

What's the most cost effective way to increase your profitability?

- By Dr. Paul N. Smith

“Customer satisfaction is NOT good enough anymore and Guest/Customer loyalty is the strategic competitive advantage.”

-- Barsky and Nash 2002



Word of mouth is the most cost effective form of marketing you can use.

Just imagine how good it would feel to know that your loyal customers are out there bragging about your services/products to their friends and neighbors – even with total strangers.

- Loyal customers are willing to pay more for your services/products, and are more forgiving when a mistake is made.
- Raising Customer retention rates by 5% could increase the value of an average customer by 23 – 100 per cent!
- A 5% improvement in Customer retention translates into a doubling of margins!
- The average American company loses 20-40 percent of its customers each year!
- American businesses spend 7x more money on attracting new customers than holding on to old ones.

How can the “Strategy” of building customer loyalty help you and your business to increase your profitability?

Profit = income - costs. Profitability is generally considered to be when your income exceeds your costs. So, to increase profitability, we need to either increase our income or reduce our costs. It may be easier said than done, but that's pretty straightforward, right?

Some of the most common ways to increase your income include:

- Attracting new customers (marketing, ads, etc.)
- Increasing prices (generate more money per sale, but may reduce # of sales)
- Reducing prices (may increase # of sales, but reduces amount of money per sale)

Methods to reduce costs include:

- Quantity discounts on wholesale products (may increase storage costs)
- Coupons and discounts (increased sales, but may also increase costs of marketing)
- Reducing losses (breakage, shoplifting, employee theft, etc)

Paying more attention to Customer loyalty can be an economically sound strategy for achieving increased profitability for your company.

How is customer loyalty different from customer satisfaction?

Customer satisfaction is when the customer walks away from interaction with your company being satisfied (happy enough) with:

- The location
- The price
- The “feelings” they have about the interactions they had with the people in your organization,

Customer loyalty, on the other hand, is very different. You will know you have achieved “Customer Loyalty” when:

- Customers go out and brag about you and your products/services
- They talk about how wonderful you and your services/products are
- They create word of mouth advertising for your company
- The loyal customer tends to be more forgiving if there is a mistake made in a transaction,

In both of these perspectives about increasing your profitability, the focus is on getting new customers (and more importantly, keeping the ones you already have).

How do you measure the success of your customer service program?

The two methods commonly used include the market share strategy and the loyalty strategy.

- In a **market share strategy**, you are looking at how many of the “potential” number of customers in your market area did you get to come to your store?
- In a **loyalty strategy**, it’s not about the sheer numbers of customers you get. Nor is it about the percentage of customers in your geographic market area that you get. Rather, it is about how many of the customers that you do get are going to become loyal customers rather than just satisfied customers.

Ask the # 1 Question ...

One of the strongest measures of customer loyalty that can be employed is to ask the number one question about customer service.

That question is: “Would you recommend us to your friends?”

- Try asking that question using a scale of one to ten see what results you get.
- Then compare that to your competition and you’ll know where you stand in this extremely important game of being more successful than your competition in creating loyal customers to increase your profitability.

So how do you build a strategy of getting more “loyal customers”?

Creating Relationships based on trust, emotions, and empathy –

- Focus on creating relationships with your customers that go way beyond just collecting money for services or products. Each and every interaction with our customers can be – indeed, must be a positive point of connection. From the customer’s perspective, the process of buying is based on developing trust, emotions, and empathy.
- Your customer services representatives can learn to use the power of emotions in their interactions with your customers? They can be taught how to make each and every point of connection with your customers include these critical components of trust, emotions, and empathy.

Understanding emotional intelligence –

- Your customer service reps can benefit immensely (and almost immediately) from getting the training they need in using emotional intelligence to enable them to handle any kind of interaction with your customers.
- Professional development programs in “customer loyalty” can enable your employees to learn how to change their behaviors so that they don’t react to a customer, but rather they respond in a controlled and proactive manner to control the environment of every interaction with your customers.
- People who have learned how to control those positive points of connection have succeeded in improving the level of relationship they have with their customers at each and every interaction.

Changing behaviors to achieve “improved results” –

- Behavior modifications are at the root of success in building customer loyalty. Making positive behavior changes can be learned ... and they can be implemented. The results can be amazing.
- When properly motivated, your customer service representatives can learn what behaviors work best, which of their current behaviors need to be modified, and how to use a proven process to modify their current behaviors into ones that are more successful for them.

- Most importantly, they can learn how to set (and then achieve) their goals in building higher levels of customer loyalty with each and every interaction they have with your customers.

What's the value of customer loyalty?

- A satisfied customer might come back to buy from you again. However, price, distance, convenience, timing, and all kinds of other factors can lead to that satisfied customer deciding to go somewhere else tomorrow.
- It is no surprise to learn that it costs more money to attract a new customer with marketing, advertising, and a host of other efforts than it does to just turn you're satisfied customers into loyal customers who enthusiastically provide you with referrals.
- Referrals are also more inclined to become a loyal customer – especially if you can give them the same level of excellent service that drove your existing customer to refer them to you in the first place.
- What are the benefits of being successful in getting a loyal customer who will keep coming back to you?
 - increased frequency of spending from that customer
 - a higher level of spending per customer
 - lower marketing costs to retain existing customers than to recruit new customers
 - customers are more forgiving when you make a mistake

Bottom line?

The most effective way to increase your profitability is to adopt and wholeheartedly embrace the implementation of a customer loyalty strategy.

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