Why Customers Leave You and How to Keep Them Coming Back

Review of Findings from the Recent Brand Loyalty & Retention Study Among Boat Owners

IBEX
Louisville, KY
October 4, 2012
About Left Brain Marketing

- Marketing research company
- Research specialists for recreation, leisure and durable products
- Founded by Jerry Mona in 2000 after nearly ten year career with leading marine manufacturers
Agenda

- Why focusing on retention is important
- Results of recent Brand Loyalty and Defection study
- Recommended actions to improve retention
Why is focusing on customer satisfaction & retention important?

- High customer acquisition investment
  - Costs 7-10X to acquire vs. retain
  - Maintain asset

- Benefits of positive Word-of-Mouth
  - Best form of advertising
  - Especially important for first time boaters

- Avoid impact of negative W.O.M.
  - “Good news travels fast. Bad news travels at the speed of light.”
  - Especially true with social media

- Scarcity of “new boaters” to fill void

- Direct financial impact of lost customers
  - Next purchase
  - “Negative compounding”
Approximately only 2 in 10 boat buyers are getting into boating for the first time.

**Why Purchased Boat?**

- Get into boat ownership for the first time: 18%
- Replace a boat you owned previously: 61%
- Be an additional boat to one you previously acquired: 9%
- Get back into boating: 12%

*Source: 2012 LBM Brand Loyalty and Defection Study, total boat buyers (n=939)*
Average Age of Boat Buyers is Steadily Increasing. Fewer 1st time boaters coming in?

Source: Info-Link Technologies, Inc.
Impact of “Negative Compounding”

The impact of a reduced retention rate is magnified with each successive repurchase cycle.

<table>
<thead>
<tr>
<th>Item</th>
<th>50% Retention Rate</th>
<th>25% Retention Rate</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Sales</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
</tr>
<tr>
<td>1st Repurchase Cycle</td>
<td>500</td>
<td>250</td>
<td>50%</td>
</tr>
<tr>
<td>2nd Repurchase Cycle</td>
<td>250</td>
<td>63</td>
<td>75%</td>
</tr>
</tbody>
</table>
BRAND LOYALTY & DEFECTION STUDY
Background

- LBM sponsored and conducted an online survey among recent model year boat owners
- Respondents recruited from the LBM online boater panel
  - Nearly 10,000 panelists
  - Variety of boat types
  - Newer model year boat owners
- Objective was to determine whether repeat boat owners repurchased the same brand and, if not, why they switched
- Survey was conducted September 7 - 12, 2012
Sample Composition

Total Sample

- 5,500 panel members with 2000 MY or more recent boats were invited to participate
- A total of 939 valid, useable responses were received.

<table>
<thead>
<tr>
<th>Sample Group</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sample</td>
<td>939</td>
</tr>
<tr>
<td>• 1\textsuperscript{st} time boat owners</td>
<td>157</td>
</tr>
<tr>
<td>• Repeat boat owners</td>
<td>782</td>
</tr>
<tr>
<td>- Prior purchased new</td>
<td>425</td>
</tr>
<tr>
<td>- Prior purchased used</td>
<td>357</td>
</tr>
</tbody>
</table>

This is the group we are primarily interested in.
Sample Composition
*Repeat Boat Buyers, Prior Purchased New*

- Mix of owners of various boat types were included:

<table>
<thead>
<tr>
<th>Type of Boat Currently Owned</th>
<th>Count</th>
<th>% of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminum Fishing</td>
<td>73</td>
<td>17%</td>
</tr>
<tr>
<td>Fiberglass Freshwater Fishing</td>
<td>77</td>
<td>18%</td>
</tr>
<tr>
<td>Saltwater Fishing</td>
<td>41</td>
<td>10%</td>
</tr>
<tr>
<td>Pontoons</td>
<td>49</td>
<td>12%</td>
</tr>
<tr>
<td>Runabouts</td>
<td>84</td>
<td>20%</td>
</tr>
<tr>
<td>Deck Boats</td>
<td>32</td>
<td>8%</td>
</tr>
<tr>
<td>Cruisers</td>
<td>34</td>
<td>8%</td>
</tr>
<tr>
<td><strong>All Other Types</strong>*</td>
<td>35</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>425</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*All Other Types include Jet Boats (8), Competition Ski/Wakeboard Boats (12), Yachts (8), Performance Boats (2) and various others (5).*
Brand Loyalty Definition

- For the purposes of this study, someone is considered brand loyal (or retained) IF they repurchased the same brand AND they purchased their subsequent boat NEW.
Repeat Boat Buyers, Prior Purchased NEW (n=425)
Among those who purchased their prior boat new, 1 in 4 repurchased the same brand (also new).

Base: 425 repeat boat buyers whose prior boat was purchased new.
However, among those who defected, half didn’t even consider repurchasing the same brand.

