

# *SEVEN STEPS TO BUILD CUSTOMER LOYALTY*

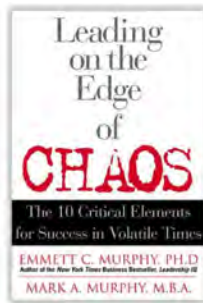


**Productivity@Work** series

**According to the *Harvard Business Review*, the average business loses 50 percent of its customers every five years.** This suggests there is a need to nurture existing customers to avoid this costly proposition. Every company strives for higher customer retention, but often focuses more time and energy on gaining new customers.

The facts are there to prove why keeping existing customers is so important. Authors Emmet C. Murphy and Mark A. Murphy made several impressive statements in their book, *Leading on the Edge of Chaos*.

- Acquiring new customers can cost as much as five times more than satisfying and retaining current customers
- A two percent increase in customer retention has the same effect as decreasing costs by 10 percent
- Depending on the industry, reducing customer defection rate by five percent can increase your profitability by 25 percent
- Customer profitability tends to increase over the life of a retained customer



Many businesses simply focus too much energy on the task of winning new customers or they invest in the wrong customers. Experience shows us that 80 percent of sales come from 20 percent of customers – the 80/20 rule. Too many businesses neglect that top 20 percent of their customer base in pursuit of new customers.

We have outlined seven steps you can take right now to keep your customers *YOUR* customers.

## Step 1. Change your perspective

Rather than a “here’s what we offer” tone in your marketing efforts, think about what your customer would like to hear. What are the benefits of doing business with you? Figure out their pain points and adopt the tone of “how may I help you?” The difference can be extraordinary.

Customers value it if you can help them solve a problem, give them more time or enhance their lives. Not sure what their needs are? There isn’t a simpler method of retaining customers than just asking them what exactly is it they seek from your business and how they want it given to them. Whether you ask them with a printed survey, an online survey, over the phone, in person, or via email, it is crucial that you ask. You’ll be surprised at the detailed response you receive, often saving you the trouble of spending extra on expensive market research. You may even consider conducting a focus group with your customers, giving you the opportunity to tap into their collective needs and wants.

## Step 2. Strive for spectacular customer service

To truly stand for superior customer service, you must go the extra mile. Successful businesses today incorporate three key principles into their customer service approach: empathy, flexibility and personalization.

Customers who come to you with a problem or complaint provide a unique opportunity and a fleeting



moment to make it right. And depending on how you handle it, can determine whether the customer leaves or becomes more loyal to you. Use empathy to deal with the customer and back it up with action. Even if you perceive they are wrong, it's usually better to take the loss and compensate the customer – especially in this day of social media. One unhappy customer can do a lot of damage to your reputation very quickly.

The next principle – flexibility – builds upon empathy. Flexibility allows you and your employees to feel empowered to deliver whatever is necessary to build trust and loyalty. Find the quickest, most effective solution to demonstrate that you're the kind of company



that will do whatever it takes to keep your customer's business. A customer who feels cared for is also likely to assist you in solving the problem and identifying how to prevent that same problem in the future.

The last principle concerns personalization. Show your customers you care about them as individuals. For example, give your customers a choice in how they pay their bills, add a chat function to your website to quickly help people online and be sure to quickly answer the phones with a live person – not a recording.

Consider a national fast food chain that sets out to do more than provide a good sandwich. Their mission is to

create a positive influence on all who come in contact with them. If you have the opportunity to grab a bite there, you'll quickly see that part of what makes this restaurant special is the "my pleasure" concept. Ask for an extra sauce? "My pleasure." A table topper for the kids? "My pleasure." A bag to go? "My pleasure." And, it goes beyond that. While diners may only be there for a short time, employees walk the restaurant with beverage pitchers to provide refills to those may have ordered a tea or soda. Now, that's one way to up the ante on customer service and redefine fast food!

### Step 3. Establish loyalty through incentives

Customer incentive programs have been around for more than 100 years. According to Jupiter Research, more than 75 percent of consumers today have at least one loyalty card and one-third of the shopping population has two or more. U.S. companies obviously see the value in creating programs to encourage repeat business. But not all loyalty programs are successful. How do you make yours stand out with your customers?

One way is by incorporating an "endowed progress" model. This is based on research<sup>1</sup> that shows when customers are provided with artificial advancement toward a goal they show greater persistence toward reaching that goal. For example, if car wash patrons need nine car washes to get the 10<sup>th</sup> free, as people progress toward a goal, their effort will increase and completion time will decrease. Persistence depends on the progress already made...not on the amount of reward points that would be lost by failing to continue.

The research also shows that when progress is measured in points rather than purchases, both the reward and the return that customers obtain for their efforts appear more significant. In turn, customers will exert more effort.

Finally, the research revealed that customers like to know why the rewards program is being offered. Telling

<sup>1</sup> "The Endowed Progress Effect: How Artificial Advancement Increases Effort," Wharton marketing professor Xavier Drèze and Joseph C. Nunes of the University of Southern California's Marshall School of Business

customers that you recognize they have a choice and offering appreciation for their business goes a long way in sharing your gratitude for their patronage.

