

Retention Marketing Profitability

ROI Challenges Influencing the Retention Versus Acquisition Debate



Authored by Jim Lenskold and featuring excerpts from Lenskold's book *Marketing ROI: The Path to Campaign, Customer and Corporate Profitability*.

This paper demonstrates the differences in the profitability dynamics of retention marketing and acquisition marketing. Reports that have shown that retaining customers is more profitable than acquiring new customers are put into perspective for marketing. The paper will help guide the strategic planning and analytics around retention marketing to appropriately prioritize marketing budgets.

Introduction

For well over a decade, the desire to increase profits through improved customer loyalty has been moving its way up the corporate agenda. Customer loyalty is the goal behind the significant investments into strategies and technologies that support customer relationship management (CRM), internal quality initiatives, employee satisfaction, and even some aspects of supply chain management. Research shows that the value of retaining customers can be as much as 100 percent more profitable than acquiring new customers, yet acquisition marketing programs still tend to draw a greater share of marketing budgets.

This white paper presents insights into the profitability dynamics of retention marketing, following the key principles of Lenskold Group's comprehensive approach to marketing return on investment (ROI) analytics. The challenges identified and the solutions offered will help guide strategic planning and support prioritization of marketing investments toward better ROI and profits.

The following key questions are addressed in this paper:

- What are the profitability dynamics of retention marketing that create unique challenges?
- Why do the economics of customer loyalty make it difficult to achieve positive ROI for some forms of retention marketing?
- How do the profitability dynamics of retention marketing and acquisition marketing differ?
- What is necessary to improve retention marketing profitability?
- What dynamics of acquisition marketing can make it more appealing?

Defining Retention and Loyalty

Though generally understood, the terms “retention” and “loyalty” have slightly different meanings in different industries. For purposes of this paper, “retention” is defined as sustaining the existing profit stream from current customers, in effect decreasing the expected trends of customer defection. When marketing efforts generate new customers or increase the share of customer, a certain level of continued repeat business is expected. When customers show patterns of discontinued or decreased spending, a retention opportunity exists. The amount of

The profit stream from existing customers can be extended through customer loyalty, customer retention or a combination of both.

revenue and profits retained through retention marketing is determined by comparing the difference between the actual profit stream and the originally projected profit stream.

The term “customer loyalty” has a wide range of definitions that are based on each individual company’s view of the customer relationship. From the perspective of understanding profitability dynamics, we define “loyalty” as the customer behavior of a sustained profit stream *without the need for incremental marketing investment*.

To extend the profit stream of existing customers beyond its expected pattern, a company can develop and implement strategies that improve customer loyalty (for long-term retention), customer retention (for incremental profits regardless of achieving loyalty), or a combination of both (having different impacts on different sets of customers). These strategies can be in the form of marketing activities or business changes that reflect on the customer experience, such as product and service enhancements. This paper focuses specifically on retention marketing activities that are intended to influence customer behaviors for incremental duration of spending.

For easy reference, ROI is calculated as follows:

$$\text{ROI} = \frac{\{\text{Net Present Value (NPV) of Incremental Gross Margin} - \text{Investment}\}}{\text{Investment}}$$

The following is an excerpt from Chapter 7 of my book *Marketing ROI: The Path to Campaign, Customer and Corporate Profitability*, which is scheduled for release in August 2003.¹ This excerpt provides insight into the profitability dynamics for retention marketing.

Retention Marketing Patterns

The purpose of retention marketing is to sustain the existing profit stream from current customers, in effect decreasing the expected trends of customer defection. The nature of retention marketing varies on the basis of the business model used.

For example, companies that provide services such as cable television, telecommunications, or credit card services expect that for the majority of acquired customers, a recurring revenue stream will continue with minimal additional marketing investment. Conversely, many consumer product companies operate in a highly competitive and dynamic sales environment. Additional marketing investments are critical to influence both their valuable, brand-loyal customers who must be protected from the competition and their other less loyal customers who will only continue purchasing their product with marketing reinforcement. For some companies and industries, customer loyalty and retention are driven primarily by the customer's experience with the company and by the actual competitive advantages that exist. However, in industries in which consumers perceive little competitive differentiation, marketing can often make the difference in customer retention and loyalty.

