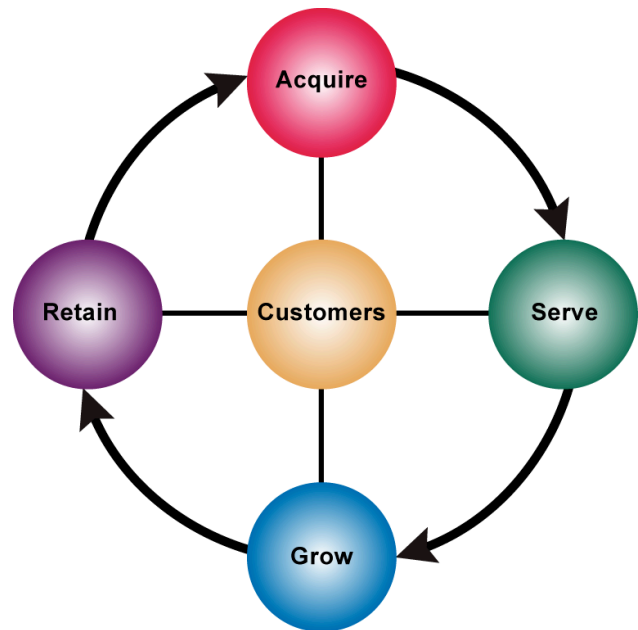


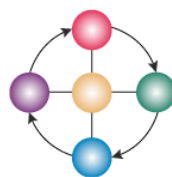
Get Better Business Results...

...From the Four Stages of Your Customer Lifecycle



Stage 4 – Retain

How to Retain Your Profitable Customers



A white paper from

Customer Lifecycle, LLC

inspiration • insight • innovation

Build in Retention and Profitability at Each Stage of The Customer Lifecycle

Each stage in the customer lifecycle — acquisition, service, growth, retention — has its own unique customer needs, attitudes and behaviors. This creates the opportunity to identify and measure competitive performance requirements and metrics for both a particular stage and its relationship to the entire lifecycle.

Acquire, the first paper in this *Acquire, Serve, Grow, and Retain* series, examines factors driving customer acquisition and outlines a systematic process to attract and build a profitable customer base. With that information an organization can develop a targeted customer acquisition and retention strategy and up-selling programs as well as leverage the desired communications channels in order to improve lifetime value.

Serve, our second paper, discusses approaches to identify how well you meet customer needs with service that meets or exceeds customer expectations and whether the targeted customers you have secured will remain satisfied and loyal or will leave due to dissatisfaction with what you are providing.

Grow is the third paper in the series. It discusses tools and techniques that can be used to create a practical process that focuses on improving the financial results from all customer groups.

Retain, the final paper in the series, discusses how to retain the profitable customers your organization has created by following the steps outlined in the three preceding papers. We suggest that the best way to accomplish that is through a dual perspective—aligning the perceptions of employees with the requirements of customers.

The fight for loyalty, share of wallet, and customer retention has reached a fever pitch. According to the Wall Street Journal, it is not enough for a company to merely know the number of customers it has. *Investors on Wall Street now want to know the value those customers represent and what the organization is doing to retain them, especially most profitable customers.*

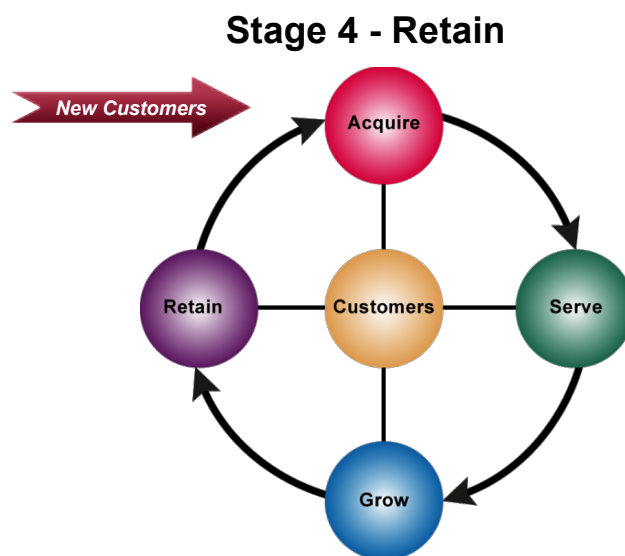


Fig. 1 – The Customer Lifecycle

How to Retain Your Profitable Customers

Probably everyone working in the areas of customer satisfaction, loyalty, and retention is all too familiar with the fact that it costs a lot more to gain a new customer than it does to keep a current one, particularly if the current customer is profitable. Hundreds of studies and research reports have established beyond a doubt that it is far easier, more cost-effective, and much more beneficial in the long run for companies to work toward preserving their customer base as well as attracting new customers.

