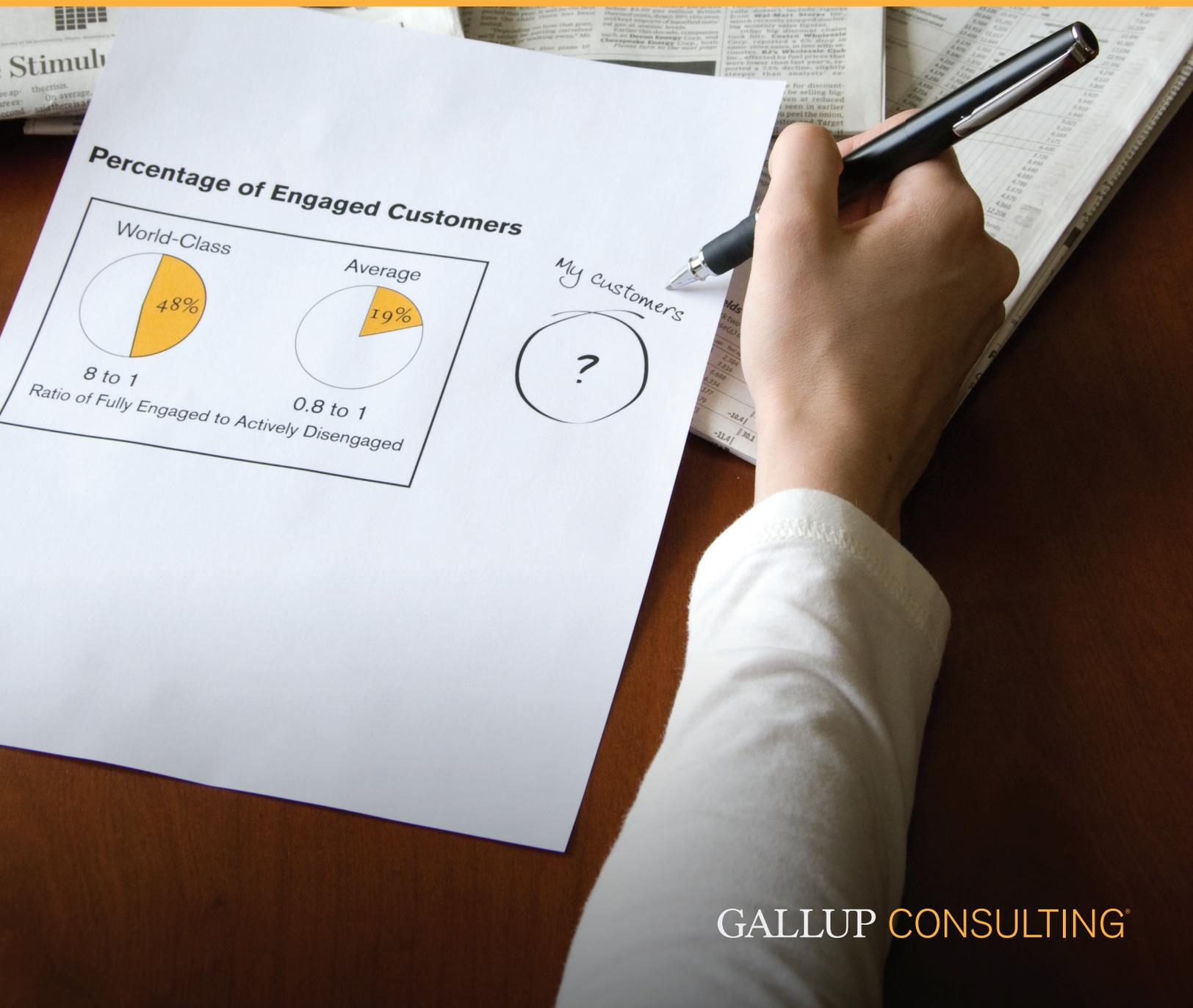




Customer Engagement | What's Your Engagement Ratio?

