

The loyalty effect: the hidden force behind growth, profits, and lasting value es...

[Business](#), [Customers](#)



Introduction

Having more customers for a certain company is among the most important goals of any business organization. Certainly, it is thus considerably rightful to consider that the consumers too have their own goals, their own expectations from both the products and the services that they receive from different companies providing the said necessities to them. Once the companies are able to provide the expectations of the said consumers, the loyalty of their regular customers is gained, thus the profit of the said company improves.

However, this is not an easy task for any management group. Since this involves a more strategic approach. As it is said by much business experts, this process of gaining people's loyalty to a certain company is more of an indirect management process. With regards to this, Frederich Reichheld authored a book entitled " The Loyalty Effect: The Hidden Force behind Growth, Profits, and Lasting Value" to highlight the necessary factors that would contribute to a successful people-influencing strategies.

The author Frederich Reichheld is known for his enthusiasm in creating ways by which business owners could get the best results from their business organizations. Almost all the books that came from the said author has been aimed in making business activities more effective not only for the business owners but also for the customers of the different companies. By so doing, Reichheld has been able to garner a title in the business industry as one of the best selling writers of the century. His views have been proven practical

and his suggestions have been proven effective by many readers of his book who chose to apply what they learned from his books.

In the paragraphs to follow, the necessary contents of his book mentioned earlier shall be tackled and examined. The effectiveness of some of the main suggestions of Reichheld with regards to gaining loyalty would also be discussed. The main theme of the book authored by Reichheld shall be analyzed and distinguished as to how it directly could affect the human business activities.

What the Author Has to Say

IN his first lines as the introduction of his book, Reichheld stated: “ LOYALTY IS DEAD, the experts proclaim, and the statistics seem to bear them out” (1). Certainly, at first glance, it could be seen how much the author views loyalty as a factor of the human society, which is near enough to being extinct. It may occur to the readers that whatever the author has to say with these opening lines may as well be themed against the possibilities of having an existing loyalty among men especially in the business industries. However, the preceding words of the author towards the chapter of his book lead the reader into another point of view.

The entire theme of the book is however in contradiction to the reality of reasons that the first sentence suggests. As the author tries to etch his ideas with regards to loyalty, it becomes quite obvious how much he believes that loyalty is but a simple attitude that could be created and gained by people even in the field of business.

With so much competition among the companies involved in service and production activities in the business world, it is indeed hard to say that it is possible for one company to be able to gain TOTAL LOYALTY both from their own people and their consumers as well. However, Reichheld suggests the other way around. To him, honesty is but a sense of trust and respect, which could be cultivated through the utilization of several strategies of business owners with regards to the activities they ought to do for the sake of their customers. True, it may not seem to be that easy. Yet it is not an impossible factor to consider of happening either.

At the first lines of this paper, it could be recalled how much business owners crave for gaining profit from the activities that they do everyday. OF course, this is normal. Nobody puts up a business simply because he or she wants to serve. Certainly, what a business enthusiast has in his mind upon establishing any business organization is the profit he ought to have upon the completion of his plan of putting up a business. However, according to Reichheld, there is more to a business than just the wanting of profit. In other words, gaining profit may be the main goal, but to be able to reach that certain goal, a company must be able to shift its priorities and still receive the best results in connection with the profit-oriented idealism of business organizations.

Although seeing the world situations today, implying such fine idealism may not be that easy to apply. A strong contributing factor is the rapid technological and economic development in society during the 20th century. An article in the German newsmagazine *Die Zeit* stated that we live in a “

dynamic epoch and not, as during former centuries, in a world characterized as being static.” The article explained that this has led to a system of market economy, which is based on competition and propelled by selfishness.

“ This selfishness,” the article continued, “ could not be stopped by anything. In its wake grows the brutality that marks our daily life, as well as corruption, which in many countries has reached right up to the government. People think of themselves and the maximum gratification of their desires.”

Sociologist Robert Wuthnow, of Princeton University, found through in-depth polling that Americans today are more focused on money than they were a generation ago. According to the study, “ many Americans fear the yearning for money has overpowered other values like people’s respect for others, honesty at work and participation in their communities.”

Greed in society has further increased because many business executives have granted themselves huge wage increases and lucrative retirement benefits while urging their employees to be moderate in their wage demands. “ The problem with the pursuit of profit among business leaders is that their attitudes are infectious and that they lower the moral threshold among people in general,” observes Kjell Ove Nilsson, associate professor of ethics and theological director at the Christian Council of Sweden. “ Of course, this has a devastating effect on morals—in society as well as on the personal level.”

