CA - S6: NPS

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Abstract

This technical note introduces what is NPS and its benefits and limitations.

Contents

The problem

- **Problem**: we don't know if our customers are happy with our products and services.
- **Goals**:
    - We want to know if customers are loyal to our brand
    - We want to know if the customers are satisfied with our services and products.
    - We want to segment customers in three groups: **promoters**, **passive** and **detractors**
- **Why?** Perform specific actions to improve our services and products

What is Customer Satisfaction

We need a definition

> We define customer satisfaction as the number of clients (or the percentage of the total) whose experience with the products or services of the organization exceed a specific goal of satisfaction.

This concept is often used in marketing and is closely linked to expectations that a customer has for the brand.

Understanding Customer Satisfaction requires to discover the factors that influence satisfaction. As a starting point, we **ask the customer** and the **Likert scale** is used to evaluate the characteristics of a product or service.

> The Likert scale is a psychometric scale that specifies the level of agreement or disagreement with a statement.

What is NPS

- **Net Promoter Score®** is a method created by Freid Reichheld (Bain/SatMetrix) in 2004.
- This metric measures the customer loyalty and allows to discover if they would recommend the services/products of a company
- According to Satmetrix, NPS is not just a customer satisfaction survey
- It is a measure that identifies the extent to which a company is increasing customer loyalty and why
- Types: Competitive benchmark, Customer Experience, Customer Relationship
- However it is implemented, **the hope is that movements in NPS are positively correlated with revenue growth for the company**.

Main Concepts in NPS

- **Promoters**: Those who respond with a score of 9 or 10 are called Promoters, and are considered likely to exhibit value-creating behaviors, such as buying more, remaining customers for longer, and making more positive referrals to other potential customers. They are happy and loyal customers. They "represent" 80% of revenue.
- **Passive**: Responses of 7 and 8 are labeled Passives, and their behavior falls in the middle of Promoters and Detractors. They are neither happy neither unhappy customers.
- **Detractors**: Those who respond with a score of 0 to 6 are labeled as Detractors, and they are believed to be less likely to exhibit the value-creating behaviors. They are unhappy customers. They can impact on branding, employee morale and customer acquisition/retention.

How to measure NPS

Everything starts with a question:

What is the likelihood that you would recommend Company X to a friend or colleague?

Let's imagine that we have 200 answers:

- 120 promoters = 60% will recommend
- 50 passive = they don't care
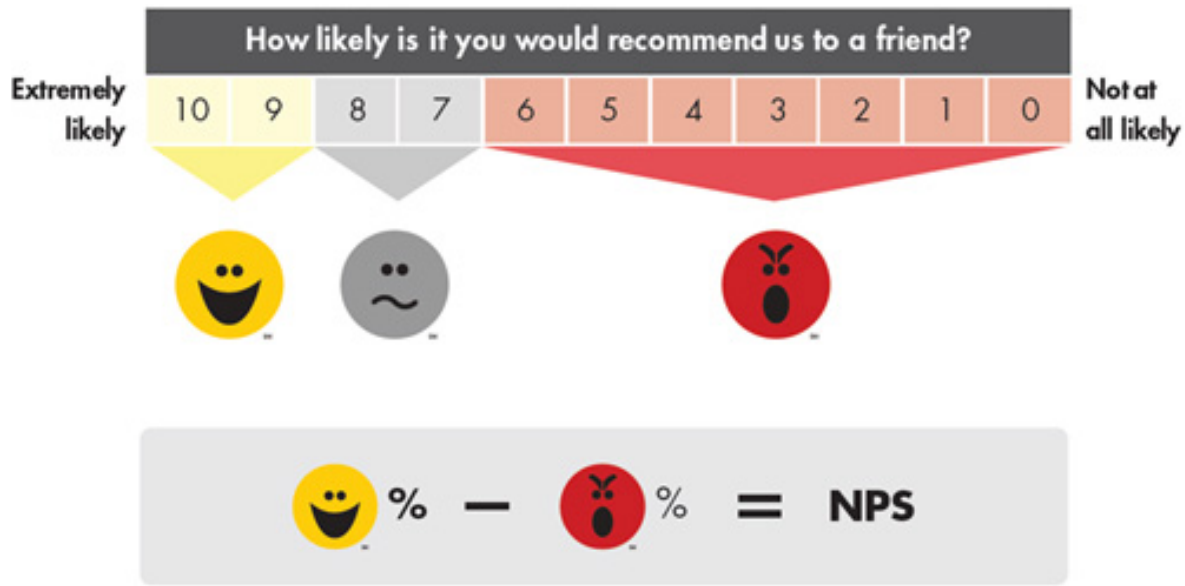- 30 detractors = 15% won't recommend and probably will critizice
- NPS = 60 − 15 = 45

