

Recommend to a friend?

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- 25th July 2016



How likely is it that you will recommend a company to a friend or a colleague? That is the question we are asked more and more often after a finished purchase or being in contact with the customer support at a company where we are a customer. But why is this question asked?

Well, the question is at the core of the measurement of customer loyalty using the Net Promoter Score (NPS) [4]. In this blog post I will present the background to the measurement of customer loyalty using the NPS. But all methods based on relatively simple models have obvious weaknesses. In the next post "[NPS – some reflections](#)" I will share my reflections and criticism about the NPS method.

New customers are expensive

Loosing existing customers and replacing them with new ones is a costly process that strongly affects the company's growth and its profitability. Loyal and returning customers are therefore the most profitable customers and a key to profitable growth.

Loyal customers buy new products, services and accessories, they say a good word about the company to their friends and can provide valuable feedback for further development. They are also easier to communicate with, and usually less price sensitive. Only those companies that truly put their customers at the center of their business can be sure they win loyal and faithful customers.

Loyal customers provide profitable growth

Almost thirty years ago Bain & Company started to investigate the relationship between customer loyalty and growth [3]. They discovered that companies with most satisfied and loyal customers earned revenue more than twice as fast as their competitors with less loyal customers. But a really good method to measure customer loyalty didn't exist. Many of the measurement methods and customer surveys that existed at that time were complicated and so extensive that it was difficult to draw concrete conclusions that could be used in practice for development and improvement.

After several studies and tests Bain & Company, together with Fred Reichheld and Satmetrix, discovered that a loyal and very satisfied customer will recommend the company, product or service to his/her friends. By asking the question (the ultimate question) “How likely is it that you will recommend the company to a friend or a colleague,” you could measure customer loyalty.

NPS – Net Promoter Score

It was obviously not enough to just ask the ultimate question “How likely is it that you will recommend the company to a friend.” However, responses of individual clients had to be compiled into responses of larger customer groups to build a “score” reflecting the loyalty among the company’s total customer base. The ultimate question was, therefore, combined with the so-called Net Promoter Score (NPS) [4]. NPS was first described in an article in the Harvard Business Review (2003): “The One Number You Need to Grow” [1]. The article was later followed up and developed in the book “The ultimate Question” (2006) [2] written by Fred Reichheld.

The NPS-method is based on the fact that customers are requested to indicate the likelihood of a recommendation on a scale from 0 to 10. It is of course possible to use other scales, but 0-10 scale provides enough options and spreading of the responses. Starting a scale with a zero (0) also automatically means that zero is the lowest probability and 10 is the highest. If the scale begins with one (1) there is a risk that some people will think that one (1) is the highest probability.

Classification of customers

As a next step the respondents were divided into three groups [3]:

1. “Promoters” are those customers who indicate recommendation probability as 9 or 10. They are the are very satisfied with the company’s products, services and personnel. These are the customers that appreciate and value their contacts and interactive relationship with the company and its staff. They are enthusiastic about the company and speak positively about it among their friends and colleagues. In practice, it means they act as ambassadors and help indirectly to market the company. They are the customers who are more than willing to provide valuable feedback that helps to further improve the company and its offers. All companies want to gain and keep as many Ambassadors as possible.
2. “Passively satisfied” are those customers who indicated that the likelihood of a recommendation is 7 or 8. They are the customers who feel they got what they paid for, but not more. They are passively satisfied and do not make much fuss. These customers are volatile and if they are not satisfied, they change to another provider without giving feedback or telling you why. They are the customers who can sometimes recommend the company, but without much enthusiasm. It is important that the better understands the view of the passive customers to be able to improve its services. You want also these customers to become satisfied ambassadors and end up in the group that indicate the likelihood of the recommendation of 9-10. In other words, it is an important – quiet – customer group that can provide valuable input for further improvement.

3. “Detractors” are customers that indicate the likelihood of a recommendation in the range of 0-6. These customers are very dissatisfied with the company’s offerings and the way they are treated. They are likely to share bad things about the company to their friends and colleagues. If they cannot easily switch supplier, they will most often complain, and are resource-intensive to take care of. In addition, it is very demotivating for the company staff to deal with these dissatisfied customers. Obviously, it is very important to try to understand why customers are dissatisfied. And if it is a large and growing customer group, it often means substantial changes in the company, its offerings and in the relationships with customers. In other words, it is a matter of survival.

