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# Proven Techniques in Driving Distribution Loyalty

Your customers are your most important asset – and they are more important today than ever before. For this reason, it's worth taking some time to look closely at your Customer Loyalty initiatives and how they might be adjusted to drive incremental profit.

## ***First Things First***

When Distributors hear “Contractor Loyalty”, they often think first about travel destinations or reward-types. And that can be a very expensive approach.

Achieving Contractor Loyalty involves far more than “points for prizes”. It's about driving up the perceived cost to go somewhere else. It's an ongoing mindset, a series of business processes and ultimately, a pretty simple concept.

The good news? Driving real loyalty doesn't have to cost a fortune. In fact, many of the most critical and powerful elements can cost very little.

## ***Price***

Before we dive into Loyalty, let's address price for a moment. Yes, price is critical. It is still a Contractor's number one criteria for channel selection<sup>1</sup>. That said, the more sophisticated (and theoretically, larger) contractors understand that “total cost” includes the impact of delivery speed, stock on-hand for immediate purchase and important contractor services, among many other things. In other words, the “price” isn't the cost.

So for the purposes of this paper, we'll assume that you are competitive in terms of price, delivery speed, stock-on-hand (fill rate) and any core ancillary services. If that's the case, read on!

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<sup>1</sup> LEK Consulting: 2012 Contractor Behavior Survey.



## Switching Costs



I'm not much of a golfer anymore, but a good way to explain Switching Costs is to look at Tiger Woods. Seriously. When Tiger was winning tournament after tournament, he wouldn't have sold his putter for a million dollars. The last few years it's seemed he couldn't make a 3-foot putt to save his life and would probably have traded it straight up. So, if we assume it's the same putter, what changed? Not a thing – except his perceived cost to switch.

During his winning years, Tiger Woods would have foreseen personal loss and significant risk in changing putters. Just like Tiger with his putter, people ultimately become loyal to companies and brands due to their perceived cost of switching.

*Switching Costs are any cost, whether real or perceived, to switching brands or suppliers.* It can include absolutely anything important to the Contractor, from service levels and brand quality to a friendship with a counterperson or even the opportunity to go on a nice cruise. Whatever is important to a Contractor can be leveraged as a potential Switching Cost.

To discuss Loyalty without strategically considering how to increase your customers' perceived switching costs is to miss the point entirely. It's all about switching costs.

### **Example: Frequent Flier programs**

What does it cost an airline to move a Platinum-level frequent flier to an unsold First Class seat? Next to nothing. What does it cost them to let him or her board the plane first? Not a dime. And yet, it is these perks, and those like them, that drive up the switching costs for the flier.

He knows that on another airline, he's just another member of the cattle call. And his flying experience will be far less pleasant (if you can call air travel pleasant anymore). Thus, it's not just the "miles" he earns that keeps him loyal, it's the other perks: the ones that cost the airline very, very little but that *dramatically* improve the customer's experience. What can you offer your best – or best potential - customers to drive up their switching costs?



## *The 3 Core Elements of Loyalty*



*It is essential to have all three of the core elements shown above in order to create real loyalty.*

Let's consider our frequent flier....

### ***Positive Brand Experience***

OK, so flying today is rarely a very positive experience. That said, the airlines do have to get the basics right. If the planes are always late, the flight attendants are rude, or the seats are filthy, he's not coming back.

### ***Valued Tools & Support***

Why is he really loyal? You'll find it here. He sometimes gets moved to First Class, he's allowed on the plane first, the seat next to him will likely be empty and he has a separate Customer Service number to call, staffed by top-notch representatives. All of these things are Value Tools & Support that make his experience better. And they're things the competition will not offer him. Why? Because they don't know how much he could be spending with them.

### ***Recognition & Reward***

He's awarded the status of "Platinum". He receives special offers. He accrues reward "miles" faster and can redeem those miles more easily. He may be invited to special events. He is recognized as important and rewarded with tangible items and experiences. This is where the critical emotional attachment is formed.



## A Deeper Dive

### **Brand Experience (or just “Experience”)**

Distributors often don't give “brand” a great deal of thought. A brand seems more like something for Coke® or Pepsi® to worry about. Unfortunately, that's a very dangerous misconception. If we don't get hung up on the word “brand”, it all makes far more sense. *Every* aspect of a Contractor's interaction with a Distributor is that Distributor's brand.

Simply put, the Contractor's “experience” is what it's like to do business with your Distributorship. And in our model above, it just means the product has to be good. It's that simple, but it's that important. No Loyalty program on the planet can make up for a bad product.

As an acquaintance of mine in the hotel industry once said, “The Loyalty program is completely irrelevant if the hot food isn't hot, the cold food isn't cold and the sheets aren't clean”. He's right. The basics have to be right for the Loyalty program to have an impact.

