

An Approach to Increase Customer Retention and Loyalty in B2C World

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Abstract- Customers are always been important for the business. With the high rate of competition in every market, it is critical to retain the customer/ loyal customers. The purpose of the paper is to highlight how short term actions with bit compromise with the profit will turn into long term customer loyalty and hence long term benefit. In this paper we will be focusing on understanding the customer retention and customer loyalty, their importance to the business. After analyzing the importance of benefits, we will understand the approach of how to increase customer retention and customer loyalty towards your business. Though there will be many strategies for each of them, we will also understand what considerations should be done while deciding the best strategy for the business as different business has different scope and also their limitations too.

Index Terms- Business-To-Customers (B2C), Return On Investment (ROI), Gift Certificate (GC), Equated Monthly Installment (EMI)

I. INTRODUCTION

With the increase in the options the customer have today, be it online or at store, it has become a cumbersome job to get the customers back to you. Today, the use of loyalty programs as a technique for companies to enlarge customer loyalty is extremely popular as it is believed that both consumers and companies can reap benefits from it. [4] For many products, there has been the tendency to shift from mass marketing of a homogenous product to anonymous buyers towards customization of product to meet the needs of known individuals whose needs have become observable through some form of dialogue based relationship.[5] Customers also appear to prefer certain styles of marketing from suppliers. When customers enter into a relationship with a firm, they are often eager to forego other options and to limit their choice. Some of the motivations to do so result from greater efficiency in decision making, reduction in information processing, achievement of greater cognitive consistency in decisions, and reduction of perceived risks associated with future decisions. Customer loyalty is being seen as important to the success of any retail organization, because it is known that drawing new customers is more expensive than keeping existing one. [6]

In this paper, we will discuss the strategies to increase the customer retention/loyalty which helps the business to make profit. We will first understand the importance of how they are important to the business, what could be the benefit while have the same customers to their business and then how to get them repeatedly.

II. WHAT IS CUSTOMER RETENTION/ LOYALTY?

Customer loyalty can be loosely defined as the predisposition of any given customer to purchase your goods or services over comparable ones available in the marketplace. [1] Many companies have customer retention programs, incentives to motivate customers to remain customers. Think of supermarkets that recognize your patronage by giving you a percentage discount on your next purchase. [7]

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. [8]

III. WHY CUSTOMER RETENTION AND LOYALTY IS IMPORTANT?

On average, online retailers lose 25% of their customers every year. It has been published that a small increase in customer retention can increase profits by more than 25%. The calculation to prove this is actually very simple. Suppose that 100,000 customers buy from you every year and you expect 20% to never buy from you again. If it costs you say \$100 to acquire a new customer, then replacing the lost customers is costing you \$2 million dollars. In this scenario, for every percentage point that you decrease, you save \$100,000. [2]

Customer "satisfaction" isn't enough anymore. Less than half of your satisfied customers will come back. You need to cross the bridge from customer satisfaction over to customer loyalty.[10] Customer retention is perhaps the most important influencer of profit growth, and a key motivator for executives to buy from you. It's so important because it costs so much to influence customers to buy and so little to induce a repurchase. [13]

Customer retention in turn earns the business a good reputation and goodwill in the open market. It also generates a healthy competition with the opponents. The record of retention of the customer is the best proof regarding the quality of the products and the services provided to them. It also paves the way for more research and development to happen in their products and services. The business also hears the voice of its existing and potential customers and adopts a methodology to offer the best customer satisfaction products and services in the open market. If a business is able to add new clientele and retain customers then

it is a good sign for the overall business and those associated with it. [13]

It has been said and written many times – it’s important to keep loyal customers happy and make them at least feel pampered as they repeat purchase, spend more and refer to your business, products and services to their peers [14]

