DIGITAL MINDS CHAPTER 11

ESTABLISHING A CUSTOMER LOYALTY STRATEGY

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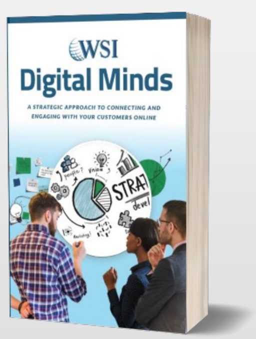

The following is a chapter from WSI's 3rd book, *Digital Minds: A Strategic Approach to Connecting and Engaging with Your Customers Online.* If you'd like to read the book in its entirety you can purchase a copy on Amazon.com here: https://bit.ly/wsibook3

Customer loyalty is so highly sought-after that businesses are willing to pay customers through rewards programs. In theory, these programs keep customers coming back to a company so that they can build upon their rewards. However, the problem with rewards programs is that they don't really address why a customer is loyal to a brand or product. Loyal customers at Company X would make their purchases at Company X anyways. So rewarding these shoppers for making a purchase they would've already made doesn't do much to build true loyalty.

Dogs are loyal pets because they value their humans. Yes, the occasional treat helps, but if you don't genuinely care about your dog, treats won't compensate for your lack of care.

Consumers are the same. If you don't offer an interesting product or service, they may still take your free swag, but the moment a price changes or a competitor comes out with a new offering, they'll leave you and any loyalty incentives behind.

To overcome this hurdle, we need to focus on "real" drivers of customer behavior. What makes a customer choose Product A over Product B? Customer purchase behavior is important because of the number of options available in the marketplace. If we don't understand what causes a purchase, how can we build loyalty with our customers? And how can we ensure that they have a positive experience with our brand and continue their relationship with us in the future?

Throughout history, businesses have come and gone, but a select few have remained relevant for a significant amount of time—think Coca-Cola and McDonald's. So, why do some companies fail, while others didn't? Was it good leadership? Great products and services? Scale, brand awareness, customer loyalty, or plain old luck?

The truth is that it's likely some combination of all of these. Leadership must provide direction and guidance on what actions to take and when. Products and services are the offerings that provide a reason for having your doors open in the first place. Scale offers a business the ability to cope with a seismic shift in its business operation or the flexibility to change quickly to its new desired state. Without brand awareness, your customers don't know to look for you or your offerings. There is always some element of luck in success.

Nevertheless, this much is eminently clear—without customers, nothing happens! Customers buy and pay for our products and services. The voice of the customer (VOC) is critically important to all business models. As business owners or marketing professionals, we don't capture that information with purpose, and sometimes we don't capture it at all.

To stay current and keep customers purchasing goods and services, most companies perform some self-reinvention—proactively or reactively (one guess as to which method works best!).

Let's look at some recent examples of companies and how their customer relationships shaped their business models, for better or worse.

Blockbuster

Blockbuster brings out the nostalgia for many Generation Xers and older generations. It reminds us of a time when home entertainment meant going to a building with a blue awning and renting the most recent movie releases on DVD or VHS. This business was huge, and Blockbuster was the goliath of the movie rental industry.

However, a funny thing happened in the first decade of the new millennium. New business models and technology made running to the store for that movie a thing of the past. Netflix offered next-day movie rentals through the mail first and then followed it up with the ability to stream movies at your home using an internet connection. Blockbuster milked every last dollar out of its existing model but was late to the development of an alternative medium to offer its movies. They reacted too slowly, and now they are no longer a part of the marketplace.

Blackberry

In 2009, Blackberry was the fastest-growing company in the U.S. In 2013, Blackberry reported a $4.4 billion loss with a 56% revenue decline in its fiscal third quarter. How did this happen when the global market for mobile phones was increasing at unprecedented rates?

Blackberry executives chose to ignore the feedback coming from their customers because they felt that they had a better idea of what the customer would want and need in the long term. Today Blackberry has given up the business that made it popular in the first place, mobile phone hardware and focused instead on software development. While Blackberry remains a functioning business, the preeminent position that it once had is a fading memory. This is mostly due to their inability to listen to their customers.

Netflix

In 2010, Netflix was an up-and-coming provider of home entertainment solutions. At that time, they offered a subscription package that provided both DVD rentals through the mail and an emerging streaming service that offered a few movies to watch on your television through your home internet service.

They were eliminating established players like Blockbuster and encroaching on the movie theater business. Netflix CEO Reed Hastings boldly decided to separate the DVD rental business and the streaming business, essentially charging customers the same price for both packages. Netflix stock took a drastic hit in the coming months as many existing customers dropped one or both of the services. As a result, the company was expected to fail.

