



Consumer Products:

How to Achieve Sustainable Customer Loyalty

The secret is collaboration

Milton Hershey, founder of Hershey Foods, once said that delivering value is the best form of advertising. It's as true a statement today as it was a hundred years ago. However, the perception of what that value *is* has changed dramatically. Enter viral marketing via blogs, You Tube, Amazon.com and every other open dialogue forum available. You don't have to look beyond a two-star rating peppered with product recommendations to see that consumers make their mark and stake their ground. Far more insightful than solicited surveys, in today's knowledge-based economy, people freely convey what they like and dislike about particular products and what they desire to see in future ones. Factor in more fragmented buying patterns with fun, healthy, socially-conscious criteria layered on top of traditional quality, convenience, variety, and price, and building customer loyalty becomes as difficult as finding a Nintendo Wii at Christmas.

It's certainly not an easy process. It takes time and commitment. It means listening to your customers, analyzing that information, and applying insightful feedback in strategic and decisive ways that make an impact.

And that's just to build the loyalty you so desperately need to compete. To sustain it is even harder. Subject to variables, one recall or bad business decision can taint perceptions instantaneously with a myriad of ramifications. One dissatisfied customer

alone typically touches as many as twelve people. As a consumer products manufacturer or retailer, you have to put stock in listening to your customers. Just ask Jet Blue. Founder and Chairman, David Neeleman, takes his "Customer Bill of Rights" seriously, flying Jet Blue just to ask customers how he can improve their airline experience. And it pays off in dividends. Despite their major woes in the Northeast last year, their customers stayed by them, ranking Jet Blue in the top five in a recent Zagat Airline Survey for quality service.¹ Moreover, they scored highest in the 2007 Brand Keys' latest Customer Loyalty Engagement Index.² It's a documented fact. Nearly 70% of dissatisfied people will remain loyal to a company if they believe it is committed to solving the issues they face. And sustainable loyalty translates into sustainable revenue.

So how do you make the grade? Establish and maintain a collaborative loyalty program. By doing so, you can boost your customer retention rates significantly. And as industry pundits cite, just a mere 5% boost in your customer retention rate can translate into bottom line profits of up to 125%.³

What is a Collaborative Loyalty Program?

Fortune magazine recently reported that "while customer loyalty programs have proliferated – the average household belongs to an average of 12 of them – they do little to actually generate loyalty."⁴

This is largely due to a build-it-and-they-will-come approach that assumes that a loyalty card without the necessary data mining rigor constitutes a program. The good news, however, is that retailers, and loyalty programs in general, have evolved considerably. In the past, they were largely transactional—predictions or simulations of specific consumer behavior based on limited information such as contact info, items purchased, spend, etc. While this has been the norm for many years, with more complex and discriminating buyers, the tide has definitely turned. You need to send the most targeted and specific messages to your most valuable consumers before your competitors do. But how?

First and foremost, you need to move beyond transactional-based programs to transformational ones that enable you to build a community with your suppliers, customers, and consumers. Collaborative loyalty programs use adaptable technology to turn insight into action. Predicated on the fundamental win-win philosophy, they make the age-old challenge of targeting the right consumers, with the right offer, at the right time possible. The key is collaboration. Opening up new channels of communication between business partners opens up new channels of business for both. A prime example is how AT&T collaborated with the television show, *American Idol*, to encourage viewers to vote for contestants using text messaging. The show gained a highly-engaged television audience and AT&T consumers were exposed to newer service offerings. As a result, both companies expanded their consumer base.

But what's the secret ingredient?

In our immediate gratification society, we thrive on fast schedules and multi-tasking. Making the life of the end consumer easier and more fulfilling is a powerful differentiator. But satisfied customers are not necessarily loyal. You have to take customer satisfaction one step further. Engage them, involve them. Engaged customers are far more loyal – which is why collaborative programs work. Consider what Kroger, the largest traditional supermarket chain in the U.S., has done recently by revamping its approach to customer loyalty. By capturing and analyzing truly targeted consumer data they've clearly moved the needle in terms of customer segmentation. They can pinpoint buying habits so definitively that they've pooled their 65 million shoppers into seven distinct groups and then sold some of that valuable information to their biggest customers. These distinct consumer groups are much smaller and more defined than consumer packaged goods (CPG) companies like Unilever, PepsiCo, Kellogg's, and Procter & Gamble could ever have imagined having access to before. It's a win-win-win program that gives Kroger a multi-million dollar revenue stream from these consumer giants who, in turn, receive a bountiful return on that investment as both parties work together using micro-analytical data to ensure their shoppers get the products they want for the price they are willing to pay. The key take-away here? While a club card might be the familiar face of many loyalty programs, it's a one-dimensional and often failed tool without a multi-faceted depth behind it. Collaborative programs that work weave in a critical balance of three core groups—marketing, analytics, and technology.

