Chapter – 4
Customer Loyalty & Satisfaction

- **Customer Loyalty – factors and drivers**

Factors That Affect Customer Loyalty
There's no question that the product itself has to be competitive, priced right and deliver superior value. But, beyond the product itself, several factors can make the difference in, a much sought after, loyal customer. Here's our top 7:

1. Convenience.
When buying consumer products, many loyal customers stray simply because the store where they regularly buy your product ran out or doesn't carry it anymore. They may still prefer your product, but after all, there are other brands in stock and they don't have time to chase your product down.

2. Expectations.
Your product must continue to live up to their expectations in every way. It not only has to continue to deliver on its brand promise and remain relevant, but its price, value, and availability must continue to be dependable.

3. Customer Service.
The way your company stands behind its products can be as valuable as the product itself. A good warranty and swift resolution of issues keep customers, who may have had a disappointing experience, buying your product.

4. Personal Relationships.
The way customers are treated by third parties, such as salespersons, store clerks, or your own representatives can make or break customer loyalty. Many don't buy your product so much as they "buy" the person who sold it to them.

5. Rewards.
Customers want some consideration for continuing to do business with you, especially when they have other options. Offering savings, bonuses, and other forms of special attention to your loyal customers can not only keep them from going elsewhere but may be the reason they recommend you to their friends.

6. Reputation.
How your product plays in the media, both commercial and social, can influence long-term relationships. Your companies financial, labor, and sourcing practices are now subject to the scrutiny of an increasingly transparent world where consumers realize that they vote with their purchases.

7. Community Outreach.

When you stand for something beyond your product, when you support the causes important to your customers, and when you participate in their community, you build a bond of loyalty that is hard to break. This gives them a social reason to become and remain loyal.

Customer loyalty is a choice every consumer makes daily. The good news is that most customers don't want to shop. It's time-consuming and fraught with anxiety. It's so much easier and much more comfortable to just stay put – with a brand they know and trust. Respect for these 7 factors can stop them from shopping and keep them saying, "I love these guys!"

Drivers of Customer Loyalty

It is very important for an organization to identify the factors and facets which drive customer loyalty. These factors help the organization to manage customer loyalty in a better and efficient way. Following are the drivers of customer loyalty:

Attitude:

A customer to bear on his loyalty can have following types of attitude:

a.   Emotional and sentimental- Some customers stick to a particular supplier due to the emotional and sentimental attachments with that supplier. This attachment may be due to the physical location of the supplier, product pattern provided by the supplier that exactly suits customer or may be due to the esteemed assistance and services provided by him. This type of bonding enhances customer loyalty and it is very difficult to break this bonding under any circumstances.

b.   Rational Type- Such type of customer makes purchase decision rationally. Before making any purchase they evaluate the suppliers and assess the profitability criteria.

c.   Entrepreneur Type- These types of customers have a habit to try new options. Their decision to choose supplier is normally irrational and can change their loyalty to other suppliers even if they are satisfied with existing customers. It's difficult for the supplier to retain or manage these types of customers as no situation could bind them.

Product and services:

Following are the important aspects of product and services that could substantially help in retaining loyalty of customers.

a.   Differentiated Products and Services- Differentiation in products and services help the organization to reduce competition in market and have substantial influence on customers' mindset.

b.   Multiple Products for the same customer- By manufacturing multiple products for the same customer enhances the relationship with customer which increases loyalty. If the customer is loyal towards any one brand then there are good chances to retain his loyalty for whole range of brands.

c.   High Service Component- The products having a high service component captures more customer loyalty. This is because the customer does not want to experiment with other products

provided by different supplier. Hence they become loyal to the existing customer due to the provision of high service components.

Technology: The technological aspects of product manufactured by the supplier plays a vital role in customer loyalty. The more products are technologically sound, more is the loyalty.

Human Resources: Organizational human resource plays a vital role in marketing segments where customer comes in direct contact. In some consumer sectors like household and automobiles, the customer gets a chance to evaluate capability of organizational human assets. If the customer evaluates these human assets as useful and is influenced by the aspects then he develops a positive feeling against the supplier who posses these enhanced human assets.

