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Customer Loyalty: A Personal Perspective

You may already know that I'm a fan of Jet Blue. The economy carrier has been flying from Port Columbus for a little more than a year and my first 2 flights on Jet Blue were in January. My 3rd flight was scheduled for February 19.

On the 18th, I received a call from Jet Blue telling me that the flight was being canceled because of ice storms in the East. That wasn't good news, but it's better than finding out at the airport. I ended up rebooking on Delta, but the return flight was on Jet Blue.

I canceled the Jet Blue flight online and booked the Delta (Comair) flight to JFK, then later I realized that Jet Blue had charged me a $25 "change" fee. I questioned the charge and quickly received a response: The fee would be credited (and it was, immediately.)

While in New York, I received a personal e-mail apology from the customer service folks and a broadcast e-mail from the company president explaining what the company would do to avoid a repeat of the problem that had stranded some customers for hours in airplanes on the tarmac.

On the plane back to Columbus, two guys in front of me were giving the flight attendant a ribbing but both of them concluded by saying that Jet Blue was still their preferred airline. It's still mine.

Loyalty is slippery

In January, I had attended a 2-day program on customer retention (loyalty) where I learned that customer satisfaction has absolutely nothing to do with customer loyalty. What does have a positive effect on customer loyalty is employee loyalty. Think about that for about 2 seconds and it will suddenly make sense.

Jet Blue certainly didn't satisfy me on February 19 but they retained me as a customer because they showed that they cared. They said that their service had been far from what their customers expected or deserved.

Jet Blue seems to understand that customers expect functional value. A business that doesn't provide the basics to its customers won't last very long. But just as important is emotional value because this is what differentiates a company and its products.

One of the ways Jet Blue differentiates itself from other airlines is by providing leather seats, more legroom, and a TV screen with DirecTV and XM Radio at every seat. But when the airline encountered service problems in February, it differentiated itself by providing timely information and by apologizing.

Sincerity or spin?

Once you learn how to fake sincerity, you've got it made. That's always been one of my favorite ironic jokes, but the trouble is that it seems to be the standard operating procedure for some companies.

Good service must start at the top, from management that cares enough about employees that the employees care about the customers they serve. Metropolitan transit systems aren't generally exemplars of this kind of conduct, but I've encountered several conductors on New York City's subway system who understand customer service.

One afternoon the uptown express trains were delayed and when a Bronx-bound 2 train finally arrived at the crowded Times Square station, the car was already jammed. Few people got off; a lot of people got on. The conductor made an announcement: "Sorry it's a little crowded today, but this will give you an opportunity to get to know some of your fellow New Yorkers a little better. Thank you for riding with the MTA. Our next stop is 72nd and remember—wherever you go—happiness is the way." He made essentially the same speech at 72nd, 96th, and 110th and each time he sounded genuinely happy to be doing the job he was doing. And some of the people on the crowded car even smiled a bit.

At JFK airport, the MTA has person who stands near the machines that dispense AirTrain cards to help clueless tourists. Although I had never used the AirTrain, buying the ticket was easy. But I also needed a regular transit card and the machine that dispenses AirTrain cards doesn't dispense standard cards. The attendant escorted me to a second machine, watched to be certain that I got what I wanted, and then made sure that I was able to tell the cards apart.

On the Far Rockaway A train to back to JFK, the conductor muttered at each stop, "ThissaFarRockawayTrain! StanClearDaDlosinDoors." Helpful? Not exactly.

The MTA doesn't have a lot of competition. If you want to travel from JFK to your hotel, you can take a cab ($40 or so) or you can take the AirTrain and the subway ($7). Being the frugal sort, I prefer the $7 option. If you live in New York City, you'll use the subway frequently because it gets you where you need to go for $2 or less per trip. Nobody has to treat you well;

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you'll be loyal because you don't have a choice. Fortunately, some employees understand that good customer service makes life better for everyone.

