



## Customer Retention

The Easiest Way to Grow Your Business  
in any Market





## Customer Insight Paper **Customer Retention**



As multiple strategic priorities surface in an economically turbulent time, companies are faced with unexpected challenges with every business decision. While cost-cutting is imperative to cope with stagnant and even declining spending, such rationalization may have unintended consequences. Primary amongst these after-effects is the risk that revenue growth will decelerate and even decline.

A reliable way to ensure that your business doesn't suffer and in fact, grows, in this environment is to safeguard your revenue base by 'locking in' your existing customers. There are many ways of achieving this objective but unplanned moves can be fraught with risks. Price-cutting, for example, is detrimental to the bottom line and in an environment where fear and uncertainty are supporting a widespread (albeit misled) flight to quality, this strategy cannot guarantee success. What is critical is endorsing the fact that your existing customers are your most reliable and cost-effective way to retain and even grow your revenues in this market.

### **Understanding Why Customers Leave**

The competition for customer mind-share and share-of-wallet is an ongoing phenomenon that has intensified in the past one year since the current recession firmly took hold; consequently, customer attrition<sup>1</sup> – the loss of existing customers – is increasing at a rapid pace. Against the backdrop of a recessionary macro environment this occurrence is a major threat to companies' bottom lines.

There is a common misconception that price is the principal cause for customer attrition. In reality, customers 'leave' as a direct consequence of a shift in status quo. Customers that are satisfied with a company and its products and/or services tend to be 'sticky' and do not proactively seek alternatives for purchase. It is only when the status quo is altered – due to changes in a company's offerings, the competitive environment, or a customer's specific needs – that a customer truly becomes 'at risk' and capable of defecting. With dramatic changes in all three dependencies recently it is easy to see why customers exhibit such vulnerability.

Loyalty experts believe that emotions play a significant role in the decision to defect – more so than quality and price – and poor customer service is the most likely factor generating the negative emotions that prompt this adverse customer behavior. Audited studies confirm what we experience in our day-to-day interactions with business customers and consumers. In his book "Excelling in the 1990s: CEO Perspectives" R.P. Cooley found that of the reasons why customers defect, 68 per cent were related to service issues; often, indifferent treatment was at the top of the list. A 2005 CRM survey also underscored the importance of customer service with 74 per cent of the respondents who stopped using a product or service blaming 'customer service' as the single biggest reason for their decision.<sup>2</sup>

Customer service – or lack thereof – manifests itself in countless ways: time-availability of support, warranty terms, service locations and general emotional fidelity are just some of the areas that companies can address to ensure that customers don't 'leave.'



## The Value of a Retained Customer

The importance of limiting customer churn or attrition is critical because of the costs – financial and strategic – associated with this undesirable outcome. By some measures companies lose an average of 10% of their customers every year<sup>3</sup> which is a staggering number. Without qualitatively exploring the difficulty of making a sales call to a brand new lead, it is well-documented that acquiring a new customer can cost up to five times more than satisfying and retaining an existing relationship. Additionally, the risk that a replacement customer may be a single-transaction or low-value entity compounds the strategic imperative of retaining existing customers; it is far less expensive to up-sell and cross-sell to existing customers than to pursue new but ‘untested’ prospects.

The value of retained customers transcends the high replacement costs; they shop more frequently, spend more, purchase higher-margin products and services and are more likely to provide referrals. This latter tendency to act as brand ambassadors is a powerful and cost-effective (free?) marketing avenue. Because captive customers tend to be at worst, knowledgeable, and at best, proactive, about their brand relationships, they cost incrementally less to support and drive high contribution margins. Not only do all of these benefits disappear when an existing customer defects, but significant cost outlays and valuable time are needed to discover, nurture, and secure a commensurate replacement.

Quantifying customer value is a difficult proposition because the statistics vary by industry, product or service type and geographic presence. However the relative value of a retained customer is astounding. Studies show that a 5 per cent reduction in customer defection rate can boost profitability by 25 to 125 per cent.<sup>4</sup> Additionally, a 2 per cent increase in customer retention has been found to have the same effect on a company’s profitability as a 10 per cent reduction in overall costs.<sup>5</sup> In a market environment where there is an urgency to maximize both revenue and cost efficiency, the benefits of customer retention appear to be poignant.

## Customer Retention Strategies

The quest for successful customer retention begins with a customer-centric corporate strategy. Companies need to create and implement ways to ‘measure’ their customers continuously and effectively; this covers marketing initiatives such as customer satisfaction studies as well as the use of advanced analytics to study customer attributes (purchasing power, loyalty, history, etc.) on an ongoing basis. These initiatives yield valuable business intelligence which can be used to influence the operational and marketing levers available to the company to impact customer behavior and perception. A holistic customer-centric strategy will also isolate a company’s highest-value customers so that financial and marketing resources can be targeted to reach that ‘10%-that-generates-50%-of-profits customer.’ The creation of loyalty or rewards programs, for example, has a demonstrable impact on customer attachment and is another proactive way for companies to project a customer-centric image and additionally, to promote repeat purchasing behavior which is a high contribution margin outcome.

Expanding marketing budgets is one way to ensure that these customer-oriented programs take hold albeit extremely difficult to justify at a time when budgets are compressed. Many companies choose to outsource front-



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office marketing tasks such as customer care support to specialized domain experts in the BPO industry to perform these important but non-core functions successfully and cost-effectively. Sophisticated CRM software and consulting services are yet another seamless and widely used means to managing a complete view of a company's customer relationships. There are multiple ways to deliver on this proposition but it is clear that customer service should become the number one priority.

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<sup>1</sup> Also referred to as 'customer churn' or 'customer turnover.'

<sup>2</sup> RightNowTechnologies. (2005). The Loyalty Connection: Secrets to Customer Retention and Increased Profits Bob Thompson

<sup>3</sup> Murphy, E.C. & Murphy, M.A (2003). Leading on the edge of Chaos.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

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