How to fool some of the CEOs all of the time:
Net-Promoter Score versus good market research practice

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Purposes

1. Marketing 101 (describe a best practice process for market research: Customer Value Management – CVM)

2. Apply this way of thinking to Net-Promoter Score

In short, explain how CEOs of some of the largest companies in the world are worshipping a false god.
Why carry out market research?

- Find out what’s important to people when they make their purchasing decision
- Ascertain how your product or service is viewed, compared with the competition
- Obtain timely feedback
- Find out what you need to fix, and in what order
- Improve the bottom line
Desiderata for market research processes

- Statistically sound, ensuring that nothing important has been omitted from the survey.
- A way to relate survey results to higher-level business drivers.
- Actionable Board and senior executive reports
- Helps identify which improvements will have the greatest beneficial impact on both customers and the business.
- Useful benchmarking metrics.
The Customer Value Management process

Origin: panic stations at AT&T, 1986 ...
High Customer Satisfaction

AT&T, 1986
300,000 employees
19 business units, 
67 Market sectors, 
32 countries
60,000 people surveyed 
world-wide, each month

95 % Customer Satisfaction
Bonuses paid to managers!

Slide due to Ray Kordupleski
Lost Market Share

AT&T, 1986
300,000 employees
19 business units,
67 Market sectors,
32 countries
60,000 people surveyed
world-wide, each month

6% drop in market share
1% corresponded to
$600,000,000
25,000 staff laid off

95 % Customer Satisfaction
Bonuses paid to managers!?
Good Isn’t Good Enough

Overall Satisfaction

% Very Willing to Repurchase

Percentage
0
10
20
30
40
50
60
70
80
90
100

Poor Fair Good Excellent

Overall Satisfaction

% Very Willing to Repurchase

Slide due to Ray Kordupleski
Mistakes

- Good and Excellent lumped as Satisfactory. There is no such thing as a satisfied customer.

- All effort went into Poor and Fair (small number) yet largest group (Good) were out shopping for an alternative supplier.

- Measured AT&T versus AT&T

- Analysis ignored price ...
Measure Customer Satisfaction with Value

Value

Products & Services

Prices

Slide due to Ray Kordupleski
Customer Value Added Measurement

\[
\text{CVA} = \frac{\text{Worth of your offer}}{\text{Worth of competitive offers}}
\]
Revenue Share to Relative Value

12 Long Distance Telephone Markets

AT&T Relative Value (CVA)
Market Share (% Sales) and CVA

Communications Equipment

Slide due to Ray Kordupleski
Market Share (% Sales) and CVA

Communications Equipment

(a)

(b)

Slide due to Ray Kordupleski
Lessons Learned . . .

- Good is Bad
- **Excellent Value** drives Loyalty
- **Relative Value** drives Market Share
- Loyalty & Relative Value have impact on *Return on Investment*
Managing Customer Value – the process

1. Design and implement a **Value Survey**

2. Develop company-wide **customer focus**

3. Identify **priorities with biggest business impact**

4. Make improvements
   - Communicate improvements
   - Re-survey
Example: a CV survey of Decision Makers

Getting and servicing a mortgage for a house or apartment ...
Develop a Customer Value tree ...

- Quality
  - Mortgage package
    - Choice of structures
    - Options to terminate
    - Loan Manager
    - Application
    - Settlement
    - Statements
  - Delivery Process
    - ...

- Worth What Paid For
  - Direct Costs
    - Rates
    - Charges & fees
    - Statements
    - Enquiry service
    - ...
  - Indirect Costs
    - ...
  - Price
Identify Value drivers for overall satisfaction

Market focus groups to identify top few attributes

Business process

Value

Worth What Paid For

Quality

Delivery Process

Mortgage package

Choice of structures
Options to terminate
...

Loan Manager
Application
Settlement
Statements

Direct Costs

Rates
Charges & fees
...

Indirect Costs

Statements
Enquiry service
...

Price
Survey the **market** (your bank + competitors)

On a scale of 1 to 10, where 1=**Poor** and 10=**Excellent**, please rate the bank on ...

**NB:** we are surveying the people making the purchasing decisions.
Collect data ...

Obtain ratings of each branch of the tree ...

- Quality
  - Mortgage package
  - Delivery Process
    - Choice of structures
    - Options to terminate
    - Loan Manager
    - Application
    - Settlement
    - Statements

- Worth What Paid For
  - Direct Costs
    - Rates
    - Charges & fees
    - Statements
    - Enquiry service
  - Indirect Costs
  - Price
... to get structured measurements

- Mortgage package
  - Quality
  - Delivery Process
    - Choice of structures
    - Options to terminate
      - ...
    - Loan Manager
      - Application
      - Settlement
      - Statements

- Direct Costs
  - Price
    - Rates
    - Charges & fees
      - ...
    - Statements
      - Enquiry service

Fit hierarchical regression models ...

