

How to Measure and Increase Customer Loyalty

Abstract

Customer loyalty has a significant impact on a company's profits and its prospects for the future. This article provides insight on how you can find out where you stand with your customers and how you can make your customers more loyal.

For companies that face both significant competition and high costs associated with acquiring each customer, customer loyalty becomes crucial. A Gartner study¹ found that organizations with loyal customers had profits up to 60% higher than those of competitors and were twice as likely to exceed the forecasts of financial analysts. High customer satisfaction scores also *consistently* show a correlation with sales growth. The bottom-line equation is simple: customer loyalty = higher profits. It's no wonder that customer loyalty and retention ranked fifth in the top 10 challenges² faced by CEOs in 2006.

Measure Customer Loyalty

A popular model that provides a view of customer loyalty is the Harvard Business Reviews Apostle Model, which segments customers into four quadrants (Figure 1). To measure the attitudes that result in this model, customers are asked to rate their overall satisfaction on a scale of 1 to 10 (horizontal axis) and their likelihood to continue to do business with you on a scale of Definitely Will to Definitely Will Not (vertical axis). In this model, Defectors are defined as anyone who answers the satisfaction question with a score of 6 or less and reports that they definitely or probably will not continue to do business with you in the future.

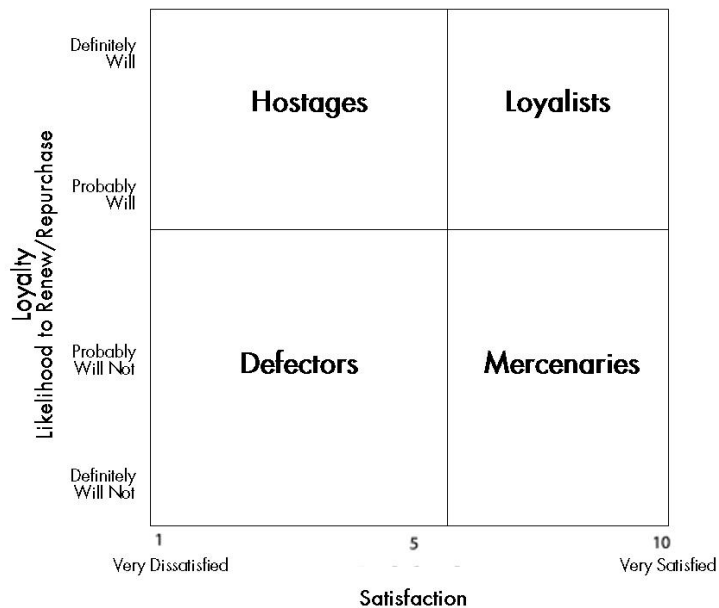


Figure 1: In the Apostle Model, both loyalty and satisfaction are measured. By plotting the scores for both variables, you can segment customers into four categories.

Strategies for Each Customer Segment

By asking your customers to rate your company in a similar survey, you can segment your customers as well. Once you know how your customers fit into these categories, you can focus on the best strategies for dealing with each group.

- :: Loyalists report both high satisfaction and high loyalty. These customers are, in essence, an extension of your sales force because they spread positive word-of-mouth publicity. Loyalists also typically increase their spending more rapidly than other customers in your customer base. Understand, serve, and protect these customers and focus on developing communities for (and with) them. Because relationships with loyalists tend to last longer and because of their role in generating referrals, customer acquisition costs for loyalists tend to be lower than those for other customers. Because of the many benefits loyalists bring to your business, you should prioritize any strategies that strengthen and expand these relationships.
- :: Hostages report high loyalty despite low satisfaction. This situation typically appears when there is little competition or a high risk associated with changing suppliers, such as economic costs or time investments.

Customers in this category feel “trapped.” For such customers, focus on strategies that can turn them into loyalists by understanding and addressing their issues before they spread their dissatisfaction to others or abandon your company. Communicating intensively with such customers is crucial—if they see that you are listening to them, addressing their issues, and making it easier to use your product or service, they are less likely to decrease their spending and more likely to say positive things about you.

- :: Mercenaries report high satisfaction, but low loyalty. These are the customers who are highly price-sensitive and will switch easily when they have the opportunity. For such customers, focus on communicating those benefits of your product or service that show they are getting good value overall from your company.
- :: Defectors report both low satisfaction and low loyalty. In addition to the costs associated with losing them, defectors also tend to spread their disgruntlement to others—defectors are typically responsible for 80 to 90 percent of a firm’s negative word-of-mouth publicity. Defectors also tend to complain more frequently, thereby consuming customer service resources. Focus on strategies for releasing these customers with “good will” intact, or implement a well-designed customer win-back program.

Another popular model for measuring customer loyalty is Fred Reichheld’s Net Promoter Score (NPS), explained in his latest book, “The Ultimate Question.” Using the question “How likely is it that you would recommend Company X to a friend or colleague?” customers are mapped into three categories: promoter, passive, and detractor. The value of a promoter or detractor can then be quantified. The feedback helps you develop strategies for turning more of your customers into promoters.

Measure Emotional vs. Rational Customer Loyalty

Another aspect of customer loyalty involves the difference between emotional and rational loyalty. Are your customers rationally loyal because they appreciate the tangible benefits of your products or services? Are they emotionally loyal because they love your business and how you make them feel? Or is it some combination of the two? According to Dr. Gerald Zaltman of Harvard Business School, Laboratory of the Consumer Mind, “consumers are driven far less by tangible attributes of products and services than by subconscious sensory and emotional elements derived from the total experience surrounding a transaction.”