Now let's focus on collaboration in its purest form – direct synergy between you and the consumer. When consumers feel their opinions actually matter, it's open innovation at its finest. Look at Kraft Food's Nabisco team. They adopted a private web-based community to engage in on-going two-way conversations, a forum where they could develop a true rapport with their buying audience. As a result, they found that no matter how health-conscious or weight-conscious people were, they still wanted the familiar taste and pleasure of traditional Nabisco treats, they just wanted it to be in manageable portions. This insight translated into a new product line, 100-calorie snacks, whose first-year sales topped \$100M.

In either case, if you haven't considered the collaborative loyalty programs before, you certainly need to now. Advances are made by your competitors as quickly as your consumers can stuff yet another sub-optimized club card into their wallets.

So what can you do to get started?

Step 1: Set your Strategy and your Expectations

First, begin as Stephen Covey states in *The 7 Habits of Highly Effective People*, with the end in mind. What do you hope to achieve? Consider the dynamics of your brand and the marketplace. Conduct a detailed assessment to help you get started.

Determine:

- What you really want from your loyalty program
- How it will affect your relationships with your key targets (your consumers, customers, and suppliers)
- How it can be used to strengthen these relationships and build new trustworthy relationships
- What metrics you should use to establish the business value of your key targets

Make sure you have thoroughly reviewed the knowledge that you've already collected regarding your consumers, customers, and suppliers so you have a firm understanding about what each truly wants from your business. Gain executive buy-in and a commitment. Set realistic goals and metrics and focus on specific outcomes with short-term and long-term plans.

Review:

- Your current customer segmentation process
- Your existing CRM technology

Make sure you know who your most profitable customers are so you can understand their whole value and unique needs. Look at your technology but make sure it's a good fit. Again, technology, analytics, and marketing must all work together, when one leads independently, you aren't going to move in the right direction.

Step 2: Develop a Loyalty Pyramid

Realize that you can't be all things to everyone. Even within the same product line, nuances abound that can have a profound impact on your bottom line. For example, what Dollar General customers want or need may differ dramatically from what Wal-Mart or Target customers want. And as you also may know, your higher end buying segment is not necessarily your most profitable one. As Larry Seldon and Geoffrey Colvin, co-authors of *Angel Customers & Demon Customers* indicate, many businesses might be surprised to find that simply targeting their high-revenue customer base to boost profit is hardly ever a winning strategy. You need to adopt the criteria for customer segmentation that makes the most sense for your business.

To begin to build your collaborative program, you need to add a new dimension to customer segmentation for your loyalty offerings.

Start by grouping your customers into four main categories:

- Those you want to retain (i.e. your most profitable/valuable)
- Those you want to grow (i.e. high potential).
- Those that are marginally profitable
- Those that are unprofitable

As Larry Seldon states, "the most effective segmentation strategy should begin with profitability analysis." Look critically at your customers. We cannot overemphasize this enough. You need to make sure that you know exactly what segment of your customer base is buying which type of product(s). Once you have aligned your customer segmentation with your relationship strategy (retain, grow, harvest, and remove), you need to mine your existing data to classify their actual buying habits. Look for common denominators and threads that indicate behavioral patterns. This mining will help you build a pyramid like you see below. It will help you identify who is just a buyer (customer/client) versus who is product/brand loyal (advocate/supporter) or company loyal (partner). When you map customer loyalty to your profitability analysis, you'll most likely find that where you believe your customers fall within the pyramid are not where you would like them to be.



