



TOP FIVE B2B CUSTOMER RETENTION BEST PRACTICES

WHITEPAPER



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CONSIDERATION

According to a recent McKinsey report, B2B companies that focused on changing their customer experience processes saw a 10-15% growth in revenue, higher client satisfaction scores, improved employee satisfaction, and a 10-20% reduction in operation costs.

CUSTOMER CHURN INHIBITS ORGANIC GROWTH

Customer churn is often the biggest inhibitor of organic growth for B2B companies. In Frederick Reichheld's "oldie but goodie" book, *The Loyalty Effect*, he makes the following assertions:

1. In a typical company today, customers are defecting at the rate of 10 to 30 percent per year.
2. In most businesses other than retail, the costs of acquiring a customer, setting up an account, and checking credit are so high that the economics just won't work unless the customer stays loyal.
3. With a 5 percent increase in customer retention rates, a business can potentially increase the value of customer relationships by 25 to 100 percent.

Preventing customer defection should be of the utmost importance given the financial implications, yet it's often managed through reactive processes and left to customer service and sales teams to deal with on a case-by-case basis. Leading companies don't leave customer retention to chance.

According to [Customer Think](#), only 17 percent of B2B companies have fully integrated customer data through their entire organization, meaning that the development of customer-centric strategies is largely dependent on guesswork as opposed to objective, tested information. Given the fact that 86 percent of those who receive a good customer experience are likely to become repeat customers, actively measuring and managing customer engagement is critical to the overall health of the business.

Furthermore, according to a recent [McKinsey report](#), B2B companies that focused on changing their customer experience processes saw a 10 to 15 percent growth in revenue, higher client satisfaction scores, improved employee satisfaction, and a 10 to 20 percent reduction in operation costs. All that said, if manufacturers and distributors aren't focused on their customers' experiences and taking a proactive, objective approach to how they manage their customers, then they're doing it wrong.

We'll discuss the five essential best practices that the world's largest B2B manufacturers and distributors use to achieve significant and sustainable improvements in retention rates and organic growth.

1. B2B CUSTOMER RETENTION: IT'S MORE THAN A COST OF DOING BUSINESS

Many companies accept customer churn as a cost of doing business, while not necessarily understanding how detrimental that cost can actually be. Doing nothing about customer churn is making it significantly more difficult for your sales reps to make quota and for your company overall to hit organic growth targets. Let's say your organic growth goal is 10 percent growth this year; your sales reps first have to overcome 20 percent churn, which means you actually need to grow 30 percent to net 10!

According to recent [GetElastic infographic](#), it costs five times as much to attract a new customer than it does to keep an existing one. And returning customers actually add more value than you might realize, as existing customers are 50 percent more likely to try new products and will spend 31 percent more on average, as compared to new customers.

B2B sales cycles can be long and rather rigorous, so why waste the time and effort by losing customers who add value to your company? By leveraging data-driven, predictive technology, B2B companies can automatically identify customer defection at the product level and prompt the appropriate sales rep to take action to reverse the trend, without a manual process or human intervention.

We all know customer retention is a difficult feat but, with a strong and consistent program in place, keeping your customers happy is much more manageable than you may think.

2. MAKE RETENTION A PROGRAM, NOT A REACTION

Customer retention isn't a one-time event; it's an ongoing strategy and process. After all, customers don't typically make a snap decision to stop buying from you. They gradually drop purchase volume and stop buying product lines over time. For that reason, most retention activities happen when a customer is half-way or nearly out the door.

This reactive approach is extremely costly and ineffective, as you likely have to "buy back" the business through marketing programs and steep discounts in the future. Furthermore, for most B2B manufacturers and distributors with thousands of customers and products, spotting these early signs of defection across all accounts is nearly impossible when relying solely on sales reps' interactions with customers, rather than relying on data-driven solutions.

Companies that excel in retaining customers put programs in place to preempt defection. By recognizing the buying patterns that indicate the early signs of defection, companies can proactively address the decline in purchase volume with the customer while there is still time to salvage the relationship. Retaining the customer then gives you an opportunity to introduce new categories, product lines and SKUs - while also allowing you to demonstrate your commitment to the relationship.

