KEEPING
CUSTOMERS
HAPPY
KEY STRATEGIES FOR BUSINESS SUCCESS

BY
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The disruptive technological changes of the last couple decades have provided customers an unprecedented level of control over how they shopped and what they bought. Mobile devices give customers 24/7 access to information about products, while social media and online review sites offer shoppers product and price comparisons. This new type of customer—empowered and fickle—forever changed the formula for loyalty. No longer do people stick with the same soap or canned soup for their entire lives. The stakes have changed.

Some companies, like Nordstrom, Four Seasons and Zappos double-down on service, aiming to win customer loyalty by pampering them. But a recent Corporate Executive Board study shows that excellent customer service doesn’t always work: customers aren’t likely to remain any more loyal if their service expectations are exceeded.

So how do companies stay ahead of their customers?

Running an effective loyalty program, customer appreciation campaign or customer service center requires knowing who your customers are and what they want. Most importantly, you need to understand why your customers make the choices they do. Understanding the motivations behind their actions allows you to make smarter business decisions.

The challenge for companies, in this new and uncharted territory, is to keep customers happy and coming back for the long term.
Vision Critical conducted a study to better understand what customers want from companies. The results—which speak to the intricate ways the customer journey has changed and continues to change—are fascinating and invaluable for any company that intends to put customers at the heart of its business model.

In April 2015, Vision Critical asked 1,021 U.S. adults how their customer journey is changing. Overall, the study illustrates that the customer journey has not only transformed in recent years—it has splintered. Customers are demanding more from companies but those demands are not uniform across all demographic groups. In other words, one size does not fit all.
In the year preceding the study, 72 percent of Americans contacted customer support at least once. But the tendency to contact customer support with a problem skews sharply toward younger people, with millennials reaching out an average of 5.24 times during the period, 35-54 year olds reaching out 3.64 times on average, and the 55 and older set reaching out to customer support 3.02 times on average.

The study definitively demonstrated that customers are demanding more from companies. Today’s empowered customers are not only willing to shop around and do their research on your product and your competitors’, they also demand good customer service when they need help. Customers will tolerate some bad customer service, but not much: according to the study, 42 percent of Americans will cease patronizing a brand after two bad service experiences and 30 percent will after three bad experiences.

The study revealed the top five services most important to customers, but also how preferences for those services vary depending on the age of the customer. For people 55 and over, free home delivery and a 30-day, no-questions-asked return policy were particularly important, while customer loyalty programs, early access to sales and promotions, and a well-designed online shopping site were more evenly spread across generations.
To keep pace with ongoing technological and generational shifts, brands are required to keep low-tech services in combination with the higher-tech services tech-savvy shoppers use. Of those 55 and older, 36 percent ranked “in-store-assistance from staff” as highly important, and a quarter of the same age cohort places a high value on call center customer service.

Millennials, on the other hand, are more flexible with the technology they use. Thirty-one percent of millennials said they place a high importance on personalized promotions based on purchase history, while 22 percent place a high importance on payment alternatives like mobile wallet. Some 30 percent said they value brands having their transaction history on file. And a significant portion of millennials—16 percent—value brands that ask for feedback directly from their customers.

Millennials are more technologically flexible, but also more demanding in terms of the customer service they expect. Older cohorts still place a high value on longstanding traditions like interaction with staff at a brick and mortar location, and they’re less likely than younger generations to call a customer service center.

To thrive in this environment, companies must be nimble and eager for feedback informed by rich insight. They need to develop strategies to meet the varied expectations of individual customers. Most importantly, they’ve got to know who their customers are, what they want, and be positioned to deliver on those demands in a timely way.

The following pages explore how companies can build a sophisticated, highly personalized approach to keeping customers happy.
There’s no shortage of data to demonstrate the simple fact that it’s better to keep your customers than lose them. According to Bain & Co., an increase of just five percent in customer retention translates into a 25 percent increase in profits. Authors Emmet C. Murphy and Mark A. Murphy write in their book, *Leading on the Edge of Chaos*, that increasing customer retention by five percent can increase profitability in some industries by up to 125 percent. Put another way, they say a mere two percent increase in retention is equal to a 10 percent reduction in costs.

