

# Time for a Fresh Look at Your Loyalty Management Strategy

By Richard J. Castellano

**D**o you even have a loyalty management strategy? I'm sure you have structured programs and policies for managing your sales, marketing and hiring activities, right? If you haven't developed a similar approach to managing customer and employee satisfaction and loyalty, then you're overlooking a significant, proven way to maximize revenue and profits.

## COMPENSATING EMPLOYEES FOR CUSTOMER LOYALTY



**Tying compensation to a customer satisfaction index can make all employees Disciples and Believers!**

We all know that it takes more money to recruit a new customer than to keep an existing one. The current ratio is seven to ten times more. But did you know that an increase in customer loyalty of only 5% can lift lifetime profits per customer by as much as 95%? Or that an increase in loyalty of just 2%

can be the equivalent of a 10% cost reduction? Similarly, a 5% increase in employee retention can yield profit increases of 25% or more.

Think about it. Loyal customers purchase your products and services again and again over time, and tend to increase the volume of their purchases. They also are likely to refer

your company's products and services to others, while becoming immune to the pull of the competition. When problems arise, they're more inclined to give your company the benefit of the doubt.

The same wisdom and logic applies to loyal employees. They're motivated to do their best work, look for promotion opportunities and will recommend your company to other hard workers. They're less tempted to jump to a competitor, and more inclined to give management the benefit of doubt when unpopular changes are made in organizational structure, compensation or benefits. In short, loyal employees are more productive and reduce the high costs of staff turnover.

Still, companies continue to carry large sales and marketing budgets but, despite investments in costly CRM software, virtually ignore the systematic care and feeding of their best customers. That's where loyalty management comes in. It's the process of defining, implementing, measuring and managing the loyalty of customers and employees too. After all, the level of satisfaction and loyalty of your employees invariably comes through in their interaction with your customers. Believe it. Loyal employees create and keep loyal customers. You simply must include both groups in your loyalty management strategy.

### **Building an Effective Loyalty Management Strategy**

Specific programs for customer and employee loyalty management are similar in concept but, naturally, differ somewhat in practice. Let's look at each group.

- Managing customer loyalty starts with a structured, research-driven approach to measuring customer satisfaction with your products and services, as well as the knowledge and responsiveness of the employees with whom they interact. This process, which should be conducted annually for comparison purposes, should include all customer-facing operations: sales, marketing, support and service as well as executive management. Through telephone and perhaps web-based surveys, ask your customers to rate you on various aspects of product, service and

interaction quality. Then roll up the numbers to create a customer satisfaction matrix (See chart) that can be used to establish loyalty baselines today and for comparison with future surveys.

- While maximizing the satisfaction and loyalty of each customer is important, every company has an elite group of key accounts that produces the majority of sales and profits. Their needs and wants

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may differ, but it's only logical that you will focus first on key accounts and then implement the satisfaction and loyalty program for the rest of your customers.

- Managing employee loyalty starts with training. Every employee, regardless of their position, level or responsibilities, must learn the fundamental principles of customer relationship management (CRM). Even though some employees will have little true customer contact, a CRM orientation will foster a greater sense of teamwork, which typically increases

employee morale and productivity.

- Cash motivates everyone, not just salespeople. Rework your corporate compensation schedule to reward all employees when there are improvements in the customer satisfaction matrix and in the company's sales and net earnings. Paying a bonus when earned this way sends a clear signal that employee and customer loyalty are equally important, and mutually rewarding.

- Managing by objectives (MBOs) is still a key motivator for employee excellence and loyalty. In addition to the bonus program above that rewards everyone for gains in customer loyalty, it's vital that you continue to motivate, recognize and reward your high achievers for superior individual job performance.

### **Don't Keep Your Loyalty Management Programs a Secret**

Don't skip dessert! You've worked hard to develop effective customer and loyalty management programs. Market the positive results of your customer satisfaction index surveys and company financials both within the company and with customers and the market in general. Issue news releases, white papers, case studies and even a "customer satisfaction annual report" on what you've accomplished. There also are award programs that recognize companies that have achieved the highest levels of customer satisfaction. Market those honors even harder.

In the end, an effective loyalty management strategy tells customer and employees that you value their relationships and want them to continue. It also sends a subtle message to everyone else that, "If you're just as happy with your current suppliers and employers, then we invite you to join our loyalty family!" I guarantee you'll get some inbound calls.



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