

The Consumer Inside

Best Practices in B2B Loyalty

By Rick Ferguson, Editorial Director, COLLOQUY

If we define loyalty marketing loosely as the practice of using technology to build customer relationships, then we can trace its birth in the business-to-business (B2B) space to 1954. That's when self-taught Danish engineer Hildaur L. Nielsen, an employee of the Zephyr American Corporation, updated a crude, circular card-filing device called the "Wheeldex" with improvements such as a second circular rail, plastic handles that made for easy card-turning, and a clutch to hold the device open to a particular card.

Zephyr American's owner, Arnold Neustadter, immediately saw the device's potential, and brought it to market under a new brand name: a combination of the words "rolling" and "index." The rest is history, of course—and the name Rolodex, like the names Kleenex and Band-Aid, entered the lexicon as a brand that came to stand for an entire class of products.

Essentially, the Rolodex functioned as the first loyalty marketing database. In addition to holding the names and contact information of key business owners, purchasers and influencers, the cards could also store information about a client's particular business and personal preferences. *Interested in our new product line. Likes golf. Divides printing between us and competition. Birthday is July 2. Daughter's name is Mary.* This information allowed salespeople to fashion themselves as walking versions of the ultimate B2B value proposition: I both understand your critical business needs and know something about you as a person.

It's that latter part of the equation that's still missing from most B2B marketing efforts. Particularly in the small-business market, loyalty-marketing efforts that focus solely on the hard-benefit side of the equation still predominate. What's missing is the human element. But that notion is changing, says John Nordberg, Vice President of Marketing Management for AT&T.

"Companies are beginning to recognize that small business is not just a mass market," says Nordberg. "Customers with different and unique sets of needs comprise that market. So you're seeing more segmentation, and more acknowledgment of the different needs of those segments."

Therein lies the untapped potential for B2B marketers: while most small-business owners and purchasing managers will tell you that they buy only with their heads,

they secretly want to buy with their hearts. They want to be appreciated and understood. In short, we're all consumers on the inside.

Finding and building a relationship with the consumer inside the business owner is therefore the predominant challenge for B2B marketers today. Despite the advances in CRM technology platforms, database marketing, and analytics, marketers still struggle to leverage that technology to build brand loyalty. If you doubt, then consider that the venerable old Rolodex still sells about 10 million units a year.

The B2B challenge

Consumers may power the U.S. economy, but small-business owners provide the fuel. Various estimates peg the market for Small and Medium Business (SMB) services at upwards of \$2.2 trillion. According to the Small Business Association, businesses with fewer than 500 employees represent 99.7 percent of all employers, employ over half of the private workforce, and provide more than 75 percent of all new jobs. The U.S. Census reports an estimated 16.7 million small-business firms in the U.S.; Toronto, Ontario-based B2B consultants Warrillow & Co. put the number at 27 million. Over 75 percent are owner-operated with no paid employees, and approximately half are home-based businesses. Census data also reveals that small-business owners are predominantly white (91.7%), male (64.5%), college-educated (64%), hard-working (over 50% work more than 40 hours per week), and reliant on their business as their sole source of income (70%).

"It's a growing segment," says John Warrillow, Warrillow & Co's CEO. "While B2B suppliers have seen the enterprise segment shrink, the small-business market continues to flourish."

Even as the market in SMB services grows, the current combination of the credit crunch, a weak dollar and skyrocketing energy prices finds small-business owners donning hip waders and grabbing buckets to bail out their sinking fortunes. "America's small businesses are waving the yellow flag," reads the National Small Business Association's *2008 Small & Mid-Sized Business Survey*. 71 percent of business owners surveyed "say the economy is worse today than five years ago." Nearly half expect a recession in the next 12 months. 77 percent say that rising energy prices have negatively impacted their businesses. Still, if small-business owners weren't optimists, they would have settled for cushy corporate jobs like the rest of us.

"While they appreciate the fact that the economy is in a turbulent period, they feel very optimistic about their own prospects," says Warrillow. "That optimism translates into the likelihood to buy lots of stuff in order to realize their vision of success."

So small-business owners—everyone from sole-proprietor landscapers to freelance copywriters, real-estate agents and restaurant owners—need reliable supplier relationships. Without an honest effort at relationship marketing, therefore, you're likely to see your good accounts churn and your so-so accounts languish. How do you transform your company from a mere vendor into a valued partner? By building a loyalty platform on a strong foundation of customer data—and leveraging that platform to identify, understand and influence the consumer behind the account number.

