
CREATING CONSUMER LOYALTIES

Dear Mr. Chairman:

I've been a loyal user of your talcum powder for 20 years, with no complaints whatsoever in terms of quality, price or packaging.

Until my purchase last week. I was stunned when the latest package I purchased turned out to be altered adversely.

Specifically, the new packaging, with greater holes, is a change in the wrong direction. It was clearly done so that the powder would be liquidated more quickly and you would sell more products.

This change might make marketing sense, but it doesn't make customer sense. You are at risk of losing loyal clients - like me.

Sincerely yours,

A. Frendomine

This real letter was dispatched recently to the CEO of American International Industries, manufacturer of Clubman Talc, a leading talcum powder. The letter is typical of hundreds received every day by companies, which supply products and services. How well an organization responds to such letters may mean whether the firm keeps or loses a customer.

Since it is much harder to retain loyal customers than it is to attract them in the first place - ask any CEO - answering customer complaints is no insignificant task.

Different organizations respond differently to consumer complaints. Some, regrettably, treat them perfunctorily, noting that research indicates that only a handful of dissatisfied customers -- four per cent -- will ever complain. What they forget, of course, is that there are many others with the same complaint who never say anything.

And the vast majority of dissatisfied customers won't repurchase from the offending company.

Beware the Bedbug Letter

In the old days, a frequent response to complaint letters was to dust off the so-called "bed bug letter." This stemmed from occasional letters to the railroads complaining about bed bugs in the sleeper cars. To save time,

railroad consumer relations personnel simply responded with a prewritten letter, apologizing for the disturbance of the unwelcome cabin crawlers.

Thus, the bedbug letter.

Today, with the volume of consumer mail and e-mail and faxes at a mountainous level, many organizations still resort to the "bedbug letter" for recurring problems. That's usually bad policy.

Much better are organizations, which take their customers' complaints seriously and respond by establishing ombudsman offices to provide a central location that customers can call to seek redress of grievances.

Typically, the ombuds officer monitors the difficulties customers are having with products. Often, he or she can anticipate product or performance deficiencies. Ombuds officers are in business to inspire customer confidence and to influence an organization's behavior toward improved service. They accomplish this by responding, more often than not, with the following "magic words:"

"We'll take care of that for you."

"We'll take full responsibility for that defect."

"We want your business."

"Thank you for thinking of us."

"Consider it done."

And that, happily, is the way American International responded to the complaint letter, with a textbook response in enlightened customer relations.

Here are the steps the company followed in answering the complaint.

First, thank the customer for taking the time. No matter how hostile the incoming letter, the organization must show compassion to its customer. That means accepting that the customer meant well in bringing the problem to the company's attention. In other words, tell the consumer that you welcome the letter and cherish his product loyalty.

Here is how the talcum powder people began in response to the snippy letter they got:

"We appreciate all comments from our customers and appreciate your loyalty to our brands."

Second, challenge the negative assertions.

While you always must be nice to customers, you needn't roll over for them - especially if they make nasty and untrue allegations.

In the case of the talc, the letter writer not so subtly accused the company of changing its package solely to sell more products. If that assertion is false,

then the company should repudiate it immediately. Which is exactly what the company did.

"For the record, let me assure you that any changes made to our packaging are made solely to improve our package."

Third, explain the reason "why."

The underlying question of every customer complaint letter is "Why"?

- Why did you make this change?
- Why are you doing this to me?
- Why does this make sense to you or us?

Many companies - even those which take the time to respond to consumer complaints - waste time with irrelevant details on what was done, when it was done and by whom. Nobody cares. What complainers care about is why this was done and what can I expect in the future. In the talcum powder case, the reasons for the package change are unexpected, even shocking.

"This last change to our Talc cap was initiated from our distributors. Since 9/11/2001, America has seen many changes in our daily lives - some changes such as the one we made to the cap on our Talc bottle are unknown to most Americans"

Fourth, tell it like it is.

Don't beat around the bush. Let the complainer have it right between the eyes, i.e. here's what we did and here's why. Tell the story frankly and succinctly. Boil it down but let it out. Here's why the talcum powder folks changed their package.

"The reason the cap was changed was due to the threats of Anthrax in the USA. Our distributors were fearful that our Talc would be accidentally spilled in their stores and could be confused with this deadly chemical and requested we have a container, which could not leak accidentally. Therefore we switched to a cap which could host a safety seal and prevent accidental leakage."

Fifth, apologize, thank and reward.

No matter if you were right or wrong - apologize nonetheless. Let your client know that you regret that he had to take the time to write. Thank him again. And then throw him a bone --- a free sample or two that will cement the deal, e.g.

