Podcast

Customer first thinking.

A Question of Loyalty

An Interview with Fred Reichheld, Loyalty Guru and Creator of the Net Promoter System

Fred Reichheld:

Fred Reichheld is a Bain & Company Senior Advisor and the Creator of the Net Promoter System.

It's been touted as the "one number a business needs to grow". A number based on asking just one survey question – the so-called "Ultimate Question": "*How likely are you to recommend our brand to a friend or colleague?*".

Since it was first introduced in a 2003 Harvard Business Review article by Fred Reichheld, head of Bain & Company's loyalty practice at that time, the Net Promoter Score has become a beacon metric in two-thirds of Fortune 500 companies. It has now been adopted by organizations of all sizes and types to measure customer sentiment. The rationale behind it is simple: If customers feel strongly enough about a brand to recommend it, that should lead to revenue growth. And past studies by Bain have shown that it can be a great predictor of business performance.

The strength of NPS has always been its simplicity. By subtracting the percentage of "detractors" from the percentage of "promoters", while ignoring the "passives", the net score is easy to calculate and understand. The more net promoters you have, the more likely you are to have a strong base of loyalists whose value is likely to increase over time. But what's really helped make NPS a popular metric is that the formula is non-proprietary, free to anyone who wishes to use it. That's enabled it to become a benchmark score in just about every industry where customer loyalty matters, allowing organizations to easily compare themselves to their competition.

Companies renowned for putting customers first, like Apple, Costco, USAA, Amazon, and Intuit regularly earn top scores of 50 or more, while less admired companies like wireless service providers and insurers are usually punished with single-digit negative scores. That fact alone suggests a correlation between customer experience and market success.

Or does it?

NPS has its own share of detractors. In fact, Gartner predicts that more than 75% of organizations will abandon NPS as a measure of success for customer service by 2025. The reason: it fails to provide sufficient diagnostic insight into why customers feel the way they do (even though there is often an open-ended follow-up question asking respondents to explain the reason for their rating).

Critics quibble with the arbitrary nature of the scoring methodology – some say the results tend to be "too noisy" - others raise the question of correlation versus causation. And the NPS system is prone to gamesmanship when it's managed in-house and not by a neutral 3rd party.

Yet all of these critics are missing the point: the true value of NPS is that it has put the question of loyalty on the radar of many business leaders who might otherwise be obsessed with the short-term stock price. The real payoff of adopting NPS is not the score it generates – it's the influence it has on the customer-first orientation of companies. Within the span of 20 years, NPS has achieved what customer satisfaction surveys could never do: make customer experience a strategic priority for executive management.

In his latest book "Winning on Purpose" Fred Reichheld distills his 44 years of experience as a loyalty guru into a manifesto and set of "Golden Rule" operating principles. The purpose of a business, he declares, is not to maximize profits – it's to maximize the happiness of customers – to "enrich their lives". This worldview is a natural progression from his 1996 landmark book, "The Loyalty Effect" which made the economic case for focusing on customers.

I started by asking Fred how he would compare the loyalty landscape of that period to now.

FR **Fred Reichheld (FR)**:On many dimensions, I don't think the world has come very far in appreciating the importance of loyalty. We've made some important progress for sure. And the notion of keeping your customers happy enough and that this huge economic advantage of earning the loyalty of customers … but sort of manipulating customers is just as good as any other way if it's legal and that's not the nature of... the foundation of my thinking was if you treat people right, enrich their lives, in a sustainable way, of course, you know, you have to be sustainable, profitable, you can't turn into a slavish servant for someone, it has to be an appropriate relationship. But with that constraint, the more you can invest in making someone else's life better, the better the world gets. And I don't think most people still see business in that light. The stakeholders, and maybe it's maximized shareholder value, maybe it's not, although since all the control systems and measurement systems and governance and compensation are all based on accounting, the accountants' mindset dominates no matter what people say about stakeholders in my opinion, and accountants' mindset has a bottom line - profits. And therefore you maximize profits and the constraints of taking, you know, customers, employees, and so forth. You have to be good enough - that's satisfaction language - but I think those who focus on the customer and enriching lives as their focal point – that's where you get great businesses.

SS **Stephen Shaw (SS):** Well, and your book is populated with some pretty outstanding examples of companies who have adopted that mindset. So there's a number of areas we're gonna explore in the course of this interview. Certainly what you're touching upon - the idea of stakeholder capitalism, brand purpose, etc - I do wanna ask you something though. I mean, it was apparent in rereading parts of the "Loyalty Effect" that the approach you took very much in that book was really from an economic standpoint. And one of your oft-quoted statements is the 5/25 ratio of retention to profitability, and it's become conventional wisdom. But in your new book, you seem to make more of a plea for business leaders – and I think you were just referencing this - to take the moral high ground - to practice this "golden rule". Why the switch in emphasis? If you're presenting this economic case in "The Loyalty Effect" - and not enough companies are still adopting the concept, that it's hard – why did you put the emphasis on the morality of this, in this current book?

