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**Strategic Human Resource
Management**



MIT Sloan School of Management

The Loyalty Effect...

Fred Reichheld
Director, Bain
The Loyalty Effect
HBS Press, 1996

- ***A consulting study of a trucking company showed that reducing driver turnover 50% could increase profits by 50%***
- ***A study of brokerage companies showed that increasing broker retention by 10% increased broker value by 155%.***
- ***A study of retail stores showed that stores in the top third of employee retention were also in the top third in productivity with 22% higher sales per employee.***
- ***Fast food stores with low turnover had profit margins 50 % higher than stores with high turnover.***

Why Long-Term Employees Create Value



- 1. Training:** Wages paid during the training period yield little or no return. For long-term employees, training becomes a net benefit.
- 2. Efficiency:** Long-term employees are more efficient, require less supervision, and may be more motivated.
- 3. Customers:** Loyal employees are better at identifying, serving, and retaining the best customers. They are often a major source customer referrals.
- 4. Employee Referral:** Long-term employees often generate the best flow of high-caliber job applicants.

Includes bibliographical references (p. 311-314) and index. "The business world seems to have given up on loyalty: many major corporations now lose - and have to replace - half their customers in five years, half their employees in four, and half their investors in less than one. This book shows why companies that ignore these skyrocketing defections face a dismal future of low growth, weak profits, and shortened life expectancy." Loyalty Based Management is essential to create a value-add, profitable, sustainable company and it requires loyal customers, employees and investors. Loyalty leaders follow two basic precepts "nurture a clear sense of company mission based on value rather than profit; use the power of partnership to align, motivate and manage the members of the business system." Profit is solely a downstream effect of creating enormous value. Loyalty Based Management is a slow, steady, never ending process. The Loyalty Effect is a 1996 book by Fred Reichheld of the consulting firm Bain & Company, and the book's title is also sometimes used to refer to the broader loyalty business model as a whole. Reichheld's book was exceptionally popular with marketing and customer relationship management professionals, and as such the phrase "loyalty effect" has become synonymous in some circles with the more generic concepts covered by the loyalty business model. The Loyalty Effect. The Hidden Force Behind Growth, Profits, and Lasting Value. By Fred Reichheld. The Loyalty Effect. About the Book. Author. Much has changed since The Loyalty Effect was originally published in 1996. Digital has revolutionized communications and dramatically expanded the potential for deeper relationships with customers and suppliers. At the same time, it has challenged the very relevance of lasting relationships.