

& Hook, Line & Loyalty

A great relationship
is its own reward.

How do you build loyalty?

Scott Deaver: Brands are made out of excellent consumer experiences, not out of marketing. But you have to bear in mind that excellence is defined by what's most important to the consumer. Then you have to build a bridge to communication.

Usually that means giving customers things they want, when they want them. But it's really not the giving that matters, it's the relationship building that the giving implies. If you make the customer jump through three hoops to earn a reward, you have done nothing to build loyalty.

The third thing is continuing to develop the product with an ear to the consumer to make sure you're adding things they have been wishing for. Finally, you need a winning recovery process for when things go wrong. You've got to identify the problem and turn it around quickly.

Ken Fenyo: At Kroger, there are four areas that we spend a lot of time working through — what we

call the four keys. They're the things we'd like our customers to say about us: Your people are great; your prices are good; the shopping experience makes me want to return; and I get what I want, plus a little.

In addition, about 40 percent of all U.S. households have one of our shopper cards, and through that we collect a ton of data. Using

it to them. Customers want to pay a fair price for a good product and they want to be treated well; they are remarkably consistent about that. In our case, they are also remarkably savvy. They know what a fair price is.

There's been tremendous deflation in the apparel world in the past five or ten years. So, we made some changes in our sourcing, and

We focus on a very human dimension of loyalty to differentiate ourselves.

SCOTT DEAVER

insights from that data, we've been able to build deep relationships with the customers we already have, as opposed to focusing on getting new customers. We've taken these insights and used them to create an increasingly relevant and differentiated shopping experience.

Steve Fuller: At the risk of sounding simplistic, it really is a matter of understanding what the customer is looking for and giving

some changes in our pricing. The question was how to make sure our customers understood that our prices were now lower but our quality was the same.

We decided the best way to do that was simply to put the price next to the product. Our customers understood without our having to explain anything. The fundamental principles of creating a good product at a fair price and treating customers well can't be overstated.

A ROUNDTABLE FEATURING

Scott Deaver
Avis Budget Group

Ken Fenyo
The Kroger Co.

Steve Fuller
L.L. Bean

David Gitow
Barnes & Noble

Eric Leininger
McDonald's Corporation

David Norton
Harrah's Entertainment

David Gitow: The simplest and most basic way Barnes & Noble builds loyalty is by creating an outstanding store experience. That's also true of our online experience.

We have a loyalty program where you pay \$25 and get 40% off on bestsellers, 20% off hardcover books and 10% off everything else. But the way we build loyalty is by treating our customers right. If you have a terrible store with a terrible experience, having a loyalty program won't make a difference.

Eric Leininger: Loyalty is explicitly part of the McDonald's mission. Consumer relevance is the essential starting point for building loyalty. So, we invest in understanding our customers, our marketplace, and in anticipating the future.

Our menu teams have a robust pipeline of activity to be on the right pace with changing consumer tastes with new menu items. Increasingly, we are also building ease-of-use elements into the way we interact with customers, whether through cashless payments, 24-hour operations, or double-lane drive-throughs.

In the end, the customer experience in the restaurant is the moment-of-truth, so we invest in understanding customer satisfaction and adherence to McDonald's gold standard for service times and other key metrics. Whether someone was happy with his or her last visit to the restaurant is the most important factor in building loyal, ongoing business.

David Norton: With all our brands in the portfolio, we've distinguished what those brands stand for, so there's some uniqueness around them. Loyalty is about understanding what the brand should mean and then delivering against that at every opportunity.

Then, we layer on that with our *Total Rewards* loyalty program, which is our mechanism to truly build loyalty and preference for the customer across all of our casino brands. Building up the *Total*

things we do for our preferred customers.

The other thing that's different from our competitors, particularly with Avis, is that we focus on the human aspect of the service business. Our competitors also do that, but that's not a single-minded focus for them. *We try harder*—to use that long-used advertising phrase. We focus on a very human dimension of loyalty to differentiate ourselves.

Fenyo: We don't spend a lot of time focusing on what our

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KEN FENYO

Rewards brand has been critical to our success.

