

Customer advocacy metrics: the NPS theory in practice

Justin Kirby, DMC, and Alain Samson, LSE/LRCG, report on how UK companies are using the NPS, and ways in which its use can be improved

ONE OF THE most talked-about customer loyalty metrics of recent years, the Net Promoter® Score (NPS), has come under fire from researchers and practitioners who challenge its claim to be 'all you need to know' to predict business growth. It is easy to see why business managers were drawn to this one-question metric. First, there was the basic belief that customer focus is good and profits at your customers' expense are bad. When the NPS was introduced a few years ago (1), it provided scientific backing for this philosophy. What is more, in a world of increasing complexity it is reassuring to see that less is sometimes more. Or that one question, which also happens to make intuitive sense, can help us predict business performance.

The NPS is akin to the thin-slicing described in Malcolm Gladwell's *Blink* – another sign of a desire for a shift from complexity to simplicity and from reflectivity to reflexivity.

What is the NPS?

The Net Promoter Score, in case you are not familiar with it, is based on the question 'Would you recommend [Brand/Company X] to a friend or colleague', answered on a scale between 0 (not at all likely) and 10 (extremely likely). The actual score is computed by subtracting the percentage of detractors (those giving 0–6 answers) from promoters (9–10s). The middle section, between 7 and 8, is so called passives. Research by Bain/Satmetrix has shown a correlation between the NPS and business growth, which was replicated in the UK in 2005 (2).

Fred Reichheld's book *The Ultimate Question* (3) has generated a whole community of practitioners around the metric. The apparent link between advocacy and growth made the NPS a blessing for anyone trying to convince companies to adopt more bottom-up approaches to business innovation. But some advocates of the NPS went too far, making claims that it was the ultimate metric, superior to all alternatives.

These claims sparked debate and along came research that put a damper on the NPS hyperbole. It seems the NPS is not the

single best correlate of business growth. For example, research by Tim Keiningham and colleagues (4) showed that the NPS fares no better in predicting growth than the multi-question American Customer Satisfaction Index (ACSI). This is important, given the claims made about the NPS, but not entirely surprising, since more complex measures usually do a better job at predicting outcomes. In addition, we can expect actual behaviours – for example, negative or positive word of mouth (WOM) – to be naturally better predictors than attitudes or intentions when it comes to sales uplift.

A recent *Harvard Business Review* article (5) inspired by the NPS approach to segmentation and understanding customer value suggests that, while about three-quarters of telecoms and financial service customers intend to recommend, only about one-third follow through. (And only about 13% of those referrals actually generate new customers.) However, while asking questions about intentions is less reliable than self-reported behaviour, measuring customer attitudes before they turn into actions can serve as an early warning signal for companies.

The intention-based NPS, then, may not be the single most reliable indicator of a company's ability to grow, but is probably a useful single-question indicator of customer sentiments (related to loyalty and advocacy) that can be linked to business growth. Despite the NPS crisis, we realised that it would be a shame if the baby were thrown out entirely with the bath water. With the premise of a more balanced approach in mind, we organised a series of meetings with dozens of marketing and CRM managers from top UK companies, in sectors ranging from finance to telecoms and fmvc to transportation. The goal was to provide a 'state of the metric' brief about the pros and cons of the NPS, and get some feedback about companies' own problems and practices, framed in a wider context of customer advocacy.

Technical issues

The simplicity of the NPS has a flip side: it is 'one size fits all'. You might want to

call it DIY market research. Reality is of course more complex, which is where some disadvantages of the NPS lie. Aside from growth correlation issues, there are finer methodological concerns. One of the most frequent criticisms is that people are asked on a 0 to 10 (11-point) scale, only to then collapse everything into three categories that could have been used in the first place. According to Satmetrix and Fred Reichheld, we naturally think in tens (rather than, say, sevens), so the scale is intuitive. This makes sense.

Critics, however, do not like the fact that useful scaled information is later lost in conversion. Are people giving a 0 rating equally detracting as those with a 6? Intuitively: no. Similarly, once percentages are calculated, is an NPS of 40, consisting of 70% promoters and 30% detractors, the same as the same NPS consisting of 40% promoters and 0% detractors? Using the NPS while ignoring these proportions can miss important information.

