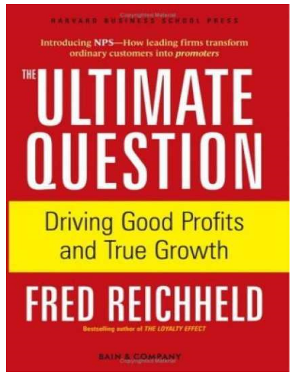
The Ultimate Question

Driving Good Profits and True Growth



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■ The Big Idea

One simple question can determine your company's future. Do you know the answer?

CEOs regularly announce ambitious growth targets, and then fail to achieve them. The reason? Too many companies are addicted to bad profits. These corporate steroids boost short-term earnings but burn out employees and alienate customers. They undermine growth by creating legions of detractors – customers who sully the firm's reputation and switch to competitors at the earliest opportunity.

Now loyalty expert Fred Reichfield shows how to reverse the equation, turning customers into promoters who generate good profits and true, sustainable growth. The key: one simple question – Would you recommend us to a friend? – that allows companies to track promoters and detractors and produces a clear measure of an organization's performance in its customer's eyes.

Analysis shows that, on average, increasing this Net Promoter Score (NPS) by a dozen points versus competitors can double a company's growth rate.

About the Author

Frederick F. Reichheld is a director emeritus of Bain & Company and a Bain Fellow. The author of The Loyalty Effect, his work has been featured in the New York Times, Business Week, and The Economist, and his writings, including several articles in Harvard Business Review and the Wall Street Journal, have been widely published.

Fred Reichfield pioneered the Net Promoter Score (NPS) having presented evidence of a direct causal relationship between brand advocacy and business growth. NPS is not new news but for those who don't know it is the difference between the percentage of those who recommend your brand and the percentage of those who tell others to avoid your brand. This book teaches business how to generate their NPS scores and how to use them to drive profit and growth.

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Why You Need This Book

This practical and compelling book will help you solve your organization's growth dilemma.

HOW THE NET PROMOTER SCORE (NPS) CAN DRIVE GROWTH

A good step is to understand that the lifetime value of an average customer by itself isn't very useful. In fact, promoters and detractors exhibit dramatically different behaviors and produce dramatically different economic results.

The following list describes several factors that distinguish promoters and detractors and offers some tips for estimating their economic efforts on your business.

Retention Rate

Detractors generally defect at higher rates than promoters, which means that they have shorter and less profitable relationships with a company. By tagging customers as promoters or detractors on the basis of their response to the "would recommend" question, you can determine true retention patterns over time and quantify their impact.

Margins

Promoters are usually less price sensitive than other customers because they believe they are getting good value overall from the company. The opposite is true for detractors: they're more price sensitive. You'll need to examine the market basket of goods or services purchased by promoters and detractors over a six to twelve month period and then calculate the margin on each basket, keeping track of discounts and price concessions.

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Annual Spend

Promoters increase their purchases more rapidly than detractors. The reason is that they tend to consolidate more of their category purchases with their favorite supplier. Your share of wallet increases as promoters upgrade to higher priced products and respond to cross-selling efforts. Promoters' interest in new product offerings and brand extensions far exceeds that of detractors or passives.

Cost Efficiencies

Detractors complain more frequently, thereby consuming customer-service resources. Some companies also find that credit losses are higher for detractors. Customers' acquisition costs are also lower for promoters, due to both the longer duration of their relationships and their role in generating referrals.

Word of Mouth

This component of NPS merits a somewhat more detailed consideration because it is so important and because it seems to be the one that stumps most analysts. Begin by quantifying the proportion of new customers who selected your firm because of reputation or referral. The lifetime value of these new customers, including any savings in sales or marketing expense, should be allocated to promoters.

NPS AND MARKET SHARE

NPS leaders recognize the value of market-share leadership. Intuit enjoys 70 percent retail market share or more in its top three businesses, and Southwest Airlines has an 80 percent share of takeoffs and landings at its top twenty-five airports. Enterprise has overwhelming leadership in the home-market sector of car rentals.

But what keeps these firms growing is not their worship of market share; it is their ability to keep their people focused on earning good profits. Good customer relationships not only expand the core business; they open the door for successful extensions into adjacent businesses.

Superior market share is an excellent goal. To achieve it, and to sustain it, you must find a way to track NPS and build better relationships – not only because it is the right thing to do, but because it makes economic sense.

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WHY ESQI WORKS

Enterprise's ESQI system is designed to help frontline managers pursue two objectives: get more top-box ratings and fewer scores of neutral or worse. In the language of this book, the goals are to increase the number of customer promoters and reduce the number of detractors.

Tight Focus

Enterprise commission separate customized research. In effect, the customer survey was transformed from a market-research instrument to a practical scoring tool – an operating system.

Operational Accountability

The organizational process for managing the research was similarly transformed. Since it was line managers who would be relying on the tool, ESQi was moved out of the market research department entirely.

Timelines and High Participation Rates

Enterprise computers regularly upload a random sample of recently closed rental tickets to the survey vendor to ensure that customers are surveyed within a few days of renting a car.

