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Retention: The silent profit killer

The email or letter comes out of the blue — it's never a phone call. *This is your 30-day notice — we're terminating your services.* Whatever the reason, the impact is traumatic personally and financially. Personally as in "we jumped through hoops the last eight years for those guys and this is the thanks we get." Financially as in it drains away profits faster than anything else in your business, as the following example demonstrates.

Let's assume a scenario where you retain 99% of your monthly contract value each month, where the average Gross Profit Margin on this work is 50% and you started with an original budget of 15% and 25% equipment and overhead costs as a percent of revenues, respectively. See Table 1.

The impact of a 99% monthly retention rate has the following cumulative effect on annual revenues. You lose $1,000 in January and each month for the rest of the year. The total loss is $78,000 at the 50% gross margin. See Table 2.

The result — as shown in the Table 3 — is a 3% decrease in net profit or a $38,520 reduction in cash flow. The primary reason is that overhead expenses don't change that much, even if you consider that you will save some money for fuel and repairs for now unutilized equipment. Ouch!

What do you do?

You need to maintain and manage an "At Risk List." At risk customers are those who have a change in ownership, management, or personnel. They are also those you rarely see or with whom you've changed an account manager. They're ones who do not return your calls, or purchase enhancement services, are very new to you or have been with you a very long time. Yeah, it's a big list.

You must talk about more than landscape with your customers. You must talk business as in "How is your business doing? What are your challenges this year? How can we help?" This might come as a shock, but most of your customers have business concerns that greatly outweigh their need for a perfect landscape. These business concerns can be put in two categories — their budgets and their bosses. Their first instinct always is to keep their jobs.

You will be more successful bringing them cost-saving ideas like changes in job specs or enhancements that decrease maintenance costs *before* they ask you. If they are smart enough to appreciate it — and you are bold enough to show them the return on investment that enhancements can make in terms of lower vacancies, happier tenants, and higher rents — they might deem you indispensable and keep you around a long time.

It's worth the effort, given the costly alternatives and the unpleasantness of those depressing termination emails and letters.

TABLE 1: ASSUMPTIONS

Monthly contract revenue	$100,000
Monthly retention	99%
Monthly losses	$1,000
Gross margin	50%
Equipment	15%
Overhead	25%

TABLE 2: REVENUE DRAIN

January	$12,000
February	$11,000
March	$10,000
April	$9,000
May	$8,000
June	$7,000
July	$6,000
August	$5,000
September	$4,000
October	$3,000
November	$2,000
December	$1,000
TOTAL	$78,000

TABLE 3: PROFIT & LOSS

Revenue	$1,200,000		$1,122,00	
Gross profit	$600,000	50%	$561,000	50%
Equipment	$180,000	15%	$168,300	16%
Overhead	$300,000	25%	$300,000	27%
Net profit	$120,000	10%	$92,700	8%