Using Fred Reichheld's Net Promoter Score

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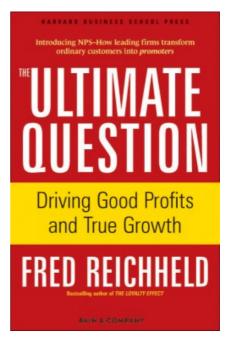
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Introducting the Net Promoter Score

The Net Promoter Score (NPS) is a tool to generate customer feedback and therefore drive improvements. Its designer anticipates that it will become more widely used and develop a methodology as well tested as accounting practices. Companies that improve their NPS typically experience impressive business growth. Much of its reported application has been in big business. This article backgrounds the NPS as a tool and identifies how it might be used in New Zealand.

This article draws heavily on the book *The Ultimate Question: Driving Good Profits and True Growth* by Fred Reichheld (2006). Our intention is not to critique the tool, it is to trial it and to consider its possible applications.

Fred Reichheld has an international reputation and was listed as one of the top 25 consultants of 2003 (Consulting Magazine, 2006). His earlier books are *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value* (Reichheld, 1996) and *Loyalty Rules! How Today's Leaders Build Lasting Relationships* (Reichheld, 2001).

He has since written a 2011 edition of this book *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World*.

Reichheld's concept of the Net Promoter Score was first presented to his colleagues in Bain and Company in mid 2002. In December 2003 the concept emerged publicly as the article *The One Number You Need to Grow* in the Harvard Business Review (Reichheld, 2003).

The Net Promoter Score

The NPS is based on one question: *How likely is it that you would recommend this company to a friend or colleague?* Participants choose a point on a ten point scale.
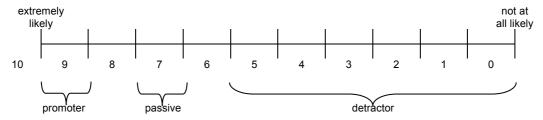

Figure 1: The Net Promoter Score scale

Promoters score the company 9 or 10. These are the people who will actively advocate for the company accounting for "more that 80 percent of

referrals" (Reichheld, 2006:30). **Passives** rate the company 7 or 8. They are motivated more by inertia than by loyalty and will move to another company if they are offered a better deal. The detractors, scoring 0 to 6 generate more than 80 percent of negative word of mouth comments. Too many of these debilitate a company.

Rather than a randomly generated likert scale, the three categories are based on research that correlates customer behaviour to their willingness to recommend the company.

The scores are then calculated to generate the net promoter score.

$$P - D = NPS$$

Percentage of Promoters (P) – percentage of detractors (D) = Net Promoter Score (NPS).

We can assume that most companies would receive a low score. The highest score reported in *The Ultimate Question* is 82% by USAA an insurance and financial services provider to the military. Close behind on 81% is Harley Davidson, also known as the company whose brand is most likely to be chosen as a tattoo (Peters, 2006).

Company	NPS
USAA	82%
Homebanc*[1]	81%
Harley-Davidson	81%
Costco	79%
Chick-fil-A*	78%
Amazon	73%
eBay	71%
Vanguard	70%
SAS	66%
Apple	66%
Cisco	57%
Federal Express	56%
Southwest Airlines	51%
American Express	50%
Commerce Bank	50%
Dell	50%
Adobe	48%
Electronic Arts	48%

**Figure 2: Examples of companies with high NPS scores
(adapted from Reichheld, 2006)**

Downstream data

To have a reliable metric across companies and over a period of years it is desirable that the NPS is applied consistently. That is the three categories retain their existing values and the question is phrased consistently.

The questions that follow seek to identify why a respondent is a promoter, a passive, or a detractor. A US company Turbo Tax follows up by asking open questions – to detractors "what is the reason for your score?" Passives are asked "What would it take for you to rate Turbo Tax a 10?" Promoters are

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[1] *All NPS statistics are based on Bain or Satmetrix surveys with the exceptions of Chick-fil-A and Homebanc where we used data provided by those firms that was gathered in a reasonable (but not perfectly equivalent) fashion.*

asked "What specifically would you tell someone to get them to try Turbo Tax?" (Reichheld, 2006:168).

