



## ***Turn to Your Customers to Solve Customer Churn*** **by Shelley Hall, Principal, Catalytic Management**

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The world isn't flat and sales revenue shouldn't be either. But reality is staring you in the face, and everything signals flattening sales. You're convinced that the sales department is working just as hard as last year, and there have been no cuts in the marketing or advertising budgets. The company's products and services have been around a long time and have earned a reputation for delivering value. So, what's the problem?

Talking to the team and reviewing financials highlights a big problem – the company seems to be suffering from “customer churn.” You're losing customers at a higher rate than you're gaining new ones. The net result is that you have to work harder just to maintain current sales levels. You're running in place! Now that you know the problem is flat sales caused by customer churn, you can solve it by taking an honest, hard look at your company and its management.

But beware! You will not find the answer in the easy excuses: the economy is down; there are new competitors in the market; or, my personal favorite, “We need to replace the sales team.” You will find the answer is in an honest evaluation of the four key customer value determinants:

1. products and/or services;
2. sales representatives;
3. management and
4. service quality.

Before you set your team in motion to devise the right solution, you first need to step back and carefully assess the problem and where you are.



### **Start With a Situational Assessment**

Just what is the situation? It's not as simple as "we lost 50 more customers than we gained." You need to examine the statistics and find the story behind them. Ask the questions that will expose where the customer defection is occurring. The best solutions start with the right questions:

- Is the defection among all customers?
- Are you losing more long-term customers or is the defection coming from relatively new customers?
- Is the defection largest in a particular customer industry?
- Does one product line or service represent a disproportionate percentage of the lost customers?
- Is one territory losing more customers than others?
- Is one sales rep responsible for large numbers of lost customers?
- Calculate average churn throughout the company based on specific factors and then compare each product, territory, customer industry, and sales rep to that average.
- Which competitor seems to be stealing your customers? This question must have real data to back it up; anecdotal information from sales reps is not always accurate.
- Are there trends in the timing of the losses? Is it seasonal?

Powerful forces will push for a quick resolution – after all, revenue is king! But resist the quick fixes. Truly lasting and effective solutions are the result of a careful, thoughtful and non-political self-examination. Your fix will only be as good



as your problem definition. The worst course is to rush to a conclusion, develop a response, and spend money on implementation, only to see revenue stay flat or, even worse, decrease.

The quick fix can be worse than no fix, as evidenced by the failure experienced at a large call center in Maine that delivered corporate IT support. Several years ago, the call center began losing customers. When asked why, the call center customers replied, “*Our* customers are complaining it takes *your* reps too long to solve the problem.” The call center jumped to the conclusion that if they gave their reps more tech training they would be able to answer questions faster. Problem solved, right? WRONG! When the time and money spent on the training didn’t improve customer satisfaction and customers still cancelled, the call center realized it was time to really dig in and conduct a serious analysis of the root cause. After careful review and analysis that involved their reps, they found the root of the problem – the new performance support system they had installed added too many escalation levels and actually slowed the problem resolution process instead of speeding answers. The rush to judgment cost them time and money – two things few companies have in abundance.

### **Self-Examination “Hurts So Good”**

Honest self-examination is never pleasant, but it is absolutely necessary. My chiropractor calls it the “hurts so good” pain. Spinal manipulation isn’t fun, and hard-nosed reflection isn’t either, but the end result is terrific. The answers uncovered in your assessment will begin to sketch an outline of the situation. But filling in the details requires further questioning. As stated earlier, solving the problem of flat sales and customer churn demands taking an honest, hard look at your company and its management. The standard excuses are just that -- excuses -- and are not the real issues. Don’t be side-tracked by what’s really just whining.



***“Its not as simple as ‘we lost 50 more customers than we gained.’ You must ask the questions that will expose where the customer defection is occurring”***

The answer will be multifaceted, but it will always come down to one key business differentiator: the value you are offering and then delivering to your customers. Your customers consciously or unconsciously evaluate several factors when making their value determination. Your company’s self-examination must include an exploration of four key customer value determinants:

- Products and/or services
- Sales representatives
- Management
- Service quality

#### **Flat Sales – Flat Culture?**

Before you focus on each of the four value determinants, there is a fundamental question you, as a senior manager, must ask and address. Is your company culture “flat?” In too many business situations where sales are flat, the answer lies in the very definition of “flat.” Webster’s dictionary offers 19 different definitions of flat, and two of those are particularly relevant here:

- Having little or no sparkle (or taste)
- Having little or no interest

You can’t solve the problem and turn the company around if the energy and enthusiasm are gone. A motivating, energized corporate culture will encourage creativity and communication, and give the staff the freedom and confidence to speak honestly as you assess the flat sales/customer churn problem and examine your company.



