How to Overcome Retail-Customer Erosion by Capturing New Residents

A white paper from Moving Targets

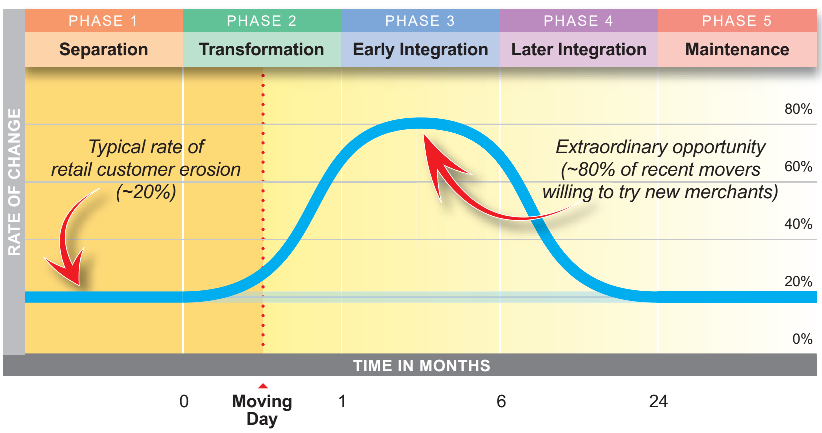
MOVING TARGETS®
NEW RESIDENT DIRECT MARKETING

Executive Summary

Every business shares the same problem: Over time, we lose customers. Often called customer erosion, this is a big problem. Most merchants lose 20% of their customers every year, and some businesses lose even more.

How can you replace those lost customers? And ideally, replace them with loyal customers who come back for many years?

This white paper argues that the best source for a new customer is a new person moving into your neighborhood. The trick is to get the attention of these recent arrivals, and encourage them to try your business while they're still new in the area.



What do we know about new residents?

People move for three main reasons: housing, work, and family. They move from every region of the country to every other region. And they move a lot: The U.S. Census Bureau tells us that 46% of Americans moved between 1995 and 2000.

Moving is certainly very stressful.

Researchers confirm that new residents are rebuilding their lives, reestablishing their identities, and dealing with a major life transition: a birth, marriage, divorce, career move, retirement, or death. This transformation continues for at least two years, until the new resident feels at home.

During that time, movers are far more likely to try new products and services than at any other time in their lives.

In fact, in the weeks following a move, the average new resident spends $7,100 on everything from air conditioners to takeout meals.

That makes recent movers a perfect source of new "regulars".

Local retailers need to find a way to attract the attention of new residents, impress them with their goods or services, and capture them as regular customers.

But how much can you afford to invest to capture new residents?

This white paper provides an easy-to-use table to help calculate the lifetime value of a typical customer. This is the total net profit your business earns from your relationship with any one customer. This is an effective yardstick that shows what you can afford to invest to capture new residents as regular customers.

Thinking about your retail business in these terms will put you far ahead of the competition, and more than make up for the natural customer erosion that occurs over the years.

The Problem of Customer Erosion

Every business shares the same problem: Over time, we lose customers. Often called customer erosion, this is a big issue. Like a cliff slowly eaten away by the waves, our customer base erodes over time.

As a rule of thumb, most merchants lose 20% of their customers every year.[1] Some businesses are even tougher. For example, local drycleaners can lose more than 40% of their customers every year.[2] One expert warns, "up to 35% of your customer base will die or disappear within the next 12 months!"[3]

Why do so many customers leave?

Some get bored or disenchanted, some switch to competitors, a few die, and some move away. After all, America has always been a mobile society. In fact, the U.S. Census Bureau tells us that by 2000, 46% of Americans lived in a different place than in 1995.[4] That's right, nearly half the people in the country moved in five years.

Whatever the exact number, every retailer faces some customer erosion. The real question is: **How to replace all those lost customers? And ideally, how to replace them with loyal customers who come back for many years?**

Where Do "Regulars" Come From?

