

Knowledge for Decision Makers

vocatus

Why the NPS doesn't work

And what you should do instead



Simple, ...

The Net Promoter Score (NPS) was promoted by Fred Reichheld, and its simplicity makes it particularly appealing. The customer is asked just one question: "On a scale of 0 to 10, how likely are you to recommend company X?"

The number of respondents who answer with a score of 0 to 6 is deducted from the number who answer with 9 or 10. The result is the Net Promoter Score. Reichheld believed that he had discovered an empirical relationship between this score and the growth of the company.



... but invalid

Unfortunately, a comprehensive empirical study by MIT in 2008 was unable to replicate its results. No relationship could be established between the NPS and company growth. (Source: MIT Sloan Management Review, 2008, p. 50–57.)

And that makes sense, as the NPS is based on a number of assumptions that do not stand up to empirical examination. We will look more closely at these below.

The assumptions behind the NPS ...

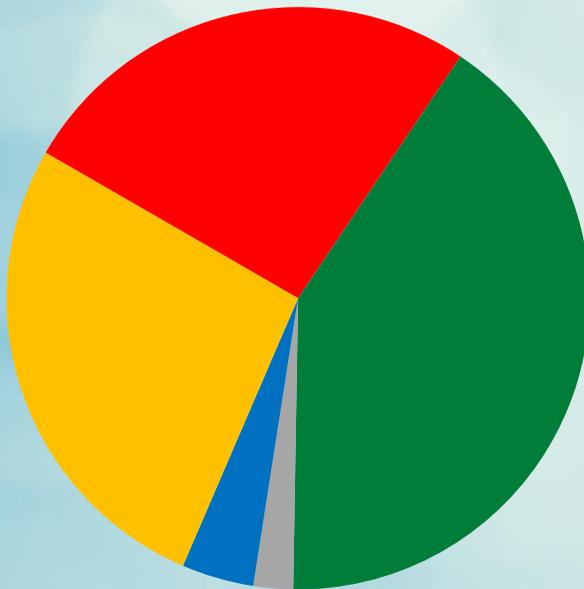
The NPS theory centres on a simple and unambiguous chain of effect:

- ➔ Particular aspects of service and performance lead to satisfaction
- ➔ Satisfaction leads to recommendations (which the NPS measures)
- ➔ Recommendations lead to customer loyalty and growth

Things are not that simple, however, because not all customer types behave in the same way.

Customer type distribution

Example: Telecoms/DSL product



5 Customer types



Bargain Hunter



Price Acceptor



Risk Avider



Routine Buyer



Indifferent Buyer

... empirically examined

Customer type plays a crucial role in determining whether satisfaction really leads to recommendations, and whether recommendations in turn lead to loyalty.

That's why we have empirically examined the assumptions behind the NPS for different customer types.

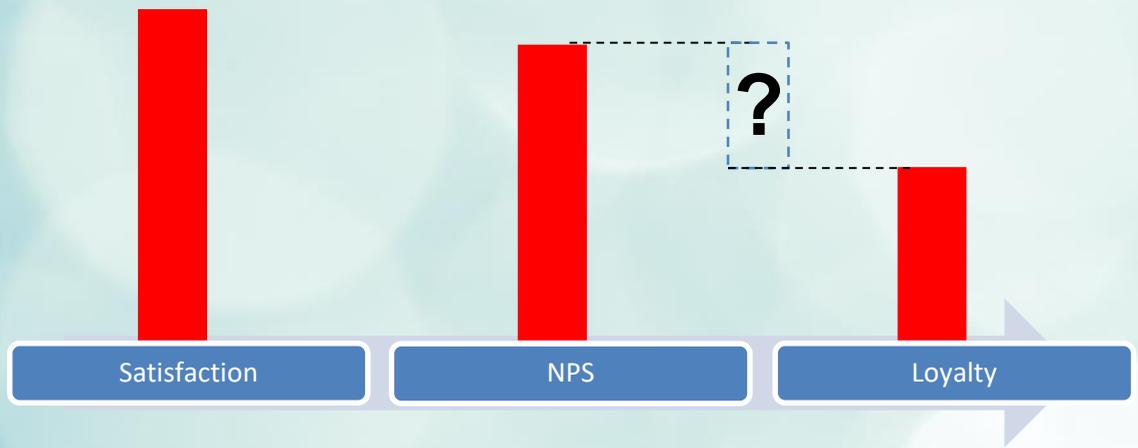
Bargain Hunter

The main motive of Bargain Hunters is to find a particularly good price. If this condition is met then they will be satisfied and will often recommend the supplier to others. However, this temporary satisfaction (based on price) and high level of recommendation to others only results in strong loyalty to a limited degree.

