EMPLOYEE AND CUSTOMER LOYALTY: MEASURES TO EVALUATE AND ENHANCE COMPANY PERFORMANCE

THESIS

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By

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DEDICATION

To my husband Dan, for his support, encouragement, patience and ability to recreate a corrupted file. With him by my side, I know I can accomplish my challenging goals. You complete me.

To my family, who taught me the right values to succeed in life.

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ABSTRACT

EMPLOYEE AND CUSTOMER LOYALTY: MEASURES TO EVALUATE AND ENHANCE COMPANY PERFORMANCE

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Customer satisfaction alone will not ensure company success. The concept of improving corporate strategies to include employee and customer loyalty results from this realization. Research involving wide cross sections of industry shows that retaining employee loyalty, as well as customer loyalty, is valuable and directly related to value growth of a company. Creating, improving and maintaining loyalty begins by engaging and changing the organizational culture. Customer loyalty is often related to, and affected by, specific relationships and encounters with company representatives (the employee), who effectively become stewards and ambassadors. Of those front-line employees who are serving the customer, it is indispensable to recognize the value of employee loyalty. This projection of loyalty is perceivable by the customer. Customer satisfaction measurement has grown to include the concept of customer loyalty since loyalty is a predictor of actual behavior rather than stated intentions. A theoretical model presented in this study will systematically measure both employee and customer loyalty, with the results being used to determine and prioritize areas in need of improvement. The

management of loyalty and customer relationships must be achieved, in a proactive mode, to anticipate and respond to market needs, thereby creating value for a company. Through the use of the loyalty measurement results, companies can align their objectives for managing employee and customer loyalty with the organization's quality corporate strategy, culture, daily operations and management systems for the successful creation, expansion and management of employee and customer loyalty. The rewards of loyalty are long-term and cumulative. Both revenue and savings opportunities will be recognized through increases in customer retention and purchasing relationship, lower cost of loyal customers, and the reduction of employee and customer defection. Potential revenues may be estimated using the loyalty measurement results. This estimate establishes the documented link between loyalty improvements and profitability. Future success and longevity of a company will be based on its ability to create, improve and maintain employee and customer loyalty.

CHAPTER I

INTRODUCTION TO THE STUDY

Description of the Problem

Employee and customer loyalty must be addressed, and improvements therein sought, to achieve the management of business profitability and longevity. The value-creating relationship between an employee and a customer has not always been seen as a credible link with customer satisfaction. Employee loyalty measurements have not been utilized. The compulsion towards customer satisfaction measurement evolved from the need to meet customer requirements. Total quality management programs encouraged organizations to focus on measuring and managing customer satisfaction. This focus was imperative in a competitive and ever-changing business environment where customers would readily defect. Measurement systems were put into place to monitor and track improved customer satisfaction. Yet, improved scores did not necessary result in improved market share or revenues. A satisfied customer did not guarantee a loyal customer.

The concept of improving measurement models to include loyalty results from the realization that customer satisfaction alone will not ensure company success. Customer satisfaction measurement has grown to include the concept of customer loyalty since loyalty is a predictor of actual behavior rather than stated intentions. Systematic links are now recognized between customer loyalty, employee loyalty and stronger profit [7]. Key metrics and a measurement system are needed to measure both employee and customer loyalty systematically. The methods employed in the forthcoming theoretical model are constructed to be flexible and dynamic, enabling the evaluator to tailor the processes to any specific set of business constraints. An indexing or relative scoring of qualitative measures and judgments will produce results that indicate areas of deficiencies which provide guidance in prioritizing efforts and in remodeling corporate strategies [32]. Companies may subsequently align their objectives for creating, improving, maintaining, and managing employee and customer loyalty with the organization's approach to leadership, strategy, priorities and programs, as well as people practices, organizational culture and values, and rewards and recognition. Profit calculations may also be performed using the loyalty measurement results to determine the return on investment.

Objectives

The main objective of this study is to define and develop a theoretical measurement model for loyalty-related metrics/parameters. The theoretical model will also provide the opportunity to explore the:

1. Measurement of employee and customer loyalty;
2. Management and alignment of loyalty related parameters for strategic planning; and
3. Relationship between loyalty measures and financial profits.

Theory for Paradigm and the Symbiotic Relationship

Various studies have shown that businesses are often characterized by frequent employee customer encounters known as "moments of truth" [7]. Customers gain first-hand exposure to the individuals responsible for the outcomes they receive and get a closer look at the processes and procedures leading to these outcomes. At the moments of truth, customers gather evidence to judge whether they are being treated fairly [7]. The scenario below depicts a hypothetical example of an encounter, or moment of truth, resulting in negative loyalty.

A customer enters Smalltown branch of Bigchain Department Store,

Customer:	*"I need a new trimmer head for my weed cutter."*
Employee:	*"I'm sorry, we have none in stock. We can order one or you can travel to our branch in Metro City."*
Customer:	*"How long will it take to order?"*
Employee:	*"Two weeks, or so."*
Customer:	*"I notice you have a weed cutter in stock of the same model as mine. Can you sell me the head off of it, and order a new one for yourself?*
Employee:	*"Oh no, we're not allowed to do that. It causes our bookkeeper fits.*
Customer:	*"You mean to say then, that you have the product I need in stock, and I have the willingness to buy, but you will not sell it because it is an inconvenience to you?"*
Employee:	*"Well..., I guess. f you put it that way..."*

This example is obviously a moment of truth with long lasting effects. The customer here has no reasonable retaliation except to avoid future purchases. However, in some instances, a customer's future purchase or return business is unavoidable for a myriad of reasons ranging from convenience to product availability. This situation exemplifies why one parameter alone cannot be relied upon for a representative loyalty evaluation, and why the metrics discussed in Chapter II rely heavily on the indexing concept. This indexing concept includes a system of relative scoring for comparison purposes.

Customer loyalty is often related to specific relationships with an employee. It is indispensable to recognize the value of the loyalty of those employees that serve the customer. If employees are treated fairly, in the culture of their organization, they will in turn treat customers more fairly [7]. There is a significant relationship between customers' perceptions of fair service, customer satisfaction, and customer intentions to return for additional contact (loyalty). Loyal employees project a positive attitude that customers perceive, desire, and respect. This interaction creates a sort of rippling effect. Every positive interaction that the customer experiences reinforces this relationship, while the counter to this effect is also true. Customers value long-term relationships with an employee [33]. This relationship creates product or service value in the eyes of the customer. High employee turnover requires the rebuilding of these relationships. A company could also loose customers who jump to ex-employee's new companies [37]. Thus, it is logical to look at employee and customer loyalty in tandem. This tandem relationship is envisioned in Fig. 1. The logical result of this valued relationship is customer loyalty.

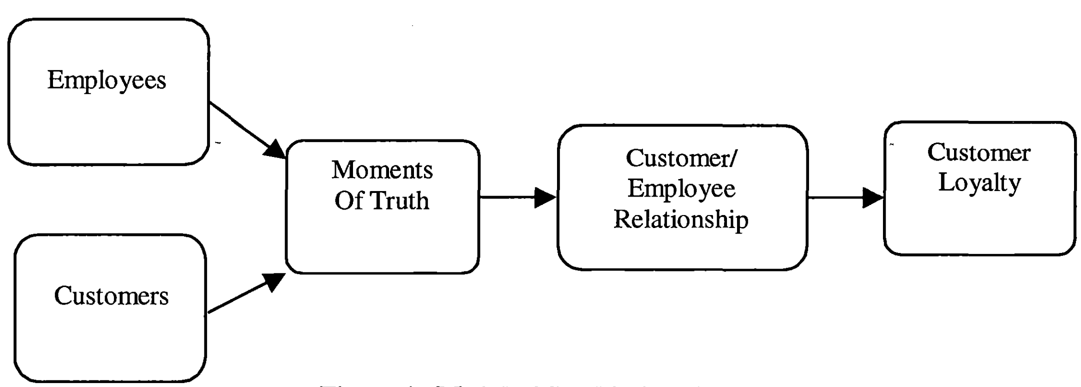

Figure 1. Model of Symbiotic Relationship

Definition of Terms

The following terms are defined for clarification purposes. An understanding of these terms will assist in the appropriate interpretation of forthcoming theories and models. These terms will be presented in alphabetical order.

