

Chapter 9

Customer Retention Strategies and Customer Loyalty

ABSTRACT

Since loyal customers are the most important assets of a company, companies have been giving attention to developing customer retention and loyalty programs. The fundamental purpose of customer retention efforts is to ensure maintaining relationships with value-adding customers by reducing their defection rate. Creating customer loyalty is essential for the survival of the company in highly competitive markets. Thus, this chapter starts with indicating the significance of customer retention marketing strategies for the company by revealing the economics of retention marketing programs. Requirements for developing effective customer retention strategies are explained. Finally, after discussing types of commitment, this chapter ends by explaining loyalty programs and win-back strategies.

INTRODUCTION

Relationship marketing becomes an essential strategic tool for companies in today's dynamic market in which customer needs and preferences are changing rapidly. These rapid changes that take place in almost all business types, increase the importance of relationships, and highlight the need to enter into networks of relationships. Thus, companies have been increasingly focusing on developing long term profitable relationships in business, internal and consumer markets in order to enhance the value that they deliver to their customers.

Retention marketing strategies provide many benefits to the company because loyal customers increase their spending at an increasing rate, purchase at a full margin rather than at discount prices, and create operating efficiencies (Reichheld & Sasser, 1990). Moreover, acquiring new customers such as new account setup, credit searches, advertising and promotional expenses is costly compared to retaining a customer. The relationship startup costs that are incurred when a customer is acquired are quite high and it may take several years to gain profit from the relationship to recover those acquisition costs. The account becomes more profitable and relationship

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maintenance costs may eventually decrease as the relationship between the company and customer deepens over the time. Besides, customers who are satisfied with the company are more willing to pay higher prices because they get their sense of value from more than price and in an established relationship they are also likely to be less responsive to price appeals offered by competitors (Buttle, 2009).

The below statistics also reveal and support the economics of retention marketing programs:

- Customer profitability tends to increase over the life of a retained customer because they buy more as their trust increase (Murphy & Murphy, 2002).
- 80% of the company's future profits come from just 20% of its existing customers (Murphy & Murphy, 2002).
- A 5% decrease in customer defection rates can increase profits by 25% to 125 depending on the industry (Murphy & Murphy, 2002).
- A 2% increase in customer retention has the same effect as decreasing costs by 10% (Murphy & Murphy, 2002).
- Repeat customers spend on average 33% more than new customers (Retail Active, 2008).
- Referrals among repeat customers are 107% greater than non-customers (Retail Active, 2008).
- 86% of consumers will pay up to 25% more for a better customer experience (RightNow, 2011).
- According to the Marketing Metrics, the probability of selling to an existing customer is 60–70%; while the probability of selling to a new prospect is 5–20% (Charlton, 2012).
- According to the White House Office of Consumer Affairs, it costs six to seven times more to acquire a new customer than retain an existing one (Hisaka, 2013).

As those statistics demonstrate, companies that are going to effectively develop and manage customer retention strategies can achieve a competitive advantage, healthier profits and an admirable reputation. There is strong evidence that customer retention yields commercial benefits; because of that reason companies try to enhance customer lifetime value. Customers want to maximize their benefits when they enter into a relationship. Thus, when the customers believe the profitability of the relationship, they establish and maintain ongoing relationships with a company. Customers are more likely to enter into a relationship when the future value of the relational behavior is high. The future value of the relationship will be high, if the relational behavior provides high perceived benefits due to customization, superior service, outstanding customer experience, product bundling and so on, and/or lower costs due to the reduced mental processing, search costs, and risks associated with the purchasing (Bhattacharya & Bolton, 2000). Receiving outstanding customer experience increases the perceived value of the relationship for the customer. It is important to note that companies that prioritize delivering excellent customer experience can generate 60% higher profits than their competitors. Moreover, strict adherence to delivering customer experience results in up to 25% more customer retention and revenue than sales or marketing initiatives (Murphy & Murphy, 2002).

Future value of the relationship as well as the customers' trust in the organization affect the customers' decision to maintain or withdraw from a relationship (Blois, 1996). Better Business Bureau (BBB)/Gallup Trust in Business Index 2007 survey finds that nearly one in five (18%) adult American consumers says his trust in businesses that he regularly deals with has decreased in the past 12 months. The findings of the survey indicate that 93% of American adult consumers rate company's reputation for honesty and fairness as extremely or very important to them; while 91% of respondents find company's reputation for

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