

Customer Acquisition and Retention

# Creating Customer Loyalty: A Customer-Centric Approach



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As brands become increasingly commoditized and competition fiercer, keeping and expanding customer relationships depends on the ability to deliver a customer experience tailored to changing customer needs and values and consistent with the brand promise. In a time of economic uncertainty—with customer trust eroding and purchase behaviors grower harder to predict—mastering this ability has become even more critical to staying relevant, competitive and profitable.

# Sustaining High Performance through Uncertain Times

## Uncertain Times Grow More Uncertain

Intensifying competition and growing customer expectations have made it increasingly difficult in recent years for companies to keep their customers and do it profitably. Now, new economic concerns pose new threats to break down the bonds of customer loyalty even further. Trust is an essential component of loyalty; as consumer confidence wanes, so too does the basis on which loyalty can be fostered.

To survive and even thrive in today's difficult economic environment, many organizations should take a fresh look at their strategies and methods for retaining customers—and if necessary renew their commitment to customer centricity. The threat of declining customer revenues and defection is real and must be addressed—at the same time, however, the economic climate creates new opportunities to strengthen market position and position for growth

by building customer trust, providing meaningful brand differentiation, tailoring offers in light of new customer needs and, if appropriate, negotiating new terms.

Companies that not only keep but deepen relationships with their best customers during this weak phase of the economic cycle will be well positioned to eclipse their rivals when the economy reignites. What will separate the best from the rest?

The battle for customers will have winners and losers. However, Accenture believes those that act aggressively to develop and implement fact-based, customer-centric strategies—focused on providing differentiated experiences that build trust—will outmaneuver those who focus on merely surviving.

## At Issue: The Loss of Loyalty

In the wake of corporate failures, spending cuts and job losses, consumer confidence is low. Some customers will certainly defer purchases, particularly discretionary items, putting severe pressure on companies to contain costs and optimize spending. Inevitably, these pressures will impact customer relationships, by eroding trust at a time when the bonds of customer loyalty have already been seriously weakened.

Heightened competition—increasingly, occurring across national and industry borders—has given customers more choices and therefore more power. Access to a wider range of product options and service experiences has raised their expectations, making consumers globally far less forgiving of missteps and more inclined to switch. In many industries, increased ease of switching makes it easy for them to do so. And for many customers, switching is becoming

standard behavior: in our most recent customer satisfaction survey, fifty percent of those who switched switched providers in more than one industry.

Combined, these factors have made profitable relationships harder to develop and keep, with providers frequently seeing new customers leave before these relationships generate enough value to offset the cost of acquiring them.

Consumer studies suggest that customers are most at risk when they believe their specific expectations are not met—as underscored by the most recent Accenture Customer Satisfaction survey, which polled 4,189 consumers in Australia, Brazil, Canada, China, France, Germany, India, the United Kingdom and the United States. Two-thirds (67 percent) reported moving their business as a result of poor service in a variety of sectors, up from 59 percent the year prior. Moreover, we also found that respondents who believed their expectations were not frequently met were the most likely to leave.

As customers grow more price-sensitive in response to current economic conditions, and aggressive rivals gear up to lure them away, companies must ensure that they tailor the entire customer experience from the point of brand awareness and acquisition through purchase, use and renewal. To create a lasting perception among their customer base and target market it is essential that not only price (or price cuts) differentiates their products from the competition.

# Loyalty Principles

- **Begin at the Beginning.** The factors that create and influence customer loyalty begin to take effect even before a customer becomes a customer. The relationship a customer develops with the brand during the acquisition stage strongly influences customer value and retention.
- **Recognize Every Kind of Loyalty.** Loyalty is not necessarily an emotional connection to the brand. True brand evangelists—or even potential evangelists—are at best rare and possibly non-existent. Companies need to recognize, develop and manage more than one kind of customer loyalty: conditional, emotional and passive—using more than one kind of strategy.
- **Know What to Look For.** Most companies know a lot about their customers, and comparatively little about the factors influencing acquisition and retention. Achieving high performance in customer retention means aligning activities throughout the relationship lifecycle—including acquisition—and using econometric and return-on-investment analytics to study and maximize conversion rates and other customer behaviors across channels and throughout the lifecycle.
- **Know What to Measure.** Companies often measure the wrong things when trying to measure customer profitability and loyalty—loyalty indicators are far more involved than customer satisfaction scores. Establishing and managing cross-functional key performance indicators throughout the customer lifecycle helps prevent the loss of current and potential customer value.
- **View the Entire Value Chain.** Third-party channels and routes to market also affect customer loyalty—and can destroy unless they are managed effectively. Analysis and decisions concerning such factors as offers, sales incentives, pricing, service delivery—all dimensions of the customer experience—should include all the trading partners who contribute to the customer experience.
- **Manage Complexity.** Products, service bundles, channels—these and many other factors have grown exponentially more complex in recent years, making customer loyalty more complex to manage as well. Providers must retain the ability to react quickly to changing customer needs and market conditions.

