



CUSTOMER RETENTION STRATEGIES THAT CAN BE FOLLOWED BY ORGANIZED RETAILERS IN ECONOMIC SLOWDOWN

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ABSRTCT

Customer retention is the need of the hour especially in the current global economic slowdown. Obtaining new customers has become difficult, thus retaining existing customers is very important for companies to survive and grow. Customer retention strategies focus on preventing customers from leaving the company's fold in favor of competitors. Customer retention strategies can be either positive or negative. Positive strategies focus on rewarding the customers for continuing the relationship with the organization. Negative retention strategies focus on penalizing the customers for discontinuing the relationship with the organization. Negative strategies impose high switching costs on customers, discouraging their defection. This paper focuses on the various positive and negative customer retention strategies to be used by marketers in the current scenario of global economic slowdown.

INTRODUCTION

Customer Retention is the activity that a selling organization undertakes in order to reduce customer defections. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. 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 refers to the percentage of customer relationships that, once established, a business is able to maintain on a long-term basis. It is a major contributing factor in the net growth rate of businesses. Customer retention is more than giving the customer what they expect; it's about exceeding their expectations so that they become loyal advocates for your brand. Creating customer loyalty puts 'customer value rather than maximizing profits and shareholder value at the center of business strategy'. The key differentiator in a competitive environment is more often than not the delivery of a consistently high standard of customer service.

A variety of strategies are available to business owners seeking to improve their customer retention rates. Of course, the most basic tools for retaining customers are providing superior product and service quality. High quality products and services minimize the problems experienced by customers and create goodwill toward the company, which in turn increases customers' resistance to competitors' overtures. However, it is important that small business owners not blindly seek to improve their customer retention rate. Instead, they must make sure that they are targeting and retaining the right customers i.e., the ones who generate high profits. Customer retention strategies can be Positive and Negative strategies. Positive strategies reward a customer for remaining in a relationship. Negative strategies lock the customers by penalizing their exit from a relationship. Negative customer retention strategies impose high switching costs on customers, discouraging their defection.

Economic slowdown has been affecting the global retail sector significantly, both from the demand side and supply side. The global demand has been seeing periodic ups and downs following the crisis in the US mortgage market and the European Financial crisis. The resultant job losses and the fall in income have aggravated the impact on consumer demand. Besides, job uncertainty (in anticipation of job losses) has led to drop in consumer spending. The global economy, especially the developed economies, has been witnessing contraction in GDP growth over the last couple of quarters. On the supply side, however, many retailers are slowing down their expansion plans and many real estate developers are falling behind schedules in their shopping mall projects, considering the credit crunch. The economic slowdown has deeply affected the Indian organized retail sector in

terms of deceleration in retail sales growth, footfalls, store expansions, employment rates and most importantly, profitability.

OBJECTIVES

- To examine the Customer Retention Strategies followed by companies throughout the globe.
- To identify the Customer Retention strategies that can be applied by the Organized Retailers in current economic slowdown.

RESEARCH METHODOLOGY

- We have used secondary data sources such as internet, journals and books for the collection of the data.
- The study has been done systematically to identify the existing Customer Retention Strategies and to develop new Customer Retention Strategies that can be used by Organized Retailers in current economic slowdown.

CUSTOMER RETENTION STRATEGIES AND THEIR APPLICABILITY IN THE CURRENT ECONOMIC SLOWDOWN

Customer Retention strategies can be classified into two categories. They are

- (1) Positive Customer Retention Strategies and
- (2) Negative Customer Retention Strategies

Positive Customer Retention Strategies

In the following sections we look at a number of positive customer retention strategies, including **creating customer delight, adding customer-perceived value, creating social and structural bonds and building customer engagement.**

Creating Customer Delight

It is very difficult to build long-term relationships with customers if their needs and expectations are not understood and well met. This is especially true in the current economic slowdown. It is a fundamental precept of modern customer management that companies should understand customers, and then acquire and deploy resources to ensure their satisfaction and retention. This is why CRM is grounded on detailed customer-related knowledge. Customers that a company is not able to serve well may be better served by its competitors.

Delighting customers, or exceeding customer expectations, means going beyond what would normally satisfy the customer. This does not necessarily mean being world-class or best-in-class. It does mean being aware of what it usually takes to satisfy the customer and what it might take to delight or pleasantly surprise the customer. Commitment builds trust. Trust begets relationship longevity.

Customer delight occurs when the customer's perception of their experience of doing business with you exceeds their expectation. In formulaic terms:

$$CD = P > E$$

Where CD = customer delight, P = perception and E = expectation.

This formula implies that customer delight can be influenced in two ways: by managing expectations or by managing performance. In most commercial contexts customer expectations exceed customer perceptions of performance. In other words, customers can generally find cause for dissatisfaction. Customers have expectations of many attributes, for example product quality, service responsiveness, price stability and the physical appearance of the organization's employees and vehicles. These are unlikely to be equally important. It is critical to meet customer expectations on attributes that are important to the customer. Online customers, for example, look for rapid and accurate order fulfillment, good price, high levels of customer service and website functionality. Online retailers must meet these basic requirements.

