Sapeer Marketing

Balancing Customer Acquisition and Retention

Implementing creative client acquisition and retention strategies is vital for professional services firms to survive in an increasingly competitive environment. Across all industries, clients can readily access information about competitors, pricing, and services from online resources and professional networks. As a result, they have high expectations, and can easily be lured away by competitors. Consequently, professional services firms should take measures to acquire the right clients and retain them in order to generate long-term revenue.

Client Acquisition & Retention – What is The Right Mix?

How does a professional services firm decide which clients to acquire and which ones to retain in order to optimize profitability? This involves assessing the costs associated with acquiring new clients and their expected life time value, as well as evaluating the revenue streams of current clients and how much resources to devote toward their retention.

While some clients are consistent spenders, others have inconsistent purchasing patterns due to external forces such as the economy. It might seem obvious to focus more resources on the consistent spenders. But this may not a wise course of action as client behaviors change. Consistent spenders may defect at any time while the inconsistent ones generate long-term revenue. Therefore, how should professional services firms manage unpredictable client purchasing behavior?

The Stock Portfolio Approach: One approach in managing unpredictable purchasing behavior is to view the total client base like a stock portfolio[1]. Stock price fluctuations are similar to erratic client behaviors. Just as an investor controls for risk by having a portfolio of different performing stocks, a professional services firm's client base should contain a mix of clients with varying degrees of spending, even representing diverse industries.

When deciding how to allocate resources between acquiring and retaining clients, the professional services firm should consider the potential long term value of each new client and the related acquisition costs, as well as the degree to which these clients will impact the long-term profitability of the entire client portfolio[2].

As it relates to balancing expenditures between client acquisition and retention, studies have shown that cutting expenditures in both acquisition and retention activities resulted in lower ROI relative to overspending the same amount in both activities. Furthermore, reducing retention expenditures and optimizing acquisition expenditures has a greater impact on long-term customer profitability than reducing acquisition costs while optimizing retention expenditures[3].

These findings require further validation; however, they seem to imply that incorporating strategies with a primary focus on retention yields greater profitability.

Innovative Acquisition and Retention Strategies

Below are examples of innovative client acquisition and retention strategies that professional services firms can implement in order to gain competitive advantage. These strategies also focus on cultivating deep client relationships to ensure long-term profitability.

Engage in a Dialogue with Profitable Clients: One way that professional services firms can differentiate themselves is to engage in dialogues with profitable clients. This process entails being aware of the

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[1] Dhar, Ravi, and Glazer, Rashi. "Hedging Customers." *Harvard Business Review* (2003), p. 87. Print
[2] Ibid., p. 88
[3] Reinartz, Werner, Thomas, Jacquelyn S., and V. Kumar. "Balancing Acquisition and Retention Resources to Maximize Profitability." *Journal of Marketing* 69 (2005), p. 77. Print.

most profitable clients through collecting and analyzing relevant data, and identifying the best, next best and worst clients. Once these clients have been identified, the next step is to organize meetings with the best and next best clients to glean insights into their unmet needs and the types of services they desire.[4] The advantage of this strategy is that it deepens relationships with the most profitable clients, and facilitates cross selling and up selling without resorting to sales tactics. Clients can even participate in designing innovative services.

Become a Trusted Business Advisor: Becoming a trusted business advisor is one of the best strategies to retain clients and differentiate from the competition. According to Anca Munteanu in *"Cross-Selling: An Art You Need To Practice,"* becoming a trusted business advisor involves:

- Taking the time to learn about the client's business, such as strategies that make the client successful and the issues that cause the most concern, and then creating customized solutions
- Learning about the client's industry and the positive and negative factors affecting it. This will enable professional services firms to anticipate client needs and identify cross selling opportunities
- Providing expertise that might help the client's business, and quickly responding to their questions
- Utilizing professional networks to introduce clients to advisors that could help their businesses such as lawyers, bankers, IT consultants, etc.[5]

Becoming a provider of business advice and connections cultivates trust, improves client satisfaction, deepens the client relationship, and ensures the solid reputation of the professional services firm as an expert.

Deliver Services that Exceed Expectations: When a firm acquires a new client, it is the perfect time to cultivate the relationship, obtain additional insights about the client's needs, and establish the right menu of services to exceed expectations.

[4] Olivieri, Phil, and Slodki, Miro. "Retention Is the New Acquisition." *FOCUS* (2009), p. 3. Print.
[5] Munteanu, Anca S."Cross-Selling: An Art You Need To Practice." *CPA Practice Management Forum* (2009), p. 5. Print

Robert Miller, a senior client manager of the Bank of America, offers the following observation: successful professional services agencies cultivate existing business relationships and acquire new customers by delivering services beyond what they are contracted to perform. They earn their clients' trust. For instance, one of Miller's Bank of America's clients chose a particular CPA firm because it provided additional tax operations and business consulting services beyond the required audit services at no extra cost.

