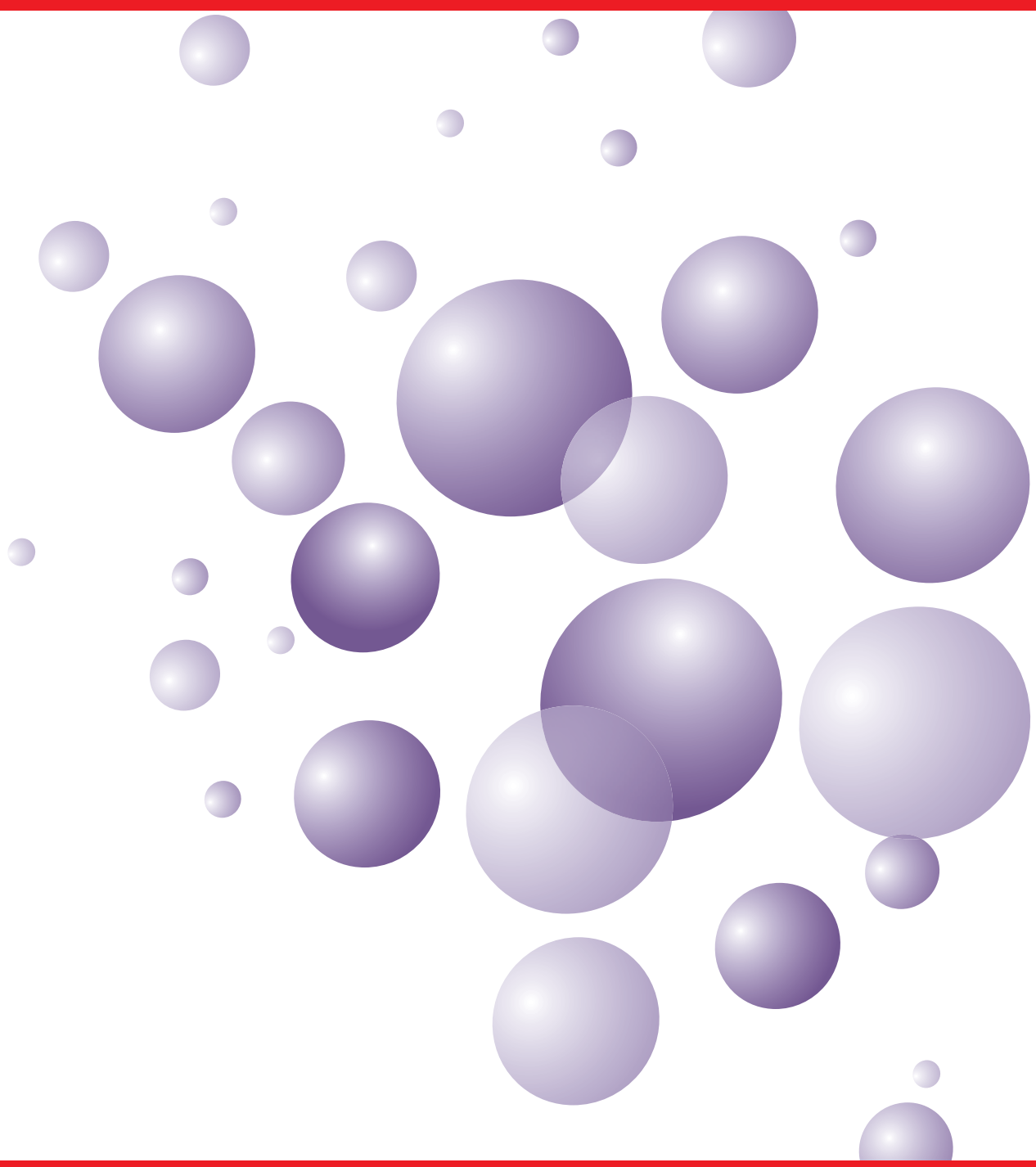
Value Speaks Louder than Words

The management folly of adopting the Net Promoter Score as the 'one measure' and why value-for-money provides greater insight

Jock Lawrie, Alonso Matta and Ken Roberts



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Executive Summary

Management has recently been attracted to the notion that advocacy in the form of a Net Promoter Score (NPS) provides insight into market success and according to some is the only marketing metric management needs to focus on.

For example, the cover story in the September 2006 edition of *CFO* magazine features an interview with Trevor Schauenberg, Vice President of GE Capital Solutions Australia, espousing the insight provided by the NPS as a managerial metric.

> *"At a recent strategic planning session we put all of our business units on a matrix showing two years of growth rates and discovered that the units with the highest growth rates had NPS scores of 50 per cent and above. Conversely, the business units that scored 30 per cent or lower had very low growth rates."*

What Schauenberg liked most was the correlation between advocacy and revenue. However, correlations do not imply causality nor do they suggest one variable is a leading indicator for another. What Schauenberg and executives like him are discovering is the well documented power of relative positive word-of-mouth on growth rates in particular for intangible services.

Buyers do not suddenly advocate; a management strategy comes first. This is then followed by execution, which includes crafted communication, followed by customer and (hopefully) non-customer experience and then positive word-of-mouth. Positive word-of-mouth adds critical salience to marketing claims which aids in building brand momentum. The process is not always exactly in that order but it's difficult to imagine word-.of-mouth occurring ahead of management strategy. What is proven in this Client Briefing is that ideally share gaining strategy is based on value (price and quality) to the buyer.

