

# Results

March – April 2006 | Business strategy brief

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ABX Logistics



CUSTOMER RELATIONS:

*"By measuring NPS systematically, corporate leaders hold their troops accountable for building great customer relationships that lead to lasting growth."*

*Jean-Charles van den Branden  
Partner  
Bain & Company*



In an age when every customer counts, too many companies are doing their best to chase them away. Some companies are waging war on customers by cutting corners on product and service quality, imposing hidden fees and charges, or forcing them to endure aggressive sales tactics, endless lines and voicemail hell. They don't tell the truth in their advertising and marketing, and they don't own up to their mistakes. This war on customers is destroying corporate reputations, alienating employees, and decimating economic prosperity. It's a major reason why nearly 80% of the world's major corporations failed to achieve even modest real growth over the past decade.

Ironically, it's a war most of the generals do not want to fight. Most CEOs do value customer loyalty; companies, in fact, rain customer satisfaction surveys down on homes and businesses. The problem is, these surveys generally are ineffective—sometimes even counterproductive. Companies use them too frequently and do not target them at the right customers. (For more on this, read the management feature in this issue of *Results*.) They usually fail to offer real solutions to customers'

problems. Sometimes they are simply blatant marketing tools.

However, Bain director emeritus and loyalty expert Fred Reichheld has developed a wholly new kind of customer metric that can focus an entire organization on improving every customer's experience day in and day out. In his new book, *The Ultimate Question: Driving Good Profits and True Growth*, he describes this powerful new tool—the Net Promoter® Score—and how companies can harness it to end the war on customers and their addiction to what Reichheld calls “bad profits.”

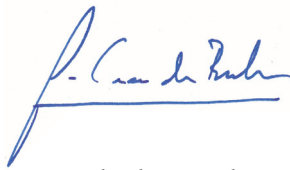
While conventional accounting can't distinguish bad profits, they are easy to recognize—they are earned at the expense of customer relationships. This short-term approach to profits creates legions of detractors—customers poorly treated by a company—who cut back on their purchases, switch to the competition and warn others to stay away. According to Reichheld, bad profits—and the detractors they create—strangle a company's growth.

In the book, Reichheld describes how companies like Allianz, eBay and American Express are reversing this equation by turning customers into promoters who generate good

profits and sustainable growth. The key is to ask customers one simple question: How likely would you be to recommend us to a friend? That one question allows companies to track promoters and detractors and calculate their Net Promoter Score, which provides a clear picture of an organization's performance through its customers' eyes. By measuring NPS<sup>SM</sup> in a regular, systematic and timely way, and publicizing the results—just like financial performance metrics—corporate leaders make their companies' real mission clear. They can hold their troops accountable for building great customer relationships that lead to lasting growth.

On the following pages, you'll find Fred Reichheld's analysis, in which he shares more practical insights from his research and describes in detail how to calculate NPS and apply it to put your company on the path to true growth and prosperity.

I hope you will find it an interesting read.



Jean-Charles van den Branden

## BLOWING THE WHISTLE ON BAD PROFITS



*“To distinguish good profits from bad, you just need to ask your customers one simple question—How likely is it that you would recommend this company to a friend or a colleague?”*

Fred Reichheld  
Director Emeritus



*“Companies with the leading NPS in an industry enjoy superior growth—typically, more than 2.5 times the average growth rate of the competition.”*

Christophe  
De Vusser  
Manager  
Bain & Company

Too many companies can't tell the difference between good profits and bad. The consequences are disastrous. Bad profits choke off a company's best opportunities for true, lasting growth. They blacken its reputation and make it vulnerable to competitors.

By “bad profits” we mean profits earned at the expense of customer relationships. Whenever a customer feels mistreated, those profits are bad. Bad profits come from unfair or misleading pricing, from saving money by delivering a poor customer experience, from extracting value from customers rather than creating value. At many firms more than 30% of customers fall into this category.

Good profits are dramatically different. A company earns good profits when it so delights its customers that they willingly come back for more—and not only that, they tell others to do business with the company. Satisfied customers become, in effect, part of the company's marketing department. They become promoters.

