

A FRAMEWORK FOR CUSTOMER LOYALTY MANAGEMENT

“ Loyalty is a boardroom issue “

By: Bill George

INTRODUCTION

CUSTOMER LOYALTY IS CLEARLY A BOARDROOM ISSUE, DEMANDING BOARDROOM STATUS AND WITH IT THE LEADERSHIP APPROVAL AND SUPPORT NECESSARY TO INITIATE AND DELIVER AN INTEGRATED PROCESS OF CHANGE.

COMPANIES WHICH DO NOT RECOGNISE THIS FACT OR ARE UNABLE TO MANAGE SUCCESSFULLY THE PROCESS OF CHANGE, WILL NOT COMPETE IN THE BATTLE FOR THE HEARTS AND MINDS OF THE 21ST CENTURY CUSTOMER !

THE FOCUS OF RELATIONSHIP MARKETING HAS DONE MUCH TO QUANTIFY CUSTOMER (CONSUMER) VALUE AND RAISE THE IMPORTANCE OF CUSTOMER RETENTION IN THE CONSCIOUSNESS OF MODERN MARKETEERS THROUGH THE DEVELOPMENT OF RETENTION MODELS AND THE APPLICATION OF FORMULAE FOR CALCULATING FINANCIAL BENEFITS OVER TIME.

HOWEVER DESPITE PROGRESS IN THIS AREA, AND INSPITE OF GENERAL ACCEPTANCE OF THE PREMISE THAT:

*“ SUSTAINED INTERNAL AND EXTERNAL CUSTOMER LOYALTY ARE
ESSENTIAL TO CONSISTENT LONG-TERM GROWTH AND PROFITS”
(SASSER AND REICHEL D 1990)*

LITTLE WORK HAS BEEN UNDERTAKEN TO ADDRESS THE PSYCHOLOGY OF LOYALTY FROM A PRACTICAL VIEWPOINT, AND SCANT INDEPTH ATTENTION HAS BEEN FOCUSED UPON EMPLOYEE RETENTION AND THE INHERENT BENEFITS.

AS A RESULT OF THIS IMBALANCE, EVEN FEWER ATTEMPTS HAVE BEEN MADE TO FORMULATE AND IMPLEMENT FULLY INTEGRATED BUSINESS STRATEGIES AND PRACTICES, AIMED AT CONSCIOUSLY BUILDING INTERNAL LOYALTY INORDER TO SUPPORT AND DRIVE EXTERNAL LOYALTY AND PROFITABILITY OVER TIME.

MOST CRITICALLY, FEW COMPANIES HAVE ELEVATED SUCCESSFULLY THE ISSUE OF LOYALTY TO BOARDROOM STATUS WHICH IS SURELY WHERE THE DEBATE MUST BEGIN.

MILLENNIUM IS ATTUNED TO THESE REQUIREMENTS AND SEEKS TO IMPROVE *AWARENESS AND EDUCATION* AT BOARD LEVEL, INORDER TO FACILITATE THE PROCESS OF CHANGE NECESSARY TO MANAGE AND SUSTAIN MEASUREABLE IMPROVEMENTS IN CUSTOMER LOYALTY.

THIS PAPER OFFERS A UNIVERSALLY APPLICABLE DEFINITION OF *CUSTOMER LOYALTY* SUPPORTED BY A PRACTICAL WAY FOR MANAGERS AND MARKETEERS TO CONSIDER THE KEY TRIGGERS OF LOYALTY FOR RESPECTIVE CUSTOMER SEGMENTS. IT ALSO DISTINGUISHES BETWEEN INPUTS AND OUTPUTS, IN TERMS OF LOYALTY DRIVERS AND INDICATORS OF LOYALTY, AND GOES ON TO OUTLINE THE PRINCIPLES OF WHAT I DESCRIBE AS *CUSTOMER LOYALTY MANAGEMENT*.