Measurements to capture ROI for retention marketing must compare the actual profit stream (post-marketing) with the originally expected profit stream (ideally validated through a control group) to calculate the incremental value. Companies with existing customer relationships expect a future stream of profitable business to be transacted. The expected profit stream reflects the current level of customer spending, adjusted to reflect the attrition rate, which is the percentage of business lost to the competition over time. As shown in light gray in Figure 7.4, the initial investment leads to a profit pattern in which each period (which could be represented in months, quarters, or years) will show a decline in profits from existing customers, based on the assumption that no additional marketing investments are made.

The target audience of defecting customers will generally increase over time. "Saved" profits must be counted as defection rates are decreased.

In Figure 7.4, the black shaded area represents the incremental investment and the incremental profit stream. This particular marketing investment has increased the retention rate (decreasing the attrition rate) with a steady impact over time.

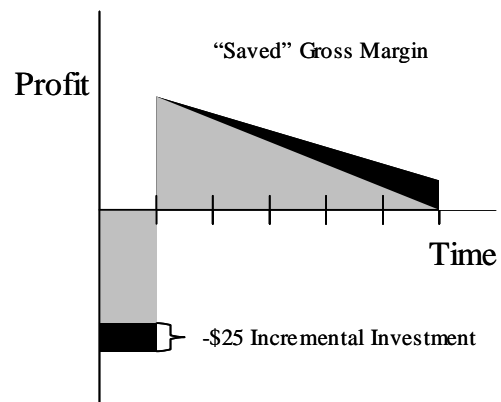


Figure 7.4 Retention ROI with Steady Impact

The incremental profit stream from retention marketing is much different from the profit stream that follows acquisition marketing. Where acquisition

marketing generally results in a spike in profits from an immediate sale followed by a flow of additional sales over time, the impact of retention marketing occurs slowly over time from the improved rate of profit retention. After all, a steady annual defection rate of 12 percent translates to just 1 percent defection per month--and that's the base from which profits can be retained.

The numerical representation of this graph and the ROI calculation that follow are based on an average customer value of \$100 profit per year. That profit level should translate into an annual revenue value in the range of \$200 to \$1,000, depending on the gross margin rate, which varies significantly by industry and product segment. This would typically be analyzed in months or quarters but is done here in years for simplicity in discounting future value. As the numbers demonstrate, the greatest impact comes in future periods, which is discounted back to a present value.

| Period (Years): | 1 | 2 | 3 | 4 | 5 |
|---|-----------------|-----------------------|----------|----------|----------|
| Existing Gross Margin Projection | \$100 | \$75 | \$50 | \$25 | \$0 |
| Discount Rate = 15%/yr. | 1.00 | 1.15 | 1.3225 | 1.5209 | 1.749 |
| Discounted Gross Margin | \$100.00 | \$65.22 | \$37.81 | \$16.44 | \$0.00 |
| NPV of Gross Margin | \$219.46 | | | | |
| New Gross Margin with Retention Marketing | \$100 | \$80 | \$60 | \$40 | \$20 |
| Discount Rate = 15%/yr. | 1 | 1.15 | 1.3225 | 1.5209 | 1.749 |
| Discounted Gross Margin | \$100.00 | \$69.57 | \$45.37 | \$26.30 | \$11.44 |
| NPV of Gross Margin | \$252.67 | | | | |
| Incremental Gross Margin | \$33.21 | (\$252.67 – \$219.46) | | | |
| Marketing Investment | <u>\$25.00</u> | | | | |
| Return | \$ 8.21 | | | | |
| ROI | 32.8% | (\$8.21 / \$25) | | | |

One significant challenge with single retention marketing campaigns is making enough of an impact on customer behavior to create a lasting change in customer defection rate over long periods of time (five years in the example above).

For the next example, Figure 7.5 shows the pattern of a marketing investment that has a short-term impact on customer retention.