However true that greed governs the business industries today, Reichheld still believes that with ample practice and shifting of priorities, loyalty could still be a possible existing aspect in the business world today.

According to Reichheld, there are necessary steps to follow with regards to the priority shifting process that has to be considered by business owners if they are wanting loyalty from their people and their consumers as well. The following is the list of the principles included in the 'six bedrock' strategies that Reichheld refers to his book as an effective way of being able to shift one's point of view on profit:

- Preach what you practice

This refers to the ability of the administrators to educate their employees well. This education does not only include the necessary matters of concern in business industry they are joined with but this is also designed to teach everyone in the company with regards to what is really happening in and out of the organization. This process builds up trust as the company unfolds the supposed 'company secrets' to their valuable force, the employees. By doing so, they are able to satisfy the need of their employees to have the feeling of self-worth, meaning they are able to understand that they play a big part in the company and that they are well appreciated by the organization they chose to work for.

As trust between the employees and the administrators are established, the more loyalty comes into the picture and succeeds the quest for being established.

- Play to win-win

Consumers play the greatest part in reaching the goal of gaining profit for the company. The 'win-win' principle refers to the fact that even though companies see the consumers as 'money providers', they should also see the worth of their consumers when it comes to receiving fine service and products from them .

This means that both party wins in each transaction that the company and their consumers get into. The consumers should realize the fact that what they have paid for have been worthy enough because of what they received from the company. Hence, knowing this, they are able to establish fine relationship with the company and loyalty is established as well.

- Be Picky

In business, one of the most important activities being done is decision making. Being picky simply refers to the ability of the management of a business organization in 'choosing' which services or features of products specifically meets the needs of their core stakeholders.

This part of decision making though must be viewed as an equalizer between the employees and the consumers of the company. Being picky involves the ability of the management or the administration to chose what is best for both their employees and their consumers. This would inspire the employees serve even better and the consumers appreciate the products and services more frequent.

- Keep It Simple

Everything must be clear, appealing yet understandable. Whatever the company considers with regards to the changes that they ought to take, everything must be attractive or appealing enough for both the employees and the consumers to accept. Being simple and clear though is the main reason why certain processes could be called 'appealing' to others. It must cater to the general public which means it should be able to give both the needs of the employees of the company as well as the consumers' expectations in an equal manner.

- Reward Right Results

Once the aim or the purpose of the strategies are met, it helps a lot if the management would be able to come up with reward policies especially for the employees who are working hard for them. This could be in a form of an award, recognition or monetary rewards. However, it would be, it is designed to help the employees realize their worth or their importance to the company.

- Listen Hard-Talk Straight

Although there is a sense of authority, it should always be remembered by administrators that there is a need to listen. There is a need to remain open minded for other people's suggestions. This goes back to the first principle of letting other's feel that they are of worth to the company.

Applying these six principles mainly helps the business owners to identify their needed adjustment with regards to their shifting of priorities. It is indeed important that the business administrators are able to distinguish the

exact aspect in which they should improve themselves to be able to receive fine results. According to Reichheld, “ Companies with faithful employees, customers and investors share one key attribute. That is the application of the ‘ six bedrock principles’ listed above. Yes, these principles have been proven effective by the people who opted to apply it in their own business activities.

After knowing the necessary principles of success leading to gaining loyalty from all sectors involved in a business organization, Reichheld further elaborates his subject by concentrating on the main reason why loyalty is needed. As he says, there are two main reasons why loyalty is necessary and how it is beneficial especially for business institutions. The two reasons are as follows:

- The primary mission of loyalty is to create value for clients (Reichheld, 32)

This mainly points out the responsibility of each business organization towards their clients. Since their clients give them the chance to gain profit, they are supposed to do the best they could to give their clients the worth of their expenses. By doing so, they are showing importance to the clients and are also gaining the approval of their customers thus establishing loyalty.

- The most precious asset of any company is its employees dedicated to making productive contributions to client value creation (Reichheld, 33)

Being able to gain the loyalty of the employees is also a key factor to being a strongly established organization. Once the employees are faithful and loyal to the organization they work for, they are willing to offer the best performance they could give for their companies as those companies too are able to satisfy their wants and are able to provide them with what they need.

These two principles of loyalty sets up the foundation for the implication of the six bedrock principles. Being able to recognize the importance of each sector making up the success system of any business is indeed a necessary step for business owners to take if they are serious enough in gaining the pleasing approval of both their consumers and their employees and in the end gain profit for then organization as well.

