On the one number you need to grow, one size doesn't fit all.
“If growth is what you’re after, you won’t learn much from complex measurements of customer satisfaction and retention. You simply need to know what your customers tell their friends about you.”

Frederick Reichheld, loyalty expert

For Good Measure

Is customer loyalty really the key to achieving growth and other desired financial and business results? Is it an attitude, a behavior, or both? Can it be measured? If so, what is the best approach? And if customer survey ratings are to be used for measuring loyalty, which ones furnish the optimum information: satisfaction, likelihood to repurchase, likelihood to recommend, customer-perceived value, some combination of these, or some other rating?
These questions aren’t new; marketing managers and researchers have wrestled with them for decades. But has anyone solved the mystery?

Frederick Reichheld has argued that the net promoter score (NPS), derived from a single survey question (whether customers would recommend a brand to a friend or colleague), provides a superior measure of loyalty. He’s shown that the NPS is a very good predictor of customer behavior and company growth—and has been strongly correlated with an increase in revenue and sales volume—in a variety of markets and industries.

The NPS has certainly gained its share of fans recently, and for some excellent reasons (including the preceding one):

- It is relatively simple to calculate.
- It has face validity.
- The idea of promoters and detractors has a certain intuitive appeal to many managers, executives, shareholders, and other stakeholders.
- The NPS provides the type of core customer index that many companies aim to include in their corporate scorecards.

Even if a company chooses not to adopt the NPS, “willingness to recommend” (WTR) is a useful question to ask customers who have used its products or services—if for no other reason than to estimate potential effects of word-of-mouth communication in the marketplace. In fact, many organizations have used WTR as one of multiple components of a loyalty index for more than a decade.

But is customer WTR really “the ultimate question,” as the title of Reichheld’s latest book asserts? The short answer is no. It turns out that WTR isn’t always the best predictor of customer behavior or business results; some measures perform better in particular markets and sectors, or for particular types of customers. Actually, in certain markets and sectors, WTR is “simply irrelevant” as Reichheld puts it. In addition, the decision to use only WTR—without considering other measures—can (1) lead managers to focus on the wrong things with regard to improving customer satisfaction and loyalty, and (2) shortchange their efforts to measure and manage it.

Adopting a one-size-fits-all approach, such as the one that Reichheld advocates, has its pitfalls. There’s an alternative strategy for developing a loyalty measure, one that increases the odds that an organization really does select the best one.

Variations and Alternatives

To be fair, I’m not the first to indicate that the optimum measure of loyalty varies by market. Reichheld points this out in his December 2003 *Harvard Business Review* article, “The One Number You Need to Grow,” and again in *The Ultimate Question* (Harvard Business School Press, 2006). Commenting on his own research, he says “the ‘would recommend’ question wasn’t the best predictor of growth in every case.”

“In a few situations, it (willing to recommend) was simply irrelevant. In database software or computer systems, for instance, senior executives select vendors. … Asking users of the system whether they would recommend the system to a friend or colleague seemed a little abstract, as they had no choice in the matter. In these cases, we found that the ‘sets the standard for excellence’ and ‘deserves your loyalty’ questions were more predictive.

“Not surprisingly, we found that ‘would recommend’ also didn’t predict relative growth in industries dominated by monopolies or near monopolies, where customers have little choice.”

Market structure and customer type aren’t the only reasons why WTR and/or the NPS might not supply the best measure of loyalty. There’s evidence that the most predictive measure of loyalty also varies by sector or industry. While at Cincinnati’s Burke Inc., my associates and I examined the predictive power of 15 measures of loyalty and customer-perceived value, across five sectors and two market types: business-to-consumer vs. B2B. In this research, we included measures such as likelihood to repurchase, WTR, deserves my loyalty, preference, estimated growth in loyalty, and several other items frequently used to capture attitudinal data regarding loyalty. As with Reichheld’s work, results indicated that although WTR is one of the best predictors of customer behavior in some sectors and markets (e.g., B2B customers of hotels), it is one of the very worst predictors in others (e.g., business-to-consumer users of personal computers). In fact, in certain sectors and markets, measures of customer-perceived...
value did a better job of predicting customer behavior than any of the loyalty measures. (K. Gupta, J. Kershaw, and I originally described these results in a paper presented at the 2004 American Marketing Association Advanced Research Techniques Forum: “Developing a Core Index of Customer Affinity.” A more recent summary is available at www.burke.com.)

