

## Can you really measure loyalty with just one metric?

### An ICD Insight debate

17 April, 2008

ICD Insight's first debate prompted some lively discussion on the controversial Net Promoter Score (NPS). Attendees gathered at the Scotch Malt Whisky Society in Queen Street to explore the issues surrounding NPS and discuss their experience of using it and other metrics to measure and improve customer loyalty.

We would like to thank everyone who attended and contributed to a very interesting and stimulating evening. Look forward to seeing you at the next debate!

### The Debate

Liz Moody, ICD Insight's Managing Director and Sheena Muncie, Marketing Director ICD Insight, started off the debate with a presentation of the pros and cons of NPS. The discussion that followed was fuelled by attendees who had a range of experience of using different metrics to measure customer satisfaction/loyalty, including one attendee who had used NPS.

The debate focussed on the key issues highlighted by Liz and Sheena, as attendees explored whether or not NPS really is **'the one number you need to grow'**.

- **NPS is simple and easy to understand**

It was generally agreed that the NPS question<sup>1</sup> was easily understood by customers and interviewers. Participants felt that used in the right context NPS could serve a useful purpose: the *'would you recommend?'* question can work for specific sectors and industries. Concerns were raised, however, that it was only effective for identifiable elements of a product or service, and would be irrelevant for more complex processes, such as purchasing a financial services product.

*"I think NPS would work in the motor industry – one customer, one car, not the range of considerations I'd have if I were recommending a bank."*

The fact that the results of NPS were also simple and straightforward was seen as an advantage in making customer research accessible. NPS is easily understood by non-marketeers, including directors and Board members. Its simplicity is a real strength for key decision makers in the organisation.

*"NPS can get research into the boardroom – it can get people talking."*

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<sup>1</sup> The NPS question is: "How likely would you be to recommend our company to a friend or colleague?"

- **NPS is better than traditional customer satisfaction measures**

A more controversial issue was the effectiveness of NPS compared with the traditional customer satisfaction indices (CSI). The latter assumes a relationship exists between customer and company whereas NPS can be asked of a wider range of customers. In addition, a recommendation will create business for a company and so is a better indicator of potential growth. This argument was countered by those who highlighted that 'recommendation' did not necessarily reflect the customers' views on an organisation, particularly where there are ethical questions about a company (*would you recommend MacDonalDs?*) or the service relates to a personal or financial matter.

*"A respondent might recommend your organisation, but they might recommend your competitors as well. What does this tell you?"*

Other examples of situations where NPS would not be effective included monopolies, utilities, niche markets and when there are a range of factors to consider in the purchase process.

*"A respondent can't say I wouldn't recommend my bank as there is too much to consider. They could be unhappy with their current account but happy with their savings account."*

Attendees had experience of a range of measurement metrics, with one advocating a question on 'future intent to spend' as a better measure than either NPS or CSI.

- **Does NPS customer segmentation work?**

Concerns were expressed about the NPS segmentation of customers into three categories: "promoter", "passive" and "detractor". The discarding of "passive" customers (score 7 or 8) in the calculation of the NPS score was felt to ignore customers who were potentially very positive about their customer experience. There were also concerns that customers' understanding of the scale was likely to differ from the NPS interpretation.

*"A respondent may think a 5 is in the middle and that a 6 indicates that they are a passive supporter but the NPS scale makes both these respondents detractors."*

- **NPS – one figure that can be measured over time**

Although it was considered advantageous to have a score that allowed business to track performance, there were perceived to be fundamental issues with use of the 'one figure' approach adopted by NPS. No-one accepted that any organisation could measure its customer satisfaction with just one metric.

*"Looking at NPS alone would be like looking at turnover but not profitability – what would be the point?"*

The need to explore reasons for increases/decreases in scores and differences in scores across customer segments was felt to be crucial to developing meaningful customer relations.

*"If your customer satisfaction scores are good or bad this can help your organisation change. But you need to understand the reasons for the scores to make the necessary changes"*

*"People can walk away from a poor NPS score because it doesn't ask why. Proposed changes could be met with the response - how do you know it's my department that needs to change?"*

Issues with the use of NPS scores were emphasised by one organisation which had expected to be able to compare its NPS scores against other companies. They had not found any organisation willing to share their NPS score.

*"We found that other organisations were reluctant to share their scores with us even though they didn't operate in the same sector."*

## **Conclusion**

So, what did we conclude from our discussion?

Overall, attendees agreed that NPS could offer real benefits in specific sectors, but not when used on its own and not without a re-consideration of the segmentation used. Adopted in the right business context, asked in the right way and forming part of a wider research approach NPS *may* have a role to play.

Perhaps the attitude of attendees is best shown in the responses to the NPS score cards which each attendee completed. The question on likelihood of recommending NPS to a friend or colleague produced a mean score of -87.5 before the debate and -100 after the discussion!

## **What is ICD's View?**

One question at the end of the debate was '*what is ICD's view?*' – a tribute to Liz for putting up such a strong defence of NPS!

We believe that NPS has major limitations and our approach is firmly based on exploring with clients what the most effective customer measurement tool is for them, not producing 'one size fits all' solutions. Janet Sylvester, Research Director, comments: *"Developing customer relations is a complex process which requires insight into how customers work. I'd always want to look behind any metric to make sure that clients fully understand the customer experience and the factors affecting that experience."*

As Liz Moody said in the article which sparked this debate, ICD Insight '*focuses on the customer not the score*'. The use of a customer score has undoubted benefits in making research results easy to understand and identify trends in customer loyalty/satisfaction. For the score to be meaningful, however, we recommend that you find out how the customer experience actually works for different segments. It's all about joined up thinking!!!

## Delegate list

 <p>business stream A SCOTTISH WATER COMPANY</p>	Lynne Milne	Marketing Campaigns Manager
 <p>icdinsight joined up thinking</p>	Liz Moody	Managing Director
 <p>icdinsight joined up thinking</p>	Sheena Muncie	Marketing Director
 <p>icdinsight joined up thinking</p>	Janet Sylvester	Research Director
 <p>RBS The Royal Bank of Scotland</p>	Adrian Cairns	Business Support Manager, Customer Experience Team
 <p>Scotinform</p>	Nigel Donnell	Senior Research Executive
 <p>SCOTTISH WIDOWS INVESTMENT PARTNERSHIP</p>	Irene Brodie	Sales and Marketing Manager
 <p>STANDARD LIFE®</p>	Ian Bell	Customer Research Manager
 <p>SQA</p>	Carolyn Davidson	Business Manager, Research and Information Services

## **Feedback from delegates**

*"Great night"*

*"I've learnt a lot tonight"*

*"Thoroughly enjoyed the evening"*

*"This was very enjoyable – thanks very much"*

*"Let's have more of these evenings"*

*"Really useful"*

## **Future events**

ICD Insight will be planning more seminars in the coming months. We will alert you to the topic, date and location of our next events and we would be delighted if you are able to attend.

If you have any suggestions for topics you would like to debate at one of our seminars please let us know.