



How to Increase Customer Loyalty

The statistics are working against you: Most companies lose 50% of their customers (or partners) in less than 5 years.

While emerging companies have the competitive advantage for customer value management, every management team is discussing Customer Loyalty/Retention. How can you increase your customer loyalty? Here are the fundamentals:

Step One: Preparing for a Customer Loyalty Program

1. First, get your senior management on board. They must acknowledge the risk/reward of a Customer Loyalty Program. Gain a long-term commitment to establishing a system that both increases and measures customer retention. The return (ROI) on a solid Customer Loyalty Program will enable you to
 - Better focus and quantify resource deployment,
 - Watch for customer behavior shifts that could signal dissatisfaction or loss of value, and
 - Recognize and pursue revenue gaps between current and potential customer value.

2. Profile your Ideal Customer¹, in order to understand your target audience. To define your Ideal Customer, you'll need to detail:
 - Where the lead originated
 - What business problem(s) they have
 - Why they became your customer in the first place
 - Where do they need to take their business in the next 3-5 years?
 - How does your product add value to their product/service?
 - How does their decision process lead to a purchase decision?
 - What does your Ideal Customer want from you?

Don't limit your research to the fraction of customers willing to tell you what they think. Dig deeper! Conduct primary research and be sure to ask your front-line service providers.

3. Measure your Ideal Customer value. This is not just a ranking exercise, but a critical tool to measure the impact of your company's initiatives on your customers. You don't need to invest in elaborate CRM software to manage this stage – just Excel and due diligence! This exercise will highlight your cost-of-sales, especially as they relate to sales and marketing expenses.

The general formula is:

	Present Value	(Initial Revenue – Costs)
+	Net Present Value	(Loyalty * (Future Revenue – Costs))
+	Net Present Value	(Loyalty * Influence Value)
Customer Lifetime Value		

As you can see, your customer loyalty value dramatically impacts by your customer lifetime value.

4. Profile your customer database. You'll probably discover three distinct categories of customers – those you definitely want (Ideal Customers), those you're not sure of, and those who don't fit in with your future plans. Categorize each customer as an Ideal, Uncertain, or Non-Ideal.

¹ Refer to '3 Things Every CEO will Ask Their CMO This Quarter' online at www.ChrisHallMarketing.com

Step Two: Customer Value Management

Once you know who their best customers are, the real work begins—convincing them to stay forever. Here are some marketing program tactics for Customer Value Management that have successfully increased customer retention rates:

1. Direct market for new Ideal Customers, using appropriate sales and marketing actions as determined by the customer lifetime value exercise. Establish a community within your Ideal Customers, for peer counsel.
2. Develop a program and process to convert Uncertain Customers to Ideal Customers. These medium-value customers are usually converted with fewer resources than a non-ideal customer or prospect. Set a goal of converting X number or % within a specified time period.
3. Develop proactive customer retention activities for Ideal Customers. Give them a tangible value for being loyal, such as priority service, personalized offers or professional recognition. Companies with frequent purchase cycles can solidify the buying habit with frequent buying programs. Those with long-lead or high-priced products can extend other relationship tactics such as customized, secure websites and/or direct support access; frequent customer surveying; elearning opportunities; and product input participation.
4. Invest in referral programs by giving your customers and partners a solid business reason and personal offer to provide qualified leads. Clearly, the most effective loyalty programs provide incentives both for the company (lower costs or more productive workers or fewer outages) and the employee (gifts, skill certification, memberships, education).
5. Understand where your Ideal Customers need to go in the next 3-5 years, and exchange information with them regularly in order to lead the way. Customer loyalty management in B2B is all about showing appreciation to valuable customers as they hit key relationship milestones.
6. Periodically rank your Ideal by relative value. Target those with relatively significant value increases or decreases with special promotions. Early intervention to reward higher value activities or address customer dissatisfaction is often key to maintaining or enhancing customer value. Some companies use the value gap analysis to compare the current value of a customer with their total budget value, to ensure their “share of wallet”.

Long-standing relationships arise from trust gained over many transactions. Perception is critical. A solid Customer Loyalty Program convinces your customers that you'd rather keep them around than drive them away. And a Customer Loyalty Program makes good financial sense: A 5 percent increase in customer retention rates will drive a 25 percent profit increase, at the very minimum.

Are there pitfalls with developing customer loyalty programs? You bet!!! I've made plenty of “misjudgments” over the last 25 years. Don't suffer from the same errors - hire an experienced marketing program contractor!

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