

Much Ado About Nothing

Comments on the Net Promoter Score (NPS) from a market research perspective

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In his book “The Ultimate Question” (2006), Fred Reichheld claims that customer loyalty can be validly quantified by asking a single question measuring the propensity to recommend a certain company. Furthermore, the author argues that the NPS (“Net Promoter Score”) that is calculated on the basis of the answers to this question is sufficient to derive how a company should properly treat its customers in order to assure long-term growth:

“We discovered the one question you can ask your customers that links so closely to their behaviors that it is a practical surrogate for what they will do. [...] Customer responses to this question yield a simple, straightforward measurement. This simple, easy-to-collect metric can make your employees accountable for treating customers right. [...] This question will determine the future of your business.” (Reichheld, 2006a, p.18)

This assertion is backed up by suitable case studies and an in-depth critique of what the author regards as “current satisfaction-survey methods” (Reichheld, 2006a, p. 78).

In this article we would like to query whether the criticisms expressed are appropriate and whether NPS delivers what it promises. The key issue here is whether one single question can actually revolutionise modern market research methods and replace every satisfaction survey.

Why the critique of market research misses its target

The critique of market research is the starting point for Reichheld’s argument, and it is for this reason that any appraisal of his theses must at least shortly tackle this aspect, too.

We can summarise our reply to these statements by saying that his arguments against satisfaction research mustered in the context of NPS...

- ...are either simply incorrect
(*“Gaming and manipulation wreck their credibility”*, p.91, or *“Too many surveys are marketing campaigns in disguise”*, p.83)
- ...or aimed at negative examples and antiquated methods
(*“Plain-vanilla solutions can’t meet companies’ unique needs”*, p.86, or *“Surveys confuse transactions with relationships”*, p.89)
- ...or exaggerate and generalise insignificant issues

- (*“Satisfaction surveys dissatisfy customers”*, p. 90)
- ...or articulate shortcomings which are in fact inherent in many surveys, but which NPS also fails to overcome
- (*“Employees don’t know how to take corrective action”*, p. 81)
- ...or discuss problems for which NPS is merely one of many conceivable solutions
- (*“There are no generally accepted standards”*, p.87)

The author largely replaced a critical analysis – which in fact might have been valuable – by polemic arguments seemingly leaving no need for soundly validating his statements (*“... here are the top ten reasons that satisfaction surveys are a joke”*; Reichheld, 2006a, p.78).

One could take great pleasure in criticising Reichheld’s assertions in more detail, since they are evidently based on consciously or unconsciously outdated knowledge of modern market research methods. But given the fact, that besides putting forward these statements the author himself does not go into sufficient detail, his statements might be wrong and annoying, but are only a collateral issue.

For the sake of a constructive discussion we would therefore like to focus our attention to the core question of the extent to which NPS actually – as promised – does full justice to the topic of customer loyalty.

Why NPS only superficially touches upon the topic of customer loyalty

Customer satisfaction or loyalty studies always have two objectives: on the one hand, the intention is to find an index that measures the current level of customer loyalty and maybe even quantifies how customer loyalty initiatives that have possibly been undertaken prior to the measurement have made an impact.

Yet on the other hand, the intention is also to ascertain the relevant drivers of customer loyalty. Figure 1 illustrates the five levels of analysis that build upon one another – from index measurement to the deduction of concrete recommendations for action. They reflect the targeted and structured process that is customary today, upon whose basis operational measures to optimise customer loyalty are ultimately deduced.

