Growth . . . . Remains the Keystone to Sustainable Profitability

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In 2007 & 2008, our industry was negatively affected by a severe general economic recession. We all know the symptoms . . . major multi-industry wide job losses in concert with significant budget cuts. In these very bad times, basically to satisfy the oft-times abstract thinking stakeholders, personnel cuts are made on the short-term that are either the wrong ones or they are too deep or . . . . many times . . . both. In the present relatively "good times," we need to remember some of the practices that kept us in positive positions as well. In a recent article by Dr. Rosabeth Moss Kanter, she stated that "in a recession, put everyone in marketing." Dr. Kanter delineates five suggestions:

1. Increase customer contact & communications: Customers cannot play second fiddle to support elements
2. Start looking for new markets now: All companies need the flexibility to move quickly into promising markets. Adjacent markets where technologies can match and growth is greater than the incumbent segments.
3. Invest in employee morale: When morale is down, fear sits in and worries reduce productivity
4. Emphasize & reward small wins: Everyone should be involved in undertaking small improvement that can become large positive impacts taken together
5. Stick with our values: Cutting corners with customers doesn't work. Marginal ethical tactics such as "gifts" to a purchasing agent are short-lived tactics that many times have a reverse impact on the relationship.[1]

Loyalty & Growth

What is loyalty? Loyalty is the willingness of someone (customer, employee, or friend) to make an investment or personal sacrifice in order to strengthen a relationship. For a customer, it can mean staying with a supplier who treats him well and gives him good value over the long term even if the supplier does not offer the best price in a particular deal.

True loyalty undoubtedly affects profitability. While regular customers aren't always profitable, their choice to stay with a product/service typically reduces the customer's acquisition costs. Loyalty also drives top line growth. Customers who are truly loyal tend to buy more over time, as their company incomes grow or they devote a larger share of their wallets to a supplier they feel good about.

Loyal customers spread the word about their supplier. Word-of-mouth recommendations are one of the best indicators of loyalty because of the customer's sacrifice in making the recommendation. That is, in making a voluntary positive statement about a supplier is figuratively the equivalent to giving a part of the recommender's heart and soul to another part of the value chain. They put their reputations at risk in acting in this manner. So, the important question is, when will a loyal customer place their reputations at risk? They will do so only when they feel intense loyalty. Intense loyalty by a customer can provide the supplier with the opportunity to gain new customers which is particularly beneficial as a supplier grows.

Because loyalty is so important to profitable growth, measuring and managing it makes good sense. It is, however, unfortunate existing approaches miss the mark and fail to accurately account for the true measure of loyalty, therefore, leading to unsound results. Conventional customer-satisfaction measures lack a consistently viable connection to actual customer behavior and growth. It is difficult to determine a strong correlation between high customer satisfaction scores and outstanding sales growth. In fact, in some cases, the reverse is true. K-Mart is an outstanding example of high satisfaction scores simultaneous with its' sales revenue going into free-fall. The auto industry dealership surveys are replete with these same results.

If one buys into the concept that "intense loyalty" by a customer provides a supplier with extraordinary competitive advantages leading to greater profitable growth, then keeping it simple, is the key rule of engagement in customer-satisfaction surveys. A guideline stating that 'you must ask the right questions' in a Customer-Satisfaction-Survey, seems like a "dah", that's so understood! Well, it just hasn't been understood so well in the past.

According to F.F. Reichheld of Bain & Company, Here are the top-ranked 'RIGHT' questions which provide the most accurate measure of loyalty:

- How likely is it that you would recommend (company x) to others?
- How strongly do you agree that (company x) deserves your loyalty?
- How likely is it that you will continue to purchase products/services from (company x)?

In challenging times, don't just rely on your marketing department to "market" but instead, bring into play your company and especially, use the top executives as 'market-facing' selling tools.When contemplating customer-satisfaction surveys, keep it simple . . . . you just might be better off by employing only three questions Reichheld depicts as the most important . . . . all else may be unnecessary. **CW**

1. *Dr. R. Moss Kanter, "In a Recession, Put Everyone in Marketing," HBR, April, 2009*
2. *Mr. Frederick F. Reichheld, "The One Number You Need to Grow," HBR, December, 2003*