

Net Promoter® Community Research

*Assessing the Progress
Of Customer Loyalty Programs*

The Challenge of Day-to-Day Operational Execution

In the spring of 2007, Satmetrix, the co-developer of Net Promoter®, sponsored a survey of the global Net Promoter community to assess the challenges and opportunities facing companies that have deployed customer loyalty programs and related customer-centricity strategies. The questions were based on the Satmetrix Maturity Assessment Model of Customer Loyalty Programs, which gauges best practices among companies that implement customer loyalty programs and initiatives. More than 100 organizations responded. These organizations assessed their own customer initiatives in terms of specific behaviors and attitudes within their company.

Sixty-eight percent of the respondents stated that their companies had a high customer focus (8 or higher on a 0-to-10 scale), indicating a clear desire or “aspiration” to customer centricity (Figure 1). However, only 15 percent of the companies that aspire to customer centricity are actually executing consistently across all four pillars of the Satmetrix Maturity Assessment Model.

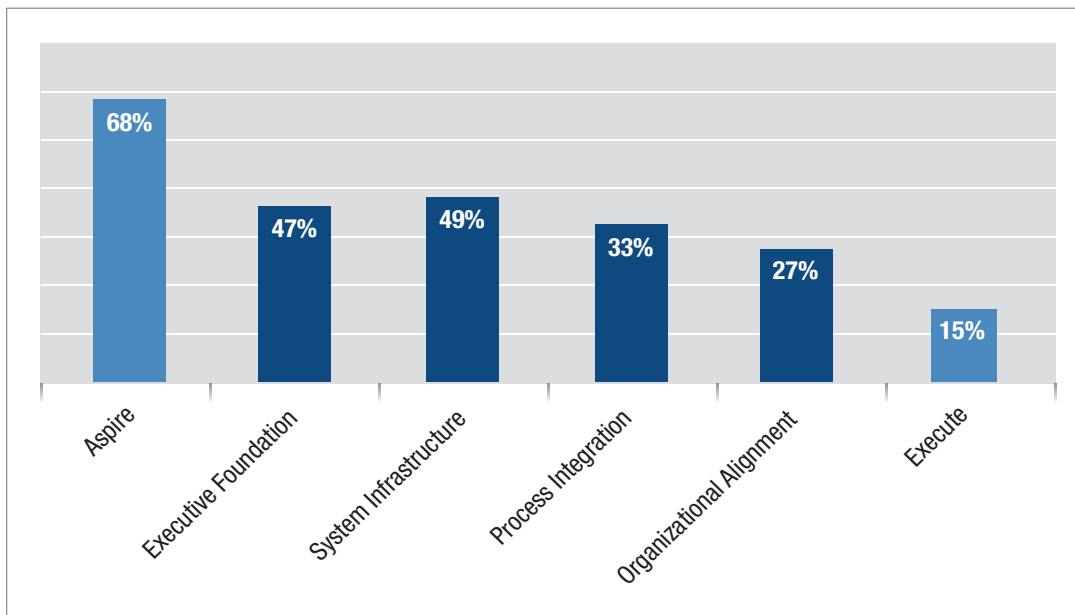


Figure 1: The Gap between Aspire and Execute

Of those companies in the “Aspire” category only 47 percent rated themselves as strong performers with respect to Executive Foundation, the pillar that looks at the customer-oriented beliefs and behavior of high level executives. Forty-nine percent of the Aspire respondents ranked themselves high for System Infrastructure, the element that assesses the technology used to collect and analyze customer feedback. Only 33 percent gave their companies high marks for Process Integration, which refers to how well internal and external customer loyalty data is distributed and integrated into corporate processes. Even fewer felt they were performing well in Organizational Alignment, which measures the degree of program buy-in among employees.

These figures reveal that there is a gap between the vision that companies have for customer loyalty initiatives and the reality of how well they actually fulfill that vision by making operational changes and taking action on the front lines. According to respondents, a lack of focus on customer loyalty across the organization hinders employees from leveraging customer feedback in their day-to-day jobs. Respondents indicated they had an especially hard time closing the loop with customers and aligning operational metrics and incentives with their vision.

This report takes a closer look at the specific challenges and opportunities that these companies face. It identifies trends in the use of Net Promoter and offers advice for organizations that aspire to customer-centricity as a business strategy. In the pages that follow, we will examine:

- The role of executives in driving a customer-centric culture
- How to transform employees from passive to active participants
- The various challenges facing small, medium, and large businesses
- The differences reported by B2B and B2C companies
- The importance of “connecting the dots” between customer feedback and operational or financial data
- The role of customer feedback in the customer loyalty ecosystem

An Assessment Model for Customer Loyalty Programs

Based on research within its own client base, Satmetrix has developed a model for assessing organizational best practices in customer loyalty programs. The research focused on companies that had improved customer loyalty and examined the link between management behaviors and attitudes, loyalty improvements, and business performance. By understanding the operational factors that contribute to improved customer loyalty, we can extrapolate best practices for other organizations seeking similar improvements. Based on a 0-to-10 scale, this model rates a company's activities across four pillars, each supported by a specific list of best practices that are exhibited by the most successful companies.

