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GAS QUARTERLY: MINING THE DATA GOLDMINE

ARTICLE

STEP BY STEP

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THE IMORTANCE OF MOVING CUSTOMERS UP THE LOYALTY LADDER ONE STEP AT A TIME

In my article 'The Leaky Bucket', 2005[1], I made the case for why arts organisations should re-focus their marketing activity on retaining as well as acquiring customers. The advantages of doing so, which are well discussed in that document are, in summary:

- more effective use of marketing resources (time and money),
- increased income from the customer base (from both tickets and donations),
- a more loyal and committed customer base who will act as advocates for you, and possibly even take more artistic risks.

"The most important thing to remember is to move people up the ladder one step at a time, regardless of where they start."

Since writing The Leaky Bucket, I have been in contact with hundreds of organisations who now wish to adopt a CRM (Customer Relationship Management) approach in order to benefit from greater customer retention and increase income.

What's clear from the conversations I've been having and much of the consultancy work I've been doing at DixonRaines Ltd with individual companies is threefold:

- Many organisations are not sure how to assess how well they're currently doing;
- It's hard to assess the impact this approach might make, and therefore make the argument for changing how things are done;
- There is uncertainty about how and where to start.

[1] The Leaky Bucket, Katy Raines, 2005, www.dixonraines.com

So in this article, I will outline some of the ways in which organisations can tackle these issues and give a few practical examples, based on my own experience and good practice I've seen over the last 18 months.

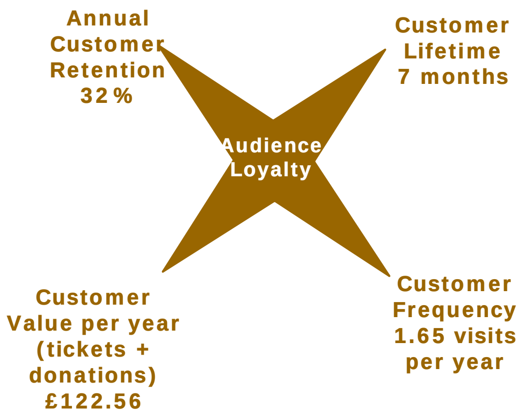
Assessing Customer Loyalty

My starting point in any project is always to know where we are at the start – so the first task in getting started on CRM is to find out how loyal your customer base is at the moment.

Loyalty is tricky to measure, but I have developed a system as part of my 'Audience Loyalty Healthcheck™' which I think gives a 4-dimensional view of customer loyalty, as demonstrated by their behaviour:

- Customer **retention** – ie. how many customers are being retained from one period (usually one year) to the next
- Customer **frequency** – how often someone is attending or engaging with your organisation over a period of time (usually a year)
- Customer **lifetime** – how long in total have customers been engaging with you, however infrequently
- Customer **value** – how much customers spend with you, and/or donate to you during one period (usually a year).

Typical headline figures for a theatre in the UK might look something like this, and are easily calculated from box office data:



© DixonRaines Audience Loyalty Healthcheck™

It's important to note that these figures are averages for all customers but incredibly useful as performance indicators to track from one year to the next.

For a non-ticketing organisation, in order to understand customer loyalty, I would argue that the same measures apply but perhaps are more difficult to calculate. Exit surveys and annual customer research however, should definitely include questions to try and tease this out, such as:

For **retention/lifetime**: "Did you visit in 2006, 2005, 2004…..?" (tick all that apply)
For **frequency**: "Thinking of 2006, how many times have you or your family visited us? 1, 2, 3 " and so on.

From these questions, with careful aggregation, it should be possible to track changes in customer loyalty from one year to the next.

Value in this context is more difficult to calculate, especially if the organisation has no charge for admission. However, a calculation should be made of the average customer spend on each ancillary area, and also of the average donation per customer through the door. Again, in this way, it's possible to see if loyalty is increasing or decreasing.

As well as measuring loyalty by customer behaviour, it's important, where budgets allow, to research people's attitudinal loyalty to the organisation. This is particularly important with frequent, valuable or long-lifetime customers. To understand what makes them return time after time is a crucial piece of information in understanding how to persuade others to do the same. Most organisations I have talked to would not even know who their valuable customers are, let alone talk to them regularly. In most of the cases I've looked at, organisations are losing around 40% of their most valuable customers every year – without ever asking them why they left.

