Customer Loyalty – And Why It Matters Now More Than Ever

An Interview with Jill Griffin, Founder and President, Griffin Group, Author: Customer Loyalty

NOTE: Jill Griffin is an internationally recognized expert on customer loyalty. Her groundbreaking book, Customer Loyalty: How to Earn It, How to Keep It *(second edition, 2002) has been named to Harvard Business School's "Working Knowledge" list of recommended books. She is co-author of* Customer Winback: How to Recapture Lost Customers and Keep Them Loyal, *deemed one of the 30 Best Business Books of 2002 by Soundview Executive Book Summaries.*

Jill is president of The Griffin Group in Austin, Texas. Founded in 1988, her firm has one simple mission: Help clients build fiercely loyal customers. Clients include Dell Computer, Advanced Micro Devices, Subway Corporation, Deloitte Touche, Wells Fargo, Microsoft and the country of Scotland.

Ask Jill about her real passion and she'll tell you it's addressing business and professional audiences on how to make loyalty happen. Reports client Joe Kane, President of Days Inn Worldwide. "We hired Jill for a series of six summits for the franchisees of our 1995 hotels. Ninety five percent of the feedback rated her as excellent. That's very high scoring."

1. In your book, *Customer Loyalty,* you describe four types of loyalty. Why is it important for companies to distinguish among different types of loyalty? Isn't loyalty just… loyalty?

Distinguishing loyalty types is more than just an exercise – it's key to understanding your customer base and how you can potentially grow customer loyalty. That's because in any given marketplace, customers fall into one of these four areas of loyalty. And some types offer companies more potential than others for growing loyalty. *The importance of understanding these loyalty types is that doing so helps companies group current customers AND prospective customers into value groups… people with affinity to the service or product you're offering who can also potentially increase the share of wallet they're willing to spend with you.*

The first area is simply no loyalty whatsoever. This is a customer who seeks no value beyond immediate need. One example I give in my book is of a balding gentleman I know who only needs a trim now and again. He gets that trim wherever it's convenient for him – one month it might be at the corner barbershop while he's out running errands; another month it might be at a chain hair cutting shop while he's on business travel. There isn't a salon in existence that will ever be able to turn this buyer into a loyal customer. And it would be a waste of their marketing effort to try.

The next area is inertia loyalty. People in this category keep going to the same places for service or products because they just haven't spent the time or energy to find a different or better place to do business. A simple example of this might be the person who goes to the same dry cleaners each week because it's on the way to work. A different dry cleaner might be able to win this person's business by offering additional services that enhance convenience – for example, free pick up and delivery, or hemming and alterations.

Latent loyalty describes the loyalty of those who already love a product or service, but whose rate of purchase is not as high as it could be. A customer with latent loyalty already has a positive view of a company, but situational effects rather than attitudes might determine repeat purchases. For example, I'm a big fan of Chinese food and have a favorite Chinese restaurant. My husband is less fond of this cuisine, so, despite my loyalty I visit this restaurant only occasionally so that my husband and I can visit restaurants we both like. By understanding this situational effect, the restaurant could combat it by perhaps offering a few all-American choices to please reluctant customers such as my husband, while ensuring more frequent visits from customers such as me.

And finally – *there's the loyalty nirvana: premium loyalty. The goal of companies should be to move customers with inertia or latent loyalty to the premium loyalty area.* (Remember, we're not going to expend time and energy worrying about those with no loyalty!) Customers who exhibit premium loyalty have four key characteristics: they buy regularly; buy a cross-section of products; refer others to the company's product or service; and they are immune to the pool of competition. Examples of companies who have premium loyalty from a large section of their customers include Starbucks, Southwest Airlines, and Harley Davidson.

2. What are the most important ways for companies to gain customer loyalty from the beginning of the relationship?

Companies should seek customer loyalty from the very first purchase! The first purchase signifies the beginning of the relationship. For most organizations, attrition rates just after the first purchase are double at this stage of a company/customer relationship than at any other time in the relationship! first impressions – and experiences – really do count. And yet, the opportunity to move the customer from first-time buyer to repeat buyer is usually not leveraged by most firms as it should be. However, if a company can convert the customer from a first-time buyer to a repeat buyer – while the company is certainly not out of the woods in terms of developing loyalty – the company can start building toward premium loyalty with that customer.

In truth, first-time buyers are better termed first-time try-ers, and that first experience really determines if that buyer will be willing to give a company another try. Four problems usually keep first-time try-ers from becoming repeat customers.

The first problem is that companies often fail in really shepherding that first time customer experience, in making it as pleasurable and memorable as possible. The second problem is lack of a formal servicing system – the company has no clear protocol for serving the customer beyond the first order! The third problem that can destroy the opportunity to convert a first-timer into a repeat customer is communication breakdowns with the decision-maker. While a company, after an initial sale, may support the users of its product or service, it may fail to stay in contact with the person or persons who have the actual authority to make a buying decision. When that happens, the decision-makers may simply turn to another option rather than repeating business. And finally, after only one purchase, it is still very easy for a first-time buyer to return to the previous vendor because the commitment to a new vendor isn't very deep just yet. So, at the first sign of trouble, the new customer retreats back to the prior relationship.

Data warehousing can help avoid these problems. For example, an electronic data warehouse (EDW) can flag that first-time buyer, whether the first-timer is approaching the company through a brick and mortar location or an e-channel. EDW can also help keep order fulfillment on track and ensure that the decision-makers are kept in the loop.

