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The One Number You Need to Grow

by Frederick F. Reichheld

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Product 5534

The One Number You Need to Grow

The Idea in Brief

Many companies—striving for unprecedented growth by cultivating intensely loyal customers—invest lots of time and money measuring customer satisfaction. But most of the yardsticks they use are complex, yield ambiguous results, and don't necessarily correlate to profits or growth.

The good news is: you don't need expensive surveys and complex statistical models. You only have to ask your customers one question: "How likely is it that you would recommend our company to a friend or colleague?" The more "promoters" your company has, the bigger its growth.

Why is willingness to promote your company such a strong indicator of loyalty—and growth? Because when customers recommend you, they're putting *their* reputations on the line. And they'll take that risk only if they're intensely loyal.

By asking this one question, you collect simple and timely data that correlate with growth. You also get responses you can easily interpret and communicate. Your message to employees—"Get more promoters and fewer detractors"—becomes clear-cut, actionable, and motivating, especially when tied to incentives.

The Idea in Practice

CALCULATING YOUR NET-PROMOTER SCORE

Asking a statistically valid sample of customers "How likely is it that you would recommend our company to a friend or colleague?" enables you to calculate your net-promoter score: the ratio of promoters to detractors.

Based on their responses on a 0 to 10 rating scale, group your customers into "promoters" (9–10 rating—extremely likely to recommend), "passively satisfied" (7–8 rating), and "detractors" (0–6 rating—extremely unlikely to recommend). Then subtract the percentage of detractors from the percentage of promoters. Companies that garner world-class loyalty receive net-promoter scores of 75% to more than 80%.

USING YOUR NET-PROMOTER SCORE

Your net-promoter score provides valuable insights into how to get more promoters and fewer detractors. For example, compare your company's scores region to region, branch to branch, sales rep to sales rep, and customer segment to customer segment. Uncover root causes of differences and share best practices from your highest-scoring groups. Also survey your *competitors'* customers using the same method. How does your company stack up against the very high bar of 75% to 80% net-promoter score?

MOTIVATING CHANGE

Use your score to send a clear message to managers and employees about the importance of promoters—and the dangers of detractors. Consider these guidelines:

- Be sure that everyone in the company knows which customers they're responsible for. Then ensure that all business functions—not just market research—own and accept the survey process and results.
- Make your scores transparent throughout your organization. Present employees with

numbers from a previous week (or day) showing the percentages (and names) of customers who are promoters, passively satisfied, and detractors.

Then issue the managerial charge: "We need more promoters and fewer detractors in order to grow." Explain the dangers of detractors: if your new-customer flow can't keep up with leaks in your customer bucket, marketing costs will mount and cash flow decline.

- Create a sense of urgency by tying rewards to score improvement—giving customers, in essence, veto power over raises and promotions.
- ▶ Example:
By making field managers ineligible for promotion unless their branch or group of branches matches or exceeds the company's average net-promoter scores, Enterprise Rent-A-Car has seen its survey scores rise—and its growth increase relative to its rivals.

If growth is what you're after, you won't learn much from complex measurements of customer satisfaction or retention. You simply need to know what your customers tell their friends about you.

The One Number You Need to Grow

by Frederick F. Reichheld

The CEOs in the room knew all about the power of loyalty. They had already transformed their companies into industry leaders, largely by building intensely loyal relationships with customers and employees. Now the chief executives—from Vanguard, Chick-fil-A, State Farm, and a half-dozen other leading companies—had gathered at a daylong forum to swap insights that would help them further enhance their loyalty efforts. And what they were hearing from Andy Taylor, the CEO of Enterprise Rent-A-Car, was riveting.

Taylor and his senior team had figured out a way to measure and manage customer loyalty without the complexity of traditional customer surveys. Every month, Enterprise polled its customers using just two simple questions, one about the quality of their rental experience and the other about the likelihood that they would rent from the company again. Because the process was so simple, it was fast. That allowed the company to publish ranked results for its 5,000 U.S. branches within days, giving the offices real-time feedback on how

they were doing and the opportunity to learn from successful peers.

The survey was different in another important way. In ranking the branches, the company counted only the customers who gave the experience the highest possible rating. That narrow focus on enthusiastic customers surprised the CEOs in the room. Hands shot up. What about the rest of Enterprise's customers, the marginally satisfied who continued to rent from Enterprise and were necessary to its business? Wouldn't it be better to track, in a more sophisticated way, mean or median statistics? No, Taylor said. By concentrating solely on those most enthusiastic about their rental experience, the company could focus on a key driver of profitable growth: customers who not only return to rent again but also recommend Enterprise to their friends.

Enterprise's approach surprised me, too. Most customer satisfaction surveys aren't very useful. They tend to be long and complicated, yielding low response rates and ambiguous implications that are difficult for operating man-

agers to act on. Furthermore, they are rarely challenged or audited because most senior executives, board members, and investors don't take them very seriously. That's because their results don't correlate tightly with profits or growth.

But Enterprise's method—and its ability to generate profitable growth through what appeared to be quite a simple tool—got me thinking that the company might be on to something. Could you get similar results in other industries—including those seemingly more complex than car rentals—by focusing only on customers who provided the most enthusiastic responses to a short list of questions designed to assess their loyalty to a company? Could the list be reduced to a single question? If so, what would that question be?

It took me two years of research to figure that out, research that linked survey responses with actual customer behavior—purchasing patterns and referrals—and ultimately with company growth. The results were clear yet counterintuitive. It turned out that a single survey question can, in fact, serve as a useful predictor of growth. But that question isn't about customer satisfaction or even loyalty—at least in so many words. Rather, it's about customers' willingness to recommend a product or service to someone else. In fact, in most of the industries that I studied, the percentage of customers who were enthusiastic enough to refer a friend or colleague—perhaps the strongest sign of customer loyalty—correlated directly with differences in growth rates among competitors.

Certainly, other factors besides customer loyalty play a role in driving a company's growth—economic or industry expansion, innovation, and so on. And I don't want to overstate the findings: Although the “would recommend” question generally proved to be the most effective in determining loyalty and predicting growth, that wasn't the case in every single industry. But evangelistic customer loyalty is clearly one of the most important drivers of growth. While it doesn't guarantee growth, in general profitable growth can't be achieved without it.

Furthermore, these findings point to an entirely new approach to customer surveys, one based on simplicity that directly links to a company's results. By substituting a single question—blunt tool though it may appear to be—

for the complex black box of the typical customer satisfaction survey, companies can actually put consumer survey results to use and focus employees on the task of stimulating growth.

Loyalty and Growth

Before I describe my research and the results from a number of industries, let's briefly look at the concept of loyalty and some of the mistakes companies make when trying to measure it. First, a definition. Loyalty is the willingness of someone—a customer, an employee, a friend—to make an investment or personal sacrifice in order to strengthen a relationship. For a customer, that can mean sticking with a supplier who treats him well and gives him good value in the long term even if the supplier does not offer the best price in a particular transaction.

Consequently, customer loyalty is about much more than repeat purchases. Indeed, even someone who buys again and again from the same company may not necessarily be loyal to that company but instead may be trapped by inertia, indifference, or exit barriers erected by the company or circumstance. (Someone may regularly take the same airline to a city only because it offers the most flights there.) Conversely, a loyal customer may not make frequent repeat purchases because of a reduced need for a product or service. (Someone may buy a new car less often as he gets older and drives less.)

True loyalty clearly affects profitability. While regular customers aren't always profitable, their choice to stick with a product or service typically reduces a company's customer acquisition costs. Loyalty also drives top-line growth. Obviously, no company can grow if its customer bucket is leaky, and loyalty helps eliminate this outflow. Indeed, loyal customers can raise the water level in the bucket: Customers who are truly loyal tend to buy more over time, as their incomes grow or they devote a larger share of their wallets to a company they feel good about.

And loyal customers talk up a company to their friends, family, and colleagues. In fact, such a recommendation is one of the best indicators of loyalty because of the customer's sacrifice, if you will, in making the recommendation. When customers act as references, they do more than indicate that they've received good economic value from a company; they

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put their own reputations on the line. And they will risk their reputations only if they feel intense loyalty. (Note that here, too, loyalty may have little to do with repeat purchases. As someone's income increases, she may move up the automotive ladder from the Hondas she has bought for years. But if she is loyal to the company, she will enthusiastically recommend a Honda to, say, a nephew who is buying his first car.)

The tendency of loyal customers to bring in new customers—at no charge to the company—is particularly beneficial as a company grows, especially if it operates in a mature industry. In such a case, the tremendous marketing costs of acquiring each new customer through advertising and other promotions make it hard to grow profitably. In fact, the only path to profitable growth may lie in a company's ability to get its loyal customers to become, in effect, its marketing department.

The Wrong Yardsticks

Because loyalty is so important to profitable growth, measuring and managing it make good sense. Unfortunately, existing approaches haven't proved very effective. Not only does their complexity make them practically useless to line managers, but they also often yield flawed results.

The best companies have tended to focus on customer retention rates, but that measurement is merely the best of a mediocre lot. Retention rates provide, in many industries, a valuable link to profitability, but their relationship to growth is tenuous. That's because they basically track customer defections—the degree to which a bucket is emptying rather filling up. Furthermore, as I have noted, retention rates are a poor indication of customer loyalty in situations where customers are held hostage by high switching costs or other barriers, or where customers naturally outgrow a product because of their aging, increased income, or other factors. You'd want a stronger connection between retention and growth before you went ahead and invested significant money based only on data about retention.

An even less reliable means of gauging loyalty is through conventional customer-satisfaction measures. Our research indicates that satisfaction lacks a consistently demonstrable connection to actual customer behavior and growth. This finding is borne out by the short

shrift that investors give to such reports as the American Consumer Satisfaction Index. The ACSI, published quarterly in the *Wall Street Journal*, reflects the customer satisfaction ratings of some 200 U.S. companies. In general, it is difficult to discern a strong correlation between high customer satisfaction scores and outstanding sales growth. Indeed, in some cases, there is an inverse relationship; at Kmart, for example, a significant increase in the company's ACSI rating was accompanied by a sharp decrease in sales as it slid into bankruptcy.

Even the most sophisticated satisfaction measurement systems have serious flaws. I saw this firsthand at one of the Big Three car manufacturers. The marketing executive at the company wanted to understand why, after the firm had spent millions of dollars on customer satisfaction surveys, satisfaction ratings for individual dealers did not relate very closely to dealer profits or growth. When I interviewed dealers, they agreed that customer satisfaction seemed like a reasonable goal. But they also pointed out that other factors were far more important to their profits and growth, such as keeping pressure on salespeople to close a high percentage of leads, filling showrooms with prospects through aggressive advertising, and charging customers the highest possible price for a car.

In most cases, dealers told me, the satisfaction survey is a charade that they play along with to remain in the good graces of the manufacturer and to ensure generous allocations of the hottest-selling models. The pressure they put on salespeople to boost scores often results in postsale pleading with customers to provide top ratings—even if they must offer something like free floor mats or oil changes in return. Dealers are usually complicit with salespeople in this process, a circumstance that further degrades the integrity of these scores. Indeed, some savvy customers negotiate a low price—and then offer to sell the dealer a set of top satisfaction survey ratings for another \$500 off the price.

Figuring out a way to accurately measure customer loyalty and satisfaction is extremely important. Companies won't realize the fruits of loyalty until usable measurement systems enable firms to measure their performance against clear loyalty goals—just as they now do in the case of profitability and quality goals.

By substituting a single question for the complex black box of the typical customer satisfaction survey, companies can actually put consumer survey results to use and focus employees on the task of stimulating growth.

For a while, it seemed as though information technology would provide a means to accurately measure loyalty. Sophisticated customer-relationship-management systems promised to help firms track customer behavior in real time. But the successes thus far have been limited to select industries, such as credit cards or grocery stores, where purchases are so frequent that changes in customer loyalty can be quickly spotted and acted on.

Getting the Facts

So what would be a useful metric for gauging customer loyalty? To find out, I needed to do something rarely undertaken with customer surveys: Match survey responses from individual customers to their actual behavior—repeat purchases and referral patterns—over time. I sought the assistance of Satmetrix, a company that develops software to gather and analyze real-time customer feedback—and on whose board of directors I serve. Teams from Bain also helped with the project.

We started with the roughly 20 questions on the Loyalty Acid Test, a survey that I designed four years ago with Bain colleagues, which does a pretty good job of establishing the state of relations between a company and its customers. (The complete test can be found at http://www.loyaltyrules.com/loyaltyrules/acid_test_customer.html.) We administered the test to thousands of customers recruited from public lists in six industries: financial services, cable and telephony, personal computers, e-commerce, auto insurance, and Internet service providers.

We then obtained a purchase history for each person surveyed and asked those people to name specific instances in which they had referred someone else to the company in question. When this information wasn't immediately available, we waited six to 12 months and gathered information on subsequent purchases and referrals from those individuals. With information from more than 4,000 customers, we were able to build 14 case studies—that is, cases in which we had sufficient sample sizes to measure the link between survey responses of individual customers of a company and those individuals' actual referral and purchase behavior.

The data allowed us to determine which survey questions had the strongest statistical correlation with repeat purchases or referrals. We hoped that we would find at least one question for each industry that effectively predicted such behaviors, which can drive growth. We found something more: One question was best for *most* industries. "How likely is it that you would recommend [company X] to a friend or colleague?" ranked first or second in 11 of the 14 cases studies. And in two of the three other cases, "would recommend" ranked so close behind the top two predictors that the surveys would be nearly as accurate by relying on results of this single question. (For a ranking of the best-scoring questions, see the sidebar "Ask the Right Question.")

These findings surprised me. My personal bet for the top question (probably reflecting the focus of my research on employee loyalty in recent years) would have been "How strongly do you agree that [company X] deserves your loyalty?" Clearly, though, the abstract concept of loyalty was less compelling to customers than what may be the ultimate act of loyalty, a recommendation to a friend. I also

Ask the Right Question

As part of our research into customer loyalty and growth, my colleagues and I looked for a correlation between survey responses and actual behavior—repeat purchases, or recommendations to friends and peers—that would ultimately lead to profitable growth. Based on information from 4,000 consumers, we ranked a variety of survey questions according to their ability to predict this desirable behavior. (Interestingly, creating a weighted index—based on the responses to multiple questions and taking into account the relative effectiveness of those questions—provided insignificant predictive advantage.)

The top-ranking question was far and away the most effective across industries:

- How likely is it that you would recommend [company X] to a friend or colleague?

Two questions were effective predictors in certain industries:

- How strongly do you agree that [company X] deserves your loyalty?
- How likely is it that you will continue to purchase products/services from [company X]?

Other questions, while useful in a particular industry, had little general applicability:

- How strongly do you agree that [company X] sets the standard for excellence in its industry?
- How strongly do you agree that [company X] makes it easy for you to do business with it?
- If you were selecting a similar provider for the first time, how likely is it that you would choose [company X]?
- How strongly do you agree that [company X] creates innovative solutions that make your life easier?
- How satisfied are you with [company X's] overall performance?

expected that “How strongly do you agree that [company X] sets the standard for excellence in its industry?”—with its implications of offering customers both economic benefit and fair treatment—would prove more predictive than it did. One result did not startle me at all. The question “How satisfied are you with [company X’s] overall performance?” while relevant in certain industries, would prove to be a relatively weak predictor of growth.

So my colleagues and I had the right question—“How likely is it that you would recommend [company X] to a friend or colleague?”—and now we needed to develop a scale to score the responses. This may seem somewhat trivial, but, as statisticians know, it’s not. Making customer loyalty a strategic goal that managers can work toward requires a scale as simple and unambiguous as the question itself. The right one will effectively divide customers into practical groups deserving different attention and organizational responses. It must be intuitive to customers when they assign grades and to employees and partners responsible for interpreting the results and taking action. Ideally, the scale would be so easy to understand that even outsiders, such as investors, regulators, and journalists, would grasp the basic messages without needing a handbook and a statistical abstract.

For these reasons, we settled on a scale where ten means “extremely likely” to recommend, five means neutral, and zero means “not at all likely.” When we examined customer referral and repurchase behaviors along this scale, we found three logical clusters. “Promoters,” the customers with the highest rates of repurchase and referral, gave ratings of nine or ten to the question. The “passively satisfied” logged a seven or an eight, and “detractors” scored from zero to six.

By limiting the promoter designation to only the most enthusiastic customers, we avoided the “grade inflation” that often infects traditional customer-satisfaction assessments, in which someone a molecule north of neutral is considered “satisfied.” (This was the danger that Enterprise Rent-A-Car avoided when it decided to focus on its most enthusiastic customers.) And not only did clustering customers into three categories—promoters, the passively satisfied, and detractors—turn out to provide the simplest, most intuitive, and best predictor of customer behavior; it also made

sense to frontline managers, who could relate to the goal of increasing the number of promoters and reducing the number of detractors more readily than increasing the mean of their satisfaction index by one standard deviation.

The Growth Connection

All of our analysis to this point had focused on customer survey responses and how well those linked to customers’ referral and repurchase behavior at 14 companies in six industries. But the real test would be how well this approach explained relative growth rates for all competitors in an industry—and across a broader range of industry sectors.

In the first quarter of 2001, Satmetrix began tracking the “would recommend” scores of a new universe of customers, many thousands of them from more than 400 companies in more than a dozen industries. In each subsequent quarter, they then gathered 10,000 to 15,000 responses to a very brief e-mail survey that asked respondents (drawn again from public sources, not Satmetrix’s internal client customer lists) to rate one or two companies with which they were familiar. Where we could obtain comparable and reliable revenue-growth data for a range of competitors, and where there were sufficient consumer responses, we plotted each firm’s net promoters—the percentage of promoters minus the percentage of detractors—against the company’s revenue growth rate.

The results were striking. In airlines, for example, a strong correlation existed between net-promoter figures and a company’s average growth rate over the three-year period from 1999 to 2002. Remarkably, this one simple statistic seemed to explain the relative growth rates across the entire industry; that is, no airline has found a way to increase growth without improving its ratio of promoters to detractors. That result was reflected, to a greater or lesser degree, in most of the industries we examined—including rental cars, where Enterprise enjoys both the highest rate of growth and the highest net-promoter percentage among its competitors. (See the exhibit “Growth by Word of Mouth.”)

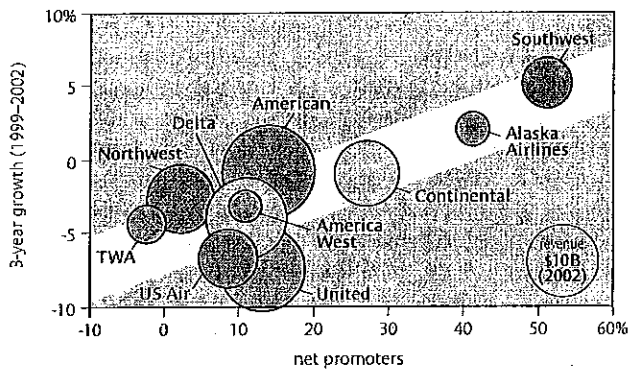
The “would recommend” question wasn’t the best predictor of growth in every case. In a few situations, it was simply irrelevant. In database software or computer systems, for instance, senior executives select vendors, and

The only path to profitable growth may lie in a company’s ability to get its loyal customers to become, in effect, its marketing department.

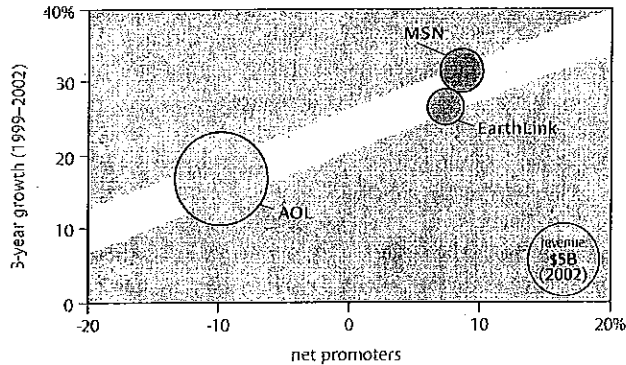
Growth by Word of Mouth

RESEARCH SHOWS THAT, in most industries, there is a strong correlation between a company's growth rate and the percentage of its customers who are "promoters"—that is, those who say they are extremely likely to recommend the company to a friend or colleague. (The net-promoter figure is calculated by subtracting the percentage of customers who say they are unlikely to make a recommendation from the percentage who say they are extremely likely to do so.) It's worth noting that the size of companies has no relationship to their net-promoter status.

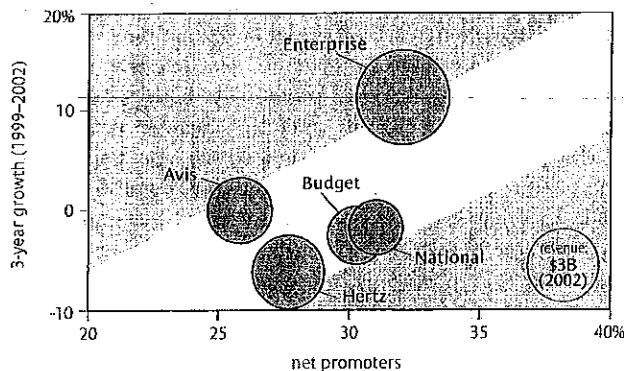
Airlines



Internet Service Providers



Car Rentals



top managers typically didn't appear on the public e-mail lists we used to sample customers. Asking users of the system whether they would recommend the system to a friend or colleague seemed a little abstract, as they had no choice in the matter. In these cases, we found that the "sets the standard of excellence" or "deserves your loyalty" questions were more predictive.

Not surprisingly, "would recommend" also didn't predict relative growth in industries dominated by monopolies and near monopolies, where consumers have little choice. For example, in the local telephone and cable TV businesses, population growth and economic expansion in the region determine growth rates, not how well customers are treated by their suppliers. And in certain cases, we found small niche companies that were growing faster than their net-promoter percentages would imply. But for most companies in most industries, getting customers enthusiastic enough to recommend a company appears to be crucial to growth. (To calculate your own net-promoter number, see the sidebar "A Net-Promoter Primer.")

The Dangers of Detractors

The battle for growth among Internet service providers AOL, MSN, and EarthLink brings to life our findings. For years, market leader AOL aggressively focused on new customer acquisition. Through those efforts, AOL more than offset a substantial number of defections. But the company paid much less attention to converting these new customers into intensely loyal promoters. Customer service lapsed, to the point where customers couldn't even find a phone number to contact company representatives to answer questions or resolve problems.

Today, AOL is struggling to grow. Even though AOL's customer count surged to an eventual peak of 35 million, its deteriorating mix of promoters and detractors eventually choked off expansion. The fire hose of new customer flow—filled with people attracted to free trial promotions—couldn't keep up with the leaks in AOL's customer bucket. Defection rates exceeded 200,000 customers per month in 2003. Marketing costs were ratcheted up to stem the tide, and those expenditures, along with the collapse of online advertising, contributed to declines in cash flow of almost 40% be-

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tween 2001 and 2003.

By 2002, our research found, 42% of the company's customers were detractors, while only 32% were promoters, giving the company a net-promoter percentage of -10%. The current management team is working on the problem, but it's a challenging one because disappointed customers are undoubtedly spreading their opinions about AOL to family, friends, colleagues, and acquaintances.

AOL's dial-up competitors have done a better job in building promoters, and it shows in their relative rates of growth. MSN invested \$500 million in R&D to upgrade its service with functional improvements such as improved parental controls and spam filters. By 2003, MSN's promoter population reached 41% of its customer base, compared with a detractor population of 32%, giving the company a net-promoter percentage of 9%. EarthLink managed to nearly match MSN's net-promoter score over this period by continuing to invest in the reliability of its dial-up connections (minimizing the irritation of busy signals and dropped connections) and by making phone support readily available.

AOL's experience vividly illustrates the folly of seeking growth through shortcuts such as

massive price cuts or other incentives rather than through building true loyalty. It also illustrates the detrimental effect that detractors' word-of-mouth communications can have on a business—the flip side of customers' recommendations to their friends. Countering a damaged reputation requires a company to create tremendously appealing incentives that will persuade skeptical customers to give a product or service a try, and the incentives drive up already significant customer acquisition costs.

Furthermore, detractors—and even customers who are only passively satisfied but not enthusiastically loyal—typically take a toll on employees and increase service costs. Finally, every detractor represents a missed opportunity to add a promoter to the customer population, one more unpaid salesperson to market your product or service and generate growth.

Keep It Simple

One of the main takeaways from our research is that companies can keep customer surveys simple. The most basic surveys—employing the right questions—can allow companies to report timely data that are easy to act on. Too many of today's satisfaction survey processes

A Net-Promoter Primer

Tracking net promoters—the percentage of customers who are promoters of a brand or company minus the percentage who are detractors—offers organizations a powerful way to measure and manage customer loyalty. Firms with the highest net-promoter scores consistently garner the lion's share of industry growth. So how can companies get started?

Survey a statistically valid sample of your customers with the following question: "How likely is it that you would recommend [brand or company X] to a friend or colleague?" It's critical to provide a consistent scale for responses that range from zero to ten, where zero means not at all likely, five means neutral, and ten means extremely likely.

Resist the urge to let survey questions multiply; more questions diminish response rates along with the reliability of your sample. You need only one question to determine the status—promoter, passively satisfied, or

detractor—of a customer. (Follow-up questions can help unearth the reasons for customers' feelings and point to profitable remedies. But such questions should be tailored to the three categories of customers. Learning how to turn a passively satisfied customer into a promoter requires a very different line of questioning from learning how to resolve the problems of a detractor.)

Calculate the percentage of customers who respond with nine or ten (promoters) and the percentage who respond with zero through six (detractors). Subtract the percentage of detractors from the percentage of promoters to arrive at your net-promoter score. Don't be surprised if your score is lower than you expect. The median net-promoter score of more than 400 companies in 28 industries (based on some 130,000 customer survey responses gathered over the past two-plus years by Satmetrix, a maker of software for managing real-time customer

feedback) was just 16%.

Compare net-promoter scores from specific regions, branches, service or sales reps, and customer segments. This often reveals root causes of differences as well as best practices that can be shared. What really counts, of course, is how your company compares with direct competitors. Have your market researchers survey your competitors' customers using the same method. You can then determine how your company stacks up within your industry and whether your current net-promoter number is a competitive asset or a liability.

Improve your score. The companies with the most enthusiastic customer referrals, including eBay, Amazon, and USAA, receive net-promoter scores of 75% to more than 80%. For companies aiming to garner world-class loyalty—and the growth that comes with it—this should be the target.

yield complex information that's months out of date by the time it reaches frontline managers. Good luck to the branch manager who tries to help an employee interpret a score resulting from a complex weighting algorithm based on feedback from anonymous customers, many of whom were surveyed before the employee had his current job.

Contrast that scenario with one in which a manager presents employees with numbers from the previous week (or day) showing the percentages (and names) of a branch office's customers who are promoters, passively satisfied, and detractors—and then issues the managerial charge, "We need more promoters and fewer detractors in order to grow." The goal is clear-cut, actionable, and motivating.

In short, a customer feedback program should be viewed not as "market research" but as an operating management tool. Again, consider Enterprise Rent-A-Car. The first step in the development of Enterprise's current system was to devise a way to track loyalty by measuring service quality from the customer's perspective. The initial effort yielded a long, unwieldy research questionnaire, one that included the pet questions of everyone involved in drafting the survey. It only captured average service quality on a regional basis—interesting, but useless, since managers needed to see scores for each individual branch to establish clear accountability. Over time, the sample was expanded to provide this information. And the number of questions on the survey was sharply reduced; this simplified the collating of answers and allowed the company to post monthly branch-level results almost as soon as they were collected.

The company then began examining the relationships between customer responses and actual purchases and referrals. This is when Enterprise learned the value of enthusiasts. Customers who gave the highest rating to their rental experience were three times more likely to rent again than those who gave Enterprise the second-highest grade. When a customer reported a neutral or negative experience, marking him a potential detractor, the interviewer requested permission to immediately forward this information to the branch manager, who was trained how to apologize, identify the root cause of the problem, and resolve it.

The measurement system cost more than \$4 million per year, but the company made such

significant progress in building customer loyalty that the company's management considers it one of the company's best investments. And the new system had definitely started to get employees' attention. In fact, a few branch managers (perhaps taking a cue from car dealers) attempted to manipulate the system to their benefit. Enterprise responded with a process for spotting—for example, by ensuring that the phone numbers of dissatisfied respondents hadn't been changed, making it difficult to follow up—and punishing "gamers."

Despite the system's success, CEO Andy Taylor felt something was missing. Branch scores were not improving quickly enough, and a big gap continued to separate the worst- and best-performing regions. Taylor's assessment: "We needed a greater sense of urgency." So the management team decided that field managers would not be eligible for promotion unless their branch or group of branches matched or exceeded the company's average scores. That's a pretty radical idea when you think about it: giving customers, in effect, veto power over managerial pay raises and promotions.

The rigorous implementation of this simple customer feedback system had a clear impact on business. As the survey scores rose, so did Enterprise's growth relative to its competition. Taylor cites the linking of customer feedback to employee rewards as one of the most important reasons that Enterprise has continued to grow, even as the business became bigger and, arguably, more mature. (For more on Enterprise's customer survey program, see "Driving Customer Satisfaction," HBR July 2002.)

Converting Customers into Promoters


If collecting and applying customer feedback is this simple, why don't companies already do it this way? I don't want to be too cynical, but perhaps the research firms that administer current customer surveys know there is very little profit margin for them in something as bare-bones as this. Complex loyalty indexes, based on a dozen or more proprietary questions and weighted with a black-box scaling function, simply generate more business for survey firms.

The market research firms have an even deeper fear. With the advent of e-mail and analytical software, leading-edge companies can

now bypass the research firms entirely, cutting costs and improving the quality and timeliness of feedback. These new tools enable companies to gather customer feedback and report results in real time, funneling it directly to frontline employees and managers. This can also threaten in-house market research departments, which typically have built their power base through controlling and interpreting customer survey data. Marketing departments understandably focus surveys on the areas they can control, such as brand image, pricing, and product features. But a customer's willingness to recommend to a friend results from how well the customer is treated by frontline employees, which in turn is determined by all the functional areas that contribute to a customer's experience.

For a measure to be practical, operational, and reliable—that is, for it to determine the percentage of net promoters among customers and allow managers to act on it—the process

and the results need to be owned and accepted by all of the business functions. And all the people in the organization must know which customers they are responsible for. Overseeing such a process is a more appropriate task for the CFO, or for the general manager of the business unit, than for the marketing department. Indeed, it is too important (and politically charged) to delegate to any one function.

The path to sustainable, profitable growth begins with creating more promoters and fewer detractors and making your net-promoter number transparent throughout your organization. This number is the one number you need to grow. It's that simple and that profound. 

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The One Number You Need to Grow

Further Reading

ARTICLES

Put a New Lens on Loyalty—to Magnify Profitability

by Frederick F. Reichheld and Phil Schefter
Harvard Business Review OnPoint collection

July 2001

Product no. 7230

This collection provides a broader context for customer loyalty—revealing the importance of developing a loyalty *system* to activate and sustain profitability. Most companies, the authors maintain, try to boost loyalty in just one way—for example, luring customers with lavish reward programs, or devising complex employee-motivation programs. This fragmented approach can't build broad-based, self-reinforcing loyalty. The articles in this collection describe the three crucial, interlocking components of a loyalty system: loyalty leadership, a customer/employee loyalty focus, and loyalty in e-business channels.

In "Lead for Loyalty," Reichheld outlines six principles loyalty leaders apply. These include aligning managers' statements *and* actions with company values, simplifying decision making, and cultivating dialogue among stakeholders. When your most senior managers consistently lead for loyalty in their everyday decisions, words, and actions, they strengthen the devotion of all stakeholders—inside *and* outside your company. This strong framework supports your entire loyalty system.

In "Loyalty-Based Management," Reichheld identifies the four cornerstones of customer/employee loyalty. These include choosing customers likely to do business with you over time, providing new products/services that meet *existing* customer segments' lifetime needs, incenting employees to stay, and measuring the long-term economic consequences of changing customer loyalty. Customer loyalty increases your market share and lowers acquisition and service costs. Now you can pay employees more—boosting their

morale and longevity. The more experienced your employees, the better service they provide customers—further enhancing customer loyalty and long-term profitability.

And in "E-Loyalty: Your Secret Weapon on the Web," Reichheld and Schefter argue that superior customer experiences and repeat purchasing by profitable buyers are even more important in the digital realm than in your brick-and mortar stores. Why? Acquiring e-customers is so expensive (20-30% higher than traditional businesses) that those customers remain unprofitable for at least two to three years. But if you can keep them loyal, their profitability accelerates much faster than traditional businesses. By retaining a mere 5% more customers, e-companies can boost profits by 25% to 95%.

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