

## Longwood SBDC article series #1: Weathering the Storm: Creating a Stronger Business

### Article 1: Business Owners: Are You Loyal?

Welcome to the first article in a series devoted to tips and advice for weathering the storm. I don't think anyone will have to wonder what storm I'm referring to. If you are a business owner, an employee, or even a retired citizen, the winds of the current financial crisis have been raging around us. American consumers are trimming their sails with a sharp reduction in spending. Less spending equates to less revenues for all businesses, with our small business community struggling to compete and stay afloat in a sea of fierce competition. Now more than ever, it is important to create a loyalty factor that keeps customers coming back and revenues flowing.

There are many examples of customer loyalty programs that work, such as frequent shopper rewards and referral discounts. To illustrate the importance of repeat business, consider the "Lifetime Value of a Customer." For example, an auto mechanic should want to know how much money a typical customer spends in a year's time on auto repair. This type of information tells him, or her, what percentage of that customer's business he or she is getting. Let's assume that the average customer spends \$3,000 per year on auto maintenance and repair. A mechanic would want to have all of that customer's business, within the scope of work that he could perform. If our mechanic looks back at a history of a customer's transactions with his business and finds that he only provided \$300 in maintenance or repair services to that customer, he realizes that he only has 10% of the total annual value of that customer's business. Who is getting the other 90%? Multiply the annual value of this customer's business over the lifetime of the customer, and the result is alarming. Assuming our customer has 50 years of vehicle ownership, we have a lifetime value of repair and maintenance totaling \$150,000. If our mechanic in this example only retains 10% of this customer's business, he is losing \$135,000 in potential revenues from that one customer. Add to this the value of a satisfied customer's referrals, and you could see an even larger impact.

How can our mechanic obtain the information he needs to do this calculation? If he belongs to an industry association, that's a great place to start. He could also visit his local Small Business Development Center for free access to a wealth of industry information and specialized market research reports.

Do you take steps to create customer loyalty? What steps can you take to claim more of that "lifetime value" from your customers? It might be helpful to think back to why you went into business to begin with. In the case of most successful businesses, it was because you identified a way to solve your customers' problems. If you are willing to actively help your customers solve a problem through their transaction with you, the more loyal they are going to be. It is important to note that this is only going to be a successful tactic if you pro-actively **ask** your customers what they need from your business. Staying connected to your customers is an excellent strategy, whether you form informal focus groups by treating your key customers to breakfast, or simply ask customers key questions, one on one, at the time of purchase.

To see the effect here, let's turn the original question around. "Are your customers loyal?" may be answered by asking another question: "Are you loyal to your customers?" In this age of large discount stores and indifferent service, the simple act of **consistently** showing your customer that he or she makes a difference will make a lasting impression, help you gather important marketing information, and create the loyalty your business needs to survive.

Next week: More on tools to help you create customer loyalty

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