How can you compare apple to apple with different scale?

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Abstract: To be successful at delivering on Overall Customer Satisfaction, one must become professional and consistent in using scale of measurement. First the need is to negotiate, agree and to decide about the measuring tool. Let us assume this tool is NPS. (Net Promoter Score) As soon as the founders comes with definitions of how to understand the Net Promoter fundamentals, the difference between good and bad profits, explain how loyalty is different from satisfaction and calculate NPS and explain the research that supports it, big job – Transfer of Knowledge, Creativity and Management of Culture can start.
Job that needs to get aligned most of the staff, across all international markets, staff that is first of all in direct contact with customers, but not to forget those who think today, can not affect NPS since they have not seen alive customer ever.
And then once the metric works for all, the focus moves to what one can do better with the results – quickly surfacing actionable insights, feeding these back to the business, effecting change and impacting our customers. Successful implementation of the NPS methodology is about impact on Customers and improvement in services and business practices.
Keywords: Net Promoter Score, Detractor, Passive, Promoter

1 The Impact of Words of Mouth

To achieve financial success, companies must have a clear and effective growth strategy that is well executed and improved upon over time. While simply stated, long term sustainable growth is difficult to achieve. Many factors can impact financial performance, including the overall health of the economy and the competitive landscape within a particular industry—factors which are often unpredictable and nearly impossible to control. What companies can control and manage are their internal strategies and processes. These factors include the quality of their goods and services, the effectiveness and efficiency of their sales and marketing efforts, and the investment they make to understand and increase the loyalty of their most strategic customers.
Many businesses embrace the concept of customer loyalty. However, most struggle to find an easy, understandable way to measure loyalty and link it to meaningful financial outcomes, which can impede efforts to invest in and optimize customer experience. The promise of customer loyalty—that happy customers reward companies in ways that fuel growth—has been successfully established at the industry level (e.g., Heskett, Sasser & Schlesinger, 1997; Ittner & Larcker, 1998; Marsden & Upton, 2005; Reichheld, 2003).
However, to date there has been little investigation of how specific customer behaviors contribute to larger financial outcomes like profitability and growth at the company level.
In this article, we will look at a specific industry segment—telecommunications, business-to-consumer wireless service—in an effort to better understand the link between customer loyalty and customer behaviors which contribute to financial success. Specifically, we will look at examination of customer word of mouth (WOM) behaviors—the naturally occurring tendency to share exceptionally positive (or negative) brand experiences with others—and quantify its place in the larger economic picture that links loyalty with growth.

2 Measuring Customer Loyalty Using Net Promoter

Co-developed by Satmetrix and Fred Reichheld, Net Promoter® is a discipline that provides companies a proven approach for measuring and improving customer loyalty. The Net Promoter Score compares the number of "Promoters" (those who are highly likely to recommend a company and/or its products) to the number of "Detractors" (those who are unlikely to recommend a company and/or products) within an organization's customer universe, resulting in a single metric that serves as an accurate indicator of customer loyalty and long-term growth.
With its elegant simplicity and its growing body of supporting research, Net Promoter is quickly gaining widespread industry adoption. Companies like Apple, General Electric, Charles Schwab, Intuit and other world-class firms are embracing the concept of Net Promoter and have successfully implemented Net Promoter

programs within their organizations. This swell of industry uptake is clearly articulated by Forrester Chairman and CEO, George F. Colony, who observes that “Net Promoter is becoming a driving force within organizations.” (Forrester Marketing Forum, 2007)

3 The Economics of Net Promoter

Through ongoing research and application, the link between Net Promoter and financial success continues to garner acceptance and credibility. But acknowledging this link and explaining it are two different matters. To better understand the relationship between Net Promoter and financial outcomes, Satmetrix has undertaken its own independent research examining the link between customer loyalty and specific customer behaviors.

The foundation for the Net Promoter Score starts with the very first interaction a customer has with a particular company and builds with each subsequent encounter. Collectively, these experiences shape the degree of loyalty a customer feels towards the company. If a customer enjoys highly positive experiences, he or she will feel more loyal—the most loyal customers are identified as Promoters, the least, Detractors, and those in between as Passives.

