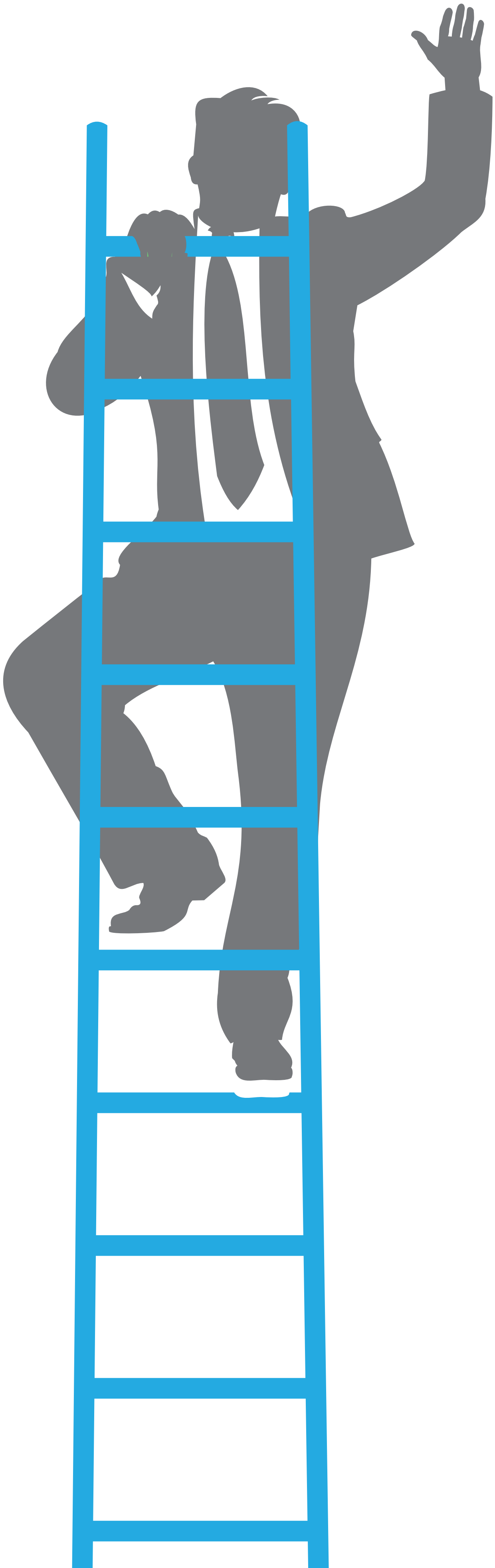
How to increase client retention

Build the value of your brand by listening to your clients



TRANS CAPITAL

Introduction.

It is often said that cash is the lifeblood of business. If this is the case then clients are the major arteries that this blood flows through.

No clients, no cash flow!

It's a given, therefore, that in today's world of super quick communication and ever-changing business needs, it is more important than ever to effectively manage your customer base, to ensure you are listening (in detail) to what they say, and reacting accordingly.

Businesses talk a great deal about customer care, about how much customers are valued and how looking after them is their "number one priority". Even with these worthy claims at the forefront of many Mission Statements, there are still a large number of industries and sectors that experience a high level of "churn", of clients jumping from one competitor to another, each selling similar products or services.

Wouldn't it be great to be in a position where your main business focus was to attract profitable customers who you knew were going to stay with you for some time, rather than constantly having to worry about attracting high levels of new business to replace those that have moved on?

This eBook will help you keep and delight your customers by offering practical guidance on:

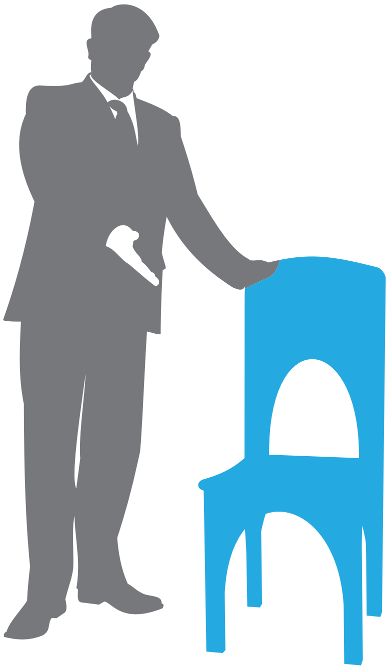
- Client retention strategies
- How to measure the lifetime value of a client
- The hidden value in retaining a client
- Value added strategies to improve client retention
- How to maximise goodwill and improve retention when facing losing a client
- How these strategies actually improve risk management

Chapter one: Client retention – how can we be better at it?

