New Developments in B-to-B Loyalty Marketing

By Ruth P. Stevens and Bernice Grossman

ABSTRACT

Business marketers have much to gain from retention marketing. Business customers tend to be fewer and more valuable—meaning you can't afford to lose even one. But how do you keep your customers active and buying from you, versus the competition? How do you prevent defection? This white paper defines retention marketing and explains its importance to business marketers. It reviews the traditional approaches to retention marketing in B-to-B: data-based segmentation and differentiation of treatment, rewards-based incentive programs, partnership strategies and promotions. It then introduces new developments in loyalty marketing being adopted by B-to-B marketers today, including social media and gamification.

Overview

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The Importance of Loyalty in B-to-B

Cultivating customer loyalty has deep roots in the world of B-to-B marketing, due to the fundamental structure of buyer/seller relationships. Several characteristics drive this trend, among them:

THE RELATIVELY HIGH VALUE OF AN ACCOUNT — Compared to a consumer household, business buying tends to involve multiple quantities, high-ticket items, and large order sizes. So each account is worth keeping.

A LIMITED UNIVERSE — While consumer marketers may be targeting thousands, even millions of households, business buying targets may number in the tens or thousands of accounts, even globally. So the cost of attrition is extraordinarily high in business markets. If you lose a customer, it may not be so easy to find another one.

VENDOR CONSOLIDATION — Increasingly, companies prefer to limit the number of vendors they do business with. According to Professor Noel Capon of Columbia University's Graduate School of Business, the rise of centralized purchasing and a trend toward strategic sourcing has reduced the number of suppliers serving large enterprises between 10% and 65%. Thus, the universe of potential customers is shrinking.

BUYER RISK REDUCTION — In business marketers, a lot rides on vendor quality and reliability. To reduce the risk that a component won't work, or a late raw materials shipment will cause production headaches, buyers tend to buy from suppliers they know and trust.

As each account holds high potential value, and the number of prospect accounts is limited, business buyers seek to do whatever they can to sustain relationships and grow the value of the account. As a result, it's in the DNA of successful business marketers to cultivate long-term loyalty among their customers.

Traditional Approaches to Fostering Loyalty Among Business Buyers

Given the importance of customer retention in B-to-B, business marketers have a long history of investing in loyalty drivers. The most basic approach has been, simply, superb account management.

In a well-run company, the sales team in charge of any given customer will do its best to understand what's going on in the account, sell to them the way they want to buy, deliver on time, develop new products to serve their evolving needs, solve any customer service problems, cultivate deep relationships with the specifiers, influencers and decision-makers throughout the account, and generally provide the best possible products and service levels. It is this basic approach that has stood the test of time.

But as buying has become more complex, businesses have developed additional strategies to deepen customer relationships and engender loyalty. For example:

DATA-DRIVEN SEGMENTATION AND DIFFERENTIATED TREATMENT — Not all customers are created equal, so segmenting customers by value and treating them differently is a strategy that works well in business markets. Some companies will identify their top accounts—based on margin or on top line revenue—and provide them with special perks, pricing and service levels, such as:

- Corporate-wide purchasing agreements, where all buying across a far-flung enterprise can benefit from pre-negotiated contract pricing. The terms may be supported by a special Intranet behind the top customer's own corporate firewall, allowing 24 by 7 purchasing, and reporting back to purchasing officials about buying behavior across the corporation.
- Dedicated sales teams, some of them even housed on site at the customer's operation.
- Dedicated customer service phone lines, where the service personnel can develop an ongoing personal relationship with individuals in the account.
- Special status, like Gold Customer, or Preferred Customer, programs that may include access to discounts, free shipping, invitations to events and other perquisites.

INCENTIVE PROGRAMS — Taking a page from the consumer world, some business marketers have found success with frequency marketing programs that reward customers for certain behaviors, such as repeat purchase. These programs are not universally applicable in business, but they have their place, particularly in situations characterized by the following:

- A market that is highly competitive, where a competitive advantage is critically important.
- Management disinclined to compete on price, so an alternate source of value is needed.
- High fixed costs but low variable costs, which supports reasonable redemption expense.
- Inventory is perishable, so the value declines as the deadline approaches.
- Purchase cycle is short and purchase behavior can be tracked.

