The truth about the Net Promoter Score and customer experience

In our first book, *The Ten Principles Behind Great Customer Experiences*, we showed enthusiastic support for the Net Promoter Score. But over the last five years, as we've deepened our expertise and continued to question common assumptions, the flaws in this metric have become increasingly apparent, and when the facts change, we change our opinions.

Introduction

One topic that comes up frequently in our discussions with business leaders is the Net Promoter Score. They've raised concerns that it seems too simple, doesn't track with financial returns as expected, and doesn't appear to be the silver bullet metric for customer experience it's supposed to be.

Are they right to be concerned?

The value of any metric comes down to whether it provides an accurate reflection of reality, and whether it's a sound basis for decision-making. So when it comes to customer experience, does the Net Promoter Score meet these criteria? In a word, no, and for three straightforward reasons:

1. NPS measures likelihood to recommend, or positive word of mouth. It doesn't measure loyalty, satisfaction, or the success of customer experience initiatives, directly or indirectly.
2. It doesn't accurately reflect a customer's real-world behavior so can easily lead us to misallocate resources or devote our time and effort to solving non-problems.
3. Finally, it's not the predictor of growth it claims to be.

Let's get started.

What is the Net Promoter Score?

The concept, if you're unfamiliar, is simply to ask customers, on a zero to ten scale, how likely they are to recommend our business to a friend or colleague.[1]

Those who answer with a nine or ten are classed as *Promoters* — loyal, eager beavers, out spreading the gospel. Sevens and eights are called *Passives* — satisfied but unenthusiastic customers, and certainly not loyal. And anyone from zero to six is a *Detractor*. In the words of the score's inventor, these people are dissatisfied and bad-mouth the company. They also drive up costs with their incessant complaining.[2] To get your Net Promoter Score, you subtract the number of detractors from the number of promoters.

The bold claim behind the popularity of the Net Promoter Score is that it tracks the loyalty, engagement and enthusiasm of customers and in so doing, provides accountability for the customer experience.[3] Not only that, it also predicts business growth. Finding out your customer's willingness to recommend is even positioned as "the ultimate question" — you should ask customers "very little else".[4] Let's explore the reality behind these claims.

NPS is not a measure of customer experience, satisfaction or loyalty

The first problem is that NPS is not the measure of customer experience, satisfaction or loyalty it's often claimed to be. The question, remember, is how likely a customer is to recommend something – loyalty, satisfaction and customer experience don't feature.

These claims are based on flawed inductive reasoning and assumptions that look something like this: Positive word of mouth reflects customer loyalty, loyalty depends on satisfaction, and satisfaction depends on the customer experience. Therefore the Net Promoter Score is a valid proxy metric for these other factors.

In reality however, positive word of mouth is not strongly linked to loyalty. Loyalty is not strongly linked to satisfaction. And customer experience – the qualitative aspect of our interactions with a business – is only one component of the satisfaction equation.

Positive word of mouth is not strongly linked to loyalty

Our propensity to give positive word of mouth is not strongly linked to loyalty, or even satisfaction. In fact, research shows that customers who are neither satisfied nor dissatisfied generate only twenty percent less word of mouth than those at the extremes.[5] To explain why, let's briefly explore why we share some things and not others.

Some products naturally generate more word of mouth than others because they are more visible or more interesting, but there are three additional factors worth reflecting on that also affect our likelihood to share something: social currency, remarkability, and practical value.[6] Jonah Berger's fascinating book *Contagious* covers these in far greater detail, but let's take a brief look at each.

First of all, we care how products make us look. We generally want to talk about things that make us look smart, well-informed or successful, or will improve our standing with the audience.[7] In other words we're more likely to drop the keys for our new Porsche on the bar to start a conversation than a tube of hemorrhoid cream, regardless of our loyalty to Anusol, Preparation H, or another ointment of choice.

Second — and this is a crucial point — we share the news not the olds. We're more likely to talk about something we've just bought than something we've been using a long time because it's more remarkable.[8]

It's no surprise then that new customers tell more people about a brand than people who have been using it a long time, and that comprehensive research on the topic reveals either a neutral or negative association between recommendation rates and brand tenure.[9] This makes perfect sense when we stop to think about it — I use Google every day, but I've never called someone and said, "Hey, you should check out Google, it's amazing!" They'd think I'd lost my mind. Counterintuitively then, your most loyal, longest-standing customers might actually do the least promoting.

