Book Review:
Winning on Purpose

Fred Reichheld Is Dreaming the Impossible Dream

Maurice FitzGerald, Editor in Chief

Fred Reichheld, Darci Darnell, and Maureen Burns, all of Bain & Co., have worked together to bring us *Winning on Purpose – The Unbeatable Strategy of Loving Customers* (Harvard Business Review Press, 2021). It is a major milestone in customer experience thinking and may well have brought us to the limits of what is possible. While there are three authors, the book is written in the first person, with Fred leading the way. The book is packed with personal insights, stories about the way various customer-centric companies function, and indeed, quite a lot about the interior workings of Bain.

I learned something interesting about the approach Bain requires for its consultants when presenting: Start with the conclusion, tell the story, and then finish with a call to action. I find that an excellent format and will use it here.

Conclusion

In short, Fred has taken us through a number of major CX milestones, beginning in 1996. This latest one is simply impossible to implement in most large companies. He is dreaming an impossible dream.

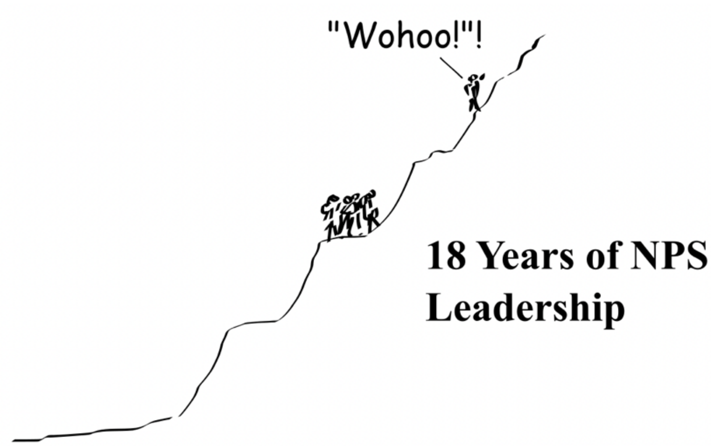
We don't have many management metaphors here in in Switzerland but there is one that involves mountain guides and the behavior of groups that follow them. Fred's major career milestones fit the metaphor perfectly.

1. Way back in 1996, Fred and Bain published *The Loyalty Effect*, a book that told us about the amazingly positive financial impact of customer loyalty. It was compelling, and it allowed Fred to start to lead us up the customer loyalty mountain.

2. From about 2001 to 2003, Satmetrix and Fred teamed up to prove the theory outlined in *The Loyalty Effect* and to create a practical measurement system for customer experience. The Net Promoter Score® was born. Laura Brooks led the Satmetrix NPS® team. (OCX Cognition CEO Richard Owen used to be the CEO of Satmetrix. He and Laura later co-wrote *Answering the Ultimate Question*, which is a great NPS implementation manual.) Their joint work resulted in Fred's landmark

2003 HBR paper; *The One Number You Need to Grow.* The immediate result was the motivation of far more leaders to follow Fred up the mountain.

3. From 2003 until today, Fred has been one of a number of people who led the way in making NPS into what it is now: the primary customer experience metric used by about 70% of the Fortune 500. Notably, Fred and Rob Markey published *The Ultimate Question* (2006) and *The Ultimate Question 2.0* (2011) to help us along the way and to build the Net Promoter System℠. It's been an amazing journey, though the widespread adoption of NPS has largely failed to bring the anticipated financial returns. Nevertheless, Fred has helped to provide 18 years of NPS leadership, and most of us have been willing to follow in his footsteps, while accepting that he is a little bit ahead of us.



4. With *Winning on Purpose*, Fred digs into the root causes of the failures of NPS, and indeed the Net Promoter System. He explicitly states that the heart of the solution is the abandonment of one of the core elements of modern capitalism: focus on short-term financial results. A second requirement is a fundamental change in Generally Accepted Accounting Practices (GAAP). In my view, both of these changes are impossible. It just can't happen in most large companies. In the Swiss mountain guide metaphor, the guide has moved too far ahead of the group, and the group will no longer follow him. It is simply an impossible dream.

