

Market Research Council

Customer Satisfaction Research and the One-Number Controversy



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The TNS Stakeholder Management Group

Prehistoric Origins of Customer Satisfaction Research



Greek Agora

Athens, circa 479 BCE

Any merchant found selling inferior merchandise was fined.



Marshall Fields

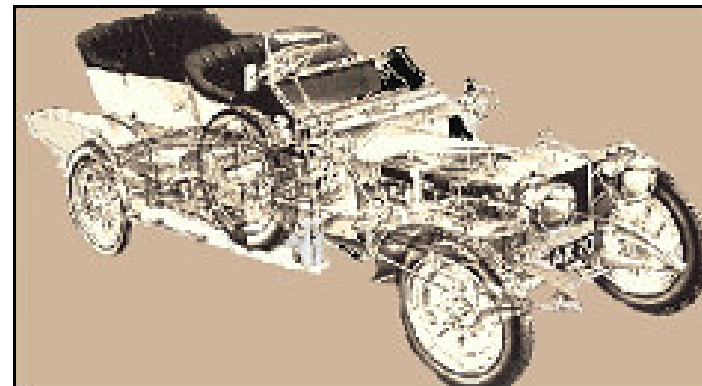
Chicago, circa 1881

"The customer is always right"



Prehistoric Origins of Customer Satisfaction Research

- Sir Henry Royce, the co-founder of the Rolls-Royce company, is quoted as saying back in 1906 that *“Our ambition is that every purchaser of a Rolls-Royce car shall continue to be more than satisfied.”*



Prehistoric Origins of Customer Satisfaction Research

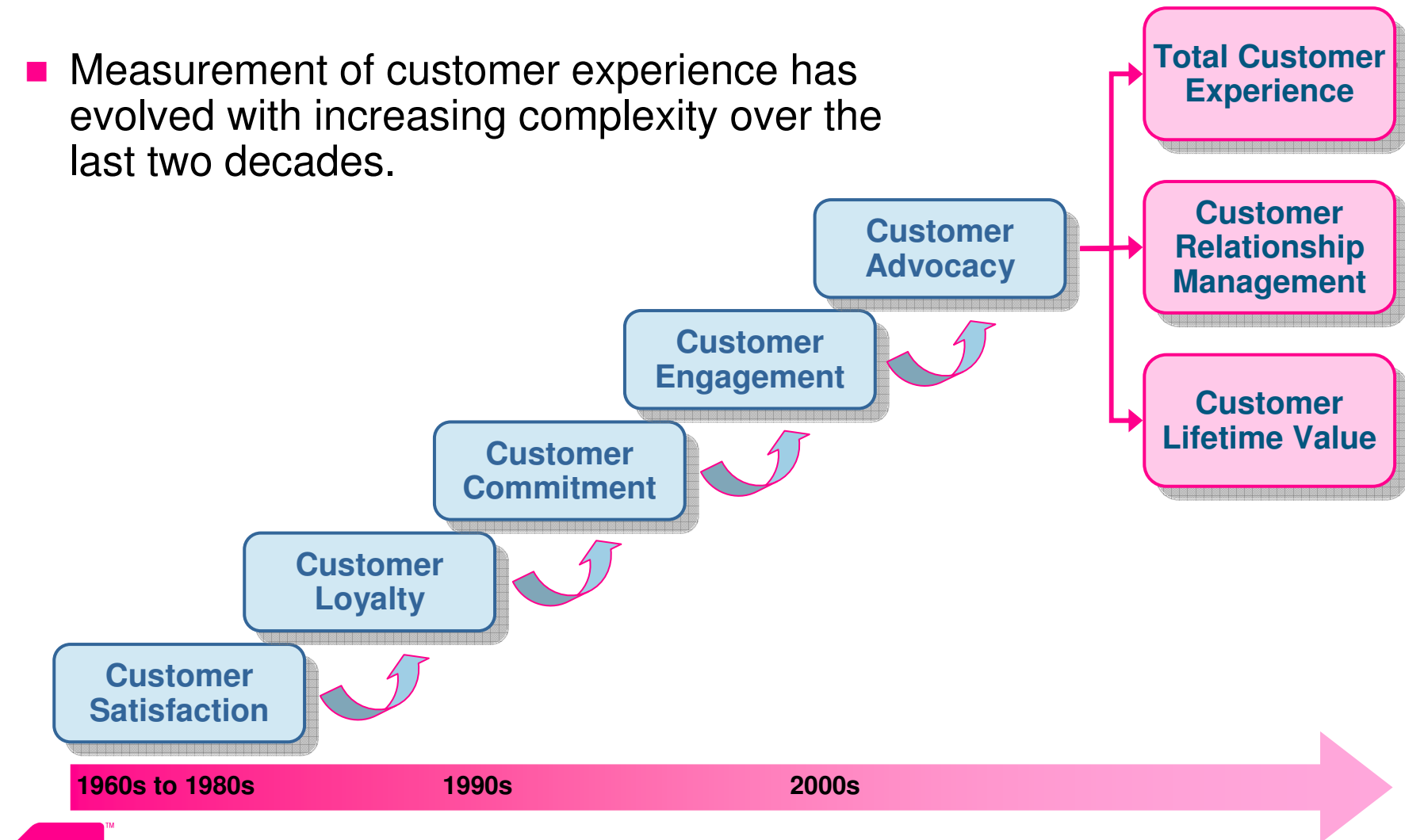
- W. Edwards Deming's emphasis on quality and customer satisfaction revolutionized post-WWII Japan's manufacturing industries.



Dr. W. Edwards Deming and daughter
Lola, 1932.

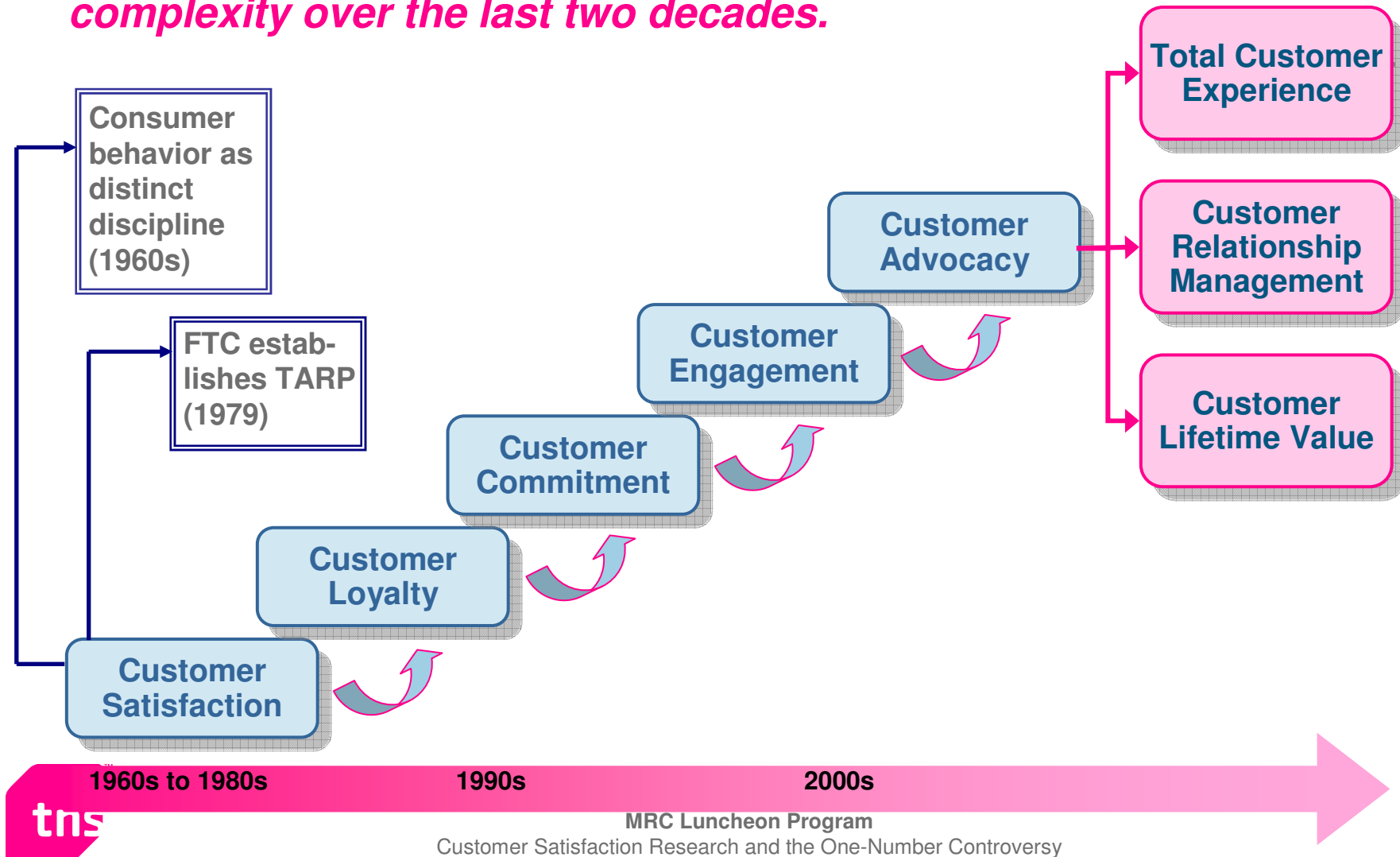
Evolution of Customer Satisfaction Science and Application

