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Customer Retention -- A Paradigm of 21st Century

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ABSTRACT

Modern marketing revolves around the Customer. It is an old and by-now universally accepted concept that the Customer is the King. Therefore, the traditional approach of making one-time sales is being replaced with making long term commitment to the customer. In this paper an attempt is being made to lay emphasis on adopting relationship marketing. Relationship marketing basically represents a paradigm shift within marketing– away from acquisition-transaction focus on keeping and improving the current customers, rather than acquiring new customers. This concept assumes that the consumer prefers to have an ongoing relationship with one organization rather than switching organizations. Building on this assumption and also on the fact that retention is cheaper than acquiring new customers, the marketers of today offers prime importance in the strategy of acquiring-satisfying-maintaining customers.

Key words: Customer Retention, Retention Strategies, CRM

Introduction

Modern marketing revolves around the Customer. It is an old and by-now universally accepted concept that the Customer is the King. Customers are treated as the eyeballs of all major companies in the world. The little-guy-the-customer is the person who has unique interests, needs, attitude preferences, issues and opportunities, and most importantly the authority to spend the money on the offerings of the company.

Therefore, the traditional approach of making one-time sales is being replaced with making long term commitment to the customer. The former approach is popularly known as transactional marketing, while making long term commitment is the basic of relationship marketing, delivered to specific audiences.

Relationship marketing is a process whereby marketers look at building a long term association with their customers. 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 relationship marketing need to understand the needs of their customers at different stages, and provide products and services accordingly.

Four steps for one to one marketing program to work. —

-Identifying customers
-Differentiation among them
-Interacting among them
-Customizing the products or services to fit each individual customer needs.

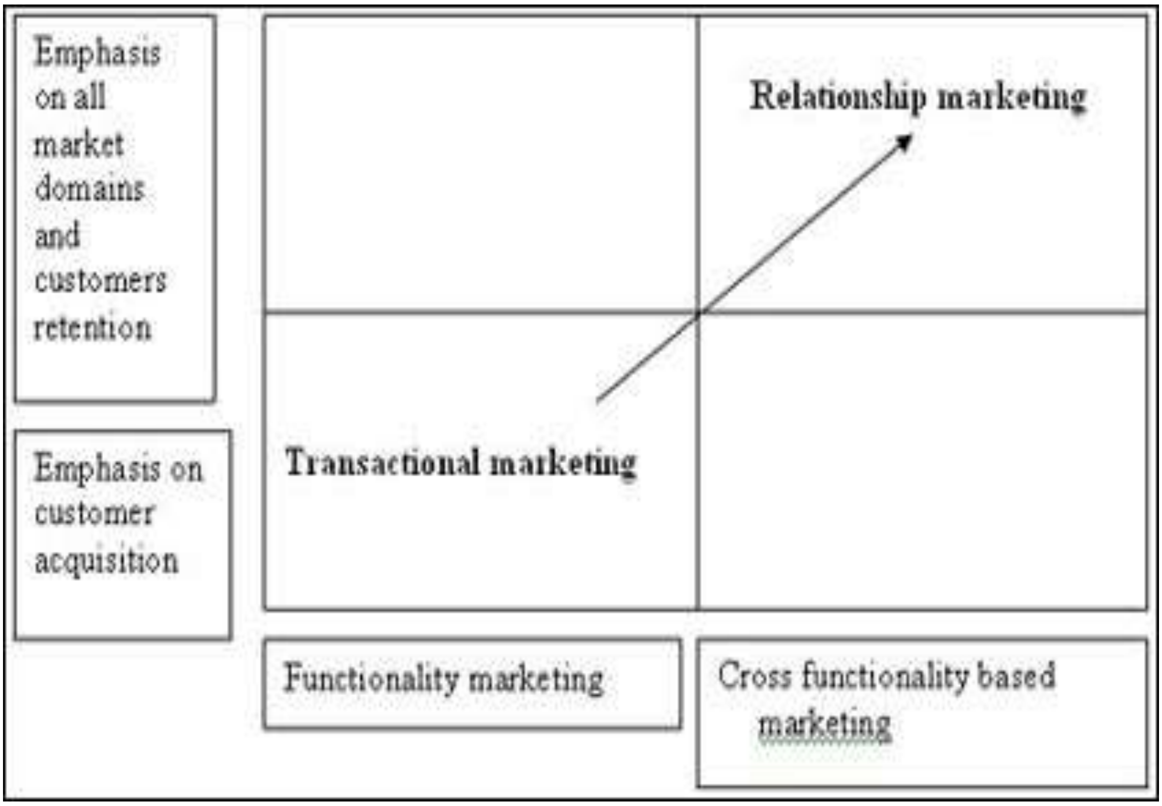

Figure-1

Source: Relationship marketing creating shareholder value: Christopher, Payne, Ballantyne; (2002).

