November 2021 – Luke Carlson – How to Retain Clients for Life

Lawrence: Welcome everyone to the November 2021 HIT Business Membership content with Luke Carslon from Discover Strength. Luke Carlson is the CEO of Discover Strength. We do this every single month. We normally alternate between business and personal training. Previous guests include Dr. Doug McGuff, obviously Luke has contributed tons of really valuable content, Jeff Tomazewski, John Little, Bill DeSimone, and Hannah Johnson who is also from Discover Strength, Blair Wilson, and many others. We get the top experts in high intensity training and strength training business to contribute great content to this platform.

Luke, thank you so much for taking the time to do this. I really appreciate it.

Luke: It's my pleasure. Thanks for having me, Lawrence.

Lawrence: Today, we are focused on retention. You and I have spoken about retention before. The title of this presentation is **How to Retain Clients for Life** which might be a little bit hyperbolic, but I thought it would inspire people. I think what I am excited about is hearing your latest thoughts on mindset, principles around retention, and then what actually works, what is superfluous, what is redundant. I know you've already got some talking points planned so without any further ado, I'll let you go and I'll chime in with questions as we go. Where do you want to start?

Luke: I absolutely appreciate your questions because I think it's probably more appropriate or valuable for you to interrupt me when we're in the content that you think, hey, this is the time that I would love to go deeper on this or I have some follow up on this.

I'm inspired by Horst Schulze who is the founder and long-time President of the modern Ritz-Carlton hotel company. He is not the current President of Ritz-Carlton. He retired a number of years ago, but Horst Schulze is famous for saying, "There are only four elements of building a profitable business." As soon as the speaker said that, I perked up. I'm on the edge of my seat. The thoughts running through my mind are, "There's only four things? Okay, I've read 52 books this year on how to run a profitable business and every one of those books seemingly had 12 different key ideas. How can there only be four things?" I want to pay attention to what those four things are. The four things, four elements of running a profitable business are, #1, retention of the customer. He goes on to say that the key to all of these is that you don't get the order of importance. So #1 - Retention of our customer, #2 - We need new customers, #3 - We need more revenue from existing customers, #4 – We should try to cut or manage our expenses. He says most companies focus on 2, 3, and 4.

When I reflect on that, I think that's true. I think most of the people that I know are running all different types of businesses, and definitely in our space, people are focused on how to cut expenses. How do I make sure I sign a lease that's inexpensive in my studio? Let's just frame it up right there. Think about that. People are trying to sign an inexpensive lease for a personal training studio rather than sign a lease that retains the customer. We make all these decisions that are not aligned with #1 – retain the customer. I think one of the reasons why we don't get excited about retaining the customer in our space is because we think, "Well, I need more customers. If I just retain the customers I currently have that's not enough. I need more customers." I think if you've been a business long enough you know that there's going to be enough customers over time. You are just losing customers at the back side, and if you can retain those customers you actually don't need to acquire very many customers. Our academic foundation in all of these, Lawrence, before we go too deep into it is that it's so much less expensive… And there's all these different figures that are thrown out around this. It's so much less expensive to retain a customer than it is to acquire a new customer. I think foundationally you have to believe, your philosophy has to be that retention is everything. It is the whole business.

At Discover Strength we use EOS/Traction, and so many of your listeners will be familiar with that. There is a concept of key roles. Every employee, every seat on an accountability chart or an organization structure should have key roles. We recently, literally within the last one month, changed the order of our key roles for our personal trainer. We had retention as a key role but it's listed as the 5th of their key roles. Now, we changed it so it is their first key role because I want to be able to go to any one of our personal trainers and says, "What is job #1? What is your most important focus? What is your most important key role?" They need to have absolute clarity around that. It's to retain the customer. That is what we are trying to do.

That's our starting point. If you want to build a profitable business in any business, I don't care if it's hotels or if it's high intensity personal training, you have to be obsessed with client retention.

Now, let's spend the next 50 minutes, or Lawrence, however long you want to spend talking about how we do that, how we measure that, what are the different categories. I mean, if that doesn't get you excited and if you don't believe philosophically that's important, I'm not going to say why you are going to struggle, I'm going to say you got to find a way to convince yourself you have to intellectually get there what you think is the most important thing. So we start with that.

Now, the next key question is, "What leads to client retention? What leads to customer retention?" What a fascinating question. I think the first answer is everything you do leads to client retention. We have meetings on this, and we have this meeting every couple of years. We bring in our team of leaders and managers and we start talking about how we retain more clients. You find out pretty quickly, and this is true in any business, that everything we do contributes to client retention. We start to try to understand, what are the key elements of our experience that we want to make sure don't fade away that are appropriately highlighted? What are the friction points that we think we should minimize?

I want to talk through what that looks like. Now, Horst Schulze of the Ritz-Carlton would say, "The first thing that your customer wants is they want no defects." Whatever you're selling it has to work. If you buy a bottle of water, the bottle of water has to function. If it has a hole in it, and water is leaking out the side, you have a defect. You're going to be in trouble. What is a defect for us? It's if you start a workout late or you scheduled a client at a particular time and the trainer is not there. It's if they think they can call to schedule a workout with you but nobody answers the phone. We could come up with 200 different defects. You have to eliminate defects first, says Horst Schulze**.** And I agree with that. #2, there has to be an appropriate level of urgency or speed for the customer. He talks about in hotel companies, 15 years ago, if you waited in line for four minutes or less before the customer checked in they were happy. Now that duration has dropped to 30 seconds. How fast we expect things, man, that time window is really shortening. It's speeding up. We want things immediately. That's #2 is speed. #3 is we want, you can call it service, or you can call it hospitality. We want someone to be nice to us is #3. That's it. Those three things.

