Putting
the **SERVICE PROFIT CHAIN** to Work
for Unbeatable Competitive Advantage

THE

Ownership Quotient

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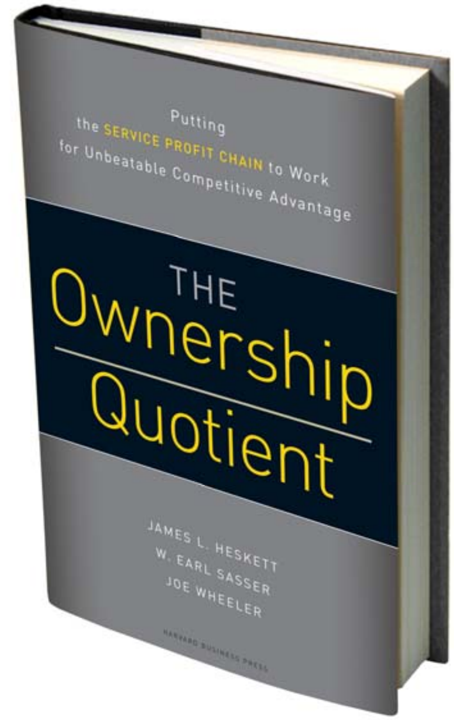
What's Your Ownership Quotient?



James L. Heskett, W. Earl Sasser , Jr., and Joe Wheeler

Long after its introduction, the service profit chain continues to fuel the profits of leading service firms. The result? Industry leading performance and higher levels of ownership from both customers and employees. The implication? What ***exactly*** *is your ownership quotient?*

LIBBY MCGINELY was thrilled. Out of thousands of entries, a panel of experts, including Gail Gand of the Food Network, chose her grandmother's recipe as the winner of Wegmans Food Market's search for the Ultimate Chocolate Cake. That was in 2005, and by all accounts it represents one of Wegmans most successful new product launches. And who is Libby McGinely? A celebrity dessert chef? A contracted supplier? No, she is one of thousands of Wegmans employees that participated in a regional "Cake Off" to meet the challenge posed by the company's president, Danny Wegman, to meet a request from Wegmans' customers to create a chocolate cake that met their high standards.

In the fall of 2003, John Koster took over as the newly appointed General Manager of Harrah's Entertainment's Casino and Resort Hotel in Laughlin, Arizona. Increased competition from nearby Indian gaming concerns had contributed to flattening revenues, while their customer satisfaction performance, the best in the industry, had also stalled. At 55% top box customer satisfaction, employees and managers alike felt like they had hit the ceiling of what was possible to achieve in terms of delighting their guests. John Koster felt differently, and implemented a series of initiatives that included expanding Harrah's air program to fly in its most loyal and profitable Diamond customers from other cities, as well as focusing the entire organization on "owning" the delivery of a great guest experience. The result? In less than 15 months top box customer satisfaction performance rose 8 percentage points—a new record—and operating earnings doubled in just 3 years.

What these two stories have in common is ownership: a central theme that is consistent with firms that have used the service profit chain as an operating model to achieve sustainable competitive advantage. High levels of ownership from both employees and customers enable their organizations to be more agile, more in tune with their respective markets, and more consistent in their financial performance.

A customer/owner is one who tries the product or service after engaging in some way with the "brand," is so satisfied that he returns to buy more, states a willingness to tell others of his experiences, convinces others to

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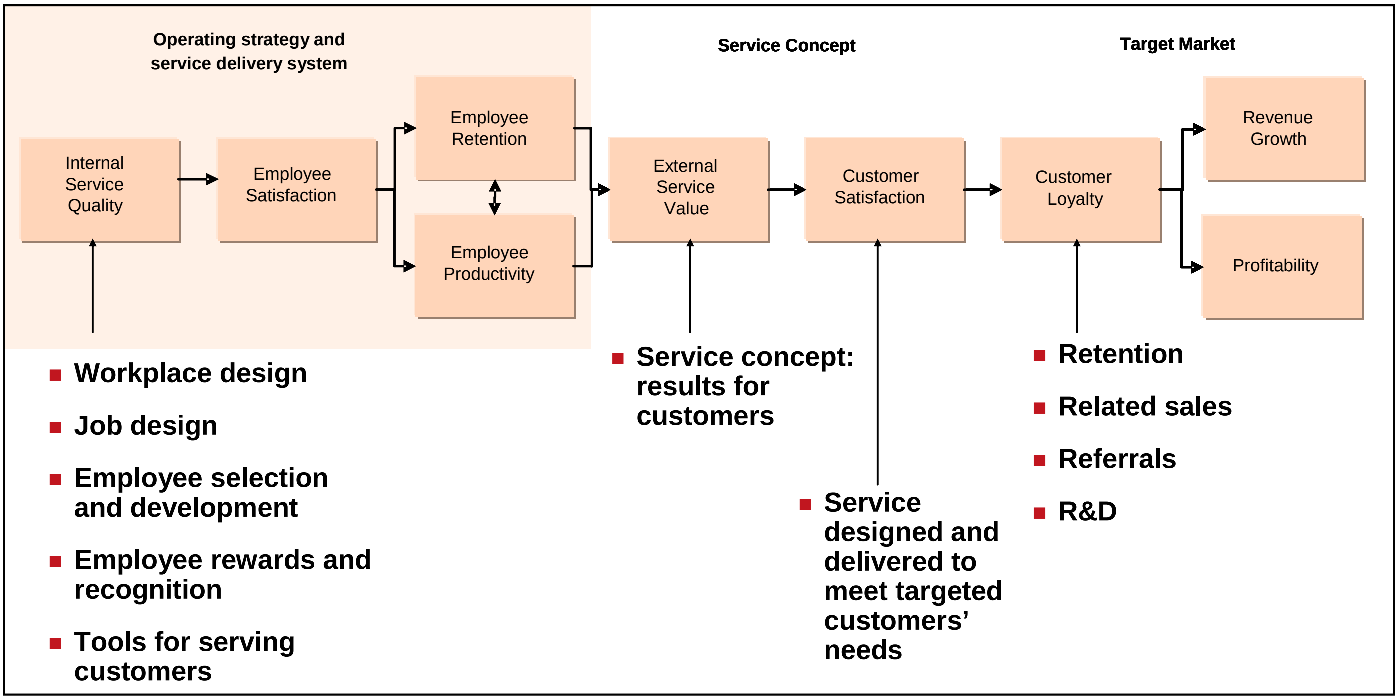