Everyone in business instinctively knows that our "regulars" are valuable. But where do our loyal regulars come from?

In fact, the most likely candidate to become a "regular" is a new person moving into your neighborhood.

The trick is to get the attention of these new arrivals, and encourage them to try your business while they're still new in the area, before they re-establish a fixed set of suppliers for all their needs. In other words, you need to get a new resident to become your regular before your competition does.

To do that, you need to understand what goes on in the mind of a new resident.

Let's look a little closer at why people move, where they move, and what happens when they move.

> ***"Now I don't depend on anyone to pay my bills. It's just that sense of being out on your own that makes everything around you different."***
>
> — new resident, living by themselves for the first time

1: page 34, 6 Deadly Small Business Marketing Mistakes, David Frey, 2005

2: "Research, Retention Mean More Revenues," *American Drycleaner*, November 2002

3: "Your Total Customer Base May be Shrinking 50% a Year," Shell Alpert, Small Biz Shorts

4: "Geographical Mobility: 1995 to 2000," U.S. Census Bureau

Why Do People Move?

As shown in Figure 1, people move for three main reasons: housing, work, and family. This chart shows why people moved outside their counties in 1999-2000. Within the same county, fewer people move for work, and more to change houses or apartments.

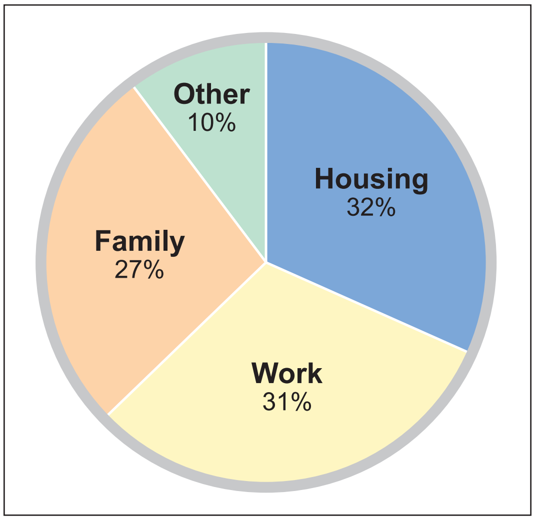


Figure 1: Why People Move

This probably rings true with your own experience. **Last time you moved, wasn't it either to change homes, to change jobs, or because of a change in your family situation?**

These results, from the U.S. Census Bureau, are very similar from one year to the next.

Where Do People Move?

As shown in Figure 2, people are on the move from every region of the country to every other region. This chart covers U.S. Census Bureau data for one year, from March 1999 to March 2000. It's interesting to look at the regional patterns.

Whatever you make of them, it's clear there is an ongoing flow of Americans moving around the country.

