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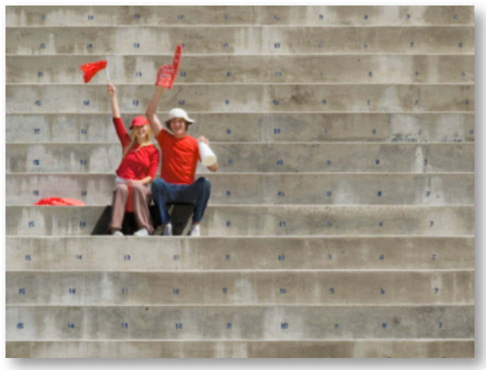

Cultivating Customer Advocates: More Than Satisfaction and Loyalty

Stop satisfying customers and start building advocacy with the most valuable part of your customer base.

Peppers & Rogers Group

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Executive Summary

When was the last time you heard a friend or family member recommend a product or discuss a particular customer experience? Most likely it was recently. Maybe even today, in fact. Whether it be a new car purchase experience, finding a spider in a box of cereal, or the helpfulness of a particular store employee, consumers aren't just likely to discuss such things with family and friends – they're waiting for a reason to. Good or bad, they are at the ready, itching to share their opinions and experiences with others. It's the reality of our new ultra-social world.

This is a fantastic opportunity for companies. Customers will talk about a company anyway, so it's imperative that the company go to great lengths to encourage positive discussions. Traditionally, customer satisfaction and loyalty were the goals to drive that positivity. But today that's not enough. Instead, businesses need to go a step further to identify and cultivate customer advocates among their customer base.

Advocates work on a company's behalf to promote the brand, enhance its reputation, and in some cases, drive new business. They are also valuable customers themselves, buying more and being less price-conscious than other customers. And most important, they connect with the company on a deep emotional level, which in itself is the best competitive differentiator there is.

This white paper will provide strategy and tactics behind customer advocacy, detailing the steps necessary to identify, recognize, and move valuable customers along the advocacy spectrum.

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Steps to Advocacy

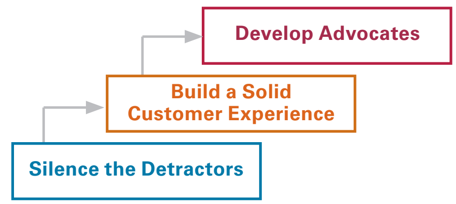
Improving customer satisfaction is no longer enough for companies looking to develop meaningful relationships with customers. Satisfaction is the base expectation of a customer. Therefore, it doesn't stand out in the customer's mind. Today real customer strategy is about creating customer advocates.

But can advocacy, which revolves around emotion, be operationalized? Yes. It's about formalizing the drivers of an emotional connection. Customer advocacy is a lofty goal, but can be achieved as part of a multilevel customer experience strategy using three customer experience triage tiers: Silence the detractors, build a solid customer experience, and develop advocates.

The first step is to silence detractors. This doesn't mean preventing people from talking or responding to negative opinions. Instead, it's about developing an environment where customers will have no reason to talk badly about a brand. Tactics in this instance are to prioritize where the most negativity is coming from and allocate resources to fix the root cause of the issues.

How to Build an Advocate

Use three customer triage tiers to turn optimal experiences into advocacy



Source: Peppers & Rogers Group

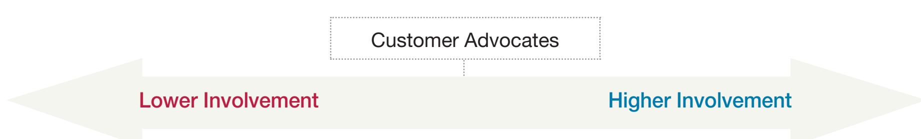
Once detractors are silenced, the next tier is to build a solid and positive customer experience. Create consistent, coordinated interactions across channels to meet customer needs. Develop efficient internal processes, integrate data, and empower employees so customers are satisfied every time they interact with the company. Advocacy is different than loyalty or satisfaction. Satisfaction is important, but not *the* most important metric. It's a lagging indicator, not a leading one. And it should be considered table stakes, not a competitive differentiator.

