Paweł Korneta[1]

WHAT MAKES CUSTOMERS WILLING TO RECOMMEND A RETAILER – THE STUDY ON ROOTS OF POSITIVE NET PROMOTER SCORE INDEX

Abstract

Net Promoter Score index (NPS index) is examined from customers perspective. The statistical analysis of NPS index obtained for different retailers by customers survey is presented. The correlation coefficients between NPS index and a set of criteria are given and the key drivers of NPS index are determined. It is shown that the most important factor in the creation of positive NPS index is the trust, while perception of the low price is less influential. The direction in which retailers should move with their communication and in-store activities is suggested.

JEL Classification Code: **M310**.

Keywords: Net Promoter Score, Customer Perception, Drivers of loyalty – Recommendations.

Introduction

The Polish retail market is in transition period. In recent years there is ongoing trend of replacement of traditional trade with modern trade, what is shown in figure 1. Large chains grow at the expenses of local stores through new stores opening. It is clearly visible on grocery market, where large international chains invest in new store format (e.g. Tesco with Tesco Extra, or Carrefour with Carrefour Express). Besides that, market is in consolidation phase, e.g. Piotr i Paweł took over BOMI, Zabka acquired local chains PS Food, Argo and Torg. Accordingly, local independent stores in order to gain economy of scale, move to franchise model. Chains expansion meets with market saturation, what enables customers to switch between retailers in an easy way. Fierce competition on the market and changes in society impose on retailers necessity to revitalized their strategies in building loyalty and relation with

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[1] Associate Consultant at OC&C Strategy Consultants Warsaw Office, pawel.korneta@occstrategy.com

customers. Therefore, it is highly important for retailers to identify key drivers of loyalty, undertake activities and use suitable metrics of loyalty.
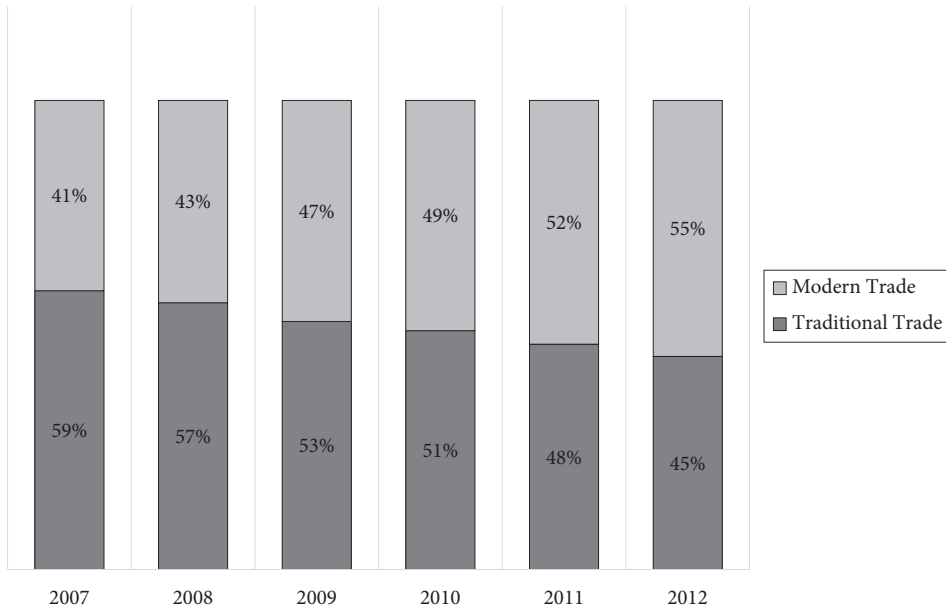

Figure 1. Evolution of traditional and modern trade value shares on grocery market
Source: own study based on Euromonitor database, access 10.03.2014.

The study of customers loyalty has been the object of much research in the past decades Tucker (1964), Jacoby and Chestnut (1978), Griffin (1997), Dziewanowska (2007). Among many methodologies and tools used to measure the loyalty like Customer Retention Rate presented by Kozielski (2004), customer satisfaction (CSAT) and Customer Effort Score (CES) presented by Dixon, Freeman and Toman (2010), the Net Promoter Score index (NPS index) is one of the most widely used in theoretical studies and in practice. The value and benefits of using NPS index to measure and quantify the loyalty has been shown e.g. Reichheld (2006), Jeanjean (2011). There are also studies related to drivers of NPS conducted by Jeske, Callanan and Li Guo (2011) or by Chang and Fan (2013). Nevertheless, there are still many question marks regarding roots of NPS index, e.g. why customers are willing to recommend particular company?

