

The Ultimate Question 2.0

KEY LEARNING SUMMARY

featuring **Fred Reichheld and Rob Markey**

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OVERVIEW

Originally a simple survey question to characterize customer loyalty and predict purchase behavior, the Net Promoter Score (NPS) has evolved into a comprehensive and powerful management system that brings out the best in customers and employees. Companies can differentiate themselves and improve their profitability by adopting the NPS discipline at a strategic and cultural level.

CONTEXT

The co-authors of *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World* described how companies are using the Net Promoter approach to learn, improve, and boost their bottom line.

KEY LEARNINGS

Over time, Net Promoter has evolved from a metric to a movement to a management system.

Working with clients such as GE and Intuit in the early 1990s, consulting firm Bain originally developed the Net Promoter Score (NPS) as a superior way to track and value customer loyalty. “Customer retention” was too backward-looking, and “customer satisfaction” had no connection with loyalty or advocacy. Neither predicted future customer behavior or was linked to company strategy, competitiveness, or profitability.

In a nutshell, NPS asks customers the “ultimate question”: *On a scale from 0 to 10, how likely are you to recommend us to a friend?* High raters (9–10) are “Promoters;” low raters (0–6) are “Detractors;” and those in the middle are “Passives.” The percentage of Promoters minus the percentage of Detractors is a company’s Net Promoter Score.

Comparing a company’s NPS to that of its most relevant competitors yields the Relative NPS (rNPS). Over time, this methodology has demonstrated a strong correlation with customer retention and company profitability. (A five-point improvement in customer retention can produce a 25%–

100% improvement in profits.) For example, one of Phillips’ consumer-products groups sorted its product lines into Laggards, Middles, and Leaders based on their relative NPS. Laggards were losing 5% market share, while Leaders were adding 8%.

Rather than keeping NPS proprietary, Bain published the methodology as an open source tool. As the NPS approach exploded in popularity, users extended its application to employee attitudes: *How likely are you to recommend working here to a friend?* Researching the connection between external customer NPS and internal employee NPS revealed ways that each complemented and drove the other.

For the most successful adopters, NPS is a comprehensive management system that incorporates defined processes, actions, and feedback-driven changes. Senior executives who embrace this continuous-learning mindset leverage NPS to improve market share, profitability, and staff engagement.

“Companies are using the Ultimate Question discipline to change their business culture, to drive real results.”

—Fred Reichheld

This management system, which ties the “Golden Rule” ethic of treating people well to the bottom line, enables companies to significantly differentiate their products and services. Merely satisfying customers via basic products or services delivered as expected gives way to exceptional services or features—or exceptional delivery of ordinary services.

“At its core, this is an ethical and moral framework that most good people want to be part of.”

—Rob Markey

Loyalty leaders share successful implementation practices.

“Loyalty Leaders” such as JetBlue and Apple have developed NPS requirements that are essential to success and have helped them grow faster than their competitors:

- *A reliable outcome metric.* They sort customers (and employees) into Promoters, Passives, and Detractors using a well-understood survey metric that predicts behaviors, financial performance, and economic value.
- *High-velocity/closed-loop feedback, learning, and action.* A response time of 24–48 hours from feedback to follow-up demands robust operational support and processes at every level: individual, team, business, and enterprise. This capability is critical in the era of social media.
- *Strategic prioritization of loyalty.* Investment decisions and applied resources and talent must support loyalty as a top corporate objective. This means aligning company values and principles with actions and communications.

Successful implementers look to NPS for both top-down strategy and bottom-up learning:

- *Top-down competitive positioning.* The goal is to understand and predict business performance through a lens of current and prospective segmented customers. Double-blind competitor research produces rNPS by business, product, and customer segment.
- *Bottom-up direct customer contact.* Absolute NPS (by account, transaction, team, function, and representative) characterizes relationship patterns with important customers and enables fast-cycle, closed-loop feedback. Feedback leads to learning, which leads to action.

Less obvious is that loyalty leaders enjoy a significant cost advantage. They spend less acquiring new customers, experience lower new-customer startup costs, and realize lower credit losses because loyal customers pay them first.

Not every company succeeds with NPS.

Although NPS has transformed how businesses think about customer loyalty, some firms are less successful in creating long-term value from NPS. The most common pitfalls are:

- *Tying monetary incentives to customer feedback scores too soon.* This skips necessary learning and action steps.

- *Waiting too long to establish financial linkages.* Without an explicit connection to profitability and other metrics, long-term NPS loses out to short-term accounting, which is not equipped to track customer lifetime value.
- *Delegating too deep.* Senior executives, including the CEO, must stay involved, and feedback must travel rapidly from the front lines to top management.
- *Installing the system without adequate planning.* Before beginning, a company must understand how it will embed the system’s capabilities throughout its business.

More than anything, organizations should head down the NPS path only if they are ready to embrace fundamental culture change.