FR Well, the reason I started with the economic argument is probably because I was a lot younger and needed to justify this framework and this notion that I had, and it does make economic sense, which no one in my experience, no one had really demonstrated that the leverage that increasing loyalty of customers has. And I think I understated the case because I sort of skipped over the referral part which is actually the most important part. Your reputation is everything. Over the years, I think I became more cognizant of the challenge of winning people over to this new mindset. And it was more than a measurement issue, it was more than an economic framework. They just had a mindset that was wrong, a wrongheaded notion about what made for a great business, what made successful, profitable growth. And so I went back to "first principles", the notion that you know, if you're in a great community, you're gonna treat people the way you'd wanna a loved one treated. And if you're gonna be in a great business, you're gonna treat people that way. And that is the foundation of success and I think it has more of an inspirational energy, that argument. And then yes, you know, you noticed in the last book, "Winning on Purpose" has lot of economics too and share investor and economic rationality. But I agree with you, 80/20 has now become 20/80. I think it's 80% a moral argument about how you wanna run your life, who you wanna buy from, work with, invest in. And by the way, choosing the right path has wonderful economic benefits. That's not why to choose the path, but it's one of the benefits. (9.06)

SS Well, and very early in your book, I think it's page two, you talk about this idea of putting customers first, really should be the essence of every business. And again, you provide plenty of examples of companies that have used NPS really as a flag to rally around the concept of loyalty, that what's important really is the idea of putting the customer at the center of everything we do. Which is why I'm so glad you agreed to become a guest on this podcast simply because that's our theme certainly, is marketing transformation through putting customers first. Let me ask you though, another concept that you play up in the book, you emphasized in the book, is this idea of customer capitalism. And that idea I think was, I think you mentioned in the book, was first floated by Dean Roger Martin, who at the time, I think, was Dean of Rotman School of Management, U of T. And he wrote that article in 2010. Is the concept of customer capitalism really an extension of stakeholder capitalism, or is it different in the sense of what I was just talking about, this idea of putting customers first?

FR I think it's quite different. Maybe radically different, just like maximize shareholder value is radically different than stakeholder, you know, balanced scorecard approach to life. Customer capitalism says, no, it's not equal stakeholders, it's one that is primary. And this is the objective function of a great business. Yes, you have to treat each of the other stakeholders well and live up to that "golden rule" standard. But the purpose, the business exists, you know, you've got a lot of choices, but putting customers as the purpose is the only solution that I've seen work and create great businesses that are sustainable.

SS So is the idea of stakeholder capitalism really a way of placating, to some extent, some of these other communities, mainly the investor class, in that their interests won't be put aside for customers, that those interests will be kept in mind but the business has an obligation to society, to the community at large, yes to the investor class. But first and foremost, in your opinion, is really to customers because otherwise, you don't have a business.

FR Yeah. And it's more than an opinion. There's a fair amount of data and evidence in the book that the only companies delivering real value to investors are the ones where their customers are feeling the love. And you know, I lay out Jim Sinegal's philosophy about rank ordering the stakeholders, customers first, employees second, investors third - I'm sympathetic to that. I'm not 100% in agreement with it. I think every human being you touch deserves a golden rule of treatment. But as a community, I do think you just, if you rally around any other stakeholder as your primary object of service, it collapses. Be a great place to work? Yeah, there's a lot of ways to be a great place to work that takes advantage of customers and it doesn't grow very long because customers are the people, the cash flow out of their wallets funds everything. But the accountants really hide that fact. Accountants can't even tell you how many customers you have let alone how many are coming back for more, and certainly not how many are referring their friends.

SS Well, and I think the other thing that you actually dwell on quite a bit in the "Loyalty Effect" is the idea of value creation for customers.

FR Right. Accounting does not help you understand how much value you put in a customer's wallet. It only keeps track of how much you extract from a customer's wallet to your benefit. And that's a problem. You know, accounting is set up to protect the interests, short-term interests of the company. But if you're on the board of directors and you're thinking it's long-term interest and I have to prosper and grow and build a great reputation, the accountants have nothing to offer you to know if you are making the customer's life better.

SS We're gonna get into some metrics a little later in this conversation. But one of the phrases you use in the book is this idea of a "time exposure" view of the world as opposed to a snapshot in time. And what you're describing is today really they're all, it's the short-term versus long-term question, isn't it?

FR I mean, that's the big question in almost everything and understanding how to trade those off. And what's the discount rate you're going to use because the future's not quite the same as the current. On the other hand, there's this compounding effect that if you do the right thing through time, it's amazing where you end up. Yeah, having a time frame is vital and we do not have metrics that are …

SS Longitudinal.

FR Yeah, people ignore that, it's mind-boggling. The marketing guys will work like crazy to bring in all these new customers and show you how proud they are because their cost per new customer is real low, but then they never figure out what percentage of those new customers ever turned into loyal promoters who really have a positive net present value.

And in most cases, I find, "bought new customers" that the marketing geniuses are bringing in, they're destroying value because the customers don't stick around long enough to actually pay back the investment cost of acquiring them.