Advocacy goes a step further as a business strategy that places customers' interests ahead of the company's. It is built on trust, and trust is an enduring competitive advantage that pays dividends today and long into the future. In fact, trust has become increasingly important as companies lose control of the brand message to customers who can reach the masses in an anonymous, everlasting way. Advocacy, built on trust, is one of the single most powerful factors in influencing a customer's buying behavior. Achieving advocacy requires primary research and fact-based analyses of customers and their needs, coupled with an understanding of organizational readiness to engage in the strategy.

Why are advocates so important? They work on a company's behalf to promote the brand, enhance its reputation, and in some cases, drive new business. The goal is to move them up the advocacy involvement scale from *mentions* through tweets, status updates, and casual word of mouth to *influence* via blog posts, comments, and direct word of mouth, and then to *referral* with reviews, blog posts, recommendations, and direct work with the brand as an ambassador (see Figure 1).

Figure 1: Customer Advocacy Covers a Spectrum of Potential Actions

To optimize the impact of advocates on the brand, work to move them along the advocacy spectrum from mention to referral.



Mention	Influence	Referral
• Tweet • Status update • Casual word of mouth	• Blog • Review • Direct word of mouth	• Frequent blogs/reviews • Review arbiter • Ambassador participant • Internal correspondence

Source: Peppers & Rogers Group

How to identify potential advocates

Advocates are satisfied and loyal, but the opposite is not necessarily true. Companies need to determine the drivers of advocacy versus customer satisfaction. Figure 2 below shows that satisfaction and loyalty drivers often differ in a call center.

Three hallmarks of customer advocates differentiate them from simply being a supporter, influencer, loyalist, or satisfied customer:

- **Supports and is loyal to the brand:** An advocate will stand by the brand even in times of difficulty, isn't afraid to react to criticism or correct factually incorrect statements about the brand, and will purchase brand products as gifts for friends and family.
- **Recommends and actively promotes the brand**: Advocates share their experiences via various social media, openly praise the company's employees, and provide unsolicited feedback on service and quality. In some cases, they consider themselves "brand protectors."
- **Is emotionally attached to the brand**: They have a sense of "ownership" in the brand. They won't rely solely on price when buying products, and they treat the brand as part of their inner circle.

In order to create advocates, companies must first understand what drives advocacy among their customers.

How to build advocates

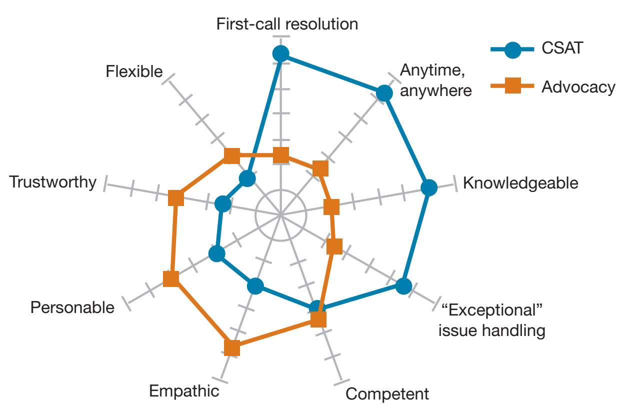
It's more difficult to identify and build advocates than it is to simply satisfy them. A positive customer experience may satisfy a customer, but to build advocates, firms need to up the ante. An unusual or exceptional interaction is one effective way to build advocates.

Brands must be willing and able go that extra mile when customers don't expect it. In return, customers will reward that brand over the long term in the form of advocacy. For example, Delta has offered its very frequent fliers unique offers, such as a black-tie invitation to the grand opening of Delta's new Terminal A in Boston and a trip to Miami along with two tickets to an NFL game between the New England Patriots and the Miami Dolphins for its Massachusetts VIPs. While potentially very expensive, it creates strong advocates, despite the fact that some customers may have had instances of frustrations with the carrier.

