

# Leadership Talking Points

## NEWSLETTER



## Creating Fervent Loyalty

*You can buy a person's hand, but you can't buy his heart. His heart is where his enthusiasm, his loyalty is* –Stephen R. Covey

One morning, Cynthia Fordon went shopping for coffee and eggs. Later that morning, her shopping cart at Costco® Wholesale Warehouse was full. “Eggs half the price of other stores. Fresh salmon fillet: two thirds the price. Wool pants from Italy, \$40. They’d be \$100 elsewhere.” Total bill: \$260.<sup>1</sup>

What makes Cynthia an intensely loyal fan of Costco?

It took retail giant Costco less than 30 years to become the third largest retailer in the world—*without advertising*. How? By growing a worldwide base of fervently loyal customers and employees, many of whom “wouldn’t shop/work anywhere else.”

*The old paradigm was “customer and employee satisfaction” ...but it's not enough anymore.*

Probably the highest level of engagement is *loyalty*. Loyal workers and loyal customers are worth gold. A talented worker who gives his or her heart and mind to your enterprise can generate ten or a hundred or a thousand fold more in revenue and good will than he or she will ever cost you. A customer who gives you a lifetime of return business and word-of-mouth support is *the ultimate competitive lever*.

The old paradigm was “customer and employee satisfaction.” It’s great to have satisfied customers and employees, but it’s not enough anymore. The new paradigm is “fervent loyalty,” and shifting to that paradigm might be the number-one job of leaders today.

The job used to be...	The job to be done <i>now</i> ...
To satisfy customers	To create fervent loyalty

## “Fervent Loyalty”: The New Paradigm

How do you get the unshakable loyalty of more than 70-million people who gladly fork over a membership fee every year to shop in a warehouse called Costco?

*...customer loyalty is the prime driver of profitable growth, as study after study demonstrates.*

Every company has pockets of great customer service, but few make a system of it, ironically—customer loyalty is the prime driver of profitable growth, as study after study demonstrates. It's well established that as little as 5-percent growth in customer loyalty can drive as much as 85-percent growth in profits.<sup>2</sup>

How does Costco generate that kind of loyalty? By making it systematic. The company is built around a system designed to create loyal customers *and* employees. In fact, employee loyalty is the secret of generating customer loyalty.

Costco pays its people 42 percent more than average for the industry and provides an enviable package of benefits, including career education and a ladder to the top. Employee turnover is 6 percent contrasted with around 40 percent for the retail sector. Upbeat Costco employees look like they enjoy their work, and in the view of brand expert David Aaker, Costco's “employee policy clearly leads to customer loyalty.”<sup>3</sup>

That loyalty is fervent and growing. Costco's Net Promoter Score (a measure of customer loyalty) is an astounding 71, the highest in the retail industry.<sup>4</sup> Millions of shoppers pack Costco outlets across ten nations, “and, for some of them, the experience borders on the spiritual. Shopper Jose Davila put it this way: ‘This is the best place in the world. It's like going to church. You can't get anything better than this. This is a religious experience.’”<sup>5</sup>

To put things a little more modestly, Costco's leaders are living by the simple principle of treating people the way they would like to be treated. One customer goes with his wife to Costco every Saturday morning “because that is where I see all my friends.” For him, shopping is important, but the overall experience is the real story. It keeps bringing him back. In the end, when leaders focus on workers as people, on customers as people—while keeping an eye on profitability—they cannot help but succeed.

## Questions to Ponder

What factors produce such loyalty in Costco's customers and employees? What's the connection between employee loyalty and customer loyalty? Does your organization generate fervent loyalty? Where's the evidence? What could you do to improve the loyalty of your customers and employees? What are the consequences for organizations that don't produce loyalty?

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<sup>1</sup> Julie Schmit, "Costco's Like a Treasure Hunt," *USA Today*, CareersToday.com, <http://usatoday30.usatoday.com/educate/college/careers/news18.htm>

<sup>2</sup> James L. Heskett, et al. "Putting the Service-Profit Chain to Work," *Harvard Business Review*, Mar. 1994. <http://hbr.org/1994/03/putting-the-service-profit-chain-to-work/ar/>

<sup>3</sup> Wayne F. Cascio, "The High Cost of Low Wages," *Harvard Business Review*, Dec. 2006. <http://hbr.org/2006/12/the-high-cost-of-low-wages/ar/>; David Aaker, "Can Employee Policy Lead to Customer Loyalty," *Prophet*, Jul. 10, 2013. <http://www.prophet.com/blog/aakeronbrands/148-can-employee-policy-lead-to-customer-loyalty-costco-and-hp-prove-it-can>

<sup>4</sup> "Net Promoter Benchmarking," SatMetrix Net Promoter Community. <http://www.netpromoter.com/why-net-promoter/compare/>

<sup>5</sup> Alan B. Goldberg, Bill Ritter, "Costco CEO Finds Pro-Worker Means Profitability," *ABC News*, Aug. 2, 2006. <http://abcnews.go.com/2020/Business/story?id=1362779>