



Cultivating Customer Loyalty



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Innovation in customer service can mean many things—expanding the use of AI in our products, for instance.

Innovation in customer service, as well as customer experience, always means one thing: advancing our respectful understanding of our customers as human beings.

Recently Zendesk worked with economist Tony Hockley, of the London School of Economics & Political Science (LSE), in search of any light that the field of behavioral economics might shed on customers and their decision-making processes. “Are there lessons for businesses, and the way they relate to their customers?” Hockley asks in his paper “Marshmallow Decisions.”

He points to Stanford University’s famous marshmallow test from the 1960s, in which a child is offered one treat right away, or two if he waits 15 minutes. It’s a fascinating and oft-repeated exercise in the meaning and effects of waiting, revealing, says Hockley, not only “the challenge of self-control and how a choice is affected by context, but also the importance of building trust that the experimenter really would return with two treats after the wait.”

So, what are the best ways to cultivate customer loyalty, to make it the easy option? Read on for some answers.

A smart omnichannel strategy

Offering your customers a heaping buffet of options can be detrimental.

Research has shown that when there are too many options, consumers are less likely to choose anything at all, and if they do, they're not as happy with their selection. According to Harvard Business Review, "84% of customers would prefer a straightforward solution to their problem rather than a broad array of self-service channels (e-mail, chat, social media-based service, and so on)." Customers don't want to sort through various support channels and then cross their fingers that they picked the best option.

To be clear, it's good to offer all support channels—just not all the time, and not everywhere. For example: You wouldn't want to list your phone number as the preferred method of contact if your agents are available from only 9 to 5. In this way, guiding customers to the best support channel for their needs based on your resources can not only reduce their effort but also streamline your company's support and allow you to staff appropriately.

A strong, clear omnichannel strategy can result in reduced channel switching and customer effort, improved resolution times, and a boost in goodwill toward your brand.

Smooth, seamless support

In certain industries, the immersive feel created by a product or experience is integral.

Where does customer service fit in, though?

If you have to break out of the immersive experience to get assistance, isn't that kind of... broken? Every customer craves seamless support.

The gaming industry is a perfect example. Modern games are like other forms of software: they're complex, subjected to quick development cycles, and are almost always considered "unfinished" upon release. Their ongoing development makes it possible to provide new content, features, and fixes over time, meaning that the customer's voice plays an integral part in what the eventual "finished" product will be.

It's tricky to provide gamers with a great customer experience both in-game and out of it; a studio's top priority is creating the best in-game experience. But if players have to reach out to customer service, then player support is part of the full gaming experience. Rovio, the studio behind the mega-popular Angry Birds franchise, knew that it didn't make sense for users to seek online help while playing their mobile games. Their solution was to provide support from within the game itself by using Zendesk's mobile SDK, which caused an uptick in tickets over issues that may have been otherwise unaddressed. They made their in-game support have the same look and feel of the game itself, making the experience feel seamless by existing in the same environment.



Great service that reduces customer effort

Companies are spending a great deal of time sorting out what customer effort reduction means for how to design products and processes, and how to provide customer service.

Focusing on effort reduction (along with many other customer service metrics) is going to help you keep your customers coming back, build their long-term loyalty, and attract new customers.

You can do a lot to reduce customer effort by designing experiences that are easier to understand and use. However, a big part of effort reduction and improving your customer effort score is about the interactions and relationships your customer service team has with your customers.

Self-service is often the fastest and lowest effort way for customers to solve their problems. Customers like self-service because they don't need to contact an agent or wait for a reply to a support request. Therefore, it reduces their effort and leads to greater satisfaction.

If your customers can have their issues resolved in just one contact with your support team, effort, obviously, is reduced significantly. The first contact resolution (FCR) metric so closely – it can be an excellent indicator of the success you're having reducing effort. A high FCR rate may indicate a need for more self-service; you should also compare your FCR with your number of ticket reopens. If the first resolution doesn't stick, resulting in reopened tickets, you're not doing a good job reducing effort.

When your customers reach out to you for help, take the opportunity to ask them what else you can help them with. Depending on what they're doing with your products, you're probably able to predict the next issue they're going to face. If you can, and you can help them in the same support request, chat, or call, you can reduce future effort.



Trust as the foundation

It won't come as a surprise that trust is strongest between two people, not between people and companies.

