



# NPS: Predictor or distractor? You decide



# Introduction

Customer experience metrics are designed to help businesses deliver successful customer-centric strategies. Net Promoter Score (NPS) is one of the most widely used of those metrics, and is adopted by companies such as Apple, John Lewis, Porsche, Novartis and AT&T.<sup>1</sup> Despite its popularity and widespread use, NPS has significant limitations which are often not discussed - this paper identifies and discusses those limitations.

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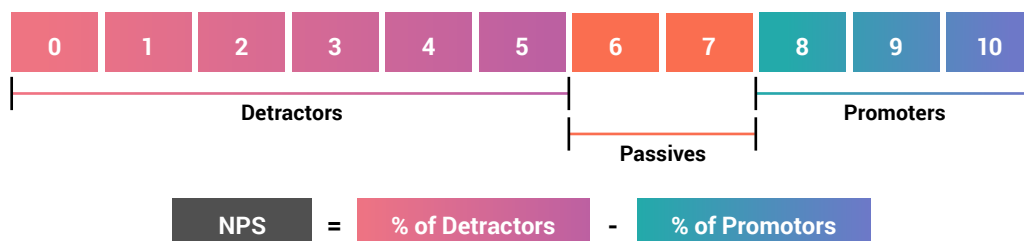
1. Bain & Company (2017) Companies using NPS. Available at:  
<http://www.netpromotersystem.com/about/companies-using-nps.aspx>

## Net promoter score

NPS is based on customer responses to one simple question, namely: “On a scale from 0 to 10, how likely are you to recommend this product, service or brand to a friend or colleague?”. Responses are divided into three categories - detractors, passives or promoters. NPS is then calculated by subtracting the percentage of detractors from the percentage of promoters, as shown in Figure 1.

Figure 1

### Net promoter score



The initial NPS question is typically followed with an open question asking customers to explain the reason(s) for the score they gave to the initial question. Responses to this question provide companies with insight as to where action should be targeted in order to convert into promoters those customers who are presently either detractors or passives.



## Why companies use nps

In 2003, Fred Reichheld wrote an article in the Harvard Business Review called “The one number you need to grow”. In that paper Reichheld presented compelling research from multiple industries, including the airline, internet service provider and car rental industries, showing that businesses with customers that would recommend them to a friend experienced higher growth rates than those without.<sup>2</sup> A further study by Bain & Company showed that between 20% and 60% of the variation in organic growth rates among competitors can be explained by NPS, and that an industry’s NPS leader outgrew its competitors by a factor greater than two.<sup>3</sup> In addition, there are several other benefits to NPS aside from those that are growth-related, including its:

- **Simplicity:**  
It is an easily understood measure, which typically involves two questions only, requiring little effort from the customer to answer.
- **Adaptability:**  
NPS is non-industry specific, so can be used by any company that wishes to.
- **Comparability:**  
It is possible for a company to compare and benchmark NPS scores to specific competitor groups and industry norms.

Given the compelling research presented by Reichheld and the other benefits of NPS, it is of little surprise that its use as a customer-related measure became so widespread. However, further research has revealed potential flaws with NPS, which need to be taken into account by companies already using, or thinking of using, NPS.

## The limitations of nps

### Timing

NPS is a point-in-time measure that is typically asked immediately after an interaction with a customer, such as a call centre interaction. If a customer loves a business, but their experience of their most recent interaction was negative, the NPS they provide may reflect a short-term negative sentiment. Measuring NPS directly after an interaction could therefore lead to greater variability in NPS being observed over the course of time than actually exists. According to a recent article written in Customer Experience Matters<sup>4</sup>, NPS is about relationships - randomly sampling the NPS of customers over a period of time, rather than immediately post an interaction with them, may provide an NPS that better reflects the relationship the customer has with the company.

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2. Reichheld, F. (2003) The one number you need to grow. Harvard Business Review.

