An emotional business

Emotions are a better predictor of whether customers will return than conventional loyalty measures.
Elena Alfaro, **Santiago Urío** and **Gonzalo Martín-Vivaldi** argue for an emotional standard

How do you measure emotions in the overall experience of customers? Would this measure contribute to your bottom-line? Is it possible to estimate the business generated by, for example, a new positive emotion at a certain stage of the customer journey or, conversely, when suppressing a particular negative emotion?

Emotions have become increasingly important in marketing, fuelled by books such as *Lovemarks* (Kevin Roberts, 2005), *The DNA of Customer Experience* (Colin Shaw, 2007) and *Emotionomics* (Dave Hill, 2010). Some top researchers on management have studied the so-called 'experience economy' and the importance of creating emotional bonds with customers. From fields as diverse as neuro-science, experimental psychology and behavioural economics, the theoretical basis proving that emotions are key when customers make decisions is increasingly established.

The reality is that emotions create value for companies, and resources should be earmarked for understanding, measuring or managing them.

Loyal practice

In many companies, measuring customers' emotions regarding their experience is embedded in the parameters that measure loyalty or satisfaction. Often, companies attempt to quantify satisfaction or loyalty without including emotional variables in the equation. To further confuse the picture, recent advances in marketing science are beginning to show that levels of customer loyalty or satisfaction do not necessarily predict future behaviour, such as recommending repurchasing or upselling the product.

In particular, it is assumed that the NPS (Net Promoter Score), a widespread parameter measuring loyalty, faithfully embraces the emotions that customers feel at each phase of the customer journey. NPS originated with a 2003 *Harvard Business Review* article by Frederick Reichheld – 'The One Number You Need to Grow'. It is a measure of the percentage of customers who are promoters of a brand name or company, minus the percentage of detractors. This lets organisations measure and manage customer loyalty.

This indicator has gained popularity over the years: it is simple to obtain, easy to interpret and explain and offers a benchmark with companies and sectors in relation to levels of loyalty. But it has, at times, attracted controversy. Several pieces of research have questioned its suitability as a parameter to be used by companies. One, published in 2007 in the *Journal of Marketing*, argued that NPS is a poor indicator to predict the growth of a company.

Meanwhile, scientific evidence is overwhelming regarding the role of emotions in decision-making. It concludes:
• Any emotion – even those that are not directly related to decision-making – may have a significant impact on the opinion or final decisions
• Emotional deficiency, either innate or experimentally induced, may degrade the quality of decision-making.
• Integration of emotions in the models of decision-making improve their explanatory power tremendously.

Most recently, Daniel Kahneman, a Nobel prize-winning pioneer in behavioural economics, published his best-selling *Thinking, Fast and Slow* (2010). He theorises on the two systems by which the mind works, showing the role emotions play in most daily decisions. System one is fast, automatic, frequent, emotional and unconscious, while system two is slow, vigorous, uncommon, logical, scheming and conscious.
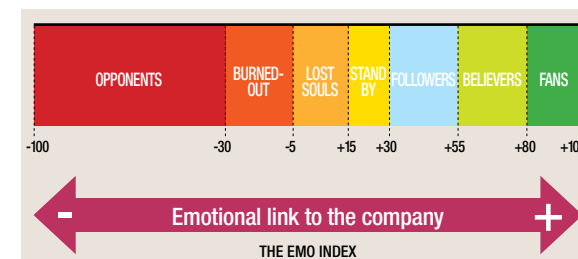
Despite the fact that no one questions the enormous influence of emotions in customer decisions, a standard measure is missing: one that takes into account emotions and, at the same time, has a high predictive power on customers' future behaviour. In order to fill this gap, EMO Insights International developed its EMO Index (see box), which summarises the emotional state of single or groups of customers towards a company (on a -100 to +100 scale), depending on the strength of positive and negative emotions felt by customers based on their last experiences.

To calculate the EMO Index, first extensive analysis is performed to determine which emotions are relevant for the given sector (for example, surprise, happiness, irritation, disappointment, etc). Then a representative sample of customers is selected and asked if they have felt each of these emotions at any particular time in the interaction with the company, based on their customer experience memories. Emotion levels are also measured, together with the possible reasons that may have caused them (emotional triggers).

Customer classification

To understand how this indicator is built, imagine a steel yard in which the two emotional dimensions, positive and negative, counterbalance each other, leaning the customer's emotional balance and, therefore, their EMO Index, toward the positive or negative side. Customers are then classified, depending on the emotional print during their experiences with the company, into Fans, Believers, Followers, Stand by, Lost Souls, Burned-out and Opponents.

Then a new paradigm, called emotional segmentation is introduced based on this classification of customers. This ties in with the power of emotions on the future behaviour of customers, as opposed to the traditional type of segmentation which tends to use customers' socio-demographic variables (sex, age, social class, *et al*), or classification parameters linked to a specific sector (purchased product, purchase volume, purchase reasons, *et al*).

The big question is the predictive power – or otherwise – of this new segmentation with regard to customers' future behaviour. Does the index increase predictive power in comparison with other measurements, such as NPS?

To test it, EMO carried out a study in the retail-banking sector in Spain. It was performed for the first time in 2011 (with 1,968 interviews). A second wave was carried out in 2013 (3,102 interviews). During the second wave there was analysis of the real behaviour of customers during the period between the two pieces of research. This established a correlation between the emotional segmentation in the first wave and the subsequent behaviour of customers. In addition, a comparison was made against the predictive power of the segmentation used by the NPS parameter: promoters, neutrals or passives and detractors.

One comparison between the two approaches looked at a specific behaviour essential to the retail-banking sector: recommendation. The aim was to compare both approaches according to their capacity to predict the percentage of customers that truly advised relatives/acquaintances to become customers of their main bank (positive recommendation); and the percentage of customers who advised relatives/friends not to become a customer (negative recommendation).

The objective was to use emotional segmentation to predict the real behaviour of customers. It also served to verify the benefit of this new paradigm compared with traditional approaches of loyalty and satisfaction measuring.

The difference observed among the detractors identified by the NPS approach, compared to those identified by the emotional approach, is noteworthy. The NPS-identified detractors actually recommended their bank positively to a greater extent than negatively. In contrast, those identified as opponents overwhelmingly gave negative recommendations of their banks. Again, this suggests that emotions provide greater predictive power.

Although these insights confirm the initial hypotheses, they are only applicable to a specific sector (retail banking), and they have only been studied in a single country. However, they do establish an empiric test of something that intuitively seems very logical: including emotions when measuring and segmenting is a step companies should begin to take, since it is likely that they can increase the explanatory and predictive power of customers' behaviours. This approach will add significant value in comparison with more traditional and simplistic classification approaches.

Once empirical science has taken major steps towards demonstrating that measuring emotions is not only possible, but also important, in predicting behaviours, it is time for management to take advantage of these breakthroughs. The corporate world should embrace customer emotion analysis, as enough evidence supports its prediction power, and hence its impact on companies' bottom lines. Welcome to a new era of management. ∎

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> **Measuring emotions is not only possible, but also important, in predicting behaviours**

OPPONENTS		BURNED-OUT	LOST SOULS	STAND BY	FOLLOWERS	BELIEVERS	FANS
-100		-30	-5	+15	+30	+55	+80 +100

Emotional link to the company

THE EMO INDEX