



# A leaking bucket



Before you try to attract new customers, stop the drain of old ones.

to attract new guests. They wind up generating a much lower return on investment, if any at all, on investment, especially in terms of developing loyal repeat guests. While they are chasing after new guests, existing customers are walking out the door and never returning.

Most businesses miss the importance of the ways they can grow with the customers they already have, the first three items in the table. Stop defections, or customers who don't return—also known as the leaky bucket. That is the most effective way to grow any business, based on return on effort and cost.

Our company has analyzed many existing location-based leisure businesses (LBLs) for clients who wanted to improve sales and profitability. Consistently, we have found customer defection rates of anywhere from 25% to 50% and higher, meaning 25% to 50% of existing guests abandon the LBL each year. Just to stay even, these businesses must advertise, market and run promotions to recruit large numbers of new guests to replace the ones they've chased away, the ones who never come back (and probably tell their friends not to, as well!). It's like pouring water into a leaky bucket, as new guests simply replace old ones who've taken their time and money elsewhere.

Customers don't return for numerous reasons, but the vast majority of those reasons involve things a business can control. It can be because of a bad customer service encounter with an employee, dirty restrooms, broken equipment, poor quality or cold food, excessive noise, unappealing ambience, uncomfortable furniture, and hundreds of other possibilities. In fact, in today's

There are only five ways for any location-based leisure, retail, restaurant or hospitality facility to grow its business, and that includes bowling. Here they are:

5 WAYS TO GROW A LOCATION-BASED BUSINESS		
MOST ↑ Effectiveness ↓ LEAST	<ol style="list-style-type: none"> <li>1. Lower the customer defection rate <i>(guests who don't return for various reasons)</i></li> <li>2. Increase the amount customers spend on each visit <i>(higher per capita spending)</i></li> <li>3. Increase how often existing customers frequent the business <i>(higher repeat business)</i></li> <li>4. Attract new customers from within the existing trade area</li> <li>5. Expand the geographic reach of the market area <i>(practically impossible)</i></li> </ol>	LEAST ↓ Cost & Effort ↓ MOST

Unfortunately, most businesses concentrate on, and make the greatest investment of money and management energy in the ways that offer the lowest return. They focus on the last two in the table, trying

world, with so many options competing for guests' limited leisure time, it can be as simple as not offering a compelling enough experience to make guests want to return.

Focusing on retaining existing guests is known as

managing for zero defections. By retaining existing customers, you increase sales by generating more revenue from them over a longer period of time. Studies have shown that even a 5% decrease in defections can result in a 25% or greater increase in profits.

The second and third easiest ways to grow a business (points 2 and 3 in the table), which actually are about equally effective, also focus on existing customers: keep them at the facility longer so they spend more money, and get them to visit more frequently. If customers are spending more and coming more often, that means they must be happy with your business.

By focusing on the first three ways to grow a business—on existing customers—you end up doing a better job of attracting new customers than the traditional route of advertising and discounting.

## Customers usually defect for reasons a business can control.

Reducing customer defections and keeping customers happy will usually take care of attracting new customers. Customers who are really happy with your business will not only want to return. They will also become your business disciples, telling their friends through positive word-of-mouth marketing to become your customers.

Powerful? You bet! Think about how you choose restaurants to visit. Would you be more likely to visit one with an eye-catching ad in the newspaper or one that a friend praised to the skies? Yeah, we thought so. And just in case you still aren't sure how powerful positive word-of-mouth from happy customers can be, one online study conducted by Boston-based research firm Chadwick Martin Bailey found that 27% of the U.S. population had eaten at restaurants based solely on the recommendations of friends, neighbors or relatives. In addition, 47% of respondents to the survey said they had recommended full-service, casual-dining restaurants to others during the past year.

A recent survey based on interviews with 90,000 North American retail consumers by the Toronto-based Verde Group in association with the Jay H. Baker Retailing Initiative at Wharton School found that about 45% of customers who experience problems never contact the company. "Organizations that assume no news is good news are at significant risk," according to the report. "Rather than complain, these people spread negative word-of-mouth and then vote with their feet by making future purchases elsewhere."

The survey report also noted that about 70% of customers defect because of service or quality problems that could be fixed with relative ease. Customers believe complaining will do no good, feel that it is not worth the time, do not know where or how to complain, or fear hostility or retribution. About 59% of the survey respondents experienced at least one problem with a product or service over a six-to-12-month period. The Verde Group estimates up to 21% of the typical North American company's revenue is at risk as a result of customer dissatisfaction and defection.

And if that isn't convincing enough about cost of customer defections, a recent survey by loyalty marketing firm Maritz found that more than two-thirds of American consumers (68%) reported they had in the past two years defected or considered defecting from a company they had frequently used. Of those that left a company, 43% cited service experiences as their main reason for doing so. Of those who left, 83% said they had told others about their negative experience.

Reasons cited for defecting were:

- Poor customer service systems or policies (85%).
- The poor attitude of an employee (77%).
- An employee's low level of knowledge about how to help (76%).
- An employee's lack of decision-making authority or empowerment to help (72%).

Focusing and investing on current customers rather than the ones you don't have realizes the greatest return-on-investment. Yes, it's different than the conventional wisdom that advertising and marketing are the way to go, but an enormous amount of research shows that investing in the quality of experiences your existing guests have is your best avenue to growth and success. □

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