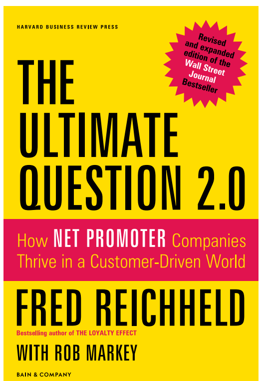
Loyalty Insights

From feedback to action

By Rob Markey and Fred Reichheld



BAIN & COMPANY

Fred Reichheld and Rob Markey are authors of the bestseller *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World*. Markey is a partner and director in Bain & Company's New York office and leads the firm's Global Customer Strategy and Marketing practice. Reichheld is a Fellow at Bain & Company. He is the bestselling author of three other books on loyalty published by Harvard Business Review Press, including *The Loyalty Effect, Loyalty Rules!* and *The Ultimate Question*, as well as numerous articles published in *Harvard Business Review*.

It is late 2008, the heart of the financial crisis. A large bank—a major credit-card issuer—has decided to cancel many of its customers' accounts, hoping to reduce its exposure to bad risks. The bank's Net Promoter® scores (NPS®) are dropping sharply, indicating growing levels of customer dissatisfaction.

Seeing the Net Promoter data, bank employees take immediate action. Individual call-center representatives begin experimenting with different responses to customer complaints. Some try explaining that the bank has to take these actions to protect shareholders. Others try telling individual customers that they themselves might be high risk. Comparing notes, the reps figure out the responses that address customers' concerns most effectively. They begin incorporating those responses into their conversations.

A level or two up, managers take other measures. They increase staffing levels so that customers won't have to wait so long on the phone. They launch proactive communications to certain card members. They establish an ombudsman, whose job is to listen to customers and resolve complaints wherever possible. They create an appeals process. Thanks to rapid Net Promoter feedback, the bank can gauge the impact of each of these actions on customers' satisfaction and loyalty.

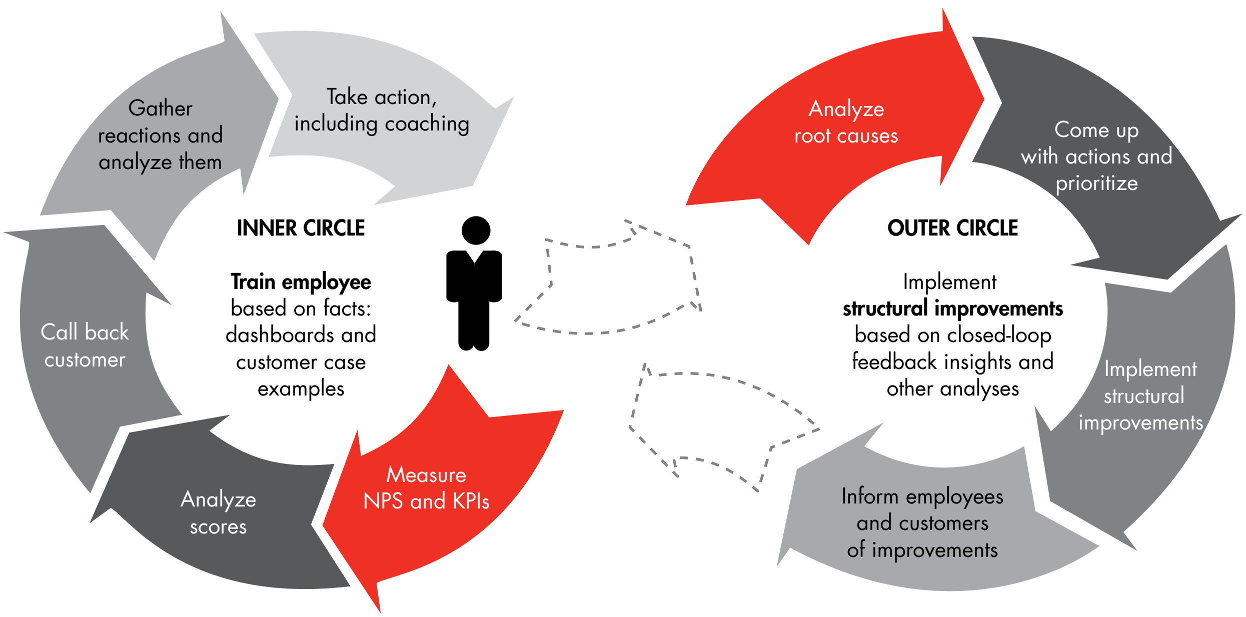
When you are driving a car, you get a steady stream of feedback from the road, from other drivers, from the dashboard gauges and from the car itself. You have learned how to interpret the immediate feedback and respond to it in real time, such as slowing down when the road feels bumpy. You may also begin observing patterns—the car begins to shimmy when you hit 35, say—and the patterns may lead you to other actions, such as making an appointment for repairs. Meanwhile, dealers and automakers are gathering feedback of their own from you and millions of others and are making plans for fixes, improvements in the next model, even recalls. Note the close connection here between *feedback* and *action*. Feedback that doesn't lead to action is meaningless. They are inseparable aspects of the same system.

