Lessons from the World's Customer Retention Record Holder

"Customers are the center of our business" is a common mantra heard from CEOs and CMOs. Given that, why do so few know how many customers they retain? One retailer who does, publishes its result quarterly. Its Retention Rate is an amazing 91%!

by Brian Woolf (September 15, 2014)

Costco's Customer Retention Rate in North America has been inching up over the past decade. Currently it's 91%. That means 91% of their customers (who pay $55 or $110 annually to shop in one of their 552 US/Canadian Warehouses), renew their membership fee each year. It also means that their Attrition Rate is only 9%. In contrast, a typical North American food retailer with a free "loyalty card" program has an annual attrition rate 4-5 times that of Costco. What is also impressive is that Costco raised its remarkable retention rate despite increasing its membership fee twice in the past eight years!

Can Food Retailers Achieve A Similar Retention Rate?
Unlikely, but many certainly could improve their current results.

A major reason why the average food retailer's retention rate is lower than Costco's is because its clubcard program is free and open to all who walk through their doors. Therefore, assuming some form of benefit is offered to members (eg, 1% rebate program, two-tier pricing, or fuel discounts), most customers will sign up to take advantage of the free benefit. And customers repeat the signup process when they enter a competitor with a similar program. Their thought process? "They are giving it away; I may as well take advantage of it." The rewards are always there and there is often no penalty for splitting one's shopping. Therefore, presenting a clubcard simply becomes the price of entry into the store whether the customer is a frequent or infrequent shopper.

And there's the rub, as Shakespeare once penned. When offered a card program that has no constraints, many convenience and other occasional customers will sign up. Unfortunately, the nature of such customers is that they are large in number and have a high attrition (ie, low retention) rate. They often comprise half a food retailer's customer base and experience a 50% annual attrition rate (and 50% retention rate).

Another, lesser, part of the gap comes from a food retailer's new customers. Each quarter, we usually see new or reactivated (those who once shopped, were absent for months, but returned this quarter) customers comprising at least 10% of total customers. Their combined attrition rate is abysmal, typically 65-75% (ie, an annual retention rate of 25-35%).

Convenience customers and new customers both sign up for membership "because they may as well take advantage of it" but many of them, given their high attrition rates, obviously are not serious about a long relationship as is a new Costco member who pays $55 or $110 for a year's membership. It comes as no surprise, therefore, that Costco has a superior retention rate than a food retailer. The question then becomes what can the food retailer learn from Costco?

What Can A Food Retailer Learn from Costco?

Without question, the first lesson is Costco's obsession with customer retention. Their marketing and metrics focus on this. They completely understand that if most of their customers renew their membership each year, they are doing the right things and providing good value. And comparable sales keep growing. Now let's ask ourselves: How obsessed are we with our company's customer retention rate; if not of all customers, then at least of our higher-spending customers? Do we have a retention goal? Are results posted monthly or quarterly? What elements are we planning to add to our clubcard that build and/or reinforce their retention?

As explained earlier, the typical free food retailer clubcard program creates two main customer segments: frequent regular customers and infrequent convenience customers. To achieve a better focus on customer retention, here are three possible approaches to help stimulate your thinking:

- Leave your program as is but define your criteria as to who constitutes a regular customer. Set retention goals and ongoing measurement metrics, along with plans to improve their retention spending above your regular customer base spending level.

- Charge a one-time fee ($5-10) to join the clubcard program (and a lesser amount for a replacement card). This is a common practice among Japanese food retailers. They believe that the card offers value and it's fair to charge for it. It makes customers pause and think whether it's worth spending money on and tends to discourage infrequent shoppers from signing up.

- Introduce a second clubcard that, for an annual fee, offers significantly more value. Springfield, MA-based Big Y, a 60-store, billion-dollar retailer, successfully launched a second card in April 2011. Big Y's new Silver Savings Card, with an annual $20 fee offers Deep Discount Silver Pricing on hundreds of items throughout the store, discounts at various gas stations, discounts on movie tickets, as well as all the deals offered to its 23-year old base program, its Express Savings Club. The additional savings on the new Silver Savings Card are such that Big Y guarantees double your money back if you don't save at least as much as the membership fee in your first year. Big Y has learned, like Costco, that when customers "put some skin in the game" they both spend more and have a better retention rate.

Closing Thought

If customers are the center of your business does it not make sense to do all possible to retain them and measure your retention rate like Costco? It helped them become one of the world's largest and most successful retailers.

About the author...

Brian Woolf is a global leader in loyalty marketing and has written three definitive works on the subject, Measured Marketing: A Tool to Shape Food Store Strategy, Customer Specific Marketing, and Loyalty Marketing: The Second Act. He devotes his time to helping retailers develop, critique and strengthen their loyalty programs.

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