

LIFE AFTER NPS

Controversy still surrounds
the use of Net Promoter Score

BY RANDY HANSON

Into the crowded customer experience arena, Fred Reichheld introduced the simple idea of the Net Promoter Score in 2003. Using one commonplace question, “Would you recommend this company to a friend?” on a 0-10 scale, NPS is the percent of promoters (those rating 9-10) minus the percent of detractors (those rating 0-6).

Companies were spending a lot of time and money evaluating customer satisfaction with more complex tools. Understanding the implications could be intimidating, and some wondered, “Does all this help us or hold us back?” NPS appeared as rescuer: While conventional programs simply measured, NPS measured simply.

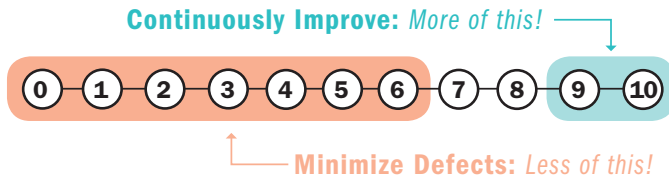
Acceptance of this more nimble approach was strong and swift. No more surveys with lots of questions. No more mystifying models to decipher. No more long, confusing reports to interpret. Then, just as quickly, several journal articles appeared. Each concluded that NPS’ claims of unique superiority were false—that it does not always trounce standard measures like overall satisfaction. What are market researchers to believe? Are we left to accept NPS on faith alone?





FIGURE ONE

NPS: PROMOTERS VS. DETRACTORS



ONE QUESTION—PLENTY OF CONTROVERSY

In past years, customer-related initiatives could go in one of two contradictory buckets:

Continuously Improve: Maximize high scores/performance

Minimize Defects: Eliminate low scores/performance

The Net Promoter calculation seems to be a combination of these: Increasing the number of promoters (continuously improve) while decreasing the number of detractors (minimize defects). In practice, though, NPS blurs the issues. Figure 2, on the right, presents three different scenarios with identical NPSs.

While the NPS always equals 20 percent, the circumstances differ—and certainly require different remedial actions. Because NPS itself can hide so much, the next question is usually, “What are the promoter and detractor percentages?” or “If NPS went up versus last wave, what changed: More promoters or fewer detractors?”

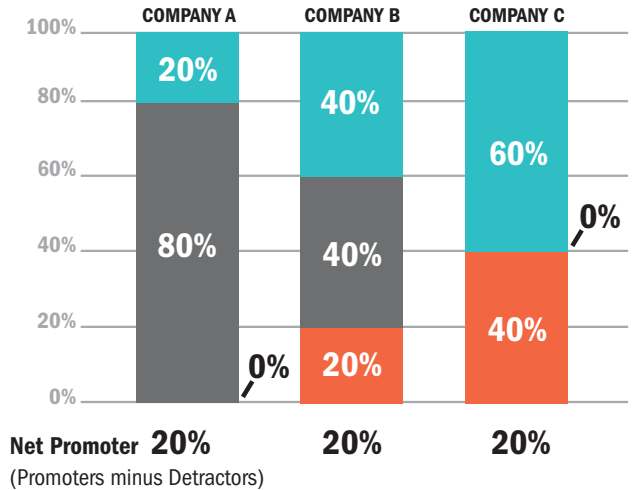
Because the right “fix” depends on these answers, we need to concentrate on both NPS components. And to determine which parts of your product and service delivery are broken, you need more than just one question.

FIGURE TWO

NPS RESULTS FOR THREE COMPANIES

Ratings for “Would you recommend this company?”

9-10 Promoters
 7-8 Passives
 0-6 Detractors



Q AND A

Q: Is your business’ revenue stream driven by recommendations and word-of-mouth? How do you know?

A: NPS arises from Likelihood to Recommend, which is vital for some businesses. For many B-to-B companies, the true challenge is contract award and renewal, while providing superior value for the money is what it’s all about for others.

Q: Even if one size really doesn’t fit all, what’s the risk?

A: When other measures beat out NPS, an exclusive focus on NPS can lead managers to set the wrong priorities and waste resources. Overstating NPS’ usefulness is a real danger.

PROMOTING NPS	DETRACTING NPS
<ul style="list-style-type: none"> • Fred Reichheld, who introduced Net Promoter Score in 2003, said that, “Satisfaction lacks a consistently demonstrable connection to growth.” • NetPromoter.com states that NPS is “the single most reliable indicator of a company’s ability to grow” and is “more actionable than customer satisfaction.” • NPS is one easy-to-calculate number. • NPS is intuitive: Are you for us or against us? • NPS captures the attention of time-starved senior managers because it “speaks their language.” The NPS push often comes from these executives. • General Electric CEO Jeff Immelt said: “This is the best customer relationship metric I’ve seen.” 	<ul style="list-style-type: none"> • NPS does not always correlate to growth, while customer satisfaction and relative quality typically do. • NPS’ claims are unverifiable with no published, reproducible proof. But an article from the <i>Journal of Marketing</i>, published by the American Marketing Association, states there is confirmable evidence that at times NPS can be one of the very worst predictors of customer behavior. • The NPS approach has focused companies too much on the process itself. • Detractors go even further, saying NPS is “misguided,” “vastly oversold” and “grossly overstated.” • Most damning of all: Reichheld himself has said, “The ‘would recommend’ question wasn’t the best predictor of growth in every case.”