The customer behavior in this example represents a postponement of defection. The marketing activity convinced a portion of potential defectors to continue spending with the company for some additional time, but then the defection accelerated to result in the same end point (zero spending) as the original projection. In this example, the short-term retention impact is not enough to produce a positive ROI as shown in the calculation:

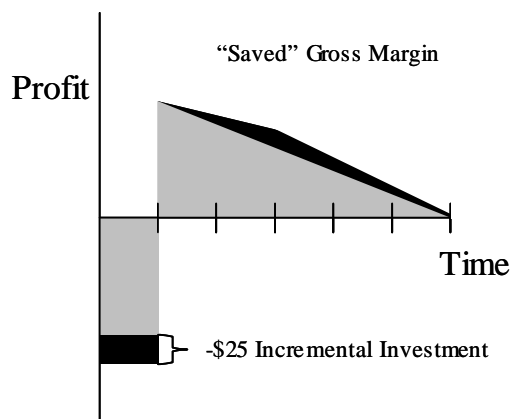


Figure 7.5 Retention ROI with Short-Term Impact

| Period (Years): | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|-----------------------|----------|----------|
| Existing Gross Margin Projection | \$100 | \$75 | \$50 | \$25 | \$0 |
| Discount Rate = 15%/yr. | 1 | 1.15 | 1.3225 | 1.5209 | 1.749 |
| Discounted Gross Margin | \$100.00 | \$65.22 | \$37.81 | \$16.44 | \$0.00 |
| NPV of Gross Margin | | | \$219.46 | | |
| New Gross Margin with Retention Marketing | \$100 | \$80 | \$60 | \$30 | \$0 |
| Discount Rate = 15%/yr. | 1 | 1.15 | 1.3225 | 1.5209 | 1.749 |
| Discounted Gross Margin | \$100.00 | \$69.57 | \$45.37 | \$19.73 | \$0.00 |
| NPV of Gross Margin | | | \$234.66 | | |
| Incremental Gross Margin | \$15.20 | | (\$234.66 – \$219.46) | | |
| Marketing Investment | \$25.00 | | | | |
| Return | –\$9.80 | | | | |
| ROI | –39.2% | | (-\$9.80 / \$25) | | |

The next example shows how retention marketing profitability is greatly improved when the investment can be targeted to more vulnerable customers, that is, those who are more likely to defect. Consider Figure 7.6, which shows the incremental retention value for a segment of customers experiencing a very high defection rate.

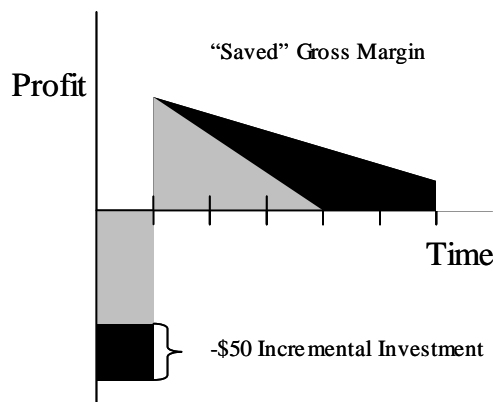


Figure 7.6 Retention ROI on Highly Vulnerable Segment

There is certainly high ROI potential for marketing investments that can change the defection rate of highly vulnerable customers to match that of the standard customer population. The calculations shown in the next chart demonstrate how a high ROI can be achieved even with an increase in the marketing investment cost relative to the other examples.

| Period (Years): | 1 | 2 | 3 | 4 | 5 |
|---|-----------------|-----------------------|-----------------|---------|---------|
| Existing Gross Margin | \$100 | \$50 | \$0 | \$0 | \$0 |
| Projection | | | | | |
| Discount Rate = 15%/yr. | 1 | 1.15 | 1.3225 | 1.5209 | 1.749 |
| Discounted Gross Margin | \$100.00 | \$43.48 | \$0.00 | \$0.00 | \$0.00 |
| NPV of Gross Margin | \$143.48 | | | | |
| New Gross Margin with Retention Marketing | \$100 | \$80 | \$60 | \$40 | \$20 |
| Discount Rate = 15%/yr. | 1 | 1.15 | 1.3225 | 1.5209 | 1.749 |
| Discounted Gross Margin | \$100.00 | \$69.57 | \$45.37 | \$26.30 | \$11.44 |
| NPV of Gross Margin | | | \$252.67 | | |
| Incremental Gross Margin | \$109.19 | (\$252.67 – \$143.48) | | | |
| Marketing Investment | <u>\$ 50.00</u> | | | | |
| Return | \$59.19 | | | | |
| ROI | 118% | (\$59.19 / \$50) | | | |

