



NPS from the Market Research Perspective

or

Much Ado About Nothing – A Commentary in Four Acts

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NPS has well and truly breathed new life into the topic of customer satisfaction and customer retention research...

Act I: Why we need to take account of NPS

- It's simple to apply
- It's rapidly accessible
- Anyone can easily calculate/predict it (not a “black box” index)
- The empirical relevance of recommendations has been proven
- And not least of all: up until now, the best marketing of a market research tool!

...yet one has to question whether there's much ado about little content

Act II: Why NPS misses the point when it comes to customer retention

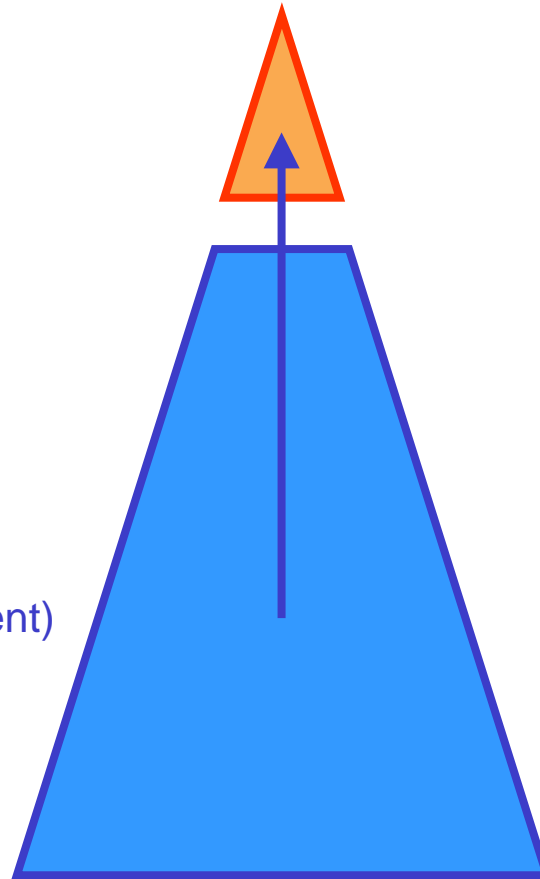
- The index itself is the sole issue – the consistently twofold objectives of customer retention analyses are not ascertained
- The methodological concept ignores the fine art of customer retention analysis - from driver analyses right through to the deduction of appropriate measures. Furthermore, a driver analysis based on NPS is impossible (no individual values), and driver analyses based on people's willingness to recommend lead to structurally identical results
- An analogy: an argument about whether it would be better to measure temperature in degrees Celsius or degrees Fahrenheit may be of interest, yet it ignores the actual problem, namely the search for the causes of global warming
- One thus has to ask whether NPS might not be solving a problem that has hitherto not really bothered anyone – improved customer retention analysis is not distinguished by a different index, but by a better understanding of the links between cause and effect

Customer satisfaction or retention studies always possess two levels of observation with accompanying analyses

