# The Hidden Benefits of Repeat Business

## 15 ways loyal, repeat customers build your bottom line

One of the most valuable assets your company can have is a core of solid customers who buy from you over and over. The benefits you receive from building and maintaining long-term relationships with them will amaze you.

Most companies spend huge sums of money trying to attract new customers while ignoring their existing ones. They don't seem to realize that their existing customers are one of the best sources of full-profit, additional sales.

**Companies that implement customer retention programs often experience net income increases of 50% or more.**

Serving repeat customers lets you develop a much greater understanding of what they want and don't want, making your marketing, sales, and customer service efforts more targeted and effective. Your customers end-up measurably more satisfied and loyal. You benefit from a ripple effect of positives that spread throughout your entire company.

<u>Repeat customers buy more.</u>
As customers gain confidence and feel more comfortable dealing with you, they become ever more loyal. The longer they stay, the greater their lifetime value. Carl Seward, owner of Seward Cadillac (and now Seward Lexus) in Dallas, Texas discovered that by building long-term relationships with his customers, their lifetime value grew to be worth an average of $332,000 each, a 500 percent greater value that the customers of most car dealers.

**Studies prove that reducing customer turnover by 5% increases a company's net income up to 25%.**

<u>Repeat customers pay higher prices.</u>
As customers' relationships with you stay positive and build over time, price becomes much less a concern. Your customers develop trust and rely on you more and more, reducing the pressure on you to discount.

**Loyal, repeat customers generally pay 3% - 5% higher prices.**

<u>Repeat customers return less.</u>
The longer customer relationships last, the better you're able to understand their wants and satisfy them more accurately. They return less because their initial purchases are more often right on target.

Returned sales are very expensive for several reasons. Handling costs are doubled because you incur the costs of processing both the sale and the return transactions, while refunding the margin earned on the initial sale. Reducing returns saves other significant costs such as throwing away or repackaging damaged goods and having to file and process return requests with your suppliers. Most importantly, customer inconvenience and dissatisfaction are minimized.

**Sales returns are often cut in half.**

<u>Bad debts go way down.</u>
Focusing on repeat customers allows you to reduce the amount of business done with unknown and potentially marginal customers. Bad debts and bounced checks are nearly eliminated.

**Bad debt expense is typically reduced by two-thirds or more.**

<u>Advertising expenditures can be reduced.</u>
Research shows that most businesses lose as many customers as they gain each year. The net result of all their marketing and advertising efforts is to end-up with the same number of customers they started with. They experience little or no growth.

Other studies prove that it costs five to six times more to get a new customer than it does to get the same amount of business from an existing one. One recent study determined that the cost of getting a new customer is ten times more expensive. When customers stay with you longer, the need to aggressively find new customers to replace those that are lost is greatly reduced. Spending large sums of money on marketing and advertising to find replacement customers is an expensive way to just stay even!

**Advertising expenditures can often be reduced by 35% - 50%, depending upon growth objectives.**

<u>Repeat customers refer others.</u>
Truly satisfied customers tend to refer new customers to you, a trait that's very valuable. Most referrals become profitable customers because they came to you with trust. They're not price buyers out shopping to find the cheapest possible source.

Referrals are the least expensive way to get new business. Your only cost to acquire them is treating your current customers well.

**A referred prospect is fifty times more likely to become a customer than other prospects and the icing on the cake is that it only takes half the time to close the sale.**

<u>Repeat customers are more loyal.</u>
The more customers buy from you the more loyal they become. They'll often postpone purchases until they can buy from you. Banks have known this for years and work very hard to expand relationships.

| If a bank customer has: | The odds of keeping the customer are: |
|---|---|
| A checking account | 1 to 1 |
| A savings account | 2 to 1 |
| Both a checking and savings account | 10 to 1 |
| Checking and savings accounts and a loan | 20 to 1 |
| Checking and savings accounts, a loan, and a safe-deposit box | 100 to 1 |

Repeat customers buy more each time they shop.
As you develop long-term relationships with your customers, their trust builds and they become more confident, leading to increased impulse buying and openness to buying suggested add-on items.

**Average per transaction totals often goes up 5% - 10%.**

Non-turning inventory is reduced.
Having long-term relationships with customers helps you understand their wants better, enabling you buy smarter because much of the guesswork has been removed. Fewer dollars are tied-up in unwanted goods and duplicate items caused by customer returns.

Transaction costs are lowered.
Because repeat customers typically buy more each time they shop, transaction costs go down. It costs very little, if any, more to process a sales invoice for $50 than it does to process one for $25.  Employee time, paperwork, packaging and processing costs are all reduced.

Customer administration costs go down.
Each time you add a new customer you incur significant costs. Adding them to your data base, credit checking, making-up files, and other set-up costs take time and effort that must be paid for. Cleaning up the clutter of lost customers' records is also expensive and time consuming. Keeping customers longer reduces these costs because they are amortized over a longer period of time.

Repeat customers ignore competitors' marketing messages.
Long-term customers trust you and don't want to risk the uncertainty of change. They come to depend on you as a trusted partner and tend to tune out your competitors' messages.

The reason your loyal customers tune-out competitors' messages is based upon human physiology, not conscious choice. As humans, our brains constantly filter the information our senses are exposed to and only let in what our sub-conscious minds determine to be relevant. This all happens within the cortex of our brains, in an area known as the Reticular Activating Device or RAD. It's the RAD that causes mothers to be able to sleep through the noises of trains, planes, and trucks going by and yet awaken as soon as her baby starts to cry. The same thing happens in your customers' minds when they're pleased with your company. Your competitors' advertising is filtered out by their RADs.

The market value of your business increases.
The value of your business is dependent on the profit it earns. Programs to increase repeat business increase your company's net income by at least 25%, resulting in a higher market value.

**The market value of your business increases $3 to $4 for every $1 increase in profit.**

Cash flow is improved.
Repeat customers pay their bills on time, speeding cash flow. Customers with whom you have an excellent relationship give you high priority and tend to pay you first. You are seen as a necessity they can't afford to lose. Repeat customers pay higher prices and return less which also increases cash flow.

You gain additional time.
The process of developing and improving long-term relationships with your customers tends to weed out those customers that cause trouble and waste large chunks of your time. The extra time you gain can be spent on your best customers or on yourself and your family.

**80% of your profit comes from 20% of your customers.**

If your business is like nearly every other, 80% its sales and 80% of its profits comes from 20% of its customers. What shocks most business owners is that the 20% that supplies the sales is NOT the same 20% that provides the profit. There's usually some correlation, but it's almost certain that some of the highest volume customers a company has provide little or no profit, while some lower volume customers are highly profitable.

Your repeat and referral customers are almost always among your company's most profitable. It only makes sense to implement programs to retain them and to sign-up more just like them. You'll earn far more money and gain a large chunk of valuable time you can spend on things more important to you than catering to unprofitable, problem customers.

Carving out and dedicating a portion of your advertising budget to a formal program for building repeat business will pay big dividends, oftentimes increasing your net income by 50% or more.

For information on how to develop and implement a customer retention program in your business, visit the Fat Margins web site, email us at info@FatMargins.com or call (925) 579-2166.