

# Customer Retention: The Key to Business Success

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## ABSTRACT

*This Paper measures how customer can be retained and what are the various measures to retain existing customers this leads to increase the lifelong value of the company. This paper has given detailed information about strategies of customer retention and how to win customer through integrated approach. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy.*

## 1. INTRODUCTION

Business is all about creating a customer, satisfying a customer and retaining a customer - peter drucker.

In today's challenging economy and competitive business world, retaining a business customer base is critical to success. If you don't give your customers some good reasons to stay, your competitors will give them a reason to leave. Customer retention and satisfaction drive profits. It's far less expensive to cultivate your existing customer base and sell more services to them than it is to seek new, single-transaction customers. Most surveys across industries show that keeping one existing customer is five to seven times more profitable than attracting one new one.

In this era of intense competition, it is very important for any service company to understand that merely acquiring customers is not sufficient because there is a direct link between customer retention over time and profitability & growth. Customer retention to a great extent depends on service quality and customer satisfaction. It also depends on the ability of the organization to encourage customers to complain and then recover when things go wrong. Complaints are natural part of any service activity as mistakes are an unavoidable feature of all human endeavor and thus also of service recovery. Service recovery is the process of putting things right

after something goes wrong in the service delivery.

Business focused more on revenue and expenses than on their customers. It all became "internally" focused on what was best for their company rather than "externally" focused on what was best for their customers. It is only recently that businesses started to realize the impact of this situation. In fact, according to some surveys, the number one issue that keeps business houses alert & worried is "Customer Retention & Customer Loyalty".

Everyone wants to retain their existing customers. Few companies however are implementing positive strategies aimed at retention. Most companies are organized for acquisition. Their advertising and sales programs are designed to find and promote their products and services to new customers. Most of the companies are organize on a product or brand basis, not on a customer segment basis. While they all have customer service departments, and most have a customer service toll free number, they lack an integrated marketing strategy that is directed at retention.

## 2. IMPORTANCE OF CUSTOMER RETENTION

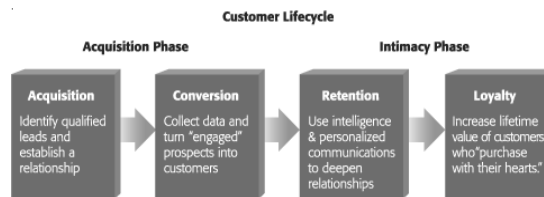
Why are customers more profitable for service firms over a period of time? There are a number of reasons for this. To begin with, to acquire a customer a company incurs

promotional costs like advertising, sales promotion etc. It is said that it costs five times more to attract a new customer than retaining one. This means that by the time you found a new prospect, marketed to them and sell them something, it would cost you a fraction to sell to your existing customers instead and for this you need to make them buy more of what they purchased earlier, introduce new versions, upgrade products, services, maintenance agreements, add-on products and much more. The operating cost decreases when a customer stays. Services being rich in experience and credence qualities, it takes some time for customers to get accustomed to it and once they are used to the service and are satisfied with the service provider, they tend to purchase more over a period of time.

As they remain satisfied with a service provider, they spread a positive word of mouth, which is very effective in case of services for attracting new customers. Longer the customer stays with an organization, more the organization knows about him, which enables it to offer customized services which make it difficult for the customer to defect. This may even provide opportunities to the organization to charge price premium by offering individualized services which may be difficult for the competitors to offer.

Considering the importance of retaining customers in service business, Reichheld & Sasser coined a term '**Zero Defection**'. They highlighted that companies can boost profits by almost 100% by retaining just 5% more of their customers. Further, it is also very important to understand the **life time value of a customer**. For example, if an average customer of BSNL pays Rs. 500 per month and stays with the company for 20 years., his average lifetime value will be Rs. 500x 12x 20=Rs. 1,20,000. Further, if by a positive word of mouth, he brings just one more customer to the organization, his value to the organization doubles. Therefore, it is

important for all the employees in the organization to understand the life time value of their customers. Once they understand it, they will treat the customer accordingly and will focus on building relationship with the very people who keep them in business. But to ensure profitability in the long-run, customer retention becomes more and more important.



Delighted and loyal customers will return for follow-on business without considering alternatives of comparing the competition. Though, there are a number of factors that influence customers' decisions to remain loyal, true loyalty are based on the company's continuous delivery of superior value. Customer loyalty is a major contributor to sustainable profit growth and to win customer loyalty, the business must first satisfy the customer repeatedly.

### 3. BENEFITS OF CUSTOMER RETENTION

Good customer retention is vital to any organization because a slight reduction (5%) in the customer defection rate has a disproportionately positive effect on profitability (depending on the cost of acquisition, ranging between 25 and 80 %). Companies with high retention also grow faster. However, customers can only be retained if they are loyal and motivated to resist competition. When customers are merely satisfied with the service they receive they may still "walk".

