

Does NPS Actually Predict Business Outcomes?

Compelling Evidence That It Can

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Why Are We *Still* Equivocating?

No metric since the inception of the Likert scale has become as ubiquitous as NPS. Its unchallenged stature as the North Star of customer affinity means that NPS needs no introduction or explanation. In a nod to that preeminence, many companies follow it as an act of faith because it provides a standardized benchmark that's easy to track and compare. Whether the NPS report card also supplies meaningful context for brand performance assessment has been the subject of some debate – but it's fair to say that any customer affinity metric, no matter how powerful, is just the starting point for an ambitious plan of action. Fred Reichheld, founding father of this “Bain-child,” has, in fact, devoted several books to the topic, arguing that NPS should be considered a way of thinking about what is owed to customers and an important step toward fulfilling that obligation. It should not be a vanity contest for brand leadership.

But for a while, even Reichheld puzzled over why so few people had made a serious empirical attempt to prove its worth, and although there are now more case studies and modeling efforts to justify use, the issue has not been put officially to bed. One reason may be that some of the predicted outcome measures for the purpose – such as corporate growth or profitability – are themselves the product of so many drivers that even important metrics of brand affinity like NPS can account for only a limited amount of the variance. It stands to reason that NPS would predict some things. The question is what and how well?



To that point, why have people swung from the fences in attempts to relate NPS to something as “big” and complex as overall corporate growth or profitability? Perhaps a metric that has earned so much notoriety implicitly invites that level of proof. But, in practical terms, there is another more obvious factor at play. Many companies simply lack the right sort of data to link NPS with concrete, measurable customer behaviors and value metrics. It is far easier to demonstrate the relationship in B2B or financial services sectors, where customer data are rich, than in consumer packaged goods – especially if the goal is to confirm that NPS is truly a leading indicator of something and not merely a loose correlate. If people who claim to buy a lot of Cheerios give NPS scores consistent with their self-reported behavior, we have learned only about halo effects, and we have not moved much beyond applause meters. If, by contrast, the correlation is weak, we might question whether the NPS is optimally framed for the topic of cereal, a category in which the notion of literal “recommendation” may not express the relationship between consumers and their brand.

The Right Kinds of Proof Points Justify NPS

NAXION has had the good fortune to work with several clients who wanted to put their longtime NPS commitment to an empirical test. It was a perfect use case. In each instance, the databases were quite large, the measurement approaches disciplined and consistent over time, and the outcomes subject to direct confirmation. Using primarily descriptive techniques and some advanced analytics, we were able to confirm that in each case, NPS did, indeed, predict highly relevant business outcomes. The trends were easy to discern.

- Existing customers with higher NPS spent significantly and meaningfully more on client products or services and were considerably more profitable to the business than other customers.
- Customers with higher NPS also increased their engagement with the brand in the year following their survey response, demonstrating the value of NPS as a forward-looking metric.
- Survey respondents with higher NPS scores were substantially more likely to expand their relationship by acquiring additional products.
- Existing customers with higher NPS scores were less likely to attrite in the coming year.

We're not in a position to share more details, nor (based only on these data) are we prepared to extrapolate to other industries. We can, however, use them to support the case for NPS as a predictor of concrete and specific outcomes. And by implication, they affirm the likely value of other well-crafted brand affinity metrics as predictors of customer behavior.

NPS is surely not the only useful affinity metric – and perhaps not the best for every industry – but it has some critical things going for it.



Putting NPS in Context

These data confirm the continuing relevance of opinion and affinity measurement data as a way both to measure brand performance and anticipate future business outcomes. Staunch advocates of survey research would not be surprised to hear that. But among the many brand metrics available to track, there are several reasons that explain the unique value of NPS. First, it down-weights ambivalence or neutrality, which we believe is a good technical approach. Second, it has a long history of respected use, which discourages people from throwing away the scale just because they don't like the weight it displays. If a metric has been shown to be sound and reliable, inertia can be valuable in keeping the measurement process honest and disciplined.

While we don't mean to suggest that NPS is the “one number you need to grow,” as Reichheld asserted back in 2003, it is a number many companies need in order to thrive, and it's right there on the shelf. But much more is required to make effective use of NPS. *The real challenge for companies is to understand what is driving NPS so they can do something about it, and to flank it with other metrics of brand health that align with their industry and strategy imperatives.* Reichheld's current take is spot on. NPS opens up a door and a vista. There is no package tour to guide you once you pass through. You need an effective program of predictive analytics to set your path.

About the Author



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Susan's career focus has been on the development and protection of robust brands and the research methodologies needed to support them. She has contributed to the evolution of many standard research techniques, and she writes frequently on industry topics and issues of broader interest. Her commentary on language and culture can be found at www.smartmouth.blog. Susan holds M.A. and Ph.D. degrees from UPenn's Annenberg School of Communication.

About NAXION

NAXION is a nimble, broadly resourced boutique that relies on advanced research methods, data integration, and sector-focused experience to guide strategic business decisions that shape the destiny of brands. Our century-long history of innovation has helped to propel the insights discipline and continues to inspire contributions to the development and effective application of emerging data science techniques. For information on what's new at NAXION and how we might help you with your marketing challenges, please visit www.naxionthinking.com