Our analysis based on more than ten years of data, is clear that the NPS is statistically insignificant in explaining changes in market share and that other measures, specifically value, are significant in explaining changes in market share.

Once a brand has built momentum, advocacy can provide insight into the velocity of that momentum and, indeed, be correlated with relative revenue growth, but what troubles most executives is understanding which price and non-price drivers ignite changes in market share.

If management crave affirmation about past decisions then advocacy is perhaps an appropriate single measure. If, instead, management want insight into the next customer led discontinuity likely to drive changes in market share, then the NPS is a most curious choice of metric.

Additionally we find:

- Positive company advocates are highly likely to have experienced superior value. That is, advocacy is also driven by value.

- When a competitor is offering superior value advocacy is by no means a good predictor of future purchase behaviour. Indeed, based on our data sets across multiple industries around one in ten customers who give 9 and 10 on the advocacy question intend to move their business elsewhere.

- The rule-of-thumb score-classes proposed by Reichheld (promoters are those respondents who give a likelihood of recommendation of 9 or 10 while the detractors give 6 or less) are not supported statistically, mask important changes and potentially mislead management into believing that there is negative NPS when this may not be the case.

- Upon measuring the NPS, it is unclear what can be done to improve advocacy without measuring anything else. It is important to know *why* people are speaking (be it positively or negatively) about a company, if they are speaking about it at all. In other words, the client needs to identify the drivers of advocacy. If that type of driver analysis is to be undertaken we strongly recommend value as the dependent variable.

- The NPS cannot distinguish between the event of gaining detractors from that of losing promoters.

Advocacy (amongst others) is an important measure for management to include in their dashboard. It reveals the extent to which communication is supported by word-of-mouth and the extent of brand momentum. However, advocacy and the NPS is not the one measure that management should base their decision making on. Management is better off with multiple measures and if these measures were to be placed in a hierarchy we strongly recommend value as the one measure. We understand that management strives for simplicity but, the market is not that straightforward, regardless of how intuitively appealing the notion is.

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Background

Management has recently been attracted to the notion that customer advocacy, as measured by the Net Promoter Score (NPS), is the one metric a company needs for guiding growth. Indeed, the assertion that "*the NPS is the single most reliable indicator of a company's ability to grow"* (Reichheld, 2006) has been adopted as a guiding mantra by many organisations worldwide.

Whilst the NPS is informative and certainly the advocacy construct is amongst a raft of metrics Roberts Research Group (*Roberts*) contends is useful, as we will establish in this Client Briefing, advocacy data alone can neither predict growth nor indicate how to improve it.

In 1995 Roberts Research Group established the exact wording of the NPS question[1]. At that same time Roberts Research Group coined the phrase "*business outcomes"* as a collective term to describe its advocacy, uptiering, defection (retention), contestable loyalty and acquisition dependent variables. At that time, only the uptiering and acquisition construct were not original to Roberts Research Group.

The advocacy question was originally drafted as a dependant variable to establish what operational drivers brought about positive word-of-mouth. Broadly speaking in services markets it was found that when a positive service encounter exceeded the brand expectation, customers did not advocate the brand but, rather advocated the people that delivered the positive service encounter. For example, in banking we found that advocacy of the brand (as opposed to the individual providing the service) could lag management action by as much as two years as the brand equity caught up to organisational intent and execution.

This Client Briefing applies our knowledge, based on several hundred data sets and our eleven years of continuous business outcomes, and market share data across banking & finance, logistics, telecommunications and healthcare industries, to investigate the veracity of the claim that advocacy is an indicator of growth.

In our analysis we find that contrary to predicting growth, advocacy is a lagging indicator of changes in market share. Analogous to the scoreboard attendant's role, advocacy is useful for learning about the extent of the performance gap of existing and past games, but unhelpful in predicting the outcome of the next game. So it is for the Net Promoter Score; helpful for highlighting the positive word-of-mouth flowing from past strategy; however, unhelpful in informing management as to how to ignite the change in the first place.

[1] How likely would you be to recommend [COMPANY X] to a friend or colleague?

And so, in answer to the question, *Can managers use advocacy or the NPS to determine what should be the share gaining strategy?* The emphatic answer is *no*. Rather, we will show that several measures are required for these purposes, with information regarding *value for money*[2] (value) being most significant in predicting changes in market share. Moreover, we argue that market share is equally as important as revenue growth, and illustrate that various aspects of value are superior to advocacy as predictors of market share.

As represented in Figure One, growth and improved market share are directly driven by three basic business outcomes, namely *retention* and *uptiering* of existing customers and *acquisition* of new customers. Hence, this Client Briefing focuses on these three outcomes. We are especially interested in determining what influences *retention, uptiering* and *acquisition*. We contend that these outcomes are in turn driven by value for money. Moreover, we argue that while advocacy can positively influence these outcomes, advocacy is also driven by value for money.

