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IMPROVING THE PRACTICE OF MANAGEMENT

Redefining customer loyalty, the customer's way

BY MUKARRAM BHATTY, ROD SKINKLE AND
THOMAS SPALDING

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Redefining customer loyalty, the customer's way

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Every business seeks loyal customers, customers who return again and again because they want to see a company they trust and rely on succeed — customers who are highly profitable. But how do we create such customers? In the pursuit of these ideal consumers, businesses use enticements such as promising the lowest prices, the best deals, special promotions and the now common “loyalty/reward programs.” But do these tactics work? Can businesses actually generate customer loyalty. And, if so, what is the foundation of that loyalty? To find out, we went directly to the source — the consumer. Acumen Research Group Inc., in co-operation with TrendSeek Intl., conducted 1,000, 15-minute, face-to-face interviews with customers across Canada to investigate loyalty to retailers, telecoms and financial institutions (see box below). This study — Consumer Eyes 2000© — reveals that the enticements businesses usually employ to create and maintain loyalty are not effective. Sure, they may entice customers into a repeat visit, but they do not lead to true customer loyalty. Our study shows that true customer

loyalty is driven by a strong, trusting relationship between the customer and the business.

WHAT IS LOYALTY?

Can customers be truly loyal? Susan O'Dell and Joan A. Pajunen, in their book *The Butterfly Customer: Capturing the Loyalty of Today's Elusive Consumer* (John Wiley & Sons Canada), introduce the idea that our culture has created customers who are like butterflies, flitting from store to store, credit card to credit card, always ready to be enticed away by a newer, more colourful promise or product. Yet, O'Dell and Pajunen also suggest that there are some Butterfly Customers, whom they call “Monarchs,” that regularly return to the gardens of a particular business. Consumer Eyes 2000© shows that there are indeed some Monarch Customers. In fact, most customers could identify at least one business to which they considered themselves loyal. Thus, many customers are loyal and, by extension, at least some companies are earning customer loyalty.

We recently asked three leading CEOs, “What does customer loyalty mean to you?” Although their responses revealed that they knew loyalty was complex, they could not articulate much of a definition beyond repeat business. This is a very reasonable, but incomplete, answer. Certainly, customers who are loyal should bring repeat business, and our study confirmed that they do. For example, among customers who considered themselves to be loyal to a retailer, 87 percent said that they repeatedly shopped at that retailer. However, repeat business is not necessarily a good indicator of loyalty. A consumer may buy from you repeatedly, yet still be just waiting for a competitor to match your price or product. In other words, their “loyalty” is based on the current circumstances: There are no long-term barriers to prevent these customers from “jumping ship” to a competitor.

Consumer Eyes 2000© also shows that consumers who consider themselves loyal do much more than simply continue to do business with a particular firm:

- 74 percent agreed that they would recommend the retailer
- 63 percent agreed that they would shop the retailer for a variety of products
- 63 percent also agreed that they would forgive▶

CONSUMER EYES 2000

“Consumer Eyes 2000” was an exploratory study designed to clarify and study in detail the issue of customer loyalty; from the customer's perspective, identify key loyalty drivers and analyze the relationship between customer attraction and retention. Both qualitative (top of mind responses to open-ended questions) and quantitative (giving respondents choices) approaches were used for this purpose.

Based on our past work on customer trust in partnership with Joan Pajunen (a renowned Service Consultant), we included key relationship drivers along with the usual list of traditionally measured satisfaction parameters. We then confirmed the validity of these results by asking open-ended questions and recording top of mind responses.

The study was conducted in five major urban centers across Canada and 15-minute mall intercept interviews were carried out with 1000 consumers.

- occasional mistakes
- 88 percent agreed that they would look to these retailers before looking at the competition
- 43 percent even agreed that they would not shop the competition.