Interestingly enough if we fail on #1 and #2, and we are really, really good at #3 or we pay attention to #3, the customer will always forgive us. If you buy a brand new expensive car and you drive it off a lot and it breaks down two blocks away. You get it towed back to the lot and they treat you incredibly well, you will forgive them. This is true in every business. There are actually data points to suggest that a customer loves your business more if you make a mistake, if there is a defect and you handle it incredibly well. That's the third component – the hospitality, the service. As Horst Schulze would say, "Just be nice to me." Of course, I think it is more than being nice to me. It is, am I going to solve your problem and I come to your side of the table and be on your side, which is truly the mark of hospitality instead of company versus customer. The company comes around the other side of the table and is on the same side of the table as the customer. That's service. That's hospitality.

The starting point for us is measurement. We are going to talk about how we actually do it but we have to talk about measurement, and this is the tough part and maybe a controversial statement. Nobody in our industry has any idea if they are good at client retention. In a high intensity training space, we are just not very sophisticated at tracking this. We don't have consistent ways of tracking it so that we are all speaking the same language. On our scorecard alone, we have multiple different retention numbers. I can share ours with you. I'm going to share ours with you but please remember these are just ours. They are only meaningful because we can compare them to last quarter and the quarter before that, and the previous year, and the previous year, and the previous quarter of a previous year. I think one of the barriers to tracking this is you think, well, I don't have enough data points. I just want to improve my retention right now. It's hard to think that, well, if I started now it's not going to become valuable for us a quarter at least or multiple years. You got to start now. Anytime we make a change like this it is painful in our own business because I think this is not going to become valuable for us for a long time. So still do it, start tracking it, come up with what your metrics are going to be. There is a difference between client retention and attrition. Retention is how long someone stays. Attrition is when someone actually leaves. I don't think we need to get caught up in that actual intellectual debate. Just decide how you are going to measure it.

We measure two different things. We measure in a given year, if you are a client on January 1st or if we add you as a client throughout the year which of course is going to happen, at the end of the year are you still a client. What percentage of our clients on January 1st or clients added after that are still a client by the end of the year?

The next question related to that is what is defined as a client? Now, this only really works well in my opinion if you are using an auto-pay format. If you are selling packages, that's the first thing you should do. You should probably log out of this webinar and change your advert to an auto-pay. Because if you sell a package and I bought 20 workouts from you or 30 workouts from you, and you get this cash up front, well, when do I count you as retained or unretained. What if you do 10 workouts in 5 weeks, 2 workouts a week, and then I don't see you for two weeks. Are you unretained at that point? But then you come back in. Are you retained again? And then, I don't see you for 1 week, and then you do 5 weeks of 10 total workouts. And then you traveled for one month. Are you unretained during that one month? Over the course of a year how valuable, how much revenue is actually coming from this client? When there is auto-pay involved you can simply say, "Is there an active auto-pay on this person? Do they have a membership to my facility?" Membership to us means you are on auto-pay and you are training 4x, or 6x, or 8x in a month. That means you're training somewhere between 1 and 2x in a week.

I think you have to use auto-pay. If you don't use auto-pay, then there is a lot of manual tracking. The manual tracking would be you coming up with a number. If you have not been in this facility for one month, we count you as unretained. Before we did auto-pay, we called you unretained if you had not taken a workout with us for 14 days. You are unretained. I mean, you are just not working out with us. We can't call you an active customer. We would always call an active client where you have an active auto-pay. Now, that's one retention metric we have. On January 1st, are you with us through the end of the year?

Right now, we are at 77.8% here. As every listener can probably figure out, we are in Q4 of the year. That retention percentage gets worse throughout the year. On January 2nd we are going to be 100%. By January 15th maybe we have lost a customer or two. The percentage always looks good and then it gets worse. This goes back to the point of this being meaningful to you and your previous data. If you send me an email in February and say, "I'm at 94% right now. Is that good?" My answer is we have no idea. This is only meaningful if you have previous data points. It's going to slowly get worse throughout. We are at 77.8%. The best retention we've done in company history is 73%. Our goal this year is 74%. David can tell you, us at 77.8%, are we on track to reach our goal at 74% by December 31st. Because we can look at previous Q4s what was the percentage during this week of the quarter.

I'll just pause there for a second. Lawrence, do I need to go deeper on that or actually less deep on that? Did I make that simple enough?

Lawrence: I think you brought that incredibly clear.

Luke: I'm thinking about listening to your podcast with James Steele which was fascinating. But you did a lot of clarifications throughout because I was lost throughout.

Lawrence: Well, I'm glad to hear you say that because I re-listen to that in the car and then it clicked for me. For anyone who is interested, I think it is Episode 340 with James Steele about exercise science just to say that. I then texted him, all caps, "I GET IT!" I finally got it. Unfortunately, [unclear] No, that was great. I thought that was really clear.

Just one clarification, so that percentage you just gave, you are tracking that every single week in the scorecard, aren't you, through the EOS system?

Luke: Yeah, great point. For every week, we look at what these are. I'll mention this. If it's okay I'll give you our second retention number. Our second retention number is how many clients get through their first 22 sessions. We think that we have to measure their long term retention. By long term it's really just a year. We have to understand are people getting through 22 workouts. Now, for us, we thought 22 workouts was somehow meaningful. We saw some data. We did some customer experience research, some user x research. We understood that if someone got through 22 workouts with us we are probably going to retain them for the next 7 years. But we are losing people at 9 workouts or 15 workouts. We said, "What can we do during these first 22 workouts to position this client to be a client for life?" We want to measure our percentage through 22. Instead of just putting it as a percentage, we now change both of these, I just gave you the percentage – 77.8%. That's the first percentage for the first 22. But we also list it as a number.

