



FORRESTER LEADERSHIP BOARDS
The CMO Group

Report Brief: Building And Leveraging Loyalty

By: Cindy Commander, Analyst, The CMO Group, Forrester Leadership Boards, 2006

FORRESTER

Corporate Headquarters

Forrester Research, Inc., 400 Technology Square, Cambridge, MA 02139 USA
Tel: +1 617/613-6000 • Fax: +1 617/613-5000 • www.forrester.com

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RESEARCH BACKGROUND AND METHODOLOGY

In an effort to drive organic growth, senior marketers often turn to loyalty strategies and programs. While the benefit opportunities from loyalty are extensive, achieving and leveraging loyalty for growth is far from easy. Loyalty strategies often see suboptimal results because marketers copy competitors' approaches to loyalty, reward customers for behavior that they would have done anyway, fail to differentiate loyal customers from profitable customers, or underestimate the full costs of launching and maintaining a loyalty strategy.

In the report "Building And Leveraging Loyalty," we examine best practices for CMOs to use to power the success of their loyalty strategies. The full report includes a loyalty framework, eight case study examples, a self-diagnostic, and loyalty process plan worksheets. This overview provides a glimpse into the content of the full report with a review of loyalty and examples of a few of the best practices.

During the research process, Forrester spoke with a number of marketing experts as well as 14 senior marketing executives. These interviews included members of the marketing faculty at elite business schools, leaders at various consulting firms, and a number of authors in the loyalty space. We spoke with several companies, including Global Hyatt, Harrah's Entertainment, CompUSA, and Vanguard. We structured the interview process to uncover a range of tactics, solutions, and results pertaining to loyalty strategies. Each in-depth interview was roughly an hour in length and was conducted by a Forrester analyst team.

The research also references other Forrester publications as well as secondary sources related to the topics discussed.

LOYALTY OVERVIEW

In the research, we discovered that there are various definitions of loyalty and a lack of a consistent understanding of the loyalty concept. To embrace loyalty fully, we found that CMOs need to focus on both behavioral loyalty and attitudinal loyalty. Forrester defines this symbiotic loyalty as:

A dynamic win-win association where brands engage consumers emotively, and consumers reward them with increased wallet share and peer recommendations.

Figure 1 Loyalty Matrix

	High		
Attitudinal loyalty	High	<p>Brand positives Customer with attitudinal loyalty, not behavioral loyalty</p> <p>A customer thinks highly of your brand or product but rarely purchases from you.</p>	<p>Symbiotic loyalists Customer with attitudinal and behavioral loyalty</p> <p>A customer loves your product or brand and regularly purchases from you. The customer feels an emotional tie to your brand and would not easily leave for a competitive offer.</p>
	Low	<p>Nonloyalists Customer with neither attitudinal nor behavioral loyalty</p> <p>Customer feels indifferently about your product or brand and may occasionally purchase from you.</p>	<p>Inertial loyalists Customer with behavioral loyalty, not attitudinal loyalty</p> <p>A customer regularly buys your product or your brand or shops at your locations. However, the customer doesn't feel an emotional tie and is willing to leave for a better offer or product.</p>
		Low	High
		Behavioral loyalty	

TYPES OF LOYALTY STRATEGIES

Many marketers equate loyalty strategies with traditional points-based programs. However, marketers can help their organizations drive customer loyalty with a number of different strategies.

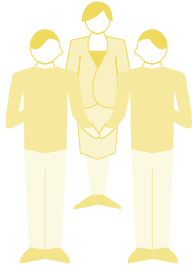
Figure 2 Overview: Types Of Loyalty Strategies

Common mistakes	Practices to avoid mistakes
Lack of understanding of the key drivers of loyalty.	<ul style="list-style-type: none"> • Run statistical analysis to understand what key points along the purchase cycle are most correlated to future loyalty. • Look beyond your industry to learn what drives loyalty for other companies — and brainstorm how you can leverage those findings.
Failure to differentiate between loyalty and profitability.	<ul style="list-style-type: none"> • Don't focus solely on historical revenues to predict future value — examine other variables that may affect future value. • Be willing to walk away from customers who will not provide long-term value to the organization or could negatively affect the value of your other customers.
Rewarding customers for existing behaviors and not motivating additional behavior.	<ul style="list-style-type: none"> • Use databases to track and model behavior trends; target with relevant messages and timely offers that will encourage spending in new categories or locations. • Leverage the data of strategic partners to identify cross-sell and upsell opportunities. • Invest in customers that have a high potential to increase their spending.
Asking people for information (e.g., birthday or preferred mode of communication) and then ignoring it.	<ul style="list-style-type: none"> • Use a multitiered database system that allows standard customer demographics to be synched up with personal-level preferences. • Create a database with access by all customer-facing employees to make sure all customer interactions are based on the full customer profile.

Source: Forrester Research, Inc.

BEST PRACTICES

Regardless of the strategies selected for driving loyalty, three key best practice areas emerged in our research: organizational support, superior analytics, and focus on experience. In each of these areas, we uncovered four to six best practices, including:



- Involving the entire organization in the loyalty strategy — don't keep it solely within marketing.
- Investing in attracting and training the right employees to deliver optimal service to your customers.



- Using customer data to target customers for upselling and cross-selling opportunities.
- Understanding your loyalty drivers.



- Increasing points of engagement with the customer.
- Matching rewards to your customers' preferences, interests, lifestyles, behaviors, and needs.

