

1. How to get more referrals: Turn your Net Promoter Score into a causal survey so you know what to do differently

1.1. Introduction

The Net Promoter Score (NPS) has seen considerable popularity around the world as a replacement for traditional customer satisfaction surveys.

The typical satisfaction survey is seriously flawed in that satisfaction is known to be a poor predictor of future behaviour. That is, just because your customers say they're satisfied, doesn't mean they'll buy from you again.¹

Instead, the NPS asks a single question 'How likely is it that you would recommend our company to a friend or colleague?' The NPS shifts from measuring the nebulous concept of satisfaction to an actual desired customer behaviour critical for business success.

However, for everything the NPS concept has in simplicity and clarity, it lacks in explanatory and predictive power.

This is a fundamental flaw that affects both the NPS and general customer satisfaction surveys. That is, they generally do not, in any way, answer the question:

- ◀ What do I do...
 - more of,
 - less of, and,
 - differently
- ...in order to change the scores?

In the case of the NPS, it's about how to change the number of people saying they will refer to others.

¹ Augusto de Matos, C., Henrique, J. L., & Rossi, A. V. (2007). Service recovery paradox: A meta-analysis. *Journal of Service Research*, 10(1), 60-77

Szymanski, D. M., & Henard, D. H. (2001). Customer satisfaction: A meta-analysis of the empirical evidence. *Journal of the Academy of Marketing Science*, 29(1), 16-35

Bennett, R. and Rundle-Thiele, S. (2004). Customer satisfaction should not be the only goal. *Journal of Services Marketing*, 18(7), 514-523

The NPS has root cause analysis as part of the concept approach, however, in my research, it appears that this involves asking some other questions with the NPS question and inspecting the scores to see which one you should do, and / or asking open ended questions, analysing the results and then picking the ones that appear most important.

It's true that like any survey, you can 'eye-ball' the results and make a judgement about what to do next. I think this is no better than guess work. There's no way to be certain that if you take some initiative that it will actually work.

This paper is not really a critique of the NPS. Rather, it is a broad critique of the typical customer survey and its inability to help you truly understand what you have to do to drive the customer behaviours essential for success.

This paper is part 1 of series of papers in which I start by initially describe the flaws in customer satisfaction survey methodologies (including the NPS), followed by a series of papers on how to design what I call Causal surveys that make use of strong research methods and multivariate statistics to identify the causal drivers of the scores.

Through these papers, I'm going to make it easy for you to use a rigorous approach to surveying where you can really start to understand what drives your customers.

Customers are sophisticated and we need to use more sophisticated methods to model their behaviour to truly understand why they do what they do and why they don't do what we'd like them to do.

1.2. How the Net Promoter Score works

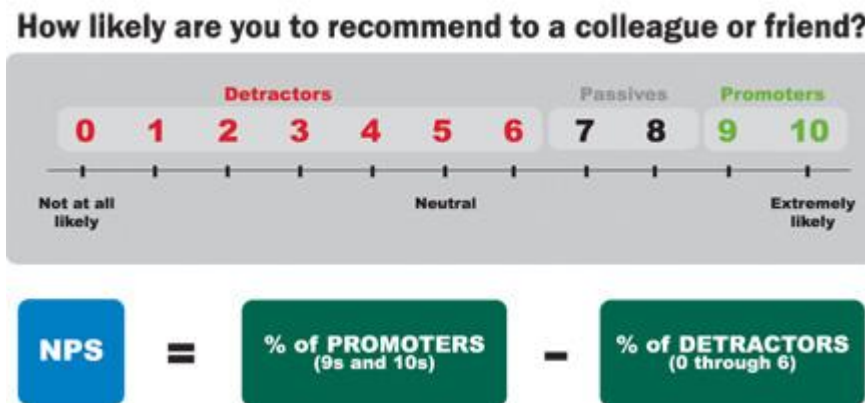
The NPS is about asking people a single question 'How likely is it that you would recommend our company to a friend or colleague?' and asking them to rate this on a scale from 0 to 10, where 0 is 'not at all likely' and 10 is 'extremely likely'.

