Customer WinBack

How to Recapture Lost Customers -- and Keep Them Loyal

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Chapter One: Why Customer Win-Back Is Critical to Your Success

By any standards, Toni Neal was a high-value customer that any credit-card company would want to keep. This hard-charging founder and CEO of a highly successful Austin, Texas-based consulting firm with a staff of twenty-plus held three credit cards (we'll call them Super Deluxe, Deluxe, and Regular) from a leading credit-card provider. A ten-year customer, Toni consistently used these cards for business and personal purchases, charging on average $10,000 to $15,000 a month. Most Christmases, she took some much needed rest from her business and vacationed for three weeks in Hawaii, charging her entire holiday (typically $15,000 to $20,000) on these cards. All was well, or so she thought, until she attempted to pay the bill for an important client lunch and was informed by the waiter that her Deluxe card charges had not been approved. Perplexed, Toni gave the waiter a competitive card for the lunch bill and, on returning to her office, immediately called the card company to inquire about the refusal. She was informed by the service representative that her Deluxe card was rejected because her account was overdue by about $200. "No," corrected Toni. "I'm current on my bill, but I have a $200 charge that's in dispute and I'm still waiting on correspondence from your company regarding resolution."

Unmoved, the rep insisted that the $200 payment was due and that no additional charges would be accepted on the card until Toni "paid her bill." As both a long-time card holder with an excellent credit history and a meticulous record keeper in her own right, Toni felt there had to be a simple solution, and so she asked to speak to a supervisor. Again the rep refused. Angry and exasperated, Toni instructed the rep to immediately cancel two of her three cards and promised that her next call would be to another credit-card company to sign up as a new card member. True to her word, Toni made the call and set up her new account that very day.

With the exception of statements that arrived in the mail showing her accounts had been closed and the disputed $200 had been reconciled, Toni heard nothing from her former credit card company right away. Finally, about a month later, Toni received a call from a service rep inviting her to become a Deluxe card member. The rep turned out to be unaware Toni had canceled the card just weeks earlier. Toni eagerly explained to the rep why she had canceled two of her cards and why the remaining card in her wallet went unused. The rep's response? Nothing. Rather than saying, "we're so sorry," or, "what can we do to reinstate you as a valued customer?" or, "let me transfer you to my supervisor," the rep simply stated that Toni didn't sound like she was very interested in using this company anymore and ended the call.

At the time of this writing, Toni has again departed for her annual three-week Christmas holiday in Hawaii, where her credit cards will be used extensively. This caps another year of annual business and personal credit-card purchases of roughly $200,000. But this year, unlike previous years, there are no longer Super Deluxe or Deluxe cards in Toni's wallet. She counts herself as an official former customer, one with more questions than answers.1

When Toni told us about her experience, key questions came to mind:

- Why was the service rep so rigid over a $200 "past due" amount with a high-value customer with an excellent payment history?

- Why didn't the card issuer's customer information system consolidate all of Toni's card information into one centralized computer file so customer representatives could recognize Toni's three-card value?

- Why didn't the card issuer's system flag Toni as a high-value defector as soon as she canceled her cards?

- Why was the card issuer's database of prospect names not coordinated with the database of recently lost customers?

- Why did the second rep not pursue reactivation with Toni after hearing about Toni's unhappy experience?

Before you write off Toni's experience as something that could not happen to one of your customers, think again. If your company is like most, you have labored hard to sharpen and improve your customer acquisition and retention programs, but you have done very little to recover those customers who, for various reasons, fell through the cracks and stopped buying from you.

You're not alone. Every year, the average firm loses 20 to 40 percent of its customers (see Figure 1.1). What's more, customer defection is likely the least recognized and most misunderstood dynamic in any organization (Figure 1.2). Left unmanaged, it adversely affects profits and growth, hinders the opportunities for attracting new customers, and damages employee morale--all of which jeopardizes a firm's overall success.