‘ Loyalty may indicate a continuing, reliable faithfulness and allegiance, secure against wavering or temptation.’ ‘ Loyalty implies faithfulness to one’s pledged word or continued allegiance to the institution or the principles to which one feels himself morally bound; the term suggests not only adherence but resistance to being lured and persuaded away from that adherence. True, the loyalty of one may impress and influence others, but it is exhibited, not for that purpose, but because of one’s allegiance. Nor must one person’s loyalty be the controlling factor to force others to the same conclusion.

This is the reason why in business ventures, it is indeed reasonable to say that loyalty may not be that easy to gain, however, once it is already received it is much worthwhile of keeping. The certainty though of one’s loyalty towards a company is not that easy to keep. There are necessary

steps to take to be able to hold on to a consumer or an employee's loyalty and keep the fine relationship get going. Here are some of the outlined guidelines of the book of Reichheld with regards to this matter:

- Make customer value, not profit, the goal.
- Loyal customers are more profitable than new customers are. Break up the potential customer base into segments and find out which ones are more likely to be loyal. Target these customers.
- Find and keep the right employees. Getting the right customers will bring you a profit. Invest that profit in loyal employees who will continue to increase value to your customers. Companies with the highest employee loyalty consistently have the highest customer loyalty.
- Find investors with long-term perspective.
- Learn from defections. If customers or employees are leaving the company, find out why. Take actions to correct problems. Learn from mistakes.

(Based From: Reichheld, 41-45)

Taking these five major guidelines to keeping one's loyalty towards a business

organization shall help well in the growth of the organization basing from its acceptability to the society or to the market it opts to serve.

The reports of several companies who were able to recognize the importance of the factors, which were listed in Reichheld's book, is supported by actual results. These are as follows:

DELIGHTED CUSTOMERS COME BACK FOR MORE...

Proactively provide information	32%	Assistance during
life event ¹	4%	
Consistently good service	32%	Service beyond
expectations	12%	
Inform of new opportunity	30%	
Personal relationship over a period of time	26%	
Friendly staff interaction	25%	
No unpleasant surprises	22%	

(source: Reichheld, 174)

In this diagram shown in Reichheld's book, it is quite obvious how consumers are able to react with the principles that were suggested by the said author. The ability of the companies to heighten their profit through the application of the trust and respect principles determines the capability of the suggestions of Reichheld to drive in success towards business companies.

The percentage of the appeal shown by the consumers towards the companies is indeed a proof that there could still be loyalty in the business

industries. Consequently, this could only be resulted from ample application of equally loyal service towards the clients from the company. It could also be based upon the way the administrators loyally treat their employees at work. Yes, respect does not only beget respect, it also results to loyalty as it helps in the foundation of trust between the sectors of business organizations.

However, why is it that even though there are those companies that apply the said principles suggested by Reichheld, there are still some failures that occur with regards to loyalty and its establishment between consumers and companies?

Here are some excerpts from the book that could help explain the situation well:

- “ One common barrier to better loyalty and higher productivity is the fact that a lot of business executives, and virtually all accounting departments, treat income and outlays as if they occurred in separate worlds. The truth is, revenues and costs are inextricably linked, and decisions that focus on one or the other — as opposed to both — often misfire.” (Reichheld, 54)

This mainly shows how much there is a need to determine an organization's priority. Whether it is profit or service. Whatever the company may choose, it should occur to them that however they might want it to happen; loyalty could only be achieved from a selfless thought for the consumer's sake.

- “ Companies cannot succeed or grow unless they can serve their customers with a better value proposition from the competition. Measuring customer and employee loyalty can accurately gauge the weaknesses in a company’s value proposition and help to prescribe a cure.” (Reichheld, 121)

Being able to provide the consumers and the employees with what they need and what they expect is the key factor to a successful establishment of loyalty towards the company.

- “ While every loyalty leader’s strategy is unique, all of them build on the following eight elements: Building a superior customer value proposition, finding the right customers, earning customer loyalty, finding the right employees, earning employee loyalty, gaining cost advantage through superior productivity, finding the right [capital sources], and earning [their] loyalty.” (Reichheld, 214)

Conclusion

Yes, loyalty could only be expected from the people making up an organization as well as from the people evolving around it if the organization itself realizes its responsibility to provide its stakeholders with what they demand from the same organization. This is what is pointed out by Reichheld in his book. He mainly sends a message to business owners that profit could only be achieved once the stakeholders of the business organization are served well.

BIBLIOGRAPHY

<https://assignbuster.com/the-loyalty-effect-the-hidden-force-behind-growth-profits-and-lasting-value-essay-sample/>

Frederick F. Reichheld. (2001). The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value. Harvard Business School Press; New Ed edition.