BUILDING A WINNING CULTURE: CREATE INTENSE LOYALTY

It took retail giant Costco less than thirty years to become the second largest retailer in the United States and the seventh largest in the world—*without advertising.* How? By growing a worldwide base of intensely loyal customers and employees, many of whom wouldn't shop or work anywhere else.

The highest level of engagement is *loyalty.* Loyal workers and loyal customers are worth their weight in gold. A talented worker who gives her heart and mind to your enterprise can generate ten- or a hundred- or a thousand-fold more in revenue and goodwill than she will ever cost you. A customer who gives you a lifetime of return business and word-of-mouth support is *the* ultimate competitive lever you can use to move the world.

The older paradigm was "customer and employee satisfaction." It's great to have satisfied customers and employees, but it's no longer enough. The new paradigm is "intense loyalty," and shifting to that paradigm is the job you must do *now.*

"SATISFACTION"—THE OLD PARADIGM

Most customer satisfaction surveys don't lead to meaningful change. They are often poorly designed, too long, and biased. The questions are frequently crafted to get certain answers, which makes the resulting data inaccurate. Many of the questions are centered less on customer issues and more on "How did we do?"

RELIANCE ON PRO FORMA "SATISFACTION" **SCORES** IS **LAZY** TWENTIETH-CENTURY **THINKING** AND A FORMULA FOR **COMPLACENCY**.

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Obviously, the quality of leadership is often the reason for loyalty or disloyalty among employees and customers. Reliance on pro forma "satisfaction" scores is lazy twentieth-century thinking and a formula for complacency. The real question for leaders is, "How do you build intense loyalty?"

THE JOB USED TO BE...	THE JOB THAT YOU MUST DO NOW...
Satisfy customers	Create intense loyalty

"INTENSE LOYALTY": THE NEW PARADIGM

How do you get the unshakable loyalty of sixty million people who gladly fork over a membership fee every year to shop in a warehouse called Costco?

The answer, according to Harvard professor and veteran Bain consultant Fred Reichheld, is "to treat them the way you would want to be treated." This principle, known as the Golden Rule, is laughably simple—and it works. Reichheld cites Colleen Barrett, president emeritus of wildly successful Southwest Airlines: "Practicing the Golden Rule is integral to everything we do." Andy Taylor, executive chairman of Enterprise, the most prosperous rental-car company in the world, says, "The only way to grow is to treat customers so well they come back for more and tell their friends about us."

Here's just one example of Enterprise's appreciation of the Golden Rule: A friend of ours on a business trip got stranded in a small town in the American Midwest. His plane was canceled, and it was long past closing time for the only rental-car office at the tiny airport, but he thought he'd try the door. A smiling young man in a white shirt and tie opened it. He was an Enterprise employee and quickly signed out the last rental car in town to our friend.

"Why are you even here?" our friend asked. "It's awfully late."

The young man answered, "I heard the flight out of town got canceled, so I figured somebody would probably need me." Then he pulled a cake out of his small refrigerator. "My wife made this cake today and brought it over for anybody who might want some. Here, take the whole cake. You've got a long drive to Des Moines."

Our friend is now a lifetime customer. Enterprise systematically instills the Golden Rule into every one of its nearly 70,000 employees, and as a result is named the most customer-friendly car rental company year after year.

> "PRACTICING THE **GOLDEN RULE** IS **INTEGRAL** TO EVERYTHING WE DO."
>
> —COLLEEN BARRETT, PRESIDENT EMERITUS, SOUTHWEST AIRLINES

Every company has pockets of great customer service, but few make a system of it—which is ironic, since study after study demonstrates that customer loyalty is the prime driver of profitable growth. It's well established that as little as 5 percent growth in customer loyalty can drive as much as 85 percent growth in profits.

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AN INTENSE-LOYALTY "APP"

Companies need a *system*—an "application"—for building loyalty all along the journey of the client or employee. For a long time, leaders have focused on improving "moments of truth," touch points where customers might come in contact with the firm. This is helpful, but it produces excellence only in spots. Researchers say, "Organizations able to skillfully manage the entire customer experience reap enormous rewards: enhanced customer satisfaction, reduced churn, increased revenue, and greater employee satisfaction too."

A loyalty "app" starts with both customer and employee loyalty measures. Many organizations are now using Reichheld's well-regarded "Net Promoter Score℠" as their key measure of both. It's the ratio between people who would recommend your company as a great place to work or do business and those who definitely would not. If your score is 100, everyone recommends you; if it's -100, nobody does. A score of 50 or more is unusually high because you have many more promoters than detractors.

The Net Promoter Score provides a credible baseline measurement of loyalty, but you need other information to tell you what to *do* about your score. That information comes from careful analysis of customer input—in other words, empathic listening. What is the customer or employee telling you specifically about yourself? What things do they specify when praising you or complaining about you? From this analytical work you can isolate the lead measures to address. Leaders who combine a true measure of loyalty like the Net Promoter Score with a rich system of input are most likely to know what to do to improve that score. Once you know the score, you can make leaps in loyalty a wildly important goal—and you should.

