How to Recapture Lost Customers —
And Keep Them Loyal

CUSTOMER WINBACK

THE SUMMARY IN BRIEF

Customer defection is one of the most overlooked and least understood problems facing businesses today. With customer churn increasing and customer loyalty becoming commoditized, winning back and keeping lost customers has never been more important. Lost customers mean lost revenues and negative word-of-mouth, and can damage employee morale. But by designing and implementing a customer winback program you can transform these problems into increased customer loyalty while decreasing your acquisition costs.

This summary will help you learn how to spot customers who have, or are about to defect, and show you how to stop customers from defecting in the first place.

What You’ll Learn In This Summary

- All customers are at risk. Even satisfied customers can be easily persuaded to go to a competitor with a better offer. Take no customers for granted.
- Customer winback strategies are more cost-effective than acquiring new customers. The success rate for selling to previous customers is much higher than selling to prospects. Winback strategies also help you develop new ways to differentiate your company.
- Calculating customer lifetime value (LTV) and second lifetime value (SLTV) is key to identifying the customers you want to win back. Not all customers are created equal. LTV and SLTV, which take into account future potential purchases, help you know which ones are worth the effort.
- Apply Customer CPR to customers about to defect. When you’ve identified customers who are about to leave, you need to Comprehend, Propose and Respond (CPR) immediately.
- Customer information systems are key to making our company defection-proof. Customer knowledge helps you develop customer loyalty.
Customer Winback is Critical To Your Bottom Line Success

On average, firms can lose up to 40 percent of their customers every year. What’s more, most companies are unaware of the scale of customer defection and do nothing to address the problem. And even among those companies that track customer defection rates, most assume a lost customer is a lost cause. However, a study by research firm Marketing Metrics uncovered that overall, companies have a much better chance of gaining business from former customers than from new prospects. On average, firms have a 60 to 70 percent chance of selling to its current customers again; a 20 to 40 percent chance of successfully selling to previous customers; and only a 5 to 20 percent chance of turning prospects into customers.

Even harmless sounding or “average” defection rates can be misleading. Look at an 80 percent retention rate for a college, which sounds healthy and robust. However, by the time a freshman class of 1,000 students enters its senior year with an 80 percent retention rate, there will be just over 500 students (512) remaining. If the 500 lost “customers” had been retained, the savings in unspent customer acquisition dollars alone would be substantial.

Lost customers often lead to more than just decreased profits. Steady, unstaunched customer defection can create low morale among employees, which results in higher employee hiring and training expenses. And by keeping customers from defecting in the first place, you minimize any negative word-of-mouth lost customers can generate.

Move from Problem to Opportunity

The trick is to reframe customer defection as an opportunity to provide superior, individualized customer service. By gaining back a customer’s trust, not only will you gain a steady share of their pocketbook, but you will discover new ways to differentiate your company. By listening to your unsatisfied customers you can shape a more powerful marketing strategy for all of your customers.

Knowledge is the key to successfully winning back lost customers. Today’s computer information technology allows unprecedented access to and analysis of a wealth of detailed customer data. But you need to know which information to capture and what to do with the data. Customers defect for different reasons, and some customers aren’t worth winning back. Through careful segmentation you can select the most important customers to win back, and develop individualized strategies for each sector of lost customers.

First Union Corporation, the United States’ sixth-largest bank, handles 45 million customer service calls a year. To help its customer service representatives make more informed decisions with customers who call with a complaint or requesting a service, the company now uses a “tiered” system of customer service. Developed after intensive studies to identify and segment customers in terms of their current and estimated profitability for the bank, the system lets reps know (within 15 seconds of taking the call) what category their caller is in. With high-profit customers, reps are empowered to waive late fees, for example; with more problematic customers the reps might not be as lenient.

This type of tiered customer service has resulted in significant revenue increases for First Union, and it is an emerging trend in leveraging customer loyalty.

Developing Winback Strategies

Winning back customers is a company-wide effort that requires a new mindset from all employees in all departments. Communication is essential to establishing an effective winback program. Rather than model acquisition and retention efforts along an “assembly line” system, which separates the marketing, operations and service departments, integrate winback efforts into these functions to transform your company into a “loyalty

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laboratory.” Get every employee thinking from the customer’s point of view.

