The Corner Office

A Customer Retention Strategy is A Key Component Of Any Business Plan

We are all in business to make money and we want to accomplish this objective by growing our revenue and profit every year, not through cutting employees or other cost saving measures. The challenge is not what to do, but how to do it.

To help focus on a strategy, I like to start by thinking about extremes. Some business' approach is to concentrate on acquiring customers, while others are all about retaining their current customers. Neither approach is correct — we must be like the Tower of Pisa, trying to be balanced but leaning a little. For business growth, the leaning must be in the direction of customer retention. Here are examples of what two of the greatest business strategists and marketers ever had to say about this:

In a 1981 Harvard Business Review article, Theodore Levitt said, "Marketing is concerned with getting and keeping customers."

And Peter Drucker said, "Companies are not in businesses to make items, but to make customers." Drucker also said, "The purpose of a business is getting and keeping customers."

By the way, will all due respect to Dr. Drucker, I tell people that the purpose of a business is getting and keeping profitable customers.

For most businesses, about 80 percent of revenues and profits come from existing customers (at least their second purchase). For start-up and fast-growing new businesses this obviously is not the case, and for many established businesses in slow-growing segments, the percentage can be well over 80 percent. However, for this discussion the only thing that matters is that **retaining customers is critical to long-term success.**

If that's not a compelling reason to make retention a high priority, how about this: depending on who is asked, acquiring a new customer costs between five and eight times the expense to retain an existing one. Another fact, which you can check for your own business, is that over time, repeat customers tend to become more profitable!

Table 1 (pg. 61) shows some of the cost elements associated with acquisition and retention. For a true eye-opener, just change the text describing the relative cost with real numbers from your business!

Where Do You Start Creating Your Retention Plan?

Phase 1 – Your Business's Differentiator

A significant part of your retention plan should be your differentiator; the reason someone should buy or re-buy from your business. The differentiator must provide long-term value, create high barriers to entry, and must be consistent with both the company's culture and capabilities. Here are some typical differentiators with my opinion of how valuable they are to a B2B business over the long haul.

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For my value assessment, I use a 1 to 10 scale where 1=loser and 10=long-term winner (Table 2 pg. 61):

Phase 2 – First Impression

Your next step starts when your business initially meets a prospect. As the old advertisement goes — you only have one chance to make a first impression. Your retention plan starts before a prospect becomes a customer, because it is very difficult for a company to hit the "first impression undo button." While it should be easy to make a great first impression, it happens too infrequently. Make sure that the expectations you and your company are setting are achievable and presented in a credible way. Of course, it is better to under-promise and over-deliver, as long as you don't hold back too much and lose the deal.

Phase 3 – On-Boarding

When the prospect becomes a customer, Phase 3 begins. This phase, called On-Boarding, is a structured process designed to ensure that each new customer learns everything he needs to know about working with you, when he needs to know it. Planning this process is a cross-functional activity and the long-term payback easily justifies the effort.

Phase 4 – Communicate Often and Well

Today's business communication has gone well beyond a monthly newsletter. People get news and advice from Facebook, Twitter, blogs, email, webinars, networks and, for people in the graphics industries, Pinterest and Instagram. People trust their friends and associates much more than they trust Marketing collateral.

Keeping in touch with your customers today requires a concerted effort to identify the channel(s) each of your customers prefer and where the line between frequent communications and spam lies. Then you must create a content optimization strategy to ensure that you provide enough useful information to each customer using the channel(s) they prefer, without bombarding anyone with useless messages.

Also, today's customers want to be recognized as being individuals. We hit delete as soon as we see a "Dear Sir/Madam" salutation. It is worth the investment in an outbound marketing system to ensure your communications hit the mark without offending your customers.

Phase 5 – Collect and Use Feedback

According to the U.S. Small Business Administration and the U.S. Chamber of Commerce, these are the reasons customers leave:

- 68 percent leave because they are upset with the treatment they have received (Customer Service)
- 14 percent are dissatisfied with the product or service
- 9 percent begin doing business with the competition
- 5 percent seek alternatives or develop other business relationships
- 3 percent move away
- 1 percent die

Some of you are national or international companies where a few of these points may not be applicable to you. Even if the percentages noted do not resonate with you, the conclusion that poor customer service drives away customers cannot be avoided.

Collecting and using customer feedback is a well established method to make sure you know what is important to your customers, how your business is perceived in each important area and why they make or do not make a decision to continue purchasing from your business. In this area there are three specific types of surveys that are very useful in gauging and improving the business relationship you have with your customers.

1. Transactional surveys – These are brief surveys (usually about 5 question) sent to your customers after they have an interaction with your business. For example: after calling in for and receiving a quote you should sent either a paper or email invitation for a web survey and ask:
   - How easy was the quote process?
   - Did you get what you needed?
   - Did we comply with your time constraints
   - How well did our people communicate with you?
   - Is there anything else we can do for you at this point?

- While brief and to the point you will collect feedback on the key points of the interaction. Correlating the results with the prospects buying decision can give you great insight into what was important to them and where you can improve.