BEST-PRACTICES AREA: ORGANIZATIONAL SUPPORT

Organizational support is a key success factor for the implementation of any loyalty strategy. Within organizational support, best practices include:

- Involving the entire organization in the loyalty strategy — don't keep it solely within marketing.
- Investing in attracting and training the right employees to deliver optimal service to your customers.

As CMOs are assessing their level of success in obtaining the necessary support across the organization for the loyalty strategy, they can ask themselves questions like:

- Does everyone in the company organization understand the importance of the most valuable customers?
- Do I feel confident that the salespeople, customer service representatives, store associates, or frontline operations teams understand their role in building loyalty through the experience that they deliver to the customer?

In one example from the research, the members of the marketing team at a logistics company knew that they could not deliver a customer experience that would drive loyalty without the efforts and support of the members of the company who interact with the customers on a regular basis. To keep the whole organization focused on providing a first-class customer experience to its most valuable customers, the marketing team:

- Provided detailed information to the sales force to guide it with its interactions with the highly valuable customers. This information included products to mention and what to ask.
- Provided training on the loyalty strategy in available communication channels, which included short daily meetings in the morning with customer-facing operations.
- Treated key customer-facing employees like heroes, providing them with opportunities for career advancement and growth as well as recognition for serving customers.
- Had operations heads be executive sponsors of key customer accounts to increase their ownership of the customer experience and their knowledge of customer needs.

With these practices, the company was able to not only drive better customer retention but also grow key customer accounts and win new accounts based on loyal customers acting as references and case studies.

BEST-PRACTICES AREA: SUPERIOR ANALYTICS

To understand who your best customers are and how to drive desired behaviors and attitudes, companies need superior analytics. Within superior analytics, best practices include:

- Using customer data to target customers for upselling and cross-selling opportunities.
- Understanding your loyalty drivers.

As CMOs are assessing their level of success in the analytics supporting their loyalty strategy, they can ask themselves questions like:

- Does my team conduct analysis to understand who my most valuable customers are and segment them accordingly?
- Does my customer database include information about customer behaviors, preferences, responsiveness to promotions and offers, demographics, psychographics, and overall attitudes to my brand?
- Is my customer database missing any vital information?

In developing and executing loyalty strategies, senior marketers often suboptimize their success by making common, but critical, mistakes.

Figure 3 Overcoming Common Mistakes

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Lack of understanding of the key drivers of loyalty	Run statistical analysis to understand what key points along the purchase cycle are most correlated to future loyalty Look beyond your industry to learn what drives loyalty for other companies — and brainstorm how you can leverage those findings
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Rewarding customers for existing behaviors and not motivating additional behavior	Use databases to track and model behavior trends; target with relevant messages and timely offers that will encourage spending in new categories or locations Leverage the data of strategic partners to identify cross-sell and upsell opportunities Invest in customers that have a high potential to increase their spending
Asking people for information (e.g., birthday or preferred mode of communication) and then ignoring it	Use a multitiered database system that allows standard customer demographics to be synched up with personal-level preferences Create a database with access by all customer-facing employees to make sure all customer interactions are based on the full customer profile

BEST-PRACTICES AREA: FOCUS ON EXPERIENCE

With loyalty programs becoming increasingly commoditized and competitive pressures on the rise, CMOs need to focus their attention on the customer experience as a means of differentiating their brand. Within the need to focus on experience, best practices include:

- Increasing points of engagement with the customer.
- Matching rewards to your customers' preferences, interests, lifestyles, behaviors, and needs.

As CMOs are assessing their level of focus on the customer experience, they can ask themselves questions like:

- Do I actively seek and encourage feedback from my customers? Do I especially try to understand their frustrations, problems, and criticism?
- Can my competitors easily copy my company's loyalty strategy, the customer experience, and/or the benefits of my loyalty program?

In one example from the research, a hotel group sought to gain a deeper understanding of its customers while increasing its engagement with the brand. To meet these needs, the marketing team started an online community that provided customers with the opportunity to share stories and experiences about their recent travels and stays at the hotel group's various locations. The hotel chain invites members of the loyalty program to join the community and then motivates them to participate in the discussions through additional points incentives. The online community provides the marketing team with the ability to ask questions of its loyal customers as well as read the various posts. These insights allow the team to make improvements to the program, experience, and service that will further enhance loyalty from these key customers.

MORE INFORMATION

The full “Building And Leveraging Loyalty” report is available only to the members of The CMO Group, one of the Forrester Leadership Boards. The CMO Group is an executive-level peer knowledge community for marketing leadership. It strives to help marketers become more effective through a combination of member-driven best practices development and Forrester’s analyses of how the marketing landscape is changing and evolving and what marketers need to do to adapt and succeed today and in the future.

As part of The CMO Group program, Forrester provides exclusive research on best practices covering topics that the members select as most important and relevant. Additional reports include “Consumer-Driven Design And Development” and “Managing Marketing Human Capital.” CMO Group members also receive access to a broad array of Forrester reports on various topics, including marketing, strategy, the consumer and business landscapes, and technology, as well as structured, facilitated interactions with their peers and Forrester’s analyst community.

For more information on this report, future research, or The CMO Group, please contact any of the following people:

Cindy Commander
Analyst, The CMO Group
+1 617/613-6454
ccommander@forrester.com

Meagan Wilson
Research Associate, Forrester Leadership Boards — Marketing Programs
+1 617/613-6066
mwilson@forrester.com

Erica Seidel
Senior Advisor, The CMO Group
+1 617/613-6274
eseidel@forrester.com