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Customer Loyalty Isn’t What It Used to Be

Instead of relying on points programs and clever marketing, companies have to listen carefully to customers and adapt products and services to their changing expectations.

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It’s getting harder to build and maintain customer loyalty.

Over the years, loyalty and points programs have become little more than complicated incentive schemes to increase customer spending and retention. “Today every company has a loyalty program — points are air,” Thom Kozik, vice president of loyalty at Marriott International, recalled at a recent industry conference.

Indeed, studies across a number of industries indicate that today’s points and perks programs [do little to differentiate](http://www.strategy-business.com/blog/How-to-Fix-Rewards-Programs) one company from another, and appear to influence loyalty and future purchasing behavior far less than they used to. A  [2013 study of brand loyalty to airlines, for example,](http://www.prnewswire.com/news-releases/new-deloitte-survey-finds-airline-loyalty-programs-should-encourage-real-loyalty-220329881.html" \t "_blank) found that 72 percent of high-frequency business travelers participated in two or more airline loyalty programs and one-third participated in four or more. More telling, even after achieving the highest status in an airline’s loyalty program, two-thirds of respondents were open to switching to a competing airline.

There was a time when a brand inspired loyalty because it delivered a key message to consumers about quality. If L.L. Bean made high-quality clothing, it was reasonable to expect that its other products would also be of high quality. But now that information sharing via review sites, chat rooms, social media platforms, and other digital channels is proliferating, [brands are becoming less influential](http://www.strategy-business.com/article/00247) than the actual experiences customers have with products or services and what they choose to share about those experiences. “When it was harder to obtain accurate information, relying on your previous positive experience with a brand made sense,” write Stanford Business School professor Itamar Simonson and former software executive Emanuel Rosen in [*Absolute Value: What Really Influences Customers in the Age of (Nearly) Perfect Information*](http://www.absolutevaluebook.com/) (HarperBusiness, 2014). But when consumers have access to the experiences of millions of other consumers, staying loyal to a given brand makes less sense. In fact, according to Simonson and Rosen, “loyalty can often be an inferior input, because quality and performance can vary greatly across products by the same company.”

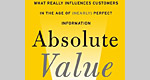
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by Itamar Simonson, Emanuel Rosen

The Internet and digital tools such as advanced search engines, review sites, price comparison apps, and social media platforms have changed how consumers make purchasing decisions. This is especially true for millennials. Three out of four millennials participating in a [2015 Medallia survey](http://www.medallia.com/resource/millennials-your-most-powerful-brand-advocates/) said they do extensive online research before making a purchase decision, and 50 percent reported that online reviews were the most influential factor driving a recent purchase. This is consistent with a [2012 Nielsen report](http://www.nielsen.com/us/en/insights/news/2012/consumer-trust-in-online-social-and-mobile-advertising-grows.html) showing that online customer reviews are now one of the most trusted sources of brand information, second only to recommendations from friends and family — which also increasingly are delivered online. Rather than relying on corporate advertising, customers can draw on the experiences of other consumers to predict, with far greater accuracy and certainty, which offerings will meet their needs and which won’t.

Although an entire industry has risen up to advise businesses on how to improve customer loyalty, consumers have few reasons to remain loyal to a given brand when they can easily reevaluate their options each time they make a purchase. Loyalty is falling even in industries where switching costs are relatively high. In a 2012 survey of 1,600 mobile phone subscribers worldwide, [the CMO Council found](http://www.cmo.com/features/articles/2012/9/17/a-lesson-in-loyalty-from-mobile-phone-subscribers.html#gs.YnNbMDQ) that only 34 percent had stayed with the same provider for more than five years. Companies may spend a lot of time and resources to increase customer loyalty. But the reality is that measuring loyalty (and assessing its impact on corporate performance) is less relevant when, as Simonson and Rose assert, “more and more consumers see their relationships with companies as an open marriage.”

The Importance of Corporate Responsiveness

What should corporate marketers do? Clearly, the answer isn’t simply to double down on loyalty points or advertising campaigns. And traditional approaches to cultivating customer loyalty and incremental improvement (such as the popular [Net Promoter System](http://netpromotersystem.com/about/index.aspx) [NPS]) don’t go far enough to prepare companies to deal with the seismic shifts that hit every market sooner or later. It is the customer experience and the ability to share that experience, rather than the company’s brand or advertising, that ultimately most influences what other consumers believe and purchase. Smart marketers recognize that in today’s highly interconnected, information-rich world, they must listen to and learn from customers’ actual experiences and rapidly adapt the company’s products and services to their changing expectations.

Companies that do this well engage in a more active dialogue with their customers, using feedback surveys, online review sites, chat rooms, social media, and other digital means to develop deeper insights into what customers want and will pay for. Armed with these insights, customer-driven companies use techniques such as [design thinking](https://www.fastcompany.com/919258/design-thinking-what) to refresh and develop new offerings that provide customers with unique value and companies with unique advantages in the marketplace.

Apple retail store managers are expected to follow up with dissatisfied customers within 24 hours.