By consistently applying the proven tools and techniques discussed in our papers on the Acquire, Serve, and Grow phases of the Customer Lifecycle, a company should now have a growing base of customers that are satisfied, loyal, and profitable. Now the challenge is how to keep them.

Customer retention has a direct impact on profitability. Research by John Fleming and Jim Asplund indicates that engaged customers generate 1.7 times more revenue than normal customers do, while having engaged employees and engaged customers returns a revenue gain of 3.4 times the norm.¹ A company's ability to attract and retain new customers is not only related to its product or services, but strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace.

Customer Retention Should Be a Process-Driven Strategy

Notwithstanding the significant impact customer retention has on business results, many companies still approach the issue of customer retention on a reactive basis. Unfortunately, many of these reactive responses address the symptoms, not the root causes.

Successful and enduring customer retention initiatives require functional alignment throughout an organization. This alignment is driven by a senior management-championed commitment to:

1. Establish customer retention as a major corporate objective
2. Achieve the objective by the development of an effective retention strategy
3. Develop implementation tactics to operationalize an enterprise-wide strategic customer retention process
4. Link the outcomes of the retention process with other key processes to ensure that internal process metrics are fully aligned with external customer requirements for retention
5. Align employee perceptions with customer requirements beyond the usual Human Resources employee satisfaction surveys
6. Manage the process to effectively balance internal process performance metrics with external customer retention requirements

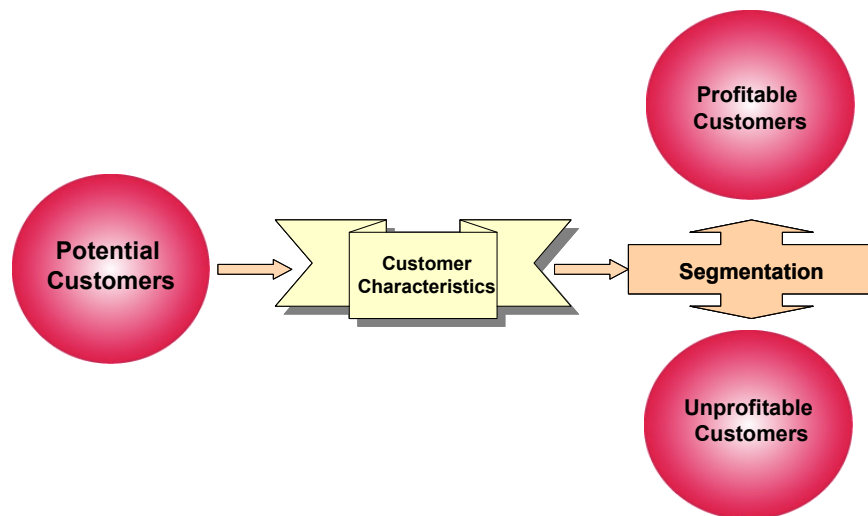
Two of the most critical parts of an organization are its customers and its employees. The better aligned the perceptions of the two groups, the better the company will perform. There is compelling research examining the benefits of identifying and correcting disconnects between customer and employee perceptions of importance and performance. Companies with a clear understanding of the views of each group and what it takes to resolve those disconnects outperform their competitors by substantial margins.

¹ (Fleming, John, and Jim Asplund. Human Sigma. New York: Gallup Press, 2007)

1. Creating a Successful Retention Process

An objective to improve customer retention needs to be quantified. Based on internal data, what percent improvement is reasonable? The degree of improvement needs to be achievable and should be determined in the context of available resources, market conditions, and economic environment. And once a measurable outcome has been defined, what is the appropriate strategy to achieve it?

