

Study Identifies Traits of Loyalty Leaders

In June of 2001, Tempest and the Seidman Business School at Grand Valley State University completed a study on business executives' perceptions about customer loyalty. The study identified a unique group of companies that had significantly higher customer retention rates.

Loyalty Leaders Maintain 95 Percent Customer Retention Rates

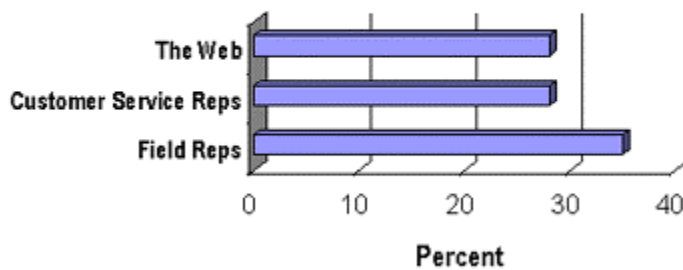
Tempest targeted businesses that had the same characteristics as their best customers: companies with projected annual growth rates of five percent or more and a computer infrastructure of 25 personal computers and 5 laptop computers. The GVSU Loyalty Study team asked business executives or managers to define their customer loyalty strategy, how they were tracking it and other important issues in maintaining customer retention. Telephone interviewing was considered important to elicit executives' opinions directly. Tempest provided a list of 242 companies, of which all were contacted. The study conclusions reveal:

1. Although 100% of all the local companies responding were very interested in the business of their best clients, over 70% could not calculate their retention rate or the lifetime value of their clients. Less than 60% had no formal strategy for retaining their best clients. We labeled the minority of companies that could as Loyalty Leaders.



2. The top three concerns about maintaining customer loyalty were based on external factors such as quickly changing customer needs, rapidly changing technology and uncontrollable price-based competition.
3. More than two-thirds of interactions with customers between field sales personnel, customer service representatives or the web were not recorded in a system that allowed easy sharing of that proprietary information.

Database for measuring customer interactions



4. Responsibility for customer retention was split almost equally between Marketing, Sales and Personnel Departments or Top Management.
5. Lastly, 76% of the companies surveyed that had a formal customer loyalty strategy had a five year customer retention rate of 95% or higher.

How to Become a Loyalty Leader

Recommendations by the GVSU Loyalty Study team suggest:

1. B2B organizations could benefit from systems and programs that collect, organize and disseminate customer information to increase their customer retention rates. Other research gathered by FrontRange Solutions (*Tempest's CRM supplier*) shows that Customer Loyalty Leaders command 10% more for products and services and grow twice as fast as their competition.
2. Internal organization, communication and structure between the departments based on a customer focus could enhance organizational learning and strengthen customer relationships.
3. Firms that could not differentiate themselves from their competitors by a value-based selling proposition and were not practicing customer retention techniques would soon fail in today's global economy.

The critical success factor in implementing any customer retention initiative is not only to strongly link it to business objectives, but also to ensure that the staff (*employees who interact with the customers*) understands the objectives and has the necessary information to act on them. When properly implemented, the investment in customer retention strategies can return results similar to increasing profits more than 50%.