

A blurred, grayscale photograph of a person in a business suit walking through a crowd. The person is in the center, slightly to the right, wearing a dark suit jacket and trousers, and carrying a briefcase. The background is filled with other people, all of whom are out of focus, creating a sense of movement and a busy environment. The overall tone is professional and somewhat somber due to the monochromatic palette.

chapter three The economics of customer care

Introduction

The provision of excellent customer care is important as it allows you to build a strong, loyal relationship with your customers. The information in this chapter will help you to understand how to form this relationship, so the loyalty of a customer will be ensured for many years.

Know what your customers are worth

Firstly, let us look at how you can calculate the true value of your existing customers. Many businesses spend about 75 per cent of their marketing budget in a search for more new customers. The cost of this marketing mistake is a negative effect on profits. It is a mistake because:

- ▶ It costs substantially more to win a new customer than it does to keep a current customer
- ▶ The longer a business keeps a customer, the more profitable that customer is for the business
- ▶ As a customer's lifetime value grows, the more dependent they become on a company, and the less susceptible they are to other companies' offers of lower prices
- ▶ As customers become more loyal, they can become advocates for the business, encouraging friends and acquaintances to also buy there.

You need to understand the lifetime value of your customers, and communicate this throughout the enterprise.

Customer value calculation

The following value formula worksheet will help you to calculate the average lifetime value of each customer in your facility:

<p>1. Working from your annual accounts, take the total amount of revenue and divide it by the number of current customers.</p>	
<p>2. Calculate the average length of a relationship.</p>	
<p>3. Total the number of referrals that became customers for the year, and divide by your total number of customers. Add one (representing the original customer).</p>	
<p>4. Multiply the average spent per customer per annum, and any yearly dues, by the average length of a relationship.</p>	
<p>5. Multiply the number of referrals by the total in box four above. This total is the average value of each relationship.</p>	

Figure 1: A value formula worksheet

While this calculation does over simplify the issue, it is useful in highlighting the value of a customer. Especially when you consider that customer attrition (loss) can be anywhere from 15 to 50 per cent.

The cost of replacing one customer is the sum of all marketing and sales costs for the year, divided by the number of new customers attracted. For example, marketing and sales costs: £55,000 (includes all salaries, fixed overheads, variable costs, etc) producing 200 new customers, replacement cost: £275. Therefore if each customer pays on average monthly dues of £50, it will be nearly six months before the marketing costs have been covered. If you add the costs of providing facilities and staff, this is even longer.

Profit per customer is achieved when marketing costs have been paid. Every month or year that a customer stays a customer, they become more valuable.

Total impact on your bottom line

If you take the average value and divide by twelve, you will know how much revenue each customer is worth for each extra month that they remain a customer. If you take the average monthly value and multiply it by the number of customers you have, you will know how much impact keeping every customer for one month longer will have on your bottom line.

As an exercise, use the following data in the previous worksheet to calculate the customer value:

1. Annual revenue from customer subscriptions: **£1.2 million**
2. Number of customers: **2,000**
3. Additional revenue from shop sales and other items: **£75,000**
4. Average length of customer relationship: **3 years**
5. Number of referral customers for the past year: **250**

Building a loyal relationship

If you can build a truly customer-orientated business that treats customers as individuals and focuses on their lifetime value, you can move from purchase transactions to transformational relationships – in other words, numerous ways to increase profitability while decreasing the cost of doing business.

While the stress will always be on delivering a personalised service to your customers, there are some general things you should do – and some you should avoid:

Examples of bad service

- ▶ Allowing the telephone to ring for an extended period of time, i.e. more than three rings.
- ▶ Unhelpful comments such as ‘It’s not my job’.
- ▶ The enterprise is unclean, floors not swept in changing rooms etc.
- ▶ Not notifying customers of changes concerning their status.
- ▶ Not delivering what has been promised.

Examples of good service

- ▶ Responding to customers’ needs quickly and efficiently.
- ▶ Implementing loyalty programmes.
- ▶ Having a suggestion box on the reception desk.
- ▶ Having staff who are polite, helpful and friendly at all times.
- ▶ Following the philosophy that ‘nothing is too much trouble’.

Tips to ensure success

There are some important steps that you should take to ensure that your enterprise provides better customer service.