Rather than atomise elements of the customer experience, these questions elicit from customers what they loathe or love about the company.

The link between the NPS score and company performance

Reichheld's derived the NPS question by linking customer responses to their customer experience to levels of loyalty, and advocacy for the business. He observed a clear correlation between the NPS score and company growth. The figures below map graph the correlation. Note some poor performers have negative NPS scores (Marsden, Samson & Upton, 2005).

Researchers from the London School of Economics confirm a strong correlation between improved NPS scores and growth. The average business in their analysis increased sales by £8.82 million for every 1 point increase in NPS. In percentage terms, a 7 point NPS increase correlated with a 1% increase in growth.

Southwest Airlines has achieved an NPS score of 51%. Southwest has an impressive array of other achievements:

- In 2006 *Fortune* ranked it as the third most admired corporation

- *Fortune* ranked Southwest "best company to work for" in 1997 and 1998

- *Businessweek* selected Southwest named Southwest Airlines in their 2006 Top 25 ranking of "The Worlds Most Innovative Companies."

- Others include ethics awards, best rewards program, best airline for customer satisfaction (Southwest Airlines, 2006)

By contrast, disgruntled United Airlines customers have established a website Untied.com (2006) specifically to provide a forum to air complaints about the airline.

Airlines

Three-year growth (1999–2002)

R^2: 0.68

Source: Satmetrix NPS survey (Q1 2000–Q4 2002); company annual report.
Note: AMR purchased TWA in 1999. Used historical TWA CAGR for 2000 and AMR CAGR for 2000–2002.
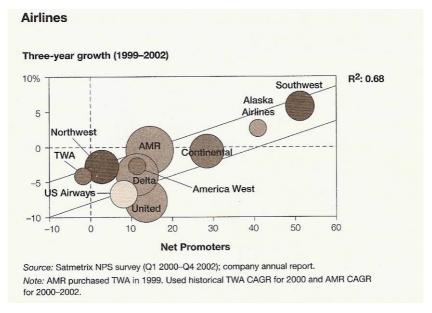
Figure 3: Airlines 3 year growth and NPS (Reichheld, 2006:193)

The figures below show NPS scores and growth for computer manufacturers and UK Supermarkets.
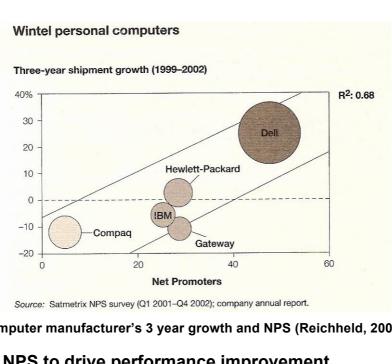
Figure 4: UK Supermarkets 3 year growth and NPS (Reichheld, 2006:193)

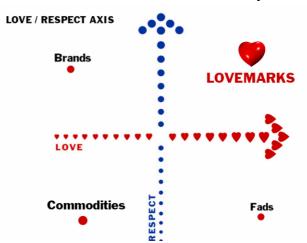**Figure 5: Computer manufacturer's 3 year growth and NPS (Reichheld, 2006:193)**

Using the NPS to drive performance improvement

It has only been relatively recently in human history, perhaps the last 3 to 4 decades, that industrialised countries have enjoyed ready access to a wide range of consumer goods. For many goods and services we now have an oversupply. The impact has been that sellers can no longer dictate standards, as when Henry Ford told us we could choose any colour for our new Ford "as long as it is black".

