

# Achieving Big Customer Loyalty in a Small Business World

by Jed Williams and Kristy Campbell

There are nearly 28 million small businesses in America, and they are making a formidable impact on the U.S. economy. Small businesses provide 55% of all jobs and account for more than half (54%) of all U.S. sales.<sup>1</sup>

Of course, customers play a critical role in this economic equation. But, to what extent?

A joint study by BIA/Kelsey and Manta found that, for the first time, small businesses truly grasp the impact their customer base has on their long term business viability. The study surveyed nearly 1,000 small business owners (SBOs) and found they now spend **more than half** of their time and budget focused on existing customers.<sup>2</sup>

While this is a significant shift in small business behavior, it makes sense – for most businesses, it costs more to acquire new customers than it does to increase the lifetime value of existing customers.

Yet, while small business owners understand the value of an existing customer, they have not developed clear strategies for fully connecting with their customers to drive retention and repeat sales. Very few have a loyalty program in place and those that do often offer an unsophisticated experience that's largely managed offline.

This report provides new insights into the opportunity small business owners have to improve



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their customer loyalty efforts. It includes applied strategy and best practices for jump-starting a customer loyalty program and highlights the successes of early adopters.

### Existing Customers Drive Small Business Success

According to a recent BIA/Kelsey / Manta survey, more than sixty percent (61%) of SBOs now generate the majority (51%+) of their annual revenue from repeat customers rather than new customers. The weight of this is reflected in how SBOs spend their time and money. Sixty-two percent (62%) of SBOs spend the majority of their annual marketing budget to retain existing customers with less than half going to new customer acquisition.

Similarly, SBOs spend the majority of their time and effort investing in existing customer relationships, with fifty-six percent (56%) of them spending less than twenty-five percent (25%) of their time and effort on marketing related to customer acquisition.

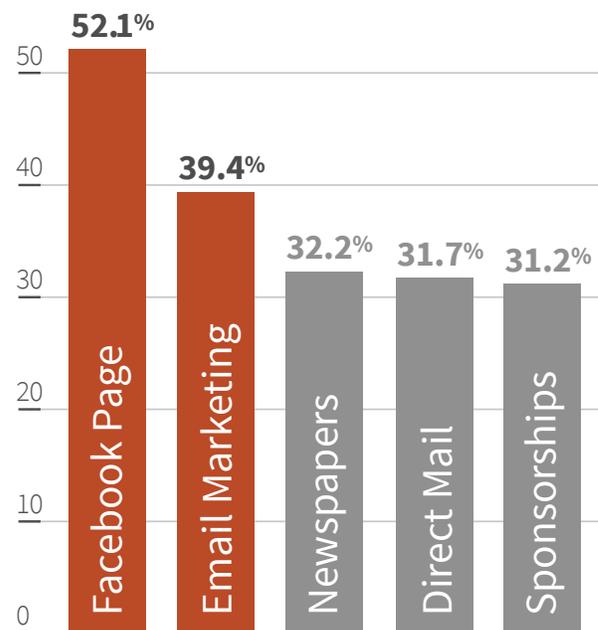
These findings are in stark contrast to previous studies showing that small business owners' primary focus was on customer acquisition. A 2012 BIA/ Kelsey study found that SBOs focus on customer acquisition vs. retention at a 7-to-1 rate, with more than thirty-seven (37%) spending over half of their budget on customer acquisition and only six percent (6%) spending more than half of their budget on retention.<sup>3</sup>

Research by BIA/Kelsey further supports this new alignment, revealing that channels where SBOs will increase time spent – notably email and Facebook – are those best suited to engaging existing customers (see Figure 1).<sup>4</sup>

New business development remains important,

Figure 1:

### Media Used by SBOs for Advertising and Promotion



but prominent research asserts that acquiring new customers is more expensive and less lucrative than repeat business. In fact, it can be up to ten times more costly to acquire a new customer.<sup>5</sup> Further, a repeat customer spends sixty-seven percent (67%) more than a new one.<sup>6</sup>

Existing customers can also be leveraged to gain new customers, lowering the overall cost of customer acquisition. We see this today in digital word-of-mouth, such as customers writing reviews, checking in, and posting stories and photos of their experience with businesses. A loyal existing customer can be a brand champion and an important source of new revenue.

