CONVERTING CUSTOMER LOYALTY TO EXPONENTIAL GROWTH

What if?

What if mastering one metric could give you such a competitive advantage that you had twice the compound annual growth rate (CAGR) as your competitors?

What if that same pursuit yielded higher average order volumes with higher profitability?

It's been said that

"sales covers a multitude of sins," but not all sales are created equal.

There are numerous ways to generate a company's growth. "Bad" profits are earned at the expense of customer relationships. As stewards heeding a call to run companies with such excellence that our Father would be glorified, we let love cover our past transgressions and pursue "good" growth by leveraging positive customer experiences and the benefits of loyalty systems.

Companies that achieve market leadership positions in the domain of customer loyalty see a huge difference in the lifetime value (i.e., cumulative profit) of their customers.

Studies prove that a sustained 5% increase in annual customer retention increases profitability by 25-100%!

This stems from our tendency to learn to make money on repeat customer business coupled with avoiding some of the cost of attracting new replacement accounts.[1]

Satisfied customers successfully converted to enthusiastic referral-generators form the foundation on which to grow our business. Rather than generating impersonal referral activity, we should be pursuing quality recommendations from highly satisfied customers. To do this, we must first know how we're doing with customers, and then respond by leveraging any goodwill and resolving any ill will that may exist.

Companies that have adopted this approach of building true loyalty rather than exploiting shortcuts or non-root issues have seen staggering success that can be duplicated by virtually anyone in any industry.

[1] Frederick F. Reichheld and Rob Markey, *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World,* (Watertown, Mass: Harvard Business Review Press, 2011), 38-39.

Measuring for Impact

It's easy to blame "external factors" for lower satisfaction, but the fact remains that many firms enjoy far greater loyalty than others despite equal environments. To target internal gaps that hinder customer loyalty, we must measure, implement, track, and adjust.

- Measure what we desire to improve
- Implement necessary changes to drive improvement in these metrics
- Track the impact of such changes
- Make adjustments to sustain momentum[2]

What we regularly measure and focus on tends to improve.[3] To improve business results, we must focus our team's attention on Key Performance Indicators (KPIs) that target peak performance. Since our desire to generate greater referrals requires doing many things well, we need a unifying metric to help drive a high-performing, accountable, and continuously improving environment.

A simple formula to leverage satisfaction and loyalty insights is Satisfaction equals Experience minus Expectations.

Experience
– Expectation
Satisfaction

We often lack true standards for measuring relationships that drive healthy growth.

While generic customer satisfaction and engagement surveys may seem helpful, they have several inherent limitations:

- They do not always yield crisp, actionable data.
- Third-party statistical data can fail to provide clear actionable priorities.
- The data poorly correlates with company performance (60% to 80% of customer "defectors" scored themselves as either "satisfied" or "very satisfied" immediately prior to their defection[4]).
- The term "satisfaction" cannot forecast the health of superior long-term relationships.

[2] In "lean" language, this cycle is known as PDCA (Plan-Do-Check-Adjust).
[3] "The Hawthorne Effect." The Economist. November 03, 2008.

A Loyalty Revolution

Frederick Reichheld, a Bain & Company Fellow, was on a quest in the early 2000s to determine if there were indicators beyond customer satisfaction (CSAT) surveys to truly indicate customer loyalty, engagement and probable future sales.

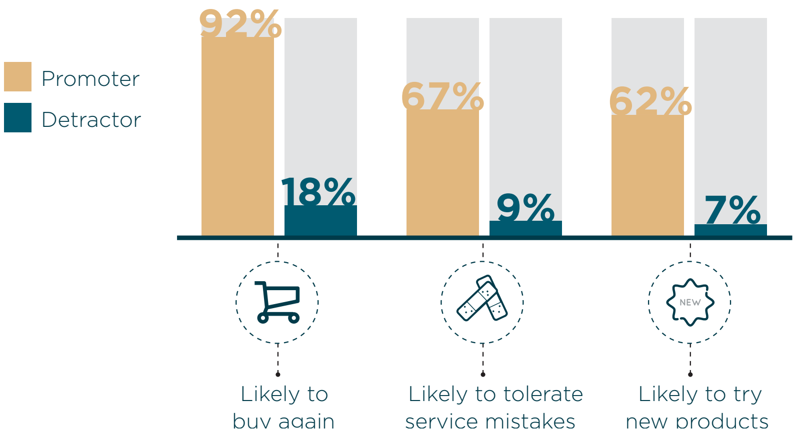
According to Reichheld, many of us get stuck in unhealthy cycles because of a one-dimensional measurement of success focusing on profits regardless of whether those profits represent the rewards from building relationships or the spoils from abusing them. By contrast, Reichheld advises the measuring stick of loyalty:

