

'Bad' Profits Can Kill You

Is your brand taking a beating without you knowing it?

Every company wants profitable revenue growth. But watch out—there's a difference between good profits and bad profits, and if you indulge in the bad kind it can have a lasting impact on customer loyalty. At the recent Institute for the Study of Business Markets (ISBM) conference at Penn State, Fred Reichheld, customer loyalty expert, made just that point.

Reichheld, author of the new book, *The Ultimate Question: Driving Good Profits and True Growth*, told the audience that profits that come at the expense of your customer relationships should be considered "bad profits." How many examples can you think of in your own company where attempts to save money resulted in a poor customer experience?

Let me give you two personal examples:

- I placed a service call for help with my laptop, was on hold 15 minutes, and then couldn't understand the person on the help-desk line. The company saved money with fewer employees, perhaps by outsourcing service to another country. But it sure turned me off.
- During my last trip, I was rushing to catch my flight and didn't have time to gas up my rental car. The gas charge from the rental car company cost more than

the rental car itself! Yes, the rental car company made a bundle at my expense, and I'll remember it for a long time.

Both of these experiences left me feeling like I had been treated poorly. You know the old saying, that one unhappy customer will tell 10 others? I certainly did that after these experiences, and am currently looking for alternative

companies to do business with. With the Internet, thousands of people can hear about one bad experience through sites such as complaints.com or criticzone.com.

Consider this: 60 percent to 80 percent of customers who defect from your company and its products or services actually fall into the "very satisfied" and "satisfied" categories. The reason many leave is that they were not satisfied with their *most recent* sales experience, and failed to receive adequate customer service in response.

Enterprise Rent-A-Car has become the largest car rental firm in the United States, with more than 600,000 cars in its fleet. It has grown from a \$2 billion business in 1994 to more than \$7 billion in 2004. How? After years of experimenting with a variety of questions and surveying

techniques, Enterprise always tries to address this most-recent-experience phenomenon.

All Enterprise surveys are conducted by phone instead of mail, and customer cooperation exceeds 95 percent. If customers are dissatisfied, an e-mail alert goes to the Enterprise branch where managers



have been trained to respond immediately. They apologize, find the root cause of the problem, and provide a solution. Andy Taylor, Enterprise CEO, attributes Enterprise's growth to its intense focus on customer satisfaction.

What can you do within your own company?

- Look at your customer satisfaction measurement system and survey. If you have more than 10 questions, reduce the number. Two questions are ideal.
- Are you asking customers if they would recommend you to friends? Many companies are finding that this one question is most important when it comes to customer loyalty.
- Get the customer survey information quickly to the person who can take action on it. Make sure there's a process in place to track responses and learn from them.
- Identify the most important causes of any problems, and create an action plan to address them.

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Mary Donato can be reached at edit@salesandmarketing.com

BY **MARY DONATO**

President, Applied Principles, and Associate Director of the Institute for the Study of Business Markets at Penn State