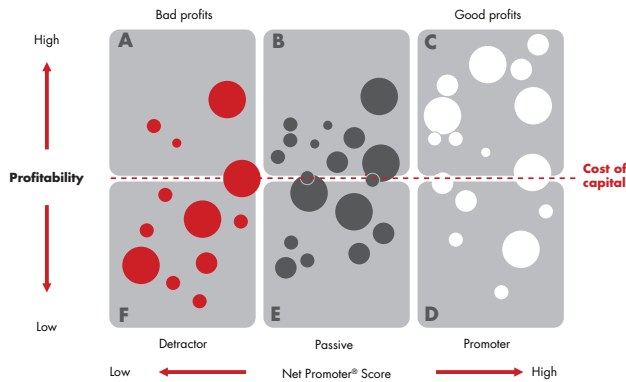
A simple technique can help you distinguish good profits from bad: Ask your customers to answer what we call “the ultimate question”—How likely is it that you would recommend this company to a friend or a colleague?—on a scale from zero to 10. The responses will help you tally a metric known as Net

Promoter® Score. NPS<sup>SM</sup> has been shown to correlate well not only with customer referrals and repurchases, but also with companies' growth rates.

Customer responses cluster into three groups. The first group—customers who give the company a 9 or 10—we call promoters. The second group, which rates the company 7 or 8, are “passively satisfied.” Detractors, with ratings from zero to 6, make up the third group. A company's NPS is simply the percentage of promoters minus the percentage of detractors.

Bain has found that companies with the leading NPS in an industry usually enjoy superior growth—typically, more than 2.5 times the average growth rate of the competition.

How can a company raise its NPS? First, by designing the right propositions for the right customers. A vital step toward clarifying your priorities is quantifying the average lifetime value of your company's promoters and detractors, factoring in margins, annual spend, cost efficiency and referrals. But mapping



**Figure 1:**  
Customer NPS  
profitability  
grid

your customers onto the grid illustrated above will also help you.

High-profit promoters, in the upper right, love doing business with you. These customers should be your top long-term priority for strategic investment and innovation. Your entire organization should focus on delivering flawlessly to them. Too often, however, customers in this sector are taken for granted (no squeaky wheels here). Inadvertently, companies may be milking profitable promoters to fund solutions for less-profitable customers.

In the 1980s, American Express took the healthy profits from its core travel-card business and financed an expansion into financial services. Within the card division, margins from high-volume customers subsidized the acquisition of

new customers outside the core business. Predictably, American Express’s growth and profits tailed off—until it revitalized compelling propositions for core customers. For example, the company transformed its Membership Miles program into Membership Rewards, one of the industry’s most generous rewards programs, and created the Rewards Plus Gold card, now one of its most popular products.

High-profit detractors, in the upper left corner, should be the second priority. They don’t like doing business with you and are telling others. They will likely defect at the first opportunity.

A mobile-phone provider found that many accounts in this sector were locked into long-term contracts at fixed prices. When these prices

became uncompetitive, the customers were furious. The fix was easy: offering more favourable terms in advance of renewal. That cost money, but holding angry customers hostage would have cost even more.

Moving more customers into the upper right sector should be your third priority. Begin by looking for ways to encourage low-profit promoters to do more business with you—as Amazon.com did with personal recommendations and incentives like premium shipping. You’ll also have to figure out what would win over the passives, and calculate whether such investments make sense, or would merely “steal” resources away from your core.

Leading companies like GE and American Express are now deploying NPS and discovering how versatile it is. Like any good metric, NPS allows experimentation and accelerates learning. It helps you understand your core customers and design propositions that captivate them—and discover opportunities to deliver a great customer experience at every touchpoint. By producing NPS data regularly, you’ll institutionalize a cultural shift, making customer metrics every bit as auditable and practical as financial metrics like profit and return on equity. You’ll develop your capability to keep

turning customers into advocates that lead your company to lasting growth. And it all starts by asking just one question.

*Net Promoter® is a registered trademark of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.*

### **The top 10 reasons you don’t understand your customers**

Satisfaction surveys have become a long-running, bad joke. In the tradition of late-night comedy, here are the Top 10 reasons why they fail.