Figure 1—The Service Profit Chain

buy as well, and engages in activities such as helping test new products or ideas as well as providing constructive criticism for existing offerings.

Little of this would happen without employees who also develop an ownership mentality. An employee exhibits her ownership through loyalty, periodic referrals of other high-potential employees to the organization, and suggestions for improving both the quality of processes and work life, as well as the effectiveness with which customers are served.

For example, Lanham Napier, CEO of Rackspace Hosting, a San Antonio-based technology company, is obsessed with the development of customer/owners. His organization, which manages web sites and IT hosting for its customers, makes surprisingly high profits in a now-commoditized business that many regard as operating in the backwater of the Internet. How does Rackspace do it?

It does it by carefully selecting its employees and its customers; organizing Rackers (its employees) into service teams with responsibility for growing the business within a group of assigned customers; providing customers with easy access to its dedicated service teams who offer multi-functional skills as well as personalized, fast, "one call" responses to their needs; and carefully listening to, and acting on, reactions and suggestions from both customers and employees. The results are customer satisfaction levels that approach perfection, loyalty that is unheard of in the industry, referral rates that account for a large share of Rackspace's new business, low marketing costs that help account for relatively high margins,

The Service Profit Chain – A Primer

When we introduced the Service Profit Chain in 1994, we described seven fundamental propositions that formed the links in the chain:

1. *Customer loyalty drives profitability and growth*. A 5% increase in customer loyalty can boost profits by 25% to 85%. The benefit of retaining customers, on average, just one more year has a significant impact on the bottom line.
2. *Customer satisfaction drives customer loyalty.* This was a new idea back in the beginning. Today, we find few organizations that are not focused on driving improvement in their 'top box' customer satisfaction scores precisely for this reason.
3. *Value drives customer satisfaction.* Value (results plus process quality in relation to total cost to the customer) is critical to creating satisfied customers.
4. *Employee capability (latitude within limits to deliver value to targeted customers) and productivity drive value.*
5. *Employee loyalty drives productivity.* Service profit chain leaders draw a clear line of sight between the impact on lower turnover on the efficiency of the operating model. Loyal employees also means less dollars are spent on recruiting and training new employees which in high service organizations can represent significant costs.
6. *Quality of work life drives employee satisfaction and loyalty.* Quality of work life includes such things as the fairness of one's boss, working with "winners," the opportunity for personal development, capability to deliver results, and reasonable compensation. Some organizations advocate the measures of commitment (willingness to recommend the organization to a good friend as a place to work) as a better driver of loyalty than employee satisfaction. Regardless of the specific measure, the capability (latitude within limits) of front line employees to be able to produce results for valued customers remains an essential driver of employee, satisfaction, retention, and productivity.
7. *Value delivered (as perceived by customers) in relation to cost yields long-term profit.*

For additional information about the service profit chain, please see James L. Heskett, W. Earl Sasser, Jr., and Leonard A. Schlesinger, *The Service Profit Chain* (New York: The Free Press, 1997) and James L. Heskett, et. al., "Putting the Service Profit Chain to Work," *Harvard Business Review*, March/April, 1994 .

and business growth rates that have to be limited to 60% in spite of price premiums 10% higher than competitors.

