



‘CREATING CUSTOMER LOYALTY’

A Paper by
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A PARADIGM SHIFT



Buy any car you want,
as long as its 'black'



Buy a car,
choose
your color





Traditional vs. **Loyalty Marketing**

Traditional marketing

Market share

Differentiating products

Managing products

Customers are adversaries

Finding customers for
products

Loyalty marketing

Share of customer

Differentiating customers

Managing customers

Customers are collaborators

Finding products for
customers



CREATING CUSTOMER LOYALTY: THE IMPACT ON BUSINESS

The handle of the process is the “driver” of the corporate strategy that gives the “direction” to the company. In turn, the strategic direction moves the two “enablers”: people and technology. The “interaction” of those elements is the business processes that sit behind successful customer relationship management & customer loyalty.



Figure 1: The Cog Wheel Process™



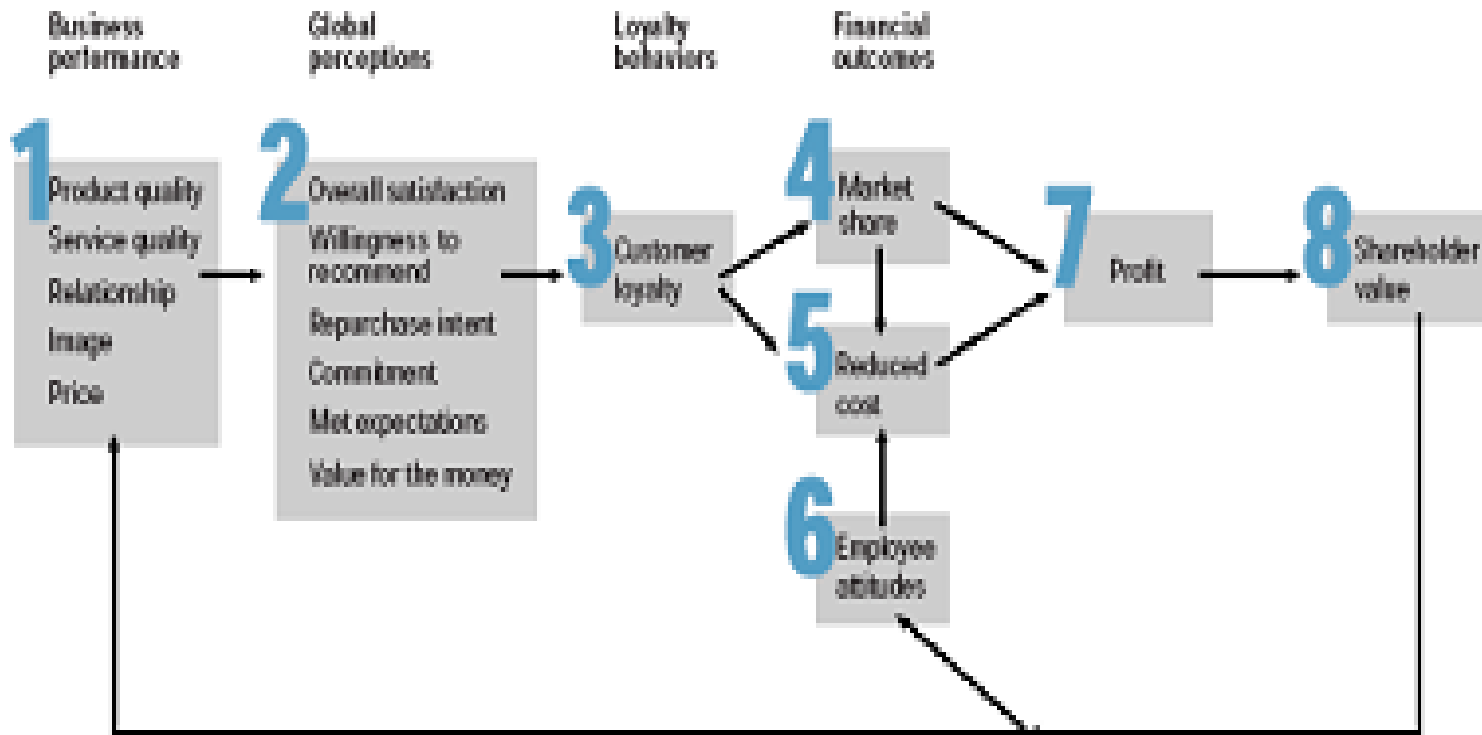
THE STRATEGIC NEEDS:

