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Regaining Service Customers

Costs and Benefits of Regain Management

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Service markets are increasingly competitive while at the same time customer loyalty decreases. To succeed in these markets, service providers have to address not only prospects and existing customers but also lost customers as a distinct target group for their customer management. This article develops a conceptual basis for "regain management" aimed at winning back customers who either give notice to terminate the business relationship or whose relationship has already ended. Regain management offers service providers profitable acquisition by adopting a specific management process consisting of regain analysis, regain actions, and regain controlling. Essential for this process is a customer database that allows segmentation of lost customers and a segment-specific variation of regain dialogues and regain offers.

Traditionally, marketing in general and services marketing specifically focused on *acquiring* new customers. Only during the past few years has *customer retention* been recognized as a critical strategic task for service managers (Rust, Zahorik, and Keiningham 1996, pp. 312-15, 332-35). This is particularly the case in mature markets with little or no growth. Here, new customers can only be acquired at high cost and any loss of customers both weakens one's own business and strengthens a competitor.

Marketing research has revealed repeatedly that investments in customer retention are profitable, especially in comparison to expenses for the acquisition of new customers or cost-cutting programs (Fornell and Wernerfelt 1987; Heskett et al. 1994; Reichheld and Sasser 1990; Reichheld and Teal 1996). The reasons for the profitability of customer retention strategies are evident: To maintain a stable level of business, for each customer lost, a new customer has to be recruited, entailing costs for advertising and promotion activities. Furthermore, a customer's profitability increases with the duration of the business relationship, as in general the customer's purchase intensity grows, the operating cost declines, and positive word of mouth leads to additional sales (Grönroos 1990, p. 137; Page, Pitt, and Berthon 1996, p. 822; Reichheld and Sasser 1990; Zeithaml, Berry, and Parasuraman 1996, p. 32).

Higher customer retention (and that means a reduction of customer defection) has a positive impact on the company's profit. This has been the consistent conclusion of several empirical studies. Hallowell's (1996) research among 12,000 bank clients reveals that "customer loyalty is related to profitability at the bank" (p. 36). Reichheld (1993) names various examples of calculations conducted by individual companies. According to his data, the credit card company MBNA, for example, was able to increase profits by 60% within 5 years due to a 5% increase of the customer retention rate (Reichheld 1993, p. 65). In the life insurance business, a 5% increase of customer retention led to a cost reduction of 18% per policy (Reichheld 1993, p. 71).

As more and more companies recognize the relevance of customer retention they develop retention strategies that

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in general have two different goals. The first goal is to *strengthen the relationship with satisfied customers* in order to avoid dissatisfaction and to consolidate customer retention by increasing the value of services (e.g., by club or card concepts). A second goal of customer retention strategies is the *stabilization of endangered relationships with dissatisfied customers*, for example, by an active recovery policy.

Although in theory achievable, retention management will in reality never economically avoid all customer defection. Therefore, it seems reasonable to complete this management approach with a *customer-regaining strategy* that aims at *rebuilding the relationship with customers* who explicitly quit the business relationship. This regaining strategy—which so far has been neglected almost completely—is a specific area of customer management and can clearly be differentiated from traditional recruitment and retention management. Whereas traditional recruitment is directed to prospects who lack experience with the service offered and whose purchasing behavior is relatively unknown, regain management aims at former customers who have experience with the service and a purchasing history with the service provider. Thus, in traditional recruiting, segmentation is solely based on externally acquired data and communication is directed mainly one-way toward the prospect; with regain management, however, marketing can rely on a proprietary database for segmentation and communication is more often initiated by the expired customer.

Retention and regain management have in common the fact that they deal with customers who are experienced with the service provider. But whereas for retention management current customers are the target group, regain management aims at lost customers. This leads to different goals for segmentation and communication. For regain management, segmentation can be based on database information reflecting past purchasing behavior. However, communication to the lost customer also needs to address the reason for terminating the relationship. And this information will be gathered only through interaction with those expires (see Figure 1).

To clearly differentiate between regain management and retention management we need to distinguish between current and expired or lost customers. Customers are "expired" or "lost" whenever they either cease to purchase or explicitly terminate the relationship. When, for example, a dissatisfied customer complains and is retained through adequate recovery policy, then this recovery is considered successful retention management, because the customer neither stopped purchasing nor explicitly terminated. However, if the dissatisfied customer defects without having complained, all efforts to rebuild the relationship are efforts of regain management. It could be discussed whether customers who give notice of termination but are legally still tied to the firm are expired or not. These will be considered as lost, rather than current, customers here, because they decided to cease the relationship and took all steps necessary to do so.

Elements from both traditional recruitment and retention management have to be blended into a specific regain management concept. Special analytical efforts have to be made to identify different segments of lost customers. To assess the profitability of regain management, specific regain actions have to be developed and a separate controlling system is required.

The purpose of this article is therefore to develop the conceptual basis for regain management, to describe the individual tasks within the regain management process in more detail, and to indicate how the profitability effects of segment-specific regain actions can be calculated. This conceptual framework will be complemented by a case study.

BASICS OF REGAIN MANAGEMENT

Regain management encompasses the planning, realization, and control of all processes that the company puts in place to regain customers who either give notice to terminate the business relationship or whose relationship has already ended.

The general *goals* of regain management are to make use of the experiences gained by both parties during the preceding business relationship in order to regain profitable customers, to minimize the negative impacts of the defection of dissatisfied customers, and to gain information for the improvement of services and internal processes by analyzing the causes of customer defection.

The following specific objectives can be derived from these general goals:

- realizing potential sales and profits in the future by rebuilding the business relationship,
- minimizing acquisition cost,
- avoiding negative word of mouth by customers who defect due to their dissatisfaction with one aspect of the company's offers,
- uncovering defects in the service production to reduce failure costs, and
- improving the service product by using all information that leaving customers voice as reason for walking away.

