

THE FUTURE OF LOYALTY AND LOCAL SMALL BUSINESS

*Loyalty Matters for America's Local Merchants and Restaurants if They
Are to Survive in Today's Competitive Economy*

By Stuart Graham, Author of "The Loyalty Myth"

SAN DIEGO, CA - We are living in an era where things are changing rapidly. The whole communications revolution is changing how business is done. Yet ironically, communication at a customer level has never been worse.

Small businesses are struggling to survive while large corporations and big box stores are permeating our communities and eroding the very community atmosphere we all yearn for and reminisce about.

What is the future for local businesses? Can they survive and prosper or even make a resurgence?

I believe the answer is "yes" if they fight the battle for customer loyalty on a level playing field. They cannot compete on price and in many cases on selection, but they can compete when it comes to winning the loyal support of a

customer, thus securing their position in the economic food chain.

The key is finding the secret to winning the heart of the consumer and developing a truly loyal customer. In Ireland we used to have a saying that some things are better "felt than telled."

So it is with loyalty; it is something that starts with the heart and then transmits to the brain and ultimately to the wallet.

Loyalty is a feeling not a concept

The words loyalty and rewards are used frequently in the same sentence and are often interchangeable. They are the buzz words with many retailers, restaurants and service providers.

The idea of a loyalty program is now an acceptable principle in business for developing a relationship with a customer and building CRM.

Because of the emphasis put on the need for a loyalty program to achieve these goals many businesses have lost sight of the basic requirements to obtain loyalty and build customer relations.

It is easy to believe that a loyalty program will fix your problems and suddenly make your customers loyal.



There is a big difference between loyalty and rewards even although they are often regarded as being one and the same. A reward should acknowledge a customer for being loyal rather than create loyalty.

When the emphasis is on the reward the loyalty program can become nothing more than a bribe to motivate a customer.

This approach will end up attracting the wrong type of customers.

It can cannibalize your customer base and can create a situation where your customer becomes a rewards shopper looking for the next deal.

Pitfalls of Loyalty Programs

There are many pitfalls when creating a loyalty program. Done properly it can be a great boost to your business but done incorrectly it can be an expensive and ineffective tool.

Before any business looks at any type of loyalty program they need to make sure that they have the basic foundation in place to win and retain a customer.

Without this foundation, any loyalty program, no matter how good it is, is a waste of time and money.

There are four foundational priorities for any business before they even look at any type of loyalty program.

These foundational pillars for any business are:

1. Staff training
2. Customer service
3. A quality product or service
4. Well maintained premises or vehicles

These may seem obvious, however, we are living in an age where the emphasis is on price and fast turnover. The demands on businesses often force them to take shortcuts that can be disastrous.

Need for Staff Training

Staff training is often neglected or implemented in a haphazard way where the fault lies with the management and not the staff. Many people will argue that our society does not lend itself to naturally training young people in the area of communication because we have a generation that is being raised on video games and reality television where they are not being forced to interact and communicate.

Young people text message in abbreviated jargon and interact through technology. Although a lot of this is true we have a young, intelligent and technologically proficient generation coming through the ranks of businesses. They are adaptable and trainable if management is willing to communicate effectively with them. Staff training is not a “one off” event. It requires constant reinforcement at least on a quarterly basis.

Train and retain your staff is the answer. Motivate them with recognition and rewards. How many times have you

gone into a restaurant and walked up to a hostess stand only to find two young people having a conversation and ignoring you.

Eventually the question is, “How many in your party?” You are then seated.



Can you imagine the difference when you are greeted with a smile and welcomed to the restaurant and then introduced to your waiter? The difference is an attitude, a few seconds and staff training. The impact it has on the customer is profound.

From the moment your customer walks through your door until they leave your staff should be making them feel like they are your most important customer rather than making them feel that they cannot wait until the customer leaves.

Loyalty starts with making a customer feel special and treating them the way you would treat a special guest at your house.

Local businesses can monitor and refine staff training quicker and more efficiently than larger organizations where there are many layers of management with their own agendas and egos.

Win this battle and you are well on your way to creating truly loyal customers who will stick with you and help grow your business.

I do not know anyone who would say that customer service in any industry has dramatically improved in the last ten years.

We are now shoved off to voice mail and canned emails when we need to resolve a problem. When we finally get through to customer service in India we are treated like a number, which is what we really are; a number on a queue list.

