

Don't Over-Invest in Your "Best" Customers



Many sales and marketing professionals assume that loyalty marketing* is simply about focusing on their best customers. This conventional thinking can lead companies to over-invest in their largest customers and miss the opportunity to achieve true organic growth – i.e., driving incremental revenue from the existing customer base.

A company's largest and best customers certainly deserve care and attention. A focused retention strategy should appropriately center efforts maintaining those customer relationships. Yet, executives and managers need to recognize that the largest, or top, customers are not necessarily the most appropriate audience for the largest share of loyalty marketing spending.

Organic Growth – Making Loyalty Marketing Work

Most of us are familiar with the many studies, particularly Fred Reichheld's**, about how much more profitable it is to keep current customers than to acquire new ones. The real leverage actually is profitably growing their revenue stream over time, not simply retaining them as "loyal customers." Extending this line of thinking leads to a different way of considering and segmenting your customer base, toward building your business organically.

Regardless of how you measure it – annual spend, profitability, tenure – the best spend of your precious dollars is on those best customers who have the most "available incremental capacity" for your business offering. This usually means they can either buy more from you or at the least they can refer more customers to you.

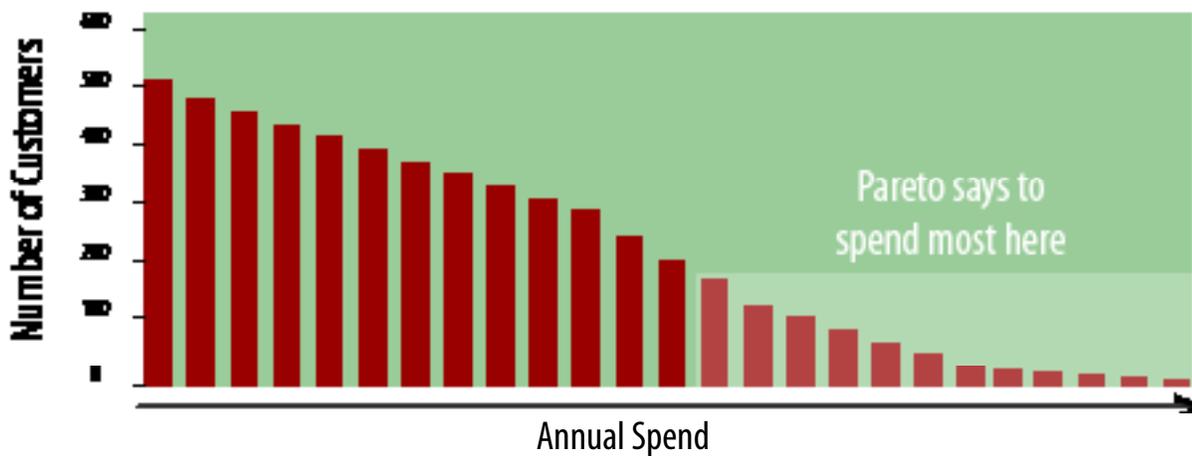
These customers may be those who spend the most with you today, the ones who have been with you the longest, or the ones who shop with you most often. However, many of these traditional "best" customers may also be customers, however, that have little additional purchase volume to allocate. Moreover, they often require the most customer service, the most "special treatment," or the most product-return handling. These inefficiencies lend further rationale for reallocating your sales and marketing spend to what we call High Capacity Customers (HCCs).

Determining Your Customers With Highest Capacity For Growth

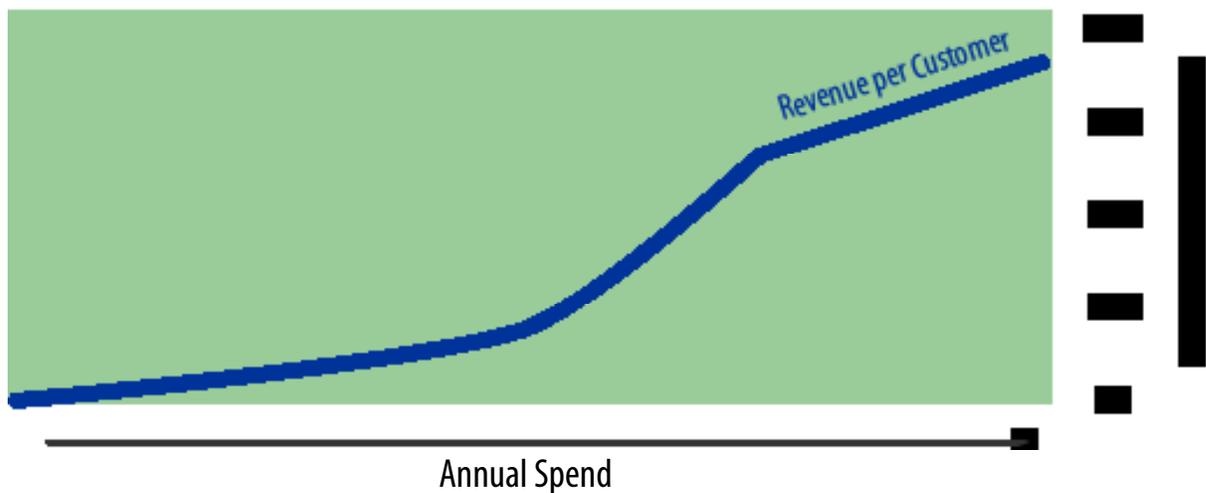
With all due respect to Pareto, the often-applied "80/20 Rule" is an oversimplification – "80% of my revenue comes from 20% of my customers. So, I should dedicate most of my marketing spend on that 20%, correct?" This is not always true.

