THE CHAPMAN GROUP
SOLVING SALES AND ACCOUNT MANAGEMENT CHALLENGES

Grow Customer Loyalty—Grow Profits

Utilizing Customer Loyalty Metrics to Build Long-term Account Relationships

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.Most corporate leaders know that it costs more to find a new customer than to grow an existing one, yet they operate by a mantra that says, "We always need more *new* customers!"

The single most predictive indicator of future growth is the level of dependency (i.e. loyalty) your customers have towards you. Increasing customer loyalty is a significant, if not the most significant driver of increasing sales and achieving greater financial performance.

The Trend

Twice as many senior level executives across all industries and company sizes say they are devoting more resources to customer retention over customer acquisition (58% to 30%), based on a study by Grizzard Performance Group. Improving customer loyalty leads to improved retention and thus reduced attrition rates. Therefore efforts related to customer loyalty / retention initiatives will result in an extraordinary ROI for an organization of any size!

The Real Cost of Losing a Customer

If companies knew how much it really costs to lose a customer, they would make every effort and investment to retain them. When serviced correctly, customers generate increasingly more profits every year that they stay with a company. The longer a company keeps a customer the more profit it will make. Thus when a customer switches to an alternative (i.e. a competitor), they take that profit-making potential with them. The challenge at hand is not how to consistently acquire new customers, but how to successfully keep the ones that were so hard to acquire?

How much does it really cost a company to lose a customer? Remember, customers are assets. The facts around their economic value may shock you. Have you calculated the future earnings of a customer in the out-years? Long term customer sustainability is a vital source of profitability. They will typically purchase more of your goods and services every year they do business with you, based on their increased level of satisfaction and loyalty. In addition, they will often pay higher margins due because they gain more trust in you and value the relationship between your organization and themselves. These intrinsic values justify them to pay supplier requested prices, leading to improved supplier margins.

Understanding the correlation between customer attrition and profits will provide a guide to increasing growth.

Studies show that customer attrition can run between 12% and 15% in any given year depending upon industries. Simply cutting customer attrition in half, will more than double the average company's growth rate.

Even the most successful businesses have to deal with vicious cycle of adding and then losing customers. The constant need to replace lost customers with new ones is not only extremely trying, but also costly. Staggering studies show that the cost of generating a new customer can easily be 3 to 5 times more than servicing an existing customer. Calculate the impact on revenue of reducing your current customer attrition by 10% or 20%.

Metrics and Loyalty

Business leaders tasked with generating revenue and achieving growth for their companies will benefit from the application of metrics in the areas of sales and marketing. According to the American Management Association in a 2002 survey, senior marketing executives indicated that understanding their customer is their most important priority 82% of the time. In that same survey, 40% of executives say that insufficient insights into customer needs and behaviors are a major obstacle in achieving higher returns on their marketing investment. In a competitive marketplace, business and sales leaders will search for supremacy as each successful sale will add directly to the top line growth of the company. However, when a company is focused only on generating new customers, they may actually be contributing to customer attrition and revenue churn within the existing portfolio of accounts.

One of the keys to increasing sales revenue and accelerating your growth is in reducing customer churn. Market research gurus Kevin Clancy and Robert Shulman state in their book *Marketing Revolution: A Radical Manifesto for Dominating the Marketplace*, "In our experience, most companies don't know what a loyal customer is worth in dollars and cents. They spend most of their marketing budget and attention on obtaining new business, and relatively less on satisfying and retaining old ones and that is a mistake." Your company's increased growth rates and profitability may already exist in keeping your current customer base more loyal.[1] (*See Figure 1—Loyalty Impacts Revenue: Average Customers vs. Loyal Customers*)