Then, when you've got your survey back, you divide the responses into three groups:

Category	Score	Description
Promoters	9 or 10	Loyal enthusiasts who will keep buying your products and services and refer others
Passives	7 or 8	Satisfied, but unenthusiastic customers who can be swayed by competitive offerings
Detractors	0 to 6	Unhappy customers who probably speak negatively about your company and brand

The NPS is calculated by taking the percentage of promoters and subtracting the percentage of Detractors. For example, if 30% of your customers are Promoters and 15% are Detractors, then your NPS is 15% (i.e., 30% - 15%).

The following diagram illustrates the question, scale and the calculation:



(from <http://www.netpromoter.com/np/calculate.jsp>)

The simplicity of the concept, survey and calculation is alluring. Its main benefit is that it is a significant step up from the traditional customer satisfaction survey as it asks about customer behaviour (i.e., referrals), rather than just satisfaction.

Most people don't realise that the research clearly shows that satisfaction is not a strong predictor of future behaviour, whether it's job satisfaction or customer satisfaction. there's no doubt that if all you ask about is satisfaction, you'll not be any wiser in understanding what makes your customers tick.

The NPS is also useful in that it can be used compare businesses across industries on the assumption that everyone has used the same question and response scale.

1.3. What's the real problem with NPS and typical customer satisfaction surveys?

Every time I've seen any type customer satisfaction survey, including NPS surveys, there are several things in common:

- ◀ The questions are poorly written
- ◀ There are no clear hypotheses underlying the structure of the survey
- ◀ There are no clear independent and dependent variables
- ◀ The survey report contains hundreds of pages of graphs and basic statistics making it hard to really understand what's going on
- ◀ There is no clear information about root cause that answers the question 'What do I do now?'

I'll briefly deal with these in turn.

1.3.1. Poorly written questions

Poorly written questions are characterised by one or more of the following:

- ◀ Double barrelled questions (asking several things at once)
- ◀ Ambiguous language (meaning different people interpret it differently)
- ◀ Leading questions (meaning people feel compelled to answer in a specific way)
- ◀ Questions with no clear implication for what to do based on the answer (meaning that if you get a negative or positive result, you don't know what to do about it)

1.3.2. There are no clear hypotheses underlying the structure of the survey

Without going into a long and complicated discussion of the scientific method and hypothesis testing, a properly designed survey would have easily identifiable components that answer key questions such as:

- ◀ Did an initiative have an effect on sales or service?
- ◀ Does one customer group differ from another in some systematic way?
- ◀ Can one variable predict another, helping us understand causality?

Generally, the surveys we see can describe what customers are like, but says nothing about why they are the way they are and why they do what they do (or don't do what we'd like them to do). As a result, the surveys are descriptive, but are not explanatory or predictive in nature.

1.3.3. There are no clear independent and dependent variables

Directly related to the issue of no clear hypotheses is the issue of no clear independent or dependent variables.

A dependent variable is generally an outcome being sought. In the case of the NPS, the question 'How likely is it that you would recommend our company to a friend or colleague?' is a dependent variable because it asks about a desired outcome the business wishes its customers to engage in. In other surveys, the dependent variable may be something like 'Overall, I am satisfied with the service I received'.

On the other hand, independent variables represent things that are changed in order to understand their impact on the dependent variables. That is, do we get more or less of the outcome based on a change in the independent variable? A question asking about an initiative and its impact on an outcome variable could be 'The product training I received makes me more confident in selling the product to customers'. The corresponding dependent variable would ask about staff overall confidence in selling products'.

If there are enough properly worded independent variable questions, we can start to determine which of the initiatives has had the greatest impact on the outcome variable. I'll cover this in more detail in later papers.

