Grow Customer Loyalty- Grow Your Profits

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The single most predictive indicator of future growth is the degree of dependency that your existing customers have toward you.

Most corporate leaders know that it costs more to find a new customer than to grow an existing one, yet they operate by a mantra that says, "We always need more *new* customers!"

Increased customer loyalty is the single most important driver of increasing overall corporate revenue and achieving greater financial performance.

The Trend

Twice as many senior level executives across all industries and company sizes say they are devoting more resources to customer retention over customer acquisition (58% to 30%), based on a study by Grizzard[1]. Improving customer loyalty leads to less customer attrition. The efforts on this initiative will result in an extraordinary ROI for any customer loyalty investment!

The Real Cost of Losing a Customer

If companies and senior executives knew how much it really costs to lose a customer, they would make every effort and investment to retain their key customers. When serviced correctly, customers generate increasingly more profits every year that they stay with a company. The longer a company keeps a customer the more profit it will make. When a customer defects to your competition, they take that profit-making potential with them. The challenge at hand is not how do you consistently acquire new customers, but how do you successfully keep the ones you have already worked so hard on to acquire?

How much does it really cost your company to lose a customer? Remember, customers are assets. The facts around their economic value may shock you. Have you calculated the future earnings in the out years? Long term customers are a vital source of your profitability. They will typically purchase more of your goods and services every additional year that they are doing business with you, based on their increased level of satisfaction and loyalty. In addition, they will often pay higher margins because they gain more trust in you and value the relationship between your organization and themselves. These intrinsic values help them justify supplier requested prices leading to improved margins.

Understanding the correlation between customer attrition and profits will provide a guide to increasing growth. Studies show that customer attrition can run as high as 10% to 20% in any given year depending upon industries.

Simply cutting customer attrition in half will more than double the average company's growth rate.

It is a vicious cycle of adding and then losing customers that even the most successful businesses have to deal with. The constant need to replace defected customers with new ones is not only extremely trying, but costly as well. Calculate the impact on revenue of reducing your current customer attrition by 10% or 20%. Studies show staggering facts; i.e. the cost of generating a new customer can easily be 3 to 5 times more than servicing an existing customer.

Metrics and Loyalty

Business leaders tasked with generating revenue and achieving growth for their companies will benefit from the application of metrics in the sales and marketing areas. According to the American Management Association in a 2002 survey, senior marketing executives indicated that understanding their customer is their most important priority 82% of the time. In that same survey, 40% of executives say that insufficient insights into customer needs and behaviors are a major obstacle in achieving higher returns on their marketing investment. In a competitive marketplace, business and sales leaders will search for supremacy as each successful sale will add directly to the top line growth of the company. However, when a company is focused only on generating new customers, they may actually be contributing to customer attrition and revenue churn within the existing portfolio of accounts.

Reducing Churn

One of the keys to increasing sales revenue and accelerating your growth is in reducing customer churn. Market research gurus Kevin Clancy and Robert Shulman state in their book *Marketing Revolution: A*

[1] Grizzard Performance Group

Radical Manifesto for Dominating the Marketplace, "In our experience, most companies don't know what a loyal customer is worth in dollars and cents. They spend most of their marketing budget and attention on obtaining new business, and relatively less on satisfying and retaining old ones and that is a mistake." Your company's increased growth rates and profitability may already depict that you are successfully keeping your current customer base more loyal.[2]

What is the difference between Satisfied and Loyal Accounts?
Some executives and salespeople believe that customer loyalty is becoming a thing of the past, or certainly less prevalent in today's highly competitive global economy. While there is agreement that most customers may never be "implicitly loyal" (without reservation), we have learned that there are certainly degrees of satisfaction. In our discussion here, Loyalty is being used as a term to describe a high, if not the highest degree of satisfaction: the goal!

Loyalty does not occur by accident, it must be earned. It begins with measuring and assessing the quality of the service, products, and relationships that exist between the customer and the vendor/supplier.