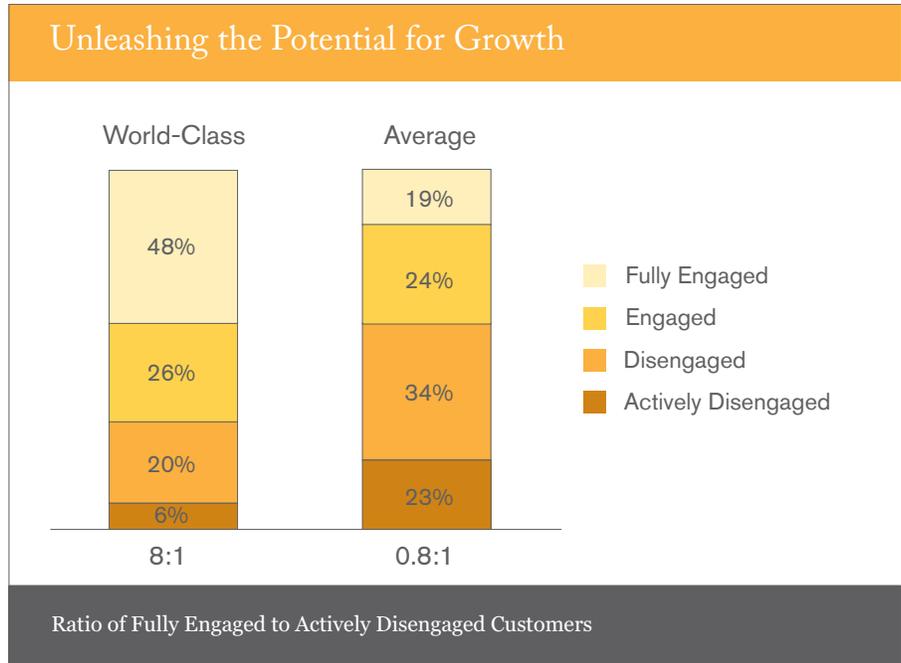




Customer Engagement as a Core Strategy

The world's leading organizations know that engaging their customers is a primary driver of key business success. Gallup's cross-industry research shows that fully engaged customers buy more, stay with you longer, and are more profitable than average customers. It is also not surprising to know that these organizations have placed customer engagement at the foundation of their strategy for winning in the marketplace. They understand a simple fact: organizations that engage their customers outperform those that do not.

What's Your Engagement Ratio?



Gallup's engagement ratio is a macro-level indicator of an organization's health that allows executives to track the proportion of fully engaged to actively disengaged customers. In average organizations, the ratio of fully engaged customers to actively disengaged customers is 0.8:1 — meaning that most organizations have less than one fully engaged customer for every actively disengaged customer.

Conversely, in world-class organizations — those organizations at or above Gallup's 90th percentile — the engagement ratio is 8:1 – 10 times larger than the average organization's ratio. When you consider the premium that fully engaged customers are worth to your organization, a focus on increasing this ratio is a critical part of any growth strategy.

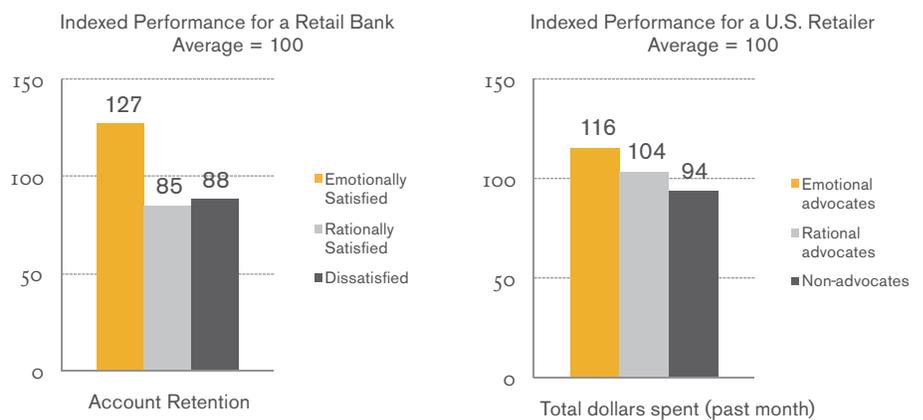
What steps does your organization take to engage its customers? Just as importantly, how do you know whether your efforts are paying off? World-class organizations unleash their potential for growth by establishing a program that answers both of those critical questions.

