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## **CUSTOMER RETENTION**

Article prepared by Ian Parker March 2006

It is a basic tenet of business that companies who are best able to retain their customers will be the most successful. This 'retention' may be in the form of repeat purchases, renewed subscriptions or continuing usage-based revenues. The tenet, it is argued, applies equally to companies whether they rely on high volume, frequent purchases such as Amazon; infrequent, high value repeat purchases such as BMW; subscription renewals such as The National Trust; or usage based services such as Orange.

The benefits to a company of retaining customers include:

- Revenue continuity by avoiding the disruption of losing customers
- Lower operating and service costs as long standing customers tend to be more self-managing
- Avoidance of sales and marketing costs in winning new customers to replace leaving customers
- Reduced 'early life' support costs as the average tenure of the customer base increases
- Greater inertia as many customers stick to what and who they know
- Increased likelihood of referrals and new customers from recommendations

Some industries and companies from the outset understand and work to gain the benefits of retaining customers, others move through various stages. These stages are characterised by the degree of reactivity, sophistication and customer focus deployed in the retention activity.

### FROM CHURN TO ADVOCACY VIA RETENTION: AN EVOLUTIONARY MODEL

| Evolutionary Stage | Characteristics  |
|--------------------|--|
| Unaware            | The company just doesn't see let alone measure lost customers or the absence of returning customers. |

| Evolutionary Stage  | Characteristics   |
|---------------------|---|
| Don't Care          | The prevailing attitude is that there are plenty more customers out there. The company keeps trying to fill the bucket even though it's got a hole!   |
| We've Got a Problem | The penny has dropped that there is a problem but there is no systematic or process response. There may be an effort to count 'how many we are losing' but no measurement of value loss.  |
| Don't Go            | Effort and resource, sometimes indiscriminately, is expended on keeping customers or encouraging lapsed customers to re-purchase. Plenty of quantitative measurement of customers lost and churn rates. A retention role or team may appear in the company at this stage.   |
| Keep the Good Ones  | Still reacting to customers who have lapsed or cancelled service but with a focus on 'saving' customers who are thought to be of greater value. An attempt is being made to focus expenditure on retaining customers who deliver the greatest value (usually revenue).  |
| Fix It              | The focus moves from trying to get customers back to identifying and eradicating the reasons for them leaving. Root cause analysis and more cross-functional working are evident. Investment is made to improve broken processes, increase the product or service value and in the training of customer facing teams.   |
| Please Stay         | The company is moving on to the front foot and investing in product and service improvements that deliver lasting value. A 'loyalty scheme' may be launched, rewarding customers for purchases or contract commitment. The communication with customers is more personalised and interaction is more consistent and joined-up. It is a pre-requisite that customer processes are reliable.                |
| Help Us Get More    | Products and services are consistent, reliable and delivering good value with excellent support. The focus moves to leveraging this delivery either through an overt 'recommend a friend scheme' or via an 'inclusive' proposition whereby the value a customer gets increases the more people they get to buy or sign up. The key measure is how many customers 'will actively recommend us to a friend' |

Are companies that place a heavy priority on getting new customers and de-prioritising customer retention missing the point? In the long run, yes. However there are many examples of where market conditions or shareholder value requirements determine a different approach. The mobile industry has been characterised by a drive for customer numbers and market share for the past decade. The mortgage industry and the personal savings market have been characterised by successive 'acquisition' campaigns as introductory rates and product variants are launched to attract new customers. Cable and satellite TV companies have chased new customers to attract content and advertising and to build revenues to service their investment in infrastructure.

As with most business models there is no one stage or state that is appropriate for all companies and all markets. It is a mistake to believe that getting to the top of the evolutionary tree as quickly as possible has to be every company's goal. Our contention is that the way a company retains its customers must be determined by the market conditions and the objectives of the business. With a successful track record in development and delivery we can help you determine your customer retention strategy and most importantly optimise your performance and value creation.