

CONSUMER INSIGHT

How to use data and market
research to get closer to your
customer

Chapter 8

CONSUMER INSIGHT & RETENTION

Merlin Stone, Alison Bond & Bryan Foss



Extracted by the kind permission of:
Kogan Page
120 Pentonville Road,
22 Broad Street, Milford CT 06460
www.kogan-page.co.uk
kpinfo@kogan-page.co.uk

Full details of the book can be found at the end of this chapter

CH 8 USING CONSUMER INSIGHT IN DEVELOPING AND RETAINING CONSUMERS

MERLIN STONE, CLIVE NANCARROW, BRYAN FOSS, ALISON BOND, NICK ORSMAN

THE PROBLEM

Many companies market various products or services to consumers. Consumers buy them with different frequencies. So retaining and developing consumers is rarely just a question of whether you sell one or other product or service occasionally to a given consumer, but rather of how often you do it (compared with your competitors) and how long you can keep it going. This chapter investigates how consumer insight is used to help you sell more to given consumers, more often, and for longer. For many companies, the prime focus is selling more (cross-selling) and keeping consumers longer (customer retention), but for some it is also selling more of the same (increased frequency) or selling more expensive variants (up-selling). The latter two are quite well understood by marketers, but cross-selling and retention are a minefield. Before examining why, let us look at a case study which shows the kind of insight techniques used in this situation.

Case study: Telecommunication up-selling

This case study shows how consumer insight was used to support the launch of a new product – “unlimited UK”, from the BT Together range of pricing options, to meet two objectives, high levels of product take-up and increased customer satisfaction. It illustrates the use of intelligent segmentation, targeting and insight to achieve ‘personal relevance’. It shows how database marketing can be used as a lead discipline to support the launch of a new product by targeting more valuable customers, before mass communications are launched.

BT is the UK’s leading telecommunications services supplier. BT Together with unlimited UK calls was an option added to BT Together pricing options for consumers. It followed the launches of BT Together, the basic option (includes £2.40 free calls each month) and then of BT Talk Together (renamed as BT Together with unlimited local calls), which also offered free local calls in the evenings and at weekends. The marketing premise of these BT Together options was that customer satisfaction would increase if consumers experienced better value for money, which they would get by choosing the best option for their specific calling behavior. There was a market trend towards pricing options, particularly unlimited-type options. Most notable of these was Telewest Unlimited, from a cable provider, offering unlimited local and national calls as well as a basic 14-channel television package for £25 per month. BT Together with unlimited UK calls offered free local and national calls in the evenings and at weekends. It cost £18.50 per month. Also included was line rental and the basic benefits of having a BT Together option - £2.40 free calls per month, reduced international and mobile rates, additional

'Friends and Family' overseas discounts and ability to use the on-line bill viewing and paying service. The other two options were BT Together with local unlimited calls (includes basic benefits) £14.50 per month, and BT Together (basic benefits) £11.50 per month

The task given to Ogilvy One was to stimulate uptake of the unlimited UK option amongst BT's consumers, to increase customer satisfaction by consumers thinking that they were getting better value and that BT cares about customer needs and to position the BT Together portfolio of options. Introduction of previous BT Together options had shown that whilst penetration targets were achieved, awareness and understanding of options tracked by market research was lower than expected. Research showed that many consumers saw telephony pricing 'packages' as 'sneaky'. Consumers suspect there will always be a 'catch'. Fixed line telephony and pricing options were low interest for most consumers. It was not surprising that many consumers wanted a brand to make sense of the complexity and do the work for them. As many consumers put it, "Why doesn't BT look at the calls I make and suggest which package I should be on?"

Unlimited UK was 'new news' (because it covered calls to all UK numbers). However, there was a risk if it was not explicitly positioned as different from previous options it could confuse consumers. So, the marketing approach selected was to make naming and pricing simple and clear. Naming should be of the 'what it says on the tin' variety i.e. unlimited UK calls. Open and honest pricing meant. no £x.99 but £x.00 or £x.50. Unlimited UK was to be positioned as different from the basic BT Together option and the unlimited UK option, by focusing on the addition of national calls and thus on the emotional and rational benefits of 'Bringing The UK Together'. If consumers could not be bothered to work out which option they should be on, the idea was to take the benefit to them, by introducing unlimited UK relevantly to consumers who would benefit, based on analysis of their calling behavior. The leading message was the 'new news' of unlimited UK and then focus on communicating the positioning of the BT Together and its different options.

Role For Direct Marketing

Direct marketing was used to reach customers with the highest propensity to take up the new product. There were other reasons for the use of direct marketing versus other media, during the launch. As the overriding objective was to increase customer satisfaction, it made sense to maximize the moment of generosity –better to bring someone a present (direct marketing) than to ask them to collect it (broadcast). Also, consumers were confused about 'packages'. This suggested using a more explanatory medium to introduce new options. Print allows customers to absorb enough information to make an informed decision. Only if they make a confident, informed decision are they likely to be satisfied. Finally, direct marketing allows different messages to be sent to different customer segments. For example, the message to a customer not on a BT Together option would differ from that to one who is already enjoying the benefits of free local calls.

Targeting and segmentation

Research suggested three dimensions to customer segmentation. The first was financial and based on the saving customers could make with the new option, unlimited UK,

typically for customers making many national calls. The targeting algorithm was based on each customer's last three months' calls. The second dimension of segmentation was based on whether the customer already used an unlimited-type option e.g. unlimited local. This was a proxy for openness to unlimited options. That this might be important came from the insight that not all customers who chose unlimited local option benefited financially. This was because these customers derived emotional benefit from 'unlimitedness' – peace of mind that you can call as often or as long as you want without a huge bill. Using these two dimensions, the most likely to benefit (financially and emotionally) were targeted with the unlimited UK proposition and the less likely to benefit were targeted with a proposition about the BT Together portfolio. The third dimension captured all existing pricing option holdings, of telephony-based options or any Internet option i.e. one of the un-metered Surftime options. This was also a way of reminding consumers of their current option and its benefits. Even if they did not change to another option, customer satisfaction could be created – reaffirming their previous choice of option.

