

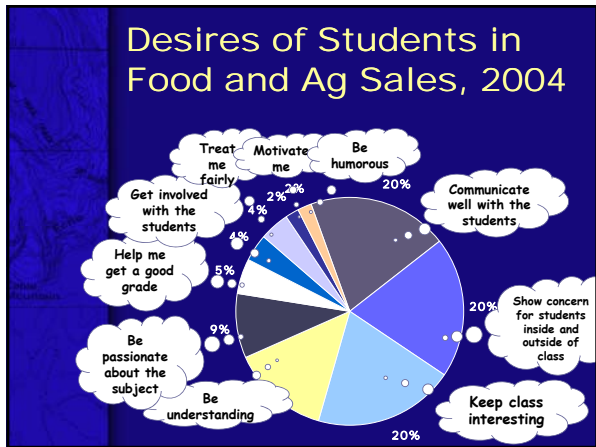
## Navigating the Landscape of Member Loyalty

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## What is Loyalty Anyway?

- Is loyalty dead?
- Its all relative...who's more loyal?
  - Customer 1: 50% of business, \$80k
  - Customer 2: 100% of business, \$30k
- Loyalty for Enterprise Rent-a-Car
- Loyalty for Dr. Litzenberg

*“Loyalty is the willingness of someone –*  
**a member, a user, an owner –**  
*to make an investment or personal sacrifice in order to strengthen a relationship.”*

– Frederick F. Reichheld  
*Harvard Business Review, Dec. 2003*

## The Problem of Member Commitment

- Stems from two characteristics of cooperatives
  - Doing business with the co-op is generally voluntary
  - Cooperative businesses provide a “public good”
- New Generation Cooperatives try to overcome this
  - Long-term production contracts
  - Significant up-front investments

## The Member’s Dilemma

- Each person must make a separate evaluation of the outcomes.
- No communication is allowed.

		Member B	
		Defect	Cooperate
Member A	Defect	10, 10	30, 5
	Cooperate	5, 30	25, 25

## The Member's Dilemma

- The short-term incentive leads to a non-optimal outcome (higher payoffs exist)
- A desirable outcome is more likely when...
  - Players communicate with **each other**
  - **Penalties** are imposed for defection
  - The **payoff for cooperation** is much larger than the payoff for defection
  - There are a **small number** of players who are relatively homogeneous

Loyalty is *not* a problem imposed on your business...



...its an **asset** that can be managed.