- Competitive Benchmarking is a comparison or a gauging to the competition to determine characteristics that provide a competitive edge and to determine where a company stands in that comparison (yardstick measurement) [32]. Critical success factors or those factors that impact the customer should be benchmarked. Benchmarking partners include internal and generic partners.
- Customer Loyalty has to do with the customer's actual behavior. It is depicted as continued patronage based on dedication or pragmatic constraints [12]. Satisfaction may lead to customer loyalty; however, loyal customers are not necessarily satisfied [12]. Measurement of customer loyalty is a separate and different process. Real loyalty includes commitment. Commitment is directly related to a relationship.
- Customer Satisfaction is an attitude or opinion that a customer has of a product or service at a point in time. It is an overall evaluation based on the purchase or consumption experience [15]. Satisfaction may change quickly and is not indicative of actual behaviors. Customer satisfaction generally impacts customer loyalty; however, satisfied customers are not necessarily loyal.
- Employee Loyalty is a devotion to the company, and a positive representation of the company to the greater community [27]. Employee loyalty is further defined as those employees whose commitment is evidenced by their actions or behaviors [41]. Behaviors are more foretelling of long-term patterns.
- Industry Best Practices is collective wisdom and experience that provides a road map for process improvement; modern business procedures.

- Loyalty is faithfulness to one's country, friends, or ideals. It is a shared sense of mission.
- Proactive Approach is an active and dynamic analysis of a process in the pursuit of successful results.
- Share of Wallet is the percentage of the overall customer spending.
- Solution Development occurs when after analysis of results; a team brainstorms solutions, prioritizes them and assigns responsibility for timelines and implementation strategies [40].
- Total Quality Management (TQM) is a management philosophy that focuses on customer satisfaction, employee involvement, and continuous improvement [3].
- Value is the worth that is perceived by, and defined by, a customer or marketplace based on experience [11].
- Value Growth is value through increased revenue, profit and market share. Profitability may impact a company through longer customer cycles, increased purchase frequency, new streams and sources of new customers [29]. Profitability may further influence stock price return, stock price to book ratios, market value, debt cost, employee growth, asset growth, and shareholder loyalty. Value growth is a competitive edge.

Sources of Data

This theoretical exploratory study will examine the latest archive literature on human resources, marketing, and management information as they relate to employee and customer loyalty. This study will rely primarily on secondary data.

Metrics of Study

By measuring, analyzing, and acting on loyalty-related parameters, an organization may manage loyalty proactively. A theoretical loyalty measurement model will be developed using the relative indexing concept. Relative indexing systems are used as a qualitative approach to measuring and scoring and are relied upon due to:

- The subjective nature of employee and customer loyalty: Employee loyalty is difficult to measure since it measures an employee's attitude. Customer loyalty is difficult to measure since it measures the customer's continued patronage behavior. This behavior in itself is very subjective in nature.
- The absence of quantitative data: Loyalty measurement data is qualitative, thus making loyalty difficult to measure. In absence of these quantitative data, a set of judgments by qualified and experienced evaluators often provides the desired results.
- The lack of an accurate measurement system: Most measurement systems require quantitative data.
- The immediate application: Indexing systems incorporate subjective scoring that allows for immediate application in lieu of lengthy analytical processes.

This measurement system will ultimately provide loyalty measurement feedback in a quantitative manner for various company disciplines and functions facilitating continuous process improvement and strategy integration. The desired result will be identification of deficient areas where improvements will positively affect loyalty. The metrics of this theoretical loyalty measurement model is explained in detailed in Chapter III.

Significance of the Problem

By determining a loyalty measurement, loyalty is given a more quantitative value for evaluation and planning. Using loyalty measurement results, a company can make rational business decisions on loyalty programs, spending prioritization, strategic planning and corporate alignment. The measures of specific behavior allow for extrapolation to the economic impact and return on investment. The economic rewards of loyalty are long-term and cumulative in both revenue and savings opportunities [17]. This is presented with the following examples:

- The price of acquiring new customers is five times greater than the price of keeping existing ones [19]. Existing customers cost less in that more personalized self-service may be incorporated.
- Companies can boost profits 25 to 85 percent by increasing retention by as little as 5 percent [17]. Loyal customers maintain a longer purchasing relationship, thereby adding to revenues.
- A 50 percent cut in defections will more than double the average company's growth rate [20].

The proposed theoretical model will incorporate loyalty measurements and relate the concept to management, alignment, and company profit growth.

CHAPTER II

EMPLOYEE AND CUSTOMER LOYALTY

Employee and Customer Relationship

Studies show that retaining valuable customers, as well as valued employees, is directly related to value growth [14]. Systematic links do occur between employee loyalty, customer loyalty, and organizational business performance [24]. Loyalty begins with the employee and transfers to the customer. Customer loyalty is shown to be dependent on specific relationships with a contact employee [14]. Brookman [8] studied these relationships and found that consumers will purchase at a rate of 42 percent after experiencing a negative incident vs. an 82 percent purchasing rate with a satisfactory shopping experience. This study highlights the effect of a positive employee/customer experience that results in higher revenue potential. Interaction with the same front-line employee often creates a positive multiplier on customer retention. High employee

turnover will create a negative environment where poor service and a prevalence of confusion may lead to customer frustration [38]. Parasuraman et al. [34] identified various dimensions that customers use as criteria in judging service quality, which may ultimately effect loyalty. One such dimension was assurance that was described as "knowledge and courtesy of employees and their ability to inspire trust and confidence". Customers often value intangibles such as reliability, responsiveness, and trust.

In order to earn loyalty from its employees, a company must create valuable experiences for its employees through compensation/rewards for performance, benefits, job satisfaction, career development, quality communication, job security, and culture [35]. Employees must also sense a true concern by the organization for their success and well being within a culture of fairness as shown in Fig. 2. Committed employees are motivated to serve customers well. To insure that customers consistently receive value that results in loyalty, positive interactions with employees must be fostered. Employees must be encouraged to take personal ownership, become customer advocates and create lasting bonds [16]. This attitude fosters a culture where employees cement customer

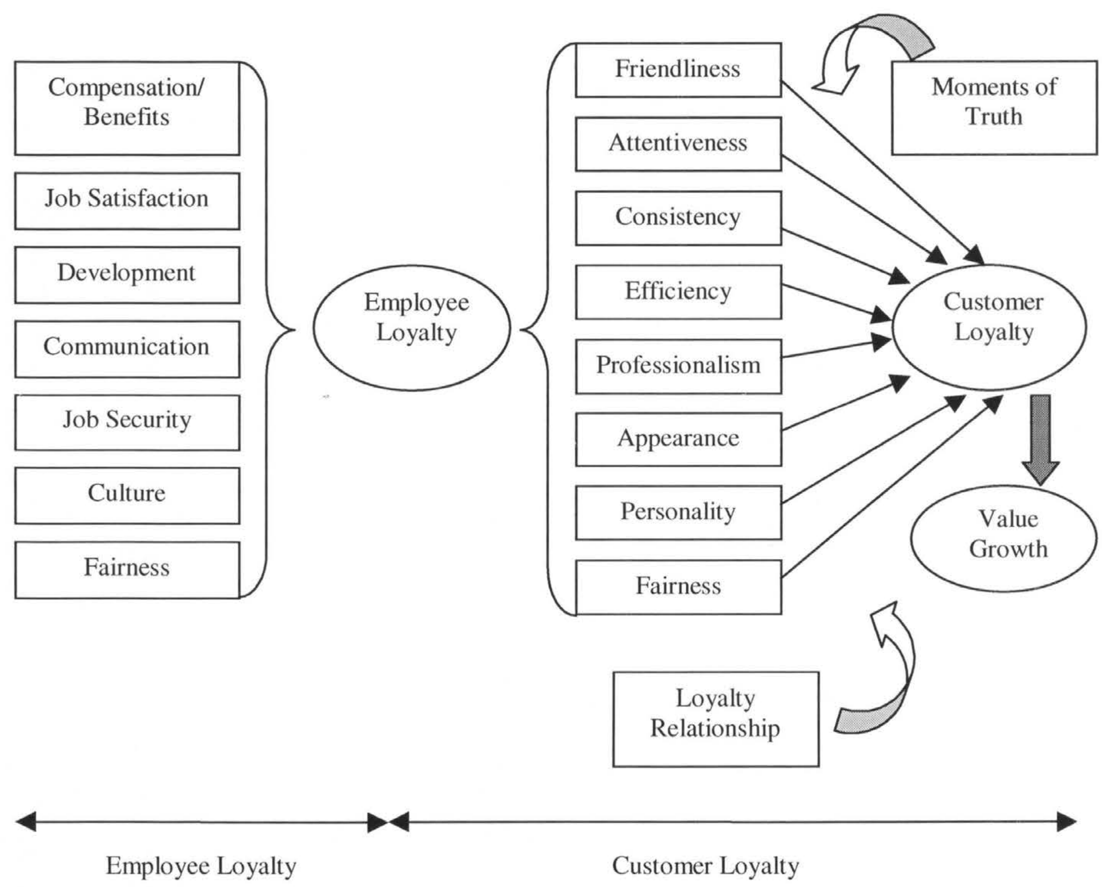

Figure 2. Model of Loyalty Relationship

loyalty. A company can also encourage this culture by linking pay incentives to customer loyalty results.

