The following is a highlighted summary of the book, Customer Loyalty, *published by Jossey-Bass. The statements below are key points of the book as determined by James Altfeld and have been made available at no charge to the user.*

Customer Loyalty

By

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Customer Loyalty

Widespread use of the Internet has changed how customers expect relationship building to work. No longer is marketing and sales information simply pushed toward the customer. Now, a company must also allow customers to pull the marketing information they want, when they want it and complete the purchase process on their terms.

Now a company's ability to thrive depends on capturing appropriate customer data from multiple points of customer contact: a Website click stream, email, telephone, fax, a call center, a kiosk or store, a reseller or a direct sales force. When used correctly, this data enables the company to individualize its response to each customer interaction in what's often referred to as "mass customization."

These two dovetailing advances have created customers of a new breed, with one distinguishing quality; they want to buy the way they want to buy. Yet, most companies have not caught up with this newly empowered customer, and the customer experience has suffered. The customer feels under-whelmed, over promised and undelivered. Little wonder that the level of customer loyalty is low.

Satisfaction alone is not enough to build loyalty.

Most managers assume that a positive correlation exists between customer satisfaction scores and customer buying behavior. Satisfaction level does not necessarily translate into higher sales and profits. Why would customers indicate one thing yet do another?

For example, a software company analyzed the satisfaction ratings of a group of customers taken a short time before they defected to a competitor and found the ratings virtually identical to those of an equally large group of customers who remained with the company. Yet, these reportedly satisfied customers went to a competitor once they became aware of greater value.

The Juran Institute reported that for more than 70% of the business studied, price scored first or second as the feature with which customers were least satisfied. When nearly all of the customers who had shifted sending to competing suppliers were interviewed, in no case were more than 10% of the lost customers motivated to switch because of price.

Perhaps the biggest reason for the disparity between satisfaction rating and repeat purchase is the measurement of satisfaction itself. Recent studies confirm that current satisfaction measurement systems are not a reliable predictor of repeat purchase.

This lack of correlation between customer satisfaction and repeat purchase may be partly due to the difficulty of accurately and reliably measuring customer satisfaction.

- Question formation. How satisfied are you? Versus: How dissatisfied are you?
- Measurement timing. Measurements taken immediately after purchase are more likely to yield more favorable responses than those taken later.
- Mood of respondent. A respondent's overall mood at the time of the survey can affect response.

"It gives me a warm feeling to know that the customer satisfaction score is up again for the fourth straight year. Now, can someone tell me why profitability and market share are down again?"

In the past, efforts to gain customer satisfaction have attempted to influence the attitude of the customer. A loyal customer has specific bias about what to buy and from whom Loyalty connotes a condition of some duration and requires that the act of the purchase occur no less than twice.

Two important conditions associated with loyalty are customer retention and total share of customer. A customer retention rate is the percentage of customers who have met a specified number of repurchases over a finite period of time. Many companies operate under the false impression that a "retained" customer is automatically a loyal customer.

If customer retention and total share of customer are essential for loyalty, how are these buying behaviors achieved?

Statistics show that on average, American businesses spend seven times more money attracting new business than trying to keep existing ones. Says Bain and Co. consultant Frederick Reichheld, "Ask a bank manager how many new accounts he signed up last month and he will probably know off the top of his head. Ask the same person how many accounts he has lost in the last month, and you will draw a blank stare."

Pursuing Market Share can actually go against customer loyalty. Why? Because a substantial gain in market share can increase the diversity of the company's customer base. As a result, the company is forced to serve an increasingly heterogenous base of customers with a homogenous set of products and services. This disparity can create a dangerous dynamic within the company; the service and attention once available to high potential customers are undercut and diluted to cater to an increasing assortment of less-promising customers.

Today's companies must manage a strange paradox: in the race to win market share and its promise of profit, a company risks (and often loses) the highest margin customers and in doing so worsens profitability rather than improving it. A company interested in building a solid, loyal customer base uses an approach different from that of a company interested in simply building market share. Loyalty building requires the company to emphasize the value of its products or services and to show that it is interested in building a relationship with the customer. The company recognizes that its business is to build a stable customer base rather than make a single sale.

Instead of focusing only on increased services, price breaks, or longer hours, he and his staff began doing everything possible to turn first time skiers – those who have never been on the boards before –into loyal customers. Otten's plan including making first time visitors enjoy skiing at his resort so much that they would want to repeat the experience again and again.

