Three vital words – and how to look beyond them

Miles Doolittle

The net promoter score (NPS) has become one of the most useful tools to companies since its first appearance in the Harvard Business Review almost 20 years ago.

We're firm believers in its benefits at Queen's Park Equity because as investors in healthcare, education and tech services, we're acutely aware of quality. We work with management teams to identify a way to track and articulate that quality now - and overtime - in simple to understand metrics.

That's why we use the NPS, which enables businesses to track their relationships with customers - and the difference they're making to their life beyond the initial transaction.

It comes as businesses find themselves under increased pressure to win customers, with research published last year by accountancy firm EY suggesting trends and priorities that had emerged during the pandemic would remain for the long term. The survey found 67% of customers said their behaviour during covid had become their new normal.

What is it?

The NPS fundamentally asks how likely your customers are to recommend your business or service.

Typically, this is done on a zero to 10 scale. Those customers scoring nine or 10 are considered promoters, while those scoring zero to six are considered detractors.

To calculate the score, you subtract the percentage of overall detractors from promoters.

It's simple, easy to benchmark across industries and supports improved customer retention.

How do we use the NPS at QPE?

- As part of our diligence to understand a business's current relationship with customers.
- To implement a continuous NPS score at our portfolio companies to ascertain improvement and pull out the quick wins.
- For benchmarking across our portfolio companies and sharing best practice.
- To focus the business on continual feedback with the customer for sustainable growth through a systematic process.

Looking further

However, it's easy to fall into the trap of relying on the NPS itself too heavily, and of failing to closely analyse what it's saying and neglecting to implement strategic change as a result of the research.

It's critical to understand what the NPS means in the industry and sector in which your business operates. Scores vary widely across industries, with online service providers notorious for scoring low and education companies known for typically receiving high scores.

You'll also need to understand the spread of the NPS. Where do the majority of you customers lie? Are they tightly clustered around the extremes or is there significant concentration in the middle? Often, businesses focus too much on the detractors and promoters rather than understanding the quick wins that can push neutrals into promoters.

Perhaps most important is the qualitative feedback received through the NPS. By requesting rationale for scores, your customers will tell

you how you can improve their experience with your service and strengthen the relationship with your brand.

Let your customers know you're listening to their feedback and acting on it. Customers like to know you're actively working to solve their needs so create a positive NPS feedback loop.

Pitfalls

Remember that the score largely depends on the context in which a customer would recommend your product. An avid mountain biker may recommend a brand of bicycle to another rider but not their elderly grandfather.

Using the score as a means to provide bonuses or career advancement can lead to greater focus on the number itself rather than learning how to better serve customers. Calculating the NPS in-house can lead to inherent biases that distort the results. Bringing in a third party to conduct the survey to benchmark against internal results could prove helpful.

Don't forget you'll need a large sample size to generate an accurate score, which can be difficult in highly concentrated businesses.

Putting it all together…

The NPS is another tool for gauging your relationship with customers and developing an active voice for them within your organisation.

It gives a common framework and score that can be easily benchmarked across industries and speak to the quality and sustainability of a business. But it's important to collect your score in an unbiased manner.

The NPS can prove to your customers that you're listening and actively making changes to continually provide a better service and relationship with your product.

Finally, remember that NPS is a measurement of customer retention and loyalty. It's not a measurement of satisfaction or effort on the part of your customer support team. Take it for what it is - a relationship measure that should focus on critical points within your customer's journey.