SS Yeah, no, you bring some of those figures out nicely in the book in terms of customer churn and employee turnover and the costs to the business that aren't factored into the balance sheet, you know, really interesting point of view. And you bring it to life by drawing on your own experience at Bain early on where you actually saw, you know, some of these profit-first principles being applied and almost taking the business down and the turnaround that resulted, in another chapter in your book, where you talk about how you're actually applying NPS internally within your own employees. It's quite a vivid example, and testimony really to the strength of what you're talking about.

FR Yeah. I am very pleased that my partners at Bain were willing to let me share the secret sauce and some of the internal practices we have because they're just breakthroughs, they're powerful. But I think now the culture is strong enough. It's hard to copy. But I would say the tools and the processes we built are the best I've seen in the world in how to treat employees, how to build teams, how to keep them inspired, and working constantly toward the best interest of customer success. (15.43)

SS Yeah. There's a huge dependency there, isn't it? Between the level of employee happiness - I think you've even used that term - and the ability of companies to serve their customers.

FR Yeah. How can you be happy as an employee if the people you're serving, your customers, aren't thrilled with what they're getting? It's like you're gonna put in more ping pong tables and beer refrigerators to solve that problem? I don't think so.

SS Yeah. It's really getting employees to see the real mission of the company, which is to serve customers, create value, etc. So there's another thing I wanted to ask you about here. And that's this paradox. So two-thirds of Fortune 1000 companies have adopted NPS - you're gonna go down in history for that fact alone. But you do say that many of those companies really haven't adopted the right mindset. How would you describe their mindset today versus what it needs to be? Because in the end business leadership is really crucial here, isn't it? To success. Business leaders have to adopt this philosophy, practice it, preach it, live it, frankly. How would you describe the mindset of most CEOs today versus what you think that should be?

FR Well, I think only 10% of leaders today believe the customer comes first. So 90% of businesses have embraced a mission that is in my mind guaranteed to fail. Picking anything other than making customers' lives better as your purpose...we have no counterexample who has succeeded long-term and delivered great value to investors and made their employees proud, that hasn't followed that strategy. And yet 90% of the leaders are in some other fad, it's mind-boggling. I hope I can make some investors pay attention with this argument "winning on purpose" because I invest my own money. You know, I wasn't wealthy - I am now. But back then I just was modest and I kept investing in companies that have the highest NPS in their industry. Because I thought, you know, their customers are feeling the love and they've got this flywheel going that the accountants can't quite measure, it's invisible, but it's the truth, customers coming back for more and bringing their friends, and so highest NPS finds those, and I've more than tripled the stock market in my investments over the last decade. That's rare. You know, everybody talks about these big numbers and I'm not a fancy investor. I didn't look at one financial statistic of these companies I invested in. I just looked at their customer feedback and the guys at the top have crushed it.

SS Well, that argument is brought up really well in the book and yet it's just so hard to imagine right now, given the way Wall Street operates, the infrastructure, current accounting practices, that you can overturn, you know, those entrenched forces, if I may put it that way. And then the recent backlash against the concept of stakeholder capitalism that you're seeing is evidence that there are some reactionary forces that are determined not to adopt new methods, which is something I actually wanna get into a little bit here, because customer capitalism, brand purpose, customer-first thinking to some extent, they're really not quite synonymous obviously, as we've been talking about, but they're cousins. And certainly, brand purpose has come under quite a bit of fire - just recently Unilever taking it between the eyes from one of their major investors. And, you know, but I think the criticism has been well, "it's just a marketing fad", which there's some partial truth to that - it's come under criticism for distracting CEOs from their primary mission, which is the Milton Friedman idea, that their job is to fatten the bottom line. So how do CEOs, and we're talking public companies here versus private, and we'll get to that question in a second - how do they reconcile this immense board pressure that's put on them to grow at all costs and this moral and social obligation to do what's right? Which is what you've been talking about. (19.55)

FR Well, I hope they can take the evidence from my book and show that there are no counterexamples to date where the companies that have taken the highest road and put customer interests first and live this "golden rule" existence. Those are the guys that have delivered the best returns to shareholders. So let's say a self-aware and thinking board who thinks they must protect the interests of long-term investors, not short-term speculators, but guys who are truly invested in the business. They have a duty to protect customer interests and make sure the customers feel the love and they need metrics to track progress against that goal. Right now companies are flying blind and the board is looking at financials. And as I've said, several times, financials just don't tell you whether you're treating the customer right.

SS So the board elects the CEO, the board really calls the shots, hires and fires the CEO, calls the shots, is supposed to represent the shareholders for the most part. So is the problem here at the board level?

FR It's one of the problems. I don't think it's the only one. I think it's a secondary problem. Although the governance structure in most public companies I see as deeply flawed. I don't think the board's gonna solve that. The CEO has the enormous power. They pick the board, they recruit it. It's the CEO's private advisory group for most companies until they do a lousy job and outside activists might come in. I think the biggest shift is gotta be in the mindset of the leadership team themselves and how they structure their teams, measure the team success, measure customer outcomes, and commit to this notion of living the values that you want to be at the core of your community and defining success in customer terms, not just in selfish financial terms of your company.

