

# NET PROMOTER 3.0®

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*Inspiration from Fred  
Reichheld.*

**ennova**

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## What this memo is about

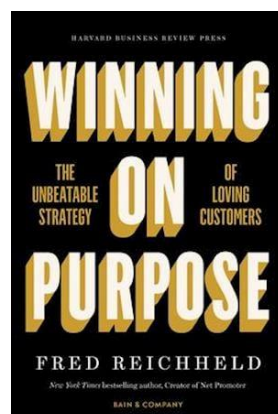
This short memo covers what I believe you should know about Fred Reichheld's new approach to NPS - known as Net Promoter and presented in his latest book *Winning on Purpose - the unbeatable strategy of winning in purpose*. If you would rather listen than read, you can also find my webinar "How to use NPS 3.0 to drive a successful business:"

[GO TO WEBINAR](#)

For the better part of the last 20 years, I have been designing and advising on customer surveys for a broad set of clients across a multitude of industries. In doing so, I have gained a lot of practical experience with NPS.

Doing customer surveys right is to me a craft you learn - or to put it in another way: I have made numerous mistakes in the past 20 years and luckily also learned from them.

So, my thoughts and perspectives on Fred Reichheld's latest and updated approach to NPS is - for better or worse - obviously influenced by my own experience. It is also important for me to stress the point that I am not "married to Fred" in any way in terms of commercial interest in NPS or Bain & Company.



## Who is Fred Reichheld?

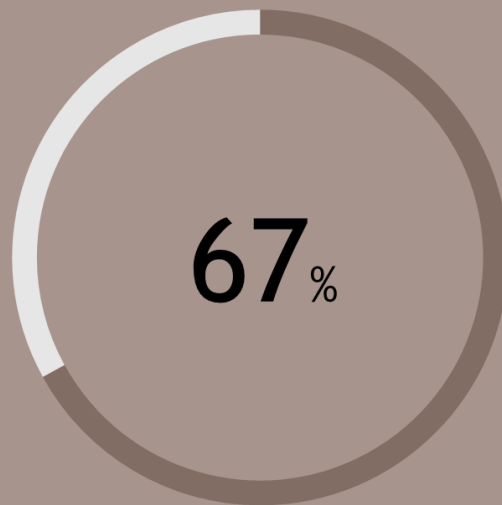
Before I dive into Net Promoter 3.0, let me introduce you to Fred Reichheld. He is the man behind NPS. It all started back in 1998 when he published the book *The Loyalty Effect*, which to some extent was a catalyst for having customer loyalty as a business model.

Further books, *Loyalty Rules!* in 2001, *The Ultimate Question* in 2006, *The Ultimate Question 2.0* in 2011 have set in stone his position as most the renowned thought-leader within customer loyalty. He is first and foremost a great believer in the value of customer loyalty as the way to sustain and grow your business.



*Without trust, there can be no loyalty - and without loyalty there can be no true growth.*

Fred Reichheld, inventor of NPS



of Fortune 1,000 companies use NPS

*The simple metric that's taking over big business, Fortune, May 18, 2020*

## What is NPS?

The question below is what many will know as NPS:

*How likely is it that you would recommend Brand to others?*

Survey respondents are asked to rate the question on a 0-10 point scale. Those answering 0-6 are labeled Detractors. 7 and 8 are Passives. And only 9 and 10 are considered Promoters. You calculate your NPS by subtracting the share of Detractors from the share of Promoters, thus reaching an NPS between -100 and 100.

Now, those of you who are familiar with NPS might think: "Hold on, this is not how we do NPS at our company." Well, you will find many alternative versions. The question may be phrased differently, and many will use a 1-10 scale with a "Don't know" option - something Ennova usually recommends for data quality reasons.

Also, it is fair to say that the actual mathematical construction of NPS, though pleasing in its simplicity, has its limitations. E.g., it is highly volatile with small samples making it difficult to trust for many B2B companies who, despite a +billion turnover, only have a small number of clients to invite in a customer survey.

