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NPS CUSTOMER LOYALTY ANALYSIS AND PROPOSALS FOR ITS STRENGTHENING

NPS ANALÝZA LOAJALITY ZÁKAZNÍKŮ A NÁVRHY NA JEJÍ POSÍLENÍ

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In the Czech language:

NPS analýza loajality zákazníků a návrhy na její posílení

Instructions:

Introduction
Definition of Problem and Aims of Thesis
Theoretical Base of Thesis
Analysis of Problem and Current Situation
Proposed solution, Contribution of Proposed Solution
Conclusion
References
Appendices

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Annotation

This master thesis is focused on possibilities how to strengthen customer loyalty in the given entity. The theoretical part clarifies terms such as marketing research, questionnaire, customer or loyalty. On a later stage it explains the Net Promoter Score, a customer loyalty metric which is also used to conduct the analysis of current customer satisfaction and loyalty itself. Based on the analysis as well as observations from the company gives the author proposals that should result in more loyal customers.

Anotace

Tato diplomová práce je zaměřená na možnosti posílení loajality zákazníků dotčeného subjektu. Teoretická část objasňuje pojmy jako marketingový výzkum, dotazník, zákazník či loajalita. Závěr první části je věnován modelu Net Promoter Score, programu, který je také použit k vypracování samotné analýzy současné spokojenosti a loajality zákazníků. Výsledky z této analýzy spolu s pozorováním, které autor v podniku provedl, slouží v závěrečné části práce k návrhům, které by měly mít za následek zvýšení počtu loajálních zákazníků této společnosti.

Keywords

Customer, loyalty, satisfaction, marketing research, growth, questionnaire, Net Promoter Score

Klíčová slova

Zákazník, loajalita, spokojenost, marketingový výzkum, růst, dotazník, Net Promoter Score

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Declaration

I hereby declare that this master's thesis has been written by myself without any external unauthorised help, that it has been neither presented to any institution for evaluation nor previously published in its entirety or in parts. All used information sources are properly cited including complete reference to the original work.

Brno, August 30, 2010

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Signature

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1 INTRODUCTION AND AIMS OF THESIS

This thesis is focused on customer loyalty as a way for a company to achieve sustainable and profitable growth. Nowadays, smart companies measure regularly customer satisfaction/loyalty as it is clear that customers are those who keep them in the business and pay their paychecks. Just measuring would not be worth much if there is not a continuous effort for improvement. Unfortunately there are also businesses that do not really care much about customers but take advantage of being the only one or few on the market with a certain product or service and they still make huge profits. However, we can discuss whether this is a guarantee for sustainable growth. The question is how many of their customers will take the first opportunity to leave such companies as soon as a new one that treats its customers right appears on the market. Creating loyal customers is therefore a concept for companies that care and want to find a competitive advantage to profitably grow also in the future.

The master's thesis is divided into three main parts. The first part brings a common understanding of the theoretical base related to the main topic of this paper. The beginning is focused on marketing research and later on the focus is brought to questioning techniques and more specifically to a questionnaire as a tool for research which is also used to conduct the analysis in the practical part. The final chapter of the first section explains what it takes to create loyal customers as well as the concept of Net Promoter Score – a customer loyalty metric that has also been adopted by the given entity where the research was conducted.

The second part is firstly describing the given entity and is secondly oriented on the customer loyalty analysis itself. The company uses the NPS program to gauge the customer loyalty and the analysis is conducted from several perspectives. In the final chapter the author uses the findings from the analysis as well as from the observation he experienced within the company to give proposals that should result in more loyal customers at the end.

The overall aim of this thesis is to help the company strengthen the customer loyalty. The author's goal is to give proposals to the company on where to focus its effort based on what is most important for the customers in order to deserve their loyalty. The recommendations should also be aiming on possible improvements of the survey tool that the company uses for the NPS program itself. By following the proposals the company should be creating more loyal customers which after all will impact positively the financial indicators such as profit and growth. The author believes that if any company wants to succeed in the highly competitive environment we currently live in and wants to grow with a long term vision, it should care about its customers and make sure they are treated right.

2 THEORETICAL BASE OF THESIS

This chapter brings a theoretical background for a common understanding of the defined problem from general perspective. As this thesis deals with terms such as customer, satisfaction, loyalty or marketing research, this part focuses mainly on the above mentioned and the view of these terms by experts in each of the fields.

The second part of this chapter will introduce the NPS concept, or in other words the Net Promoter Score, as a tool to measure and increase customer loyalty. The author uses this concept for the main part of the analysis itself.

2.1 Marketing Research

In the beginning of the theoretical part it is necessary to define what the marketing research is as this thesis is focused on the customer loyalty/satisfaction measuring as one of the kinds of marketing research.

Marketing research can be defined as a complex of all activities which study phenomena and relations on the market and the effect of marketing tools on them. Mainly, it is about the research of market, products, distribution channels, prices, consumer behaviour and marketing communications. Vysekalova argues that the new-age marketing research is focused on understanding of customers' needs and behaviour on the marketplace (15).

