

The Four Keys of Client Retention

Your Growth Depends on
Reducing Your Attrition Rate

MARQUIS



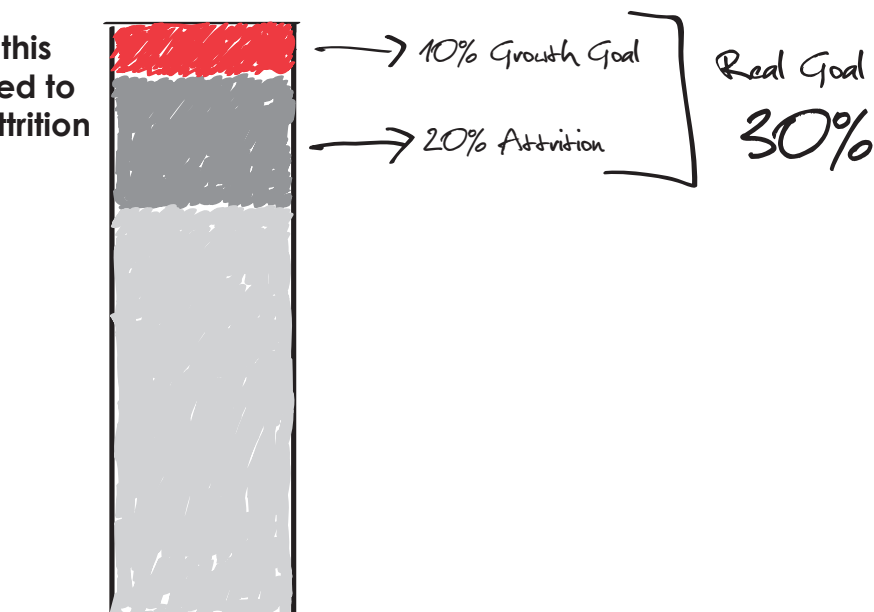
In marketing we tend to spend most of our time finding new and creative ways of acquiring new clients and cross-selling existing relationships. And while that is very important, precious little effort is spent on reducing client churn. Why? It may simply be because you don't know where or how to begin. And then of course, there is that "too much other stuff to do" thing.

There are four keys to successfully reducing your attrition. Hopefully, these steps will make it easy for you to see what must be done with a retention program to impact your financial institution's growth in a big way.

Before we discuss how to help you focus on your retention efforts, it would be worthwhile to confirm the depth and breadth of the "profit risk" associated with attrition. While many studies have been performed by us and others, the one most noted is the Celent Communications study from a few years back. It stated that the average financial institution loses 14.6% of their clients each year. Keep in mind, this percentage is an average. We have certainly seen some institutions' attrition rate north of 20%. Let's put this into context. In order for your bank or credit union to grow even one dollar, your sales must first replace all of the clients (and profit) you lose. That represents a great deal of effort and production, just to get back to even. Then of course, you want to grow on top of that, right?

What if you lost 20% of your profit through client attrition this year? Might there be cuts in the marketing budget? You would then really need to be creative in acquiring new clients. The need for growth would be solely measured by how many new clients came aboard or how much you scored with cross-selling. While there will always be a need for new client growth and cross-selling, getting a handle on your attrition problem changes the metric of what marketing can do to drive profit growth. You can add to your personal worth and bring corporate-wide value in making marketing the central figure in managing retention. That would be important.

To grow 10% this year, you need to cover your attrition first.





Many have referred to attrition as a leaky bucket. You pour new clients into the top, only to lose almost as many out the bottom. For many, it isn't unusual to add eight new clients, only to lose seven out the bottom. Talk about running in the sand? It is hard to grow with this level of client churn.

Imagine the growth that would result if, through your marketing efforts, you could reduce your institution's attrition rate by half? You would be a star! And there may be no easier way to get results from your marketing than by employing a retention plan, if, you know how...

So where do you begin?

