Winning Back 'Lost' Customers: Who Do You Woo – and How?

Customers come and go; it's a fact of business life. But a 'lost' customer doesn't have to be lost forever.

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How many customers does your company lose every year?

If you're like the average company, up to 40 percent of your customers walk out the door and never come back. What's worse, the "average" business is totally oblivious to its actual churn rate – so it does nothing to correct the problem. Even companies that do track customer defection rates usually assume a lost customer is gone forever, a lost cause.

Happily, nothing could be further from the truth.

With churn increasing and customer loyalty fading, winning back and keeping lost customers has never been more important. Lost customers mean lost revenues. Negative word of mouth. Sagging employee morale. Worst of all, it can put your sales and business development team on a treadmill of constantly finding and wooing new customers just to replace the defectors – a costly and exhausting predicament.

What's the status of customer loss in today's corporations? In April 2007 a customer loss survey was conducted by The Griffin Group and research partner, CustomerSat. Over 500 marketing, selling and corporate buying executives were surveyed. When compared against The Griffin Group's 1999 winback study, an even greater deterioration in loss customer policies, programs and monitoring systems were revealed. With few exceptions, the majority of the firms surveyed report critical deficiencies around customer risk, loss and winback. Highlights include:

- **71% –** The number of marketing and sales executives with no process for identifying customers who have defected;
- **46% –** The number of marketing and sales executives who do not know how many customers they lose each year;
- **68% –** The number of marketing and sales executives whose firms have no process for identifying customers at high risk of defection;
- **62% –** The number of marketing and sales executives whose firms have no process for determining which competitor got the lost customer;
- **60% –** The number of marketing and sales executives whose firms do not conduct interiews with lost customers; and
- **77% –** The number of marketing and sales executives whose firms do not know how many lost customers they successfully win back each year.

But here's good news: An effective customer winback program can transform these problems into increased customer loyalty, while actually decreasing your customer acquisition costs. Here's how.

Knowledge Is Key

Overall, you have a much better chance of winning back a former customer than signing up a new one, according to a study by Marketing Metrics. On average, you have:

- A 60 to 70 percent chance of successfully selling again to a current customer;
- A 20 to 40 percent chance of winning back an ex-customer; and
- Only a 5 to 20 percent chance of turning a prospect into a customer.

Statistically your chances of winning back a former customer are two to four times higher than landing a new one.

Even harmless-sounding or "average" defection rates can be misleading. One college boasts an 80 percent student retention rate. That sounds healthy, even robust. But look closer. By the time a freshman class of 1,000 students enters its senior year, that 80 percent retention rate means the class has shrunk to just 512 students!

Now suppose those 500 lost "customers" had been retained. Imagine the savings in unspent customer acquisition dollars alone.

Knowledge is key to successfully winning back your lost customers. Today's computer information technology allows unprecedented access and analysis of a wealth of detailed customer data. But you need to know which infomation to capture and what to do with it.

Grade and Segment Your Lost Customers

Customers defect for different reasons, and some customers, frankly, aren't worth winning back. Careful evaluation and segmentation lets you select the most important customers to target, then develop individualized strategies to win back each segment.

Not all defecting customers represent legitimate winback prospects. Some proved too costly to serve and are better left alone. But others represent important recovery opportunities.

To separate the wheat from the chaff, you must grade and segment them. The best lost-customer segmentation plan my co-author, Michael Lowenstein, and I found when researching our book, *Customer Winback*, is a two-step process developed jointly by Bernd Stauss, chairman of the Services Management Department at Catholic University of Eichstaett (Germany) and Christian Friege, former marketing director for Doubleday Direct, Inc.

Step 1: Segment Customers by Second Lifetime Value

Most marketing professionals are familiar with the lifetime value (LTV) of a customer. But Stauss and Friege suggest that the LTV of lost customers is not as important as the value of the relationship once the customer has been regained.

Stauss and Friege call this new metric the second lifetime value (SLTV). They suggest a customer's second life cycle can actually be more valuable than the first, and offer four important reasons why:

1. The defected customer is already familiar with your products and/or services.
2. You have more data about their buying preferences than any first-time customers. That lets you offer a more targeted service.
3. The personal attention and recognition you show customers in your winback program can spur better sales than the typically anonymous treatment they probably received when they were a first-time customer.
4. Cross-selling and upselling may catapult the customer into higher buying levels more quickly in the second lifetime, due to their familiarity with your products or services.

All of these variables represent important considerations when you estimate the SLTV of each lost customer. Once you've assigned SLTV estimates to each, segment these customers in tiers. Stauss and Friege recommend dividing lost customers into four SLTV segments:

A. The top 10 percent
B. The next best 20 percent
C. The next 30 percent
D. The bottom 40 percent

A Case Study

What if you have the names of lost customers but very little other data from which to predict SLTV?

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Here's how one of our clients solved that problem.

An optical retailer with three stores in the Northeast contacted The Griffin Group with a familiar problem. Their database contained the names – and not much else – of 15,000 former customers. They wanted help winning them back.

To determine their SLTV, we recommended surveying a sample of these lapsed customers by phone, starting with customers who had made the most recent purchases. We discovered that, generally speaking, the lapsed customers with the highest SLTV were those who:

1. Were still wearing prescription eyewear.
2. Used multiple types of prescription eyewear (reading glasses, prescription sunglasses, etc.).
3. Had multiple family members with eyewear needs.
4. Expected to make a prescription eyewear purchase within the next six months.

