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Linking IT Projects to Customer Loyalty, Revenue and Profitability

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When it comes to IT projects, what impact do they have on CLI (Customer Loyalty Index) and on revenue increase? That's a question Glomark-Governan analysts asked several CIOs in a recent survey. The findings indicate that many IT projects directly or indirectly improve a company's customer loyalty and revenue. However, opinions are mixed since it is often difficult to measure and/or define a direct relationship between IT and CLI.

The following are some of the answers and commentary received by the interviewed IT executives:

Measuring Customer Loyalty is easier on the business side because there is a more direct correlation between customer satisfaction and revenue. For example, during the 1990s Sears experienced a downturn in which it was losing billions of dollars in retail sales. The company then proceeded to adopt a company-wide culture change that included a model called the "employee-customer-profit chain." The employee-customer-profit chain is a flow chart that examines revenue creation beginning with employee attitudes and satisfaction. It is then linked to its effect on customer satisfaction and ultimately the effect on revenue and bottom line profit generation. In summary, a happier employee would create happier customers who would be more inclined to repeat business because of a positive shopping experience. This would also save companies money on things such as reducing the cost of employee turnover (i.e., training new employees) and creating positive word of mouth advertising from both customers and employees. The result of Sears's efforts (which took several years to successfully implement) was a 0.5% increase in revenue, which translated to over \$250 million annually.

What about customer loyalty as it relates to IT?

"IT projects that enable or enhance customer services have a very direct link to Customer Loyalty and Satisfaction; but associating it to a specific increase in sales is very difficult because there are many other non-IT initiatives that impact sales," says the CIO of a food services company. "However, we have seen that CLI has improved when we have invested more on customer-facing applications; and CLI has a direct correlation to customer retention. "

The Operations Leader of a major insurance company believes that the challenge lies in correlating CLI to the IT initiative when so many other factors impact loyalty.

"The goal of IT is often to improve usability, reliability or some other factor (IT performance indicator). That factor may or may not have an impact on loyalty. Personally, I believe IT projects are typically enablers, so that being loyal is easier. Interactions are made simpler so customer statements are more understandable, and so on."

In the context of IT in the retail industry, the business side tends to gauge a customer's loyalty from a P&L, revenue opportunity, or a performance index. Simplistically, more loyalty should translate to more business which translates to more revenue.

"IT could have a direct influence on loyalty, especially with customer facing applications," says the Director of Enterprise Data Warehouse of a major retail store. "The influence is going to be in the form of the customer experience that was enabled by the technology advancements. For example, technology advancements that help create a rich, crisp, relevant and personal customer experience while she is shopping or browsing your store, website, customer service or mobile channel will likely reinforce that customer's emotional experience to the brand. The number one goal is to create more and more of these positive customer experiences and behaviors. Over time, those behaviors start to indicate a pattern of loyalty - to the brand, not the technology. The financial benefits to the business can then be measured by more frequent and hopefully fuller shopping baskets."

However, he goes on to add that "an IT project should be graded on ROI and whether it has a financial payback within 3 years. When this is the case it would be considered a successful project which resulted in financial benefits. The only way that an IT project could be tied directly to CLI is if it could be specifically measured that the customer's experience improved as a result of the project and that experience resulted in a positive behavior which could indicate loyalty. Without that experience KPI, one can only infer that the customer made the purchase because, for example, IT rolled out a fresh new website. This is hard to say because that customer could have just as easily made that purchase that on the old website." The connection of the project to a loyalty index is probably more of an implicit indicator of the project's success than quantifiable fact.

Final Remarks

In the end, loyalty is more of a reflection of many pieces and parts optimally coming together to create a positive customer experience. This includes business process improvements, better and higher quality data, and information technology. If a company can find the right chemistry and mix of these elements they should stick with it. All of those functions must work in concert to grow loyalty. Don't over analyze any one area to support CLI to see who gets the attribution credit. A company should definitely look for ways to create a better experience with IT for the customer and they will reward you with loyalty and higher revenue— measured or not.