

COMMENT

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## How companies can end the cycle of customer abuse

An undeclared war is raging across the business worlds – a war of companies against their customers.

The evidence is everywhere. Mobile phone companies peddle complicated plans that manipulate customers into buying minutes that get wasted. Airlines change their fares so often that travellers never know what the “real” fare is. Banks process the largest cheques first each day, so account holders may be hit with more insufficient-funds penalties.

Customer abuse ranges from the trivial but annoying (rental car companies charging exorbitant rates to fill up the tank when you return a car) to the potentially life-threatening (pharmaceutical companies quashing negative findings on their drugs while trumpeting the benefits on television).

The earnings that result from this kind of customer abuse are bad profits and too many companies are addicted. Retail banks now depend on nuisance fees for as much as a third of reported earnings. One mobile phone operator calculates that proactively putting customers in the plan that was best for them would cut profits 40 per cent.

The damage to company reputations throttles growth. Happy customers are loyal. They come back for more and they sing a company’s praises to friends and colleagues. Disgruntled customers are disloyal. They cut back on purchases, switch to

the competition if they can and warn others to stay away. Companies plagued by disloyalty spend heavily to bring new customers in the front door, because so many old customers are defecting out the back.

So why does the war persist? Business measures success based on profits but accountants cannot distinguish between a dollar of bad, customer-abusive, growth-stifling profits and a dollar of good, loyalty-enhancing, growth-accelerating profits. When employees strive to meet their profit targets any way they can, they frequently end up taking advantage of the people who buy from them.

Conventional customer satisfaction surveys have failed to stop this war. They ask so many questions that they typically draw responses only from the bored, the lonely and the seriously aggrieved. If scores on satisfaction surveys affected growth and profitability, institutional investors would pore over satisfaction data. They do not. Bain & Company’s analysis of 8,000 US mutual fund filings from 2003 to 2005 revealed only six mentioned “customer satisfaction” as a reason for picking one of the stocks in their portfolios.

There is good news, however, for those who would end the war on customers. A handful of leading companies, including General Electric and American Express, are deploying a different kind of satisfaction metric – a hard-nosed, no-nonsense measure-

ment that can focus an entire company on earning customer loyalty.

The key is to ask customers one simple question: “How likely is it that you would recommend us to a friend or a colleague?” A one-question survey can get response rates of 70 per cent or more. It can be conducted often enough to provide chief executives and operating managers with granular, timely, accurate data, which can also be audited. GE and the

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others focus on one statistic that nets the percentage of customers who are unhappy (scoring 0-6 out of 10) from the percentage who are loyal promoters (scoring 9 or 10). This Net Promoter Score provides a single number as clear and actionable as net profit or net worth.

A system very much like this has been in operation for some years at Enterprise Rent-A-Car and the effects are remarkable. More than 90 per cent of customers who receive Enterprise’s simple survey respond to it. Managers at each of Enterprise’s branches get their scores once a month, simultaneously with their branch’s income statements. They and their employees know that they are account-

able for the scores, and take action to increase the number of happy customers and reduce the number of complaints. Many of Enterprise’s customer-friendly innovations, such as picking up customers at their homes or offering chilled bottles of water to shuttle riders, originated in employees’ attempts to boost scores. Branches with higher scores grow faster and are more profitable on average than branches with lower scores.

To have an impact top management must take these scores as seriously as profitability. Enterprise employees at branches scoring below the corporate average are ineligible for promotion. GE ties a significant portion of managers’ bonuses to meeting NPS goals. British Gas Services plans to do the same in the UK.

It seems odd to argue that a measurement could end a war. But the war on customers is a war CEOs do not really want and cannot afford. When corporate leaders can hold employees and themselves accountable for treating customers right, profitable peace is near at hand.

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