Measurement

This covered the objectives of unlimited UK 'take-up' and effect on customer satisfaction. The take-up of unlimited UK was measured by response, conversion, sales, revenue achieved versus targets set. Responders also taking a Surftime option (un-metered Internet usage) with their unlimited UK option were included. Response was recorded through inbound telephone through a unique telephone number and through bt.com. The effect on customer satisfaction was measured through telephone research, 2 weeks after the mail drop. Matched test (with DM) and control (no DM) cells were set up and sampled from each segment. So, the same audience was sampled and any difference between test and control cell was attributable to the direct marketing communication. Key measures were satisfaction with BT and 'BT cares about customer needs'. Questions on these were asked before diagnostic questions about the communication piece itself. No mention was made to the respondent about direct marketing activity or the launch campaign as a whole, so there could be no conditioning of the respondent. This meant shifts in any attributes were real perceptions about BT and the result of the direct marketing activity. 'BT cares about customer needs' was deliberately included as a more specific measure of the 'personal relevance' delivered by the direct marketing activity.

Conclusions

The activity over-achieved the response target set by 318%. Even without the support of mass communications, which is typically used to initiate the launch of a new mass-market product, the initial direct marketing activity over-achieved response and sales targets. A demonstration of the efficacy of the segmentation is inferred by the different response rates achieved e.g. in the hottest segment (financially benefit and already on an unlimited option) 1 in 4 responded to BT. This case also shows that the effective 'take-up' of a new product can be achieved at the same time as improving customer satisfaction. This was achieved by delivering 'personal relevance' (through intelligent segmentation, targeting and insight). After the launch, tracking and analysis focused on the longer term effects i.e. retention, value over time to BT, share of call volume and the longer-term effect on customer satisfaction.

The next case study shows the importance of having the correct systems infrastructure for retention.

Case study: Vodafone Greece

Vodafone Greece is Greece's leading mobile operator. The liberalization of Greek telecommunications created increased competition, from both domestic and foreign telecommunications providers. To succeed in this situation, the company aims to minimize customer churn rates and deliver better service to existing customers, while recruiting new customers. It is reducing customer churn by introducing a streamlined approach to call logging and problem management, while deploying a campaign management system that improves its ability to acquire new customers. Vodafone Greece introduced Siebel eCommunications, a customer relationship management solution tailored to telecommunications. It gives Vodafone a comprehensive view of its customers, helping it to understand its customers' preferences and deliver improved service. By synchronizing and coordinating all customer interactions across different channels, such as telephone, e-mail, face-to-face, mail, and fax, the new system helps improve customer service, increase productivity, and maximize revenues. The workflow automation capabilities of the system enable the company to manage every service call efficiently and professionally. Vodafone Greece has integrated the Siebel solution with Computer Telephony Integration (CTI) software to support inbound and outbound call routing. Agents are automatically connected to customers and prospects based on product and service expertise, named account, availability, geography, and other criteria.

CROSS-SELLING

The cross-selling idea sounds simple – sell different products to existing consumers. However, it is more complicated than it sounds, for these reasons.

Supplier-consumer relationships

For many consumers, relationships are much shallower than suppliers believe – even non-existent. In some cases, consumers deliberately choose a portfolio of suppliers, for different requirements. They may have their first car serviced by a franchised dealer, but a smaller car serviced by a local garage. They may want current account banking from a major bank, but a credit card from a grocery retailer.

Intermediation

Many markets are intermediated, with intermediaries performing a product election function.

Consumer value – uncertainty and variations

Much of the discussion on cross-selling assumes that a customer base consists of a number of consumers, each of known value, propensity to purchase, media preferences, etc. In fact, this ideal rarely exists. It is only recently that many companies have organized their databases such that their data is high quality and updated properly. Even

with this, determining a customer's potential value for other products depends on whether insights from one product are relevant for others. Targeting consumers with high value based on one product for sales of another product assumes that value in the two products is correlated. However, needs patterns may be very different, or the consumer may have very different costs to serve in the two product areas. Thus, in financial services, the consumer may be a high insurance risk but a low credit risk.

Apart from product cost, the cost of managing a consumer, for instance, will vary depending on:

- Which channel the consumer uses for regular contact (e.g. retail, internet, telephone)
- How often the consumer contacts the supplier with complaints or queries
- How often the consumer requires non-standard service

Net profit margin per consumer is often skewed, with a large proportion of lower gross value consumers actually causing a loss. Of course, the Internet can be used to reduce cost to serve.

Systems to deploy the consumer data

Having good quality consumer data, which indicates where the opportunity lies, is one thing. Having the business systems and processes to deploy the data so action can be taken at the right time, in the right place, is another matter. In some markets e.g. financial services, utilities and telephony, many consumers only buy a single product from each company. Consumers who buy more than one product can be very profitable. They may stay longer, although only a properly constructed time-series analysis can show whether this is true, or whether the relationship is the other way around i.e. consumers who are loyal tend to buy second products. The supposed correlation between holding more than one product and customer profitability has led many companies to justify investment in customer databases primarily on cross-selling potential. The justification is in terms of:

- A lower cost source of leads than, for example, external list rental, media advertising.
- Possibly higher response rates, if consumers are more receptive to offers from a company whose product they already hold. This depends partly on branding and customer service. Many companies have invested much in establishing a wider branding, to encourage consumers to generalize a supposed positive image from their experience of buying only one product.
- Reduction in duplicated mailings i.e. not trying to sell products to consumers who already hold them. This is important if a company has been formed from a series of mergers, or if new products have been added over many years, each product having its own customer database.

Just focusing on increasing the number of different products bought per consumer can also attract larger numbers of unprofitable consumers. For example, cross-selling household insurance to motor insurance consumers irrespective of their propensity to claim can lead to a higher claims ratio than if prospects were selected primarily on the grounds of low propensity to claim. The same could happen with, selling mobile telephony to land-line telephony consumers regardless of their propensity to use either,

although here cannibalization may also be an issue. Some marketing managers may have unrealistically high expectations or aspirations about the productivity of cross-selling. “Cross-buying” may take place anyway - consumers may buy more than one product not because of cross-selling activity targeted at them but because of their exposure to marketing activities for each product, or simply because the two products are brand leaders.

