

Switching customers

The success of a business depends not only on actively acquiring new customers, but also on keeping existing customers from changing suppliers.

Why do customers change suppliers?



Daily, customers switch from one supplier to another. Why does this happen? We believe that it is caused by one or two key things:

- their current supplier does something **wrong** (or performs so lukewarmly that they feel unappreciated)
- a competitor makes them a **better offer**

Either way, switching suppliers is often a big decision for a customer. They have to reorganise many things that they do. Often, customers stay with their existing supplier not because they are delighted with the service, but because it is too much of a hassle or too difficult to go elsewhere.

This is a **significant vulnerability** for the existing supplier and yet it could be an **opportunity** for your supplier.

Understanding why customers change suppliers enables suppliers to not only take action to win customers from other suppliers, but also to prevent other competitors from poaching your customers.

Costs of customers switching suppliers

On average, **US companies lose half their customers each five years**. This is a huge cost to business and a strategic liability.

Losing customers is one of the most detrimental business problems for suppliers. In particular, the cumulative effects of marketing and customer relations efforts to existing customers are lost and the costs of finding new customers are considerable. In some businesses, it costs **seven times** as much to find a new customer than it does to retain an existing one. More mature customers also tend to produce greater cash flow and profit than newer ones.

Retaining customers....

A typical retention curve for new supplier customers can look something like this...



There is an initial decline within the first month, a steady slower decline over the next 5 years, then an accelerated switching rate over the next two years.

Why does the retention curve look like this?



If vulnerability to customer switching can be predicted, then suppliers can spend marketing dollars more effectively by building customer retention and intervening with customers who are at higher risk of terminating the relationship.

You need to understand the factors which lead customers to switch from one supplier to another. Understanding this is relevant not only in terms of winning customers from the competition, but also allowing your supplier to prevent loss of current customers to other suppliers.

(PTO...)

Customer switching triggers

We believe that there are **seven different triggers** which cause customers to change suppliers. These are:



Price trigger

The price-sensitive group are customers who make their supplying decisions based on prices, rates, fees, charges etc.

I switched banks for higher interest on my savings account



Personal service failure trigger

Switching triggers can be a failure of the personal interaction between supplier staff and customers. Personal service failures are some

The tellers at my bank never seemed to know what was going on. So I changed.



Attracted by competitors trigger

Competitor suppliers can make attractive offers to customers. These act as a trigger for some switchers. Attraction by competitors triggers are when customers switch to a 'better' supplier, rather than because of an unsatisfactory existing supplier.

My new bank pays me 25% higher interest on my savings account



Inconvenience trigger

The inconvenience group are particularly sensitive to inconvenience triggers such as the supplier's location, hours of operation, and waiting time for service.

I decided to change banks because I was always waiting in my lunch hour



Technical failure triggers

Technical failure triggers include critical mistakes or other **technical** problems with the supplier service.

My old bank was always making mistakes with my accounts!



Poor employee response trigger

When something goes **wrong**, the supplier employee response can make or break the situation. Poor employee response to service problems are when employees fail to handle the problem situation appropriately for the

When I pointed out there was a mistake on my statement, the teller was rude!



Ethical problem trigger

The ethical problem trigger is when a customer switches because of perceived problems with illegal, immoral, unsafe, unhealthy, or other behaviours from

I didn't agree with my old bank charging on low interest accounts- it disadvantages poor people.

How do you identify customer switching triggers?

Fortunately, information can be gathered to build a profile of retention and switching potential of your customers. This can be done by:

- **understanding** why customers leave
- identifying **high-risk** customers
- estimating customer life span (and strategies to **extend** this life span)
- identifying **key drivers** of your customers' satisfaction
- segmenting your customers based on **triggering potential** and strategies for individual segments
- developing key strategies to **defend or exploit** customer switching triggers.

We develop statistical models (including causal and discrete choice models), processes and strategies that provide you with optimal retention, customer-life extensions and customer satisfaction.