This study proposes that employee performance measurements leading to customer loyalty may be measured through:

- the number of positive interactions with a particular employee;
- the number of employees requested by customers; and
- the action taken from employee referrals.

In order to earn loyalty from its customers, a company must provide what is more valued than what its competitors provide. Studies have shown that customers value people and process management attributes [13]. Often noted are employee friendliness, attentiveness, consistency, efficiency, professionalism, appearance, and personality [13]. A sense of fairness is also an important employee attribute as illustrated in Fig. 2. Through positive moments of truth, a valuable employee-customer relationship is built which leads to customer loyalty. Customer loyalty creation leads to company value growth. Based on these theories, this study proposes a theoretical loyalty relationship model in Fig. 2. As proposed in Fig. 2, valued employee experiences lead to employee loyalty. Employee loyalty leads to motivated, customer-conscious employees. These employees exhibit attributes that customers value and find fundamental to relationship building. As customer loyalty improves, so does value growth.

Metrics of Loyalty

Customer satisfaction measurement has grown to include the concept of customer loyalty since loyalty is a predictor of actual behavior rather than stated intention [40]. Satisfaction may mean that basic requirements are being met. An organization needs to move beyond satisfaction to loyalty. Loyalty may be viewed as a muscle of the body, subject to atrophy. If the muscle is not maintained and monitored, it will soon be forfeited. A way to maintain or manage employee and customer loyalty is to develop a measurement system for loyalty-related parameters. Employee and customer loyalty measurements may be used to minimize customer turnover and facilitate value growth. Measurement analysis may assist in assessing marketing strategies, company performance, savings, and direction. These loyalty metrics are a comprehensive list of parameters that make up employee and customer loyalty. By grouping the metrics recommended by McGuinness [28], Voyles [41], McIntyre et al. [29], Kandampully [23], Hunter [22], Helmi [19], Taylor [40], Schultz [36], Anonymous [2], and McCusker [27], the following categories are proposed:

<u>Employee Loyalty</u>:

- Participation/Involvement- an employee who works to execute corporate strategy and extend that strategy to earn the loyalty of customers [24]
- Commitment to goals and objectives- understanding of company plans and the individual fit into the big picture
- Productivity- performing at peak, taking pride in personal accomplishments
- Length of service/retention
- Professional growth- challenging assignments, advancement, career development
- Performance or use of expertise to create value for customers

<u>Customer Loyalty Action</u>:

- Purchase recency

- Average customer product or account penetration, multiple product line purchases (selling more products to the same customer deepens the relationship)
- Customer retention rates/ratios- customer profits rise with the length or duration of the trading relationship
- Repurchase or returning customer ratios/frequency/repeat patronage
- Average customer annual purchase volume/share of wallet (increased business)
- Volume of customer referrals/recommendations
- Average order size
- Price tolerance/ elasticity
- Immunity to the competition/intensity of ambivalence to attractive alternate competitor product or service

Customer Loyalty Relation:

- Number of customer shareholders
- Intangible issues: reliability, responsiveness, trust, image, status, partnership, commitment, integrity and other relationship issues. Customers with strong relationships tend to have higher levels of trust and commitment.

The category of Employee Loyalty includes parameters that measure an employee's attitude towards a company. *Participation and involvement* indicates the employee's acceptance of corporate strategies as being in line with his or her values. *Commitment* parameters indicate the embracing of corporate strategies and the desire to assist in the accomplishment of the corporate goals. *Productivity* measurements denote the employees understanding of their role and their valued contribution to the corporate goals. The *Retention* measurement indicates the employee's satisfaction with the company and agreement with the goals and values. *Professional growth* is a representation of what the employee values as a return on his or her investment. The *Performance* measurement signifies the empowerment of an employee to use his or her best judgments and means to develop corporate strategies.

The category of Customer Loyalty Action encompasses parameters that measure customer action that characterize loyalty. The measurement for *Purchase recency* indicates the specific buying behavior of the customer or customer life cycle. *Product or account penetration and multiple product line purchases* indicate the profitability of the customer relationship through new revenue streams. When customers are satisfied with the relationship, they will be more willing to recommend other buyer or functional groups within their location [22]. *Retention rates* exhibit the strength of the customer relation. Improving retention rates through measuring and managing customer loyalty allows a business to focus on existing customers and avoid the costly process of trying to enlist new customers to replace defectors. *Frequency* represents the commitment to the product or service based on perceived value and satisfaction. *Average customer annual purchase volume and average order sizes* are linked to perception of quality and relative value. R*eferrals and recommendations* come from satisfied customers that become crusaders because they believe in the product or service. They recruit new sources of customers. *Price tolerance* indicates that the customer will continue to purchase based on superior performance and the perceived value of that purchase. The customer will generally demonstrate less price sensitivity when there is loyalty and commitment. Loyal customers will be more *immune* to competition and will continue to purchase based on their perceived return on investment or value.

The category of Customer Loyalty Relation is comprised of parameters that measures the company's relationship with the customer. Customers often seek a loyal and long-term relationship. This relationship may be through ownership of the company as a *Shareholder* or through human interaction. This interaction often reinforces trust and strengthens the relationship. Traits such as *reliability, responsiveness, trust, image, status, partnership, commitment, integrity and other intangible traits* are what customers look for. Customers acknowledge and reward these traits by manifesting allegiance [23].

The many factors that represent loyalty, or portions thereof, such *as purchase recency, account penetration, repurchase ratios*, and so forth, are at times questioned due to the absences of true cause-and-effect relationships. Was the *repurchase ratio* supported by loyalty or by discounts, premiums or lack of alternative products? At this point, the employee-customer relationship is critical in cultivating long-term loyalty. If repurchase is due to a discount, a positive moment of truth will initiate a relationship with that customer. This positive interaction may create value in the customer's mind and lead to commitment. Real and long-term loyalty includes commitment.

CHAPTER III

LOYALTY MEASUREMENT MODEL

Model Description

In this study, a theoretical Loyalty Measurement model is proposed based on the aforementioned loyalty parameters in Chapter II. The parameters are repeated here for convenience, and they are Employee Loyalty, Customer Loyalty Action, and Customer Loyalty Relation. The Loyalty Measurement Model represents relative loyalty earned by a business. The model is illustrated in Fig. 3.

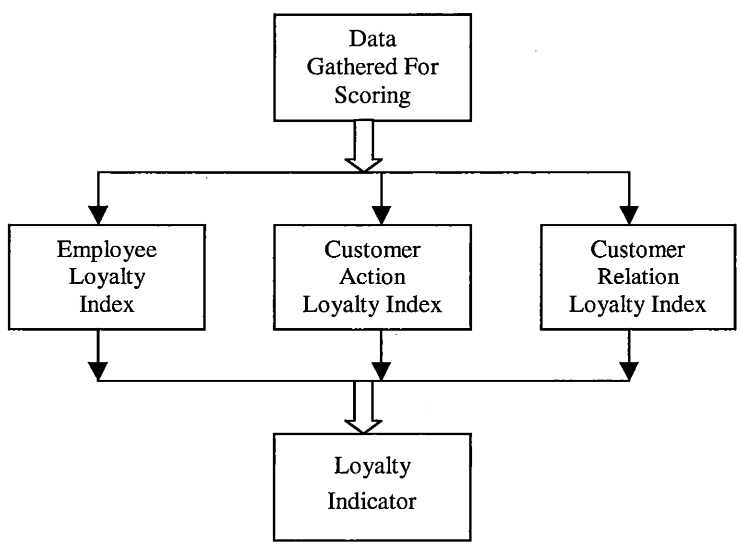

Figure 3. Loyalty Measurement Model

In the proposed theoretical model, the Loyalty Indicator is the total relative loyalty score for a company. It is comprised of an Employee Loyalty index, a Customer Loyalty Action index, and a Customer Loyalty Relation index. Specific parameters comprise each index and guide the evaluator in the measurement process. This study identifies parameters that build the indexes and proposes hypothetical weightings as a reasonable starting point. The model provides a system under which the data may be organized through the assignment of values, grouping, and weighting. This measurement system will ultimately provide loyalty measurement feedback for various company disciplines and functions facilitating continuous process improvements and strategy integration. Inherent in the results will be a complete evaluation of the business' employee and customer loyalty.

