



STEPPING BEYOND CUSTOMER LOYALTY

Marketing's biggest challenge, I think, is that word-of-mouth and reputation in the kind of world we live in today is more important than advertising'

Customer loyalty expert Larry Hochman believes that we are now entering the post-loyalty era and businesses need to think in those terms or pay the price. He talks with Brian Skelly

Few people know as much about the theory and practice of customer loyalty as Larry Hochman, someone for whom the epithet 'guru' does not, for once, seem out of place. In the Nineties, he spent 10 years in senior roles with British Airways and BA offshoot Air Miles and has since become one of Europe's most sought-after speakers on customer trust. At BA, he created and ran a much-imitated corporate training exercise called 'Winning for Customers'. Attended by 55,000 staff between 1992 and 1994, the programme made the case for customer service and paved the way for the rollout of the Executive Club within BA. At Air Miles, he helped create a corporate culture built on meeting the demands of customers at every level of the organisation.

In an increasingly competitive world, customer loyalty is, for Hochman, the differentiating factor between one company and another. "Customer relationships are the only thing that cannot be replicated by a competitor. Unless you run a monopoly, everything else can be replicated: product, cost, quality – everything."



HOCHMAN-ISMS

'Attention-free zones'

The mechanisms we have for sifting through information and filtering out unwanted information

'Next Practice'

The ability to see the future before the competition – and to get there first

'Customer Unions'

Groups of customers interacting and collaborating and the positive or negative effect this can have on a brand

'Customer Participation'

Customers' desire to get involved, driven by access to information and the ability to compare offers.

Yet, having been both a leading exponent of and commentator on customer loyalty over the past two decades, Hochman is now convinced that we are entering a new, post-loyalty era.

"In many ways, loyalty has become a commodity," he explains. "Loyalty is similar to quality and innovation in that it means everything and it means nothing. But you could turn it around and say it means nothing but it means everything because every organisation has been focused on it for years now and it has become part of the business lexicon.

"The challenge for marketers and businesses as a whole is how to move beyond loyalty, when everyone is focused on it and it's become a commodity."

Power struggle

One of the signs that we're moving into a new era is the waning power of advertising, he believes. Advertising has traditionally played a major role in generating loyalty by communicating brand values in a way that creates a lasting bond with consumers. But now, Hochman notes, advertising is facing competition from other forms of communication such as the internet and mobile communications that can subvert its power.

"Marketing's biggest challenge, I think, is that word-of-mouth and reputation in the kind of world we live in today is more important than advertising. That is a harsh new reality and it all has to do with the manner in which people communicate with each other and the way in which businesses communicate with people. Businesses and marketing professionals who don't recognise this might be several years behind where they need to be," he says.

Some years ago, Hochman coined the term 'The Promise Gap' to denote the difference between what advertisers promise in their advertising and what the product/service actually delivers. Time was, advertisers could get away with fanciful advertising because consumers could not easily measure the promise gap. In today's multimedia, always-connected world it is infinitely easier for consumers to discover the truth about a brand and, not only that, tell the whole world when they do.

"The ability to use a variety of tools to communicate with thousands of other people when a company has failed to deliver on a promise is so profound and gives customers so much power that we're at a point where customers are in control, *forever*."

He continues, "The brand is still a powerful force but I think it's becoming less powerful as time goes on. And while the brand can embody service and reputation, if it isn't delivering on the

promise, it becomes devalued a thousand times faster than used to be the case."

He adds, "There is nowhere to hide. It only takes a video clip posted on the internet for the word to get out about your company. The stakes are so much higher than they were and the customers you most want to focus on, ie young people who will make up your customer base of tomorrow, are those that are most familiar with the technology."

Active involvement

But while there is threat there is also opportunity. A key characteristic of this new era, he says, is the customer's desire to participate, driven by access to information and the ability to compare. There is no better exemplar of this new world order in Hochman's eyes than the online auction site eBay, which he describes as a "profound manifestation" of customers being in control and collaborating, not only with the business but with each other. Such peer-group collaboration, whereby customers become "co-creators of value", represents a major new departure that "may be the most profound opportunity for innovation and wealth creation of our time", he argues.

Hochman adds that businesses' ability to facilitate, encourage and ultimately collaborate with their customers will "become the key component in building successful customer relationships in the future".

'Customer Unions' is the term Hochman uses to describe the phenomenon of customers interacting with each other en masse. While trade unions were powerful in the past, customer unions will be infinitely more powerful than trade unions ever were, he predicts. For evidence of this, he says, look no further than the music and travel industries, both of which have been profoundly altered by the mass movement of consumers online and the rapid decay of business models that hitherto had sustained multi-billion-dollar industries. "Who's going to advise anyone to be a travel agent in this day and age?" he asks rhetorically.

Having the support of these powerful customer unions is obviously a must for any brand but it is not easy securing the loyalty of whimsical, fickle and ultra-demanding bunches of customers, especially when conventional advertising channels are becoming less and less effective, Hochman points out. Increasingly, consumers are building "attention-free zones" for themselves where they filter out messages they don't want to hear, and so how to close the promise gap when people don't want to be advertised to is one of the greatest challenges

faced by the modern marketer, says Hochman.

And even when they do connect with customers, actually securing their loyalty is a painstaking and never-ending process. It is not achieved overnight, nor can it be bought in. Hochman is extremely dismissive of "over-rated" and "over-hyped" customer relationship management (CRM) systems for this reason.

Trust building

"There's nothing wrong with the software but at the end of the day you don't build relationships by installing a piece of software. Nor do you build loyalty simply by collecting information. You do it by building trust into the brand at every single level and by it being delivered by every single person," says Hochman.

One company that has done this extremely successfully in recent years, he believes, is Apple. "Apple might be the best example right now of a company whose customers are wild about the brand. They love it because the brand, through innovation, has given them exactly what they want."

Yet how does he explain the success of Ryanair? There are endless complaints about Ryanair's cavalier attitude to customer care, yet it is hugely successful. Is one of the lessons of Ryanair the fact that customers will put up with poor customer service if they feel they are getting exceptionally good value? "I guess it is," reflects Hochman sadly. "But one thing's for sure, if customers didn't want to travel for next to nothing, they'd walk away from Ryanair."

He feels, moreover, that Ryanair is a one-off and should not be a customer service template for other businesses. "I wouldn't suggest that companies use it as a model," he laughs.

Hochman's final observation on the issue of customer loyalty is that the concept is going to come into even sharper focus in the months ahead as the global economy continues to stutter along. The bottom line, he says, is that businesses are going to have to up their game and treat their customers as prized assets deserving of the best care and attention.

"As economic times get tougher, the more incensed, the more outraged customers will be about bad service and non-delivery, the more ripped off they'll feel. The danger to businesses now is profound. When things get really tough, what will businesses be prepared to do to thank their best customers for staying with them? This is not just about customers being loyal to you; it's about you being loyal to your customers."

Larry Hochman is keynote speaker at the *Marketing Age* seminar on Customer Loyalty in Dublin on 9 April.