Inside Technology Services

Using a Customer Loyalty Program to Build Competitive Advantage!

By Dennis Gershowitz, Principal, DG Associates, and Sam Klaidman, Principal Advisor, Middlesex Consulting Group

Did you ever see a business whose tagline is “We are the same as everyone else?” If you did, how long did they survive? Did you wonder, “Who is the rocket scientist behind that venture?” Would you ever start a business with that strategy? We didn’t think so!

What Is Competitive Advantage and Why Is It Important?
Competitive advantage is the edge a firm has over its competition that allows it to enjoy better sales, better margins, more profits and/or a higher level of customer loyalty. This allows the firm to return greater value for its shareholders and other stakeholders. The more sustainable its competitive advantage, the harder it is for competitors to catch the firm.

How Do You Attain a Sustainable Competitive Advantage?
Michael Porter, a leading authority on company strategy and the competitiveness of nations and regions, says that there are three ways to achieve competitive advantage: price, monopoly, and differentiation. In the high-tech world, it may be possible to compete on *price* for a limited time, but there is always someone either bigger than you or newer (with no legacies to worry about), so achieving a sustainable advantage based on price is extremely difficult.

For example, in the 1970s, Japan exported low-price cars to the U.S. Now Japanese cars are mainstream, and Korean cars are less expensive. And in the coming years we can project that Chinese exports will capture the price-sensitive buyers—and they will no doubt be followed by Indian exports. It seems as if there is always a newer, low-cost option coming into the marketplace.

In general, *monopoly* is a dead-end strategy because of global trade regulations. However, because some technology so captures the minds of customers everywhere, they can gain a virtual monopoly that can be sustained by judicious investments in R&D. Some examples:

- Google—Although they still have competitors, in search, they have so many loyal customers that they’ve attained the super status level of having their name turned into a verb and a noun. Others at that level are Kleenex and Xerox.
- e-bay—In online auctions, is there any other firm that is as well known and frequently visited?
- Microsoft Windows—For years, Microsoft had a huge and steady market share, but now, as a result of open sourcing, new products, and regulations, they still dominate the marketplace of operating systems, albeit in a slowly declining market.

This leaves *differentiation* for the rest of us in high-tech. And differentiation is how it should be, because this is what we do.

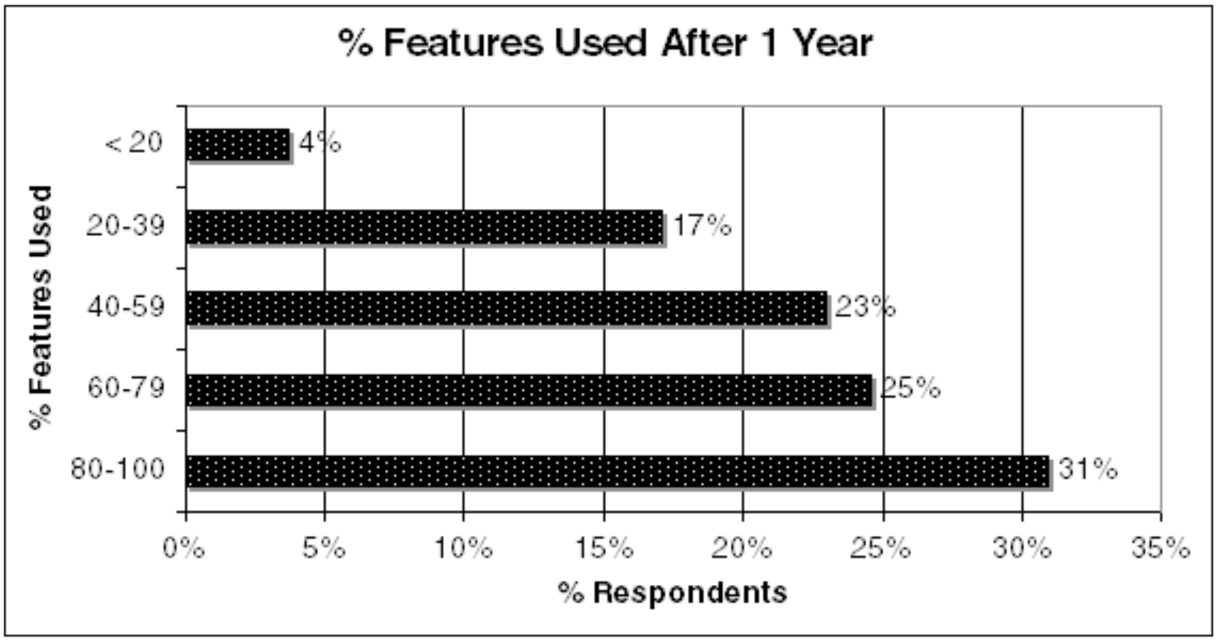
How Do You Differentiate Your Firm from Others in the Marketplace?
The two most significant ways to achieve sustained competitive advantage through differentiation are:

1. Product features.
2. Service and services.

For technology people, differentiation through *product features* is second nature. Some companies, like Apple, succeed based on design (the cool factor) and some, like Sony, on features. But in many cases, features has become a challenge for businesses, as the proliferation of features causes enough complexity that the end user becomes frustrated and does not repurchase, or worse yet, does not recommend the product. And with growing strength of social media, experiences resulting from complexity overload can easily become the death knell for many products.

To understand how pervasive the complexity issue is, we recently conducted a non-scientific poll on LinkedIn. While the voting is private, we publicized the poll to our groups that focus on customer experience management, service management, and service revenue. *Figure 1* shows the results.

