

How to Think Like a CEO and Act Like a Leader

Michael F. Andrew

This book is recommended:

If you want to develop your personal leadership skills and business knowledge to differentiate yourself among your peers.

If you want to be successful and build solid relationships that achieve results.

If you want an easy-to-understand explanation to the world of business, finance and leadership.



Whether you are part of a large organization or a small one, whether you have a senior role or an entry-level position, *How To Think Like A CEO and Act Like A Leader: Practical Insights for Performance & Results!* by author and business consultant Michael Andrew educates the novice, sharpens the pro, and shares easy-to-implement directives on how to succeed in business and life. Filled with

resonating insights that will guide you, this book simplifies the true nature of business to teach readers the CEO perspective on strategic thinking and finance, while providing practical leadership directives to be productive and results-oriented.

Consider this a mini-MBA and introduction into the world of strategic thinking, finance, leadership and business so that you will be able to act like a leader and think like a CEO.

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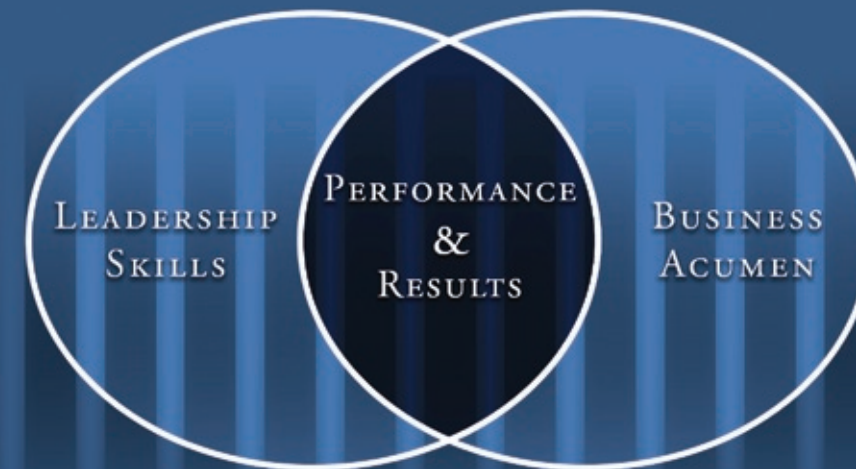
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Practical Insights for
Performance & Results!



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Chapter 24

The Economics of Focusing on Employees 1st and Customers 2nd

*Treat customers like guests and
employees like people.*

Tom Peters – Thought Leader, Author, Former McKinsey Director

The notion of focusing on employees 1st and customers 2nd, seems to go against the grain of what you have always been taught in business. The prevalent view is that the customer comes first. In Chapter 18, I said the purpose of business is to create and keep a customer. In order to be so focused on the customer, and to create and *keep* customers, you must start by focusing on employees first!

Let's follow the logic.

- First, many studies have validated the strong correlations among customer loyalty and revenue growth and profitability. “A company's most loyal customers are also its most profitable.”
- Frederick Reichheld, a former director at Bain & Company, researched and published a book entitled *The*

Loyalty Effect. In the book, he outlines the economics of customer loyalty. It is not just a nice thing to do or have; there are real economics, i.e., business reasons, why it is important to build as large a cadre of loyal customers as you can. The economics of customer loyalty are: 1) acquisition cost of acquiring a new customer—it is about ten times more expensive to acquire a new customer than it is to keep a current customer; 2) more loyal customers equals larger base of revenue; 3) per customer revenue growth—customers tend to increase their spending with you over time; 4) operating cost—as a customer gets to know you and you get to know the customer, the buying process becomes more efficient; 5) referrals—greatly affects the cost of sales, as referrals are a great source of sales; 6) price premium—customers with whom you have developed a trust-based relationship and who have been around long enough to see the value in your product or service tend to be less price sensitive; and 7) loyal customers tend to be five to six times more likely to buy again from you.

- The consistent quality of the product or service drives customer satisfaction and loyalty.
- Loyal employees affect the quality of the products and services provided to the customers. It is the loyal employees who are, in turn, likely to build a cadre of loyal customers through the quality of their work and relationships with the customers.
- Loyal employees are productive, efficient, and tend to stay with the company. There are also economics of having a large cadre of loyal employees. Starting with the

cost of turnover, it costs a lot of money to recruit, hire, train, and get new employees up on the learning and become fully productive in a new organization. There is also the cost of what employees take with them when they leave, such as their know-how and know-WHO, the know-WHO being the customer relationships, supplier relationships, internal relationships, etc.

- Loyal employees are derived from the internal processes that allow them to perform their roles and ultimately provide the quality services or make quality products for the customers. The internal processes may include the systems, tools, decision-making latitude, performance processes, training and development opportunities, reward and recognition processes, communications, management and employee relations, and cultural factors, etc. that enable employees to do their jobs effectively and consistently.
- *It is for this reason that it is important and it is good business to focus on employees 1st and customers 2nd! Customer loyalty comes from employee loyalty. Employee loyalty comes from good management (and taking care of the critical mass of the B Players!).*

Loyal customers don't just happen. Loyal customers come from loyal employees. This is one key way in which HR can identify and demonstrate its business value to the organization. HR has the opportunity to affect customer loyalty and, in turn, revenue and profit growth! Red Auerbach, the venerable architect and Hall of Fame coach of the old Boston Celtics dynasty, wrote a book on leadership. One of the chapters is entitled "Loyalty Is a Two-Way Street." You want loyal employees? It cannot be demanded. It is a two-way street and HR can play a pivotal

and strategic role to make that happen. There are clear business economics to doing this.

For further reading on the notion of customer and employee loyalty, I recommend reading two books: *The Loyalty Effect*, copyright 1996 by Bain & Company, published by Harvard Business School Press; and *The Service Profit Chain* by Heskett, Sasser, Jr., Schlesinger, The Free Press, 1997.

- **How does your organization treat employees as compared to customers? What can you, and your organization, do differently when it comes to focusing on employee satisfaction and loyalty?**