[1]Bard Press

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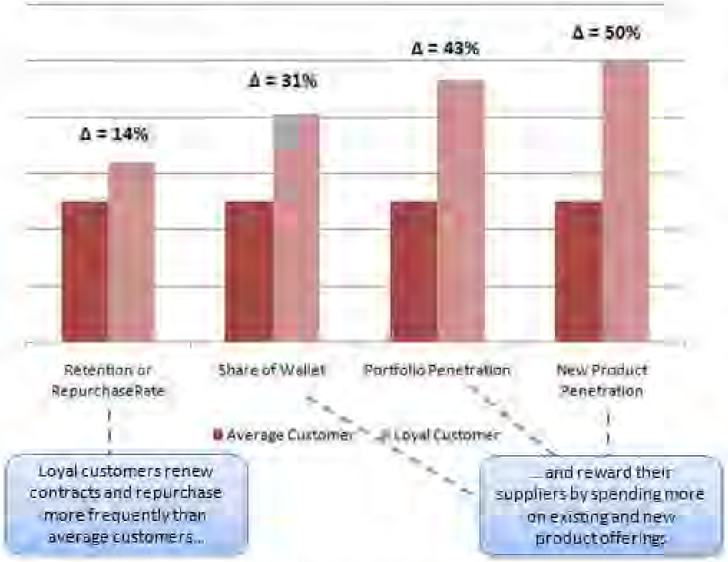
Figure 1—Loyalty Impacts Revenue*: Average Customers vs. Loyal Customers



** Redefining Customer Loyalty; Corporate Executive Board*

What is the difference between a Satisfied and a Loyal Account?

Some executives and salespeople believe that customer loyalty is becoming a thing of the past or unattainable in today's highly competitive global economy. While there is agreement that most customers may never be "implicitly loyal" (without reservation), we have learned that there are certainly degrees of loyalty. In our discussion here, Loyalty is being used as a term to describe a high, if not the highest degree of satisfaction: the goal!

Loyalty does not occur by accident, it must be earned. It begins with measuring and assessing the quality of the service, products, and relationships that exist between the customer and the vendor/ supplier.

Are you falling into the trap of measuring customer satisfaction when what you really want is customer loyalty? While satisfaction surveys provide valuable insights in our ability to meet expectations, our goal is to create long-term customer relationships that are not based on a "moment in time" measurement; i.e. satisfaction rating. Satisfaction surveys will measure current customer preferences. Customer Loyalty surveys measure customer buying behaviors and practices, as well as elements of satisfaction.

Drivers that Determine Loyalty

A study by Rath & Strong showed that 60 – 80% of accounts who defected had declared themselves satisfied or highly satisfied on their last satisfaction survey. As such, leading companies are constantly refining their understanding of customer economics, the drivers of satisfaction and loyalty based on clear metrics. Continuously assessing customer satisfaction and soliciting feedback from customers to improve the understanding of their needs is critical. One of the more important facets in maintaining our customer base is to view how our accounts are or are not strategically aligned with us. Do they view us as providing value beyond price or do they simply see us as a commodity?

Jeffrey Gitomer, in his book *Customer Satisfaction is Worthless, Customer Loyalty is Priceless,* defines the difference between a satisfied and a loyal customer this way:

> **<u>"What is a satisfied customer?</u>**
> *One that felt OK about dealing with you. Their needs were met. The product was OK. The service was OK. The experience was OK. They are satisfied (happy) with their purchase. They may or may not talk about the experience. They may or may not refer someone to you. Their overall feeling about you is between neutral and positive, and their experiences with you have not been negative. Not bad – but not great."*
>
> **<u>What is a loyal customer?</u>**
> *One who feels GREAT about dealing with you. Their needs were met and/or exceeded. Your delivery was GREAT. The experience was GREAT. They are ecstatic with their purchase. They will proactively talk about the experience. They will proactively refer someone to you. Their overall feeling about you is wonderful, and their experiences with you have been memorable.* ***WOW!"***

Which type of customer would you rather have? Obviously you would choose the loyal customer, but how are you going to know the difference between the two if you are not measuring it?

Creating the WOW!

As obvious as it may seem (yet often disregarded), it is imperative to have a quantitative measurement of your products, services, competitive position, support, pricing, relationship status, and value delivered... ***directly from multiple levels of influencers from within your account.*** A measurement with such variable is what differentiates a satisfaction measure from a loyalty measure.

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- **Satisfaction:** is a measurement in a moment of time of an account's testimony to your performance (usually by one individual).
- **Loyalty: is a measurement of key "customer dependency" indicators that predict the staying power of the overall account relationship (from multiple points of contact) at multiple points of time within the same year.**

Now that you know the difference, you can understand why it is so important to measure account loyalty from many points of contact within each of your key accounts. The data collected can prove invaluable in developing and implementing effective strategic plans and preventing account attrition.

Except in a few rare instances, a complete and extraordinary customer experience is the key to securing customer loyalty and generating superior long-term financial performance.