In order to create advocates, companies must first understand what drives advocacy among their customers. Within the telecom space, for example, drivers may include the reliability of

Figure 2: Call Center Contribution Factors to Advocacy and CSAT

Customer advocacy components are significantly different from customer satisfaction (CSAT) components. The further away from center on the scale below, the more influence a specific component has on either advocacy or satisfaction.



Source: Peppers & Rogers Group

the network, the appeal of the device, price value, and customer service. Companies can determine the importance of certain activities or elements within these categories—such as first-call resolution, the in-store purchase experience, the percentage of dropped calls, and the battery life of a device—in influencing whether customers become advocates.

And in the financial services industry, transparency, pricing, availability of products, and branch hours all play a role in driving advocacy. By identifying the gaps in specific initiatives across channels, companies can make changes that will influence customer advocacy.

Customer advocacy factors are often more "emotional" than tangible and require different solutions than improving traditional customer experiences. For instance, a proactive call from an empathetic customer service rep verifying that an issue was resolved can sometimes contribute more to advocacy than the issue resolution itself.

How Are Advocates Different Than Promoters?

It's hard to think of the term "advocate" and not associate it with likelihood to recommend, which is the basis of Net Promoter Score. The introduction of NPS in Fred Reichheld's book *The Ultimate Question* was a watershed moment for customer experience management. It brought a much-needed focus on the important topic of customers as promoters. However, there is a difference between advocates and promoters.

The act of asking someone to recommend prompts a response that is reactionary and not predictive of actual behaviors. Promoters sometimes make the decision to recommend based on past experiences, not the current relationship itself. And in many cases, NPS is measured only when a company asks if they would be willing to recommend. That doesn't necessarily mean the promoters would proactively advocate on a brand's behalf, unprompted. They might, but it's not clear.

Advocacy has a broad meaning and can on one end of the spectrum refer to mentions (e.g., comments in social sites) and on the other direct referrals. But however a customer chooses to advocate for a company, the difference is that customers feel connected to the brand and will promote and defend it to others.

However a customer chooses to advocate for a company, the difference is that customers feel connected to the brand and will promote and defend it to others.

The difference is more than just semantic. It's also financial. Data from JD Power's *2005 Wireless Regional Customer Satisfaction Index Study*[1] shows that advocates refer others seven times more than promoters. Companies that in the past have focused on promoters need to peel back the onion to find which promoters also advocate on the brand's behalf. These are your most valuable customers and should be treated as such.

We're not saying that a company should abandon NPS. It's a valuable customer experience metric. But it is only one to be used with other measures to understand who your advocates are and why. Companies should extend their efforts beyond promoters to discover and cultivate true customer advocates.

The process of creating an advocate, however, depends on the level of customer engagement that already exists (see Figure 3). Customers sit on a spectrum, from indifferent on one side to advocates on the other. For indifferent customers, emphasize the value they receive over price and create specialized services addressing their specific needs. For customers who already feel fulfilled, create emotional connections between them and the brand. Meanwhile, committed customers should be encouraged to become members and participate in the customer community, as well as create "networking" opportunities. Of course, these are high-level suggestions. How companies specifically interact to build advocates is often complex and will be unique to a specific brand and its customer attributes.

Be aware, however, that the attributes of an advocate are not the same for all customer groups. Different customer groups are advocates for different reasons. For example, one telecom company identifies its "power enthusiasts" advocate group as customers who are educated and affluent tech enthusiasts and who need to multitask and stay on top of busy schedules. They have high average revenue per user (ARPU) and buy high-end devices. Another equally important advocacy group is "connected frugals," who love to connect socially, are talkative, comfortable with tech, and like to be organized and self-express. They may have a lower ARPU than the other group, but their propensity to spread positive word of mouth makes them very valuable. Each customer group has different needs and must be treated differently to maintain their advocacy. For instance, power enthusiasts may consider personalized device training sessions very valuable, while connected frugals may prefer a dedicated virtual relationship manager.

