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HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

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RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

LIMITATIONS

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ROLE OF CUSTOMER RETENTION STRATEGIES IN RETAILING SECTOR

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ABSTRACT

As the $4.5 trillion U.S. retail industry evolves from being product centric to focusing on consumer relationships, customer retention has become a key metric of success. Brand loyalty is no longer something to be won once and relied on forever. Today, you have to win your customers repeatedly with every interaction. The 20th century product economy was based on discrete, anonymous transactions. Retail was about inventory, shelving and cost-plus pricing. Companies had minimal insight into who was actually buying their products, or how they were using them. But, in today's Subscription Economy, the customer is king and customer retention must top every retail company's priorities. Consumers value outcomes and unique experiences – they want easy shopping customized to their individual needs, curate choices, easy payments, and guaranteed satisfaction. And they want all of these to be delightfully smooth experiences – both online and in-store. In many ways, today's Subscription Economy is about rediscovering the value of ongoing, commercial relationships. We used to know the names of the people who sold us things. Retail needs to rediscover those relationships. The recipe for customer retention is simple – retail has to become relentlessly customer-focused.

KEYWORDS

customer retention strategy, technology, customer economy, customer retention.

INTRODUCTION

Customer retention rate is how well a company keeps its paying customers over a period of time. Peter Drucker once said the purpose of a business is to make and keep a customer. Retention deals with the latter.

A low retention rate is similar to filling a bucket with holes in the bottom — sure, you could keep piling on to make up for it, or you could figure out what caused the holes and how you can patch them up. Retaining customers costs less than acquiring them, and both add to your company's bottom line; revenue doesn't care where it comes from, earned or saved.

CUSTOMER RETENTION AND RETAILING

Sector Since the last decade, many companies perceive the retention of the customer as a central topic in their management and marketing decisions (Van den Poel & Larivie're, 2005). Most of the studies about customer retention argue that retaining customers improves profitability, importantly by reducing the cost incurred in acquiring new customers (Reichheld and Kenny, 1990; Schmittlein, 1995; Reichheld, 1996). Firms that constantly attract new customers will not be able to witness increases in profits if they are unable to retain them but at the same juncture, it is not rewarding to maintain every customer, since it is very costly [Anderson and Mittal 2000 IN Woo and Fock 2004]. This is supported with findings of (Reichheld and Schefter, 2000) which discovered that a firm can increase profits by 25-95 percent if it could improve its customer retention rates by 5 percent. A small shift in customer retention rates can make a large difference for the firm's profit, which will accelerate over time (Reichheld, 1993; Wright & Sparks, 1999; Zeithaml et al., 1996).

Inherently, a retained customer will be loyal due to the attachment and commitment to the organization. This customer will, then, recommend others to purchase and repurchase the companies' product and services (Diller, 1996; Diller and Muellner, 1998; Gremler and Brown, 1998; Homburg et al. 1999; Oliver, 1999). Retailing is identified as one of the top contributors for service sector worldwide (Currah and Wrigley, 2004; Kaliappan et al., 2008) which constantly evolves over time. It is believed that customer retention strategy will be a vital management tool for retailers to survive and grow in the very competitive sector as retailers encounter fierce competition both from local and foreign retailers alike and as well as from non-traditional retailers such as online retailers (Levy, 2009). Review on past literatures indicates that studies on customer retention concentrated more on the manufacturing sector over the service (retailing) sector (Anderson and Sullivan, 1993) despite its growing importance to the development of nations (Hernandez, 2004; Ganz, 2005).

This study explores literatures pertaining to the factors that influence customer retention and its measures at great length. Accordingly, a theoretical framework is proposed and some possible recommendations are put forward for future researches. 2. Influencing Factors of Customer Retention Customer retention requires clear direction and this is the first strand of customer retention (Farquhar, 2004). In order to effectively retain customers, a significant commitment and clear signal from company's top management is highly required. Top management need to adopt a more holistic approach in order to be more receptive towards latest changes in the industry.

The retailer is the end link in the chain through which goods produced by the manufacturer reach the consumer destiny. Retailers facilitate distribution of goods by providing points of sale and making the gods available to customers in convenient and cost effective manner. Retailers provide an arena for social activities. Retailing is one of the pillars of economy in India and accounts for 35 percent of the GDP and employs 14 percent of working population.

The retail sector in India encompasses twin sectors- organized and unorganized, with predominance of unorganized sector thinning out 94 percent of retail business. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local corner shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors and the like (ICRIER). The Indian food industry is a significant part of the Indian economy with food constituting about 30 percent of the consumer wallet.