In order to understand how Pareto's Law applies to your customer base, you have to break down both the 20% and the 80% into their "decile" components and consider what they represent as a function of both customer spend and share of customer. This higher resolution segmentation will help you to understand how Pareto's law applies to your customer base.

Below is a graph that shows the distribution of customers based on how much they spend with you. Nothing new here – the right side of the graph reflects that a very small number of customers are purchasing a lot from you. This is the essence of the 80/20 rule.

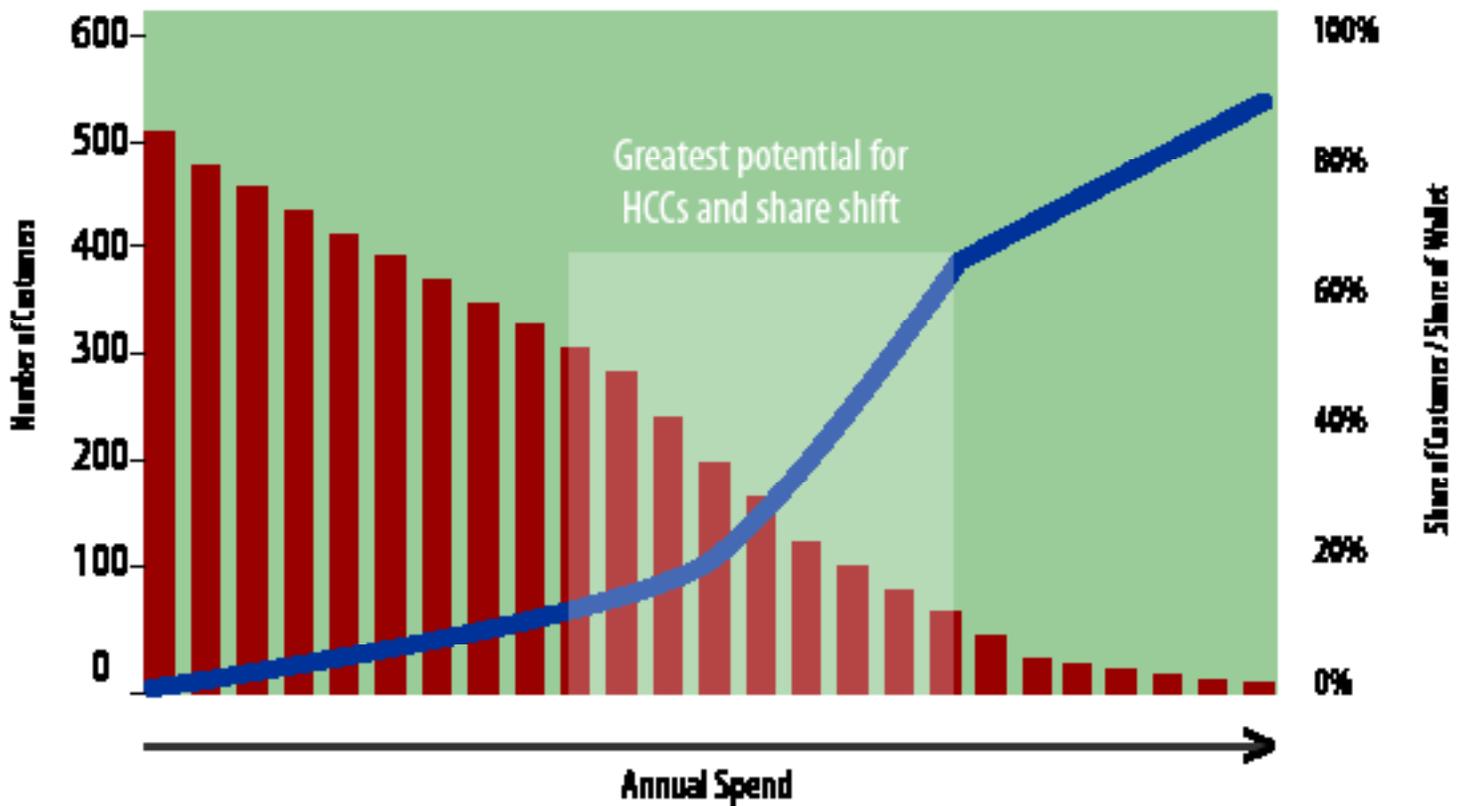


Now look at a graph that relates how much your customers spend with you to the "share of wallet" you hold with them. This chart shows that the customers on the right side of the chart, who are buying a lot from you, also are spending most of their budget for these products/services with you. You have no doubts that they are solid customers.



Determining Your Customers With Highest Capacity For Growth (continued)

You could ask and encourage many of these great customers to spend more with you, but reality shows that their capacity to spend more may be limited, as you already receive a large percentage of their budget. The key is to identify and invest in your High Capacity Customers – high-spending customers with whom you have the greatest opportunity to grow your company's share of their total spend. Let's overlay these two graphs to show where this opportunity exists:



Generating Growth Through Your "High Capacity Customers"

Following are eight recommendations for you to consider toward generating organic growth for your business – and doing so profitably:

1. Determine total wallet – total spent by each customer – and your share of wallet. (We will be glad to talk with you about different ways to measure and analyze this.)
2. Know the dynamics of why you don't have the share of wallet that is yours to acquire/own.
3. Be sure that you want the share of wallet that you don't have. More specifically, can you satisfy that incremental demand?

Generating Growth Through Your "High Capacity Customers" (continued)

4. Develop an idea of what customers will give you in the future by performing the decile analysis mentioned above or some other segmentation of past spending. While past customer behavior is an indicator for future behavior – and this is important – the "future" component tends to get lost in the mix.
5. Understand your customers' values and behaviors. Conduct a survey. Compare what the survey says to the behavior seen in the analysis above. Make sure that customers' experiences are differentiated and relevant.
6. Allocate spend to the segment where you can realize the biggest bang for the buck based on both the values and behavior.
7. Measure the change on a routine basis to see if your reallocation drives the change in spend.
8. Simultaneously operationalize customer "hand holding" and use an appropriately-designed loyalty program to merchandise it.

