



RETENTION AND LOYALTY VS ACQUISITION IN 'NEW NORMAL' AND ECONOMIC DOWNTURN

As we navigate the uncertain waters of the “new normal” and face the looming challenges of economic downturns and changing consumer behaviours in 2024, it’s crucial to reassess our priorities and strategies in the realm of marketing.

Marketers have been confronted with unprecedented obstacles since the onset of the COVID-19 pandemic in early 2020. Now, as we brace ourselves for a fresh wave of challenges—including shifts in consumption patterns, altered purchasing habits, and reduced spending—it’s imperative to evaluate where our focus should lie: customer acquisition or retention.

The truth is, there’s no one-size-fits-all answer. The decision between customer acquisition and retention is nuanced and depends on various factors, such as your business’s financial resources, long-term objectives, and overall strategy. However, a more strategic and calculated approach is warranted in times of limited resources and economic uncertainty.

While every business ideally strives to balance both customer

acquisition and retention efforts, it’s essential to prioritise sustainable paths to growth. This means doubling down on strategies that foster long-term customer loyalty and profitability.

Rather than chasing short-term gains through aggressive acquisition tactics, consider investing in initiatives that cultivate lasting relationships with your existing customer base. By focusing on retention, you can maximise the lifetime value of your customers and mitigate the risks associated with volatile market conditions.

In essence, now is the time to pivot towards a more strategic and deliberate approach to growth—one that prioritizes sustainable paths over short-term gains. By investing in customer retention and loyalty, you can future-proof your business and emerge stronger in the face of adversity.

Let’s seize this opportunity to chart a course towards long-term success and resilience in the ever-changing landscape of the “new normal.”

Why companies tend to focus more on customer acquisition than retention:

Immediate Revenue Generation:

Acquiring new customers often leads to an immediate influx of revenue, especially in industries with a large pool of potential customers. This influx can particularly appeal to companies looking to demonstrate short-term financial growth to shareholders, investors, or stakeholders.

Market Share Expansion:

In competitive industries or markets, companies may prioritise customer acquisition to expand their market share quickly. By acquiring new customers, they can increase their footprint in the market and potentially edge out competitors.

Perception of Growth:

There’s a common perception that growth equates to acquiring new customers. Many businesses, particularly startups and younger companies, are under pressure to show rapid growth to attract investors or secure additional funding. As a result, they may prioritise acquisition strategies to fuel this growth narrative.

Focus on Sales and Marketing Efforts:

Sales and marketing teams often receive incentives or bonuses based on their ability to acquire new customers. This incentive structure can inadvertently encourage a focus on acquisition rather than retention, as teams prioritise activities directly contributing to acquiring new customers.

Lack of Long-Term Perspective:

In some cases, companies may prioritise short-term gains over long-term sustainability. This short-sighted approach may lead them to focus on acquiring new customers without fully considering the importance of retaining existing ones for sustainable growth over time.

Ease of Measuring Acquisition Metrics:

Metrics related to customer acquisition, such as cost per acquisition (CPA) or return on advertising spend (ROAS), are often more straightforward to measure compared to retention metrics. As a result, companies may gravitate towards acquisition-focused metrics because they provide clear, tangible results that are easier to report on.

High Churn Rates:

In industries with high customer churn rates, companies may feel compelled to focus more on acquisition to offset the loss of customers. Instead of addressing the root causes of churn, such as poor customer experience or product quality, they may resort to continually acquiring new customers to maintain their customer base.

Overall, while customer acquisition is undoubtedly important for business growth, it's essential for companies to strike a balance between acquisition and retention efforts. Neglecting retention in favour of acquisition can lead to unsustainable growth and missed long-term success and profitability opportunities.

Customer retention and loyalty are not only essential for maintaining a steady revenue stream but also for driving sustainable growth and profitability. By prioritising retention efforts, businesses can maximise the value of their existing customer base, differentiate themselves from competitors, and lay the foundation for long-term success in the marketplace.

Reasons why customer retention is critical to company growth and success:

Stable Revenue Streams:



- The chances of selling products to old customers are 60 to 70%. Whereas, in the case of a new customer, the chances are only 5 to 20%. It has been seen that existing customers are 50% more likely to buy a new product. Statistics also show that they are 31% more willing to spend on new products. (*Semrush).
- Existing customers provide a consistent source of revenue through repeat purchases and ongoing subscriptions or contracts.
- By retaining loyal customers, businesses can rely on steady cash flow even during periods of economic uncertainty or market volatility.
- This stability allows businesses to better plan and allocate resources for future growth initiatives, such as product development or market expansion.