One of the first determinations that need to be made is which customers you want to retain. Not all customers are created equal, and the focus should be on retaining the most profitable. *Acquire*, the first paper in this series, provides a detailed discussion of how to identify the most profitable customers using a combination of predictive segmentation and lifetime customer value.



Profitability Segmentation

If you would like a copy of *Acquire*, or any of the other whitepapers in the *Get Better Business Results* series, they can be found in the reference section of our website at www.customerlifecycle.us, or feel free to contact us for assistance.

Identify and Measure Drivers of Retention

Once the most profitable customers have been identified, strategy focus depends on what will have the most powerful impact on attaining the desired improvement in the behavior of your most profitable customers. Based on reliable internal data or primary research with customers, what is most important to them in terms of importance and competitive performance? The voice of the customer, not the opinion of management, needs to inform strategy development.

2. A Customer Service Strategy Example

For example, the key differentiator in a competitive world is more often than not the delivery of a consistently high standard of customer service, and there is near-universal agreement that customer service is a major driver of satisfaction, loyalty, and retention. However, in developing quantifiable service performance levels, it is necessary for the research to identify and measure the various components of the service experience.

Identification of what specific elements comprise service delivery for a given company needs to be identified qualitatively. A good general example is the 5 main factors of customer service excellence which directly impact and determine customer satisfaction, loyalty, and retention as identified by Philip Forest of The International Customer Service Institute.

- 1) **Policies** – the guide of action. It is the overall enabler and conditioner of the other 4 P's and parameter for the allocation of resources (time, money, and effort, etc.) to the achievement of the organization's service excellence goals.
- 2) **Processes** – one of the most crucial elements in the delivery of service excellence and customer satisfaction and retention. Customers expect a satisfactory outcome after completing a transaction with the organization, and it is the efficiency and effectiveness of the processes that contribute greatly to the expected outcome.
- 3) **People** – the main resource of an organization. Their knowledge, competence, and skills can positively influence the service quality performance and the success of the company.
- 4) **Products/Services** – the key reason why customers engage with the organization, build loyalty, or leave to the competitors.
- 5) **Premises** – major contributory factors to the customers' overall impression of the business and can act as major attractors to new customers.

Align Employee Perceptions with Customer Requirements

Two of the most critical parts of an organization are its customers and its employees. The better aligned the perceptions of the two groups, the better the company will perform.

There is compelling research examining the benefits of identifying and correcting disconnects between customer and employee perceptions of importance and performance. Companies with a clear understanding of the views of each group and what it takes to resolve those disconnects outperform their competitors by substantial margins.

A study published by The Forum for People Performance Management & Measurement at Northwestern University² found that:

"There is a direct link between employee satisfaction and customer satisfaction, and between customer satisfaction and improved financial performance."

Get Multiple Benefits

This study looked at the impact of organizational culture, organizational climate, human resource systems, and market characteristics on employee satisfaction and employee engagement (which they define as the degree of employee motivation and sense of inspiration, personal involvement, and supportiveness). They then gauged the downstream effects of these employee attitudes on companies' market performance including such measures as customer retention.

²Oakley, James L. (2005). *Linking Organizational Characteristics to Employee Attitudes and Behavior – A Look at the Downstream Effects on Market Response and Financial Performance*. Northwestern University Forum for People Management & Measurement.

Other interesting conclusions from this work include the following:

- Organizational culture is another significant driver of employee engagement, where employees must be expected to cooperate and work together, but also to take charge and *provide a voice for the customer within the organization* (italics added).
- Organizations with engaged employees have customers who use their products more, and increased customer usage leads to higher levels of customer satisfaction.
- It is an organization's employees who influence the behavior and attitudes of customers, and it is customers who drive an organization's profitability through the purchase and use of its products.
- In the end, customers who are more satisfied with an organization's products are less expensive to serve, use the product more, and, therefore, are more profitable customers.

Similarly, Wiley and Brooks³ reviewed the relationship between financial success and customer and employee variables (e.g., customer satisfaction, employee satisfaction, etc.) and found that, depending on market segment and industry, between 40 and 80 percent of customer satisfaction and customer loyalty was accounted for by the relationship between employee attitudes and customer-related variables.