Ask yourself if your sales, marketing, and management teams still exhibit the same enthusiasm and energy they did when sales were growing. Has that lack of energy spread throughout the company and filtered down to your customers? When you do the tough self-examination, do you see:

- Tired products or services?
- Re-formulated marketing with little real sparkle or energy?
- Maxed-out, tired, bored sales reps?
- Re-energized competitors?
- Customers who no longer turn to you as the industry expert?
- Customers who have stopped saying how great and innovative you are?
- Uninspired management?

It takes real courage to pull out the magnifying glass and find the warts. It also takes extra energy and desire to dedicate time and resources to solving this problem, and you can bet no one feels they have that time or the resources, especially in an environment that has gone flat.

But as a senior manager, you must engage your human resource and/or organizational development team in the search for root causes and in the creative brainstorming it will take to develop a lasting solution. You didn't get into this situation overnight, and you can't fix it overnight. Your solution will require change, possibly dramatic change. Even necessary change is frightening, disorienting, and if not handled properly, demoralizing for the very staff you need to energize. In tandem with the root cause analysis, your HR team should help you energize the company, and train critical managers in "change triage" so they can watch for



the early warning signs of employee stress and shutdown due to the change.

The corporate landscape is unfortunately littered with companies that lost their edge when they stopped innovating and when they stopped listening to their customers. Polaroid Corporation and Digital Equipment quickly come to mind. Polaroid created the entire instant photography industry through leading innovation and risk-taking. When Polaroid stopped innovating and lost touch with consumers, the company began a long decline. The result is a company that is a shell of its former high-flying self. Digital Equipment suffered a similar fate when management misjudged the consumer market for computers. Digital declined, was sold to Compaq, which was eventually sold to Hewlett Packard, and another leading-edge company is gone because they lost touch with their customers and lost the energy and creativity that was their genesis.

#### **Ask Your Customers to Define Value**

How do you begin to put the excitement back into your company? How do you become not only relevant but essential to your customers again? How do you know if you are still delivering real value to your customers? This is the easy part – you ask them. If you face flat sales and high customer churn, it's because you've lost touch with your customers. Just ask them and they'll tell you what they want. Listen and they'll tell you how to sell to them. Your customers know what's relevant to their needs and how you can reinvent your company to meet those needs. Your customers will tell you what you need to know to stay current, relevant, and able to deliver real value.

Focus every aspect of your company on your customers, from your people to your processes to your technology. When you truly communicate with your customers and focus on them, they won't let you become complacent, tired or bored again. They'll force you to stay nimble and to change with them. Try calling your top 10 customers and the last 10 prospects you didn't close. Ask why they buy from you or



why they didn't buy from you, and what you should be doing to earn their business in the future.

Consider establishing a Customer Council. Fill it with five customers and a company representative from product development, sales, marketing and operations. If your company or product line is large enough, consider a Customer Council for each product or for each customer industry. Interestingly, one of the best examples of this "customer council" strategy can be found in the nonprofit world. The last 15 years have seen major strategic changes in the way non-profits operate and secure support. Morgan Memorial Goodwill Industries in Boston responded to reduced government support by reaching out to corporations for more than just funding. Goodwill created Business Advisory Boards and filled them with representatives of industries key to Goodwill's training and job placement services. Through these advisory partnerships, Goodwill has successfully created industry-specific training programs with curriculum designed by their business council partners. By listening to and acting on the advice of their business advisory partners, Goodwill has increased job placements, improved their public relations and experienced real growth.

Customer Councils are just one way to use the "voice of your customer" to define and create value in your products and services. Listen to your customer's concerns and their partnership requirements and then act accordingly! If you ask and then jointly agree on what make sense for the company and for the customer, you had better implement! A word of warning: Don't ask if you're not prepared to act. That's because failing to act destroys your credibility. Once you institute their recommendations, tell your customers or prospects of the roles they played, and thank them for re-energizing your company!