Measuring Customer Engagement

Any metric designed to measure customer engagement must pass two very important tests. First, the metric must be clear and straightforward. The entire organization, from the senior executives to the frontline employees, must understand and relate to the measurement being used, and it helps if the metric is also easy to communicate to the outside marketplace. Second, the metric must have strong links to key business outcomes. Spending time and effort conducting measurements that are not profoundly connected to business performance is all too common, and wasting resources measuring something that doesn't matter is worse than conducting no measurement at all.

The first test is relatively easy to pass. Many metrics being used today are so compellingly simple that they seem too good to be true. And smart organizations realize they often *are* too good to be true, because the second test is much more difficult to pass. Gallup's research has shown that many popular metrics — like Customer Satisfaction, Customer Loyalty, and Advocacy (including Net Promoter) — do not consistently demonstrate strong links to key business outcomes.

Emotionally connected customers tend to deliver significantly enhanced business results when compared to their rational counterparts.



Gallup's Approach to Customer Engagement

To develop a customer engagement metric that is both simple and powerful, Gallup leveraged the emerging science of behavioral economics, led by notable scientists such as Nobel Prize winner Daniel Kahneman, Richard Thaler, Robert Shiller, Angus Deaton, George Loewenstein, and many others. They theorize that only 30% of human decisions and behaviors are actually driven by rational considerations — which means that more than two-thirds of consumer loyalty and spending decisions are based on emotional factors.

For customers, feelings *are* facts. And any metric that does not account for this aspect of human nature is fundamentally flawed. At Gallup, our goal is to take the discoveries made within the academic discipline of behavioral economics and apply them to management and business challenges. Thus, for Jim Clifton, Chairman and CEO of Gallup, *applied* behavioral economics is the mathematical description of the role human nature plays in just about . . . everything.

Emotional Attachment and Rational Loyalty

Leveraging the principles of behavioral economics, Gallup developed a customer engagement metric by starting with an exhaustive set of potential questions drawn from prior surveys and from academic research into the psychology of human emotions. We asked customers in different product and service categories to rate their current or most-often-used provider on a list of more than 60 candidate measures. Extensive analysis of these measures yielded a final list of eight emotional attachment questions and three rational loyalty questions that consistently showed linkages to key business performance metrics. The final metric consists of these 11 questions, which Gallup calls the CE¹¹.

Engagement Groups

Using the CE¹¹ metric, Gallup is able to categorize customers into four distinct groups:

Fully engaged customers, who are emotionally attached and rationally loyal; they are your most valuable customers

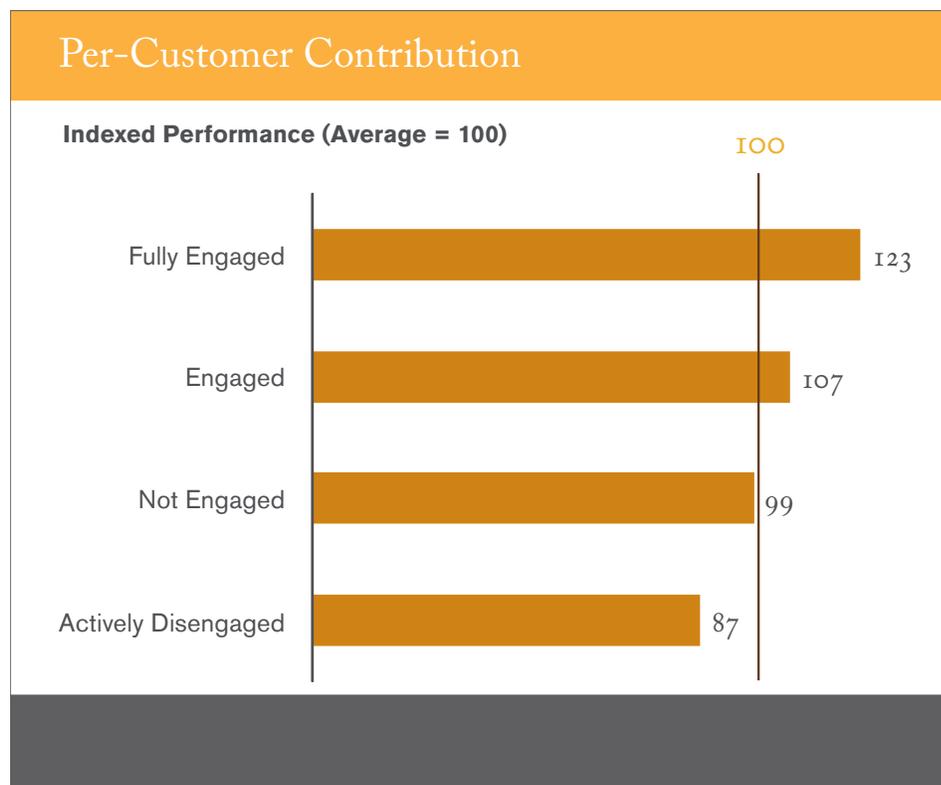
Engaged customers, who are beginning to feel the stirrings of emotional engagement