These objectives of regain management can only be achieved if an information basis is created by a thorough

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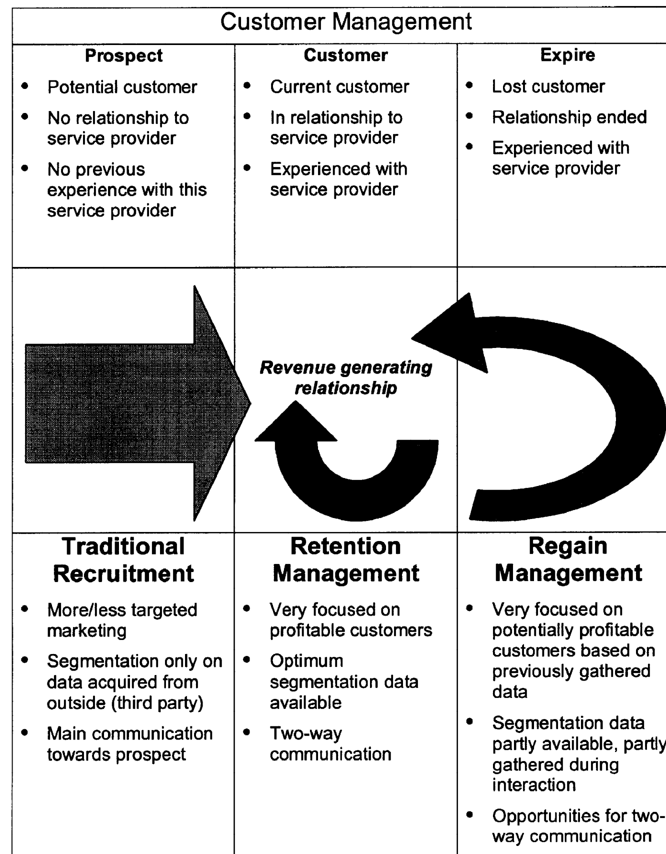
FIGURE 1
Comprehensive Customer Management



customer analysis, if regain actions to facilitate customer-specific dialogues (and accordingly modified regain offers) are designed and implemented, and if the profitability of regain management is controlled. Thus, the main tasks of regain management are regain analysis, regain actions, and regain controlling.

THE REGAIN MANAGEMENT PROCESS

The regain management process consists of analysis, actions, and controlling, each containing a set of specific tasks that will be discussed in more detail below (see Figure 2). Basically, fulfilling these tasks imposes high requirements on the company with regard to information technology and personnel as well as organizational structures. Comprehensive customer databases are indispensable and they must be maintained thoroughly. Organizational units for customer communication—mainly call centers—are needed. Quite often call centers pose a challenge for regain management, because given current levels of training and pay, doubts may arise as to whether the employees are able to handle regain calls. Experience shows that even within traditional customer service call centers, routines can be implemented for handling calls from terminating customers (see below, Regaining Customers in the Termination Phase). However, more complex businesses, a broader variety of reasons to terminate, or more diverse ways to solve customer problems would lead to other solutions. These calls would be forwarded to either a group of specifically trained customer service representatives within the call center or to an outside service provider. Basically the same applies to outbound calls.

Regain Analysis

Regain analysis comprises determination of customer value and investigation of main reasons for termination of

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FIGURE 2
Elements of the Regain Management Process

Regain Management		
Regain Analysis	**Regain Activities**	**Regain Controlling**
• Customer value analysis • Customer life cycle analysis • Termination analysis • Segmentation of expired customers	• Individual dialogue • Customer-individual regain Customer offer	• Calculation of regaining costs • Calculation of regaining benefits • Calculation of regain profit and Return on Regain management (ROR)
Information Technology		
Organizational Structures		
Personnel		

the business relationship. Based on this analysis, lost customers are segmented. Finally, the scope and extent of segment-specific regain activities are determined.

CUSTOMER VALUE ANALYSIS

With regard to each regain strategy the following question has to be answered: Should terminating or lost customers be regained at all? This requires a systematic and differentiated analysis of the customer value. Today, several methodological approaches to determine the customer value are at hand, although they are not always adequately used by service companies.

An evaluation of customers based on *revenue* and a differentiation into A, B, or C customers according to their purchases often dominates. During the past few years, frequency programs (e.g., frequent-flyer programs) have gained wide acceptance in service companies (O' Brien and Jones 1995). Here, the amount of services purchased determines the customer value.

It is much more meaningful to calculate the customer value according to the *current customer net profit* rather than merely using sales figures (Rust, Zahorik, and Keiningham 1995, p. 65). In this case, for each customer, the direct cost is deducted from the sales to this customer and it is determined whether a positive contribution remains to cover the fixed costs. This is of special importance for regain management as customer-specific cost of communication or resolution of complaints can thereby be taken into account. Determining a customer-specific contribution requires detailed accounting of customer relationships and their related cost. For this reason, customer contribution analysis has gained acceptance especially in consumer goods industries with regard to key accounts and in service industries with regard to services belonging to the type of formal "membership" relationships (Lovelock 1996, p. 40). In "membership" relations, purchasers receive service continuously on the basis of a contractual relationship. Therefore, the customer is automatically identified through a customer or account number so that customer-specific purchase histories are gained. Examples of service industries that fulfill these requirements are mail order companies, telephone companies, newspaper and magazine publishers, financial service companies like insurance companies or banks, and all service companies working with customer cards. For the discussion following, it is assumed that the prerequisites of this service type are givens.

Additional refinements of the customer value analysis are made, when, as far as the *content* is concerned, *qualitative dimensions of customer attractiveness* are taken into account. Especially for business customers, this seems

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very sensible, as customers are not only valuable because of the net profit obtained but also because of their referral and innovation potential. Each company has to make decisions about relevant criteria of attractiveness, their relative importance, and procedures to aggregate the different qualitative and quantitative dimensions into a single attractivity ratio.

Regarding *time*, it has to be considered that the customer value is represented not only by past or present transactions but also by the potential profit from this relationship in the future. Interpreting customer attractiveness as net profit (which seems rather plausible for customer-oriented services), the *lifetime value* (LTV) of a customer is the net present value of all profits that can be expected from the business relationship. To determine LTVs, a number of approaches exist. The basic idea of these approaches is to discount the periodic profits during the expected life of the business relationship and to calculate the net present value of the relationship (Blattberg and Deighton 1996; Dwyer 1989; Jenkinson 1995, pp. 74-76; Hansotia and Wang 1997; Wayland and Cole 1997, pp. 101-13).

