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how to raise switching costs and stay in the game

By Lorrie Bryan
Do you consider yourself loyal? Do you stick with certain brands and repeatedly do business with the same vendors day in and day out? If a new coffee shop opened right across the street from your favorite coffee outlet and offered the exact same cup of coffee for 25 percent less money, would you become a new customer? What if that cup of coffee sold for half of what you currently are paying? At what price point would you switch to the new coffee shop? Or is price even a consideration?

Maybe you choose to continue patronizing your favorite shop because you can get your cup of espresso in a fraction of the time it takes the new barista to create your favorite coffee concoction. Or, all else being equal, maybe you just feel more comfortable at your regular coffee house – they know your name; they know what your “usual” is; and, well, you just like them better.

While it would not cost you financially (and would actually save you money) to switch to a new coffee shop, you don’t. It might cost you a little time if you switch to the new coffee shop, but the real cost of switching likely is psychological. You’re loyal to your regular coffee shop, because it’s a positive experience you don’t want to give up. The emotional switching cost is too high.

In a competitive climate where consumers will abandon favorites at the drop of a coupon, where existing brands are becoming commodities, and new products and services continue to fail at an appalling rate, it’s increasingly the psychological switching costs that are at the core of building brand loyalty and, ultimately, success.

Jennie Silbert, partner and co-founder of Innovation Partners International (IPI), frequently stresses to clients that creating loyalty is not about continually selling your product or services. “It’s about getting people to like and respect you, and want to purchase your product or service. It’s deceptively simple – being liked.” IPI is a consulting firm that specializes in solving business challenges utilizing strength-based, high-engagement approaches.

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Exit Fees vs. Rewards
What about companies that strategically set the monetary cost of switching to their competitor
high enough to deter consumers from making that choice? In 2003, the FCC eliminated one of the biggest barriers to changing cell phone carriers by ruling that customers could retain their phone numbers. But the monetary costs to switch carriers (two-year contracts and steep early-termination fees) strategically are set high enough to give even ardent complainers pause before switching to a competitor.

That is one way to overtly manipulate switching costs, but it’s not necessarily the best long-term solution. “I really believe in positive affect,” Silbert says. “And there’s a lot of research in neuro science to support this. If you punish someone for leaving and switching to your competitor, you are creating more anger or resentment, and that just validates their choice to switch. Conversely, you reward customers and clients for staying, or give them incentives that will then validate their smart choice. It’s not just psychological – it’s biological. It’s how we’re programmed as human beings. It’s how our brain works.”

As evidenced by the proliferation of loyalty cards, VIP rewards cards, etc., many respected and successful companies agree that rewarding loyal customers is an effective way to raise switching costs. In less than 12 years since its Internet debut, Zappos.com is the world’s largest footwear retailer and a model of exceptional customer service. “Who wants to be in a personal or business relationship where you’re afraid to leave because of the penalties associated with going somewhere else?” asks Rob Siefker, director of the customer loyalty team for Zappos, which also offers apparel and accessories. “We love our customers, and we want them to feel that in the way we do business. There are no monetary switching costs, so customers are free to shop for apparel/footwear/etc., wherever they want. If you create a wonderful experience for your customers then they shouldn’t want to leave you.”

In fact, Zappos logs a lot of repeat orders, an important sign of loyalty for the retailer. “We have a VIP customer program that offers them a few added benefits,” Siefker says. “For example, VIP customers get free overnight shipping on all of their orders, and they really enjoy knowing that they’ll get their orders so quickly. Who doesn’t love getting an online purchase the next day without paying for a shipping upgrade?”

Matt Corey, chief marketing officer of Golfsmith, stresses the importance of a positive customer experience as well. “As the leading specialty golf retailer in the U.S., our experience and passion in serving golfers is our biggest asset. I don’t believe in penalizing customers for leaving. Shame on us if they left us because of something we did wrong – it just means we need to work that much harder to win them back. Rewards come in many forms – personalized benefits, special services, knowing your customers, etc. Yes, we should all reward our most loyal customers. They are the lifeblood of our business.”