According to John Gottman, author of *The Science of Trust*, trust isn't about what we think or believe a person will do. Instead, trust is built from action—people learn to trust you based on what you actually do and how you behave.

Always try to do what's right.

Customer trust is built when we consistently do right by our customers—even when it comes at a higher cost to the business. 23andMe, which provides ancestry information through DNA testing, works to ensure that consumers retain as much control over their data as possible. Any opportunities to opt in to research or to new tools are easy to see and clearly explained. It's mutually beneficial: Customers who trust the brand are more likely to donate their data to 23andMe's larger cause—understanding the human genome better.

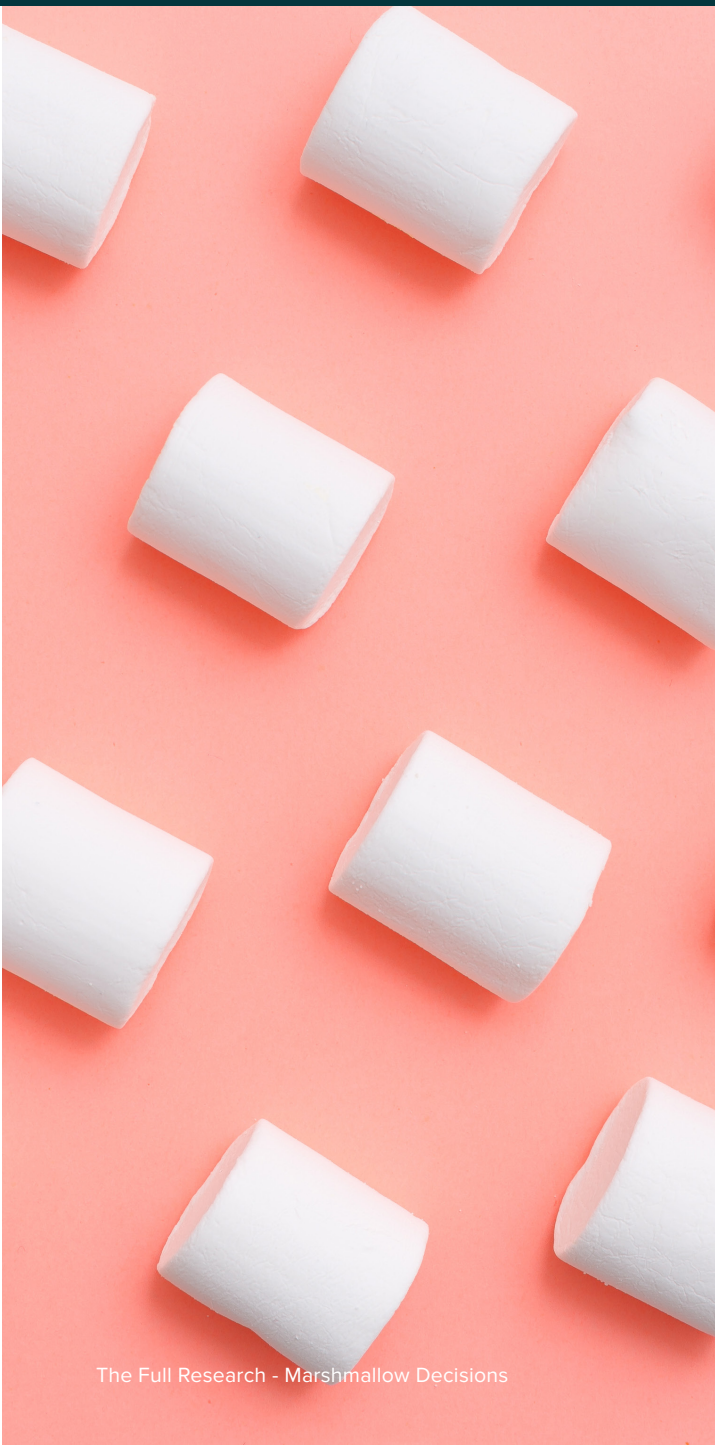
Create meaningful interactions.

Ask yourself: What are you giving your customer? Are you delivering on your value proposition—sometimes or all the time? Have you thought through each customer touchpoint, not just customer service? Where are the areas you can improve?

Be human, not robotic.

23andMe works to be an approachable brand with fun content—like creating a unique melody from customers' DNA or sharing customer videos. Commit to speaking in an authentic, direct, and human voice. Your customers should be able to take you at your word.

