

# How to Take Care of Loyal Customers

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## Abstract

Loyal customers are customers who will pay premium price for exceptional products and services, refer other customers to buy products and services, buy a whole range of products and services from the company, assist in product and services design and development. Loyalty is several notches above satisfaction. Satisfaction is based on customer opinion, loyalty is reflected in action of repurchase. The care and feeding of loyal customers is of at most importance to the survival of the company.

## Introduction

As any accounts executive will acknowledge, most companies will cringe at the mere thought of not booking enough orders from long standing customers. Replacing the “lost business” is no sure thing, given the competitive and predatory nature of the business. This is more true in the so called “commodity” type of business that most Printed Circuit board fabrication industry belongs to. So what should companies do to minimize and prevent such happenings. Can companies adopt a proactive strategy of building and keeping a loyal base of customers? There are no quick and easy answers. However there are some business principles that might come to our rescue that might shed more light in this matter.

## Satisfaction, Commitment, Loyalty Triad

There is no question that satisfaction is the necessary condition for loyalty to grow roots in any relationship. Customer satisfaction has to do with how well the product and services delight the customer. Implicit in this statement are the requirements for the product and services to perform flawlessly, at competitive price during the period of ownership of product or performance of service. Most companies hone their management skills in planning and execution to achieve this. However a satisfied customer is not necessarily a captive loyal customer. A satisfied customer might purchase products and services from competition. If loyalty is measured by “Likelihood of Repeat Business”, then the relationship between Loyalty and Satisfaction tends to be a nonlinear response. Even high levels of Satisfaction results in only modest levels of Loyalty. Studies have shown that Excellent and sustained Satisfaction results in 95 % Repeat Business or Loyalty. When Satisfaction is rated “Good”, the Loyalty score drops to 65 %. Average Satisfaction results in Loyalty score of 15 %. These are approximate values in most consumer durables or commodity type business. The variable that explains the why Loyalty is so difficult to achieve is “Customer Commitment” Customer Commitment is a value created by relationship management. Customer relationship management is a tool that seeks to raise the level of awareness about the customer and identifies a select group of customers with whom the firm develops a long and lasting business relationship

## More on Loyalty

If loyalty is a behavioral effect such as frequency of repurchase, what are the intrinsic factors that develop loyalty? First we examine types of Loyalty in a typical relationship. The lowest type of loyalty is bred by monopolistic situation. The department of Motor Vehicles is a great example of such a situation. The relationship built with the customer is one of last resort. In a commercial application, if the supplier is sole sourced on a print, this creates a monopolistic situation. The next higher level of Loyalty is a result of the prohibitive cost to change the supplier. Examples of such a relationship could be implementing a new Enterprise Resource Planning system offering from a server based technology from an existing Mainframe legacy system. The costs of retooling for this effort can prevent this move. The next higher type of Loyalty is based on habitual use of a supplier. Maintenance and facilities departments typically use Grainger's or McMaster Carr supply for incidentals. There is really no real need for changing to any other supplier. The fourth and most important type of loyalty is about “Commitment”. This is similar to the committed group of church goers that are faithful to the parish. This type of loyalty is the strongest and is capable of withstanding the test of time. The company that is interested in building a loyal customer base should mobilize its customers like religious church goers.

## Degrees of Loyalty

There is a time based development of relationship with the customer that progresses through several stages as shown:

- Satisfaction - Getting more than expected
- Loyalty - Doing repeat purchases
- Commitment - Telling others to purchase
- Apostle-like - Convincing others to purchase
- Partnering - Taking responsibility for success

As the relationship progresses the customer mind set goes through the following progression

- Suspects - Unaware of the customer
- Prospects - Aware of the customer
- Clients - Affinity to the customer
- Advocates - Recommend customer
- Partners - Building sustained relationships

The most crucial stages in the relationship is the commitment stage that builds an affinity to the customer. If this threshold is crossed, there is a very high level of certainty that the relationship should mature into the partnering kind. At this point the satisfaction level is excellent. The partnering relationship is somewhat immune to the tests of an occasional “not very happy service experience”

### **How to promote Loyalty?**

Generally products and services have brand followings. In the mid 80s Branding was king. Coke, McDonalds, Marlboro and IBM were the quintessential branders. No IT manager got fired because he or she chose IBM or later the IBM compatibles. Pepsi and Coke have been at each other's throats to imprint their brand on the people's psyche. However with globalization and mistakes made by major brand names a la “new Coke” and pricing cuts such as made by McDonalds on Big Mac saw the gradual erosion of branding as a loyalty promoter. The paradigm shifts favored such ideologies as “Customer Relationships Management”, selling “Total Service”, with a focus on crafting customer value. Since the playing field had evened out in the “tangibles” offerings, customers could hardly differentiate between products of company A from those of company B. Proponents of customer loyalty resorted to the “ Total Product and Service Experience” approach to attract and hold on to loyal customers. The service component of the customer experience was getting more importance and the methods to capture such data and convert it into business intelligence became of paramount importance. Coincidentally, the emergence of dotcom businesses selling products and services through the internet elevated this approach and gave it a greater sense of urgency in management boardrooms and locker rooms.