But something remarkable happened. While this product separation doubled Netflix's product income potential, Reed Hastings had the vision to realize that technology and opportunity were gradually eroding the DVD business. Streaming was the preferred platform going forward. By using the DVD rental business as a cash provider for Netflix overall, Netflix could stock income to eventually build out a library of content for their streaming service. He viewed his competitors not just as Blockbuster and Redbox, but NBC, Hulu, and DirecTV. Due to Netflix's bold and proactive vision, it has established itself today as the leader in streaming entertainment globally.

Proactively Listening to Your Customers

Being proactive takes a great deal of courage, foresight, and willingness to listen to a business' greatest exterior asset – its customers. From the previous examples, it is clear that Blockbuster didn't listen to the marketplace at all and faded away. Blackberry took stock of what the market was telling them. But they chose to ignore the feedback they were receiving in favor of what their designers believed the marketplace needed. Netflix watched the marketplace and took action. It wasn't easy—they initially lost market share, customers, and prestige in the eyes of the investment community. However, Netflix stuck to their plan and came out on the other side as a massive winner. All because they listened to the people who were buying their product.

Now that you understand how customers can dictate the direction of your business, let's dig deeper into customer loyalty, retention, and experience.

We've already shared some of the different means of attracting customers in Chapter 4, and you know there is a definitive cost associated with acquiring new customers. Once you obtain that customer, there is a payback period for the acquisition cost to be cash-flow positive. For project-based industries like construction companies, you may make your money back on your first project with a customer. For subscription-based businesses like service providers, you may need your customers to stay with you for 6 to 12 months to cover your entire acquisition cost. The key is to ensure that you maximize your revenue opportunity with each customer. So, keeping a customer "loyal" to your business is incredibly important. Attracting new customers costs significantly more than extending or upselling an existing customer. In fact, according to the Harvard Business Review (2014), acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one.

In truth, we are at a point in time where the customer experience matters more than ever before. Everyone has had a great experience with a company or provider that left you feeling happy and satisfied. On the other hand, everyone has also had a bad experience with a brand. We all have stories of interactions with businesses, both positive and negative, and we share those stories with our family and friends. What is different about today that puts us in a customer experience renaissance? Mostly, it's social media!

Previously if we talked to our family and friends about our experiences, these opinions were limited to our inner circles. And for the most part, people would make their minds up based upon their own experiences.

Today, social media can make each of these customer revelations uplifting or damning almost instantaneously. If your business doesn't have credibility or equity built up with your customers, you may be in trouble. If a customer has a good experience with you, they will talk about that experience with others. If they have a bad experience, they will broadcast it online for the world to read (or hear).

Technology and product development also contribute to the increased focus on customer experience. As an example, since 2007, at least one new Apple iPhone model has come to market every year. Our technology-based devices are now wholly interchangeable. We buy new models almost as frequently as we buy new shoes. Smartphones, computers, and gaming systems are replaced almost annually. The home appliances that our parents anticipated having for a generation, like refrigerators and laundry machines, are only expected to last eight years at this point.

When the product life cycle and development cycles are tighter, there are more options available to consumers. If they don't recognize the value or have a bad experience, they will likely look elsewhere. If they see the value, have a good buying experience, and you engage with them post-purchase, you will have created a loyal customer, one who may come back to you and refer new business to you as well.

You need loyal customers that will provide regular feedback on:

- How you are performing
- What they like about your business
- What you can improve upon

And you actually need to listen to their feedback.

But won't this be incredibly expensive and time-consuming? Not necessarily. We'll walk you through a means of setting up a good feedback loop, and we'll guide you on how to incorporate customer feedback into your business.

Step One: Gather Customer Data

In Chapter 10, we discussed utilizing a CRM to house all of your customer information. A system like this not only helps your prospecting and sales opportunities. But when coupled with a marketing automation strategy, it will be the precursor to getting quality feedback from your customers. You have to know who your customers are before you can survey them on your performance.

Step Two: Identify What You Want to Measure

There are many ways to gain knowledge about the experience your customers have with your business. Start with a combination of metrics and free-form questions to begin gathering these details.

Net Promoter Score (NPS)

Net Promoter Score is the ideal way to measure your customers' likelihood to recommend your business and its products and services. The classic NPS question is simple:

- On a scale of zero to ten, how likely are you to recommend our business to a friend or colleague?
- On a scale of zero to ten, how likely are you to recommend our product or service to a friend or colleague?

