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Customer Retention Begins With Trust by Lynn Hunsaker

Why is it hard to retain customers? Of course there's the ongoing battle with competitors. They may make highly attractive offers to your customers that are hard for them to refuse, and their brand affinity may have strong appeal to your customers - brand affinity is positive association built through cause marketing, perceived social status and so forth.

Over-focus on customer acquisition teaches them to switch brands. For example, the brand switching rate, called customer churn, is 40% for the mobile phone industry, compared to a 7% churn rate for the insurance and financial services industries. As growth slows in acquiring new customers - either due to the economy or to shrinking technological gaps with competitors, more companies are pursuing customer retention as a vital corporate strategy.

Not Planning or Funding Retention

Most executives and marketers can quote the well-known universal statistics on retention - that a small improvement in the number of customers retained can have exponential improvements in profit - yet only 39% of companies say their marketing plans contain specific customer retention strategies, and only 28% of companies say they have funds set aside to specifically support those strategies.

In fact, 89% of firms view customer experience management as very important or critical to their firm's strategy in 2009, according to a study by Forrester Research. In creating a marketing plan for retention, be sure to include the entire experience spectrum, which begins at the point when prospects are aware they have a need for a solution, through the point at which they perceive they no longer have that need.

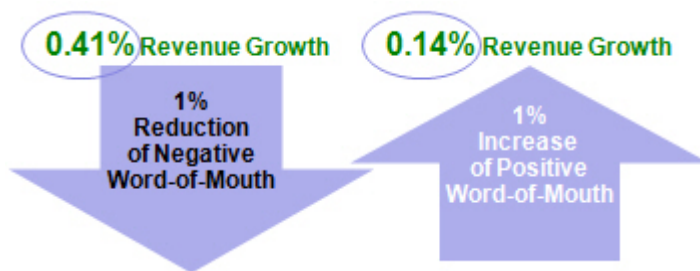
Really Know Your Customers

In addition to customer involvement methods, do your marketing tools support retention as well as they support acquisition? Your databases should tap into all phases of the experience spectrum. Three-fourths of companies admit they have fair or little knowledge of their customers; the same number say customer experience is not well defined and communicated within their company. Three-fourths of firms say their employees are not well-versed in how to delight customers. For database use, it's best to segment your customers by lifetime value, create customer experience personae and develop ways to predict behaviors. Best Buy is a great example of identifying customer personae and training their employees to cater their services to the specific needs and expectations of the personae.

Do What You Say

So we re-visit the question, why is it hard to retain customers? It goes back to the basics - doing what you say you'll do - in product, service and value promises, and really knowing your customers. A recent quote I heard from Peppers and Rogers is that half of companies say they have fair or little knowledge of customers' demographics, behaviors, psychographics and transactions. Two-thirds of companies say they have no processes in place for reactivating dormant or lost customers.

As the 2009 Edelman Trust Barometer emphasizes, customers view product and service quality by far as the most important components of trust. Way down on the list are state of the business, innovations, supporting the public good, and commitment to the environment. Since trust is the basis for long productive relationships, then your customer retention strategy must include oversight on product and service deliverables meeting or exceeding the brand promise featured in marketing communications.



A study by the London School of Economics examined the revenue gains by increasing positive word-of-mouth and by reducing negative word-of-mouth. They found that reducing negative buzz pays off 300% over improving positive buzz.