Why Is There a Disconnect?

With a body of convincing information demonstrating the benefits of aligning what the customer is saying with what the employee is saying and doing, why does there continue to exist a significant disconnect between these two important drivers of a company's marketplace performance and financial success?

It is accepted wisdom and common practice among a great many companies to survey both customers and employees regularly to define what matters most to them in their relationships with a company. This helps build better equity in the organization for each group. Unfortunately, these two activities usually reside in different functions such as marketing and human resources. Consequently, there is often little or no connection or coordination between design of the respective surveys, access to the findings or integrated deployment of results.

How to Connect the Voices

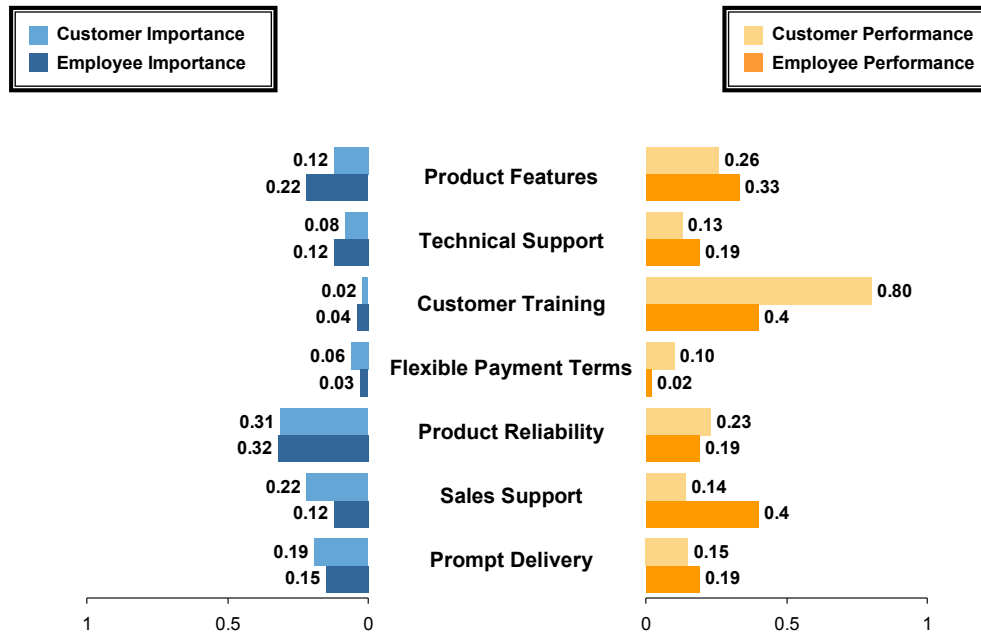
However, there is a relatively simple and straightforward way to get better use of the results of such surveys and eliminate disconnects between the two groups. A well-designed and executed customer satisfaction survey will identify and measure the relative importance of various aspects of the customer experience as well as performance of a company on key drivers of customer satisfaction and loyalty. Typically, a small number of these drivers account for the most significant attributes of importance and performance.

These critical few questions on importance and performance can be incorporated into the employee survey as a useful mirror. Simply ask the employees to rate how important they think these attributes are and how well they think the company performs on them. Comparison of the ratings between the two groups can provide some eye-opening insights on major disconnects and where to focus improvements.

³Wiley, J. W., & Brooks, S. (2000). "The high performance organizational climate." In N. Ashkanasy, C. Wilderom & M. Peterson (Eds.), *Handbook of Organizational Culture and Climate*. Thousand Oaks, CA: Sage

The chart below compares the hypothetical results of such a mirror survey.

Customer and Employee Ratings of Importance and Performance



In this example, the employees attach much more importance to product features than do customers, and they also feel the company is performing well in this area. Customer ratings are much lower. Understanding these differences provides the basis for reassessing the emphasis on features and investing in areas more important to the customer. The same is true to some extent for technical support. Also, the company is doing well on customer training, but possibly over-investing in an area of relatively low importance to the customer.

A major disconnect exists customer and employee ratings on sales support. It is much more important to the customer than perceived by the employee, but customers rate performance much lower than employees perceive it to be. This is a major problem in a critical area of customer loyalty and retention. Prompt delivery is another important disconnect.

