TALLYING THE NET PROMOTER SCORE

UNDERSTANDING THE POPULAR CUSTOMER RELATIONSHIP TOOL AND WHAT IT REALLY HAS TO OFFER

- **NPS is a globally popular customer satisfaction assessment tool, but there is considerable concern among marketers as survey results sometimes do not correspond with business growth.**

- **The size of a brand's market share, the sample size used when collecting data, and cultural bias of respondents, are some factors that can heavily affect the outcome of NPS.**

- **Often, external factors such as a dramatic change in markets, new technology or a disruptive new product can stun and side-line NPS survey outcomes.**

- **A comprehensive understanding of the tool and factors that can affect outcome, will result in better insights into how NPS can be used to plan business growth.**
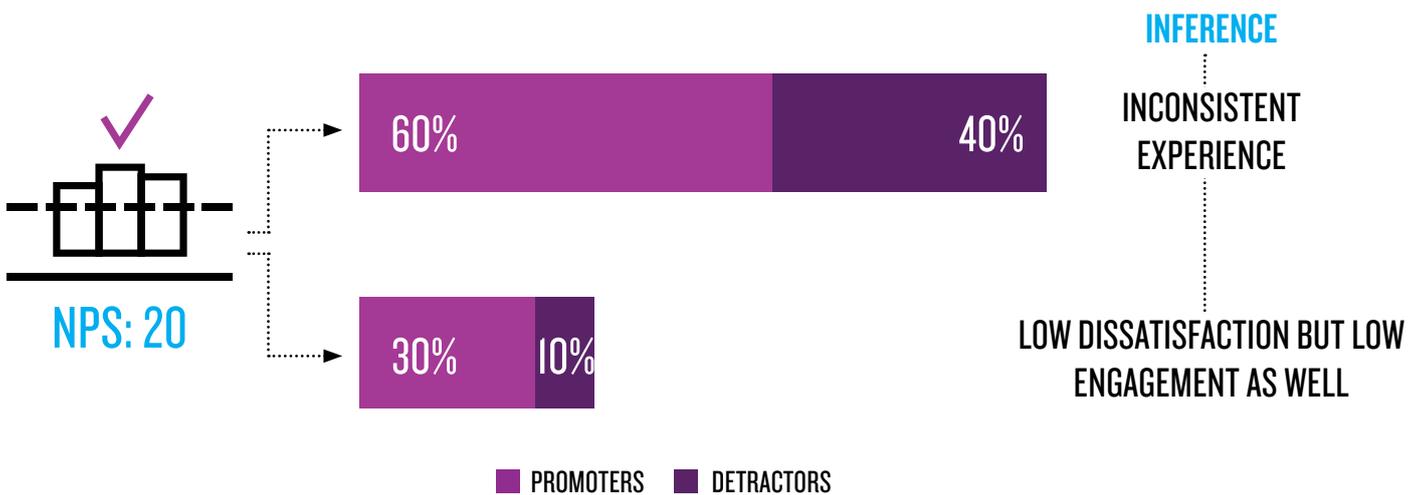
Innovation and product launches across industries are keeping brands on their toes, making it increasingly challenging for them to plan for growth and market leadership. In this scenario, a deeper understanding of consumer sentiments offer a way of creating more informed products and services. Net Promoter Score (NPS) is a single number metric that has undertaken this daunting task of measuring customer experience, but has the management world divided. Although the tool has been adopted by a large subset of the Fortune 1000 companies, the jury is still out. Brands are determined to understand if the popular tool can help them grasp consumer sentiments and therefore devise an effective growth strategy. To effectively implement the tool, insights are indispensable. Beyond that, the role of an insights provider has ballooned along with the confusion around the tool. The simple answer to whether it works is that NPS has been useful for businesses that are cognisant of the fact that several variables such as cultural attitudes and external factors affect outcomes. There is much to uncover about the metric that's making noise in strategy meetings, and keeping the score for several big companies that have got it right.

