



## Loyal customers don't quit... Satisfied customers do.

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Customer satisfaction ... So what! Satisfied customers still abandon your brand if the “bribe” or incentive is big enough to go somewhere else.

The question is not how satisfied your customers are, but how emotionally attached they are to your brand. Notable researchers such as Daniel Kahneman, Richard Thaler, Robert Shiller, Angus Deaton, George Loewenstein, and many others have long argued that only 30% of human decisions and behaviours are actually driven by rational considerations – which means that more than two-thirds of consumer loyalty and spending decisions are based on emotional factors. If that is the case, measuring customer satisfaction as a metric for determining customer loyalty only goes part of the way of getting to the truth.

In this essay we aim to debunk the long-held belief that customer satisfaction research is the one and only measure to determine customer loyalty. In fact, a customer satisfaction score is nothing more than a snapshot of how customers feel about your products, your service or your brand, at a given point in time. Tomorrow is another day and they may change their mind if one of your competitors offers a better deal. If the bribe or incentive is big enough, even satisfied customers will abandon your brand in droves. The reason for this is that merely being satisfied, or even very satisfied, is a rational state of mind – there is little or no emotion attached to that mind set. So any customer loyalty assumed from their level of satisfaction alone would be misplaced.

Customer satisfaction, therefore, should not be confused with customer loyalty. Customers are loyal because they are *emotionally* attached to your brand; a bribe by a competitor in the form of a better offer or a single upset in the service delivery may well be the cause for an otherwise satisfied customer to abandon your brand, whereas a loyal customer is rock solid and has the emotional capacity to see beyond the upset and continue his unwavering support for your brand.

This is supported by a survey we conducted in 2007 for a financial services provider. The customer satisfaction score consistently hovered above the 90% mark, yet, “only” 41% of respondents (all customers) in that survey claimed that they would not change to another provider if that provider offered a better interest rate and/or lower fees. A loyal customer is certainly a satisfied customer, but a satisfied customer is not necessarily a loyal customer.

Unfortunately the word loyalty has undergone some interpretive misadventure over the years as well-intentioned but uninformed marketers have changed the meaning of the concept by creating the so-called ‘loyalty schemes’. Fly Buys in New Zealand is a case in point. These programmes exist on the false premise that buying more from a particular supplier (repeat purchases) creates loyal customers and therefore improves profitability. Not so. Loyalty schemes are nothing more than a mechanism to bribe/incentivise customers into buying more by offering them gifts, discounts, or other purchase rewards. These customers aren't really loyal; they're just customers who haven't left – yet. True loyalty in the context of this essay is when people have an emotional bond with your company or your brand. They don't need bribes, discounts, air points or other costly incentives; they want a relationship with your brand and it is up to you as the brand owner to create an ambience in which that relationship can flourish. And here is the good news ...

customer engagement strategies lead to sustained business growth, as we will demonstrate later.

Researchers have taken a close look at customer loyalty over the years and have come to the conclusion that the more a customer is *emotionally and positively engaged* with a brand, the higher the chance of developing *true* loyalty. We will cover later on how a customer becomes emotionally and positively engaged with a brand and what brand owners can do to develop customer engagement. Ultimately, emotional connection will come from positive shared experiences with the brand over time.

A lot of work in the field of customer engagement has been done by Gallup Consulting Group. Gallup has identified four levels of customer engagement:

- **Fully engaged** customers, who are emotionally attached and rationally loyal; they are your most valuable customers;
- **Engaged** customers, who are beginning to feel the stirrings of emotional engagement;
- **Disengaged** customers, who are emotionally and rationally neutral;
- **Actively disengaged** customers, who are emotionally detached and actively antagonistic.

Gallup research<sup>1</sup> has proven that the world's leading organizations know that engaging their customers is a primary driver of key business success. Their cross-industry research shows that fully engaged customers buy more, stay with you longer, and are more profitable than average customers. It is also not surprising to know that these organisations have placed customer engagement at the foundation of their strategy for winning in the marketplace. They understand a simple fact: organisations that engage their customers outperform those that do not.

In this essay we will discuss how true customer loyalty is measured, the role of employees in developing customer loyalty and the power of Touch Points.

We would like to start by saying that measuring true customer loyalty is not just another fad; the reason for measuring customer loyalty lies in the desire to build a better, more profitable business, PROVIDED that the measure is accepted and embraced at the highest echelons in your organisation and that there is a strong WILL from the Directors and the Senior Management down, to make changes at a strategic level.

### **Measuring Customer Engagement**

Introducing Gallup's CE<sup>11</sup>; a simple 11-question metric of "customer engagement". CE<sup>11</sup> measures rational formulations of loyalty according to three key factors: overall satisfaction, intent to repurchase, and intent to recommend. But it also adds eight measures of emotional attachment. "The total score, which reflects overall customer engagement, is the most powerful predictor of customer loyalty we know," says Gallup Senior Consultant, John Fleming, Ph.D.

Ask your customers to answer the 11 questions below, using a five-point scale that measures strength of agreement by scoring 1 for 'very dissatisfied/very unlikely/strongly disagree' and 5 for 'very satisfied/very likely/strongly agree'.