Step 3: Establish a Pilot Loyalty Program

Once you've determined the profitability, value dimensions, and loyalty dimensions of your core customers, you need to construct your pilot program. Clearly, the dynamic nature of your brand and the strategic goals you outlined in Step 1 will help you design a program that works for you.

Identify:

- Collaborators that might be willing to work with you
- New and unique ways to reward your collaborators

Determine:

- What targeted content will engage them best
- What means of collaboration you'll use (i.e. wikis, blogs, live chats, podcasts, etc.)

Once you have a pilot program that's generating some interest, slowly bring more collaborative players into play and run parallel or ad hoc pilots. Use business intelligence tools wisely, lean heavily on your analytics experts, and be sure to integrate your pilot into your marketing program and company culture to ensure maximum penetration, promotion, and involvement.

Step 4: Determine your Return on Investment

Building a collaborative program takes time, resources, and commitment. Not to mention an investment focused on building value. To determine if you are gaining what you want from your initial pilot program you need to calculate your ROI. To do so, think about the two components of the value equation: your customer's value to you and your value to all of your customers.

Here's how the equation looks:

ROI = Present Value of Benefits / Investment

The calculation of the expected customer lifetime value (CLV) or lifetime value (LTV) becomes the numerator while the cost (investment) of your loyalty program is the denominator. The CLV is key. Not just for determining the ROI for loyalty programs but also in developing and refining your overall customer/consumer intimacy approach.

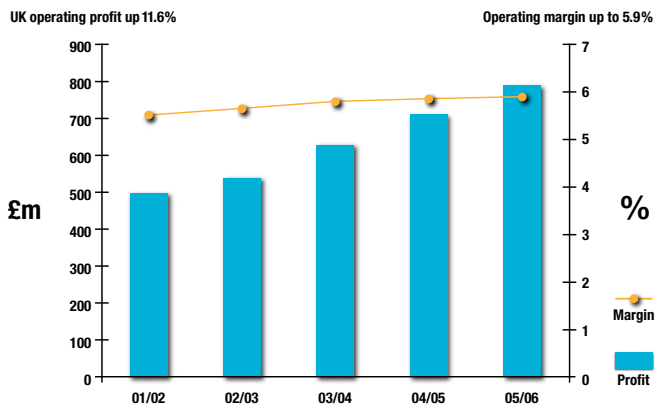
Factor this into your analytics, merge it with the metrics of your technology solution, and keep it top of mind as you craft your marketing programs, and you'll start to see the results you are seeking.

Final Insights

Companies that collaborate succeed. It's as simple as that. But not collaborative "lip service" like so many companies provide. In today's consumer savvy world—only those CPG companies and retailers that realize that they are in this together, those that really learn to trust each other—will be successful. Tesco is a prime example. The leading British supermarket Tesco is a company that makes direct collaboration with its customers both its priority and its specialty. Just like Jet Blue, Tesco listens and applies the insight they receive by engaging their customers (and their CPG partners) in open dialogue. Tesco asked over 46,000 of their shoppers what could be done to improve the shopping experience. No predictive modeling, just a straightforward survey. Once you know who your most important customers are, listen to them and then collaborate. It's the key to attracting and keeping your most important customers and, in turn, driving unprecedented growth and profitability.

Tesco's Financial Performance

over the past shows the value of developing & fostering a loyalty program



About the Author

Scott Shrader, a Director with Clarkston Consulting, has over 20 years of cross-functional experience applying business process redesign concepts and managing system integration projects. He has served in various capacities helping Consumer Products companies with both demand chain and supply chain improvements. As a program and project manager, his experience spans all phases of business process including organization design/change, system design, and implementation. He has also served as the director of production planning for a multi-billion dollar company and as a process engineer for numerous office and plant system automation projects. His broad experience in pulp and paper, converting, pharmaceuticals, consumer products, apparel, specialty chemicals, manufacturing, and service industries has given him a solid understanding of a myriad of business processes, project methodologies, and management models. Mr. Shrader holds a MBA from the University of Georgia and a BS from Texas A&M University.

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For more information, visit: www.clarkstonconsulting.com



Headquarters
Research Triangle Park
1007 Slater Road, Suite 400
Durham, NC 27703
Phone: 800-652-4274
Fax: 919-484-4450

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