May 22, 2008

Five Steps to Maximizing the Impact of Customer Loyalty on Your Bottom Line

By Curtis N. Bingham & Tom Gormley

Executive Summary

Recent research has proven a strong connection between customer loyalty and revenue growth. Monitoring and managing customer loyalty therefore holds out the promise of boosting both revenue and – through targeted and well-designed customer experience improvement initiatives -- bottom line profits. But achieving such gains, and maximizing the ROI on loyalty investments, isn't as easy as it sounds. Many firms struggle to glean clear, actionable insights from their customer satisfaction and loyalty data, and merely report the trends. Actions taken to profitably improve customer experience and loyalty end up driven as much by gut feel as by reliable data and analysis. In the long run, continuing in this way will lead many CEOs and CFOs to look elsewhere for projects with more reliable returns. We believe a structured approach to loyalty management can improve this outcome. In this paper we provide such an approach with five best practices to reap the biggest gains from your investments in building customer loyalty. These practices, developed through our work with client firms, form an end-to-end process from data collection, to analysis, to actions and follow-through.

Have you ever wished that your customer satisfaction and loyalty data clearly told you what to do, right now -- where to focus, which process changes or technology investments to start with, to get your firm the greatest bang for its buck? We think following a set of best practices, which we will describe, can help you do exactly that.

Gathering and reporting customer satisfaction data is well entrenched in business practice, as an indicator of health in the customer base, and as a source of feedback to product teams. The problem with satisfaction data has been making it actionable, since we've learned recently from academic and industry research that satisfied customers are not necessarily "loyal" – they will leave you for a competitor. Increasingly, firms are beginning to measure their customers' "loyalty", as a better indicator of retention and future growth potential. Research shows us that so-called loyal customers are less likely to leave for a competitor, and more likely to buy from you again, even when times are tough. This insight has led several industry analysts and consultants recently to draw strong links between improvements in customer loyalty and bottom line profitability (see Forrester Research, March 25, 2008, "The Holy Grail: A Link Between Customer Experience and Loyalty". In that research, Forrester found that "customer experience quality [through its impact on loyalty] could cause a [revenue] swing of $242 million for a large bank and $184 million for a large retailer.

But…back to our problem: Is loyalty data any more actionable than satisfaction? And how does one make loyalty data actionable? Most firms monitor loyalty, much like satisfaction, either monthly or quarterly. But surprisingly, many still aren't sure what to do with their results except report and analyze the trends. When it comes to taking some sort of reasoned action as the trends bounce around or head downward, the data often still fall short of indicating precisely what's wrong, what's needed, and ultimately, which initiatives will result in the greatest impact on loyalty, revenue and profits. Based on our experience with organizations, we believe these firms are trying to take shortcuts to building loyalty, skipping some of the critical steps which make loyalty insights actionable. We've distilled our experience into five critical best practices that must be in place to ensure that customer satisfaction and loyalty results ultimately drive significant top-line revenue growth and bottom-line profit improvements.

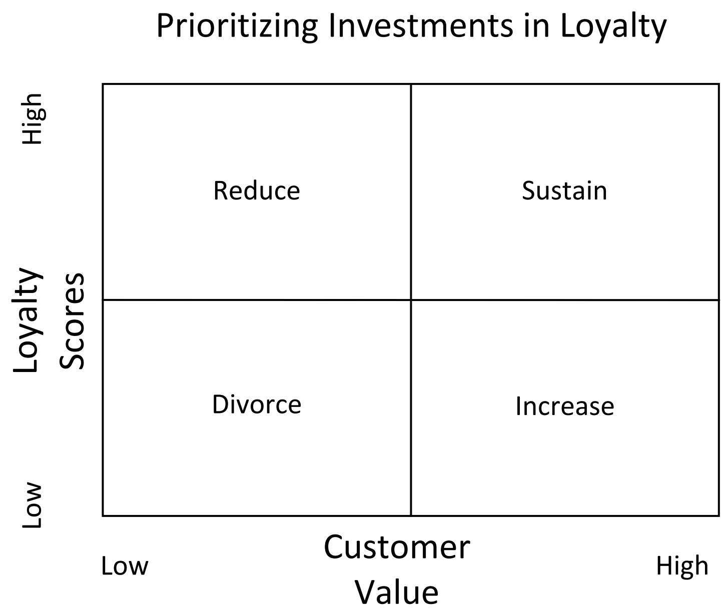
By following a set of best practices for loyalty management as described below, firms will be able to not only measure loyalty, but also improve it – along with revenue growth and bottom line profits. These best practices, developed through our work with client firms, form an end-to-end process from data collection, to analysis, to actions and follow-through. As with any business process, skipping important steps can result in significant leakage of insight, effectiveness, and value to the organization. What follows are our five best practices:

Specificity of purpose

If you want to take action on the results, then you need survey questions and data that will enable that. Therefore, customer survey instruments should be designed to answer the specific questions that a firm wants to answer, and nothing more. If you want to measure the quality of the relationship with the Customer Support organization, then you need an instrument that captures the perceptions of that relationship, rather than just a specific transaction or an historical support incident. Too often, we see "one size fits all" surveys, combining feedback on the product, related services, new product or service ideas, sales, and other touchpoints. At one company, the head of Customer Service and Support is having difficulty using a survey which addresses all aspects of each customer transaction, from pre-sale to post-sale implementation. Another firm's customer service-specific survey data makes it much easier to draw conclusions for the service organization. It makes sense to minimize the use of questions outside the scope of the Support relationship, since many respondents may be unable to respond accurately.