As a quick recap of key points from the past three examples:

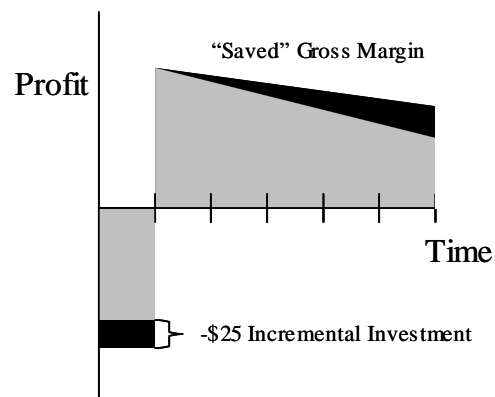
- Customer retention impact grows in each incremental period when marketing delivers a consistent improvement to a constant defection rate.
- Discounting of profits in future periods to net present value partially negates the increasing value of each incremental period.
- Marketing activities that have short-term impact must have significant impact to achieve acceptable ROI.
- Targeting highly vulnerable customer segments greatly improves the potential for profit improvements.

A Look at Customer Loyalty

Now let's tread into the sacred ground of customer loyalty to understand the challenges that can make it so difficult to achieve profitability with retention marketing. Customer loyalty analyses have shown that a significant increase in profits can be attained when a company retention rate is shifted from 90 percent to 95 percent per year. Improving customer loyalty is a solid strategy that should be part of every business plan. Ideally, customer loyalty will come from the customer experience or the uniqueness of the product offered. However, if the company expects loyalty to result from marketing activity, the question is how much will it cost to achieve the desired shift?

This next example examines the financial dynamics of shifting the retention rate from 90 percent to 95 percent per year, including the investment side of the equation in addition to the commonly viewed profit side. It demonstrates the challenge in achieving profitable retention marketing for a generally loyal customer base. Figure 7.7 graphically shows the incremental gross margin that is anticipated from the retention improvement.

Figure 7.7



These examples use the average values at a single customer level, so as the retention rate for the customer base moves from 90 percent to 95 percent, the average value per customer increases. Looking at the increased value per customer that results from the improvement in retention, it is possible to determine the maximum investment in marketing that can be made to achieve this improvement.

First, the gross margin of the average customer when the retention rate is 90 percent must be calculated:

| Period (Years): | 1 | 2 | 3 | 4 | 5 |
|-------------------------------------|-----------------|----------|----------|----------|----------|
| Gross Margin without Defection | \$100 | \$100 | \$100 | \$100 | \$100 |
| Original Retention Rate | 0 | 90% | 90% | 90% | 90% |
| Adjusted Gross Margin | \$100 | \$90 | \$81 | \$72.9 | \$65.61 |
| Discount Rate = 15%/yr. | 1 | 1.15 | 1.3225 | 1.5209 | 1.749 |
| Discounted Gross Margin | \$100.00 | \$78.26 | \$61.25 | \$47.93 | \$37.51 |
| NPV of Gross Margin @ 90% Retention | \$324.95 | | | | |

Second, the gross margin is calculated for the average customer at a 95 percent retention rate:

| Period (Years): | 1 | 2 | 3 | 4 | 5 |
|-------------------------------------|-----------------|----------|----------|----------|----------|
| Gross Margin without Defection | \$100 | \$100 | \$100 | \$100 | \$100 |
| New Attrition Rate | 0 | 95% | 95% | 95% | 95% |
| New Gross Margin | \$100 | \$95.00 | \$90.25 | \$85.74 | \$81.45 |
| Discount Rate = 15%/yr. | 1 | 1.15 | 1.3225 | 1.5209 | 1.749 |
| Discounted Gross Margin | \$100.00 | \$82.61 | \$68.24 | \$56.37 | \$46.57 |
| NPV of Gross Margin @ 95% Retention | \$353.79 | | | | |

The difference between these two values is \$28.84, an 8.8 percent gain in NPV of gross margin over the original expected NPV of \$324.95. This is certainly a sizable gain when multiplied out to an entire customer base, but only if it can be attained without a major investment.