"In consumer marketing, behavior is based largely on demographics and attitudes. Marketing to a small-business owner isn't very different; after all, the small-business owner is also a consumer," says Denise Hopkins, VP Marketing at Experian Marketing Services, writing in *BtoB Magazine*. "And these consumer demographics, behaviors and attitudes often influence how they run their business."

Just as consumers make purchase decisions based on a combination of economic value and emotional appeal, so B2B customers choose suppliers based on the conflict between hard-headed business calculations and the need to feel valued and understood. In 2002, COLLOQUY coined a phrase for this phenomenon: the Gemini Effect, which has become industry parlance for promotions and rewards that combine business benefit with personal appeal.

"Loyalty marketing is very relevant for small companies," says Warrillow. "Small-business owners use the buying power of their business to generate rewards and benefits that they then use personally—that's the behavior we see. There's a beautiful little sweet spot."



Identify:

Industrial supply company Grainger launched its Customer Advantage program to identify a critical bit of information their existing customer file lacked: the key contact person. Grainger sent membership cards to tens of thousands of its customers, to be activated by phone or email with additional information. Using the additional information provided, Grainger effected 20 percent lift in annual customer value, and a 32 percent lift in ROI by the end of year 1 of the programs.

IDENTIFY: People, not account numbers

Before you can release the consumers inside your SMB accounts, you need to know who they are. In the consumer world, you can be pretty sure that a valid email or snail-mail address will get the right offer to the right customer. The B2B world, in contrast, is a labyrinth of CEOs, sole proprietors, purchasing managers, distributors, resellers, and personal assistants. Consumer contact files are broad and flat; B2B contact files are narrow and deep.

The optimal way to identify the decision-makers in your customer file depends on your business model, sales cycle, resources and customer base. Still, identify you must: COLLOQUY's own test results with B2B clients have demonstrated a 10- to 30-percent increase in response rates if the offer is addressed to a known decision-maker. Here's a look at a few of the predominant models for identifying critical B2B contacts:

1. Give them some face time.

Jeff Hayzlett, Chief Business Development Officer for Eastman Kodak Company, is intimately familiar with the B2B identification challenge. Since a full 60 percent of the company's revenue comes from the business-to-business market, identifying the person who can actually say "yes" to a deeper relationship is a continual challenge.

"We sell down to the very small businesses: small printing companies, small retailers and in some cases, individual photographers," says Hayzlett. "So you try to set up some tools to help our customers help their customers."

Given the vast variety of customer types, Eastman Kodak's approach is to facilitate meetings and events with end users who value the chance to interact with the company on a personal level. Kodak's annual Graphic Users Association Conference brings Kodak product managers and software developers face-to-face with their end-users, while a series of customer councils for publishers, commercial printers, and database marketers helps Kodak identify key decision-makers and influencers and give them tools to help them grow their businesses. Kodak's Market Mover program, for example, provides software tools and sales kits to help them close business.

"In some cases, our business development teams will actually go with them on sales calls," says Hayzlett.

2. Launch a B2B loyalty program.

If your B2B database is outdated, corroded or non-existent, then a loyalty-marketing strategy is one of the surest ways to build a proper one. The first step is to give those secret consumers a reason to raise their hands. Loyalty programs have proliferated in the consumer marketplace because well-designed loyalty value propositions, with the appropriate mix of hard and soft benefits ([see sidebar](#)), have a proven track record of encouraging good customers to identify themselves and engage in deeper relationships with program sponsors. In short, loyalty programs work.

"Small-business owners are ideally suited for loyalty programs because they have more spending power than individual consumers," says John Warrillow. "Once a small business becomes a 70-employee company with a head of IT and a head of sales and marketing, they are not as apt to make personally-influenced decisions. But there is a subset of companies that are ideally suited to respond to a loyalty program."

In 2000, industrial supply giant W.W. Grainger Co. had over one million SMB accounts languishing in their billing files. These accounts had been given little attention by the direct sales team, and the result was a whopping 30 percent account attrition rate and a sales decline of 25 percent over the previous three years.

