



# Curating customer loyalty



# Introduction

Loyal customers are not only repeat customers, but can also positively affect the purchasing decision of others.<sup>1</sup> This paper seeks to further explore the concept of customer loyalty, in particular its definition, measurement and preservation.

---

1. See previous ContactEngine paper on The Power of Peer-to-Peer communication.

## Defining customer loyalty

According to the Financial Times' Lexicon, customer loyalty occurs when *"people choose to use a particular shop or buy one particular product, rather than use other shops or buy products made by other companies. Customers exhibit customer loyalty when they consistently purchase a certain product or brand over an extended period of time"*.<sup>2</sup> Repeat purchasing is indeed an indication of loyalty, but there are two additional factors that need to be taken into account:

- Loyalty is one of several reasons why people may purchase a particular product time-and-time again. Other reasons include *"inertia, indifference, or exit barriers erected by the company or circumstance"*.<sup>3</sup>
- The emotional aspect of loyalty. The Cambridge Dictionary defines loyal as *"firm and not changing in your friendship with or support for a person or an organization, or in your belief in your principles"*.<sup>4</sup> It has been argued that the true demonstration of customer loyalty is when an individual risks their personal reputation to recommend a company or product to other people.<sup>5</sup>

Perhaps a more helpful and complete definition of customer loyalty is therefore:

*Customer loyalty occurs when customers consciously and voluntarily choose to purchase a given product repeatedly over time, and voluntarily act as an advocate of that product.*<sup>6</sup>

Given the benefits of customer loyalty are repeat purchasing and advocacy, it is clear why companies are keen to understand, measure, monitor and preserve customer loyalty. The measurement and preservation of customer loyalty are discussed in sections 3 and 4.

## Measuring customer loyalty

### The importance of customer loyalty

Before considering the measurement of customer loyalty, it is worth considering the degree to which loyalty is relevant to a given product.<sup>7</sup> An extreme example is a company operating in a perfect monopoly – customer loyalty is irrelevant, unless that monopoly is subsequently broken and competitors allowed to enter. Compare this to a company operating in a highly competitive market where little to no switching costs for consumers exist – in these markets customer loyalty is highly relevant. Figure 1 provides a simplified illustration of the relationship between loyalty, market competitiveness and switching costs.<sup>8</sup>

2. <http://lexicon.ft.com/Term?term=customer-loyalty>

3. Harvard Business Review (2003) The One Number You Need to Grow.  
<https://hbr.org/2003/12/the-one-number-you-need-to-grow>

4. <http://dictionary.cambridge.org/dictionary/english/loyal>

5. Harvard Business Review (2003) The One Number You Need to Grow.  
<https://hbr.org/2003/12/the-one-number-you-need-to-grow>

6. Loyalty can be defined and applied similarly to services, companies, brands, etc.

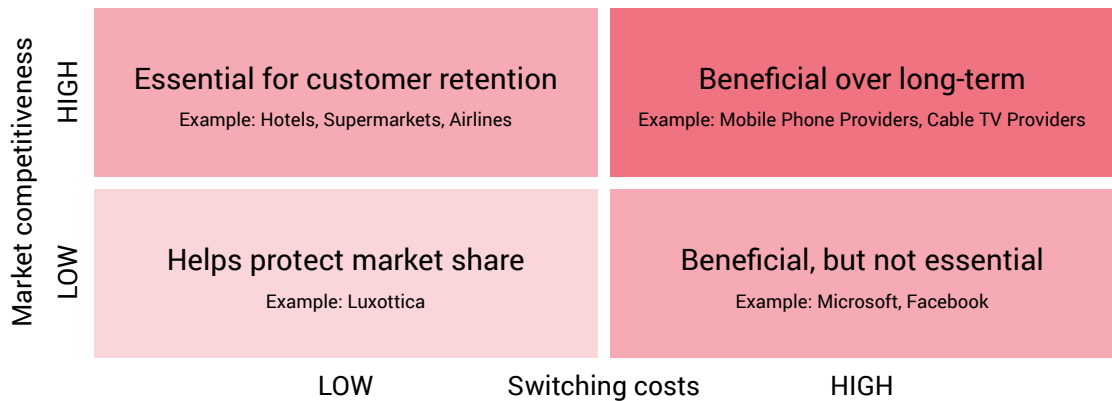
7. The word 'product' is used here for simplicity, but can be replaced with service, company, brand, etc.