Know what each customer expects from the enterprise:

- ▶ **Customer product** – high quality every time, preferably above expectations
- ▶ **High perceived value** – attention to detail and added service touches
- ▶ **Clear benefits** – stated and personalised
- ▶ **Reliability** – no broken equipment, or promises
- ▶ **Customer service** – responsive and knowledgeable
- ▶ **Guarantee/warranty** – deliver what you promise ‘or your money back’
- ▶ **Accessibility** – everybody should be available to talk to a customer
- ▶ **Complaint resolution** – fast response always
- ▶ **Positive experiences** – don’t serve your customers, delight them.

It might be useful to think of each customer as having certain ‘life cycle stages’.

1. Contact phase

Goal: to gain a new customer. Contact through marketing, advertising, telemarketing, personal selling, direct mail, promotions, and publicity.

2. Acquisition phase

Goal: to increase customer retention. Collect as much information about the customer as possible. Understand their purchase condition. Offer them post-purchase reassurance. Promote the price-value relationship. Establish the foundation for a long-term relationship. Know the associated costs.

3. Retention phase

Goal: to create long-term, committed and loyal customers. Develop a service philosophy. Increase the responsiveness to customers. Identify and close service gaps. Improve the service recovery process. Measure customer satisfaction. Reward positive customer behaviour. Know your retention-related costs.

4. Loyalty phase

Goal: to extend your customer's loyalty. Define loyalty and customer lifetime. Know their lifetime value and average net worth. Counteract defection rates and patterns. Understand loyalty calculations. Know your costs associated with their loyalty. Provide them with accurate customer information. Ensure that you know your products inside out and back to front! Communicate with the customer. Learn about the customer. Provide value on every contact. Reward the customer's loyalty.

Twelve ways to stay close to your customers

1. **Show them that you think of them.** Send or fax helpful newspaper clippings, relevant articles, and Christmas and birthday cards. How about sending a card on the anniversary of the day they became your customers?
2. **Tell them what's new.** It is a good way to stay in touch and increase sales or get referrals.
3. **Offer 'valued customer' discounts.** These can take the form of coupons, letters, or other sales promotions. This not only garners more orders; it also makes your customers happy to be getting such good deals.
4. **Compensate customers** for lost time or money if they were caused by problems with your product or service. Use a well thought-out recovery programme and stick to it. Better to err on the side of generosity than lose an account out of stinginess!
5. **Be personal.** Keep notes in your customer files on every little detail you know – everything from spouse and children's names to hobbies, and especially their behavioural style.

6. **Always be honest.** Nothing undermines your credibility more severely than dishonesty. Lies have a way of coming back to haunt you.
7. **Accept returns unconditionally.** The few pounds you might lose in the short run are far less than what you gain from pleasing the customer.
8. **Honour your customer's privacy.** If you have been a truly consultative salesperson, you may possess some knowledge that should be kept confidential. Your ethical standards should demand that you keep it that way.
9. **Keep your promises.** Never, ever promise something that you cannot deliver. This principle applies to little things such as returning phone calls as well as big things like delivery dates. If you must, 'baby-sit' deliveries and promised service to see that they are realised. Your reputation is on the line.
10. **Give feedback on referrals.** This is the right way to show your appreciation for the referral. Tell your customer the outcome. This is also a good way to get more referrals without asking for them directly.
11. **Make your customers famous ...for 15 minutes.** If your enterprise has a newsletter, ask customers for permission to write about their successes. Then send a copy to your customer. The same can be done for local newspapers and other publications.
12. **Keep lines of communication open.** As in any relationship, assure your customers that you are open to all calls about everything and anything – ideas, grievances, advice, praise, questions etc. This is one way to maintain that all-important rapport.

Remember that people do business with people they like!

Exercise: Customer dynamics

How does your enterprise rate? Try to complete this questionnaire to rate your company and the service it provides to its customers.

1. **Responsiveness.** Do customers get 'sheep-dip' service or does your company treat people as individuals?

Low	1	2	3	4	5
	6	7	8	9	10
					High

2. **Competence.** Does your company have an image of expertise in which customers can place their trust?

Low	1	2	3	4	5
	6	7	8	9	10
					High

3. **Reliability.** How dependable is your product or service?
How well does your company follow through on promises?

Low	1	2	3	4	5
	6	7	8	9	10
					High

4. **Relationship.** How well does your company show customers that it cares and wants long-term relationships with them?

Low	1	2	3	4	5
	6	7	8	9	10
					High

5. **Accuracy.** How well does your company avoid mistakes, especially expensive or time-consuming mistakes?

Low	1	2	3	4	5
	6	7	8	9	10
					High

6. **Personal service.** How well do service representatives and other front-line people show customers that they are special?