THE PHILOSOPHY OF CUSTOMER LOYALTY MANAGEMENT IS BASED UPON MY VISION AND EXPERIENCE DERIVED FROM FULFILLING SENIOR ROLES IN BOTH MARKETING AND MANAGEMENT WITHIN THE SERVICE SECTOR AND HINGES ON A BELIEF THAT AN INTEGRATED CORPORATE FOCUS ON THE CONSOLIDATION AND DEVELOPMENT OF EXISTING CUSTOMER RELATIONSHIPS, BOTH INTERNALLY AND EXTERNALLY, IS CENTRAL TO THE TASK OF DELIVERING CUSTOMER RETENTION, ENHANCING LOYALTY AND IMPROVING PROFITABILITY.

KEY PRINCIPLES OF CUSTOMER LOYALTY MANAGEMENT:

- ◇ *EVERYONE IS A CUSTOMER* (EMPLOYEE, INTERMEDIARY, DEALER, DISTRIBUTOR, BROKER, AGENT, RETAILER, SUPPLIER, PARTNER, SHAREHOLDER, CONSUMER, AND CORPORATE) WITH NEEDS AND WANTS WHICH MUST BE SATISFIED BEFORE THEY WILL BEHAVE / PERFORM CONSISTENTLY AND POSITIVELY IN THE WAY THAT MARKETEERS, MANAGERS AND COMPANIES WANT THEM TO DO.
- ◇ *THE ROLE OF SENIOR MANAGEMENT* IS TO PROVIDE LEADERSHIP IN THIS CONTEXT AND TO PROMOTE A CULTURE IN WHICH CUSTOMERS, BOTH INTERNAL AND EXTERNAL, FEEL TRULY VALUED AND FULLY EMPOWERED.
- ◇ *THE ROLE OF MARKETEERS AND MANAGERS* IS TO UNDERSTAND THEIR CUSTOMERS' NEEDS AND WANTS "TRIGGERS" WITH THE GOAL OF CONVERTING A HIGHER PROPORTION OF THEIR "UNCOMMITTED" CUSTOMERS TO "ADVOCATES" OVER TIME THROUGH THE EFFECTIVE APPLICATION OF RELEVANT STRATEGIES "DRIVERS".
- ◇ CUSTOMER LOYALTY MANAGEMENT IS A *MULTI-FACETED PROCESS* EMBRACING ALL ELEMENTS OF THE MARKETING AND MANAGERIAL MIX.
- ◇ *MEASUREMENT, TRACKING AND MANAGEMENT OF PERFORMANCE DATA* AGAINST THE KEY INDICATORS OF LOYALTY, BOTH INTERNALLY AND EXTERNALLY, IS ESSENTIAL IN ORDER TO EVALUATE THE EFFECTIVENESS OF STRATEGIES EMPLOYED AND MANAGE THE DEVELOPMENT PROCESS.

THE PSYCHOLOGY OF LOYALTY

TO EFFECT CUSTOMER CONVERSION BOTH INTERNALLY AND EXTERNALLY FROM A STATE OF UNCOMMITTEDNESS TO ONE OF ADVOCACY REQUIRES A FULL APPRECIATION OF THE PSYCHOLOGICAL PROCESSES OF LOYALTY DEVELOPMENT - THE INEVITABLE STARTING POINT BEING A DEFINITION OF LOYALTY WHICH IS UNIVERSALLY APPLICABLE ACROSS ALL CUSTOMER SEGMENTS.

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LOYALTY DEFINITION: COPYRIGHT - MILLENNIUM 95.

" A MIX OF POSITIVE ATTITUDES AND BELIEFS ABOUT AN ORGANISATION, ITS PRODUCTS AND SERVICES, WHICH MAKES SUSTAINED COMMITMENT TO THEM BY ITS CUSTOMER AUTOMATIC AND UNCONSCIOUS "

THE WORK OF EMINENT PSYCHOLOGISTS INDICATES THAT INDIVIDUAL ATTITUDES AND RESULTANT BEHAVIOURS ARE IN TURN INFLUENCED BY INTERACTING NEEDS AND VALUE SYSTEMS, WHICH FOR EASE OF PRACTICAL APPLICATION CAN BE CLASSIFIED ON A HIERARCHICAL BASIS IN TERMS OF THRESHOLD NEEDS, VALUES AND MOTIVATORS.

