



## Customer Retention

How much have you invested in sales and marketing over the last few years? Thousands? Tens of thousands? Millions? Tens of millions?

**Customer retention is about keeping the customers you've spent that money to acquire.** And if you're in an industry where they make multiple purchases over the years, your entire team should be very focused on retaining those customers:

- ▶ Delivering service that's consistent with your value proposition and brand
- ▶ Cross-selling, up-selling and asking for referrals from existing customers
- ▶ Developing programs to increase customer loyalty and decrease turnover
- ▶ Knowing the lifetime value for different segments and using that data to improve your marketing
- ▶ Prioritizing retention as a major focus in your annual marketing plan

**Studies say it costs ten times more to generate a new customer than to maintain an existing one.**

If you have a small number of customers, losing a few could cripple your company. Even if you have a large number of customers, a small increase in your retention rate should dramatically increase your profits. In fact, in his book *The Loyalty Effect*,<sup>1</sup> Fred Reichheld writes that "a 5% improvement in customer retention rates will yield between a 25 to 100% increase in profits across a wide range of industries."

With strong retention marketing, it's much easier to grow your revenue and profitability. Do you see your company in any of these scenarios?

BEST CASE	NEUTRAL CASE	WORST CASE
<p>Your company is focused on customer retention and it has paid off. Renewals are high; you put a lot of effort into campaigns and service for existing customers. Sales reps are incented to keep customers happy, and you use financial modeling and surveys to identify problems and focus on vulnerable customers. Your revenue has grown substantially each year because you're adding new customers without losing current ones.</p>	<p>You know how important it is to retain customers. The reps who service existing business are good, but you've lost some customers that you shouldn't have. You've done surveys but haven't done anything major as a result. And you struggle with the commission for current business – some people argue that you shouldn't pay at all because they're house accounts.</p> <p>As a result, you have to replace current customers each year.</p>	<p>You don't formally market to your current customers. You know your service could be better, but you haven't had the time to develop an improvement plan. You definitely have more turnover than you'd like.</p> <p>As a result, you're continually investing to generate new customers. Your revenue profit margins are much lower than they could be, and the churning takes its toll on your organization.</p>

## Key concepts & steps

### Before you begin

You can work on your customer retention strategy at any time, and **marketing campaigns** may be an important part of your strategy. You may also decide to increase your focus on retention when you're writing your annual **marketing plan**. But if you're losing customers, don't hesitate to focus your energy on retention right now.

### Determine your retention strategy

Your value proposition and brand strategy should drive your retention plan. For example, if your value proposition is customer intimacy, your customers are counting on great service. If they're buying on price, you'll usually focus more on automating service to minimize costs.

### Build your team

In some industries, the original sales rep is the best person to manage an existing client -- for example, the account may require ongoing selling. In other cases it's better to transition the customer to an account rep who focuses on day-to-day management.

Once you've decided how to structure the team, determine how many people you'll need and start recruiting.

### Pay commission for renewals and growing the business

Your current customers are your most valuable asset; if your sales reps don't earn commission on renewals, they'll be incented to spend their time chasing new business instead.



## Market to existing customers

Put as much effort into your current customer campaigns as you do the rest of your marketing programs. Know your audience, grab their attention, focus on the offer, measure your results. Use campaigns to:

- ▶ Nurture your customer relationships
- ▶ Encourage them to buy again
- ▶ Expand your relationships by cross-selling, up-selling and asking for referrals
- ▶ Identify customers who are at risk of defecting
- ▶ Continually deliver on your value proposition and brand promise

## Measure purchase intent and loyalty, not “satisfaction”

Customer feedback can help you improve your products and continue your relationship. However, it's not effective to measure “customer satisfaction” because it's so vague. “Satisfied” doesn't mean they intend to keep buying. Instead, focus on behavior: Ask whether they intend to buy again and why or why not. Ask what three things you can improve and whether they'll provide referrals. These questions provide more actionable insight than “satisfaction.”

Treat a survey as a marketing campaign. Give your customers a reason to respond, thank them and share the results.

## Use data to evaluate large groups of customers

If you don't have personal relationships with your customers, use data to identify customers who haven't purchased in the normal timeframe. They may be at risk of defecting and you can launch retention campaigns and encourage them to stay.

## What's next?

Refine and improve your customer retention strategy and execution -- they may deliver the highest ROI of all your marketing programs.



<sup>1</sup> Frederick Reichheld, *The Loyalty Effect* (Harvard Business School Press, 1996)