Why Meeting Customers' Expectations Isn't Enough

Happy customers may come back, but only customers who are thrilled will recommend your product.

Whether you work for a start-up or a large company, there have never been so many metrics to help you understand how your business is doing. But I would argue that one metric rules them all: **Net Promoter Score** (NPS).

NPS represents the willingness of consumers to recommend your product to someone they know. For most businesses, especially start-ups and small businesses with tiny marketing budgets, NPS is crucial. Why? Because word-of-mouth is their most important marketing channel.

Word-of-mouth fundamentally comes from the willingness of customers to recommend your business, in other words, NPS. According to a **survey** conducted by Verizon and Small Business Trends, 85 percent of small business owners credit word-of-mouth as the main avenue for customers to find out about them.

If you have low NPS, positive word-of-mouth eludes your business. In fact, potential customers might hear or read instead: "Stay away from Bruno's Beefeaters. You don't want to know what I think I found in my last hot dog..."

How is NPS calculated and what's considered good?

Your NPS is derived from a simple, one-line question that most of us have come across in surveys. Typically, the question reads: "How likely would you be to recommend our product (service) to a friend?" Answers are given on a scale from 0 to 10, with 10 being the highest possible score. Here is what it looks like:
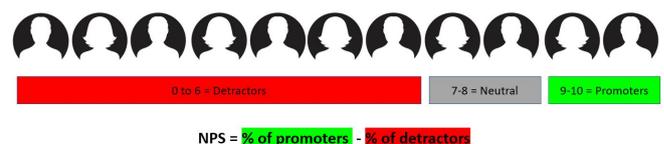
The score is calculated by subtracting the percentage of detractors (those who don't like or might negatively recommend your product) from the percentage of promoters (your most vocal advocates). This gives you an NPS value from -100 to 100.

Consumers falling in the 7-8 category are considered neutral (I call them "passive") for the purposes of the NPS calculation. This might feel a bit counterintuitive but it really makes perfect sense. When do you typically recommend something to a friend? When you're blown away by the quality of the product and it far exceeds your expectations.

When do you complain? Many of us are quick to complain at the slightest annoyance. People are much more likely to complain about a product than praise it. That's just human nature.

In fact, according to **research** by INSEAD Associate Professor of Marketing David Dubois, consumers have a systematic tendency to use negative word-of-mouth with their close friends, as they would rather "protect" them against bad experiences than try to boost their own image as users of new, cool products.

In terms of scoring, an NPS of 0 is neutral. But what constitutes a good score? Typically, anything above 50 is considered excellent. Apple, for example, leads the computer industry with an NPS of 72, while in retail, Amazon leads with 69 and Netflix leads its industry with an NPS of 68, according to **Retently.com**.

The benefits of a high NPS

Having a sky-high NPS has many benefits. The most important one is that products with a high NPS tend to have a higher retention rate than their competitors. The iPhone's **retention rate** in 2017 was a whopping 92 percent compared to 77 percent for Samsung's Galaxy. Keeping existing customers is the top priority for marketers since repeat customers do not come with the usual customer acquisition costs and are therefore more profitable.

A high NPS also means lower marketing costs due to the increase in positive word-of-mouth. When was the last time a friend asked you for advice about a movie, TV show or restaurant? When you offered them a recommendation, you acted as a promoter of that product or service. That's NPS in action for you!

All is not perfect

There is some criticism of NPS and some have even said that NPS is dead. It has its weaknesses. For starters, NPS is based on a survey question, which always implies a risk of **self-selection bias**. Second, it is a snapshot in time, so the data is static. For example, Intuit usually asks me about once per quarter how I feel about QuickBooks. If I'm having a really bad day or happen to be struggling with a software problem, I might give a harsher rating than I ordinarily would.

One could also argue that in today's fast-moving world, NPS data might not be relevant by the time you get it. Mobile games have much faster update cycles than cars, for example. However, that doesn't totally invalidate the gamers' experience at that point in time.

In addition, even if consumers recommend your

service, they may still switch to another if they find a much better deal. We live in a hypercompetitive market: Products and services improve all the time and consumers are better informed than ever. You have to earn your customers' trust every single day. Never let up.

Best practices

There are best practices when it comes to conducting NPS studies or any other question-based research for that matter.

First, make sure you use a reliable platform or vendor. There are plenty out there, from SurveyMonkey (which allows you to run the survey yourself) to the more sophisticated research agencies such as Qualtrics, YouGov and Nielsen. NPS was invented by Satmetrix Systems, Bain & Company and Fred Reichheld.

Second, make sure your sample size is large enough. If you're not sure, ask the data scientist or product manager on your team to calculate what a statistically representative sample size would be.

Third, run the survey often enough to track the changes you're making to your product but not so often as to annoy your users. Quarterly is usually best, though I've seen games companies make it a monthly exercise for their constantly upgrading mobile apps.

Fourth, never rely just on NPS to assess the health of your business. You also need to look at brand awareness, top-of-mind, intent-to-purchase and retention metrics. NPS is the key metric, but you must combine it with others to get the full picture. You should also periodically assess how your competitors are doing. Benchmark your own metrics against theirs.

Fifth, if it is technically feasible, you should run the NPS survey directly from within your product. Many industries selling physical goods (like a car or a bed) don't have this option, but the closer you can get to the user's experience of the product, the better.

Lastly, be consistent about how you structure the question and when you run the survey. The more you change your variables, the harder it is to compare and the less reliable the results.

NPS is a vital metric every business from the smallest start-up to the largest, company, should track. It's easy to manage, fast to implement and cost-effective. Just remember never to use it in isolation and always have people on your team willing to challenge your assumptions.

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