- **Data mining**: offers are based on intelligent data mining. Mining tells you what customers have already bought. It can also tell you the probability of a customer buying any other products (propensity to buy), based on their transactional history or demographic/psychographic profile. First Direct, the Internet and telephone bank, uses propensity-to-buy scores to run targeted, event-driven cross-sell campaigns through direct mail and call centres. They aim at high conversion rates through follow-up calls.
- **Customization**: offers are customized at segment or unique customer level. Also personalized is the communication to the customer and the channel of communication – e-mail, surface mail or phone call, for example.
- **Channel integration**: customer development activities are integrated across channels. It is regarded as bad practice to have different channels making different offers to the customer. In retail, this would mean that channels such as stores, web and direct-to-consumer channels act in an integrated, customer-centric manner. Clearly customer information and customer development plans need to be shared across channels.
- **Integrated customer communication**: the messages communicated to customers are consistent across all channels.
- **Campaign management**: campaign management software is used to develop customer development campaigns and track their effectiveness, particularly in terms of sales and incremental margin.

In mature markets, where customer acquisition is difficult or expensive, the development of retained customers is an important source of additional revenues. For example, in the mature mobile telecoms market the penetration of handsets is at a very high level. Winning new-to-market customers is regarded as too difficult, since these are the laggards and expensive to convert. Network operators have begun to focus on selling additional services to their existing customer bases, including data applications, as shown in Case 9.6.

Case 9.5

Tesco's strategy for customer development

The cornerstone of Tesco's customer development programme has been its loyalty card. The retailer uses it to retain, develop and add value to relationships with customers.

Tesco's Clubcard is a loyalty programme that employs magnetic stripe technology. The Clubcard has been extremely popular, with over 12 million members. It continues to grow with a large number of prominent retailers in the UK becoming affiliated with the programme.

Tesco attributes an average 34 per cent increase in customer spend since 1995 to the programme, which enables the company to target communications and offers much more effectively.

Case 9.6

Customer development at Vodafone

(Extract from the Vodafone Annual Review 2001)

- 'We expect to see customer growth moderate as most of our markets have now reached a high level of penetration. This means that the rate of future growth will slow, although the potential for more rapid growth still exists in the US, Japan and China, where penetration rates are still at relatively low levels.
- 'Emphasis will move from market growth to the retention of our customers, particularly those of highest value. In addition, we will aim to stimulate more usage of voice traffic and introduce a new range of data applications, to increase the value of our service to our customer base. We must be able to respond to the changing needs of our customers and the new and different services they require, as we move from the relatively straightforward world of nationally operated voice services to the complex world of globally provided voice and data.'

Strategies for sacking customers

Just as employees can be sacked, so it is possible to sack customers (see Case 9.7). Candidates for dismissal include customers who will never be profitable and who serve no other useful strategic purpose. More specifically, these include fraudsters, persistent late payers, serial complainants, those who are capricious and change their minds with cost consequences for the supplier, and switchers who are in constant search

Case 9.7

Sacking unprofitable customers at the CBA

The Commonwealth Bank of Australia (CBA), like many other banks, has been criticized in the media for adopting a strategy of sacking unprofitable customers.

In recent years the bank has closed branches in many areas that were considered unprofitable, particularly in less populated areas of rural and regional Australia. The bank believes that customers are unprofitable if their balance is less than $500. For these customers the bank has introduced higher bank fees. The bank has also trialled the transaction fees of up to $3 when customers withdraw their money over the counter in a branch.

The media has widely speculated that actions such as these by many banks will continue to occur as banks and other financial institutions attempt to shift customers to electronic banking channels, where the cost to the bank of performing a simple deposit or withdrawal transaction can be just a few cents as opposed to a few dollars for similar over-the-counter service in a branch.

for a better deal. McKinsey reports that 30–40 per cent of a typical company's revenues are generated by customers who, on a fully costed, stand-alone basis would be unprofitable.[34] These customers would be potential candidates for dismissal. Nypro, a large plastic injection moulder, had 800 customers and sales of $50 million in 1987 when it decided to move out of low value-add manufacturing. Many of these customers served no useful strategic purpose and by 1997, the company had only 65 customers, all of whom were large, and required value-added solutions rather than cheap moulded products. However, sales revenues were $450 million.

