The One Number You Need to Grow:

If It's Worth Measuring, It's Worth Managing

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Organizations looking for the latest quick-fix-cure de jour, guaranteed-to-fix-everything that-ails-the-organization need look no further than the Net Promoter Score (NPS) touted by Frederick F. Reichheld and Bain & Company. Making this silver bullet even more palatable is the fact that it is cheap – all you have to do is get your marketing research department or your current consultant to ask your customers one simple question – "How likely would you be to recommend us to a friend?"

In all fairness Reichheld would say it's not quite that easy and he certainly would not advocate this. But many organizations that give lip service to customers will find this solution to their liking. Most of these companies, if they do gather some sort of customer information, use it simply as a report card, unable or unwilling to use the information to drive operational and strategic initiatives.

Getting the answer to this question may prove valuable to many organizations. However, learning how to manage this number would prove even more valuable.

What is NPS?

The idea of an NPS is both simple and compelling. People put their name and reputation on the line when they give a recommendation to someone they know and whose friendship they value. Indeed, Reichheld (Chief Marketer 2006) points out that this dynamic is so strong that Promoters account for 80% to 90% of positive word of mouth. The collective effect of this positive word of mouth is that the net promoter leader grows at more than 2.5 times the rate of its competitors. It is, according to Reichheld, "the best predictor of organic growth that we have seen to date."

NPS is a simple calculation. The Net Promoter Score is defined as the % of Promoters minus the % of Detractors. Using a 10 point scale, promoters are defined as those who provide a rating of 9 or 10 on the question "How likely would you be to recommend us to a friend?" Detractors are those who provide a rating of 0 to 6. Those scoring a 7 or 8 are referred to as "passives," satisfied but unenthusiastic customers looking for a better deal.

As evidence, companies such as eBay, Costco, Vanguard, and Dell have net promoter scores in the range of 50 to 80. In fact, Bain publishes a list of what they call "Selected NPS Stars" (The Net Promoter Score Calculation 2006). These include:

Table 1
Selected NPSs for NPS Stars

USAA	82%	Apple	66%
HomeBanc	81%	Intuit	58%
Harley-Davidson	81%	Cisco	57%
Costco	79%	Federal Express	56%
Amazon	73%	Southwest Airlines	51%
Chick-Fil-A	72%	American Express	50%
eBay	71%	Commerce Bank	50%
Vanguard	70%	Dell	50%
SAS	66%	Adobe	48%

Knowing the Net Promoter Score for your company will enable comparisons with these "Selected NPS Stars," but how will that information enable you to achieve "stardom" for yourself?

Managing Your NPS

Regardless of how the calculation is carried out, the NPS is a report-card measure. The key question is how do you manage your NPS? There are a couple of important issues that must be addressed for the effective management of your NPS.

Which Product and Which Market?

If Dell has an NPS of 50% does this refer to laptops sold to business people or desk tops sold to home users or servers sold to medium or large businesses? Or does it reflect an aggregate measure across all product lines and all segments that Dell serves? If Commerce Bank has a NPS of 50% does this refer to credit card services offered to singles or retireds, or does it refer to transaction accounts offered to empty nesters or full nest 1 customers? Are these NPSs calculated across all business lines and all market segments? How do you increase an NPS of 50% if it is an aggregate measure? The point is, many organizations serve more than one market and offer more than one product or service. “Promoters” and “Detractors” will be specific to different products or services and different market segments. It makes little sense to calculate an NPS for Dell or Amazon as an overall metric. It makes a lot more sense, from a managerial standpoint, to calculate an NPS for Dell based upon their laptop offerings to large businesses, for example. Low NPSs can then by focused on with a high degree of actionability for improvement and high NPSs can be focused on to be leveraged for greater market share and top line revenue.

Clearly some sort of systematic way to view the different product/markets is necessary. The following matrix demonstrates a vehicle for providing this necessary systematic focus (Reidenbach and Goeke 2006). The product/market matrix aligns the two factors that drive revenue for a company: the products the company sells and the customers who buy those products.

