

Significance of the Net Promoter Score or NPS?

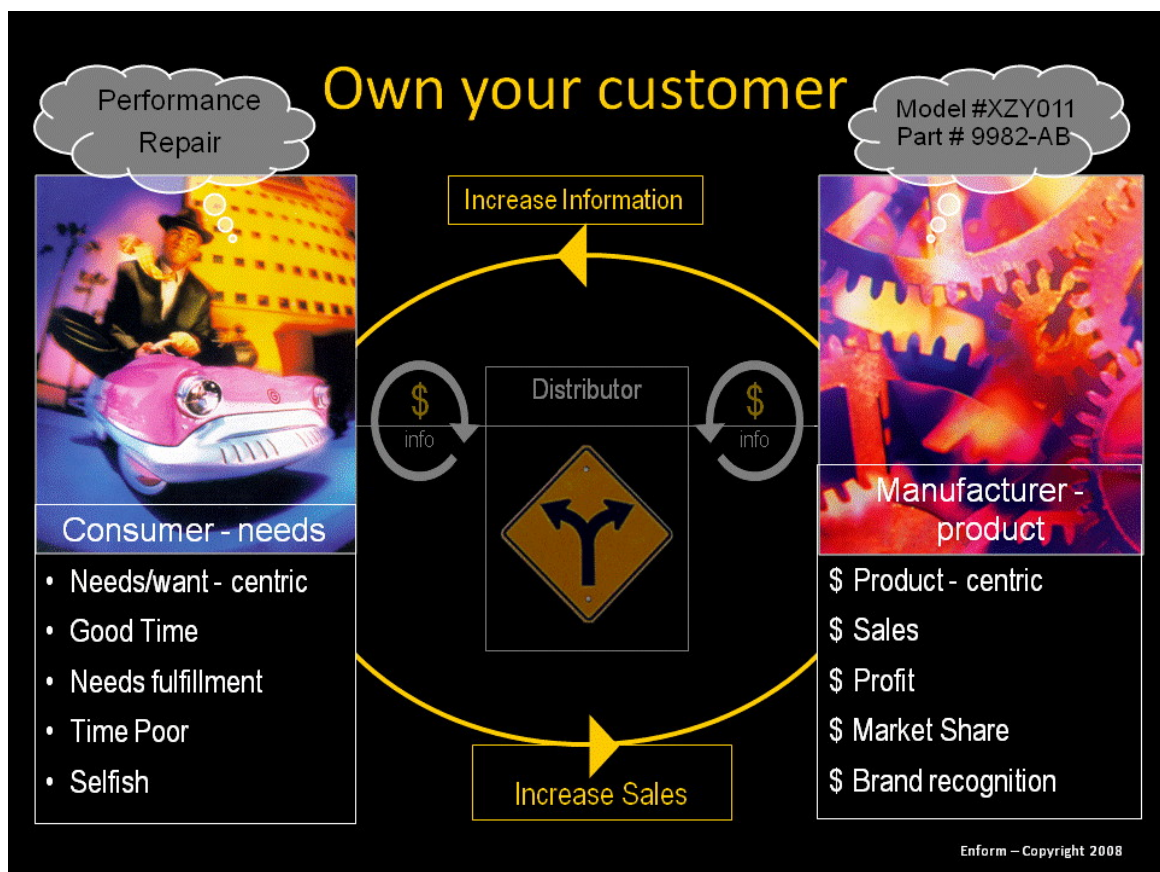
Enform Networks is not aligned with Satmetrix or Bain & Co though we value and use the NPS system to help clients build better and stronger brands that can grow at a faster rate. Global research (including Australia) has shown that brands with the highest NPS in their sector consistently outperform their competitors in growth and financial performance.

In a nut shell, NPS is a simple but remarkably effective new method for measuring customer loyalty. A higher NPS delivers more powerful and more vocal customer advocacy resulting in cascading brand referral independent of conventional marketing and promotional spend.

NPS provides a simple comparable measure of customer satisfaction and future business growth by looking at customer loyalty perception which is often different to performance perception. That is, a brand or company could be considered as a "can do better" in its delivery performance while still retaining an excellent NPS indicating a strong referral and recommendation base.

For this reason Enform places high value in NPS when planning and deploying user promotion and support campaigns to create and leverage the "Buzz".

The web and social media turbochargers the speed and reach of any message. It will therefore leverage and multiply the result toward the **positive** or **negative**.



Calculating NPS

The method is very simple and involves asking a customer a single question;

"How likely is it that you would recommend (the brand or company) to a friend or colleague?"

The customer responds to how they feel about the customer or brand relative to an 11 point scale starting from 0 to 10 with 10 being the highest and 0 the lowest. (Note the results and accuracy will depend on the method as customers are unlikely to be as truthful when asked by the company itself as opposed to a third party.) When done, the results are collated and divided into 3 groups.

9-10 = Promoters

You're most important customers and usomer advocates that help drive growth. These people (or businesses) are your most loyal supporters that will always buy more buy more importantly promote and recommend you and your brands for you.

High Promoter levels means lower advertising and marketing costs for both new business and retaining existing.

7-8 = Passives

Though looking like promoters because they are 70%-80%'ers and way above the middle rank, research has found that they actually represent more of a satisfied neutral position. They have been found to be significantly less important than Promoters and can distort the company's view of customer and market satisfaction.

Passives are in reality quite neutral and are not genuine promoters.

0-6 = Detractors

Understanding the NPS system involves accepting a potentially counter intuitive fact. We may think that a 5 is a neutral score but we have seen with Passives that anything less than a 7 is actually a negative. Detractors may or may not be buying from you but they are more likely to spread a bad worth or negative view of your company or brand. They are more costly to service and need constant support and advertising and promotional spend to maintain.