In his book Fred Reichheld briefly acknowledges that the NPS question might not always be the right one - and to be fair to Fred, much of his NPS research is based on B2C data where small sample sizes are usually not a concern.

However, I will not dive further into that discussion for now. The point Fred wants to make is really something else: because to Fred, only asking the question is *not* enough.

*How likely is it that you would recommend Brand to others?*



## Small versus Big NPS

A great way to understand NPS is to think in terms of Big and Small NPS:

- **Small NPS.** Small NPS is what I would assume most of us would think about when someone mentions NPS. Small NPS is a loyalty metric. It is the *Net Promoter Score*.
- **Big NPS.** Big NPS is the *Net Promoter System*. And so much more.

One key thing to understand about Fred's Big NPS thinking is that he is devoted to the idea of customer loyalty and that earning their loyalty should be the guiding star for your business. To him, it is the best way to succeed.

So even though the NPS metric is based on a question about willingness to recommend NPS is intended to be about loyalty. It is about assuming that loyal customers will not only repurchase - they will also bring along their friends.

Fred argues (perhaps slightly teasingly) that marketing is, to some extent, the price you pay for not being able to grow your business solely based on customers being loyal and bringing along their friends as new customers.

## If you only use the metric, you are not doing NPS

If you want to do real NPS, Big NPS, it is not enough to only use the NPS metric. Big NPS is about having customer loyalty and serving customers as your sole purpose as a business. But before I dive further into Big NPS, it is important to Fred (and me, coincidentally) to highlight why it can be problematic only to do small NPS.

An example of NPS used in a wrong way is when it is simply not the right time or place to ask. You must keep the customer journey in mind - is this a reasonable time and place to ask whether a customer is likely to recommend you?

Often, the NPS question is used in short surveys following a single customer touch point, like calling your local favorite restaurant to ask about reservations next Thursday. It hardly makes sense to send a survey afterward asking if you recommend the restaurant based on your conversation with the call center handling reservations for the restaurant. But many of us will have experienced receiving the NPS question when it makes no contextual sense. Asking if it was easy to make the reservation would be the better option.

But it *does* make sense to ask the NPS question next Friday *after* your meal - perhaps when your friends have texted you that very morning to say thank you for a great dining experience. Then there will be truth and intent behind it when you answer "10."

So the wrong time and place for asking the NPS question is one concern. Another - and perhaps more critical to your business - is when NPS becomes nothing more than a vanity exercise.

Coincidentally Fred and I have had the exact same experience even though he is in the US, and I am in Denmark. I suspect we drive cars of the same brand. Here is the story:

Whenever Fred or I have the car in for service we both receive subsequent surveys via e-mail asking us to evaluate the service experience. The NPS question is the key question of the survey, and we both get instructed in the email to please answer 9 or 10, while hinting that, in case we are not a 9 or 10, to perhaps just skip the survey.

We both independently (I had not read Fred's book when I experienced this) asked the local manager of the garage why they did this and were told the same story: the head office of the car brand *only* accepts 9 or 10 - and the workshop employees get told off by the head office when it is not 9 or 10.

This is wrong for so many reasons - but most importantly it becomes clear that the survey is little more than a vanity exercise courtesy of the head office.



*There's only one way to win, and that is when you embrace an inspiring purpose that is based on service to others.*

Fred Reichheld on CXOTalk

To do *real* NPS, as in Big NPS, it all starts with your *purpose*. Many of us have learned about the importance of finding our purpose as an organization or individual.

Simon Sinek, Daniel Pink or Adam Grant come to mind as some of the thought leaders advocating the importance of having a purpose. To Fred, it is quite simple, and it is all in the title of the book: *Winning on Purpose - the unbeatable strategy of loving customers*. Your purpose is to service your customers.

In some ways, this may seem like a radical line of thought. But Fred's starting point goes thousands of years back.