"We apologize for any inconvenience our packaging change has caused you. We are enclosing two bottles of Talc and a bottle of our Clubman After Shave Lotion in appreciation for your loyalty. Thank you again for your loyalty and supporting our brands!"

Case closed. Customer retained.

We are in the age of the never satisfied customer

Why should we strive to satisfy customers? It is not because we want them to go away happy, but because we want them to come back and spend more money! Customers have more choice than ever before about suppliers and they are becoming increasingly aware of their power.

Poor levels of service in consumer and industrial markets are not tolerated for long except where a monopoly exists and thankfully there are not many of those left.

A highly satisfied customer is likely to: -

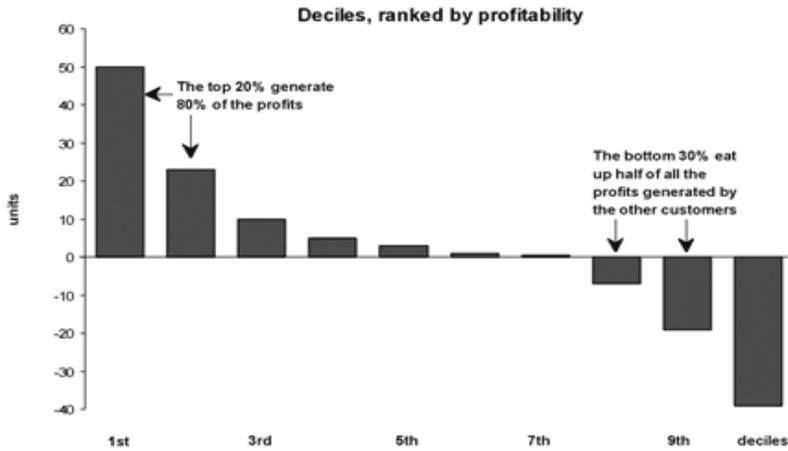
- *Buy from you again (and again)*
- *Buy additional items from you*
- *Give you a larger proportion of their spend*
- *Be easier to deal with*
- *Spread your good reputation – a satisfied customer may recommend you to five new customers.*
- *Be less concerned about price - Price is not the greatest motivator – 68 per cent of defecting customers leave because of bad service, not price or product quality*
- *Generate good staff morale*

All these attributes result in a progressively lower cost of sale, significantly increasing profitability and market share.

A dissatisfied customer is likely to: -

- *Not give you a second chance*
- *Not tell you about the problem (less than 10 per cent of unhappy customers make an official complaint)*
- *Take their business elsewhere*
- *Spread your poor reputation (one unhappy customer on average tells nine others about it and 13 per cent tell more than 20)*
- *Only buy from you on price*
- *Generate low morale among staff*

Figure 1 illustrates how most of a company's profit is likely to be generated by a small proportion of customers and how this can be significantly offset by the poor return from another group.

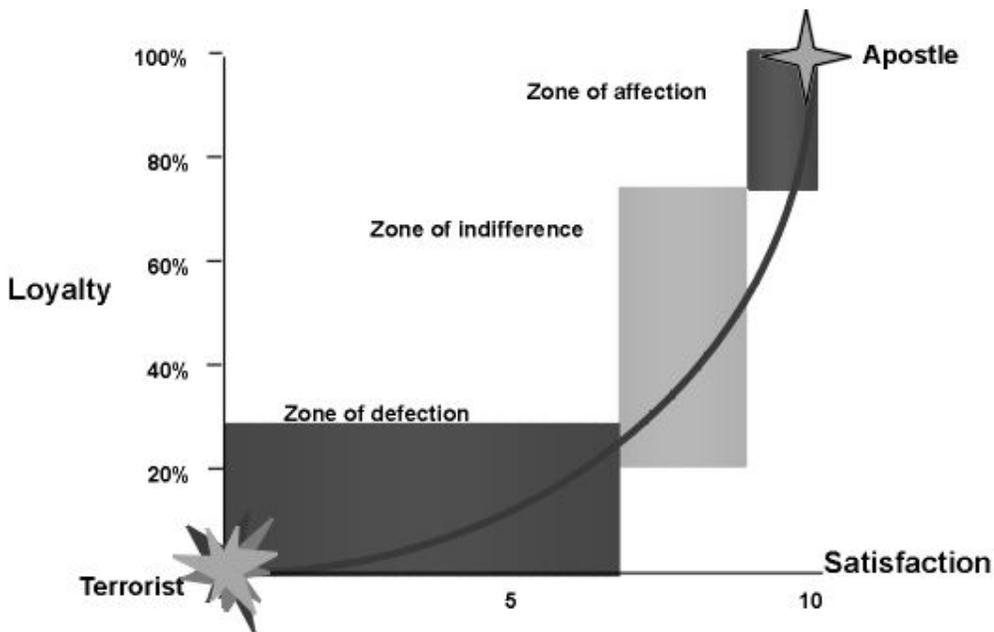


If you doubt any of these assertions, just think about the way you react when you experience poor service, and contrast it with your reaction to good service.