In the words of several executives with whom we have talked at Rackspace, “customers act as if they own the company.” This is important because Napier estimates the lifetime value of a Rackspace customer/“owner” as more than a hundred times that of a customer for which it completes one project with no recurring relationship. Rackspace has been able to nurture intense customer loyalty, commitment, and engagement. More importantly, the company has succeeded in its efforts to get customers to act on their convictions and take responsibility for the success of Rackspace’s business, the true mark of ownership. None of this would happen without a strong sense of ownership among Rackers, the company’s term for its employees.

Who are these customers and employees who act like owners? How do we identify them? How do we increase their ranks? How do we track the results of our efforts? To develop answers to these questions, we researched a number of organizations that ranked highly in surveys about customer service or good places to work, actually spending time with the management of many of them. In the process, we developed what we call the “ownership quotient.”

The Ownership Quotient

The ownership quotient (OQ) is the proportion of all customers who are actively engaged in significant work on behalf of a product, service, or brand. Preconditions for ownership are high rates of loyalty, exhibited by repeat purchases or continued relationships, as well as participation in the “buzz” surrounding a company’s offerings, including a willingness to recommend them to others. But these behaviors alone do not qualify a customer as an owner.

Owners are apostles, actually able to make successful referrals of new customers. They are in frequent contact with the company, constructively complaining or suggesting improvements in products, processes, or services. They help in testing new products or services. They may, at times, represent a “pain in the neck.” And they may be the source of useful new product ideas.

Measurable indicators of a high ownership quotient are such things as:

1. High customer loyalty or retention rates (a precondition for ownership)
2. High proportions of new customers resulting from referrals
3. Significant proportions of new or improved products emanating from customer suggestions

The ultimate measure of ownership is the proportion of customers actively engaged in significant work on behalf of the product, service, or brand. This is most directly determined by asking customers whether:

1. They have made referrals to potential customers
2. Those referrals were successful
3. They have helped test a product or service
4. They have provided constructive complaints regarding existing products or services
5. They have suggested process, product, or service improvements

Companies with ownership quotients of as little as 3% of their customers have been able to achieve significant success.

The core of customer/owners need not be large. Companies with ownership quotients of as little as 3% of their customers have been able to achieve significant success. But the greater the ownership quotient, the higher the probability that an organization will distance itself from its competition. In extreme examples, organizations are literally changing the rules by which the “game” is played globally in entire industries, as has been the case with companies like Toyota, Intuit, Southwest Airlines, eBay, and Amazon.

Just as important is the employee ownership quotient. It is measured by determining the proportion of employees who have in the past year:

1. Succeeded in persuading a friend or acquaintance to apply for work at the organization.
2. In some way constructively criticized the ways things are done.
3. Offered a suggestion for a process change or product improvement.

Other predictors of potential change in the ownership quotient may be trends in:

1. The rate of voluntary departures from the organization by employees.
2. The proportion of new-employee applicants or hires that result from employee recommendations.

Because it takes a significant, sustained effort on the part of all—but especially customer contact—employees, the employee OQ has to be several times that of the customer OQ that an organization wishes to sustain.

A high employee OQ not only enhances value for customers through increased retention and continuity in customer relations. It also dramatically reduces costs of hiring, training, and lost productivity from turnover. It helps explain why organizations like Baptist Health Care, Wegmans Supermarkets, and Vanguard Financial Services are able to deliver high value to customers at relatively modest costs.

Determinants of a High Ownership Quotient

Organizations that have achieved high levels of “engagement” with customers and employees have the potential for realizing high customer and employee OQs. But it takes more than that.

An engaging product or service may represent an inviting opportunity to a potential owner, whether a customer or employee. For example, motorcycles (and motorized vehicles in general) have that potential. But it isn’t until products or services are centered on results desired by customers that engagement really kicks in. For example, when Harley-Davidson began designing and promoting its motorcycles as “freedom machines,” they captured the attention of potential buyers to which “freedom” has special appeal and provides the basis for high engagement.

Engagement may have an emotional component, as with Harley-Davidson’s products. Or the source of the engagement may be economic. For example, the very livelihood of many of eBay’s users are linked to the effectiveness of its web site and the success of the company.

As important as it may be, an engaging product or service is not a prerequisite for a high OQ. Organizations have developed high ownership quotients for cement, police work, and even simple savings accounts. How do they do it? By:

1. Developing a business strategy that fosters ownership
2. Making efforts to put customers to work to increase engagement
3. Building employee ownership that is fundamental to customer success
4. Engineering ownership through anticipatory management, and
5. Perhaps most importantly, building a strong and adaptable culture that is critical to the development of an ownership mentality.

Once we’ve addressed each of these, we’ll return to the role of measurement—the ownership quotient—and incentives to achieve and sustain high performance.

1. Develop a Business Strategy that Fosters Ownership

Customers buy value—results plus process quality (including experiences)—not products or services. A product/service strategy that is value-based fosters customer engagement, involves the careful selection (or self-selection) of customers, and leverages value over cost (in part through employee ownership) in order to enhance engagement levels. It is critical to high levels of customer ownership. This helps explain why ING Direct, essentially little more than a savings bank, has vaulted from nowhere to the 17th largest bank in the U.S. in just six years under CEO Arkadi Kuhlmann. It has done it with its “high (interest) rates, no fees, no minimum balances” promise for people who simply want to save money. Its easy-to-use Internet and phone channels make it easily accessible to potential customers who don’t feel the need to bank at a much more expensive-to-operate physical location on a face-to-face basis.

