LEADERSHIP EFFECTIVENESS: CUSTOMER LOYALTY REQUIRES LEADERSHIP EFFECTIVENESS

Recently, a friend and her partner made a couple of purchases from vendors who have very different customer service philosophies. She told me that the experiences she had with the two businesses were poles apart.

One purchase, a ring, was a Valentine's Day gift purchased when they were on vacation in New Mexico. But when they got back to their hotel room, they discovered that the ring had a flaw. They called the jewelry store owner, who opened the store on a day it is not normally open, took back the faulty product, refunded the money, then gave my friend two rings with interchangeable parts for her inconvenience.

Now, the other vendor. At the time of purchase, it was made clear that the item was "pre-owned." The vendor promised, however, that it would be in mint condition. They purchased it in late 2020 and it was not inexpensive. When it started malfunctioning after such a short time, my friends reached out to customer service. Unfortunately, connecting with the customer service team proved to be onerous, and once they finally spoke with a representative, my friends realized that this company's decisions require days and days before making any headway at all toward any sort of problem resolution.

Think about these two companies through the lens of the RATER model, which was developed by psychologists in the late 1980s, as a way to evaluate a company's service quality (What is the RATER Model? Definition and how to use it | toolshero). RATER stands for: **R**eliability, **A**ssurance, **T**angibles, **E**mpathy, **R**esponsiveness. Truly effective leaders know the importance of service quality and build their organizations accordingly. See Putting the Service-Profit Chain to Work (hbr.org). See also the Freas articles listed at the end of this Breakaway Performance tip.

The jewelry store would get a 5 rating on a 5-point scale on all five factors (excellent). The service my friends received has already prompted them to share the jewelry brochure with their neighbors, people they met on the street, and others. Many asked her for more information and at least one said he would likely go there to make a purchase. And I'm sharing about this great business with you! Ehinger Schwarz 1876 | Santa Fe Charlotte Jewelry.

My friends have also been giving the other purchased item the same amount of "press," however, that dialogue has a very different tone. They like the product, but that is not the discussion. The word they are spreading is about the company's inadequate responsiveness and the way it seems to be "running like hell" to catch up with itself.

We know from research that customer loyalty is achieved by events that occur long after a customer makes a purchase. Companies need to understand that shoddy service neutralizes the benefit of having a fantastic product. Without a back-end infrastructure that empowers employees to deliver quality service, a company is not sustainable. In contrast, the level of service the jewelry store demonstrated will pay dividends in positive word of mouth, repeat business, and loyal customers who will likely spend more every visit. In fact, the return visit provided an opportunity for an additional purchase, which otherwise would not have happened.

What does the data say? Research has shown that loyal customers are highly valuable. For example, one measure is that a 5% increase in customer loyalty can increase profitability by 25 to 85 percent (see the HBR service-profit chain article noted above).

What actions, policies, or behaviors lead to retaining your best customers? Can you pinpoint that specifically? Do you know the financial benefit of a loyal customer to your business?

FURTHER READING

- Customer loyalty facts (Petersen)
- Strategic Coaching Has Bottom-Line Benefits ~ Executive Coaching Network (Freas and Mankin)
- The Wild West of Executive Coaching (hbr.org) or executivecoaching.com/WildWest.pdf (Sherman and Freas)
- Increasing customer satisfaction, Leader to Leader (Goldsmith, Freas and Morgan)