Consider the Change Equation

I have been waiting quite some time to hear Fred's detailed thoughts about what works and does not work in the world of NPS. Bain, Satmetrix, and many other companies have brought NPS into the mainstream. It is the most successful customer experience metric, whatever its defects. In our view, the number one reason NPS has been successful is that it is the easiest metric to explain and is therefore the most widely understood. In contrast, think about Customer Satisfaction (CSAT) or as it is also called, Overall Customer Satisfaction (OSAT). At first sight, most people think it is an extremely simple metric, measured on a five-point scale. But which score means that a customer is 'satisfied'? There is no consensus. Some companies use 'Top 2 box' as their definition, meaning a score of 4 or 5. Others consider that customers are satisfied with at least a score of 3, or perhaps even 2. I have sometimes seen companies use the 1 as their top score, rather than using 5. After all, they say, we all want to be number one.

There are many, many customer experience metrics that are far more complicated. The Temkin Experience Index and the Wallet Allocation Rule are just two examples. These are proprietary measurement systems that are on the one hand intellectually correct and on the other hand almost impossible to communicate. I am emphasizing communication because Fred's principal solution to the measurement problems observed with NPS is perhaps the most complex, difficult-to-communicate metric yet: Earned Growth Rate.

The framework I want to use for the heart of this book review is what I call the "change equation." I think it is both appropriate and easy to understand. For meaningful change to take place in companies, a number of things have to be present:

1. **Strong dissatisfaction with the current state of affairs:** In my experience, most customer experience leaders are happy with their current measurement and improvement systems. This is mainly because nobody requires them to demonstrate the financial impact of their work.
2. **A clear vision of the future:** Clarity means something is both easy to communicate and financially compelling.

3. **Practical first steps:** For all its merits and defects, our current capitalist system requires us to be able to show progress regularly; on a quarterly basis at the very least. If a major change initiative has a plan in which the first major deliverable is a year or more away, it will definitely lose executive sponsorship before then, and be disbanded.
4. **Worth the effort:** It has to be clear to all that the ROI is worthwhile.

Unless the four elements are present, change cannot and will not happen. As I cover the content of the book, I ask readers to consider how the change equation applies to what Fred is proposing. I will of course summarize my own thoughts.

Why the Book?

The opening paragraphs make it quite clear that Fred has been reflecting on both his career and his life. He starts by telling us that the treatments he was undergoing for malignant cancer are the reason he decided to write the book. Towards the end, he lets us know that the treatments seem to be reasonably effective. The point here is that readers should not find it surprising that the book is both deep and meaningful, the result of 44 years with Bain, among other things. Fred sets the tone from the start: "...while I am pleased that so many companies have embraced NPS, I am deeply troubled how badly most of them are implementing it." He also notes that "...far too many practitioners are corrupting NPS by making the score a target rather than a measure that inspires learning and growth." I could not agree more.

Company Purpose and Vision

Fred then goes on to review the core purpose of NPS. He does this using a number of stories about his interactions with the leaders of Enterprise Rent-A-Car, USAA, and Chick-Fil-A. These three companies are presented as exemplars of putting customers and front-line staff above all else. He goes on to describe how this sort of leadership inspired him to move his accounts to a different bank. The message here is that companies should know and understand their purpose, and that their purpose should be to “enrich the lives of their customers.”

He then tells us that Bain research proves that only 10% of companies see this as their primary purpose. Most see maximizing shareholder value as number one. This is of course the main issue that means the change equation presented above cannot be satisfied: far too few companies believe they have a problem.

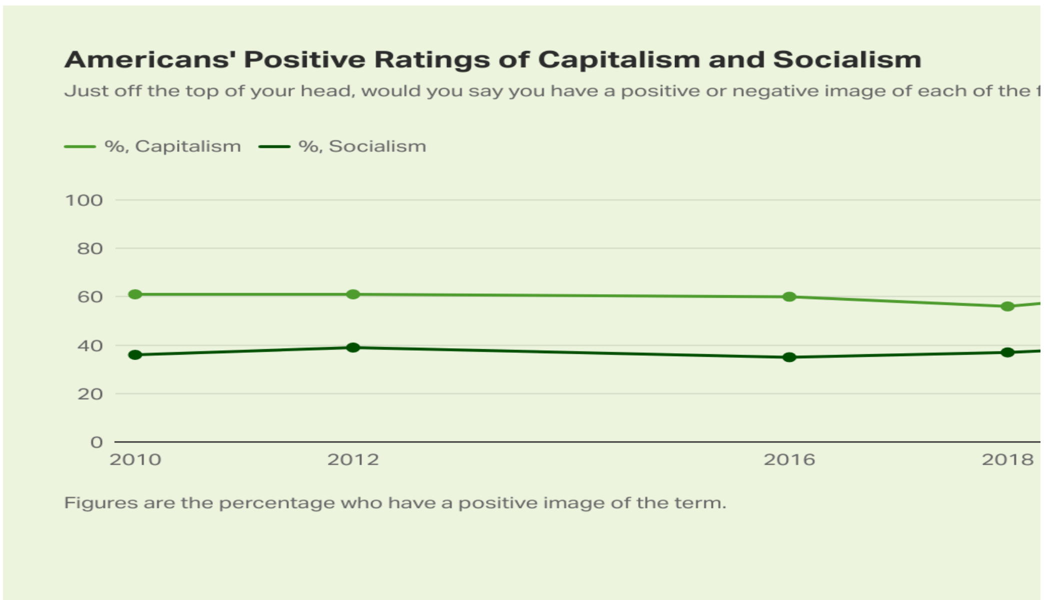
A substantial portion of the book is devoted to trying to persuade the reader that companies that do indeed put the customer first achieve superior shareholder returns. As will be seen, the case is good, though far from perfect.

