

Beyond loyalty

Meeting the challenge of customer engagement

A report from the Economist Intelligence Unit
sponsored by Adobe Systems

Part I





Preface

Beyond loyalty: Meeting the challenge of customer engagement is an Economist Intelligence Unit briefing paper sponsored by Adobe Systems. The Economist Intelligence Unit bears sole responsibility for this report. The Economist Intelligence Unit's editorial team executed the survey, conducted the interviews and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. Bennett Voyles was the author of the report and Rama Ramaswami was the editor. Mike Kenny was responsible for layout and design.

Our research drew on two main initiatives. We conducted a global online survey in December 2006 and January 2007 of 311 executives from various industries. To supplement the results, we conducted in-depth interviews with executives from around the world about the level of customer engagement in their company. Our thanks are due to all survey respondents and interviewees for their time and insights.

March 2007

This is the first of a two-part report on engagement. The first part presents highlights from the research; the second part explores in more detail some of the trends and issues in engagement covered in the research, including observations from interviews with senior executives.



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Introduction

Most companies today face a two-fold dilemma. In many product and service categories, competition based on both price and quality is increasing. Customers, faced with so many good choices, are making decisions based on a variety of complex factors. Even in business-to-business sales a similar dynamic is evident, as loyalty and relationships play less and less of a role in many contracts.

In this environment, the enterprise interested in winning, retaining and deepening customer relationships can no longer do so simply by creating a better product or even by holding down costs. For many companies, both strategies are essential simply to stay in the game. Increasingly, executives are finding that the winning differentiator is no longer the product or the price, but the level of engagement—the degree to which a company succeeds in creating an intimate long-term relationship with the customer or external stakeholder. Although the term “engagement” is sometimes used to describe customer marketing, loyalty, satisfaction and retention practices, companies are now realising that engagement also is a more strategic way of looking at customer or stakeholder relationships. In this emerging approach, engagement refers to the

creation of a deeper, more meaningful connection between the company and the customer, and one that endures over time. Engagement is also seen as a way to create customer interaction and participation.

While that might sound like what marketing has tried to do all along, cultivating engagement is increasingly a job that is being undertaken in various ways throughout the enterprise, even the executive suite. In fact, at many companies, CEOs are now reportedly leading the drive for more customer engagement.

The study indicates that companies are going beyond traditional customer satisfaction or relationship programmes to develop new ways to ensure that customers are engaged in all of their interactions with the company. Engagement initiatives are more proactive in anticipating customer needs and expectations, and fulfilling them more effectively.

To discover how companies are trying to accomplish what is being seen as an increasingly essential task, the Economist Intelligence Unit, in cooperation with Adobe, conducted a broad survey of business executives about the level of engagement they believe their company has achieved with its customers, the tactics they use to cultivate it, and what they believe are the key strategies and tools for achieving even deeper levels of engagement in the future. The study also examines a number of business trends affecting engagement, including technology, which is seen as an increasingly important tool for building engagement. For example, executives see a need for greater integration of online and offline tools to manage customer relationships. The role of technology is explored in more depth in Part II.

A cross-section of more than 300 executives from a variety of companies, the majority in the Asia-Pacific region, North America and Western Europe, responded to the EIU’s online survey. Executives from 17 sectors were represented, as were companies with market capitalisation ranging from less than US\$500m to

About the survey

In December 2006 and January 2007, the Economist Intelligence Unit queried 311 executives on their companies’ customer engagement practices. Approximately 32% replied from western and eastern Europe, 32% from the Americas, 31% from the Asia-Pacific region and 5% from other parts of the world. Respondents represented a wide range of industries and functions. About 50% of the respondents were C-level executives or board members. Companies with less than US\$500m in annual revenue represented 46% of the total sample; firms with revenue of US\$500m to US\$5bn, 23%; and companies with revenue of US\$5bn or more, 31%. In the charts in this report, not all answers add up to 100%, because of rounding or because respondents were able to provide multiple answers to some questions.



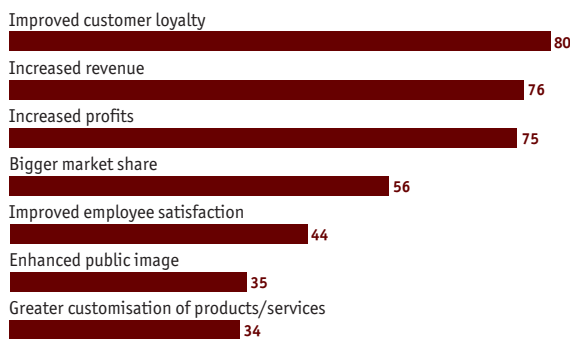
more than US\$10bn. Among the survey's key findings are the following:

Most executives believe that customer engagement is exceptionally important to their business.

Nearly 90% of all respondents say that customer relationships are either very or extremely important to the success of their business. More customer engagement, they believe, would translate into improved customer loyalty (80%), increased revenue (76%) and increased profits (75%) (see chart 22).

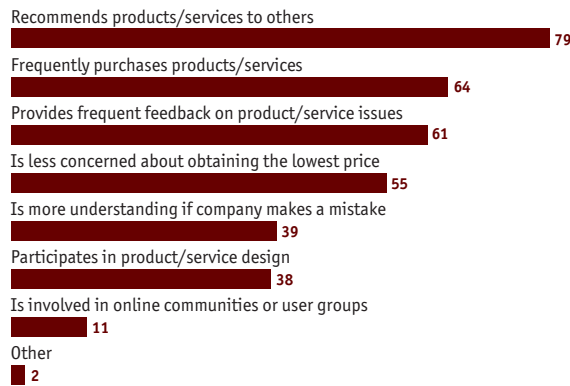
Perhaps the most important benefit of an engaged customer is as a source of referrals: 79% of those surveyed say that engaged customers recommend products and services to others. Sixty-four percent say engaged customers are frequent purchasers. And nearly 61% describe an engaged customer as someone who provides frequent feedback on products and services. Engaged customers are also less price-sensitive, say 55% of those surveyed (see chart 17).

