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SelfInformed

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2019 Scholarship Winners
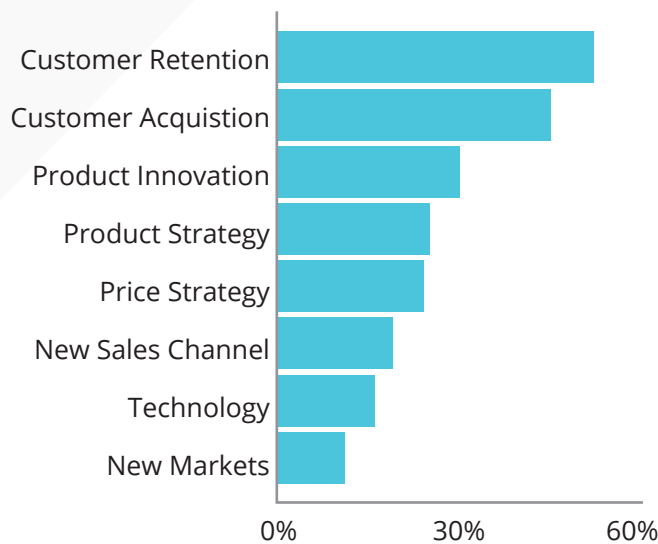
Customer Attrition

VS

Customer Retention

Establishing and growing a loyal base of customers is essential to the success of every small business. Customer attrition and retention metrics can help entrepreneurs identify best business practices that deliver profitable results. Attrition and retention rates combined with data from regular customer feedback is significantly useful when analyzing customer trends, challenges, and motivations that can have a deciding impact on the future of a small business. The following paper covers the definitions of customer attrition and retention, ways to evaluate these figures, and strategies for retaining customers.

Defining Customer Attrition and Retention

The customer attrition rate measures the number of customers lost over a specific period. For example, a company that starts a year with 100 customers and ends the year with 75 customers has an attrition rate of 25%. This number represents the percentage of customers lost within the given time frame.

What Drives Retail Revenue

Customer Retention	
Customer Acquistion	
Product Innovation	
Product Strategy	
Price Strategy	
New Sales Channel	
Technology	
New Markets	

0%   30%   60%

The customer retention rate, on the other hand, measures the number of customers a business has kept within a provided period. For example, a company that starts a year with 100 customers and ends with 75 customers has a retention rate of 75%.

The above chart illustrates the **significance of customer retention in driving a company's revenue growth**. Since customer retention has such a meaningful impact on a company's profitability, it's essential every small business owner calculate their attrition and retention rates.

Calculating Attrition Rates

The following formula reveals a company's customer attrition or churn rate.

$$\text{Customer Attrition} = \left[\frac{\text{Number of lost customers}}{\text{Number of customers at the start of a period}} \right] \times 100$$

For example, a company that started with 200 customers and lost three would have an attrition rate of (3/200) x 100 = 1.5%.
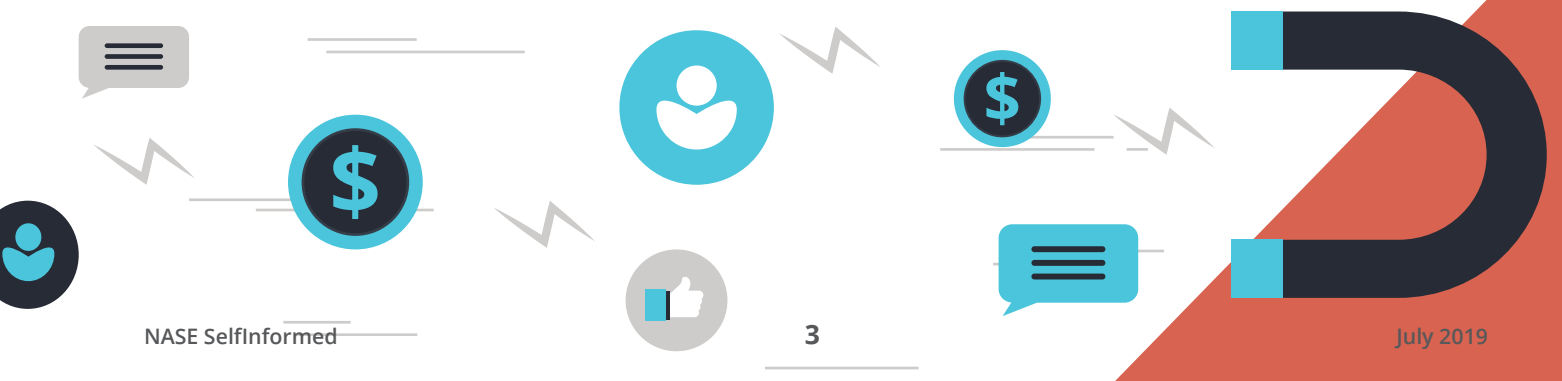
Calculating Retention Rates