The aim of this paper is to examine NPS index from customers perspective and to determine the key drivers of this index. Our studies are based on customers surveys conducted in June-July 2013 and June-July 2012.

This paper is organized as follows. In Section 2 the role of loyalty in business performance is discussed. In Section 3 the Net Promoter Score index is defined and

its value to quantify the loyalty is discussed. It is also compared with other loyalty metrics. In Section 4 the methodology is described. In Section 5 the analysis of NPS indices obtained for different retailers by customers survey is presented. In Section 6 the key drivers of NPS index are determined and described. Finally, we provide conclusions in Section 7.

The role of loyalty in business growth

The role of loyalty has been the subject of studies throughout many decades. In these studies from the very beginning there was a hypothesis that loyalty is linked with growth of business performance. Reichheld and Sasser (1990) showed that 5% growth of customer maintenance transfers into 25-85% growth (depending on the industry) of profits. Anderson, Fornell and Lehmann (1994) presented positive correlation between customer satisfaction, loyalty and long term performance growth. Wansink (2003) pointed attention that companies invest in loyalty programs, because they noted that costs to attract new customers are higher than maintenance costs. Loyal customers buy more frequently and they are more profitable. Therefore companies started to use loyalty programs and other activities to enhance customer satisfaction.

Along with studies of loyalty impact on business performance, emerged constrains related to the correlation between those two factors. Keaveney (1995) showed that with higher loyalty the company is exposed to more interaction with a client. Therefore company has to have high quality of the whole spectrum of services. Otherwise customers may switch to some other service provider. As the result of that, the improved loyalty will have contrary effect on long term business growth. Bolton, Kannan and Bramlett (2000) also investigated the condition under which loyalty programs will have a positive effect.

Even though loyalty is a good indicator of business growth, not all loyal customers are beneficial ones. In depth studies conducted by Reinartz, Kumar (2002) on 16 000 customers through 4 years on 4 companies, proved that:
– it is not true, that maintenance of each loyal customer cost less than not loyal one,
– loyal customers don't pay more than regular ones, as loyal customers very often receive incentives and discounts,
– not all loyal customers are brand ambassadors, who recommend company to others.
    Therefore, some companies may have high level of loyal customers, but in a long term can create losses or reach not relevant growth. It is important to identify drivers of customer loyalty. Urban and Siemieniako (2008) presented four different types of loyalty:
– loyalty based on relationship between customer and company, e.g. customers feel emotional bound with retailer and do not even consider buying from other retailer,
– loyalty based on social impact, e.g. customers buy a product because it is trendy and popular,

– loyalty based on profits and losses assessment, e.g. customers buy a product be-
cause it is less expensive than from competitors,
– loyalty based on external constrains, e.g. customers buy a product because there
is no other place to buy it.

Strength of correlation between loyalty and business performance growth depends
on the type of loyalty. Loyal customer driven by external constrains may switch to
competitors, when limitation disappear. Therefore, in order to use loyalty as a good
indicator of business strength, loyalty has to reflect loyalty based on relation or social
impact. In a turbulent market environment, purchases behaviors can easily change.
Therefore opinions and positive experiences are better foundation for long term
business development.

The aspect of opinions and emotional engagement was embraced in definitions
of loyalty presented by Griffin (1997) or Dziewanowska (2007). This approach is
in line with current researches. Implications from Lotko (2013) paper clearly show
that: opinions spread by customers do meaningfully influence on the image of an
organization defined as a way the organization is perceived by its real and potential
clients. Therefore, it sounds rational to accept this approach to loyalty in this paper.

Monitoring of loyalty index gain importance along with social and environmental
changes. Sroga (2005) showed that importance of loyalty had been growing on the
back of the following trends:
– increase of data availability about customers, markets and competitors,
– switch from local domestic marketing to global international marketing,
– move from mass marketing to mass individualization and product diversification,
– necessity to marketing cost optimization.