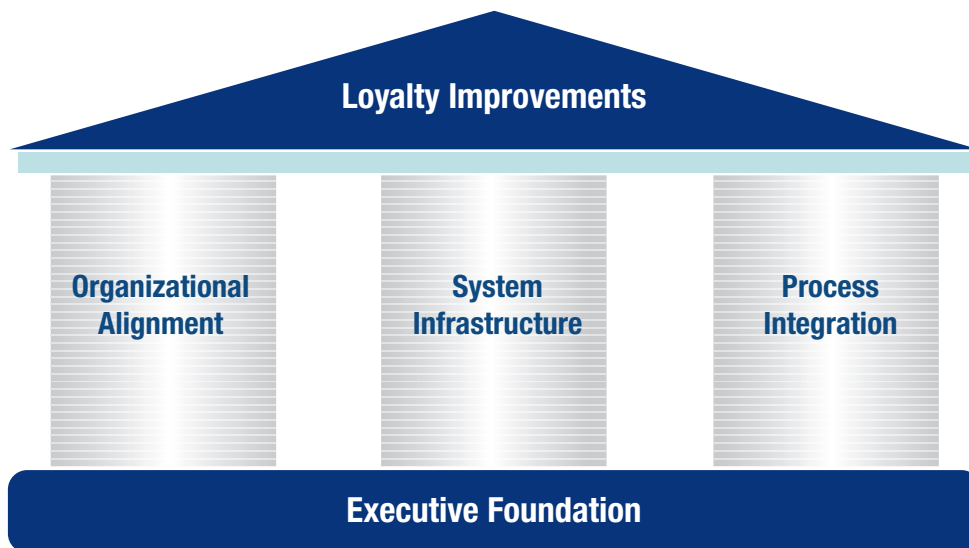


Figure 2: The Satmetrix Maturity Assessment Model

As depicted in Figure 2, the Satmetrix Maturity Assessment Model is based on four key pillars of success:

- 1. Executive Foundation**—The behavior of high-level executives on the topic of customer loyalty, both in terms of communication and executive action.
- 2. Organizational Alignment**—The degree to which employees embrace the loyalty program and its philosophy, along with policies that support customer-centricity.
- 3. System Infrastructure**—Using information systems to collect, analyze, and report on customer feedback.
- 4. Process Integration**—Incorporating customer feedback into core business processes and workflows to motivate employees to respond knowledgeably to customer needs.

Net Promoter Discipline

Created by Satmetrix, in conjunction with loyalty expert Fred Reichheld of Bain & Company, Net Promoter is not only a metric but also a discipline by which companies can grow profitably by focusing on their customers.

The Net Promoter metric is based on one simple question: “Would you recommend us to a friend or colleague?” To calculate your Net Promoter Score, take the percentage of customers who are promoters (would recommend the company) and subtract the percentage who are detractors (would not recommend).

The Net Promoter Discipline is a set of business processes that companies use to drive customer-centric action within their organizations. It begins with a strong Executive Foundation of leadership. These companies drive Organizational Alignment through specific programs and policies to involve all employees. And they invest in System Infrastructure to collect, analyze, and report on customer feedback. They also exhibit Process Integration to make customer feedback part of day-to-day operations for all employees.

To join the Net Promoter community, visit www.netpromoter.com

Respondents and Demographics

We invited Net Promoter community members, encompassing a broad range of companies using or evaluating Net Promoter as part of a customer loyalty strategy, to participate in this survey. First they were directed to a website where they confirmed their personal involvement in a customer loyalty, customer experience or customer satisfaction program. Then we asked those individuals who qualified specific questions about their programs. Respondents from more than 100 companies completed the self-assessment survey. These respondents held positions in Marketing, Service & Support, Product Development, and other departments. Their companies operate in a variety of industries with business-to-business (B2B) business-to-consumer (B2C) and blended business models (Figure 3).

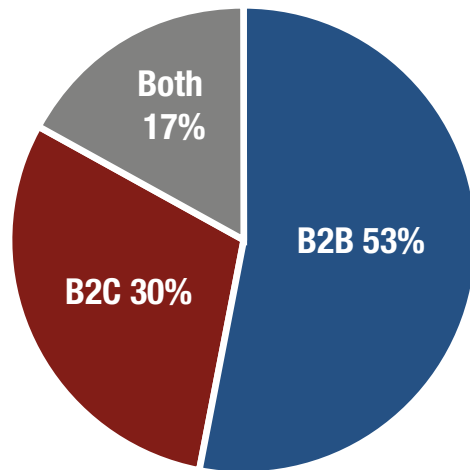


Figure 3: Respondents – B2B, B2C and Blended Model Companies

People responded from a wide variety of countries, with the largest number coming from the United States (Figure 4). They work in companies of all sizes. As Figure 5 reveals, 45% of respondents worked for companies with more than \$1 billion in annual revenue, many of which operate globally.

