Publishing Date: March 1998. © 1998. All rights reserved. Copyright rests with the author. No part of this article may be reproduced without written permission from the author.

Customer loyalty and customer value - 7 Building loyalty through research

Chuck Chakrapani

In this series of articles so far, we have discussed the steps involved in deriving value ratios and how to interpret them. Research results, combined with customer value analysis, can answer many more questions relating to customer loyalty. In fact, a well conceived research and analysis programme can be used to build customer loyalty.

The role of research:

What can it contribute?

CVA and customer relationship surveys can be used to:

- Identify the hot buttons that influence churn;
- Identify customer segments that are vulnerable;
- Identify the causal factors of churn and loyalty; and
- Identify factors that increase loyalty and reduce churn.

The role of research:

Where can it fall short?

While research can provide many answers that will help management build loyalty and slow down churn, research has its limitations.

1. There are many reasons for churn. It is unrealistic to assume that survey research would uncover all possible reasons. However, a well-designed study should be able to identify major causes and thereby contribute to strategies designed to build loyalty and slow down churn.

2. Customer surveys do not directly measure churn, but they do measure the attitudes which lead to actual behaviour. (This is true of many marketing research measurements.)

3. Related to (2) above is the fact that we do not know with any degree of certainty what actions on our part will indeed alter customer perceptions in the desired direction.

In this article, we will explore some of these issues.

Operationalizing the research results

Research shows what customers expect of the organization. However, to benefit from this input, the organization has to translate the stated requirement into a defined action plan.

But this is not always as simple as it might look. Let's consider a situation in which customers indicate that 'faster loan approval' is very important to them. Further suppose that we construct a CVA model and it confirms the importance of 'faster service'.

Now how exactly do we convert this into an action plan? This is a critical question. Suppose our standard loan approval process takes about 7 days, and, based on our research, we decide to provide faster turnaround by reducing the turnaround time by 2 days. However, if customers' concept of faster turnaround is 3 days or less, then our action plan (which may have cost implications) does not achieve the desired goal. Conversely, shortening the time frame to 3 days at great expense to the organization will be equally wasteful, if 'faster' means 5 days as opposed to 7 days.

It is difficult to operationalize what customers need by asking straightforward questions during the initial survey. The reason for this is simply that when we explore the reasons for churn and loyalty, we need to include a

number of areas. It is not usually practical to be very specific about each one of the number of criteria that customers use.

Two basic approaches

To apply research results for the enhancement we need a method to bridge the gap between research findings and processes that are designed to translate them into specific action steps. Two approaches are available to us:

1. Carry out a supplementary study to identify the operational equivalence of the most important attributes that contribute to loyalty.

2. Elicit operational definitions by applying analytic techniques to existing data.

Supplementary research

The first approach is self-explanatory. If faster loan approval is an important criterion, we ask customers to indicate the time frame that they would consider 'faster': Is it 2 days, 3 days or 5 days?

Derived criterion

The second approach is to use derived criteria to operationalize attitudinal preferences. There are several techniques available to analyze the data. The following should be treated as examples of how statistical techniques can be used to operationalize attitudinal preferences.

Classification tree approach. Let us once again review the 'faster loan approval' criterion. If our customer data base has information on the time it takes to approve loans, then we can attach this information to survey data. The new data set can then be analyzed using techniques such as CHAID, KnowledgeSeeker or hierarchical regression analysis. For an example see Exhibit 1.

Exhibit 1 - Changes in Customer satisfaction										
All Customers 100%										
Loa	an<\$10,000, 5	Segment Siz	e=80%	Loan Size=> or =\$10,000, Segment Size =20%						
Rural, Size	Segment =30%	Urban, Segment Size=50%		Approval 3 day or less	Approval 4 or 5 days	Approval>5 days				
Approval 3 days or less	Approval 4 days or more	Approval 3 days or less	Approval 4 days or more	Sa	tisfaction=85%	Satisfaction=82%	Satisfaction=61%			
Satisfaction=85% Satisfaction=80% Satisfaction=88% Satisfaction=75%										

The Exhibit reveals several interesting patterns such as:

a. In general, 'faster loan approval' has a different meaning for different size loans. For loans under \$10,000, 'faster turnaround' is 3 days or less and for loans over \$10,000, it is 5 days or less.

b. Those who reside in rural areas are less inclined to be dissatisfied if the time frame is long than those who reside in urban areas.

This kind of analysis is helpful in many ways. First, it shows us what customers actually mean by faster. Secondly, it tells us how the meaning of the concept changes depending on the size of the loan and the characteristics of the customer. In short, this type of analysis provides an operational definition of an attitudinal concept.

Correspondence analysis. Suppose you have collected data on the time it takes to get loan approval. In this case, you can perform a correspondence analysis to identify the relationship between satisfaction and the time it

takes to get the loan approval as shown in Exhibit 2. If we note where different levels of satisfaction fall on the x-axis, we note that there is a big gap between those who are very satisfied and all others (Exhibit 2a). If we then project the approval time on to the axis, we note that those who received loan approvals within 3 days tend to be very satisfied. When the loan approval time exceeds 3 days, reaction ranges from satisfied to very dissatisfied.

	Exhibit 2							
	Loan approval dates							
	1	2	3	4	5	6	7	8+
Satisfaction (%)	86	85	82	74	71	68	60	40

Simulating the pay-off

Let us assume that there is a cost attached to decreasing the turnaround time to 3 days. Should the organization implement the faster turnaround time or not?



A customer driven organization attempts to keep its lead over other organizations by delivering customer requirements. However, there are two reasons why this may not always be possible. One, an organization's resources at any given time may be limited. If there are ten items that would increase the loyalty and reduce the rate of churn, the organization may not have the resources to implement all of them. Two, even if it did, it may have to priorize what needs to be implemented. To assess whether it is worthwhile implementing the change, we can once again turn to research data.

We can carry out a gain-loss analysis of customer satisfaction for different levels of process improvement. This is shown in Exhibit 3.

Given the cost-benefit of increased customer satisfaction, it appears that it is worthwhile delivering the improvement asked for by customers (see Exhibit 3a).

Exhibit 3 - Cost-benefit analysis										
Days for approval										
	1	2	3	4	5	6	7	8+		
Cost										
Revenue										
Difference										



In a highly competitive economy as the one we are in now, I believe organizations should - and usually do - find a cost-effective way to deliver the benefits expected by customers. Then why should we be concerned at all about cost-benefit analysis? There are three benefits. One, cost benefit analysis can be helpful in identifying those costs that far outstrip the benefits. Second, it can priorize process planning within the organization such that the immediate resources are directed towards those activities that will result in increased loyalty at the lowest cost to the organization. Three, cost-benefit analysis can enable the organization to choose among potentially conflicting customer demands. For instance, consider a brokerage firm. Customer surveys may indicate that both lower transaction fees and higher quality of research will increase customer satisfaction. These two requirements are contradictory since high quality research costs money which needs to be generated through transaction fees. In cases like this, cost-benefit analysis will help the firm decide which one of the contradictory demands result in lower costs to the organization and, at the same time, delivers higher satisfaction to customers.

Dr. Chuck Chakrapani of Standard Research Systems is a specialist in the design and analysis of advanced research and measurement techniques. He works internationally and can be reached at <u>srsystems@msn.com</u>. His latest book, How to Measure Service Quality and Customer Satisfaction, is published by the American Marketing Association.

© 1998. All rights reserved. Copyright rests with the author. No part of this article may be reproduced without written permission from the author.