We actually encourage our guests to visit several of our casino brands, not only because we know that's a very profitable outcome for us, but also because it satisfies their need to have different experiences.

How is that different from the way others build loyalty?

Deaver: Most people in the travel business are still infatuated with the points-for-prizes approach, where the notion is to create behavioral loyalty by motivating the customer to accumulate points. We do that too, but we don't consider it to be the heart of the matter. It's just one of many other

competitors are doing. Our focus is really on our own customers. To help us get better insights from our data, we formed a partnership in 2003 with Dunnhumby, a U.K. customer insight specialist, and one of the driving forces behind Tesco's *Clubcard* program.

We've had scanner data and product movement data for a long time, but we are now able to segment our customers and really understand what's important to them across a very diverse set of store sizes and banner brands. Dunnhumby brought a new way of thinking to us, and new set of skills and talents that we didn't have before. That's a unique competitive advantage for Kroger. No one else in the industry has something like that.

Fuller: Everybody is going to be

a little different. Take shipping, for example. How is it that some companies can afford to offer free shipping and others can't? It boils down to two things: How much money are you paying for shipping and how much profit are you making?

In our case, the first part of the equation is pretty equal. There may be some variations in shipping costs based on volume, but I'll bet those prices are closer than they are different. And yet, there are a good number of companies that make a big portion of their incomes from shipping charges.

you have to spend more money to get a much smaller discount. The commitment to our program is stronger as a result.

Leininger: Our competitors tend to build loyalty with niche approaches. McDonald's is a huge tent in which many niches find a reason to be loyal. For example, we are the family's favorite restaurant, our breakfast on-the-go invented an entire new daypart, and now we are enjoying strong growth from extended hours.

As we've broadened the menu to include salads, chicken snack wraps and premium chicken

We complement our great casinos and hotels with a great relationship with our customers. Part of that is through *Total Rewards*, but it also comes through in our overall service strategy — especially for our better customers — where our service is extremely personalized.

What is the relationship between employee and customer loyalty?

Deaver: They are so intimately intertwined that it's hard for me to imagine getting one without the other. We track both customer loyalty and employee loyalty with different kinds of surveys and measurement techniques and find an intense correlation between the two measures.

You've got to try harder for your employees so that they'll try harder for your customers. Those two things are made out of each other. Our employees feel that they know their management, and that there is a real personal connection up and down the chain, from the CEO on down. That is really at the heart of it.

Fenyo: Because one of our four keys is making sure our customers say that our people are great, we spend a lot of time and effort making sure we understand what's important to our employees. We make sure we understand how our employees are feeling, what's important to them, and how we could be doing a better job. It's definitely an important area of focus for us.

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STEVE FULLER

Our customers have told us, in no uncertain terms, that they just want to pay what we're paying for shipping. They're not shopping L.L. Bean because of shipping; they're shopping L.L. Bean because they like our products.

Our customers have an expectation that our shipping costs will be fair. We think we're building loyalty because we're reflecting that desire.

Gitow: Our competitors include Borders, which has about two-thirds the number of stores. Our loyalty programs are very different. Where our customers pay \$25 for a discount, their program is free, but

sandwiches, more people have more reason to choose McDonald's. If you think about all the combinations of consumer needs, and the times of the day when those needs arise, we have an incredible array of opportunities to build relevance and loyalty with our customers.

Norton: For the most part, our competitors are focused on the facility itself. In Las Vegas, you can see that with properties like Wynn, Bellagio or Venetian. For those brands, it's really about creating a great facility and having that facility, for the most part, be the attraction.

Fuller: Our customers, both on the phone and in the stores, trust our employees, implicitly. Management can find that a little frustrating, at times. For example, suppose you're shopping for a particular kind of skis but L.L. Bean is not the best place to buy them. Our reps will say so.

Yes, we lose a sale on a pair of skis, but if we had made the sale, the customer would not have been happy.

Training is a huge part of that. The web is a bit more challenging, however, because it's a low-service channel. If you have a question about a product, talking to a person — whether it's in person at a store or on the phone — is often the simplest solution.

That may not be lowest cost from the service perspective, but whatever makes the customer happiest and answers their questions the fastest is what works best.