Figure 2
A Generalized Product/Market Matrix

	Segment A	Segment B	Segment C	Segment D	Segment E
Product A	NPS_{AA}		NPS_{AC}		
Product B		NPS_{BB}			
Product C				NPS_{CD}	
Product D					

Product lines are arrayed down the vertical axis of the matrix while market segments are aligned across the top. The intersection of a product line with a market segment creates a product/market – products bought by specific segments. For each product/market in which the company competes, it will have an NPS – NPS_{AA} corresponding to the NPS for product A sold to Segment A, NPS_{BB} – product B sold to segment B, and so forth. Each product line and each segment will have its own success requirements that will determine how customers within a specific product market evaluate the company's offering and hence their willingness to recommend that offering to a friend. Customers develop loyalty to a company through the successful use of a product or service that the company offers. Put another way, brand loyalty is forged through customer experience with a product or service *and all of the support services offered by the company*. Think for a moment of the loyalty that has been squandered to, for example, an automobile maker because the customer received poor service on his or her car. The customer may love the car, but if he or she continually runs into trouble with the service offering at the dealership, there goes loyalty. And, how many people is the customer likely to recommend this car to?

Consider also that it is likely that a company may find an NPS_{AA} that may be 30 points higher than NPS_{BB} but 20 points lower than NPS_{AC}. There is no one single lever to pull to change net promoter scores across *all* product/markets. Each must be managed according to the dynamics operating within the product/market that drive customers' willingness to recommend it.

The Dynamics of NPS

What drives the NPS calculation? What is the best predictor of whether a customer is willing to recommend it to a friend? Let's start with what does *not* predict NPS.

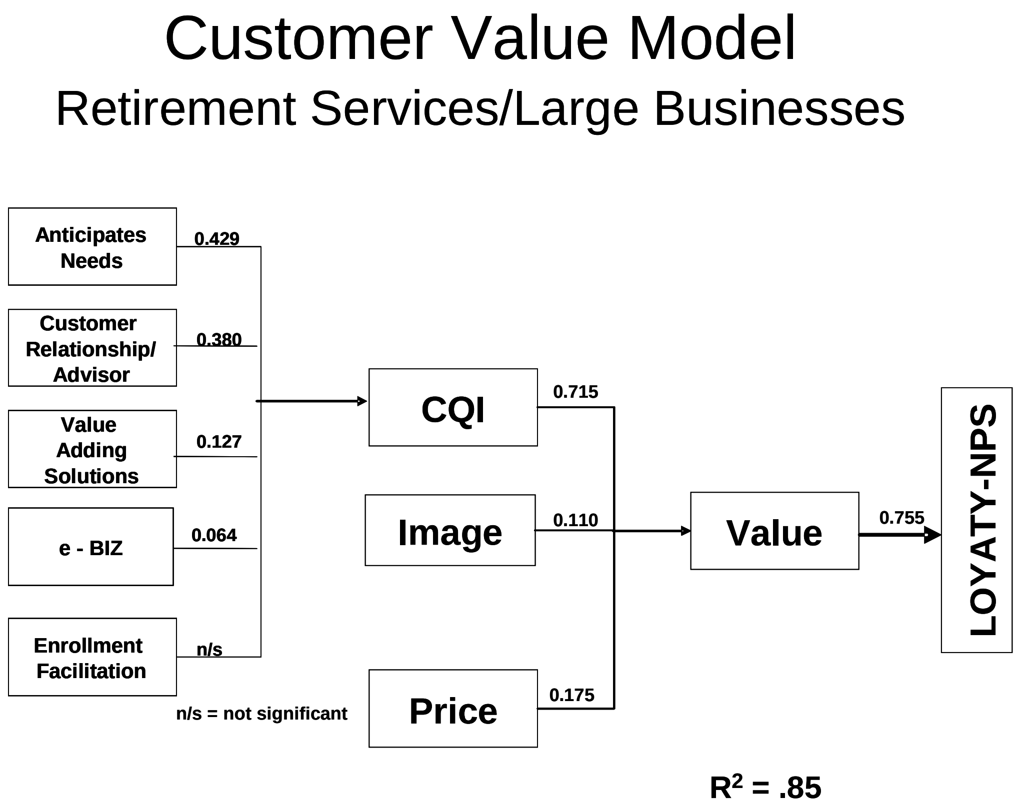
Most organizations would point out that they do some kind of customer satisfaction work. However, Reichheld correctly points out that "most customer satisfaction surveys aren't very useful…. Their results don't correlate tightly with profits or growth…Our research indicates that satisfaction lacks a consistently demonstrable connection to actual customer behavior (recommendation) and growth. ..In general, it is difficult to discern a strong correlation between high customer satisfaction scores and outstanding sales growth."

