



The Degrees of Customer Loyalty

Forget the customer satisfaction survey; you already have enough data to determine the degree of loyalty for each customer.

By Jean Van Rensselar

Customer loyalty isn't absolute—you can't divide customers simply into the loyal and disloyal. Experts, such as Das Narayandas of the Harvard Business School, contend that there are degrees of customer loyalty.

Why is this important to know? Because the tactics you take to increase loyalty depend on the degree of loyalty already present. For example, retaining a customer at the vulnerable new relationship level is different than retaining a customer who has become impervious to your competitors' overtures.

Narayandas makes the important observation that, in B2B markets, there is almost no link between customer satisfaction score and customer loyalty. He said, "Unfortunately, more than 80% of companies use satisfaction scores to monitor customer loyalty. That doesn't work because there is very little correlation between satisfaction and loyalty in business markets."

This makes sense when you consider the vague meaning of the word *satisfaction*. What you really want to know is how willing these customers are to do business with you again---something satisfaction surveys only imply (at best). The good news is that you already have an excellent and free tool at your disposal to determine loyalty---more on this at the end.

Following are 6 levels of customer loyalty. As you read through these, it's apparent that even the lowest level is beyond mere satisfaction.

1. Willing to Grow the Relationship

This is typically a fairly new customer that required some acquisition investment on your part. The customer wants to buy more products and/or services and expand the scope of its relationship with you. Maintaining a customer at this level protects your acquisition investment.

2. Willing to Provide Word-of-Mouth Endorsements

A customer at this level of loyalty not only promotes you informally among colleagues, but is also happy to provide referrals and participate in case studies. Maintaining this customer is very profitable because they are starting to bring in new business—eliminating or reducing your acquisition costs. But the relationship is still tenuous. This is where satisfaction surveys fall apart. Satisfied customers are usually willing to provide endorsements, but will jump ship when a competitor offers a better deal.

3. Willing to Resist Competitors' Enticements

This is a major milestone for customer loyalty. In a dating relationship, this would be equivalent to an exclusivity commitment ---“I'm happy enough in this relationship that even if someone clearly better came along I would stay.” A customer at this level is less likely to switch to rivals even if they believe their products and services are better. One of the reasons for this is that they have full faith that you will match the quality of those products and services in the near future. Maintaining this relationship (as with the dating relationship) requires resistance to complacency--not taking the customer for granted.

4. Willing to Pay a Premium

A customer at this level is willing to pay higher prices for your services. There are many reasons for this, a few being:

- The customer values your familiarity with his business
- The customer has developed trust in you (especially valuable for businesses that sell complex products and services)
- You have demonstrated a consistent level of quality in products and particularly services
- Other barriers to switching continually increase over time

5. Willing to Collaborate

Lately there have been many experts who advise vendors to create collaborative relationships with customers; knowing that collaborative relationships tend to be long-term. The problem with this is that getting to the level of collaboration itself, takes time. Customers at this level want to collaborate on both ends—they will seek advice about their business from you, but they also want to provide you with feedback that will help you grow your business---especially toward developing new products and services that they can use. This, also, is obviously about a lot more than satisfaction. At this stage, the customer acts like a partner.

6. Willing to Invest

Whether or not you are looking for investors, customers at this level express an interest in investing. Vendors who allow customers to invest in some way create a powerful exit barrier.

Want To Know Just How Loyal Your Customers Are?

The best way to determine the level of loyalty is to examine actual buying patterns and segment those patterns based on buying frequency, volume, and longevity. A steadily increasing trend on all three counts is a very good sign. Conducting a customer satisfaction survey is expensive; analyzing buying patterns is nearly free. People will say almost anything on a satisfaction survey, but actual purchase data is hard to challenge.

About the Author

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