Low	1	2	3	4	5
	6	7	8	9	10
					High

7. **Courtesy.** Does everyone in your company treat customers with this most basic ingredient of human interaction and service?

Low	1	2	3	4	5
	6	7	8	9	10
					High

<p>8. Active listening. Are people in your company good listeners, especially when it comes to customer problems?</p>	<p>Low</p> <p>1 2 3 4 5</p> <p>6 7 8 9 10</p> <p>High</p>
<p>9. Perceived value. Does your company give customers good value and make them aware of that before and after the sale?</p>	<p>Low</p> <p>1 2 3 4 5</p> <p>6 7 8 9 10</p> <p>High</p>
<p>10. Professional appearance. Is your company aware of the importance of making a positive impression with a clean, safe, well-maintained place of business (or telephone answering)?</p>	<p>Low</p> <p>1 2 3 4 5</p> <p>6 7 8 9 10</p> <p>High</p>
<p>11. Keeping in touch. Does your company make an effort to stay close to its customers and solicit their opinions?</p>	<p>Low</p> <p>1 2 3 4 5</p> <p>6 7 8 9 10</p> <p>High</p>

Figure 2: Customer dynamics questionnaire

Customer attrition and retention

Attrition is the key indicator in measuring the success of any retention and customer service strategy. It is a monthly performance indicator that should be acted upon sooner rather than later.

Relationship attrition is the number of customers who do not renew their relationship in any one-month, expressed as a percentage of the number of customers at the start of the month.

Each organisation will have its own means of measurement that relates to its management systems, but as long as this is consistent, it is only the fluctuations that are relevant.

The measure of relationship retention is an important indicator of how effective your organisation is in meeting the desires of your customers. In some instances, the rate at which people stop attending on a regular basis or fail to renew their relationship can be very high.

Take the example of a fitness centre. During its early years, renewal rates were as low as 20 per cent with a corresponding attrition rate of 80 per cent. Such a low renewal rate carried an important message: a lot of people had a desire to become involved in health and fitness. They also thought a particular enterprise would provide an answer to their need and were sold on it. Unfortunately, the experience was not meeting their expectations so they did not renew their relationship.

Working out your attrition and retention rates

How do you know that the efforts you are making are actually achieving the results you want in terms of keeping customers?

Over the last few years, many formulas have been devised to look at the data available from computer systems. No matter which you use, the most important factor is consistency from year to year. This is the only way to ensure that you are comparing apples with apples and can measure significant fluctuations in your market.

EXAMPLES

The International Health, Racquet and Sports Enterprise Association (IHRSA) uses the following formula to track retention:

Attrition (per cent) = [Number of customers lost during a given period (year/month)] ÷ [number of customers at start of same period] x 100.

Another enterprise uses an even simpler formula:

[Number of cancellations x 12] ÷ [number of customers at the beginning of the month].

A number of considerations may affect your totals. For example, do you count customer 'holidays' or 'freezes'? What about summer customers? What happens when you have a spurt of business due to outside factors (e.g. another enterprise in your town goes out of business and you absorb their customers) or a loss of business due to uncontrollable factors (your pool springs a leak and you have to subsidise your customers' use of another facility until you can repair yours)? How do you track uncontrollable as opposed to potentially controllable factors (people who leave due to a move or loss of job versus those who resign because they are unhappy with the service you are providing)?

Attrition formulas will give you a base of information to look at from one period to the next, but may not always provide an accurate picture of what is going on with your customers. What you really want to know is whether the customer who started last year will remain with you one, two or three years later.

As we have seen, your aim is to keep customers for as long as possible. So, if a customer were to stay with you for 15 months, the goal would be to keep them for 16 months, then 17 months and so on. For each additional month you retain that customer, you increase your profit margin, all other factors being equal. The critical months are the first four-month period and then the five to eight-month period. This can be thought of as moving a customer from 'infant' to 'independent'. To increase retention, focus on moving new customers from the 'infant' stage to the 'independent' stage. One of the best ways to implement this is to allocate sales, customer service or other staff as 'customer assistants'. Each would be assigned 150 to 200 customers each. It is then their job to work with the customers, keep in touch and direct them to products or services until they are familiar enough with what you are offering to be 'independent'. Computer technology can help significantly in tracking customers through this life cycle.

