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Herding Cats

Building customer partnerships, not customer loyalty.

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Article at a glance

There is a new breed of company and an emerging trend in customer loyalty. It's a trend that flies in the face of conventional wisdom and is being driven by companies who recognise that business is about people (internally and externally) - and of course profits. But the people part comes first.

These pioneering companies are investing in building partnerships and emotional connections with their customers based on trust, and not solely on generating repeat purchases. They are actively leveraging social media to build relationships with customers and their financial results are exceptional:

- rapid financial growth
- market leadership
- 75% of their existing customers are repeat buyers on a regular basis.

In this paper, we look at why these companies are so successful in building lasting customer partnerships and what your business can do to create customer experiences that save costs, deliver results and make the most out of the social media explosion.

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Putting the cats amongst the pigeons - You can't get customer loyalty so stop trying.

Let's call a spade a spade. What most companies are seeking is not loyalty but repeat purchases from existing customers time after time after time. They may call it loyalty but it's not and today's sophisticated customers see straight through loyalty marketing campaigns and customer experiences designed to get them to part with their hard earned cash.

Studies show that 80% of companies think they are delivering good service and making good on their promises, but only 8% of their customers agree. This is good news because it means there are excellent gains to be made by companies who are focused on customer experience delivery. What customers are looking for is a "go-to resource" for a particular need; what they are really seeking today are partnerships with companies.

If all your company is interested in is repeat purchases, then don't make customer loyalty a goal.

1. You are going to erode profit margins trying to get loyalty.
2. You can no longer get loyalty.

Actually achieving customer loyalty is like trying to herd cats - impossible! There, I've said it. The cat is amongst the pigeons! This is a controversial statement and it's meant to be. Customer loyalty sounds great in marketing journals and business books. It's also big business. An entire industry of consultants and loyalty scheme companies convince their clients to spend millions of pounds each year to implement CRM systems and loyalty reward programmes. But don't be fooled. In this new world of work, these initiatives will no longer deliver loyalty. There are three reasons why our research is showing that customer loyalty is a thing of the past:

- 1. Businesses have lost their trustworthiness.**

The 14th September 2008 is an important day in corporate history. It's the day that Lehman Brothers collapsed and we entered a confidence-draining global recession. It's also the date that talented people gave business a bad name because over the ensuing years it has become blatantly clear that a number of very talented business leaders, politicians and even sports stars have been behaving very badly. Today, trust in business leaders is at an all time low. Bottom line - if you don't have trust, there is no hope of ever getting loyalty.

2. Customers have changed.

From companies selling the hippest youth fashion-wear to those selling pension products, they're discovering that their customers' behaviours and attitudes have changed. Sure, the recession has had an impact on consumer attitudes and behaviours, but the biggest reason is a massive social and demographic shift. Our extensive research at TomorrowToday on the different generations shows that the oldest of each generation is entering a major new life-stage. Baby Boomers are entering retirement; Generation X is entering midlife with established families; Gen Y is entering the workplace en masse. Each generation has their own unique worldview and set of values.

The younger generations, Gen X and Gen Y are naturally less loyal, believing in instant gratification. At most, these generations are concept loyal, not brand loyal, and they have grown up cynical and jaded by the attempts from companies to woo them with glossy adverts and false promises. Baby Boomers have also wised up. They have learnt, through failed pension plans, medical schemes that don't deliver and bank foreclosures, that even though Boomers now run the show, it does not mean that they are getting things the way they wanted them.

3. Technology has given customers a sixth sense

Customers have a growing ability to determine seamlessly and in real time which company is offering the best benefits, price and experience. The combination of the Internet, social networks and mobile devices has dramatically shifted the balance of power in favour of customers. Companies are now more transparent than ever before. With a click, customers can compare your product offering and hear what other customers are saying about you and your competitors. The impact of this trend is set to grow as customers become more proficient in using social media communities like Twitter, Foursquare, Facebook, Yelp and Gowalla to assist them in making more informed decisions. If you need further convincing in this shift in consumer power, Google "Patti Maes sixth sense device + TED". This device is set to change how customers shop and interact with companies.

Loyalty schemes are not the answer.

Loyalty schemes have been making a come back in recent years. Following the recession, companies have discovered that coupons and points schemes are a good way to entice struggling customers back to their shops. The trend of developing points-based systems that "reward" customers on a mass level for

purchases they make, started back in the early 1980's and a number of very large and successful loyalty schemes have been created. The airline and retail industries led this charge and it wasn't long before customers, now with a minimum of three different loyalty cards, became familiar and then jaded with all the points that were being thrown at them.

