



DOGS ARE LOYAL. CUSTOMERS AREN'T.

**Using Psychology for
Better Customer Service.**

Written by Philip Graves

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Introduction

“...People’s beliefs and convictions are in almost every case gotten at second-hand, and without examination, from authorities who have not themselves examined the questions at issue but have taken them at second-hand from other non-examiners, whose opinions about them were not worth a brass farthing.”

–MARK TWAIN

For decades, organizations have focused on increasing customer loyalty. In fact, it's become so established as a goal for customer service that it is accepted without question: people believe that customer loyalty is a desirable goal. Add "business" and "decimal currency" to Mark Twain's quote and it still applies today.

There are two good reasons to abandon talk about customer loyalty in your business:

1 Competitive advantage lies in differentiation. You don't achieve that by thinking in exactly the same way as your competitors.

2 From the perspective of consumer psychology, the notion of customer loyalty makes almost no sense.

(You can *really* differentiate if the way your competitors are thinking about something is wrong!)

At the very least you should have a proper think about whether it's a helpful goal to strive for (probably two cups of coffee's worth of thinking, I'd say).



Businesses worldwide are realigning, or newly investing in, technology and business models to more effectively engage with digital consumers at every touch point in the customer experience lifecycle. In some markets, this digital disruption impact is such that if you don't revise your loyalty perspective, your organization can easily get left behind.*

Over the recent recession, several retailers have fallen by the wayside, whilst others have thrived despite the price premium they have to charge. What separated those who thrived from those who didn't? The experience they gave customers and the service that

supported them. In the internet age, where consumers are a few taps away from finding someone offering a product or service at a lower price than the leading brand, getting customer service right is more important than ever.

However, just because continued patronage of a brand has the *appearance* of loyalty doesn't mean that it's the emotion being experienced by a consumer.



The Psychology of Customer Loyalty

Let's start by considering loyalty in terms of evolutionary psychology. It's been suggested that loyalty is an emotion that stems from the basic psychological drive for honor.* Evolution has equipped us with the basic desire to be honorable. Clearly, this isn't something that's all-consuming; we have other drivers and sometimes these overpower the honorable one.

So our promise to be home on time collapses under the temptation of a visit to the pub after work; the drive for social contact eclipses our pledge to get back and fix the washing machine.



The evolutionary benefit of loyalty is clearer when you think back to our nomadic past.

Human beings fared better in groups, and doing the right thing for someone else—not least for one's family—meant that there would be someone to back you up when you needed help.

In developed societies, we thrive (in part at least) because we've created structures and rules about what's right and wrong, formalized by statutes and overseen by judges.

*Reiss, S., *Who am I? The Basic Desires that Motivate our Actions and Define our Personalities*, Tarcher/Putnam (2000)

In psychological terms, **being loyal keeps us within the safety of the herd.** Feelings of shame and guilt are triggered when we don't act in accordance with the "rules": true loyalty only exists where there is this discernible flip side. But is anyone seriously suggesting that a consumer feels bad when he switches brands?

The repeated and exclusive use of your goods or services might *appear* to be loyalty; in fact, this description entirely ignores what customers are actually experiencing emotionally. In all likelihood they aren't feeling anything like loyalty. And if that's not what they're feeling, it has major implications for what you should be doing in customer service.

