



B-to-B Customer Retention:

Seven Strategies for Keeping Your Customers

By Ruth P. Stevens

Business marketers have much to gain from retention marketing. Business customers tend to be fewer and more valuable—meaning you can't afford to lose even one. But how do you keep your customers active and buying from you, versus the competition? How do you prevent defection? This white paper defines retention marketing and explains its importance to business marketers. It presents seven proven strategies for retention marketing in B-to-B: meeting customer expectations, customer service, penetration marketing, defection prevention, continuous relationship selling, loyalty programs and customer winback. Finally, it reviews the key metrics that marketers may use to measure the results of their retention marketing efforts.

A white paper from

B2B MARKETING
TRENDS

Sponsored by

 **PENTON CUSTOM MEDIA**
IDEAS. EXECUTION. RESULTS.

Introduction

Business marketers have much to gain from retention marketing. Business customers tend to be fewer in number, and each is more valuable—meaning you can't afford to lose even one. But how do you keep your customers active and buying from you, versus the competition? How do you prevent defection? This paper will introduce seven strategic approaches to retention marketing that, in judicious combination, can enhance the retention of the business customer base, and, in turn, drive additional revenue and profit.

At the outset, however, it behooves us to agree upon a definition of “retention.” The term has been widely misunderstood—even abused—of late, by business marketers and consumer marketers alike.

Defining retention

The true meaning of customer retention is the subject of some controversy. Does it mean repurchase? Intent to repurchase? Referral? Or does it simply mean a feeling of loyalty to the brand?

In fact, the easiest way to approach retention is from the negative: Retention means that the customer has not defected. In other words, that the customer remains active. But exactly how to define—and thus measure—customer activity is open to question.

Some marketers take an action-oriented, and essentially conservative, stance, insisting that the true meaning of retention is repurchase. There is some logic to this argument. Since repurchase is the source of conversion to customer profitability, it presents an attractive metric for assessing performance. Upon acquisition, the stage typically associated with the initial purchase, your strategic objective with new customers is to stimulate repurchase.

But this approach can be hard to apply to product categories with long or complex sales cycles, which are entirely typical in business buying. Managing the customer relationship when repurchase is so intermittent is problematic. In such cases, there are three possible approaches:

- 
- 1.** Measure intent to repurchase, through such indicators as answers to survey questions.
 - 2.** Identify alternative behaviors that suggest continuing interest in sustaining the relationship, such as renewing a warranty or calling a sales rep to ask a product question.
 - 3.** Measure willingness to refer. As Frederick Reichheld has concluded in his *Harvard Business Review* article of December 2003, company growth correlates positively with customers' positive answer to the following question: "How likely is it that you would you recommend [company X] to a friend or a colleague?"

However we decide to define retention, the essential objective of retention marketing is to avoid re-acquisition. Instead of continually acquiring and losing customers, which incurs additional expense, we seek to get a customer, please the customer, and keep the customer. It was Reichheld whose 1996 break-through book, *The Loyalty Effect*, captured corporate management attention with the financial case for retention marketing. Reichheld demonstrated that, depending on the industry, a 5 percentage point reduction in defections can lift per-customer profit by 35% to 95%. A credit card company, for example, can increase the customer profit 75%; life insurance by 90%; auto service by 81%; and office building management by 40%.

So retention strategies discussed in this chapter focus on activity, or intent to repurchase, or any other relevant indicators that the customer has not defected.

How to measure retention

If retention is difficult to define, it can be even harder to measure, especially for business marketers. The fundamental problem lies, ironically, in the value of the business customer. You want to retain them because they are so valuable. Yet, setting up metrics is difficult in fact because they are so valuable.

■ The test-and-control method is the ideal marketing metric. So ideally you want to isolate a certain set of customers from the rest of the customer base, apply your retention tactic to the remainder, and see what kind of lift you experienced in such obvious metrics as

- Repeat purchase
- Average order size
- Purchase of multiple products or services
- Referral to buyers in other departments or in outside companies

But in most business marketing situations, it's well nigh impossible to set up control groups, for the following reasons:

- Salespeople worry about inconsistent messages and offers going into their territories
- Management worries about leaving money on the table when eliminating promotions to control accounts
- Testing incurs extra expense and time investment
- Universes are small, and products change rapidly, so this year's test may not apply to next year's business environment

So business marketers are limited to proxy measures, among them:

- Measuring against yourself, over time. So you would look at churn rate, or repeat buying rate by segment, or any other metric, year on year, and hope for an improvement
- Measuring against your industry. Some industry groups invest in the kind of research that assesses benchmarks against which any individual player can measure performance.