The NPS itself does not have a margin of error that can be directly attached to the score, since it is based on subtracting one proportion (detractors) from another (promoters). So NPS users often do not bother with statistical significance. We do know, however, that this 'net score' method can produce a high statistical margin of error, a problem that becomes greater with small samples. For comparing scores, the simplest way for researchers to deal with this is to use the margins of errors that can easily be computed for mean values of the 'would you recommend' question – but that is back to the traditional use of scales by calculating averages. Along with other factors, high margins of error can aggravate the volatility over time in NPS scores, as some of our meeting participants reported.

NPS cut-off points determining whether someone is a detractor, passive, or promoter were originally based on empirical differences in actual behaviour. There is little doubt that recommendation likelihood is positively correlated with actual future recommendations. According to NPS developers, people ▶

giving 9-10 ratings are more likely to re-purchase or make referrals than passives or detractors.

While cut-off points between 6 and 7 as well as 8 and 9 may be valid and reliable if a cross-section of companies is pooled together, there is evidence that reality in individual sectors has its own logic. For example, the difference in actual recommendation-making between a 9 and 10 in one sector or a 7 and 8 in another may be more significant than that between an 8 and 9, according to standard NPS methodology.

This is reflected in actual companies' research practices. One company we spoke to (in a sector affected by high customer churn) put a lot of effort into understanding the relationship between their customers' recommendation-likelihood ratings and actual behaviour. Researchers from a different organisation enhanced their customer satisfaction survey by eliciting comments to provide a better understanding of what different scores actually mean to people. In their experience, people's views of scores on a 0-10 scale are often reflected in statements like 'I'd never give a 10' or 'I thought giving you 7 was good'. Consequently, scores determining their customers' classification as detractor, passive or promoter have shifted down a notch.

By the same token, cut-off points can be challenged by cross-cultural differences in both the likelihood of people to engage in WOM and their 'response styles' to scales or particular question wordings. The latter drawback can be overcome by comparing cross-national scores ranked or standardised within sectors for each region. Companies interested in the NPS accurately categorising customers as detractors, passives and promoters may have to re-validate the methodology. Where reliability is more important than validity, such as for comparing a company's score over time or across companies within a particular sector, this may be less relevant.

Nerds and practicality

Upon presenting this information to one of the senior marketing managers we

spoke to, he raised the question whether it wouldn't be just a bunch of nerds at universities who care about those technicalities. In some ways, he was right. Most people – whether business managers or market researchers – probably agree that the strategy promoted by the NPS, namely customer focus, good profits and accountability, is highly desirable for organic growth. The NPS is a means to this end.

Moreover, despite its shortcomings, the one-question metric is simple and parsimonious: it captures customer sentiments towards a company or brand in one question and appears to explain a lot with a little information – it is a quick and straightforward tool that shows company health in relation to customers. Due to its easy-to-communicate nature, it is a useful reporting device. It can also be used in competitive analysis (benchmarking), customer segmentation and campaign evaluation. Although it provides a starting point, it does not by itself provide actionable insights. A good analogy mentioned by one of our contacts was that of looking at temperature trends to understand global warming. The NPS provides a temperature reading, but not an explanation for its change over time.

In his book, Reichheld suggests the addition of one more question to overcome this shortcoming: asking an open-ended question allowing customers to elaborate on the reasons for their score. This creates a lot more work for the researcher, but certainly also some actionable insights. In fact, most people we spoke to agreed that this is more useful than the NPS score itself. The implication, of course, is that it could be asked to follow up any question, such as 'How good or bad do you consider the services we are providing?' or 'How customer-focused are we?' However, Bain/Satmetrix research has concluded that the 'would you recommend' question seems to do a better job at predicting customer behaviour.

As we discovered, the NPS is not used as prescribed: businesses do not want to rely on only one or two questions. As a

result, many just add 'would you recommend us' to the existing pool of questions they already ask their customers. Then, the question often becomes another part of generating insights about *individual customers*. Individuals do not have an NPS, only companies do. The NPS as the 'one question you need to ask' metric appears to be a myth, even though it is a powerful snapshot measurement that can point businesses in the right direction.

What we did find is a fundamental tension within companies between managers, who have been drawn to the simplicity of the NPS and its correlation with growth, and researchers, who are in the business of knowledge generation in a complex world. The latter may best be represented by financial service companies, who have a tradition of collecting an abundance of data ranging from financial risk to customer attitudes and behaviour. Simplifying a bank's insights by asking one question is unthinkable, considering the complexity and vast number of touchpoints between customers and the company. (Yet financial service companies were most keen to listen to what we had to say about the NPS and hence strongly represented in our briefings.)

