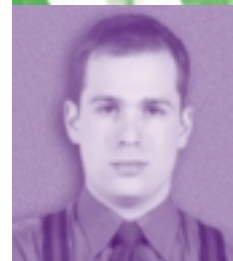


CUSTOMER SATISFACTION AND LOYALTY

Maximising Sales Through an Established Customer Base

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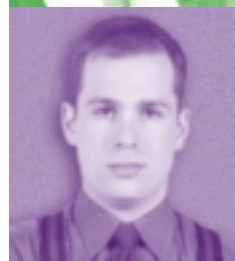
CUSTOMER SATISFACTION AND LOYALTY

Maximising Sales Through an Established Customer Base

Only 1 in 5 customers complain when dissatisfied, while most simply buy less or switch suppliers. So how do we go about understanding the drivers for the holy grail of customer loyalty?

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Customer Loyalty - The Holy Grail

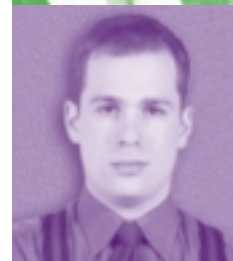
Just how important are existing customers to an organisations sales effort. The word 'essential' comes to mind when you consider it costs an average of 5 times more to acquire customers than to retain them. Ask yourself the question, "just how much of a marketing budget is allocated towards developing customer loyalty". If you are like the vast majority of organisations it will be less than 5%. Let's now examine where the business comes from and it is likely that at least 50% of sales are from existing customers. We then begin to see an imbalance with the marketing spend as insufficient funds will be directed towards the customer base. However, we cannot focus just on marketing, as every area of a business is involved in customer loyalty, with direction coming from top management:

- If a company goal is to maximise revenue, then the sales teams need to focus time and attention on their best prospects.
- If a separate goal is to maximise customer retention, then the support functions need to focus time and attention on the most "at risk" of their profitable customers.

In both cases, quickly determining the right prospects and customers on which to focus is a key challenge. It is not however, practical to treat all customers in an identical manner, particularly as Pareto advises that 80% of the business is likely to be coming from only 20% of the customer base, but do we know which customers?

Understanding where the business comes from is a starting point but it is equally important to understand what motivates customers to initially try and continue to purchase a particular service or product. In today's competitive environment we take it for granted that we have excellent products and services with reliable service and support. To gain customer loyalty, we now have to go beyond this as customers are looking for additional drivers to give them a reason to continue dealing with a supplier.

On the other hand, only 1 in 5 customers complain when dissatisfied, while most simply buy less or switch suppliers. So how do we go about understanding the drivers for the holy grail of customer loyalty? To answer this we need to consider the physical drivers of customer satisfaction and value as well as the emotional relationship with certain brands.



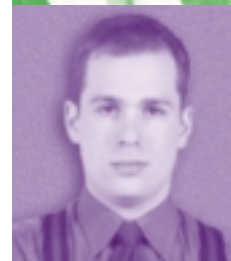
Translating Information to Customer Loyalty

Successful organisations monitor their customers' attitudes towards and perceptions of the products and services they deliver. They benchmark their performance against the competition to ensure they have no weaknesses.

Monitoring customer opinions provides information which when interpreted gives a valuable competitive tool to guide operational improvements, recognise and leverage strategic advantages, anticipate customer requirements and potential issues, and identify potential weaknesses.

Each function within organisations responsible for business development and customer retention gains, with the benefit of customer information:

- **Marketing.** Input from customers is essential for marketing, helping to:
 - Design more customer-centric programs
 - Create marketing messages based on company strengths
 - Develop more effective and targeted sales support materials
- **Product Development.** Customer feedback about products allows companies to focus on product development that meets real customer needs, and to bring those products to market faster.
- **Sales.** A more informed sales force is a more effective sales force. Knowing an organisations standing in the market compared to the competition enables the sales force to sell to their strengths, leading to increased sales.
- **Loyal Customers.** Assuming companies implement action plans based on customer survey results then customers will benefit from having their unsatisfied needs addressed. The more satisfied the customers, the more likely it is that they will:
 - Continue to do business with the company
 - Expand their business with you for existing and new products/services
 - Serve as a positive reference to new prospects



Establishing Measures of Customer Loyalty

Consider first the physical drivers; customer loyalty is based on 3 dimensions, which can be defined by customer satisfaction, customer value and propensity to change.