Five Steps For Boosting Your Ownership Quotient

1) Develop a business strategy that fosters ownership
2) Put customers to work to increase engagement
3) Build employee ownership that is fundamental to customer success
4) Engineer ownership through anticipatory management
5) Build a strong and adaptable ownership culture

None of this works without very low costs and industry-leading service. The low costs are made necessary by ING Direct’s high interest rate payouts. They are achieved through customer and employee ownership. The rate of customer referrals at ING Direct is so high that its customer acquisition costs are about one-fourth that of its competitors, literally saving the company as much as $300 million per year at the peak of its growth. Employees are eight times as productive as competitors, measured in terms of dollar deposits per employee. They achieve these levels through easy-to-use direct channels that attract customers who want good service but don’t need face-to-face contact. But most important, this organization can attribute its productivity largely to the fact that it hires “orange” people, those who buy into the inspirational mission of “leading America back to savings,” people with ownership tendencies that are capable of delivering the highest service levels among all banks.

2. Put Customers to Work to Increase Engagement

Every measurement we’ve made suggests that the best customers enjoy being put to work on behalf of the organization. They are more satisfied and represent higher lifetime value than others. What do we mean by putting customers to work? We mean actually inviting customers to take responsibility for parts of the customer experience. When customers are in control, good things happen. They are participants and co-creators of the customer experience rather than mere recipients of it. Consider the extraordinary success of St. Louis based Build-A-Bear Workshop, one of the most innovative retailers to emerge in the United States over the past 10 years. It allows customers to literally create their own stuffed animal. Founder Maxine Clark designed the guest experience to allow her young customers to engage with their employees to choose their favorite skins, stuff them, stitch them, fluff them, select accessories and of course, create birth certificates. Guests spend an average of 45 minutes in the store which contributes to Build-A-Bear's $516.00 sales per square foot that results in strong store profit margins. But beyond the economic argument for putting customers to work, perhaps the more important benefit is the emotional engagement that is created. As Maxine Clark told us: "It's about an experience, making a memory, connecting with a customer on a different level".

To put customers to work in an effective way, organizations have to design listening posts, make it easy for customers to use them, organize themselves to listen, and act upon inputs provided by customers. For example, the world's largest hotel company, InterContinental, is using a private online community to learn about the needs and desires of its most valuable customers. Customers can provide opinions, suggestions and ask questions in five different ways, including via surveys, chat rooms and topic-specific discussion areas. Surveys focus on the needs and experiences of customers and can accommodate multiple choice responses or open-ended answers. One survey asked members about their behavior when entering a hotel room for the first time. Some wrote that they take off their shoes and get comfortable, while others said they scanned the room from the doorway in search of an Internet connection and outlet for their laptop. Though such comments are qualitative, enough respondents expressed a desire for easy-to-find Internet access that the company has selected a couple of pilot hotels in the Atlanta area to experiment with a revised room design. Iit will have a new orientation for electric outlets and a clear view of the desk chair from the doorway—designs approved by the online community.

Community members initiate two-thirds of conversations on the site, mostly related to travel tips, recommendations and questions such as where they might find the best pet-friendly hotels. Putting customers to work, to help IHG identify the improvements it can make to drive more satisfaction and loyalty, is a task that customer owners relish.

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3. Build Employee Ownership that is Fundamental to Customer Success

A high ownership quotient among employees in contact with customers is a precondition for a high OQ among customers. Customer ownership is both a reflection of, and a contributor to, employee ownership, which together create what we think if as a cycle of capability. It is expressed in a number of ways, but nowhere more succinctly and compellingly than at the web site of SAS, the creator of software for complex business systems. Here's what it says:

> If you treat employees as if they make a difference to the company, they will make a difference to the company. That's been the employee-focused philosophy behind SAS' corporate culture since the company's founding in 1976. At the heart of this unique business model is a simple idea: satisfied employees create satisfied customers.

Jenn Mann, Head of Human Resources at SAS, told us, "We do everything in our power to make SAS the place you spend the rest of your career." The remarkable thing about this statement is that software engineers are notoriously fickle in their choice of places to work. But fewer than 5% leave SAS in any one year.

Based on our examination of numerous organizations, the foundations of employee ownership are the selection, training, and support processes that are employed. Simply put, companies scoring highly engage in the counter-intuitive practice of hiring for attitude, training for skills, and providing outstanding support systems. Support to what end? The end of enabling employees to deliver results to valued customers, one of the things they tell us defines the quality of their jobs.