- Measurement of customer experience has evolved with increasing complexity over the last two decades.



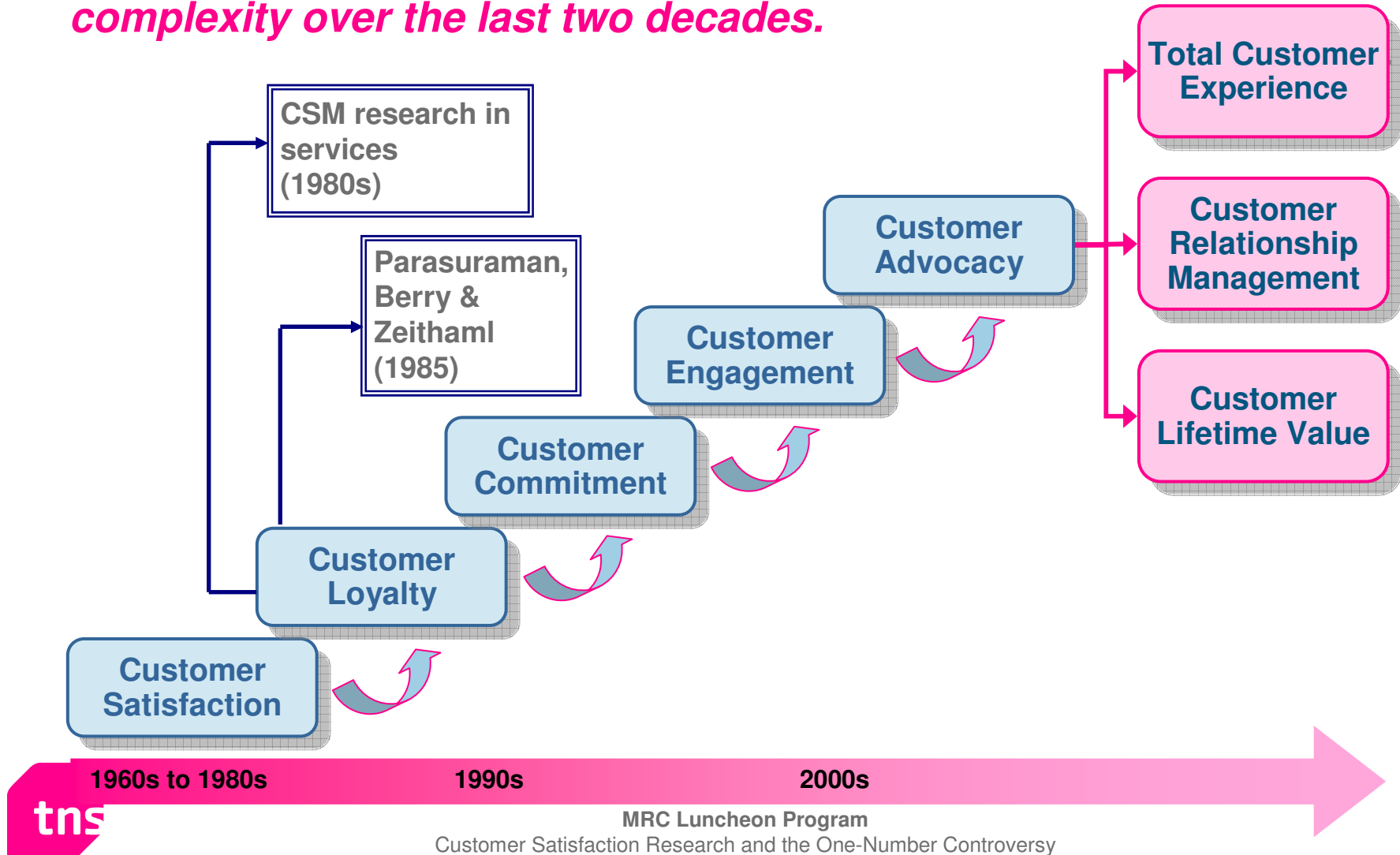
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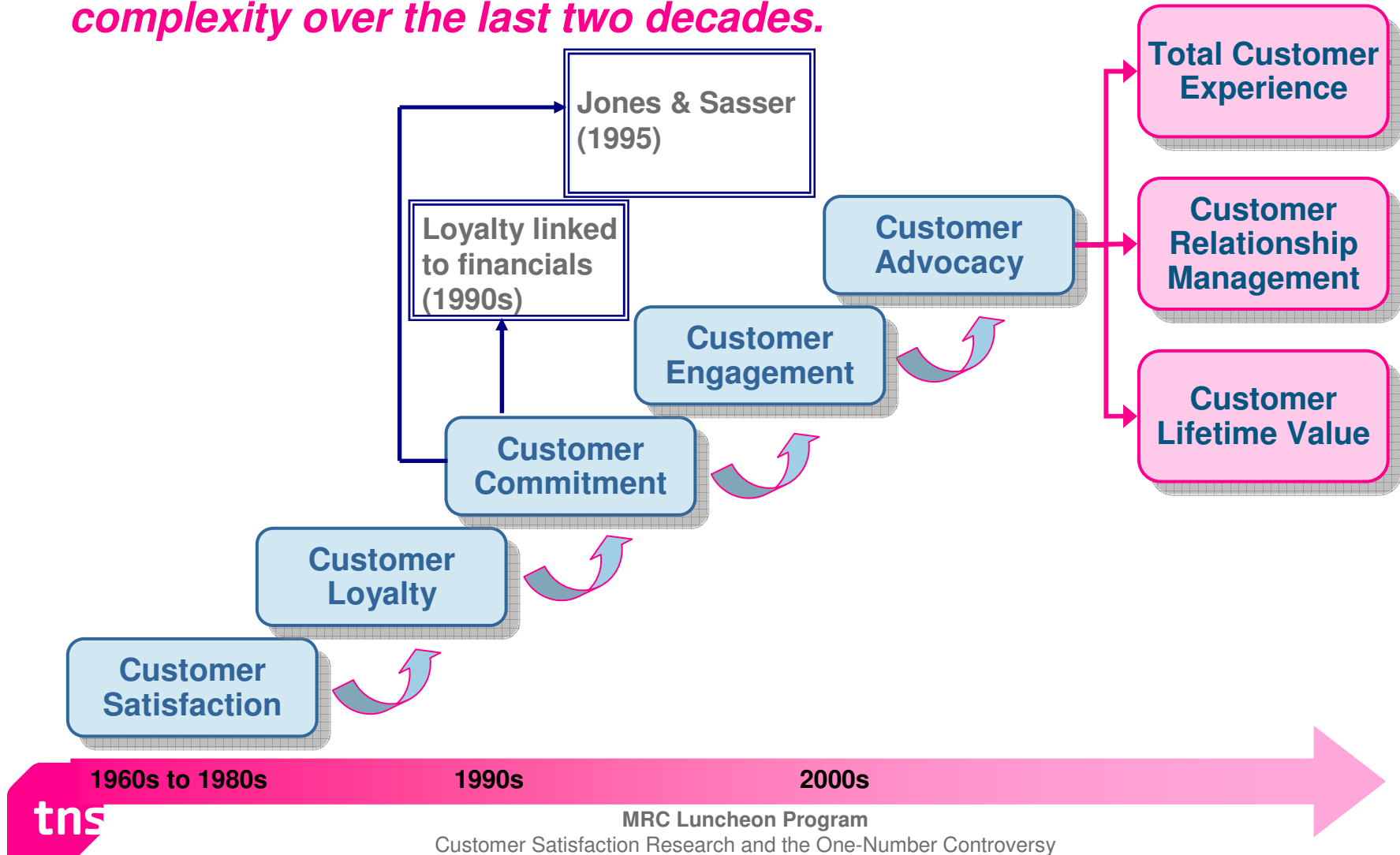
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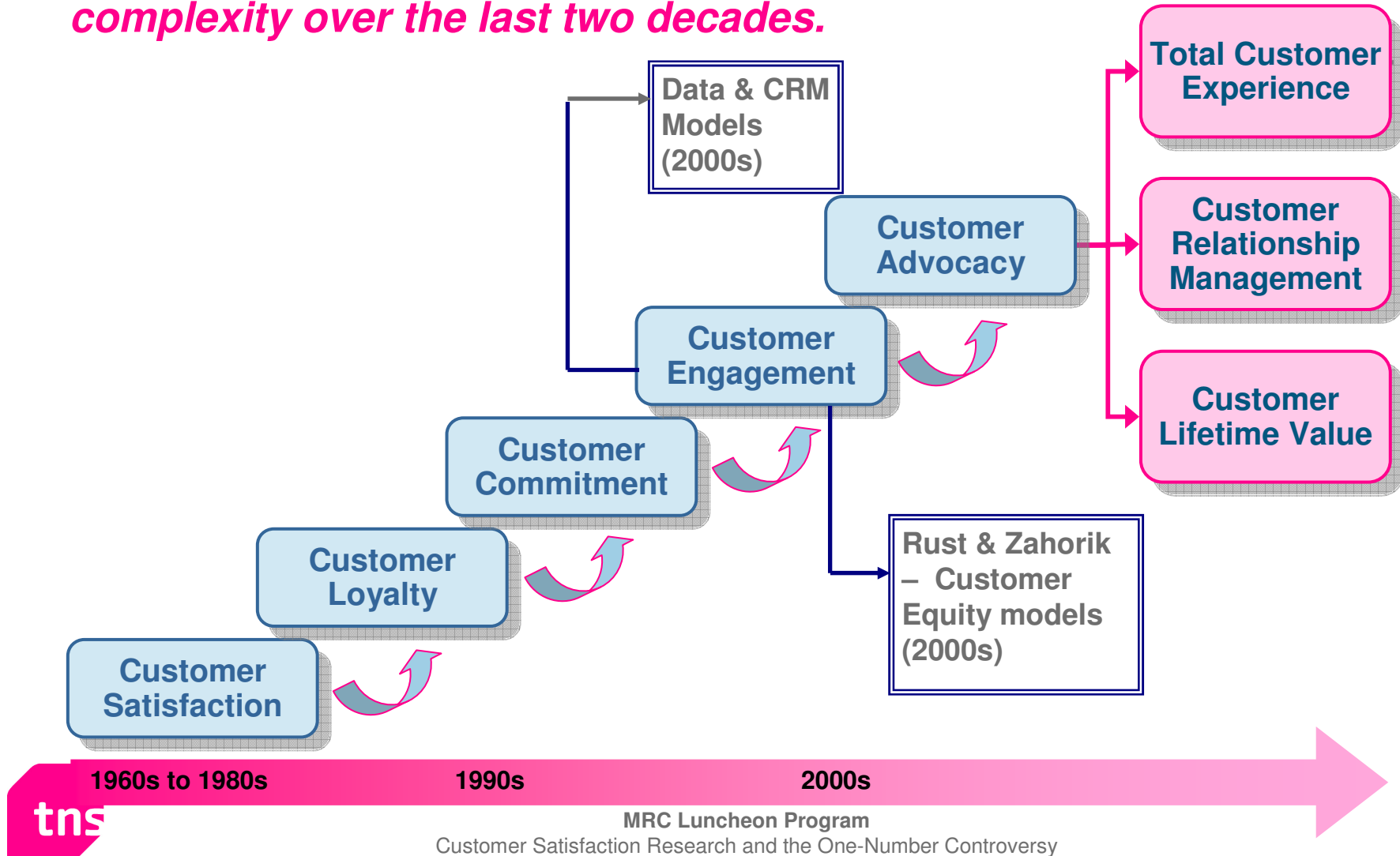
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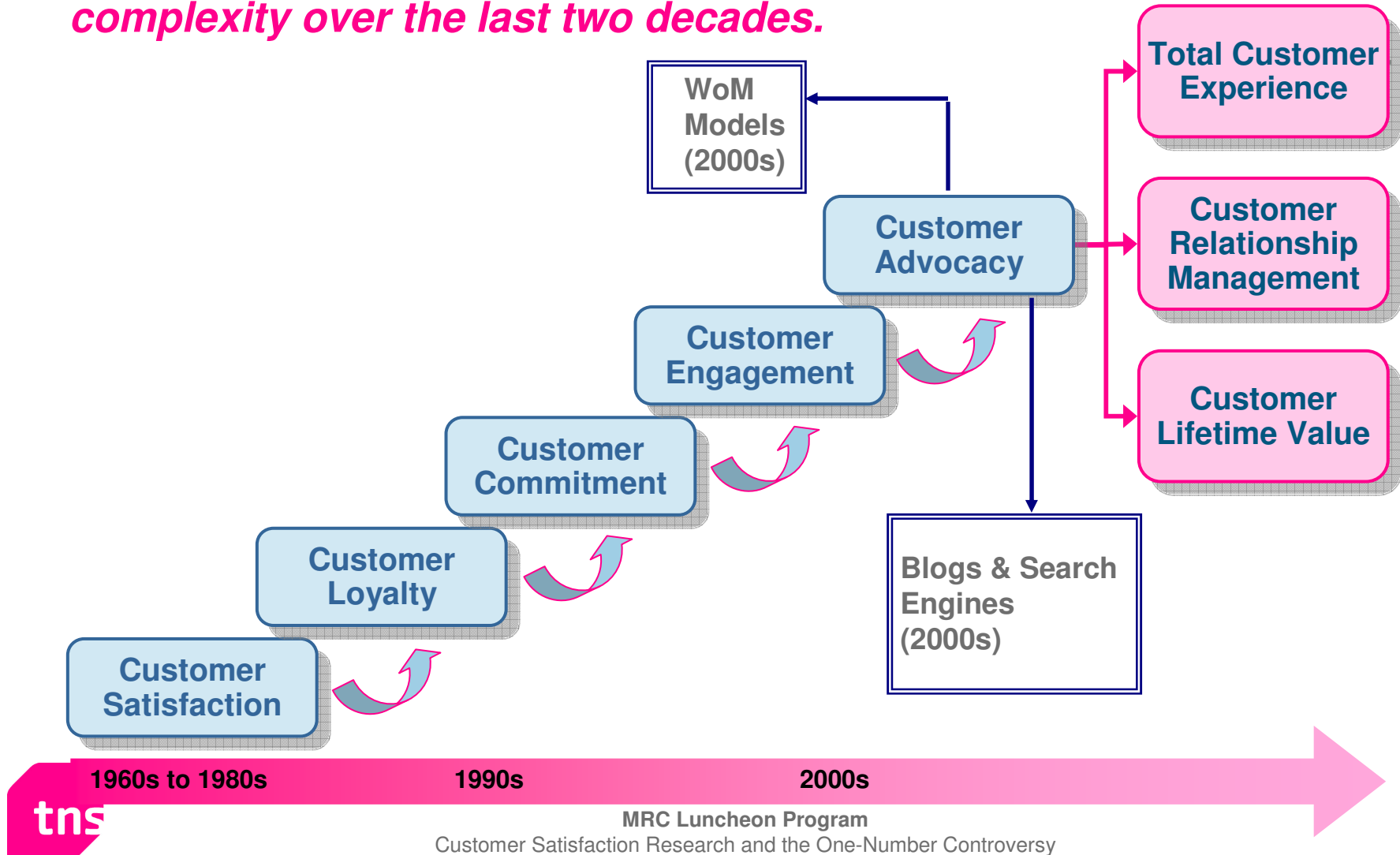
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Customer Satisfaction Science and the Board Room



Relative
Importance =

$$\left[\frac{\sum_{C=1}^C (A_{cx} Y_c)}{\sum_{X \cdot S_d} \sum_{C=1}^C (A_{cx} * Y_c)} \right] \times 100$$

From Roland Rust, et al,
“Return on Marketing:
Using Customer Equity to
Focus Marketing
Strategy” in Journal of
Marketing Vol. 68
(January 2004), 109-127.