I got this from, he's been a guest with you before, Dr. Paul Bedford. The idea here is when I tell you our retention is 77.8%. That means we are only not retaining a little over 21% of our customers. That sounds pretty good. Then when you put a number to that it's embarrassingly bad. I mean, for us, it's hundreds of clients. In a meeting, I will often say, we say it's green. We say, on track. I'll say something every once in a while, yeah, that's on track. Reminder, we had 312 people that came into us, came into one of our studios, and said, "I want to spend good money to workout with you guys." Then eventually said, "You are not getting the job done. I don't want to spend money here anymore. I don't want to work out with you anymore." And we got broken up with 300x or 122x, whatever that number is, but it is a big number. You want to look at the number, not just the percentage. That sounds silly because what do we normally say, we say, "Don't just treat the customer like a number." I actually think treating the customer like a number is more meaningful here than just a percentage. Percentage feels like it dehumanizes or is less personal. When we look at the number, every one of those is a client that says, "I don't want to work out with you."

Those are two key metrics that we use. You can make up whatever metric you want. Now, be careful when you talk to colleagues about this because colleagues are going to say, "Our retention is great. We basically hang on to everybody." And then the first thing they are going to say is, "I've had clients that have been with me for 12 years.” And the answer is, “Yeah, of course you have.” We’ve all had clients that have been with us for 12 years. But how many of your clients actually make it to 22 workouts? How many of your clients make it to 6 months or 1 year, or 3 years?

Now, philosophically, I think the next key point is you want to position your business so that clients that leave can come back. One phrase that my previous business partner used to say, we say it all the time now, but he deserves the credit for it is “All roads lead to Discover Strength.” That is not an arrogant statement. But when someone leaves us they tell us no, we say this in the sales process also. When someone says no, no doesn’t mean no. It means not right now. When someone leaves Discover Strength we are okay with them leaving us. We just want to make sure we are laying a foundation so they can come back because all roads lead to Discover Strength. Again, this is not hubris or arrogance, but when someone leaves I think to myself, I want to look at them, you’re going to come back whether it is two months from now, or six months from now, or 5 years from now you are coming back.

Let’s walk through a couple of ideas of what we need to do to make sure someone comes back. Number one, make it very easy for them to leave. If you want to improve your customer retention, make it easy for people to leave. For our auto-pay there is no contract. You are up with your auto-pay, you can quit one week later or two weeks later for no reason at any time. If you don’t use your workouts and you want a refund, we’re going to refund you. We don’t want to have any friction points. We don’t want you upset with us, with the brand at all where you think I had a bad experience there. Or if you try to leave, you're not going to have a sit down meeting with me or any of our managers where we try to overcome objections and try to keep you as a customer. We want it to be easy to join. We want it to be very easy to leave. And then after you leave, because it's so easy, they are going to say, "Well, that was frictionless. I can go back at any point because if I do go back and decide I want to leave again, it will be pretty easy for me to actually leave." We don't want to try to increase switching costs which of course is what happens in so many different business models or technology models which make sense for those models. It does not make sense for our business in my opinion. We want it to be very easy to leave so someone is encouraged to come back because they will come back to you. Again, this is philosophy.

Net Promoter System or Net Promoter Score is the idea when you ask a customer, "On a scale of 1-10 how likely are you to refer a friend or family member to us?" If you are a 9 or 10, you're a promoter. If you are 7 or 8, you are neutral. If you are 6 or below, you are actually a detractor. This is the number one predictor of profitable growth of an organization that is developed by Bain. Right now, over half of the Fortune 1000 companies use Net Promoter Score. It is the best way to understand will my company be profitable over the long haul.

When we think about this, this is all about customer loyalty. That's what Net Promoter Score is. We want loyalty of checkbook, but first and foremost we want loyalty of heart. We want the customer to be in love with our brand, with our service, with our people, with what we actually do. Even if someone is not spending money with you and you shot them a net promoter survey, which you are generally not going to do, would they still call you a 10? We find out all the time every time someone leaves us and they break up with us, that's the terminology I use, I think we let them down. Because clearly we did let them down otherwise they would be with us. We are not producing enough value for them for them to decide to be with us. I always think, what do we do? What was wrong with the workout? What did we miss? Where was the service experience not spot on? We'll do different phone calls and get in contact with them in different ways. Usually when I make that phone call, they just rave about how much they love us. They are going on and on and on how much they love us, and we didn't do anything wrong. By the way, I don't always listen to that because if we did everything right they would still be a customer so we must have done something wrong. If they needed a break, or if they wanted to try something else, or money was tight. That's just how I'm wired. I think everybody that is listening to this is wired that way also. But what you find out is this customer actually still loves us which means if things change a little bit in their life or the environment, they are going to come back as a customer. You want your customers that leave you to still love you because they are going to come back.

