

# Measuring Customer Loyalty to Drive Success



**Bellomy Research, Inc.**

Presented at the Southern Gas Association  
Customer Solutions Conference "Marketing Roundtable",  
September 2009



## Why Loyalty Research?

- ☑ What is the **difference** between Customer Loyalty and Customer Satisfaction research, and how do I decide which is better?
- ☑ What is the **benefit** of Customer Loyalty research for a gas utility?

## Doing the Research

- ☑ What should I look for in a **supplier** for this type of research?
- ☑ What are the primary **cost drivers** in this type of research project? What are the 'nice to haves' versus the critical elements of the project.
- ☑ What **types of data** do I need to collect, and how will I access it?

## Potential Learning

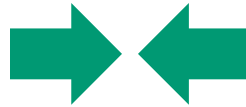
- ☑ What will I **learn** from Loyalty research, and how will the findings be delivered?
- ☑ How can I **use the results** of Loyalty research to drive change within my organization?

# Satisfaction vs. Loyalty

# From Customer Satisfaction

- Customer satisfaction was first measured in the early 1980s
- First real theory was termed “service quality”, developed by professors Parasuraman, Berry, and Zeithaml (1985)
- The first to propose that quality was a function of the gap between **customer expectations** and **actual performance perceived by customers**
- The focus on the **gap** between the importance of various aspects of customer service, and perceived performance.
- Gaps determine where **resources should be reallocated**.

Customer Expectations



Perceived Service  
Delivery Performance

- Until early 90s it was assumed that more satisfied customers yielded greater profits.
- Questions began to arise about whether **satisfied customers matter?**
- Does satisfaction lead to greater **profitability** and/or greater market share?
- Research determined that customer satisfaction **drives** customer retention, and retention **drives** market share.
- **Retention**: keeping existing customers is less costly than finding new ones
- Retention is the **link** between ‘satisfaction’ and profitability or ROI.



# To Customer Loyalty



- By the late 90s: Is ‘satisfaction’ was the right goal?
- **Satisfaction: “What have you done for me lately?”**
  - Very specific, focused on product or service attributes;
  - May measure past experience with a company better than how customers will behave in the future;
  - When 70 to 80% of customers are satisfied, as few as 20 to 25% may qualify as loyal.
- **Loyalty: “What am I likely to do in future, based on how I feel now?”**
  - Loyalty encompasses both attitudes and behavior:
    - For example, a loyal attitude may lead customers to behavior such as repurchasing and recommending.
  - Loyalty is more multi-dimensional, including the emotional aspects of the buying process as well as functional aspects such as price, proximity, and availability.
  - Loyalty is a more stable measure in the long term.



# Possibly Even Advocacy



More recently, newer concepts such as Advocacy, Affinity, Commitment, have emerged:

- Encourage organizations to think about **customers as active, intelligent, creative**, decision-makers;
  - Provide customers with complete information, and develop a **mutual dialogue**.
  - Committed customers are more **likely to forgive failure** and remain loyal;
  - They are **less price-sensitive**, and are **less costly** to service;
  - They believe in your products and services, and are **likely to recommend** your brand to others.
- 
- Much greater depth to the concept of 'loyalty'.

## Measure Satisfaction or Loyalty?

- Satisfaction very relevant to call centers or service calls where question is "how did we do today?"
- Loyalty, incorporating the ideas of advocacy and dialog with your customers, may be more effective when the focus is the long term expansion of your business.

# Understanding the Loyalty Concept



# Potential of Loyalty Research

- Most natural gas suppliers operate in regulated states.
- What is the benefit of improving the loyalty of customers, when customers may not have a choice?
- Work with many utilities has shown that by first **measuring loyalty** levels, and then working to **increase** both the number of loyal customers and the level of customer loyalty, can generate a measurable **improvement** in business goals:
  - **Retention:** Expand the number of burner tips per household currently served;
  - **Expansion:** Increase the number of households connected.
- In order to understand how this works, let's look at the variety of different ways that Loyalty can be defined.



The earliest definitions were quite simple.

- 1. Customer Retention:** If a customer continues to do business with you, they are 'loyal.' In many cases, all utility customers would be classified as loyal.
- 2. Preferred Provider:** If customers say their current provider is their first choice, could assume they are less likely to switch to the competition. But not helpful in a non-competitive environment.
- 3. Theoretical Preferred Provider:** Can ask customers a theoretical question: "would you choose your current supplier again if you had a choice".
  - But questions about something a customer has never experienced tend to produce misleading data, so may not be the best indicator of loyalty.





# More Complex Measures

## Move to behavioral measures based on a mix of variables:

- ▶ A loyal customer is one who responds favorably to the brand *consistently* across a number of measures;
- ▶ A loyal customer engages in activities on an ongoing basis that strengthen the relationship between the organization and the customer *over time*.

## 4. Behaviors that increase the level of business:

- Loyal customers may be those who purchase greater volume, pay more for premium products, or buy more from you vs. the competition; or
- Incremental purchases of related products and services such as energy management .

## 5. Behaviors that benefit the organization in other ways:

- More loyal customers are likely to reduce costs and provide non-monetary benefits:
  - Reduce usage during peak times (most relevant for electric utilities);
  - Pay their bill online, seek help online, and the like;
  - Change behavior and implement energy management activities and/or technologies;
  - Provide you with more personal information through surveys and other means.



## 6. Active support on issues that are important to you:

- **Examples** of customer advocacy behavior may include:
  - Recommending the community location to others;
  - Supporting the utility's position on energy-related public issues and the environment;
  - Supporting the location decision for the construction and location of new facilities and transmission grids/pipelines;
  - Providing positive testimonials.
- If customers are willing to speak favorably about the organization, their policies, and activities in the community, this:
  - Fosters a positive environment and synergy with other forms of communication.
  - Reduces business costs, lawsuits, fines, construction delays.

*Developing loyal customer advocates may be even more valuable in a regulated environment where consumers don't have a choice.*



# Where To?



## Why Define and Measure Loyalty?

Understand the overall relationship between your organization and the consumer:

- Encourage behaviors that increase your level of business;
- That benefit the organization in other ways;
- Generate active support by customers on issues that are important to you.

