Customer base Strategies

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Abstract- Growing and sustaining the customer base of an organization is always a challenge to firms’ especially in an industry that is highly competitive and where the cost of brand switching is relatively low. For an organization to adopt any strategy, the need to scan its environment will be necessary to avoid making a strategic blunder that is capable of causing an organization it’s live as a corporate entity. The objective of the study is to identify and discuss strategies an organization can adopt in growing and sustaining its market share in a given industry. These strategies include; innovation strategy, market segmentation strategy, market expansion strategy, 80/20 business strategy, and customer relationship retention strategies. The study was supported by an empirical study on Customer Retention Practices on Firm Performance.

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I. Introduction

Customers are indeed an asset to the firms. A good customer base ensures a continuous source of future revenue due to repeat purchases done by them and cross-buying of other products offered by the organization (Dawes, 2009). If a firm is incurring costs to attract new customers then it is advisable for such firm(s) to maintain their existing customer base rather than continuously losing customers and replenishing the lost customers.

A customer base is the group of customers who repeatedly purchase the goods or services offered by a company. These customers are a main source of revenue for such company. The customer base may also be considered as the company’s target market, where customer behaviors are well understood through market research or past experience (Dawes, 2009).

Customer base strategies in this context can be seen as a strategic move by a firm to grow, and sustain its competitive position by delivering perceived value to customers’ all geared towards making the company’s customers to repeatedly purchase the goods or services offered by the company. Customer base strategies can further be defined as set of plans intended to achieve large number of customers for the purpose of increasing the purchase of a firm’s goods and services. An example of customer base strategy is the acquisition of Mimee Noodles and Dangote Noodles by De-United Foods Industries Limited (DUFIL) makers of Indomie Noodles in order to increase their customer base. Another example is the Value Innovation strategy is the GOTV & DSTV mobile in 2011, enabling customers from all market segments to enjoy the very home of television.

In a time of dynamic changes in the environment of companies generated by the intensification of competition and globalisation of markets, the growing possibility of satisfying needs through goods, services, ideas, rights and various combinations of these, companies concentrate more and more on the customer (Sunil & Lehman, 2009).

To attract and keep customers, and thus make a profit, companies are always searching for new and better ways to create value and differentiate their market offerings (Shaw & Ivens, 2002; Bendapudi & Leone, 2003). While to maximize the market scale, companies need not only focus on the customers, but also need to focus on non-customers. Kim and Mauborgne (2005) recommend that a company should consider the non-customers before customers, common points before different, and the merger market segments before the multi-level market segments. And they should separate the non-customer into three tiers: “Soon-to-be” noncustomers who are on the edge of the company’s market, waiting to jump ship; “Refusing” noncustomers who consciously choose against the company’s market; “Unexplored” noncustomers who are in markets distant from the company.

The issue of acquiring and retaining customers has been a strategic issue especially in an industry that competition is tensed. Using the Telecommunication industry for example, major players in that industry are having “leaky bucket” probably because of the competitive nature of the industry. Below is an analysis of drop in market shares of these major players:

Table 1: Market Share of GSM Operator (Active Subscribers) as at 2014

<table>
<thead>
<tr>
<th>Operator</th>
<th>Market Share (Active Subscribers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTN</td>
<td>59,893,093</td>
</tr>
<tr>
<td>GLO</td>
<td>28,219,089</td>
</tr>
<tr>
<td>AIRTEL</td>
<td>27,556,544</td>
</tr>
<tr>
<td>EMTS:9MOBILE</td>
<td>21,103,794</td>
</tr>
</tbody>
</table>

Source: Nigeria Communication Commission, 2014

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From the above table, MTN in three years lost 23,823,496 active subscribers resulting in 8% loss in market share, Glo lost 25,519,272 active subscribers with a 6% increase in market share, Airtel loss 3,571,341 active subscribers with 4% decrease in market share while 9Mobile loss 9,764,955 active subscribers with 4% decrease in market share.

The above analysis shows growing and retaining customers is actual a challenging issue faced by firms operating in any given industry.

a) Statement Problem

It can be argued that whenever a firm’s products or services have been overused in chasing and beating competition in a particular industry, the firm’s market share will start dropping once a high value product is being launched in that industry by other competitors. A typical example is the drop in market share of most table water company in Owerri, Imo State as a result of new table water called "Mangero" because of its beautiful design. The product as at now should be among the best selling table waters within Owerri. The simple reason for this strategic over-take is that the firms’ operating in this industry doesn’t innovate and as such, a single product has been overused in chasing and beating competition.