2. Relationship surveys – These are surveys sent periodically to your whole customer base to probe in greater detail how your customers like doing business and what they are inclined to do in the future. Depending on the size of your customer base you may decide to try and survey 25 percent of your customers each quarter or even about 8 percent per month. These surveys are usually web-based or done by telephone. I suggest using a third party service for telephone surveys, since customers are more likely to share bad experiences with someone other that their provider or partner. Here are examples of general relationship survey questions:

   How likely are you to recommend ABC to friends and associates?
   - How likely are you to continue purchasing from ABC?
   - How likely are you to try another supplier instead of ABC?
   - How easy is ABC to do business with?
   - Which company is best-in-class in the industry?
   - How does ABC's quality compare to other companies your do business with?
   - How does ABC's price structure compare to your expectations
   - How satisfied are you with the communications you receive from ABC?
   - And then a short series of questions addressing each area of the business such as:
     - Quoting
     - Order entry
     - Delivery
     - Quality
     - invoicing
     - Collections

Tabel 1

Cost Element	Acquisition	Retention
Advertising, web site, webinars, trade shows, marketing collateral	Very high - about 80% of Marketing costs are used to acquire new customers.	Very low
"The selling process"	Very high	Very low
Sales commission	Relatively high	Relatively low
Onboarding	Low	Medium
Quality reviews, periodic business meetings, etc.	Low	Medium
Loyalty programs and ongoing communications	None	Low
Quality, Customer Satisfaction, Training	None	None – you are doing these things anyway for cost reduction and productivity!

Table 2

Differentiator	Sam's Value Assessment
Low price	1
Incredible social media presence	3 and rising
Thought leadership	4
Leading edge products/services	6
Loyalty cards	7 (if even appropriate)
Great post-sales support	8
World-class account teams	8
Easy to do business with	9
They trust you and your team	9
Value-added solutions	9.5
Incredible customer experiences	10

In addition to each question you can ask "Why?" after each answer to get more insight into what was going through the person's mind as she answered.

3. Win-back surveys. These surveys are very specific and are used when your existing customer does not select your quote or proposal. If this is an unusual event then the CEO, owner, or vice president of operations can call the customer, express disappointment for not winning the new business and then discuss what had gone wrong during the relationship. The VP of Sales is not usually the right person to make the call unless there is a good, ongoing relationship between the VP and the Customer. This is because you want the customer to see that it is not primarily about the new order but about the long-term relationship. During the call there may be an opportunity to take immediate corrective action and ensure a quick restart to the relationship.

For example, I once had a customer tell me that the reason they went to another supplier was because we charged too much for shipping. I promised to investigate and found out that I could easily offer free shipping to customers who purchased more than $X per year worth of product from us and the missed shipping reimbursement was more than offset by repeat purchases within the year. This value-add was rolled out to the whole customer base and the response was amazing.

A final word about surveys. Be cautious about survey fatigue — where customers are so inundated with surveys that, at best, they ignore the invitation and, at worst, threaten to change vendors if the survey frequency does not decrease. This happens often, especially if you do not put filters on your survey invitation. For example, no matter how many interactions a customer has with you, never send an invitation unless 90 days have elapsed since the last survey. Relationship surveys take priority over transactions, so if a relationship survey is due to go to a customer, wait to send the transactional survey.

Phase 6 – Recognize and Reward Customer Loyalty

Everyone likes recognition and treats rewards. Business people are no exception. After receiving an order from a prospect or customer someone in the organization should send a handwritten "Thank You" note. For the first order it is appropriate that the senior person in the business send the note and welcome them into the fold. On subsequent orders either the salesperson, inside sales agent, or someone with a relationship should send the note. Also, all your invoices should include "Thank you for your business" or some such phrase.

As the relationship grows your business should be showing your appreciation by inviting the decision maker to join an advisory board, play in a special golf match, join a few other customers for a sports event or business dinner. Anything to show them how much you appreciate their business. The threshold for these perks should be set high enough that you are rewarding very good customers but not so high that only one or two people can join in.

There is another group of customers who deserve very special attention — people who recommend new prospects and customers to your business. Here is a suggested protocol to follow when you determine that someone referred your business:

- As soon as you find out about the referral, pick up the phone, call your referral customers, and thank her for her kind effort
- When an order is received, call and share your good news, and offer to take her to dinner to help you celebrate
- Now comes the fun. When the product or service is successfully delivered, call again and, this time offer to make a contribution to a charity of her choice, in her name. Depending on the order size, a donation of $100 or $250 would not embarrass anyone and will leave a lasting positive impression.
- Share this story inside your company to make sure everyone is on the same page and, if you have customer meetings, get permission from your referring customer to tell the story at the next meeting. You never know who is just waiting for a little push to go and sell for you.
- Finally, track references and referrals and try to determine what makes some companies unlikely to make a referral. Fix the problem.

Since retention is a key component of your growth strategy, it may be appropriate to appoint someone to be your VP of Customer Success, Chief Customer Officer, or VP of Customer Retention. The role of this individual sounds simple, break down all internal barriers that prevent your customer from having such a positive experience with your business that she keeps buying from you and refers new prospects to you. Depending on the size, complexity and culture of the business, this person has to be as close to a superhero as you can find and then be given free rein to do the heavy lifting of getting everyone in the business to put your customers first.

Sam is principal adviser at Middlesex Consulting, where he offers advisory services to small and medium business clients in the areas of business planning, services, customer experience and growth. He is widely published in magazines Inside Technology Services, Loalty 360, ExecutiveBrief and Survey.

Previous SGIA Journal publications include "Business Selling: Why Simple & Easy Matters" in the March/April 2012 issue, and a two-part article entitled "Evolving from a Product Focused Business to a Solution Provider," which appeared in the Fourth Quarter 2010 and January/February 2011 issues.