# Advocate

Research Objective:

To maximize loyalty and transform more customers into vocal brand champions.

## Executive summary

This paper discusses how businesses can increase customer loyalty, improve business performance and increase profitability by better understanding exactly what they can do to transform more customers into vocal brand advocates by aligning operational, marketing and communication tactics into a coherent brand strategy.

Advocate is a propriety analytical modeling tool used to identify the most efficient and effective ways to convert more customers into vocal brand champions by deconstructing their experiences and impressions. Advocates are not only loyal customers, but they use a company's products more frequently and help strengthen and promote brands by spreading positive word-of-mouth and referring new customers to the brands with whom they feel an emotional affinity.

The modeling tool deconstructs customer (CX) and user (UX) experiences and impressions that drive consumer advocacy into their component parts. The modeling tool quantifies the experiences and impressions that contribute toward (and detract from) perceptions of value consumers derive from a brand's products and/or services. Perceptions of value, or utility, come in three primary forms, including: 1) functional or cognitive value (i.e., cost, performance, convenience, etc.); 2) emotional value (i.e., pleasure, comfort and security, etc.); and 3) reputational value (i.e., respect, esteem, admiration, etc.). And it is important to acknowledge that each form of value has a tangible and intangible component.

The concept of advocacy moves well beyond traditional consumer evaluation metrics, including customer satisfaction or net promoter score (NPS). The model is designed to identify the relative importance of the product and service attributes that contribute toward (and detract from) the perceived benefits that consumers derive from their experiences with a brand, and how those experiences and impressions correlate with different forms of value.

The model focuses less on predicting consumer *attitudes* and more on predicting consumer *behaviors*. It is well documented in the literature that most attitudes, unless held with extreme conviction, are modest predictors of behavior (David Wallace, Rene Paulson, Charles Lord and Charles Bond, Review of General Psychology, 2005). Advocate delivers an evidence-based, executable and clearly prioritized blueprint that emphasizes the importance of thinking about product and service design, delivery and communications as integral components of brand strategy.

### Every business understands the importance of loyalty, but few understand the importance of advocacy

Most companies and organizations are accustomed to using quantifiable metrics to help manage their organizations. These range from sophisticated scorecards and dashboards to more basic metrics like profit and loss statements and cash in the bank. Many companies and organizations try to measure metrics such as customer satisfaction because they intuitively understand it is better to have happy customers than unhappy customers. Business success is built on the strength of customer relationships. When relationship tenure is longer and stronger companies can to attract more value from each customer *because they are delivering more value to customers.*

Through years of experience, we have learned which metrics an organization should focus on in order to increase customer loyalty and profitability. In today's increasingly competitive business environment, managers need to focus their attention on the metrics that matter—because they are better predictors of success (i.e., increased lifetime value and increased profitability).

Marketing professionals often note that the continual introduction of new technologies, competing products and changing sources of information and influence has resulted in an increasingly diverse and fragmented consumer market. Whereas businesses of yesteryears enjoyed the luxury of advertising to a largely homogenous mass audience, today's audience has subdivided into multiple segments defined not only by demography, but by increasingly nuanced and insistent product preferences. To overcome the difficulties of communicating to a fragmented market, marketing managers have turned to sophisticated scientific methods to identify the right segments to target. Despite adopting these advanced analytic techniques, many businesses continue to face difficulty attracting the customers they want most.

Two explanations help account for why many acquisition efforts fall short of accomplishing their goals. The first explanation finds fault with the research practice of identifying target markets through various statistical procedures, such as factor and cluster analysis. Often, the explanation goes, market segmentation researchers miss the purpose of their research, which is to guide senior management decision-making. Instead, they prioritize the adoption and application of ever-sophisticated statistical techniques into their research, which allows them to slice up the market into smaller and smaller niches. Consequently, they produce an overabundance of "clusters" that "may be mathematically sound, but in no way helpful for determining what management needs to do to reach actual customers" (Jennifer Barron and Jim Hollingshead, Marketing Management, January-February 2002).

