

THE ST. LOUIS AMERICAN MARKETING ASSOCIATION PRESENTS

HOW AND WHY COMPANIES WORK TO

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BUILD CUSTOMER LOYALTY

American Marketing Association-St. Louis Chapter White Paper
by Lon Zimmerman, Zimmerman Marketing Research

IN RECENT YEARS THERE HAS BEEN AN INTERESTING CHANGE IN ATTITUDES TOWARDS THE IMPORTANCE OF LOYALTY AMONG MARKETERS. EARLY ON, MANY OF US WERE TAUGHT THAT THERE ARE ONLY THREE WAYS TO INCREASE REVENUE:

1) Increase the customer base; 2) Get existing customers to buy more each time they buy; and 3) Get existing customers to buy more frequently. Until recently, most marketing activities seemed to focus on acquiring new customers. The emphasis now, however, is changing to customer retention and lifetime value of the customer.

Many credit this change in emphasis to work done

by Frederick Reichheld, author of *The Loyalty Effect* and *The Ultimate Question*. Reichheld reports that dramatic increases in profits can result from a small increase in customer retention.

The St. Louis AMA recently conducted a roundtable discussion on customer loyalty. This discussion was the eighth in a series sponsored by the AMA. During the session, local marketing executives discussed what they believe is necessary to successfully implement customer loyalty programs. In addition, they also discussed how customer loyalty data is utilized by their organizations and the ways in which they currently measure changes in loyalty.

PARTICIPANTS INCLUDED IN THIS ROUNDTABLE DISCUSSION WERE:

Ms. Christine Chamberlain
Marketing Manager
Dent Wizard International

Ms. Amy Hartweiger
Manager of Communications
Medicine Shoppe International

Mr. Cliff Langston
Director of Global Marketing
Sigma Aldrich

Mr. Scott Dieckgraefe
Director of Marketing
Woodard Cleaning & Restoration

Ms. Denise LeHay
Vice President of Marketing
Heartland Bank

The discussion was held January 25, 2008 and was moderated by Mr. Lon Zimmerman of Zimmerman Marketing Research.

SUCCESSFUL IMPLEMENTATION OF CUSTOMER LOYALTY PROGRAMS

The panel members agree that companies seeking to implement customer loyalty programs can increase their likelihood of success by 1) Making sure everyone knows the What and Why behind the effort, 2) Having top management not just on board but actively supporting the effort, and 3) Keeping score.

1) EVERYONE NEEDS TO SHARE THE SAME MISSION

It is critically important for everyone to appreciate the value Loyalty Programs bring to the organization. Only then can they understand how their behaviors impact the company's success.

One of our customer service people didn't like making the follow-up phone calls to our customers until we explained to her that this is really to help enhance the customer service and to make sure that everybody is completely happy. Then she really embraced the whole process and now that she sees the value of it to the organization and I think she seems more value in what she is doing.

I think it all comes down to getting every single employee excited about what they do in their job. We now have a president who is really bringing our team together, selling it within the company so then you can sell it to the customer too. What we need to do is get everybody involved.

To me that is a fabulous suggestion because if you can get that upfront buy-in, that upfront ownership, especially when you may be going out to your techs and asking them to change their behavior or do something differently. Also avoiding the whole big brother, keeping score. If they feel that they are a part of it upfront, that is going to pay you back multifold.

2) SENIOR MANAGEMENT PARTICIPATION IS CRITICAL

Participants agree that it is important that senior management support and buy-in to efforts directed at customer loyalty.

Our CEO is a supporter of Net Promoter. He does push it giving it some visibility from the top down.*

Our support is top down. It's been that way since I was there and from what I can tell, a long time before that.

3) YOU NEED TO KEEP SCORE

Participants agree that it is essential that organizations continuously evaluate how they are doing in creating loyalty. In doing this, organizations need to educate their staff about the importance of measuring performance and assure them that the data collected will not be used against them.

Our VP of Business Development just realized in the last few months that we haven't been measuring any of this. If we can take our top ten percent of customers and make sure they are completely satisfied, they are going to use our services more often and probably refer us.

Our biggest challenge is going to be our communications to all our employees. Our technicians are the face to our customers. To know how marketing and corporate put this program together and start measuring this, how do we make this so the technicians don't feel like we are judging them or telling them that they are doing a good job or that we are concerned. So ours is going to be in communication to that technician, that we are going to measure this but it's going to come down to them because they are the front face.

HOW COMPANIES UTILIZE LOYALTY RESEARCH

The Chief Marketing Officers listed three ways in which their companies utilize customer loyalty data. These are: 1) to aid management in assessing whether the organization is satisfying its customers, 2) to guide management in training and recognizing staff, and 3) using the data to promote the organization.

1) ASSESSING ORGANIZATIONAL PERFORMANCE

Given their acceptance of the importance of customer loyalty, one of the prime ways in which roundtable participants utilize loyalty data is to ensure that their organization is in fact on track to creating a loyal following.

