

## EARNING LOYALTY

*Rob Brickle critiques current attitudes and approaches to customer loyalty.*

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**Rob Brickle: little attention paid to customer retention**

Some of Britain's top companies risk losing commercial advantage because they are not close enough to their customers. Despite a number of activities aimed at improving customer services, there is little understanding of what constitutes a loyal customer or how customer loyalty is measured.

In many organisations, loyalty management is not integrated into basic business strategy. The link between customer loyalty and financial performance is not explicitly measured and, as a result, is not an integral part of the management process.

Yet the influence of customers' behaviour on business can be much more important than many executives think.

In the past customers were plentiful, but increasing competitiveness has forced companies to think differently about the way they treat their customers. Competitors often can bring new products to market speedily, prices can be undercut, and value-added services offered at little or no extra cost.

The response is often to introduce customer care programmes, total quality programmes, implement CRM technology, obtain BS5750/ISO 9000 accreditation or to measure customer satisfaction. Yet little attention has been directed at customer retention – despite the considerable financial implications of high customer loyalty that in many instances explain the differences in profitability between businesses.

Loyal customers make repeat purchases and provide referrals – but none of the initiatives outlined above provide the 'magic bullet' that makes customers loyal. As loyal customers grow their custom with an organisation, the need to find new customers decreases. As revenues increase and costs go down, profitability increases. The longer the cycle continues, the greater the organisation's financial strength.

The cost of acquiring a new customer is known to be as much as five times higher than the cost of keeping an existing one, so maintaining loyal customers should be of paramount importance. Defining, measuring and improving aspects that are important to customers is critical. Only by understanding what is important to customers will organisations reduce the defection rate of their own customers.

### Appraisal methods

The most common form of appraisal used to assess loyalty is customer satisfaction. However, current satisfaction measurement systems are simply not designed to provide insight into what builds customer commitment.

Customer satisfaction measurement is not the same as, nor is it a guarantee of, loyalty. Satisfied customers feel good for as long as their current needs are met and for as long as they perceive that a provider is giving value. Committed customers, on the other hand, look beyond the short-term benefit and want to develop a long-term relationship because they believe the provider understands and reacts to their individual needs.

Again, many organisations do not understand the factors that build committed customers. The most commonly held belief about why customers would switch to a competitor is price. This is sometimes followed by customer dissatisfaction with the service offered. In fact, the reasons why customers move from one organisation to another go far beyond traditional complaints about price, quality or delivery.

Customers do tend to make value judgments about price, but price is seldom the primary reason for losing customers and is certainly much lower in importance than many people believe. Blaming price for failure is still one of the clearest indications of a culture where the full meaning of a customer-focused outlook remains misunderstood.

Nearly every company can quote an instance when unresponsive behaviour has resulted in the loss of a customer over what amounts to a trifling matter. Rigid thinking and arrogance have ruined many relationships and in some cases the penalty has been considerable.

## **Measuring loyalty**

Our experience from working with organisations on customer loyalty suggests that most research undertaken by companies in this area is unfocused.

The predominant method of measuring loyalty is through traditional 'market research'. But most of the research undertaken is aimed at prospects, not customers – to determine the market acceptance of new products and services, or to measure customer satisfaction.

Research is generally viewed as a one-off exercise or a mix of unstructured personal interviews with sales feedback. Few organisations use any form of continuous assessment – the only valid method for measuring loyalty.

So most of the research provides large volumes of quantitative data but little or no information on how to improve customer loyalty.

Senior executives express considerable frustration at being bombarded with volumes of figures but no actionable data. The unstructured methods are more likely to cause damage than to develop loyal customers.

Experience also shows that relying on the salesforce alone to gather information has a number of weaknesses. For example, there are other points of contact where the views of transport managers, warehousemen, technical services and accounts can have negative or positive effects on the relationship.

## **Likely defectors**

Organisations may claim to be very close to their customers and to be able to identify customers who are likely to defect to competitors. Yet the lack of sharply-focused research into customer loyalty highlights that this is not the case.

Our experience from talking to senior executives shows that most organisations are unable to substantiate these claims. While people say they are in touch with their customers, they are reluctant to reveal how they gather, assess and analyse the results.

Creating loyal customers demands a radical shift from traditional business thinking – it puts the action of creating customer value at the centre of business strategy; it also requires companies to measure loyalty, which involves time and investment.

The bottom line is that listening to what customers have to say can be the basis for real change to a customer-focused culture. Shifts in culture take time and there must be a basic willingness to adopt change as part of a management style. But there's no doubt that the effort is worthwhile.

To take just one example, one international telecoms company has used a loyalty management programme to reduce its lost-customer rate by 60%. As a result, the company's profits increased by 20%.

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