

Customer Loyalty Modeling and Monitoring Program

To implement change in customer loyalty requires an examination of all aspects of your customer's decision-making process and an understanding of the environment in which the decisions take place. ConStat's exclusive approach to customer loyalty research focuses on understanding, measuring and analyzing the entire loyalty phenomenon to ensure that your customer retention efforts will ultimately create increases in customer loyalty, retention and your bottom line.

Overview

ConStat has carefully assessed the evolution of customer loyalty management and the measurement systems that have been developed over the past thirty years. While many of the concepts from earlier eras continue to hold value, the research methodologies that were developed around these concepts are not sufficient to track the nature, size and scope of the entire customer loyalty opportunity.

ConStat's approach to Customer Loyalty is based on the following beliefs:

- Loyalty behavior is the end result of a complex and on-going decision-making process that involves multiple interactions between beliefs, perceptions and experiences with a product, service or company. Therefore, an understanding of loyalty behavior requires a holistic approach that examines all aspects of your customers' decision-making process and the environment in which the decisions take place.
- Truly actionable Customer Loyalty research must focus on managing customer migration, not just defection. As such, ConStat has designed a research program to assess changes in customer relationships, such as diminished spending, before complete defection occurs. By identifying key leading indicators, companies can take corrective action before defection takes place.

The key benefits of our program reside in it's ability to:

Identify the underlying elements and processes of loyalty formation and maintenance within your industry.

You will know exactly what is important to measure based on documented relationships between product / service / image variables and customer loyalty behavior.

Operationalize the major variables that drive loyalty.

You will know how to measure these variables.

Determine the effects of the variables within management's control that influence acquisition and loyalty.

You and your management team are provided with an ROI tool to estimate and simulate the impact of proposed actions on key customer loyalty metrics.

Monitor your customers' attitudes and behaviors.

By monitoring on a periodic basis, your firm will:

- Identify the impact of environmental and competitive events in the marketplace;
- Determine the success of your retention efforts; and
- Determine any impact from changes to your product or service.

■ Traditional Satisfaction Research Approaches Fall Short of Delivering an Effective Relationship Management Tool

The first era of loyalty management began in the 1970's. It was based on traditional thinking among American industries that providing high quality products and services is enough to keep customers coming back.

During this period, corporations invested heavily into *quality management and service measurement* programs that monitored their customer satisfaction, product and service performance across a multitude of "touch points." This gave rise to elaborate tracking systems and nationally acclaimed service quality monitoring programs.

As an outcome of these early efforts, the traditional thinking has been that "satisfied customers" are synonymous with "loyal customers." Management's goal, therefore, has been to focus on ways to improve Customer Satisfaction.

Unfortunately, many companies that have continually invested in increasing satisfaction through product and process improvements have not seen a significant impact on customer retention. Instead, they have discovered that even highly satisfied customers defect.

TRADITIONAL MODEL OF CUSTOMER SATISFACTION



Our research shows that satisfaction is important, but not sufficient.

At ConStat, we certainly have not abandoned the notion that satisfaction can impact the attitudes and behaviors of your customers. We believe strongly that measures of satisfaction play an important role, particularly when analyzed in combination with other factors. At the same time, there is substantial empirical evidence indicating that satisfaction scores fall short as the primary indicator for measuring the overall health of your customer base.

■ What Loyalty Is...

We believe that “Loyalty” is a broader, more complex phenomenon than satisfaction. Loyalty is not based from a single behavior or attitude, but many different behaviors or factors that your customer takes into account in a variety of different situations.

- It is based on [a series of decisions your customers make](#) about your company within a crowded, often confusing marketplace.
- It is created through your [customers’ beliefs, perceptions and experiences](#) about more than just your company’s products.
- It is affected by [your customers’ interactions with your competitors and your industry](#), as well as your specific products or services.
- [It is contextual](#)—grounded in the customer’s experience and his or her view of the world.
- It is organized around your customers’ [goals and conflicts](#) and impacted by your customers’ need to make sense of a complex environment.

■ The Three Dimensions of Loyalty

ConStat has identified three perceptual dimensions that have significant impact on loyalty:

Performance of Current Provider

How a customer feels about your company’s performance will always have an impact on customer retention. This dimension is where “satisfaction,” in the traditional sense, is created.

