BUSINESS CLASS

TRENDS AND INSIGHTS

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Clues Your Customer Base Is Abandoning You (and How to Stop It)

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SUMMARY

Noticed business dropping off lately? There could be a very good reason for it. If any of these 5 situations sound familiar to you, here are some ways to fix it.

Keeping your existing base of customers is essential to staying in business. And for a business owner, one of the most frightening experiences is discovering that your customer base is leaving you in droves. Why so scary? Well, for one thing, numerous studies have shown that it's much easier to sell to an existing customer than to a new one. For instance, Bain & Co., a Boston-based management consulting firm, conducted a study showing that it costs six to seven times more to attract a new customer than to keep an existing one, and that a 10 percent climb in customer retention generally translates into a 30 percent increase in the value of that company.

The bottom line is, if you want to stay in business, you need to keep your customers.

Why Your Numbers Are Dropping

At some point, it can become clear that your customers are abandoning ship—you have much less work and much less revenue coming in. But in the beginning, it may not be so obvious. After all, your company's work likely ebbs and flows, so another ebb may seem perfectly normal. You might even be slightly relieved to find you have more time to focus on all those business tasks you don't generally have time for.

But how can you tell the difference between a lull that will pick up again or a fast trip to business failure? Here are a few signs that will tell you if you're really in trouble:

1. The economy is suffering. Even if the economy seems to be chugging along, that doesn't mean there aren't signs pointing to a dead end. For instance, during the late 1920s, before the Great Depression hit hard, car sales started to fall off, steel production and housing development was slowing down, and farms were struggling for much of the decade. But these signs were easy to miss, because for most industries and individuals, things were still positive—it was the Roaring '20s, after all.

More recently, Robert Palidora, now a Philadelphia-based financial consultant with AXA Advisors LLC, owned a successful, high-end menswear retail business for 25 years. After 9/11, Palidora saw his business plunge by 40 percent, but looking back on it now, he realizes the problems had been festering earlier than that.

"The warning sign was the dotcom bubble," Palidora says. He didn't see it because his own business was receiving awards and was structurally very sound. But his customers, many of them business owners and investors making their money in this then new economy, didn't have healthy incomes.

Steve Caradano, who owns Vero Linens, saw something similar occur with his company, which manufactures Italian bed linens for the luxury boutique hospitality industry. In 2009, when the recession struck and people hit the pause button on vacationing, hotels' business naturally dropped off, and they became more cautious in their spending.

The cotton market was also suffering its own woes. In March 2009, Caradano says, cotton was selling for $0.515 per pound; two years later, it was selling for $2.29 a pound, an increase of 446 percent. That sent his wholesale prices through the roof.

What to do about it: Entire books have been written on how to combat an anemic economy, but one successful approach is to embrace it rather than fight it. "Those events forced me to change my business model," Caradano says. But he didn't go for a radical change. He stuck with the fine linen market but expanded his customer base beyond hotels by going after the guests who stay in luxury hotels.

"I elected to take my products directly to consumers online," Caradano says. "Consumers enjoy fine bed linens, and I was able to establish a presence on the Internet, selling directly to customers without a retailer."

Palidora agrees with the choice to expand your customer base. Although he opted to close his store, Palidora says that many of the businesses like his that survived after 9/11 and are still around today transitioned to selling fine women's apparel as well as men's.

2. Society is changing. Arthur Zilberman, owner of Manhattan-based LaptopMD+, says that in 2010, he noticed a steady decline in the number of customers who needed their laptops serviced. "It wasn't a mass exodus, but the lower number of customers was notable," Zilberman says, who was at first stumped by the drop-off in business.

"But it dawned on me that the lack of customers with laptop issues directly correlated to the lower cost of laptops," he explains. "The customers I lost were no longer bringing in their laptops for servicing; they were simply buying new ones because they were becoming more affordable."

What to do about it: Instead of fighting a losing battle, Zilberman pivoted. His company still repairs laptops, but he expanded his services to include smartphone repair. "I analyzed the market and realized smartphone usage was on the incline," Zilberman says. "This allowed me to strategically revise my business model and work within the changing market.

"I spent more than $15,000 to invest in [the URL] iphone-repair-new-york.com," he adds. "With smartphone service, I was quickly able to offset the loss of laptop business with a bevy of monthly smartphone service requests."

3. You're getting more complaints than usual. An often-quoted statistic that's been credited to business consulting firm Lee Resources International is that for every customer complaint, there are 26 other unhappy customers who haven't said a word. According to Accenture's 2012 Global Consumer Pulse Research Study, 62 percent of customers had switched brands in the past year because of sub-par customer service. And a 2013 IBM study found that American companies lose $83 billion to poor customer service. A rise in the number of complaints you're getting is a bad sign.