- Management Commitment
- Defined Objectives
- Measurable Criteria
- Long term outlook



HOW CUSTOMER LOYALTY DEVELOPS

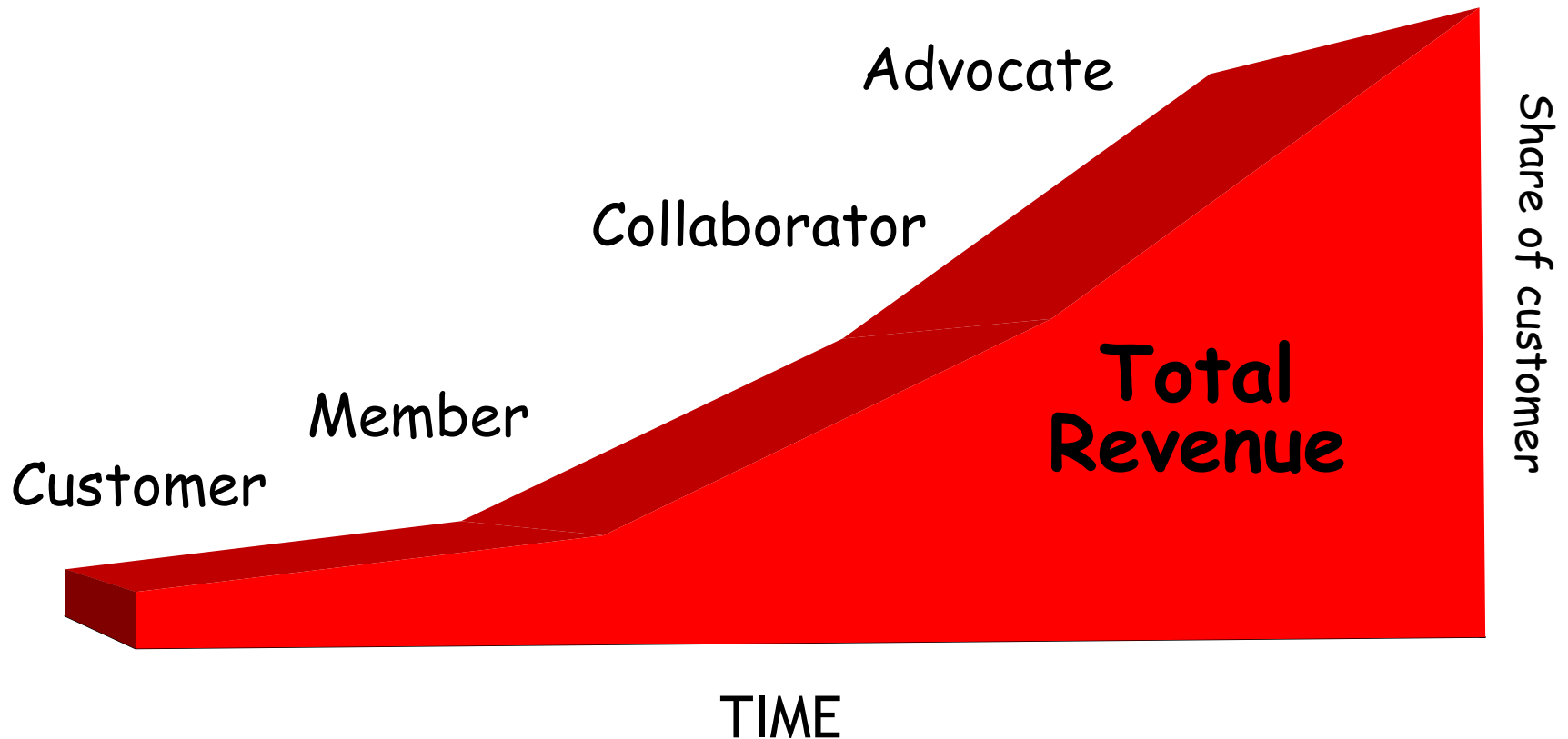
FIGURE 1 Customer Loyalty Model



By Steve Hoisington & Earl Naumann

