

BY DON E. SCHULTZ

WILL 'REAL' CUSTOMER LOYALTY PLEASE STAND UP?

WHEN THE ECONOMY slows, marketers traditionally begin looking "inside." They start to think about organic growth, generated by up-selling, cross-selling, customer retention and the like. That's when customer loyalty rises to the top of the marketing heap.

While sales are increasing, customer loyalty isn't terribly important. No one cares whether those double-digit bumps came from existing, new or even returning customers. Even churn isn't terribly relevant. As long as sales continue skyward, who cares what's driving them? It's the typical grasshopper marketing view that says the trend will continue forever. Only when forecasts aren't met, customer counts go down and sales flatten do managers get edgy.

Today, with subprime mortgages and housing values appearing rocky, the declining value of the U.S. dollar and decreasing job opportunities, along with rising competition, adds to the panic. Almost all marketers now are looking at their customer base to find ways to generate more consistent returns—at least those who have some idea of who their customers are.

Hold on, you say: Lots of organizations are, and have been, focused on custom-

rules with little or no input into the operation or value of the program. Have a card, get a discount; no card, pay regular shelf price.

Humby argues that true loyalty and relationship programs are radically different. He suggests six factors make up a successful relationship program.

- **Relevance to customers.** The program must be understandable to customers. It must provide tangible and useful benefits that are interesting and varied. A key point: The rewards must be attainable for all. That is, while trips around the world or on a space shuttle are interesting, not many people will generate the billion or so points needed for redemption.
- **Reward positive behavior.** Relationship programs are built on positive behaviors by the customer, which are rewarded by the marketer. Customers who increase their share-of-wallet with the marketer, advocate to others and increase their product holdings are rewarded by the marketer. The key reason: These behaviors reduce the marketer's cost to serve the customers. Both sides win.

- **Loved by the business.** Relationship programs won't work unless they are understood and endorsed by everyone in the marketer's organization. Marketing must develop programs employees can decipher and explain to customers. And, relationship programs must be integrated into the firm's other marketing activities. Relationship and loyalty programs aren't things a group of functional specialists do. They're programs the organization does. That means horizontal support, not just functional expertise.

- **Sustainable.** Relationship programs are strategic, not tactical, activities. Programs must have manageable costs that are offset by increased and on-going customer support. Thus, costs must be relevant to returns. They should also be exempt to the whims of external forces, such as inflation. Relationship programs must continue through good times and bad, for both the customer and the marketer.

These six elements are key to successful relationship programs that result in greater customer loyalty. But, you say, that's



ers and customer loyalty for years. Look at the airline frequent-flier schemes, credit card points programs, retailer reward initiatives and the like. All are loyalty programs designed to reward customers for good brand behaviors and keep them loyal and committed. They build "relationships," goes the argument.

Are they? Do they?

Clive Humby, chairman of London-based dunnhumby, the analytic group that helped Tesco develop their incredibly successful Club Card program, says otherwise. He suggests most frequent shopper/buyer/user programs are essentially bribery schemes. They hold customers hostage based on financial rewards that can only be obtained through membership. In other words, they bribe customers into doing business with the firm.

Price reductions and discounts are the primary rewards of such programs. Buyers must play the game according to the marketer's

- **Matching brand values.** Relationship programs must reflect the core strengths of the marketer's brand. Loyalty is key, but loyalty to what? Deals? Discounts? Price-offs? It must be loyalty to the brand and firm. That's what really counts. In short, a reciprocal value for both marketer and customer.

- **Collecting and using data.** Data capture, use and relevance are key to any relationship. Customers must be willing to share their shopping data. That should enable the marketer to learn more about their needs, wants and desires. Therefore, the marketer must develop more relevant shopping experiences. Thus, relationship programs become continuous test-and-learn opportunities for both the buyer and seller. Marketers learn what customers want. Customers learn what marketers can provide. And, of course, all this must be based on measurable results.

just Tesco, in the United Kingdom, in a totally different marketplace. Except that Humby and his team have now successfully transferred these same concepts to retailers including Kroger in the United States, Gigante in Mexico and Casino in France. A number of other retailers around the world are also in the developmental stage of these types of programs.

Furthermore, these principles hold true for other marketers, too, from service organizations to b-to-b to packaged goods.

So, here's one key suggestion: Check your loyalty program against the six principles above. See if your loyalty program can stand up and be counted. ■



Don E. Schultz is a professor (emeritus-in-service) of integrated marketing communications at Northwestern University in Evanston, Ill. He can be reached at dschultz@northwestern.edu or news@ama.org