The second explanation focuses on the difficulties that businesses have in determining what it is they want to communicate about their products and services, even after they have successfully identified their target markets. For example, a recent study of U.S. and European firms reports that it is exceptionally difficult to find examples of value propositions that resonate with subsets of customers (James Anderson, James Narus and Wouter van Rossum, Harvard Business Review, March 2006).

## What leading managers need to know?

Companies and organizations can become more successful and more profitable by focusing their attention on the right metrics of performance. We will argue how Advocate provides managers with a strategic business tool that shows them how to better measure, manage and improve the metrics that drive business success. Businesses correctly understand that they need to pay attention to what customers think about their products and services. The disconnect that exists today is that most businesses manage to customer satisfaction, quality indicators, a Net Promoter Score or other metrics that are not the strongest predictors of organizational success or profitability. This paper describes what an advocate is, and why businesses should adjust their measurement systems and manage to customer advocacy.

## The academic origins of what most businesses focus on today

One of the widespread assumptions in marketing is that customer satisfaction is likely to result in repeat purchases, acceptance of other products within a brand portfolio and favorable word-of-mouth (Richard Cardozo, Journal of Marketing Research, August 1965). The addition of research focused on the expectation-disconfirmation framework (Richard Oliver, A Cognitive Model of the Antecedents and Consequences of Satisfaction Decisions, Journal of Marketing Research, 1980) bolstered the emphasis on customer satisfaction research. Oliver's research added the need to understand consumer perceptions of quality. High quality post-consumption evaluations provide confirmation for higher consumer satisfaction, and, alternatively, low quality post-consumption evaluations provide disconfirmation (i.e., lower consumer satisfaction).

## The need to move beyond customer satisfaction and quality

The early academic work of Cardoza, Oliver and others has led to a dramatic proliferation of research and emphasis on measuring and managing to customer satisfaction, quality and, more recently, Net Promoter Score. Ironically, what we have learned over the past several years is that while we have developed a rich theoretical understanding of customer satisfaction, we have discovered that it is not the most useful metric of business success. We have also learned that managing to quality and Net Promoter Score also requires a subtle shift in emphasis.

## The limits of customer satisfaction

It is widely believed that customer satisfaction is synonymous with loyalty and that companies and organizations should measure and track customer satisfaction in order to understand loyalty, and how and why it varies. This makes sense if satisfaction and loyalty are interchangeable. However, the academic research indicates that self-reported satisfaction and attitudinal loyalty are not synonymous (Thomas Jones and Earl Sasser, Harvard Business Review, November-December 1995). Based on customer satisfaction data from over 30 national companies representing 5 major industries, the research conducted by Jones and Sasser found that the predicted linear relationship between attitudinal satisfaction and behavioral loyalty held up in only 1 out of 5 cases. In response, some businesses have chosen to focus on customers who report that they are "completely" or "totally" satisfied, dismissing "weak" satisfaction.

The problem with this approach is twofold. First, it continues to focus managers' attention on an imperfect metric of behavioral loyalty. And second, customer satisfaction is the wrong metric because it does not predict profitability. Based on a review of many national companies representing multiple industries, recent scholarship reveals that customer satisfaction does not translate into profitability (Frederick Reichheld, Harvard Business Review, December 2003).

## The limits of quality

Quality initiatives are also frequently touted as ways to improve customer satisfaction, organizational performance and profitability. In response to Japan's rising competitiveness in the 1980s, the U.S. Congress created the Malcolm Baldridge National Quality Award modeled after Japan's Deming Award. This was followed by the Total Quality Management (TQM) approach and again by the Six Sigma™ movement. However, we know that managing to quality does not always lead to improved performance or profitability. For example, The Wallace Company went out of business just two years after winning the Baldridge Award in 1990, and Florida Power and Light nearly suffered the same fate after winning the inaugural award.

Quality does matter. But quality alone does not necessarily correlate with profitability, which is ultimately where most managers are driven to perform. Still, there is an ancillary principle of quality that is important for managers to focus on. Specifically, reducing problem incidence is very important. Research indicates that reducing customer defections by 5 percent can increase profits by 25-85 percent (Frederick Reichheld and Earl Sasser, Harvard Business Review, September-October, 1990). Although understanding quality is not necessarily an important metric in and of itself, an emphasis on reducing problem incidence and defections is critical to increased profitability. The key metric to manage to is the behavioral loyalty that occurs when customers do not experience problems. Through this approach, managing to operational excellence becomes a tactic of strategic marketing.