The two case studies below show how two companies approaches cross-selling.

FBTO

FBTO Verzekeringen is a Dutch insurance company selling car, health, home, and life insurance policies. Its strategy is to offer attractively priced products and to grow profits by maintaining an above-average level of customer satisfaction. To support this strategy, FBTO depends on fast, reliable operations combined with optimal use of information technology. FBTO uses only direct channels to market its insurance products, interacting with current and prospective customers through direct mail, its call centre, and the Internet. Through these channels, the company can reach both customers and prospects clients with customized, targeted messaging. Call centers are supported by extensive direct mail campaigns. FBTO formerly marketed its products through many mass mailings. However, as marketing campaigns were not targeted at those most likely to respond, there was a relatively low conversion rate of mailings to sales. To remedy this situation, FBTO management set three objectives - reduce direct mail costs, increase efficiency of marketing campaigns, and increase cross-selling to existing customers, using inbound channels such as the company's call centre and the Internet. To reduce direct mail costs, FBTO needed a system that would allow it to model customer behavior, predict customer needs, anticipate customer reactions to special offers, and then use these insights to make its marketing campaigns more effective. Because FBTO planned to move from few, large bulk mailings to many smaller, more highly targeted campaigns, the system needed to allow marketers to create, optimize, and execute these campaigns, without having to rely on statisticians.

FBTO now uses SPSS PredictiveMarketing to identify FBTO customers or prospects with a better-than-average propensity to purchase a product. It enables FBTO to determine individual preferences regarding openness to multiple contacts and preferred distribution channels. FBTO's marketers use the software to create, optimize, and execute marketing campaigns. Based on the probability of conversion, customers are selected for personalized product offers and prepared for subsequent interactions. Through this effort, its combined use of different channels is coordinated more effectively, taking into account the latest changes in customer behavior. FBTO conducted a one-year test of the system's effectiveness, by rolling out marketing campaigns in an experimental fashion using a control group. Comparing its previous approach of mass mailings to its new, more targeted approach, FBTO found that its conversion rate increased by more than 40 % and its direct mailing costs decreased by 35 percent. Now, FBTO's marketing team can simulate different scenarios and calculate conversion rates and mailing costs in advance. Based on this information, outbound channel and target groups are selected for each marketing campaign, increasing their effectiveness. FBTO is using PredictiveCallCentre for real-time cross-sell and retention efforts in its service call centre, as well as

PredictiveWeb, to generate highly targeted banner ads and other content on its MyFBTO Web site.

Nykredit

Nykredit is one of Denmark's leading financial institutions, offering customers an integrated range of mortgage, banking, insurance, and real estate services. Nykredit's decision to diversify beyond wholesale mortgage services, this presented many new challenges. Established banks were adopting a multichannel distribution strategy, but they were hampered by years of investment in a retail branch structure. Nykredit did not have this problem, as it had not dealt directly with retail customers, dealing instead through banks and real estate brokers. However, information about customers was contained in separate systems, depending on the products they used. It had many disconnected systems - one mortgage system, and one each for banking and insurance. When banks launched their own direct mortgage services, this by-passed Nykredit and introduced acute competition into a market that Nykredit had dominated. So, in response, Nykredit diversified into banking, insurance, and real estate services and rebranded itself as a full-service financial services company. Using Siebel CRM applications, the company united customer and product information across product divisions, channels of communication, leading to increased cross-selling revenue, improved marketing effectiveness, and a 10 % increase in customer loyalty.

Initially, when customers contacted Nykredit, it struggled to respond well. Customers were frustrated because it could not maintain a coherent dialogue with them from one call to the next. Customers had to repeat enquiries each time they moved between its representatives. This meant that it took too long to respond. The fragmented customer and product view was undermining customer satisfaction and hindering sales and marketing efforts. The company struggled to cross-sell services and found it hard to segment customers and develop targeted marketing campaigns. By introducing new systems into all sales offices, its customer contact centre, the sales centre, and among insurance agents, Nykredit now has a comprehensive understanding of its customers. The integrated system ensures that each and every customer receives a satisfying experience, increasing the likelihood that they will remain long-term loyal customers. In addition, the system equips Nykredit to cross-sell services to customers more effectively and efficiently.

Now, when a customer calls Nykredit, computer telephony integration (CTI) technology generates a "screen pop" that provides the agent with the customer's complete profile, including the Nykredit services the customer is using, recent mailings, and the status of any outstanding service inquiries. Agents use this information to handle the enquiry. In addition, a customer can be transferred midway through a call to a dedicated specialist if the inquiry cannot be resolved at the first point of contact. Besides enhancing the quality of customer service, the system makes it easy for agents to target customers with complementary services. For example, if a customer calls Nykredit to raise the amount of an existing loan for the purpose of funding a holiday, the agent may if appropriate recommend a salary account with a credit limit to the customer. If there is no time on the call to discuss this proposal, the agent uses the system to record the customer as a credit-limit opportunity. The agent notes when the customer is due to return from the holiday

and uses the system to automatically generate a personalized letter about the loan. This is then scheduled to arrive at the customer's home when the customer returns." The system also enables Nykredit to route sales opportunities generated in the call centre directly to the customer's local branch. Here, staff have a complete record of the opportunity and all associated activities and can follow it up with a template-based personalized letter or a call. The flexibility of the system enables agents to alternate between accepting inbound sales or service calls, as well as initiate outbound calls associated with marketing campaigns. Although the telephone and the branch network are the main focal points for the bank's customer activity, the new system also helps Nykredit integrate the Internet as a key sales and service channel. More than half its customers visit the company's Web site every month. Over a quarter check their bank statements and make payments online each month. Many prospects use the company's online Mortgage Calculator service. Together, improved cross-selling and enhanced loyalty have enabled Nykredit to maintain its market share in the face of fierce competition from other Danish financial services providers."