Disengaged customers, who are emotionally and rationally neutral

Actively disengaged customers, who are emotionally detached and actively antagonistic

Linking Customer Engagement to Critical Business Outcomes

Across a variety of industries and target audiences (including both B2C and B2B), Gallup's CE¹¹ metric has consistently demonstrated a powerful link to key business outcomes. Our research reveals that customers who are fully engaged represent an average 23% *premium* in terms of share of wallet, profitability, revenue, and relationship growth over the average customer. In stark contrast, actively disengaged customers represent a 13% *discount* in those same measures.



Gallup recently studied a specific business category that illustrates the impact of customer engagement ratios on marketplace performance. As part of our ongoing research into the casual dining industry, we completed a multiyear study (2006 to 2008) that asked customers about their engagement with the restaurants they visit. The results revealed that restaurants with high engagement ratios clearly outpaced the overall industry in terms of growth.

In 2006, for example, one restaurant chain had an engagement ratio of 5.4 to 1 — meaning it had 5.4 fully engaged customers for every actively disengaged customer. In 2008, that ratio improved to 7.2 to 1. Over that same time frame, its overall sales in the United States grew by 30% and per-unit sales increased by 13%. In contrast, a competing chain had an engagement ratio of 0.63 to 1 in 2006 that declined to 0.46 to 1 in 2008, and its overall sales shrank by 2% over that period.

Systematically Improving Customer Engagement

Finding the right metric is a tremendous first step in your organization's journey toward increasing customer engagement — but measurement without action is meaningless. Asking the right questions is critical for identifying and quantifying the issues, but improvement requires both local-level transactional and enterprise-wide transformational changes. Gallup partners with your organization to understand the CE¹¹ measurement results and develop and implement a customer engagement strategy designed to directly improve key business outcomes.

Gallup's Interventions

Gallup offers a suite of change management approaches, or “interventions,” that are tailored to your organization's specific situation. Examples of Gallup's customer engagement interventions include:

Action Planning. Facilitated team discussions that review customer engagement results and identify steps that can be taken to increase performance at the local level.

Barrier Analysis and Removal. An approach for identifying and eliminating the enterprise-wide barriers that prevent an organization from increasing customer engagement.

Best Practices Audit. A structured process for assessing the best practices of high performing business units and implementing those practices in lower performing business units.

Employee Engagement. Gallup's proven approach for measuring and improving the engagement of an organization's employees.

Employee Selection. Gallup's science-based solutions that radically improve the way organizations source, select, and hire the best employees for their most crucial positions.

Touchpoint Optimization. A method of assessing, improving, and aligning the experiences a customer has across all of an organization's key touchpoints.

A Sustainable Approach

Improving customer engagement goes beyond simply asking the right questions. Engaging customers requires a year-round focus on changing organizational behaviors, processes, and systems to anticipate and respond to your customers' needs. From the leadership team to the frontline employees, all levels within an organization must commit to making these changes.

And Gallup is ready to help.

