

AN EXCERPT FROM:

The Loyalty Connection: Secrets To Customer Retention And Increased Profits

By Bob Thompson
CEO, CustomerThink Corporation
Founder, CRMGuru.com



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Implementation Considerations

As you build your loyalty program, CRM technology and “points” programs can help—if they affect loyalty drivers. And regardless how elegant your strategy, or sophisticated your loyalty program, without the support of the employees and managers in your organization, nothing much will happen.

What About CRM Systems?

CRM has been a buzzword for the past decade. Does CRM information technology help build loyalty?

It depends. If your view is that CRM is just a more sophisticated method of direct marketing or merely a tool to track selling activities or primarily an efficient way to provide customer service, then you might achieve an excellent ROI on your CRM technology investment. Nothing wrong with that.

But if your objective is to improve genuine customer loyalty, remember that the value the customer *perceives* is all important. CRM systems can have an impact on customer loyalty by helping you:

1. **Improve service delivery with a single view of the customer.** CRM systems that give you an integrated view of each customer across all channels and touch-points enable your organization to provide the flawless service that customers demand today. And remember, poor customer service is the leading cause of defection.
2. **Optimize marketing with customer analysis.** Instead of “spray and pray” campaigns, use CRM analytical tools to dig deep into customer data to uncover purchase patterns and buying indicators. Then you’re prepared to make offers that are welcomed. Valued, even.
3. **Identify potential defectors and be proactive.** Analysis is critical, but the real secret is acting before it’s too late. CRM systems, especially when tied to other operational systems, enable you to proactively contact “at risk” customers and resolve their issues before they leave for good. Chances are you won’t get a second chance.
4. **Tie customer-centric behavior to employee rewards.** If you know the factors that drive customer loyalty, then you can use CRM systems to track employee behavior. But don’t stop there. Real change will only occur when employees and management are rewarded for doing the right things.

The Point About “Points” Programs

One traditional method of retention that some loyalty experts do not tout highly is traditional rewards programs, such as frequent-flier programs and others in which a customer earns points toward an airplane trip or other reward. “The effectiveness of loyalty programs was limited largely to companies selling commoditized products and services—like airline travel, lodging and video rentals—with a high ratio of repeat purchase and one other key characteristic: a product that can be given away for free without incremental cost,” writes Howard Schneider and Richard Metzner in *What’s the Latest in Loyalty Programs? No Program at All*.

Schneider and Metzner, who both spent years in the airline industry before founding the loyalty consulting firm Metzner Schneider Associates, Inc., say even airlines can’t sustain the old frequent-flier model easily, anymore. Delivering printed mail and cards can be costly. Even JetBlue, which relies on the Internet to save marketing costs, must “carry millions of dollars worth of accrued miles or points on their books as a liability.”

Yet the United Kingdom’s retail giant Tesco has reaped enormous rewards from its Clubcard program. Using the customer behavior insight it gleaned from Clubcard data, Tesco has been able to tune its

marketing and service to optimize loyalty and profit. The results speak for themselves: In the past decade Tesco has zoomed past large established grocery retailers to become the largest in the U.K.

Getting Your Whole Company on Board

Customer loyalty programs must be built on a solid understanding of customer drivers, rationalized with the company business strategy and supported with measurement systems.

But there's still one thing missing. People must be encouraged to do the right things, so linking measurements to rewards is critical.

In CRMGuru's loyalty survey (December 2004), we found more than 70 percent of respondents self-classified as leaders (doing an "excellent" job with loyalty programs) said their company gives both tangible and intangible rewards. For all other respondents, only 46 percent gave rewards of any kind. The primary metric driving an incentive was customer satisfaction score, followed by retention rate, customer value perception and loyalty score.

Are rewards just "show me the money"? Not necessarily. At Enterprise Rent-A-Car, an industry loyalty leader, according to Reichheld, only managers in the top 50 percent of branch offices, measured by customer satisfaction scores, are eligible for promotion. That's a powerful incentive for upwardly mobile managers to be part of a high-performance team that serves customers well.

At Amica Life Insurance, the rewards are cultural. The company has built a loyal customer base by hiring and retaining employees that love providing great service. Employees stick around for years, sometimes decades, and customers do, too. For the past five years, J.D. Power and Associates has ranked Amica "Highest in Overall Customer Satisfaction Among National Auto Insurers."

If you're serious about customer loyalty, you'll find a way to measure it and reward the people who make it happen, day in and day out.

