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## Invited Commentary

## Net Promoter, Recommendations, and Business Performance: A Clarification on Morgan and Rego

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One of the most controversial findings in Morgan and Rego (2006) was that two widely advocated loyalty metrics, “Net Promoter” and “Number of Recommendations,” have little or no value in predicting the financial outcomes of firms. We argue that neither measure was actually examined and that conclusions about the predictive value of these measures cannot be drawn from their analysis. A primary problem is that the measures used in Morgan and Rego (2006) do not adequately adjust for the presence of neutral word-of-mouth activity. Nevertheless, Morgan and Rego (2006) provide important information regarding other common customer metrics and firm financial outcomes. We are unaware of another longitudinal study that examines the predictive value of satisfaction and loyalty metrics in such a comprehensive way.

*Key words:* Net Promoter; word-of-mouth; recommendations; financial performance; intentions; customer satisfaction; customer loyalty

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The “Net Promoter” metric used by Morgan and Rego (2006) does not actually meet the criteria proposed by Reichheld (2003) and Satmetrix (2004), which is the only “commonly used and widely advocated” Net Promoter metric (Morgan and Rego 2006, p. 427). To calculate Net Promoter, Morgan and Rego (2006) use responses that are based upon customers’ *stated actual behavior* about word-of-mouth activity. In contrast, Reichheld defines Net Promoter from responses to a word-of-mouth *intention* question.

Aside from differences between intention and reported behavior, it is unlikely that the two versions of Net Promoter measure the same thing. Reichheld argues for the question, “How likely is it that you would recommend [company X] to a friend or colleague?” (Reichheld 2003, p. 50). Reichheld (2003; Satmetrix 2004) recommends an 11-point satisfaction scale (0–10). Net Promoter is then calculated as the difference between the proportion of

“Promoters” (9 and 10) and the proportion of “Detractors” (0 through 6). Morgan and Rego (2006) compute “Net Promoter” as the difference between the proportion of customers who reported discussing their experiences and the proportion of customers who reported complaining about their experience. Because respondents are asked to report word-of-mouth activity regardless of whether or not it is positive, negative, or neutral, this version of Net Promoter includes the proportion of customers that are neutral as well. (It also probably includes a proportion of respondents who actually made somewhat negative word-of-mouth comments, which they did not consider to be complaints.) Net Promoter is a registered trademark for a specific customer metric. Any scientific test of its effectiveness must use a comparable measure.

Similarly, Morgan and Rego calculate the “Number of Recommendations” measure as the number of people to whom the surveyed customers have

spoken, among those customers who reported positive word-of-mouth activity according to their version of Net Promoter. Thus, this measure also includes customers who engaged in both positive and neutral word-of-mouth. We note that Figure 1 of Anderson (1998, p. 11) leaves no doubt that word-of-mouth activity, as measured by ACSI, includes positive, negative, and neutral comments. Anderson (1998) uses the same question that is used by Morgan and Rego (2006) to calculate number of recommendations (during the same timeframe).

Despite the problems with the Net Promoter and Number of Recommendations metrics, Morgan and Rego (2006) have provided valuable insight regarding the relationship between business performance and other commonly used customer metrics, an area of importance to both researchers and practitioners (see for example, Rust and Chung 2006, Gupta and Zeithaml 2006, Zeithaml et al. 2006). We are unaware of another longitudinal study that examines

the predictive value of satisfaction and loyalty metrics in such a comprehensive way.

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