Calculating Potential Gains

The second part of this approach is to calculate, in real terms, what difference small improvements to one or more of these aspects might make.

I've found by conducting Audience Loyalty Healthchecks for a number of organisations that just a 5% improvement in customer retention can add as much as 25% to ticket income; and that a similar improvement to frequency can multiply fundraising from the audience by around three times.

For example, if you know what percentage of your audience is attending three times per year, and the average income for each booker who attends four times per year, it's pretty easy to work out what a difference it would make to income if you managed to get 5% of the three-timers to attend once more.

I've been staggered by the number of performing arts organisations which have in excess of 70% of their audience attending only once during the year. In many cases, we are recommending that they achieve ONE repeat attendance during the year for just 10% of these customers – with astonishing financial gains.

For a free museum or art gallery, it's much more difficult to calculate these potential income gains. However, if the baseline figures have been calculated as described above, then it's much easier to see what effect 100 more donors giving £5 per month might have on the overall customer value figure. We have found that successful fundraising from museum and gallery attenders, just as much as theatre or concert attenders, is linked primarily to their frequency of attendance. Whether they've paid for the experience or not, someone who regularly engages with your organisation is likely to give a much larger amount when approached in the right way than someone who comes less often.

So whilst performing arts organisations can largely see who is attending frequently (although not enough do!), it's much more difficult when a box office is missing. This is something I'd like to explore further in the next section, after discussing how loyalty ladders can be used to implement some of this thinking around CRM.

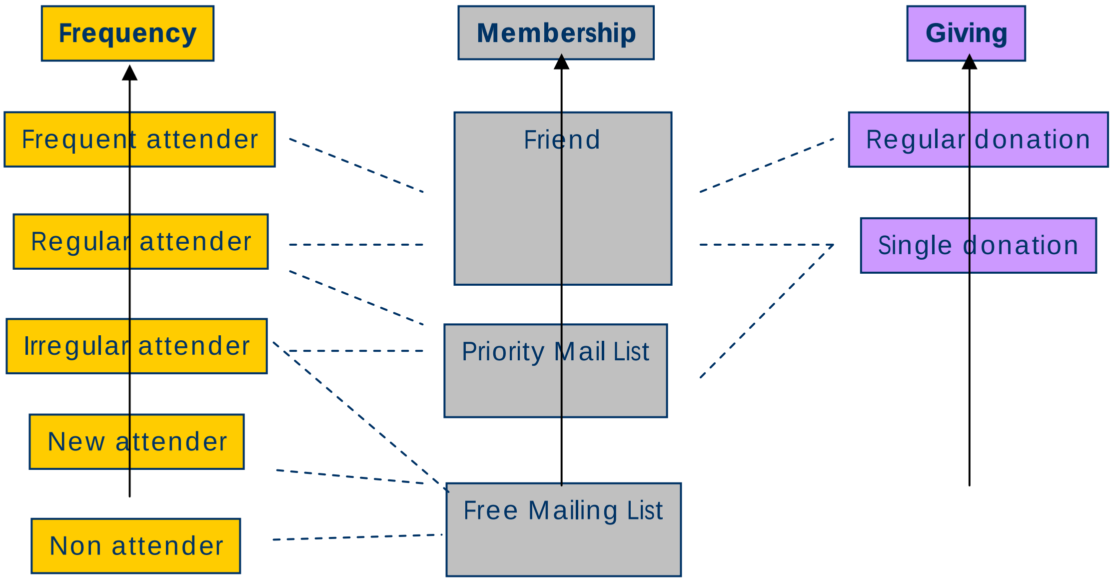
How to get started

Once you've worked out what's going on, and what impact small improvements in either retention or frequency could make, it will be much clearer where to start.

For example, if you have a massive problem with once-only attenders, then the starting point is to try and get a few of them back just once more. If you have a problem with losing valuable attenders, perhaps you need to be contacting them directly to find out what's happening.

But whatever you find, the basic principles of the loyalty ladder will stand you in good stead.

