

Why Customer Retention?

Do I really need it?



Why Customer Retention?

Many companies are faced with the question „Why Customer Retention?“ In the present time the term customer retention (CR) is on everybody’s mouth. Whereas a few years ago the focus laid on the acquisition of new customers, currently maintaining existing customers has become more and more important.

Customer retention per se is not a new thing in the business world. Successful companies are constantly working in the field of customer retention, because without customer retention it isn’t and wasn’t possible to be successful in the long term.

Only the systematically implementation of customer retention activities guarantees the maximum benefit.

Every successful company works with customer retention.

Various different features make it easy to convert customers into long term loyal customers.

Companies which are interested in professional customer retention are confronted with 2 questions.

These 2 question are:

- **What is customer retention?**
- **What are the benefits of customer retention?**

This document provides an overview of the answers to these questions.

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What is CR?

Customer retention is a term which is very popular and widely used at the moment.

Most successful companies are working with various different customer retention activities and methods. The fact is, that without customer retention it is very difficult, if not to say impossible, to be successful in the long term.

During the 1990's the focus of most marketing activities was to gain new customers. Current development shows a change of this focus. To maintain existing customers is becoming more and more important.

The reason for this development is based on the knowledge that long term related customers have a huge positive effect on the success of a company.

Additionally it was found that the maintenance of existing customers is less cost intensive than the acquisition of new customers.

More and more companies operate in saturated markets. Quality differences between products and services are minimal and due to the internet it is very easy for each customer to compare the various offers against each other and choose the best one. Customers are more and better informed and are not willing to accept the first offer.

Furthermore customers expect to be treated on a more personal and individual basis.

If these various expectations are not met, the customers close the relationship with the company and choose instead a more appropriate company.

With the support of focused customer retention activities it is possible to avoid the migration of customers.



But what exactly is customer retention?

According to Oliver (Oliver, 1997, p. 392)¹ customer retention is a

"deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour"

In general and on a basic level we can say that customer retention means to maintain existing customers. This happens if there exists a positive relationship between the company and the customer.

There are a plurality of different measures to maintain and establish a positive relationship between the customer and the company. The combination of these measures exercise a positive influence on the actual behaviour of the customers as well as on any potential behaviour

Of course, this brings us to the next question: Can my company really benefit from customer retention?

What are the benefits of customer retention?

Customer satisfaction and customer retention are two of the most important factors regarding the long term success of a company.

High customer satisfaction has a crucial influence on various psychological criteria, e.g. the mental attitude, confidence etc. but also on factors like customer's behaviour regarding repurchase, cross selling, and recommendations.

These factors are known to be a huge influencing factor in relation to the economical success of a company.

¹ Oliver, R.L. (1997). Satisfaction. A behavioural perspective on the consumer. New York

These are the major benefits of customer retention:

- There exists a direct positive relation between customer retention and **repurchasing**. The more positive the relationship between the customer and the company is the more often he buys products from this company, which has a positive influence on the turnover.
- Another positive relationship regards the **cross selling** behaviour. Retained customers tend to buy other products or services from the same company. Of course there is also a positive effect on the turnover.
- Many studies brought evidence that the “**value of a customer**” increases with time. The costs for customer liaison and support decline, whereas the turnover increases. The longer the relationship exists, the more profitable the relationship becomes.
- Retained customers are known to be less **price/cost sensitive**. A customer who is loyal to a company is more likely to accept a price increase than a customer without loyalty.
- Customers who are satisfied with the service of a company are likely to advertise **positive word-of-mouth** recommendation. This is one of the most efficient but also economic activities to win new customers.
- Customer retention helps also to decrease the **migration rate** of customers. This serves the purpose to maintain the existing clientele and together with instruments for acquiring new customers to increase the clientele.
- The acquisition of a new customer costs 5 to 10 times more than maintaining an existing customer. Therefore customer retention has a positive effect on **costs**.
- Well designed customer retention activities are an important differentiation factor between various companies. This helps to strength the **unique selling proposition (USP)** of a company.

All these factors are in direct relation with the economical success of a company.

The better and more efficient various customer retention activities are the easier it is for a company not only to maintain it's existing position in the market but also to extend it.

Conclusion

Currently many companies are facing an aggressive battle regarding customers. With the support of professional and efficient customer satisfaction activities a company has many advantages over it's competitors.

The target of customer retention is to build and maintain a long term relationship with customers. Both parties – the company and the customers – benefits from each other.

Customer retention could and should be implemented in every company. There exists a broad pallet of various instruments which can have a lasting effect.

The earlier a company start with professional customer retention the faster first results can be experienced.

These are the benefits of customer retention:

- ✓ Increase of repurchasing behaviour
- ✓ Increase of cross selling behaviour
- ✓ Increase of the value of a customer
- ✓ Declined price sensitiveness
- ✓ Positive word of mouth recommendations
- ✓ Declined migration rates
- ✓ Declined costs for the acquisition of new customers
- ✓ Strengthening of the unique selling proposition

In order to benefit from these factors professional customer retention activities play a major and important role.

To answer the question:

“**Why customer retention?**”



Because customer retention brings even more success!