RELATIONSHIP MARKETING

CUSTOMER LOYALTY

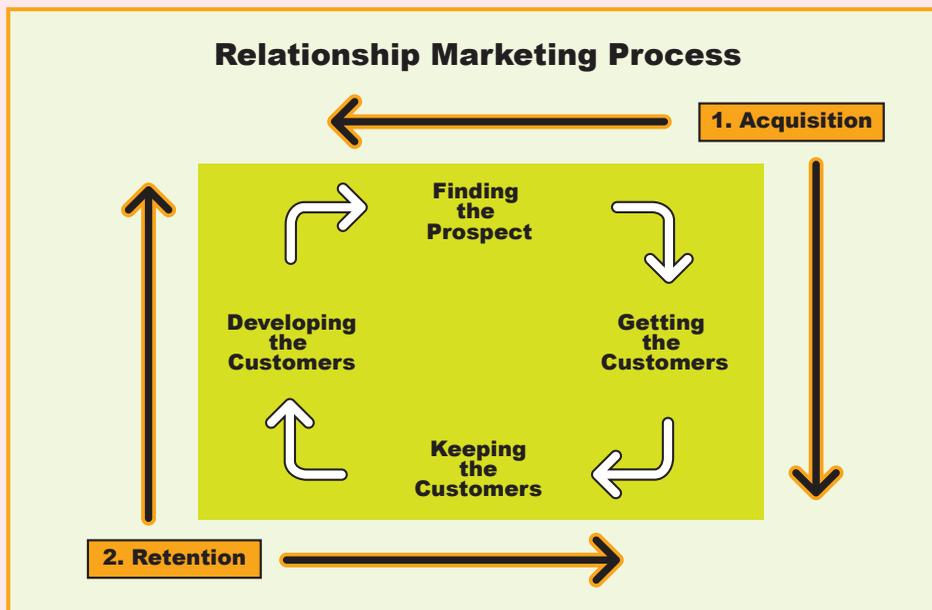Different Meanings & Interpretations

By Salim Khubchandani

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The term 'loyalty' has come to be used very freely. The dictionary describes ' loyalty' as a feeling or attitude of devoted attachment or affection. In the context of this article, we look at what can make customers loyal to a brand.

In doing so, we outline the Relationship Marketing Process and the recipes for success of True Loyalty Programs, which are different from the commonly known Frequency Programs but often referred to as Loyalty Programs.

According to John Barlow, the Thomas Jefferson of Cyberspace, 'Relationships are more important than assets. We've got to stop thinking that just because you can't measure a relationship on a balance sheet, it's irrelevant. We are building an economy that is based entirely on relationships.'

When one thinks about Relationship Marketing Programs, typically, there are four stages to the process, going from

(a) **Prospect Qualification and Lead Identification to...**
(b) **Conversion,**   (these two together forming what is often termed as the **Acquisition Process**), followed by...
(c) **Keeping our customers,** once they have converted and are using our product and lastly...
(d) **Developing these customers,** the last two comprising the **Retention Process.**

Relationship Marketing Process

1. Acquisition

Finding
the
Prospect

Developing
the
Customers

Getting
the
Customers

Keeping
the
Customers

2. Retention

Frequency Programs v/s True Loyalty Programs

The term Retention is often confused and used interchangeably with Loyalty Programs, where Loyalty Programs are seen as nothing but giving discounts or points through a frequent purchase card.

Businesses that truly inject loyalty into their merchandising strategies, employee compensation policies and other business practices garner the devotion of their customers without having to 'bribe' them with points and perpetual discounts. If companies are to move away from points-based rewards programs, what is the alternative? Ideally, a company should focus on delivering exactly what the customer wants to get out of the interaction with the merchant. The Hertz #1 Gold program, for instance, allows best customers to pick up their rental cars and get onto the highway as quickly as possible. This benefit is more valuable to them than a discount.

Differential Marketing

Another rising practice is to show loyalty program members how they can achieve the next level of benefits. Differentiating program members into groups based on their spending levels is a first step. The second is to generate excitement by demonstrating what is required to make it into the elite level.

In building customer loyalty, the 80:20 rule is alive and well. Roughly speaking, 80% of revenues come from 20% of our customers. All customers are not created equal. A smart company segments customers by value and monitors activities closely to ensure high value customers get their fair share of special offers and promotions.

And this is what Differential Marketing is all about. This can work at the high end, low end and every level in between. This makes the program aspirational, making people dream of getting to the next level.

Recipes of Success for Loyalty

Outlined below are some recipes for success for Loyalty Programs (not the 'one night stands' that run for six to twelve months).

These are some of the critical factors that need to be considered in the first two years of operating a loyalty program.