Are you falling into the trap of measuring customer satisfaction when what you really want is customer loyalty? While satisfaction surveys provide valuable insights into levels or degrees of satisfaction, our goal is to move the customer relationship towards long-term loyalty and not one based on a "moment in time" measurement; i.e. satisfaction rating. Satisfaction surveys measure current customer buyer preferences. Customer Loyalty surveys measure customer buying behaviors, dependencies and practices.

Drivers that Determine Loyalty
Leading companies are constantly refining their understanding of customer economics, the drivers of satisfaction, and loyalty based on clear metrics. Continuously soliciting feedback from customers to improve the understanding of their needs is critical. There are at least seven critical drivers (mutual dependencies) that determine the degree of loyalty; these include:

1. Emotional Dependency
2. Structural Dependency
3. Business Dependency
4. Satisfaction
5. Performance to Standards
6. Economic Value Proposition (ROI)
7. Alignment / Fit

There is a significant difference between a satisfied customer and a highly satisfied / loyal customer.

A recent study by Rath & Strong[2] showed that 60 – 80% of accounts who defected had declared themselves satisfied or highly satisfied on their last satisfaction survey.

Jeffrey Gitomer[3], in his book *Customer Satisfaction is Worthless, Customer Loyalty is Priceless,* defines the difference between a satisfied and a loyal customer this way:

"What is a satisfied customer?
One that felt OK about dealing with you. Their needs were met. The product was OK. The service was OK. The experience was OK. They are satisfied (happy) with their purchase. They may or may not talk about the experience. They may or may not refer someone to you. Their overall feeling about you is between neutral and positive, and their experiences with you have not been negative. Not bad – but not great."[3]

Now contrast the satisfied customer with a loyal one and decide which you would rather have.

"What is a loyal customer?
One who feels GREAT about dealing with you. Their needs were met and/or exceeded. Your delivery was GREAT. The experience was GREAT. They are ecstatic with their purchase. They will proactively talk about the experience. They will proactively refer someone to you. Their overall feeling about you is wonderful, and their experiences with you have been memorable. ***WOW!"***[3]

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[2] Rath & Strong Management Consultants
[3] Bard Press

Now you obviously would choose the loyal customer, but how are you going to know the difference between the two if you are not measuring it?

Creating the WOW!

Customer Satisfaction vs. Loyalty:

- Customer or Account satisfaction is a measurement in a moment of time of an account's testimony to your performance (usually by one individual).
- Loyalty is a measurement of key dependencies that predict the "staying power" of the overall account relationship (from multiple contact points) during multiple times of the year and has a greater depth of analysis

As obvious as it may seem (yet often disregarded), it is imperative to have a quantitative measurement of the dependencies related to your products, services, competitive position, support, pricing, relationship status, and value delivered… ***directly from multiple levels of influencers from within your account.***

Now that you know the difference, you understand why it is so important to measure account loyalty from many points of contact within each of your key accounts. The data collected can prove invaluable in developing and implementing effective strategic plans and preventing account attrition. There are also two important ingredients embedded in this formula for assessing loyalty:

- Would they recommend us?
- Have they recommended us?

Launching a Customer Loyalty Program

What do high performing organizations do to build "loyal customers" while insuring profitability? In many cases they do the same things most organizations do – but with three differences:

- They do it consistently.
- They do it systematically.
- They do it holistically within the customer organization.

Executives have more questions about Loyalty than answers in many cases:

- Why are some customers so Loyal, while others may not be?
- How is Loyalty created in the first place, and where does it come from?
- How can I nurture and maintain the Loyalty in my customer base?

In order to answer these and other questions we must "Listen" to the customer. At the heart of any successful strategy to manage customer Loyalty is the ability to listen to the customer frequently and from multiple points of contact. This is often referred to as "The Voice of the Customer".

The Process – The Approach

Questions always arise: Who do we survey? How often do we survey them? How do we survey them? The optimum method of collecting valuable knowledge enabling an organization to establish a "Loyalty Index" is to collect data from multiple levels of management, including different functional areas, and multiple customer locations.

