

# Customer Retention Management in the B2C Electronic Business

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Businesses competing in the internet economy are turning their attention and resources towards increasing the retention of their customers and users. This paper examines how customer retention can be achieved and which strategy best fits which business model. The authors based their analysis on theoretical reasoning and interviews with B2C executives. Their findings differentiate the most appropriate strategies for particular business models. For example, building customer trust and convenience are the most appropriate for commerce-based businesses while the offer of free services are better suited to content, context and connection business models.

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## Introduction

### **The strategic imperative for customer retention**

In 2000 the 10 most frequently visited Business-to-Consumer (B2C) internet companies spent a conservatively estimated \$3 billion on marketing.<sup>1</sup> While some of this spending can be attributed to brand building, particularly for newer players, the bulk of the money went into acquiring new customers. Sustainable profitability, however, only results from repeat purchases which in turn can only be achieved through building a loyal customer base.<sup>2</sup> Businesses competing in the internet economy are therefore turning their attention and resources towards increasing the retention of their customers and users.<sup>3</sup> In May 2000 a Jupiter Media Metrix survey found that 82 per cent of e-commerce executives stated that the top priority for the business over the next few months would be to increase the number of new customers: by mid-2001 an exploratory study showed how the situation evolved with 86 per cent of B2C business executives stating that customer retention took priority over new customer acquisition.

To achieve their objective of customer retention, however, companies must understand the

specific environment of the electronic marketplace, where the barriers to customers switching are lower compared with the traditional economy and vendors are more vulnerable to customer defection. These lower switching barriers result primarily from the intensification in market transparency in the electronic business, an effect further increased by the advent of smart price agents, from the absence of physical distance between customers, suppliers and competitors, and from the lack of personal vendor–customer relationships. Should an internet business succeed in retaining its customers, on the other hand, the benefits are great: the costs of acquiring a web customer may be high but the relative saving potential from retaining a customer is high as well. Second, the ease of extending existing services and product lines into new ones enables web business to take advantage of cross-selling opportunities to loyal customers. Third, referrals, another important benefit from loyal customers, occur at a higher rate in the internet economy than in the traditional market because they can be made with much less effort, often with a single mouse click. Some internet businesses have therefore long realised the importance of customer retention. This results in a wide array of customer retention tools already implemented in B2C markets today. However, as we will point out, there is no single approach to customer retention that is applicable across the wide varieties of business models found on the internet today. Rather, we theorise that certain retention tools are more suitable for specific business models than for others.

So how, exactly, can customer retention be achieved in a challenging environment where market transparency is great and every competitor is just a mouse click away? And which retention strategy is appropriate for which B2C business model? In academic research, to our knowledge, these questions remain unanswered. The few publications that approach the topic of customer retention in electronic business underline its importance and provide some insights into possible measures, but none takes a business model perspective and none provides empirical results on specific retention measures.

To approach the subject of successful customer retention in the B2C electronic business we employed a comprehensive research process consisting of four steps combining theoretical and empirical elements. Starting from a foundation of theory and literature research we observed the 29 most frequently visited B2C websites to assess their customer retention measures. Owing to their large loyal customer base, we consider these companies as best-practice in customer retention. Based on these findings we conducted 15 exploratory expert interviews with B2C electronic business marketing executives to deepen our understanding of customer retention management in this market. From the results of the first three research steps we developed a set of research hypotheses which were then analysed in a confirmatory quantitative empirical study based on a large sample of B2C internet businesses.

The article will first discuss the suite of retention tools that was developed from our theoretical and exploratory empirical research. Second, we will introduce the 4-C-internet business model typology which is used to classify the different business models found on the web today. The third part of the article describes the set of criteria which will be used to assess the viability of a retention strategy for a business model. In the fourth part a theoretical alignment of retention strategies and business models based on these criteria is presented and subjected to quantitative empirical verification. The final part of the paper presents conclusions from our findings. The logic of the paper as well as the initial theoretical alignment between retention strategies and business models are shown in [Figure 1](#).

### **Customer retention strategies**

While in the electronic business the question of customer retention is particularly important, the environment for it differs somewhat from the offline world. The internet economy presents companies with new threats as well as new and different opportunities.<sup>4</sup> Our theoretical analysis and exploratory empirical research consisting of best practice website observation and executive interviews led to the finding of seven particularly relevant retention strategies widely and successfully used by B2C electronic businesses today, which we will review in this section. These are: trust

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