

## IN ECONOMIC DOWNTURN...

# CUSTOMER RETENTION MORE IMPORTANT THAN EVER

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### Customer Retention Studies: What questions should they answer?

*A good customer retention study will answer most of the following questions.*

- *What is the company's risk exposure from lost revenue due to customer churn?*
- *What is the likelihood of account growth or add on business from your current customers?*
- *How should the company prioritize its customer resources for greatest bottom line improvement?*
- *What action should you take to strengthen your account relationships and increase customer loyalty?*
- *Which accounts warrant top management attention and special account management?*
- *What new capabilities do your customers need in order to stay committed to you?*
- *What matters most to your customers?*

You may have heard the old adage that it costs five times more to attract a new customer than it does to retain an existing customer. And in the current economic climate when new customers are becoming scarce, maintaining customer loyalty is more important than ever. Here are some interesting statistics to chew on:

- An average dissatisfied customer will talk to between 8 and 16 people about his or her experiences.
- 91 percent of them will stop doing business with you.
- But, if you make an effort to address your customers' complaints, you can retain 82 to 95 percent them.

Subscription-based industries like telecom and multi-media and Web search portals experience an average churn rate of 15 and 20 percent respectively. And 25-30 percent churn is the average for most companies. An effective customer retention program can reduce that number significantly, leading to considerable increase in profits.

There are numerous indicators that strong customer retention correlates to a stronger bottom line. A study by Bain & Co. revealed that "when firms retain just five percent more of their best customers, corporate profits can be boosted 25 to 85 percent, depending on the industry."<sup>1</sup> Research conducted by Deloitte Research found that manufacturing companies that tracked customer retention were 60 percent more profitable than companies that did not.<sup>2</sup>

It is clear that retaining customers is absolutely essential to maintaining healthy profits, but finding out *who* among your customers is likely to defect and *why* is easier said than done. Many companies believe that conducting regular customer satisfaction surveys is enough to keep their client base happy and devoted, but there is an art to implementing a solid customer retention program that produces results.

The foundation of a strong customer retention strategy is *information*. Finding out about and understanding your customers' needs and perceptions is the first step in this process. It is especially important to understand customers' attitudes toward all of the elements of their experience with you: products, service, company, people, etc. A well-crafted customer reception study will quantify all of these perceptions numerically in the form of a company scorecard, which will provide the high-level trends that are affecting customer retention most. You will understand not only what your weaknesses are, but also your strengths, allowing you to improve where you need to and reinforce and promote areas that are working well.

A study that correlates perceptions and attitudes with lost or retained business provides an additional dimension that helps you understand which of your company's weak points are costing you the most money. An understanding of the relationship of dollar values to company weaknesses

<sup>1</sup> Griffin, Jill. "Lost Customers Can Be Returned to Your Fold." *Austin Business Journal*. February 19, 1999.

<sup>2</sup>"Customer Retention: Keeping Your Best Customers for the Long Term." Incentive Performance Center. [http://www.incentivecentral.org/consumers/whitepapers/customer\\_retention\\_keeping\\_your\\_best\\_customers.1829.html](http://www.incentivecentral.org/consumers/whitepapers/customer_retention_keeping_your_best_customers.1829.html) April 7, 2009



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allows you to allocate your budget and customer resources most effectively, giving you the highest return on your investment of time and money.

Correlating your account base to those perceived areas of weakness can help you preempt defections that would really cost you before they even happen. A strong customer retention study scores your key accounts based on the potential risk of cancellation. Using a variety of metrics, a risk forecasting model can measure the probability of losing each of your customers. It is quite simple, then, to rank your customers from highest to lowest priority based on their risk score and prioritize your account retention plan's efforts on the accounts that pose the most risk to your bottom line.

There is also an intangible benefit of regularly assessing customer loyalty in the good will that it engenders among your customers. In some cases, they can even have a significant tangible impact. A recent study has found that "simply contacting departing customers and 'listening to them earnestly' was enough to recapture 35 percent of one company's departing customers."<sup>3</sup>

Customer retention can be impacted on two levels—with programs that target your customer base as a whole and programs that target individual customers. A holistic approach offers motivation and rewards to help keep customers devoted. A good customer retention strategy also acknowledges that relationships are a primary factor in customer loyalty and that each customer is on some level unique. Individual account strategies that hit the specific needs and priorities of each high priority account should also be an integral part of your program.

There are numerous tactical customer retention programs that have been proven effective in a variety of business settings. The programs range from customer incentives and loyalty programs to customer steering committees where clients partner with vendors to influence their vendors' businesses in a direct way. Implementing some of these programs can be expensive, and picking the best company-wide retention program to achieve your retention goals is a gamble unless you have solid information on which to base your strategy.

Effective customer retention strategies also include a Customer Retention Plan for each key account and need the commitment of company resources on an account by account basis to achieve maximum retention. A customer retention study goes beyond the basics to provide depth of insight into your customer base as a whole as well as individual customer accounts and provides the guidance you need to appropriately prioritize customer account management plans. Once you have the information you need, it is easy to form a customer retention strategy that will result in happy, loyal customers that continue year after year to contribute to the bottom line.

In a down economy, it is difficult to make the decision to invest in customer research, but dollar for dollar it is a greater value than investing in trying to chase down the elusive *new* customer—perhaps as much as five times more valuable. That kind of ROI can have significant impact on your bottom line.

<sup>3</sup>"Customer Retention: Keeping Your Best Customers for the Long Term." Incentive Performance Center. [http://www.incentivecentral.org/consumers/whitepapers/customer\\_retention\\_keeping\\_your\\_best\\_customers.1829.html](http://www.incentivecentral.org/consumers/whitepapers/customer_retention_keeping_your_best_customers.1829.html) April 7, 2009