Few companies are aware of their true customer defection rates, and fewer still know the profit impact associated with this loss. For example, when the wireless telephone industry talks about customer churn, the issue doesn't sound very consequential. After all, with losses estimated at 1 percent to 3 percent a month, how big a problem can losing these few subscribers be?

Very big, as Bill McCausland found when he did the math. The average carrier's current churn rate of around 2.5 percent a month works out to a whopping 30 percent a year. "Over a three-year period, you're turning over your customer base. That's a huge loss of customers," says McCausland, a former GTE executive.2

What makes the problem critical are the costs represented by those lost subscribers. The average carrier spends $300 to $700 to acquire one customer, including such costs as sales commissions, advertising, and promotion. Lost customers cost the company an average of $57 a month in lost revenues. If you have a customer base of one million subscribers, McCausland says, and "you are losing three hundred thousand customers [30 percent] at $500 per customer a year, that's $150 million a year."3

The loss of money is not all that's important; when a customer defects, you are also losing goodwill and a valuable source of information about your business. If a happy customer is good advertising, a lost customer is often bad advertising. Each one of those lost customers is a potential ambassador of bad news. People share their stories of discontent with others, and that is harmful to your business reputation (see Figure 1.3).

If, however, you follow up with lost customers and identify the reason for their defection, you can learn important information about your own business practices. Are your customer service representatives uninformed? Are they brusque with customers? Are there steps you can take to make sure that other customers are not lost? A loyal customer is a valuable asset, and one you should not let go of without a fight.

WHY DEFECTION GOES UNMANAGED

Without a doubt, the first critical step in reducing customer churn is to constantly examine your acquisition and retention programs and look for ways to improve your ability to attract and keep high-value customers. The many books and articles written and seminars presented about selling, retention, and loyalty attest to the importance of these programs. But until now, most companies have limited their focus to acquisition and retention initiatives. Why don't they take the additional steps needed to recover lost revenue and learn from defections? Three reasons drive defection blindness and win-back apathy.

1. Retention rates can mislead. Defection rates of 50 percent may masquerade as 80 percent retention rates. A defection problem can disguise itself in seemingly healthy retention numbers. For example, think of a college that retains 80 percent of the students in each class from one year to the next. This retention rate sounds pretty healthy until you consider that if the college starts with 1,000 freshmen, 80 percent retention means a sophomore class of 800, a junior class of 640, and a senior class of just 512. Only when you monitor the fallout or churn among an original group of recruits over time and compare the end result with the starting numbers does the real defection picture emerge. This same analysis can be applied to customer retention rates. Assume in that year one, you recruited one hundred new customers and your annual retention rate averages 80 percent. By the end of only four years, only 51 percent of these 100 customers will still remain (100 ¥ .8 ¥ .8 ¥ .8). In other words, even with a steady and respectable retention level of 80 percent, the half-life of your customer base, the amount of time it takes for one-half of the customer base to be lost, is only four years. Yikes! That's a huge profit drain that cannot be counteracted simply by recruiting new customers as replacements.

2. Firms are unaware of both the substantial loss associated with customer defection and the substantial profit recovery potential associated with win-back. In his groundbreaking book The Loyalty Effect, Frederick Reichheld5 was the first to examine why the profit contribution of a mature customer who has bought from a firm for a number of years is dramatically higher than that of a customer who has been buying from the same firm for only one or two years. He identified and isolated six important economic effects of customer loyalty and their impact on annual customer profitability.

• Acquisition cost. Once the customer is acquired, acquisition costs are no longer incurred.

• Base profit. Base profit is the difference between the price a customer pays and the company's costs. The longer a company retains a customer the longer it earns base profit, and the better its initial customer acquisition investment looks over time.

• Revenue growth. As customers mature and become more and more familiar with the company's array of products and services, their spending tends to accelerate as they increasingly buy a greater cross section of company offerings.

• Cost savings. As customers get to know a business, they tend to be less costly to service. Mature customers don't waste time requesting services the company doesn't provide, and they are less dependent on employees for information and advice.

