

Case Study

Focus on Customer and Employee Engagement Leads to Dramatic Growth in Profits and Sales

\$82M

Over a four-year period, improvements in employee engagement generated an estimated \$82 million in profit growth.

Source: GALLUP

CHALLENGE

FOR YEARS, A MULTINATIONAL RETAIL COMPANY'S PERFORMANCE MEASUREMENT SYSTEM focused on compliance measures such as process and scheduling audits. Most of its stores focused on excelling at short-term operational imperatives — generally imposed in response to some crisis — including raising audit scores, hitting category sales targets or reducing inventory shrinkage. This emphasis on increasing compliance for operational imperatives aimed to prevent failure, but there was no evidence that it actually predicted success. Instead, the shortsighted, narrow focus on improving process scores became an end in itself, which diverted time and attention from other important issues and resulted in lower sales growth. These diminishing returns represented millions of dollars of lost revenue for the company.

APPROACH

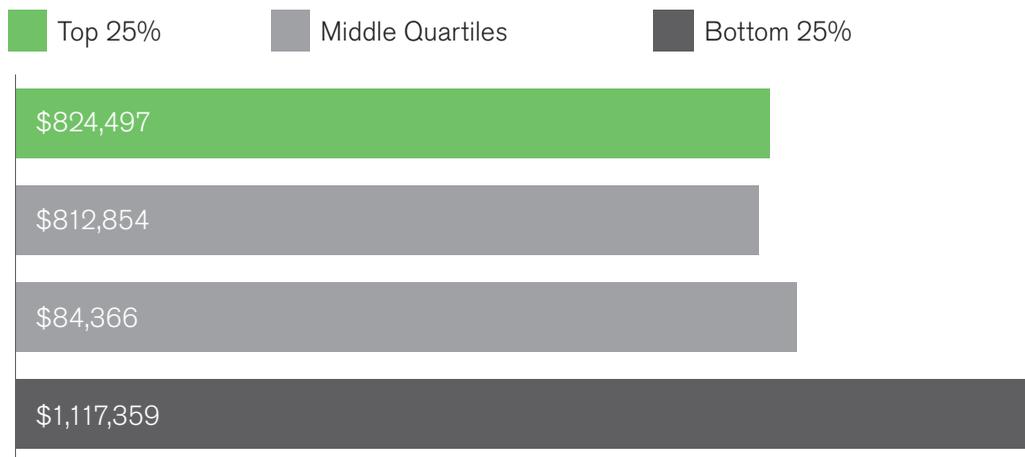
THE COMPANY COLLABORATED WITH GALLUP to scrutinize the audit process to determine whether those audits correlated to any measurable sales growth. Further, Gallup researched other factors that might contribute to stores' future success or failure.

Gallup created an inventory of performance data for the company on market demographic variables, process compliance audits, employee engagement and customer engagement. Gallup compared these performance data with store sales and profit data collected during the same period. Gallup scientists determined that analyzing internal variation among the company's stores would demonstrate how the company could be more profitable without major operational changes. Also, these data would demonstrate how stores could perform better by improving aspects within store management's control.

Gallup discovered that higher process compliance scores did not lead to higher sales. This may seem counterintuitive, but with a closer look at the data, Gallup found that stores with high sales growth and better management had higher-than-average process compliance scores to begin with, while the more poorly managed stores worked so hard on improving their process scores that this became their sole focus. The poorly managed stores' singular devotion to process compliance limited their future success because an obsessive focus on procedural steps prevented them from building valuable customer relationships. So, while process compliance is indicative of whether a store has good or poor management, if stores place too much emphasis on it, they fail to focus on the most important goal — to attract and retain customers.

Average Annual Profit Growth

Quartile Designation Based on Audit Improvement



Gallup recommended that the company focus on two things that it could influence, control and measure: employee and customer engagement. Employee engagement measures the potential of a store's human capital. After decades of research, Gallup identified that engaging employees leads to better business outcomes. At the company, stores with engaged employees had fewer safety incidents (by at least 20%), less inventory shrinkage and lower turnover. Moreover, the employee engagement factor operated independently of market demographic variables and store location. That is, even stores that rated poorly on those two measures saw improved financial growth when employee engagement improved. Stores in the top quartile of employee engagement had at least \$170,000 more in average annual profit growth compared with stores in the bottom quartile of employee engagement. Gallup also found that employee engagement at the company was influenced most by the company's front line — its local store managers. Those managers who were able to separate "flavor of the month" company initiatives from more important, long-term objectives, such as employee and customer engagement, had measurably superior employee engagement.

Moreover, those managers were more likely to build employee teams that consistently improved customer engagement. For instance, the company recorded the majority of transactions made by all customers over time in a large database. An analysis of customer surveys matched to these data on the same customers revealed that a good customer experience improved customers' subsequent purchasing behavior. Moreover, engaged customers were more likely

to buy more items during a particular visit, to return and spend a larger proportion of money on the same item category, and to recommend the company to others. Based on the evidence, Gallup proposed that the company stop focusing on process compliance audits as a measure of its stores' future success, as these items did not affect one another and had a negative result: leading store managers to focus on less important, short-term goals. Rather, the company should work on improving the two controllable, measurable and impactful components Gallup studied: employee and customer engagement.

IMPACT

BY ZEROING IN ON EMPLOYEE AND CUSTOMER ENGAGEMENT, the company dramatically increased sales and profits. Stores with significant revenue contributions created by employee engagement outperformed stores that minimized operating costs at the expense of lost revenue opportunity. Over a four-year period, improvements in employee engagement generated an estimated **\$82 million in profit growth**.

Also, increased customer engagement improved the company's bottom line. Gallup found that fully engaged customers were 64% more likely to make a subsequent purchase from the company, and that they made those purchases more frequently than indifferent or actively disengaged customers did. Indeed, fully engaged customers spent 2.75 times more money than less engaged customers. Stores with higher customer engagement had slightly higher average transaction amounts (approximately \$1.65 between the top and bottom transaction quartiles). Although seemingly slight, when multiplied by millions of transactions, higher customer engagement increased net sales by \$278 million. Gallup also found that customers who gave the company's employees top ratings on their knowledge of products and services were 42% to 63% (depending on the product) more likely to buy a service package and 95% more likely to pay for the installation of a major purchase.

Gallup redirected the company's focus from process-based performance measurements to employee and customer engagement — long-term, measurable components of heightened future success. In doing so, the company focused on building teams of employees who consistently formed lasting customer relationships. As a result, sales and profit growth dramatically increased for the company.

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