Moreover, in due course of technology development, importance of other people
opinions in buying decision is expected to continue growing tendency. Based on
Megapanel Gemius (2014), there are over 15 mln of Facebook and 2,5 mln of Twit-
ter real users in Poland. Those people are willing to share information, pictures and,
what's the most important, opinions. Simonson and. Rosen (2014) presented growing
role of opinions in purchase decisions due to those trends.

In accordance with above studies and modern definitions of customer loyalty,
it is important to use relevant metrics to assess customer loyalty. Chłodnicki and
Rogoziński (2006) proposed to analyze customer loyalty in respect to the following
three aspects:
– repetition of purchases,
– positive attitude towards a company,
– consider a company as the only provider of products.

Those aspects stress, that metrics used to measure loyalty should embrace not only
behavioral actions, but also emotional attitude towards the company.

Net Promoter Score index as a metric of loyalty

In due course of studies on loyalty emerged many metrics of customer loyalty based on emotional engagement of a consumer. Taylor (1998) proposed to assess loyalty measuring customers willingness to wait for particular product to buy it from particular company. The other way to measure loyalty presented Bloemer, et al. (1999). They focused on feedback provided by customers. Reichheld (2003) introduced Net Promoter Score index (NPS index) based on customers willingness to recommend a company to a friend. Long history of NPS index can be found in Hays (2008) paper. Due to popularity of NPS index, emerged alternative metrics, like: customer satisfaction (CSAT) and Customer Effort Score (CES) presented by Dixon, Freeman, and Toman (2010). In their works, they placed NPS index in the middle in terms of accuracy to predict growth of performance. Subsequently, Morgan and Rego (2006) evaluated different loyalty metrics. The conclusion coming out of their paper is that top two box and average methods are good indicators of companies growth and better than NPS. Contrary to complains ratio and repurchase likelihood metrics, which have little correlation with predicting business performance growth.

The NPS index is nowadays widely used loyalty metric. The idea behind NPS index is very simple and is based on asking customers just one question: „How likely is it that you would recommend us to a friend or colleague?" on zero-to-10 scale. Subsequently, customers are clustered into 3 groups: promoters, passively satisfied and detractors. This is shown in fig. 2. Customers who will rate 9 or 10 are considered as promoters, 7-8 as passively satisfied and rest are classified as detractors. Each cluster is link with expected customer behavior. Promoters are likely to stay with a company in case of emergence of competitors. Moreover, they are more likely to repeat purchases. Finally, promoters may have positive impact on other potential customers. Therefore promoters are expected to contribute to growth of company performance. On the other hand, detractors have negative impact on business performance expectations. They are likely to create negative opinions or switch to competitors. NPS is calculated as subtraction between share of promoters and share of detractors. NPS index above 0 is considered as positive. It means, that company is likely to increase their profit and perform well on the market.
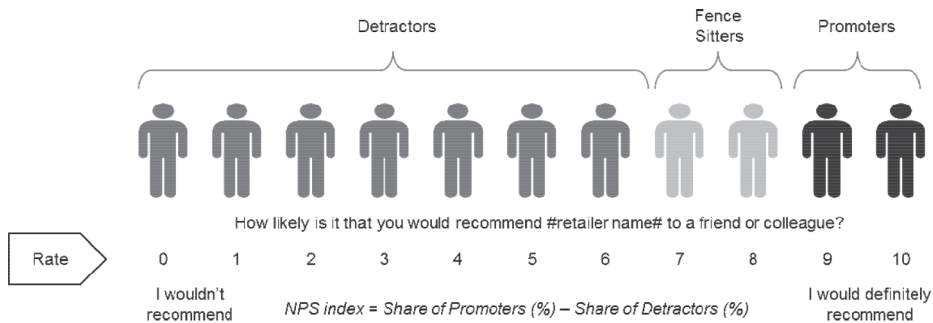

Figure 2. Classification of responders and brief view on NPS calculation method

Nevetheless, NPS index was criticized by Morgan and Rego (2006) or by Keiningham et al. (2007). In their papers, NPS index was set against company total growth measured by total profitability or revenues. Revenues growth of company may come not from like-for-like sale, but for example new stores opening or high investments. On mature markets role of loyalty and its link with overall company performance is much stronger. Reichheld (2006) presented rationales standing behind NPS index, which make NPS index so useful and successful. Jeanjean (2011) examined correlation between 3 factors: Net Promoter Score, Customer Willingness to Pay and mobile operators performance (revenues, profit). Even though Willingness to Pay appeared to be more accurate metric related to the growth, the author presented clear positive relation between NPS index and the growth.