• Referrals. Loyal customers recommend the business to others. In many industries, such as insurance, home building, car sales, and software, referrals are a major driver of new business.

• Price premium. Customers who have been around long enough to learn a company's procedures and acquaint themselves with its full product line will invariably get greater value from the business relationship. This generally makes them less price sensitive on individual items than new customers.

What Reichheld's work has taught companies around the world is this: when a long-term customer leaves, his defection adversely affects the firm's bottom-line profitability, and for the reasons just outlined, this profitability deficit is not offset simply by recruiting a new customer. Therefore, using win-back measures to extend the profit contribution of a mature, high-value customer who has defected or is on the brink of defection is crucial to any firm's profit management success.

3. Companies see lapsed customers as dead opportunities. For many firms the words lost customer immediately evoke an image of a group of disgruntled former buyers who, at the first suggestion of returning to the firm as a customer, would immediately say, "No way!" and bolster the refusal with some heartfelt "been there, done that" sentiment. Yet growing evidence suggests the probability of win-back success and that the profits and other benefits resulting from win-back initiatives far outweigh the investment costs.

THE FINANCIAL PAYBACK ON WIN-BACK

A study by Marketing Metrics has found firms have a much better chance of winning business from lost customers than from new prospects. The research found the average firm has a 60 to 70 percent probability of successfully selling again to "active" customers, a 20 to 40 percent probability of successfully selling to lost customers, and only a 5 to 20 percent probability of making a successful sale to prospects.6

Industry Experience

The experience with win-back programs of MCI sales director Catherine Sheeran reinforces Marketing Metric's research findings. Comparing win-back to acquisition success, Sheeran reports, "Our success rates with win-back were three to four times better than with prospecting. For example, if you have a 5 percent rate in converting prospects, you can expect a 15 to 20 percent success rate in reactivating inactive customers."7

In the retail industry, reactivation promotions also typically out pull prospect promotions. Retail Resources vice president Christine Foschetti reports this happens 95 percent of the time. "There are those few exceptions with incredible incentives that will drive in higher prospect results; however, generally it is by far more cost effective to communicate with your own customers--even the inactive ones--than prospects."8

There are several reasons why customer win-back has a higher success probability than acquisition. You have advantages with lost customers that you don't have with prospects--you have information about them. Because of their past purchase history, you typically know where and how to reach a lapsed customer, whereas potential customers are much harder to find. For example, if past behavior tells you a customer doesn't respond to telemarketing calls, you will know to send mail and e-mails instead. If the director of engineering signed all past equipment orders, you will want to investigate starting your reactivation efforts with him or her. Consider this win-back experience:

An agent told us recently that he got to thinking about the problem of lost customers about a year ago and dug back into his records for the past seven years. He turned up a number of customers that he had lost, but wished he hadn't. Without doing any formal research, he simply got on the phone and called these customers. What he discovered was that in many cases the individual contacts who stopped buying from him were no longer working for the company. And when they were, they remembered buying from him, but couldn't recall why they had discontinued buying. "It was just like opening new doors," the agent said, "except that they were already familiar with the products. In most cases, I was able to schedule meetings with them and to at least get some trial orders started. Soon, the trial orders turned into regular orders and we had the business back."9

Having customer information increases the probability of winning at win-back and can lower your reacquisition costs as well.

How Doubleday Direct Saves a Member

Perhaps the most compelling evidence that win-back pays comes from the book club business. Book clubs offer membership services. The extensive customer data obtained in this type of direct-mail business make a profitability comparison between winning back expired members and acquiring new members relatively easy.

Doubleday Direct has a seventy-year history of operating book clubs worldwide. With thirty book clubs under its management, recruiting new members is the biggest single cost of the business. Because acquisition is very costly, Doubleday Direct has taken steps to "save a member" wherever possible. Its save-a-member programs have two phases: (1) the termination phase, when the member contacts Doubleday with the intention of leaving the relationship, and (2) the revitalization phase, in which expired members are contacted about reactivating their book club membership.