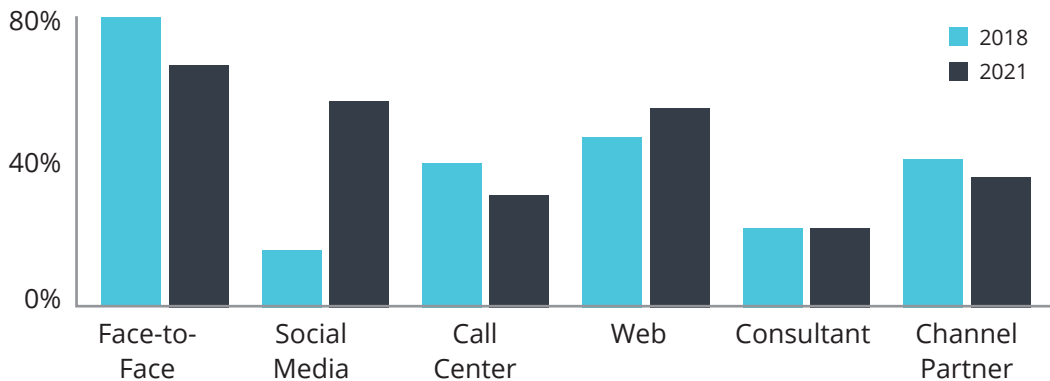Small business owners can **calculate retention rates** with the following formula.

$$\text{Customer Retention} = \left[\frac{\left[\begin{array}{c}\text{Number of customers at the end of a period}\end{array} - \begin{array}{c}\text{Number of new customers acquired during the period}\end{array} \right]}{\text{Number of customers at the start of a period}} \right] \times 100$$

For example, if a business owner has 100 customers at the beginning of the month, gains 20 customers, and loses five customers, the retention rate would be ((95-20)/100)) x 100 = 75%.

Customer retention rates vary by industry. However, most business owners should aim for a rate between 85% and 90%.

Customer Engagement Preferences

Bar chart comparing 2018 and 2021 customer engagement preferences across channels: Face-to-Face, Social Media, Call Center, Web, Consultant, Channel Partner.

Evaluating the Metrics

Customer attrition and retention rates reveal an abundance of information that can help entrepreneurs revise their sales strategies. After calculating the metrics, business owners need to understand why customers are leaving or staying. Soliciting customer feedback is an effective way to determine which areas of the company need improvement. Communicating with customers via phone, email, chat, and social media can help clarify the results. Traditionally, the majority of consumers prefer face-to-face interactions. However, **web and social media channels** are starting to take over.

By continuously soliciting customer feedback, business owners can maintain an up-to-date overview of their product and service performance. It is highly recommended companies offer a wide range of communication options that target their customers' preferred channels.

Small and micro businesses that want to improve customer retention rates need to understand what makes customers leave.
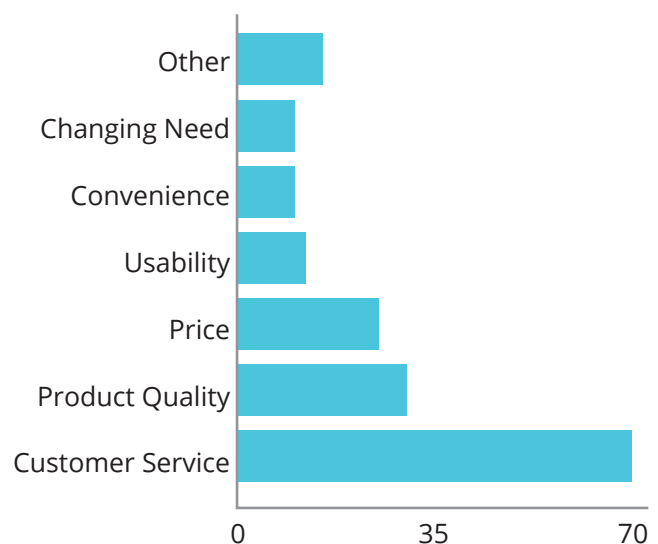
The reason most consumers stop doing business with a brand is that the customer experience fails to meet their expectations. In one **Customer Experience Impact survey**, consumers reveal the six most common mistakes businesses make that impact a company's chance for sustainable growth.