Don’t underestimate your employees’ ability to provide insights into customer behavior and preferences. Whenever any new promotion is considered, ask for input on how it will affect customer loyalty. Learning to leverage cause-and-effect factors in acquisition, retention and winback strategies can give you an edge. One health insurance company, for example, uncovered customer desire for more information about plans before enrolling. This information led the company to expand its new member orientation program and to redesign its sales incentive system. Sales commissions are now awarded only if new customers remain in their chosen plans for 90 days or more and if first-year disenrollments are down. The company has seen its 90-day cancellations decrease by more than 30 percent and its disenrollment rates are now among the best in its region.

When asked, customers who have defected can tell you what made them unhappy enough to leave. Many times companies are surprised at the reasons their customers left.

For instance, South African mobile telecom company MTN began a study on customer churn. Before beginning its winback effort, management at MTN had assumed that changing phone numbers would be too burdensome for customers and would prevent them from leaving their network. What MTN management learned was that changing phone numbers was no big deal to their customers. This was a crucial insight that would have been missed without a winback program.

Since then, the company implemented a handset upgrade for existing customers (not just new customers), which saved money in paperwork and sales commissions, and paved the way for longer-term improvements in other areas of customer service, such as billing procedures.

Most Common Reasons Customers Leave

| **Poor Service** | This includes history of problems with delivery or service, or even a price increase without adequate prior notice. |
| **Poor Handling of a Complaint** | If a customer doesn’t feel his or her complaint is taken seriously or treated with respect, even a single incident can cause them to seek out your competition. |
| **Disapproval of Changes** | You run the risk of losing customers anytime you change a policy or price, product or salesforce. |
| **Feeling Taken for Granted** | Remember that every customer needs to be “resold” in every transaction. |

Customer Lifetime Value — Merging Past and Anticipated Purchases

Part of the assembly line mentality is an emphasis on the past purchases of a customer. A successful winback program integrates past purchase performance with anticipated future purchase potential.

Calculating the lifetime value (LTV) of a customer involves studying past purchases, acquisition costs and retention costs as well as using educated assumptions about future purchase activity. Generally, customer orders per year as well as average order size will increase the longer a customer remains with a company. LTV can also include nontangibles such as a customer’s referral value. By separating high LTV customers from...
low or marginal LTV customers, you can better budget marketing and advertising efforts.

Once a customer has defected, you need to determine the reason the customer left and then calculate that customer’s second lifetime value, or SLTV. A regained customer’s SLTV differs from his or her LTV as an active customer. These differences make targeting defected customers more profitable than new prospects because:

1. Defected customers are familiar with your products or services.
2. You already have information on these customers’ preferences.
3. You have the ability to personally address these customers in a winback effort, unlike acquisition efforts.
4. The length of the prospect and new customer phase is likely to be shorter with regained customers.

Magazine publishers have learned a lot about SLTV from their studies on lapsed subscriptions. For instance, the more time that has passed since a subscription has run out, the lower the defected customer’s SLTV. And SLTV generally is higher if the lapsed subscriber signed up using a subscription card rather than a secondary source. Any industry can identify similar rules to calculate SLTV for their defected customers.

Strategies for Saving A Defector

Once you have determined that you have lost a customer and that you want that customer back, there are both immediate and longer-term steps you need to take.

Quick Strategy

If a valued customer has told you in person that they are no longer going to be buying from you, this is the time to:

1. Listen carefully and acknowledge their complaint. Be contrite!
2. Don’t pass the buck and say, “I’ll have to talk to my manager…”
3. Offer a generous solution.
4. Give the customer options.
5. Be gracious whatever the customer decides.

If the customer has decided to accept your immediate winback solution, make sure you thank the customer. Then examine your company’s operations and make the necessary changes to avoid this situation with any other customers. Analyze what you did that was successful in this encounter, and communicate that to the rest of the company. Make sure this encounter is recorded in the customer’s file so that other employees are aware of it whenever they interact with the customer.

Longer-Term Strategy Up Front

Most of the time, customers just slip away without a direct confrontation. When you see that this has occurred, in the long run it is best to be sportsmanlike rather than appear desperate to regain the business. Leave the former client or customer with a good impression. Remember that even though they may not be buying from you anymore, they will be meeting other clients who may need your goods or services. Don’t give them an opportunity for negative word-of-mouth. Then you need to get to work by positioning your company for “reentry.”

