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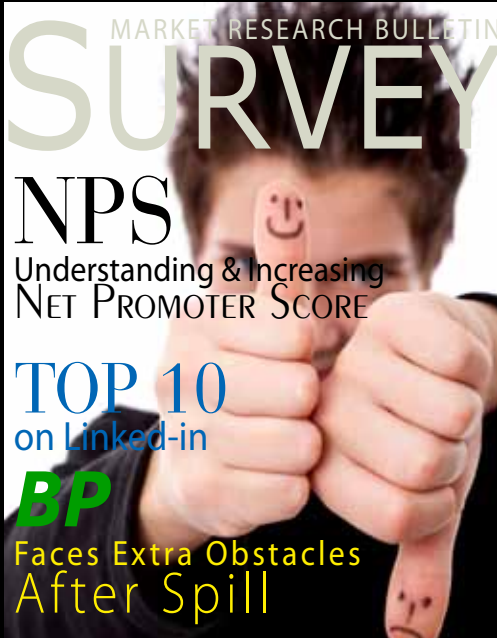
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Understanding & Increasing

Net Promoter Score (NPS) has taken the customer experience world by storm. Thousands of companies are using this measure not only to gauge the pulse of the customer, but also as a key measure for employee compensation plans. The value of NPS extends beyond internal considerations as it may also be used for comparison purposes with industry peers.



Using Net Promoter Score

by: Kurt A. Pflughoeft, Ph.D. Market Probe

NPS is a remarkably simple measure which uses one single survey item: Likelihood to recommend. The measure has some face validity in that it weighs disadvantages against advantages with regards to customer advocacy. Specifically, NPS calculates the percentage of detractors and subtracts this value from the percentage of promoters. Using an 11-point scale, promoters are defined as people who give a positive advocacy rating of “9” or “10” while detractors are defined as people who give a poor rating of “0” through “6”. Some of the rationale for NPS can be gleaned from early customer satisfaction research, which showed that “very satisfied” customers tend to be loyal, but just “satisfied” customers may not be loyal. NPS directly measures an “ultimate” reflection of loyalty – the likelihood to personally make referrals of the brand to a colleague or friend. NPS expanded the commonly used five- or seven-point scales to an 11-point scale.

The definition of promoters indicates that customers must be extremely likely to recommend if this state is to translate into behavioral intentions and actual referrals.

Scores of “9” and “10” are good choices, since many times a “10” may represent an unattainable state of certainty for some consumers, whereas an “8” is starting to show too many signs of doubt or ambivalence. On the other end of the spectrum, a rating of “0” through “6” indicates a low likelihood and may reflect an increased probability of declining business with that customer or ultimately their defection.

Remaining in the middle of the rating scale are consumers who scored a “7” and “8”; they are classified as passives. Although passives show some signs of loyalty, their loyalty is more of a conditional loyalty; i.e., if a change occurs in the customer’s situation or a competitive offering, passives will likely defect. Despite the simplicity of this measure, the original positioning of NPS remains a bit controversial. The controversy is not so much with the measure itself. Instead, the heated debate is rooted in the claims that NPS is a forward-looking measure which is linked to business outcomes. Reichheld’s research indicates NPS scores are predictive of revenue growth, but a subsequent study by Keiningham et. al. did not support his claim. Evidence associated with NPS claims are usually done at a macro level; i.e., across companies. Few studies have shown the value of NPS at a micro level where other factors can be taken into consideration; i.e., how a specific company’s growth may vary with NPS over time.

What makes

However, the attacks on NPS, specifically linkage, are a bit unfair. Researchers in many fields have long known the difficulty of establishing links between attitudes / intentions and behaviors. In fact, theories have been developed to address this dilemma, such as the Theory of Reasoned Action and the Theory of Planned Behavior. Clearly, if researchers have difficulties establishing links to behaviors, the link to the next level, business outcomes, will be even more difficult.