To reinvigorate these accounts, Grainger needed to identify the buyers behind the account numbers. Their solution: The Grainger *Customer Advantage* program, which awarded customers with points redeemable for a wide range of in-kind and partner rewards. During the pilot, Grainger randomly selected 60,000 SMB customers from the billing file and sent them a "Surprise, you're enrolled!" packet with a membership card and program brochure. The catch: in order to activate the membership, the buyer had to contact Grainger by phone or email—and Grainger captured the buyer's contact information in the database. The result: within the pilot test group, valid account contact information increased from 30 to 90 percent.

3. Use Web 2.0 tools—but warily.

Warrillow estimates that one in three small-business owners now cultivate leads and choose suppliers based on recommendations from social-networking web sites such as Facebook or LinkedIn. Does that Web 2.0 land-grab mean that your SMB customers are turning away from traditional marketing channels?

"Direct mail and newspapers are becoming less effective," says Warrillow. "Increasingly, small-business owners are getting referrals and searching for supplier recommendations through their networks. Direct mail, newspaper and broadcast advertising are becoming less efficient mediums for reaching small businesses."

Still, the rush to Web 2.0 is not yet a stampede. MarketingProfs' "B-to-B Marketing in 2008" report found that only 34 percent of B2B marketers surveyed currently rely on Web 2.0 platforms to cultivate sales, as opposed to the 67 percent who still rely on direct mail and the 62 percent who still engage in print advertising. A joint survey by the National Association of Advertisers and *BtoB Magazine* likewise found that only 10 percent of B2B marketers view social networking as effective.

These numbers suggest that there is opportunity for differentiation by early adopters. B2B marketers who can leverage Web 2.0 to capture buyer contact information and get those names into the database can build an early competitive advantage. But data capture is the key, says Forrester analyst Laura Ramos in her "Using Social Media in B2B Marketing" report.

"Unlike many traditional media, Web 2.0 tactics sustain two-way communications," says Ramos. "B2B CMOs should work with IT to beef up customer data collection, management and analytics to extract buyer profile[s]...from social interactions."

In other words, when prospecting through Web 2.0 platforms, always remember COLLOQUY's First Rule of Loyalty Marketing: there is no acquisition without identification. Until you know who your customer are, you haven't acquired them.



Understand:

When irrigation equipment manufacturer Rain Bird, with offices in 20 countries, launched a loyalty program in 1992, they continued to see heavy churn in small contractor segments. Relaunching the program in 2004, they introduced tiers to better position and understand customers. The clearer customer picture allowed Rain Bird to double customer value in key segments and generate strong referrals—leading to distributors "flocking" to join Rain Bird.

UNDERSTAND: It's the database, stupid

Once you have identified your sweet spot of small-business customers, the next step is to spend some time understanding their current behavior and comparing it to that of your best customers. Your goal is to isolate behavioral gaps that can be overcome with the right offer.

Crucial to that understanding is customer segmentation, which requires a transactional database from which you can extract information about value, potential and likelihood of attrition. That information is more accessible for some B2B marketers than it is for others; a business credit card marketer, for example, has plenty of robust transactional data available, while a plumbing supplier may have little to no data about their end-users at hand. But build a database you must—and here are a few keys to turning that data into understanding:

1. Treat your database like an asset.

B2B data degrades much more quickly than consumer data. While a consumer might keep the same email address for most of her adult life, a small-business

buyer might change jobs, get a new title or return to the corporate world. That makes data refreshment a continual challenge. It also requires that every company stakeholder—from the CEO to the IT department to Marketing—treat the database like the valuable asset it is.

Because of these exponentially greater challenges, B2B databases have traditionally lagged behind their consumer counterparts. But that gap is closing quickly. A 2008 Forrester Research report found that "refining customer data quality and access to customer data" are two of the top priorities for B2B Marketers this year. Fully half of all marketers surveyed "plan to put more resources against creating marketing databases [and] cleaning up customer data." Likewise, a 2008 Alterian survey found that 67 percent of B2B marketers plan to invest more resources in database marketing and analytics.

With the right loyalty strategy, even a simple transactional database can yield fruitful results. John Giusti, Vice President of Small Business Marketing for Staples, operates the *Staples Rewards* program, which gives Staples' small-business customers 10 percent back on ink, paper and Copy and Print services purchased in-store or at Staples.com. The simple value proposition is ideal for harried small-business owners who appreciate the give-back on their purchases—and the wealth of transactional data allows Staples to convey additional value back in offer relevance.