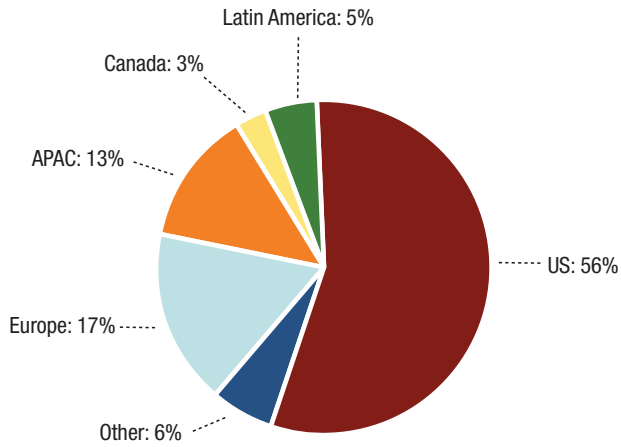


Figure 4: Geographic breakdown of respondents

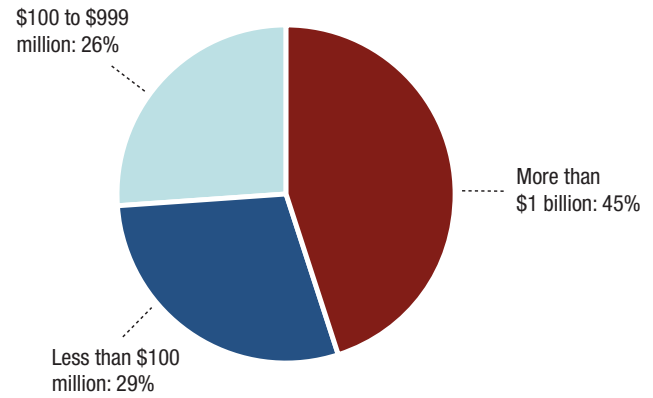


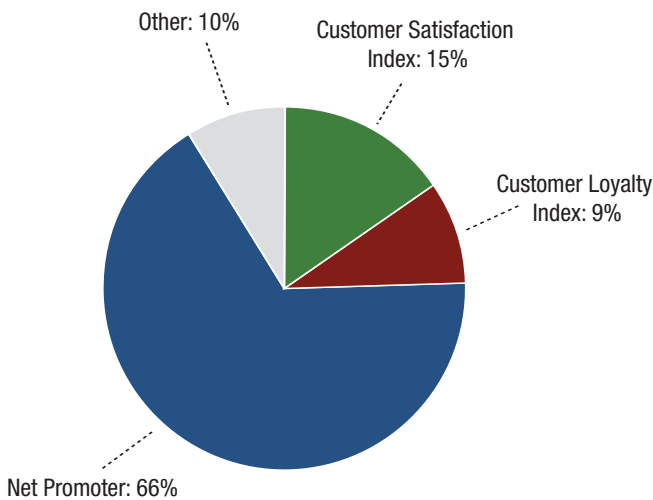
Figure 5: Revenue breakdown of organizations represented

Net Promoter Adoption within Customer-Focused Initiatives

Respondents included organizations that have used or evaluated Net Promoter, as well as many who currently use other approaches. The most common terms used to describe their internal customer loyalty initiatives were Customer Satisfaction, Customer Loyalty, and Customer Experience. Other program names included Net Promoter Score, Customer Delight, and Voice of the Customer. For purposes of this report, we refer to all of these variants as “customer loyalty” programs.

When asked to identify the primary metric used to measure customer feedback, the most common responses were Net Promoter Score and Customer Satisfaction Index (CSI). Net Promoter is most widely adopted in the United States. Outside the U.S., Net Promoter and CSI were used almost equally by respondents’ companies (Figure 6).

Metrics for US Based Respondents



Metrics for Respondents Outside the US

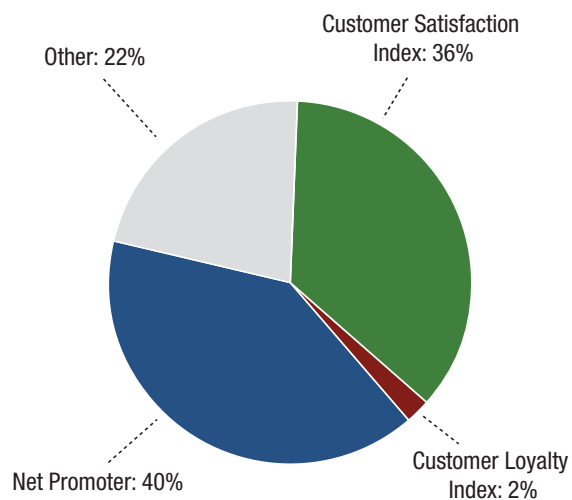


Figure 6: Customer Loyalty Metrics Used – by Region

While marketing is the most common functional area represented among respondents, Net Promoter is more likely to be used when the sales and product teams are actively involved. By contrast, those respondents who have not yet adopted Net Promoter are more likely to work in service and support and to rely on a customer satisfaction index.