Lower Acquisition Costs:



- It's 6 to 7 times more expensive to acquire a new customer than it is to retain an existing customer (**American Express)
- The cost to acquire a new customer is anywhere from five to 25 times more expensive than retaining an existing one (****Harvard Business Review). Hence, the focus on customer retention and primary markets, instead of taking growth-oriented but speculative risks, makes economic sense.
- Acquiring new customers can be expensive, requiring investments in marketing, advertising, and sales efforts.
- In contrast, retaining existing customers typically incurs lower costs, as there's no need to spend on acquisition channels like paid advertising or lead generation.
- By focusing on retention, businesses can optimise their marketing budgets and achieve a higher return on investment (ROI) compared to acquisition-focused strategies.
- A 5% increase in customer retention can increase company profit by 25-95% (***Bain & Company).

Increased Customer Lifetime Value (CLV):



- Loyal customers tend to have a higher CLV than new customers, as they continue to make purchases over an extended period.
- By nurturing customer loyalty, businesses can maximise the lifetime value of each customer, leading to higher overall revenue and profitability.
- This increased CLV allows businesses to justify higher investments in customer acquisition and retention efforts, knowing that the long-term returns will outweigh the initial costs.

Word-of-Mouth Marketing:



- Loyal customers are more likely to recommend the brand to others, leading to organic growth through word-of-mouth marketing.
- Positive recommendations and referrals from satisfied customers carry significant weight and can influence the purchasing decisions of potential new customers.
- Leveraging word-of-mouth marketing can help businesses expand their customer base at a lower cost and with higher credibility than traditional advertising.

Competitive Advantage:



- In competitive markets, customer retention and loyalty can serve as a powerful differentiator for businesses.
- Brands that prioritize customer satisfaction and loyalty often stand out from the competition and command higher customer loyalty rates.
- By delivering exceptional experiences and building strong relationships with customers, businesses can create a loyal customer base that is less susceptible to competitor offers or price fluctuations.

Feedback and Insights:



- Loyal customers are often more willing to provide feedback and share insights about their experiences with the brand.
- This feedback can be invaluable for businesses, providing actionable insights into customer preferences, pain points, and areas for improvement.
- By actively listening to their customers and addressing their needs and concerns, businesses can continuously enhance their products, services, and overall customer experience, driving greater satisfaction and loyalty in the long run.

Customer expectations have heightened over the past few years. A 'good customer experience' is no longer enough to establish brand loyalty. Experiences must be frictionlessly personalised and give consumers a reason to return to you repeatedly.



So, how do we increase customer retention and loyalty?

Data-Driven Approaches:

Utilize data analytics to gain insights into customer preferences, behaviours, and needs. By leveraging data-driven approaches, businesses can personalize interactions and offer tailored solutions that resonate with individual customers.

Prioritize Customer Experience:

Focus on delivering exceptional customer experiences across all touchpoints. Invest in real-time digital experience insights to understand customer behaviour and preferences, allowing for faster and more accurate responses to their needs.

Upgrade Customer Data Capabilities:

Enhance your capabilities to collect and analyse customer data effectively. By staying agile and adaptable, businesses can respond swiftly to changing client preferences and market dynamics, thereby improving customer satisfaction and loyalty.

Engage Customers Proactively:

Solicit feedback from customers through various channels and actively involve them in the decision-making process. By allowing customers to weigh in on product developments and service improvements, businesses can foster a sense of ownership and loyalty.

Reduce Friction in the Purchase Process:

Streamline the purchasing journey to minimise obstacles and challenges faced by customers. Simplify processes, optimise checkout flows, and offer convenient payment options to enhance the overall shopping experience.

By implementing these strategies, businesses can create meaningful connections with customers, inspire brand loyalty, and ultimately drive long-term retention and profitability. In today's competitive landscape, prioritising customer retention and delivering exceptional experiences are key differentiators that can set businesses apart and ensure sustained success.



Efficiencies and Efficient Growth

Efficiency and profitability are the focus of the businesses right now, leaning into the bottom line by focusing on what works today to support any volatility tomorrow.

Data is the most critical ingredient for business growth.

Today, the key to successful marketing is customer data. Without big data, you operate blindly, hoping to meet customer expectations. Suppose you want to be an effective marketer. In that case, you should be able to use data as a foundation of all your strategies and campaigns, using that data to provide personalised experiences that create long-term loyalty.

Data-driven marketing is the approach of optimising brand

communications based on customer information. Data-driven marketers use customer data to predict their needs, desires and future behaviours. Such insight helps develop personalised marketing strategies for the highest possible return on investment (ROI). In simpler words, it means justifying every penny spent on marketing by spending marketing expenditure in such a way that it only focuses on the areas that bring in growth.

Benefits of data-driven marketing:



To apply a strategy to the principles outlined above, businesses can leverage technology solutions to streamline data-driven marketing efforts and maximise efficiency and effectiveness. Here's how:

Data Integration and Management:

Implement a comprehensive Customer Relationship Management (CRM) system to centralise customer data from various sources, such as website interactions, email campaigns, social media, and offline channels.

