CHAPTER 3
CUSTOMER RETENTION STRATEGIES:
A THEORETICAL FRAMEWORK

The easiest way to grow your customers is not to lose them

3.1 INTRODUCTION

From the last decade and a half, customer retention has become the central topic of most of the companies in their decisions related to marketing and management. As the name suggests, customer retention strategies are implemented by the organisations to hold on its existing customer base. Van den Poel and Larivie (2005), in their work, argue that such strategies improve the profitability of the companies by reducing customer acquisition cost. In simple terms, customer retention is defined as retention activities that a selling company undertakes for reducing customer defections. The process of customer retention starts when the customer comes in contact with the organisation for the first time and continuous to maintain the relationship through the entire lifetime (Larivie and Poel, 2005)\(^1\). Reichheld and Kenny (1990); Schmittlein (1995) and Reichheld (1996) in their research study found that if a company goes for attracting new customers instead of retaining the existing customers, it will not be able to increase their sales and profit levels. The authors found that it is because the process of attracting customers is very costly and is not very rewarding. Reichheld and Schefter (2000) also found that by a mere increase of 5 percent in customer retention rate, companies can increase their profit by 25 to 30 percent. This means, with a small shift in customer retention rates, companies can make the greater increase in their profit margins that will further accelerate over time. The present chapter deals with the customer retention, its evolution, theories, factors affecting customer retention and various types of customer retention strategies (Reichheld and Schefter, 2000)\(^2\).
3.2 MARKETING

The previous chapter of this report defines marketing as a means of communication between an organisation and its customers with the sole aim of selling the products and services to consumers. Thus, it can be said that the key aspect of marketing is communicating the unique selling point (USP) or value of the product or service. In the views of both Philip Kotler and American Marketing Association, marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (Burnett, 2008). Thus, it can be argued that the purpose of every business is to "find and keep customers", and companies can achieve this only by creating competitive advantage. Therefore, organisations have to convince its potential customers that what they are offering is the most suitable product that will meet all their needs and desire at that point of time. If the company delivers this advantage continuously to the customers, eventually they will not think of switching to other alternatives and will become its loyal customers. For example, some customers drive only Audi, brush their teeth with only Colgate, uses only Apple computer, etc. This shows the loyalty of the customers towards that particular brand as now they have blind faith in the brand and never think of any alternatives. However, it is impossible for a brand to achieve this without an effective marketing program. Thus, it means that the role of marketing is to provide support for identifying, satisfying and retaining customers (Burnett, 2008).

It is not easy to define marketing. Till date there is no universal definition of marketing as for advertising agencies marketing is an advertisement, for event marketers, it is events, for salespeople, it is knocking on doors, and for direct mailers, it is direct mail. Thus, one can argue that marketing is like, to a person with a hammer, everything looks like a nail.

From the above discussion, it can be concluded that marketing is nothing but a way of thinking about business, rather focusing on a bundle of techniques. Marketing is not only related to selling products and services, and collecting money, rather it is a way of connecting people with products and services and
customers with companies. This connection is like an organic tissue, always growing or dying, and can't be in a steady state. In addition to this, this relationship is fragile like a tissue paper.

3.3 THE EVOLUTION OF RELATIONSHIP MARKETING

Although the notion relationship marketing is rising as a new phenomenon, such marketing activities are practised back to the pre-industrial era. The concept of relationship marketing was first put up by Berry (1983). In his research work, Berry (1983) found that companies have started valuing their existing customers, and they have started taking customer relationship as an asset to the business that can enhance the customer base and profitability of the firms. In simple words, one can state that relationship marketing deals with creating and enhancing the relationship with the customers of the companies for sustainable benefits. Kotler (1997) also feels that it is beneficial for the companies to build long-term relationships with their customers, rather than to focus only on transactional based strategies as retaining customers will prove profitable for the companies (Kotler, 1997).

Earlier marketing activities of all the companies were limited to transactional marketing. Under transactional marketing, companies focus only on the single point of sale transactions. Its means, the sole aim of the organisations were only to maximise the individual sales and efficiency rather than establishing a long-term relationship with their customers. The approach of transactional marketing was mainly based on four traditional elements of marketing, that is,

- **Product**: Coming up with a product that meets the demand of the customers.
- **Price**: Deciding the price of the product so that it attracts consumers and is equally profitable for the company.
- **Placement**: To develop an effective supply chain.
- **Promotion**: To highlight the unique selling point (USP) of the product so that it appeals to the customers (Kotler, 1997).
3.3.1 Transactional Marketing vs. Relationship Marketing

For many years, companies based their marketing activities on the transactional model of marketing. However, with the passage of time, organisations realised the importance of bringing change in their marketing activities, and thus this is the inception of another model of marketing, that is, relationship marketing. Now the marketing activities focus more on customer retention, rather than customer acquisition. Thus, in relationship market, customers became the centre of attraction (Arabian, 2015). Table 3.1 discusses the main differences between the transactional marketing and relationship marketing:

<table>
<thead>
<tr>
<th>Transactional Marketing</th>
<th>Relationship Marketing</th>
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<tbody>
<tr>
<td>Focuses on single point of sale transactions</td>
<td>Focuses on establishing long-term relationship with the customers</td>
</tr>
<tr>
<td>Emphasis is on maximising the volume of individual sales and efficiency</td>
<td>Emphasis is on all the stakeholders</td>
</tr>
<tr>
<td>It is product features oriented</td>
<td>It is product benefits as well as system solutions oriented</td>
</tr>
<tr>
<td>It has short time horizon</td>
<td>It has long-term horizon</td>
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<tr>
<td>It has little customer focus</td>
<td>It has higher customer focus</td>
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<tr>
<td>Information is content of communication</td>
<td>Information is product of communication</td>
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<tr>
<td>Low contact with customers</td>
<td>High contact with customers</td>
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(Source: Arabian, 2015)
In the words of Gronroos (1994), relationship marketing is far better than transactional marketing. Gronroos (1994) states that relationship marketing aims at identifying, establishing, maintaining and enhancing and, if necessary, terminating the relationship with the stakeholders and customers through the mutual exchange and fulfilment of promises. This is done so as to meet the objectives of all the parties, without loss to anyone (Gronroos, 1994). Ford (1980) and Anderson (2001) also feel that customer retention is critical for the companies in their marketing strategies. According to Ford (1980), relationship marketing must have two essential aspects, firstly, there must be mutual benefit from the contact, and secondly, both the parties must be committed to a long-term relationship. In the views of Egan (2011), relationship marketing focuses on both customer retention and acquisition strategies. According to Egan, relationship marketing encourages retention marketing first and, later on, acquisition marketing. Further, it is better to practice relationship marketing rather than transactional marketing in saturated markets (Egan, 2011).

3.3.2 Benefits of Relationship Marketing over Transactional Marketing

Relationship marketing offers several benefits over transactional marketing. Firstly, it is always cheaper to retain an existing customer than to attract a new customer. Secondly, it provides higher value to the customers. It is an integrated approach to marketing, service and quality and thus, helps the companies in gaining a competitive advantage over the others. Another advantage
of relationship marketing is that long term customers may do referrals and viral promotion for the companies. Moreover, with time, because of relationship marketing, customers tend to increase their purchases, and there is less need for the companies to offer certain price promotion to the retained customers (Arabian, 2015)\(^5\).

With time, more and more corporate are inclining towards relationship marketing approach. Club Card introduced by Tesco and Nectar Card launched by Sainsbury are the biggest examples in this series. Every purchase made by the customer results in accumulation of points that tempts customer for more and more shopping, additionally, data collected through such cards are used by companies to get an idea of buying habits of their customers. Through this, companies can design customised marketing strategies and send gifts and cards to the customers on certain special occasion (Arabian, 2015)\(^5\).

Thus, relationship marketing has brought a noteworthy paradigm swing in the marketing. That is a shift from thinking solely in terms of competition and conflict towards thinking in terms of the corporation and mutual interdependence. Relationship marketing emphasis on benefits for all the parties involved in the supply chain that is suppliers, employees, distributors, dealers and retailers so that best value can be delivered to the targeted customers.

### 3.3.3 Characteristics of Relationship Marketing

- It emphasises on customers and other stakeholders rather than on products and services of the company.
- It primarily focuses on customer retention rather than customer acquisition.
- It is based on cross-functional terms and not on the departmental level work.
- It emphasises more on learning and listening than on talking (Hunt, Arnett and Madhavaram, 2006)\(^8\).
Unlike transactional marketing, relationship marketing calls for new practices regarding the four Ps of marketing as stated below:

- **Product:**
  - Products are customised as per the needs and desire of customers
  - With the corporation of suppliers and distributors, company designs and develops new products

- **Price:**
  - The price of the products is according to the features and services desired by the customers and the relationship they maintain with the customers.
  - In the case of B2B marketing, there are higher chances of negotiation as products and services are customised as demanded by the customers (O'Malley and Tynan, 2000)\(^9\).

- **Placement:**
  - It focuses more on direct marketing to the customers rather than involving middlemen.
  - This aspect of marketing provides an opportunity to the customers to select from alternatives in terms of the order, payment and service.

- **Promotion:**
  - In this kind of marketing, there is more emphasis on individual communication with the customers.
  - It favours integrated marketing communications.
  - It facilitates joint planning, information exchange, payments and ordering (O'Malley and Tynan, 2000)\(^9\).

### 3.4 Relationship Marketing and Customer Retention

In the last decade and a half, firms have started focusing on relationship marketing as a core marketing strategy for establishing a long-term and profitable relationship with the customers that is beneficial for both the company and the customers. Walsh, Gilmore and Carson (2004), in their study over the banks...
found that banks perform activities related to relationship marketing for attracting, retaining and interacting with their more profitable clients. Thus, according to them, customer retention can be defined as 'zero defection' or 'no-switching' of the profitable customers of the organisations to their competitors (Sigala, 2008). On the other hand, Menon and O'Connor (2007) define customer retention as the longevity of customer's relationship with the firm. Walsh, Gilmore and Carson (2004) and Menon and O'Connor (2007) in their studies found that factors that are responsible for influencing customer retention and bank's relationship marketing include knowledgeability, communication, personalization, empowerment, technology, fees and ethical behaviour.