SS Well, and you, again, proven in the book that there is this correlation between NPS and growth and success and profitability, good profitability, not bad profitability as you describe it. But a lot of companies, to the point you were raising earlier, don't have finance people who believe in it, they think it's voodoo. And until, I guess, they're won over, it's really hard to make the case, isn't it?

FR Yeah. And you know, I'm sympathetic to the financial guys. I started out life as a financial guy, I really like the discipline of finance and accounting. One of the nice things about accounting is you can audit it and make sure it's real because, you know, imagine what people would do with their books if there weren't audits and you go to jail if you cheat. We don't have that on the customer side yet. So I saw that we need more than surveys and Net Promoter Score is based on survey outcomes. So we need an accounting rigorous metric to be equally important, a twin metric that is accounting rigor, and that's why I've introduced "earned growth". It's just the idea of how much of our business is coming from customers, repeat and expanding customers and their referrals. And that is really at the core of knowing that we're on a path towards sustainable growth. And I believe the smart financial guys will get on board very quickly with that.

SS And I love that part by the way. I photocopied that and circulated it and said like, "Guys, I think we need to have our client adopt this same methodology" because we fairly rigorously track transactions and are able to do a lot with that. But I wanna get more, certainly, into that whole concept, but just back to the question around, you know, breaking the stranglehold of finance on how success is really defined. So go back to your point, you've introduced this idea of earned growth rate, which is fabulous, but how do we convince or change accounting practices that have been place for 100 years practically?

FR Well, one of my favorite tricks is just to say, let's look at all the new customers that came in in the last quarter or the last year. Go ask 'em what was the primary reason they joined the business, decided to come on board, split those groups into primarily recommendation referral versus primarily something else like discounts, salesforce, promotions, special deals, and look at the behavior and get a net present value estimate of those two customer groups, and CFOs get that very quickly. They say, my gosh, we have been wasting a ton of marketing dollars on negative net present value outcomes. And once people say there's, "Boy I can save a lot of money on that - where should I invest it?" Well, it has to be in both either delighting your existing customers to create more promoters or helping the promoters you've earned, the customers who really love you, helping them be more effective at referring and talking you up, so you know, give them the stories, give 'em the digital tools, make them feel like insiders. And this notion of multiplying and harvesting the promoter goodwill, I think is where smart marketers are gonna focus most of their energy. (25.38)

SS Well, and the concept of customer equity has been around for a while, brand equity as well. And yet it's not reflected on the balance sheets, right? It's buried under this idea of goodwill, isn't it?

FR Yeah. First of all, goodwill is a fuzzball concept in accounting. I think it's one of the least impressive developments. It makes the book's foot, but it doesn't really do anything to help understand the underlying economics. That's why private equity firms who are pretty economically rational, they just wipe out all of this baloney accounting like depreciation and goodwill, and they just look at EBITDA. That reflects my feelings as well. To get customer equity or brand equity believable? Let's keep it simple. And let's use metrics that you can audit. And that's what earned growth is. How much of your growth is coming from your existing book? That gives you a really good sense of what the future looks like for you.

SS NPS is coming up in earnings calls more and more often these days.

FR Too much, too much because it's on unaudited baloney NPS.

SS Well, Fred, we're gonna get into that because I do have a question a little later on about you know, best practices around this. So for sure, for sure. But also just sticking with the measurement question. So who owns that? Who owns the championing, if you will, of the earned growth rate? Is that marketing? Because marketing doesn't have a lot of credibility in the C-suite and particularly not with CFOs – they're a cost center, they're viewed universally as a cost center, because they can't correlate their investments, if you wanna call it that, back to the growth of the business in so many different ways. So who takes up that challenge? Does marketing have to figure out a way to do a better job of this or does that lie somewhere else?

FR I think the best marketing guys are gonna convince the CFOs that they need to be measuring earned growth and then they're gonna demonstrate that Net Promoter is a very useful tool for managing earned growth upward. Earned growth is not a tool to learn how to get better. I mean, it gives some analytical baseline...

SS Well, it's a yardstick.

FR You can do financial analysis and figure out which customers, but it doesn't get you to the why and you can't really evaluate experiments in real-time. So I think by getting CFOs to embrace earned growth, as they understand the connection to Net Promoter tools and processes, marketers are gonna find way more interest and support for pursuing those.

SS So looking at all of the great examples you have in the book about best-practice companies, whether it's Discover or Enterprise or First Service - Toronto company.

FR Go Canada! My Grandfather Reichheld was from Canada!

SS I love that reference, by the way, to First Service. I felt very proud when I read that. You know, looking at all those companies, have any of those companies really achieved the progress they have based on that financial argument, or has it been more driven by leadership recognizing this is the right thing to do and, you know, not necessarily proving that. Are there examples in the book? Because I don't think you actually referenced some of these successful companies - yes NPS, for sure – but in terms of making the business case, I guess.