Client retention versus client acquisition

As you will be well aware, it is commonly held that it costs on average 8 times more to acquire a new client than it does to retain an existing one. Indeed, a recent article by The Chartered Institute of Marketing estimated that the figure can be far higher, even up to 30 times more!

As mentioned in our introduction, customer care is a key priority for many organisations and is - of course - a very worthy aim. However, if this really is the case, why are so many of us – as consumers – constantly shopping around for other suppliers of our products or services, seeking better service or customer experience elsewhere?



Of course, there are potential cost implications related to actual 'customer care' itself, and indeed a measure of lost profit, if the care equates to some form of additional service, or even a price reduction. However, in light of the above ratios, looking after your customers simply has to be worthy of consideration.

A drive for new business

Many businesses measure their success by the number of new sales they make. This is not unreasonable as most businesses start with no customers and place a significant emphasis on the Sales function in an effort to arrive at a break-even position as soon as possible.

There is a big "feel good" factor that permeates through the organisation when a nice new client comes on board.

However, as businesses get through this barrier and the demands on their management time increases, customer care is very often one of the areas that start to receive a little less attention; the result arguably being an end of the business-client "honeymoon period".

Chapter one. Continued

Cost of acquisition and the cost of client loss

You will often have heard the term 'Cost of Acquisition' – how much it actually costs to get a new client on board. This figure is calculated in a number of different ways, but is generally a mix of "the sales and marketing spend (not forgetting administration costs) in the previous period" divided by "the number of new clients taken on in the same period".

What you don't hear so much about is the cost of client loss. There are a number of areas to consider here:

- Loss of ongoing profits from existing products/services– albeit at potentially reduced margins
- Loss of ongoing profits from new products/services that could be sold to this client
- Building a reputation (internally and externally) for addressing client issues
- Higher levels of client satisfaction = enhanced brand value = more new clients
- Introductions from satisfied clients to new clients
- Economies of service – once an issue has been dealt with, the cost of ongoing support of an existing client who knows and trusts you is less than that associated with a new client

Whilst we don't advocate a client retention policy 'at all costs', given the above there is a very strong argument that it is in all businesses interests to do more to keep clients for longer.

Listening to signals and reading clues to client issues

Whether or not you have client management routines in place and/or a sophisticated CRM system, it is often the case that customers divulge clues as to what would make them more satisfied, or even really happy.

They will let slip in conversations that the service they received last week wasn't very good, that they have been approached by a competitor offering a lower price, that they have just suffered a large bad debt that is threatening the business, or even that they would like to acquire a competitor.

We often carry out customer satisfaction surveys, but do we truly listen to what we are being told? The next time your client expresses concerns or let's slip they have a particular need or business issue; we would strongly urge you to listen carefully and then seek to work with them to assist in whatever way you can. If it's an issue outside your area of expertise, use your own network of contacts and introduce them, where appropriate. Your client will appreciate it, and it will build a stronger relationship that will pay dividends in the longer term.

Chapter two: How to maximise the "lifetime value" of a client.

The Lifetime Value of a Client

1. How to work it out?
The traditional method of working out the lifetime value of a client/customer, as defined in Wikipedia, is as follows:

Customer lifetime value (CLV) = the present value of the future cash flows attributed to the customer during his/her entire relationship with the company

In other words, how much you can sell to a customer in the time that they remain on the books.

2. This value as a number
We can all understand this methodology and how it neatly provides us with an amount of money that we then allocate to a client as their worth to us as a business.

3. Why is it important to understand this?
The understanding of the numeric lifetime value of a client is a key component in developing real competitive advantage when negotiating with new clients. In situations where you are in competition with other suppliers, and price becomes an issue, this knowledge will safeguard you against under-quoting, avoiding the risk of any new business becoming a loss maker.

4. Hidden value of client relationships
The traditional methodology (as described above) seems to miss a point here as to how well-managed supplier/customer relationships can provide additional value for extended periods.