Gitow: We believe very much in employee training. We have core

like the basics of retailing, but execution is critical.

Leininger: The relationship is important, especially for employees in the restaurant; they are our brand ambassadors.

Also, in terms of advocacy for the brand, whether their careers continue with McDonald's or it is a first job that leads to something else, a positive work experience contributes to the social currency of the brand.

Norton: One of the biggest things that we do is ensure that our frontline employees are aware of the changes we're making, why we're making them, and why they're in the benefit of the customer. That way, they can deliver service.

In addition, we have a highly measured process. Every week we send out surveys to a subset of customers while they are visiting, asking them how their experience was before they came, in terms of reservation process, once they arrive, hotel check-in, restaurant, food, and so forth.

Does advertising build loyalty?

Deaver: I'm not positive advertising can do much to build loyalty, other than in a peripheral way. It certainly can do a lot to build awareness and sampling. It can build loyalty by being the first way that you inform your customers that you're reacting to the things they need. It can remind the customer about the experiences that built their loyalty. But in the end, loyalty is about brand experiences, not advertising.

Fenyo: Many marketers over-index on advertising because they're focusing a lot of their time on acquisition—on getting new customers into their stores to buy their products. Our real opportunity is in building deeper relationships with the customers we already have in our stores.

We do direct marketing, and are looking into things like e-mail and mobile marketing, which are relevant to our customers. We are talking to them the way they'd liked to be talked to and communicated with. We're looking at how to communicate better with shoppers within the store, using shopper-cart technology and the like.

Because we've been able to build insights into our customers, we're able to talk to them individually and provide them with content and offers that we think are very relevant to them and their lives. Yes, we are a pretty large advertiser, too. But even there, we are using our insights to help us make sure we are featuring

The beautiful architecture of the store and a great customer experience is our best advertising.

DAVID GITOW

tenets of our business—the way we interact with customers—which are critical to our business. We get the customer out of the store quickly, and put the books that our customers are looking for in their hands. Those may seem

We can measure the results very precisely, by property and by tier. We want our higher-tier customers to receive and give us higher scores for better service. Those scores lead to a frontline employee bonus on a quarterly basis.



SCOTT DEAVER is executive vice president of strategy for **Avis Budget Group**, driving the strategic planning process and overseeing operational efficiency and revenue growth. Previously, he was cmo of move.com.



KEN FENYO is vice president of customer loyalty for **The Kroger Co.**, leading direct and interactive, e-commerce, loyalty programs, customer insights and analytics. Previously, he was with McKinsey and Prophet Brand Strategy.



STEVE FULLER is senior vice-president of corporate marketing for **L.L. Bean**, overseeing all marketing functions for the company including advertising, customer planning, website and database segmentation.



DAVID GITOW is chief marketing officer of **Barnes & Noble**, including both internet and store channels as well as its member program. Previously, he was founder of Time Inc. Home Entertainment.



ERIC LEININGER is senior vice-president of global consumer and business insights for **McDonald's Corporation**, responsible for listening to and learning from its customers. Previously, he was with Kraft Foods.



DAVID NORTON is senior vice-president of relationship marketing at **Harrah's Entertainment**, which operates more than 40 casinos nationwide. Previously, he was with American Express, Household International and MBNA.

items that will be relevant to our customers.

Fuller: Advertising can absolutely build trial. It can be a reminder. In a lot of cases, it can also change somebody's perception. But in our case, advertising just doesn't build

reach, as well as what the best vehicles are to reach them — be it television, radio, YouTube or other new media.

In particular, there's a campaign we ran in the last year in the United States called "Maggie,"

Loyalty is about understanding what the brand should mean and then delivering against that at every opportunity.

DAVID NORTON

loyalty. A really good ad can't make up for a really poor product or really poor service.

Gitow: I believe in fundamental, visceral loyalty. Once you have that as your foundation, then advertising can bind a customer to that store.

We don't do a lot of advertising. The beautiful architecture of the store and a great customer experience is our best advertising. When Barnes & Noble started the business they did a lot more advertising. Given that awareness is extremely high and people's attitudes toward Barnes & Noble are very strong and positive, we haven't felt a tremendous need to do a lot of advertising.

