

How to Gain the 'Loyalty Advantage'

Dianne Durkin, one of the speakers at this year's Brand Engagement Conference on May 7-8, reveals what Whole Foods (and other brands) can teach us about loyalty

By Dianne Durkin

What do American Express, Harley-Davidson, Waterford, Ben & Jerry's and Victoria's Secret have in common? They're all companies that sell more than products – they are part of a lifestyle that customers can identify with. Over time, these companies have created a synergistic relationship with their customers, so that the experiences customers have with the product – as well as with the retail stores carrying it, customer service, billing, catalogs and every other touch point – reinforce their belief in the brand and its ability to change, improve, or maintain their quality of life.

KitchenAid, for example, sells mixers, blenders and other small and major appliances. Take a moment sometime and look at its website. Right on the home page, there's a link to "KitchenAid Conversation," an online bulletin board where KitchenAid users are invited to share their experiences, questions and recipes. One of the dozens of forums is called "Inspiring KitchenAid Experiences." Hundreds of people have logged on to read about customers' KitchenAid memories – some of which include generations of loyal users within a single family.

Customer "Jenny P." even asked how she could find paint for her kitchen walls that would match the color of her KitchenAid mixer. After complimenting her enthusiasm, service rep "kitchaidkelly01" told Jenny how to match the color at a paint or hardware store.

Unhappy customers aren't ignored: Defective products are replaced for free within the first year of purchase, and the company has even been known to replace a product long after the warranty has expired.

KitchenAid is a brand that Saatchi & Saatchi CEO Kevin Roberts would call a "lovemark." Roberts, author of *Lovemarks: The Future Beyond Brands*, understands the power of customers' passion in evolving a brand from something they use to something they'd rather not live without.

Creating a lovemark, Roberts says, begins with the simplest of strategies: listening to the customer. Hearing customers' stories about how they use the product and what their experiences have been over time will give you all the information you need to create the experiences they want to have – whether that leads to introducing new technologies into your back-end office systems or rewarding employees who best exemplify your brand and its values.

Passionate Consumers Are Loyal Customers

When organic- and natural-foods supermarket Whole Foods Market opened its new 59,000-square-foot store in New York City's Columbus Circle, eager shoppers were literally lined up around the block waiting to get in.

For groceries.

Manhattan is a mecca for food – fresh, cooked, processed, packaged – hundreds of kinds of foods are available on virtually every street corner. The city has dozens of specialty markets and hundreds of places to buy fresh produce and high-quality groceries.

So what drove Manhattan's famously impatient consumers to wait on line to buy their groceries? What is so special about Whole Foods? We believe that the company exemplifies all the principles of the Loyalty Factor: employee loyalty, customer loyalty and brand loyalty. In making the three work together seamlessly, Whole Foods has achieved the type of loyalty that we would like to see every company achieve.

Whole Foods CEO, President, Chairman and Co-founder John Mackey began his business as a small health food store in Austin, TX. He opened his doors to his first customer in 1978. Today, Whole foods Market is a \$3-plus billion corporation with, at this writing, 26,000 employees and over 150 stores in the U.S., Great Britain and Canada. That makes Whole Foods the largest organic- and natural-foods grocer, not just in the United States, but in the world.

Mackey is passionate about food – food that is good, fresh, ethically raised and, in the case of animals, humanely treated. Journalist Charles Fishman, writing in *Fast Company* magazine, says that Mackey “has done more to improve the quality, sustainability, healthfulness and purity of the food Americans eat – from farm field and barnyard to kitchen table – than anyone else in the past 25 years.”

Mackey's philosophy is to treat people – and animals, and the earth – fairly. (This is similar to Southwest Airlines' embrace of the Golden Rule: Treat others as you would like to be treated.) He believes in sharing information with staff members (called team members) and customers alike, going so far as to invite customers to visit the farms where Whole Foods chickens are raised.

Mackey's passion is shared by his employees. They believe in the company's mission and the value of what they do. As a company document states, “In addition to receiving fair wages and benefits, belief in the value of our work and finding fulfillment in our jobs is a key reason we are a part of Whole Foods Market.”

