foodservice IP
Authentic strategic thinking.

THE FOODVIEW:
CUSTOMER LOYALTY COUNTS

THE HIGH COST OF COURTING NEW FOODSERVICE BUYERS

By Tim Powell, Managing Principal

In 2001, Frederick Reichheld of Bain and company (the inventor of the net promoter score) argued that the cost of attracting a new customer is up to 25 times more expensive than serving a long-standing customer. He argued that return customers tend to buy more from a company over time and as they do, operating costs to serve them decline.

Why is this important to the foodservice industry? Changes in food-away-from-home purchasing is a leading economic indicator, meaning, it is an economic factor that changes before the rest of the economy begins to go in a particular direction. In this case, with same-store-sales, CPI, consumer confidence and economic growth softening. FSIP believes we are heading into a recession.

As the economy turns, food companies have already begun the belt-tightening by reducing marketing costs and downsizing or outsourcing primary activities. However, many food companies are missing their biggest opportunity to keep costs down – fostering loyal relationships with customers.

Since keeping the right customers is valuable, one of the key metrics in understanding whether your company is retaining customers is the customer churn rate. The customer churn rate measures the percentage of customers who end their relationship with a company in a particular period.

THE CUSTOMER CHURN (OR RETENTION) RATE CALCULATION

$$\frac{\text{USERS AT BEGINNING OF PERIOD} - \text{USERS AT END OF PERIOD}}{\text{USERS AT BEGINNING OF PERIOD}} = \text{CHURN RATE}$$

One note of caution is, however, that not all business models are the same and even companies with similar business models may define churn differently. Fortunately, there are ways to offset customer departures – or at least ways to reduce them.

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FAST FACTS ABOUT ATTRITION

80% **Eighty percent of customers start doing business with competitors after have a poor customer experience.**

60% **Sixty percent of customers end their relationships with companies when they perceive indifference on the part of salespeople.**

10-15x **Customers who rate their salespeople as exceptional are 10-15 times more likely to remain loyal.**

Source: NG Data

FIVE WAYS TO KEEP CUSTOMERS LOYAL

1. **Look at the churn rate as an indicator, not simply a metric.** The best managers look at what the churn rate was last year and ask themselves how they can be better. The rise of big data is making it possible for firms to act more expediently and precisely on churn rates.

2. **Don't simply compete on price.** Many companies attract the wrong types of customers by attracting deal seekers. One of the easiest ways to weaken customer loyalty is by competing solely on price. It may lead to a quick gain in customers, but in the long run, it is not a sustainable relationship.

3. **Listen carefully to customers.** Often, a customer may be avoiding a tough conversation or simply going AWOL for a period of time. Ensure that salespeople listen carefully to feedback from customers – it is the best indicator of who might be switching to a competitor.

4. **Let some customers go.** There are some customers that are too expensive to serve. These are customers that require exorbitant resources to please and are frankly, a drain on profitability.

5. **Find your own acceptable retention rate.** Many companies believe there is a magic number. The churn rate by company really depends on how quickly and efficiently a company can acquire customers and how profitable they are in the short and long term.

NEXT STEPS

As we move into a recessionary phase in the U.S. economy, food companies must consider the acquisition costs of new customers versus the importance of keeping current clients satisfied. This often determines which companies are in the best position to thrive in lean economic times. To learn more ways your company can stay on track in the face of uncertainty, contact a member of the FSIP team today:

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