SCOREKEEPING WITH NPS

NPS is a tool with the capacity to deliver noticeable results if used in conjunction with an insights expert. To break down how it works, it is measured by giving the customer a scale from zero to 10 for them to rate in relation to the brand. Although this information is not disclosed to those scoring, rating the brand a nine or 10 earns them the status of a 'promoter'. Customers who rate brands between zero and six become 'detractors' and those marking them seven or eight are regarded as 'passives'. NPS has gained popularity because of the simplicity involved. The final sum, when populated with customer data, is calculated by subtracting the net detractors from the net promoters.
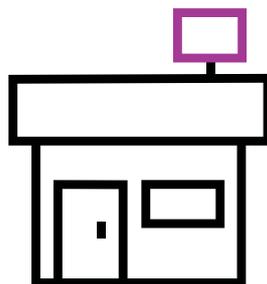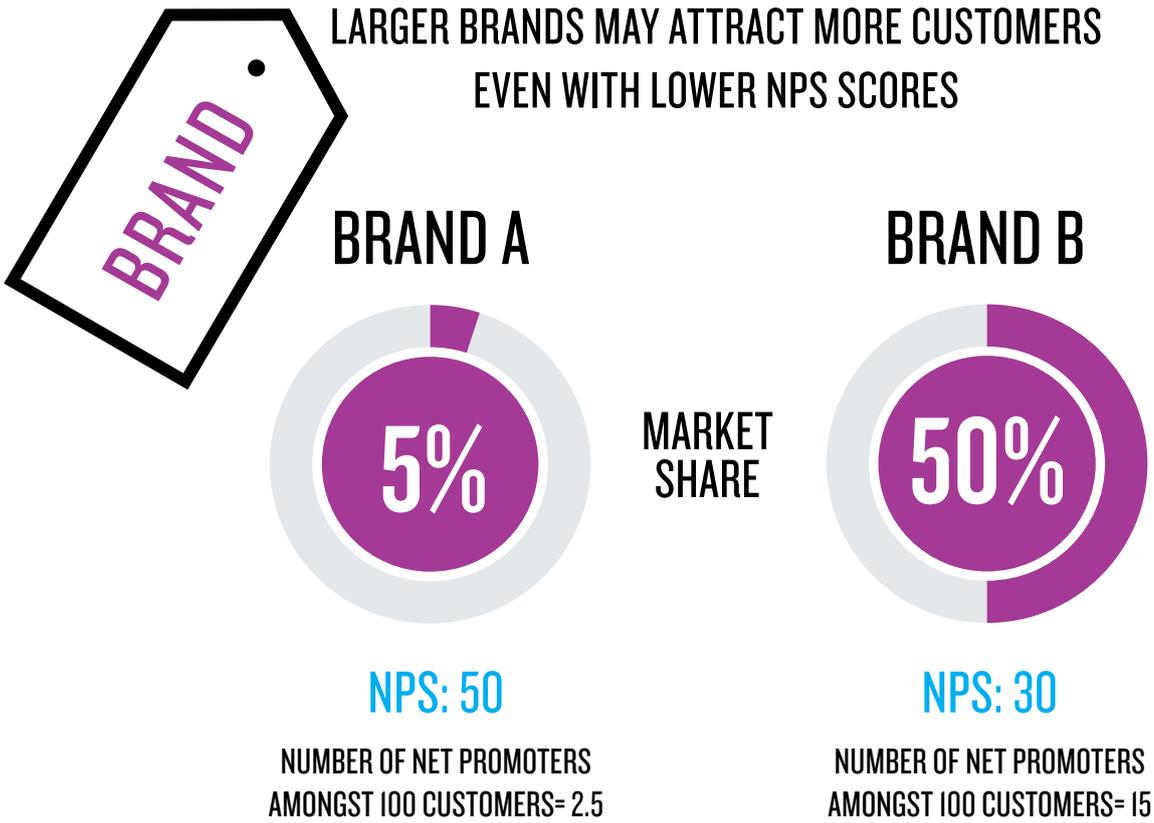
SIMILAR NPS SCORES MAY IMPLY DIFFERENT INSIGHTS
SOURCE OF NPS MATTERS

INFERENCE

NPS: 20

| 60% | 40% |

INCONSISTENT EXPERIENCE

| 30% | 10% |

LOW DISSATISFACTION BUT LOW ENGAGEMENT AS WELL

■ PROMOTERS ■ DETRACTORS

Source: Nielsen

While impressively simple, this leaves the scale open to inconsistency. A score of 20 could be a result of 60 promoters and 40 detractors, or 30 promoters and 10 detractors. The interpretation from the first instance suggests an extreme experience, while the second instance suggests a lack of engagement. Both of these would require different solutions, stirring tension at the discussion table when strategising their way forward.