The main reason for the importance of marketing research for the management of a firm is its ability to help predict customers' behaviour and need as well as to lower the business risk. The information gained from the research may help the marketing people to understand the market and the situation where the company makes the research. It is a collection of activities that examine all the parts of marketing practise (5).

Marketing research consists in specification, collection, analysis and interpretation of information that makes it possible to understand the market in which the company

operates or is planning to operate. It identifies the risks linked to that market and also the opportunities which are present or might open up in the future. In general it is a collection of activities that are executed in order to support the marketing decision. Depending on the kind of decision that needs to be taken, the extent of activities and specifications on particular information are determined (3).

Marketing plays several roles within the company and it seems that without this function the firm wouldn't be able to perform according to the market needs, especially in the rapidly changing environment that we live in now where the technology changes on a daily basis. Therefore companies need to invest in marketing research to be up to speed with others.

Marketing research is applied in several functional applications; the most used are the following (16, p. 7):

- market research which is focused on the range, location and market characteristics, market analysis and prediction of the future progress, more in details also on identifying the main competitors which helps to understand the position on the market,
- product research which is focused on the relation between the consumers and the current or new products, possibly also on the comparison of competitors' products
- advertising research which helps to understand which ad media suits the best for a particular situation and how effective it is.

The author believes that a customer satisfaction research should be one of the most used categories as the importance of this application is growing and only satisfied and loyal customers can bring sustainable and profitable growth on a long term basis and that wouldn't be possible without understanding their needs.

2.2 Types of Marketing Research

There are numerous ways how to segment the market research, depending on different criteria. The most important segmentation seems to be according to the aims of the research, to the base of materials and to the methods that are used for data collection and analysis.

The diversity of particular kinds of research is based on (3, p. 54):

- the pattern of asked questions,
- the length of monitoring of the objects (one-time or periodic),
- the horizon of the aim of research (operative or prognostic),
- the commodity (implicates the methodical appliance),
- the target group (i.e. B2B),
- the character of the examined problem (quantitative or qualitative analysis),
- the availability of base data.

In reality, the research kinds often combine and it is a task of the successful marketing approach to choose the appropriate combination.

2.2.1 Quantitative Research

Quantitative research is used with the aim to cover representative sample that is large enough. This kind of research works with the following kind of methods: questioning, observing and an experiment. The results of these methods serve the information in measurable units that are possible to link with mathematical outcomes, such as graphs and tables (5).

2.2.2 Qualitative Research

Qualitative research aims to find out the motivation of consumers' behaviour. This kind of research precedes the quantitative research thanks to the fact that it does not work with the information as a raw data but it seeks to understand the merit in deep.

Qualitative research uses methods such as: individual or group interviews and projective technique. These methods are suitable when entering a whole new problem or in situations where it is crucial to first find a direction. This research requires a use of severe psychological steps from both perspectives; the chosen method and work with the results (5).

The marketing research can be characterized further from other different aspects. The main significance has the split to primary and secondary research. The primary research implies the research of values of characteristics by the units themselves. In other words it is about information collection in the field whether it is done by the user itself or by an external party. On the contrary, the secondary research means the additional, further use of data that were already gathered and worked as a primary research even if with a different aim and for other users (16).

According to Bouckova the other important characteristic is whether the source of information is internal or external. The internal is gained directly from the data work within the company. This means from own analysis and statistics or from the customers and employees. These are mostly easy to get and therefore the costs are often limited to minimum. The external ones, on the other hand, are usually to obtain from the state statistics, catalogues or professional magazines. Mostly it is about information that has to do with the final consumers, distribution channels, competitors or the credit policy (3).

It is not possible to judge if one of the above mentioned methods of information collection is better than the other. It is necessary to always find the suitable method depending on the situation and the purpose of the research.

2.3 The Process of Marketing Research

Marketing research wouldn't be successful if not following the right process. The management of the company is mostly only interested in the results of the research but it is the job of the marketing department to make sure the process chosen is right. This chapter will define the right steps to be taken in order to do the research efficiently.

The marketing research as such contains a complex of all activities that explore all phenomena and relations on the market and its capability to be influenced by the marketing tools (10).

In each process of the marketing research it is very important to distinguish the phase of preparation and realization of the research. For each of the steps a plan for what needs to be done must be defined. Even though every company has some own specifications in the substance every marketing research is the same (3).

The process of marketing research is the following (16, p. 8):

1. definition of the problem that should be solved,
2. specification of the necessary information,
3. identification of the source of information,
4. determination of the data collection method,
5. design of the research project,
6. gathering of information,
7. treatment and analysis of the information,
8. interpretation and presentation of results.

The definition of the aim is in many cases the most important step of the whole marketing process. Once the first step is done, the goal of the research and what information it should bring is defined, then usually the research project is designed. The project states the aim, methods, techniques, sample size, kind of work with the information etc. (15, p. 71).