By asking the customer to rate your business on a scale of zero to ten, where zero is low, and ten is high, you can begin to gather critical metric points. NPS will provide insight into how well the customer viewed the experience that you offered and capture your customers' overall satisfaction with your company.

As a business owner or a marketing leader, we are always in search of a way to create a customer interaction that makes that customer want to promote our business.

Within the NPS system, customers who provide scores of 9 or 10 are considered *promoters*. These promoters are customers who will continue to buy from you, refer customers to you actively, and advocate for your brand.

Customers who provide scores between 0 and 6 are considered *detractors*. These customers are unhappy, whether it's due to service, product performance, interaction with your business, or something else. Their negative reaction will damage your brand and impede your growth through negative word of mouth.

Passive customers are those who rated you a 7 or 8 out of 10. These customers are currently satisfied but not so happy that competitor offerings or price discounts won't woo them. They probably won't be active in offering positive reviews of your business, so they won't do much to contribute to your overall reputation. These are tepid and unenthusiastic customers that may or may not do repeat business with you.

Once you've determined how many of your customers are promoters, detractors, and passives, you can generate an NPS score. An NPS score ranges between -100 and 100, with higher scores being better. To calculate your NPS, you subtract the percentage of customers who are detractors from the percentage who are promoters (see below).

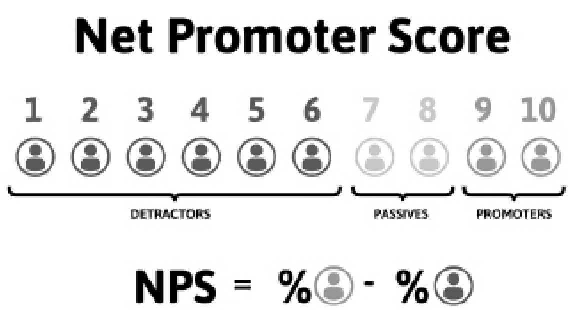

Figure 25: Net Promoter Score Formula

As long as you have more promoters than detractors, your NPS score will be positive. Passive customers don't help or hurt your score. However, the more passives a business has, the more volatile an NPS score will be. Because passives are so close to becoming potential promoters, prioritize tipping the scale by nurturing these customers into loyal brand advocates. Improving the detractor's experience is also a priority, but it will require more time and effort.

The scope and size of your business should determine how many levels of data you need to gather. For example, a business that has multiple touchpoints in their product cycle should try to measure their NPS at each point that they interact with the customer—sales, service, billing, and overall.

NPS is valuable because it allows the customer to provide their opinion, but it also gives the business owner or Marketing team insight into where you excel and where you need to improve.

The bonus opportunity is that this will shed light on who's advocating for your products and services, and who you may be able to connect with to help evangelize your offerings. People enjoy talking about products and services they love, and this can be a major boom to business.

By offering not only the numeric NPS scale but a free text box to answer, "Why did you rate us this way?" you can gather the specifics of what you did well and what you need to improve. For example, a customer rates their willingness to recommend you at a 5. That score implies that you didn't do anything terrible, but you also didn't do anything special to set yourself apart and ensure future business.

In your open-ended question, the customer tells you there was a specific interaction they had with the sales team that impacted how they rated you. You can take this information and focus on making the right improvements. That could include developing training or marketing materials that might help to improve that customer's willingness to recommend and promote you the next time you ask them for feedback.

Businesses large and small utilize NPS as a means to gather the voice of the customer, interpret the data, and make decisions about how to drive their business in the short and long-term.

Step Three: Incorporate Business Performance Metrics

As responsible marketers or business owners, we all have metrics that we monitor to gauge the performance of our business. These might include return on investment (ROI), customer churn, close rate, and return rate, for example. Each of these metrics means something different for your business and are important in their own right. For our purposes, when discussing customer experience and customer loyalty, none are more important than close and churn rates. These two measurements give us unbiased numeric data related to our interactions with customers.

As you know, **close rate** identifies how many sales you close compared to the number of offers made. This is the first impression test of how your customers view your company. Having a high close rate will be dependent on how you interact with your customers. Online, telephone, and in-person interactions will have different close rates.

Churn rate will tell you how many customers you are losing and not replacing. Wild fluctuations in your churn rate generally imply that there is no consistency in the way you interact with your customers. An increase or decrease in churn may show that you have an inconsistent customer experience.

Both of these metrics will identify how your business is performing overall. However, when we incorporate our business metrics and our customer experience metrics, a much more robust picture comes to life. When churn is gradually increasing two percentage points over six months, we can now look at our NPS scores to check on their performance.

