



## **Customer Experience Metrics:**

### **A discussion about Customer Satisfaction and Net Promotor Score**

In today's business climate, customers have a great deal of choices. What makes a customer choose your brand? What makes that customer loyal to your business? How can you improve your service to keep your customer? Finding the answers to these questions and creating a strong customer experience is now a prominent business objective and resides in the realm of Customer Experience Management (CX).

CX is a relatively young science, its importance was first emphasised in academic circles in 1999. Although initial uptake of these ideas was slow in the market, with focus staying on how customers create value for companies and not on how companies can create value for their customers. But this thinking has shifted in recent years, with the management of customer experience being viewed from both the company and the customers perspective now. Currently CX is considered to be a multidimensional construct that includes the customer's emotional, behavioural, cognitive and social responses to a company's products/services.

A key part of customer experience management is a company's capability to measure and monitor their customer's responses to their products/services. Two of the most well-known and well used CX metrics are Customer Satisfaction (CSAT) and Net Promotor Score (NPS). While both these measures have their advantages and disadvantages, it is crucial to remember that their usefulness is greatly determined by a CX Projects research design. Poor design will lead to the measurement being ineffectual, despite the metrics inherent benefits. However, to properly design a CX measurement project, it is essential to clearly understand these two metrics in order to use them to their maximum benefit.

### **Customer Satisfaction (CSAT)**

Customer satisfaction is one of the most commonly surveyed constructs in CX. The conceptualisation of this construct began in the 1970s. It is the attitude customers have regarding a specific company and their products/services. It strongly links to the customer's expectations of what the product/service should be. Positive customer satisfaction tends to lead to repeat business and customer loyalty. But note that measuring customer satisfaction is not the same as measuring customer loyalty. While



high satisfaction is a necessary condition for loyalty, but it is not sufficient to predict loyalty. The following is a typical way of measuring customer satisfaction:

“Overall, how satisfied are you with (brand name)?”

This question gives a reflection of the customer's overall opinion of their experience. It is important to remember that we can only meaningfully measure a customer's satisfaction with regards to products/services that they have actually used.

Understanding customer satisfaction gives a company an indication of how well they are doing and whether their products/services meet or exceed their customer's expectations. As noted earlier, customer satisfaction also provides them with a strong predictor of customer retention, customer loyalty and product/service repurchase.

The CSAT survey is developed to provide a company with an understanding of their customer's expectations and satisfaction. These surveys usually require multiple questions that address satisfaction with different dimensions of the products/services. Therefore, customer satisfaction measurement can include measures for overall customer satisfaction, as well as with specific product and service attributes. Customer satisfaction is one of the most important elements of business success and is often a key measure of fulfilment of business strategies.

## **Net Promoter Score (NPS)**

The developers of NPS believe that in business it is always necessary to consider the Golden Rule, the principle that you should treat others the way you would want to be treated if you were them, in a manner that brings honour and dignity to both parties. But without a systematic feedback mechanism, the Golden Rule is self-referential and simplistic and unreliable for decision making. The search for the metric that provided the missing link between the Golden Rule, loyalty and sustainable growth was an arduous task and Bain & Company started investigating this loyalty effect almost thirty years ago.

NPS is a flexible and open source system developed by Bain and Co & Fred Reichheld. Bain & Company started their research by looking at 20 questions on the Loyalty Acid Test (a Bain developed survey). Satmetrix Systems Inc supplemented this research by developing software that was used to gather and analyse the real-time customer feedback Bain & Company collected and through this research NPS was developed. NPS is predominantly used to track the loyalty, engagement and enthusiasm of a company's customers.

NPS first appeared in the Harvard Business Review in 2003 which led to a book in 2006 called The Ultimate Question. Both noted that NPS categorised customers based on their answer to the following single question:

“On a zero-to-ten scale, how likely is it that you would recommend us (or this product/service/brand) to a friend or colleague?”

It was found that customers tended to fall into one of three well defined groups:



- Promoters (score 9 & 10) = success as the assumption is that customers don't give a 9 or 10 unless they a company delivers special service which has a positive impact.
- Passives (score 7 & 8) = are merely satisfied and therefore are not considered to be part of the company's success story.
- Detractors (score from 0 – 6) = represent serious failures as they have had a negative experience instead of a positive one.

Individual customers cannot have their own NPS, they can only be placed into a category. However, companies can calculate their NPS for particular segments of customers, for divisions or geographic regions, and for individual branches or stores. Exploration of detailed data is necessary on promoters, passives and detractors to peel back the layers on the NPS score.