## Net Promoter Score (NPS)

More recent efforts to measure performance include a Net Promote Score (Fredrick F. Reichheld, Harvard Business Review, December 2003) and a Customer Experience Score (Matthew Dixon, Karen Freeman and Nicholas Toman, Harvard Business Review July-August, 2010). This research clearly indicates that Customer Satisfaction (CSAT) is a weak predictor or repeat purchase behavior. The Net Promote Score (NPS) is a stronger predictor of repeat purchase behavior, and the Customer Effort Score (CES) is even stronger. The Net Promoter Score attempts to measure the likelihood that a customer would recommend the brand, product or service under investigation. The Customer Experience Score attempts to measure the how much effort a customer puts into their interaction with a business.

## What are the metrics that matter?

While it is tempting to rely on a single measure of performance (NPS) or (CES), it is important to recognize that both questions are measured using unreliable unlabeled response scales. For example, the NPS is based on a 0-10 scale, mean 10 means "Extremely likely to recommend" and 0 means "Not at all likely to recommend." Ironically, the NPS response scale does not conform to the academic research demonstrating that survey questions are more reliable and valid using fully-labeled scales (Jon Krosnick and Matthew Berent, American Journal of Political Science, 1993 and Jon Krosnick and Stanley Presser, Handbook of Survey Research 2nd Edition, 2009). Value labels 1-9 are unlabeled and can be interpreted very differently by different respondents.

We argue that understanding the metrics that are most useful to managers requires careful consideration of organization goals, which vary by business and mission. However, if the goals are growth and increased profitability, a growing body of academic literature provides insight into the metrics that matter most. The following is a partial list of these metrics and the reason why each one is important.

1. A customer would use a business' products or services again in the future.

Understanding consumers' intentions to use a product or service again in the future is critical to retention, and retention is critical to profitability. According to research conducted by Reichheld and Sasser, improving retention by 5 percent can increase profitability by 85 percent (Frederick Reichheld and Earl Sasser, Harvard Business Review, September-October, 1990). Here, the goal is to retain all current market share at no incremental marketing expense.

2. A customer would use other products and services from a business in the future.

Most businesses would prefer to maintain an exclusive relationship with their customers rather than share that relationship with their competitors. Academic research confirms what most businesses already know: it is easier to sell products and services to existing customers than to new ones, and it is more profitable due to the additional marketing costs required to attract new customers (Alan Grant and Leonard Schlesinger, Harvard Business Review, September-October 1995). Here, the goal is to use cross-sell and up-sell strategies to grow market share (among current customers) at no incremental marketing expense.

3. A customer would feel a sense of loyalty – or emotional affinity – to a business' products or services.

Customers who feel a sense of emotional connection with a business' products or services are more loyal, and that emotion is derived through experience (Scott Rigids, Alan Zofran and Daniel Leeman, Harvard Business Review, 2015). More powerful emotional experiences are more memorable—and therefore more cognitively accessible— to consumers when making purchasing decisions. We also know that emotional loyalty reduces the risk of defection and predicts positive word-of-mouth (Werner Reenacts and V. Kumar, Harvard Business Review, July 2002).

4. A customer would be likely to recommend a business' products or services to people they know (NPS) and report that it is easy to do business with a company (CES).

One imperfect predictor of profitable growth is whether a business' customers are "likely to recommend" them to their friends and family (Reichheld, Harvard Business Review, December 2003). As outlined above, more recent research suggests that interactions with a business that involves "very low effort" is a stronger predictor of repeat purchases behavior (Matthew Dixon, Karen Freeman and Nicholas Toman, Harvard Business Review, July-August, 2010). Here, the goal is to acquire new customers through personal referrals and lowering "friction costs" to encourage repeat purchase behavior.

5. A customer reports having a positive experience and not having a negative experience, or problems, with a business' products or services.