These findings underscore the idea that true customer loyalty is much more complex and much more valuable than simply repeat business based on circumstantial loyalty. Clearly, for example, customers who don't shop the competition are less likely to switch companies. Thus, their repeat business will come at a much lower cost to the company than the repeat business of a customer who is only circumstantially loyal and must be constantly enticed to continue buying. Given that truly loyal customers are so valuable for businesses, creating and maintaining true loyalty should be (and is) a major goal for businesses.

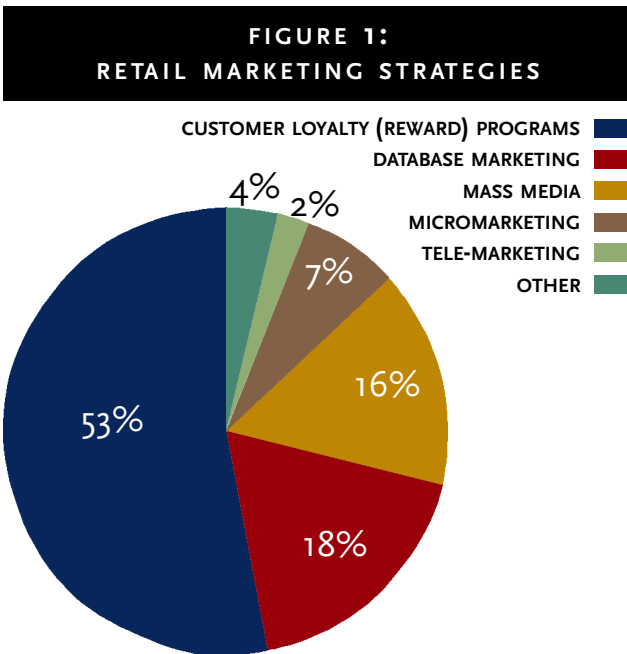
THE BUSINESS FOCUS

Based on the generally accepted notion that customer loyalty is primarily repeat business, most companies focus their resources on continuously improving core products and services. Businesses have invested in product or price leadership, regular sales/promotions, reward programs using coupons, air miles, loyalty points, and customer-

relationship management programs for data mining and personalizing the marketing message, among many other strategies (see Figure 1: Retail Marketing Strategies). All of these are reasonable things to do, but there is a caveat.

Some of these product-specific advantages may provide a competitive edge, but whether this advantage is sustainable is a matter of debate. Consider Intel, which had a huge product leadership advantage for a number of years. Even Intel, with all that history of dominance, now has strong competition from other chipmakers like AMD. Most businesses, of course, will never enjoy anything like the initial advantage that Intel had, and so will face stiff competition much sooner. Without getting deeper into this debate, the point is that the competition is never far behind. There are always competitors eager to match products, prices, promotions, locations, even reward programs. Thus, core product and service attributes, by themselves, do not provide a *sustainable* competitive advantage.

Does this suggest that core product and service attributes have no bearing on loyalty? Absolutely not! Businesses have to keep working on these core attributes to remain competitive and to offer the desired value to consumers. This is what leads to customer attraction in the first place. But, while these factors are *necessary* for customer attraction, they are certainly not *sufficient* for long-term customer retention and true loyalty.