That statement comes from a manifesto called the “Declaration of Interdependence,” written in 1985 by a group of 60 Whole Foods team members. The Declaration embodies the company's formal mission statement; it has been updated several times, but the essentials have remained the same. The Declaration spells out the company's vision, its goals – including both customer happiness and team member satisfaction – and how it plans to meet those goals. You can find the Whole Foods Declaration of Interdependence on the company website.

It All Begins with Employee Loyalty

In January 2004, Whole Foods employees rated their company as one of *Fortune* magazine's "100 Best Companies to Work For" – for the seventh year in a row. Whole Foods was the only national supermarket retailer named, and one of only 24 companies to make the list every year since it began.

In a company statement, John Mackey underscored the fundamental relationship between satisfied employees and company growth: "My business philosophy since I began this company more than 23 years ago has focused on the fundamental importance of team member happiness. The job of the company's leadership is to empower team members and to help them learn, grow and flourish. Along with our great performance, making the *Fortune* list once again illustrates that our everyday aspirations to be one of the best companies in the country to work for go hand in hand with our business success and shareholder satisfaction."

Whole Foods has a culture of democracy, consensus and open communications. New employees must be approved by a majority of their would-be colleagues; any employee who is curious about how his/her pay relates to that of others can simply open the binder that exists in every store and see who got paid what in the previous year, from John Mackey on down.

Compensation is also democratic, certainly compared to that in most corporations. Top executives earn no more than 14 times the average pay of team members in the retail stores. In addition, employees are eligible to receive stock options, and all but 6% of stock options go to non-executive employees.

As their title indicates, Whole Foods team members operate in teams, with each person sharing responsibility for the group's success. Teams have monthly meetings to discuss such questions as hiring new employees or confirming a hire. Each team's compensation is directly linked to how well that team functions. Each month, team performance is measured in terms of overall productivity; profit-sharing based on those numbers is added directly to each team member's paycheck.

Whole Foods team members also have a fair amount of control over what their store stocks, based on customer preference and even how the store looks; there is no standard Whole Foods blueprint for a store. Rather, each location is designed by a team selected by the regional manager.

The company recognizes the importance of every staffer, even those without customer-facing responsibilities. And it's not just about money – there's mutual respect. The company has instituted a policy of showing appreciation for colleagues. Before a business meeting can end, for example, everyone in the room is asked to mention something he/she appreciates about one of the other people in the meeting.

Loyalty Driving Loyalty

Whole Foods clearly recognizes the link between its employees and the customers they serve – and it recognizes the benefits. As the Declaration of Interdependence states: "We

go to extraordinary lengths to satisfy and delight our customers. We want to meet or exceed their expectations on every shopping trip. We know that by doing so we turn customers into advocates.”

When *Child* magazine sent a panel of experts to evaluate supermarkets throughout the country, it became a very visible advocate for Whole Foods. In July 2003, the magazine named Whole Foods one of America’s 10 top supermarkets for families. The magazine cited the Whole Foods roster of children’s activities; kid-friendly organic food, including applesauce, peanut butter and pudding; the “food safety training” required of all managers; and that no Whole Foods products contained any “preservatives, artificial ingredients, flavorings, additives, or trans fats.”

Customers’ advocacy has a direct impact on the company’s financial results. Same-store sales increased almost 9% in 2003, topping a consistent record of same-store growth every year for the last five years. On average, each Whole Foods store increased its sales by over 40% between 1999 and 2003. As impressive as that is on its own, consider that the rest of the grocery industry posted overall growth of 13% over a similar period. Investors aren’t left out: In May 2004, Forbes.com said that Whole Foods was “among the most attractive healthy-living stocks...its products are healthy, environmentally friendly and highly profitable.”

Loyalty Driving Loyalty

When we look at the three parts of the Loyalty Factor – employee loyalty, which drives customer loyalty, which drives brand loyalty – it’s easy to see how all three pieces work together and often intertwine. Understanding how each element works independently, however, is key to successfully implementing the Loyalty Factor.

Dianne Durkin is the President and Founder of Loyalty Factor LLC, based in Portsmouth, NH. This article is adapted from her book, The Loyalty Advantage, published by AMACOM. To learn more about Durkin, her consulting firm, or The Loyalty Advantage, go to www.loyaltyfactor.com.