



What is customer retention?

Customer retention definition, importance & strategies

Whether you've just launched your company or you've been in business for years, attracting new customers is far from free. Depending on your industry and your offerings, the cost of acquiring a new customer could cost anywhere from one dollar to hundreds of dollars. This is why having a solid customer retention program in place to boost loyalty is key.

Customer retention is another approach to generate revenue while decreasing your expenses at the same time. Most businesses spend between 5 and 25 times more to acquire a new customer than they do to retain an existing client, according to Harvard Business Review. That means planning a retention program and implementing the appropriate retention strategies could accelerate progress toward revenue goals while allowing your company to grow.

So how can your business retain more customers and decrease its costs? Within this guide, you'll learn everything you need to know about customer retention, and how to grow your customers' lifetime value and loyalty.

Customer Retention - Overview

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1. What is customer retention?

Customer retention focuses on turning customers into repeat buyers. This process typically complements lead generation and customer acquisition.

Customer retention strategies revolve around strengthening customer loyalty and increasing customer lifetime value (CLTV) which in return helps businesses maximize



their marketing ROI without the necessity to spend additional money on acquiring new clients.

2. When to focus on customer retention

For many established businesses, customer retention initiatives begin with the first touchpoint and extend throughout the lifespan of the relationship. Yet prioritizing retention isn't always possible. If you're a startup founder or if your business is relatively new, your efforts may be devoted to acquiring customers instead. Based on the age and focus of your business, here's when you should focus on customer retention:

Just launching: If your business has just opened, it's important to focus virtually all of your resources on acquiring new customers, successfully delivering products and services, and running your company. At this early stage, you can hold off on customer retention activities.

Starting to gain traction: Once you begin to make some sales and you have a few customers, you can start to explore retention. Most of your early efforts should focus on simpler and higher-value tasks like encouraging current customers to renew their current purchases or consider upgrades.

Making consistent sales: When you attract a steady flow of customers, your business can realize much more value from increasing retention efforts. Rather than focusing solely on renewing or upselling current customers, you can add steps to your sales and onboarding workflows. With this approach, you can connect with customers earlier in the life cycle and build stronger relationships from the beginning.

Seeking growth opportunities: When your business is relatively established, you may have reached a large portion of your total addressable market. At this point, focusing on customer retention is critical, as it may be one of your biggest opportunities for increasing CLTV and growing your business.

Automating retention: Once your company is truly established, most of your sales, marketing, and support processes should be streamlined and efficient. At this point, you can get the greatest value from investing in automated customer retention. By automating these important processes, you can get an even better return and set more ambitious goals for your business.



3. Why customer retention is so important

Customer retention is important for any business simply because it's much more cost-effective than acquiring new ones, but that's not all. Knowing that the probability of selling to an existing customer is between 60% and 70% vs. only between 5% to 20% for a new one, you clearly understand how much easier as well it is to focus on keeping your actual customers happy and turn them into repeat buyers, than acquiring new ones.

Customer retention benefits for an online business

If you run an online business or an e-commerce store, you can easily calculate the benefits of customer retention. Some of the most valuable perks include:

Improving your sales success rate: Converting new customers can be challenging, but selling to existing customers tends to go much more smoothly. Across industries, the average success rate of converting new customers is about 5% to 20%, according to Outbound Engine. In contrast, the success rate of reselling to an existing customer is about 60% to 70%.

Reducing your expenses: Depending on the tactics you use and the offerings your business provides, attracting new customers can become overly expensive. Acquiring new customers can cost up to 25 times more than retaining a customer you've already won over once. If you want to avoid wasting money on lead generation, focusing on customer retention can help with keeping your marketing and sales budget in check.

Enhancing your ROI: Because it's significantly easier to convert an existing customer again, a good customer retention program can improve your ROI. In fact, increasing your retention rate by as little as 5% can grow your profits by anywhere from 25% to 95%, according to Harvard Business Review.