Customer Satisfaction is Big Business!



MR Firms	Global CSM Revenue (\$US)
Top 50 Globally	\$1B
TNS	\$300M

Adapted from Honomichl, Inside Research, 2007.



Customer Satisfaction Research is At Risk in the Boardroom



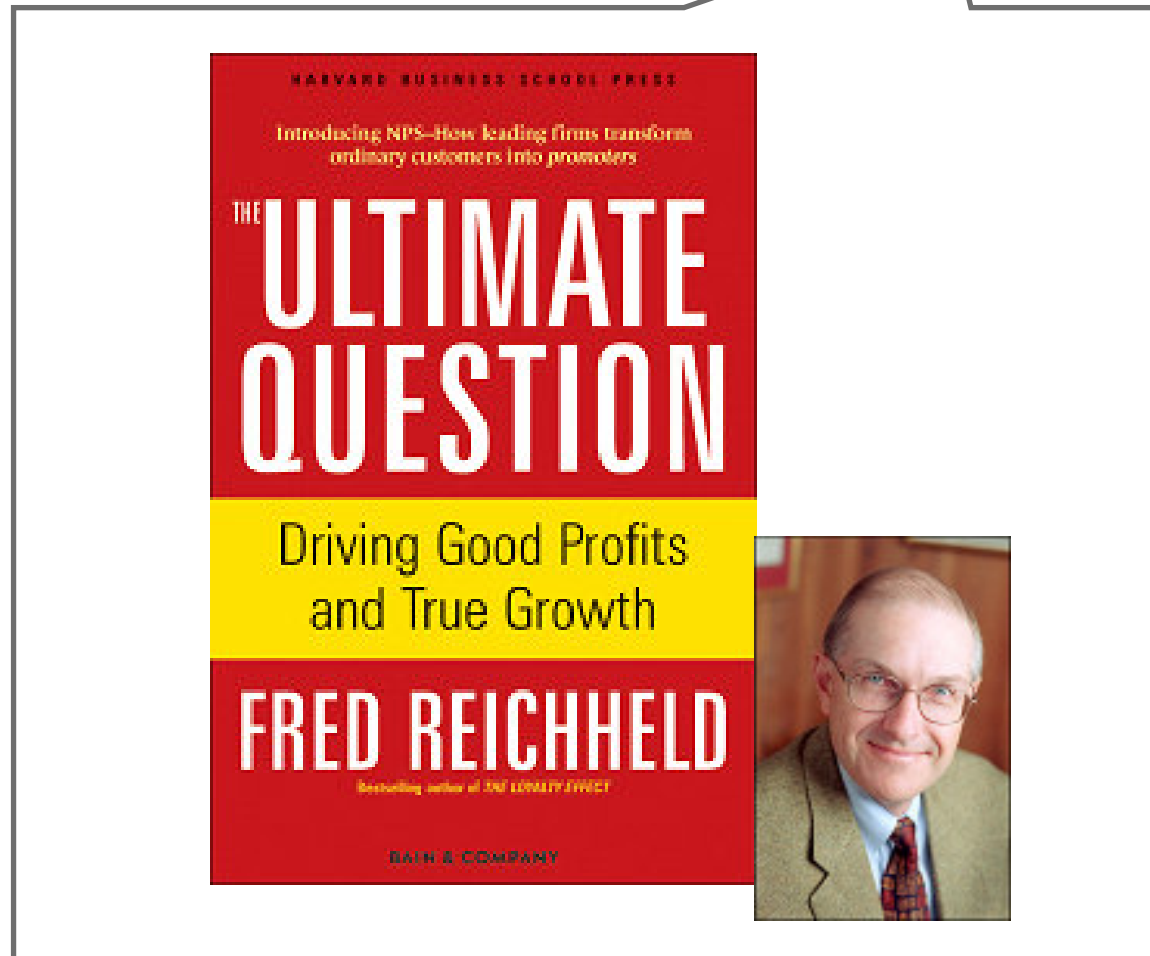
Customers are the lifeblood of any organization. Without customers, a firm has no revenues, no profits, and therefore no market value . . . However, even though senior executives realize the importance of customers, they still rely heavily on financial measures, since customer metrics are not clearly defined.



Sunil Gupta and Valerie Zeithaml,
Customer Metrics: The Past, the Present, and the Future in Academia and Practice (MSI: 2004).



Counter-Revolution to the Increasing Complexity of Customer Satisfaction Science...



Reichheld's Key Statements

“You simply need to know what your customers tell their friends about you”

- “Word-of-mouth drives Growth”
- "By substituting a single question for the complex black box of typical customer retention surveys, companies can actually put customer survey results to use and focus employees on the task of stimulating growth."
- "The only path to profitable growth may lie in a company's ability to get its loyal customers to become, in effect, its marketing department."

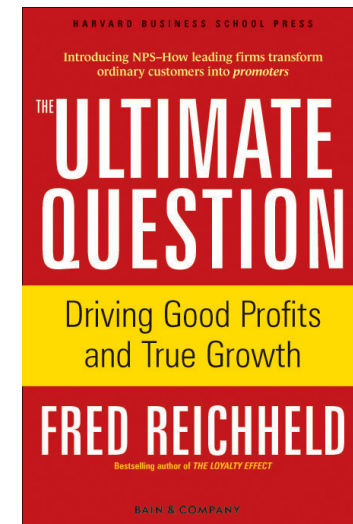


***You need to ask only one single question:
Recommendation***



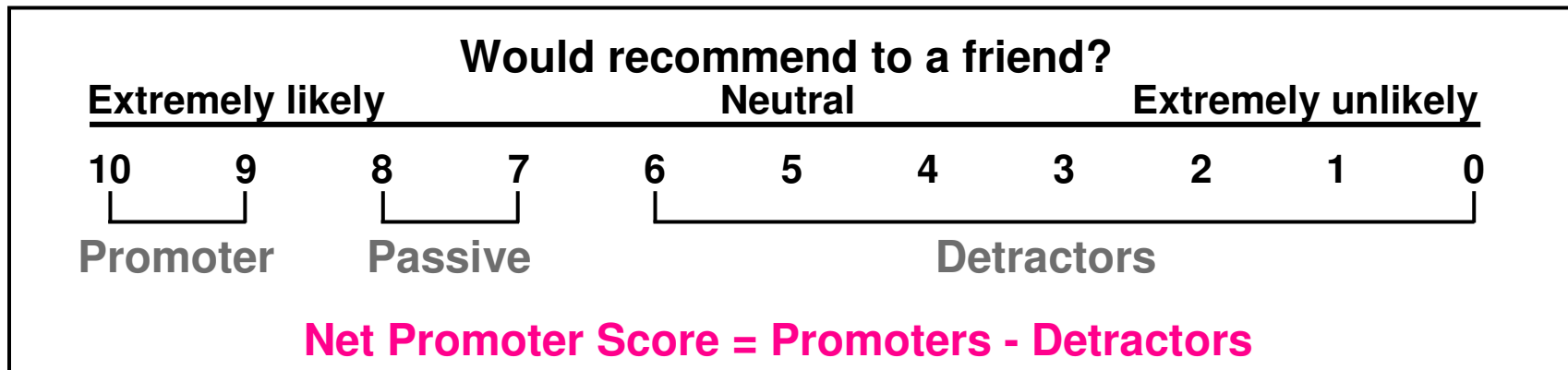
Reichheld's Arguments

- By using only a single question you get:
 - higher response rates
 - lower field costs
 - a one-number-tool to meet the needs of top management / employees
 - no ambiguous (non-actionable) results that are difficult for managers to act on.
- By only looking at the top-box, the company concentrates on customers who are willing to recommend the company.
- There is no link between satisfaction and growth.
- Retention is only linked to profitability, not to growth.