What to do about it: Listen to what your customers are telling you, and fix the problems immediately. In addition, keep soliciting feedback, suggests Mike Kawula, a Tampa, Florida-based business coach and the former owner of two local businesses. "Hearing complaints can be difficult," Kawula says, "but it's actually an amazing opportunity to learn about what you can do to improve the customer experience." Asking customers what they really think about your business helps ensure that the negativity you're picking up on is isolated and not systematic across your entire business.

4. You're hearing a lot of negative gossip about your business. Scot Conway, owner of and instructor at Guardian Quest Academy of Martial Arts in Spring Valley, California, once lost about half his clients due to rumors that started after Conway had a match with a junior champion in full-contact fighting. Although Conway won the match without seriously injuring his opponent, word got out among his clients that he had beaten up one of his students. About the same time, Conway says, someone started a false rumor that he was having an affair with a female parent. Meanwhile, another rumor started circulating that he was leading students away from their Christian upbringing.

Unfortunately for Conway, it was the perfect storm of lies. "As all three rumors crossed through the same group of people, many people heard them all," Conway says. "They assumed 'where there's smoke, there's fire.'"

What to do about it: If you hear rumors about you or your business, and it's feasible, talk to the people discussing it. Conway says he used to ignore rumors, figuring that if you do a good job, you'll be rewarded. Now, he says, "We try to figure out what truth, if any, might be part of the justification of it." Fortunately, he hasn't had any more experiences like the three-pronged attack. But if he ever does, he definitely won't ignore them. "With online sources, the rumor mill is more dangerous today than it's ever been," he explains.

5. You're experiencing an exodus of employees. When you have a lot of key staff members heading for the exits, it may be a sign that your business, as a whole, is sick. For instance, your employees may have lost faith in your company's products or services, which doesn't bode well for customers who, sooner or later, are going to catch on. Or maybe it's a management problem, or your workers aren't being adequately compensated or appreciated. In any case, if more than a number of your employees are deserting you and you don't fix the turnover problem, you may have a future revenue problem on your hands.

What to do about it: Start conducting exit interviews. You need to find out why people are leaving and if there's anything you can do about it. If people aren't quitting but your culture isn't what you'd hoped it would be, it may be time to evaluate what you're doing to keep your employees happy. Maybe you need to put more effort into telling—and showing—your staff just how much you appreciate them. Considering your customers may do business with you in part because of their loyalty to your staff, keeping your customers from leaving often depends on preventing your employees from going first.

Putting all this advice into action is like having an ever-present welcome mat out for your customer base. If you can't manage that, your customers could do more than head for the exits—they might show *you* the door.

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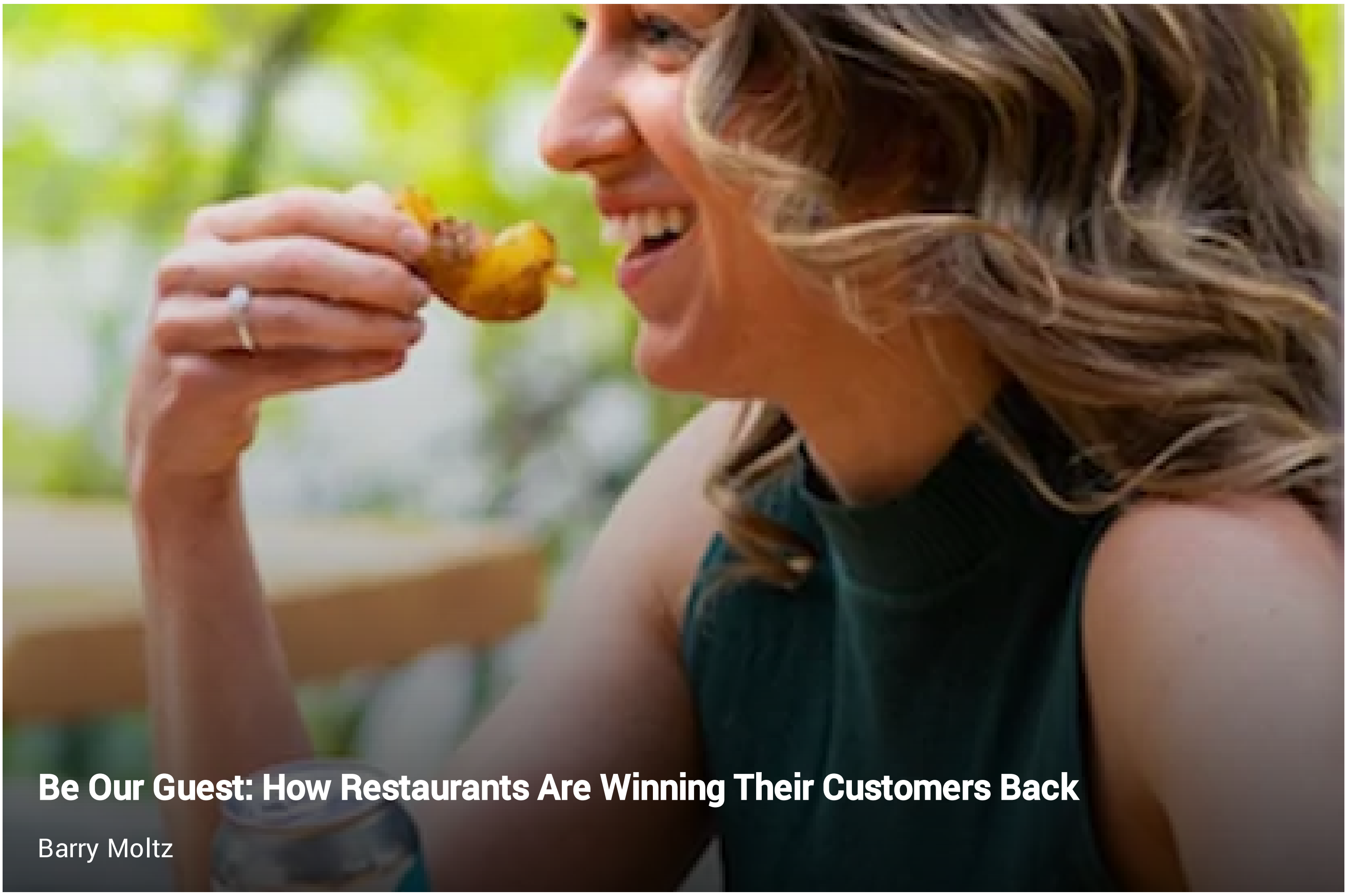