The customer experience consultant Ruby Newell-Legner writes in “Understanding Customers” that it costs companies six times more to attract a new customer than it does to keep an old one.
Customer attrition is typically measured as “churn rate,” or the percent of your customers who stop doing business with your company in a given time period (so, for a company to grow, its rate of acquiring new customers has to exceed its churn rate). If a company fails to keep churn rate in check by investing in the customer relationships they already have, it can have devastating consequences. Churn is an especially important concern for SaaS (software as a service) companies, for which high valuations are based on a subscription revenue model—every new customer potentially keeps paying an annual rate for life. New customers mean new costs—in sales, backend administrative tasks, and the inevitable friction that comes with a new customer learning to use your product or service. Smart companies spend a lot of energy on finding ways to keep the customers they have.

In 2014, according to the technology research firm Gartner, digital marketers spent nearly as much to retain customers (45 percent) as they did to get new ones (55 percent).

But not all strategies to reduce churn rate are created equal and none comes without a cost. Customers’ expectations are different than they once were and they’re evolving fast. To push down churn rate it’s vital to know your customers and evaluate the costs and effectiveness of the methods you employ to keep their business.

**Those strategies fall broadly into four categories:** Customer Appreciation, Customer Loyalty Programs, Customer Service and the Customer Experience.
A song lyric doesn’t become a popular adage for nearly a century for no reason. That’s certainly true of the old saying, penned in 1927, that “The best things in life are free.” Just ask the customers of Boloco, the Boston-based burrito chain with nearly two dozen locations in Massachusetts and across New England.
Boloco’s customers know the company likes to show its appreciation by giving them a free menu item on their birthdays, but the company exceeded those expectations on its own recent 15th birthday. To celebrate, Boloco held 15 “Free Burrito Days”—that’s 15 full days during which customers flocked to its locations and lined up to receive a free burrito.

If a company giving away its cornerstone product sounds like taking customer appreciation a step too far, think again. A 2011 study of Boloco’s promotion strategy by the Dartmouth College Tuck School of Business found that, after one free burrito day in 2010, Boloco earned itself a 20 percent increase in sales. The study’s authors found that each free burrito day actually paid for itself in 15 days.

Boloco CEO John Pepper doesn’t just count on winning over converts with the promotion but also winning loyal customers who will come back again and again. “The reason we do it is because we think Boloco is the place you can visit often enough that, over time, we can make up for the things we give away and have a good business because of it,” Pepper says. Boloco’s Free Burrito Days are proof that saying thanks to your customers can be a powerful way to not only stimulate growth but hold on the customers you have.

**PRO**
Fostering an emotional connection with your customers by showing appreciation for their business can have a profound effect.

**PRO**
Gifts make customers feel more appreciated.

**CON**
For some customers, rituals like birthday celebrations at a restaurant, a waiter’s menu recitation, or scripted greetings from sales people make them feel hemmed in, stifled, embarrassed and even resentful.

“The reason we do it is because we think Boloco is the place you can visit often enough that, over time, we can make up for the things we give away and have a good business because of it”

**JOHN PEPPER, CEO, BLOCO**
Research conducted by Time Warner Cable supports the idea that fostering an emotional connection with your customers by showing appreciation for their business can have a profound effect—even when freebies aren’t exchanged.

Frustrated with persistent survey reports indicating that its customers didn’t feel appreciated, Time Warner Cable conducted an experiment to see how best to improve this relationship. The company offered a one-time freebie to a group of its customers, then compared their reactions to a control group of customers who did not receive the appreciation gift.

Unsurprisingly, the company found that customers who got the gift reported that they felt more appreciated than customers who didn’t. “The big surprise,” writes VP of Marketing Intelligence Rachel J. Dreyfus in a summary of the research for the industry publication Cablefax, “was that it was not only those who activated the free features who were impressed. TWC gained commitment and ‘likely to recommend’ scores among even those who were made aware of the program from the survey, but who did not choose to activate the new features.”

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RACHEL J. DREYFUS, VP OF MARKETING INTELLIGENCE, TIME WARNER CABLE
In a study involving undergraduate college students in 2008 and 2009, University of Illinois researcher in consumer behavior Cele Otnes found that, in some cases, the offers and ceremonies designed to make customers feel welcome and appreciated actually had a negative effect. For some customers, rituals like birthday celebrations at a restaurant, a waiter’s menu recitation, or scripted greetings from sales people made people feel hemmed in, stifled, embarrassed and even resentful.

