

Seven Keys to Customer Retention

Jorge A. Restrepo M.G.A.
EurekaFacts LLC

It takes far more effort to acquire a new customer than to retain one, says the old business adage. And the benefits can be far greater when you know how to target efforts in order to cost-effectively maximize impact retention. It is also possible to limit losses by identifying and appropriately dealing with unprofitable customers and those that do not advance the mission or market position of an organization. The role of customer retention in the overall organizational strategy is one of protecting and managing the primary source of resources. It is also one of defending and enhancing market position and of optimizing resources and opportunity. That is why, although seemingly a purely tactical approach, customer retention also belongs in the realm of strategic market planning and is a required strength inherent to any successful organization.

The most effective way to manage retention is to identify those key areas where efforts can be leveraged for maximum impact. With retention targets identified and prioritized, it is then possible to develop a customer management plan that efficiently applies retention management tools and monitors progress.

Our approach to customer retention stems from the assumption that within any population, existing customers in this case, it is possible to identify several segments with different attributes, including purchase behavior. As part of the definition of a true segment, each has consistent responses to specific marketing efforts. This allows for the planning and execution of targeted efforts to maximize retention within each segment, building an optimum response for the organization. This supports resource optimization as well as maximization of each customer relationship.

Identifying and gaining understanding of loyal customers and heavy user groups among your customer base is important. Knowing who your customers at-risk are, is perhaps more so. The strategies applied to most customers are generally not focused on retention itself but rather on loyalty and revenue building, as is the case with up-sell, cross-sell and similar efforts. When you identify the segments with higher propensities to leave the organization, it is then easier to develop targeted measures aimed at increasing retention among

these groups without having to invest excessive resources in those who are not a flight risk.

The Seven Keys

1. Develop a retention and customer management plan

Many marketing and business plans are focused on acquisition of new customers. It is easy to do so because of the complexity and cost involved in segmenting and targeting audiences and positioning to attract new customers. But it is important to also develop plans that address the needs of your current customer base. This includes overall objectives, strategies, tactical programs and feedback through key business metrics. Just as targeting an external market, a critical process in the marketing effort is the segmentation, targeting and positioning strategy (STP).

The STP process consists of segmenting the customer base, identifying and offering the services that best meet the needs of target segments, and packaging the bundle of benefits into a compelling position that occupies a niche where the organization can claim and maintain superior ground.

At the heart of any retention management effort is the need to manage Life Time Value (LTV) of the customer. But beyond the simple discounted cash flow view of each customer, the analysis should include the following:

- ★ Evaluate the life expectancy of the customer relationship –study the cycle, the events and circumstances that prompt continued involvement as well as those that cause attrition.
- ★ Identify the services used among the customer base.
- ★ Assess customer knowledge of available services and products available through your organization.
- ★ Identify the demographic, behavioral and attitudinal variables of the customer base, with special emphasis on identification of those attributes that separate loyal customers from defectors.
- ★ Identify the Key Moments of Truth: the timing and interactions that define a customer's intention and action to renew or defect.

The Seven Keys to Customer Retention

- ★ Examine opportunities for maximizing value and utility of the services to existing members or customers.
- ★ Assess cost of renewal, both monetary and non-monetary.
- ★ Identify decision makers and influencers.
- ★ Evaluate the current cash flow and opportunities.

2. Segment the customer base

Addressing possible segmentation schemas, it is common to find application of Pareto's 80-20 rule. Plans that focus on this approach usually include specific tactics for the top customers (20%) who generate the highest revenue or profit (80%), and develop cost efficient strategies for the bulk of the customer base. This type of tiered approach is useful but only to a limited extent.

A look at the bottom section of the same sorted list will reveal groups of light users/sporadic joiners, nearly inactive customers and former customers. Some of these carry potential for much higher involvement, while others may not be worth pursuing at all. Most retention strategies ignore these, leaving vast opportunities untapped.

Conducting multivariate segmentation of the customer base with respect to the attrition rate will uncover the likelihood of leaving across several attributes such as demographics, usage, geographic distribution, service unit and attitudinal values. Examining these segmentation schemas and prioritizing them can uncover the needed steps necessary to address each group. Once you know which segments are most likely to leave and the factors that shape their higher attrition rate, it becomes easier to develop plans to increase retention among the current customer base.

