Three's not the magic number

When measuring loyalty satisfactorily, don't measure CS

By WILLIAM D. NEAL

I just saw it in another article—some corporate research director talking about how his company is successfully measuring customer loyalty with the magic three questions:

- Overall, how satisfied are you with ______?
- Would you recommend ______?
- Do you intend to repurchase ______?

That's ridiculous! Those questions do not measure loyalty. Indeed, they usually are measuring the same thing—satisfaction with the product or service. For most people, if they are satisfied with a brand and say so when asked, then they also are highly likely to say they would recommend that brand to others and that they would likely repurchase that brand in the future.

If you don't believe me, run simple correlations between the three. If they are measured on a decent scale and you get something less than a .80 correlation, I will be surprised.

You cannot turn a customer satisfaction measurement instrument into a customer loyalty measurement instrument by simply adding the two other questions. You are just measuring the same thing two more times. Adding the results of those questions, or taking their average or simply adding the percentage of respondents that give you top-box scores for each question, just compounds an already ludicrous situation—especially if you are using five-point scales. Mind you, I'm not trashin' customer satisfaction surveys; well-designed CSM programs are a great way to drive process improvement in an organization. But you can't make a silk purse from a sow's ear, and you can't make a customer loyalty survey from a CSM survey.

Loyalty is a behavior. If I purchase in a product category 10 times in one year, and I purchase the same brand all 10 times, I am 100% loyal. If I purchase the brand only five out of 10 times, I am 50% loyal. It's that simple. It doesn't matter whether I am exhibiting that loyalty because I'm truly dedicated to the brand, or if it has some performance characteristic that I want or need, or whether I don't have a choice in the matter. I exhibit behavioral loyalty. And that is the point—loyalty is a behavior.

Value drives loyalty, not satisfaction. Satisfaction is a necessary but not sufficient component of loyalty. If I am not satisfied with my experience with a brand, I won't consider that brand again unless I don't have a choice in the matter. However, just because I am highly satisfied with a brand's performance doesn't mean I will necessarily repurchase that brand at the next opportunity. It simply means it will probably be in my consideration set. I will evaluate the brands in my consideration set in terms of how valuable they are to me—that is, given my preference structure for that product category, I'll pick the brand that offers me the best value. Value can be defined as the benefits I receive from the brand less the cost to get those benefits. Benefits have two components: The tangible benefits delivered by the product or service itself and the intangible benefits delivered by the brand name—in equity.

Directly asking customers what they value and what they will do in the future has never worked well. Over the last 15 years, we have learned that the best way to understand importance, preference, value and choice is through tradeoff experiments. Thus, to adequately measure what customers value, you should consider conjoint and choice experiments. Well-designed tradeoff models do predict choice well, at least compared with the earlier tools we had at our disposal.

So for all of you out there fooling yourselves into believing you are measuring customer loyalty with the magic three questions, think it over. Customer loyalty is a bottom-line issue for most companies, and that warrants an investment in proper measurement.