

Improving Customer Loyalty

By BNET Editorial

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Retaining customer loyalty is vital to the long-term success and profitability of your business. With industry consolidation, increasing competition, and changes in the marketplace, you need to work harder than ever to maintain a strong customer base. Improving customer loyalty is an essential element in customer retention.

What You Need to Know

Why is it important to improve customer loyalty?

The cost of acquiring new customers is much higher than the cost of growing existing accounts. The most effective way to control and reduce your sales costs is to concentrate on developing existing business by strengthening customer relationships.

What's the benefit of increased customer loyalty?

"Lifetime customer value" is a way of measuring how much your customers are worth to you over the length of time that you retain their business. Industry experience indicates that a number of benefits apply:

- A 5 percent increase in customer retention could create a 125 percent increase in profits.
- Extending customer lifecycles by 3 years could treble profits per customer. By building strong relationships, you can maximize the value of each customer to your business.

What to Do

Understand Your Customers' Business Needs

The real driving force behind a successful relationship is your ability to improve your customers' business performance and give them the competitive edge. To do this, you need to understand their market challenges and determine how your products or services can improve performance.

Reduce Your Customers' Costs

Cost reduction is a key issue for companies across all market sectors. By working with a single supplier, your customers can reduce the cost of managing their operations—the more complex the supply chain, the higher their internal administration costs. Reducing the number of suppliers simplifies administration by reducing the number of purchase orders, inquiries, invoices, and other transactions in the system, making it easier for customers to do business.

Understand the Issues

Market research can help you develop an understanding of your customers' key business challenges. There are many ways to develop understanding:

- Attend industry conferences to keep up to date with current issues and challenges.
- Invite customers to seminars and other customer participation events to establish a dialogue.
- Set up Web communities to encourage discussion of industry issues. Use telemarketing teams to carry out regular surveys of customer needs.
- Offer consulting and auditing services to increase involvement with customers.

These give you a great starting point, but are no substitute for getting closer to your customers and reviewing their individual needs.

Recognize Different Concerns across the Organization

Your customer's decision-making team is likely to include business decision-makers such as chief executives, finance directors, and marketing directors, as well as technical influencers. Although you are dealing with a single organization, you must recognize that each of the decision-makers has different concerns. In building stronger customer loyalty, you should ensure that you understand the different concerns and communicate regularly with all parties to develop and maintain understanding and confidence.

Increase Customer Contact

Strong customer relationships are built on continuing high-quality contact. While sales-oriented companies rarely make contact between sales, customer-focused companies aim to maintain regular dialogue and to create as many opportunities for contact as possible with all decision-makers and influencers. These are some of the non-sales opportunities:

- Invite customers to industry events where your company is participating.
- Invite customers to view Web seminars or other Web events.
- Use regular e-marketing to keep customers up to date with your latest relevant product and service developments.
- Encourage customers to subscribe to e-newsletters.
- Organize executive briefing sessions on topics relevant to your customers.
- Arrange regular review meetings to obtain feedback from customers.
- Offer customers training courses or technology briefings for their technical staff.

Enhance Relationships through Quality Service

Customers who are satisfied with the level and quality of service they receive are likely to continue buying from the same company. Listed below are a number of factors that are important to quality service:

- customer-focused product development
- simplicity of inquiry and ordering
- quality of product/service delivery
- efficiency of purchase administration
- effectiveness of sales follow-up
- quality of after-sales support
- providing suitable customer feedback mechanisms

Encourage Feedback

A key part of the relationship-building process is feedback. You need to understand where your performance is good and where you need to make improvements. You can use a variety of techniques to obtain feedback:

- customer satisfaction surveys
- service review meetings
- telephone surveys
- customer panels

When you have the results of the survey, share them with your customers. Most important, tell your customers how you plan to make progress on areas for improvement, and keep them updated on progress.

Build Community

Building community is part of a wider process of customer retention, but it can be used as an integral part of a customer loyalty program. A virtual community is a location on the Internet that supports electronic interaction between people with a common interest. Businesses are increasingly recognizing the potential benefits and setting up communities within their own Web Sites. Facilities to support the community could include:

- newsletters;
- discussion groups;
- information;
- e-mail distribution.

A free newsletter is a cost-effective way to bring community members together. You can invite members to contribute material of common interest and add information of your own.

You can set up a discussion group in which users can post messages on your site. The messages should represent helpful information and may include requests for help or further information. By analyzing the information in the discussion groups and monitoring the types of question, you can get a deeper understanding of customer needs.

By offering free products or services on your site, you can increase interaction between community members. You can also encourage members to offer free services or products to other community members. A virtual community could be used to support collaborative working. Customers answer each others' technical questions and help each other out publicly on the company's Web Site.

Move from Community to One-To-One Relationships

Building a community on your Web Site can help to strengthen customer loyalty by providing valuable information and benefits. You can focus on individual customers by tailoring some of those community services and offering them on a privileged one-to-one basis.

Personalized incentives, customized products and services, e-mail alerts on individual areas of interest, tailored product information—this level of communication is a reality, and it is a marketing tool that is available to any size company. Each time a customer logs onto a Web Site, the database can pull together purchase history and personal preferences as a basis for a highly personalized response. By giving customers a single point of entry, you can increase customer loyalty and learn

more about their purchasing patterns. And you can get customers to expand and improve their own profiles by adding more information about their personal preferences.

Operate Relationship Marketing Programs

Customer loyalty can be reinforced by relationship marketing programs, which reward customers for their loyalty in a way that further enhances customer service. Relationship marketing programs can take many different forms from simple concepts like discounts on repeat purchases and incentives for purchases of specific products to more complex frequent user programs that provide rewards for customers who continue to use a service regularly. There is an added benefit—the more you know about your customers and their requirements, the more closely you can tailor your marketing programs to their individual needs. A database that builds up a detailed picture of individual customers and their purchasing habits is important. The information allows you to target specific groups of customers with relevant offers and increase their value over the long term.

Share Your Future Plans with Your Customers

Customers want to know that you have a clear future direction so that they can develop their own long-term plans in partnership with you. Tell your customers about the plans you have for growth, and describe the shape your business will have in, say, five years' time. Information on your future products or services will help your customers develop their own long-term plans.

Offer Support Services

By offering your customers support services, you can strengthen relationships and create additional revenue streams. The services might include:

- business consulting to help customers identify how your products or services;
- support their competitive business objectives;
- technical consulting to develop a solution that supports business objectives;
- training services to help customer staff develop the management and operating skills to make the most effective use of your products;
- ongoing consulting to fine-tune your products and services to changing business conditions.

What to Avoid

You Try to Strengthen Loyalty without Getting Quality and Service Right

Quality and service must be right before you even think about initiatives to increase loyalty. If you do not get those right, the best you can expect is a temporary rise in sales. However, if they are right, loyalty initiatives can make a significant contribution to your business success.

Where to Learn More

Book:

Reichheld, Frederick E., *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*. Harvard University Business Press, 2001.

Web Site:

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