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How to Retain Your Best Customers

Most CPG marketing budgets allocate spending between three "buckets": Trade Marketing, Advertising (TV and Print), and Consumer Promotion. But Michael Schiff, a loyalty marketing consultant, proposes an alternative viewpoint using just two categories: Acquisition and Retention. Acquisition is spending directly aimed at gaining trial of your brand by consumers who have never tried it before. Retention is spending directly aimed at stemming the inevitable attrition of current buyers.

"The simple act of recasting a budget can be a real eye-opener," said Schiff, managing director of Partners In Loyalty Marketing (www.PartnersILM.com). "For most brands, it shows that upwards of 85% of their marketing spending is focused on Acquisition."

Parsing retention spending into dollars focused against Heavy Buyers vs. Mediums and Lights also reveals valuable lessons. For most brands, Heavies (that is, the top 25% of buyers) control 60-75% of sales. In fact, the top 5% or the SuperHeavies can control 20-30% of dollars. In contrast, the bottom 50% of buyers typically account for 6-12% of sales. Many of these Lights are one-time buyers. Most brands spend just a tiny fraction, if at all, of their total budget on Heavy Buyer retention; the vast majority of retention spending is aimed at trying to "up-sell" Mediums and Lights, typically a very inefficient use of limited marketing dollars.

"For most brands, fully half of the franchise (that is, Lights) is MIA for most of the year," says Schiff. "It makes us feel good to count them in the franchise, but the reality is they're a distraction from the business of meeting the needs of consumers that count. Spending against retaining or up-selling Lights (and even Mediums) is generally very ineffective. When it does work, you've essentially 'rented a share point' and in many cases eroded brand equity by excessive dealing. Yet, almost every brand we've looked at is chasing new buyers and giving short-shrift to the Heavies that truly are the core of its business."

While Schiff believes the balance between Retention and Acquisition spending can be narrowed, he doesn't believe it should ever be 50/50. "Acquisition is an investment spend. It will always cost more to capture a new buyer than retain an existing one. Ignoring one comes at the expense of the other."

According to Schiff, 10-20% of Heavy buyers of a brand on a year-over-year basis leave the franchise altogether. Another 15-30% "downsize" their buy-rate. Hence, rather than having a "lock" on its Heavy Buyers, most brands have a major retention issue.

"The reason brands give short-shrift to spending against Heavy buyer retention," he explains, "is because they mistakenly believe their buyers – especially Heavies – are way more loyal than they really are. The truth is you're in a daily hand-to-hand battle to hold on to the 25% of buyers that drive your business. Except in a few categories, even the SuperHeavies do not translate into SuperLoyals."

Retention marketing is not easy. The skew of most budgets toward acquisition spending means that brand managers are primarily taught acquisition skills. Most “relationship marketing” programs fail because they try to build a closer relationship with the Heavies using the same messaging, offers and creative that the brand uses to acquire totally new consumers.

Schiff recommends employing some simple and effective strategies for building relationships. It’s key to understand that Heavies understand your brand benefits, point of difference and effectiveness. You have equity with them, so speaking to them in “acquisition mode” is both condescending and a waste of time. Instead, effective relationship communication focuses on allowing Heavy buyers to discover information that validates their pre-existing beliefs about the efficacy and good qualities of the brand.

“When you look at brand marketing budgets through the lens of Acquisition and Retention, what you see is that most brand spending is focused on the lowest yielding activities and consumer segments,” he says. “Brands winning in today’s marketplace are increasingly making Heavy Buyer retention an important and consistent part of their marketing mix, and growing their expertise at creating true relationship-building communications.”

This essay was written by Michael Schiff, managing partner of Partners In Loyalty Marketing, a Chicago-based consultancy that specializes in program strategy, optimization, and evaluation for CPG, Rx, and OTC companies. For more information: www.PartnersILM.com.