



The Net Promoter Controversy

Moving beyond Net Promoter
Measurement in Customer
Satisfaction Research



Research Articles from
Redshift Research



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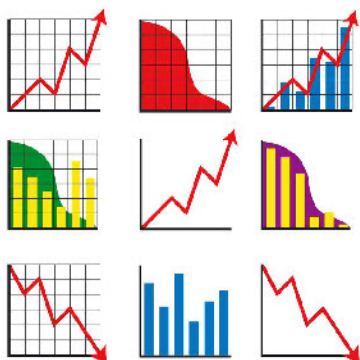
Net Promoters

In a 2003 Fred Reichheld claimed in the Harvard Business Review that the Net Promoter Score (NPS) was “the single most reliable indicator of a company’s ability to grow”. Since then it’s been used by a whole host of organisations whose executives appreciated the idea that a single number could provide such an accurate assessment of the overall status of their company. And, it’s not difficult to understand why. Busy executives like the simplicity and focus that a single metric can provide as it’s:

- easy to digest
- report on
- provides a direct measure of the effectiveness of company initiatives

Single metrics are also a great antidote for the information and data overload that market research agencies, such as ourselves, have been traditionally been guilty of creating. Busy people want a direct answer to what should be a simple question..”How is my company doing...?”

So, it’s easy to understand why the net promoter score has been so successful but, is it really an accurate reflection of a company’s performance and its ability to grow revenues? Recent research (see article in the appendix) suggests it isn’t but, in all honesty, we Researchers are a bit like Economists - we rarely agree on anything!



Limits of a single metric approach

At the end of the day it’s probably impossible to say who’s right and who’s wrong but, as ever, common sense is a great leveller and the enthusiasm with which Net Promoter has been greeted should be a wakeup call for research agencies.

- Market Research companies need to understand that executives want a single metric they can use to assess how well the business is performing (although, it needs to be the right number!)
- In reality the Net Endorser concept is probably overly simplistic for complex Business to Business (B2B) markets and expecting a single question to accurately reflect how well a business is performing is asking a lot.

An Alternative Single Metric Approach

We’re not, for one minute, suggesting that companies should stop asking the key NPS question “How likely would you be to recommend Company X”. Like many other research agencies we have been using a question of this type for years and it is a very important indicator of how a company is performing. However, in B2B markets it’s unlikely to tell the whole story and we suggest focusing on three additional measures but have developed an approach that wraps them up into one single score at the end – a sort of Company Health Check index.

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Challenges Associated with Single Metric Data

Single metric analysis can work well for “commodity” driven companies that benefit from relatively straightforward purchasing models within their target markets, e.g. eBay, Costco, Amazon, Wal-Mart and American Express. However, for organisations primarily associated with B2B markets where:

- Product and service are closely interlinked
- Purchases are made infrequently
- Users can be “locked in” (e.g. software licences or corporate policy)
- Comparisons are hard to make due to lack of experience

Then there is a real danger that single metric analysis will fail to paint the whole picture or worse still lull companies into a false sense of security. It’s also fair to say that a one-dimensional score fails to provide the detail that companies need to identify problem areas and improve performance - the ultimate aim.

The Three Other Measures

Likely Business Retention Levels

In some markets, Software for example, the value of a company is heavily determined by the size of its installed base and the associated level of recurring Service revenues. Net Promoter scores won’t necessarily reflect business retention levels as although people might be recommending you like crazy other factors might be eroding the installed base. Continuing with the software analogy: levels of recommendation might be high but, if corporate policy dictates a shift to just one solution throughout the organisation then there’s little even a happy user can do.

This isn’t just a theoretical example - over the years companies such as SAP have benefited significantly as Finance Directors look to insist on a single solution across a group and it’s always a real issue during Mergers and Acquisitions (M&A). Of course word of mouth recommendations and the resulting levels of new business might negate the impact that corporate policy and M&A activity have on business retention levels but the Net Promoter score won’t necessarily reflect the real position of the business.



Satisfaction Levels (the early warning indicator)

Although satisfaction levels should ultimately be reflected in the Net Promoter Score (NPS) – less people will recommend you if they aren’t satisfied - our experience in B2B markets suggests that the actual NPS score usually lags behind changes in satisfaction. Intuitively this makes sense. The decision to recommend or otherwise is invariably based on personal experiences with the company i.e. the more satisfied you are the more likely you are to recommend and so on. No surprises here. However, the critical point is that changes in satisfaction tend to come before changes in the propensity to recommend. So, by measuring satisfaction directly you can identify changes more quickly and accurately and potentially identify a challenge before it becomes a problem.

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Net Brand Strength

At Redshift we use Net Brand Strength to measure the extent to which people: identify with, are attached to or are committed to a “brand” (in this case were using brand to refer to the company, its products and its people). OK so this sounds like something out of a marketing text book but brand strength really does make a difference.