How Seriously Did You Consider Your Prior Brand?
(Among repeat boat buyers, prior boat purchased new)

- Seriously considered: 21%
- Moderately considered: 14%
- Slightly considered: 15%
- Did not consider at all: 49%

Base: 256 repeat boat buyers whose prior boat was purchased new and did NOT repurchase the same brand.
Repeat Boat Buyers
Both NEW
(n=369)
Of those who purchased new boats only, approximately 1 in 3 stayed with the same brand.

Base: 369 repeat boat buyers whose prior AND current boat was purchased new.
...And having a positive prior experience was the main reason for their loyalty.

Base: 113 repeat boat buyers whose prior AND current boat was purchased new AND repurchased SAME brand.
However, among “switchers”, not offering the type or size of boat desired (product selection) was the main reason for switching brands.

![Reasons for Switching Brands](chart)

**Base:** 255 repeat boat buyers whose prior AND current boat was purchased new AND did NOT repurchase the same brand.
And even among “switchers” who purchased only new boats, half still did not consider their prior brand.

Base: 255 repeat boat buyers whose prior AND current boat was purchased new AND did NOT repurchase the same brand.
However, it is important to note that over 4 in 10 repeat boat buyers bought a different type of boat with their most recent purchase.

- Repurchased Different Type, 43%
- Repurchased Same Type, 57%

Base: 369 repeat boat buyers whose prior AND current boat was purchased new.
And nearly half of those who repurchased the same type of boat (and both purchased new) stayed with the same brand.

![Brand Loyalty Chart]

Base: 211 repeat boat buyers whose prior AND current boat was purchased new and repurchased the SAME TYPE of boat. 158 repurchased a DIFFERENT TYPE.
Repeat Boat Buyers
Both NEW and of the SAME TYPE
(n=211)
So even if they purchase another new boat of the same type, half still leave. Question is why???

**Brand Loyalty**
(Among those who have owned multiple boats of same type and both were purchased new)

- Retained: 46%
- Switched: 54%

Base: 211 repeat boat buyers whose prior AND current boat was purchased new and repurchased the SAME TYPE of boat.
Reasons for staying are largely the same...it is about a positive prior experience.

Base: 96 repeat boat buyers whose prior AND current boat was purchased new and repurchased the same TYPE and BRAND of boat.
However, price, quality (of new boat offering) and product selection are the main reasons why customers leave.

**Reasons for Switching Brands**

(Current & prior boat are **same type** and both purchased **new**)

- **Price**: 25%
- **Quality**: 27%
- **Product Selection**: 20%
- **Prior Experience**: 19%
- **Features**: 26%
- **Dealer Location**: 20%
- **Layout**: 26%
- **Dealer Support**: 19%
- **Appearance**: 13%
- **Product Availability**: 6%
- **Other**: 15%

**Perceived value**

**Also major contributing factors**

Base: 114 repeat boat buyers whose prior AND current boat was purchased new and repurchased the same TYPE but DIFFERENT BRAND of boat.
One-fourth of “switchers” who repurchased the same type of boat seriously considered their prior brand.

How Seriously Did You Consider Your Prior Brand?
(Among those who have owned multiple boats of same type and both were purchased new)

- Seriously considered brand: 24%
- Moderately considered brand: 16%
- Slightly considered brand: 20%
- Did not consider brand at all: 40%

Base: 114 repeat boat buyers whose prior AND current boat was purchased new and repurchased the same TYPE but DIFFERENT BRAND of boat.
Naturally, the more satisfied the customer, the more likely they are to repurchase the same brand.

*Among those who repurchased a boat of the same type and both were purchased new (n=211).*
What is the financial impact of higher customer satisfaction?
Financial Impact of Customer Satisfaction

Base Assumptions

- Purchased their prior boat NEW – regardless of whether subsequent boat was new, used or of a different type
- To be considered “Retained”, they must have repurchased the same brand NEW again
  - Those who stick with the same brand but the most recent was purchased USED do not count
- For this example, assumed the following parameters:
  - Brand sales of approximately 1,000 units per year
  - 10% of annual sales come from prior customers
  - $5,000 annual average contribution margin
  - Current CSI score is around 8.0 (or 80)
Going from an average CSI score of 8 to a 9 increases your retention rate by approximately 14%.

Base: 425 repeat boat buyers whose prior boat was purchased new.
...And could have a big impact on your bottom line each year.

Available At:
www.leftbraininc.com > Resources > Customer Retention Calculator

This benefit does NOT include the indirect benefit of positive W.O.M.
OTHER REPURCHASE BEHAVIOR FACTOIDS
(among those who repurchased new of same type)
Two-thirds repurchase a larger boat. One-fourth stick with the same size.

Change in Boat Length of Current Boat vs. Prior
(Among those who have purchased multiple boats of same type and both were purchased new)

Base: 211 repeat boat buyers whose prior AND current boat was purchased new and repurchased the SAME TYPE of boat.
Nearly half make their subsequent purchase within 5 years; about 80% repurchase within 10.

