
Would you recommend this paper to your friends?

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Abstract: “Would you recommend this brand/company to your friends or colleagues?” is being promoted as the ‘Ultimate Question’ that (in the format of the Net Promoter Score) best predicts a company’s growth. This paper sets out to show that this question is in fact measuring the same dimension traditional customer satisfaction type questions measure, namely needs/values fit. It further goes on to demonstrate that the key limitation of the Net Promoter Score metric is that it only takes account of one dimension in the customer relationship and is therefore limited by its simplicity, in truly understanding behaviour.

Introduction and rationale for research paper:

Customer satisfaction measurement has traditionally been a cornerstone of measuring customer loyalty, with the premise that the more satisfied customers are, the more loyal they will be. What has become clear, however, is that measuring customer satisfaction alone is simply not enough and is poorly correlated with behaviour (Jones and Sasser, 1995; Hofmeyr & Rice, 2000; Reichheld, 2003).

Reichheld and Aspinall (1993-1994) in an article in the Journal of Retail Banking say that satisfied customers do not systematically buy more, or generate greater profitability than unsatisfied ones.

In response to the limitations of customer satisfaction metrics, Frederick Reichheld of Bain and Company claims to have found the ‘Ultimate Question¹’ that best predicts customers’ short-term purchase and referral behaviours (Satmetrix Systems White Paper, 2004). Reichheld further claims that the Net Promoter Score (NPS) is ‘the **single** most reliable predictor of a company’s growth’ (www.netpromoter.com website).

This ultimate question is simply “would you recommend this product/service to a friend?” measured on a scale of 0 to 10. Reichheld takes the analysis further in producing a Net Promoter Score (NPS) that is arrived at by subtracting detractors from Promoters as defined by their response to the question as follows:

$$\text{NPS} = \text{P} - \text{D}$$

Where:

- Promoters (P) = those scoring 9-10
- Neutral (N) = those scoring 7-8
- Detractors (D) = those scoring 0-6

It is interesting to note that Reichheld arrived at the “recommend to a friend” question by testing a battery of around 20 **customer satisfaction** and retention questions among a sample of customers across a range of products and industries and then correlating their responses with future purchase or referral behaviour. The “recommend to a friend” question was found to have the best correlation, out of the 20 questions tested, 80% of the time (Satmetrix Systems White Paper, 2004). No further information appears to be available in the public domain as to how good a ‘predictor’ the “recommend to a friend” question really is or what the actual correlation with future behaviour is. **It is merely the best measure relative to those tested**, with no indication as to **how** much better than the

other measures tested it is (e-mail response from Net Promoter website). The fact that it was only best 80% of the time also gives some indication that it may not be very robust.

Nonetheless, this 'Ultimate Question' has struck a chord with clients, primarily because it takes something that has been considered complex and makes it astonishingly simple. What's more, it holds the promise that companies just might be able to shed their sometimes cumbersome customer feedback systems in favour of a simple one consisting of just one question (Fleming, 2006). Simple one-number metrics are popular in the boardroom, where life is too short to have to learn how to interpret complex measures, and it has therefore become extremely popular with CEOs internationally, with companies such as General Electric, Microsoft and American Express adopting it as their key customer 'loyalty' metric (www.netpromoter.com website).

In support of the Net Promoter Score, Reichheld has written two books and has two websites dedicated to it (www.netpromoter.com and www.ultimatequestion.com) with case studies of companies making use of the Net Promoter Score as a metric. There are now also Net Promoter conferences in the US and UK.

The main claims of the Net Promoter Score are as follows:

- One question is all that is needed to grow your business
- The 'Ultimate Question' to measure an organisation's performance among its customers is "would you recommend this company/brand to your friends or colleagues?"
- NPS is the **single** most reliable predictor of a company's growth
- NPS predicts loyalty (share of wallet and repurchase behaviour, as well as the willingness to make an investment or personal sacrifice in order to strengthen a relationship)
- Promoters account for 80% to 90% of all positive word of mouth in the marketplace
- Promoters are your assets and detractors your liabilities (ignores the middle)
- Passives (Neutrals) are unenthusiastic customers who can easily be wooed by the competition
- Promoters bring in new customers - "the only path to profitable growth may lie in a company's ability to get its loyal customers to become, in effect, its marketing department"
- Recommendation does not equate with customer satisfaction
- Satisfaction lacks a consistently demonstrable connection to actual customer behaviour and growth
- The truly loyal (Promoters) tend to buy more over time and devote a larger share of wallet to a company they feel good about
- Recommendation is one of the best indicators of loyalty

- In most companies, in most industries, getting customers enthusiastic enough to recommend a company appears to be crucial to growth
(Reichheld, 2006; Reichheld, 2003)

Not surprisingly, the Net Promoter Score has generated a large amount of debate and criticism from customer satisfaction measurement practitioners and the research community, largely because Reichheld makes very strong claims about the effectiveness of the NPS, but has not provided the opportunity for any formal assessment of these claims or the data on which they are based by means of peer review.

Some of the criticisms aimed at the NPS are as follows:

- “Our company’s analysis, based on over 10 years of data, shows that the NPS is statistically insignificant in explaining changes in market share and that other measures, derived from value are much more effective in explaining changes in market share” (Roberts, 2006)
- The NPS doesn’t distinguish between gaining detractors and losing Promoters and therefore provides little insight for management to act on (Roberts, 2006)
- Even if the ‘net promoter’ concept correctly measures a firm’s customer loyalty level, it doesn’t give managers a clue as to what they should do (Keiningham *et al.*, 2005).
- Reichheld contends that the ‘net promoter’ score is independent of other measures (satisfaction and loyalty). It is virtually impossible to imagine a scenario in which the results of customers’ overall satisfaction levels, their likelihood to repurchase and their likelihood to recommend the firm were not highly correlated (Keiningham *et al.*, 2005).
- “We find that while repurchase likelihood and proportion of customers complaining have some predictive value depending on specific dimensions of business performance, metrics based on recommendation intentions (Promoters) and behaviour (average number of recommendations) have little or no predictive value.” (Morgan & Rego, 2006)
- Revenue Growth (the financial metric used by Reichheld to prove the value of the NPS) is not the best metric to predict business success (Morgan & Rego, 2006)
- Customer satisfaction and **positive word of mouth behaviour** were not found to be significant drivers of future growth (Marsden *et al.*, 2005)
- “In a first of its kind study academic analysis of a metric known as Net Promoter, researchers have discovered that claims of the measure’s superiority in predicting growth are false” (Yahoo!Finance, 2006)
- “Employing longitudinal data from 21 firms and 15000+ interviews...our research fails to replicate his (Reichheld’s) assertions regarding the ‘clear superiority’ of Net Promoter in comparison to other measures in those industries” (Keiningham *et al.*, 2006)