1. **Availability —** 58% of consumers have difficulty contacting a business via phone or email.
2. **Knowledge —** 57% report unknowledgeable staff.
3. **Problem Resolution —** 56% are unsatisfied with a company's ability to resolve issues.
4. **Personalization —** 51% find brands too impersonal.
5. **Customer History —** 34% say companies don't keep track of their transaction history.
6. **Social Presence —** 16% can't find businesses on social media.

Poor customer service experiences don't have to be extreme to deter consumers from revisiting a business. Average experiences that fail to leave a lasting impression can also lead to dissatisfied customers. Unfortunately for small businesses, **customers only tend to voice their complaints 4% of the time**. 96% of unsatisfied customers never express their opinions and 91% never return. As a result, companies that fail to seek customer feedback proactively are likely to have difficulty improving retention rates.

Why Customers Leave

Horizontal bar chart showing reasons customers leave: Other, Changing Need, Convenience, Usability, Price, Product Quality, Customer Service (scale 0 to 70).

Best Practices to Retain Customers

Keeping track of customer attrition and retention metrics is beneficial for small business owners for many reasons. Consider the **statistics behind customer retention**.

- On average, it is seven times cheaper to retain customers than acquire new ones.
- Increasing customer retention by 5% can result in a 25% to 95% increase in profits.
- The chances of converting a new lead into a customer are only 5% to 20%.
- The worth of a loyal customer can be up to ten times the amount of their initial purchase.

For any company that wants to grow, keeping existing customers satisfied is just as important as acquiring new customers, if not more so. From a profitability standpoint, it's **five to 25 times more affordable to retain a customer than acquire a new one**. As a business expands, a proactive customer support plan becomes essential for keeping customers.

Small business owners have several options for improving retention rates. The following is a list of best business practices to retain customers.

Identify target audiences

Business owners need to identify who their customers are, what consumers need, and how their brand can provide long-term value. Breaking consumers up into segments such as ready to buy, about to leave, and most profitable can clarify which courses of action are necessary.

Set up a customer feedback plan

By collecting feedback from surveys and other customer interactions, business owners can pinpoint the flaws that negatively impact sales. Taking immediate action against a customer complaint with an apology or compensation can potentially turn a dissatisfied customer into a loyal one.

Offer value

Investing in high-quality products and services can ensure customers don't leave because of inferior value. Loyal customers are willing to spend more for better quality, and over **55% say they're loyal because they love the product** or service.

Engage with customers

Companies need to give consumers reasons to keep revisiting their business. Interacting with customers daily is one of the most effective ways to engage them. Providing useful news, product announcements, special sales, newsletters, and other informative materials enable companies to stay present in the everyday lives of their customers.

Provide educational tools

Offering quality education, resources, and tools can help improve customer retention rates. Product demos, webinars, tutorials, and free training keep consumers informed while demonstrating the usefulness of products and services.

Follow up

In 11% of cases, customer churn is avoidable by reaching out through a sales representative. Forgetting to follow up on a quote or provide requested information often causes consumers to churn.

Reward loyalty

Rewarding repeat customers can further increase their loyalty while creating opportunities for cross and upselling. **30% of consumers do business elsewhere because there is no customer reward program.**

Recognize warning signs

Analyzing customer behavior can help identify warning signals; consumers show before they churn. Business owners should create a list of customers that haven't purchased in the past six months. Sales reps can use this list to follow up with consumers and figure out why they haven't returned.

Where to Focus

Small business owners that want to improve attrition and retention rates should focus on the larger picture at first, before detailing their approach. For a smooth customer journey, companies need to develop a customer relationship strategy that provides consistent experiences. New businesses can begin boosting customer retention rates by focusing on three vital processes.

1. **Set expectations early on —** Expectations should be established early on to avoid customer confusion. Different customers share different points of view, communication styles, and levels of expertise. It is essential business owners communicate deadlines and progress clearly to guarantee a smooth collaboration.

2. **Stay consistent —** Brands need to be consistent with the messages they send consumers if they want to build loyalty. Customers expect on-time delivery of quality products and services. When a business process changes, these changes need to be communicated to customers through insights, meetings, and workflows that clearly explain what, why, and how.

3. **Be proactive with feedback —** Obtaining regular feedback can tell a business owner why a customer left and help identify ways to address the problem. Any issues brought to the surface should be rectified immediately to avoid further losses.

Companies that offer significant lifetime value to customers are more likely to have lower customer churn rates. Small and micro business owners that are just starting should concentrate on establishing solid communication, tracking, and reporting practices that help set high service standards from the very beginning of customer relationships.