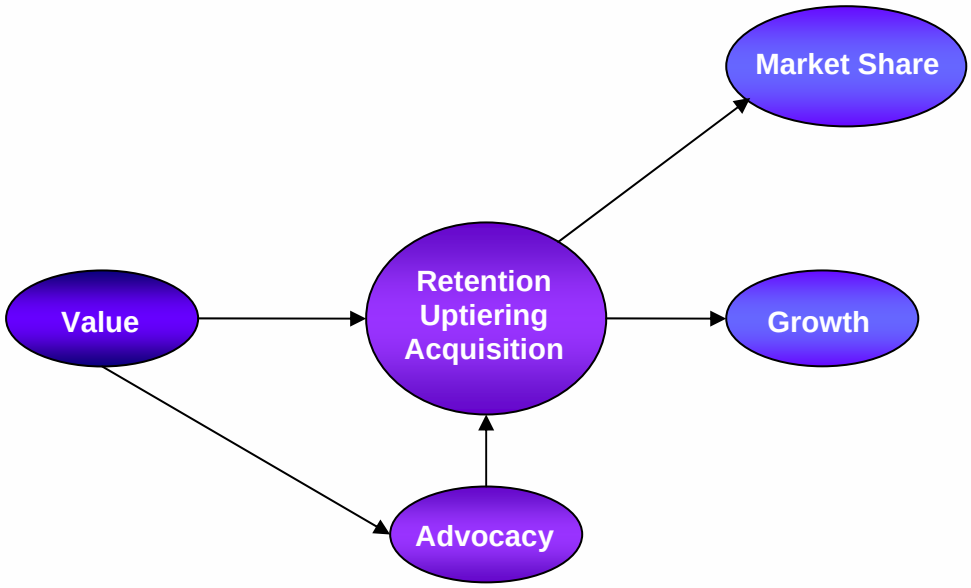


Figure 1: Aspects of value drive the outcomes that drive growth. They also drive advocacy and market share.

[2] As measured by "Worth What Paid" (Gale, 1994).

Drivers of retention, uptiering and acquisition

Retention, uptiering and acquisition are driven by various aspects of value for money. These may include price, customer service, product flexibility, convenience, and so on. Customers that experience good value are likely to continue using the product or service (assuming they still need it), and may even increase the value of their purchases. Another way to retain customers is to lock them into a contract. However, if they experience poor value, they are likely to take their business elsewhere upon the expiry of the contract (the *Roberts* business outcome construct *contestable loyalty* measures this intent). Acquisition works similarly, except that potential new customers need only *perceive* that they will experience superior value with their new provider. Such value is much easier to perceive if it actually exists and is well communicated.

Conversely, it is difficult to imagine that customers would recommend a company after experiencing poor value. Positive company advocates are highly likely to have experienced superior value. That is, advocacy (defined as positive word-of-mouth) is driven by value. This is clearly supported by the results of a string of consumer studies conducted by *Roberts*. Applying one indicative study, the aim was to identify the drivers of advocacy for each of a group of competing credit card providers. For each provider, a linear regression model was constructed in which advocacy, measured by '*likelihood to recommend,'* was the dependent variable. The independent variables were aspects of value (in particular, of performance and price). The results are summarised in Table One, which shows that these aspects of value are significant drivers of advocacy for the four competing credit card providers in the survey.

Credit Card Supplier	Significant drivers of Likelihood to Recommend
Competitor 1	Low fees and charges
	Widely accepted cards
Competitor 2	Low fees and charges
	Easily understandable fees
	Cards easily obtainable
Competitor 3	Low fees and charges
	Widely accepted cards
Competitor 4	Low fees and charges
	Widely accepted cards

Table 1: The drivers of advocacy for four competing credit card providers. These drivers all relate to aspects of the predictive acquisition construct, value for money. Here, the drivers listed are highly significant with p-values ≤0.05.

This fact is also noted by Reichheld. Indeed, in the second chapter of *The Ultimate Question* (2006), Reichheld states that before customers make a personal referral, *"…they must believe that the company offers superior value in terms that an economist would understand: price, features, quality, functionality, ease of use, and all the other practical factors"*. If value is the antecedent of advocacy then why not measure value? It follows that advocacy can only be explained in terms of value for money, so that any action taken to increase company recommendations must incorporate the drivers of value and its constituents of *price* and *quality.* That is, although advocacy leads to growth, its measurement alone cannot be used to understand what must be done for stimulating growth. Consequently, advocacy cannot be the sole number needed for growth.

One Predictor Alone?

The following two scenarios consider the number of predictors that would be sufficient for describing an outcome. In the first, the outcome requires just one predictor for the given research objective. The second scenario illustrates the folly of applying one predictor for an outcome that is conditional on several variables. This situation is analogous to marketing research in that the outcome, namely market behaviour, has a multitude of influences. Thus, attempts to predict market behaviour with a single variable is generally ill-founded and unreliable.

Scenario One: A researcher wishes to estimate the proportion of fish that live in neighbouring lakes that are blue-finned fish. A simple statistical approach would be to sample a number of fish at random from the lakes and then count the number of fish that hold this trait. Then, the number of fish that hold the trait over the total number of fish sampled is the estimated proportion of blue-finned fish. This is a valid statistical approach, because the number of fish that hold the trait depends solely on one variable, the genetic code of the blue-finned fish. That is, a fish is either born with or without the genetic code.

Scenario Two: Suppose now that the researcher is interested in the proportion of fish in the lakes that are blue-finned and greater than one foot long. The statistical procedure described in Scenario One could be applied, but if the researcher ignores factors such as the levels of nutrition that exist in the lakes, the size of the lakes, the pollution levels in the lakes, etc., he/she would be making a fundamental error that is common in statistical research. In particular, since all of these variables affect growth, their variation causes large fish counts to display more variation than predicted by the distribution associated with the statistical method of Scenario One. This phenomenon is known as overdispersion. Thus, in this case, estimating the population proportion using the statistical approach of Scenario One is too simplistic, and therefore lacks explanatory power.

