FRED REICHHELD is a Director Emeritus of Bain & Company, and in January 1999 was elected the firm's first Bain Fellow. Mr. Reichheld joined Bain in 1977 and was elected to the partnership in 1982. His consulting work and research have focused on helping clients achieve superior results through improvements in customer, employee, and partner loyalty. In the June 2003 edition of *Consulting* magazine, Mr. Reichheld was included on the list of the world's top twenty-five consultants.

Mr. Reichheld's work has been widely covered in the *Wall Street Journal, New York Times, Fortune, Business Week,* and the *Economist*. The *Economist* refers to him as the "high priest of loyalty"; the *New York Times* declares, "[He] put loyalty economics on the map." He is the author of eight *Harvard Business Review* articles on the subject, and his two previous books, *The Loyalty Effect* (1996) and *Loyalty Rule*s (2001), were published by Harvard Business School Press. He is a frequent speaker to major business forums and groups of CEOs and senior executives worldwide.

A graduate of Harvard College and Harvard Business School, Mr. Reichheld lives with his wife, Karen, and their family in the Boston area.

For more information visit: www.bain.com

BAIN & COMPANY

THE ULTIMATE QUESTION

For Unlocking the Door to Good Profits and True Growth

FRED REICHHELD

HARVARD BUSINESS SCHOOL PRESS
BOSTON, MASSACHUSETTS

Printed in the United States of America
10 09 08 07 06 5 4 3 2 1

[CIP TO COME]

The paper used in this publication meets the minimum requirements of the American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1992.

CONTENTS

PART THREE

BECOMING GOOD ENOUGH TO GROW

ONE

Bad Profits, Good Profits, and the Ultimate Question

Too many companies these days can't tell the difference between good profits and bad. As a result, they are getting hooked on bad profits.

The consequences are disastrous. Bad profits choke off a company's best opportunities for true growth, the kind of growth that is both profitable and sustainable. They blacken its reputation. The pursuit of bad profits alienates customers and demoralizes employees.

Bad profits also make a business vulnerable to competitors. Companies that are not addicted—yes, there are many—can and do zoom right past the bad-profits junkies. If you ever wondered how Enterprise Rent-A-Car was able to overcome big, well-entrenched companies to become number one in its industry, how Southwest Airlines and JetBlue Airways so easily steal market share from the old-line carriers, or how Vanguard soared to the top of the mutual fund industry, that's your answer. These companies just said no to bad profits, and their revenues and reputations have flourished.

The cost of bad profits extends well beyond a company's boundaries. Bad profits provide a distorted picture of business performance. The distortion misleads investors, yielding poor resource decisions that hurt our economy. Bad profits also tarnish the position of business in society. That tarnished reputation undermines consumer trust and provokes calls for stricter rules and tighter regulations. So long as companies pursue bad profits, all the noisy calls for better business ethics are so much hot air. The only way a company can truly live by the Golden Rule—treat others as you would like to be treated—is to avoid bad profits entirely.

By now you're probably wondering how in heaven's name *profit,* that holy grail of the business enterprise, can ever be bad. Short of outright fraud, isn't one dollar of earnings as good as another? Certainly, accountants can't tell the difference between good and bad profits. They all look the same on an income statement.

While bad profits don't show up on the books, they are easy to recognize. They're profits earned at the expense of customer relationships.

Whenever a customer feels misled, mistreated, ignored, or coerced, then profits from that customer are bad. Bad profits come from unfair or misleading pricing. Bad profits arise when companies save money by delivering a lousy customer experience. Bad profits are about extracting value from customers, not creating value. When sales reps push overpriced or inappropriate products onto trusting customers, the reps are generating bad profits. When complex pricing schemes dupe customers into paying more than necessary to meet their needs, those pricing schemes are contributing to bad profits.

You don't have to look far for examples. Financial services firms, for instance, like to throw around terms like *fiduciary* and *trust* in their advertising campaigns, but how many firms deserve these monikers? Mutual funds bury their often-exorbitant administrative fees in the fine print, so that customers won't know what they're paying. Brokerage firms slant their research to support investment-banking clients, thus bilking their stock-buying clients. Retail banks charge astonishing fees for late payments or bounced checks.