When the main task is done, the information required to solve the problem is defined and also its availability. That is a work with the primary and secondary source of information. Only after deep analysis of the information a certain hypothesis about researched phenomena can be set. Based on the provided goal, the appropriate methods and techniques to gain the information can be chosen. Depending on the problem characteristic and financial and time resources the type of survey is decided. The main types of surveys are qualitative and quantitative. After the data collection come the analysis and interpretation. The main task of data evaluation is to transform them in such a shape that is suitable for the decision making process (15).

The final part is the most interesting one for the management of the company that usually wants to know the findings and is not so interested in the other steps of the research. Therefore an appropriate and understandable way to present the results of research is crucial as that should serve to find new ways for improvement towards the market and the customers.

2.3.1 Sampling

The research project can be designed in the best way but will not be successful if the right respondents are not targeted. This is a fundamental for every marketing research because based on the sample of population the market tries to define the common characteristic. The information character of representative segment of population is defined by selective collection. To obtain the accurate information is the substance for key decisions of the marketer. This information brings expected opinions and behaviour of the population and therefore the most representative sample is needed (1).

When the correct research process is followed and the right sample targeted the marketing department can analyze the results and prepare new strategy the company should direct itself in order to reach the goals it has i.e. launch new product, enter new market or provide different services etc.

2.4 Research Methods

There are several techniques that the company can choose to conduct the research. The main types are introduced in this chapter. As the analytical part itself uses questioning as the main research method this is described more in details on the following pages with all advantages and disadvantages each questioning technique has.

To solve the current problems the marketing research uses several survey methods and techniques from different disciplines which often adjust to the problems' needs. The basic methods for primary data collection are observation, questioning and the experiment. A combination of the above mentioned methods is used in many cases (5, p. 41).

2.4.1 Observation

This method is conducted by experienced researchers and based on the rule that the observer is independent and does not interfere in any way with the observed situation. It is about observation of an object in given situation. This method does not require any preparations of the respondents and mostly not even a direct contact with them. By observation it is possible to gain the kind of information that the customer normally would not like to share. On the other hand just this method itself is usually not sufficient enough and therefore mostly combined with other (5).

2.4.2 Experiment

Experiment is a special method based on a creation of situation with a certain set of measurable parameters which are important for the research project (15).

This method serves for analysis of subsequently caused relations. The subject of the experiment is the causation of marketing variables such as: price, packaging, advertisement etc. and their influence on behavioural change of objects of the experiment (3).

The main advantage of experiment is the fact that the research takes place in exactly stated conditions which enables precise preparation and check. The main defects, on the other hand, are the high requirements on preparations as well as the research itself. A struggle can also be found in bringing the results into practise. This method is also highly time and financial resources consuming (15, p.88).

On the other hand the experiment may use the results gained from observation and questioning (5).

2.4.3 Questioning

Questioning is one of the most used method of market research. The main characteristic of this method is asking questions to respondents in order to gain required data to be able to solve the analyzed problem. There are several techniques used for questioning and also the data is analyzed and worked with in different ways (5).

The different techniques of questioning are introduced in the following text also with advantages and disadvantages of each followed by the description of significance of questionnaire and methods of its creation.

2.5 Questioning Techniques

The choice of the appropriate techniques always depends on the kind of information the researcher needs to gain, on the characteristics of respondents and their time resources as well as on financial resources of the research plan and qualification of the people conducting the research.

2.5.1 Oral (Face to Face)

This kind requires the presence of the interviewer, or the whole net of them, who asks the questions and notes down the answers in the printed questionnaire, computer or in some cases on the audio recorder. It is a technique that is quite costly and a regular check of the interviewers is needed.

There is a clear personal contact between the respondent and the interviewer where the base is the interview. It is of a great advantage if the interviewer is capable of creating a good atmosphere and leading the conversation in a way that the respondent is motivated to answer (15).

Advantages

- high response rate,
- presentation of samples is possible,
- more difficult questions are possible due to the possibility to explain in person with additional instruments if needed (3).

Disadvantages

- requires the interviewer or the whole net of them,
- costly,
- the interviewer may have a certain influence on the replies of respondent,
- respondents are not anonymous and may not feel comfortable which might result in misrepresented information (3).

2.5.2 By Telephone

Questioning by phone is quite similar to the face to face technique thanks to the communication between the interviewer and the respondent. Very important is the right choice of the interviewers and their training (3).

As the availability of this technique is growing there are many software developments to allow faster and more effective use of gathered information. The frequently used software is so called CATI (Computer Assisted Telephone Interviewing) which is developed for the use in combination of PC and telephone and has the ability to faster work on gained data (18).

Advantages

- allows quick and easy contact to a wide range of respondents,

- ability to randomly pick the respondent and agree on the suitable time for the interview,
- easy control of the interviewers (5).

Disadvantages

- high initial costs,
- inability to show additional instruments,
- absence of direct personal contact (5).

