Engagement is the emotional bond that customers and employees have with your business. Engagement is a tangible business asset – as real and as vital as inventory, cash, intellectual property, etc. As such, it must be managed like a business asset. To grow engagement you need to know what drives it, how to predict it, and how to quantify results. This is now possible.

“Today, the customer is in charge, and whoever is best at putting the customer in charge makes all the money.” – Stephen Quinn, Wal-Mart CMO

“The speed of business and of technology has increased dramatically in recent years. It’s difficult for a company to maintain a marketplace lead through product innovations for long…Engagement is a much more durable asset.” – Don Peppers, Founding Partner, Peppers & Rogers Group.

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“U.S. companies lose 50% of their customers every five years. Yet just a 5% increase in customer retention can increase profits by nearly 100%” – Carlson Marketing

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Foreword

*Engagement: The Next Business Battleground. Let’s Get Engaged!*

*By Bob Caruso, Executive Director – VOC Leader, J.D. Power and Associates*
Engagement: The Next Business Battleground

Let's Get Engaged!
The passionate pursuit of customer loyalty isn’t about pricing, or gadgets, or perfectly performing products. It’s about customers and gaining the love, respect, trust and commitment of those customers! In the context of this book, Allegiance refers to this state as engagement.

Like any relationship, building trust requires both parties involved in the relationship to accomplish a set of conscious activities.

You must first love your stuff and the cool things that it does for your customers. If you and your employees don’t love and believe in your own product or service, why would customers?

If your business is untidy, unresponsive and generally difficult to deal with, why would anyone want a long-lasting relationship with you? Caring for yourself translates into caring for your customers and your employees. If you want customers to commit, you better have your act together, or they’ll never get engaged.

Gaining a deeply intimate understanding of customer behavior is at the heart of the relationship required to engage both your customers and your employees. This information is an organization’s most important asset and risk. Every organization that wants a “committed relationship” must become highly proficient in gathering, acting upon and internalizing the voice of the customer (VOC) – in short becoming VOC proficient.

Your ability to understand, act upon and internalize customer information has a direct and tangible economic impact on your business.

Understanding the interrelationship between your actions to delight and engage customers and their responses to your efforts drives overall performance of your business. Very little control can be exercised in response to customers unless there is a robust capability to predict their reaction based upon reliable information.

Customers Lead the Way
A dramatic shift in the basic relationship between consumers and companies is inexorably transforming industry after industry. As a result, engagement has become as basic a business requirement as the ability to track quality or keep corporate databases secure. Businesses are realizing that they are on the crest of a rolling wave that is transforming the values that drive customers’ purchases.
During the past 40 years, a plethora of mega-movements in business strategy have, at their core, exploited **VOC** information. The earliest movements of Demming and Juran were focused on improving quality while reducing variability in how work is performed, ultimately providing customers with a predictable experience where products work as advertised. From this, customer satisfaction began to emerge as an important business metric.

Six Sigma begins with Critical to Quality (**CTQ**) requirements that reflect key drivers of value to customers. The cornerstones of all Six Sigma programs are gaining a clear understanding of customer needs, wants and perceptions. These programs raise the importance of customer satisfaction in the eyes of business leaders. Through the early 1990s, providing a predictable experience with products and services became the mantra that the entire business community repeated.

During the mid-90s with the disruptive influence of the Internet and near instantaneous communication, customers became accustomed to receiving a predictable experience from their products and services, but asked for more. Businesses responded by focusing their efforts on gathering more customer information to differentiate themselves from competitors. Customer Relationship Management (**CRM**) became all the rage by helping companies gather customer information, leverage new technologies to disseminate and analyze that information and then make decisions to offer customers a predictable, comfortable experience. Competitive advantage grew within organizations that provided a comfortable experience with predictable outcomes. Customer satisfaction became more than a metric; it became a goal with incentives. Meeting the goals demanded even more **VOC** information.

As we turn the calendar to the 21st century, satisfied customers are yesterday’s news. Today, it’s about delightful engagement. As customers gain more power by exercising the marginal rate of substitution concept at unprecedented levels, business leaders have demanded answers. Why are my customers defecting? Where are they going? How can I grow if my core customers leave faster than I can replace them? Give me more data! Personalization movements began to take hold with some businesses providing customers with a delightful experience.

First movers in understanding, acting upon and internalizing **VOC** information reaped the benefits of their insights. Delighted, engaged customers stayed longer, spent more and told their friends about the relationship. But the story isn’t quite over yet.

As the body of knowledge in exploiting **VOC** information grows and additional disruptive influencers enter the marketplace, delightful experiences become commonplace. Customers today, and in the near future, will demand an emotional experience.
Investing in Customer and Employee Voices

Over the last 10 years, the science of customer measurement has seen dramatic changes. During the next 5-10 years, even greater change will occur. Business executives must understand that customer activity information is the key to unlocking future value, and businesses must get to know their customers intimately. Rather than relying primarily on infrequent or periodic research activity, innovators will shadow customers, engaging them in continual dialogue. No major business initiative will succeed without the ability to quickly and efficiently gather, act upon and internalize the VOC. The operative word being internalize, with your employees and your business partners. Achieving customer engagement demands employee engagement. Measuring the pulse of employees who are delivering your products or services requires the same level of care and analysis being exercised with customers.

The economic benefits of excellence in this competency go without question ... as do the risks.

Turn Up the Volume...Now

A global “auction” is underway to acquire millions of customers and the winning bidders are going to be those businesses using VOC as their currency. The value of turning up the volume on the receiver and listening to customer desires, needs, behaviors and perceptions will be evident. The leaders will be the ones who can hear the messages, while the also-rans will struggle to remain viable competitors.

Significant, verifiable research on customer satisfaction and its impact on businesses demonstrates that there has been a shift in the impact of engagement from “nice to have” to “life and death” for businesses. Nearly all of these studies come to the same conclusion: good companies do a great job of satisfying customers, where “good” is defined alternatively in terms of higher revenue, better margins and/or increased shareholder returns.

Investing time, energy and resources in building engaged customers and employees is both a long-term strategy and a short-interval play. In today’s on-demand world, J.D. Power and Associates concludes that the bottom-line cost of failure to hear and respond to the voice of the customer is far greater than the investment needed to “delight” them.

The thoughts that follow by Allegiance will clearly show how important engagement is to today’s organizations. Through the use of robust, user-friendly tools, companies can develop an aptitude for listening to, acting upon and internalizing the voice of both customers and employees that will help them to achieve the highest levels of engagement.
Conclusion
Gaining the love, respect, trust and commitment of customers (i.e. getting and keeping them engaged) requires businesses to become highly proficient in gathering, acting upon and internalizing the voice of the customer, as this voice has a direct and tangible economic impact on a business. Rather than relying on infrequent or periodic research activities, successful businesses will engage their customers in continual dialogue. After all, the time, energy and resources a company invests in engaging its customers and employees are efforts well spent that can pay off in substantial economic dividends and having more loyal employees and customers.

ABOUT THE AUTHOR

Bob Caruso
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Bob Caruso is the Executive Director of the Voice of the Customer Center of Excellence at J.D. Power and Associates. This consulting group works closely with businesses in multiple industries to leverage the firm’s four decades of leading customer satisfaction research and analysis to create individualized, customer-focused strategies to drive business success. Caruso is also a frequent speaker and writer on the subject of customer-focused organizational transformation.
Introduction

Engagement: An Idea Whose Time Has Come

By Adam Edmunds, Allegiance CEO
I like being a business owner. It appeals to me for several reasons. I enjoy the unique challenges presented by building a business. I like working with other team members to solve problems. And I especially like it when early intuition is later validated through market adoption and business success.

When I started in business, my company sold a unique product: ethics reporting technology. The U.S. government had just passed a law called Sarbanes Oxley to help prevent future high-profile failures like Enron and WorldCom, and I knew technology could help businesses more quickly comply with this law.

The business grew fast, but I felt there was more we could offer using the technology platform we had developed. We identified an underserved area – customer and employee feedback collection and management – and launched an upgraded version of our product. The business grew even faster.

But our clients began asking for even more. They wanted help interpreting the data provided by our technology, and we began to see a new opportunity. In September 2007, we launched our most ambitious update to our technology platform, and at the same time opened a tremendous business opportunity for our clients. Our intuition told us that companies wanted to have greater control over managing their loyalty and engagement. No longer would a yearly satisfaction survey or a few outdated metrics suffice. We believed that products would pioneer a new business practice. They must have struck a chord because our clients were electrified by both our technology and our professional services solutions. Frankly, it’s an idea whose time had come.

We had been successful in evolving the discussion from simply collecting and managing feedback to creating real business value by managing the increase of engagement and passion with employees and customers. The use of technology and services in a real-time fashion to manage engagement was totally new ground – and is still unique to Allegiance today.

To-date, I have seen organizations both large and small discover additional growth and new revenue through engagement management. For example:

- A large financial institution discovered that a new employee benefits package was not meeting the needs of its employees. In fact, employee engagement was plummeting, impacting customer engagement and revenues. The company saw the issue early, took decisive action and regained the passion of its employees.

- A national company uses engagement driver information to launch better products with more targeted campaigns to better meet the needs of its customers.

- A large retail company regularly pulses its customer base and correlates those engagement measurements to its employee engagement scores to make smarter product and service decisions based on best practice emulation.

- A university uses feedback to understand the voice of the student and respond quickly to their needs.
In other words, through Allegiance’s solutions, business managers can now effectively predict, monitor, and manage the loyalty and engagement of both employees and customers. Being equipped to manage engagement as a business asset means an organization has a strong competitive advantage. It also means greater revenue growth, both immediately and in the long term.

Today, there is phenomenal growth and adoption of the business engagement concept. I am excited by just how much our customers have responded to the concept of business engagement. And I’m especially jazzed about how much the business community is embracing engagement. Smart thought-leaders are now writing about it, keynote speakers are now speaking about it, bloggers are now blogging about it, and there are now even several tradeshows, including Allegiance’s own annual Engage Summit, focused on it.

Organizations often have several key elements for business engagement already in place: they conduct some surveys, they seek out unsolicited feedback, they measure some key scores and even use some dashboards. But those same organizations are missing key elements such as the use of real-time data and analytics, and an understanding of the drivers of engagement, enterprise feedback management, and a focus on broader elements of engagement and not just singular satisfaction or promoter metrics. All of these elements are necessary for true enterprise engagement management, and represent the heart of what Allegiance does.

I believe business engagement is one of the most powerful opportunities for growth available to businesses today. The commoditization of markets, the high amount of competition, the ease of shopping and the speed at which customers switch their loyalties today makes engagement management imperative to stay competitive.

This book has a simple purpose: To share vital principles about business engagement with you to help you accelerate your knowledge and best practice adoption. Ultimately, this will help you realize even faster revenue growth.

The book contains a series of papers written by business engagement and loyalty experts. By reading these papers, you will understand what engagement is, how to use it in your organization to grow faster and how others are doing the same. You’ll get succinct information about both customer engagement and employee engagement, and their critical link, defined by Allegiance as the Spillover Effect. Each of these papers has been formatted as a separate chapter to preserve the original text, diagrams and charts.

I acknowledge the forerunners who have helped pave the way for business engagement. I thank the many authors, researchers and business leaders for their intuition and hard work in laying the foundation for today’s successes.

I offer thanks to the contributors to this book; the authors of papers and the business owners and engagement managers who took the time to share their challenges and successes. They are each pioneers in the fast-growing business engagement category.
Whether you are a CEO, sales, marketing or human resources professional, or just curious about engagement, I believe you will find real value in these papers. They can help to inspire you to start managing the engagement of your employees and customers as a business asset – and to realize new revenue and growth.

Finally, here is the clarion call to you: start today to manage engagement as an asset at your organization. You will see the benefits almost immediately, and I believe you will also agree that engagement management is an idea whose time has come.

About the Author

Adam Edmunds
CEO of Allegiance

Adam Edmunds is an avid entrepreneur who founded two companies while still in college. One of those companies, SilentWhistle, acquired Allegiance Technologies in 2005 to form Allegiance, Inc. Since that time, Edmunds has received widespread recognition for his entrepreneurship, including Utah Business Magazine’s 40 Under 40, Connect Magazine’s “Utah Entrepreneurs to Watch” (one of four), 2004 BYU Entrepreneur of the Year, and more. Today, as CEO of Allegiance, Edmunds is responsible for leading the company’s strategic vision and direction in helping customers use feedback data to predict trends in customer/employee satisfaction and loyalty, manage engagement as a business asset and grow their business.
Discover Engagement

What is Engagement, and Why is it One of the Most Powerful Emerging Business Concepts of the 21st Century?

By Dr. Gary Rhoads & Dr. David Whitlark, Allegiance Engagement Experts
Discover Engagement

What is “Engagement?” How does it work, and more importantly, why should today’s organizations embrace this fast-growing concept?

For many years, companies have been focused on building customer satisfaction, trust and loyalty. While important to the organization, satisfaction is fluid, meaning a customer can be satisfied today, but as a result of one bad experience, be dissatisfied with the company tomorrow. Yet, for many firms, developing deeper levels of trust and loyalty among their employees and customers remains an elusive and perplexing process. That is because firms frequently neglect the most important ingredient: the “heart” or “emotional bond” of an organization’s most important assets – its employees and customers. This bond, called engagement, goes beyond a single moment in time and is defined by the enduring behaviors, attitudes, and heart – an enduring emotional connection if you will – of its employees and customers.

For those businesses that value and manage engagement and loyalty, it is proven that they enjoy (1) higher levels of employee and customer loyalty, (2) positive word of mouth, (3) reduced turnover and training costs, (4) receive higher price premiums for their services and products, and (5) greater share of wallet and cross selling, all of which lead to higher company profits and faster growth than those that don’t. That is why engagement is one of the most powerful, emerging business concepts of the 21st century. It provides an opportunity to gain a competitive advantage with some of the biggest assets any business has – its employees and customers.

Engaged customers are more than satisfied and more than loyal; they are emotionally connected to you. They go out of their way to show their association with your company, they become an active promoter of your business, and support you during good and bad times. In the end, they make you more money.

What is Engagement?

Allegiance considers engagement the emotional bond or attachment that a customer develops during the repeated and ongoing interactions accumulated as a satisfied, loyal and influencing customer. When customers are engaged with an organization, they are emotionally connected, passionate about its products and services, as well as aligned with the purpose and direction of the organization.

In 2007, Brand Keys Customer Loyalty Engagement Winners included JetBlue Airways, Toyota, Apple and Target. Each of these has been identified as a company “that engages customers, engenders loyalty and drives real profits.” Customers may be enamored with Toyota’s quality, Apple’s iPod or Target’s hip advertising, but any discussion of engagement must include the relationship between the customer and the employees who are responsible for taking care of the brand.
In other words, customers may be extremely satisfied with a product or brand, but ultimately their engagement level will be based, at least in part, on the service they receive from those who support that product or brand. Companies that fail to nurture engaged employees will find it difficult to develop engaged customers. After all, a Starbucks’s coffee without the trendy store and friendly employees would be much less addictive and consequently, much less successful.

Building Engaged Customers Through Employee Engagement

Given the enormous benefits of having positively engaged customers, the main question for organizations today is: how can they nurture and develop highly engaged customers through highly engaged employees? Over the last twenty years, we have found engagement to be a function of four key drivers on the employee side and a parallel set of drivers on the customer side.

From the customer’s perspective, they begin to form a strong emotional bond or attachment to an organization and its products and services after they experience multiple episodes of helpful and enjoyable service. Helpful service creates enduring customer-employee relations and builds real passion and commitment toward the organization. Under such positive conditions, customers feel better informed and knowledgeable about various products and services offered by a company. As customers become more confident in their customer-company relationship, additional helpful experiences stimulate even stronger and more enduring emotional attachment toward the company (the beginnings of customer engagement).

<table>
<thead>
<tr>
<th>Employee Engagement</th>
<th>Customer Engagement</th>
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<tr>
<td>Being Helpful</td>
<td>Helpful Service</td>
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<td>Feeling Confident and Improved</td>
<td>Feeling Confident &amp; Informed</td>
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<td>Feeling Accepted</td>
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<td>Feeling Respected</td>
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Over time, exceptional service and learning experiences engender a belief and feeling that a company cares about the overall well-being of its customers. When this happens, customers “buy in” and “relate to” the vision and direction of the company. They gain a sense of protection and security and consequently develop a strong emotional bond with the company. The end result: Totally engaged customers who identify and express themselves by the company’s products and services they purchase and use.

Just How Important Are Employees To Customer Engagement?

According to a recent Tower and Perrin’s study of 40 global companies, “firms with the highest percentage of engaged employees collectively increased operating income 19% and earnings per share 28% year-to-year.” Companies with employees who were less engaged experienced operating income declines of 33% year-to-year and 11% in earnings per share. Julie Gebauer, managing director and leader of Tower and Perrin’s Workforce Effectiveness consulting practice, said this about the results of its Global Workforce Study, which surveyed nearly 90,000 workers in 18 countries:
“It’s impossible to overstate the importance of an engaged workforce on a company’s bottom line. (The study) demonstrates that, at a time when companies are looking for every source of competitive advantage, the workforce itself represents the largest reservoir of untapped potential.”

The impact that employee engagement has on customers is what Allegiance refers to as the Spillover Effect. Employee engagement spills over to customers who see and feel the benefits of employees who believe in the direction of their company’s products or services. Engaged customers will then turn around and help promote the company to their friends.

**Employee and Customer Engagement Pay Off**

According to Manage Your Human Sigma, a 2005 Gallup study published in Harvard Business Review² (see diagram), local business units with even moderate levels of both worker and customer engagement are, on average, more effective financially than units with very high levels of only one form of engagement.

**Driving Employee Engagement**

The best way to tap the passion of engaged employees is to understand to what degree they are excited about what their employers are doing. For Allegiance and its approach to enterprise feedback management (EFM), the discussion of engagement begins by simply asking the question: How excited are you about what your company is doing? For most companies, that question is rarely asked. Instead, they choose to dwell on what is going wrong rather than finding what is going right.

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**Employee Attitudes, Behavior & Heart**

- Turnover
- Burnout
- Productivity
- Service Quality
- Loyalty
- Emotionally Engaged

**Customer Attitudes, Behavior & Heart**

- Satisfaction
- Loyalty
- Trust
- Purchase Intentions
- Net Promoters
- Emotionally Engaged

**Company Profitability**

- 23% premium in share of wallet, profitability, revenue and relationship growth

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**THE EMPLOYEE AND CUSTOMER ENGAGEMENT SPILLOVER EFFECT**

Employee attitudes and ‘heart’ spillover to customer attitudes and ‘heart’, which then spillover to real business outcomes, like company growth and profitability.
To solve problems with customer service and engagement, companies need to look at problems on the inside first. Many organizations try to work from the outside in, and if employees don’t buy into what management is saying, then there is no emotional connection to the plan. Therefore, employers need to engage their employees first by finding out what gets them excited about their jobs. This would allow companies to spend more time focusing on factors that create a positive environment and get higher levels of engagement. In other words, identify and accentuate the positive things about your company.

In an era driven by impending labor shortages, engagement is even more critical. Everyone is demanding more from companies, including employees who think they deserve more benefits, more vacation time and feel they are entitled to more perks. Customers expect fast service, high levels of communications and are easily tempted to look at competitors. It is important that organizations understand what levers they can pull to impact engagement.

The number one thing driving engagement with employees is their view of what senior management says and does; whether or not management is truly concerned about their well-being. There is a misconception that money is the biggest motivator. In reality, employees are motivated by leaders that inspire and demonstrate true commitment to them and the company. The idea certainly contradicts conventional wisdom, but proves that companies have a great opportunity to improve engagement levels; beginning with listening to their employees.

"Executives are finding that the winning differentiator is no longer product or price, but the level of customer engagement relative to the competition."

– Rama Ramaswami, Senior Editor, Economist Intelligence Unit

Regular pulsing of your employees and customers reveals critical trending data that is impossible to obtain in any other way, especially in surveys that go out just annually or bi-annually. Ultimately, you want to tie pulse trends to major initiatives and then to key business outcomes.

If companies listen to employees, they will find that employees are willing to invest more in their company, but then want to know what will be the return on investment. They want a company that is a leader and is striving for excellence, and want opportunities for learning and development. When employees are able to contribute, feel accepted by co-workers and respected by management, and are confident in their abilities and leadership, then they become truly engaged with the organization.

As a result, customers will receive the helpful, respectful service they need and will feel confident in the products and services they receive. They will feel valued and shielded from the problems that plague organizations with disengaged employees.

PULSE REGULARLY (MONTHLY OR QUARTERLY) TO SEE CRITICAL TRENDS

If companies listen to employees, they will find that employees are willing to invest more in their company, but then want to know what will be the return on investment. They want a company that is a leader and is striving for excellence, and want opportunities for learning and development. When employees are able to contribute, feel accepted by co-workers and respected by management, and are confident in their abilities and leadership, then they become truly engaged with the organization.

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Three Engagement Challenges Faced by Businesses Today

Challenge #1: Most companies deal with problems after they happen. Rather than looking at problems in the rear-view mirror, companies should be forward thinking. Human resources managers need to know what turnover is going to be like next month, not what turnover was last year.

So, what is keeping companies from looking forward?

Most companies do not collect the right data regularly. Instead they rely on old survey data, which shows a snapshot in time and does not represent the current attitudes and emotions of the companies’ employees. Allegiance offers EmployeePulse and CustomerPulse, which provide a specialized online questionnaire developed by loyalty experts to collect an accurate snapshot of internal pressures, concerns and attitudes. Used regularly, these tools reveal trends and show the relationship between employee mindsets, customer impressions and a company’s performance.

Challenge #2: Many organizations do not allow information to be readily shared. In other words, the right hand does not always know what or how the left hand is doing.

Supreme Court Justice Louis Brandeis once said, “Sunlight is the best disinfectant.” When you illuminate a company by giving everyone access to the same information, problems are brought to light and solved. As long as companies operate in the dark, people, departments, branches, divisions, etc., will continue to operate in the same way. Becoming more transparent allows everyone to feel like they are part of the same team. This fosters a growing sense of trust among groups within the company.

All information that impacts engagement, loyalty and feedback performance should be shared through the use of a centralized system of reporting and dashboards. This way, those in the executive office can see the same information as those on the front lines.

The increased transparency empowers everyone to march to the same drum beat. Allegiance has pioneered a technology solution called the Engage Platform, which is a suite of Web and phone-based enterprise feedback management (EFM) solutions that allow companies to collect real-time feedback from all points of customer and employee interaction. Managers can then gather, analyze and respond in real-time to customer and employee complaints, comments and suggestions, leading to higher engagement and growth.

The Allegiance Engage platform allows company departments to view the same data, including everything from branch performance data to customer attitudes toward a new program. Dashboards provide aggregated data that allow managers to see clearly those parts of the business that are doing well or those that are underperforming.
**Challenge #3: Businesses often collect data, but very few actually link it to business outcomes.**

Most organizations are collecting data; HR surveys employees, marketing surveys customers. While the data provides some benefits to the organization, rarely is it correlated with business outcomes, such as employee turnover or profits. For example, most like to think that an increase in customer satisfaction leads to an increase in sales, or that an increase in training will lead to more productive employees, but unfortunately, they can’t prove it to be true.