Like the fish data, marketing research data inevitably involves considerable variation due to its heavy reliance upon human responses. Consequently, the danger of overdispersion is all too present. Wary of this, we at Roberts strongly believe that other information must be gathered in order to account for this variation. In other words, the variables of interest are in turn conditional upon several other variables.

Repeated purchases, advocacy and growth

The starting point of Reichheld's research on advocacy (Reichheld, 2003) is the assumption that repeat purchasing and advocacy lead to profitable growth. However repeat purchasing alone is an insufficient indicator for growth. Inherent in relating advocacy to growth is the more basic assumption that customers who recommend a company to friends and colleagues are loyal customers. The experience of *Roberts* suggests that this assumption is flawed. For example, in a business-to-business study undertaken for a telecommunications provider, one in seven (14%) respondents who gave an advocacy score of 9 or 10 actually moved their business from the client, and a further 10% seriously considered moving (the *Roberts* business outcome construct, *defection,* measures this intent). This is no different to satisfied customers defecting. Satisfaction and advocacy are not perfect predictors of future purchase behaviour when a competitor is offering superior value for money.

Reichheld's investigation of advocacy (Reichheld, 2003) is comprised of two stages. In the first, Reichheld sought correlations between responses to survey questions and two specific customer behaviours, namely stated recommendations and repeat purchases. Not surprisingly, of the three survey questions that correlated most strongly with recommendations and repeat purchases, two concerned the *likelihood of recommendation* and *repeat purchasing*. More specifically, these two questions were "How likely is it that you would recommend [company X] to a friend or colleague?", and "How likely is it that you will continue to purchase products/services from [company X]?" These results are uninformative since the question and the customer behaviour that it was correlated with are almost identical. More importantly, these results preclude the possibility that other survey constructs, such as value, are more relevant to growth.

Net Promoter Score-Classes

Indeed, the second stage of Reichheld's research relates these predictors of recommendations and repeat purchases to the revenue growth rate. Since other possible predictors are obscured by the omission, their relevance to growth is not investigated. Thus, even if the assumption relating advocacy to growth were true, Reichheld's identification of the predictors of advocacy would remain questionable.

During the second stage, the advocacy responses are converted to a Net Promoter Score (NPS), which is the difference between the proportion of respondents who are "promoters" and the proportion who are "detractors". According to Reichheld the promoters are those respondents who give a likelihood of recommendation of 9 or 10 on an eleven point Likert scale, while the detractors give 6 or less (the rest are "passively satisfied"). Thus the NPS is calculated as:-

$$NPS = P - D,$$

Where

- P is the proportion of respondents who are promoters, and
- D is the proportion who are detractors.

The first questions to arise from this definition concern the validity of the score-classes, that is, the ranges of scores that define promoters and detractors respectively. How were they chosen? Is it reasonable to assume that they are the same across all industries and markets? How sensitive is the NPS to the definition of the score-classes?

Roberts strongly contends that based on the analysis set out in Appendix One the appropriateness of the score-classes (NPS promoters = 9 or 10) depend markedly on the market being studied and should not be based on the Reichheld rule-of-thumb.

Consider for a moment the likelihood of receiving a high advocacy score from a stranded motorist rescued by a roadside assist service versus the same customer scoring a retail service encounter with an Australian trading bank. The bank competes with other banks and not with a roadside assist service. The hurdle for being a promoter is lower for trading banks because the data is simply distributed differently. The score-classes are dependent on the respondent scores for an individual industry. Market share is determined by relative performance. You only need to be better than the competitor set; to apply an old adage, '*in the land of the blind, the one eyed man is king.'*

Consequently, suitable score-classes can only be identified through analysis of the data, and cannot be reliably pre-specified. For example, the advocacy score-classes we identified for a consumer banking study are 0-5, 6-7 and 8-10 (Appendix One shows details of how this was carried out). Note that these are different to those used by Reichheld, which are 0-6, 7-8 and 9-10, and are the same for all markets.

What really matters is the effect that the choice of score-classes has on the conclusions that are drawn. In particular, changes in the distribution of advocacy data over time should be reflected in the sizes of the score-classes. For example, Table Two describes the changes in the proportion of respondents falling into each score class for a particular supplier in this market over three waves of data, as measured by Reichheld and *Roberts* respectively.

Mean	6.1	6.9	6.5	Significantly Higher	Significantly Lower
Reichheld Groups	**Wave 3**	**Wave 4**	**Wave 5**	**Significance testing W4 vs W3**	**Significance testing W5 vs W4**
	%	**%**	**%**	**Significance**	**Significance**
0-6	46	39	41	Significantly Lower	Not significant
7-8	25	27	29	Not significant	Not significant
9-10	29	34	30	Not significant	Not significant
NPS	-17	-5	-10		
Roberts Groups	**Wave 3**	**Wave 4**	**Wave 5**	**Significance testing W4 vs W3**	**Significance testing W5 vs W4**
	%	**%**	**%**	**Significance**	**Significance**
0-5	41	32	32	Significantly Lower	Not significant
6-7	15	18	22	Not Significant	Significantly Higher
8-10	44	50	46	Significantly Higher	Not significant
NPS	2	18	14		

Table 2: The changes in the distribution of the Advocacy data as measured by Reichheld's and Roberts' score-classes respectively.

Referring to Table Two, for each wave, the percentage of respondents that make up each score class is given, as well as the resulting Net Promoter Score and the mean response. In Wave 4 for example, the detractor group comprises 39% of respondents according to Reichheld, and 32% according to *Roberts*. The corresponding Net Promoter Scores are -5% and 18% respectively, while the mean response was 6.9.

