

There is a far cry between a satisfied and a loyal customer says Frank Kirwan who here exposes some of the 'heresies' about customer satisfaction, dissatisfaction and loyalty - and points the way forward to achieving profitable relationships with loyal customers



Making customer dissatisfaction profitable

Here's an old piece of heresy - dissatisfaction can be harnessed to generate loyalty. Frederick Reichheld, one of the world's leading authorities on business loyalty, spelt it out a decade ago: "Customer defection is a unit of error containing nearly all the information that a company needs to compete, profit and grow."

The most important thing that can be learned from dissatisfied customers is, of course, the source of their dissatisfaction. But businesses tend to track satisfaction rather than dissatisfaction, even though the latter yields far more valuable and revealing information.

Dissatisfaction is a greater driver of defection than satisfaction is of retention. Not only that, it's long been known that satisfaction does not predict propensity to repurchase. In a 2003 Forrester study of 10 U.S. banks, for example, 80% of their customers expressed satisfaction with their bank, yet the percentage who would consider that same bank when making their next banking purchase varied from 20% to 40%. Clearly other factors are at work.

What this demonstrates is that 'satisfied'

does not equal 'loyal'. Satisfied customers do business with you only until they spot a better location, price or variety, and have little relationship and limited interaction with you. They see the whole thing as impersonal, as doing business with a company, and not with another human being.

Businesses need more than satisfied customers, because satisfied customers still defect. By contrast, a loyal customer is one which will not jump at the next pretty face, will understand and excuse minor problems, will refer the business to friends and acquaintances, and is probably not driven primarily by price.

New heresy

So here's a relatively new piece of heresy: Price is not as important as we think. As many as half of all financial services customers, across all age groups, do not shop around for the best price. And these folk tend to exhibit higher margins, higher average balances, greater product holdings and lower attrition rates. There is similar evidence from two studies of consumer habits, Forrester's Consumer Technographics study from 2003 to 2005 and the North

American Consumer Technology Adoption Study 2006 Benchmark Survey, which reveal that fewer than half of consumers consider price to be more important than brand, and brand is amongst the least important determinant of such purchases.

The same studies found that 30% to 40% of consumers will pay more to save time and hassle, that this price-insensitivity is consistent across all age groups from Generation Y to seniors, and across gender, although women, it seems, are a little more inclined to consider price. Unsurprisingly, the wealthy are more nonchalant about price than the penurious. The wealthy are least likely to shop around, most willing to pay more for products that save time and hassle, and have the strongest preference to deal with actual people when making purchases or banking. These sound like the sort of customers we want to acquire, and to retain.

Here's the rub

Herein lies the rub. Although the majority of consumers purport not to shop around, and to be relatively uninterested in price, the vast majority of customer acquisition and active retention is driven by price. And, not

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► surprisingly, this predominantly attracts the more parsimonious consumer like a bee to a honey-pot. This builds in low-profitability customers, who have a high propensity to churn unless a fresh pot of honey, usually labelled 'retention initiatives' is opened, further eroding profitability.

The honeybees buzzing from introductory deal to introductory deal may constitute up to two-thirds of new customers, and they generally intend to defect once the attractive introductory offer expires. These customers, who will show up as satisfied in surveys, have a low lifetime value. They should be allowed to go, yet are frequently bribed to stay. Why, indeed, acquire such customers in the first place?

Are businesses focusing their CRM initiatives on the wrong things, on price-led customer acquisition, measuring satisfaction

and blanket retention initiatives? Why not focus instead on those customers whose defection is due to a change of circumstance such as unemployment, relationship or health, or because of grievances or dissatisfaction? Many of these are customers worth retaining. Price-insensitive customers are clearly more valuable, and are lost, more often than not, because of dissatisfaction. It is very expensive to lose these customers. The lifetime profitability of customers acquired on price depends on retaining this subset of them.

The Customer Service Representative who generates loyalty is more of a customer advocate than a customer representative. The advocate is proactive, contacting the customer when appropriate and in a way the customer wants to be contacted (phone, email, text, etc.) and making the customer aware of any conflict of interest. The advocate ensures

that customers get what they need, resolves issues personally, makes it easy to be reached the next time, acts as a bridge instead of a wall between the customer and the organisation, and acts as the voice of the customer within the company.

Getting off the treadmill

So, what can companies do to get off the treadmill of satisfied, price-sensitive, low-profitability customers? There are a number of experiments which can be tried on a cross-section of your customer base - if they prove useful, you can scale them up, if they don't you haven't expended a lot of resource (see panel below).

Where can Customer Relationship Management help? Good CRM, in a nutshell, ensures that every customer interaction counts. Good CRM records, sequences and archives all interactions, regardless of channel, time, or who initiated the contact. It is capable of being analysed, including identifying changes in behaviour indicative of potential defection or disloyalty. That analysis also feeds a dynamic lifetime-value calculation, triggering the appropriate flags and provides management information systems to allow defection to be monitored and the return on retention incentives to be assessed.

But equally importantly, good CRM provides a customer-centric approach to process and the flexibility that the CSR needs to exercise discretion to sort failure and keep the high value-high loyalty customers. With the right technology, companies can have agile, highly responsive service recovery to counteract dissatisfaction. They can also experience increased retention of customers who are less price-sensitive, which will, in time, be reflected in lower acquisition costs, greater longevity and higher lifetime value. 

KEEPING PROFITABLE CUSTOMERS: THE WAY FORWARD

FIRST, TRY AND MEASURE loyalty and advocacy, for example by identifying those customers who make repeat purchases, who recommend you, or who exploit additional features of your products. Attach a loyalty score to each customer, make sure you can update it periodically as behaviour changes, and make it available to your customer-facing staff. Set up your system so that it flags big changes from period to period in high-scoring customers. A proactive call from you when that happens may avert the loss of a valued customer.

Second, dynamically model individual lifetime value of the customers within that sample from acquisition to point of likely roll-off so you know which customers are actually creating value for you. Again, do this on a basis that can be updated periodically. Now cross-reference lifetime value and loyalty score across your sample (see figure), focusing on those customers scoring well on both. Pay particular attention to any customers in that cross-segment who have had bad service or complained in the past.

Third, use the cross-referenced scores to discriminate on retention, concentrating most of your effort and incentives on those customers with the highest predicted lifetime value



and highest loyalty score. Don't offer incentives to those in the bottom left quadrant, they are low value and unlikely to stay unless bribed. Concentrate on increasing the lifetime value of those in the bottom right hand quadrant, their loyalty suggests a high likelihood that the costs of doing so will be recouped. Do some digging to understand better those customers who fall in the top left quadrant, these are high value, but with a higher propensity to defect. Do the sums before offering incentives to retain them.

ABOUT THE AUTHOR

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