

# White Paper

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## **Reichheld Under Attack!**

The debate over Net Promoter becomes  
a war between science and religion

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When Colloquy invited Customer Loyalty guru Fred Reichheld to speak at the 2006 COLLOQUY Loyalty Marketing Summit, we had no idea that he stood on the cusp of controversy. The crux of the debate: Reichheld's Net Promoter Score (NPS), the customer-satisfaction metric at the heart of his recent book *The Ultimate Question*, is based at best on flawed methodology and at worst on biased research.

For the uninitiated, the NPS metric is derived from survey responses to a simple question: "How likely are you to recommend us to a friend?" Respondents who provide a rating of 9–10 on a 10-point scale are classified as "promoters;" respondents who provide a rating of 6 or lower are classified as "detractors." You calculate NPS by subtracting the proportion of your detractors from the proportion of your promoters; if 50% of survey respondents answer 9–10 and 20% answer 6 or less, then your NPS is 30.

Reichheld, Bain & Company and research firm Satmetrix published their initial NPS research in a 2003 *Harvard Business Review* (HBR) article titled "The One Number You Need to Grow." The metric has since been championed by an impressive list of companies: American Express, General Electric, Intuit, Progressive Insurance and T-Mobile, to name a few. NPS has also become closely tied to the burgeoning word-of-mouth marketing industry, which has seized on it as a way to quantify positive customer buzz.

Reichheld may have set himself up for a backlash through the sheer grandiosity of his claims. NPS isn't just a useful customer satisfaction metric; it's "*the* best predictor of growth" (italics added). In a sense, Reichheld has repudiated much of his earlier work on customer loyalty as published in his landmark 1996 book *The Loyalty Effect*. "I am no longer the high priest of loyalty," Reichheld opined at a recent Net Promoter Score conference in London. "I am now the godfather of growth." Forget all of those complicated lift, retention and customer velocity metrics, Reichheld says – NPS will lead you to the Promised Land.

Such claims make one an inviting target for ankle-biters. First came a 2006 *Marketing Science* article that claimed to explode NPS, but which was quickly dismissed for relying on a flawed comparison. Then the market research community began grumbling about NPS's simplistic approach and lack of actionable results.

But an article published in the July 2007 issue of the *Journal of Marketing* (JoM) by three marketing professors and a senior vice president at Ipsos Loyalty is essentially a declaration of war. The article reports that the authors were unable to substantiate the claims made by Reichheld and Satmetrix that "net promoter scores are better indicators of revenue growth than other customer-satisfaction measures." Replicating a subset of the Reichheld's original research, the authors also found that, for two of the industries (airlines

and personal computers) cited in *The Ultimate Question*, the American Customer Satisfaction Index (ACSI) – which the HBR article specifically repudiates – actually outperformed NPS as an indicator of growth. Reichheld’s claim that NPS was the best growth indicator was demonstrably false – and in some cases, it was a worse metric.

The article’s most damning allegation, however, is that Reichheld and company are guilty of research bias. When the authors dived deep into the HBR results and the appendices at the back of *The Ultimate Question*, they concluded, “Reichheld specifically selected data sets to demonstrate the linkage between Net Promoter and growth.” To use a metaphor from politics, Reichheld and Satmetrix cherry-picked the intelligence.

“The most upsetting aspect of our research for me and my co-authors was the very strong evidence we uncovered of research bias in Reichheld’s reported research,” Tim Keiningham, one of the study’s authors, told COLLOQUY. “Given that Reichheld’s research was published in the *Harvard Business Review*, it is extremely troubling and totally unacceptable.”

As word of the *JoM* article hit the blogosphere, promoters and detractors of NPS lined up to defend or condemn Reichheld’s magic number. Detractors argue that marketing is a science, and if NPS is built on flawed research, then it’s useless as a marketing tool. But defenders of NPS merely shrug their shoulders at the accusations of bias; they argue that

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“For the research community [the NPS is] a brilliant thing because it’s enabled us to have real impact at top level,” says viral marketing researcher Paul Mardsen on his Viral Culture blog. “After having been emasculated for years as these people who speak in hieroglyphics and com-

mission studies that end up getting filed away, it’s increased our exposure to board-level business... What NPS does is it speaks their language... It’s the simplicity of the model that has been attractive, and has made research intelligible at board level.”

In other words, NPS is a concept so simple that even lunk-headed CEOs get it, and they’re finally paying attention to us – so why mess with it? For NPS promoters, faith trumps

science. Like proponents of Intelligent Design, they respond to facts with platitudes.

“Does this [controversy] matter? The answer is probably not,” says Ruth Mortimer, editor of the Brand Strategy Blog. “While Keiningham’s statistical analysis might be correct – it perhaps misses the point... if anything encourages [brands] to cut down on long, pointless customer surveys and look more closely at what people really want, surely that is a good thing?”

As for Reichheld, he’s opting to stay above the fray. Responding to a request to comment from *COLLOQUY*, the Godfather of Growth says, “Just about every one of the market research and satisfaction survey houses has written an article or white paper concluding that NPS is the devil’s spawn. I have decided not to invest time responding to their arguments. I believe that the merits of NPS will be decided not through academic debates but in the real world of customers and employees. That is where I am investing my time.”

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