Again, think from the customer’s perspective. Chances are he or she feels bad at least on an emotional level for dropping your business. You can leverage this emotion by:

Play second fiddle: If your past relationship with the customer has been good, make a pitch for even a portion of their business. Often this kind of arrangement is accepted immediately and it leaves you as an established supplier.

Ask for another meeting: If you are turned down for even a portion of their business, ask if they would reconsider in a few months’ time. Even if this overture is rejected, ask for permission to stay in touch. Courtesy is very effective.

Behind the Scenes

Once you have identified which lost customers you wish to gain back, the essentials for any winback plan must include a thorough understanding of this customer’s current needs and a sense of trust. You may have lost the customer in the first place because your product or service no longer met its needs. Use this time to study your customer’s marketplace. Anticipate any future changes and position your company or product as offering a solution.

One retailer’s loyalty research revealed that customers it considered as lost still considered themselves customers (even though they had not made a purchase in two years) — but their interests had become more specialized. This company responded by developing a purchase interest profile for these customers to learn what their new interests were. As a result, more than half of them reactivated their purchasing.

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Choosing the Appropriate Message, Media and Frequency

When approaching a former customer, your goal is showing that your product offers a better value than anything from a competitor. You need to create a message that is both relevant and personal. In this case, generic form letters are anathema. For instance, don’t send a “why did you leave us” survey to a customer who merely paid off his credit card balance, not transferred it to another card. You need to carefully analyze all your data on the defected customer—so you can address their needs specifically. Include five key points in any re-approach message:

- **Acknowledge their past business**
- **Point out improvements and changes that have been made since the customer left**
- **Make it easy for them to switch back**
- **The sender should be someone the customer knows**
- **Possibly include a financial incentive for switching back**

The media you choose (in-person, telephone, e-mail, regular mail, fax) to send your reapproach message should be appropriate to each customer’s preference, but any re-approach should include at least some in-person contact. Some companies adhere to multi-part mailings that are staggered over six months and end with a phone call. Others use carefully scripted telephone messages to initiate dialogues with lapsed customers.

In addition, there are also indirect ways to make contact with lost customers. One company holds luncheons twice a year, with carefully selected invitations to both current satisfied customers and customers who have defected. Another approach is to remain active in local civic or professional organizations. Many of your former and current customers probably also are members.

Persistence doesn’t always pay off. Just sending letters every three months, especially if these letters repeat the same message, won’t make a big impression. Constantly evaluate what value each lost customer needs, and see how you can position your product as providing the most value. Sometimes drastic measures are called for, such as the hotel chain manager who arranged for a former client to not only re-visit one of her hotels, but set up appointments for the client to see her competitors as well. This extra service won her back the contract.

Strategies for Saving a Customer Who Is About to Defect

How can you stop customers who are on the brink of defecting?

First, you need to know the signs of a customer who is thinking of leaving. Do you have a process in place that customers need to go through when they are about to leave? Some ISPs, for instance, allow customers to cancel their service online, while others require a phone call to their service center. By requiring a phone call, the company has a chance of saving that customer by beginning a dialogue. In conversation with each customer on the brink of defection, the company gains valuable insights that can help them reshape their operations and service departments to avoid problems in the future.

But many companies lose customers silently, with no warning. In these cases, you can rely on purchase data history or complaint logs kept by frontline staff to catch customers who are close to defection.

Customer CPR

Once you have identified customers who are at risk of leaving, then you need to apply customer CPR — Comprehend, Propose and Respond.

Comprehend

Listen to your customers. Let them rant, if necessary. In listening, identify what triggered their dissatisfaction. It takes considerable skill — and training — to handle irate customers tactfully. Your staff needs to know that an angry customer not only has an immediate problem — that needs to be resolved immediately — but has probably also had other problems with the company in the past. Rather than just responding to the customer’s immediate (or “trigger”) needs, customer service representatives must also learn how to uncover the customers’ “driving” needs — unmet needs that have been festering for a while.

The sequence of questions below is a recommended approach for uncovering a customer’s deeper needs.

Begin by uncovering trigger needs:

1. I’m sorry you’re having problems. Please give me the details so I can help.
2. Why are you considering leaving us?
3. Have you had problems before?
4. If you leave us, where do you plan to go?
5. What attracts you to [competitor’s name], and why does it attract you?