Where are all of these going? A massive percentage of your future customers are just your unretained customers that decide to come back to you. I think that is the most intelligent customer retention strategy as well as the most important marketing strategy is marketing to previous customers. We have a deal going on right now, of course I'm in the U.S., we just had

Thanksgiving yesterday so today is Friday after Thanksgiving. It's called Black Friday. Where does Black Friday come from? It's because every major retailer goes into the black for the first time in the calendar year on the Friday after Thanksgiving because everybody buys. I mean, it's just a day of consumerism. People generally don't work and they spend money and that's a major sales day for retailers. There is also Small Business Saturday which is of course the day after and there is Cyber Monday. For us, we are doing a massive campaign for alumni clients on Friday and Saturday. Discover Strength we will never offer a discount to a new customer. We're never going to do a promotion that says, "Hey, on Black Friday or Small Business Saturday, if you become a customer you'll get 10% off or 25% off, or anything like that." But we will offer a discount to a previous customer. We have a reactive retention. Reactive means the customer is already gone. They have been gone for six months up to in some cases 12 years in this case. We are doing a campaign where if they come back, if they buy on Friday or Saturday, so today or tomorrow, so it is Black Friday or Small Business Saturday, they are going to get 25% off. Well, this campaign is a massive campaign because we have had a lot of unretained clients over the last 15 years. This is going to go out to over 2,000 people. It's the smartest marketing campaign. We have a list of 2,000 people that previously trained with Discover Strength that probably live around here in one of our studios that we can market to.

Lawrence: Just to be clear, is that 25% off the first month or 25% ongoing?

Luke: Just the first month.

Lawrence: Yeah, okay, that makes sense.

Luke: 25% is a big percentage but I'm just talking about one month, it's not that big of a sale. The percentage is not what's magical. The percentage combined by how long it is. Is it 10% over six months of auto-pay? That's a pretty big discount. 25% over one month if you are just training once a week is just one free workout. If you are training twice a week, it's essentially two free workouts.

Where I was going with this? The reason I brought that up and it sounds like marketing. Maybe it is marketing. I think it is truly retention. It is understood that your unretained customers are going to be a great source of new business for you down the road. When someone leaves, remember all roads lead to your business. You want to make sure they leave in a way where they feel very comfortable coming back. I'm telling you this is my favorite conversation I have every single time Hannah says, "Hey, you won't believe who just came in for a workout again today." And I say, "Who?" And she tells me and I say, "You're kidding me. That was the last person I thought would ever come back. I literally thought they hated us." "Yeah, they have been back for 5 workouts." I don't even believe it, so all roads lead to whatever your studio is, your facility is. Do you ever think about that? What are we doing when someone leaves so that we are positioning ourselves in a way where they still love us? They are not spending money with us but they still love our brand.

We talked a little bit about measurement. For us, it is measuring the first year. It is measuring the first 22 sessions. And then we talked about how when someone leaves you get to position yourself so they can actually come back. Now let's talk about proactive retention. Proactive retention is what you are doing day in and day out so that someone doesn't leave you? So that they stay with you.

Everything that I'm going to share is germane to high intensity strength training businesses. This doesn't work for health clubs. In the health club world, you want to make sure a person comes a certain number of visits. There is a health club data that if you come 4x in a month through your first six months, you are probably going to be retained for the long haul. Or as soon as you drop below an average of four visits per month, that's a big red flag. Why? Because if you are not using the gym you are probably not going to keep your membership to the gym. That doesn't really apply to us, right? You got to come in because we are 1-on-1 training workouts. That's what we do.

The other thing in the health club world is to say, well, you need a certain number of contact points. How could you greet somebody? But not just greet them, approach them and ask them how their workouts are going. Or when they leave say things like, "When are we going to see you again?" rather than, "Have a good day." All of these subtle different things get someone to talk to somebody. I have a health club membership here in Minnesota, a huge beautiful health club. I understand all of these. It makes sense. When I go to that health club, no one talks to me. No one says my name. I check in. I handed them my card and my name pops up on the screen, they don't say, "Good morning, Luke", or "Welcome, Luke", or "Have a good workout, Luke." Usually I'm not working out and by 'usually' I mean I'm never working out. I'm going to read by the pool outside or I'm going to grab a smoothie and leave right away. They don't say anything to me at all. I have no relationship with anybody in that health club. What that health club wants to do if they want to retain me is they try to have some touch points where they are talking to me. Everyone in this call is thinking, "Luke, who cares? We get it. Our whole workout is a touch point." We are talking with the customer the entire time. It's already built into what we do. Side note, it's why our business is conducive to great client retention over a health club. Man, if you want to look at a business model that's built around Horst Schulze idea of retention, it is our business model.

Now, let me also say this, the creator of the Net Promoter System or the Net Promoter Score, Rob Markey at Bain. Bain is a big consulting firm based in Boston – multibillion dollar company. He says, "My whole investment strategy…" Not mine. Not Luke's. His investment strategy is he invests in companies early on that have high Net Promoter Scores. He said, "Hey, Tesla, your Net Promoter Score is off the charts…" I bought stock in Tesla very early on. By the way, we've battled with Tesla for #1 Net Promoter Score in the world back and forth with Tesla. When I heard that, I thought, "Wow, this guy might want to invest in our company because our Net Promoter Score is consistently right up there with Tesla." I mean, Tesla is ahead of us some weeks and we're ahead of them some weeks. That Net Promoter Score is a pretty good sign of how valuable your firm is with someone who wants to invest in your firm. This sounds like I'm going on a tangent but it is worth noting that your firm becomes more valuable if you can retain your customers, right? If you are going to be acquired by private equity or if you are going to sell your company. At all times, if you own the business, your job is to make the business more valuable. Not because you want to sell it, but because you want to own a valuable business. If you want to sell it, or if you want to exit, or if you are going to be acquired, you want it to be more valuable. The most important thing you could do to make it more valuable is improve your customer loyalty measured by Net Promoter Score. How do you do that? Well, it's everything we really want to talk about here. It's understanding actual client retention. I think that's fascinating as well you would invest in a company based on what their Net Promoter Score is or what their actual retention is.