A Misleading Case About Capitalism

Building on the need for change, Fred states the following:

> “The evidence is clear that dissatisfaction is surging against traditional capitalism, which I refer to as financial capitalism. In recent years, that dissatisfaction has been voiced by not only typical antibusiness radicals but also middle-of-the-roaders. A Gallup poll in 2018 found that the number of Americans with a positive view of capitalism had declined to 56 percent.” (Reichheld, Fred. *Winning on Purpose* (p. 33). Harvard Business Review Press, 2021. Kindle Edition.)

Unfortunately, the tiny trend Fred observed in the only Gallup report wherein the number had declined has since reversed. The approval rating is back to the 60% level it has held since 2010. What is particularly disappointing here is that the change already happened in the 2019 Gallup poll, well before the book came out. This seems like a serious editing error. 2018 was simply a small anomaly. (https://news.gallup.com/poll/357755/socialism-capitalism-ratings-unchanged.aspx) There is no evidence at all that dissatisfaction is surging against traditional capitalism. This is unfortunate, both for Fred's vision, and indeed for the proponents of action against climate change. Yes, there are a small number of 'enlightened CEOs' who have a different long-term vision of capitalism, but they are a tiny minority, probably the 10% proportion suggested by Bain research.



Golden Rule

After going through a decent short history of NPS, Fred cuts to the central message of the book. He believes we should apply the biblical Golden Rule to our customers: *Love thy neighbor as thyself.*

I really like the Golden Rule principle and the various ways the authors have adapted it to fit modern business language throughout the book: "Enrich the lives of your customers." "Do the right thing for your customers and colleagues." There is of course an actionability problem. What do the phrases mean? I suppose they are simply the highest possible level of abstraction. Kind of like some corporate mission statements I have seen, such as Google's "Do no evil."

Redefining Greatness

There are some truly memorable stories that Fred uses to build his case for introducing Earned Growth Rate as a new metric. All involve his personal interactions with various companies and leadership teams. Some are negative, while most are positive. Apple is an obvious positive example, and I am sure everyone will enjoy the others too. What the authors are doing is redefining what it means to be great, redefining greatness to mean outstanding customer experience.

The counterexample Fred chooses is the list of companies Jim Collins used when writing the book *Good to Great* (Harper Business, 2001). The list looked fine when the book was written. But what happened to these eleven companies afterwards? Their results were mixed at best, eight of the eleven performing less well than the median. Fred attributes the poor performance to the focus on traditional financial capitalism. Meanwhile, the eleven public companies that were used as positive examples in *The Ultimate Question 2.0* (published 5 years later) have all done better than the median, and Fred uses their superior performance as evidence of the need to introduce the Earned Growth Rate metric. While the reasoning is not crystal clear, I presume he would like to be able to separate growth driven by loyalty and referrals from growth driven by other causes. I find that compelling, as correlation and causality are different concepts. For example, if you examine Boston Consulting Group's list of the top 50 companies on the planet in terms of Total Shareholder Returns (https://www.bcg.com/publications/2021/interactive-tsr-value-creator-rankings-2021), you will see no particular relationship with known customer satisfaction results. While all bees are insects, insects are not all bees.

As an aside, I believe it is sometimes legitimate to question the concept of 'customer.' Take American Express, a company on the positive list and used extensively as an icon in the book. Yes, they give great service and financial advantages to their card users. I believe it is appropriate to ask whether the card users are their main customers. After all, who actually generates most of the revenue? The answer is that retail merchants do. And retail merchants generally dislike American Express for a simple reason: they charge more than the other card vendors. This is why readers will find that AmEx cards are not accepted in many European and other retail locations. The great experience provided to one stakeholder group is being funded by another stakeholder group that is never surveyed. Worth remembering, I think. It really is quite challenging to keep all stakeholders happy.