These companies not only track and understand what their customers are saying and doing, they consistently respond to insights faster and more accurately than competitors. They do so by distributing customer feedback and other relevant experience data to employees throughout the company, and by empowering them to act quickly, strategically, and creatively. This enables companies to adapt to evolving markets not once, but over and over, thereby creating a sustainable source of competitive advantage.

New Customer Experience Capabilities

From our [research and work with customer experience programs](http://www.medallia.com/resource/operationalizing-the-management-of-customer-experience/) in multiple industries, we’ve identified four mutually reinforcing business capabilities that distinguish leaders in customer experience management. These capabilities allow companies to stay in touch with what customers are thinking and feeling about their experiences — and what they think and feel about the actions the company takes in response to their feedback. As a result, companies with these capabilities are better equipped to learn from their customers, respond appropriately to their needs, and adapt more quickly to a changing marketplace.

**1. See yourselves as customers do.** Organizations tend to see themselves through the lens of their own teams and processes. But this inside-out view limits an organization’s ability to see itself the way its customers do. But some successful companies engage in an ongoing dialogue with customers to develop a thorough understanding of their experiences at each interaction point, and to get immediate feedback on improvement efforts or new initiatives. This dialogue provides employees, both on the front line and in other parts of the organization, with a shared understanding of how customers feel about the company’s offerings and its responsiveness to their feedback.

Interestingly, more than half of the respondents to the Medallia millennials survey mentioned that engaging in online dialogue with a company “makes them feel like a valued customer.” Thirty-one percent said they valued the opportunity to give feedback and influence future offerings. When Medallia [compared satisfaction scores at more than 4,400 Best Western properties](http://go.medallia.com/rs/medallia/images/WP-Best-Western-Social-Media.pdf?mkt_tok=3RkMMJWWfF9wsRogsqTNZKXonjHpfsX66%2BssUK%2B1lMI%2F0ER3fOvrPUfGjI4FRcVhI%2BSLDwEYGJlv6SgFTLbMMbZsy7gPXBc%3D) (pdf), the hotels that responded to 50 percent or more of their customers’ TripAdvisor reviews posted social media rating scores that were, on average, 6 percent higher than those of local competitors.

**2. Wire customers into every decision.** Getting feedback is meaningless if you don’t act on it. Many companies are beginning to share customer experience feedback in near real time, weaving it into daily operations to enable coordinated learning throughout all functions, at every level. This “wiring” of the custom­er-centric perspec­tive into key processes allows executives, managers, and employees who are interacting directly with customers to make smarter, more aligned decisions to improve their experience. The most obvious opportunity is to automatically share feedback and ensure that it informs how staffers interact with customers. In a study of a global heavy equipment manufacturer with a franchised distribution network, Medallia found that dealers that shared customer feedback with more than 20 employees achieved year-over-year satisfaction increases that were, on average, almost 50 percent greater than those of dealers that shared feedback with only a handful of employees. This bump in satisfaction translated directly into higher sales per dealer: 15 percent more annually.

**3. Drive accountability at all levels.** In a truly customer-centric organization, every employee focuses on the customer experience. Many companies use satisfaction scores and other outcome measures such as retention rates and churn to evaluate employee performance, especially where employees interact with customers directly. But accountability can be achieved more productively when employee evaluations are based on how well workers carry out specific actions or desired [behaviors](http://www.medallia.com/resource/learning-before-earning/). For example, Apple retail store managers are expected to follow up with dissatisfied custom­ers within 24 hours. When Apple tracked the impact of this follow-up, it discovered that every hour a store manager spent placating an unhappy customer generated $1,000 in additional revenue. Identifying and tracking employee behaviors that raise satisfaction and that promote organizational learning can help establish institutional habits that are essential to being more responsive and adaptive.

**4. Innovate continuously at scale.** As companies grow, they usually become less responsive to customers and less agile. But this isn’t inevitable. When customer data is widely distributed, and customer voices are heard, employees can fix problems, test new ideas, and scale the best concepts faster. Comparing more than 140 programs, Medallia’s research found that companies in the top quartile of NPS improvement ran [seven times the number of innovation tests](http://www.medallia.com/resource/2016-medallia-benchmark/) run by companies in the bottom. When the resort clothing retailer Tommy Bahama analyzed customer comments from 160 stores, it discovered that shoppers thought sipping a tropical drink in the store would enhance their shopping experience. The company tested two in-store bar concepts. Customers responded favorably, and today in 10 percent of Tommy Bahama stores, shoppers can kick back with a piña colada.

Together, these four capabilities enable companies to adjust products and services more quickly, to move nimbly into new markets, and to create competitive advantages that are difficult to emulate. Although customers have become tougher, savvier, and more demanding, loyalty is hardly irrelevant. But the tables have turned; building loyalty requires companies to satisfy customers in new ways. “It needs to be about our loyalty to customers, not their loyalty to us,” says Marriott’s Kozik. And that is loyalty that is hard to beat.

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