- Savings on customer acquisition or replacement costs
- A guarantee of base profits as existing customers are likely to have a minimum spend per period
- Growth in per customer revenue over time

- A reduction in relative operating costs as firms can spread the cost over many more customers and over a longer period
- Free of charge referrals of new customers from existing customers
- Price premiums as current customers usually do not wait for promotions or price reductions before they make their purchase.
- Certain non-economic benefits from customer retention are increased such as customer trust, commitment and cooperation.

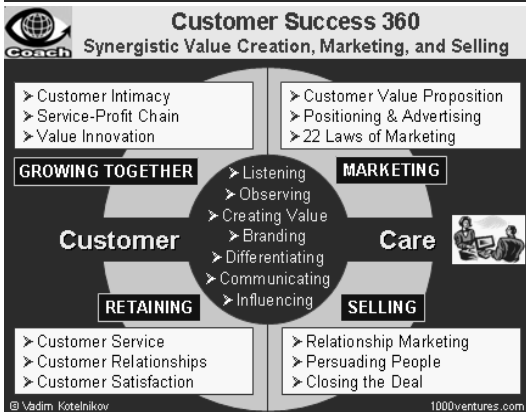
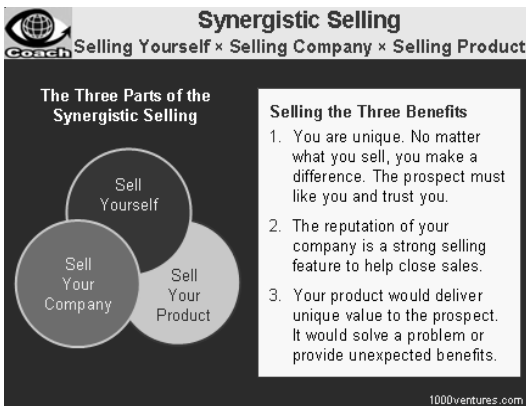
**4. STRATEGIES FOR CUSTOMER RETENTION**

Attracting and retaining clients is essential to the success of any business. Long-term clients are likely to feel more satisfied, are more likely to refer others, and are more likely to purchase additional products and services from you. Here are 10 solid strategies for retaining your long-term customers and making sure your new customers stick around.

- a). **Market to your existing clients** - Your current customers are already doing business with you and are more likely to buy from you again. Focus most of your time, efforts, and resources on better serving your current clients. Go deeper instead of wider.
- b). **Be consistent in your approach and interactions** - Treat your clients with honesty, humor, and respect — and maintain this over time. If you are consistent with them over time, they will see you as dependable, credible, and trustworthy.
- c). **Follow through on your commitments** - If you promise to send information or to follow up, do it. You will gain loyalty and trust by always doing what you say you will do.
- d). **Connect with your customers** - Find out about their lives, their hopes, goals, and desired outcomes. Ask questions that encourage a deeper sense of shared understanding. The greater is the level of

- connection, the greater is the mutual satisfaction.
- e). **Have fun** - It's easy to get caught up in goals, outcomes, and deliverables. Of course these are important, but clients also want to work with people who enjoy what they do. The more fun you can have while providing strong outcomes, the longer your clients will stay.
- f). **Position yourself as a resource for life** - Let your customers know you will be around long after the sale. Let them know they can come back whenever they need. This can help differentiate your company from your competitors, who may just be in it for the short term.
- g). **Ask for feedback and input** - At some point in the working relationship, solicit feedback. Ask your clients how they feel about working with you and ask if they have suggestions for how the working relationship or outcomes can be improved. Asking for their ideas shows that you care about their opinions and value their contributions.
- h). **Share resources** - Do you know of a good book that your clients might benefit from reading? Tell them about it. Do you have the name of someone who could help a client move ahead on a business plan? Tell them about it. Sharing resources is a terrific way to build loyalty and satisfaction.
- i). **Reward customers for staying on** - Consider implementing a loyalty program, where your long-term clients are rewarded for staying on. You might offer them gifts, products, or services for a certain level of ongoing participation with your business.
- j). **Keep learning** - The more you focus on gaining new knowledge, new skills, and new experiences, the more you have to offer your clients. The more you have to offer, the more they will benefit. The more they benefit, the longer they stay. Keep focused on your own professional growth and learning. Both you and your clients will benefit.

### Winning Customers through an Integrated Approach



### 5. THE ESSENCE OF CUSTOMER RETENTION

The customer retention process actually begins during acquisition, which creates customer expectations, including perceptions of product value and uniqueness. Initial product usage determines whether these expectations are met. Then other factors, such as ease of exit, ease of purchase, and customer service, come into play. Together these factors affect long-term customer behavior and determine the relationship between seller and buyer.

In this model, there are seven determinants of customer retention:

The following subsections briefly explain how each variable affects customer retention.