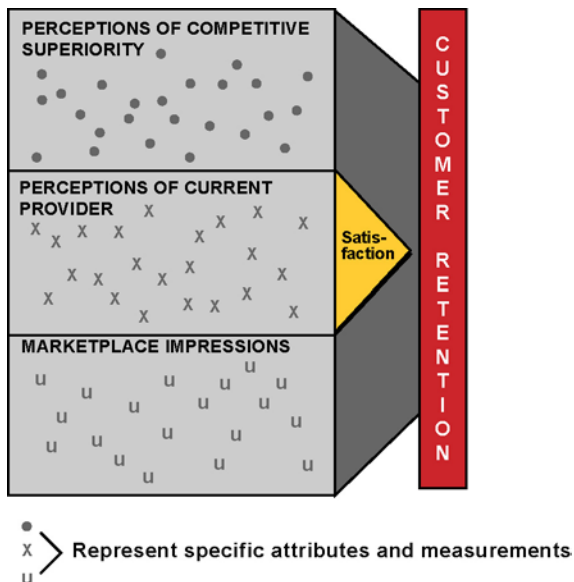
Perceptions of Competitive Superiority

Customers’ perceptions of what they expect to gain (or lose) by switching providers and the value that competitors offer have a tremendous influence on loyalty, even if your customers have not used competitive products.

Marketplace Impressions or Industry Beliefs

Each customer brings his or her own personal perspectives about the category or industry within which your company operates when making loyalty decisions. These impressions are the foundation for decisions such as quality / price tradeoffs, willingness to consider alternative providers and the credibility of promotional claims.

The three basic perceptual dimensions combine to form the Customer's Interpretive Framework.



Loyalty is...

- formed not only by experiences with your company, but also by perceptions, expectations and understanding of your competitors and your industry.

All of these perceptions...

- impact loyalty of your customers, and
- must be measured to give you insight into increasing customer retention.

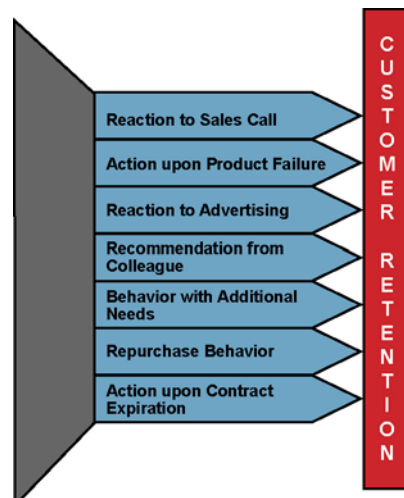
■ **The Context of Loyalty**

We believe loyalty formation and maintenance is contextual. It is grounded in your customers everyday experiences. Our program simulates these real life encounters by placing your customers in specific "loyalty challenging scenarios," estimating their reactions to each and modeling their behavior in aggregate.

Loyalty Challenging Scenarios

In the "real world," your customers face many different situations that test their loyalty.

The "research world" must take into account all of these situations in the investigative process.



■ Incorporating Contextual Measures into the Loyalty Modeling and Monitoring Program

Through qualitative research, we learn which situations or triggering events challenge loyalty and what actions customers might take in those situations.

In the quantitative research, realistic re-creations of these situations and behaviors are developed as indicators of customer loyalty.

Results from multiple loyalty-challenging scenarios are combined statistically to yield a single, multidimensional measure of loyalty.

■ Examples of Contextual Measures

→ *As a user of wireless communications service, you continually drop calls. Would you...*

- Learn to live with it—that is the nature of the technology;
- Only make calls in areas where you know the calls will go through
- Think about switching wireless providers the next time your contract expires, OR;
- Call other wireless providers and immediately start shopping around?

→ *As an IT manager: A sales rep from a competitive data service provider calls your office and asks to speak to you about changing your service provider. Would you...*

- Take the call and invite the sales rep to come in for an in-person presentation;
- Listen to what the sales rep had to say, and just have them send you their materials;
- Tell the sales rep that you are happy with you current service provider and have no intention of switching, OR;
- Not take the call at all?