Frequency of surveys, multiple points of contact, and multiple survey data from participants are important factors that provide you with more valid data and statistical reliability. In addition, the intent of this approach is to insure and validate that any response is not just a "moment in time" emotional response. Successful Loyalty programs survey all contacts within the account 1 – 2 times each year – and distribute the survey initiative into quarterly or at least half-year surveys.

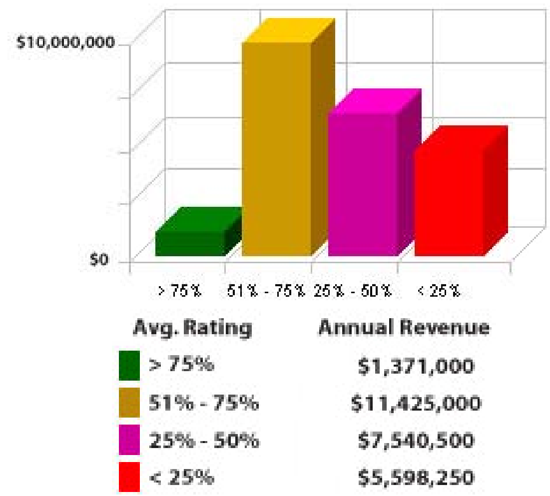
Assessing and Utilizing the Knowledge

Once the data has begun to be collected it must be organized in order to be useful and influence

actionable objectives that can be undertaken. This data will create metrics for identifying accounts that may be at a growing risk of attrition. We need to be able to plot, chart, and graph the results.

What Do We Know?
These quantitative indices make them a useful tool for comparing survey results. These results will enable you to metrically assess customers over different periods of time, locations, industries, as well as functional and managerial positions. These metrics over time will show trends in the account's loyalty.

Most importantly the metrics will enable you to show existing revenue that is at risk – before it is too late and it actually leaves!



This approach of converting customer knowledge into quantitative analytics, if properly utilized, can be a critical decision factor in supporting and funding more rapid and effective deployment of corporate initiatives that will result in improved customer loyalty.

Who should own the initiative?
If you are responsible for sales revenue or marketing activities in your company, you may have made the decision to launch a loyalty measurement program, or in some situations a more refined satisfaction program. You know that you want to measure their loyalty and have metrics that allow you to better understand a customer's relative position to you as a supplier. In today's marketplace no organization wants to lose a key or major account. While this type of approach to measuring loyalty cannot guarantee you will never lose an account, it does provide you with a more scientific approach to gaining an early intelligence of potential issues that place account relationships at risk.

There are many types of satisfaction surveying tools and resources in the marketplace. Measuring loyalty will require a different approach and solution primarily due to the recommended content of the survey, metric-based output and an "easy-to-use" system that enables a user to filter, view and assess data as required – even at a sales team member level.

The data collected will provide ongoing and predictive account intelligence to steer the strategic efforts and initiatives of account teams. The results will come in the form of improved long-term revenue, profitability, and market positioning. As obvious as it may seem (yet often disregarded) it is imperative to have a quantitative measurement of the acceptance, use and mutual dependencies of your products and services, competitive position, support capabilities, pricing position, relationship status, and economic value delivered… ***directly from multiple levels of influencers from within your account.***

A Loyalty Measurement System Should Enable a User to…

- Gather customer input, assess customer relationships and generate "Customer Improvement Action Plans".
- Quickly gather tactical and strategic business intelligence.
- Engage customers at all contact points including senior level relationships.
- Effectively measure and analyze customer's satisfaction.
- Empower your organization with actionable knowledge from your customer.
- Initiate critical information sharing across the entire organization.
- Stop *reacting* and allow *pro-active* strategic management of your account.
- Ensure that account loyalty is part of your Account Relationship Servicing model; as well as executive leadership reviews
- Collect data, analyze your results graphically and easily generate reports

Institutionalizing the Program; Optimizing the "ROI"

Now that you are implementing a tool to measure customer loyalty, how do you insure its full implementation? First you must assign an administrator to handle the day to day processes of using a loyalty system. We have found that if these responsibilities are left to the account managers, it is unlikely that they will happen in a timely manner, if at all. Their plates are already full! The account manager is responsible to work with the administrator to see that any corrections or additional data is in the system and most importantly to turn this data into actionable knowledge.