These insights enabled the optical retailer to effectively segment its lost customers and launch a successful winback program.

Step 2: Segment Customers by Reasons for Defection

Estimating SLTV is an important first step. The second is to classify customers according to the reason they defected.

Stauss and Friege identified five distinct defector categories:

1. **Intentionally pushed-away customers.** These customers were unprofitable to begin with, so little or nothing was done to win them back.
2. **Unintentionally pushed-away customers.** These are customers you wanted to retain, but they left because your company's performance didn't meet their expectations in some way.
3. **Pulled-away customers.** These are customers who were lured away by competitors offering a better value (not just a lower price).
4. **Bought-away customers.** This group was lured away by competitors with low-ball, introductory pricing offers.
5. **Moved-away customers.** These customers drifted away because their needs changed due to age, life cycle changes or geographical changes.

In addition to Stauss and Friege's five categories, I've uncovered another defector category to consider:

6. **Variety Seekers.** These are customers who are not likely to remain loyal to one product, because they want the experience of using many different ones. For example, a high-performance car enthusiast who trades his BMW for a Mercedes, then a Porsche and finally a Bentley is a variety seeker. He loves each of these autos, but is unlikely to remain loyal to only one brand. Investing money in winning back this customer would be a mistake. His hunger for variety will likely blunt any automaker's winback initiative.

So Who Do You Woo?

Sometimes uncovering the real reason you lost a customer is easy. At other times it demands detective work. Capture all the clues you can in advance, in the customer's data file. Of course, particularly in retail settings, customers often do not announce their intentions; instead, they simply walk away.

In these cases, you must become a sleuth. Carefully review their purchase behaviors. Keep your eyes peeled for things like lagging visits, low purchase rates compared with previous periods, a frustrating encounter with a staff member, etc. Contact the customer and address any issues at the earliest possible stage.

If the customer still leaves, consider conducting an exit interview to uncover the reason(s).

Common sense, confirmed by Stauss and Friege's research, suggests that the best winback candidates are the unintentionally pushed-away and pulled-away customers in each of the four categories (A–D). These are the ones you want your winback program to target.

By contrast, bought-away, moved-away, intentionally pushed-away customers and variety seekers leave for reasons that would probably jeopardize any chance of keeping these customers loyal in the future. Forget about them.

Luring Back the Lost

Once you have determined which lost customers have the highest winback potential, research their current needs.

One interesting case we uncovered involved a major international retailer of jewelry, apparel and collectibles. This retailer reached customers via a television shopping channel. They queried their database to identify those customers who'd once had a high value, but who had not made a purchase in over two years. Many of these customers had made over 10 purchases from television offers. While they represented only a tiny percentage of the retailer's total customer base, these were good consumers who each spent thousands of dollars since they first became buyers.

Many companies would have dismissed these lost customers as a lost cause. But this retailer was unwilling to give up without first determining why they had stopped buying.

Targeted research uncovered two important findings:

1. Although they hadn't bought anything in a long time, these customers still considered themselves active customers of this retailer. Mentally and emotionally, they hadn't defected at all; and
2. While they still had the economic means to continue purchasing at or near their prior rate, their interests had become more specialized.

Using this knowledge, the retailer recontacted each customer and asked them to complete a product interest profile. Based on their feedback, a customized shopping program schedule was then sent to them.

As a result of these simple winback actions, more than half of these jewelry retailers' dormant customers were reactivated.

Measure, Understand, Evaluate, Refine

In preparing your own re-approach strategy, learn as much as possible about your lapsed customers and why they stopped buying. Then approach these customers with offers specifically tailored to them.

That was BellSouth Mobility's strategy when they conducted focus groups among former customers who had become active customers of competitors. BellSouth was tackling its nationwide churn problem: They were adding 2,500 new customers every day – but losing 500.

Ironically, the focus groups found that most of the lost customers felt BellSouth's system coverage, customer service and billing systems were better than the competitors' service they were currently using. So why had these customers left?

The key reasons were related to credits for dropped calls, free phones and airtime available to new subscribers but not to existing customers.

Equipped with this information, BellSouth designed a direct-mail reactivation offer to include a free phone or free airtime, and featured news about the 50 cents' credit for dropped calls. But the offer produced disappointing results. After 30 days, it received only a 3 percent initial response and just a meager 1 percent reconnection rate, versus the program's goal of 10 percent.

Additional research uncovered the reason. The lapsed customers found the offer compelling, but couldn't take advantage of it because their current contracts locked them in with other cellular companies. Misplaced or never-received direct mail cards prevented others from switching back.

So BellSouth repeated the offer to people who could say yes: 1,000 ex-customers who had defected 11 months before. BellSouth also followed up the letter with a phone call. This time the results were much better: The carefully timed letter and follow-up phone call produced a 10 percent reconnect rate. Given the positive results from this test market, BellSouth began expanding the program into its other 27 markets.

Lost and Found

Customers come and go; it's a fact of business life. But as you've seen, a "lost" customer doesn't have to be lost forever.

By implementing an effective customer winback program, you can lure back lost customers, improve loyalty, increase revenues and actually reduce customer acquisition costs – all at the same time. ■

More information and additional material can be found online at

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