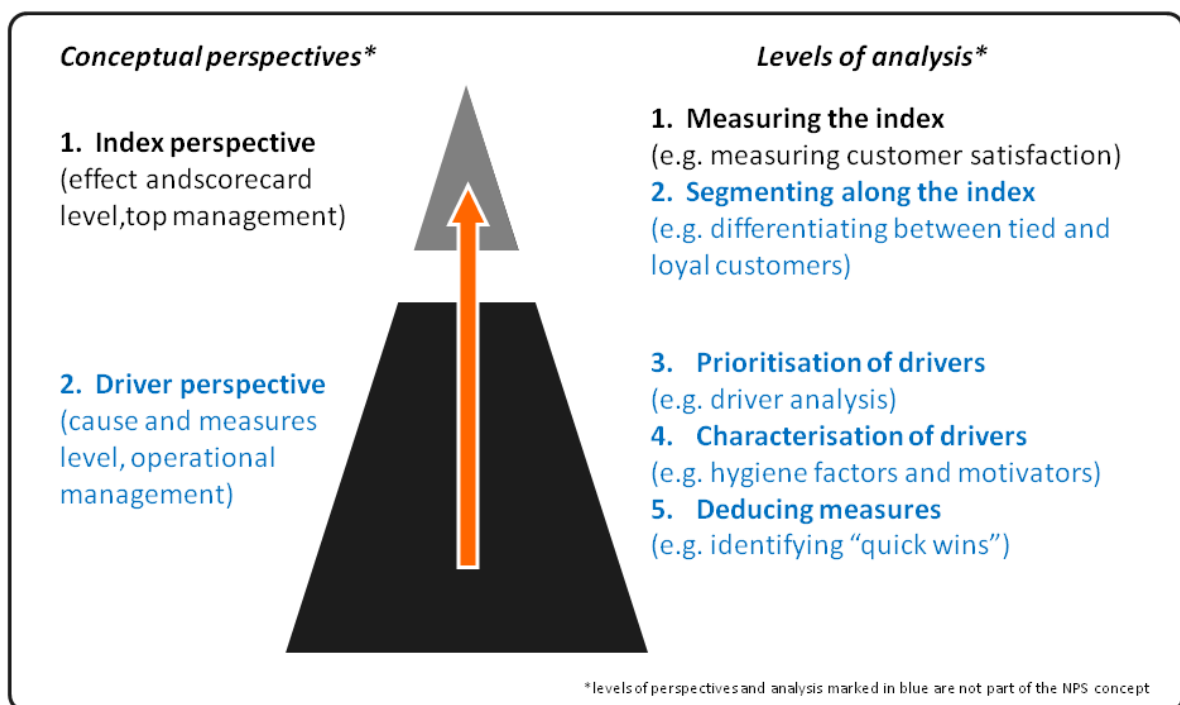


Figure 1: Classic structure of loyalty studies

NPS is solely focused on the index perspective, and in a merely one-dimensional manner. It is thus just as impossible to differentiate various types of loyalty as it is to analyse drivers and deduce concrete measures to increase the index value. In Reichheld's model, NPS is sufficient unto itself: *"NPS is to customer relationships what a company's net profit is to financial performance. It's the one number that matters [...]."* (Reichheld, 2006a, p.32)

It is our contention that the "fine art" of loyalty research does not lie in the definition of the index. We consider that somewhat secondary and pretty much arbitrary, since the relevant index questions typically intercorrelate to a great extent. When it comes to defining the index, the only thing that is crucial is that the weighting of the questions should remain constant throughout the data collection waves and that the index should thus assume the quality of an in-house "currency". The discussion about the precise calculation of the index is comparable to the "dance around the golden calf", and diverts attention from the actual issue. It often serves solely (as is the case here) to brand one's own tool and has nothing to do with trying to find the "true" or "best" index.

Thus good loyalty research differs from bad loyalty research not as a result of the proposed index, but by the fact that the links between cause (i.e. company performance on different dimensions) and effect (i.e. customer loyalty) are better understood.

The heated debate about NPS resembles a dispute about the correct unit of measurement when what actually matters is solving the problem of climate change: the question of whether it would be better to measure temperature in degrees Celsius or degrees Fahrenheit may be of interest, but it too would ignore the actual issue, namely the search for the causes of global warming.

The analysis of a causal relationship of this kind is not an integral part of the NPS concept. Reichheld fails to provide a structured illustration of how one can conduct driver analyses or deduce measures from the results of the survey. NPS leaves the responsible departmental head or manager clueless as to which concrete consequences should be drawn from a specific score.