Thus, customer retention is defined as a process or set of steps taken to reduce customer churn rate or defection. Whenever a company retains a customer, it is retaining their lifetime value, that is, the value of their future relationship with its business. Therefore, retaining customers means retaining lifetime value of the customers in terms of their spending power as well as their power to influence another customer who can prove to be potential customers for the business. However, the main question is how companies can retain their customers? The answer is, by understanding the customer journey, that is, the lifecycle of a customer. Through this way, a company can identify its weaknesses and strengths to deliver better services to the customers. So, before retaining customers, it is essential for the companies to understand why their customers are exiting to their industry peers (Hau and Ngo, 2012).

3.4.1 Customer Life Cycle

Before moving further with the discussion on customer retention, here it is essential to explain customer life cycle, as on the basis of this only, companies can calculate customer lifetime value and can retain their customers. The concept of customer life cycle has come from the practice of customer relationship management (CRM). In CRM, customer life cycle was used for mapping different stages which a customer undergoes while considering a service or product to the actual purchase made and to the post-purchase stages. Companies are using the concept of customer life cycle for different business functions such as optimising the customer experience, marketing and management (Tukel and Dixit, 2013).
Thus, customer lifetime value (CLV) is defined as the prediction of the total value generated by the customers during entire customer life cycle. Both customer life cycle and customer lifetime value possess several benefits for business in terms of budgeting, segmentation, and prioritisation and to improve and forecast the health of the company. In addition to this, these two terms also play a crucial role in marketing ROI.

### 3.4.2 Customer Life Cycle in a Digital Context

A customer life cycle consists of different stages and can be defined through various methods. The most common approach is that of Jim Sterne and Matt Cutler (2000). In their paper, *E-Metrics, Business Metrics for the New Economy*, Jim Sterne and Matt Cutler (2000) proposed different ways of calculating the customer lifetime value. The customer life cycle proposed by them is as follows:

![Figure 3.2: The Customer Lifecycle](Source: Clerck, 2014)

**Reach**: The first stage of the customer lifecycle is a reach. In this companies try to attract its potential clients from whom it has designed the products and services.
Acquisition: In the acquisition stage, companies attract and bring the customers, into the influence sphere of the organisation that was attracted in the previous stage (Clerck, 2014)\textsuperscript{13}.

Conversion: In this stage, as once the company has reached to its customers and has established a relationship with them, the customers decided to make the ultimate decision of purchase.

Retention: This stage comes when the customer decides to buy a product or service for the second time from the same provider. It can be either the same product or service or cross-selling or up-selling (Tsai \textit{et al.}, 2013)\textsuperscript{14}.

Loyalty: All companies desire to reach to this stage in the customer lifecycle. At this stage, the customer becomes more than a customer, or in other words, it can be said that the customer becomes a brand advocate or a loyal partner.

3.4.3 Buyer Journeys and Customer Relations

\textbf{Figure 3.3: Customer Lifecycle loop}
\textit{(Source: Clerck, 2014)}\textsuperscript{13}
In a practical scenario, things are more complicated and complex in comparison to the models. The buyer journey of a customer is ever evolving and thus is not a linear model. The advent of social media has given more choice and power to the customers. Now it is not possible for the organisations to completely monitor the buying journey and decisions of their customers. With the invention of several advertisement platforms, it is impossible for the companies to determine from which promotional channel the customers have got information regarding products and services (Ekinci, Uray and Ulengin, 2014).

3.5 CUSTOMER RETENTION

3.5.1 Meaning and Definition

Nowadays customer retention is of prime importance as it is necessary to understand what an organisation should do to retain its customer. Retention can be defined as the continued possession, use or control of something. The main purpose of a corporation behind practising customer retention strategy is to reduce customer defections. Customer retention starts when an organisation has the first contact with the client, and it continues throughout the lifetime. The goodwill of the organisation increases if the organisation can retain and attract the customers and exceeds their expectations (Singh, 2006).

Customer retention also refers to the number of relationships which an organisation can maintain on a long-term basis. It is a very natural and simple concept that if the customers are feeling delighted satisfied and communicated regularly; they will keep coming back to the organisation. The cost of acquiring a new customer is several times more than that of retaining an existing customer. There are varieties of strategies and tools are available for retaining the customer, among these tools, the most necessary tools are providing quality products and services (Terblanche and Hofmeyr, 2005).

The primary aim of retention strategy is to build a strong customer base and to prevent them from drifting towards other organisation for the same product or service.
3.5.2 Importance of Customer Retention Strategy

- It helps in building strong relations with the customers
  As stated earlier, serving a repeat customer is more beneficial for the company rather than acquiring a new one. Thus, it is very important for the retailers to maintain hormonal relations with their customers. In this regards retention strategies play an important role as through such strategies companies can provide benefits to its customers without affecting its cash flow. If customers get good quality products and services at competitive price, they get satisfied and remain loyal to a particular player. Thus, retention strategies are fruitful in building a strong relation with the customers.

- It enhances the goodwill of a brand
  Retention strategies involve giving extra or added benefits to the customers at the same price. In the present business environment, companies can attract and retain its loyal and potential customers only if they deliver something new and unique or extra to its customers as competitive price. If the company is able to deliver such benefits to the customers.

- It identifies future needs of the customers
  Several retention strategies involve collecting personal information of the customers and their shopping patterns. For example, if a company has its loyalty cards, it collects information of the customers and with every purchase of that particular customer they update the profile of the customers. On the basis of this information, companies can determine the market trend and thus can identify the future needs of the customers.