Compounding this, many industries only survey employees or customers once a year. Paper or phone-based surveying methods make it difficult to survey more often. However, a single yearly survey does not provide timely information about employees or customers, whose needs are always changing. With Web-based tools, organizations can quickly and affordably pulse their employees and customers, as well as collect ongoing feedback, to get measurements that can be continually compared with business outcomes.

Managers need to gather the data to substantiate investments in employee training, ask for increases in marketing budgets, or eliminate programs that are underperforming. Enterprise feedback management can provide the link from data to business measures such as turnover, revenue and profits, by correlating them with employee and customer engagement.

When employees are able to contribute, feel accepted by co-workers and respected by management, and are confident in their abilities and leadership, then they become truly engaged with the organization. As a result, customers will receive the helpful, respectful service they need and will feel confident in the products and services they receive, valued as a customer, and shielded from the problems that plague organizations with disengaged employees.

**Investing in Engagement with Enterprise Feedback Management**

When companies are concerned with their bottom line, they neglect to focus on one of the most important factors driving profits – engagement. Being good at engagement is not a secret. It is accomplished with science, combined with best practices and the right technology and consulting solutions. Companies that invest in enterprise feedback management (EFM) solutions can improve employee and customer engagement, which will provide a competitive advantage and help to reduce turnover, increase loyalty and positively impact profits.

Engaged employees and customers are more than satisfied and more than loyal – they are emotionally connected to a company. For businesses that value and manage engagement and loyalty, it is proven that they also enjoy higher profits and faster growth than those that do not. That is why engagement is one of the most powerful emerging business concepts of the 21st century.

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1. www.brandkeys.com/awards/
Engagement may be a new concept for many organizations that have traditionally only focused on the tools and services that measure customer satisfaction. For organizations interested in measuring how well they are connecting with their customers and employees, there is no need to start from scratch.

Allegiance has the expertise, technology and experience to help you begin quickly and effectively capturing feedback and engaging in two-way communications with your customers and employees. The Allegiance Engage platform is a turnkey solution that is delivered through a hosted Software-as-a-Service offering; meaning it is easy to set up and manage. To get started improving engagement with your customers and employees, visit www.allegiance.com or contact an Allegiance representative.

ABOUT THE AUTHORS

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Allegiance Engagement Expert & Co-Founder

Dr. Rhoads is currently a professor of marketing at Brigham Young University and holds the Stephen Mack Covey Professorship awarded by the Center of Entrepreneurship. As an active researcher in entrepreneurial marketing strategy, Dr. Rhoads’ work focuses on identifying marketing tactics that lead to start-up success. Dr. Rhoads has published articles in the Journal of Marketing Research, Journal of Marketing, Journal of Market Research Society, Journal of Personal Selling and Sales Management, Journal of Retailing, Behavioral Research in Accounting, Marketing Science Institute, and various AMA Proceedings and serves on the board of advisors of the Center of Economic Development and Opportunity to help develop successful start-up companies in Utah county. Dr. Rhoads received his B.S. degree in zoology with minor emphasis in chemistry and his M.B.A. from Idaho State University, and holds a Ph.D in marketing from Texas Tech University.

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Allegiance Engagement Expert

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Professor Whitlark earned a Doctorate degree from the Darden School, University of Virginia, and holds a Master of Business Administration degree from the S.C. Johnson School, Cornell University. While working at the DuPont Company as a Doctoral Fellow, he attended post-doctoral courses in research methods and multivariate analysis at the Wharton School, University of Pennsylvania.
Engagement: The New Competitive Advantage

Executive Overview

“The future isn’t what it used to be,” Yogi Berra once wryly noted – and that insight is truer now than ever before. Increasingly, companies are realizing that a future defined in terms of the traditional axes of competition – product, price, place and promotion – will no longer propel growth, but simply allow parity with the competition to be perpetuated. Winning today requires a new competitive advantage: people – both employees and customers – who are not only satisfied, not only loyal, but also engaged. You know it when you see it: an enthusiasm for your company, an emotional connection to your brand, and a level of energy that is unmistakable. It is this passion that causes employees and customers to be engaged with your business, and thereby to deliver enhanced profits.

Yes, you’ve heard the talk about engagement before, and there certainly has been a lot of it in recent years. What’s different now – what’s really different now – is that there is a way for companies to “walk the talk,” and to move engagement from a conceptual notion to a concrete opportunity that actually delivers results. The reader of this white paper will walk away with an enhanced understanding of engagement, a recognition of why it is so critical today, a realization that it can be measured and managed, knowledge of what drives it, and an appreciation of its multifaceted impact on the business – plus, tools, tips and techniques to get going.

Engagement has as many definitions as it does proponents, but three core elements are common among them all. First, engagement is generally understood to have a rational or intellectual component, capturing the extent to which an employee recognizes and agrees with the company’s mission or a customer values the attributes of a brand, for example. Second, there is a behavioral factor (e.g., recommending or purchasing) in which high energy and discretionary effort are present. Third, there is an emotional facet, exhibited as an attitudinal attachment or as enthusiasm.

While these elements of engagement are fundamental, this scholarly perspective does not easily support the practical application or measurement of the concept, nor does it incorporate the basic building blocks of satisfaction, quality or loyalty that have been proven to be important for business success and on which many companies have already expended significant resources. Building and extending upon that foundation, the new view of engagement involves five levels (see diagram).

At its most basic level, an engaged employee or customer must be satisfied – the person’s expectations of the performance of the company or the product must be met. If this is achieved, then there exists the opportunity to build loyalty – the intent of an employee to remain a member of the company’s workforce or of a customer to continue patronage of the company. Loyal individuals have the option of recommending the company to friends, and doing so defines the next layer of the hierarchy. For employees, the
viewpoint that the company is one of the best places to work – or, for customers, that it has the best products or services – represents one more step up the engagement ladder. Finally, the last tier of the continuum involves an emotional connection, reflected in an employee being proud to work for the company or a customer being excited about the direction of the company.

“This view of engagement,” notes Kyle LaMalfa, Best Practices Manager at Allegiance, “positions the more traditional facets of employee and customer interactions, such as satisfaction and loyalty, into a more comprehensive and practical context. It also exposes the myth that willingness to recommend is the peak on a company’s climb toward excellence.”

Used as a measurement model, this multicomponent view of engagement allows a business to understand both the transitory and the more stable aspects of its relationships with employees and customers. For example, while measures of satisfaction are prone to increase or decrease based upon the single most recent interaction, those higher-level measures that probe the dimensions of excitement toward the company are not. Additionally, while it is possible to “game the system” and disguise the true status of the relationships when only measuring satisfaction, doing so with a more comprehensive set of engagement measures becomes nearly impossible.

“To achieve success,” explains Chris Cottle, Vice President of Corporate Marketing at Allegiance, “it is now vital that a company orient its radar toward engagement. It is in fact the new business imperative.”

CASE IN POINT

RS Medical Uses Feedback to Strengthen Products

RS Medical is America’s premier provider of physician-prescribed home electrotherapy rehabilitation products and services, whose customers include physicians, patients and their insurance companies.1 Today, the company is collecting feedback from both its employees and customers to enhance their level of engagement as well as address specific business needs.

With customers, the measurement of satisfaction and the collection of (and response to) feedback is a requirement for meeting industry accreditation standards. As a consequence, the company has made a commitment to obtaining and using customer feedback, and is receiving suggestions for product and service improvements that are now reviewed by its Customer Satisfaction Committee. Whether the feedback channel is the web, the call center or a paper questionnaire, it is all centralized into one single database for ease of management and reporting.

“RS Medical now has the tools to address all types of feedback,” explains Alicia Muñoz, Quality Project Specialist at RS Medical. “We can specifically point to tangibles. We now have workflows and processes to address any number of feedback issues. Consistency and integrity of the response can now be monitored.”2

“I can honestly say that here at our corporate office, everyone is so very pleased because we are all on the same page,” notes Muñoz. “Employees have especially benefited, as they can anonymously communicate issues with human resources. For the first time, compliments about our field sales personnel are captured for all to appreciate. And now, we finally have baseline feedback that can be used to benchmark ourselves as an industry leader.”2

Engagement is the lynchpin of business success. Building on the seminal work of James Heskett, a faculty member at the Harvard Business School who advanced the “Service-Profit Chain”3 in 1994, researchers and practitioners have since empirically linked employee satisfaction to employee retention and productivity, to customer satisfaction, to customer loyalty, and ultimately to revenue growth and profitability. Today, the business case for both employee engagement and customer engagement is compelling, and encompasses the critical and timely issues of (1) productivity, ensuring that each resource is fully utilized for maximum gain; (2) performance, delivering financial benefit through both cost control and revenue generation; and (3) sustainability, enhancing the likelihood of a persistent advantage for the firm.

“This isn’t just warm, fuzzy stuff. It’s solid business logic.”

—Myron Ullman III, Chairman and CEO, JCPenney
The Business Imperative for Engagement

Productivity
Depending upon the industry, personnel-related costs can account for up to 60 to 70 percent of a company’s total expenditures. As a consequence, it is essential that businesses secure the maximum return from their investment in human capital. Today’s best companies are making it happen by building and nurturing employee engagement.

Consider the facts. Increasing an employee’s level of engagement from low to high yields a 21 percent increase in performance. Those employees with the highest levels of commitment perform 20 percent better. Offices with engaged employees are 43 percent more productive. Engaged customers are more beneficial for a business, too. They deliver repeat business through enhanced loyalty. They are easier to persuade and are prone to your promotions. They add value to your business through word-of-mouth recommendations.

Performance
Engagement with the company by its employees and with the brand by its customers each deliver significant financial performance for the firm. (See Figures 2 and 3).

Employees. Considering employee engagement, the performance benefits are substantial.

- Engaged employees intend to stay with their current employer at a considerably higher level than those who are disengaged (85 versus 27 percent), minimizing the costs of replacement, which can be as much as 150 percent of the salary of the position.
- Moving a workforce of 10,000 from low to high engagement has been estimated to have an impact of over $42 million.
- As compared to companies experiencing single-digit rates of growth, those with a double-digit rate have 39 percent more employees who are highly engaged – and 45 percent less who are highly disengaged.
- Total shareholder return (TSR) increases in concert with employee engagement: in companies where 60-70 percent are engaged, the average TSR is 24 percent; where 49-60 percent are engaged, TSR drops to 9.1 percent; and, where less than 25 percent are engaged, TSR is negative.
- The earnings per share (EPS) metric exhibits a similar pattern: the top 25 percent of public companies with the highest levels of employee engagement have an EPS growth rate 2.6 times that of below-average companies.
Best Buy, for example, was able to demonstrate that an increase in engagement among store employees of 0.1 on a five-point scale results in an annual profit increase of $100,000 for the store. At JCPenney, it has been shown that stores with high levels of engagement (i.e., in the top 25 percent) deliver 36 percent greater operating income than stores of similar size with low levels of engagement (i.e., in the bottom 25 percent); they also produce about 10 percent more in sales per square foot than average.

**Customers.** Executives from around the globe agree: the benefits of building customer engagement are significant, including improved customer loyalty (80 percent), increased revenue (76 percent) and increased profit (75 percent). Their perspective is consistent with independent research demonstrating that highly engaged customers deliver a 23 percent increase in share of wallet, profitability and revenue as compared to the average customer.

An examination of the casual-dining sector documents the benefits of customer engagement (see Figure 3). When comparing those with a high level of customer engagement to those with a low level, a marked difference in financial performance emerges. High customer engagement delivers a return on investment of 7 percent, versus -22 percent when engagement is low; for the gross margin metric, the spread is larger, 29 percent versus -12 percent; and for earnings per share, the difference is even greater, 75 percent versus -50 percent.

**Employees x Customers.** While employee engagement and customer engagement individually drive high levels of business performance, together they are a potent combination. An analysis of 1,979 business units in 10 companies shows that those with high levels of engagement for both are roughly twice as effective financially as those that excel on only one form of engagement, as measured by total sales and revenue. For one luxury retail chain, the joint impact of employee and customer engagement delivered an average of $21 more in earnings per square foot, for a total of more than $32 million for the entire chain.
CASE IN POINT

Vectra Bank Colorado Focuses on Listening

Vectra Bank Colorado is a full-service financial institution, offering banking, trust, investment, and financial planning products and services to individuals and businesses. "How our people treat our customers, how they serve them—and our ability to listen to our customers, hear what they want, and be able to respond...would be a reason why customers would bank with us, or employees would choose to work with us," explains Erica McIntire, Senior Vice President and Director of Marketing Communications at Vectra Bank Colorado. To achieve this competitive differentiation, the bank collects feedback from a representative sample of employees and customers at monthly intervals, and analyzes it to understand and improve engagement at a detailed level (e.g., by demographic groups or for individual bank branches). The success equation is simple yet powerful: "Happy Employees + Happy Customers = Revenue," notes McIntire.

For example, the bank identified the need (and has now implemented a program) to provide unexpected rewards and recognition as a consequence of the analysis of employee feedback. With customers, the bank is able to know if a problem exists with a product, route the feedback to the right person in the bank and save the relationship. This ability to listen to customers "gives us the opportunity to build and strengthen customer relationships – fulfilling our brand promise," says McIntire.

Sustainability

Engagement is a business imperative not only because it drives the productivity and performance required by companies today, but also because it enables a consistent advantage over time due to three major factors.

1. **Brand.** The experience that a customer has with a company’s employees is highly influential in a repeat decision purchase, to such a large extent that “employees are your brand.” In fact, 51 percent of consumers report that “outstanding service” is the number one reason they continue to do business with a company, and 80 percent state that they will never buy again from a company after a negative experience.

2. **Strategy.** The primary reason why CEOs fail isn’t because of a flawed business strategy, but because of bad execution of their strategy. Quite simply, engaged employees will make or break that execution.

3. **Human Capital.** In the next 14 years, it is expected that the demand for talented 35- to 45-year-old employees will grow by 25 percent while the supply declines 15 percent, escalating the “war for talent.” Even today, 75 percent of executives say that their companies don’t have enough talent. Under these circumstances, retaining the best and the brightest assumes a heightened level of importance, an outcome facilitated through engagement. In fact, engaged employees are 87 percent less likely to depart their employer.
Challenges
Despite the clear business imperative for engagement, difficulties remain.

**Few Employees are Engaged.** Only about a third (29 percent) of employees are fully engaged, while 19 percent are disengaged.\(^{14}\) Unfortunately, it is not the disengaged who are leaving companies—it is those employees with average levels of engagement, resulting in the “quit & stay” phenomenon in which a disengaged employee mentally departs but physically lingers.\(^{27}\)

**Few Companies are Taking Action.** Only about 27 percent of organizations around the globe have a formal, dedicated program to increase employee engagement and, for 19 percent, it’s not even on the agenda.\(^{28}\)

**Few Companies are Succeeding.** Only 41 percent of companies report success in converting the measurement of employee engagement into organizational improvements.\(^{29}\)

Overcoming these challenges to realize the business benefits of engagement requires a new and practical approach to the problem.

**CASE IN POINT**
**Ultradent Retains Customer and Gains ROI by Leveraging Feedback**

Ultradent Products is a leading developer of high-tech dental materials, devices and instruments, whose customers are primarily dentists. To enhance its engagement, the company is gathering feedback from both customers and employees—whenever and however the individual chooses to provide it. By making the process easy, accountable and responsive, Ultradent Products has seen the quantity of customer feedback increase by more than 40 percent. And, by analyzing the actual and referral value of “rescued customers” (i.e., those whose complaints were addressed satisfactorily), it has secured a $2.67 million benefit over five years.\(^{30}\)

When customers are submitting complaints, compliments, suggestions or questions through the company’s website, they also are given the option of responding to a brief quantitative survey that helps the company understand the state of the drivers of engagement. For example, customers may indicate their level of agreement to statements such as “Ultradent Products, Inc. makes it simple for you to do business with them” and “Ultradent Products, Inc. employs outstanding, knowledgeable employees.”

Another benefit realized by Ultradent Products is the ability to ensure that answers to customers’ questions are in compliance with the company’s approved statements as contained in a product instruction sheet or a material safety data sheet. Because all feedback is now able to be tracked, there exists an audit trail—and, if a reply needs to be clarified, a manager has the opportunity to follow up with a customer to ensure that the right information has been provided.

“We are pleased as punch,”\(^{31}\) says Melanie Jones, eCommerce Manager at Ultradent Products, Inc, “We are convinced that through our feedback and engagement efforts, we are taking those so-so or disengaged customers and strengthening their emotional ties to Ultradent.”
Today's Practical Solution for Tomorrow's Profitable Success

Winning with engagement necessitates a practical approach: one that is founded upon an understanding of the (1) “engagement chain,” (2) the data to be collected and analyzed and (3) the technology that makes it cost-effective and workable. “If the new battleground of business is the strategic focus upon enhancing employee and customer engagement,” notes Cottle, “then the tactical weapons must be pragmatic. It is not enough to conceptually understand what directionally needs to be done – businesses must be provided with concrete and specific guidance. Today, fortunately, this is completely feasible.”

Engagement Chain

Engagement resides in the middle of a causal and temporal chain of events, preceded by drivers and followed by business outcomes (see Figure 4).

Making it real begins with the drivers of engagement – namely, those areas of the employee and customer experience that, if improved, will directly lead to increases in engagement. “Through rigorous academic and scientific inquiry,” explains LaMalfa, “an unmanageable universe of possible drivers has now been narrowed down to an actionable set of four each for employees and customers.” With customers, for example, these drivers are (1) “helpful service,” achieved through superior delivery of the basic day-to-day services that meet a customer’s needs; (2) “feeling confident and informed,” reflecting the customer’s perception about the quality, relevance and timeliness of communications received; (3) “feeling valued,” capturing the customer’s emotional evaluation of whether interactions are friendly and welcoming; and (4) “feeling protected,” representing the customer’s assessment of the trustworthiness of the company. A company’s unique driver levels can be quantified through customer responses to brief and periodic questionnaires.

Employee engagement influences customer engagement, both of which are impacted by drivers. Together, they jointly impact a variety of important business outcomes. Source: Allegiance
“Across industries and companies,” notes LaMalfa, “the drivers of engagement are the same. By associating changes in the drivers with subsequent changes in engagement, it is possible to know which drivers have the greatest impact. And, by comparing how the drivers change in response to initiatives executed by a company (e.g., an employee training or a customer recognition program), it is possible to evaluate the effectiveness of each one.”

Measuring the level of engagement is equally realistic, through the use of a customer’s response to questionnaire items that gauge her or his level of satisfaction, loyalty, willingness to recommend, perception of whether the company’s products are the best, and the extent to which there is excitement about the company and the direction it is going (see Figure 1). “Based upon the data from these very specific questions, customers may be grouped into ‘engaged,’ ‘swing’ and ‘disengaged’ categories,” explains LaMalfa, “to more easily allow a company to target and track engagement initiatives. In particular, by moving even a small percent of customers from the ‘swing’ to the ‘engaged’ category, the business benefits can be considerable.”

**Data**

The data that quantify the status of the drivers and of the level of engagement arise from solicited feedback: brief, tightly focused questionnaires containing quantitative items (i.e., statements rated on a five-point scale) that a random sample of employees or customers complete in an anonymous manner at periodic intervals. “This is not ‘nice-to-know’ generalized information,” says LaMalfa, “but specific, actionable insight that permits a company to measure and monitor the state of the drivers and of engagement. A random sample is used to avoid respondent fatigue and to control costs. Anonymity is provided to minimize bias, and thereby ensure the integrity of the results. The process is repeated frequently – ‘pulsed’ at monthly or quarterly intervals – so that a company gets the insight that it needs to make well-reasoned adjustments to its engagement tactics promptly, before any negative impact on the business occurs.”

In addition to data arising from solicited feedback, unsolicited feedback provides an equally important view into the landscape of engagement at a company. This form of feedback consists of complaints, compliments, suggestions or questions initiated by either employees or customers, optionally allowing anonymity to be preserved at the discretion of the individual in order to allow the input to be honest and forthright. Unsolicited feedback may be used to capture qualitative textual commentary as well as quantitative responses. “In the past, companies have often neglected this form of feedback, because of the difficulties of dealing with it internally,” says LaMalfa. “The difference is that now, with the overlay of a robust case management system onto the process, the feedback is categorized and automatically routed to the appropriate individual inside the company.”

Case management capabilities also allow the company to dialog through email with the employee or customer providing the feedback, while still maintaining the anonymity of the individual. This is accomplished by using technology that serves as an intermediary between the two parties, and substitutes and maintains a random identifier for the individual.
“This breakthrough allows a customer or employee to be anonymous,” explains LaMalfa, “but also allows the company to respond to the individual quickly and with accountability. The system provides an alert when the person inside the company who receives and owns the feedback doesn’t respond, and also automatically sends the customer a survey at the end of the process to gauge her or his level of satisfaction with the interaction.”

Technology
“Businesses intuitively understand engagement and its importance, but it is technology that allows the strategy to become a tactical opportunity by overcoming obstacles that they would otherwise encounter,” explains Cottle. Making engagement a practical reality primarily necessitates having the capability to deploy, collect and centralize both solicited and unsolicited feedback; to support robust case management, to add accountability and transparency to how feedback is utilized; and to analyze and report upon the information, to ensure its visibility and actionability within the company.

Today’s practical solution for tomorrow’s profitable success with engagement is all about simplicity and sophistication. How engagement is viewed and quantified, how data are collected and analyzed, how the technology works – each facet of the solution must be straightforward and easy to use, yet must also be based upon the most recent and thorough understanding of the discipline of engagement. Those are the things that are truly different now and that will allow a company to move engagement from a conceptual notion to a concrete opportunity that actually delivers results.

Conclusion
It’s time to truly think about engagement strategically and recognize that it is the new business imperative that will drive competitive advantage. It’s time to recommit to making it happen in your company – not haphazardly, but systematically and with an urgent dedication. And, most importantly, it’s time to get started.

Engagement can be measured. The drivers that enhance engagement are known. The linkage from engagement to better employee and customer productivity, better financial performance and better sustainability of those advantages over time are documented. The technology exists to enable it. All that remains is for executive leadership to step out of the shadows and sincerely state that engaged employees and engaged customers really do impact the business – not as an ephemeral and ethereal slogan, but as an actual business imperative.

“The link between employee engagement, customer engagement, and profits is real – and it’s taking center stage in 21st century business.”

– Adam Edmunds, CEO of Allegiance
Q&A with Don Peppers – Customer-Focused Business Strategy Leader

Don Peppers, Founding Partner, Peppers & Rogers Group, responds to a series of questions about engagement, and through his answers it becomes clear that engagement with employees and customers is a critical necessity in today’s business environment.

What is the single most important element necessary to build and sustain engagement?
Quite simply, it is trust. Engagement implies trust and you can’t have authentic engagement in the absence of a trusting relationship, one that possesses both character (the right intent) as well as competence (the ability to do the right thing). Employees and customers may forgive honest mistakes, but they will never forgive dishonesty.

