



Management Contract Services
Building Businesses in the Digital Age

How to Keep Customers

What Does A Lost Customer Cost *You*?

This white-paper discusses that affect that losing customers has on your business, which could amount to 10% to 20% or more.

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Written by:

Patrick Wheeler, Managing Partner
Management Contract Services
16785 NW Somerset Drive
Beaverton, OR 97006
503.645.1645

www.managementcontractserv.com

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How to Keep Customers

What Does A Lost Customer Cost You?

Have you lost a customer and don't know why? How much money you would have made if you didn't loss a customer? This article will discuss the costs of losing a customer and what you can do to make sure you don't loss one in the future.

What are your customers-dissatisfaction rates?

I was struck by an amazing study showing customer dissatisfaction rates. Every business executive should pay close attention, because a lost customer will cost more than you can imagine. Retaining a customer can increase revenue by as much as 30%. The customer defection rate is the percentage of customers who transacted with a business once in a year and never came back.

Customer dissatisfaction / defection rates by industry type are:

- 36% in restaurants
- 30% in credit cards
- 21% in auto dealers
- 18% in retail
- 15% in gasoline
- 14% in mortgages
- 13% in power utilities
- 10% in retail banking

Why do customers leave?

The three major reasons customers leave – never to return are.

- 1. Defection:** Every business has customer defection. This accounts for 9% of total lost customers.
- 2. Incompetency:** Most businesses are using feedback methods that are incompetent. This accounts for 87% of total defections. The remaining 4% is from death and moving away.
- 3. Nobody Talks:** Consumers now communicate only by Social Media. This means higher exposure.

Source of three major reasons is from Oberon3 Inc.

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What are *your* customers-dissatisfaction rates?

Overwhelmingly, defections are within the complete control of your business - Can you afford to lose one customer? A typical business only hears complaints from about **4%** of it's dissatisfied customers and the remaining **96%** go away with **91%** of them never returning. Why does it Matter? The financial impact to a business is - Huge \$. Consider the eight financial impact points if you lose a customer. The average business has a customer turn profitable after four sales and some take 18 months to turn profitable. Now judge the items below and the impact on your business.

1. Loss of initial revenue and earnings
2. Loss of increasing revenue
3. Loss of maintenance / service revenue
4. Loss of FREE word of mouth marketing
5. Loss of profit from referrals
6. Increase in acquisition cost
7. Increase in learning cost for the business
8. Decrease in market share

According to *Fred Reicheld – The Loyalty Effect*, “Cutting defections in half will double the firm’s growth rate and reducing customer defections by just 5 percent increased overall profits by 30 percent.”

Here is an example sale profitability calculation. Profits increases with the additional product sales to the customer:

	Sale 1	Sale 2	Sale 3	Sale 4
Product Price Per Unit	\$100	\$100	\$100	\$100
-Fixed and Overhead Expenses	\$125	\$100	\$90	\$75
Net Profit	<\$25>	\$0	\$10	\$20

Table assumptions:

1. This example is just an illustration of a single unit sale price \$100. Each business will have different pricing and cost structures.
2. The first sale expenses are always much higher, because marketing, promotions, sales commission and materials expenses just to attract a new customer much more. This is why the first sale is a financial loss.
3. Follow on sale expense goes down. Start up sale expenses decrease and improvements in product delivery.
4. Conventional wisdom states it cost 5to 7 times more to obtain a new customer as it does to cross sell products to an existing customer.

Are you just using customer comment cards?

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Several of my clients say they have customer comment cards. This method is useless.

Obtain customer evaluations *at the point of customer experience*. “*Information gathered from a customer at or immediately after an event is 40 % more accurate than info gathered 24 hours later.*” “*Response rates increase 10% to 12% simply by requesting feedback while the event is happening.*” *

If you want to use comment cards, ask yourself “*What did you have for dinner on November 18th? And how was it?*” Unless feedback is requested when the product is being consumed or the service being experienced, how can you expect a customer to recall and accurately rate the event? And if the feedback is negative, anything less than point of experience is simply going to be too little, too late. According to Matt Selbie, President of Oberon3 Inc.

Actions you can take, right away.

First, make the decision you want to engage your customers, learn as much as you can about them and what they feel about you. This information will allow you to improve your products/services and may allow you to offer new products/services. Next, consider using a service provider to conduct an immediate customer feedback program. There are many ways to do this, including smart phone apps*, web surveys, and other real-time methods.

* <http://www.opiniator.com/>

Six rules you can follow when you are directly asking customers for their feedback.

1. Decide what you want to find out.
2. Carefully create your question(s).
3. Think through how you will analyze customer responses.
4. What actions will you take from the information you garner and how soon.
5. Test all the questions.
6. Ask staff the same questions first.

Be aware of *what not to do*. There are many more pitfalls to be concerned with, but here is a brief listing.

1. Don't use leading or assumptive questions.
2. Make sure your questions don't have biases.
3. Don't use double barreled questions.
4. Don't use questions with acronyms or industry jargon.
5. All questions asked should be answered in one minute.
6. You will not and should not get everything you want to know in one in one questionnaire.

Learning more about your product and service directly from the current customer base will make your company more profitable and successful in your market place.

Conclusions

You will need to hold on to every customer you can. By using a variety a of customers surveys, you will learn more about your customer. This will help solve unreported customer

complaint issues. You will also discover new unfulfilled customer needs. Turn this customer information into a financial opportunity for you.

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Patrick M. Wheeler is the Managing Director at Management Contract Services and is a professional executive with an MBA and 25 years of management and consulting experience. He has worked with a large variety of companies, including service industry, wholesale industry and technology companies with sale of \$1M-\$15M. He has experience as a CEO, COO, GM and contracted CFO. Contact Patrick at pwheeler@managementcontractserv.com

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