10. Too many questions. Companies pile on questions, raising the cost of the surveys, discouraging would-be respondents and shrinking the sample size.
9. The wrong customers respond. Do you really want to hear from people who have nothing better to do than answer lengthy surveys? Chances are your most profitable customers ignore them.
8. The right employees never hear the problems. If a customer does report a source of dissatisfaction, the information never reaches the people who can make it right.
7. Many surveys are sales calls in disguise. Marketers have learned that prospects are less prone to hang up when asked a few initial questions than when they get an outright cold call. Result: customers mistrust anything that sounds like a survey.



6. Survey scores don't link to a company's performance. Bain & Company research consistently finds that the links between satisfaction-survey scores and customer behaviours that drive profitability or growth are tenuous at best. Detailed analysis of individual customers, for example, typically finds that between 60% and 80% of customer defectors score themselves as "satisfied" or "very satisfied" on surveys preceding their defection.

5. Plain-vanilla solutions don't fit companies' needs. Survey-research firms often push cookie-cutter solutions. But does a bank need the same information as an auto manufacturer?

4. Everyone gets to make up his own rules. For instance, the new CEO of a global telecom company found that each business line had its own satisfaction-survey vendors. If a division didn't like what it heard, it tinkered with the methodology.

3. Surveys confuse transactions with relationships. Gauging the quality of a single transaction is easy. But evaluating a relationship must include every detail of the customer's experience—awareness, purchase, servicing, billing, upgrades and so on. Companies rarely assess all these touchpoints, much less focus on the activities that matter most to customers.

2. Surveys actually dissatisfy customers. Who wants to be interrupted at dinner for a survey? A friend who bought a new car says he'd be more satisfied if the

company just cut prices by the amount they spent on the multiple surveys he received.

1. Gaming and manipulation wreck surveys' credibility. Automakers are among the worst offenders, sometimes employing cynical salespeople who negotiate for high satisfaction ratings in exchange for free floor mats, or another \$500 off.

What a business needs isn't satisfied customers, it's passionate advocates, the kind who sing the company's praises to friends and colleagues. The trick is to measure customer advocacy and make that information available to your operating managers right away.

The good news is that you can gather this data with as little as one question: How likely are you to recommend this company to a friend or colleague? (See "Blowing the Whistle on Bad Profits," page 4.) Ask this question systematically, then score the results on a zero-to-10 scale. You'll find out how many of your customers are loyal promoters (9s and 10s), how many are just passively doing business with you (7s and 8s), and how many are detractors (everyone else).

The key to growth? More promoters, fewer detractors.

*Fred Reichheld, a Bain Fellow and director emeritus at Bain & Company, is author of The Ultimate Question (Harvard Business School Press). This article is adapted from "The Top 10 Reasons You Don't Understand Your Customers," which Harvard Management Update will publish in May.*



**Description**

Bain’s work in customer management starts with identifying the most valuable customer segments and proceeds to guide companies through these processes:

- Developing or enhancing the value proposition offered to customers
- Acquiring new customers
- Transforming the customer experience
- Growing the company’s “share of wallet”
- Enhancing customer loyalty and retention to increase profits

Achieving customer-driven leadership can be challenging for firms whose traditional strengths are product leadership or operational excellence. Bain helps those companies to build customer focus into every aspect of their day-to-day business. We support world-class firms in their efforts to get even better at acquiring and satisfying customers.