What does correlate highly with profitability and sales is loyalty which Reichhold defines as "the willingness of someone – a customer, an employee, a friend to make an investment or personal sacrifice in order to strengthen a relationship. *For a customer, that can mean sticking with a supplier who treats him well and gives him good value in the long term even if the supplier does not offer the best price in a particular transaction.* (Emphasis added)"

Value, like the NPS, is specific to a product/market. The factors that define value for a credit card will be different than those factors that define value for mortgages. Similarly, farmers will define value differently when talking about tractors than will golf course maintenance personnel. Value, the best predictor of loyalty *and* NPS, will vary from product/market to product/market and accordingly, must be managed differently from one product/market to another.

Value is conceptually defined as the relationship between a product's quality and the price paid for the product. New research (Reidenbach and Goeke 2006), also indicates that the brand and/or corporate image may play a significant role in the value definition. The following figure depicts an insurance value model for the product/market: retirement services sold to large businesses.

Figure 3
A Customer Value Model



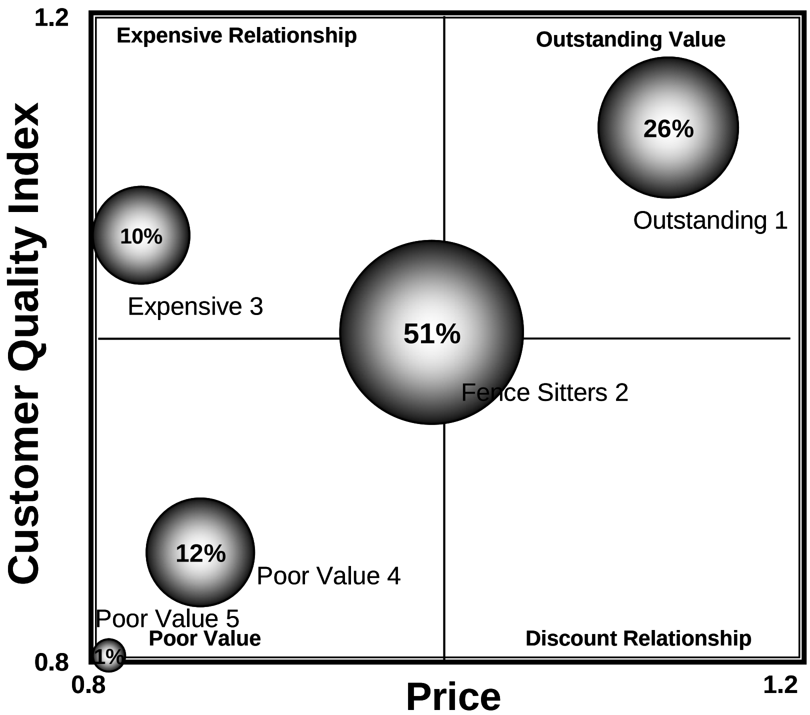
This is a customer value model developed for a financial services company offering retirement services to large businesses. Data were obtained from a survey of benefit managers using different insurance providers. In this sense the model is a competitive model based on the market, not just on a single insurance provider.