“NPS is for companies that are serious about being great.”

—Fred Reichheld

NPS creates a virtuous cycle of sustainable organic growth.

Bain calls it the Net Promoter FlywheelSM: Employee advocates, full of enthusiasm for their work, deliver superior experiences to customers who become advocates/promoters. These promoters create additional growth and opportunity, which stimulates more employee initiative. Both customers and staff are aligned around promoting the company, which boosts overall and per-customer profitability.

NPS can guide systematic differentiation and competitive advantage through this virtuous cycle:

1. Identify the most attractive target segments and understand their needs better than competitors.
2. Design differentially better value propositions.
3. Acquire more new-target customers.
4. Deliver a superior customer experience.
5. Earn a greater share of wallet.
6. Earn customers’ emotional loyalty.

Other Important Points

- **Open source:** For NPS case studies, documentation, training videos, and user forums go to www.netpromotersystem.com.

BIOGRAPHIES

Rob Markey

Partner, Bain & Company

Rob Markey is a partner and director in Bain & Company's New York office and head of the firm's global Customer Strategy & Marketing practice. He joined the firm in 1990, and has led assignments in the financial services, retailing, media, professional services, health care, building equipment, and food processing industries.

As head of the firm's Customer Strategy and Marketing practice, Rob is one of the firm's experts in developing customer loyalty, new product development, and customer service strategies. He has extensive experience with direct marketing, new customer acquisition, and cost reduction for clients in the retail banking, credit card, and insurance businesses.

Rob leads the NPS Loyalty Forum, a group of senior executives from loyalty-leading companies around the world. He has published numerous articles on various aspects of customer experience and loyalty in publications such as the *Harvard Business Review*.

Prior to joining Bain, he developed competitive strategy, led business development, and served in product marketing for LEXIS/NEXIS and IBM Corporation.

Rob earned an MBA from the Harvard Business School. He is a graduate of Brown University, where he received a Bachelor of Arts degree in Economics. Rob helped found and for nearly a decade served on the Board of Directors of City Year New York.

Fred Reichheld

Director, Bain & Company

Fred Reichheld is a director and the founder of Bain & Company's *Loyalty Practice*, specializing in helping clients achieve superior results through improvements in customer, employee, and investor loyalty. His pioneering work in the area of retention has quantified the link between value, loyalty, and profits. According to the *New York Times*, "Mr. Reichheld put loyalty economics on the map." *The Economist* refers to him as the "high priest" of loyalty. In addition, *1to1 Magazine* calls him, "the undisputed king of loyalty." Fred Reichheld is the author of two books and six *Harvard Business Review* articles on the subject of loyalty.

Fred Reichheld takes an old-fashioned concept, loyalty, and shows its current relevance to customer retention and long-term profit growth. This position seems obvious, but its import has been lost amid the rapid turnover in today's business climate. Mr. Reichheld notes that major companies replace half their customers in five years, half their employees in four and a half years, and their investors in less than one year. To counteract this trend, Fred Reichheld recommends loyalty-based management, in which businesses not only make a conscious effort to retain customers but also develop strategies for attracting the kinds who are likely to remain loyal. Fred Reichheld also posits a cause-and-effect relationship between employee and customer loyalty. He makes his point with examples from State Farm, Toyota/Lexus, and others that have improved their bottom lines and insured long-term growth by developing loyalty.

Fred Reichheld argues that loyalty is the fuel that drives financial success but that most organizations are running on empty. Leaders too often confuse profits with purpose, and therefore take the road to short-term gains at the expense of employees, customers, and ultimately, investors. In a business environment that thrives on networks of mutually beneficial relationships, says Fred Reichheld, it is the ability to build strong bonds of loyalty, not short-term profits, that has become the "acid test" of leadership.

Fred Reichheld is a frequent speaker for major business forums, and groups of CEOs and senior executives worldwide. His work has been widely covered in *The Wall Street Journal*, *New York Times*, *Fortune*, *Business Week*, and *The Economist*. Fred Reichheld graduated with honors both from Harvard College and Harvard Business School.

Angelia Herrin (Moderator)

Editor for Research and Special Projects, Harvard Business Review

Angelia Herrin is Editor for Research and Special Projects at Harvard Business Review. At Harvard Business Review, Herrin oversaw the re-launch of the management newsletter line and established the conference and virtual seminar division for Harvard Business Review. More recently, she created a new series to deliver customized programs and products to organizations and associations.

Prior to coming to Harvard Business Review, Herrin was the vice president for content at womenConnect.com, a website focused on women business owners and executives.

Herrin's journalism experience spans twenty years, primarily with Knight-Ridder newspapers and *USA Today*. At Knight-Ridder, she covered Congress, as well as the 1988 presidential elections. At *USA Today*, she worked as Washington editor, heading the 1996 election coverage. She won the John S. Knight Fellowship in Professional Journalism at Stanford University in 1989–90.

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