According to recent research by the Economist Intelligence Unit, business executives from around the globe report that the number one factor that most influences the purchase decisions of customers is trust. And, even when controlling for customer satisfaction and customer loyalty, trusting a company’s leaders to behave with fairness and integrity is closely associated with a firm’s total income.

Does engagement matter more now than ever?
Absolutely. The speed of business and of technology has increased dramatically in recent years. It’s difficult for a company to maintain a marketplace lead through product innovations for long, since products are perceived by customers as commodities with increasing rapidity. In contrast to these and other short-lived business advantages, engagement is a much more durable asset. Also consider that today a company’s reputation has the potential to be impacted quite quickly through postings on Internet communities and blogs. Employees and customers are now talking among themselves in public forums in a way that was previously impossible. This has escalated the importance of engagement, because we now know that a corporation’s reputation helps to create value.

What obstacles are hindering companies from successfully engaging their employees and customers?
The single biggest obstacle involves the realization of the importance of acting in the customer’s best interest. This is a basis for competition that is diametrically different than found within a typical product-focused organization. A product marketing organization will focus on one product at a time and will try to sell it to as many customers as possible. In contrast, a customer view focuses on one customer at a time and tries to sell as many products as possible over the lifetime of that customer’s relationship with the company. If there is no one in the organization responsible for representing the customer’s point of view, it will be difficult to come to grips with the importance of engagement.

Another key obstacle is the attitude or culture within the company. Many companies claim that they are customercentric, but if they pay their people to

“To earn your customers’ trust, first earn your employees’ trust.”
– Don Peppers and Martha Rogers, Ph.D.
sell products rather than compensating them for engaging customers, then that is what will occur.

A third roadblock hindering advancement toward higher levels of engagement is the short-term orientation of many companies, especially those in which the product marketing mantra has gone to the heart of the corporate culture. An important (but neglected) difference between products and employees or customers is that people have memories. How you treat them today will impact their productivity and performance tomorrow. Establishing a persuasive perspective that a business is better served if it always acts in the interests of its employees and customers is easily said but extremely hard to do, because it requires balancing short-term versus long-term interests.

What is the role of employee engagement in driving customer engagement?

A strong relationship between employee engagement and customer engagement can now be demonstrated, and that relationship will only get stronger. As the speed of change increases, all product businesses are becoming service businesses, because they must ensure that customers have excellent experiences with their products. That cannot and will not happen unless employees are engaged.

Ten Takeaways to Get Going

Successfully enhancing both employee and customer engagement is possible and practical, if the following key principles are followed.

1. **Do the Basics.** Enterprise efforts to build engagement must be built on a solid foundation, including a continuing commitment to satisfying both employees and customers. These efforts must also be championed by senior leadership, to demonstrate their importance and their value to the company.

2. **Listen and Learn.** Empowering employees and customers to provide feedback is essential to any organization that wishes to maintain line-of-sight visibility into its engagement landscape. Providing an easy-to-use process to submit feedback – and responding in a timely manner to each individual personally – enhances the quantity and quality of feedback.

3. **Measure and Monitor.** Quantify employee engagement and customer engagement using proven and scientific metrics, and use them to “pulse” a representative sample regularly to detect changes and to view trends.

4. **Demonstrate Value.** Because the business case for engagement will need to be continually updated, collect the necessary data to demonstrate a linkage between engagement and business outcomes – and to show that engagement is in fact a leading indicator of results.

5. **Improve the Drivers.** Identify, quantify and establish initiatives to positively impact the drivers of engagement. Analyze the association between the drivers and the levels of observed engagement in order to prioritize and justify expenditures.
6. **Move the “Swing” Group.** Those employees and customers who are between “engaged” and “disengaged” represent a key opportunity for leverage. Test and deploy initiatives designed to move them up the engagement continuum to enhance business results.

7. **Leverage Technology.** An enterprise-wide view of engagement over time requires enabling technology that supports a centralized store for ease of access and reporting, information collection mechanisms to gather solicited and unsolicited feedback (both qualitative and quantitative), dashboards to easily summarize and display that information, and case management capabilities to allow the organization to react quickly and personally to the individuals providing the information.

8. **Exploit Foresight.** Reporting or hindsight is good, analysis or insight is better, but predictive analytics or foresight is best, because it allows a company to anticipate and act upon problems before they occur (or leverage forthcoming opportunities more fully). Apply predictive analytics continually to the longitudinal data surrounding the drivers of engagement, the engagement indices themselves and the business outcomes to optimize initiatives.

9. **Engage Employees to Engage Customers.** Treat employees the way you want them to treat customers. Engaging employees is simply the most effective strategy to engage customers. Additionally, extend some of the tools and techniques that your company already has in place for its best customers more broadly, and add customer portfolio managers who look after the interests of needs-based groups (e.g., “busy mothers”) and who serve as their internal advocate.

10. **Don’t Just Think – Act.** Target segments of employees and customers with new initiatives designed to enhance engagement, based upon receiving and analyzing their feedback, and coordinate and consolidate all existing engagement activities for maximum benefit.

“You have to treat your employees like customers. When you treat them right, then they will treat your outside customers right. That has been a powerful competitive weapon for us.”

— Herb Kelleher, Co-Founder and Former Chairman and CEO of Southwest Airlines
ABOUT THE AUTHOR

Thomas Lacki

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With over 15 years of marketing experience and advanced study in cognitive psychology, research methodology and statistics, Thomas Lacki, Ph.D., is privileged to contribute to the creation of higher value solutions through best thinking for the clients of Peppers & Rogers Group. In the role of Senior Advisor, 1to1 Faculty, he leverages his own expertise in understanding individuals behaviorally and analytically to achieve measurable relationship marketing results today, and to elevate the practice of relationship marketing tomorrow. Tom has shared his insights with conference audiences throughout the world, has published research about CRM, and serves on the editorial board of an international marketing journal.

ABOUT PEPPERS & ROGERS GROUP

Peppers & Rogers Group is dedicated to helping its clients improve business performance by acquiring, retaining and growing profitable customers. As products become commodities and globalization picks up speed, customers have become the scarcest resource in business. They hold the keys to higher profit today and stronger enterprise value tomorrow. We help clients achieve these goals by building the right relationships with the right customers over the right channels.

We earn our keep by solving the business problems of our clients. By delivering a superior 1to1 Strategy, we remove the operational and organizational barriers that stand in the way of profitable customer relationships. We show clients where to focus customer-facing resources to improve the performance of their marketing, sales and service initiatives.


The Top 9 Ways to Increase Your Customer Engagement

Follow These and Enjoy an Immediate Lift in the Loyalty of Your Customers

By Kyle LaMalfa, Allegiance Best Practices Manager and Loyalty Expert
The Top 9 Ways to Increase Your Customer Engagement

What is the Key to Business Success?

Every company executive will raise their hand and say they believe having loyal customers is a key to business success. But what are executives really doing about it? Most will point to their customer care training or CRM system and say, “that’s how we take care of loyalty here.” Some will also point to their monthly newsletter or discount program to demonstrate their efforts. All of these are good attempts. However, they are not enough.

Fostering true loyalty and engagement with customers starts at a basic level. These 9 principles will guide you in your efforts to create greater loyalty and engagement within your organization. It’s one of the most critical ways to retain more of your customers and grow your business faster. It can also be a powerful competitive edge. To understand why this is so necessary, let’s review the common problem facing most businesses today:

Companies are losing customers at a staggering rate, without really hearing from most of them…

• Each year the average company loses 10-15% of its customer base – Bain & Company
• “84% of customers who leave, do so because of poor service” – Forum Corp
• “A typical business only hears from 4% of its dissatisfied customers – the other 96% leave, 91% for good” – Jim Barnes, “Secrets of CRM”

By understanding these basic 9 principles and putting them into practice at your organization, you’ll foster a culture of greater loyalty and engagement that will reward you with greater profits.

If you can’t tackle all of these right away, start with just one, then move on to another one after that, etc. The most important thing is that you start as soon as possible. As you better practice these, and track results, you will see loyalty levels swiftly increase.

I’ve broken these into 3 primary groups:

• Basic Concepts
• Technologies
• Business Outcomes
Basic Concepts

Understand 3 fundamental concepts about customer loyalty in order to make sure you are building on a solid foundation.

1. **Satisfy Your Customers with Product Quality.**

Satisfaction is the difference between your customer expectations and your service delivery. Know your customers’ expectations and be prepared to evolve your product. This is basic business 101, but often it is ignored. People try all sorts of loyalty and sales gimmicks, yet ignore the fundamental business concept that business needs to be a balanced transaction: someone pays for something and expects a fair trade in return. Expectations of product quality come from many sources including previous quality levels set by your organization, value propositions set in the competitive landscape and impressions in the media.

2. **Build Loyalty by Exceeding Expectations and Building Opportunities for Repeat Business.**

A generation ago, customer loyalty was a different game. Today’s customers are quick to switch to the competition. Remember, your competitors are only a mouse click away.

   a. Be acutely responsive to customer questions, comments & complaints (yeah, that’s right, complaints.) Often, these are your most loyal customers. If you resolve a complaint quickly, you can actually grow loyalty.

   b. Drive product development to offer more value for less cost.

   c. Give your customers a chance to be loyal by offering products for repeat business.

3. **Engage Your Customers by Reaching Out to Create a Dialog.**

Engagement strengthens your company’s relationship with your customer by providing an open channel for communication and feedback. An engaged customer is more than satisfied and more than loyal. They go out of their way to show their association with your company. They also support you during both good and bad times because they believe what you have to offer is superior to others.

Engagement takes your customer beyond passive loyalty to become an active participant and promoter of your product. And engaged customers will want to give you more feedback – and you should be ready to handle it! All this translates into a more engaged customer who will spend more money with you over time.

So how do you become a company that actively engages its customers?

Follow these simple rules:

   a. Listen to customer feedback from comment cards, letters, phone calls and surveys.

   b. Respond quickly and personally to concerns of high interest to your customers – if you respond quickly, you can actually increase loyalty.

   c. Organize unstructured feedback for tracking and trending over time.

   d. Trust your customers to tell you what the problem is.

   e. Use statistical techniques to discover which action items will have the most impact on your business outcomes.

“Executives are finding that the winning differentiator is no longer product or price, but the level of customer engagement relative to the competition.”

– Rama Ramaswami, Senior Editor, Economist Intelligence Unit
CHAPTER 3: THE TOP 9 WAYS TO INCREASE YOUR CUSTOMER ENGAGEMENT

Technologies

Adopt technology to help you manage large volumes of unstructured data and create actionable information from your feedback.

1. Complaint Management
Managing questions, comments and concerns benefits your business in two important ways. First, as mentioned earlier, research indicates that an upset customer whose problem is addressed with swiftness and certainty can be turned into a highly loyal customer. Second, unstructured feedback, gathered and managed appropriately, can be a rich source of ideas. Hidden gems exist in your customer’s complaints.

You can start to collect and use that information as you:

a. Establish channels (electronic, phone, written) to build engagement one customer at a time.
b. Encourage customers to let their voice be heard.
c. Create metrics to improve response to concerns (“time to first response,” “time to resolution”).
d. Create metrics to measure loyalty before and after the problem.
e. Use technology to help you centralize the information, create reports and structure drill-downs.

2. Pro-active Surveys
Actively soliciting information from a population of customers is a time-tested technique pioneered by Arthur Nielsen (creator of the Nielsen ratings) in the 1920s. Survey research can be used for problem identification or problem solving. Questions with simple scales such as “agree/disagree” or “satisfied/unsatisfied” deliver quantitative insight for problem identification. Open-ended follow-up questions provide rich insight for problem solving. You can use a professional when survey help is needed.

a. Make sure your surveys are short, bias-free and well structured.
b. Use random sampling to gather feedback continuously without over-surveying.
c. Create summary survey indices that can be displayed graphically and tracked over time.

3. Enterprise Feedback Management
Enterprise Feedback Management (EFM) is more than just collecting data. EFM adopts a strategic approach to building dialogs with your customers. By wrapping customer dialogs with a technology, your company creates a structured, searchable and quantifiable body of information that can be used to drive critical business decisions.

a. Empower customers to give feedback through common advertised channels.
b. Centralize reporting for pro-active surveys and complaint management solutions.
c. Structure quantitative feedback into a drill-down or rollup report.
d. Make open-ended feedback intuitively searchable.

“One of the biggest business growth opportunities today is to focus on engagement. Companies that make it fundamental to their business cannot be touched by competitors. They enjoy more profits during tough times, and grow faster during good times. It truly is an untapped opportunity just waiting for those who will grab it.”

– Adam Edmunds, CEO, Allegiance Technologies
Business Outcomes

Tie the latest “soft measures” such as satisfaction, loyalty and engagement to “hard measures” of actual business outcomes.

1. Descriptive Statistics

Answers to survey questions take the form of either categorical (What state do you live in?), order-scaled (To what extent do you agree with… ), continuous-scaled (What year were you born?) or open-ended (What do you like about… ). Descriptive statistics such as mean, median, mode, top-box and frequency cross-tabs summarize the multitude of responses into manageable information. Descriptive statistics may lie to you by failing to uncover relationships within your data, so be careful!

a. Don’t assume that the average is an appropriate measurement for every situation.

b. Make sure your analyst understands the nuanced interpretation of the right statistic.

c. Use crosstabs to begin to understand relationships between two variables.

d. Generously use graphics to convey information to non-technical people.

2. Predictive Analytics

Businesses use a variety of statistical techniques to make predictions about the potential for future events. Furthermore, predictive analytics may be used to ascertain the degree to which answers from a survey relate to particular goals (such as loyalty and engagement). Tactical knowledge of action items that impact an outcome discourages the wasting of resources on ineffective programs, and competent statistical modeling reveals the insight of which tactical options have the most impact.

a. Analyze data using a statistical technique to reveal the most important areas of focus.

b. Ask your analyst about common statistical methods including correlation, multiple regression, factor analysis and logit models.

c. Recognize that the important areas of focus may change over time to respond with changes in the economic, competitive and demographic environment of your business.

“Enterprise Feedback Management (EFM) is a term that started being used in 2004. Today, there are many companies that claim to be EFM, but most have only one or two components...

Then, you also need the ability to manage that feedback, generate enterprise-wide reports, use analytics and dashboards, and make sense of it all with professional services. If a simple survey company claims they are EFM, turn and walk away, quickly.”

– John Epeneter, VP Product Management, Allegiance, Inc.
3. Alignment with Business Outcomes
Whatever you do, the ultimate goal should be oriented to optimize business outcomes specific to your circumstances. Orienting your organization to focus on satisfaction, loyalty and engagement is no panacea. However, researchers have clearly documented evidence of short-term benefits to customer/employee retention and long-term benefits to profitability. In the modern economic landscape, loyal customers and loyal employees supply your organization with a huge competitive advantage.

a. Determine whether your engagement outcome is best measured by satisfaction, likelihood to purchase again, likelihood to recommend or another voice of the customer (VOC) metric.
b. Create hybrid VOC measurements using more than one metric if necessary.
c. Link your VOC metrics with business outcomes like shareholder returns, annual sales growth, gross margin, market share, cash flows, Tobin’s Q, customer churn or employee turnover.
d. Be aware that changes in loyalty/engagement scores generally precede changes in business outcomes (typically by 45-60 days).

It may not be the easiest process to do by yourself, but stay focused and keep your eye on the goal: increasing your engagement and loyalty equals increasing profits and a strong competitive edge. Don’t feel like you need to do everything yourself. If you want to make it happen, choose a partner who has the technology, best practices and experience already in place and ready to help you. Allegiance is that partner.

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Kyle LaMalfa has been a career data analyst data since 1996, answering business questions and solving business problems for executives and managers. He has undergraduate training in mathematics and economics and graduate training in statistics and sociology. LaMalfa has been in the consulting business since 2004. Recently employed as Lead Statistician at a prominent market research company, he now serves as Principal Consultant at Allegiance. LaMalfa helps Allegiance clients become more profitable by acting upon the benefits of engagement. Beyond engagement best practices, problem solving specialties include customer/employee attrition, data mining and predictive modeling.
Do You Know Why Your Customers Really Buy?

*How to Use Customer Feedback and Real-Time Attitudinal Data to Understand Customer Emotions and Unlock New Growth*

*By Chris Cottle, VP of Corporate Marketing, Allegiance*
Do You Know Why Your Customers Really Buy?

Business leaders typically rely on a handful of basic measurements to make their marketing decisions, including response rates, website traffic, focus groups, sales numbers, etc. One critical measurement is often ignored, yet it holds the key to insights that can drive the best kind of marketing – presenting the right message and offer to the right people at the right time. This critical element is means-end based attitudinal information, which is made available today through new surveying technology that equips the modern marketer with a fierce advantage over those who do not recognize its value.

This paper explores the benefits of using means-end based attitudinal data in marketing, sales and service industries, and how new real-time survey technologies make it affordable and simple to layer attitudinal insights onto traditional customer data. This provides a complete picture of customer engagement and loyalty, enabling smarter decisions that help to grow business faster.

The Attitudinal Element of Business Relationships

Customers today are in a tough spot. They are bombarded with more communications from more channels than ever before. How can they possibly decide where to spend their time and money, and where they should give their loyalty?

With so much commercial messaging constantly bombarding consumers, is there an opportunity for you to make your business stand out? And how exactly could you do that? The answer is that you must understand why your customers really do business with you, and then deliver on that premise again and again.

Understanding “why” customers do business with you, and why they are emotionally engaged with you, is easy if you ask the right questions in the right way at the right time. Once you learn to do that regularly, it will become a critical layer of your understanding of the voice of the customer. In fact, it will drive many of your marketing, sales and service campaigns – especially if you can get the information in your hands in real time.

Focusing on the “why,” or attitudinal element of a business relationship, is a rich opportunity that will make your business stand out in a sea of mediocre marketing promises and lackluster sales and service experiences. Customers naturally become strong advocates for a business that meets their rational and emotional needs on all levels, not merely one or two.

The Four Elements of Business Relationships

There’s no doubt that today’s consumers want it all. They want the hottest product designs, the best price, the best service, the best support and warranties, and they want it delivered to them quickly. Wow! Good luck living up to those expectations.

But take heart. The more the world of business goes crazy throwing everything but the kitchen sink at customers, the more opportunity there is for you to stand out. Once you understand the basic elements of a business relationship, then you can apply the principles to work in your favor.
There are three common elements that most businesses focus on delivering to customers in the traditional business battleground, if you will. They are:

- **Reasonable Quality**
- **Reasonable Service**
- **Reasonable Price**

When customers buy products or services, they expect good quality delivered with good service at a fair price. If not, the relationship will be out of balance in some way. If any of these elements are “poor,” customers feel slighted. If they are “fair,” then customers will likely feel it was an equal trade and are satisfied. If these elements exceed expectations, customers feel rewarded. Companies have learned that all of these items must be average or better to maintain a satisfactory customer relationship over time.

But in today’s competitive landscape, relationships with satisfied customers may not last long. Consumers are bombarded with more attractive offers all the time. They see a better deal based on price, quality or service, and they feel pressure to switch brands. Today’s consumers need to know their relationship with their vendor is authentic – that vendors are respectable and trustworthy.

Traditional business battlegrounds include price, quality and service – elements that will always be relevant. Yet as they become more commoditized, businesses have a new opportunity to differentiate and grow. That new opportunity is engagement, which is focused on the “heart” or “emotional” segment of customer relationships.

Savvy companies have figured out that there is another battle being waged – the fight for engagement. When you focus on the heart or emotional aspect of customer relationships, in addition to price, quality and service, you will create more engaged customers. When this happens, you will begin to enjoy all the rewards that engaged customers offer a business, including a greater share of their wallets, more positive referrals, less inclination to leave the business relationship, more useful feedback, etc.

The ability to identify, measure and manage engagement cost effectively across the enterprise is now possible with recent technological advancements, thus opening up a new dimension in business. What used to be available only to businesses with a formidable commitment and culture built around the concept of engagement is now available to a much broader spectrum of organizations.

“Executives are finding that the winning differentiator is no longer product or price, but the level of customer engagement relative to the competition.”

– Rama Ramaswami, Senior Editor, Economist Intelligence Unit
Attitudinal Information = Emotional Information

Measuring attitudes is a relatively new thing to do. There have been past movements to uncover rational customer behavior with geographic, demographic or psychographic views. But this new attitudinal approach to modeling behavior uncovers the reasons why people do what they do. The purpose is to understand the “spark” of the relationship. What was it that got them interested in the first place, and what values drives them to remain interested and engaged?

This information can be uncovered through asking attitudinal questions in the feedback process. A critical step is to understand the role that emotion plays in the consumer decision-making process. According to consumer action expert Eric Arnould, “Consumers use many different strategies for making decisions – some simple, some complex, some based primarily on cognitions, and other based more on feelings and emotions.” (Consumers, page 660)

People remember emotional experiences better than most other elements of a brand experience. In the paper Customer Experience Management: The Value of Moments of Truth, CRM Guru CEO Bob Thompson writes, “Without emotion, we wouldn’t remember much of anything. Think about your strongest memories. They probably include either very pleasant or very awful experiences. The same goes with customer experiences.”

Given that customers remember the emotion of a brand experience, it is logical that much of their attitude about a brand is based on the emotional connection they have formed with that company. Yet many businesses continue to act like much of what drives their customers to buy is solely based on other factors such as baseline products and features. Customers get emotional about their business relationships, much like personal relationships. That helps explain these staggering statistics:

- According to Target Training International, more than 60% of all customers stop dealing with a company because of perceived indifference on the part of an employee.
- 70% of the reason customers leave a company has nothing to do with the product, and 84% of customers that leave do so for poor service. – Forum Corp.
- Tarp Worldwide research found that customers who experience mild or strong dissatisfaction will tell between 9 and 16 other people.
- Up to 80% of defecting customers describe themselves as “satisfied” or “very satisfied” just before they leave. – Business Week, October 2006

These statistics exemplify the issue facing business today – customers make decisions about staying or leaving a business relationship based upon a multitude of factors – and attitude and emotion play major roles. That is why it is critical that businesses understand customer attitudes and regularly collect feedback, or even better, collect feedback in real time.

By collecting feedback in real time, and at all possible customer interaction points, a company can learn first hand what customers think when interactions happen and why customers become emotionally charged.
Get a Complete Customer Relationship Picture

Customer attitudes reveal the softer side of the business relationship. Knowing why customers do business with you is critical to maintaining that relationship and to adding new customers in the future. The difficulty in business is that many of the systems today reveal only a portion of what is needed to really understand the customer.

Customer relationship management (CRM) systems are a good example. Most CRM-derived information is transactional in nature. It is solid information – critical to any business – but it doesn’t tell the entire customer relationship story. It tracks the “who, what, when, where and how” of the business relationship. The missing element is “why.” Why do your customers do business with you? To uncover the “why,” it is necessary to understand the basic principles driving any business relationship: Do your customers feel valued, protected, informed and have they been provided good service? These factors are the key drivers of engagement and loyalty of customers, and have a definitive impact on business.

