

the loyal treatment 26

ROI = Return on Insights

Using customer loyalty insights for resource allocation puts you on the path to seeing returns on your investments.



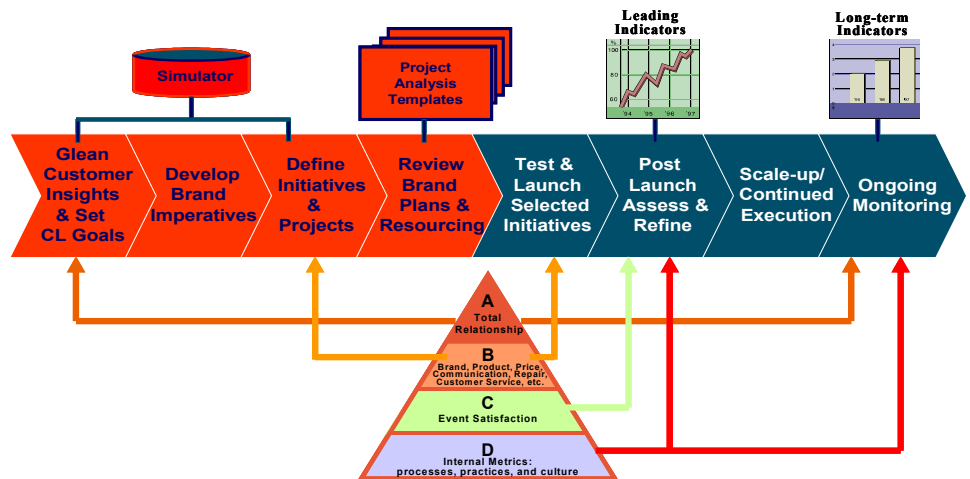
by Dr. Lawrence A. Crosby and Sheree L. Johnson

Resources—dollars and people—are the fuel for your journey on the road to your firm’s vision. How valuable resources are allocated in an organization sends the message of your commitment to your vision and predetermines your success in achieving your vision.

At a recent series of seminars we conducted on customer loyalty, the participating executives rated themselves on average only “good” (on a scale of excellent, very good, good, fair, poor) on their use of customer information and insights to impact decision-making and resource allocation for their customer loyalty strategy. All agreed that this was an unacceptable level of performance. All agreed that a disciplined process for driving resource allocation decisions with customer loyalty insights was required. This process should include (1) gleaning customer insights; (2) setting short-term and long-term priorities based on customer insights; (3) cross-functional planning; and (4) performance monitoring.

Gleaning Customer Insights

In the 1980’s many companies changed their view toward an emphasis on the customer. Enlightened firms started to pay a great deal more attention to the wishes and needs of their customers, rather than simply trying to sell them more. The result was a change in how marketing was viewed—the beginning of the “outside-in” customer-centric view that dominates the field today.



The most progressive companies have gone through a further change in their view of the customer and have focused on building long-term relationships and customer loyalty. Their concentration is not merely on the achievement of short-term customer satisfaction, but rather on the development of long-term solid relationships that will see customers exhibiting loyalty behaviors well into the future.

This focus requires an in-depth understanding of the motivating forces of customer loyalty behaviors. An organization must discover and understand how an experience that a customer has with a product, customer service rep, warranty, etc. causes a behavioral reaction from the customer. They must also understand the emotional motivations of the loyalty behaviors. Customer relationships are human relationships and are an emotional concept. There is ample evidence to show that customers *do* form close, lasting relationships with companies and brands. Once companies accept

this view, they realize that they cannot build loyalty simply on the strength of product quality and functional performance.

The explicit inclusion of emotional motivation in understanding customer loyalty is significant considering the fact that most customer satisfaction frameworks are biased toward rational motivation. As a consequence, they may mis-estimate the influence of some of the touchpoints and brand essence on loyalty. It is only by including emotional motivation that we can really understand what those true influences are. This is evidence of the importance of having an emotion-infused loyalty model.