The loyalty measurement process begins by gathering loyalty data for scoring. Metric study or a survey of a particular business may accomplish this step. The development of such a survey is beyond the scope of this research work. Study data is used to determine the parameters and scoring will be hypothetical.

The loyalty measurement process proceeds to determine loyalty parameter indexes and scores. The model is divided into three indexes. The Employee Loyalty index, the Customer Loyalty Action index, and the Customer Loyalty Relation index are all scored from data gathered. The Customer Loyalty Action index includes those parameters that relate to loyalty activity by the customer. The Customer Loyalty Relation index is incorporates the presence of an employee/customer relationship. The indexes correspond to categories of the parameters defined in Chapter II. By grouping parameters into an index, an analyst may determine a numerical value for that index. Sub-categories are used to detail index parameters. The individual parameters and the total index scores are preserved for detailed analysis and profit calculations. Each one of the indexes is based on a 0-100-point scale. Each model index is weighted equally for simplification. At a later time, index weights may be assigned varying point values based on historical loyalty influence results. The point values and percent values are equal. This simplification requires no multiplication of the score times the weight. In models using equivalent evaluation ranges such as 1-5, the score will be determined by multiplying the weight in each parameter by the evaluation. Individual "scores" as well as "weighting" of parameters are judgments of the evaluator. In unfamiliar circumstances or new business environments where time or circumstance has not allowed for a great deal of knowledge and experience to accumulate (e.g. e-commerce), the scoring may be adjusted to a "high/medium/low" type of system with equal weighting of categories. Where more is known, a rating system of say 1 – 10 for each parameter, each with varying weights, should be constructed. The model may be tailored for each business' need. Here it is assumed that a mature business segment is being evaluated with expert reference sources in consultation with the evaluator.

The Employee Loyalty, Customer Loyalty Action and Customer Loyalty Relation parameters are grouped into weighted categories with each parameter being assigned a numerical value (score) based on direct measures of relative importance. The more influence a parameter has, the more that parameter contributes to loyalty. This score is based on experienced judgment, opinion, intuition, and other non-quantifiable resources (rather than quantitative data). This method includes an element of subjectivity; however, it is a commonly used practice. As long as this subjectivity is standardized with a uniform process, the accuracy of relative comparison is maintained (e.g. The Dow Jones Average is an index). There should be rigorous techniques and methods for gathering and analyzing data. Attention should be given to validity, reliability and triangulation (multiple methods of data collection). This task should be assigned to a team of individuals with education and experience, which the company values as credible, competent and reliable. Guidelines for benchmark comparison with competitors or company regions should be developed which constrain the subjectivity of each evaluator. Industry leaders often develop these guidelines for continuous improvement measurement. Until further studies are made, flexibility will be given to the evaluator to assign specific weightings to the loyalty parameters, based on experience and best judgment, which more accurately represent a business sector or niche. As more and more data is collected, categorized, and processed, regression analysis techniques could be used to derive weightings. Re-evaluations of the weights may be scheduled periodically.

The three indexes are further summed for a total Loyalty Indicator. The total Loyalty Indicator sum is the relative loyalty baseline based on the various indexes and parameters. The total Loyalty Indicator sum may be analyzed and compared to set goals. The three index relative scores may be used to determine the effectiveness of specific strategies that result in the greatest loyalty. Individual parameters may also be analyzed for specific areas of enhancement. Loyalty strategy changes should result in a marginal increase in the Loyalty Indictor sum.

In this research, hypothetical values are assigned to the different components of the model for relative loyalty. The scoring is defined as a hypothetical case in Table 1.

Relative Loyalty Indicator = Employee Loyalty Index + Customer Loyalty Action Index + Customer Loyalty Relation Index		
Employee Loyalty Index	**Available Pts.**	**Percent**
Participation	0-25	25%
Commitment	0-20	20%
Productivity	0-20	20%
Length of Service	0-10	10%
Professional Growth		
Challenging	0-5	5%
Assignments	0-5	5%
Advancement	0-5	5%
Career Opportunities	0-10	10%
Total Employee Loyalty Index	100	100%
Customer Loyalty Action Index	**Available Pts.**	**Percent**
Purchase recency	0-5	5%
Product or account penetration	0-10	10%
Customer retention rates	0-10	10%
Repurchase/returning	0-10	10%
Avg. customer annual purchase volume	0-5	5%
Customer referrals	0-15	15%
Avg. order size	0-5	5%
Price Tolerance/elasticity	0-20	20%
Immunity to competition	0-20	20%
Total Customer Loyalty Index	100	100%
Customer Loyalty Relation Index	**Available Pts.**	**Percent**
Customer shareholders	0-10	10%
Intangible issues		
Reliability	0-10	10%
Responsiveness	0-10	10%
Trust	0-10	10%
Image	0-10	10%
Status	0-10	10%
Partnership	0-10	10%
Commitment	0-10	10%
Integrity	0-10	10%
Relationship issues	0-10	10%
Total Customer Loyalty Relation Index	100	100%
Total Loyalty Indicator Sum	0-300	300%

Table 1: Theoretical Loyalty Scoring Model

Under the Employee Loyalty index, *Participation and Involvement* has been assigned a weight of 25 percent, thereby indicating the degree of loyalty influence. This weight is based on the opinion and experience of the evaluator. On the other hand, the *Number of Customer Shareholders* under the Customer Loyalty Relation Index has a weight on 10 percent indicating a less influential affect on loyalty. The three indexes show loyalty scoring for the affiliated parameters.

Analysis of the index scoring will indicate areas of possible improvement. Index results may be used; for example, to verify that a drop in revenues from retained accounts is linked to a decrease in *retention rates* (change in customer behavior). Trend analysis may indicate warning signs that require proactive changes. Measurement declines in the parameter of *Immunity to the Competition* may indicate poor product or service quality. A campaign to develop *price tolerance* through value recognition may prove to better the Customer Loyalty Action index based on scoring results.

<u>Illustrative Example</u>

To illustrate the proposed model further, an example is pertinent. A hypothetical company will be scored according to the suggested weights provided in the Theoretical Loyalty Scoring model in Table 1. It is assumed that data have been given to the evaluator and the evaluator has scored all of the loyalty model parameters based on the information provided. The results are exhibited in Table 2.

The measurement results indicate that of a possible 100 points in each category, the Employee Loyalty index scored 74, the Customer Loyalty Action index scored 67 and the Customer Loyalty Relation index scored 70. Based on these results, it appears that the Customer Loyalty Action area may require action due to the low score. Alternately, it may be true that greater loyalty impact may result from improvements in the Employee Loyalty area. From a possible 300 points, the total Loyalty Indicator sum scored 211, thus indicating possible room for improvement overall.

ABC Company		
Employee Loyalty Index	**Points**	**Available Pts.**
Participation	20	0-25
Commitment	15	0-20
Productivity	18	0-20
Length of Service	3	0-10
Professional Growth		
Challenging	4	0-5
Assignments	4	0-5
Advancement	3	0-5
Career Opportunities	7	0-10
Total Employee Loyalty Index	74	100
Customer Loyalty Index	**Points**	**Available Pts.**
Purchase recency	4	0-5
Product or account penetration	8	0-10
Customer retention rates	7	0-10
Repurchase/returning	8	0-10
Average customer annual purchase volume	3	0-5
Customer referrals	10	0-15
Avg. order size	2	0-5
Price Tolerance/elasticity	10	0-20
Immunity to competition	15	0-20
Total Customer Loyalty Index	67	100
Customer Loyalty Relation Index	**Points**	**Available Pts.**
Customer shareholders	4	0-10
Intangible issues		
Reliability	7	0-10
Responsiveness	7	0-10
Trust	5	0-10
Image	8	0-10
Status	8	0-10
Partnership	6	0-10
Commitment	8	0-10
Integrity	7	0-10
Relationship issues	7	0-10
Total Customer Loyalty Relation Index	70	100
Total Loyalty Indicator Sum	**211**	**300**

Table 2. Hypothetical Loyalty Scoring Model Example

Data Analysis

Once measurement is completed, analysis of the resulting data is necessary to interpret and respond to the information that is contained in the loyalty data. Analysis should include loyalty awareness, compliance testing, spending prioritization, comparisons, "what if" trials, validation, and time considerations.