By identifying possible strategies for each segment and their expected response to each strategy it becomes possible to evaluate the alternative segmentation-targeting-positioning alternatives and choose those that offer the highest potential.

It is also important to step back and examine segments not only as the make-up of the customer base and the building blocks for the marketing strategy, but also as a portfolio of assets. Examine segment size both in relation to the total customer base as well as to the total market niche, segment growth, market penetration, acquisition cost, renewal/maintenance cost, strategic value, and lifetime value.

Some possible segment-by-segment strategies may include adaptive and customer-change strategies:

Adaptation

- ★ Modify service offer – create young professional networking environments to capture those who are new to the field.
- ★ Address service quality – establish monitoring mechanisms to track the percentage of customers receiving the minimum service level offered. Review messaging to identify areas where over-promising may be taking place.

Customer change

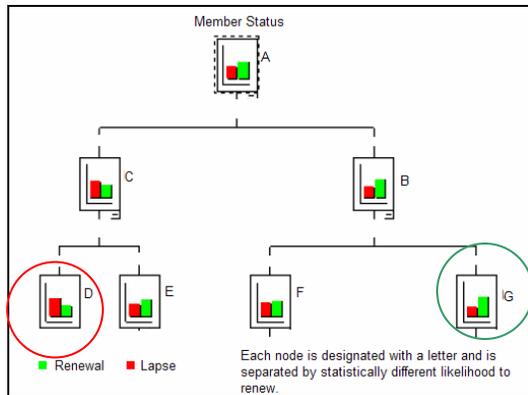
- ★ Educate customers – deploy service awareness messaging to those who have not utilized services that generate involvement and commitment. Prepare customer orientations, new member manuals, guides, and online user resources.
- ★ Adjust expectations – identify service glitches quickly and alert customers of the issues with as much advance notice as reasonably possible.

Timing Analysis - Trend analysis can reveal important attributes in your attrition. In analyzing timing it is important to examine it with respect to the original purchase as well as in relation to other events. Plot the customer lifecycle, identifying when they are most likely to leave. Often new customers have a higher than average attrition rate.

Examining response to the renewal series and overall fit of the messaging platform to each segment should also be done.

Predictors of Attrition - Identify the predictors of attrition and renewal and manage them. Professional associations often show attrition is partially driven by the level of reimbursement offered by their employer. Understanding the career cycle of individuals can then unlock opportunities to transition individuals from employer-paid memberships to individual dues paying continuation strategies. This can also assist in the messaging necessary to reintroduce the organization to those who inherit institutional or employer-paid memberships and offers.

The chart below shows the output of a multivariate analysis that separates a customer base by the top predictors of renewal. Each node represents a particular segment of the membership with distinct characteristics. The circled segments point out the at-risk and the safe segments.

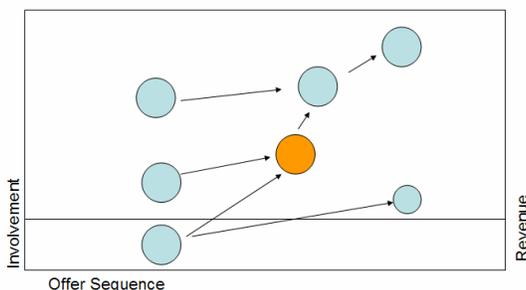


3. Target offers for each segment.

Once segments have been identified and characterized, it is essential to lay out a path to secure retention and greater involvement. In many cases it is reasonable to pick the services that, if used, will generate greater loyalty. When many options exist, it is also possible to identify these offers through data-mining, pinpointing the optimum series of offers. True market segments show consistently similar response to market stimuli, so once you have identified a successful path for each segment, you can turn the retention strategy into one that also helps optimize involvement and revenue.

To develop the path, the key steps are:

- ★ Articulate your objectives for each segment.
- ★ Define your communications and positioning objectives.
- ★ Identify the services that are hard to replace and build compelling offers to make them part of the critical path.



To fully benefit from the segmented approach it is often necessary to examine those unprofitable / unattractive groups that need to be weeded out or transitioned to more profitable platforms. Managing

churn is often counterintuitive to those who march to the objective of growing the customer base. But when the cost or effort of retaining a member exceeds the total value of retention, it is necessary to develop upgrade/exit strategies.