To that point, the third thing I think we should track is Net Promoter Score. We have for us the first 22. We have 1 year and then we have what's the Net Promoter Score. The key to the Net Promoter Score is not that you're just getting a number, but you're getting a data point. Lawrence, you would say, "Hey, you are a 9…" And then there is the question, "What could we do to improve this or why do you give us this number?" Just one question. Not more than one question. So many companies have changed it to 10 questions and that's too much, so one question. Whatever someone writes there, take action on it. If someone gives you anything below a 7 call them. We are calling customers everyday saying, "Hey, you give us a 7…" We are not saying, "Can you give us a 10 next time?" We're saying, "Let's talk through how we can serve you better." And then we are learning from those.

A lot of times we are making these small iterative changes with that customer. They tell us, “I don’t feel like I get pushed hard enough”, or “Sometimes I get pushed really hard and other times I don’t get pushed hard”, or “The facility is not clean enough”, or whatever it is. We want to listen and make iterative changes. Sometimes we’re going to listen and understand are there some big changes we need to make to our entire process to how we operate as a business.

A great example here is three uniques. If the comments people are giving you, the positive feedback they are giving you, if it’s not related to the three uniques of your business… Again, this is Traction/EOS terminology. But three uniques, they are really not Traction. Three uniques are just the foundations of strategy. If you are hearing feedback all the time that supports your strategy, that’s a good thing. That’s what you want. And then you can say, “Okay, our customers are finding this valuable. Let’s keep doing it.” All over our net promoter feedback we constantly hear, “I love that everything is based in science”, “I love that there is a scientific study backing up everything that I’m doing”. And one of our uniques is an evidence-based approach. Okay, great. That is resonating with customers. If they never mention it, that would be a problem.

Lawrence, I’ll pause there and just see if you want to interject. Otherwise, we’ll get into how we actually do this tactically.

Lawrence: I just love letting you go to be honest because you’re doing such a great job. I don’t want to ruin your flow here. Yeah, just crack on with the next steps.

Luke: Okay. I think what we want to avoid is a say-do gap. A say-do gap is this is what you say your brand is all about. This is what you say you do. And then, when you come into the business, you experience something different. What you actually do is different. We want to avoid the say-do gap and we want to deliver in whatever we are marketing, whatever we are communicating around. We want to do it on a consistent basis. Jim Collins brilliantly says, "Inconsistency is the root cause of mediocrity." Whatever we do we want to be consistent in the business whether it is customer experience or whatever it is in the workout. I think what you have to do as a leader of the business is you have to decide what are the key elements of our experience that we think clients love that we want to make sure are [unclear] and delivered the same every single time. Like I said when we started, we said everything you do is retention. Oh my goodness, that gets pretty stressful. I have to do every single thing that we've ever done in the business the same every single time and make sure it's managed. Well, that's pretty tough, right? I have to find out what I am doing if I'm the only trainer here every single time, so that when I hire someone all of that becomes a little bit overwhelming to me.

For us, we use a first principle approach. First principle thinking is like Aristotle, popularized by Elon Musk in 2021. This idea of what we really know about a subject. How do we break this down to its component parts and understand the real root principles? And if I understand those principles, I can move forward. For us, we use a first principle approach to understanding our workout experience. What I did a number of years ago is I got leaders and managers together in a boardroom and I gave them a bunch of post it notes. I said, “Write on a post it note the key elements of Discover Strength.” I mean this makes the Discover Strength workout, the Discover Strength experience special. And by special I mean customers would spend money on it. We are always trying to drive WTP. WTP is Willingness To Pay. Everything we do in our business is driving WTP. When you make a decision to your business, you should always ask, “Does this increase WTP or does it decrease WTP?” I don’t think we should be doing things in our business like when we talk about customer service. Don’t add customer service nuances or elements that don't drive WTP. If you are doing all these things, they are going to cost money, effort, and time. If they are not driving WTP, don’t do it. We are trying to drive WTP. I asked all of our people, “Take a post it note and write one concept on the post it note.” What is actually keeping someone as a customer? What is contributing to a great workout? And then what you do is you put it horizontally on a wall. The wall in the conference room we’re in, our old corporate office, is all glass. It seems we are creating a histogram. We had all of the concepts across the top. But if your post it note, if the word that you had up there was already up there, then don’t put it up there again. Put it underneath that one and that would be a long tail eventually if you have a bunch of post it notes there. And then we can take a step back. I gave everyone 8 post it notes. I think we had probably 10 people in there so it would be 80 data points up on that wall, and we can start seeing where the long tails are. Instead of just having a conversation, we get it up on the wall and we understand what everybody in this room thinks contributes to this Discover Strength experience. I keep saying Discover Strength, but the experience of your business.

This is what we came up with as our first principles were. If this was missing, that wouldn't be a Discover Strength. I'm not going to give all six of ours to you because I think every business has to go through this process of discovery themselves. But for us, one of them was intensity. If the workout is not the appropriate level of intensity we'll lose a customer. If we push them far, far, far too hard, we are going to lose that customer. But if we don't push them hard enough, we are going to lose that customer. If we don't push them hard enough, we are not going to retain the customer. If we don't push them hard enough, they are not going to talk about the workout to somebody else. Now, I'm just going to jump ahead and say that I picked intensity here for a reason. I think that's the #1 reason in our industry why our businesses don't grow. We don't get referrals and we don't retain customers because we just don't push clients hard enough. This is the controversial statement of the webinar. I'm only going to make one as Lawrence's rule.