**Bain’s differentiation**

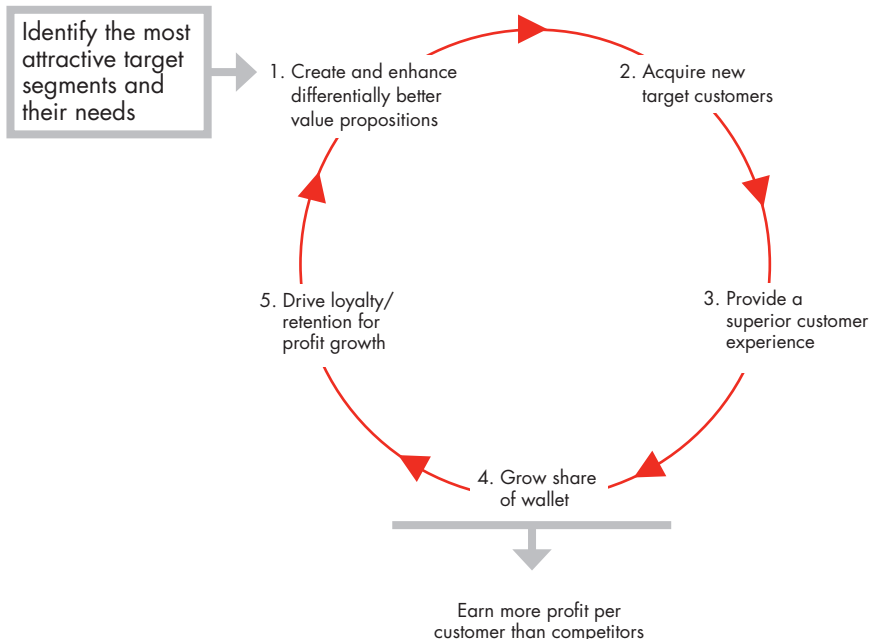
Bain has been a leader in the field of customer management for more than two decades. Our work in this area has enabled companies to more than double their revenue growth. Building on deep customer-segment analysis, our programs ensure that both strategy and performance improvements will align with one goal: meeting the key needs of the highest-value customers.

As an innovator in loyalty work, we help companies go beyond mere customer retention to realize the full lifetime potential of customers. Our studies show that a 5% increase in customer loyalty can grow a company’s profitability by 40% to 95%, supporting our view that customers are long-term assets.



## Bain's approach

Customer segmentation, the process of identifying distinct groups within a company's pool of business, is the foundation of our approach. All customers are not created equal. Profit potential varies across a customer base; segmentation allows companies to allocate scarce resources where they'll deliver the highest payoff. Bain begins by studying the needs of current and potential high-value customers and analyzing how a firm meets those needs. We help companies identify and evaluate new business opportunities, and then develop and roll out new offerings. We also enable companies to sharpen their focus by clearly measuring how well every activity serves their target customers. Increasingly, we work with clients to design systems that gather and manage information about customers on a continual basis, allowing them to rapidly identify and respond to changing customer needs or shifts in marketplace dynamics.



### HANDS ON, WITH A HEART



A talk with  
Laurent Levaux  
Chief Executive  
Officer  
ABX LOGISTICS

Halfway through our interview in his office overlooking the “Gare du Midi” switchyard, ABX LOGISTICS’ CEO Laurent Levaux jumps up from the conference table, races over to a flip-chart easel, grabs a blue magic marker and begins scribbling away. “Napoleon once said, ‘A little drawing works better than a long speech,’” he says, laughing, as he draws an org chart, then accents it with a red arrow. He starts to describe his philosophy of hands-on management, which he’s now applying to his current task: restructuring ABX LOGISTICS.

**You’re known as a restructuring expert. Do you have a textbook social approach to the challenge?**

“There are very strong differences between the way you approach restructuring in Europe, especially in Belgium, and the way you approach it in the US or Asia. On a human level, restructuring is always the same: it comes down to the personality of the managers. But legally and culturally, the approach is totally different.”

**So your approach differs in various countries?**

“It has to. In France, for example, restructuring is very contingent on legal rules: you have to address the government itself and get its approval, which makes the process difficult and very lengthy. In Germany, everything is done through representatives of workers, which are not necessarily unions; everybody is very well represented in the process. Everything is decided in a calm atmosphere, without much trouble and little risk of industrial action. In France you negotiate with the government and unions. Representatives of workers are a bit outside the process, and there is a

risk of partial strikes. In Belgium, the situation is difficult because so little is established in the law. Relations with the Belgian unions are more about building a rapport and avoiding the threat of strike than about strictly following the law. So with the restructuring process, you have to work in different ways to win over different audiences in different countries. A common mistake when you start the process is to misunderstand the audiences of the country you are dealing with.”

**What’s the first step in any restructuring?**

“There are two schools of thought—well, two good schools, and a lot of bad ones! One school says to clean house very quickly and very visibly. The other is to devote time to evaluating and understanding each person to be sure that you don’t lose good people, that the value of the company remains solid and the people who work for it understand that. This requires losing a bit of time, maybe even 9 to 12 months. But during this time one can evaluate the talent of existing personnel and have more time to find the best new talent. That approach also communicates to all,

#### ABX LOGISTICS

is a Belgian company and one of Europe’s top 10 transport and logistics service providers handling air, sea and road consignments. The company has annual turnover of 2.5 billion euros and about 10,000 employees.

management and shareholders alike, that the top value in the company is ‘people,’ and it gives everybody a fair chance.”