Misleading Market Research

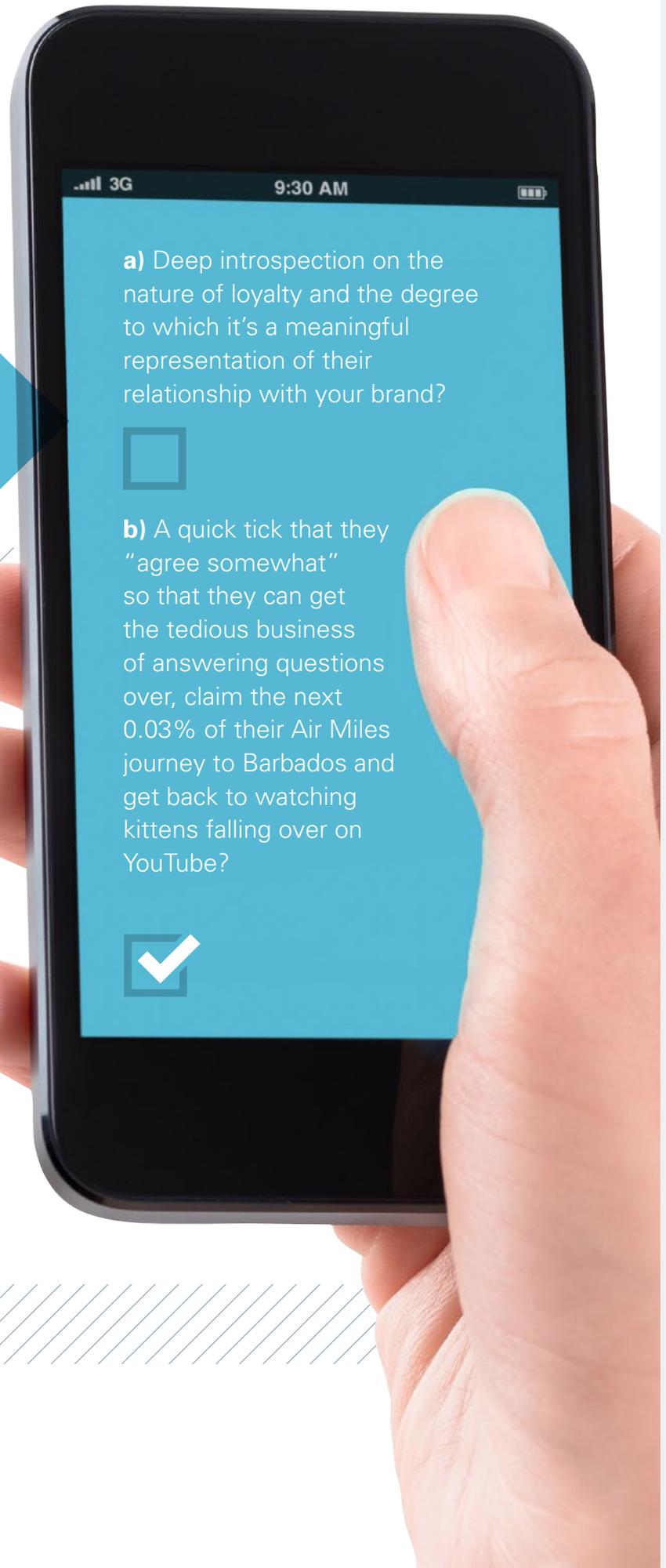
No small part of the problem comes from misguided market research that purports to represent customers' interests. I've lost track of the number of times companies tell me their research has shown customers want to be rewarded for their loyalty. What else would they say? One of the many problems with market research is the problem of focalism. By drawing someone's attention to something, you can create a focus of attention that is totally artificial; in other words, respondents are considering something solely because you've asked them about it. Your insights are then based on thoughts and feelings that they never have as consumers!

The focalism problem is compounded by the phenomenon of priming. We like the idea that our opinions are driven by deep-rooted values and beliefs. This is rarely the case. Instead, when we're asked a question, our mental journey to an answer starts somewhere arbitrary, be it the topic we know we will be asked about, the introduction to the question or the content of a previous question. If you recruit customers on the basis that they've used your brand exclusively for years and talk to them about the longevity of their patronage, it's no surprise when they grumble about wanting their loyalty rewarded.

Rewarding loyalty by giving more to someone who is loyal makes no sense. Such customers have clearly demonstrated that they will choose to use a particular product or service over and over again. In economic terms they are getting adequate utility from the exchange.

Similarly, if you ask customers how loyal they feel towards your brand, what will you get back?

If claimed loyalty were a meaningful measure (which it isn't), you would be able to correlate changes in it with something tangible, like how exclusively customers use you. And if you *can* track how exclusively customers use you, track that instead!



What Is It if It Isn't Loyalty?

Understanding Customer Stickiness

Where consumers use you more than your competitors (or better still, exclusively), you have stickiness, not loyalty. Stickiness is an observation, not a misappropriation of a word that has meaning in human relationships but not in dealings with people who sell plane tickets or service current accounts.