"Those are really strong negatives," Otnes says. "While rituals can make some consumers embrace the business, there's also a huge risk. People use words like 'annoying' or 'irritating' to describe the experience and some say it definitely makes them rethink whether they'll come back."

Customer appreciation initiatives can clearly help inspire loyalty and gratitude, and build relationships between customers and companies. But they are not without pitfalls. To ensure an ROI that makes customer appreciation campaigns worthwhile, companies must make sure customers don't find such initiatives annoying or excessive. Crafting the right kind of initiatives requires knowing your customers and understanding what they want, what they don't, and why.

“While rituals can make some consumers embrace the business, there's also a huge risk”

CELE OTNES, RESEARCHER, UNIVERSITY OF ILLINOIS
Long before "customer loyalty" became a marketing buzzword, companies have been trying to engender loyalty among their customers by offering rewards for patronizing their businesses. Throughout the 19th and 20th centuries, companies offered redeemable stamps and proof-of-purchase coupons to encourage repeat business.
In 1981, American Airlines inaugurated a new era with the launch of its AAdvantage program, the first frequent flyer club and the world’s first modern, large-scale, computerized loyalty program.

Since then, loyalty—or “rewards”—programs have become immensely popular in many industries. Today, roughly half of all credit card users in the U.S. subscribe to a loyalty rewards program and some companies generate up to 60 percent of revenues from loyalty program members. It’s clear customers, especially younger ones, like loyalty programs; according to Bond Brand Loyalty’s 2014 Loyalty Report, six in 10 millennials said they’d switch brands if it meant more benefits.

The advantages of a loyalty program seem straightforward enough: reward customers for their business and it stands to reason that they’ll give you more of their business. Then there’s the data collected on customers’ shopping habits, which, when used properly, can be quite valuable. But recent research has chipped away at some of the central assumptions underpinning the logic of loyalty programs.

**PRO**

Customers like them: some companies generate up to 60 percent of revenue from loyalty program members.

**PRO**

Data collected on customers’ shopping habits can be valuable.

**CON**

They’re costly to run: the return on investment for most loyalty programs is below 10 percent and actually negative for many companies.

**CON**

Loyalty programs are so ubiquitous they’ve become virtually indistinguishable, undercutting their effectiveness as a marketing tool.

Six in 10 millennials said they’d switch brands if it meant more benefits
For one thing, a good loyalty program doesn't come cheaply. In 2014, the Boston Consulting Group found that the return on investment for most loyalty programs is below 10 percent and actually negative for many companies. “In general, most consumers are satisfied with the programs. But when you run the numbers, they don’t make money for the enterprises. The ROI is quite limited for most programs,” said BCG partner Dylan Bolden.

In the book *Loyalty Myths*, authors Timothy L. Keiningham et al. find that loyalty programs are so ubiquitous they’ve become virtually indistinguishable, undercutting their effectiveness as a marketing tool. "If programs are perceived as ever-present and effectively identical," the authors write, “their ability to generate a positive ROI is virtually zero.”

However, there’s conflicting evidence. Bond Brand Loyalty’s 2015 Loyalty Report found that a third of customers said they wouldn’t be loyal to a brand were it not for its loyalty program. Or consider the statistic cited above—six in 10 millennials say they’d switch brands if it means more benefits. Customers, especially millennials poised to control more buying power than any other generation, love loyalty programs so much they’re willing to switch between them without a second thought. That hardly sounds like loyalty.

“In general, most consumers are satisfied with the programs. But when you run the numbers, they don’t make money for the enterprises. The ROI is quite limited for most programs”

Dylan Bolden, Partner, Boston Consulting Group
Short of actually purchasing and using a product, a call to customer service is the most extensive interaction many customers will have with a company. It stands to reason, then, that a strong majority—84 percent—of firms surveyed for the Economist Intelligence Unit’s “Service 2020” report said that customer service is either very or moderately important to their bottom line.
That statistic reflects how valuable the customers you already have are compared to the customers you merely want.

