

PEOPLE

# Why Customer Loyalty is the Difference Between Mediocre and Magnificent

## Say “I do” to your customers and your team members

Consider it polygamy of sorts. But if you want to stay in business long and prosper, you have to commit to your customers. It’s no longer enough just to satisfy them. The quality of businesses revenue is as important as its quantity. Loyal customers represent quality revenue. This article explores the six basic keys to creating and nurturing loyal advocates for your business and illustrates how some businesses use various loyalty-building initiatives as the central element of their strategy.

It’s great if every customer walks away from your business with a smile. But it’s not enough. They have to be compelled to come back for more. And, merely satisfying your customer does not guarantee they’ll be repeat customers.

Let’s take for example a small restaurant located in San Francisco’s Mission district. Casa Sanchez has been making tortillas for years in San Francisco’s Mission district. Routinely customer’s leave with a full stomach and contented smiles, which is nothing less than you’d expect of a successful restaurant. But the truly unique thing about Casa Sanchez is its ability to create and foster loyal customers. Casa Sanchez customers go beyond being just loyal; they are true advocates in every sense of the word. Loyal to the

Some customers even have  
the company logo  
(Jimmy The Cornman)  
tattooed on their bodies –  
Now that’s loyalty!



point where more than 40 Casa Sanchez customers have paid between \$80-\$120 to have the company logo (Jimmy the Cornman) forever tattooed on their body – and there’s a waiting list of advocates willing to do the same. That’s taking loyalty to the extreme!

Frederick F. Reichheld has spent more than a decade investigating companies that get loyalty right. He has identified 6 common principles that these loyalty leaders share:

1. Preach what you practice
2. Play to win-win
3. Be picky
4. Keep it simple
5. Reward the right results
6. Listen hard, talk straight

These principles apply to any business and it starts and finishes with the individual business person, not with complicated software packages, expensive databases or highly energized committees.

Integrity is the life source of any long-lasting relationship. Words, actions and commitment support the lifespan of customer loyalty. If you were to ask a customer or even an employee how your company rates on integrity, what do you think they would tell you?

### Consider the first of the 6 steps: Preach what you practice.

It’s an age-old saying – Practice what you preach. Fast-forward to today and you could change that to practice it and do it at Internet speed. But it would be dangerous to let action be the only focus. It might seem goofy, touchy-feely or even frivolous, but every company has to have core values. The founders of the great industrial companies understood perfectly well that in order to prosper, a business had to deliver value to it’s customers and employees as well as to it’s investors. To quote Henry Ford, “business must be run at a profit ... else it will die. But when anyone tries to run a business solely for profit ... then also the business must die, for it no longer has a reason for existence.”

And the company leaders *must* express and reinforce those core values to its employees and customers over and over again if they are to have any real meaning.

At Casa Sanchez, a core value is family. The Sanchez family wants customers to feel like they are sitting down to a meal Mexican-family style. A place where there is music, conversation, laughter. A place where everyone knows your name, like it or not. This core value of creating a family dinner experience is what drives the employees to get to know their customers by name, to know a little about their lives and to smile at every patron. The idea of family is also behind the window that displays all the Polaroids of the customers who have tattooed the logo on their various body parts. They are a family in their own right.

If the owners had never had such a clear vision and never communicated to their employees the enthusiasm for such a place, Casa Sanchez would be no different than Taco Bell. It would be just another place to eat. The Sanchez family doesn't just tell employees that it is their JOB to get to know their customers. They lead by example—sitting down with patrons, calling out their names as they come in and keeping the enthusiasm and energy high. Even the recipes come from the grandmother in Zacatecas Mexico, which is proudly announced to patrons and visitors of the company web site. In every interview, upon every visit and on every page of the Casa Sanchez web site, there is mention of family. Casa Sanchez practices and preaches its values and then it preaches about it some more. Your business can too.

### **5 Steps Down the Aisle of Customer Loyalty**

- If you haven't done so already, identify what your commitment to your customers is. For example, FedEx promises absolutely, positively overnight. Perhaps, yours is simply to deliver on your promises as promised or to be on time and to smile. You may have more than one commitment to your customers. Whatever it is, write it down, memorize it and take it to heart.
- Be sure to remember it is YOUR job to lead your team to embrace this commitment. Taking into account their feedback, being sure to explain why this is so important and considering any additions or modifications your team may have will reduce resistance to any change.
- Post your commitment in your team room, in your lobby—any place where both customers and team members can be constantly reminded of the values at work in your company.
- Think of a time when your relationship with your customers was tested in your company. For example, if your core value is treating your customers' right, think of a time when a product or service was less than perfect. How did the company rectify the situation? What extent did you go to treat customers "right"? This can be a valuable tool in preaching what you practice.
- Use the example over and over and OVER in meetings, company literature and team functions. It emphasizes just how seriously you and your organization are committed to the value. Eventually it will become part of company legend.