Nykredit uses the system's marketing module to enable the efficient creation and implementation of targeted, multichannel marketing campaigns. Before, marketing teams had to ask much-pressed IT staff to give them a suitable database of contacts for each marketing campaign, and this took a long time. There were few processes for segmenting customers, managing campaigns, and analyzing results. Sales and service teams were often unaware that a campaign was taking place, meaning that when a customer follow-up call was received, the teams were ill-equipped to respond. Now, marketing teams execute all aspects of the campaigns themselves, including planning, segmentation, campaign setup, scheduling, and workflows. Integration with the sales module ensures that agents are aware of which customers have been targeted for which campaigns.

Data and infrastructure are two of the essentials for achieving higher value per customer, but it is also important for manager to be able to see what is being achieved, so that the company's resources can be focused appropriately, as the following case study shows.

Case study: Axa

Axa Financial in the US uses Siebel Analytics and Siebel Marketing to determine which products should be offered to a customer based on a sophisticated analysis of that customer's profile. As a result, each customer gets fewer but more clearly targeted offers. Axa built a Campaign Tracking Dashboard, where users select a campaign and track various measures. For example, for a prospect campaign, it can identify how many prospects turned into leads, which leads converted into sales, what kind of sale, and how long it took to determine if the campaign generated additional revenue. It has also developed an Advisor Dashboard, which gives a complete view of each sales associate's business - customers served, number of contracts, number of households, how many contracts per household, share of wallet, cross-sales, household gains and losses over previous year, sales by market segment and product. The data is also aggregated to branch level. Several associates work out of each branch, in some cases hundreds. Everyone accesses the same dashboard, but the dashboard view is personalized by role and level of management i.e. up to regional and national levels. Marketing campaign performance can be viewed in similar detail.

CUSTOMER RETENTION

Retaining good consumers (or those that may become good) is a central topic in CRM, as well as in customer service and branding. The following case studies indicate how a bank, a telephone company and an insurer manage retention using customer data.

Retention case study: The Dreyfus Corporation, US

To manage customer relationships effectively, this bank relies extensively on data warehousing and data mining techniques. The bank has created a 1.2-terabyte, 4-million-household database used for all marketing, sales and strategic planning. Focused on retaining assets, a team of statisticians analyze the data, which includes demographic information, credit and loan applications, spending habits and transactional history -- to find out which customers might be thinking about leaving. Warning signs include surges or decreases in the amount of contact from customers and increased numbers of transactions between funds. It can predict that a customer is going to exit three to six months ahead, with accuracy of 80 to 85 percent. The bank telephones clients who seem likely to leave, in an effort to convince them to stay. Calls are tailored to each client using offers based on age, wealth, portfolio and recent investment activity. The team applies statistical modeling to the feedback, to find products that might appeal to each individual customer. As a result, the attrition rate for its main product has fallen over the past five years from 22% to around 7 % annually – a great achievement given an industry average of around 25 percent. The bank also builds models that show how personalized product offerings can reduce attrition rates, enabling it to understand why customers leave and what customers want. Marketers and product managers rely on these models as they build marketing strategies and campaigns. The bank sees payback from these campaigns within four to six months. Data analysis also helps it model a customer's propensity to buy certain products or services -- thus enabling it to compute potential lifetime value. Customer attrition has decreased by almost 50 percent, while the average customer balance has increased substantially, while customer satisfaction has risen substantially.

US long-distance telephony retention case study

Low cost long distance tariffs no longer work to keep customers, as many companies offer this. This US telephony market leader has, like many of its peers around the world, switched its emphasis to high-growth areas such as wireless and broadband communications. It relies on data-intensive applications that it builds using SAS Customer Relationship Management Solutions to support customer retention and acquisition efforts. A recent project integrated customer information across all strategic business units and this company's millions of customers. Analysis of the new integrated customer database allows it to predict and act on likely attrition. Its attrition rate has fallen from 6% to 2% per annum. Existing capabilities such as reporting, segmentation, campaign management, promotion tracking, customer life-cycle analysis, and trending and modeling were enhanced to achieve greater return on investment, from both increased sales and decreased churn. The system exploits product bundling capabilities, enabling easier cross-sell to existing customers, potentially doubling revenues. Targeted

marketing efforts include focus on customers who close to existing network facilities, reducing network costs.

US insurance case study

The Customer Segmentation and Analysis Group of this company focus on determining more quickly and efficiently which customers hold what products and customer preferences for new offerings. 80 % of the company's cross-sells come from the top 30 % of customers, resulting in considerable savings in cost and time -- and increased profitability. To identify this required combining policy purchase history, profitability metrics, and demographic and lifestyle data from multiple sources and platforms. The company's main database, accessed using SAS Customer Relationship Management Solutions, provides data that is supplemented from other sources to create an integrated, customer-focused analytical database. The Group develops cross-sell and up-sell models based on 350 variables per customer. This has helped the company reverse a trend. The Group used to spend 70 % of their time finding and accessing data, and only 30 % analyzing the resulting information. This has been reversed, allowing more time for both business and IT groups to translate customer data into marketing and sales strategies. The company's greatest gains have come with the company's existing customers, through developing a greater understanding of potential cross-sell opportunities and share-of-wallet estimates. Tracking proves that these developments are successful. The company is also redeveloping relationships with orphan policyholders who formerly had relationships with financial professionals. Modeling enabled the pairing of prospects with financial professionals. As a result, sales among the orphan group have increased by as much as 276 % across product lines.

The kind of good practice illustrated above is being deployed by many companies.