"When a customer uses their rewards card, that gives us the ability to understand what they're buying, send them offers based on their purchases and encourage them to buy in a different category," says Giusti.

2. Thou shalt not live on transactional data alone.

A 2008 Marketing Leadership Council study found that, because the cost of switching suppliers is higher and more complex in B2B, "attitudes"—in other words, the customer's emotional connection to the brand—are often better indicators of B2B loyalty than pure transactional behavior. Small-business customers can look loyal in the transaction file, but a survey might find pockets of disgruntled customers who could benefit from an intervention.

"Some small-business accounts simply become inert," Warrillow says. "Unlike enterprise accounts, where suppliers are often changed or renewed based on a procurement schedule, small businesses choose a vendor, and if the service isn't completely broken, then they don't fix it. But they may not be satisfied with that vendor."

That's why it's so critical that your loyalty platform becomes a conduit for dialogue that can reveal attitudes not reflected in the transactional data. A database that combines transactional, survey and third-party market data makes for an unbeatable tool.

3. Become a data conduit.

In the consumer world, data tends to flow one way, from the consumer to the database. B2B marketers, by contrast, can also learn a lot about their small-business customers by reversing the data stream. Small-business credit cardholders who lack accounting departments, for example, can benefit from information on their business purchases. *AT&T Universal Business Rewards* cardholders not only earn Citi *ThankYou Rewards* points on all purchases, but also gain access to a wealth of tools to help track and analyze business expenses.

"The data gives the small-business owner an advantage," says Brian Lifsec, Executive Vice President and General Manager of Citi Commercial Payment Solutions, which issues the AT&T Universal Card. "We don't just summarize your airline travel spending—we'll tell you what airlines you flew, what class of travel, where you flew, what hotels you stayed at."

"Earning points is a great benefit," says John Nordberg of AT&T, "but there's additional benefit in giving cardholders tools that can help them manage their spending. We even hosted a webinar explaining to them how the card can become a tool to control cost."

The data flow back to the business owner becomes an additional source of understanding for the B2B marketer. By capturing not only their transactional behavior but also what information is most useful to them, you can continue to turn those inert accounts into engaged customers.

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Influence:

Facing projections of 40 percent churn after 1996 industry deregulation, Verizon sought to maintain its leadership as East Coast business service provider with its Business Link program. Employing Bonus Credits that could be redeemed at some 160 reward partners, Business Link delivered Gemini rewards and relationship chain engagement motivators to lift retention by 40 percent and increase customer value by 28 percent.

INFLUENCE: Winning hearts and minds

The final step in the process of unlocking the consumer inside the account is to use classic loyalty-marketing techniques to encourage profitable behavior. That behavior change typically manifests itself in one of three ways: you encourage them to buy more often (frequency), buy more stuff (value) and stay longer (retention). Customers become more valuable because they perceive more value in the relationship. Many B2B marketers have already made loyalty marketing a corporate priority.

"We are moving away from mass marketing and identifying ways to reach our target segments with the right message," says Beverly Hollifield, Director of Loyalty Marketing for AT&T.

The same techniques apply in the B2B world, with one twist: because B2B customers are often constrained in spending due to budgets and the business cycle, changes in attitude are often just as important as concrete behavioral changes. If a small-business owner thinks of you as a valued business partner during a down cycle, that customer will stick with you when times are good.

"I'm not asking [B2B customers] to necessarily change their behavior," says Citi's Brian Lifsec. "I'm actually intercepting their behavior and reminding them that

they can do exactly what they're doing now and they can get better data, more control, more transparency, and a lot of really cool rewards that accumulate fast."

That said, here are three techniques that will help you unleash the consumer inside.

1. Implement the Gemini Effect.

A concept first articulated by COLLOQUY in 2002, Gemini rewards are loyalty program redemption options that combine business benefit with personal appeal: Opportunities to take key clients and prospects on golfing junkets, to nice restaurants or to sporting events; training sessions in destination cities; networking opportunities combined with celebrity meet-and-greets. Gemini rewards avoid the appearance of bribery while enticing buyers with emotional appeal.

Small-business owners, however, don't necessarily care that every redemption option has a clear business benefit; they're just as likely to redeem reward points for a vacation trip as they are for a trip to a business conference. For such customers, choice is the key to implementing the Gemini Effect. Provide a range of options, from bottom-line rewards to personal luxuries.