This customer type will re-evaluate their choice every time they make a purchase and will choose the supplier offering the best value for money at that time - who will rarely be their current supplier.



Bargain Hunter



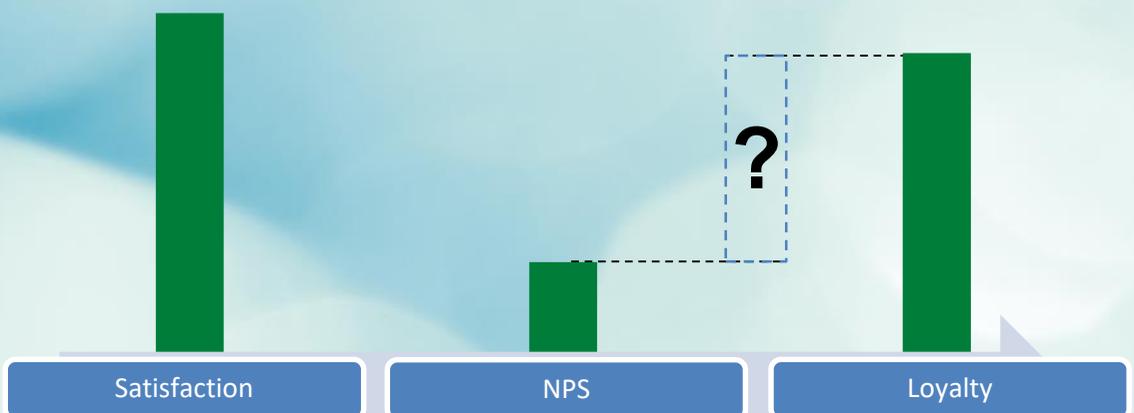
Risk Avider

The main motives of Risk Avoiders are fairness and how well the product or service meets their needs. If these conditions are met then they become satisfied and highly loyal customers.

However, Risk Avoiders will not necessarily recommend a particular company to others based entirely on their own personal satisfaction and loyalty. They believe that everybody should form their own opinions based on their own experiences.



Risk Avider



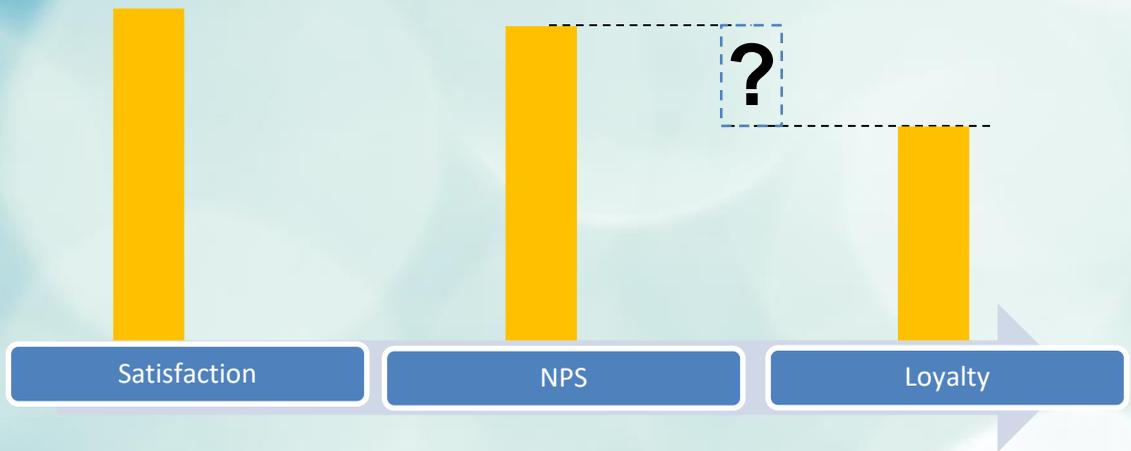
Price Acceptor

The main motive of Price Accepters is to find top performance and service - for which they are also prepared to pay a premium. If this condition is met then they will be satisfied and will often recommend the supplier to others.

However, this satisfaction and high level of recommendation to others only results in correspondingly strong loyalty to a limited degree. Because the Price Acceptor is always very open to innovations and keen to test out new products, they have a relatively high tendency to switch suppliers when their current provider is unable to constantly offer new products and services.



Price Acceptor



No relationship

The bottom line is that the NPS is not a valid predictor of customer loyalty for any of the three main customer types. Running a company based on this score will therefore not lead to any useful results.