NPS value

The benefit with the NPS-method is that it boils down to a single value (score). To obtain a NPS value you should to reduce the percentage of Ambassadors with the proportion of Detractors. In the best case you could have 100 % of Ambassadors (which is most probably unrealistic), and in the worst case – 100 % of Detractors. Example: Suppose that 60 % of your customers indicate the likelihood of the recommendation in the range of 9 and 10, and 30 % of customers indicates recommendation in the range of 0-6. The overall NPS value for the company will then be: $NPS = 60 - 30 = 30 \%$. Please, note that NPS can become negative if the number of Critics exceed Ambassadors.

The NPS value can be measured for the entire company, in certain departments or for specific product lines. To get more information about the reasons of the assessment it is common to ask a supplementary question, for ex. to ask to explain why the customer indicated a particular likelihood or to ask to give suggestions for improvement. Below is an example from Adobe’s product Premiere Pro (that I am very pleased with and happy to recommend).

Help improve Adobe Products

How likely are you to recommend PREMIERE PRO to a friend or colleague?

Extremely unlikely Extremely likely

0 1 2 3 4 5 6 7 8 9 10

What would make you more likely to recommend PREMIERE PRO to others?

Note: This information will be associated with your Adobe ID.

Adobe may contact me about my feedback.

Never show again

Results

What is the result? In the summary Fred Reichheld compiled in his book the value between sectors and companies varies [3]. The best companies reach a NPS value of 60-80 % (for ex. Apple, Amazon). The average is in the range of 10-20 %, which means that the number of Ambassadors barely exceed the number of Detractors.

Fred Reichheld argues that the NPS value shows that the companies with the highest NPS value in a particular industry tend to have both higher profits and higher growth rate compared to the similar companies with lower NPS value. He believes that there are several reasons for that, for ex. the best companies can often (compared to competitors) charge a higher price. They may also have lower marketing costs and costs to gain new customers.

NPS a management system

Even though the NPS method is based on the only (1) ultimate question, the NPS is not only a measuring indicator. NPS ultimately is a business philosophy, a system of operational practices, and a leadership commitment. It is not just another way to measure customer satisfaction. To really put the customer in focus is a comprehensive approach that affects the entire business. NPS should, therefore, be seen as a tool for building up processes and procedures that are based on the company's business idea. To be successful, the company's top management must realise the importance and be actively supportive and engaged in the development of true customer loyalty.

The result of the NPS measurements must be frequently repeated and continuously analysed. The outcome should be used as a basis for further improvement and development of products and services. A well implemented NPS method should be seen as vital part of the leadership culture and the management of the company. In other words, successful NPS measurements are not a part of a campaign; it is a long strategic journey[3].

eNPS

In order to win and keep customers, the company must be able to attract and keep the best employees. It is not possible to win and maintain loyal customers without having loyal employees. Employee loyalty to the company is therefore a core condition for success. To gain high NPS values you need a company that can attract the best employees, and that is in turn a very extensive and thorough work.

Hence, to be able to measure employee loyalty the NPS model has been extended to the eNPS- model (employer net promoter score). The ambition is to understand the employees' loyalty to the company by asking them the question "How likely is it that you will recommend the company as a place to work at". Often the recommendation is followed by the supplementary question where employees are asked to give a reason for their response.

References:

1) Reichheld, Fred (1 December 2003). "One Number You Need to Grow". *Harvard Business Review*. Retrieved 4 October 2012.

2) Reichheld, Fred (2006). *The Ultimate Question: Driving Good Profits and True Growth*. Boston, Mass.: Harvard Business School Press. ISBN 978-1-59139-783-0.

3) Reichheld, Fred; Markey, Rob (2011). *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World (Rev. and expanded ed.)*. Boston, Mass.: Harvard Business Review Press. ISBN 978-1-4221-7335-0.

4) Net Promoter Score (NPS) is a registered trademark of Fred Reichheld, Bain & Company, and Satmetrix.