Model for any level of data

\[ Y = w_1 D_1 + \ldots + w_k D_k + wD \]

where

- weights \( w_i \geq 0, \quad w_1 + \ldots + w_k + w = 1 \)
- \( D_1, \ldots, D_k \) are drivers (explanatory variables) for \( Y \)
- \( D \) is an unobserved driver ... represents all the unmeasured factors that affect \( Y \)
- \( Y, D_1, \ldots, D_k \) and \( D \) all measured on a 1–10 scale
1. **Adequacy of all model fits**, providing assurance than no important factor has been overlooked

2. **Which attributes carry the most weight** in driving overall customer satisfaction

3. **Where you are rated poorly** relative to your competition
### Top-level profile: Value and its drivers

<table>
<thead>
<tr>
<th></th>
<th>Impact weight (%)</th>
<th>Your rating</th>
<th>Competitive rating</th>
<th>Relative* rating (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>51</td>
<td>7.4</td>
<td>7.7</td>
<td>96</td>
</tr>
<tr>
<td>Price</td>
<td>32</td>
<td>6.9</td>
<td>6.8</td>
<td>101</td>
</tr>
<tr>
<td>Value</td>
<td>$R^2 = 83%$</td>
<td><strong>7.3</strong></td>
<td><strong>7.5</strong></td>
<td><strong>97</strong></td>
</tr>
</tbody>
</table>

*Typically, sample size is sufficient that confidence interval for Relative Rating is ± 2%
## Top-level profile: Value and its drivers

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<tr>
<td><strong>Impact weight (%)</strong></td>
</tr>
<tr>
<td>-----------------------</td>
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<td>Quality</td>
</tr>
<tr>
<td>Price</td>
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<tr>
<td>Value</td>
</tr>
</tbody>
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- Carries significant weight in driving overall satisfaction *(Worth What Paid For)*
- You are rated poorly compared with competition
- Therefore, focus improvement efforts here …
## Quality and its drivers

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<th>Relative rating (%)</th>
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<tr>
<td>Mortgage package</td>
<td>30</td>
<td>7.7</td>
<td>7.8</td>
<td>99</td>
</tr>
<tr>
<td>Delivery process</td>
<td>55</td>
<td>6.8</td>
<td>7.2</td>
<td>94</td>
</tr>
<tr>
<td><strong>Quality</strong></td>
<td>( R^2 = 85% )</td>
<td>7.4</td>
<td>7.7</td>
<td>96</td>
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The table above shows the impact weight, your rating, competitive rating, and relative rating for the mortgage package and delivery process. The overall quality is represented by an \( R^2 = 85\% \) score, indicating a strong correlation between the drivers and the overall quality.
## Delivery process and its drivers

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<th>Relative rating (%)</th>
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</thead>
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<td>Loan manager</td>
<td>6</td>
<td>7.7</td>
<td>7.2</td>
<td>107</td>
</tr>
<tr>
<td>Application</td>
<td>16</td>
<td>7.4</td>
<td>7.3</td>
<td>101</td>
</tr>
<tr>
<td>Settlement</td>
<td>20</td>
<td>6.7</td>
<td>6.7</td>
<td>100</td>
</tr>
<tr>
<td>Statements</td>
<td>44</td>
<td>6.0</td>
<td>7.1</td>
<td>85</td>
</tr>
<tr>
<td>Delivery process</td>
<td>$R^2 = 86%$</td>
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*Boast about this result!*  
*Fix this one, your competition is boasting!!! ... by developing a Transaction survey focused just on your users ...*
Develop Transaction Survey **for your customers** …..

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Statement itself</td>
</tr>
<tr>
<td>Easy to understand</td>
</tr>
<tr>
<td>...</td>
</tr>
<tr>
<td>Enquiry service</td>
</tr>
<tr>
<td>Accessible</td>
</tr>
<tr>
<td>Knowledgeable</td>
</tr>
<tr>
<td>Resolution on 1st call</td>
</tr>
<tr>
<td>...</td>
</tr>
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**Note:** Transaction Surveys are focused on **Users**, rather than **Decision Makers** (the target for Customer Value surveys)
... complete the set of metrics ...

