

Are you retaining your customers?

November 2006

In the constant battle to gain new customers, it is easy to overlook the value existing customer relationships hold. Company profit is ultimately earned from having effective relationships with customers so these should be valued and protected – right? Even though its customer base is unique to every company, and one of its most important assets, they are often undervalued.

Every customer relationship has an economic value. This is sometimes referred to as customer Lifetime Value (LTV). The LTV is determined by taking your average customer transaction amount and multiplying it by the number of transactions he or she will conduct with your organisation over a given period of time.

For example, if your average customer buys £500 worth of product each quarter for three years then your average customer's LTV is:

$$£500 \times 4 = £2,000 \times 3 = £6000$$

The cost of acquiring new customers is reckoned to be 5 times that of transacting with existing customers. Not only that, the prevalence of a focus and target on customer acquisition can mean that the company is focussed and oriented around new business while neglecting the somewhat different needs of their existing customers. As a result there can be a negative impact on relationships with existing customers through an erosion of trust (you were only interested in selling your product) and perceptions of value (you don't appreciate me). An interesting examination of why customers leave reveals that:

Reasons Customers Leave:

- Move or Die	4%
- Other Company Friendship	5%
- Competition	9%
- Product Dissatisfaction	15%
- No Customer Contact Strategy	67%

What is the significance of the contact strategy? If you aren't maintaining an appropriate dialogue with customers and as a consequence they begin to feel ignored or neglected, ultimately what's to stop them taking their business elsewhere? This comes back to the economics of the matter – to lose customers after only one year's worth of transactions? Going back to our earlier example, you would gain only £2,000 (of the average £6000) that would have been possible if you had maintained the relationship – not factoring in the cost of acquisition!

While it is unreasonable to expect that you will keep every customer, it is critical to win more customers and not lose the ones you already have,

that are profitable to you. Customer Retention can be improved by developing a strategy that encompasses a number of dimensions. Ensuring employees, from front to back understand what constitutes value to customers, the importance of customer satisfaction and just how much each customer is worth to you is an important step. Measuring customer satisfaction levels and maintaining a focus on delivering value to protect key customer relationships is essential.

To find out more contact liz@icd-partnership.co.uk