Also shown are tests of the significance of the difference between the corresponding figures across waves. For example, there was a significant increase in the average likelihood to recommend from Wave 3 to Wave 4 and a significant decrease from Wave 4 to Wave 5. The groups, as defined by Reichheld, fail to display more insight into the nature of the mean movement in comparison to the *Roberts* groups. Furthermore, the significant changes in the sizes of the *Roberts* score-classes indicate the nature of this shift. More specifically, *Roberts* identified a general upward shift between Waves 3 and 4, and a shift from the high score-class to the middle score-class between Waves 4 and 5. Reichheld's rule-of-thumb score-classes failed to identify these significant changes.

This is because the Reichheld standard score-classes have no relevance to how the respondents applied the scale in this retail banking example.

However, the most critical difference between Reichheld's score-classes and the *Roberts* score-classes are the NPS scores for each wave. Note that all NPS scores generated using Reichheld's groups are negative, suggesting that this particular company is doing very poorly in motivating customers to recommend.

The reason for this is that Reichheld's detractor group often contains the average or mean score. Consequently, there is an inherent negative bias which may result in companies unnecessarily spending money on an NPS that in fact needs little or no improvement. This bias also obscures the changes in the market over time, as discussed in the previous paragraph. However, the score-classes identified and used by *Roberts* take into account the distribution of the advocacy data for this particular market, and thus allow market changes to be detected.

Taking action

More important than the highly questionable definition of the NPS score-classes is the fact that the NPS alone is not actionable. That is, upon measuring the NPS, it is unclear what can be done to improve it without measuring anything else. It is important to know *why* people are speaking (be it positively or negatively) about a company, if they are speaking about it at all. In other words, we need to identify the drivers of advocacy.

As discussed earlier, it is value for money that drives advocacy and this is widely acknowledged. For example, Reichheld notes that internet provider MSN invested in "functional improvements such as improved parental controls and spam filters", and thus, did a good job in "building promoters" (Reichheld, 2003). This illustrates that advocacy is an outcome. Its measurement, therefore, may provide some indication of the performance of the business, but no insight into how that performance might be improved. However, rather than focusing on improving value, Reichheld persists in measuring the NPS in different ways.

In particular, Reichheld suggests calculating the NPS for specific parts of the business, such as particular services or sales representatives. This approach should be treated with caution because customers are more likely to recommend some parts of a business than others and comparisons of the NPS may lead to incorrect conclusions. For example, in the business-to-business markets, customers generally advocate the relationship manager ahead of the enterprise. The NPS for the former would then be higher than that for the enterprise, indicating that the enterprise is performing poorly when in fact such results are merely an artefact of advocacy as a research construct.

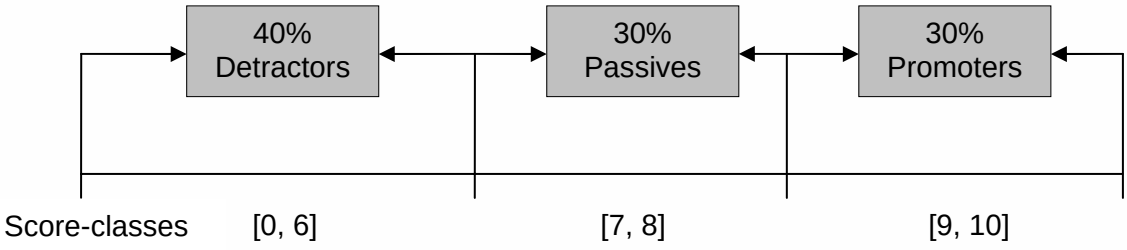
In response to a low NPS, Reichheld suggests asking all employees to simply perform better. Such a call to action is unhelpful, since no means for establishing a hierarchy of drivers that will lead to improving employee performances is provided. Furthermore, company resources would be wasted on employees who are already performing well (and the wrong NPS score-classes are being used). Such problems arise primarily because the NPS provides no insight into why people talk about a company, if they talk about it at all. That is, the NPS cannot possibly encapsulate the complex dynamics associated with company growth. In fact, no single variable can capture such complexity because, as we have noted, growth is not only driven by advocacy, but also by retention, uptiering and acquisition. That is, growth is the aggregate of these outcomes, not accounted for by advocacy alone.

By contrast, relating various aspects of value to the outcomes not only reveals how the client is performing, it also illuminates specific areas for improvement. In a consumer banking study for example, the respondents who were most likely to continue using their main credit card provider rated the rewards scheme highly. Conversely, those respondents who marked down the rewards scheme were found to be unlikely to continue using that provider.

Consequently, by focusing on communicating the benefits of the rewards scheme, the credit card provider was able to increase the likelihood that their customers would continue to use them as a supplier. In short, the value data provides a snapshot of the current state of business and links a set of specific areas to focus on resulting in improved business outcomes. Put simply, buyers make their future purchase decisions based on perceived and experienced value for money. Hence, the value data is actionable.