22. What does your company perceive as the benefits of achieving customer engagement?
(% respondents)



Source: Economist Intelligence Unit survey, 2007.

17. In your opinion, which of the following attributes describe an engaged customer, or one who is committed to your company's products and services?
(% respondents)

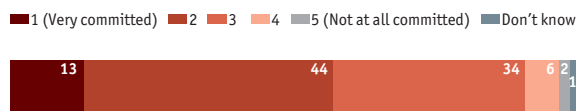


Source: Economist Intelligence Unit survey, 2007.

However, highly engaged customers are the exception, not the rule.

Of the respondents, 13% believe their customers are very committed to their product, while 44% believe their customers are only somewhat committed. The remaining executives surveyed believe that their customers' level of engagement is even more tepid than that: 34% say that their customers are not especially committed to their product and 8% report that they are not at all committed (see chart 2).

2. To what degree do you believe your customers are committed to purchasing your company's products and services?
(% respondents)



Source: Economist Intelligence Unit survey, 2007.

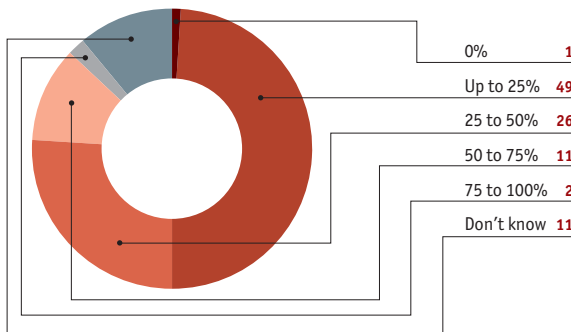


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Almost all executives believe that lack of customer engagement results in lost sales. Nearly 49% of respondents estimate that insufficient engagement costs them up to 25% of sales, while about 26% believe that it costs them between 25% and 50% of their annual total. Eleven percent peg the number of lost sales at an even higher level, somewhere between 50% and 75% (*see chart 3*).

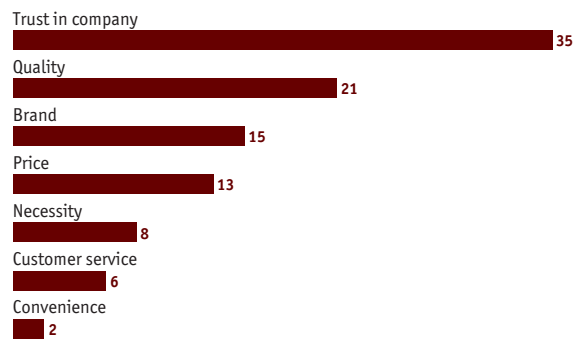
3. In your opinion, how much does a lack of customer commitment to your company's products and services cost your business in lost sales each year (eg, customers who switch to another company or fail to complete a planned purchase)?
(% respondents)



Source: Economist Intelligence Unit survey, 2007.

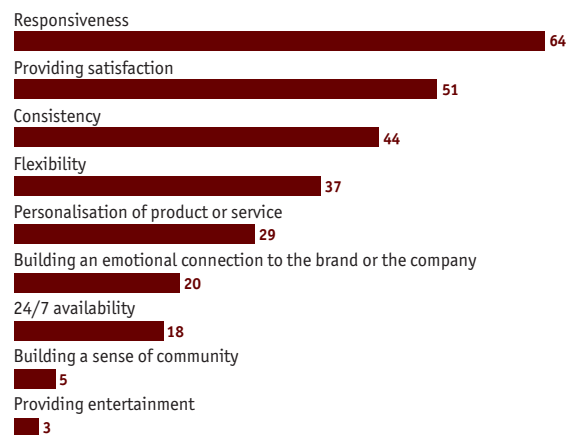
Respect for the customer is important in creating engagement. Trust in the company is seen by executives as the single most important determinant of a purchasing decision—35% of respondents cite this factor, a far higher number than those choosing quality (21%). Executives believe that three traits are key to engaging customers: responsiveness (64%), consistency (44%) and customer satisfaction (51%) (*see charts 14 and 15*).

14. In your opinion, which of the following factors most influences the purchasing decisions of your company's customers?
(% respondents)



Source: Economist Intelligence Unit survey, 2007.

15. Which of the following attributes does your company believe to be most important in engaging its customers?
(% respondents)

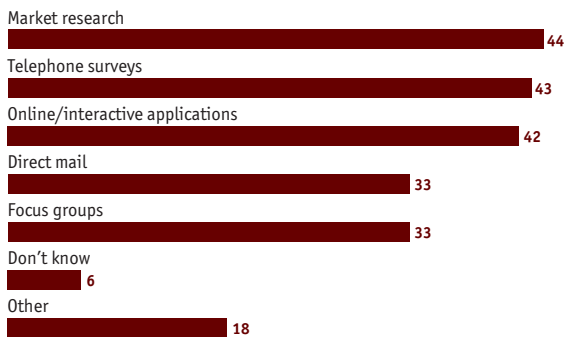


Source: Economist Intelligence Unit survey, 2007.



