Client Satisfaction & Client Loyalty

The Power in Understanding the Difference

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Executive Summary

The terms “client satisfaction” and “client loyalty” are often used interchangeably. However, there’s actually a significant difference between measuring satisfaction and measuring loyalty. Professional services firms that understand the difference can unlock powerful information that can impact the value existing clients will have over the long haul and simultaneously increase referrals.

“But, We Already Conduct Satisfaction Surveys.”

If you’re like many professional services firms that are serious about growing their practices, you’re probably already conducting client satisfaction surveys. But, did you know that 60%-80% of clients will tell you they’re “satisfied” or “very satisfied” right up until the time they leave? *(BusinessWeek, October 2006)*.

By going beyond client satisfaction to client loyalty, you’ll uncover more honest and actionable feedback. Just the type of information needed to implement strategies and tactics that are more likely to help you retain your clients and grow your practice.

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> *-BusinessWeek, October 2006*

What Does Client Satisfaction Measure?

Client satisfaction is a measure of how well your firm did on delivering a specific service – an audit, tax return, valuation analysis, etc. It’s a transactional measure that tends to have very black and white answers. Typical client satisfaction surveys ask clients…

- Did we deliver your take tax return on time?
- Was our work accurate?
- Were we accessible and available when you needed us?

Client satisfaction is a rear-view mirror look at how you performed, which many research studies show is not correlated with a client's future buying behavior.

What Is Client Loyalty?
Contrast this with client loyalty. Loyalty examines the long-term experience a client has with your firm. It explores the rational and emotional reasons why a client elects to stay with your firm from year-to-year, and what motivates it to purchase multiple services from you.

Examples of client loyalty questions are…

- How likely are you to refer a firm onto others?
- Are the firm's services a good value?
- Do you feel the firm values your relationship and business?
- Is the firm capable of meeting your needs for the next 2-4 years?

The Differences between the Two
Many firms think client satisfaction and loyalty are the same thing and only measure the former. However, one is not a stand-in for the other. The table below highlights the differences.

Client Satisfaction	Client Loyalty
Focused on most recent transaction	Examines experience over time
Backward looking indicator	Forward looking indicator of buying behavior
Quick to grow and disappears even faster	Slow to grow and decline
Good indicator of current problems and issues	Provides road-map for improvement
Must be updated frequently	Best updated over 18-24 months
Tends to be "one number" for the entire population surveyed	Precise down to the individual client level
Difficult to apply results to marketing and business development campaigns	Results allow firms to build individually relevant campaigns *(which translates to increased response rates)*
Can be done by staff internal to the firm	Best if done by someone unrelated to the engagement from within or outside the firm (the latter results in the least amount of positive bias in the responses)

What We Uncovered
We interviewed or surveyed over 4,000 clients and 600 partners of CPA firms throughout 2012 and 2013. Had we focused solely on client satisfaction surveys, we probably would have been missed these important findings:

- 29% of clients claim they are not aware of the range of services offered by their CPA firms and 32% of clients say they use multiple CPA firms (but partners think only 8% of clients use more than one firm)

- 62% of clients claim to be loyal to their CPA firms, while partners think 60% of their clients are vulnerable to the advances of their competitors (which has implications on fees and pricing)
- 62% of clients tell us they are likely to refer their CPA firm onto others, while partners think only 46% of them will make a referral (and if you don't think you'll get a referral, you're less likely to ask for one)

But, because clients are like fingerprints and snowflakes -- each is different -- client loyalty must be assessed on a firm-by-firm, client-by-client basis.

Assessing Client Loyalty

Client satisfaction tends to be assessed via an electronic or hardcopy survey. These techniques work, but have their shortcomings. They are prone to positive bias, depending on whether the responses are anonymous and who is receiving them, as well as non-respondent bias; which means those clients who don't respond may believe differently than those who do.

> Using a third party to conduct client loyalty surveys leads to less positive bias in the results.