2.5.3 On-line

This method uses the internet as a medium to conduct the research. Surveying over the internet has grown significantly over the past decade as more and more people have gained access to the internet and spend more time on-line.

Advantages

- quick,
- allows easy processing,
- cost friendly (5).

Disadvantages

- absence of direct contact,
- too many online surveys may be considered as spam,
- only for a specific segment (5).

When preparing an online survey it is crucial to have a good design of the questionnaire. As nowadays more and more people lack enough time the questionnaire has to be well structured, easy to understand and quick to fill out. This method might be also suitable for internal surveys within companies that might even use some of the available free software online¹.

¹ The author refers to software available on the internet, i.e. www.surveymonkey.com which allows conducting survey, is easy to control and even provides quick analysis with graphs.

2.6 Questionnaire

The techniques described in the previous chapter wouldn't be much effective if the survey tool was not set right. It is a questionnaire as a tool that is used in the analysis itself hence more on the creation and structure of a questionnaire in the following text.

The questionnaire is a tool with a certain structure used to gather information and data from the respondents. Thanks to their practicality the questionnaires are the most used tool for research. The use of questionnaire allows the research workers to find out what else needs to be figured out in the already running research (5).

The questionnaire is based on the method of questioning and its positive feature is definitely the quick way to gain a large amount of information about the customers' opinions and reactions. The questionnaires are often used on the internet where the speed to gain, not only the replies but also the structured results are easily available (15).

The questionnaire contains a set of questions with the aim to gain the opinions and information from the respondents. The main disadvantage of the questionnaire is the possibility of wrong formulation of questions and proposed answers which necessarily may not give a space for the right replies. The scope and content itself can already discourage the respondent to fill out the questionnaire (5).

Advantages

- one of the less resource demanding research methods,
- easy to process and evaluate,
- one of the most convenient ways of research with regard to the respondent as they might fill it out whenever and wherever they like,
- easy to understand (if designed well).

Disadvantages

- easy to fill out irrelevant information,

- may be difficult to get the respondents,
- the questionnaire is not capable to capture non-verbal communication (16).

2.6.1 Creation of Questionnaire

When designing a questionnaire it is crucial to know who will be surveyed, what will be asked to the respondent and which style is suitable to use (1).

One of the main principles when creating a questionnaire is the clarity of the questions and their clear and unambiguous phrasing. If possible, a unified method to enter the answers is required. The scale for quantitative or qualitative expression of the respondent might be word, numeric or combined (5).

2.6.2 Structure of Questionnaire

Setting a good structure of the questionnaire is one of the pre-requisites for success of a research and therefore the questions should create a logical unit and be ordered in a certain sequence (16, p.35):

1. **Opening questions** – easy and interesting questions that aim to get a good contact with the respondent, get the interest, trust and cooperation.
2. **Filtration questions** – aim to find out if the respondent is the correct type to provide required information.
3. **Warm-up questions** – general questions focused on respondent's memory
4. **Specific questions** – the main aim is to find out information necessary to understand the surveyed problem.
5. **Identification questions** – focused on characteristic of the respondent.

2.6.3 Types of Questions

There are different types of questions that can be used for the questionnaire. The most used type is based on the answer type which can be open or closed (5).

Open – kind of questions that note down everything that the respondent says no matter how long the reply is. There are no choices, the answers are free and the respondent replies based on his thoughts. The biggest advantage is that the respondent can express his opinion freely as there are no predefined choices. The main problem with this kind is the heftiness for processing consuming lot of time and financial resources.

Closed – this type gives the respondent a possibility to choose from predefined answers. The preparation phase of these questions is more difficult as they should cover all the possible answers.

Closed questions can be distinguished as (5,15):

- dichotomic – possible to choose only one of the offered answers, usually questions easy to reply to,
- trichotomic – questions that offer the respondent more options of replies, i.e. “don’t know” etc. in case the respondent doesn’t know the exact answer out of the offered alternatives,
- polytomic – with more offered answers, depending on the requirements of the respondent he might choose one or more answers,
- with open end – with several options to choose from and in addition with a text box for other possibilities which the respondent wants to share,
- with a scale – the possible answer is graded on a scale, the values may differ. The scale can be with numbers (1-5; 0-10), with words (“yes”, “no”, “don’t know”) or a combination of both (0 – means “not at all satisfied” and 10 – means “very satisfied”).

The questionnaire is one of the most used survey methods thanks to its clear advantages such as the low resources requirements and the relative simplicity of processing. Even though it seems like an easy method the author believes it wouldn’t be a successful one if not following the steps described above. The questionnaire needs to be well structured and the right types of questions chosen in order to offer the company workable results.

2.7 Customer Satisfaction/Loyalty Analysis

According to Kotler the current smart companies don't aim only to sell a product but to create more and more profitable customers. The companies would like to "own" the customer the entire life-time. On the contrary the typical customer prefers to keep his freedom for his decision and therefore the companies try to make the customer loyal. Some companies go even further and aim to increase the share of customer and be the seller of everything the customer buys. Banks for instance want to increase their share on the customer's wallet. The luxury car producer Ferrari - not only sells cars but also clothes, perfumes, travel accessories etc. It seems like the company would like to create its own specific life-style (8).