By the way, a classic driver analysis based upon NPS is ultimately totally impossible too, since NPS is a corporate score that cannot be broken down into the individual respondents, even though this is something that would be indispensable for an analysis of the individual loyalty drivers. Nevertheless, if one regards "propensity to recommend" to be an index question superior to the "general satisfaction", one can use the individual values from the initial question regarding people's willingness to recommend before the individual answers are transformed into the NPS. With regard to this, our customer loyalty surveys have repeatedly demonstrated that it is a matter of virtual indifference whether driver analyses are conducted on the basis of willingness to recommend or general satisfaction with a company. Both options lead to structurally identical results (see Fig. 2).

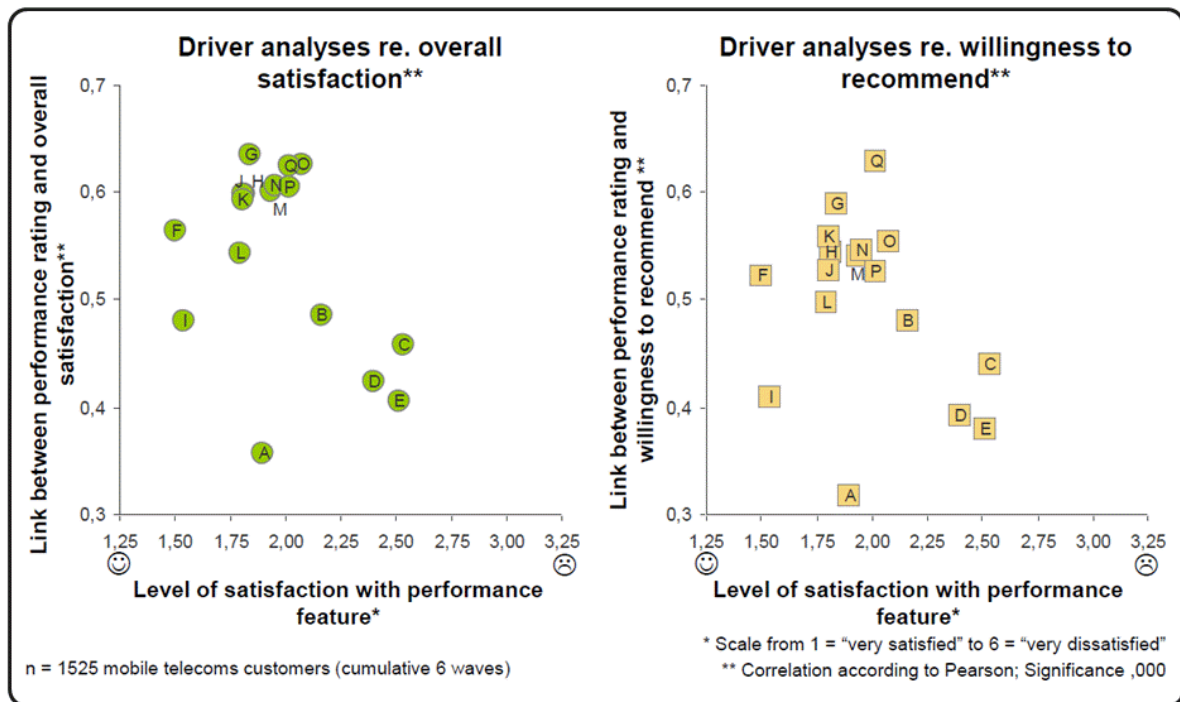


Figure 2: Driver analysis based on overall satisfaction in comparison to willingness to recommend

In summary, the discussion concerning NPS is doubly misleading: firstly, it is dealing with an aspect that possesses little relevance (debate about the “correct” index), and secondly this is totally ignoring the actual problem of analysing causes and prioritising measures. Reichheld himself remains disconcertingly vague in this context: *“If [customers] don’t want to recommend the company, staff should find out where the problem lies – and also do this in the form of direct conversations with customers who are willing to provide information.”* (Reichheld, 2006b, p.10).