On the other end of the spectrum are categories marked by low consumer choice or low involvement, where advocacy does not carry so much weight. If you add further characteristics such as price-drivenness and low brand differentiation, the NPS may become particularly problematic in forecasting business performance. Advocacy is hard to come by and loyalty can be largely a matter of inertia, especially in subscription brands. A classic example of all of those characteristics is probably the energy sector. As one of our contacts pointed out, passive customers (loosely defined) may be the most interesting segment for brands with low differentiation. If loyalty and advocacy cannot easily be enhanced by delighting customers or differentiating the brand, the best strategy may be simply to move potential detractors into the passive camp by neutralising the effects of bad customer

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experiences. Insurance, which is usually price-driven and low-involvement, is particularly interesting, because there are two sides to WOM. Due to the complexity of the product and the commitment associated with its purchase, insurance services fulfil the criteria of a category that should drive consumers to seek recommendations proactively. However, the nature of insurance services is not highly conducive to customer advocacy.

One of our main insights was that the NPS seems to have a public and a private face. In public, scores are tracked and reported, while case studies are discussed, often based on the prescribed and easy-to-understand methodology. In private, companies use the 'ultimate question' in a way that works for them to gain a competitive advantage. Or they seek their own holy grail: one company indicated that it found the best higher-order measure for the state of its customers' well-being through asking whether it provides a fun experience. Representatives from another company (a subscription brand in a price-driven category) mentioned that they found customers' intention to switch to be more diagnostic of company growth than their stated likelihood of recommending.

Real challenges

In the context of customer advocacy, our discussion of the NPS often seemed dwarfed by the real challenges faced by companies: actionable insights that enable the development of strategies conducive to advocacy and business growth. The first and perhaps most basic principle of how to foster advocacy is to exceed customer expectations. This in turn has three components, two about the product and its delivery, one about CRM. The first, and most fundamental, driver of positive WOM is providing new products based on true innovation. If this is impossible, promise-gap management comes into play: deliver an experience beyond the expected. Unfortunately, today's experience influences tomorrow's expectations, so the strategy can hit a ceiling some time in the future.

Finally, the concept of exceeding expectations can be applied to delivery failures:

compensate customers beyond the expected and you may turn what could become negative WOM into advocacy. In our meetings, we encountered companies that go the extra mile in dealing with dissatisfied customers. For example, a hospitality chain that tries to 'track down' and compensate disgruntled guests who voice their grievances online, and the marketing director of a company small enough to allow him the occasional personal visit to an unhappy customer.

Brand personalities and brand-customer relationships are inherently qualitative and can colour both expectations and interpretations of experience in ways that are not easily quantifiable. Individual companies cannot understand these issues without in-depth knowledge about consumer perceptions and behaviour. Nevertheless, the quantitative principle of exceeding expectations is a useful global idea.

Promise-delivery gaps are also implicit in the detracting and promoting groups making up a 'net score' such as the NPS. (Perhaps the metric would benefit from alignment not only with the consequences of intentions to recommend – actual referrals and repurchase rates – but also its antecedents, namely expectations versus actual experience.) Since customer experience is provided at a company's frontline, most companies agreed that the NPS or the 'would you recommend' question can be a valuable instrument to provide a quick assessment immediately after an encounter with customer service.

Indeed, the existence of touchpoints themselves should alert us to the fact that recommendability may vary according to stages of the customer journey, especially if experiences with the brand are infrequent. Here, more generic or less targeted NPS surveys may benefit from questions about the nature and timing of a customer's last experience with the brand.

Group hug

The NPS has also been added to successful brand trackers. This is certainly a good use of the metric, especially if it is presented alongside other WOM-related scores,

such as brand reputation or online buzz. It also represents the compromise many companies seem to have reached about the NPS, namely to consider it one important dimension of a more complex mix of customer satisfaction or brand health indicators. Even Reichheld has – as this article is being written – now embraced the argument that the NPS metric is simply an aspect of an overall approach or system, and its importance should not be over-emphasised within that approach (6).

If the NPS is employed on its own, it should be done with proper awareness of its advantages and limitations for different types of uses. This does not diminish its usefulness as a topline score or its power to bring about change towards greater customer focus.

Unfortunately, the polarisation between NPS proponent and opponent camps seems to be a debate between means-to-an-end philosophy (the Trojan horse in the boardroom) versus methodology. Hopefully, this article has provided a more evenhanded view. We encourage managers and researchers alike to embrace the NPS as what it is: a handy tool for your measurement toolbox and a potential vehicle for healthy profits if you are in the driver's seat. ■

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