Rewards programs are typically applied in businesses that mimic consumer purchasing behavior, like office supplies. Staples, for example, runs a thriving Business Rewards program targeted to its small-medium business customers. Financial services and telecom have also done well with frequency marketing programs in SMB, examples being American Express OPEN, the MasterCard Business Bonus program, and Verizon's BusinessLink.

How to Measure Loyalty in Business Markets

Loyalty can be hard to measure in business markets.   The fundamental problem lies, ironically, in the value of the business customer. You want to retain them because they are so valuable.   Yet, setting up metrics is difficult exactly because they are so valuable.

The ideal marketing metric is based on the test-and-control method. So ideally you want to isolate a certain set of customers from the rest of the customer base, apply your retention tactic to the remainder, and see what kind of lift you experienced in such obvious metrics as:

- Repeat purchase.
- Average order size.
- Purchase of multiple products or services.
- Referral to buyers in other departments or in outside companies.

But in most business marketing situations, it's well nigh impossible to set up control groups, for the following reasons:

- Salespeople worry about inconsistent messages and offers going into their territories.
- Management worries about leaving money on the table when eliminating promotions to control accounts.
- Testing incurs extra expense and time investment.
- Universes are small, and products change rapidly, so this year's test may not apply to next year's business environment.

So business marketers are typically limited to proxy measures, among them:

- Measuring against yourself, over time. Look at churn rate, or repeat buying rate by segment, or any other metric, year on year, and hope for an improvement
- Measuring against your industry. Some industry groups invest in the kind of research that assesses benchmarks against which any individual player can measure performance.

Whatever measurement plan you adopt, the important thing is that you set benchmarks and expectations in advance, so you can declare success (or failure) with clarity after your loyalty programs have been operational over a reasonable time.

New Developments in Loyalty for Business Markets

In the last few years, B-to-B loyalty marketing has benefited from the arrival of new tools that support the goal of deepening relationships with business buyers. Social media, for example, has created an easy, low-cost way for companies to build communities and foster engagement. Social media is being applied across the B-to-B marketing spectrum, from prospecting via viral pass-along, to enhancing customer relationships, to surfacing and solving customer service problems.

In the area of enhancing customer relationships and fostering loyalty, to the power of social media is being felt throughout the B-to-B marketing world:

- Companies build the ranks of their followers on Twitter and LinkedIn, their "likes" on Facebook, and their RSS subscribers to blogs and YouTube channels. These connections then become another set of media channels for staying in touch, introducing new products, sharing ideas and case studies, and otherwise building an ongoing relationship.

- Within social media environments, companies establish communities of customers and prospects around certain subjects, like technologies, products, events, and other shared interests. In these forums, chat groups, blogs and other formats, like-minded people share ideas, expand their knowledge and make valuable connections.

Truly, social media has become an important tool in the B-to-B loyalty marketing toolkit.

One of the most exciting new developments in B-to-B loyalty marketing is the new concept known as gamification. The idea here is to build on people's natural enthusiasm for games, involving prizes, competition and recognition, and turn that motivation into a loyalty driver. The goal of gamification is to add gaming elements to otherwise boring processes and tasks, converting them into something fun, competitive and addictively engaging.

The research firm **Forrester** defines gamification as "the insertion of game principles and mechanics into non-game activities to drive a desired behavior."

An early example of successful use of gamification is the business model of Data.com (formerly Jigsaw), the business database company that encourages sales people to swap the contents of their Rolodexes.   In exchange for uploading a contact, a salesperson can then download a contact posted by someone else, thus expanding his or her access into target accounts. But Data.com also rewarded users with points, prizes and recognition among their peers. Naturally competitive salespeople responded with enthusiasm, not only uploading contact data, but also adding corrections to existing records, to earn their way to more points and higher status levels. Fueled by this engaging type of competition, Data.com quickly grew its business contact database into the millions, and in just a few years was bought by Salesforce.com for $142 million cash.

Marketers who want to introduce game design and mechanics to their loyalty programs can now take advantage of several new software platforms, like Badgeville, CallidusCloud, and Bunchball. **These tools are taking loyalty programs to a new level of interactivity, real-time feedback and social interaction. Specifically, gamification software provides:**

- Rewards flexibility, which can be designed to motivate exactly the behavior desired by the marketer.
- A powerful social component. Connected to social media channels, gamification broadens the loyalty experience beyond the individual, to the group. User behavior is connected to their friends and followers, deepening the motivation to share and compare their experiences.
- A rich database of customer behavior. Marketers can analyze member activity, and tailor communications and incentives to motivate them further.

