

Introduction

When companies choose to pursue a differentiation strategy their goal is to delight customers with a unique offering. But how do you know if your differentiation strategy is working? Over time, you can observe customer delight through customer behaviors: repurchase rates, increased share of wallet, referral rates, and so on. But for rapid assessment and real-time adjustment, many companies utilize the Net Promoter Score. Created by long-time Bain & Company consultant Fred Reichheld this system is now utilized by a majority of Fortune 1000 companies, including Apple, GE, and American Express, and many small businesses and startups such as Airbnb.

Why such rapid adoption? The Net Promoter Score is based on a simple and intuitive score – utilizing one question: On a scale from 0-10, how likely would you recommend product or service X to a friend or colleague? The Net Promoter Score, or NPS, provides a bottom line metric-- like Net Profit or Net Worth—that can become a focal point for organizational learning and improvement.

Our goal with this mini-lecture is to help you:

- 1) understand what a net promoter score is,
- 2) learn how to calculate a net promoter score,
- 3) learn how to interpret the results of an NPS analysis, including potential weaknesses in the tool
- 4) understand how using NPS helps companies to accelerate profitable growth.

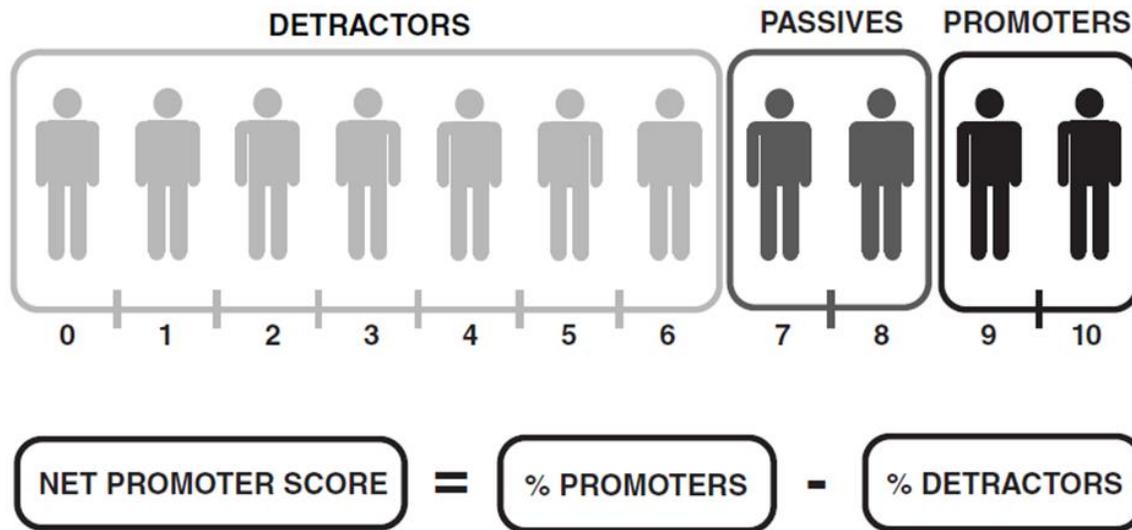
What is the Net Promoter Score (NPS)?

First, what is a net promoter score and how do you calculate it? A net promoter score is calculated based upon a sample of customers' responses to the following question: How likely are you to recommend [company X; or product Y] to a friend or colleague? Respondents answer on a scale of 0-10, with 0 meaning "not at all likely," and 10 "extremely likely."

Bain's research has shown that customers that respond with a 9 or 10 not only provide referrals, they increase purchase volume and frequency. These customers are called "Promoters" because they are the assets that promote the company's success. Scores of 6 or below indicate a Detractor, someone who is likely to steer friends and colleagues away from your company or product and to defect as soon as possible. Those scoring 7 or 8 are labeled Passives—they got what they paid for but are not really assets or liabilities for the firm. It is worth noting that some have criticized the Net Promoter Score because the 0-10 scale doesn't provide clear labels throughout the scale—one person might be a hard grader and think an 8 is a great score, whereas another may think an 8 is a weak score. As a result, some have recommended putting clear labels on the scale: for example, a 9-10 score would mean "Definitely would recommend", a 7-8 could be labeled "Might recommend", and 6 and below would be "Would not recommend." This labeling might help more clearly segment customers into promoters, passives, and detractors.

Calculating a NPS Score

To calculate a Net Promoter Score, subtract the percentage of Detractors from the percentage of Promoters:



Apple has been one of the leaders in the Net Promoter movement. Imagine you have been hired to work in Apple's Cupertino headquarters and have been asked to determine whether their current Mac computer strategy is effectively differentiated from that of PC's---in the college student market segment. Here are survey results from a sample of 50 college students who are Mac users who responded to the question: On a scale from 0 to 10, how likely are you to recommend the Mac to a friend? The column to the right shows the responses of PC users to the question of whether they would recommend the PC to a friend.

Score	Mac	PC
0	0	0
1	0	1
3	0	0
4	0	0
5	1	2
6	2	6
7	2	9
8	1	9
9	23	12
10	17	11

Using the Net Promoter formula, we identify the percentage of respondents who are promoters for Mac which in this case is 40/50 or 80%, minus the percentage who are detractors, which in this case is 3/50 or 6%; to get a NPS of 74%. If we do the same thing for PC users we (23/50 or 46% - 8/50 or 16%), we get a net promoter score of 30%.

What is a Good/Bad NPS Score?

