

Get Customers to Sell for You

More entrepreneurs are embracing a simple metric that measures referrals—and helps boost profits.

By Justin Martin

Photograph by David Stuart

63

IS THE NUMBER FOR Quickparts. It appears in the annual report, gets discussed at meetings, and lest any employee forget, 63 periodically flashes on the flat screens that appear throughout the Atlanta headquarters of this fast-growing maker of custom parts for clients such as Intel and Whirlpool.

Back in 2006, Quickparts' number was 48, which is none too shabby. But here's the difference between 48 and 63, according to co-founder Ronald Hollis: a 25% increase in customer referrals. That helped drive record profits in 2007 on \$23 million of revenues, up from \$17.5 million in 2006. This year Quickparts is aiming for 65. "We want to just keep driving the number up," says Hollis, 41.



**CUSTOMER
FOCUSED**

Quickparts'
Ronald Hollis
peers through a
machine fitting.

COVER STORY

What exactly is this magical metric? It's called a Net Promoter Score, and essentially it measures customer satisfaction and referrals. The score represents the proportion of customers who are promoters—those so delighted that they praise a product or service to all within earshot—minus the detractors. Posting the score to employees, and encouraging them to boost it, can help a business owner focus her staff on customer service. And inquiring into the sources of customer enthusiasm and anger can help the owner and her staff identify and bolster their strengths, while addressing their shortcomings. Hollis, for example, learned from his NPS follow-up that customers seeking price quotes online wanted more customized quotes, which he now provides.

NPS has been adopted and praised by large corporations such as Allianz Group, Pitney Bowes, and Intuit. Dan Henson, the newly appointed CEO of GE Capital Solutions, describes NPS as “one of the most powerful tools we’ve ever employed at GE.” Now, facing a weak economy and intensified competition from larger companies, many entrepreneurs are smartly tapping in.

“NPS is really taking off with small businesses,” says John Jantsch, who writes a popular blog called Duct Tape Marketing. “I can’t tell you how many e-mails I’m getting from NPS adopters or those looking to get started.”

Devotees—including the owner of a chain of Texas tanning salons, a Colorado franchiser of memory-improvement centers, and the head of a Delaware answering service and call center—laud NPS for its simplicity, contribution to revenue growth, and ability to identify exactly what is exciting customers or exasperating them. To be sure, some detractors say that NPS is simple to a fault, and we will hear more from them in a moment. But first, let’s examine what NPS is and how it works.

NPS is the brainchild of Fred Reichheld, a partner at the Boston consulting firm Bain & Co. and a pioneer in the study of customer loyalty. He spent a decade searching for a simple way to measure those customers so gaga about a product or service that they’ll praise it to anyone who will listen. According to Bain’s research, a company’s promoters are responsible for 80% or more of new customer referrals, making this group a key to revenue growth.

Here’s how NPS is implemented. First, ask your customers to rate you on a scale of 0 to 10 based on the question, How likely is it that you would recommend this company to a friend or colleague? Then sort the responses into three groups: promoters (9’s and 10’s), passives (7’s and 8’s), and detractors (0’s through 6’s). The percentage of promoters minus the percentage of detractors equals your score.

A company with 75% promoters and 15% detractors, for example, would have an NPS of 60.

What do you do with this number? Drive it up, of course. Re-

lentlessly up. That is achieved by asking a couple of additional questions, beginning with: May I follow up with you at a later date? The permission clause is a key to NPS, according to Reichheld. The goal is to get constructive criticism from willing customers. You then contact those who agree to talk and ask one final question: Why did you give us this rating? Some of the most useful feedback comes from detractors. The idea: Unhappy customers will give you an earful, perhaps revealing some serious shortcomings of your business. Cure what ails this tough crowd and convert detractors into promoters, and up climbs your NPS. But some companies also seek feedback from passives (the 7’s and 8’s, who can take you ... or leave you) and promoters (the 9’s and 10’s, who love you almost as much as your mother does).

According to Reichheld, the average U.S. company has an NPS of about 15. This varies by industry, with some, such as the makers of consumer packaged

goods (score 24), faring pretty well, while others, like telecom/cable (-4), are real dogs. No matter what the industry, each tends to have some companies with NPS scores well above 15. As a rule of thumb, score above 50 and you’re a star.

Not everyone, however, believes in the predictive power of Reichheld’s numbers.

His detractors contend that the metric’s simplicity is, well, simplistic.

One such naysayer, Claes Fornell, a marketing professor at the University of Michigan’s business school, did a comparison of NPS and the American Customer Satisfaction Index, a highly regarded survey that he developed using multiple variables. Fornell’s finding: The ACSI has a margin of error of +/-3.3%, while NPS has a margin of error of +/-10%, meaning that an improvement of five points in your NPS, to 55, could in reality be no improvement at all. “It’s pretty clear that the person who put this together has no statistical background,” he says dismissively.

