

Is Net Promoter the best measure?

There is a lively debate about the use of Net Promoter®¹ and other measures such as customer satisfaction, in particular which measures correlate best with business performance. In this article one of Mulberry House Consulting's (MHC) own customers, Federico Cesconi of Cablecom Switzerland, and Alvin Jackson of MHC present some views on the value and use of Net Promoter.

Let us start with a point we can all agree on. If a customer is loyal to your brand, then you can get a bigger share of their wallet. In turn those increased revenues improve business performance and contribute to future growth. Increasingly companies now talk about measuring Customer Lifetime Value (**CLV**), which we calculate in the following equation:-

$$\text{CLV} = m/(r/1+i-r) \text{ where,}$$

m = margin

r = retention rate

i = discount rate (cost of capital)

(This is not the only way to calculate the CLV, however in every CLV equation at least the 3 variables m, r, i are considered)

By improving the value r in the equation, the overall CLV will improve. If you are able to increase the CLV of a large proportion of your customer base, then the total CLV, otherwise called Customer Equity, will increase. If we regard CLV as representing the sum of future cash inflows of the customer base, if you improve CLV you increase the growth of your company.

There is a good deal of literature that talks about the Word of Mouth effect and its influence on CLV. Certainly positive word of mouth (which can be measured using Net Promoter, can be a reliable predictor of future growth. At **Cablecom** a large portion of sales come through the "**Member Get Member**" (MGM) channel. Not only does MGM deliver new customers, but customers brought in by MGM are more generally loyal than customers brought in by other sales channels. Relating this back to CLV and we can say that CLV of MGM customers is higher compared to customers that come from other sales channels. Positive word of mouth brings more value to the firm.

How well does Net Promoter (NPS) correlate to business growth?

NPS is a simple measure and one that organisations are finding easy to get behind. But how confident are we that it is correlated to the growth of a Company? Let's go step by step and consider some of the popular questions.

1) There is no evidence that NPS is the single best customer feedback metric?

NPS is just one metric and we would not always advocate just one metric. Other metrics should be taken into consideration. For example, CLV can be combined with NPS in order to get a better understanding of the growth correlation.

¹ Net Promoter is a registered trademark of Satmetrix Systems Inc, Bain & Co and Fred Reichheld

Cablecom have correlated NPS with CLV and developed a matrix that allows them to segment the customer database across those 2 dimensions. What they discovered was:

- a) Customers with a high NPS spend more with the company
- b) In the high CLV segment there are more promoters than in the low CLV segments
- c) Customers with high NPS tend to churn less than the others, which also explains their higher CLV.

The data and the analysis paints a simple picture – drive up the number of promoters and you will improve your business.

2) NPS is too simple or simplistic

We like simple measures but not for their own sake. But the value of Net Promoter is not only the 0-10 scale. It is also the 'open-ended' question. We ask the second question in this way:

- For those scoring 9 and 10 – “what is the single most important thing that makes you likely to recommend us?”
- For those scoring 7 and 8 – “what is single most important thing that we could do that would make you more likely to recommend us?”
- For those scoring 0 to 6 – “what is the single most important thing that makes you currently unlikely to recommend us?”

The combination of the score and the qualitative responses and the use of text mining algorithms enables a sophisticated approach to the analysis. On the one hand, you are able to segment your customer base on the dimension of future behaviour (Will you recommend us to a friend in the future?). On the other hand, you can begin to enhance the customer experience you offer by acting on the customer feedback. You can:

- understand the main drivers of satisfaction or dissatisfaction and improve your operations
- open a one-to-one dialogue with your customers
- identify advocates and use them to grow your business

3) What about customer satisfaction?

At Cablecom they always ask the two questions together: first satisfaction, second NPS. They have collected more than 15,000 answers from customers in different months between 2005 and 2007. In a correlation of the two variables based on a significant sample of 10,000, there is a strong positive correlation between satisfaction and NPS ($r = 0.5$). But satisfaction is a lag indicator of satisfaction with a process or a transaction, whereas Net Promoter is a lead indicator of future customer behaviour and loyalty.

Nor should NPS be used to replace traditional market research, which uses inferential statistics to try to infer from the sample data what the population might think. NPS does not try to infer from the sample to the whole population - or at least we don't recommend it be used that way. But if used as part of an overall feedback process, NPS detects the drivers of dissatisfaction or satisfaction at a particular moment of the customer journey and helps you to act upon those drivers.

Cablecom have adapted the NPS questions to specific touchpoints within the customer journey. They survey 7 different touchpoints and one specific milestone in the customer life cycle; every questionnaire is different and includes, on average, 6 questions, of which 2 questions are open ended.

4) What about the analysts and investors?

On the whole, financial analysts and investors are not interested in NPS or any other loyalty metrics. They are interested in financial performance and quarterly results. And this perspective leads business leaders to focus on the same issues – functions and finance.

When a customer goes through a transaction with a firm he thinks emotionally. The customer has a more soft approach strongly influenced by emotions and perceptions. Management is usually focused on what we might call the 6 Sigma approach - the speed and accuracy of the process and the quality defined in a technical sense. Customers are much more likely to be focused on how they are treated, how they are dealt with and ultimately, how they are made to feel. The fact that a customer has selected your product already shows a loyalty to your brand. There is already a positive emotional association with the brand. If we believe that loyalty causes growth then the analysts had better start paying attention – and begin to take a slightly longer view.

Some concluding thoughts

- 1) Remember that loyalty metrics themselves do not cause growth – they are only an indicator. Just like the tyre pressure gauge and can show you have a flat – but it will not tell you why. But loyalty does cause growth, and the CLV equation can prove it.
- 2) Keep the survey as short as possible, but not too short: Do not try to abandon your existing market research and use a different questionnaire for the NPS. It is not necessary to use just one question for NPS. You can collect 5-8 answers and one or two open ended questions. If you find out who are your promoters and detractors you will be able to start making a difference.
- 3) If you do decide to use NPS, be sure to collect the customer feedback and use it. There you will find the real source of benefits for your operations. Use text mining tools to analyze the drivers and deploy the solutions in your operations.
- 4) Make sure that your use of NPS fits your organisation and make it your own Align the organisation to the new metric and set up specific processes at the different customer touchpoints.
- 5) Decide where is the trade off between short term financial goals and long term customer centric objectives. Senior management should be consistent with the message it sends out to the organization: short term, quarterly, financial goals, or long term customer centric objectives? You cannot simply pursue both.
- 6) Be ready to evolve: improving the customer journey and increasing loyalty is long-term game and will need adjustments over time.

Is there one 'ultimate metric' that will effectively measure customer loyalty for all businesses?

We say yes, but remember that it is a just a metric. The metric itself is just an indicator. The indicator will not tell you what the sources of the loyalty drivers are. It will not transform your processes to become more customer centric. What is important is to listen to customers, to act on their feedback and to monitor the resulting change in the NPS score. Communicate to the organisation and to customers what you are doing, and why and start to build a loyal base of advocates who will help to underpin and drive future growth.