Expert Insights

Seven Factors for Building Extreme Customer Loyalty

Profiles International®

OrgCommit
People who power your bottom line.

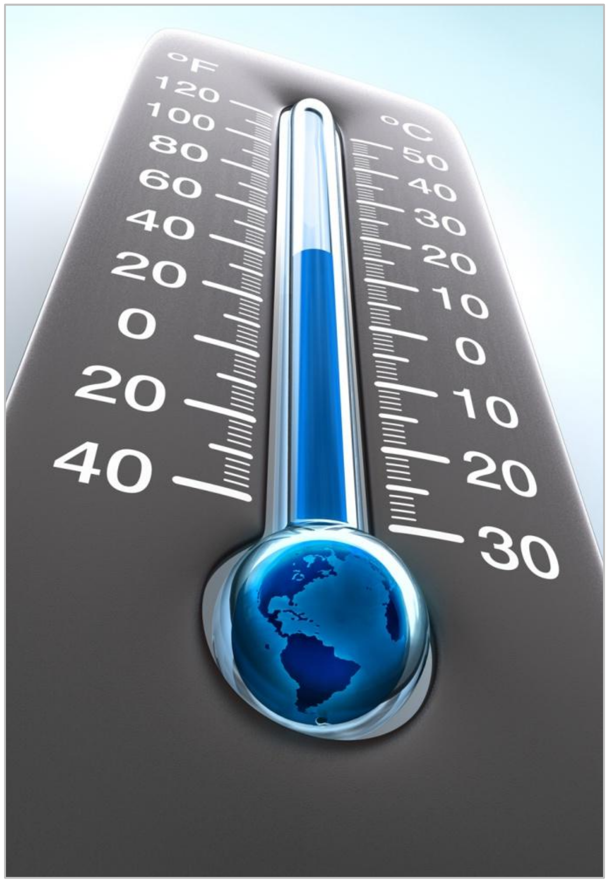
The CHAPMAN GROUP

Publisher
Profiles Research Institute
Dario Priolo, Managing Director

Contact OrgCommit today at info@orgcommit.com or 888-503-7175 and we'll show you how to improve the quality, engagement and effectiveness of your workforce.

Acknowledgements
CEO, Co-founder, Profiles International: Jim Sirbasku
President, Co-founder, Profiles International: Bud Haney
Editor-in-Chief: Dario Priolo
Subject Matter Expert and President, The Chapman Group: Dennis J. Chapman Sr.
Managing Editor: Carrie D. Martinez
Creative Director: Kelley Taylor

Know Your Customers — Keep Your Customers



A Satisfied Customer is NOT always a Loyal Customer!

For many decades the goal has been satisfied customers . While satisfaction is important, it is not sufficient to guarantee that your customers will continue to buy from you. The world changes quickly and the minute you get complacent, BANG, a new competitor surfaces with a solution they claim is better, faster or cheaper. Suddenly your customer no longer needs you.

We all know it costs a whole lot more to acquire a new customer than to maintain an existing customer. Existing customers play an even greater role in our ever-changing global economy – we must keep them and grow them. We know that there are actions we can take and behaviors we can measure that create long term relationships between sellers and buyers.

So, what really drives customer loyalty?
Josiah Royce, an American philosopher in the mid-to-late 1800's, claimed that the trait of loyalty was most often associated with political institutions, religion, war, and family. In these situations, people had one key influence in common – a passionate link to a "common cause." We believe that you build loyalty when you and your customers are aligned on seven key factors. These factors are:

1. Emotional Dependence
2. Structural Dependence
3. Business Dependence
4. Satisfaction
5. Performance
6. Economic Value Proposition
7. Alignment and Fit

This report expands on these seven indicators, and will help you go beyond simply satisfying customers to protecting and growing your strategic accounts.

info@orgcommit.com

1. Emotional Dependence

I Will Always Be…E-mo-tion-ally Yours (Bob Dylan)

Emotional Dependence is the psychological commitment from the customer. It is the customer's reliance on an organization for support, guidance, and decision-making – the tendency of the customer to see help from you as a supplier in making decisions or in carrying our difficult actions. When an individual is emotionally dependent and things do not go as expected, they can distance themselves and seek out a relationship that provides the support they need. Emotional Dependence includes; integrity, reliability, depth of relationship, and empathy.