For his part, Reichheld contends that he simply touched a nerve when he created a demystified metric that put all the complex-modeling guys on notice, threatening their livelihoods. But guess what? Reichheld also quietly gives ground on that issue of statistical accuracy. In *The Ultimate Question*, his 2006 book on NPS, he claimed that a 12-point increase in the metric leads, on average, to a doubling of a company’s rate of revenue growth. Reichheld and his colleagues at Bain have backed off that claim, now saying only that increases in NPS can lead to increases in revenue. There’s no denying there are valid ques-

“It’s a single number that can go up or down depending on your interactions with customers.”

NATHANIEL WELCH—REDDIX

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GLOWING SERVICE Planet Tan CEO Tony Hartl (left) and manager Dawn Byers used client feedback to improve their spa and their sales.

ness 13 years ago. “The success of tanning salons is heavily based on the customer experience,” explains Hartl. “That’s really the differentiator.” Think about it. Would a customer ever choose one salon over another because it uses a particular brand of tanning bed? No one cares. But finding that service edge can be elusive. Tanning salons tend to be staffed by wet-behind-the-ears employees who aren’t always polished at customer relations. High employee turnover, endemic in this industry, adds to the problem. In the past Hartl tried to gauge customer satisfaction using a lengthy e-mail survey. It required roughly 30 minutes to complete and featured such questions as: How much are you willing to pay for a membership? What radio station do you listen to? Hartl sneaked in the questions, hoping to learn where to advertise to reach his target market. The response rate was a paltry 3%, yet his staff was overwhelmed by the feedback. “All this raw data created paralysis,” says Hartl. “People were left wondering, How does this apply to customers anyway?”

He has since discontinued the offending survey in favor of NPS. Launching the new system was easy, he says. Training for his staff consisted of a half-hour PowerPoint presentation, developed in-house.

There was no need to retain Bain. Sure, the consultancy has a thriving NPS practice, serving the complex needs of large clients like GE. But the average entrepreneur can learn everything necessary to launch NPS by talking to peers, going to a conference, or simply reading *The Ultimate Question*, as Hartl did.

Last fall Planet Tan e-mailed that single question (How likely is it that you would recommend this company to a friend or colleague?) to 11,695 of its customers. The response rate was 11%. The various rankings, from 0 to 10, were tallied, and the company arrived at its NPS score: 66. “Everyone just got it. Here’s a single number that can go up or down, depending on interactions with customers,” says Dawn Byers, 32, a Planet Tan executive who worked closely with Hartl to introduce the metric.

Next step: The company divvied up the detractors among the managers at its various locations. But implementing NPS required some effort. Sometimes it took Planet Tan managers three or four phone calls to reach a detractor. “For small businesses with limited resources, going after all this data can be

tions about NPS’s statistical accuracy. Equally undeniable: NPS has the force of a revolution, and many businesses swear by it. To research this story, *FSB* spoke with more than 20 small businesses, and none regretted adopting the metric. What follows are profiles of three business owners, all enthusiastic converts to NPS, but each citing different benefits.

LEARN WHAT THE CLIENT REALLY WANTS

TONY HARTL, AGE 40, IS CEO OF PLANET TAN, WHICH operates 13 stores around Dallas. The company is profitable, he says, and has roughly \$10 million in annual revenue. Hartl began using NPS in November 2007, hoping to better address a challenge that he has faced since founding the busi-

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time-consuming,” says Vikas Mittal, a marketing professor at Rice University’s business school who specializes in customer-satisfaction issues.

“Sure, it takes some time,” allows Byers. “But the benefits so outweigh the time spent.” The feedback proved illuminating, she says. For example, Planet Tan received complaints about the way its fee is structured. The company sells its customers credits, redeemable for tanning-bed time. Some said it was confusing, not unlike being on a cruise ship where you never know how much anything costs in actual dollars. As a consequence, Planet Tan now offers a simple monthly membership.

Survey detractors also said they were less than enthralled by the experience of leaving a Planet Tan salon. Sure, the staff was all smiles and chitchat when customers arrived. But following the tanning sessions, those same customers felt lucky to get a goodbye. The staff was totally focused on new arrivals.

That consistent beef led Hartl to introduce a new policy he terms “post-tan affirmation.” As someone exits, employees are now required to say things such as “You got some good color today” or “Can I offer you moisturizer?”

During the first months of 2008 same-store sales have risen more than 15% year over year, according to Hartl. This, in a tough economy. He attributes the results partly to various moves made in response to the NPS data. Planet Tan will be doing another NPS survey this summer. Hartl is hoping to hit 70.

