How Vulnerable Are You to Customer Defection?
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In this article, you'll learn...

* Five factors for maintaining successful customer relationships
* How to identify your most vulnerable customers
* How to calculate your company's vulnerability index

In the early '90s, the term "customer relationship management" (CRM) joined the marketing lexicon. Though the idea is often thought to refer to the implementation of some kind of technology, the real idea behind CRM is that the management of customer relationships is a business imperative.

CRM is about deciding which customers or segments to target, and then developing customer acquisition, retention, and growth plans that will attract and keep your best customers. CRM is really about making your customers the heart of your business.

Our job as marketers is to acquire, grow, and retain profitable customer relationships to create a sustainable competitive advantage.

How do you measure customer relationships?

We've all come to accept that creating customer loyalty is an integral part of any organization's strategy and focus. Various factors influence the success of any customer relationship initiative. Here are five critical success factors:

1. Clearly defined business outcomes related to customer acquisition, retention, and growth
2. Agreement about who the customer is and what they want and need from your category (and you)
3. Well-defined customer segments (and their desired behaviors) and customer-experience objectives
4. A documented, integrated customer strategy
5. Explicit measures of success, and the data and processes needed to support the metrics

Customer satisfaction and loyalty are two of the most common measures of success. A variety of models are used to measure and quantify customer loyalty, ranging from simple recency and referral models to RFM and customer lifetime value models. Recent research is examining those models to ascertain which, if any, truly measure customer loyalty.

Many organizations would agree that a loyal customer...

* Stays with the brand despite competitive offers, changes in price, negative word-of-mouth, and product failures
* Increases business/engagement in some way
* Actively promotes the brand to others

Though there are many approaches to measuring customer loyalty, one metric that many organizations should consider is the Vulnerability Index.

Add the vulnerability index to your marketing KPIs

A vulnerability index serves as a way to measure loyalty in the face of competitive pull. Its purpose is to help you identify your most loyal customers—those who are going to stick with you through thick and thin.

To calculate your vulnerability index, you will need excellent market intelligence about your competitors' campaign's channel, offers, and markets. Once you have this information, follow these seven steps to construct your vulnerability index:

1. Map the competitive activity. Include the competitor's name, offer, duration of offer, and the offer's focus area and market.
2. Generate a list of loyal customers in the market where the campaign ran.
3. Map their repurchase and engagement cycle based on frequency and last purchase date.
4. Isolate all the customers whose repurchase or renewal dates fall within the competitor's campaign period. This is your observation set (OS) and the set of customers who will experience the greatest competitive pull and are, therefore, the most vulnerable.
5. Define your observation period, which is generally the campaign launch date and one purchase cycle after the last date of the competitor's campaign.
6. Monitor the purchases by vulnerable customers. Track all the customers whose purchases drop during the observation period. These customers constitute your vulnerable set (VS).
7. Calculate the vulnerability index. Divide your VS by your OS and multiply that number by 100:

Vulnerability Index = (VS/OS) x 100.

The index will give you a good idea of the proportion of customers who are succumbing to competitive pressure and some idea about the level of loyalty in those customers. If the index is high, you know that there is something to worry about. If the index is low, you can assume, with some degree of certainty, that your customers are exhibiting robust loyalty to the brand.

Because Marketing is charged with finding, keeping, and growing the value of customers, customer retention falls within the domain of marketing. Therefore, marketing organizations should have at least one objective aimed at retaining customers.

In addition to monitoring customer loyalty and advocacy and customer churn, Marketing should also keep tabs on customer vulnerability. If your vulnerability index begins to climb and exceed that of your competitors, you can anticipate that your defection rate is going to increase.

By monitoring your vulnerability index, you will know who your most loyal customers are, and you will be able to develop and implement strategies to withstand competitive pressure.