You can collect attitudinal information through engagement-related surveys with questions that are designed to solicit this information. By asking these questions regularly (monthly or quarterly) to a sample of your customer base, you will see trends and spot opportunities for growth. And you will also know quickly if you are not meeting the needs of your customers.

Collect Both Categories of Feedback

Every company should have a comprehensive feedback management strategy. That means collecting both solicited and unsolicited feedback. What’s the difference between these types of feedback and when is the right time to gather feedback? Solicited feedback is any feedback that is purposely requested, generally within a selected time frame, such as from a survey. Your annual customer satisfaction survey and post-transactional survey are examples of solicited feedback. The right time to gather this feedback is based on a careful balance of insight needs and survey fatigue. The timing of surveys is best managed through following best practices and enterprise feedback management strategies designed to solicit feedback at the right time and place, from the right people. Contact Allegiance if you have questions about how to develop an enterprise survey plan.
Unsolicited feedback is any feedback that is offered voluntarily, at a time selected by the customer. Compliments, suggestions, comments and complaints are examples of unsolicited feedback. Even discussion forums and customer blogs can be considered forms of unsolicited feedback. “Give Us Feedback” links on a website and comments provided live to a call center representative are examples of the channels used to collect unsolicited feedback.

If handled properly, the combination of solicited and unsolicited feedback provides a clear view of current and emerging issues that are driving your customer relationships. These two elements of feedback can also be the source of some of the best product, marketing and sales information a company has. When customers go out of their way to provide feedback, it indicates they care about the relationship enough to voice their opinion. Many companies will hold focus groups once a year or rely on annual surveys to pinpoint areas of improvement. This kind of thinking represents a lack of understanding about the value of real-time feedback management.

If a customer has a negative experience, it is important to learn about it quickly and take care of the issue to the degree that is possible. Giving your company the chance to fix issues quickly is the true value of real-time feedback collection and management. According to Tarp Worldwide Research, customers who complain, then are satisfied, are up to 8% more loyal than if they had no problem at all.

What is Engagement?

For many years, companies have focused on building customer satisfaction, trust and loyalty. While important to the organization, satisfaction is fluid, meaning a customer can be satisfied with a company today, but as a result of one bad experience, be dissatisfied tomorrow.

Dr. Gary Rhoads and Dr. David Whitlark, Allegiance loyalty and engagement experts, have written:

“For many firms, developing deeper levels of trust and loyalty among their customers remains an elusive and perplexing process. That is because firms frequently neglect the most important ingredient, the “heart” or “emotional bond” of an organization’s most important assets – its employees and customers. This bond, called Engagement, goes beyond a single moment in time and is defined by the enduring behaviors, attitudes, and emotional connections of its employees and customers.”

“Engagement is the emotional bond or attachment that a customer develops during the repeated and ongoing interactions accumulated as a satisfied, loyal and influencing customer. When customers are engaged with an organization, they are emotionally connected, passionate about its products and services, as well as aligned with the purpose and direction of the organization.”

_Discovering Engagement, Dr. Gary Rhoads and Dr. David Whitlark, 2007, Allegiance white paper_
The Drivers of Customer Engagement

Measuring and managing engagement will help you understand why customers do business with your company. Once you understand this, you can create products and services to consistently deliver on your value proposition. Your customers like the business relationship they have with you for a specific reason. What is the reason?

Why do they really do business with you? And how can you use feedback and attitudinal data to grow the relationship?

At the heart of attitudinal data is what Allegiance has defined as the Drivers of Engagement. A driver is something that affects a measurement. For example, if a person was interested in knowing the basic state of his health, he could go to a medical professional for help. A medical practitioner would take basic health measurements, such as heart rate, blood analysis, weight, etc. These measurements offer a good point-in-time snapshot of health, but equally important is to understand what the drivers of health are if improvements are planned. Common drivers of health could be a person’s diet, exercise and genetics. Knowing these drivers combined with basic measurements allows the creation of a more effective health improvement plan.

Similarly, engagement and loyalty measurements are important to know; they are good at-the-moment snapshots of reality. But to plan improvements in engagement, you must also know and understand the four primary drivers of engagement. Allegiance has concluded that these drivers apply to nearly all industries and are present in every business relationship. While these drivers are generally common to any business, how your customers value them will vary by age, length of customer relationship and geography among many other variables.

These four drivers of customer engagement are the foundation of how customers rate their emotional bond with a business:

- **Feeling Protected**
- **Feeling Valued**
- **Feeling Confident and Informed**
- **Helpful Service**

If a customer has a negative experience, it is important to learn about it quickly and take care of the issue to the degree that is possible. Giving your company the chance to fix issues quickly is the true value of real-time feedback collection and management.
But why are drivers such as Helpful Service and Feeling Confident, Valued and Protected the four primary drivers? Dr. Rhoads and Dr. Whitlark explain this and the basic process of how customer engagement forms:

“From the customers’ perspective, they begin to form a strong emotional bond or attachment to an organization after they experience multiple episodes of helpful and enjoyable service. Helpful service creates enduring customer-employee relations and builds real passion and commitment toward the organization. Under such positive conditions, customers feel better informed and knowledgeable about various products and services offered by a company.

As customers become more confident in their relationships with companies, additional helpful experiences stimulate even stronger and more enduring emotional attachment toward the company (the beginnings of customer engagement).

Over time, exceptional service and learning experiences engender a belief and feeling that a company cares about the overall wellbeing of its customers. When this happens, customers “buy in” and “relate to” the vision and direction of the company. They gain a sense of protection and security and consequently develop a strong emotional bond with the company. The end result: Totally engaged customers who identify and express themselves by the company’s products and services they purchase and use.”

– Discover Engagement whitepaper, Allegiance, 2007

Your New Secret Weapon for Growth
Understanding why your customers do business with you brings new marketing opportunities front and center. For example, traditional customer data provided from a CRM system might show that a demographic segment of a customer base is not buying as much product as in the past. Seeing this trend, many marketers may start to discount prices, test new offers or focus in other areas. However, we still do not really know why that group is not buying as much as in the past. Perhaps it’s because their needs are not being met in some way. The drivers of engagement could reveal this information.

MEANS-END MAPPING OF CONSUMER DECISION-MAKING

“One way to understand a means-end chain is to think of consumer decision making as a problem solving process. In making decisions consumers select a course of action or means to reach an objective or end. While a means can be an end, an end can also be a means. Using means-end mapping, “on-time delivery,” an end, is obtained through the “reliability” provided by an express mail delivery service, a means. However, “on-time delivery” itself is a means to reach other ends, such as “less worry about on-the-job unknowns,” “feeling more personal control” and “peace of mind.”

A means-end map arranges means and ends into a network of attributes, physical and emotional consequences and personal values or life goals. The means-end framework for viewing consumer decision making leads to a means-end theory of communications strategy. Generally speaking, the theory posits that communications are the most personally relevant and compelling when they make a strong link between the right set of attributes, consequences and values.”

Following are examples of how companies can use attitudinal data to identify and act upon new marketing, sales and growth opportunities.

**Example A**
A medical device manufacturing company solicited attitudinal feedback from its customers. What they found was surprising. Their customers revealed that they wanted to do business with an industry leader – that element was important to their engagement. Yet, their customers didn’t think of the company as an industry leader. That was surprising because they were the industry leader. The company realized that to increase engagement and serve the real needs of its customers, it needed to reinforce its leadership position. It launched new marketing and communications activities designed to educate its current customer base about its leadership position.

**Example B**
Through means-end attitudinal research, one large retail company discovered several key factors that impacted engagement. They learned that certain locations had higher customer engagement than other locations; they were better at connecting to the hearts and minds of their customers. The data revealed the key factors and the best practices that drove that engagement. One of those factors was a tangible element: facility cleanliness. This was important to the customers of this company. As a result of this discovery, the company created a standardized checklist to help all of its locations to adopt a similar standard of cleanliness. They also learned that when employees personally followed up with customers on progress and goal attainment (part of the service they offer), the engagement scores went higher. As a result of these discoveries, the company adopted company-wide policies to help lift engagement overall. Attitudinal data revealed these unique opportunities, and led to changes in policy.

**Benefits of Capitalizing on Attitudinal Data and Predictive Analytics**

- Save money by launching marketing and sales programs that meet the real needs of customers
- Keep customers longer, and thus make more money from your original customer acquisition investment
- Learn what drives customers to be engaged and replicate that throughout your organization
- Identify customer segments with low engagement scores and take action to recover
- Learn what marketing opportunities exist for new products and services, by segment, age, income, geography and other important segment filters
- Discover what customer attitudes are most likely to impact engagement at any particular time
- Align sales and marketing for greater efficiency
- Increase profitability by seeing and responding to key business drivers
- Make informed strategic decisions based on real-time data
- Build a strong following of customers
- Gauge current attitudes of customers
- Better engage hearts and minds of customers
- Discover which programs have the most impact on engagement

According to the Harvard Business Review, a 5% reduction in customer defections can lead to an 85% boost in profits.
**Example C**
An organization always assumed its most engaged customers were of a middle aged demographic. Through segmentation analysis, they discovered that one of their most engaged groups was their early adult group. Knowing this information, and understanding what drivers lead this group to be engaged, the company launched new marketing and product initiatives to better serve the early adult group and ensure its engagement remained high. They were also able to identify that both the early adult and middle aged groups became disengaged with the company after 2 years as a customer. They held focus groups and launched surveys to study why this happens. Knowing this information allowed them to change this pattern to impact long-term engagement and profits.

**Pulse Survey Regularly – Monthly or Quarterly – to See Critical Trends**
Allegiance’s CustomerPulse survey reveals customer engagement drivers and attitudes with pinpoint accuracy. Impact scores tell you where to focus your efforts right now for the best result upon customer engagement. Regular Pulse surveying of your customers reveals critical trending data that is impossible to obtain in any other way, especially in surveys that go out just annually or bi-annually. Ultimately, you want to tie Pulse trends to major initiatives, and then to key business outcomes.

**Example D**
A monthly survey conducted by Allegiance to measure the attitudes and engagement drivers of banking customers across America reveals several key marketing and product opportunities. The survey shows that certain segments of Americans feel their bank does not meet their needs, as defined by key engagement drivers. The survey showed that Latinos want their banks to help them become financially savvy. Latinos also feel enthusiastic about ancillary services such as in-branch copiers and fax machines. These elements are important to this group’s engagement with their bank. Knowing this information, banks who serve this group could launch products and services to meet these needs and create a stronger relationship and tie to these customers. Without asking attitudinal questions, many banks could easily misunderstand the true reason customers in any segment choose to do business with them. Banks may instead focus their marketing and customer retention efforts in more traditional areas of banking such as new customer account signups or reducing in-store teller wait times. Companies that ignore attitudinal data miss the big opportunities to truly excite people about their products and services.
The Role of Technology
Business managers can use technology to make complex and labor-intensive processes simple. Technology can aggregate attitudinal data to provide marketers keen insights into new opportunities through predictive analytics. This makes it possible to utilize historical indices and data to model and predict future behavior and outcomes, and know which drivers and indices have the most impact on specific future business outcomes.

In other words, if certain segments of your customers have declining engagement in certain areas, you will know it and be able to act quickly to resolve the situation, preventing loss and saving time and money. Predictive analytics is a powerful emerging trend that marketers should utilize more in the future.

Getting Started: Investing in Engagement with Enterprise Feedback Management
When companies are concerned with their bottom line, they neglect to focus on one of the most important factors driving profits – engagement. Being good at engagement is not a secret. It is accomplished with science, combined with best practices and the right technology and consulting solutions.

Companies that invest in enterprise feedback management (EFM) solutions can improve employee and customer engagement, which will provide a competitive advantage and help to reduce turnover, increase loyalty and positively impact profits. For businesses that value and manage engagement and loyalty, it is proven that they also enjoy higher profits and faster growth than those that do not. That is why engagement is one of the most powerful emerging business concepts of the 21st century.

Summary
As businesses struggle to find new ways to grow and differentiate, they must learn to not only connect to the mind of the consumer but also to the heart of the customer by focusing on the drivers of engagement. Values-based attitudinal information, made available today through new surveying technology, equips businesses with a new way to understand and retain customers.

Gathering attitudinal data through real-time feedback and using that data to spot trends and growth opportunities is certainly possible today with new technologies. Companies should gather both solicited and unsolicited feedback to gain a complete voice of their customer.

Engagement may be a new concept for many organizations that have traditionally only focused on the tools and services that measure customer satisfaction. For organizations interested in measuring how well they are connecting with their customers and employees, there is no need to start from scratch.
Allegiance has the expertise, technology and experience to help you begin quickly and effectively capturing feedback and engaging in two-way communications with your customers and employees. The Allegiance Engage Platform is a turnkey solution that is delivered through a hosted Software-as-a-Service offering; meaning it is easy to set up and manage. To get started improving engagement with your customers and employees, visit www.allegiance.com or contact an Allegiance representative.

ABOUT THE AUTHOR

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Chris Cottle leads the brand strategy, public relations and marketing communications initiatives for Allegiance. He has extensive experience in technology brand building in both B-B and B-C markets. Cottle came to Allegiance from Tandberg Data (formerly Exabyte), a $200 million data backup hardware manufacturer, where he served as vice president of U.S. marketing and also vice president of world wide marketing. Cottle started his career in 1990 marketing large technology brands such as Iomega, Infocus, and Adaptec at DahlinSmithWhite Advertising. He left DSW to start his own marketing company, Oxygen Studios, which was acquired by Caldera (now SCO). Cottle helped Caldera go public, acquire SCO and grow to over 600 employees. He left SCO to launch a health publishing company that was acquired in 2003. Cottle was named a Channel Chief by CRN Magazine in 2006.
Buying Loyalty: Do Rewards Programs Translate into Customer Engagement?

Rewards Programs Have Become Pervasive, But How Do They Impact Customers’ Emotional Connection to the Brand?

By Kyle LaMalfa, Allegiance Best Practices Manager and Loyalty Expert
Buying Loyalty: Do Rewards Programs Translate into Customer Engagement?

While rewards programs play an important role in many companies’ overall marketing strategies and add to a brand’s value proposition, they do not alone create engaged customers. True customer loyalty and engagement strengthens a brand and is built with three key factors: time, positive experiences and most importantly, listening to customers. When customers are engaged with a brand, they are connected with their hearts, not simply their wallets.

Rewards programs provide points or rewards to customers who do more business with the company. These points can be redeemed for discounts, perks, coupons, “free” stuff, etc. Most companies build rewards programs for the same reasons: they want to add value to their brands and keep repeat customers. And who wouldn’t? More than 80 million Americans use credit cards with rewards programs attached, which accounts for more than 84 percent of all credit card purchases.

According to COLLOQUY, “membership in U.S. loyalty rewards programs has reached 1.3 billion, more than four times the national population.” And Jupiter Research found that “more than 75 percent of consumers now have at least one loyalty card, and the number of people with two or more is estimated to be one-third of the shopping population.” This suggests that, in the mind of consumers, rewards programs add real value.

There are obvious reasons why companies continue to offer these programs, and even more obvious reasons why consumers choose to fill their wallets with plastic cards and key chain tabs. In exchange for rewards, consumers receive everything from free hotel stays and airline tickets to a night with John Travolta and the cast of Hairspray, the Movie. The businesses that invest in rewards programs see them as opportunities to reach consumers that normally would not try their products or services. But opponents of rewards programs question whether companies are simply paying for repeat business through free gifts, discounts and point systems, and whether the programs are really worth the investment.

In truth, successful businesses do not have to buy their way into their customers’ hearts – and in many circumstances, they can’t. True customer loyalty and engagement goes beyond frequent flyer programs, frequent buyer cards and frequent dining rewards. Engagement comes from experiences with a brand and is built through two-way relationships. In exchange for customers’ loyalty to its products and services, a company will listen and respond to customers’ feedback and focus on delivering outstanding customer service. Often these experiences can be initiated and supported by a rewards program.

For the thousands of companies that spend billions on rewards programs each year and the customers that patronize their products and services, there is little doubt that the programs offer increased value. However, in terms of creating true loyalty and customer engagement, the rewards programs are merely part of a much bigger puzzle. In this paper, we will analyze these programs and offer suggestions on what is needed to ensure that a customer’s loyalty will not disappear even when the program does.
US loyalty rewards program membership has reached 1.3 billion, according to Colloquy research that provides the first comprehensive census-taking of loyalty marketing since the modern loyalty era began with frequent flyer incentives in 1981. Colloquy’s benchmark-setting measurement, based on a fourth-quarter 2006 analysis of a dozen business sectors, reveals that the average US household belongs to 12 loyalty programs. In a key finding, the Colloquy census shows that “active participation” in loyalty programs is a blended average of 39.5 percent across all sectors analyzed, a number that Colloquy experts characterized as “dismal.” Of the 12 programs per average household, 4.7 yield active participation. The census results raise a major question. Does the participation data mean the loyalty empire has reached a saturation point? The response from Colloquy experts: “Loyalty memberships are flying dangerously high. Fat membership roles may look good in a press release, but active loyalty program members are the only members who count.”

There are a wide variety of rewards programs, including appreciation, partnerships, rebates, affinity and coalition programs, to name a few. The first program is credited to American Airlines, which started its AAdvantage program in 1981. While the programs have propagated across industries, they have also created a generation of consumers that feel entitled to rewards – often asking the question, “What else is in it for me if I buy your products?” – as if a quality product is not enough.

The customer appetite and expectations for rewards programs have evolved as well, spurred oftentimes by companies’ attempts to differentiate their programs from competitors. Whereas earning miles from actually flying was once enough, airlines have expanded their programs to allow customers to earn frequent flyer miles by shopping at certain stores, drinking a brand of coffee or reading a specific newspaper. American Airlines’ AAdvantage, for example, has partnered with more than 200 vendors at its online store where customers can earn bonus miles for buying products.

Companies have also created partnerships for unique ways to spend miles, which may satisfy consumers who are having a difficult time dealing with limited seats or hotel rooms allocated for their loyalty points. For 245,000 points, Hilton Honors members can be a beer brew master, while for 520,000 points one can become a pro-wrestling ringside manager.

“As point systems become a commodity (because everyone has one), companies must leverage things that can’t be duplicated: brand and customer service.”

—Jack Aaronson, CEO of The Aaronson Group
Essentially, rewards programs have become a business in-and-of themselves. Driven by the need to compete, companies have to invest significant resources to create and support the programs. What was once seen as a unique marketing strategy designed to create loyal customers has become a common or must-have part of an overall marketing strategy.

There is little doubt that customers see value in participating in rewards programs that make them feel appreciated and offer discounts. Customers like it when they earn a free night’s stay at a hotel, receive a free meal on their tenth visit or are bumped up to first class. If the costs outweigh the benefits to the company, however, one or more aspects of the program could suffer. Fewer seats for frequent flyer miles rewards, more blackout dates for hotel points or out-of-stock merchandise could result in negative loyalty consequences.

**Rewards Program Efficacy**

“As point systems become a commodity (because everyone has one), companies must leverage things that can’t be duplicated: brand and customer service,” said Jack Aaronson of The Aaronson Group.

In other words, while everyone likes to collect points, the emotional connection with consumers has more to do with the brand qualities and promise. The efforts of the company to ensure its customers’ repeated, positive experiences pay huge dividends. How do rewards programs fit in, and are rewards programs worth the effort and money that it takes to implement and manage them? Again, the answer really depends on who you talk to and what industry they are in.

There are three key factors that determine the effectiveness and longevity of loyalty programs:

1. **Cost** – What does it cost to run loyalty programs? If a company gains more than they spend on managing the program, is that enough reason to have one?

2. **Data** – How is the data being used? Is the data being used to improve the organization, the rewards program itself, the customer experience? Are they using the rewards program data to retain customers?

3. **Program Evolution** – What have you done for me lately? Once you give customers discounted or free stuff, what will they want next? Can companies afford to keep giving more?

**Rewards Programs Raise the Question, “What is a Customer Worth?”**

In looking at the cost/benefit of rewards programs, companies try to determine what a customer is worth. For example, in 2006, Vonage estimated that each of its 1.6 million customers had a value of $1,600, while “a national pizza operator has estimated the average ‘life time sales value’ of a loyal customer is around $13,000.”

Another hotel operator placed the lifetime value of each customer at $100,000, and gave any staff member the authority to spend up to $2,000 per customer on the spot to resolve a customer issue.
Banks seem to place a high value on customers and are notorious for using incentives and rewards to attract them. When Bank of America introduced its online bill payment option, it spent $45 million to market the program, including playing commercials on its ATM machines and paying customers in some markets up to $25 for their first online payments. Chase promised customers up to $150 if they opened a checking account and used the online bill-pay options, while Citibank gave away 10 getaway trips to Mexico or the Caribbean and a first class 17-day cruise valued at $42,000.

**What to Do With the Data?**

With nearly 90 percent of Americans participating in some kind of rewards program, companies are dealing with mountains of data. Companies can use this data to better understand their customers, add value to their programs and influence buying habits.

However, companies also need to recognize that the data could be misleading. For example, when customers at a grocery store lose their rewards card, the cashier will give them another one without asking for contact information or connecting them in any way with the rewards card number. While the consumers received the benefits of the rewards program – i.e. discounted price – the store simply has more cards in circulation without any way to understand or communicate with the customers.

Therefore, the ability to measure results is critical to the success of any rewards program. Effectively capturing how the program is being used, producing reports and analyzing the data will help companies to better understand who their customers are, what their customers are worth and what to expect or hope to be their desired behaviors. The data can also serve as a measuring stick to determine how effectively the program is working and as justification for making any changes.

"A [rewards] program that is not driven by data is usually driven by discounts, like those offered by retailers that give, say, 25 percent off a customer’s next purchase for joining the program. These programs don’t discriminate between truly valuable customers and the occasional discount shopper."

– Harvey Thompson

To build loyal customers, it is critical for companies to know the difference between these two types of customers. Companies should use the data collected from rewards programs to help distinguish between customers and improve the program, the organization and the overall customer experience.

By capturing demographic information and purchasing behavior, companies will have a better understanding of who their customers are and will be able to deliver more targeted and relevant marketing messages. The data will point to what campaigns are working, what products and services are getting the majority of customers’ business and which customers seem to be more frequent buyers. With the data, companies can tweak their programs to continue to add value while identifying which customers are the most valuable to the organization.
Program Evolution
Many consumers have now come to expect companies to offer rewards programs. In fact, it is not uncommon for the average person to have more than one rewards card in his or her purse or wallet. Once companies have a rewards program and begin to provide incentives for repeat customer behavior, consumers have a tendency to simply want more. For consumers, it is always about “what have you done for me lately?”

This causes many companies with rewards programs to continue to find ways to add value and new “perks,” including escalating advancements, such as special hours for frequent shoppers, bigger discounts for frequent flyers and more extravagant ways to spend points. Many companies are faced with the challenge of being able to afford consumers’ lavish appetites for rewards programs and continue giving more; not only to differentiate their program from competitors, but also to keep their current program customers happy. What happens if their programs do not evolve, or worse, start to reduce the points and benefits?

