Measuring the Pay-off for Customer Loyalty

By Laura Patterson

Let me take a minute to inundate you some commonly accepted facts about the impact of customer loyalty or the lack of it on an organization. Do you know that

- 98% of the dissatisfied customers never complain, they just leave and 75% of the reasons these customer's leave has nothing to with the product? Sixty seven percent of customers switch from one company to another because they didn't feel appreciated?
- 85% of dissatisfied customers tell nine people about their poor experience and 13% tell 20 people; while a satisfied customer tells just five people?
- 80% of typical American company's customers are lost over a five-year period?
- Operating income will improve 20% for every 1% improvement in customer rate sustained over five years?
- The top 5 businesses in any industry have 93% - 95% customer retention, although most businesses average 78-82%?
- Customers who come to you from a referral will have a 92% retention rate versus a 67% retention rate for customers obtained from advertising?
- A 5% reduction in customer defections can lead to an 85% boost in profits. Companies that lead their markets in customer loyalty generate operating margins of 13%, while laggards had margins of just 2%?

All of these facts are about the business value of creating customer loyalty, that is the bottom line impact of customer loyalty – reduce cost to serve, lower cost to acquire, increase in rate of customer acquisition, increase in the value of existing customers. Many of the organizations we work with deploy some type of customer measures, such as customer satisfaction, customer advocacy, and/or use the net promoter score or something similar. These are good metrics but what they don't do is tell us what business outcome they expect their investment in customer loyalty to impact.

For example, is the focus of customer loyalty to increase repurchase? Is it to drive referrals for similarly minded prospects (grow market share)? Is it to help expand your footprint within the customer base (expand share of wallet)? Facilitate faster adoption of new products (reduce time to revenue)?

Clarity around the needle you expect customer loyalty to move is essential. Movement of the business needle or outcome will affect whether the investment is paying off. Therefore, investing and implementing any customer loyalty initiative should be made in the context of what business needle or outcome you want to impact. (Yes, it is possible that you may want a customer loyalty initiative to drive more than one outcome.)

Ensure your customer loyalty efforts pay-off with these five steps:

1. Specify the business outcome. Before you implement a customer loyalty strategy and develop a customer loyalty program, understand the business outcome it is intended to impact. Possible outcomes might include some number of net new customers, reduce customer churn by some amount or of a specific customer segment or tier, some amount of repurchase for existing products, some additional business from other lines of business or regions within existing customers, some amount of purchase of new products. This step lays the foundation for how you will measure the success of any customer loyalty efforts.

2. Take stock. Can you implement a loyalty strategy? A successful loyalty effort requires that you are at a minimum doing two things well: providing quality products and services that meet your customers' expectations and being ultra-responsive to your customers in terms of problem resolution, meeting service requests, and so on. Some homework may be in order so you have a baseline for the state of customer loyalty today. Dig into customer comment cards and emails, service tickets, and leverage surveys and Voice of Customer (VoC). Create a culture that encourages customers to let their voice be heard. Actively solicit information from your customers to identify problems and opportunities and consider implementing an ongoing VoC initiative.

3. Select a strategy. Define the strategy and program within the context of the business outcome. Repurchase of existing products vs. acquisition of net new customers are two different outcomes and as such will mostly likely entail different strategies and programs.

4. Measure. Research suggests that changes in customer loyalty generally precede changes in business outcomes typically by a quarter. Create metrics to measure and improve loyalty and the desired business outcome. Track the results over time so you will be able to employ statistical techniques to discover what aspects of your loyalty efforts are having the greatest impact. Technology can also help you centralize the information, create reports, and structure drill-downs.

5. Optimize. Use the results of your research and measurement efforts to make course adjustments that will move the needle not just improve loyalty. You may need to make strategy and program adjustments in order to realize your specific business outcome. You may also need to invest in systems, processes and tools to improve service quality, address gaps, and enhance your loyalty efforts.

Researchers have clearly documented the impact of customer loyalty on a variety of business outcomes, such as higher and faster conversion of referrals, faster time to revenue for new products, etc. The job of marketing is to measure customer loyalty and to communicate the value of this loyalty in terms that matter to your organization.