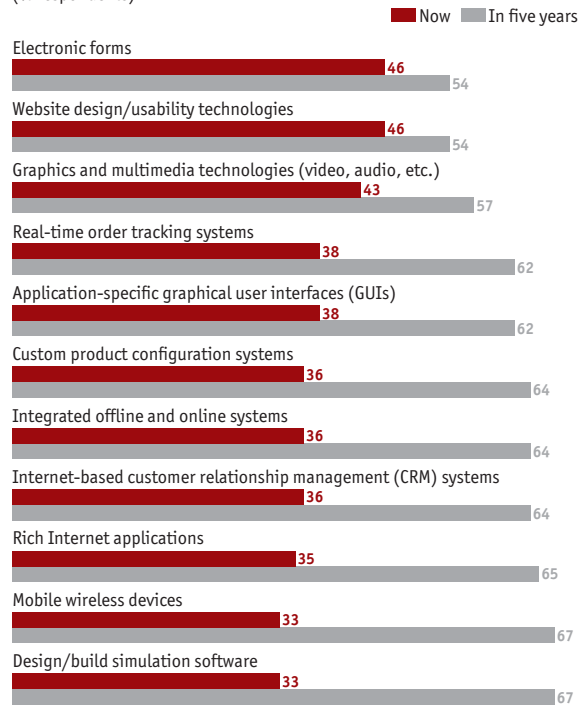
Technology is seen as an increasingly important tool for building engagement. From Internet-based customer relationship management software to interactive electronic forms, the tools now being used to build customer engagement are likely to grow even more popular. About 42% of executives report that they are using online/interactive feedback to collect customer information today, and nearly 60% say their companies will be using it in five years (*see chart 20*). Almost every kind of technology now used to help engage customers is likely to become increasingly important in five years' time, executives predict. Many are optimistic that the online and offline tools used to manage the relationship will become more integrated. Nearly 64% believe that their companies' online and offline customer relationship systems will be integrated in five years. The remaining 36% say their companies' systems already are integrated (*see chart 21*).

20. Which of the following mechanisms does your company use to obtain customer feedback?
(% respondents)



Source: Economist Intelligence Unit survey, 2007.

21. Which of the following technologies/applications does your company use or will use in five years to increase customer commitment to its products and services?
(% respondents)



Source: Economist Intelligence Unit survey, 2007.



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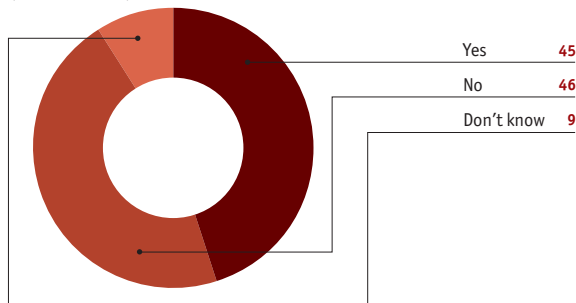
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Measurement is a major challenge in implementing engagement initiatives.

In spite of executives' enthusiasm for creating greater engagement, many engagement efforts are stymied by insufficient quantitative measurements. A full 47% of respondents say that the difficulty of measuring customer engagement is the biggest barrier to achieving greater levels of engagement. Perhaps not coincidentally, 46% say they do not measure customer engagement in any formal way (see chart 18). To remedy this, companies will need to develop new metrics for measuring engagement. A more comprehensive understanding of measurement also will address the issue of competing strategic priorities, which 43% of survey respondents say often sidetrack customer engagement efforts (see chart 23).

18. Does your company formally measure customer engagement, or the extent of customer commitment to its products and services?

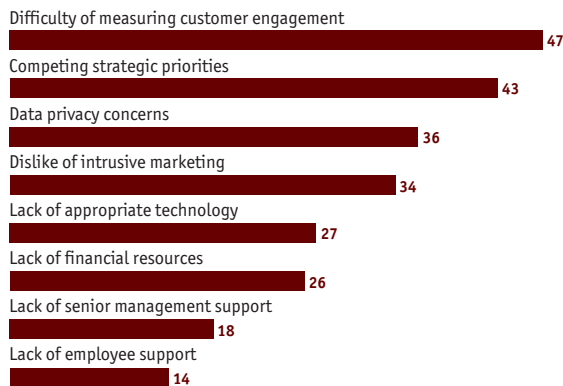
(% respondents)



Source: Economist Intelligence Unit survey, 2007.

23. What does your company perceive as the barriers to achieving customer engagement?

(% respondents)



Source: Economist Intelligence Unit survey, 2007.

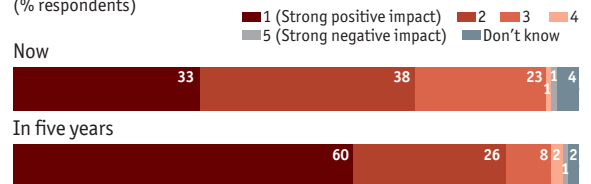
Strategic implications

Companies also realise that today's customers, whether consumer or business-to-business, have higher expectations of the companies they deal with and how they expect those companies to interact with them. Customers have come to expect more than just good products and good service. Responding to this realization, companies are seeing the need to develop closer long-term relationships with their customers, and, specifically, highly engaging relationships.

A majority of executives believe a strategy of creating deeper engagement is likely to pay off in the next five years. Nearly 60% believe that such an initiative is likely to have a very strong impact within five years, while 26% believe it will have a fairly strong impact (see chart 5). This finding suggests that companies expect to go beyond creating traditional customer satisfaction programmes—which largely measure such factors as returns, complaints and order cancellations—to developing creative ways to ensure that customers are engaged in all their interactions with the company.

5. What impact do you believe a strategy of creating deeper customer engagement will have on your company's growth now and in five years?

(% respondents)



Source: Economist Intelligence Unit survey, 2007.



Conclusion

Our survey indicates that executives in a variety of industries believe customer engagement moves beyond customer loyalty and satisfaction to provide a crucial competitive advantage. Yet, despite their general optimism about the value of customer-engagement initiatives, many respondents find them difficult to implement in their own companies.

