

A Bad Economy Doesn't Have to Mean Bad Growth for Your Business

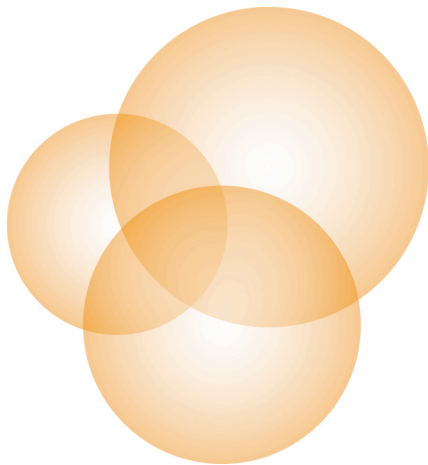
When the economy slows down your business doesn't have to. Today I'd like to share how businesses can still succeed and grow even now, in one of the most challenging economies we've had since the 1970's. The secret involves improving client loyalty, the only element proven to cause growth.

Executive Summary of initiatives

1. Ask your customer the "right question"
2. Get rid of "bad profit"
3. Pick just one
4. Set your smart goals
5. Communicate every day
6. Look for discontinuities
7. Develop customer group infrastructure
8. "You Gotta Believe"

These principles work for any business in any industry, although they will take some real effort.

Introducing: A Proven Process to Provide Explosive Growth



THE
LOYALTY
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Whenever you ask a businessperson “how’s business” the conversation turns to the economy and if the economy is bad, then business is bad and there’s not much we can do about it. In every business cycle, there are those businesses that have had their success roots during a slow economy. So it’s not unusual for a business to not only survive during a difficult time in the economy, but to prosper?

Sometimes it’s the time when business doesn’t automatically come to us because things are a little slow, when we become more ingenious and maybe we work a little harder. Perhaps we come up with some strategies which took a little bit more thought. Those strategies might not have come to us in a blinding flash; they may have had to be worked on pretty hard. But growth during tough times is possible. So the question is, “will you be one of those businesses who not only survives a difficult economy, but prospers?”

The economic challenge of our times is surprisingly not as unique as you might believe. As far back as my initial experience with Sears in the 1970’s improving the performance of its retail stores was always a matter of finding that one thing that when improved had the power to dramatically improve results. It worked then, and it will work now.

If you decide you are going to prosper you would need to start by deciding on a strategy or course of action. The first inclination we all have during business down cycles is to rely on cost cutting. It’s certain these are times when cost reduction is indicated and it is a necessary thing to do. Cost cutting, of course, has its limits. There are certainly things you can cut and they don’t affect the basic product you offer, but at some point cost cutting starts to affect the quality of what you do. It affects who you are, and affects people who you count on. Either you don’t have enough of those people, or they don’t have the tools they need, so it is certainly not the panacea. Expense management might help you get through a tough period, but it’s not going to be the thing which helps your business become a growing, thriving, noteworthy business.

So what else can you do? I think you should daydream a little bit starting with the premise, if my business were a 10, what would it look like? My guess is that you might say, “I would like to have more customers, and have my current customers buying more goods and services from me than they are today.”

We all know the customer you already have is the best source of future growth. The idea is to get your customer to buy more or return more often or to bring you more customers by their word of mouth advertising. So you must look ahead into the future starting with these answers then working backwards. One strategy I think we would all day dream about is the idea of working on the relationship we have with each customer. We all recognize “If I could somehow boost the relationship up slightly so each customer I have would be just a bit more loyal,” revenue would follow. “I need to be more top of mind to customers who thought about my product line and thought of me before competition.” This topic should not only generate day dreaming, but serious thought. How can you

really do that? If this is something you would wish for, then shouldn't you spend some time thinking about making it happen in the near future?

Loyalty and Satisfaction: Different Standard... Different Results

The whole subject of loyalty is an interesting one and there has been some important work done on loyalty. The work that has been done supports the idea of loyalty being a motivator. People who are loyal to an idea or to a company are loyal in a visceral or gut level way and they believe in the company or idea. Think about the power which loyalty to a political party unleashes. Loyalty is not a casual thing, it is born in the gut, and it leads to action. People are loyal to their alma mater or to the state of their origin. Wherever your loyalties lie, they come about because of a gut level attachment to something or someone, and this belief system causes action to be taken. The point I'm trying to make here is it's very much an emotional thing which people make part of them.

