

## **Grow your business by relying on raving customers !**

**How does the idea sound of growing your business by relying on your present customers to do your sales and marketing for free ?**

Well, that's the wonderful position you could be in if you nurture your relationship carefully with a targeted selection of your present customers and you tap into a very powerful business development technique called '**word of mouth**' marketing.

You need to start by remembering – from a commercial perspective - that customers are not only different in terms of their needs and characteristics but in terms of their **income value** to you. Some are much more valuable than others.

For example, some customers or customer segments can be more attractive because there are more buyers, their average level of spend is high, or they purchase more frequently, or they are easier to reach for marketing purposes.

But you can get more clever still.

Within your customer segments, look at customers in terms of **how likely you think they are to recommend you to other people**.

All those customers who you judge to be potential 'advocates' like this represent your future pipeline to free marketing. They are going to be the most important people to help your future business growth !

Let's look at the concept in more detail.

### **From supporters to detractors**

For any business it will be possible to identify some of its customers who are very satisfied and enthusiastic users of its services, others who are mildly satisfied but unenthusiastic, and still others who are quite dissatisfied and might actually be quite critical of the company. Such a range in terms of customers' feelings is quite normal.

A key point to remember is that just because a customer is a regular purchaser or user of your products or services, they may not necessarily be particularly happy or enthusiastic about you. Many people stick with a supplier more out of habit, convenience or inability to find an alternative source.

Recent research by an international expert on this subject ( *Fred Reichheld / Bain & Company* \*) articulated that every company's customers can be divided into three categories:

**Promoters** –These are customers who are loyal and enthusiastic and keep buying from a company and, furthermore, urge their friends to do the same

**Passives** – These are satisfied but unenthusiastic customers who can be easily wooed by competitors

**Detractors** - These are unhappy customers who feel unable or even trapped in a bad relationship and are inclined to express very critical and negative comments about the company

Promoters are the most valuable set of customers for a company, whilst its Detractors are the most dangerous. All businesses should seek as many of the first type as possible, nurture Passives, and do their best to avoid creating Detractors

## Identifying promoters

How can you tell which of your customers belong to which category ?

Reichheld came up with a very simple approach. You simply need to pose the following question to each customer (or to a selection of customers from each segment): *“How likely is it that you would recommend our company to a friend or colleague ?”*

For measuring responses, a simple zero-to-ten scale is appropriate. Where ten means “extremely likely” to recommend, five is neutral, and zero means “not at all likely”.

When you aggregate the results from asking your customers, use the following score bands to match up with who are Promoters, who are Passives, and Detractors:

**Score of 10 or 9: Promoters**  
**Score of 8,7, or 6: Passives**  
**Score of 5,4,3,2,1 or 0: Detractors**

Reichheld’s research identified that Promoters exhibit by far the highest repurchase rates and also account for more than 80 percent of positive referrals. Conversely, Detractors account for more than 80% of negative word-of-mouth comments made about a company. Some Detractors may appear profitable from an accounting standpoint, but actually their criticisms and attitudes can tarnish a company’s reputation, discourage new customers, and demotivate employees.

Grouping customers into these three categories provides a simple, intuitive scheme that accurately predicts future likely behaviour of customers. More important, it is a practical tool that can be acted upon. Business owners and frontline managers can readily grasp the idea of increasing the number of promoters and reducing the number of detractors. It can also be better than just carrying out a customer satisfaction survey because it is simpler and because it discriminates between satisfied customers more powerfully.

After finishing collecting in data for all your customers or segments, it is possible to arrive at an overall aggregate measure to summarise simply how well you are pleasing your customers. Simply work out the percentage of customers who are promoters (P) and subtract the percentage who are detractors (D). The net figure is called your '*Net Promoter Score*' (NPS). In summary:

$$P - D = NPS$$

Individual customers, of course, can't have an NPS; they can only be promoters, passives or detractors. But companies can calculate their NPS figures for particular **segments of customers, for divisions or geographic regions, and for individual branches or stores.**

Companies that delight their customers have been found to have NPS figures of more than 70%. Most businesses, however, have much, much lower scores – typically less than 30%, which is a clear indication that most companies have a lot to do to improve their relationships with their customers.