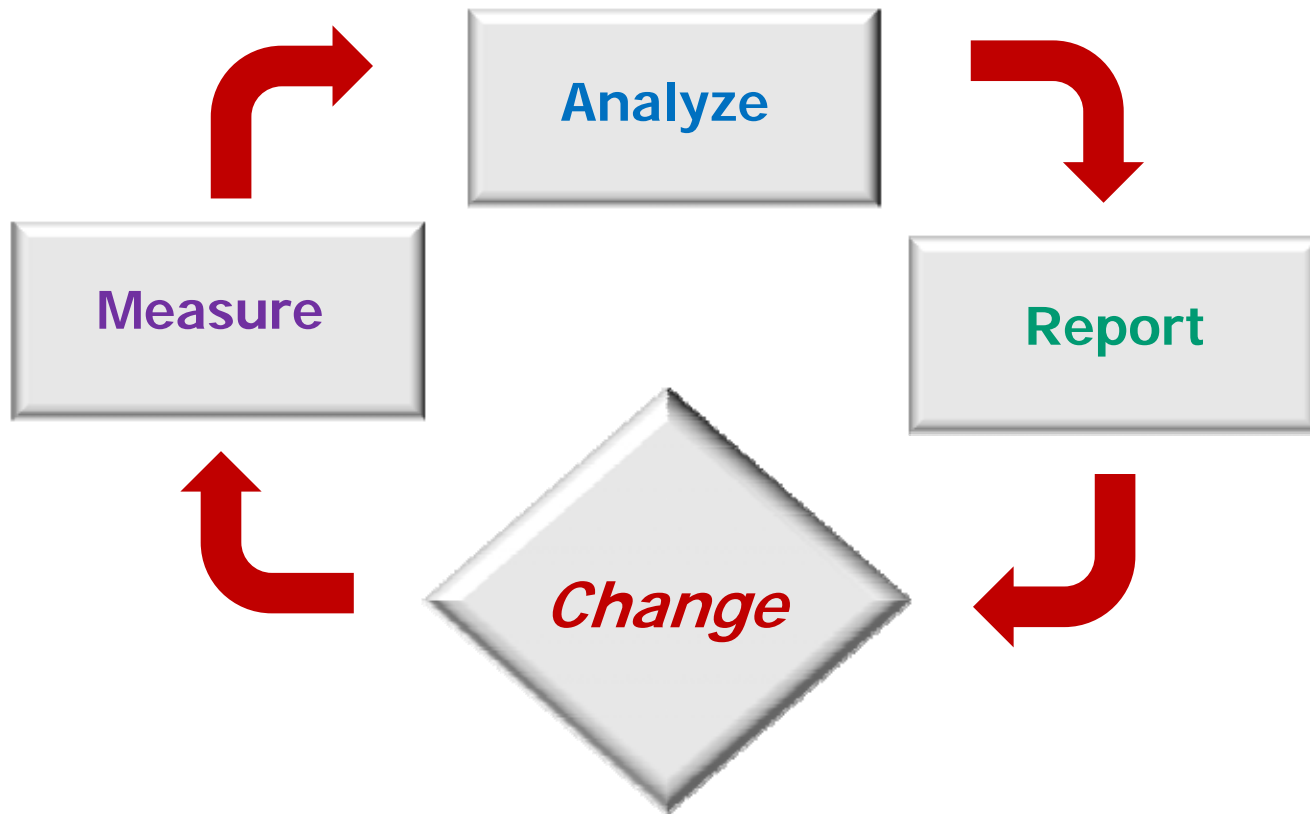
## How to Get Started

- Begin by **benchmarking** current loyalty levels;
- Understand what **drives loyalty** for different subgroups of customers;
- How are **customer segments** at different loyalty levels different.
- What do you need to **change or improve** as an organization in order to generate greater numbers of loyal customers, and move levels?
- Ultimate goal is to create a research tool that will help you meet your business goals such as Retention and Expansion.

# Working With a Loyalty Research Partner

# Overall Research Process

- Typically your research partner will work with you to determine the best ways to **measure** (collect data), **analyze**, and **report** on the findings of the research.
- A key component of a loyalty program is our ability to work with you to help you **create change**.





# What to Look For



## Measure

1. Internal phone interviewing capabilities, plus online and IVR **data collection**.
2. Overall **customer satisfaction and loyalty model**. Particularly helpful to determine the types of variables that should be included, whether attitudes, behavior, usage, and ownership measures.

## Analyze

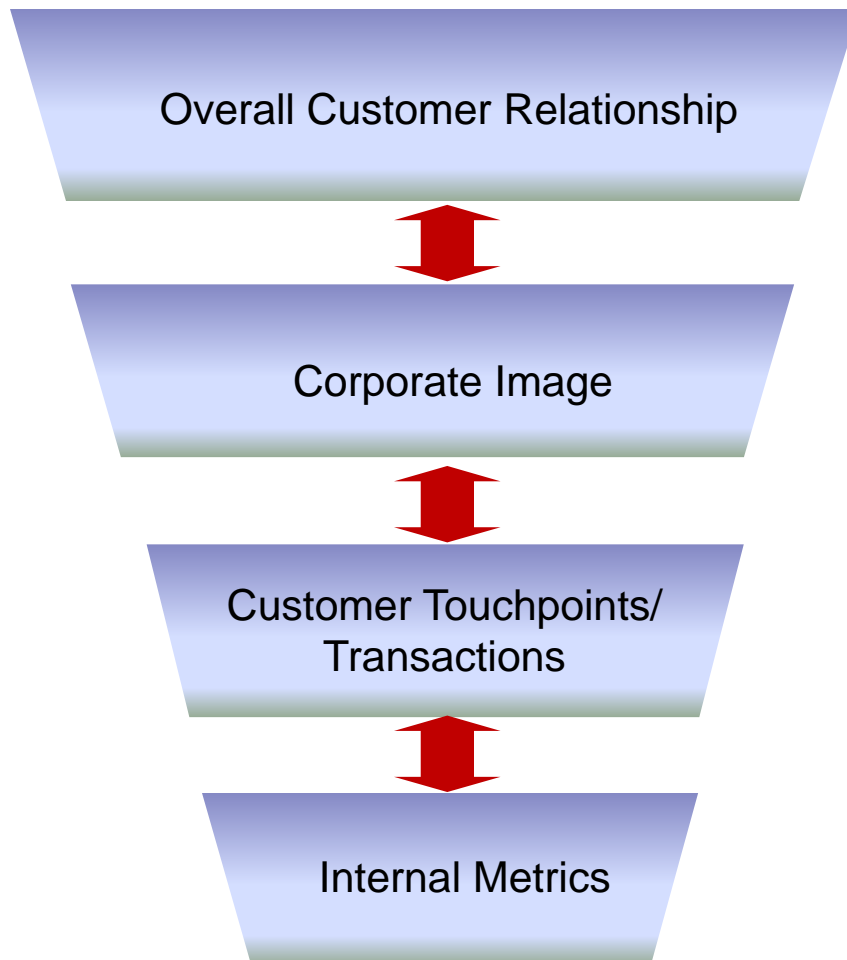
3. Full **multivariate capabilities**, in order find the relationships in the data. Key to identifying drivers of loyalty and determining what to change to generate the greatest improvement in loyalty, and reach business goals.