THESE NEEDS AND VALUES CAN BE CONSIDERED AS THE ESSENTIAL COMPONENTS, OR " TRIGGERS " OF INDIVIDUAL CUSTOMER LOYALTY SYSTEMS.

THE ART OF MARKETING AND MANAGEMENT BEING THE IDENTIFICATION OF SPECIFIC TRIGGERS FOR DIFFERENT CUSTOMERS AND CUSTOMER SEGMENTS, AND THE APPLICATION OF RELEVANT MARKETING AND MANAGERIAL STRATEGIES, OR "DRIVERS" IN ORDER TO:

- ◇ SATISFY THRESHOLD NEEDS
- ◇ RE-INFORCE CORE VALUES
- ◇ APPLY MOTIVATORS

..... AND THEREBY MOVE OVER TIME, CUSTOMERS, BOTH INTERNALLY AND EXTERNALLY, THROUGH DEGREES OF SATISFACTION TO A SUSTAINABLY HIGH LEVEL OF LOYALTY.

THRESHOLD NEEDS (SOMETIMES REFERRED TO AS HYGIENE FACTORS INTERNALLY) ARE CLEARLY *THE PRICE OF ENTRY* AND A SOURCE OF POTENTIAL DISSATISFACTION IN ALL MARKETS. EG.

EXTERNALLY = *QUALITY, PRICE, CONVENIENCE, AVAILABILITY AND SERVICE*
INTERNALLY = *REMUNERATION, TERMS AND CONDITIONS, COMPANY POLICY.*

THE POSITIVE REINFORCEMENT OF **VALUES**, EG. TRUST, CARING ETC. THROUGH THE APPLICATION OF RELEVANT MARKETING AND MANAGERIAL STRATEGIES OFFERS AN OPPORTUNITY FOR MANAGERS AND MARKETEERS TO ESTABLISH EMOTIONAL LINKAGE WITH THEIR CUSTOMERS, AND COMPETITIVE DIFFERENTIATION OVER AND ABOVE THE MERE FUNCTIONALITY ASSOCIATED WITH EVERYDAY FULFILMENT OF THRESHOLD NEEDS.

CLEARLY CORPORATE VALUES SHOULD EMANATE FROM WHAT THE ORGANISATION STANDS FOR/ASPIRES TO AND SHOULD BE CONSIDERED CAREFULLY AGAINST THE VALUE SETS OF TARGET CUSTOMER SEGMENTS.

BY THEIR VERY NATURE THE SUCCESSFUL APPLICATION OF **MOTIVATORS**, EG. INVOLVEMENT, EMPOWERMENT AND RECOGNITION CAN GENERATE AN IMMEDIATELY POSITIVE EFFECT BOTH INTERNALLY AND EXTERNALLY, AS WELL AS FURTHER ENHANCING ATTITUDES AND BELIEFS OVER TIME.

SEGMENTATION IN CONTEXT

COMPLEXITY ARISES AS A RESULT OF THE MIX OF ATTITUDES AND BELIEFS PREVALENT AMONGST ANY CUSTOMER GROUP, AND CLEARLY SEGMENTATION PARTICULARLY WITHIN THE CONSUMER GROUP IS IMPORTANT INORDER TO ISOLATE THE DIFFERENCES THAT EXIST.

IN REALITY THERE IS NO SUBSTITUTE FOR THE DEVELOPMENT OF INDEPTH UNDERSTANDING AND KNOWLEDGE OF ALL CUSTOMERS ON A ONE TO ONE BASIS, INTERNALLY AT EVERY LEVEL, COMPANY BY COMPANY WITHIN THE CLIENT SEGMENT AND ALSO, AND IDEALLY, INDIVIDUALLY WITHIN THE CONSUMER SEGMENT, PROBABLY STARTING WITH THOSE DEEMED MOST VALUABLE !

