

## Turning customers into advocates

Traditional measures of customer satisfaction have little to do with financial performance. According to research 80 percent of customers who switch suppliers express satisfaction with their previous supplier. Revenue growth has everything to do with 'advocacy', the extent to which customers or clients prefer a supplier and then refer friends and colleagues to it. For example, First Direct, the UK retail bank, has the highest level of customer satisfaction in the market and is recommended by its customers every five seconds gaining over one third of all new business from referral. Advocacy translates into increased share of market and higher levels of retention, all of which mean good news for your bottom-line. This is also true for professional service firms seeking to get upstream of the dreaded 'Invitation To Tender' trap.

The dictionary definition of "advocate" is "Plead for, defend, champion, recommend, support". It would be nice to think that our best clients or customers would be so satisfied with the products and services we provide that they would be willing to actively recommend our organisation in this way. Some do. When Steve Jobs, the CEO of Apple introduced the latest iPod at the annual Apple convention, the reaction of the audience was more akin to a religious meeting than a product launch. There is no doubt that many Apple customers are passionate champions for the brand in a way few other technology users are.

One company creates such loyalty among its customers that they subject themselves to pain and disfigurement in order to promote its products. Next time you meet a Harley Davidson owner look out for the ubiquitous tattoo. The likelihood of a customer switching to a competitor's product having had your identity literally "branded" on their body is fairly remote. However, Harley Davidson really understands that its brand is much more than just its famous winged logo; it is a total ownership experience.

Advocacy at this level is rare and beyond the reach of most consumer companies let alone professional services firms. Yet, the principles hold true whatever the nature of your industry and customer base. The fact is that delighted customers have an affiliation for the brand that translates into bottom line growth. So how do you create a level of customer satisfaction that is so strong that customers become your best sales people? The answer lies in creating a customer experience that is so distinctive and valuable that it goes beyond satisfaction. Jerry Gregoire CIO for Dell computers says "The customer experience is the next competitive battleground" Michael Bray Chief Executive Officer for Clifford Chance said this about customer experience "... equally relevant for the leaders of professional services firms looking to build 'trusted advisor' relationships with their key clients"

Jill Griffin, in her book 'Customer Loyalty: How To Earn It, How To Keep It' suggests a useful ladder of customer relationships which brings clarity to this issue.

### **Stage 1: suspect**

Suspects include everyone who might possibly buy your product or service. We "suspect" they might buy; we do not know enough yet to be sure.

### **Stage 2: prospect**

A prospect is someone who has a need for your product or service and has the ability to buy. Although a prospect has not yet purchased from you, he or she may have heard about you, read about you, or had someone recommend you to him or her.

### **Stage 3: disqualified prospect**

These are prospects about whom you have learned enough to know that they are not the best fit for your products and services and so you may choose not to target them.

#### **Stage 4: first time customer**

First-time customers are those who have purchased from you one time. They are customers of yours but are almost certainly still customers of your competitor as well.

#### **Stage 5: repeat customer**

They have purchased from you two or more times. They may have bought the same product twice or bought two different products or services on two or more occasions. They will buy from you but will also continue to give their business to competitors. In professional services you may be one of a number of firms on their panel.

#### **Stage 6: loyal customer or client**

A loyal customer or client buys from you rather than anyone else. You have a strong, ongoing relationship that makes him or her resistant to the pull of the competition. For professional services firms this is where you begin to make the transition from being a supplier to trusted advisor. You are 'top of mind' and the first firm that a client calls when they need help.

#### **Stage 7: advocate.**

Like a client, an advocate buys everything you have to sell and purchases regularly. In addition, an advocate encourages others to buy from you. An advocate talks about you, does your marketing for you and brings customers to you. Brands like Virgin, Apple and McKinsey all have advocates who are happy to be unpaid sales people for these companies. For professional services firms this is when you create a relationship for 'life'. You are likely be the preferred supplier for this customer whichever company they happen to work for. You may have a seat at the planning table when they think about their longer term strategy but will certainly get advance notice when the client is thinking about a deal.