## Golden Rule treatment

For Fred, it starts with The Golden Rule. It is the principle of treating others as one wants to be treated. Various expressions of this rule can be found in the tenets of most religions and beliefs through the ages. It can be considered an ethic of reciprocity in some religions, although different religions treat it differently. The idea dates at least to the early Confucian times.

If your organization lives by the principle of Golden Rule treatment, Fred argues that you will become an NPS winner. You might wonder why I refer to him by his first name. We are not friends. Fred has never heard about me.

Well, it is because he has built a credo, which he calls F.R.E.D. that should help us remember what the positive outcome of Golden Rule Treatment will be: You will Foster Recommendation and Eliminate Detraction. Or more simply put customers will return and bring along their friends. Though Fred himself says he is not a religious man, he does very much believe in the value of Loyalty.

### THE GOLDEN RULE

Do not impose on others what  
you do not wish for yourself,  
Confucius.

Love thy neighbor as thyself,  
Matthew 22:39.

## Milton Capitalism or Customer Capitalism?

So, interesting thoughts from Fred on how it all starts with a simple purpose based on Golden Rule treatment. But this is business - so it seems fair to ask:

*Will Golden Rule treatment work? Is it really the way to do business?*

After all, the famous Milton Friedman doctrine states that “the social responsibility of the business is to increase its profits.” I, for one, was taught this almost to be a universal truth at university.

But to Fred, this doctrine should now be put to rest. Or at least it gets more nuanced. It is *still* important to achieve the best possible profits - but the idea is that profit is best achieved by *not* having shareholder profits as your purpose and north star.

Instead, putting customers first has the best chance of achieving sustainable greatness - and, in the long-term, better shareholder profits. It is not a theoretical proposition. According to Fred, there is plenty of evidence right in front of us. Firms that make customers feel loved are outpacing the competition, according to Fred's analysis.

### MILTON CAPITALISM

The social responsibility  
of the business is to  
increase its profits.



### CUSTOMER CAPITALISM

Putting customers first has the  
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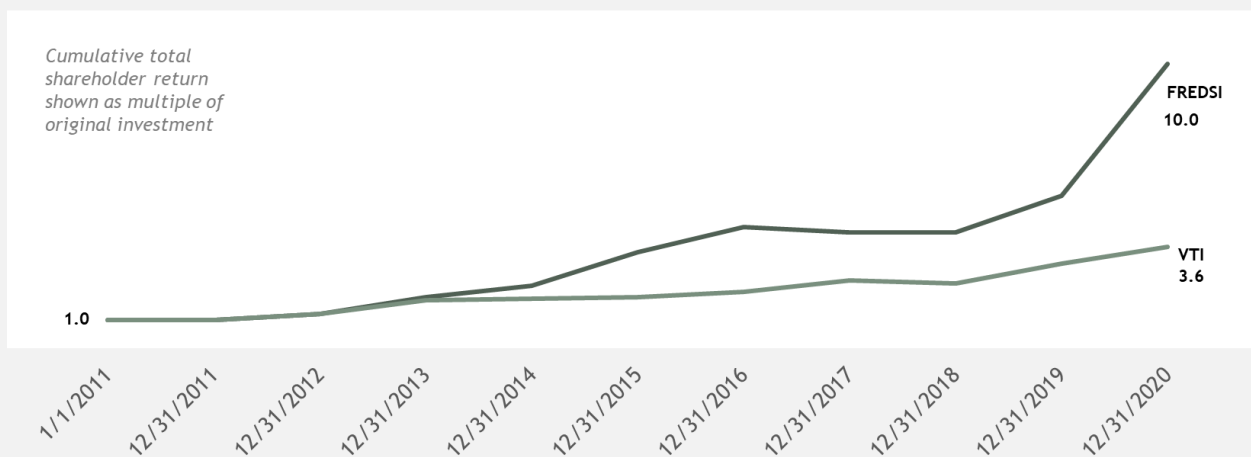
## FREDSI beats the stock market

Now, I have made a quick count. In his book, Fred delivers no less than 15 different charts and analyses showing correlations between NPS performance and either stock market or financial performance.