Ritz-Carlton hotels are widely recognized for their exceptional job of creating an emotional bond with their clients. They make an effort to know you and your preferences, and then go above and beyond your expectations to satisfy your emotional needs. For example, they may provide you with your local newspaper instead of a generic USA Today, or they may surprise you by making reservations at your favorite restaurant. Sometimes the smallest things can make the biggest difference.

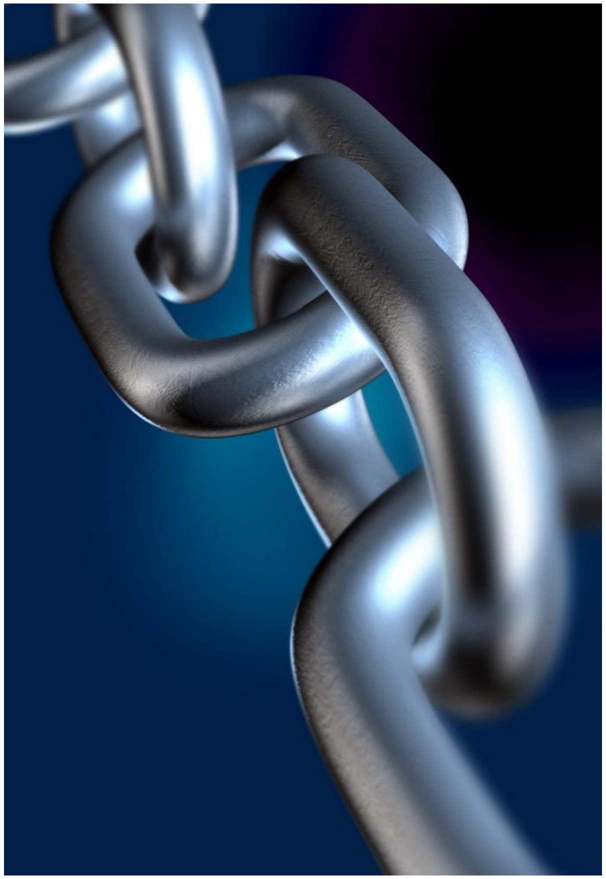
Conversely, a negative experience can have a detrimental effect on customer loyalty when you're in a heighted emotional state. For example, when your IT staff can't get the right engineer on a support hotline after your network has crashed, or if the on-line flower shop botches your order and your wife doesn't receive her gift in time for Mother's Day. These are both performance issues, but the emotional element magnifies the impact.

How to Create Emotional Dependence

- Learn what your customers value on a personal level and go beyond their expectations to demonstrate that you care about them.
- Show a high degree of empathy and responsiveness when you sense your customers are getting emotional about an issue. Even if you can't solve the problem on the spot, let them know they are important and that you will do what it takes to satisfy their personal needs.
- Put the right person on the job. This person should be able to connect with the customer on a personal level. Make sure your employee can provide this support and that you have the right processes in place for triaging issues. Make the customer feel good about working with your organization.

info@orgcommit.com

2. Structural Dependence



Can You Help Strengthen Your Customers' Weak Links?

Structural Dependence is the operational foundation of the relationship and consists of people, facilities, systems, and distribution channels. Structural dependence builds a common cause between the buyer and seller, and this helps build loyalty.

Accenture is a good example of a company that creates structural dependence by providing clients a wide range of outsourced IT services. This enables clients to run their businesses more efficiently and focus on their core business, and it enables Accenture to provide services at a lower cost by building scale and operating expertise.