Love Your Customers

Chapter 3 of the book is entitled "Love your customers". A major section is devoted to "Love in the digital era". Fred gives us detailed descriptions of how well Warby Parker, Chewy, Peloton, and Airbnb manage to produce great results for both customers and shareholders. However, just as in the case of *Good to Great*, these companies have not continued to do well since *Winning on Purpose* was published. The Chewy online pet store is used as a leading example of a customer-loving company. Their stock peaked at $118.69 in February 2021, possibly around the time Fred used them as a case study. The stock was at $28.70, as of June 3, 2022. The next example is Peloton. They peaked at $162.72 in December 2020 and were at $12.55 as we write this on June 3, 2022. Warby Parker has declined 62% in the last six months and Airbnb has lost 28%. The S&P 500 has lost 9.3% during the same period. So all four exemplars are performing much worse than the average. Oops.

There is a great positive example of disruption in the section called "Love in the age of smartphones", the authors describe the disruptive and highly consumer-friendly entry of T-Mobile into the US telecommunications market. PURE insurance is another positive example. Great to see their formal policy that new members will never receive lower prices than renewing members with the same risk characteristics.

From NPS Challenge to New Metric

In the investor chapter, there is a great section on how difficult it is to get reliable NPS benchmarks, especially for B2B where it is challenging to assemble a panel of respondents who are really the decision makers. It's far more common for B2B companies to receive survey responses from users of their products and services than from the true buyers. Fred notes that, in his experience, Promoters are 50% to 100% more likely to respond to surveys. Fred explains Bain's own NPS Prism (a benchmarking platform) quite positively, then covers a number of other shortcomings of various NPS measurement and reporting processes.

He uses all of this to introduce Earned Growth Rate (EGR). EGR is a new 'meta metric' that is based on two proposed new financial metrics. The two complementary metrics are Net Recurring Revenue and Earned New Customers. The definitions of the component metrics are long and complex. 'Earned New Customers' is contrasted with 'Bought New Customers' in a way that comes across as disrespectful to marketing departments. After all, their mission is demand generation and sales support. They do demand generation by spending money on programs, essentially buying new customers. I don't see a compelling need – and Fred does not make a compelling case – to distinguish between money spent on CX improvement initiatives and that spent on demand generation, positioning one as good, and the other as not so good. Yes, I realize it is one of the fundamental points in the book. I suppose one corresponds to Fred's vision of customer capitalism while the other aligns more with traditional consumer capitalism.

The authors recognize that there is no single agreed standard for either of the two new component metrics. They go on to recommend that those who set out the Generally Agreed Accounting Practices (GAAP) should establish a single standard for Net Recurring Revenue. They also point out that complete implementation of their proposal requires companies to implement customer-specific accounting. To say the least, for most companies, that would be a substantial expense.

First, let me say that I applaud the addition of standardized financial metrics to the customer experience improvement process. They make it much easier to justify investments. On the other hand, I find the creation of additional meta metrics that do not provide direct information about what actions to take to be excessively complex, and potentially unnecessary.

In terms of the change equation presented earlier, the Earned Growth Rate vision is just not clear enough. The metrics cannot be explained easily. And of course, if the GAAP leaders did indeed decide it should be done, it would take many years to do so, given the requirement for customer-based accounting. Fred's insistence on referring to current accounting standards as being akin to a Model-T Ford is unlikely to win him many friends among those who own those standards and would need to take action. That's all quite discouraging.

Referrals

Furthermore, and quite separate from the GAAP discussion, most companies do not measure referrals. They have no idea how many new customers buy because someone a friend or colleague suggested they should do so. And I suspect it is not all that binary, in any case.

I can use one of my own purchases as an example. I have a Tesla. A friend got one a year before me and really liked it. He suggested that I should get one. I am also an engineer. I happen to know a lot about the technology involved in electric propulsion. I find it fascinating.

But I don't like Elon Musk. Teslas had and have a reputation for not being nearly as well made or comfortable as the German car I was replacing. I think of myself as primarily a software person and think of Teslas as being largely software products.

So, why did I decide to buy a Tesla? The recommendation was certainly in there somewhere. I don't think it was the main reason, but don't really know. Should my kind of ambivalence be part of a GAAP accounting standard? Hmm... I am ambivalent about it.