Knowing importance of NPS index, arise two questions: what drives positive NPS index and how to build customer loyalty and in a consequence receive positive NPS. Lotko (2012) showed that NPS index depends on various factors, e.g. type of offer or time for how long a customer has been with a company, and companies can undertake numerous of activities to improve customers loyalty measured by NPS index. Research on NPS index drivers conducted also Jeske, Callanan and Li Guo (2011). They didn't provide the answer regarding drivers, but their paper demonstrates how statistical classification model can be used to identify key drivers of NPS. Chang and Fan (2013) examined NPS index in online environment to present what aspects of e-stores are the most influential on this index. The need to conduct quantitative analysis based on consumer survey presented Owen and Brooks (2008). They connected this analysis with a decision making process. The quantitative studies to identify roots of NPS index have not been performed to our knowledge and the question regarding roots of NPS index is still opened for a discussion.

Remarks on methodology

Studies conducted by Perry (2009) presented that there is a gap between company thinking and customers thinking. Therefore, to identify predicators of NPS index, it is required to examine real customer opinions and perception. The results obtained in this paper are based on customer surveys Computer-Assisted Web Interview (CAWI) conducted in June-July 2013 and June-July 2012. In order to make research valid for Polish population, 2568 responders took part in the survey. Each customer was asked a set of questions about 50 Polish retailers to evaluate its customer perception. At the very beginning of the survey responders were asked, whether they know, visited or bought from particular retailer within previous 3 months. It was asked to classify responders and analyze recommendations in response to those answers. Besides key NPS question: „How likely is it that you would recommend #retailer name# to a friend or a colleague?" in scale from 0 to 10. Subsequently, NPS index was calculated for each retailer as described in section 3.

Moreover in order to identify roots of NPS index, each retailer were examine in comprehensive set of criteria's. Responders were asked to rate each retailer on scale from 1 to 5 according to seven criteria as follows: low prices, value for money, quality of products, wide choice of products, products that are suited to me, service and the store look & feel. Subsequently, above criteria's retailer ratings was converted into a 0-100 index, as as shown in figure 3.
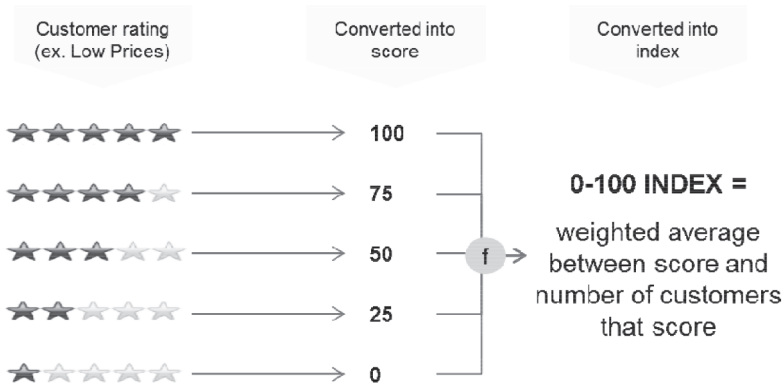

Figure 3. Criteria's 0-100 index calculation methodology description

Crieteria's index presents percentage view on how well a retailer is assessed according to particular criteria eg. Low Price, Trust, Value for Money. It is used to examine impact of particular criteria on NPS index.

The obtained results

The obtained probability distribution of recommendation ratings is shown in fig. 4. One can notice that there is high discrepancy between ratings above and below 4. The lower quartile, the median and the upper quartile of this distribution are 4.16; 6.07 and 7.81 respectively, whereas its average value is 6.25.