Classic structure

1. Index level
(effect and scorecard level, top management)

2. Driver level
(cause and measures level, operational management)



1. Ascertaining the index
(e.g. measuring customer retention)

2. Segmenting the index (e.g. differentiating between tied and loyal customers)

3. Prioritisation of drivers
(e.g. driver analysis)

4. Characterisation of drivers
(e.g. hygiene factors and motivators)

5. Deducing measures
(e.g. identifying “quick wins”)

At the index level, NPS solely devotes itself to ascertaining the index

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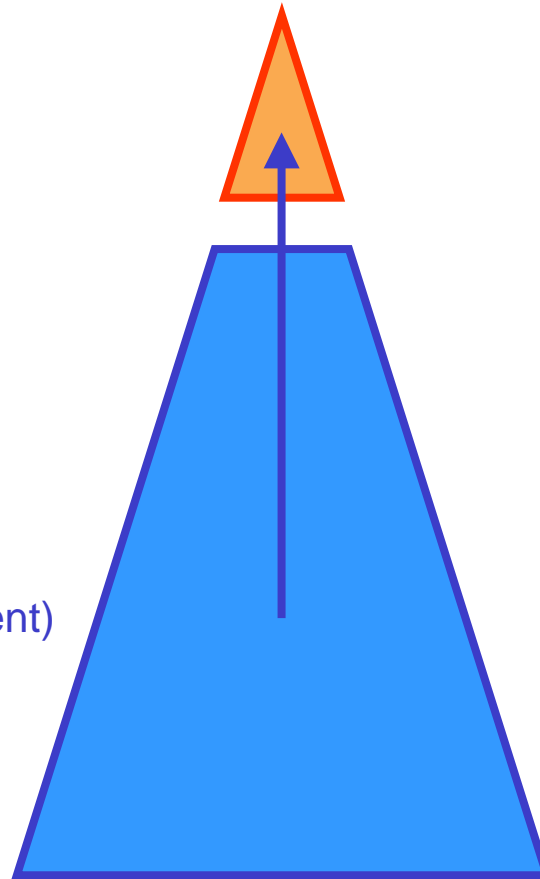
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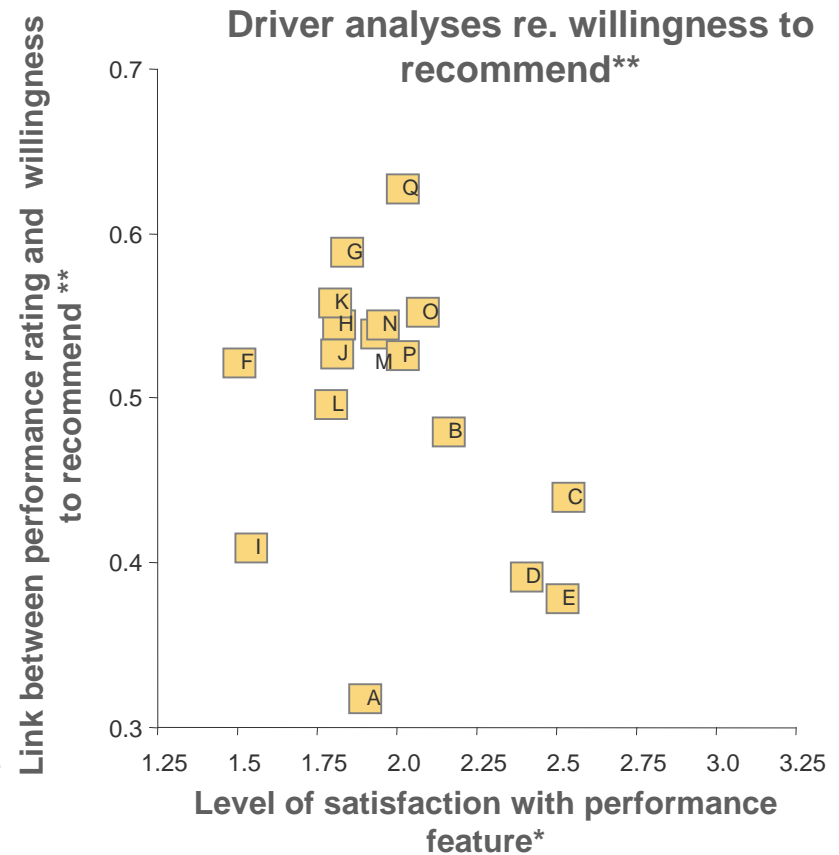
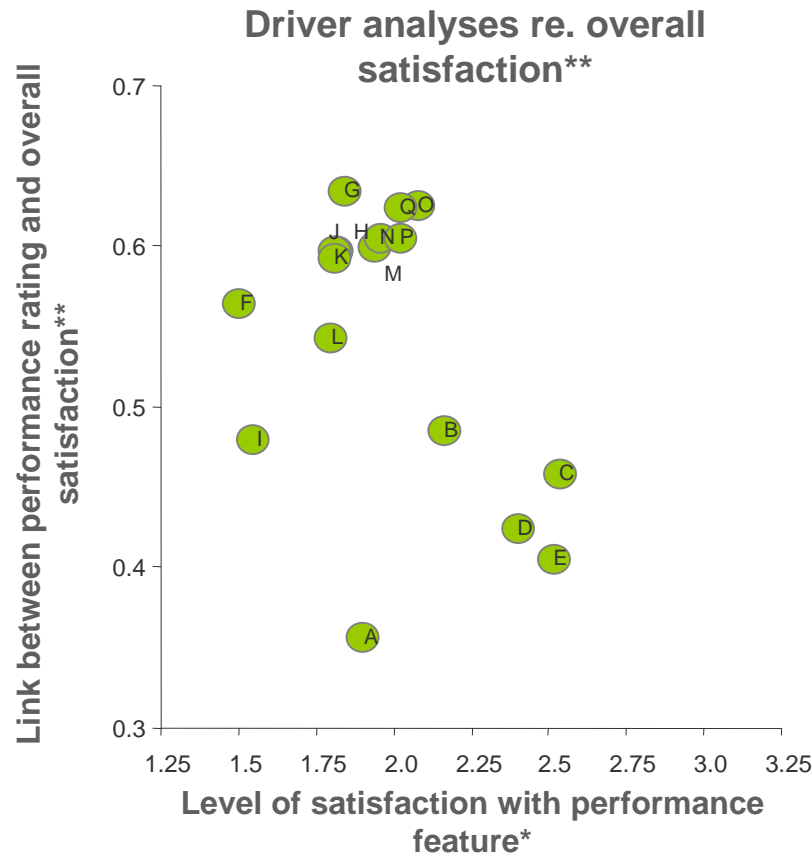
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Whether it be recommendation or satisfaction - in both cases, the result of driver analysis is structurally identical



n = 1525 mobile telecoms customers (cumulative 6 waves)