The Four Keys to Success with Retention

While individual retention tactics may change, there are four fundamental keys to every successful program. Leave any one of them out at your own peril. While we shall discuss each component in detail, the four keys are as follows:

- Identification of TOP Clients**
- Reaching Out**
- Cross-Selling**
- Tracking Results**

It may not look like a sexy list, yet each component is vital in establishing a thoughtful retention program. Again, how you attack each of these elements may differ from one institution to the next, but you must explore a strategy that includes each one.

Identification of TOP Clients

Our research has shown that on average, only a few hundred relationships bring all of the profit for the average financial institution. Amazing, huh? You have tens of thousands of accounts and households, yet only a few hundred relationships make you all of your profit? It is true. Retain this group of high value relationships at dramatically higher rates, and watch heads turn.

In combing through our research, we found a few startling numbers. For example, as a starting point, these few high value relationships bring about \$7,500 in profit each at financial institutions of around \$400 Million in assets. This \$ number grows the larger your institution is, and gets smaller if your organizations assets are indeed smaller. The style or focus of your institutions impacts this number as well. A credit union's average profit per TOP member will be lower than the TOP clients at a commercial bank. Yet the impact or risk of losing these key clients is possibly more alarming at smaller institutions.



Further research proves the case even more. Your mission is to identify who these relationships are at your institution. This is a vital first step. Let's discuss how you will gather just such a list. Please understand that this is not an account level report of highest balance accounts... The intent of identifying which "relationships" deliver all of your profit requires that you synthesize all of your accounts into households (or rooftops) as most of your top clients have multiple accounts with you. If they don't, they are at greater risk of leaving you. Don't you need to know both ways? Say yes.

Many financial institutions perform householding and profitability analysis using an MCIF software program, or a service that outsources the MCIF data mining and analysis for them. Amazingly, less than 25% of all financial institutions employ an MCIF in either of these ways. Hmmm. Ever wonder why there is such a large attrition problem among banks and credit unions?

Once you have performed householding and calculated profitability (at the account level and rolled up all accounts held in every household), simple reporting will make it obvious who these high value clients are. Once you know who they are, you can reach out to them. That is the next step.

Reaching Out

There are a variety of worthwhile ways to reach out to both your TOP clients and to every "at risk" relationship. Let's break down these communications three ways; top clients, onboarding, and re-boarding. In these three methods, your attrition rate will decrease measurably. And as we are in marketing, we must measure everything, right?!

Reaching Out to TOP Clients

The best, first method of reaching out to your TOP clients is to call them. Crazy idea, huh? With only a few hundred relationships to call upon, you should easily be able to share the burden (so to speak) with the top officers at your institution. So, let's assume you have 300 relationships who deliver all of your profit, three top executives and two branch managers. Divide the 300 by five and each officer only has 60 calls to make each quarter. Or to make that sound easier, let's say 20 per month. Remember, these are your TOP relationships. Shouldn't your senior management have a vested interest in knowing who these folks are personally? Absolutely! Once you have outlined the profit risk to them, you can be sure that your key officers will buy into being a part of this worthwhile calling program.



When calling, it is imperative that your management acknowledges that these relationships are among your best, directly with these clients. Be sure they use the words “thank you!” Once the conversation is joined, additional opportunities will arise. One client, who embraced this idea years ago, found that their attrition rate among their TOP clients dropped to below 2% annually and deposits within this group increased over 35%. Isn’t this a simple, yet extremely effective idea? What will stop you from embracing it?

Could all of your clients be reached out to in this fashion? Sure. It is unlikely that your senior management could undertake this effort alone, but the rest of your team could participate. If you say that “customer service” is your market differentiator, this may be wise. It allows you to prove it.

Reaching out with special offers to your high value clients is also worthwhile. We have seen especially high response rates on targeted direct mail offers to clients who have been made to feel appreciated. That leads us into step three – [cross-selling](#).