Loyalty schemes have their place and can get desired results - increased sales - but they do not result in loyalty. I'm not saying customers can't be loyal or display emotions of loyalty. They can. But the reality is that they are no longer falling for empty promises or glossy ad campaigns. Loyalty requires a more meaningful and emotional connection with the customer. This is something that takes time and effort, but the results are also more long lasting. The problem is not the loyalty schemes per se, but rather that too many companies rely on their customer loyalty schemes to hide behind poor customer service and experiences. Rather than spearheading the customer relationship, loyalty schemes should support great customer experiences.

Case study: an unlikely hero.

Tesco is the UK's leading retailer, and the Tesco Clubcard is considered one of the best loyalty cards in the industry. But Tesco recognises that there is a lot more to building loyal relationships than just offering points and coupons. After the devastating floods in Cumbria at the end of 2009, residents in the town of Workington were cut off when the town bridge was washed away. Buying basic commodities such as bread and milk became very difficult as shops were on the other side of the bridge to where residents lived. As a result for most people, buying bread and milk required a two hour round trip in the car. Tesco came to the community's rescue and built a temporary store on the residential side of the river. The store itself was a marvel of engineering using a modular prefabricated design and constructed in less than 24 hours. In addition, Tesco Clubcard vouchers were given to the Workington community to assist them in buying their daily necessities. Tesco did not need to take this action but did so even though it was at great additional expense. Isn't this what good loyal friends do though? They go the extra mile without even being asked. The emotional connection between Tesco and the Workington community is now priceless.

The new loyalty game - building partnerships, not loyalty.

To get customer loyalty in today's rapidly changing competitive world, companies need to rethink.

- How do they engage customers?
- Do they have the appetite required to build loyal relationships?
- Is it even the right strategy for them in the first place?

Determine what your business and shareholders need first. If it's short-term financial gains, then customer loyalty should not be a stated goal. It will only serve to confuse and frustrate staff and customers alike. It is better to tell customers you want them to buy from you again and to reward them for this behaviour when they do, but don't mistake repeat purchases as loyal behaviour because it is not.

Loyalty cards, coupons and point schemes are essentially pricing strategies designed around how much a company is prepared to discount a product in order to get a sale. Today's customers recognise this and if you are not going further to build an emotional connection with them, they will drive down your profit margins as you offer them more and more pricing discounts in the guise of customer loyalty rewards to get them to buy more. This ends up being a vicious circle.

People seek relationships, even with companies. They want a place to be heard, a place to be appreciated and a place to connect. New social technologies are allowing us to take relationships with customers to higher levels. Connecting with customers' personal values can place you ahead of the competition in winning the hearts and minds of your customers. Rather than building customer loyalty, companies need to take a step back, raise their game and start the long but rewarding task of building not loyalty but mutually beneficial relationships with customers. Get this right and you may just be able to herd cats.

The key to customer loyalty: Deliver the benefits of friendships

As pointed out, people want relationships. Our desire for human connections and interactions is part of how we are wired. For the past hundred years since the industrialisation of the production line, businesses have created an artificial and unnatural divide between people and business. The businesses that will be successful in the future will close this divide by creating emotional connections with their staff, partners and customers. They will also focus on mutually

beneficial two-way partnerships that deliver the benefits of friendship.

When we use the word friendship here, we are not talking about glib friendships or kumbaya moments where you rush out to hug your customers and invite them to be “friends” on Facebook. We are referring to creating mutually beneficial relationships that deliver the benefits of friendship. Michael Argyle and Monika Henderson have been conducting research at Oxford University on friendships. Their results, which have been published in the Journal of Social and Personal Relationship, identified that three universal rules are always prevalent in any growing strong and relationship. This framework of friendship includes:

1. Providing support
2. Sharing dreams and aspirations
3. Encouraging other friendships.

The case study of Tesco above is an excellent demonstration of Rule 1 - providing support. Further examples of companies delivering this framework are shown below. So here are our seven top tips to delivering the benefits of friendship and increasing customer partnership, taken from the approaches that these pioneering companies are using:

1. They make business more personal and humanize their brand.

Started in 2005 by two Dads, diapers.com is an online retailer for diapers and baby care products in the US. All customers are referred to by staff as Mom (or Dad) and this makes interactions and growing relationships much more personal.

Unlike most websites, diapers.com doesn't hide their telephone number but actively encourages customers to call them. They have a policy that if they do not have the product a customer is looking for, they proactively find the product for the customer from a competitor, clearly demonstrating adherence to Friendship Rule 3: encourage other friendships.