Employees selected for attitude and trained for skills have a higher potential for ownership than those merely hired for their skills. At Rackspace, it is assumed that members of customer-facing teams, called Rackers, will be skilled trouble-shooters with a good knowledge of their job, whether it involves technology or billing. Beyond that, they have to get along with other team members, with whom they constantly interact. They have to be willing to do anything within reason for their assigned customers. And they have to be forthcoming in their views of the way things are done at the company, helping improve them whenever possible. They have to be owners.

Pharmacists hired into PrairieStone Pharmacies, a small chain of pharmacies designed to be located inside super markets, have to enjoy interacting with customers. Not all pharmacists enjoy that. The technology employed by PrairieStone assigns the filling of prescriptions to technicians operating vertical filling machines. Instead of counting pills, pharmacists sit with customers to learn about their ailments and the medications they are already taking. They develop bonds that encourage a great number of word-of-mouth referrals by customers.

Wegmans Food Markets doesn't just hire shelf stockers or cash register operators. It hires frontline employees who are interested in food and conveying ideas for its preparation to customers. That's because it defines its business as fostering the preparation of food, not just food product retailing. Stores themselves are veritable food fairs, with many demonstrations of food and its preparation. Wegmans encourages employee ownership by asking them to submit new ideas for preparing food or their favorite recipes. Employees to whom this idea is appealing become owners in large numbers.

The cycle of capability can turn against an organization. Consider what happened recently at electronics retailer Circuit City. In March, 2007 the company announced that it would replace 3,400 of its more experienced, higher-paid salespeople with new, lower-paid, hires. As one reporter commented:

> Too bad that service matters in this corner of the retail market. Shoppers quickly noticed and fled—leaving Circuit City's sales and profit plunging. Its same-store (2007) holiday sales … fell 11.4 percent. And its stock is now about 80 percent below where it was the day before it made the staffing announcement … Customers have posted their frustrations with the retailer on-line, in blogs and chat rooms. Many tell of a noticeable apathy among Circuit City's workers.

Since the report, Circuit City has filed for bankruptcy.

4. Engineer Ownership Through Anticipatory Management

Harrah's Entertainment, the world's largest gaming company, is well-known for its path-breaking customer loyalty program, Total Rewards. It is less well-known for the information and employee support systems that enable its employees to "win" regularly in anticipating and meeting preferred customers' needs. What gets CEO Gary Loveman really excited is the fact that Harrah's has engineered the delight of its customers through a combination of decision science to their gaming and spending patterns while at the casinos, as well as a service delivery system that enables frontline employees to put the information to work to regularly exceed customer expectations.

"We use the service profit chain extensively," says Gary Loveman. "It's the most widely referenced framework in the company." Harrah's measures each link in the chain, including growth in "A" (top box) customer satisfaction scores. It's reported quarterly, company-wide, and tracked down to the individual department level. Harrah's has found that an improvement from a "B" to an "A" in overall customer satisfaction drives a 12% improvement in customer profitability. This becomes even more important when combining this understanding with its Total Rewards program. There are three main tiers to the program: Diamond, Platinum and Gold. A fourth category called Seven Stars represents Harrah's very top tier of 'high rollers.' Diamonds, for example, represent a lifetime value to Harrah's that is 53 times that of a Gold customer and 4 times that of a Platinum customer, yet they represent only 5% of the total population of customers.

As a result, Harrah's Service Strategy is to deliver a differentiated service experience to each tier of customer an experience that is better than their last visit to Harrah's, better than the competition, and centered around two key customer attributes, wait time and friendly and helpful service. There are three elements to this strategy: Key Result Customers, Key Result Times and Key Result Areas.

Key Result Customers are defined by their Total Rewards tier level. Key Result Times are those times, (Friday, Saturday and Sunday), when Diamond customers are visiting Harrah's and it is critical that their best people are staffed and the property is at its 'full capacity to serve'. Key Result Areas are the touch points in the customer experience at which Harrah's has the best opportunity to exceed Diamond customer expectations in terms of Friendly and Helpful service as well as Wait Time. They include Reservations, Valet Parking, Total Rewards Card Center, Cocktail/Beverage Service on the Casino Floor, Restaurants, Check Out, etc. The interactions that a customer will have with Harrah's create the chance to exceed, meet, or not meet their expectations. Harrah's identified the five employee behaviors that have the biggest impact on customers and defined what they looked and sounded like at "exceeds," "meets," and "does not meet" levels of performance. Secondly, the service standards ensure that customers, especially their most valuable Diamond customers, have a great experience. John Bruns, the COO of their UK operation and former head of Customer Satisfaction Assurance explains:

> We know that if the line or the wait gets too long, the customer will pass off over what we call the 'Cliff of Dissatisfaction' and the attitude of the employee cannot overcome that service wait. Based upon our research we know what that reasonable wait time is for every department, and if we're within the reasonable wait time the upbeat positive attitude of the employee will carry both scores.

With the industry's leading service delivery system in place, Harrah's creates customer owners by adding the power of its CRM and direct marketing platform.