Whatever measurement plan you adopt, the important thing is that you set benchmarks and expectations in advance, so you can declare success (or failure) with clarity after your retention programs have been operational over a reasonable time.

Seven retention marketing strategies

A large number of strategies have emerged from the recent interest in retention marketing. Of these, the following have worked particularly well for business marketers. Let us discuss each in turn.

1

Meeting and exceeding customer expectations

The first essential strategy in retention marketing is to deliver on the promise made to the customer at the point of acquisition. Meeting customer expectations is simply the minimum requirement for doing ongoing business. Any dissatisfaction with the product, service or experience will be an insurmountable barrier to retention. The best retention marketing in the world cannot overcome product problems.

So the first step in developing a retention strategy is to ensure that you have a viable, competitive product, and all the other elements of product marketing are in place—that its features meet the market's need, that its quality is satisfactory and that you've priced it correctly and distributed it well. In short, a maniacal focus on the core business is essential. Without this, any investment in retention programs is doomed—and a waste.

2

Customer service

The same logic applies to the question of problem resolution. If a customer's product or service problem is not resolved quickly and satisfactorily, retention strategies are fruitless.

This is not an easy matter, however. As buyer expectations rise, companies find that they must invest in higher levels of service than ever. But companies rationally view customer service has traditionally been viewed as a cost center, and a drain on profits. So less

enlightened companies feel pressured to squeeze expense out of the customer service function.

However, studies have shown that strong service levels can have an important payoff in retention, and thus in long-term profits. For one thing, customers are more likely to indicate a stronger intention to repurchase, after you've identified and resolved their problems, than even customers who never had a problem in the first place. For one thing, a customer whose problem was identified and resolved has been shown to indicate a stronger intention to repurchase than even a customer who never had a problem in the first place.

One strategy to consider is migrating the customer service function from a cost center to a profit center, by training and motivating service reps to take advantage of opportunities to sell more into the account.

3

Penetration marketing

If you agree that customer acquisition represents an expense, or, more accurately, an investment, and that the customer relationship only becomes profitable upon retention, then penetration is where the firm's profits lie. Penetration marketing is about maximizing the value of the customer asset by optimizing the sales to current customers.

In consumer markets, we often refer to this concept as wallet share. General Motors calls it "share of garage." McDonald's restaurant chain calls it "share of stomach." The idea is to capture as much of the customer's natural spending in the category as possible and to stimulate additional spending where possible.

Retention tactics that work

- Survey customers (ask what they value, and how you're doing)
- Survey employees (they are the front line to customers)
- Newsletters (print or digital)
- Proprietary magazines
- Special events
- Affinity merchandise
- Lights-out marketing (meaning automated communications triggered by predetermined decision rules)
- Outbound communications
- Contests and awards
- Special service levels
- Welcome programs
- Advisory board
- Occasional thank-you notes
- Sales force incentives
- Rewards programs

■ This concept in business markets, typically called account penetration, falls under the province of the salesperson assigned to the account.

Essentially, you can boil penetration down to two types of selling:

- 1.** Up-selling, which means enticing the customer to buy a richer version of the product in question, such as an upgrade or a larger volume. McDonald's skills at penetration marketing entered the popular culture with its familiar shorthand for up-selling: "SuperSize that for you, Ma'am?" As McDonald management eventually responded to a chorus of questions about the healthfulness of its menu, the company announced in 2004 that it would no longer require its order-takers to attempt the SuperSize up-sell with every transaction.
- 1.** Cross-selling, meaning offering a related or additional product. In McDonald's terminology, cross-selling is expressed as "Fries with that, Sir?" Cross-selling allows a company to gain leverage from the customer relationship by identifying additional products or services that the customer might need. Cross-selling is built on the principle: "I have acquired a relationship with this customer. Now what else can I offer him?"

Skilled sales people are natural up-sellers and cross-sellers into their accounts. But the marketing function can boost the productivity of the sales force with a variety of database marketing techniques designed to identify the low-hanging fruit, so sales people can invest their time wisely. One of these, pioneered by the database marketing guru Arthur Hughes, is known as "next best product" analysis.

This method compares the buying patterns of like buyers and flags any deviations from it that may occur in individual accounts. So, if the average small manufacturer is buying \$50,000 of pipes and \$20,000 of hoses per year, and we notice a certain company that is buying about the right amount of pipes but is under-buying in hoses, we would undertake a marketing effort to promote hoses in such accounts.

Retention marketing myths

As the financial case for retention has taken root, and enthusiasm for the principle of customer retention spread among managers, there have been some misunderstandings, misconceptions, even myths spawned by the concept's popularity. These myths can cause pursuit of sub-optimal strategies, and deserve a review.