## Minding the Gap

Customer retention has always been essential to achieving profitable organic growth; for many organizations it will prove essential to surviving current economic conditions as well. However, many of these organizations suffer from a performance gap that will make it more difficult for them to master the retention challenges that today's more challenging economic environment may trigger.

Accenture's High Performance Marketing and Customer Management research has shown that one of the defining characteristics of high-performance businesses is their ability to deliver a differentiated customer experience: tailored to specific customer values, needs and intentions, and consistent with the brand promise. Mastering this ability drives customer loyalty—more so than any factor we studied—which in turn contributes to financial performance and greater shareholder value.<sup>2</sup>

The economic rewards of mastering retention and loyalty can be considerable. A study of 16 retail banks conducted by Accenture in North America found that converting customers from a low to medium level of loyalty and from a medium to high loyalty can yield a 20 percent increase in profitability per customer. For some banks in our survey this translates to \$6.0 billion in incremental profit.<sup>3</sup>

Additional research conducted by Accenture, however, has found that many firms seem to be failing to satisfy customer expectations with appropriate customer experiences. The challenges to being "customer-centric" in the current business environment are many—we see them falling into three distinct categories.

- **Knowing the Customer.** In mature markets, customers are growing more diverse and specialized, and they expect providers to understand their changing needs and interests and cater to them. As more companies turn to new markets for growth, they are encountering entirely new consumer segments, with distinct values and preferences of their own, that must be studied and understood.
- **Reaching the Customer.** Channel fragmentation and proliferation make it harder for companies to reach the right customers with the right messages at the right time. Increasingly, consumers control the messages they are willing to receive and notice. Digital and social networking channels play a growing role in their lives—particularly for younger consumers—and most companies are still learning how to factor these effectively into the marketing mix. If they are targeting foreign markets for growth, companies must also find new routes to these markets—typically, a mix of direct and indirect channels—to reach and connect with local customers successfully.
- **Delivering a Differentiated Experience.** The new complexities of knowing and reaching customers ultimately impact the experience companies create for them. Customers tend to have distinct preferences regarding multiple factors that shape their perceptions of and satisfaction with the experience: product functionality, price and service terms, the variety and availability of service channels, to name a few. Understanding and addressing all these preferences is indeed challenging—particularly for companies that serve a large, demographically varied customer base, spanning geographic markets.

As noted above, our recent customer satisfaction survey—conducted in eight countries—found high numbers of consumers had switched providers in the previous 12 months due to the poor service they experienced. Fully half had left more than one provider in the past year for this reason. In addition, more of the respondents who left did so because of a poor experience rather than because they found a better price somewhere else—illustrating the powerful influence of the customer experience on customer behavior and loyalty, even in times of economic uncertainty.<sup>4</sup>

# Develop and retain profitable customer relationships by creating differentiated, customer-centric experiences

## Know the customer

- Understand changing needs and behaviors
- Stay close to valued customers
- Know how to measure loyalty, it's more than just satisfaction
- Invest in loyalty analytics to understand main drivers
- Recognize different loyalty types: conditional, emotional and passive

## Reach the customer

- Address channel proliferation e.g. digital & social networking channels and rising consumer control
- Find new routes to markets
- Create ongoing two-way dialogue via direct & indirect channels
- Develop loyalty even before the customer becomes your customer
- Use analytics to measure effectiveness of initiatives

## Deliver the experience

- Define segment-based differentiated experiences and propositions
- View the entire value chain to be consistent, e.g. third party channels
- Consider and measure all factors: features, price, service channels...
- Manage complexity of differentiated experience cost-effectively
- Empower front-lines to build trust-based relationships

## Key Capabilities

Actionable segmentation and insight

Customer-centric marketing and sales channel management

Customer experience design and management

## Taking Action Today—and Preparing for What Happens Next

As brands become increasingly commoditized and competition grows more intense, customer loyalty has all but vanished. In this environment, having a customer-focused strategy and operating model is critical to staying relevant, competitive and profitable.