FR I think the companies for the most part have morally certain leaders who have a strong, intuitive understanding of this. And that's why it is so hard to do. I hope the tools and the frameworks and the process I've laid out in "Winning on Purpose" help mere-mortal CEOs embrace it and make it real. But it has been hard. I mean, the business is run by accounting numbers, and yet accounting numbers are orthogonal to this objective, maybe worse. Maybe they actually are counter to it. And so it takes great leadership and a moral foundation that inspires teams to put customers first. That's a big deal. Employees are gonna worry about themselves first. (29.55)

SS It's interesting because my roots lie in direct marketing. So that's how I learned my trade if you will. And what's interesting is if you scratch the surface of any direct marketer – my Dad, for example, worked for Reader's Digest for about 35 years. You know, they were classic direct marketers, continuity publishers, etc. They understood a lot of these basic concepts of customer retention and recurring revenue. And that's how they grew and that's how they prospered then … until the company got taken over. It's not dissimilar incidentally from the Bain story. And it started a long downhill run. So we have a classic example of how a company, family-run, of course at the time before it went public, and then the immediate sharp decline after it became public. It's a living example of the very principles you have in your book. But my point was simply gonna be the methodology for this has been around a long time, it just isn't being applied today outside of a very small circle of pure-play DM companies, frankly.

FR Yeah. And at one point I thought, you know, this loyalty game, it's really a niche strategy. I like it the best - it's who I want to spend my life with. But as I got older and saw more and more industries and more examples, I said, actually, this is the only strategy that works long-term, whether it's harder in some ways - in a public company, for sure. But public or private, these examples I've laid out in the book, they're crushing it. And it's not that you put customers ahead of investors - you put customers first because that's the only way to give outstanding results for investors. And so that's the subtle difference I have with Jim Sinegal at Costco, who's a brilliant businessman. I don't think you have to rank order the stakeholders other than saying, I have to have my primary objective for existence to make my customers lives better.

SS Well, one of the stories you bring out in the book is the 14% rule that he applies – it's a brilliant part of the book. Just thought, yeah, that's certainly a way to gain on your competitors, make a promise you can keep, and then make it in the interest of customers. It's a fabulous example. And then Jeff Bezos basically copies that for Amazon. That was another cool example. Book's full of wonderful proof points I have to say. But let me throw a contrarian point of view at you. I'm not a fan but he has a voice and he's heard out there by a whole constituency of people and that's Byron Sharp and I'm sure you're familiar with him. And he has this contrarian point of view. But one of the things he's been quoted as saying is, and I'm gonna quote exactly what he said here, "Loyalty isn't an important question. Certainly not for practical people, especially since all measures, attitudinal to behavioural are highly correlated." What do you make of that opinion?

FR A lot of people have a very superficial understanding of loyalty. This notion about, I need your loyalty, I demand your loyalty, loyalty programs that bribe people for loyalty, that's not loyalty. You know, there's obedience and there's laziness, and there's a lot of bad things that people sometimes call loyalty. Loyalty is an investment. It's putting something ahead of your own selfish short-term interest, and that's a big deal. Why would a customer be loyal? Well, if they felt the love and they see that they are being cared for, their wellbeing and health and prosperity - it's not just coming back for more. That's self-interest. Only a nut wouldn't come back for more if they're treated like that, but they take that next step of referring their friends and cobranding their personal reputation with the company and that's a huge risk. And that's why so much of this book - and why earned growth is so heavily focused on this - the magic of recommendation and referral. You know, the Net Promoter question itself, I picked "likelihood to recommend". I didn't quite understand the full depth of what that meant. It was the best predictor of future behaviors, whether it was repeat purchase or paying back your debts, a lot of good things. A CEO explained this, he said, "Fred, you know, you don't recommend to a friend something that would abuse their employees or destroy the environment. You know, recommendation is a really high standard. You have to believe it's going to be in the best interest of that friend or family member to have the experience. And you'll be proud that you put them in that relationship." So it captures an awful lot of good things. (34.53)

SS But I think what you're alluding to as well is there's different flavors of loyalty. Just go back to Byron Sharp for a second. I think his main beef if you will, is that if you have a high-value customer, duh, of course, they're loyal. So drawing a correlation to your loyalty score and value isn't necessarily the right thing to...I think that was his main point, although he does fancy himself as an expert on loyalty. I agree with your point of view around this, but I think that's where he was...

FR I hope he reads the chapter on investment returns.

SS Yeah, I agree. But just go back to this point of loyalty has different flavors. And again, I'm gonna get into a little bit of this later on, but there's the true believer, the true fan, who'll go out of his way to buy products and to your point, recommend products, etc., buy every other product that company has. There's loyalty at a lower level, I suppose. There's behavioral loyalty I suppose to some extent. There's loyalty simply because you're trapped. Right? You're trapped because there's three companies in the category, they're all bad, but what choice do you have, which is really more retention.

FR Or you know, they have the store closest to you, so you gotta be a nut, even though they sort of suck, you're gonna go there a lot because it's so convenient, you'd be cutting off your nose to spite your face.