To effectively implement engagement initiatives, it is clear that companies must develop an engagement strategy. This strategy will include cultivating a closer understanding of the customer and what he or she expects from the company in order to become more fully committed. It will define what an engaged customer looks like and provide the metrics for measuring the success of engagement initiatives in terms of sales and other desired customer behaviours. It also will address the role of technology in creating engagement and identify how new technologies can help to engage customers.

By creating a clearer vision of how engagement can support company objectives, companies can move engagement closer to the top of the management agenda where executives would like to place it.

More information on the role of engagement in business is available in Part II of this report. It provides an expanded discussion of the importance of customer engagement and engagement best practices, based on interviews conducted by the EIU with executives from around the world.

Appendix: Survey results

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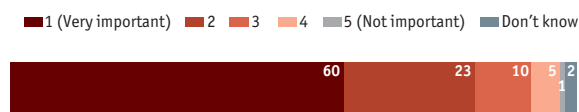
Appendix: Survey results

In December 2006 and January 2007, the Economist Intelligence Unit queried 311 executives on their companies' customer engagement practices. Our sincere thanks go to all those who took part in the survey.

Please note that not all answers add up to 100%, because of rounding or because respondents were able to provide multiple answers to some questions.

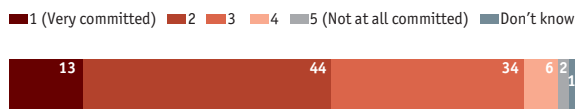
1. "Engagement" can be defined as building customer relationships that increase customer commitment to a company or brand. Engagement motivates customer participation by connecting with the customer in a way that drives purchase decisions and loyalty. To what extent does your company currently consider engagement to be of strategic importance to the business?

(% respondents)



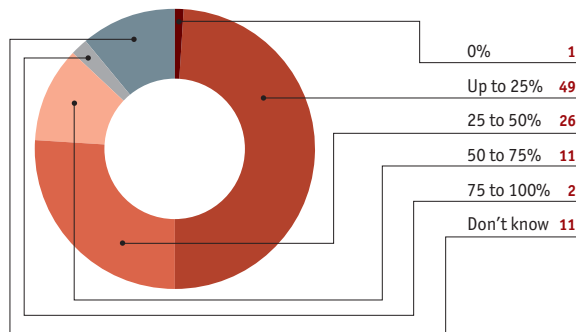
2. To what degree do you believe your customers are committed to purchasing your company's products and services?

(% respondents)



3. In your opinion, how much does a lack of customer commitment to your company's products and services cost your business in lost sales each year (eg, customers who switch to another company or fail to complete a planned purchase)?

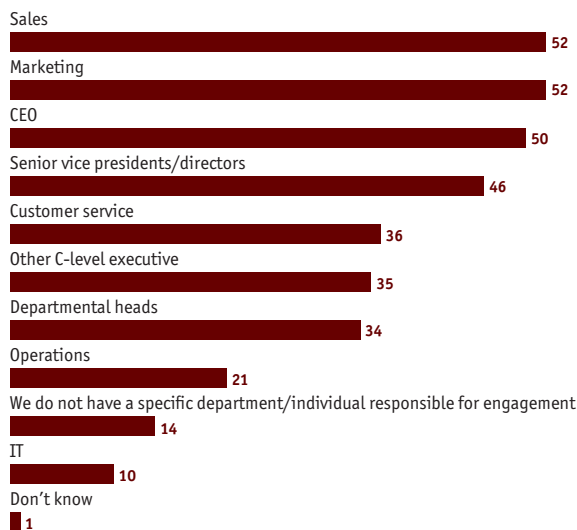
(% respondents)



4. Which of the following departments/individuals is responsible for creating engagement at your company?

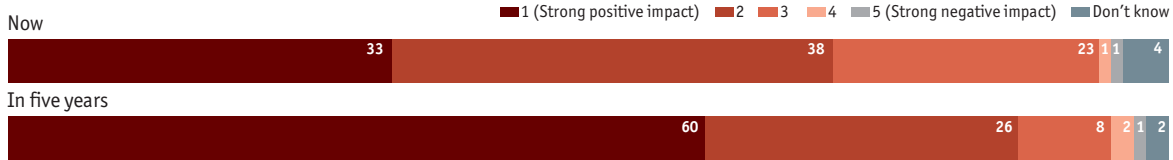
Select all that apply.

(% respondents)



5. What impact do you believe a strategy of creating deeper customer engagement will have on your company's growth now and in five years?

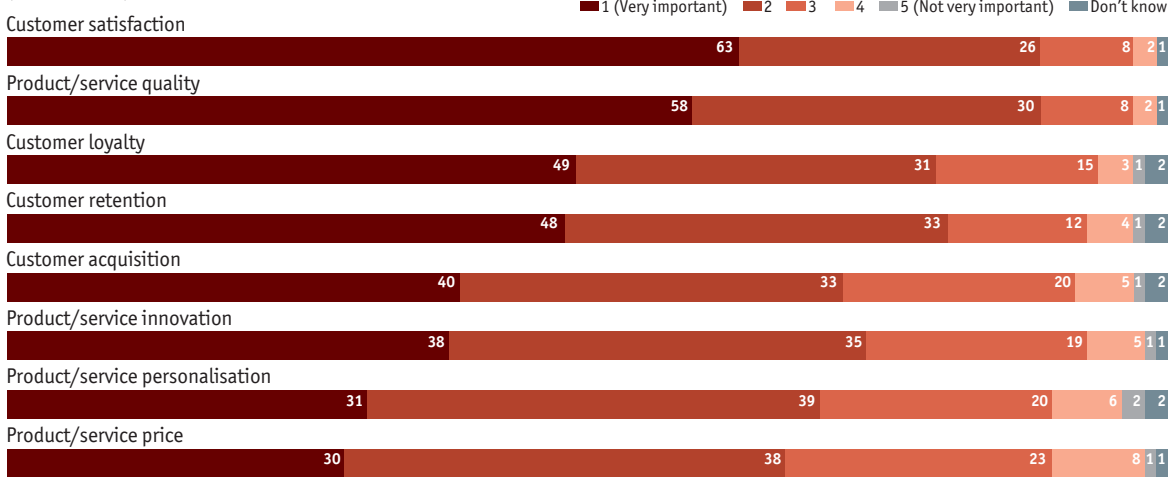
(% respondents)



6. How important are the following factors to your company's current revenue growth?

Rate on a scale of 1 to 5 where 1 = Very important and 5 = Not important.