Loyalty awareness analysis will indicate how business fares compared to the loyalty baseline or standard developed in the model. Standards in the proposed loyalty model are based upon the direct measures of relative loyalty importance. This standard gives a sense of scale to the measurements. In the hypothetical example, the total Loyalty Indicator scored 211 points is compared to a benchmark of 300 points. Individual index scores may also be analyzed in comparison to the set benchmark. In the example, the Employee Loyalty index scored 74 compared to the 100-point benchmark. The model may be designed to track overall changes in the loyalty measurement (Loyalty Indicator score), changes in indexes, or changes in the scoring of specific items of interest. For example, monthly, quarterly or yearly tracking may be conducted. Tracking such changes over time shows progress towards loyalty goals.

Another analysis application of the data is a comparison to determine compliance with company loyalty policy. The model may be used to highlight instances of non-compliance between policy standards and measured results. This function may be used as an early warning indicator that signals when measurements have fallen below the compliance level. For example, the model may highlight when *Customer retention rates* drop below the benchmark of 10 points. A detailed explanation may be required when an instance of non-compliance is found. Statistical theory may relate the concept of loyalty to quality control by using control charts for monitoring progress. Standards may be updated whenever policy is changed. Chapter IV will elaborate on the implementation of the measurement results to company policy, procedure and strategies.

The model will allow for analysis on prioritized spending based on scored sections and the potential for increased revenues. Logically, the areas with the lowest scored sections and revenue potential should receive the largest share of budget dollars. The relative score will most likely drive a spending priority list; however, there may be the need for flexibility. A special field in the data file may be added to calculate the projected costs associated with a loyalty point increase. Costs associated with a certain level of loyalty creation and improvement or maintenance activities could be placed into this field. A cost-benefit analysis may be performed on the effects of certain loyalty development programs. For example, the costs of increased *Employee Development* may be judged against the effects of spending the same amount of money *on Compensation and Benefits*. The cost is then compared to the potential loyalty improvement and revenue growth.

Comparison analysis may highlight various data differences in relation to set benchmarks. The model may highlight differences of a certain magnitude that require further analysis. The model may flag an item when it differs by more than 10 percent (a best judgment or a multiple of the standard deviation from regression analysis) from the corresponding benchmark value. Comparison analysis, when used, also allows for competitive benchmarking with competitors or similar regions to indicate areas of deficiency in competitiveness and current company positioning in that comparison. For instance, the total Loyalty Indicator sum may identify areas of deficiency compared to competitive benchmarks, theoretical benchmarks or industry best practices as illustrated in Fig. 4. This graph demonstrates the results from the hypothetical example compared to benchmarks.

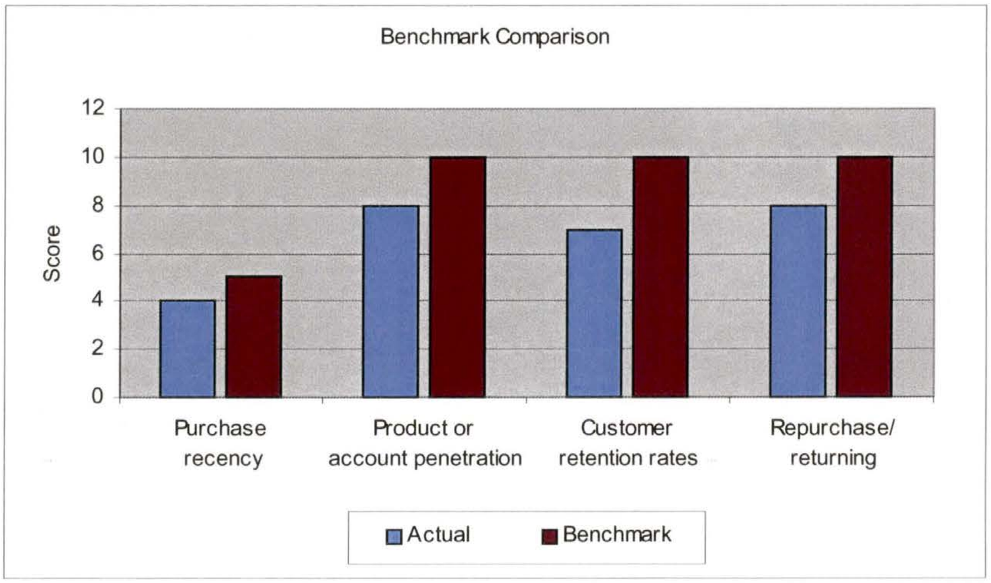

Figure 4. Benchmark Graphics

Analysts may use the model with "what if" scenarios to determine if certain actions will impact greater loyalty and the areas with the greatest opportunity for realizable gains. The previous analysis focuses on historical data. With a proactive approach, analysis should move further to focus on the future with "what if" analysis. A historical approach uses a tactical focus, whereas the proactive approach implements a strategic focus. Items may be changed within each index to illustrate the effects on the loyalty picture. For example, if additional efforts were made in the *Reliability* and *Responsiveness* parameters from the Customer Relation Loyalty index, how much loyalty improvement would be obtained? A secondary data file of proposed actions and the resulting loyalty ratings may be built and saved using the "what if" trails. This file may be seen as a target or goal, and could be used for planning purposes.

Measurement results may also be used to validate the model components. For example, the Loyal Indicator may be compared to market share for a certain time period as illustrated in Fig. 5. This graph indicates that there is a positive correlation between

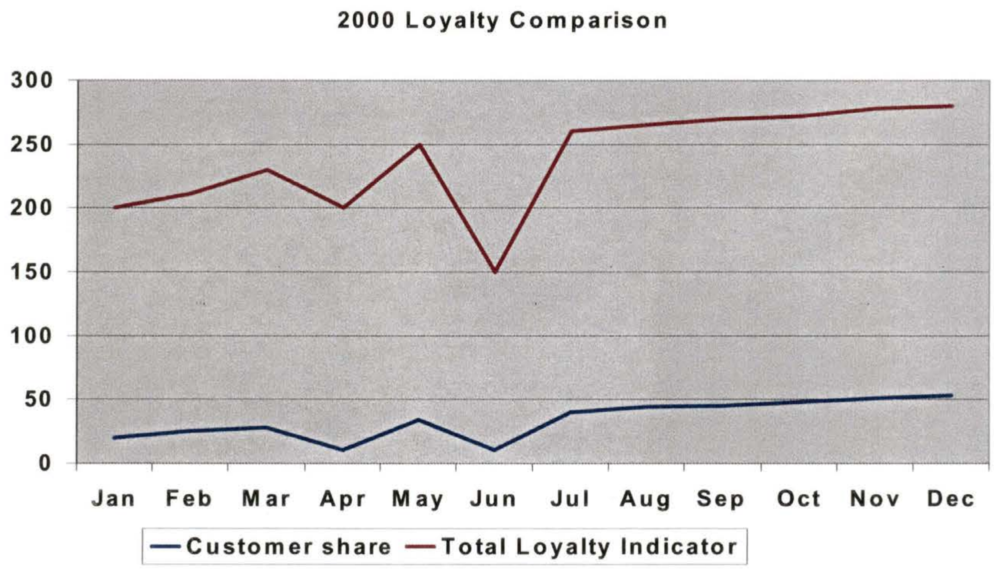

Figure 5. Validation Graphic

loyalty and market share, which is an actual purchase behavior indicator (resulting in revenues).

Therefore, continuous improvement in the loyalty creation, improvement, and maintenance process should shift both the Loyalty Indicator and market share line up.

An adequate length of time to measure loyalty is also crucial. Customer life cycles (length of purchase relationship) and seasonal changes in a business are important to consider. Appropriate time considerations allow for better data. Also, enough time should also elapse before deciding on whether or not a loyalty building effort is a successful promotional event or an actual change in customer buying habits [18]. Overeager action may cause confusion for the customer. Adequate timing and formatting of management reports should be determined as well. There will be a need for ongoing financial justification from the inception of the loyalty measurement program in order to be successful.