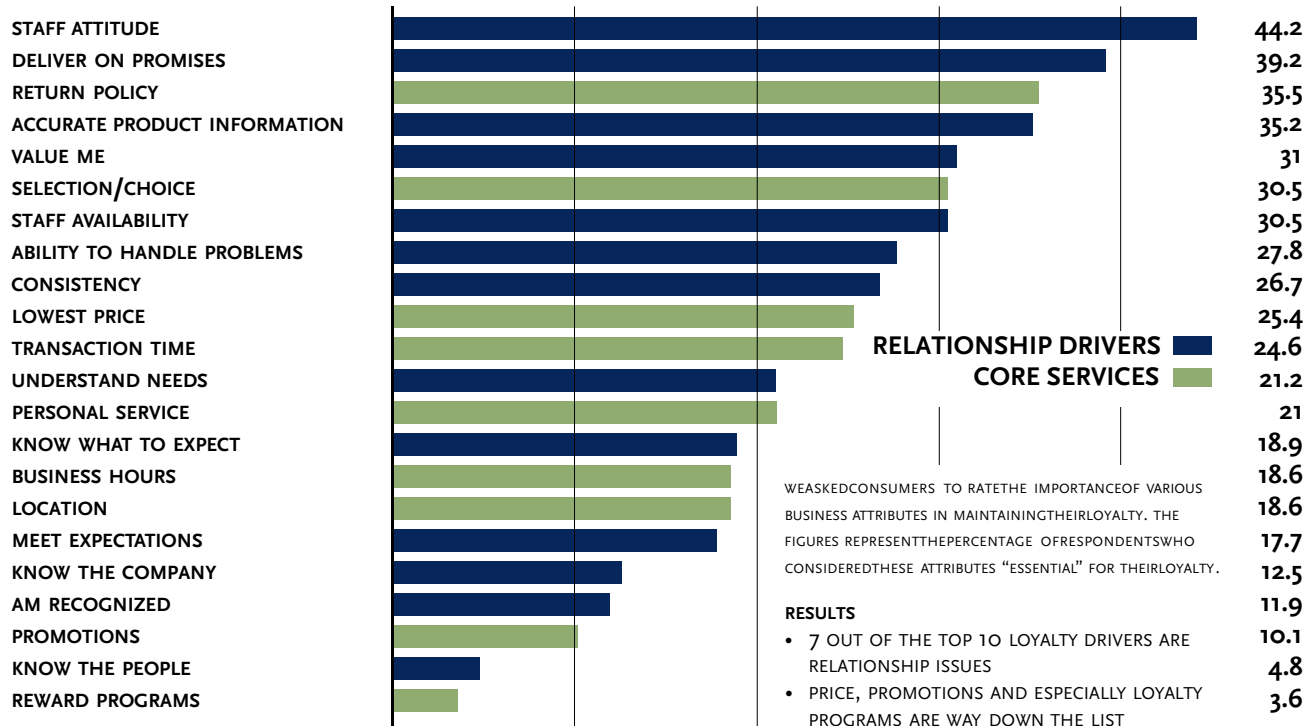


WHAT REALLY MATTERS TO CONSUMERS?

In Consumer Eyes 2000©, we asked respondents to tell us what business attributes they considered crucial for their loyalty. We found that the traditional loyalty builders offered by businesses were actually not critical in determining customer loyalty. For example, less than four percent rated loyalty/reward programs essential for loyalty. Obviously, then, loyalty programs are no longer providing a major competitive advantage — they are simply another cost of doing business. Similarly, only about 10 percent considered in-store price promotions essential. Surprisingly, even price turned out to be essential for only 25 percent.

Instead, the issues that are key to customer loyalty are those that reflect the strength of the relationship between the customer and the business. We have identified a number of business characteristics and attributes that establish a strong bond with the customer and lead to the desired loyalty behaviours (see Figure 2: Essential For Loyalty). The top five loyalty drivers are:

FIGURE 2: ESSENTIAL FOR LOYALTY



- Staff attitude (rated essential by 44 percent of consumers)
- Delivering on advertising promises (39 percent)
- Favourable return policy (36 percent)
- Accurate product information (35 percent)
- Treating customers as valued individuals (31 percent).

Moreover, the above findings were confirmed when customers were asked what had caused them to switch businesses in the past (see Figure 3: Reasons for Desertion). Relationship issues such as a failure to value the customer (30 percent), dishonesty (27 percent), and poor staff attitude/service (43 percent) were by far the most frequent reasons for abandoning a retailer. On the other hand, product selection/choice and price were reasons for desertion for only 18 percent and 8 percent of consumers, respectively.