Reichheld's Net Promoter Score

An indicator of overall customer satisfaction



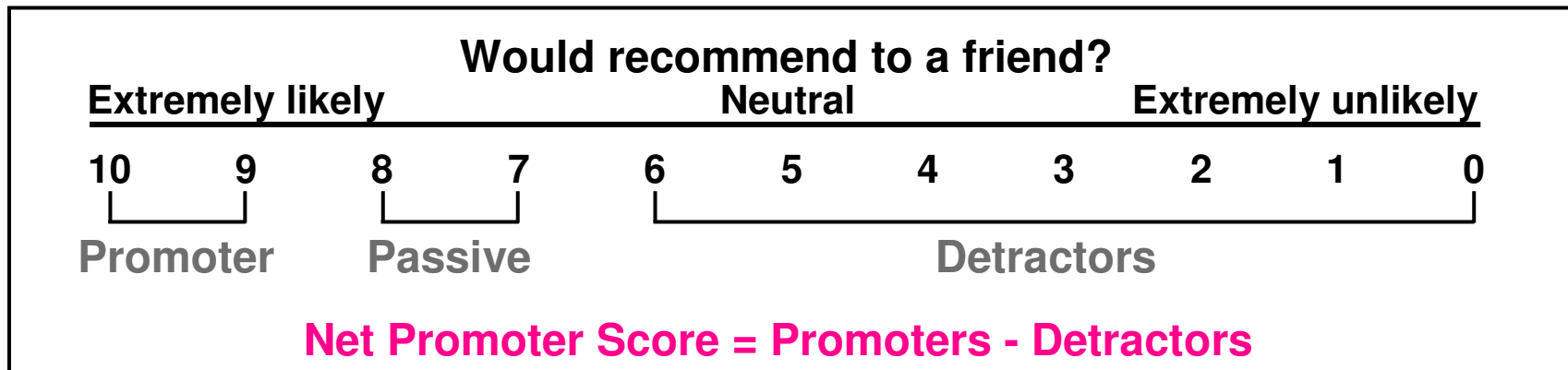
Benefits:

- NPS is a valid indicator of behavioral loyalty – positive word-of-mouth *potential*.
- Because NPS is highly inter-correlated with overall satisfaction and product re-purchase measures it can serve as an efficient one-number-tool that reflects a company's overall performance in meeting customer needs.
- As a simple and intuitive one-number score, NPS can be an effective tool for building internal company focus on customer needs.



Reichheld's Net Promoter Score

Limited in guiding company strategy



Limitations:

- NPS has limited robustness (e.g. over time, between industries and countries) due to use of only one question and of top-/bottom-box ratings.
- The NPS does not differentiate between good and best companies.
- Validation studies show that NPS is only weakly related to company growth – and unrelated to measures of growth in profitability.
- As a single measure, NPS gives no direction to management on how best to improve customer satisfaction, positive word-of-mouth, and profitable growth.



The TNS Stakeholder Management Group

We have found support for many of Reichheld's statements, but key conclusions are NOT correct

- Positive word-of-mouth is (at best) a moderate indicator of growth.
- True loyalty (customer retention) clearly affects profitability.
- Pure satisfaction measurement lacks a consistently demonstrable link to actual customer behavior or growth.
- A one-number-tool that measures customer retention can be an important part of every management information system.
- The simpler and more intuitive a customer retention model is, the better it can be used as an actionable management tool.



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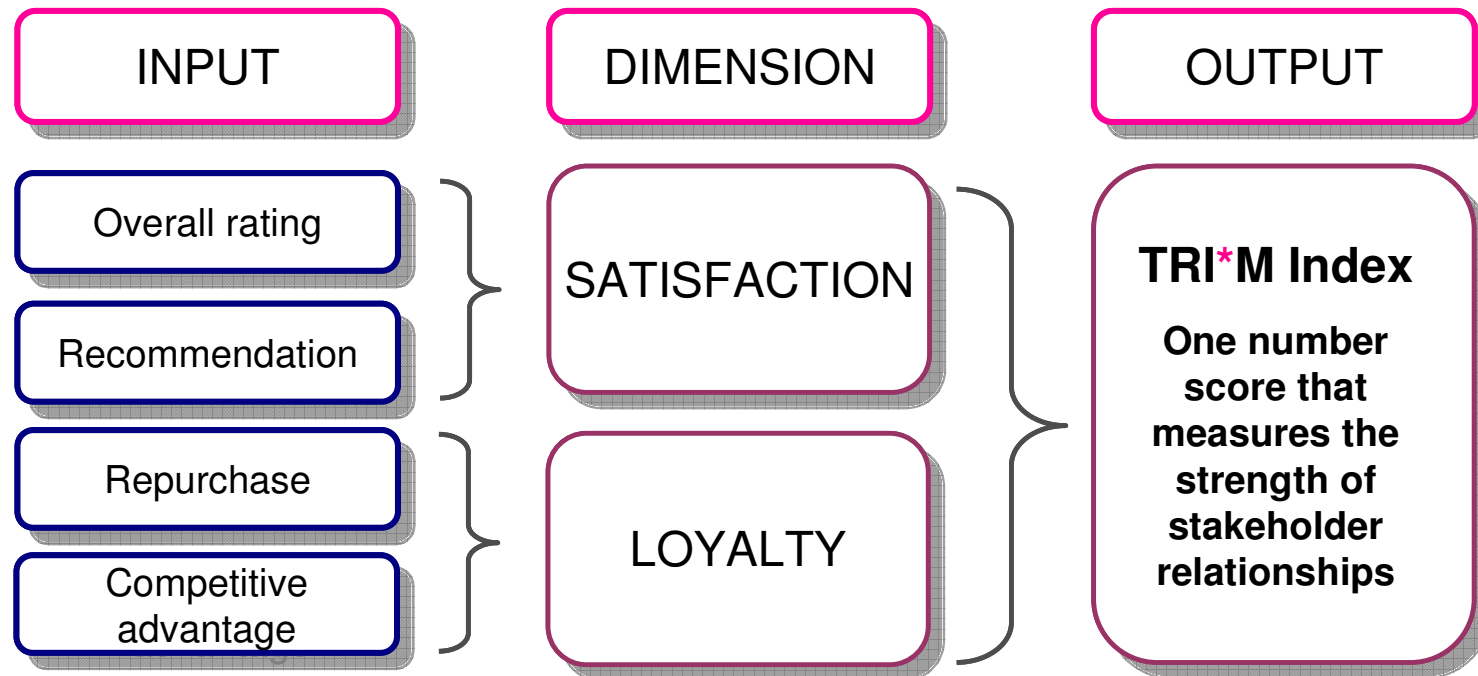
Moreover:

- A single question can never be a complete measure for a complex customer relationship.
- A customer retention tool to support managerial decisions requires more than one question. A single question can not deliver actionable results.
- Although growth through new customer acquisition is a key driver for any business, growth through building the loyalty and profitability of current customers is more important for the success of most companies.



