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Canada Post proves the correlation between loyalty and business performance.

By Kevin Zimmerman

How much is loyalty worth? Many executives can only estimate its value, lacking the empirical data to calculate it. Ask Canada Post's Janet LeBlanc that question, however, and she can answer exactly—and without hesitation.

Canada Post, the Canadian postal operator, has proven the connection between customer loyalty and business performance through a linkage analysis process that began in 2003 and continues today. LeBlanc, director of customer value management (and recent 1to1 Customer Champion), launched and continues to advocate for the program. She says the decision was a natural outgrowth of Canada Post's customer-first philosophy.

"This type of linkage analysis is common in the consumer market, less so within commercial markets," LeBlanc says. "We have been able to quantify how much revenue we would generate based on improved loyalty scores, as measured by our customer value management program."

In essence, Canada Post (CP) proved that perks and benefits have little to do with increased loyalty and customer value; instead, quality service and responsiveness led the way.

CP set out to define whether there was an association between attitudinal outcomes (such as quality, value, likelihood to recommend), behavioral outcomes (purchasing behavior), and business outcomes (revenue, growth rates, share of wallet). "Some questions we set out to answer were 'Do loyal customers have higher revenues, higher

growth rates, fewer problems, and lower attrition?'" LeBlanc says.

Kurt Pflughoeft, Ph.D., senior vice president of research and development at research firm Market Probe, who conducted the Canada Post CVI Linkage Analysis, says that such analyses are not an exact science. "There are lots of theories around whether behaviors are truly reflective of attitudes," he says. A common example is that surveyed customers may say they're highly satisfied with a vendor's products or services, but will quickly switch to a competitor offering a slightly lower price.

Packaging loyalty

The size of CP's operation is vast: It serves 32 million consumers through some 7,000 post offices and online services, with more than 40 million messages, mail, and parcels delivered each day to 14 million physical addresses—a number that increases by 240,000 addresses annually. Consequently, it was necessary to launch the project with a sample of its customer base.

CP decided to focus on parcel delivery, which represents 22 percent of its current business. Specifically, the postal service surveyed 2,700 members of VentureOne, its free small-business loyalty program. The program provides members—currently 325,000 in total—with discounts, value-add services, and online business solutions. It's designed to facilitate a positive customer experience at post offices and on the Canada Post website.

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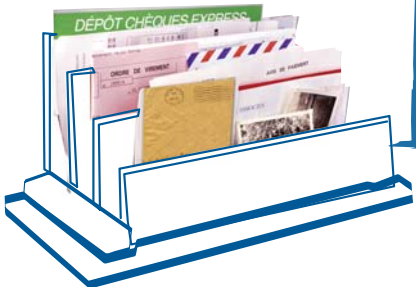
Stats & Facts

Headquarters: Ottawa,
Ontario, Canada

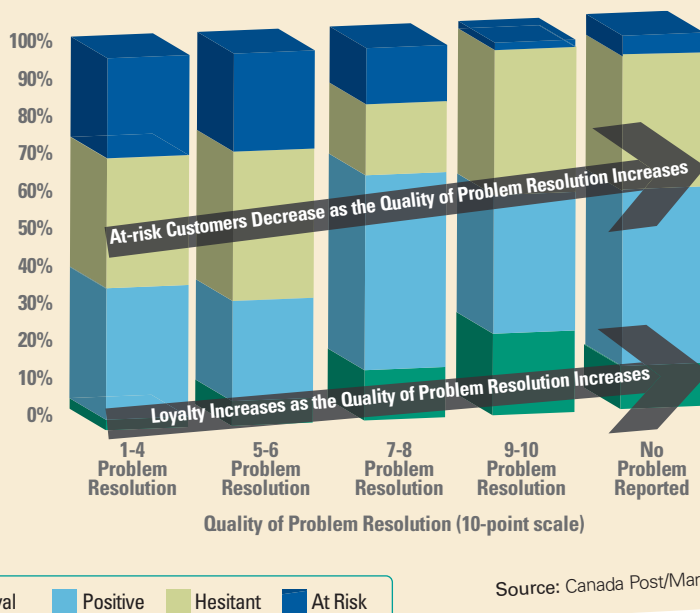
President, CEO, and Director:
Moya Greene

2007 sales: \$7,610.8 million

Employees: 72,500



Quality of Problem Resolution Affects Loyalty



What impact does operational performance have on customer loyalty?