Or take health care. Too many hospitals won't reveal the deals they have cut with insurance companies. Too many insurers do their best to exclude people who might actually need the coverage—and if you do have coverage, they're sure to drown both you and your doctor in a deluge of complicated paperwork. Many pharmaceutical companies pay doctors to push their drugs, while carefully quashing studies suggesting that a potentially lucrative new drug may be ineffective or dangerous. And many health-maintenance organizations promise to provide cradle-to-grave coverage, yet balk at paying for many procedures their own physicians recommend.

Travelers face their own set of inhospitable tactics. They must pay most airlines $100 to change a ticket and $80 for an extra piece of checked baggage. If they are so foolish as to use a hotel phone, they may find they have run up charges larger than the room rate. If they return most rental cars with less than a full tank, they will be charged more than triple the market price for the fill-up. Of course, they also have the option of buying a full tank at the beginning of the rental and then trying to manage their mileage so precisely that only fumes remain—they get no credit for unused gas.

At times, customers must conclude that businesspeople lie awake nights thinking up new ways to hustle them. Most airlines change their prices hundreds of times a day, so nobody can know what the “real” fare is. Banks develop algorithms that process the largest checks first each day, so that depositors will be hit with more insufficient-funds penalties. Many mobile-phone operators have created pricing plans that cleverly trap customers into wasting prepaid minutes or incurring outrageous overages.

Ironically, the best customers often get the worst deals. If you are a patient, loyal user of your telephone company, your mobile-phone provider, and your Internet-service company, chances are good that you are paying more than disloyal switchers who signed up more recently. In fact you’re probably paying more than you need to, regardless of when you signed up, just because you didn’t know about some special package the company offers. Customers who discover an extra charge of $20, say, for using text messaging find that unlimited text messaging is available for $5 per month—if only they had asked for it in advance.

HOW BAD PROFITS UNDERMINE GROWTH

Bad profits work much of their damage through the *detractors* they produce. Detractors are customers who feel badly treated by a company—so badly that they cut back on their purchases, switch to the competition if they can, and warn others to stay away from the company they feel has done them wrong.

Detractors don’t show up on any organization’s balance sheet, but they cost a company far more than most of the liabilities that traditional accounting methods so carefully tally. Customers who feel ignored or mistreated find ways to get even. They drive up service costs by reporting numerous problems. They demoralize frontline employees with their complaints and demands. They gripe to friends, relatives, colleagues, acquaintances—anyone who will listen, sometimes including journalists, regulators, and legislators. Detractors tarnish a firm's reputation and diminish its ability to recruit the best employees and customers. Today, negative word of mouth goes out over a global PA system. In the past, the accepted maxim was that every unhappy customer told ten friends. Now an unhappy customer can tell ten thousand "friends" through the Internet.

Bad profits—and the detractors they create—strangle a company's growth. If many of your customers are bad-mouthing you, how are you going to get more? If many of your customers feel mistreated, how can you persuade them to buy more from you? Right now, churn rates in many industries—cellular phones, credit cards, newspapers, and cable TV—have deteriorated to the point where a typical company loses half of its new customers in less than three years. Many airlines have created so much ill will that customers are itching for an alternative. For a while, US Airways dominated the Philadelphia market. The company's fares were high and its service mediocre, but the routes into and out of Philadelphia were highly profitable. Then Southwest Airlines entered the market with lower fares. US Airways dropped its prices to match Southwest, but travelers flocked to the new carrier anyway—they had had enough.

True growth is hard to find these days. How hard? A recent study by Bain & Company found that only 22 percent of the world's major firms achieved real, sustainable growth of even 5 percent a year over the ten-year period from 1994 to 2004.[1] It seems like no coincidence that so many companies are having trouble growing and so many companies are addicted to bad profits. To change metaphors, business leaders have become master mechanics in siphoning out current earnings, but they fumble for the right wrench when it comes to gearing up for growth.

Granted, companies can always buy growth. They can encourage the hard sell and pay fat commissions to the salespeople who master it. They can discount heavily, offering temporary rebates, sales, or “free” financing. They can launch heavy advertising and promotional campaigns. And of course they can make acquisitions.