A side benefit, gaining an understanding of the expected loyalty and profitability of a customer is instrumental when planning new customer acquisition efforts. Applying the same principles to prospective members, an association can choose to focus on a particular segment of the prospect base. For example, it is common to focus on new entrants to a professional field. They may be more likely to respond to a particular offer, but are they more likely to stay in the field than those who have been in it for more than two years? A similar situation occurs with those who join an association responding to a discount for an upcoming conference. Because the promotional offer (convention discount) and the long term service offered (professional membership) are not completely aligned, the life expectancy of the membership may be lower than for those who were simply sold on an offer to gain access to the full set of membership benefits.

Examine the demographics and attitudinal sets of your at-risk audiences to test affinity with the current retention and renewal strategy. Once you identify the motivators for continued involvement it is possible that existing communications and services are insufficiently targeting at-risk segments.

With an understanding of the segments and the drivers of attrition, retention and renewal communications can be seen in a new light. If these are standard across segments and include a set of letters and renewal invoices you will know there is ample opportunity for improvement.

4. Increase relevance, usage and service penetration

Loyalty is often enhanced with the level of involvement accomplished. The more services customers use, the higher the loyalty and the lower their likelihood of finding a replacement. Although each service has particular dynamics at play and the assumptions should be tested, examining how to increase involvement and the number of services used will not only support revenue maximization, but also retention. The strategies to utilize may include a mix of the following:

- ★ Increase the number of services offered.
- ★ Implement loyalty reward programs.
- ★ Build high value features that are hard to replace/require continued membership.

The Seven Keys to Customer Retention

- ★ Create incentives to keep current information / database.
- ★ Build periodic processes to reexamine existing relationships and formulate retention/up-selling plans.
- ★ Build exit/switching costs.

Associations that have union-like conditions are able to set up mandatory membership via accreditation requirements such as the American Medical Association. In this case the exit cost is very high- the ability to perform the profession. Some associations embed liability insurance in order to offer a benefit that requires continued membership in order to continue to gain access to the benefit. However, locking-in individuals can also create negative reactions.

Manage the customer experience – The development and targeting of actual offers needs to take the complete customer experience into account. Developing an understanding of the sought value (tangible and intangible, rational and emotional) and the environment in which it is utilized can uncover important elements on which the retention strategy can rest.

Target influencers - Associations are by nature social groups, so group composition defines to a very large extent who will remain after trial and who will not. Influencers, although a fraction of the customer base, are key to involvement and retention efforts.

Building strong referral and reference power is essential and this extends past initial trial. Among professional associations, these are often university professors in addition to the renowned and trusted professionals and consultants in the field. Reference and peer groups need to be considered in the retention strategy.

5. Enroll your organization to help

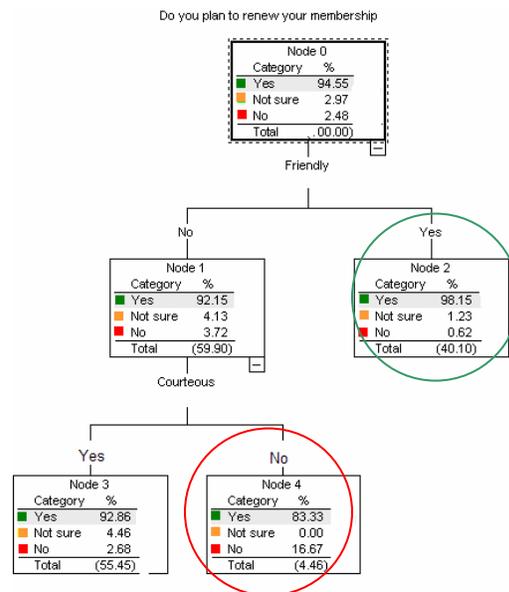
Intention to repeat a purchase, renew a membership and/or increase involvement is often tied to individual actions on the part of the staff. This is especially true in service organizations. An analysis of the actions that lead to customer retention and those that lead to increased loyalty are likely to yield concrete identification of key touch-points and identification of cause-effect dynamics that can be addressed through training and process changes.

- ★ Communicate the cost of obtaining a renewal versus acquiring a new member.

- ★ Identify the ways in which staff can influence retention.

A set of predictors may suggest that the number of rings before pickup and the number of call transfers are drivers of satisfaction. This may then assist in the training of staff to optimize these two key measures, positively influencing customer satisfaction. In interaction, measurement of a number of attributes may impact intention to renew.