### **Profile of a Customer**

Customers are savvy individuals or business entities who want the best products and services for the least cost (life cycle cost). This has the unfortunate side effect of “shopping for value” They are like “butterflies” flitting from “flower to flower” in the quest of the best value. They are educated, well informed, intelligent and willing to take some risk to try all offerings. They are not the least embarrassed to do this and they cannot be trapped by “clumsy nets” like meaningless features and gimmicks, low initial prices with high life cycle costs. Every industry has customer inducements that work for them. The trick is to figure out what are these inducements that makes the butterfly come back like the legendary “Monarch Butterfly” that always returns to its favorite site. The proverbial Monarch will always return (and repurchase) is caring and loyal. We want our Monarchs to be come back to us in spite of competition and low price gimmicks because they have invested in the relationships with us. Thus all customers are not created equal nor will we give them inducements to be loyal. As part of the business intelligence needed to identify such customers the software suite of Customer Relationship management (CRM) can provide answers to questions such as what does the loyal customer want and who are these loyal customers that need care and feeding.

### **Customer Driven Management**

This brand of management recognizes that relationships with targeted customers will in the long haul provide the firm with a steady stream of positive cash flows that has a positive net present value. It also recognizes that developing new customers is at least four or five times as expensive as retaining existing customers. New customer acquisition costs take at least one to two years to breakeven. No firm can be profitable in the long term by cutting prices and eroding margins. Loyal customers are not very sensitive to pricing and will pay premium for perceived value. In the automotive industry certain imports command a premium price over certain domestic models based on perceived value. Doing business with loyal customers result in lower transaction costs, both in delivery and training in the use of product and services. Loyal customers will also participate in the design and development of product and services, making it even more attractive business proposition.

### **Industry Role Models**

Industry is replete with examples of companies that have followed the credo of customer relationship management that have stood them in good stead through good and bad times. Some notable mention are:

- Enterprise Rent –A-Car , which overtook Avis and Hertz to become the largest car rental firm in the US with 20 % annual growth. All their college recruits get intensive training in managing customers after hire.
- Southwest Airlines, which is the only profitable airline in the US every year since 1973. Even in a cyclical business, they have had the lowest employee turnover in the business. The reason: strong business intelligence about what the flying customer really wants in an airline.

- Dell Computer, which has managed to better competition in an industry plagued by predatory pricing. The reason; dealing with the customer directly and sensing the customer's buying habits by direct selling.
- Harvey Davidson, which was given up for dead with bankruptcy at its heels in the 80s. Their reason for holding on to customers was their journey into quality improvement and providing value for the customer.

The list of such luminaries is fairly impressive; all have the common trait of listening to the customer and building long and lasting relationships.

### **Barriers to Customer Driven Service**

Many companies have policies and practices that are geared to thwart customer service. Chief among these are:

- Job specialization . Customer questions need a battery of personnel for assistance. The engineer cannot answer a cost or delivery related question
- Chain of command. Too many layers in chain of command may create problems. The salesperson may have to contact contracts and pricing for a cost estimate that may delay a sales booking
- Customer contact personnel not having authority to solve problems. Program manager not empowered to give credits for delivery snafus.
- Customer Service confused with Customer Complaints. Some companies do not make the crucial distinction between fixing problems and preventing problems.
- Exit interview with lost customers. Customers that go elsewhere can provide insights into what went wrong. In fact some may even be persuaded to return with the right inducements.
- Arbitrary Policies. These include the standard delivery lead-times, return policies, custom pricing for miniscule modifications and a litany of "rules of engagement" that do not foster customer perceived value

### **Tips for Managing Loyal Customers**

There no quick fixes, but here are some guidelines .

- Understand the needs of the customer. Select customers using business intelligence of CRM and rate customers on the following: Can this customer be pleased? Do we like to do business with them? Do we want to nurture a long term relationship? How much time and effort is this worth relative to long termsales potential?
- Train all operatives including first line contact personnel in managing all issues with the customer. Provide authority commensurate with responsibility in view of results to be accomplished.
- Keep close contact with the customers, anticipating their business. Visiting them or inviting them to visit your plant or business site is a great way to cultivate relationships.
- Place very great importance on service breakdown and subsequent service recovery. Managing the service recovery after a breakdown reinforces loyalty and increases the durability of the relationship.