LARGER BRANDS MAY ATTRACT MORE CUSTOMERS EVEN WITH LOWER NPS SCORES

BRAND

BRAND A

5%

BRAND B

50%

MARKET SHARE

NPS: 50

NUMBER OF NET PROMOTERS AMONGST 100 CUSTOMERS= 2.5

NPS: 30

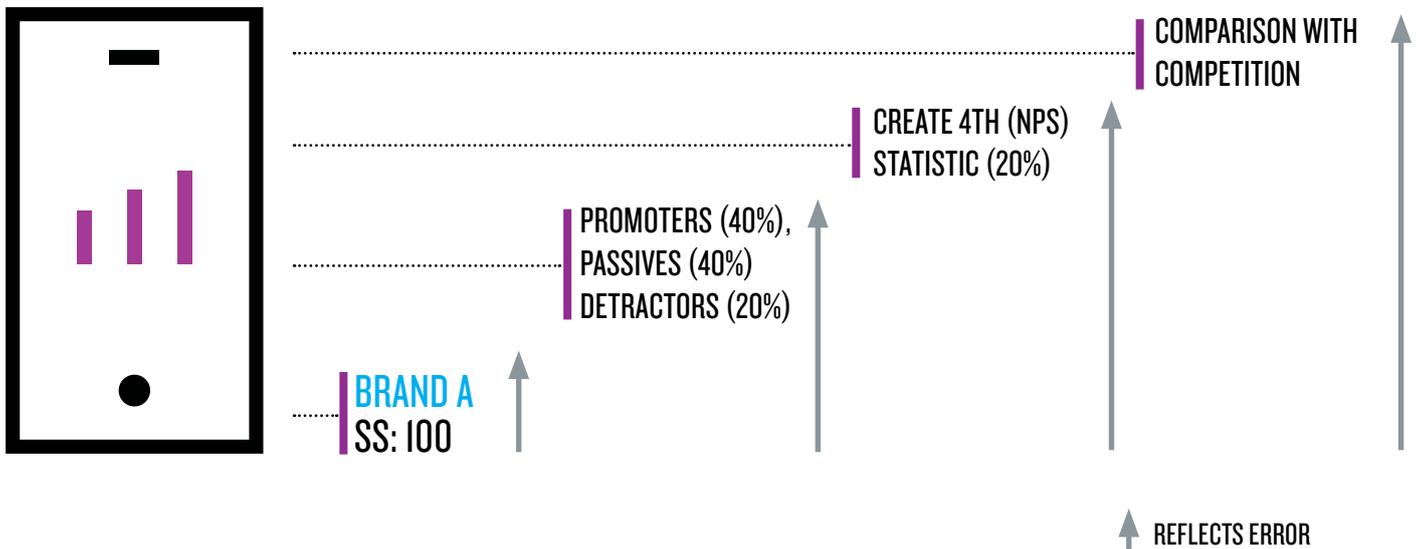NUMBER OF NET PROMOTERS AMONGST 100 CUSTOMERS= 15

Source: Nielsen

Another example of erroneous reading relies on the size of the market share. In the case that a brand has a larger market share of about 50% and a lower NPS, it would still add more customers than a brand with lower market share and a high NPS because of the larger share of net promoters.

SAMPLE SIZE AFFECTS ACCURACY OF RESULTS

COMPARISON WITH COMPETITION

CREATE 4TH (NPS) STATISTIC (20%)

PROMOTERS (40%), PASSIVES (40%) DETRACTORS (20%)

BRAND A SS: 100

REFLECTS ERROR

Source: Research Access

Other impediments to accuracy include sample size and customer strength. A smaller sample size increases the margin of error. Moreover, the simple mechanism of NPS leads us to look at NPS in isolation from how the same consumers feel about competing brands, creating room for error. Since not all promoters can be deemed as good customers because of the possibility of them being loyal to multiple brands, this also widens our margin for inaccurate readability.