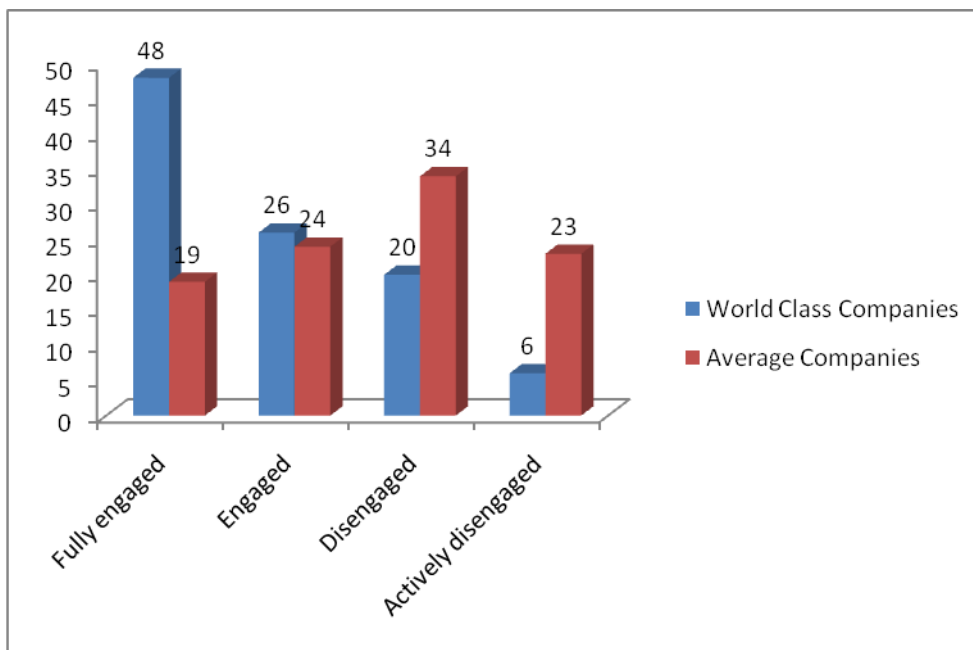
1. Overall, how satisfied are you with [Brand]?
2. How likely are you to continue to choose/repurchase [Brand]?
3. How likely are you to recommend [brand] to a friend/associate?
4. [Brand] is a name I can always trust.
5. [Brand] always delivers on what they promise.
6. [Brand] always treats me fairly.

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<sup>1</sup> Customer Engagement – What's Your Engagement Ratio? Gallup Customer Engagement Brochure (online)

7. If a problem arises, I can always count on [brand] to reach a fair and satisfactory resolution.
8. I feel proud to be a [brand] customer.
9. [Brand] always treats me with respect.
10. [Brand] is the perfect company for people like me.
11. I can't imagine a world without [Brand].

Taken individually, these questions will help you identify ways to improve your relationship with specific customers. Collectively, the data from all your customers will give you a snapshot of how engaged your customers feel about your business. To calculate the Customer Engagement Ratio (CER), divide the percentage of fully engaged customers by the percentage of actively disengaged customers (refer chart below).



Gallup’s research, as captured in the chart above, shows that the CER of World Class companies is  $48/6=8$ , meaning that for every one actively disengaged customer these World Class companies have 8 fully engaged customers. By contrast, the CER for the Average company is  $19/23=0.8$ , implying that most organizations have less than one fully engaged customer for every actively disengaged customer. As a one-off, these numbers have limited meaning, but as a trend analysis measured over time, the CER will tell you whether the strategies you have implemented to strengthen the relationship (engagement) your customers have with your brand are working or not.

The CER as a measure of customer loyalty goes much further than a customer satisfaction score or even the Net Promoter Score (NPS). The latter is derived by asking customers how likely they are to recommend your business or brand to others on an 11-point Likert scale. Those who score “very likely” (score 9 or 10) are labelled “Promoters”, those who score 7 or 8 are “Passives” and those who score 0 to 6 are the “Detractors”. By subtracting the percentage of Detractors from the percentage of Promoters gives the NPS.

We don’t deny for one moment that a customer satisfaction metric or NPS are useful indicators of how your customers feel about your company or brand, but they only tell part of the story. By combining satisfaction and recommendation scores with measures of emotional attachment to your brand, provides a very powerful and actionable statistic.

A single customer satisfaction score will create a false sense of security; if 90% of your customers are satisfied or very satisfied with your brand, it still leaves you wondering why so many are ditching your brand for a competitor. As mentioned above, truly loyal customers who are fully engaged and have an emotional tie to your brand will stay with you. It is up to you to find out the extent of the emotional connection and devise strategies to convert the disengaged and engaged customers into fully engaged customers. (It is probably not much use trying to convert actively disengaged customers as, more often than not, they choose to be like that. The most effective strategy here is to ring-fence actively disengaged customers and make sure that they don't bad-mouth your brand.)