Why the “ultimate question” cannot provide an ultimate index

Even if one accepts that the NPS concept totally disregards four out of five relevant levels of analysis, there are still two further issues to be considered: firstly, to what extent is NPS the best, i.e. most valid index in order to correctly predict customer behaviour and thus directly the success of a company too? And secondly, is NPS really so universally applicable (i.e. throughout all industry sectors and countries) as is claimed?

Which index is the best is not a matter of faith; instead, it can be determined in an appropriately scientific and empirical manner. If one wants to define an index that predicts customer behaviour in the best possible way, it has to be precisely optimised to this effect. And there is no alternative but to initially ask customers several questions and evaluate within the framework of a longitudinal study which (combination) of these questions best predicts the customer behaviour that can subsequently be observed.

Many such longitudinal studies have taught us two things: firstly, that no one single question is such a good predictor as a linear model consisting of three to five questions. And secondly, that such index models optimised via longitudinal studies include different questions with different weighting, depending on the industry sector for which they were calibrated.

Empirical data also provides a somewhat discouraging verdict with regard to Reichheld’s confident assertion that NPS can be equally deployed not only across all industry sectors, but is also equally valid in every country, and that therefore be interpreted

regardless of the respective culture: on the one hand, scales are used differently in different cultures, and on the other hand the scale values also have a totally different meaning in different cultures. This particularly applies to scales that possess more than six values.

For example, Schmolke (2007) could prove in an international study that the same scale value has a different psychological meaning in different countries: on a scale of one to ten¹, respondents in the USA would most frequently use a score of 9 (modal value) to express that they think something is “good”. On the same scale, people in China would tend to award an “8”, while in Malaysia they would be likelier to award a “7”. Moreover, the two extremely positive scores (9 and 10) that are exhaustively representing the group of “promoters” according to Reichheld’s concept would not be used at all in Malaysia.

In another case study presented by Schmolke (2007) the proportion of respondents who award scores of nine or ten on a ten-point scale was more than 20% in the USA and Russia, yet in contrast (virtually) zero percent in Poland and Norway (see Fig. 3).