The right hand side of the model is the predictive side of the model with the three value drivers CQI (customer quality index), image and price and their relative contributions to value shown. Quality (CQI) exerts the greatest impact on value (.715) followed by Price (.175) and Image (.110). The model is generated using a regression algorithm and indicates a high degree of robustness (R^2 = .85). R^2 can range between 0 and 1, the larger R^2 is, the greater the degree of predictability. Put another way, the three value drivers capture about 85% of what large businesses define as value with regard to retirement services offered by insurance companies. The model clearly indicates that the greatest increases in value, and subsequently in loyalty and the NPS, will come from positive changes in the quality component, not price changes, a finding that amazes many managers.

The left side of the model identifies the critical-to-quality (CTQ) factors that have the greatest impact on value and subsequently, as in this case, on the net promoter score. The strongest CTQ factor is “Anticipates Needs” (.429), referring to the insurance company’s capacity to provide proactive services to the benefit manager and the employees they serve. “Customer Relationship/Advisor” is the second most important CTQ (.38), followed by “Value Adding Solutions” (.127) and “E-Biz” (.064). The model clearly points out how this company can improve its NPS within this specific product/market. Increases in NPS will come from improvements in the company’s capacity to anticipate needs, provide strong relationships, value adding solutions and having services available on the internet.

The relationship between value and NPS is made even clearer by looking at the following Customer Loyalty Matrix (Reidenbach and Goeke 2006).

Figure 4
A Customer Loyalty Matrix



The Customer Loyalty Matrix is comprised of the two main drivers of value: quality (CQI) on the vertical axis and Price on the horizontal axis. The matrix is divided into four quadrants by the mean scores for quality and price. Price is measured as a reaction to the various price offerings of the competitors in terms of its “fairness”, “competitiveness” and “appropriateness”. It is an *evaluation* of price, not a memory test of the different price options.

The four quadrants are “Outstanding Value,” corresponding to superior quality offered at a highly satisfactory price; “Expensive Relationship,” so named because it refers to superior quality but at an unsatisfactory price; “Poor Value,” which corresponds to evaluations of the product/service as inferior quality offered at an unsatisfactory price; and, finally, “Discount Relationship,” referring to a condition of inferior quality but a satisfactory price.

The matrix is populated by groups of customers (circles) with an indication of their relative size. For example there is a group of Outstanding Value customers that comprises about 26% of this company’s customer base within the retirement services/large business product/market. A group of 51% of this company’s customers feels that they are receiving only average value.

What is particularly compelling about this analysis is the degree of loyalty each group of customers has towards this product and company.

Table 5
NPS by value Group

Value Group	**Outstanding 1**	**Fence Sitters 2**	**Expensive 3**	**Poor 4**	**Poor 5**
Size of Group	26%	51%	10%	12%	1%
NPS	80%	22%	16%	- 28%	- 45%

The Outstanding Value group of customers is the most loyal and has the highest NPS score. There is a marked decline in loyalty as measured by the NPS score with regard to the Fence Sitters, the largest of the customer groups in this product/market. NPS scores continue to drop as customers' evaluation of the value they receive from this company drops. In fact, the NPS score for Poor Value group 5 is a negative 45%.

The largest group of customers is the Fence Sitters accounting for 51% of the customers within this product/market with a NPS of 22%. How do you improve the loyalty of this group of customers? Simply knowing their NPS is insufficient to provide any systematic focused action. In other words, you can't manage the NPS of this group of customers simply by knowing what their score is. You have to understand the factors that are driving this score. This information is provided in the following table. This table provides a breakdown of the scores on each of the significant quality factors taken from the value model of this product/market. These scores are mean scores reported on a ten point scale anchored by "Excellent Performance" (10) and "Poor Performance" (1).

