



We Share Our Knowledge

Article no. 11

Satisfaction Does Not Equal Loyalty

By Oz Bachar, Synergy Consultant

January 2006

1. Background

This article examines the correlation between customer satisfaction and customer loyalty.

The objective of this article is to present a concise review of the findings of a comprehensive research recently conducted on the issue of measuring the above-mentioned correlation in the communication services sector.

2. Introduction

A recent survey conducted by Walker-Loyalty as part of a research exploring customer satisfaction and loyalty, examined the following 5 sectors within the communication service industry around the world: cellular services, cellular phones, internet service providers, local calls and long distance calls.

The survey produced an important finding: Satisfaction does not equal loyalty.

Although all sectors were found to have a certain satisfaction level for approximately 75% of the customers, none of the examined sectors produced more than a 50% satisfaction rate. Consequently, there is an apparent gap between customer satisfaction levels and customer loyalty levels.

The surveyors also segmented the customer base of each of the companies and sectors reviewed, according to four key categories: "completely loyal customers", "accessible customers", "trapped customers", and "high risk customers". The highest levels of loyalty were also measured for every company and sector individually.

Survey statistics prove one important point: Customer satisfaction levels cannot be used as a guideline for "predicting" their future intentions and behaviors.

3. What Turns a Subscriber into a Loyal Customer?

The researchers claim that in competitive and dynamic markets such as the communication service market, achieving customer loyalty is not easy, especially due to the fact that customers in this market tend to "vote with their feet".

Survey results support the premise that customer loyalty is directly linked to the company's business results, i.e., companies with a larger number of loyal customers have a competitive edge affecting financial outcome and other performance results, including a higher value to shareholders. The assessment performed in this research on 3 financial variables supports this claim:

1. A gap of 20% in net income growth in the previous 3 years was found in a comparison between companies considered to be "loyalty leaders" and companies considered to be "loyalty laggards".
2. Operations profit margin of "loyalty leaders" is 22% higher than that of the "laggards".
3. The rate of share price increase over the previous 5 years is 34% higher for the "leaders" than for the "laggards".

4. Survey Findings for the Different Sectors

5.1 The Cellular Service Providers Sector

Survey results show that 41% of customers in this sector are "completely loyal" – these customers were characterized as having a positive opinion about their service provider, and have expressed clear intentions to continue and even increase their service utilization with their current provider.

Synergy Technology In Business LTD.

ISRAEL

1 Ben Gurion st. Bney-Brak, 2 Besser Towers, Israel. Tel. +972(0)3-5788861
Fax. +972-(0)3-5788862

POLAND

Representative Office Poland:
66/68 Wilcza str., 00-6790 Warsaw, Poland.
Tel. +48(0)22 622 3221 Fax.+48(0)22 625 3688

UK

Sams Barn, The Greenway, West Hendred, Wantage, Oxon OX12 8RD, UK
Tel. +44(0)1235 821 353 Fax.+44(0)1235 861 678

This result is one of the highest "completely loyal" percentages recorded, across sectors.

31% of customers were found to be "high risk" customers, i.e., customers who have low or no commitment to their current service provider, and clearly have no intention in continuing to use his services. This result is similar to that of customer abandonment rates in the same sector.

5.2 The Cellular Phones Sector

Survey results show that cell phone manufacturers successfully secured their customers' loyalty.

46% of customers in this sector are "completely loyal" (the highest percentage of all sectors), and 27% are "high risk" customers (the lowest percentage of all sectors).

It is clear, then, that customers are more loyal to cell phone brands than to cellular service providers.

One of the experts participating in the survey analysis claims that cellular service providers should create alliances with the "right" cell phone manufacturers, so that they can closely examine the causes and reasons for customer loyalty. In this sector, four companies were defined as "loyalty leaders": Nokia, Motorola, Blackberry/RIM and Sony Ericsson.

5.3 The Internet Service Providers Sector

Survey results show that only 38% of customers in this sector are "completely loyal". On the other hand, business results are better than those of the more "mature" sectors (i.e. local calls and long distance calls).

5.4 The Local Calls Sector

Local call services were established more than 100 years ago, and this is the "oldest" sector in this market. Survey results show that only 34% of this sector's customers are "completely loyal", which makes it the least successful sector as far as customer loyalty.

About 34% of the customers are defined as "trapped", i.e., customers who intend to use their provider's services, but if and when an opportunity occurs, they will not hesitate to switch providers.

5.5 The Long Distance Calls Sector

Survey results show that only about 35% of the customers in this sector are "completely loyal". Moreover, about 32% are "high risk" customers. This sector, much like those described above, has to fight to acquire customer loyalty in a highly competitive market, where the service is marketed as part of a comprehensive communication solutions package.

Synergy Technology In Business LTD.

ISRAEL

1 Ben Gurion st. Bney-Brak, 2 Besser
Towers, Israel. Tel. +972(0)3-5788861
Fax. +972-(0)3-5788862

POLAND

Representative Office Poland:
66/68 Wilcza str., 00-6790 Warsaw, Poland.
Tel. +48(0)22 622 3221 Fax.+48(0)22 625 3688

UK

Sams Barn, The Greenway, West Hendred,
Wantage, Oxon OX12 8RD, UK
Tel. +44(0)1235 821 353 Fax.+44(0)1235 861 678

5.6 Results Summary

Below is a table summarizing the results as presented above for each of the five sectors:

	Cell service	Cell phones	Internet	Local calls	LD calls
% of "completely loyal" customers	41%	46%	38%	34%	35%
% of "high risk" customers	31%	27%	-	-	32%

In conclusion, it is clear that the strongest customer loyalty levels are found in the cellular phones sector, for the following reasons:

1. The percentage of "completely loyal" customers is the highest – satisfied customers that are highly unlikely to abandon.
2. The percentage of "high risk" customers is the lowest – customers who will very likely abandon.

About Synergy

Synergy is an international consulting company, specializing in Analytical CRM solutions.

Synergy offers marketing oriented business ventures, formed by a team of leading local and international industry experts.

Synergy aims to provide its customers with the ability of acquiring commercial advantages by informative analysis of their customers' shopping data.

Synergy has vast experience in working with leading commercial organizations, both locally and internationally, and its clientele includes foremost industry leaders in the communications, financial and retail fields.

For more information, visit our website at: www.il-synergy.com, or email us at: info@il-synergy.com.

Synergy Technology In Business LTD.

ISRAEL

1 Ben Gurion st. Bney-Brak, 2 Besser Towers, Israel. Tel. +972(0)3-5788861
Fax. +972-(0)3-5788862

POLAND

Representative Office Poland: 66/68 Wilcza str., 00-6790 Warsaw, Poland. Tel. +48(0)22 622 3221 Fax.+48(0)22 625 3688

UK

Sams Barn, The Greenway, West Hendred, Wantage, Oxon OX12 8RD, UK
Tel. +44(0)1235 821 353 Fax.+44(0)1235 861 678