Finally, uncover the “original” needs that brought the
 customer to your company in the first place:

6. What were you looking for when you first became our customer?

7. Which of our service features do you use the most? Why?

Propose

Ask the customers what they need from you to resolve the problem, and to keep them as a customer. More often than not, what the customer asks for is relatively cost effective and simple to implement. But be ready with a hierarchy of offers. Customer service representatives should be trained to offer the non-cost option first. One example of a non-cost option is making the customer aware of a service he or she may not currently be using that your company offers. Sometimes a save can be made simply by offering to send a customer a brochure or booklet describing all of the benefits of say, a credit card or a membership.

If the non-cost option does not work, the next step is offering a low-cost solution. One example is waiving some disputed charges on a customer’s statement. The next step is proposing higher-cost solutions. It is important to remember that all representatives taking service calls must be empowered to make such offers, including the ability to offer a month or two of free service, for example. To be effective, such an offer needs to be made immediately, without the rep having to double check with a manager.

Respond

After the customer service or “save” rep has made an offer, there are three scenarios they can be faced with: agreement, tentative agreement and disagreement.

- **Agreement** — Learn to sense from the customer’s tone of voice whether or not there is any hesitation about the agreement. If you sense some doubt, keep the dialogue going. Be aware of long pauses, monotone response or lack of enthusiasm. These are all signs of some disagreement. Because it is human nature to want to be fair, ask customers what they think is a fair offer.

- **Tentative Agreement** — If you’ve sensed some hesitation, make another offer. This can be as straightforward as offering a disgruntled cell phone customer a new phone to use free for 30 days, or asking a long-standing (but dissatisfied) client for three to six months to correct any problems.

- **Disagreement** — If what your customer demands is more than the customer’s estimated value to your company, you may not be able to make a save, or even want to. Nevertheless, don’t burn any bridges. You don’t want to create negative word-of-mouth. Thank the customer for all of their past business, and internalize the reasons this customer is leaving so you can prevent other customers from doing the same. Add the customer to your new prospect list for future acquisition campaigns.

Satisfied Customers Aren’t Always Loyal Customers

Most customers are not dissatisfied. But as the Internet and other technologies offer more transparency on pricing and selection to customers, loyalty is becoming commoditized. You need to be constantly anticipating customer’s unmet needs and re-creating business models to meet those emerging needs.

Noriaki Kano at the Science University of Tokyo challenges conventional customer service methodologies and offers a model that offers three levels of customer satisfaction: basic, expected and unanticipated. While companies are well versed at providing the basic and expected levels of satisfaction, it is the next level of service where loyalty can be built. By providing unanticipated value, companies can truly differentiate themselves from the...
Satisfied Customers Aren’t Always Loyal Customers

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competition. FedEx did this by being the first delivery company to offer online tracking of a package or letter. As FedEx’s chairman at the time said, “I don’t think that we understood our real goal when we first started Federal Express. We thought we were in the transportation of goods. In fact, we are selling peace of mind.”

Such constant searching for unanticipated levels of customer service needs to begin with first-time customers. Dubbed “wondrous entanglement,” this is a three-part process that involves:

1. Identifying all of your products and services that could possibly be of use to the new customer.
2. Motivating the new customer to use as many products and services as possible. This is an ongoing effort.
3. Proving to the customer that your products and services offer value he or she couldn’t find elsewhere.

The PACE Process for Searching Out Customer Value
(Prepare, Assemble, Comprehend, Employ)

Step 1: Prepare for the research process.
To encourage customer loyalty, a business must know what makes a customer loyal and what factors exist in a company to discourage loyalty. Start by interviewing managers and staff as well as reviewing existing information, including prior research, sales reports, complaint data, etc. Determine what the company knows about its customers and competitors and what insights are missing.

Step 2: Assemble customer needs and wants.
Use qualitative research methods to uncover customer-defined needs, expectations, problems and complaints. Then use this information to design your quantitative customer questionnaire.

Step 3: Comprehend customer priorities.
Survey randomly selected customers and identify customer loyalty drivers. Analyze the survey data to prioritize your company’s performance areas according to improvement needs and opportunities.

Step 4: Employ your findings.
Based on your research findings, develop action plans, programs and processes for improving customer loyalty.