All such techniques may boost revenues, but only for a while. Consider the sorry experience of America Online, which launched a successful initial public offering in March 1992 and might have invested its new cash in service and quality enhancements. Instead, AOL opted to buy growth by carpet-bombing the country with free software diskettes. You could find the diskettes tucked in to the pages of magazines, packaged with your in-flight snacks on airplane trips, and displayed at the checkout stands of all kinds of stores. The campaign was apparently successful—AOL’s membership grew rapidly—but the flood of new users began to strain the capacity of the company’s operating network. AOL earned a new nickname, “America On Hold,” and created an army of detractors. A full-day blackout in the summer of 1996—the first in a series of service interruptions around this time, as it turned out—made headlines across the country and frustrated millions of members. AOL’s monthly customer churn rate rose to 6 percent (an annual rate of 72 percent!). Searching for a way to boost current earnings, management turned to advertising revenues; AOL then began to inundate customers with pop-up ads and sales pitches. But as the company’s membership surged to a peak of 35 million, detractors began to choke off its growth.

By 2002, surveys showed that a whopping 42 percent of AOL’s customers were detractors. AOL not only lost customers to broadband, it also lost market share to dial-up competitors MSN and Earthlink, Inc., and even today it is still trying to restore its damaged reputation through advertising and customer “bribes.” As it shifts strategy to become a free content provider (more like Yahoo! and Google, with much of its support provided by advertisers), its chances for success will be seriously compromised by its millions of vociferous detractors. "Long ago," wrote Randall Stross of the *New York Times* in late 2005, "the company's culture became accustomed to concentrating energy on trapping customers who wished to leave."[2]

So it is with too many other companies. Buying growth is expensive. It tends to create a profit squeeze, which in turn usually deepens a company's addiction to bad profits. Retail banks, for example, now depend on nuisance fees for as much as one-third of reported earnings. One mobile-phone operator calculates that proactively putting customers in the plan that was best for them would cut profits by 40 percent. This addiction to bad profits demotivates employees, diminishes the chances for true growth, and accelerates a destructive spiral. Customers resent bad profits—but investors should, too, because bad profits undermine a company's prospects. Like the addicts they are, enterprises dependent on bad profits have no future until they can break their habit.

THE ALTERNATIVE: GOOD PROFITS

But it doesn't have to be this way. Some companies grow because they have learned to tell the difference between bad profits and good profits—and to focus their efforts on the good kind.

Good profits are dramatically different. If bad profits are earned at the expense of customers, good profits are earned with customers' enthusiastic cooperation. A company earns good profits when it so delights its customers that they willingly come back for more—and not only that, they tell their friends and colleagues to do business with the company. Satisfied customers become, in effect, part of the company's marketing department, not only increasing their own purchases but also providing enthusiastic referrals. They become *promoters.* The right goal for a company that wants to break the addiction to bad profits is to build relationships of such high quality that those relationships create promoters, generate good profits, and fuel growth.

The Vanguard Group of mutual funds offers a compelling illustration of the difference between bad profits and good. Not long ago, Vanguard *reduced* prices by as much as one-third for customers who had recently made large investments or who had maintained healthy balances for an extended period. Vanguard's management recognized that the company had inadvertently been overcharging its best customers and (in essence) subsidizing new customers. To many companies, that might seem like a smart way to grow. To Vanguard, not only were those bad profits unethical, they didn't make good business sense. When the company righted the wrong, its core customers were so delighted that they increased their holdings and boosted referrals. That helped turbocharge Vanguard's growth, and pushed the company toward leadership in the mutual funds industry. Nor is Vanguard alone in its pursuit of good profits. For example:

> Amazon.com could easily afford to advertise more than it does; instead it channels its investments into free shipping, lower prices, and service enhancements. Founder and CEO Jeff Bezos has said, "If you do build a great experience, customers tell each other about that."[3]
>
> Southwest Airlines doesn't charge for flight changes, instead offering passengers a credit that can be used anytime over the

next twelve months; the carrier has also replaced the industry's elaborate segmented pricing structure with a transparent two-tier pricing policy. Southwest now flies more domestic passengers than any other U.S. airline and boasts a market capitalization greater than the rest of the industry combined.

Costco, the leader in customer loyalty among warehouse retailers, has rocketed from start-up to the *Fortune* 50 in less than twenty years while spending next to nothing on advertising and marketing. Its customers are so loyal that the company can rely on positive word of mouth for its growth.