Lawrence: That's not true.

Luke: If we pushed our clients harder, we would have more clients.

Lawrence: Can I just follow up on that? It is so interesting that you bring that up today because I literally left my voice notes around exactly this. Now, I'm curious how you managed that? Let me make a guess, you have a score for each client on their workout card from 0-5 or 1-5 in terms of intensity. If someone is a 3 out of 5, when your trainer is training that person how do they make sure they nail the intensity? Is it that they are looking to push that person as hard as possible within reason? If they are 3 out of 5, they may be looking to brush up against a 4, and maybe over time that person becomes a 4 or maybe a 5. Because like you told me before, the feedback you've always got is, "I could push harder." I've noticed it in our own clients that clients started a 3. But once they get stronger, more confident in their body and their ability, they invariably move up to a 4 or even a 5 I've noticed. But you have to get that balance right so how do you do that?

Luke: We try to define each one of those numbers. Always do a 1 for a medical reason. Like everyone should be training harder than a 1. But if you've had a heart attack recently or you have some underlying health issue you are a 1. Don't override the 1. You are stopping well short of failure. This is how many reps and reserves. There should be etcetera, etcetera, etcetera. A 5 means anything goes. I'm not going to scare you away by doing anything. I can pull out all of the stuff. Everyone once in a while we'll write, 5 for upper body and 4 for legs. The average pretty darn intense male is a 5 for upper body and a 4 for legs. Because if anything goes for their legs, they might not want to come back. Not many males, this is a stereotype or it's true, want to train their legs that hard on a regular basis. Females no problem. But females overall train much harder than males do. And then we'll say what is a 4? How many force reps? What are you doing in terms of advanced overload techniques for a 4 versus a 3?

We have all of these specific guidelines, but then I always say don't be handcuffed by that. It's got to be felt, right? If 5 is anything goes, and 1 is nowhere near muscle failure, 3 is they are going to muscle failure and probably doing 1 to 3 assisted reps or force reps. From there you can kind of feel what a 4 is. And then at every progress assessment workout, so after you do 10 workouts with us, we are going to do a progress assessment workout and we ask just a couple of questions. One of the questions is, “Are we pushing you appropriately hard?” When I ask that question we always say, “Do you feel like we should be pushing you a little bit harder?”, or “Do you feel like my goodness I’m fearing my workouts. I’m getting pushed too hard”, or “Do you feel like we should keep it right where it is?” If the customer says, “I already trust you guys. I think you guys are nailing it.” That’s exactly what we want to hear.

Now, if every time a customer is saying, “You push me way too hard”, or “You’re not pushing me near head enough”, we can listen to that and we can change. But that would be a sign that we’re not good at reading the appropriate intensity. We should hear the answer to that question, the vast majority of the time is, “Keep it exactly where it is.” When they say that, I think inside, “Hell yes, we are nailing it.” This is to us our six first principles, it’s called intensity. We call it the ‘It Factor’. The ‘It Factor’ is can you get inside another human and have the empathy and understand exactly how hard they need to be pushed not just in the workout in totality but from exercise to exercise to exercise. When you feel like your trainer is inside of you, understanding what you are experiencing on cuff? What are you experiencing on the end of this set of leg press? What are you experiencing on this set of chest press? It’s a moment to moment feeling.

Why do we call it the ‘It Factor’? Because I had a client that has been a client for literally 14 years who started training at our Woodbury location and trained with our general manager there Jake P. She sent me a long email about how much she loves training with him. And she always says… You know, a lot of clients say things like this, “I love all your trainers but Jake, he’s got the ‘it factor’. Whatever it is, he has it. He knows exactly how hard to push me.” Instead of calling it the ‘Jake P Factor’, we call it the ‘It Factor’. But it is just intensity, right. Intensity doesn’t just mean pushing someone harder. This is not a scientific definition of intensity - Are we getting momentary muscle failure? It’s can you read the appropriate level of intensity for the clients. That’s one of our six principles.

I’m going to give you another one. Another one is safety. If people are getting injured during our workouts or if there is a perception that this is not good for my body, then we are not going to retain the customer. This is the definition of a first principle. You can’t argue against it. If you tell me, “No, no, you can get injured and your business is just going to grow just fine and you are going to retain customers.” No. You can’t imagine a scenario at Discover Strength where people are getting injured and our business continues to grow. We feel the same about intensity. I just can’t imagine a scenario where we continue to grow and effectively differentiate from competition if we are not pushing people hard. Those are two of our six first principles.

Why is it important to have these six first principles? Because then you can tell your managers and you can tell your trainers, “Delivering a workout at Discover Strength is just delivering these six things.” You don’t have to memorize Body by Science. My goodness we would never have people read and study and memorize Body by Science and say deliver that. We would never have them read and study the Super Slow Technical Manual and say do that, which by the way we read both of those books. That's not how we deliver workouts. We can't memorize everything in those books. We don't know how everything those books contribute to client retention. We know beyond a shadow of a doubt if they do these six first principles we are going to retain customers. If one location is growing faster than other location it is largely and when I say largely, I mean, it is almost predominantly because the staff of that location is executing the six first principles. Now, we may summarize that our shorthand might be: are we delivering great Discover Strength experiences? But we really mean, are they delivering the six first principles.