- It identifies and explores various sales opportunities
  Customer retention strategy is beneficial for the companies. It plays a huge role in increasing the sales and profits for the firms. For example, if a retailer is able to offer various attractive strategies to its customers, it is able to attract more and more customers. Thus, the retention strategy helps the retailers to design and explore various sales opportunities.
• It rectifies the flaws within the organisation's policies and processes

Many times it may be the case that any strategy designed by the company is not able to achieve its purpose. In that case, retention strategies such as club cards can help the companies to accumulate information regarding the customers and thus can design the strategies as per their shopping behaviour.

• Through this customers can easily provide feedback to the companies

Many customer retention strategies help the retailers to collect data regarding the shopping pattern of the customers. Companies record the items that are frequently purchased by the customers and on that basis determine the needs and wants of the customers. Moreover, through such strategies customers can also provide feedback to the companies regarding their products and services.

• Organisations can increase revenue and reduce acquisition costs of the customers

As discussed in the earlier parts of this work, it is beneficial for the retailers to serve existing customers rather than attracting new or potential customers. Through such scheme, companies can earn the loyalty of the customers and thus can increase their revenue streams. Moreover, if the companies have a huge base of loyal customers, there is no need for looking new customers and thus they can save a lot on acquisition cost (Woo and Fock, 2004)18.

3.5.3 Retention Strategies Followed By Retail Stores

For the long-term success of any business, customer retention strategy plays a very significant role. If an organisation has strong customer retention strategies, then it can quickly attain its goals and achieve higher customer lifetime value. It is quite cheaper to retain an existing loyal customer than to acquire a new one (Tamana, 2008)19. Following are the different types of retention strategies practised by the Indian Retail stores:
Implementing a Customer Loyalty Program: It is a great way to retain the customers by providing them rewards for their repeat purchase. The rewards can be in the form of discount coupons, reward points, vouchers, early access to the sale, etc. If the customer is loyal towards the store, then the firm should reward and show appreciation towards the customers for choosing it against its competitors.

Sales Promotion: For acquiring new customers, sales promotion strategy is quite useful. To encourage customers for a repeat purchase, sales promotion technique should be used. For Examples – rebate or cash back, premiums for regular purchase, collection schemes and so on (Kavaldeep, 2008).

Training of employees: Various training programs are carried out by the organisations so that their employees can easily learn about the new product and services, team building skills, social skills, etc. It will also help in reducing employee turnover rate. With the execution of these types of training programs, the organisation can easily create the atmosphere of integrity which can be easily identified by the customers as well as by the employees.

Customer Satisfaction Surveys: Customer surveys are the best tools for identifying the points of improvement in a customer’s experience and also help in identifying the customers' needs. Various survey techniques like feedback forms, suggestion drop box, etc. can be practised by the companies for this purpose (Shweta, 2008).

Excellent Customer Services: To keep the customers happy and satisfied, the business organisation should provide extraordinary services to their customers. It includes on-time delivery, best after-sales services, keep in touch with the customers and ask about their experience with the product, connect with your customers through social media sites & emails and regularly update the customers for the new products and services (Shweta, 2008).
• **Membership Cards:** This is the newest way of attracting and retaining customers to shop from the same players. Retailers nowadays are issuing membership or loyalty cards to its customers to retain them and to motivate them for a repeat purchase. Through such membership cards, companies give points to the customers which they can redeem on their next shopping and thus gets discounts equal to the points available in their cards.

• **Seamless Online and Offline Experiences:** Another strategy that companies are practising these days is offering seamless online experience. Now customers can get their desired products and services just in one click. They do not even have to leave the comfort of their chair and home or office. The online platform has provided retailers with an opportunity to remain 24*7 in touch with the customers and serve them in a better manner.

• **Integrating Technology for Retaining Customers:** With the advancement of technology, more and more companies are integrating their operations with technology to deliver better results. In this line, retailers are integrating technology into their daily operations. The best example of this is the beacons. With the help of this device, retailers can communicate with the customer's smartphone while they go through the entire store. Moreover, such devices also communicate relevant promotions and product details to the customers. In addition to this, Home Depot and Instacart are also gaining popularity among retailers for retaining their customers.

3.6 **THEORIES REGARDING THE FACTORS INFLUENCING CUSTOMER RETENTION**

Till date, several types of research have been conducted on factors influencing customer retention, but most of them have focused on the customer's point of view. The main reason behind this is that researchers feel customer retention as the tendency of the customers to stick with the same service provider and thus is regarded as a behavioural factor (Ranaweera and Prabhu, 2003)\(^\text{22}\). The
subsequent paragraphs will focus on models and frameworks illustrating the factors influencing customer retention based on customers' point of view. In this regards, for main theories, namely, Richard's (1996) conversion model, Sharma and Patterson's (1999) relationship commitment model, Ranaweera and Prabhu's (2003) holistic approach and Ranaweera and Neely's (2003) holistic approach have been selected.

3.6.1 Factors in Relationship Commitment Model

Sharma and Patterson (1999) suggested a model illustrating determinants of relationship commitment. This model includes three factors such as functional quality, technical quality and communication quality. All these factors get affected by trust in a relationship that affects relationship commitment. Figure 3.4 illustrates the conceptual model of the determinants of relationship commitment.

