

## **Keeping Your Balance – Retention vs. Acquisition**

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Under-performing organisations are usually getting one of three things wrong:

1. Failing to adapt to changing market and customer dynamics
2. Carrying too much debt
3. Getting the ratio of retention and development of existing customers out of balance with the acquisition of new ones.

This short article looks at the third of these reasons.

### **How do you strike the right balance?**

Well, first of all that will depend on the business you are in. Across sectors, the customer dynamics are different and the main feature that differs is the rate and propensity to “churn” or defect to competitors.

Mobile phone companies, for example, experience much higher churn than banks (have you heard of the concept of “*Inertia loyalty*”?). The more competition you have in the market place and the easier your competitors make it for people to change contracts, then the higher the churn rate is likely to be.

Conversely, when the effort to switch is perceived to be high, even unsatisfied customers stick with the provider. So for this reason, it is important to understand what to measure and interpret the messages appropriately – high retention does not always equate with happy customers but could just mean indifferent ones!

Some research in 2004 by Total DM identified that sectors vary widely from the huge customer inertia in retail (7-8 % defection per annum) to extreme mobility of some mobile telecoms customers (20 - 25 % defection each year).

The inconvenience of changing your bank creates an in-built barrier (you have to notify so many organisations of the change and go through the money laundering checks etc.), while there are few or no barriers to changing shopping habits (they don't know you personally), using another hotel, going somewhere else for a holiday, or adding to your credit cards.

Another factor that influences defection rates is the frequency of contact with customers that features in different sectors. Whether this is for statutory or other reasons e.g. a bank or credit card statement, or monthly bill or quarterly statement or insurance policy paperwork once or twice a year, this frequency of contact is important. Why? This impacts upon how easy it is for a company to communicate marketing or customer service messages to its customers – and not only that, it also has cost implications.

As we have cited before, many customers defect simply because the service provider is out of sight, and consequently, out of mind! If you are not on your customer's radar screen then they will feel little or no involvement with your organisation.

### **Implications for Your Customer Strategy**

To pinpoint how to proceed you have to be clear about these two drivers in your own sector and the particular nature of the service or product you provide.

If service providers focus continually on customer acquisition by offering better deals to new customers then this not only encourages the switching mindset but it also is no way to treat loyal customers who feel that these deals are being financed by the continuity of their business. In the long run, if everyone in the market is behaving in this way, it depresses profitability for all suppliers in the sector.

Identify the characteristics of your own sector and then see if these generic strategies are appropriate to consider:

#### **Characterised by:**

Highly commoditised product or service; easily identifiable customers (e.g. from bills etc.); fierce pricing or discounting to drive acquisition

#### **Action:**

⇒ Focus on retention to achieve more profit

**Characterised by:**

Infrequent or irregular purchase;  
differentiated product; tight  
margins

Large quantities of customer data;  
low product holding / customer;  
low customer churn

**Action:**

- ⇒ Focus on delivering a great experience
- ⇒ Communicate only around purchase time
- ⇒ Data capture scheme to understand triggers of purchase
  
- ⇒ Maximise data mining capabilities
- ⇒ Implement robust measurement of marketing effectiveness to optimise cost of contact
- ⇒ Concentrate on customer development

To discuss your customer management strategy, or any of the above, please contact Russell: [Russell@icd-partnership.co.uk](mailto:Russell@icd-partnership.co.uk)