## Report

4. Tracking studies usually benefit from a **portal** that allows you easy access to your data during the data collection period, assess problems and get early results, in real time.
5. **Automated reporting** is an efficient way to get findings out to multiple regions and divisions quickly and at low cost.

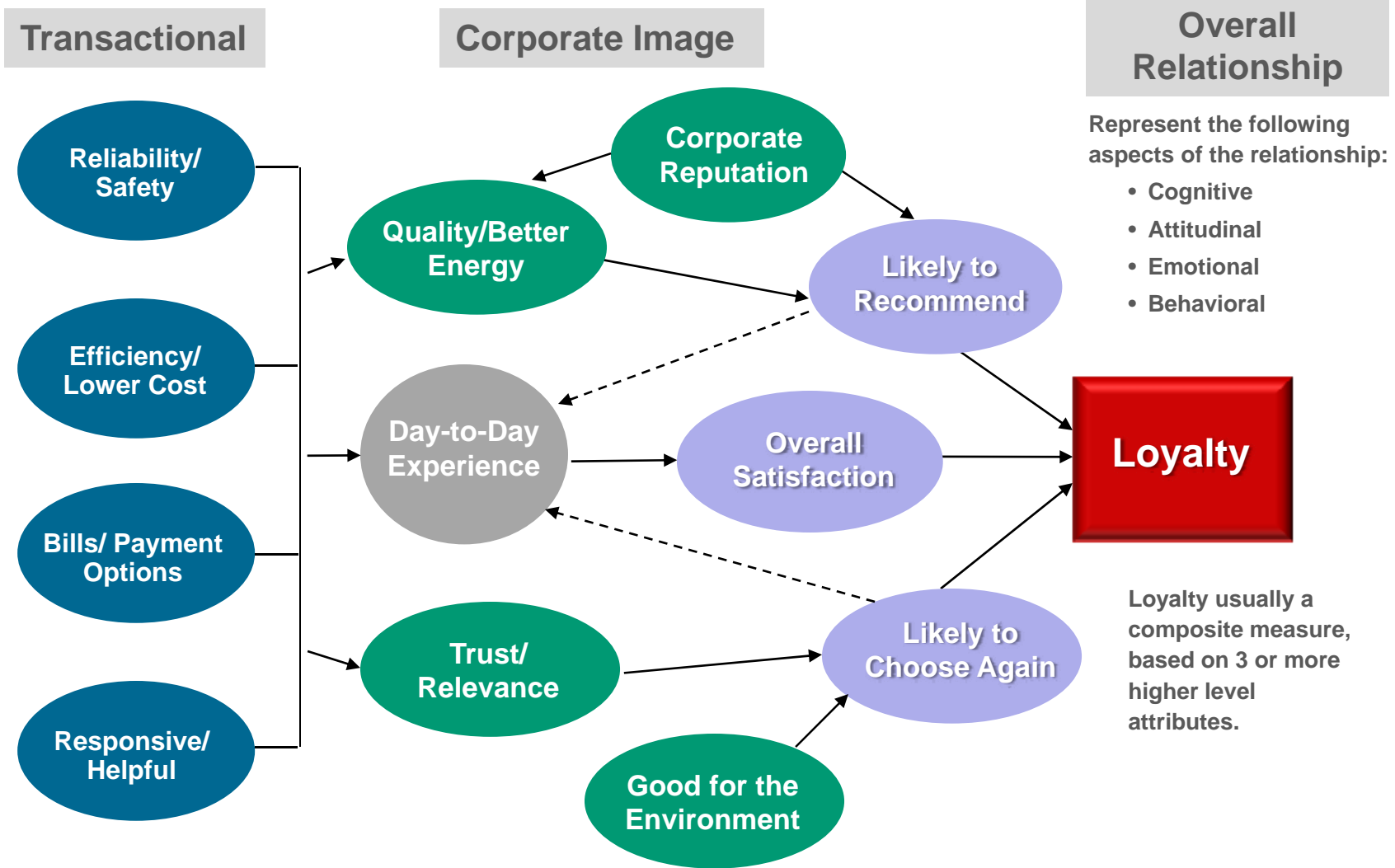
## Change

6. Experience linking **goals and bonuses** to survey research, modeling financial impacts.
7. Ability to be flexible, work with **your existing processes** and timing, and build the program around your strategic goals and needs.



- The **overall relationship** between the organization and its market is based on both customers' overall image of the organization and/or brand, and their day-to-day interaction with the organization/brand at every touch point.
- Change **at any level** in the continuum may create change at other levels.
- Customer loyalty is usually measured at the **Corporate** or **Transactional** levels and may be rolled up to Overall Relationship.
- The objective of customer loyalty research is to help the organization identify **where internal change will do the most** to enhance the relationship with the customer, and increase customer loyalty over time.

# Ingoing Hypotheses





**Telephone Interviews:** Usually needed for loyalty research

- Rarely have e-mail addresses for the majority of customers
- Best not to mix data collection methods/creates unbalanced comparison
- Response rates better by telephone

**Questionnaire:** Content will cover attributes discussed above

- Qualitative may be valuable to firm up relevant attributes and wording

**Cost:** A function of the following items

**Questionnaire Length** – Typically 10 or 15 minutes

**Incidence** – High % qualify if screening for “Decision maker for your utility provider”

**Sample Size** – About \$25 to \$40 per complete (excluding analysis and reporting)

**Sampling Plan:** What is the overall sample size you need?

**Timing** – how frequently do you want to measure: quarterly, bi-annually, annually?

**Regions and Divisions** – how many separate geographies do you need a statistically valid measure to report on, as input to action steps and goal-setting?

**Readable Sample** – for each time period, and each reporting cell, need a minimum of 50 but ideally 100 or 200 completes for reliable data.