Therefore, it is worth to validate whether usage of different metrics based on recommendations vary between each other and leads to different conclusions in terms of loyalty roots identification. In table 1 we show the correlation matrix calculated from our data between three different loyalty metrics, i.e. NPS index, Top 2 boxes and Average. Based on results in this table, we can infer that different metrics introduced by different authors, are in this case highly correlated and in fact measure the same thing. Therefore, the analysis can be run in respect to one of them. Due to popularity of business usage of NPS index, in this paper NPS index is consider as the main metric.

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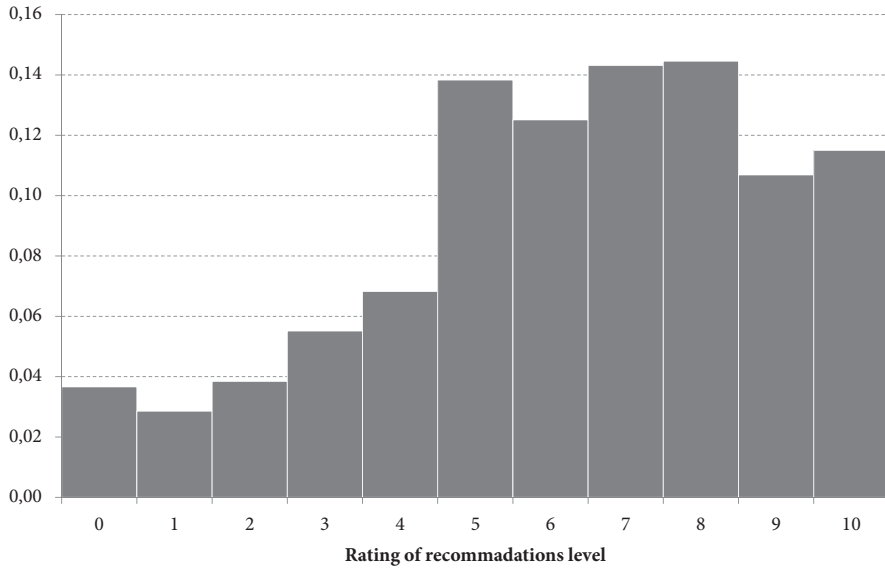

Figure 4. The probability distribution of recommendation rating

Source: own study based on survey conducted by OC&C Strategy Consultants (2013).

Table 1. Correlation matrix between different loyalty metrics based on recommendations of visitors and customers

	NPS	Top 2 boxes	Average
NPS	1,00		
Top 2 boxes	0,979	1,00	
Average	0,984	0,938	1,00

Source: own study based on survey conducted by OC&C Strategy Consultants (2013).

The probability distribution of NPS index obtained for different retailers is shown in fig. 5. All responders, who are aware, visited or bought from particular retailer were taken into account. NPS index is in range between -100 (when all responder rate below 7) and 100 (when all responders rate at least 9). The average among 50 retailers is amounted for -28,8, while Lower quartile equals -45,7, median -30,6, and

upper quartile -17,7. Moreover, standard deviation equals 23. Therefore, NPS index is highly diverse among retailers and most of retailers was rated negatively. Only 10% of retailers reached positive NPS index above 0, while 6% scored above 10. It clearly presents that some retailers managed to build positive loyalty index. However the most of retailers struggle to reach positive NPS index. Therefore, it sounds important for 90% of retailers to improve their customers loyalty and in a result NPS index.
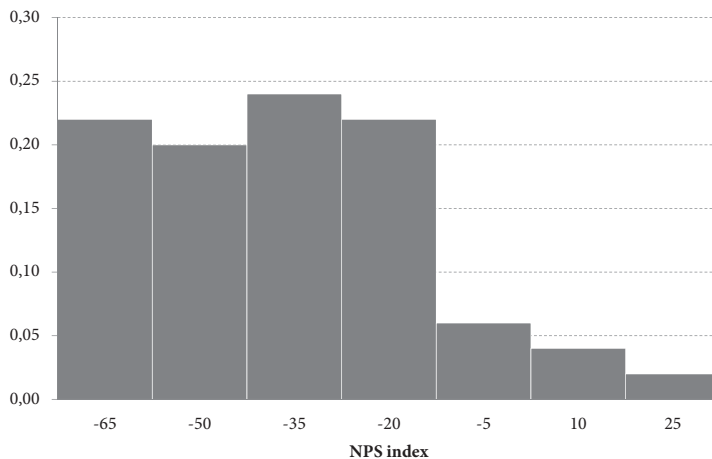

Figure 5. The probability distribution of NPS index obtained for different retailers
Source: own study based on survey conducted by OC&C Strategy Consultants (2013).