"Customer churn analysis is about finding patterns that suggest a customer may leave before they actually do, with the hope of identifying potential levers you can pull to keep them in the fold," as stated by a recent [Opex Analytics article](#). With this idea in mind, customer retention should be more than case-by-case reactions to defection; it should be a deliberate program baked into each sales reps' daily routine.

Helping reps identify signs of defection across each customer-product combination is possible, but it requires the adoption of prescriptive models that can take the guesswork out knowing when and where defection is occurring.

3. HELP REPS REVERSE EARLY-STAGE DEFECTION

Not all drops in purchase volume signal defection. But how do you separate the signal from the noise? Naturally, a drop in sales is expected and observed when a product is not in season. While these changes in purchase behavior may be easy to spot for the top 20 percent of your products and customers, accounting for seasonality effects from customers in different industries and across thousands of accounts and products is nearly impossible through manual analysis.

For transactional businesses, churn is the silent killer of growth. Research shows that churn rates of 20 to 40 percent are common, which means companies start in a deep hole relative to top-line growth targets. With innumerable customer and product combinations, the only way to detect early stage churn from transaction data is by using a predictive model. By comparing actual purchases against what is expected, sales reps can engage customers at risk of defection before it's too late, and improve customer retention rates.

By doing so, B2B companies can automatically identify customer defection at the product level and prompt sales reps to take necessary actions.

4. WRAP SALES PROCESSES AROUND RETENTION

Simply identifying accounts with defection risks is not enough. Sales reps and other front-line employees must have a simple, systematic way to act on the information and, more importantly, understand how doing so contributes to their individual success.

Customers posing a defection risk should be presented as a sales opportunity, just as a cross-sell or net new opportunity would be presented to the sales rep. These opportunities can help guide sales reps' conversations with existing customers and help them prioritize where their time is best spent. Make the follow-up on these opportunities part of their sales process and demonstrate how acting on these opportunities makes achieving quota much easier.

As stated in the previous section, giving reps actionable guidance with relevant recommendations key to drive customer loyalty and retention. Tying a prescriptive model into your sales process will help generate opportunities, providing an objective and systematic framework to measure performance. Visibility to these specific opportunities will help sales managers coach reps to not only win new business, but hit organic growth targets as well.

5. COMMUNICATE, MEASURE AND REINFORCE

A key to gaining and sustaining adoption is demonstrating quick wins and ongoing successes. Measuring the program's effect on retention rates as well as its contribution to revenue growth will play a key role in getting and keeping the sales team and the rest of your organization onboard. Companies that see the greatest levels of adoption do the following:

“NULL SPACE IS EASY TO FIND, UNDER-PENETRATED CATEGORIES IS NEARLY IMPOSSIBLE TO KNOW”

We commonly observe this myth in an environment where B2B companies have opted to tackle organic growth in-house with analysts and reports. The rationale behind this myth is that while it may be possible to identify what similar customers should be buying, it's nearly impossible to know if you've got an under-penetrated category.

Take the foodservice distribution industry, for example. If a sales rep is planning the week's calls and visits, they likely know that a Chinese buffet restaurant should be buying soy sauce, and that the pizza and salad bar restaurant is likely to not purchase it. But, the myth dictates that knowing if that Chinese buffet restaurant should be buying more soy sauce is impossible.

The myth is born out of the limitations of spreadsheets and backward-looking analytics. When using these tools there's no real means to determine when reps have an opportunity for volume up-sell.

But, prescriptive sales solutions are making good use of existing data to do just that. With patented algorithms, sales reps can receive specific guidance when they have under-penetrated categories across each and every customer in their territory.

- Educate and commit: Sales reps and sales managers need to understand why this is important, what needs to change in their existing processes and agree with it.
- Develop talent and skills: Determine what new skills or training is needed to give sales managers and reps confidence and the right skills to succeed.
- Model the message: The best way to lead is by example. Employees will respond to seeing leaders and peers model the new behavior.
- Reinforce with formal mechanisms: Ensure that the right metrics and reporting are in place to reinforce acting on the retention opportunities.

DOING SOMETHING ABOUT CHURN

Relegating customer retention efforts to the manual and reactive efforts of front-line employees will no longer suffice. Give sales and customer service teams the actionable insights they need to preempt customer defection and make a difference on topline revenue.

For more information, visit www.zilliant.com