Now contrast this with satisfaction. I'm always amused by the enormous amounts of money which companies spend doing satisfaction surveys. They entice people to take these long and boring surveys asking question after question to find out how satisfied you are and what limits your satisfaction has. I'm just amused by this phenomenon because the research that has been done points out without a doubt that satisfaction is not a motivator. Satisfaction is the price of admission to the game. Satisfied customers don't necessarily come back. Of course, dissatisfied customers never come back, but satisfied customers are satisfied until someone else makes them more satisfied. Satisfied customers are not particularly loyal, there is no pattern of repeat business, there's no pattern of recommending the company to somebody because you are satisfied with the product or service the company offers. I think it's hilarious that the airline industry and the automotive industry seem to make decisions based on this stupid series of questions around satisfaction. The car companies make the dealers jump through hoops including limiting the inventory of popular models based on this customer service index (CSI) number, which means absolutely nothing in terms of predicting customer purchase behavior. Of course it is important that people are satisfied, but these companies are asking the wrong questions and focusing on the wrong numbers. Satisfaction doesn't link to the P&L because it doesn't link to the hearts and minds of the customers. Loyalty does that, and these two are very different.

So let's consider both possibilities for a moment. Loyalty, we said, is a visceral thing coming from the gut. You are loyal to your dog and your dog is loyal to you. The dog's loyalty comes from years and years of successful transactions. The dog knows that you are going to feed it each day; the dog knows that you are going to let it in and out. The dog knows that you will give it attention and pet it. It knows that you spend time with it and all those transactions lead to the dog knowing that you are its master and that the two of you are somehow connected in some kind of an emotional way. Similarly, you are loyal to your dog because the dog is a companion and the dog gives you its unconditional affection. This is the relationship that the two of you have and because of that

relationship, you probably spend a lot of money on the health care of the dog to extend that relationship.

So loyalty and satisfaction are not the same. Satisfaction is a much lower standard. Loyalty is built over time and it's built with emotion. I spend so much time on this because it's vitally important that if you are going to spend time and effort on improving the relationship with your customers, you must go for the higher standard...loyalty.

Can You Measure Loyalty?...Of Course You Can

How do you find out about loyalty? What kind of a question would you ask or what type of indicator would there be that someone is loyal? Well, that research has been done. Fred Reichheld who has studied this very topic for over 10 years, has found out that one simple question will determine how loyal a customer is to you, and therefore, determine your company's future with that customer. That question is, "On a scale of 1 to 10 how likely would it be that you would recommend our company to a friend." It's that simple. Then we need to ask a follow-up question. "If you gave us a score of less than 9, what would we have had to have done or what would need to change to earn as 9 or 10? This simple process has great application to any organization, especially to businesses. It is so simple and yet so fundamental to determine how loyal your customers are. Given how simple this measurement is, and how vital loyalty is to business development, it amazes me that every company isn't working with this process.

In fact, I have worked with this process a great deal as have the Bain people who uncovered its application, and the one thing that makes this process work so well is the 80/20 rule. In other words, a very small percentage of the items brought up by customers make up a very high percent of the input you get from customers. So when you ask them what we could have done or what we need to do to earn a 9 or 10, the answer is a very small list of things. Usually it's one or two that have the leverage to drive tremendous improvement in the overall loyalty score. If you stop and think about it, that's really good news because if the list that you got were long and you said to someone, "You need to do all these things," that would be somewhat overwhelming. We all know that most organizations are not able to take on more than one or two initiatives at the same time. The organization just doesn't have the ability to walk and chew gum at the same time let alone initiate change in many different areas simultaneously. When this occurs, nothing gets done at all.

When you think about this whole process of determining where you stand with your customers in terms of loyalty, and finding out what's important to them, you would think that this would be so basic that everyone would be doing it. The truth is that everybody always thinks that they already know, and they leave out the important step of validating what's really important to the customer. They just assume it, and they think about what's important to them and the way they see the customers and that's how they proceed.

One of my clients had always done business with the highest ethical standards, but had competitors who utilized some rather unethical practices as part of their normal

operations strategy. My client knew about the questionable practices, but they didn't know how important trust was in their industry. When they began to focus on their internal processes that accentuated how their ethical approach differentiated them from much of their competition, their sales grew and with very good margins.

