

The New Loyalty Game: Two Strikes and You're Out

by Chip R. Bell



Take a drive down the main boulevard of any city and read the billboards. You'll see any number of advertising pitches featuring language like "Satisfaction guaranteed," "Your satisfaction is our number one goal" or "We are #1 in customer satisfaction." It would be easy to assume that satisfaction was the ticket to high praise, robust profits, and repeat business. But unless your organization is the only fish in the pond, using customer satisfaction as the yard stick of success will ultimately lead to disappointment, maybe even failure.

If you look up the definition of "satisfactory" in Webster's Really Big Dictionary, it says "good enough to fulfill a need or requirement." The verb "to satisfy" originates from the Latin word *satisfacere* which means "enough." It also means "adequate" or "sufficient." This is hardly the language of loyalty, commitment or passion—those customer feelings organizations need to evoke to make customers deaf to the siren call of the competition.

As service quality research has found, measures of "satisfaction" are often

poor predictors of the most important of all customer service goals—getting customers who visit once to come back again, purchase more, forgive more, and advocate more. Achieving these goals helps ensure lowered marketing and customer acquisition costs, fewer customer defections, more word-of-mouth recommendations, and ultimately stronger bottom-line growth.

Measuring Service vs. Product Experiences

The majority of things we buy are acquired with basic needs in mind. If we are evaluating the merits of a new trash compactor, for example, we might focus on its reliability, cost, and how effectively it gobbles up our trash. We don't care if it plays Mozart as trash is crunched, or if, out of a sense of loyalty to its owner, it refuses to call the Environmental Protection Agency when inappropriate items are funneled into it. We have little emotional involvement in such purchases.

There are product-buying scenarios that stir passion, of course. Harley Davidson motorcycles owners, baseball card collectors, and Apple iPhone users, to

name a few, view these products in the same way they might a cherished friend or family member. But these are the exceptions. The point is that measuring a customer's evaluation of physical objects purchased in the same manner one evaluates a more emotional service experience is a bit like trying to drive a nail with a B flat. Even Mozart, lover of B flats that he was, preferred to use a hammer in his carpentry projects.

Service Experiences: A Completely Different Animal

Think of a service situation when your emotions ran high. Maybe it was your honeymoon, a five-star dining experience, or trying to get an organization to correct yet another error on your bill statement. Let's assume you were asked by a market researcher for your evaluation of one of those experiences—say, your honeymoon. The scale most likely provided to you by the researcher would be a 1 to 10 scale with a 1 being 'completely unsatisfied' and a 10 being 'completely satisfied.'

Recalling the full moon on the water, the soft breeze on the balcony, the sweet taste of champagne—or other

Convergys' POINT OF VIEW

In late 2008 and again in late 2009, Convergys conducted substantial primary research to more fully examine the key drivers of customer experience from the customer, employee, and company perspectives.

This research, the “2009 and 2010 Convergys Scorecard Series”, provides executives with a unique view of the marketplace, how it is changing, and how they must respond.

Nearly 9 out of 10 customer who said they were “satisfied” by their most recent service experience described working with a company as “effortless” ... it was easy to do business with them. Furthermore, 90% of those “satisfied” customers went on to say they were “loyal” to the company that provided the experience.

Unfortunately, the majority of “loyal” customers, in fact 85%, simply aren’t demonstrating loyalty in ways companies value or have historically expected. Only 46% said they were making “frequent purchases” of the company’s products, only 31% said they avoided the temptation to “shop the competition” for a better offer or deal, and only 16% would forgive one bad experience.

With loyalty like that, who needs it?

The research found an exclusive 15% of the consumers—we call them **Super Loyalists**—demonstrating loyalty in a number of ways, three of which are key:

1. Recommending a company’s products and services to like-minded consumers.
2. Making frequent—and often incremental—purchases of a company’s products and offerings.
3. Avoiding the temptation to shop around and use competitive products simply because of a special deal or offer.

Understanding what’s required in the current tough economy to turn satisfied customers into Super Loyalists/advocates is key to growth and ultimately bottom-line profits. Companies can “go to school” on their loyalists to learn what they value, what led them to become advocates, and what it takes to keep them as advocates.

The research uncovered a variety of markers that suggest a customer is likely to become a Super Loyalist. For example, these advocates are 25% more open and responsive to proactive messaging and customer care. It’s their way of extending an invitation to be engaged and nurtured in ways many other customers find unacceptable or intrusive.

Customers with the propensity to become Super Loyalists are 18% more likely to be influenced by exclusive offers and discounts that reward them for their continued loyalty. And, here’s where “intent” is congruent with behavior. Compared to the rest of the population, Super Loyalists are 22% more likely to already be making more frequent purchases, and 28% more likely to anticipate they will increase the amount of money they spend with companies they feel loyal to. Now that’s the kind of loyalty we all want.

How can companies turn “merely satisfied” customers into Super Loyalists? First, you need to “go to school” on them.