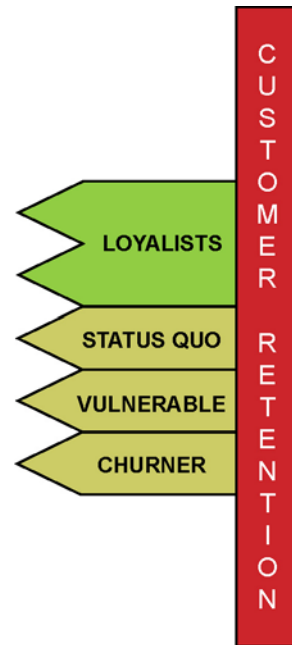
Customers may be confronted with the opportunity to make loyalty decisions in several different types of situations. For example, a customer may have the opportunity to choose or reject an incumbent provider when:

- The need to re-purchase emerges;
- A competitor presents a better offer; or
- A “better” product or service within the category emerges.

*It is essential that the measures of loyalty, the dependent variables in our modeling process, realistically **simulate the market situations** that customers will encounter. Utilizing behaviorally anchored scales (“What would you do if...?”), we replicate the actual decision scenario as closely as possible.*

■ Actionable Segmentation

- Based on responses to the loyalty-challenging scenarios, customers are grouped into Loyalty Segments.
- The size of each segment and the critical factors that impact segment membership are the key variables for monitoring customer loyalty.
- Results translate directly into action plans, as specific groups of customers can be identified and targeted strategies applied.



Different segments of customers actually exist within the overall milieu of customer-provider interaction, each of which resides in varying "states" of loyalty.

Rather than reflecting varying levels of "satisfaction" with a provider, these "states" are discrete segments created by customers' actual or potential reactions to a wide array of loyalty challenging or maintaining scenarios.

Based on repeated applications of this research technique, we have seen that nearly all customers for any company can usually be grouped in four major loyalty *states* or *segments*:

Loyalists: Loyalists tend to ignore competitive offers, to be spokespeople for their current provider and to buy additional products or services when presented with the opportunity.

Status Quo Customers: Status Quo customers don't feel as enthusiastic about the provider's service. Although they are committed to the company and to the category, they retain their current solution based largely on inertia rather than on a perceived level of value.

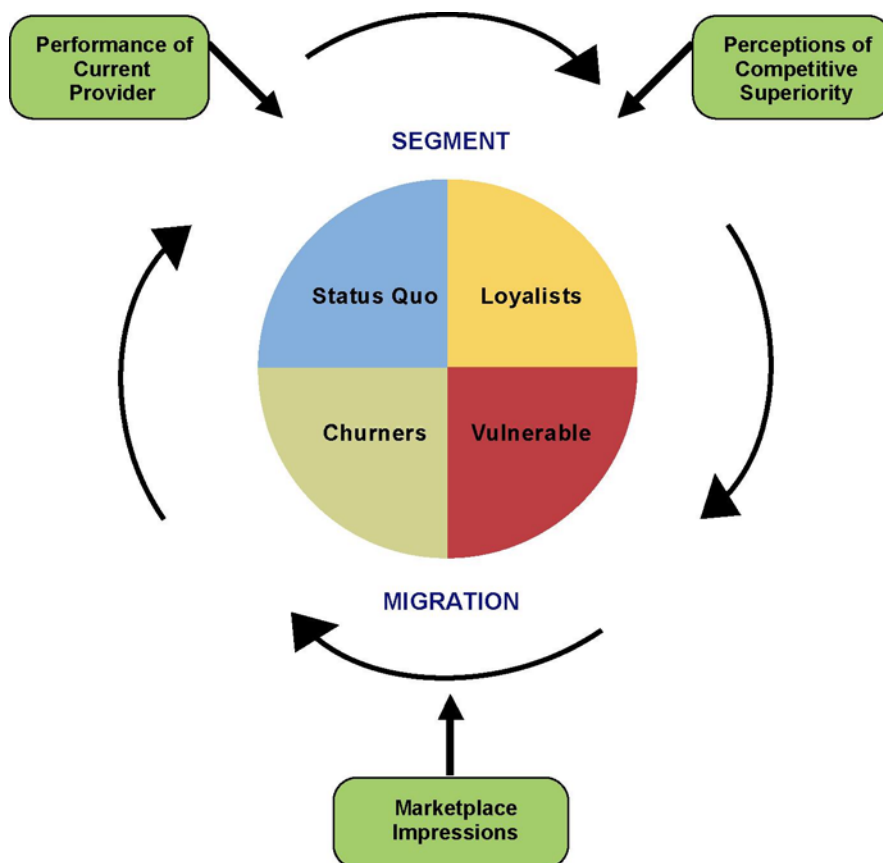
Vulnerable: These customers are opportunists who seek to continuously improve their situation. They will proactively investigate several competitive scenarios when faced with a situation where a decision is warranted if they felt the new option might enhance their current condition.

