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Techniques and Strategies For the Sales Professional

Are You Matching Your Customer Retention Strategies with the Customer Life Cycle?

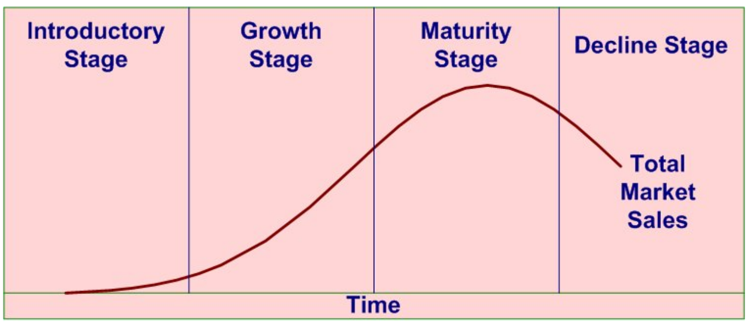
By Kevin J. Barrett

What is a Customer Life Cycle?.... and…. How do we use it?

Before getting to that answer, let's review something that may be a bit more familiar to us. Many of us are familiar with something called a Product Life Cycle and how it can affect our business. If we offered a single product in our business, and it had a short life cycle, it would be safe to assume we would not be in business very long, unless of course we had "High Repeat" business for that product, or a very large market to continually sell a "one off" product. With a "High Repeat" business we would be able to stay in business, but with a large market selling a "one off" product we would eventually run out of customers.

The fact is all products follow a Life Cycle and as a business we must understand how that life cycle effects our Business. The Product Life Cycle is much like our Human Life Cycle. We are born, we grow, we begin to mature and eventually we die. With our Human Life Cycle there are many strategies we can employ that will have a significant impact positively or negatively on the length of our Life Cycle.

The same holds true a Products Life Cycle



Product Life Cycle

Over the years the length of time a product has viability has been declining or narrowing…. Or, in other words, it has been getting shorter and shorter.

Interestingly, our Human Life Cycle is actually increasing at a very fast rate, and because of that fact, I like to compare our Human Life Cycle to the Life Cycle of the Business or the Business Enterprise. The Life Blood of any business is Sales Dollars. The quality and quantity of the blood pumping through US, has a profound effect on our life expectancy, just as the quality and quantity of dollars a business generates profoundly affects the life expectancy of the business or business enterprise. Sounds simple and quite basic doesn't it!

Well, not exactly. If the Product Life Cycles are decreasing, it would not be too long before our sales dollars would decrease and we would eventually, be out of business. From a "Self Preservation" standpoint, we needed to find ways to help increase those sales dollars, to stay alive.

There are basically only two strategies we can use to accomplish that end. First, we can do that by increasing the range of products or services we provide and secondly, we can help extend the Product Life Cycle's of the Products we do sell by finding new ways to increase sales. i.e. New market territories, new uses, etc. This is where marketing comes in.

In the early days, Innovative Companies, would consistently add new products and new technologies, with overlapping Product Life Cycles, to generate the required sales dollars for vibrate, healthy growth with the aim of longevity for the business. 3M Company is an excellent example of an innovative company that actually, set corporate objectives for new products and new technologies. For example, a high percentage of the company's annual sales, had to be derived from products that were not in existence five (5) years before. Their "Competitive Edge" in the market is the ability to create new and novel products and solutions that had a "Proprietary Advantage". With the "Proprietary Advantage", these new products would not have competition and during the early aspects of the "Product Life Cycle", the profit margins for these products were quite high.

When successful products move through their respective Life Cycles, ultimately they begin to mature and competition begins to remove the "Proprietary Advantage". The products soon become what we term as "Commodity Products". "Commodity products" are usually categorized as products with lower profit margins, but they usually have significant sales volume. These types of products can go a long way in covering the "Overheads" of a business.

Innovative Companies like 3M soon realized that not only did they have to generate "Innovative Products", they also needed to find "Innovative Marketing" strategies to extend the Life Cycle's of their products.

To accomplish this end we have found over the years that each phase of an individual product's Product Life Cycle, would usually require different strategies to obtain optimum results.

With that, let's get back to the original questions….

What is a Customer Life Cycle?.... and…. How do we use it?

Actually, around ten years ago, a subset of marketing started to creep into business, it was called many things from customer profiling to customer demographics. It is now generally evolved what is referred to as Customer Relationship Management (CRM).

