



Build Your Business

An eNewsletter for
CEOs looking to
grow their companies.

High-value, "how-to" articles on customer-attraction,
sales development, leadership, and best-practices in
HR, IT, product development, communication, financial
operations, engineering and M&A/value creation.

What Does A Lost Customer Cost You?

Are you losing revenue because customers don't return?
With an average defection rate of 20% or more, you may be
losing more than you think. This article discusses the affect of
losing customers – and what you can do about it.

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Management Contract Services
Building Businesses in the Digital Age

What Does A Lost Customer Cost You?

Have you lost customers and don't know why? How much money would you have made if you didn't lose these customers? This article will discuss the costs of losing customer and what you can do to decrease customer defections 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 do not provide insights needed for corrective actions. This accounts for 87% of total defections. The remaining 4% is from death and moving away.
- 3. Nobody Talks:** Consumers use of Social Media (vs. just talking) to communicate has increased.

Source: Oberon3 Inc.

What are your customer-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% don't say anything and 91% of them never return. 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." The table below 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 illustrates a single unit sale price \$100. Each business will have different pricing and cost structures.
2. The first sale expenses are always higher, due to marketing, promotions, sales commission and materials expenses required to attract a new customer. This is why the first sale is a financial loss.
3. Follow on sale expenses decrease due to reductions in start up sale expenses and improvements in product delivery costs.

Are you just using customer comment cards?

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.

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

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.

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 of customer surveys – the right way at the right time – you will learn enough about your customers to dramatically decrease defection. 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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*Additional insights and value from leading authorities
in their areas. Articles in the February, 2011 publication:*

Are you Leaving Money on the Table?

Mark Paul

You may be stunting your corporate growth and company value due to your team's mispriced offerings. How can your team learn what the market will bear?

How to Align Information Technology (IT) with your Business Needs

Manoj Garg

You know IT is needed for business success. Yet, sometimes you have a nagging feeling that you are not getting value from your investments. This article discusses how to align IT with your business.

Maximizing Sales Velocity Despite Economic Headwinds

Bill Etheredge

Have you allowed the downturn to be a convenient excuse for recent financial performance? This article strips away the superficial convenience of financial downturns and shows how to *capitalize* on it.

Using HR to Boost Company Performance

Iris Sasaki

If you are interested in dramatically increasing your employees' and managers' performance, there is a little-known secret that will leverage your strengths – and those around you – to accomplish far more.

What Does a Lost Customer Cost You?

Patrick Wheeler

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

Clueless in the C-Suite

Tom Cox

CEOs and others in the C-Suite can find themselves in a bubble, an alternate reality, detached from what's really happening in the business. Figure out if you're in a bubble and how you can get out.

Maximizing the Value of Your Exit Strategy

Brent Freeman

Do you have an exit strategy for your company? Do you know what you need to do to get the maximum value for your company? This article will give you 6 ways to maximize your company's value.

Powerpoint Makes You Stupid

Dave Yewman

Master communicators tell stories and have one or two major points. They're smart enough to not try and communicate too much in a presentation. Are you?

How to Take Your Products International

Richard Biggs

Exporting isn't simply an add-on to your existing business. It should be part of an overall strategy to develop your business. This article takes a close look at the opportunities and threats that exporting can bring to your company.

The Secret to Building a Stronger Business

Alexander Stein

Your company's most valuable asset: a psychologically savvy chief executive. In this article, learn how to deploy yourself more effectively.

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