- There are many factors that influence why people buy and there is no silver bullet for predicting growth based on customer loyalty, despite Net Promoter's claims to the contrary (Keiningham *et al.* 2007)
- Reichheld confuses cause and effect by interpreting correlation as if it implies causation (...*A strong correlation existed between net-promoter figures and a company's average growth rate... Remarkably, this one simple statistic seemed to explain relative growth rates*) (Grissaffe, 2004)

While these criticisms may be valid, the NPS is clearly a simple and effective metric for gauging how happy customers are in their relationship. The "recommend to a friend" question is undoubtedly a good question to ask customers. Where a company's focus is on operational issues and needs a very simple, fast and basic measure, the NPS can provide this measure. It also does not take much insight to understand that happy customers are often going to be more loyal and spread positive word of mouth about your business – there is nothing new or revolutionary here.

The purpose of this paper is therefore not to criticise the "recommend to a friend" question *per se*.

Reichheld frequently states and implies that the "recommend to a friend" question does not measure customer satisfaction and is indeed measuring some other dimension in customers' willingness to recommend a product or service to someone else (Reichheld, 2003).

This paper contends that the "recommend to a friend" question is in fact measuring the **same dimension** as other customer satisfaction type questions, namely the extent to which the brand or product meets a customer's needs and values. As such, it is measuring **the same thing as customer satisfaction**, which has been shown by Reichheld himself as not being very predictive of behaviour. The NPS is in effect, mutton dressed up as lamb and to really mix metaphors, this paper aims to prevent the wool being pulled over your eyes.

The purpose of this paper is then to show that simply measuring this **one dimension** (correlating with satisfaction, recommendation, brand performance etc) is not enough to explain customer behaviour and identify the extent to which a brand may be at risk to competitors in the market. This is the main criticism of measuring customer satisfaction alone (Hofmeyr, 1995; Hofmeyr & Rice, 2000) and it is equally valid when considering the NPS. It is a maxim of measurement theory that single-item measures are inherently less reliable than composite (multi-item) metrics (Crocker and Algina, 1986, Wanous & Hudy, 2001, Wanous, Reichers, & Hudy, 1997). Essentially, that is because a single item may not measure the same things in the same way from one time to the next.

In particular, customer satisfaction on its own is an elusive goal in a competitive environment, as other brands will quickly copy and match service levels. Customers also quickly adapt to new standards set by companies and the bar continues to be raised higher and higher while adding continuously to costs. An obsession with customer satisfaction also focuses senior management too strongly on operational issues (which are often easier

to describe, measure and address) with the result that resources and time may be taken away from more critical strategic issues confronting the business.

In order to create and maintain enduring and valuable long-term relationships with customers, a company or brand needs to understand (and measure) other dimensions of the relationship. The key limitation of the NPS metric is that it only takes account of one dimension in the customer relationship and is therefore limited by its simplicity, in truly understanding behaviour.

Research approach:

This paper will set out to show that a multi-dimensional measure of brand relationships is more valid and consistent with behaviour than a single dimension measure such as the NPS. The NPS is thus inherently a weak and misleading measure if used on its own. For this paper, I have drawn on a multi-dimensional model of commitment to demonstrate the shortcomings of the NPS and/or “recommend to a friend” question. The model employed is the Conversion Model™ - a proprietary model, but with the dimensions of the model and the underlying theory firmly in the public domain. It is not my intention to try to sell the merits of the Conversion Model™, but merely to use it as an example of a multi-dimensional model, for which I have had access to data from recent studies which also incorporated the “recommend to a friend” question. Other multi-dimensional models would no doubt expose similar weaknesses in the NPS. My purpose is therefore to demonstrate that in order to adequately explain consumer behaviour, a multi-dimensional approach is superior to a single dimensional approach and that a single dimensional approach may have major shortcomings and be quite misleading. The focus of my paper is therefore not so much on the model I have used, but on exposing the weaknesses of the NPS.

The Conversion Model™ - A multi-dimensional framework of Commitment:

We measure the strength of a company or a brand in people’s minds in a directly attitudinal way. There are three aspects to this measurement:

- Does it deliver against the needs and the values that a person has in a market? To the extent that it does, it will be considered.
- Is the choice important? If a person shrugs their shoulders and tells us they don’t care what they buy because they’re uninvolved, then they cannot become committed.
- How does the business or brand rate when compared with others? To be uniquely committed, a person has to believe that the business or brand is best.