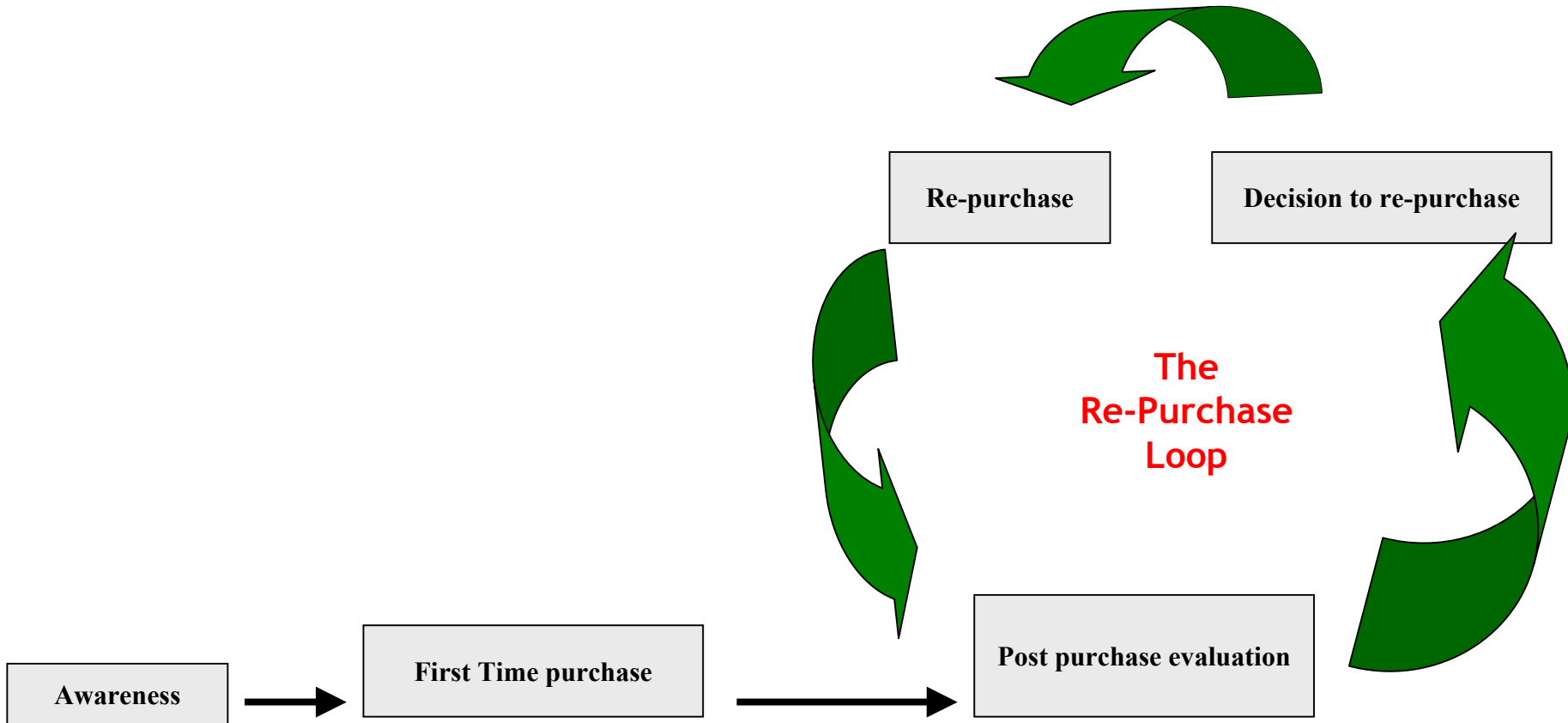


Continuous Customer Development





The Customer Purchase Cycle





CUSTOMER LOYALTY: How To Identify It

- Transactional Behavior
- Transactional Value
- Communication behavior
- Cost to Serve