In fact, our research shows that a key characteristic of high-performance businesses is their ability to provide a customer experience that is tailored to the preferences, expectations and intentions of specific segments, and consistent with the brand promise.

Certain strategies and actions that made sense in a strong economy will prove unwise in today's uncertain economic climate. Smart and agile companies will adapt and win, while others lose the high ground with their most profitable customers. In summary, mastering this ability is more critical than ever in the current economic climate.

- Customers have new concerns and needs, which makes their behavior harder to predict. Companies need to understand these changes, stay close to valued customers, and clearly demonstrate what differentiates their offerings from the competition.
- Executives are under mounting pressure to reduce costs. Cutting costs indiscriminately, without understanding customer impact, can damage trust, leave customers more receptive to competing offers and make them harder to win back later.
- Even now, opportunities for growth are emerging--new markets, new customer segments, new product categories. Companies must keep a balanced focus on growth as well as customer retention and cost management, to not simply survive the current cycle but come out of it stronger than before.

High-performance businesses remain profitable and drive growth—in strong economies and weak—by staying focused on customer-centric essentials.

- They use actionable segmentation and analysis to know their customers deeply. This knowledge helps them understand changing behaviors, predict future needs and preferences and make more profitable decisions about offerings, pricing, channel strategies, campaigns and customer treatment.
- They use innovative channels and strategic partnerships to reach the right customers at the right times, and engage them in a two-way dialogue that builds trust, strengthens the brand and uncovers new opportunities for innovation and growth.
- They deliver consistent and highly relevant customer experiences that fulfill the brand promise and build trust-based relationships--by keeping customers at the center of business strategy, process design and management, organizational design and talent management.

Businesses can use this time to create a stronger foundation for profitability and future growth—by taking aggressive steps to gain deeper understanding of the customer and set expectations in line with the experiences you are prepared to deliver. It's also vital to manage customers with their current and potential profitability in mind.

Some companies will survive the current cycle; others will thrive because they made this an opportunity to renew customer focus. By making smart near-term decisions based on strong analysis and a long-term perspective, they will optimize investment in marketing and sales; preserve trust in relationships with valued customers; and benefit from the clear opportunities for growth available even now.



## A New Mindset

These challenges are already familiar to many organizations and many initiatives have been launched to address them. What has changed is the degree of urgency: current economic conditions and the resulting potential for increased price-based competition and customer churn make maintaining profitable relationships—and expanding the value of these relationships—imperatives for sustaining high performance during these uncertain times.

Changing the corporate mindset can be an important step. When companies think about customer retention, they often frame the issue as “How do we keep customers from going to someone else?” By approaching the issue as a negative—something they must keep from happening—companies may lose focus on the ultimate goal—loyalty. Customer care may start to seem like a distraction from the core agenda.

A more useful perspective casts the issue as a positive: “How do we get customers to want us more than the alternatives?” By truly knowing what customers want and expect today, companies create a better basis for determining needs, predicting future behavior and shaping customer experiences accordingly.

Be wary of equating customer loyalty with customer satisfaction. Satisfaction can be an easy thing to measure, but is seldom a reliable predictor of loyalty. For example, while more than half (58 percent) of consumers in our recent customer satisfaction survey described the quality of customer service overall as good or excellent, more than half (55 percent) also said their expectations were met only sometimes or rarely or even never. As noted, 67 percent reported they had switched providers at least once in the past year as a result of having a poor experience—and

those who felt their expectations were met less often were the most likely to switch—regardless of how positive they reported being about overall customer service quality.

It is also possible to miscalculate when striving to “delight customers.” Building loyalty and improving retention does not demand doing everything for everyone all the time—the customer experience must serve specific business goals, as well as customer interests. The fact is: all customers are not created equal. Cost to serve, for example, should be aligned with customer lifetime value and the value potential of specific interaction. When capital must be conserved and spending optimized, customer loyalty programs should focus on the most valuable customers, rather than customers unlikely to generate more value than what it will cost to keep them in the customer base.