Key drivers of NPS index

In Polish retail market, there are highly important in store personal experiences. In fig. 6. we present the relation between NPS index of aware of retailer responders and NPS index of visitors or customers of retailer responders. One can notice the discrepancy between retailers ratings by responders who are only aware of retailer, but haven't been there, and responders, who were in store of particular retailer. We calculated NPS index differences between those two group. The standard deviation of those differences amounts for 21 points. Therefore retailers should focus on in stores activities. Moreover, based on it, we conclude that retailers can shape their NPS index – it is not constant. Positive NPS index is not beyond retailer reach.

The correlation coefficient between NPS index and different criteria is shown in fig. 7. It is visible that retailers should build trust. It is the most important factor in the creation of positive NPS index. It is crucial to investigate, what trust mean for customers and how can retailers build on it. There are several following hypothesis:
– keep their promises, e.g. when organize promotion, than products are available at discounted prices,
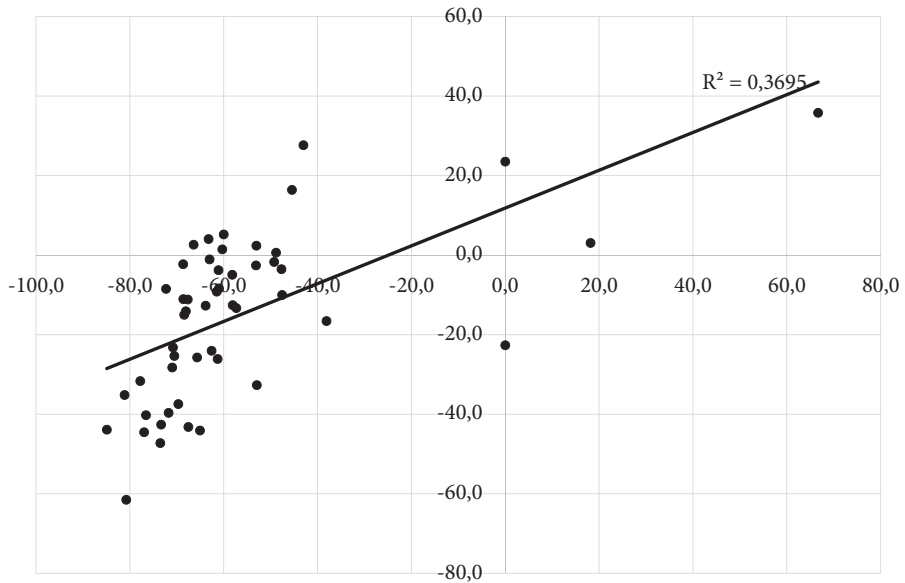– there are no obstacles to return products,

Figure 6. The dependence of NPS index of aware of retailer responders on NPS index of visitors or customers of retailer responders

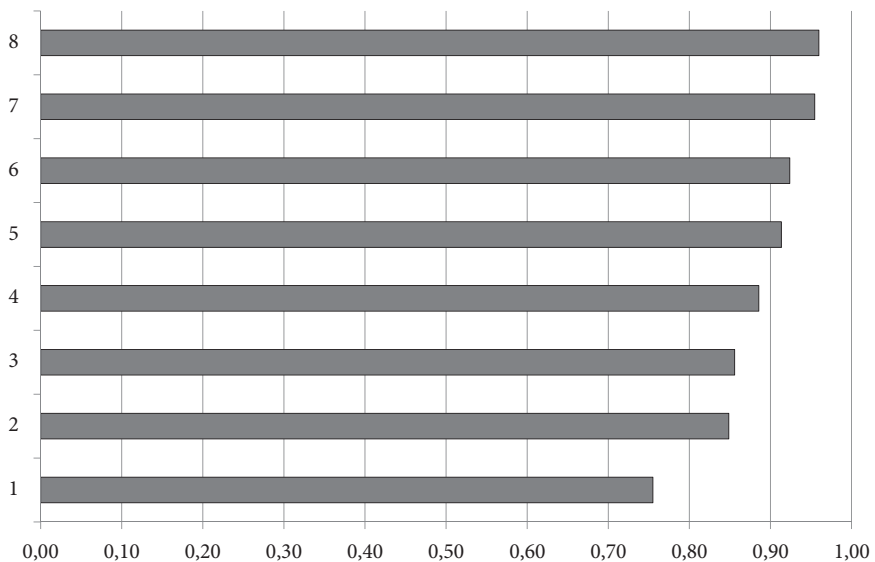Source: own study based on survey conducted by OC&C Strategy Consultants (2013).