In one sense, the metrics you use for stickiness are very similar to those used for loyalty, i.e. the extent to which customers use your organization rather than a competitor's to satisfy a given need or desire. There are two important differences from loyalty that create a different frame for this data: firstly, stickiness puts the sole focus on behavior—there is no place for attitudinal claims. Secondly, in using the word “stickiness” (which is descriptive of the behavior) rather than “loyalty” (which is a projection of what's driving the behavior), you encourage a much broader perspective on the levers that you might use to influence customer behavior.

Stickiness has three clear benefits over loyalty:

You can turn stickiness into a verifiable dependable metric, whose movement actually *means* something to your business.

Customer service is a huge component of stickiness: it's clearly a metric customer service should own and attempt to influence. Loyalty, of course, becomes the primary domain of people who wear black turtleneck jumpers, invent words like “ideation” and still get to go to lots of Christmas parties.

Consumer behavior offers valuable insights into how to drive stickiness through customer service.

Four Ways to Use Consumer Behavior to Increase Stickiness

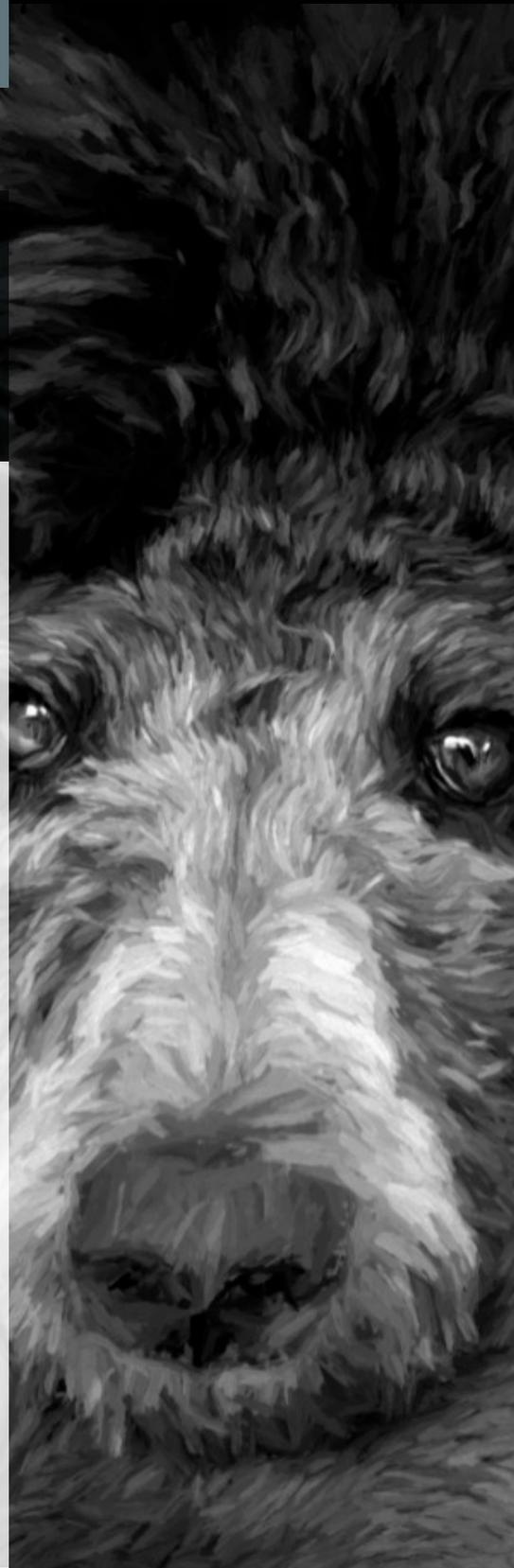
1

Associations

The human mind works by association. For example, if I show you a picture of my dog you immediately know it's a dog, even if you've never seen this particular dog before.

Each aspect of your customer service will trigger associations: perhaps with previous experiences of dealing with your company, or with similar experiences of different companies. Importantly, each new experience has the power to reinforce existing associations or create new ones. One of the biggest challenges for service-oriented companies in the digital age is delivering the service experience that has helped to differentiate their brand in the bricks-and-mortar world. Whilst the experience will undoubtedly be different online, it serves the brand best when it finds a way to trigger congruent associations (I'll come back to congruence later).