The marketing investment that generates a 20 percent ROI when the return is \$28.84 is \$24.03 (calculated by dividing \$28.84 by 1 + 20%). The final checkpoint on the ROI calculation is:

| | | |
|--------------------------|----------------|-----------------------|
| Incremental Gross Margin | \$28.84 | (\$353.79 – \$324.95) |
| Marketing Investment | <u>\$24.03</u> | |
| Return | \$ 4.81 | |
| ROI | 20% | (\$4.81 / \$24.03) |

Achieving positive ROI on retention marketing is challenging without precision targeting to reach vulnerable customer segments.

This means that for a targeted customer base with an average lifetime value of \$325 and a 10 percent defection rate, *a retention marketing program is limited to a \$24.03 investment per customer to cut the defection rate in half over an entire five-year period.* Keep in mind that \$24.03 is the total NPV of all investments, not an annual investment, and that the NPV of \$325 in profits represents somewhere between \$200 and \$1,000 per year in revenue (depending on profit margins). It would take a pretty creative and highly effective marketing strategy to deliver results at this level with such a limited investment.

The barrier to achieving profitability in this scenario comes as a result of making an equal investment of \$24.03 into every customer, while in reality 90 percent of those customers will continue their purchase behaviors without the marketing. The financial return can come only from changing behaviors of the 10 percent that are expected to defect. If you do not know which customers are likely to defect, the only choice will be to invest retention dollars into all of them. However, as demonstrated in the previous examples, the more investments can be focused on vulnerable customers, the greater is the profit potential.

The following excerpt from Chapter 8 of *Marketing ROI* presents the key drivers of profitability for retention marketing and acquisition marketing. This additional perspective on understanding customer value shows how a deeper analysis might be necessary to tip the scales in favor of retention marketing.

Retention Marketing and Acquisition Marketing: A Head-to-Head Comparison

Retention marketing and acquisition marketing each has its own profit dynamics that influence where a company places greater attention. Although companies and industries have unique patterns of retention and acquisition that require very different approaches to the development of marketing strategies, the challenges of increasing ROI for each will generally be consistent.

What Drives Retention Marketing Profits?

Retention marketing generates profits through "saved" customers, which means keeping the profit stream of customers who would have otherwise changed their decision to continue purchasing from the company. The key drivers of retention profitability include:

- Customer vulnerability
- Customer value
- Lasting impact



Customer Vulnerability. Profitable retention marketing is dependent on defining the highly vulnerable target market. The population of vulnerable customers likely to defect is the only source of saved revenue, and investments applied to loyal customers cannot result in profit returns from retention (marketing that also motivates incremental spending is not considered here in order to show just retention marketing dynamics). The more vulnerable a target audience is, the more that can be invested per prospect, and consequently, the greater potential to generate a positive behavior change. In some industries, the majority of customers are

vulnerable and make purchase decisions with no brand loyalty. In that situation, targeting retention marketing is less of a concern, but creating a positive impact is a much greater issue.

Customer Value. Customer loyalty strategies are generally intended to protect the company's most valuable customers. Reaching higher value customers also allows for a higher marketing investment, which may be necessary to effectively retain customers. In the early 1990s, AT&T Consumer Marketing was experiencing customer defection at a relatively slow pace, so modeling to provide a value-vulnerability rating for each customer was essential to improve retention profitability.

Lasting Impact. Recall from the profit patterns for retention marketing shown previously that customer defection happens slowly over time, creating two challenges in terms of "lasting impact" for retention marketing. Consider that a customer segment with an annual defection rate as high as 60 percent is experiencing a monthly defection rate of just 5 percent. A retention marketing communication may save a portion of those customers from defecting in the same month as the contact, but how effective can that marketing effort be at changing the defection rate for each successive month? Marketing strategies designed to have impact over an extended period of time have a greater potential for retaining incremental profits.