Harvey Thompson, author of “Who Stole My Customer,” commented, “Mainstream rewards programs already show signs of being competitively pressured into a steady state where companies are giving away very similar benefits, unable to pull back because of the threat of lost business and unable to give more because of high costs. The key to effectively competing for loyalty is ensuring the quality of the customer experience, not the quantity of customer rewards.”

Regarding viability of rewards programs, Joseph C. Nunes, marketing professor at University of Southern California’s Marshall School of Business, said, “Programs need to be designed to offer differentiated products and services to customers based upon their purchasing patterns and profitability. If these programs are simply based on quantity discounts or paying for patronage, they will not endure.”

Therefore, to continue to add value to their programs and keep customer interest, companies must continue to improve and enhance their programs.

Going Beyond Rewards to Customer Engagement
As companies deal with the increasing costs, mounting data and rising consumer expectations surrounding rewards programs, many are asking the question, “How can I attract loyal customers without rewards programs?”

A more effective question may be, “how can I use my rewards program to benefit both my customers and my company?”

If your rewards programs are successful at adding value to the customer experience, as well as profits to the company’s bottom line, then rewards programs should be embraced.

However, if the rewards program is the only thing your company is doing to drive customer engagement, then you will probably not like the answer to the question. By themselves, rewards programs rarely create the full emotional attachment that brings true customer engagement. Engagement is built over time and comes from creating mutually beneficial relationships with customers. One of the keys to creating relationships is providing customers with direct access to

“The key to effectively competing for loyalty is ensuring the quality of the customer experience, not the quantity of customer rewards.”
– Harvey Thompson
company decision makers through a feedback management system that demonstrates that the company cares about them and is indeed listening.

Engagement adds value to a brand’s strength, as engaged customers are more likely to share their positive experiences with friends, refer business, purchase more products more frequently, avoid competitors and forgive mistakes. Engaged customers will also let companies know when their products or service did not meet expectations. In this case, it is up to the company to respond to customers’ comments and concerns in such a way that customers know that they are more than a number on a rewards card.

In the case of negative customer experiences, trying to correct them by giving more rewards points will not further customer loyalty as intended. In fact, engaged consumers do not necessarily want more miles or points to simply “fix” the problem. Engaged customers want to know that the company is going to do whatever it takes to ensure the mistake never happens again. Should the mistakes keep occurring, more points or miles will not help to further engagement.

Negatively impacted consumers, regardless of how many points they have, will likely be flying another airline, staying at a different hotel or shopping at another retailer.

To understand the hearts and minds of its customers, companies need to encourage two-way communications and create a convenient way for customers to continually express their concerns, report problems or deliver praise. Solutions such as the Allegiance Engage platform for enterprise feedback management can help companies encourage this communication and respond quickly to customer comments, suggestions and complaints. It also helps them to use the feedback to improve products and services and track the impact of these actions on the bottom line.

Research shows that companies that are effective at listening to their customers build loyalty and engagement over time. They take the information they receive from customers and make changes, whether it involves a specific individual in a bank branch, a customer service department or the entire company. When customers recognize that their concerns, suggestions or feedback are responded to and resolved, they begin to realize that they are important to the organization; that their voice can make a difference; and that they have a relationship with the brand.

While reward points can encourage transactions and add value to a brand, positive experiences and listening to customers will create engaged customers and add to a brand’s strength. Engagement is about the relationship that a customer has with a brand and the brand with that customer. Engagement programs work together with loyalty programs to fill the gaps and connect to peoples’ hearts and minds. True engagement is built over time, through positive experiences, and most importantly, by listening to the voice of your customer.
Rewards programs can and do play a significant role in creating positive experiences. Providing discounts, coupons and freebies while focusing on developing an emotional connection with your customers, however, is a much more effective way to engagement. What will encourage your customers to talk about your brand and keep them buying again and again is your ability to reach their hearts through listening and responding to their needs, and consistently delivering quality products and customer service.

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Kyle LaMalfa has been a career data analyst since 1996, answering business questions and solving business problems for executives and managers. He has undergraduate training in mathematics and economics and graduate training in statistics and sociology. LaMalfa has been in the consulting business since 2004. Recently employed as Lead Statistician at a prominent market research company, he now serves as Principal Consultant at Allegiance. LaMalfa helps Allegiance clients become more profitable by acting upon the benefits of engagement. Beyond engagement best practices, problem solving specialties include customer/employee attrition, data mining and predictive modeling.
The Positive Economics of Customer Engagement

Connecting Customer Engagement with Hard Economic Benefits

By Kyle LaMalfa, Allegiance Best Practices Manager and Loyalty Expert
The Positive Economics of Customer Engagement

Engagement is the emotional connection or attachment that a customer develops during repeated and ongoing interactions. Engagement accumulates through satisfaction, loyalty, influence and excitement about your brand. Organizations that engage consumers to the point where they are moved to behavioral change do so by creating opportunities for emotional connections through ongoing, consistently positive experiences.

Customer behaviors include telling people of their positive experiences with an organization, referring other people, buying more products more often, staying longer in a business relationship, and remaining loyal even when faced with poor customer service or a bad experience with a product. When customers are engaged with an organization, they are emotionally connected, passionate about its products and services, as well as aligned with the purpose and direction of the organization. Customers who increase their desirable behaviors are more economically valuable.

Engagement is one of the most powerful emerging business principles of this century, but historically it has been elusive, unmeasured and undisciplined. We are going to show that it can be measured, and it is not as difficult as companies think. In fact, we will demonstrate that improving engagement among an organization’s consumers by a small amount, as little as 1 percent, can have a dramatic impact on financial results.

**Engagement Works**

We know that engagement has a long-term impact on stock price. In a 2006 article published in the Journal of Marketing, researchers followed the stock price of companies with available customer satisfaction data. During the period from 1996 through 2003, researchers used computers to simulate a stock trading strategy based on the rule: buy high, sell low. That is: buy when engagement is high – sell when engagement is low.

Using nothing other than customer satisfaction data to make trading decisions, the researchers would buy high when engagement in the companies was high and sell when engagement was low. The researchers’ portfolio historically beat the market every year. One industry expert noted that engagement is the only metric that impacts every other metric typically measured by companies and analysts.

“Neither increased volume nor increased profits will necessarily benefit the real owner of the brand: the customer. And if there’s no benefit to the customer, the company not only fails to enhance the brand marriage, it weakens it. When customer engagement slides so do a great many other outcomes, including future sales, growth and profit.”

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The key word in the question presented to the executives in the survey was “believe.” These executives ‘believe’ that an increase in engagement would lead to good things.
More and more executives are also recognizing that engagement is important to their businesses. More than 300 executives surveyed by the Economist Intelligence Unit believe that an increase in engagement would translate into improvements in loyalty (80 percent), an increase in revenue (76 percent) and an increase in profits (75 percent). The same study found that the top three most important benefits of an engaged customer are:

1. Referrals
2. Frequent Purchases
3. Provides Frequent Feedback

The key word in the question presented to the executives in the survey was “believe.” These executives believe that an increase in engagement would lead to good things. The survey found that the number one barrier for achieving great levels of engagement is the difficulty in measuring customer engagement. Another 46 percent said they did not measure customer engagement in any formal way. You will find it is no longer necessary to take a leap of faith with engagement benefits.

Hypothetical Example

It is possible to demonstrate how engagement can be quantifiably measured to show economic value. For the purposes of teaching the principles involved with measuring engagement, we will utilize a hypothetical business that easily typifies business in America today – a medium-to-large retail bank.

Retail banking is an ideal representation of business in America. Most people interact with a bank on a regular basis. Banks have both retail and online components, are large and small, local and national, sell products and services ranging in price of 50 cents to thousands of dollars, and experience typical drivers and behaviors.

In 2007, Allegiance launched a monthly survey called the Pulse of America for Banking survey – a set of basic questions designed to determine what the average American thinks about their bank. From the survey, we segmented customers using the following three categories:

- **Engaged** – Engaged customers report strong agreement with statements about product satisfaction, purchase intentions, intent to recommend products/services and high regard for a company’s products/services. We often refer to these customers as the Love Group.

- 35% feel an emotional bond (Engaged)

- 56% could be swayed either way (Swing)

- 9% feel negative emotions (Disengaged)

Implication: Over 50% of customers can be swayed either way

<table>
<thead>
<tr>
<th>Engagement with Banking</th>
<th>Engaged</th>
<th>Swing</th>
<th>Disengage</th>
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<tr>
<td>35%</td>
<td>56%</td>
<td>9%</td>
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• **Disengaged** – At the other end of the spectrum, we refer to customers as members of the Hate Group. These customers answered survey questions with disagreeable or ambivalent attitude toward their bank. Sometimes disengaged customers are compelled to continue purchasing product due to some externality, but continue to damage the reputation of the company with bad mojo.

• **Swing** – These customers have the potential to be swayed to the Love or Hate Group depending on future experiences with the company. The Swing Group answered survey questions in ways that indicated passive satisfaction with their bank without active engagement. The Swing Group is where the action happens, where there is a great opportunity to win loyal customers for life.

The survey data show that 35 percent of customers feel an emotional bond with their bank (Engaged), 9 percent feel negative emotions (Disengaged) and the remaining 56 percent could be swayed either way (Swing).

In what follows, we will utilize this survey data to illustrate our examples, as well as data from industry leaders such as Gartner, Forum Corp and TARP Worldwide. We will assume, for simplicity, that our retail bank has 1 million customers.

**Four Economic Ways to Measure Customer Engagement**

Our top four economic measurements of engaged customers were selected because they are simple to understand, realistic to execute, support, and measure, and they offer high impact and solid results. These include:

1. **Share of Wallet** – Engaged people buy more products/services.
2. **Positive Referral** – Engaged customers convert potential customers to switch.
3. **Churn** – Engaged people stay longer.
4. **Feedback Response** – Engaged people give more feedback, which in turn gives you the opportunity to address issues and concerns and preserve potentially lost revenue.

**Economics of Engagement Scenario (the 1 percent solution)**

To determine the true economics of engagement, we took the data that we have collected from the survey and looked at what would happen if we could increase the level of engaged customers by 1 percent. We asked the question: for a bank with one million customers, how will having 1 percent more engaged customers impact a company’s bottom line?

Applying the percentages of engaged, disengaged and swing customers identified by the Pulse of America Survey to our bank’s one million customers, 350,000 are engaged, 560,000 are swing and 90,000 are disengaged.
1. Share of Wallet

First, let’s consider that engaged customers buy more products, called share of wallet. The Pulse of America survey asked retail banking customers, “Besides a checking account, which other products do you use?”

- Engaged customers used an average of 5.54 products
- Swing customers used an average of 4.62 products
- Disengaged customers used an average of 4.50 products

Which means:

- Engaged customers used an average of 0.92 more products than Swing
- Disengaged customers used an average of 0.12 fewer products than Swing

If the average revenue of each product is $150, then Engaged customers are responsible for an additional $48.3 million of revenue ($150 x 350,000 x 0.92). This revenue is similar to what is already in play with typical businesses all around the country.

The question is this: how can it be increased?

If we can increase customer engagement by just 1 percent (10,000 customers) – by converting customers from the swing group to the engaged group – the number of products sold increases by 9,200 products annually. The increase in revenues would be nearly $1.4 million ($150 x 10,000 x 0.92).

“Every one percent increase in customer loyalty represents approximately $100 million in revenue. We spend a lot of time looking at how to build customer loyalty.” – Michael Glenn, EVP, FedEx
2. Referrals
Another key to measuring engagement is referrals. How much is a positive referral worth?

A referral is an existing customer actively converting a prospect into a new customer. In fact, it is one of the most desirable ways to grow a business. When someone you know tells you about a business, they engage in word-of-mouth marketing. When you are compelled enough to become a customer, that is a referral. When people just talk about a company, product or service, it has value too, but not as much as a referral.

In the Pulse of America Survey, we asked retail banking customers, “In the last 12 months, did you have a delightful experience worth telling someone about? If the answer was yes, how many people did you tell, and of those you told, how many switched banks as a result?”

The results of the survey questions were:

• **Engaged** – 19 percent told an average of 4.1 friends – and 23 percent of those friends switched banks

• **Swing** – 9 percent told an average of 2.8 friends – and 0 percent of those friends switched banks

• **Disengaged** – 1 percent told an average of 4.3 friends – and 15 percent of those friends switched banks

For our scenario, the three groups’ referrals would produce a total of 83,878 new customers for the bank. Based on an acquisition cost of $200 per customer, the value of the customer referrals is $16.8 million.

If we can increase customer engagement by 1 percent (10,000 customers) – converting customers from the swing group to the engaged group – the number of referrals increases and the number of new customers increases by 1,413. The value of these customers to the bank is an additional $282,000.
3. Churn
A key measurement of engagement is churn. The Pulse of America Survey asked retail banking customers how strongly they agree with the following statement, “I will continue doing business with this organization for at least the next year.”

Based upon these answers*, we estimated that our hypothetical retail bank will lose 1 percent of the engaged group, 33 percent of the disengaged group and 11 percent of the swing group each year. Combined, the total customers lost for the year is 94,800 customers. If each customer costs approximately $200 to replace, the total loss to the company is nearly $19 million.

If we can increase engagement by 1 percent (10,000 customers) – moving customers from the swing group to the engaged group – we impact churn. The bank would lose 1,000 fewer customers during the year and save $200,000 in replacement costs.

4. Feedback Response
Finally, let’s look at the value of feedback and the importance of responding in a timely manner to customers who provide feedback.

When companies listen and respond to their customers’ feedback, customers have more confidence in the company and feel valued. Active listening helps to address customer concerns before they become major problems, which in turn helps to strengthen customer engagement. Customers who know companies are listening will provide more and higher quality feedback. And the more customers provide

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*Footnote: Based on prior experience we assumed that the likelihood to leave the bank in the next 12 months would be: Strongly Agree – 1 percent, Somewhat Agree – 17 percent, Neutral – 33 percent, Somewhat Disagree – 50 percent, Strongly Disagree – 67 percent.
feedback, the better companies will understand the needs and concerns of their customers.

Research by Gartner tells us that, unfortunately, only four percent of dissatisfied customers give feedback. This can be corrected by implementing a centralized system, such as Allegiance CustomerVoice, which gathers feedback and automatically categorizes and routes it to managers for appropriate and timely response.

In its report, “Customer Experience: The Voice of the Customer,” Gartner asked banking customers how they would describe their experience with banks. Seventy-five percent of customers described their experiences as good, while 25 percent described their experiences as bad. The study found that of those who had bad experiences, only 4 percent actually told the bank about them, while 96 percent never said anything to the bank. Gartner then divided the four percent equally into three groups: rescued, at risk and defect.

For this scenario, we estimated that a typical customer generates $750 in annual revenue (a simple variable) to our bank’s bottom line. Existing processes are able to recover one third of customer complaints, thereby saving $750 per customer in potentially lost revenue. Each of the three groups within that 4 percent contributes $1.67 million in bank revenues (1 million x $750 x 0.25 x 0.04 x 1/3).

A 1 percent increase in customers that give feedback (from 4 to 5 percent) would equal 2,500 customers. The feedback from 2,500 more customers, plus reduced losses from those in the group that do not give feedback, would provide a benefit of $3.75 million in saved revenue.

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<thead>
<tr>
<th>Category</th>
<th>Improvement</th>
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<tr>
<td>Share of Wallet (new revenue)</td>
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<tr>
<td>Positive Referrals (new benefit)</td>
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<td>Churn (reduced expense)</td>
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<tr>
<td>Feedback Response (saved revenue)</td>
<td>$3,375,000</td>
</tr>
<tr>
<td>Total Benefit</td>
<td>$5,237,740</td>
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Additional Engagement Benefits

• **A Decrease in Negative Word of Mouth.** The more engaged people an organization has, the less negative chatter that will circulate.

• **A Decrease in Negative Referrals.** The more engaged people, the less negative recommendations that will circulate. In fact, TARP Worldwide research shows that customers who experience mild or strong dissatisfaction will tell between 9 and 16 other people. Obviously, the less an organization must battle this issue, the better off it will be.

• **Engaged Customers Stay Longer in a Relationship.** The Pulse of America survey revealed that engaged customers stay nearly half a year longer in a relationship.
• **Reduced Risks.** Engaged people solve problems more easily because they value the relationship and want to solve problems and issues. This means less time required by support staff or service reps to solve problems, and a lower propensity to escalate issues and litigate. Although difficult to quantify, a reduction in risk definitely has a powerful positive impact on any company.

Even when we exclude these additional impacts on engagement customers, the combination of savings and revenue increases from our top four measurements of engaged customers and provides a much clearer picture of the benefits of the positive economics of engagement.

The Economic Impact of Customer Engagement

By improving engagement by only 1 percent within the four keys areas mentioned above, our retail bank with one million customers could experience a total benefit ROI of $5,237,740 in just the first year.

The financial benefits of engagement are real. The numbers in our scenario are conservative, and it is realistic for a company to improve engagement by 1 percent each year if it is willing to invest time and resources into the process. Imagine if the retail bank in our example had improved engagement by 2 percent? Or 3 percent? The numbers would have escalated significantly more, and even more important, the engagement gains would continue to compound over time.

We know that engaged customers are the best customers because of their emotional connection to the company. Because of that connection with the organization, they buy more products, more often, they are willing to tell others about the company, they are willing to work with the company to overcome problems and they give feedback, which will provide the company with the information it needs to make better business decisions and improve the customer experience.

In conclusion, let’s go back to what we said near the beginning of this paper: engagement is one of the most powerful emerging business principles of this century. We know it works. The principle is no longer elusive, immeasurable and undisciplined. The economics of engagement are real, and they can have a major impact on any business willing to invest the time, energy and resources in a plan of action.
Engaged Employee Spill Over
The emotional connection that employees feel with their company spills over into customer engagement. That is: customers feel the love. While customer engagement is critical to helping positively impact business outcomes such as revenues and profits, we must also consider the role of employees in the organization and the interaction and relationships they have with customers.

Like engaged customers, we know that engaged employees are the best employees. They are more productive. They create less risk because they are willing to settle disputes peacefully, and they are less likely to be searching for the next job.

To create engaged employees, it is important that companies provide avenues for collecting and responding to employee feedback. Like customers who know when companies are listening, employees who know their employers are listening will provide more feedback, which ultimately helps the company to better understand the concerns and needs of its employees.

In addition, managers who have the proper training and skills create spillover to employees, helping them feel confident in the direction of the company, as well as valued and protected. The value of engaged employees can be summed up in a short five word phrase: happier employees make happier customers.

Steps to Improve Customer Engagement
Now that we know that engagement can be measured and that the financial benefits are real, what are the steps a company needs to take to improve engagement? What should be the plan of action to help quickly recognize and quantify the benefits of engagement?

• First, implement solutions to collect feedback and measure engagement.
• Second, segment customers by engaged, swing and disengaged.
• Third, use predictive analytics to optimize your action plans.
• Fourth, target segments with programs that increase engagement.
• And finally, measure . . . act upon new information/data . . . re-measure.

Allegiance Can Help Make it Happen
The Allegiance CustomerEngage platform is a suite of web-based Enterprise Feedback Management (EFM) tools and services designed to help you engage and develop long-term loyalty with customers. CustomerEngage includes CustomerPulse, CustomerVoice, ActiveSurvey and MysteryShopper.

Companies can use the Allegiance software, CustomerPulse, to approach a sampling of customers via email to provide a snapshot of customer impressions. Used regularly, CustomerPulse will reveal trends and give an accurate heartbeat of your company’s performance. With the CustomerPulse data, companies can also predict future consequences by understanding present attitudes and correlate customer responses with quantifiable measurements.

Allegiance CustomerVoice provides a turnkey feedback system that can be integrated seamlessly on an existing website, kiosks, teller terminals or other interaction points. CustomerVoice helps to collect, analyze, categorize and route

“Customer satisfaction improves repeat business, usage levels, future revenue, positive word of mouth, reservation prices, market share, productivity, cross-buying, cost competitiveness and long-term growth. It reduces customer complaints, transaction costs, price elasticity, warranty costs, field services costs, defective goods, customer defection and employee turnover.”
feedback to management for a timely and appropriate response. CustomerVoice has proven to increase customer feedback because it is easy to use, while the management can quickly react to customer criticisms or complaints. Companies will be able to build customer loyalty with CustomerVoice because they will be able to show that they are willing to listen and respond.

With the data collected through CustomerEngage, companies will be able to segment their customers and use the integrated predictive analytics to optimize action items, including making customers feel helpful, confident and informed, valued and protected.

Once organizations know their customer segments and have optimized their action items, then they can target their segments with programs that increase engagement. Finally, companies can use the Allegiance tools to consistently measure results, identify customer needs and constantly tweak programs to continue to incrementally and persistently improve engagement.

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Kyle LaMalfa has been a career data analyst data since 1996, answering business questions and solving business problems for executives and managers. He has undergraduate training in mathematics and economics and graduate training in statistics and sociology. LaMalfa has been in the consulting business since 2004. Recently employed as Lead Statistician at a prominent market research company, he now serves as Principal Consultant at Allegiance. LaMalfa helps Allegiance clients become more profitable by acting upon the benefits of engagement. Beyond engagement best practices, problem solving specialties include customer/employee attrition, data mining and predictive modeling.


Ibid
The Top 11 Ways to Increase Your Employee Loyalty

*Follow These and Enjoy an Immediate Lift in Your Employee Productivity, Retention and Loyalty*

*By Kyle LaMalfo, Allegiance Best Practices Manager and Loyalty Expert*
The Top 11 Ways to Increase Your Employee Loyalty

How Much Do You Value Your Employees?

The lifeblood of every business is its employees. Given this critical fact, you may assume every business has a detailed plan and solid processes in place to ensure employees are engaged. Unfortunately, this is generally not the case. Many companies continue to assume that if they build a good product or offer a good service, and if customers continue to buy those products or services, then employees should be happy.

Employers typically do just enough to ensure the majority of employees don’t leave; they train just enough, they offer just enough benefits, and they give just enough positive reinforcement. Is this the right way to approach employee loyalty?

Consider these two startling facts:

• Each year the average company loses 20-50% of its employee base – Bain & Company

• Replacing a lost employee costs 150% of that person’s annual salary – Columbia University

Because the cost of replacing employees is so high, and the fact that so many continue to leave, businesses that effectively manage the employee engagement process can turn these facts around, making these burdens a strength. They can realize increased productivity, happier employees who willingly promote the business, and eventually, greater profits and other positive business outcomes.

As an employer, you need to understand why your employees are emotionally connected to your business – and it’s generally much more than salaries, training or benefits. Research shows that emotionally connected employees are the best employees because they are engaged and productive, and they feel validated and appreciated.

The opportunity exists for businesses to manage engagement just like they manage other areas of their business. It’s not impossible today, with the right technology and best practices.

This information will give you ideas and motivation to want to engage your employees more. Ultimately, with engaged employees, everyone wins.

According to Target Training International, more than 60% of all customers stop dealing with a company because of perceived indifference on the part of an employee.