Furthermore, other challenges that have the potential of affecting the customer base of a firm is that majority of firms are busy competing for share in a shrinking market. Thus, for a firm to grow and retain its customer base in this competitive era, such a firm must adopt some strategies which will be discussed in the study.

b) Purpose of the Study

The main purpose of this study is to discuss customer base strategies. There are many strategies a firm can adopt in growing, and sustaining its customer base. But for the purpose of this study, value innovation strategy, segmentation strategy, market expansion strategy, 80/20 business strategy, and relationship retention strategies will be discussed extensively.

11. Customer base Strategies

Definitely, the choice of strategy(ies) an organization will adopt in growing and sustaining its customer base will be determined by some environmental factors in that particular industry. Hence, the need to appraise the environment before adopting any strategy(ies) will be very important. These factors include regulatory, political, economical, social-cultural, technological and competitors. These factors have the potential of affecting the strategic choice of any organization in terms of increasing its customer base. An example is the regulatory force which shapes the type of promotional strategy an organization must adopt and the type of goods/service an organization is expected to manufacture or render to the public.

An example of how government regulations affect companies’ strategy is case of network providers in Nigeria. According to Aginam (2013), the Nigerian Communications Commission, NCC on February 28, 2013 slammed a total of N22 million fines on the four GSM operators including MTN, Globacom Limited, Emerging Markets Telecommunications Services Ltd (Etisalat) and Airtel for contravening the ban on promotions and lotteries on their respective networks, of the telecoms regulatory agency. It would be recalled that the Commission had earlier in a letter dated November 8, 2012, directed all the licensees to discontinue all promotions and lotteries running on their networks with immediate effect Aginam (2013).

The ban covered proposed and approved promotions and lotteries after the Commission was inundated with several complaints from consumers and stakeholders against various promotions in the various networks. It would be recalled that the four top telecoms firms in the country were fined a total N1.17 b by the industry regulator by middles 2012 for not meeting stipulated quality of service benchmarks called key performance indicators. Accordingly, MTN Nigeria Communications Ltd, was fined N10,000,000 (Ten Million Naira) on account of five promotions at N2,000,000(Two Million Naira) for each promotion while Etisalat was to pay N6,000,000 (Six Million Naira) for three promotions in its network. Similarly, Airtel was fined N4,000,000 (Four Million Naira) for running two promotions against the ban while Globacom was fined N2,000,000 (Two Million) for one promotion Aginam (2013).

Meanwhile, sanctions on MTN were as a result of five promotions including, Free Airtime for MTN to MTN calls (8AM – 5PM), MTN to MTN SMS and free MB for Data. Dial *559#, Free N100.00 airtime for MTN to MTN calls, Airtime Bonus valid for life. Dial *559#, MTN Super Saver, get 500%, bonus valid till midnight. Dial *507# and Recharge with N100.00 today and get N500 FREE credit instantly. Hurry and recharge before January 22nd. For Etisalat, three promotions that...
attracted it sanctions include buy a MIFI device and get 1GB free for six months, buy a router device and get 50 MB free data spread over four months and get 30% instant bonus on every plan subscription/renewal over 200MB. On the other hand, Airtel is being sanctioned for two promotions including dongle and MIFI offerings and reverse auction service. In addition, Globacom has been sanctioned for engaging in one promotion of BUY Samsung Galaxy SIII, or Galaxy Note II and get free 500 MB on activation, and free 100MB X 6 Months Aginam (2013).

Hence, the need for a firm to appraise its environment before adopting any strategy will be needful and can be source of competitive advantage.

a) Value Innovation Strategy

We are in a century where firms’ who wishes to excel in their respective industries must begin to have customer mindset. This customer mindset will enable them to adopt appropriate strategies in increasing their customer base. The core concept of the customer base strategies should be the exchange or creation of economic value between company and its customers. Value starts with the customer and works back to the company; the company allocates resource based on the potential value of the customer. That means that companies have to change their product-focused ‘inside-out’ thinking, to customer-focused ‘outside-in’ thinking Kirkly (2016). The end point of every customer base strategies should be to grow, engage, and retain company’s customers.

Exploiting core competencies and attaining synergy (the interaction of organization’s units to product a joint effect) will help companies’ create value for their customers’. In this context, value is seen as the combination of benefits received and cost paid by the customer. A product that is low in cost but does not provide benefits to customers’ is not a good value. For an example, an Airline company that splashes down prices, but experiences delay in takeoffs will lose customers. Delivery value to the customer should be at the heart of firm’s strategy. In adopting this strategy in growing and sustaining the customer base of a firm, managers must understand which part of company’s operation (product lines, & services) creates value and which do not, for a company can only be profitable only if the value it creates is greater than the cost of resource. When a firm fails to accurately appraise its value creating potentials, it becomes uncritically satisfied with its achievements.