Loyal employees breed loyal customers

Although that surprised me, it shouldn't have. Think about companies you deal with regularly. At the best companies, you've probably been dealing with the same person for years. When *your* sales representative retires or leaves for another job, you have to develop a relationship with that person's replacement. Change is painful.

Yet there are many myths about employee retention. Here are 10 of them:

- The retention problem is going away. 42% of firms had more turnover in 2000 than in 1999; 50% had more turnover in 2006 than in 2005. This is not a good trend.
- Employers are trying to retain good workers. 98% say they should; 44% back that up with actions.
- If employees are satisfied with their jobs, they will stay. 10% say they're unsatisfied, but 25% say they will search for a new job within a year. Satisfaction is not loyalty.
- Meaningful work isn't important. Lack of meaningful work is one of the top reasons cited when employees leave. The customer should come second; employees must come first.
- Money is the most important reason for staying. Money is important, but it almost always ranks near the bottom of the list of things that are important to employees.
- Trust and loyalty are not current issues. 99% of employees consider trust important.
- Employers are trying new retention tactics. More than half have never tried coaching, mentoring, and other proven methods.
- Replacing employees isn't costly. The cost of replacing a customer-facing employee can be 400% of the employee's annual salary when you take into account the soft costs that affect customer loyalty.
- Turnover is mainly a problem for high-tech industries. Though high-tech is affected more, turnover has become a major issue for all industries.
- Employers make special efforts to retain managers. Only 27% have manager retention strategies.

Why this is important

If employee turnover is high, customer turnover will also be high and it should be clear to anyone that losing a lot of customers is not a good thing. For one thing, the cost of obtaining replacement customers is almost always far more than the cost of retaining current customers. In addition, new customers have post-acquisition costs. You'll need to train them to adopt your way of doing business. There's also the fact that we live in a finite world: A large enough company that churns through customers quickly will eventually run out of potential customers.

Customer defection studies show that 70% of the reasons customers leave can be traced to employee turnover factors.

Employee replacement costs (recruitment, ramping up, training, mentoring, and monitoring) are 150% to 400% of the departed person's annual salary. The costs are higher when the employee to be replaced is in a position that requires a lot of customer interaction.

There are also intangible costs. Keep in mind that information resides with knowledge workers. As A. J. Stinnett (the man I quote at the end of each issue of this newsletter) likes to point out: Knowledge workers can leave on little more than a whim because they carry their tools with them in their heads.

All customers are not created equal

Your company's largest customer is probably not your company's most profitable customer. Large customers are good to have around because they cover the fixed costs, or at least they should. But your largest customers are probably also your neediest customers, the ones who require the most attention.

There are 5 primary reasons why you might lose a customer and whether you want to win back that lost customer depends on the reason for the defection:

- You fired the customer. Maybe the customer didn't pay on time, or mistreated your employees, or demanded too much hand-holding. Whatever the reason, this was a customer whose contribution to your company's bottom line was insufficient considering that customer's costs. Make no effort to win back such a customer.
- You pushed the customer away with poor service. Remember the UPS strike several years ago? UPS lost customers to FedEx and the US Postal Service because it was effectively out of business for a few days. UPS wanted its lost customers back and the company worked hard to win them back starting the day the strike ended.
- The customer was pulled away by a better value (not price). Perhaps the customer misunderstood your value proposition. This is not a time to cut prices, but you can win a customer back if you truly are their best value.
- The customer was bought away by a better price. Don't bother. You may win these kinds of customers back, but you'll lose them again as soon as somebody else offers a better price.
- The customer's needs have changed. If the customer's needs have changed and you no longer have a product or service that they need, don't try to win them back. Science fiction writer Robert Heinlein put it this way: "Never try to teach a pig to sing; it wastes your time and it annoys the pig."

Some of the information here is based on remarks by Michael Lowenstein, vice president and senior consultant, Customer Loyalty Management, Harris Interactive. ß

on the market CORNER by A.J. Stinnett

"If people know they are expected to manage their own performance and produce acceptable results, remarkable things happen."