Customer loyalty can manifest itself in multiple ways. We have focused on the three behaviors most commonly linked with profitability and growth: buying, customer tenure, and referral behaviors. Buyer economics capture the value of individual purchase behaviors – how much a customer spends with the company over a given period of time.

Customer tenure puts the static view of buyer economics into a long term perspective. Referral economics capture the amount of new business that is gained—or lost—as a function of the messages that individual customers share via word of mouth. When customer experiences are positive—and loyalty is high—we can expect customers to spend more on average and to generate new business via positive word of mouth. Conversely, when customer experience is poor and loyalty is low, we can expect lower purchasing value (perhaps even defection), as well as the potential loss of new business through negative word of mouth.

The Net Promoter WOM Economic Framework helps to illustrate the utility of the Net Promoter Score as an indicator of customer behaviors which have a critical impact on a company’s current and future business performance. While identifying Promoters and Detractors is useful in its own right, it is important to understand how these customers impact the bottom line through their buying and referral behaviors.

The remainder of this article quantifies the relationship between Net Promoter and these customer behaviors. We applied the Net Promoter WOM Economic Framework to the business-to-consumer (B2C) wireless industry, linking Net Promoter to financial worth through the buying and referral economics of Promoters and Detractors.

4 Methodology

4.1. Data Collection

The data used for this study was drawn from the Satmetrix Net Promoter Benchmark Database – an ongoing, opt-in benchmarking effort that collects primarily U.S.-based data for 2 markets, 4 industries and 14 segments as shown in the list below:

Net Promoter Benchmark Database:

• Markets
o Business to Business
o Business to Consumer
• Industries
o Financial Services
o High Technology
o Internet
o Telecommunications
• Segments
o Financial Services – Banking, Brokerage/Equities, Credit Card

o High Technology – Hardware, Software/ASP, Networking and Peripherals
o Internet – Ecommerce, Web Information Services, ISP
o Telecommunications – General, Cable, Wireless, Local/Long Distance Phone,

Telecom Equipment Providers
Opt-in respondents self-select the industry and company they wish to rate. For example, a customer might first elect to rate a company that provides telecommunication services, further specify the wireless industry, and then choose to rate their wireless service. Key metrics include Net Promoter, other industry standard loyalty measures, self-reported spend and referral behaviors, as well as various company performance attributes, such as satisfaction with overall product, value, reputation, and ease of doing business.
Consisting of almost 285,000 responses collected over a period of seven years, the Net Promoter Benchmark Database is a rich data source that provides industry reporting and analysis within a competitive context.

4.2. Analysis

Using the Net Promoter methodology, identified and segmented respondents were put into Promoter and Detractor categories based on their likelihood to recommend. We then set out to quantify the worth of Promoters and Detractors alike by isolating the contribution of buyer and referral economics to total customer worth for each.
Using self-reported data, calculating the buyer economics of Promoters and Detractors based on their average annual spend amounts. What we believe is that Promoters will tend to spend more, whereas Detractors will tend to spend less relative to the average customer. While this may not be universally true—the nature of the business and pricing structure may constrain incremental purchasing differences in some businesses—we would expect a different. We also believe that the total customer worth of Promoters will be augmented by new business generated through their positive referral behaviors—an indirect, but nonetheless real
impact of strong customer loyalty. Conversely, we expect that the total worth of Detractors will drop due to lost opportunity costs resulting from their negative referral behaviors.

To estimate the referral economics of Promoters, we first can multiply the percentage of Promoters who had made a positive referral in the past 12 months by the average number of positive referrals made. We then can multiply this product by an overall conversion rate to arrive at the number of customers generated per Promoter. Once we calculated the number of customers acquired per Promoter, we multiplied this estimate by the average spend across all customers to arrive at the dollar impact of positive referrals where customers are freer to express their loyalty with their wallet.
We used a similar approach for calculating the referral economics of Detractors. Obtaining the conversion rate for Detractors, however, required an additional inference; as it is not possible to determine the actual number of customers who would be current customers of a vendor save for the impact of negative word of mouth. To estimate that conversion rate, i.e., the number of potential customers exposed to negative word of mouth who seek other providers as a result, we reviewed the available literature regarding the impact of negative word of mouth.
Based on this literature review and the findings of several industry studies, we operationalized the negative conversion rate as 4 times that of our calculated positive conversion rate.