MACRO CONSIDERATIONS

IT IS CLEAR THAT THE UK CONTINUES TO UNDERGO FUNDAMENTAL SOCIO-ECONOMIC CHANGE, DRIVEN BY BUSINESS AND TECHNOLOGY, WITH THE FOLLOWING SPECIFIC TRENDS LIKELY TO IMPACT UPON THE ABILITY OF MARKETEERS AND MANAGERS TO EFFECT POSITIVE CHANGE IN TERMS OF LOYALTY MANAGEMENT.

KEY CONSIDERATIONS INCLUDE:

- ◇ THE ONGOING DEGREDATION OF RESPECT FOR TRADITIONAL INSTITUTIONS AND WITH IT AN INCREASED FOCUS ON PERSONAL NETWORKS, THE POWER AND VOLUME OF **PERSONAL RECOMMENDATION AND REFERRAL**.
- ◇ AS A FUNCTION OF ABOVE, GROWTH IN THE IMPORTANCE OF **TRUST** AS AN ESSENTIAL VALUE .
- ◇ PRESSURE ON TIME AND THE NEED FOR GREATER **CONVENIENCE** (THE CONCEPT OF ASSET RICH AND TIME POOR)
- ◇ DEMAND FOR **LOW PRICES, HIGH QUALITY** AND **EXCEPTIONAL SERVICE**.
- ◇ ADVENT OF THE EMPOWERED CUSTOMER WILLING TO COMPLAIN, HELP AND PREPARED TO **EXIT AND SWITCH**.
- ◇ THE **FEMINISATION OF VALUES** WITH INCREASED PROMINENCE OF INTUTION, CREATIVITY AND EMOTION.
- ◇ THE GROWTH OF **FEMALE EMPLOYMENT**, HEIGHTENED EDUCATIONAL ACHIEVEMENT AND COMMERCIAL RESPONSIBILITY.
- ◇ **THE IMPACT OF TECHNOLOGY** ON INTERNAL AND EXTERNAL COMMUNICATIONS, DISTRIBUTION CHANNELS AND LOYALTY.
- ◇ CHANGING **PATTERNS OF EMPLOYMENT** WITH AN END TO "JOBS FOR LIFE " AND THE ACCELERATION OF " NEW WORLDS OF WORKING "

APPLYING THE DRIVERS OF LOYALTY.

EQUIPPED WITH A FULL APPRECIATION OF THE MECHANICS OF LOYALTY AND FACTORS INFLUENCING CUSTOMER PROPENSITY SHORT AND MEDIUM TERM, THE *APPLICATION OF EFFECTIVE MARKETING AND MANAGERIAL STRATEGIES* SHOULD THEN BE A FUNCTION OF PRIORITISING LOYALTY TRIGGERS IN CONSIDERATION OF CURRENT CUSTOMER PERCEPTIONS BOTH INTERNALLY AND EXTERNALLY, WEIGHTING FACTORS, COMPETITIVE PRESSURES AND COMPARISONS .

RECOGNISING THE FUNDAMENTAL NATURE OF PRODUCT QUALITY AND PRICING TO THE CONSUMER CUSTOMER SEGMENT, AND THE SIGNIFICANCE OF THRESHOLD NEEDS " PRICE OF ENTRY " OVERALL, CL2000 CONSUMER PROGRAMMES FOCUS ON THE STRATEGIC COMPONENTS OF: IMAGE, SERVICE AND ADDED-VALUE, AS *DRIVERS OF LOYALTY*, AS WELL AS THE ENABLERS OF TECHNOLOGY, AND MEASUREMENT AND EVALUATION.

IMAGE

THE POWER OF POSITIVE IMAGE WILL INCREASE IN IMPORTANCE, AS CUSTOMERS REDISCOVER CORE VALUES AND SEARCH FOR LEADERS AND ENTITIES WITH WHOM THEY CAN IDENTIFY.

