Net Promoter Score® – A Brief Introduction

We talk to lots of people about Net Promoter Score and there are many mis-conceptions about it. So we put together this brief introduction to answer the questions we hear most often.

Do you have a question that’s not here? Let us know on info@genroe.com.au and well provide you an answer.
Agenda

• What is it?
• Where did it come from?
• What’s wrong with using Customer Satisfaction?
• Why is it such a big deal?
• So who uses it?
• How can you use it?
• How do you calculate it?
• What is a good score?
• Some additional FAQs
What is it?

On a scale 0-10, how likely is it that you would recommend our company to a friend or colleague?

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Net Promoter Score = % of Promoters - % of Detractors

OR said another way

Net Promoter Score = \( \frac{\# \text{ Promoters}}{\text{Total Responders}} - \frac{\# \text{ Detractors}}{\text{Total Responders}} \)

Put simply, the Net Promoter Score is the result achieved when you survey your customers with the “would you recommend” question.

Subtract the percentage of 0s to 6s from the percentage of 9s and 10s and that gives you the NPS.
Where did it come from?

The research that originally identified the Net Promoter Score was performed by Frederick Reichheld from Bain in concert with a company called Satmetrix.

The results of the research were first broadly published in a Harvard Business Review Article in December 2003.

Since that time numerous books (some by Reichheld) have been published to expand on the concept of Net Promoter Score and help organisations implement programs to measure and improve their scores.

Source: “The One Number You Need to Grow, Harvard Business Review 2003, Frederick Reichheld"
What’s wrong with using Customer Satisfaction?

There is nothing wrong with Customer Satisfaction as a measure. It’s just that the research that was done into Net Promoter Score showed that Customer Satisfaction is often not the best indication of customer loyalty.

The trouble is that plenty of satisfied customers defect from businesses every day.

So, if customer loyalty is the goal, Customer Satisfaction just isn’t that useful.

On the other hand, the goal of the NPS research was to find a measure that captured future customer loyalty and therefore profitability.

This chart illustrates the frequency with which each of the different loyalty questions emerged as the top correlate to actual customer behaviour when testing these links across six different industries.

Source: “The Power Behind a Single Number”, Satmetrix
Why is it such a big deal?

The primary reasons that NPS has become so popular are that it is:

- Simple to understand and calculate
- Not a complex combination of multiple metrics with different weightings;
- A leading indicator
- It predicts future outcomes; and
- Correlated to business growth

All these points are important but the last is critical. NPS is one of very few (if any) measures that have been shown to correlate to business growth.

Put simply if you increase NPS you will more than likely increase revenue.

Four research examples of the correlation between Net Promoter Score and income growth. All showing a solid link.

Sources: 
"The One Number You Need to Grow, Harvard Business Review 2003, Frederick Reichheld
"The Power Behind a Single Number", Satmetrix
"Advocacy Drives Growth", London School Economics, December 2005
Bain & Company Experience
Okay, but does it work? Yes – Business to Business

B2B companies adopting the Net Promoter discipline, successful companies saw an average of 23% increased revenue growth.”

Business Telco provider used NPS process to increase orders by 150%

Global B2B achieved 100%+ increase in loyalty, double digit growth in mature market

Global Facilities company has improved retention rates by 46%, using NPS process

IT Product Supplier used NPS process and identified new opportunities in 39% of follow-up meetings

For more case studies see this post: Net Promoter Score Success Stories and Case Studies

Sources: “Answering the Ultimate Question: How Net Promoter can Transform your Business”, Brooks, Lara, 2009
Satmetrix, Improving Net Promoter Scores in Business to Business Relationships Net Promoter Conference 2009
Forrester via Satmetrix, “Building the Foundation for an Action Oriented Net Promoter Programme” Net Promoter Conference, June 2010
BeyondPhilosophy, Forrester via http://www.slideshare.net/BeyondPhilosophy/customers-are-irrational-stop-fighting-it
Okay, but does it work? Yes – Business to Consumer

Global Communications business increased sales by 13% in a single digit growth industry. [2].

A&E Television found that NPS and Ratings are correlated for Television shows: Low NPS drives Low Ratings, High NPS drives High ratings.

eBay found average revenue is consistently higher for Promoters than Detractors, across their 6 top markets.

nib health funds found the risk of attrition for Detractors is 1.5 times Promoters.

Major Telecom company: 25 point increase in NPS which lead to a 3% reduction in early life churn and 5% increase in first call resolution.