Create a pilot that isolates a group of customers as “potential” advocates. Segment customers in a fashion that enables you to better understand how to effectively serve them in the fashion in which they value. Give this pilot group special handling, particularly delightful experiences supplemented by proactive communication and care. Resolve their issues immediately and generously. Pay close attention to approaches that “move the needle” toward Super Loyalty and customer advocacy.

Keep in mind that advocacy is less about an offer and more about an experience and relationship. In return for their loyalty, customers with the propensity to become Super Loyalists are 16% more likely to favor and expect high-touch treatment from live phone agents. That requires front-line people with the knowledge, authority, data, tools and systems to deliver great experiences; agents that can be an ambassador of delight, and not just another call center representative.

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extracurricular activities—you would likely be struck by how far short “completely satisfied” fell in capturing your true evaluation of that special experience. Words like “awesome” or “wonderful” would more likely come to mind as accurate descriptors.

On the surface, you might spot an easy route around this grading dilemma. Why not make the top end of the scale “more than satisfied?” But the challenge with this path is that “more than” is a different paradigm all together. Satisfaction is about sufficiency and “more than sufficient” is like saying, “I bought this trash compactor to crunch up my garbage, but if you really want to capture my loyalty as a consumer, make it do something it was not intended to do.” Satisfaction is a state of completeness—either it is or it is not. If satisfaction were a bucket to be filled, the best you could get would be “completely satisfied” —as in, “to the top.”

The rational side of you might be thinking, “But, most service experiences are far more ordinary than my honeymoon.” Let’s examine that belief more closely. The word “service,” derived from the Latin word *servire* meaning “to act as a servant,” connotes the act of meeting a customer’s need or requirement, just like a product. What is different is that a service experience, in most cases, occurs in a way that involves a more extended, human-to-human interaction. Imagine what it would be like if a consumer, needing a trash compactor, showed up at the compactor factory to help the manufacturer produce the trash compactor the consumer was ultimately planning to purchase. Sound ludicrous? This is how service happens every time.

Beyond Survey Questions

The implications of relying on a product paradigm for a service experience goes beyond how survey questions are crafted. When leaders of manufacturing organizations are told that 85 percent of their customers were “completely satisfied” with their trash compactors, it is accurately portrayed as a marketing victory. But if customers give that same “completely satisfied” rating to their last restaurant experience, it would likely signal a grade of “C”—meaning “the restaurant passed; it fulfilled all my ‘dining at a restaurant’ requirements.” But such a grade would by no means cement the customer’s loyalty to the restaurant. This helps explain why the great majority of customers (some studies show 75 percent) who leave an organization for a competitor, when asked, say they were “satisfied or completely satisfied” with the organization they abandoned. When it comes to the experience, satisfaction, it seems, has little correlation to loyalty.

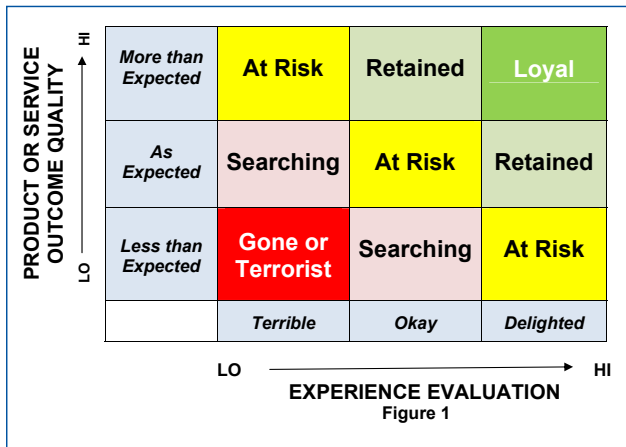
Customers who are merely satisfied remain your customer only as long as everything goes their way. But when something better comes along, other providers temporarily slash the prices, or if they experience even small service problems ...whoosh, off they go to the competition. But loyal customers are a different breed. They don’t just come back, they recommend you to others. They forgive you when you make a mistake and defend you to others who have bad experiences with you—“that’s just an aberration,” they might say. They give you candid feedback when they spot (or experience) a problem, even if you sometimes take their feedback for granted.

Customer Loyalty after a Recession

The recession changed the rules on what it takes to hold the customer in the cocoon of loyalty. Personally frightened by financial vulnerability or vicariously saddened by the plight of friends, most customers significantly elevated their requirements for value while at same time lowering their tolerance for error. Poor service has become horrible service; mediocre service (or service with indifference) has become bad service.

And what has been the impact of a bad customer experience? According to Convergys 2010 Scorecard research, 44% of customers stop doing business immediately and another 15% exited as soon as their contract was up! Some will give warning before departing. Convergys found that 57% of customers have had a bad experience in the last year and 66% have told someone. When the pocket book gets squeezed, customers are more assertive about letting someone know when they fail to receive value. Customers at the end of the recession were 14% more likely to complain than before the recession.

The impact of all this on customer loyalty is significant. The chart on page 4 reveals the effect of getting the product or service outcome expected with the experience of getting it. The implication is that the experience can be so delightful that it overshadows a less than expected product or service outcome. It also reveals that products or service outcomes that are superior can be undermined if the experience of getting them is poor. (“Your product is terrific but you are pure hell to deal with!”)