A number of companies have adopted 'Customer Delight' as their mission, including Cisco, American Express and Kwik Fit, the auto service chain. In the service industries, customer delight requires frontline employees to be trained, empowered and rewarded for doing what it takes to delight customers. It is in the interaction with customers that contact employees have the opportunity to understand and exceed their expectations. The service quality attributes of empathy and responsiveness are on show when employees successfully delight customers.

Adding Customer-Perceived Value

The second major positive customer retention strategy is to add customer-perceived value. Companies can explore ways to create additional value for customers. This strategy is relevant in the current economic slowdown. The idea is to add value for customers without creating additional costs for the company. If costs are incurred then the value-adds may be expected to recover those costs. There are three common forms of value-adding programme: loyalty schemes, customer clubs and sales promotions.

Loyalty Schemes

Loyalty schemes reward customers for their patronage. A loyalty program is a scheme that offers delayed or immediate incremental rewards to customers for their cumulative patronage. The more a customer spends, the higher the reward. Today's CRM-enabled loyalty schemes owe their structure to the frequent flier programmes (FFP) that started with American Airlines' Advantage programme in 1981. The airline made a strategic decision to use its spare capacity as a resource to generate customer loyalty. This basic model has migrated from airlines into many other B2C sectors: hotels, restaurants, retail, car hire, gas stations and bookstores, for example. It has also transferred into B2B contexts with many suppliers offering loyalty rewards to long-term customers.

Loyalty programs provide added value to consumers at two points, during credit acquisition and at redemption. Although the credits have no material value until they are redeemed, they may deliver some pre-redemption psychological benefits to customers, such as a sense of belonging and of being valued, and an enjoyable anticipation of desirable future events. At the redemption stage, customers receive both psychological and material benefits. The reward acts to positively reinforce purchase behavior. It also demonstrates that the company appreciates its customers. This sense of being recognized as valued and important can enhance customers' overall sense of well-being and emotional attachment to the firm. However, customers can become loyal to the scheme, rather than to the company or brand behind the scheme. Loyalty takes two forms: attitudinal and behavioral loyalty. Attitudinal loyalty is reflected in positive affect towards the brand or supplier. Behavioral loyalty is reflected in purchasing behavior. Loyalty schemes can be actively followed by marketers to hold on to loyal customers in the current scenario.

Customer Clubs

Customer clubs have been established by many organizations. A customer club is a company-run membership organization that offers a range of value-adding benefits exclusively to members. The initial costs of establishing a club can be quite high, but thereafter most clubs are expected to cover their operating expenses and, preferably, return a profit. Research suggests that customer clubs are successful at promoting customer retention. Establishing customer clubs is a costly proposition in current economic slowdown but the company can gain the benefits as soon as the market shows signs of recovery.

To become a member and obtain benefits, clubs require customers to register. With these personal details, the company is able to begin and services for them. Clubs can only succeed if members experience benefits they value. Club managers can assemble and offer a range of value-adding services and products that, given the availability of customer data, can be personalized to segment or individual level. Among the more common benefits of club membership are access to member only products and services, alerts about upcoming new and improved products, discounts, magazines and special offers. For example, IKEA FAMILY, the home furnishing retailer's club, offers members discounts on selected IKEA products, a free home furnishing magazine quarterly, news updates via e-mail and discounts on exclusive IKEA FAMILY products.

Creating Social and Structural Bonds

The next positive customer retention strategy is customer bonding. B2B researchers have identified many different forms of bond between customers and suppliers. These include interpersonal bonds, technology bonds (as in EDI), legal bonds and process bonds. These different forms can be split into two major categories: social and structural.

Social Bonds

Social bonds are found in positive interpersonal relationships between people on both sides of the customer-supplier dyad. Positive interpersonal relationships are characterized by high levels of trust and commitment. Successful interpersonal relationships may take time to evolve, as uncertainty and distance are reduced. As the number of episodes linking customer and supplier grow, there is greater opportunity for social bonds to develop. Suppliers should understand that if they act opportunistically or fail to align themselves to customer preferences, trust and confidence will be eroded.

Strong social bonds can emerge between employees in companies having similar sizes, cultures and locations. For example, small and medium-sized businesses generally prefer to do business with similar sized companies, and Japanese companies prefer to do business with other Japanese companies. Geographic bonds emerge when companies in a trading area cooperate to support each other.

Social relationships between buyer and seller can be single or multilevel. A single-level relationship might exist between the supplier's account manager and the customer's procurement officer. The more interpersonal links there are between the dyad, the more resistant the relationship is to breakdown. For example, technical, quality and operations people talk to their equivalents on the other side.