Figure 1



Only 31 percent of the 92 respondents believe their customers can use between 80 and 100 percent of their products' features. Sixty-nine percent can use less that 80 percent of the features. Depending on how much they spend for the product, there is a relatively high likelihood of generating negative competitive advantage. We have to continue to ask ourselves: How successful are our customers with our products? Are we really successful as a business, or are we at risk?

So, can we differentiate and maintain a sustained competitive advantage with product features? The answer is yes, but the complexity impact must be minimal, and the usability and value of the features be clear.

Differentiation based on *service and services* is less likely to create a negative competitive advantage. First, what's the difference between service and services? We consider "service" the things you do to ensure product availability or uptime. This includes installation, basic training, technical support, on-site repair, or support service and software patches. These may be free or fee-based.

"Services" are either combinations of individual services or unique value-added services such as remote monitoring, advanced education, outsourcing, disaster recovery, or backup and consulting. The reasons they differentiate one firm from another are:

- They are created around unique capabilities.
- They are created in partnership with the target customers.

- The foundation of the “deal” is mutual trust.
- The financial equation is a clear win-win, so everyone wants it to work.

Why Is Differentiation through Value-Added Services (Solutions) So Important as a Differentiator?
Customers pay money to make problems go away. Selling products, unless they are very simple or familiar, do not make problems go away; in fact they sometimes create new problems. Providing solutions makes problems go away. So differentiating based upon services is a way to give the customer the value that is inherent in the product. This approach—the way you perform for your customer and the innovation you employ— is also instrumental in creating and maintaining customer engagement and loyalty.

How Does Having a Loyalty Program Work in the Differentiation Scenario?
A company can differentiate itself by delivering a customer experience that is so good that it leaves a lasting positive impression on your customer. In the words of Tom Peters, a renowned expert on business management practices: We have “wowed” the customer. So, begin by envisioning what you want the customer experience to look like. Then assemble the elements necessary to deliver. This then becomes the essence of your loyalty program.

Consider that you have developed and can now sustain a customer-centric culture based on your services delivery. You are now creating value, both internally and externally. Your service culture is focused on achieving a sustainable competitive advantage.

Since most firms by now should have some version of a loyalty program, let’s review what we consider to be the highlights of such a program:

1. Envision what the delivery should be like.
2. Assess your capacity to deliver and validate that this is how you create value.
3. Segment your customers. There are many ways to do this, but for the purpose of differentiating your firm, either segment based on annual revenue (or profit) or accounts large enough to be ready, willing, and able to partner with you.
4. Measure the results, and make sure both parties are on the same page and that you are delivering to your vision.
5. Communicate, communicate, communicate.
6. Take quick action on all feedback and insight, aligning the results to meet both your internal and external needs.

Once you have a successful loyalty program and you have created many advocates, then you can begin to differentiate yourself. Here are the steps to differentiation:

1. Talk *with* (not *to*) decision makers in your key accounts, and openly discuss your plans, capabilities, and your experiences so far. Work together to create unique solutions to some of the account’s problems. In this step, we must have clearly defined our customer’s role and expectations.
2. Determine a fair price based on the value the customer will receive; not your costs or what you think a competitor might charge. If you do this step correctly, there should be little price discussion because the customer helped define the solution, told you their expected value, and consulted with you on your quotation.
3. Both sides must sell the solution within their own organizations. Expect lots of push-back, as change is always difficult.
4. Once you begin the implementation, it is critical to frequently communicate between both parties, and also within each firm. It is critical to identify and isolate the “success-prevention teams”—they can kill a good idea without any effort.
5. Go slowly and do not take on more than you can handle. Always take steps to maintain the quality of delivery.
6. When you can declare victory, market the results both internally and externally.

7. Commission the sales force to bring you similar deals. Be selective and take the time to explain why you do not go after all opportunities. Your sales organization must have the confidence that you will only go after business you can profitably bring to successful conclusion.
8. We know this works, so go for it.

About the Authors…

Dennis Gershowitz is principal of DG Associates. An accomplished senior executive, he is recognized for leadership in aligning business and development strategy to achieve best-in-class business success. He has served on various boards for AFSMI (now merged with SSPA and TPSA to form TSIA) and is a member of the AFSMI President's Club. See Dennis speak at Technology Services World, being held May 3-5 in Silicon Valley. He may be reached at dennisg@dgassociates.net. www.dgassociates.net

Sam Klaidman is the principal adviser at Middlesex Consulting Group, where he helps clients grow their service revenue and profits by migrating services from free to fee, helping businesses transition from product-focused to a balance of product-and-service focused, and developing, pricing, and commercializing new services products. Sam may be reached at sam@middlesexconsulting.com. www.middlesexconsulting.com

Distributed by TSIA | 17065 Camino San Bernardo, Suite 200 | San Diego, CA 92127 | 858.674.5491

Middlesex
Consulting Group

About Middlesex Consulting Group and Sam Klaidman

Middlesex Consulting Group specializes in:
•Service Strategy
•Services Marketing
•Identifying and commercializing value-added services
•Go to market assessments
•Creating and retaining customers
•Operational improvements

Sam Klaidman is the Principal Adviser at the Middlesex Consulting Group. A thought leader in service excellence, Sam is an experienced executive with a deep and varied background that spans nearly 45 years. During that time, Sam led several world-class service delivery organizations and has more than 20 years of service and support experience. He is an accomplished speaker on Service Strategy and Marketing and has published numerous articles on Services Marketing and Services revenue.

For a no obligation discussion about how we may help your business grow revenue, profit and customer loyalty please contact us;

Sam@middlesexconsulting.com