CP chose VentureOne because of the competitive nature of the parcels business. While CP maintains a monopoly in regular mail, the likes of DHL, FedEx, and UPS ensure that, “if we don’t do the job [for small businesses], there’s someone right down the road who can,” says Louis O’Brien, senior vice president, parcels.

In addition, VentureOne customers typically are both the owner/operator and the card member, thus eliminating having to weed through complex organizational structures.

“As the complexity of organizations increases, there may be weaker links,” LeBlanc says. “We deal with some very large enterprises that are often not one entity but are made up of many companies. It’s important to understand who the buyer is, who writes the RFP, and so on. Understanding those relationships and recognizing that as the complexity of organizations increases, there may be additional weaker links, is critical.”

Lastly, due to its nature, VentureOne allowed for the efficient mining of several types of data, from behavioral to financial to the number and types of marketing and communications received. “We went in with the idea that the more data we have, the stronger the results will be,” LeBlanc says.

Kicking it up a notch

“We’d been measuring customer satisfaction for awhile,” O’Brien says. “We got it up into the eighties, but were concerned about how we could take it up another notch. Janet came up with something closer to what we needed. She could compare high CVI [customer value index] to low CVI and demonstrate how it directly related to revenue...how, if we move CVI by X, it will affect revenue by Y.”

Still, he says, “that didn’t completely satisfy my frustration. I needed to know what levers to push, and how hard. In parcels, we have granular shipment information including tracking and tracing. You can see where we’ve had problems, be able to tell with what service the problem is, view the problem history with customers, and tie it all in to CVI answers.”

The key, O’Brien says, was to change the corporate scorecard: “Delivery is good, but the ability to show on-time delivery is also critical,” he cites as an example. “Our competitors have it, so logically and intuitively it seems like a good idea.”

The analysis showed that customers who rated their experience as better than 98 percent were twice as delighted with CP as those who scored less than 98. “It also turned out that 98 was a bit of a cliff,” O’Brien says. “Those who scored 98, 99, 99 and a quarter didn’t change much, but below 98, it dramatically fell off.” CP could now set a benchmark on operational targets based on what VentureOne customers said their expectations were.

Although a 98 percent compliance rate “represents quite a positive experience from a customer’s point of view, if you can get it even higher, you want to,” O’Brien says. The data definitively shows that “if you can get the CVI up, the revenue also goes up.

“It’s a wonderful benchmark to have,” he adds. “I always felt like we were sort of winging it before.”

O’Brien points to another important finding, which confirms that efficiently solving a customer’s problem can actually result in that customer being more loyal than a customer who experiences no problems. “We deliver 175 million parcels per year,” he says.

“Delivery is good, but the ability to show on-time delivery is also critical.”



“Obviously a few don’t get delivered on time and some are lost completely; that’s just a fact of life.

“Janet’s team found that those customers who have problems are less delighted than those who don’t—which is obvious,” he continues. “But she further found that if we are able to resolve his case completely within five business days, that customer would then give us a high score on problem resolution, and emerged as three times as happy as customers who had no problem. If we messed up but fixed it, they had more confidence in our service than someone who’s never had a problem.”

For VentureOne customers, it was proven that their attitudes were affected in response to organizational actions like pricing notification, campaigns, problems, and so on, LeBlanc says. “It was also observed that this small-business customer segment was directly impacted by our actions almost immediately, with no lag effect; conversely, with larger customers their behavioral changes are realized over a longer period of time. We were also able to link loyalty to revenue, identifying significant potential opportunities for Canada Post by continuing to improve the customer experience.”

LeBlanc says that CP’s parcels business has increased its percentage of loyal customers by 6 percent since 2005. She declines to give out revenue numbers.

Not all smooth sailing

LeBlanc identifies four primary challenges that CP faced in putting together the linkage analysis: 1) the restrictions that legacy systems placed on the collection and manipulation of data; 2) the fact that CP customers often switch between products, which complicates accurate identification of which customers have actually grown, eroded, or been lost to the competition; 3) complex relationships that are difficult to identify within the data, including mergers, bankruptcies, and acquisitions; and 4) developing results that are statistically different when the population of customers in a particular segment can be small.

Market Probe’s Pflughoeft underscores the importance of that last variable. “If you look at this kind of data from an aggregate level, the relationship might not exist, but if you break it down into quarterly reports the relationships become clearer.” Time is also important, he says: “You need to have enough data so the result can’t be explained away by coincidence. It’s generally nice to have three if not four years’ worth of data for what we were looking at in this instance.”

