



CRL solutions

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Creating Loyalty

Why quality feedback beats a holey bucket

By John Kemp

The day when customer “complaints” department festered in a dark corner of the corporation are thankfully largely over, but many organizations are still failing to realize – and reap – the benefits of quality customer feedback

Certain self-professed customer focused organisations are still failing to even understand the concept of loyalty let alone manage the benefits effectively. Customer retention is still the poor relation to customer acquisition, and marketing and advertising budgets are often many times larger than the investment in customer service and retention.

This is because there is still a significant imbalance between customer acquisition and retention and too many top managers are giving little more than lip service to their customers’ needs and expectations.

A world-wide study of customer service experience¹ conducted in January 2002, by Respond and eCustomerServiceWorld identified that when contacting an organisation with a problem, the majority of contactors were far from satisfied with the response they received. Only seven per cent of respondents to this study were “very satisfied” with the response they received with a huge 42% being “very dissatisfied”.

With the telephone still being the most frequent means of contact nearly one third (32%) of respondents to this study stated that they had to wait more than five minutes for their call to be answered - only 23 per cent received an answer in less than 30 seconds. Clearly few organisations are really committed to customer retention or they would resource their call centres more effectively!

The findings made it clear that only “very satisfied” matters. Of the seven per cent who said they were “very satisfied” with the response they received, 67 per cent stated they would “definitely remain a customer” but this dropped to only 20% for those only “somewhat satisfied”.

All this points to the conclusion that too few organisations are placing sufficient importance on the top box – “very satisfied” - customer experience and its impact on future loyalty.

A quick history lesson

The concept of business loyalty is not new. More than twenty years ago TARP’s famous “*Consumer Complaint Handling in America*”² study made clear that effectively managing customer contacts positively increased their future loyalty.

The study was commissioned by the US Office of Consumer Affairs to investigate complaint-handling practices in the USA. The findings firmly established the importance of effective customer contact management and feedback as critical to future retention and loyalty.

The study found that a third of consumers experienced a problem of some sort and that just over two thirds of consumers complained about their most serious problems. Nearly 70 per cent of such serious complaints were not satisfactorily resolved.

These findings are still regularly quoted and were the foundation for some of today's most frequently used customer service arguments:

- ▶ A well handled problem breeds more loyalty than no problem at all
- ▶ It costs five times more to get a new customer than keep an existing one
- ▶ A dissatisfied customer will tell ten others

While actual numbers quoted will vary considerably the logic supporting them remains sound today.

In his book "The Loyalty Factor"³, Frederick Reichheld estimated that "disloyalty stunts corporate performance by 25 to 50%, sometimes more". The theme to this book was that "businesses that concentrate on finding and keeping good customers, productive employees and supportive investors continue to generate superior results".

Reichheld stressed that customer loyalty was clearly a top-management issue – "Customer loyalty is too important to delegate....the responsibility for customer retention or defection belongs squarely on the CEO's desk".

In his latest book, *Loyalty Rules!*⁴, Reichheld adds, "long-term rewards from loyalty ultimately outstrip even the most spectacular short-term profits".

CRM can overlook customer retention issues

With this in mind, many organisations making a considerable investment in systems designed to improve their relationships with customers. Unfortunately the success rate is far from good with recent research suggesting that only 3 per cent of European companies have fully integrated CRM strategies throughout their business⁵.

CRM systems can tell you a lot about your customers. They can tell you who they are, where they live, how much they spend, what they buy and even what they might buy. But CRM does not always tell you about the concerns customers may have, the problems they experience and the impact that poor handling of such contacts has upon their future loyalty.

Such information is often available but only in small amounts and probably buried within a complaints database. In particular, feedback is usually limited to those few customers who battle through the organisation's defences to reach a head office complaints department. Customer feedback is rarely collected at the front line.

PAS 46:2002 - Improving Loyalty – Requirements

PAS 46 is a Publicly Available Specification developed jointly by Respond and the British Standards Institution. It addresses the current weaknesses identified in customer retention and loyalty performance by requiring that processes be maintained to collect feedback from employees, customers and investors that is used to drive product, process and organisational improvements likely to maximise organisational loyalty.

PAS 46 is published by the British Standards Institution at a cost of £70 and is available from British Standards Online at www.bsi-global.com.

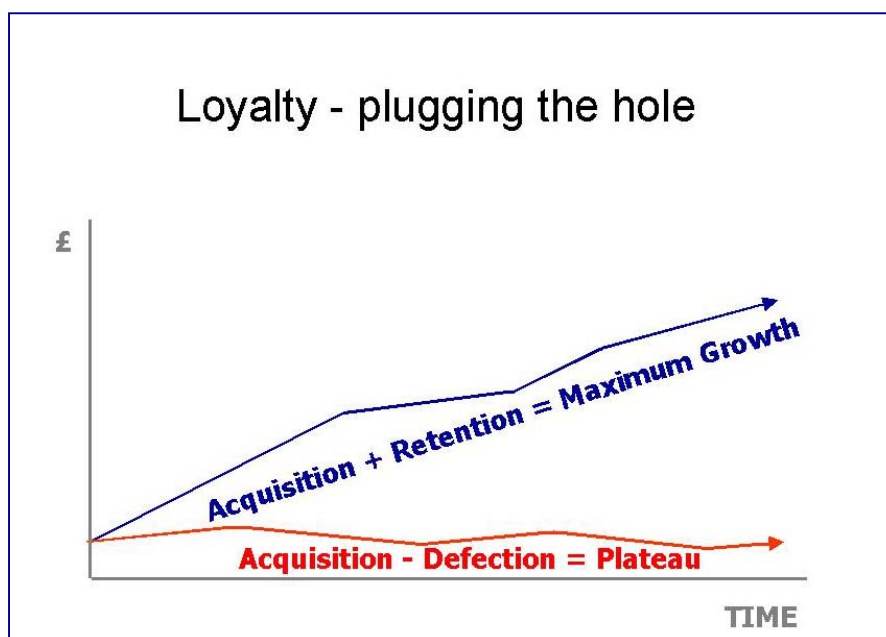
Maximising the return on feedback

Organisations that are good at responding to customers' contacts and use that experience to collect and apply customer feedback are more likely to maximise customer retention and loyalty than those adopting an organisational driven approach to CRM.