More recently, in a longitudinal study of retail shoppers, my Maritz Research (Fenton, Mo.) colleagues and I studied the predictive power of several different indices of loyalty, including:

- a single-item index using WTR;
- a three-item index composed of overall satisfaction, likelihood to return, and WTR;
- and a probability allocation or “share of next 10 visits” item.

After gathering the measures in a baseline survey, we tracked retail visits among these customers—to determine which index was most strongly correlated with customer behaviors. The results (illustrated in Exhibit 1) indicated that the probability allocation or “share of next 10 visits” item is more strongly correlated with customer behavior than either of the other indices—and that WTR is the weakest of the three.

These findings are very important for any organization aiming to develop a survey-based loyalty measure, which can be linked to business outcomes. Again, there is very strong evidence that the “best” loyalty measure varies by market, industry, and customer type.

The Wrong Priorities

Once an organization has established its level of or trend in loyalty, the question that managers frequently pose is: Which elements of the customer experience should get our highest priority for action? Quite often, they will perform a “key driver analysis” on customer satisfaction or experience measures, to ascertain which elements are most closely related to increased or decreased loyalty (i.e., the key drivers). Managers typically give priority to key drivers with (1) high levels of customer dissatisfaction, (2) scores that are trending downward, and (3) scores that compare unfavorably with relevant targets, competitors, or benchmarks.

When managers conduct a key driver analysis, the customer loyalty measure usually serves as the dependent variable—the one they want to be able to explain and predict from data regarding how customers evaluate different elements of their experiences with a company. The choice of this dependent variable is critical, because the wrong one can result in inaccurate prioritization of key drivers and customer issues for managerial action.

My associates and I have empirically examined the effects of the dependent variable choice for key driver analysis. Using the data from our study of retail shoppers, we performed several of these analyses—each with a different survey measure as the dependent variable (e.g., WTR, probability allocation). In one analysis, customer behavior—the rated brand’s share of last 10 visits—served as the dependent variable.

Our objective was to determine which survey measure (as the dependent variable) would yield attribute importance estimates and orderings most similar to the ones produced when customer behavior is the dependent variable. In other words: We wanted to know which survey measure causes managers to set priorities that are most likely to bring about desired customer behavior. The results (summarized in Exhibit 2 on page 24) indicated that it is probability allocation, rather than WTR.

In fact, the relative importance of alternative customer experience elements—and potential priorities for managerial action—is notably different when WTR is used. For example: WTR as the dependent variable leads to the conclusion that location is relatively unimportant, whereas layout is one of the top three drivers of loyalty. Customer behavior as the dependent variable leads to the opposite conclusion.

Focusing on what drives WTR might divert attention from the customer experience elements that actually bring about increased loyalty and related business results.

Other Limitations

In the approach that Reichheld and his colleagues use, managers gather ratings on WTR via a 10-point scale: Zero equals “not at all likely” and 10 equals “extremely likely.” Then they categorize respondents, placing them into one of three groups:

- People giving a 9 or 10 are promoters.
- People giving a 7 or 8 are passives.
- People giving a 6 or lower rating are detractors.
Managers then calculate the NPS as the percentage of promoters minus the percentage of detractors. Reichheld displays it as “P - D = NPS.”

The NPS’ appeal notwithstanding, it and the method used to calculate it suffer from a number of shortcomings.

**Lack of precision.** For all intents and purposes, an organization that adopts Reichheld’s approach might as well use a scale that gives respondents three choices:

- I would recommend your brand or company (promoters).
- I might recommend your brand or company (passives).
- I would not recommend your brand or company (detractors).

