



The Case For
CUSTOMER RETENTION

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In an ideal world, the tremendous amount of time, money, and energy you spend in building a great product or service; educating prospects about it; attracting them to your company; and finally turning them into paying customers would be rewarded by a long, profitable relationship between you and the newly-acquired customer(s).

But this is not that world, is it? You know that customer relationships are far from ideal.

However, did you know...

➤ **Losing customers is easier than you think**

96 percent of customers have no qualms in walking out the proverbial door if they are unhappy with your either your products or services and/or your manner of delivery.

Think that's rough? Wait until you learn how easy it is for businesses to lose customers in today's mega-competitive age. Simple negligence or misconduct on social media – such as making rookie mistakes on the micro-blogging platform Twitter (like over-tweeting), are enough to push customers away.

There are a host of other factors that can do the same.

Overall, you lose customers because of one or more of three primary reasons. Researchers of a Washington DC used a customer survey to find out the main reasons customers stop doing business with a company or service provider:

- Poor customer service is typically the reason for 68 percent of the deferring customers, who cite poor attitude of the customer service representatives or complete indifference on their part as the trigger to leave. Consequently, poor customer service costs an estimated \$83 billion in losses to US companies on an annual basis.
- For 14 percent, dissatisfaction with the quality of product or service delivered is the key trigger to leave the current company and take their business elsewhere.
- Another 14 percent get lured in by competition with the promise of a better or more valuable deal.

Apart from these reasons, which mark willful abandonment of a company, the other reasons why you lose customers are relocation (in about three percent of the cases) and death (in about one percent of the cases).

➤ **Losing customers is *costlier* than you think**

Globally, companies lose an average of \$243 on every customer they fail to retain.

This figure is tabulated by considering the average of lost sales and revenue. What this figure does not include is profit loss associated with wasted acquisition costs. The *real* cost of lost customers also includes losses created by the ripple effect of a customer leaving.

Consider this:

- 95 percent of customers who are unhappy with your services and are contemplating a change do not complain to you. They leave without making a noise, which gives you no opportunity to right the wrong and win them over before they make the final shift. But they don't just keep quiet about the bad experience...
 - About 13 percent of the unhappy customers talk to their friends. Things get worse.
 - While a happy customer is known to talk about the positive experience to about three or five people, an unhappy customer is known to complain about it to up to 20 people! You can forget about those 20 people bringing their business to your company.
 - Furthermore, a lost customer can cause serious damage to your reputation. This is especially true if the customer had a particularly bad experience with customer service and is rather furious. You may already know how a delighted customer tells his friends but a furious customer tells the whole world. Social media has made that easier than ever before. Back in 2009, an unhappy Virgin Airline passenger wrote about his inflight experience, which has been retweeted 1134 times, has more than 3000 backlinks, and is being shared even today!

The bottom line? A lost customer costs you significant business dollars in terms of not just lost sales and revenue but also lost reputation and market share; ultimately affecting your profit margins more seriously than anticipated.

➤ **Your loss is your competitor's gain**

61 percent of lost customers go straight to a competitor when they are unhappy with their current company. Think about that. If your negligence or misconduct is the reason why you lost say 10 customers in a month, it is also the reason why your competitor gained six new customers in the same month.

➤ **The majority of businesses have it wrong**

...And that probably includes you as well.

The majority of businesses continue to focus on customer acquisition when in fact they should be focusing on customer retention. 63 percent of marketers identify customer acquisition as the number one goal of their advertising campaign.

So why is that wrong? For the simple reason that mere customer acquisition is not the path to sustained profitability. And why is that, you ask?

Here's why:

80 percent of your profits come (and will come in the future) from just 20 percent of your existing customers. It's the Pareto Principle at work. Makes sense therefore to focus on the top 20 percent of the existing customers, doesn't it?

They are your most loyal customers and they are your primary source of sales, revenue, and profits. Focusing on nurturing your relationship with them is both natural and desirable.

Yet, most companies fail to focus on the right thing – retaining existing customers and nurturing them into highly loyal customers. The need to focus on retention becomes even more clear when you consider that fact that:

- Acquiring new customers is costlier than retaining current customers. You will typically spend up to seven times more on customer acquisition strategies than

you will on customer retention strategies.

- Selling to existing customers is easier than selling to new customers. Your chances of closing a sale successfully lie between 60 and 70 percent when targeting a repeat customer. On the other hand, chances of selling to a newly-acquired customer range from a mere five to 20 percent.
- Selling to existing customers is more profitable than selling to new customers. Not only do existing customers shop more often with you, but also spend roughly 33 percent more than new customers in the long run.
- Existing customers are loyal and refrain from bargain hunting. This decreases their chances of being won over by competition over pricing. Because they are less sensitive to price changes, they are also more likely to continue doing business with you even when you increase prices of certain products or services.
- Existing customers are also more likely to help you in other ventures. For instance, they are 50 percent more likely to try out new products or services from your company than newly-acquired customers.
- Finally, not only do existing customers do more business *with* you but they also bring more business *to* you. Loyal customers double as your brand advocate and often introduce friends and family to your company (even if there is no loyalty reward at play).

It's easy to see why that is a good thing. Referred customers come to you for zero acquisition costs and sport roughly the same level of loyalty as the contact who referred them. They are more likely to shop with you often, to spend more in each purchase, and to be less sensitive to price fluctuations.

Once you have won them over with satisfactory product/service and delightful customer service, you can quickly turn these referred customers into brand evangelists and have them refer new customers as well. Another ripple effect gets produced, although this time it is a positive one.

➤ **Customer retention can be deceptively simple**

Given how massively advantageous customer retention is for your business, you would think it must be a complex process. You would be wrong! Customer retention is simpler than you think.

As you may remember, poor or negligent customer service is the number one reason why retention efforts fail. This is followed by customers feeling unsatisfied with the product/service and being wooed away by competition. Thus, if your business offerings are up to the mark, customer retention is all about treating customers right for most part.

And the good news is, treating customers right does not mean making no mistakes. To err is human after all, and quality customers understand that very well. This means, treating customers right is about placing them first; displaying genuine interest and compassion when attending them; admitting mistakes; and correcting mistakes or compensating for them within time.

The true value of customer retention

You know by now that customer retention is the only way your business can attain and maintain sustainable success. You know how retention is cheaper than acquisition and how repeat customers are more profitable for you. Wondering exactly how beneficial it can be for your overall business? Let's put a number on it.

By retaining customers with exceptional customer service, nurturing the relationship, and boosting loyalty; you can see significant raise in your bottom line. A mere five percent rise in loyalty will help you raise overall profits by 25 to 95 percent!

Customer retention is an opportunity you just cannot afford to miss. Get started now!