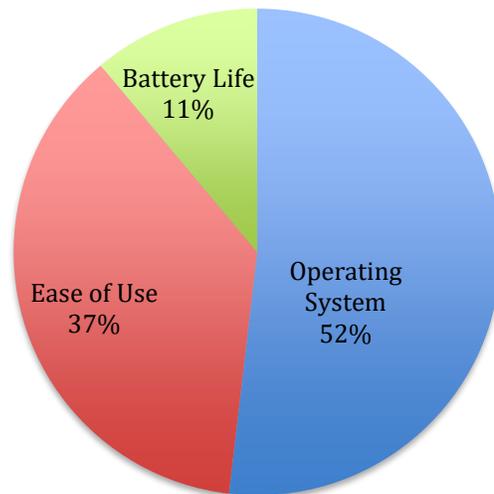
Of course, this raises the question: What is a good net promoter score? What is a poor one? Perhaps the best answer is: your score is good if it is substantially higher than your competitors...and is improving. Scores vary widely by industry, but generally speaking, NPS above

60% are considered very strong and scores in the 70-90% range are usually world-class. When a company achieves at least a 10-point NPS advantage versus its leading competitor, this is a clear indicator of a winning strategy.

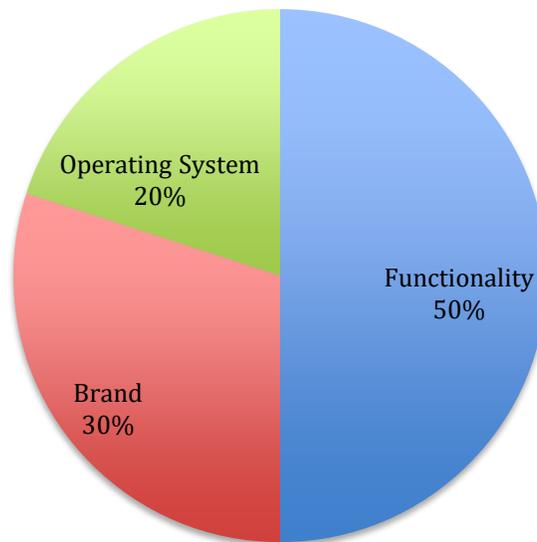
Additional Insights

Most companies find that it is wise to ask a second question following the likelihood to recommend question. Something like: What is the single most important reason for your score? The resulting verbatim responses can be analyzed with comments grouped by promoter, passive and detractor to search for patterns and insights. In the case of Mac users, promoters felt the offering was worth promoting because it is user friendly, is not vulnerable to viruses, benefits from Apple's ecosystem, and has long battery life. In contrast, PC promoters recommend it due to business software compatibility, user friendliness, price, and availability of third-party support.

Why Mac Promoters Promote



Why Mac Detractors Detract



Mac detractors were primarily unhappy with the product's business software compatibility and speed. By comparison, PC detractors were unhappy with the product's weight, vulnerability to virus', lack of Apple-like ecosystem, and aesthetics. With this data, we can see the aspects of a product or service that 'win' with customers, as well as the aspects of a product that turn them off. This type of data can help in providing direction in how to change a product or service to make it more attractive to customers.

Population and Longitude of Survey

In order to draw proper conclusions from your net promoter score analysis, it is critical to ensure that you have a representative sample of customers. For example, understanding the net promoter score for a Mac throughout the entire United States would be very useful for Apple. However, finding the net promoter score using only Apple employees would be far less useful, since their employees are biased towards Apple products in the first place. Whenever conducting a net promoter score analysis, be aware of the population you are surveying. Be sure that you don't make conclusions for customers throughout the United States if your sample only includes individuals from Florida. But sometimes you may want to see how a company's net promoter score differs among different customer segments. For example, Apple may want to know how its NPS differs between college students, business executives, and stay-at-home moms. As a result, Apple would need to compile separate results for each of these different customer segments.

Finally, collecting NPS data over time can provide insight into important trends. For example, we can compare the scores for the Mac versus PC over a period of quarters or years. If Apple sees the gap between themselves and PC diminish over time, they can examine the reasons for the change. Apple regularly does this to learn how to enhance their offerings to continue to delight customers. In fact, Apple's strategic moves can be measured by their effect on NPS relative to PC competitors like HP and Dell in the subsequent quarter.

Conclusion

No matter how good your strategy is in theory, the real test is how well it is executed—and it is here that NPS can be a particularly useful tool. When an Apple Store's customer scores 0 to 6 on the NPS survey, the store leader calls to apologize and probes for the root cause of that customer's disappointment. They will try to fix the customer's problem—and they will share lessons learned with the store team at the next day's opening huddle. In this way, front line personnel are constantly learning how to create more promoters. When customers score 9 or 10, their comments are shared at the huddle—and often posted on the break room wall. Apple employees understand that when customers score them a 9 or 10, they are signaling their life has been enriched. This positive recognition energizes the team member responsible—and also reveals their exemplary practices. In this manner, NPS continues to work at the granular scale of the store—all the way up to worldwide issues being analyzed at Apple's headquarters. For some companies, NPS has evolved beyond merely a score; it is a system of management to ensure effective execution of strategy. With a common framework, language and philosophy, all levels of the organization can remain focused on one objective: strive to enrich the lives of customers. This not only inspires team members to give their best, it provides a metric to help the company know if it is meeting its goal to delight customers—which is a formula for profitable growth.