Local Merchants have an Advantage

A customer will pay more and be much more loyal if they can have problems resolved quickly and without having to go through hoops. For a local business it is so much easier to win this battle because you don't have the layers of bureaucracy.

You can offer personal customer service and make sure the customer does not feel like they are just a number.

When a customer has a problem fix it and then figure out what went wrong or whose fault it was later.

Don't leave a customer hanging while you go to find out were they at fault or were you. Give the customer a good experience and you will have a loyal customer.

Take pride in what you do no matter what it is. That is a principle that was drummed into me when I was young and it is a good principle to live by. If you make a product, make the best quality product you can. If you sell a product, find the best quality you can.

People like quality and know a quality product. Obviously you need to be competitive but you do not need to be the cheapest. There is a belief that in tighter economic conditions people will buy the cheapest product and shop on price only. If you position your product as a quality product and educate your customer why your product is better they will pay a little extra for the right quality especially if you have won their hearts in the other areas discussed earlier in this article.

Have you ever gone into a restaurant looking forward to a meal and after having visited their restroom wondered if you really wanted to eat there?

If you are doing the right things in the other areas previously discussed what a shame if you lose out because of untidy, dirty or poorly maintained premises; or vehicles if you have a mobile business.



How your premises look is an indication of your product or service and your pride in your business. It is not hard to have clean and tidy restrooms and yet I go into so many that are a disgrace. What does that tell your customer about you and your business? Of course it's not just your restrooms but the presentation of your premises as a whole.

A fresh coat of paint, a few paintings, flowers, light bulbs that are replaced; these are the little things that can make you stand out from the competition and they are not expensive. Pay attention to detail and it will reward you many times over. Tidy and clean premises are a sign of a well run business and one where the owner cares and customers like to see that.

It is really quite simple. **Win their hearts and you win their wallets.**

Let's assume you have won the battle in the areas discussed above. What is the next step in maintaining that customer and making them a long term loyal customer?

The answer is to create an effective loyalty program.

How to Create an Effective Program

What are the key factors when considering a loyalty program?

1. Will it appeal to my customers?
2. Is it simple to explain and to use?
3. Does it offer a real reward in a timely manner?
4. Is it affordable for my business?
5. Do I get data from the program?
6. How will I communicate with my customers?
7. Does it involve any change in behavior from my customer's perspective?
8. Does it motivate my customer to spend more and come in more frequently?
9. Does it make my customer feel special?
10. Can it be customized and easily changed?

If you ask these questions before you create a loyalty program your chances of creating an effective program is greatly enhanced.

Customer Data is the Key

Who are your customers? Do you know her? Can you communicate with him?

The first and most important thing that you need to do when launching a loyalty program is to collect data on your customers. Most local businesses do not know who their customers are or where they live.

If you don't have data on your customers you might as well close your doors because you cannot communicate with them, motivate them and you cannot compete with the larger companies who are collecting data and using it to market to your customers.

There is no excuse for not having a loyalty program even if it is just an email coupon or flash card. There are many options that are normally determined by your budget and goals.

In my book, "The Loyalty Myth", I discuss in detail all the options that are available to a business when it comes to loyalty programs.

The best are those that are simple for the customer to use and will give you data

and will motivate the customer to keep coming back.

The first thing to do is to collect the basic data on your customer that includes name, address, phone number, cell phone number, email address and birthday.



You should then try to build on this data using email surveys once you have a relationship with the customer. Without the basic data you are wasting your time with a loyalty program. You now have a reason to collect the data because you are giving the customer a loyalty program with meaningful rewards. The more logical it is for the customer to give the data the easier it is to collect.

The **ultimate loyalty program** is where the customer **simply registers their existing credit cards**. The customer does not have to carry a separate piece of plastic and remember to present it.

There is no change of behavior for the customer. You do not have to train your staff or put in procedures to avoid human error or fraud. If the customer then receives points for every dollar they spend you have a program that can be tracked with valuable data.

You can decide upon the value of the points and reward the customer. You can even offer additional points during certain dates or times and reward your better customers with more points.

People love to accumulate points and use them for special occasions and it motivates the customer to come in more often and spend more.