8. Switching costs are not only financial in nature.

For example, loyalty points or specific product features could constitute a switching cost if they are lost on switching.



Figure 1  
**The importance of customer loyalty**



The rationale for customer loyalty being essential in highly competitive markets with low switching costs is obvious. Where switching costs and market competitiveness are both high, customer loyalty is beneficial, but not immediately essential as customers are locked-in – however, consider what happens if and when that high switching cost decreases, such as the expiration of a contract. At that point loyalty becomes vital. A similar argument holds for markets with low competition but high switching costs, although, if and when a high switching cost decreases, the customer has fewer options available to them, so the importance of loyalty is somewhat muted. Where low competition and low switching costs exist, customers have fewer options available to them, but can easily switch between those options – loyalty will therefore decrease the likelihood of switching and protect market share.

### Measuring customer loyalty

Prima facie, it would be logical for a link between customer satisfaction and loyalty to exist, as a dissatisfied customer is unlikely to become a loyal one. Research has found this link to exist, but the relationship between customer satisfaction and loyalty is not a linear one. A study by Sasser, Jr. & Jones (1995) identified that, unless a customer is completely satisfied, they are unlikely to be a loyal customer, as shown in Table 1.<sup>9</sup>

Satisfaction (Out of 5)	Description	Loyalty
5	Completely satisfied	Very loyal
3-4	Satisfied	Easily Switched to a Competitor
1-2	Disatisfied	Very Disloyal

The implication of these findings cannot be understated. Unless a company is achieving the highest level of customer satisfaction, then it will not have loyal customers. Sasser, Jr. & Jones (1995) concluded that the *“the safest approach is to seek total customer satisfaction”*<sup>10</sup>. However, perhaps surprisingly, subsequent studies have found neither profit nor growth to be strongly correlated with customer satisfaction.<sup>11</sup> Customer satisfaction may therefore be linked to loyalty, albeit non-linearly, but is not correlated with profit or growth.

There are numerous possible reasons for the lack of correlation between customer satisfaction and profit or growth. For example, customers may not be entirely truthful about their satisfaction, or gaming may exist whereby sales agents provide a quid pro quo to customers that provide high satisfaction ratings. Regardless of the reason, if customer satisfaction does not directly result in growth or profit, then chasing customer satisfaction would appear an erroneous commercial goal. This is not necessarily the case when an alternate view of the satisfaction-loyalty relationship is considered – rather than customer satisfaction being viewed as a driver of/proxy for loyalty, it can instead be viewed as a prerequisite for loyalty. After all, in most circumstances an unsatisfied customer is unlikely to be a loyal one.

9. Harvard Business Review (1995) Why Satisfied Customers Defect. <https://hbr.org/1995/11/why-satisfied-customers-defect>

10. Ibid

11. Harvard Business Review (2003) The One Number You Need to Grow. <https://hbr.org/2003/12/the-one-number-you-need-to-grow>

Companies do therefore need to monitor customer satisfaction to ensure that it is supporting the creation of loyalty, but should not be fooled into thinking that satisfied customers are loyal customers, or that high satisfaction levels alone will lead to profit or growth.