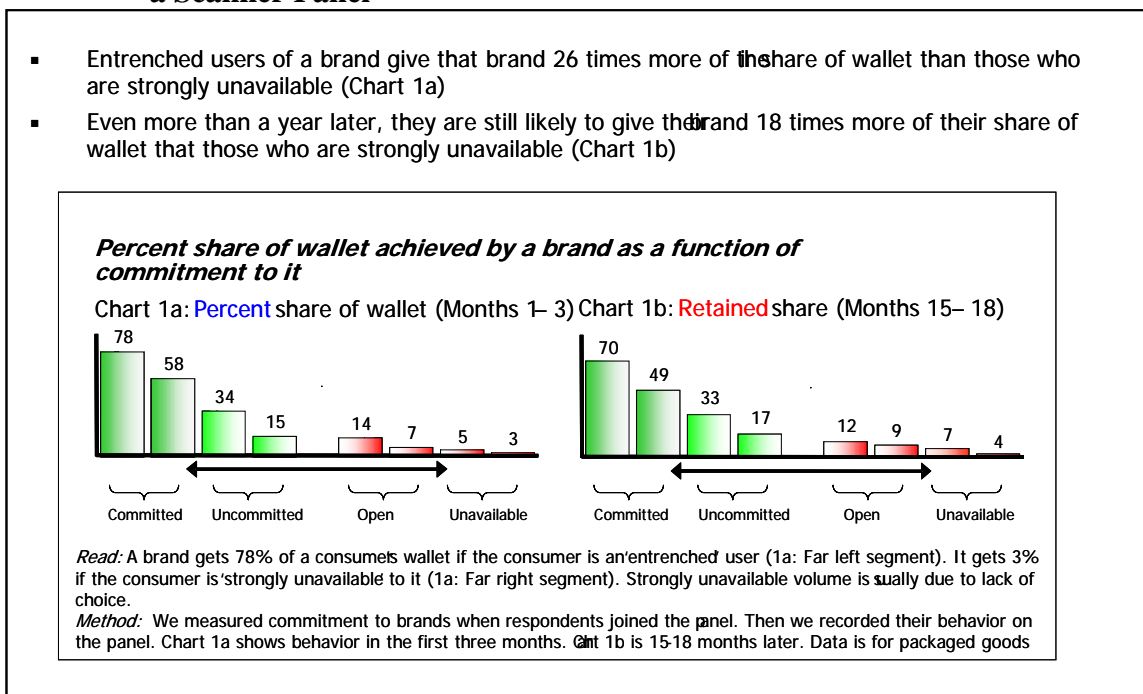
Notice that brand performance *is* a key metric in the approach. In other words, how well someone feels a choice satisfies their needs and values is the starting point. But it is not enough. Single-minded commitment also requires involvement and relevant advantage. For one business or brand to be consistently chosen above all others, the customer must feel that

the choice is important and they must feel that all others are inferior. If someone says, “This choice is perfect, it’s very important to me, and I’m not interested in anything else”, then we know that the company or brand concerned has achieved a position of unique attitudinal strength in that person’s mind.

Once we have made these measures, we classify people in terms of the strength of their commitment or attraction to each business or brand in a market. The analysis is done at a respondent level and for every competitor in a market. It then becomes possible for a marketer to answer a number of important questions: how many customers are committed or uncommitted; how many non-customers are available or unavailable; who are they; to which competitors are those who are uncommitted, going; from which competitors are those who are available, coming; and so on.

Chart 1, below, illustrates the Conversion Model™ segments, together with validation of their predictive power, by means of scanner panel data for a packaged goods brand. The bar chart on the left shows Conversion Model™ segments with share of spend for each segment at the time of the first measurement. The chart on the right shows the same people’s share of wallet 18 months later.

Chart 1: Validation of the Conversion Model™ segments using longitudinal data from a Scanner Panel



The data I have used for this paper is from proprietary studies, hence I have disguised the brands. The numbers shown are, however, from the actual data.

(Please note that for the remainder of this paper, where reference is made to Promoters, this will refer to a rating of 9-10 on the “recommend to a friend” scale. Where reference is made to Non-promoters, this will refer to a rating of 0-8 on the “recommend to a friend scale”. While the NPS classifies responses as Promoters (9, 10), Neutral (7, 8) and Detractors (0-6), there were in fact very few people who rated brands lower than 7 in the studies I looked at, and hence there is insufficient base size for analysing this group separately. Nonetheless, Reichheld claims that customers rating 9, 10 give the highest rates of repurchase and referral and are the ones that matter; “in most industries, there is a strong correlation between a company’s growth rate and the percentage of its customers who are ‘Promoters’” (Reichheld, 2003) – hence the classification of Promoters and Non-promoters is sufficient to illustrate the shortcomings of the approach for the purpose of this paper.)

What is the Net Promoter Score measuring?

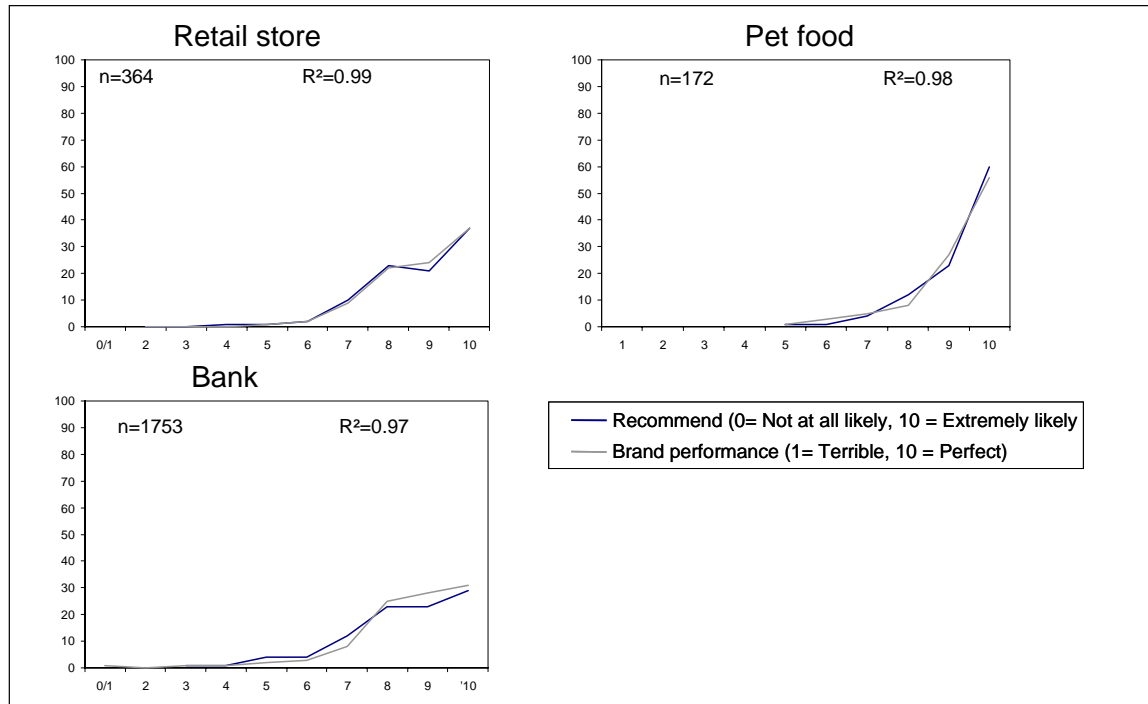
Reichheld claims the Net Promoter Score is measuring something different from customer satisfaction, namely the extent to which a customer will make a personal sacrifice by risking their reputation in making a recommendation to someone else. Firstly, this assumes a high level of importance and risk in the decision – most buying decisions are not life and death situations and making a recommendation is not going to be such a big consideration. Secondly, there is a difference between actually making a recommendation and being asked merely to rate a company or brand on a recommendation scale. In the latter case, the rating is more likely just to reflect the extent to which the company or brand meets the needs and values of the person doing the rating.