As customers move from one life cycle stage from another, needs evolve, buying pattern fluctuates and product choices shift. A smart and live relationship company should recognize such change of needs and wants, and should gear itself up to suit the advantage. Failure to do so might result in drifting of the customer.

To achieve these, the firm will focus on attraction and retention of the customer, and enhancement of customer relationship. Relationship marketers speak of the "relationship ladder of customer loyalty". It groups types of customers according to their level of loyalty. The ladder's first rung consists of "prospects", that is, people that have not purchased yet but are likely to in the future. This is followed by the successive rungs of "customer", "client", "supporter", "advocate", and "partner". The relationship marketer's objective is to "help" customers to get as high up the ladder as possible. This usually involves providing more personalized service and providing service quality that exceeds expectations at each step.

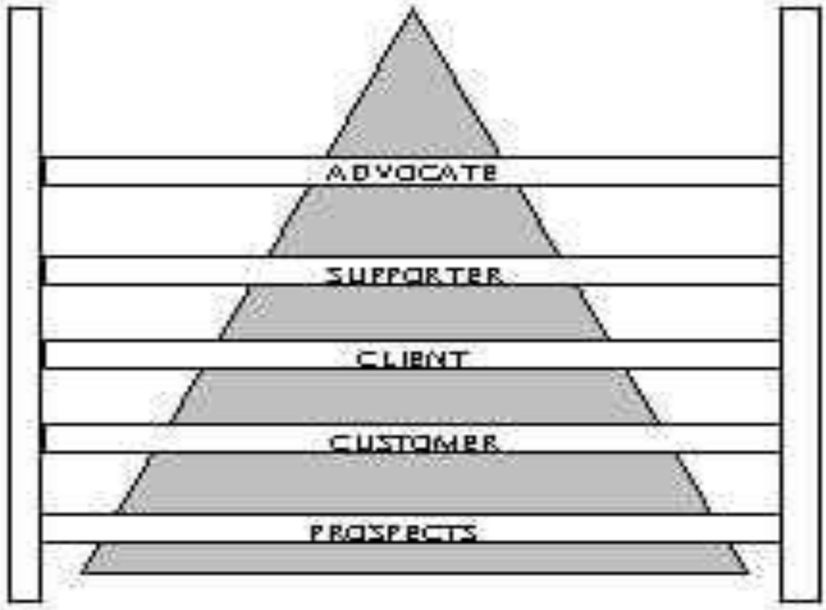

Figure 2: The Relationship Marketing Ladder of Customer Loyalty

In Figure 2 it is shown that the organization should focus on converting prospects into advocate through creating and maintaining relationship with the customers. Thus, the ultimate goal of relationship marketing is to create a band of Advocate customers, who would always be with the organization and not only spread good word-of-mouth, but also act as spokespersons when need arises. Obviously, as the pyramid suggests the number of advocate will be far less than the number of initial prospects.

Customer Retention

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.

The following analyses form the foundation of the customer retention process:

Assessing value: This is a process of ascribing a value to each relationship. It helps marketers understand issues such as which of the relationships can be mined further or which ones have outlived their utility.

Measuring retention: This provides a measure of how many customers have stayed with the company during a certain period. Such data can provide valuable marketing insight over time.

Understanding drop out: Getting to the bottom of why customers shift to competitors is absolutely critical, in order to prevent a further slide.

Many companies in competing markets will redirect or allocate large amounts of resources or attention towards customer retention as in markets with increasing competition it may cost 5 times more to attract new customers than it would to retain current customers, as direct or "offensive" marketing requires much more extensive resources to cause defection from competitors. However, it is suggested that because of the extensive classic marketing theories center on means of attracting customers and creating transactions rather than maintaining them, the majority usage of direct marketing used in the past is now gradually being used more alongside relationship marketing as it's importance becomes more recognizable.

According to Buchanan and Gilles, the increased profitability associated with customer retention efforts occurs because of several factors that occur once a relationship has been established with a customer.

The cost of acquisition occurs only at the beginning of a relationship, so the longer the relationship, the lower the amortized cost. Account maintenance costs decline as a percentage of total costs (or as a percentage of revenue).

Long-term customers tend to be less inclined to switch, and also tend to be less price sensitive. This can result in stable unit sales volume and increases in dollar-sales volume.Long-term customers may initiate free word of mouth promotions and referrals.

Long-term customers are more likely to purchase ancillary products and high margin supplemental products.Customers that stay with you tend to be satisfied with the relationship and are less likely to switch to competitors, making it difficult for competitors to enter the market or gain market share.