Cost Relationship

In general, the relationship between loyalty and cost may be idealized as a curve as illustrated in Fig. 6. In Area 1 of the curve, not enough is being spent in the interest of loyalty creation and maintenance. In Area 3, possibly too much is being spent and may be reaching the point of diminishing returns. Often relatively large expenditures are required for even modest improvements in loyalty. Area 2 is the ideal part of the curve where costs for loyalty are balanced with actual loyalty improvements and ultimately increased revenues. Within Area 2, many spending decision options are available along the curve. General quality and efficiency improvement efforts shift the curve up and to the left, by achieving the same level of loyalty for less cost or by achieving a greater level of loyalty for the same expenditure. Documentation of the loyalty/cost relationship along the curve ensures a disciplined approach and consistency [32]. It also provides a defensible record for the difficult choices that are involved in managing a loyalty program. A caveat is important to note in this cost model. It would appear that an optimum point of operation would be the least expensive mix of loyalty activities that achieve the best loyalty score. This situation is not always the case for a composite score. If the lowest cost mix of activities does not sufficiently address loyalty issues within each index, then loyalty has not really been optimized. For instance, if loyalty builders are less expensive in the Customer Loyalty Relation index than in the Customer Loyalty Action index, one could improve the Loyalty Indicator score by performing many customer relation activities and fewer customer action items. Of course, this case does not maximize overall loyalty. The key is to maximize profits by creating, improving and maintaining employee and customer loyalty. Recall the statistic cited in Chapter I that stated "companies can boost profits 25 to 85 percent by increasing retention by as little as 5 percent".

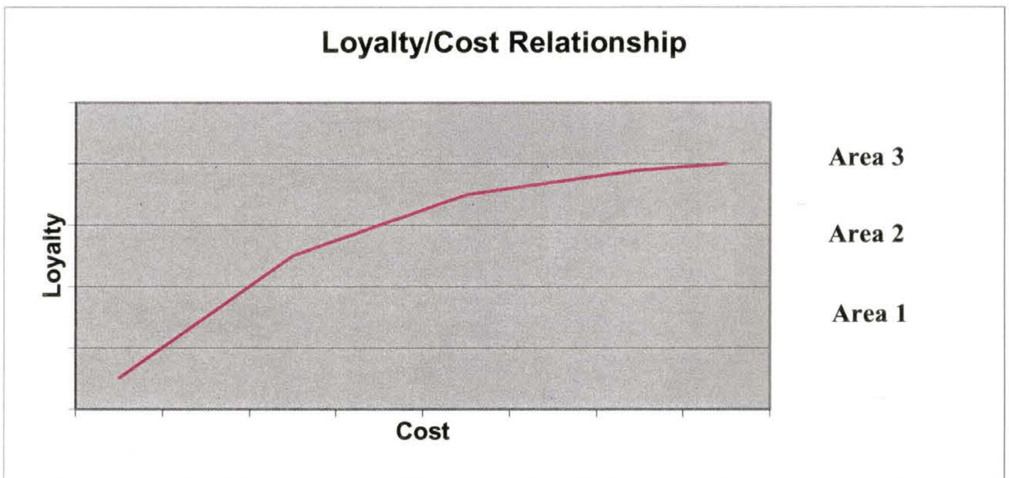

Figure 6. Loyalty/Cost Relationship

The objective of analysis is to obtain and communicate information about the loyalty measurements. A certain disservice is done when a single score is offered as THE ANSWER. Multiple loyalty measurements are necessary to understand the total loyalty picture.

Assessment and Change

Assessment of the model will identify:

- parameters that need sharpening;
- if the model assumptions requires fine tuning; and

- additional negative parameters that should be included based on their relative affect on loyalty.

Being a dynamic and evolving tool, assessment of the model may identify a parameter that is not included in the model, but is important to the measurement of loyalty. Moreover, analysis of the model may identify a parameter that is deficient due to factors beyond the organization's control. For example, a parameter that is based on perception is not easily controlled. Original assumptions may also be incomplete or incorrect. This realization may require retooling of the model. In addition, these metrics are dynamic constructs in that the relative emphasis on parameters may change over time. As soon as updates are no longer made, the tool loses its usefulness. Updates must be made as the business climate changes. Later modification of the model may include parameters that influence loyalty unfavorably, such as a negative moment of truth. These changes would be considered loyalty mitigations. They could be assigned a penalty, expressed in points. Continual success at loyalty requires continual assessment and a willingness to change. Results form the foundation for key decision making in the business planning cycle, business strategy, and quality improvement programs.

CHAPTER IV

MANAGEMENT AND ALIGNMENT OF EMPLOYEE AND CUSTOMER LOYALTY

Management of Employee and Customer Loyalty

Management is defined as the process of planning, directing, guiding, influencing, educating and accomplishing. In order for a company to be competitive in the market place, employee and customer loyalty must be managed in this way. The measurement and building process requires direction, guidance, influence, and education. Through this action, loyalty goals will be accomplished.

Employee loyalty requires management. Employee loyalty should specifically be nurtured and cultivated. It cannot be taken for granted [28]. Companies not only have to compete for market share; they also have to compete for workforce share as well. As suggested by Parasuraman et al. [34], employees should also be viewed as a company's internal customers and therefore should be provided with the appropriate training, support, motivation, and rewards to serve external customers.

Employee and customer relationships must be managed in a proactive mode to maintain and create value and manage loyalty by anticipating and responding to potential market needs [5]. Proactive action incorporates diligent, earnest and efficient means to accomplish improved outcomes. Managing loyalty is the key to increased customer loyalty through an improved customer experience based on measurement and feedback. This experience will require management to develop a common denominator between the loyalty measurements and the company processes [31]. Management leadership must provide resources to encourage employees to take personal ownership of those processes. This leadership will create a culture where employees constantly cement customer loyalty through customer focused actions. It is pertinent to measure, model and manage the loyalty relationship value. Otherwise, companies will be caught off guard when their *retention rate* falls or base customer revenue streams decline. Profitability comes from maximizing the value of the employee and customer relationship over time [39].

Alignment of Organizational Strategy/Management Paradigms

In order to ensure that the customer receives value via a loyal relationship, it is indispensable that a company align its objectives for managing employees and customer loyalty with the organization's quality strategy, culture, business plan, key performance indicators, product development plan, marketing strategy, daily operations, information technology and management systems.

Alignment may begin by using the management concept of Total Quality Management (TQM), which focuses on a quality strategy that includes customer satisfaction, employee involvement and continuous improvement. TQM includes strong managerial and employee commitment to each other and the organization. Managers must first recognize the value of loyal employees and customers.

Once it is determined through analysis of the theoretical model described in Chapter III that employee and customer loyalty must be created, improved and maintained, a cultural change is often necessary in order for a business to create an employee/customer-centered vision and strategy. This change requires managerial reengineering to rework ways of thinking, behaviors, and attitudes to improve the corporate culture. Organizations should redefine their organizational core (roles, responsibilities, measurements and incentives, career opportunities, organizational structure, and shared values and skills) to include links to the development of customer loyalty. Core processes should be evaluated to determine if they contribute to the success of company goals. Change management may be needed to effectively spearhead change initiatives to channel resistance.

When an organization is employee and customer centered, it will create advocates at the individual level. Employees need to be empowered to respond to customers to develop that sustainable relationship that leads to loyalty [38]. A company should reinforce this relationship by building employee incentives and reward programs.

Business plans or goals must be aligned with key performance indicators and each employee's goals. This alignment begins by linking the qualitative and quantitative measurement results to strategic priorities and the allocation of limited resources. Strategic planning will include the development of a consistent set of goals, plans, resources, and measurements by which to achieve goals. Product development plans, marketing strategies, daily operations, and information technology will also be in alignment with organizational goals. he alignment of business units and performance targets may optimize shareholder value.

Management systems or control are necessary so that resources are obtained and used in an efficient manner to accomplish the organizational goals. Based on the results of loyalty measurements, allocated resources and management efforts should be focused towards categories where the most opportunity (relative to cost) for improvement exists. Managers must compare specific business practices in terms of their relative contributions to creating loyalty [13]. The process involves weighing the relative importance of specific business practices and identifying specific practices for improvement [13]. Management control is carried out within the organization through solution development and strategic planning. The purpose of management control is to encourage managers to take action in the best interest of the organization so that goals, plans, resources, and measurements will result in goal achievement.

Employment of Feedback Results

Various disciplines and functions should use employee and customer loyalty measurement as feedback for continuous process improvement (self-evaluation) and collective pro-action. This study proposes the Alignment model shown in Fig. 7. The model denotes the strategic incorporation of employee and customer loyalty measurement results to the company functions/areas/processes. Those cross-functional and cross-organizational areas include, but are not limited to, Marketing and Sales, Strategic Planning, Accounting, Research and Development, Public Relations, Production/Operations, Distribution, and Human Resources.