The Closed Loop

Whenever a customer communicates any dissatisfaction on the ESQi survey, the phone rep asks the "would you accept a call" question. More than 90 percent of these customers agree to be called – at which point an e-mail alert, including the customer's phone number and the survey score, is automatically forwarded to the brand involved.

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A Link To The Economics of the Business

Measuring and managing the number of customer promoters created at each brand allows the company to turn word of mouth from a soft benefit into a quantifiable competitive weapon.

Continuous Evolution

Of course, the system is constantly evolving and is much more effective today than it was when it started.

WHY SATISFACTION SURVEYS FAIL

Too many surveys, too many questions. Several companies like long surveys because they seem more profitable. Companies buy long surveys because it seems logical to ask a customer already on the phone a few extra questions. But there are too many surveys, and they are too long to be useful.

The wrong customers respond. Most of the respondents will be people whose priorities don't necessarily match those of the managers making the decisions.

Employees don't know how to take corrective action. Frontline employees, like their customers, rail against long surveys. How can they be expected to respond to the deluge of replies to all those question? Of course, if they did have the time, they would probably be responding to the needs of the wrong customers.

Too many surveys are marketing campaigns in disguise. These phony marketing campaigns have helped destroy the credibility of satisfaction data.

Survey scores don't link to economics. Investors rarely waste money on standard satisfaction survey data, because it hasn't yielded much insight into customer loyalty and growth.

Plain-vanilla solutions can't meet companies' unique needs. Too many companies rely on the cookie-cutter market-research tools hyped by survey vendors. Survey firms hawk these wares not because they are so profitable or so effective – indeed, they get little R&D investment – but because they can lead to customized research projects with higher margins.

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There are no generally accepted standard. The absence of a standard, intuitive system makes it harder for customers to report their feedback consistently and harder for companies to interpret and use it. For the unscrupulous, obfuscation is as easy as creating a unique scale and then modifying it every few years.

Surveys confuse transactions with relationships. Each point of interaction is not equally important to all customers, so some survey protocols require customers to rate how important a given aspect or interaction is and how satisfied they were with each.

Satisfaction surveys dissatisfy customers. Most managers completely forget the Golden Rule when it comes to large scale surveys. They themselves hate to be interrupted at dinner, but they authorize their company to intrude into the lives of millions of their customers.

Gaming and manipulation wreck their credibility. Instead of focusing their energy and creativity on improving customer experiences and relationships, employees get creative about gaming and padding the system.

THE RULES OF MEASUREMENT

You can use these principles to focus attention on the customer throughout your organization and to drive accountability for good customer relationships.

Principle 1: Ask the ultimate question and very little else

The goal of NPS measurement is to generate a highly reliable relationship score. In most businesses, determining the score requires only one question: “How likely is it that you would recommend us to a friend or colleagues?”

Principle 2: Choose a scale that works, and stick to it

The goal of NPS is not purity of research; it is a reliable operating system. The most important message about scales is to pick the one that works best in your business. The best way to tell if your scale works is to test whether it is accurately segmenting your customers into promoters, passives, and detractors, consistent with their behaviors.

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Principle 3: Aim for high response rates from the right customers

Your core customers are those who are the most profitable and whom you would most like to become promoters. When you segment customers in this way, you can develop appropriate and economically rational strategies to improve relationships with them.

Principle 4: Report relationship data as frequently as financial data

Timely measurement has another big advantage: the more often the reports come out, the more chances there are to try out new approaches and tactics to see if these changes improve outcomes.

Principle 5: The More Granular The Data, The More Accountable The Employees

NPS has to be viewed as an operating management tool, not as market research. Line management has to take ownership of the tool and must be held accountable for using it to improve performance.

Principle 6: Audit to Ensure Accuracy and Freedom From Bias

Ironically, the more progress you make toward granular accountability, the more difficult it becomes to gather honest and candid feedback from your customers.

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ONE GOAL, ONE NUMBER

Too many managers have come to believe that increasing shareholder value – their prime directive – requires exploiting customer relationships. So they raise prices whenever they can. They cut back on services or product quality to save costs and boost margins.

Instead of focusing on innovations to improve value for customers, they channel their creativity into finding new ways of extracting value from customers. Some managers, of course, believe they must lie, cheat, and steal to accomplish their ends, often through clever but fraudulent accounting practices. But even honest business people believe they can't afford to be candid with customers or allow the customers into the tent.

In short, companies regard the people who buy from them as their adversaries, to be coerced, milked, or manipulated as the situation permits. The Golden Rule – treat others as you would like to be treated – is dismissed as irrelevant in a competitive world of hardball tactics. Customers are simply a means to an end – fuel for the furnace that forges superior profits.

The fact is, we do not need tighter regulations. There are already plenty on the books. We may not need any more compliance committees or ethics courses, and in any event, it is easy to tune out the truth.

What we do need is a simple and trustworthy feedback process that allows free markets to reward organizations that practice Golden Rule behavior and to punish those that don't. We need one simple, credible number, a number that is gathered and reported on a consistent basis, to gauge how many of a company's customers love it and how many hate it.

We need one number that will encourage executives and everybody who influences their decisions – other employees, investors, customers themselves – to root out unethical policies and bad managers, to fix problems, and to find new ways to delight the people who buy from their organizations.

In short, we need to get serious about gathering and reporting Net Promoter Scores.

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