Q: NPS enjoys such widespread usage that it can’t be all bad. But is it enough?

A: While NPS is incredibly intuitive, it is probably not enough on its own. Frequently in our studies we use Likelihood to Recommend—and like it! One client’s customers had unenthusiastic satisfaction levels, but would still heartily recommend the company to friends and family. This “best of a bad lot” insight came from not relying on only one question.

Q: NPS is easy to grasp, but is it becoming too simplistic?

A: NPS was likely oversold and



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overbought. NPS may be all that matters for your company, but are you willing to make an unsecured bet that may oversimplify your business?

Q: If NPS is just one—albeit possibly vital—piece of the puzzle, then how much focus, time and budget should it get?

A: Because the best measure of customer loyalty/growth/retention varies across companies and industries, begin by realizing that other metrics do correlate well with financials. Commitment and repurchase intention are just two options that spring from the same source—your bond with your customer. NPS is not the whole puzzle; it can be used in tandem with other drivers of business success. Think NPS+.

WHAT'S BETTER, WHAT'S NEXT?

Our clients have varied success linking NPS to marketplace outcomes. Across dozens of studies, a pattern we find is that NPS/Willingness to Recommend is frequently linked to satisfaction and overall quality, so it has more success in industries driven by these. NPS may not fare as well when value and price are the primary influences. It seems that when people recommend, they may make few assumptions about your bank account. Three examples:

- One client proves a link between average quarterly spend and Likelihood to Continue Using—a four-item index, but not NPS. However, management likes NPS, so it focuses on minimizing detractors.
- Another client finds that while promoters are more likely to add services and continue as customers, detractors drop services or terminate the relationship. Because other metrics perform just as well, they consider them all.
- A third client calculates NPS down to a transaction level. That's a real stretch: Can a specific interaction really drive a general recommendation?

Is the only choice to either switch from NPS or blindly ignore its shortfalls? Seek a middle path: Be open to non-NPS explanations. Here are five steps we recommend:

1. Starting today, identify the results of utmost interest for your company: reducing churn, becoming the brand of choice, etc.

Executive Summary

The effects of the Net Promoter Score on American business have been far-reaching, phenomenal and more than a little contentious. To bring perspective to this battlefield, this article offers commentary and asks questions to reveal what NPS truly is, and what it is not. Through authentic examples and experiences, and more importantly the scientific method, here is a middle path—a synthesis—to help you decide if NPS or some other measure is the best choice for your company.

2. Monitor these outcomes and track buying behaviors. Different loyalty questions correspond better to different business outcomes, and they should “match.” General opinions will best predict a more general result like revenue. NPS may prove useful here. And because customers aren't in a vacuum, information about competitors is essential.

3. Assess how well your survey items, internal data and customers' behaviors relate to your chosen outcomes and to each other. Use key

driver analyses to link results to actual behaviors like contract renewal. Select metrics that help predict future consumer behavior: We have accurately predicted market share six months later using only customer-value survey responses. Perhaps you will predict next quarter's revenue growth via changes in NPS alone.

4. Go beyond these relationships to understand what drives your measure of choice: To be actionable, you must know what will move it and why; this is what makes the science of behavior change and prediction difficult. Understanding it reveals what's working and what's not. Try a few approaches that are the best fits for your organization's personality and that will motivate action. Use them with NPS for a smooth transition.

5. Execute action plans and measure their effects. Aim to make consumers' problematic behaviors or choices less efficient, less modern or less appropriate. Keep in mind that employees and management become frustrated if they're working hard but don't see the “key metric” move. More targeted feedback can help.

This is no easy recipe. But at the end of the process, you will no longer have to hope that you are tracking the best measures for your company—you will know it.

A FRESH START

To the cheers of some and the chagrin of many, NPS seems here to stay. The new interest generated by the controversy has actually been good for both the NPS and the customer satisfaction camps. Because it is possible for a company to wind up in the same place following either process, a truce is in order. NPS by itself is no cure-all, suggesting that a middle course, built from the best of both, is a sound choice. Even if NPS comes out as the most predictive metric for your company, consider using others to appreciate the “whys” behind what moves it. By going beyond NPS, organizations can move forward knowing exactly what they need to measure to build better relationships, retain customers ... and grow. **MR**

◆ **RANDY HANSON** serves as vice president of marketing sciences for Market Strategies International. A recognized expert in customer experience management in its many forms, he may be reached at randy.hanson@marketstrategies.com.