Needs/values fit can be measured in a number of ways and is central to customer satisfaction measurement. “*How satisfied are you with ...*”, “*How likely would you be to recommend ... to a friend or family member*”, “*....., please rate each brand you are aware of on a 10-point scale where ‘10’ means you think it’s perfect and ‘1’ means you think it’s terrible*” , etc ...**essentially all measure the same dimension.**

To illustrate this point are a number of charts from different studies in different categories which included both the brand performance measure above (terrible to perfect) and the “recommend to a friend” question. It is clear from these charts that there is a great deal of similarity in the responses to these two questions and that **they are indeed measuring the same dimension.**

Chart 2, overleaf, shows rating of brands using a brand performance scale (Please rate each brand you are aware of on a 10-point scale where ‘10’ means you think it’s perfect and ‘1’ means you think it’s terrible) and the “recommend to a friend” scale (How likely would you be to recommend brand ... to a friend or family member where 0 means not at all likely and 10 means extremely likely). The lines show the distribution of responses to these questions for a brand in three separate categories.

Chart 2: Ratings of brands in 3 categories, showing adjusted fit (R^2) between “recommend to a friend” and CM “brand performance” questions



The analysis from three separate studies shows quite clearly that the “recommend to a friend” question is measuring the same dimension as customer satisfaction. The further purpose of this paper is to demonstrate, however, that a person’s relationship with a product or service is more complex than just needs/values fit and in order to obtain a valid and predictive measure of customer relationships, one needs to take into account other dimensions which influence the relationship as well.

There can be only one!...or not?

The intense loyalty of Promoters as described by Reichheld implies there is only one company or brand that I will recommend, but what about other brands I may feel strongly about?

In understanding customer relationships, a second key dimension is the attraction of alternatives in the market. Thus, while I may be very positive about a brand, I may be equally positive about other brands too. The more brands I find attractive, the less likely I am to be ‘loyal’. By the same token, I may not be very positive about any brands in the market, but I will still use them and still have a preference. If I rate my preferred brand 6 out of 10 and all other brands I use 3 out of 10, am I less loyal or valuable as a customer than someone who rates her preferred brand 9 out of 10 and all other brands used the same?

In understanding customer relationships, one must also differentiate between involvement in the category and involvement with the brand. For example, I am a brandy and cognac enthusiast. I have found a few brands that I am enthusiastic about and given the chance will recommend them to other people who share my interest (without feeling that I am putting my reputation on the line). But at the same time, I am constantly looking out for new and interesting brandies to try. It is not that I am dissatisfied with the brands I already use, it's just that my interest is more in the category, than in the brands.

In fact, our experience shows that heavy users of a category are often the least loyal and show the highest repertoire behaviour. Heavy users may use different brands to meet different needs and their loyalty is therefore split, or due to their volume of consumption, they may be buying on price and will select the cheapest brand on offer.

Table 1: Promoters of one store versus many, or none

	Store used regularly						
	Total (n=2051)	Store A (n=425)	Store B (n=192)	Store E (n=669)	Store F (n=290)	Store G (n=1148)	Store I (n=273)
	%	%	%	%	%	%	%
Promoters of one store only	45	35	28	35	46	46	33
Promoters of more than one store	26	30	38	32	30	25	41
Promoters of <u>no</u> stores	30	36	33	33	23	28	25

In Table 1, above, we see that overall, less than half of customers promote only one store, while 30% are **not Promoters of any stores**. This does not mean, however, that they do not have a preference, or are not 'loyal' to a particular store. In fact, we find that **61%** of these customers (Non-promoters) are **single-mindedly committed** to one store in their repertoire.

In Table 2, overleaf, we see a comparison of two stores with two very different customer profiles. Store G has a significantly lower Net Promoter Score than store I and according to Reichheld should therefore be performing well below it. We see, however, that Store I customers are less likely to be Promoters of only one store, and in particular are less likely to be Promoters of only Store I. Comparing their behaviour, Store G customers are almost four times more likely to spend most of their spend at store G, than Store I customers at Store I. Similarly, twice as many customers of Store G see it as their ideal store, compared to how Store I customers see their store. With a lower Net Promoter Score, Store G customers are clearly more loyal than Store I customers, both in terms of behaviour and perception of the store.

Table 2: Net Promoter Score, behaviour and perception for two different stores

	Store G (n=1148) %	Store I (n=273) %
Net Promoter Score	38	52
Promoters of one store only	46	33
Promoters of this store only	28	21
Most spend at store	57	16
"Is my ideal store"	62	32

But, doesn't the "recommend to a friend" question measure involvement?

A third key dimension to look at is the extent to which people are involved with the brand or category. Where involvement is high, people will tolerate dissatisfaction because the relationship is important to them. On the other hand, where involvement is low, it does not matter how satisfied people are, they will go with whatever is the easiest, cheapest or most convenient decision at the time. In some categories, this dimension may be less discriminating because most people in the category see the decision as important (such as banking), but in many mature categories, or categories where decision risk is low, customers view all brands as pretty much the same and hence do not see the decision as to which one to choose as very important. In these cases, looking at needs/values fit or recommendation **is not going to be enough**. As mentioned in the brandy example earlier, people can be involved in the brand or the category (or both). Where brand choice is important enough, people may delay the purchase decision or go elsewhere if they cannot find their brand... or they may switch to a different category. (For example, if I am at a club or bar and my brand of beer is not available, I may switch to a spirit brand instead, rather than choose another beer.) Where the category choice is more important, I will be more likely to choose another brand and stay within the category.

