When the going gets tough, the tough do the maths

Katy Raines argues that assessing audience loyalty is a must for every arts organisation

In my article 'The Leaky Bucket' (2005), I made the case for why arts organisations should re-focus their marketing activity on retaining as well as acquiring customers. The advantages of doing so, which are well discussed in that document are, in summary:

- more effective use of marketing resources (time and money)
- increased income from the customer base (from both tickets and donations)
- a more loyal and committed customer base who will act as advocates for you, and possibly even take more artistic risks.

In today's economic climate, unless we are all to 'dumb down' our programmes beyond recognition, I believe these factors may make the difference between an arts organisation that survives and one that does not. In the coming year as marketers, we're all going to be put under pressure to justify every pound we spend against the return we achieve – and a good loyalty-based, or CRM (Customer Relationship Management), approach will help you do just that.

For many organisations, the perceived time and effort in changing their marketing approach seems, understandably, too big a leap to make. Their main concerns seem to be:

- How do we assess how well we're currently doing, and calculate what our current levels of audience loyalty are?
- How do we assess the financial impact this approach might make, and therefore make the argument for changing how things are done?
- How and where do we start?

Assessing customer loyalty

Loyalty is tricky to measure, but I have developed a system as part of my Audience Loyalty Healthcheck™ which gives a four-dimensional view of customer loyalty, as demonstrated by their behaviour:

- customer retention – i.e. what percentage of customers is being retained from one period (usually one year) to the next
- customer frequency – how often someone is attending or engaging with your organisation over a period of time (usually a year)
- customer lifetime – how long in total customers have been engaging with you, however infrequently
- customer value – how much your customers spend with you, and/or donate to you during one period (usually a year).

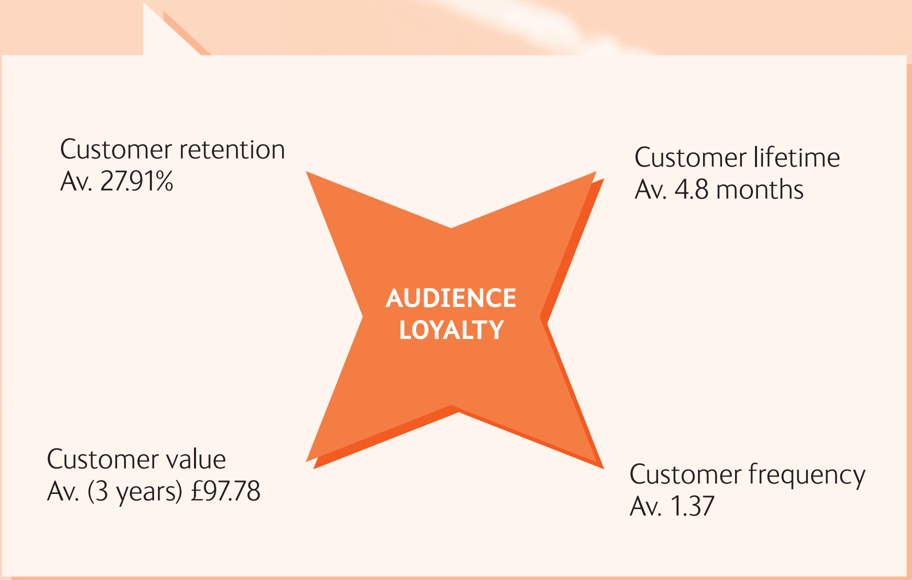
Typical headline figures for a theatre in the UK might look something like this, and can be calculated from box office data:

It's important to note that these figures are averages for all customers but incredibly useful as performance indicators to track from one year to the next, as well as against similar organisations.

Having completed my Healthcheck with over 40 organisations now, it is interesting to note that there are some very typical figures that apply to almost every organisation I look at:

- only around a quarter of your customers this year will come back next year
- at least half of your first-time attenders will never come back again
- only around a quarter of your customers will come more than once within 2009.

And that's not accounting for any effect the recession might have. The good news is that organisations that have started to tackle this are seeing results, so you *can* do something about it.



Calculating potential gains

The second part of a well thought-through CRM approach is to calculate, in real terms, what difference small improvements to one or more of these aspects might make.

For example: if you know what percentage of your audience is attending three times per year, and the average income for each booker who attends four times per year, it's pretty easy to work out what a difference it would make to income if you managed to get 5% of the three-timers to attend once more.

Similarly, if over 70% of your audience attends only once during the year, and you know how much a twice-a-year attender is worth, you can easily work out what a financial difference it would make if you persuaded just 10% of those 'once-only' to come back a second time.

How to get started

Once you've worked out what's going on, and what impact small improvements in either retention or frequency could make, it will be much clearer knowing where to start. My top tips for getting going are:

1. Don't try to change the world overnight

While I'd love to believe that it's possible to change a whole marketing ideology and system within an organisation overnight, I've learned that the 'one-step-at-a-time' approach is actually pretty effective in most cases, and helps you take those who question your approach along with you.

Pick the most important thing that needs tackling, and test ways of fixing it. When you've cracked it, move on to the next one.