Available at: <https://hbr.org/2003/12/the-one-number-you-need-to-grow>

3. Bain & Company (2017): NPS and Growth.

Available at: <http://www.netpromotersystem.com/about/companies-using-nps.aspx>

4. Customer Experience Matters (2016). My Latest 9 Recommendations for NPS.

Available at: <https://experiencematters.blog/2016/08/17/my-latest-9-recommendations-for-nps/>



### Ignores actual customer behavior

NPS measures advocacy, but does not capture retention or repeat purchasing. The implication of this is that, just because a company has high NPS, it may not have truly loyal customers. For example, a company could theoretically have a high NPS score, but simultaneously experience high customer churn rates. If a company wishes to measure customer loyalty, then it would need to not only measure NPS, but also link that customer's response to their actual purchasing behaviour.

### Places too much emphasis on detractors

NPS places significant emphasis on understanding and addressing detractors.<sup>5</sup> It is obvious why companies would concentrate on detractors, but it is also important to identify the reasons why promoters give the scores they do to ensure that those aspects are protected, and why passives give the scores they do to identify areas for improvement, which might not necessarily be the same as those identified by looking at detractors alone.<sup>6</sup> It is also important that the balance of promoters, passives and detractors is considered – as shown in Figure 2, it is possible for there to be significant variation in the balance of promoters/passives/detractors whilst maintaining the same NPS.

Figure 2

#### NPS score ignores distribution of responses

Scenario	A	B	C	D
Promoters	60%	40%	30%	20%
Passives	0%	20%	60%	80%
Detractors	40%	20%	10%	0%
NPS	20	20	20	20

Depending on the balance, it may prove more beneficial to focus on moving passives to promoters, rather than moving detractors to promoters.<sup>7</sup>

5. Customer Experience Matters (2016). My Latest 9 Recommendations for NPS.

Available at: <https://experiencematters.blog/2016/08/17/my-latest-9-recommendations-for-nps/>

6. OpenView Partners (2015) The Big Problems with Net Promoter Score: Do We Need a New "Ultimate Question"?

Available at: <http://labs.openviewpartners.com/big-problems-with-net-promoter-score/#.WS6M74WcHIV>

7. It is of course possible to do both simultaneously.



### NPS is not the best predictor of growth

The number of companies analyzed in the original study referenced by Reichheld was limited, with the correlation between NPS and growth based on an analysis of 3 years of historical data. However, subsequent studies, conducted using a comparable methodology, have found NPS to not predict future growth rates of companies – although a correlation may exist between growth and NPS, it is not necessarily true that a high NPS will lead to higher growth. Indeed, NPS does not perform consistently any better than the American Customer Satisfaction Index (ACSI) as a predictor of company growth, as shown in Figure 3.

Figure 3

#### Comparison between NPS and ACSI (2000-2002)

Industry	NPS	ACSI
Wintel Personal Computer	×	✓
US Life Assurance	✓	×
Airlines	×	✓

The statement that NPS is the “single most reliable indicator of a company’s ability to grow”, as put forward by Reichheld, is therefore flawed.<sup>8</sup>



8. Journal of Marketing (2007). A Longitudinal Examination of Net Promoter and Firm Revenue Growth. Available at: <http://www.customerdelight.nu/content/04-artikelen/06-artikel-f/anti.nps.-pdf.pdf>

# Conclusion

The original research presented on NPS was compelling – a simple customer measure that exhibited a strong correlation with growth. However, as identified in this paper, NPS is not without its issues, the most notable of which is that further research has cast doubt on its reliability as a predictor of growth. These issues certainly do not mean that NPS should be dismissed as a customer measure – every measure has strengths and weaknesses – but companies should review carefully the reasons they are using, or want to use, NPS and ensure its suitability for the industry in which they operate. Perhaps most importantly, though, it that, regardless of which customer metric(s) a company chooses to use, the most important thing is that those measures are used to improve the customer experience.<sup>9</sup> If they are not used for action, then there is little point in spending time and expense measuring them.



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9. McKinsey Insights (2016). Are you really listening to what your customers are saying? Available at: <http://www.mckinsey.com/business-functions/operations/our-insights/are-you-really-listening-to-what-your-customers-are-saying>



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