### **Step number 2: Play to Win-Win. Getting the right employees**

Trying to garner customer loyalty without paying attention to team loyalty will get you the same results as bungee jumping without the bungee.

Today's experts identify an unyielding link between customer loyalty and employee loyalty. It's no coincidence that principled leadership inspires employee and customer loyalty. Leaders with a sense of responsibility and commitment to treating people well are far more likely to attract and retain the best and brightest employees. They will also command the respect of their employees who will see it as their own

responsibility and exciting challenge to fulfill the company's mission and to deliver the best customer service possible.

Delivering superior customer service has immediate and long-term benefits to employees. When the service is good, there is almost always an immediate appreciation from the customer. In the long term, it gives employees a sense of pride, ownership and purpose

Making a commitment to your team and your customers is a win-win-win situation. Customers are happy. Team members feel a sense of ownership and purpose. And your business will gain the trust of its biggest assets (customers and employees). For more information about the value of trust in the workplace be sure to read the article [“How To Create a Volunteer Mindset”](#).

### **The 5 Commitments to Customer and Employee Loyalty**

- Consider incorporating these 5 commitments as part of your company's overall mission. Feel free to hang these around the office, print on business cards or work with your team to rewrite and reorganize to best suit your company.

1. Everyone in this company has the right and responsibility to serve our customers beyond their wildest expectations.
2. We say what we mean and mean what we say.
3. If we are unable to deliver on a promise to employees or customers, we admit our mistake as soon as possible and offer the best possible alternatives.
4. Our employees are our *partners* in bringing the best solutions, services and products to our customers.
5. We acknowledge that we cannot be all things to all customers and reserve the right to say no to customers once all other avenues have been explored.

### **Step number 3: Be picky. Attracting the right customers.**

Yes that's right. Contrary to popular belief, not every customer is right all of the time. The *right* customer is always right. Casa Sanchez is not the appropriate home for the people in search of a quiet and spice-less meal in anonymity. The Sanchez family would be sure to fail if they thought they could fit the bill for this crowd. But they succeed because they know whom they *want* to serve, what their purpose is and what keeps the customers they *want* to serve and *can* serve coming back.

This does not mean feel free to let loose on those customers who annoy you. Nor does it mean that “no” is the appropriate response whenever someone feels like it. It means that your company absolutely, positively *must* be clear about which customers it can satisfy and it *must* commit to surpassing their wildest expectations of customer service. This is what distinguishes the satisfied customer from the loyal customer.

Believe it or not, the Sanchez family has a waiting list and an application process for getting permission to have the Jimmy the Cornman logo tattooed on your body. Membership in this family is *exclusive*. It also brings you a lifetime of free burritos anytime you want, as long as you flash the tat and prove membership in this family. Only one tattoo house is permitted to tattoo the logo and only those who have submitted an application and have been approved are granted access to the free burritos, a photo in the window and status as *true* Casa Sanchez family.

Being picky applies to your other great asset as well, your employees. You have an obligation to be picky about whom you hire—an obligation to your company, your customers and your other team members. Membership should be seen as a privilege. Not only does it inspire hard work but it fosters greater retention. People value what they have to work hard for to earn.

### **Make your customers and employees want YOU!**

That's right. It's your job to make them want you as much as it is to give them what they want. It will be a whole lot easier if you know exactly whom *you* want.

- If you haven't done so already, be sure to clearly define the type of customers you want to have. Be as precise as you can in identifying them. For example: We serve family and individual outdoor recreational enthusiasts of the greater Boston area. Our customers are likely to be in the middle to top income bracket, will likely shop the Internet and are drawn to the latest and greatest gadgets, equipment and outdoor sports. An example that is too general would be: Our customers are campers.

- Identify the type of employees you want in a similar manner. For example: We want to hire sports enthusiasts who have a passion and drive to climb mountains, kick their heels into the ice of the Aleutians and share their stories with other enthusiasts. Our employees are leaders in delivering customer service and are committed to having a laugh at work with a customer at least once a day. Now that is a recruitment ad just waiting to hit the presses. This is not: Wanted: Sales help at Outdoors R Us.

- Like everything else, success requires communication. Be sure that everyone on your team knows who they are serving and why they were *chosen* to work for you. Membership as a customer or an employee is a privilege.

### **Step number 4: Keep it simple**

If loyalty is the goal, simplicity is the virtue. Jack Welsh, CEO for GE and a long-time pariah of bureaucracy took this to heart when steering the company through hard times. Everyone in the company was responsible for finding ways to dismantle bureaucracy wherever possible and no one was permitted to hide behind it when things "couldn't" get done.