The term Customer Retention & Loyalty (CRL) is used to describe the customer-focused strategies needed to understand and meet customers' needs that in turn enhance retention and loyalty. This requires an effective and organisational-wide process for collecting customer feedback across all contact points. This data must then be analysed to identify issues and improvement opportunities. Lastly, it is used to apply improvements across the organisation aimed at enhancing customer experiences and maximising future loyalty and retention.

A CRL strategy will not replace CRM but should be a key component of an organisation's strategic approach to managing customer relationships.

Figure 1



Only emotional loyalty matters

Organisational loyalty as defined in the new British Standards Institution's Publicly Available Specification PAS 46 – Improving Loyalty⁶ as “employees, customers and investors having strong allegiance to and trust in the organisation founded on positive experiences of previous interactions”. This is frequently termed “emotional” loyalty because it relies on an individual’s feelings as well as their needs. There are other types of loyalty (e.g. monopoly loyalty, inertia loyalty, convenience loyalty, price loyalty and incentive loyalty) but although each may be effective in the short-term, unless there is an emotional commitment, an organisation cannot rely on such loyalty in the longer term. Additionally, only customers with emotional loyalty are really likely to recommend an organisation, which is where real value is added.

LIP SERVICE OR CUSTOMER SERVICE?

Maximising the loyalty of customers (and employees and investors) clearly makes economic sense but top management still seem to feel more comfortable investing in customer acquisition rather than retention. This is widely because sales performance is considerably easier to measure than loyalty and retention.

But it should not tax the corporate brain too much to appreciate that it is harder to fill a bucket with a hole in the bottom than one without (see figure 1.) To repair that hole there must be a visible corporate commitment and supporting allocation of resources directed towards maximising retention and loyalty.

To obtain this commitment and for existing customers to claim their rightful place on the boardroom agenda, customer retention and loyalty must be quantified and evaluated as key corporate performance indicators alongside the traditional financial indices. To drive organisational improvement that maximises loyalty, processes must be refined or established to collect, analyse and apply feedback from all contact points so that the voice of the customer

It is important to look at more than just customer loyalty. Strong employee loyalty and motivation cannot fail to contribute positively to customer loyalty and retention. In turn, a loyal and stable customer base maximises investor loyalty.

The requirements of an effective organisational loyalty strategy must include:

▶ **Ownership by and direction from top management**

Top management buy in and commitment ensures that customer focused KPI's rank alongside traditional, mainly financial, measures. Loyalty metrics such as customer value, customer retention and employee turnover should rank alongside profit, share price and turnover figures.

▶ **Dedicated resources to manage loyalty and report progress**

Customer-focused initiatives often fail because too many departments are involved. Instead of receiving separate and diverse feedback from marketing, sales and customer service there must be one clear "Voice of the Customer" reporting directly to the top.

▶ **Regular collection of feedback from employees, customers and investors**

Although most companies collect and log complaints this is often limited to high level issues and overlooks the wealth of feedback available on the front-line. Few organisations fully consult their employees about their own and their customers' loyalty. This is a valuable source of feedback often lost.

Companies need to establish a simple but effective process for collecting, analysing and reporting feedback from all contact points.

▶ **Using feedback to identify and drive organisational improvement**

It is pointless collecting feedback unless it is used to improve performance. Data collected must be analysed, reported and used to drive organisational improvements that will enhance loyalty.

▶ **Loyalty measures**

Loyalty can be measured in a number of ways. Customer numbers, sales per customer, employee turnover and sickness levels are just some of the many corporate metrics that can quantify organisational loyalty. In addition to such indicators, regular measures of satisfaction and loyalty levels should be established. Such measures will provide an index against which future improvements can be evaluated. Without a quantitative measure, loyalty remains a soft unquantifiable "nice-to-have" rather than a hard corporate KPI.

▶ **Corporate-wide reporting**

There must be a regular reporting process that ensures that employees and managers fully understand the issues impacting loyalty and work together to improve organisational performance.

1 The Quality of Customer Service Today by Respond Mentor Research & eCustomerServiceWorld.com February 2002 - available from www.respond-uk.co.uk

2 Consumer Complaint Handling in America by TARP (Technical Assistance Research Programs Inc.) for the United States Office of Consumer Affairs 1979

3 The Loyalty Effect By Frederick F. Reichheld Published by Harvard Business School Press 1996 ISBN 0 87584 448

4 Loyalty Rules! By Frederick F. Reichheld Published by Harvard Business School Press 2001 ISBN 1 57851 205 0

5 Gartner Dataquest Research Note DF-12-5262 April 2001

6 PAS 46:2002 Improving loyalty – Requirements Published by British Standards Institution 2002 ISBN 0 580 38821 February 2002

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