Respondents who indicated that they use CSI did not rate their programs as strongly in the area of Executive Foundation, the pillar that represents executive support for the customer loyalty initiative. CSI users assessed themselves significantly lower than other respondents on questions related to executive sponsorship. CSI users also ranked their companies lower on employee influence on customer loyalty and whether loyalty is perceived as a core corporate value. In this respect, Net Promoter shows great promise as a way to involve the entire organization in customer centricity, from the top down.

One area where the CSI adopters outpaced the Net Promoter adopters was in the area of System Infrastructure, which describes the technology used to collect, analyze, and report on customer feedback. This may reflect the fact that customer satisfaction measures have been in use longer, so these companies have had more time to develop support systems to monitor and manage satisfaction data. This would also be expected for departmental solutions that measure customer satisfaction in the context of customer support, such as in call centers.

Executives Walking the Talk

Many companies pay lip service to customer loyalty in corporate documents such as value statements and annual reports. But in reality, respondents indicate that there is often a gap between what executives say about customer loyalty and the actions they take to create a customer-centric culture and operation (see Figure 7).

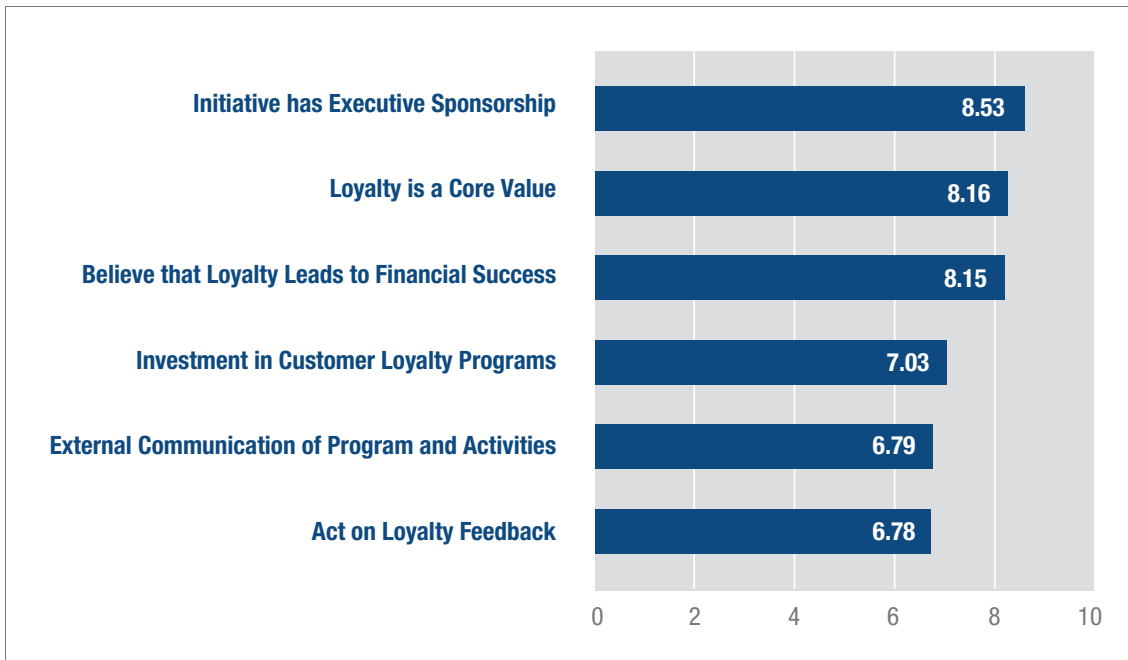


Figure 7: Respondent Ranking of Executive Foundation Attributes

A closer look at the data shows that executives fall short not in terms of stated values and beliefs, but in how they act on those beliefs or “walk the talk” when it comes to customer-centric business operations. Many executives expect results without making appropriate investments in loyalty programs. When a senior corporate officer makes substantive changes or devotes additional resources to support customer loyalty, it sets a powerful example for the entire organization.

Moving from passive recipient to active participant

Organizational Alignment is the lowest ranked pillar, according to the survey responses. This section of the Maturity Assessment Model focuses on an organization's beliefs about loyalty and the formal processes they develop to encourage employee activities and solicit internal feedback. The survey respondents reveal how difficult it is for organizations to get employees involved with customer loyalty initiatives.