The second challenge with the lasting impact of retention is how long a saved customer will stay with the company. Some retention marketing--in particular immediate promotional offers or discounts that do not address the reasons for a customer's decision to defect--will only delay the defection by a short period of time. Retention initiatives that change the defection rate steadily over several years generate greater profit returns each successive year. Short-term retention impacts are extremely difficult to prove out financially.

Customer loyalty programs have the potential to be profitable for companies that experience high defection rates. These programs are designed to have lasting impact, they can be structured to provide the highest rewards to the most valuable

customers, and they can contribute value by motivating incremental spending per customer.

Targeting special offers only to vulnerable customers has strategic implications that might also have financial implications, especially if the offer is made at the time a customer is informing the company of his or her decision to end the relationship. When loyal customers become aware of special offers made to defecting customers, the level of trust and the relationship with the company diminishes. This requires that retention marketing with special offers be carefully delivered through controlled channels such as direct marketing or customer contact channels. The message surrounding the offer must also be carefully crafted to be sensitive to the perceptions of loyal customers. Impacts on customer loyalty should be carefully monitored and reflected in the ROI calculations where appropriate.

What Drives Acquisition Marketing Profits?

Acquisition marketing is attractive to companies because of the immediate boost in revenue and growth in customers, both of which are metrics highly valued by the investment community. The key drivers of acquisition marketing profitability include:

- Customer needs
- Customer value
- Customer retention



Customer Needs. Information on purchase patterns and the needs of prospective customers is typically not available or very limited. Demographic information and insight into general interests, determined in some cases by the source of the prospect list, can be used to target marketing initiatives toward prospects more likely to have a need for the product or service being offered. Acquisition marketing is more like a broadcast of a message as opposed to the dialogue that can exist with an existing customer.

Customer Value. Access to customer value information is also limited for acquisition marketing. Modeling of available data and structuring offers

toward higher-value segments of prospects can improve the profits generated.

Customer Retention. Acquisition marketing must be designed not only to generate high sales conversion rates or high-value, short-term purchases but also to bring in customers who will continue to purchase with the company. The long-term income flow generated from the acquisition marketing investment should be incorporated into the ROI measure, and the "residual value" that results from bringing in more responsive customers to benefit future marketing initiatives should be included in the prioritization of investments.

The high cost of customer acquisition is often enough to make acquisition marketing unprofitable on its own. The ideal approach is to integrate acquisition campaign strategies with subsequent marketing campaigns that generate additional profits from the same set of customers to ensure that an acceptable ROI is being achieved.

Acquisition marketing can also have an impact on customer loyalty. Very often, companies make attractive offers limited to new customers only through mass media channels that reach loyal customers. If the company does not justify this offer, this may motivate customers to defect to become new again or give a negative impression that results strictly in customer defection. The financial losses must be reflected in the ROI calculation for this marketing activity.

Summarizing the Differences

Marketers and executives who have been approached with the question as to why their strategy favors retention over acquisition marketing, or vice versa, can benefit from understanding the differences in the dynamics driving profitability. Table 8.1 summarizes the differences.

| | Retention Marketing | Acquisition Marketing |
|---------------------------------|--|--|
| Future Customer Value | Access to customer-level information improves retention ROI potential. | Depends on modeling to improve value of acquired customers |
| Customer Needs | Greater predictability and ability to collect information during customer interactions should improve targeting of offers and sales rates. | Depends on modeling to improve sales conversion rates |
| Vulnerability | The ability to predict vulnerability using existing data is essential to achieving retention profitability. | Acquisition marketing initiatives that are measured on short-term sales or contribution to future marketing efforts are less dependent on vulnerability, however modeling to target more loyal customers can improve ROI. |
| Duration of Impact | Predicting the duration of impact for saved customers is similar to that of newly acquired customers; however the duration has a greater impact on retention since profits from an improved retention rate grow over time. | The generic profit patterns are based on an initial value followed by diminishing returns. The length of time a customer continues to make purchases will depend on the business model for customer acquisition. |
| Short-Term Measurability | Retention is at a huge disadvantage because the short-term save rate measures represent a very small portion of the total profit contribution and the lasting impact is difficult to predict. | Acquisition marketing tends to generate more profits in the short term, and certain types of behaviors (the monetary value of the initial purchase, the timing of the second purchase) can be good predictors of future value. |
| Reliability of Measures | Projected value for saved revenue can have a high margin of error when a significant percentage of the value comes in later years when market conditions can change. | Projected value will be subject to less fluctuation when most profits are realized in the near term. |

Table 8.1 Summary of the differences in the profit dynamics of retention and acquisition marketing.