Reducing cost-to-serve—for example, by cutting workforce—without proper consideration can also be a fatal betrayal of consumer trust and confidence, and drive customers to providers that offer a more value-added experience. Moreover, indiscriminate cost reduction can also eliminate capabilities critical for future success, or leave the company with insufficient flexibility to respond and adapt to changing market circumstances.

A more practical option for reducing costs is to shift more customer contacts to lower-cost self-service channels, while reserving costlier support options for the more valuable customers. Identify the customers who would prefer to handle specific interactions through self-service channels and shift these interactions towards those channels—remembering that a self-service experience should also be a good service experience: personalized, consistent and convenient.

Another strategy for cost management may be to focus less on outbound marketing campaigns, and focus more on inbound customer inquiries—for example, eliminating the root causes for why customers need to call in the first place, such as confusing billing information. Companies should also focus on maximizing the overall return on what they invest in customer service. Make inbound customer contacts opportunities to improve customer perceptions and develop new commercial opportunities—for example, by minimizing the customer call waiting times; handling customer inquiries with minimal number of transfers, or training service agents to suggest additional or upgraded services tailored to customer needs and preferences. Accenture’s consumer research suggests that customers place a high value on specific aspects of the customer experience such as these, and companies that meet expectations in these areas minimize the risk of customer defection.<sup>5</sup>

<sup>1</sup>High Performance in the Age of Customer Centricity, customer satisfaction research, Accenture, 2008.

<sup>2</sup>High-performance marketing and customer management research, Accenture, 2005.

<sup>3</sup>Accenture research and analysis, October, 2007.

<sup>4</sup>High Performance in the Age of Customer Centricity, customer satisfaction research, Accenture, 2008.

<sup>5</sup>High Performance in the Age of Customer Centricity, customer satisfaction research, Accenture, 2008.

Accenture can help companies sustain performance in a challenging market. We design strategies for profitable retention and acquisition based on deep market and customer insights; execute these strategies quickly and efficiently; and measure and manage these programs for increased return on investment.

### North American Consumer Goods Retailer

Eroding market share prompted this leading retailer to shift its strategy from a focus on dominating product categories to dominating customer segments. To achieve this transformation, the company needed to deliver a branded, customer-focused experience, and transform a wealth of customer data into deep insight into customer needs and values. Accenture helped by defining six strategic customer segments, and identifying the specific capabilities and tailored customer experiences needed to target and develop these segments.

High performance delivered: The knowledge gained from this segmentation and analysis enabled the company to identify, prioritize and address the needs of its most valuable customers. As a result, the company improved customer loyalty within target segments by 11 percent, while increasing market share and in-store sales.

### UK Telecommunications Provider

Worldwide, telecommunications providers face rising customer churn and a declining margin on customer relationships. This UK-based company wrestled with another challenge as well: it had a great deal of information about customers, but little insight into how best to reach and interact with customers. For example, it tended to offer loyal customers financial incentives they did not require to remain loyal. Accenture developed a model for churn propensity that identified disloyal customers and enabled the company to connect with these customers at the times more relevant to retaining them.

High performance delivered: As a result of these and other improvements, the company increased the recommitment campaign response rate by 30 percent, and increased average return per unit per connection.

### Global Financial Services Institution

This leading investment bank had a strong and profitable client franchise but was delivering a sub-optimal experience to these clients across contract channels. By providing inconsistent client interactions and duplicate client communications and failing to capitalize on inbound customer contacts, the company was experiencing a decline in cross-selling and was putting valued relationships at risk. Accenture implemented "trigger-based" marketing capabilities that helped the bank improve the consistency of the client experience, while fully developing the significant commercial potential of inbound customer contacts.

High performance delivered: By improving the relevance and quality of the customer experience, the company enjoyed a significant revenue boost which soon repaid its investment in new capabilities for client interaction. It also enhanced customer loyalty, reduced its time to market with new offers and campaigns and optimized campaign spending.

For more information about out how Accenture can help your organization on the journey to high performance, please contact us at [managementconsulting@accenture.com](mailto:managementconsulting@accenture.com) or 1 312 737-4568. For more Accenture insights on customer acquisition and retention in uncertain times, visit us at [accenture.com/centricity](http://accenture.com/centricity)

## About the Authors

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