Additionally, business outcomes are affected by a whole host of factors beyond customer attitudes such as competitor’s actions, governmental regulations, the general state of the economy, etc. A prime example of this phenomenon is Wachovia bank. Wachovia was consistently rated by consumers as one of the top banks in a syndicated tracking study. However, Wachovia’s cataclysmic collapse (being eventually taken over by Wells Fargo) had nothing to do with poor customer ratings. Wachovia had an unacceptable rise of problematic mortgage assets, a decreased ability to borrow against those mortgage assets and ultimately a customer “run” on the bank.

One basic assumption regarding NPS is that it assumes the company operates in competitive markets where customer referrals could drive an increase in revenues. For example, an electrical utility which holds a monopoly should have no interest in NPS. What alternatives are there for its customers?...None! Instead, companies that operate in such environments should concentrate on customer satisfaction.

us



promote?

So keep in mind that NPS provides a good barometer of customer advocacy. Whether your organization can link NPS to its business outcomes depends on the particular situation. To recap NPS's advantages:

1. An easily calculated and understood measure of customer loyalty
2. A measure which requires only one survey item
3. A measure that has face validity in that it weighs disadvantages against advantages
4. A measure which has some evidence of linkage to business outcomes
5. A popular measure which can be compared to NPS scores for other companies

Although executives love NPS, researchers are often apprehensive. NPS should be used to gauge the pulse of the customer base but, by itself, provides no information on how to improve the NPS score. For the past few decades, survey researchers have often relied on key driver analysis and multivariate models to gain such insight. However, the definition of NPS and the grouping of customers into three segments present some challenges for client-level modeling and analysis. Fortunately, a multi-pronged approach which considers both qualitative and quantitative methods can be used in such circumstances.

One basic assumption regarding NPS is that it assumes the company operates in competitive markets where customer referrals could drive an increase in revenues. For example, an electrical utility which holds a monopoly should have no interest in NPS. What alternatives are there for its customers?...None! Instead, companies that operate in such environments should concentrate on customer satisfaction.

Key driver analysis techniques usually don't vary by the question's wording or its associated summary measures used for reporting. For example, if the organization already uses advocacy, but not necessarily NPS, the driver analysis would be run on the raw rating scores of the advocacy questionnaire item. The adoption of a summary measure such as NPS does not invalidate this procedure. In general, it is reasonable to assume that if the average client advocacy rating can be increased that this will, in turn, increase NPS; i.e., the percentage of promoters should increase and the percentage of detractors should decrease.



Of course, exceptions can be found, but that is a situation that can arise with almost any summarized measure (summary measures result in a loss of information). For example, consider a situation where the average advocacy rating increases from a "7" to an "8," but the NPS score still remains the same. This possibility could arise if everyone previously gave a "7" and now everyone gives an "8." Conversely, Table 1 depicts a situation where the NPS score goes up but average advocacy remains the same..

Table 1: Changes in NPS but not Average "Advocacy"
Quarter #1

	Frequency	Advocacy Rating
Detractors	30%	6
Passives	40%	8
Promoters	30%	10
NPS Score:		0
Average:		8

Quarter #2

	Frequency	Advocacy Rating
Detractors	28%	5
Passives	20%	7
Promoters	52%	10
NPS Score:		24
Average:		8

The point of the above comparisons is that exceptions can always be found. NPS does not track perfectly with average advocacy. However, don't become a victim of analysis paralysis. In the long run, increasing advocacy in general, as is done via key driver analysis, will lead to an increase in NPS. Furthermore, acting on key driver results derived from raw rating scores for questions such as overall satisfaction will also lead to increases in NPS. How so? Satisfaction is at least one known antecedent of loyalty.