Even sophisticated consumer goods and services risk becoming commodities. Kjell Nordström and Jonas Ridderstråle warn how "The 'surplus society' has a surplus of similar companies, employing similar people, with similar educational backgrounds, coming up with similar ideas, producing similar things, with similar prices and similar quality" (Peters, 2004). Successful companies must provide goods or services that have a wow factor. Peters quotes an executive from Harley-Davidson "What we sell is the ability for a 43-year-old accountant to dress in black leather, ride through small towns and have people be afraid of him (Peters 2004)."

Kevin Roberts, the New Zealander who heads Saatchi and Saatchi

identifies a continuum from commodities, fads, brands and lovemarks. Lovemarks are brands that have created a emotional connection with their customers. Lovemarks are loved and respected by the customer. Good design is a determining factor of what will become a lovemark. Roberts cites the Ipod as an example.

Figure 6: Kevin Roberts (2004) "Lovemarks"

While these examples come from large companies, the concepts are transferable. It seems that somehow the company aspiring to improve, must make an emotional connection with its customers. In Moments of Truth, Jan Carlzon (1989) defines the moment of truth in business as "Anytime a customer comes into contact with any aspect of a business, however remote, is an opportunity to form an impression." The sum of these moments of truth is what determines a company's reputation and connection with its customers.

Focusing on data unearthed by the NPS will help to make the transformation from delivering commodities to creating a memorable customer experience.

Reichheld (2006) advocates a 3 stage process for raising net promoter scores:

1. Designing value propositions for each market segment. Find out what delights customers in each segment, and then create a customer experience to deliver it.

2. Deliver the value propositions throughout the company and across the whole customer experience. This will require organisational change such as eliminating internal silos.

Develop the company's ability to deliver consistently and learn from the process.

An important element of developing the customer experience using the NPS is to develop a culture of learning in the company as advocated by people such as Peter Senge (1990). Companies must have a culture that eliminates defensiveness and enables staff and the company to learn from experiences, both good and bad. This requires openness and a transparent no-blame culture. Raising a company's NPS is partly a matter of designing the customer experience and then aligning the company to deliver that experience. This requires a focus on culture, structure and systems.

The Ultimate Question, is replete with examples of organisational learning:

- Jack Brennan, CE of Vanguard Group (managing $875 billion in assets) spends four hours every month on customer service phones.

- Ireland's Superquinn supermarkets hand out redeemable "goof points" for reporting problems such as unstocked items, dirty floors or damaged shopping carts.

- Harley Davidson's senior executives join HOGs (Harley Owner's Groups) to keep current with customers.

- SAS, a software company gets teams of phone technical reps to aggregate customer complaints and work on solutions.

- Amazon, with a NPS of 73 encourages a creative community of customers. They are able to submit book reviews and grade books, thus informing other customers.

- Intuit, and the Consumer Tax Group create "inner circles" – groups of customers who give regular feedback. The Consumer Tax Group monitor message boards and blogs seeking vociferous detractors and invite them into the inner circle.

Companies come much more than vendors in the eyes of both customers and employees. They become the hub of a network of mutually beneficial relationships governed by a shared set of rules and ideals that connect with the very identity of their members (Reichheld, 2006:173).

Marsden, Samson and Upton (2005) reviewed 8 methods of improving advocacy, referral programs, tryvertising, empowered involvement, brand ambassador programs, causal campaigns, influencer outreach, advocacy tracking and innovation.

Examples of the application of NPS data.

Companies achieving high net promoter scores don't have a single strategy, but have a holistic approach to delivering a great customer experience. The raft of strategies will be generic, such as promoting values and designing incentives, but each company tailors them to their situation.

USAA provides insurance and financial services to US military personnel. Its NPS is an impressive 82%. Its credit card division has achieved scores of over 90%. This is impressive for a company that sells insurance and whose main customer interface is a call centre. The range of factors that build its capability are:

1. clear values based on the military of honesty, integrity, loyalty and service

2. The call centre screens out people previously employed in call centres to keep out bad habits. It uses minimally scripted conversations to enable staff to engage creatively with customers.

