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OPINIONS

End the New Customer Search Trend, Focus on Current Customers to Ring the Register

by Richard Baker - 14 Jun 2009

Richard Baker, CEO of Premium Knowledge Group and Founder of The Luxury Marketing Council of Texas, takes a sceptical look at the relentless pursuit of growth based on capturing new markets and consumers.

During the “irrational exuberance” of the last decade, corporate luxury merchants were fascinated by growth. Driven by unprecedented increases in personal wealth (distinguished from net worth) the luxury market grew twice as fast as the retail sector.

This fatal attraction to top-line testosterone exhibited itself in every aspect of business plans. There was growth through international expansion, acquisition, segment proliferation, product line and price point diversification, generation-jumping, brand licensing and store openings.

After all they were assured, the U.S. economy was minting thousands of millionaires a month and the rising middle class of India (300+ million) was larger than the U.S. population. Every new M.B.A in Mumbai would certainly need a watch with complications. Every Russian visiting Fifth Avenue would need a condominium.

Then the “correction” eliminated trillions in faux wealth, leaving luxury companies looking for innovative ways to increase revenues; many are still directing their marketing dollars towards attracting new customers.

“Some estimate it costs nine times as much to acquire a new client as to keep and expand the loyalty of an existing one.”

My partner, Connie Wald, former Vice President of Marketing at Neiman Marcus, and I disagree with the

continuation of the historic (some would say hysteric) focus on growth. It takes significantly more resources to attract a new customer than to market to an existing one. Some estimate it costs nine times as much to acquire a new client as to keep and expand the loyalty of an existing one.

A luxury marketers' best investment is to utilize their systems to:

1. know the customer that is shopping and
2. direct their marketing efforts to capturing a majority share of their wallet. And, their interest.

If these customers are "surprised and delighted" they will tell others. Our research shows that "word-of-mouth" is the greatest influence on intent to purchase.

Thrilling your best customers is the best way to enthrall new customers.

How to do this? First, find the current customers who are spending. This requires a good database and the skills of a strong marketing manager to synthesize the data into easy to understand programs. This is easier than it sounds. When examining a new client's customer database we discovered only 25% of the records contained current contact information. It's hard to communicate with customers if you don't know how to reach them.

Second, assure these customers who spent the most with you. Even if they are spending less overall, seek to gain a greater share of their wallet. Take some funds that would be spend on prospective customers and invest them in current best customers. Do this creatively. Capture their imagination. Reignite their loyalty with service. Enflame their passion with personalization.

Moreover, it is important to understand the LifeStyle of best customers, meaning the pattern of values and preferences underlying their expenditure of time and money on non-essentials. Any new acquisition or experience must fit a customer's LifeStyle. We have discovered six primary LifeStyles ranging from "the Unmistakable Affluent", who enjoy acquisitions that display status, to the "Understated," just the opposite.

Retail businesses with a clear brand cater to a tight range of LifeStyles (i.e., Nordstrom has a 50% greater penetration of two LifeStyles). When constructing a program for "best customers" it is important to understand their LifeStyle preferences.

For example, at the very high end, host a dinner for intimate groups of best customers. Include some hard to access person as a special guest. If your best customers tend to be "Unmistakables" you might include a performing artist or media celebrity. If your best customers are "Understated" include a recognized professional (scientist, financier, etc.) whose personal department matches your clientele's.

Focusing on your best customers has a positive impact on the sales force, who will find it more enjoyable to call on customers with whom you already have a relationship, and who trust your judgment. They will reward you with business for your personalized attention. Putting marketing dollars behind existing customers provides a stronger chance for success for those on the front lines.

End the trendy focus on growth from any source. Focus on growth from current customers to make the bottom line your top priority.

Richard Baker

Only candidates with corporate e-mail addresses
will be contacted.