The third reason we share things is because they are of high practical value. It is simply common sense that we tell people things that will help them, especially if they seek our advice, but there's a slight twist here that's worth exploring.

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Positive word of mouth is more helpful than negative, because unlike negative word of mouth, it actively helps people choose.[10] Telling you which toothpaste not to use leaves you none the wiser about which to buy — there will still be plenty of options left to choose from. It's unsurprising then, that incidences of positive word of mouth far exceed the negative, by about three-and-a-half to one. We also talk more about brands we're currently using because they are more salient to us.

There's a crucial point here. If we mostly spread positive word of mouth about brands we're currently using, the more customers a business has the more positive word of mouth they'll get. This is exactly what happens. In fact the correlation between positive word of mouth and market share is 0.92 — very high indeed.[11] You can read all about that in Robert East's book *Consumer Behaviour – Applications in Marketing*. If the biggest companies also have the most positive word of mouth, we may erroneously conclude that positive word of mouth is what led to their growth, but that's putting the cart before the horse.

Satisfaction and loyalty are not strongly linked

The next broken link in the chain is the relationship between satisfaction and loyalty. It feels natural that satisfaction would drive loyalty: the more satisfied we are the more loyal we should be, but in fact there's almost no relationship between the two.

CEB surveyed 97,000 customers across over four hundred businesses and found almost no correlation. Not only that, twenty percent of satisfied customers said they also intended to leave.[12] This is well documented in Matt Dixon's brilliant book *The Effortless Experience*. Another study, conducted by Ray Kordupleski during his time at AT&T produced even more extreme results. They discovered that forty percent of customers who rated their satisfaction as "good" were likely to defect to another brand.[13]

There's a simple reason for this — being satisfied with one product today doesn't mean I won't find an alternative more appealing tomorrow. I was satisfied with my Motorola Razr, but dropped it like a hot rock when the iPhone came out.

There's a profoundly important point here that despite being obvious to the layperson is often lost on the professional: What matters most is the customer's total perception of value, not their satisfaction. What's the difference?

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Our sense of satisfaction can only be formed by *direct past experience* — I can't be dissatisfied with a product or service I've never used. But our perception of value can be *entirely speculative*, based on a vision of the future.

I had used my Motorola phone many times and was satisfied with it, but when I learned about the iPhone and compared its features and functions with the Razr's, I came to believe that the iPhone was a superior product. I anticipated that life would somehow be better if I had the iPhone — despite never having tried it.

That we can be satisfied with one thing today but prefer another tomorrow is obvious. If it weren't, as soon as a brand had satisfied customers they'd be impossible to compete with, products with satisfied users would never become obsolete, and we'd never upgrade to the latest and greatest version of anything.

This brings us onto the final broken link — the connection between satisfaction and customer experience. Let's open this can of worms and take a peek inside.

Customer experience is not the only factor that determines our satisfaction

What is satisfaction? Really it's a retrospective assessment of how what we got compared to what we expected. Let's unpack this a little.

Satisfaction is always related to our expectations. If it weren't, we'd live in a topsy-turvy world where we could promise one thing – you'll have the penthouse suite; deliver another entirely – you'll be sleeping in the elevator shaft; and it wouldn't affect people's satisfaction. In reality, because we expect different things of different businesses, we can be satisfied by brands at a broad range of price points and service levels: a cheap motel *and* a five star resort.

Clearly there are many, many factors that can influence our expectations and the reality of our first-hand experience: price, brand, functionality, quality of materials, interactions with customer service, what strangers say on the Internet…the list is endless, with all of these factors smooshing together in our minds to create that single assessment of satisfaction.[14]

Now, as we've already mentioned, we need to have an experience to judge whether we're satisfied by it. I can't be dissatisfied with a product I've never used – so in a very real sense, our satisfaction reflects our experience as a customer.

But – and it's a big but – that doesn't mean we can directly measure the success of our customer experience initiatives by measuring satisfaction, because there are so many other factors involved that are beyond the bounds of what we think of as customer experience, in the sense of being a professional discipline, team or initiative.

To illustrate the point here is a simple thought experiment.