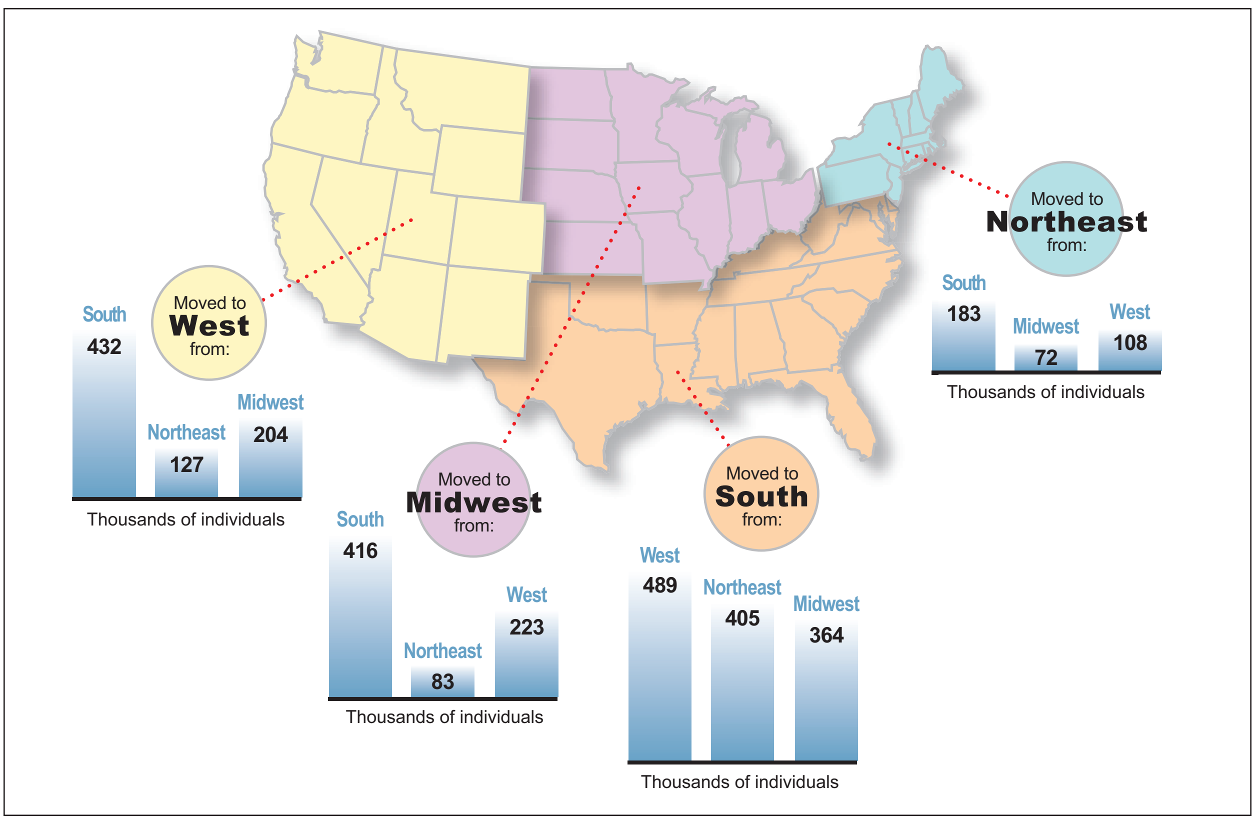


Figure 2: Region-to-Region Migration, 1999–2000

The Psychology of New Residents

Now that we've seen "the big picture" of why people move and where they move, let's consider what goes on in a person's psychology when they move.

Moving is recognized as one of the most stressful events in life, almost as stressful as the death of a family member or a divorce. Psychiatrists and researchers confirm that people arrive in a new area in a unique state.

They are rebuilding their lives, reestablishing their identities, and most likely dealing with a major transition, such as:

- birth
- going away to school
- marriage
- divorce
- career move
- retirement
- death

This is what makes moving such an emotionally-draining experience.

For instance, a recent survey of new movers showed that one quarter felt lonely after their move; this rose to 51% among those who moved 100 miles or more.

Among those, 41% agreed that moving was harder than they thought it would be.[5]

"When you move, change happens fast… Your identity undergoes a rapid transformation," writes one expert on moving.[6] This transformation continues for at least two years, until a new mover feels at home again.[7]

The same survey of new movers showed that 63% were forced to make changes in their daily routine after they moved.[8] These changes included anything from a longer commute along a different route to the new demands of maintaining a house after living in an apartment. In fact, moving affected family patterns and rituals in 57% of those who moved more than 100 miles.

"Moving means enduring disorientation, confusion, disorganization—a loss of control, a temporary loss of the sense of competence that is a foundation of self-esteem," writes another researcher.[9]

> ***"I thought it would be an easy transition. But I'm still having trouble knowing the best place to buy certain things."***
> — new resident

5: page 4, "New Movers Attitude Survey," Ideal Media Research Center, July 2005

6: page 16, Making the Big Move, Cathy Goodwin, 1999

7: page 114, Goodwin

8: page 6, "New Movers Attitude Survey"

9: page 226, The Trauma of Moving, Audrey T. McCollum, 1990

All this research shows that moving significantly disrupts the daily routine of up to two-thirds of all new movers. In fact, it's hard to imagine how anyone could move without being disrupted.

