

Preventing 'customer churn'

Why B2B businesses switch
suppliers and the industries most
at risk from customer defection



Introduction

Business owners of all types know that trying to win new business can be vastly more expensive than retaining existing customers. Nurturing existing customers not only provides stability but can also lead to impressive growth. Infotrends quotes that a 5% growth in current customer business can equate to as much as a 50% growth in bottom-line profits.¹

Key findings

- Poor customer service and poor communication are cited as the most common reasons for switching supplier
- Office Supplies companies and mobile phone operators are most at risk of customer churn
- Water companies, PR firms and lawyers experience the least churn
- Businesses find it difficult to grow without a stable customer base, but the technology is available to enable firms of all sizes to communicate effectively and retain their customers

In the business-to-business arena, firms are often fighting in highly competitive, commoditised market places. Any period of economic downturn forces business owners to consider their costs to a greater degree, and makes customer-churn more likely than ever. It is therefore essential for firms of all sizes to protect their customer base, and with it the short-term viability and long-term growth prospects of their business.

Pitney Bowes' recent survey of business directors/managers across Europe and the USA demonstrates the B2B sectors most at risk from customer churn and those providing a greater degree of stability. Perhaps more importantly it also outlines the reasons why these decision makers choose to change suppliers. According to the survey, these are largely centred on two themes:

- Poor customer service and product/service delivery
- Poor communications, anywhere from asking about customer needs, to product updates to simply keeping in touch

Understanding these two themes and formulating a plan to deal with them should therefore be considered a vital part of any firm's overall business strategy.

¹ Infotrends, 2008 Transpromo Summit

Results

Pitney Bowes surveyed 1000 business directors/managers in each of the UK, Germany, France and the USA asking which suppliers have been changed in the last 12 months.

Table 2: I have changed my x supplier in the last 12 months

B2B Churn rate 2010	Country				
	Total	UK	USA	DE	FR
Office supplies	23.70%	26.70%	20.40%	26.70%	24.40%
Mobile phone	18.00%	18.50%	14.30%	15.80%	27.20%
Printer/copier	16.70%	18.10%	13.90%	17.20%	20.20%
Insurance	16.10%	17.90%	15.90%	16.60%	14.00%
ISP	15.80%	17.50%	13.40%	16.00%	18.60%
Print services	14.30%	13.10%	14.80%	11.70%	17.00%
Bank	13.30%	11.00%	13.30%	12.80%	16.20%
IT support	11.70%	11.60%	9.60%	10.90%	16.80%
Electricity	10.60%	18.10%	4.60%	19.80%	6.00%
Marketing/advertising	7.80%	8.60%	8.20%	5.30%	8.60%
IT infrastructure	6.60%	8.00%	6.10%	5.50%	7.20%
Postal services	6.40%	7.60%	4.90%	10.30%	4.40%
Accountants	6.40%	6.40%	6.60%	4.50%	7.80%
Pensions	6.30%	6.60%	6.50%	4.30%	7.40%
Lawyers	5.40%	3.80%	5.70%	6.30%	5.40%
PR	4.20%	4.20%	4.40%	4.70%	3.20%
Water	2.60%	2.60%	2.20%	4.00%	2.00%
Average	10.94%	11.78%	9.69%	11.32%	12.14%

Customer churn by sector

There may be some slight discrepancy between the lengths of contract that exist with different supplier types. But, in general, businesses tend to review most supplier contracts on a yearly basis, allowing a robust comparison.

The survey shows that the sector most at risk of customer churn on average, and top in three of the four countries surveyed, is office supplies, with just under a quarter of all firms having changed their supplier within the last 12 months.

Office supplies is a sector where there is a huge amount of competition for extremely price sensitive products. Firms often require these products at extremely short notice, meaning any delay on the part of the supplier has a major negative impact. It's also a highly 'visible' cost with little differentiation in product quality, and therefore subject to simple scrutiny for any firm looking to minimise expenses.

The sectors least at risk are water suppliers, PR firms and lawyers. Using the UK as an example, of all the utilities privatised in the last three decades, water has proven to be the least competitive market, and the lack of suppliers has led to far greater customer retention.