**Sample Size** – Back of envelope: multiply number of time periods by reporting cell by minimum completes.



# Sample Size & Statistical Reliability

Region	Division Group	Division	Pop (000s)	Q1	Q3	Full Year Completes
State 1	1	City 1	226.0	150	150	300
		City 2	37.0	50	50	100
		<b>Sub-Total</b>	<b>263.0</b>	<b>200</b>	<b>200</b>	<b>400</b>
	2	City 1	38.0	50	50	100
		City 2	11.0	50	50	100
		City 3	25.0	50	50	100
		<b>Sub-Total</b>	<b>74.0</b>	<b>150</b>	<b>150</b>	<b>300</b>
<b>Sub-Total</b>			<b>337.0</b>	<b>350</b>	<b>350</b>	<b>700</b>
State 2	3	City 1	79.0	75	75	150
		City 2	86.0	75	75	150
		City 3	46.4	50	50	100
	<b>Sub-Total</b>	<b>211.4</b>	<b>200</b>	<b>200</b>	<b>400</b>	
	4	City 1	51.0	100	100	200
		<b>Sub-Total</b>	<b>51.0</b>	<b>100</b>	<b>100</b>	<b>200</b>
	<b>Sub-Total</b>			<b>262.4</b>	<b>300</b>	<b>300</b>
State 3	5	City 1	67.0	75	75	150
		City 2	52.0	75	75	150
	<b>Sub-Total</b>	<b>119.0</b>	<b>150</b>	<b>150</b>	<b>300</b>	
State 4	6	City 1	282.0	200	200	400
		<b>Sub-Total</b>	<b>282.0</b>	<b>200</b>	<b>200</b>	<b>400</b>
<b>TOTAL</b>			<b>1,000,000</b>	<b>1,000</b>	<b>1000</b>	<b>2,000</b>

**+/- 14%**  
@ 95% CI

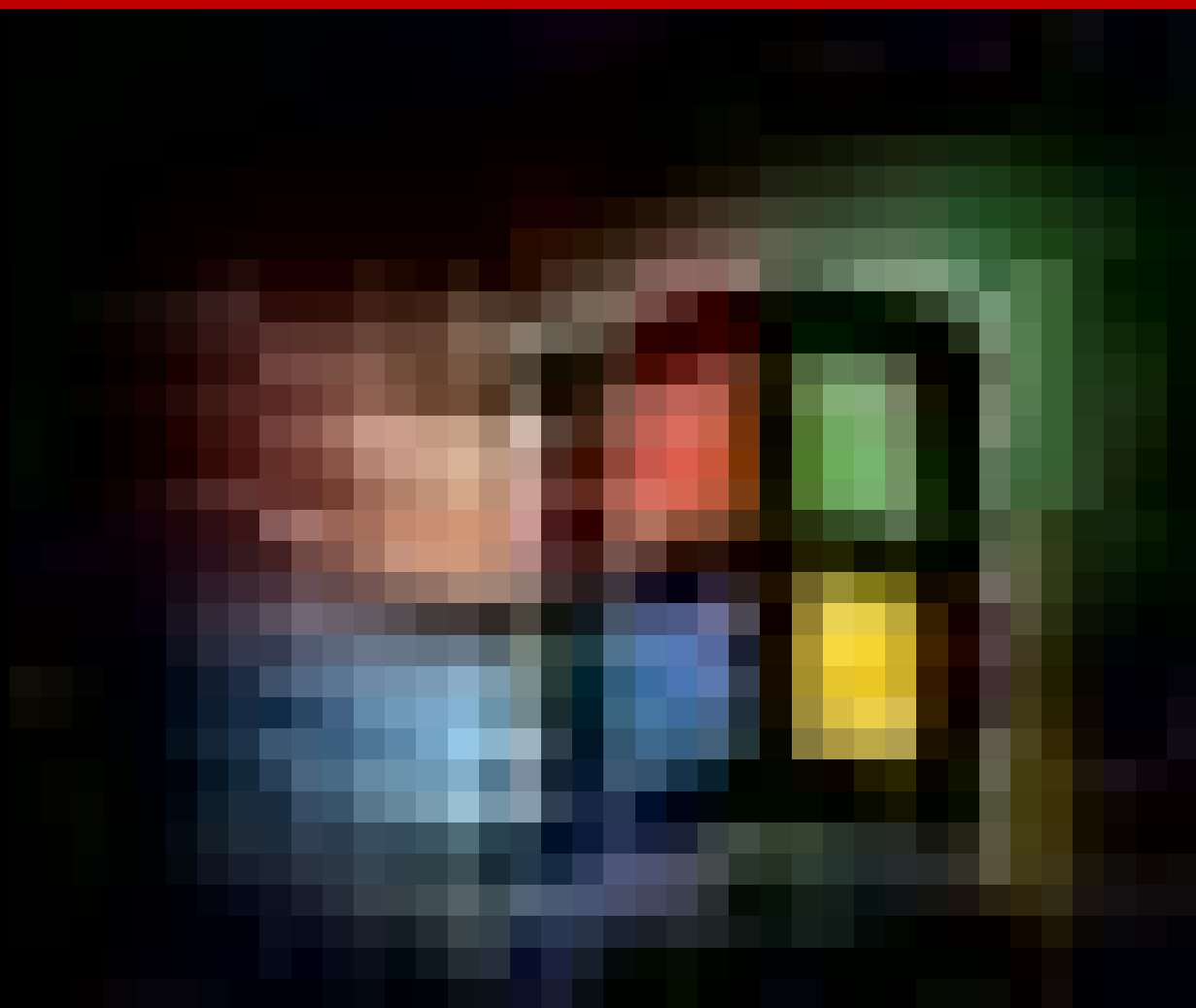
**+/- 10%**  
@ 95% CI

**+/- 6%**  
@ 95% CI

**+/- 4%**  
@ 95% CI



# Reporting Portal Demo



What Will I Learn?

## What analytical steps are needed to reach my business goals?

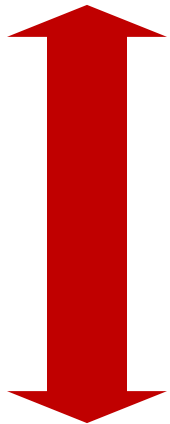
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- 2) Understand what **drives loyalty** for different subgroups of customers;
- 3) How are **customer segments** at different loyalty levels different.
- 4) What do you need to **change or improve** as an organization in order to generate greater numbers of loyal customers, and move levels?



# Analytical Methods

The complexity of multivariate analytics has grown over the decades to equal the complexity of capturing the full loyalty issue.