3. If a company has lost customer loyalty, what are the most important things it should do to regain that loyalty?

First and foremost, the company should try to get that loyalty back! The book I co-authored, *Customer Winback*, looks at this issue in-depth. What's stunning is how many companies assume that once a customer has strayed, his business is gone for good.

But the truth is *that a lost customer is not a lost cause.* In fact, companies have a better chance of success at winning back lost customers than of converting prospects into new customers! Even if a major problem ended the relationship, a previous vendor has some history with the customer. And the fact is, high turnovers in business can mean that often the individuals involved when the relationship ended may no longer be with the company or the customer. A company can help repair a negative impression by taking steps to win back the lost customer!

However, a word of caution here: it is important for the company to first evaluate if the customer is truly worth winning back. For example, if a customer left simply to get a better price, that customer may be so price driven that he will simply 'make the rounds' with various vendors with nothing but lowest price as his motivator… However, if a customer left because a company unintentionally pushed the customer away – for example, through benign neglect – or because another company pulled that customer away through a truly superior value proposition, that customer may well be worth pursuing the second time around.

Savvy companies not only evaluate why a customer was lost to begin with, but also evaluate the customer's second lifetime value – that is, what is the likely value of the customer's purchases, over the 'second' lifetime once the customer has been brought back to life from earlier defection.

The ideal customer to attempt to win back are those customers with highest second lifetime value who left because of being unintentionally pushed away or were wooed away by a competitor based on better value.

What's being missed in the marketplace is the ability to know when and why a customer has left. Companies must pay attention and know when customers fall off the radar screen! *For example, savvy companies can use an EDW to detect lapses in ordering or consumption patterns and can then follow up with their customers. They can use EDW to find out why customers are leaving, group customers according to those whys, and court them back accordingly.* That's the ideal state of continually winning back those customers worth keeping when loyalty lapses.

4. How important is having a 360-degree view of customers and prospects to creating loyalty and to following the loyalty chain you describe: converting prospects to first-time buyers, first-time buyers to repeat customers, repeat customers to loyal customers, and loyal customers to advocates?

I have to say, it's incredibly important!

One of the challenges that customers face today is that there are so many different touchpoints for them within a company. In most companies, there are multiple databases and different people in the company work with those databases. So, *a customer who is in multiple databases may get touched by traditional mail, e-mails, and phone calls, all in disparate ways. No overall relationship is being developed* between the company and the customer, and the customer may feel like no one at the company really knows who they are. Instead, they just feel hounded. Then, the customer revolts and says don't contact me anymore! Despite the good intentions behind the multiple contacts, the frenzy of uncoordinated customer communication damages the customer relationship.

That's why a 360-degree view of the customer is so important – to make it possible to develop a coordinated, true relationship with the customer. Companies need to have a unified view of their customers to even know how to interact with them.

5. You also discuss the importance of having a loyalty-driven culture within a company – that such a culture is essential to developing loyal customers. Why is this important? How critical is having a 360-degree view, or one consistent view, of the customer to creating that loyalty-driven culture internally?

This is one of the areas of customer loyalty that I'm most passionate about! Because what I know is this: there's a huge correlation between customer loyalty and employee loyalty. Companies with huge customer loyalty also have huge employee and staff loyalty. And not by accident! At end of day, a customer buys a relationship with a company. And 70% of all customer defection issues can be tied back to problems related to staff turnover.

Culture drives performance in an organization – that's the bottom line. Companies need to build a culture where the customer behaviors desired are clear and recognized. Then the employees can build their own habits around knowing how to develop those customer behaviors.

And companies must have internal systems that drive this kind of culture – both procedural systems (e.g., who is responsible for what) and technical systems (e.g., an EDW that gives a 360-degree view of the customer).

6. How important is technology in general and data warehousing in particular to creating customer loyalty? Is it possible to create customer loyalty without these tools? Does the size of a company make a difference in needing these tools to create customer loyalty? (e.g., a regional distributor versus a global corporation.)

Honestly, today, I don't think the size of a company really makes a difference in needing technological tools. Even the most micro business today has a computer! And relative to years past, technology today is so affordable – and more powerful than it's ever been.

What's more, these days, companies are dealing with more savvy, sophisticated customers than ever before. *Today's customers know what good customer care looks and feels like, and if they're not getting it, they'll leave for another company that can deliver it. Technical tools are an important tool for providing excellent customer care. Customers expect you to know them – what their last transaction was, or that they called you three days ago about an issue.*

The Internet has also changed a lot about how business takes place. Today, the Internet is not just about pushing information out to customers. It's about customers being able to go online and pull up the information they need when they need it, with 24/7 access.

7. What effect does distribution channel management have on developing customer loyalty? What role do you think data warehousing/technology plays in good distribution channel management?

One of the laws of developing customer loyalty is that it's crucial for companies to collaborate with their channel partners, to embrace these relationships for the greater good of customers. It's hard for competition to touch that. And let's face it – *a channel working together has a greater chance to support customers than an individual segment of a channel working alone.* Companies should contact their suppliers routinely – and ask, if there's one thing we should change to create greater value for our customers, what would it be? That's the kind of partnership that companies ought to be exploring on behalf of their customers.

8. Any parting thoughts about customer loyalty?

Customer loyalty is not dead! In fact, more than ever, customers are looking for companies to be loyal to. Customers want to build a relationship with companies because it's more efficient than recreating the wheel every time they need to repurchase a product or service. Companies must take the value they're creating to a much higher level than just running a transaction. Companies need to see themselves as problem solvers, not just suppliers. Customers are more discerning buyers than ever before and will go to where the value is. And companies must constantly look for fresh, new creative, e ways to deliver more value to their customers.

Value delivery drives customer loyalty. End of story.

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