What we typically find is that there is a grab bag of different questions with no clear structure to them and no clear separation of dependent and independent variables. What this means is that there is no real way to make assertions about what to do differently to change the outcome variables you're measuring. This is the same problem as a classic NPS survey where all you're doing is measuring the outcome (referrals) but are not asking properly about what will cause people to make more or fewer referrals.

1.3.4. The survey report contains hundreds of pages of graphs and basic statistics making it hard to really understand what's going on

The majority of survey reports that I see don't use anything more sophisticated than means and frequencies and, when combined with endless cuts of the data based on respondent demographics, result in hundreds of pages, graphs and basic statistics.

Pouring through such a report results in a serious case of information overload. With all the graphs and tables there is no way the reader can relate the information to answer such basic questions as 'why are the scores the way they are?' and 'How do I improve the scores next time?'

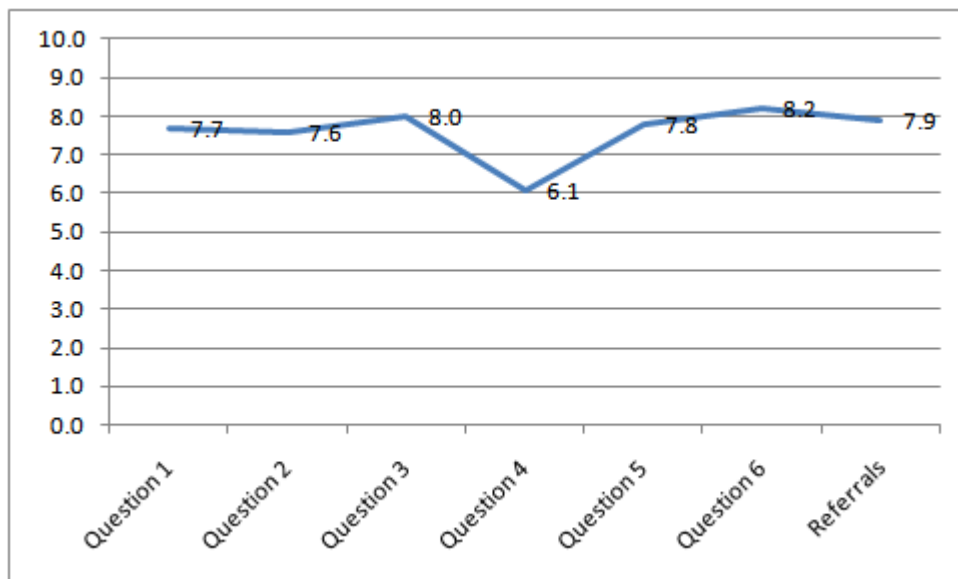
A typical analysis of the results is done with simple statistics such as means (averages) and frequencies. These simple 'descriptive' statistics only do what their namesake indicates – they only describe what the sample is like, such as the average of some variable, or the percentage of females

I rarely see any bivariate or multivariate statistics. If I do, then it's usually a correlation (bivariate statistic). However, the problem with such statistics (especially without an underlying hypothesis), is that correlation is not causation.

1.3.5. There is no clear information about root cause that answers the question 'What do I do now?'

As a necessary effect of the lack of hypotheses, independent and dependent variable and multivariate statistics is that there is no ability to explain the results and identify their causal factors.

What I see instead is that various graphs and tables lead people to make spurious conclusions about the data. Take a look at the following graph:



In this example, there are six questions being asked (Question 1 to 6) and an outcome variable, Referrals. The six questions can be considered to ask about various initiatives an organisation has carried out to influence the extent to which customers make referrals to others.

Having a look at the graph, it shows that except for Question 4, the values of each variable (questions and outcome) are all very similar. Question 4, however, is lower than all other variables. Obviously, the thing to fix whatever Question 4 is about because it's the lowest. Right? No!!

