How Vulnerable are Your Customers?

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In their study on "Creating Value in Key Accounts," Mark Lubkeman and Vicas Tanej from the Boston Consulting group noted that there's frequently a disconnect between account managers and customers. They cited an example of one global company with a sprawling and historically successful sales force where 70 percent of its key accounts were dissatisfied with the relationship. Regardless of your industry, technology, retail, financial services, health care, we're all susceptible to losing customers. And the CEO trying to grow the value of your company, the last thing you want is to have a revolving door of customers.

How do you know how vulnerable your customers are to your competitors?

There are a variety of models 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 these various models and trying to ascertain which models if any truly measure customer loyalty. Most organizations would agree that a loyal customer is one who stays with the brand despite competitive offers, changes in price, negative word of mouth and product failures, increases their business/engagement in some way, and actively promotes the brand to others. So while there are many approaches for measuring customer loyalty, one metric that many organizations should also consider is their 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 that 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 channel, offers, and markets. Once you have this information, follow these steps to construct your vulnerability index:

1. Map the competitive activity – include the competitor's name, offer, duration of the 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 their 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; this 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 and track all the customers whose purchases drop during the observation period. This set of customers represents your vulnerable set (VS).

7. Now calculate the vulnerability index, by dividing your VS by your OS and multiplying the number by 100.

   Vulnerability Index = (VS / OS) x 10

The index gives you an exact idea of the proportion of our customers who are succumbing to competitive pressure and so some idea of the level of loyalty in these 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.

Since Marketing is charged with finding, keeping, and growing the value of customers, customer retention falls within the domain of marketing. Marketing organizations should have at least one objective aimed at retaining customers. Therefore 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 competitor's you can anticipate that your defection rate is going to increase. By monitoring your vulnerability index will you know who your most loyal customers are and also put strategies in place to withstand competitive pressure.