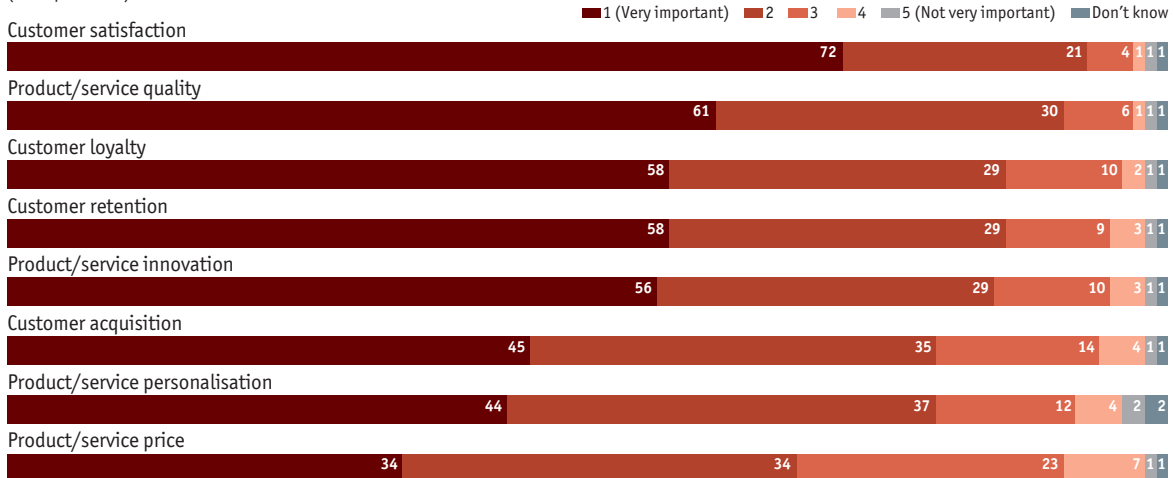
(% respondents)



7. How important will the following factors be to your company's revenue growth in five years?

Rate on a scale of 1 to 5 where 1 = Very important and 5 = Not important.

(% respondents)

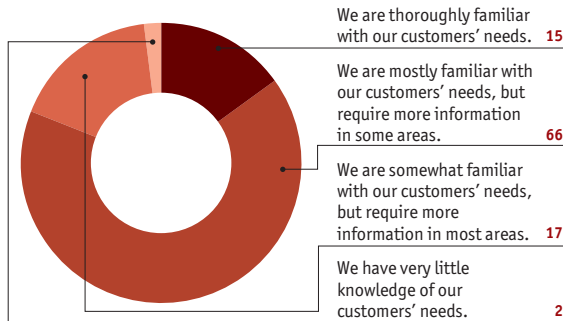


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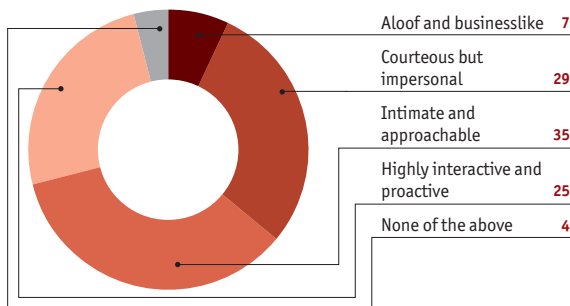
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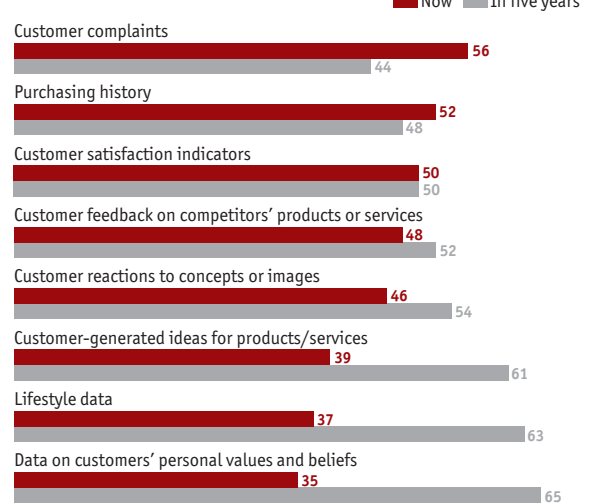
8. In your opinion, how knowledgeable is your company about its customers' needs? (% respondents)



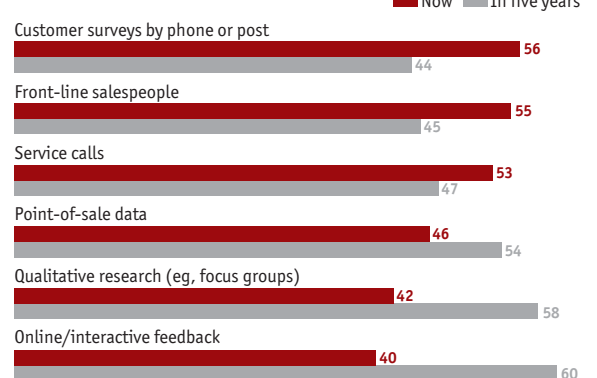
9. How would your company describe its marketing and other messages to customers? (% respondents)