> *"Customer loyalty provides companies with a powerful advantage, a battalion of credible sales, marketing and PR troops who require no salary or commissions. Yet the importance of these customer promoters is overlooked because they don't show up on anybody's income statement or balance sheet."*[5]
>
> \- *FREDERICK* **REICHHELD**

[4] Bain & Company data, cited by Frederick Reichheld.
[5] Frederick F. Reichheld and Rob Markey, *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World*, (Watertown, Mass: Harvard Business Review Press, 2011), 38-39.

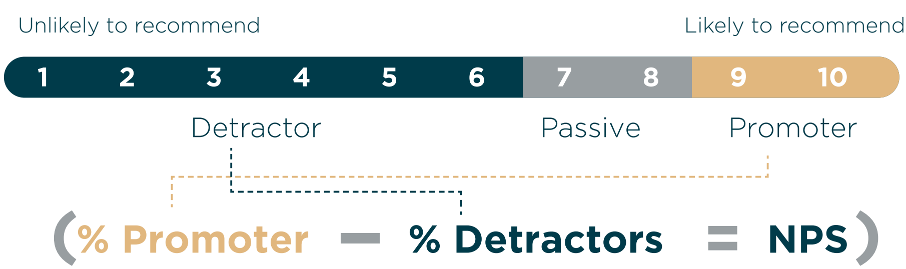
Research shows that

promoters are...



Tracking a Key Metric

After years of researching how to predict the impact of customer behavior on company growth, Reichheld pioneered an eventual movement that would galvanize just about every major industry when he authored the **Net Promoter Score®** (NPS) insight and subsequent systems. NPS, now the gold standard metric for customer experience, predicts business growth by quantifying loyalty[6] with only one "ultimate question"[7]: "How likely is it that you would recommend Company X to a friend or colleague?" This simple question, besides touching both the rational and emotional dimensions of one's behavior, correlated most closely with respondents' decisions. Responses to this one-question survey provide a Net Promoter Score, computed by subtracting detractors from promoters.



[6] NPS, while a proven metric in many industries, has limitations in others. See caveat from Loyalty Research Center blog post, "NPS...and Beyond," by Kay Ranade, December 12, 2012. http://www.loyaltyresearch.com/insights/nps-and-beyond/

[7] Source: www.theultimatequestion.com and www.netpromotersystem.com.

For Example:

If we have 25% promoters, 60% passives and 15% detractors, our NPS is 10%

	25%	Promoters
	60%	Passives
–	15%	Detractors
	10%	**NPS**

Most "loyalty leader" companies have an NPS of 45% to 80%, while the average U.S. company's NPS is below 10%.

For transaction-based companies, promoters spend 140% more, while subscription-based (renewable/repeat) companies have a 74% higher probability of retention than detraction. Passives are the truly perilous category; their silence can be misleading as they are quite susceptible to competitive allure and often represent 35-40% of accounts surveyed.

Consider the following NPS industry benchmarks for 2017:[8]

Industry	# of Companies	Average NPS	Top Company & Score
Supermarket	22	29	Trader Joes - 62
Car Manufacturer	19	40	Tesla Motors - 67
Consumer Goods	116	42	Franke Kitchen Systems - 57
Consumer Service	85	69	OACIS - 95
Internet	480	40	Feelunique.com - 72
Restaurant	42	42	Chick-fil-A - 58
Business Supplies & Equipment	29	50	A&A Office Systems - 92

Under the leadership of Meg Whitman, Hewlett-Packard (HP) found NPS was a leading indicator of future revenue.[9] Whitman was famous for saying, "Run to the fire!" and their global sales leader, Jan Zadak, was noted for saying, "I love escalations! The customer always winds up buying more stuff."

[8] "NPS Benchmarks." NPS Benchmarks. N.p., n.d. Web.
[9] Peter & Maurice Fitzgerald, *Customer Experience Strategy: Design & Implementation*, 2017.