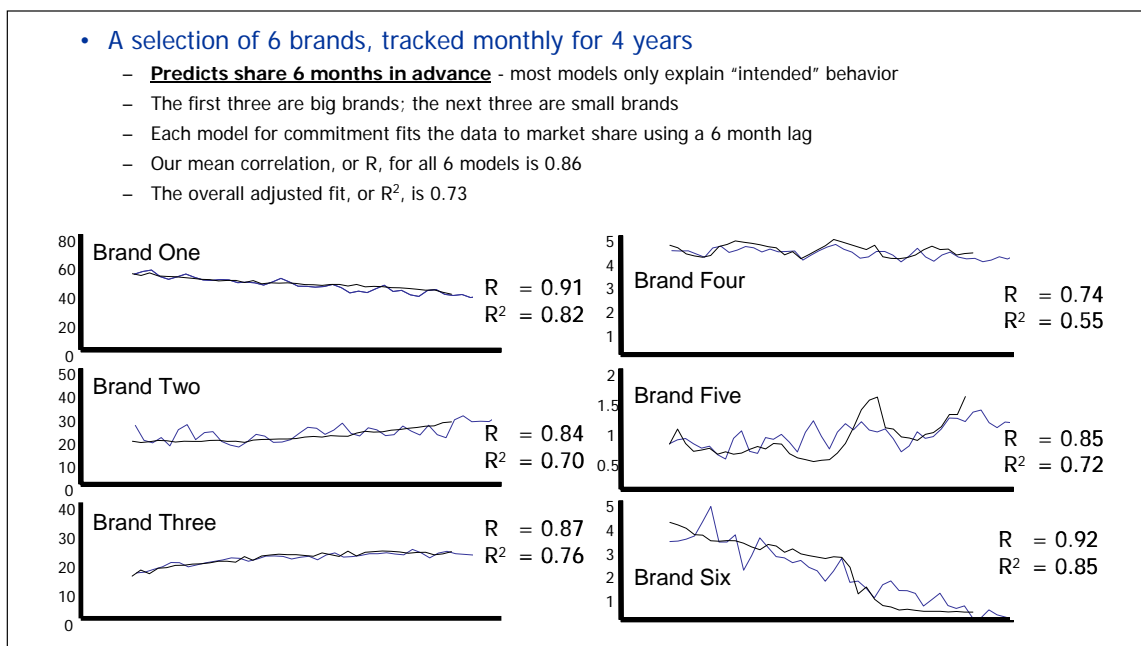
Reichheld assumes that people who rate a brand as Promoters are more involved with the brand (they put their reputations on the line to recommend it) (Reichheld, 2003). This, however, is not always the case. In our retail store study, **17%** of customers who rated Store D a 9 or 10 on the "recommend to a friend" question did not view the decision as to which store they shopped at as very important. Similarly, in a pet food study, **20%** of 'Promoters' of the second most popular brand on the market did not view the decision as to which brand of dog food they bought as very important. We need to understand the extent to which choice is important to people to understand how strong customer relationships are. A better model would incorporate this dimension as well.

Tying it all together:

By combining needs/values fit, attraction of alternatives and importance of brand choice, we get a measure of customers' relationships with brands which is significantly better at identifying strong or weak brand relationships than the NPS and is far more useful as it is measured at respondent level, and so can be used for profiling customers and other strategic analysis – answering the who, why, when, how and where type questions. It overcomes a key weakness of the NPS in that it is actionable.

In demonstrating that the NPS is not a sufficient measure to gauge the strength of customer relationships, the starting point is to compare it to a multi-dimensional measure such as the Conversion Model™ measure, which has a strong correlation with actual future behaviour, as illustrated in Chart 3, below.

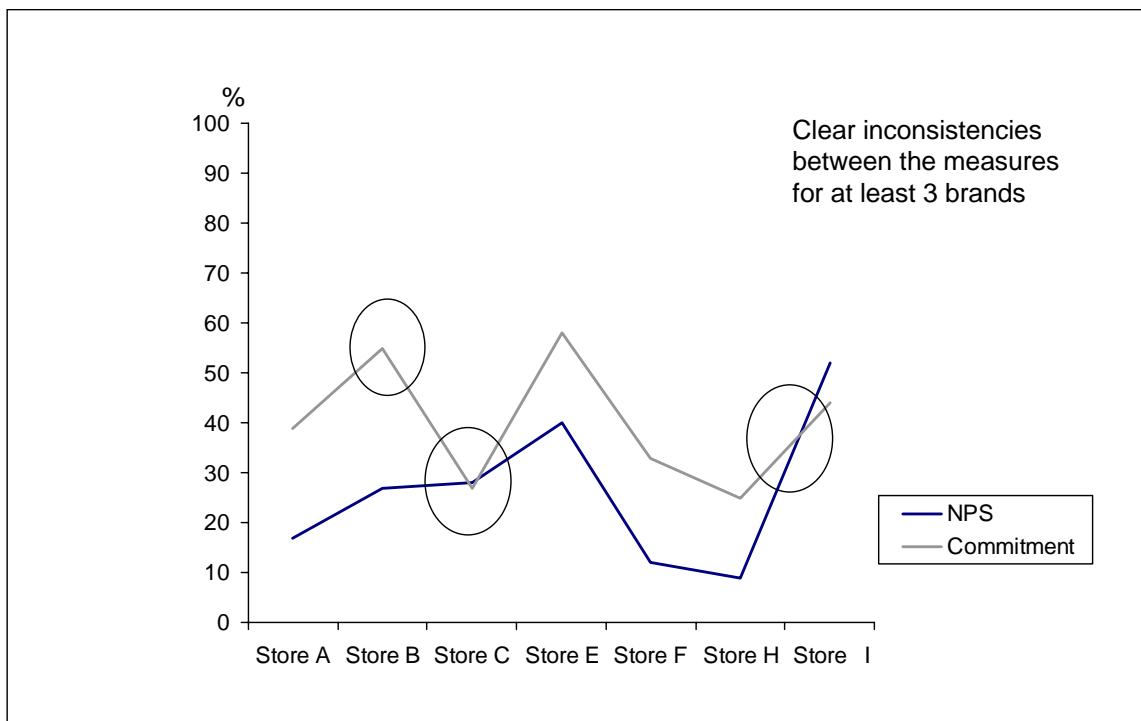
Chart 3: Validation of the Conversion Model™ ability to predict brand share movements six months in advance, over a four-year period



Given the claims of the Net Promoter Score as being correlated with future growth, one would assume it to be consistent with a measure such as Commitment, which has been consistently demonstrated to be predictive of brand performance.