Other Areas of Interest

The book includes great content on the management systems that are needed to ensure that employees thrive. Since Bain is consistently considered to be among the best employers on the planet, this is all well worth reading. They do seem to make exceptions for Bain partners. Fred considers it as a positive people management move that Mitt Romney moved the Partner meetings to Saturday mornings, to remove this sort of distraction during the regular working week.

The authors also write at length about how critical it is that people-related performance metrics are viewed solely as opportunities to praise progress, and never to beat people down. Though at the end of the section on the topic, he says that when Tom Tierney took over from Mitt Romney, half of the partners were fired as their performance metrics were just not good enough. Surprising. Fortunately for the Bain teams, nothing like that seems to have happened since then.

Chapter six, about implementing the Golden Rule, is excellent. It presents six challenges, and all are far from trivial:

- Superficial understanding of the golden rule.
- Bad incentive / reward system
- Inadequate feedback / measurement
- No safe time and place to process feedback
- Anonymity
- Bad behavior

Back to the Change Equation

As I hint at in this review, the proposals made in *Winning on Purpose* cannot meet the challenges of the change equation, at least as far as broad adoption is concerned. There will certainly be a number of enlightened large companies that will follow the guidance, even without changes in GAAP standards, and achieve great customer and financial success. This will be easier for private companies than for public companies that have far more pressure to maximize results every quarter. Here is what I see in change equation terms:

1. **Strong dissatisfaction with the current state of affairs:** Just not strong enough.
2. **A clear vision of the future:** Considerably more complex than it needs to be. (See the next section below.)
3. **Practical first steps:** I find it difficult to identify a path to this complex vision that would produce observable results each quarter, and that is especially true for the very first necessary steps. If you really need to implement customer-specific accounting (for example) it just can't be done quickly enough to maintain enthusiasm for the effort.
4. **Worth the effort:** The major changes required to implement mean that the ROI will be unclear in the short term. Senior management changes are also likely to take place in the medium term, putting the effort at risk.

A More Practical Alternative

I believe that what the authors have proposed amounts to a slow evolution towards what they call customer capitalism, in contrast to traditional or financial capitalism. Fred and his co-authors argue that customer capitalism better focuses companies on their core purpose of applying the Golden Rule to customers, and they think customer capitalism confers a competitive long-term advantage. I see a much more effective alternative, a more customer-centric way of achieving competitive advantage that does not require a new meta metric.

Traditional NPS-based reasoning is certainly useful. But it is problematic for two main reasons. The first is reasonably obvious: It is based on infrequent survey data. The second reason may be less obvious: NPS is an aggregate metric that provides no information about the component elements that are improving or getting worse. Sort of like asking you what the weather was like for the last year where you live and using average temperature as the indicator. This viewpoint provides no information about floods, droughts, weather-induced crop failures, seasonal changes, and so on. The average temperature is interesting, but not useful. Now, if only you could predict the floods, droughts, and other positive and negative conditions …

I'm making the case that it would be far more useful for any individual company to understand which of its operational Key Performance Indicator (KPI) trends have the greatest impact on NPS and customer retention. Take it as a given that the more customers you retain, the more you will grow, and the more your company will be worth. The necessary information is available every day and can be acted upon before it is too late, unlike NPS and indeed a cross-industry metric like the American Customer Satisfaction Index. Both are infrequent and require companies to conduct complex root cause analysis before effective actions can be undertaken.

Here at OCX Cognition, we already know how to do the sort of analysis that links KPIs to customer experience and retention. Our early customers already find the approach to be highly effective. Think about it. It must be better than waiting for survey results from a fraction of your population. The AI software required to do it well did not exist when NPS was invented, but it does now.

I also feel that Earned Growth Rate is unnecessarily complex. I suggest that financial analysis be done in a way that is extremely easy to explain, while sacrificing only a small amount of accuracy. My suggestion is to base the value of your customers on the value of your company. If the stock market, or your CEO and CFO agree that your company is worth (for example) 12 times its annual revenue, then the value of each current and future customer is 12 times the revenue they bring you every year. This makes it easy to calculate the return on investing in actions to retain customers, especially when combined with the AI-based KPI analytics covered above.

Final Words

Despite some disagreements mentioned above, I like this book. It is highly educational to get inside the head of someone perceived as one of the great leaders in a specific area. Fred wants to lead us to the top of the customer capitalism mountain. He wants to motivate us to follow him. It's going to be really difficult, but I give the authors four stars for the effort.

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