



THE IMPORTANCE OF CUSTOMER RETENTION – PART 2

by Leigh Wallinger

This is the second in a series of articles that look at the importance of customer retention, why it is critical that you develop long-term customers, how you can keep customers and what happens to your profitability if you don't – even if you replace them with new customers.

In the first article, the benefits of having customers for the long-term are developed. The impact of customer churn (replacing defecting customers with new ones) on profitability is enormous. A loss of a handful of long-term customers can reduce profits, not only for the current financial year but for subsequent ones – depending on the cost of acquiring a new customer.

So, if the loss of long-term customers has such an impact on profitability the next question to consider is "How do you stop these defections?"

Why do you lose customers?

Interestingly, in his book called *The Circle of Innovation*, Tom Peters shows the results of a study into why customers defect. The majority stopped using a supplier for the same, but not altogether obvious, reason.

It was NOT because of price.
It was NOT because of long delivery times.
It was NOT because of technical issues.

The reason cited by the majority of customers surveyed was that they thought their supplier was taking their level of business for granted. They felt they were not getting the level of attention from their supplier that they had enjoyed both during the sales process and when they had first become a customer.

This is an incredible finding as it can be viewed as a spectacular own-goal by their suppliers.

Could it be that suppliers are so focussed on winning new customers in their drive to expand that they chose to ignore their existing customers. Furthermore, does this matter, so long as the number of customers continues to grow?

If you think it doesn't matter, then read the first article in the series.

It does matter. And critically, this customer churn is hurting your profits.

Understand your customers

You must start to woo your existing customers far more energetically. As described in the first article of the series, it is important to understand which (if any) of your customers would benefit you more if they were to become a customer of your closest competitor. Once you have identified the customers you want to retain, your efforts in retaining them must match the energy you spend on winning your new customers. Even though this means your costs for retaining customers will rise, after you have carefully assessed the costs involved you will probably find that spending slightly more to retain an existing customer is a better option financially than replacing that customer.

Consider your customers for a moment. Are they happy? Do you know how important your company is to them? Are any of them thinking that you are taking them for granted?

It is most likely you don't know. You may have hunches or a gut-feeling that your customers are satisfied with your performance, but no "hard" facts at hand to substantiate these assertions. How do you address this situation?



The most effective way is to start a dialogue with your customers to find out. The process of asking and collecting the responses from your customers will help to strengthen your relationship with them. Over time, you can demonstrate:

- That you are listening to their comments and criticisms;
- That you are focussed on what is important to them; and
- That your performance in these areas of importance will improve over time.

Establishing this dialogue is best done using well designed and structured questionnaires and feedback forms. If the introduction of such questionnaires is explained to the customers they will begin to see you are addressing the issues that are important to them, the customer.

Most of your customers will be happy to provide you with feedback, especially if they stand to benefit from the overall process. Those that don't readily agree to completing the feedback forms might be about to defect, so mobilise your senior staff to head off the defection – if this is one of the customers you have decided to keep.

Get your customers to rate your performance

Design your feedback forms and questionnaires in such a way that you collect a measure of how important up to 12 – 15 different aspects of your activities are to your customers. Ensure the feedback you get is a rating from 1 – 10 where 1 means "unimportant" and 10 means "vitaly important". Scientific studies have proven that the use of the "scale of 10" for scoring gives the most accurate results. The rating that your customer gives you for each of the 12 - 15 criteria shows you the minimum level of performance you must deliver to meet this customer's expectations in these areas of your business, otherwise you run the risk of them thinking you don't care or are taking them for granted.

Where you see scores of 8 or 9, you will know that it is your performance in these areas which determines whether you retain or lose this customer. Once you have gathered from your customer the importance levels they attach to each of the 12 – 15 criteria, you have identified the MINIMUM performance levels you must attain.

The second phase of your customer feedback process is to collect from each customer how they rate YOUR performance against the same criteria as before. Again, using a scale of 10 scorecard will give the greatest accuracy.

By combining the data from the Importance ratings and the Performance ratings you can readily see how you are doing. If you find the customer rates one of the criteria a 7 or 8 for Importance and your Performance is rated a 4 or 5, then you have (or will have soon) a customer who might defect to your competition. Treat it as a wake-up call to improve your performance in this area.

Likewise, if your performance is rated a 7 or 8 when the customer only gives an importance rating of 3 or 4, you are significantly over-delivering. The cost of this extra performance does not add, in any way, to the value of your overall relationship with the customer. It would be far better to score a 5 (instead of 7 or 8) and spend time and budget you save to improve the areas in which you are under-performing against the customer's expectation.

The use of questionnaires and feedback forms achieves 3 key objectives:

- You demonstrate to your customers that you take their input seriously and that you are trying to see where you should improve;
- You learn what is most important and least important to your customer in the context of delivering your products / services;
- You know where you fall below expectations and have time to address the issues before the customer gets disaffected and defects.



Combining this data with simple (software based) tools puts you in control of your own destiny again. You see how each individual and each grouping of customers rate your performance against the benchmark of their expectations.

Using the above approach to improve your relationships with customers will help improve your customer retention rates. Your customers will see you as an attentive supplier, striving to understand and match their expectations. In short, they will be less likely to defect and you will benefit through increased profitability.

For information on software that can collect and analyse your customer feedback, please contact us via our website.

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