The approach to customer loyalty takes account of the fact that customers will shop around for better value. Once a customer has been 'won' they require to be 'won over' again and again to ensure loyalty.

Customer Satisfaction

Setting the balance between customer priorities, company and competitor performance

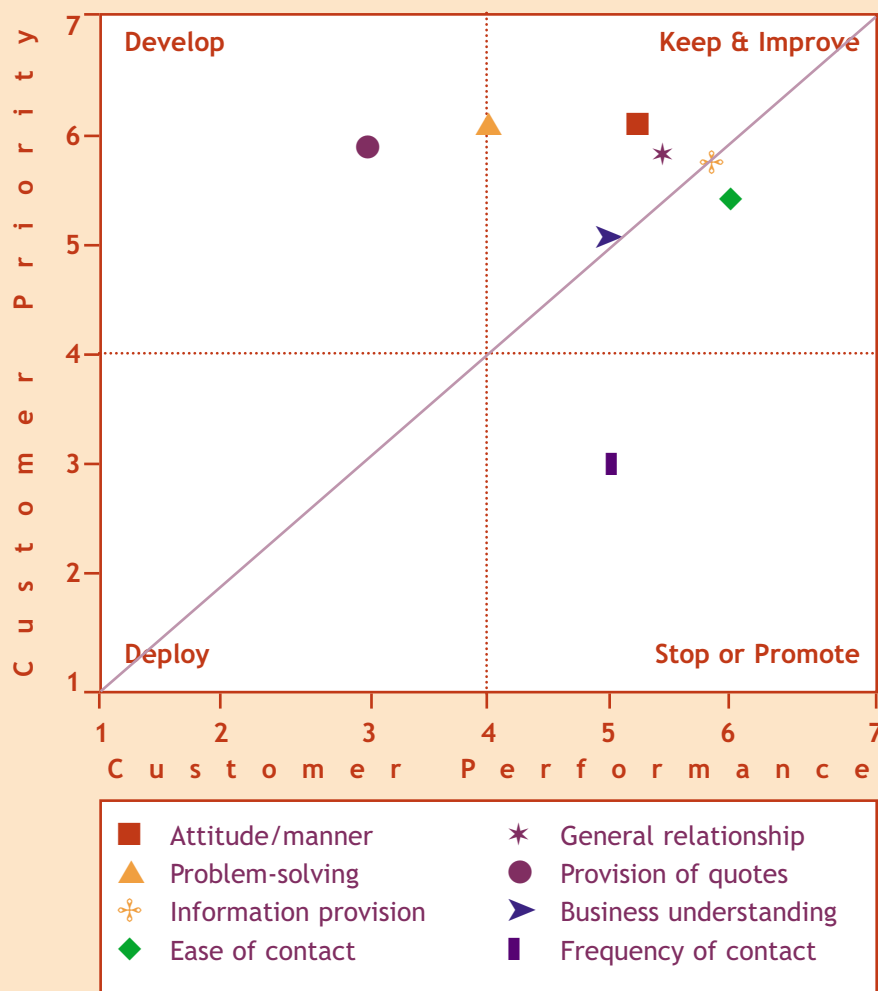
Customer satisfaction measurement is concerned with service and:

- Identifies the customer expectations for performance
- Establishes and maintains standards of performance
- Benchmarks performance against the competition
- Establishes company strengths and competitive advantage
- Identifies weaknesses in performance
- Guides allocation of resources to maximise customer satisfaction

A survey process goes through 3 stages to guide organisational decisions.