Because customers who are rationally loyal often know how to “work the system,” they tend to be less profitable than customers who are also emotionally loyal. For that reason, it is important to measure both dimensions of loyalty and to take steps to increase your customers’ emotional loyalty. Customers who have a high degree of both rational and emotional loyalty are considered to be “engaged” customers.

Measure and Enhance Emotional Loyalty

The following questions are examples of how to measure emotional loyalty, which is closely related to whether customers think your organization has their best interests at heart³. To measure this dimension, use a scale of 1 to 10, where 1 is “Strongly Disagree” and 10 is “Strongly Agree.”

- <Company> behaves with fairness and integrity
- <Company> strives to understand a customer’s needs
- <Company> strives to meet its commitments to a customer
- <Company> resolves conflicts with a customer fairly
- <Company> communicates openly and honestly with a customer
- <Company> is committed to a customer’s success
- <Company> makes a customer feel appreciated
- <Company> is deserving of a customer’s loyalty

To enhance emotional loyalty, focus on turning customer problems into opportunities for your company. Research shows that customers who felt that a company adequately addressed their problems reported higher loyalty than customers who didn’t report any problems. Also, train all customer-facing employees to act as ambassadors of messages your customers most need to hear, such as “we appreciate you.” Above all, focus on strategies that engage customers’ emotions, such as passion, intimacy and partnership, interdependency, and commitment. Examples of companies who have done that extraordinarily well include Apple, Harley Davidson, and Google.

Measure and Enhance Brand Perception

When you measure both rational and emotional loyalty, you in essence measure brand perception, which shows whether your efforts to create a particular brand perception are successful. The questions that follow are examples for measuring perceptions around safety and trust; the questions *you* would ask would of course depend on how

you want to position yourself³. To measure brand perception, use a scale of 1 to 10, where 1 is “Strongly Disagree” and 10 is “Strongly Agree.”

- <Company> is a reliable company
- <Company> is a reputable company
- <Company> is a trustworthy company
- <Company> is easy to do business with
- <Company> inspires confidence
- <Company> provides good value
- <Company> is a leader in ‘xyz’ (e.g., enterprise storage)

To enhance brand perception, you need to clearly define and communicate your brand’s key characteristics and ensure that the customer experience is consistent with your message. Delivering on the promises you make with your branding is crucial, so that the customer’s experience is consistent with your brand messaging.

Use Salesforce.com Resources to Increase Customer Loyalty

Finding out where you stand in terms of customer loyalty is the first step towards increasing it. To help measure your customers’ attitudes, the AppExchange includes a number of partner apps for collecting and analyzing customer responses from within Salesforce—including real-time feedback at customer touch points such as an event or service call.

Research into how companies use customer feedback shows some surprising results. For example, although 95 percent of all companies collect customer feedback in some form, surprisingly few report actually using that information constructively⁴. Only 50 percent report sharing this information with staff, 30 percent report basing important decisions on that information, 10 percent use the information to deploy new products or services, and only 5 percent share it with their customers. It is obvious that lot of potential is lost—a loss that provides any company that leverages such information with a significant competitive advantage. Here are some suggestions for doing just that:

- :: Decide on mechanisms for sharing satisfaction data with your customers, such as dashboards on your website or periodic updates in your newsletters.
- :: If your organization has user groups, engaging with those groups is a powerful way of building loyalty. Consider assigning an employee to act as a liaison to customers and keeps them informed about what happened to their feedback.
- :: Create a portal that allows customers to monitor their level of satisfaction with your products/services and be accountable if satisfaction slips below a certain level of service.

The stakes couldn’t be higher—in addition to the high correlation of customer loyalty to profits, research firms that specialize in customer feedback systems, such as CustomerSat Inc., report that customer feedback can help to reduce defection by 2 to 3 percent per year on average³. It’s no wonder that customer feedback tools consistently rank as one of the most-wanted applications and that customer loyalty is considered a top priority by CEOs.

¹ Research is referenced in Gartner’s “How to Approach Customer Experience Management” (G00125606), December 2004.

²The Conference Board’s CEO Challenge Survey 2006 asked 658 CEOs worldwide to rate their challenges over the next year. The findings represent the accumulated experience of the CEOs, chairmen, and company founders surveyed

³CustomerSat Inc., “Best Practices in Customer Satisfaction and Loyalty Programs”, April 2006. Gartner, Inc., “How to Approach Customer Experience Management”, December 27, 2004.

⁴Customer Champions in European Companies: 2001

About the Author



Prior to joining salesforce.com as our CRM Success Expert, Wendy Close served as a CRM research director in Gartner, Inc.'s research organization for more than 11 years. During her years at Gartner, she developed more than 200 research reports on various aspects of CRM—from sales automation to customer experience management to contact center management.

Wendy has spoken at numerous CRM conferences and events, has been quoted on the topic of CRM more than 1,000 times in various journals and publications, and has provided CRM advice to many of the biggest and most successful companies in the world.

Most recently before joining salesforce.com, Wendy was Gartner's lead analyst on CRM strategies, technologies, and suppliers for midsize businesses, midsize divisions of the large enterprise, and small firms.

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