Cross-Selling

The third step in a sound [retention program](#) includes some serious [cross-selling](#) effort. But how you approach your clients when you reach out to them and what specifically you offer them is important. Two techniques are described below. The great thing about each technique is that they are highly track-able. We love measuring marketing campaigns. It proves that marketing is generating results. And results are all that matter.

Onboarding

Onboarding is a marketing phrase that simply means: [new account cross-selling](#). Did you know that 30-40 percent of all new relationships will leave you within the first year of coming aboard with your institution? That is a staggering number, isn’t it? Think about this for a moment; you spend a great deal of money and effort adding these clients to your stable of “satisfied” clients, each year. And 30-40% of them leave you in the first year or so? This is an area of attrition that must be addressed, don’t you think? Hello onboarding!

30-40 percent of all new relationships will leave you within the first year

[New account cross-selling](#), or [onboarding](#), is the method by which you can a) cross-sell even more to your newest relationships, and b) improve your retention of these hard-won clients. Sounds good, eh? Why is this so effective? New relationships are especially open to new offers from your institution during their initial 180 days with you. And as attrition rates are highest among your newest clients, it is vital for attrition reduction to get another product into these relationships. Adding one more account dramatically reduces the likelihood that a client will leave you. And it makes them more valuable to you, profitability-wise...



How do you set up an [onboarding program](#)? In its basic form, simply offer something else different every month via direct mail. More sophisticated (and more successful) programs analyze each new client's life-stage and demographics in concert with the product they purchased originally and set up a sophisticated matrix of offers. In addition, each offer will be presented using a myriad of variable data elements within the creative to be seen as more personal. Doing these extra things dramatically improves the response rate of the onboarding program.

Re-boarding

In the same fashion as onboarding, re-boarding looks at your existing relationships that have single account relationships with you. Clients who only have one account are a 50/50 proposition when it comes to retention. Offering something else to these clients using the same matrix discussed in onboarding is an effective technique to re-engage "at risk" existing relationships.

Our research has found that on average, 30% of the existing relationships held by financial institutions only have one account in the household. Giving targeted attention to these clients will do wonders in reducing your attrition rates. [Re-boarding](#) is one more technique that works in fighting customer churn.

Tracking

Everything in marketing must be measured; direct mail campaigns and retention efforts especially. Are you measuring the effectiveness of your marketing dollars in these areas now? You should be. In tough times, management looks to trim the marketing budget. Yet when marketing is delivering real, measurable results, it is hard to cut. What CEO would want to trim back on a marketing effort that delivers revenue and profit growth? Maybe a few, short-sighted ones.

Sadly, the real unspoken problem in most institutions when discussing marketing, is simply that marketing is a cost center. There is never proof of results. Money is spent without regard to a return on investment. Yet marketers know almost instinctively that they hold the keys to growth. The key is to prove it. If your senior management isn't seeing the results you deliver, either start tracking or begin showcasing your proof!

[Tracking retention](#) requires the same attention. Begin by learning what your current attrition rate is. From there, implement these four key steps, and watch what happens. You will no doubt see your retention rates rising. And by tracking the results, you will be able to show how and what you did. Your management will be thrilled. By reducing your financial institution's attrition rates, it will be dramatically easier to grow your bank's revenues overall. And that is what your CEO is charged with accomplishing for the shareholders.



Developing and Executing Your Own Retention Plan

This is at the heart of what this white paper is all about. How can you implement a retention strategy that will positively impact the loyalty of your existing relationships? At this point, you should have an idea where to begin. **Identify your TOP clients. Reach out to them. Cross-sell new and “at risk” clients aggressively, and track everything.** Client retention is not nearly as sexy as acquiring hundreds of new clients, yet it is vital to growth in the same way. A great deal of research has proven that it is eight to ten times less expensive and more successful to retain your existing clients through cross-selling, than it is to acquire new ones. With a limited budget, isn't this the place to start?

Please embrace a retention strategy of your own. You can do this. There is nothing more valuable or provable that you can do for your organization. Your institution's growth depends on reducing your attrition rate.

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