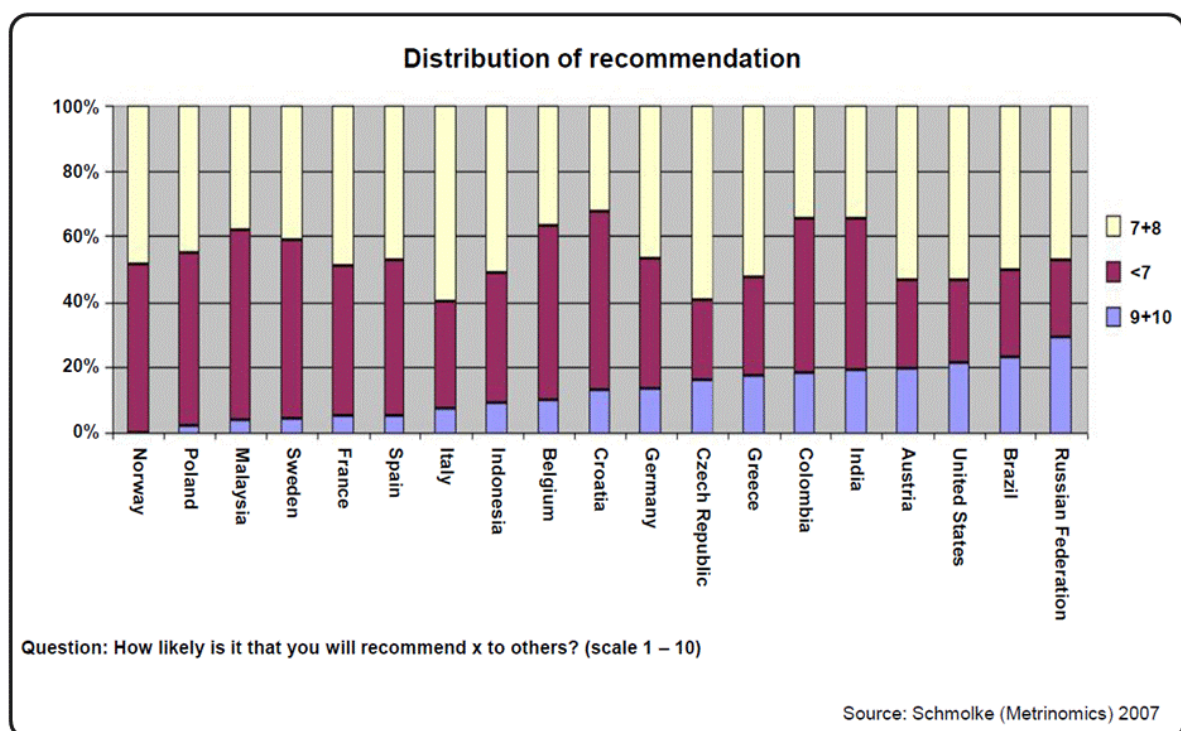


Figure 3: Cultural impact of using the same rating scale in different countries¹

Hence, the cultural influence critically impacts the absolute NPS scores. As such, it is impossible to validly compare Net Promoter Scores from different countries: instead, one has to use more wide-reaching research initiatives to either transform them to an internationally comparable level or compare them over a certain period with actual repurchase rates, to which they must subsequently be adjusted.

In summary, the NPS is an innovation in an area of customer loyalty research that actually required no further innovation. The construct it claims to measure is not embedded in a soundly based behaviour model or at least a validated construct, and the reduction to one question for all sectors and countries proved to entail a critical reduction in predictive power.

What one can nonetheless learn from NPS

¹ Schmolke (2007) did not employ the classical NPS 0-10 scale, but this is irrelevant in respect to the conclusions that are drawn here.

Besides all this, NPS has breathed new life into the topic of customer satisfaction and loyalty research. A customer loyalty index – although not sufficient alone – offers numerous advantages as a control parameter within companies, and Fred Reichheld has pointed this out emphatically and succeeded in attracting considerable attention:

“Business leaders need a hard, no-nonsense metric – an honest grading system – that tells them how they are really doing” (Reichheld, 2006a p.14).

We support this statement, yet for the above-mentioned reasons would like to point out that NPS does not constitute this hard, matter-of-fact metric, and other customer loyalty indices are often better at fulfilling this function

What is above all striking about NPS is its successful marketing: its own website (www.netpromoter.com), a special best-selling book (“The Ultimate Question”), numerous articles in specialist online and offline media, and not least of all active personal recommendation at the highest corporate levels have contributed to NPS being on everyone’s lips.

Moreover, the transparency with which NPS is calculated is exemplary, and definitely makes a contribution to the acceptance of the index. In this sense too, NPS is not ploughing a lonely furrow, even though there are countless indices whose calculation is kept a secret and which are marketed as an institute-specific USP.

Conclusion

In the case of NPS, there has been much ado about little content. The index fails to answer essential questions and to some extent even contradicts empirical facts. While NPS represents only a minor sub-division of customer loyalty research, driver analysis is ignored as the true skill in this research area.

NPS lacks validity as an indicator to measure customer loyalty, which cannot be reliably measured by using one single (and ever constant) question. Furthermore, sector-specific and culture-specific differences when responding to and evaluating scales demand a more differentiated approach. One can generally wonder what particular benefit there is meant to be in asking just one question (and not, for example, three). Obviously, the actual (marketing) argument in favour of NPS lies in its radical simplification, which happens at the expense of the validity of the index. In this respect, the search for the ultimate question is like a journey into a one-dimensional world. Yet this is not the world in which we live.

Intelligent, tailor-made market research studies are needed to discover the causes of (and background to) customer loyalty and deduce concrete recommendations for action. The challenge in these studies lies in getting closer to the customer, becoming more familiar with their needs and attitudes – without thereby having to ask even more (and too many) questions. The focus of any investigation should therefore be the customer, and not the index that has been constructed from their responses.

Even if conventional methods still make insufficiently precise predictions and meaningful longitudinal analyses are still too rarely applied, an “ultimate” question is of little assistance in the search for what underlies behaviour and the customer’s intentions. This is because it not only ignores the issue, but also goes in the wrong direction from a conceptual point of view.

Literature:

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