When most people's daily routine is disrupted, they yearn to reestablish it. A major part of this routine is their consumer behavior. In a new setting, far removed from their once-familiar suppliers, new residents have no choice but to seek out and try new merchants.

It's worth looking at exactly when they do so.

The Five Stages of Moving

Despite how often Americans move, the psychology of moving is just starting to be understood. Psychiatrists have described five distinct phases of moving, each with its own characteristics, as listed in Figure 3.[10]

Planning for the move takes place in the Separation stage, and Moving Day occurs midway through the Transformation stage.

During the Transformation and Integration stages, recent movers are in a profound state of flux, when they are more likely to try new business products and services than at any other time, as shown in Figure 4.

> ***"I bought a home instead of renting, so it made me feel like I accomplished something, that I was successful. I feel as though I have a new start in life."***
> — new homeowner

Stage of Moving	Description
1: Separation	**You acknowledge your move, and say goodbye to the things you can't take with you.**
2: Transformation	**You leave your old home and arrive in your new location. At this point, you've given up your old identity, but haven't yet created your new one.**
3: Early Integration (first 6 months)	**You miss what you left behind, but begin to create your new identity as you explore your new location. This is a period of tremendous change and experimentation.**
4: Later Integration (after 6 months)	**You slowly settle into your new life, establish new routines, and take on your new identity over a period of two years or more.**
5: Maintenance	**You maintain your new identity and new routine, until it's time to face your next move.**

