

Welcome to Basis Points! Each month, Basis Points provides you tips and techniques that we've gleaned from a variety of sources to help better your business life. This month's issue—themed, "Building Loyalty"—reveals that there's no better way to remain competitive, produce a strong brand and lower the cost of acquiring new business than to develop fierce loyalty among your existing clients.

Satisfaction = Loyalty

It's no secret that customer satisfaction drives loyalty. But what drives satisfaction?

Researchers tell us that overall satisfaction is a complex metric because it involves both left-brain (rational) and right-brain (emotional) responses.

Businesses that provide both tangible benefits (e.g. performance, timeliness, accuracy) and emotional cues (such as trust, helpfulness and personal regard) have been shown to achieve the greatest marketplace success.

"Loyalty is an affinity among people who want to grapple with the outside world and win."

— Jack Welch, Former CEO—General Electric

High Loyalty = Greater Profits

In his book, "The Loyalty Effect", Frederick Reichheld wrote that "consistently high customer retention can create a tremendous competitive advantage, boost employee morale, produce unexpected bonuses in productivity and growth, even reduce the cost of capital." Reichheld was the first to quantify the effect of customer loyalty, showing that a company that keeps just 5% more of its clients from moving to competitive firms can increase its profits by 50%.

Two years ago, Reichhard devised a formula called Net Promoter® Score (NPS), a metric that enables companies to measure their performance through customers' eyes. To compute your own NPS, simply ask your clients: "On a scale of zero to 10, how likely are you to recommend us to your friends or colleagues?" Those who award a "9 or 10" are called "Promoters"; those who give you "6 or less" are Detractors. By taking all your Promoters and subtracting all the Detractors, you arrive at your NPS.



While some critics believe the Net Promoter Score to be an overly simplistic measure, no one doubts the smartness of actively soliciting client feedback. As one business executive noted, "It's less about the score and more about focusing on the customer."

Source: "The Loyalty Effect", Frederick Reichheld and Thomas Teal; Harvard Business School Press

A Four-Step Guide to Boosting Loyalty

- 1 Be consistent.** Firms that can be counted upon to deliver a core benefit—and who continually remind their clients who they are and what they do—will be disproportionately rewarded.
- 2 Develop customer affinity.** Build a dialogue with your clients. Research, interactive media (website, blogs) are one way. So, too, are simple things like unexpected phone calls, a surprise mailing, a small gesture of remembrance. Little things can mean a lot.
- 3 Foster uniqueness.** In a "me-too" world where parity is the norm, it's essential to be viewed as distinctive and special. Creating the idea that your firm is "one of a kind" not only captures attention but builds loyalty.
- 4 Do unto others.** Loyalty is a two-way street: you're likely to receive the same level of respect and affection from your clients as they receive from you.

Source: IBM Survey of Business Practices, 2002