Profit from the Connection

These examples simply demonstrate the improved customer focus and alignment of priorities for training and process improvements made possible by a quantitative understanding of the perceptual differences between customers and employees. Common understanding between customers and employees can help a company improve critical performance areas that drive the customer experience, customer loyalty, employee engagement, and a company’s business success.

3. Development of Tactics

Effective tactics transform strategy into action. Tactical action planning identifies the whats, hows, whens, whos, and resources required to execute on strategy.

In our hypothetical case, mirror surveys identified the disconnects between customers and customer service representatives. This information can be used to develop tactical action plans that implement appropriate training to eliminate the disconnects. Based on the functional areas where disconnects exist, managers need to establish cross functional teams to develop action plans that define specific steps required to solve the problem.

Below is a template for a typical action plan.

Action Plan Template

Purpose: To create a specific plan for your improvement implementation

- Directions:**
1. Using this form as a template, develop a work plan for each goal identified. (Modify the form as needed to fit your unique context.)
 2. Distribute copies of each work plan to the members of the team.
 3. Keep copies handy to bring to meetings to review and update regularly. (You may decide to develop new work plans for new phases of your improvement effort.)

Goal: Improve bottom line performance through increased customer retention

Results/Accomplishments:

Action Steps <i>What Will Be Done?</i>	Responsibilities <i>Who Will Do It?</i>	Timeline <i>By When? (Day/Month)</i>	Resources <i>A. Resources Available B. Resources Needed (financial, human, political & other)</i>	Potential Barriers <i>A. What individuals or organizations might resist? B. How?</i>	Communications Plan <i>Who is involved? What methods? How often?</i>
Step 1:			A. B.	A. B.	
Step 2:			A. B.	A. B.	
Step 3:			A. B.	A. B.	
Step 4:			A. B.	A. B.	

Evidence of Success: *How will you know that you are making progress? What are your benchmarks?*

Evaluation Process: *How will you determine that your goal has been reached? What are your measures?*

4. Link Outcomes of the Retention Process with Other Key Processes

As discussed in *Grow**, our third paper in the *Get Better Business Results* series, failure to effectively use results of satisfaction, loyalty, and retention research to improve day-to-day management and operations is the single most common failure in loyalty research initiatives.

Management and key functional managers need to ensure that the strategy development action plan outcomes are linked to key business processes and outputs. Requirements for who, what, how, and when are agreed upon, with clear linkage to day-to-day management and operations activities. Ongoing performance metrics are also established.

This is accomplished during sessions with the following goals:

- Identify those processes that require improvement efforts
- Gain commitment from process owners to utilize the customer data
- Translate customer needs and expectations into product and/or service requirements
- Develop priorities for action
- Assign ownership and timing for action items
- Develop data-based action plans
- Establish performance metrics
- Implement customer-focused improvements
- Define specific measures of progress

Your research has identified and measured the drivers of retention. Don't waste your research investment by failing to implement a systematic and structured way to translate those research findings into significantly improved customer retention and better business results.

