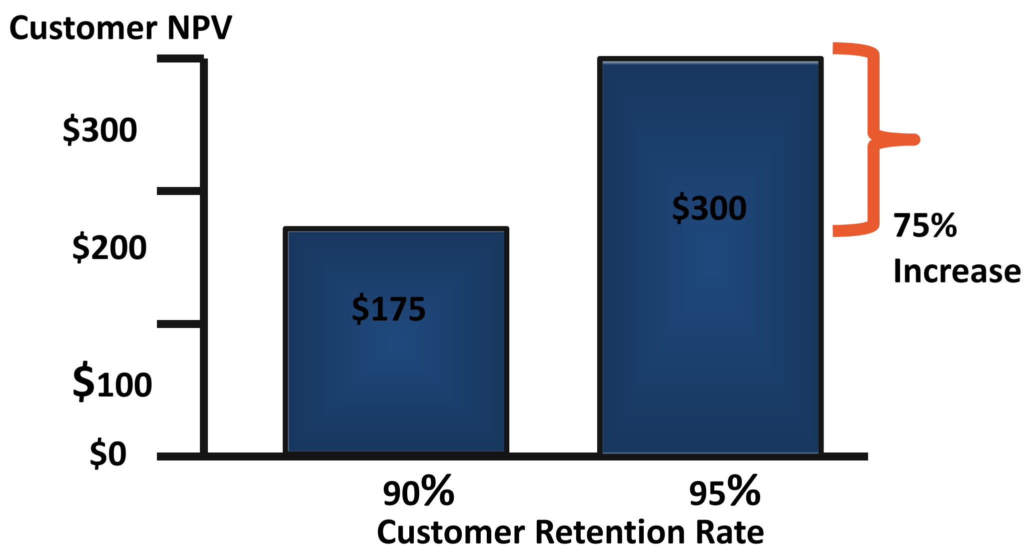
Customer Retention

Why are some companies more successful than others with their retention programs?

Over the years we have learned that it takes more money to acquire a new customer than it does to retain an existing one.

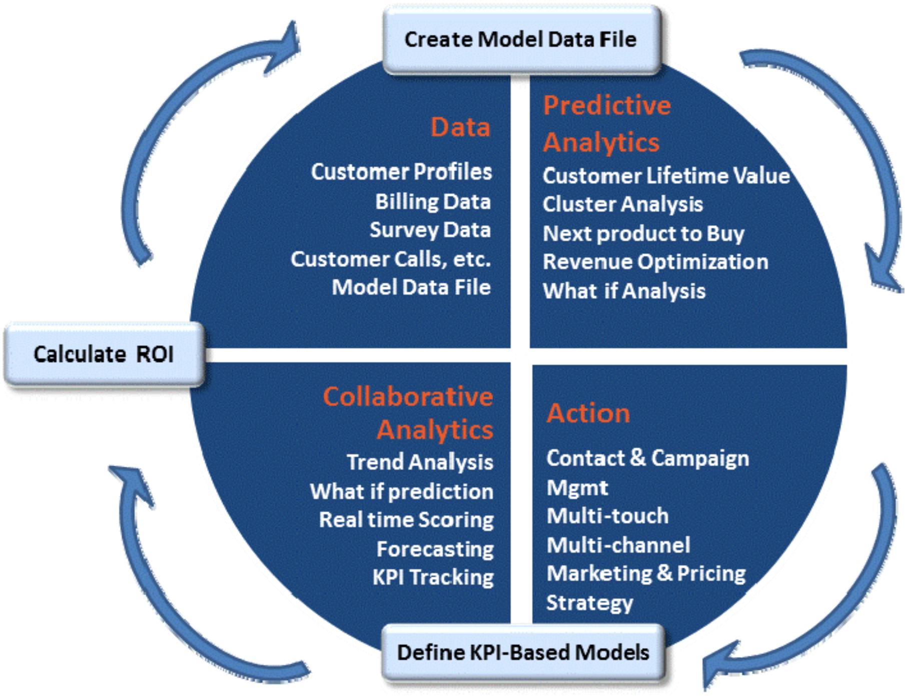
As a matter of fact Bain and Co (Fred Reichheld, The Loyalty effect) state that a 5% increase in Retention rates will tend to increase profits from 25% to 100%. In effect they go so far has saying that it can yield a 75% increase in Customer Net Present Value.