The challenge of targeting an unknown set of vulnerable customers within a total customer base, which can put retention marketing at a disadvantage relative to acquisition marketing, is shown in Figure 8.1. Marketing campaigns that have an equivalent impact in terms of the response rate generated from the targeted audience nets to a much lower save rate than an acquisition rate. The investment to influence the target audience for acquisition must be managed relative to the value generated by the 2.5 percent response, whereas the investment for retention is managed relative to a net impact of .5 percent response (2.5 percent of the 20 percent defecting that could be saved).

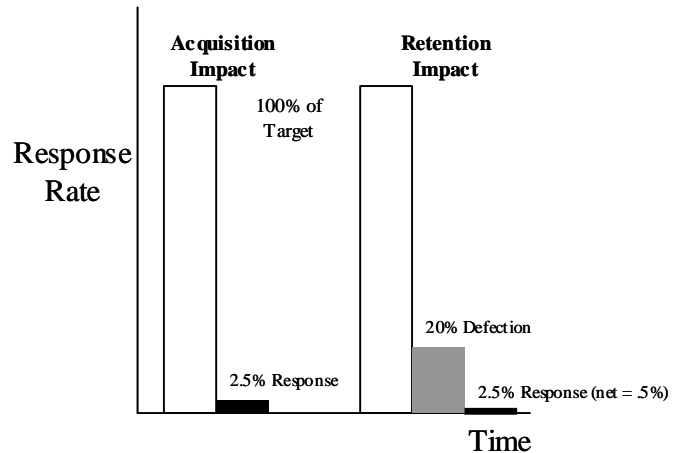


Figure 8.1 Response Dynamic for Acquisition vs. Retention Marketing

Not All Customers Are Created Equally

Too often, the values used to calculate ROI are based on an average of all customers, regardless of the value of actual customers saved or acquired, and this may miss a significant profit dynamic in support of retention marketing. Profitability will increase as measures more accurately reflect the reality that customers can become more profitable over time. The profit rate of a customer can be improved over time on the basis of the decreasing costs associated with increased purchase volume, lower servicing costs, and better price points. Because customer profitability and value tend to increase the longer customers stay with a company, the difference between the ROI potential for a saved customer compared with an acquired customer may require more in-depth analysis.

The following example reflects the difference in customer value that may be possible over time. Recall that Potential Value is the total revenue of a customer across all competitors.

| Period (Years): | 1 | 2 | 3 | 4+ |
|---|-----------------|----------|----------|-----------|
| Total Potential Value (Revenue) | \$1,000 | \$1,000 | \$1,000 | \$1,000 |
| Share of Potential Value | 40% | 60% | 80% | 95% |
| Customer Revenue per Year | \$400 | \$600 | \$800 | \$950 |
| Profit Rate | 10% | 12% | 14% | 16% |
| Gross Margin | \$40.00 | \$72.00 | \$112.00 | \$152.00 |
| Discounted Gross Margin | \$40.00 | \$62.61 | \$84.69 | \$99.94 |
| Base NPV of New Customer (base value in first four years @ 15% discount rate) | \$287.24 | | | |
| Referral Rate | 0 | 1% | 3% | 5% |
| Incremental Gross Margin (referral rate applied to NPV of a new customer) | \$0 | 2.87 | 8.62 | 14.36 |
| Spend Growth Rate | 0 | 5% | 10% | 25% |
| Incremental Gross Margin | \$0 | \$6.00 | \$14.00 | \$40.00 |
| Total Gross Margin | \$40.00 | \$80.87 | \$134.62 | \$206.36 |
| Discounted Gross Margin | \$40.00 | \$70.32 | \$101.79 | \$135.69 |
| Total NPV for Customer Years 1–4 (@ 15% discount rate) | \$347.80 | | | |
| Period | 4 | 5 | 6 | 7 |
| Total Gross Margin (held constant at Year 4 value) | \$206.36 | \$206.36 | \$206.36 | \$206.36 |
| Discounted Gross Margin | \$206.36 | \$179.45 | \$156.04 | \$135.69 |
| Total NPV for Customer Years 4–7 (@ 15% discount rate) | \$677.53 | | | |