SS Well, Canadian Tire here in the country is a good example of that. It's practically on every other block and is, you know, useful. It helps … where there's some pride in the company, but you're quite right. And a lot, of retailers, I guess, fall into that category. But I wanna leapfrog from that question to what you were just talking about, which is the genesis really of the NPS score and you credit Enterprise, I think for giving you the initial inspiration because I guess they were doing some cust-sat study at the time. Can you explain how you actually landed on the fact that likelihood to recommend was in fact the best predictor of true loyalty?

FR Well, I saw Enterprise with a process that was working really well for them and it just called up a big sample of customers at every branch and asked them if they were completely satisfied and how likely they were to come back and return. I thought, you know, there's too many surveys in the world. I wonder if there's just one question we could ask that would actually get to the core of this and I tested what Enterprise was using and a dozen other questions about satisfaction and … anyways, long story short, the one that predicted future customer behaviors best - we actually watched customers over the next year or two and compared that to the scores that they gave back when T was zero. And it was "likelihood to recommend", how likely to recommend us to a friend, was the predictor, the best predictor. Now, not the best in every industry, but almost the best everywhere, so it had this universal application and I thought, you know, if we have one question all around the world and it gets at this highest form of loyalty, yeah I'll go back and buy from my current supplier because I know my way around and I'm sort of lazy or maybe it's software, it's enterprise software, and now we've implemented it, my God, we're not gonna shift to a new one, it's a monster lift. Repeat purchase, that doesn't really get at loyalty. Referring to a friend - that is the highest standard and it's totally contemporaneous, it's timely. It's at this instant, how likely you'd recommend to a friend, and it uncovers the good and the bad in a way that's very practical.

SS So what's the success, or has the success of NPS been, because as it's spread into all different categories and companies and began to be adopted, it's a fantastic benchmark measure within a category. And to some extent, really extends across categories, like companies aspire to get an Apple score, Costco score and say, "What do we need to do to disrupt the category, to get to that level?" For sure it's been great in that way. What do you attribute the success of NPS to? The fact that it is this one singular benchmark measure?

FR Yes. I've thought about that. I think part of it is that recommendation is at the core of true love and loyalty. Recommendation is an act of love by the way if you do it because you want something good for your friend or family member. I think having one universal metric that is 0 through 10, no matter where you are in the world. Yeah, people score it differently, rural versus urban and Spain versus Germany, but you can deal with that. Don't change the scale - just everybody knows ...I think that's part of it. However, one of the problems with it has been people don't get the subtlety of measuring it yourself and announcing it's you asking your customer for a score, and implicitly that agent you just talked to is gonna get in big trouble if you don't give an up score. So there all these biases and sampling bias and response bias and how you answer it. So getting apples-to-apples comparisons is hard. We built a new business at Bain called Net Promoter NPS Prism that finally gives you really reliable, rigorous data competitor by competitor, brand by brand, not just at the relationship level, but at each episode, each touchpoint. So it's killer. But until then, I've just seen people throwing crap at the wall and saying, that's my Net Promoter score. And I have no idea what they're talking about. (40.36)

SS Well, I think one of the brilliant moves you made though, was making it as you termed it open source so that everybody could adopt it. I run a hockey league and we do a player survey every year and that is one of the questions we ask.

And I also ask about, you know, would they look forward to playing every week as a corollary question and those two move in tandem. I'm happy to report that our scores are up around what Apple is. So, but I mean every small, middle-size business is using it. But to your point, I think is, and you bring this out in the book, is it's subject to manipulation.

FR Both conscious and unconscious. Just when you ask it and how you ask it and is there any risk that the person answering it will not be candid? You know, there's either fear of retribution or I wanna scratch that guy's back, I don't want to get an employee in trouble when it's the process that's broken. So it's just trickier than meets the eye. It sounds simple and it gets criticized for being overly simplistic when in fact getting this right and right timing, the right degree of anonymity, the closed-loop processes, it takes a lot of work.

SS It does. And our major client is using it quite successfully to manage their relationships with retailers - they're using Medallia and they're following up on low scores to understand what the issue is. So I think one of the knocks on NPS for a long time was it wasn't really a diagnostic tool per se.

FR Yeah, but that was one of the most unreasonable criticisms. From Day One Net Promoter was always 0 to 10: "How likely are you to recommend us to a friend?". And then an open text "What's the primary reason you feel this way?" That's the brilliant diagnostic. Now, the statisticians don't like it because they don't have lots of nice, structured data that I can use my cool statistical tools on. But if you read the comments from the customer and you know how they scored you on likelihood to recommend, it's just gold for understanding what you need to get better at.

SS Well, our clients are tying it back to what they know to be the business drivers and are correlating it that way.

FR Stuff changes. And when you decide how you're gonna think about drivers and structure the data, you're leading the witness. And so if you wanna see around corners and see things quickly, leave that open text verbatim.

SS Oh, and that makes complete sense. I think the other flip thing is companies don't do enough due diligence around what the loyalty drivers are. So in this case they actually have an understanding, but you also, I think, need to understand the weightings, the differential weightings across those drivers. And then it's not the same for all segments either. I think that's the other thing that's often missed in doing that, you know, due diligence upfront and establishing the benchmark studies, etc. I do wanna stick with this topic because NPS has been, as you acknowledge, unfairly criticized, and one of the really stinging rebukes if you will, was last year, as you know - I think you must know - that Gartner predicted that more than 75% of organizations would abandon NPS as a measure of success for customer service. First of all, where were they coming from with that criticism, and why the backlash?

