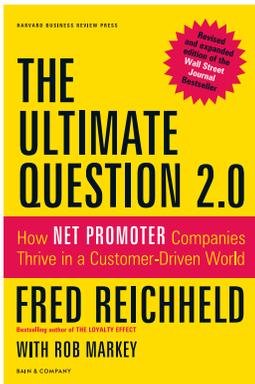


Loyalty Insights

Leading a Net Promoter SystemSM company

By Rob Markey and Fred Reichheld



Fred Reichheld and Rob Markey are authors of the best seller *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 & Marketing practice. Reichheld is a Fellow at Bain & Company. He is the best-selling 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*.

When John Donahoe became chief executive of eBay in 2008, he made a bold decision: “The day I was appointed, I declared that we were going to use the Net Promoter SystemSM across the entire company.” He set a goal for companywide improvement in customer loyalty as measured by its Net Promoter ScoreSM (NPS[®]). The declaration, he says, “got everybody’s attention.”

That was the beginning of a long and challenging but highly productive journey for the Internet giant. Its revenues have grown at a compound average rate of 13.3% a year since 2008; its earnings, about 10% a year.¹ It has reoriented its sales business to become a broad-based retailer as well as an auction site, and it has further developed the immensely popular PayPal payment system. eBay’s customers are more loyal and enthusiastic than ever: Its Net Promoter scores have improved dramatically over the last five years.

It would be nice to say that such gains merely reflect the power of the Net Promoter System’s methodology. NPS’s tools and technologies enable everyone in the organization to hear feedback from customers, to trace the root causes of their concerns and to take actions that lead to customer delight. The system focuses people at every level on the critical goal of earning customer loyalty and creating enthusiastic promoters.

But successful companies such as eBay have discovered another truth as well: The tools and technologies don’t work without a certain kind of leadership. From the CEO outward, a company’s leaders need to believe in that critical goal. They need to inspire their colleagues and associates to understand and adopt it. They need to put it at the very heart of the company’s way of doing business, and they need to help people overcome the inevitable obstacles. No executive can accomplish this through conventional levers such as metrics and initiatives alone. Net Promoter[®] is a powerful method of running a company, but it requires leaders, like Donahoe and others, who understand their job in an entirely new way.

“An enormous amount of attention”

Bain & Company founder Bill Bain used to say that the most powerful weapon a leader has is the power of his or her attention. What does he or she ask about? What does he or she care most about? Devote the most time to? CEOs such as Donahoe, Brad Smith of Intuit, Walt Bettinger of Charles Schwab and Lanham Napier of Rackspace all believe that the Net Promoter System has played a critical role in the success of their companies. They also believe that it wouldn’t have happened without relentless, persistent, visible support from the leaders of the organization. Donahoe, for one, decided from his first day on the job that the task of building customer

loyalty would be one of just two or three things he would “focus an enormous amount of attention on.”

The direction of a CEO’s attention shapes his or her calendar and priorities, and those of a Net Promoter CEO differ from conventional calendars and priorities in at least three ways.

1. Strategy. The first is at the level of strategy. A company can’t make the system work unless it is rigorous about understanding its customers and defining the fundamental points of differentiation between itself and its competitors. CEOs of loyalty leaders know exactly which segments of the market they are targeting. They know what makes their company unique and superior in the

Leading a Net Promoter SystemSM company

eyes of each segment, and they work hard to keep everyone focused on building the loyalty of those customers.

The executives find many ways to reinforce the message of customer centricity. They establish a clear, simple customer experience goal that everyone can rally around. Schwab, for instance, describes its goal as “seeing the world through the clients’ eyes,” a phrase that has become a touchstone for virtually every decision about products and policies throughout the company. They emphasize the critical importance of Net Promoter scores as a gauge of progress toward that goal. When Schwab launched Net Promoter, says Bettinger, the company made one thing crystal clear to employees: “Any decision that you see made in our company from your peer to your manager on up to me... any decision that would result in our Net Promoter score doing anything but improving, we want you to identify it because that is in conflict with what we’re trying to achieve.”