THERE IS EVERY INDICATION THAT THE DELIVERY OF MERE SERVICE FUNCTIONALITY WILL BE SUPERCEDED BY ORGANISATIONS OFFERING DISTINCT SERVICE EXPERIENCES (EXCELLENCE PLUS PERSONALITY) AS A SOURCE OF COMPETITIVE DIFFERENTIATION, AND UNDERPINNED BY VALUES, AS A MEANS OF ESTABLISHING EMOTIONAL LINKAGE.

CAUSE RELATED MARKETING AND AFFINITY RELATIONSHIPS ARE LIKELY TO BE MORE WIDELY APPLIED.

POWERFUL AND ATTRACTIVE CORPORATE IMAGES WILL ALSO TRIGGER ENHANCED EMPLOYEE AND DISTRIBUTION CHANNEL PERCEPTIONS, SATISFACTION AND LOYALTY.

SERVICE

SERVICE WILL CONTINUE TO BE A KEY STRATEGIC COMPONENT OF LOYALTY WITH DELIVERY OF DISTINCTIVE STYLES OF SERVICE EXCELLENCE AND INNOVATION AFFORDING OPPORTUNITIES FOR COMPETITIVE DIFERENTIATION.

WELL DEVELOPED SERVICE CULTURE, EMPLOYEE AND CONSUMER EMPOWERMENT, AND FOCUS ON RETENTION WILL BE KEY TO SUSTAINABLE DELIVERY OF SERVICE EXCELLENCE.

COMPETITIVE BENCHMARKING AGAINST WORLD CLASS PERFORMERS CONTINUES TO PROVIDE AN ACCESSIBLE REALITY TEST AND OPPORTUNITY FOR ACCELERATED DEVELOPMENT

MANAGEMENT OF CHANGE - PARTICULARLY WITH REFERENCE TO THE NEW WORLDS OF WORKING - WILL CONTINUE TO BE A MAJOR ISSUE AND BARRIER TO SUCCESSFUL IMPLEMENTATION.

ADDED-VALUE

THE APPLICATION OF CONSUMER REWARDS DOES PRODUCE MEASURABLE IMPROVEMENTS IN LOYALTY AT THE BEHAVIOURAL LEVEL (AS MEASURED BY INCREASED USAGE AND RETENTION) WITH A HIGHER PROBABILITY OF SUSTAINED EFFECT WHEN THRESHOLD NEEDS ARE SATISFIED, VALUES ARE REINFORCED AND THE KEY TRIGGERS OF INVOLVEMENT, EMPOWERMENT AND RECOGNITION ARE ACTIVATED.

THE PROLIFERATION OF "LOYALTY CARDS" SUGGESTS THAT LOYALTY CAN BE BOUGHT BY SUCH INDUCEMENTS. HOWEVER WHILE SUCH INITIATIVES CAN HAVE DRAMATIC EFFECT ON SALES, IT IS QUESTIONABLE WHETHER, IN ISOLATION, THEY WILL MAINTAIN SOLID LONG-TERM CUSTOMER SUPPORT

CONSUMER REWARD PROGRAMMES WILL BECOME MORE OF A SCIENCE AND LESS OF AN ART FORM DRIVEN BY COMPANY QUEST FOR INFORMATION, COMPETITIVE DIFFERENTIATION AND REAL FINANCIAL RETURN. IN THIS RESPECT A CLEAR UNDERSTANDING OF THE INTER-RELATIONSHIP BETWEEN PRICE, SHORT-TERM PROMOTIONS AND ONGOING REWARD BASED PROGRAMMES - AND THE EXTENT OF THEIR EFFECT ON CUSTOMER BEHAVIOUR - WILL BE KEY TO SUCCESSFUL MARGIN MANAGEMENT.

HOWEVER, THERE IS CLEARLY SCOPE AND DEMAND FOR ENHANCED PROMOTIONAL CREATIVITY AND EXCITEMENT TO SUPPLEMENT THE CURRENT PLETHORA OF UNINSPIRING VALUE DRIVEN CURRENCY BASE PROGRAMMES, WHICH ARE IN DANGER OF BEING ABSORBED INTO THE CORE PRICE-VALUE EQUATION.