The greatest challenges to loyalty programs occur between the sixth and twenty fourth months of operation when the excitement and anticipation created by the launch wanes and customers and the company's CFO begin to measure the program and its results.

1. Communication : This needs to be internal as well as external. Internally, staff must be educated about the program and once the initial results are known, employees must know some simple information about their loyal customers.

Data such as '35% of in-store purchases are made by loyalty program customers' and 'the top 15% of loyalty program members have spent over RM1000 and made an average of six purchases' demonstrate the program's value and fostering good employee attitudes about it and how the program is helping them.

Externally, treating it as an asset must create the presence for the program. When advertising, information must be included about it. Devote an area of the website to the program. Most importantly, communicate with the members through relevant and timely offers and media, which may include e-mail or even the telephone.
Currently, several Credit Card companies boast of loyalty programs for their members, whereby customers find their points balance as part of the monthly statement. These very cards also boast of enhancing security through technology based chip cards and the like.

However, demonstrating true concern and care for security, I receive a telephone call from my Card Services Bank, in instances of high

value usage or very frequent successive transactions. This demonstrates to me that they are genuinely tracking and are concerned about security.

2. Build a strong database management team :
Loyalty programs are successful through the information they gather and hence require large databases. The raison d'Ítre for these programs is the customer knowledge base.

It is therefore of paramount importance to have the expertise (internal or external) to leverage the value inside this database. This ultimately also helps to show success of campaigns or increased retention.

Having said this however, at the same time, technology must be seen as an enabler and be designed around the program, rather than the program being designed after huge investments have been made in technology.

To address this, it may often be prudent to start small, with minimal investments in technology (budgeting for growth however) rather than pumping in huge investments in over-specified technology requirements. As the program evolves, technology and software can be upgraded, re-investing program returns into upgrading the program infrastructure.
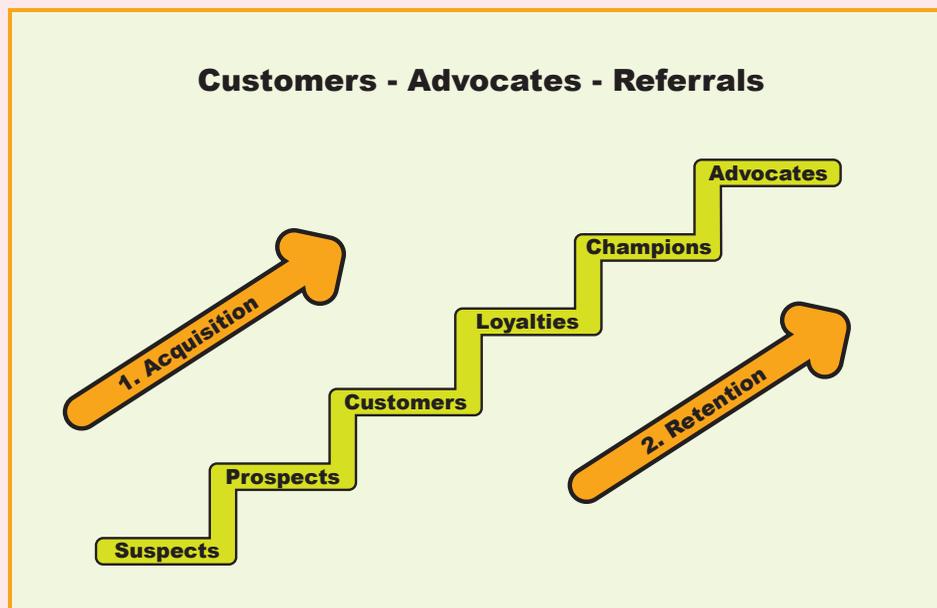
3. Measurement is about control :
Often, when planning promotions for loyal customers, there is a tendency to want to include everyone. Without a control group however, results may not necessarily drive good business decisions. Having a control group helps clearly arrive at the difference a promotion has made.

4. Expectations from members :
Another trap most fall into is the urge to drive membership levels (as they often see volume of member bases being a measurement parameter, rather than quality of members). In doing so, more often than not, even at the first communication with our members itself, we are seeking referrals for our program, without having 'gone to bed' with our existing members.

We cannot expect referrals unless the members has tasted blood and gotten to know us well enough. Customers become loyal to a company and its products and services one step at a time.

By understanding the customers' current loyalty stage, you can better determine what is necessary to move that customer to the next level of loyalty.

The Profit Generator Loyalty system comprises six stages...suspect, prospect, convert or first time customer, repeat customer, champion and advocate.

Customers - Advocates - Referrals

Advocates
Champions
Loyalties
Customers
Prospects
Suspects
1. Acquisition
2. Retention

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