Table 6
Quality Scores by Value Group

Quality Factor/Value Group	**Outstanding 1**	**Fence Sitters 2**	**Expensive 3**	**Poor 4**	**Poor 5**
Anticipates Needs	**9.32**	**6.58**	**8.29**	**5.11**	**2.20**
Customer Relationship	**9.27**	**7.61**	**7.90**	**4.61**	**2.30**
Value Adding Solutions	**8.67**	**7.23**	**7.70**	**5.21**	**3.24**

Compared to the Outstanding Value customers, performance ratings provided by the Fence Sitters are significantly and substantially lower. Moreover, the primary source of failure for these customers is the "Anticipates Needs" CTQ (6.28). A careful examination of the CTQ performance criteria (questionnaire attributes underlying "Anticipates Needs") will reveal the specific aspects of "Anticipates Needs" that must be managed more effectively in order to move this group from "Fence Sitters" into "Outstanding Value" customers – with substantially higher Net Promoter Scores!

Similarly, customers in the "Poor Value 4" group provide much lower performance ratings on all three CTQs than do their counterparts in the "Outstanding Value" group – as anticipated. The primary source of failure for this group, however, is the "Customer

Relationship" CTQ. Changing this group of customers from Detractors into Promoters will require managerial focus on the "Customer Relationship" performance criteria. Profiling these groups of customers on the basis of specific demographic criteria may reveal that customers in the "Poor Value 4" group are primarily associated with a specific geographic region of the country, specific field representatives of the firm, or other bases for more targeted improvement efforts.

Transactional reporting systems that evaluate the "moments of truth" these customers experience can provide additional insights. Are there any specific types of transactions leading systematically to poor evaluations of performance? Is it people issue? Is it a product issue? Is it a process issue? Salespeople and internal company records may shed some insight into why these customers are not experiencing the value that others are and how these value issues may be addressed, and loyalty enhanced.

Manage Your Customer Loyalty

Simply measuring the loyalty of your customer base is not sufficient. The NPS provides an economical and concise metric for assessing how loyal your customer base is, but *managing* that loyalty is the key to future growth. The effectiveness of loyalty management increases proportionately with the degree of focus created. NPS has its greatest utility when calculated on a product/market basis. Each product/market has its own dynamics that drive value and loyalty.

Customer value is a strong predictor of loyalty and, as such, is the vehicle for managing loyalty. Measuring the components of value, quality, image and price will provide essential insight into the dynamics of loyalty and its powerful recommendation feature. Remember, if the NPS is worth measuring, it's worth managing.

References

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Author Bios

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Principal and founding partner of Market Value Solutions, Dr. Reidenbach has pioneered the development of techniques in value analysis, customer retention, value linkages to lean and six sigma. He has extensive experience in marketing research, measurement, instrumentation, and modeling. Dr. Reidenbach received a Ph.D. in Marketing from Michigan State University. Eric also has a strong consulting background. In addition to MVS clients he has also served the Pentagon, the Naval Research Labs, Walt Disney World, Benetton Spa (Italy), and McDonalds. Work for these clients ran the gamut from development of value based instrumentation to the deployment of value driven systems to enhance organizational productivity.

Eric is the author or co-author of 14 books on marketing research, marketing management, and marketing planning and has authored over 100 journal articles in the field of marketing and measurement. His books have been translated into numerous languages.

Reginald W. Goeke, Ed.D.

Principal and founding partner of Market Value Solutions, Dr. Goeke has pioneered the development of techniques in the measurement of customer and employee value, inter-industry benchmarking of value management, the strategic deployment of value-based initiatives, and the analysis and enhancement of value delivery systems. He received his doctorate from the University of Illinois and was formerly a department chairman at Penn State University, where he has also taught Marketing Strategy in the Executive Education Programs. Reg is a frequent guest speaker for the Institute for the Study of Business Markets (ISBM) at Penn State.

Reg has a strong consulting background in the deployment of market value information. His work with Caterpillar dealerships worldwide for nearly two decades resulted in the strategic shift from a product and sales orientation to one based on markets and value. He has also been instrumental in the development of value-based strategies for such companies as Kraft Foods, Case New Holland, the Southern Companies, Wisconsin Public Service, the Principal Financial Group, Mitsubishi Caterpillar Forklifts, Dormont Manufacturing, and others. Reg has co-authored two books and several articles on customer value measurement and management.