Indian consumers spend as much as 70 percent of the current food spending on agri-products. In agri-products, fruits and vegetables (F&V) is the largest consumption category and accounts for over 50 percent of the total consumption. India is the second largest producer of grains and cereals and fruits and vegetables.

Switching costs also plays a vital role in customer retention (Chen and Hitt, 2002; Kim et al., 2004). The switching cost includes all costs incurred when a customer switches between different brands of products or services and when it consists of loss and gain costs. Loss costs occurs when customers leave their service providers while gain costs occurs when the customers start to subscribe to a new service or gains a new product [Burnham, et. al. 2003]. Customer retention greatly depends on how customers perceived service quality (Kim et al., 2004). They found that unique features of products, value added services, customer support, price and convenience in procedures significantly influence the perceived service quality. It is discovered that retained customers tend to have higher

levels of perceived service quality. Besides, customer satisfaction is also related to the customer retention rate (Reinartz and Kumar, 2003) where more satisfied customers stay longer if the switching costs are similar and there are no contractual obligations. Relationship marketing has been identified as an important tool to foster long term relationships with all customers in general, profitable customer in particular (Dawes and Swailes, 1999).
Interactions with customers would be most effective if sustained through relationship marketing where companies can obtain effective interactions via discussions with individual customers (Farquhar, 2004). Employees are able to exceed the customers' expectations when they are empowered, knowledgeable and have access to customers' information (Farquhar, 2004). If the staffs are given more power, greater access to information, adequate knowledge and enormous training (Bowen and Lawler, 1995; Dawes and Swailes, 1999) they are in a better position to delight customers and ensure customers stay longer. Voss et al. (1998) found that the price of company's offerings does affect customer satisfaction and hence it influences customer retention. It is perceived that price set is likely to improve both post-purchase satisfaction and intention to return (Jarvenpaa and Todd, 1997; Liu and Arnett, 2000). The fairness of the price is the dominant determinant of satisfaction and it also influences the subsequent intention to return and stay longer with the company. According to Diller (1997) customer membership is very essential in improving the interaction frequency between company and its customers via creation of contact and feedback opportunities. With the membership, each customer contact with company begins with the registration of detailed information regarding the individual, their interests and demand structures. This information will then be linked to customer data, which forms the basis for individualized marketing measures. Existence of information systems greatly facilitates the record keeping of customer membership (Farquhar, 2004) which will be beneficial in the company's decision making process particularly in serving and keeping customers satisfied.

RETAILING SECTOR
Retailing is the largest private industry in the world. It is also India's largest industry accounting for over 10% of the country's GDP and around 8% of the employment. Customer relationship management is an emerging tool that enables marketers to maintain their presence in the dynamic marketing environment. Particularly today, retailers are faced with an increasingly challenging environment, especially when managing multiple sales and distribution channels. Retailing is not only an important aspect of the economic structure but very much a part of our lives. Though trading of goods has been in existence since the older days, it is only in the recent past that the buying and selling of goods have become more dominated activity. In fact, today retailing is evolving into a global, high tech business. According to India Retail Report 2009, even at the going rate, organized retail is expected to touch Rs. 2,30,000 cr (at constant prices) by 2010, constituting roughly 13 per cent of the total retail market. Global Retail Industry is of size USD 08 Trillion. Over 50 of the Fortune 500 companies are retailers According to V. Raman than (2008), Customer Relationship Management is an emerging tool that enables retail marketers to maintain their presence in the dynamic market environment. In early days CRM was the tool preferred by the manufacturers in order to motivate and retain retailers. Now retailers are applying this very same tool in order to retain customers.

RETAIL CHALLENGES
Retailers continue to face these key challenges:
Identifying and knowing the shopper though a 360° view.
Driving incremental store traffic and demand through effective marketing.
Increasing customer loyalty by better management of the relationship.

CONCLUSION
As the $4.5 trillion U.S. retail industry evolves from being product centric to focusing on consumer relationships, customer retention has become a key metric of success. Brand loyalty is no longer something to be won once and relied on forever. Today, you have to win your customers repeatedly with every interaction. The 20th century product economy was based on discrete, anonymous transactions. Retail was about inventory, shelving and cost-plus pricing. Companies had minimal insight into who was actually buying their products, or how they were using them. But, in today's Subscription Economy, the customer is king and customer retention must top every retail company's priorities. Consumers value outcomes and unique experiences – they want easy shopping customized to their individual needs, curate choices, easy payments, and guaranteed satisfaction. And they want all of these to be delightfully smooth experiences – both online and in-store. In many ways, today's Subscription Economy is about rediscovering the value of ongoing, commercial relationships. We used to know the names of the people who sold us things. Retail needs to rediscover those relationships. The recipe for customer retention is simple – retail has to become relentlessly customer-focused.

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