STUDY AFTER STUDY DEMONSTRATES THAT **CUSTOMER LOYALTY** IS THE PRIME DRIVER OF **PROFITABLE GROWTH**.

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OFTEN **PASSIVE CUSTOMERS** CAN BECOME VERY **LOYAL** CUSTOMERS IF YOU **LISTEN** WITH **EMPATHY** TO THEIR ISSUES.

EMPLOYEE LOYALTY LEADS TO CUSTOMER LOYALTY

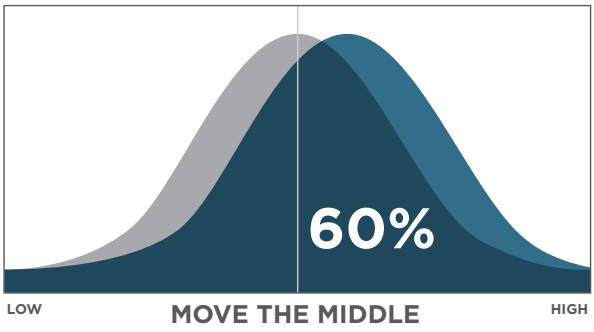
It's also fascinating to note how employee loyalty affects customer loyalty, which in turn affects the bottom line. "One lesson that emerges from the experience of low-end retailers is that putting workers in crummy, low-wage jobs tends to yield crummy service as well," wrote journalist Harold Myerson. This was demonstrated when a large U.S. home improvement retailer cut costs by eliminating its experienced floor staff as well as its educational programs. The company's reputation for excellent customer service collapsed and sales slowed to a crawl.

By contrast, companies that work to gain the intense loyalty of their employees tend also to gain the intense loyalty of their customers. Costco's miraculous rise likewise is due to the loyalty of its contributors. The firm pays its people 42 percent more than average for the industry and provides an enviable package of benefits, including career education and a ladder to the top. Employee turnover is 6 percent, compared to about 40 percent for the retail sector.

That loyalty is intense and growing. As of this writing, Costco's Net Promoter Score is an astounding 71, the highest in the retail industry.

MOVING THE MIDDLE

As far as we know, no organization has ever earned a Net Promoter Score of 100. Getting into the seventies puts you among an elite few companies, like Costco, because the average score is between 10 and 15. If you're a leader, one of your wildly important goals is to raise your company's score. A realistic strategy for doing that, whether you're leading a small team or a whole company, is to "move the middle."



Any business has promoters who will love you no matter what you do and detractors who will hate you no matter what you do. You're not likely to affect their feelings, but in the middle is the vast majority who could be influenced. If you can move that group even a few points toward the promoter side of the spectrum, you reap huge dividends because the group is so large.

A revolutionary study by the Sales Executive Council has shown that a mere 5 percent of performance gain from the middle 60 percent of a sales force yielded, on average, more than 70 percent more revenue than a 5 percent shift in the top 20 percent of employees. In simple terms, a small movement in the middle has an effect on the top line that is way out of proportion.

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CREATING INTENSE LOYALTY

STEP	DISCUSSION POINTS
1. Measure Your Customer and Employee Loyalty	One way to do this is to calculate the Net Promoter Score. • Ask this question: "On a scale from 0 to 10 (with 10 being high), how likely is it that you would recommend us to a friend or colleague? Please give your reasons for your answer." • Categorize the scores as follows. **Score** — **Category** 9-10 — Promoters: Loyal, enthusiastic, will give you return business and refer others. 7-8 — Passives: Satisfied but not enthusiastic, vulnerable to competitors. 0-6 — Detractors: Unhappy, will give you negative word of mouth. To calculate the Net Promoter Score, subtract the percentage who are detractors from the percentage who are promoters.
2. Set a Goal to Improve Your Loyalty Measure	Set a wildly important goal to improve the Net Promoter Score. Choose a number that you think is attainable and give yourself a deadline to achieve it.
3. Act on Your Lead Measures	• Analyze carefully the reasons the respondents gave for their choices. Look for recurring themes. • Drill deeper into those recurring themes. Get on the phone and social media and talk to customers and employees face-to-face. Get to the bottom of the issues people are raising about you. • As a team, select lead measures based on the themes you've discovered. • Act on the lead measures and carefully track your progress.

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THE INTENSITY ZONE

Because the rewards of intense loyalty are so great, you should be gripped by the goal of achieving the "intensity zone," where people wouldn't want to work or do business with anyone but you. Who can calculate the value of workers who will wade through the mud for each other and their company? Or the value of customers who feel almost religiously tied to you? Moving the most people possible toward the intensity zone should be a wildly important goal for every leader, and is the job you must do now.

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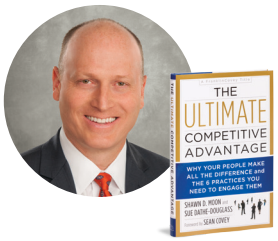

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