Now, let me mention. I said I'm not going to mention them all. I'm going to mention one more. One of them is what we call The Signature Six. Man, I know this is confusing and it's probably even confusing to our staff. One of our six first principles is called The Signature Six. We overuse the number 6. It was my high school football number. That's not why we overuse it. But that's six things that we want a customer to experience every time they come in from a customer experience standpoint. We have a whole service excellence plan like how Discover Strength does customer service. But among that whole plan there is what we actually do every day on the floor and that's called The Signature Six. We've talked about some of these in the past, Lawrence. One of them is a warm welcome and a fun farewell. One of them is a professional greeting which means if I haven't met you in the facility I need to smile. Aim my smile. Introduce myself to shake hands like I mean it and proceed with the conversation. Yesterday was Thanksgiving, I worked out at our Plymouth location on Thanksgiving, our original location. I worked with six 1-on-1 clients in the morning. We had five other trainers on the floor. Unbelievable atmosphere Thanksgiving morning. I never worked in that location on Thursdays. I only work in that location Sunday mornings. I hadn't met like 50% of the people in that location. When do I do non-stop? It's when my client gets a quick drink of water. I came up and said, "I don't think we've met before. I'm Luke." And you say, "Hey, I'm Lawrence." "Nice to meet you. Happy Thanksgiving." I did that non-stop. But I don't just do that as an owner. Every trainer does that to everybody.

I trained one very long term client yesterday and she said, "Hey, I want to give you some feedback." She's like, "Hey, new guy over here. I've been here 5-6 times recently and he has never introduced himself to me." She knows that's one of our six first principles because we've talked about it. Excuse me. It's not one of our six first principles. It is one of our Signature Six which is part of our six first principles. I jotted that down and now today I have conversations around that.

The idea of understanding what your first principles are just guides what I want someone to experience every time they come into the business? This is the #1 driver of retention is consistency of that customer experience. Now, once you figure that out, you go to other businesses and you're driven mad about the fact that the experience is inconsistent every time that you go in there. Sometimes I walk into places and get a haircut or whatever the service is, I'm like, what I'm going to get today depending on who I have or sometimes I'm with the same person they don't deliver the same experience.

I need that consistent experience every single time. Maybe we can pause there and see if you have any pushback or follow up on any of that.

Lawrence: No, this is all good. I'm just aware of time. I mean, we've got an additional 9 minutes. Do you have a hard stop and how much do you have left to cover? Because I want to obviously make sure we get everything and that you think is really important.

Luke: I just have one small other additional area. I don't have a hard stop and I can probably wrap up my key content over the next 5 to 6 minutes.

Lawrence: I think it's probably worth saying as well that what Luke is really focused on here as Luke would say this is stuff you can take to the bank. This is the stuff that has the highest impact. We have other resources in the Membership which I will link to from the thread for this. This is obviously going to be recorded and you could consume it later. We have links to exactly the process for proactive retention, exactly the process example for reactive retention to just add more resources if you really want to go deep on this subject beyond what we are doing today. But this is the place to focus on what Luke is discussing right now. Yeah, please go ahead.

Luke: You summarized it perfectly. I want to put a bow on some of this and say there has to be proactive retention which is what we just talked about - understanding what your experience is all about and delivering that on a regular basis, right. If our intensity is not high enough that's bad proactive retention. We are not going to retain that customer. If we are not using those six first principles, we are not going to retain the customer. That's proactive.

And then we need some reactiveness which means you haven't been in the door at all, what are we doing? For us that means, I mean, this is all about process. If you haven't been in for 7 days, we have to have you somehow pop up in a list where we reach out to you because you're on auto-pay with us. If you are not coming in and using those sessions, those sessions are just piling up and eventually you are going to say, "I'm wasting money here. I have all these sessions…" And we don't expire the sessions anytime soon. You can catch up on those. But my goodness we are a high intensity training business we can't have you come in six days in a row to catch up on those sessions. If you get behind on your auto-pay, we know that is a lead indicator that you are either going to quit as a customer or you're going to decrease the frequency that you train. If you are training 8x a month but you are only coming in about once a week, you are starting to rollover sessions. We are going to decrease your frequency. Now we are losing a significant amount of revenue potential with you. You need to have a ping. For us it would be 7 days of who doesn't have a workout in their schedule. And then you contact those people and say, "Hey, I see you're not on the schedule. Can I help you get scheduled for this week?" At any given point in your business, your goal should be to have all of your clients have their next workout scheduled. I would argue that having the next workout on the schedule is a positive or a strong lead indicator that your retention is going to be better. That's a reactive retention procedure. Okay. In 7 days, who do I have scheduled?

Another reactive retention would be if you haven't been to us at all in 14 days we're going to call you. If you haven't been into us for 3 weeks, we are going to cancel your auto-pay. That was an example. It might not be 3 weeks. It might be 2 months for you. But at a certain period you should proactively cancel the person's auto-pay. Now, a health club would never do this because they are like, "Are you kidding me? We love just having the money rolling through the door." But there is a name for that. Again, this is developed by Rob Markey at Bain and the founder of Net Promoter System/Net Promoter Score. He calls it bad profit. We do not want to make money on you not coming into our business. Bad profit is any annoying fee. Anytime you get ping for something. It is when you return a rental car and the gas that they put in costs 7x more than a gallon of gas or fuel should cost. These are all examples of bad profit. Airlines are notorious for pinging you with different charges for everything. All bad profit. I think the health club world thrives on some bad profit.

