

Customer Service: Creating Customer Loyalty

Many people don't realize it, but nearly 65% of a company's sales are generated by repeat customers¹. Without those returning buyers, most companies struggle to ever become profitable and the majority eventually collapse. In this lesson then, we're going to talk specifically about what makes a loyal customer, why they are so important, and what businesses can do to ensure they don't get away.

The Loyal Customer Defined

Chances are you are a loyal customer to several businesses in your area. They might be supermarkets, gas stations, or restaurants, but almost all of us are loyal to at least one organization. How can we, and that company, tell who is a loyal customer? It's easy, because loyal customers typically meet several qualifications:

- Purchase goods or services from the same company repeatedly
- Buy different types of goods and services from the same company
- Tell others to shop at that company
- Are willing to pay more and are not easily lured away by cost-cutting competitors
- Know the policies of that company and know what to expect if they encounter a problem with a purchase

Because of these five traits, loyal customers are a valuable asset to most companies.

The Importance of the Loyal Customer Simply thinking about what you already know about loyal customers should have convinced you that loyal customers are important to a business's success. However, if you need more evidence, that's not difficult to supply.

According to *Customer Service* by Beverly Rokes, there are a number of financial facts that would further support the importance of the loyal customer. These facts include the following²:

- Acquiring a new customer costs a company as much as 10% more than it does to keep a current customer happy.
- Preventing lost customers can dramatically improve a business's profit and growth. For example, simply by losing 50% less customers than usual your business would be able to double its growth. Even reducing customer loss by as little as 5% can increase a business's profits by up to 85%.

In addition to these two facts, there is another business rule of thumb that applies here: 1/5 of a company's customers account for 4/5 of that company's profits. Since that's the case, successful companies have had to learn what will keep those customers coming back over and over again.

How to Keep a Loyal Customer

Now that you know loyal customers are important, we can talk about how to keep them in the first place. The key is good customer service.

When surveyed, 75% of consumers stated that a bad customer service experience would impact their decision to do business with that company again. In most cases, that decision would be to go somewhere else and to become their loyal customer instead.

¹ Rokes, Beverly. *Customer Service*. Cincinnati, OH: SouthWestern Educational Publishing, 2002

² Rokes, Beverly. *Customer Service*. Cincinnati, OH: SouthWestern Educational Publishing, 2002.

Businesses can prevent this from happening by doing three simple things:

1. Giving the customers more than what they expect
2. Giving the customers the best possible service
3. Giving the customers what they want and what they need

Those three steps may seem like a tall order, but they are worth it for businesses. Let me give you an example that will explain why.

Let's say you go to the same supermarket every week. During each visit, you spend \$100. You've been going to that supermarket every week for the last five years. Do you realize that you've brought in \$26,000 of revenue to that supermarket already? ($\$100 \text{ per week} \times 52 \text{ weeks in a year} \times 5 \text{ years} = \$26,000$).

But that's just part of what you've done for that supermarket. You've also told two friends about the supermarket during the last five years. Each of those friends have been visiting the store every week and spending an average of \$50 per week for the last three years. That means you've also brought that store \$15,600 ($\$50 \text{ per week} \times 52 \text{ weeks} \times 3 \text{ years} \times 2 \text{ friends} = \$15,600$) in revenue in addition to your \$26,000!

As a loyal customer, you've brought that supermarket at least \$41,600 over the last five years. That's why supermarkets and every other business needs to focus on developing a loyal customer base by providing exceptional customer service.

Creating Customer Loyalty Worksheet

Directions: Below are some questions related to what you just read. The group that is assigned this topic should complete the answers and be prepared to present them to the class. Relate your answers back to the article whenever possible to make this a lesson. ☺

1. We've talked about the elements that make some a loyal customer. Think about your shopping habits. Make a list of all the businesses to which you are a loyal customer. Now jot down some reasons that you remain loyal to that business.
2. We talked about the three things that businesses could do to keep loyal customers. One of the three was that they could give customers what they want and what they need. Why is this important? What are some of the wants and needs your favorite businesses fulfill for you?
3. The survey that found 75% of consumers would consider going to another company after a bad customer service experience surprises some people because it seems almost too low. Why might that other 25% of consumers not be bothered by a bad customer service experience?
4. Using the information in the following scenario determine how much revenue Loyal Customer A is responsible for bringing in to your business. Scenario: Loyal Customer A comes to your video rental shop every weekend and spends an average of \$35 on movie rentals and purchases. Loyal Customer A has been coming in weekly for the last two years and has even referred a new customer to you. The new customer moved in to her apartment complex six months ago and has been spending \$15 on movie rentals every two weeks since then. How much revenue is Loyal Customer A responsible for?
5. One of the facts about loyal customers is that it costs less to keep them happy than it does to bring in new customers. Brainstorm some ideas about what specifically can be done to keep new customers happy. Which ideas do you think would have the most impact? Why?