This basic concept has been applied repeatedly in refined or modified forms by many "membership" services. Jackson (1989) discusses the application of LTV in the insurance industry and concentrates on the question of what amount of repeated business a customer will do with a company to determine the amount the company can spend to acquire that customer. Keane and Wang (1995) discuss the LTV approach in the context of newspaper publishers and Hughes (1996, pp. 233-50) in retailing. Andon, Baxter, and Bradley (1998) describe in case studies the determination of LTV for customers of a health insurance and a motor insurance company. McDonald (1998) presents an LTV calculation for a credit card company (pp. 391-95).

In their meticulous review of existing literature on the calculation of LTV and, in addition, taking into account the results of their case studies in Australasian service companies, Andon, Baxter, and Bradley (1998) conclude that the respective LTV concepts reveal some common basic elements across a broad variety of industries (pp. 728-29).

The LTV is doubtlessly the most sophisticated concept for determining customer value. Most of all, it focuses on future value rather than only the past performance. Historic profitability profiles of single customers are retrospective: They do not adequately anticipate changes in customer usage patterns and do not take into account that profitability recorded in a given performance period may incompletely describe the value of the customer, because this might only reflect some portion of the relationship life cycle (Carroll and Tadikonda 1997, p. 78; Wyner 1996, p. 38).

The question to ask in order to segment expired customers is: Could he or she be a good customer in the future? Mining existing customer data is essential for answering this question. Aggregate data about service purchase behavior lead to the identification of purchase patterns. In combination with other data available, customers can be segmented. Recorded purchases in the past for any individual customer can then be related to these patterns and lead to a more refined forecast of future purchase behavior. For example, a young executive might have a lower "spent-to-date" on his credit card when he cancels than an elderly man, but because of purchase patterns in the past and the available demographic data, his expected customer value will be higher.

To determine customer value in the context of regain management, the LTV of the terminated relationship is not appropriate. Only the value of the regained customer in the future is of interest. Accordingly, through data analysis, expected length and expected profitability of rebuilt relationships have to be assessed. To distinguish this from LTV in the original relationship, this LTV will be called *second lifetime value* (SLTV).

CUSTOMER LIFE CYCLE ANALYSIS

Customer value does not remain constant in the course of a business relationship but varies over time. Customers in the acquisition phase are essentially unprofitable and become increasingly profitable the longer the relationship continues. At the same time, diminishing marginal sales and decreasing profit contribution can be evidence of an ending relationship. Therefore, it becomes important to gain insight into the typical customer life cycle. The customer life cycle represents the development of the net profit of a customer per period throughout the business relationship. In analogy with the product life cycle concept, different phases are distinguished, offering an explanation for the various growth rates of the net profit of a customer per period and providing the basis for a life cycle–specific treatment (Dwyer, Schurr, and Oh 1987; Schulz 1995, p. 73). Thus, for example, a prospect phase, a new customer phase, a growth phase, a saturation phase, a degeneration phase, and a phase of passive customer relations can be distinguished. Analyzing a customer relationship includes determining the average duration of a customer life cycle as well as customer value in the specific phases.

To be meaningful for regain management, this simple model needs to be modified in two ways. First, because the examination is of expired customers, with whom the company is starting a new life cycle, the average life cycle for first-time customer relations seems inadequate. For regained customers, a "second life cycle" needs to be determined. There are many reasons to argue that this second life cycle differs greatly from the "first life cycle" in terms of length of phases, absolute customer profit, and distribu-

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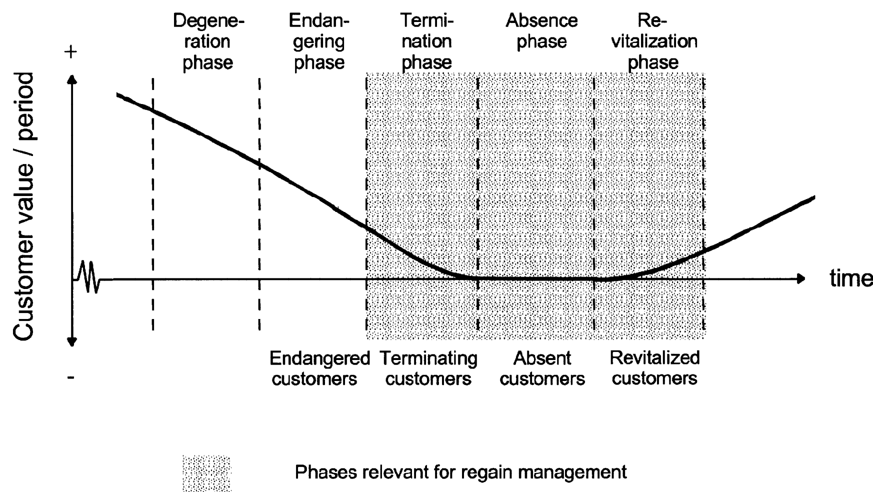
FIGURE 3
Phases in the End of the Relationship Life Cycle



tion of customer value among the phases. Among these reasons are that the customer is already familiar with the service offered, the service provider has a lot more data about the likes and dislikes of this particular customer than about any first-time customer and can offer a more targeted service, the personal recognition of the customer in the course of the successful regain could lead to a different sales performance than that generated by any more anonymously recruited first-time customers, and the length of the "prospect phase" and the "new customer phase" would arguably be shorter in the second life cycle than in the first one. Subsequently, the SLTV could differ greatly from the LTV. Even the regain offer could influence the second life cycle and thus the SLTV. Only a detailed analysis of customer data will reveal for each individual business whether the LTV is smaller, the same, or greater than the SLTV—and this might even differ between different customer segments.

Second, for regain management purposes, a more detailed description of the (first) customer life cycle phases is necessary. The division into five to six phases is normally not precise enough. The end of the customer life cycle, which is of interest here, is separated into two phases only: a degeneration phase, which is characterized by a decreasing customer-specific net profit rate, and a phase of a passive customer relationship, in which the customer stops purchasing. Here, a more detailed analysis reveals that it is more meaningful to differentiate among four phases.