I want to be delivering value to you, and that's how we grow the business, and that's how we are earning our revenue. What I'm saying here is we cancel someone proactively. We call them and say, "Hey, we are canceling your membership because we haven't seen you in a while." Again, people think you're nuts. If that auto-pay went through just one more month or two more months, every month is between $200 and $400. If you have a thousand customers, oh my goodness that's a tremendous amount of money that you are saying no to. But long term, we went over not just loyalty of checkbook, we went over loyalty of heart. All of our customers need to know they are always doing the right thing and that we are not trying to succeed via bad profit. You need proactive retention. You need reactive retention steps.

Let me give you an example of another reactive retention. You've now quit Discover Strength. You are not a client. You get an email ping to you, and all of these is automated, it says, "Would you like a phone call from our CEO?" Now, if you are the owner of the business and you train all the clients yourself, this might not be very powerful because the client says, "No, I don't need to talk to you. I talked to you in every workout we had because you were the trainer." But for us, I probably never met the customer ever. I want to call that customer and learn from their experience. If they want to vent about something, I want to hear it. I always get so nervous about these calls when they say, "Yes, I would like a phone call from the CEO." They fill that out online essentially because they get an email of it and they can fill it out, and phone number, and best time of date to call. It automatically comes back to me. And I think, "Here we go. I got to call this person and I'm going to get rimmed about how bad of a job we did." It's always, "Oh no. I just want to tell you guys you're doing such a great job. I love it. I love this person." I'm always like, "Well, why are we having this conversation? Why aren't you still a customer? What could we have done better?" But still it is a great learning opportunity. That's just another example of something we're doing from a reactive standpoint.

And then, eventually, reactive… This is Donald Miller. We did it before Donald Miller. We just didn't do it very efficiently until we came across Donald Miller's stuff. How do you drop these people who are no longer clients into a drip campaign? By drip campaign they are starting to receive emails so that we can win them back over. We are going to start marketing in an automated way to our customers that have already left.

Now, I have to pause here and just say, if you are a small personal training studio and you have 23 customers. How is that valuable? The 3 customers that left, I know who they are. I could write them an email everyday if I want. I'm telling you as you grow, you're going to want to automate this because you are going to have so many numbers. There is so much power in numbers. It is depressing that thousands of people have quit Discover Strength over the years. It is also incredibly encouraging because there's thousands of people that we could market to and that can come back into Discover Strength. Of course, that will happen and that's incredibly effective.

Lawrence: Such powerful words. One thing I just want to say which I think is really important and very empowering is how retention is such a force multiplier for your business, right. Because as you've always said, retention is one of the most powerful ways, focusing on retaining customers is how you're getting referrals. It is how you're driving the second part of this for leavers is driving you customers. I often think if someone feels overwhelmed and looking to think where they should focus. This is where they focus because this is going to solve all their problems or most of their problems. This is going to help them keep the customers they have and bring new customers in the door as well. Two minutes here, can you just touch on that briefly?

Luke: Yeah, I totally agree. It's not like all of these retention activities are not related to driving new business and driving referrals. I don't want to say they are the same thing but they are interconnected. And so having what we would call a one rep, one set, one client at a time approach is the best way to grow the business. That's the best way to grow the business and it's also the best way to retain a client – one rep, one set, one client. I have probably said this on your podcast before. But I can remember in the early years so 2006, 2007, 2008, 2009, 2010, training clients on a Thursday evening, on a Sunday morning and I got 7,000 other things going on. I'm stressed about this and I have an issue with a business partner here. I'm worried about some financial issues here. I'm so incredibly stressed. I am like, "How am I going to train these next 9 clients in a row when I'm so stressed." All I want to do is go deal with all of those problems and not train these clients. And then I would always come back to, this is me talking myself through it, "No. All of those problems are only going to be solved by me retaining these clients, giving them great experiences so we get more clients and we grow the business." Most of our business problems are actually revenue problems. If you have enough revenue, you're going to have enough profit. Most of your other problems go away pretty quickly. And so I would always say, alright, what I'm going to focus on is just the rep in front of me, the set in front me, the client in front of me. If I'm going to do that, the rest of our problems are going to go away. Of course, Lawrence, like every business, we still have a heck a lot of problems. I love solving those problems now when we have a heck a lot of revenue and a heck a lot of profit. Because if you can use money to solve the problem, you don't actually have a problem. You have a money problem. And so if you have the money to do it, the problem goes away.

Lawrence: Great stuff. Just on the software you use and the tools for NPS, it is Listen 360, which integrates with MINDBODY.

Luke: Yup. Listen 360 for NPS. We use MINDBODY and then we use HubSpot, these automated email campaigns and drip campaigns. HubSpot tracks all of our emails. Every email we send to a customer, every email they send to us, how many times they have opened an email and have to take an action or have taken action, whatever it is.

Lawrence: Obviously, there's lots of tools out there. Members or consumers of this don't have to necessarily use those tools. But it's good to know that those tools are what you use to do what you do. Luke, this was amazing. This was incredible. I really appreciate you taking the time. Any parting thoughts and best to contact you if people want to ask you any questions?

Luke: People can just shoot me an email at luke@discoverstrength.com. I'll also include members to attend the happy hours that you do because I think 95% are attending those. It's a great time to just chat and learn from each other as well and share some ideas, so that's a great way to connect as well.

Lawrence: Awesome. Are you coming this evening? Are you free?

Luke: Yeah, I'm going to come but I'll just be a tiny bit late because I have a call with a guy in Australia. And then, I'll jump on right after that. Looking forward to it. I really appreciate it. I look forward to it every month. Cool, Luke. Well, thank you so much and have a great rest of your day and I'll talk to you later on.

Luke: Yeah, thank you so much. Looking forward to it.

Lawrence: Take care. Bye.

Luke: Bye bye.