So, the “positive experience” begins with the phone call and/or the website and continues on through selection and order fill rate, the speed of delivery, the appearance of the vehicles, the attitude and knowledge of the employees and absolutely everything in between. What is and is not positive, of course, is completely in the eye of the customer.

### **Tools & Support**

This is critical in a Business to Business relationship and is the greatest opportunity to drive incremental loyalty with little direct expense. What could you offer your best customers? What, other than the lowest price, do they value?

One of the challenges here, of course, is the tendency to open such service enhancements up to all customers. We come up with a great idea and immediately (and understandably) imagine the impact and cost of opening it up to everyone. That's where Loyalty thinking comes in.

While it may make little economic sense to offer some benefits to your entire customer base, making it easier for your best customers to do business with you usually makes a great deal of sense. And if your competition sees it as something they cannot afford to offer? So much the better.

Nothing will create more Loyalty or drive higher perceived Switching Costs than offering unique and valued Tools & Support to your best customers.

Below are a few examples pulled from our heads and from some secondary research on what Contractors would value:



- Exclusive manufacturer-led training events
- Sneak peeks at new products
- Deeper support in the bid process
- Online specification and estimating tools
- Delivery guarantees
- Product replacement guarantees
- First-in-line Customer Service
- Storage
- Less paper, more automation

Given a little time and a few conversations with your customers, there is little doubt you can develop a short list of non-price-related support your Contractors would value. The key, at that point, is to integrate it with the other elements to establish a “program”.

### ***A few thoughts on Tiering***

Separating your customer base into “tiers” can be a little frightening. If we have Silver, Gold and Platinum levels, are we telling the Silver folks that they’re not that important? Not at all. The message is “we *want* you to achieve Platinum. Let us help you get there”. This can be useful in business planning, setting of terms, branding and signage conversations, etc...

The concept of you-support-us-and-we’ll-support-you is not new. The only tweak here is formalizing levels of mutual support and commitment. The Information Technology channel, among others, has been successfully using this Channel Management strategy for decades.

### ***Recognition & Reward***

This is the most visible part of Loyalty. It’s where most people jump when the topic comes up and where most of the money is spent.

Before continuing: a little disclaimer. VIKTOR is reward-neutral, and that’s by design. We offer all reward types, from Group Travel to an online Rewards Catalog. We have *no* preference for one reward type over another. The only thing important to us is that the client use the reward solution that will drive the greatest return on investment.

That said, let’s take a strategic look at the Recognition & Rewards.

### ***Recognition***

Recognition is a thank you. It’s a visible, overt acknowledgement of the degree to which a customer is appreciated. This can be expressed in the form of plaques, signs, a trip, etc., or in the form of respect: membership on councils or time with the Distribution leadership, for instance. Ultimately, this is the part of Loyalty that has very little to do with Rewards and very much to do with connections.



The more successful the Contractor, the more important Recognition becomes. Car companies and insurance companies learned long ago that if you want to motivate the well-to-do, you must use Recognition. These people can afford a trip to Paris (on their own schedule and with their own itinerary), so we must give them an *Experience* in Paris that they cannot buy. They may not be corporate types, but they always appreciate one on one time with the corporate leadership.

When it comes to Recognition, it's never about money. It's about pride. It's about being noticed and being heard. Recognition can have long-term impact whether the Contractor is a small, family-run operation or a large company with a sizeable fleet.

## **Rewards**

For many people discussing Loyalty, this is where the conversation begins. You'll notice, however, that it's taken us a while to get here. And that's the point. The right Rewards are critical to success, but they are not the sole foundation of a good program. That said, how do we use rewards strategically?

Incentive programs can increase performance of an individual by 22% and of a team by 44%.<sup>4</sup>

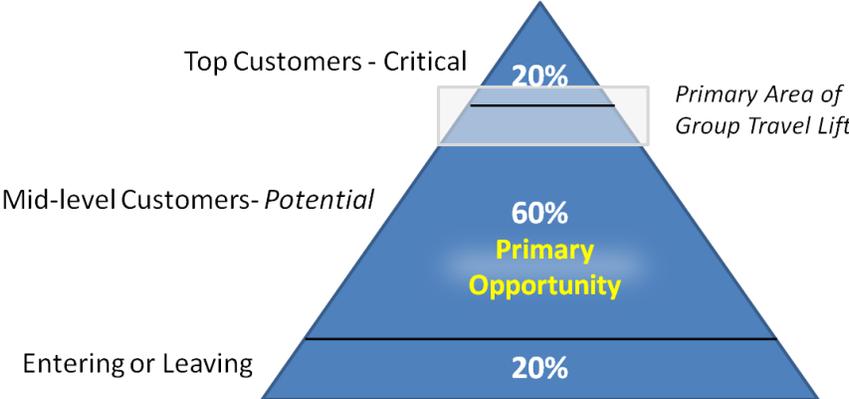
This is a far more difficult question than it first seems. Usually, the answer is some variation of "it depends". And that's OK. Because it *does* depend.