In this case, losing a customer who has been with the company for four or more years will certainly have a greater financial impact than losing a newly acquired

customer. This reinforces the notion that marketing decisions can become much more effective as information and analyses improve.

The conclusion that should be drawn by this insight into retention and acquisition marketing is that the general statement indicating that it is better to retain current customers than to acquire new customers certainly applies to most business strategies but should not be assumed for marketing. The nature of a company's marketing environment, customer loyalty patterns, and marketing effectiveness will determine which has the greater ROI potential (and it will not always be retention marketing). Careful analysis into the financial impact of customer defection must be completed to create accurate ROI measures. With respect to customer acquisition marketing, it is a safe assumption that the greatest profitability can result from strategies that incorporate an integrated plan for how to retain those newly acquired customers.

Conclusion

Companies must continue their efforts to build loyalty and retain customers while ensuring that investments can generate profitable returns. Product and service enhancements that require small incremental investments offer the potential to earn loyalty in such a way that benefits all customers and meets ROI requirements.

There are significant profits to be gained through better management of marketing investments and practical application of marketing ROI processes. Applying these principles to retention marketing helps in strategic planning. As more vulnerable and valuable customers are targeted, more can be invested to keep customers and build loyalty.

Managing ROI at the customer level is far superior than managing the ROI for acquisition, retention, and all other campaigns independently. Customer Pathing™ is a unique approach that combines strategic planning and CRM strategies with customer profitability management. These processes, techniques, and tools are designed to capture the benefits of greater integration and balance customer relationship initiatives with appropriate levels of investments.

For more information on marketing profitability insights, techniques, and tools, visit www.lenskold.com.

About the Author



James Lenskold, international speaker and recognized marketing expert, is President of Lenskold Group and author of *Marketing ROI, The Path to Campaign, Customer and Corporate Profitability* (McGraw Hill, July 2003). Jim has published articles and presented internationally on the topics of marketing ROI, marketing strategies and business growth strategies. Mr. Lenskold currently runs the Lenskold Group, which offers consulting and implementation services for strategic market planning, marketing ROI, customer profitability management and marketing innovation.

Jim's career began at AT&T where he helped evolve the telecommunications leader from a monopoly to a well-respected competitive marketer in the mid-1980s through early 1990s. He helped form the customer acquisition and customer retention organizations and managed a \$20 million marketing budget for retention strategy and customer loyalty marketing. Jim developed the key measurement models for AT&T's retention marketing programs and developed innovative approaches to maximize corporate profits in marketing investments. He has been recognized with the highest level of awards for his accomplishments throughout his career at AT&T.

Between AT&T and Lenskold Group, Jim helped found a start-up technology company, Quality Technology Solutions, Inc., and held the position of Executive Vice President. He is on the Board of Trustees for the Training, Inc. National Association, a nonprofit organization that has a history of success in preparing unemployed and low-income individuals for self-sufficiency and career growth. Jim earned his Master of Business Administration from Rutgers University Graduate School of Management where he supplemented his marketing and strategy experience with studies in entrepreneurial consultation and business finance.

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About the Lenskold Group

The Lenskold Group has surpassed traditional mind-sets and methods to develop the most comprehensive and innovative process to plan, measure, and optimize marketing strategies toward maximum profitability. The Lenskold Group has delivered high-quality consulting and marketing services to generate profitable growth for a broad range of client companies since 1997. Our team of accomplished professionals and our strong network of partners provide cohesive and comprehensive solutions.

Our combined marketing ROI and strategic consulting services guide marketing investments toward maximum profitability. Call now for more information.



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