PREVENT SILENT ATTRITION

DURING AN AVERAGE 24 HOURS, Appletree Answering Services takes 70,000 phone calls. The company (2007 revenue: \$12 million), based in Wilmington, Del., operates 12 call centers, a bland appellation for a fiercely competitive business. Appletree’s customers include doctors and lawyers, for whom it provides messaging services, and companies such as Siemens, for which it provides after-hours help-line support. “Our customers depend on our services every single day,” says CEO John Ratliff. “That puts us on a hyper track for good and bad experiences.”

Appletree conducted its first NPS survey in 2006 and scored a 26, a mediocre mark for its industry. Ratliff, 37, took the result as a wake-up call. To push the score higher and to get a better read on customers, he has taken a particularly rigorous approach to NPS. Each quarter, Appletree surveys its 5,600 customers and gets a consistent response rate of around 20%. Appletree doesn’t focus solely on detractors as some companies do, and finds that there’s also much to be learned from the other groups. Each de-

HIGH STAKES LearningRx founder Ken Gibson, whose tutors help kids improve their memories, ties compensation to customer satisfaction.



WAYS TO WIN CUSTOMER REFERRALS



SMART ENTREPRENEURS have long worked to win referrals from happy customers, and some have found ways that don't require surveys.

Some entrepreneurs shower their biggest fans with material about their companies. Betsy Weber, 34, is chief evangelist (yes, that's really her title) for TechSmith, based in Okemos, Mich. The company (2007 revenues: \$30 million) makes Camtasia Studio, a kind of VCR for your PC, capable of recording a sequence of screen shots. Weber spends her days scouring the net for people who have raved about TechSmith, perhaps on a blog or at a trade show. To those enthusiasts she sends packages that include a PowerPoint presentation about Camtasia Studio, T-shirts, one copy of the proprietary software (retail price: \$300) as well as many 30-day trial versions. She follows up

with a phone call. Says Weber: "I give them whatever they need so they can spread the word about us." Sales of Camtasia are up 41% so far this year.

Aaron Day, 32, founder of Tangerine Wellness, has turned one of his happy customers, Rockford Acromatic Products of Loves Park, Ill., into a reliable rainmaker. Tangerine, based in Boston, offers weight-loss programs to the employees of big corporations. In 2006, Tangerine asked Rockford to provide testimonials about its service at various conferences. Since then Tangerine has signed up scores of customers in 26 states, and Rockford has played a role in about 10% of those deals, says Day.

Tangerine doesn't pay Rockford. So what's in it for that customer? The 60-year-old company makes parts for specialty vehicles such as ATVs and motor homes. Many of the pitches are to Tangerine prospects who have the potential to become Rockford customers too. "It's a win-win," says Day. Rockford executive Jim Knutson is just as enthusiastic. "It puts us on people's radar," he says. —J.M.

partment within Appletree is charged with following up with different sets of customers. For example, the call center managers contact the passives. "This is our sweet spot," says Ratliff. "The 7's and 8's are the silent-attrition group. Something is likely nagging at them, but they're currently just satisfied enough not to complain. One day we'll look up, and they'll be gone."

Feedback from that group has yielded some useful insights. For example, customers consistently expressed annoyance that it took several calls to resolve a billing issue. That surprised Ratliff. He had thought about Appletree mostly in terms of its core service: answering phones. Here was something ancillary to that core service—the billing process—but it was irritating customers. Ratliff responded by giving Appletree's service reps more latitude to solve simple billing issues, such as the ability to waive certain computer-generated late fees.

Meanwhile, the company's most enthusiastic customers are handled by the sales department. That's right. Sales gets to make all the fun calls. But there's a practical reason for it. "It helps fire up the sales force," says Ratliff. "It reminds them what customers like about us."

The feedback also helps the sales team tailor its pitches. Appletree's best customers, for example, particularly liked the way the company treated them when they first signed up for the service. An account manager always contacts new customers to go over options for handling each call. For a doctor, the service rep might suggest that the phone operator inquire whether the call is an emergency. Now when Appletree salespeople try to land a new account, they emphasize the customer "welcome experience."

The 1's are reserved for Ratliff, Appletree's intrepid leader. He dismisses the feedback of cranks and loonies. But often, he says, people who've rated Appletree the lowest score have legitimate gripes. "You tend to hear the same things over and over again, albeit loudly and with colorful language," says Ratliff. "You can often learn more in a customer call than from an entire focus group." One steamed customer complained that when Appletree takes a phone message, too much time elapses (generally several minutes) before an e-mail notification is sent out. That was an easy fix, says Ratliff. Appletree now offers an instant-notification option to customers.