Customer satisfaction analysis brings an overview on how the customers are satisfied with the products and services in comparison with their original expectations. The analysis provides information about customer feelings and satisfaction which might be positive (satisfied customer) and negative (dissatisfied customer). Satisfaction is a subjective feeling about fulfilling the needs and wishes. The purpose of this analysis is not only to measure the level of satisfaction but also to find out a reason for the customer's dissatisfaction. Next to the level of satisfaction it is needed to discover how the company's offer differentiates:

- from the offer of competitors,
- from customer expectations,
- from customer idea about the "ideal" (1).

The main aim is the real comparison of level of offered services with the ones of competitors and with customer expectation. The result should be to find the insufficiency and its correction towards customer satisfaction. The companies should strive for a product or service that is "made-to-measure" for the customer which would bring an increase of loyalty (11).

Customer satisfaction analysis can help the company in the following (11):

- offer specific and luxury care for customers,
- gain new customers,
- strengthen the loyalty of existing customers,
- spread the “word-of-mouth” from more customers,
- increase the sales volume,
- differentiate the company from competitors.

2.7.1 Customer

As this thesis is focused on customer loyalty it is necessary to understand the customers first. Initially, define who customers are, how they can be categorized, what they expect or what their reactions might be. These questions are answered in the following text.

The customer is everyone who uses a service or a product of a given company. The customer is the final consumer or the employee of a client. The personal experience shapes the customer practise and that is where the companies should be focused. The customers are willing to pay if they get what they expected and therefore the companies should follow what the customers wish and need. These approaches are the fundamental of all marketing researches (11).

In order to serve the customers right the company needs to learn as much as possible about them and about their expectations. In the following text it is described how to get to know the customers and what the main areas of their expectations are.

The six main areas to get to know the customers (5):

1. social–geography characteristics – gender, age, level of education.
2. living conditions – level of living based on the income, belongings or household facilities.
3. style of living – culture, education, sport.
4. value orientation – what the customer believe in, his opinions and attitude.

5. behaviour and decision-making – behaviour in different situations especially when shopping and deciding on what to buy or not.
6. communication – following the media (TV, radio, newspapers, internet) and the impact of marketing communication.

The customer expectations and their demandingness grow proportionally according to the economic growth and the market environment. A demanding customer expects human approach and professionalism.

According to Foster there are 4 areas of customer expectations:

1. professionalism – reliability, quality and solicitous service in perfect performance,
2. flexibility – towards personal requirements and quick response in communication,
3. solving problems – immediate solutions of complaints and unexpected complications,
4. apology – acceptance of a mistake, sincere apology and appropriate compensation.

2.7.1.1 Customer Reaction

Customer expectations are crucial for the company. If the customer receives what he expected in a usual way he will most probably not spread negative nor positive comments. While if the customer receives an excellent treatment and even more than he expected the company can count on him to come back and buy more. The company can also expect that this customer will spread a positive word-of-mouth when talking to others and therefore bring even more enthusiastic customers (13).

The company has to count on the negative response of the customers as well. In this case the customer will not only not return but might also spread a negative word-of-mouth. This can have a huge negative impact for a company especially in these days when it is so easy to spread information over the internet (13).

On average, every tenth customer complains hence the need to take every complaint seriously and investigate it. In case that the fault is proven to be on the company's side it is proper to evaluate possible compensation. The company might even use this unfortunate situation and turn it into a benefit by exceeding customer's expectation by taking the right approach. Permanent customers are very sensitive to a quality change and perceive its downgrade very badly. Every sign of such a downgrade might be a good reason for the customer to look for the same product or service offered by competitors. To maintain the customers the company needs to keep the quality or if possible to increase it (6).

The customer reactions are not always predictable but the author believes that when the customer is treated right and he receives even more than he expected, for instance in an extraordinary service, it eliminates a possible negative reaction and harm for the company. Nowadays it is very easy for the customer to spread a negative comment, thanks to the social media for example. Therefore the customers should always be the top priority for the company.

2.7.1.2 Customer Orientation

The modern management considers a customer oriented structure as one of the fundamental pillars. Accepting the customer oriented concept means a certain step for the company that will influence the base principles and management style but also the behaviour of the employees (10):

- situational analysis of current relations with customers,
- identification of customer needs,
- company culture change in customer relation,
- change of management style,
- change of employees' behaviour.

2.7.1.3 Customer Segmentation

There are several different kinds of segmentations based on different groups, different viewpoints and criteria. The main four types of customers are (19):

1. Advertisement lover – knows that the advertisement makes people shop more and even for goods that are not needed at the moment but is influenced by it and seeks for fashion trends. Even though he shops spontaneously he can control his spending.
2. Rational housewife – tries to calculate the price and quality when choosing and buying the goods. Makes a decision prior to the shopping and prefers less frequent but larger buying, mostly in big stores.
3. Economical senior – not very demanding customer who prefers the price to quality and advertisement. Tries to save as much money as possible and therefore only seeks for good price deals. This segment is mostly represented by retired people.
4. Solvent aristocrat – not very price sensitive. This customer doesn't look at how much he spends but more at the quality and luxury brands. He follows the fashion trends and buys spontaneously. Mostly business people with high income.

