

## Advances in Customer Loyalty Measurement



### Introduction

Many organizations recognize the value of understanding customer needs and perceptions as precursors to developing and implementing successful business strategies. Incorporating this Voice of the Customer (VOC) into management dashboards reduces “internal myopia”—the tendency of some managers to focus only on the internal, operational standards and processes associated with running their portion of the business. In addition, customer attitudes and planned loyalty-related behaviors are critical complements to the financial data streams that virtually all managers monitor closely.

Central to comprehensive VOC measurement systems is the primary loyalty metric tracked over time and examined separately for various segments of the organization’s customer base. Business managers use such survey-based loyalty measures in a variety of ways:

- As a leading indicator of customers’ buying behaviors
- As a component of variable compensation systems
- As an outcome or “end state” used to identify performance dimensions that have the most impact on a company’s business success

Given the importance of loyalty measures to managerial actions, researchers must demonstrate the appropriateness and validity of loyalty measures produced by customer measurement systems. As a leader in customer loyalty measurement and management, Burke offers organizations a validated technique for measuring customer loyalty so that decision makers can rely on such information to improve business performance. Burke’s approach derives from longitudinal, primary research examining the relative importance of many dimensions of loyalty on future and concurrent customer behaviors.

## Burke Research & Development on Customer Loyalty

This R&D project involved two periods of online data collection. In the first measurement period, customers evaluated up to two companies from which they purchase. Customers reported their loyalty on a number of dimensions, as well as what share of purchases in the category they direct to the company evaluated (“share of wallet”).

Companies evaluated spanned a variety of industries in both business-to-consumer and business-to-business environments.

Customers were re-contacted 18 months later and asked whether they have continued to purchase from the companies evaluated in the first measurement phase. Retained customers again reported their loyalty on a number of dimensions and the share of their category purchases allocated to the company.

## Burke’s Secure Customer Index®

For over two decades, Burke has been a leader in Customer Loyalty and Relationship Management, establishing best practices used to assist organizations with their customer retention strategies. Burke set industry standards by going beyond the measurement of customer satisfaction to include two additional dimensions of loyalty in its Secure Customer Index® (SCI®):

- Likelihood to make future purchases
- Likelihood to recommend the company to others

Satisfaction, along with repurchase likelihood and recommendation likelihood, were combined to form the SCI®, which represented the percent of customers giving the most favorable response on each of these three survey items. That is, customers were classified as “secure” if they were very satisfied, they definitely would repurchase, and they definitely would recommend the organization to others.

Using recent Research and Development findings, Burke has extended its original customer loyalty measurement approach. The new Secure Customer Index® represents a substantial advancement in the science of customer loyalty measurement. Among other benefits, the new SCI® includes two additional components of customer loyalty, specifically the degree to which customers prefer the brand or company to all others, and whether

customers believe the company has earned his or her loyalty. With customers’ responses to these and the original three survey items (satisfaction, repurchase, recommendation), the degree of customer loyalty for an individual or a group of customers is represented by the proportion of “points” attained across the five dimensions.

The following sections describe five key requirements for any survey-based measure of customer loyalty, and how the new SCI® meets each one.

**Degrees of Customer Loyalty.** Capturing gradations of customer loyalty toward a company allows business managers to react differently, for example, to customers who are nearly but not completely loyal, as well as customers who have not yet defected to a competitor but who are



“shopping.” With the point allocation construction of the new SCI®, this index draws from the full range of customer responses to represent customer loyalty as a continuum.

**Parsimony.** Low respondent cooperation levels continue to besiege the survey research industry. However, customer loyalty research must employ adequately sized and materially representative samples of customers, particularly when survey results are inputs to variable compensation paid to managers. Accordingly, customer survey systems must not alienate customers by compelling them to complete long surveys. The new SCI®, which uses only five survey items, meets this important requirement.



**Measurement Migration Ease.** As previously discussed, overall customer satisfaction, a customer’s likelihood to make future purchases, and a customer’s intent to recommend the company have essentially defined survey measurement of customer loyalty for the last decade or more. These three dimensions, especially overall satisfaction, permeate the vernacular of diverse company employees, from senior executives to customer service representatives who interact directly with customers. In fact, many customer loyalty measurement programs are simply referred to as “the Customer Satisfaction Program.” Customer loyalty measures are often integrated into managerial information systems and compensation calculations, so migration to new measurement approaches sometimes proceeds with caution. To ease the transition of measurement programs to the new SCI®, Burke has retained the “original three” dimensions of customer loyalty.

**Multidimensionality.** Customer loyalty experts generally agree that loyalty is multidimensional. That is, loyalty consists of a complex mix of attitudes and expected behaviors. Furthermore, the widely varied nature of business across industries can mean that dimensions of loyalty differ in importance across industries, and even across markets served by a single company. In addition, the predictive value of each loyalty dimension can change over time, due to any or all of the following:

- Changes in competitive activities, including advertising and promotional programs
- Changes in the company’s own marketing communications, particularly the overall image the company promotes
- Regulatory changes that enable consumer choice where little previously existed
- Economic changes that limit consumers’ ability to purchase preferred or favored brands

Because of these dynamics and the sheer complexity of customer loyalty, Burke continues to take a multidimensional measurement approach.

**Linkage to Business Outcomes.** Customer loyalty measures must be linked to important business outcomes. This critical link is best represented by the association between customer loyalty at one time and customer outcomes at a later time, often called “longitudinal” analysis. Figure 1 shows that for all industries combined, the new SCI® outperforms satisfaction by 107%; it also outperforms the old SCI® by a substantial margin.

## Longitudinal Linkage with Share of Wallet



Figure 1 | All Industries

## Cross-Sectional Linkage with Share of Wallet



Figure 2 | All Industries

\*Correlations are indexed to the correlation between overall satisfaction and share of wallet.

While such longitudinal linkage is ideal, the strength of association between customer loyalty and customer outcomes during the same general time period (“cross sectional linkage”) can provide insight about the relationship between customer attitudes and behaviors. Figure 2 shows that the new SCI® has a significantly stronger link than satisfaction alone or the old SCI® to share of wallet measures concurrent with the loyalty measurement.

Similar patterns emerge when performing longitudinal linkage analysis for business-to-consumer and business-to-business companies separately (see Figures 3 and 4 on next page).

### Longitudinal Linkage with Share of Wallet



Figure 3 | Business to Business



Figure 4 | Business to Consumer

\*Correlations are indexed to the correlation between overall satisfaction and share of wallet.

### Conclusions

Before using VOC measures in making decisions about strategies and tactics, business managers demand evidence that such customer loyalty measures are connected to important business and financial outcomes. By basing its approach on R&D using real customer survey data, Burke has enhanced its Secure Customer Index® by “building in” even stronger demonstrable links to business outcomes. Its linkage to important business outcomes, along with its performance on other critical success factors make Burke’s Secure Customer Index® the loyalty measure of choice for a broad range of businesses in a vast array of industries. Organizations seeking an “upgrade” to existing customer loyalty programs, as well as those measuring the Voice of the Customer for the first time can have confidence when using the SCI® to provide direction for strategic and tactical business strategies aimed at increasing customer loyalty.

FOR MORE INFORMATION CONTACT

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