Why is this a limitation? If there are degrees of loyalty, then a more precise scale is needed. The decision to employ an 11-point (0-10) scale suggests that Reichheld and associates believe a continuum with at least interval properties can describe a customer’s WTR. (In other words, they appear to believe in degrees of loyalty.) But by recoding responses into three discrete categories, much of the information that would shed light on the issue is lost. Furthermore, Reichheld offers little explanation of why he categorizes respondents in the aforementioned manner. In short, his approach is confusing and lacks precision.

**The level at which data might be reported and analyzed.** Essentially, the NPS is an aggregate measure of loyalty. It is a global indicator that summarizes the extent to which a firm has more promoters than detractors at any given point. Over time, the NPS can be (and has been) linked to aggregated business results such as market share, sales volume, and revenue. As Reichheld mentions, “Individual customers can’t have an NPS; they can only be promoters, passives, or detractors.”

If an organization is interested in relating loyalty to business outcomes only at this very macroscopic level, then the NPS might prove useful. However, I’d argue that organizations (1) need to manage loyalty on an individual customer basis and (2) can gain most vital knowledge concerning how loyalty is related to outcomes only if they do analysis at this individual level. For example: In the 2004 *Marketing Research* article “Burden of Proof,” Gupta, Jim Roberts, and I demonstrated that measures of customer satisfaction, value, and loyalty might not be directly or meaningfully connected to revenues or purchase volume—unless they can be linked through a customer-level measure of share of wallet. The NPS simply isn’t appropriate for this degree of analysis, or any other analysis that requires a loyalty score for each customer.

**Interpreting the number.** Many different promoter and detractor scores can yield the same NPS. For instance: If 70% of surveyed customers are promoters and 30% are detractors, then the resulting NPS would be 40. But an NPS of 40 is also produced when 40% of surveyed customers are promoters and none is a detractor. Clearly, these are very dissimilar situations, yet the NPS would lead us to conclude that they aren’t. Without looking at the promoter and detractor scores, grossly incomparable scenarios could be treated as the same—and either inappropriate or no managerial action might ensue.

**Recommended Approach**

Perhaps no individual has done as much to promote the importance of managing customer loyalty as Reichheld, and I applaud his efforts in this regard. Loyalty can and must be measured, managed, and linked to business results—and developing and deploying a core loyalty index is a key step toward

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**Without looking at the promoter and detractor scores, grossly incomparable scenarios could be treated as the same.**

**Exhibit 2** Alternative measures as dependent variables

![Exhibit 2](image-url)
this end. I merely disagree on how best to accomplish these tasks.

So what should your organization do? It needs to engage in careful research and analysis. A longitudinal approach—in which managers examine multiple candidate measures—is optimal. (Ironically, this recommendation echoes Reichheld’s advice that companies should “do their homework” and “validate the link.”) It takes a little more time and effort than simply choosing an off-the-shelf measure such as WTR or the NPS. However, it’s the most effective way to ensure that your organization identifies and selects the best measure of loyalty—whether it is based on the so-called ultimate question or something better. The longitudinal approach has several important steps:

- Define the critical business results of interest, such as growing market share, retaining existing customers, and expanding the number and types of products sold to each customer.

- Identify candidate measures of customer satisfaction, value, and loyalty, from which managers will ultimately select the items comprising the loyalty index.

- Gather baseline survey data on these measures, from a sample of customers or buyers/users.

- Monitor the shopping and buying behaviors of these customers over time.

- Conduct analyses to determine the extent to which survey items (individually or in combination) correlate with—or can be used to predict—the customer behavior leading to the critical business results.

- Use the outcomes of these analyses to select the best measure. Construct the index from the items most strongly correlated with or predictive of the critical customer behavior and business results.

Author’s Note: All of Reichheld’s quotes herein are from either his article (“The One Number You Need to Grow”) or his book (The Ultimate Question). Please contact me for additional details.

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