Cultivating fiercely loyal customers requires ambition and risk-taking, but will ultimately provide your company with valuable and sustained relationships.
It is a common observation: as soon as the plane lands, at least half the passengers quick-draw their Blackberries to check their e-mail and voicemail. The device responsible for this behaviour is sometimes mocked as a ‘crackberry’ or ‘an extra appendage.’ Some may see this as a sad commentary on modern business life, but it is also evidence of fiercely loyal customers.

Most of the quick-draw artists on the plane will also likely be members of the airline’s frequent-flier program. Whereas the Blackberry derives loyalty from an easy-to-use interface, consistent service, and a robust device design, the airline derives loyalty from a complex and expensive reward program that includes call centers, free product giveaways, and sophisticated accounting practices. A recent study reported in Brandweek shows that offerings such as the Blackberry (along with similar products from Samsung and Palm) and Google have the most-loyal customers, while companies such as, for example, American Airlines have increasingly less-loyal customers.

The companies at the top of this survey share a set of common factors: they offer products and services that are easy to use, and address a holistic set of customer needs. In other words, they are well designed. This evidence suggests that traditional levers for creating loyalty (reward programs and contracts) are easy to copy and increasingly less effective, and that those companies should look to new, more-powerful levers to build better relationships with their customers.

The Never-Ending Quest for Loyal Customers
Creating loyal customers remains a goal (often articulated as the most important goal) of most companies. Estimates put the number of books on customer loyalty in the thousands. In North America alone, companies spent $1.2 billion on loyalty programs in 2003, and this number is increasing. There are more than 8,600 supermarkets, 50 airlines, 30 phone companies, 20 hotel chains, and dozens of credit cards that offer loyalty programs. However, according to McKinsey & Company, organizations often underestimate the full cost of setting up loyalty programs, and then, even if sales increase, the program may actually result in losses.

In a nutshell, customers are less loyal, and loyal customers are less profitable, than most companies estimate. Much of this can be attributed to increased choice and availability of information. However, we should not overlook the fact that many organizations have incomplete and old beliefs about loyal customers. (see Figure One). This evidence begs the question: should companies be concerned about creating loyal customers? And, if so, what tools can a thoughtful design manager employ to build more sustained and mutually beneficial customer relationships?

Traditional levers for creating loyalty (like reward programs and contracts) are easy to copy and increasingly less effective.

<table>
<thead>
<tr>
<th>Old logic: loyal customers...</th>
<th>In reality: loyal customers...</th>
</tr>
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<tbody>
<tr>
<td>Cost less to serve</td>
<td>Have higher expectations from your organization and your offering</td>
</tr>
<tr>
<td>Will pay more for your offering</td>
<td>Experience helps them to get the best price from your organization</td>
</tr>
<tr>
<td>Are receptive to cross selling</td>
<td>Are very sensitive about your organization taking advantage of their loyalty for marketing and price increases</td>
</tr>
<tr>
<td>Will create positive word of mouth buzz for your brand: they will market it for you</td>
<td>Are not reliable marketers, and do not always present accurate and positive messages</td>
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In addition, companies spend a great deal on technology to help them manage their customers – with less than stellar results. In 2004, North American companies spent $10.9 billion on customer relationship management systems. However, only 28 per cent of companies that implemented a CRM system last year believed it led to any improvements.

Despite these efforts, and not including customers of outliers like Google and Samsung, consumers are increasingly less loyal to brands and products. For example, food retailers will lose up to 40 per cent of their new customers in three months, and only about 10 per cent of customers are 100 per cent loyal to certain consumer products.
Traditional loyalty efforts produce customers who are only marginally loyal, and they make it easy for customers to switch to competitors.

Loyal, and they make it easy for customers to switch to competitors. In contrast, completely satisfied customers become fiercely loyal customers, exhibiting the qualities that were once assumed common for all loyal customers. But this class of customer loyalty can be difficult to cultivate; it requires an integrated approach to design, development, sales, and marketing, and it cannot be achieved with a stand-alone program.

Figure Two details the six available levers for creating customer loyalty. The three levers on the left are the more common strategies. Customers (both consumer and B2B) are becoming more adept at avoiding lock-in; it is not a desirable condition from a customer’s point of view. These levers operate under the false assumption that programs can change and control customer behaviour. Although the programs may see initial success, customers will soon learn how to extract the maximum value from them while contributing limited value and loyalty.

The three levers on the right create more-sustained, fierce loyalty, and they reinforce and enhance customer behaviours. Not surprisingly, the three levers on the right benefit the most from integrated design efforts, which suggests that design managers have a more important role in building customer loyalty than is generally accepted.