MANAGING THE TERMINATION PHASE.

When members call in to cancel their memberships, telephone representatives ask them why they want to terminate. The representatives have on-line access to all relevant data about the member, and they are empowered to offer solutions to high-value members and trained to diplomatically say good-bye to members identified as unprofitable. Approximately

60 percent of the cancellations can be prevented in this way. Most of these customers say they are not happy with the automatic shipment of the main selection, which occurs when the reply postcard is not returned on time, or they are displeased with the frequency of the mailings. With this feedback, the telephone representatives convert these members to either a positive option plan (books are shipped only when explicitly ordered by the member) or the member is suspended from all mailings for a designated time. Other problems are mainly product or service issues that can be solved through offering a toll-free customer support telephone number or coupons for free books. Even though the profit margin for the latter customers is smaller than for others, they still represent higher

profits than are achieved by recruiting new members. Mail-in cancellations are treated in a similar way. Either a solution to the problem is offered through a follow-up letter or the customer is called by a telephone marketing representative.

LEVERAGING THE REVITALIZATION PHASE.

Doubleday has done considerable analysis of the economics behind winning back lost members in comparison to acquiring new members. One particular test was very revealing. Two separate mailings were compared, one to a list of externally acquired addresses and one to a list of expired members. For both mailings, the same creative treatment and offers were used. (Six books were offered for $1 and a premium or a seventh book for $4.98.) The only difference between the mailings was a variation in the letter in the package: the external prospects were introduced to the club, while the expired members were "invited to come back."10

As Figure 1.4 illustrates, across every profit variable the return on winning back expired members exceeded the return on acquiring new members. From cost per order to gross and net contribution per order, profitability of expired members was greater than profitability of the external list. Moreover, the net return on investment from the expired member list was almost ten times (214 percent) larger than the return from the external list (23 percent).

Every company is unique, of course, but the Doubleday Direct side-by-side comparisons provide strong evidence that winning back lost customers can be a profit-making strategy for any firm.

WIN-BACK BENEFITS BEYOND THE BOTTOM LINE

As we've seen, the bottom-line financial rewards from win-back can be significant. But equally valuable are those rewards that are not as immediately definable in terms of dollars and cents: discovering ways customers think you could improve, detecting other at-risk customers, and controlling negative word of mouth.

Uncover Improvement Opportunities

Dialogue with customers who are on the brink of leaving or who have already defected can help you pinpoint opportunities to improve product and service delivery, correct miscommunications, and identify new product opportunities. Just ask Bruce Grench, who knows firsthand the value of lost customers. As a young sales executive for Procter & Gamble, Grench saw the growing market for incontinent supplies and also saw how limited retail shelf space curtailed consumer choice. These insights spurred Grench to launch his own company, Home Delivery of Incontinent Supplies (HDIS), with the concept of making bladder control products convenient, affordable, and less embarrassing to purchase. By delivering the products to customers' doorsteps in discreet packages, HDIS has become the "L. L. Bean of adult diapers" in ten short years.

Ever mindful of leveraging customer switching dynamics, Grench and his staff keep a careful watch on lost customers and have a process for interviewing defectors to understand why they left. Says Grench, "The hope is that we can find something we're not doing right, because it offers us an opportunity." Two customer tracking processes help HDIS flag defectors. When a customer calls in to cancel regular delivery, the service representative inquires why the customer is canceling and enters a code for the reason in the database. In addition, the HDIS computer system tracks customer repurchase rates and flags inconsistencies. For example, when a customer who typically reorders every sixty days has not reordered in seventy-five, an HDIS rep calls to ask the reason.

Understanding lost customer dynamics has helped HDIS strengthen customer loyalty. For example, HDIS discovered that some customers were being lured away by competitors' coupons even though HDIS had a long-standing policy to honor these coupons on HDIS purchases. In interviewing defectors, HDIS discovered many didn't know about the coupon policy. This information helped HDIS sharpen its coupon acceptance message.

