"The Ultimate Question 2.0"
How NET PROMOTER Companies
Thrive in a Customer-Driven World

Fred Reichheld

Copyright 2011, Fred Reichheld and Bain & Company, Inc..

Summary by Bob Littell, Chief NetWeaver
chiefnetweaver@gmail.com

Testimonials

""NPS [Net Promoter score or system] completely changed our world. It has become an integral part of our process and culture. Now, you couldn't take it away if you tried.

- **Julien Labrousse**, executive vice president and chief product and technology strategist, Logitech

"NPS provides the litmus test for how well we are living up to our core values – it is the first screen I look at when I boot up my computer each morning."

- **Walt Bettinger**, CEO, Charles Schwab

"NPS is the most powerful tool we have ever deployed. The reason is that it is so actionable."

- **Dan Henson**, then chief marketing officer, General Electric

Preface

When I first came across Fred Reichheld over a decade ago, his research had unearthed a fascinating discovery. It showed that there was a single question that could be asked on a customer satisfaction survey, which was predictive of 'growth' across all industries: *"How likely is it that you would recommend this company [product or service] to a colleague or friend?"*

To recommend a **company** (just as applicable to an individual or a product or service) to a friend or colleague actually represents a '**risk**' on the part of the person making it, And so it all boils down to creating *"delighted customers"* who are more than willing to take that risk. But as he sets out in this updated version of the '**Ultimate Question'**:

> *"This lesson has taken on new importance as a quiet revolution sweeps across the business world. The revolution, like many others shaking up the current world order, has been stoked and accelerated by the development of social media tools. Customers and employees blog, tweet, and text about their experiences in real time, overwhelming the carefully crafted messages proffered by advertising and public relations departments. Power is shifting from the corporation to those who buy from it and those who work for it."*

But what this book will do which is so exciting is that after you ask the one Ultimate question "*in a regular, systematic, and timely fashion*", the answers "*will allow you to identify the customers who love it, those who hate it, and those who don't care much one way or the other*". . . ."*Then the company can begin the real work: closing the loop with customers, listening to what they have to say, fixing the problems that led to unhappiness or anger, and creating experiences that lead to more and more delight.*"

And Reichheld goes on to say that even more exciting than the growing number of companies that now monitor their (**NPS**) Net Promoter '**scores**' on a daily basis, or who have grown it into an entire management (**NPS**)'**system**', is that the companies with "*the most impressive growth*". . ."*embody a Net Promoter 'spirit' of leadership, a distinctive philosophy that energizes the system. Leaders who exhibit this spirit believe that the mission of any organization is to enrich the lives it touches – to build relationships worthy of loyalty*."

The Net Promoter score has been embraced now by literally hundreds of companies. Here are but a few:

    Advance Auto Parts, Allianz, American Express, AT&T, Cancer Treatment Centers of America, Charles Schwab, Chick-fil-A, Cisco, Facebook, FranklinCovey, GE Healthcare, General Electric Company, Humana, ING Group, Intuit, JetBlue Airways, LEGO, Lexis Nexus, Macey's, Microsoft, Nike, Nokia, Philips, PWC, Progressive Insurance, SunTrust, Swiss Reinsurance, TD Bank, T-Mobile, Vanguard, Verizon, Zappos and many others.

****

Special Note from your Book Summarizer, Bob Littell

I realized that for many of our DNTRTB book club attendees who tend to be more on the small company - entrepreneurial side, there's a bit of a problem.   As I read this extraordinary book, the Net Promoter scoring system – when done correctly - is complex. And to achieve reliable feedback, the population of individuals providing answers to the surveys must be sufficiently large to be accurate. As Reichheld honestly cautions:

    "*The ideas behind NPS seems so simple and intuitive that executives may be lulled into thinking that implementation will also be simple. It isn't. The companies that have adopted NPS have learned that it takes time and hard work to establish reliable, trustworthy measurements to understand what the scores are telling you, and to create closed loop processes that actually bring about change.*"

And Reichheld says this about the difficulty of implementation:

    "*You'll probably need to put at least as much effort and resources into it as you are currently spending (or squandering) on satisfaction surveys. If true customer centricity is your top priority, you may even need to match the resources you now allocate to generating reliable financials.*"

On the other hand, the concept – the scoring, the system, and the spirit of NPS is so exciting that we will be treating this book summary totally different from the 39 other books I have summarized to date. Our mission will be to brainstorm ways this NPS can be applied at a smaller company level, right down to the one-person consultant or advisor.