For example, he shows how NPS leaders over time have outperformed the 11 Good to Great companies Jim Collins identified in his hugely important book *Good to Great* from 2001. Jim Collins identified his Good to Great companies based on financial performance. To be fair, Fred underlines that he agrees with Jim on many of the points in Jim's book. But as you may know by now: Fred believes in the long-term value of loyalty.

He has followed American NPS leaders over time, and here you see one of the charts he presents in the book. In fact, based on the F.R.E.D. credo, he established the FREDSI Stock Index, which tracks TSR (Total Shareholder Return) for the portfolio of companies that consistently achieve the highest NPS in their industry sector. FREDSI beats the stock market using Vanguard's Total Stock Index as a benchmark. Fred even asked renowned private equity expert Professor Steven Kaplan to check his figures, and Kaplan confirmed that FREDSI outperforms most private equity funds over the 2011-2020 decade - at considerably less risk. And yes, Kaplan is the one behind the idea of the balanced scorecard along with David Norton back in 1992.

On a personal note, I must admit that his "evidence" (though not perfect) is some of the strongest evidence I have seen linking financial performance with the quality of the customer experience.



Fred Reichheld, *Winning on Purpose*, p. 36. VTI is Vanguard's Total Stock Index. FREDSI is the F.R.E.D. Stock Index by Fred Reichheld based on NPS benchmark winners.

## Fred's seven checkpoints

So, according to Fred, we need to switch mindsets about why we do business - but how do we live the credo of F.R.E.D.? There is no guaranteed blueprint of a path to success. Instead, Fred offers a checklist of seven things we must do as an organization to live by the Golden Rule, see the list below



### 1. Embrace an unbeatable purpose

Is your company's primary purpose to enrich customer's lives? *Commit* to the Golden Rule through symbols, words, and deeds.



### 2. Lead with love and preach

Do you act, lead, preach, and teach Golden Rule principles? To do so build a culture of *long-term* thinking - also financially.



### 3. Inspire teams

Are you teams fully engaged in *the mission* to enrich customer lives? Recruit, train, and organize teams to facilitate this.



### 4. Unleash NPS feedback flows

Do you get real-time customer feedback? *Integrate* it with your core systems to accelerate learning, innovation, and progress.



### 5. Nurture relentless learning

Build rhythms that enable team members to *act* on feedback. Learn through team huddles and share across the organization.



### 6. Quantify earned growth economics

Utilize CFO-certified customer-based accounting that guides decisions. Apply EGR or similar, see next page.



### 7. Regularly redefine the remarkable

You must recognize how much progress and innovation is continuously required to make sure each customer feels loved.

## How to calculate EGR

For checkpoint no. 6 above, Fred suggests tracking your EGR. EGR is Earned Growth Revenue and measures the underlying revenue growth generated by existing customers coming back for more and bringing their friends. Fred Reichheld recommends you find a way to calculate how much of your growth is either bought or earned.

Examples of **bought** growth from my own life could be:

- I buy a new bicycle based on a beautiful commercial on my Instagram feed (which happened to be a bad decision: poor quality).
- A commercial for a new book on sociology popped up in my LinkedIn feed. It was just the right timing, as it covered a subject I am currently working on for a client - so I bought it right away.

Examples of **earned** growth from my own life could be:

- I booked a hotel for a short family vacation this summer based on Hotels.com's and Google's data from hotel reviews. It turned out to be a good choice, and now I am recommending that Hamburg hotel to everyone who cares to listen.
- I asked my carpenter for advice buying new power tools and decided to follow his expert advice.