* Scale from 1 = "very satisfied" to 6 = "very dissatisfied"

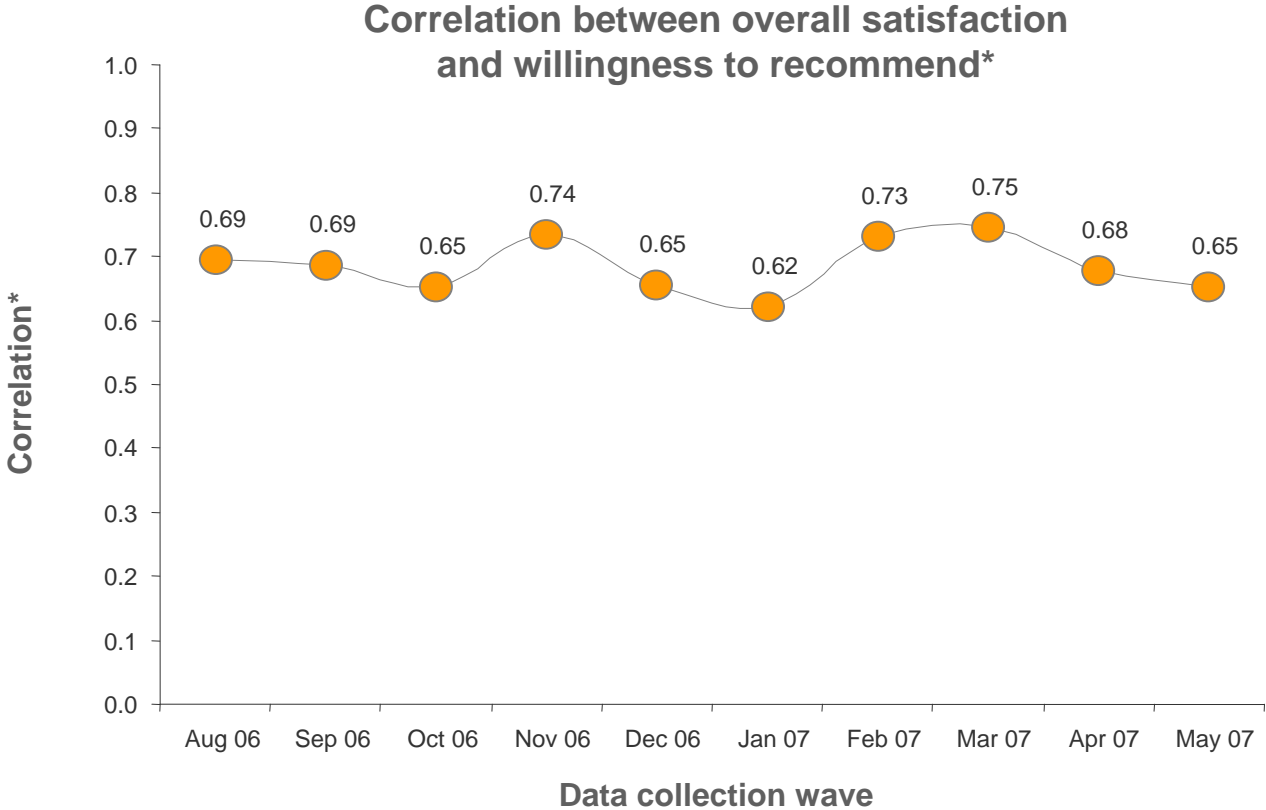
** Correlation according to Pearson; Significance ,000

Because the search is unnecessarily restricted to just one (and always the same) question, information that's critical for success gets lost

Act III: Why even the “ultimate question” cannot provide the ultimate index

- The difference between satisfaction and the willingness to recommend is empirically minor; both parameters have a very high correlation (why, at least, do people not use “actual recommendation behaviour” as a basis?)
- Logically speaking, the truly “ultimate” index can only be ascertained in longitudinal studies, because only in this way can the index be calibrated in line with actually observable behaviour
- Our own experience of such longitudinal studies tells us the following:
 - No one question is such a good predictor as a linear model comprising 3-5 questions
→ So why does it have to be one question?
 - In no sector are these questions or their optimal weighting identical
→ So why does it always have to be the same question?
 - The quality of a predictor depends upon the phase of the customer lifecycle
→ There is genuine potential for innovation in dynamic customer retention approaches, not in making static cross-section studies simpler

Over time, overall satisfaction correlates at a constantly high level with the willingness to recommend

