Creating a Customer Centric Organization
The Key Drivers of Customer Loyalty

Bill Kowalski
Integrity Solutions

The Sales Management Association
+1 312 278-3356
www.salesmanagement.org

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Do you believe your organization is truly customer-centric? Research into customer buying behavior would predict that a random sample of your customers would say they are very satisfied with the products or services of your company eight out of ten times.

That would make most executives feel pretty good, wouldn’t it? That is, until second level customer loyalty questions are asked regarding whether they intended to endorse or repurchase products and services from your company. When these questions are asked the research predicts that you may not like what you learn.

Most executives intellectually understand that customer loyalty drives growth and profits. Yet the way many companies treat their customers, they undermine their ability to earn customers’ loyalty. All too often customers who appear to be very satisfied with a product or service are only as loyal as the next best price offer made by your competition. The question is raised: Why are highly satisfied customers not necessarily loyal customers?

The Root Cause of Declining Service Quality

Many businesses do not enjoy high levels of customer retention due to focusing on the wrong metrics. Most measurement and management systems are based on short-term profits—not managing long-term customer loyalty.
Financial metrics are lagging indicators – they tell you nothing in terms of how successful the organization will be in the future in terms of acquiring and retaining customers. By focusing on financial metrics geared to producing short-term profits, organizations simply drive the wrong behaviors. Until the conventional measurement paradigm changes, high levels of customer loyalty will continue to be difficult to achieve.

Organizations typically use customer satisfaction as the key metric to determine how well they are creating value for customers. The assumption is that if customer satisfaction scores are high, we must be doing things right and our customers must be loyal.

Bad assumption.

Organizations primarily measuring customer satisfaction as the guidepost to validate that their company is customer-centric are operating from a false premise. There is compelling research evidence indicating no correlation between customer satisfaction and profitable growth.

One example of this phenomenon is illustrated in a study of hundreds of American companies who received high customer satisfaction ratings of 85% to 90%. The Bain Consulting Group found absolutely no correlation between the companies' high customer satisfaction scores and evidence of profitable growth.

Over the past two decades Bain and others have documented many examples of empirical evidence that in most industries the surest and fastest path to increase profitability and maximize shareholder value is to improve customer loyalty and retention. This knowledge has created quite the blather in management circles. Thus the in-vogue management mantra of today is: “We must become a more customer-centric organization!”

To be sure, customer-centric organizations enjoy the highest, sustainable levels of profitable growth. Successfully executing an over-arching corporate strategy that creates a customer-centric organization, however, remains elusive to most companies.

How Customer-Centric Is Your Organization?

Now that we have dispelled the notion that customer satisfaction is the right metric to evaluate customer loyalty, let’s cut to the chase. Customer satisfaction is a necessary condition of customer loyalty. But, in and of itself customer satisfaction does not guarantee customer loyalty because it is also a lagging indicator. The key measures that are leading indicators of customer loyalty are (1) the percentage of your customers that intend to repurchase, and (2) the percentage of your customers willing to endorse your product or service to others.

Are you wondering why organizations don’t focus on these metrics? Further, are you wondering why organizations don’t execute strategies to increase the percentage of customers who intend to repurchase and/or endorse their products or services to others? The reason: “The Profit Paradox.”

To achieve high percentage rates of customers who intend to repurchase and/or are willing to endorse your product/service to others requires creating exceptional value for customers and delivering exemplary service. This often means foregoing short term profits for creating value that establishes long term customer relationships that ultimately are significantly more profitable (often more than three to five-fold more profitable) than short-term relationships.
The Key Performance Drivers of Customer Loyalty

Establishing the right metrics is a key performance driver that compels organizational and individual behavior to create customer loyalty. The other two mission critical performance drivers that create a customer-centric organization are people and culture.

The most important organizational asset that determines the level of customer loyalty achieved by an organization is the employees dedicated to creating superior value for customers. In days past, product and service quality was deemed the key driver of competitive advantage and customer loyalty. That’s no longer the case. Today it’s a given that you must have product and service quality to survive, not to thrive. Organizations today must create value beyond their product or service offerings to build customer loyalty.

Dedicated employees are not the only factor that creates a customer-centric organization. You must place the customer at the center of your strategic planning. But a growing body of evidence indicates that high levels of employee engagement is a key organization performance driver that creates long-term sustainable profitability derived from customer loyalty.

To create superior value and deliver exceptional service, an organization must have employees committed to producing intellectual capital and giving discretionary effort. These are the fundamental drivers of competitive advantage today, but neither can be commanded or demanded by management. They can only be solicited and willingly given by enthusiastic and committed individuals. So how do you increase employee commitment and harness their discretionary effort and intellectual capital?

Organizations must place a significantly higher emphasis on the importance of employee engagement. The degree of employee engagement determines the amount of discretionary effort and intellectual capital willingly given. The link between growth and profit, as a result of a highly engaged workforce committed to maximizing customer loyalty, is evident at the majority of organizations considered the best companies for which to work in America.

Equally important to sustaining high levels of employee engagement is the ability to create a corporate culture in which employees believe in your organization’s vision, mission and values. People work best when their activities are clearly aligned with a set of principles that inspire commitment. An organization’s purpose must have a more noble essence than just increasing shareholder value to inspire employees. A company’s mission and values must both significantly benefit them and their customers too in order for employees to be motivated to give their best effort to create value for customers and deliver exceptional service.

A Management Road Map to Create a Customer-Centric Organization

Here’s a bullet proof list of strategies and actions that management can take to become a more customer-centric organization, to lead to increased customer value, loyalty and profitable growth:

- Create a vision, mission, and set of values (or guiding principles) that focus on creating value for customers. This serves a more inspiring purpose than increasing shareholder value (but ultimately will increase shareholder value!).
- “Walk the talk” of your organizational values and guiding principles.
- Operationally define “customer-centric”: establish metrics that define success and delineate the right behaviors to reinforce.
• Hire the best talent available and pay them better than the competition; link some aspect of everyone’s compensation to organizational performance.
• Put your people first – help them fulfill their personal values and goals and develop their talents. Involve them in creating the implementation plans needed to drive your customer-focus strategy; invest in them by providing training that’s aligned with organizational strategy and empower them with the authority and responsibility to make decisions that will produce desired results.
• Align all human resource and management practices necessary to implement your customer-focus strategy and communicate the necessary behaviors and competencies required for successful implementation.
• Emphasize the importance of communication and building trust between employees and managers; Share information extensively regarding the company’s financial performance and operational strategies.

Effective change management strategies are necessary to increase customer-focus and leverage resources to continuously create customer and shareholder value. But even the most brilliant change strategies will fall short of the mark if the majority of employees don’t buy in. It is execution that generates results, and results are accomplished through the efforts of everyone.

When people are driven by values and an organizational purpose they believe in, given responsibility for the results of their efforts, and recognized and rewarded for what they do, they will deliver exceptional value and service to your customers. These dynamics create the conditions to establish long-term customer loyalty that results in superior long-term profitability, growth and increased shareholder value.
About The Author

Bill Kowalski, has fifteen years of executive management experience, including seven as a Vice President of a Fortune 500 company and ten years of consulting experience in change management and employee/leadership development. He is the Senior Vice President of Client Development & Consulting for Integrity Solutions (www.integritysolutions.com), which specializes in providing customized solutions that help organizations improve their effectiveness at acquiring and retaining customers.