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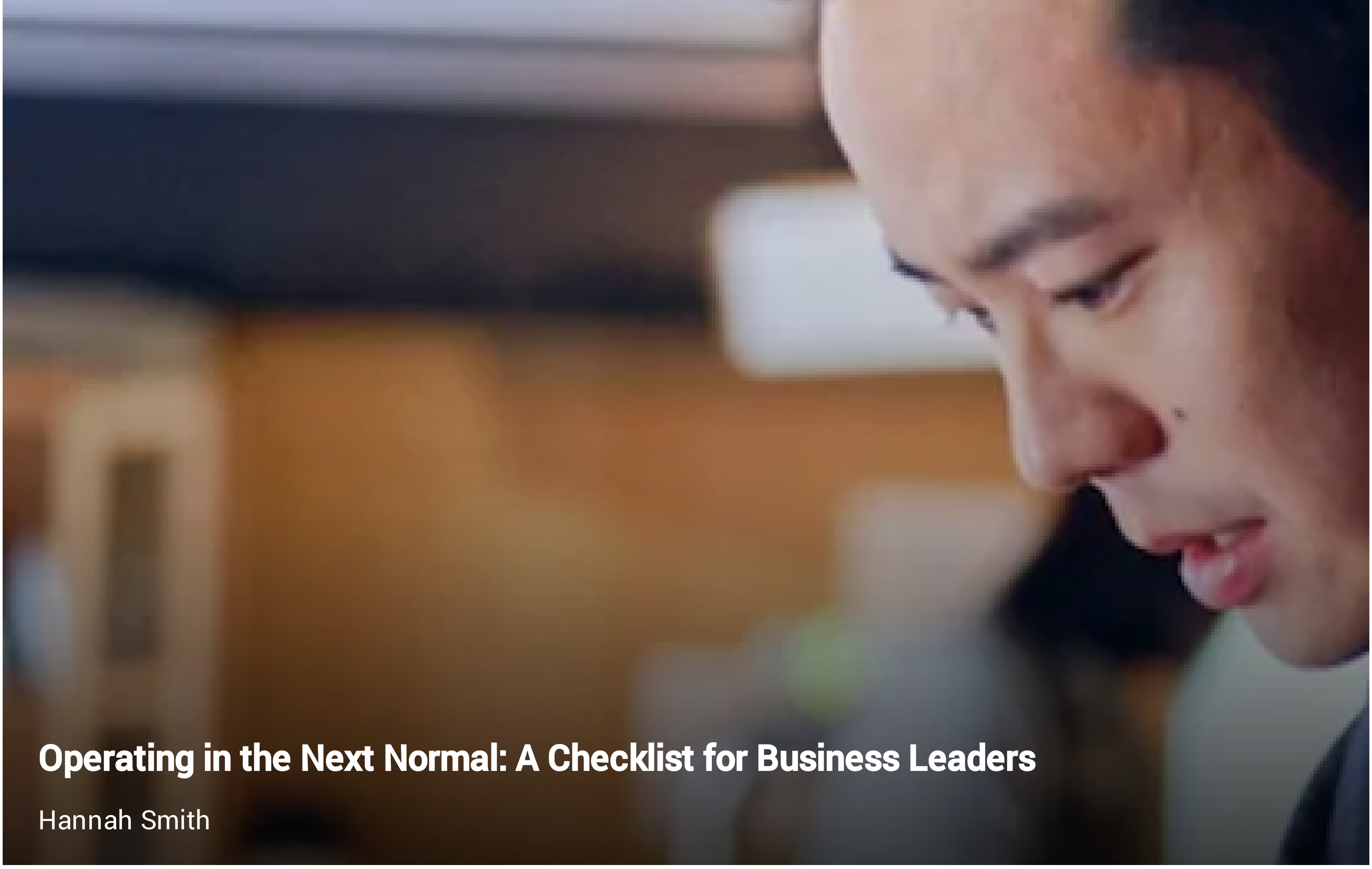