### **How is loyalty different to satisfaction?**

In a 2001 survey conducted by the Forum Corporation with consumers in the US, Canada and the UK, 69 percent of customers who awarded top scores for satisfaction indicated their intention to be loyal to that organisation. That figure dropped to just 19 percent for customers who were still satisfied but rated one box lower. The reason is that over the past ten years organisations have become increasingly aware of the need for customer focus and customer satisfaction. So much so, that it is now the norm and the entry price for any organisation wishing to be successful. As a result, differentiation on the basis of basic customer service has declined, price sensitivity has increased and it now takes a unique customer experience which goes beyond satisfaction and creates real value for the customer in order to regain the competitive edge.

So loyalty is not one and the same as satisfaction, neither is it the same thing as repeat purchase. Until First Direct came along and made it attractive and easy to switch banks, few customers would entertain the inconvenience of closing their account and applying for one elsewhere, yet the retail financial segment has generally low levels of satisfaction among consumers. What kept customers coming back was not loyalty, but 'stickiness' due to the hassle factor in changing accounts. Not any longer. First Direct tells its prospective customers "We can now transfer your standing orders and direct-debits for you, so transferring bank accounts has never been easier".

We think that loyalty is a misused term. Most organisations think that it is about customers being loyal to them. We suggest it should be the other way round. The firm should be loyal to their best customers by offering value that is not generally available to the mass market. True loyalty happens when there is an emotional engagement with the organisation or product. This engagement comes from experiencing the brand or organisation in unique way that creates true value for the customer.

One major airline calculated that if a competitor offered a frequent flyer scheme superior to its own, most of its customers would desert because the underlying satisfaction levels were not enough to keep them

loyal. Since then, it has placed much more emphasis on improving its customer experience, the key to creating true loyalty and even going beyond it.

## Beyond loyalty

For those organisations wishing to increase margins by driving down sales costs whilst driving up revenues, advocacy is the answer. This requires you to know who your most profitable customers are and to consistently deliver a customer experience so as to create a high degree of trust in your brand. Only then will these loyal and highly profitable customers be prepared to recommend your organisation to others. In his HBR article 'The one number you need to grow' Frederick Reichheld argues that the only measure of performance that really matters is the 'Net-Promoter Index'. This is the result of subtracting those customers who are dissatisfied from those who are highly satisfied. Our term for this is the 'Advocacy Index' and our CEM+TM survey measures this to determine the extent to which your firm will grow organically through attracting and retaining profitable customers through positive word-of-mouth.

Sometimes, an organisation can create such advocacy that it is accepted on trust by the market at large. At a conference in Paris a couple of years ago delegates were asked to raise their hands if they considered themselves to be advocates of Virgin Atlantic. Around 50 hands went up out of the 300-plus people in the room. Those with their hands up were asked to put them down if they had flown with the airline. This left about ten hands up. "So, you are people who are advocates of Virgin Atlantic... but have never flown with them?" the presenter said to clarify. The hands stayed up.

How can an organisation create advocacy without customers having a first hand experience? When Richard Branson first launched Virgin Atlantic it was at a time when most airlines were still state-run and had a reputation for being operationally driven and rather boring. What Branson did was to create a proposition, which matched the safety and procedural efficiency of competitors, but also offered a new and exciting customer experience. He put the fun back into flying. His Upper Class was soon a big hit; essentially a First Class product at a Business Class fare. The on-board bar, interactive entertainment system, in-flight massage, CD quality music channels and friendly and attractive cabin crew all created a customer experience which was new, different and exciting. The proposition was so compelling that Virgin quickly started to win market share from the competition.

There is an important distinction to be made between customer service and customer experience. If you speak to people in Australia who fly Virgin Blue for example, you will find many people who are advocates but also a few who just do not like the experience. This is a natural consequence of making a strategic choice. When you stand for something specific and are targeting a specific group of customers then this will mean that your offer is not going to appeal to everyone. Many firms however, try to satisfy everyone and end up delighting no one. This notion of targeting certain customer segments and then being single minded in differentiating your offer to meet their needs is well known in consumer markets. We think this will begin to be true in professional services too. Increasingly, what you do is expected. It is a commodity product no matter how highly priced. The real difference is in how you deliver it and the experience that the client has of your firm. Trusted advisors understand that the real key to success is not what they know but how they use this to benefit the client.