What the World's Best Organizations Do Differently

How do world-class organizations rise to the top in today's intensely competitive, turbulent global marketplace? From a behavioral economics perspective, high performance organizations recognize the emotional drivers of human nature and leverage them to drive performance, one customer at a time. Instead of focusing on lagging indicators such as stock price, earnings per share, profit, and growth, the best organizations concentrate on measuring and managing behavioral metrics that are leading indicators of organic growth. By individualizing their approach and working with human nature, rather than against it, they unlock their maximum potential and profitability.

While partnering with many of the world's best organizations, Gallup has observed that world-class organizations make customer engagement a priority by focusing on the following:

Emotional Attachment. Customers are not strictly rational; your most profitable customers have strong emotional bonds with your organization. Those bonds must be honored and strengthened.

Moving Beyond Satisfaction. Focusing on creating highly satisfied customers is a one-way ticket to mediocrity and poor business results. Simply satisfying customers is not enough.

Key Touchpoints. Every time customers interact with your organization, they either become a little more or a little less engaged, but they never stay the same. As the old saying goes — “You can never step into the same river twice.”

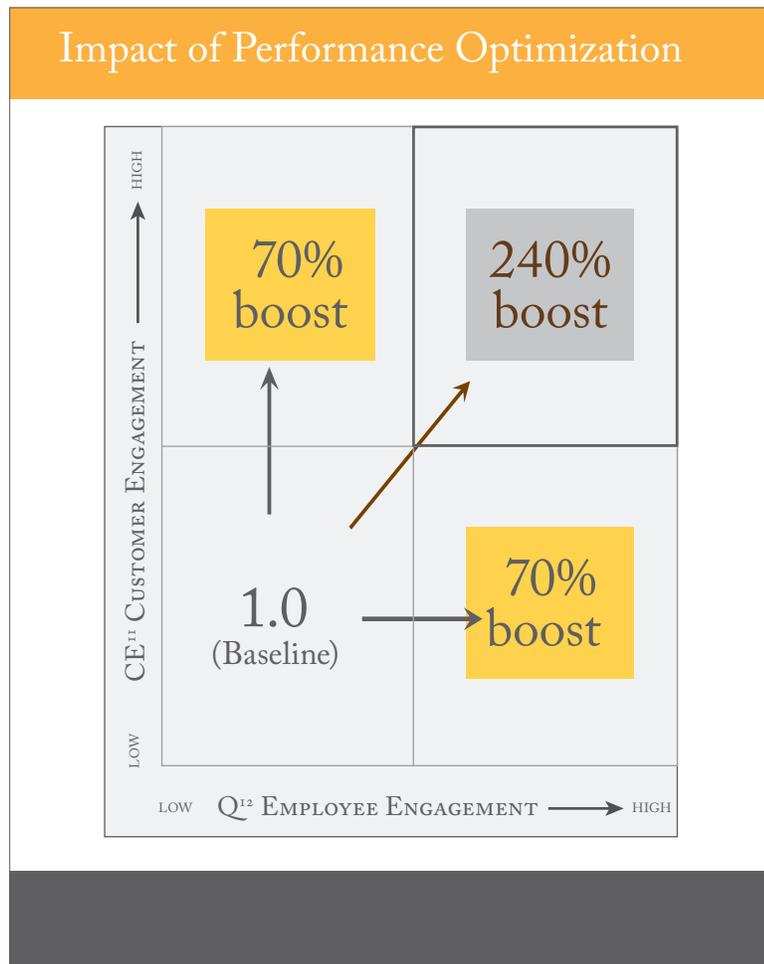
Brand Alignment. No organization has a single unified “brand.” There are as many “brands” as there are customer touchpoints. All must be measured and managed.

Local Variation. Strong customer relationships cannot be managed solely from the center; they must be managed locally. Everyone is responsible for the customer experience.



Performance Optimization: Managing the Employee-Customer Encounter

Taking customer engagement one step further, Gallup's performance optimization approach offers an innovative, research-based approach to one of the toughest challenges businesses face today: how to drive success by effectively managing the moments when customers interact with employees. The performance optimization approach brings together customer and employee engagement onto a single management platform. It combines a proven method for assessing the health of the employee-customer encounter with a disciplined process for improving it. Employees ultimately drive customer engagement, and Gallup is unique in its ability to design and execute a performance optimization strategy because our expertise and global capability in employee engagement are as deep as our expertise and global capability in customer engagement.



