frederick Reichheld, in his book, "*The Loyalty Effect*". In it, Reichheld discusses the unheralded profit that is found in a purposeful retention strategy. Some might argue that retaining the existing clients in your zoo isn't as sexy as bagging a new elephant. Yet this kind of client churn is commonplace in banking, and is almost accepted as, "that's just the way it is..."

The typical bank in America loses over 14% of their client relationships each year. That's the average; so that means some may lose 18%, some only 10%. Where is your bank? Much ado is made in most banks about adding accounts, and much should be. However, if you add 15 accounts per week but in turn lose 8 whole relationships that owned 14 accounts, you have gained little. In addition, when you consider the profitability of these new vs. lost accounts/relationships the inhibitors to profit growth may be amplified.

Again, many believe that getting new customers is paramount to successful selling and increasing profitability. It is undeniably a part of the equation. Yet study after study has proven that it is dramatically easier and more cost effective to market to and then cross-sell something else to an *existing customer*. Alex Sheshunoff Management adds real life numbers to this conversation on their web -site, stating that it is 8-10 times easier and cheaper to engage an existing relationship about another account/product with your bank, than it is to seek out a new relationship with someone who has never done business with you.

Unfortunately, even while this is true, most financial institutions are still driven to seek new customers even though the cost to do so runs counter to simple real life marketing principles. Sheshunoff and other respected marketing/profitability gurus believe that the acquisition cost for a new client is about \$200 per account. Compare that to the \$20 - \$25 it cost to cross-sell an existing relationship, the same account. So, where you get your business (based on the acquisition cost described above) has profit implications, as well. In addition, when you gain more accounts within a single relationship, it makes them more loyal to your bank. That is retention.

Why then is there this disconnect? It may simply be the result of inertia. Historically, the management in the financial community has always done things in certain ways. This pattern of gaining business the same old way is the inertia that we must fight. Have you ever heard the phrase, “you need to work smarter not harder”? In using the old ways, you may be working too hard and in a sense chasing your tale (through customer churn). It is time for your bank to work smarter, and finely target profitable opportunities within your own customer base.

Okay. Let’s get back to the information that Frederick Reichheld revealed in his book “*The Loyalty Effect*”. What impact does retaining relationships truly have on your bottom line? Reichheld’s research proved that a 1% improvement in client retention would in itself deliver a 17% increase to your bottom line. Wow! So is a retention program worthwhile? Absolutely. Is it also profitable? That’s a big yes.

Getting what you want means giving your Board/Ownership Group what they want – results... a better bottom line, measurable marketing, reduced risk, customer retention, and an increase in the number of relationships that are highly profitable. You can do it! In fact, you need to do it, to keep pace with your competitors.

As competition from the non-bank sector and your peer financial institutions continues to heat up – you must at least be able to execute the *Retention* strategy. Keep this thought in mind, everyone is after your best clients. Every other financial institution, whether they are your classic local market competitors, national behemoths, or financial service companies (Schwab, Vanguard, Edward Jones, etc.) is after your best clients. If you are not finding a way to identify, acknowledge, and retain your best, you will lose them.

Can you implement a Retention Strategy at your bank? Of course. Yet you cannot do it without information – or in Jim Collin’s words, *information that you cannot ignore*, about the profitability of your clients and products. How do you get this knowledge? Most financial institutions get it from marketing software commonly known as MCIF. In fact you may already have this kind of software. Ask your marketing officer if you have one, and if so, as it says in Forbes Magazine, with all thy getting, get thee understanding. If you don’t have an MCIF, ask CBAI for guidance. They can help.

In the end, a 17% increase in your bank’s bottom line is a pretty good start. And the great thing about it is you control your own destiny. Remember, you only risk losing dozens of your top few hundred clients (at \$15K in profit annually) should you choose to stay the course. It’s up to you.