

Growing Your Business Through *Customer Retention*



How creating customer loyalty can improve your bottom line.

By Phil Sasso

Imagine it's the hottest day of August. Sweltering, muggy and humid. You stop by a friend's house and he offers you a dip in his cool, refreshing, new pool. The only hitch: first you have to help him fill it—one bucket at a time. You'd rather run out and buy a hose, but you agree to do it by the bucket.

Fifteen minutes later, after a lot of sweaty, backbreaking work you realize you're not making much progress. Then you spot a hole in the pool and tell your friend.

"Yeah, I know," he says. "I guess we just need to fill it faster."

You stare at him.

"You realize no matter how much water we put in, it's only going to come back out, right?" you reply.

He just cocks his head and looks confused.

Sound absurd? Not as absurd as you might think.

Many people call me to have my marketing agency help them fill their "sales pool" but they don't have a marketing system to keep customers in the "pool." Often I ask: "If we develop a marketing campaign to bring in new customers do you have a system in place to keep them?" Usually they just cock their head and look confused.

Smart restyling shop owners know that it costs much more to get a new customer than it does to keep an existing one. So, before launching into a new customer marketing campaign, they make sure they have an existing customer retention program.

Increasing your customer retention by as little as 5 percent can boost profits by 25 to 80 percent, according to a classic article in Harvard Business Review.

Building customer loyalty can impact your bottom line in many ways. To gain all those benefits I suggest four things: have a problem resolution policy, measure customer satisfaction, treat your customers like VIPs and ask for referrals.

Dissatisfied Customers Don't Complain, Don't Return

For every complaint you get, an average of 26 customers have had problems but haven't spoken up. That's what a study by the Research Institute of America for the White House Office of Consumer Affairs says.

Only 4 percent of dissatisfied customers will bother to complain—most will just leave quietly and never do business with you again. But, according to the RIA study, 70 percent of complainers will return if the complaint is resolved satisfactorily—95 percent will return if you resolve the problem quickly.

So instead of treating a complaining customer as an adversary, think of them as an advocate representing other quietly

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dissatisfied customers. Listen beyond their angry tone and harsh words to find the reason for their frustration. Have a system in place to quickly resolve problems and make up for mistakes. And make sure everyone is trained in your problem resolution system.

Last weekend, my family and I went to see a Pixar film. As I bought my tickets the well-trained agent took a moment to brief me on a potential problem: “We’ve been having problems on and off with the air conditioning in that theater. Some people have complained and others have been fine. If you are uncomfortable during the first 30 minutes of the movie, come back to the ticket counter and we’ll give you a full refund.”

Notice she explained the problem, the resolution and what I needed to do to get my money back. By being up front, she left me to decide if I wanted the refund. It was hot in the theater. But 30 minutes into the movie we were too involved to leave. We knew our options and couldn’t blame the theater if we stayed.

Keep In Touch To Keep Them Loyal

I think Beth got more birthday cards this year from businesses than she got from friends. Birthday cards are a big trend in customer retention marketing. It’s much like inviting customers to VIP events or sending them coupons for a *private sale*.

Showing your customers how much you value them can be financially very valuable. It’s as simple as keeping a mail or e-mail database of customers, keeping in touch with them with a regular newsletter or new product announcements—and of course a special card on their special day.

Another technique that can inspire loyalty is called a *continuity program*. You’re probably familiar with the way it works even if you’ve never heard the name before. It works like this: a retailer, often a fast food place, gives you a card of some kind. Each time you make a purchase over a certain amount, they somehow mark your card. Once your card is full you get something free.



Speedway is running a program in my area. Gas and other purchases rack up points that can be redeemed for merchandise or free gas cards. So I find myself going a little out of my way to fuel up at Speedway whenever possible. I guess I’m proof that continuity programs work.

Measuring Satisfaction With One Question

Customer satisfaction is a good indicator of customer loyalty. But most customers avoid long satisfaction surveys and tallying surveys waste a lot of time and money. Another problem is the results “don’t necessarily correlate to profits or growth,” according to the Harvard Business Review. The answer? Ask just one question that has proven to be meaningful and actionable.

The question: “How likely are you to recommend our company to a friend?”

Harvard statistics show that the more *promoters* your business has, the greater the chances of growth. That’s because if a customer is willing to recommend you to a friend, he is willing to put their reputation on the line. He would only take that risk if he was very satisfied and loyal, according to the Harvard briefing.

Want to build sales? Build your customer satisfaction. Start with a simple two-question survey. Ask if they’d refer a friend and why or why not. Then use your findings to improve customer satisfaction and referrals.

Turn Old Customers Into New

Sometimes marketers become so focused on getting new customers that they risk alienating their most loyal customers.

Here’s an example. My family got a packet in the mail from a fine arts program my son has attended for several years. Inside there was a coupon for 10 percent off tuition.

“Isn’t it nice that they gave PJ 10 percent off his next class?” Beth said over dinner.

“Read it again,” I said fiddling with my chopsticks. “The fine print says *new students only*.”

“What?” she exclaimed, grabbing the coupon from my hand.

“Please pass the sweet and sour sauce,” I asked, hoping to distract her.

“What a rotten thing to do!” she ranted. “He’s loyally attended their program for three years. And this is thanks we get?”

“Ouch!” I said, fanning my tongue. “Those egg rolls are hot.”

“Don’t you think that’s a dumb thing to do?” she continued. “Don’t you think that says they don’t really appreciate their most loyal students?”

“Can I get some water?” I asked, holding out my glass.

Beth glared at me.

“O.K. You’re right,” I conceded. “It is a stupid marketing move.”

“Doesn’t this go against everything you tell your clients?” she asked, tempting me with the water pitcher.

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“Yes. Offering new students a better deal than existing students is dumb. Sending the offer directly to parents of existing students is dumber,” I conceded.

I continued to explain that smart marketers invest a good percentage of their marketing budget in retention marketing programs to reward loyalty and reduce attrition. If the school wanted our help drawing in new students, they should have given us a discount as a reward for referring friends.

“And they should have included a personal letter thanking us for our loyalty and asking us for a referral,” I concluded.

I paused for effect.

“Now, can I have some water?”

It’s easy to take faithful customers for granted. We are lulled into thinking growth is built strictly on new customers. That’s rarely the case. In many cases, existing

customers are actually more profitable than new ones. They’re usually cheaper to serve, since they need less educating. They know what you sell and trust you already. So, you don’t need to spend a lot of time building rapport.

And loyal, satisfied customers are easier to cross-sell your other products and services. Once you’ve built a relationship with a customer, you’ve earned their trust. They are more likely to buy different products and services from you.

Every percent that you reduce attrition is that many fewer new customers you need to make your overall sales goals. Every customer that continues to do business with you means one less new customer you need to sell.

Most importantly, loyal customers are the most persuasive salespeople you can have. The enthusiasm for your products

or services is genuine and often contagious. Their referrals tend to be pre-sold. And their referrals cost you little or nothing.

How are you treating your most loyal customers? Are you showering them with appreciation, or showing them the door? Don’t take loyalty for granted.

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