FR I have never read a useful criticism of Net Promoter that didn't come from somebody who had an alternative metric they were trying to sell. It was way more complicated, had a lot of self-interest in the pitch and I fear that's true of the example you just cited. I think they just bought a company whose business was based on an alternative metric. You're supposed to learn from your critics? I haven't learned much from my critics. I've learned a lot from practitioners who have done smart things and not so smart things and what works. So I'm humble about how much I have to learn, but I think in general, the critics have been not up to the task in this, sadly. (44.49)

SS Well, I think one of the other things you hear sometimes that, oh, it's too simplistic a measure, blah, blah, blah. But I think one of the ones that struck me was and I thought to be a valid point, was NPS is a great measure holistically of a person's feelings toward the brand. Now it's obviously being used at a transactional level after service transactions, etc., and appreciating that fact. But the knock was, oh, well, it's more of a holistic measure – we need other measures like "customer effort" score. And I think they also build on that by saying, well, there are things that people are loyal to, the brand and the value they get from the brand, but there are also things that they are disloyal to and the disloyalty drivers can be an override factor. And the example they give is the degree of effort we force customers to go through to resolve a problem or an issue which will drive somebody right out of a company no matter how initially loyal they may be to the brand. But does your approach with Medallia, which is using it as more of a diagnostic tool answer that question, or is something like effort score valid as an augmented measure to NPS?

FR I think there are a handful of episodes that are really vital in a customer's journey or experience, whatever you want to call it. And I have found that using Net Promoter with recommendation language is by far the best in those really leveraged relations. And especially where there's a human being involved. Why would you pay for a human, unless you're trying to do something really special and delight that customer and have a creative solution? Wow them. And the cool thing about likely to recommend a friend, 0 through 10, it catches the wows. Now there's a bunch of other touchpoints where, you know, I just want to cut the costs and I don't wanna screw it up. I don't want to anger customers, but we don't think we can "wow" customers here. So let's just cut the effort. Then things like customer effort score, or frankly satisfaction or "rate the experience" work just fine. But those are the lesser important transactions. And no one knows exactly how they link up to the customer's overall relationship. So I'm totally open to using the right metric and the right process for different parts of the experience.

SS I guess my confusion around loyalty at the corporate brand level versus the product brand level. And I'm gonna give you an example a little later, but just sticking with that for a second, for example, our client, again, I'll reference them. They have a tremendous flagship product; it commands really strong loyalty of their customers but the corporate brand is virtually invisible and means nothing to them for the most part because they interact with the brand and not the corporation. And yet you can look at a company like Unilever, which is a portfolio of brands, and of course, Dove is a fantastic success story, a demonstration of the first principles you were talking about earlier. Is there a requirement to look at loyalty from both a corporate brand perspective and a product brand perspective? And then is the role of the corporate brand really to set the conditions for loyalty success for the product brands? What's your vision on the dynamic there?

FR There's no simple answer. You know, Apple has different product lines - there's certainly an Apple relationship score and it's different for different products. It really depends on how you want to identify the relationship in the consumer's mind. And that becomes the most important element. I think for Unilever, I'm betting that for the customer, each individual brand is way more important than it came from Unilever. In Apple's case, I think it's more important that Apple takes a bigger role because there's consistency of theme and protecting your data and a track record of cleverness and outstanding product that counts, but you know, measure both and see which one is the most important. And that's where you put your energy. (49.06)

SS Or maybe the answer is they have different roles - the corporate brand like Unilever if you go back to them, sets the stage in terms of requiring all brands to have some sort of higher-order purpose to them, connecting to people's passions, connecting to ESG, etc. And in the case of Apple, they provide sort of aesthetic uniformity across their brands. There are standards that when you buy an Apple product and yet, you know, it's interesting, I had a recent service experience with Apple and I got asked NPS surveys three different times on the experience and each experience was slightly different, and my answer incidentally to that was slightly different, depending on where I started. And so I often wonder, well, how do they roll all this up? Or are they keeping that NPS to measure sort of at a more granular level and there is no roll-up in fact. What do you see in terms of how companies deal with varying NPS scores with one customer across different transactions?

FR I hope that more and more companies will go to an NPS Prism kind of resource where you get relevant scores, apples-to-apples, for all the competitors, and by touchpoint. And then they're gonna figure out what are the priorities and run experiments to get better. And build feedback systems to let them evaluate those experiments. And then they'll see in the Prism data, is it working or isn't it? But today there's a little bit of a chaos where, gee, I really don't have benchmarking studies across my key competitors in my local markets. And so I'm making up pseudo benchmarks and it's very fuzzy.

SS Well, that's the other thing you bring out in your book, right?

