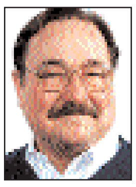
# Reichheld's NPS deserves b-to-bers' attention

MARKETING TO BUSINESS



By Bob Donath

Could it be that a "magic metric" for business marketing accountability really exists: a single, powerful diagnostic measure that will predict performance and indicate how to achieve more growth, all the while being elegantly simple? To avoid the risk of sounding like a fan of cold fusion or perpetual motion machines, I'll give the notion only a "maybe." But having seen the recent work of Fred Reichheld—long considered, as *The Economist* dubbed him, the "High Priest of Loyalty"—make that a very strong "maybe." His Net Promoter Score (NPS) concept, which has been winning devotees in business-to-consumer marketing in recent years, seems to work well in at least some business-to-business markets. Apparently, it deserves a close look by just about all of us in b-to-b.

NPS looks like a no-brainer. A company's revenue and profit growth positively correlate with the degree to which its rabidly happy customers outnumber the customers who hate it. That's the scary part. In these days of complex and expensive satisfaction studies, projective research techniques, ROMI models and tortuous predictive algorithms, can a valid marketing diagnostic be so obvious? More incredible, can NPS be the *single* most important metric for steering the enterprise—the key to predicting endorsements, retention, repurchases and larger shares of wallet—as Reichheld claims?

The reassuring part is that NPS seems to have proven itself in consumer markets, and venturesome business marketers who are trying NPS methods apparently like them. To spread that word, Reichheld, director emeritus at Boston-based consulting firm Bain & Co., brought executives from a top customer satisfaction research firm and a global business market leader with him to address a recent conference of the Institute for the Study of Business Markets, which is based at Penn State's University Park main campus.

For example, no less a business leader than General Electric CEO Jeff Immelt endorses the NPS concept, Reichheld boasted, quoting Immelt as saying, "This is the best customer relationship metric I've ever seen." GE has made NPS an element in executive compensation, Reichheld added, asserting that "NPS is at least as significant for GE as is Six Sigma, and maybe more so, because it gets at not just efficiency and driving down cost, it gets at organic growth, which is the most challenging objective for a b-to-b firm like GE."

Aggreko plc, the Glasgow, Scotland-based, £1 billion worldwide leader in rental power generation, temperature control and air compression equipment, has for six months enthusiastically harnessed NPS and the marketing disciplines tied to the scores to give instant performance feedback to regional, country and local managers, who are expected to fix customer problems immediately. "It has changed how we think and manage our business," Simon Lyons, global head of communications and marketing, told the ISBM gathering.

Aggreko uses Satmetrix Systems Inc., the research software and analysis firm with extensive experience in Net Promoter scoring (Reichheld sits on its board), to manage its NPS data. The researcher, located in Foster City, Calif., markets its own Net Promoter program, providing the metrics and the training so firms can best use them, Richard Owen, president and CEO, explained to ISBM's members. "It's a lot like Six Sigma," he declared. "It's a rallying point for serious organizational practices."

**Some background**

The rallying in business and consumer markets alike evidently began more than two years ago when Reichheld, the leading light in loyalty and customer retention management, introduced NPS to the business world with an appropriately titled, very accessible *Harvard Business Review* article, "The One Number You Need to Grow" (December 2003 issue). Noting how complex customer satisfaction research often fails to predict behavior well, Reichheld and Satmetrix asked consumers a variety of satisfaction-related questions and compared results with respondents' subsequent repurchase and referral behavior.

The question that best predicted behavior was, "How likely is it that you would recommend (company X) to a friend or colleague?" Referrals, after all, are the sincerest of compliments. And a buyer can recommend any supplier, even if locked into buying from a certain supplier. The worst predictor? Asking, "How satisfied are you with company X's overall performance," Reichheld reported.

Asking respondents to reply on a 10-point scale, Reichheld explained, yields the percentage of promoters who are the company's referral assets (scoring 9 to 10), the indifferent customers with weak loyalty, if any, to the company (scoring 7 to 8) and the detractors (scoring 0 to 6) who, Reichheld said, "constantly complain, drive your staff nuts and hate you." Subtract the detractor percentage from the promoter percentage to get the Net Promoter Score.

NPS can be a better metric for business marketers than customer retention, a widely used loyalty metric that Reichheld has refined in the many years of consulting and writing that earned him warm and glowing praise from *The New York Times*: "He put loyalty economics on the map." Individual managers in a customer business could be locked into contracts or otherwise forced to stay with a supplier they might detest, the logic goes.

**Response good and bad**

What about nonrespondents, typically the vast majority of those sampled in most customer surveys, who marketers like to ignore when they extrapolate received responses? The NPS pros have harsh advice: Treat nonresponders like dissatisfied customers. "Nonrespondents do matter," insisted Owen, the researcher. "The best you can say is that they're neutral. But they don't think you're important enough to respond to."

Companies receiving lower response rates generally have lower percentages of promoters, he continued. "Low response rates, 25% or less, are caused by surveying people who

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don't care about you. Nonresponse should be viewed as a 'red flag' that the relationship may be at risk," he advised. "Never ask someone for an opinion unless you're prepared to accept a nonresponse as a dissatisfied customer."

Reichheld likes to tell case history stories about iconic marketing leaders who've embraced NPS, a growing list with the likes of Southwest Airlines and Enterprise Rent-A-Car, Harley-Davidson, Cisco and American Express, to retailer Petsmart, which reversed its fortunes as NPS guided a new value proposition aimed at a previously unseen but powerful market segmentation. Those firms, earning Net Promoter Scores ranging from 50% to 80%+, learned to earn "good profits" by treating customers right rather than "bad profits" from the bone-headed customer turn-offs companies inflict on their markets, Reichheld pointed out. (Please see my take on such stupidity, in my Feb. 1, 2006, column, "New metric RODI negatively affects ROMI," page 8.)

**Doable in b-to-b**

Despite its simplicity, however, NPS isn't that easy to use properly, Reichheld, Owen and Lyons cautioned. They recommended pilot testing as essential—perhaps a couple of years' worth—before NPS trend lines become stable enough and understood enough in an organization to be acceptable in a compensation formula. But implementing NPS "is completely doable," Reichheld assured his ISBM audience. His latest book, *The Ultimate Question: Driving Good Profits and True Growth*, published this spring by Harvard Business School Press, lays it all out for managers, Reichheld promises.

The big question here is whether NPS programs can work with large business customers where many people in an organization influence decision-makers and suppliers' relatively small customer rosters defy reliable proportional sampling. Reichheld, Owen and Lyons shared some tips:

◆ Business marketers should strive for a census, not a sample, in order to hear from all customers.

◆ Sample stratification helps to boost response, perhaps as high as 75+%, and helps to capture what could be differing opinions from individuals with different perspectives in the same company: the CEO vs. the CIO, for example.

◆ Beware of respondents who aren't decision-makers or purchase influencers because they might be too junior in the organization.

◆ Quickly following up with promoters and detractors thanks your best customers, diagnoses problems with your unhappiest customers and shows them all that your company cares. After all, the logic behind loyalty and referrals rests on the virtue of treating people right.

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◆ Avoid oversurveying customer personnel. Balance survey waves across different purchasing influencers.

◆ In business settings, a surveyed user might not be able or know enough about alternatives to reliably recommend one supplier over another. To determine substitute measures that might work better in a given industry, ask several questions, such as which company "sets the standard of excellence" or which "deserves your loyalty," during pilot testing and see which best predicts subsequent behavior.

**Implementation obstacles**

If NPS is as powerful a predictive tool as its proponents claim, a metric that rallies organizations to greatness and a holy grail of marketing management, why isn't it top-of-the-charts on the business publishing and seminar circuit—or at the very least a management fad? It seems to me that it's still early in the game, and that broad interest will skyrocket with Reichheld's new book. But Reichheld himself confesses that he sees darker forces in the way.

Reichheld's *HBR* article badly scarred the image of satisfaction research firms making big fees off complex surveys and "black box" analyses. He demonstrated how a single, clear question trumps their arcana. That imperils their profits in the short term and their careers in the long term. In-house researchers and the marketers long staking their reputations on conventional customer studies resist demystification of their craft.

But Reichheld also blames our society's overall business culture. Despite the intuitive and statistical evidence linking loyalty to growth, managements remain fixated solely on financial metrics. "The accountants have made us oblivious to what drives growth," he laments. Because so many companies persist with dysfunctional practices that earn "bad profits," he reasoned, "No wonder people think loyalty is a joke, that companies take advantage of their customers." ■

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