Focus on retention is important where:

- The acquisition costs (including marketing, sales and administration) of new consumers is very high
- Existing marketing budgets and management focus traditionally focused on acquisition, not retention
- Retention rates vary greatly by product and channel.
- Retention rates are low, so acquisition rates need to be high for the customer base even to stand still.
- A pervasive brand supports high lead generation and acquisition rates, but the same brand is undermined by poor retention, breaking the 'virtuous circle'
- Not all consumers have the same value. A small percentage of consumers can generate all the profit of a bank or insurer. Retention and development of profitable and marginal consumers becomes critical

The meaning of customer retention

Success in business is dependent on clear thinking on the fundamental conceptual issues. If customer retention is a major focus, then a key question is what exactly is an

organization trying to retain? The list of possibilities is long (see Table 8.1). Behavioral definitions may seem more relevant in some respects, but in other respects may blind marketers to underlying weaknesses in the consumer franchise or disposition. Apathy may lead consumers to demonstrate apparent "loyalty" or "commitment" as measured behaviorally. Consumers may resent buying from an organization but are locked into the supplier for various reasons. Here, the reason for staying "loyal" or "committed" is that the emotional and financial cost of changing supplier is too great. However, if one or more competitors identify this weakness and make it easy, even rewarding, for a consumer to switch, apparently loyal consumers may do so in droves. Some consumers who do NOT buy but feel some "loyalty"! Barriers (price, access etc.) may prevent a purchase. The customer may not need the category for the time being. However, once barriers are removed, the loyal consumer can demonstrate loyalty or commitment in behavioral terms.

Changes in attitudes are more often than not antecedents of changes in behavior in all but very low involvement product categories. So, while behavior attracts the attention of hard-nosed marketers seeking hard evidence of retention, attitudinal variables (soft evidence) are also valuable. Behavior is a reflection of the current or more likely historical situation, whilst attitudes provide clues to future behavior. In a perfect world, one would examine both behavioral and attitudinal variables and at the same time examine the relationships to determine what drives behavioral disposition. Various research models attempt to do this. For example, RI's Equity Engine and the NFO/BJM Brand Equity Model.¹² Both link brand attribute ratings to behavioral disposition rather than behavior itself. The link between the psychological and behavioral is sometimes far from perfect, in terms of consumer satisfaction and behavioral measures of retention or loyalty³. Ideally, management should adopt a consumer behavior model that incorporates all the relevant variables and describes the relationship between them and the organization's halo. This model would be a simple qualitative description of what the organization is there to do. It would create the measures that take it towards this goal. In some organizations it might be possible to develop sophisticated statistical algorithms that permit "what if" analyses.

As companies have deployed models for retention, they have also gained skills in data mining and data discovery. These make it possible to predict (typically with a reliability of 60-80%) the likelihood of retention— for example predicting the likely lapsers of long term life insurance products, within the first 6, 24 or 60 months, or predicting the time of purchase of a new car. Such exercises (when supported by current knowledge and segment-focused market research) highlight the main predictive indicators and specific data items that help a company develop an agreed definition of customer or product retention. However, from a conceptual or an operational viewpoint, a single variable can

¹ Morgan R P (2000). A consumer-orientated framework of brand equity and loyalty International Journal of Market Research Vol 42 Issue 1 pp65-78

² Wright L T & Nancarrow C (1999), Researching international brand equity: a case study International Marketing Review Vol. 16 no 4/5 pp 417-431

³ Kangis P & Zhang Yangwei (2000), 'Service quality and customer retention in financial services', Journal of Financial Services Marketing, Vol. 4, 4, pp.306-318

rarely represent "retention". Any one variable is likely to have shortcomings as a measure of commitment or brand strength.

THE CONCEPT OF LOYALTY

Before moving on to the measurement of retention, we need to address very briefly the concept of loyalty. References to brand "loyalty" can be found in the early years of marketing⁴. Brand loyalty was a term commonly used in marketing before the wide adoption of the principle of relationship marketing. Brand loyalty is often a consumer device to limit search time and effort. There are so many providers of products and services that it is hard for the consumer to investigate and compare them all. Consumers who are ready to carry out comparisons themselves, rather than choosing the most recent offer, will typically only review offerings from a shortlist of 3 to 10 brands that they already relate to the type of product they need.

"Loyalty" as used by marketers does not have the full significance of loyalty in interpersonal relationships. It is better interpreted as a positive disposition or commitment to a brand that transcends transactions, making repurchase likely in the face of adversity (competitor brand entreaties). The power of such competitive entreaties may prove too much and disloyal behavior may result. In some markets, such as power supply, telephony or motor insurance, switching benefits vary from year to year and the barriers to switching are low. Nor are unpleasant feelings implied when the consumer is disloyal, as might be the case of an interpersonal relationship. Of course, in some service categories such feelings may exist (local shops, post offices and service providers, hairdresser, restaurant, football club, a friendly financial services adviser etc.).

Although using a single variable as a measure of loyalty (or retention) may not be valid, organizations should try to narrow the variables used to a small range that accounts for all or most aspects of the phenomenon. Use of too narrow a range of variables may explain why the same consumer was defined as 'loyal' in one study and 'not loyal' in another⁵. Stratigos recommends three indices⁶, likelihood to use and renew, to contribute, or to recommend. Purchase behavior and advocacy are both important in some categories⁷. A number of authors clearly define loyalty as a two-dimensional construct - behavioral and attitudinal and on this basis Liddy developed a two by two matrix for loyalty classification, as shown in Table 8.2⁸. Classifying and counting the consumers in each quadrant might show opportunities and vulnerabilities. However, this matrix suggests

⁴ Styan G P H & Smith H (1964), Markov chains applied to marketing Journal of Marketing Research February 1964 pp 50-54

⁵ Backman S (1988), "The utility of selected personal and marketing characteristics in explaining consumer loyalty to selected recreation services" Texas A & M USA

⁶ Stratigos A (1999), 'Measuring end-user loyalty matters', onlinemag, Nov-Dec, p.74

⁷ Kangis, op. cit.

⁸ Liddy A (2000), 'Relationship marketing, loyalty programs and the measurement of loyalty', Journal of Targeting, Measurement & Analysis, Vol. 8,4, pp.351-362

loyalty is binary. In reality there are several different categories of loyalty (exclusively buy from one supplier; preferred brand amongst several; one of many the customer regularly buys etc.). Some companies also include negative aspects of consumer loyalty – or relationship terrorism rather than advocacy. While a highly satisfied consumer may advocate the supplier to a few others (perhaps encouraged by member-get-member schemes), a terrorist will typically influence many more against such a relationship.