From decision-making to planning to communication to organizational structure, simplicity is instrumental to staying sane and successful in a business world complicated by globalization, rapid-fire communication and boundary-less competition. We are in a world where instant gratification and response is expected. You don't have to be as big as GE to have clogged systems, complicated procedures and slow moving responses.

Imagine a customer coming into a store, near hysterical because the 2,000-inch GIGUNDO model TV he bought a week ago stopped working the night before Superbowl Sunday. When he reaches the counter, sweaty-browed and near breathless with dismay, the 15-years-old sales clerk doesn't know what she can do to help. After she looks around for the assistant manager, she fumbles through dinner schedules and a pile of documents to finally find the code for the loudspeaker. With an air of "I-couldn't-care-less", she calls for the assistant manager to come to the front desk. The assistant manager arrives and explains that there are policies and procedures for this sort of thing. "Did you fill out your warranty? Do you have a receipt? Did you bring the 2,000-inch TV with you? I cannot issue any kind of refund. This needs to be taken up with GIGUNDO."

The customer is furious, so the assistant manager calls for the manager to back him up. The manager doesn't really know the policy and calls another store manager. And at the end of the day, everyone is exhausted and frustrated. A business with systems such as these is doomed to fail. While they may have

the customer's initial \$3,000, they will never see him again. And he is very likely to spread the word about how the company doesn't have its act together. In the meantime clerks, managers and the rest will drown in a pool of confusion, complicated policies and illogical procedures.

Here's how the company could get it right. If the company had a simple policy to do whatever is in the customer's best interest, the clerk and the manager or the assistant manager could have resolved the problem immediately. If that policy was clearly communicated to all employees and the clerk knew how to quickly and easily contact the appropriate team member, the customer's experience could have been far more positive and smooth.

Likewise, if there were small and clearly defined teams working together, this could have been much more positive. Instead roadblocks or don't-blocks to customer loyalty were quickly constructed: don't know, don't come here, don't make things too difficult for me, and don't bring your problems here take them somewhere else.

### **Are you keeping it simple or keeping it slow?**

- Small businesses can be overwhelmed with complexity just as easily as the big guys. Use this list to consider if there are areas of your business that could be simplified in order to better serve your customers and employees.

- When you are a customer and have a complaint or problem with a business, how soon do you want a resolution to your problem?

- On average what is the turnaround time for resolving a complaint or concern for a customer of your business?

- Are your customer complaint procedures clearly defined, incorporated in employee training and easy to use? Ask your employees. What is clear to you may not be clear to them. If they don't know, reassure them that this isn't an exercise in humiliation but an attempt to improve things.

- Ask your employees these questions:- Are job descriptions, duties and responsibilities clearly defined? Or is there a lot of everyone doing whatever whenever because it needs to get done? This is not always a bad thing, but there has to be clarification regarding who is responsible for what. This prevents disappointment, confusion and resentment and fosters retention.

- When focusing on customer loyalty, be sure to ask the people on the frontlines how they would improve things. Don't leave it just to management. The people who deal most directly with customers are likely to have specific insights about the policies and procedures and have probably given a lot of thought about how their jobs could be easier if it was easier to please the customer. Think about including people who handle operations, product delivery, billing and any other part of the organization that has a direct impact on the customer experience. Their involvement will not only increase your chances of coming up with the best solution, but will reinforce the idea that employee contribution matters and that their job has a sense of purpose.

- Are there opportunities to share and learn from mess-ups so they won't be repeated?

- Is there a way for employees to identify frequent problems with products or services, delays in delivery or roadblocks to superior service? Is it clear how employees go about solving these problems?

### **Step number 5: Reward the right results**

Be sure you're rewarding the right customers and not penalizing the loyal ones. Often companies get so wrapped up in trying to allure new customers or persuade those teetering on the edge of loyalty, that long-

term customers are overlooked and their loyalty taken for granted. The same can be said for rewarding employees who grab short-term profits or granting higher salaries to keep those who find jobs at other companies.

Woo the ones that want you (employees and customers alike). Pursuing customers who are unsure about your business or who are sure that you're not right for them is an expensive and often fruitless exercise. Like any relationship, you cannot take your partner for granted. Romance the ones that want you. This will surely set the stage for a long-lasting relationship. We believe strongly in the merits of applying 80/20 analysis to all aspects of your business and this is no exception. For more information on this refer to the 80/20 Analysis article available on The Consulting Accountant.

Coffee houses, beauty or nail salons and bakeries have great incentives for loyalty. Customers are given a punch card and after a certain amount of coffees or pedicures are purchased, customers are rewarded with a free coffee or service.

Credit card companies have also caught on to the importance of retaining customers. For so long they have been trying to lure customers away from the competition with lower APR rates. Now many companies are making a habit of offering low APR rates to existing customers as a way of *keeping* them. They also have invested large amounts of money to simplify the payment and purchase-tracking systems, so customers can quickly go online and handle their business.

