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Making the Most of Loyalty

Professional service marketeers must sometimes wonder why they drew the short straw. Many find themselves facing a complicated operating environment. On the one hand, they must be guardians of their brands and yet are often tasked to promote an intellectual product which is difficult to define. In the professional services arena there are no shiny boxes but often a host of service benefits which refuse to be neatly packaged. There is also the additional and ongoing challenge of customer relationship management which is of the utmost importance in the professional services environment .

After first by shedding light on why promoting professional services is so difficult, this article describes how to use professional service quality and loyalty – or rather 'goodwill' – to identify, retain and manage clients and, ultimately, to segment them into key groups.

Why is Professional Services Marketing so tricky?

As confirmed by a Henley colleague's international study, there are two key characteristics which enable us to identify major service clusters – 'visibility' of the service and 'time-to-benefit' of delivery. For example, in a 'sparkling' service such as restaurants and theatres, service delivery is highly visible. In addition, benefits can be assessed within hours (maybe minutes).

However, the professional working with 'investing services', needs to wrestle with ultra-low visibility – with clients often present for less than 1% of fee time. In addition, benefits are often deferred over long delivery periods. By contrast, higher education marketeers at least have visibility on their side: but they will await with some trepidation the eventual trauma of accurate fee/price signals on benefit perceptio*n*s.

The problem of client loyalty

In previous, more boyant economies, none of this mattered much. Clients were often for life (well almost). Sadly, our research indicates, average incumbency has declined by over half since the mid-1980s. Granted the large corporate practice of rostering multiple vendors, calculating churn becomes an imprecise science but annualised rates of 25-33% are probable for many. This would represent around £5 million in a £20 million practice.

Yet if retention is a 'universally acknowledged' priority, many firms are now looking for a solution. This is partly because most apply models and metrics which come from the world of consumer services. There, loyalty is assessed *post*-consumption. After one restaurant visit, for example, a researcher can check in isolation the likelihood of a repeat visit. But in professional services, given such long client relationships, 'loyalty' should be checked *during* consumption. In this complex environment our research finds that conventional measures of loyalty and satisfaction merge together. They become, more simply, 'goodwill'.

To illustrate this more clearly, imagine that, in a long-term professional relationship, professional services firms hold conceptual 'bank accounts' with each client, where 'goodwill' is the currency. If they keep such accounts nicely topped up and in credit, they will ride out often unanticipated yet significant service issues. Conversely – and explaining a common, perplexing phenomenon – if they treat one client with slighly less respect, the smallest 'critical service incident' may prove terminal.

Capturing and managing client 'goodwill'

So how do you acquire and 'pay in' goodwill into your conceptual client bank account? Effective management requires understanding of the nature of professional service quality, its four principal dimensions and their effects on client perceptions. Disappointingly for many, the first dimension – expertise - accounts typically for as little as 10-15%. The second dimension - ethics and reputation - is similarly minor. The third - service outcome - is only marginally more effective at creating goodwill. For example, for many professional services clients, service outcomes – from litigation to training - are 'fuzzy' i.e. near-impossible to determine or quantify.

The fourth and dominant factor is 'rapport'. However, although it implies the touchy-feely side or well-expensed lunches of yesteyear, rapport actually refers to the rather hard practical condition engendered by consistent cross-firm process. Consistent presentation, effective and proactive reporting, and, not least, clear strategic engagement with the client in terms of problem recognition andunderstanding is key and it 'pays' into the goodwill bank account through six different aspects: general service, utilitarian satisfaction, brand commitment, relationship commitment, good influence or fairness, and pleasure/satisfaction (see diagram 1 'your goodwill bank account').

How to spend it!

Keeping conceptual bank accounts in credit secures a defensive foundation. As important, generating and spending goodwill effectively can leverage a client base's potential. Assume, say, that recession has facilitated structural reform and enabled a marketeer to translate 'strategic engagement' into a firm-wide trackable reporting process. Such consistency generates credibility. It pays in 'brand commitment' and it can be spent wisely on securing (*a first behaviour*) positive client appointment satisfaction.

Similarly, if we consider that recommendation is the source of up to 50% of professional new business, it is necessary to activate more private 'advocates' across your client base. To achieve this, focus on delivering high utilitarian and general service satisfaction scores and engaging proactively with clients. This requires that professional services firms get process basics right consistently and reliably in order to generate positive value perceptions.

As a final illustration, the power of perceived influence is a major innovation in this model. It signals that a client's belief in a professional services firm's underlying good intentions generates significant goodwill. And that these particular 'funds' are vital to maintaining active and exclusive preference behaviours.

