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THE PROBLEM WITH NPS

AND WHAT YOU CAN DO ABOUT IT

WHITE PAPER

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01
What is NPS and Why is it so Important?

In an effort to grow share of wallet, most managers often focus on key performance indicators such as customer satisfaction (CSAT) and Net Promoter Score (NPS).[1]

The rationale is straightforward: there's a widespread belief that enhancing these metrics directly contributes to increased customer loyalty and spending.
This connection is a fundamental assumption of strategic marketers globally.

While these studies may offer insights into what to do to make customers happy, they do not tell you how to increase their share of business with you.
Why the disconnect between satisfaction and share of wallet? Because no matter how happy customers are, purchase decisions are made in a competitive context. Customers may be happy, but competitors can be just as good or better. If you don't know how you measure up to the competition, you don't know how to influence your customers to give you a larger share of their business.

Illuminas' solution to this problem is MaxShare™, an actionable, predictive measurement system that enables companies to achieve higher growth.
MaxShare™ applies a scientific concept called the "Wallet Allocation Rule®" to incorporate competitive context to create a highly predictive measure of intended share. The MaxShare™ score matters because it reflects long-term brand loyalty and market share, so a higher score translates into higher sales. **Improving the score translates directly into increased share.**

In the next few pages, we will dive into the shortcomings of NPS and describe why our solution, MaxShare™, provides clearer direction on how to influence share of wallet.

02
The Shortcomings of NPS

Brand measurement and customer experience tracking are foundational for understanding a brand's performance in the context of customer needs. The popularity of Net Promoter Score (NPS) has steered many brands towards simplifying their metrics, even to just a single score.

Illuminas has developed MaxShare™ as a measure of intended share, based on the award-winning science behind the Wallet Allocation Rule®.

$$\left(1 - \frac{\text{Rank}}{\text{Number of Brands} + 1}\right) \times \frac{2}{\text{Number of Brands}}$$

While numerous studies confirm a positive correlation between customer satisfaction and purchasing behavior, the strength of this relationship, especially concerning NPS, is disappointingly weak for strategic management purposes.
Despite its statistical significance, the correlation hardly influences the share of wallet in a meaningful way.

Research published by Illuminas strategic advisor, Dr. Tim Keiningham and his colleagues show satisfaction and NPS scores explain only about 1% of the variance in customers' spending across categories. [2] Multiple academic journals and business media have covered these independent studies. This leaves a vast 99% of spending behaviors unaccounted for by these metrics. Even more telling, the impact of changes in satisfaction or NPS on altering the share of wallet is negligible, sometimes accounting for just 0.4% of any change over time.[2]

This minimal correlation highlights a critical challenge: **relying on satisfaction and NPS improvements as predictors of financial performance or growth strategies is fundamentally flawed.**
Despite considerable investments to enhance customer perceptions, companies often see little to no significant impact on spending patterns.

This underscores the need for a more nuanced approach to understanding and influencing consumer behavior beyond what NPS can offer.

1%

NPS scores explain only **about 1%** of the variance in customers' spending across categories.

03
Finding a Better Way

The primary remit of most leadership teams is to grow the organization or to increase profitability. They commission brand trackers, CSAT and NPS studies to help them understand if what they are doing is working.

Questions they are looking to answer include:

- **Are the marketing initiatives successful** in driving new customers?
- **Are the client service representatives successful** in retaining existing customers and decreasing churn?
- **How do customer perceptions captured** by brand trackers and NPS studies correlate with actual purchasing behavior?
- **What specific aspects of our marketing initiatives are most effective** in attracting new customers, and how do these efforts influence our NPS and brand perception?
- **Can we identify any patterns or trends in customer feedback** that predict churn before it happens, and how can we proactively address these issues?

These questions reflect a strategic approach to leveraging customer feedback and loyalty metrics for informed decision-making, aiming to tie these metrics to financial outcomes and operational improvements directly. But all of these activities are in the service of one primary goal - revenue growth.

04
The Ultimate Measure of Loyalty

It is almost always easier and more cost-effective to improve current customers' share of spending with a brand (i.e., share of wallet) than it is to acquire new customers.
That is because in most categories today, consumers are not loyal to "a" company or "a" brand, but rather to "a set" of companies or brands.