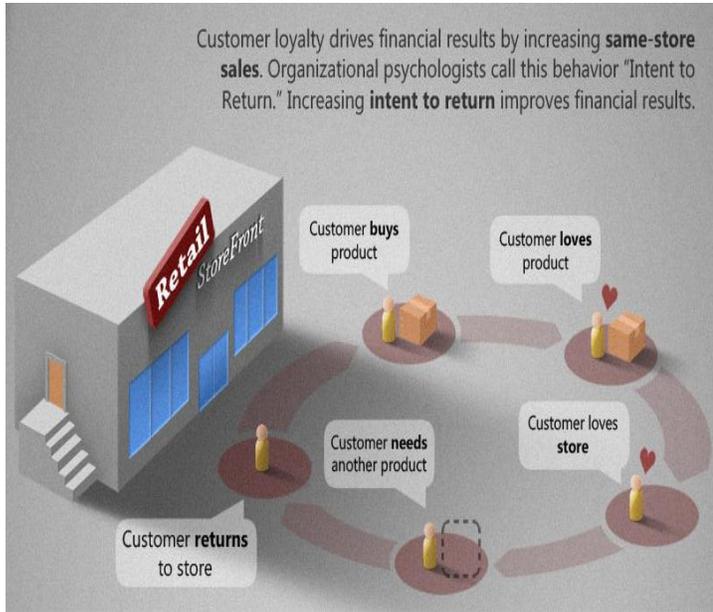


Figure 1: Why Customer Loyalty is Important?

IV. WHAT IS THE BENEFIT?

Customer Retention and Loyalty programs have very deep impact on the business which leads to a huge profit over a period of time. Fifty per cent consumer brands are taking their loyalty programs more seriously, said Florian Wolfframm, Head of Marketing and Rewards, PAYBACK India, while presenting the opening inaugural session of India’s largest Loyalty summit. [18]

A. Benefits of Customer Retention

The benefits are innumerable but some of them are discussed below

i. Customer Acquisition cost is negligible: We all know that hiring new customers require time. We need to itch out a strategy then create an acquisition plan, implement it, and wait for the data to flow in, so that we can analyze what is working and what is not. Meanwhile, it is also our job to keep an eye on the number of customers that come as an effect of new strategy. This will give us a lot of free time to create value by doing what we know best, and from what customers come to us.

The cost of getting new customer is 5-12 times greater than the cost of retaining the old customer

ii. Business knows who the existing customers are: Not just acquisition takes time, but building a relationship also takes time. After we have successfully wooed new customers, we need to spend time and energy on building a relationship

with the new customers. We need time to understand their desires, aspirations, expectations, spending pattern, and their price sensitivity. And while we do that, the profit from new customers remain on the lower side

iii. Helps to serve better: You are not in the business to have fun in hiring and firing your customers. We are here to make some money and that too without much effort — well, there are may be some people who love hiring and firing game

iv. More profit: it takes time, energy, man power, and money to acquire a new customer, and all this add on to the cost, which means diminished profit. It is only after the customers are with us for some time that we recover the cost incurred during the acquisition process. With existing customers, we already have recovered the cost, so they are already profitable. This cannot be said about the new customers, as they are yet to prove their worth. And at the onset, we even do not know if they will stay with us or not. So why take chances? With existing customers, we already have recovered the cost, so they are already profitable. This cannot be said about the new customers, as they are yet to prove their worth. And at the onset, we even do not know if they will stay with us or not. So why take chances?

The ROI is up to 10 times higher for investments in customer retention than for acquisition of new customers

B. Benefits of Customer Loyalty

While expanding your business' customer base is a crucial undertaking which you must work towards with clearly defined goals, the importance of retaining existing customers mustn't be overlooked. Working toward promoting customer loyalty (or brand loyalty) is critical to your goal for many reasons. [1] Some of the benefits obtained are:

i. Increasing loyalty and customer retention by just 5% can increase profits by 75% [17]



Figure 2: Retention Profit

ii. Most dissatisfied customers will eventually tell nine other people about their problem [17]

iii. Only 4% of dissatisfied customers actually complain to the company [17]

- iv. Satisfied customers, on the other hand, tell 5-6 other people about their positive experience [17]
- v. **Repeat business:** Loyal customers will offer you more business as these are the customers who tend to have approach and buy from you more than the new customers. In a year, you will end up in selling more to loyal customers as compared to the new customers coming in.
- vi. **More Quantity:** As you have built good and reliable relationship with the customers, it will lead to the selling of more number of goods. This comes naturally as they rely on you and your products more than anybody else. In any case, higher volumes means, greater sales resulting into higher profits
- vii. **Cross Selling Opportunities:** Customers who are loyal have faith in the quality and varieties you sell for the products. This creates a great opportunity to fulfill more of your customers' needs than the traditional ones you currently meet. What does this mean? You can make sales to loyal customers across product lines and thus increase your overall sales volume without needing to focus so much on attracting new customers
- viii. **Less Competition:** The more loyal customers you have in your business, the safer you are with the competition world around. [1] It works as immunity toward the competitive forces around you.