Amex says: “…a promoter … [gives] 10% to 15% increase in spending and four to five times increased retention”

For more case studies see this post:
Net Promoter Score Success Stories and Case Studies

Sources: “eBay – Making it Work – What Your Data is Really Telling You”, 2009
Forrester via Satmetrix, “Building the Foundation for an Action Oriented Net Promoter Programme” Net Promoter Conference, June 2010
A&E Television Networks – Boosting Return on Ad Spend and Consumer Engagement with Advanced Net Promoter Segmentation.” 2008
ResponseTek, “Major Telecom Company Increases NPS® by 25% in 100 Days” RT Case Study TopTelcom 062810, 2010
http://management.fortune.cnn.com/2012/04/19/american-express-customer-service/
So who uses it?

Many global and domestic companies use Net Promoter Score in their business including:
• General Electric
• Honeywell
• Procter and Gamble
• Allianz
• American Express
• BearingPoint
• Intuit
• Verizon Wireless

All trademarks property of their respective owners.
How can you use it?

Top-Down* NPS
Measured at an organisation / organisation unit level to compare to key competitors

- Used as a company wide KPI to measure customer focus
- Benchmarking against competitors
- Management incentive plans

Bottom-Up** NPS
Measured directly after customer interaction at designated key touch-points

- Institutionalise frontline feedback
- Change management tool to focus attention on the customer
- Diagnostic tool to understand what drives customer loyalty

NPS can be used in many ways but two of the common approaches are:

- **Top-Down NPS** measures the business or business unit’s NPS score. This is useful to track competitive scores, and drive management incentive plans.

- **Bottom-up NPS** measures a transaction’s NPS and is very useful (when used correctly) in identifying what service factors drive NPS/customer loyalty.

That allows the company to make changes to its process and service delivery mechanisms to lift NPS both at the Bottom-Up and Top-Down level.

* Also termed “Relationship” NPS
** Also termed “Transactional” NPS
Source: Adapted from "Creating customer loyalty", Allianz Capital Markets Day, July 2006
What is a good NPS score?

A good NPS score depends entirely on your industry and country. In many respects it is better to consider your company’s NPS score as a target that you want to try and exceed each quarter or year. Trying to compare your score to other companies, especially in other industries, is often not a useful tactic.

Source: NPS® Benchmark Charts, Satmetrix, March 2010
Want more information?

Here are some links to Net Promoter information that you may find useful:

- **Do I need to pay to use Net Promoter®?**
- **7 Steps to Best Practice Net Promoter Score® Implementation**
- **Net Promoter Score® Success Stories and Case Studies**
- **Transactional Net Promoter Score®: Which is the best way to collect data?**
- **Transactional Vs Relationship Customer feedback: Are you using the right one?**
- **6 Net Promoter® Best Practices You Can Use Today**
- **5 More Best Practices for Net Promoter® Implementation**
- **Net Promoter Score®: How Much Can You Improve – Real Company Data**
- **How to Set Net Promoter® Targets for Your Organisation and Staff**
- **How To Drive Customer Experience Innovation Using Transactional NPS®**
Net Promoter Score (NPS) Implementation

• If want to implement an effective NPS score program we can help get you started. We have substantial experience in NPS implementation and started helping our customers to use Net Promoter Score way back in 2004.

• Best Practice implementation services
  – Genroe has developed and tested the Best Practice Net Promoter Score Implementation process with a range of large and small, B2B and B2C organisations. The Best Practice process includes a series of detailed program steps and workshops to deliver not just a new measurement but also the change management needed to make it a long term success.
  – Read more about the Genroe Best Process Net Promoter Score Implementation process

• Software tools to collect and manage data
  – Sending out a one shot customer survey is easy but to create an on-going data collection and analysis process requires the right tools. Genroe resells CustomerGauge, a best of breed Net Promoter Score data collection, reporting and analysis tool that takes this complex process and makes it easy to run.
  – Read more about CustomerGauge NPS data collection, reporting and analysis software

• Customer feedback services to collect and analyse the data
  – Often in a business to business context the depth and complexity of the customer relationship requires more than an email survey. The Genroe High Value B2B Customer Feedback Process incorporates Net Promoter approaches in a multi-layered approach that includes face to face and telephone surveys.
  – Read more about the Genroe High Value B2B Customer Feedback Process

• Want to chat about how you might use NPS in your business. Call us now:
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  – Email
    • info@genroe.com.au