Even in a business as mature as insurance, Northwestern Mutual has used its 5 percent customer-retention advantage to overtake the leviathans as the number one issuer of individual life policies.

Among Internet companies, the astonishing growth of eBay stands in remarkable contrast to the stalled growth of AOL. The eBay Web site says this:

eBay is a community that encourages open and honest communication among all its members. Our community is guided by five fundamental values:

- *We believe people are basically good.*
- *We believe everyone has something to contribute.*
- *We believe that an honest, open environment can bring out the best in people.*
- *We recognize and respect everyone as a unique individual.*
- *We encourage you to treat others the way you want to be treated.*

> *eBay is firmly committed to these principles. And we believe that community members should also honor them—whether buying, selling, or chatting with eBay friends.*[4]

Of course, anyone can list high-minded principles on a Web site or a recruiting brochure. But eBay has found ways to translate these principles into daily priorities and decisions. The result is that more than 70 percent of eBay customers are promoters and have remained so even after the company's controversial price increases of early 2005. Referrals generate more than half of the site's new customers, creating multiple economic advantages across the business. Like Costco, eBay relies more on word of mouth than on advertising and traditional marketing. The company has found that referred customers cost less to serve because they've already been coached by a promoter on how the site works and they usually have friends who help solve their problems instead of relying on eBay employees. EBay has also learned to tap the creativity of an entire online community, not just its own employees. The company encourages members to point out areas in which they believe eBay isn't living up to its principles, and to identify new opportunities to better serve members. Community members are invited to rate each other after each transaction, and the ratings are then shared with everybody. This process enables each member to establish a reputation based not on public relations or advertising spin but on the cumulative experience of members with whom they've done business. EBay's virtual world is just like a small town: a good name is essential for success.

Conventional wisdom encourages companies to consolidate market power and then extract maximum value from customers. Yet eBay has done just the opposite. Although it has come to dominate the online auction market, the company tries to consider the needs of community members as well as the long-term interests of its shareholders when it makes decisions. Running a company like a community enables eBay to look beyond the next quarter's stock price and to continually find ways to enrich the lives of community members. For example, the company created a group health insurance plan for its so-called PowerSellers—typically small merchants—who don't have access to the scale economies of corporate health plans. Although eBay facilitates the program, it doesn't take a profit margin.

Moves like this demonstrate a way of thinking that is radically different from the thinking of bad-profits companies. The airlines have repeatedly used their market power to raise prices, sometimes to levels that can only be described as price gouging. AOL alienated customers not just with those service failures and pop-up ads, but also by continuing to charge for minutes used and resisting a move to flat monthly fees. EBay could easily increase profits by boosting ad revenue—but management recognizes that doing so would make the site less valuable to community members and possibly put small merchants at a disadvantage relative to large players.

The way of thinking also demonstrates a deep respect for the power of word of mouth in today's economy. Just as detractors have a bullhorn for spreading their negative word of mouth, promoters have one for spreading their positive word of mouth. Promoters bring in new people. They talk up a company and burnish its reputation. They extend the company's sales force at no cost. They make it possible for a company to earn good profits and thereby to create growth that is both profitable and sustainable. Again, that's what we mean by *true* growth.

This approach to customers boils down to a simple precept: treat them the way you would like to be treated. What's surprising is that so many company leaders articulate it in exactly these homespun terms. EBay founder Pierre Omidyar literally says, "My mother always taught me to treat other people the way I want to be treated and to have respect for other people."[5] Other leaders invoke the Golden Rule as well:

> Colleen Barrett, president of Southwest Airlines: "Practicing the Golden Rule is integral to everything we do."
>
> Isadore Sharp, founder and CEO of the Four Seasons hotel group: "Our success all boils down to following the Golden Rule."
>
> Andy Taylor, CEO of Enterprise Rent-A-Car: "The only way to grow is to treat customers so well they come back for more, and tell their friends about us. That's how we'd all like to be treated as customers."

"Golden Rule behavior," Taylor concluded, "is the basis for loyalty. And loyalty is the key to profitable growth."

BAD AND GOOD PROFITS: HOW CAN COMPANIES TELL THE DIFFERENCE?