According to Leo Burnet the customers can be sorted in several groups based on their shopping behaviour (19):

- loyal – customers who like to shop by a certain brand and are satisfied with its quality,
- rotating – customers who don't like a stereotype and feel the need to change products and services once in a while,
- sensitive to good deal – the shopping decision is based on the use value and benefit of the product or service,
- sensitive to price – customers limited by the budget allowance which decides what they can buy and for how much.

Customer segmentation is very important to the company in order to understand its customers better and to be able to know how to deal with each one of them. The overall aim for the firm should be to create loyal customers who stay with the one brand, are less price-sensitive and give positive referrals to others.

2.7.2 Satisfying Customers

Satisfaction can be defined as a subjective feeling of the person about fulfilling his needs and wishes. Those are shaped by experience and expectations but also by personality and environment (2).

As the competition on the market is getting tougher the companies should focus on how to be better than others and how to deliver superior service or products for their customers. To be able to win amongst the competition the companies must be customer centric and offer more than others (9).

Due to the fact that the opinions and style of people are constantly developing, the companies need to really endeavour to captivate the customers. The same is valid when trying to satisfy the needs of customers as those are also changing all the time. Therefore if the company wants to be successful it also needs to be customer oriented, which means to provide solutions made-to-measure. The customers don't expect the services and products in a standard quality but require more also on the side of customer care. The company needs to focus more not only on the product range but also on the customer relationship management (6).

2.7.2.1 Importance of Satisfied/Loyal Customers

Many companies methodically measure the customer satisfaction and particular factors by what it is created. A smart company conducts the measurement regularly as the satisfaction is one of the keys how to retain the customers. A very satisfied customer is loyal, buys more and new innovative products from the same company and talks about it with others in a positive way. Such a customer doesn't pay too much attention to the offers of competitors and is less price-sensitive. On top of that such customer costs the company less as it doesn't need to spend resources on solving his complaints (10).

The relation between satisfaction and loyalty is not directly proportional. When the customer buys for the first time, no matter what product or service, he brings from the purchase a certain experience. Prior to the purchase he has some expectations based on

the promise from the company or from what he heard from others. When the purchase is done the customer experiences one of the following levels of satisfaction:

1. very satisfied,
2. satisfied,
3. neutral,
4. dissatisfied,
5. highly dissatisfied.

The probability that the customer comes back in the future strongly depends on the level of satisfaction with the first purchase. If he falls within one of the last three levels the company shouldn't count on him to come back. If he is satisfied it is likely that he repeats the business with the company and when he is very satisfied it is very likely to see the customer coming back and buying more. In many cases, the companies don't distinguish between satisfied and very satisfied customers but in fact if the customer is "only" satisfied he is vulnerable to a better offer from a competitor. What should be the aim of each company is to create the very satisfied customers who mostly turn into loyal advocates that do the most business with the company and bring the real profitable growth (6, 13).

Unfortunately most of the companies pay more attention to the market share than to customer satisfaction. That is a mistake. The market share is the indicator of past results while the customer satisfaction is the indicator of future results. The companies should watch for the customer satisfaction and constantly try to increase it. The more the customers are happy, the more of them will remain loyal to one company. According to Kotler:

- the costs to gain new customer is 5 to 10 times higher than costs spent on care on for current customers and their retention,
- an average company has a customer churn on a level of 10 to 20%,
- depending on the business field 5% decrease of customer churn might lead to the increase of profit by 25 to 85%,

- the profitability of a loyal customer increases with time.

Customer satisfaction is an inevitable aim but not sufficient enough. The companies lose satisfied customers as well and need to focus on their retention. The company needs to strive to create as many loyal customers as possible. The other part of the equation is those who get into contact with the customer the most – the employees. If the company does not have loyal employees it is almost impossible to expect to have loyal customers (9, 13).

Few steps to create loyal customers who trust the company (7):

- the commitment is fulfilled as soon as possible and at the highest quality level,
- customer concerns are solved as quickly as possible,
- contact the customer if promised so,
- sincerity towards the customers and proactive communication,
- understand customer requirements,
- give the customer freedom to make a decision.

The following chapter will bring more on customer loyalty when introducing the concept used for the analysis in this thesis itself, the Net Promoter Score.

2.8 Net Promoter Score

“Net Promoter is both a loyalty metric and a discipline for using customer feedback to fuel profitable growth in your business¹.” The program was developed in the USA by the loyalty expert Fred Reichheld in cooperation with Satmetrix and Bain. They based this concept on several studies from different industries and popularized it through Reichheld’s book *The Ultimate Question*.

