

The Changing Face of Loyalty

Customer Loyalty Measurement



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Searching for the Loyalty Link

The real value of customer satisfaction research lies in the idea of linking customer satisfaction to customer loyalty. Understanding how well a supplier is perceived, down to the level of specific service aspects, is of course, very useful information for a company trying to manage consistently high service levels. But managing satisfaction in its own right does not necessarily leverage higher levels of customer loyalty.

In practical terms there is an abundance of evidence to show that customer satisfaction does not necessarily have a linear relationship with loyalty. In business to business markets this can be due to 'lock in loyalty' common in enterprise software systems (such as ERP, Human Resources or Accounting systems) where the procurement decision is complex and infrequent. In these circumstances, no matter how satisfied (or dissatisfied) users are, the decision to re-evaluate or replace a vendor might only fall every six or eight years. In other markets, the customers' perception and emotional commitment to a brand can be at least a secondary driver, and is often among the most important drivers of loyalty.

Marketeers have long recognised the need to measure loyalty, and to place more emphasis on this than satisfaction. The attempt to link satisfaction to loyalty and in turn to profit has, however, in most cases been at best, tenuous. In some circumstances companies are able to relate satisfaction data to actual customer purchase and transaction data. But in most cases, and particularly in business to business markets where the end customer is handled by distributors and resellers, the company rarely has visibility of end user purchase data.

Defining Loyalty – from 'retention' to 'advocacy'

At its simplest, loyalty measurement seeks to estimate the proportion of its "retained" customer base. E.g. customers who appear to be loyal and will use the supplier again. This is commonly achieved by asking how likely a customer is to continue using the supplier, or to purchase from them again should the need arise. Analysts may build a statistical model to establish which service issues are most likely to drive customer loyalty, but as indicated above, the reliability of satisfaction - loyalty links can vary enormously.

More recently, in recognition of the difficulty of linking satisfaction and loyalty, some marketers have sought to adopt simpler measures of customer commitment. Too many customer satisfaction programmes are complicated to administer and not sufficiently utilised on a practical, day - to - day level. One of the most effective ways to derive value from customer satisfaction data is to collect it regularly, or on a transactional basis (e.g. after a customer has just interacted with a call centre) so that poor service can be followed up quickly after the event. This is sometimes referred to as following up a "customer hot".

The same focus on simplicity has led to some marketers to concentrate loyalty measurement not on retention (or re-purchase forecasts) but on advocacy levels. Advocacy is simply the likelihood of a customer to recommend a supplier to a friend or colleague. Most satisfaction programmes have long included a single measure of advocacy, but what is new is the singular focus on advocacy rather than retention. There is an increasing body of studies which have shown a very strong statistical link between the tendency to recommend a supplier and actual re-purchase behaviour. The attraction of focusing on advocacy rather than satisfaction and retention, is that there is a much higher linkage between advocacy and actual re-purchase behaviour. In other words if an organisation can increase the number of advocates it is much more likely they will see an increase in both repeat sales and new sales through new customers. According to this view, if you had to choose one single measure of success of all the related satisfaction and loyalty measures, advocacy would be it.

The Need to track Satisfaction Metrics

Of course a single measure of advocacy does not provide any information on which types of customer are more likely to be strong advocates, or what common characteristics drive advocacy. So there is a continuing need to measure operational measures of satisfaction as well as advocacy, and similarly to continue to provide tracking data of customer satisfaction. There is a strong case to be made for re-orientating the triggers of "customer hots" from the previous measures of low overall satisfaction scores to new measures of low advocacy scores. But the well being of a company should not be based on this single measure of customer loyalty.

All of this suggests a subtle change in the way customer satisfaction research is likely to be undertaken in the future. It is likely we will see the continuation of customer satisfaction programmes, but a gradual movement towards ongoing or tracking studies. We will also see a greater tendency to delve deeper into understanding the requirements and behaviour of the customer identified as strong advocates. But customer satisfaction programmes, in the end, must deliver insight as well as actionable results to justify their investment. So customer satisfaction measurement will continue to be a mixture of strategic learning about what drives customer behaviour, as well as tactical actions to ensure companies can follow up or remedy poor service levels.

Further Information

Redshift Research have developed a new tool for measuring customer satisfaction and loyalty - the *Company Health Check Index*. To find out more about how to measure customer advocacy and other satisfaction metrics, please contact www.redshiftresearch.co.uk