In an open and mature trading relationship it's appropriate that the lifetime value of a client is so much more than simply how much we can sell to them! Here we explore some of the other benefits that successful relationships can give rise to:

4.1 Referrals
We all seek affirmation of our choices when buying new products or services. Who better to do this than someone who is already using the provider?

4.2 Brand enhancement
If you are providing your clients with a real value-added service, the value of your brand will continue to grow as you develop a reputation as a business that really cares about its customers and relationships. This enhanced perception of the brand works not only externally with your clients and other stakeholders, but also internally with your staff, communicating a set of values that say you really care about your customers.

Chapter two. Continued

4.3 People development
Your people can benefit from great intrinsic motivation if you have a policy of listening to customer issues and providing support in whatever way possible. On the other hand, the reverse is also true, so that constantly ignoring customer complaints, and losing business as a result, significantly demotivates.

4.4 Culture development
Businesses that really start acknowledging and developing these 'hidden values', see the culture of the organisation develop in a meaningful way, and consequently, the business model becomes ever more sustainable.

4.5 Existing customers are the easiest people to sell to?
With existing customers you will already have broken down the trust barrier, and there will be points of contact between the respective organisations, most importantly at the buyer/salesperson level. When you have developed a new product or service that may be valuable to an existing customer it is much easier for the said salesperson to call on this relationship than to start with a cold call into a new lead, even if this has been developed by the marketing function.

4.6 Self-fulfilling prophecy
It goes without saying that if your organisation cares about the Lifetime Value of clients, this value will increase and the business will become more successful on all levels.

5. Why is it SO important to understand this?
It is imperative that this hidden value is understood by everyone in the business, not just the Sales and Marketing teams, for truly effective client retention strategies. None of us like being 'just a number' either as an employee or as a customer, and that is what we are in danger of doing if we simply apply the numeric Lifetime Value of a customer, without a strong understanding of all the other associated gains.

If we can truly work with our clients to make sure that we are listening and responding to their needs and concerns, over and above the traditional 'arm's length' supplier relationship (where the job is done once the goods or services have been provided), it is a recipe for a long and mutually rewarding relationship that works for everybody.

Chapter three: How to improve client retention with value added services.

Thus far, in this eBook, we have explored how to best engage and respond to the needs of your customers and also considered the true value in so doing - in terms of 'hard' commercial gains and also, of 'softer' organisational, cultural, and reputational gains.

Let us examine now the approaches that your organisation might wish to take in terms of value-added services, as a means of further improving your rates of client retention.

Two Added-Value methodologies

There are essentially two ways you can add value and improve your client retention: the direct and the indirect methods.

1. Direct Value Add

Arguably, embodying a more traditional approach to adding value, there are a whole range of areas where a supplier of products or services can create additional value in client relationships. There is, of course, the issue of striking the right balance between keeping a happy client and keeping a profitable client. The old adage of when something seems too good to be true (for instance, making super profits from a client outside of industry norms), in the vast majority of cases it is too good to be true, and is unlikely to last. Sooner or later the client will find out that you have been exploiting them and the relationship will end on a sour note. Not only will you have lost this client, but also the benefit of any introductions that may have been forthcoming.

With the above caveat noted, there are a good number of constructive ways to add value directly to the client relationship. Below is a list of 'direct' value adds that can either be given to a client with a view to developing your client retention strategy, or else, form part of a discussion when you are negotiating the terms of an agreement with them:

- Price reductions for increased turnover
- Enhanced service
- Direct point of contact
- Service level agreement
- Service hotline
- Transparency – open-book pricing
- Price setting for defined period
- Bespoke service – let the customer design their own service or product
- We visit you for meetings
- Offering on-site facilities, e.g. access to phone, copier, desk space, use of dining room, parking
- Use of your specialist equipment occasionally, for free or at a reduced rate
- Access to your knowledge, experts or research/ reports you own
- Add-ons, upgrades, support contracts
- Free or reduced cost for training

And the list goes on...

Chapter three. Continued

This is not, of course, an exhaustive list, there are no doubt other direct value adds that you use when negotiating with your clients; but the focus here is clear, in that in each case, there is a clear and obvious commercial value to the client.