- Harvard Business Review

There are also two more important ingredients in this formula for assessing loyalty:

- Would they / how likely are they to recommend us?
- How likely are they to renew with us?

Launching a Customer Loyalty Program

What do high performing sales organizations do to build "loyal customers" while insuring profitability? In many cases they do the same things all sales organizations do – but with a few subtle differences:

- They do it consistently.
- They do it systematically.
- They do it holistically within the customer organization.

Sales executives have more questions about Loyalty than answers in many cases:

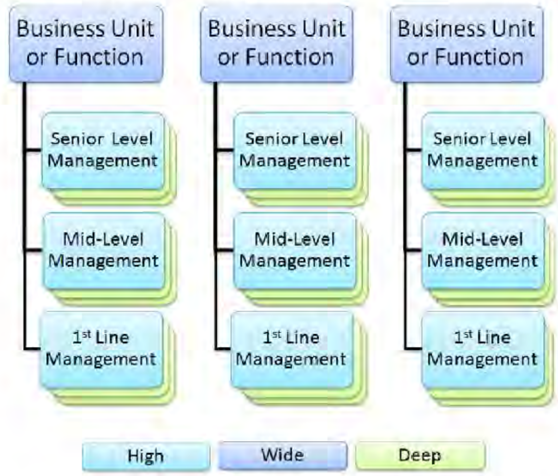
- Why are some customers so loyal, while others may not be?
- How is loyalty created in the first place, and where does it come from?
- How can I nurture and maintain the loyalty in my customer base?

In order to answer these and other questions we must *listen* to the customer. At the heart of any successful customer loyalty strategy is the ability to listen to the customer frequently and from multiple points of contact, while developing and acting on action plans to address customer feedback.

The Process – The Approach

Questions always arise: Who do we survey? How often do we survey them? How do we survey them? The optimum method of collecting valuable knowledge enabling an organization to establish a "Loyalty Index" is to collect data from multiple levels of management, including different functional areas and locations. – this is referred to as a 3x3x3 (high-wide-deep) approach (*See Figure 2 – Penetrating the Customer High, Wide and Deep*).

Figure 2—Penetration the Customer High, Wide and Deep (3x3x3 Relationship Management)



Frequency of surveys, multiple points of contact, and multiple data points are important factors that provide you with more valid, statistically reliable data. In addition, the intent of this approach is to ensure that any response is not just a "moment in time" emotional response. Successful loyalty programs will survey all contacts within the account 1 – 2 times each year to avoid "event" biases.

Assessing and Utilizing the Knowledge – What do we Know?

Once the data has begun to be collected it must be properly analyzed in order for it to provide actionable information can translate into organizational, divisional, and/or individual objectives to develop a plan around. Through the implementation of a consistent loyalty process, the data can create metrics and benchmarks for identifying accounts that may be at a growing risk of attrition.

These quantitative metrics / indices become a useful tool for comparing and trending survey results over a defined period of

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time and across specified industries, functions and/or managerial positions. These metrics will also be able to indentify if strategies put in to place as a result of customer feedback are having any form of affect, be it positive or negative.

Institutionalizing the Program and Optimizing the "ROI"

Now that you are implementing a tool to measure customer loyalty, how do you ensure its sustainability? First you must assign an administrator to handle the day to day processes of using a system and executing a process. We have found that if these responsibilities are left to the account managers, it is unlikely that they will happen in a timely manner. Their plates are already full! However, the account manager is responsible for supporting the administrator to ensure accuracy of account data.

As data is collected from your account contacts, low scores should be flagged and alerted so that actions can be put in place to address the issues identified. A process should be implemented that states within 72 hours of receiving a low survey result the responsible account manager, or account team if appropriate, and sales manager has researched the identified issue and completed a corrective action plan to detail probable root causes of the issue.

If the account has to call you and tell you that something is wrong, it is often already too late!

Within this same 72 hour window the account manager should make contact with the respondent to schedule a meeting to address concerns. Internally the results of that meeting should be reported and discussed to be certain that actions are in place to resolve the identified issue and prevent future instances of the issue. This proactive account management process will begin to eliminate the constant reactive model we all too often follow.

Proactive Account Management

To continue the proactive account management process and generate increasing loyalty, the results of the surveys must be shared with internal senior management, as well as with the specific account in a professional manner. This will have a couple of desirable results. First it provides an opportunity to conduct a senior level meeting with an account. This meeting will show our commitment to the process and provide a forum to share our action plans to provide service and address any identified concerns. This is also an opportunity to jointly develop and work on mutually agreed to Key Performance Indicators (KPI's).

