



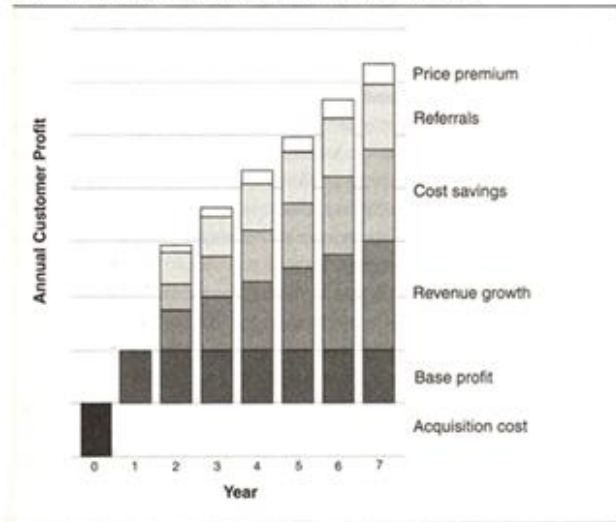
Employee Loyalty and Its Synergy with Customer Loyalty, Value Creation and Increased Profits

By Jeri Quinn

Figure 4-1 Why Long-Term Employees Create Value



2-3 Why Loyal Customers Are More Profitable



These two charts are taken from *The Loyalty Effect* by Fredrick Reichheld. As a researcher with Bain & Company, he and his group surveyed and interviewed hundreds of companies and thousands of pages of their records on customers and employees. These two charts appear on pages 100 and 39 respectively.

In the 'Employee' chart, you can see that the new hire has an initial negative value because of the hiring/recruiting and training costs. As the employee gains additional experience he provides value in that he helps to train others, becomes more efficient at his job, goes after a higher caliber of customer, has deeper relationships with existing customers that result in customer retention, obtains referrals for new customers from these ongoing relationships, and even attracts new quality employees because he is happy in his work.



If you lose an employee after 1 year, the employee value has negatively impacted the company. If you lose an employee after 2 or 3 years, you've gained some value, but the lost opportunity costs of what that employee could have added in future years is lost. You start all over again with a replacement employee.

Reichheld as well as many others have proven that customer loyalty is inextricably tied to employee loyalty. In his research he shows over and over again that a 5% increase in customer loyalty yields a 25-100% increase in company profits. In the second chart he shows where this extra profit comes from. Customers have an acquisition cost tied to marketing, sales, etc. Assuming that the base profit on the product or service doesn't change, the extra profit comes from revenue growth since the loyal customer buys more of the same product as well as other products you offer. In working repeatedly with the same customer there are cost savings and efficiencies realized in terms of taking orders, delivery of product, time savings in specifications of customized products, etc. Loyal customers provide referrals. They also pay the premium price. They know the value and don't expect new customer discounts and promotions.

The Loyalty Spiral

Reichheld says "Loyalty initiates a series of economic effects that cascade through the business system as follows:

1. Revenues and market share grow as the best customers are swept into the company's business, building repeat sales and referrals. Because the firm's value proposition is strong, it can afford to be more selective in new customer acquisition and to concentrate its investment on the most profitable and potentially loyal prospects, further stimulating sustainable growth.



2. Sustainable growth enables the firm to attract and retain the best employees. Consistent delivery of superior value to customers increases employees' loyalty by giving them pride and satisfaction in their work. Furthermore, as long-term employees get to know their long term customers, they learn how to deliver still more value, which further reinforces both customer and employee loyalty.
3. Loyal long term employees learn on the job how to reduce costs and improve quality, which further enriches the customer value proposition and generates superior productivity. The company can then use this productivity surplus to fund superior compensation and better tools and training, which further reinforce employee productivity, compensation, growth, and loyalty.
4. Spiraling productivity coupled with the increased efficiency of dealing with loyal customers generates the kind of cost advantage that is very difficult for competitors to match. Sustainable cost advantage coupled with steady growth in the number of loyal customers generates the kind of profits that are very appealing to investors, which makes it easier for the firm to attract and retain the right investors.
5. Loyal investors behave like partners. They stabilize the system, lower the cost of capital, and ensure that appropriate cash is put back into the business to fund investments that will increase the company's value-creation potential." *(pages 19 and 21)*

