

## **Customer Loyalty: But to Whom?**

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When a customer is loyal to a brand, to whom is the customer truly loyal? Many CEOs posit that customers are loyal to an abstract entity represented by their companies' logos. Alternatively, many customers would submit that their loyalty lies with those people at these various companies that create and provide the products and services used in their day to day lives. With differing approaches to customer loyalty, what is a company to do?

Apple, the company behind the world famous iPod and iPhone recently announced that its renowned CEO, Steve Jobs, will be stepping away from day to day operations to deal with an undisclosed health issue. Unsurprisingly, pundits and investors reacted negatively to the announcement by declaring a likely end to Apple's fortunes and pummeling the stock respectively. Yet by hammering the company, both pundits and investors relegated the company's long track record of releasing innovative and market changing products to the backburner. Rather, they chose to focus on the role of the CEO as well as his product and marketing prowess.

Elsewhere, Circuit City, the nation's second largest electronics retailer announced recently that it filed for bankruptcy and would be shuttering all of its 567 stores. This unfortunate episode has its roots in a 2007 decision by Circuit City executives to fire 3,400 seasoned sales people and replace them with a new and lower cost sales force. The company defended its decision by claiming that since customers were already loyal to the brand, a sales staff shuffle would have little to no impact on overall customer loyalty.

### **Disastrous decision**

This logic and the decision to replace sales personnel would prove to be disastrous. The move came at a time when its arch rival and the nation's largest electronics retailer Best Buy was investing in and nurturing the relationship with its own sales force. What happened to Circuit City following the replacement of its sales force was inevitable. Consumers would show up at stores and seek out their favorite sales people - those individuals with whom they had built up a relationship.

When told that their favorite sales people had been replaced, customers would seek price discounts to retain their loyalty (and compensate for the perceived deterioration of service). What Circuit City failed to recognize was that its core strategic asset was its employees, not the logo, product selection or store location. The company never internalized the belief that people build relationships and establish trust with other people - not with a logo (however cool it may be), store, or product that can be purchased at a competitor.

The Apple and Circuit City episodes reinforce the principle that at the end of the day people put their trust in and give their loyalty to other people. Apple customers are loyal to the innovation machine that Apple created. Since this innovation machine thrived under the leadership of Steve Jobs, investors and customers were justifiably concerned about the potential impact of his absence from the company. In this regard, investors and customers were simply expressing their loyalty to and reinforcing their trust in Steve Jobs.

Similarly, Circuit City customers were loyal to their friendly and knowledgeable sales people. In their absence, customers found little reason to continue doing business with a company who in their minds cared little for them. Yet there is one important distinction between the two stories. In the case of Apple, few customers ever interacted directly with customer facing Apple personnel (aside from in several Apple retail outlets) and fewer still ever had the opportunity to meet the company's CEO. However, Circuit City was primarily a service company purveying electronics that were widely available at its competitors. For this company, the differentiator and source of customer loyalty was its people. Undermining this source of loyalty would prove to be fatal.

### **A human trait**

Loyalty is a human trait that can only be established through a relationship comprised of at least two human beings. Loyalty is ultimately given to someone who creates or reinforces value. Residents are loyal to their mayors; fashion enthusiasts are loyal to their designers; hotel guests are loyal to service staff; and consumers are loyal to customer service or retail store staff who serve them.

Too many companies erroneously believe that promises (through slogans) and corporate images (through brands) will be enough to create or reinforce value they believe should be treasured by customers. What customers seek however are people that can create value and offer a consistently delightful customer experience - for these are the people in whom they will place their trust and give their loyalty.

The Circuit City episode while sad and unfortunate, is one through which we should all draw the necessary conclusions. The temptation for companies to eliminate high paying jobs when under pressure to reduce costs should never outweigh the impact of these layoffs on the customer experience. These "costly" employees will only be perceived as "costly" when ignoring the value they provide customers and consequently, to the organization.

Employees that create and reinforce customer loyalty are assets to be cherished, not liabilities to be discarded. Therefore, it is incumbent upon CEOs to ensure that cost reduction efforts will not impair corporate value and reduce customer loyalty. Avoiding this trap begins with the simple realization that loyalty is given to people, not abstract names and designs. Those companies that lay off people who create value will soon see the diminishment of their value proposition and inevitably, a significant reduction in customer loyalty.

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