In the example below several attributes were measured. Those found to serve as best predictors of membership renewal were staff friendliness and courtesy of the staff. In the example, 94% of the membership plans to renew. When these customers perceive the staff to be friendly, their likelihood to renew jumps to 98%. But when they perceive staff as not friendly and courteous, likelihood to renew drops to 83%.



6. Establish a service recovery strategy

Understanding that uneven and/or sub-par service will be delivered at some point in time will inevitably lead to the conclusion that service recovery strategies need to be in place. Airlines offer free upgrades; some hotels offer a free stay when something goes wrong. An important question that needs to be answered is: What is the service recovery strategy for your nonprofit?

The Seven Keys to Customer Retention

The service recovery strategy begins with a clear definition of the minimum standard of service the customer may expect. It also needs to be communicated so that when it occurs not only the customer pinpoints it, but preferably the staff involved can identify a breach in the service commitment and offer some restitution to the affected customers. Then comes the reward. Research has shown that customers who have had a negative experience addressed and resolved become more loyal than those who have not experienced a problem. Among big ticket and high involvement services this is even more important.

Taking this effort one step further, developing measures of the level of service delivered and the differences in how it is perceived are key. This leads to the systematic identification of opportunities for improvement. An effort of this nature can be completed within a quality management program such as six sigma.

- ★ Define the minimum acceptable level of service.
- ★ Develop means for problem identification.
- ★ Establish problem resolution processes.
- ★ Implement service recovery and customer recovery strategies.

7. Keep the pulse on who leaves and why

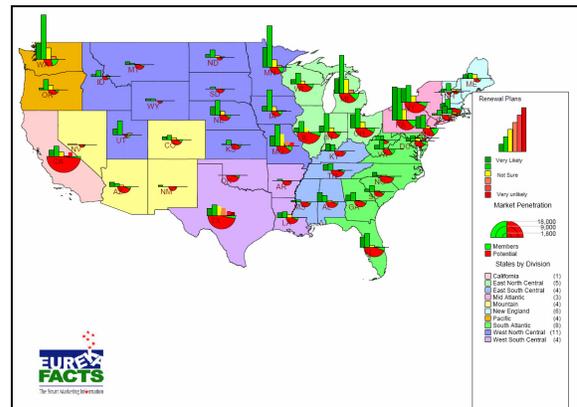
Decisions to repeat purchases and continue membership affiliations are made based on past behavior, attitudes and customer experience. But there is more to it; gaining understanding and monitoring other external factors such as competing offers and substitutes is essential. Establishing a process to monitor attrition, the strengths of competing and substitute offers by obtaining customer input and linking it to measures of external factors can help pinpoint needed adjustments to the strategy.

The most critical aspects of an effective monitoring program are: a) select effective metrics, b) implement a follow-up process, c) create ways to limit sponsor bias in customer feedback and obtain

accurate reads, and d) execute effectively, and e) follow up on new findings and learned lessons.

Many associations maintain exit surveys for those who have not renewed after a number of efforts. The information these efforts yield can be powerful in qualitative terms, as well as a good quantitative measure from the customer's perspective. Those who take a more proactive approach establish ongoing feedback mechanisms to assess the health of their customer relationships.

Enhancing this data with that available from the customer database, the transactions they engaged in (or the services they did not use), their state or local affiliate, and other data can uncover even more powerful insights. The example below shows distinct differences in intentions to renew a membership offer with marked differences by state and region of the country.



Ultimately it is all about value

Customer retention is ultimately driven by value. Even the best segmentation, targeting, positioning, creative messaging or promotion with flawless execution will fall flat in the absence of value. In developing a plan to maintain and upgrade a customer base it is necessary then to build on solid foundation. Then, and only then will the keys unlock the door to greater customer retention and overall organizational success.

Jorge Restrepo is President and Principal Marketing Researcher at Eureka Facts LLC, the marketing analytics firm specialized in data-driven marketing for nonprofit and service organizations. He has written about data-driven marketing, segmentation, targeting and positioning. He has completed and implemented segmentation and targeting studies at multiple national associations, fee-for-service nonprofit organizations and for-profit service companies. He can be reached at jorge@eurekafacts.com or (301) 610-0590. www.EurekaFacts.com