For example, some fitness centres now use computer systems that enable customers to check in at a kiosk and enter information about their activities and lifestyle for the day (or week, etc). The customer can then get a personalised lifestyle prescription for the next week that will keep them on a path to achieve their goals. Impressively,

the combination of such a computer facility and the customer assistants programmes has been shown to yield a reduction in the drop out rate during the first eight months from 50 per cent to 20 per cent.

Based on such an approach, an alternative to the standard retention formulas is to look at the average length of a relationship and to try to extend it. Using whatever computer records you have (if you keep expired records on your computer), examine the contracts of your former customers and determine the length of time they were with you. Calculate the average by totalling all of the durations, and divide by the number of former customers. This can be quite a task, so look only at the last five years (at most).

Once this has been done, you will have a base average to work with and you can start identifying existing customers that might be at risk of leaving. Pull reports for customers who have not been active in the last 30, 60 or 90 days, and phone them up. But be careful how you do this. If you call and say, 'Hey, you haven't been in lately...' You might run the risk of their saying, 'You're right! I've been meaning to cancel this relationship!' Whoops!

A more advisable, softer approach would be to call the 'at-risk' customers and invite them to come in for a specific reason. Best of all, of course, is that if you have compiled a profile of them, you can start with a topic you know interests them. If you don't have a profile on them, you can tell them you're calling customers at random to tell them about new products and to get their feedback.

These calls can then serve the multiple purposes of getting people signed up for events, notifying them about programmes, products or services and, not least, to gain feedback about any changes you could make to keep them more involved. The contact alone is often enough to keep a relationship going for one to two months longer than you might have otherwise.

Exit questionnaires

Where appropriate to your business, exit questionnaires can provide a great deal of useful information. Try to categorise reason and allocate codes to them. They should fall into two main groupings:

1. Uncontrollable

House move, death, illness, loss of income, non-payment of relationship fees (uncollectable).

2. Controllable

Not using, no time, too expensive.

If your enterprise's controllable attrition rate reaches more than 15 per cent of the total exit questionnaires in any given period, you can start to worry. For example, if you lost 20 customers in one month, and more than seven were due to controllable factors, you would have to revisit your retention programme.

Customer service surveys

Customers have invested their time and sought services from you because they believe that you can satisfy their desires. Their opinions concerning how they feel and how your services could be improved or developed are valuable.

Someone might continue to visit your business because they have paid a relationship fee and wish to receive the benefit they have purchased. But they might not be completely satisfied with the services provided and have no desire to renew the relationship. By asking for their opinions, you might be able to understand how to satisfy their desires more completely and so retain customers that would otherwise not return.

Valuable feedback can be obtained through questionnaires or interviews, and staff should be in a position to pass on comments that have been made about your services.

A questionnaire sent out in the post or by e-mail cannot be as comprehensive as that used for a personal interview. Since there will be no interviewer at hand to explain the questions they must be put in an elementary manner and require as little writing as possible on the part of the respondent. The normal method is either to frame questions which require a simple 'yes' or 'no' answer, or to provide several alternative answers to each question, asking respondents to mark the one they consider most applicable.

One of the main difficulties with the use of postal questionnaires is that only about one person in ten will take the trouble to respond. Furthermore, the fact that they have taken this trouble, whereas nine out of ten have not, suggests that they are probably not typical.

You can use various devices to encourage people to respond – such as a free gift attached to the survey or a free prize draw for those who return the questionnaires.

Like all unsolicited direct mail approaches – of which this is just a specialised category – the accompanying letter of explanation must be written in such a way that the customer is urged to make the effort to complete the questionnaire and post it back. The letter must explain the purpose of the survey in terms that the customer can understand and, ideally, which will excite some interest on their part.

How to keep a customer for life

- ▶ Select the right customers through market research.
- ▶ Know your purpose for being in business.
- ▶ Move customers from satisfaction to loyalty by focusing on retention and loyalty schemes.
- ▶ Develop reward programmes.
- ▶ Customise your products and services.
- ▶ Train and empower your employees in excellent customer service.

- ▶ Respond to customers' needs with speed and efficiency.
- ▶ Measure what's important to the customer – always add value.
- ▶ Know exactly what customers want in their relationship with you.
- ▶ Know why customers leave your enterprise by producing customer exit surveys.
- ▶ Conduct a failure analysis on your enterprise.
- ▶ Know your retention improvement measures – have a strategy in place.
- ▶ Use market value pricing concepts.
- ▶ Do what works all over again!

Remember!

96 per cent of unhappy customers never complain.

But if their problem remains unsolved – they usually tell ten other customers!