Our meta-analysis of engagement and financial performance in organizations across multiple industries reveals that the employee engagement ratio in world-class organizations is 8:1, while in average organizations it is only 1.5:1. Just as the best organizations have eight fully engaged customers for every actively disengaged customer, they also have eight fully engaged employees for every actively disengaged employee. And business units that score above Gallup's database median on BOTH customer and employee engagement significantly outperform units that rank in the bottom half on both measures.

Organizations that employ performance optimization management principles have outperformed their competitors by 26% in gross margin and 85% in sales growth. Their customers buy more, spend more, return more often, and stay longer. Blending strategic analysis with hands-on practical steps and advice, performance optimization changes how leaders view their work, their employees, and their customers.

Gallup's Global Reach

Benchmarking World-Class Organizations

Gallup's 2,000 professionals deliver services at client organizations and from 40 offices around the world.

Gallup maintains one of the world's most comprehensive comparative customer engagement databases. Gallup updates the database annually, which enables clients to benchmark their engagement levels against the most recent data Gallup collects from around the world. Gallup's most recent database, which covers a four-year time period, includes data collected from almost three million customers representing 47,000 workgroups in 16 major industries and 53 countries worldwide.

Gallup understands the importance of timely data and relevant comparisons in the competitive landscape of today's fast-paced marketplace. As a result, your organization can compare its engagement data with Gallup's global, world-class, industry-specific, or custom database segments.

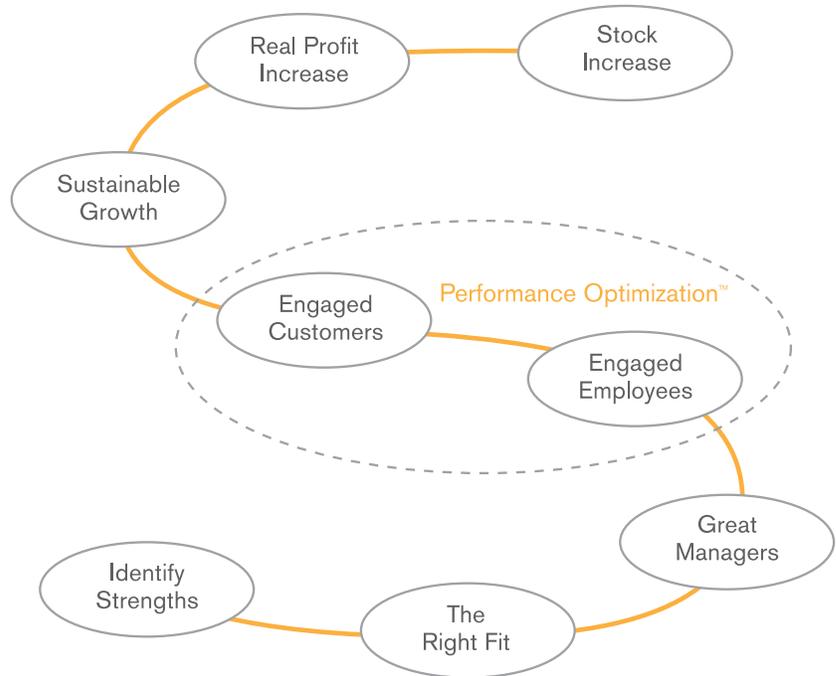
Change That Drives Outcomes

Transformation does not occur instantaneously. It takes a lot of energy and effort to initiate change, and it takes even more energy to build on that momentum. It takes focused attention to drive engagement. Gallup partners with organizations to systematically improve customer engagement using proven interventions at the local, transactional level and at the enterprise-wide, transformational level, giving your organization a competitive edge.