Increasing order values: First-time customers tend to spend less on their orders while existing customers tend to be more comfortable with larger shopping carts. In fact, repeat clients spend over 30% more than new customers.

Leveraging customer loyalty: It's easy to assume that repeat buyers might purchase the same products and services or have stricter expectations. However, loyal customers tend to be more experimental with their purchases and more lenient in their expectations. Repeat buyers are four times more likely to overlook common issues,



such as support problems or delivery delays. They're also seven times more likely to try your new product line, according to Outbound Engine.

Generating referrals: The perks of having a loyal following extend far beyond the initial client. Loyal customers are five times more likely to refer friends and family to your business, which can lead to exponentially more sales opportunities. That means a strong customer retention program can truly help your company thrive, thanks to a balanced audience of new and returning customers.

4. Key customer retention metrics

Customer retention rate: This metric helps to understand where your business stands and how much you could benefit from investing in this strategy.

Customer churn rate: This metric helps you track the rate at which your business loses customers.

Customer lifetime value: This metric is a good gauge of the value that every customer brings to your company.

How to measure your customer retention rate

To calculate your business's customer retention rate, gather this data:

The number of customers at the beginning of the time period (B)

The number of customers at the end of the time period (E)

The number of new customers gained within the time period (G)

After collecting the numbers above, use this standard formula to calculate your percentage:

$$\text{Customer Retention Rate} = [(E-G)/B] \times 100$$

For example, imagine your business started the quarter with 100 customers, gained 50 new customers, and ended the quarter with 125 customers. Your customer retention rate would be 75%.



Once you calculate your company's customer retention rate, you can compare it to industry standards. With a quick comparison, you can see whether your company is already performing better than average or if it could benefit from serious improvement.

Overall, the average customer retention rate is under 20% in most industries, according to HubSpot. Yet the target rates for certain industries are much higher. For example, IT services have an average retention rate of 81%, and the insurance industry retains an average of 83% of its customers, according to Profit Well. Professional services firms average 84% retention, while retail businesses have a lower rate of 63%.

Customer churn rate

To calculate your customer churn rate, take the total number of customers who didn't renew (Y), divide it by the total number of customers (X), and multiply the result by 100. For example, if your business has 200 customers and 50 didn't renew, your churn rate would be 25%.

$$\text{Customer Churn Rate} = Y/X*100$$

If your churn rate has increased, do your best to find out why. Perhaps most churned customers have similar characteristics or encounter the same support issue. If you can identify the reason for the problem, you can better understand how to improve your process going forward.

Customer lifetime value

Customer lifetime value (CLTV) is a standard metric that reflects the total revenue your business can expect to gain from a client during their lifetime. To calculate your company's CLTV, you first need to determine your customer value (V), which you then multiply by the average customer lifespan (L).

$$\text{Customer Lifetime Value} = (V*L)$$

5. Examples of customer retention strategies

These customer retention strategies work for businesses in a wide range of industries:

Encourage customer accounts: Getting customers to sign up for accounts on your website isn't always easy, but it's essential for tracking purchasing patterns. You might find that customers hesitate to create accounts prior to purchase due to the extra work



and time required. In that case, you can consider letting them wait after the purchase. By providing new customers with an account invitation on the confirmation screen and via email, you can increase the chance that they'll complete the task.

Improve customer service: Frustrated customers may never make another purchase and contribute to churn instead. Yet if you can increase customer satisfaction, you may be able to improve retention at the same time. To give customers the support they need, consider adding more channels, such as a more robust FAQ section, user-friendly chatbots, or even a dedicated social media profile. Make sure your team has enough time and resources to oversee the channels effectively.

Launch a loyalty program: One of the best ways to encourage repeat purchases, increase average order value, and even shorten the time between checkouts is to reward customers every time they buy. Consider setting up a loyalty program that rewards clients for the amount they spend or the number of purchases they make. You can offer them credits, coupons, or even free gifts. If you aren't sure which rewards to include in your loyalty program, ask customers directly.