The authors and developers of NPS wanted a number that companies could track consistently to assess their progress and direct their improvement efforts. They wanted a simple metric that was powerful and easy to understand. They decided to take the percentage of promoters and subtract that from the detractors. The result of this is the NPS:

Promoters – detractors = NPS

The phrasing of the NPS question is considered short hand phrasing for the question that companies really want to know which is “Have we treated you right, in a manner that is worthy of your loyalty?”. It should be noted however, that categorising customers is now only part of the NPS process, as the question has led to the development of a management system with 3 central components:

- Categorising customers into promoters, passives and detractors
- Creating an easy to understand score based on the above categorisation
- Framing progress and success in the above terms, with the aim of motivating all company employees to behave in a manner that produces more promoters and fewer detractors. They need to systematically and regularly learn from the scores and related feedback to drive improvements and change. This is what has turned NPS from just a score into a system.

For this to happen consistently, there are three fundamental elements that are essential to NPS:

- Promoters and detractors must be categorised thoroughly in a timely, transparent manner and the resultant feedback must be communicated throughout the company in a way that is comprehensible and relevant, so employees are able to appropriately adapt their performance and track their results.
- As NPS does not accomplish anything if Companies do not act on what they learn, it is crucial that companies develop closed-loop learning and improvement processes which are built into their daily operations.
- Creating more promoters and fewer detractors must be central to a company's strategy. This mission requires the support of all leaders in the company, starting with the CEO.

The authors caution that NPS should not be entered into lightly as”



"NPS ultimately is a business philosophy, a system of operational practices, and a leadership commitment, not just another way to measure customer satisfaction." p13

The NPS question is simply testing whether a company is observing the Golden Rule. It is critical to interrogate the fundamental philosophy that companies function under, as it reflects the values that inform and guide the business. Every business decision ultimately involves economic trade-offs and building high quality relationships with customers often costs a considerable amount. It requires investment and reducing a company's reliance on bad profits. The question that then needs to be asked is not how much it costs to build high quality relationships with customers but rather what is the magnitude of benefit that results from these quality relationships, and how does the benefit measure against the cost.

NPS does not explain relative growth in every industry situation as factors other than customer loyalty also play an important role. So, even though loyalty is not the only factor determining a company's growth, the position of the authors is that profitable natural growth cannot be maintained without it.

An important caveat from the authors regarding NPS is that a high NPS is not the real objective of the NPS system, as a high NPS by itself does not guarantee a company's success. NPS simply measures the quality of a customer's relationship with the company. High quality relationships are a necessary but not a sufficient condition for profitable growth. It is important for a company to relevantly benchmark themselves against other similar businesses. The relevant benchmark is always local competitors, whose scores are identically affected by local idiosyncrasies.

Although about benchmarking, it is essential to remember that different methods of surveying influence NPS scores. Measuring NPS via mobile/email-to-web surveys and then comparing the score to industry benchmarks that were likely based on responses collected via telephonic interviews and paper-and-pen surveys is problematic. It can therefore be more useful to benchmark internally against past NPS scores, as continuously driving positive change in a business and improving change management processes is where the most value lies.

It is also important to distinguish between a customer's satisfaction with a specific interaction or transaction and their loyalty to the overall company relationship. Tracking NPS at each interaction enables managers to spot trends or emerging problems and helps identify which departments and employees are doing the best job of turning customers into promoters and reward them accordingly. Combining this data with the broader NPS data would allow managers to summarise results by customer segment, customer profitability and type of inquiry/service problem.

When bearing in the mind the best practice of NPS, the goal of NPS is not purity of research but rather a reliable operating system. Experience with clients has shown the practical and empirical advantages of the zero-to-ten scale and the use of this scale is strongly recommended. It is important to note that colour coding the scale is discouraged and not considered good practice. The advantages of zero-to-ten scale:

- Scale makes intuitive sense to customers
- Most people think in units of ten



- Some customers will never give a perfect score no matter how happy they are, therefore the 9 gives them an alternative without pushing them into the passive category
- Scales with fewer points gloss over important differences in customer loyalty

It is also best practice to ensure that biases in the research are minimised. It is often necessary to educate employees and customers on the ethics regarding the feedback system in order for them to appropriately reply and manage it. Unpredictable timing of the surveys can also deter bribery and collusion among employees and customers. It is also critical that companies generate a measurement system that surveys the correct sample of customers.

Another key to accurately compare branches, regions or competitors is that the research process must be reliable and consistent. Companies must regularly validate the link between individual customer scores and those customers' behaviour over time. Ongoing analysis of retention, purchasing pattern, feedback and referrals can confirm the integrity of a company's feedback process.

## Conclusion

While it is important to understand the above metrics and how they work. It is more necessary for CX management to focus on how their choice of metric will help them deliver their business outcomes. A metric only focus can lead to an emphasis on only reaching a specific score on the chosen metric rather than on improving customer's experiences and meeting business strategy outcomes. Consistent and capable metrics are necessary they alone do not drive CX improvement.

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