Lost customer surveys also showed some customers were leaving HDIS and jumping to store brands. Yet this research also showed these defectors liked and trusted HDIS as a company and would be receptive to HDIS-branded products if they were available. This led Grench and his team to launch HDIS's own brand, Reassure. Reassure has been a real success, now representing 30 percent of all HDIS revenues.11

The lessons here are these: lost customers are not all the same, and it's a mistake to assume they are all a lost cause. Many can be profitably won back. Customers who switch do so for varying reasons and circumstances. This fact makes many of your former customers, especially those who jumped from your product to another product, strong win-back candidates.

Develop an At-Risk Profile

By analyzing lost customers, you can develop a profile for detecting at-risk customers. When banking consultant Paul Lukin worked with a large southern bank to increase customer retention, he and his team found that a significant proportion of defectors were the affluent and older customers who had been with the bank for ten years or longer. This was a surprise, because it was assumed that younger and less tenured customers were the most likely to leave. Furthermore, almost all the defectors had at one time considered this bank their primary bank and most took all their accounts and services away. Hence the revenue loss was not limited to the loss on checking accounts but included the loss on other products as well. The bank recognized that attrition in this customer segment was a considerable revenue drain

because it left behind a younger and less profitable customer base. The bank quickly put retention processes in place that identified and targeted older customers who had not yet left the bank and that helped protect against further leakage of this vital customer segment.12

Limit Negative Word of Mouth

A lost customer recovery program can help you limit negative word of mouth from unhappy customers who defect and encourage positive word of mouth from the customers who are regained. If their concerns are left unaddressed, defecting customers can be a deadly source of informal negative publicity. In examining defections at the large bank mentioned earlier, Paul Lukin found that most customers visited a branch to close their account, yet bank staff did not attempt to keep the business. Bank executives were disturbed to hear that about eight in ten defectors said no one tried to convince them to stay with the bank. Reports Lukin, "my banking clients learned that their lack of attempt had a serious effect on the defecting customer since it communicated a lack of caring on the part of the bank. This lack of attempt added 'insult' to the already 'injured' departing customer."13

Even when the lost customer is so unhappy that she will never come back, you need to look for ways to neutralize some of the anger. Keeping a positive image in the marketplace is highly important. Indeed, according to 63 percent of the 650 CEOs responding to a poll conducted by The Chief Executive and Hill & Knowlton, corporate reputation is more important now than it was five years ago. Here are the percentages of executives who found corporate reputation important in each of these seven key areas:14

Helps sell products and services	77%
Makes it easier to attract top employees	61
Increases credibility in time of crisis	53
Encourages lower employee turnover	41
Allows greater pricing power	28
Tends to raise valuation and stock price	23
Leads to preferred merger and joint venture partners	12

Even though keeping a positive marketplace image is key for any company, not doing so is more perilous than ever. Never before has it been easier for a customer to spread good and bad tidings about a company. With the advent of the Internet, more and more buyers have in essence a giant megaphone through which they can tell others everywhere in the world (literally) about their buying experiences. Given customers' real-time communication ability, customer feedback on a business can balloon to extreme proportions in a remarkably short period of time. Biologists tell the parable of a lily leaf that doubles in size every day. The day before it completely covers its pond, it covers only half the water, and the day before that only a quarter, and the day before that only a measly eighth. So, although the lily is growing all summer long, it is only in the last week of the cycle that most bystanders would notice the proportions of that growth. But by then, it is far past the tipping point. The pond has been strangled, cut off from the light, and is no longer alive. The lily leaf offers a rich analogy to the Internet and its power to influence public opinion about your products and services.