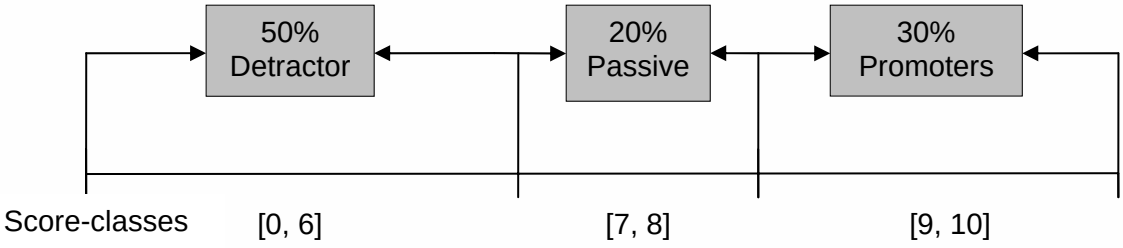
Value data can target the different aspects of growth, namely retention, uptiering and acquisition. While these outcomes may have some common drivers, they each invariably also have unique drivers. For example, the banking study found that a fee structure that was difficult to understand was a key driver of defection, yet one that was easy to understand was not a key driver of retention. Hence the outcomes measure different areas of business performance and cannot be substituted for one another. As a result, the action to be taken in response to a deficiency in an outcome depends on which outcome is unsatisfactory. This is contrary to Reichheld's contention that the performance of an organisation can be measured solely by customer advocacy, and then improved upon by asking all employees to simply perform better on some unknown dimension. The inadequacy of the NPS to highlight appropriate action to be taken is further illustrated by the following example.

Consider the situation in which 40% of an organsiation's customers are detractors and 30% are promoters. The Net Promoter Score (as defined by Reichheld) is therefore
NPS = 30% - 40% = -10%, as illustrated in the following diagram.



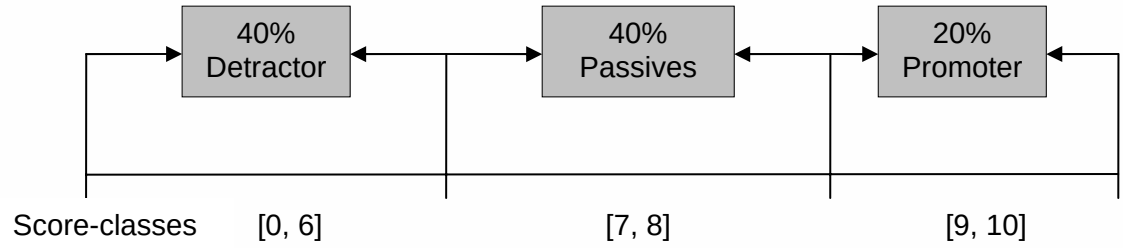
NPS = 30% - 40% = -10%

Suppose that in the next wave the number of detractors increases to 50% while the number of promoters is unchanged. Then the NPS is 30% - 50% = -20%.



NPS = 30% - 50% = -20%

Consider now the situation where the number of promoters decreases to 20% and the number of detractors is unchanged, then the NPS is 20% - 40% = -20%.



NPS = 20% - 40% = -20%

This example clearly shows that the NPS cannot distinguish between the event of gaining detractors from that of losing promoters. That is, although the NPS has detected a 10% shift in the size of the advocacy classes, it provides no information about the nature of this shift. This is yet another shortcoming because, as we have seen, it is the nature of the change that will determine the appropriate action to be taken.

Market share

While revenue growth is obviously desirable, a measure of market position relative to the competitors (i.e. market share) is equally or more desirable. This is because the growth that a company experiences could be common to all competitors. For example, supermarket sales in a particular locale may increase due to an increase in the local population, brought about by the arrival of several Spanish families. Such an event would benefit all local supermarket competitors in terms of revenue. However, their relative market shares may alter according to their understanding of the change in the market. Only those supermarkets that have an understanding about the changes in the market will be able to capitalise and therefore gain and maintain high levels of market share through time.

For example, suppose that a local supermarket begins to advertise and sell Spanish chorizo at almost the same price as common chorizo, and that its competitors do not. The quality and the price of this single product are of interest to the new customers and may well result in this supermarket acquiring many of the new customers. That is, the quality and price of the product, as experienced by the Spanish families, determines its *value* in the eyes of those who buy it. Consequently, the supermarket's market share grows. This example does not claim to explain the complex dynamics of product choice, but it does demonstrate that recommendations and multiple purchases are conditional on product quality and price which ultimately leads to real value growth in terms of market share.

As with growth, measuring market share sheds no light on how to improve a company's market share. For this purpose, the drivers of market share must be identified. In light of our discussion relating value to market share, we compared the ability of the NPS to influence market share to that of several value questions. To facilitate direct comparison, several regression models were created, each with one predictor variable, and market share as the dependent variable. For this purpose it is the *significance* of the predictor variables that is important. The NPS was calculated using the "Likelihood to Recommend" survey question, while the other predictor variables were the mean scores of the value questions. These were provided by customers of a well known financial provider, for whom *Roberts* completed ten annual waves of business-to-business market research. The dependent variable was the estimated percentage market share of the provider.

The results are summarised in Table Three and clearly show that the value questions each have a significantly stronger influence on market share than the NPS. Indeed, Performance was the strongest predictor, while the NPS failed to capture even the slightest of relationships (p-value = 0.728). This simple example demonstrates that the *value* construct strongly influences market share, and that this is not the case for the NPS. Thus, since knowledge of the drivers of market share is equally important as knowledge of the drivers of growth, the NPS cannot possibly be the one number a company needs to know.

Independent Variable	Significance
Reputation rating (value)	Highly significant
Performance rating (value)	Highly significant
Quality rating (value)	Significant
Price rating (value)	Significant
Overall value rating	Highly significant
Advocacy score (NPS)	Highly ***in***significant

Table 3: A summary of business-to business models in which market share is the dependent variable. Here, "Highly significant" refers to p-values ≤0.05, "Significant" refers to p-values between 0.05 and 0.1, and "Highly insignificant" refers to p-values greater than 0.2.