#### i). Customer Expectations Versus Delivered Quality

Customers do not simply evaluate a

product or service on its own merits. They evaluate it relative to their expectations. This is a crucial issue, because through its market communications a firm sets customer expectations. When customer expectations are too high (though this can generate initial trial) and the delivered product does not meet those expectations, the customer will not repeat-purchase. Thus a critical factor in determining retention is the difference between the customer’s expectations and the delivered quality of the product or service. Raising expectation levels generates trial, but overly high expectations contribute to low retention. A firm must strike the optimal balance between expectations and delivered quality.

#### ii) Value

Here, we define value as quality divided by price. A firm can provide greater value either by offering higher quality and matching the competition on price or by offering the same quality at a lower price. Unfortunately, firms often try to justify higher prices by arguing that they provide greater quality. But quality is difficult to define and measure. From a customer equity perspective, firms should trade off the potential price premium against the risk of customer defection—and the resulting loss of substantial retention equity.

#### iii). Product Uniqueness and Suitability

The more different (or less substitutable) a product is, the greater the retention rate. When a customer has access to almost identical products or services, the probability of purchasing any particular one decreases significantly. In addition, it is critical that products remain relevant to customers. Just as the use of “acquisition products” is important in obtaining new customer assets, so too companies should ensure that their product portfolios contain “retention” offerings that customers can trade up to as they proceed through their life cycles.



**iv). Loyalty Mechanisms**

Loyalty mechanisms can generate high retention rates even when competing products or services are almost identical. The airlines have used frequent-flyer programs to generate high degrees of loyalty even though their services are very similar. Retailers now use frequent-shopper cards or credit cards to induce customer loyalty. Neiman-Marcus has its In Circle card, which offers special services to its better customers. Target, a mass discounter, entices customers to use its credit card by donating 1 percent of their purchases to education. Such loyalty mechanisms, which link usage and rewards, can become very powerful generators of retention.

**v) Ease Of Purchase**

Some products and services are very difficult to find or purchase, which hurts retention. For example, a customer will not regularly buy a specialty brand of stocking if it is not widely available, even if the product is highly differentiated. Ease of purchase is not only a consideration for retail companies; manufacturers of specialty industrial components also need to make sure that their products are easily available to buyers. W.W. Grainger addresses this problem by widely distributing specialty suppliers' products to the construction industry. Aeroquip, a maker of specialty hoses and fittings, invested in retail stores because it found that customers needed its products quickly. Because of the emergency nature of fixing a broken hose, if their customers could not obtain Aeroquip's brand within a short time period, they changed brands.

**vi) Customer Service**

Clearly, customer service is an important factor in customer retention. In some recent studies, customer service was the most important determinant of whether or not a customer would defect from a firm. But defining customer service is not as easy for a company to do as it may seem. Customer service has many components, and many

parts of an organization provide it. Accounting provides customer service when it solves a customer's billing problems, logistics handles customer service problems when the product is not delivered, and engineering provides customer service when it shows a customer how to utilize the equipment more efficiently or how to increase production-line speed through a minor product modification. Customer service opportunities are pervasive in any organization. The issue becomes how best to manage the process. No simple answer exists. Some companies have customer service representatives who are responsible for handling all customer problems. Other companies decentralize the process. For the customer equity-oriented manager, evaluating the range of service options comes down to three questions:

- What customers will this service approach retain, and for how long?
- What is the potential asset value of those customers?
- Does the retention equity created exceed the service cost?

**vii). Ease of Exit**

Exit barriers offer one strategy for increasing retention. Examples of these barriers include programs that reward continued use based on historical usage; product-design characteristics that make it difficult to change suppliers; and product-learning curves that make it costly to switch to competing products.

**6. CONCLUSION**

Today's customers are becoming harder to please. They are smarter, more price conscious, more demanding, less forgiving and they are approached by many more competitors with equal or better offers. The challenge is not to produce satisfied customers; several competitors can do this. The challenge is to produce delighted and loyal customers. If these customers are



retained with the organization, they become really profitable by way of increase in purchasing, reduced operating costs, price premiums and through referrals. Too many companies suffer from customer churn i.e. high customer defection. It is like adding water to a brimming bucket. Various strategies such as measuring customer life time value, efficient complaint management

system and service recovery strategies can be really helpful in retaining customers.

Too many businesses are interested only in acquiring new customers at the risk of ignoring their existing customer base. While acquiring new customers is important in any business, it cannot and should not occur at the sacrifice of the existing customer base. Besides, in today's economy, it is getting increasingly difficult as well as expensive to acquire new customers at the rate of losing the existing ones. As a result, the net effect from attrition is few customers overall. Hence, every company and its employees should try their best to provide quality products, value for money spent to the customers and an ongoing customer service for achieving higher and valued customer satisfaction.

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