![Conceptual Model of the Determinants of Relationship Commitment](Source: Sharma and Patterson, 1999)

- **Trust**: In general terms, trust is defined as the belief that the service provider can be relied on to behave in such a way that the long-term interests of the buyer will be served (Crosby et al., 1990). It shows one's confidence in and reliance on the person and process. Thus, the greater is the level of trust; the stronger is the relationship commitment. According to Morgan and Hunt (1994), trust has a positive relation to the extent through which the firms share similar values. Further, Ganesan (1994) argues that customer satisfaction is the trust booster for firms.
• **Service Quality:** In the view of Sharma and Patterson (1999) service quality is divided into two main components: functional quality and technical quality. Technical quality is related to the core service or actual outcomes as perceived by the customers. At this point, the competency of the service provider to achieve the best return on investment for the customers is given importance. In other words, technical quality is relevant to the promised service. On the other hand, functional quality deals with what service is delivered and how the service is delivered to the customers. In other words, it concerns with the interaction between the customer and the service provider and is highly subjective in nature. Furthermore, quality of the service delivery is also affected by the level of trust, both in terms of technical and functional quality. Moreover, it is argued that the greater the perceived technical quality, the stronger is the trust in the relationship, and the greater the perceived quality of the advisor, the stronger is the level of trust in the relationship. This means that the greater the quality is perceived, the stronger is the relationship commitment (Sharma and Patterson, 1999)\(^{24}\).

• **Communication Effectiveness:** It is defined as all kinds of meaningful and timely formal and informal interaction between an advisor and a client in an empathetic manner. The aim of communication effectiveness is to keep the clients up-to-date about their information in most convenient manner. It is essential to have a strong communication with the clients to ensure clients have complete knowledge regarding their investments and the financial risks and outcomes. Further, effective communication also helps customers to get through the ups and downs of variable investment performances. Thus, the greater is the communication effectiveness; the stronger is the relationship commitment (Sharma and Patterson, 1999)\(^{21}\).
3.6.2 A Holistic Approach to Satisfaction, Trust and Switching Barriers

Ranaweera and Prabhu (2003) proposed a holistic approach that examines the combined effects of switching barriers, trust and satisfaction on customer retention. According to them, customer retention is the propensity for customers to stay with their service providers. This framework has two functions; the first function is to determine the effects of the three variables on customer retention independently and the second function is to examine the interaction effects that trust and switching barriers have on customer retention in the presence of satisfaction.

- **Customer Satisfaction**: According to Ranaweera and Prabhu (2003), higher the level of satisfaction, higher is the level of retention. Several types of research have shown that if the customers have greater satisfaction level, they remain loyal to the firms (Fornell, 1992). Thus, more and more firms are putting greater efforts on managing and increasing customer satisfaction (Ranaweera and Prabhu, 2003). In the views of Patterson, Johnson and Spreng (1997), satisfied customers create sustainable advantages for the firms in the competitive environments. Anderson and Sullivan (1993) states that "investing in customer satisfaction is like taking out an insurance policy. If some hardship is temporarily befallen the firm, customers will be more likely to remain loyal". According to Patterson et al., (1997), customer dissatisfaction is defined as the difference between an individual’s pre-purchase expectations and post purchase performance of the service or product. Ranaweera and Neely (2003) argues that earlier the researchers focused more on customer satisfaction as a measure to determine service quality. However, nowadays, customer retention cannot be determined by simply studying only customer satisfaction, now companies also have to consider customer behaviour such as their repurchase habits. They feel that companies need to start with customer satisfaction to retain a customer, but it is not the only influencing factor. Richards (1996), in his research,
found that there are chances that even a satisfied customer can drift towards other service provider and sometimes even a dissatisfied customer will remain loyal to the firm (Ranaweera and Neely, 2003).26

• **Trust:** Trust exists when one party has confidence in the integrity and reliability of the other party. Ranaweera and Prahu (2003) in their work found that many times even after satisfying the customer, companies were failed to retain the customers. This shows that satisfaction is the not only single influencing factor behind long-term customer commitment with the company. They also found that certain cost incurs in terminating the relationship, thus once the relationship is established, there are lesser chances of its terminations (Ranaweera and Prabhu, 2003).22 Gounaris (2003) believes trust to be a crucial element in establishing any relationship. Higher is the level of trust on the supplier; greater will be the perceived value of the relationship. Thus, there are higher chances of customer loyalty. Moreover, in business to business (B2B) services, trust plays an important role in developing relationship. Thus, trust is a result of gradual dependence on the relationship resulting from mutual adaption to the other party's needs (Gounaris, 2003).27

• **Perceived Switching Barriers:** These are conceptualised as customer's assessment of opportunities and resources needed to switch from one service provider to other and the constraints preventing it (Ranaweera and Prabhu, 2003).22 Thus, it can be assumed that the higher is the level of perceived cost; the higher is the probability for the customers to remain loyal. Morgan and Hunt (1994) also discussed the factor of switching and termination cost that influences the relationship between the client and service provider. However, they perceived switching cost as being only of economical nature. On the other hand, Sharma and Patterson (2000) found switching cost as being in addition to economic nature of both emotional and psychological nature. According to them, switching cost results from social bonds, trust and personal rapport. They also feel that, even if the customers are not satisfied with the services of the provider, switching cost may act as psychological exit barrier.
3.6.3 Factors in the Conversion Model

Richards (1996) proposed a conversion model based on the fact that satisfaction is not the only factor in retaining a customer. He further argues that there are chances that satisfied customer will leave, and dissatisfied customers remain with the company. Thus, firms need to focus more on customer commitment rather than only customer satisfaction. The author feels that customer satisfaction helps in making customer committed. He also identified three more factors that drive commitment.