C12 Member

CASE STUDY:

Avoid Fixing the Wrong Problem

Jesse runs a commercial water services company. Despite a major investment in marketing to grow sales, net growth was seemingly anemic. Before rebuilding the sales team, he was challenged in a meeting by his C12 peers to dig deeper into his data by market looking at retention, gross sales and customer loyalty. Conducting an NPS survey of all customers and an in-depth analysis of customer retention and account value revealed gross new account sales were actually the strongest they had ever been. However, in two of their markets, some of the highest account value customers were leaving at twice the normal rate, and the NPS variance within his company was wild. A service issue in two locations causing attrition was outpacing their strong sales volume. Diligently responding to the customer experience and underlying management issues untethered the company from detractor losses and harnessed the existing sales momentum to achieve double digit net growth rates. The company has even raised rates in the booming economy so that when contraction inevitably occurs they can proactively reduce prices to retain key accounts while maintaining healthy gross margins

Understanding the loyalty factor (and the wise counsel of his C12 peers) saved Jesse from fixing the wrong problem.

In an increasingly "Age of the Customer," forward-looking customer loyalty data is as critical a component of the management dashboard as lagging sales and operation metrics.[10] In addition to Reichheld's system, there are a couple of other options to measure loyalty.

Customer Loyalty Index (CLI) is a standardized tool to track customer loyalty over time by incorporating the values of referral, repurchasing, and upselling. Like the NPS, the CLI utilizes a simple NPS-like questionnaire and grades on a six-point scale, from 1 for "Definitely Yes" to 6 for "Definitely No." The CLI addresses three questions: "How likely are you to..." recommend us to your friends or contacts, buy from us again in the future, and try out our other

[10] Jim Blasingame, Age of the Customer, SBN Books, 2014.

products/services. The total CLI is the average score of the three responses. Given that the CLI incorporates more loyalty values, it may prove more advantageous in forecasting customer behavior.

Customer Engagement Score (CES) is measured by online search analytic tools. According to Curtis Bingham, customer engagement data, rather than NPS or CLI, provides a much more accurate assessment of customer loyalty, given that loyalty depicts a customer's emotional state while customer engagement involves actual behavior. According to Bingham, "Customer engagement is the extent of a customer's willingness to invest his or her discretionary time with a company for mutual benefit. It is easier to measure, easier to influence, and more strongly correlated with revenue and profits than loyalty measures such as NPS, CLI, or others."11 Moreover, given handy analytics at our fingertips, assessing customer engagement can be self-performed with the help and input of internal IT resources.[12]

Turning Data into Value

Data can be quite fascinating, but it doesn't deliver results on its own. Significant effort pressing into your account data is required to understand your customer loyalty landscape, identify "good vs. bad profits," and capture routine insight of the customer experience. Successful customer loyalty requires leadership that doesn't just drive the collection of data, but also possesses the discipline to convert it into worthwhile information, strategies for improvement and execution of those strategies.

[11] Curtis N. Bingham, "Customer Loyalty Is Dead. Long Live Engagement!," Forbes.com, March 28, 2014

[12] Computing customer engagement can be quite detailed, as outlined by Eric Peterson in his blog on Analytics Demystified, "How to Measure Visitor Engagement, Redux."March 28, 2014.

Richard Owen and Laura Brooks followed Reichheld's work with a very practical guide on translating data into a management system to unlock subsequent outcomes. They found that only **15% of companies that conducted NPS initiatives were effective at then executing management programs** because they treated NPS as a score instead of an enterprise-wide management discipline.

Honing a **"customer-centric DNA"** is essential to realizing the true value of loyalty insights and can be achieved through incorporating the following:

An **enterprise roadmap** that establishes when and how customers will be engaged, how insights will be incorporated into regular planning, who will be empowered and expected to act upon the data, and how escalation of insights will occur

A **method, frequency, and timing** for collecting unbiased, trustworthy data that can be aligned with account-level data and sufficiently segmented to reveal operational insights

Champions that perform follow-up, apply comparative measures, and delve deeper to change future behaviors

A **participatory pursuit** to get NPS data and empowerment to the right employees who can remedy issues

Iterative cycles of feedback, learning, and improvements based on NPS segmentation, experiments, and trends that drive product development, strategy, and planning[13]

Ramping Up for Referrals

Once we've harnessed our body of promoters, they should become an extension of our sales force. Our current customers are the most cost-effective way to drive growth compared to acquisitions, broad-based advertising, marketing campaigns, etc. They make it possible for us to earn good profits and grow in a healthy and sustainable manner. Our goal should be to satisfy these customers so well that they seek to do others a favor through a helpful referral of our products or services.

