FLIP ROBO

Customer Retention

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Aditya Maurya

Introduction

IMPORTANCE OF THE STUDY:

Customer satisfaction and customer retention are two of the most important factors regarding the long term success of a company. These factors are known to be a huge influencing factor in relation to the economic success of a company.

Customer retention is one of the most important factors of profit growth. It's so important because it costs so much to influence customers to buy and so little to induce a repurchase. These are the benefits of customer retention:

1. **New customers cost more than keeping existing ones:** Help executives make the most of existing relationships by helping their customers make repeat purchases. Existing customers have made an emotional commitment that required a large investment of time to earn
2. **Company already knows how to do business with existing customer :** An executive doesn't have to invest additional resources training to do business with the existing customers. This saves time and allows them to serve existing customers faster
3. **Satisfied customers are already convinced of value:** They have already proven they can serve the customer and have provided proof. Executive's dnt have to invest the resources necessary to start from scratch again.
4. **Strengthening of the unique selling proposition**

STATEMENT OF PROBLEM

Ecommerce websites/platforms have become the shopping hub. Unlimited customers can shop at the same time from the convenience of time and place. It has provided the vast scope for ecommerce retailers. Although having unlimited scope there are many websites available which provided wide range of services.

Every company wants to add more and more customers to their platform, in addition to customer retention which ensure constant profit and consistency for a company.

How to retain customers. What are the methods and steps to retain them? What are the challenges we face to retain customers?

OBJECTIVES OF THE PROJECT

1. To identify the present situation of E-commerce platforms

2. To identify the ways to retain the customer

SCOPE OF THE PROJECT

Successful companies are constantly working in the field of customer retention, because without customer retention it isn't and wasn't possible to be successful in the long term. Currently many companies are facing an aggressive battle regarding customer retention. This Study will help E-Commerce companies to know the relinquishment level and how to retain the customers.

COLLECTION OF DATA

Two types of data are collected: Primary and secondary data

Primary Data:

The data are collected by the questionnaire method. The questionnaire consists of a numbers of questions interviewed to the customers for their response. Responses are to provide points out of 5. Where 5 is best and 1 is poor.

Secondary Data:

Secondary data are collected by the customers. The questionnaire consists of e-commerce websites. Responses are to provide preferences for ecommerce website/application

SAMPLE DESIGN

The research will be carried out among the customers of many states in India and sample will be around 269.

REVIEW OF LITERATURE

INTRODUCTION

A literature review discusses published information in a particular subject area, and sometimes information in a particular subject area within a certain time period. A literature review can be just a simple summary of the sources, but it usually has an organizational pattern and combines both summary and synthesis. A summary is a recap of the important information of the source, but a synthesis is a re-organization, or a reshuffling, of that information. It might give a new interpretation of old material or combine new with old interpretations.
Or it might trace the intellectual progression of the field, including major debates. And depending on the situation; the literature view may evaluate the sources and advice the reader on the pertinent or relevant. This chapter began with retention, measuring retention, importance of customer retention, advantage of customer retention, benefits of customer retention.

CUSTOMER RETENTION

In today's challenging economy and competitive business world, retaining their customer base is critical to organization success. If the company doesn't give their customer some good reason to stay, organization's competitors will give the customer a reason to leave. Customer Retention and customer satisfaction drive profits. It's far less expensive to cultivate organization existing customer base and sell more service to the customer than it to seek new, single-transaction customers. Most surveys across industries shows that keeping one existing customer is five to seven times more profitable than attracting one new customer. A customer-focused approach among its employees is still not present. In this era of intense competition it is very important for any service company to understand that merely acquiring customer is not sufficient because there is a direct link between customer retention over time and profitability & growth. Customer retention to a great extent depends on service quality and customer satisfaction. Complaints are natural part of any service activity as mistakes are an unavoidable feature of all human endeavor and thus also of service recovery. Service recovery is the process of putting things right after something goes wrong in the service delivery. Customer retention is the maintenance of continuous trading relationships with customers over the long term. Customer retention is the mirror image of customer defection or chum.

High retention is equivalent to low defection. In an industry where there are a multiple purchases over the years, organization's entire team should be very focused on retaining those customers:

i. Delivering service that's consistent with your value proposition and brand
ii. Cross-selling, up-selling and asking for referrals from existing customers
iii. Developing programs to increase customer loyalty and decrease turnover
iv. Prioritizing retention as a major focus in your annual marketing plan.
v. Knowing the lifetime value for different segments and using that data to improve the marketing.