5 Industry Overview

The wireless industry is one segment within the larger telecommunications services industry. The wireless industry, which is relatively new, experienced phenomenal growth during the tech boom of the 1990's. Initially the industry was comprised of numerous providers; in USA today four major providers dominate the field (AT&T, Verizon, Sprint-Nextel, T-Mobile,). In Europe three major providers divide the field. (T-Mobile, Orange and Telefonica O2)

The driving force within the wireless industry is technological innovation, with new devices and features released at a rapid pace. The range of services offered by wireless providers has likewise expanded, from telephone connectivity to services such as text messaging, web browsing, and satellite assisted navigation. Most wireless providers use promotional offers and subsidies on devices to motivate customers to join, making customer acquisition a costly endeavor. This cost is compounded by the fact that wireless devices have become a ubiquitous technology in the U.S.; customer acquisition is primarily accomplished by enticing customers away from a competing provider.

The overall growth rate of the wireless industry has slowed in recent years. Its growth is impacted by the state of the overall economy and the availability of new customers. Given that all companies in this space must deal with these macroeconomic forces, the extent to which a wireless provider is successful relative to its competitors depends on how successfully it can maximize customer spending and tenure. This last factor cannot be understated; wireless providers must spend about $300, on average, to acquire a new customer. That figure stands in stark contrast to the $25 it costs, on average, to retain a customer (Brown, 2004; Bolton & Bronkhorst, 1995).
Retention (andits enemy, customer churn) is therefore key—though industry providers been slow to see customer loyalty and choice, rather than coercive tactics, as the means to achieve it.

6 Net Promoter Performance

The Net Promoter score for the overall wireless provider industry in 2007 was 14%. While this trails other segments we've examined—notably computer hardware manufacturers at 27% overall—it represents a steady and meaningful improvement for the industry, particularly relative to its historic low of 5% in 2005.
Promoters account for 41% of the sample, with 32% passives, and 27% Detractors. Relative to the broader telecommunications industry (which includes cable, wireless, fixed local and long distance telephone, and telecommunications equipment providers), wireless providers have a significantly higher NPS, and more exaggerated shifts in NPS year to year. The direction of changes trends to the industry as a whole.

7 Net Promoter and Buyer Economics

In contrast to other industries examined, average spend amounts were not differentiated by Net Promoter segment. Customers reported spending an average of $1,144 with their wireless providers in the past year, and this approximate amount holds true whether the customers are Promoters, Passives, or Detractors.

Why is the wireless industry an exception to the general trend that spend increases with loyalty?

One strong possibility is the nature of wireless plans, which are highly commoditized and competitively priced across providers. Unlike other types of goods and services, there may be less opportunity for loyal customers to spend incrementally more—consumers exert the most control over spend when selecting or upgrading phones and service plans, events which are relatively infrequent. Within the wireless industry, customers usually agree on a monthly fee; this monthly fee grants customers access to the wireless network for a given amount of time, provides access to send and receive a given quantity of text data, etc. The monthly fee and subsequent level of service is agreed upon at the inception of the customer-provider relationship. For this reason, the key to loyalty is likely to be value for dollars spent once a selection has been made, which creates the possibility that salient features of wireless service pricing which can create additional revenue value per customer—e.g., overage fees, service fees, and additional content charges for text messaging, web and data access—may actually erode the customer relationship over time. Any unexpected or abnormal additional fees for wireless service most likely elicit customer annoyance or frustration because additional charges are usually incurred by customers for necessary reasons (e.g., calling home while out of network). This stands in stark contrast to the traditional customer loyalty model, which predicts that loyal customers will choose to spend more.