Since the introduction of the NPS², the concept has been embraced by leading companies worldwide. Companies like Dell, Apple, Harley-Davidson, eBay, Nokia, FedEx, Four Seasons and many more all use this metric to measure and improve customer loyalty. The advantage of this concept is its simplicity and ability to hold companies and employees accountable for how they treat their customers. The NPS is easy to understand at all levels of the company and therefore can serve quickly to a customer-centric change in the organization. As it is with most disciplines also with the Net Promoter it is not possible to only measure the loyalty and expect success. The company needs to follow a whole process of associated disciplines to drive the improvements and profitable growth (17).

Reichheld argues that “CEOs regularly announce ambitious growth targets and then fail to achieve them. The reason? Too many companies are addicted to bad profits. These corporate steroids boost short-term earnings but burn out employees and alienate customers. They undermine growth by creating legions of detractors-customers who sully the firm’s reputation and switch to competitors at the earliest opportunity.” (13, p. 9)

The NPS is a very simple metric and is based on a single question (the Ultimate question) *How likely are you to recommend us to a friend or colleague?* Based on this one question the company can categorize its customers into three categories: Promoters, Neutrals and Detractors who score their answers on a scale from 0 to 10. How to

¹ Net Promoter. [online]. 2010. Available from www: <http://www.netpromoter.com/np/index.jsp>

² NPS stands for the Net Promoter Score and the author uses both terms interchangeably

calculate the NPS will be explained in the following chapter. The studies have proven that by increasing the NPS by a dozen points when compared to competitors, the company can double the growth rate (13).

2.8.1 Bad and Good Profit

In the previous text the author mentions the term bad profit. One might wonder what bad profit is – “profit is always good so how can it be bad”?

Reichheld argues that bad profit is any profit made out of a detractor. Bad profits are those that alienate customers and demotivate employees. Some examples (20):

- hotel: phone bill bigger than room bill,
- cellular phones: best prices for new customers,
- airlines: \$100 change fee,
- rental car: gas at 3 times market price.

Some more examples of bad profits in B2B:

- 90-day payables for all small vendors,
- predatory pricing on service contracts,
- unnecessary software upgrades,
- evergreen lease payments.

On the other hand the good profit is totally different. The company makes a good profit when it serves its customers in such a way that they are so pleased to come back and also tell their friends and colleagues about the good experience they had and hence bring more business. Satisfied customers become a part of the marketing department for the company at no additional costs. A great example of how an American carrier makes the good profits brings Reichheld in his book *The Ultimate Question*:

“Southwest Airlines doesn’t charge for flight changes, instead offering passengers a credit that can be used anytime over the next twelve months; the carrier has also replaces the industry’s elaborate segmented pricing structure with a transparent two-tier pricing policy. Southwest now flies more domestic passengers than any other U.S. airline and boasts a market capitalization greater than the rest of the industry combined” (13, p.11)

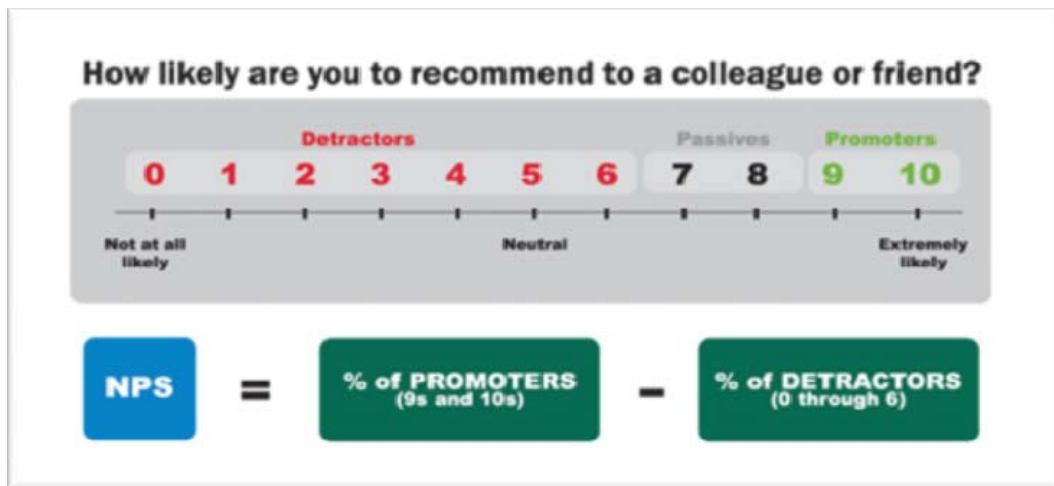
According to the loyalty experts the only way for sustainable growth is to follow the path of good profits and create loyal customers. Unfortunately there are companies, mostly the monopoly, who make the bad profits and grow anyway. Such a company seems to be the European low-cost carrier Ryanair who makes dozens of bad profits and openly doesn’t care about its customers. As it seems, once the company will stop to make any kind of profit it might just stop the business as it would fulfill what the company wanted (was created for). This might be frustrating but those who care about their customers and want to stay in the business should definitely follow the path of good profits and creating promoters.

