Building the Advocacy-Based Customer Loyalty Roadmap

Executive Summary

Organizations need to rethink customer loyalty. Traditional loyalty programs are not aligned tightly enough with consumer behavior. Many will keep their loyalty account open with minimal interaction in the hopes of scoring something for nothing. But increasingly, the old "one-dollar-spent-equals-one-point" regime is out of step with the way people shop today.

Today's consumers rely heavily on the Web for researching purchases, with many spending 75% or more of their total shopping time on Web research, according to "The 2011 Social Shopping Study."[1] This research encompasses a variety of community and social tools, including user-generated product reviews (59%), customer-to-customer Q&A's (42%) and community forums (26%).

Consumers are also adept at using social media like Facebook, YouTube, Twitter and community forums to broadcast their feelings — positive or negative — about products and services. Important subgroups include aficionados who become passionate advocates for the brands they adore, as well as vocal detractors who complain about a negative experience they've had with a brand. Your loyalty program needs to capture and account for both types of online sentiment and interact with consumers on social media; otherwise, you will miss a major opportunity to nurture the genuine loyalty espoused by advocates or fix the problem of complainers and turn their negative rants into positive ones.

Today's ticket to loyalty is to engage with consumers socially — on their terms — providing recognition and rewards commensurate with value. Then, you use social capabilities to build further upon those special relationships, creating loyal customer advocates who will in turn influence others in your favor.

This white paper lays out the new loyalty framework and offers suggestions on how to engage with and reward your customer advocates on social media.

The Loyalty Rules Have Changed

Few things are higher on executives' agendas than creating a superior customer experience to drive lasting loyalty. In a world where it is quick and seamless for a customer to switch allegiance to another provider, companies must offer customers — both consumers and businesses — the holistic, fulfilling experiences they desire. Customer experience has many components, including everything from the look and feel of your product and environment, to how you deliver your service, to the color and font on your Web site, to your degree of corporate responsibility. Your customer loyalty program is another important facet of your customer experience, one that can significantly boost — or detract from — your customer's experience. What's tricky is that almost everything you think you know about loyalty is wrong.

Companies in industries such as airlines and car rentals traditionally approached loyalty programs as a simple points-earned system in

which customers receive perks or rewards commensurate with their spending. Simple, yes. But effective? Not necessarily.

Most companies have no working definition of loyalty — meaning they don't know how their organization defines and quantifies loyalty. For some, the best definition of loyalty is just that the customer belongs to the company's loyalty program. Buying something once a year may be enough to keep the customer in the program and, therefore, in some sense "loyal."

> **Under the new definition of loyalty, a loyal customer is one who is delighted with your services and, therefore, talks about his or her experience on social channels, thereby increasing equity for your company and brand.**

But this bar is too low — the mere act of joining a loyalty program says nothing at all about real loyalty. Every consumer has a wallet or purse full of loyalty cards, but most will go to whatever provider is least expensive or offers the best perk at the moment. Participating in the battle of the discounts does not lead to higher profits. Nurturing real loyalty, therefore, involves recognizing customers with the greatest lifetime potential, as well as current status, and providing perks that address their personal desires with a strong "social" element.

From Loyalty to Advocacy

At its peak, loyalty is a two-way street. You provide your most valuable customers the value they desire, advocating for them by operating honestly and responsibly, while on the other side of the aisle, your customers become advocates for your products and services. A customer who becomes an active advocate for your company is a true treasure. This person can talk about your brand, engage others in discussions about it and influence more people to buy your products and services using social environments like Facebook as his or her platform.

Social media has transformed the way people shop. With the exception of a small number of markets and demographics, customer loyalty no longer exists separately from online social interaction. According to the Edelman Trust Barometer for 2011, people are much more likely to use a search engine (29%) than a corporate Web site (11%) for information, where they are just as likely to find peer opinions as corporate-controlled information.[2] Most people — nearly 60% — need to hear something about a specific company three to five times before they believe it, according to

the Trust Barometer, making advocates' frequent communications that much more valuable.

Once trust is built, it has a protective effect on reputation, according to Edelman. That's because once a consumer considers your company or brand trustworthy, most (51%) will believe positive information after hearing it just one or two times vs. 15% when the company is distrusted. Advocates thereby serve the critical function of planting and sowing the seeds of loyalty in others, and the fact that they do it without interference from you, the company, makes their actions much more valuable in their peers' eyes.

Under the new definition of loyalty, a loyal customer is one who is delighted with your services and, therefore, talks about his or her experience on social channels, thereby increasing equity for your company and brand. Achieving loyalty in today's real-time, virtual world, therefore, requires mastery of social media tools and related collaborative technologies to build meaningful customer relationships. Figure 1 (next page) provides the new equation surrounding customer loyalty.