Figure 7. The Correlation coefficient between NPS index and a set of criteria

Source: own study based on survey conducted by OC&C Strategy Consultants (2013).

– products are high quality and meet customer requirements, e.g. products are fresh, no overdue products in stores,
– retailer undertakes Corporate Social Responsibility activities, i.e. care about employees, environment and suppliers,
– retailer is present for a long time and customers know history of a retailer,
– pay fair taxes,
– retailers culture play a role i.e. how it is positioned, what retailers communicate, what are presented values of a retailer.

Above hypothesis present direction in which further research on trust should lead.

The other interesting finding is that, low price is the less important factor. Contrary, Value for Money factor is just behind trust. It means, that customers perceive value not through low prices, but they take into account other factors. Therefore, price wars may have interruptive influence on building loyalty and in a consequence companies growth in a long term. Companies should focus on building value for customers, and pay attention to other than price factors. Nevertheless, correlation coefficients between different criteria given in table 2 show that Low prices are the less correlated with other criteria. It means, that it is important independent factor, which should be taken into account.Correlation coefficients between set of criteria and NPS index.

Table 2. Correlation coefficients between set of criteria and NPS index

	NPS	Low Price	Quality of Products	Wide Choice of Products	Products Suited To Me	Service	Store Look & Feel	Value For Money	Trust
NPS	1,00								
Low Price	0,76	1,00							
Quality of Products	0,85	0,43	1,00						
Wide Choice of Products	0,91	0,64	0,86	1,00					
Products Suited To Me	0,92	0,75	0,85	0,96	1,00				
Service	0,89	0,51	0,93	0,83	0,85	1,00			
Store Look & Feel	0,86	0,41	0,95	0,86	0,83	0,95	1,00		
Value For Money	0,95	0,87	0,81	0,89	0,94	0,83	0,77	1,00	
Trust	0,96	0,71	0,92	0,91	0,94	0,94	0,91	0,95	1,00

Source: own study based on survey conducted by OC&C Strategy Consultants (2013).

Conclusions

Retailers in due course of their business development should focus on building relationship with customers. High share of customers, who are willing to recommend a company, is a good indicator of strong business performance and a predictor of business growth. In accordance to ongoing trends (technology development, social media, ease of communication), the influence of opinions and recommendation are expected to grow.

In order to measure customers attitude towards company, companies may use NPS index, which is considered as a very appropriate metric to measure loyalty. Based on the research, NPS index highly vary among companies. Moreover, only 10% of retailers score above 0, i.e. reached positive NPS index. It shows that there is still a lot of space for improvement in this area for most of retailers.

Customers create their opinions, and attitude towards retailers based on their experience. NPS index vary between customers. Responders, who are aware of a retailer, but haven't been there have different opinions than responders, who were in store. Therefore, it is crucial for retailers to effectively manage in-store execution, which should be aligned with corporate strategy.

NPS index is highly correlated with Trust. Therefore, retailers should pay attention to all marketing activities and store proposition in order to create high level of trust. The trust can be built on many different levers (products are not overdue, I will receive product, which I am looking for, company pay fair taxes, etc.). This paper presents only a direction in which activities and communication should go, based on roots of positive NPS index. Further research on trust is highly recommended, to indicate what cause positive trust perception and how companies can create it.

There is also high correlation between NPS and other criteria's: value for money, products that are suited to me or wide choice of products. Contrary, low prices are the less influential factor. Nevertheless, low prices are the less correlated with other criteria's. It means that, customers consider it as a completely separate factor.

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