The importance executives place on customer service may also be a recognition of changing customer attitudes—in short, customers are becoming more demanding. Today’s always-on, mobile savvy, empowered consumers expect customer service to be excellent and seamless, and they are being frequently disappointed. According to the American Express 2014 Global Customer Service Barometer, 38 percent of customers in 2014 think businesses pay less attention to providing good customer service, compared to 28 percent in 2010. The flip-side is also true: only 29 percent of customers say business have increased focus on customer service, compared to 37 percent in 2010.

One online shoe retailer in particular has built a business model around delivering excellent customer service. When Nick Swinmurn first started shoesite.com in 1999, the company didn’t hold any inventory and functioned as a middleman that connected customers with shoe suppliers. Over the course of the next several years, the company would rename itself Zappos and barely survive the dot-com crash, with revenue of $1.6 million in 2000. In the wake of the crash, Zappos chose to double-down on customer service to a degree unheard of in the online retail industry.

**CUSTOMERS WHO THINK BUSINESSES PAY LESS ATTENTION TO PROVIDING GOOD CUSTOMER SERVICE**

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**PRO**
Companies like Zappos have increased growth by offering excellent customers service.

**PRO**
By leveraging digital channels like community forums and live chat, brands can reduce customer care costs by up to 56 percent.

**CON**
An interaction with customer service almost always means something has gone wrong, and is thus an opportunity for bad news to spread about the company.

**CON**
Most customers don’t care whether they make friends with a customer service agent, they just want their problem fixed with the least effort possible.
In 2003, Zappos made the strategic decision to start holding inventory in order to control more of its supply chain and be better positioned to deliver outstanding customer service. In 2004, the company moved from San Francisco to Las Vegas to take advantage of that city’s bigger pool of experienced call center employees.

Number one on Zappos’ list of 10 core company values is: “Deliver wow through service,” and deliver a wow it does. Zappos has a 100 percent satisfaction guarantee on its shoes and gives customers the option to return items free of change up to a year later for a full refund. The fact that customers take advantage of this extraordinarily generous service policy—the company’s most profitable customers return about half of what they purchase—speaks to the power of the customer service model. In 2010, with revenue of well over a $1 billion, Zappos was snapped up by Amazon for $1.2 billion.

In recent years, many companies have had success improving their customer service offerings while keeping an eye on the bottom line by leaning more on digital channels, like community forums and live chat. The online customer service live chat provider Vivocha says live chat reduces costs immensely because agents can handle multiple customers at once. Businesses, according to Vivocha, can see deflection rates of up to 70 percent from costly one-on-one telephone calls to live chats. McKinsey’s “Digitizing Customer Care” report finds that, by leveraging digital channels, brands can reduce customer care costs by up to 56 percent.

**By leveraging digital channels, brands can reduce customer care costs by up to 56 percent**

*“Digitizing Customer Care,” McKinsey*
The downside to customer service, of course, is implicit in its definition. What customers really want is no service: they just want a product to work. An interaction with customer service almost always means something has gone wrong and is thus an opportunity for bad news to spread about the company. According to the White House Office of Consumer Affairs, news of a bad customer service experience finds an audience twice as large as news of a good one.

*News of a bad customer service experience finds an audience twice as large as news of a good one*

A large-scale study by researchers at Corporate Executive Board of 75,000 people who had interacted with customer service representatives found that Zappos is the exception that proves the rule. Contrary to popular wisdom about fostering a human connection and wowing the customer with service that goes above and beyond, most customers don’t care whether they make friends with a customer service agent or get exceptional service—they just want their problem fixed with the least effort possible. “Delighting customers doesn’t build loyalty,” write the study’s authors. “Reducing their effort—the work they must do to get their problem solved—does.”
A leading energy company found itself confronting an odd problem. The company—unnamed by Alex Rawson, Ewan Duncan, and Conor Jones, the partners at McKinsey who consulted with the firm on its dilemma and wrote about it for Harvard Business Review—had a churn rate of 40 percent among customers moving from one house to another.
Despite its high churn rate, the company’s own research indicated customers were satisfied by most interactions with the brand. Frustrated by a lack of obvious solutions, executives took a step back to look at the whole customer experience as they tried to find places for improvement, and what they found astonished them.