8 Net Promoter and Customer Retention

The lack of relationship between self-reported spend and Net Promoter category does not imply that customer loyalty has no revenue impact for wireless service providers. Indeed, when reviewing customers' reports of their tenure with their current provider, we see a clear link to loyalty. Tenure—particularly susceptibility to customer attrition (churn)—is a key financial indicator for wireless providers. As the wireless market reaches saturation, it becomes more expensive to attract new customers, as doing so typically entails luring customers away from the competition through financial incentives. Given the cost of attracting new customers, it is becoming increasingly important for wireless providers to maximize customer retention in order to keep their businesses profitable.

8.1. Buyer Economics and Churn

Over 80% of the US population now subscribes to wireless providers—adoption of cellular technology has been so vast that the pool of prospective new subscribers is rapidly diminishing.
Given that close to 90% of the available market is shared by 4 national carriers (AT&T, Sprint-Nextel, T-Mobile and Verizon), competition among carriers is intense and traditional acquisition costs are skyrocketing. Market share is acquired directly in proportion to the customers that these providers can wrest from one another (the Yankee group estimates that 84% of new subscribers will come from other providers by 2014, up from approximately 70% today). As a consequence, wireless providers are particularly attuned to churn—the proportion of their subscribed base that they stand to lose at any given time, as well as the opportunities that exist to poach subscribers from their competitors. Customer loyalty—which can reduce the likelihood of churn relative to one's competitors—becomes a key factor in ongoing financial success.

According to company reports, monthly churn rates for the industry tend to average between one and three percent. While these numbers appear relatively small, reducing churn by even a fraction of a percent can have a huge impact on a company's bottom line. To illustrate this point we can compare two example companies, one with a churn rate of 2.5%, another with a churn rate of 1%. Consider the wireless provider with an average monthly churn rate of 2.5%. This figure yields an (unadjusted) overall annual churn of 30%. Assume now that a company currently has 20 million subscribers.

An annual churn of 30% would result in a loss of six million subscribers a year. With an average revenue per unit (ARPU) of $50 per month for the industry, a loss of six million customers amounts to a revenue loss of $3B each year—with the vast majority of these defections adding to the bottom line for one's competitors.

Comparing these figures to our provider with a 1% churn rate, a monthly churn rate of 1% yields an (unadjusted) overall annual churn of 12%. Again, assuming a subscriber base of 20 million and an ARPU of $50 per month, an annual churn of 12% would amount to a loss of 2.4 million subscribers a year, translating into a revenue loss of $1.4B/year, less than half that of our other company.

This is to say nothing of the potential differences in acquisition costs, which tend to be considerably more expensive than resources expended to renew an existing customer. In this example, the provider with an average monthly churn rate of 2.5% will see its entire customer base turn over in 40 months—less than 4 years. To maintain its subscriber size, it must vigorously expend resources to acquire new customers relative to its competitor, which would enjoy nearly twice the average tenure across its customer base (more than eight years).
Given the nature of the wireless industry, it is interesting to find that Net Promoter segments are differentiated according to their average tenure. While the ensuing model does not capture this significant financial advantage—to do so, we would consider a model that extends over the lifetime of the customer—it is in all likelihood a more significant advantage for loyalty leaders in this industry than potential differences in incremental spend.

8.2. Net Promoter and Referral Economics

While reported spend did not differ by Net Promoter category, it is a strong predictor of referral behavior. Three fourths of Promoters report having positively referred their wireless provider to a friend or colleague in the previous 12 months. What's more, Promoters share these positive sentiments with over 3 others on average during that time.
Detractors, by contrast, share their negative experiences less frequently. Approximately one third of these unhappy customers actively attempt to dissuade others from doing business with their chosen vendor, less than one half the rates at which Promoters make positive referrals. On the other hand, when they do negatively refer, Detractors are likely to cast a wider net than their Promoter counterparts—sharing their negative experiences with 4.33 others compared to Promoters' 3.24 referrals.
Based on the findings, we can calculate an average referral value for both Promoters and Detractors, which then enabled us to compute the total customer worth for each group. The referral value garnered for each Promoter's positive word of mouth amounts to just over half an additional customer.
In other words, given the rate and frequency with which Promoters spread positive word-of-mouth, 2 Promoters have the ability to bring in approximately 1 new customer a year. The referral value for each Detractor amounts to a loss of 1.28 potential new customers. In other words, given the rate and frequency with which Detractors spread negative word-of-mouth, a single Detractor will negate not only their own financial value to the vendor,

but actually represent a net cost of an additional .28 of the average customer. While relatively less frequent than positive referrals, the potency of negative referrals helps to underscore the damage that Detractors can inflict.