This is in direct contrast to the electricity market, privatised in 1990 by the UK Government and later to develop into a hugely competitive retail market. A similar situation occurred in the German electricity market, where large, vertically integrated utilities compete with one another for customers on a more or less open grid. Electricity suppliers in both the UK and Germany show high levels of customer churn as a result.

For PR firms and lawyers, the lack of customer churn probably points to the value of forging customer relationships over a prolonged period of time that businesses would find hard to build up again with a new 'supplier'. It is also worth noting that both PR firms and lawyers would expect to excel at client communication, which if poorly handled is cited below (Table 2) as one of the key reasons for customer churn.

Table 2: My reasons for changing supplier in the last 12 months

B2B Churn reasons	Country				
	Total	UK	USA	DE	FR
Slow customer service	51.10%	59.40%	52.60%	46.80%	44.00%
Late or over-schedule delivery of service	36.80%	37.80%	34.40%	38.10%	39.20%
Doesn't ask about customer needs	29.60%	27.90%	25.40%	21.90%	47.40%
Not in touch	28.00%	23.70%	28.90%	17.20%	41.60%
Not told about updates and developments	26.50%	29.10%	23.30%	28.30%	28.40%
Call centre can't answer questions	26.30%	26.50%	22.80%	32.20%	27.00%
Doesn't recognise my value	25.40%	32.90%	23.70%	27.10%	19.80%
Irrelevant marketing	22.50%	19.90%	17.20%	26.50%	32.00%
Only email queries allowed	22.00%	21.90%	21.20%	20.00%	25.80%
No online self-service	13.50%	8.80%	14.50%	13.80%	16.00%
Low marketing, low visibility	10.90%	6.80%	9.00%	8.30%	21.40%

Reasons for customer churn

Poor customer service and neglectful communications are the primary reasons business owners cited for switching supplier.

In terms of customer service and product/service delivery, timing was the critical factor. An inability to hit deadlines, allied to slow response when dealing with queries, was the most important reason for firms to look elsewhere. Sticking to agreed deadlines and acting rapidly to resolve any problems should therefore be ingrained into the culture of any business.

Poor communications covers a wide range of topics, with over a quarter of B2B customers likely to switch suppliers when left feeling neglected ('not in touch') and/or uninformed 'not told about updates and developments'. Respondents were also annoyed when bombarded with irrelevant marketing material, whilst nearly a third switched as a result of firms failing to understand and act upon their needs (the key reason for French business owners at 47.4%).

The survey demonstrates clearly the importance of building up customer data and knowledge over time, and furthermore in using that data in personalised communications that speak directly to the customer and address their specific requirements. Personalising communications in this way also helps overcome another reason for churn – customers feeling that suppliers do not value their business.

There is also clear evidence that customers require multiple communication channels with their suppliers. Restricting queries to email only or running call centres with staff that lack the required knowledge or authority to answer customer questions will cost firms business. However, it is equally true that if businesses are going to communicate via multiple channels, they need to ensure they have the know-how and infrastructure to deliver an effective service, and incorporate response data into an overall communications strategy.

Conclusion

Slow, ineffective customer service and poor communication with customers are the broad themes which B2B firms need to address in order to retain more of their existing clients. Failure to do so will see disgruntled customers defect in numbers.

Both customer service and customer communications rely hugely on capturing customer data and using that data to inform future interactions with the customer. The technology is readily available to allow this to happen, enabling businesses at all levels to communicate effectively on a personalised basis.

In terms of customer service this might mean enabling a call centre operative to immediately access the very latest information on previous interactions with the customer. In this way, queries can be dealt with more effectively.

Or when looking at customer communications, better use of customer data might open up obvious cross- and up-

selling opportunities based on the past behaviour of the customer.

Both examples show the customer that the relationship is taken seriously and is valued.

Certainly, those suppliers at the top of the churn-rate table (Table 1) would be wise to carefully assess their current standards of service and customer communications. There is a clear chance for those making improvements to steal a march on more complacent competitors.

But equally, even suppliers at the bottom of the table should look to continually improve their knowledge and understanding of the customer in order to build deeper, longer lasting relationships.

In the age of the search-engine, alternative suppliers are never more than a mouse-click away for those businesses unhappy with how they are being treated.



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