V. CUSTOMER RETENTION ANALYSIS

Customer Retention analysis helps us to answer the below queries

- i. What is my loyalty/retention rate?
- ii. What brands and product types did our customers defect to most often?
- iii. Why did they choose a competitor brand instead of ours?
- iv. Of those that repurchased us, what motivated them to stick with our brand?
- v. And, if you choose to include competitor brand owners in the analysis, you can also determine how your retention rate stacks up to the competition and why some competitor owners switch to your brand

Customer Retention is calculated from the Churn Rate. Churn rate, when applied to a customer base, refers to the proportion of contractual customers or subscribers who leave a supplier during a given time period. It is a possible indicator of customer dissatisfaction, cheaper and/or better offers from the competition, more successful sales and/or marketing by the competition, or reasons having to do with the customer life cycle. The churn rate can be minimized by creating barriers which discourage customers to change suppliers (contractual binding periods, use of proprietary technology, unique business models, etc.), or through retention activities such as loyalty programs. It is possible to overstate the churn rate, as when a consumer drops

the service but then restarts it within the same year. Thus, a clear distinction needs to be made between 'gross churn', the total number of absolute disconnections, and 'net churn', the overall loss of subscribers or members. The difference between the two measures is the number of new subscribers or members that have joined during the same period. [21]

$$\text{Retention Rate} = 1 - (\text{Churn Rate})$$

VI. STRATEGY FOR CUSTOMER RETENTION AND LOYALTY

With the innumerable benefits we have discussed with the Customer Retention and loyalty, it is important to know what should be the strategy in order to achieve them. It is a very cumbersome and important to understand the impact and implement them in our business

A. Strategy for Customer Retention

Though business implements some strategy to get the benefit out of the repeated customers, we need to understand the various strategies which they implement. Let us discuss some of the important ones below

- i. **Proper Email Communication/Marketing:** Avoid sending the emails to the huge list of customers with a high frequency. When the customer gets many mails which are not of their interest, then this leads to disengagement of customers rather than retention. Try to differentiate the customers with proper demographics and purchase information, and send the right mails with personalized information to the right customers.
- ii. **Understand the value of lifetime:** You should know how much business and profit you are going to gain with a customer over the lifetime. Once the analysis for a customer is done, it is easy to understand the importance of the customer retention in the business. Share of wallet combined with lifetime value help us to understand which customer has more potential for growth which allows to focus on the customers that is critical to the business
- iii. **Analyze and sell:** Retailers perform the research to find the frequency of customer visit and purchase of good. They focus on converting the site into the sale. You should know which products sell well together and which ones is an obvious after sale. You should also know how long it takes the customers to purchase again so you can strike when the customer is thinking of another purchase. [2] So, what you need to do is- sell and then analyze.
- iv. **Customer Feedback and Solicit Complaints Regularly:** There are a lot of issues faced by the customers when they make a purchase of goods/services. But they feel hurt when there is nobody to help or resolve their issues – customer care representative did not answer your query, queue is long and unmanageable, no helper to describe the product. It takes less time to hear the customer's problem and resolve. When you do so immediately, customer feel they are being

heard and valued. This may lead to forget the bad feedback he had and make him happier.

- v. **Give Surprises To Customers:** Loyalty programs will keep on adding the points when they make any purchase. There are several retailers who gift their customer when a threshold spent amount is reached. Consider that you are booking your flights with yatra.com by being registered user. Once you have reached to a reward point of 500, you will get the free Reebok wrist watch free. This would be a surprise for the customers as they were unaware of this.

B. Strategy for Customer Loyalty

Understanding the strategies for the customer loyalty is very important to the business as this provides them a huge profit over a period of time. The more better strategy, the more loyal customers and hence more benefit from them. Below we will discuss the different strategies:

- i. **PAYBACK:** PAYBACK is India's first and one of Europe's largest multi-partner loyalty programs. PAYBACK has 30 partners in the network, namely ICICI bank, HPCL, BIG Bazaar, Make my trip, Megamart, UniverCell, Hometown, Food bazaar, Ezone, Central, Brand factory, book my show.com, Letsbuy.com. The largest partner portfolio and widest range of redemption points in India assure that members can not only collect points for everyday shopping quickly from many outlets using just one card but also easily convert them into attractive rewards. Companies benefit from PAYBACK's state-of-the art direct marketing and couponing services. [18]
- ii. **Discount over time/volume of goods:** The seller offers a low price of goods or services in return of the buyer purchasing the good at an extended period of time. Say, if you buy laptop from Croma and pay some amount then you may get extended warranty on your laptop. Also, there are offers from the retailer/seller that they provide the buyers with some percentage of the amount paid if you buy the premium for a period of time. This attracts many buyers and also makes the customer dedicated to the buyer for over the period of time.
- iii. **Bundle goods:** The seller sells ancillary goods or services with the main item at no extra cost. Personal computer manufacturers such as HP or Sony bundle printers, monitors and even 24-hrs service at the price of computer. But the seller needs to make sure that they do not compromise with the overall benefit with the bundles they create and sell
- iv. **EMI option:** With the price hikes over a period of time, it has become difficult for the middle class buyers to afford expensive products/services. In this case, EMI option is a boon to the sellers and the buyers. Buyers are attracted to the retailers which provide this facility which provide a term relationship and confidence with the sellers.
- v. **Prepurchase/Buy Forward:** The seller offers a discounted price to a buyer who pays in advance for an amount of goods or services to be delivered at some future date or over a certain time period, with the discount rate being greater than the interest rate paid on money placed in a low-risk investment. The benefit of this technique to the seller is that it locks in the buyer's business over a certain period. The benefit to the buyer is that it eliminates any price increases during the contracted period.[19]
- vi. **Membership/Loyalty Program:** Loyalty programs or memberships are structured marketing efforts that reward, and therefore encourage, loyal buying behavior - behavior which is potentially beneficial to the firm. In marketing generally and in retailing more specifically, a loyalty card, rewards card, points card, advantage card, or club card is a plastic or paper card, visually similar to a credit card or debit card, that identifies the card holder as a member in a loyalty program [20] Consider that a retailer sponsors a membership card which will add on the points to the purchases you do. Also the members of the loyalty program will get the special benefit (20% additional off on the current sales value). This will help the customers coming back to the retailer/seller repeatedly
- vii. **Frequent Buyer Program:** With the increase in competition in the retail world, retailers offer the rebate/low or free cost/service to the customers if the number of purchases or the total purchase amount reaches the limit. This creates the tendency in the customers to make those counts of purchases or the total purchase value in order to get the offer. It increases the sale of product leading to customer loyalty over that period of time
- viii. **Issue Gift Card/Certificates:** Retailers have introduced the concept of Gift vouchers (with some amount and validity) of their company known as Gift Certificates/cards (GC). With the variety of choices and different tastes of everybody, it is difficult to gift our dear ones with the things that they would love. So GC demand has increased a lot. With the GCs, it binds the buyer to go to the retailer who has issued the GCs and spend the amount. With the available amount of GC, customer will end up in buying the goods more than the cost and hence increase in selling of goods. If one likes the concept and the availability of goods, then customers become regular one. Also, issue some amount of gift certificate to the customer when the transaction amount reaches the offer limit (say make a purchase of Rs.2500, get the gift certificate of Rs200)
- ix. **Return Policy for Privileged/Loyal Customer:** The retailer/seller offers the extended return policy to the member of their shop (i.e. Loyal Customers). Consider that if you are member, you can return the goods within 45 days rather than 15 days for the regular customers who are not member. This provides confidence to the customers as return is always a major concern of many.

VII. HOW TO CHOOSE BEST LOYALTY PROGRAM?

As we have discussed innumerable Loyalty Programs, it is important to understand which will suit your business. In order to come to a conclusion, it is good to consider the below

- i. Choose a web-based (cloud) solution that does not require local software
- ii. Choose a program that separates your business from the crowd and allows customized rewards
- iii. Keep it simple and focus on your business operations, not your loyalty program
- iv. Make sure you have the ability to quantify the use of your loyalty program
- v. Choose a loyalty program that gives you the ability to easily change rewards at any time
- vi. Choose a loyalty program that can also be used for direct email, mail, or social media marketing
- vii. A loyalty program that allows your business to provide nonprofits a fundraising program using your merchandise, food, or services is a bonus [16]

VIII. CONCLUSION

With the understanding of the behavior of the customers and satisfying them provides the benefit to the business in the long term. Establishing good relationship with them by providing better services will create customer loyalty and hence more visits over time. This will bring more profit to the business in long-term and will reduce the competition.

We have identified the strategies which attract the customers to the retailer and also understood the considerations to be done while implementing them. With this, it will help the business to gain customer retention and loyalty towards their business if they implement them diligently. And also, we have scope to understand when the business has to re-visit their strategies so that they do not lag behind in this competitive world.

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