To create fiercely-loyal customers, companies will often employ several levers simultaneously. To illustrate this point, we’ll look at two examples: Wal-Mart and Apple.

Wal-Mart: Favorable Economics and Emotional Connection
Among retailers, Wal-Mart’s customer base is second in loyalty only to that of Target. The company has created a sophisticated system of partner relationships and logistics that provide its customers with consistently low prices. Customers are loyal to Wal-Mart because of the favourable economics created by these systems. In addition to price, Wal-Mart has created a close emotional connection with its customers. Despite recent stories of labour and sourcing issues, most of them are fiercely loyal to the brand. Wal-Mart uses design strategically, creating a brand and a store environment that is aligned with the beliefs and values of its core audience. That audience is attracted to simple, uncomplicated signage and merchandising, and a store look that embodies economy. It remains to be seen how recent efforts to add more upscale elements to the store will affect the core audience.

Apple: Emotional Connection and Distinctive Solutions
Apple is commonly mentioned when discussing customer loyalty, and it is especially instructive in this case; it would be difficult to identify a brand with more-loyal customers. This high degree of loyalty results from the application of multiple, well-integrated, levers. Apple has honed and strengthened this emotional connection over the years. The company also offers its customers unique solutions, such as the iTunes/iPod system. Customers are loyal to the iPod because it made digital music easy to use. Other digital music systems required users to understand a dizzying array of file extensions, to log on and establish accounts with several service providers, and ultimately to live with a device that was not an attractive or desirable object.

A Guide for Creating Fiercely Loyal Customers
As noted above, design and design thinking (both within the internal team and with

<table>
<thead>
<tr>
<th>Lever</th>
<th>Loyalty programs</th>
<th>Contracts</th>
<th>Limited choice</th>
<th>Distinctive solution</th>
<th>Emotional connection</th>
<th>Favorable economics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source of loyalty</td>
<td>Repeat purchase builds rewards</td>
<td>Obligated, early termination results in fee</td>
<td>Other choice is nothing</td>
<td>Best solution for customer needs</td>
<td>Customers are aligned with / buy into brand</td>
<td>Best economic proposition</td>
</tr>
<tr>
<td>Example</td>
<td>AA advantage</td>
<td>Cell phone contracts</td>
<td>Utilities</td>
<td>Total Merrill from Merrill Lynch</td>
<td>Apple</td>
<td>Wal-Mart</td>
</tr>
<tr>
<td>Challenge</td>
<td>• Expensive • Easy to copy • Customer loyal to program, not brand</td>
<td>• Can create adversarial relationship with customers • Can lead to complex accounting</td>
<td>Subject to privatization and monopoly regulation</td>
<td>• Complex to manage • Requires constant updating</td>
<td>Requires deep customer knowledge</td>
<td>• Hard to manage • Can lead to low profits</td>
</tr>
<tr>
<td>These levers:</td>
<td>• Modify customer behaviour • Can easily be copied • Create marginal, temporary loyalty</td>
<td>• Build on / leverage existing behaviour • Are difficult to copy • Create sustained loyalty</td>
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consultants) can play a critical role in customer loyalty efforts. A design team’s core value lies in developing economical and user-centered solutions and/or creating emotive and meaningful brand experiences, which ultimately are responsible for creating the most loyal customers. Figure Three details how design efforts can be employed as part of the three most powerful levers.

So far, we have shown that traditional loyalty efforts will not create completely satisfied, and thus fiercely loyal, customers. We have also argued that design is well positioned to create this new class of loyalty. The challenge remains for design managers to articulate this argument within their companies and then to build an integrated approach to employ more effective loyalty levers. When implemented properly, these efforts will create customers who:

* are more accepting and accommodating of product launches that require further iteration and refinement;
* will be instrumental in moving your offerings from early adopter to early majority markets; and
* can become partners in your innovation and development efforts.

Although implementation at your company will vary based on culture and industry, the following guide outlines a four-step process for defining the appropriate levers, design interventions, and organizational strategy for creating fiercely loyal customers.

### 1. Shift mindset from ‘lock in’ to ‘lock out’

The first step is both the most important and the most challenging. It requires you, the design manager, to immediately shift the focus, first of your team, and eventually of your future collaborators, to the correct path for achieving customer loyalty. Most loyalty programs are based on a company-centered point of view, and they attempt to lock customers in to services and offerings.

When a company takes a customer-centered point of view, which is ultimately required if you intend to create completely satisfied customers, the corporate focus needs to change. The goal of the loyalty efforts should be to provide products, services, and communications that are so compelling and distinctive that customers do not even consider switching, essentially ‘locking out’ competitors and substitutes.

