Customer Loyalty: How to Earn It, How to Keep It

by Jill Griffin

Business Growth Lies Not in the Earning, But in the Keeping
REFRESHING THE CONCEPT OF CUSTOMER LOYALTY

QUICK OVERVIEW

Gone are the days when building, or at times stealing, market share ensured business profitability. The flailing economy brought an end to the buying boom and savvy consumers are increasingly stingy with their take-home pay. For that reason, Jill Griffin’s book Customer Loyalty is welcome refreshment to entrepreneurs looking for a path toward stable business growth.

Griffin breathes new life into an age-old customer retention philosophy based on relationship building, meeting customer needs and exceeding customer expectations. She extrapolates the impact of “growing loyal customers,” applying the concept to small businesses as well as to the boardrooms of international companies.

It’s easy to understand why Griffin’s books, with her clear writing style and liberal use of real-world examples, have been used in university classrooms. Customer Loyalty has a primer quality that makes it perfect for those first glimpsing the impact true customer loyalty can have on the bottom line.

APPLY AND ACHIEVE

Whether you are the CEO of a major corporation or an independent business owner, the concepts you’ll discover in Customer Loyalty can help you attract, and most important, retain, more customers. Here are a few suggestions you can apply to your business now to build your own loyalty system:

Do your homework and familiarize yourself with loyalty measurement factors. Get clear about your business’s customer retention rates, average number of new customers monthly, and how frequently and how much customers purchase. Close examination, says Griffin, allows you to measure and track loyalty and gives a basis for setting objectives for the next five years.

Think like a customer. Create and utilize need-based marketing, selling and customer-care tools that allow you and your team members to be more effective. Also, squash loyalty breakers, like a complicated return policy, immediately.
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. This shift in emphasis is sometimes subtle, but it is necessary to create loyalty among customers and an understanding of the importance of loyal customers to the company.

**Growing Loyal Customers**

It was clear to Otten that he had to make a new plan to develop economic security for his business. The strategy he adopted flew in the face of standard procedures. Rather than striving for market share, engaging in a competitive discounting war or luring new customers through short-term incentives, he decided to launch a campaign of “growing” customers.

The new plan paid off big. 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 included making first-time visitors enjoy skiing at his resort so much that they would want to repeat the experience again and again.

Before Otten started courting first-time customers back in the winter of 1984-85, only 40 percent of the people who visited Sunday River ever returned. But thanks to Otten’s retention programs, more than 75 percent now return for more ski adventures. Those repeat enthusiasts were a major reason gross revenues increased from $6 million to $18.3 million.

For people just learning to ski, the process can be particularly frightening. Otten set out to minimize their anxiety. Otten stationed helpers at every step along the way. His most experienced instructors were assigned to new skiers. Staff members helped new skiers select clothing, boots, skis and accessories.

Otten barely broke even on skiers new to his resort. Instead, he offered incentives for customers to come back. On their first visit, novices paid for their first lesson, but equipment and lift tickets were all free. The student was also given the chance to sign up for two additional lessons, which included the freebies. If students completed all three lessons, they were given a coupon for a fourth day of free skiing. Furthermore, Otten sold student poles, skis, boots and bindings at cost.

The result of all this “nonprofit” activity was surprising. By the time skiers finished the three lessons and free day at Sunday River Skiway, they were more than likely to become loyal customers. Not only were customers satisfied; they were virtually sold on the resort as the place to ski. Return skiers guaranteed increasing profit and a stable growth rate.

It’s been more than 20 years since Otten purchased Sunday River, and a lot has changed. He’s grown the company from a single small ski area in Maine into American Skiing, one of the...
country’s leading operators, with nine world-class ski resorts in both the eastern and western United States.

MARKET SHARE VS. CUSTOMER LOYALTY

The average American company loses 20-40 percent of its customers each year. Recognizing this pattern and its severe impact on 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. This reorientation produces significant results. Through increasing the rate of customer retention by as little as a few percentage points, banks, retailers, insurance brokers, distributors, healthcare providers and software manufacturers can increase their profits by 25-100 percent.

THE LONGER THE LOYALTY, THE BIGGER THE REWARDS

Research shows that over a cross-section of industries, the longer a company retains a loyal customer, the more profit that customer generates. A company can boost profits 25-85 percent through increasing retention by as little as 5 percent.

If you find these profitability improvements too good to be true, consider a couple of factors. 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 negotiation and order processing; (3) reduced customer turnover expenses (fewer lost customers to replace); (4) increased cross-selling success, leading to larger share of customer; (5) more positive word-of-mouth; (6) and, assuming loyal customers are also satisfied, reduced failure costs (reduction in rework, warranty claims and so forth).

But the benefits of loyalty and its effect on profitability go well beyond cost savings. As usage increases, so does profit margin. Here are five reasons for wooing a first-time customer into becoming a lifetime 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.

