Customer Retention Reimagined

By Rob Pace, Founder, HundredX

It is easier and far more profitable to retain an existing customer versus trying to convert a new one. Yet the majority of customer related digital marketing dollars are spent on conversion (i.e. sales). Ad based search revenues have long been the foundation of Googles $450+ billion market cap and Facebook’s mobile ad revenues represent nearly three quarters of total sales and over 90% of revenue growth. Whether it’s Trip Advisor, Yelp or Twitter, the underlying business model combines advertising spending from businesses trying to convert prospects with a useful consumer function.

A core enabler of all these successful companies is the unique capacity of digital to reach a target demographic. When consumers have a custom screen and an identifiable profile, it becomes possible to tailor and target ads economically to specific groups. I believe this same principle applied on an individual, versus group, basis will transform customer retention strategies and the larger digital landscape.
The reason retention is about to change everything is not just that existing customers are generally far more profitable. It is also because delighting existing customers will eventually become required to convert new ones. Put another way, retention will confer a two for one benefit in a future networked world where reality trumps perception and consumers are armed with more and more tools to discover what others really think. The arbiters of "truth" will be authentic repeat customers versus unsupported ads. Consumers will particularly value advice on which products and services to purchase sourced within their own networks. These networks are likely populated with pods of peers representing the highest value targets for any given business. The executive who loves her fractional share is the best potential marketer for NetJets imaginable.

So what might customer retention in the future look like? The objective is to delight customers and make them feel valued. The delivery mechanism will be highly personalized experiences made cost effective and scalable through mobile. But the end goal will extend beyond repeat business and into connection then ultimately advocacy. I would propose three complementary pillars of retention reimagined: loyalty, listening, and influence.

**Loyalty** - the most developed retention tool is loyalty programs such as frequent flyer rewards. With loyalty based incentives, companies are sharing some of their attractive economics with repeat customers. But these tools are generally not fully personalized beyond tiering levels and the counting of points. Most don't yet combine transaction history and customized rewards. In the future, travel companies will propose and reserve rewards for their most valuable customers based on personal preferences and trip history. Similarly, preferred allocations of hard to get products and personalized service delivery will expand the definition of loyalty programs across most industries.

**Listening** - the core overarching principle in the coming era of retention is a commitment to establishing a listening versus broadcast culture. The most important people to listen to are existing customers in order to understand what they consider value (see JCPenney). The economics of a listening culture forever changed in 2007 with the launch of the first iPhone coupled with the explosive growth of social networks. People like to be heard, but the current tools like survey are more of a tax than a benefit. Retention based listening will feel more like being valued than being used.
Influence - influence equals empowerment, and loyal customers expect to feel listened to and powerful. There are many creative ways to empower customers. Employee recognition will increasingly be driven by loyal customers versus judgments made by managers. This should not only increase fairness, but will drive service levels, employee retention and provide great marketing content. Likewise, product design and delivery will be heavily influenced by the opinions of key customers captured digitally. One of the main reasons animated films are a better business than live action features is the ability to test market with key audiences and course correct prior to launch. Likewise, product design will be influenced early on by key customers. This will reduce inventory and execution risks, two of the primary concerns in business. Loyalty rewards will be used to thank customers for offering their advice.

"Access" in the digital era is an under-utilized asset at most companies. It is now possible for a CEO to personally interact and respond to dozens of key customers quickly and on a timely basis. According to data from PwC, 57% of consumers believe that access is the new ownership. The importance of prestige conferred to customers who feel they have a digital "bat phone" connection to key decision makers is illustrated by the billions of dollars in fees paid to become premium credit card holders such as platinum members.

A critical ingredient necessary to execute a retention based strategy is how it is owned within corporations. Is it operations or marketing? It often inelegantly meets at the top of an organization, usually in a highly anecdotal way. Much of the current retention spend is focused on customer analytics and only indirectly improves the customer journey. Because of this, there are far too many gaps in the customer experience. A relatable example is when a cable or satellite provider passes off a customer between technical support and scheduling. The already frustrated customer is required to start over and rehash everything. This is because the flow is organized around the Company's internal structure versus optimizing customer retention.

With the hyper-personalized and scalable nature of digital, it is now possible to listen and respond to, understand, empower and reward key customers. Doing so will drive both repeat and new business as reputations are cemented across invaluable networks of like-minded consumers. A retention focused mindset will create competitive advantages for early adopters across every industry. It should even lead to

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the rise of future platform companies on the scale of the ad behemoths when retention based spend ultimately overtakes advertising based investment.

*Rob Pace is the Founder of HundredX, Inc. He is a former Partner at Goldman, Sachs & Co. and National Chairman of the Salvation Army Advisory Board of Directors.*