

How to **Retain** Existing Customers



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A White Paper by PioneerMarketers



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1. Introduction

Businesses looking for strong routes to promote profits and enhance revenues, usually end up with the “dynamic duo” of attracting new prospects and reducing expenditure. But when a more inviolable bottom line is a difficult goal, especially with the cost of new customer acquisition reaching heights, a third strategy—customer retention—has testified equally powerful.

Today, 'Customer Retention' is decidedly the "buzz" phrase for businessmen, with references to the phrase reportedly appearing in 40,000 books. Most of the CEOs from small to large corporations are heard citing “customer loyalty and retention” as their biggest concern. It has become an all important way to clench your ground against the recession and competition. Hundreds of case studies demonstrate the power of this method in producing remarkable results.

This white paper outlines how businesses are managing this apparently complex business function. Learn how the benefits of customer retention have charmed business owners over the past few years, and how almost any company can easily and cost effectively retain a lot more of its customers.



 **Contact us at**

Toll Free: 1-888-400-1602
Email: info@pioneermarketers.com
URL: www.pioneermarketers.com

2. Why Customer Retention

“Churn” is the business term referring to the loss of customers and replacement with new customers. Even the best businesses endure some level of churn. In the past, businessmen believed that when existing customers left, new ones could be found to take their position. This strengthened their perspective that churn was nothing more than “business as usual.”

Now, we know better that the result of losing a current customer is anything but “business as usual. A research from Gartner says, “Existing customers spend more, purchase higher margin products and services, and are more likely to refer additional customers to the enterprise”.

Long term loyal customers:

- Are your valuable assets
- Are less price sensitive
- Are less expensive to attend to
- Are more loyal
- Buy more per year
- Buy higher priced options
- Buy more frequently
- Have a higher lifetime value



All of these specifics vanish when an existing client leaves and significant budgets must then be apportioned to source, nurture, and insure a new customer to replace them.

Wal-Mart founder Sam Walton, offered this compact view of the power of customers: “There is only one boss... the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.”

3. How to Retain Customers

Basic customer retention rule is to put yourself in your customer's shoes. In other words, customer retention is all about the customer and the customer's experience.

A search on web for "customer retention" will lead you to hundreds of websites that offer solutions for customer retention. Several theories, strategies and best practices have been identified by industry specialists and business analysts. Most of these signal towards business culture, resource training, and sales methodology along with tailing and responding to customer demographics. One of the best ways to retain customers is to create a comprehensive retention program.

4. Comprehensive Retention Program

Develop a complete customer retention plan keeping your business type, revenue, number of customers, etc in mind. Here is a model comprehensive customer retention program to begin with:

Systematic Retention Methods

- **Convert only the Right Customers**
- **Improve Communication**
- **Give Rewards**
- **Use Risk Revenue Matrix to Forecast Attrition**
- **Create Customer Segments**
- **Create Loyalty Programs**
- **Sell a Second Product**
- **Encourage Web Usage**

Evaluation of Retention Programs

- **Tests and Controls**
- **Return on Investment**

Here is how the model comprehensive customer retention program can be executed:

4.1. Systematic Retention Methods

Convert only the Right Customers

Try your level best to convert long-lasting customers from the beginning. Ask this question to yourself, “Who are likely to be loyal?” as some are loyal while others not. A study found that disloyal customers were:

- Transitory individuals
- Young ones, rather than older people
- Single ones, rather than married people
- Renters, rather than homeowners
- Who respond to low-ball discount offers
- Who respond to temporary sales

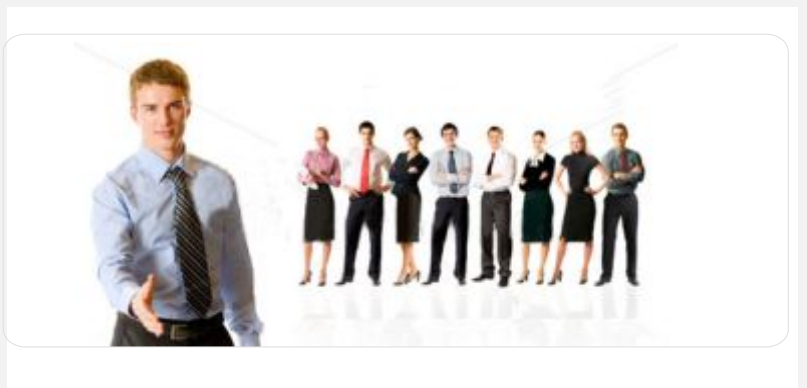
Relationship Buyers vs Transaction Buyers

Transaction buyers are only interested in the product pricing. They usually get attracted by low-ball discount offers and one cannot make much profit with them.