The company put a team in place to take charge of analyzing the full customer experience, with an office situated right next to the boardroom to reflect the importance of the project. Representatives from all stages of a household’s interaction with the energy company were posted on a wall in their meeting room, while the team mapped out the customer journey of moving house from start to finish. They were shocked to find that the journey involved 19 interactions with the company in total. Though each discrete moment on the journey tended to go well, the entire experience for the customer was byzantine. No one knew the experience for customers had grown so long and unwieldy because no one was in charge of looking at the experience as a whole. The company implemented changes to streamline the customer journey and experimented with new solutions, eventually making the process of moving house four times more efficient, leading to a sharp drop in dissatisfied customers and a revenue gain of €4 million.

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**PRO**
A streamlined customer journey leads to higher satisfaction.

**PRO**
Companies with great customer experience outperform the S&P 500 by more than 20 percent.

**CON**
An excellent customer journey is difficult to implement across large organizations.

**CON**
It can’t be instituted in a top-down manner from the C-suite.
The same team at McKinsey helped a car rental company that was struggling to differentiate itself from competitors. An analysis of the customer experience as a whole revealed that airport pickup was a place for improvement, but it was not immediately clear what to improve. The company already had good service. “The most important aspect was end-to-end speed of service,” the McKinsey authors write, “from bus to rental counter to car to exit gate—but no one person owned that issue.”

The company’s analysis of the customer experience identified a recurring problem: clean cars were often in short supply during peak demand. By instituting one relatively simple fix—a buzzer between the rental counter and the car lot to give staff a simple way to tell workers that inventory was running low, the company fixed that bottleneck and quickened the process. By the end of the pilot program on-site customer service scores doubled, revenue from upselling grew five percent and the cost of serving customers fell 10 percent.

Companies have had great success in focusing on the customer experience—on optimizing the customer journey from start to finish—to improve overall outcomes and increase customer loyalty, and the research backs up anecdotal evidence. In the Temkin Group’s 2014 report “ROI of Customer Experience” researchers found “a strong correlation between customer experience and loyalty factors such as repurchasing, trying new offerings, forgiving mistakes and recommending the company to friends and colleagues.” Using Forrester Research’s annual Customer Experience Index rankings, Watermark Consulting analyzed the stock performance over seven years of the 10 top and 10 bottom companies in the index, with startling results.

Companies identified as customer experience leaders saw a 77.7 percent increase in cumulative total returns, outperforming the S&P 500 by more than 20 percent. Companies identified in the index as customer experience laggards saw a 2.5 percent drop in returns over the same seven year period.
Put simply, the problem with optimizing the full customer experience is that it’s hard. Organizations tend to be made of distinct silos of teams that specialize in specific tasks along the customer journey—the sales team, installation technicians, customer service troubleshooters and so on. Getting to an excellent customer experience means keeping those specialties in place while facilitating communication and feedback between the groups. It also means instituting metrics and incentives that encourage an excellent experience throughout the customer journey, not just at one particular touchpoint—so, for example, a sales team is incentivized to sell with the goal of a great experience start to finish, not just with the aim of closing the sale.

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And, finally, creating an excellent customer journey requires bottom-up innovation built on rich insight about what the customer experience is really like from the perspective of the customer. That kind of insight isn’t achievable from the distant C-suite. You’ve got to get close, to know your customers and to really listen to what they have to say.
CONCLUDING THOUGHTS

Customers are demanding more from companies than ever before. They’ve been empowered by mobile technology and social media, they’re comparison shopping on the Internet and they bristle when they don’t receive a seamless customer service experience. Companies that don’t rise to the challenges posed by empowered customers risk losing their loyalty.

To provide the best service and the best experience, companies need to engage with their customers in an ongoing dialogue for the meaningful insight that allows for better business decisions.

The most successful companies prioritize customer-centricity. That’s the key to a happy customer.
Nick Stein is the Senior Vice President of Marketing at Vision Critical, a customer intelligence platform that helps more than 650 global organizations build engaged, secure communities of customers they can use for ongoing feedback and insight.

Formerly an award-winning journalist at Fortune and CBC’s The National, Nick holds a masters degree in journalism from Columbia University and a BA in English from McGill University. Follow him on Twitter: @stein_nick