

## Moving Customer Loyalty to the Center of Your Business Strategy

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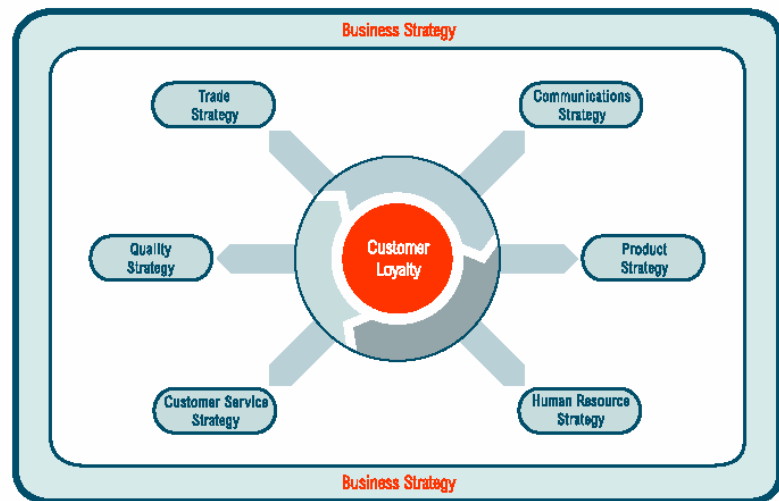


by Dr. Lawrence A. Crosby and Sheree L. Johnson

Customer Loyalty has become a catchall term for many marketing programs where customer data is used. The words “customer loyalty” typically bring to mind the tools and programs that organizations try to use to influence customer purchase behaviors. These tools include loyalty cards and programs, customer relationship management software, and customer satisfaction surveys. With the best intentions, these tools attempt to transform customers from transaction interactions to lifetime relationships. While these tools may be part of a marketing strategy, in many cases they are not part of an organization-wide customer loyalty strategy. This greatly increases the risk of these programs losing momentum (if they are able to get any tread to begin with).

Customer loyalty is more than purchase behaviors and more than marketing programs. Customer loyalty is a comprehensive array of binding behaviors that are potentially exhibited by customers. These behaviors are linked to both your top-line (buy again, give larger share of wallet, buy additional products/services, recommend the brand, pay a price premium, avoid competitors, etc.) and bottom-line (provide information to the company, learn customer role, self-serve, comply with requests, accept advice, support public positions, etc.). With this comprehensive definition of customer behaviors, you can see how the entire enterprise can, in fact, impact and be impacted by customer loyalty.

As an example, at Salt River Project (SRP), the third largest



public energy utility in the U.S., non-purchase behavior dimensions of customer loyalty that they manage are “compliance,” which is the inclination to comply with requests (for instance, taking steps for energy conservation), and “advocacy,” the tendency to support SRP’s positions. This last behavior is particularly critical when, for example, you’re trying to put a new power generator in someone’s backyard. Both of these customer loyalty behaviors can have significant impact on operations efficiency and the bottom-line.

To truly be effective, customer loyalty must be at the heart of your overall business strategy, not just your marketing strategy. Customer loyalty must be the driving force behind your enterprise.

### The Core of Strategy

Organizations carefully choose and execute their dominant overall business strategy on which to

achieve competitive superiority. Wal-Mart competes on price; BMW on product; Microsoft on switching barriers; Amway on sales; Nordstrom on service; Amazon.com on processes. While companies may implicitly be seeking to build customer loyalty with their chosen business strategy (who wouldn’t be in favor of customer loyalty?!?), by not explicitly driving the organization with a customer loyalty focus, the enterprise runs the risk of not achieving organization-wide alignment and may be sub-optimizing its ability to fully leverage customer loyalty as a key strategic asset.

Also, the business strategies noted above run the risk of being copied by the competition. Your competition can lower their prices, copy your products, and replicate your service model. However, by moving customer loyalty to the center of your strategy, you are in a better position to create a sustainable competitive advantage simply because customer loyalty is about building emotional bonds with

your customers. Emphasizing emotional values causes customers to attach to your brand experience, make a more rapid purchase decision, and develop stronger loyalty to your brand. In other words, emotional motivation drives behavior. Emotions are integral to customer loyalty and can build a high barrier for competitors to surmount. While rational benefits are vulnerable to being copied by your competition, emotional bonds are much more difficult to break.