In The Leaky Bucket, I suggested a set of 'linked' loyalty ladders for income generation as follows:

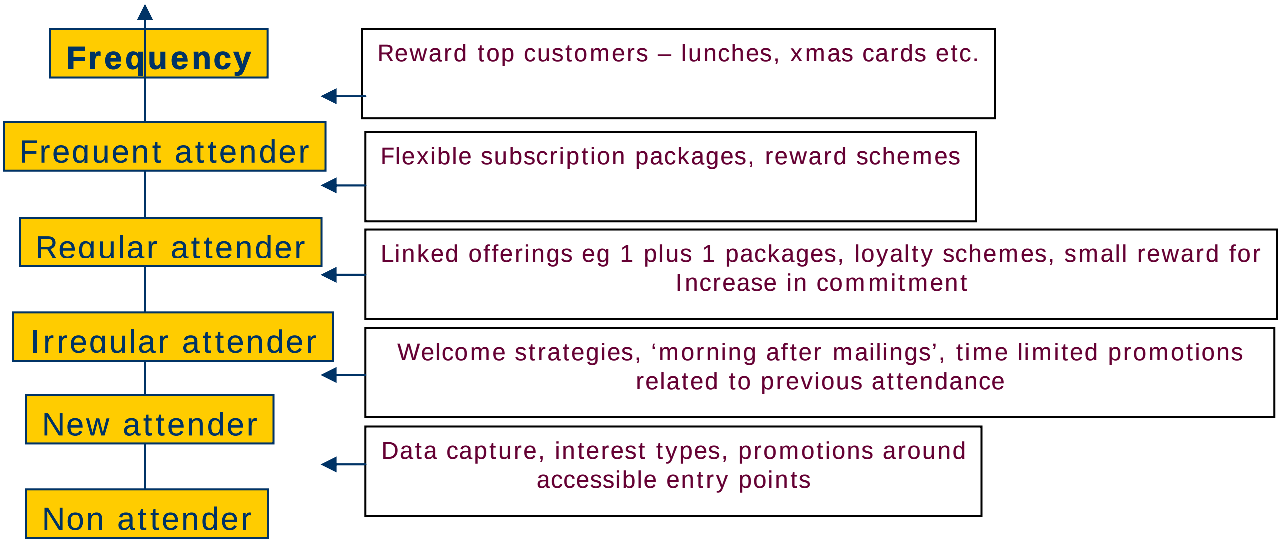


This model works perfectly in a performing arts venue where there can be a ticketing transaction, a benefits-led membership scheme and an attractive program of other work or activities (eg. education work) for people to support with donations.

The most important thing to remember is to move people up the ladders **one step at a time**, regardless of where they start on the ladder. Promoting a subscription scheme of 12 performances to people who've only ever been once will get a low take up – and relationship building isn't helped if you try to get someone who's been twice to pay to receive the brochure. This approach depends on:

- segmenting your customers effectively by frequency (and, in some cases, value),
- communicating differently and appropriately with people depending on where they sit on the ladder,
- ie. NOT just mailing everyone, regardless of their loyalty to the organisation.

With frequency, for example, different tactics are required at each level on the ladder to encourage the next rung:



New attenders need a welcome strategy. In most organisations, at least 50% of customers come once and never come back again. Yet few are trialling different techniques to welcome customers when they first book, or communicate with them immediately after their first visit with an incentive to return quickly. Organisations I'm working with which do this are seeing amazing results, with some claiming to get 50% of new attenders to return within 6 months.