The tight link between feedback and action is a key design element of Net Promoter systems. The systems provide different kinds of feedback, and they encourage action at multiple levels of the organization.

Customer-facing employees—salespeople, call-center representatives and so on—hear an "inner circle" of feedback every day in their initial conversations and follow-up calls with individual customers (*see Figure 1*). They and their supervisors also see the survey scores, moving averages and verbatim comments that provide context for those conversations. Unlike the dense output from traditional customer-satisfaction surveys, Net Promoter data is immediate and easy to understand—it helps employees see what their customers as a group are feeling and doing right now. People learn to respond directly to the feedback, just as the bank's call-center reps did. Frontline employees modify their approach and fix whatever problems they can. Supervisors call back unhappy customers and offer coaching and suggestions to their direct reports.

Net Promoter systems generate an "outer circle" of feedback as well. This layer consists of aggregated data and the patterns revealed by analysis of that data. It's analogous to the feedback collected by auto dealers and manufacturers; thanks to the patterns, the dealers and carmakers may know what's wrong with your car before you do. In a company, the aggregated data and analysis go back to the customer-facing employees, adding depth to the immediate feedback they are already seeing. The data and analysis also create direct lines of communication from customers to internal functions and senior leaders. Middle managers can see from the feedback how their own departments' operations affect the experience, attitudes and behaviors of customers. They can then take action to improve

Figure 1: Customer insights from both feedback circles inform action at different levels of the organization



Source: Bain & Company

procedures, pricing, product features—whatever they may be responsible for (see the sidebar, "Taking action at Logitech"). Senior leaders can learn how their strategy is working from the customers' viewpoint and so can make better-informed judgments about investments.

The experience of a manufacturer of premium kitchen and bathroom fixtures illustrates how a company can use these different levels of feedback. At one point, for example, the company's Net Promoter surveys were indicating that its distributors, most of whom sold competitors' products as well, needed more help communicating the competitive advantages of its products, such as innovative design and ease of installation. Hearing the feedback, the company's managers and frontline employees took action. Sales reps began sponsoring workshops in distributors' showrooms to teach contractors how easy the products were to install. The reps created compelling new floor and window displays to showcase the products' decorative appeal. Further analysis of the feedback revealed other patterns, such as the fact that sales reps seemed to be visiting some distributors too frequently and others not frequently enough (scores peaked at around three visits). The company cut back on the unproductive sales calls, freeing up an estimated 25% of selling capacity.

All such actions are like natural experiments. A company can act, observe the results and modify the action as necessary. In this case, the company continued to conduct regular Net Promoter surveys with distributors to determine whether its actions were boosting customer loyalty and sales. In the course of a year, it saw scores climb more than 20 points.

Cost-benefit analysis

Companies can take many actions immediately in response to feedback, because the actions are relatively simple and inexpensive to implement. They can tweak voice menus, make web pages easier to navigate, or coach sales or customer-service reps on the issues that most concern customers. Often, however, addressing the feedback from customers requires an investment of resources—redesigning a product, say, or reengineering a process. A company then needs to compare the required cost with the likely benefit.

Here's a simple example. Carolina Biological Supply—a midsize family-owned company that we featured in our book *The Ultimate Question 2.0*—sells math and science education products. Its customers are primarily high school teachers and college professors who need the products to fit into precise points in their curricula. At one point, Net Promoter feedback indicated that product availability was a major concern. The fill rate per line item stood at only 92%—and with an average of 2.5 lines per order, CEO Jim Parrish explained, "that means 20% of the time we didn't have everything the customer wanted." To mitigate the problem, the company increased its investment in inventory, raising the fill rate to 98% on top items and 95% on the rest. Analysis had shown that this was the appropriate balance point between costs and benefits.

More-complex actions to improve customer relationships are likely to involve the kind of cost-benefit trade-offs required by any major investment. When Charles Schwab returned to help turn around his eponymous financial services firm in 2004, he found that customers were upset about the firm's high prices, its nuisance and penalty fees and its lack of compelling new products. Over time, Schwab and current chief executive Walt Bettinger took action on all these fronts. They lowered prices and fees. They introduced popular innovations such as a high-yield checking account. They also overhauled the firm's website and online tools and eliminated minimum balances on accounts. All these moves improved customer relationships significantly. To help finance the investments, the company had to take out roughly $600 million in other costs, notably in overhead.