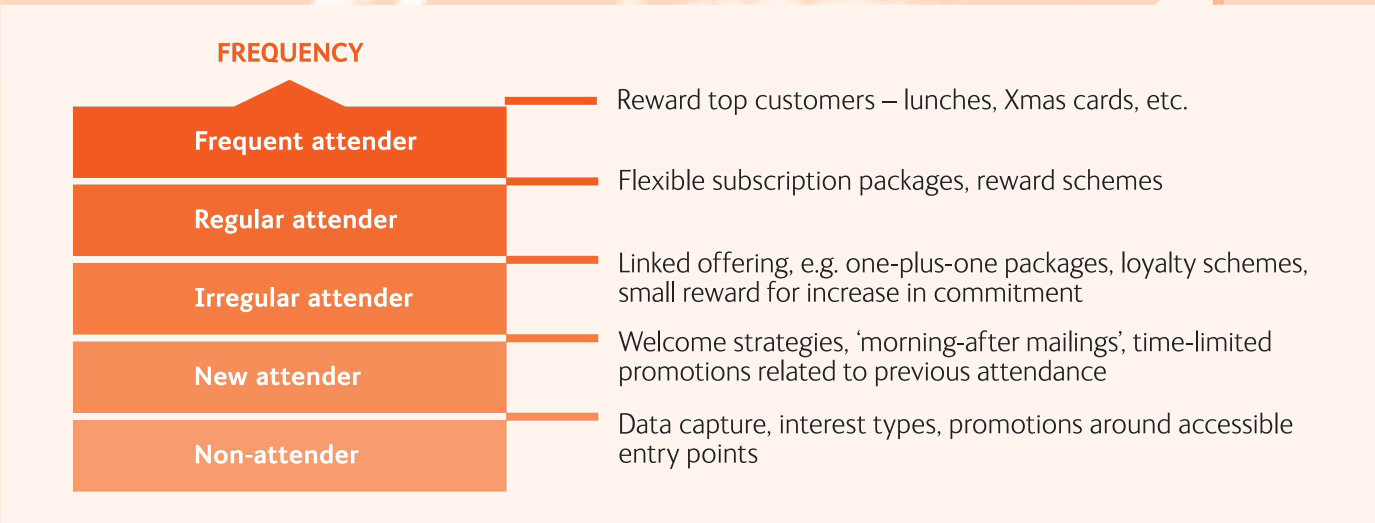
For example, The Lowry, Salford was interested in adopting a CRM approach, but wanted proof that it would work. They started with their biggest financial commitment – the season brochure – and tested ways of improving return on investment with different audience segments. Once they were clear about what worked, they implemented it, making big savings, and then used that money to start tackling first-time attenders.

2. Don't push customers too quickly

Most of you will be familiar with the concept of a loyalty ladder.

The most important thing to remember is to move people up the ladder one step at a time, regardless of where they start on the ladder. Pushing customers too quickly will annoy them, and get low responses for you – so it's wasting money. For example, promoting a subscription scheme of 12 performances to people who've only ever been once will, of course, get a low take-up. Equally, mailing everyone on your database who's been in the last 18 months is only going to work for a small proportion of those you mail – and it costs you a fortune.

So you'll need to segment your



customers on the basis of how often they come, and communicate with them differently, depending on their frequency, possibly their value, and certainly their communication preferences. (Suddenly sending someone everything by e-mail and stopping sending them a brochure may seem like good cost saving, but they may actually want a mixture of the two).

3. Horses for courses

Make sure you've got the right tools for the right customers. Different marketing tactics will be required at each level on the ladder to encourage the next rung. New attenders need a welcome strategy. In many organisations, around 75% of customers come once and never come back again. Yet few are trialling different techniques to welcome customers when they first book, or communicate with them immediately after their first visit with an incentive to return quickly.

In 2006/7 Welsh National Opera mailed all their new attenders to *La Bohème* with a packet of tissues that arrived the morning after they had attended the opera. 'Did Welsh National Opera make you cry last night?' was the question asked, with a clear proposition to attend *Carmen*, the next major production.

But just because someone comes back a further time, that does not make them a 'loyal' or 'core' attender. They've only been twice. Be patient – encourage them to make one more visit – not sign up for a Friends membership or commit to a subscription – yet.

So the tactics change as the ladder progresses – not forgetting at the top of the ladder to thank and reward the customers who come most frequently and are undoubtedly contributing a disproportionate amount of your income. Why not invite them to an annual lunch where you can thank them, but also pick their brains about how you're doing and your future plans? It's free market research.

4. Do the maths

If you're proposing change of any kind, your argument will be much more compelling if you can say you tested your approach first and can prove its effectiveness.

How to test

Very simply, you need to test what you've always been doing against a new approach. For example, you've heard that another theatre is being much more successful at getting first-timers to return by mailing them immediately after the performance (ideally with a time-limited offer), rather than hanging on and sending them the season brochure. So, to test it, of all your new attenders for six months, send half a 'morning-after e-mail/mailing' and not the season brochure; send the other half the season brochure when it's next published.

How to monitor effectiveness

To find out which worked best, at the end of the six-month period, calculate what percentage of those who were mailed the morning-after letters made a subsequent booking, compared with those who received the season brochure. If you're really smart, you could take into account the cost of the communication (the morning-after mailing will certainly be cheaper) and calculate the 'return on investment' for each approach.

How to calculate savings

If one has worked better than the other (and it may not, so you'll have to think of another thing to test), work out what the financial saving would be if you did this all the time.

5. Re-invest any money you save

So, assuming that you've managed to make some savings by testing things and monitoring their effectiveness, if you're not careful all you've achieved is getting your marketing budget cut. So make sure that you have a plan for all the things you want to tackle (identified by your initial loyalty assessment) that you'll need money to do.

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