

# WHY CUSTOMERS CHURN?

## THE SEVEN SELF-DESTRUCTIVE HABITS OF COMPANIES

By Dr. Atul Parvatiyar

**“For years we asked our customers to be loyal to us, and indeed they did! But I am not sure if we have been loyal to them.”**



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Several years ago I co-authored an academic paper with Professor Jagdish Sheth on why consumers engage in relationship with marketers (“Antecedents and Consequences of Relationship Marketing in Consumer Markets,” Journal of the Academy of Marketing Science, 1995). Based on social-psychology theories, we argued that customers are naturally inclined to engage in relational behaviour as they are motivated to simplify their lives; reduce perceived risk and psychic tension; and gain from learning experiences.

Marketer incentives, as in loyalty programs, are additional motivations for continued relational behaviour.

However, despite this natural relational tendency, why do customers defect and churn? My research has indicated that most often it is marketers who knowingly or unknowingly compel customers to churn. They are a product of self-destructive habits even of good companies. The seven most common practices that cause relationship failure, leading to churn, are:

### 1. Policies are administratively-focused and not customer-solution oriented

A retail company CEO provided me the most insightful brief for revamping their loyalty program. He said that, “For years we asked our customers to be loyal to us, and indeed they did! But I am not sure if we have been loyal to them.” The profoundness of the statement was embedded in the fact that often our marketing policies are based on administrative considerations and not on

solving customer problems. What can be more annoying than when a customer seeks solution to a problem, such as say “over-billing,” and we shove legalese or other bureaucratic policies to make the customer’s life more painful?

### 2. Persistently annoying the customer

Excessively aggressive marketing has often irritated customers. The worst is when the company unilaterally determines to change contractual terms or product plans without asking customers their preferences and providing them appropriate alternative options. But it is just not the repeated unwarranted marketing communication, but also the institutionalized insensitivity that annoy customers. Past success (sometimes handed over by the government through regulated monopoly) leads many companies to become arrogant whereby they stop listening. They even engage in bullying customers through high-handed abuse of rules and regulations; and are extravagantly eager to flaunt their success.

### 3. Complacency, myopia and near-field competitive blind-sidedness

Inertia, myopia, and belief that scale will protect you against any setback have led many companies to be complacent. The worst is that they are unable to see that competition comes from quarters that you never thought would be disrupting your value proposition. More than your most adjacent competitors, smaller and sometimes outside industry players

make more innovative and compelling offers that begin to attract customers. Dependency on past competency is the curse of incumbency. In other words, “core competency” becomes “core trap” compelling customers to see value elsewhere.

### 4. Customer expectations are not shaped properly

“Over-commitment” and “under-commitment” are both causes of customer dissatisfaction. Every marketer should know that customers buy “promises.” If the promise is not superior than others, and below prevailing norms, then there is little reason for customers to continue business engagement with you. Similarly, persistent over promises cause customer dissatisfaction and churn. I learnt from the Coca-Cola Company the value of “stewardship” in customer management where it is important to not only let the key customers know the value propositions you are promising, but upon delivery, tell the customer what value you have delivered. It’s one way to keep customers for life.

### 5. Lifecycle change is not managed

Customers are not static crowds but dynamically evolving individuals or organizations. Providing relevant value at every stage of the customer’s lifecycle or growth is equally important for business customers as for individual consumers. Their past behaviour is not the indicator of their future requirements. Yet, most companies continue to rely on predicting customer behaviour based on past purchases and trends. Meanwhile, customers churn to seek value elsewhere that meets or promises to meet their current or future needs.

### 6. Focus is only on meeting customers’ functional needs and not the evolving developmental needs

Most companies have product and production mentality, whereby offerings and value propositions to customers are

based on functional products and services. Very few realize that as customers develop and grow, they have strong developmental needs as well. They are often seeking partners who can help them further grow by strategically helping them develop new markets, new skills, new unique products, new technologies, and new processes. Even in the consumer market, people gravitate to marketers that assist in their personal and professional development.

### 7. Wrong customer acquisitions

Volume and/or customer base obsession have led many companies to acquire customers at costs that are clearly not sustainable. Similar to retailers, many Telcos, make offers that encourage discount seeking “coupon cutters” to temporarily become their subscribers.

In fact, many Telco offers that I have seen in South-East Asian markets are deliberately encouraging customers to

churn, both on their system and among competitors. Too much discounting and promotion have actually made consumers less “brand or relationship oriented” and instead more “price-sensitive, promotion seekers.” In fact, my research has shown that in the case of Telcos, the overall customer usage behaviour has not changed, but because of marketer practices, customers have found ways to lower their spend considerably, thereby impacting company revenues.

Although in this column I have briefly identified the seven most common self-destructive habits of companies that cause customer churn, by no means this is an exhaustive list. Like other habits, they have been formed due to past practices that are not challenged or have become a part of the company culture. Hopefully, as more companies realize the consequences of widespread customer churn, they will find ways to break these habits and change corporate culture.

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