Retention criteria and their measures differ in relevance and importance from product category to category, especially as there is variation in relationship length and in the effect switching barriers between different products. Finding the best definition and measures is clearly vital to how well an organization can evaluate its performance and link performance to marketing actions. However, even if customer retention is measured, it is not clear how retention levels should be evaluated. It would be useful to know how far senior management monitors customer retention as a key performance indicator, and to determine the extent to which consumer information relevant to retention is collected and, more importantly, used.

THE RESEARCH PROGRAM

The primary aim of the research for this chapter, which was commissioned by the Royal Mail, was to identify where weaknesses in consumer information, in particular definitions and measures of retention and the use of the information, are most likely to undermine customer retention strategies. The main objectives of the research exercise were as follows:

1. To assess the relative emphasis on customer acquisition and customer retention across business sectors and so focus on organizations that are retention oriented.
2. To determine whether organizations have agreed clear definitions of what constitutes customer retention
3. To determine how customer retention is measured
4. To determine benchmarks used to help interpret customer retention measures
5. To determine how well organizations use customer retention information
6. To determine what other consumer information is used
7. To determine the extent of the belief that cross-selling builds loyalty/helps retain consumers and the evidence for this.

Method

Using a centralized telephone interviewing facility, 314 telephone interviews were conducted with employees at managerial/director level that were responsible for the marketing from a customer database(s) within their organization. The fieldwork was conducted by BJM Research & Consultancy, part of the NFO Worldwide group of companies. Certain business sectors were selected on the basis that they were more likely to be involved in customer management of some description and that they were to have databases of at least 400 consumers. In addition, quotas were imposed on larger companies to ensure that a sufficient number of those with 250 or more employees were

interviewed. We also included 24 mail order and 24 dot.com companies for analysis. The reader should bear in mind the low sample sizes for these companies when examining the findings. Interviews were conducted with managers and directors who may have a relatively 'rosy' picture as to how well customer retention is implemented within their own organization. When asking about the customer management process, interviewers were allowed to accept practices even if they only applied to certain (key) consumers. Therefore the survey will probably show an optimum state. This should be borne in mind when looking at the overall results achieved. At the analysis stage, the retention research data was weighted so as to bring the sample into line with the business universe in terms of number of employees and service versus other sectors.

Importance of retention

To establish which organizations were retention-focused, we asked respondents to allocate 10 points between customer acquisition and retention, reflecting the weight they put on each. Over half of the sample (54%) considered customer retention more important than customer acquisition. Only 12% rated customer acquisition above retention. Retention was particularly important to larger companies, those involved in mail order and those marketing to business customers rather than consumer. A high proportion of dot.coms also focused on retention (the median business life of our sample of dot.coms was one year). Perhaps, it is not surprising that retention focuses strongly in the minds of dot.coms given the example set by Amazon and others. It has been observed that "the success of online marketer Amazon.com can be traced to its emphasis on three all-important business elements"⁹. These are:

1. Loyalty (the consumer side of retention)
2. Quality
3. Dependability

Definition of customer retention

We asked respondents if their organization or sphere of operation had an agreed definition of what constitutes customer retention, and if so, what this definition is. Interviewers were instructed to encourage the respondents to state the definition "as fully as possible". Only a quarter of the sample claimed that the company has a definition as to what constitutes customer retention. Those more likely to have said this were larger organizations (39%), those with larger databases (39%), mail order companies (38%) and dot.coms (40%). At the same time, 20% of those with a claimed definition, stated that they did not know what it was. Amongst those who knew, the majority gave behavioral definitions. The results are summarized in Table 8.3.

Measurement of customer retention

Although relatively few respondents claimed to have an agreed definition of customer retention, 58% stated that their organization measured customer retention. The larger the

⁹ Margolis B (1999), 'An Amazon.com story: lessons learned?', *Direct Marketing*, vol. 62, 3, p.57

organization and the bigger the database, the more likely they were to measure retention. Just over three-quarters of mail order companies (76%) claimed to measure retention. Dot.coms were the least likely to measure retention.

Interviewers then probed the nature of measures used and were instructed to seek precise definitions. Examples were given at the briefing as well as for the analysts coding the answers. Once again, behavioral rather than attitudinal measures were more frequently used. Many of the measures were basic rather than sophisticated. The results are summarized in Table 8.4.

Benchmarking customer retention levels

Amongst those measuring retention, 38% either did not have a benchmark against which to measure customer retention or did not know what benchmark (if any) was used. The main criterion against which retention was measured was a comparison with past performance (an introverted perspective). Only a few compared performance with competitors (external perspective). Other external benchmarks used appeared to be more challenging such as 'comparison with the best' or 'against national quality standards'. Benchmark comparisons in financial services are made more difficult by the large variations in retention by product, within and across companies. The results of this research are summarized in Table 8.5.

How well organizations use customer retention information

Amongst those claiming to measure customer retention, almost 3 in 5 (58%) stated that their senior management regularly monitored retention levels and a further 23% stated that management monitored them occasionally. 14% claimed senior management did not monitor customer retention levels. Those most likely to monitor retention tended to be in larger organizations, in ones with a definition of customer retention and, in particular, in ones with a strong campaign and mailing culture. 61% of those who measure customer retention claimed their organization had a process to ensure retention measures actually have an impact on their business. These tend to be the same company types as those who monitor customer retention levels.

Other consumer information from database

The survey was also designed to establish the types of information made available on a regular basis from customer databases to help put the internal distribution of retention measures into context. Trend data regularly available from the customer database covered various customer-related issues but mainly:

- Frequency of purchase (61% mentioning)
- Number of customer (58%)
- Complaints (52%)

Customer defection levels (both actual and predicted) were least likely to be drawn from the database. The results of this are summarized in Table 8.6. Interestingly, between 10% and 15% of those focused on retention thought the individual measures above were "not

relevant" or of "no value". One wonders about the logic of this. Perhaps it reflects skepticism about the quality of data collection and research in general!