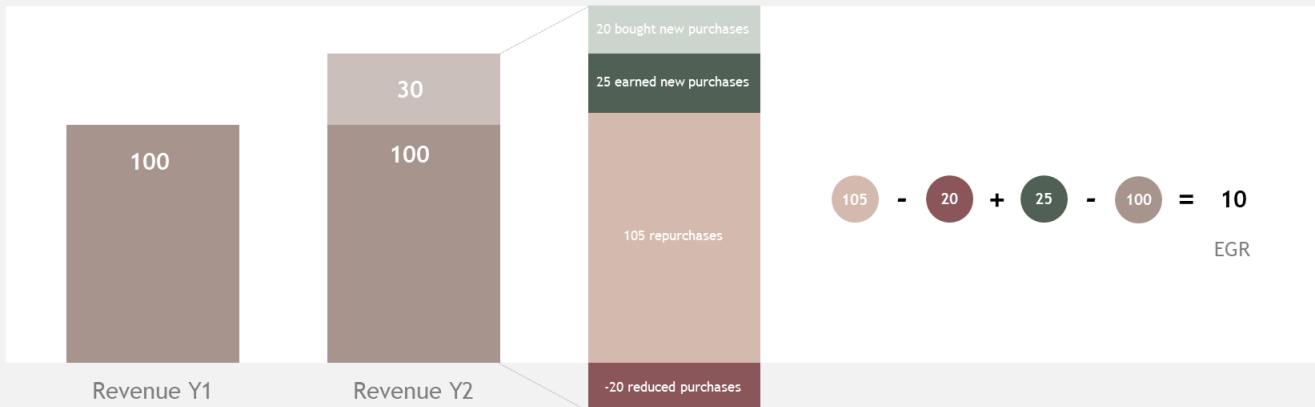
The EGR example below is from Fred Reichheld's book. It shows how you estimate your EGR moving from year 1 to year 2. First, calculate how much of your turnover is generated from loyal customers repurchasing and then subtract lost turnover from churned customers. Then add earned new purchases and, finally, subtract your starting point, year 1. Now you have your EGR!

Sounds easy! Well, you could argue that it might be quite difficult to estimate EGR in some businesses. One difficulty is how to know if a new customer is representing bought or earned growth.

In some cases, you can track it. Like when I work using my work laptop and see an online commercial for a book I want, click on the commercial and buy the book immediately. But what if I waited until the next day and bought it from my iPad at home going directly to Amazon.com? Then there would be no way of knowing for the seller that my choice was due to the commercial. Of course, they could ask me in a survey or at checkout - but even then, it can be difficult for us as humans to know the exact reason why we buy something.

As a car enthusiast, I cannot really say why I am a fan of my preferred choice of car brand. Is it the driving experience, clever commercials or the (too) many car reviews I have read through the years?

So, while I believe Fred Reichheld has a strong argument in that there is a need to find ways to calculate the financial value of living by Golden Rule principles, I also think it is reasonable to say, that it will be very difficult to do. To be fair, Reichheld is not blind to this fact in the book and tries to advise on different ways to calculate EGR or something close to it.



Adaptation from Fred Reichheld, Winning on Purpose, p. 222. Example of EGR.

## Feedback and questions from the webinar

During the webinar on September 1<sup>st</sup>, the participants had some different questions which I will answer here. You can also watch the webinar:

[GO TO WEBINAR](#)

***Can you elaborate a bit on the 0-10 vs. the 1-10 scale? Ennova did at some point favor the 1-10, but is it the 0-10 that wins now? And why?***

Yes, from a methodological standpoint I have experienced some clear benefits with a 1-10 scale including a “Do not know” or “Do not wish to answer” option. The original NPS approach is 0-10, with no options to avoid answering.

We have done studies that show how the original scale, to a degree, forces respondents with no opinion to use the middle point, the 5-score, as their answer - and a 5 is not the same as “Do not know.” Not knowing or not being able to answer is not the same as being a Detractor (and a score of 5 would put the respondent in this category). This is, in my experience, especially a problem within certain industrial segments and corporate banking.

However, there is no doubt that the 0-10 is the most popular, as it is the original scale. And I also know that Fred Reichheld is not in favor of altering the scale. However, this is one area where I respectfully disagree with Fred. I think in some cases it can be just fine to use the original scale - especially for surveys where there is no reason to suspect the respondent would be in doubt or unable to form an opinion.