2. Indirect Value Add
A more subtle, but potentially more valuable, area of added value is the 'indirect' one, whereby you adopt a policy of really listening to your customers, picking up on their needs and concerns when you are in any form of interaction with them. Their issues can be wide-ranging, covering areas such as:

- A need for additional business management resource - this could be anything from assistance with business strategy, a new project, an existing project that has gone wrong, a potential acquisition, or assistance with some people issues.
- Additional or replacement finance - this could be additional finance needed to fund growth, working capital finance, or the securing of replacement facilities when the current funding agreement is coming to an end.
- Cash flow pressures - it may be that the customer is experiencing cash flow pressures due to late payment, a bad debt(s), or else, a decline in margins or turnover. This will result in additional pressure from creditors, often HMRC or major suppliers, which could result in the failure of the business and the loss of your valued customer.

How you can help and add value

We all like to be put in contact with someone who can help with particular issues or problems we're experiencing. This is particularly the case when the introduction is to a trusted resource or expert who will be able to help solve any problems or relieve any pain we are experiencing, and work with us to restore or improve our previous situation. Such an introduction is even more valuable when we are able to talk directly with the potential resource, at no cost, to find out how they might be able to help.

Whether you choose to embrace the direct or indirect methods of adding value, or perhaps a mixture of the two approaches, it is clear that there is a great deal to be gained in investing time and effort in enhancements/activities that best enrich your customers' experience with your business, and in turn, your ability to retain them.

Chapter four: How to maximise goodwill when losing a client.

In earlier chapters, we've highlighted the importance to your business of paying particular attention to the experience of your customers, where your efforts should be directed in this regard, and the gains to be enjoyed as a result. But how do you manage the sensitive situation of losing a customer, whilst still maintaining good terms amongst the parties involved?

The end of the road

There are some business relationships that start with an impressive bang, but go on to end with a whimper, and can prove on occasion to be both harmful and expensive. However, a business that is well-prepared can avoid such eventualities, by adopting risk management strategies which seek to preserve goodwill when the relationship is coming to an end.

Why is the relationship ending?

Of course, the reasons for customer/supplier relationships coming to an end can be many and varied, including:

- The client has found an alternative supplier
- The client wants a service or product that you can't provide
- The client is unhappy with the service and/or product they have received
- The client is in financial difficulty
- The client is no longer financially viable
- The client is too demanding
- You are unhappy about the risk of continuing to service this client

Managing the end

Whatever the reason for the "break up", your risk management strategies should seek to manage and safeguard against two major areas to ensure that you receive maximum benefit from the relationship even though it is coming to an end:

1. Financial Recovery
Ensuring that you as a supplier get paid is obviously paramount in the shorter term. Managing the ending of the relationship is of vital importance in making sure that the terms and conditions of the supplier agreement are complied with, including receiving all monies due; and this leads on to the second area: goodwill.

2. Preservation of Goodwill
When you first started supplying the client there will have been a great deal of mutual goodwill and support between the parties. This would have been invaluable at the time as it had the potential to create other opportunities for you as a supplier when introduced by your satisfied customer.

Following a breakdown in the relationship, or when the relationship is coming to an end – by adopting the following routines – a great deal can be done to protect this goodwill, not only for you as the supplier, but also for your client. Here is a suggested course of action:

Chapter four. Continued

a) Meet with the client to determine their desired outcome
This is often best done with a third party who has not been involved in the trading relationship and is able to empathise with and be supportive of both sides. From Trans Capital Associates' experience of these situations, if the meeting is between just the two parties - previously working together, but now parting/fallen out – this can deteriorate into a heated exchange that actually makes the situation worse.

b) Agree a way forward or structured parting that works for both parties
At the suggested "arbitrated" meeting, the issues relating to the disagreement or desire to part should be openly and sensitively discussed. This has the potential to resolve the situation, and would obviously be a very good outcome, if that is what you as the supplier wish. If, however, it is confirmed that the relationship is at an end, then you have the opportunity to confirm the particular issues that have led to this situation and to agree a suitable parting of the ways, on the best terms possible.

c) Continue to be supportive
Once the issues have been defined, and if you have agreed that the relationship is coming to an end, it is possible to agree a route forward that is mutually supportive and beneficial.

This can be incredibly valuable.

It may be that this takes the form of continued service support for a period of time, of you being a continued referral source to your former client for other suppliers, or even assistance in the evaluation of other suppliers. It could also be in the form of an agreement by the customer to settle the outstanding balance within an agreed time or even some form of settlement discount to preserve the goodwill.