Customer service people are all in-house, can be contacted 24/7 and they are empowered to take care of Mom at whatever cost; if Mom calls and there's an issue, they do whatever is necessary to make her happy. In one case a Mom needed a car seat for the weekend to attend her father's funeral upstate. There was no way UPS could deliver the car seat before the Mom had to leave, because they only delivered late in the day where the customer lived. But UPS could

deliver early morning at the customer service rep's home. So the rep had it shipped to her house in the morning and then she drove it over to the Mom's house. Another great example of rule No. 1 of the framework of friendships - provide support.

Bottom line result: Within five years Diapers.com have grown their operation to include 300 employees and annual sales of over \$180 million. They are the leading online retailer of baby care products and have over 500,000 customers, of which 300,000 are regular repeat monthly shoppers.

2. They recognise that social media is about relationship building - not sales.

Rather than sell shoes, CEO Tony Hsieh believes that Zappos has created a community, powered by service, where people who are passionate about shoes (both employees and customers) can come together to share their dreams and aspirations. (Rule No. 2 of delivering the benefits of friendship). Zappos are pioneers in how social media channels should be used. They not only allow but encourage open and transparent communication across all social media platforms. Employees are encouraged to be active on Twitter, You Tube, Facebook etc. where they talk about the company and their experiences. This has had an important impact as it shows that the company trusts its employees and in turn America trusts and loves Zappos. Their tweets and YouTube videos are some of the most viewed social media clips and Tony Hsieh has over 1.7 million followers on Twitter).

Cleverly, Zappos has used social media to give the company a human persona, making the interaction friendlier and importantly does not push its products on Twitter or YouTube.

Bottom line result: sales of over \$1 billion within eight years. In 2009, Amazon bought Zappos for \$946 million. Rather than absorb the brand and eliminate a competitor, the company remains independent of Amazon because of its unique customer service culture. Zappos has 7.4 million total customers, and 3.3 million of them have made a repeat purchase in the last 12 months. Over 75% of purchases come from returning customers.

3. They recognise that you don't always have to delight your customers - in fact, sometimes you can even inconvenience them.

There are countless books and experts on customer loyalty telling businesses that they need to always go the extra mile, to delight and wow customers at every moment of truth. This is one of the loyalty myths that make CFOs so sceptical about customer experience initiatives that promise loyal customers. They know it's going to cost more and won't always deliver results. The reality is that you can save money, even inconvenience customers and still have them happily coming back for more, because you delivered on the moment of truth that mattered most. Let me provide you with a few detailed examples:

Take Ikea, the Swedish international home products corporation that designs and sells ready-to-assemble furniture, appliances and home accessories. Now consider the average Ikea shopping experience.

You typically have to drive out of your way to a semi-industrialised park to go shopping. You enter an enormous, dusty warehouse and get corralled like sheep around a labyrinth of furniture. You have to contend with screaming kids, tired mothers and of course there is the quintessential stop at the hostel styled canteen for Swedish meatballs and chips. You finally make your way out of the maze to find stacks of heavy boxes each with their own confusing codified system telling you where your items can or can not be located, only to frustratingly find out that at least one or two of the items you hunted down in the labyrinth have already been sold out. Too tired to head back into the maze to find a replacement item, you collect what boxes of furniture you can find and, horror of horrors, you have to queue up for a minimum of 45 minutes to pay. You then have to squeeze the boxes into your car, which seems to have shrunk or the van you specifically hired, at great expense, for this shopping spree so that you can take the boxes home and build the furniture yourself!

What is satisfying about that experience? Very little, and yet Ikea is now the world's largest furniture retailer. And it's not because of price either, because there are cheaper ready-made alternatives to Ikea. The reason Ikea is so successful is that they understand intimately the emotional connection they have with their customers and have ingeniously recognized that one crucial moment of truth - the one that matters more than all of the other moments of truth put together - when they do need to wow their customers. They are looking at that point when you step back and call in the family and go "See, I am the MAN (or WOMAN) who built this". Time and time again, Ikea delivers consistently at this

primary moment of truth that matters most and recognizes that at almost every other interaction they have leeway to build cost saving “inconveniences” into the customer experience because their product delivers at critical moments of truth.

Ikea furniture represents the precision of engineering. Once you get the logic of the build, every piece fits together easily and it looks really good. Ikea is brilliant. They have identified a business model that goes against all customer experience conventional wisdom ninety percent of the time and yet still delivers happy customers.