LOCKING - IN ONE'S MOST VALUABLE CUSTOMERS WILL CONTINUE TO BE A KEY PREOCCUPATION OF MANAGERS AND MARKETEERS.

COMPANIES WILL CONTINUE TO PARTICIPATE IN ALLIANCES AS A MEANS OF DIFFERENTIATION, ADDING VALUE TO EXISTING CUSTOMERS, ACQUIRING NEW CUSTOMERS, ACCESSING DATA-BASE FACILITIES AND REDUCING COSTS.

OPPORTUNITIES FOR BRAND-STRETCH WILL CONTINUE TO BE EXPLORED AND REALISED BY *THE POWER BRANDS* AS AN ALTERNATE MEANS OF ADDING VALUE, INCREASING LOCK-IN, AND ENHANCING PROFITABILITY.

CLEARLY THE MEDIUM TO LONG TERM IMPLICATIONS FOR BRAND VALUES AND FRANCHISE WILL NEED TO BE FULLY UNDERSTOOD.

TECHNOLOGY

NEW INTERACTIVE MEDIA CHANNELS APPEAR TO OFFER MARKETEERS AND MANAGERS THE OPPORTUNITY TO FULLY EXPLOIT THE APPLICATION OF THE MOTIVATORS OF INVOLVEMENT, EMPOWERMENT AND RECOGNITION IN ORDER TO BUILD MEANINGFUL AND LASTING CUSTOMER RELATIONSHIPS.

CLEARLY PERSASIVE CORPORATE CULTURES AND BRAND/SERVICE IMAGES REINFORCING KEY VALUES OF TRUST, COMFORT AND OPENNESS WILL NEED TO UNDERPIN THE APPLICATION OF NEW MEDIA IN ORDER TO GAIN EMPLOYEE, CONSUMER AND CLIENT CONFIDENCE AND SUPPORT.

MEASUREMENT AND EVALUATION

EFFECTIVE MEASUREMENT AND EVALUATION SYSTEMS ARE KEY TO THE PROCESS OF CUSTOMER LOYALTY MANAGEMENT.

HARD DATA IS ESSENTIAL TO GIVE THE BOARD THE CONFIDENCE TO INVEST IN SPECIFIC DEVELOPMENT STRATEGIES

LOYALTY MEASUREMENT CRITERIA PROVIDE YARDSTICKS AGAINST WHICH THE EFFECTIVENESS OF LOYALTY BUILDING STRATEGIES BOTH INTERNALLY AND EXTERNALLY CAN BE ASSESSED.

KEY CONSIDERATIONS INCLUDE:

UNDERSTANDING THE RELATIONSHIP BETWEEN THE KEY INDICATORS OF LOYALTY. (SATISFACTION, RETENTION, USAGE/PERFORMANCE AND RECOMMENDATION/ADVOCY)

UNDERSTANDING THE CONCEPT AND DRIVERS OF COMPLETE SATISFACTION.

UNDERSTANDING THE RELATIONSHIP BETWEEN INTERNAL SATISFACTION (AS LEADING INDICATORS) AND EXTERNAL SATISFACTION AND FINANCIAL PERFORMANCE (AS LAGGING INDICATORS).

THE APPLICATION OF EFFECTIVE REPORTING SYSTEMS AND PROCESSES FOR MANAGING THE EVALUATION AND USAGE OF DATA.

SUMMARY

TO DELIVER THE PROMISE THAT INTERNAL LOYALTY DRIVES EXTERNAL LOYALTY DRIVES PROFITABILITY REQUIRES THE FULL UNDERSTANDING AND COMMITMENT OF MANAGEMENT ON A TOP - DOWN BASIS

A CLEAR UNDERSTANDING OF THE VALUE, TRIGGERS, DRIVERS AND INDICATORS OF LOYALTY BOTH INTERNALLY AND EXTERNALLY IS THE ESSENTIAL STARTING POINT IN THE PROCESS OF CUSTOMER LOYALTY MANAGEMENT.

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