If appropriate you could draft a press release confirming the parting of the ways (possibly giving the reasons) and wishing each other well in the future.

Remember there is very often truth in the adage "the grass is often greener on the other side"; if you part on good terms with your former client, you do potentially leave the door open for them to come back at some stage in the future.

d) Stay in contact
If you can get to this stage and agree the parting in a constructive way, preserving as much goodwill as possible, it is vital that you keep in contact. This can be anything from a personal email every six months, to a phone call once a quarter or simply by continuing to send relevant industry data and information.

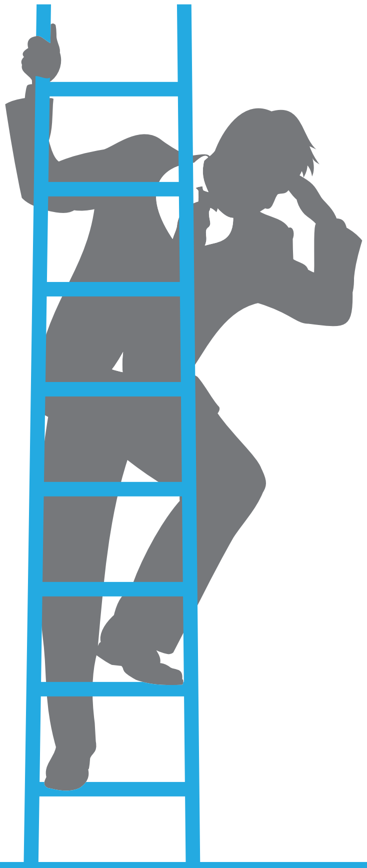
e) The preservation of goodwill works both ways
In today's world of Social Media we are all very well aware of the upsides of getting this right, but probably more importantly, the potential for high damage when you, maybe unwittingly, fall foul of another party. We should be desperate to preserve goodwill in all relationships at every turn. This preservation of goodwill, of course, works for customers as well as suppliers!

Conclusion

When you get to a position that clients leaving are speaking positively about their experiences of working with you, this will have a very positive effect on your brand value. This will then, in turn, both improve client retention and make it easier to acquire new clients.

Chapter five: Risk management and client retention (post financial crisis).

We touched on risk management strategies in the last chapter, underlining how helpful such approaches might be in successfully managing the end of client relationships. In fact, risk management has evolved substantially over the past few years thanks to the fall-out of the global financial crisis, in this chapter we concentrate specifically on this evolution, its impact on the business-client relationship, and how companies might best respond.



What has changed?

For many businesses and the providers of finance, for most of the period since, it has been a case of keeping their heads down and carefully managing resources in what has been, in most cases, a smaller market. The following trends exemplify this period:

- Most financial institutions have reduced their appetite for risk in advancing business finance
- Suppliers have been much more cautious in advancing business credit
- There has been tighter banking regulation
- An ever-higher dependence on the use of IT
- Increasing use of the 'Cloud' to store data
- Dealing with the ever-increasing power of the minority, via social media
- Revolution in the way we communicate – pre-eminence of Twitter, Facebook, Linkedin, etc.
- Evolution in the way we pay for things – mobile banking is now the norm

Chapter five. Continued

What have we done to reduce risk?

Businesses have shored up existing systems to manage risk and put in more safeguards where possible. This has, in many cases, (maybe subconsciously) created a workplace environment of ultra-caution and indeed, in some cases, fear where our people are concerned about making any decision, let alone the wrong one.

In many situations this has led to poor customer service from battle-weary personnel, and led to previously committed customers choosing to vote with their feet by moving to another supplier.

How can you combine better risk management with Client Retention Strategies?

It is our belief at Trans Capital that the major factor in managing risk is how you manage people, both internally (the workforce) and externally (suppliers, customers and other stakeholders). You can put in place as many procedures and safeguards as you like, but ultimately it comes down to relationships and the trust that is developed between you and your employee or client.

As leaders of our teams we should be at the forefront of engendering behaviours of mutual respect and trust with our people, and working on the basis of treating others as we would like to be treated ourselves. This is most easily achieved by setting an example and leading from the front. Time and again people copy the actions of the leader.