Reducing problem incidence and delivering high quality experiences are critical to maintaining loyal customers and enhancing profitability. The academic literature consistently demonstrates that reducing defections based on service quality generates profitable growth (James Hackett, Earl Sasser and Leonard Schlesinger, The Service Profit Chain 1997). We also know that customer experiences are a form of marketing (Regis McKenna, Harvard Business Review, January-February 1991) and that consumers are willing to pay a premium for better service experiences (Joseph Pine II and James Gilmore, Harvard Business Review July-August 1998).

6. A customer would say many positive things about a business' products or services to people they know and would NOT say negative things.

Perhaps more important than consumers' *likelihood* to recommend a business (NPS), is the *behavioral* action of making positive statements to people they know, and not making any negative statements. Research consistently demonstrates the link between positive word-of-mouth and profitability (Benjamin Schneider and David Earl Bowen, Winning the Service Game, 1995). We also know that companies can engage with consumers in new ways to generate more positive word-of-mouth (Joseph Pine II and James Gilmore, What Consumers Really Want: Authenticity, 2007).

## What is an advocate?

The simplest way to conceptualize a consumer advocate is to imagine the behavioral characteristics of an "ideal customer" as indicated by key behavioral metrics. An advocate is a customer who: 1) would use a product or service again in the future; 2) would use other products and services within a brand portfolio; 3) would feel an emotional affinity toward a business' products or services; 4) would be likely to recommend a business' products or services to people they know; 5) would report having positive experiences with a company and no negative experiences; and 6) would report making positive statements about a business and report having no negative experiences.

At the opposite end of the spectrum is a detractor who: 1) would NOT use a product or service again in the future; 2) would NOT use other products and services within a brand portfolio in the future; 3) would NOT feel a sense of emotional connection to a business' products or services; 4) would NOT be likely to recommend a business' products or services to people they know; 5); WOULD report having negative experiences with a business; and 6) WOULD make negative statements about a business.

For any given business, customers are differentially distributed across this range of advocacy and detraction. And, as businesses learn in detail what drives advocacy, operational, marketing and communication tactics are aligned to develop a coherent brand strategy.

**Continuum of Advocate Brand Affinity**

Detractor Advocate

### What generates an advocate?

Advocate not only focuses managers' attention on the metrics that matter, it also shows them what they need to do in order to improve their business performance (i.e., increase loyalty, grow market share and increase profitability). Consumer advocacy is driven by a combination of individual impressions, which, in turn, inform summary judgments of perceived value. Consumer perceptions of value are dependent on impressions that come from a variety of sources, including: 1) direct sources (i.e., what a consumer experiences directly when they see, use or consume a product or service); 2) indirect sources (i.e., what a consumer experiences indirectly through word-of-mouth); and 3) mediated sources (i.e., what a consumer experiences when they read, see or hear something about a business' products or services through paid, earned, online, social media or other sources. Each of these sources of impressions can be measured and statistically linked in a causally specified direction on advocacy. The model also carefully separates the functional, emotional and reputational value derived from consumer (CX) and user (UX) experiences, delivering a blueprint that prioritizes the most impactful sources of action to improve business performance.

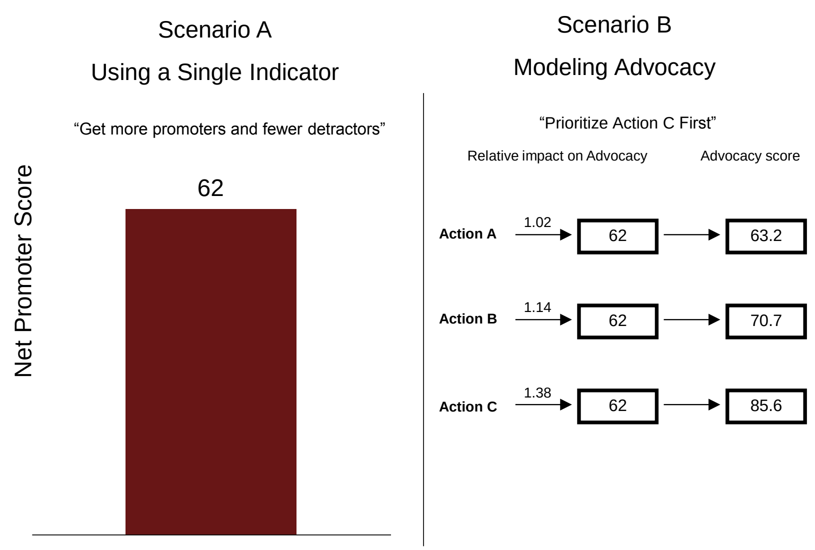
## How do I "move the needle"?