Source: "Loyalty Rules" Bain & Co. Fred Reichheld

With new technology and software coupled with the application of sophisticated statistical models, we are now much more capable and refined in understanding which customers we want to retain and how to determine if they are about to leave us. Companies now have the opportunity to use the enormous amount of data at their disposal to improve their customer retention through the use of "Predictive Analytics".

Closed Loop Approach. Starting with the Strategy and Objectives, followed by Data.



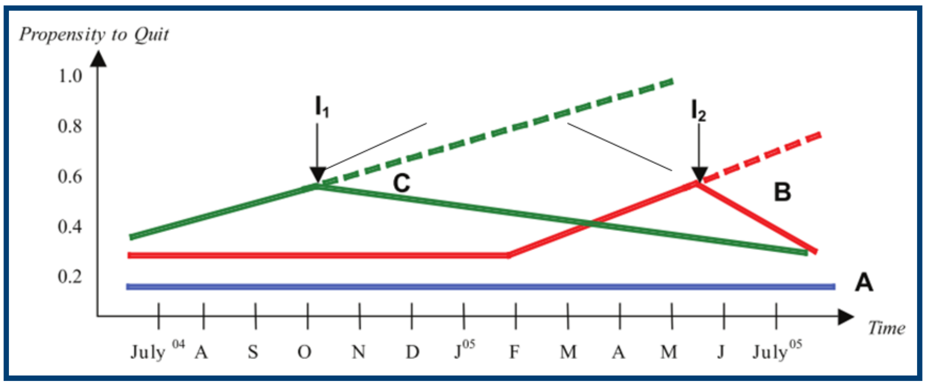
With all these tools many companies still fail. Why? Here is a list of six common errors we see occurring in companies and suggestions for how to avoid them:

<u>"The horse is already out of the barn"</u>. The customer has already decided to leave. Most companies maintain a rich repository of transactional and non-transactional information, so they are armed with the tools to identify "at-risk" customers well before actual attrition occurs. By using predictive analytics tools and segmenting customers along both Customer Lifetime Value and Propensity to Quit you can through statistical models predict with a high degree of accuracy the likelihood of customer attrition. These predictive models can then be embedded in business rules engines that continuously monitor account transactions and events. In real time, you can monitor and identify customers with a high likelihood of attrition, so that action can be taken immediately. Actions can vary by the value and propensity to quit of a customer. Customers calling in to your call center can be flagged immediately and then routed to retention specialists to re-engage them by offering, upgrades, bundled services or loyalty reward programs etc… This re-engagement will create a more loyal customer with opportunities for future revenue growth.

Kumar & Rajan in their paper titled "Nurturing the Right Customers" identify 4 key questions:

1. How can firms identify the customers that are likely to defect?
2. When are they likely to defect?
3. Should the firm intervene, and if so, when?
4. How much should a firm spend to avoid the attrition of a particular customer?

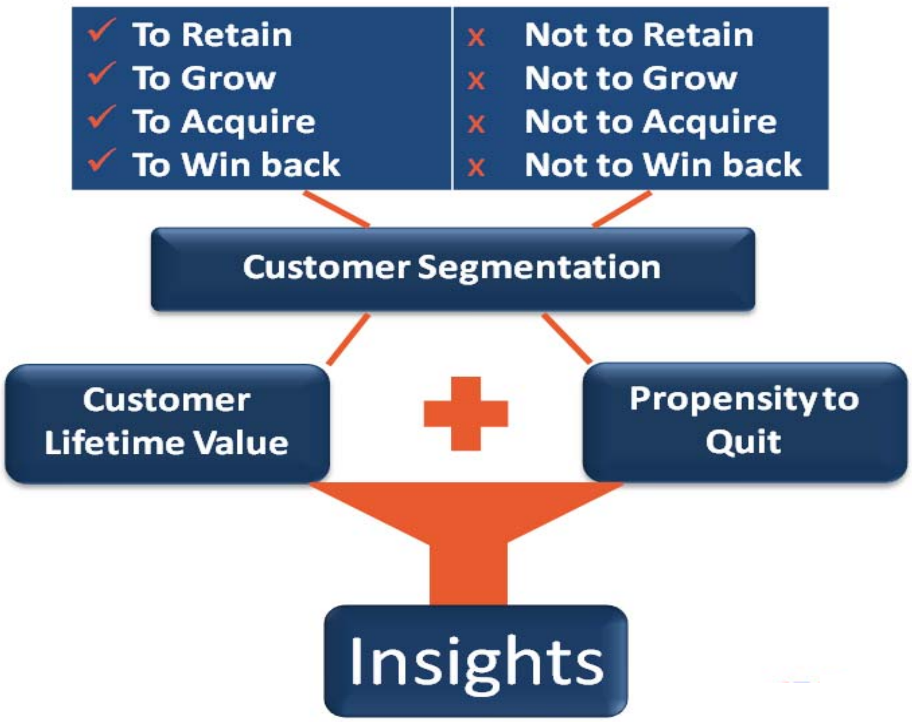
A "Propensity to Quit" model will help answer these questions and provide insight as to when a customer may quit allowing for an intervention strategy that will aid Retention.