THE RATING VARIABLES

A leading weakness of NPS is an unavoidable one. The cultural bias that emerges from past experiences and a historic mind-set of consumers leaks into the way they score a brand. Furthermore, the leading player in a market also affects the NPS of others. In a market with just one good player, NPS scores of the leader get overstated and the reverse could happen with a bad player. Finally, the introduction of a new product or an exciting scheme in the market by one brand has the potential of derailing incumbent brands that display a high NPS. Their NPS may remain high but their sales may not speak the same language in the face of the new product.
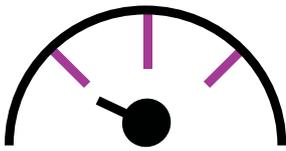
THE CULTURAL BIAS THAT EMERGES FROM PAST EXPERIENCES AND A HISTORIC MIND-SET OF CONSUMERS LEAKS INTO THE WAY THEY SCORE A BRAND.

GLOBALLY, CULTURE BIAS TENDS TO BE A BIG FACTOR IF NOT THE ONLY FACTOR

| NEW ZEALAND	AUSTRALIA	TURKEY	NORTH AFRICA	MENAP	SEA	INDIA BANGLADESH
9	-11	23	17	47	-4	27
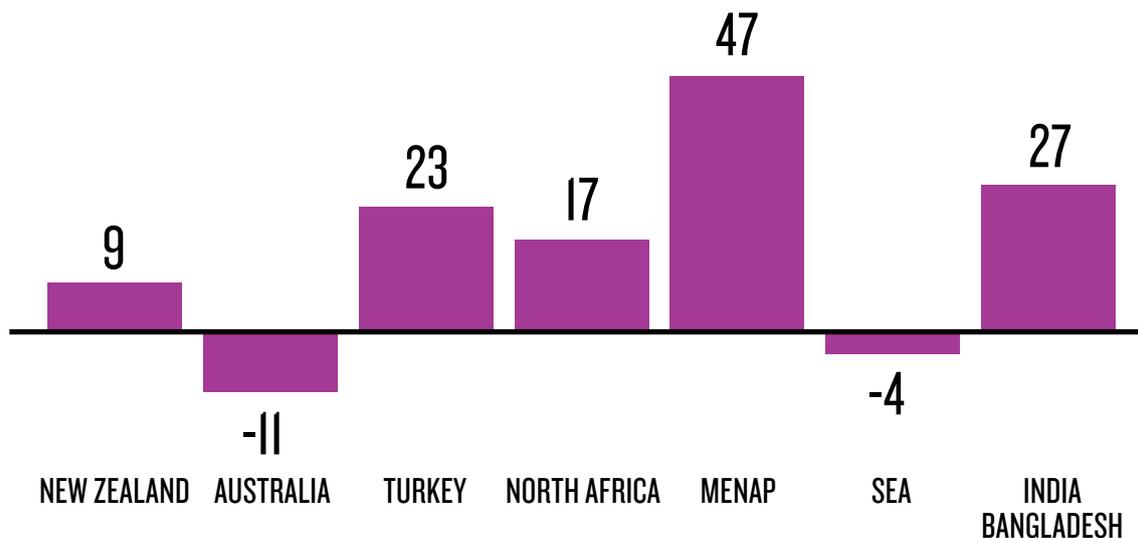
Source: NPS Studies conducted in 2015-16 amongst 200 brands across 13 countries
North Africa: Algeria, Egypt, Morocco and Tunisia
MENAP: Middle East, Pakistan includes Bahrain, KSA, Kuwait, Oman, Qatar, UAE and Pakistan
SEA: South East Asia includes Malaysia and Indonesia