If your boss thinks it's acceptable to be late or to overcharge a customer, then it must be OK for me to do the same, mustn't it?

If we look after our clients and our workforces then they will look after us...

Chapter six: Organisational cultures and client retention.

So having touched on it in the previous chapter, let's look further at the people dimension of client relationships and retention strategies. And, more meaningfully, we consider how important organisational culture is in engendering the right atmosphere for positive and worthwhile customer relationships.

The Organisation

The management and successful implementation of client retention strategies is as much about the people doing the managing, as it is about any of the systems and controls that are put in place.

All organisations have their own identities and cultures producing ingrained methodologies of 'the way things are done around here'. Of course, these cultures have developed over a period of time, kicking off with the values and beliefs of the founders and then moving along a path driven both by the sector within which they operate and the external environment. This development is highly path dependent, with political, social and environmental issues thrown in along the way.

An integral part of this culture will be the way that customers, and indeed fellow employees, are treated. If this 'way of working' is stuck in the 1980s – when customers were sometimes regarded as an irritant that stopped people getting on with the day job – you will appreciate that this is not at all compatible with the power of the customer in the current business environment!

The Individual

Weaved into this morass of cultures and organisational values are the individual employees own range of values, which invariably have a tendency to fluctuate with their own personal circumstances, as they evolve. Every individual's personal circumstances outside of the work environment will be different and be subject to fluctuations. Some will experience unfortunate situations that may sometimes be very difficult to deal with. During these difficult times it is very easy to lash out, blame others, and act irrationally.

If we then layer onto this, the fact that often difficult times have implications that start to adversely affect one's personal relationships and security, it is a little easier to see how someone might start to see dealing with customers in a respectful and caring way not at the top of their list of priorities.

Management Behaving Badly

The latter circumstance may well prevail particularly when these people see their superiors behaving in an unethical way themselves - operating in a cavalier fashion with low levels of trust and respect, and speaking to employees and customers in an overbearing or aggressive manner.

Ultimately, it is impossible to monitor every customer conversation and email, and to intervene in a potentially damaging piece of customer care. However, in organisations with highly developed cultures, working with high levels of trust and respect and offering support mechanisms for all their people, at whatever level they may be, the likelihood of these occurrences will be very much reduced.

Conclusion.

This eBook has sought to examine client relationships and the strategies required by modern business for maintaining and enriching those relationships. We have looked at approaches for better client retention, how to evaluate the lifetime value of those clients, and also at what the hidden value of those relationships are.

There has been an exploration of how best to manage the end of a relationship when "break up" with that client is inevitable, and of the safeguards that are necessary for businesses to adopt given the new risk-averse, digital and "social" world we work in, post financial crisis. And, finally we offered some perspectives on the importance of your people – as the embodiment of your organisation - in all client retention activity.

The best client management of all is the type that never lets a customer issue get to a situation that needs some form of conflict resolution. This is best achieved by engendering a working environment that puts trust and mutual respect for both customers and employees at the very forefront of its strategy.

If we acknowledge that in the real world, however good we are at adopting these policies, we will still from time to time have customer issues, this eBook – we hope – has offered you real insight into how these situations can be effectively managed, and lead to improved client retention with all its inherent business benefits.

About Us.

John Thompson, author of this eGuide, has been in business for over 30 years, involved in SME business as owner, business developer, advisor and consultant, during a period that includes three major economic downturns and recoveries. His experience has given him deep knowledge of managing businesses through difficult trading periods and finding creative solutions to the challenges faced.

John is the founder and Managing Director of Trans Capital Associates, a financial and strategic consultancy aimed at providing solutions for SME owner/managers in growth potential, underperforming or stressed businesses. Trans Capital prides itself on being an independent and impartial advisor for business owners who need assistance in identifying the best ways to preserve and create value, while staying in control of their business.

How Trans Capital can help

We have been helping funders recover and retain value in client relations for many years. Arrange a call or meeting and let's talk about how we can help you:

- Extended life of client
- Develop stronger, growing clients
- Achieve more robust security
- Develop stronger client relationships
- Help source equity or other funding solutions that don't affect your position
- Provide softer, arms-length management of difficult clients
- Manage effective recoveries

Call us on 0845 689 8750, email us at info@transcapital.co.uk, or arrange a meeting to discuss your options.

SHARE THIS DOCUMENT