Myth Number 1: Retention equals satisfaction.

Customer satisfaction is clearly a worthy objective. Many companies, large and small, have invested huge sums in satisfaction measurements and tied management compensation to it. But satisfaction is a problematic measure for several reasons:

- The basis for satisfaction metrics are typically on survey instruments, which gather data based on what customers say versus how they actually behave. As we all know, what we say we're going to do is not necessarily what we do.
- Satisfaction with a product, service or company does is not necessarily have a link to purchase intent.
- Satisfaction is relative. It is value that drives behavior. If company B offers me greater value, all my satisfaction with company A will not prevent my switching for greater relative value.
- Satisfaction does not measure wallet share. I may be satisfied with company A but for various reasons give the bulk of my spending in the category to company B.
- Satisfaction is merely a means to an end. The end is repurchase. But when your basis for compensating employees rests on such interim measures, the system will be tempt them, by focusing on driving the "sat" metrics themselves, versus the actual desired behavior, namely repurchase. A common example is found in the world of car dealerships. When sales people know that a post sale survey is imminent, they beg their customers in advance to give them good scores. Some even go so far as to show their customers how to fill out the survey before they leave the site. This kind of corruption perverts the intent of the system and destroys the value of the metrics.

Myth Number 2: Customers want a relationship with you

As marketers grow enamored of customer relationship management principles, they can go overboard in their expectations for their applicability. Does a business want a relationship with its ballpoint pen manufacturer? Perhaps. But more likely, the buyer values such elements as product quality, price, convenience and, and has no particular passion or even interest in the fact that he or she is a regular purchaser of a certain product. So marketers would do well to investigate the customers' attitudes to the product category before investing in relationship-building strategies.

Myth Number 3: Customers define loyalty the way you do

Loyalty as a concept is certainly appealing to marketers, but what does it mean? The word implies an emotional bond of some sort. A preference. An enthusiasm. But does it mean purchase? Not necessarily. A consumer can be loyal to a product, but simply not in the market. Take pantyhose, for example. As requirements for business attire became more casual in recent years, many women switched to trousers or bare legs, sending pantyhose sales plummeting. But if you ask these women what pantyhose they would buy if they needed a pair, their preferences would still be clear. From the brand marketer's point of view, these customers are loyal but they are not buying.

Myth Number 4: Customers are all worth retaining

A slavish pursuit of customer retention can lead to the misconception that it is worth retaining all customers. If, as Reichheld demonstrated, a certain increase in retention drives a certain increase in profits, then more retention should drive more profits, logically. But not all customers are created equal. You should only retain customers who you expected to deliver a profit. Optimization of the customer asset means a willingness to let go of customers if you cannot serve them profitably. A goal of 100% retention is undesirable.

4

Defection prevention

The single best way to ensure retention is by preventing defection. An alert marketer can easily put in place effective defection prevention strategies. Why? Because defecting customers almost always give off signals of their impending departure—if you are prepared to pay attention. All it takes is that you identify the key variables, and set up tripwires to capture the signals and put in place programs to remedy them.

One useful example comes from the marketing analyst Jim Novo, who popularized the concept of “latency.” Novo points out that buying patterns tend to stabilize, and that any deviation in the patterns may be a sign of a problem—and an opportunity to take action. For example, if you notice that a buyer typically places an order every 60 days, then if 60 days go by and no order arrives, the seller should immediately make an inquiry. It may be nothing—in which case you’ve demonstrated your high levels of customer service. Or it may reveal a problem—in which case you have an opportunity to find a solution, fast.

5

Continuous relationship selling

Most of us marketers are slaves to one-off selling. To any given customer, we sell, and then sell again, whether it’s an upsell or a cross-sell. We are always hounding our customers to buy, and in the process we not only may make a pest of ourselves, we also incur considerable selling expense.

But what if you could convert a customer to a continuous buying relationship? Persuade the customer to accept an ongoing stream of product deliveries, on terms agreed upon in advance, and delivered automatically. Essentially, this moves a customer to a replenishment scenario, characterized in recent decades by just-in-time delivery of component parts and raw materials in manufacturing.

In this way, you’ve eliminated the expense and time of reselling, and revenue streams are smoother and more predictable. On the other hand, you do incur a higher acquisition cost in the first place, because you have to explain clearly the nature of the ongoing relationship and gain agreement up front.

■ Certain businesses are set up for continuous selling methods from the get-go, among them telecom, financial services, pharmaceuticals and media. But there's no reason why you cannot create such a model for your business, whether for certain customer sets or particular product lines. Any time a product or service calls for repeat selling, or natural up-selling, you may be able to convert it to a continuous relationship selling structure.