3. Call centre staff are rewarded for resolving customer problems rather than completing high numbers of calls.

4. Call centres have good knowledge management systems that enable quick access to relevant information for that customer.

5. Call centres use a team structure that fosters learning and collaboration.

6. The company acknowledges the importance of the call centre staff, works to gain their loyalty and learns from them (Reichheld, 2006).

Enterprise Rent-A-Car has grown faster and achieved much higher NPS scores than its competitors (53%). Enterprise doesn't use the NPS, but uses a similar in house measure based on similar principals. The mix of initiatives at Enterprise includes:

1. dispersed branches have a small staff so there is close contact between managers and front line staff

2. collection and analysis of NPS date is segmented down to Enterprises several thousand branches to promote learning from the best branches

3. innovation is encouraged from branches rather than head office

4. data reporting moved from quarterly to monthly to create a more real time picture of developments

5. researchers rang back promoters to ask how many people they had recommended Enterprise to, to validate the data

6. NPS scores are linked to corporate recognition

7. NPS scores are reported alongside profit to give it high status

8. customer satisfaction is high on the agenda of most meetings

9. the survey is done when customers return cars with a 95% response rate

10. after the initial survey staff member asks dissatisfied customers if the customer would accept a follow phone call

11. staff development and business processes focus on training, on the spot fixes, experimentation

12. gaming results is clearly communicated as a practice that will lead to dismissal (Reichheld, 2006)

Ethics and good profits

Reichheld stresses the importance of ethics in application of the NPS and the business systems that wrap around it. He specifically refers to the golden rule[2] (Bruce, 2000), treat others the way you would like to be treated. Leaders of companies with high NPS scores such as Colleen Barrett of Southwest Airlines, Isadore Sharp of Four Season and Andy Taylor of Enterprise Rent-A-Car reinforce the importance of the golden rule. Andy Taylor states:

> The only way to grow is to treat customers so well they come back for more, and tell their friends about us. That's how we'd all like to be treated as customers … Golden rule behaviour is the basis for loyalty. And loyalty is the key to profitable growth (Reichheld, 2006:14).

Reichheld advocates the pursuit of good profit, based on delivering value to customers and generating loyalty. In contrast bad profits are those practices which deplete customer value. Good profits are based on adding value for customers; bad profits extract value from customers. An example is economising on call centres so customers spend a lot of time waiting. The customer may well feel that the company values their own time rather than their customer's time. Practices to boost shareholder value, such as raising prices, and cutting back on service levels or product quality generate bad profit.

Companies with high NPS scores generally rate well as employers.

The advantages of NPS over customer satisfaction surveys

> Who fills out long satisfaction surveys or takes the time to answer them on the phone? Marketers must wonder, at times, how many customers are sufficiently bored, lonely or compulsive to give the detailed answers the company is seeking (Reichheld, 2006:80).

The two strongest advantages of the NPS over customer satisfaction surveys are the survey's simplicity and its correlation to growth and profitability as outlined above.

Lengthy surveys tend to result in low response rates with resulting response biases (Schweikart 1987), (Joost, Pennings, & Good 1999). A typical response to a lengthy survey might be to rush the latter questions or perhaps to ignore them. In designing a survey a company might try to cover many aspects of the customer experience to elicit specific data about performance, for example, the greeting at reception, or after sales service. With the blank slate approach, the customer is free to relate what is important for them. Another benefit of shorter surveys is that the customer is more likely to assent to follow ups or regular surveys.

> As surveys grow to thirty or forty questions or more, the cost per survey creeps up, response rates drop, and sample size shrinks (Reichheld, 2006:79)

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[2] Peter's book *Better Business for a Better World* outlines how the golden rule is common to all the major religions and many secular organisations.

Reichheld ranks 10 deficiencies of surveys:

1. gaming and manipulation wreck credibility
2. satisfaction surveys dissatisfy customers
3. surveys confuse transactions with relationships
4. there are no generally accepted standards
5. generic solutions can't meet companies' unique needs
6. survey scores don't link to financial performance
7. too many surveys are marketing campaigns in disguise
8. employees don't know how to take corrective action
9. the wrong customers respond
10. there are too many surveys with too many questions.

