

Do You Measure Customer Loyalty?

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Friday, 13 June 2014

Last Updated Friday, 13 June 2014

Customer is King – the raison d'être of every business. It is therefore imperative for all businesses to listen to their customers.

Customer loyalty in particular is of immense value to any company. High customer loyalty indicates that your company is doing a key part of its job right. It also means that you have to try less hard to increase sales. You not only get repeat customers, the customers also talk about you with others they know, and these referrals lead to new customers. Your overall customer acquisition cost goes down.

So it is surprising that most companies don't specifically measure customers' loyalty and their propensity to give recommendations. The key tools employed by the marketing and strategy heads for seeking customer inputs that are commonly used include customer satisfaction surveys, feedback forms, tracking social media, customer studies, and so on. But these don't directly measure customer loyalty.

Net Promoter Score (NPS) is a metric that is being increasingly used globally to measure customer loyalty. It was first introduced by Fred Reicheld in a 2003 HBR article. It measures the answer of the existing customers to one ultimate question – "Will you recommend us to your friends?"

Composition of NPS - In its original form, the likelihood of a customer to recommend your company is rated on a 10-point scale. Scores of 9 or 10 indicate "promoters" of your company/brand, 7 and 8 are "passive" or neutral customers and are "detractors" who may give negative recommendations. The net promoter score is the difference between the % of respondents who are promoters and the % of respondents who are detractors. For example, if 60% are promoters, 10% are passive and 30% are detractors, the score is 30. The NPS can range from +100 (if everyone is a promoter) to -100 (if everyone is a detractor). In general a score of 50 is considered to be excellent. An organisation can track its NPS scores over time, and also benchmark them with their competitors.

Over the years, the NPS has gained popularity, as companies have observed a close correlation between the NPS and growth rates of companies. Those who have higher customer loyalty (as measured by NPS) have grown faster.

A large number of global companies across industries such as industrial goods, retail, telecom, transportation, etc. including top brands such as Apple, Samsung, Sony, eBay, Delta and BBC to name just a few, use the NPS. (I have not come across too many companies in India using NPS.)

Many organisations have also customised the NPS to suit their needs. Some use 5 or 7 point scales. There are also cultural variations in how generous respondents are in giving scores, and the scales and calculations can be adjusted to allow for these differences.

The advantage of NPS is that it is simple to administer as well as calculate and gives a quick insight into the level of customer loyalty. The NPS does have few shortcomings, however. A single number is an indicator, but gives no actionable insights at all. It doesn't tell you what you can do to improve your performance. It therefore needs to be accompanied by further probing, particularly for respondents who have given low scores, so that the company understand what corrective action is needed. Also, it doesn't distinguish between scores within the ranges. So a score of 0 is treated at par with a score of 6, when in fact they are quite far apart.

Nevertheless, NPS is a key tool for customer intelligence. It enables you to keep your finger on the pulse of your customer.

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