Focus on profitable customers

It is often quoted that it costs five times as much to attract a new customer as to keep a current one. Retention investment is therefore much more effective than prospecting and if you are spending money to gather business it must be sensible to spend some to learn how to hold on to it.

Figure 2



Source: Professor J. Heskett, Harvard Business School

At least, that is, assuming the customer is worth retaining. A further route to

profitability is through customer segmentation. Figure 2 illustrates how different degrees of satisfaction might result in different customer behaviours.

Corporate houses have long understood that customer satisfaction is the direct route to enhancing business performance and sustaining growth at those levels.

Streamlined focus on quality customer service has seen service management evolve as a core management principle, from being just a tool for customer retention. Customer service management enables better understanding of the key drivers of customer satisfaction and customer priorities, efficient allocation of resources to the critical areas that impact service, monitoring customer perceptions and expectations on critical service attributes and benchmarking against competitors and other first class service providers.

There are many more providers offering comparable products and services. In addition to the vast array of products and services, consumers have a variety of ways to buy them. ***The wealth of information that is available to consumers has empowered them, transforming them into savvy shoppers.***

Consumers have higher expectations of their providers and their expectations are related to product, price, promotion, place of distribution, and the total servicing experience. They expect providers to be increasingly relevant and consistent, yet flexible.

The surest way of achieving customer satisfaction is to deliver exactly what customers want. Delivering on the "average" customer's expectations, for the most part, does not work anymore, just as the idea of targeting an "average customer" is not practical or profitable. ***If you can deliver more than they want you will begin to achieve customer 'delight' and if you deliver less than they want you will create disappointment.***

If we look at the financial services, customers want three things from their financial services provider. They want value, convenience and they want to be recognised & valued as an individual.

Value is a time-honoured goal, which comes down to price and, as regards to financial services products, involves issues such as flexibility and portability if you're talking about, say, a pension product. Convenience is about things as simple as providing transparency and this is especially true in insurance. For example, what stage is a customer at in the claims process? Can the customer find out this information without being passed interminably from person to person? It's about offering customers the ability to contact you when and where they please, across the channel that is best suited for the interaction in question.

The rules are simple: customer retention begins by delighting the customer with a dynamite product/service and a positive, consistent purchasing experience. Customers now expect businesses to deliver excellent levels of service on a 24x7 basis, across all channels and regardless of media.

However, this is merely the first element: to create and retain lifelong loyal customers in today's business scenario, businesses must also provide ever-increasing value.

Customer loyalty has a powerful effect on the business bottom line. The Harvard Business Review statistic shows that a 5 per cent increase in retention can result in a bottom-line profit increase of up to 75 per cent, depending on the industry. The dramatic economic power of customer retention is revealed when viewing customers in terms of lifetime value (LTV). The value of retaining customers makes perfect business sense when one considers that a consumer retained for life is more cost effective, requires less service, provides more business and contributes to new customer acquisition by offering positive referrals. For the average business, studies indicate that repeat business accounts for 70 per cent of total revenues. Achieving high levels of customer satisfaction will result in a wide range of benefits, which grow your business, and this is why it should be our primary focus.

Businesses all over the world have to deal with savvier consumers – made so by the wealth of information available to them. Car dealers are now dealing with customers who understand their mark-ups and the costs of specific accessories and options. Technology buyers can access direct product head-to-head comparisons that enable them to compare productivity costs for various automation products. In the world of consumer packaged goods, especially food products, all ingredients (and their nutritive values) and unit prices appear on packaging, encouraging comparison shopping.

Customers Want to Remain Loyal. Although customers have many choices, in general they don't want to make all of those choices on an ongoing basis. As a time-strapped society, we really don't want to invest our precious time in shopping each and every transaction. The trend is to move toward simplifying choice. There is increased interest in going into "autopilot" across many purchase categories. These ranges from auto-replenishment of groceries delivered to the door to registries of all sorts. And a meaningful brand provides that "autopilot" vehicle.

People Still Matter. Although our sales, marketing and servicing processes may be increasingly automated—and need to be automated may be necessary to cut costs—keep in mind that most consumers are still exposed to some amount of human interaction with your business.