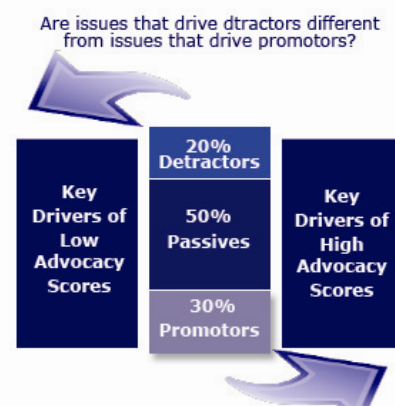
One can also supplement the above key driver analysis with one which is more suited to the NPS categories of Detractors, Passives and Promoters. This type of analysis can be useful, but keep in mind that the first step is to collapse an 11-point rating scale into three buckets; undoubtedly a loss of information. Despite the loss, a driver analysis tailored to the three categories can increase NPS scores by:

- 1) Identifying how to convert detractors into passives
- 2) Identifying how to convert passives into promoters

Drivers of promoters are often different from drivers of detractors. To convert detractors to passives, one usually needs to work on the core products and services - not necessarily trying to delight them, per se, but rather meet the customer's expectations. To convert passives to promoters requires a different strategy of often going beyond expectations by creating delight and more personal relationships.

Market Probe's model for Drivers of Promoters and Detractors is shown in Figure 1. Such type of analysis requires more sophisticated statistical techniques (e.g. Random Forests, Logistic Regression, Quantile Regression); the details of these techniques are beyond the scope of this paper.

Figure 1: Example Action Items from Drivers of Promoters vs. Detractors



Another important tool for determining how to improve NPS is the use of open-ended comments. Two variations of the question can be used depending upon the LTR rating. For example, if the customer is classified as a promoter, then a question could be asked such as: "Why are you willing to recommend XYZ to colleagues and friends?" If the classification is less than a promoter, the question is: "What could XYZ do differently to achieve your strong referral?"

There is no substitute for reading comments, but with potentially thousands of survey completes, some method of summarizing the comments is necessary. The usual technique is to manually code the comments into predefined buckets such as "Responsiveness," "Competence," etc. Once the comments have been categorized, most firms will show the percent of comments which fall within each bucket. Another piece of information which may be useful is to show the NPS score associated with each bucket, such as responsiveness. Although this type of information is useful, the goal of identifying key drivers from comment data will not be achieved.

Instead, what is needed is an analysis technique which simultaneously considers the frequency and NPS score for each comment category. Using this information it is possible to run key driver analysis directly on the coded comment categories. Consequently, we may find out that an employee's knowledge of the firm's products and services may have the biggest impact on NPS, followed by their care or concern, etc. By triangulating the key driver analysis from both closed- and open-ended questions, the firm is taking the first steps needed to develop action plans.

Market Probe offers an additional extension to key driver analysis called NPS Rx. This technique prioritizes attribute items in light of relative cost considerations to achieve desired increases in NPS. An optimization algorithm is employed to determine how much improvement is needed for each antecedent of advocacy. Typical antecedents include attribute items associated with quality, price, service and image. The output of NPS Rx serves as a powerful tool for guiding managers in developing the most relevant and cost effective action items.

The key to NPS is to realize exactly what it is. It is a good barometer measure which can be shared internally with employees and compared externally with competitors. How to move NPS is another matter. Past survey and analysis techniques can still be used to determine the appropriate action items. These techniques can also be supplemented with more sophisticated techniques to help convert detractors and passives to more positive states. Clearly, NPS is quite popular and it helps many firms realize that they may need to move beyond the sole use of customer satisfaction.



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Kurt has been with Market Probe since 1999 and oversees the corporate marketing science and data mining division. He leads an experienced team of senior statisticians at Market Probe. Kurt's team ensures that the company can provide actionable information and recommend strategic initiatives for its global clients.

Kurt has a broad background in IT, statistics and marketing. He taught graduate-level courses in each area and has won several teaching and best paper awards. Dr. Pflughoeft has been a frequent presenter at market research conferences including the Sawtooth Software Conference and the AMA Advance Research Techniques Conference.

Kurt earned a Ph.D. in Management Science from the University of Wisconsin-Milwaukee and continues teaching and researching with colleagues from Market Probe and his alma mater. He believes that the bridge between academic and industry research is the key for advancing knowledge within the market research community.