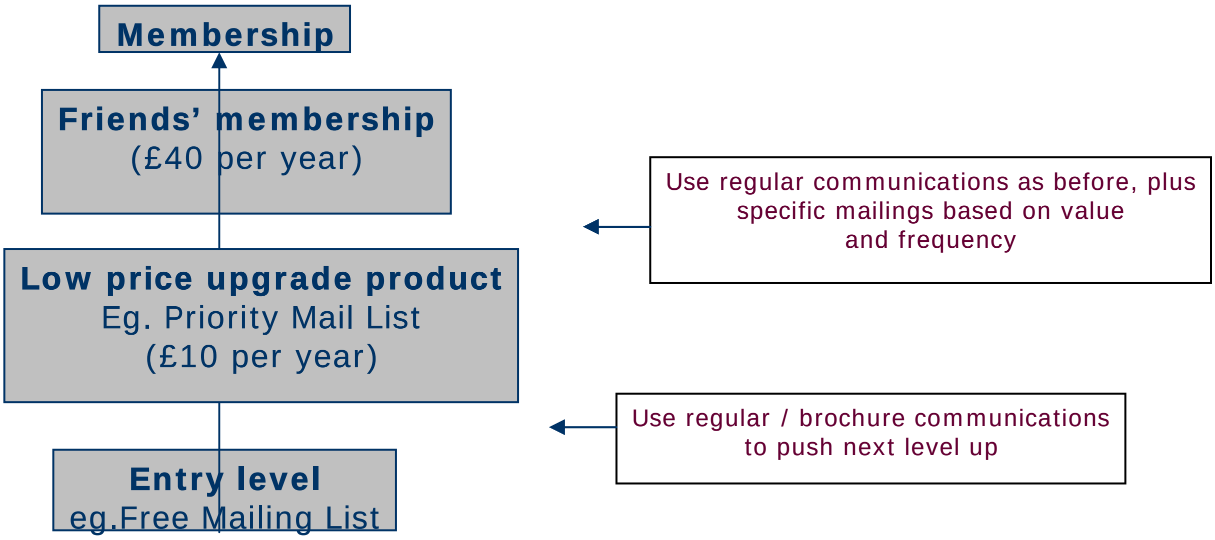
Welsh National Opera recently mailed all their new attenders to 'La Boheme' with a packet of tissues that arrived the morning after they had attended the opera. "Did Welsh National Opera make you cry last night?" was the question asked, with a clear proposition to attend 'Carmen', the next major production.

But just because someone comes back a further time, that does not make them a 'loyal' or 'core' attender. They've only been twice! Be patient – encourage them to make one more visit – not sign up for a Friends membership or commit to a subscription - yet!

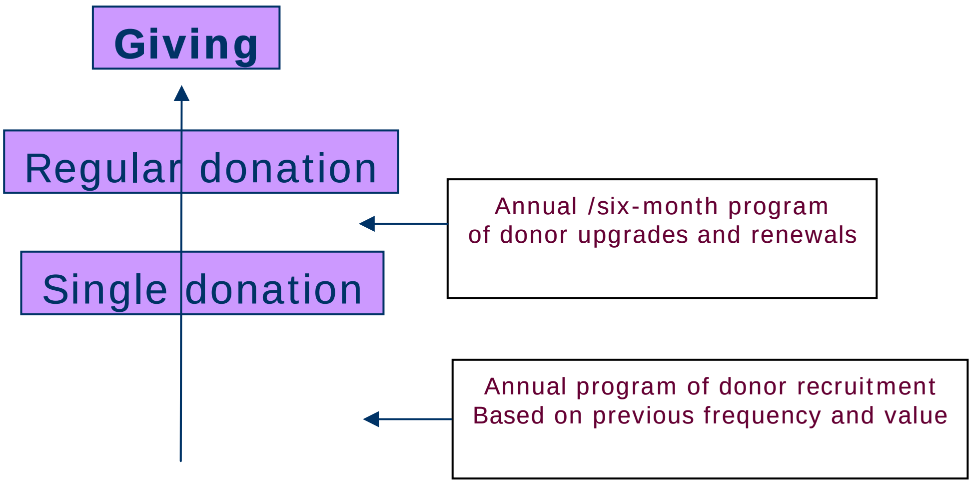
So the tactics change as the ladder progresses – not forgetting at the top of the ladder to thank and reward the customers who come most frequently and are undoubtedly contributing a disproportionate amount of your income. Why not invite them to an annual lunch where you can thank them, but also pick their brains about how you're doing and your future plans. It's free market research!

For organisations that run membership schemes, it's imperative that there is a loyalty ladder in place here too so that the membership scheme doesn't just sit out on a limb and be unrelated to other engagement or relationship-building activities.

For example, one theatre created benefits linked to receiving information and priority booking, and charged different amounts for them. Through the regular season mailings they promoted the next step on the ladder and achieved around a 20% upgrade rate from one step to the next.



For donations, the emphasis was on recruiting donors through an annual telephone campaign – preferably to give a regular gift, but if not, aiming to upgrade the single givers in upgrade campaigns run 6-monthly or annually.



Of course the most important bit is to ensure that the ladders are co-ordinated and communications planned carefully to ensure that customer relationships are valued above all else. Mailing someone to death about every show that's coming up, and then asking them for a donation is unlikely to make them feel well disposed to giving you lots of money. Communicating at the right times and in the right way on the other hand will build their trust and commitment to you. To effect this communication, the organisation must have a single view of the customer, not lots of different databases and fragmented communications.