Line of business managers received the lowest marks when it comes to driving changes in the customer loyalty program (Figure 8). Employee involvement in loyalty initiatives was also on the low side, as measured by the existence of meaningful employee goals tied to customer loyalty and the use of employee feedback to improve organizational capabilities. These comparatively low results are not because companies lack information about customer feedback. Respondents rated data distribution significantly higher than the behavioral elements of employee action.

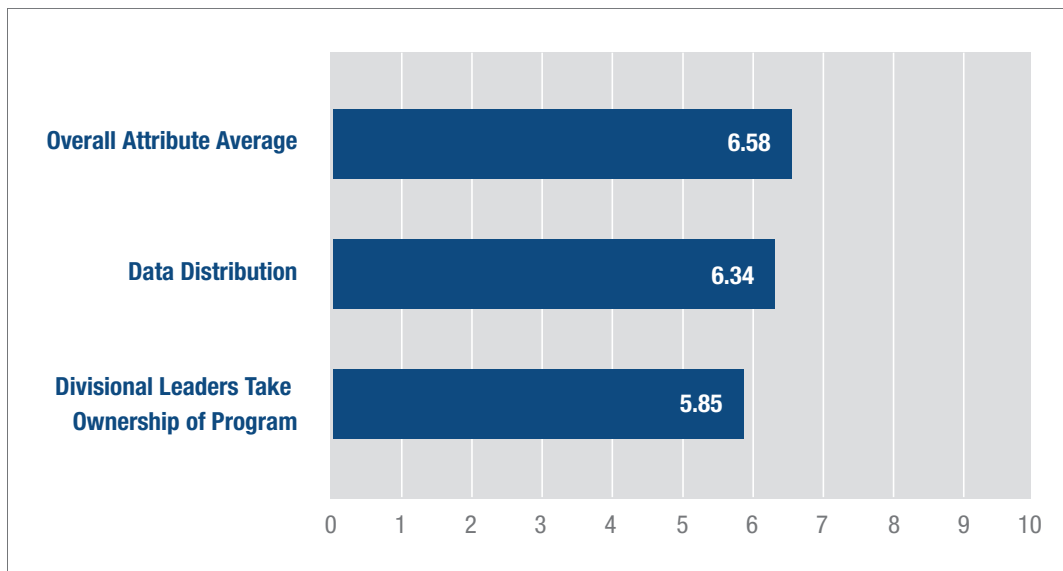


Figure 8: Comparison of Overall Attribute Average, Divisional Ownership and Data Distribution

The results seem to indicate that companies treat customer feedback as simply another stream of data, rather than leveraging customer loyalty programs to manage and improve company performance. Best in class organizations, by contrast, couple the collection of customer feedback with strong employee training, champion networks, incentives, and line management ownership, to ensure that action is taken and customer-centricity becomes part of the corporate culture of performance.

Mid-Market Challenges

How does the size of a company affect the challenges and likelihood of success for customer loyalty initiatives? According to respondents, company size is an advantage for the smallest companies (under \$100 million in revenues). The smallest companies tend to rate themselves higher across all aspects of their customer loyalty programs, while large companies indicate more mature policies for Organizational Alignment. Mid-sized companies, defined here as companies with annual revenues between \$100 million and \$1 billion, rank their programs lower in nearly all areas (Figure 9).