Similarly, Table Four contains analogous results obtained in the consumer market. Once again, it is clear that the value questions are superior to the NPS in predicting market share. Although the NPS performs better in the consumer market than in the business-to-business market, it still fails to be a significant driver of market share.

Independent Variable	Significance
Reputation rating (value)	Highly significant
Performance rating (value)	Significant
Quality rating (value)	Highly significant
Price rating (value)	Highly significant
Overall value rating	Highly significant
Advocacy score (NPS)	***In***significant

Table 4: A summary of consumer models in which market share is the dependent variable. Again, the NPS is inferior to the value questions as a predictor. Here, "Highly significant" refers to p-values ≤0.05, "Significant" refers to p-values between 0.05 and 0.1, "Insignificant" refers to p-values between 0.1 and 0.2, and "Highly insignificant" refers to p-values greater than 0.2.

Conclusion

Sustainable growth results from customer retention, uptiering and acquisition, and can only arise from value creation in the eyes of the customers, rather than value extraction (which leads to defection). Since value is multifaceted, it can only be fully measured at the transactional level; that is, at the various points at which customers interact with the organisation. Thus Reichheld's contention that advocacy alone is an adequate indicator of growth is flawed, since it implies that advocacy alone is an adequate measure of organisational performance. Rather, advocacy is an outcome that is driven by value, as illustrated in Figure One.

Although the Net Promoter Score can provide an indication of customer sentiment, its measurement must take into account the market being assessed. That is, in order to detect market changes over time, the definition of the Net Promoter Score itself must reflect the distribution of advocacy scores within the market. Otherwise biases can distort the conclusions being drawn and lead to unrealistic expectations. Indeed, Reichheld's score-classes used to calculate the NPS proved to be inappropriate for all of the analyses conducted in the preparation of this Client Briefing. A "one size fits all" approach is inadequate and misleading.

Finally, advocacy is not actionable, whereas measurements of value at the transactional level highlight specific areas of business performance that can be targeted for improved outcomes. Moreover, advocacy provides no indication of an organisation's position relative to its competitors. For this purpose, market share must be measured. As with growth, the drivers must be identified in order for improvements to be made. Again, several aspects of value rather than the Net Promoter Score are relevant in this regard, as shown in Figure One. Indeed, the Net Promoter Score was found to have no significant relationship to market share. In short, measuring advocacy alone provides no indication of market share, nor can it point to appropriate action when growth is low or negative. Rather, well-designed value surveying at the transactional level addresses these needs.

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APPENDIX ONE - Identifying appropriate score-classes

Given that advocacy is primarily driven by value for money, we identified the score-classes via a semi-parametric regression (this is a spline technique and therefore the relation is nonlinear) of advocacy against value. Here, the advocacy data was measured for several competitors so that they could be directly compared. Also, several waves were used in the analysis so that changes in the market, over time, could be detected.

The score-classes ought to reflect changes in the nature of the relationship between advocacy and value. Although advocacy increases with value, there are some ranges of value scores for which an increase in value results in a smaller increase in advocacy. That is, we have a trend of diminishing returns. Otherwise the opposite trend occurs, in which an increase in value results in a larger increase in advocacy (in mathematical terms, these two trends are known as concavity and convexity respectively). Note that there are no ranges in which an increase in value results in an equal increase in advocacy, meaning that the relationship between value and advocacy is never linear.

The exact ranges of the two trends can be identified by plotting the derivative of advocacy with respect to value against value. The turning points indicate changes from one trend to the other, and thus are the endpoints of the score-classes we seek. The same points can be identified from a plot of the derivative of value with respect to advocacy against advocacy. The advantage of this perspective is that the values of advocacy at which the trend changes can be identified. For example, Figure A shows the value sensitivity curve from a consumer banking study. Its three turning points are indicated by dashed vertical lines, and their exact values are shown in Table A, wave 3.