What about non-ticketing organisations?

For a free gallery or museum, the question of how to track customer behaviour through attendance is a difficult one. However, some are beginning to address this, as they can see the clear benefits of doing so, namely:

- More information about what exhibitions people are attending will make direct communication with them more relevant, and reduce marketing costs, as people will not be contacted with things they're not interested in;
- Costly annual visitor surveys could be scaled down, as the organisation would have a wealth of information at its fingertips about who was attending, where they lived, likely income (based on geo-demographic profiles etc); and
- Large numbers of likely fundraising prospects are generated for the fundraising department on a plate – as we know that people who come more frequently are more likely to give larger amounts.

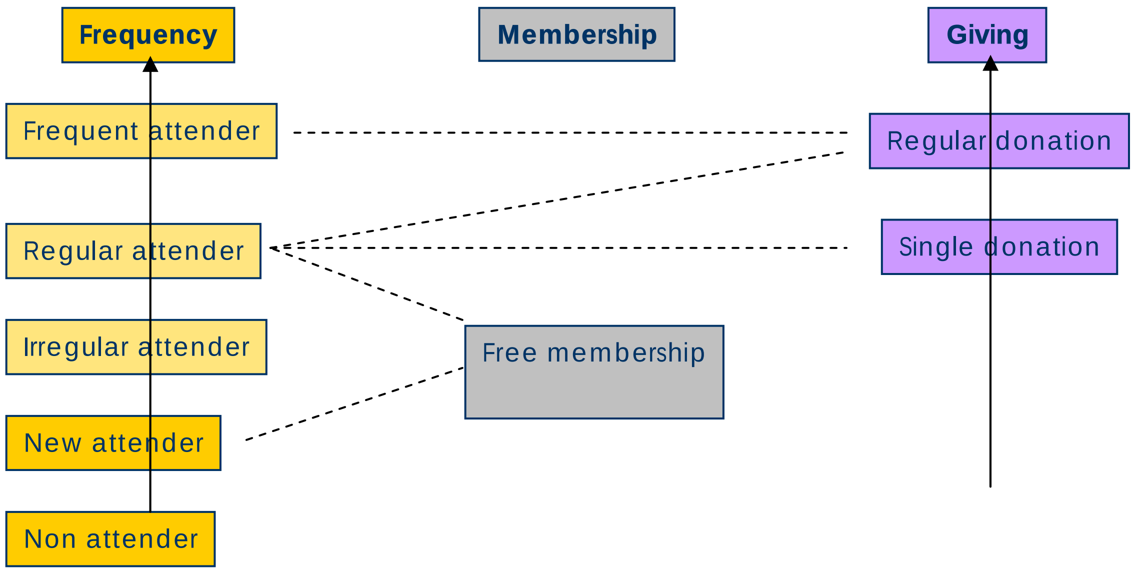
Tyne and Wear Museums in the North of England have spent the past 18 months integrating all their customer databases so that they have a single view of each customer and can communicate with them and manage each relationship in an appropriate way.

One scheme being considered by others in the UK is a voluntary free 'membership' scheme, which encourages visitors to join, giving their personal data and gallery preferences. They are issued with a card and encouraged to swipe it each time they visit an exhibition or make a purchase from the shop or café. Each interaction (including the free visit) accrues points, which can later be redeemed for other benefits, such as free catalogues and refreshments.

In addition, they are invited to special events, depending on their preferences – such as preview events, or 'behind the scenes' events. A few ideas also being considered are:

- pre-opening hours access for members with children (bookable via the website or by phone) to guarantee a select experience before the gallery opens,
- bookable free car-parking for members,
- discounts in the shop and café, and
- priority booking for new 'paid-for' special family events in holiday periods.

In this context, the free membership scheme acts as the point of data capture, and unlocks the possibility of tracking frequency of attendance, in order then to drive the fundraising opportunities. It is the mechanism by which the organisation can begin to build a relationship with its visitors based on their frequency and exhibition preferences, offering them more tailored communication, access to special facilities or events, in order, ultimately where appropriate, to fundraise from them. Without this mechanism, the organisation is somewhat blind to how its individual customers are behaving.



What about Festivals?