If you ignore associations, it's easy to inadvertently trigger negative or incongruent ones. For example, if your "Chat" icon looks like another company's, that will create expectations in the mind of someone considering clicking on the link; are these working positively or negatively? I'm astonished by the number of large companies that use the same voice on the interactive menu systems of their call centers: they spend millions of pounds each year making adverts to project a particular brand image and then, when they have the focused attention of their customers, trigger associations of other call-center experiences that are entirely outside the business's control.



2

Ease

If there's one thing that the human brain loves, it's stuff that's easy. Typically, if something is easier to process mentally, we think it's better. When things aren't easy, there's the risk of customers deviating from the path you would like them to take. For example, the inability to get a swift answer to a question about a product can send a customer out into the Google void, where no end of distractions and competitors lie in wait.

When organizations focus on loyalty, they frequently design service elements that, from a consumer perspective, are overly complicated. Sometimes we are most useful to others when our assistance isn't noticed.



Whenever there is a conflict between doing something in customer service that might be "really valued" by a customer and doing something that will make the experience easier, it's usually better to focus on the latter.

When two minutes of online research and opinion-sourcing can make customers more expert in an area of interest than a customer-service agent, the questions asked become more challenging to answer.

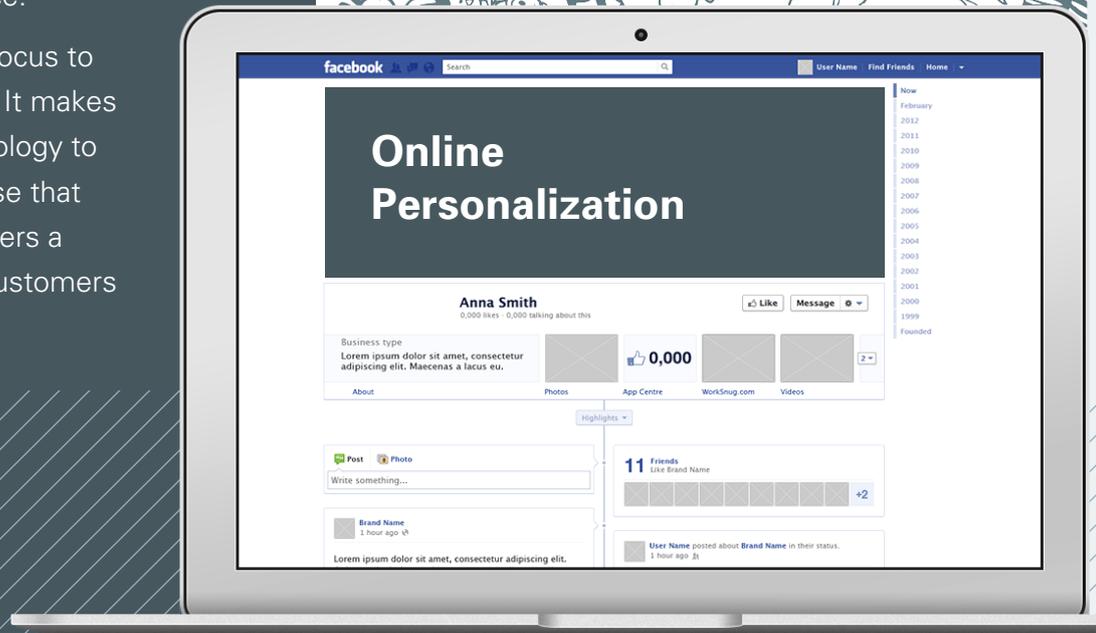
When a question or issue isn't resolved quickly, it either creates a festering resentment or turns into a battle where each bout reinforces the negative experience in your customer's mind: when it becomes a saga it's social ammunition, with your brand a defenceless victim of its repeated retelling.

Ease presents an interesting challenge in the digital age: arguably, a lot more focus has gone into making life easier for companies than for customers. The good news is that technology is offering solutions:

Online Personalization

Where the customer's experience is tailored to his individual profile, there's the potential to create a better, easier service experience.

However, much of the focus to date has been on sales. It makes sense to use this technology to create a service response that you know speedily delivers a positive resolution for customers fitting a given profile.