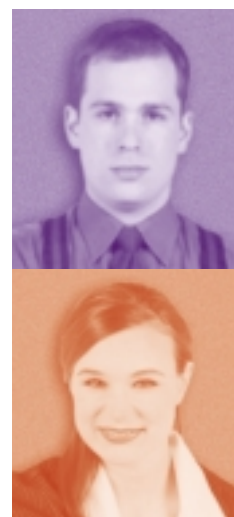
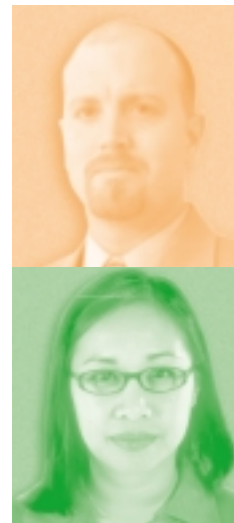
Stage 1. Evaluates customer priorities and both company and competitor

performance, for each of the key activities within functions. Charts then depict management actions for each activity in a function based on identified strengths and weaknesses.



The recommended actions have been labelled in the chart as Develop, Keep and Improve, Stop or Promote and Deploy.

Stage 2. Examines the 'Activity Performance Gap' (which is the difference between company performance and customers priorities or expectations) for each activity; where zero meets expectations, positive



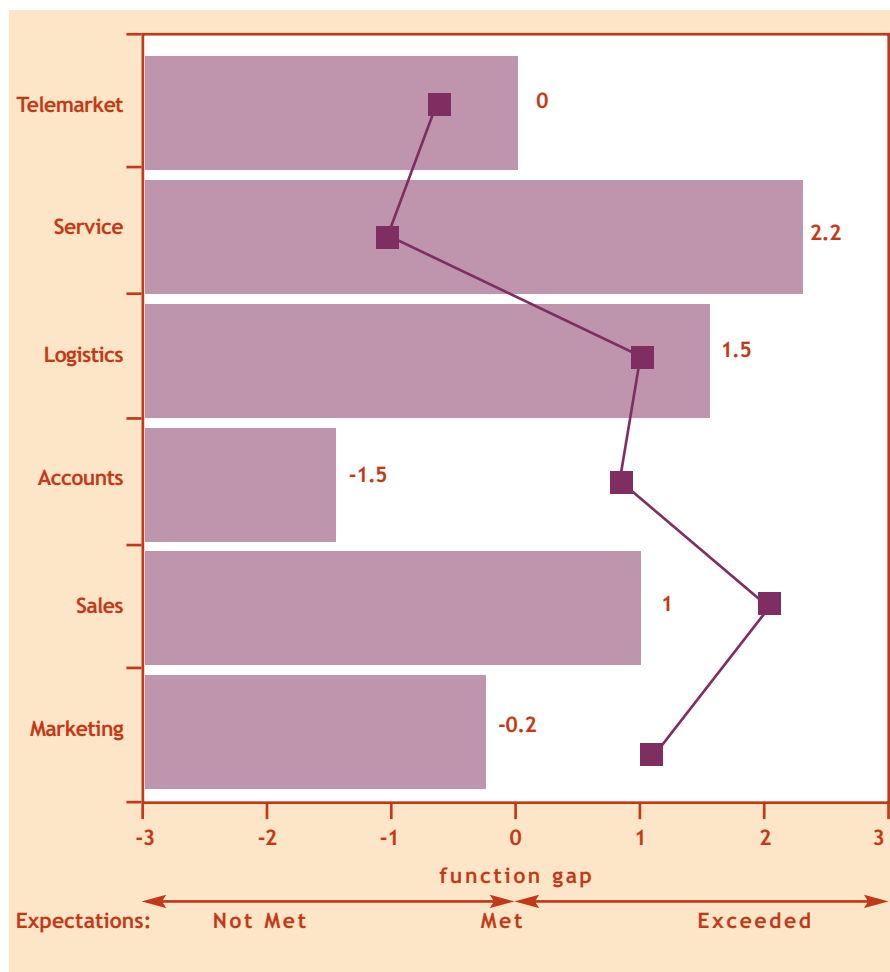
scores exceed and negative scores fail to meet customer expectations. Data can then be examined against the findings for previous years to evaluate performance trends as well as benchmark against competitor performance. The information prioritises the order for remedial action for individual activities by function or process (compared to the competition). The weighted mean of each activity then enable a 'Functional Performance Gap' to be evaluated for each company function showing the 'Relative Customer Satisfaction Index' for each function (compared to the competition).

The 'Satisfaction Index' provides a measure of functional performance and improvements may form the basis of bonus schemes.