In our sample data, if we calculate correlation coefficient between Question 4 and Referrals, we find it is 0.16. This is very low and shows there is essentially no practical relationship between the two variables.

Inspecting the correlation coefficients of the other questions and the outcome, referrals, we then find that it is in fact Question 2 that is correlated with Referrals. The correlation coefficient here is 0.6, indicating a medium relationship between the two variables. This information is hidden by the use of descriptive statistics making it easy to reach erroneous conclusions.

This means that if the organisation focuses its efforts on addressing the low scores on Question 4, instead of Question 2, then it is unlikely to have any effect on Referrals.

However, if the organisation spends effort on doing more of the things represented by question 2, then it is likely see an increase in Referrals. Relying on correlations alone is not sufficient, since, as I've described just earlier, correlation is not causation.

1.3.6. Understanding the NPS, root cause analysis and why are your scores the way they are?

I mentioned earlier that the NPS concept features 'Root Cause Analysis', but it does not appear to be statistically driven. It instead appears to be supported by inspecting the results of other questions included with the NPS question and customer verbatim comments.

I showed you earlier how easy it is to make an erroneous conclusion when using simple descriptive statistics. The same can occur with verbatim responses. A lot of care is needed to code them correctly and associate them properly with the outcome variables to determine if there is a relationship. Unfortunately, it's not easy to do this.

It's far better to design the survey properly and use the correct statistical analysis to really understand what's going on in the data and in your customers' mind.

1.4. Moving beyond traditional surveys: Causal surveying

Despite my criticism of NPS surveys, there is nothing inherently wrong with the concept of the Net Promoter Score. In fact, the use of a behavioural outcome is a significant step forward from typical satisfaction surveys.

The main issue is that despite the appealing simplicity of it, there is no clear method to understand the causality behind the NPS an organisation achieves. The root cause methods available are imprecise and conclusions can be considered guesses.

Starting with the next paper, I'm going to show you how to design and analyse a Causal Survey. With such a survey, you can answer with confidence key questions like:

- ◀ What exactly do we have to do to get more Promoters and fewer Passives and Detractors?
 - What behaviours do my staff need to demonstrate to make our customers into Promoters
 - What do we have to change in our business to get more Promoters
- ◀ How do I convert a Passive or a Detractor into a Promoter?
- ◀ How are Promoters different from Passives and from Detractors?

If you're interested in being able to answer these questions, then I look forward to having you back for part 2. In part 2, I'm going to cover how to design a rigorous causal survey and in part 3 I'll take you through how to analyse a causal survey using multivariate statistics.

2. About the Author

Craig Errey is the Managing Director and founder of Solve Group (T/A PTG Global). Solve is a leading business technology consultancy that designs and delivers IT solutions that work the right way, first time.

Craig has nearly 20 years in user experience, user interface design and change management.

He has been the primary architect behind the business-critical services and transactions essential to many of Australia's most popular websites including CBA, Virgin Blue and ASIC, and also works on cutting-edge technologies such as touch, medical and special-purpose applications.

Craig manages Solve's R&D function and has produced a number of world-firsts, including XPDesign – the first systematic methodology for user interface design – and Certified Usable – the first guarantee for usability and user experience.

Craig is a member of the Australian Psychological Society and the APS College of Organisational Psychologists. He holds a Masters in organisational psychology from the University of NSW and is also an Associate of the UNSW and Macquarie University.

As a registered psychologist, he understands the way people think and creates user interfaces that are simple, user-friendly and effective. His expert insight into technology and how it is used has been called on by media outlets including The Australian, SMH, 2UE and the ABC.



Contact Craig on:

Email: craige@ptg-global.com
Web: www.ptg-global.com
Blog: www.ptg-global.com/craigsblog/
Mobile: +61 (0) 416 266 216
Phone: +61 (0) 2 9251 4200
Address: Level 16, 207 Kent St, Sydney, NSW, 2000, Australia