Want a quick lesson in how the voice of the customer is growing? Using any search engine, go on the Web and search under the word complaints. Soon you will download a list of thousands of complaint Web sites. For example, thegripe.com is a Web site where you can leave your "gripes, grumblings, moans, brickbats and criticisms" about a host of topics ranging from work, the Web, money, your city, and so on. This site offers a "gripe of the week" competition, and at the time of this writing, the winning gripe was about Microsoft mice. Planetfeedback.com and Epinions.com are other places for consumers to discuss products and services, along with comments.com, complaints.com, problems.com, defective.com, concerns.com, failures. com, criticisms.com--you get the picture.

In addition to the Web sites that serve as complaint clearing houses, you'll see company-specific sites established by frustrated yet enterprising customers. For example, The Bally Total Fitness Complaint Guestbook, launched by a disgruntled former customer a few years back, allows surfers to read what others have to say about Bally and share their own stories. Contributor comments are categorized into five areas: Bally employee confessions, credit and collections, facilities and sanitation, rude behavior, and sales tactics.

The double whammy of customer defection and negative word of Web seems a particular threat for e-commerce companies. A recent poll of Web shoppers by Cogitative Inc. found only 55 percent of shoppers declared allegiance to a particular Web site and had no interest in switching to another site to perform the same activity. That means a whopping 45 percent of e-shoppers reported a likelihood of switching. Poor technical performance--such as frequent downtime and slow turnaround speed, outdated content, and poor customer service--

is the leading reason given when Web shoppers defect to other sites. In addition, Cogitative research found 30 percent of respondents expect the same selection of products they find when shopping in the analog world, and 50 percent expect a better range and selection. With Web site capability still in its infancy and more and more dot-coms and traditional retailers scrambling to get on-line, customer loss and win-back will be increasingly important dynamics requiring careful management by all retailers.

With word of Web an increasingly awesome power in the marketplace and corporate reputations more important to success than ever, customer defection and win-back initiatives can be pivotal in reducing negative word of mouth.

WHY NOW'S THE TIME TO FOCUS ON CUSTOMER LOSS AND WIN-BACK

If all the benefits we have described for your company's finances, reputation, and customer information system have not completely convinced you that you need customer recovery programs and now, hold on! There are at least three more good reasons why the time is right for your firm to establish customer loss and win-back initiatives alongside your acquisition and retention programs.

1. Never before have technological tools for winning back lost customers been more available or affordable. We all know the ease with which e-mail can be sent. But can technology really help you launch a direct-mail campaign to lost customers? Consider ELetter Inc., the on-line direct-mail service that allows you to launch an entire direct-mail campaign in minutes. Using the ELetter Web site, you upload your address list and document file. Next you select a format for your mailing (letter, postcard, or booklet). In one to four business days

your mailing will be on its way. ELetter prints, folds, seals, addresses, adds postage, sorts, and then delivers your entire campaign to the post office. Sound expensive? Colored booklets can be printed and mailed for around $2.60 each, a letter for $.70, and a postcard for $.49.

2. In any market space, there is a limited number of best customers, so you need to keep yours close. Win-back is one more tool to do this. In All Customers Are Not Created Equal, Garth Hallberg points out that "for most categories [of business], one-third of the buyers account for at least two-thirds of the volume. This 'high-profit segment' generally delivers six to ten times as much profit as the low-profit segment. Moreover, they are critical, not only because of their profit contribution, but also because of their relatively small number."15 Bottom line, this small segment of profit-producing consumers deserves a high priority in your marketing plan. That's why you need to back up your retention efforts with win-back and save programs that return that high-value customer to

your business as quickly and efficiently as possible.

3. Win-back programs can give you a real competitive edge. A combination of strong acquisition, retention, and win-back programs can help you bullet proof your firm against competitive attacks. Conversely, if your competitor gets strong win-back programs in place before you do, your chances for recapturing and keeping the best customers are reduced considerably. In many things in life, there is true advantage to being first. Win-back programs are no exception.