Although initially challenging, this change in focus will be liberating. Most of the people in your organization will not disagree with this suggested change (there are few companies that do not give at least lip service to “putting the customer first”). However, despite their agreement in principle, many of your colleagues will not be converted until they begin to see change and results. It is critical for the design team to remain vigilant, positive, and dedicated to the effort during the uncomfortable period between initial agreement and full buy-in based on results.

### 2. Diagnose the situation

Once your colleagues agree in principle, the design team should begin an analysis of the current situation. The team should gather data to help answer the following questions:

* How loyal are our current customers?
* What levers do we employ to build their loyalty?
* How effective are these levers?
* How loyal are our competitor’s customers?
* What levers do they employ?
* Do our competitors do anything related to loyalty that we wish we did or wish we could do?
* What can we learn from companies in other industries?

Much of the loyalty data may already exist. However, it is important to understand the methods used to collect the data and the objectives of each study. Loyalty studies, like any good piece of research, need to limit bias. Often, these studies can be biased to show loyalty being stronger than it actually is. Ideally, you want to be able to identify customers who are not satisfied, somewhat satisfied, and highly satisfied, and the drivers behind each segment’s current state.

### 3. Choose the right levers

Your situation diagnosis will help your team to understand what gaps need to be filled in order to create more loyal customers. Your study will also likely reveal opportunities created by your competitor’s myopia or company-centered focus on loyalty. Now, your team can select and then detail the appropriate levers.

* Set realistic and appropriate goals. Your team should be sensitive to the presenting condition and position of your customers. If you have identified that the majority of your customers fall in the lower range of somewhat satisfied or even not satisfied, it may be difficult to move all the way to fully satisfied with one set of interventions. In fact, these customers may prefer your organization to focus on getting the basics right before they will become more loyal. It is critical to set goals that are appropriate for your customers and that can be
achieved by your team. This is truly a case where it is smarter to under-promise and over-deliver.

- Identify existing and new organizational capabilities. Your selection of levers should be aligned with your organization’s capabilities. So, if your company does not have the sourcing and logistics capabilities to deliver low-cost offerings, selecting favorable economics as a lever may not be the appropriate choice. There may be some instances in which the team identifies new capabilities that need to be developed or nurtured. This will require additional collaboration and resources; developing a new capability is a strategic decision.

- Use multiple levers simultaneously. As noted earlier, several levers should be employed for maximum impact. Ideally, these levers will be mutually reinforcing. For example, if you choose to deliver the lowest price to achieve favorable economics, you should also be able to create an emotional connection with your customers based on offering them a low price – this should be a key benefit for your customers.

Customer loyalty is not created by a stand-alone program. It is the result of orchestrated efforts of marketing, sales, product development, and strategy.

**4. Develop an integrated approach**

With a set of interventions defined, your team can now begin to plan the implementation with other disciplines and functions. To the extent it is possible, you can include a broader coalition during development, but at this point it is critical to move efforts to a larger, more cross-functional team.

At the core of this integrated approach is the idea that customer loyalty is not created by a stand-alone program but is the result of orchestrated efforts of marketing, sales, product development, and strategy.

It is critical at this point to create a coherent business argument for loyalty. Despite the common sense and clear benefits of creating completely satisfied customers, there will no doubt be individuals in your organization that still require convincing. A tool for making this argument and for engaging skeptics is the profit/satisfaction matrix illustrated in Figure Four. This tool integrates your design-focused research, which segmented customers according to loyalty, with research that likely lives in the finance department and details which segments of customers are most profitable.

Combining these data into a single model will require some cleaning and modification, but it will create a common tool to help guide and shape a robust strategy. This model also will force a much-needed collaboration among design, marketing, sales, and finance. What is important is that this model will move the customer loyalty conversation to a strategic level of the same rank as profitability. Although not always acknowledged, profitability and customer loyalty have a mutually reinforcing relationship:

- If you just focus on creating profitable customers, without trying to make them completely satisfied, your competitors can easily poach these highly valued customers.
- If you just focus on creating “completely satisfied” customers, without understanding profitability, you may rack up losses serving them.

Depending on the nature of your business, it may be possible to put individual customers (likely in a B2B environment) or customer segments in each cell in the model. Figure Four lists strategies as appropriate for customers or customer segments in each cell.

**Summary Thoughts**

All companies should strive to create fiercely loyal, profitable customers. This can be achieved only through rethinking existing logic about customer loyalty and loyal customers, integrating loyalty efforts with offering development, marketing, and sales, and close collaboration between the strategy and design functions within the organization. Cultivating fiercely loyal customers requires ambition and risk-taking, but will ultimately provide your company with a valuable and sustained relationship.

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