"If I can turn a first time customer into someone who skis five times a year, that's $165 in revenue. Given that, I want to make the experience, especially the first experience, of dealing with us as pleasant as possible.'

For people just learning to ski, the process can be particularly frightening. Otten set out to minimize their anxiety.

The average American company loses 20-40% of its customers each year. Recognizing this pattern and its severe impact on corporate competitiveness and profitability, a business must move away from the long accepted market share strategy to a radically different , more long term approach to business: building customer loyalty.

Increased loyalty can bring cost savings to a company in at least six areas:
1. reduced marketing costs (customer acquisition costs require more dollars)
2. lower transaction costs such as contract negotiation and order processing
3. reduced customer turnover expenses (fewer lost customers to replace/no churning)
4. increased cross selling success leading to larger share of customer
5. more positive word of mouth
6. reduced failure costs

Five reasons for making a first time customer a life time buyer:
1. Sales go up because the customer is buying more from you
2. You strengthen your position in the marketplace when customers are buying from you instead of your competition
3. Marketing costs go down when you don't have to spend money to attract a repeat customer, since you already have him. In addition, as a satisfied customer he tells his friends thereby decreasing your need to advertise.
4. You are better insulated from price competition because a loyal customer is less likely to be lured away by a discount of a few dollars.

5. Finally, a happy customer s likely to sample your other product lines thus helping you achieve a larger share of customer.

When a company is pending less to acquire new customers, it can afford to pay employees better. Better pay prompts a chain reaction, with a host of benefits.

If a company is able to retain good employees, loyalty both inside and outside the company improves.

Just as customer retention has a positive impact on profitability, customer defection can have negative impact. Defection by a long term customer can cause a dramatic loss and affect the bottom line much more quickly than defection by a new customer does.

Push customer loyalty and satisfaction as two words that go into the Sales Strategic Plan

LOYALTY AND PURCHASE CYCLE

Each time a customer buys, he progresses through a buying cycle. A first time buyer goes through five steps:

1. Becomes aware of the product
2. Makes an initial investment
3. Post purchase evaluation
4. Decision to repurchase
5. Repurchase

The attachment a customer feels about your product or service is shaped by two dimensions: The degree of preference and the degree of perceived product differentiation.

Attachment is the highest when the customer has a strong preference for a product or service and clearly differentiates it from competitive products.

An attitude that is weak toward a company’s product or service but differentiates it from competitor’s offerings translates to high attachment and may in turn contribute to loyalty.

A strong preference combined with little perceived differentiation may lead to multi-product loyalty.

Finally, a positive but weak preference associated with no perceived differentiation leads to lowest attachment, with repeat purchase less frequent and varying from one occasion to the next.

No Loyalty

Some customers do not develop loyalty to certain products or services.

Latent Loyalty

A high relative attitude combined with low repeat purchase signifies latent loyalty

Premium Loyalty

The most leverage-able of the four types, prevails when a high level of attachment and repeat patronage exist. This is the preferred type of loyalty for all customers of any business.

Growing a loyal customer

A customer is a person who becomes accustomed to buying from you. Without a strong track record of contact and repeat purchase, this person is NOT your customer; he is a buyer. A true customer is grown over time.

A loyal customer is one who:
- Makes regular purchases
- Purchases across product and service lines
- Refers others
- Demonstrates immunity to the pull of the competition. (Harley owners refuse to admit that another bike even exists)

People become loyal through stages.

Stage One: A suspect is anyone who might possibly buy your product or service. We call them suspects because we believe or suspect that they might buy from us – we don't know for sure.

Stage Two: A prospect is someone who has a need for your product or service and is able to buy. Although a prospect has not yet purchased from you, he may have heard about you, read about you, or had someone recommend you to him.

Stage Three: Disqualified Prospect. These are those who don't need, or do not have the ability to buy your products

Stage Four: First time customer is one who has purchased from you one time. This person can be a customer of yours and a customer of your competitor as well.

Stage Five: Repeat customers are people who have purchased from you two or more times.

Stage Six: A client buys everything you have to sell that he can possibly use. This person purchases regularly. You have a strong, on going relationship that makes him immune to the pull of the competition.

Stage Seven: Like a client, an Advocate encourages others to buy from you. He talks about you and does marketing for you.

Lost customer or Client is someone you once had but has not bought from you in at least one normal purchase cycle. When they become active again, they are regained. They are at – risk if there is a high probability of defecting.