Detractors are inevitable but the goal is to minimise their numbers and proportions.

The final Net Promoter Score is then calculated with the result showing the current customer status and likely growth and financial performance.

% Promoters - % Detractors = NPS

It is often expressed or shown in the following format.

Brand	Promoter (9-10)	Passive (7-8)	Detractor (0-6)	% 0 value	NPS
ABC Widget	43	23	34	8	+9
XYZ Inc.	22	15	63	21	-41

*Data from Net Promoter Score Australia 2006 survey – Associate Professor Mark Ritson and Melbourne Business School

Some star achievers can enjoy very high NPS, like Amazon (+73)* and Harley Davidson (+81)* but a growing global database shows even +5 as a reasonable struggle.

It is also important to recognise that certain industries have systemically low NPS so figures generally need to be compared within industry and product group sectors.

The background to NPS.

The original research and metrics were set up by Bain & Co consultant Fred Reichheld but has since been adopted and developed further through an American research firm called Satmetrix. It has subsequently been tested by other firms and institutions including the London School of Economics

Both Business Week and the Harvard Business Review have reviewed this research and concluded that it represents an important new business metric.

The following summary is taken from www.netpromoter.org

The Net Promoter Score, or NPS[®], is a straightforward metric that holds companies and employees accountable for how they treat customers. It has gained popularity thanks to its simplicity and its linkage to profitable growth. Employees at all levels of the organization understand it, opening the door to customer-centric change and improved performance.

Net Promoter programs are not traditional customer satisfaction programs, and simply measuring your NPS does not lead to success. Companies need to follow an associated discipline to actually drive improvements in customer loyalty and enable profitable growth. They must have leadership commitment, and the right business processes and systems in place to deliver real-time information to employees, so they can act on customer feedback and achieve results.

Highlights from the 11 reports across the four sectors include:

*Telecommunications: **Vonage** was the breakaway winner in the local and long distance sector with a score of 45%, in one of the poorest performing industry segments with an average of negative 7%. Cellular providers were the only telecommunications segment with positive NPS, and **Verizon Wireless** led with an NPS of 40%, almost double the industry average. Verizon's new FiOS fiber optic TV service direct to the home also stood out with an NPS of 28% in the cable TV category. Among Internet service providers only 3 of the 9 providers received positive scores, with **AT&T** topping the list at just 11%. As these industries continue to provide converged services, the NPS leaders will have a strong competitive advantage in customer loyalty and positive word of mouth.*

*Financial Services: Banking institutions saw declines in NPS over the previous year, showing the impact of the current financial crisis on brands that compete in this industry. Banking had an average NPS of approximately 15%, with **USAA** leading at more than 100 points above the sector's laggard, **Citigroup**. **Charles Schwab** maintained its leadership position in the brokerage and investments sector with an NPS of 36%, while troubles at **Merrill Lynch** placed it in last position. In the credit card sector, **American Express** and **Discover** maintained their strong performance year on year, while USAA stood out as a leader in this segment.*

*Technology: **Apple**, with an NPS of 77%, continues to demonstrate their loyalty leadership as the top performer in the computer hardware segment and number two performer out of more than 90 brands studied. **Adobe** led consumer software with an NPS of 46%, while **Microsoft** trailed and security software leader **Symantec** showed significant improvements over the previous year on the back of major product and service enhancements in their Norton product line.*

*Online Services: This sector achieves the highest average NPS of all industries studied with 8 out of the top 10 highest scoring companies coming from the online market. **Google** led the way in online search and information with a score of 71%, outpacing rival **Yahoo!** by 30 points. Social networking sites also ranked high, with **Facebook's** higher NPS reflected in faster growth in monthly unique visitors than rival **MySpace**. **Amazon.com** led the online shopping sector with an NPS of 74%, but was followed closely by **Costco.com**.*

NPS in Australia

Is this an overseas metric that's of questionable relevance to Australia and our market? Associate Professor Mark Ritson and the University of Melbourne (Melbourne Business School) don't think so and their results from the Net Promoter Score Australia 2006 survey support the trends and underlying logic.

The following summary is taken from the report.

Australian organisations have yet to embrace Net Promoter Scores to the same degree as their American counterparts.

This research was conducted by Associate Professor Mark Ritson in order to produce the first major, publicly available survey of Australian companies and their Net Promoter Scores.

Ritson and a team of MBA students were assigned to one of six major Australian cities during September 2006. Residents of Sydney, Melbourne, Perth, Brisbane, Canberra and Adelaide contributed to this research.

In total 2000 face to face interviews with Australian customers were conducted and form the basis for this report.

Consumers were selected at random and interviewed about products and services that they had recently purchased or were currently consuming.










They were then asked to rate each of these purchases on the Net Promoter scale developed by Fred Reichheld.

The survey explores 12 different categories including banking, airlines, mobile phones, grocery shopping, cars, holiday destinations and personal computers.

We have left out brands that had only a very small number of customers represented in the research and ones that had very high standard error in their scores. The results provide an interesting perspective on the current experiences of Australian consumers and the future growth of the companies that serve them.³³

For full details on a variety of industries including automotive, download the full report from http://www.tmiaust.com.au/downloads/NPS/Mark_Ritson_NPS_Survey.pdf or see the Enform site.

Below is an excerpt of the results for banks.

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS	St. Error + or -
1	 Bendigo Bank	37	33	30	+7	11%
2	 HSBC	25	41	33	-8	11%
3	 ANZ	18	40	42	-24	4%
4	 st.george	18	34	48	-30	%
5	 BankWest	14	39	47	-33	8%
6	 Westpac	11	39	50	-39	4%
7	 nab	11	35	53	-42	4%
8	 BankSA	5	41	54	-49	10%
9	 CommonwealthBank	8	29	62	-54	3%