It depends on who we're discussing and when. It depends on the market conditions. It depends on many, many things.

So how can we build one program that drives the right behaviors across the entire customer base? The first step is to take a strategic look at the customer base, define the desired behaviors and then figure out a way to pay for all those behaviors without spending more.



The graphic below represents a typical customer base.



The total area of the pyramid above represents all customers. The top of the pyramid represents the 20% of customers that typically generate the majority of revenue. The middle 60% are the customers that aren't your largest but do spend enough to matter – and who represent the greatest opportunity for growth. The lower 20% are either exiting the business or do very little business with you.

We will use this model to discuss the strategic application of rewards.

Group Travel typically only impacts the very top customers and those just below that line. And for that purpose it is priceless. Group Travel uniquely encompasses both Reward *and* Recognition. There is the Reward element of the trip itself coupled with the Recognition that occurs either at an event during the trip or while the contractor has a refreshment with Distribution management poolside.

Group Travel is a powerful tool in the Loyalty arsenal, but it does have its limitations. It ultimately leaves a significant percentage of the customer base largely unaffected.

### Points

A common term used in Loyalty Marketing is “Share of Wallet”: how much of what a Contractor spends is being spent with you and how do you grow that percentage? Group Travel is typically ineffective at driving incremental Share of Wallet except for the small number of Contractors just above or below our top 20% line.

And that’s where points come in. While points are often used as a score-keeping tool relative to a Group Trip, they can do far, far more. What many Distributors miss is that once points are in place, they now have a *proprietary currency*. This is a currency that the competition cannot match. The Contractor cannot earn this currency at any other Distributor which makes it an extremely powerful tool.



So, how do we best apply this? We first understand goal-setting and then focus on behaviors in assigning point earnings.

## **Goal Setting and Getting More for Less**

People do set goals for themselves. It is inevitable. And in a well-designed a points system, people will always set their own goal. It may be a grandfather clock for the foyer, tickets to a sporting event, a room upgrade a special event on the Group Trip, or a \$100 coupon for their favorite Distributor. And the best part? Depending on the situation, and much like Group Travel, points systems can get the spouse involved.

How points are earned is where this gets interesting. By having a proprietary currency, we can afford to pay people to do things that we could not otherwise afford to pay them for.

Frequent Flier programs are a perfect example of this. Travelers will often book a particular flight, or otherwise adjust their plans, for around 500 Frequent Flier miles. They want the miles, they do the mental math and they decide it's worth it. Would they do the same for \$10? Not a chance. And yet, the commonly accepted book value of a frequent flier mile is two cents. So, 500 miles = \$10. Our traveler just did exactly what the airline wanted for a grand total of ten bucks.

In the same manner, as long as Contractors cannot translate points into a dollar value, Distributors have the ability to drive specific behaviors for pennies. Or for no expense at all.

Remember our question: *What do we want people to do that they're not doing today - and why are they not doing it?*

Once we've answered that question, we can begin to assign a value to each behavior and use our proprietary currency to drive it across the customer base.

In the examples below, the point values vary and have been "made up" for demonstration purposes:

- Attend Manufacturer Training: 100 points (\$4.00)
- Order online (the first 5 times): 50 points (\$0.50)
- Order non-core products: 25 points per order (\$1.00)
- Order X of a new product: 50 points (\$5.00)

A critical thing to remember is that these points are only paid for if and when they are redeemed. Contractors who do not become Loyalty customers will rarely earn sufficient points to impact the bottom line. And those who do should impact the bottom line in a very positive way.



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## Conclusion

Loyalty is a state of mind that can be elicited with a strong program even in the Business to Business world. In order for this to occur, however, it is essential that all three elements of Loyalty exist: a Positive Brand Experience, Valued Tools & Support and Recognition & Reward.

In your efforts to increase your customers' Switching Costs and perhaps add others to your customer base, it is important to:

- Take a step back and view your business through the Contractor's eyes
- Determine what non-price-related benefits would be of value to your Contractor customers
- Identify what your Contractor customers could be doing that would be of value to you
- Consider establishing a proprietary currency (points) to drive both loyalty and profit
- Use your program as a core element of your go-to-market strategy

Loyalty programs are by no means a panacea. There are many challenges faced by today's Distributors that even the best Loyalty program will not address. That said, a well-designed loyalty program can drive incremental bottom-line results for both you and your Contractor customers.