Badgeville — The Gold Standard of Gamification Platforms

While several software tools have sprung up to support gamification objectives, the market leader is Badgeville, based in Menlo Park CA. Founded in 2010 by Kris Duggan, and funded by InterWest Partners, Norwest Venture Partners, El Dorado Ventures, Trinity Ventures and the Webb Investment Network, Badgeville combines proven techniques from social gaming, traditional loyalty programs and social networking, to help companies improve customer loyalty and employee performance, in both business and consumer markets.

Badgeville's Behavior Lifecycle Management solution allows companies to gain leverage from:

- Game Mechanics, which applies the design and behavioral psychology principles of today's social games to drive and reward specific user behaviors in business environments. Such elements as points and contests can be configured to motivate desired actions in any enterprise technology environment, whether it be web-based, on a mobile platform, or within a CRM system.

- Reputation Mechanics, which allow companies to boost user rank and status across various sites and applications. For example, if a help desk employee reaches "Support Rock Star" status internally, Badgeville lets the employee carry that reputation along into external communities with customers.

- Social Mechanics that enable companies to publicize valuable user behaviors as they happen in real time, encouraging other users to behave similarly.

The Badgeville platform also serves as a highly useful analytics tool for its customers, combining as it does the data, context and insight necessary to identify the ways constituents engage with websites, mobile devices and enterprise applications of all sorts. Based on real-time behavioral data, user activity on Badgeville tells a powerful story that can be used to improve technology and marketing decisions across the enterprise.

Today, Badgeville serves over 200 companies, including such well-known brands as Samsung, NBC, Deloitte and CA.

Case Study in B-to-B Loyalty Success: EMC

EMC, the global leader in storage systems, was an early adopter of social software as a way to engage loyal customers, knowledge experts, and partners. Having started with social software over seven years ago, EMC has continued to consolidate and evolve Jive software to drive that engagement.

However as the community grew, an unexpected challenge was discovered: Users were simply not demonstrating the expected level of engagement activity.

So EMC's VP of Global Marketing, Todd Forsythe, turned to Badgeville's gaming engine as a way to motivate users and reward behavior among those who post messages, fill out profiles, answer questions and generally get involved in building a vibrant online community. The solution was to build a community engagement program called RAMP (Recognition, Awards and Motivation Program). The RAMP program is integrated with the 240,000-members of the EMC Community Network (ECN), and uses game mechanics to drive, influence and reward valuable user behaviors.

With the combination of Badgeville's gaming engine and an actively managed recognition program (RAMP), EMC can now recognize and reward virtually any behavior it wishes to stimulate. For example, achievement missions were created for users to unlock for participation in peer exchanges, starting discussions, and or demonstrating their expertise in certain EMC product categories like cloud computing or content management.

The results were rapid and gratifying: EMC has seen a 21% increase in overall user activity on the network, including lifts in key behaviors such as videos watched (+38%); files downloaded (+15%); discussion inputs (+18); and overall engagement activity increased by (18%).

About these results, Forsythe comments, **"Our mission at EMC is delivering a vibrant experience for community members to engage in peer-to-peer collaboration. Badgeville's platform was instrumental in our ability to create recognition for those contributions. Now, community members at large can easily identify who is the most qualified and trustworthy resource. They can pose their questions, and get the answers they need, fast. An unexpected by-product of the program was the level of excitement it has generated with our employees, among both our product expert community and our marketing team."**

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ABOUT BADGEVILLE

Badgeville, the #1 gamification and behavior management platform, enables companies in virtually every industry to influence and measure user behavior. World-class businesses in more than 20 countries use Badgeville's Behavior Platform, an award-winning Platform-as-a-Service (PaaS) solution, to increase customer loyalty, user engagement, and employee performance across an organization's websites, mobile apps and enterprise applications. With over 200 customers, Badgeville brings Game Mechanics, Reputation Mechanics, and Social Mechanics to industry leaders and innovators including Deloitte, EMC, Oracle, Autodesk, Bell Media, NBC, Universal Music, Recycle bank, VMware, and more. Founded in 2010, Badgeville is based in Menlo Park, California and has offices in New York and Europe.

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