A solution to the NPS conundrum

by Paul Abel, Ph.D. and Kelsey Goings

INTRODUCTION

Net Promoter Score (NPS) popularity has skyrocketed since its introduction in 2003; the metric is currently being used by over a third (34%) of large corporations to assess and manage customer sentiment. NPS is often tied to executive compensation and, as recently reported by the Wall Street Journal, the metric is becoming a mainstay that is now touted in earnings calls (alongside earnings per share and corporate growth).

However, NPS has no shortage of critics; many consider the metric to be inappropriate, unreliable and unsubstantiated. For example:
- The concept is based on dot-com data from companies that no longer exist (e.g., EarthLink, TWA).
- The approach for capturing and analyzing results is faulty (e.g., the scale is unipolar/does not directly measure brand critics).
- The original assertion that higher NPS values correlate with higher corporate growth is unsubstantiated.

Not surprisingly, many executives find NPS values extremely difficult to change, or can often change independently of the success (or failure) of customer-focused initiatives.

Unfortunately, organizations 'sold' on NPS that want to adopt a more appropriate and reliable metric of customer sentiment face many challenges:
- Processes are often well-established to monitor and manage resources based on NPS values.
- Changing to an entirely new metric requires significant efforts to align a multitude of stakeholders.
- Options that are 'better than NPS', easy to measure and simple to understand appear to be lacking.

This conundrum leaves two choices for business leaders;
1) Continue with the status quo, even though NPS values may not be meaningful (and NPS targets may not be achievable) OR
2) Adopt a new metric of customer sentiment; attempting to change internal perceptions about a well-entrenched tool.

In this article we provide a third choice; increase the validity of this management tool.

WHAT DID WE DO?

We conducted a carefully designed survey completed by a representative sample of over 1,000 US consumers. The results reported below use data that were focused on consumer perceptions and opinions about health insurance companies. This study was conducted 'blind' with subjects screened to ensure they are not industry insiders. All of the data collected were carefully scrutinized to ensure only valid data were analyzed.

WHAT DID WE FIND?

1) NPS values are a poor indicator of customer intentions.

- In the US Health Insurance Market, we found the 2019 NPS benchmark value is 21; overall, 46% are "Promoters" and 25% are "Detractors" of their health insurance plan. (see Fig. 1)
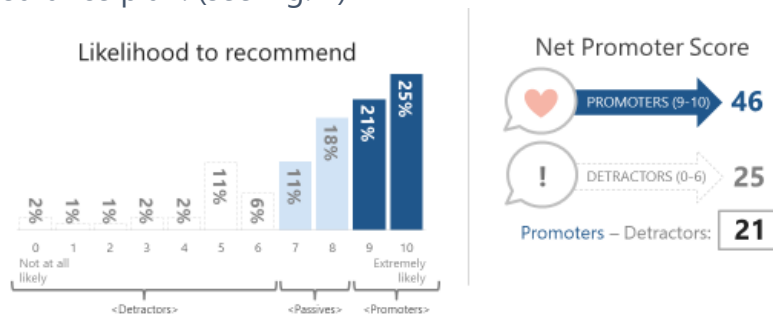

FIGURE 1
Source: Proprietary research conducted by Blue Research®. Note Blue Research® is a trademark of Blue Inc. Other names and brands may be claimed as the property of others.

- However, NPS categories significantly _underrepresent_ brand advocates and _over represent_ brand critics. When asked explicitly if they would recommend or deter others from their health insurance company, 63% report they would recommend their health insurance brand and 4% report they would discourage others from choosing their brand. (see Fig. 2)
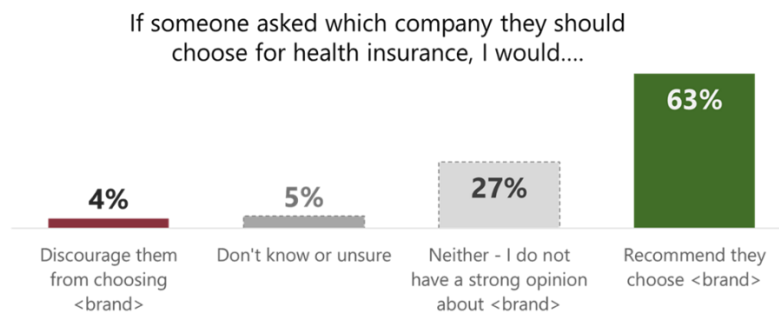

FIGURE 2
Source: Proprietary research conducted by Blue Research®

2) NPS values are a poor indicator of _actual_ customer behavior.

