



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2016; 2(3): 770-772
www.allresearchjournal.com
Received: 15-01-2016
Accepted: 17-02-2016

Pratap Chandra Mandal
VIT Business School, VIT
University, India

Customer retention in organizations: A review

Pratap Chandra Mandal

Abstract

Customer is the most important person in any form of business. No business will exist without customers. Every business should try to give importance to the customers and try to build mutually beneficial relationships with the customers. This relationship will build only when organizations are able to retain their customers. The paper discusses the importance of customer retention in the present competitive business scenario. It focuses on the various retention strategies adopted by different organizations. The paper describes some of the retention strategies. Customer retention strategies have their own advantages and disadvantages. The paper discusses them at length and also deals with what might be done by companies in future for retaining their customers.

Keywords: customer retention, customer satisfaction, customer loyalty, retention strategy

1. Introduction

Companies seeking to expand their profits and sales need to spend considerable time and resources searching for new customers and retaining the profitable customers. It has been proved by researchers that the relative costs of customer retention are substantially less than those of customer acquisition (Oliver, 1999) ^[10]. Customer satisfaction has also become an important issue because of this insight into customer retention (Oliver, 1997) ^[9]. Customer retention has become increasingly important for companies to find out how to keep customers interested in doing business with them and how to keep customer loyalty at a higher level (Oliver, 1999) ^[10]. Most of the companies spend a lot of money and effort not only to sell their products and services, but also to ensure that those customers keep coming back to them for doing business in future (Jackson *et al.*, 1988) ^[4].

Unfortunately, although companies are aware of the need for retaining customers, most of the money is spent by these companies only to bring customers into the business and is not spent on retaining them (Reichheld, 2003) ^[12]. Due to this attitude shown by most of the companies, many customers will do business with a particular company but then they will not continue the relationship once that particular transaction is over (Reinartz *et al.*, 2005) ^[14]. However, now-a-days, companies have slowly started realizing the importance of customer retention. They understand that what it takes to keep customers is much different and more important than what it takes to first acquire customers into a business (Jackson *et al.*, 1988) ^[4].

2. Need for Customer Retention

Researchers have emphasized that it is important not just to attract new customers, but to retain and cultivate the existing ones (Reinartz *et al.*, 2005) ^[14]. Satisfied customers are the company's relationship capital. If the company were sold, the acquiring company would pay not only for the plant, equipment, and brand name, but also for the delivered customer base, the number and value of customers who will do business with the new firm.

Acquiring new customers may cost five times more than satisfying and retaining the current ones (Reichheld, 2001). This is because for acquiring new customers, the company might have to find a new market or a new product or both to satisfy them. There might be cost incurred in knowing about the market and the people constituting that market. The company might need to invest a lot of time, energy, and resources in developing a product for the new market. Also, the company needs to communicate about its product to the market. The company might have to invest in pursuing the new customers to use its product. Overall, the company needs to understand its customers each time new customers are acquired. All these involve time, energy, money, and resources.

Correspondence
Pratap Chandra Mandal
VIT Business School, VIT
University, India

This finally affects the profits earned by the company. So, a company will be better off in retaining its customers than to search for new customers.

Research has proven that a two percent increase in customer retention improves the profit in the same proportion as a ten percent reduction in cost does (Jamieson, 1994) ^[5]. It has also been established that higher retention rates lead to higher net present value of customers (Ahmad and Buttle, 2002) ^[1]. In the services industry, the best way to retain customers is to improve customer service quality and consequently, customer satisfaction. Research has been conducted to find out the relationships among customer retention, defection, and service quality (Ahmad and Buttle, 2002) ^[1]. It has been proven conclusively customer retention is influenced by service quality and customer relationships. Lack of trust also plays a major role in customer defections followed by general product features (Ahmad and Buttle, 2002) ^[1].

3. Customer Retention Strategies

Companies require changing the way they treat their customers. They also need to formulate strategies to retain their customers (Reichheld, 2003) ^[12]. Companies have started realizing this and the companies in the services industry have started formulating retention strategies (Reinartz *et al.*, 2005) ^[14]. Airlines have started offering frequent-flier mileage programs where loyal customers receive free or discounted trips (Jackson *et al.*, 1988) ^[4]. Companies in the music industry offer discounts depending on the amount of music that is purchased (Jackson *et al.*, 1988) ^[4].

Customer retention programs help the companies in maintaining a good relationship with and retaining their profitable customers (Reinartz and Kumar, 2003) ^[13]. This also helps businesses to collect information about their customers and develop a customer database for future usage (Thomas *et al.*, 2004) ^[15]. Customer databases might help companies in targeting, communicating with, and understanding their customers better. This might also help companies in customizing the products and services for their customers (Reinartz and Kumar, 2003) ^[13].