Tarp Worldwide research found that customers who experience mild or strong dissatisfaction will tell between 9 and 16 other people.

“Our research continues to show a well-substantiated relationship exists between employee engagement – the extent to which employees are committed, believe in the values of the company, feel pride in working for their employer, and are motivated to go the extra mile – and business results.”

– ISR Global Research Director, Patrick Kulesa
“One of the biggest business growth opportunities today is to focus on engagement. Companies that make it fundamental to their business cannot be touched by competitors. They enjoy more profits during tough times, and grow faster during good times. It truly is an untapped opportunity just waiting for those who want to grab it.”

– Adam Edmunds, CEO, Allegiance, Inc.

To Increase the Loyalty and Engagement of Your Employees, Learn and Follow These Basic Principles and Action Items

Engaged Employees are the Best Employees
An engaged employee is a person who is enthusiastic about their work. Improving employee engagement directly impacts measurable business outcomes. Employees who are committed to success, emotionally attached, and socially involved with a company demonstrate qualities that business managers thirst to have. Engaged employees are more productive at work, take fewer sick days and exhibit other favorable behavior, promote the business to others and show their happiness to customers. In short, engaged employees are the best employees.

Employee Engagement Makes a Difference
Engaged employees bring a competitive advantage to a business for several reasons. An engaged employee is less likely to leave, leading to substantial cost savings for your organization in terms of recruitment and training. Engaged employees demonstrate improved performance as individuals and teams. Furthermore, engagement increases the consistency in team performance from day-to-day and month-to-month. Also, engaged employees enable a “skill-liquidity” – an ability to adapt skills to changing business needs – that improves a company’s flexibility to evolve and capitalize on new business environments.

Tim Hendon, a leader from a prominent Washington-based credit union, faced an unanticipated problem. A new loan network partnership provided loans with a high likelihood of debt default. Over time, these bad loans burdened his group and cost the company lost profits. He devised a plan to solve the problem capitalizing on the skills and engagement of his employees; their passion for the company and their desire to want to solve problems was an asset he could use. It worked. He attributed his debt recovery team’s success to two factors. First, the engagement level of his star performer whose attitude inspired an environment of friendly competition. Second, his team eagerly adapted new technologies to facilitate immediate debt payment. In two years, the debt recovery team slashed the auto loan delinquency ratio in half, turning a money loser into a profitable business unit. Their success turned into national recognition in collections and remarketing.

You Can Manage Employee Engagement
Employee engagement can be improved by aligning the goals of the business with the goals of the individual. Employee motivation should be associated with traditional rewards, such as pay and compensation, but also with emotional rewards such as personal growth, working for a common cause, being part of a high-performance team and being recognized for achievements.
You Can Make Dramatic Improvements in Your Employee Engagement

Through management of engagement, you can increase the loyalty of employees. But how? You need to know what drives engagement. Why are employees emotionally connected to you?

Four primary drivers of engagement can help you conceptualize and break down employee engagement into its causes and effects. Research by Allegiance loyalty experts Dr. Gary Rhoads and Dr. David Whitlark concludes that there are four primary areas of emphasis which are critical to understanding why employees are emotionally connected to a business. They are: being helpful, feeling competent and improved, feeling accepted and feeling respected.

The following sections describe these drivers of engagement, and what specific tactics can be done to improve them.

Principle: Start by Measuring Employee Engagement

The process of measuring employee engagement can range from very simple to very complex. Measuring your employee's passion about work and the work environment can be as simple as issuing a survey with a few scaled questions around the ideas of:

- Job satisfaction
- Productivity
- Quality of peers
- Likelihood to change jobs
- Likelihood to recommend company products or services
- Likelihood to recommend as a great place to work
- Satisfaction with compensation & benefits

1. Use a Likert Scale

Using a scale of agreement (or Likert Scale), a survey can express quantitative measurements of your employee engagement. Often times, gathering open-ended comments along with numerical, scale data yields a rich source of inexpensive opportunities to make employees happy.

Likert Scale

A Likert scale (pronounced ‘lick-urt’) is a type of psychometric response scale often used in questionnaires, and is the most widely used scale in survey research.

I will look for another job in the next 12 months
1. Strongly disagree
2. Disagree
3. Neither agree nor disagree
4. Agree
5. Strongly agree
2. Gather Compliments

By gathering compliments in addition to concerns, companies can find out if their engagement efforts make a meaningful, lasting contribution to employees.

Consider the following anonymous compliment and complaint printed verbatim:

“My manager is very proactive in discussing my abilities and goals with me and we arrive at a goal together; one that is realistic and achievable.”

“It bothers me that our customers get better benefits with their accounts than we do as employees. Everybody makes a mistake once in a while with their accounts; it’s unbelievable that an employee gets two overdraft reversals in a lifetime.”

These two feedback items helped a business confirm the effectiveness of its management program and work on moral boosters for its employees. Engagement is most effectively measured both quantitatively through scaled questions, and qualitatively through open-ended comments.

Principle: Promote and Manage “Being Helpful”

Employees want to feel like they are making a positive contribution. An apathetic employee just works for a paycheck, but an engaged employee perceives their job as important. “Being helpful” means that whether in a front-facing, retail environment or in the back office, employees feel like they are making a difference.

Being helpful means that employees can take pride in delivering outstanding quality, service and value. It means that jobs make good use of employee skills and abilities. It means that employees are empowered to solve customer problems. To increase “being helpful” at your work, try these two things:

3. Help Employees See the Big Picture

Help your employees to see the big picture of how they contribute to a functioning whole. A “chain of customers” exists from the bottom of the organization up to the top. Where outward facing employees serve a customer, supervisors must serve and empower retail employees, managers must serve and empower supervisors, and so on up to corporate presidents who must serve and empower vice presidents.

4. Use Secret Shoppers

Use secret shoppers not just to grade service delivery, but also to measure front-facing processes. Is it simple for customers to do business with you? Chances are your secret shoppers can find process gaps and that retail employees know how to solve the issue. Empowering employees to provide first-class service delivery will make employees feel like they are being helpful.
Principle: Your Employees Must Feel Confident and Improved

Employees want to feel like they can do their assigned job confidently, that their future is secure and that they are progressing in their own personal life goals. It surprises me how often company managers slash training budgets to save costs, not knowing that both service delivery and morale suffer from inadequate training.

By facilitating career advancement and opportunities to improve skills through training, employers can improve their employee engagement. An employee who is feeling confident and improved by the organization actively promotes the organization to others.

5. Close Training Gaps
Make sure there are no major training gaps in your organization. Training should be up-to-date. Make sure employees know about training opportunities. Some sophisticated organizations have a Learning Management System in place to measure training and results.

6. Mentoring Program
Train and encourage seasoned employees to be mentors. A mentoring program can facilitate dynamic skill growth throughout an organization. Informal learning can be as important as formal learning programs.

Principle: Help Employees Feel Accepted

Employees must be accepted as contributors by their peers at work. Teams may encourage a challenging but supportive environment. Organizational behaviorists of yesteryear recommended that we reduce stress at work to improve engagement. New research says that stressful environments can be healthy, provided that employees are passionate about what they do.

Strong, loyal teams provide one level of acceptance and teamwork between departments provides another. Furthermore, adequate benefits programs will enable employees to feel accepted by the organization, not expendable. Employees who become more engaged through increased acceptance will share a common bond of beliefs and purpose about the organization.

7. Promote Team Building
Encourage team building activities among employee groups. Some managers see the intangibles of team building as a pointless waste of time. However, there are well-documented benefits to creating trust and acceptance among work groups. Team building activities don’t have to be expensive. Inexpensive ideas for trust building activities are available through a simple web search.
8. Build a Supportive Environment Before Addressing Compensation Complaints

Sometimes dissatisfaction with wages merits investigation. But often, dissatisfaction with wages and benefits masks problems that relate back to acceptance by a team or manager. Often employees voice any problem in terms of a compensation issue. Employees may need appropriate coping skills, problem-solving skills, tactics for handling difficult situations or help expressing their own personal feelings.

Principle: Employees Want to Feel Respected

“Employees don’t leave their job, they leave their manager” is the mantra heard for many years in human resources circles. To feel respected, employees should feel like the company regards them as an important asset. Employees should feel like their manager has realistic expectations about what they can achieve. And, managers must be fair and even-handed.

In my experience, nothing makes employees angrier than seeing a peer receive special treatment when they’ve broken the rules or have not been performing. Managers have the special role of enforcing company policy while at the same time removing barriers and excuses for employee performance.

9. Don’t Be Afraid to Tell Them the Truth

Respect your employees through degrees of transparency. Communicate how your business is really doing at least quarterly or semi-annually. Give your employees confidence in the future and information to understand shifts in corporate policy due to your economic or competitive environment.

10. Retrain or Get Rid of Bad Managers

One bad manager can pollute multiple layers of an organization. Your most talented employees will be the first ones to leave in the face of poor management. I have seen situations where poor managers bring down the morale of employees, which in turn spills over to the engagement level of customers and ultimately reflects poorly in that group’s performance and profits.

11. Recognize Employee Contributions

Recognition from a supervisor at least two ranks above an employee makes a meaningful, engaging difference in employee morale.

Let Technology Help You Manage Engagement

Utilize technology to help you understand the heart and mind of your employees. Don’t try to figure it all out in a single annual survey or through a feedback email link you put on the company Intranet. You need to collect feedback often, and in all possible collection points, both solicited and unsolicited. Then you need to really listen and respond to what is submitted. This creates a win-win relationship.

A word of caution, Allegiance has learned through years of collecting and managing feedback for businesses in every industry that most employees are skeptical of any feedback system that is offered by their own company. They fear their submissions will not be confidential, so they don’t submit truthful information or they don’t submit anything at all. That’s one of the reasons
Allegiance has been so useful for so many companies; employees know we are a trusted third-party offering them the chance to submit feedback in complete anonymity.

**Understand the "Heart and Mind" of Employees**

To really know the heart and mind of customers, you should ask them questions that draw out truthful answers to the 4 topics we just discussed: being helpful, feeling confident and improved, feeling accepted and feeling respected. You should ask these questions regularly to a small subset of your employees and you will bring to life the employee engagement level at your business. You will truly know what makes them emotionally connected to your company, spot trends and become empowered to be proactive instead of reactive. The easiest way to do this accurately is through the Allegiance EmployeePulse solution. Contact Allegiance for more information.

To effectively manage the engagement of your employees is to start down a road with great rewards, including happier and more productive employees who stay longer with your company and willingly promote your business to others. Happy customers will follow, which will then lead to increased profits and other positive business outcomes. I suggest that you start working right away on these items I’ve explained. If you can only start on a few right now, that’s OK. What’s important is that you start! Having highly engaged employees is one of the most worthy goals any business can seek.

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**ABOUT THE AUTHOR**

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Kyle LaMalfa has been a career data analyst since 1996, answering business questions and solving business problems for executives and managers. He has undergraduate training in mathematics and economics and graduate training in statistics and sociology. LaMalfa has been in the consulting business since 2004. Recently employed as Lead Statistician at a prominent market research company, he now serves as Principal Consultant at Allegiance. LaMalfa helps Allegiance clients become more profitable by acting upon the benefits of engagement. Beyond engagement best practices, problem solving specialties include customer/employee attrition, data mining and predictive modeling.
The Spillover Effect

*How Employee Engagement Spills Over to Customer Engagement and then Impacts Revenue*

*By Dr. Gary Rhoads, Allegiance Engagement Expert and Co-Founder*
The Spillover Effect

*Recognizing and Managing this Single Business Principle Can Provide Organizations With Millions in Extra Profits*

**Abstract**

There aren’t many business people today who would disagree that good employees have an impact on customer satisfaction. Although this is true in general terms, to really understand, measure and manage this principle, there are additional aspects to consider. It is possible for businesses to gain significant growth and competitive advantage by enacting change to embrace this concept.

Allegiance defines the statistical relationship between employee engagement and that of customer engagement as the Spillover Effect. This relationship has a direct affect on the profits of any business. This paper will explore the definition of the Spillover Effect, show how it impacts a business in real dollars and suggest ways businesses can capitalize on this opportunity.

**Satisfaction vs. Engagement**

For years, companies have given credence to the service profit chain, which states that satisfied employees create satisfied customers, which create happy shareholders. Business leaders deduced that if employees were satisfied with their jobs, then customers would be satisfied with the products and services they received and the company would be successful. As we have learned over the years, however, it is much more complicated than that.

Today, satisfaction is not an accurate measure of happiness, nor is it a measurement of company success. In fact, satisfaction is merely a measurement of past experiences with a company, not necessarily an indicator of how someone will feel in the future. In addition, often satisfied employees and customers behave the same as less-than-satisfied employees and customers. An unsatisfied customer may still buy product from a retailer even if he or she had a bad experience simply because the location is convenient or the price is right.

Measuring the success of a business is not as simple as saying: happy employees equal happy customers. Happy employees can also be lazy employees. A person taking tickets at a movie theater may be happy, but it may be because he or she gets to sit around on a comfortable chair while drinking free soft drinks and eating free popcorn. Many people might be happy if their employers paid them for what merely is time spent drinking soda, eating popcorn and collecting ticket stubs.

Like the movie theater, many of us have had an experience at the mall where we are standing at the checkout counter waiting for store employees to finish their conversation with each other. The employees are not emotionally engaged with their jobs or their employers. In fact, if anything, they are usually disengaged and rarely care about customers’ reaction to their behavior.

While these employees may be happy with their freedom, and their weekly paycheck and free discounts, they are not likely to create happy customers.
For the saying “happy employees makes happy customers” to be true, companies should be looking at levels of engagement as the measuring stick. We know that emotionally engaged employees feel like they are doing something valuable for their organizations and that their efforts will make a difference. Customers know when they are talking to emotionally engaged employees. The positive feelings that the employees have about their job and employers influence the level of service they give to customers. When these positive experiences continue to happen, then customers become engaged, and they become advocates for the company’s products and services.

Brian Manning, user experience manager for Molecular said in a 2006 article on engagement, “Engaged customers become the medium for the message. These passionate advocates actively promote your brand and products through viral and word-of-mouth marketing, often without realizing they’re doing it.”

While retail and movie theaters may be easy targets when it comes to pointing out the signs of disengaged employees, it is not exclusive to those business segments. Employees across industries have a major impact on customer loyalty and engagement. The mantra of “happy employees equals happy customers” is real, and companies should seek emotionally engaged employees because it will be these employees who help create emotionally engaged customers.

This is the spillover effect.

Drivers of Engagement
To understand the spillover effect, we need to understand the drivers of engagement and what employee characteristics really connect with customers.

When you ask engaged employees what they like about being a service provider, what is most striking is the meaningfulness of their experiences. Employees talk about being part of something worthwhile that is larger than them, so the search for the causes of disengagement or engagement is better directed away from identifying good or bad people and toward uncovering the positive and negative characteristics of the job environment.

If an employee is working in a position that is not fulfilling, does not meet personal expectations or allow him or her to meet their personal goals, and if a stressful job environment acts as a barrier to ever meeting the expectations or goals, employers are likely to have a disengaged employee that will quickly be burned out.

Burnout occurs when employees depersonalize their work environment and literally separate themselves from their work; they are emotionally exhausted due to the work environment and pressure from customers and coworkers; and when they feel they are not making a significant contribution toward the organization.

Spillover is centered on the idea that emotionally engaged employees are doing something valuable. When their job has less stress and more enhancers – that is, more positive aspects at work – they are more likely to be more productive and care about the customer experience. Critical job enhancers include the following:

- Having a positive impact on the lives of customers and team members
- Having opportunities for learning important new skills
• Managers asking for suggestions
• Completing whole jobs from start to finish
• Receiving feedback about the results of efforts
• Free to perform the work the way believe is best

With the presence of these enhancers, combined with the absence of stressful barriers, employees are likely to be emotionally engaged. It is this emotional connection – the desire to do what is best for the organization – that spills over to customers, creating emotionally engaged customers.

In their book, *Return on Customer: A Revolutionary Way to Measure and Strengthen Your Business*, Don Peppers and Martha Rogers, founders of management consultancy Peppers & Rogers Group, emphasize that “Motivated employees are clearly more productive and keep a company’s employee churn rate down, which lowers expenses. Yet they also have a profound impact on customers as well by creating positive experiences through efficient and smart customer service.”

The Spillover Effect

In one of the largest studies ever conducted on engagement, which surveyed more than 14,000 consumers and 300 employees of a large financial services organization, Dr. Gary Rhoads and Dr. David Whitlark, loyalty and engagement experts, found that 1 out of every 10 customers was hurt by disengaged employees. The research found that disengaged employees had no emotional connection to the customer, and that any efforts at customer services was all show with no heart.

The Rhoads-Whitlark study was able to divide the organization’s company into three basic groups.

• **Engaged** – Engaged employees provide higher levels of service quality and higher levels of productivity. They strive for recognition from co-workers and management, are highly competent and accomplishment oriented, and focus on the organization.

• **Disengaged** – Disengaged employees produce lower levels of service quality and lower levels of productivity. Their motivation is money, and they have selective competence and work for themselves.

• **Swing** – There are two types of swing employees. The first group provides high levels of service, but low levels of productivity, and the other group provides high levels of productivity, but low levels of service. Those with higher service levels strive for fulfillment, are highly competent and service oriented, and a customer’s model citizen. The swing group members who have a high level of productivity...
merely strive for acceptance and are not very competent. Yet because their focus on productivity, are a manager’s model citizen and tend to receive the recognition that should go to the service-oriented employees.

During the course of the multi-year study, only 12 percent of the engaged group left the company, while 38 percent of the disengaged group left. Within the swing group, 38 percent of the group with high levels of service left the company, while only 15 percent of those with higher productivity levels left the company. The significant difference in the swing group was due to the fact that those with higher productivity received recognition, including promotions and raises, while those focused on service were often recognized for their lack of productivity rather than the fact that customers liked them.

The engaged group exhibited the highest levels of job satisfaction, and the lowest levels of turnover intention, depersonalization and emotional exhaustion. And as indicated above, they are least likely to leave the organization. The disengaged group exhibited just the opposite with the lowest levels of job satisfaction and the highest levels of turnover intention, depersonalization and emotional exhaustion.

When asked during the research process to explain what being a customer service rep means to them, those in the engaged group said, “Helping customers with problems or questions – being part of the company.” In contrast, the disengaged group described it as “a lot of work.”

There is a large void between engaged and disengaged employees, and the Rhoads-Whitlark study clearly indicated that the work environment combined with employee attitudes has a significant impact on a customer’s perception of quality. Engaged employees in the study looked at their jobs differently, attributing the reason they continued to work for their employer to things such as positive working conditions, sense of accomplishment, being treated good by the company and being good at what they do. Disengaged employees gave two reasons: pay and flexible hours. Whereas, the swing group attributed their retention to pay and benefits, and also cited friends, fun job and team work.

A study conducted by ORC International in the United Kingdom supports the Rhoads-Whitlark findings.

“The results showed that certain areas of employee engagement directly impact customer satisfaction. The strongest correlation was found with the question “I am treated with fairness and respect in this organization”, proving the commonly held perception that creating a fair and respectful internal culture will exhibit itself outwardly onto an organization’s customers. This was closely followed by areas of employee awareness of long-term goals and organizational pride. In essence, the research illustrated the importance of a clear direction, effective leadership and a supportive culture, all of which illustrates that the building of a strong employer brand that staff believe in and are proud of is often a key factor in improving employee engagement and business performance.”

The 2007 Allegiance Pulse of America – Retail Banking study also identified four areas that retail banks should emphasize to increase the loyalty and engagement of customers. Each emphasized the vital role of helpful and knowledgeable employees in creating customer engagement.
• **Helpful Service:** Customers like doing business with a bank that saves them time and money.

• **Clear Connections:** Customers are saying – you can connect with me emotionally by telling me about a product that is relevant to my situation.

• **Personal Connection:** Customers say that their one-on-one experiences with bank representatives have a meaningful effect on their engagement, both positive and negative. Banks should not underestimate the power of each one-on-one experience in building lasting engagement, and they should establish training and processes to establish best practices.

• **Respect:** Banks must do better at making customers feel respected. Engaged customers cite bank reps who deliver service with speed and confidence.

These studies prove that it is important for companies to lead with their strengths, emphasize the positives, and remove the barriers that lead employees to be disengaged with their jobs and the organization.

The most common barrier that Rhoads and Whitlark identified in their research is management. One bad manager can pollute multiple layers of an organization, and poor managers bring down employee morale, which spills over into the engagement level of customers.

In the book *The Service Profit Chain* by James L. Heskett, W. Earl Sasser and Leonard A. Schlesinger, the authors outlined an integrated set of actions and corporate values that should involve almost everyone in the company to help create positive customer experiences. Recently, Heskett was asked how difficult it has been for organizations to implement this approach in creating happy customers.

Heskett said, “Service profit chain concepts are deceptively simple. They require an integrated set of management initiatives to achieve. The initiatives have to address employees first, then customers. And they take time.”

He commented that the hardest concept to deploy is the culture change, which “requires that organizations identify values, behaviors and measures that help reinforce service profit chain relationships.

“But it also requires actions. That is, when managers are not managing by the values and cannot be admonished or retrained to do so (which rarely works), they have to go. That’s a difficult step for many organizations to take.”

Managers have a significant impact on how much employees like their jobs, how they feel about their role in the organization, and how much their role benefits themselves, customers and the company. When managers do not give support to employees, do not lead by example, and do not exhibit actions that are consistent with the values of the company, then employees are less likely to be emotionally engaged.
This is Why Employee Engagement is a Leading Indicator

Engagement is defined as a deep relationship that employees and customers develop through repeated experiences and interactions with a company. Businesses with engaged employees and customers experience reduced employee turnover and training costs, and receive price premiums and positive word-of-mouth from customers.

A study conducted by Towers Perrin found that “Highly engaged employees also believe they can and do contribute more directly to business results than less engaged employees.

- “84% of highly engaged employees believe they can impact the quality of their company’s work product, compared with 31% of the disengaged.
- “72% of the highly engaged believe they can impact customer service, versus 27% of the disengaged.
- “68% of the highly engaged believe they can impact costs in their job or unit, versus 19% of the disengaged.”

To gain control of its rapid growth and build a quality work environment, Mountain American Credit Union (MACU) based in Provo, Utah, set out to better understand employee needs and interests by replacing its ineffective paper-based employee surveys with automated, Web-based employee and customer feedback systems. Managers felt that they could improve member satisfaction and loyalty through improved employee service and customer care.

After deploying EmployeeVoice and CustomerVoice by Allegiance, MACU was able to identify correlations between employee satisfaction and the loyalty of its members. MACU also found important factors regarding employee satisfaction and financial performance, and proved that other key factors of employee satisfaction include worker’s pride, relationships and recognitions, work/life balance and a supportive culture.

Because MACU better understands this correlation, the organization has been able to reduce employee turnover over a three-year period.

“By deploying a system that allows us to frequently survey our employees and capture all the feedback in a central location, we have been able to better understand what leads to true employee satisfaction,” said Marshall Paepke, senior vice president of human resources for MACU. “We have seen a reduction in employee turnover and have helped develop employees who are driven to satisfy the customer.”