Send engaging emails: When customers purchase from your online store, you can automatically subscribe them to your company's emails. After signup, you can begin sending targeted newsletters, promotions, and discounts based on their profile and prior purchases. With a conversion rate of 4.29%, email marketing has one of the highest conversion rates of any digital channel, according to Shopify. That means email can be an effective platform for driving repeat purchases, upsells, or cross-sales.

Offer a discount for repeat purchases: Many companies offer discount codes to encourage first-time customers to make a purchase. Yet offering a coupon or a set discount for a repeat purchase can also improve your retention rate. If you do opt for this type of offer, make sure it provides more value than any publicly available discounts so it makes customers feel sufficiently appreciated. For example, you might offer a larger discount than usual or send an offer right when the customer is due for renewal.

Position your business as a trusted advisor: To retain more clients, your business has to demonstrate credibility. You can build authority and show trustworthiness in many ways, including writing high-value posts for your company blog or hosting informative webinars that help existing customers get more out of their purchases.



Cultivate brand ambassadors: One of the most effective ways to cultivate loyalty is to create a brand ambassador program. Because the members are loyal customers, they tend to make repeated purchases. Since they also promote your business to their acquaintances, they can also assist with customer acquisition. To create a brand ambassador program, consider offering incentives to engaged customers, such as special discounts, free samples, or early versions of new products. You can also include ambassadors in your research initiatives, so you can get their input on your products, services, and programs.

Send a special newsletter: Sending weekly or monthly newsletters can help you connect with customers on a regular basis, and you can make your subscribers feel like they matter by adding personal touches. Have your marketing team write it from your point of view or include a short letter from the company's founder to give subscribers a behind-the-scenes look at your business.

Accommodate education or training needs: If your products or services are complex enough to require a series of tutorials, pay close attention to customer questions and complaints. Once you learn that customers regularly need help with a service, think of creative ways to accommodate their needs. Consider writing a series of how-to emails for customers who purchased a high-level product or hosting a live webinar that lets customers ask questions.

Connect with customers via social media: When you want to stay top-of-mind with customers and remain easy to reach, social media can be a smart investment. Commit to creating a full calendar of helpful, engaging social media content, and use the platform's analytics to track what works best. You can even integrate your social channels with your customer relationship management (CRM) tool so you can more easily track interactions with customers on social media.

Personalize your communications: Whether you send emails, invest in social media marketing, or use other digital channels, always make sure your efforts are as personal as possible. Naturally, you'll have an easier time building credibility when you send relevant communications. Segment your email subscribers so you send highly targeted emails, and create saved social media replies that automatically insert the customer's name. Integrate your marketing and support apps so each member of your team can access and understand every customer's history with your company.



Surprise your customers: Whether they're new or repeat customers, most people have assumptions when they purchase something from your company. But why meet expectations when you can exceed them instead? Think about ways you can delight or surprise customers and give them an even more positive impression of your business. For example, you can add a handwritten note to customer orders or include a gift that has value for your clients but that doesn't affect your bottom line.

Take customers' advice and give them credit: Existing customers can be excellent sources of data, especially when it comes to research and development. Don't just survey them for fun. Take their suggestions seriously, and implement the ones that make sense for your business. Always give customers credit for great ideas, such as mentioning them on social media or sending them a coupon or gift for their loyalty.

Make your brand the most convenient option: No matter how friendly and trustworthy your company appears, you may struggle with retention if you make it difficult to do business with you. To increase repeat purchases, reduce any friction in your sales process, and aim to be the most convenient option in your category. You can offer a subscription so customers can renew easily or include related product links in your online store to automate the cross-selling process.

Conclusion

Whether you want to increase purchase frequency and average order value or you want to lower the churn rate and improve CLTV, a strong customer retention strategy can help. As you optimize your strategy, you can look forward to additional benefits like improved ROI, increased revenue, and business growth opportunities.

If designing a customer retention strategy seems too complicated or time-consuming, an experienced CSM can work with your business to find an effective approach. With a qualified contractor on your team, you can set more ambitious goals and grow your business without overwhelming your busy team.

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