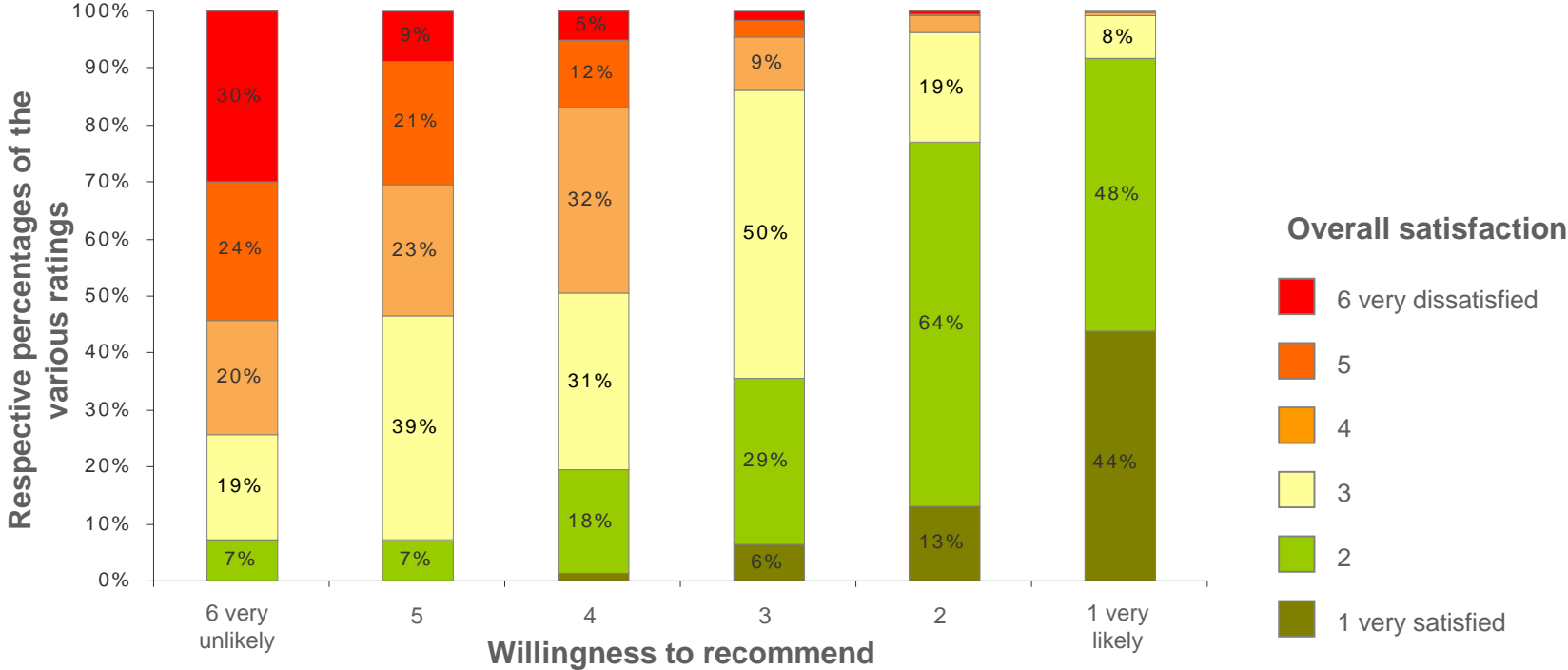


n = 207 - 302 mobile telecoms customers per wave

* Correlation according to Pearson; Significance ,000

The distribution of overall satisfaction as a function of willingness to recommend makes the link clear

Distribution of overall satisfaction ratings as a function of willingness to recommend



n = 1525 mobile telecoms customers (cumulative 6 waves)

NPS still needs clear further development with regard to construct validity and depth of analysis, i.e. empirically and conceptionally

Act IV: NPS is an interesting start, but it's nothing more than that

- NPS is the best case study and a benchmark when it comes to marketing a market research product, yet NPS is an innovation in an area of customer satisfaction research that in actual fact required no further innovation
- The main criticism is that NPS constitutes an unnecessary simplification at the expense of meaningful customer retention studies, yet at the same time it claims to be the “ultimate” solution. The construct it professes to measure is not embedded in a sound behaviour model, and the reduction to one question for all sectors is accompanied by a demonstrable reduction in predictive power
- Instead, the current trend with customer retention analyses is in the direction of more sophisticated data collection designs, and thus away from traditional analyses based upon cross-sections (such as NPS) towards far more meaningful longitudinal analyses
- A simple study could be an initial step towards a more in-depth discussion of construct validity: within the framework of experimental research, the intention to recommend (and thus NPS) can be influenced via small vs. larger “giveaways”, e.g. when making a travel booking. The validity of NPS stands or falls in accordance with the extent to which this increase also proves to be stably accompanied in the long term by higher customer retention (e.g. when booking one's next summer holiday)

Many thanks for your interest and attention!

I'm at your disposal should you have any further questions!



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