- The level of Involvement: It is the first factor identified. According to it, if more and more customers are involved in the given choice, they will choose more carefully, and there is a higher chance that they remain stick to it. This means, even if the customer is dissatisfied but involved, initially they will try and repair the relationship rather than looking for alternatives. On the other hand, if the customer is both dissatisfied and uninvolved, there are higher chances that they will look out for alternatives. This shows that through involvement companies can create a willingness to tolerate dissatisfaction (Richards, 1996)\(^28\). According to Backet et al., (2000), customer involvement integrates several subsets such as level of contact, customer participation and customer control. If the customers are involved in the decision making, they have more confidence in the service provider.

- The Attraction of Alternatives: the Second factor identified by Richards (1996) is the attraction of the alternatives. It means, more the alternatives attract, there are higher chances that dissatisfied customers will switch their service provider. On the other hand, if the alternatives are not that good, in spite of dissatisfaction, the conversion may get delayed. Moreover, if the alternatives attract, there are chances that even satisfied customers may get drifted to other service providers. Sharma and Patterson (2000), in their study, found that if the customers are not aware
of alternatives, or if the alternatives are not attractive, they may continue with the same service provider even if they are dissatisfied. Contrary to this, if the customers are aware of price, service, quality and technical outcomes of differentiated service, they tend to be less committed to the single service provider.

- **The extent of Ambivalence**: The third factor is the insecurity caused by the range of choices. According to Richards (1996), customers must compare and review the advantages and disadvantages of each alternative service provider. In many cases, customers are not in a position to decide whether to stay or leave the service provider. Such situation makes the clients less committed and may delay conversion.

### 3.6.4 A Holistic Approach to Quality, Price, Indifference and Inertia

A holistic approach to customer retention was proposed by Ranaweera and Neely (2003), incorporating service quality perceptions, inertia, customer indifference and price perceptions.

- **Service Quality**: Ranaweera and Neely (2003) found that there is a positive link between customer repurchasing intentions and perceived service quality. This is in line with the findings of Zeithalm and Bitner (1996) and Zeithalm (1988). According to them, service quality is a consumer's appraisal of a service's overall superiority and excellence. They also propose that service customers give more importance to the quality of service rather than on the cost.

- **Price**: Ranaweera and Neely (2003) proposed a hypothesis that the better the perceived price is, the greater is the level of repurchase intentions, yet limited research has been conducted on the correlation between customer retention and price perception. Ranaweera and Neely (2003) found a direct relationship between customer behavioural intentions and price perceptions.
• **Inertia:** Ranaweera and Neely (2003) stated that the higher the level of inertia, the greater is the level of repurchase intentions. Their definition is based on the definition of Huang and Yu (1999). According to them, there is a distinction between loyalty and inertia by the level of consciousness. Thus, the feel that research on customer retention must not be a limit to conscious decisions, but must also include involuntary customer relationships or non-conscious ones. This shows that the greater the degrees of inertia, the more likely the customers are to be sensitive to promotions or similar attempts by the competitors to attract them.

• **Customer Indifference:** Ranaweera and Neely (2003) state that the higher the level of customer indifference, the greater is the level of repurchase intentions. According to them, customers who are satisfied with a certain service provider and have a certain level of indifference, they show resistance from switching as their service expectations are fulfilled.

### 3.7 THEORIES REGARDING CUSTOMER RETENTION STRATEGIES AND PROCESSES

As discussed above, customer retention has gained lot of significance in the past decade. In the views of Reichheld (1996), the growing popularity of this term has attracted several researchers to conduct studies on customer retention rate, relationship marketing, customer share in customer relationship management (CRM) and many other topics related to relationship marketing. Different companies have different strategies depending on their philosophies, goals and long-term plans. Thus different organisations practice different customer retention strategies to retain their customers. Once the firm identifies the most suitable retention strategy, it will stick with it to achieve its goals (Zeithaml and Bitner, 1996).
3.7.1 Value Creating Process

Every firm needs to follow the certain well-defined process to effectively implement its strategies for retaining its customers. Such process is known as the value creation process. The below chart summarises and illustrates a value creating processes:

- **The ability of the firm to sell a credible promise**: The first process shows the ability of the firm to sell a credible promise to the client firm. It is essential that professional services deliver credibility as one cannot evaluate such services. At the time of the business transaction, seller makes several promises and credibility of promises is affected by the firm's reputation. Moreover, credibility is also affected by the professional assigned by the company and success of previous projects. This phase of the process also involves negotiation and expectations. Thus, service providers must make only those promises that they can keep (Lowendahl, 1997).
The set of activities required to deliver the promise: The second phase of the value creating process includes the set of activities that are required to deliver the promises; it involves both client and the professional assigned to the task. The service provider needs to look up at the service quality and efficiency of delivery.