FR The book will help, but it also is, you know, I spend $10 billion putting my accounting numbers together around the world, but I'm gonna put $25 behind my marketing feedback rigor. Which is more important? All the money is coming outta customers' wallets. Do you wanna understand earned growth rate and how many are coming back for more and bringing their friends and why? Well, I think smart people are gonna invest in that.

SS Well, I mean, back to the question of who's holding the purse strings on investment in improving the customer experience. And today it's still very much an operational expense, isn't it?

FR It is indeed. And I think that's one of the reasons to get the board of directors interested in this because just like the audit committee at board demands things from the finance organization, the customer committee from the board should be demanding reliable information on customer results because they are so vital to the long-term interests of investors in the company itself.

SS Can I just go back in time a little bit in the few minutes we have remaining here and you spent your whole career in pursuing this, I'm gonna call it, messianic vision. May I use that term? But Bain was I think the first consultancy to actually have a loyalty practice. You created a bit of a groundswell around it. Just go back to that period, if you don't mind, and help me understand why Bain decided that that was going to be a growth area for the business. The idea of consulting on loyalty.

FR I think we saw that it was an angle of view on the world that people did not understand but had great power to drive practical progress and results, to help people succeed, and to make the world better. It led people down a path of treating customers right. And putting employees in a way that inspired them to be parts of teams that treat people right. And understanding the loyalty benefits is the economic reality that stokes that engine. So I just I think there were enough people convinced in Bain that this was a transformational perspective and it continues to be - it has enormous power as you see in the book, example after example, industry after industry, it is stunning what leaders have been able to achieve with this.

SS Yes, that's for sure. And that's your...that's a big part of your legacy for sure. So you mentioned earlier, and it's in the book too, that 10% of executives, you know, just 10% of executives, believe the purpose of their business is to - this is a phrase you use constantly in the book - to enrich people's lives. You know, just in closing out the interview here, what's it gonna take to convince the other 90% that, I mean, we talked a lot about making the business case. We've talked about sort of appealing to the moral imperative, the connection to, you know, businesses and corporations have to redefine themselves in this world today. You know, Larry Fink's recent letter, just even emphasized that more, the role of the corporation, the Business Roundtable came around to the idea of stakeholder capitalism, I could go on. There's been a strong movement in the last number of years, certainly behind this, but yet 10% believe that their job is to enrich people's lives. What more is this gonna take to get them over this threshold? You've spent your entire career doing this - what more do you think needs to be done?

FR I think the greatest thing is to get people to read the book, sit down with their teams once a week, once a month, and talk about each chapter and what their reaction is to it and what the implications are for our business and for the important decisions we're making right now. And the more companies that get serious about that and talk about it as a team and challenge the thinking, I think I created that as a tool to drive this change. Of course, measuring earned growth rates would be part of that and changing our investment strategy and changing your customer experience. But the book is a change management document that goes from first principles down to the very practical. You know, it ends with a manifesto and then Net Promoter 3.0 with a really detailed list of best practices. So the book is the answer. I hope more and more people read it and take it seriously. (55.32)

SS Well, you need I think obviously to create some apostles around this. I'd like to think that's the role of certainly my site in spreading the message around this. So you've written a number of books over the years. We referenced "Loyalty Effect", it's enduring, it's been sitting on my bookshelf for 26 years for a reason. Certainly, all your other books have been bestsellers and struck a chord. What's the next one gonna be about though? You know, let's see, you've, you know, pursued this relentlessly over all these years, achieved great success with NPS. You'll be in a pantheon of marketing management thinkers, or management thinkers period, as a result of your good work over the years. What's the next phase look like for you personally?

FR I don't know the answer to that. I think you know, I'm getting old, so it's time to go out in the garden and start taking care of it.

SS And you're a big gardener, you got the Loyalty Bell in the back and everything else, right? That's a cute part of this book.

FR You know gardening's a pretty good metaphor for a lot of things in life.

SS It is too, isn't it?

FR Yeah. I think this earned growth rate will be a centerpiece of the next 10 years and just where Net Promoter was unheard of when I invented it 20 years ago - no one's heard of earned growth - I'm hoping that in 10 years it becomes standard. No business would ever consider running themselves without having an audited earned growth rate that they understood internally and could report outside.

SS Yeah. And that shows up in the annual report and demonstrates the success of the company.

FR Exactly.

SS Fred, this has been everything I expected and more. You're a delightful person, first of all, to talk to, very easy to talk to. So I just so enjoyed the conversation and certainly the spirit of it and everything you believe in, I believe in, and I'm trying to do with this site. So I wanna thank you very, very much for the time you've given me today. It's a true honor. Like a really true honor.

FR My pleasure. Thank you very much.

That concludes my interview with Fred Reichheld. As we learned, business growth can no longer come at the expense of customers or society in general. The foundation for sustainable profits is a commitment to putting customers first. Some of the most successful brands in the world today have validated that loyalty equation, consistently outperforming the market over time. But that requires a fundamental shift in management culture which today treats business as a growth-at-all-costs war. The purpose of a business should be to make the world a better place for customers. Unfortunately, our financial system is not set up to reward good deeds. Progress toward a more humane form of capitalism is held back by accounting practices that value short-term profits over growth in customer equity.

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