[13] Brooks, Laura L., and Richard Owen. *Answering the Ultimate Question How Net Promoter Can Transform Your Business*. Jossey-Bass, 2009.

Reichheld points out that people seek to do business with trustworthy institutions, so when experiencing declining loyalty, it is less likely a response to the economy, and more likely due to a missing element of trust.[14] Excellent service and customer satisfaction generates trust, which in turn fuels company growth. The best referrals emerge when satisfied clients introduce us to others as a trusted company offering superb value. It should come as no surprise that celebrated loyalty leaders[15] generally embrace the Golden Rule of treating others as they would like to be treated. They know the importance of earning the trust of their partners and strive to demonstrate both competence and integrity.

Loyalty leaders serve others with excellence and graciousness while adhering, with integrity, to worthy principles that their customers appreciate.

Such trust-based relationships rarely occur naturally, so companies who grasp these principles effectively separate themselves from their competition.

Before customers (or employees) determine worthiness of a firm and will recommend to a friend, two factors are considered and must be satisfied:

INTELLECTUAL
Superior economic value (i.e., price, features, quality, functionality, etc.)

EMOTIONAL
Positive feeling about their relationship with the company

Only when both elements of the equation are fulfilled will a customer enthusiastically recommend our business to others, trusting that we will provide similar satisfaction for their friends. Our constant goal is to delight more customers to generate more promoters. Promoters ramp up our growth engine by buying more and generating more than 80% of our referrals.[16]

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14 Reichheld, Frederick F. Loyalty Rules: How Today's Leaders Build Lasting Relationships. Harvard Business School Press, 2001.

15 Examples cited by Frederick Reichheld in his book are Enterprise Rent-A-Car, Harley-Davidson, Intuit, and USAA.

16 Frederick Reichheld, "Measuring Your Net Promoter Score," www.netpromotersystem.com.

With God-glorifying Kingdom intent for our growth, we don't want to tarnish our reputations by trying to leverage the referrals of those only peripherally aware of us. Rather, we want to stand out as different in an already loud marketplace where so many companies overpromise and underperform. As Christian business leaders, we want to forge long-term relationships based on trust and superior performance while at the same time drive increased revenue.

Types of Lead Sources

- Existing regular customers
- Previous, but inactive, customers
- Prior known contacts or prospects from your database
- Passive leads from ads, web searches, trade shows, direct marketing, third-party lists based on target customer attributes, campaigns, coupons, etc.
- Referrals generated by customers, employees, friends, suppliers, trade associates, complementary businesses serving same customers, or prospects
- Networking contacts from personal associations, groups, and intentional face-to-face encounters (e.g., chambers of commerce)
- Industry-specific directories and community news (e.g., ThomasNet, local phone and community directories)

Prioritize Leads Based on Potential Benefit

Spend your time wisely; don't squander it on low-value activity. If you make $100,000 per year, each working hour is worth $50.

Prioritize leads, such as this method:

Gold: existing promoter clients, direct referrals, prospects with known needs

Silver: prior customers currently inactive, passives and detractors needing attention

Bronze: known based on public information (e.g., trade article, lists, directories, PR)

For most companies, over half of all sales come by way of referrals, and these referrals account for customers of higher quality—that is, they are more revenue-generating and more enduring than those who respond to conquest advertising, sales pitches or price promotions. Veteran customers paint a more accurate picture of a business's strengths and weaknesses than its advertisements or salespeople. In addition, since people tend to associate with people like themselves, it makes sense that referred customers will naturally align with the products and services the company offers. Though we're quick to give credit for sales growth to creative marketing and skilled salespeople, the odds are that most of our profitable growth emanates from personal referrals.