### **Are You Delivering Value to Your Customers?**

Once you have acknowledged the state of the company's culture, set in motion the internal experts who will guide change and help you reenergize the company, and listened to the "voice of your customers," it's time to implement those



ideas in each of the four critical customer value determinants:

1. products and/or services;
2. sales representatives;
3. management; and
4. service quality

Let's start with the first customer value determinant, your products and services. How do they stack up against improvements or advances in your industry? Do they meet the needs of a marketplace that changes almost overnight, or have you merely repackaged old products in an attempt to look current? Get out there and get in touch with the market all over again. What's the buzz at the conferences, in the industry trade journals? What are the new trends and technologies coming out of the universities? What are your competitors doing that you're not? Are there new features or enhanced services you must add to get that edge back? Have you made your product, services, or pricing too complex in an attempt to lead by being "feature-rich?" Do customers really want all those features?

Are you creating confusion and buyer resistance due to too many options or choices? The recent Medicare prescription debacle is a great example of this. In the misguided attempt to "be all things to all people," the US government created programs with hundreds of plan options that often were so specific geographically that you could get prescriptions in your own county but if you got sick in the next county the prescription coverage was not recognized. The result? Senior citizens by the millions have avoided signing up for the coverage. Surveys indicated that seniors would rather buy their drugs from Canada than deal with the stupefying maze presented by Medicare.

Getting touch and staying in touch with your customers will guide your product refocus, redesign and repositioning.



## **Are You Sending the Right Message in Advertising and Marketing?**

Once you identify what's tired about your products or services and where you need to update or reinvent, move to the next stage, re-energizing your marketing efforts. Don't be penny wise and pound foolish by short-changing your marketing and public relations budget. If you're going to get back into the game and lead, you need "charismatic" marketing that will tell people that you're on top. You want marketing that convinces customers and prospects that the old energy is back! Complacent marketing departments that ignore new design trends and delivery technology, or that just don't see the excitement themselves must be re-energized in order to spread new energy to your market.

History teaches many lessons, and one of them concerns marketing and advertising. Facing declining sales and a less-than-stellar quality reputation when compared to foreign competitors, General Motors made Lee Iacocca the face of the company, the face of their commitment to quality. This risky move helped spur General Motors back to relevancy and profitability. But a word of caution, the old saying "greatness only comes around once" can be painfully true. Recently when GM was once again in trouble, the attempt to reenergize the market with a new focus on Iacocca failed miserably. Re-energizing means re-inventing, not rehashing the past.

Reinventing sometimes means taking risks, and one of the most successful marketing risks was executed by Avis Rental Car. Realizing that they were #2 in the market, they took a huge risk and built their brand around the slogan "We're number 2, we try harder." This risk paid off handsomely with a dual result: delivering rapid growth for the company, and energizing their employees, who now had to live up to

**"Have you made your products, service or pricing too complex in an attempt to lead by being *feature rich*?"**



the “we try harder” motto. Everyone felt the excitement, from employees to customers.

### **Are Your Sales Reps Motivated or Deflated?**

The second key customer value determinant is your sales representatives. They have a strong influence on how customers perceive your company and its offerings. When your products, services, and marketing are tired, so are your sales reps. No one can continue to sell lackluster products or services every day without physically leaving the company or intellectually leaving it by going into “auto-pilot” mode. Sales reps may look like they’re working hard and may still be asking the customer the right needs-analysis questions, but your product may no longer solve customer needs. Or maybe now it’s only a partial solution to the need. Despite the old saying that a good sales rep should be able to sell ice to Eskimos, no one buys what they don’t need. Flat sales can be the first indication that the need for your product is waning, and that will deflate any sales team’s enthusiasm.

You should consider your sales and service team as the “voice of your internal customer.” Making it easy for your customer to do business with you starts with making it easy for your sales team to support the customer. Internal systems should be built or re-engineered to make meeting the customer’s needs paramount -- and make it possible to do so in a time frame that keeps the customer happy. Discard any of those negative assumptions about your sales team – they are not whining. They know what your customers need, if they’re good, so ask them and involve them in the way you should directly involve your customers in defining value. The Maine call center company cited earlier is a prime example of how involving your service teams and anyone who directly interacts with customers in the assessment *and* recovery phases is critical to success.

No product will sell itself, and you need highly talented, motivated and energized sales reps. Ask them what they need to feel enthusiastic again. Examine your compensation and reward programs to determine if they’re focused on the



right business drivers. Are they rewarding the actions that will deliver results? Are politics and jealousy infecting the sales team?

As you refocus your products, what training will the sales and support team need to effectively sell, market and support your company's new value proposition? Does the team need updated industry knowledge? Have they mastered and are they deploying "consultative selling" or are they still feature-driven? Is the sales rep adding value to the sales process and to the customer, or merely pushing product and taking orders? You want your sales team to provide business knowledge to your customers that will help your customers meet their goals. You want your sales reps to move beyond "consultative selling" to a higher level of selling: **value selling**. **Value selling** demonstrates that the sales professional is focused on the customer's vision, growth and transformation. It is selling that goes beyond just solving a customer's problem and includes presenting new ideas and concepts that will introduce the customer to new opportunities.