#### Step 4. Monitor and measure for success

Part of building loyalty is to gain insight as to what your customers really think of your business. Due to today's competitive environment and increased customer expectations, it is not enough just to put the programs in place that allow you to offer good service. You must also *monitor* your service and *measure* how you're being perceived. If you're doing these two things, you can implement changes in real time to improve services if you detect a shortfall.

While every business is different and may require different measurements to gain insight, there are some basic measurement activities that every business can employ.

You can hire a third party to call your customers. These customer surveyors ask a brief set of questions and rank the service received on a scale of 1 to 5. While this is a good strategy, it measures customers' perception of the people who actually answer their phone. Today's technology including caller ID and do-not-call lists can skew your responses because people are choosing not to take marketing calls.

If you're collecting email addresses, another good option for gathering customer feedback is by using short email surveys. Zoomerang and Survey Monkey are both good services to try and basic version is free.

And if applicable to your small business, try using mystery shoppers.

While mostly all other measuring tools are reactive – that is they measure service after the transaction —mystery shoppers measure the actual service provided. Provide your shoppers with a simple checklist of things to watch and listen for. This can give you great insight on what you are doing right and wrong at each customer touch point.



#### Step 5. Market by customer segment

Personalized service and segmentation marketing is one sure way to deliver a solid return on investment.

Perhaps the best way to illustrate success in personal marketing is to look at one of the leaders of the pack. There is a national hotel chain that has won two Malcolm Baldrige National Quality Awards for its approach to service and customer satisfaction. To cultivate customer loyalty, they practice what they call “customer customization.”

A database of information is kept on customers' prior visits and staff worldwide can access the information to anticipate the needs of returning guests and to initiate steps to ensure a high-quality experience. When you stay at this hotel and they anticipate when you like to have



your coffee and newspaper in the morning, you can be sure that they're earning your business for life!

There are lessons here that apply to small business owners. What do you know about your customers? And, how do you respond to their expressed or even unexpressed wishes? No matter what kind of business you have or what kind of product or service you provide, there are four ways to segment your customers: demographics, geography, behaviors and psychology.

Do the research — how old are your customers? What do they do for a living? How big are their families? Establishing profiles of your buyers will help you identify how they wish to interact with you.

Evaluate your customers by geography. If you're a national small business, your customers in the Southwest may be quite different than those in New England or customers can even vary neighborhood to neighborhood.

Determine behaviors by evaluating the level of their product knowledge, usage and attitudes. New customers can become loyal ones if you know where to include them in your marketing cycle. Think about this in terms of an Apple store. Long-time, technically savvy customers feel at ease in the store using the technology and shopping for the latest iPhone or MacBook. A new customer feels equally at ease because of the helpful sales staff and Genius Bar where users can ask questions and get hands-on technical support.

Finally, evaluate your customers based on psychology. Think about your target customer's lifestyle, values and personality. If you evaluate your customers based on these four categories, you can develop a profile or several profiles that help you get to the root of how to make the experience with your business more personal and rewarding for them – and earn their trust in return.

## Step 6. Create ambassadors

Recently, one of the foremost brand gurus named Martin Lindstrom<sup>2</sup>, revealed the findings of his four-year study that peered into the minds of 2,000 consumers across five countries to determine if there's a parallel between brands and religion. After spending seven million dollars and reading minds with a functional MRI, he revealed that some brands activate the same areas as the brain as religion. He analyzed brands like Harley Davidson, Corona beer, Marlboro, Apple and hundreds of other commercial icons and discovered that we're hardwired to believe in some brands.

We're hardwired to want to belong. And, we're hardwired to connect over commonality and culture. We like to tell people when we've had a good experience with a product or service. This is called word-of-mouth marketing.

A recent Nielsen survey of 26,000 Internet users said that consumers' recommendations are the most credible form of advertising among 78 percent of the study's respondents. With those kinds of numbers, it's wise to invest in the ambassadors who can share your message.



<sup>2</sup> [www.martinlindstrom.com](http://www.martinlindstrom.com)

So, who are these ambassadors? Remember your 80-20 rule. It makes the most sense to direct your efforts and reward those who are most loyal to you – the 20 percent who love your product or service and understand what you stand for. Smart businesses are beginning to take this word-of-mouth phenomenon online. Social media



has become a great place for businesses to engage customers and would-be customers. These platforms allow businesses to take big strides in delivering information, updates and tidbits that people who love your brand want to know.

## Step 7. Leverage partners for growth

The African proverb says, “It takes a village to raise a child.” You could say the same about a small business. When you first set out to establish your business, it was you who assembled the business plan. It was you who put in the blood, sweat and tears. And, it was you who signed on the dotted line.

Now you may want to consider moving beyond self-reliance and leveraging the relationships, resources and technology that are readily available to you. Think about the opportunities for growth if you were to put your network to work for you. Think about the people who can promote you and your business. Vendors, friends, family, a local chamber of commerce, employees and, of course, customers can all work on your behalf. Make it easy for them by being concise in your business’ value proposition, and make sure that your network knows it, too.

Creating a loyal base of customers is not an easy task, but it is one investment that will pay dividends if done correctly. Use these seven steps as a guideline for your business. And keep those customers happy!