Studies say it costs ten times more to generate a new customer than to maintain an existing one. If organization has a small number of customers, losing a few could cripple company. Even if there are a large number of customers, a small increase in the rate should dramatically increase profits

The maintenance of the patronage of people who have purchased a company's goods or services once and the gaining of repeat purchases. Customer retention occurs when a customer is loyal to a company, brand, or to a specific product or service, expressing long-term commitment and refusing to purchase from competitors. Of critical importance to such strategies are the wider concepts of customer service, customer relations, and relationship marketing. Companies can build loyalty and retention through the use of a number of techniques, including database marketing, the issue of loyalty cards, redeemable against a variety of goods or service, preferential discounts, free gifts, special promotions, newsletters or magazines, members' clubs or customized products in limited editions. It has been argued that customer retention is linked to employee loyalty, since loyal employees build up long-term relationships with customers. Customer retention has always been an important topic for the marketing. For sure, the advantages of loyal clients are obvious. Often CRM is only implementing new systems for data mining and client segmentation or operational system like a complaint management. But the thing is: data mining system or client clubs are not the basis. They are the cherry of the cake called client retention. A key principle of relationship marketing is the retention of customers through varying means and practices to ensure repeated trade from pre-existing customers by satisfying requirements above those of competing companies through a mutually beneficial relationship.

This techniques is now used as a means of counter balancing new customer and opportunities with current and existing customers as a means of maximizing profit and counteracting the "leaky bucket theory of business" in which new customer gained in order direct marketing oriented businesses were at the expense of or coincided with the loss of older customers. This process of "churning" is less economically viable than retaining all or the majority of customers using both direct and relationship management as lead generation via new customers requires more investment. Many companies in competing markets will redirect or allocate large amounts of resources or attention towards customer retention as in markets with increasing competition it may cost 5 times more to attract new customers than it would to retain current customers, as direct or "offensive" marketing requires much more extensive resources to cause defection from competitors. However, it is suggested that because of the extensive classic marketing theories centre on means of attracting customer and creating transactions rather than maintaining them, the majority usage of direct marketing used in the past is now gradually being used more alongside relationship marketing as its importance becomes more recognizable. According to Buchanan and Gilles the increased profitability associated with customer retention efforts occurs because of several factors that occur once a relationship has been established with a customer.

i. The cost of acquisition occurs only at the beginning of the relationship, so the longer the relationship, the lower the amortized cost.
ii. Account maintenance costs decline as a percentage of total costs or as a percentage of revenue.
iii. Long-term customers tend to be less inclined to switch, and also tend to be fewer prices sensitive. This can result in stable unit sales volume and increase in dollar-sales volume.
iv. Long-term customer may initiate free word of mouth promotions and referrals. v. Long-term customers are more likely to purchase ancillary products and high margin supplemental products.
v. Customer that stay with company tend to be satisfied with the relationship and are less likely to switch to competitors, making it difficult for competitors to enter the market or gain market share

IMPORTANCE OF CUSTOMER RETENTION

There are a number of reasons for this. To begin with, to acquire a customer a company incurs promotional costs like advertising, sales promotion etc. It is said that it costs five times more to attract a new customer than retaining one. The operating cost decrease when a customer stays. Service being rich in experience and credence qualities, it takes some time for customers to get accustomed to it and once they are used to the service and are satisfied with the service provider, they tend to purchase more over a period of time. As they remain satisfied with a service provider, they spread a positive word of mouth, which is very effective in case of service for attracting new customers. Longer the customer stays with an organization, more the organization knows about him, which enables it to offer a customized service which makes it difficult for the customer to defect. This may even provide opportunities to the organization to charge price premium by offering individualized service which may be difficult for the competitors to offer. Considering the importance of retaining customers in service business, Reich held & Sasser coined a term 'Zero Defection'. They highlighted that companies can boost profits by almost 100% by retaining just 5% more of their customers. Further, it is also very important to understand the life time value of a customer. Further, if by a positive word of mouth, he brings just one more customer to the organization, his value to the organization doubles. Therefore, it is important for all the employees in the organization to understand the life time value of their customers.

ADVANTAGES OF CUSTOMER RETENTION

POSSIBILITY OF REPEAT BUSINESS:

This is probably the most obvious advantage of customer retention. Effective services that lead to customer satisfaction will make customer coming back to again, thus giving repeat business. Repeat business is a win-win proposition for the business or service and the customer. The business reduces the cost of customer acquisition, while the customer reduces the cost of finding a reliable vendor and thus also saves on costs associated with switching vendors.