Secondly, by conducting these meetings quarterly or semi-annually, it will increase the level of account participation. By sharing the survey results and use of the data internally, participation will increase in subsequent iterations.

Lastly, by conducting account reviews at the senior level you will forge / begin to forge a closer relationship based on metrics and KPI's that are measurable and actionable. This is something that senior level executives encourage and look forward to from their internal team and suppliers. Metrics remove the subjectivity and place the account relationship onto an objective model that is more easily understood and measured.

Conclusion

If a company has sales of 100 million dollars and has an attrition rate of 12%, that is 12 million dollars of lost revenue.

- What does it cost to replace that lost revenue?
- How much would it cost to keep it?

Reducing the attrition rate will allow you to grow revenue at a faster rate as you have less lost revenue to replace. In today's extremely competitive global world we must implement a loyalty program that metrically identifies those accounts that may be at risk of attrition. While there is no guarantee of never losing an account, you need to have an early warning system that identifies potential accounts at risk of attrition.

A loyalty tool tells you what your customer is thinking and predicts future behaviors. This valuable information tells you first-hand what you need to do to "NOW" to retain, acquire, or develop profitable and meaningful long-term customer relationships.

There are many types of satisfaction surveying tools in the marketplace. The Chapman Group has developed a unique approach due to its focus on loyalty versus satisfaction, content of survey, metric-based output, and an "easy-to-use" system that enables a user to filter, view, and assess data as required.

The data collected will provide ongoing and predictive account intelligence to steer the strategic efforts and initiatives of account teams. The results will come in the form of improved revenue, profitability, and market positioning. It is important to remember that a loyalty measurement predicts the "staying power" of the

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relationship based on more points of contact, greater depth of knowledge, and analysis.

In the development of the program, be sure you are structured to achieve the following:

- Gather tactical and strategic business intelligence.
- Engage customers at all contact points including senior level relationships.
- Effectively measure and analyze customer's satisfaction.
- Empower your organization with actionable knowledge from your customer.
- Initiate critical information sharing across the entire organization.
- Collect data, analyze your results graphically, and easily generate reports
- Ensure that account loyalty is part of your Account Relationship Servicing model (corporate and individual Key Performance Indicators).
- Stop *reacting* and allow *proactively* manage your accounts.

A loyalty tool as we have discussed, tells you what your customer is thinking and most likely going to do; this "NOW" look into the future tells you what you need to do to "NOW" to retain, acquire, or develop profitable and meaningful long-term customer relationships.

About the Author—Dennis J. Chapman Sr.

Dennis J. Chapman Sr. is founder and President / CEO of The Chapman Group. The Chapman Group is a sales effectiveness consulting firm that specializes in optimizing sales and strategic account management performance. Dennis brings over 25+ years of executive experience in sales, marketing and business management to his clients in helping them achieve their goals.

Dennis is a dynamic, enthusiastic speaker whose ideas and vision consistently inspire and motivate his audiences. Clients of The Chapman Group include many global Fortune 500 companies as well as a diverse portfolio of mid-tier accounts.

Dennis has developed sales, sales coaching, strategic account management, loyalty measurement and negotiating methodologies, processes and metric-based performance management tools that have produced significant and sustainable revenue results for clients, time and time again. These solutions have since become the sales mainstay of many companies (national and global) across many industries including; technology, healthcare, specialty chemicals, professional and government services.

Before establishing The Chapman Group in 1988, Dennis' career included sales and management positions with Xerox, ROLM/IBM and as Vice President of Sales and Marketing in the high-tech reseller industry. In addition to a varied professional education, Dennis is a graduate of the University Of Massachusetts School of Business, and has served as a panelist in the Johns Hopkins MBA - Capstone program. Dennis has also spoken on sales and sales management processes to MBA candidates at Loyola College in Baltimore, Maryland, and to major corporations both nationally and internationally. Dennis has written on the topics of sales, sales leadership, strategic account management and sales performance metrics for many years, with articles and interviews being published in many national publications such as CRM Magazine, Velocity Magazine and Selling Power Magazine. Dennis speaks to more than 50 sales teams a year.

Dennis currently serves on the Board of Directors of SAMA (Strategic Account Management Association).

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