GALLUP Path
Microeconomics

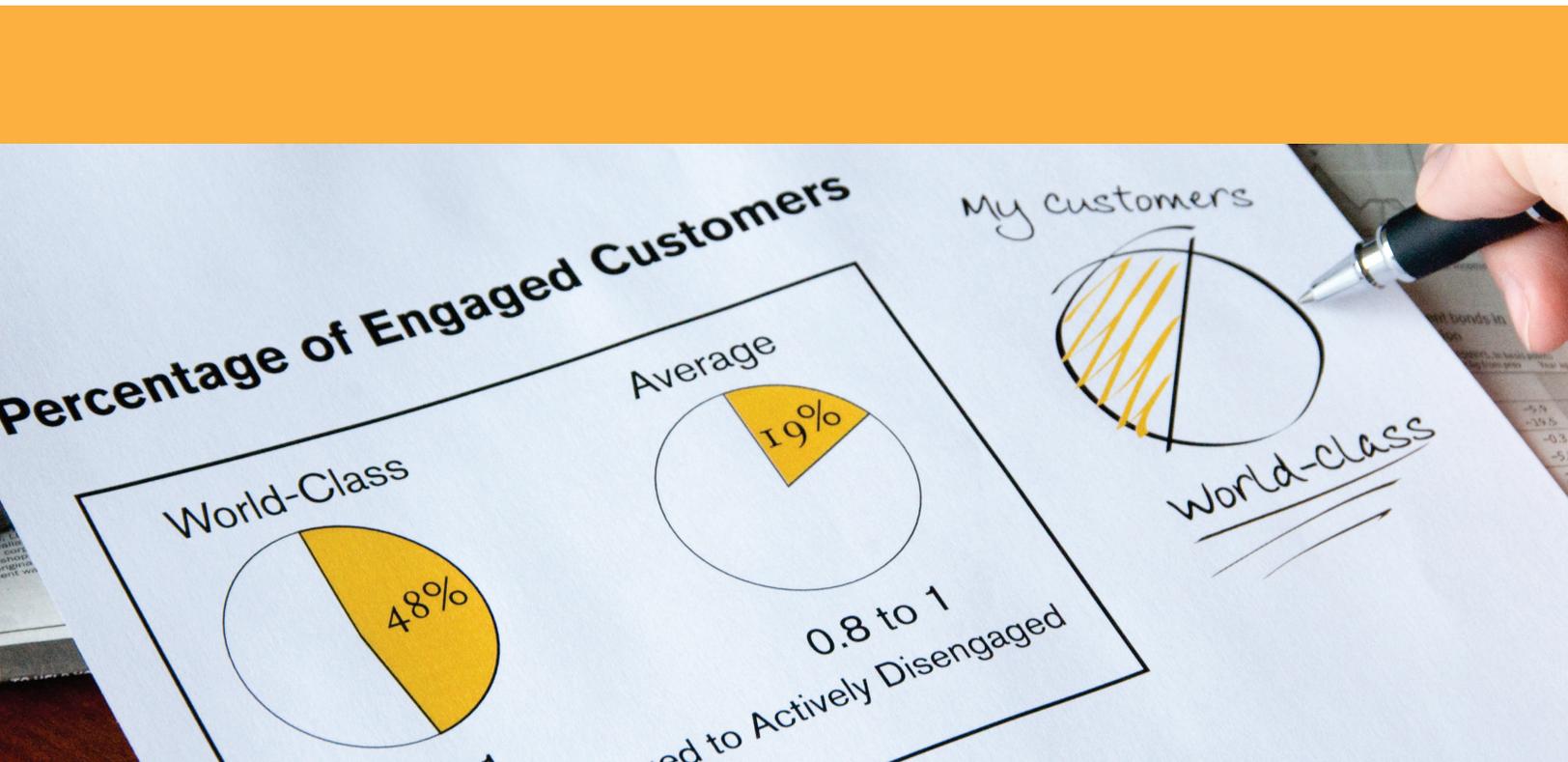
A behavioral economic model for organizations



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“Applied behavioral economics is the mathematical description of the role human nature plays in just about . . . everything.”

— Jim Clifton, Chairman and CEO, Gallup



For more information about Gallup Consulting or Gallup’s approach to improving customer engagement, please visit consulting.gallup.com or contact Sarah Van Allen at 202.715.3152 or sarah_van_allen@gallup.com.