Regular customers tend to be less expensive to service because they are familiar with the process, require less "education", and are consistent in their order placement.

Increased customer retention and loyalty makes the employees' jobs easier and more satisfying. In turn, happy employees feed back into better customer satisfaction in a virtuous circle. Customer retention efforts involve considerations such as the following:

Customer valuation: it describes how to value customers and categorize them according to their financial and strategic value so that companies can decide where to invest for deeper relationships and which relationships need to be served differently or even terminated.

Customer retention measurement : Dawkins and Reichheld (1990) calculated a company's "customer \ retention rate". This is simply the percentage of customers at the beginning of theyear that are still customers by the end of the year. In accordance with this statistic, an increase in retention rate from 80% to 90% is to 10 years. This ratio can be used to make comparisons between products, between market segments, and over time.

Determine reasons for defection - Look for the root causes, not mere symptoms. This involves probing for details when talking to former customers. Other techniques include the analysis of customers' complaints and competitive benchmarking.

Develop and implement a corrective plan - This could involve actions to improve employee practices, using benchmarking to determine best corrective practices, visible endorsement of top management, adjustments to the company's reward and recognition systems, and the use of "recovery teams" to eliminate the causes of defections.

A technique to calculate the value to a firm of a sustained customer relationship has been developed. This calculation is typically called Customer lifetime value.

Many relationship marketers use a team-based approach. The rationale is that the more points of contact between the organization and customer, the stronger will be the bond, and the more secure the relationship

Retention Strategies:

Berry and Parasuraman, two early advocates of relationship marketing have developed a framework for understanding the type of relationship strategies. The framework suggests that retention marketing can occur at different levels and that each successive level of strategy results in ties that bind the customer a little closer to the firm. At each successive level, the potential for sustained competitive advantage is also increased. Four types of retention strategies, which are discussed below.

Level-1 : Financial Bond: At level I, the customer is tied to the firm primarily through financial incentives- lower prices for greater volume purchases or lower prices for customers who have been with the firm a long time. Examples of level 1 relationship marketing are not hard to find. Airline industry and related travel service industries like hotels and car rental companies are following this type of incentive for a long time. Frequent flier programs provide financial incentives and rewards for travelers who choose their airline for long time. Hotels and car rental companies do the same. Long-distance telephone companies in the United States have engaged in a similar battle, trying to provide volume discounts and other price incentives to retain market share and build a loyal customer base. One reason of these financial incentive programs' proliferation is that they are not difficult to initiate (and to be copied from competitors) and frequently result in at least short-term profit/gains. Unfortunately, financial incentives do not generally provide long-term advantages to a firm since, unless combined with another relationship strategy, they don't serve to differentiate the firm for a long period

Level 2- Social Bonds: This strategy bonds the customers to the firm through more than financial incentives. While price is still assumed to be important, level 2 retention marketers build long term relationship through social and interpersonal as well as financial bonds. Customers are viewed as clients rather than mere customers. The clients are the individuals whose wants and needs the firm tries to understand and design the product accordingly. Services are customized to fit individual needs, and the marketers find ways of sticking to the customers, thereby developing social bonds with them.

Social, interpersonal bonds are common among professional service providers (e.g., -lawyers, accountants, and teachers) and their clients as well as personal care providers (hairdressers, counselors, and healthcare provider) and their clients

While social bonds alone may not tie the customer permanently to the firm, they are much more difficult for competitors to imitate than are price incentives. In the absence of strong reasons to shift to another provider, interpersonal bonds can encourage customers to stay in a relationship. In combination with financial incentives, social-bonding strategies may be very effective.

Level 3-Customisation Bonds: Level 3 strategies involve more than social ties and financial incentives, although there are common elements of level 1 and 2 strategies encompassed within a customization strategy and vice-versa.

Two commonly used terms fit within the customization bonds approach: Mass customization and customer intimacy. Both of these strategies suggest that customer loyalty can be encouraged through intimate knowledge of individual customers, and through the development of one-to-one solution that fits the individual customers needs.

Level 4- Structural Bonds: Level 4 strategies are the most difficult to imitate and involve structural as well as financial, social, and customization bonds between the customer and the firm. Structural bonds are created by providing services to the client that designed right into the service delivery systems. Often structural bonds are created by providing customized services to the client that are technology based and serve to make the customer more productive.

Conclusion

In developing, maintaining, and enhancing relationships with customers and organizations we need to employ "high touch and personalized technology" retention strategies. By using these, no doubt, it enhance their relations with customers, but sometimes, despite efforts made by organizations to offer service with zero-defects, some errors creep in and the customers may experience problems. To deal with such situations, organizations should have a proper service recovery system in place to identify and solve problems at the earliest and minimize the inconvenience caused to customers.

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