It is important to identify typical "break points" within the business relationship by analyzing the defection pattern in the past. This information supports retention efforts to stabilize threatened business relationships in the *endangering* phase.

In addition, especially with services of the formal "membership" type, a *termination phase* can be noticed. In this phase, customers have already made their decision to terminate the business relationship (Roos and Strandvik 1997) and have communicated this to the company. Often these customers will still be bound legally to the service provider. For the purpose of regain management, it is important that this activity of the customer gives a "hook" for targeted communication. Here, the customer started communicating and the service provider can take advantage of this.

Furthermore, it seems advisable to differentiate those customers who finally broke off the relationship. Some of these expired customers will never be willing to renew the business relationship due to external circumstances (e.g., relocation) or high dissatisfaction. Others might be responsive after a *phase of absence*, for example, because their personal situation and needs have changed again or because they are disappointed by a competitor's service. In this *phase of revitalization,* a relationship with expired or "lapsed" customers (Hansotia and Wang 1997, pp. 17-18) can be rebuilt. However, the service provider has to initiate the communication process. Figure 3 shows these relevant parts at the end of the customer life cycle.

For purposes of regain management, the phase of termination and the phase of revitalization are decisive. Customers in the termination phase (who have just given notice to terminate the relationship) and in the revitalization phase (who are responsive again) show remarkable

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differences with regard to the intensity of the business relationship and their attainability and therefore require different treatment. Thus, regain management in the termination phase is different from regain management in the revitalization phase.

Termination Analysis

The fundamental goal of the termination analysis is to identify the causes of defection. Here, important hints can be taken from research into the termination of business relationships and exploration of switching behavior (Heide and Weiss 1995; Keaveney 1995; Roos 1998; Roos and Strandvik 1997). However, this discussion focuses mainly on customers who switch because of dissatisfaction. A more detailed analysis shows that the termination of a business relationship can come from a great variety of reasons (Hughes 1996, p. 191). Therefore, we need to distinguish between intentionally pushed-away customers, unintentionally pushed-away customers, pulled-away customers, bought-away customers, and moved-away customers.

Intentionally pushed-away customers. This segment comprises customers with whom it is not economical to continue the relationship. These customers render a negative profit contribution, they are identified as troublemakers, or they impose a high risk of bad debt. Here, contracts will not be prolonged or the service level will be reduced in such a way that customers defect by themselves. The analysis of data on these intentionally pushed-away customers will lead to an identification of patterns that will be used in the acquisition process to avoid the costly establishment of problematic and cost-intensive business relationships.

Unintentionally pushed-away customers. These customers get lost because the company's performance does not meet the customers' expectation, the service provider does not respond to the customers' desires, or because customers are treated badly. Such information will indicate defects in quality and therefore comprise an important source of ideas for the improvement of service quality and processes. It can also be viewed as valuable input about how customers can be regained through the solution of a former problem or the application of a certain recovery technique.

Pulled-away customers. By offering a better service, the competitor pulls the customer on his side. In this case, information about lost customers contains details concerning the competitor's performance. They show service variations and innovations of the competitor, which customers value so highly that they terminate the relationship with the former service provider. Keaveney's (1995) critical incident study gives an impression of this. Many customers switched to competitors who were more personable, more reliable, or provided higher quality: Many switched even when the new provider was more expensive or less convenient. The interpretation of such information is an important element of competition analysis. Results can strongly stimulate creative processes to improve one's own performance. In addition, they contain ideas as to how customers who intend to defect can be kept by a customized adjustment of normally standardized offers that thereby match or exceed the competitor's quality.

Bought-away customers. A specific group of customers defecting to a competitor are the bought-away customers (or "switchers"). They do not primarily switch because of a superior quality of the competitive offer but because of "bribes" the competitor offers to "buy" these customers. Bribes can be "introductory offers" as well as specific, otherwise not obtainable, price advantages. Defecting customers are considered bought-away customers when they are attracted by the bribe and when they are basically disloyal and open to switching providers back and forth. Identifying this group is especially important, because these customers most often will not stay long enough to recover the cost of regain.

Moved-away customers. They drift apart from the service provider either as a consequence of relocation or as a result of changing needs due to their age, their position in the family life cycle, or a new lifestyle. An example is a married couple with grown-up children terminating their membership in a book club for children and in a youth-hostel organization or canceling their subscription to a family magazine. Data analysis of "moved-away" customers gives insights into changing customer needs, which can be used for the development of new, cross-selling offers.

Segmentation of Lost Customers

Customer value analysis and termination analysis are the basis for the segmentation of lost customers. A two-step procedure is suggested.

The *first step* encompasses the *selection of customers relevant to the service provider* to be regained profitably and, as a consequence, the identification of unprofitable relationships, which have to be sorted out. For these purposes, the results of the customer value analysis can be used. Out of the varied methods introduced, it seems to be most reasonable to adapt LTV and specifically SLTV as basic concepts.

For example, on the basis of their SLTV, expired customers can be split into the four segments: A (best 10%), B (second-best 20%), C (next-best 30%), and D (last 40%). This is illustrated in Figure 4. Obviously, these segments will be handled according to their profitability as

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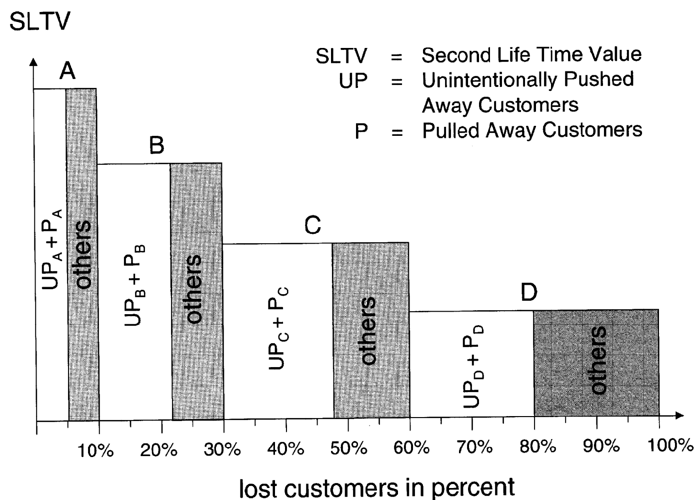
FIGURE 4
Segmentation of Lost Customers



represented through the SLTV. At the same time, it is evident that with increasing net present customer value, the cost recoverable for regain processes rises as well. Accordingly, there are more resources available for regain activities with regard to the attractive customers in group A than to customers in group B.