Make Your Company Defection Proof

Once you’ve become a convert to customer winback efforts, learn to prevent customer defection in the first place. Never before has so much customer information been available—from instantaneous, online click-through data to data warehousing and data mining techniques. Turning that information into knowledge about your customers is how you gain the competitive edge by increasing customer loyalty and making your company defection proof. That’s what a Customer Information System (CIS) does.

Creating a Customer Information System

A good CIS will integrate multiple, often scattered, databases holding different data sets and allow seamless access to company employees anywhere. A CIS system also allows you to use every contact with a customer as an opportunity to deepen that relationship.

Designing Your CIS

While there is a certain amount of sophisticated technology involved in designing a CIS, the true value of any system is dependent on its design and usability. There needs to be a two-way conversation between the business objectives of a CIS and the capabilities of a company’s IT department. Work in phases so that the system can grow as the customer base grows.

You need to clearly identify the business need being addressed, and the data needed to provide the analysis.

Some ways to collect customer data are:

● With each sale. Keeping track of customer purchases can help determine which customers should get specific mailings or catalogs, and provides valuable information on future cross-selling or up-selling opportunities.

● Customer surveys. Even though this method has its faults (most surveys are only completed by small groups of customers), it is still effective.

● Personal interviews. Using trained interviewers, although costly, is one of the most effective means of gathering in-depth information on customer attitudes. This method also yields greater relevancy and objectivity than other methods.

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Make Your Company Defection Proof
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- **Frontline dialogue.** Train your employees to routinely collect customer information during normal day-to-day interactions.

  Just as important as collecting the right data is making connections. For instance, discount brokerage Charles Schwab and Company now uses data mining to highlight relationships between data fields. This capacity allows it to look at all the accounts owned by individual customers.

  FedEx used the real-time data competency of its CIS system in its operations area to create a datamart in its marketing area. This is a server-based system that integrates access and analysis technologies and has been used for more targeted analysis of the company’s customer base, resulting in better management of segmented marketing campaigns. Neiman Marcus, one of the top five department stores in the United States, uses electronic clienteling software in its CIS that allows all sales and teleservice employees access to customers’ buying profiles at the point-of-sale location. 3Com spent a year creating a single, consolidated customer information system that allows any employee anywhere in the world to access pertinent customer data.

**Target the Right Prospects In the First Place**

All prospective customers are not created equal. Unfortunately, many companies learn this lesson the hard way—after numerous run-ins with customers who are never satisfied. To avoid falling into this trap, spend the time up front to define your business model and your target market. Focus not on how many customers you want to acquire but on how much revenue each potential customer can generate for your business. To do this, carefully define your niche and then build your business model around it. Then go after clients and industries that fit your model and your firm’s vision and area of expertise. Just as important is to decline any customers that do not fit your niche.

Evolving software programs are making it easier for companies to identify early on their “ultra” customers. These users are further segmented into truly loyal users and convertible users. The ability to highly segment customers in this way allows you to create more focused marketing and advertising messages to each group.

**To Create Loyal Customers, Start with Loyal Employees**

It’s not uncommon for customers to end a longstanding business relationship when their favorite account executive leaves. Some customer loyalty studies indicate that staff turnover is given as the reason for customer defection more than 50 percent of the time. The fact is, if staff turnover is noticeable to your customers, this sends them a negative picture of your company.

Many companies link successful customer loyalty programs with an organizational structure that fosters customer-oriented teams. Teams can be cross-functional (involving employees from different disciplines) or cross-trained (members are trained in several different skills). Alternatives to the common hierarchically structured organization, in which decisions are centralized and controlled are:

1. **The Matrix Organization.** Team members report to both functional and hierarchical managers.
2. **The Lattice Organization.** Employees are organized solely around projects
3. **Flat Organization.** Cross-functional teams are dominant, and there is a high degree of employee autonomy.

**Creating Teams Takes Work**

If you decide a team-based approach would work for your company, don’t expect it to happen overnight. You need to see creating teams as a multi-step process that starts with identifying the right organizational structure as well as the company’s existing culture. Both of these tasks involve significant planning and should not be underestimated. Employee buy-in is essential to making the transition to a team-based business. To help support this, make sure your incentive programs support teamwork. Too often, companies have restructured around teams but left their incentive programs untouched, sending conflicting messages to staff.

Finally, teamwork doesn’t come naturally. Provide adequate and ongoing training for employees and managers at all levels.