Within this framework of understanding both rational and emotional motivations of customer loyalty, leading organizations have moved beyond simple descriptive customer research to causal research. Their managers want more than the score—they want to know more than “52% of our customers

say we have excellent value” or “43% are loyal.” They want to know what drives those numbers ... what drives customer behavior. They’ve gleaned valuable new customer insight from the use of causal modeling and use that information to set operational and strategic priorities.

Balancing Short-Term and Long-Term Priorities

A resource allocation process must accommodate both the ongoing business and strategic initiatives. This is true when allocating resources to achieve your customer loyalty goals. Operational allocations are focused on the spending needed to reach short-term goals. You must spend to achieve short-term results in order to make the long-term viable. Strategic allocations will make the long-term happen. Strategic customer loyalty programs are focused on making significant changes in products, processes, and the organization that alter the nature of the business and deliver continuous results over the long-term.

Customer loyalty simulators ... give managers fingertip access to the customer loyalty information and allow them to play what-if scenarios.

Leading companies set their operational and strategic priorities based on their customer research insights. Operational priorities are primarily focused on maintaining or improving customer satisfaction in areas that have high impact on customer loyalty. Some “minimum requirement” areas where performance is already acceptable and the processes are in control may be areas that could be streamlined without hurting performance, so that those resources can be repurposed to operational weaknesses or to strategic programs.

Taking the customer research insights into account, as well as the brand strategy and an assessment of the current competitive situation, a limited set of customer loyalty strategic imperatives should be established. From an initial list of possibly 50-100 initiatives, a smaller

set of initiatives should be screened and chosen that absolutely have to be accomplished to keep the brand on its customer loyalty long-term trajectory. Tools and templates can be used for this screening process to help score initiatives and determine whether they should be funded.

In addition to looking at the initiatives one at a time, it is also important to look at the portfolio of initiatives that the firm is considering and to try to determine whether the portfolio of initiatives would be sufficient to keep the brand on the customer loyalty trajectory. Customer loyalty simulators are excellent tools for this analysis. They give managers fingertip access to the customer loyalty information and allow them to play what-if scenarios with the data. Simulators provide a systematic way to evaluate the scalability and impact of the initiatives on customer loyalty when they are implemented.

Cross-Functional Planning

Priority customer loyalty strategic initiatives should be turned over to cross-functional teams for specific project planning and

implementation. Significant gains in customer loyalty won’t be realized until resources are allocated differently in the organization. When you think about it, where are the resources in an organization? Most of the resources are not in the marketing department. Most of the resources are out in functional areas other than marketing. Until those functional areas are willing to reallocate their resources to customer loyalty, nothing is going to happen and nothing will change.

Also, most major projects require the resources of numerous departments—operations, sales, the contact center, information technology, etc. One of the primary objectives of using cross-functional teams is to minimize the isolation and narrow perspectives that tend to be a by-product of departmentalization and specialization, while at the same time preserving and


reinforcing the expertise of the various specialist areas. The diversity of cross-functional team players creates a new culture ... focused on the customer.

The cross-functional customer loyalty teams should be responsible for (1) planning across departments; (2) allocating budgets; (3) resolving conflicts that are barriers to integrated efforts; and (4) monitoring the success of the implemented plans.

Performance Monitoring

Once customer loyalty projects are implemented, both short-term indicators of the success of the initiatives and long-term indicators to verify that the overall strategy is working are needed. The short-term indicators could include internal process metrics as well as customer satisfaction measures. The long-term indicators would include customer measures that allow us to correlate our actions with results—not only gains in our customer loyalty index, but also the impact on our business such as repurchase rate, cross-sells, or share of households. These measurement and monitoring systems are crucial for a closed-loop feedback system that continuously refines the customer loyalty operational and strategic initiatives.

Return on Insights

Companies are spending millions of dollars on customer loyalty and satisfaction research. Too often the insights from these research dollars are not sufficiently leveraged and the investment is not optimized. Using the customer insights to direct the firm’s resource allocation process is a sure way to accelerate your progress in achieving business results from your customer loyalty focus. 

About the Authors

Lawrence A. Crosby, Ph.D., is CEO of Synovate Loyalty. **Sheree L. Johnson** is Synovate Loyalty’s Global Director of Strategic Marketing.

To learn more, visit www.synovate.com/loyalty