

Building Customer Loyalty

A satisfied customer is a repeat customer—maybe. But a loyal customer will keep coming back—and will refer others. Here's a plan for instilling that kind of loyalty in your customers.

**By David L. Stum
and Alain Thiry**

There was no hotter topic in the late 1980s than the issue of customer satisfaction. The programs and articles may have been labeled anything from "service quality" to "customer service," but the focus was the same—on suppliers' efforts to meet or exceed customers' expectations.

We heard about research on complaining customers and about Jan Carlson's customer-contact "moments of truth." We saw examples of customer-driven cultures such as McDonald's and retailers Wal-Mart and Nordstrom. We learned about service quality and about how to be passionate about the customer.

But at the base of all the programs, projects, indices of customer satisfaction, videotapes, and training, there was a strong underlying belief that customer satisfaction does, in fact, yield positive financial results, specifically in repeat purchases. But does it?

Growing competitive pressures demand that we reevaluate the payoffs from past programs and look beyond mere customer satisfaction to true customer loyalty.

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The customer satisfaction quandary

Many companies and suppliers of customer satisfaction programs have become aware of an interesting dilemma. Although they wanted to build systems from the perspective of the customer's experience—from the outside in—they ended up with standards or procedures created from the inside out. They settled on methods developed within the company.

Their efforts to influence customers' attitudes were an inside attempt to create an outside customer effect. The theory was that if a customer was waited on within 60 seconds, for example, that customer's level of satisfaction would rise, which would, in turn, yield a desired type of behavior such as repeat purchases.

Three assumptions are involved in efforts to influence a customer's attitude; each one presumes a cause-and-effect relationship:

- Internally developed quality standards of service lead to customer satisfaction.

- High levels of customer satisfaction result in a high volume of repeat purchases.

- Measurements of customer satisfaction can predict a customer's future behavior.

Those assumptions began to fall apart in the real world as suppliers had different experiences. A large sporting goods company, for example, found no increase in repeat sales or volume between comparable groups of stores despite the fact that one group of stores had launched a customer satisfaction program and the other had not. Another retailer found that the slight increase in the volume of sales did not justify the cost of its customer satisfaction program.

Forum Corporation reports that up to 40 percent of the customers in its study who claimed to be satisfied (by typical attitude measures) switched suppliers without looking back.

Another study, by the National Restaurant Association, found that in the fast-food industry, the amount of repeat visits to a restaurant was not determined by the usual internal standards of quality, service, and cleanliness. What mattered most was the amount of time spent waiting in line.

As auto analyst J.D. Powers said recently, "A satisfied buyer is a repeat buyer. Maybe!" For example, recent

data show that the Acura automobile has an outstanding customer service rating (147, while the industry average is 118). However, only half of the cars' owners said that they intended to purchase Acuras again.

Nordstrom has discovered that its reputation for customer satisfaction has so inflated customers' expectations that it is difficult to meet them. Other companies have found that their tactics have been matched by their competitors, and they can't find the competitive edge.

The shifting desires, demographics, and needs of consumers have made it difficult for companies to accurately predict customers' attitudes and respond to their expectations.

Based on such factors, companies need to move beyond customer satisfaction and focus instead on establishing measurable customer loyalty.

Customer loyalty

In the past, efforts to gain customer satisfaction have tried to influence the attitude of the customer. The concept of customer loyalty, on the other hand, requires an outside-in focus that is geared more to behavior than attitude.

Four types of behavior indicate customer loyalty:

- making repeat purchases
- purchasing across product and service lines
- giving referrals
- demonstrating an immunity to the "pull" of the competition.

While customer satisfaction is still an appropriate goal, training and organizational planning should stress tactics that will ensure bottom-line customer loyalty.

Building a customer loyalty system

Building a system that influences customer loyalty requires organizational planning across departments and functions. The goal is to implement tactics that will yield increasingly higher levels of customer loyalty.

Such a system requires a mix of marketing, research, training, and motivation techniques. The methods must fit the company and its customer base. Once the correct mix is determined and put into use, a new measurement known as the Customer Loyalty Index replaces, or supplements, the traditional Customer

Satisfaction Index.

We need to establish a new baseline for customer loyalty. Research reveals the level of repeat purchases, volume of purchases, number of referrals, and degree of competitive incursion, but further study can identify the aspects of a supplier's product and service that create customer loyalty.

