

Business Tips

The Retention Paradox: A Contrary Point of View

Longtime followers have heard me forward that good decision-making requires the ability to embrace paradox—two opposites that seemingly can't be true at the same time but nonetheless are. Well, this month's topic is a classic case, and those who are unable to deal with its paradoxical nature will gain little, and perhaps be misled. So, grab a cup of coffee, lock your door, put your feet up and keep an open mind.

For years, I went around the country to Congresses and beat the drum about retention. To me, it was self-evident that higher retention would translate into a stronger, more profitable business. I now know such a black and white view was too simplistic; higher retention does not necessarily mean a stronger, more profitable business. Skeptical? Read on!

Clearly, there are certain things every business should strive to do that are likely to raise retention; one basic example is to perpetually seek better Employee/Client relations. On the other hand, I am convinced, there are some things a business could do to 'drive' higher retention that may not lead to a stronger, more profitable business, long term. In fact, over the years, I have found that a high retention number can actually be a contrary indicator of a business's vitality. Surprised? I am not making up the rules, I am simply reporting the news.

Allow me to share a story: Just last week, a telephone discussion with 'Sam' from Missouri once again brought to light the Retention Paradox. Sam lamented: his enrollment was static, his profit was abysmal and he 'didn't know how much longer he was willing to hang on; perhaps he should just sell.' In asking, I learned that his club's demographic profile is very good—in fact, good enough to support a club of 1,000+ (unfortunately, not his club). Sam went on to stress how happy his clients are and that his historic retention rate was 92+%, month over month, far better than my GymClub. Perhaps this is an isolated event? No, too many times to ignore, I have heard GymClub A speak of 90% retention and GymClub B speak of 80% retention, only to learn that GymClub A has an eternally mediocre business while GymClub B has demonstrated growth, vitality and profitability. I used to think this phenomenon was a function of size—that the larger GymClubs weren't doing 'as good a job' as smaller GymClubs and therefore had lower retention. But after studying specific operations, that proved not to be the case. Besides, if that were true, we would see a trend for larger GymClubs to become weaker, and smaller GymClubs to become stronger, and that is definitely not happening. There is something else at work here and I think it has to do with the business model.

I used to believe that a smart GymClub owner designed his/her business to 'minimize any and all chances of a student ever 'dropping out.' I have come full circle; I now subscribe to the belief that 'I can build a stronger business, long term, by being easy to do business with and if Mrs. Everyday Client desires to take breaks and enter in and out, I will design a business that makes that easy to do. By catering to Mrs. Everyday Client, I will generate more revenue per student OVER THE LONG RUN AND build greater client loyalty AND broader word of mouth, AND THEREFORE, a stronger, more profitable business even though retention data may trend lower.

Metzger, what could possibly be good for retention data but not good for long-term profit? Any of the following efforts to raise retention rates could invoke the law of unintended consequences. Do you . . .

- ...design curriculum/skill goals to make it awkward to or discourage 'taking a break';
- ...have monthly billing cycles rather than terms (statistically, monthly cycles have higher retention than Terms);

- ...have pricing/registration/payment systems that overtly or covertly punish 'taking a break' (using Client contracts are an overt example of this);
- ...use literature/marketing that stresses or implies for everyone, 'gymnastics is a long term commitment' (Kid First does but for team only);
- ...design your programming model with only one pyramid and all students aiming toward the peak (team) rather than multiple pyramids with goals and objectives tailored to each pyramid;
- ... subscribe to the belief that 'once a child drops out, s/he is gone for good'? I strongly suggest eliminating the word 'dropping-out' from your mind, your vocabulary and your business. Substitute 'taking a break,' and work and work and work on your business until you are confident that when a Client does take a break that s/he will return. If you believe that a 'drop out' is 'gone forever,' you first need to fix your thinking, and then fix the way you do business if long term growth is your goal! Scream it from the rooftops: the 2nd best source of new revenue is former Clients so nurture them as if they are gold (by the way, the #1 source of new revenue is current Clients)!

Further confirmation of the Retention Paradox is my own business experience. Today, in 2005, compared with 1990, my business performs better in every non-financial measure I can think of: Client relations; teacher/child relations; teacher/parent relations; coworker/coworker relations; leader/coworker relations; communications; marketing; skill development; competitive team performance. You name it and we are doing it better and in most cases a LOT better! Yet, today, our retention averages 10 percentage points lower than in 1990. Metzger, that's interesting, how about the financial performance, then to now? No comparison: we have hugely higher revenue, profit margin and profit, plus, we are able to compensate better. The cold, hard facts are: Kids First does better today by every measure except one...retention!

I have thrown a lot at you so allow me to try to distill the Retention Paradox into one sentence. Seeking to encourage behaviors that enhance relationships and traditionally increase retention are worthy goals of any GymClub; however, designing your business model to maximize retention at every turn is probably not the best strategy if long term growth and profitability is your goal.

In closing: I think I know a measurement that will more effectively measure what we think we are measuring with retention. I intend to experiment with it and after I give it a fair try I will report back. Of course, it might take a while before its true effectiveness is known: after all, it took me decades to recognize the Retention Paradox! Of course it is those and other challenges that make running a small business so much fun.

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