UPS is another good example. It has re-positioned itself from a company that merely delivers packages to one that can manage an organization's complete supply chain function around the world. They can do this because they have the people, equipment, facilities, and operational expertise in an essential function that is difficult for the average organization to manage on its own.

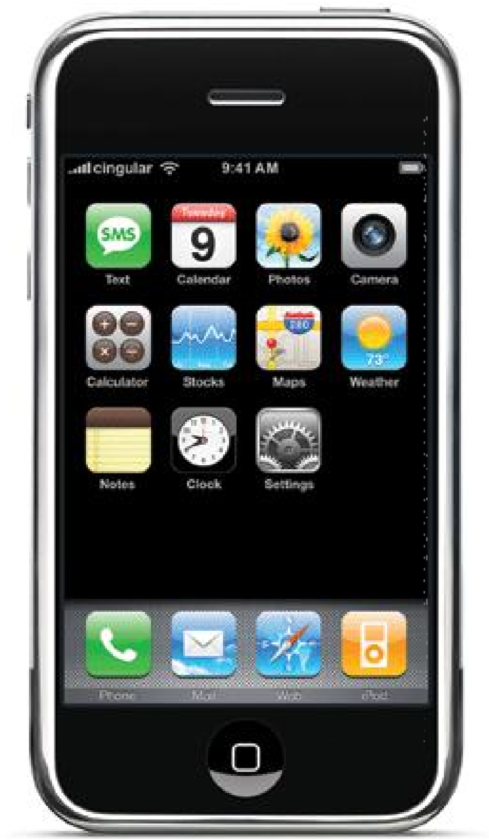
Once organizations outsource non-core operations to companies such as Accenture and UPS, it is much more difficult for them to bring these functions back in house because the investment is high and expertise is scarce. Although switching service providers is possible, it is difficult and risky. Structural dependence is among the most powerful loyalty builders.

How to Create Structural Dependence

- Understand how your customers' businesses operate. Then determine where they have gaps or inefficiencies that would enable you to operate portions of their businesses better, cheaper and with fewer headaches or risks for your customer.

info@orgcommit.com

3. Business Dependence



You Scratch My Back and I'll Scratch Yours!

Business Dependence is the marketing positioning of the relationship. This includes how you help your customer create go-to-market solutions, grow and retain their customers, and be competitively sound in their market.

The relationship between Apple and AT&T is a good example of business dependence. When Apple decided that it wanted to launch the iPhone, it entered into an exclusive distribution agreement with AT&T. Apple distributed the iPhone through AT&T's massive retail network and, in turn, AT&T built its subscriber base by attracting customers from competing providers, such as Verizon and T-Mobile, who couldn't offer the iPhone. By combining forces to sell the iPhone through the AT&T sales channel, both organizations benefitted significantly.

Another good example is the business dependence between a pure-play biotechnology firm, such as Amgen, and the "big pharma" company Wyeth. Wyeth has a large sales force that goes door-to-door calling on doctors and keeping Wyeth drugs top-of-mind. However, they have issues with their drug development pipeline, especially in new and emerging fields such as biotechnology. Conversely, Amgen had deep expertise, but lacked a sales and market presence. By combining forces to market certain Amgen drugs through the Wyeth sales force, both organizations benefitted significantly.

How to Create Business Dependence

- Identify areas where your customer is weak but you are strong, as well as areas where you are weak and your customer is strong. After conducting this analysis, identify opportunities for building on each other's strengths and minimizing each other's weaknesses. Then, start to envision how the relationship would work operationally and financially to build mutual value.

info@orgcommit.com

4. Satisfaction

Customer Satisfaction Influences Loyalty, but it isn't the Only Predictor

Customer Satisfaction is often an indication of how well your organization performed during a recent event. This often includes elements of service, support and delivery - delivering a new product or service; solving a service or maintenance issue; or executing a campaign, pilot program or evaluation.

For example, JD Power and Associates is well-known for its customer satisfaction surveys on automobiles, consumer electronics and financial services. Among the most widely known are Power Circle Ratings related to the *J.D. Power and Associates Initial Quality Study*SM, which measure consumer perceptions of automotive new-vehicle quality after 90 days of ownership.