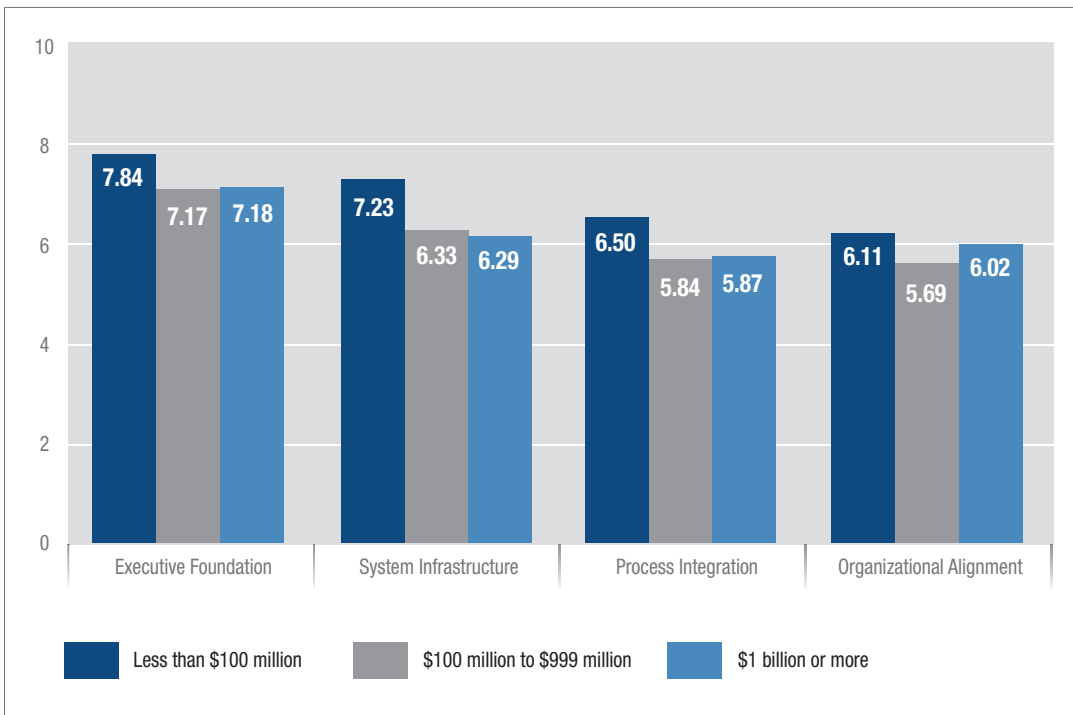


Figure 9: The Satmetrix Maturity Assessment Model – Pillar Ratings by Revenue

What emerges here is a challenge for mid-sized companies. These firms tend to lack the internal visibility and natural alignment of small companies, where executives communicate personally with employees and departments readily share customer feedback and improvement ideas. Mid-market companies may also lack mature processes for strategic planning, goal setting, and internal communication that support stronger Organizational Alignment in some large companies.

The best companies, regardless of size, combine the cultural advantages of small firms with the employee programs and goal orientation of large organizations to get results from customer loyalty programs. Executives reinforce the importance of staying close to the customer by getting personally involved in customer follow-up and interacting with front-line employees. They also drive customer-focused goal setting and accountability by reporting Net Promoter Scores regularly, alongside key financial metrics.

Do B2B Companies Have a Natural Advantage?

When we consider the responses of business-to-business (B2B) versus business-to-consumer (B2C) companies, we find that B2B companies consistently ranked themselves higher in every pillar of the Maturity Assessment Model (Figure 10).

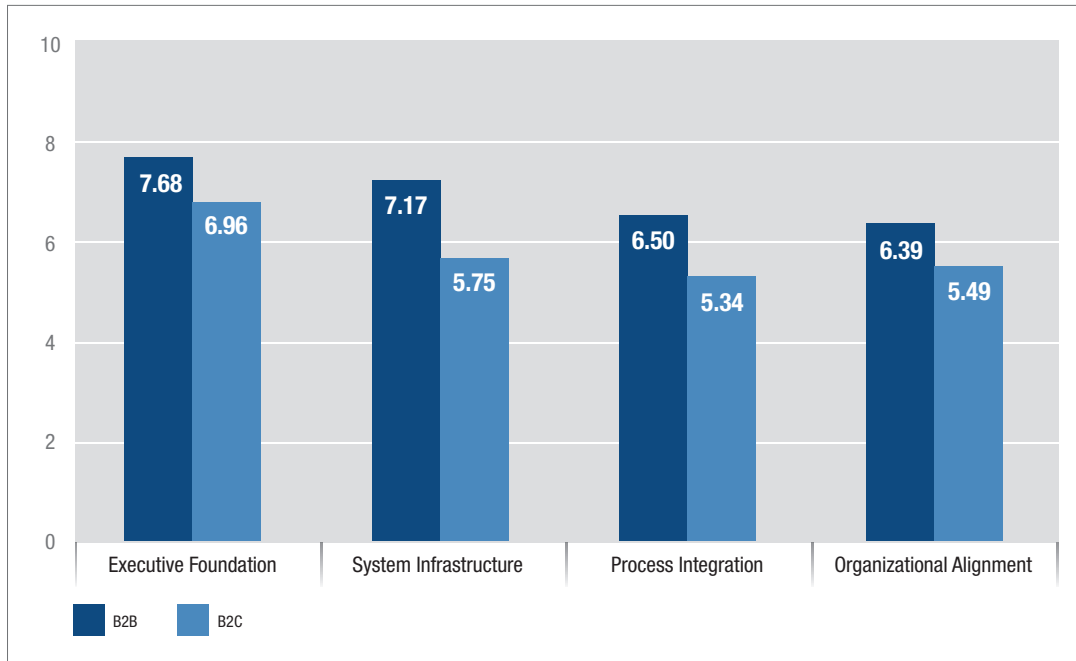


Figure 10: The Satmetrix Maturity Assessment Model – Pillar Ratings for B2B and B2C

Under Executive Foundation, B2B companies ranked themselves almost a full point higher than their B2C counterparts with respect to their executives’ propensity to act on customer feedback. This likely reflects the personal involvement of B2B executives with top strategic accounts that are critical to financial performance.

B2B companies rated themselves higher across most elements of System Infrastructure. Questions about measuring feedback at key touch points, defining strategies for achieving high customer loyalty, and segmenting to ensure that the right customers are responding, resulted in a gap of a full point or more between B2B and B2C companies in the survey sample, with B2B respondents ranking higher.

Finally, B2B respondents ranked themselves a full point above the B2C participants for certain elements of Process Integration. The largest gaps between B2B and B2C in this category concerned integrating loyalty data into corporate reporting and incorporating it within planning processes such as product road maps.