8.3. Net Promoter and Total Customer Worth

Combining the buyer and referral economics associated with Promoters and Detractors allows us to create a much clearer picture of their financial impact for wireless providers. Over time, Promoters' primary economic value is both direct—owing to the additional revenues gained from their extended customer tenure—and indirect, securing additional revenue through positive word of mouth. In our static model, the indirect benefit predominates. Based on the reported average spend across customers, we estimate the actual revenue value of Promoters to be over $1,700.

Detractors are an interesting comparison given that their spending behavior does not differ meaningfully from Promoters. While Detractor churn presents a very real concern for wireless providers, their negative word of mouth is an additional hidden cost. Lost business associated with negative referrals subtracts the entire value of Detractor spend and then some, creating a net cost for these individuals of just over $300. Compared with Promoters, Detractors' total customer worth is $2,000 less on average. Note that this disparity is likely to worsen once acquisition and support.

What Drives Loyalty in the Wireless Industry?

So how can companies within the wireless segment best win the hearts and minds of their customers? Within the Satmetrix Net Promoter database, there are a number of satisfaction questions specific to the telecommunications arena that helps us to clarify that issue. For the purposes of this analysis, we assessed strength of association—correlating specific satisfaction attributes with likelihood to recommend—to identify the top drivers.

What we found is that the top loyalty drivers (as defined by a correlation coefficient of .60 or above) for wireless customers are satisfaction with overall product, reliability, overall value, ease of doing business and customer service/support.

9 How can Net Promoter Help Your Business?

Our investigation of the relationship between the Net Promoter Score and customer worth within the B2C wireless industry reveals a robust relationship between Net Promoter and overall customer value. On this basis, the Net Promoter WOM Framework can serve as a proxy—and a predictor— of how the mix of Promoters and Detractors within your customer base is impacting your business, and how successful strategies for increasing your customers' loyalty can impact your bottom line. It is important to remember that knowing your Net Promoter Score is only the first step—the metric itself is not the answer. To be successful, companies need to understand what actions they can take increase Promoters, decrease Detractors, and to move all customers up the loyalty chain.

Once you determine what actions to put in place to effect this change—and take the steps to empower employees across the enterprise to execute against these directives—you will start to see an impact on loyalty and growth.

And this is only the beginning of the journey. As companies learn to listen more effectively to their customers, and to act on their behalf, they will discover other opportunities to strengthen the bonds they share. The data reviewed here hints at one such opportunity in its examination of the power of word of mouth. Given the enormous influence that word of mouth messaging has on brand evaluation and purchase decisions, a company's Promoters represent a significant—and often untapped—asset. Identifying ways to leverage Promoters—through reference programs, by providing tools that facilitate their naturally occurring word of mouth behaviors, by amplifying their messages through community and social media—is a logical and promising next step in the evolution of how companies can benefit from Net Promoter.

Conclusion

1 The Net Promoter metric is based on one simple question: "Would you recommend us to a friend or colleague?" The scale employed is an 11 point (0-10) likelihood scale. To calculate the Net Promoter Score, take the percentage of customers who are Promoters (defined as scores of 9 or 10) and subtract the percentage who are Detractors (defined as scores of 0 through 6).

2 To obtain the conversion rate, we asked each respondent within the entire sample if they themselves had been referred to their provider by a friend or colleague. We summed the number of customers who had been

referred to their provider and divided it by the total number of positive referrals issued. The resulting ratio estimates the impact of positive referrals.