Laws of Loyalty

- **Practice the 80/20 rule**—80 percent of your revenue is being generated by 20 percent of your customers. All customers are not created equal.
- **Serve first; sell second**—You earn business with service that is pleasant, productive and personalized; if you don’t deliver, they’ll leave.
- **Aggressively seek out customer complaints**—Make it easy for customers to complain, and treat complaints seriously.
- **Get responsive, and stay that way**—Technology tools such as customer self-service, e-mail management, and live chat and Web callback are critical.
- **Know your customer’s definition of value**—Invest in customer loyalty research to understand how well you deliver value.

3. Marketing costs go down when you don’t have to spend money to attract a repeat customer, since you already have her. In addition, a satisfied customer tells her friends, thereby decreasing your need to advertise.
4. You’re better insulated from price competition because a loyal customer is less likely to be lured away by a discount of a few dollars.
5. A happy customer is likely to sample your other product lines, thus helping you achieve a larger share of customer.

LOYALTY AND THE PURCHASE CYCLE

Each time a customer buys, he or she progresses through a buying cycle.

**Step One: Awareness** You begin to establish the all-important “share of mind” required to move your product or service ahead of your competitor’s in the mind of the prospective customer. At the awareness stage, a potential
customer knows that you exist, but there is little bond between you. At this point, another company’s advertising or marketing ploy can steal the customer away before you even get started.

**Step Two: Initial Purchase** You can impress the customer positively or negatively with the product or service delivered, the ease of the actual purchase transaction, and even the company Web site’s page loading time or ease of navigation. Once this first purchase is made, you have the opportunity to begin nurturing a loyal customer.

**Step Three: Post-purchase Evaluation** The customer consciously or subconsciously evaluates the transaction. Most customers rate themselves as being at least satisfied with the product they are using. But satisfaction alone does not give a company a strategic advantage.

**Step Four: Decision to Repurchase** The motivation to repurchase comes from a favorable attitude toward the product or service that is high in comparison to the attitude toward potential alternatives. Decision to repurchase is often a natural next step when a customer feels a strong emotional bond with the product. Another powerful way to motivate a customer to repurchase is to establish the idea in the customer’s mind that switching to a competitor will cost the customer, in terms of time, money or performance.

**Step Five: Repurchase** To be considered genuinely loyal, the customer must buy again and again from the same business, repeating steps three through five (the repurchase loop) many times. The truly loyal customer rejects the competition and repurchases from the same company whenever an item is needed. This is the kind of customer that a business must court, serve and nurture.

## Looping the Repurchase Loop

Remember Sunday River Skiway’s Leslie Otten? Once he created a frequent buyer, he fought to keep her. Otten understood constantly cycling the skier through the repurchase loop was essential to building loyalty. He employed both emotional-bonding and cost-saving appeals to strengthen repurchase. New skiers were sent a certificate celebrating their completion of the learn-to-ski program. He created a frequent-skier program, modeled after airline frequent-flyer programs, that rewarded customers with a free day of skiing after as few as five visits, and customers received mailings describing special promotions. “We want to stay top-of-mind,” Otten said. “We’ve worked too hard to have people forget us.”

### Four Types of Loyalty

1. **No Loyalty**—Avoid targeting no-loyalty buyers because they will never be loyal customers; they add little to the financial strength of the business.

2. **Inertia Loyalty**—This customer buys out of habit. It’s the “because we’ve always used it” or “because it’s convenient” type of purchase. This buyer is ripe for a competitor’s product that can demonstrate a visible benefit to switching. It is possible to turn inertia loyalty into a higher form of loyalty by actively courting the customer.

3. **Latent Loyalty**—Situational effects rather than attitudinal influences determine repeat purchase. By understanding situational factors that contribute to latent loyalty, a business can devise a strategy to combat them.

4. **Premium Loyalty**—People are proud of discovering and using the product and take pleasure in sharing their knowledge with peers and family. These customers become vocal advocates for the product or service and constantly refer others to it.

“Doctoring” the inertia, latent or no-loyalty conditions of your current customers and finding a way to upgrade them to premium loyalty are two aspects of loyalty management. An even more proactive approach is to start from the earliest stages of customer development and devise ways to nurture and enhance loyalty throughout the customer’s history with your company. This way, you can better manage development of loyalty and minimize, or in some cases, even avoid, such conditions as inertia or latent.

## Loyalty Over Time

People grow into loyal customers by stages. The process is accomplished over time, with nurturing, and with attention to
each stage of growth. By recognizing each stage and meeting those specific needs, a company has a greater chance of converting a buyer into a loyal customer or client.

**Stage One: Suspect.** We believe, or “suspect,” they might buy, but we don’t know enough yet to be sure.

**Stage Two: Prospect.** A prospect is someone who has a need for your product or service and is able to buy. Prospects may know who you are where you are and what you sell, but they still haven’t bought from you.