RFM

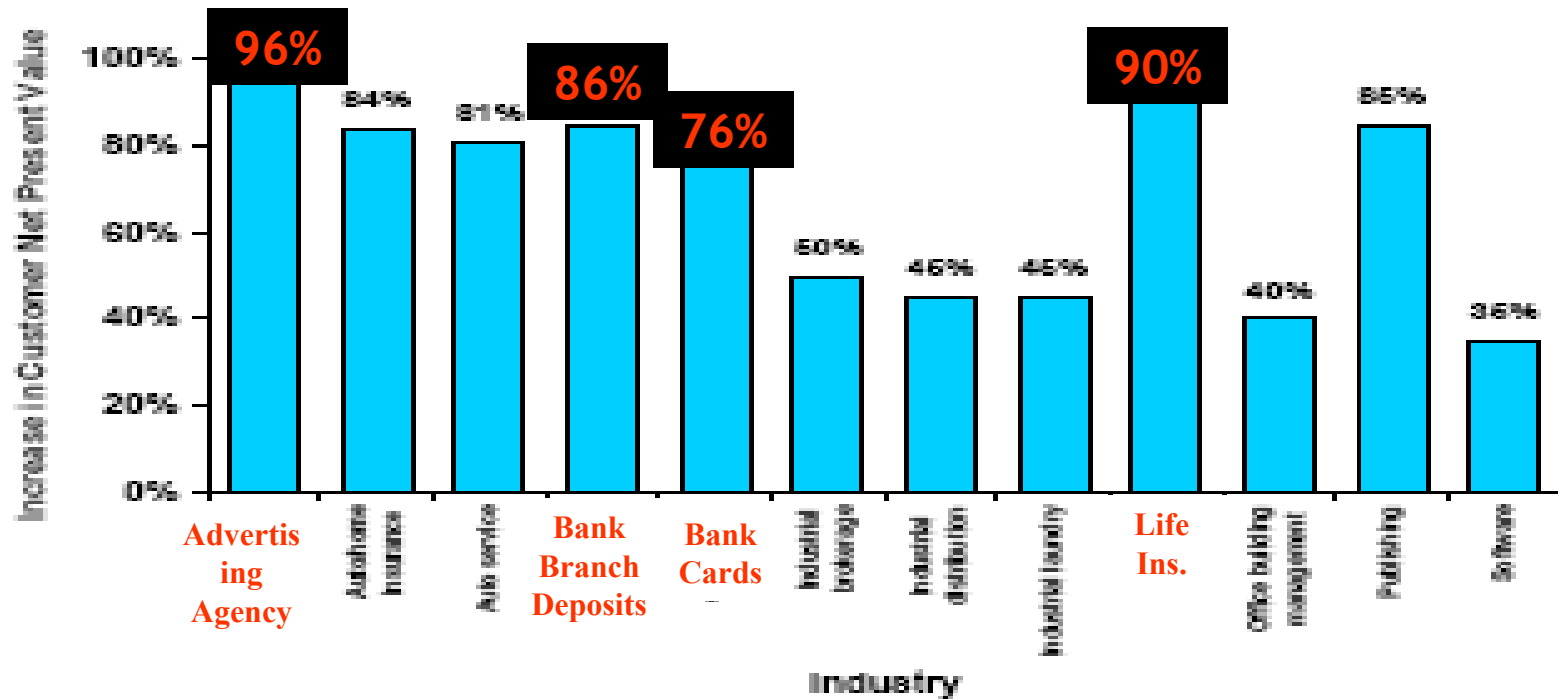


CUSTOMER LOYALTY: WHY ITS IMPORTANT

- Enhances Cross-Sell & Up-Sell opportunities
- A 5% improvement in retention rate can equal an 85% increase in PROFITS from your customer base
- Improves Customer LTV
- Enhances customer feedback & interest
- Generates higher patronage & transaction values



The Retention Effect



Impact of a 5% improvement in retention rate on Customer Net Present Value (Total Lifetime Value)

Source: Frederick Reichheld – The Loyalty Effect
Used by permission of Harvard Business School Press



The Retention Effect

Numerical Example: 10% vs 20%

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
80%	100	80	60	40	20	0
90%	100	90	80	70	60	50



