

# RETENTION MARKETING -THE KEY TO BUSINESS PERFORMANCE

by:

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Everyone wants to retain 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. The companies are organized 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, and that defines retention as the measurement of success.

It has been found that customer retention has more impact on profits than market share, economies of scale and other variables that are considered to provide competitive advantage to a firm. In fact, it has been found that companies, which reduced customer defections by 5 per cent, could boost profits from 25 percent to 85 percent.

Traditionally, marketing management has relied on permutations and combinations of the marketing mix elements (product, price, place and promotion) to achieve market dominance through enhanced market share by acquiring new customers. This approach considers the formation of homogenous segments of relatively heterogeneous customers. It does not take into account the history of association between the customer and the seller and hence does not reveal the actual buying behaviour of the customer. Aggressive branding and promotions are other tactics used by sellers adopting the traditional marketing approach. But brands with the highest market share are not always the most profitable. In some cases, they may even be unprofitable.

The relationship marketing approach on the other hand, focuses on customer retention, encouraging increased spends and on long-term relationships with customers. **Gronroos, a research scholar, has stated - 'Marketing is to establish, maintain and enhance relationships with customers and other parties at a profit so that the objectives of the parties involved are met. This is done**

**by a mutual exchange and fulfillment of promises'.**

**Customer retention should thus become a part of the strategic marketing planning process of any firm. It is important to define customer retention and also to understand how it can be measured.** *While customer retention and its goals haven't changed the entire customer retention business is busy reinventing itself from what it was just a few short years ago. Whether new technologies drove new thinking or vice versa it's hard to say. But one thing is for sure, what retention is – is really different.*

Every company knows that it costs far less to hold on to a customer than to acquire a new one. That's why customer retention has become the Holy Grail in industries from airlines to wireless. **Customer retention is at the heart of any relationship marketing effort.** The efforts of the seller are directed towards creating new and sustained benefits on a sustained basis, which ultimately leads to a deepening of the relationship. This makes undeniable sense – while exact numbers may vary, experts do agree that the cost of retaining a customer is a fraction of acquiring a new one. This basically means that a small improvement in customer retention results in a much higher improvement in profitability. For this reason, relationship marketing is also sometimes referred to as **defensive marketing** – because it aims to defend existing clients from being poached by competitors, rather than aggressively hunt for new ones.

**Customer Retention marketing is a process whereby marketers look at building a long term association with their customers. It is a tactically-driven approach based on customer behaviour and the core activity going on behind the scenes in Relationship Marketing, Loyalty Marketing, Database Marketing, Permission marketing, and so forth.** This involves a continuous process of interaction, which is influenced by the stage of the life cycle in which the customer is at any point in time. Thus, practitioners of retention or relationship marketing need to understand the needs of their customers at different stages, and provide products and services accordingly.

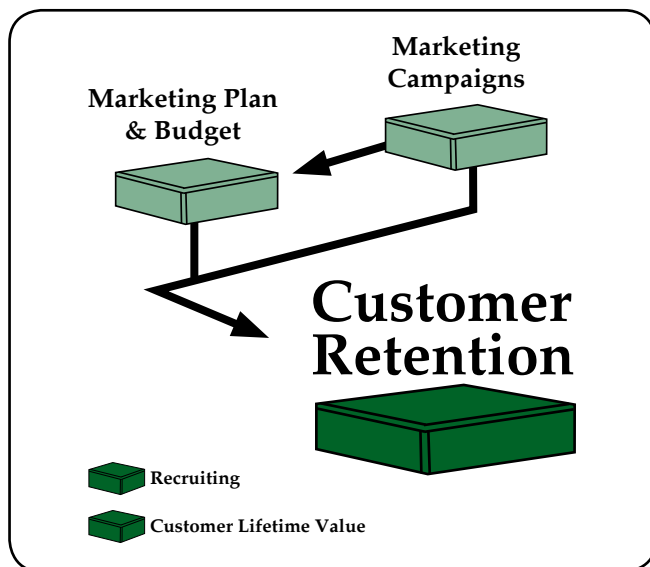
The goal of customer retention marketing is to convert first-time or occasional buyers into loyal, long term customers. And to accomplish this, a business needs to understand what it is that converts the occasional or first-time buyer into a loyal customer. Through customer retention marketing, businesses are able to uncover what it is that makes this conversion happen.