With customer loyalty at the center of your strategy, all other strategies (operations, communications, product, human resources, customer service, quality, etc.) are developed with the explicit goal of customer loyalty (and its array of behaviors and attitudes) first and foremost.

Does this mean abandoning your other business strategies? Absolutely not. Whirlpool Corporation in their 2004 Annual Report articulates how customer loyalty has become the core of their strategy, executed through their operating and organizational strategies. The following excerpt is from Whirlpool's annual report ~

**Customer Loyalty—  
The Core of Our Strategy**

Over the last decade, Whirlpool Corporation has transformed itself from a regional manufacturing and trade-focused business into a global, consumer-driven enterprise.

Moving the core of our strategy to the next level means focusing our efforts on creating unmatched levels of customer loyalty for our brands ... worldwide. Winning and retaining customers, we believe, is increasingly based on the reputation of our brands and the experience consumers have with them over their lifetime of ownership. Rather than competing for the same customer at the point-of-sale, brand loyalty provides us with a unique advantage as our customers are predisposed to purchase our brands based on past positive experience. Additionally, we gain extra value when loyal customers recommend our brands to relatives, friends and neighbors for their appliance needs.

The ability to earn this loyalty requires that we consistently provide consumers with innovative solutions to meet their daily needs and

lifestyles. We must provide them with high-quality, competitively produced products that deliver, and build upon, the positive reputation of our brands. We also must provide them with a positive experience during each step of the ownership cycle.

We do this by partnering with the best added value trade partners and service providers. We also are increasingly staying in touch with our customers by connecting with them directly during their ownership and building this brand relationship over time.

As a company, we are learning and building new skills that will enable us to better earn customer loyalty. In a rapidly changing global marketplace, our customers are more knowledgeable and have more choices than ever before. We understand this and believe our efforts to build unmatched loyalty for Whirlpool Corporation brands will make them the best choice for many customers and provide Whirlpool with a unique and differentiated value creation strategy. ~

In these paragraphs, Whirlpool describes how every aspect of their business is responsible for customer loyalty—product development, quality, experience management, relationship management, trade partners, service providers, culture and values. Customer loyalty is at the heart of Whirlpool's business strategy.

**Changing Paradigms**

Like Whirlpool, moving customer loyalty to the center of your strategy typically comes in response to a burning platform in the market. For Whirlpool, their burning platform was what they called a stalemate industry. In other words, every competitor was relying on basically the same strategies and thus the industry had moved to commoditization — “a sea of white.” Continuing to focus only on those “old” strategies was causing a severe margin squeeze and generating unacceptable returns for shareholders. Whirlpool knew that continuing to do the same things over and over again and expecting different results was insanity. Something had to change in order to create better value for customers and for shareholders. Moving customer loyalty to the center of their strategy was Whirlpool's response.

One of the first hurdles in moving customer loyalty to the center of your business strategy is to win over the executive disbelievers and those who are comfortable with the current power centers and may be stuck in the past. Changing this paradigm requires building a solid business case for customer loyalty by answering some key strategic questions:

- What is the link between the customer loyalty strategy and value creation? How would the business be impacted if we could get from each customer a higher share of wallet, a price premium, more frequent repurchases, accessory sales, referrals, etc.? How would the business be impacted if we could get customers to engage in resource-saving experiences, e.g., self-service, information sharing, supporting public opinions, etc.?
- How could a customer loyalty strategy shore up gaps in our business portfolio and strengthen overall growth and share?
- How will loyalty impact market attractiveness and competitive position?
- How could a loyalty strategy change the industry dynamics? What are the key forces in the industry today (e.g., supplier power, buyer power, new entrants) and how might the introduction of a customer loyalty strategy strengthen our position?
- How will a successful loyalty strategy allow us to extend our core businesses, build new businesses, and create options for the future?
- How will a customer loyalty strategy change the way we plan and allocate resources?

By answering these questions you will be able to position customer loyalty as a solid strategic and financial management imperative and create a vision of the benefits of moving customer loyalty to the center of your business strategy. 🍊

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[www.synovate.com/loyalty](http://www.synovate.com/loyalty)