## “How do I make this happen in my business?”



**K** Know your members

**L** Listen to their problems

**I** Identify the impacts

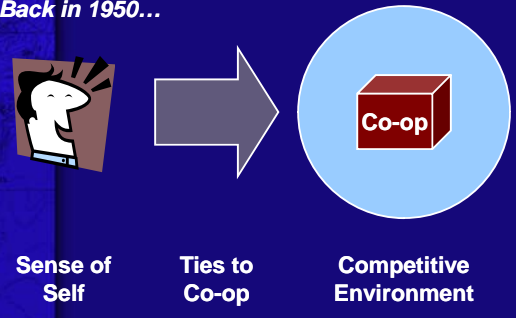
**C** Communicate and educate

## **KUC** Know Your Members

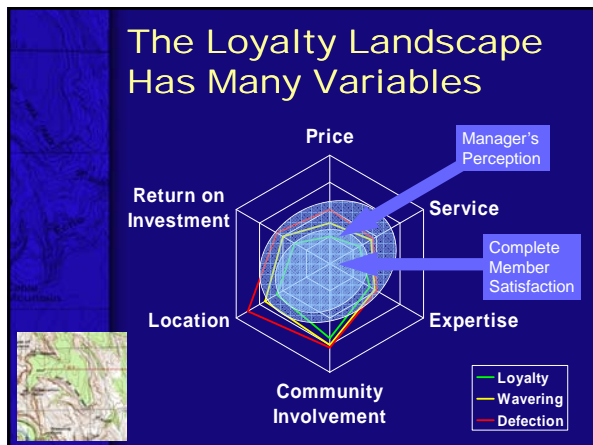
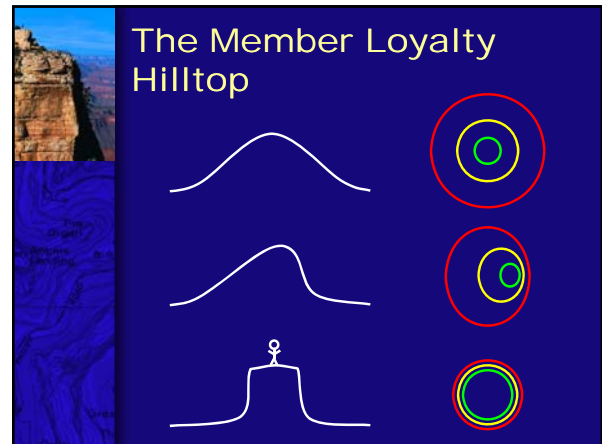
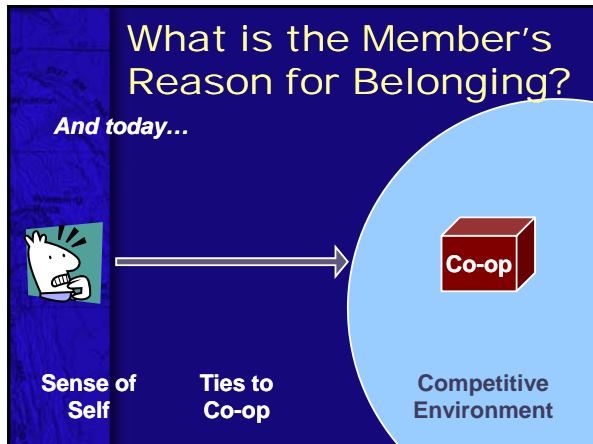
- Why do your members belong to your cooperative?
- How can you avoid losing members from your cooperative?
- What do other managers and directors think about member loyalty?
- Does trust play a role in any of this?

## What is the Member's Reason for Belonging?

Back in 1950...



Sense of Self      Ties to Co-op      Competitive Environment



- ## Manager vs. Director Perceptions
- But spouses say otherwise...*
- Managers
    - Have a stronger belief that members should be willing to provide equity
    - Place a greater emphasis on the expertise of the manager and the board members
  - Directors
    - Place a greater emphasis on the expertise of the manager and the employees
  - Both
    - Agree that volume is important for success
    - Agree that community involvement is not as important

- ## Know your members
- K** Know your members
- L** Listen to their problems
- I** Identify the impacts
- C** Communicate and educate

- ## Listen to their problems
- KLIC**
- Did you really listen?
    - Don't ask, just listen
    - Get other opinions to help remove your own expectations
  - Did you listen to the minority?
    - The squeaky wheel gets the grease, but how big is the wheel, and how much grease?
    - Learn to tune out the baseline noise
  - Get help from your board of directors
    - Take time to ask about THEIR businesses
    - Form a member opinion committee

## Your Loyalty Account

Stephen Covey (Seven Habits) calls this  
**The Emotional Bank Account**

An account that is filled with deposits created through courtesy, kindness, honesty and keeping commitments

**Deposits are made through:**

1. Understanding the Individual
2. Attending to the little things
3. Keeping Commitments
4. Clarifying Expectations
5. Showing Personal Integrity
6. Apologizing Sincerely when you make a withdrawal

## KUC Identify the impacts on the co-op

- There are two potential areas of impact for operational decisions
  - Financial
  - Membership
- What should be done for the business is primarily driven by financial information
- What can be done for the business may be limited by the shape of your hilltop
- Should you give each of these equal consideration?

## K Know your members

## L Listen to their problems

## I Identify the impacts

## C Communicate and educate

## KUC Communicate and Educate

- Establish lines of communication with your members...and between members
- Communicate through your employees
  - Employees have more points of contact
  - Do your employees work for the co-op? or for the wage?
- Communicate the reasoning behind your decisions
- Educate the members on new concepts...even on items that have no immediate plans
- Education creates member loyalty
  - Education represents a type of "brand differentiation"

## The Farmer Co-op Case

Jack Talmont	<i>Manager</i>
Grant Silbert	<i>Large producer (potential member)</i>
Marge	<i>Office worker</i>
Frank Litterman	<i>Long-time member</i>
George Cellnox	<i>Board Chairman</i>

## Question 1:

Does this opportunity fit with the operating philosophy of this co-op and co-op operating principles in general?

Question 2:

What will the members think if Jack makes the deal with Grant?  
Who should he ask for advice?

Question 3:

How would you go about making Grant a member?

Question 4:

How would you handle this opportunity if you were the manager?

*Co-op managers are the key...*



*...to member loyalty!*

For more information...



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