Profit Generating System

Companies funnel suspects into their marketing system and each is either qualified as a high potential prospect or disqualified. The sooner a disqualified is filtered out of the system the better. Wasting time and money on an unqualified suspect is a waste of time, money and effort. The goal is to turn your qualified prospects into first time customers., then repeat customers and eventually into clients and advocates.

The rule of thumb in working within the Profit Generator System is that the goal for you within each stage of development is to grow the relationship into the next stage of development. The goal of interacting with the prospect is to turn a prospect into a first time customer, a repeat customer into a client, a client into an advocate. Once you reach the advocate stage, your job is to keep the person buying and referring. Failure to grow a customer to an advanced stage robs the company of profit and valuable referrals.

To qualify as a prospect, someone must meet at least two key criteria:
1. The need for your product or service
2. The ability to buy

First Time Customers
The sale is not the objective of the marketing process; It is the beginning of a life time customer relationship. It is a rare case when a customer can be sold something only once.

The first time customer is essentially trying out your product or service. If continuing relationship is going to be developed, it has to begin with the first purchase. If the first purchase does not satisfy the customer, there will probably not be a second. From the buying experience, he forms a set of perceptions. If the perceptions meet or exceed expectation, there is a good likelihood he will repurchase.

Repeat Customers:
Every interaction should be seen as an opportunity to add value. It is important that your interaction with repeat customers works to deepen the relationship. This customer in turn responds with more information about himself, become increasingly loyal and continues to drive sales and profits upward. These actions enable the repeat customer to view your business not just as a building at a particular address or a phone number, but as a company of human beings with who he has formed a relationship.

Client Stage

One of the benefits of the client stage is that the relationship has progressed in trust so that you can now be more proactive with the client.

You have proved yourself dependable and accountable. You have now earned his confidence, and he increasingly seeks your input for ideas and services. With this level of contribution, you add more value.

As the customer goes out of his way to served by you, even if doing so means paying more for your services, he ceases to see you as a salesperson; he sees you as an ally and partner. When the relationship moves to this level, there is little a competitor can do to lure your customer away.

Winning back lost customers is frequently the most overlooked source for incremental profit. Research studies tell us that a business is twice as likely to successfully sell to a lost customer as to a brand new prospect.

If you contact people who have discontinued a buying relationship, three great things happen. First, you have an excellent opportunity to renew the business relationship.

The second benefit is that you have begun to stop the negative publicity. The customer knows that you care about her and tells others. Finally, as your last benefit, you'll identify what's wrong within your system so you can take immediate steps to correct the problem and prevent it from occurring with other customers.

Question: How many customers do we lose each year? What would it cost us to keep those customers? How does this cost compare with the cost of finding new customers?

An up to date list of your current customers is the most valuable list you can own, because by definition it identifies people who have already made it into at least the second stage of the Profit Generator Cycle. You can use the list to help motivate your current customers to buy more frequently and to spend more when they buy.

A database gives a company the ability to segment names into the stages of the Profit Generator system and to personally address each subgroup member with attention to his or her particular situation. Letters, offers, inquiries and phone calls can all be made with pinpoint accuracy to help your company build loyal customers.

3 Ways to do more business:

1. Have more customers
2. Have more purchases.
3. Have more expensive purchases

A study by Marketing Metrics tell us that the probability of selling something to a prospect is only about 5-20%, while the probability of selling something to an existing customer is 60-70%.

How Do I Sell Ten Thousand Tickets to Our Next Game? Easy, you sell them one ticket at a time!

Concentrating on individual sales, individual customers and customer groups leads to overall improvement in sales and increased income much more quickly than trying to come up with a grand scheme appealing to the whole universe.

Ten Steps to Effective Targeting

1. Survey the total market
2. Segment your market
3. Analyze your market
4. Study the competition
5. Stratify the market – rank market segments by priority
6. Do an in-depth market analysis of your top markets
7. Analyze which marketing vehicles are most effective
8. Test your markets
9. Analyze what is do-able

The Ingredients of a Successful Sale

A recent sales force productivity study sponsored by Sales and Marketing Management magazine surveyed 192 companies representing a total of nearly 10,000 sales reps. Survey respondents reported that it took an average of seven calls to close a first sale, compared with only three calls to close a subsequent sale.