Retention programs are relatively inexpensive if handled efficiently. Retained customers also feel special and important (Reichheld, 1996) ^[11]. This causes in the customers buying more and more from the company, thereby increasing their frequency of purchases. This might also result in the customers recommending the products to others (Reichheld, 1996) ^[11].

Companies adopt various types of customer retention programs. One of these is the discount program where customers receive a discount because of their repeat purchase (William *et al.*, 1990) ^[17]. Sometimes these types of retention programs offering discounts might be very expensive for companies. Some customers would have purchased the product even if they had not received an incentive to do so (William *et al.*, 1990) ^[17]. Sometimes, customers may be loyal to the company. One study indicated that over 87 percent of the customers would have purchased goods or services from a particular company even if they did not receive any incentive for doing so (William *et al.*, 1990) ^[17].

Research has found out that there is a strong linkage between customer retention and customer satisfaction. Research on customer retention was conducted by (William *et al.*, 1990) ^[17]. They found out certain factors that are specific to improving the retention of customers and are often seen as imperative. The factors are:

- a. A commitment by the senior management.
- b. A culture in which all managers and employees focus their entire attention on customer satisfaction.
- c. Information systems that deal with retention and analyze and track the reasons because of which customers leave the company.
- d. Empowerment of various employees on the front lines to take actions those are necessary to provide satisfaction for the customers.
- e. A continuous program of development and training.
- f. Incentive systems for employees that are based on how many customers are retained.

The employees in an organization who are the most important for customer retention are those individuals who come in direct contact with the customers. They become the face of the company for the customers. They should be empowered so that they are able to find effective and creative ways to solve customer problems without consulting or having to take permission from the top management (Kumar, 2006) ^[7]. At the same time, the frontline employees should be well-informed about the performance of the company. They need to have the problem-solving skills and a passion for serving customers. Allowing employees to have the authority of doing more and rewarding them based on their performance they show can convert upset and angry customers into satisfied customers (Kumar, 2006) ^[7].

Customers do not stop buying from a company only because of the ordinary interactions they might be having with the company. They stop patronizing a business because of various service failures which arise due to the incapability of the company to handle situations. This might affect customer satisfaction (Lewis, 2006) ^[8]. For all the above reasons, it is imperative for the employees coming in direct contact with the customers to think from the perspectives of the customers, to assume responsibilities for their actions, and respond well to the pressure that often comes from customers who are angry or upset (Lewis, 2006) ^[8].

Companies need to conduct training and support in empowerment, performance management, team building, coaching, and communication. Research has proven that companies which implement these policies have higher customer retention and higher profit margins (Reinartz *et al.*, 2005) ^[14]. This also results in added benefits like improvement in the loyalty of their employees and lower amount of job turnover (Reinartz *et al.*, 2005) ^[14].

An important aspect of customer retention strategy is that the company should be able to measure its customer retention and to utilize the data about its customer retention as the key driving force in achieving and sustaining customer-oriented quality (Jamieson, 1994) ^[5]. The key to customer retention is measurement and combining external and internal measurement systems. This should result in better customer retention (Jamieson, 1994) ^[5]. Companies are adopting measures to estimate customer retention (Kumar, 2006) ^[7].

One aspect on retention that has received some attention in the recent past is the idea of inertia. Customer loyalty is the behavior when customers keep on buying from the company even when there is no apparent reason for doing so. On the contrary, idea of inertia deals with the degree of consciousness involved in the decision to continue purchasing from the same provider (Jamieson, 1994) ^[5]. Inertia is a single dimensional construct, lacking genuine loyalty without any brand commitment (White and Yanamandram, 2004) ^[16]. Companies aim for converting

inertia into customer loyalty. There are various clubs in coffee shops, department stores that offer credit cards to provide discounts, and resorts and hotels that offer packages to individuals who stay there more often (White and Yanamandram, 2004) ^[16]. Even sports teams provide seating priorities for individuals who have previously held season tickets or previously bought tickets for a particular event. For companies that offer mortgages, lower rates are sometimes offered to those individuals who have done business with that company before (Jackson *et al.*, 1988) ^[4].

Research has been done on post-purchase behavior of customers (Jones and Sasser, 1995) ^[6]. Higher customer satisfaction does not necessarily result in higher customer loyalty. Even when customer satisfaction was high, the level of loyalty could be relatively low (Reichheld, 1996) ^[11]. In automobile industry, while only 85 percent to 95 percent of the customers report that they are satisfied, only 30 percent to 40 percent actually make repeat purchase. Repeat purchase is an indicator of customer retention. So, companies need to ensure that a customer is more than satisfied each time he or she visits the company.