They are not alone in this either. Have you ever visited an Abercrombie & Fitch or Hollister store? You have to queue outside, sometimes in driving rain and at times for hours, and be prevented from going inside by buff bouncers. Once inside you have to contend with dim lights, loud music and an overbearing smell of perfume and deodorant. Now of course this experience appeals more to a certain younger generation but think of how many adults you know who wear A&F or Hollister clothing? Their business model works well because they understand the moment of truth is in wearing the A&F brand: feeling the soft warm material against your skin and knowing that the trauma you went through to get the top was worth it.

Like Ikea, Abercrombie & Fitch have identified a business model that does not always delight the customer. They have created a successful business around building distinct inconveniences into the customer experience. Pure genius, and hopefully a point made that you don't always have to delight your customers or wow them all the time. Sometimes you can even inconvenience them.

This has important implications because it means that customers have certain thresholds where they will accept a degree of inconvenience as long as they get the moment of truth they are looking for. And this means that you can identify significant cost savings in your customer experience journey. It also has huge implications for training of staff and identifying where they should be provided with complete levels of empowerment.

4. They treat their customers fairly.

Zappos and Diapers.com allow their customers to return products for up to 365 days after they purchased the item. This may sound out of the ordinary but too often companies hide behind policies and procedures as a way of not

reciprocating the very loyalty they expect from customers. Why should a customer be forced to return a product within 30 days of purchase in order to get a refund. Who made up this rule, why does it exist in the first place? For loyalty to exist it first has to be reciprocal. To what extent does your business offer loyalty back in return? It's easy to single out companies who are quick to charge penalties when customers step out of line.

For example, the travel industry offers "lower price" seats to customers but then penalises the customer if they need to make a change. What happens if the customer is ill or has a genuine need to change the date of travel? Under these rules it is tough luck. The only way to gain flexibility is to pay an exorbitantly high price. The airline and rail industries believe this is the only way they can be profitable but is this policy fair? Banks and other financial service companies are also quick to punish customers financially and emotionally if they go into unauthorised overdraft. If your industry has rules and policies that intuitively don't feel fair, challenge them. You will win the hearts and minds of your customers if you do. Remember Zappos offers a 365-day returns policy, previously unheard of. This has won them a lot of happy customers.

5. They surprise their customers and create a sense of intrigue.

Hipstery.com, a T-shirt company, asks their customers to fill in a questionnaire about themselves. They then choose a T-shirt design for you based on how you answered the questions. The actual T-shirt design you are receiving remains a surprise until you open the package. This adds an interesting thrill to the boring task of choosing a T-shirt.

It seems that while most companies are providing ever more choice and ever more information, there is a growing trend of businesses relieving consumers of the burden of decision, and helping them make choices. Obviously this can go wrong. So Hipstery will replace any t-shirts that customers don't like, with the option of a refund if they're wrong the second time too. Sometimes a lack of choice is a good thing, especially if it is used to surprise and delight consumers.

Lush Soaps is another great company that constantly does things differently. Their workers wanted to protest about the excess use of packaging in the cosmetics industry so for a day they came to work dressed in nothing but a Lush apron. Not only did this make an important environmental message that few customers would ever forget but it also demonstrated the passion their workers

have for the brand and Lush Soaps' quest to be environmentally friendly.

6. They are having fun and being a bit quirky.

Prufrock Coffee is a successful boutique coffee shop in London, run by ex-World Barista Champion Gwilym Davies. He has come up with the world's first "disloyalty card." The idea is simple: you get a stamp on a card for visiting eight different quality-focused coffee shops. After visiting the eighth "friend" (actually his competitors), he will say thank you by making you a cup of his own coffee for free. There is no catch. Gwilym just wants people to try different quality coffees and become as passionate about the different flavours of coffee as he is.

7. They measure what matters most.

Save yourself money. Ask your customers only three questions that really matter at the end of the day:

1. Will you buy from us again?
2. Will you recommend us to a friend?
3. Did your experience make you feel happy?

If you get 'No' to these answers, dig deeper. But these are the only three areas that really matter at the end of the day. If you are not getting yes to these answers, then the answers to other marketing and customer loyalty driven questions are irrelevant.

Where to from here?

New generations of customers, distrust for businesses and a growing ability to identify immediately the companies that offer the best customer experience has made customer loyalty a defunct concept. But this is good news for those companies that are committed to building genuine and mutually beneficial relationships based on human and personal values, not just the sales of products. These companies are learning what it takes to herd cats and they are making the impossible possible.

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Other resources and links:

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