But for many of my B2B clients, the original scale is not always the right one. In general, select your scale carefully, to avoid unintended survey biases from not adjusting the scale to the context. I should add: Part of Fred Reichheld's criticism concerns those who moved far from the original intent, like switching to 1-5 or 0-5 - in this, I fully agree with him.

***How to ensure that you contact the right person in the company to answer your NPS question?***

In almost any survey, there is always a risk that a (hopefully) small number of respondents invited to answer the survey are simply not the right ones. In my experience, the best way to beat this problem really is the five Ps: Proper Preparation Prevents Poor Performance! Though possibly one of the less fun sides of preparing a customer survey, you should never underestimate the importance of having the right respondent data available. Investing time in ensuring up-to-date information in your CRM before inviting our respondents to a survey really is key to this issue.

Your only alternative is to ask your respondents in the survey. Like what role they play in relation to choosing the brand or product you are surveying. Are they the primary decision-maker or more of an influencer - or are they perhaps entirely without influence?

***Do you see a problem that the question is “recommend” and not “satisfy?”  
And - especially for some groups - that they don't like to recommend anything...?***

I do see a problem if some groups of respondents, for some reason, cannot be expected to recommend. So in some cases, it could be much better to ask about overall satisfaction (known as CSAT).

To me, the important thing is to choose an overall KPI of customer experience that you can trust. If, for your organization, there is good reason to trust the CSAT question more than NPS, I urge you to choose CSAT - and vice versa.

At Ennova we often use a KPI we have labeled CX Performance, which is a construct of a question regarding value for money, customer satisfaction (CSAT), and recommendation (NPS). Those three questions combined are, in my experience, the most reliable within the world of customer experience metrics.

All three have their strength and weaknesses - so especially for first-time surveys, applying all three might be a good idea. For subsequent surveys, you can choose the one that seems to work best for your company - especially if you want to keep the questionnaire short.

***Some argue that we should add 'if asked' to the NPS question - what do you think about that?***

You can do this; however, it is important to understand that NPS is not a metric of actual recommendation behavior. Studies have shown that only around half of those who answer 9 or 10 actively promote the brand or product. One reason for this is that much active recommendation is contextual.

For example, I like the Danish dairy brand Thise and would be an NPS Promoter in a Thise customer survey. But I rarely find myself in a context where recommending dairy products is the hot topic at the dinner table. However, my friends and colleagues know I am a big fan of cars and have strong opinions on most models and brands - and therefore I often find myself recommending my choice of car brand.

To sum up: I see the NPS metric (small NPS) as a metric of how likely it is that the customer will stay loyal. In some cases, this might mean that I will “bring along my friends” to the brand, while in others, it will mostly mean that I will continue to purchase and be likely to buy more

## Get in touch

All in all, I do hope that this memo has been of use to you. I would, however, still recommend you buy the book if you find what I have presented here interesting and something you want to dive into more.

During the webinar on September 1<sup>st</sup>, I asked the participants at the end of the webinar whether they would recommend Big NPS to others. 86% said they would recommend Big NPS.

Personally, I recommend the *idea* of Big NPS or Golden Rule treatment. I am convinced by the vast amount of customer experience and employee experience data I have analyzed through the years.

But I do believe that a company and its people must find their *own* way of getting there - blindly following the checklist provided in the book is not the only way.

A good example of an organization built entirely on Golden Rule treatment is the hotel chain Ritz-Carlton. So, I recommend you supplement Fred Reichheld's book with Ritz-Carlton's co-founder Horst Schulze's book *Excellence Wins* which, despite its 1990's-sounding title, describes in detail how Schulze built one hotel after another, doing his best to follow his own version of Golden Rule treatment, which he formulated in an essay while attending a hotel management school at 16:



*We are Ladies and Gentlemen serving Ladies and Gentlemen.*

Horst Schulze in *Excellence Wins*

*Best regards,  
Nicholas Winther Skov, November 2022*



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