Using Composite Indexes of Customer Satisfaction and Loyalty

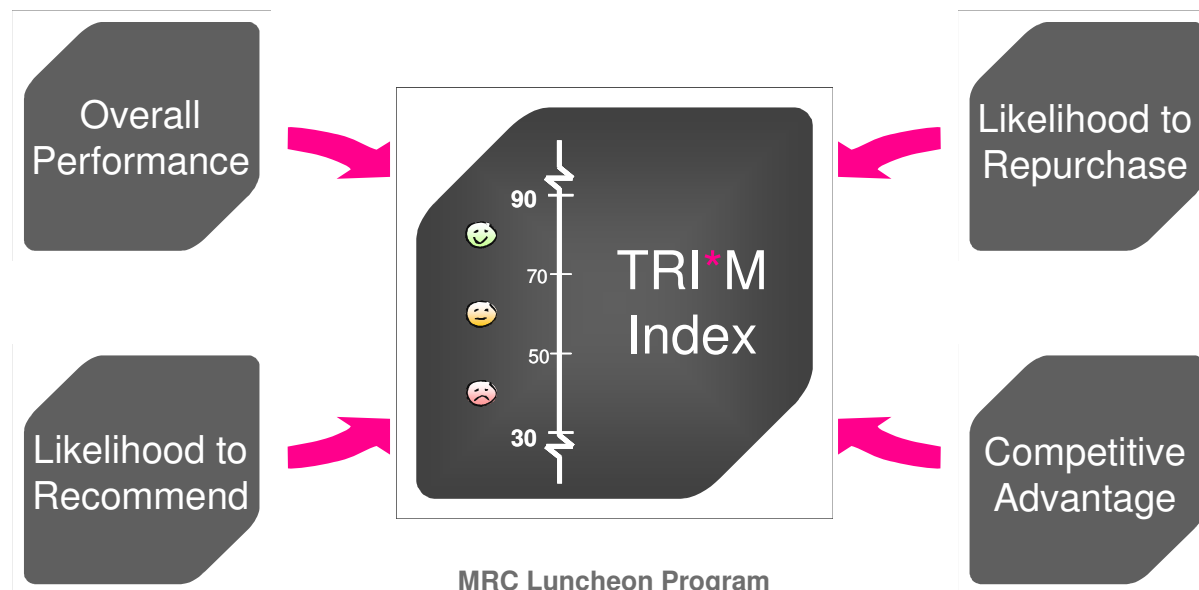
- A well-designed composite index of customer engagement goes beyond NPS to capture all major aspects of the customer-firm relationship as well as providing a single number summarizing performance on customer satisfaction and loyalty.



TRI*M Index

A single number score that measures Customer Retention with multiple dimensions

- The TRI*M Index as a measure for the level of customer retention takes multiple dimensions into account in order to provide a company with a holistic view of its customer relationships.
- It provides a company with a robust metric and trends, that allow managerial decisions.
- Recommendation is a key question in the TRI*M system as well.



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TRI*M Index

Issues of using “Recommendation” as a single number metric

- Although recommendation is a key question for the evaluation of business excellence and growth, there are some issues with using the “recommendation question” solely:

Customer Recommendation does not differentiate sufficiently

- In most Customer Retention studies top-box ratings of up to 70% or even 80% can be found for recommendation ratings, even for companies that are not world-class companies. Recommendation therefore does not differentiate between good and best companies.
- In addition to the recommendation question, the TRI*M system uses rational questions (Overall Performance, Competitive Advantage) that are rated on a lower absolute level, which leads to more differentiation of a company’s success in retaining customers



TRI*M Index

Competitive Advantage is key for analyzing the level of retention

Customer Retention surveys without an evaluation of the perceived Competitive Advantage:

- Equate customer satisfaction with customer retention – give little guidance on how to secure customers in the long run.
- Completely neglect the activities of competitors and market position.
- Underestimate the risk for the company in the market. More and more satisfied customers defect, if they do not perceive a personal advantage in the relationship to the company.
- Underestimate key drivers for customer retention that mainly drive future competitive advantage ('Hidden Opportunities').
- Overestimate key drivers that are equally fulfilled by all competitors in the market ('Hygienics') and are therefore taken for granted by most customers.



TRI*M Index

Robustness of customer retention metrics

- One issue of using top and/or bottom box ratings to measure customer satisfaction/retention is their lack of stability:
 - Over time (an issue for any type of trending)
 - Between different countries (an issue for multi-country surveys)
 - Between different industries (an issue for valid benchmarking*)
 - Between different companies (an issue for competitive analysis)
 - Between different customer segments (an issue for cross-segment comparisons).
- The TRI*M Index uses mean-based ratings and four different questions of customer commitment. This ensures results stable enough for comparison over time and across various countries and industries.
- Moreover, the TRI*M Index is sensitive enough to be used as an actionable customer retention measurement.

* TRI*M Benchmarking Database includes results of more than 8,000 surveys



TRI*M Index Questions and Business Performance

While the significant difference in the TRI*M Index reflects the business, the likelihood to recommend is nearly identical

Customer Segment A – High volume, high potential		TRI*M Index 60	
	Mean	Top2-Box	Bottom6-Box
Overall Performance	7.1		
Recommendation	7.6	25%	11%
Continue to use	8.1	NPS	
Competitive Advantage	6.5	14%	
Customer Segment B – Low volume, limited potential		TRI*M Index 50	
	Mean	Top2-Box	Bottom6-Box
Overall Performance	6.8		
Recommendation	7.6	29%	18%
Continue to use	7.7	NPS	
Competitive Advantage	5.9	11%	

Means on a 10point-scale

TRI*M Case Study: Business-to-Business

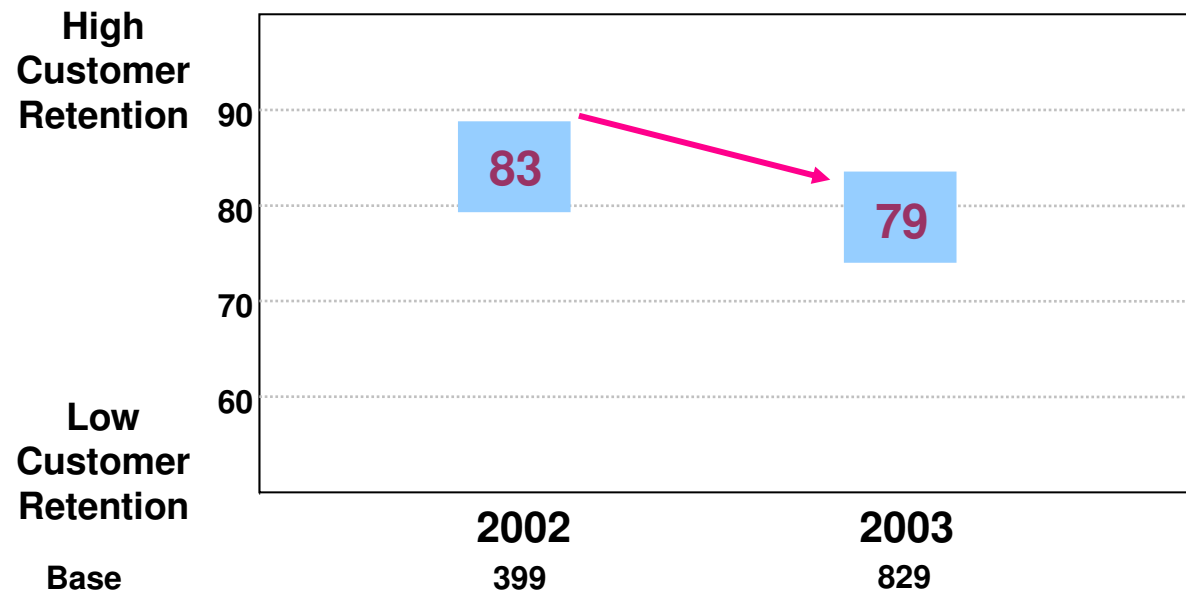
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TRI*M Index and Business Performance – Case Study 2

An IT firm showed a decline in its TRI*M Index score.