With (our company), part of the customer service is we pick up the phone and call everybody that we worked with the day prior just to make sure that the satisfaction is where it should be.

While the numeric number is on our corporate dashboard and it gets attention from our CEO, it's pushed on to the Business Unit presidents which is great. From a marketing perspective and I think from a sales and service perspective as well, the real nuggets of information are in the whys

2) TRAINING & RECOGNITION OF STAFF

Participants also use customer loyalty/satisfaction data to guide training of their staff. Managements can also utilize the data to recognize team members that customers praise.

We are able to track back to the crew chiefs, so we can sort based on the crews, and can sort based on just the overall satisfaction. We look at it as a training opportunity for the crews. We are very good about training and continuing growth of all the employees. On a monthly basis we sit down with each of the crews and go over. Over the past month, you had x number of jobs and your satisfaction level was right here. Here are a couple of things that we have noticed as a trend starting and we would like to talk with you about how to fix those.

It is a little less based on numbers and a little bit more based on trends that we seeing. We also have, on a monthly basis, the entire organization gets together and we have what we call Legendary Service Awards. That is where we hand out awards to any of the employees who have had favorable comments above and beyond coming back to them from the customers. So we are recognizing them in that capacity. We are working on any scores that are below where we feel they should be as a training opportunity to get them back up where they need to be.

3) PROMOTING THE ORGANIZATION

Being marketing executives, most of the participants also report that they utilize positive customer loyalty data in advertising or other promotional materials. This is especially true for services like JD Power and the Wilson Award. One problem is that customer loyalty data and the firms that track and report loyalty data, are not well known to the public. Therefore, education is often necessary to make the claims meaningful.

Look at Pulaski Bank. They are saying 90% of our customers like us and recommend us in the marketplace. They are using it in their marketing. So people say wow, 90% are happy, I would probably be happy going there so I have to believe that it is acquiring some new business for them. I think it's tremendous. I would use the heck out of it.

People don't know what it means when we say we are 64% Net Promoter. You have to do some education.

We win the Wilson Award a lot as well. We have to educate people on what that is. We won that award four years in a row. But the problem is educating the public. We do marketing materials and trophies to the stores but no body realizes what that is.

HOW COMPANIES MEASURE CUSTOMER LOYALTY

Most of the roundtable participants currently have programs in place to measure customer loyalty. These seem to lean towards the Net Promoter model developed by Fred Reichheld.* Most focus on asking two key questions in their research: 1) "Were you completely satisfied?" and 2) "Would you recommend us to family or friends?"

We are moving into our fourth year now of practicing the Net Promoter program. The simple question is on a scale of one to ten, how likely would you be to refer us to a colleague. Your nines and tens are promoters. Your zeroes to sixes are detractors and your sevens and eights are neutral. I believe the formula is your promoters minus your detractors divided by your overall audience which then equates to a percentage net promoter score.

We only ask those two questions. Were you completely satisfied and would you recommend us to family and friends. Again, if they answer below an eight on either of those, we probe for more details. It's less numerical and more verbatims.

We don't want to do any more than ten questions but we realize that these two are the prime that we are going to dwell on any way when we get the results back. Two or three years ago we experimented with trying to establish some drivers of the net promoter ranking. So we were asking price related questions, service related questions, etc. Personally opinion only, there is probably value in doing more in-depth surveying initially upfront to establish a baseline if you will.

Participants agree that benchmarks are important, although they are not always easy to come by. The availability of benchmarks differ by industry. For some, like the financial industry, benchmarks are readily available. For others, the executives must search for something suitable.

The financial industry has benchmarking. So anytime we have done those surveys we have salted in benchmark questions so we can know what is thought in our own area but we do compare against other parts of the country. Of course some parts of the country are probably looked at a little bit more askew. But it's very helpful to have a benchmark on a national basis, where that ranking is.

We have a group of other likeminded companies around the country that we share information with. Some of them are also doing similar programs. Not many of them quite honestly. So it's difficult for us to compare in the industry. Well our group of competitors are pretty small and pretty competitive so we don't have that option on a number of fronts (they don't share). But in financial services or automotive good benchmarks are available.

We really set our own benchmark. In Reichheld's book I believe he gives a few, nobody is above ninety on the Net Promoter and different things like that. But there is a ton of industry variation and then if you are talking global, then cultural bias comes into play too.

*In his book, *The Ultimate Question*, Reichheld presents the Net Promoter Score (NPS). He divides customers into three categories: Promoters(P), "loyal enthusiast who keep buying from a company and urge their friends to do the same; Passives, "satisfied but unenthusiastic customers who can be easily wooed by the competition;" and Detractors(D), "unhappy customers trapped in a bad relationship." In answer to the question, How likely is it that you would recommend this company to a friend or colleagues? those who answer nine or ten on a ten-point scale are considered Promoters. The NPS then becomes, $N - D = NPS$, expressed as a percentage.

For more information about this or future AMA St. Louis Roundtable Discussions, contact the Roundtable Chair:

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