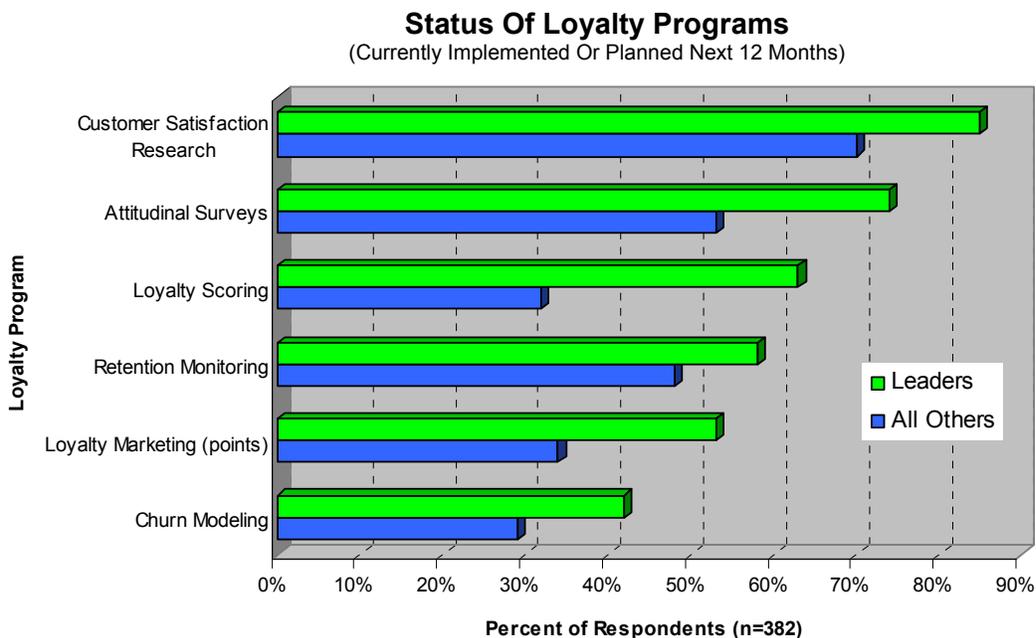
Recommendations

The good news is that managers claim to place a high importance on loyalty. The bad news is the reality is a far cry from those claims. Despite nearly 80 percent of the CRMGuru.com survey respondents saying that management found loyalty to be “extremely” or “very” important, only 45 percent of those same respondents rated their businesses’ efforts at managing customer loyalty as “good” or “excellent.”

That’s plenty of room for improvement—and an opportunity to gain competitive advantage. Seize it!

Those that rated their efforts “excellent” are more likely to have formal loyalty programs implemented or planned (see chart below). These leaders are also more likely to:

- Put senior executives (CXOs) in charge, with dedicated staff to help
- Invest more marketing money in retention programs, not just acquisition
- Measure loyalty frequently, and reward the organization for results



Follow the example set by these leaders. Take the advice of loyalty gurus. But above all, do something! All the knowledge in the world won’t prevent customers from defecting or help you win them back, if you don’t try.

About the Author



Bob Thompson is CEO of CustomerThink Corporation, an independent customer relationship management (CRM) research and publishing firm, and founder of CRMGuru.com, the world's largest CRM industry portal.

Mr. Thompson specializes in CRM strategic planning and research. Since 1998, Mr. Thompson has researched the leading industry trends, including how CRM concepts can be applied to extended enterprise value networks. In January 2000 Mr. Thompson launched CRMGuru.com, which has become the world's largest CRM industry portal with 200,000 members. He is frequently published and quoted in industry publications such as *BusinessWeek*, *InformationWeek*, and *Computerworld* and speaks at conferences and seminars worldwide.

Throughout his career, Mr. Thompson has advised companies on the strategic use of information technology to solve business problems and to gain a competitive advantage. Before starting his consulting and research firm in 1998, Mr. Thompson had 15 years of experience in the IT industry, including positions as Business Unit Executive and IT Strategy Consultant at IBM.

For more information, please visit www.crmguru.com or contact Mr. Thompson by email at bob@crm guru.com.

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RightNow Technologies delivers highly effective on-demand CRM solutions to companies seeking to improve the quality of their customer relationships, enhance productivity and reduce costs.

Today, more than 1,200 companies use RightNow Technologies to improve customer loyalty and drive profits throughout the organization. Offered through a multi-tenant, hosted on-demand model, RightNow solutions reduce the cost and risk associated with deploying traditional enterprise customer relationship management

Founded in 1997, RightNow is headquartered in Bozeman, Montana, with offices in Europe and Asia.

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