Leininger: Yes. The best advertising is advertising that connects with our customers. It can communicate great consumer empathy and personal connection, through the message and through the medium. We look carefully at the customer we're trying to

which shows a mother and her daughter and focuses on all white-meat chicken nuggets, apple dippers and milk — some of the items that mom is particularly happy to see us advertise.

We've seen a wonderful response to that advertising, both in terms of attitudinal reaction and sales, which gets back to loyalty in the end.

Norton: Advertising obviously creates awareness and it should in some instances create an emotional preference. So, hopefully it gets you in the door and makes the top of your decision set. It is very important in terms of building some degree of an emotional bond.

In our industry, it's about fun, excitement, being entertained — whether that's on the casino floor, in the restaurant, or seeing a show — whatever it is. Advertising can build a bit of that emotional bond on the front end, but then it's got to be delivered in reality, when you get there.

Which brands are you most loyal to?

Deaver: I'm loyal to Peet's Coffee because I really think they have a better product. I order it online and that's all I have at home. I will drive across San Francisco to drink Peet's Coffee. That said, Peet's Coffee—even though I have it at home—is only one out of about every ten cups of coffee that I drink. So, even though I have a high degree of loyalty to Peet's because of its excellence, the basic issue of availability keeps me from expressing that loyalty in behavior.

The other end of that spectrum is Mentadent toothpaste. Boy, do I have behavioral loyalty to Mentadent toothpaste. It's the only kind of toothpaste I use. There is no particular reason I like it. I don't think it's necessarily better. It's a loyalty that's completely unexamined and completely not based on any product preference, much less emotional loyalty.

But from a behavioral loyalty point-of-view it's 100 percent. Peet's Coffee and Mentadent are two things that I'm loyal to that are at different ends of the loyalty spectrum.

Fenyo: My kids love McDonald's—my youngest child refers to it as Old McDonald's. It's amazing the pull it has. From a young age, kids are unbelievably attracted to McDonald's. It's just the whole experience of getting the food, the toy, and the playground. They've done a nice job building the whole experience. They've also done a good job of adding items to the menu, so there's something for the

parents, too. But probably the brand I'm most passionate about is Lucky Charms. How can you *not* like a cereal with marshmallows?

Fuller: I'm becoming an Apple fan-boy. I'm embarrassed to admit it. We had a turning point in my family. I was visiting paper mills in Finland last year, I'm in my hotel room, my phone rings, and it's my daughter. She says she can't get the printer to work. It's the middle of the night. She had a paper due the next day. After that, we switched over to Apple, and haven't had a single problem since.

Apple has this remarkable blend of incredible design combined with a basic functional operating system that just plain works.

I used to be loyal to Sony, but I'm not anymore. I think even Sony would admit that they were

experience. The whole package is superior.

Leininger: I can never read everything I would like to read, but I always read *The Economist*. For someone with a global job, it is a great way to learn a good bit about a very wide range of topics. If I am up to date on *The Economist*, I am never at a loss for a conversation starter wherever I might be in the world.

Another one that's a little less cerebral and a little more day-to-day is Gillette. Somehow Gillette has been able to continuously improve their products in a way that causes me to happily continue to pay more for them. This is something that is particularly important to me because I don't just shave my face anymore; I also shave my head!

Consumer relevance is the essential starting point for building loyalty.

ERIC LEININGER

brought down by a certain level of hubris—they were always ahead of the game, people would pay a bit more for that but without being taken to the cleaners. Their products were incredibly reliable. They lost all of that.

Gitow: It's sad to say, but I'm most loyal to the Mets and the Jets. I love the Blackberry. It's a great brand. I haven't found anything out there that beats it.

I really admire Lexus. They do a tremendous job with product quality, and offer a great customer

Norton: We go to Disneyland usually three or four times a year. It's just a great experience for the family and for young kids. Disney has very good service, its people are friendly, and the experience is always true. So, it's a nice emotional bond as a family to go to Disneyland.

Another one, in a different spirit, is Tropicana. I would never consider buying a different brand of orange juice besides Tropicana. It's good, it's refreshing, and it's a brand that I've been loyal to for years, ever since I was a kid. ■