To determine how sophisticated the analyses of database data on consumers might be, we presented respondents with a prompt list of analyses. The results indicated considerable scope for more sophisticated and potentially useful analyses. Overall, in the organizations interviewed, the customer database was broken down principally by the status of consumers (71% mentioning whether customer was new, current or lost) and type of product bought (63%). In detail, the findings here were as follows:

- The most likely company types to organize databases by customer status were mail order companies (89%), dot.coms (77%), those marketing to individuals (79%), and those with 10,000+ on their database.
- Larger organizations and service-orientated companies were most likely to organize by product/service bought.
- Almost three quarters (73%) of those with a 10,000+ customer base organized by product/service bought.
- Consumer spend (mentioned by 57% in total) was most likely to be used by mail order companies (81%), and those with a 10,000+ database (69%).
- Customer profitability, current and forecast, was mentioned by 39% and 32% respectively.
- Current profitability was most likely to be mentioned by large companies (45%), mail order and dot.coms (54% and 60% respectively).
- Breakdown of customer database by forecast customer profitability was most likely to be mentioned by mail order and dot.coms (38% and 44% respectively).

Of course some organizations may market to consumers who all spend a similar amount and are equally demanding in terms of cost-to-serve. In many markets, such as financial services and telephony, the 80/20 rule often applies, where a small proportion of consumers generate most or even all of the profit due to the wide variation in spend and servicing costs. The implication is that in the absence of good retention and value, resources are unlikely to be distributed efficiently in many organizations.

Respondents were read out a list of information about named consumers that might be collected. They were asked which, if any, were made available to staff who communicate with consumers either on an individual basis (sales rep or service personnel for instance) or en masse (for direct marketing segmentation strategies e.g. consumer lifecycle stages). Nearly three quarters (74%) claimed to pass on the identity of consumers who have complained – this was higher amongst small and medium size companies (91%) and dot.coms (88%). The results of this research are summarized in Table 8.7. Note that the figures in Table 8.7 are higher than in Table 8.6. This is because the question in Table 8.4 referred to trend data being made available regularly, while in Table 8.7 we know from respondent feedback the practice of making information available to staff in contact with consumers includes respondents who may do it less than regularly.

The special case of cross-selling

One way to use consumer insight is to look for cross-selling opportunities. Loyal consumers, it is argued, buy a larger cross-section of products or services from an organization¹⁰. This has double significance as it not only provides additional income but can also be one way of retaining consumers (by increasing dependency between products and on the knowledge and services of a supplier). We examined the latter argument in an attempt to gauge how credible this retention strategy was and whether it was ever tested in practice. There was overwhelming agreement with the statement 'encouraging consumers to buy other products helps your business retain customers' - 67% agreed strongly with a further 17% agreeing slightly. The level of agreement was highest amongst service organizations and those who market to both business and private individuals. The basis behind the strength of agreement tended to be judgment (52%) rather than hard evidence (47%). The company types most frequently claiming to have hard evidence to back up their reaction to cross-selling were mail order and dot.coms, again demonstrating that the marketing culture related to mail and mail-related offerings made the adoption of these processes more likely.

Research carried out relevant to customer loyalty

These findings suggest that much research was carried out which is relevant to customer loyalty. However this research focuses much more strongly on customer satisfaction (81%) and rates of follow-up after significant contact, rather than on the relationship between customer satisfaction and retention (64%) or on the impact of retention on profits (55%). Reason for customer loss is researched in up to 60% of situations.

Media

Very strong consistency was observed in the current and planned future use of channels and media to separately retain, develop, update and win-back consumer relationships. Mail, personal contact and telephone were by far the biggest contributors to each of these objectives, and were anticipated to remain so. The use of email and web are growing rapidly, but not expected to topple these primary contact methods. Advertising, fax and digital TV are perceived to be low contributors to retention practices.

CONCLUSIONS

This chapter shows that despite the enormous attention that has been paid to customer retention in the academic and management press and elsewhere, much is lacking in practice. My companies that claim to consider customer retention as an important business objective do not define it well or measure it. Companies that are serious about improving customer retention should first define it clearly (and most companies may need several definitions of the term), and put in place operational measures that tell them clearly whether they are achieving improvements in it. Most companies claim a stronger focus on retention than acquisition, yet only around 25% have a clear definition of

¹⁰ Griffin J (1996), 'The Internet's expanding role in building customer loyalty', Direct Marketing, vol. 59, 7, p.50

retention. This may explain why only half of those rating retention as more important than acquisition go on to measure it, also why retention measures are often basic, behavioral and short-term focused. Database analyses are limited, with profitability and lifetime value rarely calculated not are behavioral warnings and signs of disaffection. When evaluating retention, benchmarks are often arbitrary or non-existent or historical. Less than 1 in 6 used external benchmarks including best practices, competitors etc. Less than half had activities to understand what drives loyalty or loss, or examined the impact of retention on profit.

Although the optimism of the participants was undermined by the survey findings to a great extent, there seems to be good business potential for many organizations if they:

- Define customer retention fully and in a relevant way for their business and customer base. Good thinking at this point should be the foundation for good practice
- Operationalize the measures, consider also attitudinal and behavioral measures
- Monitor these measures with management attention and meaningful benchmarks
- Act on the above

Table 8.1 The Multifaceted Nature of Retention: Some examples

Behavior	Hearts and minds (attitudinal variables)
Number of consumers (including dormant) Number of active consumers Frequency of buying decisions Recency of buying decisions Size of expenditure Share of expenditure (wallet share) Possibly even extent of cross-sales Contract Adjust buying/usage procedures to fit supplier Routinized re-ordering Join club or loyalty scheme Proven advocacy Enquiries Provide information when requested re needs &/or characteristics Notify of complaints and successes Give you more time than competitors/before Pay attention to organization's announcements	Salience of brand proposition and its components Brand preference Psychological commitment/loyalty Trust Empathy Propensity to consider buying/use again/contribute resources Propensity to pay more/a premium (e.g. RI's equity engine model) Customer satisfaction/delight Likelihood to recommend/advocacy Possibly even top-of -the mind awareness