*It can cost up to ten times more to acquire a new customer than to retain an existing one.*

## Marketing to the Majority

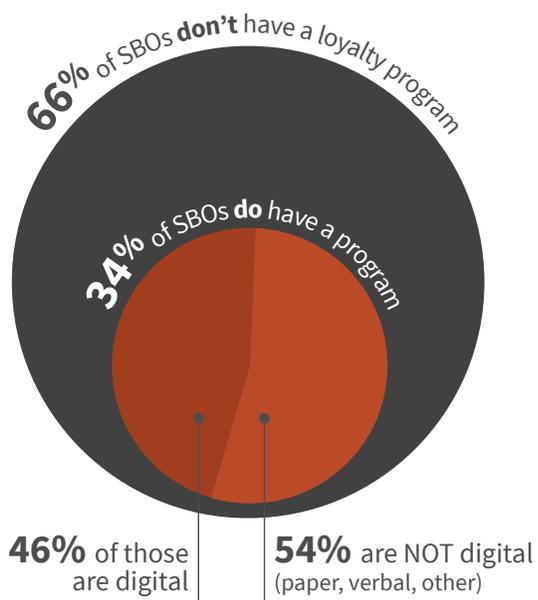
Small businesses clearly understand the economics of their existing customers. Although, they still struggle with how to effectively market to this segment. The benefits of loyalty marketing are proven – increased customer spending, higher retention – yet, few SBOs even have a program in place. According to the BIA/Kelsey / Manta study, only thirty-four percent (34%) of SBOs have a loyalty program, while the majority (66%) do not (see Figure 2).

Moreover, the majority of SBO loyalty programs are offline rather than online, failing to take advantage of technologies that enable seamless implementation and deeper customer insights. Only forty-six percent (46%) are in some type of digital form, like an email list, while the remainder are paper-based (31%), verbal/word-of-mouth or in another form (17%).

Further, the small business owners that value and invest in retaining existing customers often struggle with the tools and marketing sophistication needed to produce deeper customer insights. Research by BIA/Kelsey found that only twenty-nine percent

Figure 2:

### SBO Loyalty Program Utilization



(29%) of SBOs use a Customer Relationship Management (CRM) tool to keep track of customer information.<sup>4</sup> Overall, the rudimentary programs and tools currently used by most SBOs lack the insights needed to foster engagement, strong brand association, loyalty, and higher lifetime value.

#### WHAT'S WORKING: SUCCESS STORIES

*"My existing customers are crucial to my business' success, so I created a pilot customer loyalty program to reward them last year. When customers signed up for a year contract, they received three months of virtual administrative service for free. The program opened my eyes to how much revenue an effective customer loyalty program could generate for my business. Now that I've hired a director of sales and marketing, customer retention promotions are a top priority this year."*

– Kurt Danskin, CEO,  
Office Remote Control, Tampa, FL.

Current programs also lack what businesses that have a loyalty program want – measurable ROI.

When asked about the purpose of their customer loyalty program, those who had one answered that they want to "Improve customer relationships" (39%) and "Grow revenue" (36%). But without the tools such as CRM systems or automated programs to achieve deeper insights into their customer base, retaining customers and growing lifetime value will remain challenging.

There is a divide between valuing existing customers and the programs used to effectively drive retention. Technology provides access to robust programs that rival those of large enterprises. However, the constant influx of new technologies is overwhelming to smaller businesses that already lack time and resources.