The keys are to:

- Determine which interactions should involve a person rather than an automated recording or email reply
- Determine how best to deliver fewer, higher-quality person-to-person interactions.

FUTURE TRENDS

What are the implications for the future?

- First, we will need to acknowledge the inherent variability of consumers' expectations.

- Second, we will see greater divergence in organizations' abilities to deliver on their promises.

Those who win will be able to:

- Define and focus on core customer groups
- Define a relevant, feasible value proposition for that core group
- Deliver improved, consistent experience across all points of interaction, resulting in a stable, positive perception of the brand
- Streamline business processes and adopt technology solutions to accomplish all this effectively and efficiently

In a fast-changing world with constant innovation, not only do the products change, but the rules of business change. Protecting one's self-interest requires one to figure out how to be effective in the new context. In these cases, as companies try to sell a customer an innovative product, they must first sell new ideas or concepts.

A newsletter I received recently from Harley-Davidson was no ordinary newsletter from corporate headquarters. It had been sent from the local Harley-Davidson dealership. Clearly, this local business had invested a substantial amount of time developing the newsletter. It was very well crafted. A cynic might conclude the owner had a relative working in Web programming. But then I discovered this e-newsletter wasn't an innovation confined to one dealer. It turned out every Harley-Davidson dealership was sending local newsletters to its local customers. And, guess what. These localized newsletters sported the same branded graphics.

Harley-Davidson had handed over the responsibility for local communications to local dealers. Now the people who know their audiences and environments best were doing the talking.

What's more, I found Harley-Davidson had established a series of national templates with an interface to allow every local dealership to customize newsletters. But most impressive of all is the comprehensive database, loaded with hundreds of articles that Harley-Davidson and the e-letter company it is working with had established. This enables those local dealers to provide articles of interest to their customer groups. The result? A relevant, localized e-newsletter that conveys the Harley-Davidson tone of voice and is well written and Harley-Davidson branded.

Brands must have a local focus. The strongest brand loyalty is created between people or, if this is not possible, between people who know people -- local communities.

Our everyday lives are defined by human relationships, and it's upon these that our loyalties are built. Consumer loyalties are toward things they know and trust; things that are local and relevant to them. And therein lies the imperative for your brand building: Your brand's communication strategy must have a local voice. Tie your message, whether it's global or national, to local topics. Make it relevant. This is how brands can shed their arrogance, build consumer awareness in human terms, and win loyalty like they've never seen before.

EDUCATIONAL ENTERPRISE

Considering Indian middle-class families have always been obsessed with getting the best education for their children, FMCG majors such as Hindustan Lever Ltd. (HLL) and Proctor & Gamble (P&G) have been riding on the scholarship platform for most of their brands. Having slashed ads spends to protect margins, luring consumers with scholarships has become the trend for these companies.

From Hamam to Clinic Plus, to Fair & Lovely to Surf, HLL has been steadily increasing its scholarship offerings. Although the company is not in a position to translate these educational schemes into immediate growth for the respective brands, it has been trying to woo the average middle-class Indian family to become loyal to its brands. States an HLL manager, "It all depends on the positioning of the brands. Brands like Hamam, Surf and Clinic address the family. Getting a scholarship is an achievement for them and once they get it they are bound to be loyal to the brand for the rest of their lives".

In fact, HLL managers also feel that giving freebies is not expected to help in the brand-building process, unlike scholarships, which can build brand loyalty. Multiaction Surf is currently running a 'Colour Your Future' contest, offering scholarships to children to study abroad. Its heritage brand of Surf, which was relaunched on the Kidstains platform last year, has stretched its equity to the kids' market by aptly launching a scholarship, which will be in the form of Rs one lakh and Rs five lakh fixed deposits.

As part of Standard Chartered Bank's 150th year anniversary celebrations, the Bank embarked upon a Group-wide initiative - **Customer Week** - which focused on unique and creative ways to deliver 'The Right Partner' experience to its customers. The Bank held career counselling sessions providing an opportunity for students to interact with leading organisations and professionals from diverse fields for personal career counselling, planning and development.

It also announced scholarships for two Indian students to complete their Masters degree at the London School of Economics and Political Science (LSE). This is the first time that Indian students have been awarded the Standard Chartered Bank scholarship.

Unleashing the potential of children is the global positioning for HLL and Standard Chartered Bank in India. At present, both companies have heightened their public relations activities on this scheme and have been trying to market the concept across the country.

(Excerpted from the workbook of PR Pundit's workshop held in Mumbai on September 10, 2003)