On the basis of this selection a *second step* has to focus on the analysis of the reasons for termination to *further differentiate lost customers with regard to their reasons for defection*.

Expired customers who were "intentionally pushed away" can be excluded from analysis because they definitely should not be regained. Regarding the remaining customers, it is particularly important to identify customers who are "bought away" or "moved away." "Bought-away" customers can be regained only with expensive bribes and at the same time are at risk of defecting again as soon as possible. Given the expensive up-front offer and the expected short life cycle, it seems rather unlikely that these customers will ever become profitable. In particular, those customers who have been regained before have to be identified in the database. Bought-away customers should not be pursued further. This applies to moved-away customers as well, because it will be barely profitable to regain them—if they can be regained at all (Pitt and Page 1993, p. 182). Here, it is important to identify the reason for termination as quickly as possible and then stop the regain dialogue. As a result, of all expired customers, only those who were "pulled away" and "unintentionally pushed away" will be followed up on.

Taking into consideration both customer value and termination analysis, that is, quantitative and qualitative data, lost customers can be segmented as illustrated in Figure 4.

The differentiation according to the customer value leads to the decision as to whether regaining a customer should be attempted and with what intensity these activities should be conducted. Whether the expired customers belong to the group "unintentionally pushed away" or to the group "pulled away" determines which regain actions are applied. Supposedly, regain actions for pulled-away and unintentionally pushed-away customers result in different costs.

Regain Actions: Customer Dialogue and Customer-Individual Regain Offer

Essential elements of regain actions are the customer-specific regain dialogue and the related customer-specific regain offer.

Terminating customers have given the strongest signal possible that they will leave the relationship. They did not walk away, but they voiced their intention to do so. More often than not they will be responsive to targeted communication as opposed to an anonymous solicitation that does not address their reason for defecting. Usually, a phone call will be an appropriate reaction to the termination notice, because a phone call allows for an immediate categorization of the customer as "unintentionally pushed," "pulled," or "moved" away and grants flexibility in proceeding. Conversations with moved-away (and possibly bought-away) customers need to be finished in an appreciative and friendly but quick manner to keep regain costs low.

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In the case of unintentionally pushed-away customers, the matter is to clarify the problem that caused the termination and to ask the customer which way of solving the problem is acceptable. On this basis, an offer must be made that not only satisfies the customer but lets him withdraw the notice to terminate while still on the phone or to agree to take up the business relationship anew.

This implies that the call center staff has immediate access to the customer database with information about the customer's purchase records and an evaluation of customer value. Moreover, it is necessary that the staff is accurately informed exactly about the company's principles and techniques related to complaint policy. They need to be empowered to make decisions about the solution of a problem or giving compensation (e.g., the cash amount of a reimbursement coupon) depending on the customer value. If the problem cannot be solved immediately or if the customer needs time for reflection, standard processes to initiate the solution of the problem and to trigger a follow-up contact at a later time have to be provided.

With pulled-away customers, the reasons for the perceived superiority of the competitor's offer must be investigated. Subsequently, it has to be determined to what degree the competitive offer can be matched or exceeded. This will be feasible only if the offer of a service variant does not require costly system modifications. Still, customers frequently want to defect from a business relationship for reasons of price (e.g., account maintenance charge) or certain terms and conditions (e.g., purchase commitment in a book club). Depending on customer value, the offer can accommodate the customer's wish wholly or in part if a sufficient degree of opacity can be ensured to conceal these customer-individual adaptations of the service offered from the majority of customers.

With regard to both groups of expired customers, the regain offer can include an upgrading (Schulz 1995, p. 259). For a renewal of the business relationship, customers in these cases could be enrolled in a higher customer class, which would usually require a longer period of membership or exceeding a certain purchasing volume. This rating is attractive as it grants access to certain additional services, events, or discounts.

The investment in customer dialogue (i.e., number of attempts to reach a lost customer by phone) again depends on customer value, and so does the effort undertaken to regain the customer (i.e., value of the offer to settle dissatisfaction). So, call center staff must be supplied with information on the cost effects of regain actions and provided with action limits depending on the customer value.

For taking up contact with customers who defected some time ago and have reached a *phase of revitalization*, similar considerations apply. Still, addressing them is more complicated. First, there is no current business going on; customer files will be outdated, and future customer value is more difficult to assess. Furthermore, regain actions can hardly refer to the reasons for terminating the business relationship some time ago. Thus, it seems reasonable to contact these customers primarily by a standard letter or a standard telephone call. Still, revitalizing customers bears the advantage that these are preselected according to their expected SLTV and that they have their own experience with the service provider, are familiar with the company, and know what to expect. With an attractive service product, these expires can more easily be convinced to rebuild the relationship than prospects in traditional recruiting can be convinced to set up a new relationship.

Regain Controlling

Basic Model of Regain Profitability Calculation

Resources for regaining customers are not reasonably employed unless they are profitable and yield a higher profit than in alternative usage, for example, in the acquisition of new customers. Thus, there is a need for regain controlling that informs about the cost and benefits of regain actions and provides basic information regarding the optimal budget for regain management.

Basically, regain profit (RP) can be defined as the difference between regain benefits (RB) and regain cost (RC).

$$RP = RB - RC. \qquad (1)$$

What are these regain benefits? Generally, one can expect regain management to lead to the following positive effects: sales benefit, communication, and information benefit.