INDIAN RESPONDENTS DISPLAY A HIGH CULTURAL BIAS

72	85	49	66	80	40	85
GLOBAL AVERAGE	INDIA	CHINA	SINGAPORE	PHILIPPINES*	HONGKONG*	AFRICA*
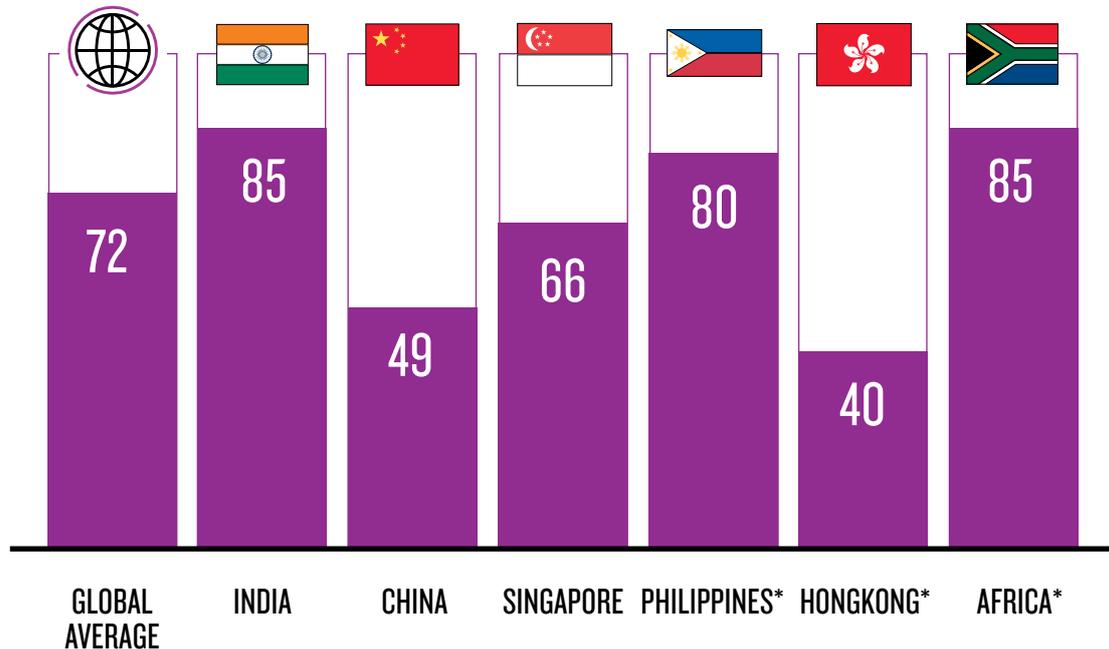
Source: 5 point Scale Recommendation Question from eQ studies
*Low base

GEARING FOR GROWTH

While on the theme of inconsistency, the dichotomy between market growth and NPS can be explained through a number of factors. Categories with fewer players and increasing adoption rates tend to show a lower consistency between NPS and market performance. Dramatic changes in technology or one disruptive player can also help set the two in different directions. Moreover, a big player with deep pockets can flood the market making NPS redundant due to excessive distribution. While these may be obstacles in the endeavour for measuring customer loyalty, the creators of NPS have set out a few favourable conditions for the scale. Customers will inadvertently rate more effectively if there are a substantial number of players within the industry because of their wider range of experiences; so that's a sturdy foundation for adopting NPS. Other conditions are widespread adoption and use of services as well as ease in switching products if the customer pleases. Wherever these conditions do not hold, the relationship between market growth and NPS may be weak or inconclusive.
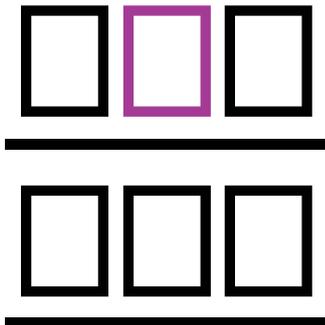
CATEGORIES WITH FEWER PLAYERS AND INCREASING ADOPTION RATES TEND TO SHOW A LOWER CONSISTENCY BETWEEN NPS AND MARKET PERFORMANCE.

HOW TO MAKE NPS WORK FOR YOU

When setting business targets based on NPS findings, there are some additional factors that can be used to devise a more effective strategy for business growth.

HISTORICAL VOLATILITY METHOD

SCENARIO 1

AT THE SPECIFIC REGION LEVEL, CHECK IF ANY BRAND WAS AT THE SAME LEVEL (GIVE OR TAKE 5 IS ALSO FINE) AS CURRENT NPS OF BRAND A AT ANYTIME OVER THE LAST FEW YEARS.

MONITOR BRAND B'S MOVEMENT (IF POSITIVE) OVER A 12 - MONTH PERIOD

ESTABLISH THAT MOVEMENT AS THE BASE LEVEL MOVEMENT TARGET.

