

The “Net Net” on the Net Promoter Score



Background

Is it possible for executives to grow their companies by increasing just one metric? Fred Reichheld thinks so. In his 2006 book,* Reichheld further advances his Net Promoter Score (NPS) as “one number” companies need to grow in order to achieve business success. The input to the NPS is a single survey item measuring a customer’s self-stated likelihood to recommend the company. The scale Reichheld uses has 11 points (0 through 10) and he recommends classifying customers as “promoters” (giving a rating of 9 or 10), “passives” (giving a rating of 7 or 8), or “detractors” (giving a rating of 6 or lower). The NPS is the percentage of promoters minus the percentage of detractors.

The likelihood of a customer recommending a company has been a mainstay of customer loyalty measurement for about two decades, so Reichheld’s position is not entirely disconnected from well-established best practices in customer retention management. In addition, sea changes in customer empowerment and technology-enabled communication have exponentially increased the impact of personal recommendations on purchase decisions in some categories. Nevertheless, the NPS approach is incomplete at best, and potentially misleading at worst. Rather than simply accept the NPS as a panacea for customer retention and business growth, business executives must critically and objectively evaluate the merits and risks associated with reliance on this measure.

*The Ultimate Question: Driving Good Profits and Good Growth. (2006). Harvard Business School Publishing.

The Good: Known Best Practices

Reichheld offers some opinions that agree with positions long taken by Burke and other thought leaders in the customer loyalty arena:

- Companies should set clear loyalty goals in order to motivate the organization to action.
- True customer loyalty goes beyond simple repeat purchase.
- Customer satisfaction alone does not universally perform well as a predictor of loyalty.
- Linkage analysis should be deployed to develop customer loyalty measures ensures the connection between survey results and business outcomes.
- Technology should be leveraged to collect and disseminate customer loyalty data and insights.
- The Internet plays an important enabling role for customers to recommend (or to terrorize) brands, products, and companies using a broadly distributed forum reaching millions of potential customers.

The Bad and the Ugly: Why Companies Should Not Rely on Reichheld's NPS

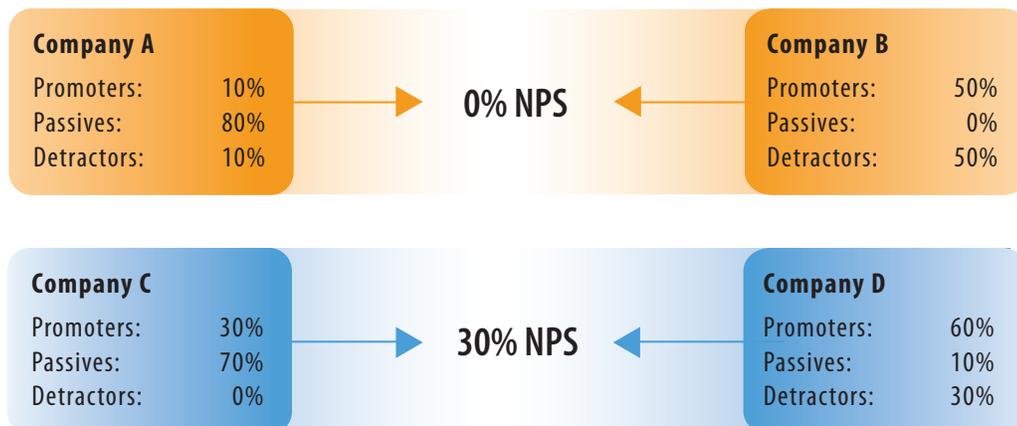
While Reichheld espouses some views that reflect known best practices in customer loyalty measurement and management, there are some clear weaknesses associated with his "one number," the NPS.

The same NPS could emerge from companies or business units with very different patterns of loyalty, warranting very different managerial actions. In the first example below, it appears that Company A is undifferentiated in the eyes of its customers, and Company B customers seem to either "love" or "hate" the company, yet the companies both have an NPS of 0%. Similarly, Companies C and D have an NPS of 30%, but the former has no detractors while nearly one third of Company D's customers are detractors. Would the managers of these different companies form a different strategy in order to improve? If so, shouldn't their respective NPSs reflect these differences?

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Furthermore, loyalty is indisputably a multidimensional construct, therefore reliance on a single loyalty measure is perilous. Customer loyalty experts agree that loyalty consists of a complex mix of attitudes and expected behaviors.