If NPS is decreasing similarly in the same period, this may highlight an issue. A closer look at your customer feedback can provide insight as to what is driving that behavior. There may be an easily identified singular change you can make based on customer feedback. More often, it will take some investigation to identify the causes of customer dissatisfaction.

Step Four: Ask for Additional Feedback

Customers are the lifeblood of any business. We offer products and services; they buy products and services. Ideally, we do an excellent job of delivering those products and services, and they come back (with friends and family) for more. At that point, we are creating customer loyalty and advocacy.

We have discussed that consumers today have more avenues to make purchases and to comment on those purchases than ever before. Consumers want to talk about their experiences – good or bad. Setting up a customer NPS survey is one opportunity for you to seek out feedback, but don't let it be the only opportunity.

The most successful companies regularly encourage their customers to share their experiences. Whether in an online forum, on a survey, via email, or on social media, as a business owner or marketer, you can gain insight into your customers' mindsets quickly and cheaply.

Ask your customers for further information on which features or add-ons would make your products and services more useful to them and the issues that they are trying to solve. You don't have to implement every suggestion you receive. But inevitably you'll run into a good idea that will make your company better.

If you see recurring topics creeping into your mentions, they may be worth looking into early before they become real problems. Also, this type of approach will help you create a positive customer experience—people like to know you hear them. The customer capital that you create from this will carry you forward.

Here's another example of this type of customer interaction. Community forums, when appropriately managed, can be a haven for customer advocates. Many companies utilize these forums as opportunities to let customers help each other. In the technology world, many tech-savvy individuals like to share knowledge with other users. Tech firms create sections on their website where the experienced user can guide a novice on how to utilize products and services.

Instead of forcing a user to engage with a call center on the phone or through chat, these "super" users can provide assistance and support for free. The result is that those that need help get the help that they need. In doing so, they have a good experience, and the company advocate evangelizes a new user with their positive perception of the product.

So, now you have a pretty solid handle on the power of the VOC (voice of the customer) to help your business succeed. Without the VOC, as business owners and marketers, we are blind to what our customers really want and need.

The Power of Customer Loyalty

What makes your clients or customers want to work with you in the first place? Why do they continue to work with you long term? If you don't know the answer to these two questions, you run the risk of having a "roller coaster" revenue line. We all think we understand why our customers purchase from us, but unless we ask our customers directly, we are only speculating. Just like your revenue and expenses, tracking your customer experience metrics will help to guide you in answering the above questions and so much more.

All companies start with a reason for doing business; they all begin with a "why." If a business proceeds on from there, the business owner, or a marketing leader, needs to be able to tie the idea back to "How will we sell this to a customer?"

Utilizing the customer experience methodology, we gather enough information to answer these questions. This information should guide us on the path to increased product penetration, better close rates, and improvements in customer retention. By listening to our customers, we can get ideas for future product enhancements and discover reasons for sluggish performance.

By paying attention to our customers, we are capable of improving our offerings, building positive customer perception, and creating a wildly popular brand that customers are willing to advocate for. And ultimately, what does that get us? True customer loyalty!

TIP: If you want to learn more about retaining loyal customers and having a more customer-centric mindset, visit www.wsiworld.com/book-resources.

About the Author

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After 17 years in the corporate management world, Alison joined the WSI team in 2004. Consistently a WSI Top 25 revenue earner and a WSI Top Gun, Alison's digital agency is located in the Los Angeles area. Alison has expertise in both traditional and digital media, as well as strategic planning, competitor analysis, and SEO. Alison holds a BSBA degree from Washington University in St. Louis - Olin Business School, and a CPCU Designation, ARP Designation and numerous digital marketing certifications. She is very involved in the non-profit world and sits on the Board of Soroptimist International of GSCV as well as Circle of Hope.

About WSI

For 25 years, WSI has been providing digital marketing services and comprehensive marketing strategies to businesses of all sizes and across various industries. We are the largest network of digital marketing agencies around the world.

We are a full-service digital marketing agency that helps elevate your online brand, generate more leads and sales, and improve your overall marketing ROI. Our Digital Marketing Consultants use their knowledge and expertise to make a difference for businesses all around the world.

We don't believe in the "one-size-fits-all" approach to digital marketing. Instead, we take the time to understand your organization and customers so we can recommend a strategy based on your individual business needs. When you invest in any of WSI's digital marketing solutions, you'll have some of the top minds in the industry, contributing to your goals and vision.

You have a vision for your business. We can help make it happen. Reach out; we're happy to help.