Figure 3: The Five Stages of Moving

10: pages 57–134, Goodwin

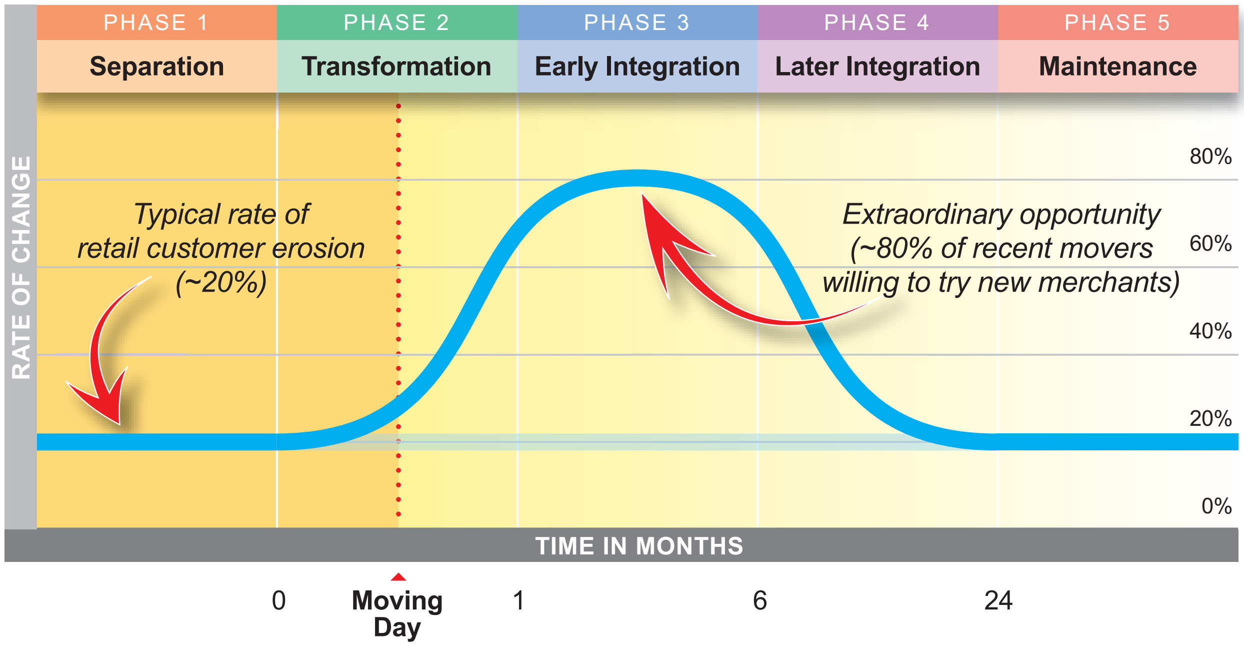


Figure 4: The Extraordinary Opportunity of Recent Movers

In Figure 4, the lower line shows the typical rate of customer erosion, about 20%. Notice how this rate is steady for movers in the Separation and Maintenance stages at both sides of the graphic, since they already have an established set of suppliers.

But look what happens after someone moves. The top line shows the huge bulge that takes place after Moving Day. Through the next 24 months, an estimated 80% of movers will likely try new products and services from local suppliers.

As they reinvent themselves, new residents may do anything from getting a new hairstyle to redecorating their new home. According to a recent Yankelovich survey, 42% of people even change their brand of toothpaste after they move!

During that time, new residents spend four to six times as much as non-movers, on everything from air conditioners to take-out meals. In fact, the U.S. Postal Service says the average consumer spends $7,100 on relocation-related goods in the weeks following a move, calling this a “hyperspend period”.[11] Much of this torrent of hyperspending flows to local retailers that the new mover is trying for the very first time.

“A new location requires new stuff. Your curtains or rugs no longer fit... You need a wide variety of goods and services for your new location... a new barber, grocery store, hairdresser, dentist, optician, bank—you name it,” comments one marketing expert, who urges merchants to take advantage of this golden opportunity.[12]

In short, everyone tends to agree: New movers are the best customers that any retailer will likely ever find.

11: “People Who Move Want to Keep Getting Their Favorite Catalogs... And Then Some” United States Postal Service, December 1, 2005

12: “Why New-Move Mailing Lists Work,” DM News, August 6, 2001

Facts about New Residents

Let's look at some of the known characteristics of new residents that make them so exciting as a source of new business. Figure 5 sums these up.

Characteristic	Statistic
Percentage of US population that moved between 1995 and 2000	46%
Average stay in any private-sector job in U.S.	3 years
Profile of typical person transferred to new job in different city	35 to 45 years old, married with 2 children
New residents who say they are ready to spend more money after their move	2 out of 3
Average amount every new resident spends on goods related to their re-location	$7,100
New residents who change their daily routine after moving	63%
New residents who see themselves differently after moving 100+ miles	62%
New residents who eat pizza	90%+
New residents who say it's difficult to find an honest auto repair shop	2 out of 3
Female new residents who say they are anxious about finding a good hairstylist	65%
New residents who receive gifts from neighbors, or special offers from local businesses	37%
New residents who appreciate these gifts or offers	98%
New residents who wish they'd received more gift certificates from local merchants	more than 3 out of 4
New residents who redeem gift certificates from local merchants	80%

Figure 5: Characteristics of New Residents

Sources: Ideal Media Research Center, Moving Targets, The Trauma of Moving, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Postal Service, Will This Place Ever Feel Like Home?

New Residents: the Solution to Customer Erosion

All this leads to one inescapable conclusion: New residents are an attractive source of immediate business for any local merchant, as well as ideal candidates to become new long-term "regulars".

To be successful, local retailers must find a way to:

- attract the attention of new residents, impress them with their goods or services, and
- capture them as regular customers.

Consistently capturing the business from new residents will more than make up for the natural customer erosion that occurs over the years.

There are several options available to retailers looking to attract recent movers. But how do you know how much to invest in this form of marketing? Fortunately, there is a simple yardstick that shows how much any retailer can realistically afford to spend on acquiring new customers—the lifetime value of a customer.