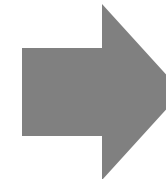
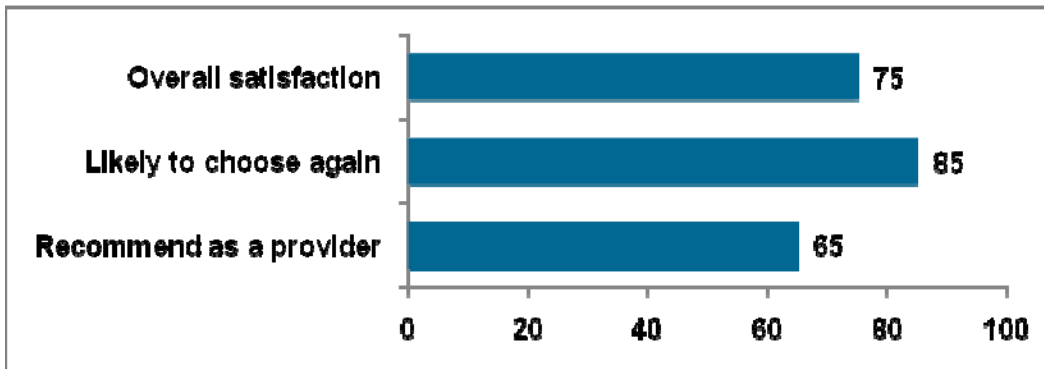
More robust



Less robust

Loyalty Index	Type of Analysis	Pros & Cons
Multiple items in loyalty metric	<b>Causal Modeling – PLS, SEM</b>	<ul style="list-style-type: none"> <li>• Data driven, requires an ingoing theory</li> <li>• Provides an overall structure underlying all variables</li> </ul>
Multiple items in loyalty metric	<b>Factor Analysis &amp; Regression</b>	<ul style="list-style-type: none"> <li>• Only one dependent variable</li> <li>• May require multiple models to tie all elements together to predict dependent</li> </ul>
Single variable satisfaction measures	<b>Simple Correlations</b>	<ul style="list-style-type: none"> <li>• Correlations don't imply causality</li> <li>• Shared variance is a problem</li> <li>• Not a predictive method</li> </ul>
Top box approaches	<b>Stated Importance</b>	<ul style="list-style-type: none"> <li>• Questionable validity</li> <li>• Not a predictive method</li> <li>• Must ask every question twice</li> </ul>

## Key Loyalty Measures



**Loyalty \*  
Index: 75%**



**Relationship  
between customer  
attitudes and  
behaviors and the  
organization?**

## Attributes

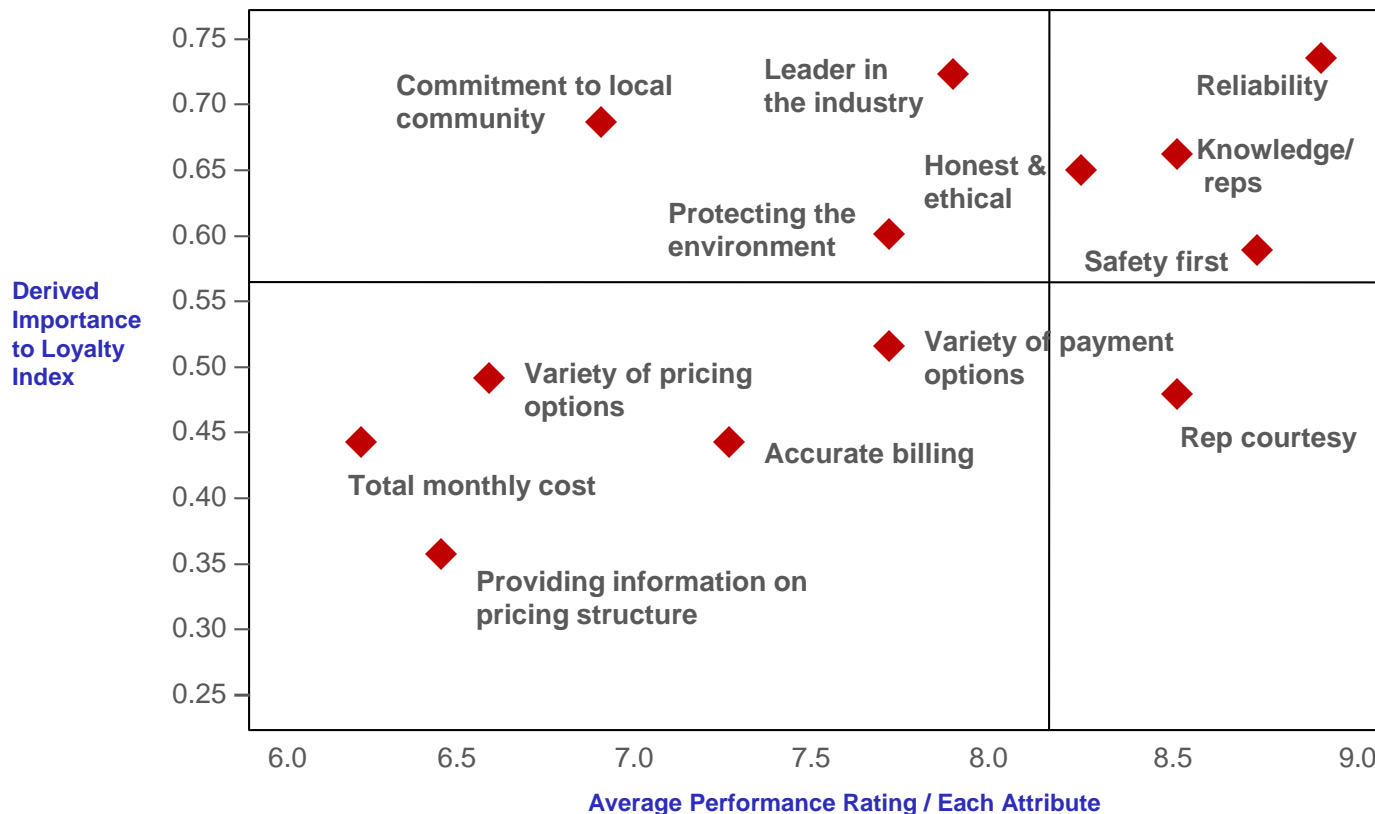


\* May be calculated based on simple or weighted averages; or gated or hierarchical combinations of key variables.