If B2B companies tend to be “wired” to worry about keeping large, strategic accounts happy, it does not mean that B2C companies can not develop a similar culture of customer-driven focus. The best B2C companies understand customer segments based on loyalty and business value and can attach the same sense of immediacy and priority to these high-value customer relationships that B2B companies do for strategic accounts. Segmenting customers based on their Net Promoter Score and financial value is a critical first step in the process. When this is done effectively, companies move beyond measuring the customer as a transaction and focus on the long-term value of repurchase and referrals that form the basis for profitable growth.

Connecting the Dots

An ability to “connect the dots” between customer loyalty, operational, and financial data was cited as one of the most common issues facing survey respondents. In fact, it stood out as a major shortcoming, hindering companies from creating a single compelling view of the customer.

This shortcoming often occurs because enterprises maintain separate silos of customer loyalty information (Figure 11). Individual departments have their own means of collecting customer feedback, but these silos are maintained as separate data pools rather than being combined to create an integrated view of customer experience.

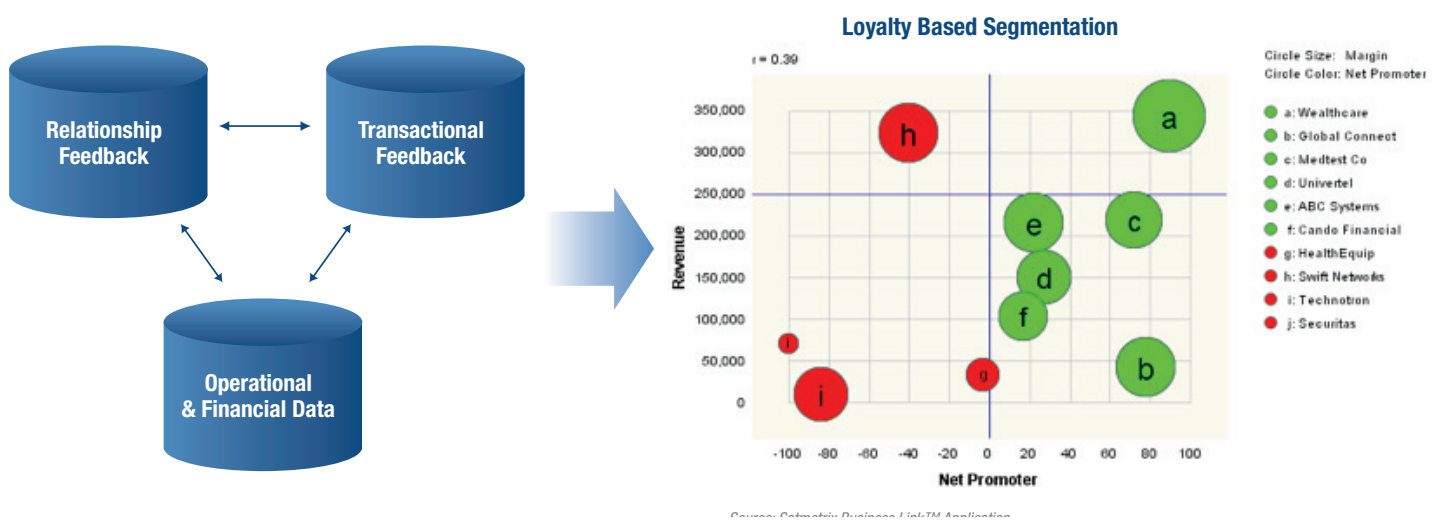


Figure 11: Moving from Silos of Information to an Enterprise View of Customer Value

Best-in-class companies are able to connect the dots between operational, financial and loyalty data, unlocking powerful insights that link customer loyalty with financial results and drive organizational buy-in. This generally requires linking customer feedback data with data from CRM and corporate financial systems. It also requires an integrated enterprise-level approach to measuring the customer experience on a holistic basis and at key operational touch points.

Understanding the Customer Loyalty Ecosystem

While companies are investing in loyalty programs that monitor and manage direct company interactions with their customers, a broader challenge remains: to understand this feedback in the context of the complete customer ecosystem, including both partners and competitors (Figure 12).