Loss Aversion

One of the primary drivers of stickiness is loss aversion. We've evolved to be much more sensitive to the risk of losing out than we are to the opportunity for gain.

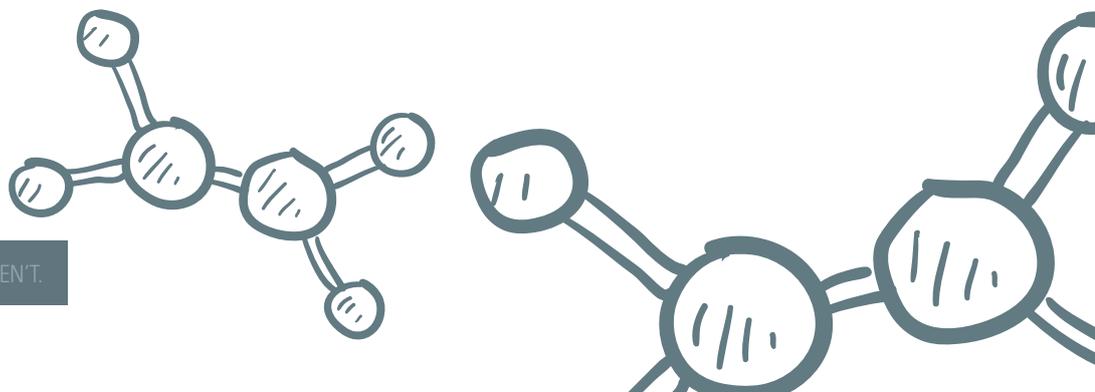
It's been demonstrated in experiments that people who lose money report much greater distress than the happiness reported by people who receive the same sum. Consumers go back to the same provider, in part, because they don't want to regret trying someone new and feeling disappointed.

This force can be so strong that even when a product or service has let a customer down badly, they return to the "devil they know".

In the digital age it's so easy to go elsewhere that it's vital customers feel that buying from you is a safe option. With loyalty as a goal, it's natural to focus on the positive elements of your service offering; what will make customers like you more? With stickiness as the objective, it's more important to focus on what you can do that will avoid customers feeling regret: if something goes wrong, how confident are they that the solution will be swift and appropriate?

Understanding how customers perceive the risks involved in a purchase or service experience can be enlightening: often these have very little to do with the statistical incidence of the event, but reflect the most negative scenario they can imagine. In the UK, for example, the bank-switching service guarantees to pay any interest or charges arising

from something going wrong during a switch. However, customers are more likely to imagine the hours of hassle that typically ensue when having to liaise with organizations whose direct-debit payments haven't been processed, and decide that the risk of switching simply isn't worth it.



4

Anchoring

When a company delivers service really well it can create a service “anchor”; a positive mental reference point from which the customer starts when considering a purchase.

In my experience there are two ways to achieve a positive service anchor. Understanding which applies helps determine how you should think about service design:

1

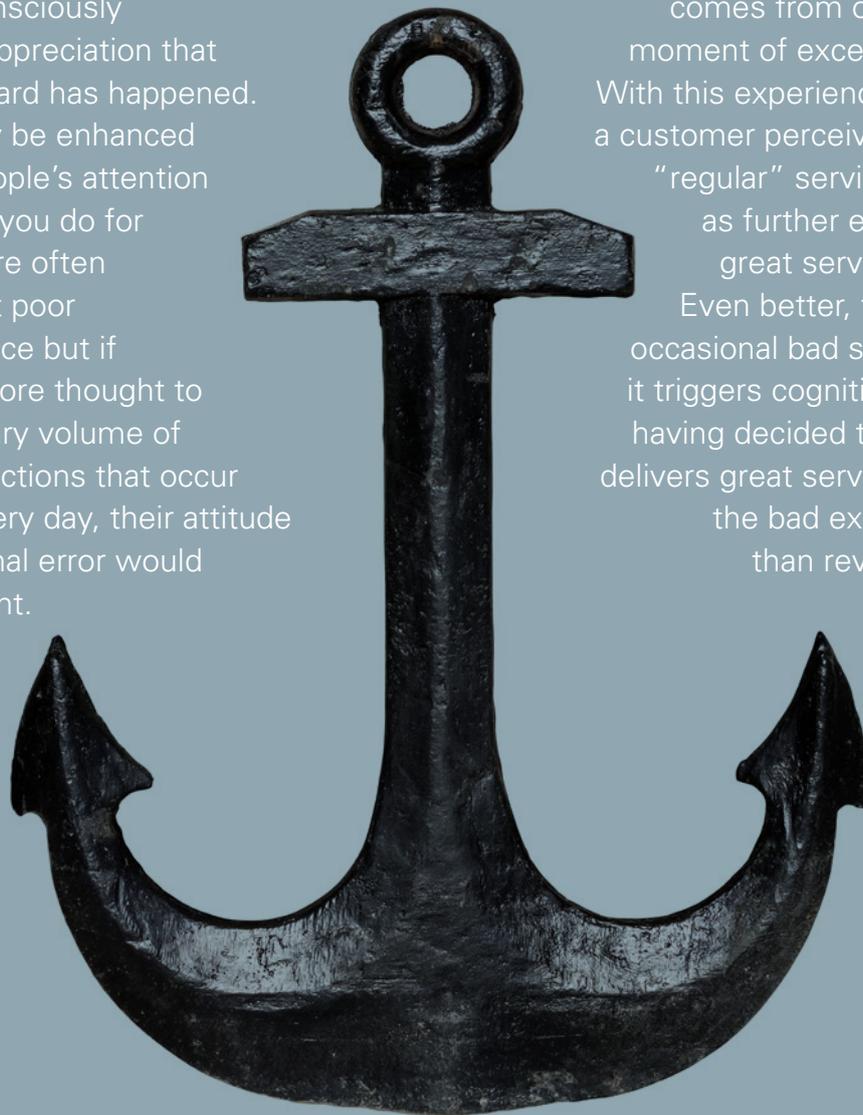
Frequent transactions

The anchor builds over time from the unconsciously accumulated appreciation that nothing untoward has happened. Stickiness may be enhanced by drawing people’s attention to the amount you do for them. Banks are often criticized about poor customer service but if people gave more thought to the extraordinary volume of financial transactions that occur seamlessly every day, their attitude to the occasional error would be very different.

2

Infrequent transactions

The positive service anchor comes from one noteworthy moment of exceptional service. With this experience in their mind a customer perceives subsequent “regular” service experiences as further evidence of that great service experience. Even better, they will ignore occasional bad service because it triggers cognitive dissonance: having decided that company X delivers great service, they forget the bad experience rather than revise their belief.



Vital Tools for Creating Great Customer Experiences

To deliver great customer service, any organization needs four elements:

1

Behaviorally-based measurement

Human behavior is hugely sensitive to context. How we feel is dependent on where we are, what's around us, and our mindset at the time: to be worthwhile, any evaluation must take this into account.

Behavioral measures are fundamentally true. Forget what surveys say about satisfaction, loyalty and promoter scores unless someone has proven to you that they are reliable predictors of behavioral measures.

2

Creativity

As someone once said, if you do what you've always done, you'll get what you've always got. You need to try different things, and that means being creative—not least because consumers can't tell you what you can do in terms of customer service that will make them "stickier".

Creativity within an organization shouldn't be the preserve of marketers; it is a valuable resource in every department (with the possible exception of some aspects of corporate finance!). Unfortunately, there is so much focus on delivering processes in large organizations that creativity can easily get lost (or fired).

Customer-service leaders need to recognize that competitive advantage lies in creating better service experiences—and this needs creativity.



3

The capacity to conduct live trials

The need for creativity has three major implications:

1. You need to be comfortable with change
2. You need to have the capability to change, and
3. You need to be able to analyze the impact of that change objectively.

Fortunately (or unfortunately if your business isn't adequately enabled), the digital environment excels at experimentation. Indeed, the reason that digital is so disruptive is because it lends itself so perfectly to conducting live trials: the commonality in organizations that have prospered in the last decade is that they covertly treat their customers like lab rats and constantly experiment on them.

