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CUSTOMER LOYALTY IN INDUSTRIES WITH LIMITED COMPETITIVE CHOICE

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Are customer loyalty scores generally lower for industries in which buyers must select from a very small set of providers? In categories such as cable or satellite TV, wireless phone service, and utilities, consumers often have a very small set of provider options, and sometimes they only have one option. Some experts claim that loyalty metrics, such as Burke's Secure Customer Index (SCI),® are lower for such "limited choice" industries than is the case in industries where many choices exist for the purchasers of the product or service.

Using the data in Burke's SCI database, we explored this issue empirically. For this investigation, 348 cases were identified that reflected limited choice industries/markets (e.g., such industries as utilities, cable TV, satellite TV, cellular services and several specialty brands). Another 173 cases were identified that represented industries/markets affording customers with ample choice (e.g., financial services, insurance, petroleum products, retail outlets, automotive products, and industrial products).[1]

Results indicate that, for industries with limited choice, the median SCI is 25%, and the maximum SCI is 52%. In contrast, the median SCI for industries with ample choice among providers is 38%, and the maximum is 74%.

Clearly, customer loyalty measurement is affected by the presence or absence of competitive choice in an industry. Industries in which customers have limited choices have lower SCI scores than do industries where a larger number of competitive options exist.

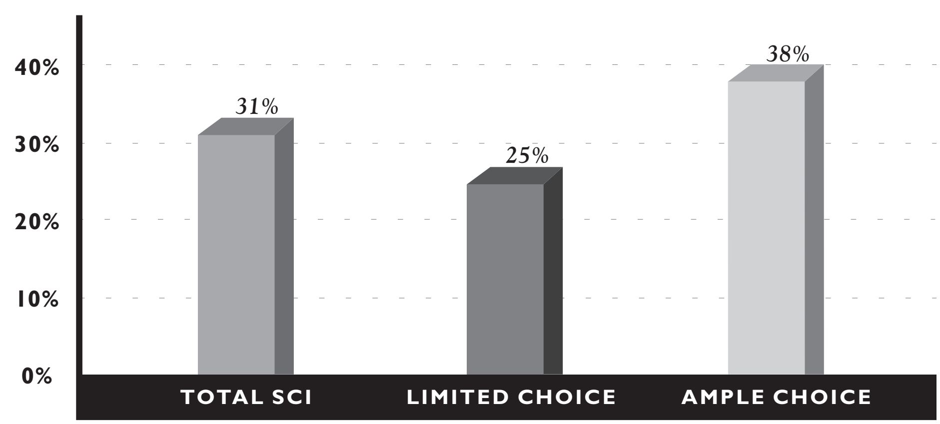
What's behind this apparent suppression of loyalty measures among consumers with little choice in product manufacturers or service providers? One potential explanation relates to a concept called "psychological reactance." According to social psychologist Jack Brehm,[2] when a person feels that his or her freedom to choose has been reduced, that person often deems the "forced" selection to be less desirable, and merely the one s/he "has to live with."

Another potential explanation stems from economic rather than psychological theory. It suggests that because limited consumer choice stems from a real reduction of competition in the category, the actual quality of the product or service is reduced; competition breeds continuous improvement to survive. Thus, variations in the actual quality delivered would account for variations in loyalty scores between firms in limited choice versus ample choice markets/industries.

Of course, a company in a limited choice industry should be aware that a lower SCI does not necessarily indicate poor performance — the lower score might simply reflect the fact that the business is in a limited choice industry. Conversely, a business that is not in a limited choice industry might still need to increase customer loyalty even if its SCI is relatively high. The higher SCI may simply reflect the fact that it is in an industry with a broader array of choices.

The preceding discussion highlights the importance of exercising great care when using normative data to interpret how a company is performing in the eyes of its customers. While normative data can provide some guidance when competitive and trended data do not exist, their value is limited by some degree of aggregation error; norms are created by aggregating data from a group of substantively different cases that might differ on important variables. Thus, while normative data provide context for interpreting loyalty measures, factors such as the number of choices available to customers must be considered.

In summary, measures of loyalty from customers whose product or service choice is limited to one or only a few options tend to be lower than measures taken among customers who can choose among a larger number of options. This pattern must be considered in judging whether a particular loyalty score is favorable or unfavorable.



[1] Cases included in this analysis do not include those in industries whose degree of choice was unknown or highly variable.

[2] Brehm, S. S., & Brehm, J. W. (1981). *Psychological Reactance: A Theory of Freedom and Control. New York: Academic Press.*