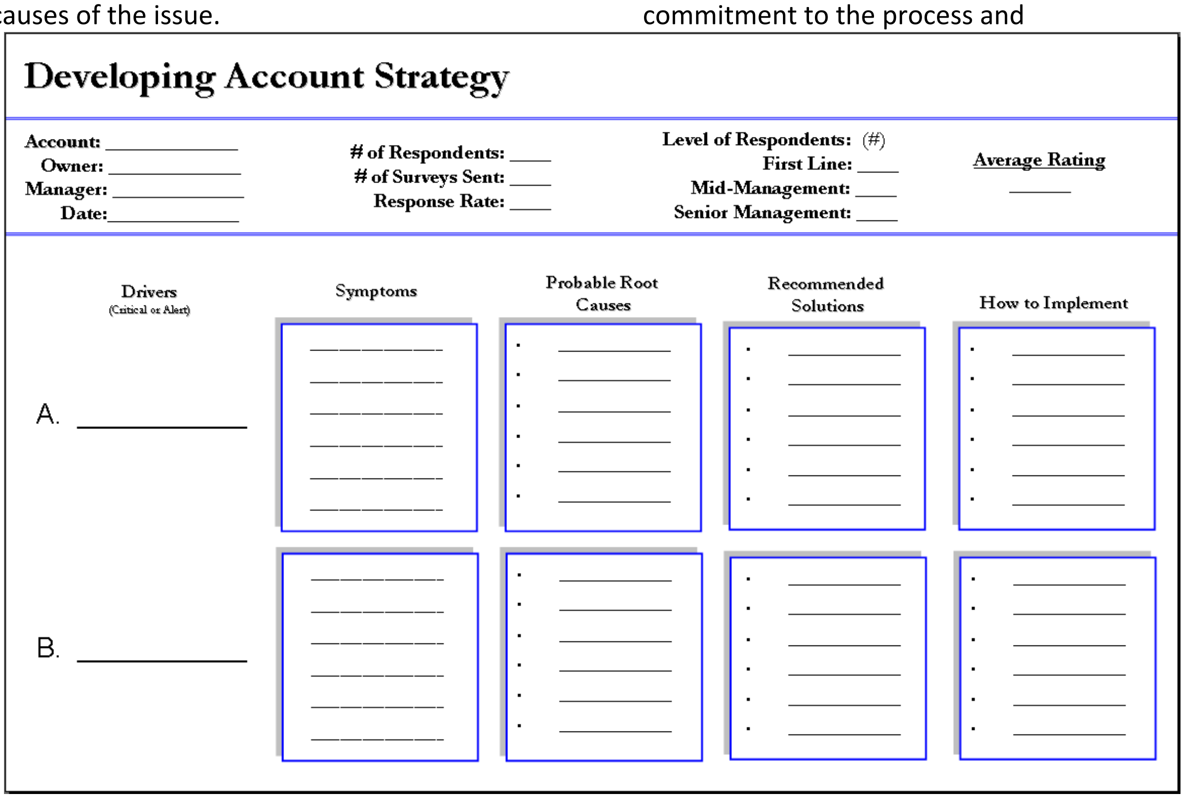
As the surveys are collected from your contacts in the account, low scores should be flagged and alerted so that actions can be put in place to address the issues identified. A process should be implemented that states within 72 hours of receiving a low survey result the responsible account manager, or account team if appropriate, and sales management has researched the identified issue and completed the Account Strategy Chart (*See Example Chart*) to detail probable root causes of the issue.

Within this same 72 hour window the account manager has made contact with the person who responded and has scheduled a meeting to address those concerns. Internally the results of that meeting should be reported and discussed to be certain that actions are in place to resolve the identified issue. This proactive account management process will begin to eliminate the constant reactive mode we all too often find ourselves in.

What we have learned is if the account has to call you and tell you that something is wrong, it is often already too late!