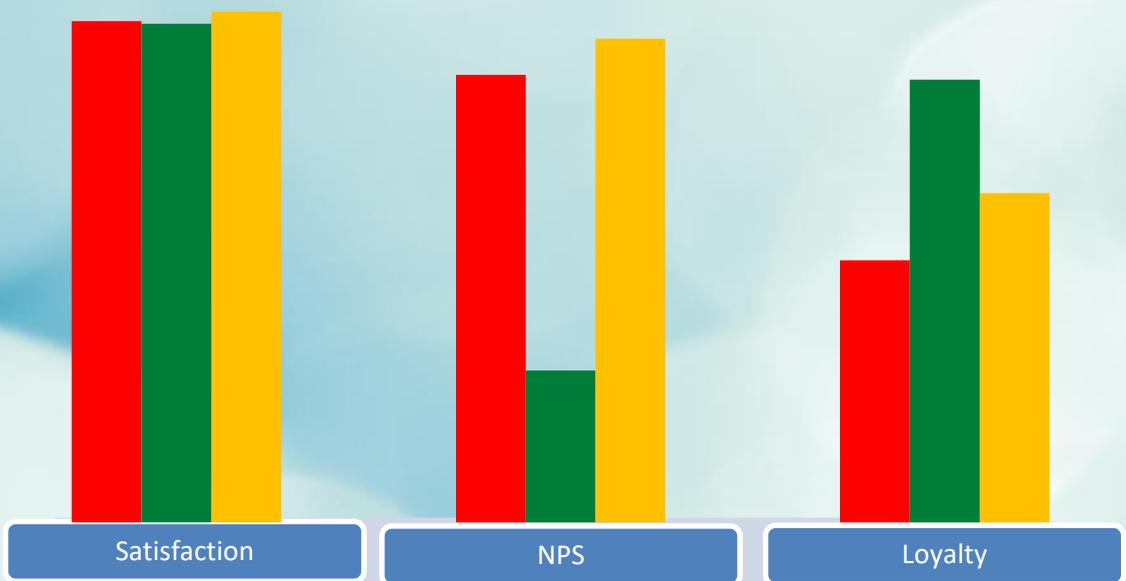
Bargain Hunter



Price Acceptor



Risk Avider



Different customer types, ...

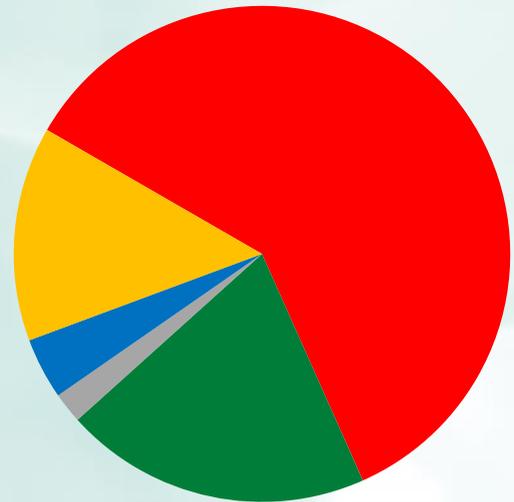
The different behaviors shown by different customer types can lead to absurd results with NPS. In the example below, the NPS scores of the individual customer types have not been modified; only the distribution of the different customer types was changed.

Different customer type distributions

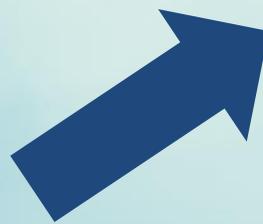
Supplier leads on
quality



Supplier leads on
price



NPS



... different NPS



In this way, a company can significantly increase its NPS simply by altering the composition of its customer types. It becomes especially clear that an undifferentiated NPS cannot serve as a meaningful KPI when the main motive for customer loyalty (e.g. the lowest price on the market) stands in opposition to the company's strategy (e.g. leading on quality).

What now?

The NPS is not a valid predictor of customer behavior. Nor can it explain why a company has a particular NPS.

And if the reason for the score is unknown then it is impossible to take any targeted action to improve it. This results in useless activity and inefficient use of resources.