Not knowing what's vitally important to customers doesn't seem to me to be a very logical way to do things. I can't imagine the medical profession or NASA doing that. No organization should assume critical facts about its customers. One of the best known practices in the medical profession is that each new doctor that comes in, orders his own tests, rather than to rely on somebody else's tests. When you think about it, most businesses don't do any testing. They don't rely on anybody's data. They just think they know so they do what they think they know. Then they can't understand why the customers are not responding positively. It seems to me that finding out where you might be having a delivery gap and what's important to customers from customers is an important thing to do; especially in times when not so many new customers are walking in the door.

Get More Good Profit by Getting Rid of Bad Profit

Studies have shown that some of the most fundamental things are important to customers. I can give a few examples. In the airline industry I laugh about all the schemes they have developed to offset the high fuel prices they are experiencing. Why don't they just set a fuel surcharge that goes up and down with the jet fuel prices they are paying? In this way they communicate that price up-ticks are solely the result of the high jet fuel prices. Instead, they chose to charge for checking bags or to sell coke and chips. This brings up an important subject which I call "Good profits & bad profits."

Let's stay on the airline industry as an example, although you may have some bad profits as well. Bad profits are those profits which are derived in a way that they detract from customer loyalty. Let me give you an example. Most airlines charge you a fee if you have to change your ticket and that fee goes primarily to the bottom line of the company because there is very little cost associated with that change. Granted, there is some, but they are trying to do two things. One, they want to convince you not to make changes, and secondly they are trying to mark up and offset the cost associated with changes. The problem with that is that most of us will see that practice as not making a profit from the service provided, but making a profit from our problem of having to make the change. We see this as a bit disingenuous.

It's interesting that Southwest Airlines, clearly the growth and profit leader in the industry doesn't charge that fee. I think they see that although the fee may be a profit opportunity, it's bad profit because it's made at the expense of the customer without adding any value and it is made at the cost of lost loyalty. It seems clear that customers see no added value in the ancillary costs airlines impose, and these practices do nothing to distinguish the airline and build loyalty to it.

My point here is that before you can begin to think seriously about loyalty, you have to purge your business of these bad profits. Certainly you have to charge a reasonable price

for your services, but we customers hate being “nickel and dimed” to death with lots of things that don’t add value. Get rid of these irritants, and bundle them in your basic pricing. The rule of thumb...If it is not perceived to be adding value, don’t make it stand out as a separate line item on the price sheet. Charging separately for items that don’t add value detracts from loyalty. Loyalty occurs when it’s perceived that our interests are mutual.

Pick Just One

Now you have accomplished the first two items. You have received customer input concerning their loyalty and why they feel the way they do. You have flushed those loyalty-killing bad profit items from your business offering. You are ready to take action on the input you have received.

From the information you have gotten from your customers, it’s important to pick one single item that your customers talked to you about that has the greatest leverage for improvement of their loyalty. Remember that your organization can probably only change one significant thing at a time, so you must select what that change will be.

From the list of items mentioned which need to change to earn a 9 or 10 on the recommend question you need to find that one item that has the greatest opportunity to increase customer loyalty.

It has to be something significant and it will probably be the thing most mentioned. It has been my experience that most times it is relatively simple to accomplish once the organization decides to change it. For Enterprise-rent-a-car the key change requested by customers was for the car to be delivered to the renter’s location. Making that change catapulted them to number one in their industry.

The third point on your to do list is “choose one.” During the process of choosing, it’s important to get all the constituents on board by having them participate in the choice. Even front-line personnel, who will probably have to deliver the change, should be part of the changing so they feel like a change agent, not a “changee”. Everyone hates change in which they have had no role in the change decision.

Walk the Talk

Now you have decided on what you are going to change. The next step in that change is to set a goal. The goal must be aggressive. You don’t want to set a goal, that once made is not one you are proud of, but it must also be achievable. Wild goals, which the organization sees as not achievable demoralize everyone. You need to set a timeline for achieving that goal. Perhaps the goal will be met in pieces. The first piece will represent a significant move forward and then should result in a reassessment of the timeline for the

next improvement. The next element of the goal is that it must be public. Anyone who has ever been successful in losing weight knows that one of the elements that made success possible is that they had a publicly announced commitment to that goal. Once that commitment was made, they felt they had to follow through and make it happen. It's important that the goal is publicly stated and posted. Then results are tracked and progress or lack thereof honestly assessed. It may be that in the beginning, there is no significant progress. In this case, the no progress report to the organization should be made. The organization must understand that the goal remains, but the tactics may be subject to change in light of the lack of progress. Maybe plan B is in order. Honest feedback and action based on that feedback are what's important here.