Sales benefit (SB) represents the expected net profit of the customer during the reestablished business relationship. *Communication benefit* (CB) results from the fact that successful regain actions help to avoid negative word of mouth from lost customers and to initiate positive word of mouth from those regained. If the information obtained in the regain dialogues is systematically collected, analyzed, and applied, *information benefit* (IB) arises for the company, the effects of which may be substantial. In cases of unintentionally pushed-away customers, cost reductions can be expected if the use of this information leads to an optimization of internal processes, reductions of processing time, or increased productivity, and finally if expenses for lawsuits, insurance, and product liability can be avoided. Over and above this, an increase in revenue can be expected in cases of unintentionally pushed-away—and pulled-away—customers, if, based on complaint

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analysis, product variations and innovations can be achieved that turn out to be marketable.

$$RB = SB + CB + IB. \quad (2)$$

To assess the economic value of the various benefits remains difficult. Some suggestions have been published for determining the monetary value of positive word of mouth and customer-specific information processing (Stauss and Seidel 1998, pp. 283-300). To keep this discussion as simple as possible, we will focus on the sales benefit.

SB comprises the number of customers regained (CR) multiplied by the expected net profit of these, that is, the SLTV. Accordingly, SB is defined as

$$SB = SLTV * CR. \quad (3)$$

Customers regained (CR) can be viewed as a ratio (regain ratio = rr) of all customers attempted to regain (lost customers attempted to regain = L):

$$CR = L * rr. \quad (4)$$

Because the expected net profit varies from customer segment to customer segment, SB has to be calculated segment specific and added up (for i segments):

$$SB = \sum_{i=1}^{n} L_i * rr_i * SLTV_i. \quad (5)$$

Regain benefits have to be compared to *regain costs*. These arise whenever measures to regain customers are carried out. Basically, there are three different kinds of regain cost. First, *customer communication costs* (CC) arise when lost customers (L) are contacted. These include the cost of responding to notices of termination as well as setting up communication with all expired customers whom the company attempts to regain. Direct cost of communication has to be included as well as personnel, applicable cost of the database, and all other overhead cost. *Offer costs* (OC) only arise for customers successfully regained. They will probably differ for pulled-away and unintentionally pushed-away customers. Regaining *pulled-away customers* (Lp) probably leads to *upgrading costs* (UC) for improved service offers. Regaining *unintentionally pushed-away customers* (Lu) leads to a *solution cost* (SC) incurred by solving those service problems that led to the termination of the relationship.

$$RC = CC + OC \text{ for } OC = UC + SC, \quad (6)$$

$$RC = cc * L + uc * Lp + sc * Lu, \quad (7)$$

where

cc = average communication cost,
uc = average upgrading cost, and
sc = average solution cost.

These costs have to be viewed in segment-specific form (i = segment index). At the same time, the amount of contact, upgrading, and solution cost influences the probability that customers will be regained; that is, the regain ratio.

$$rr_i = f\,(RC_i). \quad (8)$$

To be able to compare the investment in regain management with other investments, specifically investments in acquiring prospects or retaining existing customers, a *return on regain management* (ROR) can be calculated as the ratio between regain profit and regain cost. The ROR can also be helpful in determining the optimal mix of management efforts for increasing the customer base.

$$ROR = \frac{RP}{CC + OC}. \quad (9)$$

More specific statements about the trend of the function—which will above all differ according to the segmentation—require a company-specific analysis of regain cost and regain ratio.

Basically, service companies applying regain management (and limiting the benefit in the equation to the sales benefit) have to optimize this function:

$$RP = \sum_{i=1}^{n} SLTV_i * L_i * rr_i\left(RC_i\right) - \sum_{i=1}^{n} cc_i * L_i - \sum_{i=1}^{n} uc_i * Lp_i - \sum_{i=1}^{n} sc_i * Lu_i \Rightarrow \max. \quad (10)$$

There is one important qualification for maximizing this function.

Companies will basically want to gain a minimum return on investment or on sales. Taking this into consideration along with the potential risks of regaining customers (i.e., whether the SLTV will, in fact, be realized entirely), a minimal regain profit (MP) or a minimal regain profit by segment (Mp_i) will be defined, and ultimately the ROR can be related to the minimum return on investment (MOR):

$$RP > MP \text{ or } RP_i > MP_i, \text{ respectively.} \quad (11a)$$

$$ROR > MOR \text{ or } ROR_i > MOR_i, \text{ respectively.} \quad (11b)$$

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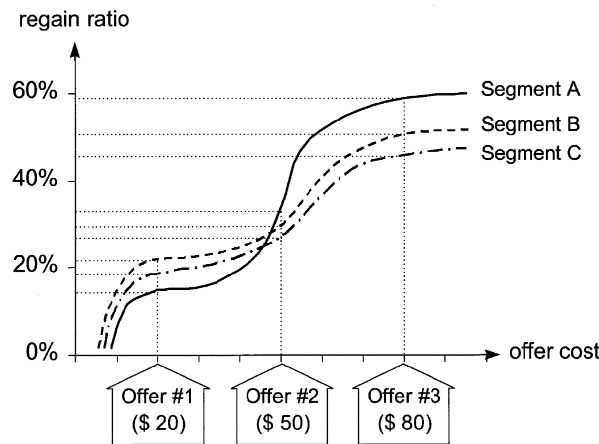
FIGURE 5
Relation Between Offer Cost and Regain Ratio per Segment



Exemplary Calculation of Regain Management Profitability

To illustrate the model described above, we will outline a simple, hypothetical application of regain management.

Imagine a service provider of the formal "membership" type (e.g., a magazine publisher or an insurance company) receiving 10,000 notices to terminate per annum. The segmentation follows the approach suggested above (best 10%, second-best 20%, next-best 30%, and last 40%). Accordingly, 1,000 of the lost customers can be assigned to the attractive Segment A of expires with a high average SLTV ($200), 2,000 belong to Segment B with medium average SLTV ($100), 3,000 belong to segment C with low average SLTV ($50), and 4,000 customers belong to the last category where the SLTV only amounts to $4.

Because communication cost (including all costs of overhead) amount to an average of $5, which is higher than the average SLTV of Segment D, this segment will not be considered further.

Looking into previous tests of regain offers and analyzing existing data leads to assumptions regarding the regain ratio, which depends on the offer cost for the remaining Segments A, B, and C. The trend of the function for these three segments is illustrated in Figure 5. (To avoid getting overly complex, there is no differentiation in this example between functions for pulled-away customers and for unintentionally pushed-away customers; such differentiation would have to take into account either upgrading cost or solution cost.) Obviously, a minimum investment is necessary to regain customers at all. Without taking into consideration communication cost, increasing the value of the offer leads to first, an increasing and second, a decreasing gradient of the regain ratio in this example. Achieving a regain ratio of more than 60% does not seem to be feasible—disregarding how much the company is prepared to spend on the offer.