Relationship buyers always look for a company that gives good service to whom they stick forever. They expect value products and a two-way loyalty. Hence, try and recruit as many relationship buyers as possible.

Improve Communication

When regular communication with existing customers is overlooked or stopped, you will experience a typical "out of sight, out of mind" result. Customers nowadays are much more demanding in their anticipations on how they are served.



Start a Communication Plan

Example:

- Annual Communication Plan
- Give a 24/7 helpline number
- Recruit account managers as first point of contact
- Thank you card in 1st quarter
- Cross sell postcard in 2nd quarter
- Newsletter in 3rd quarter
- Seasonal card in 4th quarter
- Send a letter 60 days before annual renewal

A study revealed that:

- 62% of customers who leave, never talk to an agent first
- 86% of people who talk to an agent do not leave

Use Email Marketing

Developing consequential, appropriate relationships is important to retain existing customers. Controlling communication channels to do so in a timely and efficient manner is crucial to avoid any additional expenditure. Hence, only email marketing can help you, because:

- It is fast
- It is cost effective It is easy to implement
- It can reach a huge audience at a time
- It can be personalized
- It can be tracked and analyzed

All you need to do is to develop a database of email addresses of your existing clients (or tie-up with an email list vendor like PioneerMarketers who can append email addresses to your existing database) and kick-start your email communications. You can also hire the group mailing software and email tracking software to execute and track email campaigns. For more information on PioneerMarketers' email marketing service, please mail us at info@pioneermarketers.com.

Email marketing is the top online method for customer retention, above search engine positioning, banner ads, sponsorships and other programs. - Direct Marketing Association (DMA)

Give Rewards

By giving rewards to your loyal customers, you can build a strong customer loyalty as well as boost sales. The strategy is this simple: Give high-paying customers an incentive, and they'll come back and buy more, generate repeat business.

Example:

- A hotelier sent \$10 reward cards to 2000 inactive ex-customers
- Average member visits went from 32 per day before the promotion, to 58 per day
- Average visits per card went from 1.18 before to 1.26 during and 1.22 after the promotion

Reward cards increased both sales and retention

Use Risk Revenue Matrix to Forecast Attrition

Is it possible to detect the bad eggs from the whole lot? Well, here is how you can create a model that will help you identify customers who are most likely to quit. This matrix can also assist you to sharpen your entire retention program.

		Risk/Revenue Matrix		
		Probability of Leaving Soon		
		High	Medium	Low
Life-Time Value	High	priority A	priority B	priority C
	Medium	priority B	priority B	priority C
	Low	priority C	priority C	priority C

Source: Arthur Middleton Hughes, *The Customer Loyalty Solution*

Here is an example on using Risk Revenue Matrix:

- A telecommunications company sent special messages to clients in priorities A and B
- Ignored customers in priority C
- Result: Boost in retention and profits, increased revenue, annual cost of communication per customer reduced

Create Customer Segments

Create customer segments based on their purchasing history, buying capacity, adaptability, scope, etc.
An ideal customer segment:

- Will have definite and obvious characteristics
- Is big enough to substantiate a tailored strategy with suitable rewards and budget
- Has members who can be propelled
- Makes proper use of available data
- Can be measured in performance
- Advocates an organization devoted to it

Create Specific Strategies for Every Segment



Understand this better using the below given diagram:



Strategy for each segment can include the following action plans:

- Communications through direct mail, email or on-location personal attention
- Rewards designed to behavior modification
- Controls to measure the success of the strategy
- A budget for implementation of the strategy
- Specific goals and metrics for customer engagement

Create Loyalty Programs

Creating customer loyalty programs can show remarkable results in retaining existing customers.

What is a Loyalty Program?

- A system where customers have enrolled for a particular scheme
- They get a plastic card with their name on it
- The card can be used in a retail store or on the web as specified
- The card gives some benefit that they cannot get without the card

How do Loyalty Programs Boost Retention?

Program allows you to

- Keep a track of customer behavior
- See if valuable customers are reducing their orders or spending
- Pro-actively call them, write them, or make them offers
- Get valuable information about the users that you can use to understand the customer and build loyalty



Sell a second product

Offering 'Next Best Product' to existing customers is another strategy that promises to retain them. Study customer behavior and decide for all customers their next most likely product.