02 The Full Research



The following is the verbatim research paper as produced by Dr Tony Hockley, Visiting Senior Fellow in the Department of Social Policy at the London School of Economics & Political Science (LSE).



Marshmallow Decisions

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London School of Economics & Political Science (LSE)
February 2018

INTRODUCTION

Governments around the world are harnessing the potential of behavioural economics to improve the effectiveness of their policies and transform the relationship between the state and the citizen.

Behavioural economics has moved in from the fringes of economics to its core. But are there also lessons for businesses, and the way they relate to their customers?

The 1960s the Stanford marshmallow test, repeated many times since highlights the stress of waiting, however pleasurable the eventual outcome. In this experiment a child was offered one treat immediately, or two treats after a short wait of around 15 minutes. Sometimes the treat would be left in front of the child for the duration of the self-imposed wait for two. Some of the children used tactics such as covering their eyes or kicking the table to help maintain discipline and resist the temptation of immediate gratification whilst the experimenter was out of the room. The experiment not only revealed the challenge of self-control and how a choice is affected by context, but also the importance of building trust that the experimenter really would return with two treats after the wait. Behavioural economics has created a framework for such findings to be incorporated into the design of the customer relationship.

Businesses and governments are now using behavioural science to experiment with the design of customer pathways to make loyalty the easy option. The time of the Chief Behavioural Officer seems to have arrived, making the most of irrationality instead of fighting it.

Make it Easy

There is much about human beings that baffles standard economics. Predictive models are based on assumptions that people know what they want, and will try to make the choices that will produce the greatest benefit. As the marshmallow test shows, the reality of behaviour is quite different.

People often seem more content with a solution that does not produce the greatest benefit from the options available. They do not optimise in their decisions, but regularly “satisfice” – taking a short-cut to something that is “good enough”. They use rough and ready rules of thumb to get them there, or listen to their emotions, rather than calmly and carefully weigh up all the options and chances of success.

None of this is new, but the development of behavioural economics has brought human behaviour back into the mainstream of decision analysis and policy design. It has taken a very long time. In recent years these traits have been integrated into government policies all around the world. In 2017 Richard Thaler was awarded the Nobel Prize in Economic Science for his persistent efforts to bring this about. Thaler’s persistence finally paid off. First, the publication of the book “Nudge” in 2008, written with Cass Sunstein, became made behavioural science a bestseller. It caught the attention of the UK Prime Minister and the US President. Both governments quickly established behavioural teams, each employing one of the authors. There are now teams in governments and agencies worldwide. The excitement has also spread beyond governments and the Chief Behavioural Officer is joining the C-suite.

The core message from Thaler is to make the best decision easy. Every high-street retailer knows that the way the store is arranged influences sales. Thaler calls this the “choice architecture”. As the example of high-street retailers suggests the psychological observations that underpin behavioural economics have been implicit in commercial interactions for a great deal longer than in government interactions with citizens. But might the rise of behavioural economics nonetheless offer insights relevant to the way firms manage the relationship with their customers?

Putting Irrationality to Work

The most significant application of Thaler's work has been the "Save More Tomorrow" scheme that he developed in 2004 with Shlomo Benartzi.

The scheme was designed to get more people in the US to invest in pensions. It uses a simple switch from an opt-in to an opt-out default for enrolment in a company pension combined with commitments to future increases in the contribution rate is estimated to have supported more than 15m people to add as much as \$30bn to retirement savings since 2011.

The scheme, now adopted by many pension providers outside the US, adapts the usual choice architecture to better accommodate how people really take decisions. It uses the powerful bias towards the status quo through automatic enrolment as the default option. It uses the bias in favour of the present over the future by starting with a low contribution rate, but with a commitment to increase this in the future, with the next pay rise. These simple changes in the choice architecture, for options that already existed, has made a dramatic difference.

In 2017 Bernatzi joined the board of the company behind the savings app Acorns. The app works by using a commitment to make small investments by rounding-up each debit and credit card purchase. This makes saving easy and painless, requiring no apparent sacrifice of present consumption for future gain. Such schemes have proliferated due to their success.

Avoiding the Exit

In his important work on consumer responses to service decline Albert Hirschman narrowed the decision down to an unstable interplay between three options: “Exit, Voice, and Loyalty”.