"A third of our cardholders redeem points for the business, a third redeem them for customers or clients and a third redeem points for themselves," says Beverly Hollifield. "They see a lot of value in working with a points program."

And given the choice, most entrepreneurs value benefits that help offset core business expenses, says Robin Korn, Vice President of *Membership Rewards* at American Express.

"We have many examples of customers who use *Membership Rewards* points to reinvest back into their business," says Korn. "On the other hand, we also have customers who use points to furnish their vacation homes."

Ultimately, scale and size determines your ultimate value proposition, says Eastman Kodak's Jeff Hayzlett. The larger the company, the more business-oriented your rewards must be.

"We adjust loyalty programs based on the size and need of the customer," Hayzlett says. "Some programs may be more rebate-based, but regardless of the situation, you can still design programs that allow companies to reward their employees."

2. Leverage the power of the network.

The real power of Web 2.0 platforms lies in their ability to facilitate the growth of user communities. It's your job not only to provide online tools and resources, but also to provide ways for your customers to talk to each other. Building community around your brand can enhance your value to your SMB clients in ways that your competition will find difficult to replicate.

Over the past decade, American Express's OPEN Small Business Network has evolved from a static collection of web pages into a true community. The OpenForum.com web portal, currently in beta, provides SMB cardholders with access to videos, articles, blogs, success stories and networking opportunities with other business owners.

"We really want to help them run their businesses better," says Robin Korn. "Over time, we've evolved our approach and have really gotten much more sophisticated in helping them meet their needs."

AT&T's Onward Small Biz portal attempts a similar approach, with a learning center, news feeds, and the Watercooler community resource. There is, however, some danger of backlash inherent in information and community portals, says John Warrillow. First and foremost, you can't stray too far afield from your areas of expertise. Let your customers tell you what advice they need from you, rather than trying to be a one-stop resource.

"We've seen marketers fail is when they step outside of their field of expertise to provide advice," says Warrillow. "A wireless company, for example, doesn't have any business giving small-businesses advice on how to hire employees. A bank shouldn't give advice on marketing. Some small-business portals are tremendous because they stick to a core message. Others step too far outside of their category, and it shows."

Sometimes the simple approach works bet. Staples, for example, has built community around product reviews—right now you'll find upwards of 30,000 reviews on Staples.com. The reviews allow Staples customers to determine the site's content value.

"As we strive to become a destination for small businesses, we want to provide even more value to our customers," says John Giusti.

3. Seek strategically-aligned partners.

No loyalty-marketing tactic is more important to your long-term success than OPM—Other People's Money. Partnerships allow you to offer more value to your SMB customers without increasing your cost. OPEN, for example, provides a wide network of partner companies who offer discounts to American Express cardholders. The partner network enhances OPEN's value at negligible cost to American Express.

"Small-business owners are some of the most time-starved people in the country," says Robin Korn. "If we help them save time and money with some of the best companies in the U.S. while also earning rewards, then we are adding real value to their businesses."

The caveat to this approach is to limit yourself to partners who complement your brand. Just because a company is willing to throw dollars at you to access your customer base doesn't make them a long-term fit—and the wrong partnership can actually set you up for a backlash.

"You need partnerships that make sense to your customers," says Citi's Brian Lifsec. "You don't want to introduce a complicated or negative interaction with a partner company. You want to find that place where the value chains of the two companies intersect to provide a service that makes sense."

Reeling in the years

A January 2008 CMO Council study found that, while 56 percent of B2B service providers describe themselves as "customer-centric," only 12 percent of their customers agree. That gap between perception and reality represents opportunity for companies to put relationships at the center of their SMB marketing efforts. And B2B marketers are seizing that opportunity: in a recent survey, Forrester Research found that 91 percent of B2B firms surveyed said that improving the customer experience would "either be very important or critical to their efforts in 2008."

The path to improving B2B relationships is clear: identify the individuals behind the account number, build a database that you can mine for insight into their business and personal needs, and enact loyalty-marketing tactics that change behavior and attitudes. The reason the Rolodex was such a success is that, in its own primitive way, it facilitated this activity. Today's tools may be more sophisticated, but the end result is the same.

"We really view small business marketing as a service," says Amex's Robin Korn. "As long as we're relevant, our customers tell us they are happy to hear from us. And that's because we view our marketing not as a way to drive a one-time transaction, but as a way to build a long-term relationship."

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