Let's take a look at how one company is masterfully leveraging these three factors--using technology, protecting its best customers, and being first to market with state-of-the-art service systems--in a highly volatile, rapidly changing marketplace.

Like many businesses, banks are under attack from all sides. Brokerage firms and mutual funds are out to grab traditional bank customers and the highly profitable ones are the most sought after. The 80/20 rule is often applied to various forms of economic distribution. Applied to profits it states that 80 percent of a firm's profits are generally produced by roughly 20 percent of its customers. This rule is alive and well in banking today and perhaps even an understatement. According to Market Line Associates, an Atlanta bank consulting firm, the top 20 percent of a typical bank's customers contribute as much as 150 percent of overall profit, while the bottom 20 percent of customers siphon off about 50 percent of profits from the bank's bottom line. It is this profit awareness that has awakened banks to the reality that they should fight harder to keep some customers and not others.

That's precisely the motivation propelling First Union Corporation, the nation's sixth largest bank, to find ways to help its reps provide effective but tiered customer service, with a keen eye toward saving those customers with highest value. Customer service rep Amy Hathcock is one of hundreds of frontliners fielding phone calls at the company's huge customer service center in Charlotte, North Carolina. They handle forty-five million customer calls a year, and first-class customer service is a critical priority. In her call center cubicle, Hathcock is surrounded by an array of reminders to deliver the personal touch to callers. A "practice random kindness" bumper sticker is posted near her phone and a television carrying the weather channel hangs from the ceiling so she can take a quick glance and know if her current caller is in a rainstorm.

But when deciding to say yes or no to a caller who requests a lower interest rate on a credit card or wants to avoid a $28 bounced check penalty, the answer is anything but random. All of it depends on the color of the tiny square that pops up on the screen alongside the customer's name. For customers who get a green pop-up, waivers are granted because these customers generate hefty profits for the bank. Not so the red pop-ups. These customers lose money for the bank, and so Hathcock stands firm. Yellow is for the borderline customers, whose profitability provides some space for negotiation. Einstein, the bank's computer system, takes a quick fifteen seconds to pull up the ranking on a customer, using a formula of variables including such items as minimum balances, account activity, and branch visits.

First Union has seen evidence of the 80/20 rule in numerous ways. During a recent focus group with customers, First Union bankers spoke with a woman who had kept as little as $18 in a savings account for more than twenty years. Most of her money was held by another financial institution. She kept the account because of sentiment: her mother had opened it for her when she was thirteen.

Recognizing that the 80/20 rule is profoundly at work in their customer base, visionary banks like First Union are separating the profitable from the nonprofitable customers and servicing them accordingly. Nonprofitable customers make frequent branch visits, keep less than $1,000 in the bank, and call often to check on balances. These nonprofitable behaviors are in stark contrast to those of the most profitable customers, who keep two thousand dollars or more in their accounts, use a teller no more than once a month, and almost never use the call center. The bank's worst customers often cost the bank a minimum of $500 apiece each year, while favored customers each generate more than $1,000 in profits each year.

First Union estimates its Einstein system added at least $100 million in annual revenue to its 1997 total revenues of about $12 billion. But these gains have not come without a real commitment to finding out which customers to service and save through extraordinary service. "Everyone isn't all the same anymore," says Steven G. Boehm, general manager of the bank's customer information center.16

Whether you're a small mom 'n' pop company or a Fortune 100 corporation, the time is now to put workable plans in place for saving at-risk customers and winning them back if they leave. Technology and know-how are converging to make this possible for any company, regardless of size. It's the next frontier for companies who are truly committed to leveraging the loyalty and profits from their customers. Get there first, and you'll enjoy a big advantage over your lagging competitors.

SUMMARY

- Losing customers costs your business thousands (or even hundreds of thousands) of dollars a year.

- Lost customers mean lost reputation and lost opportunities.

- Recapturing customers is easier than you think.

- Knowledge is essential--learn who you are losing and why you are losing them.

- Now is the time to start recovering lost customers--the time and technology are right.

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