**How much have you invested in sales and marketing over the last few years? Thousands? Tens of thousands? Millions? Tens of millions?**

**Customer retention is about keeping the customers you've spent that money to acquire.** And if you're in an industry where they make multiple purchases over the years, your entire team should be very focused on retaining those customers:

- Delivering service that's consistent with your value proposition and brand
- Cross-selling, up-selling and asking for referrals from existing customers
- Developing programs to increase customer loyalty and decrease turnover
- Knowing the lifetime value for different segments and using that data to improve your marketing
- Prioritizing retention as a major focus in your annual marketing plan.

*Studies say it costs ten times more to generate a new customer than to maintain an existing one. If you have a small number of customers, losing a few could cripple your company. Even if you have a large number of customers, a small increase in your retention rate should dramatically increase your profits.*



Measurement of customer retention

It is important to measure customer retention since this helps set benchmarks and gauge performance against this benchmark. Without measuring customer retention it cannot be managed.

Studies have shown that a relatively small percentage increase in the customer retention rate can lead to a large increase in the net present value of customers. Crude retention rate is the absolute percentage of customers that are retained. For example, if the number of customers drops from 1000 to 900, the crude rate is 90 per cent. A better measure is the weighted retention rate in which the customers are weighted by the volume of purchases made by each of them. The 'lifetime value' (LTV) is a useful concept in measuring customer retention. The LTV of a customer depicts the customer's net present value to the seller. In this kind of analysis the cost of acquiring a customer is taken as a sunk cost. The only costs considered are the selling and servicing costs for a customer. The aim of the seller is to achieve a positive level of revenues as against these costs. By assuming the period of future sustained relationship, the net value of cash flows and a suitable discount rate (this is taken after accounting for the company's cost of capital and risk), the LTV for a customer is arrived at.

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Successful Customer Acquisition and Customer Retention Marketing Strategies

Targeted marketing is a critical component of your marketing success. Attracting and retaining profitable customers and turning potential customers into actual customers is a huge challenge – especially when you consider the multitude of consumer data available. Whether it's business-to-business marketing or business-to-consumer marketing, you need to know your customers. By understanding the demographic characteristics, lifestyle behaviours and purchase preferences that drive your audience's decisions, you can successfully tailor your marketing strategies to reach those most likely to purchase your product or service, increase your customer loyalty and improve customer profitability.

*Customer retention is not only a cost effective and profitable strategy, but in today's business world it's necessary. This is especially true when you remember that 80% of your sales*

*come from 20% of your customer and clients. It is five times more profitable to spend your marketing dollars to retain the customers that you have than to use the dollars to beat the bushes for new customers.*

**Companies today have tens of thousands – in some cases millions of customers. We do not know who they are. We cannot recognize them and talk to them as the old corner grocers did. Loyalty has disappeared. Customers are loyal until tomorrow's newspaper, when they see a coupon for something at another store and – woosh, they are gone. What is true of grocery stores is also true of department stores, drug stores, hardware stores, office supply stores, banks, movie theatres – virtually every sales organization today.**

What has begun to change this picture has been the advent of computers. In the past 15 years, computers have become so sophisticated and powerful, and their prices have become so inexpensive, that it is possible to keep in a computer today the kind of information that the old corner grocer kept in his head, and to use that information to recognize and do favors for our customers. By setting up a customer database, and using it to start a dialogue with their customers, some companies have been able to reestablish contact with their customers designed to build loyalty, referrals and repeat sales. Retention building is possible. **Sophisticated technology and database equipment has made it possible for specialized firms to make attempts at customer retention through database marketing programs.** Establishing a detailed client database will allow these companies to keep track of personal information and individual preferences of all their customers. This enables them to provide better service and value. Just like the corner grocery store owner kept information on 200 customers in his head, the large superstore can now keep track of 20,000 customers through its customer database. With effective implementation of customer databases, companies will be able to re-establish contact with customers, and will be able to work successfully towards increasing customer retention, repeat sales, and customer referrals.