As CEO Gary Loveman put it:

> The revolution is this: When you check in with us in Vegas or Atlantic City or Tunica, Mississippi we're going to engage with you in real time during your visit through a digital device to invite you to do things with us based on what capacities we have and what your preferences have been shown to be.

Based on both actual and predicted behavior and stated preferences, Harrah's CRM system will develop personalized offers and incentives that will be of great value to the customer and optimize the capacity of its facilities. Anticipating the needs of customers, and consistently exceeding their expectations at moment of truth through a world class customer experience is what builds customer owners and extraordinary lifetime value.

5. Build a Strong and Adaptable Ownership Culture

Statements of values without accompanying management behaviors, measures, and actions are meaningless. They have reflected poorly on the very concept of culture.

Culture is hard, not soft. It can lead to ownership and the hard-won long-term financial success that accompanies it. It takes the right kind of leadership to realize and capitalize on these notions.

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Fortunately, Baptist Health Care, led by CEO Al Stubblefied, has had that kind of leadership in recent years. It wasn't always the case. An acquisition program in the early 1990s left Baptist with customer satisfaction ratings poorer than 82% of hospitals in the U.S. with employee satisfaction ratings to match.

Through a concerted effort, the organization is now one of the highest rated in the U.S., with one of its subsidiaries earning the very highest ratings for the past six years. How has it been achieved? Everything from the organization's values to specific operational procedures are vetted with employees. They are continually asked for opinions and ideas. Whether or not the ideas are acted upon, feedback is provided to the originator of the idea. Walk the halls of Baptist and you are likely to see T-shirts with "I Own Baptist Health Care" or buttons with "BHC Owner for 10 Years" on them. The sense of employee ownership is palpable. The employee OQ is off the charts. And the organization's leadership gives it a large share of the credit for Baptist's financial turnaround.

ING Direct's success with a strategy that minimizes costs to deliver maximum value to savers and other users of its service would not work without an "orange" culture populated with people who believe in it.

How are customer and employee ownership fostered through culture? And just what kind of cultures deliver on these kinds of promises? Organizations in our sample suggest some common characteristics:

1. a strongly shared sense of purpose falling just short of that of a cult
2. a clear differentiation between core values and customs or behaviors
3. constant communication of the values underpinning a culture through demonstrated behaviors as well as measurement and corrective actions
4. fast action to rid the organization of employees, no matter how good their ability to "make the numbers," who are not able to manage by the values, and most importantly,
5. strong leadership that devotes time to both preserving the culture and ensuring its adaptability.

These characteristics are clearly personified at Rackspace. Its core values exemplify a company that truly walks the talk. Chairman Graham Weston personally teaches the "Discover Your Strengths" module during new employee orientation because he feels it is so important to the culture they have built and strive to maintain. The award that is given to the employee that achieves the highest level of Fanatical Customer Support each month is a straight jacket, proudly displayed with names of past winners along one of the most trav-

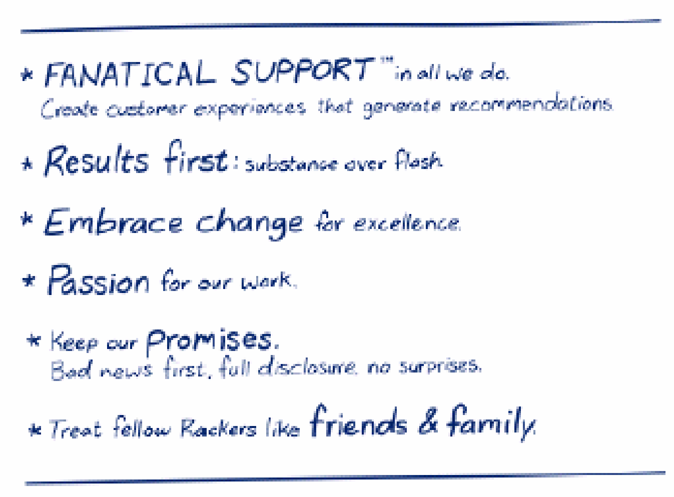

Figure 2—Rackspace Core Values

eled corridors in their office.

In a continued effort to keep the Rackspace Fanatical Culture alive, Rack U, its corporate university, hosted a Core Values Boot Camp in Spring of 2006 where Rackers were divided into teams (cross-departmental) and put to several tests that were anchored around the six core values. This commitment to preserving the culture is the work of leadership, but embraced by employees at all levels. It is why CEO Lanham Napier told is: “Our culture and the awesome people we have are the things I am most proud of…I would say it’s impossible for our competitors to copy. They’d have to start over and build it from scratch.”

Why The Ownership Quotient?

Tying measures of the lifetime value of respondents to their responses, as we were able to do utilizing Harrah’s Entertainment’s remarkable data base, yields astonishing results that confirm the importance of customer ownership.