The more a company can understand the needs of different groups of advocates, the better prepared it will be to identify new advocates and replicate activities to build advocacy.

case in point

Victoria's Secret

Victoria's Secret has taken the multichannel route to move advocates along the spectrum. The company has an active online community for its Pink brand that encourages users to upload their latest style pictures. The company makes it even more personal on Facebook where users can send others the latest Victoria's Secret poster. The company garnered more than 40,000 followers on Twitter where it shares news and responds to user thoughts and requests.

Victoria's Secret knows that meeting customer needs in their preferred channel and across channels is a strategy tailor-made for current customers. Companies that already have a relationship with customers have data about them (and permission from them), and can therefore use a marketing or service experience to build advocacy.

Figure 3: How to Create a Customer Advocate

The process of creating an advocate depends on the level of engagement that already exists with the customer.

Source: Peppers & Rogers Group

Bottom-line impact

Advocacy isn't just a feel-good initiative. It can drive both direct and indirect value to the company while strengthening customer relationships. Customers each have economic lifetime value (see Figure 4). The traditional views of customer lifetime value have taken on a new complexity as advocacy has become a strong influence on the overall value of a customer.

On the business side, advocacy drives impact to the bottom line. IBM's *2008 Brazilian Retail Banking Customer Focused Enterprise (CFE) study*[2] found that advocates of a bank were three times as likely to respond to offers and trust their bank than antagonists. In addition, advocates owned 14 percent more products and were half as price-sensitive as antagonists.

In addition, some industries are beginning to monetize word of mouth and customer advocacy. In October 2010, online event company Eventbrite used in-house analytics to connect its customers' social behavior with revenue in the form of ticket purchases[3]. The company reported that the average dollars per share across all social media platform integrations was $1.78, with Facebook shares specifically generating $2.53 in ticket sales per mention.

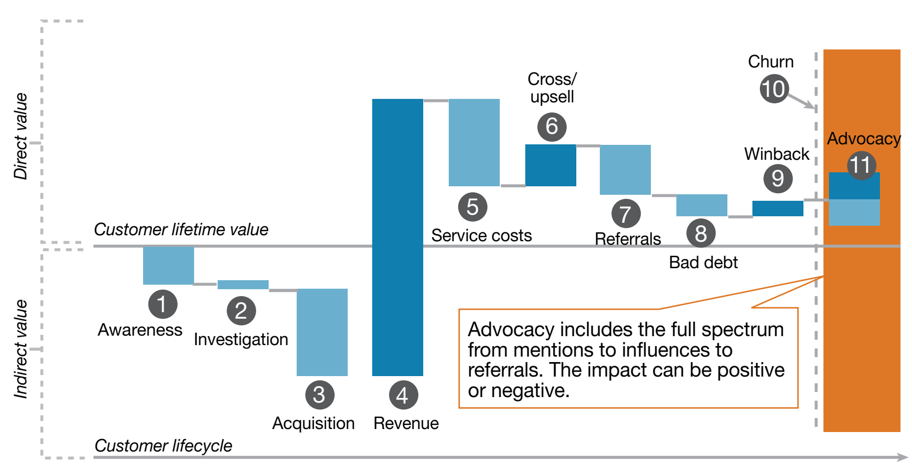
Advocacy also has a financial impact on those whom advocates reach out to. "Referral Programs and Customer Value," a research study published in the *Journal of Marketing* in January 2011[4], finds that referred customers to one particular German bank have a higher initial contribution margin and tend to be more loyal over time, showing both short- and long-term value. The average customer value of referred customers is 25 percent higher than non-referrals.

The "indirect" value contributed by a customer in the form of advocacy can mean as much, if not more, than their direct value. Too many companies fail to take that into account. Many critics would argue that it is impossible to measure the full impact of advocacy. Because it cannot

The traditional views of customer lifetime value have taken on a new complexity as advocacy has become a strong influence on the overall value of a customer.