### Benefits of Driving Customer Loyalty

Customer loyalty can bring big benefits to small businesses. Existing customers not only comprise the majority of top line revenue, but can dramatically

affect a business' bottom line. It can cost up to ten times more to acquire a new customer than to retain an existing one. According to the "Loyalty Effect", a 5% increase in customer retention can lead to a 25% to 100% increase in profit for your company.<sup>1</sup>

Existing customers that have an affinity with a brand are easier to up-sell and cross-sell. There is a relationship – they already know and like what a brand does, so there is a measure of trust not

afforded to an unknown company.

Repeat customers are more likely to refer their friends and family to a business via word-of-mouth, online reviews, and social sites. Today, technology has amplified the reach of customers, making it easier to share recommendations about a particular business.

So, where to start? Manta recommends the following approach for small businesses looking to jump-start their customer loyalty program.

## 10 Tips to Jump Start a Customer Loyalty Program

### Tip 1: Start with the End in Mind

Before leaping to the tactical applications of a loyalty program, small businesses should start with the desired outcome in mind. They should clearly define their goal and what they want to achieve from a customer loyalty program. This should be specific and measurable. For example, saying they want more business is too broad. But a goal of decreased customer churn, increased average order size, decreased costs or improved customer acquisition is more specific. Quantify the goal and

add a timeline, such as "decrease customer churn by 20% in the next 18 months."

If the goal is to decrease churn, for example, the loyalty program may include an incentive to sign a longer-term agreement or contract for a monthly service. If the goal is improved customer acquisition, the program could incent existing customers to refer the business to their friends and family.

### Tip 2: Determine the Audience

The next step is to determine who will be eligible for the program. Will it be everyone or just the business' best customers? For example, the business may want to target customers based on spending thresholds, purchases per year or even specific products. The upside to a more targeted group is that the business would be rewarding the ideal buying behavior and subsequently driving more of it. This would also enable them to segment and reward their highest profit customers.

### Tip 3: Structure the Program ROI-Positive

Once the primary goal and audience are selected, it's important for the business to determine the loyalty program structure. Setting this up at

#### WHAT'S WORKING: SUCCESS STORIES

*"My key marketing priority in 2013 was to start an effective customer loyalty program that would make my customers happy and help my business grow, and I succeeded. The digital nature of the program makes it easy for customers to spread the word about my company online and they are motivated to do so because they will earn 10 percent cash-back rewards for every sale they refer to my business as well as on their own purchases. As a result www.Viralprint.com grew 7 to 8 percent in revenue – an impressive growth rate for a small business in today's economy."*

– Doug Sleeth, Owner,  
Viralprint International, Warner Robins, GA

the onset better enables the business to delight customers, encourage them to buy more in the future, and ultimately drive a positive return on the investment. Will the program be points-based or have a tiered reward structure? The business should lay out multiple programs that could meet their goal, then determine how much they cost and how much they will net in return.

#### **Tip 4: Encourage Customers to Opt-In**

Giving customers multiple options for joining the loyalty program, whether from the business' website, via social media or from the point of purchase, is important in driving adoption. SBOs should track their opt-in list in an Excel file or within a customer relationship management (CRM) system. There are many light-weight, low cost solutions like Salesforce.com or Zoho CRM that allow for easy upload of an opt-in list. These can also serve as a platform for managing the business' future communications, whether via email or in person.

#### **Tip 5: Automate, Automate, Automate**

There are many ways to automate a loyalty program. The more automated it is, the easier it will be for the business to manage and maintain. Using automation does not mean that personalization is reduced. Business owners who participated in the BIA/Kelsey/Manta study talked at length about the personal aspect of their loyalty programs and the importance of personalized service as a competitive advantage. Depending on the type of program a business selects, there are many free or low-cost ways to get started.

