The Value of Customer Retention and Customer Loyalty

**In today’s competitive environment, customer satisfaction isn’t enough to ensure repeat business.**

Satisfied customers, no matter the business, continuously compare on price, service and quality even after they have made a purchase. According to Bloomberg Businessweek, 63% of existing customers lose interest or stop doing business with a company because they feel like they are being neglected by a company. This can be extremely detrimental to a company’s business.

Studies across a range of products, categories and industries have shown that the cost of keeping an existing customer is about five to ten times less than the cost of acquiring a new customer. According to Gartner 65% of a company’s business comes from existing customers, and it costs five times as much to attract a new customer than to keep an existing one satisfied.

Therefore, it makes good economic sense to try even harder to retain existing customers.

**Who are your customers?**

The first step is to determine who your customers are and create customer segments. Give each customer segment a name and define the parameters of the group such as their geographic movements, demographics, online activities, budgets and spending habits. You can then decide on which of these segments are most relevant to your business.

Once you understand your target market better you can find the VIP customers within each segment. These are customers that have the potential to spend more frequently with you or have the ability to influence others to spend more frequently with you. These are the customers that you need to build a relationship with.

**Customer Retention**

Customer retention has traditionally ranked low as a business priority: as recently as 2012, marketers ranked “driving sales” as their highest concern while “engaging customers” and “building customer loyalty” tied for last place. This is despite clear evidence that [existing customers are more valuable than new customers](http://www.retentionscience.com/customer-retention-should-outweigh-customer-acquisition/).

This trend is beneficial: according to a study by [Bain & Company](http://hbswk.hbs.edu/archive/1590.html), increasing customer retention rates by just 5% increases profits by 25% to 95%. What’s more, 82% of companies agree that retention is cheaper to execute than acquisition.

In order to build a relationship with customers we first need to increase the number of interactions with them. Some quick wins such as running competitions and once off promotions create opportunities for customers to engage and ultimately repurchase.

Do not mistake a repurchase as a relationship with customer. A relationship takes time to nurture. Customer retention is the first step to customer loyalty but there is still a lot of work to be done.

**The key lies in creating better customer loyalty**

Customer loyalty means building an emotional attachment and an allegiance between your brand and your customer. Knowledge gained from customer retention initiatives will give an indication of the key sales drivers for your most important customers. Constant interaction and rewarding these customers will build trust and lead to loyalty.

The next challenge is maintain this relationship on an ongoing basis. Loyal customers need to be nurtured and personalised offerings designed for them. Constant interaction and feedback opportunities will make these customers feel valued and will encourage their ongoing loyalty. Once any of these loyal customers is lost, it is extremely difficult to get them back.

**Churn**

Customer churn rate is a metric that measures the percentage of customers who end their relationship with a company in a particular period. Typically the churn rate is measured by month, quarter, or year, depending on the industry and the product you’re selling.

If I’m interested in keeping customers, I’m interested in understanding how many leave and the underlying reasons why they are ending their relationship with me. Changes in a company’s churn rate could be a signal that something is working well (if the number goes down) or needs addressing (if the number goes up). The idea is that when you know that more customers or subscribers are cutting ties with your firm, you can work to adjust your marketing strategy or customer service approach. Looking at churn rates by customer segment illuminates which types of customers are at risk and which may require an intervention. It’s a nice simple metric that tells us a lot about when and how to interact with customers. The questions managers should be asking themselves are: What are we as a company doing to cause customer turnover? What are our customers doing that’s contributing to their leaving? How can we better manage our customer relationships to make sure it doesn’t happen? Dissecting what’s behind the number will help you determine what to do to change it.



Obviously measuring churn does not offer much value unless action is taken. Churn rate analysis will indicate which customer segments need attention, which VIP customers are being neglected and what interactions are required in order to create customer retention and ultimately customer loyalty.

**It is up to you to actively ensure that your customers are returning**

Loyal customers feel an emotional connection to your brand and will not only be a key source of ongoing revenue but will also advocate word of mouth advertising on your behalf to drive new client acquisition. Some of the techniques that drive customer loyalty are:

* **Constant communication:** Keep your customers up to date with news such as new offerings, new pricing, new locations or any other relevant happenings. Be careful not to bombard your customers with irrelevant information. A key to these communications is to keep the message short and use the medium that each customer prefers. Make sure not to communicate too often as this leads to customers unsubscribing.
* **Share:** Give customers interesting information that will be benefit them and that is relevant to your business. Customers will then always remember you when thinking about the idea. They are also likely to share these ideas with their network.
* **Great Service:** Customers remember when they are treated well. And as a general rule, a positive customer experience results in repeat business. You should make sure that you and your staff know as much as possible about your repeat customers and their preferences. Customers will usually prefer a quicker service delivered at a high quality over a cheap service that is delivered slowly and at a low quality. Make sure to always keep your promises to customers and say thank you for their business.
* **Two Way Communications:** Give your customers the opportunity to reply to your communications in order to get feedback from them. Your customers will feel a lot more valued when they tell what they think and even more so when you respond to their needs.
* **Track your customer’s data:** Keep the information that your customers have given you such as their birthdays, preferred communication method, preferred products, preferred promotions and any other feedback that they have proved. This will enable you to build a relationship and make them feel special to you.

**Conclusion**

To continuously deliver a satisfactory product or service can be a huge task. And the hard-hitting truth is that even when you succeed at that, it’s not enough! No customer has ever, from the top of a building, euphorically shouted out, “I just bought a satisfactory product from this or that company!”

Bringing your products and services, even your entire brand, up to a level where customers are engaged, involved, and loyal, requires a lot more from you. But once achieved, you have transformed your customers into ambassadors for your brand, your products and your company.

Creating a good level of customer loyalty can feel like a big mountain to climb, it can also feel like a one way street at times but over the long run these relationships will drive your business to succeed.

As mentioned earlier, increasing customer loyalty requires more than smart marketing gimmicks, crafty incentive programs or banal freebies. Customer loyalty is achieved through a long-term commitment to your customers which will translate into them having a long time commitment to you.