Customer Retention & Revenue Growth Strategies for Service Providers

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Customers will be loyal to service providers who behave as a valued ‘partner’.

What does it mean to be a valued partner and to earn customer loyalty? To answer this question we need to delve into the reasons why customers often decide to transition away from their relationship with a long term service provider to an alternative supplier.

This paper explores those reasons and offers some recommended programs and strategies that will help you avoid them. They will help you strengthen customer loyalty thus increasing the chance of retaining your customers and growing your profitable revenue.

Customer Attrition

This article is directed to the quality service providers who are delivering a competent service. Providers who are not delivering a good basic service have other challenges to address before they can credibly focus on improving customer loyalty.

“Most quality businesses deliver products and services in line with their contracts. It is the less tangible reasons that more often cause customer attrition”.

Our research has highlighted the most common reasons, other than poor delivery, for customers to move to an alternative provider.

Taking customers for granted, not listening:

How often do we hear that, despite delivering all contracted works to agreed service measures, year in, year out, the customer is dissatisfied? This is a typical issue when there has been a long term contract in place such as an outsourcing agreement.

Let’s discuss a specific case study in a broken relationship. The provider in question is an IT infrastructure outsourcer and the customer is a state government department. The services had previously been outsourced to a competitor whose delivery had been poor and had missed service level measures regularly. Our provider delivered an outstanding proposal and won the business to replace the competitor and signed a 4 year contract.

Early in the life of the new contract the provider did a good job. They transition the service very effectively despite lack of cooperation from the previous provider. They began delivering the agreed ‘statements of work’ and meeting service level measures from month two. Good management processes and governance were put in place. All the necessary communications channels and governance programs were established. Monthly service level review meetings and quarterly executive review meetings were held religiously. The customer was viewing the future of the relationship positively and gave a great report at the first anniversary.

As the second year went by the customer communicated various issues they had with the service and the relationship. Many were addressed however some of them were a little difficult or fell in a grey area outside of the agreed works. Despite these issues festering away in the background the providers account management and delivery teams were convinced that they are delivering a great service. This was reaffirmed by their monthly service level report showing all service levels being met. They felt “the customer doesn’t have too much to worry about”.

Then came the killer punch from nowhere! Less than three years into the contract the customer announced that they would be going to tender with the intention of transitioning to another provider at the end of term. This came as a complete surprise to the provider.

Why was there an undercurrent of customer dissention?

The provider's communications and listening mechanisms were aligned to managing the contract and delivering the contracted service. However these mechanisms did not extend to listening and responding to issues and changes related or otherwise to the services that were outside the contractual terms. The customer's requirements were steadily changing and the provider was not listening and adapting. The customer had perceived that the provider despite delivering a good basic service was incapable of embracing change and driving innovation.

Neglecting to drive change, maintaining status quo:

This is one of the consequences of the 'not listening' situation above. As their business changes their requirements change. If the provider does not or contractually cannot, drive changes to the service the customer will become more and more dissatisfied.

It is essential that the provider understands how the service needs to change by continually monitoring changes in the customers business and industry. Don't assume that it is the customer's responsibility to communicate their changing requirements? Providers that take the lead in driving change are the ones seen as true "partners" and will earn the customers loyalty.

It is also important that you get the contracts right. They must provide for continuous change in requirements. Unfortunately too many long term contracts lock in a way of doing business that made sense at the time the agreement was signed. Even worse it is often based on a tender document that was developed up to two years prior to the agreement. Requirements related to nearly all service contracts change much more regularly than that.

Dropping behind industry best practice:

Customers contract for services with external providers because the service is not their customer's core expertise. They feel an external organisation will provide a better leading edge service. They expect a service that is more cost effective and/or closer to industry best practice. The service provider needs to help the customer be more competitive and/or cost effective in their market.

Therefore the provider needs to continuously improve processes and products and reduce costs over the term of the contract. This continuous improvement needs to be measured and communicated. The contract should address this however, even if it does not, the provider needs to assume it. No matter how good a service the provider delivers the customer will be dissatisfied if it does not improve over the term of the contract. The customer will not see the provider as a valued partner.

Lack of innovation:

"Innovation is the lifeblood for sustaining relationships". Many service providers find it extremely difficult to establish and maintain a culture of innovation. And yet a key reason customers change suppliers is because they perceived they were not getting adequate levels of innovation.

Continuous innovation in the service and the overall relationship is essential to minimise customer attrition. A significant side benefit is that innovation can also generate opportunities for up selling and cross selling.

Limited value add:

Customers are more loyal to providers that are continually looking for ways to add value over the base relationship. Adding value is akin to innovation because without innovation it is difficult to deliver added value for the customer. Typically customers are willing to pay for added value so it is an opportunity to grow revenues as well as improving customer satisfaction. To deliver additional value a provider must intimately know their customer's business and industry and determine ways in which they can leverage their capability to help the customer achieve their strategic goals.

No true partnering:

If you expect the customer to be loyal in the long term it is not enough to just provide goods and services under the terms of the contract. Providing innovation, adding value, maintaining best practices, driving change and listening carefully will all improve customer loyalty. However the ultimate is to truly behave as a partner. To do this the provider and the customer together need to apply teaming and management methodologies that will ensure they work closely to meet their needs at the highest possible level, to eliminate problem areas, and to capture productivity gains for both parties and share rewards. A very high level of maturity and trust is required from both parties to achieve this state.

