

# GROWTH: the keystone to sustainable profitability

*Measuring the importance of customer loyalty.*

The paint and coatings industry has been negatively affected by the 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 sometimes devastating times, to satisfy the 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 a recent article by Dr. Rosabeth Moss Kanter, she states that “in a recession, put everyone in marketing.” Kanter delineates five suggestions:

- Increase customer contact and communications. Customers cannot play second fiddle to support elements such as banks and investment analysts;
- 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. Seek the aid of employee teams for ideas;
- Invest in employee morale. When morale is down, fear sits in and worries reduce productivity and attention to customers suffer;
- Emphasize and reward small wins. Everyone should be involved in undertaking small improvements that can become large positive impacts taken together;
- Stick with 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.<sup>1</sup>

Kanter was indirectly discussing “loyalty.” She was talking about loyalty to and concentration on being loyal to one's customers and remembering what Peter Drucker said, “If you don't have customers, you don't have a business.”

The other side of the loyalty success and

growth equation is customer loyalty to you, the supplier of important products and services.

### 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 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—at no charge to the supplier—which is particularly beneficial as a supplier grows, especially if it operates in a mature industry, such as much of our own.

### MEASURING LOYALTY

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 is understood. It just hasn't been understood so well in the past.

F.F. Reichheld of Bain & Company ranked the top questions that provide the most accurate measure of loyalty. The top-ranked question was far and away the most effective across industries:

- How likely is it that you would recommend Company X to others?

Two questions were effective predictors in certain industries:

- 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?

Reichheld lists five additional questions that he describes as "other questions, while useful in a particular industry, had little general applicability."<sup>2</sup>

## CONCLUSIONS

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 might be better off employing only the three questions Reichheld depicts as the most important. All others may be unnecessary. **CW**

Sources:

[1] Dr. R. moss Kanter, "In a Recession, Put Everyone in Marketing", *HBR*, April, 2009.

[2] Frederick F. Reichheld, "The One Number You Need to Grow", *HBR*, December, 2003.

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