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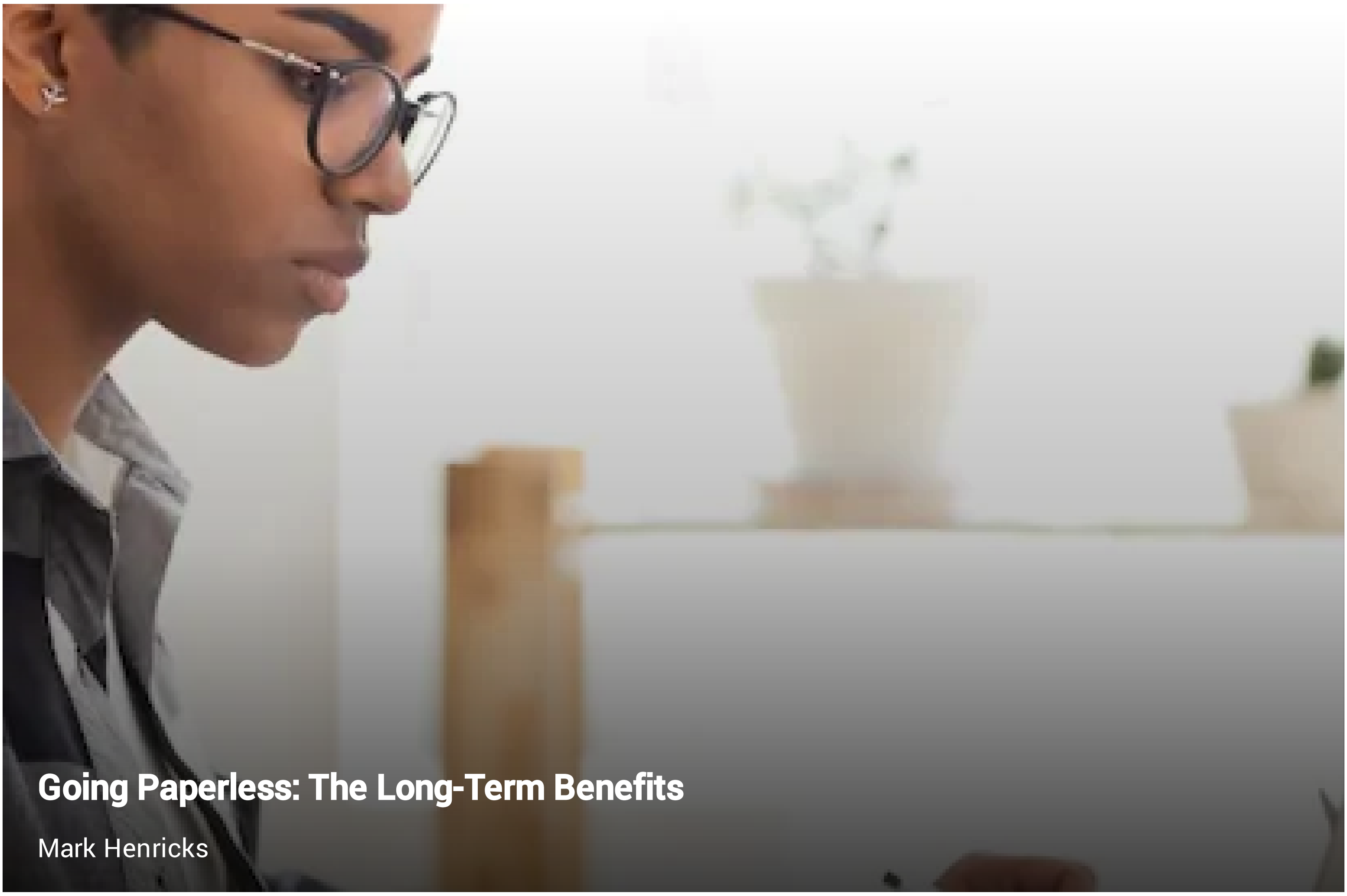

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