Harrah’s maintains a data base comprising 40 million members of its Total Rewards program. It’s a remarkable data base that fuels some unique management practices that we’ll examine later. Diamond customers are those whose volume and nature of “play” will add up to a lifetime value of $100,000 or more in operating profit to Harrah’s. Similarly, Platinum and Gold customers have prospective lifetime values of $20,000 and $2,000, respectively. Seven Star customers are in a category by themselves, wagering $100,000 or more at Harrah’s casinos each month.

When we posed OQ questions to a sample of each of these groups, comprising roughly 4,500 customers at Harrah’s three gaming property groups—Harrah’s Golden Horseshoe, and Caesar’s Palace—we found some remarkable results.

Seven Stars and Diamond customers, while registering roughly the same “willingness to recommend” levels as Gold customers, actually did make 20% more recommendations to friends to visit Harrah’s properties than Gold customers during the preceding year. Further, their recommendations were more effective, resulting in 30% more new customers with an estimated total lifetime value 73% greater than those recruited by Golds. Our comparisons didn’t stop there.

Seven Stars and Diamond customers offered more than two and a half times as many suggestions for service improvements as Golds. They said they would be 18% more willing than Golds to attend a gathering organized by Harrah’s to identify new service ideas. And

Measuring Your Ownership Quotient

Ownership is fostered through a closed loop of measurement, analysis, and corrective action. Basic measurement for the customer OQ comprises three questions directed to behaviors over a recent period of time, say a year:

1. Have you recommended our products or services to others?
2. Were those recommendations followed?
3. Have you communicated with us for the purposes of suggesting improvements in the way we do business or new or improved products or services?

Similarly, the employee OQ is based on responses to these hree questions:

1. Have you recommended us as a place to work to your friends and acquaintances?
2. Did they then apply for a job here?
3. Have you communicated with us for the purposes of suggesting improvements in the way we do business or new or improved products or services?

Single measurements may yield limited information. But trends resulting from two or more applications of these questions to a sample of customers or employees can begin to provide important indicators as to whether or not ownership is being fostered by the organization.

they would even be 39% more willing to help Harrah's select new front line service employees

As defined by Harrah's management, Seven Star and Diamond customers have lifetime values at least 50 times those of Gold customers. But perhaps most remarkable of all, we found that they attracted new customers with lifetime values greater than theirs in just the twelve-month period preceding the survey.

None of this would have been achievable without a high OQ among Harrah's employees. We found, in a companion survey, that 54% of employees had actually recommended Harrah's as a place to work to two or more of their friends.

This level of ownership has been achieved in part by the information systems that make it possible for Harrah's employees to register "wins" in their relationships with customers. The systems are supplemented with simple procedures to provide differentiated service to each customer, as well as devices such as "buzz sessions" with managers on the casino floor at the beginning of each work shift to ease the transition from home to work each day.

Just as important are Harrah's three "guiding principles of employee engagement" by which managers are measured—how well they "get me" (take the time to know me), "guide me" (show me what success looks like), and "root for me" (celebrate my success). All of this is supplemented with incentives that reward and recognize employees on the basis of, among other things, customer satisfaction levels.

Is there still any doubt in your mind about the value of OQ concepts?

OQ measures have to be interpreted in light of the nature of the business. For example, customer OQs for B2B businesses such as Rackspace tend to be much higher than those for consumer businesses. The reason is that relationships between frontline employees and the customer tend to be much closer in B2B enterprises. The challenge for companies using relationships primarily mediated through the Internet or traditional promotional channels is to break through the wall of impersonality in these businesses and create the atmosphere for improved customer and employee OQs. But it can be done, as ING Direct, a branchless savings bank, has proven time and again.

OQ estimates are convincing only if linked first to growth and then to long-term financial performance. The only reason that Lanham Napier at Rackspace, Arkadi Kuhlmann at ING Direct, Al Stubblefield at Baptist Health Care, and Gary Loveman at Harrah's, among others, have any interest in these ideas is their bottom-line impact. The impact, for example, on Harrah's, has been profound. Roughly 8% of Harrah's customers exhibit most of the ownership behaviors described here. As a result of Harrah's impressive performance in late 2006, their board of directors accepted an offer from two private equity firms to acquire the company for a price representing a threefold increase in enterprise value over a five-year period.

Measures without appropriate follow-on also are meaningless. This requires interpretation and the design of incentives to sustain momentum toward improvement in customer and employee OQs.