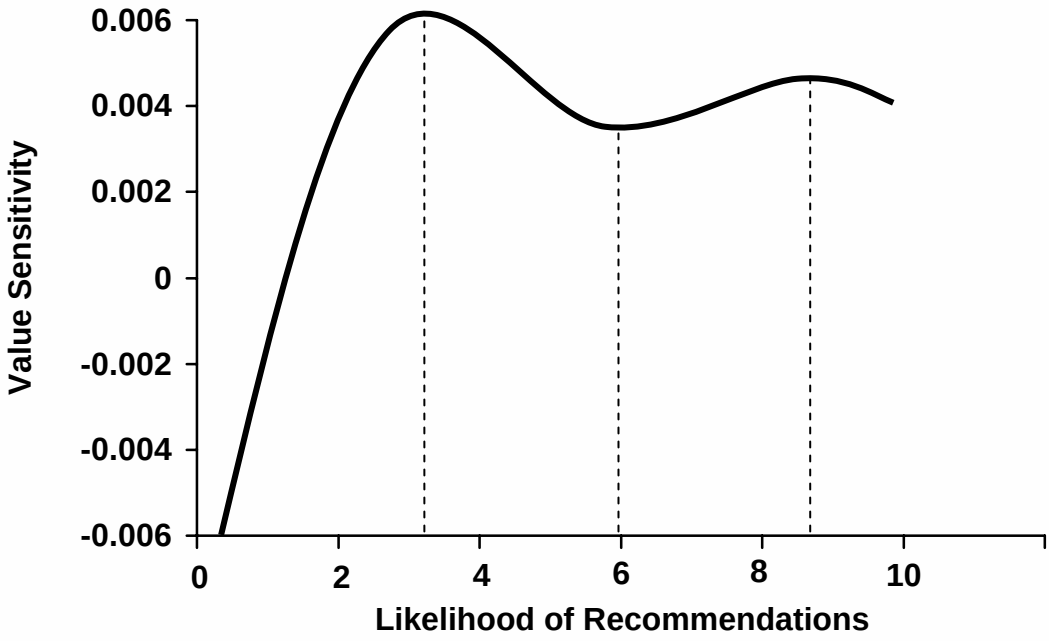


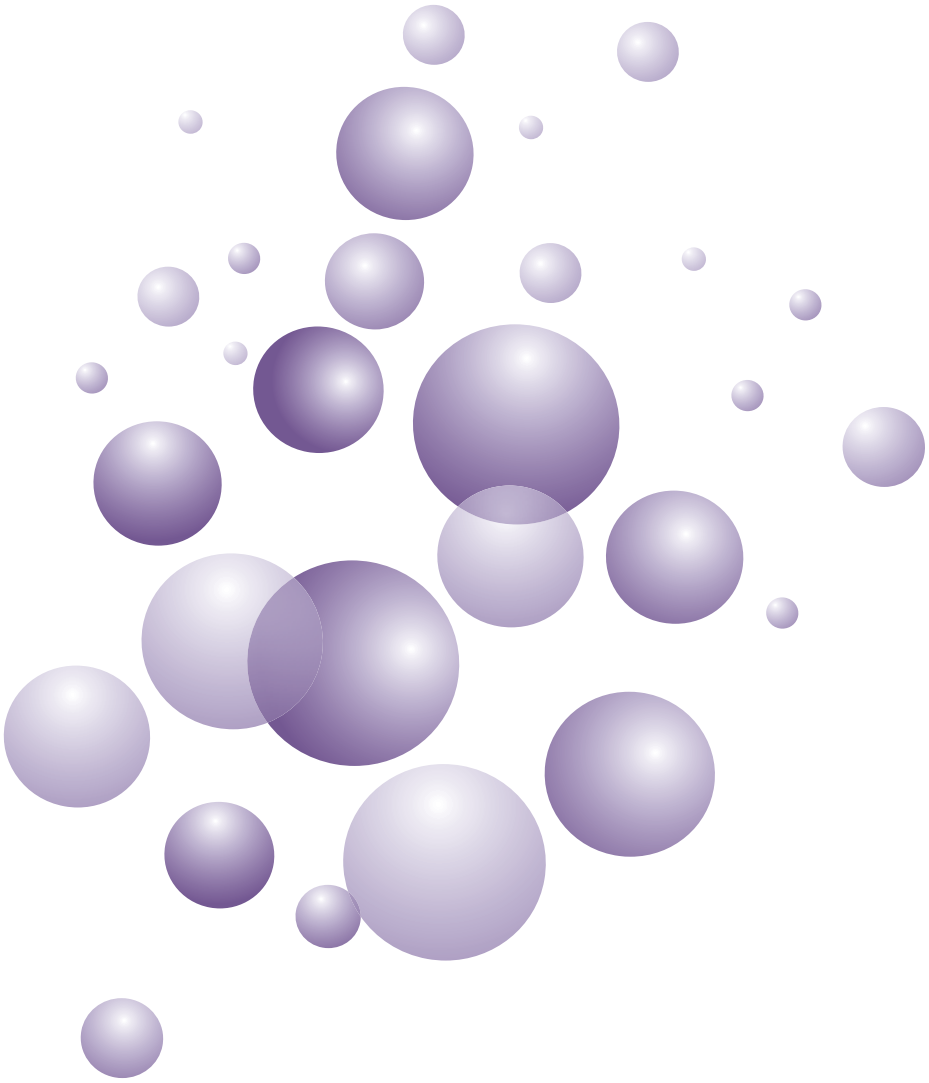
Figure A: The derivative curve for a consumer banking study.

Table A below shows the advocacy score-classes identified for five waves of the consumer banking study, as well as the mean advocacy scores for these waves. The endpoints of these groupings are the turning points of the value sensitivity curve that corresponds to the wave in question, and indicate changes in the relationship between advocacy and value.

Wave	Exact score-classes				Mean Advocacy Score
	1	2	3	4	
1	[0.00, 3.82]	(3.82, 6.22]	(6.22, 8.06]	(8.06, 10.0]	5.93
2	[0.00, 3.37]	(3.37, 5.70]	(5.70, 8.31]	(8.31, 10.0]	6.02
3	[0.00, 2.69]	(2.69, 5.61]	(5.61, 8.40]	(8.40, 10.0]	6.05
4	[0.00, 4.29]	(4.29, 5.78]	(5.78, 8.12]	(8.12, 10.0]	6.85
5	[0.00, 2.51]	(2.51, 5.73]	(5.73, 8.01]	(8.01, 10.0]	6.51

Table A: The score-classes identified from several waves of a consumer banking study.

In all waves except the first, the first two score-classes contain below-average scores, the third contains the average and the fourth contains above-average scores. Since the first two groups are both below-average groups, it is reasonable to collapse them into one group and let this be the “detractor” group. Also, the turning points were rounded to the nearest integer and taken as the left boundary of the score-classes. The resulting advocacy score-classes for the studies are 0-5, 6-7 and 8-10.



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