Net Promoter Score-A Metrics Must for Marketers

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Abstract

Net Promoter Score (NPS) is a customer loyalty metric developed by Frederick R. Reichheld , Bain & Company, and Satmetrix. Customers are surveyed and asked on an eleven-point scale (0 to10), that how likely they are to going to recommend the company or brand to a friend or colleague. NPS has been widely adopted. More than two thirds of Fortune 1000 companies are using the metric. It's having lot of advantages like adaptability, ease of use, Simplicity and quick follow up. Although the Net Promoter Score has received lot of attention and fairly rapid adoption, it has also controversy from academic and market research circles. Customer-related measurements have a long history, and each has its partisans. But I think no other method has as many advantages as the Net Promoter System is having. So Net Promoter Score is a metrics must for marketers.

Key Words: Promoter, Passive, Detractor, Score, Loyalty

Introduction

A customer loyalty metric developed by Frederick R. Reichheld , Bain & Company, and Satmetrix is known as Net Promoter Score (NPS). Reichheld has mentioned about NPS in his article "One Number You Need to Grow" published Harvard Business Review in 2003. Brand Loyalty and Customer Satisfaction can be estimated using NPS. Customers are surveyed and asked on an eleven-point scale that how likely they are going to recommend the company or brand to a colleague or friend. NPS is a management tool that can be used to

gauge the loyalty of a firm's customer relationships. It helps as an additional tool to traditional customer satisfaction research. Net promoter is a measure of the degree to which current customers will recommend a product, service, or company to others. More than two thirds of Fortune 1000 companies are using NPS metric. Companies that use Net Promoter Score include Apple, American Express, GE and many more. Customers are categorised in to three category on the basis of their response to this single question .They are:

■ Customers who are willing to recommend the company to others (rating of 9 or 10) are considered to be Promoters.

■ Customers who are satisfied but unenthusiastic customers (ratings of 7 or 8) are considered to be Passives.

 ■ Customers who are not willing to recommend the company to others (ratings of 0 to 6) are considered as Detractors.

The Net Promoter Score (NPS) is estimated by subtracting the percentage of detractors from the percentage of promoters.Net Promoter Score (I) = Percentage of Promoters (%) – Percentage of Detractors (%).The Net Promoter Score is an index ranging from -100 to +100. NPS is -100 if all the customers are detractors and +100 if all the customers are promoters. If Net Promoter Score is positive than it is considered to be good and if it is +50, than it is excellent.

For example if a company's customers reports says that there were 40% promoters, 50% passives, and 10% detractors, then the company have a Net Promoter Score of 40–10 =30.

Advantages

Companies have developed different methods for estimating the attitudes and behaviour of their customers over the years. None of these methods is perfect. All Companies

simply attempting to collect data that a company can use to improve its products and processes. We believe that Net Promoter Score is very practical and useful method. It's having following advantages:

- **Adaptability**: As an open-source method, no vendors or statisticians are required. NPS can be easily applied to work in a wide variety of business settings. NPS is being used by American Express after important servicing calls. It's being used by Apple in its retail stores. Logitech uses NPS to assess customers thinking about every Logitech product.

- **Ease of use**: A company can conduct its NPS surveys conveniently by e-mail, phone or through website whichever generates the best response rates and the most useful data. It can compile and send the scores immediately so that people can see the results of their performance in a timely manner.

- **Simplicity:** As NPS surveys generally asks one question, the burden on the customer for giving response is low. Moreover, the key "likelihood to recommend" question is scored on a simple 0 to 10 scale. No complex indices or correlation coefficients are to be calculated here. The Net Promoter Score is a single number that should be tracked regularly just like net profit.

- **Quick follow-up**: The practitioners usually share customer feedback very quickly after it is received by them. They quickly ask managers or frontline employees to contact every customer who gives unfavourable score (a detractor) to identify the customer's concerns and to resolve   the issue whenever possible. NPS data is used by senior leaders and frontline managers to inform decisions about innovations, new products and process change.

Criticism of NPS

Net Promoter Score has attracted controversy from academic and market research circles. The defining feature of NPS is that it is constructed from responses to a question

about willingness to recommend and the net measure found by subtracting the fraction unwilling to recommend (Detractors) from the fraction willing to recommend (Promoters) and leaving out those in the middle (Passives).

The same Net Promoter Score can indicate different business situations. For example, a Net Promoter Score of zero can indicate highly diverged customers, 50% promoters, 50% detractors, or a totally uncertain customer base, 100% passives. Calculating the Net Promoter Score may be an innovative way of starting a discussion about customer perceptions about the brand. Managers must drill down to the data to understand the precise situation their business faces, as NPS is   an average of current customers' responses,

Net Promoter Score in specific situations can generate results that could deceive a manager who is not being cautious. For example, consider a company whose current customers are 40% promoters, 40% detractors, and 20% passives. The NPS is 40%-40%=0 for this company.

Suppose a new competitor snips half (50%) of the company's detractors. As these detractors immediately becomes the customer to the new competitor, they cease to be customers of the existing company. Thus the NPS has to be again measured in the following way.

Promoters are now 40% / (100% – 20% = 80%) = 50.00 % of the customers that remain. Passives are now 20% / (100% – 20% = 80%) = 25.00% of the customers that remain.

Detractors are now only (40% – 20% = 20%) / (100% – 20% = 80%) = 25.00% of the customers that remain.

The NPS is now 50.00% – 25.00% = + 25.

The defection of the most vulnerable and unhappy customers led directly to an increase in NPS. Managers should make sure that they fully understand what has happened.A high Net Promoter Score is generally necessary. The easiest way to have a high Net Promoter Score is to offer a product of high free to customers. Then they will be happy to recommend the brand or company? There may be a strategic reasons for situations like this to be acceptable to the company in the short or medium term but this won't be a viable in a long run.

Keiningham, Cooil, Andreassen and Aksoy are in a disagreement that the Net Promoter Score is the best predictor of company growth. It's claimed by Hayes (2008) that there was no scientific evidence that the "likelihood to recommend" question is a better predictor of business growth than other customer-loyalty questions. Specifically, It was stated by Hayes, that the "likelihood to recommend" question does not measure anything different from other conventional loyalty-related questions. The metrics discussed in this study performs well in predicting current company performance. It is found that out of four scales tested by Daniel Schneider, Matt Berent, et al., the 11-point scale advocated by Reichheld had the lowest predictive validity. A single item question is much more volatile and less reliable than a composite index. Only recommend intention will not be sufficient to predict of customers' future loyalty behaviour. Use of multiple indicators instead of a single predictor model performs significantly better in predicting customer recommendations and retention."

Conclusion

High Net Promoter Score signifies that a company is doing a decent job of securing their customers' loyalty. If the Net Promoter Scores is low or negative, than it's a warning signals for the firm. It provides a stable measure which companies use to motivate employees and monitor progress as the metric is simple and easy to understand,. Although the Net Promoter Score has received much attention and relatively rapid adoption, it has also

controversy from academic and market research circles. Customer related measurements have a long history where lot of methods are there. But I think no other method has as many advantages as the Net Promoter System has. Consultant Timothy Keiningham and his co-authors claim the advantages of the measure have been overstated relative to other measures of loyalty and satisfaction. However Net Promoter Score is a metrics must for marketers.

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