Would improving the customer experience – mapping journeys, reducing wait times, simplifying processes, reducing the possibility of errors, etc. – have any impact on customer satisfaction if we also save money by switching to cheap, flimsy parts that break, or start gouging the customer on price? Clearly not, but nobody would suggest that our head of customer experience should also be head of manufacturing, procurement and revenue.

Evidently there's a lot that determines our satisfaction. The customer experience – the qualitative aspect of our interactions with a brand – is just part of it. Our CX team may research and identify the source of a problem, but in many cases they can only raise awareness of the issue, not tackle it themselves. The only person whose performance can be measured on customer satisfaction is the CEO, who is ultimately responsible for all the moving parts.

In summary then, positive word of mouth isn't strongly linked to loyalty, loyalty isn't strongly linked to satisfaction, and satisfaction isn't always decided by the success of our customer experience initiatives. In other words you can't accurately measure customer experience, satisfaction, or loyalty with the Net Promoter Score, and by burying these distinct factors beneath one catch-all metric, managers won't know where to focus their attention.

As the authors of *Loyalty Myths* remarked, "Even if the Net Promoter concept correctly measured a firm's loyalty level (which it does not), it doesn't give managers a clue as to what they should do. Instead of being a guide to action, it is simply a temperature reading."[15]

NPS does not accurately reflect real-world customer behavior

The second problem with the net promoter score is that it doesn't accurately reflect our customer's real-world behavior. Those classified as promoters and detractors often don't actually promote or detract, and grouping customers into the three, simple categories obscures important, real-world differences.

To refresh your memory, when measuring NPS, detractors rate themselves as a six or less on their likelihood to recommend a product. These detractors – as the name suggests – are supposed to be angry, and out spreading negative word of mouth.

The NPS question only asks whether you're *likely to give positive word of mouth*, though, which makes for two problems:

First, saying we're likely to do something doesn't mean we'll actually do it. One study which looked at financial services and telecoms companies found that only a third of customers who said they would recommend something actually did, and only thirteen percent of those referrals were acted on.[16] As a paper from the University of Cambridge puts it, "Clearly the widely acclaimed NPS is based on a customer's attitude rather than their actual behaviour."[17]

Second, just because somebody isn't likely to recommend something doesn't mean they're on the street corner with a bullhorn deterring prospective customers. Some people just don't recommend things, and in fact, there are examples of those classified as detractors giving more positive word of mouth than negative.[18]

Now, given that the Net Promoter Score incorrectly assumes that everyone who isn't neutral or positive is actively spreading negative word of mouth you'd expect it to massively overstate actual detracting behavior.

It does. On average, NPS overstates true detractors by about 270 percent. For some individual brands that figure has been shown to be as high as a thousand percent.[19] You can read all about this in Larry Freed's excellent book *Innovating Analytics*.

To further muddy the waters, NPS is based on surveying existing customers, while most negative word of mouth is produced by ex- or non-customers, who aren't surveyed.[20] And for B2B brands in particular, switching costs, contractual terms and supplier management policies can prevent promoters or detractors from changing buying behavior (something the inventors of the score themselves acknowledge).[21]

It's also human nature that we downplay information that clashes with our existing beliefs. If people have already made up their mind to buy a brand, detractors will likely have little impact. We'll probably see the same impact with this report – NPS advocates will probably continue to promote the metric, to minimize their *cognitive dissonance*.[22]

If promoters aren't promoting, and detractors aren't actually detracting, then it follows that the net promoter score isn't an accurate reflection of behavior and we shouldn't rely on it as a basis for decision-making. As Larry Freed points out, allocating significant resources to winning over detractors – offering generous deals or groveling and begging for forgiveness – may be a complete waste of money.

The second challenge to accuracy is the groupings. As you know, NPS takes an eleven-point scale and collapses it into a three-point scale: detractors, passives and promoters.

If you stop and think for a second this is a bit weird: it implies there is no difference in behavior between someone who rates zero and six on their likelihood to recommend something, but between six and seven they switch from angry naysayers to ambivalent, and then from eight to nine they become irrepressible superfans.

Of course rigorous research doesn't support this simplification – those who rate themselves ten are a whopping fifty-six percent more likely to repurchase than those who score a nine. Distinctions like that are worth knowing.[23]

To be clear: we're not saying positive word of mouth is not important. Some businesses rely on favorable reviews to succeed, especially when there is abundant choice, direct comparison is easy, and there is little differentiation in the product or service itself. We're just saying that you won't get a true picture of the word of mouth surrounding your brand from your Net Promoter Score.