Chart 4, overleaf, clearly shows that there is not a consistent relationship between the two measures.

Chart 4: Conversion Model™ Commitment measure versus Net Promoter Score for retail store brands



So, which is a better measure? Let's look at some examples from a retail store study.

The NPS is merely a calculation made on aggregated data and therefore does not allow for any respondent level analysis. In evaluating the validity of the 'Ultimate Question', comparisons will be made with Promoters, as defined by Reichheld. As these customers are claimed to be 'truly loyal', one would expect their behaviour and perceptions to reflect this.

How good is the ‘Ultimate Question’ at predicting behaviour?

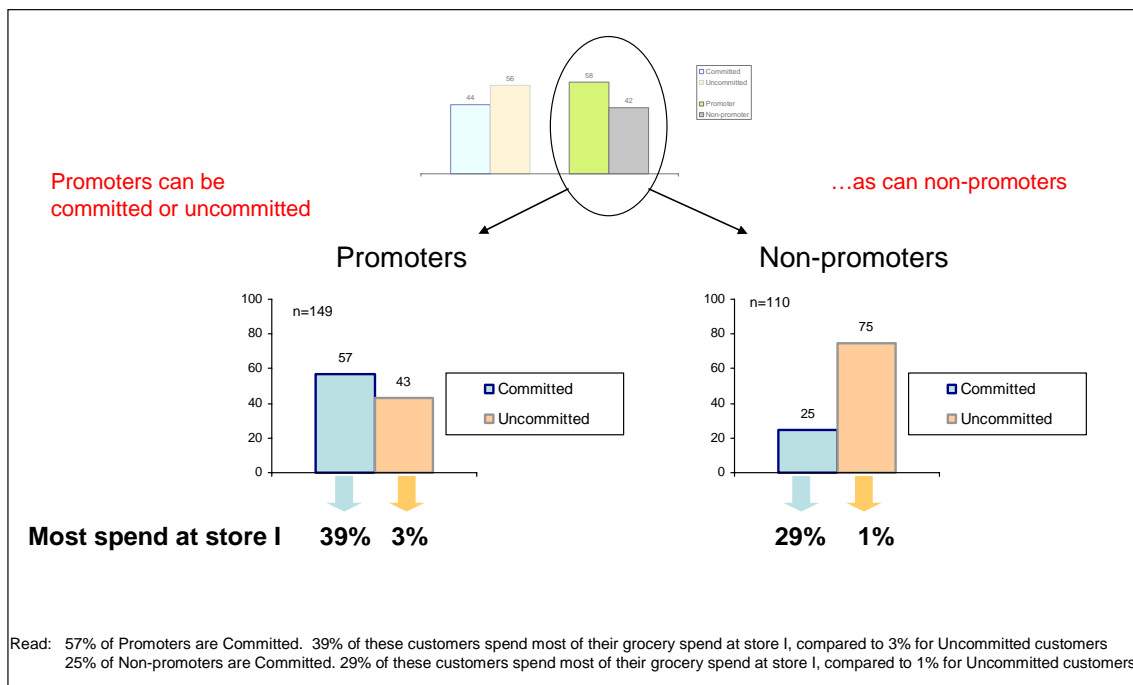
One way to evaluate the strength of the relationship with a brand is to look at the share of spend it gets relative to other brands. The stronger the relationship, the higher the share of spend should be. Chart 5a, below, shows the incidence of spending most of grocery spend at the store (Store I) when one looks at Commitment versus Promoters and Non-Promoters. Commitment is significantly better at identifying customers who are likely to spend most at the store.

Chart 5a: Classification of customers of a retail store brand based on Commitment versus Promoters and showing customers’ behaviour



In Chart 5b, overleaf, looking at Promoters and Non-promoters in terms of Commitment, we find that almost half of Promoters are classified as Uncommitted. Looking at their likelihood to spend most at the store, only 3% claim to do so. Bearing in mind that these ‘Promoters’ are customers who are supposed to be ‘truly loyal’, the Non-promoters are almost three times as likely to spend most at the store. Similarly, when looking at Non-Promoters (dismissed by Reichheld (2006) as being unenthusiastic customers, easily wooed by the competition), we see that a quarter are in fact Committed and have a higher tendency than Promoters to spend most at the store.

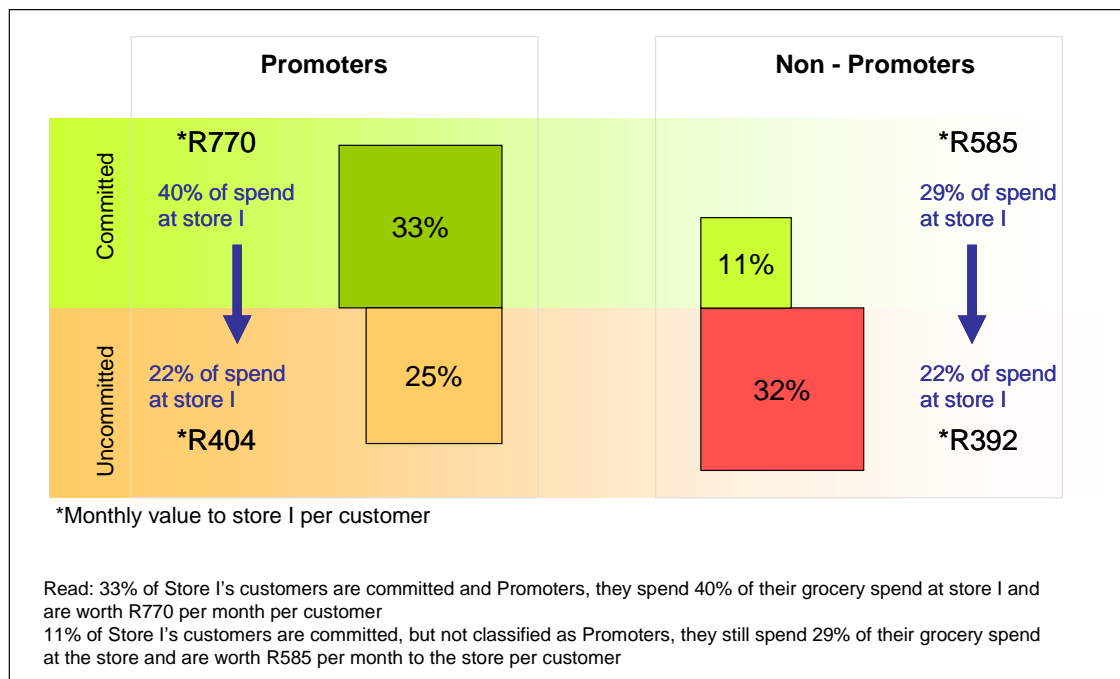
Chart 5b: Classification of Promoters and Non-promoters using Commitment and showing customers' purchase behaviour



But let's look at actual (claimed) spend to see whether the Promoters are worth more to the store or not. The Net Promoter Score is punted as 'the **single** most reliable predictor of a company's growth' (www.netpromoter.com), so one would expect some of this growth to be driven by Promoters spending more at the store and being more valuable customers.