Loyalty is the key to profitable growth. That makes sense as far as it goes. But it raises as many questions as it answers. Most companies can't even define loyalty, let alone measure and manage it. Are customers sticking around out of loyalty, or just out of ignorance and inertia? Are they trapped in long-term contracts they would love to get out of? Anyway, how can managers really know how many of their customers love the company and how many hate it? What practical gauge can distinguish good profits from bad?

Without a systematic feedback mechanism, after all, the Golden Rule is self-referential and simplistic, unreliable for decision making. I might think I'm treating you the way I would like to be treated, but you may strongly disagree. Where companies are concerned, satisfaction surveys often delude executives into thinking that their performance merits an A, while their customers are thinking C– or F. Business leaders need a hard, no-nonsense metric—an honest grading system—that tells them how they are *really* doing.

The search for that metric—the missing link between the Golden Rule, loyalty, and true growth—turned out to be a long and arduous quest.

Together with my colleagues at Bain & Company, I began investigating the connection between loyalty and growth almost twenty-five years ago. We first compiled data demonstrating that a 5 percent increase in customer retention could yield anywhere from a 25 percent to a 100 percent improvement in profits. Later, we showed that companies with the highest customer loyalty (we labeled them *loyalty leaders*) typically grew revenues at more than twice the rate of their competitors.

Of course, not everybody was eager to learn about the mysterious *loyalty effect,* which explained how building relationships worthy of loyalty translated into superior profits and growth. The corporate generals at places like Enron, Tyco, and Adelphia couldn't have cared less about treating customers right. But the vast majority of senior executives seemed to buy into the concept. After all, it doesn't take a rocket scientist to see that a company can't grow if it is churning customers out the back door faster than the sales force can drag them in the front.

Still, there's a puzzle lurking here. Survey after survey demonstrates that customer loyalty *is* among most CEOs' top priorities—yet the colonels, captains, and corporals in their organizations continue to treat customers in ways that ensure these customers won't be coming back anytime soon. If the CEOs are as powerful as they are said to be, why can't they make their employees care about customer relationships?

The reason, of course, is just what I alluded to earlier in this chapter: employees are held accountable for increasing profits. Financial results are what companies measure. Financial results determine how managers fare in their performance reviews. Trouble is, accounting procedures can't distinguish a dollar of good profits from a dollar of bad. Did that $10 million in incremental profit come from new hidden surcharges, or did it come from loyal customers' repeat purchases? Did that $5 million in cost reduction come from shaving service levels, or from cutting customer defection rates? Who knows the answer to any such question? And if nobody knows, who cares? Managers trying to run a department or division can't be faulted for paying attention to the metrics by which they will be judged.

Whatever the CEO might think, in short, companies that measure success primarily through the lens of financial accounting tend to conclude that loyalty is dead, relationships are irrelevant, and the treatment of customers should be governed by what seems profitable rather than by what seems right. With only financial metrics to gauge success, managers focus on profits regardless of whether those profits represent the rewards from building relationships or the spoils from abusing them. Ironically, customer loyalty provides companies with a powerful financial advantage—a battalion of credible sales and marketing and PR troops who require no salary or commissions. Yet the importance of these customer promoters is overlooked because they don't show up on anybody's income statement or balance sheet.

Finally, at a European conference on loyalty, one of my colleagues provided a crucial insight into this conundrum. Watching the executives file out of the room after a presentation, seemingly pumped up about loyalty as never before, he shook his head. “You know, it’s sad,” he said. “Right now, they all understand that their businesses can’t prosper without improving customer loyalty. But they’ll get back to their offices and soon recognize that there is no one in their organization to whom they can delegate the task. There is no system to help them measure loyalty in a way that makes individuals accountable for results.”

Bingo. *Accountability* is one of those magic words in business. Any experienced manager will tell you that where there is individual accountability, things get done. *Measure* is another magic word: what gets measured *creates* accountability. With no standard, reliable metric for customer relationships, employees can’t be held accountable for them and so overlook their importance. In contrast, the precise, rigorous, daily measures of profit and its components ensure that those same employees—at least the ones who wish to stay employed—feel personally accountable for costs, revenues, or both. So the pursuit of profit dominates corporate and individual agendas, while accountability for building good relationships gets lost in the shadows.