Appletree gets feedback from a variety of customers. So how

does the company keep track of it all? It maintains a database with brief summaries of each of those interactions. Type in a search term such as "billing problem" and find out how many complaints were registered and when.

For the latest survey, Appletree's NPS rose to 56, evidently the result of responding to customers.

But the clearest sign of progress: Customer referrals were up about 200% in 2007 vs. 2006, and profits climbed as well, according to Ratliff.

Tutors who achieve a score of 90 or better get a bonus equal to 20% of their base pay.

LINK PAY TO CUSTOMER DELIGHT

GOOD CUSTOMER SERVICE IS A KEY to a healthy enterprise; on that, every business owner can agree.

But customer service also tends to be relegated to the squishy bin, along with personnel development. When it comes to doling out cold cash, companies generally favor tying rewards to measurable targets such as profits. Because NPS assigns a hard number to customer service, some companies have found that they can tie this metric to compensation. The results have been impressive. Ken Gibson,



63, is founder of LearningRx, a Colorado Springs company that helps clients improve their memory and concentration. LearningRx has 66 franchises in 24 states, a steep climb from just 15 in 2004. According to Gibson, the firm is profitable, with revenues of \$30 million in 2007.

LearningRx is intensely customer focused. The key to its business is building successful relationships between the tu-

tors and their students, which include kids with learning disabilities and patients with Alzheimer's, among others. When Gibson first heard about NPS, a light bulb went off. Rather than tying bonuses to student test results, as he had in the past, he could tie them directly to customer satisfaction. In 2006, Gibson introduced NPS as what he calls a "reward and shame system."

Here's the drill. While LearningRx tracks NPS on a companywide basis, it also figures NPS for individual tutors. The scores then determine the size of each worker's bonus. Tutors who achieve a score of 90 or better receive bonuses equal to 20% their base pay; those scoring 70 to 89 get as much as 10%. Below 70, they get *nada*. The system seems to be working. Since it started tracking NPS, LearningRx has seen its number improve from 70 to 72.

Given that money is at stake, you might wonder what prevents tutors from trying to influence what their pupils say about them. To head off this possibility, Gibson has made it clear that anyone caught gaming the system will be fired immediately. Just to be sure, he's added a question to the follow-up interviews, which are conducted by the franchise managers: Were you in any way led or encouraged to give a higher rating?

And what about the "shame" part of Gibson's system? Well, it's also possible to calculate the NPS for each of LearningRx's 66 franchise locations. For the annual convention this summer, the franchise owners will wear nametags that feature their NPS score. Just imagine:

Paul ... 78 ... So very nice to meet you!
Stu ... 24 ... Yeah, hi.

The NPS metric may not be appropriate for every small business. If you have only a handful of customers and know them well, there's no need to set up a new system. But for business owners who want to keep in closer touch with their customers, this metric can provide valuable feedback that you can use to turn an unhappy client into one who will sing your praises. □

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HOW INTUIT BOOSTS SALES

SOFTWARE GIANT Intuit has embraced Net Promoter Score (NPS) to help it get closer to its 20 million customers. The Mountain View, Calif., company, best known for QuickBooks and TurboTax, tracks separate NPS scores for more than 35 lines of business and uses the data to improve its service and products and thus turn disgruntled users into happy ones.

Founder Scott Cook, now head of the executive committee, says most NPS practices are adaptable to small businesses and has tips for getting the most out of it.

ORGANIZE CUSTOMERS' FEEDBACK. Calculating an NPS score is simple. The hard part is making the customer comments easily accessible and understandable. Intuit uses a searchable database of its myriad NPS surveys, but even a simple spreadsheet can help you identify patterns in customer responses. "I tell employees not to focus on the score," Cook says. "Focus on what improvements you can make in service to improve the score. For that, accessing those comments is critical."

USE PROMOTERS FOR MARKETING. When crafting a promotional message, Intuit often looks to comments from customers who

are so happy with the product that they recommend it to others. The copy on TurboTax packaging now stresses ease of use, a benefit that was repeatedly voiced in NPS surveys. "Often I find that the very best way of describing a product comes from satisfied customers," says Cook.

SCOTT COOK



EMBRACE YOUR DETRACTORS. Intuit has created online forums where its software designers float ideas, hoping to get feedback from the company's best customers. It routinely invites detractors to join those forums as well. Most are flattered, according to Cook, and 13% of those invited join. For companies that don't maintain online customer forums, an e-mail exchange can suffice. "It's easy to talk to your friends," says Cook, "but there's greater value in talking to the people who should be, but aren't."

—J.M.

MARSHALL JOHNSON