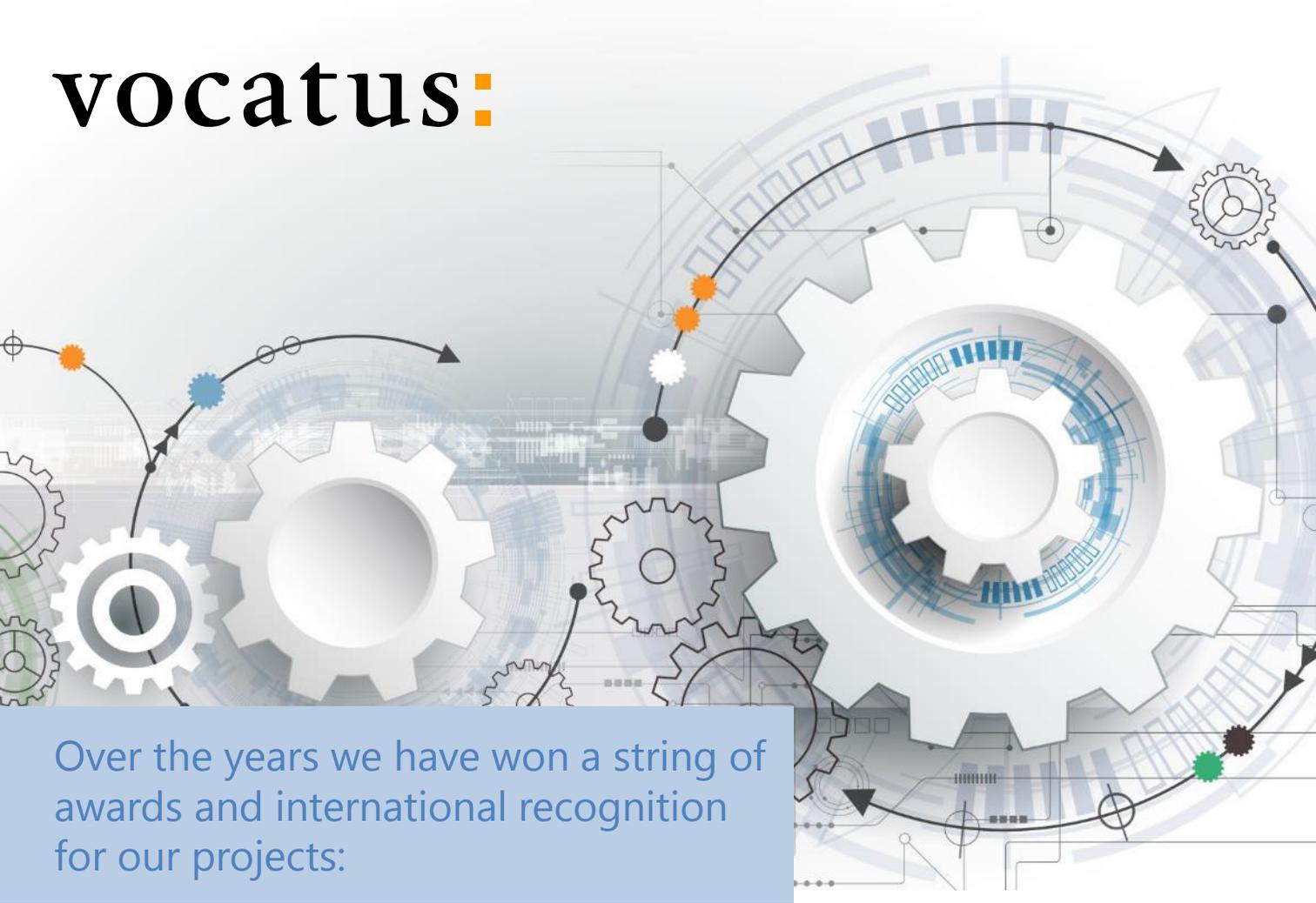
One useful KPI might thus be to break down the NPS by customer type, for example.

The question of whether the NPS should be improved among a particular customer group at all can then be answered with reference to the corporate strategy.

After all, no company should ever stumble blindly into a price war simply in order to increase its NPS among discount hunters.



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Over the years we have won a string of awards and international recognition for our projects:

- 2016 "Best Consultancy" award from German business magazine brand eins
- 2015 Image study: Gold in "Innovation", Silver in "Consultancy Expertise"
- 2014 GRIT Report – Top 20 most innovative market research agencies worldwide
- 2013 ESOMAR – "Research Effectiveness Award"
- 2012 ESOMAR – "Research Effectiveness Award"
- 2012 Image study: Gold in "Innovation"
- 2010 ESOMAR – "Award for the Best Methodological Paper"
- 2010 German Market Research Award – "Best Study"

If you would like to arrange a non-binding discussion of useful alternatives to the NPS then we would be delighted to hear from you via: hardy-koth@vocatus.de