### **Fully Engaged Employees**

World class companies that have a consistently high Customer Engagement Ratio achieve this because their employees are committed to the organisation they work for, have adopted the values of the organisation and demonstrate a willingness to help out colleagues. This is often referred to as *organisational citizenship*. It goes beyond job satisfaction and is not simply a question of motivation. This level of engagement is something the employee has to offer: it cannot be 'required' as part of the employment contract. Engaged employees will help promote the brand and protect the employer from the risks associated with poor service levels or product quality. Similarly, a strong employer brand will help in attracting and retaining employees.

An organisation that strives to develop a high Customer Engagement Ratio cannot do so without the help of its employees. The Chartered Institute of Personnel and Development of the United Kingdom (CIPD) states that the drive for an engaged workforce needs to build on good people management and development policies, and the active support of line managers. People management strategies and policies need to be aligned with those of the wider business.

Employees need to understand how their work contributes to organisational outcomes. A minority of employees may not want to be engaged; organisations may need to give particular attention to recruitment and communications. There is no short-cut to building and maintaining employee engagement, but the time, effort and resource required will be amply repaid by employee performance improvements.

### **Touch Points**

Touch points are defined as those occasions or situations where customers or potential customers connect with your company or brand. The shared experience of that connection – positive or negative – determines the future status of that customer. It better be a positive experience, because customers have long memories. It is only through multiple positive shared experiences that a customer will develop an emotional attachment to your brand. As one marketer puts it: "falling in love is easy, staying in love requires work".

Touch points come in all forms and shapes; being served at the counter by a bank teller, a telephone call to the service department, receiving a letter or statement from a utility company, reading a press release issued by your insurance company, advertising, complaints handling, waiting time in the doctor's surgery, overhearing other people talking about your bank, insurance company, dentist, telecommunications provider, the Inland Revenue Department or the Board of Trustees of your children's school. The resulting experiences from all these touch points determine where we stand vis à vis the service provider concerned. Too many negative experiences will see your customers vote with their feet. Multiple positive experiences draw us closer to the provider or brand. Smart employers recognise this and empower their employees – whatever their role in the organisation – to bestow positive experiences upon their customers or stakeholders.

Don't be mistaken by the belief that it is only your sales reps or front line staff that create touch points with your customers. Not so. Every single individual within your organisation somehow touches the customer, directly or indirectly, and collectively they influence the customer

experience. Fittingly, Christian Grönroos<sup>2</sup> has argued that everybody in the organisation should be a mini marketing manager, not just the person who has the title of Marketing Manager. If that is the case, then you as the employer should do everything possible to put your employees in a position to facilitate their role as mini marketing managers by providing them with the tools, responsibility and authority to act accordingly.

Every single touch point finds its origin in the same source – namely the set of corporate values that guides every organisation. Ask yourself these questions: What are your organisation's corporate values? How did the organisation arrive at these values? How do these values align with your own values and how long since the corporate values have been re-evaluated? Are you confident that there is buy-in from your employees (perhaps we should call them team members in the spirit of this essay) to the corporate values and what is the Senior Management doing to promote, AT EVERY POSSIBLE OCCASION, the values to all team members? Everything we do, we do with the corporate values in mind – consistently and always. All customer experiences are a reflection of your corporate values. Fully engaged employees have the power, drive and motivation to create fully engaged customers – and as we cover next, fully engaged and emotionally connected customers provide longevity and profitability.

### **Customer engagement strategies lead to business growth**

Gallup recently studied a specific business category that illustrates the impact of customer engagement ratios on marketplace performance. As part of their ongoing research into the casual dining industry, they completed a multiyear study (2006 to 2008) that asked customers about their engagement with the restaurants they visit. The results revealed that restaurants with high engagement ratios clearly outpaced the overall industry in terms of growth.

In 2006, for example, one restaurant chain had an engagement ratio of 5.4:1 – meaning it had 5.4 fully engaged customers for every actively disengaged customer. In 2008, that ratio improved to 7.2:1. Over that same time frame, its overall sales in the United States grew by 30% and per-unit sales increased by 13%. In contrast, a competing chain had an engagement ratio of 0.63:1 in 2006 that declined to 0.46:1 in 2008, and its overall sales shrank by 2% over that period.

### **Conclusion**

In conclusion, measuring customer satisfaction is a useful, but incomplete, way of determining what your customers think of your company or brand. Measuring customer engagement is more meaningful and strategically relevant as it measures not only customer satisfaction and willingness to recommend, but also the emotional connection between the customer and your brand.

William J McEwan<sup>3</sup> summed it up very succinctly: "Satisfaction" is a rather poor measure of the strength of a customer relationship, and it's an inappropriate goal to set for company managers. "Good" performance won't deliver brand passion. And yet, as Jim Collins pointed out in his book *Good to Great*<sup>4</sup>, too many companies have become content with pursuing "good" - the enemy of great. Marriages require more; loving involves a whole lot more than liking."

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<sup>2</sup> Christian Grönroos, *Service Management and Marketing, Managing the Moments of Truth in Service Competition* (1990)

<sup>3</sup> William J McEwan, *Married to the Brand. Why consumers bond with some brands for life* (2005)

<sup>4</sup> Jim Collins, *Good to Great*, HarperBusiness, ISBN 0066620996