Source: Kumar and Rajan "Nurturing the right Customers"

<u>"Don't assume that a saved account (even though at risk of leaving) is a good save."</u> Just because the customer initially agrees to keep the account open or that you reduced the price to retain the customer does not mean he or she will continue to keep it open. We have found over and over that price reduction is not a factor that will lead to long time retention. In effect our research indicates that price reductions lead to short term retention. There is an underlying dissatisfaction the first needs to be addressed. To avoid the customer wanting to cancel again, companies must not only save the account, but also re-engage them and develop a long term value added relationship. Offering loyalty programs, market intelligence about them and their competitive environment, bundled services, special offers, Industry information, newsletters etc…can help to ensure that the customer will remain loyal. Segmentation and analysis of historical patterns can be used to determine which type of offer or service offer is appropriate for each customer.

"You can't save every customer, not every customer is creating enough value to be saved". Businesses find it difficult to openly say that they do not want to keep every customer; however, just as it doesn't make economic sense to allocate marketing, retention and other resources to customers who have a very low lifetime value, it also doesn't make economic sense to save every account.



Customer Lifetime Value and Propensity to Quit provide a segmentation that allows companies to more effectively allocate their precious marketing dollars to the right customers at the right time and get a higher return on their investment. Would you want to spend $1,000 on a customer whose lifetime value is $500.00 and their propensity to quit is greater than 50% versus a customer with a lifetime value of $75,000 and a propensity to quit of 20%. Where would you spend your efforts? Segmentation allows you to become much more focused whether it is in retention or acquisition activities or trying to determine which service or product this customer is ready to buy.

<u>"Not sufficiently investing in training your retention resources"</u>. Having a trained group to handle these high Propensity to Quit and High Value Customers will yield better results. Some companies try to minimize the load on their retention specialists, and allow their call center agents to make part of the retention offer or do "a reselling of the account benefits." This approach presents several real dangers: it becomes even harder for the retention specialist to save the account; the customer can become frustrated by talking to two people and the account will likely attrite again if the customer never speaks with the retention agent to become re-engaged.

<u>"Not knowing which channel or channels to use in communicating with at risk customers"</u>. Some companies focus retention efforts heavily on one channel, such as the contact center. Creating a retention strategy that matches the customer's channel preference can dramatically improve results. Additionally not only one set of action will and can impact a customer's desire to stay. It may be a range of actions. Marketing plays a key role in developing a set of treatments by customer segment identifying what is the right pre-emptive retention strategy for each group of at risk customers. This can really pay off when customers feel that the company has personalized communication for them.

These are just some pitfalls we see with customer retention strategies not succeeding.

However the biggest issue companies experience is not having the company totally engaged at all levels in supporting Customer Retention efforts. Customer retention is not only Marketing, or Sales, but all groups within the company whether, Operations, Call Center, IT & Finance.

When Customer Retention becomes a company strategic imperative and is reviewed by the executive team monthly you will start seeing positive results not only in your retention efforts but also significant improvement in profitability

" ...Understand your requirements, your aspirations, your marketplace and your competitors"

Sources:

Reichheld, F.F. 2001. The Loyalty Effect, Harvard Business School Press, Boston, MA.

Kumar, V., & Rajan, B. 2009. Nurturing the Right Customers. Strategic Finance, September Issue.