> ***"My husband and I recently moved. When I received my mail yesterday, I was pleasantly surprised to find a coupon for a free pizza from your restaurant, along with a letter wishing us success at our new location. How thoughtful! It's nice to see that someone cares so much about our community. Thanks again, we greatly appreciate it."***
>
> — the Eberharts

The Lifetime Value of a Customer

In the rush of daily affairs, local business owners seldom calculate the lifetime value of a customer: the total profit on all purchases a customer makes as long as they remain a customer. Business consultant Jay Abraham puts it this way: "exactly how much combined profit a client represents to your business for the life of the relationship."[13]

This number is much higher than most retailers suspect.

For example, consider a family that orders $25 worth of pizza and soda most weekends while living in the same home for four years. The pizzeria who captures those orders gains gross revenue of perhaps $4,500—and a gross profit of about $3,500—from that one household alone.

The next step is to realize that spending a few dollars to acquire such a profitable customer is a wise investment.

It seems well-worth giving away one free pizza if that would give you a good chance of capturing the ongoing business from the household in this example. And remember, the pizzeria is gambling only the actual cost of preparing and delivering the pizza, not the retail price it would be sold at.

The same logic applies to any other retail business, from automobile service to sit-down restaurants.

13: page 70, Getting Everything You Can Out of All You've Got, Jay Abraham

Calculating the Lifetime Value of a Customer

What if you don't know the lifetime value of a typical customer? Don't worry; not many local retailers do. Figure 6 provides a table to help determine your own customer lifetime value. As an example, the first column shows typical values for an automotive repair shop.[14]

If you don't have exact figures, ask your bookkeeper or accountant for an estimate, or give your own. You can always refine these later.

Now you have a clear idea of a lifetime customer value, or net profit. What's next?

"Knowing how much a client will spend with you over a period of years tells you how much you can spend on the process of acquiring a client," advises Abraham.

Since the lifetime customer value is all profit, you can afford to invest anything up to that amount on any marketing program that's sure to deliver another regular customer.

> ***"I started coming straight home after work. I want to shop more for things for the home. And I started taking classes to learn how to do work around the house myself."***
>
> — new resident

That means Joe's Garage can afford to give away up to $1,706 worth of free oil changes, as long as that gets them one regular customer who returns three times a year for the next seven years.

The same calculation applies to your own business, whatever that may be, using your own values that you calculated below.

Line	Item	Example: Joe's Garage	Your Values
A	Typical sale to a customer	$325	$ ________
B	Typical repeat customer visits in one year	3	________
C	Typical length of relationship with customer	7 years	_____ years
D	Typical lifetime revenue from a customer (multiply line A by line B by line C)	$6,825	$ ________
E	Net profit margin on goods and services	25%	_______ %
F	Lifetime customer net profit (multiply line D by line E)	$1,706	$ ________

Figure 6: Calculating Your Lifetime Customer Net Profit

14: Values provided by Chris "Chubby" Frederick, President, Automotive Training Institute

15: page 71, Abraham

In other words, if you can find a way to capture the business from a new resident for a fraction of the lifetime value of one regular customer, it's good business to do it.

When you start to think this way as a local retailer, you will be far ahead of your competition. You will be much more likely to develop a large number of regular customers—especially if your competition does nothing to attract, impress, and capture the new residents arriving in your area every month.

"For years I've been a customer of Moving Targets. In the beginning, I watched every month what I spent and what my return was. Every month we came out ahead. I watched how many people we retained, and there were always plenty to stay on board. Many turned out to be long-term customers. After 10 years with Moving Targets, our numbers are still great and I've never looked back."

— Robert Morrison, Morrison's Auto-Rite

About Moving Targets

Founded in 1992, Moving Targets provides a unique service for local retailers: It creates warmhearted personal letters with valuable gift certificates and sends them out in attention-getting solo mailing envelopes to just-moved-in new residents.

Moving Targets has successfully introduced more than 26 million families to over 20,000 merchants nationwide, offering more than $517,000,000 (over 1/2 billion) in free products and services… truly a win-win for everyone! The company is based in Perkasie, PA and run by founders Jay Siff and Stu Duckman.

For more information, call 800-926-2451 or visit www.MovingTargets.com