Structural Bonds

Structural bonds are established when companies and customers commit resources to a relationship. Generally, these resources yield mutual benefits for the participants. For example, a joint customer-supplier quality team can work improving quality compliance, benefiting both companies. Resources committed to a relationship may or may not be recoverable if the relationship breaks down. For example, investments made in training a customer's operatives are non-returnable. On the other hand, a chilled products manufacturer that has installed refrigerated space at a distributor's warehouse may be able to dismantle and retrieve it if the relationship dissolves.

A key feature of structural bonding is investment in adaptations to suit the other party. Suppliers can adapt any element of the offer – product, process, price and inventory levels, for example – to suit the customer. Customers, on the other hand, also make adaptations. For example, they can adapt their manufacturing processes to accommodate a supplier's product or technology.

Different types of structural bond can be identified. All are characterized by an investment of one or both parties in the other,

- **Financial:** where the seller offers a financial inducement to retain the customer. Insurance companies form financial bonds with customers by offering no-claims discounts, tenure related discounts and multi policy discounts.
- **Legal:** when there is a contract or common ownership linking the relational partners.
- **Equity:** where both parties invest in order to develop an offer for customers. For example, the owners of airports invest in the shells of the duty-free retail outlets. The retailer invests in the internal fixtures and fittings.
- **Knowledge-based:** when each party grows to know and understand the other's processes and structures, strengths and weaknesses.
- **Technological:** when the technologies of the relational partners are aligned, for example, with EDI, just-in-time logistics and manufacturing.

- **Process:** when processes of the two organizations are aligned. For example, the quality assurance program on the supplier side and the quality inspection program on the customer side. Some suppliers manage inventory levels for their customers, ensuring inventory levels are optimized. This is known as vendor managed inventory (VMI). The chemicals company, Solvay Interlox, uses telemetry systems to perform VMI for its customers.
- **Values-based:** some companies are renowned for their strong values. Co-operative Bank is known for its pro-environment, ethical stance. It bonds closely with other companies, such as investment houses, that adopt the same position. It refuses to invest in companies that have poor environmental records.
- **Geographic:** these bonds exist when companies in a trading area (street, city region or country) create a buyer–seller–referral network that supports all members of their group. In the UK, retailers in downtown Leamington Spa have combated out of town developments by creating a loyalty program in which customers can collect and redeem loyalty credits at any member store.
- **Project:** when the partners are engaged in some special activity outside of their normal commercial arrangements, for example, a new product development project. There may be an exchange of resources to enable the desired outcome to be achieved, for example, an exchange of engineers and technologists between the companies.
- **Multi-product:** when a customer buys several products from a supplier, the bond is more difficult to break. There are economies for customers when they deal with fewer suppliers. When a relationship with a supplier of several products is dissolved, the customer may incur significant money, search and psychic costs in identifying one or more replacements. Further, the level of perceived risk attached to a new relationship may become uncomfortable.

Social bonds are generally easier to break than structural bonds. Structural bonds link organizations. Social bonds link people. If the account manager and procurement officer do not grow to trust each other, they may fall out, but this is unlikely to bring down a joint venture.

Negative Customer Retention Strategies

In a B2C context, mortgage companies have commonly recruited new customers with attractive discounted interest rates. When the honeymoon period is over, these customers may want to switch to another provider, only to discover that they will be hit with early redemption and exit penalties. Customers wishing to switch retail banks find that it is less simple than anticipated: direct debits and standing orders have to be reorganized. In a B2B context, a customer may have agreed a deal to purchase a given volume of raw material at a quoted price. Some way through the contract a lower cost supplier makes a better offer. The customer wants to switch, but finds that there are penalty clauses in the contract. The new supplier is unwilling to buy the customer out of the contract by paying the penalties.

Some customers find these switching costs are so high that they remain customers, though unwillingly. The danger for CRM practitioners is that negative customer retention strategies produce customers who feel trapped. They are likely to agitate to be freed from their obligations, taking up much management time. Also, they may utter negative word-of-mouth. They are unlikely to do further business with that supplier. Companies that pursue these strategies argue that customers need to be aware of what they are buying and the contracts they sign. The total cost of ownership (TCO) of a mortgage should, and does, include early redemption costs.

When presented with dissatisfied customers complaining about high relationship exit (switching) costs, companies have a choice. They can either enforce the terms and conditions, or not. The latter path is more attractive when the customer is strategically significant, particularly if the company can make an offer that matches that of the prospective new supplier.



CONCLUSION

Customers in economic slowdown are highly price conscious. Each customer is trying to cut down on costs. It is difficult to obtain new customers and holding on to the existing customers is the best option that any organized retailer can have. Even the existing customers are constantly lured by competitors in various ways such as price reduction, increase in customer service, increase in product quality etc. Holding on to the existing customers is a big challenge in current market. Both Positive and Negative customer retention strategies help in retaining the customers. Positive retention strategies keep the customers happy and ensure future relationship. Negative retention strategies have the potential to temporarily trap the customers but are not advisable in the long run. So it is advisable that the organized retailers implement positive customer retention strategies and use negative customer retention strategies with caution.

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