

## The NPS Debate – Can You Really Measure Loyalty With One Metric?

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What's your view on the "Net Promoter Score"? This very question has been the centre of debate at ICD Insight, not least because proponents of NPS claim it can motivate an organization to become more focused on improving products and services for its customers. Drawing on our experience both in research and customer relationship management, we thought it might prove interesting to share our views of such a framework with you.

The concept of the NPS framework was first introduced by Frederick Reichheld, a loyalty business model expert, in an article in the Harvard Business Review in 2003. He claimed that an organization's Net Promoter Score could be obtained by asking one question of existing customers – most usually:

*"On a scale of zero to 10, how likely is it that you would recommend us to your friends or colleagues?"*

Depending upon their response to this question, customers could then be grouped and categorised as: "**Promoters**" scoring 9 or 10, "**Passives**" (score 7 or 8 but are disregarded for the purpose of the calculation) or "**Detractors**" (0-6). Promoters, he argued, should be regarded as the most valuable group of customers, operating through repeat / increased purchases, referrals and longevity as real assets to the company and drivers of profitable growth. Detractors, he claimed, were the polar opposite, given that their complaints, reduced purchases / defection and negative word of mouth, could, and probably would, destroy profitable growth.

### **% promoters - % detractors = net promoters (allegedly)**

Proponents of the NPS framework say that its value lies in its potential to galvanize the organization into becoming more focused on improving the products, services and overall experience of its customers. Furthermore they claim that there is even a correlation between an organization's relative NPS and revenue growth versus that of its competitors.

Introduced, as it was, in the Harvard Business Review then you have to accord some credibility to it – don't you? And since our old friend Fred Reichheld ( The Loyalty Effect) backs it, as do a number of big companies, it is surely worth considering.

## Points in Favour of NPS

The very simplicity of the NPS framework is obviously very seductive. Amongst organizations that do actually measure customer satisfaction, the results of more complicated methods can be criticised for being "quite vague", making it difficult for business colleagues of the research department to really take on board what they are saying.

The good people at American giant GE (and many other companies) went the whole hog and tied the NPS to managers' bonuses. This is one way in which the customer KPI can really pack a punch and focus the mind. So, in a time where CEOs are increasingly intent on getting closer to customers, why isn't everybody doing it? Well, NPS does have its critics.

## The Good and The Bad

Proponents of NPS firmly believe that customers would not whole-heartedly endorse a company, product or service to friends unless they had confidence in it. And it is this interpretation of customer behaviour that is at the crux of the number for us.

Are we really saying that all customers place the same value on everything when they choose a supplier? Are we saying that the reasons behind my choice of supplier don't matter, only that I choose them? That would mean that my decisions come down to the same set of criteria as other people, and I know for a fact that in my household, that is not the case. This very issue becomes blatantly clear when we try to decide on a joint purchase – for example, a car:

Let's take a closer look at a simple car-buying analogy between a fictitious couple. Even in this simple example we witness some quite feasible and recognizable differences between the couple in terms of how they decide which alternative to opt for.

### Mrs

Small enough to handle and park  
Hatch back (for visibility and loading)  
Style  
Helpfulness of showroom staff

### Mr

MPG  
Boot space  
Service cost and intervals  
Finance

Ultimately our couple buy a Ford Focus and both are happy with the decision and decide to recommend the Ford Focus to friends. Does it really matter that they recommend it for these different reasons as long as they do recommend it? If I were the salesperson, maybe not. But in marketing and new product development it quite possibly would matter. What if we did not buy it for any of these reasons that we really feel strongly about? The point is that without the detail behind the decision, you can never really be sure how to counteract the bad or capitalise on the good.

## **Simple, Or Simply Superficial?**

While the simplicity of NPS is seen as a plus, those who are involved in research professionally say that it is too simplistic – and that is its downfall. The temptation is to accept the score without scratching the surface to establish any details about what or why things are going well – or badly! While this one number succeeds in engaging more people in the importance of customer satisfaction – it could also be misleading. How are they to determine what they should do to improve and build upon the score? While a low score is an indicator that something is wrong – what is it exactly that is wrong? Unless an organization is prepared to do some further digging then the intricacies of that can't be known.

Going back to our car analogy – what if our fictitious couple doesn't buy as a result of a particularly poor showroom experience – and that this particular showroom is turning off a significant number of female buyers. It is conceivable that the NPS goes down but the company doesn't know that the problem is due to showroom experience, or confined to one location or only with female buyers or any other detail of that aspect. So how do they correctly attribute the reduction in score without detail?

Secondly, the use of the 10 point scale can be difficult from an analysis point of view – What is the difference between a score of 5 and a score of 6? In the scoring system described, the feedback of someone who gives the company a "0" is the same as one who rates it at "6" and that doesn't seem logical.

## **Other Factors to Consider**

There can be no doubting that it is good if companies spend more time listening to their customers – but do you learn more from your promoters or your detractors if your focus is on improving things? Perhaps that should be the subject of the next debate?

There seems to be an implied assumption that all customers are equal but what about where an organization has a small number of high value customers – should you be happy if your average NPS looks all right or should high value customers/key accounts' views be weighted in some way?

In some other circumstances the NPS is not a particularly useful tool at all – those where the consumer or customer has little or no choice through a lack of competition. In a monopoly, the question would be irrelevant as there is no alternative supplier.

## Summary

In short, you can no doubt tell that this topic provided us with ample material for an interesting debate. For us at ICD Insight, the point is surely - **focus on the customer not the score.** NPS does indeed seem to galvanize people into paying more attention to customers, especially when a good score is linked to a performance bonus! However, in our view, it is a somewhat blunt instrument if what you are ultimately looking to do is grow and develop customer relations and be prescriptive about change. Unless you are prepared to **probe further and dig deeper,** with a view to establishing how different customer segments respond to your value proposition and different elements of your customer experience, NPS on its own may just be leading you down the wrong path.

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