



The Myths Behind CUSTOMER LOYALTY

By Leanne Hoagland-Smith, M.S.

Do you have loyal customers? If you answered yes, how do you know they're *really* loyal?

Beyond that, how have these loyal customers expanded your business growth beyond their own repeat sales?

Are you struggling to answer these last two questions?

Possibly you think these customers are loyal because they've told you they will refer your work to their family and friends.

Exactly how much new business have you gained from all those referrals?

The point of these questions is this: if you believe, without question or further investigation, that customer loyalty is what makes or breaks your mid-size to small business, then this article probably will not interest you.

However, if you have thought, "I have

loyal customers who tell me they would recommend my business to friends and family, but we are still not seeing those referrals walk through the door or connect with us through other inbound marketing efforts," then you may find this article insightful.

Customer loyalty became a big best-practice movement after the publication of *The Ultimate Question* by Fred Reichheld. This book, with its excellent research and introduction of the Net Promoter Score (NPS), created a stampede toward using this formula as a springboard for all business growth.

Before I delve more deeply into these myths of customer loyalty for small businesses, I want to point out that I do believe the above book contains some valid information. My concern is that relying on the NPS to increase sales, reduce customer turnover, and

spur business growth may be setting your mid-size to small business up to fail because of the first myth.

1. MYTH – THE NPS IS BASED ON THE MAJORITY OF BUSINESSES

Fact: The majority of U.S. businesses (97.7 percent) have fewer than 20 employees.

The NPS is based on the minority of businesses, those with more than 500 employees. What works for big business does not necessarily work for small business.

Because the NPS is based on numbers of existing customers (both external and internal), fewer customers means less noise reflecting the excitement of a new purchase. Small businesses are at a numbers disadvantage with the NPS, as they are with other aspects of business.

This phenomenon also helps to explain why business-to-business networking membership groups cater to small businesses. Having others spread the word about your business and make referrals offers a competitive advantage.

From experience with my own small business and from personal observations, more recommendations have come from other small business owners who know me and have not been clients than from my actual clients.

2. MYTH – THE MARKETPLACE IS CROWDED

Fact: The small-business marketplace is much more crowded.

Another fact ignored by the NPS is that there are many more small businesses than big businesses competing for the same dollars. Just attend a local business-to-business networking event and count how many participants are:

- Realtors
- Financial advisors
- Mortgage brokers
- Marketing or advertising firms
- Website developers
- Business coaches
- CPAs
- Local bankers

How to differentiate yourself is the first problem. Finding the dollars just to stay in business is difficult enough. No wonder keeping customers takes a back seat to daily operations!

3. MYTH – ALL BUSINESSES HAVE DESIGNATED MARKETING AND CUSTOMER SERVICE DEPARTMENTS THAT WORK TO KEEP LOYAL CUSTOMERS LOYAL.

Fact: Most sales processes ignore the “keeping” of customers because that action is delegated to customer service.

If you examine the majority of sales processes, it becomes evident that most have two phases or parts: marketing (attracting attention) and selling (earning the sale). Keeping customers is delegated to customer service, or perhaps a seasonal marketing campaign. This practice is an inheritance from the big firms, which have dedicated staff. Unfortunately (see Fact #1), this is not currently true for the majority of businesses here in the United States.

Keeping customers loyal is part of the salesperson’s job description. To ignore this aspect of the sales process potentially spells doom for any small business.

Here are some questions to highlight why the keeping phase of the sales process is critical:

- When was the last time you reached out to all of your customers?
- Do you have some customer-relationship management software, such as Sales Force or VIP Orbit, to track all customer interactions?
- Have you conducted any recent analysis on the frequency of purchases or buys from your clients?
- Have you identified your best, good, or fair customers by:
 - Frequency of purchase?*
 - Dollar volume?*
 - Profit margin?*
 - Acquisition cost?*
 - Sales referrals provided?*
 - PITA (pain in the arse) factor?*

Answering these questions establishes some strong metrics for why keeping should be embedded in your overall sales process.

Regarding the PITA factor: sometimes the resources of time, energy, money, and emotions required to deal even with a fair-to-good customer (in terms of dollar volume, frequency of purchase, and/or profit margin) who is continually complaining and demanding can be profit-draining from the 30,000-foot view. Life is too short to have PITA customers.

And since the marketplace is so crowded, who do you think is after your customers when you fail to “keep” in touch with them?

4. MYTH – VALUE CREATION BUILDS CUSTOMER LOYALTY

Fact: Value is unique to each buyer.

What is important to one customer may not matter to another. If the “would you recommend” belief is an 8

or greater for one customer, this does not necessarily translate into a shared belief by a friend or family member.

The myth of value creation was explained in the 2014 February issue of *NBIZ*. To build customer loyalty requires understanding the value innate within each buyer. The challenge lies in discerning how to undertake this action.

In today's business world, the word "engagement" is often used with customer loyalty or brand loyalty. A study by Catalina, *Engaging the Selective Shopper*, determined that every household's "buyergraphic" is different. The traditional one-size-fits-all marketing messages (substitute value creation) are simply not resonating with today's marketplace of selective and unique buyers.

5. MYTH – A BELIEF IS A BEHAVIOR

Fact: A belief is only a thought until action (i.e., behavior) has been demonstrated.

The question "How likely would you be to recommend XYZ business?" is based upon one's belief. Many beliefs reside in the "void of consciousness," where, until action is taken, the belief remains an intangible thought. The action is the demonstrated behavior reflected through the belief.

A belief may become a conditioned response, such as "see the police car and the foot immediately steps on the brake." Specific to "Would you recommend XYZ business?", the conditioned response is "Sure." Then the belief leaves the conscious mind and returns to the unconscious.

Research shows that 80 to 90 percent of all behavior is unconscious.

Until the customer actually takes action on a conscious level, he or she will still be likely to recommend your business, but that is as far as the belief goes.

THE SOLUTIONS FOR ACTION-DRIVEN CUSTOMER LOYALTY

To overcome these myths and work with the facts requires the investment of some resources—including time, energy, and possibly money. It's also crucial to accept that more than one solution exists.

Organizations comprise people who are united through strategy, structure, processes, rewards, and other people. The executive leadership team is responsible for ensuring that no gaps exist between these five areas of organizational operations.

For example, asking new customers how they heard about you is critical to determining how you are building action-driven customer loyalty. This process should be uniformly communicated, with the expectation that failure to determine the "why" behind this client acquisition is detrimental to the organization's future.

Another solution is customer loyalty cards. These now-scannable cards work with your existing buyers. The two questions to be asked are:

How do they influence and build new business?

How can you and your leadership team generate "buzz" about your business in which your existing clients will be energized to share their experiences?

Yes, customer loyalty is important for sustainable business growth. Just remember that, until you know your loyal customers have taken action to recommend you, you may be doing a lot more wishing and hoping than hearing the cash register ringing up new sales. **N**

Leanne Hoagland-Smith is the heurist for the next generation of talent management. Her ability to guide forward-thinking leaders in all industries facing new and repetitive problems, from people to operations, earned her inclusion in the 2013 Top 25 Sales Influencers by Open View Labs. Leanne looks forward to hearing from you at leanne@processspecialist.com.