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The use of Net Promoter Score (NPS) to predict sales growth: insights from an empirical investigation

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Synopsis

Net Promoter Score (NPS) has been widely adopted by managers as a measure of customer mind-set and predictor of sales growth. Over time, practitioners have evolved the use of NPS from its original purpose as a transaction-based customer loyalty metric, towards a metric for tracking overall brand health which includes responses from customers and non-customers. Despite enduring managerial popularity, academics remain sceptical of NPS, citing methodological issues and ongoing concerns with NPS measurement. This study revisits the use of NPS as a predictor of sales growth by analysing data from seven brands operating in the U.S. sportswear industry, measured over five years. Our results confirm that while the original premise of NPS is reasonable, the methodological concerns raised by academics are valid, and only the more recently developed brand health measure of NPS is effective at predicting future sales growth.

Introduction and Background

In 2003, Fred Reichheld advised that NPS was the one number that managers need

to grow in order to increase sales. NPS is based on the Likelihood-to-Recommend (LTR) question - "How likely is it that you would recommend [company X] to a friend or colleague?". Reichheld's NPS calculation collapses the LTR scale which ranges from 0 ("not at all likely") to 10 ("extremely likely") into three categories, namely: "Promoters" (9 or 10); "Passives" (7 or 8); and "Detractors" (6 or below). The NPS is then calculated by taking the difference between the share of "Promoters" and "Detractors" - hence the name "Net Promoter".

NPS became popular with managers almost immediately and has remained the "go to" metric for contemporary firms since then. In contrast, NPS was quickly rejected by academia. Researchers identified several methodological concerns with the original NPS study. For example, Reichheld analyzed past instead of future sales growth rates by using simple correlations, and focused on static NPS levels measured at one point in time. These issues, among others identified by critics, rendered the claim made by Reichheld highly questionable calling into doubt the utility of NPS as a predictor of future sales growth.

Even though academia sends a generally negative message to practitioners about

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NPS, a significant number of firms continue to use it. This suggests that it is possible that firms have identified conditions under which NPS adds value. With this in mind, it is interesting to note that, although initially introduced as a transaction-based customer loyalty metric, it can also be thought of as an overall brand health measure used for competitive benchmarking and target setting (e.g., Markey, 2014; Qualtrics, 2020). The key difference between these two uses of NPS is that the original customer loyalty usage of NPS captures data from current customers right after a direct interaction with the brand, while the newer brand health usage of NPS uses data from all potential customers in the market, and can be collected for competitors as well (Fitzgerald, 2017; Markey, 2014). Notably, this all-customer, brand health use of NPS is considered by practitioners to be closely related to future sales growth.

Issues and Questions Considered

This paper revisits the utility of NPS as a predictor of future sales growth. We address several of the methodological concerns raised by academic studies (e.g., Grisaffe, 2007; Shaw, 2008) regarding Reichheld's original NPS usage, and we also consider how managers have evolved the use of NPS in contemporary practice (e.g., Fitzgerald, 2017; Markey, 2014). Therefore, our study provides new evidence to address the broad question of how NPS should best be used by managers, if at all. The paper considers; Why have prior studies come to different conclusions regarding the relationship between NPS and sales growth? Is NPS a valid predictor of future sales growth? Are the methodological criticisms of the original NPS study valid? Should NPS be used as a customer loyalty metric, a brand health metric, or not at all?

Methodology

To answer these questions, we examine NPS within the U.S. sportswear industry. The sportswear industry was chosen because NPS is a better predictor of performance in industries where customers have both short inter-purchase cycles (Gruca & Rego, 2005) and high emotional involvement in the

purchase decision. NPS data for seven of the biggest brands in this industry were collected from a representative sample of the US market over five years, resulting in a dataset of 193,220 NPS evaluations in a balanced panel dataset. Two models are used in our analysis: Model 1 uses static NPS levels, an adopted in prior NPS studies, while Model 2 uses NPS changes and changes in (most of) the control variables. Overall, the results of our random effects model show that NPS can be a significant, positive predictor of future sales growth. However, at the same time, the results suggest that the methodological criticisms of Reichheld's study, and the way NPS is used in practice, are of concern when considering how to obtain meaningful results from NPS data analysis.

Outcomes and Findings

Our study demonstrates that under the right conditions, NPS predicts future sales growth, supporting existing managerial behaviour. Thus, managers should be confident that NPS is an appropriate measure for ongoing use. However, managers should be careful with how they utilize NPS, and they should pay particular attention to the following issues. First, given that NPS is most effective in predicting short-term sales growth, it is best considered as a measure that can validate whether recent marketing actions have had the desired effect on consumers. Nevertheless, in growing long term sales, managers need to consider other factors which require more time to change, for example, their product positioning, distribution strategy and product range. Second, our findings show that it is only changes in NPS that predict sales growth. Firms should therefore incentivise and communicate changes in NPS, rather than absolute NPS scores. Managers need to focus on improving NPS, and tracking this improvement, regardless of the NPS level itself. Third, we show that firms should use NPS as a future oriented overall brand health metric, and track NPS for all potential customers. Our findings imply that brands cannot grow solely through the benefits associated with customer loyalty, such as retention or word-of-mouth; they also need to attract additional new customers to nurture brand growth.

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