Figure 4: Economic Lifetime Value

Advocacy has a financial impact on all phases of the customer lifecycle. The 11 items below represent the steps in that lifecycle.



Source: Peppers & Rogers Group

be directly attributed to individuals, the financial impact shouldn't be taken into account. (Note: These are most likely the same people that can justify hundreds of millions of dollars in sponsorship spent without understanding the financial impact of the investment.) In fact, the financial impact of driving advocates can be calculated at the aggregate level with the help of primary research and can inform financial investments in a much more specific way than even investments in value levers such as churn.

The benefits of building advocacy can't be ignored. Satisfaction and loyalty are important, but they're old news. It's a new dawn in customer experience strategy, where the customer now controls over 50 percent of the brand message. Forward-thinking companies will be the ones that identify and work with their customer advocates to genuinely build trust in the brand, the customer base, and the bottom line. ■

Voices of Customer Advocacy

Business leaders share their thoughts on the topic of advocacy, and what it takes to achieve it.

"It's incredibly important for companies to know who their advocates are. Especially because a company's advocates are often different than their best customers.

In his Delta example, Peppers & Rogers Group partner Matthew Rhoden describes a situation where a "very" frequent flier receives a special gift to show how grateful Delta is. While that tactic is probably very effective at converting that frequent flier into a superfan, it makes you wonder what Delta is doing for their current superfans?

Let's say Delta has a customer who no longer flies as much as he used to but continues to tell everyone that Delta is the best airline out there. When his friends say they're going on a vacation—he tells them to check out Delta. When his co-workers book a business trip, he recommends Delta. When people say all air travel is terrible—he retorts that Delta is the exception. This guy is out there selling for Delta whenever he can which makes him, and the other people like him, huge assets to Delta. So, what do they get? How do you keep them engaged?

When a company has a system in place to find out who their advocates are, what motivates them to refer to others, how they refer to others, and how to keep them engaged—then marketers can take their advocacy building efforts to a powerful place."—*Molly McFarland, uRefer*

"It's important for companies to understand their customers and their potential to be raised to different customer levels. All customers cannot be raised to even supporters let alone advocates. It then becomes essential for the organization to invest time in recognizing those that can and investing more time in them."—*Apurva Sacheti, Goodlife Hospitality*

"At the root of strong advocacy programs is a sense of togetherness. Successful implementations create social cliques. People want to be part of the group, want to say positive things, and want to be enthusiastic about the products/services. Apple has strong advocates, not just because their products sell, but because customers feel like they need to be part of the latest version, product, etc." —*Andrew McFarland, VP of Customer Support, CA Technologies*

"I suppose customer loyalty comes when someone feels a connection with a brand, even if the services provided aren't up to the mark. This connect allows the customer to forgive. For example: I've seen entrepreneurs converting customers to customer advocates with just their story, they sustain them with diligence and perseverance. Quite a few brands have campaigns that try to strike a connection with their consumers. Those brands getting into cut-throat competition, mainly those at price war, eventually lose their positioning. Most of the brands are very much capable of providing basic services, but lose their way fighting for quick customer acquisition." —*Zane Claes, inZania*

Four Trust Drivers in Financial Services

By Don Peppers & Martha Rogers, Ph.D.

Most financial services firms today consider themselves to be trustworthy, and by yesterday's standards they are. They post their prices and rates honestly, they try their best to maintain the quality and reliability of their service, they protect the security of their customers' funds, and they generally do what they promise. But even though they don't actually lie or steal, the fact is that the vast majority of financial services companies still generate substantial profits by fooling customers, or by capitalizing on their mistakes, or by taking advantage of them when they simply aren't paying attention.

That approach in today's environment is a direct route to customer attrition. Retention and growth now entail acting in customers' best interest.

Acting in the customer's interest requires companies to balance the benefit of an immediate profit against the cost of earning the respect and confidence of a customer—an asset that is, in the long term, far more valuable. Financial services companies *must* become more trustable, because as the rising power of customers exposes untrustable behavior, the question of a company's trustability will go to the heart of its value proposition. Trustability will become an essential element of any bank's customer service in the future in much the same way that having a website has become an essential element of customer service today.

To survive in this new, hyper-transparent world in which *extreme trust* is a prerequisite for business success, a financial services firm must pursue four basic courses of action:

Good intentions. Having empathy for customers, and treating each one the way you yourself would want to be treated if you were that customer, is the single most important element of trustability. To be trustable, you have to adopt a customer-centric philosophy, and then reengineer your value proposition and customer experience *from the standpoint of the customer.* This will have consequences for your operating policies, of course, but the eventual implications for your firm's culture will be even more profound. If your own call center reps, tellers, and loan officers don't believe you are a trustable company, then your customers won't either.

Rethinking control. In the transparent future, you won't be able to retain control over communications about your brand. The only thing you *will* control is how well your business processes protect your customers' interests. To make your command-and-control, hierarchical firm more trustable you will have to give more authority to individual employees, empowering them to "sense and respond" in real time to customer issues. And don't be too afraid to allow your workers to show your company's human side, including its vulnerability. A little vulnerability will encourage customers to be empathetic to you, and empathy generates trust.

Community. One of the secrets behind the e-social revolution is that people have an irresistible urge to *share* with others. They make their opinions known, they contribute ideas, they collaborate on things such as Wikipedia and open-source software, and many companies even find that customers provide the best kind of customer service for other customers. If you want to become more trustable you have to tap this sharing instinct, first by sharing your own honest counsel with customers. Talk to them not just in terms of how they can get more value from their financial products, but how they can better manage their resources, and how they can save and spend responsibly. Facilitate customers collaborating with other customers, through online community platforms, social sharing sites, product reviews, and problem-solving customer forums.

Competence. To be trustable, not only must your intention be to act in the customer's best interest, but you also have to have the competence to act

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on that intention. On a basic level this means paying close attention to the quality of your product and service. But just as important, you should upgrade your data, analytics, and systems. Quantifying the financial benefits of long-term customer trust and confidence requires good analytics. Customer lifetime values are not easy to compute, but in the financial services industry, more than in most other categories, the statistical data is clearly available and there is no shortage of analytical tools to make these calculations. If you want your company to become more trustable, you'll have to begin paying attention to the data and pushing the envelope on analysis.

The bottom line: In a world of extreme trust you always have to take a step back from whatever business policy you're considering, whatever new idea you're thinking about, and ask yourself: "If this became public, would it be an embarrassment to us? Would we be proud of it? Would any of our customers hold it against us?" Because in the highly interactive, extremely transparent future everything you do, every policy you have, *will* become public. Hidden fees won't remain hidden, and bad intentions will be quickly exposed. If you want your financial services company to be genuinely trustable, then you have to have clean hands, not just a good alibi.

About the Author

Matthew Rhoden is a Partner at Peppers & Rogers Group where he leads the North American Telecom, Internet, Media and Entertainment practice. He has served dozens of high-tech, media and telecommunications companies with a focus on Customer Lifecycle Management (CLM). Matthew has worked on a range of topics related to CLM, including corporate strategy, pricing, sales and distribution, branding, marketing campaign strategies and customer value modeling. He holds a B.S. in Chemical Engineering from Mississippi State University and an M.B.A. from the Massachusetts Institute of Technology's Sloan School of Management.

About Peppers & Rogers Group

Peppers & Rogers Group is dedicated to helping its clients improve business performance by acquiring, retaining, and growing profitable customers. As products become commodities and globalization picks up speed, customers have become the scarcest resource in business. They hold the keys to higher profit today and stronger enterprise value tomorrow. We help clients achieve these goals by building the right relationships with the right customers over the right channels. We remove the operational and organizational barriers that stand in the way of profitable customer relationships. We show clients where to focus customer-facing resources to improve the performance of their marketing, sales and service initiatives.

For more information, visit www.peppersandrogersgroup.com.

Endnotes

[1] JD Power's 2005 Wireless Regional Customer Satisfaction Index Study. Press release—
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