### Winning with supporters

Once you have determined which of your customers are promoters, passives or detractors, then try and estimate how *profitable* each is to you. Judge whether each is making you 'average to high' level of profits' or 'zero to average' level profits. The following grid is helpful for understanding this classification:

	DETRACTOR	PASSIVE	PROMOTER
High Profitability	A	B	C (Priority)
Low Profitability	F	E	D
	Low		High

**Net Promoter Score**

### *Customer NPS / profitability segmentation Grid*

*(Based on Fred Reichheld / Bain & Company)*

Segmenting your customers in this two-step way is the real key to driving your business forward. It is an unfortunate fact that the vast majority of businesses simply ignore the issue of profitability if and when they think of customer segmentation at all.

Your strategic priority should be to focus on and invest your marketing and customer care efforts amongst those customers who are your **'average to high' profit Promoters** (cell C in the above Grid). These people love doing business with you. They generate high margins. They are talking about you favourably to other people and bringing you 'free' new business.

Treat these customers as your best, most important customers. Look after them as well as you can and drive your future business on the back of what they think, want, expect, or hope for.

Your second priority area of focus should be your **Detractors**. Begin by improving relations with those Detractors who are profitable but who are, by definition, still spreading negative word of mouth about you (cell A in the above Grid). Sometimes all you have to do is talk to them, identify their concerns, and solve their problems on the spot with an apology or rebate. Sometimes customers feel offended or restricted by company policies that you can easily adapt to suit them better e.g. offer to send information or receive a payment by post for a customer who does not have an internet connection to be able to use your website.

For all other detractors (cell F) – those customers or segments who generate little or no profit – your rule, from a *commercial perspective*, ideally should be 'sort out or drop'. Since there is little profit to invest in fixing their problems, you must either discover a more efficient way to serve them or consider how you might advise them to go elsewhere (if ethically and professionally possible or appropriate, of course).

Your final strategic priority should be to nurture profitable **Passive** customers (cell B) into becoming Promoters as well as improving the profitability of those present Promoters who are making you only little money or in fact losing you money (cell D). For the latter group, beware of simply raising prices to improve profitability: don't take for granted and milk their good will. A better approach is often to find opportunities to cross-sell other good or services to improve income levels.

## **Nurturing customers to be supporters**

What does a business actually need to do to create or develop more Supporters ?

Eight key things you should do are as follows:

- i) First of all, regard enhancement of relationships with your customers as the most important goal for your business – above short-term profits or building market share. You will be able to grow your business more economically and sustainably by focusing on delighting your customers

- ii) rather than falling back on the ‘old’ ways of buying growth with more advertising, more salespeople, or buying another company.
- iii) Design a really attractive, well-matched product/service proposition to suit each of your target customer segments. Equally important, ensure you back this up with excellent customer service and relationship handling for each of your customers. It is a case of the right product + the right relationship.
- iv) Ensure you actually deliver what you promise end-to-end. Every department and every employee in your business will need to pull in the same direction. You can’t afford any ‘silo-thinking’
- v) Employ staff who have the right personality and attitude for delivering excellent customer service. And then ensure you train and motivate them well.
- vi) Recognise and reward your staff for improving customer relationships. Remember, what get’s measured or rewarded, get’s done !
- vii) Communicate often and personally with each customer to build up relationships and seek regular feedback about what they think of you and so you can identify new opportunities to meet individual customers’ needs better or serve them better.
- viii) Encourage your customers to interact and mix with other customers of yours as way of encouraging a closer bond with them. Arranging advice sessions, clubs, social events or feedback sessions will all help. Consider also how you could perhaps use your website to build up an online ‘community’ of customers talking to and helping each other about common problems. Customers usually enjoying talking to other customers and the effect will rub off on you favourably.
- ix) Finally, as well as measuring regularly – at least annually – how pleased your customers are with their relationship with you by asking that key question “**How likely is it that would recommend us to a friend or colleague ?**”, listen continually, above all, to comments and suggestions given by Promoter customers as to how you could develop your business in the future. Select and develop your future range of products, services, facilities, systems, and capabilities specifically according to what these key customers want rather than other categories of customers.

**Using the concept behind the Net Promoter Score and focusing your business on Promoter customers is a reliable and economical way to find growth. Its commercial stance needs to be balanced, obviously, with your professional responsibilities in that you cannot easily just ignore or give up on non-profitable customers, but it is a powerful way of helping you to view your business and steer the commercial side of your firm.**

**\* See ‘The Ultimate Question’, by Fred Reichheld, Harvard Business Press, 2006**