The analysis may begin with the usual "satisfiers," but it should then examine the real data pertaining to loyalty. For example, ask what is creating loyalty among certain customers and what the company can do to increase and extend it.

It's also important to learn what kinds of pull from competitors are likely to succeed and how a company can bind its customers closer to it, so

that they aren't attracted to the competition. It may be appropriate to look at the full range of research tactics—surveys, focus groups, mystery shopping, and cross-industry analyses.

With a new Customer Loyalty Index, a company can gauge, monitor, and make strategic changes. It can measure specific behavior on a moving point. When the needle moves on a CLI, it's a stronger indication of financial results than is the indirect measurement of customer satisfaction.

Marketing for customer loyalty

Marketing programs must focus on attaining loyalty. Successful marketing efforts such as Northwest Airlines's frequent flier program demonstrate at least one approach to increasing customers' intentions to make repeat purchases.

Trying to earn points—on such things as hotel stays, movie tickets, and car washes—gets Northwest's customers involved and helps keep them loyal, regardless of service issues or price promotions by competitors.

Between purchase points, database marketing programs keep tabs on customers. A company that tracks the life cycle of a typical product or service and a customer's behavior can target special promotions, coupons, or incentives to the right customer at the right time. Such an approach produces more on-target, cost-effective promotions than do mass mailings, which often yield very low responses.

Marketing promotions may be key to introducing new products and services that will be compatible with customers' previous purchases. Companies can use credit card records to get a picture of customers' demographics and their purchases. That provides an automatic follow-up for further customer communications.

Forty percent of customers who claimed to be satisfied switched suppliers without looking back

Finally, data from customer research, the CLI, and marketing results must be gathered, massaged, and delivered in an integrated, meaningful manner to all levels of the organization.

Training for loyalty

Special sales and service training is another element that must be integrated into an overall system for building customer loyalty.

Training must emphasize the cross sell, or suggestive sell, in which complementary products or services are added to the basic purchase. While much of traditional customer satisfaction training has been based on interpersonal relations and operations, employees must now acquire the means to build customer "attachment" to the product, service, brand name, and buying experience.

A frontline sales or service employee must be able to identify the customer needs and expectations that will bring repeat business. One way to increase loyalty is to exceed a customer's expectations by offering him or her an added value.

Employees can also be trained in "relational" selling techniques, which attempt to form a bond that the customer cannot find elsewhere. Once a bond based on service or a relationship with an employee or supplier has been established, a customer may feel guilty about breaking it. Or the customer may simply think it's not logical to go elsewhere.

Frontline employees also need to

be trained in follow-up procedures that induce customers to make repeat purchases, increase the number of purchases, and actively refer the supplier to others. One way is for employees to keep customers informed, by phone or mail, of products or services that may be of particular importance to them.

First-level supervisors and managers must be trained to manage the life cycle

of loyalty in a local customer base. Such training entails coaching employees, providing systems and procedures for customer follow-up, responding to local loyalty index data, and recognizing and rewarding employees for gaining customers' loyalty.

It's critical that local employees and managers thoroughly understand the company's overall strategy including research, marketing, training, and incentives.

Motivation

Providing incentives, usually after training, is key to any organizational change or refocusing. Once the organization establishes objectives for attaining customer loyalty, it should recognize and reward employees and managers who meet the objectives.

For example, incentive programs can target individual employees and reward them for increasing the dollar volume of single purchases or the number of walk-in referrals. Employee groups can also set goals and be recognized as teams.

Whatever the approach, incentives should be based not only on internal standards of performance or quality but also on very real results.

A system for increasing customer loyalty requires a combination of ongoing research, marketing programs, and employee training and motivation. In the past, the focus has often been on a single aspect—a training program, a marketing plan, or an incentive tactic.

Managers across all functions and levels should coordinate their efforts for common, established goals. An overall organizational effort also demystifies any previous missions to build a customer-focused culture.

The task is now clear. The company simply concentrates its practices, communications, procedures, training, marketing, and motivation techniques on achieving customer loyalty. Such an approach naturally builds the desired culture from top to bottom.

Ongoing evaluation

Customer loyalty is customer-driven by the four types of behavior that ultimately mean financial growth to the company. The key is to develop an appropriate Customer Loyalty Index to refocus organizational activity and provide an ongoing way to measure trends in customer loyalty. ■



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