Power Circle Ratings are important and influential measures, but a high score doesn't necessarily mean that customers will be loyal to the model or the brand. Customer Satisfaction measures are too limited to be an accurate predictor, especially when it comes to complex business solutions.

Satisfaction ratings are important because we need to know that if we've been tasked to deliver something, we have successfully done so. But we need to be careful that we don't use that as the only driver or only metric of our loyalty assessment.

How to Create High Customer Satisfaction

- Creating high customer satisfaction starts with a careful assessment to determine needs and uncover expectations with regard to price, impact and level of service. Then you must meet or exceed expectations. "How" you deliver can be as important as "what" you deliver, so don't underestimate the impact emotions play in satisfaction scores. Formal surveys and properly designed questionnaires are a big help.

info@orgcommit.com

5. Performance

Not Too Hot, Not Too Cold – Just Right!

“Performance“ refers to how a product or service holds up to expectations and required industry standards. Measurements of performance can include meeting ISO and Six Sigma requirements. Typically, performance is measured over a longer period of time and with more objective criteria than the measurement of satisfaction, which is event-based and emotionally influenced.

Performance is important, but is not the sole predictor of loyalty. For example, BMW makes some outstanding automobiles that perform superbly when it comes to acceleration, braking, handling and quality. All of these can be measured against a standard.

However, “The Ultimate Driving Machine” is tuned with a stiff suspension that makes for a ride that is too hard for some people. Catch a person who is tired of feeling every bump in the road and he may tell you that he would prefer a Lexus the next time he’s in the market for a new car.

Know What Matters and What is Expected

It is also important to know which performance factors really matter to your customers and which don’t. Your customers might not care that you have a 97% on-time delivery rate for air freight if they sell a bulk product that can only go by ground.

For the factors that do matter to your customers, it is important to understand how your customers define different performance levels and their minimum acceptable performance criteria. From the example above, don’t assume that a 97% on-time delivery rate for your air freight service is acceptable. Your customer might need 98% and your competition might boast 99%. Find out where you stand, so you know for sure.

info@orgcommit.com

6. Economic Value Proposition

Show Me the Money

Economic Value Proposition refers to the financial implications in the relationship with a customer, such as the economic impact of having or not having a supplier's products or services. In better words, it answers the question, "How do we help each other make more money and stay in business?"

A customer who has a great appreciation for the return on her investment in your solution will have a higher propensity to remain a customer. You typically help her create value through one or more of the following three ways:

1. How you help them reduce expenses
2. How you help them avoid expenses
3. How you help them increase revenue and profit

When value creation is a mutual goal then loyalty prospers; but when value is one-sided, loyalty suffers. For example, if your customer only buys from you at the lowest possible price, ties-up your support resources, and pays only after repeated collection calls, then you'll feel taken advantage of. In fact, you may come to the conclusion that you can't afford to keep them as a customer and therefore look to fire them before they bankrupt you.

How to Create Mutual Economic Value

- Collaborate with your customers to understand how your solutions are impacting them. Then ask yourself, "What's the impact of having or not having this solution?" It is very important to document this information and validate it with the client, and then ensure that this is communicated inside the customer organization. The more people inside your customer organization that understand the value you bring, the more loyal they will be.

info@orgcommit.com

7. Alignment and Fit

Custom fit or off the rack?

Alignment and Fit in a buy/sell relationship includes factors such as shared mission and vision, culture, collaborative practices, leadership and expectations. The higher the degree of alignment and fit, the greater the degree of loyalty.

For example, Google is a company that places a high value on innovation; but they also highly value intellectual and technical rigor. They have grown organically and have a rigorous selection process that enables them to create a consistent corporate culture.

On the other hand, Oracle has grown through acquisitions. The company is in a perpetual state of flux where the culture is aggressive and much more individualistic. Those who can deliver technological breakthroughs or land the 7-figure deals are praised while others walk.