## Focusing on your most profitable customers

One large firm we know has several thousand clients and yet the top 10 represent a significant proportion of the profit; the top 100 clients account for 70% of the profit and at the tail end, there are several hundred who are loss making. Yet there is very little differentiation in how these clients are served. All too often, we respond to client requests or new business opportunities on the basis of how much time people have available from their other commitments rather than the strategic importance of the client and our relationship with them. In fact some times, new prospects get more of our attention and better deals than the clients we have worked with for years. This is certainly true in financial services and telecommunications where new customers are routinely offered more attention, deeper discounts and better deals than long established

customers. In loyalty terms this is madness.

In his book *The Loyalty Effect*, Frederick Reichheld identifies that loyal customers are more profitable because the costs of sales are amortised over a longer period, they increase their purchases and percentage of spend with you, cost less to administer, refer others and are willing to pay a premium. By focusing on delighting highly profitable customers, companies keep them loyal and eventually turn them into advocates who attract others who value the same things and thus in turn become advocates themselves.

## Where do you start?

We have made the case for focusing on and keeping your most profitable customers. The question is where do you begin? The answer is with your own people. Some years ago researchers at Harvard Business School found a statistical relationship between the way in which employees are treated and the way that they treat clients. One bank found that this correlation was around 85%. There is no doubt that employee alignment is a major driver of business results.

Some years ago we created a survey that set out to measure the extent to which employees were aligned internally with organisational strategy. Recently, the survey was subjected to a very thorough validation by David Matsumoto, of San Francisco State University. Responses were correlated from over 23,000 Organisational Alignment Survey™ respondents from 52 companies representing a variety of industries and across 20 countries. The 60 statements of the survey were correlated against six business results areas namely, customer service, employee retention, sales growth, meeting agency requirements, competitive performance and profitability. Finally the dimensions were correlated against all six business results areas overall. The employee responses which correlated most highly with the improved business results achieved by these companies were:

We are a highly successful organisation.  
We have a well-defined strategy to overcome competitors.  
We match the claims made through our advertising and promotion.  
Employees are well trained to meet the performance standards required by their jobs.  
We measure our quality/service performance against the worlds' best organisations in our field.  
Managers meet with customers and consumer groups on a regular basis.  
We carefully monitor the product/service quality of our suppliers, distributors and agents.  
Employees are regularly briefed on departmental and organisational performance.  
There is good cooperation among all departments in my organisation.  
Performance targets that my department sets are realistic and consistent with our organisational vision/mission.

David Matsumoto concluded: "All of the correlations are statistically significant and seem to predict the desired business results".

In conclusion, we believe that the companies that will thrive in the future are those that create loyal customers and loyal employees. These two go hand in hand and it is the leaders of the organisation that must create this alignment. However, executives are often focused on short-term results and more concerned about the views of the analysts rather than their customers or people. What is the reality for your organisation? Answer the following questions over the page to find out.

"Any damn fool can put on a deal but it takes genius, faith and perseverance to create a brand"

David Ogilvy

## Find out if your organisation is managing advocacy

Do we know who our most profitable customers/clients are? (Not necessarily the largest!)

How much business do they represent compared with our average customers?

What are the three most important customer expectations that drive loyalty in our business?

What do our managers and employees believe are the top three customer expectations?

To what extent do we consistently deliver a distinctive experience for our most profitable customers around these expectations?

To what extent do we consistently deliver a positive and distinctive experience for our employees?

How do our customers believe we compare against our competitors on quality and price?

What proportion of our customer base is loyal?

What proportion of our employee base is loyal?

What is our advocacy index and the level of organic growth that we can expect?

If you do not know the answers to these questions but would like to find out please ask us about our CEM+ Survey<sup>TM</sup> and Organisational Alignment Survey<sup>TM</sup>

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The Organisational Alignment Survey<sup>TM</sup> The results of this research are the intellectual property of Shaun Smith and Persona Global