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Best Wishes for 2006!

From all of us here at AK Insights Ltd.!

We hope that the new year has started productively and successfully for you and that everything only gets better from this point onwards.

You'll notice some changes in our newsletter: a slightly modified format and the introduction of advertisements. [Read more about this on page 4.](#) Our featured sponsors this issue are **Graphics Extra** (www.graphicsextra.com) and **Trinidad Weddings** (www.trinidadweddings.com) so check them out.

We thought we'd start the year with a look at Customer Loyalty programs - some do's and don'ts.

Please, do Enjoy!

Loyalty Programs Must Create Real Value

Source: 1to1 Magazine - December 2004

Arguably, there's no hotter topic in customer strategy these days than loyalty programs. Banks, airlines, supermarkets, and telecom companies are among those that optimistically reward customers with points or discounts for their consistent patronage.

In the past some points-based loyalty programs amounted to little more than bribes to close business. But today loyalty programs are moving beyond short-term discounting tactics, and are fast becoming an important element of an overall customer strategy based on dialogue, insight, and personalized offers. Take for example how hotels are using information gleaned from loyalty programs to customize the customer experience by adding such personal touches to rooms as exercise equipment.

Banks are starting to reward their most valuable customers for an increased share of wallet by tying together several products into points-based loyalty programs. These examples show loyalty as a customer strategy. We applaud that. What these hotel and banking programs do is reward different customers differently.

That's an important factor, because to use loyalty effectively as a customer strategy your company must build its programs so as to entice the right customers to remain loyal. A customer who is a tough price negotiator or a frequent user of support services, for example, may not be a good target for a loyalty initiative even though that customer is predisposed to be "loyal." So the trick is to ensure that your retention efforts

are focused not necessarily on the most loyal customers, but on the most profitable customers, and to quantify the value created by an increase in retention. Remember that increasing the customer's lifetime value is your goal, not just higher loyalty per se.

The most basic kind of loyalty program is based purely on transactions. Customers accumulate points that can be redeemed for free goods or discounts on related products. It's a tactical or promotional marketing initiative, and may be effective at stimulating revenue in the short term. But a program built only on points and discounts can easily be trumped by competitors. The more successful it is the more competitors will be tempted

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Loyalty Programs Must Create Real Value

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to create their own programs, offering more points per transaction or rewards with higher values. An airline frequent flyer program may allow high-value passengers to upgrade to first class, but simply tracking a customer's miles or value won't yield information about their individual attitude toward the airline, which may be the key to why they fly it, and may provide insight into how to grow the relationship.

Uncover customers' needs

Beyond the basic points program, however, a more effective loyalty program will enable a company to learn more about its customers by tracking not just their purchases but also their attitudes and needs. A loyalty program can serve as a platform to facilitate richer, more frequent dialogues with customers, to learn things about them that might not be revealed by their transactions. One airline passenger may value onboard service and interaction, for instance, while another one simply wants to be left alone. Or one banking customer wants some expert advice and counsel on the

right savings program, while another customer simply wants the bank to serve up a range of alternative savings options.

If a "Bank's" new share-of-wallet-based loyalty program not only gives customers an incentive to use more of the bank's services, but also provides information to the Bank about the kinds of products and services particular individual customers are most interested in, then the program will generate more value for the Bank, while at the same time making itself more difficult for any competitor to match. The degree to which customers find real value in a loyalty program, beyond the price-off deals and prizes, will depend on how different they are in their needs. The more diverse customers are with respect to their needs, the more useful it is for a company they deal with to ferret out those individual needs and treat different customers differently according to each one.

Before a loyalty program can increase a customer's value to the firm it must first

increase the firm's value to the customer. So, one important goal for your loyalty program should be to uncover more and more of each customer's needs. Then, by meeting those needs, you can create a solid basis for loyalty, improving the right customers' lifetime values and earning a higher Return on Customer in the process.