Net Promoter CEOs celebrate employees who deliver exceptional customer experiences. They open every meeting and every conversation with questions about customer attitudes and behaviors, even before they discuss financial performance. The amount of focused communication that is required can be more than most leaders are accustomed to. Yet the system won’t reach its full potential unless people throughout the organization are reminded every day of its centrality.

“Net Promoter opened up our employee population to say it is safe to always do the right thing.”

—Walt Bettinger, CEO, Charles Schwab

Most important, Net Promoter CEOs do the hard work of aligning accountability and authority. All companies, of course, try to hold their executives and managers accountable for results. And they’re often successful,

as long as there’s no cross-departmental or cross-unit coordination involved. The trouble is, almost everything that involves the customer experience requires cross-functional collaboration, sometimes leaving managers without the tools, capabilities and authority necessary to create the expected outcomes. Great leaders—a requirement for the Net Promoter System—identify and correct those mismatches. They help people work across organizational boundaries to create the best possible experience for the customer.

2. Leading by example. A popular TV show in the United States, “Undercover Boss,” features real-life chief executives who dress in disguises and spend time with frontline employees in an attempt to learn the unvarnished truth about what is happening in their companies. The business leaders we talk to don’t go to such extremes, but most seem to long for ways to interact directly with customers and employees without any organizational filter. They just don’t have good mechanisms for doing so.

Net Promoter System companies do. Most CEOs take advantage of those methods regularly, and they expect others in the organization to do so as well. They review verbatim feedback from customers. They call those customers to discuss the feedback in more detail and to resolve problems. Lanham Napier, CEO of Rackspace, receives a random sample each day of five Rackspace customers who have provided feedback. Once a week, he makes a point of calling all five to hear what they have to say about their interactions with Rackspace. If the feedback is praise, he makes sure the relevant team hears about it. If it’s a complaint, he looks into the matter and can sometimes fix whatever it was that upset the customer—“an incredible opportunity for conversion from a detractor into a promoter.” His calls, he says, “set the tone” for other people in the organization, who are also calling customers every week. (For a video on Rackspace, go to www.netpromotersystem.com/rackspace.)

Journey to greatness



Five Net Promoter SystemSM CEOs talk about the leadership challenge

Net Promoter is widely known as a measure of customer loyalty. But in this video, Fred Reichheld and Rob Markey talk with five CEOs who believe the system ultimately does much more: It empowers employees, delights customers and tells leaders whether their companies are on the right path. *To watch the video, go to www.netpromotersystem.com/greatness.*

Of course, it isn't just about making calls. Net Promoter CEOs also work alongside their colleagues, uncovering the root causes of customer discontent. They roll up their sleeves and dive into pricing, product or operational problems as just another member of the team. They participate in the processes the company has developed to find out how well it is performing in the customer's eyes. Intuit CEO Brad Smith, for instance, regularly takes the "QuickBooks challenge," which means logging on as if he were a small-business owner and calling customer support to see how well reps can handle a problem. "You absolutely eat your own cooking," he says.

Net Promoter CEOs often find that a key part of leading by example is eliminating bad profits, meaning profits that are earned at the expense of good customer relationships. One software company, for example, required buyers to register their purchase by phone. That paid off for the company—the phone calls provided selling opportunities that generated some \$60 million a year in revenue. But the requirement created many detractors, so the company decided to eliminate it. Another company went to great lengths to conceal its customer-service phone number on its website. The policy saved money on inbound calls but spawned many detractors. That

company, too, decided to bite the bullet: It began to publicize its phone number, and it created a call center to handle inbound calls. In both cases, the long-term financial results were favorable, because the companies were building loyalty and enthusiasm among their key customers. But the short-term hits to the income statement were significant for both companies, so the senior team had to take the lead.

"Every day I get a download of [Net Promoter] survey responses from our customers. One of the first things I read every day is that survey, because I love to know how our customers feel about us."