EXAMPLE: IF BRAND A CURRENTLY HAS AN NPS SCORE OF 55 AND IN THE PAST BRAND B WAS ABLE TO MOVE FROM 55 TO 59, THEN THE BASE TARGET SHOULD BE AT LEAST 4 POINTS MORE. MOVING FORWARD, THERE IS SCOPE TO BE SUBJECTIVE AND SUGGEST ALTERATIONS SUCH AS 4+1 OR 4+2

SCENARIO 2

IN THE EVENT BRAND A IS THE HIGHEST OR THERE ARE NO PAST EXAMPLES OF NPS MOVEMENT, THEN CHECK RANK

CHECK HISTORIC POSITIVE VOLATILITY FOR BRANDS IN THAT POSITION IN THE REGION AND ESTABLISH THAT AS THE MAXIMUM MOVEMENT TARGET

BUILD EITHER OR BOTH METHODS OF TARGETS TO THE NATIONAL LEVEL

Source: Nielsen

During target-setting, the main purpose of measuring should be rooted in the goal-setting process. This will help establish a baseline which can be improved upon. However, the method makes the scoring less relevant in a market which is populated with players whose products only display minor variations in quality. Nevertheless, a brand's market share influences NPS substantially. Certain factors such as product quality, innovation, number of players, number of new entrants, susceptibility to technological disruption, company leadership and government regulation establish the baseline for a brand. Thereafter, the focus can be funnelled towards relatively raising the score over time.

LOW NPS SCORES MAKE ROOM FOR HIGHER GROWTH

### SCOPE FOR IMPROVEMENT
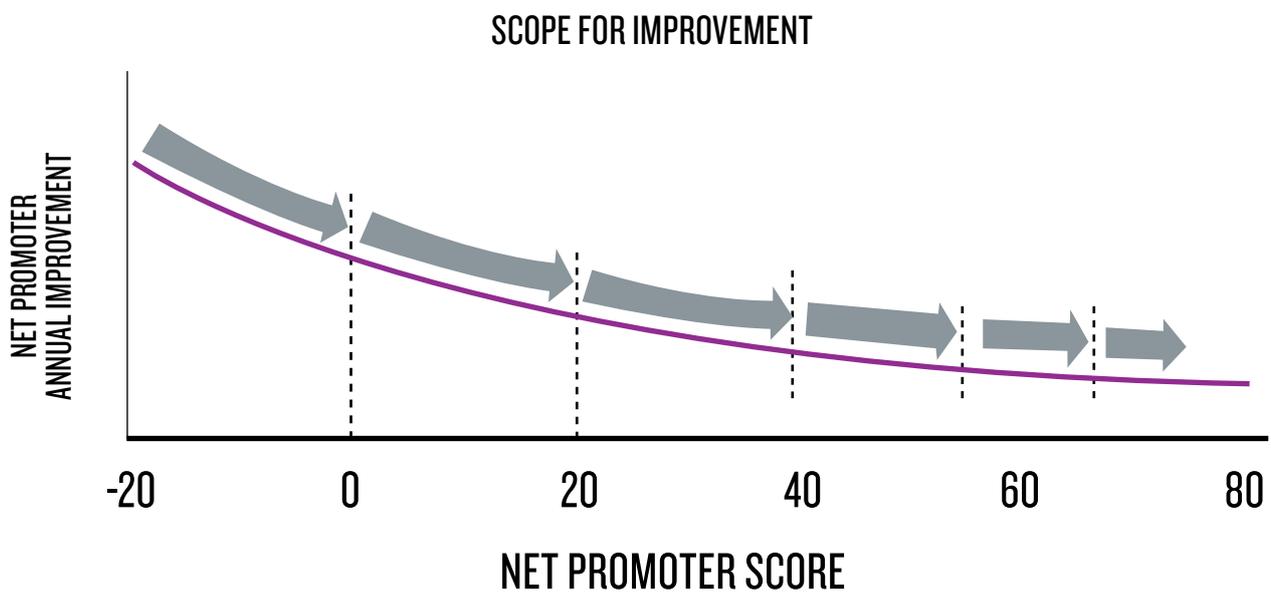
Source: Nielsen

A surprising silver lining that comes with measuring NPS is receiving a low score. An unimpressive score offers the opportunity to increase this number by setting new, focussed goals for various teams. Those with high scores have less room for growth whereas those with average and below average scores can expect impressive growth through appropriate goals.
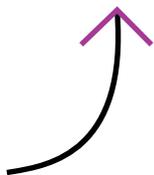
> ## THOSE WITH HIGH SCORES HAVE LESS ROOM FOR GROWTH WHEREAS THOSE WITH AVERAGE AND BELOW AVERAGE SCORES CAN EXPECT IMPRESSIVE GROWTH THROUGH APPROPRIATE GOALS.