In the end increasing the return on investment on any particular customer, no matter what his level of loyalty, requires the customer to change his or her otherwise expected future behavior in such a way as to yield more value. With a more thoughtful loyalty program you'll generate more insight into the motivations and needs of your individual customers. And with better customer insight you should be able to make your value proposition more compelling, timely, and much more relevant for each individual customer. With any luck you'll influence his behavior in a positive way, but increasing his loyalty to you is just one aspect of that behavior change. ❖

“Loyalty programs are fast becoming an important element of an overall customer strategy based on dialogue, insight and personalized offers.”

“Generate more insight into the motivations and needs of your individual customers”



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SIGNS & MORE

The Twelve Laws Of Loyalty

By: Jill Griffin

“Isn’t customer loyalty dead?” Many think it has forever vanished and that lowest price is the only thing that keeps a customer returning. But, take heart. Customer loyalty is alive and well. Look no further than Dell, Harrah’s, Starbucks, or Harley-Davidson, to name a few, and you’ll find companies that are consistently earning customer loyalty while their competitors struggle.

But, what is this thing called customer loyalty?
How can you recognize it?
Why is it so critical to every company’s long-term success?

A loyal customer is one who:

- Makes regular repeat purchases
- Purchases across product and service lines
- Refers others
- Demonstrates immunity to the pull of the competition
- Can tolerate an occasional lapse in the company’s support without defecting, owing to the goodwill established through regular, consistent service and provision of value.

There is a common denominator that runs through all these behaviors and helps explain why loyalty and profitability are so inextricably linked: Each behavior, either directly or indirectly, contributes to sales and profitability. The financial rewards of loyalty run deep. Bottom-line: loyalty pays.

So, How Do You Build Customer Loyalty?

In a period of unprecedented marketing innovation like we’ve experienced since the mid ‘90s, it’s very tempting to dismiss many of the true principles for building customer loyalty and to, instead, rely solely on perceived

panaceas or "silver bullets." We’ve seen plenty. From loyalty card schemes and point programs to CRM software to massive data warehousing efforts, firms have plowed millions of dollars into such areas in search of quick fixes. But not surprisingly, many firms report disappointing results.

Fact is, the average company is still losing 20 to 40 percent of its customers every year. Why? Because many companies are delivering an "under-whelming" customer experience that falls well below the today’s customer expectations. As a result, many buyers unhappily migrate from one vendor to the next in search of better value.

Don’t be fooled into thinking "sexy" marketing tools like the Internet and knowledge management breakthroughs rewrite the Laws of Loyalty. They don’t. Your best insurance for building loyal customers is to make sure all your programs are built around tried-and-true principles of loyalty. Consider these Twelve Laws.



Build staff loyalty

It’s a fact: Firms with high levels of customer loyalty have also earned high levels of staff loyalty. It’s darn near impossible to build strong customer loyalty with a staff that is in constant turnover. Why? Because customers buy relationships and familiarity. They want to buy from people who know them and their preferences. Key rule of loyalty: Serve your employees first so they, in turn, can serve your customers.

Market leaders have learned that half the battle to winning staff loyalty is in recruiting the “right” employees in the first place and these firms are meeting the challenge of hiring smart.



Practice the 80/20 rule.

In building customer loyalty, the 80/20 Rule is alive and well. Roughly speaking, 80percent of your revenue is being generated by 20percent of your customers. All customers are not created equal. Some represent more long-term value to your firm than others. A smart company segments customers by value and monitors activities closely to ensure high value customers get their fair share of special offers and promotions. Unlike many firms who simply measure overall redemption, these savvy loyalty builders pay close attention to who redeems.



Know your loyalty stages and ensure your customers

are moving through them.

Customers become loyal to a company and its products and service one step at a time. By understanding the customer’s current loyalty stage, you can better determine what’s necessary to move that customer to the next level of loyalty. There are generally six stages: suspect, prospect, first time customer, repeat customer, client and advocate.