Goodwill segmentation

But, of course, all clients aren't the same. Just as any serious marketeer segments a new market, so the insights of goodwill unlock a new retention segmentation. Its key drivers are the level of importance placed by the client on, respectively, value/performance and relationships. Their application reveals six distinct types as illustrated in the second diagram 'Inside the client bank: goodwill segmentation'.

The favourite and most profitable types of client, but fewest in number, are the well-balanced 'Active Partners'. Characteristically, they: empower professional teams and treat them as in-house extensions and at the same time encourage creative strategic thinking. Conversely the 'Relationship Seeker' type of client (or midnight caller) is a 'siren voice' promising much but draining resources. Often senior, knowledgeable but with ever-changing personal/organisational needs, they may switch emotionally and without notice. The similarly unidimensional 'Performance Pro' is equally lightly-rooted.

Marketeers will pay special attention to 'Old Reliables' and 'Process Junkies' (or gatekeepers). The former, often senior, may generate only low or average fee income and are little noticed, yet they may prove a strong, regularly untapped source of recommendations. The latter, apparently unmoved by either performance or relationships, will remain clients for so long as the correct process boxes are ticked reliably, painlessly and without surprises.

Each segment will merit a customised approach and traditional ‘one-size-fits-all’ client initiatives and special incentives are to be avoided. Special low-cost offers may pull occasional ‘Butterflies’ but permanently unsettle the ‘Process Junkies’ and disturb ‘Active Partners’. The emerging tactics in retention marketing are a hot topic for future development.

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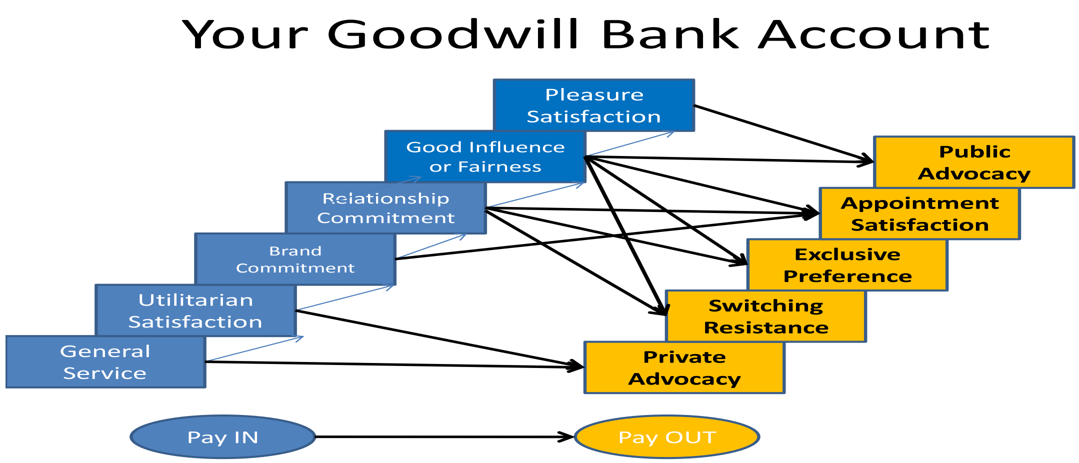

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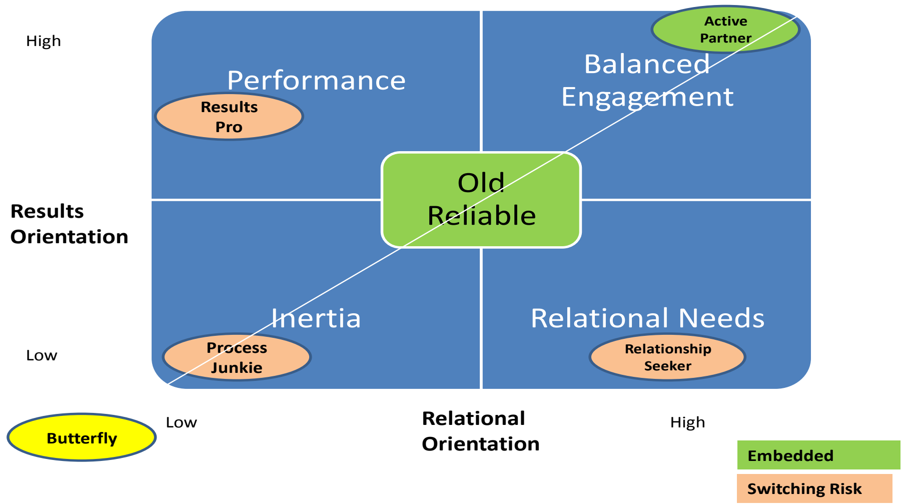
Inside the Client 'Bank': Goodwill Segmentation



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