Supplier's Culture: Supplier's culture is most important driver of customer loyalty. In consumer sector this culture means quality and in core sector it can be related to technology. For example, in US 'Friedrich' has ranked with good quality, enhanced design and user friendly features which have created brand loyalty. In Indian the supplier of almost all the dairy product called 'Amul' has pursued customer loyalty because of their overall culture. In core sector the image of the supplier is the biggest driver of loyalty. This image could add a status symbol for most of the customers. 'Mercedes' automobiles and 'RayBan' sun-glasses are example of this. The customers uses these products only for maintaining or enhancing their lifestyle and always be loyal to them.

- **Attitudinal and behavioural components of loyalty**

A person who shops at the same place regularly is "behaviorally" loyal, while a person who tells others how great a product is, or simply feels really positive about the brand him or herself internally, is "attitudinally" loyal. Yes, in many cases a person can be one without the other; in fact, very frequently this is the case. Some people grudgingly shop at a place because they have no other choice, or where the costs of shopping elsewhere just aren't worth the effort. In other cases, a person might love a particular business and rave about it to all their friends, but then rarely shop there themselves (like if they can't afford it, or it's too inconvenient).

Behavioral loyalty is critically important for a business because it means customers are buying, and without buying there are no revenues. However, unhappy customers can be easily enticed to shop elsewhere, either by existing or future competitors, plus they can deter other potential customers through negative word of mouth.

Attitudinally loyal customers on the other hand are great for businesses because they add strength to already positive brands, plus their word of mouth promotions can be invaluable in attracting other customers. If the attitudinally loyal customer isn't behaviorally loyal too, however, meaning that they don't put their money where their mouth is so to speak, then even though that customer has promotional value, he or she contributes very little or no direct revenues to the business. A business with lots of people who like the brand but never spend money will not be in business for very long.

- **Customer Loyalty Ladder**

Customer Loyalty Ladder Categories

Customer Loyalty Ladder classifies the people related to the product based on their engagement. People are classified as suspects, prospects, customers, clients and advocates. The below mentioned diagram shows the customer loyalty ladder:

The five different categories under Customer Loyalty Ladder are:

1. Suspects:

They are the potential customers for an organization. They may be aware of the promotional campaigns of the organization but are currently doing no business with that organization.

2. Prospects:

They are the ones who have been impressed with the organization's promotions and are in serious consideration of buying products of the organization. The organization must treat them cordially and solve all of their doubts.

3. Customers:

They have bought products of the organization for the first time and are currently using them. The organization must extend them all possible after-sales assistance in order to pacify their concerns. These customers can be engaged with a loyalty program or a loyalty discount.

4. Clients:

They are doing business repetitively with the organization and are willing to foster the engagement in future. Clients if well engaged can help boost business with their brand loyalty.

5. Advocates:

They are not only doing repetitive business with an organization but are also recommending the organization to their own acquaintances. They are the most valuable players and the organization must treat them royally with the highest priority.

- **Loyalty programs**

By definition, a customer loyalty program is a marketing approach that recognizes and rewards customers who purchase or engage with a brand on a recurring basis. A company may dole out points or perks, and graduate customers to higher levels of loyalty the more they buy. These incentives and specific benefits often result in the customer becoming a more regular consumer or the ideal — a brand promoter. Benefits may involve free merchandise, rewards, coupons, or insider perks like early access to new products.

The benefits of customer loyalty programs include:

- Better customer retention: Today, customers are making purchasing decisions not just on price, but on shared values, engagement, and their overall experience of your brand.

- More customer referrals: If your customers enjoy the benefits of your customer loyalty program, they'll tell their friends and family about it.

- Cost efficiency: It's more cost-effective for your business to retain happy customers than it is to consistently churn and acquire new ones.

- User-generated content: Programs that encourage happy customers to publish reviews and ratings on websites and social media create authentic ambassadors for your brand.

- **Customer Equity- strategy and Customer Life Time Value (CLV)**

Customer equity is a result of customer relationship management. Customer equity is the total of discounted lifetime values of all of the firms customers. In layman terms, the more loyal a customer, the more is the customer equity. Firms like McDonalds, Apple and Facebook have very high customer equity and that is why they have an amazing and sustainable competitive advantage. Customer Lifetime Value or CLTV is the present value of the future cash flows or the value of business attributed to the customer during his or her entire relationship with the company.