Churners: Churners are typically considered lost customers. Churners are not only ready to leave a given company or service, but are less committed to the category as a whole.

■ Understanding Attitudinal Drivers of Loyalty

Customers have varying attitudinal motives for their purchase-related decisions and behavior. Some tend to be more “emotive” customers who rarely reassess their purchase decision because they are convinced their current product of choice is best for them. Others may be “deliberative” customers who frequently reassess their purchase decision using rational buying criteria. Still others are “inertial” customers who rarely reassess their purchasing decision because of low involvement and/or the perceived costs of switching. There are also product categories where there are “variety-seeking” customers who change for change’s sake.

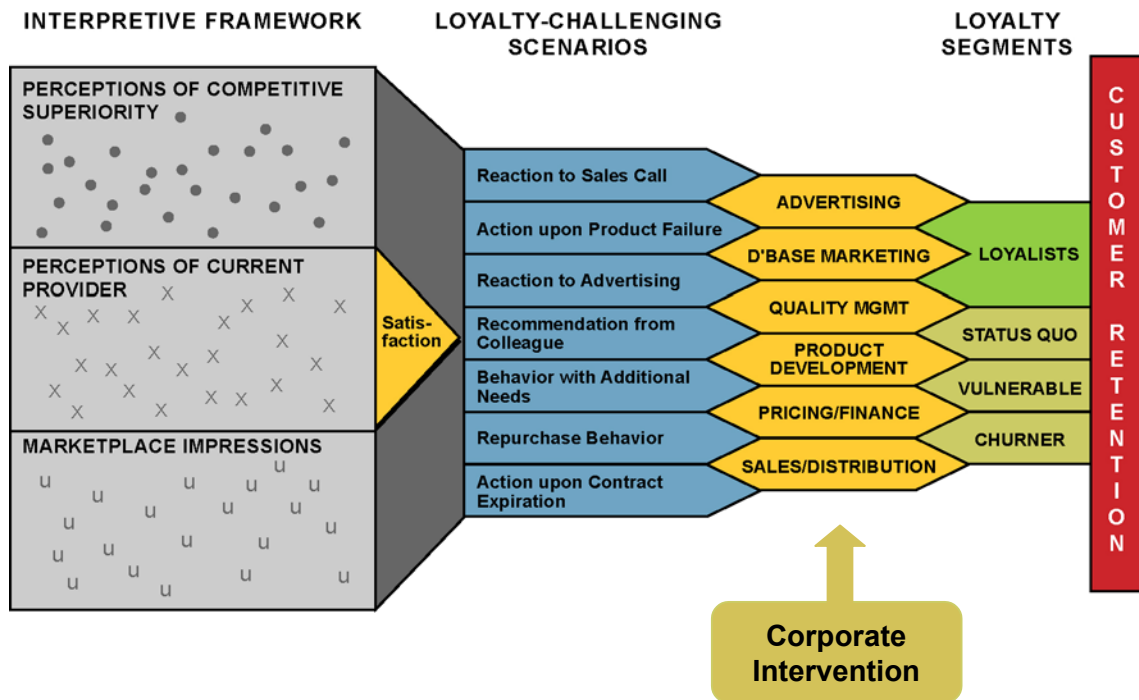
Through multivariate analysis, we have found that different drivers within the Interpretive Framework can dictate to which loyalty segment a specific customer might belong. By understanding which drivers are key in moving customers from one segment to another, management is provided with an actionable “roadmap” for targeting your high value customers, allowing you to enhance loyalty and, thereby, increase customer retention.