He describes how a decision by the most quality-conscious customers to exercise voice and remain loyal serves a social purpose, which the easy option of exit does not. Yet these customers are often also the first to exit.

Nowadays the exercise of voice is easier than Hirschman could have imagined, and more impactful in the context of instant, free and global communication. Anyone can express their delight or outrage to anyone else who will listen. Voice now is not just communication between a customer and a firm, but between the customer and anyone who will listen, sometimes in great numbers. Similarly, loyal customers can also be vocal, if the motivation is strong and the option an easy one. For organisations that rely on ongoing relationships the challenges of managing the options of exit and voice are harder than ever. But our understanding of human decisions is also developing apace and being incorporated into the user experience. Reframing the consumer’s choices can make exit a less attractive option.

Richard Thaler and his “Nudge” co-author Cass Sunstein have inspired a generation of “choice architects”, helping governments and business think more systematically about the navigability of decision processes.

“There is no such thing as a ‘neutral’ design ... Small and apparently insignificant details can have a major impact on people’s behavior.”

Richard Thaler & Cass Sunstein

“Nudge” Introduction (2008)

Some 300 years ago, long before the development of modern economics, Nicolas Bernoulli discovered that people would only place a low stake in order to take part in a gamble with a potentially infinite return². Standard analysis would be that any sensible person would participate in a gamble provided that the expected value exceeded the stake; but the potential of an infinitely valuable return proved unattractive. This became known as the “St Petersburg Paradox” after Bernoulli’s work location at the time that he came up with this particular behavioural conundrum.

Thinking back to Hirschman’s interplay of exit, voice, and loyalty, it is only exit that offers the user any certainty. Anything else is a gamble. There may indeed be a lucrative outcome eventually, but when that might arrive and the final value of the outcome are unknown, involving significant risk given the growth of their own stake in the game counted in time and stress. The customer faces a real risk in such a case, dependent partly upon their faith in the reputation of the organisation they are dealing with. The value they attach to this game could be very low indeed. Building a relationship of trust can have much greater value than any rational analysis would suggest, precisely because it reduces the perceived risk of exercising voice when things go wrong and makes the short-cut to the exit less attractive.

² For a discussion of Bernoulli’s problem: “Christian Seidl “The St Petersburg Paradox at 300” Journal of Risk and Uncertainty (2013) Vol 46, pp247-264

Finding the Fast Track to Loyalty

Almost 300 years ago, in 1759, Adam Smith wrote of the passions that drive behaviour and push people to live for the moment rather than wait for a later, but greater, pleasure³.

But, these passions can be overcome, just like the child covering their eyes when faced with the marshmallow temptation. Indeed, most people recognise the value of overcoming them, if only they could do so. Repeats of the 1960s marshmallow test have found that willingness to wait for the bigger treat has been rising at the rate of one minute per decade⁴. Present bias certainly exists, and always has, but can still be overcome. Behavioural economics now offers a toolkit to help find this fast track to loyalty.

In the 1950s Maurice Allais was already arguing that decisions involving risk change according to how they are presented and the scale of the potential gain. This “framing effect” has become the bedrock of much behavioural policy design. Organisations must develop a choice architecture that makes the best result the easiest result. That is the core message of the new Nobel laureate, Richard Thaler.

The choice architect for a successful organisation will ensure that the customer journey is easily navigable to an outcome that is satisfactory to both parties and that builds loyalty rather than lead to the exit. Behavioural economics can help guide the design of systems. It is now commonplace for randomised controlled trials to be used for this design work, a technique that was previously the preserve of medical science. Systems must work for marshmallow minds, appealing to humans rather than more rational, calculating beings.

Insurance company Lemonade has put this into practice in a dramatic way after hiring Dan Ariely (author of “Predictably Irrational”) as its Chief Behavioral Officer. Seeing how insurance has been a game of each party trying to cheat the other Ariely built honesty into its architecture, treating customers as individual humans and using technology to speed the insurance purchase and claims. In 2017 the company settled a claim in three seconds, with no paperwork. This required considerable innovation in the technology to make this a commercial possibility, but it is one that almost eliminated the wait for both marshmallows.

³ Adam Smith ‘The theory of moral sentiments’ 1759

⁴ John Protzki “Kids these days: 50 years of the marshmallow task” (2017) reported in British Psychological Journal Research Digest, 20th September 2017



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