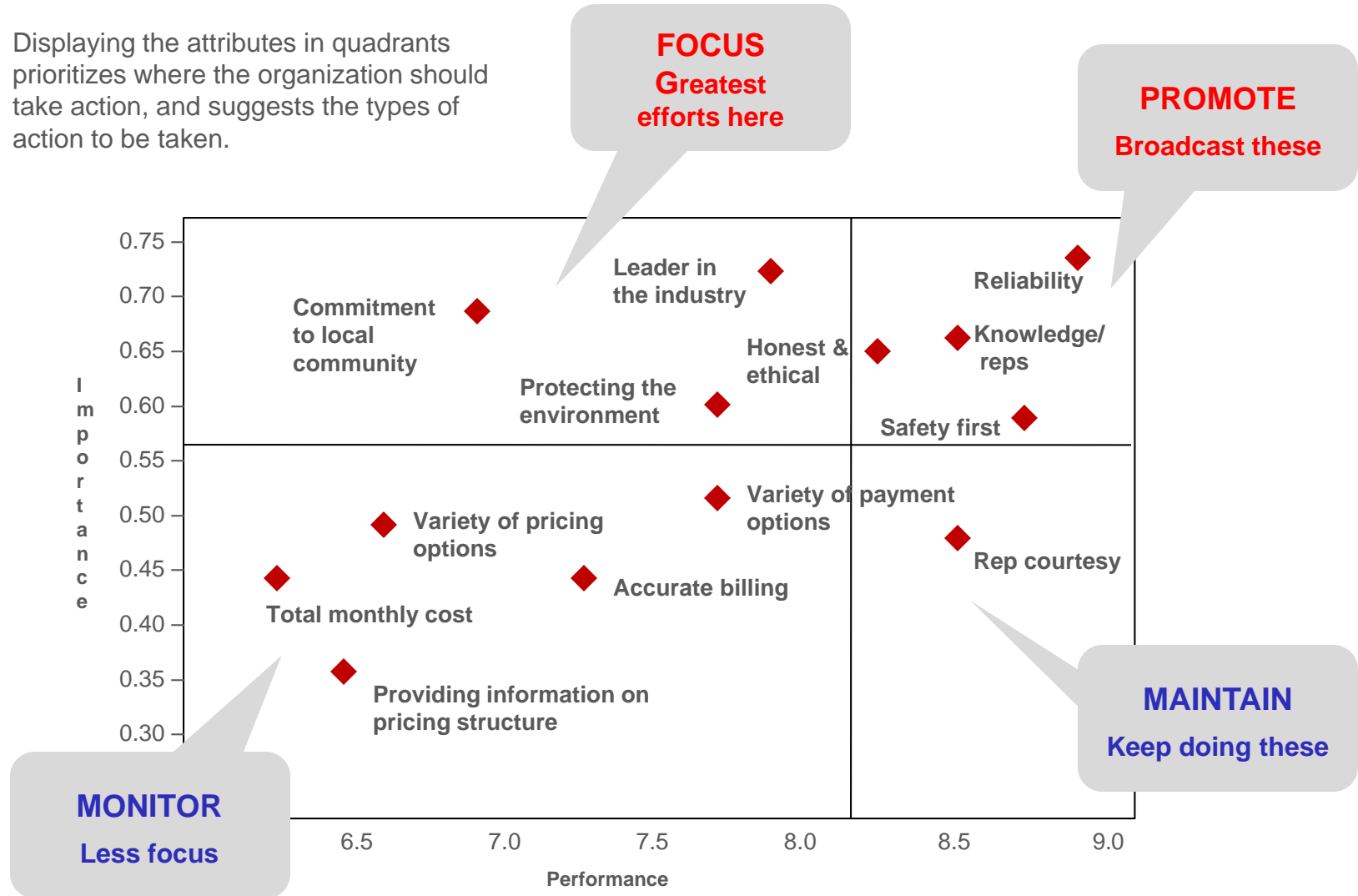
# Key Drivers of Loyalty

- In a Key Driver analysis, regression analysis is conducted in order to understand the strength of the relationship between each attribute and the Loyalty Index. The resulting measure can be used as an indicator of the **importance** of each attribute to customers.
- A quadrant chart plots **performance** on each attribute relative to derived **importance** of the attribute.



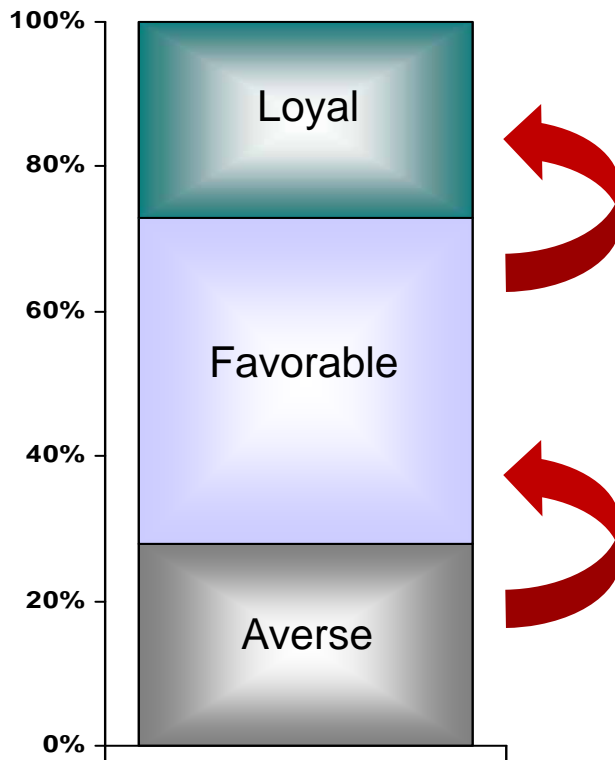
# Where to Focus

- Displaying the attributes in quadrants prioritizes where the organization should take action, and suggests the types of action to be taken.