The next step has to do with communication. This new goal has to be the topic with which you as the leader are most consumed. It can't be in the background; always the foreground. It must be in every conversation you have with people. The goal must be restated again and again stressing the importance of this goal being reached. You must stress that attaining the goal will make the organization more viable. The more viable the organization is the more it can contribute to individual goals within the organization. Job security, promotions, investment in new tools all become realities when the organization succeeds. You are all involved in something which has the potential to improve the success of the organization. You have to become the champion and everyday spokesperson for the improvement.

Killing Snakes

Next you will need to find and eliminate the discontinuities you will run across between the change you are seeking and the way things are. People will point out things that the organization does or processes within the organization that are in conflict with the goal. Maybe it's a compensation system or a long-honored process which is in conflict with the change. You have to get rid of those discontinuities to demonstrate that the change trumps the status quo. For instance, it's not necessary to change the compensation system to reward the improvement you are seeking, but it is important that the compensation system not reward people for things which erode loyalty. You will encounter these conflicts. If you spend your time walking in the high grass, you will encounter some snakes; that's where they live. You have to kill the snakes.

Building Bridges

The next task is to create the infrastructure to support the change you are seeking. Let me be specific.

1. The Loyal 9-10's: First, you will have customers who are loyal and are recommending you to others. What is sometimes overlooked is the recognition and thanking of those loyal customers who are exhibiting loyalty either by

- continuing or increasing their purchasing or by recommending you to others. Make no mistake, by asking the recommend question, you will experience some of this behavior by your loyal customers. You absolutely must recognize and thank those who honor you with positive recommendations. I don't think compensation is required and actually I don't recommend it. Recognition and thank-you connect at a gut level, and remember, loyalty is a gut level phenomenon.
2. The Opportunity –Producing 1-8's: Secondly, you will have those who are not yet loyal who are in the 1 through 8 range of scoring. The second piece of infrastructure is the re-surveying of those customers. You must continue to ask them on an ongoing basis the loyalty question and what it would take to earn a 9 or 10. The new information must be baked into the organization's knowledge base, and continuous changes made around these new data. This is an ongoing commitment to ever-increasing loyalty, not a sometimes thing.
 3. The X-customers: Lastly, you will also have some X-customers. Those are the customers who are leaving you for someone else. You must build some infrastructure to support the customers who are leaving. To do this you must have a structured customer recovery process based on proven methodology.

There are two functions for this recovery process. First, you want to intervene and stop the customer loss with proven techniques which address the root causes in a timely manner. To do this your process must uncover and quantify the root causes. Building these modest pieces of structure will support the change.

“You Gotta Believe”

Now here is the final ingredient and the most vital one. As the leader of the organization, you must honestly believe in the change you are creating. You must believe this change will fundamentally improve the relationship you have with many of your customers in such a way that they will buy more goods and services from you and recommend to their friends and associates patronizing you as well. You must believe in the magic of loyalty and its power to transform your business.

As I look back at the many organizations I have been a part either directly or in a consulting capacity I can track back the success we have had to finding out in each instance what the one important thing which had the power to change results and then being able to change in a dramatic and measurable way.

I can think of only one instance among many in which I was not able to put my finger on the one thing which had the power to transform results. In this case, the overwhelming change of an acquisition, all new systems and processes and dramatic turnover of people masked the one important change that had the leverage to transform results. This one instance, though an anomaly, still bothers me because the process has worked every other time. Perfect is unattainable, but winning most of the time makes one a professional.

In closing, my hope is that I've inspired you to test these strategies in your own company immediately. Even if you have no formal training or experience in customer loyalty programs, you will see some improvement from implementing these steps on your own. But, why would you settle for "some improvement" when you could be experiencing the highest growth rate in your company's history with a little outside help from me, a 30+ year customer loyalty specialist?

Contact us now by calling 303-679-0144 for a no-obligation, no high-pressure quote and let's get started. You will be surprised at the professionalism of my program at such affordable rates. And, the return on that investment alone will quickly prove that a bad economy does not have to mean bad growth for your business.

I look forward to hearing from you soon.

**All the best,
Jim Rohrer
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Jim Rohrer is the top rated authority in Colorado on the subject of growing companies by increasing customer loyalty. For 30 years he has dramatically improved the bottom line of countless organizations with his ability to identify and change "one key thing" which brings about needed improvement. Jim's passion is for helping CEO's improve their organization's performance and his process works. Call him for a free consult at 303 679-0144 or visit his website at www.customerCarePartners.com