In a nutshell, how do we effectively increase the length of the Product Life Cycle's of the products we sell. Or even more simply put, how do we increase sales dollars.

In the "Old Days" businesses had somewhat of a adversarial relationship with their customers. After World War II, sales became a hit or miss proposition, a one shot deal….. Businesses had to SELL the customer. To SELL actually has a root meaning of to "Hand over in breach of promise." Not an exciting ring to the customer, is it?

In fact, the Preamble of the time was, "All Customers are Created Equal, with (maybe) certain inalienable rights."

It is now important to look at customers and the Value that they bring to the company as a "Life Long" Customer. When we begin to look at sales from that "Perspective", we see things in a different light.

So, let's take a look at the "Customer Life Cycle" and over lay that with a "Product Life Cycle". When we do that we start to see that all customers are not created equal, they actually can grow and become more valuable over time. When we do this we can graphically see the negative impact on the business of an "Unhappy Customer".

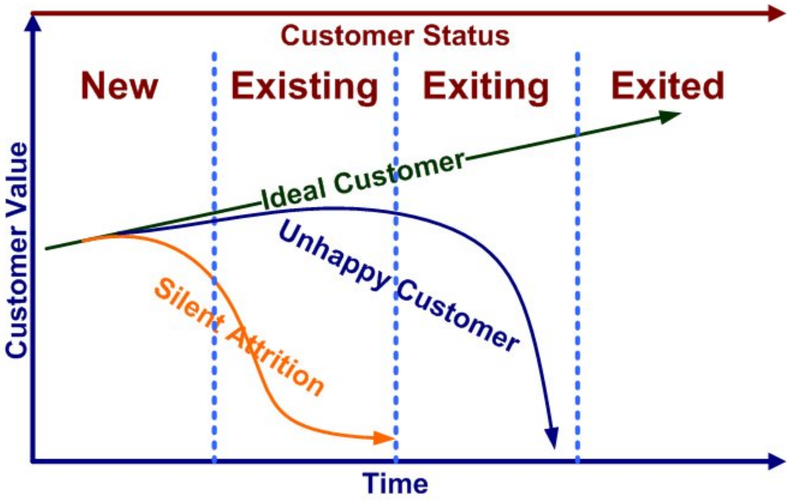
We also see that the same strategies we would use to gain a "NEW Customer", may not be the same strategies we would use for an "EXISTING customer", or an "EXITING Customer", or a customer that has already left (EXITED).

I guess we now have a pretty good idea as to what a Customer Life Cycle really is and probably more importantly we can see, what happens to sale dollars when we loose a customer. Hopefully, we also realize how important customers are to the life of the business.

Getting back to the analogy of our Human Life Cycle and Business Life Cycle, I recall a conversation I had with co-worker many years ago. I had just started running to keep fit, and really watch my diet. I had stopped smoking (ugh, I still cringe when I think about that), and he kept saying, "Why would you mess up a perfectly good life, by adding that much stress and pain from running and denying yourself the finer pleasures of life. You can only live so long and you might as well enjoy it."

This gentleman was older, a smoker, and with failing health and eyesight. We know today, what we do early on in our Human Life Cycle has a profound effect on our longevity. We are now finding that what we do early on in our Business Life Cycle has a profound positive effect on our Business longevity.

The same is now true for Customer Retention. What was once, argumentative is now "Self Evident".



Customer Life Cycle

The best customer retention initiative to use for a specific customer often depends on that customer's position in the customer life cycle. What's more, the earlier in the customer life cycle that you execute a customer retention initiative, the more effective and higher the overall ROI (Return on Investment) of the initiative. So what should you do--and when?

As you can see we have divided the Customer Life Cycle into four distinct sections or status levels. These sections are shown along with the value, i.e. profit or gross margin that different types of customers contribute to the business at different parts of the cycle.

I came across this graphic Illustration from a Customer Retention Specialist Company in Australia, called Genroe Pty Ltd. Their Web Address is http://www.genroe.com.au Click here For more information related to Customer Retention Strategies from this company, it is certainly well worth a visit to their site.

New

This is the time when a customer is just starting their relationship with your company. The length of time a customer spends in this stage depends on type of business, but it is normally anywhere from a few days to a couple of months.