Customer Lifetime Value (CLV) simple

$$(AVT * NT) * L$$

AVT = Average Value of Transactions per year

NT = Number of Transactions per year

L = Length of Relationship



Customer Lifetime Value (CLV) complex

- Net present value of the future stream of profits from an individual customer

$$LTV = \sum_{i=1}^n (1 + d)^{-i} \pi_i$$

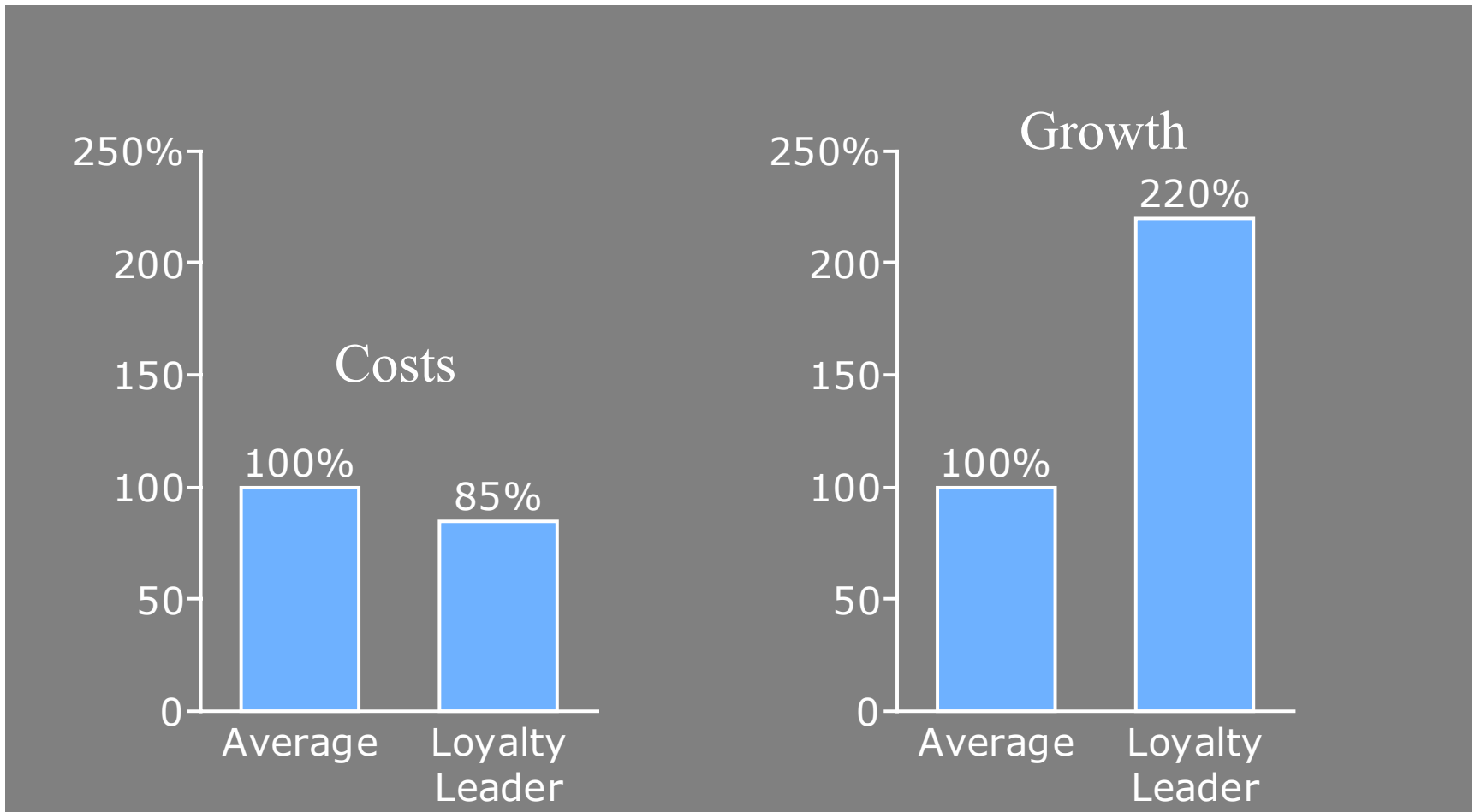
where: d = discount rate
 π = profit
i = period

π_i is a factor of:

- Expected incremental contribution on purchases
- Estimated duration and “trajectory” of relationship
- Other costs and contributions, not all financial