Survey depth and detail

Standardized methods for measuring loyalty (using Net Promoter Score) have simplified the process of collecting and even benchmarking your organization against others. But knowing your loyalty score is only the beginning. The real value of measuring loyalty comes from using it to take action which makes some or all customers more loyal, which we know will likely lead to retention and revenue growth. Reaching conclusions about what actions to take requires much more detailed data, at the level of individual relationships between your staff and your customers, and the various aspects of your service offerings and skill sets which are affecting satisfaction and loyalty. We find that many company's surveys don't provide sufficient detail to perform that level of analysis.



Analysis and Prioritization

With sufficiently detailed data, statistical analysis can yield clear conclusions on not only who is and isn't loyal, but also on what aspects of your approach with customers are having the greatest impact on loyalty, and ultimately business performance, either negatively or positively. Brief calls to customers or your field organization to confirm your observations or conclusions will add more depth to help with your business case later. This gives you a starting point to justify investments in specific improvements, whether in the call center, field service, or online self-service. But going a step further in the analysis, mapping customers' feedback against their actual or potential value to your firm, will yield much greater impact. As indicated by the figure above, if you identify and prioritizing efforts for those customers with high value but poor loyalty, and pay less attention to improvements which only affect lower value customers, you can provide focus to your improvement efforts. Few firms are producing this level of insight today to drive their strategies and actions.

Closed-loop Implementation

With good data and in-depth analysis done to identify the highest-impact actions and related business case analyses, companies now must execute in a timely fashion. Some actions can be completed quickly with immediate results – these are your "low hanging fruit". Others may take months or longer – in those cases, map out initial steps toward the goal and begin implementing those right away. To ensure a speedy implementation, it will help to have a budget and a streamlined approval process, including process owners, IT, and your CFO, set up specifically for implementing customer loyalty initiatives. To close the loop, don't neglect the critical step of communicating your actions both internally and externally. Use an online forum to keep all of your customer-facing personnel informed of your loyalty analysis, conclusions, action steps, expected results, metrics, targets, and specifically how you need staff to participate to ensure success. Many companies leave out the important step of closing the loop with customers. A sure way to sabotage any customer feedback program is not following through with customers on their feedback. This type of communication should be semi-formal, come from the executive level, and be well-coordinated with customer-facing staff.

Accountability

Finally, managing and building loyalty requires front-line leaders who will take responsibility for follow through, ongoing measurement and performance reviews, bottom line results, and ensuring that the whole organization learns from the experience. One of the largest financial services firms in Boston implemented a program whereby executives were given one quarter to fix critical issues in their organization that were negatively impacting satisfaction. If scores didn't improve by the next measurement cycle after the changes were made, their bonus was decreased. Keep in mind that some improvements may require many months to change actual perceptions in the customer base, and ultimately, their purchasing behavior. Setting SMART goals and target values for each improvement will help managers to accept accountability for initiatives and results.

Summary

In the companies we have worked with, we see many working hard to gather and analyze customer feedback, and most are taking some form of action to address the issues they discover. But often their initiatives follow a shotgun approach, based on assumptions rather than real data, about those areas with the greatest potential for bottom line impact. When firms fail to implement a closed-loop process as we've outlined in this paper, with a thorough gap analysis to identify deficiencies and implement changes, companies will be ineffective in their ability to understand and take meaningful action on customer feedback. By comparing a firm's current customer loyalty measurement and management processes to the above best practices, we can identify gaps, prioritize them, and implement changes that will improve the usefulness of customer loyalty data to the organization, and ultimately result in bottom line performance gains.

Curtis N. Bingham, President of The Predictive Consulting Group, helps organizations dramatically increase customer acquisition, retention, & profitability. For more information about Customer Strategy, Loyalty, or Chief Customer Officers, sign up for the "CustomerStrategy" newsletter at his website at **http://www.predictiveconsulting.com** *or his blog at* **http://www.curtisbingham.com**.

Tom Gormley, independent Consultant associated with The Predictive Consulting Group, helps companies improve customer experience and loyalty through customer service innovations, customer insights, and performance management solutions. Tom has published research with Forrester Research and MIT's Center for Information Systems Research in the fields of CRM strategy and implementation, Web-based customer service, and customer data management. To contact or learn more about Tom, Email him at **jtg3@alu.mit.edu**, *or visit his LinkedIn page at* **http://www.linkedin.com/in/tomgormley** .