The next thing you need to do is to make it easy for your customer to view their points and to redeem them. This can be done online just like a bank statement along with a statement for your business showing all your loyalty transactions.

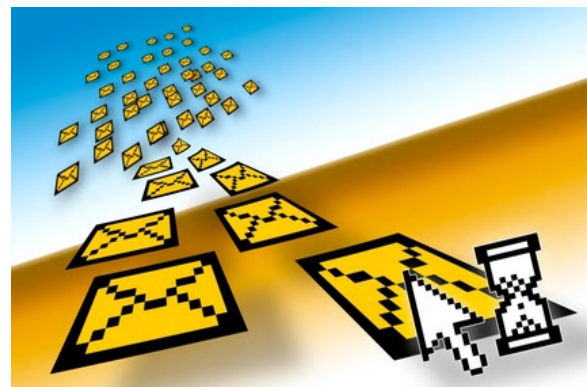
It can also be done via a monthly newsletter. Make your reward when points are redeemed your own product or service so the real cost to you is

reduced by your margin on your product or service. The value to the customer is your retail price.

The last component of the loyalty program is the communication vehicle.

Once you have the data on your customer you need to start communicating with your customers.

This can be done in two ways. The simplest is a newsletter by email. The newsletter should communicate, educate and motivate the customer.



Keep it short and create opportunities and a reason for your customers to keep coming back in.

Treat you loyal customers as special and offer them privileges that are not available to other customers like preferential seating or special shopping hours.

People love to feel special and it is an important element of any loyalty program. The other way to

communicate is via text messaging which can be very effective.

Keep this type of message short and specific. If you have a restaurant and are having a slow day you can at 3:00 PM send out a text message advertising a drink or food special starting at 5 PM.

There is no other communication vehicle that can produce a response so quickly. Text messaging for the right demographic can be very effective.



Find out how your customers like to be communicated with and implement that method.

There are two opposing views with regards to loyalty. One is a system that creates a coalition that is now the trend and the buzz word in the industry.

This is where you have a group of merchants in an area who are all part of a common loyalty program where the customer can go to any merchant in the network and receive a reward.

The advantage is that a customer can build up a reward quickly, if it is a rebate type of program, because there are numerous merchants to go to in order to acquire the rebate or points.

The disadvantage is that very often each business has to conform to the rules being set by the organizer of the program which can often restrict a business from creating exactly what they want.

Also, with many of the programs the points can be earned at your business and spent at a different merchant in the network or on merchandise, which means the real cost to you is the amount of the rebate.

The alternative is to go with a customized closed loop program where the program is all about establishing a relationship between you and the customer.



It may result in the customer taking longer to build up points, but now the point's redemption can be restricted to

your business and of course, you make the rules.

The Future of Loyalty

I believe that the future of loyalty is in developing **customized programs** for merchants that are closed loop and that are integrated with the businesses' overall marketing strategy.

A business needs a comprehensive marketing program to bring new customers in the front door. The best way of doing this is by obtaining a data base of demographically and geographically desirable potential customers and creating a direct mail piece with an irresistible offer included.

Unlike normal direct mail with a one or two percent response rate, a response rate of 40% or greater can be achieved if the package is properly developed.

This coupled with the implementation of the basic principles discussed earlier will ensure that you have laid the foundation for the building of a successful loyalty program.

Based on my decades of experience, a customized closed loop program where a customer can register their existing credit cards and receive points for shopping is the ultimate loyalty program.

Best of all, these effective programs are now affordable for a small business based on breakthrough technologies. Until now, only larger retailers and restaurants had access to this technology. That's all changed!

If you can effectively manage the relationship with your customers and reward them for their loyalty you are well on the road to building a sustainable successful business.

Ultimately the ideal solution is to find a company that can offer a turnkey solution for your marketing, loyalty, database and communication needs – to allow you to do what you do best, which is run your business.

When the economy is doing badly that is not the time to cut back on your marketing dollars; it is the time to make sure that you are using them wisely and targeting your potential customers and maximizing the return from your existing customer base.

About the writer:

Stuart Graham is the author of "The Loyalty Myth", which addresses the challenges faced by local businesses and offers strategies for success even in a depressed economy. Mr. Graham is the creator of the Red Carpet Card - a turnkey loyalty, marketing, database management, communications and CRM system. For more information you can contact Stuart Graham at stuartgraham@cox.net.