- Our studies show that there is a direct relationship between Net Brand Strength and the price that companies can charge for their goods and services i.e. companies with strong brands are able to command comparatively higher prices and yet still retain market share.
- Companies with stronger brands are far more likely to be: talked about, sought after or recommended so changes in brand strength will have a direct impact on measures such as endorsement.
- In B2B markets supplier selection and risk reduction are close bed fellows. People always used to say that “you never got fired for buying IBM” and while this might be dated companies and business decision makers are generally risk averse. Net Brand Strength is an excellent measure of the perceived risk associated with a purchase and the stronger the brand the lower the barriers to the purchase.

The above might be something of a truism but the critical point is that just as changes in satisfaction tend to pre-empt changes in recommendation so do changes in brand strength for the reasons cited. So, we recommend clients measure net brand strength to identify changes and challenges as soon as possible.

Pulling it All Together – “Company Health Check Index”

In view of our experiences in B2B markets and clients’ enthusiasm for single number analysis we have developed something we’re calling a “Company Health Check index”. It provides a single metric score using the same methodology as that used to calculate the Net Promoter index but uses 3 additional measures to provide what we believe to be a better “Health Check” i.e.

1. Endorsement Levels (Equivalent to NPS)
2. Satisfaction Levels
3. Likely Business Retention levels
4. Net Brand Strength

Unfortunately we can’t achieve all of this with just the one question – we have to use four - but, hopefully it ticks all of the boxes:

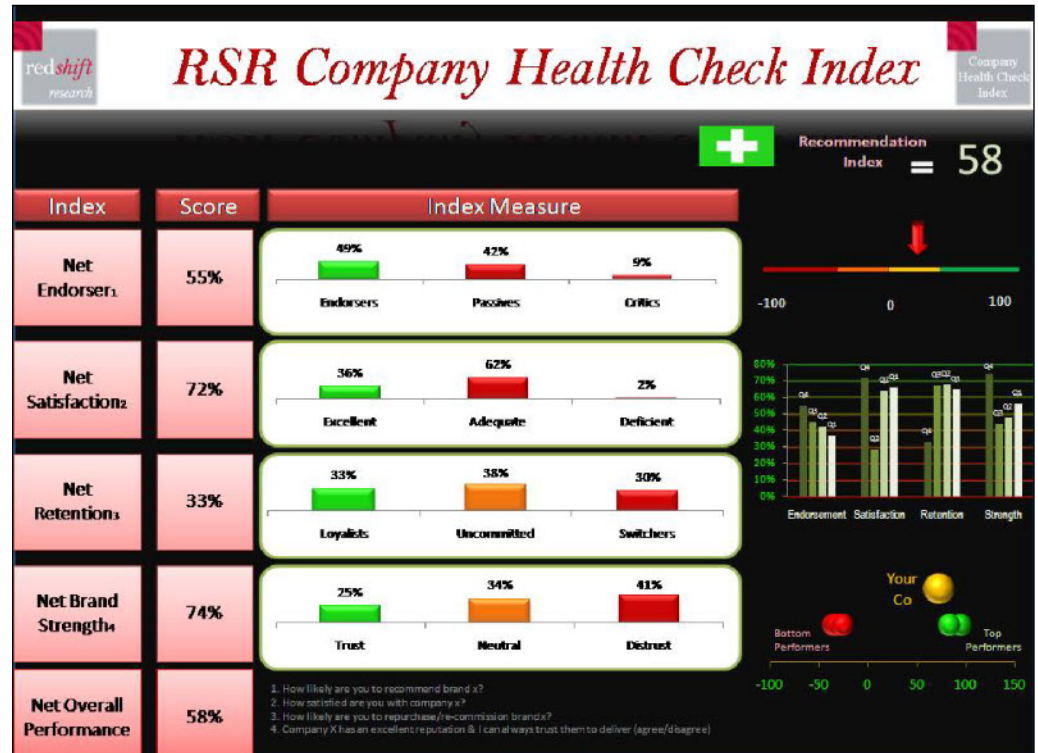
- You still have a question and a resulting figure that is directly comparable to the Net Promoter Score (NPS) as we’re using the same methodology but calling it the Net Endorser Score
- You have an understanding of the levels of: satisfaction, business retention and brand strength that invariably change before the NPS
- You can still focus the business on a single number but one that’s based on these four critical measures

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What Does the Company Health Check Index Look Like?

Given the enthusiasm for keeping things simple, single number indicators and Executive “Dashboards” showing Key Performance Indicators (KPI’s) we have designed something which does everything on a single slide. As you can see there’s a Net Endorser score for direct comparison with NPS, individual scores for: Satisfaction, Retention and Brand Strength and an overall Health Check Index based on an aggregation of all four.



Comparing Results to Real Business KPIs

Although our Company Health Check Index has been designed to work on a standalone basis it can also be used in conjunction with other KPI data that companies might collect and measure:

- Value of sales pipeline
- Number of business enquiries received
- Sales conversion rates
- Quarterly revenue totals
- Customer queries and complaints received
- Quarterly profits etc.

More Information

For more information see our website www.redshiftresearch.co.uk





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