Moving on to the third and final challenge then: NPS is not the predictor of growth it claims to be, and this is a biggie for people in the C-suite.

NPS does not predict growth

By now we've seen that NPS doesn't accurately reflect loyalty, satisfaction or even word of mouth behavior, so it would be a near miracle if it predicted growth. It doesn't – researchers, economists and statisticians at universities in both the US and Europe have been unable to find evidence to support the claim.[24]

In fact, the authors of a paper published in *The Journal of Marketing* with the snappy title *A Longitudinal Examination of Net Promoter and Firm Revenue Growth* set out specifically to test that claim, right down to replicating the original methodologies. They found no evidence that NPS is the single most reliable indicator of a company's ability to grow.[25]

Why is this? There could be any number of reasons, many of which we've already discussed. On further scrutiny, the original research behind NPS uses small sample sizes and relatively short time periods – as little as three brands within an industry, tracking three-year average growth rates and two-year average NPS – which might also have something to do with it.[26]

The value of word of mouth also varies greatly by category, and as Byron Sharp points out in *How Brands Grow*, the number of genuine fanatics for any brand is pretty low, limiting their potential impact on revenues and growth.[27]

Finally, to leave you with something that sounds truly bizarre, *decreasing* NPS and CSAT scores may actually be a sign that you're gaining market share, and *increasing* scores may indicate that customers are defecting. What the hell? Let me explain why.

Rising scores may be a sign that we're losing market share.

Past a certain point, to continue growing beyond your core target audience you need to start attracting customers whose needs are not perfectly served by your product or service. As the saying goes, you can't please everyone all of the time – the larger and more diverse our customer base is, the harder it will be to keep them all satisfied.[28]

I wish I were smart enough to have made this discovery myself – alas I am not. The findings come from the award-winning research behind the fascinating book *The Wallet Allocation Rule*, the implications of which are three-fold.

First, if we have a dominant market share we should expect our satisfaction or NPS scores to be lower than those of smaller, niche providers, and not be unduly troubled by it.[29] Second, rising scores may be a sign that we're losing market share, because as more people defect, only the truly loyal or satisfied remain.

As the authors point out, Burger King's satisfaction scores rose as they surrendered market share to McDonald's and Wendy's, and Kmart's customer satisfaction peaked as they prepared for bankruptcy.[30]

Third — an implication we'll leave for another day — chasing ever higher customer satisfaction (or NPS scores that rely on the same basic construct) and increased market share are not compatible goals because they require different strategies.[31]

To cut to the chase, if you think an increasing Net Promoter Score is a sign that bounteous growth is around the corner you may be in for a surprise.

Conclusions

First of all, there is no ultimate question that predicts growth. The world is just too messy for a single variable to predict business performance, even if we wish it could. Second, while NPS won't help us demonstrate a return on investment from our CX initiatives, there is an alternative.

The best way to measure the value and impact of CX initiatives is to make sure the strategic objectives of the projects are clearly defined from day one, then identify specific metrics that demonstrably link those goals to business performance — conversion rates, purchase frequency, churn, complaint volumes, etc. — rather than using compound proxy metrics that only purport to. We step through how to do this in another report — *The Leader's Guide to Customer Experience* — available on our website, www.methodical.io.

Does this mean we should abandon NPS altogether? It depends what you're using it for. Some clients find valuable insights in the reasons customers give for their scores. We can also rank brands within our category by their Net Promoter Score and use that ranking as a component of the *Wallet Allocation Rule*. This formula links customer preferences to share of wallet, arguably the most accurate reflection of loyalty.[32]

But the facts remain: the Net Promoter Score itself does not measure loyalty; it does not predict future growth; and it cannot be relied upon to prove success or calculate returns from customer experience initiatives.

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Matt is an internationally-renowned author, speaker and consultant on customer experience. He won the CMI's Management Book of the Year for his first book, *The Ten Principles Behind Great Customer Experiences*, considered by many to be the definitive book on the subject. He has been cited and interviewed by the world's leading research firms, has written for *Wired Magazine* and *The Guardian* among others, and as a speaker has addressed industry leaders at every kind of organization imaginable, from Microsoft to the FBI.

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