To achieve the objectives of the database and customer retention programs, the entire campaign should be designed and carried out with the customer in mind. The exercise will only be effective if the customer recognizes and associates some value with being part of your database. If they do not perceive value in your program all of your communications, coupons, special

offers, and newsletters will be discarded. In service marketing, customer retention has been conceptualised as resulting from customer perceptions of service quality and customer satisfaction. **In nutshell, Scholars have advocated four steps as essential to retain customers:**

- a) define the market structure,
- b) segment the customer base and determine segment value,
- c) identify the segments' service needs, and
- d) implement a segmented service strategy.

It is important to retain employees and investors in order to retain customers. Disloyal employees are not motivated enough to build a base of loyal customers. Similarly, disloyal investors will not be interested in building long-term relationships. The team of customers, employees and investors must hence share a common vision of a long-term relationship.

It is important for the firm to understand the reasons that make customers switch. Some of the reasons could be price, inconvenience, core service failure, failed employee responses to service failure, ethical problems, involuntary factors, competitive issues and service encounter failures. Understanding the causes of switching will help the firm develop barriers to prevent switching.

Interviewing former customers is another way to understand why they switched. This can provide information that is specific and actionable.

**A few more value-add strategies that can be used include:**

- Membership cards and programs that entitle your customers to special offers, discounts, or preferential treatment.
- Welcome, acknowledgement, sales recognition, thank you statements.
- After sales satisfaction and complaint inquiries and surveys.
- Event oriented communications in which the customer is genuinely interested.
- Enhanced and empowered customer, after sales, and technical support.

- Databases that keep track of customer’s purchases, preferences, complements and complaints, which are used to carry out loyalty building services and dialogues.
- Integrated marketing programs where the advertising, direct communications, customer service, database marketing and sales programs are all orchestrated together and designed to build loyalty.
- Segmentation of the customer base by lifetime value groups, and different marketing programs designed for each segment.

*Usage analysis is a method that can be effectively used to help in customer retention.* Segmenting markets by consumption can provide valuable insights into the mix of customers. Heavy users are more valuable than the medium or light ones and appropriate marketing strategies have to be devised to retain them. Similarly in the business context, we find the Pareto Principle or the 80/20 rule in operation. Key accounts that comprise about 20 per cent of the business customers are responsible for about 80 per cent of the sales generated. Such heavy and key users are prone to poaching by competitors. Hence it is important to concentrate advertising, promotion, sales and communication efforts on this segment. Medium customers should be targeted with revenue enhancement strategies through phone calls and e-mails. The light or unprofitable customers should be served in new ways to upgrade them. In some cases, the unprofitable customers might also have to be ignored.

The strategies for retaining customers are a function of the nature of the product, the stage of the product life cycle, and the buying behaviour of the customers.

The relationships between the core elements that create value in an organisation can be depicted as shown in Figure 1. Customer value affects customer satisfaction, which in turn affects loyalty. Customer loyalty affects customer retention. Loyalty of the customer increases with customer satisfaction at an increasing rate. Segmentation of customers should be done by satisfaction levels, prior to the strategising of retention activities.

Beyond customer retention

It is not enough to just retain customers through prevention of defections. Positive changes in customer spending can have ten times the impact of customer retention. It has been found that a lot more of customers decrease their spending than defect. Managing this downward migration in spends is a challenge. This is more important in industries where the customer deals with more than one company for the same product or service. An example is the credit card industry where a customer can have credit cards of more than one company. **While a growing business needs to constantly capture new customers, the BOTTOM LINE IS THAT ONE OF THE KEY COMPONENTS IN MARKETING AND BUSINESS GROWTH IS to spend the majority of your time and effort nurturing customer relationships, focus and priority should be on pleasing your existing customer base. Companies that fail to nurture and retain their customer base ultimately fail. You will also spend twice as much to get new clients as you will in maintaining your existing customer base. You will also be limited in your ability to attract new clients if you can't hold onto and satisfy your existing customers and clients.**

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