The Required Investment May Be Rising

Although the norm in closing has been seven contact in the past, experience is suggesting that the number may be rising. Why?

First, customers and suppliers are forming deeper alliances
Second, in a tough economy customers often change their mental outlook.
Third, cultural differences in a global market make relationship building critical.

Listening: An Important Factor in Building Trust and Rapport

Golda Meir once said, “You cannot shake hands with a clenched fist.”

Listening is the key to building trust because of three important factors:

1. I am much more inclined to trust a person who shows respect for me and for what I say.
2. I am much more likely to trust you if you’ve listened carefully and helpfully to my problems than if you’ve tried to tell me what my problems are.
3. The more I’ve told you, the more I trust you.

Listen More, Talk Less

A recent survey of 432 corporate buyers found that 87%of the respondents said sales people don’t ask enough questions about their needs and 49% reported that sales people just “talk too much.”

Plan Your Return Call Before Your First Call

A McGraw Hill survey reported that six out of ten customers will say no four times before they say Yes. This makes repeat calls a virtual certainty. “Reasons to return” can play an important role in turning a qualified prospect into a first time customer.

Here are ten constructive reasons for returning:

1. To gather information
2. To add some important new data to your reply to a question the buyer asked the last time
3. To take a tour of the prospect’s facility
4. To explain a new or improved product or service
5. To talk about a promotion the customer might run to increase sales on his product
6. To follow up on literature sent
7. To congratulate the customer on a promotion or award
8. To accompany the prospect to a trade or professional meeting
9. To introduce other prospective team members
10. To entertain as to show appreciation

Four Reasons First Time Buyers Do Not Return

1. Early problems sour the relationship
2. No formal servicing system – no account management program
3. Communication breakdown with the decision makers
4. Easy return to the other supplier

STORY:

A man died and went to heaven, where he was told he had a choice between Heaven and Hell. He decided to take up the offer to look around and found Heaven to be serene, bathed in a white light. People were friendly walking around in white robes and singing hymns. Nice, but a tad boring. On his visit to Hell, he was surprised to find people having fun. They were playing golf, cards and it wasn't even hot. He went back to the Pearly Gates and told St. Peter he'd take Hell.

But, when he arrived in Hell this time, everything was different. It was hot and terrible, People were miserable and screaming. "What happened?" he asked the Devil. "This isn't at all what I saw when I visited."

"When you visited," replied the Devil, "you were a prospect. Now my good man, you're a Customer!"

A Closer Look at the First Time Buyer

The first time buyer is in effect, a "tryer." She is trying the new product or service and her perception of quality influences her desire to buy again. The second purchase is significant, because it represents a change from the first. This time the buyer makes her purchase decision on the basis of the new set of criteria, what consumer behaviorists call nonrandom purchase behavior.

When a disparity between performance and expectancy exists, the new buyer experiences a state of psychological inconsistency or dissonance.

One third of all customer complaints come from customers who do not know how to use the product. For example, **Armstrong found that many purchasers of its no –wax floors cared for them improperly and complained when they deteriorated. In response, Armstrong prominently displayed an 800 number on the surface of each floor with the message, "Call for instructions on how to remove this number." The number comes off with water, but callers also receive instructions on how to care for the floor. The result? A significant increase in repeat purchase from satisfied customers**.

The study showed that when doctors write letters to their patients repeating what they told the patient in the office, the patients feel a higher level of contentment in their medical care.

15 Actions That Encourage First Time Customers to Return

1. Say thank you for the purchase

2. Seek customer feedback early and respond quickly
3. Use indoctrination mailings – send a letter that explains in detail how to use the product and motivate them to actually install and use it.
4. Constantly reinforce your value in the customer's eye
5. Capture customer info and use it
6. Paint a picture of a future possession – Send a birthday card on the anniversary of their purchase reminding them that it is still working
7. Turn repeat purchasing into a service - Time for Maintenance Reminder! When Jana sells a new tube of mascara to a customer, she explains the importance of replacing the tube every three months and how, as a member of her Mascara Club the buyer can receive fresh mascara delivered to her home four times a year. Jana provides a sticker on the tube with the date of the purchase. She then sends a fresh tube of mascara to the buyer in the mail before the three month period is over.

8. Nurture and protect Communication with Decision Makers – When a company is selling to a large organization, several individuals can be involved in the final decision to purchase. These purchasing professionals form what can be called a "buying center". The parties may include the user, the influencer, the buyer, the decision maker and the gatekeeper.