Stage 3. The final stage evaluates the relative importance of each company function which together with the Relative Customer Satisfaction Indices for each function enable a single Customer Satisfaction Index to be derived for a company (and each competitor). The Customer Satisfaction Index for a company guides strategic change in those directions, which improve customer satisfaction.

Customer Value

Customers buy from alternative sources if they consider they will gain increased value from those sources ...

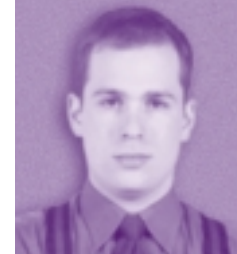


Customers often provide high satisfaction scores but still buy products and services from competitors. A high customer satisfaction score on its own is therefore no indicator of customer loyalty.

The customer value model considers a price/quality or performance trade-off for each competitive brand (or sector of your company). This is established using measures of:

Customer value (based on perceptions of the range and quality of products and services, service and support levels, personnel and company image)

Total customer cost (based on monetary, time, energy and psychic costs)

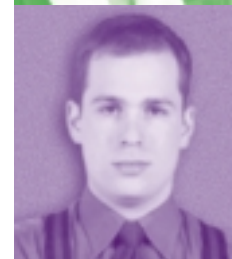
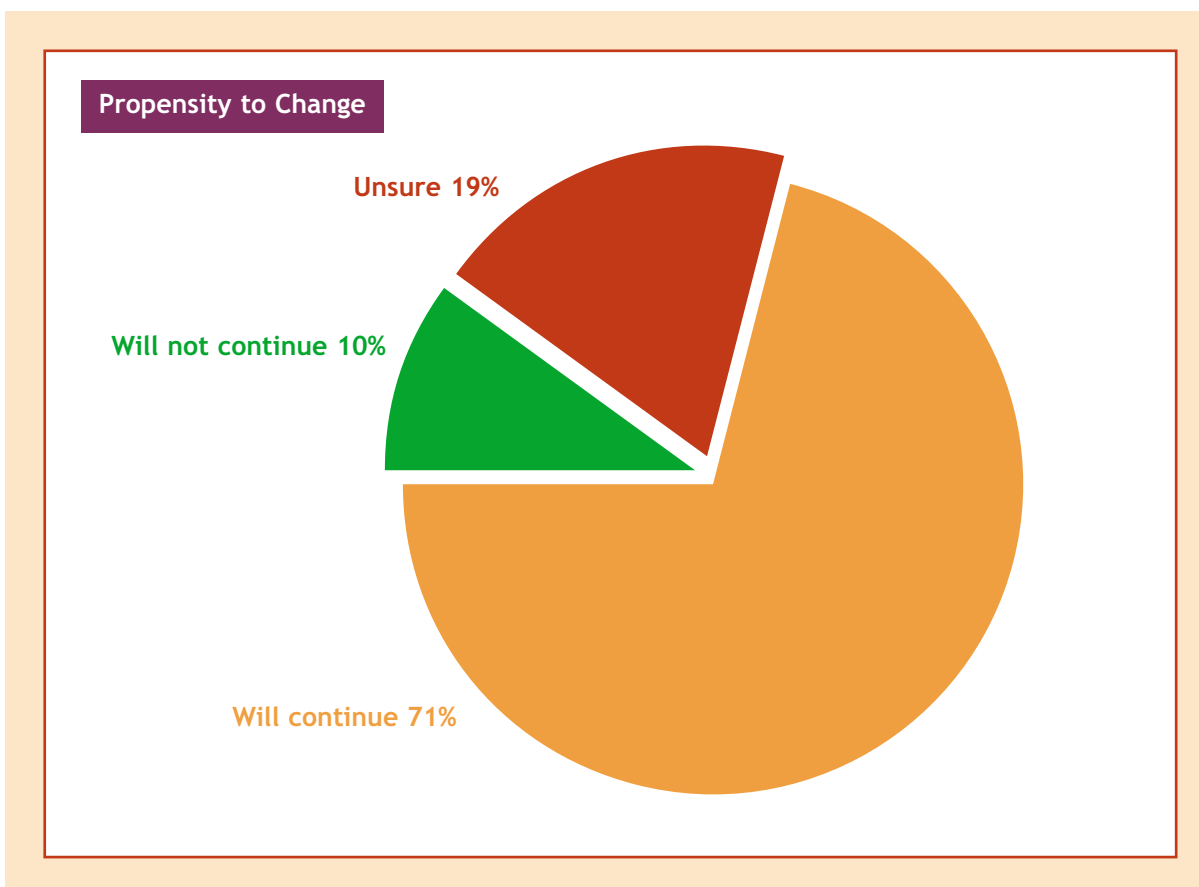
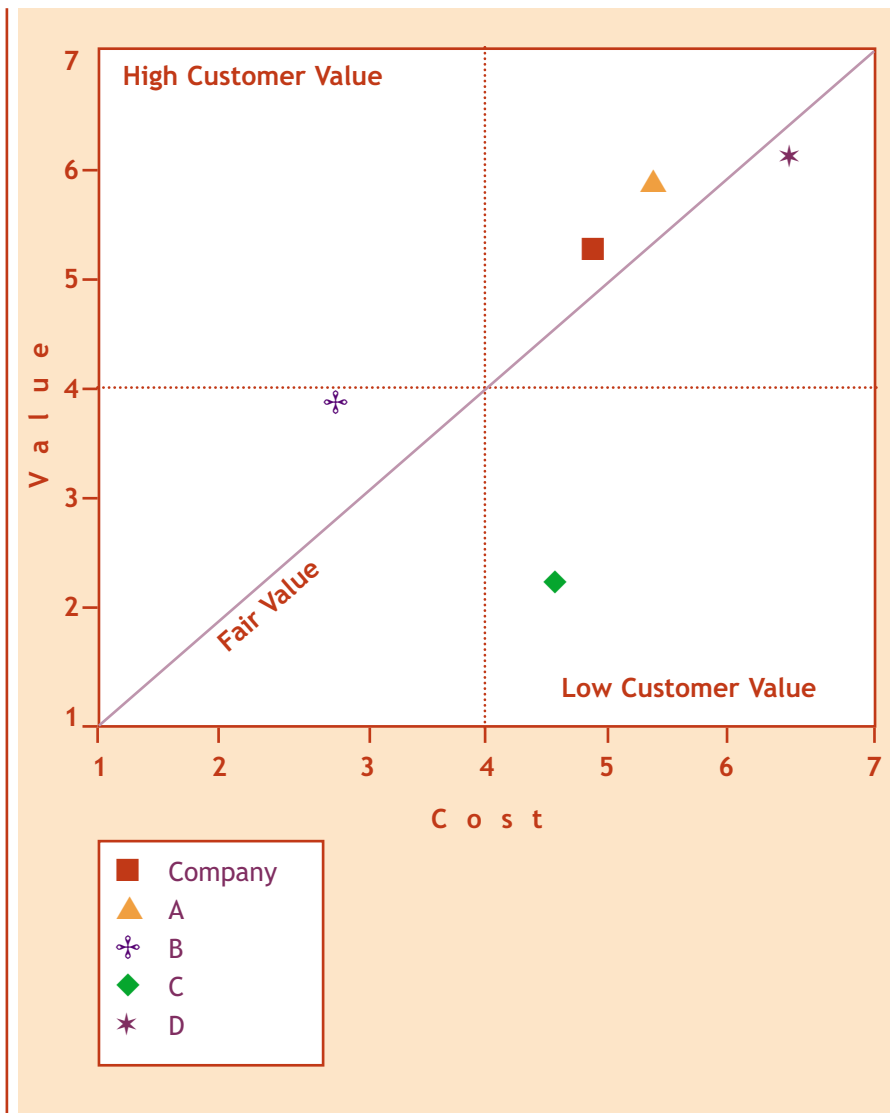


Brands below the 'Fair Value' diagonal on the chart identify low-perceived customer value. Positions above the diagonal identify high-perceived customer value. Brands below the 'Fair Value' line are likely to be switched to better value brands positioned above the diagonal at the next purchase decision point.

Propensity to Change

Customer loyalty is the ultimate goal of any customer satisfaction programme. Customer loyalty is evaluated in terms of propensity to continue with the current supplier and attitude towards recommending to another.