A study indicates that customers who buy the second product have shown a higher retention rate for the following reasons:

- Earnings from the new product
- Customers retained for the first product too

Example:

- An insurance agent tried predicting the next-best-product for each customer
- Offered a 10% discount on first product if second is purchased
- 82% of customers invited participated and increased
- Follow up letters created 8% more sales
- Follow up phone calls gained 26% more

Encourage Web Usage

A research notices that web using customers are more loyal and retention ratio is higher among them.

How do Web Using Customers become Significant in Retention?

- Web customers are more moneyed/wealthy
- Their average order size is 12% higher than phone orders
- The cost of a web order is 16% lower than phone orders
- More than 23% of non web users shift to the web every year

Create an Internet Club

A survey shows that Internet club members for various products from different industries spent 15 times more than non club members. This also boosts retention.

Example:

- A company selling fitness products created an Internet member club
- Offered free registration and 5% discount
- Sent regular email communications to the members
- Increased online sales by 67%
- Converted 92% of the club members to web users

Implement One Click Ordering

Collect the credit card details of special customers and enable one click ordering for them to save them from all the hassles of online transactions. This will not only make them feel important but also will add to their trust and loyalty, enhancing online sales, revenue and retention rates.

Example:

Use cookies for personalized greeting to the customer.

Welcome back Mr Anderson!
Your last visit to this website was on 24 February, 2009

Once Mr Anderson adds a product to the shopping cart, prompt one-click ordering.

Buy NOW with just 1 CLICK!

Ensure you have a Live Agent when the Customer Reaches the Shopping Basket

- Over 79% of the online shopping baskets are abandoned at checkout
- Reason: Customers have some doubt or a query; they are uncertain about the product, service, color, delivery, etc
- Solution: Activate a live chat option at checkout page
- Ensure the availability of live agents to help customer further and solve their doubts
- Result: Increased sales and retention

Web Development Services by PioneerMarketers

PioneerMarketers can help you develop a customer friendly website to promote your products and services online. Our online marketing experts can implement search engine optimization on your website and drive quality visitors and increase online conversions. To know more about our services, log on to www.pioneermarketers.com.

4.2. Evaluation of Retention Programs

Tests and Controls

Testing and controlling will help you evaluate the performance of your retention program. To prove the effectiveness of any retention program, one has to test them and measure the outcome.

Example:

Test the performance of those who receive a promotion against the performance of those who do not receive the promotion:

- If you are sending seasonal communication cards to one set of customers, choose 10000 who do not receive them
- Find out the differences in spending rates, attrition and retention rates of both groups
- Measure the migration between segments – upward and downward
- Assess additional sales per program and per season; budget spent per retention campaign and per season
- Monitor the frequency of purchases
- Make a note of number of departments shopped and products bought
- If there is no difference, understand that your seasonal communication cards were a waste of money
- Modify your retention program strategies based on the results

Return on investment

Here are some tips to increase your returns on retention programs:

- Reward or compliment bulk orders with gift coupons, best purchase awards, personal attention, etc
- Find out who your Diamond, Platinum and Gold customers are, and keep them happy
- Study your best customers and use their profiles while acquiring new ones with the similar profiles
- Personalize customer's web and phone experience

4.3. Facts about Retention Strategies

- On an average, 23% of the existing customers respond to one or more retention programs
- On an average, retention programs increase the retention ratio by over 18%
- Retention strategies significantly increase the orders per year and average order size



5. Final Words

Its time businesses realize the right methods to stop bleeding – loosing existing customers.

Waiving off this 'serious defect' or 'churn' is one of the best ways to grow your business in a land of tough competition and recession. Regardless of the type of business, employee or revenue size, every organization must try to understand what makes customers stay and what has made them leave. Customer behavior can be understood only if a customer-centric view is implemented. This will help in developing a successful customer retention program.

6. About PioneerMarketers

PioneerMarketers, (<http://www.pioneermarketers.com/>) is a leading marketing consulting and services agency, serving clients around the globe. We pride in helping our clients in planning and executing their marketing campaigns. We have the best team of marketing experts working in the domain. Our experience and expertise has helped many a clients in changing their business destinies.

As online marketing consultants, we look towards optimizing the scope of Internet for our clients. We analyze our clients' businesses and devise the right marketing strategies for them. We also boast of the best cutting-edge marketing tools available in the domain. All our tools are easily customizable and can be integrated into any business environment. We ensure that our clients meet their business goals by assisting them with all their marketing efforts.

Join hands with the best in the business to take your business to the next levels. Contact our experts at **888-400-1602** for a free one-on-one consultation or email them at info@pioneermarketers.com.