Back to the Beatitudes

Like other subjects we've discussed, C12's view of referral marketing differs from that expressed in the popular trade press. We avoid a one-size-fits-all shotgun approach to generating referrals, which employs indiscriminate tactics combined with clumsy incentives and unrelenting "noise." This tactic, while possibly successful, fails to model the relational integrity, excellent service, and performance accountability that should typify a Kingdom company's purposeful interaction with its target customers. It's true that simple awareness of our brand is valuable, but beware the fallacy of the old adage, "There's no such thing as bad publicity." We're only as good as our word, and publicity and word-of-mouth referrals can be positive or negative. In fact, customers are more eager to share a negative experience than a positive one. **A recent study showed 95% of respondents said they recently shared a bad experience, and respondents who have had a bad experience were 50% more likely to share it on social media than those who had good experiences.**[17]

We can turn to Jesus' signature teaching to his disciples — **the Sermon on the Mount**, a discourse outlining how followers of Jesus are to treat others - to consider its application to our commercial interactions:

Deeds that glorify God

"Let your light shine before others, so that they may see your good works and give glory to your Father who is in heaven." ***(Matthew 5:16)***

Oaths that don't over-promise

"But I say to you, do not take an oath at all... Let what you say be simply 'Yes' or 'No'; anything more than this comes from evil." ***(Matthew 5:34-37)***

Practices that honor God & others

"So whatever you wish that others would do to you, do also to them, for this is the Law and the Prophets." ***(Matthew 7:12)***

[17] "Bad Customer Service Interactions More Likely to Be Shared Than Good Ones." Marketing Charts, 5 July 2017, www.marketingcharts.com/digital-28628.

Getting Practical

Now that we understand why and how to measure customer loyalty, how to convert that data into information, and what motivates customers to become promoters, we can conclude with practical solutions to strategically maximize the likelihood that satisfied customers will refer us.

Establish a baseline.

Identify incoming customers that select your firm based on reputation or referral, so that you can actually track the progress you make in improving your company's "referrability."

Articulate a referral generation plan.[18]

Identify specific points in the customer management process where you'll routinely ask for referrals from those who are highly satisfied.

Make it valuable.

Provide helpful incentives and aids.[19] Give referring customers financial incentives like a discount on a future purchase or a gift certificate, or offer referred friends and associates discounts, service credits, upgrades, free items, etc.

Enlist the power of social media.

Be active on LinkedIn, Facebook, and Instagram as a creator of content, collaborator within networks, or reference for contacts. Leverage Twitter for helpful, timely advice for your customers.

Model company values.

Buyers are increasingly looking for suppliers with worthy values, not just faceless marketers. We, of all people, shouldn't be timid in sharing our values as a basis for doing trustworthy business.

Consider timing.

With some businesses, it may be better to wait a while after the sale until customers have had time to experience the benefit of the purchase (or perhaps after they have become repeat buyers) before you ask for referrals.

Track and celebrate.

Keep a referral activity scoreboard (e.g., initial leads, completed connections, booked orders, NPS trend, detractor turnarounds) and recognize departments, product lines, and sales staff that perform admirably. To create a referral culture, be clear in conversations and marketing materials that you prize highly satisfied customers and desire to grow by referrals. Consider hosting referral appreciation lunches with your best clients and creating an "inner circle" focus group to generate more ideas that will refine and expand your appeal to target segments.

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[18] Entire firms are dedicated to this endeavor, ReferralCandy, InviteBox, and SaaSquatch, to name a few.

[19] Donald Miller, in his book *Building a StoryBrand*, lists some creative referral-generating ideas in the appendix titled, "The StoryBrand Marketing Roadmap."

So What?

Customers are 4x more likely to buy after receiving a referral.[20]

Referrals are fueled by our company's reputation and experiences. To cultivate a strong referral network, we must earn the trust needed by consistently performing at a high level to attain referrals, always acting with an overarching goal of turning satisfied customers into avid promoters. We should quickly address issues identified by dissatisfied customers who could become costly detractors. The two-pronged approach of ramping up referrals while reducing customer defections will not only grow our businesses but will also cushion our margins during market downturns.

Results Matter.

Thousands of faith-driven, results-minded CEOs and executives meet in forums monthly to encourage and challenge one another to make better decisions, avoid costly mistakes, and create solid plans for business growth, all while striving to create eternal impact far beyond the bottom line.

Interested in learning about how you can become a C12 Member and increase your success *and* significance?

Be a part of a local C12 Forum, visit joinC12.com