A product or outcome that is less than expected with a terrible experience (Red) creates a customer that either leaves or turns into a “service terrorist” if the customer of a monopoly with no exit possible (like some utilities or government units). The opposite end is the loyalty customer (Green) that is not only retained, but serves as an advocate recommending the organization to others. “At risk” (Yellow) is the satisfied customer who stays only until something better comes along or if a service hiccup occurs. (Note: The label “terrorist” to refer to the angry customer trapped by an inability to simply switch providers was first used by Fred Reichheld of Bain and Company).

Think of the chart colors as representing risk factors much like a traffic light. Green means full steam ahead, yellow means caution and red means stop. Consider the light green (the “retained” customer) as an opportunity for loyalty; the pink (the “searching” customer) as a caution light about to turn red.

Now, for the bad news! The Figure 1 chart represented customers’ behavior before the recession. The formerly “retained” customer is now among the “at risk” customers; the “searching” customers are very likely “gone,” and the “loyal” customers now have much higher

standards for “exceeds expectations” and “delighted” than before the recession. Why?

Customers today have many choices and channels to get what they want. More choices mean they have been forced to be more discerning in using their experience (or what they hear from others about the experience) as a key choice-making factor. Since they expect to get good value for their hard-earned, ever declining dollar, they are more cautious in their decision making. Made smarter by the internet, they are empowered and emboldened to accept nothing short of value. The internet has also given them ready access to customer reviews (often at odds with the advertising spin of an offering) and an easy path to voice displeasure to thousands of eager listeners. Plus, they have witnessed great service—the Disney cast members they saw were all friendly; the FedEx customer care center answered their phone call on the first ring, Southwest Airlines flight attendants made them laugh, and suddenly their standards were raised for everyone everywhere who serves them.

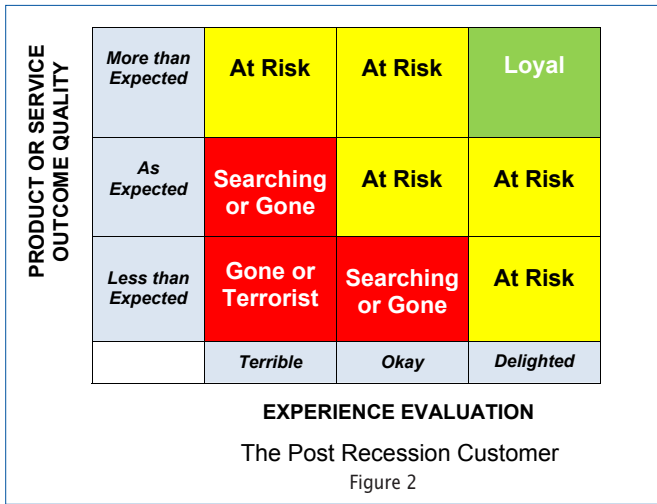
One of the biggest differences between “satisfied” customers and “loyal” customers is their tolerance for error or for less-than-expected value. For satisfied customers, one strike—just one tiny hiccup—and they are ready to exit. The “loyal” customer is

willing to forgive and give an organization a second chance. Loyalists are also more willing to advocate than their pre-recession counterparts.

However, there is one very important caveat. Disappoint a loyal customer and you just got “strike one” in the new loyalty game. What happens next will determine if you remain in the game or “strike out” and lose a loyal customer. It makes great service recovery and customer care at every point of contact a crucial organization issue.

A hotel chain was able to segment its guests by their degree of loyalty. Loyalty was determined by a combination of guests reporting in a survey that they had recommended the hotel to others coupled with repeated stays at hotel properties that had competitors nearby. One study conducted by the hotel chain to ascertain why loyal guests stopped frequenting the chain turned up a key finding—most departed loyalists indicated that they received an unsatisfactory response by either the front desk or call center when attempting to report a problem. Root cause analysis revealed that front-line employees had not been properly trained in service recovery nor taught to assume that all disappointed guests could be ones with a long history of loyalty to the hotel. In other words, how they treated a guest with a problem could determine if that guest left, taking along his or her lifetime value to the hotel’s bottom line.

So what do all those “Satisfaction is Job #1” billboards get you? In the best case, it is a customer willing to give you a try. When that customer walks through your door, the marketing or sales department can score a victory. But the more meaningful measure of success is whether that customer, having taken you for a test drive, comes back for more— and then convinces friends,



family, and business associates to do the same. When you've built that kind of loyal customer base, you have created a marketplace advantage that will be difficult for any competitor to match.

Like all valued relationships, take the ones with loyal customers for granted and soon they will be yours to lose. If loyal customers were ever entranced and entrenched by the allure and influence of your brand, they are

no more. If loyal customer were ever long-suffering and tolerant of service blemishes and experience blunders, they are clearly no longer. Today, value in the eyes of customers must be genuine, obvious, and ever-present. And, loyal customers, the core of growth and profits, must be continually made to feel important, heard, understood, and valued.

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Thought Leadership

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