



Breaking Up Should Be Hard to Do

Understand your customers to reduce churn.

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CUSTOMER CHURN is a stomach-churning experience for managers. How can we manage this phenomenon? Some insights can be gleaned from a 20-year tradition of research that supports the notion that customer relationships follow a natural lifecycle (Palmatier, Robert W. (2008), *Relationship Marketing*, Cambridge, Mass.: Marketing Sciences Institute). Knowing the relationship stage a customer is in, and having the right metrics on hand, provides a roadmap to properly manage customer relationships—and reduce that churning feeling.

Relationship Dynamics

While there is debate about the number and nature of the relationship lifecycle stages, a comprehensive listing would include: awareness, exploration, expansion/build-up, commitment, maturity, decline and dissolution. Each of these phases provides opportunities and risks for customer management.

Consider retail banking as an example. Suppose young Mr. and Mrs. Smith move to a new town, and begin to look for a bank for their checking account. After becoming aware that Bank X seems to

have a branch on just about every corner, they move into the exploration phase. At this stage, they are probably paying closer attention to advertising, investigating Web sites, asking neighbors, visiting a branch to discuss account options and so on. From these explorations, the Smiths may gain a favorable attitude toward Bank X—leading them to actually open an account. During the ensuing expansion/build-up phase, the couple gains experience using the bank—and tests the delivery of its brand promise. If their experiences meet expectations, they are likely to develop a higher degree of trust and emotional attachment to the brand. This may result in an increasing share of wallet (e.g., a rising average balance and volume of transactions) and purchases in adjacent categories (perhaps opening a credit card account).

With increased emotional-based trust and a belief that the bank is seeking a mutually beneficial relationship, the Smiths may be ready for the next step. In the commitment phase, they might identify the bank as their primary bank, begin to advocate for the bank with other consumers and seriously consider the full range of products/services the bank

offers. The wise bank may take advantage of this stage by offering bundled services. Such efforts might include lower mortgage rates to customers who are also willing to maintain certain minimum balances in their checking and savings accounts, or creating an even closer relationship by offering a personal banker.

The maturity stage is often characterized by customers who have a multi-faceted relationship with the brand. In this phase, customers may exhibit cooperative behaviors that benefit the brand, partly because they have internalized the brand's goals (e.g., moving to a paperless checking statement or conducting more banking business on-line). In general, customer relationships vary in the time it takes to reach the maturity stage—and they can also linger in that stage for a long time. But it is also at this stage where marketers can become complacent and fool themselves into thinking that the more products/services customers buy, the more locked-in they are—the old “fishhooks” analogy. But the broader the relationship, the greater the opportunity for the firm to communicate poor quality or a lack of customer focus.

There is also some research evidence that the maturity phase is marked by decreased levels of commitment. Why might that occur? Perhaps in the customers' minds, they are giving the brand a major piece of their business and may start to question the equity of that relationship. For example, the Smiths may want reassurance that the bank appreciates their business and is really doing its part to earn their loyalty. Otherwise, they may begin to reconsider alternative banks looking for something better or new.

In our example, suppose Bank X did a very poor job of handling a mortgage application, closing or payoff experience. Even though the Smiths are "satisfied"

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with the other products/services they have been receiving, poor performance in this one aspect of the relationship could foretell the beginning of the decline phase. While the immediate effect could be "disadoption" of the service where the failure occurred, the real problem is the lowering of relationship quality. Like a collapsing deck of cards, this reduction in relationship quality can trigger a death spiral where the customers begin to reduce share of wallet and peel away portions of their business to other competitors. Unfortunately, this decline phase can be a "silent killer" in many businesses—with no customer announcements or warning flags from the database. And at some point, the Smiths may go away altogether (dissolution).

What's in Your Database?

Effective management of relationship lifecycle experiences needs more than theory; it needs metrics. Successful companies already know that the ability to classify customers by relationship stage facilitates one-to-one marketing. Often though, a company's internal data may not be up to the task. The first requirement is to have integrated systems that provide a total view of the customer relationship (e.g., transactions, interactions, services used and balances). And there is probably a need to supplement this information with third-party data relating to customer characteristics, such as cohort membership and total wallet size. Primary research may also be required

to assess the significance of database indicators, by correlating them with customers' stated attitudes and intentions. Through the analysis of this combined information, classification rules can be developed, and customer records can be marked and monitored as they move through life-cycle stages. Resulting insights should inform both customer relationship management systems and front-line relationship managers.

What's on Your Dashboard?

The company's performance management system also needs to reflect the relationship life-cycle approach. At a minimum, "dials" on the company/brand dashboard should include an attraction metric (to help gauge the

brand's ability to pull customers into the exploration and expansion phases) and a loyalty metric (to help gauge the brand's ability to move customers into the commitment and maturity stages). Perhaps more difficult is developing the right indicators to gauge movements into the decline and dissolution phases. Luckily, some best practices are developing for life-cycle dashboard metrics.

Be aware of pitfalls of single-measure loyalty key performance indicators (KPIs). Although popular for many reasons, single-measure loyalty metrics (such as those based only on recommending) can mask entry into the decline and dissolution phases. This is particularly true when the shift is caused by changing customer needs. Customers may answer an unequivocal "yes," when asked: "Would you recommend Insurance Firm Y to a friend or relative?" This could be due to many years of satisfactory service—even though they are planning to terminate most of their own Firm Y policies, because they are now empty nesters.

Attend not only to your loyalty KPI, but also the entire metric distribution and full spectrum of customer attitudes and intentions. For example, a favorable overall customer loyalty index (CLI) might hide "hostages" to your brand—locked in by high switching barriers. Given freedom of choice, these customers may be ready to defect at the drop of a hat. Or, a CLI may track only the percentage of customers who are passionately loyal (say, based on top-scores in their survey questions). While helpful in measuring the proportion of customers who are in the committed/mature stages of the relationship, this type of index misses a "polar effect." This occurs when

the opposite poles of the loyalty distribution are headed in opposite directions (i.e., simultaneously increasing percentages of loyalists and defectors with a corresponding drop in the “neutrals”).

Evaluate the predictive fit between your CLI and actual churn statistics. To be useful in the management of defections, changes in a CLI should be a leading indicator of changes in churn. If they are not highly correlated, consider adding a customer risk index (CRI) to your dashboard. In most cases, this is simply the flip side of your CLI. However, it also may include special questions specifically designed to measure other behaviors—like a customer’s propen-

sity to shop competitive products and services. It is also helpful to diagnose the drivers of your CRI, as they may be different from the drivers of your CLI. We have seen companies use CRI measures to first develop five-year plans against defection—and only then work on strategies to improve loyalty.

Manage Churn

The relationship lifecycle provides a valuable framework for developing strategies and tactics around customer management. But more is needed to manage churn: Database and dashboard metrics should help managers provide the right experiences at the right time to

customers. With a sound framework and valid metrics, churn relief becomes a realistic goal. ■

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