For all three segments, three different offers will be analyzed. Offer 1 represents a low-cost variant, with an offer cost of $20. The regain ratio achieved with this offer is between 15% (Segment A) and 25% (Segment C). A more valuable offer (Offer 2) yields regain ratios between 30% (Segment B) and 35% (Segments A and C) at an offer cost of $50. The third regain offer included in this analysis costs $80 and leads to regain ratios between 45% (Segment C) and 60% (Segment A).

How these various offers influence the total regain profit and the ROR is shown in Table 1. The sum of communication cost (column 5) and offer cost (column 7) results in the total cost per customer regained (column 8 in Table 1). Comparing total cost per customer regained with the customer's SLTV (column 3) leads to the total regain profit per segment (column 10) and the ROR per segment (column 11).

Assuming that the absolute regain profits are decisive in the end, Offer 3 in Segment A yields the highest profit ($67,000); regarding Segment B, Offer 1 is most successful (total regain profit: $22,000). Offer 1 leads to a positive total regain profit ($7,500) in Segment C, too. Summing up, the three most profitable offer/segment combinations

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TABLE 1
Calculation of Regain Profit

Segment	*Lost Customers (L)*	*Second Lifetime Value per Customer Regained (SLTV)*	*Regain Ratio (rr)*	*Customer Communication Costs (CC)*	*Customers Regained (CR)*	*Offer Costs (OC)*	*Total Cost per Customer Regained (rc)*	*Regain Profit per Customer Regained (rp)*	*Total Regain Profit per Segment (RP)*	*Return on Regain Management (ROR)*
				= cc * L cc = $5	= L * rr	= oc * CR	= (cc * L + oc * CR) / CR = (CC + OC) / CR	= SLTV – rc	= rp * CR = SLTV * CR – CC – OC	= RP / (CC + OC)
Dimension	*Number*	*$*	*%*	*$*	*Number*	*$*	*$*	*$*	*$*	*%*
Offer 1 ($20)										
A	1,000	200	15	5,000	150	3,000	53.33	146.67	22,000	275.0
B	2,000	100	20	10,000	400	8,000	45.00	55.00	22,000[a]	122.22
C	3,000	50	25	15,000	750	15,000	40.00	10.00	7,500[a]	25.00
Total	6,000		22	30,000	1,300	26,000			51,500	
Offer 2 ($50)										
A	1,000	200	35	5,000	350	17,500	64.28	135.71	47,500	211.11
B	2,000	100	30	10,000	600	30,000	66.66	33.33	20,000	50.00
C	3,000	50	35	15,000	1,050	52,500	64.28	–14.29	–15,000	–22.22
Total	6,000		33	30,000	2,000	100,000			52,500	
Offer 3 ($80)										
A	1,000	200	60	5,000	600	48,000	88.33	111.67	67,000[a]	126.42
B	2,000	100	50	10,000	1,000	80,000	90.00	10.00	10,000	11.11
C	3,000	50	45	15,000	1,350	108,000	91.11	–41.11	–55,500	–45.10
Total	6,000		57	30,000	2,950	236,000			–21,500	

a. Preferred offer according to the total regain profit.

lead to a total regain profit of $96,500 and an average ROR of 96% (see Table 1). If the absolute number of customers regained (CR) is to be maximized, Offer 3 will be extended to all segments. Basing a managerial decision on the ROR will lead to Offer 1 to all lost customers whom the company wants to regain.

The actual ROR will even be higher, for the calculation is not complete and neglects the communication and information benefits of regain management.

Factoring in qualifications or other decision rules could lead to a different scenario in this fictitious example. Given other investment opportunities, a minimum ROR of 30% would rule out investments in Segment C. To administer regain management efficiently, an absolute minimum total regain profit per segment might be another decision rule that could change the offer/segment combinations. And finally, in a more sophisticated analysis, offer cost should be split into solution cost and upgrading cost to come to an even more finely tuned regain approach.

Although this example is completely made up, it shows how, prior to rolling out with regain management, very detailed planning is essential. Clearly, the SLTV, the communication strategy, the offer to be made, and the expired customer's cause of termination are the key variables.

CASE STUDY

The case study presented here is drawn from the extensive experience book clubs have gathered about regaining lost customers. To make the point, a few words about success factors in this business will precede the description of regaining customers in the termination phase and in the revitalization phase (see below).

Introductory Remarks About the Book Club Business at Doubleday Direct

Book clubs clearly fall into the category of membership services. Because extensive customer data are obtained in direct mail businesses and as it is inherent to the business to communicate over the phone or by mail, this industry was chosen for a case study.

The example is drawn from Doubleday Direct, Inc., which has been serving the public with book clubs for almost 70 years. Today, all their 30 clubs operate as "negative-option" clubs. This means that the member accepts a front-end offer of, for example, six books for 99 cents and commits to buying another four books at regular club prices (e.g., up to 65% below suggested retail prices)

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during the next 2 years. The member receives a club mailing about every 3 weeks and can refuse the main selections, which each mailing recommends, by sending back a reply postcard. If this postcard is not sent back in time, the main selection will be shipped automatically.

Recruiting new members is the biggest single cost in this business. The total cost per order (CPO) can be as high as $100. Obviously, there is great leverage in the customer acquisition cost. Book clubs first extended their traditional recruitment to regain management in the revitalization phase, because direct mail packages needed to be adapted only a little, and all systems in place could be used for both traditional recruiting and rebuilding relationships. Later, the termination phase was added and new systems of customer communication were implemented. Given the very attractive offers up-front, retention has proven to be a particularly difficult topic.