Kim and Mauborgne (2005) the advocates of Blue Ocean Strategy believes that "Value innovation is created in the region where a company’s actions favorably affect both its cost structure and its value proposition to customers. Cost savings are made by eliminating and reducing the factors an industry competes on. Customer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value generates."

Figure 1: Value Innovation framework by Kim and Mauborgne (2005)
Using the value innovation strategy to engage, grow and sustain the customer base of a company is found on the assumption that once a firm is able to achieve cost leadership in its industry (when a company can produce at lower cost than competitors and still offer quality and earn a reasonable profit), such a firm will be strategically positioned to succeed in a price war while still making profit.

This means a lot to a firm because their customer base will be protected when such sensitive customer cannot find lower prices of such product elsewhere. Again if substitute products or potential new entrants occur, the lower-cost producer is better positioned than the high-cost rivals to prevent loss of market share. Hence, the low price acts as a barrier against new entrants and substitute products. In essence, value innovation encourages firms’ to pursue cost leadership and differentiation strategies as a best means of maintaining their market shares.

Another aspect of value innovation strategy when aligned with the company’s strategy for growing and sustaining customer base is that such a firm must not allow its competitors to set parameters of their strategic thinking. For a firm to seek growth through retaining and expanding of its customer base, such firm must create new value for customers through product innovations.

Creation of new value for customer through product innovation can be seen when Guinness Nigeria Plc noticed that its customer base for MaltaGuinness (one of its products line in the soft drink industry) has started depreciating drastically, in order to sustain its presence in the soft drink industry, the company made a strategic move to acquire new customers and retain existing loyal customers. This strategic move gave birth to a new product ‘Dubic Malt’ in 2017. By creating new value for customers through product innovation, Guinness was able to expand and sustain its market share in the soft drink industry.

Another company that created new value for customers through product innovation is Multichoice owners of DSTV. The firm launched GOTV and DSTV mobile in 2011, enabling customers from all market segments to enjoy the very home of television experience. Through this strategic move (creation of new value for customer), the company became the market leader in the Multichannel & Multiplatform Digital Television operator in Africa covering over 50 countries. While it’s rival Startimes though new in Nigeria is still struggling to gain a substantial share in the market. The above scenario explains the power of value innovation strategy in growing and retaining the customer base/share of a company.

c) Market Expansion Strategy

Customer base (market share) of an organization can also be grown and sustained via diversifying its markets and product categories. An organization can grow its customer base either by using an existing product in a new market or by developing a new market and a new product. Whichever way, the essence of this strategy is to enable a firm maintain a lead in its industry.

Strategies like Merger and Acquisitions (M&A), Joint Venture, Strategic Alliance, etc are often seen in use by firms in growing their customer base and maintaining their strategic positions in their respective industries.

For an example, in the food industry specifically the Noodles industry, De-United Foods Industries Limited (DUFIL) makers of Indomie Noodles were able to adopt this strategy (market expansion through acquisition) to maintain their lead as industry leader. Despite the influx of new entrants in the industry such as Tummy Tummy, Golden Penny noodles, Honeywell noodles, Dangote noodles, Mimee noodles, Chef me Engle Food etc, Indomie expanded its customer base by acquiring Mimee noodles (a subsidiary of May & Baker) for N775M last year November, 2017. The companies went further and acquired Dangote noodles
for N3.35B the same 2017 (Oluseyi, 2017). To protect its market base, Indomie always embark on promotional activities. Periodic promotion such as the scratch and win promo, visiting of schools both primary and secondary to prepare Indome for the children, visiting and partnering with amusement parks or fun centers during children’s day celebration as witnessed in this year 2018 last children’s day celebration at Rosallas Fun Center, Igando, Lagos.

d) The 80/20 Business Strategy

In the world of business, not all customers and products are profitable. A firm must be able to identify which particular market segment or product is more profitable so as to channel their marketing efforts in servicing those customers well or improving on those products line. In recouping its investment an organization has made in a particular market, the Pareto 80-20 rule is applied.

The principle of 80/20 can be viewed as a strategic option which can be used to analyze and identify strategic customers of a business in order to strengthen such relationship. 80/20 strategy can also be used by companies to increase the profitability of their customer and product portfolio. In business, many examples of the 80/20 Principle have been validated. 20% of products usually account for about 80% of naira sales value; so do 20% of customers accounting for 80% of profit for the firm.