Loyalty Leaders: Lower Costs, Higher Growth



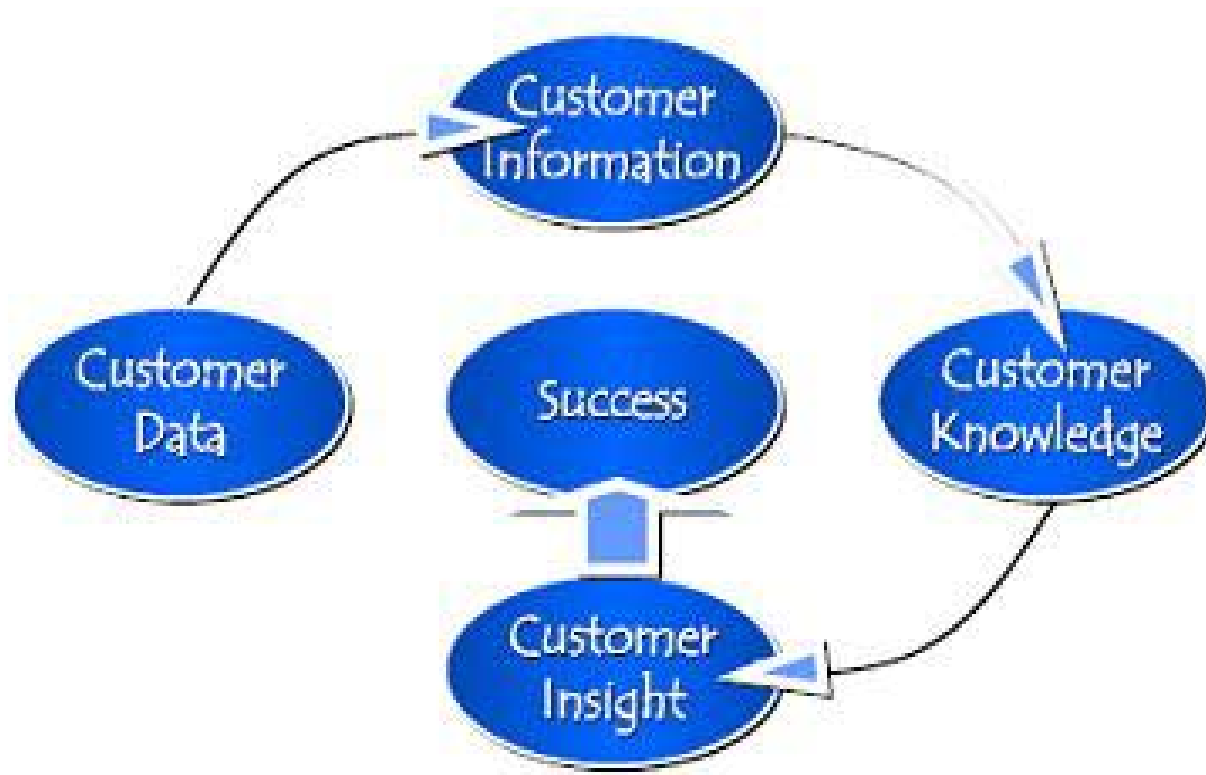
• Acquisition • Retention • Frequency •



CUSTOMER LOYALTY: How To Create It



The Route to Customer Loyalty





1. **Identify** customers, individually and addressably
2. **Differentiate** them, by value and needs
3. **Interact** with them more cost-efficiently and effectively
4. **Customize** some aspect of the enterprise's behavior