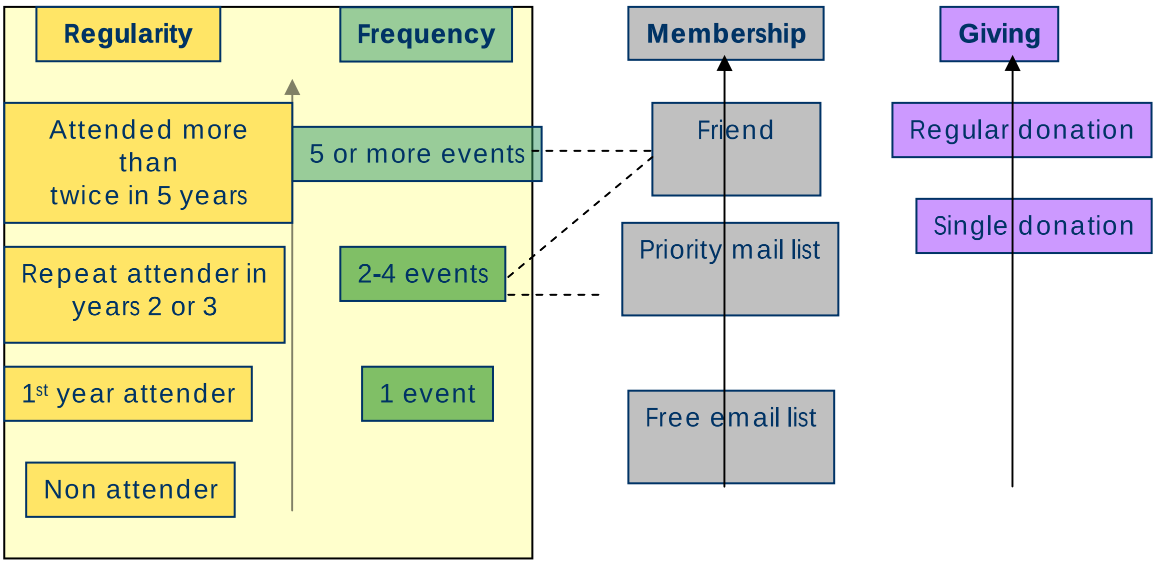
The other type of organisation where this can be applied, but differently, is an annual festival. Here, there may be only one opportunity per year to engage with the audience and the cycle of retention is likely to be much longer.

For example, if someone visits an annual festival for two years running, and then misses a year, have they lapsed?

In this context, I believe all the same principles apply but the issue of proximity to the festival location, and perhaps frequency of attendance becomes slightly more complex – those who attend lots of events in one year, compared with those who attend every year.

It's still possible to segment the customers who attend lots of events in the festival (frequency); those who've been coming for years (lifetime); those who spend the most each year (value); and those who lapse from their attendance patterns (retention), and therefore put a figure on customer loyalty.

However, these are also likely to be indicators of support even when someone stops attending. Many festival patrons, for example, having attended frequently in the past, may make regular donations even when they're not able to get to the festival every year – or at all, so it's important to look at the ladders back in time as well as for each individual year.



I would suggest that in this context, there is the need to partially split out frequency (how many events) from regularity (how often) and try and develop people on and across these ladders. For example, someone who comes every year, but only books for one event might be encouraged to increase their loyalty by coming again, but booking for two or three events.

Those who attended lots of events in one year but have never been back, should be re-activated to come a further year.

Those who've been attending the longest, or have attended lots of events in any one year, are the most likely to give donations, whilst those attending every year are most likely to pay for a priority booking or membership scheme.

There is also evidence from some UK festivals that running events or 'mini-festivals' outside of the main period increases loyalty to the main festival. It's a way of increasing frequency without necessarily requiring people to commit to such a large amount of attendance in a very concentrated period of time.

Conclusions

CRM is a major shift for any arts organisation and should not be undertaken lightly. However, by calculating current customer loyalty and concentrating on the areas that can yield the best results, organisations will build confidence to try new ideas and share their experiences within the sector.

The DixonRaines *Audience Loyalty Healthcheck*™ is a tool currently being piloted in the UK. It is designed to assess customer loyalty quickly and cheaply, recommend the best areas in which to start working, and calculate income projections and targets for your organisation. For more information visit www.dixonraines.com or email katy.raines@dixonraines.com.

Katy is Director of DixonRaines Ltd, a leading UK consultancy for CRM in the arts and cultural sectors.