Dr Ian Brooks (2006) identifies similar deficiencies:

1. surveys don't surface information about loyalty
2. surveys don't identify those likely to promote a company
3. surveys don't necessarily measure what the customer thinks is important
4. useful information that doesn't fit with prepared questions may be lost
5. they can be too long or to frequent to be filled in accurately
6. customers can become sceptical that anyone will read or act on what they have taken time to write.

Using the NPS

This section looks at two dimensions of method. The first are the principles and design considerations that the NPS is based on. This informs the design of the instrument used for this research.

Reichheld's principles and design considerations
(from chapter six "The rules of measurement")

1. ***Ask the ultimate question and very little else***. Excessive length is a shortcoming of surveys. Reichheld's aspiration to have relationship data reported as frequently as financial data calls for a focussed survey.

2. ***Choose a scale that works and stick to it***. Reichheld call the NPS scale a 10 point scale, but in reality, with the inclusion of zero, it is an 11 point scale. Zero is included to prevent confusion – if the scale started with number one, people might assume that one means "the best".

3. ***Aim for high response rates from the right customers.*** Ideally survey all customers, but begin with core customers. If possible segmenting customers by profitability, informative feedback to enhance the customer experience for these customers will lead to improvements for them and other segments.

4. ***Report relationship data as frequently as financial data.*** Companies often report financial data monthly and may report relationship data annually. Monthly reporting promotes a more sustained focus than annual reporting.

5. ***The more granular the data the more accountable the employees.*** If responses are broken down as appropriate to product line, store, department or region. Star performances can be pinpointed and emulated by others. If data is granular enough, staff can work on improvements in their area, but communicating with colleagues. If the data applies to too many staff, individual staff members might feel that they can only influence their own performance.

6. ***Audit to ensure accuracy and freedom from bias.*** Customer surveys can be "gamed". Staff learn what is measured and respond accordingly. In car sales manufacturers and "head office" incentivise staff and survey customers to determine remuneration. Bias can arise from:

    - fear of retribution, e.g. feedback posted on Trademe
    - bribery
    - grade inflation caused by the belief that no action will be taken about complaints or it might damage the relationship

   Methods to minimise bias include:

    - use email – people are more comfortable providing negative feedback
    - time feedback requests unpredictably
    - openly display team or individual scores to encourage peer "policing"
    - use a third party to collect feedback
    - educate employees and customers on the ethics of the process
    - design and implement an appropriate audit
    - ensure the processes are simple and consistent to encourage customer participation

7. ***Validate that scores link to behaviour.*** Improving scores should respond in more referrals, higher sales and more constructive feedback. The tool is only accurate if it reflects tangible outcomes of higher levels of customer satisfaction.

Survey footnotes

As with financial reports, NPS reports should include footnotes for issues such as:

- response rates

- customer sample size and customer segment

- any inducements

- medium (face to face, telephone, email etc)

- degree of confidentiality

- granularity and frequency of reporting

- link to employee rewards

- audit processes (Reichheld, 2006)

Other guidelines gleaned from Reichheld's method are:

1. Separate the NPS score question and root cause questions.

   It may take 4 or 5 or more questions to establish the root cause of a customer's concern. One method, on receiving a low score is to ask the customer if they would accept a call to discuss the issues. In the case of Enterprise more than 90% agreed. If company staff follow up, rather than a survey vendor, it helps staff to build up a comprehensive picture of customer preferences and needs. This separation may not always be possible.

2. Anonymous responses are more likely to be accurate as people can be reluctant to voice negative opinions on the record.

3. Examples of follow up questions are:

   - "What is the primary reason for the score you just gave us?"

   - "What is the most important improvement that would make you rate us closer to a ten? (Reichheld,2006:96)"

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