**Raising the Switching Costs**

In today’s competitive business environment, loyalty reward programs are table stakes – like routine free shipping on Cyber Monday – the minimum a retail business can do to get in the game. As the average lifecycle of a business is becoming shorter, creating sustainability and loyalty is becoming an even greater challenge.

So what’s the best way to play your hand? Here are three key elements that are essential for raising the switching costs and staying in the game.

1. **Commitment to the customer**

   Whether you’re a large Internet retailer or a business-to-business service provider, creating a positive customer experience is an essential element of building loyalty.

   “At Zappos, we think of ourselves as a service company, so everyone knows that our goal is to provide the best possible customer experience,” Siefker says. “That helps keep us focused. From there, we have a great selection, customer-friendly shipping and return policies, fast fulfillment, and a 24/7 contact center. We run all of these portions of our business with the customer in mind.”

   “Golf retail is about building relationships with our customers and helping their game, not just today, but for many years to come,” Corey says. “We have created an environment at Golfsmith where we do whatever it takes to help our customers play better. We really listen, learn about their game, and...
“If you like someone, you are more apt to want to be loyal to them. I think that is often the missing piece of the puzzle in sales.”

– Jennie Silbert, partner & co-founder, Innovation Partners International (IPI)

deliver personalized solutions for them – in both products and services”

Silbert agrees: “The key to our continued sustainability at IPI is our commitment to client relationships. It’s important to connect with clients in a way that isn’t just about a product or service, but about knowing what they want and need to be successful and being committed to helping them get that. If you demonstrate a genuine interest in them, and in their interests, their success, they will be loyal to you.”

2. Integrity and authenticity
“There’s something to be said for integrity – helping your customer get what they need, even if that means that you are not the one giving it to them,” Silbert says.

This is a standard practice at Zappos. “We’ll lead a customer to another retailer if we don’t carry the product they’re looking to buy,” Siefker says. “We focus on building emotional connections, and customers feel excited about being able to shop with us. They know we’ll fulfill their order quickly, and we’ll go above and beyond in those rare instances when we might make a mistake. They can trust us, so this relationship is what keeps them coming back.”

Siefker stresses that outstanding customer service starts with an employee culture authentically focused on customer service. The quirky, happy culture that Zappos has become known for helped to put them at No. 6 on Fortune’s list of “The 100 Best Companies to Work For.” Employees enjoy free lunches, no-charge vending machines and access to a full-time life coach. “Create fun and a little weirdness” is one of the company’s guiding tenets.

“We want the experience of shopping with us to create an emotional connection. As an example, we really focus on having fun, personal interactions with our customers when they contact us by phone, live chat or email. This helps build trust and loyalty,” Siefker explains.

3. Positivity
Zappos doesn’t always have the lowest prices, but when you call Zappos’ customer service line you have the option of pressing “5” for the “joke of the day.” (How do you get a peanut to laugh? You crack it up.) Evidently, lower prices don’t raise switching costs nearly as effectively as a positive customer experience.

Silbert tells her clients and employees that it’s important to always focus on the positive. “Focus on what is possible. In this doom-and-gloom economy, it’s important to shed light on what can be and will be. Rather than dwelling on the negative, think and speak in the affirmative. Plants grow toward the light, and humans are no different.”

So, you really want to raise switching costs? Be nice. Be honest. Tell a joke, share a smile…be the light…How many light bulb jokes will it take to change the switching costs?

Q-W-E-R-T-Y…?

About 75 years ago, August Dvorak, a professor at the University of Washington, received a patent for his unique keyboard layout. The Dvorak layout was designed to address the many problems he associated with the commonly used QWERTY layout, and to spread out typing functions more evenly to both hands. Although his keyboard layout was undoubtedly more efficient, few of us have Dvorak keyboards. The collective switching costs were too high in the 1930s and are significantly higher today. Imagine the toll it would take on everyone’s time, money and psyche if we all had to switch to a new keyboard layout at this juncture.