

## Guide: Profit improvement — customer retention

It is sobering to note that most businesses spend six times more trying to attract new customers than they do looking after the ones they already have. They must do this because their existing customers keep falling off and new customers are needed to replace the old ones.

Bain and Company, a leading Australian stockbroking and financial planning company, reported in a study on client satisfaction, that just a 5% increase in customer retention will produce a 25% to 100% improvement in profit. In other words, it pays to look after your customers.

### Let's put some numbers on this

Suppose you have 1,000 customers who spend an average of \$250 per year with you. Suppose that you have a customer loss rate of just 10% each year and that a customer who stays with you would deal with you for an average of 10 years.

Forgetting about inflation, each customer has a lifetime value to you of \$2,500 and a 10% attrition rate is costing you \$250,000 in potential revenue each year.

### Key variables

Most people don't fully appreciate the powerful dynamics of customer retention and frequency of customer contact. A relatively small improvement in critical variables can have a huge impact on total sales revenue.

The key variables are your:

- customer attrition rate
- new customer attraction rate
- frequency of customer purchasing, and
- the average value of each sale.

Compare your KPIs on these factors with the table below. Just a few changes to improve how many times your customers return to you and how much they spend may have a significant impact.

Sales components	Current rate	Now	Improvement	Future
Number of customers		1,000		1,000
Less attrition	10%	100	5%	50
		900		950
Add new customers	10%	100	12%	120
Total customers		LOOP		1,070
Sales frequency (times pa)		10	up 10%	11
No. of transactions		10,000		11,770
Average sale (\$)		\$25	up 10%	\$27.50
Total revenue		\$250,000		\$323,675

### Lifetime value of a customer

Most businesses need to educate their team on the lifetime value of a new customer. Lifetime customers represent repeat business and repeat business drives profit:

- assume that the lifetime period of a customer is between 7 to 10 years on average
- multiply the average sale by the number of times you expect to see that customer each year
- multiply the projected annual sales by the number of years' expectancy for "lifetime".

This gives you an idea of what the customer is potentially worth to your business. It means that one of the most effective ways of marketing your business is to increase the number of visits your long-term customers make to your premises, whether online or onsite, as this will add to the lifetime value of the customer.

### Engage your customers

A recent infographic by [PayFort](#), based on a survey of 234 brands and digital marketers, reveals that engaged

customers tend to buy 90% more often, and spend 60% more per transaction.

To develop lifetime value of customers, be open to any idea that increases the number of touchpoints you have with your customers. Do you email them your latest news? Do you interact with them on social media? Think about implementing a referral system where current customers are encouraged to refer new people to your business with an appropriate incentive being given to the referrer. This could be a weekly lucky prize or a discount off a product in your business.

“Profit in business comes from repeat customers; customers that boast about your product and service, and that bring friends with them”.

*W. Edwards Deming*

## **Nurture lifetime customers**

How do you develop lifetime customers?

- improve your referral system
- keep improving the level of service to customers
- create special events, promotions and loyalty programmes for your customers
- create a customer database and analyse who they are
- analyse data on spending trends and volumes, how often customers interact with you and how they respond to special promotions
- motivate your team to go the extra mile and get customers to say “Wow”!

## **Key metric**

“If your retention is poor, then nothing else matters”.

Brian Balfour, Founder/CEO of Reforge, former VP Growth at HubSpot

Customer retention is a key metric for your business’ profitability. The more familiar you become with seeing this powerful dynamic operate for your business, the more you can focus your customer service and marketing programmes to drive it forward.

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