Looking at claimed spend at the store, Chart 6, overleaf, shows that Commitment is better at identifying valuable customers than just looking at Promoters or Non-promoters.

Chart 6: Classification of Promoters and Non-promoters using Commitment and showing customers' spend at a retail store



The analysis shows that 33% of Store I's customers are Promoters and classified as Committed. These customers have the highest share of spend and are worth the most to the store. However, we can also see that one in four customers are Promoters, yet are classified as Uncommitted. Looking at their share of spend and value to the store, they are less 'loyal' and less valuable. Similarly, 1 in 10 customers are **not** Promoters of the store, yet are Committed and have a higher share of spend and value to the store than the Uncommitted 'Promoters' even though they rate the store lower on the scale. Looking at Uncommitted customers, their share of spend at the store is the same, whether they are Promoters or not. Clearly, when looking at share of spend, the "recommend to a friend" question on its own does not have sufficient discriminating power to understand or explain customer relationships and behaviour fully.

Does ‘recommendation’ translate into a more positive image of a company or brand?

The underlying premise of the ‘Ultimate Question’ is that Promoters will spread positive word of mouth about a company or brand. This implies that Promoters should have a more positive image of the company or brand than Non-Promoters.

So, let’s look at how customers perceive a brand, depending on how they have rated it on the “recommend to a friend” question. Chart 7, below, shows the ratings of Store I on image attributes with customers who are Promoters and those who are **not** Promoters, but who are classified as Committed using the Conversion Model™. Committed customers who rate brand recommendation lower than Promoters still have higher image associations with the brand on important attributes. This is because the relationship with the brand is still stronger than with other brands.

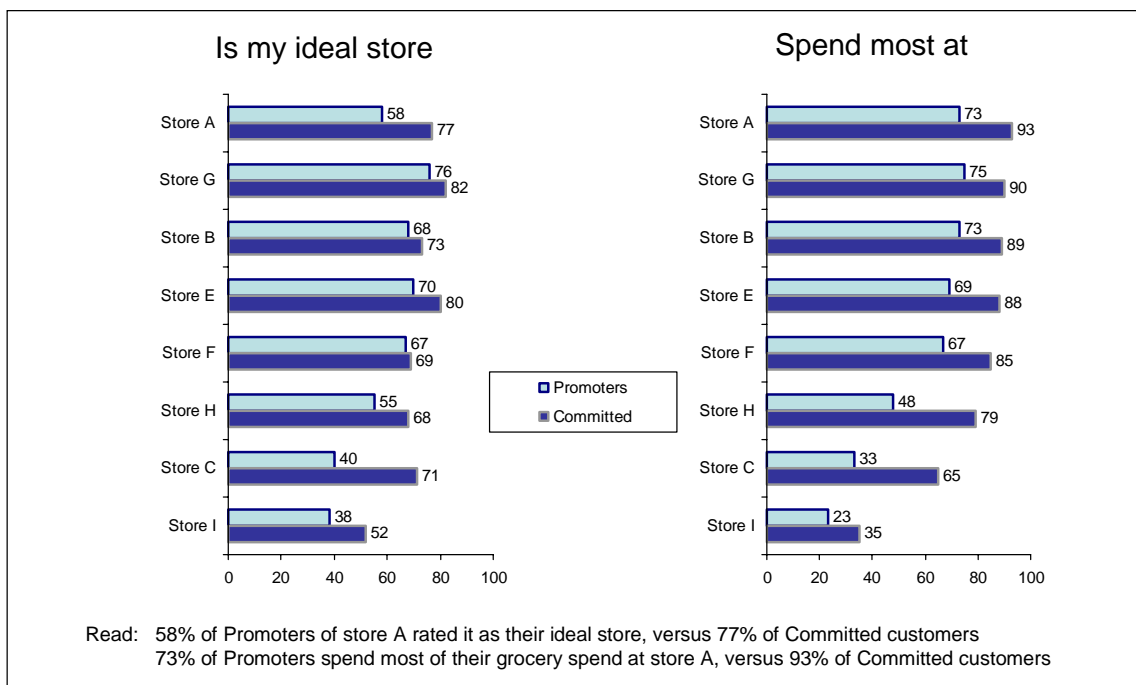
Chart 7: Image perceptions of a retail store, by customers classified as Promoters and as Non-promoters, but who are Committed



Interestingly, Promoters rated the store higher than Committed, Non-Promoters on attributes relating to price, promotions and convenient top-up shopping – attributes that do not speak to a deep relationship.