**Do you feel like the enemy when you take over a company?**

“It’s important that we send a message to all levels of a company that at the top, we are human. We have to explain to everyone why there is the need for a reshuffling, explain the rationale and the strategy behind it and the values that will be applied throughout the process. And it’s critical to be a role model. The way you conduct yourself as the head of a restructuring process will be mimicked throughout the whole group.”

**That means getting into the trenches with the troops.**

“I don’t feel that a courteous visit to the facilities helps me in deciding how to restructure. The key is not to visit; it’s to get into the mix, to help manage when necessary. When a manager needs assistance on a difficult project, step in and work with that person throughout the process. A CEO has to be willing to spend a good 50% of his or her time—and sometimes even more—getting personally involved with problem solving. A dedicated personal involvement sends out strong signals.”

**Can the situation at the European level ever be improved?**

“It’s an enormous problem that there have to be separate companies in Europe, that there is no practical European company statute. It puts us at a disadvantage

against the Chinese, the Indians and the Americans. We have to find a system that allows Europe to function like a large country.”

**How have you changed ABX?**

“We divested where necessary and boosted productivity quickly. We have cut about 7,000 positions in three years, while avoiding any significant work stoppages, because we were successful in working with different audiences. We did everything in the open. We showed that we respected people. We showed that we knew this was a very difficult process for the staff representative too. And that allowed us to negotiate buyout packages very quickly, without any social actions. Now, as a result of the restructuring measures, the company went from losses of over 12% of the turnover in 2002 to operational profit since in 2004.”

*Interview conducted by Craig Winneker*

**Laurent Levaux**

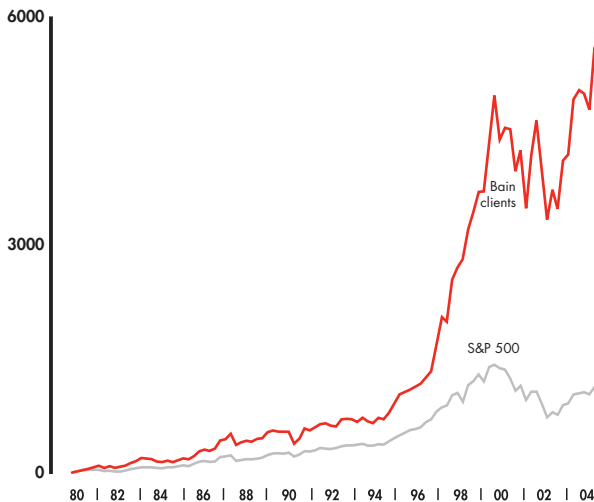
- Laurent Levaux has been CEO of ABX LOGISTICS since March 2003.
- From 1996 to 2003 Laurent Levaux was CEO of CMI, an international engineering and maintenance group, based in Belgium.
- Previously he was a partner at McKinsey where he worked for 10 years.
- Mr. Levaux holds an MBA from the University of Chicago and lectures in business strategy in Belgium.

# Making companies more valuable



## Bain clients outperform the market 4 to 1.

Percent increase  
in share price (1980=0)



Note: Methodology and data are attested by PricewaterhouseCoopers through December 2004

Bain & Company is one of the world's leading global business consulting firms, serving clients across six continents on issues of strategy, organisation, mergers and acquisitions, performance improvement, information technology and change management. It was founded in 1973 on the principle that consultants must measure their success in terms of their clients' financial results. Bain's clients have outperformed the stock market 4 to 1. With offices in all major cities, Bain has worked with over 2,700 major multinational and other corporations from every economic sector, in every region of the world.

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Bain & Company Belgium, Inc.  
Blue Tower - 24th Floor  
Avenue Louise 326  
B - 1050 Brussels  
[www.bain.be](http://www.bain.be)

### For more information:

Anja Wittrup  
Tel: 32 (0)2 626 2612  
[anja.wittrup@bain.com](mailto:anja.wittrup@bain.com)

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