Meanwhile, the dilemma at the strategy table where the same NPS score requires two different approaches can be resolved by setting separate targets for promoters and detractors.

ANOTHER WAY TO CONSIDER TARGET SETTING IS TO SET TARGETS PURELY FOR PROMOTERS AND DETRACTORS SEPERATELY

NPS: 20

60%

40%

30%

10%
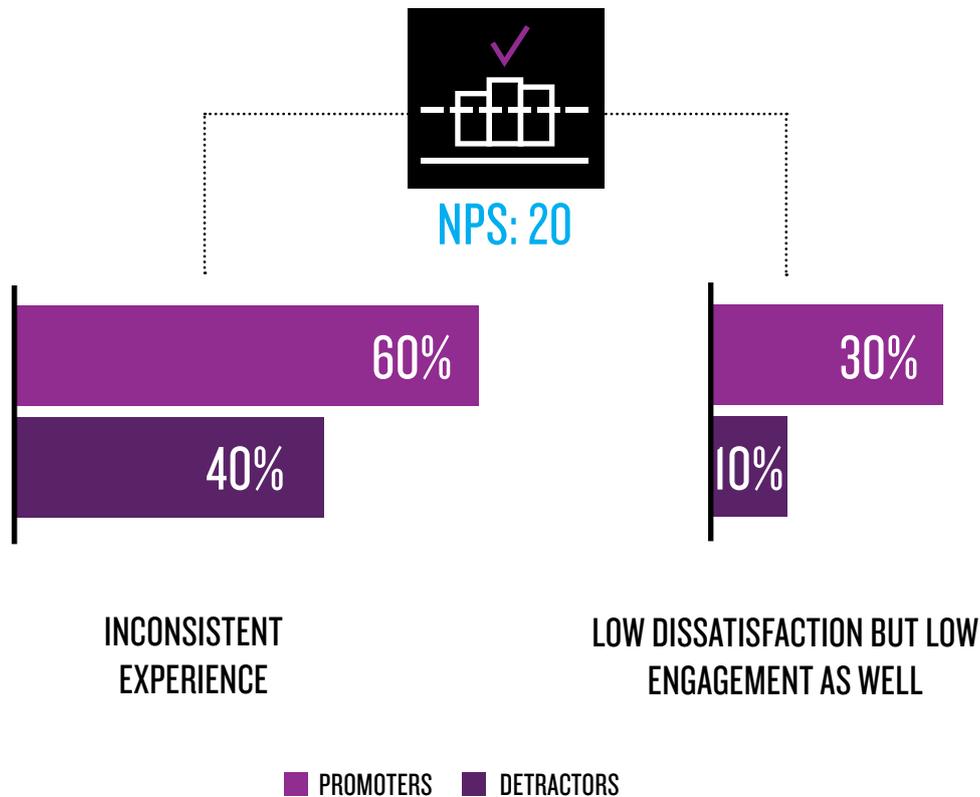
INFERENCE

INCONSISTENT EXPERIENCE

LOW DISSATISFACTION BUT LOW ENGAGEMENT AS WELL

■ PROMOTERS   ■ DETRACTORS

Source: Nielsen

NPS scores over other traditional methods like transactional surveys because it takes a more comprehensive feedback from customers than just a single transaction. It is, thus, important to remember that NPS is not just a satisfaction metric. Instead, it goes beyond to learn whether a customer would recommend the product to another individual. So while transactional surveys tell you how customer loyalty is coming along and gives you immediate goals, NPS is a tool that can help you plan your way forward. With insights and analysis as allies to the tool, the NPS model can be a step in the direction of growth.

NPS comes with its pros and cons. Its unique make up and interesting positioning as compared to other metrics gives it an edge. While this edge can be honed to understand and increase a brand's customer loyalty, it can also be the sharpened niche that cuts through sales, if mismanaged. This makes it indispensable to read the data accurately. Similar to all management tools, a comprehensive understanding of it, available through insights facilitators, can drive growth forward. While the favourable conditions mentioned are a pre-requisite for the tool, the customer-rated scale also needs its scorekeeping to be precise so that it can provide relevant results.

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ABOUT NIELSEN

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