The following information is taken from the 2008 paper Engagement: The New Competitive Advantage by Tom Lacki of Peppers & Rogers Group, and co-sponsored by Allegiance, Inc.
Employee Engagement Facts
Total shareholder return (TSR) increases in concert with employee engagement: in companies where 60-70 percent are engaged, the average TSR is 24 percent; where 49-60 percent are engaged, TSR drops to 9.1 percent; and, where less than 25 percent are engaged, TSR is negative.6

Best Buy was able to demonstrate that an increase in engagement among store employees of 0.1 on a five-point scale results in an annual profit increase of $100,000 for the store.7

At JCPenney, it has been shown that stores with high levels of engagement (i.e., in the top 25 percent) deliver 36 percent greater operating income than stores of similar size with low levels of engagement (i.e., in the bottom 25 percent); they also produce about 10 percent more in sales per square foot than average.8

Customer Engagement Facts
Executives from around the globe agree: the benefits of building customer engagement are significant, including improved customer loyalty (80 percent), increased revenue (75 percent) and increased profit (75 percent).9

Their perspective is consistent with independent research demonstrating that highly engaged customers deliver a 23 percent increase in share of wallet, profitability and revenue as compared to the average customer.10

An examination of the casual-dining sector documents the benefits of customer engagement. When comparing those with a high level of customer engagement to those with a low level, a marked difference in financial performance emerges. High customer engagement delivers a return on investment of 7 percent, versus -22 percent when engagement is low; for the gross margin metric, the spread is larger, 29 percent versus -12 percent; and for earnings per share, the difference is even greater, 75 percent versus -50 percent.

Employee and Customer Engagement Facts
While employee engagement and customer engagement individually drive high levels of business performance, together they are a potent combination. An analysis of 1,979 business units in 10 companies shows that those with high levels of engagement for both are roughly twice as effective financially as those that excel on only form of engagement, as measured by total sales and revenue. For one luxury retail chain, the joint impact of employee and customer engagement delivered an average of $21 more in earnings per square foot, for a total of more than $32 million for the entire chain.11
Benefits of the Spillover Effect

When employees are emotionally engaged with their employers they are driven to help the organization and its customers. The question that often comes up when discussing the spillover effect is “what spills over?”

The answer is simple – engagement.

Engagement is contagious. Employees who feel a sense of pride in their work, understand their role and how it impacts the organization as a whole, and are recognized for the high levels of service to customers and the company are likely to be more loyal and less likely to be searching for the next opportunity.

As emotionally engaged employees serve customers, their satisfaction or happiness for their overall quality of life is reflected in their high level of quality service. When customers receive this level of service over time, they become highly engaged; they become a medium for the company’s message, and in a sense become owners.

Haslett said, “By owners, we mean people who are not only loyal and willing to recommend the organization to others, but who make referrals, influence others to join as customers or employees, test new products or services and provide suggestions for improvements, and are willing to help in the selection of new employees.”

Engaged employees contribute to a more positive work environment as their positive attitude and genuine happiness with their job spills over to other employees. Engaged employees also lead to reductions in employee turnover, which reduces costs associated with hiring and training new employees. Finally, engaged employees contribute to the bottom line. As their engagement is reflected in their service to customers, they are helping to create more loyal customers. And we know that highly engaged customers buy more products/services, recommend potential customers to a company, stay longer and give more feedback, which, in turn, gives companies the opportunity to address issues and concerns and preserve potentially lost revenue.

As defined in the Allegiance white paper, “The Positive Economics of Engagement: How Customer Engagement Increases Revenue, Growth and Profits,” a 1% increase in customer engagement can have a dramatic impact on a company’s bottom line. The same is also true for employee engagement. If companies can move 1% of their disengaged or swing employees into the engaged group, they are likely to see improvements in their company culture and customer satisfactions, as well as a reduction in employee turnover.

In the end, the spillover effect is much more than a discussion about happiness. It is about an emotional engagement that is continually shared from employee to employee, employee to customer and customer to customer. It is a concept that encompasses and impacts all aspects of the business, from company culture to profits.

To be effective in today’s business environment, companies need engaged employees, and by understanding the concept of the spillover effect, they can better understand what it will take to create, maintain and realize the benefits of higher engagement.
ABOUT THE AUTHOR

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Allegiance Engagement Expert & Co-Founder

Dr. Rhoads is currently a professor of marketing at Brigham Young University and holds the Stephen Mack Covey Professorship awarded by the Center of Entrepreneurship. As an active researcher in entrepreneurial marketing strategy, Dr. Rhoads' work focuses on identifying marketing tactics that lead to start-up success.

Dr. Rhoads has published articles in the Journal of Marketing Research, Journal of Marketing, Journal of Market Research Society, Journal of Personal Selling and Sales Management, Journal of Retailing, Behavioral Research in Accounting, Marketing Science Institute, and various AMA Proceedings and serves on the board of advisors of the Center of Economic Development and Opportunity to help develop successful start-up companies in Utah county. Dr. Rhoads received his B.S. degree in zoology with minor emphasis in chemistry and his M.B.A. from Idaho State University, and holds a Ph.D in marketing from Texas Tech University.
What the Experts Say

Industry Thought Leaders

With Bob Thompson, CEO, CustomerThink Corp.
Chris Bjorling, Employee Engagement Expert; Founder/President of Fidello Training Technologies
Darby Checketts, President, Cornerstone Professional Development
Critical Success Factors for Your Customer-Centric Journey

By Bob Thompson, CEO, CustomerThink Corp.

In the past 10 years of our research at CustomerThink, we’ve found that most executives see competition getting ever more difficult. It’s easy to see why. Much of what businesses produce and sell can be commoditized by the global marketplace, shortening the window of opportunity to gain an advantage based on product innovation or low price.

Adding to the stress is the fact that customers are just a click away from access to numerous alternatives if a relationship is not to their liking. And that’s not all. In the past few years, with the advent of blogging and social networking, disgruntled customers can use the web to broadcast their points of view to thousands or millions of people, damaging global brands built carefully over decades.

What this means is simple. It’s never been more important to create and sustain mutually valuable customer relationships, based both on the functional value that customers expect and the emotional value that customers perceive. This is the heart of a customer-centric strategy.

“Engagement” is a great term to describe the type of relationship that will pay dividends for the enterprise and its customers. Of course, one of engagement’s most common meanings is a promise to marry. While companies are not literally marrying their customers, what’s important is the mindset that there is mutual interest in a long-term relationship that means more than just transactions.

Evolution of Customer-Centric Business Management

Actor George Burns once quipped, “The secret of acting is sincerity. If you can fake that, you’ve got it made.” Unfortunately, too many companies try to fake customer relationships by saying one thing in their marketing messages and delivering something completely different in their customer experiences.

By and large, business leaders do grasp the concept behind customer-centricity: to deliver what customers want in order to build engaged customer relationships. About half of those we surveyed in 2008 believe that a customer-centric approach had helped improve the performance of their organizations. We also found solid evidence that those performing well on CustomerThink’s Customer-Centric Business Management (CBM) effectiveness assessment outperformed their competitors.
Customer-centric thinking has evolved considerably over the past two decades. In short, the focus has shifted from managing information to experiences to collaboration.

- By the mid-1990s, Customer Relationship Management (CRM) became a hot buzzword. The premise was that by managing customer information better, more profitable relationships would result. However, our research has found that technology-focused CRM projects have mainly delivered productivity benefits through the automation of marketing, sales and service processes – not loyalty-building experiences.

- In the past five years, Customer Experience Management (CEM) has filled in some of the gaps in conventional CRM thinking. With CEM, companies must assess and design the end-to-end customer experience, not just the touch points that lend to automation, and consider the emotional impact on customers.

- Customer Collaboration Management (CCM) is the next frontier to achieving genuine customer relationships, enabled in part by the social web. With “Web 2.0” technologies, companies and their customers can interact as never before to share ideas, solve problems and even co-design new products and services.

A customer-centric enterprise concurrently practices CRM, CEM and CCM. And, there’s one key element that’s essential across all three disciplines: voice of customer (voc) programs. This is a wonderful application for technology to help managers listen, understand and act on both structured and unstructured customer feedback.

Critical Success Factors

Based on our research and many other industry studies, it’s clear that developing engaged customer relationships is crucial to profitable growth for any enterprise. Yet we also find that companies are struggling on their customer-centric journeys. We have identified five critical success factors to getting started on the right path.

1. Leaders Feel a Compelling Reason to Change

When the oil platform Piper Alpha in the North Sea caught fire, trapping a worker, the worker chose to jump, believing a probable death in the freezing waters was better than certain death in the fire. Happily, he was rescued and survived.

A “burning platform” means a strong sense of urgency. If you are in a leadership position, this is your job and yours alone. If the fire doesn’t burn within you to create a customer-centric business strategy, don’t expect the organization to take it seriously. That urgency can stem from current business issues, such as slowing growth, declining profits or loss of market share. Or, you can motivate the organization to act before it’s too late by painting a vivid picture of impending challenges or fleeting opportunities.
2. Customer-centricity Drives Business Results
Numerous studies have shown that highly customer-centric businesses lead their industries. In, *The Value Profit Chain: Treat Employees Like Customers and Customers Like Employees*, authors James L. Heskett, W. Earl Sasser, Jr., and Leonard A. Schlesinger conclude, based on 31 years of research, that employee engagement (satisfaction, loyalty and commitment) influences customer engagement, which ultimately drives the organization's profit and growth.

And yet our research finds that most business leaders are unmoved by these industry studies. The critical task is to build the business case internally. First, think about how being customer-centric supports your core business strategy. Then, look closely at what drives top-line revenue. For example, in large businesses that depend on renewals, increasing renewal rates by even a small percentage can put millions on the top line. Also, consider what might happen if you don’t treat your customers better. The social web awaits with a megaphone for negative word-of-mouth.

3. Clear Insight into What Target Customers Value
Are you listening to customers in multiple way – using focus groups, advisory councils, mystery shopping or surveys – to “triangulate” on the insight you need? You also might find that customers are already telling you what they want on forums or blogs, web site feedback forms or call center agent logs – if you’ll take the time to read them. Text mining is becoming a more commonplace way to learn what customers are saying when the volume becomes too high to handle manually.

Ignorance is not bliss. Our 2008 study found a sizeable gap between how leaders and laggards used customer insight to develop a customer strategy. Only 33 percent of laggards gave a Top 2 box rating to “researching what drives customer loyalty” versus 58 percent for leaders. This 25-point gap was repeated on another key question regarding “understanding how the quality of customer experiences is valued by customers”; 75 percent of leaders selected the Top 2 box.

4. Operational Metrics Link to Profit-building Customer Attitudes and Behaviors
Metrics reveal your real business strategy, not slogans. In many industries, such as financial services, personal computers and cell phone service, customers’ interactions with customer service representatives are one of the biggest factors in their overall satisfaction with their experience. And, there’s a wealth of research that suggests first-contact resolution is a metric that links to happy customers.

Yet a classic misalignment occurs when a company advertises that customers matter and then measures agents on call volume – encouraging employees to leave customers frustrated and unhappy. Defining customer feedback metrics that link to engagement is absolutely essential. Do you know how your customers feel about their experience with your company and how that feeling translates to their attitudes and behavior?
5. Customer-centricity Helps Employees Succeed, Too

“Customers Are No. 1!” is a catchy slogan, and chances are you’ve seen and heard some variation of it on posters at work or in commercials. But a slogan won’t truly translate into action for every employee in your company with mugs and handouts.

CustomerThink’s 2007 study found that loyalty leaders are twice as likely to reward employees who help improve customer loyalty. Monetary rewards can have a high impact, of course, but a reward does not have to be financial or even a job promotion. Employees are also motivated by a feeling of additional responsibility and accountability, or personal growth. For customer-centricity to become a successful business strategy, it must be in the self-interest of every employee, from the CEO on down.

Summary

As competition gets increasingly more difficult, creating and sustaining mutually valuable customer relationships is essential. Whether your current focus is on managing customer information, experiences or collaboration, a voice of customer program is vital to create engaged customer relationships that will drive profitable growth for years to come.

ABOUT THE AUTHOR

Bob Thompson is CEO of CustomerThink Corp., an independent research and publishing firm focused on customer-centric business strategy, and founder of CustomerThink.com. Thompson is a popular keynote speaker at conferences worldwide and has written numerous articles and reports, including Customer Experience Management: A Winning Business Strategy for a Flat World.

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Creating an Environment of Highly Engaged Employees

By Chris Bjorling, President and CEO, Fidello Training Technologies

As the Founder and President of Fidello Training Technologies, I have had the opportunity to work with many organizations over the course of 20 years. In my interactions with representatives from these organizations, I often hear a similar story that sounds something like this:

“We do so much in our organization to add value to the products and offerings that we present to our customers and prospective customers. We continually engage in benchmarking efforts to ensure our offerings compare well with or are better than our competitors. We preach customer service/customer focus to our employees, yet we are not producing the results we desire. We have lower sales, fewer new clients, decreased profit margins, increased turnover, lower employee satisfaction, lower customer satisfaction, and a lower overall customer engagement in comparison to our competitors. We ask ourselves, “How could this be?”

After further discussion with our clients, we frequently find that while in the process of focusing on their offerings, customers and competitors, these organizations placed a low value on generating proper employee engagement. These organizations essentially overlooked properly engaging with the people who interact with their customers every day; the people who represent their products and offerings and generate “good will.”

The lack of employee engagement is obvious to customers, either directly or indirectly, through discussions, direct interactions and observations of employees’ behavior. When a customer witnesses or experiences an employee's lack of engagement or commitment to the organization, its products, and its goals, the comparative quality of the product in front of them doesn’t seem to matter. Consumers will look for a more complete package elsewhere. Often the organizations we are working with have either not recognized this factor, don’t know how to engage their employees effectively or viewed employee engagement as potentially too costly.

Our years of experience and current research show that engaged employees are a competitive advantage to an organization. An engaged employee is someone who takes pride in his or her organization, what it represents and where it is going. These employees exude confidence in themselves, the organization, and the products and services they offer clients. In other words, they become an exceptional brand advocate. Engaged employees are committed to the success of the organization, will represent that success to the client and will do whatever is required for success to be achieved.
Once our clients understand employee engagement, their next question is: “How do we increase employee engagement within our organization?” While there are slight differences in the research results on the “how”—many people look to “repackage” the results into new language for a “new approach”—there are several core concepts that stand out as principles to be reviewed. These principles are:

- **Line of sight**
- **Nature of their job**
- **Career growth opportunities**
- **Relationships with managers and co-workers**
- **The culture of the organization**

**Line of Sight** – One of the most exciting challenges in business today is aligning the capabilities and performance of people with their organizations’ strategies. This alignment enables organizations to meet their strategic objectives. It also builds confidence and satisfaction into the lives of employees. When employees are able to understand how their work and direct interaction with customers, both internally and externally, impacts their organization’s goals, they are more likely to say “Ah-ha, now I get it!” or to have an epiphany, “Oh, that’s why we do that.”

The ability for most workers to connect the dots motivates them to do what they are being asked to do; to come up with a better way to achieve the results they are being asked to achieve, or to represent to others with confidence what they are doing and why they are doing it. This enables engaged employees to be an integral part of the process and not islands unto themselves.

**Nature of Their Job** – Employees are enthusiastic about jobs or positions that leverage their skills and interests. When an organization places an individual in a job, they need to understand all aspects of the job and the candidate. Conversely, the candidate needs to understand his or her personal goals and the nature and details of the position that he or she is hoping to fill. Finding the right individuals to fill the various jobs of an organization is sometimes challenging. However, by knowing the details of both the job and the potential candidate, companies can minimize the chances of a “poor fit.” Properly aligning people with the right job enables employees to feel a sense of involvement, stimulation and desire to succeed. A highly engaged employee feels that his or her talents are being used effectively and he or she is given a proper reward.

**Career Growth Opportunities** – In today’s downsized, right-sized, restructured, and re-engineered business environment, people are taking a much more active part in their own career development, and are continually working to improve their “employability.” In addition, new technologies and business models now require that organizations have the ability to learn and adapt quickly. Personal career development and technology are changing the nature of development planning and career management from “a nice thing to do” to a business imperative. Organizations that fail to recognize this may find themselves falling behind in acquiring necessary skills and losing their most talented people to other organizations. When employees are aware of their career opportunities and are empowered
to pursue them and then given the development tools to meet the new demands, they become very emotionally engaged in the success of the organization.

**Relationships with Managers and Co-workers** – Interactions with managers and co-workers is critical to developing engaged employees. Managers help define the line of sight, provide positive feedback, have effective performance management discussions, etc. One cannot undervalue the ability of managers to know and embrace the strategy of the organization, understand how it applies to them and their workers, and articulate that to their subordinates. Co-workers also have a significant influence on each other. When employees are highly engaged, they will generate a “buzz” that benefits their co-workers. Conversely, employees who are not highly engaged, for whatever reason, can have an adverse impact on their co-workers’ engagement. The effective management of a workgroup is vital to creating highly engaged employees.

**Culture of the Organization** – Ultimately, the culture of the organization has to foster an environment that is conducive to creating highly engaged employees. Often, leaders desire to create an atmosphere of high engagement, but the organization falls short in providing them with the tools they need to make it happen. When an organization makes the commitment to having a culture that delivers upon strategic promises, it must actively seek to maintain that commitment to employees and the corporate strategy, and not pull back from it. Pull-back may cause a level of doubt or impact employee trust. At the end of the day, your organization’s culture must be conducive to cultivating highly engaged employees.

When our analysis is complete, we work with organizations to address these pre-listed areas and other related topics that are vitally important in the employee engagement process. As we design and implement changes in an organization, many organizations put tools and processes in place to help measure and improve upon their efforts in these areas. These tools enable a continuous review and improvement process to help make their visions a reality. Our experience and countless studies show that when employees are engaged, organizations experience great improvements across their enterprise from customer engagement to bottom-line profits, and that can make all the difference in creating and maintaining a competitive advantage.

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**ABOUT THE AUTHOR**

Christopher Bjorling, Fidello Training Technologies founder, president and CEO, has over 20 years of experience in human capital management. He is primary architect of HR Web™, the web-based software integrating HR activities into an integrated, comprehensive human capital management. Bjorling specializes in creating systems and processes that drive human capital management capability. He recently appeared globally on World Business Review discussing human capital management.
The Critical Need for Personal Engagement – Astonishing You!

By Darby Checketts, President
Cornerstone Professional Development

Transformation in any business comes down to the personal commitment of each individual who is involved. Involvement must turn to engagement, which means to personally identify with the purpose and goals of the organization and with the new directions that change represents. Leaders help others acquire the vision that makes it easier for them to become engaged and to positively astonish those whom they serve. Leaders must somehow get this vision into the minds, hearts and the eyes of their associates. You will know you are successful when your customers can look into the eyes of your associates and see the shared vision for your enterprise. That’s engagement.

It’s All in the Eyes

So, you may ask, what’s this about the eyes? As we pursue our goals, we generally focus on figuring out what we must DO to be successful. The more important quest may be to identify who we must BE to attract the success we desire. I learned about the importance of “being” as a young manufacturer’s sales representative. The most fundamental discovery was that my customers needed me to BE interested in them, not just interested in making a sale. My sales manager convinced me that customers could see it in my eyes if I was interested in them or not. Otherwise, they would see dollar signs in my eyes.

I wondered if my customers could see in my eyes that I was enthused about my own products or not. I remembered an explanation of what the last four letters in the word enthusiasm stand for. The letters “i-a-s-m” signify that “I am sold myself.” I recognized that I needed to BE truly sold on the products and services I represented. This would undoubtedly result in that confident positive sparkle in my eyes as an outward indicator of my enthusiasm.

Could my customers and my associates see in my eyes that I was truly engaged with what I was doing, or perhaps disengaged? I discovered that you can be interested and enthused, but to be engaged means that you take ownership, that you sign-up for change, and that you work with a sense of purpose and partnership. I needed to move to the next level – to BE engaged. Customers and teammates would see in my eyes an intensity that signaled my sense of responsibility in serving them. They would know I was engaged.
How to Be
The “DO” aspects of life and work are easier to pin down. To “BE” something is more intangible. Take a moment to see the important distinction. Instead of focusing on your handy to-DO list of tasks and duties, examine what you need to BE to accomplish your ultimate goals. Only then will you recognize what is most important that you must do to make a lasting difference and a more genuine contribution to those you intend to astonish. The questions become…

A) What is it that individuals do to be genuinely interested in others?
B) What is it that individuals do to be truly sold on their own products?
C) What is it that individuals do to be truly engaged with an enterprise?

Here are the Answers

Be Interested
In the customer care business, people who are interested in others study them in advance, learn about them and take good notes when listening to them. They become world-class problem solvers so that they can get beyond the symptoms of problems to the root causes – to connect stated wants with the underlying needs customers have. This is a foundational element of engagement. A great leader becomes a reader of people and thus becomes intrigued with people in a way that fosters engagement.

Be Sold
To be sold on your own products and services, you must study your products and understand your services. You must use your own products. That’s the beginning of engagement. To be truly sold on your products, you must move from merely promoting the features and functions of your products and services to selling their benefits. This is a process of engagement. As you combine being interested with being sold and as you adapt the benefits of your products and services to what your customers truly need and want, the potential for all-around engagement increases. Your customers will naturally want to become engaged with you.

Be Engaged
To be engaged is to get it all together, to take ownership, to recognize shared interests and interdependency, and to follow through with integrity and consistency. To be engaged is to BE the person who works with a clear sense of purpose to satisfy the needs and exceed the expectations of those you serve. As a professional, it is to perform to recognized standards of excellence and to put the needs of your external and internal customers first in order to produce results that are mutually beneficial.
Ultimately: Be More Powerful

Ultimately, as you become interested in your customers, sold on your own products/services, and engaged with your enterprise and with your customers, you will BE powerful. You will have become more passionate. You will possess the ability to make things happen. These are extensions of the fact that you became engaged. As someone who is engaged, you will be astonishing. And, the greatest benefit your customers will derive from doing business with you is your commitment to them. They will see it in your eyes.

ABOUT THE AUTHOR

Darby Checketts is President of Cornerstone Professional Development and the author of ten books, including Customer Astonishment: 10 Secrets to World-Class Customer Care. He has worked with over 300 client organizations to help them positively astonish their customers. You can telephone Darby at (866)654-0811 or visit his website at www.DarbyChecketts.com.

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What the Experts Say

Industry Practitioners
RS Medical
Zions Bancorporation
Robert Wood Johnson
The Durable Medical Equipment (DME) industry is changing from a mindset based in manufacturing with Federal Drug Administration and International Organization for Standardization regulations to an expanded mindset that includes the healthcare industry with accreditation standards.

Today, Medicare DME, Prosthetics, Orthotics and Supplies (DMEPOS) must meet quality standards and be accredited by a Centers for Medicare-Medicaid Services (CMS)-approved accreditation organization.