In summary, customers will stick by suppliers who strive to know their customer intimately and then play a role in helping their customer achieve their business goals. A loyal provider will continuously change and improve the value of their products and services for their customer in response to the customers changing needs.

STRATEGIC CUSTOMER LOYALTY PROGRAMS

To improve customer intimacy and loyalty we need to deploy finely targeted customer intimacy management programs targeting the 20% of customers that represent 80% of our current and future business. Such programs include **partnering** programs, customer led **account planning**, **customer alignment teams**, **innovation** processes and **relationship satisfaction management.**

Leading service providers have implemented these programs to successfully improve customer retention and growth. Following is a short summary of each of these management programs:

Account Planning:

Good sales oriented services organisations typically have Opportunity Strategy and Planning tools that are very effective. By contrast often their longer term Account Planning capability and methodology is lacking. Strong customer focussed account planning is essential in ensuring alignment of your organisation with your customer's organisation. A strong Account Planning program enables you develop alignment and intimacy to the ongoing relationship delivering innovation and value to both parties.

Customer Scorecard Program:

A simple but effective method is required to measure and manage the satisfaction of customer decision makers and key influencers on a regular basis. In response to this need, service providers have typically deployed traditional customer surveys with disappointing results. Unfortunately these traditional surveys are designed for enterprise purposes such as testing marketing messages, product planning, service delivery process feedback across the customer base. They are seldom much value for the relationship team to manage one to one satisfaction. These generally too cumbersome and demand too much time from both the customer and the provider's resources. For this reason they are either not conducted regularly enough or they often fall into disuse after a year or two at the account level.

The purpose of the customer scorecard program is to provide an easy and non intrusive method to consistently improve customer satisfaction by:

- Regularly monitoring key customer satisfaction on a face to face basis using a simple scorecard model
- Measuring progress against a benchmark
- Measuring the performance of the Account Team against a customer satisfaction KPI
- Identifying and executing action plans for improving customer satisfaction

Customers are very appreciative of the opportunity to regularly put a satisfaction stake in the ground and communicate recommendations that if actioned will move the stake forward.

A well implemented Customer Scorecard program is simple to manage and will enable a service provider to maintain a high level of customer satisfaction and substantially reduces the risk of customer attrition.

Innovation Program:

I repeat, "innovation is the lifeblood for sustaining relationships". The purpose of an innovation program is to develop a culture of innovation that will drive added value and cost reduction that can be shared between the provider and customer. The program should provide encouragement and motivation for innovation across the provider's organisation and then enable the progress of innovations to be monitored, measured and managed.

The objective of an innovation program is to provide a win/win process that will:

- Identify opportunities for innovation, qualify and manage the chosen ones to fruition
- Reduce costs/improve service
- Improve competitiveness
- Improve customer satisfaction

Implementation of Innovation programs include development of methods by which innovative ideas are captured from the many internal and external sources available to both the provider and customer. An essential part of the program includes joint workshops with both parties. It is then important to have agreed methodology to document and evaluate new innovative ideas to qualify and determine their priority.

A successfully implemented innovation program will deliver considerable value to both parties.

Business Alignment Program:

Each organisation needs to deploy an organisation structure and business process that best suits their business. Unfortunately it's impossible to do this and at the same time align your organisation structure to each of your customers' without causing mayhem and inefficiencies in your own organisation. Therefore the silos in your organisation will not match to your customers' organisation or expectations. This can cause a mismatch of competing priorities, miscommunications and inconsistent messages to the customer all resulting in severe customer satisfaction issues.

A Business Alignment Program establishes a cross functional virtual customer team for each key customer. The program provides the team with the means and empowerment to ensure the silos are all delivering to the customer in alignment. The customer alignment team helps break down the silo based barriers that prevent the organisation from delighting the customer.

In many cases it is also of advantage for the customer to establish a business alignment team to work with the supplier. This will ensure they present a single face to the supplier ensuring all users of the service have a common understanding of the relationship and ensuring effective and efficient use of the service.

Partnering Program:

Partnering is a process of team building and mutual goal setting that promotes free information exchange, creative problem solving, as well as communication and conflict management strategies. A partnering program recognises the contractual relationship between parties and builds a higher level relationship.

The partnering program would be initiated by agreeing to a partnering approach, determining overall joint objectives and identifying the key players in the relationship. The key players then meet and agree a framework for the relationship. The framework would be headed by a charter that would include joint principles, mission and objectives. Supporting that would be an issue resolution process including clear escalation paths. Also included would be a multi level joint evaluation process with built-in executive reviews.

A partnering program requires investment by both parties from the CEO down and the return can be outstanding for both organisations.

Conclusion

A service provider that goes no further than delivering a good service in line with their contract will very likely lose their customer at contract renewal time no matter how well they deliver the service. Strategic relationship management programs like those discussed in this paper are essential to raise the customer satisfaction, grow revenues and ensure the customer develops a desire to renew the contract with you, their trusted provider.

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