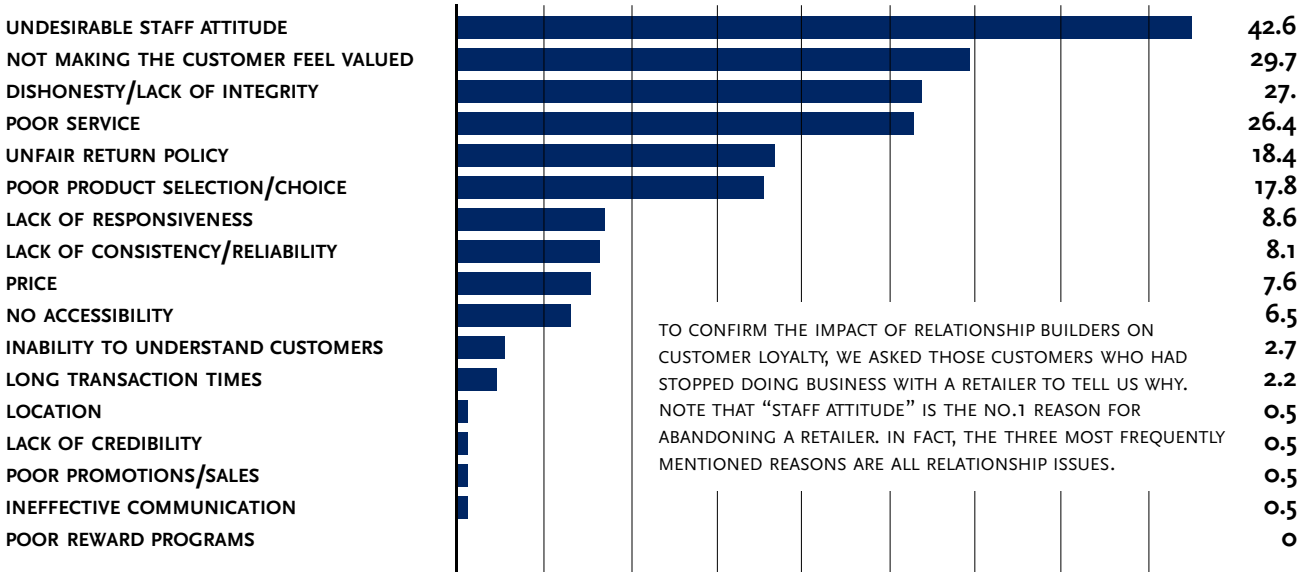
Like any interpersonal relationship, a customer-business relationship is dependent on TRUST — a trust that is rooted in the customer’s belief that a business is responsive to their problems/complaints, is honest in its dealings, is accessible when they need help, and cares about and

values the customers. A relationship built on trust is what leads to true loyalty. Furthermore, violations of this trust are clearly the driving force that causes customers to switch businesses.

HOW CAN BUSINESSES CREATE AND MAINTAIN LOYALTY?

In order to create and maintain loyalty, businesses must recognize that many of their core product and service attributes are necessary, but not *sufficient* for loyalty. Consider again the graph of the essential loyalty drivers. Notice that 7 of the top 10 loyalty drivers are relationship-related issues! Obviously, then, a business needs to have a strong connection with its customers (over and above offering competitive core products and services) in order to create and maintain customer loyalty. Interestingly, this relationship need not be particularly personal. For example, being recognized by staff was considered essential by only about 12 percent of consumers. Knowing the company was important to only about 12 percent, and ▶

FIGURE 3: REASONS FOR DESERTION



knowing the people at the company was essential to only about five percent. Instead, it appears that the critical aspect of the relationship is professionalism — staff attitude (44 percent), valuing the customer (31 percent), knowing the products (35 percent) and delivering on advertising promises (39 percent).

A strong professional relationship creates a barrier that can keep the customer from switching to a competitor. A strong relationship is based on meeting customers' expectations over a period of time, and thereby gaining the customers' trust. And, unlike matching a price or promotion, for example, no competitor can instantly offer a strong relationship. A strong customer relationship gives a business more breathing room. Even if the competition catches up unexpectedly on core product offerings, truly loyal customers are willing to give businesses a chance to rectify this problem and will not desert at the first sign of trouble. Consider too the data from Consumer Eyes 2000© — once a customer is loyal, he/she (43 percent) may not even shop the competition! Now that is a competitive advantage!