#### **Tip 6: Email**

Staying in touch via email is one of the easiest and most effective ways to kick-off a loyalty campaign. Businesses can start simple by creating a steady stream of communication around their loyalty program. There are many free or low-cost email marketing solutions such as Constant Contact, Vertical Response, and MailChimp that are easy to

use and implement. These systems have pre-built templates or can be customized to more closely reflect the business' unique brand.

#### **Tip 7: Go Social**

Social media can be an extremely effective way to engage existing customers on a regular basis. A business should start by first understanding where their customers are engaged in social media (Facebook, Pinterest, Foursquare, others?) and launch their social engagement from there. Once they've selected the right network or networks, it's important to build their social community through varied and engaging content and posts – creating many options for sharing and referring.

#### **WHAT'S WORKING: SUCCESS STORIES**

*"The customer rewards program at our salon is designed to both create and reward a loyal customer base, and it's working. Customers keep returning to our salon because of the experience we offer as well as the incentive that our rewards program has created. Our customers earn a point for every dollar they spend, which can later be used to purchase salon services, products, or gift certificates. We keep track of the points each customer accumulates using a digital program that keeps all of their information in one place and easy to reference."*

– Ronnie Taylor, Founder and Cosmetologist,  
Ronnie T's Spalon, Norman, Oklahoma

#### **Tip 8: Get Integrated**

As a business owner progresses with their loyalty program, they should consider more integrated and automated services like apps from Belly or FiveStars, which allow them to automate email, mobile and social communications from within a single interface. These services also enable the business owner to track customer activity such as total points, check-ins or redeemed rewards.

## Tip 9: Go Mobile

There are a number of mobile apps, such as RewardMe, that a business owner can leverage to reward customers for positive habits. Apps like this use mobile numbers to track and distribute rewards. SpendGo, for example, rewards customers based on purchases and can be used at the point-of-sale. Another app is FrontFlip, which connects directly to Facebook and Twitter so that customers can share

### WHAT'S WORKING: SUCCESS STORIES

*"Our Crepe company uses a digital punch card reward system powered by Square to reward repeat customers and build a loyal customer base. Because it costs more to gain new customers than retain existing customers, we felt it was important to implement a customer rewards program to make our existing customers feel appreciated. Our customers earn \$5.00 after 10 times of spending \$10.00 or more. This is a low-cost way to reward customers who enjoy our crepes on a regular basis."*

*– Richard Foote, CEO,  
Oregon Crepe Company*

their favorite business' promotions with their friends.

## Tip 10: Keep Them Engaged with Consistent Communication

A business does not want to be "out of sight, out of mind" from existing customers. It's important to remain visible with consistent and relevant communications. Businesses should target their communications to customers' interests and preferences. This is one way that technology can help them to be more – rather than less – personal. For example, the business could send an email to customers who bought a specific product with information about a complementary product. CRM, email, and automation provide information about the customers that can be leveraged to create personalized communications.

Doing customer loyalty ineffectively can be as dangerous as not doing it at all. But done right, small businesses have a tremendous opportunity to increase the value of their business through existing customers.

## About the Authors



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## Sources

- <sup>1</sup> Sba.gov, *Small Business Trends*. <http://www.sba.gov/content/small-business-trends>
- <sup>2</sup> Manta & BIA/Kelsey Customer Loyalty Surveys, (Jan. 2014). Survey #1 polled 589 Manta small business owner members and has a +/- 4% margin of error with a 95% confidence level. Survey #2 polled 313 Manta members and has a +/- 5.5% margin of error with a confidence level of 95%.
- <sup>3</sup> BIA/Kelsey, *Local Commerce Monitor*, Wave 16 (Q3 2012)
- <sup>4</sup> BIA/Kelsey, *Local Commerce Monitor*, Wave 17 (Q3 2013)
- <sup>5</sup> *Pricing for Profitability: Activity-Based Pricing for Competitive Advantage*. By John L. Daly (2002), p85.
- <sup>6</sup> Inc.com, *Get More Sales from Existing Customers* (2010).