Chart 8, below, summarises key attitudinal and behavioural measures that should capture ‘true loyalty’ as described by Reichheld for the main brands in a retail store market. Commitment is a stronger measure at capturing the relationship

Chart 8: Analysis of Promoters versus Commitment for perceptions of ideal brand and store where most is spent

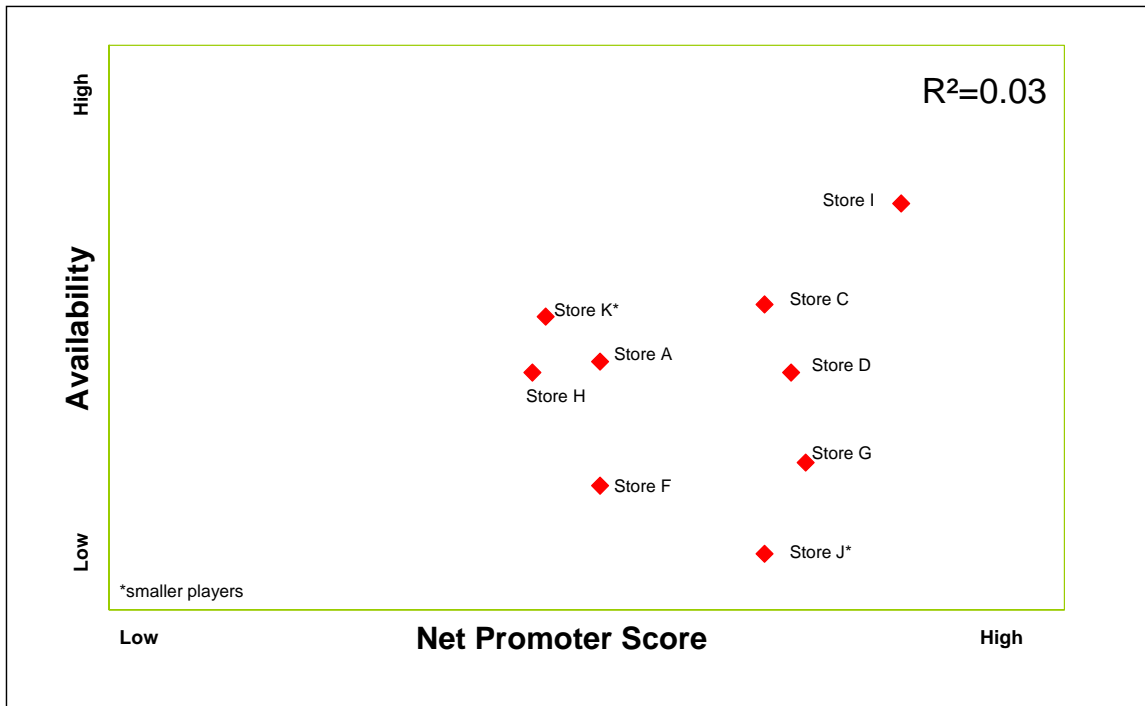


What about the claim that the NPS is the best predictor of growth?

Apart from increasing share of wallet and spend among current customers, a company or brand needs to attract new customers in order to grow. Given that the more Promoters a company has, the more recommendations they should give and the more the company or brand should gain new customers from these referrals. This is a central tenet of the Net Promoter Score. If this is correct, then we should expect to see a correlation between the NPS and non-customers who are available, or open to using the brand. The Conversion Model™ measures availability among non-users by looking at how favourably brands are rated, in relation to the strength of the current relationship with brands used. The measure has been extensively validated.

Chart 9, overleaf, shows that there is clearly no relationship between the NPS and potential in the market among non-customers, using the NPS and Conversion Model™ Availability measure for brands in the retail shopping market.

Chart 9: Correlation between the NPS and Availability of customers to retail brands



This analysis highlights another limitation of the NPS in that it only measures ratings of current customers of a company or brand and ignores the rest of the market. Reichheld himself levels this criticism at traditional customer satisfaction measures, citing a significant increase in the ACSI (American Customer Satisfaction Index) rating of K-Mart being accompanied by a sharp decline in sales and eventual bankruptcy (Reichheld, 2003). Reichheld, however, fails to acknowledge that this criticism is equally applicable to the NPS.

Table 3, overleaf, shows an example of the pitfalls of only looking at customers. In the table, Bank A shows commitment among customers staying constant in 2004 and rising in 2005 – everybody gets their bonuses and a pat on the back. But, in reality, Bank A is in serious trouble and is losing customers at a rapid rate. Why is this so? The answer is that Committed customers care about the relationship and are therefore likely to stick around longer and try to fix it when things go wrong. Uncommitted customers, on the other hand, are open to alternatives and may be actively looking for an opportunity to switch. The result is that as Uncommitted customers jump ship faster, commitment appears to increase, creating the false impression that everything is still going well. The same applies to customer satisfaction (or needs/values fit) ratings **and the NPS**.

Table 3: Decline of Bank A over time

	2003	2004	2005
	%	%	%
Commitment among users	65	65	69
Satisfaction score (top 2 box)	48	48	51
*Approximated NPS	30	34	31
Committed as % of banked pop.	3.8	3.5	3.3
Users as % of banked pop.	5.8	5.3	4.7

*Using 10-point satisfaction scale to calculate NPS = P - D

A more complete and realistic measure of brand relationships thus looks at both users and non-users of a brand to see who is at risk of defecting and who is potentially available to switch to the brand and who is not. It therefore avoids the pitfalls of just looking at customers and gives a truer reflection of the health of the brand in the market.

Conclusions:

- The “recommend to a friend” question is in fact measuring just one dimension of the customer relationship, namely needs/values fit.
- This measure on its own is insufficient to understand behaviour and is unreliable, even within a category, as demonstrated by inconsistencies in Net Promoter Scores and purchase behaviour and attitudes.
- The measure does not capture involvement with a brand, as claimed by Reichheld in explaining Promoters’ ‘true loyalty’ as going beyond repurchase behaviour and investing their personal reputation.
- The measure fails to take into account customers’ relationships with more than one brand or company and the extent to which these relationships will influence their ‘loyalty’.
- The measure fails to capture the potential commitment of customers who rate brands lower than 9 on the scale and therefore excludes a large proportion of valuable and ‘loyal’ customers.
- There is no evidence that the measure is indicative in any way of a brand’s attraction to non-customers. The ‘word of mouth’ value of recommendation as captured by the metric is not evident in having any impact on attraction of customers.
- The measure is limited in that it only focuses on customers and can be misleading. In order to fully understand a brand’s strength and potential in the market, a measure of the attraction of the brand or company to non-customers is essential, particularly where market or category changes could render a product or service obsolete or uncompetitive in a relatively short time period.

- The measure is inferior to a multi-dimensional measure of customer relationships in explaining purchase behaviour and attitudes towards a brand.
- While simple, the measure is simplistic and on its own is inadequate to explain customer relationships in a competitive environment fully.
- While this paper has not focused on the performance of the measure relative to company growth, it is evident from the limitations of the measure that it cannot claim to be the ‘Ultimate Question’ or the ‘best predictor of a company’s ability to grow’.

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