The largest group of customer retention strategies that can be implemented in the "new" stage of the customer lifecycle is called "Onboarding". "Onboarding" is the process of bedding a customer into your organization. It includes ensuring that personal customer data is correct and that customers understand the products they have purchased and how to contact the organization. At KJ Barrett & Associates, we have programs we have developed and implemented for our clients, to assist in helping the Clients become in effect "Loyal Family Members". We believe that a Customer Relationship must start off on the right foot. It has been demonstrated time and time again that when customers that are properly "onboarded", they will stay with the company longer and spend more money than other customers that have not been properly "onboarded". In reality, "Onboarding" is nothing more than "Indoctrinating", but indoctrination, has some negative connotations associated with in now days.

Onboarding initiatives can be as simple as calling all customers in their first 30 days to confirm contact details and resolving any teething problems that they might be having.

Existing

These are your company's current customers and fall into several groups:

- The ideal customers, who continue to use and grow their use of your products.
- The unhappy customers, who still use your products but are discontented.
- The customers in "Silent attrition" still have your products but no longer use them actively, such as credit card accounts with little or no spending. They are generally a drag on company value, because you still have to service them, although they add no profit to the business.

Customer retention strategies for existing customers start with classifying each type of customer and then creating appropriate initiatives to change their behavior.

For instance, for customers in "Silent attrition", it is very important to determine why they are no longer using your product and then determine how you can begin to "EARN" back their business again. Over the years, it has been found that most dissatisfied customers, just don't complain. They "Just Go Away".

Exiting

These customers are on the way out. They may still use your product, but they are looking for the exit and actively seeking alternatives. Given time, they will leave.

Your initial challenge in creating retention strategies for Exiting customers is to identify them. One way is to uncover the tell-tail signs that customers considering a move provide to your organization. For instance, if you are a bank, they may make a request for the loan pay-out details. As you uncover these indicators, you should create initiatives to target those customers with a proactive contact.

Where customers purchase multiple products from you, you should also try to understand the order in which customers drop their product relationships when they are exiting, because this can give you another good early warning.

Once you can spot exiting customers, you can create effective customer retention strategies to target those customers.

For instance, if a request for loan pay-out details is an indictor of imminent exit for your customers, you might send all customers requesting such information a special discount offer on new loans. This means you have your best foot forward as they investigate their options.

Exited

Putting it simply, these are no longer customers. They have left.

Strategies that are aimed at recapturing customers that have left the organization are generically called win-back strategies. This is the most expensive and lowest ROI place to try to implement your customer retention strategies. Mentally, customers have already moved to another organization, and it takes a large inducement to bring them back.

If you choose to execute win-back strategies, you will need to carefully manage the level of incentive that your staff can offer to customers. For instance, you will need rules to tailor the incentive level to each specific customer to ensure that the level of inducement is not larger than the future business generated by that customer.

When executing a win-back initiative, a good approach might be to send all customers asking to close an account to a specialist team that has the training and access to special offers to try a last-ditch effort to retain the customer.

When you create customer retention initiatives, you will need to justify them based on the return on investment they will generate. This can be easier or harder depending on the position in the customer life cycle. Generally, the later in the life cycle, the easier it is to attribute results to your customer retention initiatives and, therefore, prove a suitable return on investment. However, intervening earlier is less expensive and more effective but harder to prove. Don't let the difficulty of proving the ROI for early intervention deter you, because it can pay very good returns. Genroe Pty Ltd has a very handy tool, which can help you estimate the effect of your Customer Retention Initiatives, it is called The RORE (Return on Retention Estimator). You can download it by clicking here RORE

I guess, when I reflect back those many years ago, when I was confronted with my co-workers, chiding remarks on why, give up smoking, eat properly and keep fit by running….. I can now say, what a fantastic investment!

I am still able to play basketball, at a very competitive level, with ex-pro, colligate players and teenagers, plus my medical costs have been around only $2,000 dollars over all those years, mostly physicals. All I can say is this "I really, really enjoy life and there are not many things I cannot do physically….." *And I am the same age now, as my co-worker was then. Unfortunately it is now too late to give him my answer.*

Too often the proof of a strategy comes too late. The same holds true for Customer Retention and Customer Relationship Management (CRM). My experience has been that this is a "Vital Part" of doing Business Today.

Which would you rather have?

Remember that each Business is different. We at KJ Barrett & Associates can help you determine, what strategies and approaches are best suited for your business and products. Best of all we work with you every step of the way during implementation.

Kevin Barrett is a Business & Training Consultant, N.L.P. Practitioner and Silva Method Lecturer. If you would like to subscribe to receive more Free "Tips and Strategies" visit www.kjbarrett.com and sign up for our Free Newsletter. We welcome your response and suggestions.