



Lerzan Aksoy & Timothy Keiningham

WANTED: LOYAL CUSTOMERS

By **Timothy Keiningham**, Global Chief Strategy Officer for IPSOS Loyalty and **Lerzan Aksoy**, Associate Professor of Marketing at Fordham University

The global economic downturn has made holding onto customers absolutely critical to survival. Unfortunately, marketing hasn't traditionally done a good job of focusing on current customers. Marketing activity has largely focused on persuasion—the ability of the company to change someone's attitudes or behavior. And while that is a critical role of marketing, too often this gets translated into simply persuading someone to try something for the first time. An old saying goes, "A good salesman can sell anything once. The trick is getting them to buy again."

But it is not as simple as focusing on customer retention either (i.e., getting them to come back). Today, customers are increasingly polygamous—they buy competing products from multiple companies with seemingly no real loyalty.

In other words, customers divide their wallets among competitors.

Consequently, one of the most important elements in improving financial performance is getting customers to allocate a larger share of their wallets to the firm. A McKinsey study found that focusing on share of wallet had a tentimes greater impact than focusing on retention alone. Research demonstrates that the strongest driver of share of wallet is customer loyalty.

Therefore, the primary goal of marketing must be the creation of loyal, long term customers out of first-time or occasional buyers. Accomplishing this requires a clear understanding of what makes customers want to be loyal.

Understanding how customers feel; however,

is only the first step. Too often managers define loyalty solely as a feeling of attachment. But loyalty is about more than simply feeling a bond. Loyalty requires action. In this case, loyal customers continue to buy, allocate a higher percentage of their spending in the category, and willingly recommend the firm to others.

Therefore, building a successful customer loyalty strategy demands that we also understand what customers actually do. While this might sound obvious, too often in the real world of customer loyalty management customers' attitudes are seldom connected to customer behavior in a customer database—in fact, most firms do a poor job of collecting this information at all. If the goal is customer loyalty; however, there is no substitute for having a complete view of your customers: how they feel, and what they do.

4 Steps to Understanding Customer Loyalty

1 Find out what customers really want. Getting a measure of how customers feel is relatively straightforward. All it takes is a good survey process to get an objective gauge of customers' attitudes. So why is this information typically so poor? The most common problem is that managers frequently ask questions designed to achieve a set score—like 100% satisfaction—and not really understand what they can do to foster loyal relationships with customers.

2 Collect information on customers' actual buying behaviors. Most do not collect data on their customers' purchasing behaviors. Of those few that do collect this information, fewer still use the information for much more than offering coupons or for reordering merchandise. Fortunately, there are ways to get insight into customers' buying behaviors. In the best of cases, each customer transaction is collected and stored electronically, and tied to a specific customer. But in the absence of such data, other options are still available.

Often it is possible to build a panel with a representative sample of customers and monitor their purchasing behavior. These customers can also be surveyed to gauge their attitudinal loyalty to the firm allowing for a complete picture of their loyalty.

When it is not viable to build such a panel, customers can be surveyed to ascertain both their attitudinal loyalty and their buying behavior (as opposed to their future intentions). Wherever possible, stated customer behavior data should be validated and calibrated with available internal data.

3 Integrate and analyze customers' attitudinal and behavioral information. Almost no firms link their customer survey information with their customer behavior data. This makes understanding what drives customer loyalty virtually impossible to determine. The goal must be to understand where changes in customers' attitudes result in a desired change in customers' actual behaviors.

4 Don't assume that everyone is loyal for the same reason. Loyal customers are a mixture of many different types of customers, each with distinct needs and motivations. Consequently, we need to group customers into relevant customer segments based upon similar characteristics and needs. Otherwise, we end up regressing to the average when deriving what is important for improving loyalty. Since no one is average, no one gets what they really want. ■