IT, Worldwide, B-2-B

Bottom10%

54

Bottom33%

71

Mean

74

Top33%

81

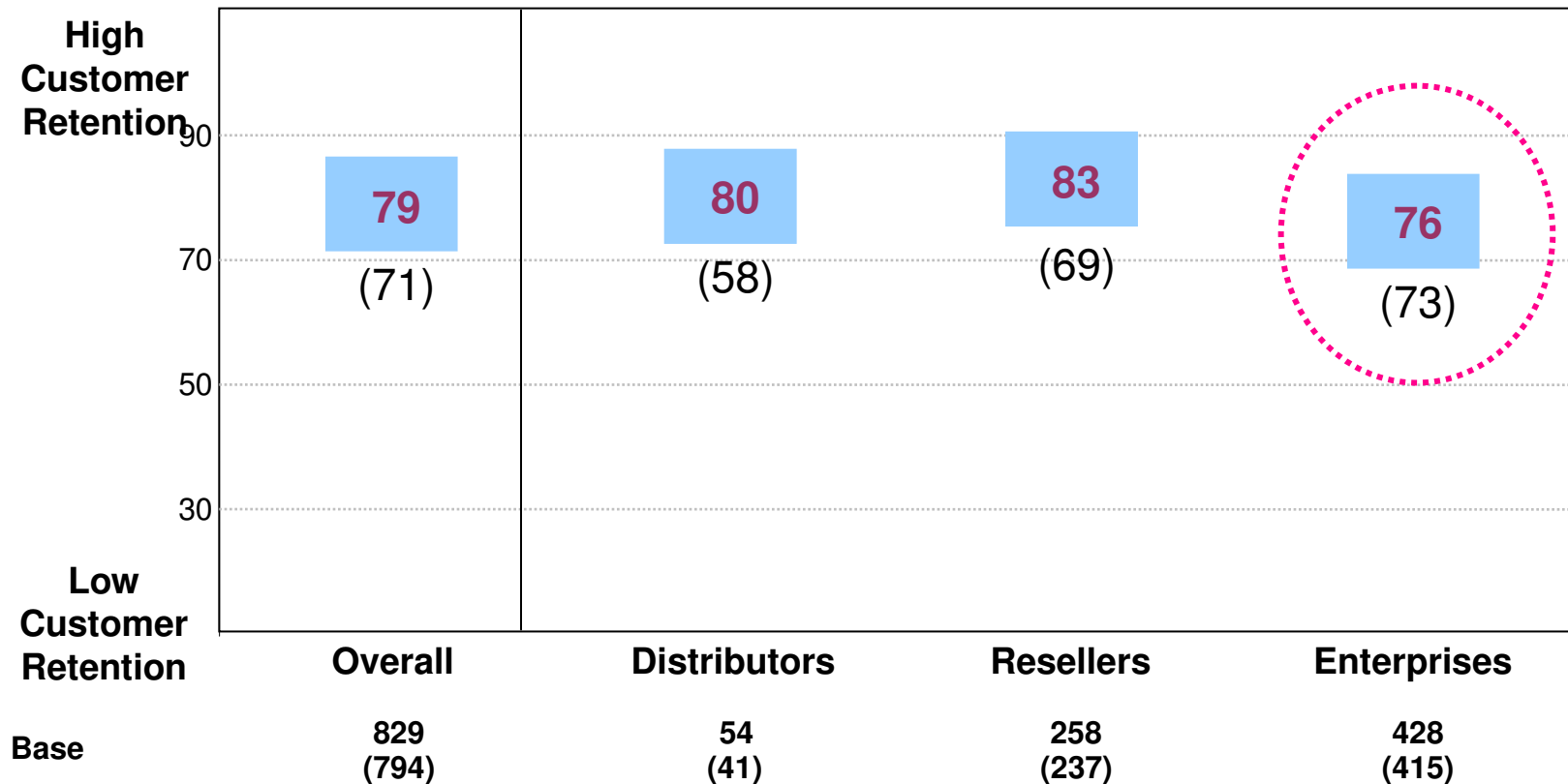
Top10%

89



TRI*M Index and Business Performance – Case Study 2

The primary problem appeared to be in the Enterprises division.



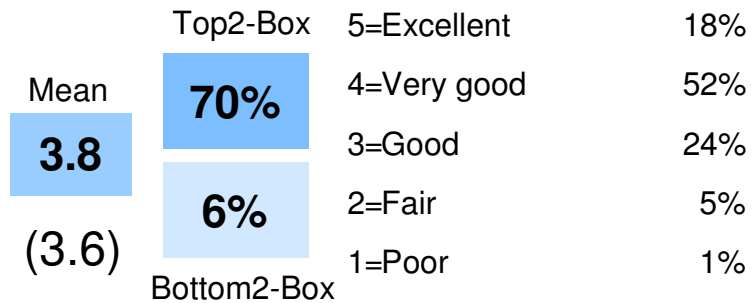
TRI*M Index and Business Performance – Case Study 2

While “Recommend” is high, the firm shows weakness in Overall Performance and especially in competitiveness.

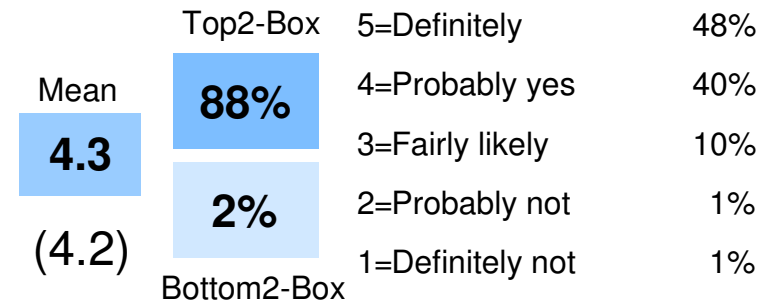
(Global Benchmarking – IT, Worldwide, B-to-B)

TRI*M Index 79

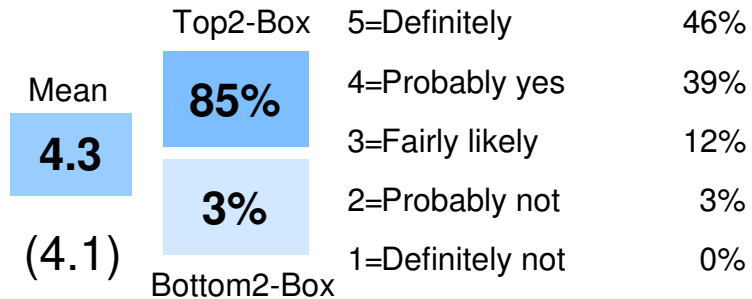
1. Overall Performance



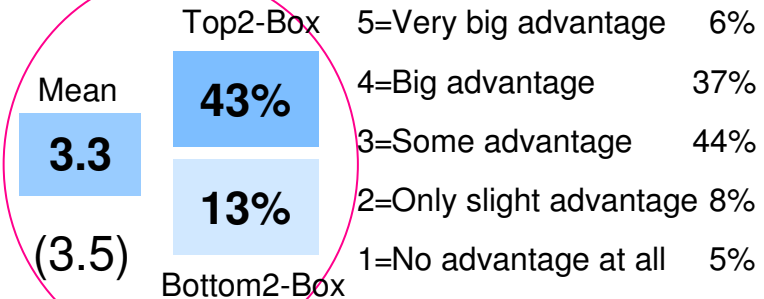
2. Recommendation



3. Repurchase



4. Competitive Advantage



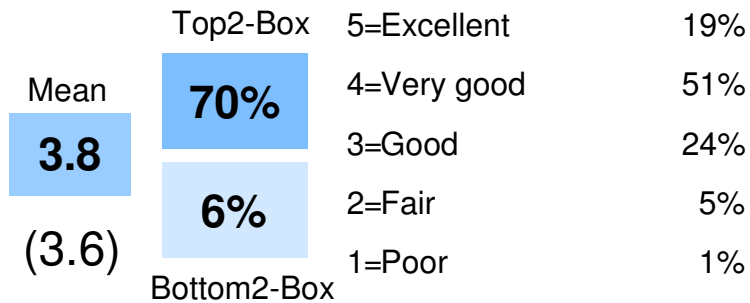
TRI*M Index and Business Performance – Case Study 2

The same weakness is found in the Enterprise division, although here it is accentuated.