Several years ago, we thought we had solved this measurement challenge. We had helped companies develop a whole set of key measures such as retention rate, repurchase rate, and “share of wallet.” But then we had to face reality. Most organizations found it difficult to collect accurate and timely data on these loyalty metrics. The companies were simply unable to rebalance their priorities and establish accountability for building good relationships with customers. Though the science of measuring profits had progressed steadily since the advent of double-entry bookkeeping in the fifteenth century, measuring the quality of relationships remained stuck in the dark ages, trapped by the pseudoscience of satisfaction surveys. Companies lacked a practical, operational system for gauging the percentage of their customer relationships that were growing stronger and the percentage that were growing weaker—and for getting the right employees to take appropriate actions based on this data. So we went back to the drawing board. What we needed was a foolproof test—a practical metric for relationship loyalty that would illuminate the difference between good profits and bad. We had to find a metric that would permit individual accountability. We knew that the fleeting attitudes expressed in satisfaction surveys couldn't define loyalty; only actual behaviors can gauge loyalty and can fuel growth. So we concluded that behaviors must be the real building blocks. We needed a metric based on what customers would actually do.

After considerable research and experimentation, some of which you'll read about in the following chapters, we found one such metric. We discovered the one question you can ask your customers that links so closely to their behaviors that it is a practical surrogate for what they will do. By asking that question systematically, and by linking results to employee rewards, you can tell the difference between good profits and bad. You can manage for customer loyalty and the growth it produces just as rigorously as you now manage for profits.

Customer responses to this question yield a simple, straightforward measurement. This simple, easy-to-collect metric can make your employees accountable for treating customers right. It's one number you need to grow. That's why we call the question that produces it the Ultimate Question: this question will determine the future of your business.

ASKING THE ULTIMATE QUESTION

What is the question that can tell good profits from bad? Simplicity itself: How likely is it that you would recommend this company to a friend or colleague? The metric that it produces is the *Net Promoter® Score.**

Net Promoter Score (NPS) is based on the fundamental perspective that every company's customers can be divided into three categories. *Promoters*, as we have seen, are loyal enthusiasts who keep buying from a company and urge their friends to do the same. *Passives* are satisfied but unenthusiastic customers who can be easily wooed by the competition. And *detractors* are unhappy customers trapped in a bad relationship. Customers can be categorized according to their answer to the question. Those who answer nine or ten on a zero-to-ten scale, for instance, are promoters, and so on down the line.

A "growth engine" running at perfect efficiency would convert 100 percent of a company's customers into promoters. The worst possible engine would convert 100 percent into detractors. The best way to gauge the efficiency of the growth engine is to take the percentage of customers who are promoters (P) and subtract the percentage who are detractors (D). This equation is how we calculate a company's NPS:

$$P - D = NPS$$

In concept, it's just that simple. All the complexity arises from learning how to ask the question in a manner that provides reliable, timely, and actionable data—and, of course, from learning how to improve your NPS.

How do companies stack up on this measurement? Those with the most efficient growth engines—companies such as Amazon.com, eBay, Costco, Vanguard, and Dell—operate at NPS

* Ownership of this trademarked term will be shared by Satmetrix Systems, Inc., Bain & Company, and myself. Our goals are to encourage universal and consistent usage of NPS and to protect against its misappropriation.

efficiency ratings of 50 to 80 percent (exhibit 1-1). So even they have room for improvement. But the average firm sputters along at an NPS efficiency of only 5 to 10 percent. In other words, promoters barely outnumber detractors. Many firms—and some entire industries—have *negative* Net Promoter Scores, which means that they are creating more detractors than promoters day in and day out. These abysmal scores explain why so many companies can't deliver profitable, sustainable growth, no matter how aggressively they spend to acquire new business.

EXHIBIT 1-1

Selected NPS stars

USAA	82%
HomeBanc*	81%
Harley-Davidson	81%
Costco	79%
Amazon	73%
Chick-fil-A*	72%
eBay	71%
Vanguard	70%
SAS	66%
Apple	66%
Intuit (TurboTax)*	60%
Cisco	57%
Federal Express	56%
Southwest Airlines	51%
American Express	50%
Commerce Bank	50%
Dell	50%
Adobe	48%
Electronic Arts	48%

*All NPS statistics are based on Bain or Satmetrix surveys with the exceptions of Intuit, Chick-fil-A, and HomeBanc. For these firms, we used data that they provided. Their data was gathered in a reasonable (but not perfectly equivalent) fashion.

