

The Leaky Bucket

A picture of poor customer retention in UK Theatre

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Katy Raines, Director of DixonRaines, explains how just keeping just a few more of your customers each year could dramatically increase both your ticket and fundraising income.

Did you know that the average Performing Arts Organisation in the UK is losing 2/3 of its audience every year? Or that 60% of its audience comes once and NEVER returns?

We've just conducted a piece of research with over 30 organisations which suggests just this.

In 3 years' time, therefore you're likely to have virtually none of the audience that is coming to your theatre today.

Many people would argue that this is 'normal' and that people just aren't loyal any more – perhaps it's just one of the many constraints within which we work. But I just don't buy that for 3 reasons:

- Commercial retention rates are on average around 75% - the arts is around 35%
- Many commercial organisations have spent the last 10 years recognising the financial value of their customers and putting in place strategies to maximise this – the arts just isn't doing this widely enough yet
- In arts organisations where they have implemented strategies for improving their customer retention it has actually improved!

This suggests to me that the arts is suffering these poor retention rates because it isn't thinking about its audiences and their value in the right way.

Customer Retention

So why is customer retention important, and how can it help to improve income generation?

1. Marketing costs are reduced

For a start, there is the old adage that it costs 5 times more to attract a new customer than to keep an existing one – so by concentrating on retaining more customers you reduce your marketing costs. There's plenty of research and evidence in many sectors to support this view.

The example below illustrates this:

If it costs £4 to retain a customer and £20 to acquire a new one, for the same marketing budget you could more than double your customers:

Acquisition emphasis	Retention emphasis
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Acquire 6 customers	£120	Acquire 3 customers	£60
Retain 5 customers	£20	Retain 20 customers	£80
Total cost	£140	Total cost	£140
Total customers	11	Total customers	23

2. Retained customers spend more money!

Secondly, the customers who know you better will spend more money – in our analysis of 30 organisations, a retained customer was worth twice as much in ticket spend as a one-off customer.

So what?

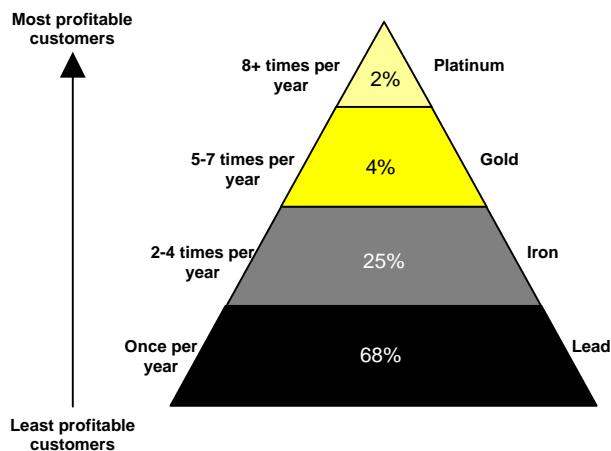
Our calculations show that a large scale receiving theatre, currently averaging 46% customer retention, could improve its annual ticket income by almost £20,000, simply by retaining 5% more of its customers. If it were able to achieve the commercial retention rates of 75%, this would be closer to £500,000 (ticket availability permitting).

BUTCustomer retention is not enough

But it's not enough just to retain customers – we need to develop relationships with them in order to make them retained AND LOYAL attenders. This process starts with looking at **frequency of attendance**.

In our research the typical organisation had almost 70% of its audience attending only once per year, and only 6% over 5 times per year.

The pyramid below shows a typical breakdown of bookers in 1 year at a UK Performing Arts Organisation:



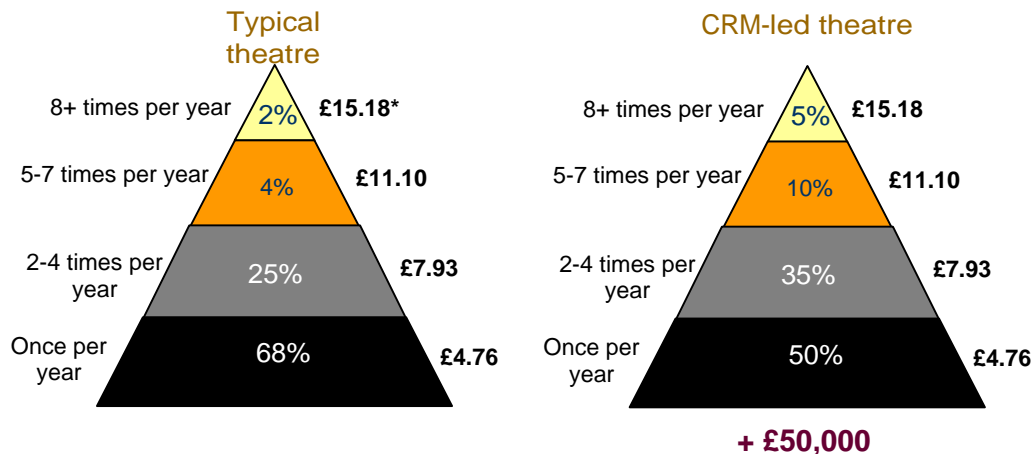
What is clear is that **we have far too many infrequent customers** – if we could just persuade half the people in the lead category to come once more in the year, it would change the picture dramatically.

Customer Frequency

But why is customer frequency important, and how does it help improve income?

1. A frequent customer spends more money with you - typically up to 9 times more than a one-off attender
2. A frequent customer will DONATE more in a carefully managed individual giving programme than an infrequent customer. The two pyramids below show the average

annual gift from customers based on their frequency of attendance. This is based on work we have done with a number of organisations.



*amounts based on results of typical large-scale theatre with 50,000 active bookers

Whilst the average annual gift per customer based on their frequency remains the same, a large scale theatre that has managed to improve its retention and frequency would typically raise £50,000 more than the typical theatre, contacting the same number of people.

Customer Relationship Management (CRM)

I would argue strongly that one of the best ways for the arts to improve their income generation is to implement a strong customer relationship management approach. Research has shown that companies who have a CRM focus and implement it well can improve their profitability by up to 100%.

“But”, I hear you say, “our Marketing department is always sending stuff to people who’ve booked before – so how is this different?” I would argue that whilst much marketing effort is directed at existing customers, it does not follow the basic principles of CRM, and therefore in many cases is wasted effort and money.

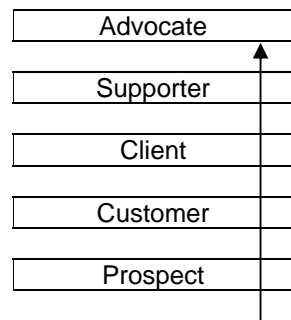
The principles of CRM

It is based on the following three principles:

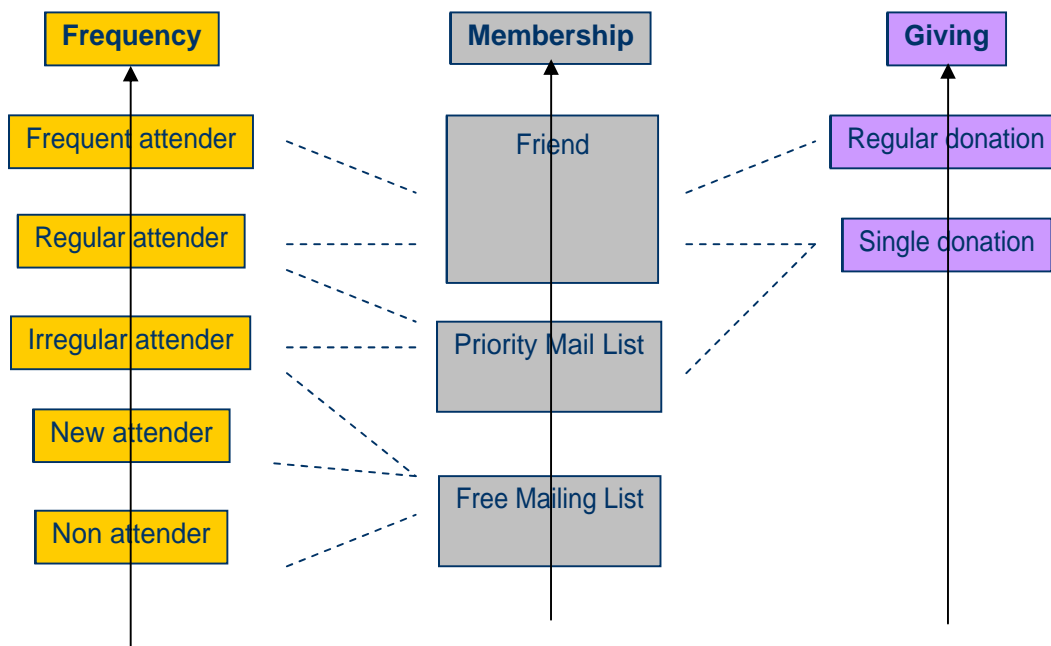
- that it is worth trying to develop **long-term relationships** with customers, and concentrate marketing effort on the more profitable
- therefore **customer retention** becomes vital to this approach
- and in order to develop these relationships the organisation must commit itself to a **two-way dialogue** with customers