Although customer satisfaction does not correlate strongly with profit or growth, research has identified a strong positive correlation between growth and one particular loyalty-related measure – the likelihood of an individual recommending a product to another person, more commonly referred to as Net Promoter Score (NPS).<sup>12</sup> The popularity of NPS is easily understood given its simplicity and correlation to growth. However, as with nearly every measure, it is not a perfect one. For example, NPS identifies only one-half of what loyalty comprises, as it does not measure whether or not a promoter has made repeat purchases, nor does it provide any insight into what is helping or hindering the conversion of customers into promoters. To identify a truly loyal customer, companies need to be able to reconcile the promoter score of a customer with their buying behaviour, and, once identified, companies should seek to understand what they have done to successfully convert those customers into loyal ones.

## Preserving customer loyalty

The harsh reality of customer loyalty is that it takes time to build, but is quickly lost. A 2010 Harvard Business Review article identified customer service failures as a primary cause of customer loss, noting that *“although customer service can do little to increase loyalty it can (and typically does) do a great deal to undermine it. Customers are four times more likely to leave a service interaction disloyal than loyal”*.<sup>13</sup>

Given the role that customer service plays in developing and maintaining customer loyalty, it is vital that companies focus on delivering both exceptional customer service as well as an exceptional overall customer experience. The use of the word exceptional in this case refers to the fulfilment of the most basic of customer expectations, as *“loyalty has a lot more to do with how well companies deliver on their basic, even plain-vanilla promises than on how dazzling the service experience might be”*.<sup>14</sup> Companies would therefore do well to understand the most basic service needs and expectations of their customers and ensure they are fulfilled before developing a more complex approach. Similarly, companies already operating complex customer service approaches should review them to ensure basic needs are being fulfilled, addressing any shortfalls as required – simplifying a complex customer service approach could deliver significant benefits.

---

12. Ibid.

13. Harvard Business Review (2010) Stop Trying To Delight Your Customers. <https://hbr.org/2010/07/stop-trying-to-delight-your-customers>

14. Harvard Business Review (2010) Stop Trying To Delight Your Customers. <https://hbr.org/2010/07/stop-trying-to-delight-your-customers>

# Conclusion

Unless operating in a perfect monopoly that is unlikely to be broken, customer loyalty helps companies to retain and increase market share – be it through repeat purchasing, or customer advocacy positively influencing the purchasing decision of others – and lower customer acquisition costs. Although the benefits of customer loyalty are clear, the way to create it is not, primarily due to the complex interaction between emotion and rationality involved. Whilst there is no method guaranteed to convert every customer into a loyal one, there are a few simple takeaways from this paper to increase the likelihood of customer loyalty occurring:

- **Focus on fulfilling the most basic requirements of a customer first, and doing so in a consistent manner across all points of the customer journey**
- **Avoid the trap of mistaking a satisfied customer for a loyal one – satisfaction is a prerequisite for loyalty, but is not loyalty in and of itself**
- **Acknowledge that customer loyalty has a human/emotive element beyond repeated purchases and free customer service agents to act accordingly, including building relationships with customers<sup>15</sup>**

Finally, remember that loyalty is fragile – complacency toward customer loyalty poses risks to the success of a business, be it in the short-term, long-term, or both.



15. See ContactEngine's 'The Power of Peer-to-Peer Communication' paper for further discussion on how customer service agents can build customer satisfaction and loyalty.



**Visit** [contactengine.com](https://www.contactengine.com)  
**Follow** [@contactengine](https://twitter.com/contactengine)  
**Email** [info@contactengine.com](mailto:info@contactengine.com)  
**Contact** +44 20 33 940 840

## About

The report is published by ContactEngine Limited

Registered Office: The Clergy House, Mark Square, London EC2A 4ER

ContactEngine is the next generation Customer Engagement Hub technology that enables brands to proactively engage customers in AI-driven conversations to fulfil business objectives. ContactEngine automates outbound customer engagement across all channels and generates unique insights into the changing patterns of communication by applying demographic and intent analysis, linguistics and ground-breaking artificial intelligence principles to millions of raw data. ContactEngine transforms the way global brands engage with their customers - saving brands millions and making their customers happier.

For more information, visit [www.contactengine.com](https://www.contactengine.com)