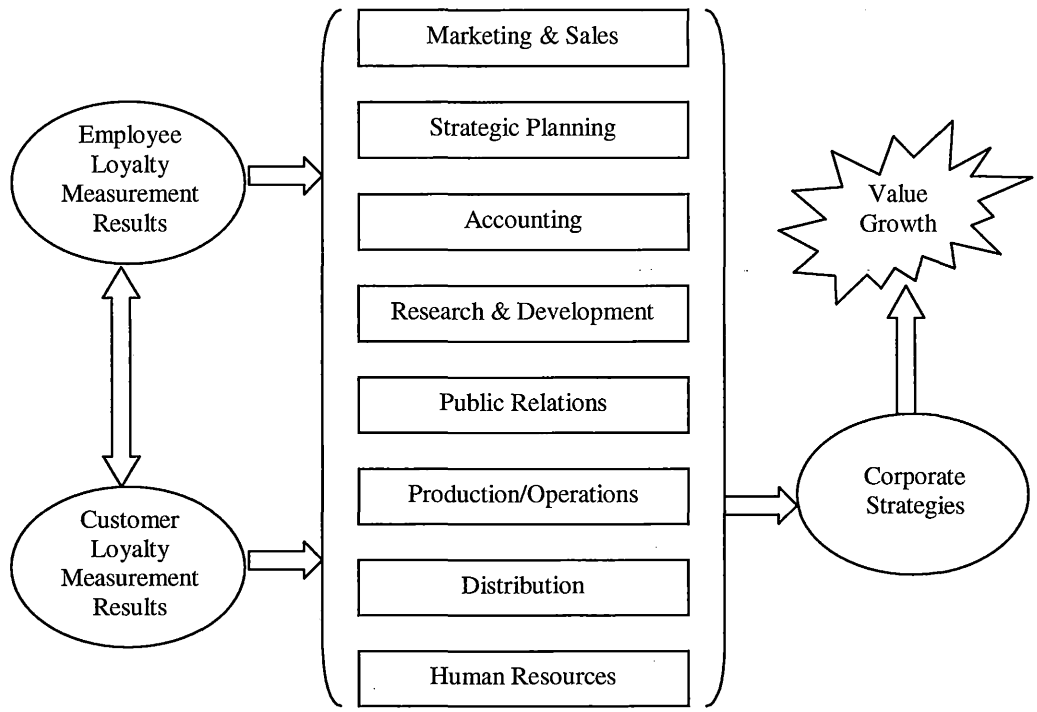

Figure 7. Alignment Model

Loyalty measurements may be used to review the strength of the customer relationship, define referral programs, provide additional information to set strategic direction for brands, determine a customer contact plan, determine program and product offers, segmentation, multiple product lines, and forecasting [29] for the Marketing and Sales group. Loyalty measurements may also be used by the Strategic Planning group to gain competitive advantages such as an early indication of future business performance, timely assessment of competitive positioning, pricing strategies, partnerships, and meaningful performance and accountability measures [16]. Measures help to justify programs, design program changes, justify investments, and manage the optimum allocation of funding [29]. The Accounting group may use measurement results to calculate sales and cost estimates. Effective and efficient spending of resources on certain loyalty building areas may actually increase value growth and stockholder value. Results may also indicate the point of diminishing returns. Integration of measurement results into the Research and Development area will aid in communication and information system design and product design. The Public relations area may incorporate information to improve corporate and product image, status, commitment and integrity. The Production/ Operations group may incorporate data on product reliability, defects, returns, responsiveness, and servicing. The Distribution function may incorporate sales volume, order size, and packaging information into its processes. The Human Resources department may use feedback to improve performance and reward programs, benefits, career development and quality communications. All this information ties back to the development and measurement of employee and customer loyalty discussed in Chapter II. Alignment of performance measurements with all business processes will assist in further alignment of short and long-term strategies. This alignment is necessary to maintain competitiveness in a constantly changing business environment and create value growth.

The value growth results will monitor strategic priorities and create more alignment between business objectives and needed behavior to develop loyalty. By utilizing a measurement and feedback loop system, quality programs may further be developed to address the customer-expressed needs and enable a company to understand and anticipate non-formally expressed customer needs. Results will also determine how well changes were implemented. Continual improvement or refinement will strengthen business objectives, loyalty objectives and strategic insight. Without alignment, strategies will not lead to the accomplishment of designed goals. With this information, a proactive and responsive market-driven quality program may develop measurements, goals, plans, objectives, and resources to facilitate corporate strategies as presented in Fig. 8. Through the employment of feedback results and alignment efforts, value growth is destined to occur.

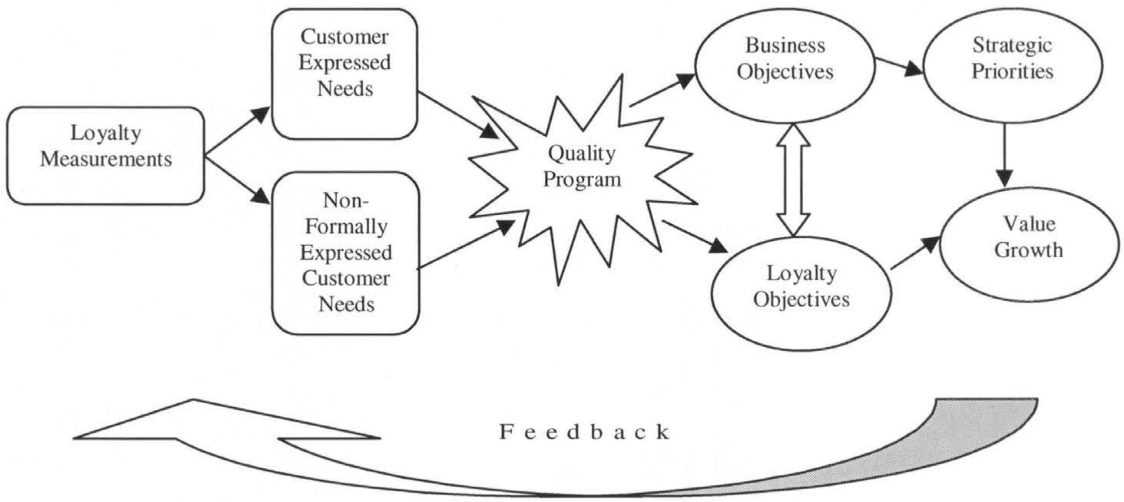

Figure 8. Dynamic Model for Continual Improvement

CHAPTER V

RECOMMENDATIONS

Profit Calculations

By linking the Loyalty Indicator, predicted marginal sales and costs, profit may be calculated. Often an organization views the processes associated with building loyalty as a cost center. Most goals are based on reducing costs. However, spending money on this process may instead increase competitive advantage and profitability. Establishing the link to profitability is a crucial factor since management faces constant pressure to improve profitability by reducing costs. Management will not readily accept loyalty creation and maintenance strategies that increase costs unless there is a clear and credible link between loyalty improvement and profitability.

Based on work by Kristensen [25] that used customer satisfaction, this study incorporates a financial model with customer loyalty measurement developed in Chapter II and III. The results relate customer loyalty to a company's bottom line or profits. Profit may be calculated using known company information and customer loyalty measurement results.

The first step begins with determining a meaningful time period over which to do analysis. Next, the Loyalty Indicator that was explained in Chapter III is incorporated in one of two ways. For models using evaluations multiplied by weighting, the following applies:

$$\textbf{Loyalty Indicator} = \sum_{i=1}^{n} \mathbf{w_i c_i}$$

where n is the number of customer loyalty parameters, w is the weight given and c is the evaluation. In models using ranges equivalent to weighting (i.e., model presented in this study), $\mathbf{w_i c_i}$ is replaced by $\mathbf{s_i}$, the parameter score. The Loyalty Indicator is the sum score of the three defined indexes.

To relate customer loyalty to profit, the following formula may be used:

where **Marginal Profit = (likelihood of buying x marginal revenues – marginal costs)**

The likelihood of buying is the loyalty function **(L):**

$$\mathbf{L=(g_1+ g_2+ \ldots .g_n) \text{ where } g_1 = w_i (c_i\text{-}c_i^*)}$$

where w_i is the weight of a given parameter, c_i is the evaluation of a given parameter, c_i* is the loyalty of parameter i for the main competitor. The elements of the loyalty function are associated with the competitive position of a given parameter combined with the weight of the parameter. Costs may be defined as follows:

$$\mathbf{(\sum_{i=1}^{n} k_i c_i)}$$

where k_i is a cost parameter. Since the loyalty parameter evaluation, c_i, is the parameter that a company may affect, the optimum allocation of resources may increase loyalty measurements with respect to c_i and ultimately profit.