# Loyalty Segments

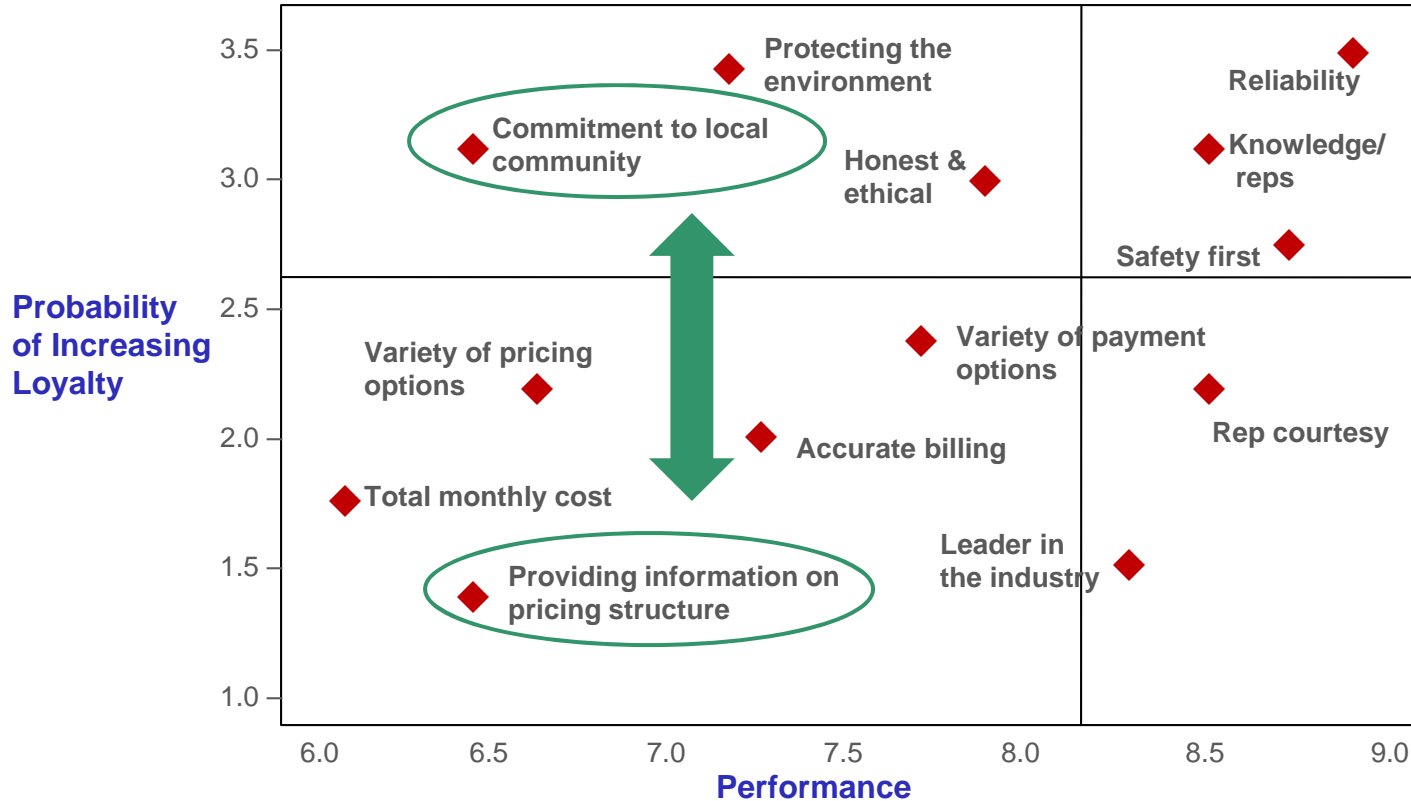
- Another useful analytical tool is to divide customers into sub-groups based on whether they score high, medium, or low on the Loyalty Index.



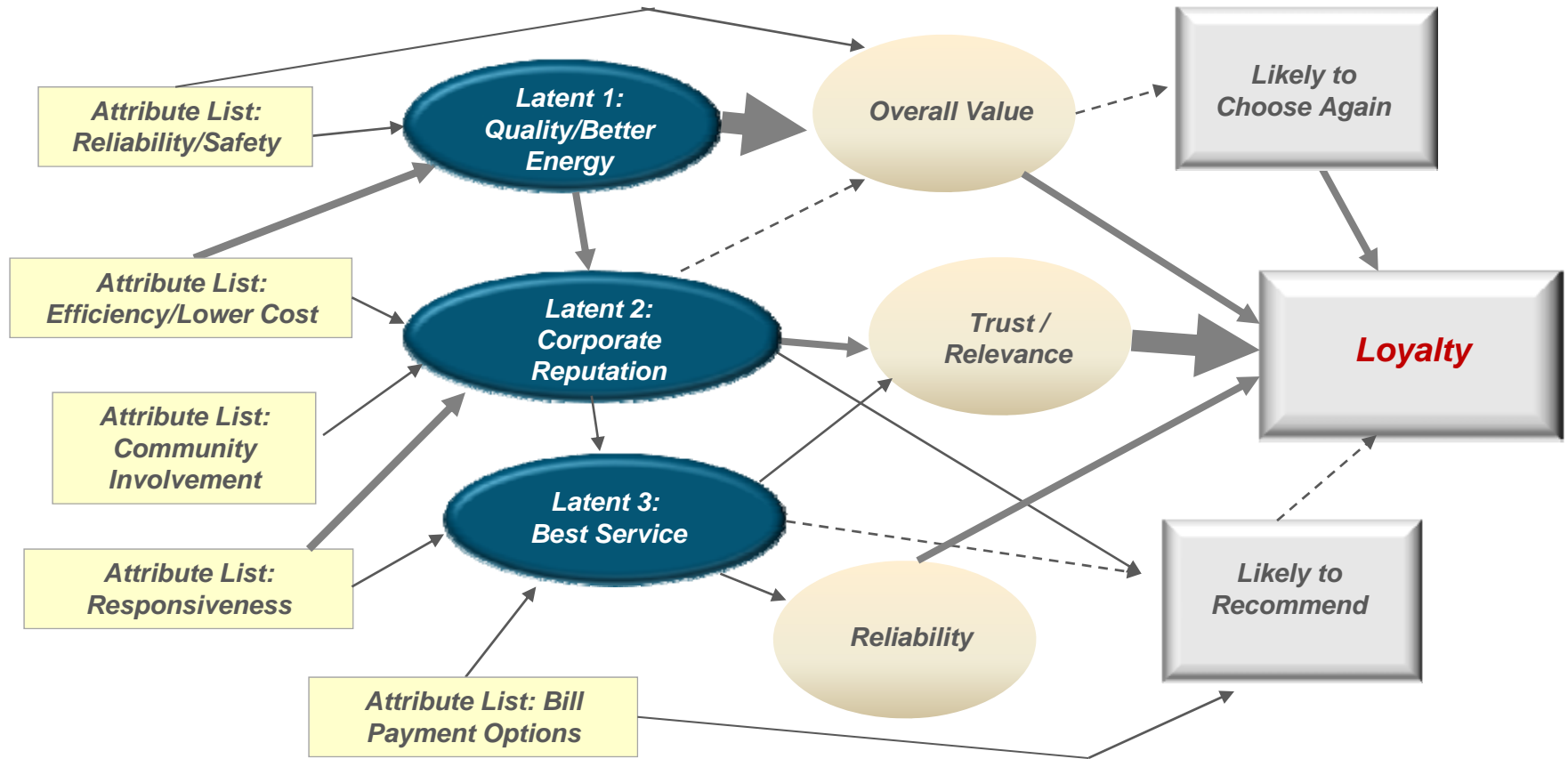
- The goal is to understand:
  - How those who are very loyal **differ** from those with little or no allegiance, and profile them on all variables in the study.
  - What **actions** should you take to move the less loyal up to higher levels of loyalty?
- A new **Key Driver analysis** run on each segment shows which attributes drive loyalty for each segment.
- Drivers are typically different for each segment because different customer segments have **different priorities** in terms of what is important.
  - For example, loyalty in one segment may be driven by the organization's performance on environmental issues, while another may be driven by lower prices or better bill payment options.