When a professional services firm delivers services that exceed expectations, clients will eventually depend on that firm for advice and additional services. ***Transform retention into a powerful acquisition tool:*** A professional services firm with a solid reputation of exceptional service delivery can transform retention into a very powerful acquisition channel.[6] When a client receives free advice and referrals, along with quality services that exceed expectations, it is only natural to reciprocate. These highly satisfied clients present an excellent referral source. Upon request, they will be more than delighted to recommend a firm's services to their business contacts. This word of mouth referral is a very cost effective customer acquisition strategy. A recent report from Constant Contact states that small businesses have discovered that their estimated 90% of new customers were through referrals[7].

Use Client Defection to Learn: Research confirms that approximately 70% of clients leave due to poor customer service; around 15% leave due to poor service quality; and around 10% leave due to pricing issues.[8] When clients leave, professional services firms should invest the time to understand the reasons for their departure.

The process for gleaning insights into the reasons for client departures begins with the leading partner initiating a candid discussion within the firm. Instead of placing blame, this is an opportunity for the team to brainstorm the various possibilities that led to the client's departure. Team members might recollect specific incidences which caused the deterioration of the client relationship. Perhaps the client complained about a lack of timely

[6] Olivieri & Slodki, op. cit., p. 1
[7] "The Power of Relationships: How to Drive Repeat Business and Referrals with Engagement Marketing." *Constant Contact* (2013): n. pag. 2013. Web.
[8] Haylock, John. "“Why Do Clients Leave?”" *Chartered Accountants Journal* 91.8 (2012), p. 60. Print.

response to emails and phone calls, or the client may have voiced discontent about the fees. The team may even discover that the client was not the right fit for the firm.

After the team meeting, the next step for the partner is to initiate a conversation with the former client. The meeting should take place at a neutral location such as a restaurant, with the focus of expressing concern over the loss of the business, and obtaining honest feedback regarding the reasons the client left. During the meeting the partner should not try to convince the client to return. The partner might learn that there were unmet needs, unexplained increase in fees, lack of communication, and other issues.[9]

After meeting with the former client, the partner and the rest of the team members should review the information gathered and brainstorm strategies for reducing client defections. This may involve learning the communication preferences of new clients, and setting appropriate deadlines for responding to client queries and complaints. Related to billing, the team may decide to revise the invoice to reflect the value a client is getting, such as listing free services provided.[10]

Through investing the time to glean insights about client departures, and developing strategies that address client issues, professional services firms will see reductions in client defections and may even benefit from former clients returning. The professional services firm's staff should also watch for signs that indicate client dissatisfaction and take preventive measures.

Implementing a CRM System: Implementing a robust Customer Relationship Management (CRM) system can transform client services delivery. The first step toward designing a CRM system involves improving client facing business processes, and creating a culture of collaboration among individuals involved in marketing, sales and client services delivery. This increases the likelihood of developing a common approach toward managing customer relationships and streamlining business processes.

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[9] Meade, Janet A. "When Clients Leave, Learn"" *CPA Practice Management Forum* 5.6 (2009), pp. 8-10. Print.
[10] Ibid

One of the first priorities in streamlining business processes involves the creation of standardized communication methods that transform client interactions and improve relationships.   An example includes a focus on phone calls during the acquisition phase, and then switching to emails once the client has been retained. Standardized methods of client interactions should lead to high levels of customer satisfaction, improve retention rates, and reduce the likelihood of clients defecting to the competition.

Another effective approach is to use time efficiently in balancing client services with the day-to-day business operations. *"Using time efficiently is the key to balancing customer acquisition and client retention,"* according to Jerry Cahn, chair of the Presentation Excellence Group, which provides a variety of leadership and executive coaching/training services*. "Providing first-rate, customer-centric service is critical. Pleasing customers generates repeat business, referrals and a stellar reputation. Leveraging existing client relationships is a great strategy for reaching out to new prospects."*

Cahn advises business executives to use non-peak service hours to run the business, which needs the same attention to detail and the same commitment to service excellence.

Data Management: If possible, professional services firms should consider implementing a single source CRM solution that gathers, cleanses, and consolidates client data into a centralized location that is easily accessible throughout the organization. This is also known as the 360 degree view of the customer. Because the entire organization sees the same client data through utilizing the standardized CRM solution, this guarantees consistent client services across the different departments – marketing, sales, client services, finance, operations, etc.

The easy access to client data provides valuable insights into client spending patterns, acquisition and retention rates, results of marketing campaigns, etc. It also uncovers selling and cross selling opportunities, along with high-margin prospects to target as new clients. Professional services firm can use all of this information to identify highly profitable clients, design services to meet new client needs, and create effective marketing campaigns that deliver the right messages to the right prospects.

Balancing client acquisition and retention to maximize profits is a very complicated endeavor in a highly competitive business environment. It requires developing innovative strategies to acquire new clients and retain existing ones. These strategies include creating a client portfolio, exceeding client expectations, becoming a trusted advisor, having conversations with profitable clients to uncover new needs and design customized solutions, addressing client satisfaction issues, streamlining customer related business processes, and implementing a CRM solution. Professional services firms should also utilize client data to identify potential clients, high margin clients, and potential defectors. Implementing the above strategies will increase client acquisition and retention rates, and improve profitability.

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