

Impact of Improving Net Promoter® Scores on Average Order Value and overall sales



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Summary

CustomerGauge is a hosted software tool that allows organizations to automatically measure customer loyalty, understand customer sentiment and respond to customer feedback.

The system combines sales data and survey results that are compatible with the Net Promoter Score. Using these numbers it is possible to show Average Order Value for both Promoters and Detractors.

This short paper aims to show the impact of improving the Net Promoter Score on Average Order Values.

Introducing the Net Promoter Score

The Net Promoter® Score (NPS) was introduced in a 2003 article in the Harvard Business Review entitled "The One Number You Need To Grow" by loyalty business model expert Fred Reichheld of Bain & Company. It is designed to be simple metric of customer loyalty.

Companies obtain their Net Promoter Score by asking customers a single question (usually, "On a scale of 0 – 10, how likely is it that you would recommend us to a friend or colleague?"). Based on their responses, customers can be categorized into one of three groups: (9-10) Promoters, (7-8) Passives, and (0-6) Detractors.

Promoters are viewed as valuable assets that drive profitable growth because of their repeat/increased purchases, longevity and referrals, while Detractors are seen as liabilities that destroy profitable growth because of their complaints, reduced purchases/defection and negative word-of-mouth. The Net Promoter Score is calculated by subtracting the percentage of Promoters from the percentage of Detractors.

What is the value of adopting the Net Promoter Score model?

For many years, companies have been undertaking Customer Satisfaction surveys, without being able to link to growth, or provide a tangible Return on Investment (ROI).

However, using the Net Promoter Score provides a simple methodology companies to link customer loyalty to growth. Reasons for this include:

- Net Promoter is an open standard, and can be benchmarked with other companies and industries
- Net Promoter is simple to communicate to all levels in the organization, and promote a "customer focus" cultural change as a result
- Strong links to voice of customer: The NPS metric is used with customer feedback to give operational feedback to the organization
- Segmenting customers by NPS value allows the organization to focus on what changes will give best results

In this paper, we aim to show how improving an organizations' Net Promoter score can increase growth.

Net Promoter Score Case Study

We have based our case study on a real example – a direct-to-customer sales division of a large manufacturer, which sells via internet and call centre, with annual revenue of \$24m.

A survey was conducted of the organizations recent customers, and the result was a Net Promoter Score of 10.

The customer comments were distributed around the organization. A quality manager was designated to count the number of comments in the following categories:

- Ease of finding information
- Ease of placing order
- Delivery satisfaction
- Product satisfaction
- Post-purchase service and support

An improvement plan was undertaken by each department to satisfy customers based on prioritizing the comments by customer type and value. Some actions were simple (e.g. making support calls free, improving help pages), others were more complex (Saturday deliveries, faster processing of refunds).

Over a 6 month period, the organization was able to improve the score by around 1 NPS point per month.

Experience has shown that companies can increase the score by around 1 point per month, so a 10 point increase over a year is achievable.

The company found that the biggest impact of their improvement program was an increase in the Average Order Value. Over the year, the company improved from 10 to 20 NPS, an increase of 10 points. The revenue impact (when normalized for the same number of customers) was around 10% and totaled \$2.5m increase.

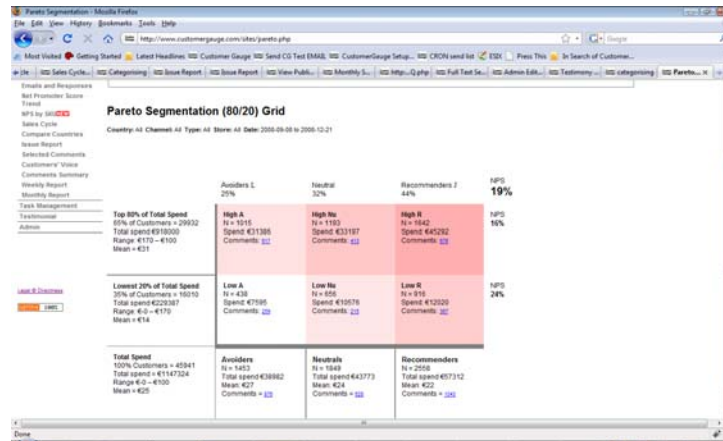
The cost of improvements was estimated at \$120,000, making a 20x Return on Investment.

What is the impact on revenue is when the score is increased by 5 and 10 points?

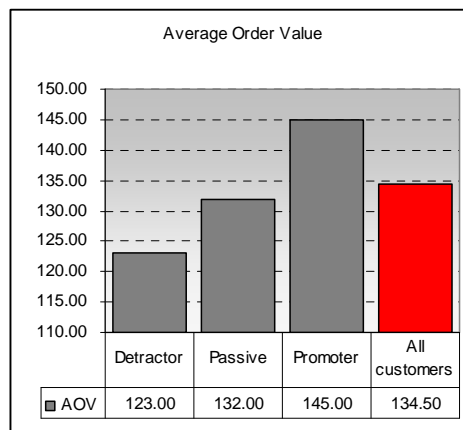
We have built a simple model based on the real example as a guideline to show what can happen when customer loyalty is increased, based on the Average Order Value method.

Net Promoter and the Average Order Value (AOV).

The first step is to work out the Average Order Value for Promoters, Detractors and Passive respondents. It's possible (but time consuming) to do this with spreadsheets - to save time, CustomerGauge shows AOV in real time by segments, countries and dates.