# How to Move Segments Up

- A differential driver analysis can be used to determine where the biggest differences are between two specific segments, such as the Averse and the Favorable, and which attributes to focus on in order to improve overall customer loyalty.
- In this example, increasing organizational performance on 'commitment to local community' is twice as likely to move the Averse segment up to Favorable, in comparison to 'providing more information on pricing structure'.



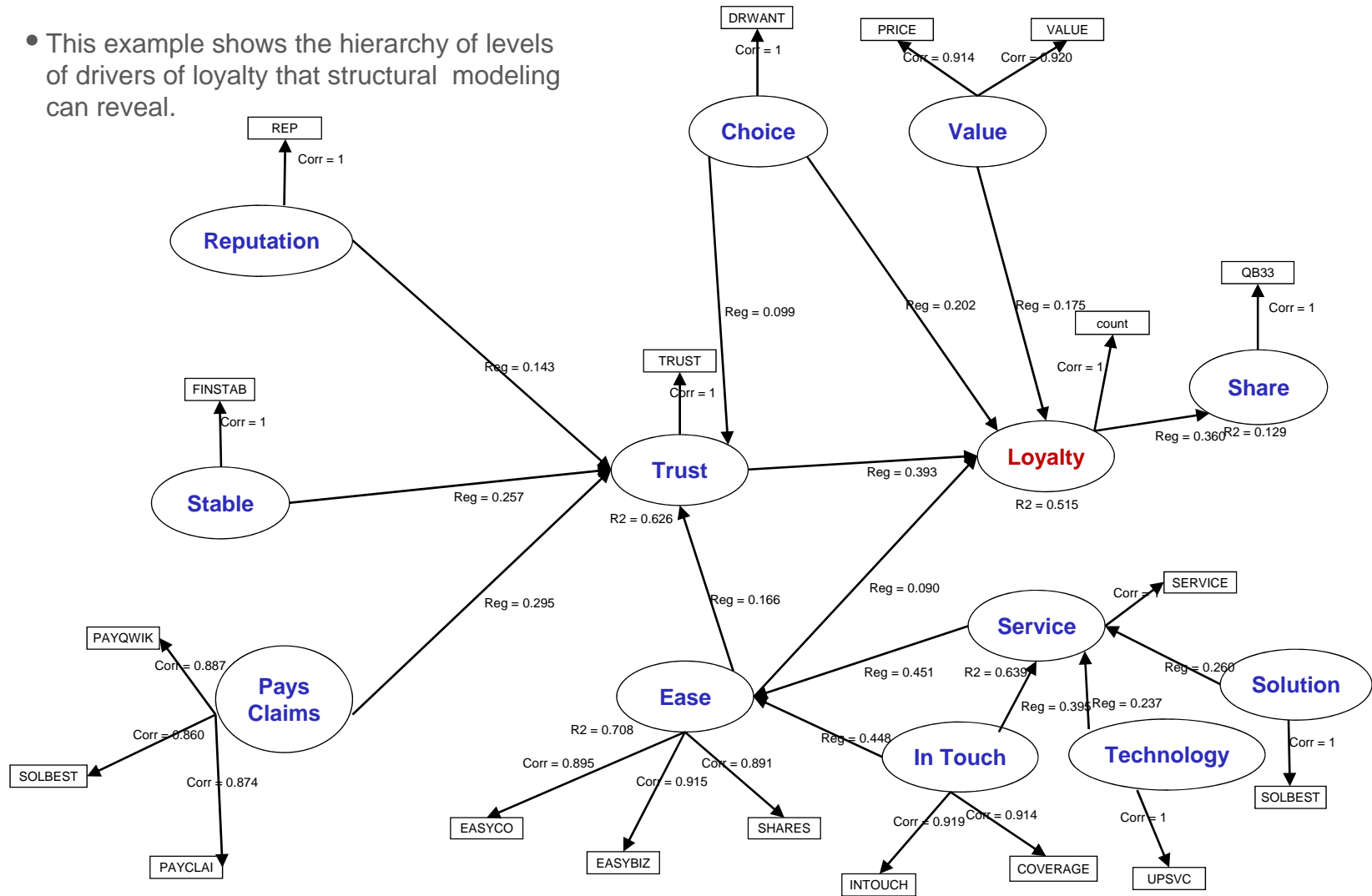
# Structural Modeling



- Structural modeling such as Partial Least Squares (PLS) or Structural Equation Modeling (SEM) can add more depth to the analysis by showing how attributes group, latent variables, and the relative strength of the key drivers of loyalty.
- An iterative approach with examination of multiple models is usually helpful to determine the best overall solution.

# Structural Modeling

- This example shows the hierarchy of levels of drivers of loyalty that structural modeling can reveal.





# Impact Analysis Simulator

## Using the Analytical Results to Stimulate Change

- An Excel-based simulator allows you to test the impact on the Loyalty Index of changes to specific attributes and activities. Should resources be allocated to higher visibility in the community – or improving the response time of customer service or field reps?
- Usually set to show the relationship between a 1 percentage point increase in any attribute on the Loyalty Index.
- If financial information is available at the respondent level, the financial impact of these shifts can also be simulated.

A blue rectangular button with rounded corners and a slight shadow, containing the text 'RUN SIMULATOR' in white, uppercase letters.

RUN SIMULATOR



# Contact

Susan Cornish. PhD  
VP, Account Director  
direct 336-354-1467  
mobile 678-634-8873  
[scornish@bellomyresearch.com](mailto:scornish@bellomyresearch.com)



Bellomy Research Inc.  
336-721-1140  
or 800-443-7344  
[www.bellomyresearch.com](http://www.bellomyresearch.com)