Business marketers have enjoyed success creating continuous sales scenarios with such situations as:

- Post-sales support services
- Replacement parts
- Just-in-time components
- Consumable products, like office supplies
- Professional services

6

Loyalty programs

Taking a page from the consumer world, some business marketers have found success with frequency marketing programs that reward customers for certain behaviors, such as repeat purchase. These programs are not universally applicable in business, but they have their place, particularly in situations characterized by the following:

- A market that is highly competitive, where a competitive advantage is critically important
- Management disinclined to compete on price, so an alternate source of value is needed
- High fixed costs but low variable costs, which supports reasonable redemption expense
- Inventory is perishable, so the value declines as the deadline approaches
- Purchase cycle is short, and purchase behavior can be tracked

One of the most obvious opportunities for rewards programs is in businesses that mimic consumer purchasing behavior, like office supplies. Staples, for example, runs a thriving rewards program targeted to its small-medium business customers. But some interesting

loyalty programs are also in operation in more traditional industrial markets. For example, the Sloan Valve Co. company gives both contractors and distributors points redeemable for travel rewards based on their purchase volume of electronic faucets and valves. Their customers and channel partners love the program, and the company considers it an important strategic weapon in a competitive market.

Outside of classic frequency marketing programs, however, there are abundant ways that business marketers can reward desired customer behavior. A long-standing practice has been special service levels. Best customers are assigned the top account reps and given dedicated customer service personnel to support them. Or the firm may build a special Intranet behind the top customer's own corporate firewall, allowing 24 by 7 purchasing at the pre-negotiated contract terms, and provide reporting back to purchasing officials about buying behavior across the corporation.

According to Colloquy, a loyalty research organization operated by Frequency Marketing, Inc., the ideal loyalty program combines some tangible elements, such as discounts or special service levels, and intangible elements, such as status, recognition or privilege. Because many businesses forbid employees to accept more than a token amount of personal value, special service levels and status can be an ideal substitute for gifts.

One lesson that frequency marketing professionals share: When developing a loyalty marketing program, it is essential to consider the end-game scenario. Make sure you have an exit strategy in place in advance, so you avoid disappointment or criticism upon making changes in the program along the way.

7

Winback

Despite the brilliance of your retention marketing, at some point, a tragedy may occur: You lose a customer. But this is not a time for despair. In fact, customer defection presents an opportunity. Here's why.

The first step in reversing a defection is to consider very carefully whether in fact you want the customer back. It could be that this customer is simply not right for you. That the cost to serve is too high. That the margins have been beaten down to the point of

■ unprofitability. It may be better to let the customer move to a competitor who can make the relationship profitable.

But if the customer is of value to you, then you need to establish a win-back process. The first step in win-back is to find out what went wrong and try to fix the problem. In most business marketing situations, this part of the process is the province of customer service or account management. They must assess the situation and apply, very quickly, the kind of solution that will bring the customer back to the fold. It is critical that these reps be knowledgeable and empowered to take fast action.

In many cases, fast triage will not solve the longer term problem. It will take more time and effort to persuade the customer to return. So businesses put in place dedicated win-back sales teams. It's not easy work—the regular sales force, who focus on volume and fast opportunity, cannot do it. The win-back sales team needs special training and, above all, special compensation, to work on bringing customers back.

Conclusion

Loyalty represents the source of all profits. By focusing on providing ongoing value to customers, identifying opportunities to improve that value, preventing at-risk customers from defecting, and reactivating profitable customers when they do defect—these are the marketing activities that will ensure maximum shareholder value.

Ruth P. Stevens consults on customer acquisition and retention and teaches marketing to grad students at Columbia Business School. She is the author of *Trade Show and Event Marketing* and *The DMA Lead Generation Handbook*. Reach her at ruth@ruthstevens.com.

B2B MARKETING TRENDS

B2B Marketing Trends is marketing content site and quarterly print publication giving B2B marketing executives and other professionals insight into what is and is not working in B2B marketing. *B2B Marketing Trends* contains valuable, quick-hitting communication information that a marketing executive can take and implement including short, “how-to” articles on the latest marketing news.

b2bmarketingtrends.com



Penton Custom Media (PCM) specializes in B2B custom publishing. Backed by more than 100 years of Penton Media Inc.’s communication expertise, Penton Custom Media provides a full range of services to help our clients build more profitable customer relationships. We partner with our clients to set goals and identify marketing strategies best suited to our clients’ situations. With access to a virtually unlimited array of internal and external resources for research, editorial, design, production, and in-depth business information experience, PCM offers solutions that create results for our partners.

www.pentoncustommedia.com