Typically the AOV of a promoter is higher than the passive (or average) customer, and the AOV of a detractor is below. This is usually driven by repeat purchases, multiple order items and lower price-sensitivity.



In our example, Promoters are worth about **8% more** than the “Average” customer. Detractors are worth about **9% less**.

	Detractor	Passive	Promoter	Unknown	Total
AOV	123.00	132.00	145.00	134.50	
Orders	15,000	15,000	20,000	130,000	180,000
	8.3%	8.3%	11.1%	72.2%	100.0%
NPS	30.0%		40.0%		10.0%

Scenario 2: 10-point increase in NPS: 10 to 20

In this case, we model a 11.1% shift in the number of Detractors to Promoters. This equates to around 19,980 total unhappy customers (from 180,000) that we need to delight – less than 2000 per month.

The result shows in the NPS increasing from 10 to 20 points. The change in ratio of Promoters to Detractors affects the overall Average Order Value, and that accounts for a positive revenue change of 12.5%. Revenue may increase from \$24.2m to \$27.2m, an increase of up to \$3.0m.

Model - Original	Detractor	Passive	Promoter	unknown	Total
AOV	123.00	132.00	145.00	134.50	
Orders	15,000	15,000	20,000	130,000	180,000
	8.3%	8.3%	11.1%	72.2%	100.0%
NPS	30.0%		40.0%		10.0%
Value	1,845,000	1,980,000	2,900,000	17,485,000	24,210,000

Model - NPS adjusted	Detractor	Passive	Promoter	unknown	Total
AOV	123.00	132.00	145.00		
Orders	12,500	15,000	22,500	130,000	180,000
	6.9%	8.3%	12.5%		100.0%
NPS	25.0%		45.0%		20.0%
Value	1,537,500	1,980,000	3,262,500		27,236,250
					10.0% NPS increase
			12.5% Revenue increase		REVENUE 27,236,250 3,026,250

Move from Detractor to Promoter	2500
Increase	11.1%
	19,980

Scenario 3: 10-point increase in NPS: 30 to 40

Some might say that increase of NPS is harder if a company already has a high score. It may prove to be more difficult to delight more customers if the bar is already high. However, the results are still impressive.

In this In this case, we model a 9.1% shift in the number of Detractors to Promoters. This equates to around 16,380 total unhappy customers (from 180,000) that we need to delight – around 1400 per month.

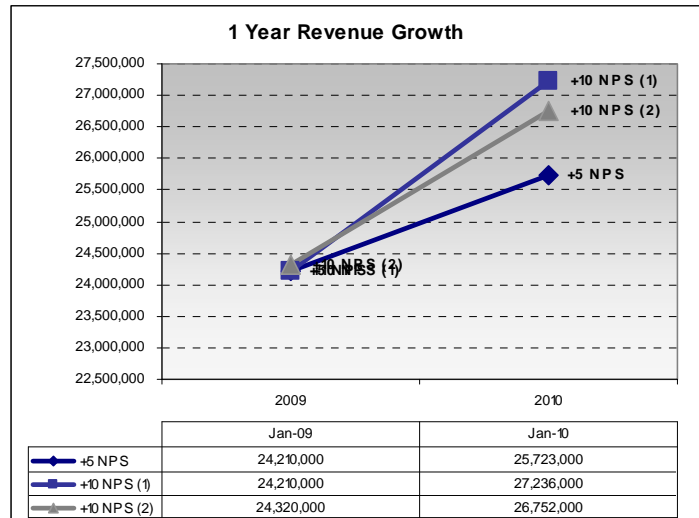
The result shows in the NPS increasing from 30 to 40 points. The change in ratio of Promoters to Detractors affects the overall Average Order Value, and that accounts for a positive revenue change of 10.0%. Revenue may increase from \$24.3m to \$26.7m, an increase of up to \$2.4m.

Model - Original	Detractor	Passive	Promoter	unknown	Total
AOV	123.00	132.00	145.00	134.50	
Orders	10,000	15,000	25,000	130,000	180,000
	5.6%	8.3%	13.9%	72.2%	100.0%
NPS	20.0%		50.0%		30.0%
Value	1,230,000	1,980,000	3,625,000	17,485,000	24,320,000

Model - NPS adjusted	Detractor	Passive	Promoter	unknown	Total
AOV	123.00	132.00	145.00		
Orders	7,500	15,000	27,500	130,000	180,000
	4.2%	8.3%	15.3%		100.0%
NPS	15.0%		55.0%		40.0%
Value	922,500	1,980,000	3,987,500		26,752,000
					10.0% NPS increase
			10.0% Revenue increase		REVENUE 26,752,000 2,432,000

Move from Detractor to Promoter	2500
Increase	9.1%
	16,380

Conclusion



The improvement as a result of the three scenarios is shown in graph above.

This model is designed to be a relatively simple model to help show increase of NPS on eventual revenue. Other factors may reduce or increase the impact (for example, we have not calculated the “referral” economics – the positive impact of loyal customers recommending to a friend).

As a rule of thumb, a 1% increase in NPS equates to a 1% increase in revenue. A 10% increase in Net Promoter Score should result in a very significant increase in total revenue.

Questions? info@customergauge.com

Acknowledgements

Net Promoter, NPS, and Net Promoter Score are trademarks of Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld.