PUB0002

Treat Your Customers As Prime Media Reps

By John Goodman

Contact Center Pipeline
October 2012

Given the fact that it costs significantly more to acquire a new customer than it does to keep an existing customer, it is somewhat surprising that marketers often overlook the most effective and least expensive marketing strategy – engineering referrals from happy customers. Marketers can significantly increase the ROI of their conquest efforts by making a resource commitment to measuring and, more importantly, managing positive word of mouth advertising in the marketplace.

Treat Your Customers As Prime Media Reps

MARKETERS spend millions on creative executions to get attention and win new customers. At the same time, they ignore the most effective and least expensive "medium," namely existing customers. Referrals from happy customers carry far more weight than even the cleverest network ad. After years of interviewing chief marketing officers, many of whom approve huge ad budgets, I've learned that the main reason they don't focus on this valuable acquisition resource is a belief that, unlike ad campaigns, the word-of-mouth process cannot be controlled or measured. In truth, word-of-mouth advertising can be managed and measured every bit as much as traditional advertising.

By John Goodman

Managing Word of Mouth

You can manage word of mouth by creating a great customer experience on every occasion of customer contact, both pre-sale and post-sale. Such experiences give a tangible lift to the number of customers who will recommend your product or service to others.

The following table (A), based on responses from more than 8,000 investment and insurance customers, shows that fostering a delightful experience can increase the number of customers who will make a positive recommendation by 25-32%.

POSITIVE RECOMMENDATIONS (A)

Delight Experience	*Average Lift to "Definitely Will Recommend" Score
Service beyond expectation	12%
Assistance during life event	14%
No unpleasant surprises	22%
Friendly staff interaction	25%
Personal relationship over time	26%
Tell me of new opportunity	30%
Consistently good service	32%
Proactively provide information	32%

*Percent increase in loyalty between general customer base and customers reporting a "delight experience."

Among the more interesting anecdotal findings:

• One customer reported that he was executing a transaction when his dog barked in the background. The phone representative asked what type of dog it was. They digressed for 90 seconds, but during that time, the customer and rep formed an emotional bond and the customer felt "connected" with the company. One high-end retailer encourages their reps to chat with customers about non-transaction issues when the phone queue is not long.

• An investment company customer reported that, while completing a transfer of funds, the phone rep volunteered that the customer had a large cash balance that would get a better return if invested in a CD.

• An insurance company found that proactively educating customers on how to get more out of the products they've already bought created large increases in loyalty. The company made "welcome" calls and pointed out certain non-obvious features of its policies. This extra customer care resulted in a 12% increase in retention and many fewer complaints about claims denied for benefits that customers thought were covered.

Measuring Word of Mouth

Managing the word-of-mouth process primarily involves staff training and some pretty common-sense tactics. The process of measuring word-of-mouth impact is also highly rational. You can use statistical analyses every bit as sound as other media ratings. There are four elements that can be measured with a high degree of accuracy:

• Number of persons told
• Impact on opinion of the company
• Number of those told who take action
• The percentage of new customers who come to the organization based on personal referral

The first element, word-of-mouth volume, relies on surveys where respondents were asked how many friends and associates they told about their interaction with the company. Answers are quite consistent across respondents in a single study and across multiple studies about transactions having the same intensity of consumer involvement; e.g., packaged goods vs. auto repair.

The second element is a measure of the customers' opinion of the company. In the accompanying chart (B), based on our work in the auto finance category, personal interactions have by far the most impact on the customers' opinion of the company—far more so than traditional advertising.

CUSTOMERS' OPINION OF COMPANY (B)

Specific Positive Experience	% With Greatest Impact	Avg. # Told About Pos. Experience
1. Great service transaction at the dealership	29%	4.3
2. Great interaction with customer service representative	21%	3.4
3. Did not feel pressured at the dealership	18%	3.2
4. Dealership followed up to ensure that I was satisfied with the vehicle/service	16%	3.2
5. Access to account information online	4%	2.9
6. Advertisement	1%	3.4
7. Sponsorship	0%	5.4

The third element is the number of people who then took action based on a recommendation. This measurement is somewhat more ambiguous, but we have found surprisingly consistent results in three separate studies, each with more than 1,000 respondents. In the financial services and retailing industries, for instance, a typical customer will tell about four others of each positive service interaction; in addition, customers making such referrals report that one out of four of those customers told actually took action on the referral.

This high number of actions probably reflects the fact that auto loans are much more likely to come up in conversation if the original customer is speaking with someone who is seriously thinking about buying a car. Talk about a targeted medium! When you run the arithmetic, 100 delighted customers will tell 400 others, and approximately 100 of those will at least inquire about your product.

Companies that have a successful pool of positive word of mouth have to make less effort in marketing. Names like Starbucks, Cheesecake Factory, Jet Blue, Chick-fil-A and Harley-Davidson are assisted by delighted customers to the point that they can spend very little on advertising and still continue to gain new ones. They let their customers do their selling for them, making their brand marketing challenge easier overall.

A CMO would be foolish to invest a fortune on iffy advertising when happy customers are an almost sure thing; however, we find less than half of marketing executives we've interviewed know the percentage of customers resulting from word of mouth. Among scores of successful companies, the lowest percentage of new customers gained from referrals was 20%. The highest percentage, which came from a successful start-up airline and also a fast food chain, was over 70%. Successful investment and insurance firms are usually at the 50% level. Even numbers at the low end of this range more than justify an investment in the measurement and management of word of mouth.

Incorporating Word of Mouth into Your Marketing Strategy

To measure and manage word of mouth effectively, marketers need to ask:

1. What percentage of our new customers are referrals from existing customers?
2. How likely are our existing customers to recommend us to friends?
3. How many people does each satisfied customer tell?
4. Of those, how many approach our company to do business?
5. What can we do to increase the number of customers who will refer their friends to us?
6. What is the cost of getting each new customer from the word-of-mouth channel versus all our other advertising alternatives?

The answers to these six questions may offer some surprises. See how much you've been missing by not using word-of-mouth referrals as a primary, cost-effective media option. Beyond that, it's your choice to make up for lost ground.

John Goodman is co-founder and president of TARP, a research consultancy in Alexandria, Va., specializing in customer satisfaction programs. Clients include Neiman Marcus, DaimlerChrysler and IBM. Contact: (703) 524-1456; info@tarp.com.

Customer Care Measurement & Consulting LLC
2121 Eisenhower Avenue, Ste. 501,
Alexandria, VA 22314

Phone **703.823.9530**
Fax **703.823.9538**
info@customercaremc.com
www.customercaremc.com