—Lanham Napier, CEO, Rackspace

3. Teaching and coaching. A Net Promoter company is a learning organization. Its goal is for employees to become self-directing and self-correcting. But reaching the goal requires constant coaching and teaching, beginning with the CEO and cascading through the entire organization. Leaders typically find that it's just as important to spend time on what people are learning from the Net Promoter feedback as on achieving improvements in the scores themselves.

Leading a Net Promoter SystemSM company

What do we mean by coaching and teaching? Part of it is catching people doing the right things, celebrating that and explicitly linking those behaviors to the company's strategy, values and principles. We think of the process as "preaching what you practice." Part of it, too, is always explaining the logic behind policies and decisions that are in the customers' best interests, thereby reminding everyone of the fundamental objectives of creating more promoters and fewer detractors. Net Promoter CEOs make a point of pulling aside their direct reports, middle managers and even frontline employees to share some private advice about how to handle decisions and customer interactions. They make a point of participating as leaders in formal training sessions. Their investment in hands-on coaching and teaching is both a demonstration of their priorities and an important reinforcer of the organization's customer centricity.

"We not only have the [Net] Promoter score deep within our values and beliefs; it's also core to our strategy. Follow the belief that if you serve clients in the way that they'd like to be served, they're going to do more business with you."

—Walt Bettinger, CEO, Charles Schwab

A critical part of coaching and teaching is to set consistent policies and guidelines, explain how they support the company's objectives and hold people accountable for working within them. So leaders need to create "freedom within a framework," allowing frontline employees and middle managers discretion in certain areas but making clear what kinds of actions are off-limits. At TD Bank, for instance, a symbol of employees' authority is the

bank's "1 to say Yes, 2 to say No" rule. All customer-facing employees learn that their job is to satisfy customer requests if at all possible. But if bank policy prevents them from doing so, they can't simply tell the customer no. Instead, they must seek advice and support from a supervisor. The process makes it harder to say no—and often leads to imaginative solutions that satisfy everyone.

A different kind of leadership

Business leaders often think about the levers they can pull to achieve a given set of results. They typically focus on metrics, incentives and initiatives—and instituting a successful Net Promoter System involves plenty of all three. But the mindset that underlies it is quite different. "We are trying to build a company that is loved by its employees and loved by its customers," says Rackspace's Napier. "What attracted us to Net Promoter was, we were thinking about how to measure greatness. We were searching for a way to quantify this audacious goal of building one of the world's great service companies."

Greatness doesn't come just from getting the managerial levers right. It comes from inspiration, from people at every level feeling excited about doing the right thing by customers. That's the objective that underlies a CEO's commitment to focus on customers, to lead by example and to coach others in the organization. John Donahoe's journey at eBay began the day he declared that the company would adopt Net Promoter throughout the organization. It has been a long trip, and one that may have no end. But, like Donahoe, most Net Promoter CEOs wouldn't have it any other way. 

¹ eBay 10-K filed on 02/01/13 for period ending 12/31/13

Net Promoter[®] and NPS[®] are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

Net Promoter SystemSM and Net Promoter ScoreSM are trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

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

AMSTERDAM • ATLANTA • BANGKOK • BEIJING • BOSTON • BRUSSELS • BUENOS AIRES • CHICAGO • COPENHAGEN • DALLAS • DUBAI • DÜSSELDORF • FRANKFURT
HELSINKI • HONG KONG • HOUSTON • ISTANBUL • JOHANNESBURG • KUALA LUMPUR • KYIV • LONDON • LOS ANGELES • MADRID • MELBOURNE • MEXICO CITY
MILAN • MOSCOW • MUMBAI • MUNICH • NEW DELHI • NEW YORK • OSLO • PALO ALTO • PARIS • PERTH • RIO DE JANEIRO • ROME • SAN FRANCISCO • SÃO PAULO
SEOUL • SHANGHAI • SINGAPORE • STOCKHOLM • SYDNEY • TOKYO • TORONTO • WARSAW • WASHINGTON, D.C. • ZÜRICH