Regaining Customers in the Termination Phase

Because acquisition is very costly, Doubleday Direct, Inc. has taken steps to "save a member" (SAM) wherever possible. Members who call in to cancel their membership are asked by telephone representatives for the reason why they want to leave the club. The representatives can access all relevant data about the member online, and they are empowered to offer solutions to most problems voiced unless the member is in an intentionally pushed-away segment. Roughly 60% of the cancellations can be averted. Of these, almost all are unhappy about the automated shipment of the main selection whenever the reply postcard is not sent back in time or about the frequency of the mailings. They are either converted to a positive option (books will be shipped only when explicitly ordered by the member) or suspended from all mailings for a certain time. Other problems are mainly service problems that are solved through offering a toll-free telephone number or coupons for free books. Even though these members are purchasing below average, SAM is still profitable because of comparatively low acquisition costs. Cancellations, which are mailed in, are treated similarly. Either a follow-up letter offers a solution to the problem or a telephone marketing representative calls the customer.

Regaining Customers in the Revitalization Phase

Regaining customers in the book club business began by using lists of expired members in direct mail. These can be segmented according to previous purchases, the addressee is familiar with the service offered, and potential sales in the future can be estimated using purchasing patterns of similar members reenrolled in the past. The economics behind regaining members is illustrated in Table 2. Two separate mailings to externally acquired addresses ("external list") and expired members are compared. Both mailings used the same creative treatment and offered six books for $1 and a premium or a seventh book for $4.98 (the latter counting toward the commitment to buy four more books within the next 2 years). However, the letter in the package varied in that the external prospects were introduced to the club, whereas the expired members were "invited to come back."

TABLE 2
Exemplary Comparison of Response to External Lists Versus Expired Members

Mailing	*Total CPO*[a]	*Gross Contribution per Order*	*Net Contribution per Order*	*Net Contribution on Investment*
External list	$57	$70	$13	23%
Expired members	$28	$88	$60	214%

a. CPO = cost per order.

The total CPO includes the cost for the package (creative execution, printing, handling, postage), the cost for renting the address (total rental and electronic data processing [EDP] cost for the mailing divided by members enrolled for the external addresses: total EDP cost per mailing divided by members enrolled for the expired members), the cost for the books/premium less all revenue from the offer (up to $5.98 plus shipping and handling). The gross contribution per order is the difference between all expected purchases by a member and all direct costs in the future. Gross contribution per order minus total CPO equals the net contribution per order for a specific mailing. Relating the net contribution per order to the initial investment (total CPO) leads to a net contribution on investment. This figure should not be misinterpreted as a profit relation, but it is very useful in determining whether or not recruitment efforts are marginally profitable. Regain efforts to members with a low expected gross contribution per order will not be undertaken unless the CPO is so low that the expected net contribution on investment is still positive or meeting the return on investment (ROI) objectives that more and more companies set up. The expected net contribution on investment is also useful in prioritizing the various efforts—be they in traditional recruiting, retention management, or regain management.

MANAGERIAL IMPLICATIONS

The conceptual considerations and experiences in advanced service companies show that customer retention

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policy in service companies needs to be complemented by regain management. Through regain actions, potential future sales and profits can be secured, acquisition cost to replace lost customers can be minimized, negative word of mouth from customers can be reduced, and valuable information for improving the service offers and internal processes can be obtained.

To reach these goals, a specific management process is necessary consisting of the elements regain analysis, regain actions, and regain controlling. The essential core of this process is a database that allows customer value determination. Here, it becomes particularly important to fine-tune methods to determine the SLTV. Therefore, accounting systems, which are still product focused in many service companies, need to be consequently geared toward customer-based accounting to process customer-specific communication and offer cost. Finally, segmenting customers on the basis of economic criteria needs to be complemented by segmentation according to reasons for defection. This is the precondition for really understanding the interdependence between regain offer and problem solution on one hand and regain ratios on the other hand. In the end, this will lead to a more targeted investment in regain actions as well as a more differentiated approach to lost customers.

In addition to adjusting and expanding the customer database systems toward the needs of regain management, the organizational prerequisites for continuously contacting lost customers (e.g., call center) need to be in place. They have to be staffed with employees using professional skills and able to sensitively and flexibly handle expires.

Although regain management in "membership services" can be implemented as described in this article, other services industries pose additional problems. These are above all the lack of a clearly communicated termination of the relationship and more often than not, insufficient databases about the customers and their purchase history. However, adapting some techniques of "membership services" such as customer cards or even simply collecting addresses and main purchases of the best customers could be first steps by which restaurants, barber shops, and garages could lay the groundwork for regain management.

Based on practical experience, it seems very likely that investment in the establishment of professional regain management will be worthwhile and that, especially for service providers from the formal "membership" type of business relationship, regain management will be one of the most profitable forms of direct customer communication.

FUTURE DIRECTIONS OF RESEARCH

It is quite obvious that regain management is an important complement to acquisition and retention of customers. Compared to these areas of management, there is a lack of knowledge and a great need for further research in regain management. And this need for research applies to all elements of regain management.

Regarding customer value analysis, there have been major advances recently. At the same time, Andon, Baxter and Bradley (1998) come to the conclusion in their overview article that a number of questions remain unanswered. There is a need to further research industry-specific details of LTV. Besides, there is no research at all about differences and similarities of (first) LTV and SLTV and their respective customer life cycles.

Regarding termination analysis, our knowledge in service management and marketing research has been greatly increased during the past few years. However, there is a lack of a consistent and empirically researched typology. The typology suggested here needs to be verified as well. In addition, research needs to address the question of how the reason for complaining is linked to the behavior of customers, specifically their communication behavior and their willingness to renew the relationship. Also, the endangering phase is an important topic for further research, both for marketing science and service providers. This research could lead to identifying endangering incidents and the development of preventive actions for avoiding the defection of the customer. And this leads to the important research topic of balancing retention and regain management.

Regarding regain actions, the drivers for successfully winning expires back need to be researched. Here, it is particularly important to explain the differences in the reactions of lost customers to various ways of communication and various regain offers.

Regarding the calculation of regain profits, there are a number of issues to be addressed in further research. Here, the most important is the development of methods to quantify communication and information benefit. This is the precondition for avoiding the methodical underestimation of regain benefits. And it needs to be determined in which way a refined activity-based costing can be employed to allocate contact and offer costs down to the individual customer.

It is hoped that further research overlaying services marketing, relationship management, and direct marketing will lead to increased understanding and ultimately to an improved theoretical foundation for regain management.

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