Duration Between Successive Boat Purchases
(Among those who have purchased multiple boats of the same type and both were purchased new)

Base: 211 repeat boat buyers whose prior AND current boat was purchased new and repurchased the SAME TYPE of boat.
CONCLUSIONS
Conclusions

- Brand loyalty is affected by many things, some of which are largely outside the manufacturers’ control
  - Going from a new boat to used
  - Repurchasing a different type of boat
- The following are the retention rates corresponding to various repurchase scenarios:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Retention Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased Prior Boat New</td>
<td>27%</td>
</tr>
<tr>
<td>Purchased Prior &amp; Subsequent Boat New</td>
<td>31%</td>
</tr>
<tr>
<td>Purchased Prior &amp; Subsequent Boat New and of the Same Type</td>
<td>46%</td>
</tr>
</tbody>
</table>
Conclusions

Among those who stayed with the same brand, having a positive prior experience was the main reason for their loyalty followed by product quality (with the new boat)

- And, retention rates increase substantially with higher levels of customer satisfaction which can have a big impact on the bottom line

After controlling for type of boat and new vs. used, the main reasons for switching brands were…

- Price (16% main reason), Quality (15%) and Product Selection (16%)
- However, features and layout were also contributing factors
Conclusions

Continued

- Three out of four repurchases of boats of the same type are within 0-3’ larger in length
  - Storage space or towing capacity may be limiting factors
- And among those who repurchase, nearly half do so within 5 years
  - Approximately 80% repurchase within 10 years of their prior purchase
RECOMMENDED ACTIONS
1. Discover your customers’ migration patterns

- What **types** of boat do they likely purchase next?
- Which other **brands** do they go to?
- What **size** increments do they repurchase?
- At what **time** will they most likely be back in the market?
2. Identify your retention rate

- Among prior customers who have repurchased, what percent stayed with your brand?
- Enter parameters into the LBM customer retention calculator to identify the financial benefit of increasing rate
  - www.leftbraininc.com/retention-calculator
- Research why customers left
- Acknowledge loyal customers
3. Closely monitor CSI results and institute a “hot alert” system

- Going from a CSI of 8 to a 9 has a big impact on retention and ongoing profits (directly and indirectly through W.O.M).
- Customers with issues that are addressed quickly and in a professional manner are often more satisfied than customers with no issues at all.
4. Understand your relative perceived brand value among target consumers

- Price and quality were key reasons for switching brands
- Do a price sensitivity analysis to create demand curve vs. key competitors

<table>
<thead>
<tr>
<th></th>
<th>Brand X</th>
<th>Brand Y</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Boat</strong></td>
<td>21’ Fiberglass Runabout</td>
<td>21’ Fiberglass Runabout</td>
</tr>
<tr>
<td><strong>Engine</strong></td>
<td>5.0L Sterndrive</td>
<td>5.0L Sterndrive</td>
</tr>
<tr>
<td><strong>Trailer</strong></td>
<td>Tandem Axle</td>
<td>Tandem Axle</td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>$35,000</td>
<td>$35,000</td>
</tr>
</tbody>
</table>

**Price Scenarios**
- $5,000
- $2,500
- $1,000

Same Price
+$1,000
+$2,500
+$5,000

*Vary price of your brand in subsequent scenarios*
5. Market to your previous customers – especially those in the 3-7 year prime repurchase window

- 43% of repurchases occur in this time frame
- Especially important if “high satisfaction” customer
- Could encourage repurchase and/or positive W.O.M.
6. Understand *first* what target customers truly want and value and *then* design products accordingly

- Important for customer acquisition as well as retention
- Need customer input at different stages of the product development cycle
- Type of information required varies by development stage

LBM Product Development Framework

INSIGHTS → GENERATE SOLUTIONS → CONFIRMATION
The INSIGHTS Stage

- Starting point in the product development cycle
- Goal is to identify what target customers value and how well current products meet needs
- Involves qualitative research initially (in depth interviews)
- Useful information approach: Outcome-Driven Process

**Identify “jobs to be done”**
- What do customers want to do with their boat?

**Desired Outcomes**
- What does success look like in accomplishing each job/task?
- How important is each?

**Satisfaction with Current Products**
- How well do current products accomplish the desired outcomes?

Focus on identifying outcomes that are currently underserved.
The **GENERATE SOLUTIONS** Stage

- Goal is to identify one or more new product ideas to test/pursue further
- Assumes customer knowledge from the Insights stage
- Typically involves brain storming sessions with cross-departmental representatives
  - Focus is on identifying potential ways to address underserved needs/outcomes (i.e., items that are important but not adequately addressed by existing products) uncovered from the prior stage
The CONFIRMATION Stage

- Goal is to determine whether there is sufficient interest in the product idea to go forward
- Involves quantitative research (often an online concept test)
- Tip: Examine concept interest by segment
  - Better to have a product that is intensely liked by a niche of consumers than one that has mediocre appeal among the masses
Thank You!!!

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