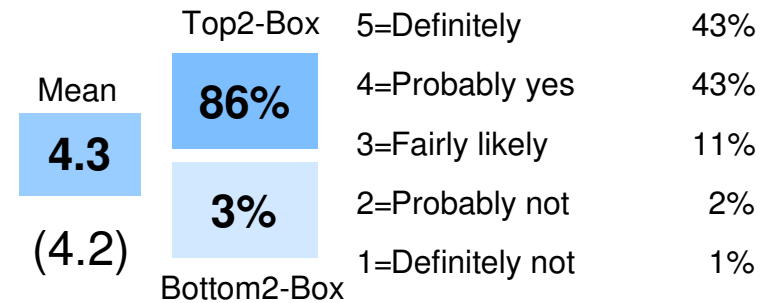
(Global Benchmarking – IT, Worldwide, B-to-B)

TRI*M Index 76

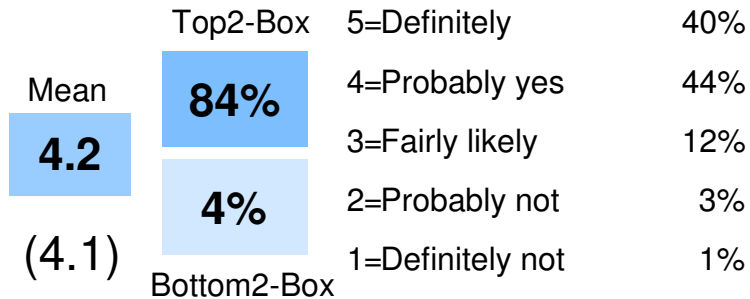
1. Overall Performance



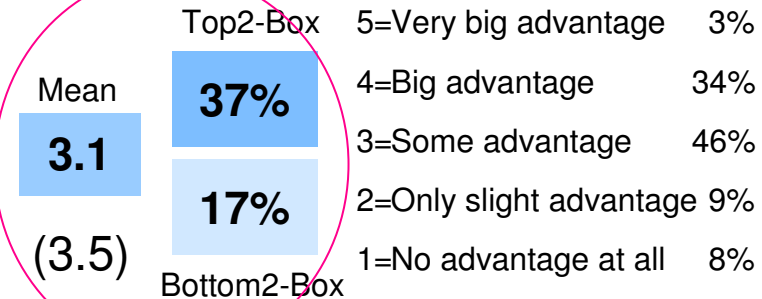
2. Recommendation



3. Repurchase

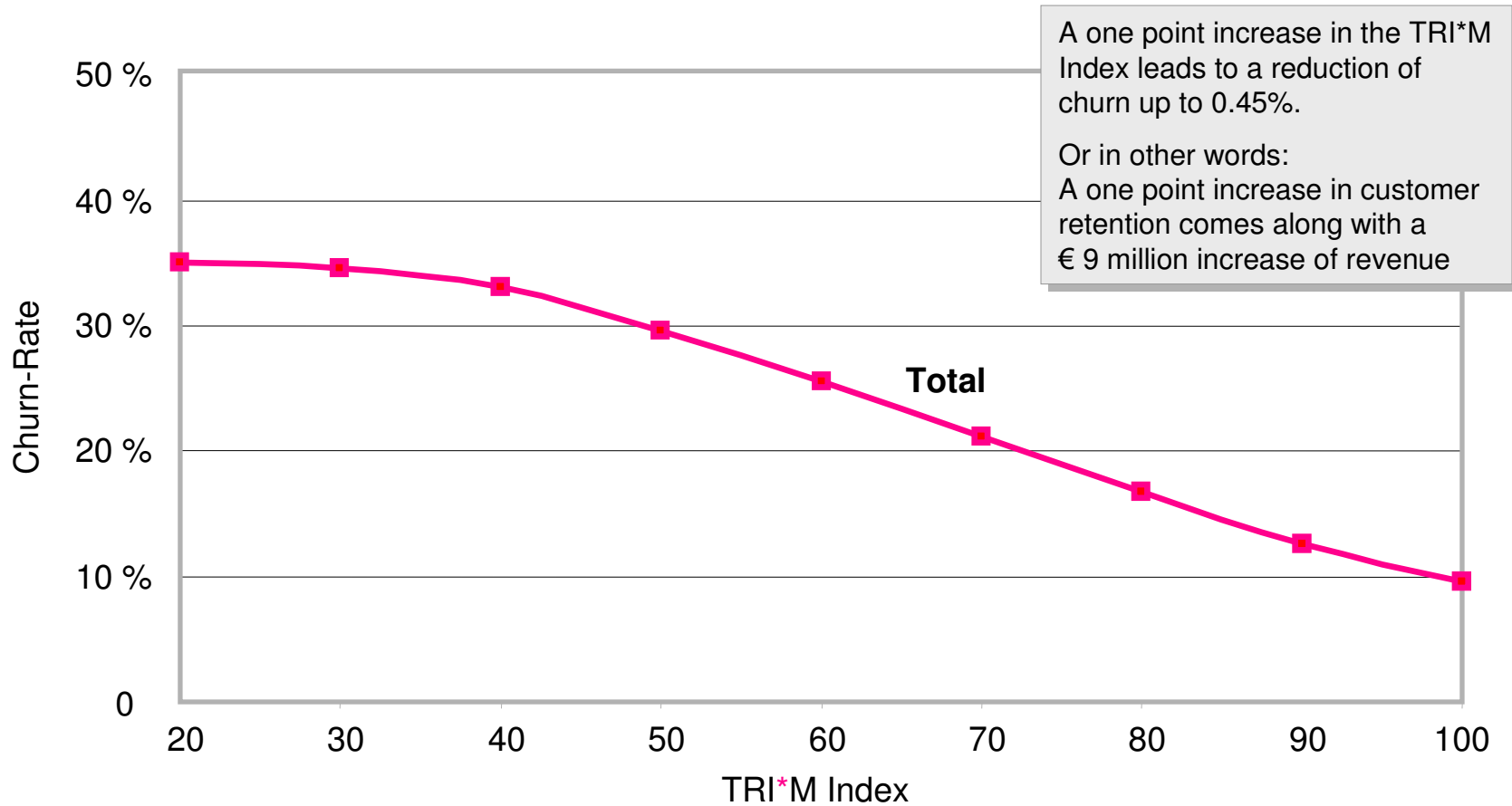


4. Competitive Advantage



Mobile Telecom Provider – Case Study 3

Linking Customer Retention to Churn for B2C Case



TRI*M and Business Performance

Conclusions

- The TRI*M Index with its multiple components (performance, recommendation, repurchase, competitive advantage) not only is a highly recognized one-number management information tool, it allows internal and external benchmarking and is closely connected with churn/switching and profitability of customer relationship.
 - The higher the index, the more retained customers are, the more profitable the customer relationships are for companies.
- The case studies show clearly that there are customers who recommend the company to others (active promoters), but – at the same time – are willing to switch themselves.
 - In the TRI*M Typology they are called "Mercenaries". There is evidence for an increase of "Mercenary relationships" in many industries globally.
- Although growth through new customer acquisitions is a key driver for any business, growth through existing customers becomes more and more critical to most businesses.
 - Moreover, in most industries profitability determines the long-term success of a company.



Reichheld's Net Promoter Score

Conclusions

- Use NPS as a component in a composite index score that is robust, diagnostic, and predictive of critical aspects of customer relationship management.
- Use NPS as one of several Key Performance Indicators (KPIs) that demonstrate progress towards specific strategic and tactical objectives for the company.
- Develop ROI models that identify and quantify those areas of internal business performance and external market action that optimally guide investment in company performance improvement.

In a response to an inquiry from COLLOQUY, Reichheld recently stated: “just about every one of the market research and satisfaction survey houses has written an article or white paper concluding that NPS is the devil’s spawn. I have decided not to invest time responding to their arguments. I believe that the merits of NPS will be decided not through academic debates but in the real world of customers and employees. That is where I am investing my time.”



Sir Henry Royce – Is One Number Enough?

- More than 6000 “Silver Ghosts” were built between 1907 and 1925, and the majority are still in good running order.
- A limited edition of the Phantom Silver was released in 2007 to commemorate the centenary of the “Silver Ghost”. But the car was built by BMW.
- Probably neither NPS nor the TRI*M Index could have predicted the growth and dynamics of the global automotive market in the 21st Century. But I would maintain that the TRI*M Index would have done a better job of identifying repeat purchase.





the sixth sense of business™

Thank you!



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