10. Which of the following types of customer information does your company currently collect or expect to collect in five years? Select all that apply. (% respondents)



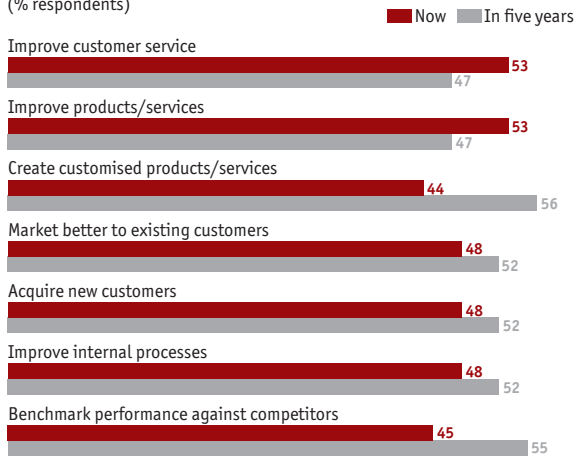
11. What methods does your company currently use or expect to use in five years to collect customer information? Select all that apply. (% respondents)



12. What does your company currently do or expect to do with this information?

Select all that apply.

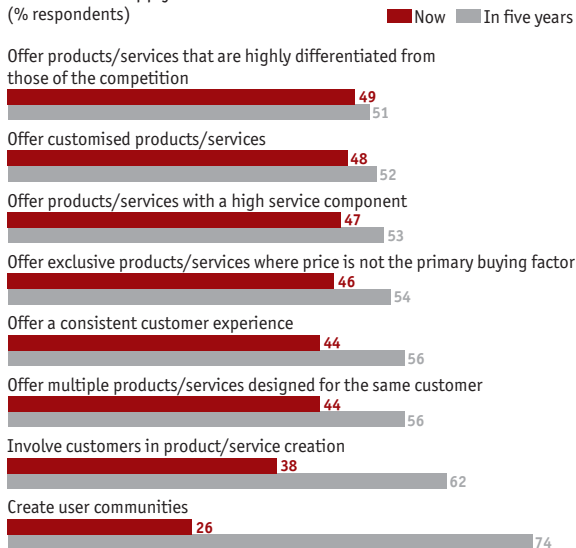
(% respondents)



13. To strengthen its relationships with customers, does your company currently practice any of the following techniques or expect to do so in five years?

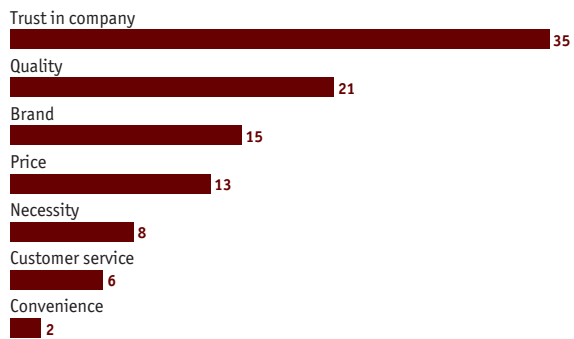
Select all that apply.

(% respondents)



14. In your opinion, which of the following factors most influences the purchasing decisions of your company's customers?

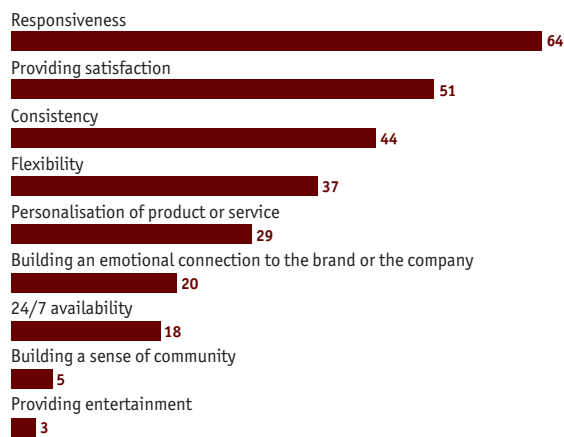
(% respondents)



15. Which of the following attributes does your company believe to be most important in engaging its customers?

Select up to three.

(% respondents)



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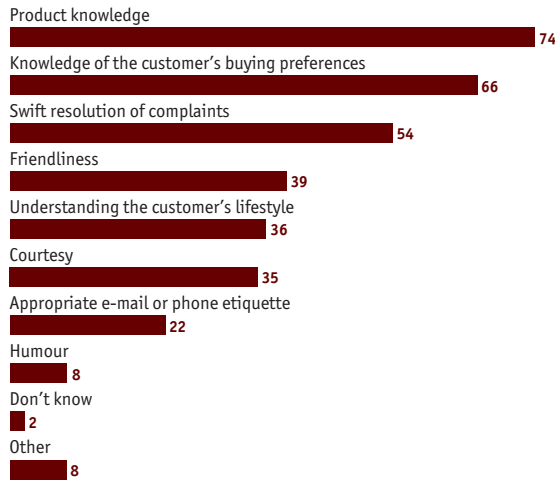
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16. Which traits/skills do you think are most important for your company to possess in order to engage with its customers?

Select all that apply.

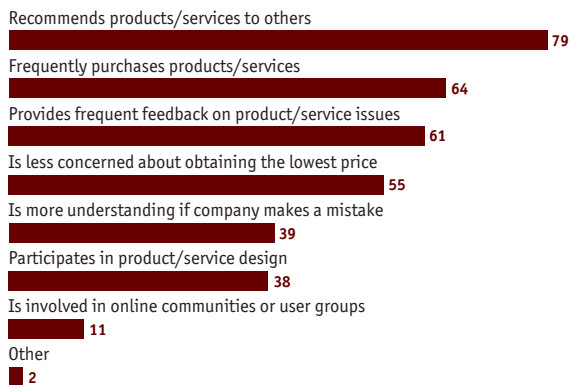
(% respondents)



17. In your opinion, which of the following attributes describe an engaged customer, or one who is committed to your company's products and services?