In the world of business in which this study is interested in, 80-20 refers to a distribution ratio between profits on the one hand and products/customers on the other hand: for example, 80% of the business’ profits are attributed to 20% of the company’s products and 80% of sales are attributed to 20% customer’s’. A structured application of "Pareto 80-20" analytics will allow businesses to hone in on the most profitable activities with a laser sharp focus. The biggest advantage, however of the Pareto 80-20 is in guiding business strategy. After a business must have understood the analytics and the implementation procedures behind the Pareto 80-20 process, such an entrepreneur should be able to achieve at a minimum the following objectives (Newman, 2011).

1. Develop a reliable ranking of customers by their profitability.
2. Develop a reliable ranking of products by their profitability.
3. Understand what is a healthy distribution ratio between customers and their profitability, same for products-profitability.

In applying the Pareto’s principle growing a firm customer base, one may find out that some customers are vital. Most are not. Some sales efforts are wonderfully productive. Most are inefficient. Some will lose you money. This principle suggest that a firm should channel its marketing and sales effort where they can offer a minority of potential customers something that is unique, better or much better value than they can obtain elsewhere, provided that the firm can make higher profits in the process. Any successful enterprise draws its success from this simple, and simplifying principle. The principle is summarized thus:

- 80% of profits come from 20% of customers.
- 80% of product sales from 20% of products.
- 80% of sales from 20% of advertising.
- 80% of customer complaints from 20% of customers.
- 80% of sales from 20% of the sales team.

The above entails that the business should (Koch, 2004):

a) Focus every salesperson’s efforts on the 20 per cent of products that generate 80 per cent of sales. Make sure that the most profitable products attract four times the credit that an equivalent Nair of less profitable products does. The sales force should be rewarded for selling the most profitable products, not the least profitable.

b) Focus every salesperson’s efforts on the 20 per cent of customers who generate 80 percent of sales and 80 per cent of profits. The firm should be able to teach the sales force to rank their customers by sales and profits. Insist that they spend 80 per cent of their time on the best 20 per cent of customers, even if they have to neglect some of the lesser important customers. Spending more time with the minority of high-volume customers’ should result in higher sales to them. If opportunities to sell more existing products have been exhausted, the sales force should concentrate on providing superior service, so that existing business will be protected, and on identifying new products that the core customers want.

c) Finally, get the sales force to revisit old customers who have provided good business in the past. This can mean knocking on old doors or calling old phone numbers.

e) Customer Relationship Retention Strategies

In their zeal to grow, many companies focus almost exclusively on entering new markets, introducing new products, and acquiring new customers. However, these companies often have a "leaky bucket" as they add new customers, old ones defect from the firm. Some studies report the average retention rate for U.S. companies is about 80%.21 Put differently, on average, 20% of a company’s customers’ defect every year (Sunil & Lehman, 2009). This means that, roughly speaking, the average company loses the equivalent of its entire customer base in about five years.

Studies also show that the cost of acquisition is generally much higher than the cost of retaining existing customers. Therefore, it seems obvious that a firm
should focus on retaining its existing customers. Unfortunately, many companies don’t even know their customer retention or defection rates. Part of this problem lies in the lack of appreciation for the importance of customer retention (Sunil & Lehman, 2009).

In a nationwide customer retention survey, majority of the respondents reported that 75% of the sales were from existing customers (Carter, 2008). Saturated markets and high levels of competition within industries can be said to have necessitated the practice of customer retention strategies among firms.

Customer retention is “customer’s intention to stay loyal with the service provider especially in the context of switching costs” (Edward and Sahadev, 2011). Customer retention is the inclination of the customers to stay with the service provider in future (Ranaweera and Prabhu, 2003). Retention can be also defined as “customer’s liking, identification, commitment, trust, willingness to recommend and repurchase intentions with the first four being emotional-cognitive retention constructs and the last two being behavioural intentions” (Stauss, 2001).

Some positive customer relationship retention strategies include:

1. **Financial bonds:** These are strategies that are constructed around financial rewards. There are three variants-volume and frequency rewards, building and cross selling, and stable pricing. Volume and frequency rewards are designed to retain consumers that buy in large quantities and frequently too. For an example, Nigeria companies are often seen using this strategy in which customers that have maintained long relationship with firm are rewarded. Building and cross selling involves linking the firm’s incentive with rewards available in other firms. Some promotions are designed such that royal customers are provided opportunities to visit at company’s expense centers of attraction or international events like World Cup tournament. Stable pricing is a kind of incentives whereby loyal customer are given the privilege of buying at given price over a long period of time even if prices have been adjusted upwards for other buyers.