Client loyalty is best assessed via face-to-face meetings with clients using a disciplined, repeatable, structured process. To reduce positive bias in the responses, we've found it's best to have the questions asked by firm personnel unrelated to the relationship, or even better, someone outside the firm. These meetings tend to take 45-60 minutes and we've rarely found a client who won't make the time for this sort of conversation.

We've also found that client loyalty can be assessed using an electronic survey focused on a client's relationship with the firm and what motivates that client to remain with the firm. These surveys should also be designed to take less than five minutes to complete. While this technique doesn't yield the same richness of insights and learnings as a face-to-face meeting, it can be done more quickly and at a lower cost. We also find that using a third party to conduct these surveys leads to less positive bias in the results.

What You Can Expect To Learn

There are many benefits that come from a better understanding of client needs and perceptions. You should expect a client loyalty assessment to help you…

- Identify, quantify, and mine growth opportunities that lie within your existing client base
- Discover why your clients prefer to do business with you versus your competitors
- Prepare for strategic conversations with your best clients
- Get more referrals from your clients
- Identify which clients are loyal and which are most vulnerable to the advances of your competitors
- Gather compelling, unbiased business data that changes behaviors of partners and staff
- Reveal Perception Gaps℠ between clients and partners/staff on key service attributes
- Hold partners and staff accountable for saving or strengthening key relationships

Events That Should Trigger A Loyalty Assessment

There's never a bad time to begin assessing client loyalty, but here are a few events that have tended to prompt firms to develop a better understanding of their current clients:

- When the firm appoints a new Managing Partner or Chief Marketing Officer (to help bring the new person up to speed quickly)
- When the firm is considering the acquisition of another firm (to understand the quality of the target firm's clients, estimate the retention rate after the deal closes, and adjust the terms of the offer to reflect these learnings)
- When the firm is considering a merger into a larger firm (using the assessment as a selling document that justifies a higher value of the firm)
- When the firm is surprised by the loss of one or more clients that it thought liked the firm's services
- When a new competitor enters the market and there's an expectation they may aggressively contact your best clients (identifying which clients are most vulnerable to the advances of your competitors so you can proactively "bullet proof" them)
- When preparing to develop or update the firm's three-year strategic plan
- When sales or profit growth has slowed or is not meeting expectations

Could Your Firm Benefit?

Leaders of professional services firms should ask themselves the following questions:

1. Is client retention important to the long-term viability of our firm?
2. Could we benefit from improving our client retention rate?
3. Could we benefit from knowing which clients are vulnerable to the advances of our competitors?
4. Could we benefit from knowing with certainty and specificity which clients will refer the firm onto others?
5. Could we benefit from a deeper understanding of what our clients expect and need?
6. Could we benefit from a better understanding of the services the clients value most?

Answering "yes" to just one of them is a good indication a firm could benefit from a regular assessment of client loyalty. Answering "yes" to two or more of these questions indicates you should be adopting this sort of assessment as a standard operating procedure.

Taking the time to survey clients is important to the health of your firm. Client satisfaction surveys will tell you how the firm has done, but forward-looking firms will see the power that a client loyalty assessment can provide.

For additional information on client loyalty assessments, contact:

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The Power to Foresee Trouble

We encourage our clients to survey multiple contacts at a company, and here's a good example of why.

During a loyalty assessment engagement, we sought feedback from both the current and former CFOs of a $75,000 annuity client of a CPA firm. The current CFO rated the likelihood he'd refer our client CPA firm onto others a 5 out of 10; a clear indicator the company was vulnerable to the advances of competitors. The former CFO, who had moved into another senior leadership position with our client, rated his likelihood of making a referral a 10 out 10.

The significant difference in ratings was certain to create a major problem for our client at the company and could have very easily led to our client losing this business to a competitor. The assessment uncovered this difference in ratings, allowed our client the opportunity to proactively understand and address the reasons for the difference, and 18 months later, the company has not switched service providers.