HOW NET PROMOTER 3.0 CAN BE A POTENT TOOL

CLARE KAVANAGH TEASES OUT THE NEW CUSTOMER EXPERIENCE TOOL, NET PROMOTER 3.0, BY LOOKING AT ITS STRENGTHS AND WEAKNESSES

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It is 20 years since Fred Reichheld wrote about Net Promoter Scores (NPS) as a way to measure and predict growth. NPS has been hugely popular and is now the dominant customer experience metric. So why then were Bain & Company's Reichheld, Darci Darnell and Maureen Burns writing in a recent edition of the *Harvard Business Review* about something called Net Promoter 3.0?

The authors said that as its popularity grew, the Net Promoter Scores (NPS) started to be misused in ways that damaged its credibility. This is no surprise to anyone in the industry. For years unaudited, self-reported scores have undermined the usefulness of NPS as predictor of growth. In public fora, companies often report their NPS results without any context.

They omit to detail the number of people surveyed, the response rate, the method of collecting surveys, *et cetera*. Essentially, these numbers can be completely skewed to fit a company's best interests. Without access to how the research is undertaken there has been no way to make sure that leads are not cherry picked to deliver more palatable results.

Question wording must be clear, consistent and not designed with a specific need in mind. Customer service reps must not be gaming the system to safeguard their bonuses. It is for these reasons that published benchmarks are unhelpful, if not misleading. To be fully sure that apples are compared with apples, double blind competitive NPS scores must be collected in the one survey.

In the *HBR* article, the authors propose some extra financial metrics for organisations to validate the return they are getting from advocacy. In the simplest explanation, they recommend calculation of the earned growth rate, which captures the revenue growth generated by returning customers and their referrals.

Firms calculate revenue in any year from customers that were with them in the previous 12 months and ask all new customers why they signed up. If the reason is a referral or recommendation, a customer is 'earned'; if it's advertising, a promotional deal, or a persuasive salesperson, the customer is 'bought'. These metrics rely on audited accounts and are really hard to manipulate.

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Whether or not these new metrics will be adopted quickly by Irish companies remains to be seen, but on first glance a few considerations may pose barriers. To calculate earned growth rates, businesses must have systems that gather data on the costs and revenues for each customer over time and must ask all new customers why they came on board.

It is our experience at B&A that the challenge for companies looking to justify customer experience (CX) investment is not at the overall level, but rather in diagnosing what specific CX actions across which journeys will make a difference, say, for example, versus advertising, or a new retail outlet. These decisions require granular data not at the overall CX level.

The NPS 3.0 enhancement implies organisations should aim to earn rather than buy new customers. A reasonable interpretation then might be that if we are successful with CX, companies will be able to spend less on sales and marketing activities. Undoubtedly, it may prove a difficult pill for many organisations to swallow.

In overview, NPS 3.0 is certainly a welcome enhancement and presents a strong easy to understand approach to validate CX performance, taking advantage of the increasingly sophisticated CRM systems available. The difficulty in the Irish context is that that many organisations are still working with legacy CRM systems, requiring a lot of effort to facilitate this work.

NPS 3.0 does not appear to offer a lot of insight about how to prioritise investment across CX projects, which is a vital need. Nevertheless, we anticipate NPS 3.0 will add value to investor conversations and will be an important tool in measuring the customer response to client activities through strong tracking and facilitating real-time remedial action through closing the loop.

It will also promote understanding in what can be done better through qualitative and quantitative studies and empowering internal teams to achieve more through strong socialisation of customer feedback. In my next *Marketing.ie* article in the current series, I will outline the value of marrying real time customer and market insights — the true 360 view of performance.