5. Manage Process to Balance Internal Performance Metrics and External Customer Requirements

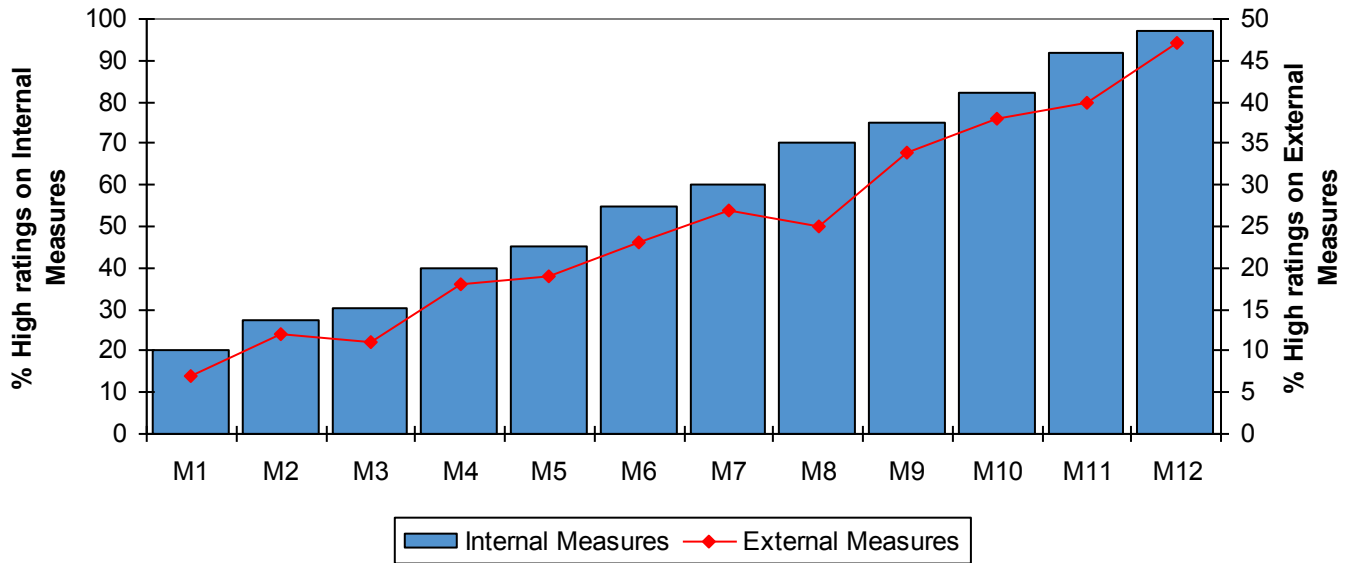
The results of the research and action planning will have identified specific performance requirements for high levels of customer retention in the profitable segment you have targeted. Equally, your key internal operating processes also have specific performance requirements. These two sets of requirements and associated metrics need to be kept in balance to ensure effective overall operation of the company.

Since both the retention process outcomes and the operating process outcomes have measurable performance metrics, it is possible to monitor the linked processes and manage them for optimal performance.

*For a copy of our *Grow* white paper, please visit the reference section of our website or contact us at www.customerlifecycle.us.

As is illustrated below, linked information can be tracked over time to illuminate improvements in both internal and external measures.

Internal vs. External Measures Over Time



The Customer **AND** the Employee Are the Key

The evidence is clear that successful customer retention initiatives are driven by a process-based approach to identify and measure the specific drivers of retention as part of an overall process to Acquire, Serve, Grow, and Retain the right customers in the best way. That includes effectively aligning employee perceptions with customer requirements.



Customer Lifecycle, LLC understands the important relationship of retention to other stages of the customer lifecycle, and we work with our clients to use the voice of the customer to frame the development and successful deployment of metrics for the retention phase. We leverage the retention factor throughout the entire customer lifecycle to create a superior total customer experience and improved business results for our clients.

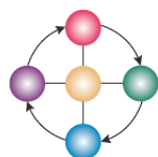
The full customer lifecycle consists of Acquiring, Serving, Growing, and Retaining profitable customers. The first article in this 4-part series discussed customer Acquisition; the second discussed customer Service; and in the third article we addressed Growth. This fourth and final article has discussed approaches to Retaining customers that best fit your business model and value proposition and how to get the best business outcomes from the relationship.

The Customer Lifecycle Process is a Powerful Business Tool

We at Customer Lifecycle, LLC conduct insightful research and analysis around the entire customer lifecycle and then work with you to deploy and integrate the learnings into the day-to-day management and operations of your organization. Our work is driven by what produces the best financial performance for your company.

One of the major benefits of the customer lifecycle approach is that it offers not only a comprehensive, interactive and holistic solution to organizational planning and conducting research and its subsequent implementation strategies, but also focuses on individual areas of the customer lifecycle to provide the integration and leverage that create opportunities for innovation and differentiation.

For more information on how Customer Lifecycle can work with you to improve your marketplace performance, contact Karin Ferez, Principal, or visit our website at www.customerlifecycle.us where case studies highlighting the benefits of our approach can be found.



Customer Lifecycle, LLC
inspiration • insight • innovation

karin a ferez | principal

 630 412 8989 | kaferenz@customerlifecycle.us | www.customerlifecycle.us

“think what no one else has thought”