Schwab and Bettinger's actions were not only dramatic but risky. They felt comfortable in their business judgment in part because they had been able to quantify the economics of loyalty. They could gauge the likely payoff of their large investments not only by expected

Taking action at Logitech

Logitech, a $2.3 billion manufacturer of computer peripherals, gathers Net Promoter feedback for each of its major products. It assesses each product against a target NPS, and it rank-orders products to determine customers' relative enthusiasm for each one. All this data leads to action at different levels of the company.

For example, the company's much heralded MX 5000 keyboard—its first to incorporate Bluetooth functionality—was falling short of its target NPS. Analysis of verbatims revealed the three most serious problems: The Bluetooth connectivity wasn't sufficiently reliable, the LCD screen was hard to read and recharging was difficult. Engineers focused on these three issues as they designed the next model of the keyboard, and the company was able to rack up average Net Promoter scores 27 points higher on that model.

In another case, Logitech learned that its webcams weren't doing nearly as well as expected. Net Promoter analysis again revealed the problem: Customers loved the webcam once it was up and running, but they had problems with the setup. Digging deeper, the engineers found that the problem was not the webcam itself but the software applications it was designed to work with. After all other avenues failed, Logitech decided to acquire a software firm that could package software applications together with the webcam so setup would be automatic. The webcam's Net Promoter scores jumped nearly 10 points.

cash inflows over the near term—the usual indicator—but also by the long-term benefits of greater customer retention, increased share of wallet, more referrals and all the other economic rewards of a more loyal and enthusiastic customer base (for more, see http://www.netpromotersystem.com/system-processes/loyalty-economics.aspx). The more deeply a company understands its loyalty economics, the easier it will be to assess potential actions designed to improve the customer experience.

A bias toward action

Businesspeople have long known that the most successful companies exhibit a bias toward action. These companies move swiftly and decisively to implement their strategy and improve their operations. A Net Promoter system, because of the feedback it generates, helps to embed such a bias throughout an organization. One of our favorite stories illustrating this point involves a bank in South America that had recently adopted NPS. Here's how it was told to us:

When the CEO introduced the system, he told the assembled employees that every one of them needed to find ways of creating more promoters and fewer detractors. "And I expect all of you to tell me how you contributed," he added. After the speech, an employee working in an internal audit department approached the CEO and said, "I don't know anything about our customers. I barely know how we interact with them. How am I supposed to help?" The CEO replied, "I don't know either, but you'd better figure it out."

Six months later, the employee and the CEO crossed paths again. The employee reintroduced himself, reminded the CEO about their previous conversation and proudly reported that he had found a way to influence customer loyalty. The bank, he said, had a cumbersome verification process that kicked in whenever a customer transferred funds. It involved three different layers of identification. There had never been a loss due to fraud on these transfers, and the procedure was a major irritant to customers. So the employee launched an initiative to eliminate two of the three layers of identification. "We saved money," he said. "We haven't had any losses and our customers are much happier." The increase in Net Promoter scores was visible for all to see.

Of course, the precise mechanisms of action will differ, depending on what a particular group of employees or executives is responsible for, how that group receives customer feedback and what the cost of proposed actions may be. But the framework is always the same. Whatever their level, people in a Net Promoter company instantly understand the goal when someone proposes an action designed to improve scores. If the economics justify the move, support for it tends to be widespread.

In a car, the feedback you get and the actions you take help you arrive at your destination safely. Why should it be any different in a company?

Shared Ambition, True Results

Bain & Company is the management consulting firm that the world's business leaders come to when they want results.

Bain advises clients on strategy, operations, technology, organization, private equity and mergers and acquisitions. We develop practical, customized insights that clients act on and transfer skills that make change stick. Founded in 1973, Bain has 48 offices in 31 countries, and our deep expertise and client roster cross every industry and economic sector. Our clients have outperformed the stock market 4 to 1.

What sets us apart

We believe a consulting firm should be more than an adviser. So we put ourselves in our clients' shoes, selling outcomes, not projects. We align our incentives with our clients' by linking our fees to their results and collaborate to unlock the full potential of their business. Our Results Delivery® process builds our clients' capabilities, and our True North values mean we do the right thing for our clients, people and communities—always.

For more information, visit **www.netpromotersystem.com**
For more information about Bain & Company, visit **www.bain.com**