Proactive Account Management

To continue the proactive account management process and generate increasing Loyalty, the results of the surveys must be shared with senior management internally, as well as with the specific accounts. This will have a couple of desirable results. First it provides an opportunity to conduct a senior level meeting within the accounts. This meeting will show our commitment to the process and



Example Chart: Developing account strategy activity provides a forum to share our action plans to provide exemplary service and address any identified concerns. This is also an opportunity to jointly develop and work on Key Performance Indicators (KPI's) that both organizations agree to.

Secondly, by conducting these meetings quarterly or bi-annually it will increase the level of participation among the survey pool of contacts. By sharing the survey results, respondents, and metrics at the senior level, the scrutiny of the data and metrics insures that participation will increase in future rounds of surveys. These additional surveys will help to validate and statistically increase the reported metrics.

Lastly, by conducting these account reviews at the senior level you will see a forging of a closer relationship based on metrics and KPI's that are measurable and actionable. This is something that we all know senior level executives encourage and look forward to from their internal team and suppliers. These types of metrics remove the subjectivity and replace the account relationship onto an objective model that is more easily understood and measured.

Conclusion

If a company has sales of 100 million dollars and has an attrition rate of 12%, that is 12 million dollars of lost revenue.

- What does it cost to replace that lost revenue?
- How much would it cost to keep it?

Reducing the attrition rate will allow you to grow revenue at a faster rate as you have less lost revenue to replace. In today's extremely competitive global world we must implement a Loyalty program that metrically identifies those accounts that may be at risk of attrition. While there is no guarantee of never losing an account, you need to have an early warning system that identifies potential accounts at risk of attrition.

A loyalty program and appropriate tool as we have discussed, tells you what your customer is thinking and most likely going to do; this "NOW" look into the future tells you what you need to do to retain, acquire, or develop profitable and meaningful long-term customer relationships.

ABOUT THE AUTHOR

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Dennis J. Chapman is founder and president of The Chapman Group, a sales consulting firm that specializes in creating world class sales organizations through the implementation of sales and account management processes, methodologies, best practices, skills and metric-based software tools.

Dennis brings over 25 years of executive level experience in sales, marketing, and business management to his clients in helping them achieve their goals. He is a dynamic, enthusiastic speaker whose ideas and vision consistently inspire and motivate his audiences. Clients of The Chapman Group include many Fortune 500 companies as well as a diverse portfolio of mid-tier accounts.

The Chapman Group works closely with their clients in the areas of strategic account management, sales coaching, training, tools, strategy, and compensation, and is widely known for their strategic Account Management program, SMARTS™, which builds and utilizes cross-functional teams to manage strategic accounts. Dennis developed the SMARTS™ methodology through his many years of designing sales methodologies, processes and tools that produced significant, sustainable results for his clients.

Before establishing The Chapman Group in 1988 Dennis' career included sales and management positions with Xerox, ROLM/IBM, and as Vice President of Sales and Marketing in the high-tech reseller industry. Dennis has written on the topic of strategic account management for many years, with a recent article published in CRM Magazine, and speaks nationally to more than 50 sales teams a year. Dennis is a graduate of the University of Massachusetts' School of Business. Dennis currently serves on the Board of Directors of SAMA; Strategic Account Management Association.

ABOUT THE CHAPMAN GROUP

For more than 20 years The Chapman Group has been providing integrated sales solutions to Fortune 1000 companies. Our integrated approach involving the use of strategy, training, and software has provided some of the world's largest sales forces with the expertise to manage complex sales opportunities, develop strong relationships, streamline processes, shorten sales cycles, and most importantly, deliver real value to their clients. Founded in 1988, and headquartered in Columbia, Maryland, The Chapman Group works with companies to optimize their sales and strategic account management performance. TCG implements and institutionalizes proven strategic account methodologies through SMARTS™, TCG's proprietary strategic account management practice, metric-based key account management software tools (XSalerator.com™ & LoyaltyPro™) and training (sales, team leader and manager coaching workshops across their sales function). The Chapman Group drives sales effectiveness by providing clients with a variety of proven and innovative best practices, including team-based strategic account management processes and metrics that effectively measure key areas of high impact within account management and associated sales opportunities.

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