Our research over a ten-year period confirms that, in most industries, companies with the highest ratio of promoters to detractors in their industry sector typically enjoy both strong profits and healthy growth. This might seem counterintuitive. After all, the high-loyalty firms tend to spend much less on marketing and new-customer acquisition than do their competitors. They also focus intensely on serving existing customers and are highly selective in pursuing new customers, which you might suspect would limit these firms' growth. But the data doesn't lie: the faster growth of the loyalty leaders is driven by the superior efficiency of their growth engines. Earning growth rather than buying it sustains top-line momentum while generating richer profits.

Most business leaders desperately need growth. They need it to boost their stock price. They need it to attract and motivate talent. Whatever language they may use, they probably know that creating more customer promoters is vital. But without a simple, practical way to assign accountability and measure progress, they can't align their organizations around this goal. Indeed, most don't realize how deeply addicted to bad profits they have become. Inflated customer-satisfaction scores have lulled them into complacency—yet our research shows that for the average firm, more than two-thirds of customers are passives (bored) or detractors (angry). Given this sad fact, most attempts to buy growth simply burn up shareholder funds. The efforts amount to throwing money into advertising and sales only to dissipate the impact through the poisonous emissions of unhappy customers.

HOW THE BOOK ADDRESSES THE ULTIMATE QUESTION

So here's what you'll find in the pages that follow. The first part of this book explains how Net Promoter Scores work to distinguish bad profits from good profits and to illuminate the path to true growth. This section shows you how to calculate your own NPS and benchmark your performance against world-class standards. Part 2 explains how to avoid the pitfalls of customer-satisfaction surveys and construct a practical measurement process that can turn NPS into a reliable tool for assigning accountability and managing priorities. The final part illustrates how leading companies are using this approach to provide a better customer experience and thus build better relationships with their customers. It lays out the steps you should follow to improve your customer relationships and turbocharge your growth.

Bad profits have undermined true growth and have given business a bad name. But it's not too late to change. Some companies have already begun.

Publication Information

Date: March 2, 2006
ISBN: 1-59139-783-9
Price: US$24.95

Publicity

Julie Devoll, Senior Publicist
617-783-7471
jdevoll@hbsp.harvard.edu

Foreign Rights

Daisy Blackwell Hutton,
Assistant Director, Subsidiary Rights
617-783-7650
dhutton@hbsp.harvard.edu

Bulk Sales

Discounts available for quantity purchases.

Dorian Trifiro
Sales Coordinator
617-783-7431
dtrifiro@hbsp.harvard.edu

For advance orders call toll-free
(888) 500-1016

Or visit our website at:
www.HBSPress.org

Outside the U.S., please contact your McGraw-Hill office.

HARVARD
BUSINESS
SCHOOL
PRESS

THE ULTIMATE QUESTION

FOR UNLOCKING THE DOOR TO GOOD PROFITS AND TRUE GROWTH

FRED REICHHELD

One Question Can Determine Your Business's Future. Do You Know the Answer?

CEOs regularly announce ambitious growth targets, then fail to achieve them. The reason? Their growing addiction to bad profits. These corporate steroids boost short-term earnings but alienate customers. They undermine growth by creating legions of detractors—customers who complain loudly about the company and switch to competitors at the earliest opportunity.

Now loyalty expert Fred Reichheld shows how to reverse the equation, turning customers into promoters who generate good profits and true, sustainable growth. The key: one simple question—Would you recommend us to a friend?—that allows companies to track promoters and detractors and produces a clear measure of an organization's performance through its customers' eyes. In industry after industry, this "Net Promoter Score" is the single most reliable indicator of a company's ability to grow.

Based on extensive research, *The Ultimate Question* shows how companies can rigorously measure Net Promoter statistics, help managers improve them, and create communities of passionate advocates that stimulate innovation. Vivid stories from leading-edge organizations illustrate the ideas in practice.

Practical and compelling, this is the one book—and the one tool—no growth-minded leader can afford to miss.

HARVARD
BUSINESS
SCHOOL
PRESS