Why Customer Retention is So Important to Growth

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For many businesses, the challenge of growth has become exceedingly difficult. Larger companies seem to grow through acquisition since internal growth above 10% is not possible. One of the keys to good internal growth is through retention. Granted, it's not easy, but if you can somehow retain your customers and get them to come back, you have created a platform for growth that is much easier to manage then a growth strategy predicated on acquiring other companies. Acquiring and integrating other companies is very challenging and requires expertise that most companies lack, not to mention the very low success rate even if you do have outside help. Therefore, a growth strategy rooted in retention can be more viable and sustainable over the long run.

"The global economy is making a vast, systemic shift from transactional products to subscription-based services. As Tilt cofounder James Beshara notes, today's consumers are interested in outcomes, not assets." – Tien Tzuo of VentureBeat, September 19, 2015

If you want to be successful with a retention growth strategy, then you should recognize that retention applies to internal customers (employees, vendors, suppliers) and external customers (those who buy your products and services). Keep in mind that it is those internal customers who are on the front lines of servicing your external customers that leads to customer retention. So make sure you focus on the enablers behind retention. Retention just doesn't happen. It requires a strong commitment to key drivers – taking care of your people, working with your vendors and suppliers, and developing systems and processes that deliver great service to customers. Companies with consistent growth seem to have mastered many of these enablers for growth; such as strong leadership, great service after the sale, innovative product design, a fully integrated supply chain, and leveraging customer intelligence.

"Amid all the words, simple or fancy, is a basic hidden truth about customer service: the person who interacts directly with the customer determines whether that customer perceives that he or she is receiving poor customer service, excellent service, or something in between. If you serve customers directly, you have the power to affect their perceptions. That customer contact is where the rubber meets the roads." – Perfect Phrases for Customer Service by Robert Bacal

A discussion on the full range of enablers is beyond the scope of this article. However, let's focus on a simple concept: **Know thy customer**. You should be collecting and analyzing customer data, gaining insights into how to build loyalty and bring them back. Start with your existing sales data. You can identify:

- Most frequently purchased items
- Which storefronts or locations within the store generated the most sales
- When were sales low and high, on what day and on what time did sales occur

- How did the customer pay – cash or credit card

If possible, try to collect demographic information about your customers – gender, income level, age, where do they live, etc. You can use this information to target new customers that fit your existing customer profile. For example, young men that come in on Saturday's usually visit two other retailers in the immediate area. You decide to partner with these two other retailers and together you build a more reliable customer base through referrals.

One of the key metrics that you should use regarding retention is percentage of customers who came back and bought again. If you have the systems in place, such as a Customer Relationship Management, you can monitor re-purchase rates. If your business is based on service contracts, monitor the contract renewal rates.

A second important retention metric is: *How likely will the customer recommend the product or service to another person?* You want to have more positive responses than negative responses. A lot of negatives imply that something is wrong with how the customers are viewing your product or service. You will not build loyalty and retention when people are not likely to refer others to your business.

"Unless you can provide hard quantitative data, measurements, and facts about your customer experience, the leaders (and others) in your organization just won't take your work seriously. That's why you need to make sure that not only are your measuring the results of your customer service efforts, but that those measures are as noticeable as Donald Trump's combover." – Customer Experience for Dummies by Roy Barnes and Bob Kelleher

Just to recap – you have to be able to retain customers if you expect to grow in a substantive way. You should measure your retention using two metrics: 1) Repeat Sales and 2) Likelihood Customer Refers Business to Someone Else. And finally, you will need to get a lot more analytical about your customer, leveraging the data and applying predictive metrics for better service.