Governing this relationship building with the customer is consistency in meeting customer expectations. The customer must be able to trust that the business can and will follow through on what the customer feels has been promised — explicitly or implicitly. Customer expectations can be very different for individual businesses, even in the same general industry. This is why poor service is more vexing when encountered in an expensive department store

than a discount store. A business must have a good idea of the expectations it creates in customers, and it must meet those expectations, whether they are for core products and services such as price and quality, or relationship factors such as making the customer feel valued.

Building a strong relationship with customers is highly dependent on the efforts of the front-line staff. Customers' experience of the business is dependent on two things, the people skills of the staff with whom they interact, and the relationship-building (or relationship-destroying) policies of the business. Obviously, if the policies of the company are obnoxious to customers, there aren't going to be many loyal shoppers. However, even the best policies in the world will not result in loyalty if customers find interacting with the staff unpleasant. Clearly, the relationship of the employee to the company determines the relationship of the customer to the company. Unhappy employees are not likely to make customers feel valued.

FURTHER IMPLICATIONS FOR MANAGEMENT

- Assess the right loyalty behaviours. Measures that tap into circumstantial loyalty, such as repeat spending, have little value in measuring true loyalty. It is not a single behaviour but a combination of several behaviours that define true loyalty.
- Satisfaction with core product and service attributes is *necessary*, but not *sufficient* for loyalty. In order to generate and maintain customer loyalty, efforts must be

directed at those aspects of the business that grow the relationship with the customer.

- Determine YOUR customers' loyalty drivers. The relative importance of core products/services and relationship factors will differ somewhat from industry to industry. If your business isn't "one size fits all," neither are your loyalty drivers.
- Occasional examples of "super service" may do more harm than good. In an era of staff cutbacks, it is difficult enough to provide competent service to each customer. Providing exceptional service to a few is going to result in poor service to others. This does not mean that a company should not strive to provide better service than a competitor. But, if the company raises the expectation of better service, it must meet those expectations consistently. If the business talks the talk, it better walk the walk.
- Measuring and improving *employee's* relationships with your business will have important consequences for the relationships that are created with customers. Generally, staff that has a poor professional relationship with a company will have difficulty in creating a strong professional relationship with the company's customers.
- E-commerce initiatives may find it particularly difficult to create and maintain customer loyalty due to the low level of interaction with the customer. This is why Sears and Chapters, identified as two of the most trusted retailers in our study, topped a recent survey as the two leading e-tailers in Canada. These clicks-and-mortars are succeeding in extending their existing customer relationships to the Internet, adding a trusted professional face to a faceless environment. Why are these retailers able to translate their "mortar" relationships to the "clicks" world? Remember that maintaining loyal customers seems to be mostly based on having a strong professional, rather than a personal, relationship. Thus, a good relationship can be maintained on-line without a high level of personal interaction.

Few things could be more valuable to a business than customers who are truly loyal. And yet, until now, little was known about what really drives true loyalty. We began this article by asking three questions. Do the usual business strategies such as loyalty programs, sales and promotions create customer loyalty? We found that these strategies have little impact on loyalty. Second, we asked whether companies could create customer loyalty. We found that true loyalty can be created. It is a product of a complex interaction between the core products and services of a company and the relationships that the company has with its customers. Thus, a company must

the critical aspect of the relationship that must be built is professional, rather than personal

build these relationships in order to create truly loyal customers. Third, we asked about the basis of true loyalty. We found that the basis of loyalty is trust. This trust can only be created by consistently meeting the customers' expectations, in terms of the relationship-building behaviours of the business and its core products and services. Finally, we learned two additional facts that are very important to businesses interested in building loyalty: First, the critical aspect of the relationship that must be built is professional, rather than personal. Second, the only true measure of customer loyalty is the depth of the relationship a business has with its customers — the only real barrier to switching. ■

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