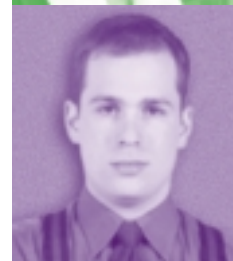
Customers tend to recommend only when they are very satisfied and a high correlation is required between propensity to purchase and propensity to recommend.



Influence of Brands on Customer Loyalty

Customers make decisions on numerous dimensions and even after we have gained customer satisfaction at a physical level there are buying behaviours, which appear more emotive than rational. In this instance we turn to the brand. A powerful influencing factor in purchasing habits is the subtle, often-overlooked brand, which has a "relationship" with loyal users not unlike a healthy relationship between two people. People maintain ongoing affiliations as long as each person in a relationship feels as though the other contributes positively to his/her sense of self. Relationships fall apart when perceived negatives begin to outweigh the rewards of the association.

To build a strong brand relationship, you must first understand the core values of your target market. In marketing, we often talk about this as "laddering up to emotional end benefits." These are the unspoken customer values that are the glue to brand loyalty because they validate the user's self-perceptions. But it's not enough to know what emotional end benefits drive a particular group of customers. To be truly effective at marketing we need to understand which concrete features and functional benefits of our brand (as well as the brand as a whole) evoke these feelings most strongly, and which do so without simultaneously creating emotional anti-benefits (aversive feelings). We also need to know, where the competition is in this emotional terrain

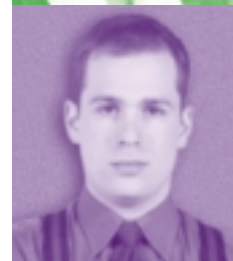


Segmenting Customer Loyalty

Customers are individuals and ideally require to be treated as individuals, which are quite acceptable if a company has only a handful of customers, but what if a company has hundreds or many thousands of customers?

In these instances individual attention provides a significant challenge and an alternative approach is to segment the market by monitoring Satisfaction versus Loyalty, and to then serve each segment according to its needs. In this manner one can segment customers according to their attitudes about satisfaction and loyalty. The four basic segments are:

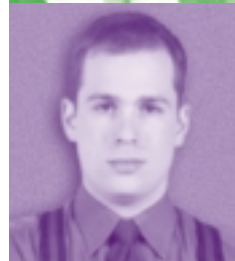
- **Loyalists** - those who have high satisfaction and high loyalty. Sub-segments are Apostles, who have the highest satisfaction and loyalty scores, and Near Apostles, who give high ratings for both, but at a slightly lower level.
- **Defectors** - those who have low satisfaction and low loyalty. A sub-segment comprises the Terrorists, with the lowest satisfaction and loyalty scores, who are dangerous because they broadcast their disgruntlement to others.
- **Hostages** - those who have low satisfaction, but high loyalty. This typically is due to lack of competition or high cost of exit.
- **Mercenaries** - those who have high satisfaction, but low loyalty. These are the customers who are highly price-sensitive and will switch easily



Conclusions

Several conclusions can now be drawn as follows: -

- i.** Existing customers represent the most profitable target for business development and require focus from all customer-facing functions within an organisation.
- ii.** The objectives for customer development require to come from the top management.
- iii.** A starting point is to understand from which customers the business comes from.
- iv.** It is vitally important to understand what motivates customers to initially try and continue to purchase a particular service or product.
- v.** Successful organisations monitor their customers' attitudes towards and perceptions of the products and services they deliver.
- vi.** Customer loyalty is based on both physical and emotional drivers.
- vii.** The physical drivers for customer loyalty are based on customer satisfaction, customer value and propensity to change.
- viii.** Customer satisfaction establishes the balance between customer priorities or expectations, company performance and competitor performance enabling strengths to be identified and developed for competitive advantage and the weaknesses eliminated.
- ix.** Satisfied customers buy from alternative sources if they consider they will gain increased value from those sources, with value being measured on more than just monetary considerations.
- x.** Customer loyalty is measured not only on a propensity to continue purchasing but also on the likelihood of recommending to others.
- xi.** The brand can be a powerful influencing factor in purchasing habits and its impact should not be overlooked.
- xii.** For those organisations with a large customer base we can segment the market by monitoring Satisfaction versus Loyalty, and to then serve each segment according to its needs.



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