REDUCED COSTS FOR CUSTOMER ACQUISITION:

Acquiring a customer has certain associated costs. These include the costs associated with advertising, following up, sales demos, travel and meeting cost etc. having a repeat customer means that the customer means that the customer is already aware of your processes and can predict certain quality of output, thus minimizing the cost involved in new customer acquisition. Having a repeat customer also has the potential to open up another channel to advertise your business – word of mouth. Word of mouth advertising / recommendations are perhaps the most important outcome of having a satisfied customer.

FOSTERING GREATER INTERACTION BETWEEN BUSINESS AND CUSTOMER:

Today's markets are increasingly moving away from mass produced standard products and service, towards a more customized market, where products and service are tailored to meet customers' specific requirements. Having a repeat customer is an opportunity for you to build a more focused relationship based on your customers' specific needs and requirements. Being ensured of having a customer who comes back, you have more confidence to suggest improvements, provide an insight to better understand their needs and consequently design products and services that are relevant. Having a repeat business also provides an opportunity for the buyer and the seller to co-create products and services.

HAVING MORE DELIGHTED CUSTOMERS:

Effective customer retention strategies allow you to move from the zone of customer satisfaction to customer delight. Studies have shown that customer delight is achieved only when there is a perfect synergy between the buyer needs and the buyer understands what the seller can deliver exactly what the customer need. If you are able to deliver your customers, you have better chance of them coming back to you, since they now know why you are different from the rest of competition

CUSTOMER RETENTION: STATISTICS

i. Acquiring new customer can cost five times more than satisfying and retaining current customers. (Source: http://www.parature.com/tag/customer-service-statistics-2012)

ii. 2% increase in customer retention has same effect on profits as cutting costs by 10%. (Source: http://www.bautomation.com/resources/articles/startling-statistics-on-customerretention-acquisition/489/)

iii. The average company losses 10% of its customer each year.(Source: http:/www.dbmarketing.com/index.html)

iv. 5% reduction in the customer defection rate can increase profits by 25-125%, depending on the industries. (Source: http://www.parature.com/tag/customer-service-statistics-2012)

v. The customer profitability rate tends to increase over the life of a retained customer.(Source: http:/www.dbmarketing.com/index.html)

vi. Companies can boost profits anywhere from 25 to 125% by retaining merely5% more existing customers. (Source: http://www.parature.com/tag/customer-service-statistics2012)

vii. Only one out of 25 dissatisfied customers will express dissatisfaction. (Source: http://www.bautomation.com/resources/articles/startling-statistics-on-customer-retentionacquisition/489/)

viii. Happy customer tells 4 to 5 others of their positive experience. Dissatisfied customers tell 9 to 12 how bad it was. (Source: http://www.parature.com/tag/customer-servicestatistics-2012)

ix. Two-thirds of customers do not feel valued by those serving them. (Source: http://www.dbmarketing.com/article/Art232.htm)

MEASURING CUSTOMER RETENTION

Retention rate is normally calculated as the number of customers who have been lost over a period of time, usually calculated over a quarterly or annual period. The key is to calculate the percentage versus existing customers, and not underestimate the loss rate by tallying new Customer acquisitions into the mix. The customer retention rate refers to the number of customer lost over a period of time. It is normally calculated by the percentage of lost customer versus existing customers over a quarterly or annual period, without tallying new customer acquisitions. While there are obvious benefits to keeping customers loyal and maintaining retention rates, it can be extremely challenging for management to keep retention rates up.

Some companies can measure retention rate using their CRM system, since any of the vendors with solid sales modules should offer this capability. Customer service expert Lori Bocklund recommends that companies look for this functionality when evaluating CRM Solutions, even though it is unlikely to be the differentiating factor. Companies like witness, Performix, AIM, and Merced offer these types of tools. To measure this, some companies Combines data from the CRM system and data from other systems, such as your systems, such as your quality monitoring system, ACD or CTI solution handling contact routing and reporting. There are no hard and fast rules on calculating customer defection and customer retention, according to Lowenstein. It can depend on the industries or the type of business, since companies have long-term arrangements with customers.

However, several consulting and database management companies have succeeded in Creating them. However, the appropriate interval over which retention rate should be measured is not always one year. Rather, it depends on the customer repurchase cycle. Car insurance and magazine subscriptions are bought on an annual basis. Carpet tiles and hi-fis are not. If the normal hi-fi replacement cycle is four years, then retention rate is more meaningful if it is measured over four years instead of twelve months. Additional complexity is added when companies a sell a range of products and services, each with different repurchase cycles.

Automobile dealers might sell cars, parts, fuel and service to a single customer. These products have different repurchase cycles which make it very difficult for the dealer to have a whole of customer perspective on retention. Sometimes companies are not clear about whether an individual customer has defected. This is because of the location of customer related data, which might be retained in product silos, channel silos or functional silos.