

## THE CASE FOR BUILDING CUSTOMER LOYALTY

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Much has been written and said on the subject of customer service, customer satisfaction and customer loyalty. You'd think we'd all be doing something about it. The sad truth is that most middle market business leaders underestimate the concept or are too busy to figure it out. By the way, even the big boys seem to turn an indifferent ear when it comes to putting all the proven concepts into practice.

We all know that customers are important to the survival and success of any business enterprise. To paraphrase the late Peter Drucker, "The purpose of a business is to get and keep customers." It's the "keeping" part that often gets lost in all the activities in which a business must engage. Let me postulate—customers are not only the means by which your business achieves income, they're also an asset as important as your buildings, your equipment, your inventory. They don't appear on your balance sheet but without them, there is no balance sheet. The relationships you create and nurture with your customers can appreciate or depreciate, which means you can choose the processes and programs to make customers a valuable, appreciating asset.

Creating value also means creating loyalty and adding to that equation, it means creating growth, profits and hence more value. It's been proven that customer loyalty is the hidden force behind growth, profits and even more lasting value. These are not just words on paper or lofty goals without tangible, bottom line results. Frederick Reichheld, in his well researched book, *The Loyalty Effect*, says that across a wide range of industries a 5% improvement in customer retention rates will yield 15-100% increase in profits.

He also talks about the "leaky bucket" effect, in which we see how one company (A) can increase their customer retention rate by 5% over another company (B). This in effect decreases their customer defection rate by 5%. Customer acquisition rates remain the same for both companies. The result of this slight change is that Company A's net growth is 5% greater than

Company B in one year. If this trend continues for 14 years, Company A's net growth will be double that of company B's. Even in the first year, Company A has increased their profit by 15-100%.

So paying attention to your existing customers—developing ultra-high levels of customer loyalty creates a broadcast network of "raving fans," ready to tell all their friends and colleagues just how great you are. Word of mouth advertising is 50x more powerful than media advertising (and hey, it's less expensive!). You gain powerful business advantage when an existing customer is ready to buy, if he or she comes back to buy from you. And just think—over a customer's lifetime the revenue derived and the value is far more than just that one transaction.

How do we know if your customers are completely satisfied? And...more importantly, how do you know the extent of their loyalty? You ask them! Customer satisfaction surveys and questionnaires are useful, and can generate a lot of information about service and products. They can also give you an indication for measuring customer loyalty. The most important question you can ask is, "**Will you buy from us again and/or how likely is it that you'll recommend our company to a friend or colleague?**"

Fred Reichheld's new book (a follow on to *The Loyalty Effect*), *The Ultimate Question*, makes a compelling case for this measure of satisfaction leading to customer loyalty. He states that this single question allows companies to track what he calls "promoters" and "detractors," thus measuring a company's performance through its customer's eyes.

How many promoters and detractors does your company have?

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