**Stage Three: Disqualified Prospect.** Disqualified prospects are those prospects about whom you have learned enough to know that they do not need, or do not have the ability to buy, your products.

**Stage Four: First-Time Customer.** This person can be a customer of yours and a customer of your competitor as well.

**Stage Five: Repeat Customer.** Repeat customers are people who have purchased from you two or more times. They may have bought the same product twice or bought two different products or services on two or more occasions.

**Stage Six: Client.** A client buys everything you have to sell that he can possibly use and purchases regularly. In addition, however, an advocate encourages others to buy from you.

**Stage Seven: Lost Customer or Client.** Someone who was once a customer or client but has not bought from you in at least one normal purchase cycle.

**PROFIT GENERATOR SYSTEM**

An organization funnels suspects into its marketing system, and each is qualified as a high-potential prospect or disqualified. Disqualified prospects are filtered out, while qualified prospects remain inside. The sooner a disqualified prospect is filtered out, the better for you. Wasting time and money on a suspect who will not buy or is unable to buy cuts dramatically into your profit. Focus on qualified prospects with the goal of turning them into first-time customers, and then repeat customers, and eventually clients and advocates.

The rule of thumb in working with 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 a 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. A company can enjoy real profits once the customer has evolved into the latter stages of the Profit Generator process. Failure to grow a customer to an advanced stage robs the company of profit and valuable referrals.

**THE BIG PICTURE**

The Profit Generator system can put the importance of customer conversion and loyalty into perspective for every employee in an organization. Until recent years, completing a sale was the end of the process for too many marketing strategists. Little or no time or money was allocated for creating a special relationship with the company’s best customers. Most companies—whether selling goods or services—failed to grasp, much less calculate and record, the lifetime value of a customer. Most focused on making a sale rather than concentrating more marketing dollars on having that sale lead to a long-term profitable relationship.

**GROWING LOYALTY AND PROFITS THROUGH CURRENT 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. In other words, your customer database moves you from a reactive role in business building to a proactive one. You no longer have to wait for your customer to contact you.

The Profit Generator system is about focusing marketing and selling efforts on a company’s most promising future customers: those it already has. There are essentially three ways to do more business:

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

The Profit Generator system focuses on leveraging items two and three. Currently, there seems to be a sense in marketing that landing new customers (acquisition program) is more rewarding and exciting than holding on to current customers (retention program) or increasing business volume among
current customers. For some reason, the thrill of chasing new customers and of closing the first deal seems more challenging than keeping the customers you already have. Finding new customers often involves flashy advertising, new sales techniques and innovating marketing approaches. This sometimes makes marketing people feel creative and aggressive, but in fact, it is possible to be both creative and innovative devising methods for keeping existing customers happy—and the financial returns are generally much greater for retention than for acquisition.

THE ONLY CONSTANT IS CHANGE

Just like the world we live in, your loyalty system must be ever-changing. The particular methods you employ to earn loyalty today may need a major overhaul 12 months from now. You must keep modifying, upgrading and changing your system to meet the changing demands of your marketplace and your customer.

There are no guarantees of loyalty. Unless you continue to provide value, as your customers define it, even the customers and clients who seem most loyal will eventually go elsewhere.

Perhaps former Stouffer Chairman Stanley Gault has the best prescription of all for maintaining a loyalty clientele: “There’s no magic formula for staying close to your customer. It’s basic consideration, time, effort, commitment and follow-up.”

Successful business leaders know that the real solution to loyalty lies in creating an ever-changing system that develops and nurtures the loyal customer. Start right now to devise new ways to attract and keep customers. You can always find new solutions in the concept of customer stages and in the fact that loyalty is developed and earned one step at a time.

About the Author

Jill Griffin is an expert in the field of customer keeping, having authored books not only on customer loyalty, but also the art of winning customers back, and taming search-and-switch customers. Colleges and universities, including University of Texas McCombs School of Business and Northwestern University, have adopted her books as teaching texts.

She founded Loyalty University™, where she teaches individuals, businesses and corporate boards of directors practical, proven customer-keeping solutions. Griffin’s client list includes companies such as Dell, Microsoft, Ford Motor Company, Subaru, Marriott Hotels, Hewlett-Packard, Cendant, IBM, Wells Fargo and Sprint.

Jill received the 2003 Distinguished Alumna Award for the University of South Carolina Moore School of Business, where she earned MBA and bachelor of science degrees, magna cum laude. She now serves on the school’s board of trustees.

Recommended Reading

If you enjoyed the summary of Customer Loyalty, consider adding the book to your personal success library. You may also want to check out:

High Trust Selling by Todd Duncan


The Power of Nice: How to Conquer the Business World with Kindness by Linda Kaplan Thaler