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</thead>
<tbody>
<tr>
<td></td>
<td>Accurate</td>
<td>Timely</td>
<td>Easy to understand</td>
<td>...</td>
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<td>Enquiry service</td>
<td>Accessible</td>
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% enquiries
% resolved on first call
% enquiries
% resolved on first call
... and continue the improvement cycle

1. Design and implement a **Value Survey**
2. Develop company-wide **customer focus**
3. Identify **priorities with biggest business impact**
4. Make improvements
   - Communicate improvements
   - Re-survey
Linking Value to Business Impact

Value - Loyalty curve

Loyalty

Value

Loyalty

Very willing to recommend (%)

Value - Loyalty curve

Loyalty

Value

Current Value score

Improvement target: 80%
Survey summary

Value survey - Decision-maker
Whole market

Relative Value lead indicator for Market share

Customer Value lead indicator for Loyalty

Transaction survey - User
Your customers only

Billing

% billing enquiries
... ...% abandoned calls
... ...
Desiderata for market research processes

- Statistically sound, ensuring that nothing important has been omitted from the survey ... *Regression modelling*.
- A way to relate survey results to higher-level business drivers ... *Value-Loyalty plot*.
- Actionable Board and senior executive reports ... *tables of competitive profiles*
- Helps identify which improvements will have the greatest beneficial impact on both customers and the business ... *profiles & loyalty plot*
- Useful benchmarking metrics ... *ratings for main branches*
Desiderata for market research processes

- Statistically sound, ensuring that nothing important has been omitted from the survey...
- Regression modelling...
- A way to relate survey results to higher-level business drivers...
- Value-Loyalty plot.
- Actionable Board and senior executive reports...
- Tables of competitive profiles...
- Helps identify which improvements will have the greatest beneficial impact on both customers and the business...
- Profiles & loyalty plot...
- Use of benchmarking metrics...

Critical points

- The Value survey focuses on the person making the purchasing decision, whereas the Transaction survey focuses on the actual user.
- The critical quantity in terms of business impact is Relative Customer Value, not Absolute Customer Value.
1. **Marketing 101** (describe a best practice process for market research: Customer Value Management – CVM)

2. Apply this way of thinking to Net-Promoter Score

In short, explain how CEOs of some of the largest companies in the world are worshipping a false god.
From my email this morning...

Question 3
Based on your experience, how likely are you to recommend AGL to your family and friends? (where 0 is not at all likely and 10 is very likely)

- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
What is NPS?

Typically, after each transaction with a company, customers are asked a single question:

“How likely is it that you would recommend our company to a friend or colleague?”

Responses are recorded on an 11-point scale (0 – 10), where

0 = Not at all likely and 10 = Extremely likely.

Respondents are then classified as Detractors (0 – 6), Passives (7 – 8) or Promoters (9 – 10)

NPS = % (Promoters) – % (Detractors)
NPS – worshipping a false god

- In widespread use as a single metric for benchmarking customer satisfaction and staff satisfaction
- Easy to measure
- Easy to explain
- Backed by powerful marketing
- Used as a principal benchmarking customer metric by major banks and by many other very large corporations (GE, ...)!\

Unfortunately,

- Not fit for purpose – *it fails all the Desiderata*
How did NPS arise?


- Then followed calls to many companies running proper market research processes, advising them they were wasting vast amounts of money on market research, since they only needed this single metric (plus a consulting visit or two ... ).
What’s wrong with NPS?

- It is uncalibrated by competitive information.
- Little hard evidence that NPS is a lead indicator of business outcomes; indeed the AT&T experience suggests that there may be no connection. What matters is **Relative Customer Value**.
- NPS is **transactional**, focusing only on the user (e.g. an administrative assistant) who, in many cases, will not be the person making the purchasing decision ... *e.g.* my wine purchase experience ... *cf.* Customer Value Management ...
What’s wrong with NPS?

- Uncalibrated by competitive information.
- No demonstrable link to Market share, Return on Investment, ... Indeed, the AT&T experience suggests that there may be no connection. What matters is Relative Customer Value.
- NPS is transactional, focusing only on the user (e.g. an administrative assistant) who, in many cases, will not be the person making the purchasing decision.
- It often derives from a single low-level customer experience with unknown influence on a decision-maker's overall perception of Value.
- The Passives are ignored, yet they often constitute a large percentage, and are the best chance of changing people to Promoters!
- Nothing actionable in Board and senior executive reports, let alone ability to drill down.
- No basis for selecting improvement priorities – no data are formally collected on any aspect of the customer experience.
- Not helpful in benchmarking.
What’s wrong with NPS?

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- NPS is transactional, focusing only on the user (e.g. an administrative assistant) who, in many cases, will not be the person making the purchasing decision.
- It often derives from a single low-level customer experience with unknown influence on a decision-maker’s overall perception of Value.
- The Passives are ignored, yet they often constitute a large percentage, and are the best chance of changing people to Promoters!
- There is no sound approach to selection of improvement priorities.
Conclusion

- There are well-established ‘best practice’ approaches to creating and delivering superior value to customers and there are associated and proven lead-indicator metrics for **Market share** and **Return on Investment**.

- NPS is not such a metric: **it is a false god.**
References

**Customer Value Management**


**Net Promoter Score**

Final remark ... a disruptive suggestion

1. When asked to provide an NPS rating in the future, assign a rating of 0.

2. And when asked for the reason for assigning this rating, tell them
   “Because you use NPS.”

3. Contact 5 friends and encourage them to adopt (1) – (3).
Happy birthday, Jerry, from your many friends Down Under