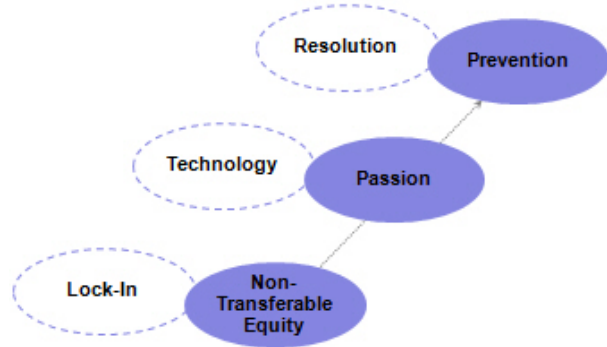
Customer retention may be best supported by operational integrity. After all, when you think about your personal relationships as well as your business relationships, you tend to stick with the folks that are really good at showing they sincerely care about you, and doing what they say they're going to do. It boils down to trust. When you dig down to the reasons why people leave a brand for a competitor's solution, it's not so much about the competitors' offers and brand affinity - but the reasons people switch brands is much more about product, service and value disappointments. Companies make huge investments in communicating their value proposition. Logic says a corresponding investment - at least in energy and scrutiny - should be made in making sure their value proposition is lived up to. Trust is the best way to retain customers.

Common Practices vs. Best Practices

To sum-up, you can retain customers by locking them into contracts. But a better way is to encourage customers to invest non-transferable equity in your brand - for example, customers might store their photos or contacts on your site, or they may have social connection perks through your brand that can't be readily transferred to your competitor. This is better, because it's the customer chooses his or her level of involvement and tie-in with your brand.

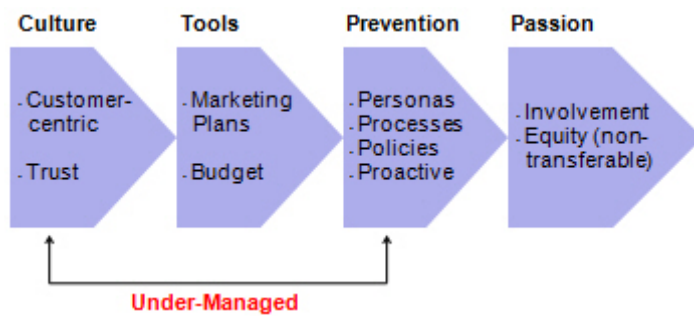
You can retain customers through unique technologies that competitors don't offer, either due to patents or lack of common standards. But a better way is to develop customers' passion for your brand. This is being done by many companies, as seen in the examples of customer involvement shown earlier in this presentation.

You can retain customers by resolving problems as they arise, escalating issues for high-value customers, and rewarding heroes who save the day with at-risk customers. But a better way is to prevent customer hassles in the first place, by creating customer experience personae that help your entire workforce really know the customers, using personae to guide business policies and processes, and being proactive in predicting at-risk customers, promptly reaching out to them, sharing your customer feedback summaries and achievements in response to customer feedback, and embracing customer complaints with solid problem resolution that prevents recurrence of customer hassles.



Culture & Prevention are Under-Managed

The building blocks of customer retention are culture, tools, prevention and passion. The more customer-centric and trust-building your culture is, the more likely you will be to retain customers at a higher rate than your competitors. The more you include customer retention in every marketing plan and budget, the more likely you are to retain customers. Hand-in-hand with customer-centric culture is prevention of customer issues, making the customer's reality match or exceed your value proposition. And finally, build passion through customer involvement.



Marketing tends to do pretty well in the tools and passion area, but the culture and prevention areas tend to be neglected, relatively speaking. For more ideas on how to improve effectiveness in culture and prevention areas to maximize customer retention, see customer.ology.com.

Customer retention is smart business! In a study done last year, best-in-class customer experience practitioners were compared to industry average and laggard customer experience practitioners. The year-over-year gain in customer retention was 15% for best-in-class customer experience practitioners, compared to 1% industry average. Customer satisfaction and profit were markedly higher for best-in-class customer experience practitioners.

	Best	Average	Laggard
Customer Retention	15%	1%	0%
Customer Satisfaction	19%	8%	3%
Profitability	8%	6%	-8%

Year-over-year increases for best-in-class, average & laggard customer experience practitioners

Find out how to customize these tips to your situation; contact the author lynn.hunsaker@clearaction.biz.