Sacking customers needs to be conducted with sensitivity. Customers may be well connected and spread negative word-of-mouth about their treatment. In the year 2000, UK banks began a programme of branch closures in geographical areas that were unprofitable. Effectively, they were sacking low-value customers in working-class and rural areas. There was considerable bad publicity, the government intervened and the closure strategy was reviewed.

There are a number of strategies for sacking customers:

- **Raise prices:** customers can choose to pay the higher price. If not, they effectively remove themselves from the customer base. Where price is customized this is a feasible option. Banks introduced transaction fees for unprofitable customers.
- **Unbundle the offer:** you could take the bundled value proposition that is sold to the customer, unbundle it, reprice the components and reoffer it to the customer. This makes transparent the value in the offer, and enables customers to make informed choices about whether they want to pay the unbundled price.
- **Respecify the product:** this involves redesigning the product so that it no longer appeals to the customer(s) you want to sack. For example, BA made a strategic decision to target frequent-flying business travellers who they regarded as high value. They redesigned the cabins in their fleet, reducing the number of seats allocated to economy travellers.
- **Reorganize sales, marketing and service departments** so that they no longer focus on the sackable segments or customers. You would stop running marketing campaigns targeted at these customers, stop salespeople calling on them and stop servicing their queries.
- **Introduce ABC class service:** migrate customers down the service ladder from high-quality face-to-face service from account teams, to sales representatives, or even further to contact centre or web-based self-service. This eliminates cost from the relationship and may convert an unprofitable customer into profit. In a B2C context, this equates to shifting customers from a high-cost service channel into a low-cost service channel. Frontier Bank, for example, introduced a no-frills telephone account for business customers who needed no cash-processing facilities. A minimum balance was needed for the bank to cover its operating costs. Customers who did not maintain the targeted credit balance in their account were invited to switch to other products in other channels. If they refused, the bank asked them to close their account.[35]

Summary

This chapter has looked at the important issues of how companies can retain, develop and, if necessary, sack customers. The economic argument for focusing on customer retention is based on four claims about what happens as customer tenure lengthens: the volume and value of purchasing increases, customer management costs fall, referrals increase and customers become less price sensitive. Measures of customer retention vary across industry because of the length of the customer repurchase cycle. There are three possible measures of customer retention. Raw customer retention is the number of customers doing business with a firm at the end of a trading period, expressed as percentage of those who were active customers at the beginning of the same period. This raw figure can be adjusted for sales and profit. Customer retention efforts are generally directed at customers who are strategically significant. These same customers may be very attractive to competitors and may be costly to retain, thus undermining their value and significance.

A number of alternative strategies can be used to retain customers. A distinction can be made between positive and negative retention strategies. Negative retention strategies impose switching costs on customers if they defect. Positive retention strategies reward customers for staying. There are four main forms of positive retention strategy. These are meeting and exceeding customer expectations, finding ways to add value, building bonds and establishing emotional commitment. Companies have a number of methods for adding value, including loyalty schemes, customer clubs and sales promotions. Customer bonds can be categorized as either social or structural. Three different forms of commitment have been identified: instrumental, relational and values-based. What is an appropriate customer retention strategy will be contextually defined. Not all strategies work in all circumstances. In addition to customer retention, two other CRM activities were discussed in this chapter. These are developing and sacking customers. Customer development aims to increase the value of the customer by selling additional or replacement offers to the customer. Sacking aims to improve the profitability of the customer base by getting rid of customers who show no signs of ever becoming profitable or strategically significant.

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