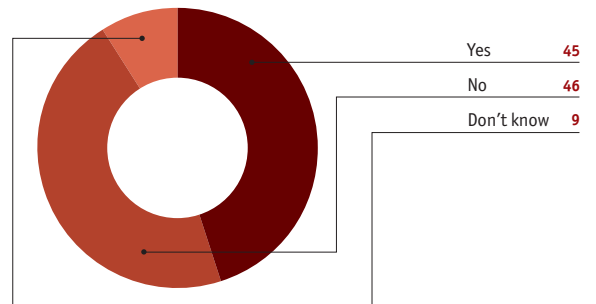
Select all that apply.

(% respondents)



18. Does your company formally measure customer engagement, or the extent of customer commitment to its products and services?

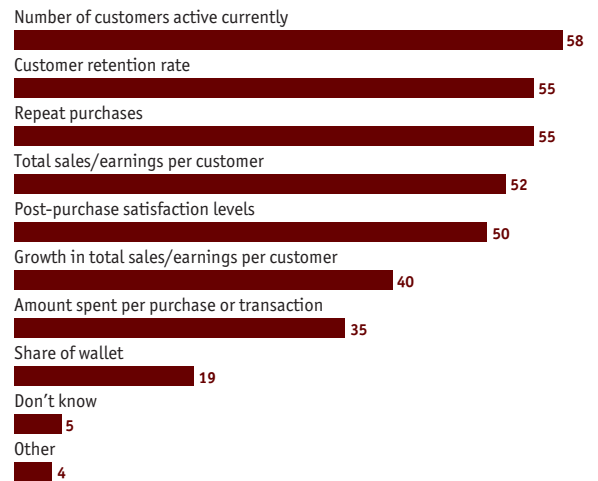
(% respondents)



19. If yes, which of the following criteria does your company track?

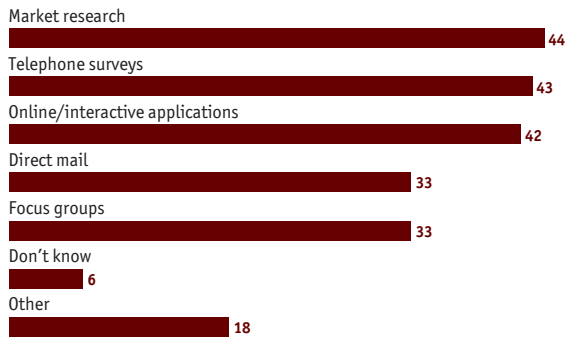
Select all that apply.

(% respondents)



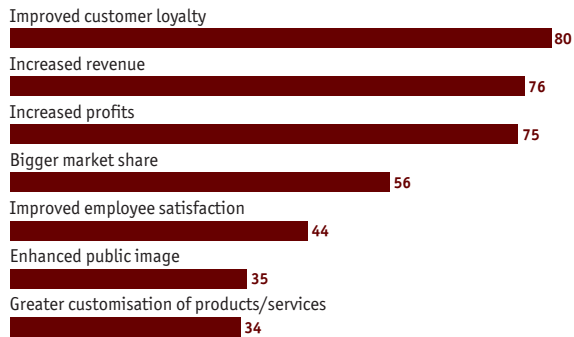
20. Which of the following mechanisms does your company use to obtain customer feedback?

Select all that apply.
(% respondents)



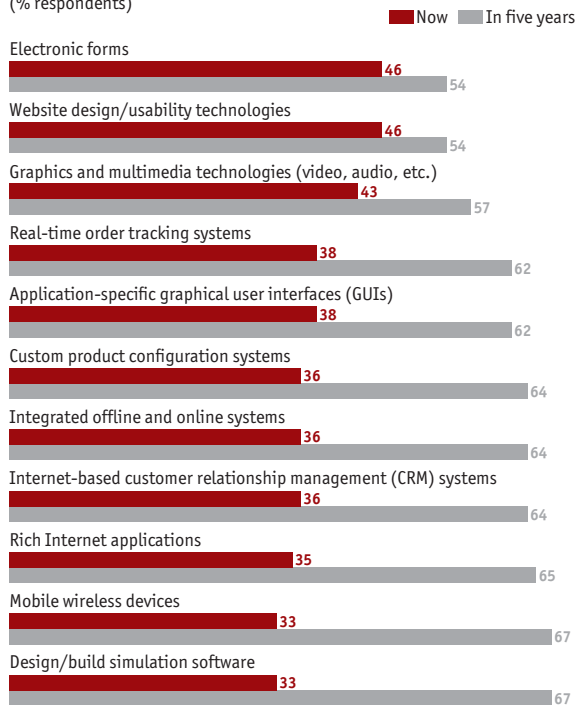
22. What does your company perceive as the benefits of achieving customer engagement?

Select all that apply.
(% respondents)



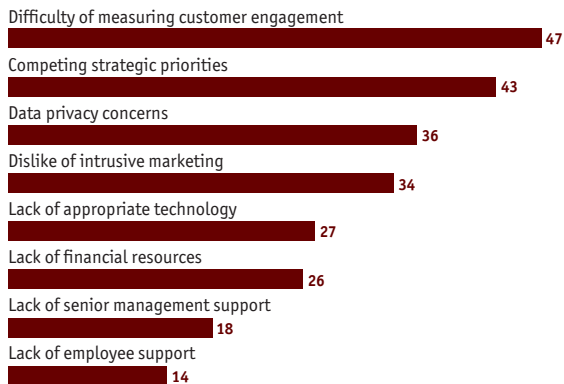
21. Which of the following technologies/applications does your company use or will use in five years to increase customer commitment to its products and services?