Sell Wide & Deep!

Once the initial purchase decision is made, a fatal mistake often follows: Sales and service personnel and even senior management often end up dealing with day to day users in the customer organization, not the decision maker. "When relationships are built with users and not decision makers, employees feel less comfortable approaching senior management within the customer's organization. This may occur because they have lost touch with their customer's organizational structure and strategic direction.

9. Develop Customer Reward Programs – introductory savings on a variety of products and services AFTER their initial purchase
10. Offer Product Guarantees
11. Develop Value ADDed Promotions – build the relationship

Example: People buy a Steinway and it stays in the family for generations. Anyone who purchased a Steinway Piano received a zero coupon bond equal to the piano's purchase price. A zero coupon bond is bought at a discount to the face value. No interest is paid on the bond until it matures, at which time the bond is redeemed at face value. For example, the buyer of a Steinway with a $20k purchase price would receive a zero coupon bond for the same amount. After thirty years, the $20k zero coupon bond can be redeemed for $20k.

TRACK THE PERCENTAGE OF FIRST TIME BUYERS WHO BECOME REPEAT BUYERS. RESEARCH THE REASONS FIRST TIME BUYERS DO NOT REPURCHASE.

Turning Repeat Customers in Loyal Customers

Every single thing we did was centered on one overriding aim: to get people to come back. I learned that if you look after getting repeat business, profit will take care of itself.

"My customers know more than I do. My employees know more than I do. Neither my employees nor I can be creative all of the time. What I knew yesterday is not enough for today. I'm not responding fast enough for my customers."

A loyal customer is a precious commodity. No longer can customers be regarded as an endless stream of convenient cash machines that buy the products offered to them without complaining about poor service, failed promises, arrogant or inattentive sales people, or company policies that place more emphasis on profit than on service and performance.

Three Types of Value:

Operational Excellence means giving customers reliable products at a competitive price and with minimum difficulty in purchasing.

Customer Intimacy means segmenting and targeting a market with exact precision and then customizing the offering to meet the demands of that niche. Know them well enough to be able to respond quickly to their requests

Product Leadership means giving the customer leading edge products and services.

Who are your best customers and what do they buy?

FROM REPEAT CUSTOMERS TO LOYAL CLIENT: EIGHT GUIDELINES

1. Insulate your best customers from competitive attack
    a. **As you know, your best customers are your competitor's best prospects.**
    b. **What are your repeat customers' top priorities? What's on their worry list? How can you help address these needs?**

BLUEPRINT FOR STAYING IN TOUCH LONG TERM

Five Written Notes a Day: If you write five notes a day and are in business 250 days a year, that's more than 1200 extra contacts.

Five phone calls per week:
Five in person contacts per month:

250 days x 5 notes/day = 1,250 contacts
50 weeks x 5 calls/week = 250 contacts
12 months x 5 contacts/month = 60 contacts
Total Contacts = 1,560 per year

You can reach 260 people six times a year
390 people four times a year
780 people twice a year

The Slow Leak

A long time customer is yours to keep or yours to lose. By the time an account has gotten to the repeat customer stage, there is a history. Like a car tire, businesses don't usually dissolve because of a blow out, Instead it goes flat due to a slow leak over time.

A Rockefeller Foundation study on lost customers found:

- Complaints were not handled (14%)
- The competition (9%)
- Relocation (9%)
- No special reason (68%)

No special reason usually means benign neglect.

Complaints:

McKinsey and Company found:

- customers who have major problems but don't complain about them have a purchase intention rate of about 9%
- those who do complain, regardless of the outcome, have a repurchase rate of about 19%
- customers who have their complain resolved have a repurchase intention rate of 54%
- customers who have complaints quickly resolved have a repurchase intention rate of 82%

Just by having a complaint forum, the intention to repurchase rate jumped from 9 to 19%!

If you are not receiving complaints from customers, something is wrong! Don't be fooled into thinking there are no unhappy customers.

I. Turn Suspects into Prospects

a. Identify suspects
b. Qualify suspects as prospects using qualification criteria

II. Turn prospects into first time customers
   a. Send intro package
   b. Telephone follow up
   c. Initial sales call
   d. Tour customer facility
   e. Tour your facility
   f. Send follow up thank you note
   g. Etc.

III. Turn first time customers into repeat customers, clients and advocates

IV. Make lost or inactive customers active again