Conversely, consider the mistakes of the telecommunications companies that delight us all by calling every night at dinner to offer us "so many free minutes" when we switch to their company. Ironically, as a long term customer of several telecom companies I have been offered none of these wonderful incentives and have experienced less than exceptional service. What they are actually doing is rewarding us for a lack of loyalty. If I continually switch telephone carriers I'll be rewarded with bonus minutes, free telephones and more. Yet, when I stay put I am rewarded with nothing more than the convenience of not having to switch telephone carriers.

Or consider the case of the professional printing house who, in order to meet their sales budgets would offer heavy discounts to new customers, but never to old ones as that might impact their profit targets for the following year. Put yourself in the shoes of the old customers – if after many years of loyalty you discovered you were being rewarded by being made to pay full price when the new-comers were getting serious discounts, how might you feel about looking for a new printer?

### **Woo the ones that want you – think 80/20**

Romance is never easy, but it sure is easier when you're a wanted suitor. Here are some tips that you can implement in your own business.

- Offer an appropriate incentive for repeat business. Offer a free service or product after a certain amount of purchases or visits.

- Get to know your regular customers and make it easy for them to patronize your business. Think before *they* have to. Use what you know about them to offer the appropriate product or service. For example, if you know a client is about to have a baby, suggest some financial planning services to make sure the child gets a college education. A hairdresser with a client who wants to try something new but is frightened by anything too drastic would be wise to suggest a temporary color wash. She can try it out for a while and wash it out if she hates it. These suggestions let customers know that you're thinking of their best interest and not just trying to increase your bottom line.

- If you are offering prospective customers a free gift or some other incentive, consider making the same offer to existing clients. Not only will it set you apart from the rest of businesses, it provides an opportunity for repeat business.
- Find ways to acknowledge repeat visitors and let them know you appreciate their business. For example, send a thank you note or a coupon. Consider having a wall of fame area or a community corner to hang photos of customers.
- Provide an opportunity for customers to give you feedback and then let them know when you have implemented their ideas. Avenues for feedback range from a suggestion box, a wall in a restroom, a corner of your web site, an organized meeting with regular clients where a facilitator solicits their ideas and complaints.
- It's not enough just to provide an avenue. You have to commit to responding to the feedback, implementing an idea or offering a plausible and reasonable explanation as to why something can't be done.

### **Step number 6: Listen hard, talk straight.**

If you want any relationship to work, you have to get this right. Honest, two-way communication is the foundation for trust, respect, integrity and loyalty. And it doesn't always come easy. It often requires courage.

Consider your own experience as a customer. Remember a time when you felt cheated, misled or just plain jerked around. The business may not have even been *intentionally* cheating you or jerking you around but the point is you felt that way. And you may have customers who have felt the same way about your business.

Think back to your bad experience. Would you have felt differently if the company had clearly stated prices, order tracking or delivery schedules that were available to you as a customer? Would it have made a difference if someone had recognized the problem they caused you, accepted responsibility and offered an alternative? Would you have felt more positive if you felt like someone really listened to you? Would you have more faith in the business if a representative of that business just plain told you the truth instead of trying to cover their tracks or avoid having to resolve the problem? Chances are you're saying yes right now.

If you want to create a lasting relationship with your customers, it would be wise to make sure you offer them the truth and an open ear. No one wants to feel ignored or dismissed, especially if they are already upset. This applies to your employees too.

We already established how loyalty-winners have won the loyalty of their customers as well as their employees. Without your employees' cooperation, you will not be able to provide the type of service you want to give your clients.

Integrity demands that your behavior is consistent across the board. Applying one standard to how you treat customers and another to how you treat employees will compromise your integrity, breed confusion and inspire resentment. Not only that, it breaks the 4<sup>th</sup> rule: Keep it simple.

Whenever you're thinking of customer loyalty and strategy, apply the same principles to employee loyalty.

**When you think of customer loyalty, think about employee loyalty as well**

Think of how quickly you could win the respect of your employees if you held regular lunches with employees. There is only one requirement: each employee brings a serious question or complaint. Not only do you listen and respond to their questions and complaints, but you follow up in person or in a company memo or via email and let them know what you're going to do to resolve their issue or question. Think about the impression it would make if you did the same with your customers.

Open communication like this lets employees and customers know you have nothing to hide. It also shows your commitment to getting the business right and your commitment to keeping them happy.

Responding with explicit information about how you are handling the issue they raised, lets them know you were truly listening and value what they have to say. That equals respect, which in turn begets trust, which begets loyalty.

Think about how you can show your employees and your customers that you are truly interested in what they have to say

## Support Resources

Please visit [www.principa.net](http://www.principa.net) for more information on becoming a member of the Principa Alliance, or to locate an Alliance Member to help you build a better business.