

Payroll Tribune

Volume 2, Issue 3

March 2005

Building Your Customer Base By Managing Attrition

The payroll industry has just gone through the exciting time of “Year-End” and the report cards are coming in. The Sales Teams have spent the last three months lining up new accounts. The New Accounts/Conversion Teams have put the new customers into the system and hopefully trained them on how to best use their new payroll system. New beginnings all around! So why didn’t we end up with more total clients, and why has my Net Income Before Tax line not improved?

It might be that you are looking at the wrong numbers, or more kindly, not enough of the numbers.

Let’s look at a hypothetical example: Assume that we are an average independent payroll service bureau with 1,000 customers made up of companies that have between 1 and 250 employees, with an average of 10 such accounts per month during the year, and that a New Accounts/Conversion person is working with the Sales Team (but working for the Operations Group - more on that in future Payroll Tribunes!) and assists in the conversion and training of 240 new customers a year. If the Company earns a Net Income Before Tax of 20%, we can estimate the annual servicing cost per account. Next, assume that the customer pays the Company \$2.50 per check and runs 2.7 payrolls a month.

In this example: the annual revenue is \$2,025 per account. Its first year acquisition cost is \$861. Its annual operating costs are \$1,620. The Company achieves breakeven on the account in 2.17 years.

If the Company has a 20% account attrition rate per year, by the end of the third year only 51% of the accounts will be left, in effect stretching out the breakeven point even further. This is a high cost for being in business, and a large factor in the argument for economies of scale. Service Bureaus which do not think about this issue, wonder why the harder they work, the less money they make.

But let’s not despair. I know from talking to our clients that “these numbers do not apply to them”. They have larger customers, pay their people less, and get more than \$2.50 per check. That’s good, and if you don’t know your own numbers, but would like to, we can help you. If you don’t know and don’t want to know, God can help you. If you do know, and these numbers look somewhat familiar, read on.

You can beat these numbers. Without even getting more efficient, you can improve your Pre-Tax Net Income importantly by changing the rate of the attrition of your customer base. To go back to my example: our service bureau has 1,000 customers, and an attrition rate of 20%. At the margins outlined above, the attrition “costs” the bureau \$81,000 a year in lost income. You can reduce that “cost” by focusing on reducing your attrition rate.

Here are some things that you might think about to improve your attrition rates:

1. Understand why customers leave payroll service bureaus
2. Communicate with your customers
3. Follow-up on customer issues
4. Ask your customers for their feedback, survey your customers
5. Broaden your relationship with your customer

Managing Attrition Cont...

Understand why customers leave payroll service bureaus

Customers leave for many reasons, and it is important to know why they leave your company in particular. Some of the reasons they leave: they go out of business, they move out of your area, they no longer believe that you offer a fast-accurate-reliable-convenient service, they never hear from you, or they are taken away by a competitor for price or product or service or... There are lots of ways to leave your payroll service bureau, you need to understand why your particular customers leave you. **Suggestion: do exit interviews.**

Communicate with your customers

Your bureau communicates with your customers in numerous ways each month. You have written communication—the payroll documents, the checks, letters and e-mails to customers from staff for various questions, notices from the Company... You have oral communication—receptionists/automated phones, customer service reps, tax department, funds transfer department, training

team, sales team. **Suggestion: insure that the communications are professional, helpful, and timely.**

Follow-up on customer issues

All service bureaus are busy. The day to day routine can cause any of us to lose sight of the fact that we are in business to serve our customers well. Customer inquiries come in to the Company from any sources. **Suggestion: track all customer inquiries and confirm that inquiries have been answered.**

Ask your customers for their feedback, survey your customers

Your customers can give you important feed-back regarding your service, your products, your image in the marketplace, as well as information about their needs. **Suggestion: conduct an annual survey of your customers; use a survey which can give you helpful information, and send a survey summary back to your customers.**

Broaden your relationship with your customer

Cross sold customers indicate to you that the customer believes that you are offering them value. They will be more inclined to talk with you about problems they are having with your service, and they will be slower to leave because of one-off misunderstandings or the solicitation from a competitor. **Suggestion: expand your customer service offerings to continue to add value to the relationship. Cross selling services is the job of your sales team, not your customer service team!**

My space is too limited in the Payroll Tribune to go into greater details about each of these suggestions. We would be happy to talk to you about them as they might relate to your company. I will be speaking at the IPPA conference this summer about these topics. I encourage you to think about these points. It is a very competitive market for new accounts. It is expensive. Reducing your attrition rate takes thought, and some cost, but the payoff is great on the bottom line.

Henshaw/Vierra Management Counsel, LLC

Our firm is one which helps our clients answer general questions about how they should better run their business and manage their investment in their payroll service bureau. We help them analyze their business. We can because we have been managers ourselves and because we have experience in dealing with payroll service bureaus around the country for over twelve years.

We particularly work with clients to help them plan their futures. That includes:

- *building business plans
- *creating budgets
- *planning and managing system conversion
- *managing change
- *surveying their customers' opinions

*helping owners structure and negotiate the terms of sale of their business or the purchase of more customers from another company

Planning, monitoring, consulting and structuring deals...Henshaw/Vierra Management Counsel LLC knows payroll and independent service bureau management and operations. Let our experience help you build your bottom line.

Call us, in confidence, with your questions at 510-749-3225 or guy@henshawvierra.com. We look forward to working with you.