Final Thoughts

Business owners who calculate their attrition and retention rates can easily identify and address issues that cause customers to churn. A poor customer service experience is the number one reason most people choose to do business somewhere else. By evaluating target groups, companies can pinpoint effective strategies for retaining customers and ensure the life-long value of their products and services.
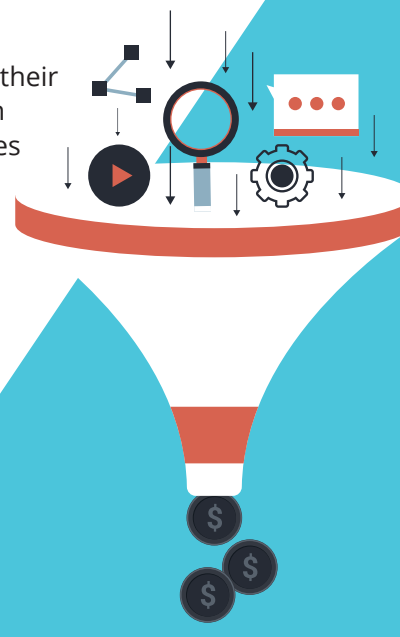
NASE 2019 Annual Meeting Announcement

On behalf of the Board of Directors, we would like to invite you to the 2019 Annual Meeting of the National Association for the Self-Employed. The meeting will be held on Thursday, July 25, 2019 at 5:00 PM CST, at our corporate office located at 6870 Lebanon Suite 100, Frisco TX 75034. No registration is required, NASE members are encouraged to attend and meet with the NASE staff and Board of Directors.

2019 Scholarship Winners

With summer in full swing, that means the start of a new school year is right around the corner. As many of our readers know, the NASE offers a $3,000 educational scholarship to the dependents of NASE Members who are between the ages of 16 and 24. To date we have awarded almost $1.9 million and below are the four most recent recipients.

Please join us in thanking all twenty five applicants and congratulating these four winners. We wish you the best in your academics and all your future endeavors.

Kristian Davis
2019
Benbrook, Texas

Kristian will use the scholarship to attend Colorado School of Mines where he will pursue an Engineering degree.

Emily Woltmann
2019
Lisle, Illinois

Emily will use the scholarship to attend the DePaul University where she plans to pursue a Bachelor degree in Business Marketing.

Dana Scheetz
2019
Alexandria, Virginia

Dana will use the scholarship at The University of Alabama where she is currently studying Environmental Engineering and Geography.

Anna Kristiansen
2019
Garden City, Kansas

Anna will use the scholarship at Montana State University where she is pursuing a career in Physical Therapy.

Member Benefits

Visit **NASE.org** to learn more about the following benefits!

Office DEPOT OfficeMax®

Get your discounted contract price with your Store Purchasing Card. Shop for Back to School at your local store! **Coupon Code: 77305623**

Valid 6/30/19 through 9/28/19
Exclusions apply - see coupon for details

MetLife

Navigating life together

$10,000 included Term Life Insurance for principle NASE member

Sixty-day waiting period from date of joining the NASE required. At age 60 benefits reduce 75% and then cancel at age 65. In certain circumstances a conversion privilege to an individual policy may apply (subject to changes from group coverage in terms and conditions including changes in premium costs). For additional information regarding conversion privileges, contact MetLife at 877-ASK-MET7 (877-275-6387).

Members may designate a beneficiary for their life insurance benefits by filling out and returning a Beneficiary Designation Form. **Click here** to download a copy of the form or contact NASE Member Services at 800-649-6273.

TRUMP ADMINISTRATION TAKES ADDITIONAL STEPS TO
IMPROVE HEALTH CARE PRICING AND TRANSPARENCY

On Monday, June 24, President Trump signed an executive order directing his Administration to take additional steps to improve upon price and transparency in health care.

The executive order directs the Department of Health and Human Services (HHS) to develop a process for hospitals to publicly disclose how much patients will pay for services. Additionally, HHS will begin the process of making information on out-of-pocket spending more readily available to patients before they receive care.

The order also improves consumers' incentives to shop for care by expanding the benefit of Health Savings Accounts (HSAs) and other tax-preferred health accounts, allowing for Americans to have more flexibility in how they pay for health care and associated costs.

These actions follow aggressive action by the Trump Administration to drive transparency within the health care industry. Previous action includes, the President signing legislation to end "gag" clauses that prevented pharmacists from letting patients know about potentially lower prices for drugs. Additional action targeting drug manufactures include requiring them to publicly disclose drug prices in their television ads.

This is of course in addition to the action the Administration has taken on Health Reimbursement Arrangements (HRAs), a key legislative focus of the NASE for the past several years. ◼

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