Figure 1: NPS

Pros & Cons

Pros

- Easy to calculate
- Easy to compare and explain
- Easy to use as benchmarking for companies and industries

Cons

- We lose information by aggregation
- His interpretation is not unique
- It is very sensitive to small variations
- It is just a diagnostic metric
- It is based on an attitude, intention to recommend, so it depends on personal factors.
- The criteria for selecting the cutoffs between segments (Promoters, Neutrals and Detractors) is diffuse
- The emotional component of a recommendation is not measured

How to measure the value

- [**BU/DU**] Determine products/services/department to analyze
- [**DP**] Prepare and validate questions and execute survey
- [**M**] Calculate Promoters, Passive and Detractors
- [**M**] Every product/service/department will have a NPS*
- [**E**] Analyze results (using statistical analysis)
- [**D**] Present and explain the results

Benefits

- Create actions linked to groups
- Understand loyalty and satisfaction
- Discover what products/services should be reviewed
- Investigate the causes of low loyalty
- It can help but must be combined with other metrics

Use Cases

- **Retention rate**: Promoters usually drop out at lower rates than other customers, which means they have longer and more profitable relationships with a company.
- **Annual Expenditure and participation in the portfolio**: Promoters increase their purchases faster than detractors, as they tend to consolidate their purchases with their preferred provider. They are more interested in new offerings and brand extensions than detractors.
- **Pricing**: The promoters are usually less price sensitive than other customers, particularly detractors.
- **Cost efficiency**: Promoters often require less expenses in sales, marketing and advertising than other customers. In addition, the average size of orders is typically larger, leading to lower transaction costs per unit of revenue. Generally they have fewer complaints and represent less credit losses. Their positive attitudes have an effect difficult to quantify, but important in raising morale and employee productivity.
- **Word of mouth**: Promoters generate 80 percent to 90 percent of referrals. Quantify (by survey if necessary) the proportion of new customers who selected their company or product because of the reputation or referral. Conversely, detractors represent more negative word of mouth.
- **Employee NPS**: the same approach can be used for employees.

NPS online survey tools

Free options

- Trustfuel NPS (https://www.trustfuelnps.com/)

Pay options, fully-featured

- Delighted (https://delighted.com/)
- Promoter.io (https://www.promoter.io/)
- Retently (https://www.retently.com/)
- Wootric (https://www.wootric.com/)

Net Promoter Scores for benchmarking

- https://npsbenchmarks.com
- http://indexnps.com
- https://customer.guru/net-promoter-score/benchmarks

Critical Factors affecting NPS Benchmarks

- **Competition**: Generally, NPS tends to be a better indicator in highly competitive verticals with many players, since it helps you assess relative performance.

- **Zone of Tolerance**: Tolerance is one of the crucial factors that affects Net Promoter Score benchmarks, as people are more likely to be opinionated by how much value your products and services deliver to them on a day-to-day basis or how much does their business or life depends on it.
- **Switching Barriers**: if it is not affordable to switch to a different brand, customers maintain a strong bias and keep referring the brand in order to stay consistent with your original conviction. If it is affordable to switch to a different brand (switching barriers are relatively low), customers would have less tolerance towards any type of problems.

Improving NPS using customer sentiment analysis

As we already discussed NPS has clear limitations, but it can be useful. How to improve NPS? Using **customer sentiment analysis**. I strongly recommend reading this article about the topic: Five Practical Use Cases Of Customer Sentiment Analysis For NPS

Alternatives to NPS

Customer satisfaction score (CSAT) is a management tool used to measure a customer's satisfaction for the service received.

- Question: **How would you rate your over all satisfaction with the service/product you received?**

$$\frac{\text{Number of satisfied customers}}{\text{Number of total responses}} = \%\text{Happy customers}$$

Customer Effort Score (CES) tries to access how much effort the customer had to put into a particular interaction with the company.

- Question: **How much effort did you personally have to put forth to handle your request?**
- Likert Scale: from 1 (very low effort) to 5 (very high effort).

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