The basic formula for calculating CLTV is the following (1):
(Average Order Value) x (Number of Repeat Sales) x (Average Retention Time)

Customer Lifetime Value
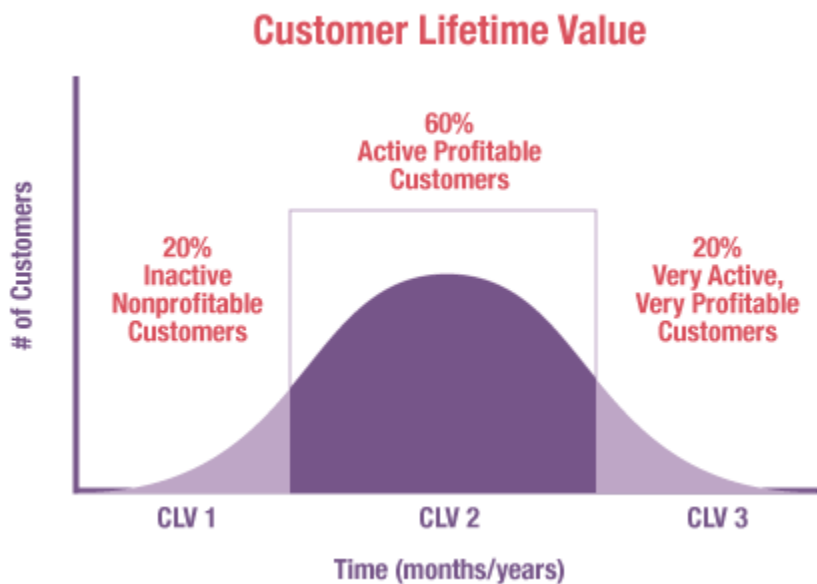
- **Customer Satisfaction – meaning , importance, influencing factors**

As defined by Wikipedia, customer satisfaction is "a measure of how products and services supplied by a company meet or surpass customer expectations."

To put it simply, it is about whether or not you succeeded in making your customers happy and will they continue being your customers in the future.

Figure 1
Six Competitive Advantages through Customer Satisfaction
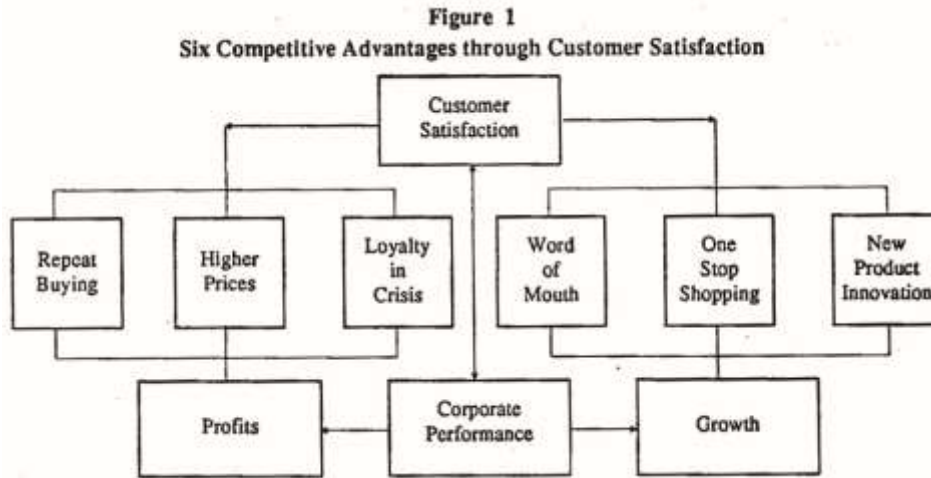
- **Measuring customer satisfaction- C SAT score**

CSAT is short for Customer Satisfaction, which is a commonly-used key performance indicator used to track how satisfied customers are with your organization's products and/or services.

CSAT is measured by one or more variations of this question that usually appears at the end of a customer feedback survey:

"How would you rate your overall satisfaction with the [goods/service] you received?"

Respondents use the following 1 to 5 scale:
1. Very unsatisfied
2. Unsatisfied
3. Neutral
4. Satisfied
5. Very satisfied

The results can be averaged out to give a Composite Customer Satisfaction Score, although CSAT scores are more usually expressed as a percentage scale: 100% being total customer satisfaction, 0% total customer dissatisfaction.

Want help writing your CSAT Survey? Check out our free satisfaction survey templates.

Calculating CSAT

To do this, only responses of 4 (satisfied) and 5 (very satisfied) are included in the calculation, as it has been shown that using the two highest values on feedback surveys is the most accurate predictor of customer retention.

(Number of satisfied customers (4 and 5) / Number of survey responses) x 100 = % of satisfied customers