The rule of thumb is that the goal for you within each stage of development is to grow the relationship into the next stage of development. The goal of interacting with a prospect is to turn a prospect into a first-time customer, a repeat customer into a client, a client into an advocate. Once you reach the advocate stage, your job is to keep the person buying and referring. As we saw earlier with the definition of loyalty, a company can enjoy real profits

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Loyalty Laws

1. Build staff loyalty.
2. Practice the 80/20 rule.
3. Know your loyalty stages.
4. Serve first. Sell second.
5. Aggressively seek out customer complaints.
6. Get and stay responsive.

.....Stay tuned



The Twelve Rules Of Loyalty

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once the customer has evolved into the latter stages of the process. Failure to grow a customer into an advanced stage robs the company of profit and valuable referrals.

If your customer relationship processes and programs aren't moving customer forward, re-think them. And don't ignore customer emotions and the important role they play in propelling customers to deeper loyalty. Your loyalty plan should answer the question "What feeling do I want to leave my customer with?" for every customer stage; likewise, your initiatives should include metrics that measure how well those emotions are evoked in your customers. As management consultant Alan Weiss says, "Logic makes people think. Emotion makes them act."



Serve first. Sell second.

Today's customers are smarter, better informed and more intolerant of "being sold" than ever before. They expect doing business with you to be as hassle-free and gratifying for them as possible. When they experience good service elsewhere, they bring an "if-they-can-do-it-why-can't-you?" attitude to their next transaction with you. They believe you earn their business with service that is pleasant, productive and personalized and if you don't deliver, they'll leave.

Delivering a great customer experience is achieved by doing a lot of little things really well, paying attention to many, many little things. Together, these many small improvements help create compelling and consistent value that "sells" the customer.



Aggressively seek out customer complaints.

For most companies, customers articulate only 10% of complaints. The other 90% are unarticulated and manifest themselves in many negative ways: unpaid invoices, lack of courtesy to your front line service reps, and, above all, negative word of mouth. With the Internet, an unhappy customer can now reach thousands of your would-be customers in a few keystrokes. Head off bad press before it happens. Make it easy for customers to complain, and treat complaints seriously. Establish firm guidelines regarding customer response time, reporting and trend analysis. Make customer complaint monitoring at the front lines a key input tool for identifying loyalty improvement initiatives.



Get and stay responsive.

Research shows that responsiveness is closely tied to a customer's perception of good service. The advent of the Internet has changed the customer's perception of responsiveness. More and more, customers are coming to expect round-the-clock customer service. Moreover, customers now arrive at Web sites time-starved and eager to locate answers. Technology tools such as customer self service, email management and live chat/web call back are proving increasingly critical for companies as they address the demanding customer's responsiveness needs. ❖

Stay tuned! Find out what the final six (6) Rules Of Loyalty are in our next issue.

Jill Griffin is author of the internationally-published business best seller "Customer Loyalty: How To Earn It, How To Keep It" and co-author of the award winning book "Customer Win Back: How To Recapture Lost Customers and Keep Them Loyal."

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About the "Marketing Insights" Newsletter

The "Marketing Insights" newsletter is a monthly e-newsletter, distributed freely to AK Insights' business mailing list, currently numbering 285 contacts and covering the spectrum of business types and industries including: consumer packaged goods, beverages, entertainment, hospitality, professional associations, specialty & gift suppliers, education, distribution, pharmaceutical, travel, automotive, advertising, finance, food service, retail, among others. Several industry-specific 'special issues' of the e-newsletter are also published bi-monthly. Go to www.akinsights.com/index_file/minews.htm to read past issues of "Marketing Insights" or to join our mailing list.

Advertising Opportunities

The list and calibre of the individuals and companies who currently receive **Marketing Insights** is quite impressive. These are the persons making both operational and strategic business decisions in the areas of marketing, human resource, purchasing, event planning, and other business to

business transactions. There is therefore tremendous opportunity to get your message into the hands of such people and thereby generating additional sales or partnerships.

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