I will highlight what I consider to be some of the key points of the System for those who are with companies large enough to tackle the process and do it the right way, or for those who are consulting or advising larger companies, but what I hope to do within our book club meeting and in future book club presentations I make – using this book as our guide – to come up with ways that 'small to medium-sized' companies can utilize the 'heart' of NPS to transform their businesses and to increase the number of '**raving fans'** who want to talk about you and your amazing company wherever they go.

The Problems with the Way Most Companies Measure Profits

In his first chapter **"Bad Profits, Good Profits and the Ultimate Question**", Fred says:

> *Question: why do we want loyal customers?* ***Answer:*** *because loyal **customers come back more often**, **buy additional products and services**, **refer their friends**, **provide valuable feedback**, **cost less to serve**, and are **less price sensitive**. But what leaders track, discuss and manage each day are the financial indicators.. . .Executives and employees know how to meet their immediate financial goals, and they know they will be held accountable for doing so. But customer loyalty and the company's mission, as objectives, are soft, slippery, seemingly impossible to quantify.. . .And so companies, despite the best of intentions, drift into a vortex. They begin making decisions that alienate customers and employees. They spend too much time focusing on the wrong things. They allow themselves to be seduced by the easy lure of what can only be called **bad profits**.*

Fundamental Part of the System

Initially Reichheld developed the NPS with a Zero to 10 Scoring System for persons to answer the "Ultimate Question" – "***How likely is it that you would recommend our company to a friend or associate?***" And although companies vary somewhat on how they divide the three respondee groups or the scale they use (e.g. 0-5), perhaps the most common scale looks like this:
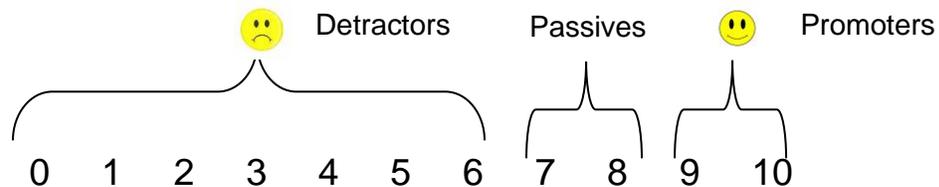
Then by taking the percentage of Raving Fans, and Subtracting that figure from the percentage of Detractors, you arrive at a Net Promoter Score. So for example, if the percentage of Raving Fan Promoters was calculated to be 60% and the percentage of Detractors was 20%, the Net Promoter Score would be 40.

Industry leaders across almost every segment measured have been proven to also have higher Net Promoter Scores than their competitors. This includes companies like Apple retail, Costco, Vanguard, TD Bank, and Chick-fi-A.

It makes common sense why "customer **loyalty**" is so important to business growth and success, but on page 67- 70, Reichheld reminds us of some of the reasons:

"*Retention rate. Detractors generally defect at higher rates than promoters, which means that they have shorter and less profitable relationships with the company.*"

Not only this but Reichheld says that you can ". . .*determine actual retention patterns over time and quantify their impact. You can estimate the average tenure of your current population of detractors and promoters even before gathering the time-series data. Just ask them on the same survey with the 'would recommend' question how long they've been customers, and then use this average tenure to infer likely retention patterns.*"

"*Pricing. Promoters are usually less price sensitive than other customers. . . They want your business to prosper. The opposite is true for detractors; they're often more price sensitive to begin with, and they have no interest in helping keep your business healthy.*"

"*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 or services and respond with enthusiasm to new product or service offerings.*"

"*Cost efficiencies. Detractors complain more frequently, thereby consuming customer-service resources. . . Finally, perhaps the biggest productivity boosters that should be allocated to promoters – albeit the ones more difficult to quantify – are the positive energy and morale boost in the frontline employees who receive their positive feedback. That produces another round of productivity improvement cost savings from lower employee turnover.*"

"*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 (by survey if necessary) the proportion of new customers who selected your firm because of reputation or referral. For those customers who cite more than one reason for selecting your company, estimate the importance of the referral or reference in their decision.*"
. . ."Keep in mind that referred customers usually have superior economics themselves; they also have a higher propensity to become promoters, which accelerates the positive spirit of referrals. . . . ."Detractors meanwhile, are responsible for 80 to 90 percent of the negative word of mouth, and the cost of this drag on growth should be allocated to them.". . .".. .it's safe to assume that each negative comment neutralizes from three to ten positives."