Utilize Marketing Automation platforms to automate data collection, segmentation, and analysis, enabling marketers to gain actionable insights into customer behaviours and preferences.

Personalization at Scale:

Invest in Marketing Personalization platforms that use advanced algorithms and machine learning to deliver personalised content, offers, and recommendations to individual customers in real time.

Leverage Customer Data Platforms (CDPs) to unify customer data across channels and create detailed customer profiles, allowing for hyper-targeted messaging and tailored experiences.

Omnichannel Engagement:

Implement Marketing Cloud solutions that enable seamless communication and engagement with customers across multiple channels, including email, SMS, social media, and chatbots.

Use Marketing Attribution tools to track customer interactions across touchpoints and channels, providing insights into the customer journey and optimising marketing spend for maximum impact.

Customer Journey Mapping Software:

Use customer journey mapping software to visualise and understand the end-to-end customer experience. By mapping customer touchpoints and interactions, marketers can identify pain points, opportunities for improvement, and areas to enhance personalisation and engagement.

Predictive Analytics and AI:

Deploy Predictive Analytics tools to forecast customer behaviours and trends, enabling personalised engagement to come into the picture when we talk about efficient marketing strategy.

By integrating these MarTech solutions into their data-driven marketing strategy, businesses can unlock new opportunities for efficiency, effectiveness, and growth. These technologies empower marketers to harness the power of data, automate processes, personalise communications, and optimise campaigns, ultimately driving better results and maximising ROI.

Personalised engagement comes into the picture when we talk about efficient marketing strategy.

Data-driven marketers use customer data to predict their needs, desires and future behaviours, and such insight helps develop personalised marketing strategies for the highest possible return on investment (ROI).

The marketing processes empowered by data promise to solve more significant problems, making the job cost-effective and cutting down the waste of time and energy. Also, because of the abundance of data available, every entity now has a deeper understanding of its audience's consumers than ever before. So, data-driven marketing is undoubtedly the future of marketing, at least as is predicted now!

Suppose you are thinking of making your marketing process data driven. In that case, our unique framework helps our customers start building their marketing machines with (Data) Customer Relationship Management (D)CRM embedded in the core. We are effectively enabling our customers to build and execute marketing, sales, and service engagement through the lens of customer preference as a significant, long-term source of competitive advantage built on ethics, trust, and an actual exchange of value.

In summary, a data-driven marketing strategy empowers businesses to personalise engagement, anticipate customer needs, and enhance the overall customer experience, leading to improved retention and loyalty. By leveraging customer data ethically and transparently, businesses can cultivate lasting relationships with their audience, driving sustainable growth and profitability in the long run.



Conclusion:

In the dynamic landscape of 2024, businesses face unprecedented challenges and uncertainties. Yet, amidst these, a strategic reassessment of marketing priorities is crucial. While customer acquisition remains vital, the focus must shift towards sustainable growth through retention. By nurturing existing customer relationships, businesses can secure stable revenue streams, reduce costs, and gain competitive advantages. Leveraging data-driven marketing strategies further enhances efficiency and effectiveness, driving long-term success in the ever-evolving marketplace. In essence, prioritizing customer retention empowers businesses to thrive amidst uncertainty and build resilient pathways to growth.

Sources

*70 Powerful Customer Retention Statistics You Need to Know in 2022, Semrush

**Retaining Customers vs. Acquiring Customers, American Express, 2019

*** Prescription for cutting cost, Bain.

****70 Compelling Customer Loyalty Statistics: 2022 Vital Facts & Data Analysis, Finances Online

About the Author

Marcela Lalikova

Principal Consultant, Digital Experience Unit, Infosys



Accomplished, results-driven consultant brings a wealth of experience in resolving complex marketing technologies and data challenges, optimizing processes, and enhancing customer experiences to define and deliver digital transformation programs. Specializing in choosing and implementing marketing technology, managing, and executing marketing technology projects, as well as evaluating new marketing technologies and recommending how to utilize them to achieve marketing objectives. She has a track record of delivering projects for global multinational enterprises across various sectors and geographies and expertise in strategic alignment, management, and communication across diverse audiences, including business, technology, and marketing teams.

For more information, contact askus@infosys.com



© 2024 Infosys Limited, Bengaluru, India. All Rights Reserved. Infosys believes the information in this document is accurate as of its publication date; such information is subject to change without notice. Infosys acknowledges the proprietary rights of other companies to the trademarks, product names and such other intellectual property rights mentioned in this document. Except as expressly permitted, neither this documentation nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, printing, photocopying, recording or otherwise, without the prior permission of Infosys Limited and/ or any named intellectual property rights holders under this document.