■ All the Parts Come Together

ConStat's Loyalty Modeling and Monitoring Program captures the entire phenomenon of Loyalty Formation and Maintenance by:

- Understanding and measuring all dimensions of a customer's Interpretive Framework;
- Measuring loyalty using contextual-based, Loyalty-Challenging Scenarios, and;
- Delivering targetable Loyalty segments.



However, the final step between customer loyalty and increased customer retention is “Corporate Intervention” – what you can do as a company to create change.

Among its principal objectives, ConStat's Customer Loyalty Modeling and Monitoring Program will monitor the impact of your company's initiatives as they are introduced to the marketplace.

■ Deliverables and Reporting Tools

ConStat's Customer Loyalty Modeling and Monitoring Program is designed to empower the research, marketing and customer relationship management departments of organizations wishing to analyze the current state of their customer relationships and monitor the progress of customer migration and retention programs. The program provides:

➤ Core Deliverables

Loyalty Modeling: A prioritization of specific measures from the three major dimensions that have the most impact on segment membership and customer retention: Provider Performance, Competitive Perceptions and Marketplace Impressions.

Loyalty Segmentation: A grouping of customers into "loyalty segments," including a complete profile and description of each segment and detailed descriptions of the factors that impact segment membership and migration (using quantitative survey results *and* in-house customer data).

Loyalty Monitor: An ongoing measure of segment membership / customer retention that will track shifts in customer loyalty over time.

Loyalty Strategizing: An interactive management software tool that determines how potential retention strategies will change the proportion of customers in each loyalty segment, allowing for informed decisions about your retention efforts.

➤ Optional Modules

Loyalty modeling among competitive customers: ConStat strongly recommends this module so that retention and acquisition initiatives can be aligned. Additionally, performance comparisons with competitors provide early warning to changes in your marketplace so you can leverage newly developed strengths and shore up against newly identified weaknesses.

Calibration of the loyalty segments: After time, the predictive value of the loyalty measurement can be calibrated by reviewing customer records of respondents from the initial modeling study.

Lost customer analysis: A follow-up study with churned customers can evaluate specific reasons for switching and further validate the loyalty model.

Identification of vulnerable customers: Depending on the information contained in a provider's database, results may be used to identify all vulnerable customers and create targeted retention efforts.

CVA: CVA measures can easily be incorporated by using the data we are already collecting and by monitoring competitive customers.

■ **About ConStat, Inc.**

ConStat is a primary market research and consulting firm that helps companies understand how businesses and consumers make decisions about their products, brands and services. With a fundamental focus on technology adoption, we have been conducting primary research in the telecommunications, financial services, and health care industries since 1987 and understand the strategic and business issues confronting service industries as a whole.

Since its inception, ConStat has designed and conducted primary research studies with a decision-making and adoption perspective in the following areas:

- Advertising effectiveness and tracking
- Branding and positioning research
- Customer retention and loyalty
- Product development and testing
- Purchase and usage behavior

ConStat's client list reflects the breadth and depth of our experiences:

■ **Cable and Video Entertainment**

AOL/TimeWarner, AT&T Broadband, Adelphia Communications, Comcast Corporation, Charter Communications, Cox Communications, Showtime Networks, and Starz/Encore

■ **Computing and Networking**

Ascend Technologies, Broderbund Software, Cisco Systems, Concentric Networks, Critical Path, Digex, Intel, Intuit, Microsoft, Northern Telecom, Netscape Technologies, Palm Technologies, Siemens Communications, and XO Communications

■ **Content and Publishing:**

C|Net, IDG Publications and Ziff-Davis Publishing

■ **Voice and Data Telecommunications:**

AT&T Communications, BellSouth, Qwest Communications, Sprint Communications, SBC Communications, and Verizon Communications

■ **Financial Services, Insurance**

Blue Shield of California, CPIC Life Insurance, GE Capital, and Invesco

Contact Information

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