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Spinning Wheel

A smooth ride into the third wave of loyalty marketing

by Leopoldo Gomez

It's ironically appropriate that a Wheel stands as a symbol of marketing's Third Wave—the evolution beyond the gear-oriented Industrial Revolution into the information age. Specifically, I'm referring to the Wheel of Loyalty, a marketing framework developed by Christopher Lovelock, a noted scholar, author and consultant in the field of services marketing.

When business/management guru Peter F. Drucker—who gave us the phrase "knowledge worker"—said that the true mission of any business is to create a customer, it was with the implication that the customer must be loyal and profitable. No one company can grow and create economic value for its shareholders without successfully acquiring, developing and keeping a base of loyal and profitable customers. Successful Second-Wave companies have excelled at customer acquisition and transactions—that's the basic paradigm of the old Industrial Revolution. But when it comes to customer creation and value management, most companies fall short of evolving to the Third Wave.

One reason for this shortfall is the assumption that if we have a good product or service and treat customers well, they will be both loyal and valuable to our brand. Although this assumption often holds true, companies that end with this assumption are not managing customer loyalty and value in the same way companies manage customer acquisition and service—that is, formulating an explicit strategy, executing it, and tracking it. Too few world-class companies have in place strategies to create loyal and profitable customers. Most still need new, practical frameworks for developing and implementing customer acquisition, loyalty and value strategies. The Wheel of Loyalty is one of these frameworks, able to guide companies through the design and management of their customer loyalty/value strategy.



Source: Marketing: People, Technology, Strategy,
by Christopher Lovelock and Jochen Wirtz, Pearson Prentice Hall

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The Wheel

As described by Christopher Lovelock, the Wheel of Loyalty is constructed from several spokes radiating from a central hub—the customer. The Wheel's spokes represent supporting components of customer strategy development and management. And the sequence of the spokes supporting the customer hub as the wheel turns is important.

Spoke 1: Build a loyalty foundation. The Wheel's first spoke represents the foundation for customer loyalty, value and growth: designing the right value proposition for the right customer. This is the process by which the firm decides which customers to target and serve with a relevant, differentiated and defensible value proposition that can be delivered profitably. Equally important, this spoke is strengthened when the company works to avoid acquiring and maintaining customers who don't fit in its defined target.

Spoke 2: Create loyalty bonds. The second spoke represents the mix of loyalty bonds added to the core value proposition to strengthen relationships with company's most valuable customers. Loyalty bonds can be economic (hard benefits); "egonomics" (soft benefits); or structural. As we know at COLLOQUY, two of the best loyalty-marketing practices are designing the proper mix of loyalty bonds, and differentiating them through the creation of customer value tiers. To be effective, loyalty bonds must be aligned with the core value proposition and the brand. In most cases, loyalty bonds can be delivered better through a carefully structured loyalty program. Think of the companies typically regarded as amongst the most successful loyalty-oriented companies in the marketplace—American Express and its array of credit card products targeted to specific customer value and behavior segments comes to mind—and you'll find examples of these loyalty bonds in action.

Spoke 3: Reduce Churn Drivers. The third spoke of the Wheel of Loyalty represents proactive customer-relationship management: analyzing customer defection; implementing retention strategies and service recovery practices; and increasing customer value through increased frequency, spending, and product penetration. Another factor, and no less important in the relationship, is the communication and dialogue with customers.

Once built, the wheel must spin smoothly upon an axle that connects the correct organizational structure with the correct IT infrastructure. The organizational must center around customers—the structure can no longer be built of product-, channel- or functional-focused groups, but rather must be built of groups designed to cater to specific customer segments. This organizational structure requires the design of new roles and processes. The organization must develop new capabilities and incentivize the right behaviors and performance while creating and nurturing a culture of learning.

The right IT structure, meanwhile, enables this strategy. The function of IT becomes the facilitation of a smoothly rotating wheel that buys, builds, implements and manages software solutions that track and provide insight on customer behavior, relationship levels and processes. The technical facility must be accessible and effective for both the customers and the company.

Keep the wheel rolling

As we ride Christopher Lovelock's Wheel of Loyalty into the Third Wave of information-based customer marketing, we may expand on Peter Drucker's insight. Understand that the true mission of the company is to acquire the right kind of customers with the right value proposition, retain them and then increase their value with the right mix of loyalty bonds.

For these Third Wave companies, the entire enterprise is focused on the same mission: to keep that wheel turning. The Wheel of Loyalty is not a perpetual motion machine; its continued function depends solely on the dedication and creative momentum of the company's employees. Don't just launch a value proposition and expect it to never change. As with any successful long-term initiatives, the customer strategy must adapt and evolve. Customers' needs and expectations change, and the business context is dynamic. To stay relevant and competitive, the company must refresh its core value proposition, its loyalty bonds mix, and its core capabilities. After all, wheels are useless unless they continue to carry you forward.