Companies also focus on the interpersonal communications between salespeople and customers. Communications play a very important role in successful sales interactions. An important aspect of any communication process is the ability to listen effectively. So, companies train their employees to be good listeners. Knowledgeable and prepared salespeople develop more meaningful relationships by listening to customers, than salespeople who do not (Comer and Drollinger, 1999) ^[3]. Salespeople need to empathize with customers in their listening. To achieve this, salespeople should adopt active techniques of listening. This helps in the retention of a customer after an initial sales has happened. Empathetic listening by a salesperson demonstrates concern about customers (Comer and Drollinger, 1999) ^[3].

Buyers are likely to trust those salespersons who they perceive to have listened patiently and empathetically to them. This also helps salespersons to understand their customers better. They are in a better position to convince the customers of their genuine understanding of and concern for their positions. This results in better and effective negotiations between the salesperson and the customer (Comer and Drollinger, 1999) ^[3]. Because of all these reasons, effective retention involves continuing contact with customers, listening to them empathetically, and maintaining a service relationship, until customer needs are met and customer satisfaction has been achieved (Comer and Drollinger, 1999) ^[3].

Arguments already provided above indicate that communication is vital for customer retention. However, few researchers have investigated the interaction between a customer and a salesperson from the perspective of communication (Bowen and Lawler, 1992) ^[2]. Communication deals with many verbal and non-verbal cues. They include visual contact, patterns of argument, use of evidence, and message order (Bowen and Lawler, 1992) ^[2]. Most of the research done on these issues focuses only on personal interactions and not sales in particular (Bowen & Lawler, 1992) ^[2]. Because of this, little has been noted about how well communication relates to customer retention in any specific business. Companies need to focus on the issue of communication for customer retention in future.

4. Conclusion

The paper emphasized the importance of customer retention as opposed to only acquiring customers. It explained the need of customer retention for different companies for sustaining in the present business scenario. Companies are slowly becoming aware of the necessity of customer retention and are adopting customer retention strategies. The customer retention strategies described in the paper may provide companies a direction for retaining their valuable customers.

5. References

1. Ahmad R, Buttle F. Customer retention management: A reflection of theory and practice. *Marketing Intelligence and Planning* 2002; 20(3):149-161.
2. Bowen DE, Lawler EE. The empowerment of service workers: What, why, how and when, *Sloan Management Review* 1992; 33(3):31-39.
3. Comer L, Drollinger T. Active empathetic listening and selling success: A conceptual framework. *Journal of Personal Selling and Sales Management*. 1999, 19(1).
4. Jackson D, Cunningham W, Cunningham I. *Selling: The personal force in marketing*. Santa Barbara, CA: John Wiley & Sons, Inc, 1988.
5. Jamieson D. Customer retention: Focus or failure. *The TQM Magazine* 1994; 6(5):11-13.
6. Jones T, Sasser WE. Why satisfied customers defect? *Harvard Business Review*, 1995; 7(6):134-145.
7. Kumar V. Profitable Relationships. *Marketing Research* 2006; 18:41-46.
8. Lewis M. Customer Acquisition Promotions and Customer Asset Value. *Journal of Marketing Research*. 2006; 63:195-203.
9. Oliver RL. Satisfaction. A behavioral perspective on the consumer. McGraw-hill Professional, 1997.
10. Oliver RL. Whence customer loyalty? *Journal of Marketing*. 1999; 63(Special Issue):33-44.
11. Reichheld F. The loyalty effect: The hidden force behind growth, Profits and Lasting Value, Boston, Mass.: Harvard Business School Press, 1996.
12. Reichheld F. Lead for loyalty. *Harvard Business Review* 2003; 81:76-84.
13. Reinartz WJ, Kumar V. The Impact of Customer Relationship Characteristics on Profitable Lifetime Duration. *Journal of Marketing*. 2003; 67:77-99.
14. Reinartz WJ, Thomas JS, Kumar V. Balancing Acquisition and Retention Resources to Maximize Customer Profitability. *Journal of Marketing*. 2005; 69:63-79.
15. Thomas JS, Blattberg RC, Fox EJ. Recapturing Lost Customers. *Journal of Marketing Research*. 2004; 61:31-45.
16. White L, Yanamandram V. Why customers stay and consequences of inertia in financial services. *Managing Services Quality*, 2004; 14(2):183-194.
17. Williams K, Spiro R, Fine L. The customer-salesperson Dyad: An interaction communication model and review. *Journal of Personal Selling and Sales Management*. 1990; 10(3):29-43.