2. **Social bonds:** They indicate the creation of longterm relationships with the customers through social networks and individuals. In this respect, companies consider the customers as different individuals and try to meet the needs of various customer groups by the means of custom services. As compared to financial relationships which are based on price incentives, social ones enable the companies to enjoy more competitive advantages since their replacement is of more difficulty and suitability to enhance the customer retention. God and Senhuta (2000) pointed out that when there are close interactions between business partners, they are more likely to be depended on each other and they are able to affect satisfaction, commitment and trust of that part. Wilson and Momalaneni cited in Mohammad et al (2015) showed that commitment of relationship retention will be stronger when stronger individual relationships and social links exist between the members within a business relationship (Yu and Tang, 2013, p111).

3. **Customization Bonds:** Intimate knowledge of customers and their needs developed through a learning relationship is very useful in retaining valuable customers. Customer intimacy connotes that the customer is actively sharing information during interactions and contributing in the marketer’s endeavour to customise the products, services or any aspect of the marketing mix. Every member of the organisation uses every opportunity of interaction to learn new things about the customer and add to the organisational knowledge of the customer.

4. **Structural bond:** When companies provide more custom services and emphasize high quality services/products and long-term relationships including trust, satisfaction and commitment, structural relationships are established. For an example Coca-Cola, Pepsi, Hero Beer etc provides customized refrigerators, chairs, tables etc to retailers of their various brands.

In the last strategy, companies are forced to provide the integrated services or supply the innovated products in order to satisfy the customers’ demands. Han et al. cited in Mohammad et al (2015) demonstrated that by the dominance of complex purchase conditions, the companies with stronger structural relationships can offer multiple custom services with the added value. They are able to achieve more trust, satisfaction and commitment while keeping long-term relationships with the customers as compared to those with weak relationships.

Furthermore, Lin et al. (2003) and Rodriguez and Wilson (2002) confirmed that structural relationships have positive impacts on trust, satisfaction and commitment which are regarded as the bases for retaining customers’ (Yu and Tang, 2013, p111).

Structural bonds are the strongest bonds and subsequently the most difficult to break. Structural bonds are stronger than customisation bonds; customisation bonds are stronger than social and financial bonds. As the bonds become stronger, customer loyalty increases, and the opportunities and scope for reaping the benefits of relationship marketing increases.
From the above strategies discussed, an organization can retain its existing customer by offering some financial incentives—lower prices for volumes or for customers who have been patronising the firm over a period of time. Also, company’s customer can be retained by viewing them as clients who are not merely nameless faces. They find ways to keep in touch with them and interact with them to find their changing needs and offer solutions. Through these strategies, customer satisfaction could be achieved which definitely results in customer royalty.

f) Empirical Review

There are scanty empirical literatures on customer base strategies but the available literature is the study of Gengeswari, Padmashantini, & Sharmeela-Banu, (2013) on Impact of Customer Retention Practices on Firm Performance. They argued that customer retention has become the buzzword among both practitioners and academics due to its significant impact towards the improvement in firm performance. To them, firm’s performance is normally evaluated using financial measures, their study has utilized non-financial measure i.e. customer satisfaction. Their study was conducted using mall-intercept surveys at AEON Perak, Malaysia whereby, it collected 200 completed questionnaires. Hierarchical regression analysis was employed to examine the impact of customer retention towards firm performance alongside with the demographic profiles as the moderator. Four dimensions of customer retention namely word-of-mouth, price insensitivity, repeat purchase and non-complaining behavior as well as demographic profiles are found to significantly influence firm performance (customer satisfaction).
III. Conclusion

Achieving a sustained competitive advantage (SCA) in this 21st century reside on having a customer mindset. This study has demonstrated that effective customer-based strategies should take into consideration value innovation strategy, market segmentation strategy, market expansion strategy, 80/20 business strategy and relationship retention strategies. With the above mentioned strategies, a firm can grow, and sustain its customer base at a profit. The study also proposed a model for growing, and sustaining a firm's customer based. The model assumed that through value innovation (cost leadership, creation of new value through product development) a firm's customer base can improve directly. Secondly, market segmentation strategy, market expansion strategy, 80/20 business strategy and well structured relationship retention strategies (financial, social, customization, and structural bond) will definitely enhance customer satisfaction thereby reflecting in increased market share of the firm. Also, channeling marketing efforts to 20% customers and products that gives a firm 80% profit will enhance organizational returns.

However, apart from the aforementioned conclusions and contributions of customer base strategies to firms, effective customer base strategies takes into cognizance the two sides of customer value which is the value the firm provides to the customer and the value the firm provides to the firm. Conclusively, effective implementation of customer based strategies and its periodic review and appraise grow and sustain the profit and assets base of the organization.

References Références Referencias