The learning from the project: In the third and final phase of the process, service provider evaluates the outcome and learning from the process and uses these learning for improving quality and efficiency for future. However, Lowendahl (1997) argued that the final phase of the process is neglected by the majority of the professional service firms (Lowendahl, 1997). Lowendahl (1997) states that the process mentioned above exist in every service sector; however, it is more complex for the professional service provider, as such services are highly customised and required constant communication with the client. Moreover, it is difficult for the client to evaluate the credibility of the promise as it involves asymmetric information. In addition to this, such services have a high dependency on the individual and non-interchangeable professionals.

3.7.2 The Three Levels of Retention Strategies

Berry and Parasuraman (1991) and Zeithalm and Binter (1996), in their work, proposed a framework for understanding the types of retention strategies. Table 3.2 below represents the framework that displays three levels of customer retention. Each level brings the customer closer to the organisations. Further, an increase in the level demands greater customization of services.

<table>
<thead>
<tr>
<th>Level</th>
<th>Types of Bond(s)</th>
<th>Marketing Orientation</th>
<th>Degree of Service Customization</th>
<th>Primary Marketing Mix Element</th>
<th>Potential for Sustained Competitive Differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financial</td>
<td>Customer</td>
<td>Low</td>
<td>Price</td>
<td>Low</td>
</tr>
<tr>
<td>2</td>
<td>Financial and Social</td>
<td>Client</td>
<td>Medium</td>
<td>Personal Communications</td>
<td>Medium</td>
</tr>
<tr>
<td>3</td>
<td>Financial, Social and Structural</td>
<td>Client</td>
<td>Medium to High</td>
<td>Service Delivery</td>
<td>High</td>
</tr>
</tbody>
</table>

(Source: Berry and Parasuraman, 1991; Zeithalm and Binter, 1996)
• **Level 1**: At the first level, the only bond between the customer and firm is financial. Through financial incentive, customers expect lower prices for bulk purchase or lower price as they are maintaining a long-term relationship with the customer (Berry and Parasuraman, 1991). For example, various financial incentives and reward points are given to regular customers. Berry and Parasuraman (1991) believe that such measures are practised by companies as they are inexpensive and help them to achieve their short term objectives. However, through such measure, companies cannot achieve long-term goals, as, although financial incentives are important for the customers, it can be imitated by the competitor as the price is the only customised part of the marketing mix (Zeithalm and Binter, 1996).

• **Level 2**: At this level, there are two types of incentives that tie a customer with the firm. These are financial and social incentives. Here, the term customer is replaced by the client as companies try to meet their needs and demands. Thus, companies provide more customised services to the clients and try to maintain better communication with them. Thus, through this, organisations maintain both social and financial bonds with the customers. It is further assumed that maintain social bond is of greater importance for the player delivering professional services and health care services. It is further argued that technology plays a crucial role in creating and maintaining a social bond as through this, companies can develop personalised customer information system and can update it regularly. It can be said that such social bonds do not guarantees customer's permanent relationship with the company; however, it makes it difficult for the competitors to imitate such incentives as it involves both financial and social incentives. Further, it is the social bond that sticks the customers with the same provider if the competitor's incentives are not very attractive (Zeithalm and Binter, 1996).

• **Level 3**: This level represents the strategies that are near to impossible for the competitors to imitate. At this level, the customer and firm are linked with financial, social and structural bonds that are created by delivering
highly customised services and to provide certain rights to the customers in the service delivery system. Thus, companies never lose a chance to retain a customer, however, at times, it customer may develop some fear if they remain stick to the same company, there are chances they may miss other advantages and opportunities delivered by the competitors in the future (Zeithalm and Binter, 1996)\textsuperscript{29}.

### 3.7.3 Monitoring Customer Relationship

Zeithalm and Binter (1996), in their study, concluded that companies keep on monitoring and evaluating their retention strategies for developing a strong relationship with the customers. Thus, they identified two ways through which companies can monitor customer relationship; these were; 'customer database' and 'relation survey'. In addition to these, there are some other marketing research instruments also such as customer visits, lost customer survey, complaint booking trailer call and so on. Through all these instruments companies can create a profile of its customer relationship.

- **Relationship Surveys**: Majority of the companies conduct a relationship survey on their customers once a year. In such surveys, existing customers of the firm are surveyed to evaluate their perceptions regarding service quality, value for money and satisfaction as against to competitors (Zeithalm and Binter, 1996)\textsuperscript{29}. Further, companies maintain constant communication with their loyal customers through telephone and face to face interaction.

- **Customer Data Base**: In the views of Zeithalm and Binter (1996), companies can formulate effective customer retention strategies only if they maintain a well-established customer database. The database should include customer information such as their name contact details, their shopping pattern, purchasing behaviour, their preferences, their revenue rate and related cost and so on. Further, the database should also include the information related to the termination of the relationship when the customer leaves the firm and switch to another service provider.
3.7.4 Loyalty Programs and Customer Clubs

- **Loyalty Programs**: Relationship marketing is the best activity practised by the firms for maximising their customer retention metrics. Such marketing activities include loyalty programs, direct mailing and frequency reward programs (Waarden, 2008). According to Yi and Jeon (2003), companies formulate loyalty programs with the aim of repeat purchase by the customers and thus results in customer retention. In the views of Bolton, Kannan and Bramlett (2000), nowadays majority of the service industries are practising loyalty reward programs. The main reason for introducing such schemes is to increase customer retention by delivering greater satisfaction and values to the loyal customers. Fornell (1992) and Reichheld (1996), in their studies, found that loyalty programs are designed to deliver better satisfaction and value to the customers, and thus results in higher profits. This is the reason several service industries highly practice such programs. For example, American Express gives free airline tickets to its customers who have heavily used its cards during a six months period. Similarly, O'Brien and Jones (1995) found that if companies succeed in properly executing loyalty programs, they will be able to increase their retention rate. However, before introducing such programs, companies need to ensure that financial outcomes of the programs must exceed the investment made in the program.