- Although 46% are categorized by NPS as "Promoters", in fact, 59% of consumers have advocated for their brand. Moreover, while 25% are categorized by NPS as "Detractors", only 6% have actually said something negative about it. (see Fig. 3)

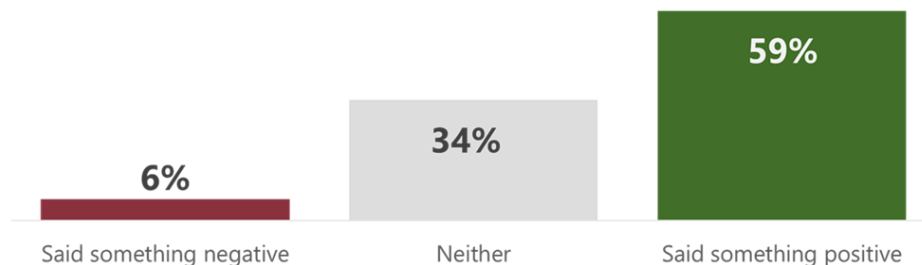**What have you said about your health insurer over the past year?**

FIGURE 3
Source: Proprietary research conducted by Blue Research®

3) A critical error in NPS is placing a score of "8" in the wrong category.

- An individual providing a rating of "8" in the 'likelihood to recommend' scale is categorized as a "Passive" and ignored when deriving a NPS value.

- However, when those same individuals are asked explicitly whether or not they will recommend their brand, the wide majority (72%) admit to being a brand advocate. (Fig. 4)
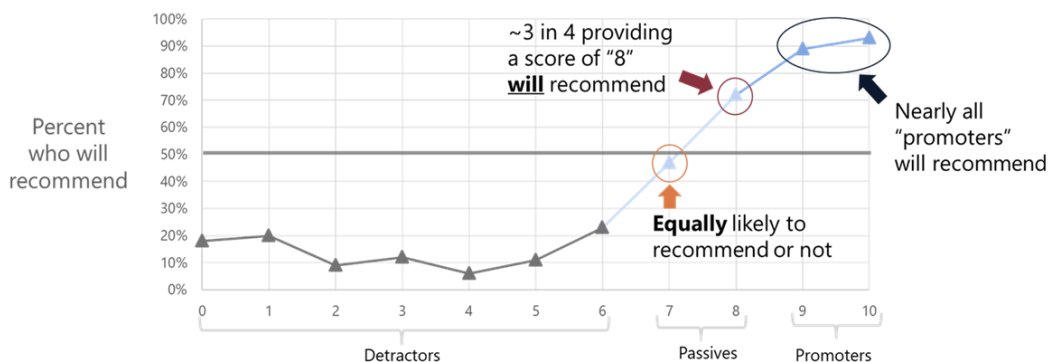

FIGURE 4
Source: Proprietary research conducted by Blue Research®

4) To increase validity of using the 'Likelihood to recommend' scale, individuals must be categorized <u>correctly</u>.

–   Given the wide majority of those providing an "8" rating on the 'likelihood to recommend scale' admit they <u>will</u> advocate for the brand, those individuals are best grouped with other brand advocates. Combined with those who report a rating of "9" or "10", the total percent of brand advocates from the data above is 64%. As shown above, that value closely matches stated intentions, where 63% admit they will recommend their brand. Thus, those individuals rating a "8", "9" or "10" are best categorized as *Advocates*.

–   The combined percent of those rating a "3", "4", "5", "6" or "7" is 32%. This value is identical to those that state they are indifferent in what they would do (32%), and comparable to the percent that state they have neither said something positive nor negative about their brand (34%). Those individuals are best categorized as *Potential Advocates*.

–   Finally, the 4% of individuals who provide a numerical rating of "0", "1" or "2" on the 'likelihood to recommend scale' is identical in value to the percent that say they would discourage someone from choosing their brand. This value is also comparable to the 6% of individuals who admit that they have in fact said something negative about their brand. Those individuals are best classified as *Non-advocates*.

5) Using the appropriate categories, a more reliable measure of customer sentiment is obtained: Brand Performance Index™

–   When asked directly 63% admit they will recommend their brand and 4% report they will discourage someone from choosing their brand, resulting in a difference of 59% (63% - 4%).

–   A comparable value (60%) is derived by subtracting the percent of *Non-advocates* from *Advocates* categorized using the numerical ratings from the 'likelihood to recommend' scale. (see Fig. 5).

CONCLUSION

Given its broad use and strategic importance, the validity of NPS values are critical for business leaders. By making a simple adjustment in how respondents are categorized, this study demonstrated how a 'single score' can be derived that better represents true customer sentiment. Using the Brand Performance Index™ enables organizations to increase their understanding of and influence on customer behavior, while leveraging the existing NPS-based 'likelihood to recommend' infrastructure and framework that have already become widely adopted.

About the authors:

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