Using the illustrative example presented in Chapter III, a hypothetical profit potential calculation can be illustrated using the theory presented above. The Loyalty Indicator score (**s**) was 211. Assuming that the main competitor Loyalty Indicator score is 209, the Loyalty Function is calculated as $\mathbf{s_i\text{-}s_i^*}$, or 211 less 209 is equal to 2. To calculate the loyalty function, a percent difference of 2/211 or 1 percent may be used.

Marginal revenue will be assumed to be $300,000 for a particular area. Loyalty program marginal costs will be estimated at $100,000. Accordingly, a potential profit is calculated by taking the loyalty function times marginal revenue less marginal costs or 0.01($300,000-$10,000) = $2,900. Economists will suggest the implementation of improvement programs where marginal benefit is greater than or equal to marginal cost. This rationale will help direct the decision making of which loyalty program will potentially improve loyalty and revenue growth.

There are other ways to calculate profit potential. A current Loyalty Indicator score may be compared to the previous period Loyalty Indicator scores. This incremental change can be multiplied against the difference between the additional marginal revenue and additional marginal cost (net revenues) associated with a particular loyalty program. For example, if the current Loyalty Indicator is assumed to be 200 and the previous Loyalty Indicator is assumed to be 188, then 200 less 188 is equal to 12, or a 6 percent incremental change. This incremental change may then be multiplied against the net revenues associated with a particular loyalty program.

Another method of calculating profits is the use of regression analysis. By designating the dependent variable as total profits and one of the independent variables as the Loyalty Indicator, regression analysis can determine the precise mix that influences profits. Other independent variables that influence total profits may be added to the analysis. Those variables may include an advertising index, a price series index, a quality index and so forth. However, the development of a regression analysis is beyond the scope of this research work.

By determining a profit measurement, loyalty is given a more quantitative value for evaluation and planning. The measures of specific behavior allow for extrapolation of the economic impact and return on investment. Future estimates may be calculated using the net present value method with a discount rate for return on assets.

Rewards

The rewards of loyalty are long-term and cumulative in both revenue and savings opportunities [17]. Without employee loyalty, a company may face productivity decreases, increased turnover costs and customer loyalty loss [28]. Actual customer buying behavior is a key to increases in corporate value through increased revenue, cash flows, profit, and market share in competitive environments. The degree of employee and customer loyalty and a company's ability to track, measure, and influence loyalty, is the basis for sustainable business value growth [29]. Successful customer loyalty buying behavior facilitates longer customer life cycles, increased purchase frequency, new revenue streams with existing customers, and sources of new customers. Increased loyalty may produce savings to a company in various ways, assuming loyal customers are also satisfied. Research by Griffin [17], Anderson et al. [1], and McLaughlin [30] leads to the identification the following rewards proposed by this study:

- Lower marketing cost (acquisition costs demand more dollars)
- Optimized marketing efforts (strategic spending based on category measurements)
- Decreased transaction cost (negotiation and order processing)
- Lower customer turnover costs (costs of bringing in new customers to replace defectors)
- Decreases in customer service costs (personalized self-service)

- Improved up-sell or cross-selling leading to greater customer share
- Less failure cost (decreased rework, repair and warranty claims)
- Reduced price elasticity
- Insulation of current customers from competitive efforts
- Improved response to customer needs (reaction time)
- Potential growth-enabling strategies—In work published by the Harvard Business Review, increased retention of just five percent could boost a company's profitability by 25 to 85 percent [17] [4]
- Efficient use of technology (data bank for strategy integration)
- Lower employee turnover costs (hiring and training a new employee costs 150 percent of that person's first-years salary) [6]
- Improved competitive advantage

When focusing on customer loyalty, a company may see improved results in vendor/partner relationships, technology use, reputation for the firm (instant awareness and lower buyers' risk of trial), and public relations opportunities for products and the company [42]. Further, truly loyal customers serve as a signal to guide corrective action when a company fails to provide adequate service. Kandampully [23] suggests that true loyalty is not only continued patronage, but also willingness to voice dissatisfaction and give time to improve shortcomings. Loyal customers also bring focus to segmentation design and management (for those segments both profitable and loyal) [10].

E- Business Implications

With increasing information and hyper-competition at hand on the Internet, customer loyalty will be more difficult to maintain in the future. Effective loyalty relationship management will take on a new twist with E-business. By making it easy for customers to defect, Web-based businesses are driving established businesses to reinvent

[21]. The birth of the Internet has created new points of interaction and commercial exchanges between a company and its customer [21]. Loyalty relationship management will require participation of individuals throughout (and beyond) the company. Consistency in an integrated experience will bring about loyalty behavior [30]. A synergy will be required to manage customer loyalty across all the different interaction channels. This synergy will encourage collaboration throughout a company to address customer needs, provide a world-class experience, and build long lasting loyal relationships. A company will need to get closer to the needs of the customer and make more timely and more appropriate commitments to the individual recipient [9]. Survival, profitability, and competitiveness in this new environment will depend on the ability of an organization to build lasting loyal relationships.

Future Research

Survey

An objective and valid loyalty survey mechanism may be used to measure employee and customer response. After the scope and purpose of the survey have been made evident, the survey design should incorporate the identified metrics. It is important to survey a company's employees and a representative sample of the customer market, including those of the competitors. At a later point, customers may be segmented into those that are loyal, strategic and profitable [20]. Design, marketing, and sales strategies may then be developed to create value for those customers. Surveys need only be fielded as frequently as necessary to monitor changing business and market conditions.

Accounting Classification

The long-run nature of the economic returns from improving customer satisfaction and loyalty has broad strategic implications and requires further research [1]. Since increasing customer satisfaction and loyalty affects future cash flows, allocated resources should be treated as investments rather than expenses. Employees have become a significant asset and an endurable source of competitive advantage to push value growth [26]. Loyal employees and customers may be classified as revenue gathering assets or intangibles that require costs to acquire, retain, and develop. Therefore, in the future, a company may need to align their processes, resources, performance measures, and organizational structure for treating loyalty as an asset.

CHAPTER VI

SUMMARY AND CONCLUSION

As drawn from individual research and relevant research reported in published articles, it is believed that the criteria for future success will subsequently be determined by an organization's ability to create, improve and maintain employee and customer loyalty. This ability will be developed through the systematic analysis of loyalty. Since systematic links have been recognized between employee loyalty, customer loyalty, and profitability, it is necessary to analyze them concurrently. This link is demonstrated by the association among a customer's positive relationship with an employee, customer satisfaction and customer intentions to return for additional contact (loyalty).

Through the employment of a loyalty measurement process, a company will achieve the broadening business benefits of employee and customer loyalty. The relative indexing Loyalty Measurement Model presented in this study will clearly measure employee and customer loyalty. This indexing method is effective due to the fact that loyalty is subjective in nature, quantitative data are unavailable, measurement systems are unavailable, and indexing is immediately applicable. This model utilizes Employee Loyalty, Customer Loyalty Action and Customer Loyalty Relation indexes comprised of the defined weighted loyalty parameters to determine the total Loyalty Indicator. Parameter scoring applies the direct measure of relative loyalty influence. Parameter, Index and Loyalty Indicator measurements will produce results that indicate areas of deficiency, which provide guidance in compliance efforts, spending prioritization, benchmark comparison, "what if" trials, validation, time consideration, and remodeling efforts on corporate strategies for improved profitability. Measurement allows for continuous improvement and progression towards loyalty and profitability goals.

Management and alignment of employee and customer loyalty assist a company to become more competitive in the market place. By managing loyalty in a proactive mode, a company can anticipate and respond to potential market needs. The employee and customer relationship can be proactively maximized over time to create value. Alignment often requires a cultural change and refocusing of company objectives and strategies. The organizational core must include links to the development of employee and customer loyalty. This alignment will result in quality effort towards profitability strategies. The various disciplines and functions of a company should be able to incorporate loyalty measurement results into its processes. Continual refinement will strengthen company profitability objectives and strategic insight.

The rewards of loyalty are long-term and cumulative. Both revenue and savings opportunities will be recognized through increases in customer retention and purchasing relationship, lower cost of loyal customers, and the reduction of employee and customer defection. Potential revenues may be estimated using the loyalty measurement results. This estimate establishes the documented link between loyalty improvements and profitability. Future success and longevity of a company will be based on its ability to create, improve and maintain employee and customer loyalty.

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