Table 8.2: Framework for loyalty classification

		Behavioral loyalty	
		Low	High
Attitudinal loyalty	Low	Latent	High
	High	Low	Spurious

Table 8.3 Definitions

Keeping customers	23%
Repeat/renew	11%
Response to activity	6%

...rather than attitudinal ones such as:

Satisfaction	17%
---------------------	-----

Table 8.4 - Methods of measuring customer retention (all claiming to measure – 180)

	%
BEHAVIOUR	(80)
Trends in sales etc.	34
Sales (unspecified)	6
Sales at individual level	12
% of customers buying	15
Bought in last period (recency)	5
Frequency	3
ATTITUDE	(12)
Measure of declared loyalty/commitment	2
Consumer attitude	8
Product preference	1

Table 8.5 Benchmarks used to evaluate customer retention

Base: all measuring customer retention (180)

	%
Comparison with past performance	27
Arbitrary target set by ourselves	14
Level of sales	14
Comparison with key competitors	7
Comparison with best available	4
Against national quality standards	5
Other	14
None	15
Don't know	23

Table 8.6 Trends regularly available from database

Total sample	Sub-groups above the norm
Frequency of consumer purchase (61%)	Larger companies (68%), mail order (68%)
Number of consumers (58%)	Larger companies (63%), mail order (68%), those with 10,000+ on database (66%)
Customer complaints (52%)	Manufacturers (64%)
Customer retention (47%)	Mail order (70%), charities (60%)
Length of time have retained customers (47%)	Mail order (51%), charities (66%)
Customer satisfaction levels (42%)	Dot.coms (53%)
Customer loyalty levels (39%)	Mail order (65%), charities (49%)
Customer defection levels (30%)	Mail order (49%)
Predicted customer defection levels (15%)	Mail order (30%)

Table 8.7 Information made available to staff in contact with consumers
 Base: all respondents

Identity of consumers who ...	%
Have complained	74
Are not satisfied	67
Are likely to be lost (based on past experience)	46
Are not spending as much as expected	45
Whose purchase pattern has changed	45

And

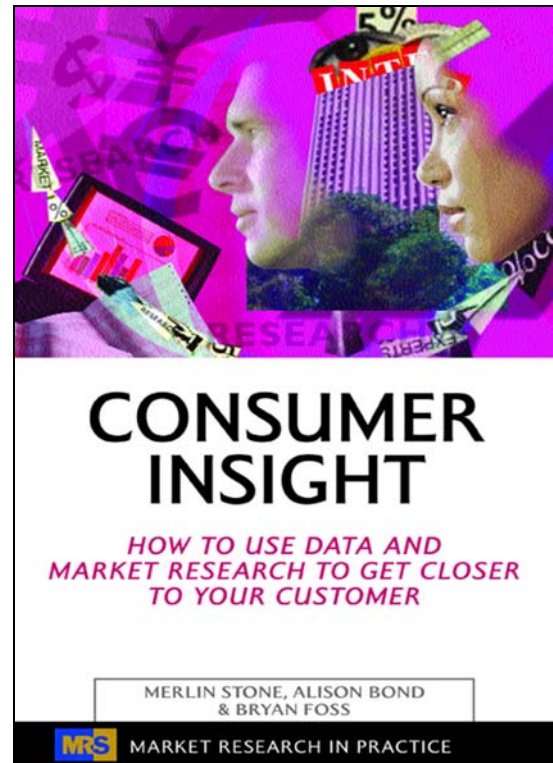
Important dates for consumers	60
Competitor Activity	60
None of these	7

CONSUMER INSIGHT

How to use data and market research to get closer to your customer

Merlin Stone, Alison Bond and Bryan Foss

- **Part of the new *MRS in Practice* series: essential guides for the burgeoning Market Research Society training and qualifications program**
- **Explains how to use market research and customer data for better consumer insights**
- **Packed with the latest research, models, tools and case studies**
- **Written by leading experts on data marketing, customer service and CRM**



DESCRIPTION

Consumer Insight provides market researchers with knowledge of database marketing and Customer Relationship Marketing techniques. It comprehensively covers the classic areas that marketers focus on: knowing who and where your customers are, what they do, what they buy and what they would like to buy. It also explores how customers' thoughts, feelings, objectives and strategies influence their behavior.

The book also explains how companies gain insight into their customers by managing and using their customer data correctly. Packed with the latest models, tools, research and case studies, it provides a great opportunity for market researchers to improve their knowledge of database marketing and CRM, and how they relate to market research. Readers will gain an understanding of what consumer insight actually is, what information is used, and how this information needs to be planned to support customer management.

Contents include: *Introduction *What is database marketing? *How do customer care and database marketing use consumer insight *CRM *Consumer insight and marketing research *Analyzing consumer data to get insight *Insight in development and retention *Sharing *consumer insight *Data protection, risk, good and bad consumers *Consumer insight systems *Data quality

Part of the Market Research in Practice series published in association with the MRS

AUTHOR INFORMATION

Merlin Stone is IBM Professor of Relationship Marketing at Bristol Business School. He has written many articles & books, including *Up Close & Personal – CRM @ Work*, *Customer Relationship Marketing*, *Successful Customer Relationship Marketing*, all published by Kogan Page. **Alison Bond** is a director of ABA Research Ltd and The Halo Works Ltd and is the author of the highly acclaimed *Direct Hit*, the textbook on direct marketing. **Bryan Foss** is with IBM Global Financial Services and is IT editor of the *Journal of Financial Services Marketing*, and co-author of *Customer Relationship Marketing* and *CRM in Financial Services* (both Kogan Page).

ORDERING INFORMATION

Visit www.amazon.com, proceed to search by author name (Bryan Foss or Merlin Stone) for additional books on customer management.