Using a single indicator (NPS) does not provide managers with insight into what they can do to improve performance. We take exception to Reichheld's advice:

> "By asking this one question, you collect simple and timely data that correlate with growth. You also get responses you can easily interpret and communicate. Your message to employees - 'Get more promoters and fewer detractors' - becomes clear-cut, actionable and motivating, especially when tied to incentives" (Frederick F. Reichheld, Harvard Business Review, December 2003).

We believe that managers need more than a single indicator of organizational performance. To illustrate this point, take the following example.

**Two Alternative Approaches to Providing Managers with Consumer Feedback**



Under Reichheld's original scenario (Scenario A), a manager is given a NPS score (or Advocacy Index Score) of 62 and told by her CEO to "***get more promoters and fewer detractors***." It is our view that a recommendation like this is no more than a statement such as "*good luck*." Under our scenario (Scenario B), a manager also receives a NPS score (or Advocate Index Score) of 62 and is provided with precise information regarding the relative impact of different courses of action. She would know, for example, to pursue Action C with a sense of urgency because it has the greatest impact on consumers' perception of value (a higher evaluation of "action C" could raise the company's Advocacy score from 62 to 85.6). She would also know that Action A should be given lower priority because it has a lower impact on consumers' perception of value (a higher evaluation of "action A" would only raise the company's Advocacy score from 62 to 63.2). Armed with this insight, our manager has an action plan (or blueprint) for setting clear priorities in order to achieve maximum impact. This approach is consistent with more recent research. Specifically, "to understand how to achieve [performance], a company must deconstruct it into its component experiences" (Christopher Meyer and Andre Schwager, Harvard Business Review, February 2007). *We believe that this is a much stronger approach because it provides managers with prescriptive information for taking action to improve business performance*. The ultimate variable of interest should be Advocacy, not a single indicator, such as CSAT or NPS. Despite Reichheld's advice to "Keep it Simple" using a single performance indicator borders as irresponsible because it fails to provide managers with specific information outlining the most effective way to achieve their performance goals.

The graphic above is, or course, a simplified example which is merely meant to illustrate the importance of delivering specific information regarding the relative importance—or impact—of different courses of action on the metrics that matter, or KPIs (Key Performance Indicators). Without it, managers have no direction to guide planning. With it, they are provided with a blueprint to prioritize specific actions, business functions and communication messages for maximum impact.

## How we do it?

Advocate is a statistical modelling tool that identifies the specific experiences that drive brand advocacy. Each model is customized to each business we work with. It is not an off-the-shelf solution. It is a theoretical model that we use to identify the customer experiences and impressions that predict advocacy. The model identifies the relative importance of every experience and impression on brand advocacy. The relevant experiences and impressions vary for every business, so every model is customized to meet the unique needs of each client with whom we work. It also identifies how customers rate a business in a wide variety of "touch points" under investigation, allowing us to not only identify the relative impact of each one, but also identify which ones are most in need of improvement. The model also includes the ability to identify the relative impact of different impressions sources, including direct experiences, indirect experiences communicated through word-of-mouth, and mediate experiences from print, electronic, online and social media sources.

## Why you need it?

Advocate gives managers a tool that outlines a clear action plan for maximum impact. It provides managers with precise information to set clear priorities and see improvements in performance quickly and efficiently. The model also gives managers a tool to control strategic referrals and positive word-of-mouth so that they can influence what their customers say about their business to people they know. Most importantly, it delivers insight to craft an evidence-based plan that seamlessly integrates operational, marketing and communications tactics into a coherent brand strategy to maximize loyalty, profitability and the lifetime value of every customer relationship.

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