This means that more customers alter their spending patterns instead of completely halting business with a company. Therefore, efforts designed to manage customers' spending patterns tend to represent far greater opportunities than simply trying to maximize customer retention rates.

While managers need to consider how different components of market share fit into their firms' overall growth strategies, share of wallet is the factor most directly affected by the customer experience.
After all, share of wallet is arguably the most important gauge of a customer's loyalty. In fact, in their seminal Harvard Business Review paper, business consultant Thomas Jones and esteemed Harvard professor W. Earl Sasser, Jr. asserted that share of wallet is "the ultimate measure of loyalty." [4]

05
The MaxShare™ Way

Given that the share of category spending (aka share of wallet) is the most important demonstration of customers' loyalty to a firm or brand, and that traditional metrics don't link well with share of wallet, there is an obvious problem with how we currently measure and manage customer loyalty. .

This reality forced us to do some serious soul-searching. We set our minds to determining the best approach to link customer metrics with share of wallet, and the best metric for managers to track.

Max | Share

Illuminas has developed MaxShare™ as a measure of intended share, based on a brand's relative performance against competitors.

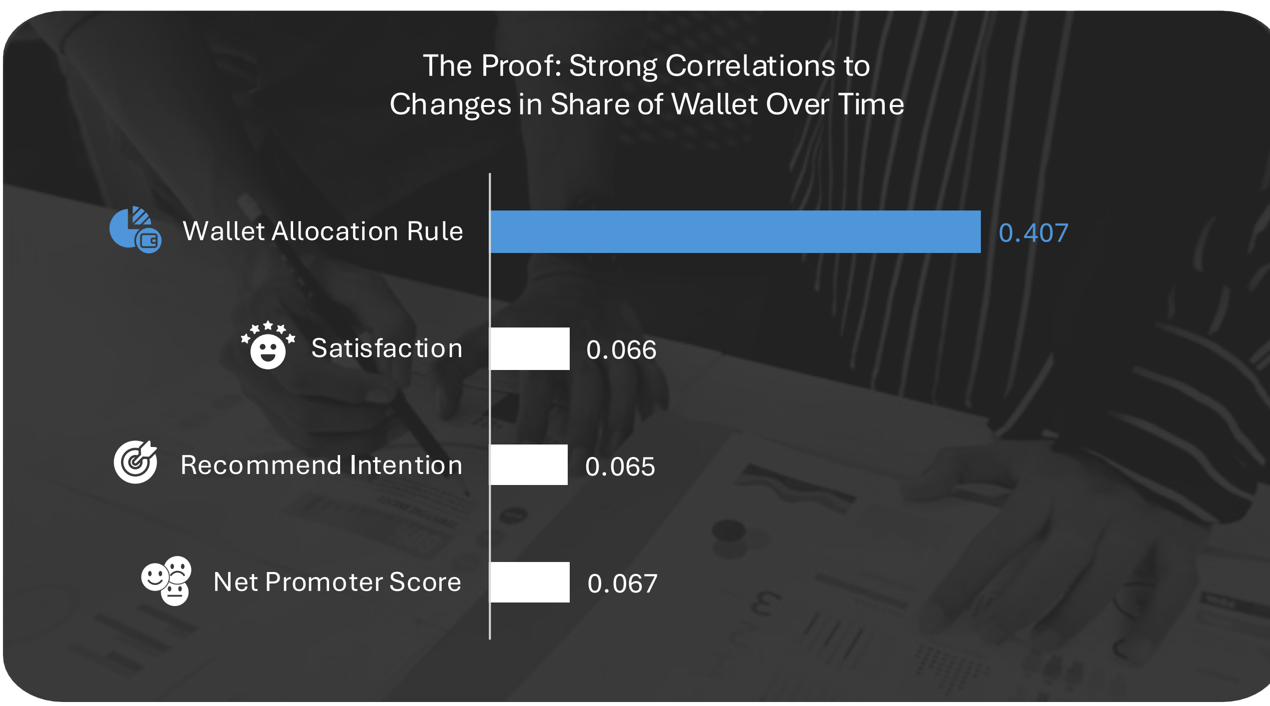
Leveraging the award-winning Wallet Allocation Rule®[5] this proven method is rooted in the fundamental tenet that company rank matters more than absolute performance. Unlike Net Promoter scores, MaxShare™ provides a true customer view of your brand vis à vis the competition, and has been proven to link directly to company share of wallet.[6]

$$\left(1-\frac{\text{Rank}}{\text{Number of Brands}+1}\right) \times \frac{2}{\text{Number of Brands}}$$

06
Correlation to Change in Share of Wallet

We used the Wallet Allocation Rule® along with measures of customer satisfaction and brand performance to calculate a MaxShare™ score (i.e., the customer's predicted share of wallet).