Some Hard Evidence

"When one chain ranked its stores on both loyalty and productivity, it found that the top third in employee retention was also the top third in productivity, with 22 percent higher sales per employee than the bottom third." *(page 97)*

"Those who are still skeptical need to look at the relationship between broker retention and profitability at the principal national brokerage houses. The firm with the highest broker retention, A.G. Edwards, also happens to top the list in profitability. Edwards' average return on



equity over the decade exceeds 18 %, more than twice the industry average. Its broker turnover rate, at 8% is about half the industry average.” *(page 105)*

Earning Employee Loyalty - Examples

“A.G. Edwards shows how important it is to begin with the right mind set, to think in terms of loyalty and value creation before developing strategies and tactics.” *(page 105)*

“A.G. Edwards works very hard to hire the right kind of trainees, people who will maintain or improve the character and integrity of the firm. It works equally hard to help them achieve a level of productivity that meets their income aspirations, and to earn their ongoing loyalty.” *(Page 107)*

“But where training at many other firms includes instruction on how to pitch the products that are most profitable to the firm, Edwards concentrates instead on how to serve the customer more effectively.” *(Page 108)*

“When brokers see their firms placing short-term corporate earnings above the best interests of the customer, they can hardly help concluding that it’s all right to put their own immediate interests above the customer’s.” *(Page 108)*

Chick-fil-A is another example of a loyalty leader in both customers and employees. “Every Chick-fil-A store has a plaque engraved with this principle: ‘Associate yourselves only with those people you can be proud of—whether they work for you or you work for them.’”

At another loyalty leader, State Farm Insurance, 80% of agents stay four years or more. The industry average is 20-40%. “The loyalty system has four principal ingredients: careful recruiting, career paths designed for maximum productivity growth, a concept of partnership



that aligns the company's interests with the employees; and once again, a dedication to something very like the Golden Rule." *(page 111)*

"Loyalty leaders...recognize that the only way to reach and sustain superior productivity is to share its benefits, which encourages employees not merely to stick around but also to apply their knowledge and drive productivity higher still." *(page 127)*

"By sharing the spoils of loyalty (called a loyalty surplus) with their employees, loyalty leaders have built a tenure-based productivity advantage. In many cases, their average employee duration is 50 to 100 % better than the competition's. In such companies, learning persists and grows. In companies where employees perpetually leave in mid-career, learning is forever falling back to nil. *(page 128)*

"High loyalty business systems create the conditions that motivate employees to handle expenses – including the biggest expense, their time – as if they were spending their own money." *(page 131)*

" To magnify employee loyalty and increase productivity, companies must do all they can to promote individual employee learning and the alignment of employee and company interests. One of the best ways of doing so is to make it possible for employees to increase their pay. In other words, the best way to cut costs (as a percentage of revenues) is very often to increase compensation opportunities, counterintuitive as that may sound." *(page 140)*

"In loyalty based companies, compensation is a function of productivity, and the two grow or shrink in parallel. As a result, individuals are always seeking out ways to increase their productivity." *(page 142)*



“Loyalty leaders seem to have one simple principle with regard to structure. They organize as much value-adding activity as possible into small teams, whose productivity and profitability can be measured.” (page 148)

About the Author



Jeri Quinn at Driving IR helps leaders of small and medium sized businesses who want to grow their companies. Her specialty area is creating cultures where employees show initiative and take ownership of their work. Results include engaged employees, loyal customers/clients, lots of referrals, huge profit increases, more enjoyment and a sellable asset. What makes Jeri unique is her thirty five years experience starting, growing and selling businesses, 25 years at the helm of her own companies. You can obtain a Referral Success

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