3 There is a rich psychological and socioeconomic literature regarding the relative weight assigned to positive and negative information. The basic finding—that negative information seems to exert a disproportionate influence relative to positive information—has been replicated many times over both for interpersonal judgments (e.g., Anderson, 1965) as well as for how consumers evaluate brands and make purchase decisions (e.g., Arndt, 1967; Weinberger & Dillon, 1980; Weinberger, Allen, Dillon (1981); Mizerski, 1982; Wilson & Peterson (1989); Herr, Kardes, & Kim (1991); East, 2002)).

Unfortunately, while many studies support the notion that negative word of mouth is more influential than positive word of mouth, few have tried to quantify the difference. One seminal finding comes from Kroloff (1988), whose influential "Merriam formula" was derived from observations that individuals tend to give negative information approximately four times the weight of positive information. Other researchers have noted that a single negative behavior can neutralize as many as five positive behaviors (Richey, Koenigs, Richey and Forgin, 1975). In a study of Dell customers, Fred Reichheld and Satmetrix found that, on average, customers report that a single negative comment can offset five positive ones. Based on these studies, it is reasonable to expect negative word of mouth to exert 4-5 times the influence of positive word of mouth. In the present study, we chose the more conservative weighting, assigning negative referrals four times the weight of positive ones.

4 Within the wireless industry, customer spend is typically tracked in the form of ARPU, or average revenue per user. According to recent estimates, industry ARPU stands at roughly $50/month, or approximately $600/yr. While this amount may appear significantly lower than our average of $1,144, ARPU does not take into account multiple users within a single paying household. Family plans—which have grown increasingly prevalent within the industry—may affect the average spend reported here (i.e., individuals may be reporting their annual household spend as the plan owner).

As well, the opt-in approach may encourage greater participation among those consumers whose relationship with their provider is top-of-mind; including those with larger plans, who have recently bought a new wireless handset, or those who are more active consumers of add-on services like ringtones, data services, and web and video services—which may tend to push the average spend higher relative to industry measures.

5 While these differences between positive and negative word of mouth may seem surprising, our findings regarding negative referral behaviors are corroborated by other research. For example, East (2002, ANZMAC proceedings) found that while negative referrals are relatively less common than positive ones, those that do share their negative experiences speak to roughly the same number of people as those making positive referrals. Similarly, in a study conducted by Verde Group and Wharton, researchers found that about 30% of customers tell one or more friends about their negative experiences and that on average, customers tell 4 people about their negative experience. Similarly, Marsden (2005) found that negative referral rates averaged between 20% to 27% across all UK retail businesses examined (mobile networks, retail banks, supermarkets, cars), while Richins (1983) found that those experiencing dissatisfaction told an average of about 5 other persons (3 family members and 2 coworkers or acquaintances).

6 To obtain the positive conversion rate used in our calculation, respondents within the entire sample had been referred to their provider by a friend or colleague. We summed up the number of customers who had been referred to their provider and divided it by the total number of positive referrals issued. On this basis, we estimated that for every four positive referrals made on behalf of wireless providers, approximately one new customer is gained – a conversion rate of 23%. To obtain the negative conversion rate used in our calculation, we multiplied the positive conversion rate of 23% by a magnitude of 4, yielding 92%. While this figure may seem large, the external literature regarding the disproportionate impact of negative information corroborates the method. In contrast to two other industries—computer hardware and consumer credit cards—the negative conversion rate is higher than what is typical.
As well, it exceeds one of the few available external benchmarks—a finding by the Verde Group and the Baker Retailing Initiative at the Wharton School of Business that 64% of retail customers will choose to shop elsewhere if they are the recipients of negative word of mouth about a particular vendor.

7 In this instance, the reason for the difference is not due to the pattern of referral behaviors displayed by Promoters and Detractors—generally speaking, the frequency and reach of their communications is similar to what we have found for other industries. Rather, the difference is driven by two factors: the relatively large proportion of wireless customers who report that they were referred to their current provider (approximately

35%) and the relatively few positive referrals (driven primarily by Promoter behavior, at 3.24 referrals per Promoter) required obtaining such a high rate of new business. Put simply, wireless service appears to be an industry where potential customers are particularly attuned to the opinions of others.

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