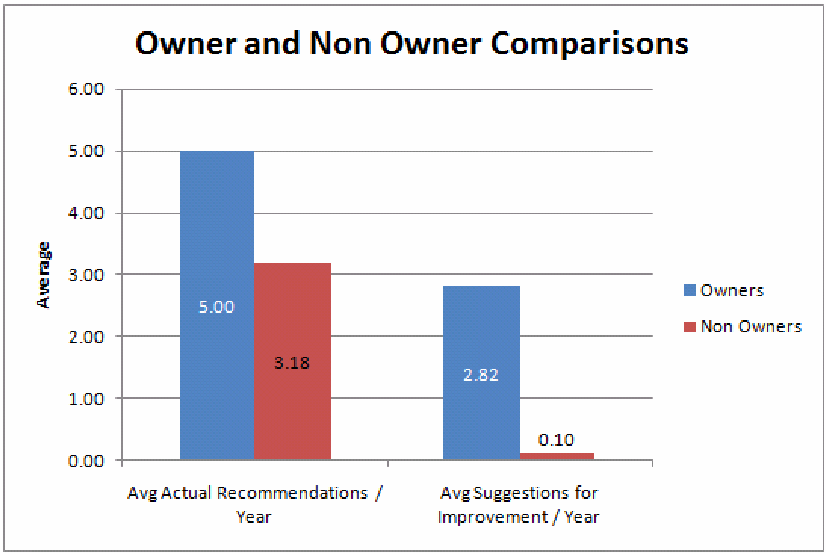

Figure 3—Ownership Behavior at Harrah's Entertainment

Why haven't these measures gained widespread use up to now? There are several reasons. One is that management simply hasn't been ready for them. It has taken some time for management to accept the idea that customer attitudes and behaviors are a reflection of, and driven by, employee attitudes and behaviors, and that useful change begins within the organization. We are just reaching the point where management has become more interested in measuring and acting upon customer "commitment" (willingness to recommend) than merely customer satisfaction. Frankly, it's easier, less complex, and very tempting to measure satisfaction and commitment, especially with one or two questions. But it is not clear just how effective these measures alone are in predicting future growth and profitability.

The OQ is a concept whose time has come, at least

Level of Hierarchy	Measures: Employees	Measures: Customers
Ownership	• % of employees offering ideas on how to improve processes • % of new recruits recommended by existing employees • % of employees testing and recommending new products or services	• % of customers offering constructive complaints • % of new customers recommended by existing customers • % of customer testing and recommending new products or services
Apostle-like viral behaviors	• % of employees recruiting new employees	• % of customers recruiting new customers
Commitment	• % of employees willing to recruit new employees	• % of customers willing to recruit new customers
Loyalty	• Average employee voluntary turnover rates	• Frequency, duration of repurchase
Satisfaction	• Stated level of satisfaction with job	• Stated level of satisfaction with product or service
Trial	• Rate of employee application for and self-selection of job	• Rate of customer trial of products and services
Awareness and curiosity	• Awareness of company as a good place to work	• Brand awareness

Figure 4—The Ownership Hierarchy

for those on the forefront of excellence in achieving results for customers and employees. The technology—particularly that associated with information computing, storage, and communication—both enables measurement and the actions that follow from it.

Wrap-Up: The Ownership Hierarchy

The ownership hierarchy is made up of several customer and employee feelings, attitudes, and behaviors, as shown in Figure 4. It all starts with curiosity on the part of either the customer or employee, which leads to trial of a product, service, or job. While curiosity and trial are the lowest forms of engagement, they are the starting point for what follows. And they have been assuming new forms with the growth of direct marketing and the Internet.

Trial may lead to satisfaction, which in turn fosters loyalty. Loyal customers or employees may be willing to tell others of their "commitment." Commitment can be measured by asking: "Would you refer our company to a potential customer? Or employee?"

The tip of the ownership hierarchy is occupied by customers and employees we call "owners." They not only harbor the feelings and engage in the behaviors characteristic of others in the hierarchy, they also become apostles on behalf of the company, actually influencing others to try its products or services. (Thus the questions, "Have you referred us to a potential customer? "Was your suggestion followed?"). They take on responsibilities of testing new products or services, providing constructive feedback, or providing unsolicited suggestions for new products.

Customers can tell us they're satisfied. They may return again and again to purchase goods or services. They may tell us that they would be willing to recommend our goods or services to their friends. But the ultimate payoff is when they begin to regard themselves as owners willing to bring in new customers and offer constructive complaints, as well as suggestions for ways to improve products and services.

Employees' loyalty may result from a general satisfaction with their jobs. They may be willing to recommend their employer as a great place to work. But until they do it and begin offering ideas about how to improve their jobs, they haven't become true owners.

A new generation of entrepreneurs understands ownership better than its elders. One final story from Rackspace illustrates the point. Several years ago the company was struggling. Its business model, emphasizing low cost and minimum customer contact and service, did not differentiate it from its competitors. When Lanham Napier and his team floated the idea of a higher service model to their investment bankers, they were asked why they would want to do that rather than reducing costs even further.

But they decided to listen to customers instead of their investment bankers. What happened is credited for leading to a complete reorganization of the company. David Bryce, former Head of Customer Relations at Rackspace, tells the story:

> We do email surveys, phone surveys. We have focus groups… We go out and visit customers… They tell us where to go with our product offerings. They tell us where to go with our customer portal… The whole team concept came out of a call with a customer. Back in the early days I grabbed half the people from the support team. We went into the one conference room we had. We called this random customer, put it on speakerphone. The whole team concept came out of that conversation with that customer.

Bryce happened to find a customer able and willing to demonstrate the ultimate act of ownership, contributing suggestions for a new company strategy.