**"Whether you consciously create, deliver and communicate service promises or not, they happen every day and they determine exactly how satisfied or dissatisfied your customers are and will be with your company"**

Take a close look at the leadership skills of your sales managers. This team should have seen the problems coming and asked for help. Are sales managers isolating themselves from the customers? Are they drowning in paperwork and meetings with little time for coaching and client communication? When was the last time they received training and professional development? Listening to your sales people and investing in ongoing professional development training sends a clear message that you value their contribution to the company's success. It will keep them invested in you!



### **Management Malaise**

The next area to focus on is the third key customer value determinant: your company's management. Your company's internal and external values are established by the actions of your management team. Give your management team a kick and get them moving again by actively involving them in the process of reconnecting with your customers. Assign each member of the management team three clients to interview. Prep your managers to ask customers how their respective departments can better serve them. Assign department managers to the Customer Council described earlier.

Set up "innovation/ brainstorming" sessions with your management team and all corresponding teams that service your top clients. Add a customer voice metric to their comp plans and rewards, such as customer retention numbers or customer satisfaction scores. Include customer communication plans as part of performance reviews. Go off-site, bare your soul, and ask forgiveness for forgetting your customers. Then challenge your managers to get out in the field with customers! Challenge your managers to lead you back to relevance in the marketplace!

### **Service Quality Your Best Retention Strategy**

Value is the first reason customers buy. Your product or service must answer a business need to be purchased. And yes, your sales rep is part of that value. But once the customer has made the decision to buy from you, it is service quality that will make them glad they chose you and it is service quality that will heavily influence their continued satisfaction. All things being equal between your value and your competitors' value, it is service quality that will differentiate you from the pack. Service quality is the fourth and in some instances the most important key value determinants.

Your clients receive information every day that tells them what to expect from your company. These expectations are your "service promises." Whether you consciously create, define and communicate service promises or not, they happen every day and determine exactly how satisfied or



dissatisfied your customers are and will be with your company. Disconnects in service promise delivery occur when there is *a lack of*:

- understanding of the role of service quality in your organization
- organization-wide commitment to service, led by senior management
- service promise definition
- clear communication across all functional departments within your company regarding sales and service; and/or
- assign responsibility for service within your company.

As a senior manager, your role in reducing customer churn and increasing revenue is to make a sincere commitment to building a customer-driven culture that delivers differentiated service every day in every customer interaction from front end to back office. Companies that are successful at being customer-driven have these characteristics in common:

- Committed senior leadership
- Service as a business metric
- Stated “service strategy vision”
- Commitment and active participation of first-level supervisors
- Strong, consistent customer focus
- Alignment between employee and organization goals
- Unequivocal commitment to continuous improvement
- Effective change management strategy and execution
- Belief and commitment to empowering employees
- Encouragement of innovation



The service commitment must start and be driven at the highest levels of your company. You cannot simply “develop the strategy” and then hand it off to others and move on. You must be active in culture development and maintenance, and insure that performance rewards and metrics are in place to monitor and drive results. Keep your service promise simple, direct and actionable. The Ritz Carlton hotel company has become synonymous with superior, unparalleled service and it starts with a very simple service promise: “We are ladies and gentlemen serving ladies and gentlemen.” From this simple phrase they have built a brand that is instantly recognized for service. That commitment begins with management and flows to every employee and is delivered to their guests.

#### **Competition: Your Ultimate Incentive to Act**

Flat or declining sales and vanishing customers should be incentive enough for you to take action now and make the wholesale changes you need to get your company back on track. But just in case you need further incentive, remember that while your company was snoozing and losing its spark, your competitors were likely watching and cheering. While your company became complacent, they energized themselves, redefined their market, and as a result surely stole business that would have been yours. So watch out for the new kids on the block and just as importantly, never lose track of that long-time competitor who may just be gearing up to steal your customers.

Listening to the voices of your internal and external customers is the only guaranteed way to stay relevant. To remain relevant and energetic as a company and to remain on target with your customer’s value needs, you must develop on-going long-term systems that will communicate with internal and external customers, capture their input and, most importantly, act upon that knowledge. Begin with a clear and honest assessment of why customers are leaving and then build the mechanisms of people, processes and technology that will fix the existing problems, send early



warning signals of impending problems, and consistently keep you in touch with your customers.