Reichheld's Net Promoter Score (NPS)





The widely varied nature of business across industries can mean that dimensions of loyalty differ in importance across industries, and even across markets served by a single company. In addition, the predictive value of each loyalty dimension can change over time, due to any or all of the following:

- Changes in competitive activities, including advertising and promotional programs
- Changes in the company’s own marketing communications, especially with regard to the overall image the company promotes
- Regulatory changes that enable consumer choice where little previously existed
- Economic changes that limit a consumer’s ability to purchase preferred or favored brands or companies.

Thus, to reflect the nature of customer loyalty comprehensively, survey measurement requires inclusion of multiple survey variables. In fact, Reichheld’s “one number” position stands in direct conflict with prevailing best practices that encourage managers not to be myopic in how they run their organizations. Connecting multiple streams of information, and having a panoramic view of the customer experience clearly requires focus on more than one number.

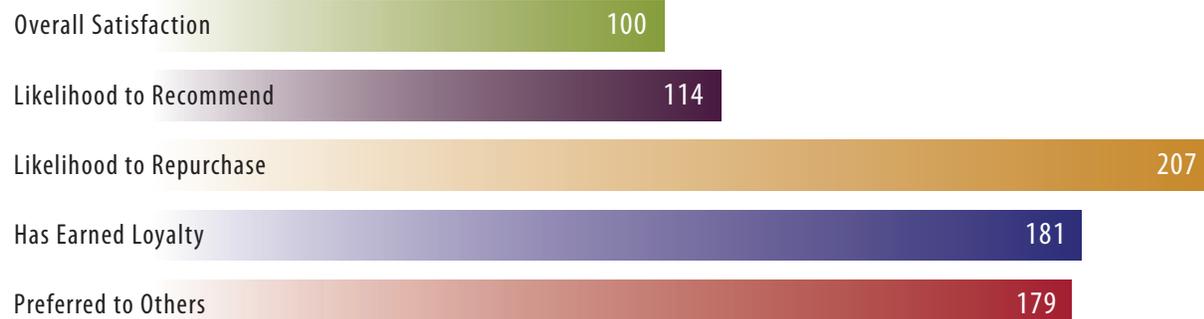
Reichheld recognizes that customer satisfaction alone is not an effective predictor of customer loyalty, and he claims that recommendation likelihood is dramatically superior.

However, Burke’s R&D across different industries with different customer types shows that recommendation likelihood is not a substantially better predictor of change in share of wallet measures over time, which is instrumental to organizational growth, and it is a weaker predictor than other individual and composite measures.

Another shortcoming in the NPS approach relates to mathematical analysis. Reichheld’s respondent-level measure, i.e., classification of customers as promoters, passives, or detractors, is mathematically disconnected from the NPS. That is, a company performing both individual customer linkage analyses and aggregate linkage analyses would need to use a different measure at the aggregate level (the NPS, which is a difference score) from the loyalty measure used at the individual customer level (classification into one of three advocacy groups).

In addition, Reichheld advocates the use of the NPS to drive strategies for customer retention and corporate growth. However, he offers no actionable recommendations for how business managers can increase loyalty as measured by the NPS. This limitation in his approach derives in part from his advocacy of very short surveys. While sensitivity to survey length is an important consideration for all responsible survey researchers, diagnostic information about specific customer experiences and resultant perceptions is critical in developing action plans for driving operational improvement.

Correlation with Change in Share of Wallet*



*Correlations are indexed to the correlation between overall satisfaction and change in share of wallet over time.

Reichheld further supports his approach with linkage analysis wherein the customer outcome measures actually precede NPS measurement, thereby removing any possibility of claiming a causal connection between advocacy and customer behaviors. A related criticism is that the NPS approach offers no insights on whether recommendation is an outcome of loyalty, a cause of loyalty, or loyalty defined.

Conclusion

The concept of customer-based company advocacy has been discussed for many years. Customers’ likelihood to recommend a company, brand, and/or product is commonly tracked by loyalty research practitioners as one of many leading indicators of future customer choices and other behaviors.

However, it is unwise to rely solely on one survey item (likelihood to recommend) to establish customer loyalty strategies, including making decisions about how to allocate precious company resources. While Reichheld provides sound advice on some aspects of customer loyalty measurement and management, he seriously overstates the case for relying on that “one number” to grow a business.

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