The Loyalty Ladder

Because the focus of CRM is to build a relationship with a customer over time, organisations might consider the relationship with a customer as a ladder of loyalty:



In a theatre, for example, this might typically be manifest in a number of ways:



The theatre can increase loyalty in many ways – by encouraging people to attend more frequently, by showing their commitment through joining a membership scheme or club, or by making a single or regular donation.

Whichever organization is adopting the loyalty ladder(s), it must have clear strategies and measures for 'moving' customers from one level to the next. In the theatre's case, as shown, it is also suggested that the ladders are 'linked', and a successful CRM approach would ensure that the customer relationships were managed and integrated.

From interviews with organisations, 'customer retention' activity basically involved mailing people who've been to one sort of show with information about a similar sort of show. The marketing department were unlikely to segment the list by frequency, customer value or recency as well as by what type of show they had been to see.

What makes good CRM?

The organizations who reap the greatest rewards from a CRM approach are those that:

- have a customer-focused strategy, understood by the whole organization and implemented through integrated systems and procedures
- adopt personal and custom two-way communication
- have clear and aligned measures for CRM, based on customer retention, customer lifetime value, customer profitability and return on investment
- operate sophisticated and effective marketing information systems and use of customer data

The Arts and CRM

Our research showed not only low levels of customer retention and frequency, but very little evidence of CRM understanding or good practice.

Examples of this included:

- none of the 30 organisations had clear and aligned measures for customer retention, customer lifetime value, customer profitability or return on investment
- Very few of the Marketing staff were able to tell us how much of their budgets were invested in customer retention as oppose to customer acquisition
- Budgets and targets were being set on a very short-term (usually production) basis, not allowing for a longer term approach
- Personalised and customised communication was the exception rather than the norm – over ½ the organisations were regularly sending bulk mailings to their whole database with no segmentation or personalisation at all.
- Only 2 of the organisations calculated the profitability of their customers and communicated with them accordingly.

Next steps

For the Industry

I believe that the Arts is well placed to maximise the benefits of a CRM approach, but there are a few barriers we will have to overcome:

- the whole economics of theatre are based on a 'product-led' approach. The relationship between a commercial producer and a receiving venue is a classic example, where the box office 'deal' dictates marketing spend, budgets and targets. How do we move out of these constraints to think about customer retention and acquisition budgets and targets, rather than productions?
- We have been focused on 'new audiences' for many years– encouraged by our funding bodies – at the expense of nurturing relationships with our existing and valuable customers. How do we achieve the right balance – to maximise income, but also broaden our audience?
- It was apparent from interviewing Marketing staff and General Managers that few people felt they had the skills or expertise to embark on a CRM approach. How do we increase our skill base and improve training in this area?

For your organisation

I believe that by adopting a CRM approach your organisation could enjoy some or all of the following benefits:

- reduced marketing costs and 'free' marketing via word of mouth from more loyal customers
- dramatically increased income from box office and fundraising
- a loyal and committed audience base who will take more artistic risks – therefore reducing organisational risk when introducing more innovative work
- Happier and less stressed marketing staff

So if you would like to assess how well your organisation is doing, I would suggest 4 things:

- calculate your annual audience retention rates for the last 3 years, using your box office data. (ie what % of bookers who booked last year have also booked this year?)
- work out your customer frequency pyramid – what % of your bookers in 1 year fall into each of the frequency categories?
- From these analyses identify the steps in your loyalty ladders – for attendance, membership and giving and develop appropriate strategies for moving customers up to the next stage, using every interaction with the customer as an opportunity.
- Repeat your calculations every 6 months to see how you're doing – you'll be surprised!

Katy Raines is a Director of DixonRaines, an Arts consultancy specialising in Unlocking Customer Value through Marketing and Fundraising. She holds a first class MBA from Durham University, and speaks regularly at conferences and events in the UK. To receive a full copy of the research mentioned in this article, or to get in touch with Katy, email katy.raines@dixonraines.com, or visit www.dixonraines.com.