Breaking down the customer relationship to its simplest elements shows where loyalty is born. First, a customer or consumer buys your product or service based on need or desire. If the purchase brought satisfaction when consumed, it increases the trust this consumer has in your product/service, as well as your organization. This, in turn, boosts your organization's brand image, resulting in an increase in your ability to deliver value to consumers, since you now understand their needs better. This also increases the trust consumers have in your product or service, which further enhances their loyalty.

If you can capture the loyal base of such customers through a membership program and provide them recognition and relevant rewards, this generates more good feelings and conversations about your product or service on social media and elsewhere, producing advocates for your product or service. In theory, at least, customer advocates will increase their consumption of your organization's products and services, resulting in more satisfaction and greater loyalty. Thus, this virtuous cycle repeats.

The key to enhancing loyalty is building social advocates. To do this, you will need to increase your interaction and engagement with your customers in general and loyalty program members in particular.

The Advocacy-Based Loyalty Framework

Figure 1

Instant Engagement

The Dutch airline KLM has excelled in customer engagement by converging loyalty and social media with its "KLM Surprise" campaign.[3] To combat the near-universal weariness of air travelers, KLM decided to bestow "Random Acts of Kindness" on a few lucky travelers. KLM followed passengers' airport tweets, checked their profiles and offered them personalized presents, based on their interests and worth about $100, such as a gift card to their favorite retailer.

For a modest commitment of time and money, KLM provided customers and prospects with an instant dose of attention aimed at making them feel special. As KLM targeted individuals who were already Twitter users, these cost-effective acts generated a great deal of immediate buzz – in the best cases spreading happiness, according to the tagline – for the airline.

One can well imagine the impact this program had in generating good feelings and customer loyalty. It certainly generated a lot of discussion. According to Digett, the KLM Twitter feed had 1 million unique views the month the program began.[4] Many KLM passengers – even those who did not receive a Random Act of Kindness – were proud their airline displayed a kind, human side in an industry where extra charges rule the day. Such initiatives may, in fact, be more effective in driving real customer loyalty compared with frequent flyer programs, where members rarely earn enough points for a free flight (80% by some estimates).[5]

Make it Fun

The use of game dynamics, coupled with rewarding loyal behavior through the use of achievement systems, is another increasingly popular strategy with leading-edge organizations. For example, PepsiCo recently used the social networking site Foursquare to pinpoint loyal consumers and reward them with "Gold Tickets" to a Big Boi concert.[6] According to a campaigner blog piece, the Golden Ticket was unlocked by 2,400 people, and there were more than 2,000 Foursquare check-ins at the Big Boi concert, giving the Pepsi campaign extra fizz.

The application of location-sensitive and mobility technologies enables organizations to engage with consumers at the point of presence, increasing the frequency with which they interact with timely and relevant offers. For example, Hallmark leverages Facebook credits to incent users to interact with its Facebook application, The Hallmark Social Calendar. Users are encouraged to create social calendars with the important dates from their lives, with the opportunity to earn Facebook credits that can be used for virtual merchandise.[7] These programs are clearly popular with consumers, though it is still a bit early to judge their returns.

Building Advocates via Social Media

Creating advocates for your brand and company will be the key to competitive advantage going forward. Today, it is hardly an exaggeration to say there is no greater power than social influence. Attempting to drive loyalty without the addition of social capabilities will marginalize your efforts. At the same time, you will need to integrate unstructured data acquired from social platforms into your structured CRM system and other back-end systems to generate a holistic view of the customer.

The rise of social media and collaborative technologies has forever changed customer loyalty. Offering your customers points and rewards for their continued patronage is no longer enough. Facebook and Twitter, among others, are powerful tools for customers to interact and share their views on products and brands. Given the power of online influence today, it is critical to target and reward your loyal brand advocates via social capabilities. In this way, you can help your advocates plant the seeds that will grow new advocates for your brand, adding up to higher sales, lower cost of customer acquisition and less inclination to switch to another brand.

Footnotes

[1] "The 2011 Social Shopping Study," The E-Tailing Group, June 2011.

[2] "2011 Edelman Trust Barometer Findings," Edelman, 2011,
http://edelman.com/trust/2011/uploads/Edelman%20Trust%20Barometer%20Global%20Deck.pdf

[3] "KLM Surprise: How to Effectively Stage a Small Social Idea," davaidavai.com, Jan. 5, 2011.
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[4] "KLM Surprise: How a Little Research Earned 1,000,000 Impressions on Twitter," Digett, Jan. 11, 2011.
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[6] "Follow Big Boi, Unlock a Golden Ticket Badget, Party with Him and Pepsi MAX at SXSW,"
Foursquare Blog. http://blog.foursquare.com/2011/03/07/follow-big-boi-unlock-a-golden-ticket-badge-party-with-him-and-pepsi-max-at-sxsw/

[7] Tom Edwards, "15 Brand Examples of Gamification," iMedia Connection, Aug. 3, 2011.
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