- **Customer Clubs**: Another retention activity practised by several service providers is customer clubs. Blomqvist, Dahl and Haeger (1993) believe although several companies are practising this strategy, there is a dearth of literature on this subject. According to Blomqvist, Dahl and Haeger (1993), Club cards create a formal relationship with the customers and thus only important customers are part of it. In the views of Stauss et al. (2001), such schemes are one of the most important and cost incentive elements of customer retention system and offer several advantages to club members for better customer satisfaction and loyalty. Club cards aimed at
delivering different benefits to the customers so as to increase satisfaction and loyalty. Stauss et al. (2001) further argue that customer interaction effect, customer knowledge effect, and customer benefit effect help in achieving customer retention through club cards.

* Customer Interaction Effect: It tells about the frequency of interaction between the customer and the firm. It is achieved through continuous communication and feedback activities (Stauss et al., 2001)\(^{33}\).

* Customer Knowledge Effect: It means firms are increasing their knowledge about the customer. For this, companies keep detailed information about the customer in their database and keep it updating. On the basis of this, companies design customised strategies for the customers (Butscher, 1998)\(^{34}\). Thus, it can be said that customer interaction effect is a precondition for customer knowledge effect.

* Customer Benefit Effect: It tells whether the customers enrolled in the club card scheme are receiving specific advantages or benefits from the firm. According to Stauss et al. (2001), customers will enrol in club card scheme only if their cost-benefit calculation is positive. It means their benefits must exceed costs. Thus, under such schemes, companies need to deliver attractive and better services to the customers. For customer benefit effect also, customer interaction effect plays a significant role.

3.7.5 Effective Recovery System

Zeithalm and Bitner (1996) contend that despite the fact that organisations need to "do it right the first time" as it is the thing that clients incline toward; it is still entirely unavoidable for disappointments and oversights to happen. It is when botches and disappointments happen that clients have a justifiable reason motivation to switch suppliers furthermore to advise others not to utilise the
administration. Accordingly, powerful recuperation gets to be the key to keeping up the relationship. On the off chance that the firm falls flat in recuperation, it will misdirect the client twice, and in this manner, a percentage of the essentials that are basic in making a compelling conveyance are the accompanying concurring:

- **Track and Anticipate Recovery Opportunities**: Firms need to make frameworks that empower them to recognise disappointments, and they additionally need to see this as a chance to spare and hold client connections as opposed to an issue. It is those clients who gripe that is the 'friend' of the firm as the individuals who do not whine for the most part do not return. Just observing the grumblings is insufficient, the firm likewise needs to listen to the clients and be dynamic in the looking for potential disappointing factors (Zeithalm and Bitner, 1996)\(^{29}\).

- **Take Care of Customer Problems on the Front Lines**: According to the clients, a standout amongst the best recuperations is the point at which they get direct on the spot critical thinking by a bleeding edge labourer. This can be accomplished by for example giving so as to apologise to the client and a clarification or an answer for the issue, for example, a discount. Regardless of what the arrangement, the clients ordinarily need it immediately without making a lot of telephones calls and so on (Zeithalm and Bitner, 1996)\(^{29}\).

- **Solve Problems Quickly**: Once the issue has been recognised, the firm needs to act rapidly and attempt to take care of it on the grounds that if the issue is not understood, it can heighten rapidly. The best arrangement is to expect the issue before it happens and in that way astonish the clients.

- **Empower the Front Line to Solve Problems**: Recovery preparing may be a key for administration giving representatives. As clients, for the most part, need the issue to be taken care immediately. It is essential for the cutting edge representatives to be gifted and have power furthermore to be spurred to take part in viable recuperation.
• Learn from Recovery Experiences: Problem determination encounters likewise give data on approaches to enhancing client benefit and ought to consequently not be overlooked.

3.8 SUMMARY

Marketing is nothing but a way of thinking about business, rather focusing on a bundle of techniques. It is not only related to selling products and services, and collecting money, rather it is a way of connecting people with products and services and customers with companies. Marketing is practised by the organisations for communicating the unique selling point (USP) or value of the product or service.

For many years, companies based their marketing activities on the transactional model of marketing. However, with the passage of time, organisations realised the importance of bringing change in their marketing activities, and thus this is the inception of another model of marketing, that is, relationship marketing. Under transactional marketing, companies focus only on the single point of sale transactions; however, relationship marketing activities focus more on customer retention, rather than customer acquisition.

Customer retention is defined as retention activities that a selling company undertakes for reducing customer defections. The process of customer retention starts when the customer comes in contact with the organisation for the first time and continuous to maintain the relationship through the entire lifetime.
REFERENCES