Dialogue

Engage, Exchange, Evolve

Data

```
100101100101101010  
101100101101010101  
100101101010101100  
101101010101100101  
101010101100101101  
010101100101101010  
101100101101010101  
100101101010101100
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Dialogue

Engage

*Incentives, Rewards,
Access, Service, etc.*

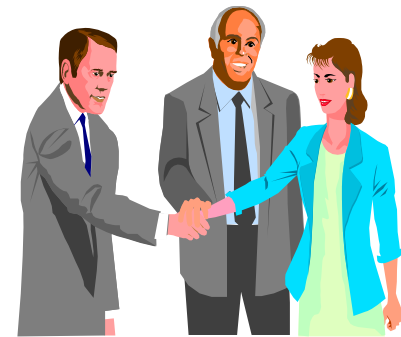
Exchange

*Changing needs,
attitudes, etc.*

Evolve

*Incentives, Rewards,
Access, Service, etc.*

Relationship





The Strategic Mix

Compelling Hard Benefits

Promotional Currencies
Tangible Rewards
Price Tiering
"I get my money's worth"



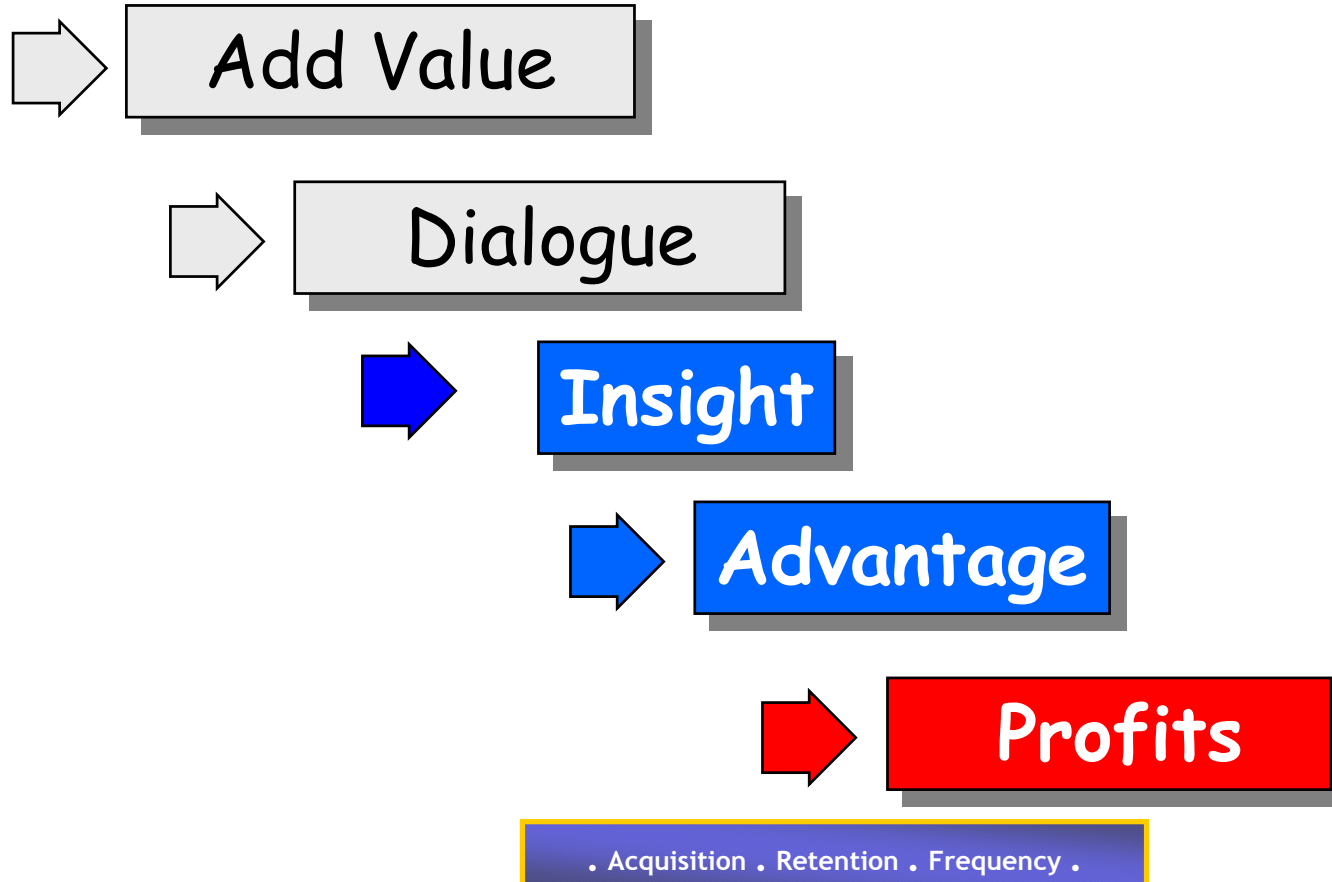
Defining Soft Benefits

Recognition
Personalization
Access
"They know I'm important"

Create The Value Proposition



The Customer Loyalty Relationship Chain





CUSTOMER LOYALTY: The Benefits



Increasing the value of the customer base

■ **Acquiring** profitable customers

Get

■ **Retaining** profitable customers longer

Keep

■ **Eliminating unprofitable** customers

Grow

■ **Up-selling** additional products in a solution

■ **Cross-selling** other products to customers

■ **Referral** and word-of-mouth benefits

■ **Reducing** the cost of service for customers



Thank You!