Accreditation is a means of measuring an organization’s management, internal practices and service outcomes. According to the Accreditation Commission for Health Care, Inc., accreditation is regarded as one of the key benchmarks for measuring the quality of the organization, along with its products and services.

RS Medical recognizes that the quality of an organization includes alignment with customer’s needs, wants and expectations, and the organization’s ability to deliver on those elements effectively and efficiently.

RS Medical is America’s premier provider of physician-prescribed home electrotherapy rehabilitation products and services, whose customers include physicians, patients, their insurance companies and employees. RS Medical’s mission is to be the premier pain and function solutions provider by delivering safe and effective products and services that meet or exceed our customers’ expectations.

“How does RS Medical See Engagement Growing as a Business Principle?”

One critical success factor for RS Medical was to implement a Customer Focus Program to improve the customer experience and create advocates among all customer bases – including regulatory and accrediting bodies.

“Engagement” as a business principle may be the best possible term to describe the implementation of this critical success factor over the past 18 months. RS Medical contracted High PERFORMANCE Professional © Richard Chang Associates, Inc. to engage the work force to live RS Medical’s vision: “Putting RS Medical’s Vision and Values into Action.”
All corporate employees went through the training with an objective for:

- **Understanding RS Medical’s vision of the future**
- **Aligning with RS Medical’s strategic foundation**
- **Living RS Medical’s values on the job**
- **Reinforcing the values through feedback**
- **Handling feedback effectively**

This training has brought about a sense of collegiality that has evoked RS Medical’s values of teamwork, quality, integrity, growth and results. RS Medical then contracted with Allegiance to provide the tools necessary to measure engagement. RS Medical purchased several modules in stages to effectively learn and improve best practices for our customers, services and products.

After three months of data collection, Allegiance provided analytics which gleaned the most salient areas for us to focus our resources for positive economic growth, continued improvement, opportunities for lift and to confirm areas of excellence.

**Why it Matters Today**

The stakes are high. Customers can be fickle. Engagement may be a business principle that helps stabilize and energize the customer base.

**Case in Point: Customer Satisfaction Survey Results**

RS Medical deploys Allegiance’s Customer Pulse Survey to 5,000 randomized, non-duplicated customers per month. Responses are monitored. This standardized and validated survey gives RS Medical confidence when making decisions.

Positive responses from statements such as: “I am pleased to recommend RS Medical’s products and services to friends and colleagues” or “Overall, I am satisfied with RS Medical’s product and service package”, and “RS Medical representatives provide the information I need to use the product comfortable and safely”, are significant indicators of increased engagement.

**Case in Point: Rapid Response for Lift**

Allegiance’s Segment Analysis report recently revealed that RS Medical had an opportunity to grow engagement with elderly patients through better communication. Recommendations followed. RS Medical’s marketing/communication and sales teams immediately met to discuss our strategy.

Out of that meeting came excellent suggestions on how to improve product packaging and literature to ensure increased comprehension among our elderly customers.
Field sales personnel also received additional training in health literacy strategies for the elderly to better understand how to use the product which we believe will increase compliance to their physician prescribed product.

**Case in Point: Review the Strategy**

The 20/20 Analysis graph takes information from the Employee Pulse and Customer Pulse to report on emotional engagement.

This information helps us gauge the effectiveness of High PERFORMANCE Professional© and how RS Medical values have promulgated throughout the organization.

**Why Great Companies Need to Embrace Engagement Even More**

Markets change rapidly and with multiple media available for targeting and reaching consumers, companies cannot be complacent in owning or assuming ownership of market share. Strategies must be in place to retain, sustain and build economic growth on products and services that the customer appreciates, values and ideally advocates for.

For RS Medical, the customer is not just the end user, but everyone who contributes and affects the products and services along the way. Engagement is a term that has endeared itself as one of our business principles.

RS Medical values its relationship with Allegiance as a true partner and in our continued success as the solution provider in promoting healthy, active lifestyles.

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**ABOUT THE AUTHORS**

Alicia Muñoz is a Quality Systems Specialist for RS Medical, a Durable Medical Equipment Company based in Vancouver, WA. Muñoz has her Masters in the Leadership of Healthcare Organizations and works with Accreditation Standards. She has received numerous awards for her leadership in allied medical organizations and work in political advocacy. She is an active volunteer in the community and an avid hiker in the Pacific Northwest.

Linda Talarico is the Customer Service Manager for RS Medical. Talarico is a leader who specializes in building successful, high-performance contact center teams and customer focus programs as a key component of corporate strategy.
I must admit, when I first heard the term engagement I thought it was just the latest business fad. However, after several years of being involved in implementing engagement programs, my overall views of engagement have certainly changed and evolved.

Behavioral research has identified three levels of motivation: self serving, relationship-based and belief-based. The concept of engagement is grounded in motivational theory, and successful engagement programs aim to draw connections between those three motivational levels, empowerment, and the associated states of emotional passion and rational commitment. But perhaps the biggest difference between today’s engagement programs and those of the past is that businesses now have more reliable and consistent solutions for measuring engagement, using that information to create organizational change and directly tying those results to business performance.

While working as an organizational effectiveness and change management practitioner over the last 15 years, I have had the privilege of working with CEOs and leadership teams to influence and participate in implementing various strategies to address and/or manage business challenges. And, I have also had the opportunity to experience those same types of changes from an employee perspective. In all of these situations, the outcomes have typically fallen along a continuum – many solutions were executed extraordinarily well, some with mediocre success, and others required significant remedial work to avoid being complete train wrecks! Yet, in each of these situations, there were employees who exhibited high engagement by repeatedly demonstrating their willingness to expend significant discretionary effort, often with no overt reward (and conversely there were those who were not – but that’s the disengagement chapter...right?).

For example, in 2003 I worked concurrently with two vastly different Australian organizations over a 12-month period: one a small, not-for-profit organization staffed largely by volunteers that derived the majority of its annual revenue from one month of fundraising each year, and the other a large manufacturing company that was making vast structural and productivity changes in the midst of trying to maneuver some significant financial challenges. Whilst in disparate circumstances, in both these organizations the timing and quality of employee and customer interactions was critical to business success.

At the small, not-for-profit organization, volunteers worked tirelessly to advertise, market, collect, administer and audit the donation process, and dedicated counselors contributed significant hours in providing counseling services associated with the organization’s core business services. Unpaid and navigating the transition to a
new leadership team, they were an interconnected group that demonstrated many traits of employeeeship, a term coined by Time Manager International, one of the world’s major learning consultancies, that refers to responsibility, loyalty and initiative. I recall initially being somewhat overwhelmed by the cohesiveness of this team, which operated more like a highly functioning family than a business, to the point of eating lunch together every day and calling employees who were not there to check on their status and safety. The business result was that it did not seem to matter what the challenge or how much work there was in the day, somehow it got done – and for the most part, cheerfully.

At the manufacturing company, the cultural fabric was completely different. Not only was the business facing significant financial challenges, but its production was seriously being impeded by missing process pieces, quality control, and parts and project management departments that failed to communicate with one other.

Our change management team implemented process re-engineering efforts, introduced productivity and safety standards, team restructures and financial reporting accountabilities. To successfully implement these initiatives, we also set up several focus groups from the outset to gain specific feedback from each workforce unit, increase their understanding of why changes were important and help them understand the associated impact on the business. Our objective was to increase the alignment of employee actions with required business goals. This is a fairly typical process, but what was atypical was the resulting change on the organization and the speed at which it happened. Workers who had previously been creating problems began helping to create solutions. Departments that had been working against each other began to increase their communication and support each other in an effort to work toward on-time project delivery. And, in general, there was a spirit of co-operation rather than contention. This change was a direct result of a positive shift in perspective and attitude. Many employees transitioned from being disengaged and de-motivated to being engaged to a point where they volunteered extra time and effort to progress the organization.

One particular example was a change in the organization’s approach to vendor management. Previously, the payables department had essentially been ignoring payments requests from vendors and avoiding communicating with them, which led to delays in the delivery of parts and negatively impacted the production process. As the employees in the payable department became involved in the change initiatives, their own satisfaction (of being heard, involved, and professionally respected) increased and their interaction with vendors improved. The calls were still difficult, but the vendors were not ignored. Moreover, the appropriate negotiations resumed and kept the right parts flowing to the production line at the right time. The impact of these changes was that the organization was able to retain an ongoing business entity that was subsequently sold.

Reflecting on the comparisons between these two organizations, I concluded that in any organization – whether paid or not – the action (or lack of action) that employees take stems from their own reasons and that those reasons, whilst able to be influenced externally, come from within.

This is important because regardless of the role they play or the environmental circumstances, this internal human motivation eventually surfaces.
There is a defining moment in every employee and customer interaction when the experience that an employee has on the inside (e.g., their attitudes, beliefs, experiences, expectations, current pressures, knowledge, etc.) carries over to the outside, and subsequently, results in either a positive or negative experience for the customer, depending on each parties’ respective perceptions. The energy derived from the psychological undercurrent of these interactions either draws consumers and employees to a business or not. Plus, subconscious or not, each participant walks away with a future behavioral intent.

Thus, whether by formal or informal methods, analyzing the experience of employees and customers in the context of that moment and recognizing the power of that interaction to shape the identity of an organization is vital to influencing both consumer buying behavior and employee motivation. Moreover, an organization’s ability to improve that interaction is crucial to achieving and maintaining a competitive advantage.

Customer and employee engagement practices strive to measure these interactions and subsequently provide an opportunity for improving them. As organizations develop a greater understanding of this, internal processes are evolved to help improve customer/employee interactions.

These business practices certainly hold true for Zions Bancorporation, a $53b bank holding company with approximately 11,700 employees. Zions has been participating in employee engagement practices for more than five years, and in the last 18 months has shifted these activities to a coordinated enterprise-wide approach. In working with Zions to develop and implement the enterprise engagement strategy, I’ve observed several practices that contribute to the success of Zions’ engagement efforts.

Zions places great value on business relationships, including those of its customers and employees. Measuring engagement data helps us listen to customers and employees in a meaningful and consistent way. At Zions, we continually strive to improve our organization’s effectiveness by listening to employees and customers, and then analyzing and using that information to affect practical changes that will have a genuine impact on our business. Our overarching model for engagement encompasses three foundational processes: connect, evaluate and evolve.

**Connect.** To better understand the overall feelings of customers and employees, we employ a philosophy of any door is the right door and utilize engagement surveys, customer response mechanisms, performance reviews, exit surveys, marketing studies and more. It’s all about listening to employees, vendors, customers and shareholders to gain insights and perspectives on their current state of engagement.

**Evaluate.** In an effort to analyze and make assessments to align changes with other business processes and put resources to best use, we analyze the engagement data and then view this data in context with other business data for a well developed perspective. Then, we work to develop an appropriate action platform to operationalize changes required from the feedback.
**Evolve.** We continue to build our organization’s knowledge in the field of engagement and use the information we gathered during the previous two stages to create positive changes. By taking thoughtful actions and consistently implementing the changes planned, we are able to achieve step-by-step results that have a positive impact on our organization.

The processes involved in each of these transactional interactions are as varied as the entities within the matrixed, decentralized footprint of Zions. But the end result for each group is the same—we have an increased quantitative and qualitative knowledge of employee and customer attitudes surrounding our organization. This data-focused analysis provides us with a distinct perspective from which we can look for outliers, establish correlations that we might otherwise not have found with more empirical data and take appropriate measured actions.

**Engagement Has Significant Human Resources Impact**

More than ever before, human resource professionals are expected to make a difference to business results and prove it. Since the landmark McKinsey study of 1998 (‘The War for Talent’), workforce shortages and the aging workforce have been constant discussions. Furthermore, the cost of employee turnover and the effective management of human capital make the data provided by employee engagement studies even more valuable.

Globalization has resulted in greater workplace diversity. In addition to managing within their own cultural context, organizations now must manage interactions with employees, vendors and customers from multiple cultures, as well as try to manage and retain employees across vast generational groupings.

As if those factors weren’t enough, the workforce composition fabric looks vastly different today than it did even just a few years ago. Like many organizations, the Zions’ workforce is now made up of employees from six generations. Each generation has varying requirements for motivation, developmental aspirations and productivity. In addition, research shows that there is significant overlap between well being at work and employee productivity. This also impacts the underlying psychological contract, especially to the Gen X and Gen Y populations who believe being engaged at work equates to being engaged in life. Thus, engagement will most likely trend toward being a must-have component in aligning employees with an organization rather than simply a desired state.

More than a motivation and satisfaction tool, employee engagement can provide human resource professionals with the support they need to make a significant impact in today’s business environment. In particular, segmented engagement studies can assist in determining and managing across cultural and generational differences. The surveying process gives increased voice to the audience, and when evaluating and assessing changes that might result from engagement studies, understanding the different motivators and needs of each generation can assist in developing the actions that will be the most appropriate for the intended target audience. For instance, one generational grouping may be to pair a particular business unit that has talent shortages with a generational group that has strong developmental aspirations, thereby meeting the needs of both groups over time.
Approaching change from this perspective also provides clarity in aligning available resources to projects in areas where the maximum impact is likely to be realized. This is especially true when the feedback is analyzed in conjunction with feedback data from other business units. What’s more, engagement analytics, especially those that provide the ability to analyze customer data with employee data, can provide a quantitative mechanism for evidencing the efficiency and influence of HR-related activities.

Engagement is Not a Stand-alone Practice
Surveying and evaluating data is one thing, but creating aligning changes in an organization is quite another! Successful engagement initiatives recognize that engagement is not a stand-alone practice. Encouraging engagement involves more than implementing an employee and/or customer survey tool. We have found that data collection is a vehicle that provides a beginning – a pathway for subsequent analysis, if you will – that can provide a powerful way to align and unite an organization’s many different functions in a common purpose: retaining, inspiring and growing the talent and processes that deliver core business services, and bringing those services to the right market at the right time to promote long-term business relationships. It is this configuration that drives increased overall business performance.

Engagement practices provide opportunities for conversations on organizational effectiveness among leaders of otherwise unconnected disciplines. We recognize that to create a competitive advantage, the efforts of the internal business unit must effectively meet the needs of the customer. To assess the need, each core business unit has a specific focus directed toward improving the customer experience.

For example:

• **Marketing** – focus on the right mix, the right date and the right message at the right price

• **Technology** – refine systems and processes to enhance the internal and external delivery of processes and systems that support the core business activities

• **Finance** – monitor the sustainability and access to resources

• **Human Resources** – manage available talent to produce results

Overall, we find significant opportunities for alignment during the action planning phase when each group considers the contributions that they can make to achieve a broader goal. We look for ways to make meaningful changes that help the organization to progress – in its ability to service clients, facilitate internal communication, and manage its branding, motivation and culture.

Connect Engagement Initiatives to Existing Change Management and Business Practices
Implementing engagement practices can be a significant organization change initiative. For us, it was essential to employ a guiding coalition, not only from the executive suite, but in each layer of the organization. This is especially helpful in assessing organizational readiness, consolidating the changes into the organiza-
tion’s culture, utilizing previously existing systems and also moving at a pace that is appropriate and in alignment with core business objectives.

In any organization, engagement (and disengagement) grows organically, and it takes all three components to be effective: connect, evaluate and evolve. And as for us, we have found that there are twelve rules of engagement that help drive meaningful change:

1. You must be engaged to engage.
2. Engagement requires clear goals and actions.
4. Engagement levels in individuals and organizations are not static.
5. Engagement is increased by alignment with recognition practices.
6. To engage you must participate.
7. Effective engagement requires alignment with other business processes.
8. Engagement practices must be operationalized to be sustainable.
9. Engagement measurement is a critical vehicle for analytics, not the ultimate solution.
10. Rigorous action planning is essential.
11. Engagement is line driven.
12. Establish your baseline (especially for an environment of acquisitions) and ask “are we getting better?”

In my view, engagement is not a new concept, but rather a re-branding of the underlying behavioral theories of human motivation. Thus, organizations that listen carefully to employees – and to their customers – substantially increase their ability to recognize points of differentiation and subsequently, their potential competitive advantages. Therefore, the businesses that will ultimately be the most successful over the long term are those that are able to truly and fully engage their customers and employees by tapping into and influencing the underlying elements of human motivations and interactions.

ABOUT THE AUTHOR

Claire Howells is Vice President Engagement and HR Communications for Zions Bancorporation, a SP500 listed, multi-bank holding company and national leader in SBA lending and public finance advisory services. As an organization change and communication strategist, Claire consults with senior management to promote the development and implementation of learning, change and communication strategies to support the 12,000 employees in the Zions Bancorporation footprint. She holds a masters degree in business from the University of Western Australia.
When it comes to patient and employee engagement, there may not be another environment equal to that of a hospital. Our customers are people who are sick or injured. They come to us in pain, worried, stressed and in need of care and compassion. To be effective, hospitals have to have engaged employees. Filling the patient service role with just any warm body simply will not work.

At Robert Wood Johnson University Hospital Hamilton (RWJ Hamilton), our business is caring for people. We have frequently been recognized by the healthcare industry with the highest honors in quality and patient satisfaction because of our caregivers’ desire to go the extra mile, take an additional rounding trip and listen to patients’ needs. We believe that engaged employees make for happier patients, and ultimately, higher patient satisfaction scores. It is these scores that directly influence our consistent industry recognition and impact our revenues.

This is why we take employee engagement so seriously. We know that our reputation and revenues are based on our patients’ experiences. We have outstanding patient satisfaction scores that are directly related to our best practices and our commitment to treating engagement as a business asset. Here are some of our best practices.

Employee engagement is linked to a number of factors, from communication and leadership to recognition and opportunities for advancement. Critical to their level of engagement is providing an environment that supports learning opportunities. Our leaders set the tone for engagement, support our initiatives to enhance it and provide us with the tools to measure it. When all of these drivers exist, employees feel they have a voice within the organization, are more engaged and less likely to search for another opportunity. In fact, RWJ Hamilton has much lower vacancy and turnover rates compared to other organizations.

Our recent employee satisfaction survey revealed that more than 80 percent of employees understand our mission and nearly 80 percent feel their coworkers are cooperating as a team to accomplish that mission. This high level of engagement influences how we treat our patients. And as we treat our patients better, our satisfaction scores improve, allowing us to draw a direct correlation between employee engagement and patient satisfaction.
Technology provides our employees with a vehicle to voice their opinions, concerns and suggestions. Based upon our employee engagement survey results, we created four engagement groups led by directors. These engagement groups included recognition and advancement, communication, supervision/leadership, and environment and equipment. Each group has their own goals and their own section of the hospital’s Intranet where they can communicate updates, activities and opportunities.

RWJ Hamilton has a variety of methods to reward and recognize employees. Our customer service cash program rewards employees with RWJ Dollars which can be used in the cafeteria, gift shop or to purchase gift cards. Our senior leaders take advantage of our Managing Up program with hand-written notes that personally recognize employees for acts of kindness and extraordinary service.

Leaderships’ engagement trickles down into all of our measurements, and although it’s everyone’s responsibility to help others become engaged, senior management leads the effort. We know that because of our commitment to employee engagement, we are seeing an improvement in our patient satisfaction scores. Each week we look at the scores, identify areas where we can improve, and identify the people and departments that deserve to be recognized. Keeping engagement levels high allows us to build employee morale and create a positive culture.

Since implementing advanced engagement technology more than four years ago, we have continued to enjoy increasing patient satisfaction scores. Our excellent service has been recognized through numerous awards, including the Press Ganey Summit Award presented to the hospital’s Cancer Institute. We are also a four-year repeat winner of the Consumer Choice Award, which recognizes hospitals that have the best overall quality and image as determined by a study of more than 140,000 healthcare consumers.

Recently, we were accredited by the State of New Jersey and the Joint Commission for Stroke compliance. And, in 2004, we received the highest honor for performance excellence, the Malcolm Baldrige National Quality Award, presented annually to high performing organizations by the President of the United States.

We rely on seeing a real-time picture of what is happening with our employees and our patients. Identifying, tracking and trending concerns with this leading-edge technology puts this data at our fingertips to make lasting changes. By implementing our engagement solutions, we made it clear to our caregivers that they are our most important asset; and to our customers that patient care is our number one priority.

With the growing number of choices in healthcare, employers need to focus on engagement to achieve a competitive edge. Employees want employers who listen and give them the opportunity to grow professionally and contribute to the organization’s success. Consumers want healthcare providers that offer a haven to heal with caregivers that deliver personal and compassionate service. Our consistent and high patient satisfaction scores tell the story – engaged employees lead to loyal patients.
ABOUT THE AUTHOR

Monica Olaff, Patient Relations Manager, Robert Wood Johnson University Hospital Hamilton (RWJ Hamilton), has been employed with RWJ Hamilton for over 7 years and has been in her current role as Patient Relations Manager for 5 years. She is involved in driving the Patient Satisfaction Scores through process improvement teams and working with patient focus groups on opportunities for improvement. As the Patient Advocate she addresses patient care concerns as well as other concerns related to the patient experience. She also works closely with department managers to ensure a positive patient experience.

Her background is in human resources and healthcare. She earned her degree from Monmouth University in Speech, Theatre and Communications.
What Percent of Your People are Engaged?

In booming economic times, businesses tend to focus on acquiring new customers and increasing employee retention. During tough economic times, businesses switch and focus instead on keeping customers and increasing employee productivity.

The good news for you is this: Engagement can help you in both scenarios.

If you understand engagement best practices and follow them, you will be more effective at attracting customers and increasing employee productivity and retention. During good or bad times, having the ability to increase your engagement percentage by moving customers from your Swing group to your Engaged group is a powerful way to increase revenue without the cost of acquiring new customers. You can do the same on the employee side with similar benefits.

I invite you to start increasing engagement at your organization today. It’s simple to do.

Once you start managing engagement as a business asset, you will be a stronger competitor, have a better understanding of the voice of your customers and employees, and realize new revenue and growth.

I hope you get started right away!

Adam Edmunds
CEO, Allegiance
Act Now

Get Started Today
Get Started Today

1. Learn more about engagement through webinars, testimonials, tours and educational courses at www.allegiance.com/video
   Or read papers and view other helpful written materials at www.allegiance.com/library

2. Post your comments about this book or about engagement principles at the Allegiance blog: blog.allegiance.com
   Visit www.allegiance.com/engagebooksurvey today.

3. Speak to an Allegiance representative about your business’s engagement needs by calling 1 (801) 617-8000 or emailing sales@allegiance.com
“Today, the customer is in charge, and whoever is best at putting the customer in charge makes all the money.”
- Stephen Quinn, Wal-Mart CMO

“The speed of business and of technology has increased dramatically in recent years. It’s difficult for a company to maintain a marketplace lead through product innovations for long… Engagement is a much more durable asset.”
- Don Peppers, Founding Partner, Peppers & Rogers Group.

“Those who have both (engaged employees and customers) command a 23% premium in share of wallet, profitability, revenue and relationship growth.”
- Manage Your Human Sigma (Gallup), Harvard Business Review, 2005

“U.S. companies lose 50% of their customers every five years. Yet just a 5% increase in customer retention can increase profits by nearly 100%”
- Carlson Marketing