Considering The Top 10% Of Your Customer Base

Your top customers obviously still require attention, but not necessarily the bulk of your marketing spend.

Consider an example of a top tier customer group:

For your "elite customers" that purchase most of their product or service needs from your business, there is not much room for incremental growth. If they do not purchase the remainder of their requirements from you, it is probably because of some serious issue that you may not want to address, such as pricing pressure, location, or product offering. So, if premium spend against this top tier is not the goal, then what is? For this customer group, you should protect your revenue base by:

- a) Measuring to insure that their behavior remains positive
- b) Creating experiences to make them feel special
- c) Encouraging referrals

Here, the intent is to deepen the relationship through trust and commitment – perhaps creating the feeling of a "special membership" only available to a few. Typically you can utilize your sales force to generate this relationship via face-to-face meetings. Create advocacy through "best customer advisory groups."

Just as you should not spend marketing dollars on your bottom 10%, you should not waste efforts here that cannot increase customer spend above possible capacity.

Taking Action

In summary, your goal is to allocate your sales and marketing dollars where you can see the greatest impact. Understand who your "High Capacity Customers" are and spend accordingly. Take care of your existing "best customers" through a combination of communications and relationship building tactics requiring little or no spend along with cost-effective, longer-term initiatives, such as a well-designed, relevant loyalty program. Measure to see the impact. Adjust. Refine. Repeat. And enjoy the growth!

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** Loyalty marketing – the process of identifying, maintaining and increasing the yield from most profitable customers through interactive, value-added relationships – is commonly viewed as a long-term strategy. While incentive programs and promotions can effectively complement loyalty marketing, they typically are more short-term focused.*

*** The Loyalty Effect, Frederick Reichheld, Harvard Business School Press, © Copyright 1996 by Bain & Company, Inc.*

About Loyaltyworks

Loyaltyworks designs and manages a wide array of B-to-B loyalty and incentive programs all with a focus on measurable results. For nearly 30 years, Loyaltyworks has successfully implemented employee recognition, sales incentive, customer/channel loyalty and performance improvement programs, among others.

Loyaltyworks supports its programs with a full range of capabilities and services, and approaches client relationships based on core values of openness, ease and accountability. The result – clients find it easy to do business with Loyaltyworks and be successful.