I purposely went into more detail on each of these points that Fred makes because each of these categories applies as much to a one-person operation as it does to a Fortune 500 company, especially the importance of 'word-of-mouth' promoters.

So how should we approach the NPS system for a one-person service business or a small to medium-sized business. I'm going to simply start throwing out ideas which you can consider and ones that we can discuss at any of the "Don't Need to Read the Book" book club events where we're using this book.

Possible ways for Small to Medium-Sized Companies to use the NPS System

1. In the formal system, Step 1 of the process is to calculate the lifetime value of an 'average customer'. Without going to www.netpromotersystem.com where you can find a series of resources to make the calculation if you're with a large company, but for our purposes, you should be able to make some rough estimates of this for all three categories: Promoters, Passives, and Detractors. Maybe that would allow you to estimate the 'difference' in value to you of a Promoter vs. a Detractor, and that would make you more likely to be selective about who you took on as a customer up front, or possibly encourage you to 'fire' some of you problem clients/customers who do you more harm than good.

    All of the categories shown above can be used to make your estimate.

2. So now the key question for smaller companies is how do we go about asking the **Ultimate Question**: "*On a scale of Zero to 10, how likely is it that you would recommend our company (or 'me') (or our product/service) to friend or colleague?"*

    "What is your primary reason for the score you just gave?"

    Ask only those two questions and fight the urge to load in many others questions.

- How do we decide WHO to ask – which customers/clients?

- How do we do it in ways to avoid bad or erroneous answers and feedback?

- Is there a way to set up a recorded phone call-in number where you could have people call in and anonymously give their response? Could you set up a "**Net Promoter Score**" feedback website for your company where you guarantee that all of the responses are anonymous and none of the information is retained unless they WISH to be identified.

    Fred pointed out to me when I sent him the draft of my summary for approval that there are actually two websites that have been created with smaller companies in mind. One of them: www.promoter.io still looks to be for much larger companies, but www.Delighted.com is one that you will want to check out.

- How do you word the email that goes out explaining why you are doing this and are there ways to increase the response rate, especially that you are getting feedback from a good cross-section and as high a response rate from all to whom you send it. Fred says this about that:

    "The goal of NPS surveying, remember, isn't just to research attitudes; it's to sort customers into categories that predict hard quantifiable behaviors. You want to know precisely how many customers are promoters, detractors, and passives, along with   why and how those numbers vary over time. So you can't rely on a small sampling of customers; you need large

samples or, better yet, a complete census. You also need   a high response rate to ensure reliability."

In conclusion, as a one-person operation, or a small to even medium-sized company, what are the advantages of taking the time, money, and effort to build such a system, and is it really worth it to me?

Here are just a few of the advantages I could see for a small group of us to share approaches that we would take to experiment with an NPS for small companies:

1. Your promoters are 'raving fans' and the more you understand what they like best about you and how you treat them, will give you other ideas for how to attract more just like them.

2. Some of these raving fans will not want to be 'anonymous'. They will want to let you use their testimonials for use in marketing.

3. If you can discover ways to move more 'Passives' who are pretty 'neutral' to become "Promoters", it will have been well worth it.

4. Some of your invisible "Detractors" may come out in the open and if you can understand their dissatisfaction, you may very well turn a few of them into Promoters because you took the time to ask for their feedback. You may also discover flaws in your system or service that can be corrected because sometimes your best clients won't tell you.

5. We can report our little project to Fred Reichheld and maybe he will want to turn it into his NEXT book, "***The Ultimate Question - 2.0 lite***"

I strongly recommend that you do purchase this book and make it part of your library. Much of the book is dedicated to telling stories of how various companies have implemented NPS; some of the mistakes they made up front, and how they have used it to become leaders in their industry.