Pflughoeft notes that the CP linkage analysis began with tracking data “once or twice a year” before going to a monthly model toward the end of 2006. “It’s harder to use those data points in the

one-to-two-times-a-year model,” he says. “You’re left wondering if those conclusions are really reflective of what’s going on.”

And for her part, LeBlanc says, “It’s still a bit early to determine all the results.”

Expanding the project scope

CP execs initially took on the linkage analysis project “pretty much on faith,” LeBlanc says, but now strongly believe in its value. Lest anyone think there’s a given formula for proving—or disproving—similar links in their business, however, she says some factors need to be kept in mind.

“Some companies can use the same customers year after year to measure customer value, and to monitor year-to-year increases,” she says. “That’s very easy to do in telecommunications, for instance: They sell you a cell phone, you sign a contract for Year X, get a monthly statement of charges, then you leave them and go to someone else.

“But direct mail companies may do a big direct mail campaign in March 2007 and [then] in July 2008,” she continues. “It’s not a regularly reoccurring pattern.”

Nevertheless, she says, CP has completed a linkage analysis on its ad mail segment. “We saw similar results and linkage to revenue as we did with parcels,” LeBlanc says.

As for regular mail, CP remains a monopoly—but that’s not to say that the company doesn’t care about its customers, she says. An analysis of regular mail customers is currently being completed.

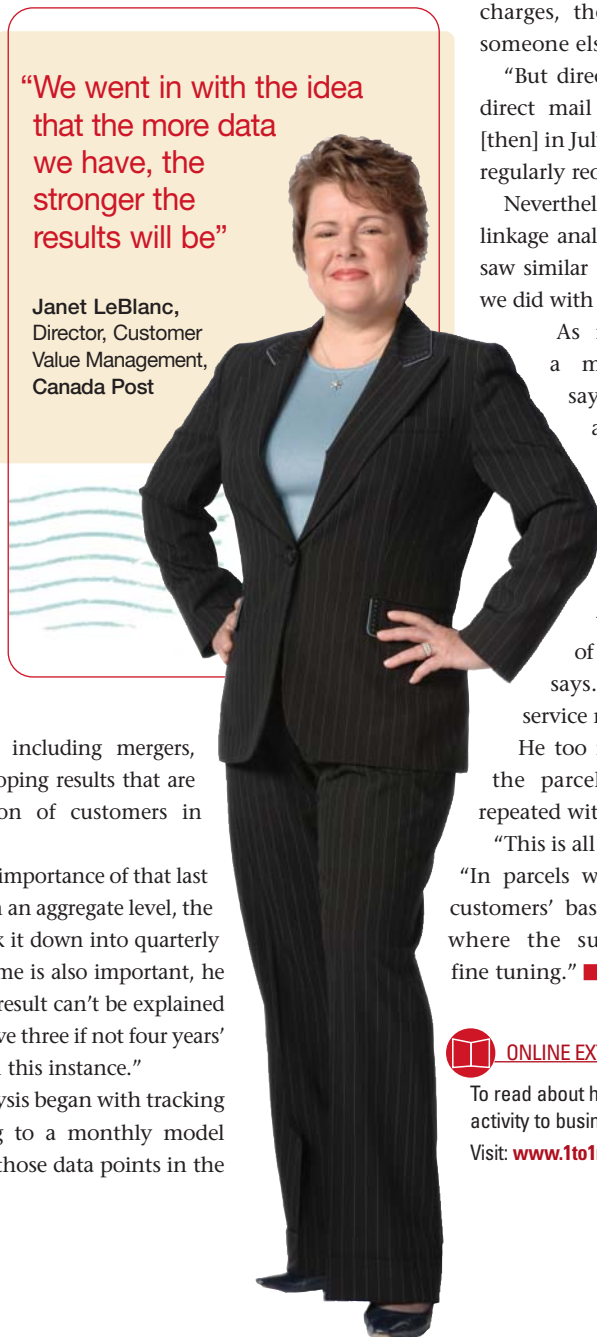
“We’ve always been far more focused on our competition and our customers than a lot of other companies [are],” O’Brien says. “We’ve always had a public service mentality.”

He too feels that the linkage analysis of the parcels business will be effectively repeated with ad mail and regular mail.

“This is all good for our customers,” he says. “In parcels we found that we were meeting customers’ basic needs; now we’re looking at where the subtleties are and what needs fine tuning.” ■

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Janet LeBlanc,
Director, Customer
Value Management,
Canada Post



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