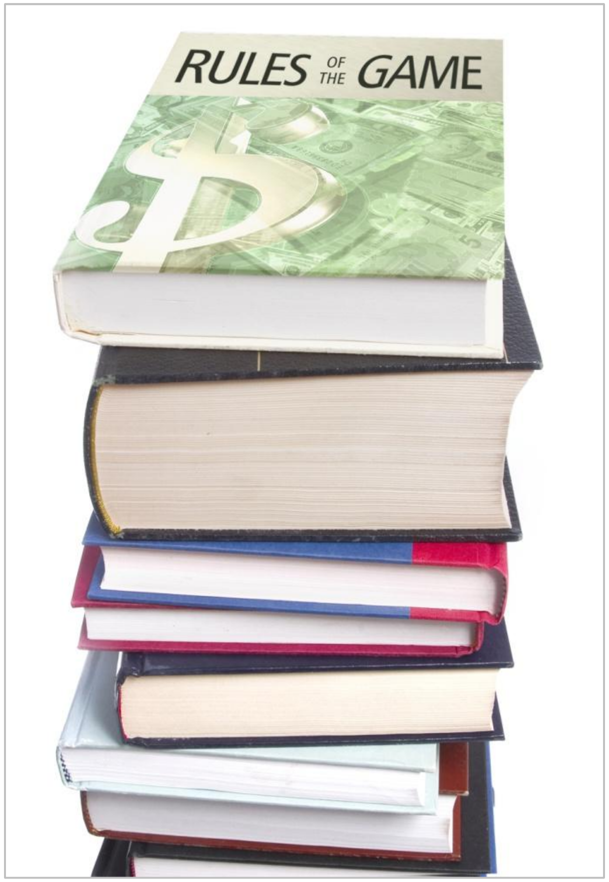
These are two very successful companies with two very distinct cultures. Expect them to behave differently as customers and understand that you might “fit” better with one than the other. It does not mean that you walk away from those with whom you do not fit, but you will probably need to work harder and endure some discomfort.

How to Create Alignment and Fit

- First, you need to know yourself. Think back to the customers who work best with you. Why do you believe this is the case? Are there any common characteristics? Conversely, can you identify the customers you wish would go away? Are there any common characteristics that predict poor fit? Then use your criteria to segment your accounts into those who fit well and those who do not. Ask your customers “fit” questions as part of your strategic account planning process and manage them accordingly.

info@orgcommit.com

Important Rules for Applying the 7 Indicators



Bringing Your Customer Loyalty Program to Life

1. You don't need to track all 7 indicators
Each company is unique and for that reason you may not be able to measure all 7 Loyalty Indicators. It is recommended that you track a minimum of 5 and track all 7 when appropriate. For example, in some organizations Performance or Alignment and Fit may not be measurable – or even appropriate to measure.

2. Gather insights from multiple contacts in an account
Having multiple points of contact within an account is a sign of a healthy account. It is very important to gather insights from multiple players in the customer organization to get the most accurate measure of loyalty. Large differences between groups signals a major issue.

3. Knowledge + Relationships + Economic Value = Exponential Success
Your success in an account will increase exponentially as you increase your collective knowledge, relationships and economic value. Remember, a strategic account is an extremely valuable asset and must be managed accordingly.

4. Prioritizing your loyalty building activity
- Where are you today?
- Where do you need to go?
- What needs to happen to get there?

info@orgcommit.com

OrgCommit
People who power your bottom line.

Profiles International
The CHAPMAN Group

Summary of Lessons Learned:

Seven Indicators of Extreme Customer Loyalty

1. **Emotional Dependence**
2. **Structural Dependence**
3. **Business Dependence**
4. **Satisfaction**
5. **Performance**
6. **Economic Value Proposition**
7. **Alignment/Fit**

"An ounce of loyalty is worth a pound of cleverness."

Elbert Hubbard

info@orgcommit.com