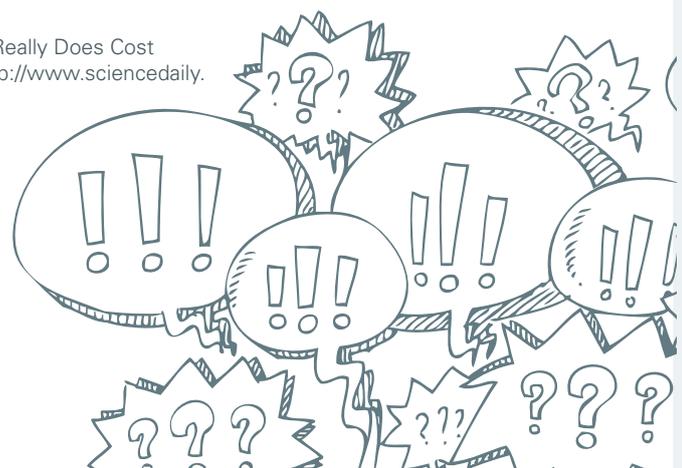
For example, is it better to apologize to customers when something's gone wrong or to compensate them financially? The answer is almost certainly "it depends on the context". What we can say with certainty is that there *are* occasions when a well-written apology is better than paying compensation.

Researchers from Nottingham University, England, worked alongside a high-volume eBay trader and tested alternative responses from the trader to customers who left neutral or negative feedback.

Some were offered a partial refund as a goodwill gesture if they would consider withdrawing their feedback. Others were sent an apology that blamed the manufacturer for the delay and added, "We are very sorry and want to apologize for this." The outcome? Only 23 percent of those who received the partial refund withdrew their feedback, whereas 45 percent of those who received the apology opted to do so.*

The moral of this story isn't that you should stop compensating customers you've upset, but that you should test different apologies and track behavioral outcomes with randomized controlled trials.

*University of Nottingham (2009, September 23). Saying Sorry Really Does Cost Nothing. ScienceDaily. Retrieved September 28, 2009, from <http://www.sciencedaily.com/releases/2009/09/090923105815.htm>



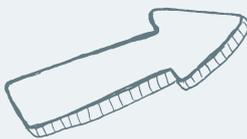
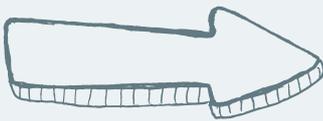
4

Understanding the power of congruence

A consumer's life is busy and complex. Beyond the psychologically bizarre abstraction of the focus group, it doesn't involve any periods of introspection when relationships with brands are reflected upon. Consequently, all of the encounters a consumer has with a brand have the potential to build and reinforce associations that shape future purchase decisions.



For many brands, particularly those providing services, customer service is a much more significant source of these associations than the fleeting encounters consumers have with marketing. It follows then that it's vital that customer service be congruent both across channels and with the positioning of the brand.



Summary

Customer-service leaders have a key role to play in defining the brand.

However, to deliver on that role, they need to recognize the importance of creativity in what they do: customer service requires design.

Perhaps, prior to digital disruption, loyalty was a reasonably good proxy when contemplating service design; I am convinced that nowadays it is not.

With the problem of change, however, comes the solution: the digital environment lends itself perfectly to developing better customer service. There is an abundant opportunity to capture behavioral data and to conduct live tests of different approaches to prove what the impact of any change will be.

Critically, service leaders must focus on the right objective when contemplating *and* evaluating initiatives; customer “stickiness” is what counts.



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About the Author

Philip Graves is a consumer behavior consultant, author, speaker, and regular contributor to the media. He has been described as “one of the world’s leading consumer behavior experts” (Kevin Hogan), “one of the world’s pre-eminent consumer behavior consultants” (Cambridge Business Magazine) and one of ten “... original thinkers whose ideas will help shape Britain’s recovery.” (Director)

For the last six years he has been working with international businesses, providing expert advice on consumer behavior and behavioral insight.

His first book, *Consumer.ology*, was published in 2010 and was named one of Amazon’s top ten best business books of the year. In addition to case studies and examples from his own work, the book draws on some of the latest academic research from psychology and neuroscience to show why most market research can’t work and what companies should be doing instead. *Consumer.ology* has been described as “essential reading for marketers and general managers” and “accessible” and “thought-provoking” for non-business audiences.

Based in Cambridge (UK), his work has taken him around the world, including the United States, Brazil, Singapore and Japan.