Extensive testing and research to vet this application of the Wallet Allocation Rule® was conducted and has confirmed that MaxShare™ provides unique, managerially relevant insights into what drives share of wallet. [7]



07
Why it Matters

This approach has serious implications for identifying where companies should focus their scarce resources to improve the customer experience. That's because it turns out that what drives share isn't what drives satisfaction or NPS.

One of the key takeaways of MaxShare™ is that if you want to improve your share, you need to improve your rank.
Improving rank, however, is not the same as improving your overall satisfaction or NPS level.

Satisfaction and NPS can be thought of as understanding what needs to be done to keep customers happy.
But the vast majority of customers are satisfied with the companies they use—otherwise, they wouldn't be customers. By contrast, improving your rank requires minimizing the reasons customers feel the need to use the competition.

There's no reason not to benefit from MaxShare™
If your current management is already invested in a KPI like Net Promoter Score, it is not a problem. Our approach keeps the existing metrics in place but adds competitive context to allow truly valid measures of your performance.

MaxShare™ also offers some pleasant surprises for respondents and research users.
Using a proprietary "best-scaling" approach, surveys can be freed of tedious lists of brand attribute ratings that plague conventional CSAT and brand studies. We also provide a suite of more user-friendly graphics that clearly convey a compelling story for management.

In short, MaxShare™ does what NPS doesn't:

- **Identifies** the factors that influence customers' behavior to shift more of their spending to you and away from the competition.
- **Quantifies** the share of wallet your business earns based on performance, how you earned it, and how you can capture more.

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Footnotes

1. Aksoy, Lerzan (2013), "How Do You Measure What You Can't Define? The Current State of Loyalty Measurement and Management," Journal of Service Management. 24 (4), 356-381.
2. Keiningham, Timothy L., Sunil Gupta, Lerzan Aksoy, and Alexander Buoye (2014), "The High Price of Customer Satisfaction," MIT Sloan Management Review. vol55, no. 3 (Spring), 37-46.
3. Keiningham, Timothy L., Bruce Cooil, Edward C. Malthouse, Alexander Buoye, Lerzan Aksoy, Arne De Keyser, and Bart Larivière (2014), "Perceptions Are Relative: An Examination of the Relationship
4. between Relative Satisfaction Metrics and Share of Wallet," Journal of Service Management. vol. 26, no. 1, 2-43.
5. Jones, Thomas O., and W. Earl Sasser, Jr. (1995), "Why Satisfied Customers Defect," Harvard Business Review. 73 (November-December), 88-99.
6. There is no statistically meaningful difference in the correlations of the three models investigated by Louwand Hofmeyr (2012). To quote Louwand Hofmeyr (p. 14), "The three wallet estimation procedures perform similarly." The maximum difference between correlations for any of the models investigated was .04, with the average difference across all industries examined being .02. Moreover, the improved performance of the Power of Mind measure investigated
7. rests on its using two questions to gauge rank, as opposed to using one for the other models investigated. Had the same questions been used to test all models, we are confident that these small differences between the Wallet Allocation Rule, Attitudinal Equity, and Power of the Mind models tested would have been virtually eliminated.
8. The Wallet Allocation Rule was developed by Dr. Tim Keiningham and his colleagues.
9. Aksoy, Lerzan, Timothy L. Keiningham, Alexander Buoye, and Joan Ball (2016), "Relative Value and Customer Choice in Loan Decisions: An Application of the Wallet Allocation Rule," Journal of Creating Value. vol. 2, no. 1, 92-108; Aksoy, Lerzan, Timothy L. Keiningham, Alexander Buoye, and Joan Ball (2016), "Linking Satisfaction to Credit Card Decisions: An Application of the Wallet Allocation Rule," International Journal of Bank Marketing. forthcoming.