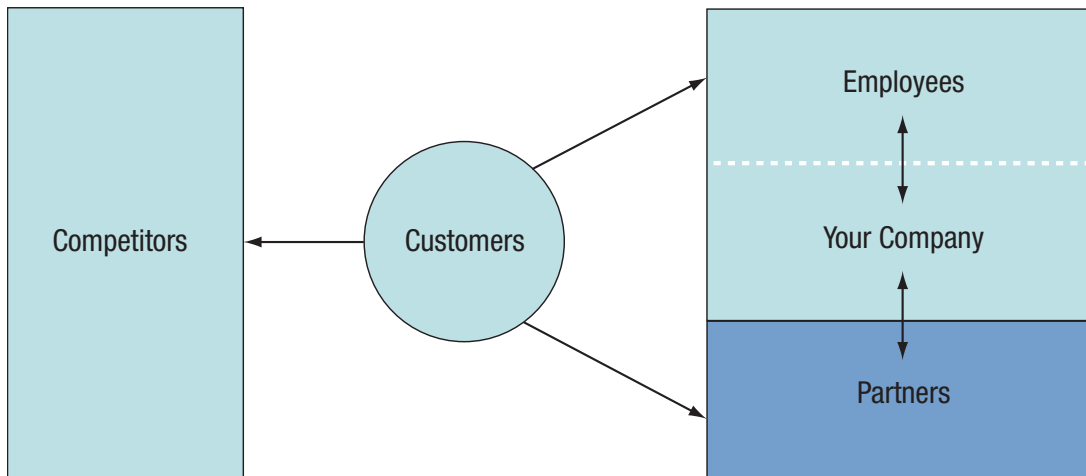


Figure 12: The Customer Loyalty Ecosystem

The lowest ranked question concerned whether companies collect and act on information regarding their customers' interactions with business partners. The second-lowest ranking question focused on the collection of loyalty data with respect to competitors.

These responses beg the question of whether companies are putting their results into an appropriate context. Various process challenges may explain the low ranking of partner feedback. For example, a manufacturer that reaches consumers through dealers or distributors may find it difficult to collect and manage feedback from both constituents, preferring instead to focus primarily on one of these sources. However, both of these constituents influence customer expectations and choice, so a complete view of customer feedback in such a setting will include both end-consumer and partner feedback.

The best companies also understand customer loyalty in a competitive context. For companies that operate in different markets, the competitive group and appropriate loyalty benchmarks typically differ from one market to the next. With these benchmarks in hand, companies can evaluate internal loyalty scores in conjunction with external benchmarks to prioritize investments and set appropriate goals.

Summary

Many common challenges emerge as companies set out to implement customer-centric business strategies. Ultimately, the true measure of success is determined by a company's ability to take action on customer feedback and transform its business to optimize customer value.

Net Promoter offers a compelling approach for driving improvements in customer loyalty and value when implemented as a discipline. Companies that distinguish themselves take action on customer feedback at all levels, from executives to front-line employees. They not only distribute customer insights, but get employees actively engaged in using those insights to improve company operations. Top companies also set themselves apart by understanding customer feedback in context, connecting it to financial and operational data within their company, and benchmarking their success.

While we have seen that the implementation challenges differ somewhat depending on company size and business model (B2B, B2C, or blended model), the critical practices that drive success are common to all organizations. Companies that achieve the greatest improvements in customer loyalty implement Net Promoter using these best practices and, as a result, achieve enduring changes in company operations and business performance.

Methodology

Satmetrix distributed this survey via email in the spring of 2007 and collected the responses via the web. As an incentive, respondents were offered a summary of the survey results.

Exact sample sizes in this report were assessed on a question-by-question basis. Results are not guaranteed to be representative of the population. Unless otherwise noted, statistical data is intended to be used for descriptive and not inferential purposes.

This document is provided for informational purposes only and the information herein is subject to change without notice. Please report any errors to Satmetrix. Satmetrix does not provide any warranties covering and specifically disclaims any liability in connection with this document.

About Satmetrix

Satmetrix is the leading global provider of on-demand software applications and consulting services to measurably improve customer loyalty and link these results to financial benefits. As the co-developer of Net Promoter®, the company's solutions enable companies to monitor the customer experience at key touch points, measure loyalty of customers, partners and employees, identify performance gaps, and engage customers in a continuous dialog through online communities. The company has deployed more than 700 enterprise solutions in 40 languages.

© 2009 Satmetrix Systems, Inc. All rights reserved. Satmetrix and the Satmetrix logo are trademarks of Satmetrix Systems, Inc. Net Promoter, NPS, and Net Promoter Score are trademarks of Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld.

Satmetrix

Headquarters

2755 Campus Drive
Suite 300
San Mateo, CA 94403
Phone: 1-650-227-8300
Toll Free: 1-888-800-2313
Fax: 1-650-227-8301

EMEA Office

3rd Floor, Colet Court
100 Hammersmith Rd.
London W6 7JP
Phone: +44 845 371 1040
Fax: +44 845 371 1041

Paris Office

112, avenue Kleber
75116 - Paris cedex 16
France
Phone: +33.1.47.55.3000
Fax: +33.1.47.55.7439

New York Office

450 Seventh Avenue
Suite 1601
New York, NY 10123
Phone: 646.935.3500
Fax: 646.935-3501

India Development Center

G1, Tejaswin Technopark Campus
Trivandrum, Kerala 695581
India
Phone: +91.471.401.6700
Fax: +91.471.401.6701

Web site: www.satmetrix.com

Email: sales@satmetrix.com