Select all that apply.
(% respondents)



23. What does your company perceive as the barriers to achieving customer engagement?

Select all that apply.
(% respondents)



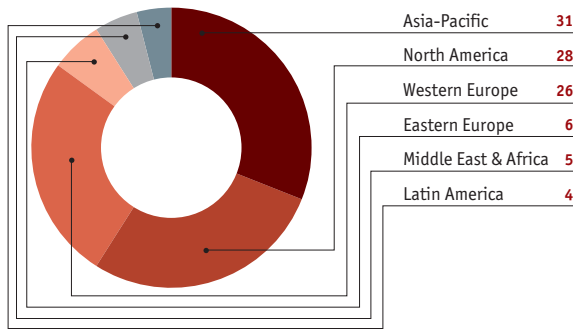
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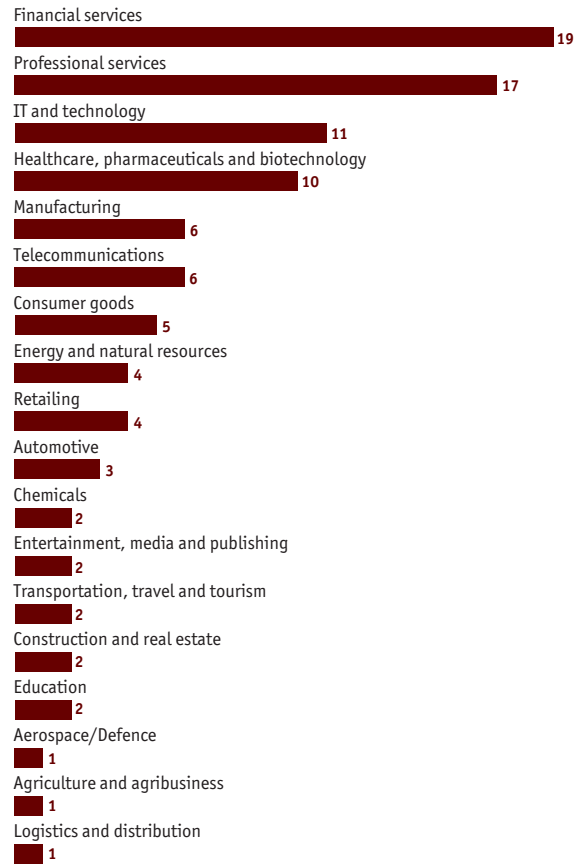
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About the respondents

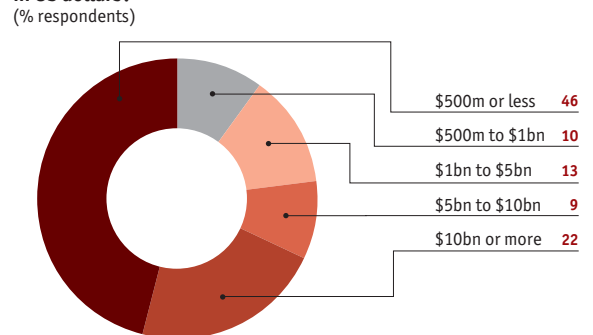
24. In which region are you personally based?
(% respondents)



25. What is your primary industry?
(% respondents)

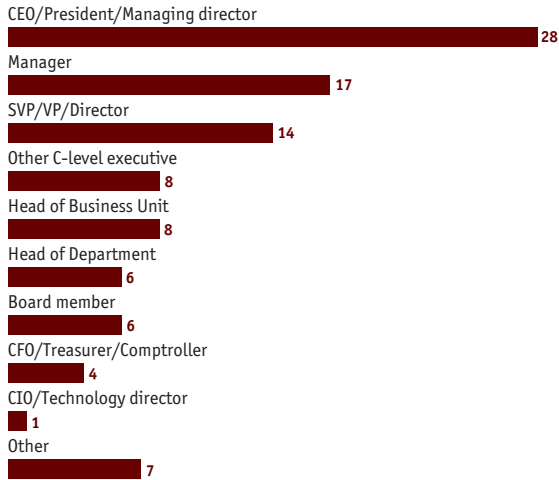


26. What are your organisation's global annual revenues in US dollars?
(% respondents)



27. Which of the following best describes your title?

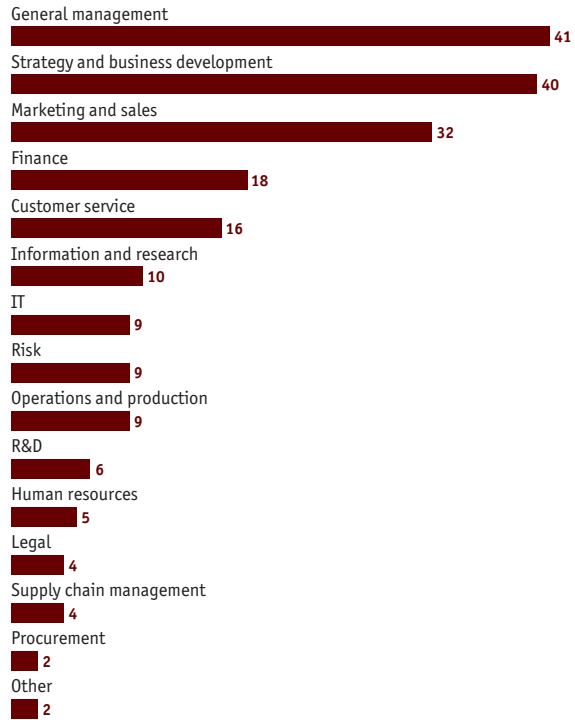
(% respondents)



28. What are your main functional roles?

Please choose no more than three functions.

(% respondents)



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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