2.8.2 Calculation of the Net Promoter Score

The way the Net Promoter Score is calculated is shown in picture 1 below. The customers are asked one single question which is: *How likely are you to recommend us to a friend or colleague?* The study that Reichheld and his partners conducted proved that this one single question suits the best to most of the industries and is the best predictable way for company’s profitable growth¹. The customers get to score the answer on a scale from 0 to 10 where 0 means “not at all likely” and 10 stands for “extremely likely”. Based on the score the customers give, they are classified in one of the three categories: Promoters, Passives or Detractors. The NPS score is then calculated by taking the percentage of Promoters and subtracting it by the percentage of Detractors.

¹ Reichheld doesn’t argue that this particular question is the best for every industry but his studies have shown this direction. The study was based on which survey questions will show the strongest statistical correlation with repeat purchase or referral.

Figure 1: How to Calculate the Net Promoter Score



Source: Net Promoter. 2010. Available from www: <http://www.netpromoter.com/np/index.jsp>

Now who are these three groups and why such a classification:

- **Promoters (9, 10)** – these customers are the real loyal enthusiasts who keep buying from the company and give referrals to their friends and colleagues. These are the ones that the companies should be creating as these will bring the sustainable growth.
- **Passives (7, 8)** – sometimes also called Neutrals. These customers are mostly satisfied but not enthusiastic and easily attracted by a better deal from competitors. They are neither likely nor unlikely to recommend and therefore not taken in the equation.
- **Detractors (0 – 6)** – are unhappy customers that were probably trapped in some kind of a deal. These customers can have a negative impact for the brand as they spread the negative word-of-mouth (13).

Some people argue that the groups are not fair as all the 0 to 6 scores are categorized as Detractors. There might be customers who score their answer as 6 but they are satisfied with the product or service. The reason for this categorization is that this metric is not trying to measure satisfaction but true loyalty and as it was already mentioned in the previous text satisfaction is different from loyalty. In fact, the study has shown that 80% of customers who defect were satisfied. So the NPS is the real predictor of future

growth. As in most of the cases measuring is never enough if no action is taken and therefore the companies using the Net Promoter need to be ready to take actions and act on the customers' feedback. This wouldn't be possible if there was not a buy-in throughout the whole organization that needs to be ready to be purely customer-centric.

2.8.3 Customer Loyalty and NPS

As Reichheld argues the ultimate question *how likely is it that you would recommend us...* probes both dimensions of loyalty:

Head	Heart
<ul style="list-style-type: none"> • Best features • Best services • Best price 	<ul style="list-style-type: none"> • They know me • They value me • They listen to me • They share my values

The whole idea behind the Net Promoter concept is to help the companies create more loyal enthusiasts and turn the Detractors into Promoters. The companies should realize that only by following this idea they can be successful and gain the sustainable growth. There are four loyalty behaviours of the customers that drive this growth (20):

1. repurchase,
2. buy additional lines,
3. referrals,
4. constructive feedback.

“The only way to grow is to treat customers so well they come back for more, and tell their friends about us. That’s how we’d all like to be treated as customers. Golden Rule¹ behaviour is the basis for loyalty. And loyalty is the key to profitable growth.”

Andy Taylor, CEO of Enterprise Rent-A-Car

¹ The Golden Rule: Treat others the way you would like to be treated.

2.8.4 The Operating Model

To maximize the success of using this concept the company should adapt the whole operating model and implement it in its culture. The model was introduced by Brooks and Owen as an addition to Reichheld's book in order to help companies optimize the financial benefits of the whole concept. The particular parts of the model are as follows (12):

Figure 2: Net Promoter Operating Model



Source: Net Promoter. 2010. Available from [www: http://www.netpromoter.com/np/index.jsp](http://www.netpromoter.com/np/index.jsp)

Customer centric DNA – the program could not be successfully implemented in the company without the executive sponsorship. If there is not the buy-in on the top management level, the program might lack the financial and human resources and more importantly the company's focus on customers to drive the change.

Enterprise roadmap – to build a plan is a key to success. The best programs are based on the evolution of customer relationship. The company needs to identify the key touch-points that drive the customer's experience and impact the loyalty and should focus on them.

Trustworthy data – the data quality is a must in order for this program to work effectively. To make sure the company works with the trustworthy data it needs to measure the right customers who matters. Important is also to know when to ask the customer for the feedback.

Root cause analysis - once the company collects the trustworthy data it will identify the real loyalty drivers. Thanks to the analysis tool to identify the root causes the company to focus on where it is needed the most. Only with this approach the employees will know what to address to drive the customer loyalty.

Action and accountability – to have the good analysis in place and understandable data is one thing but without taking any action it would be of no use. Therefore the employees need to get the actionable information in order to drive improvements of customer experience.

Innovation and transformation – transformation within the corporate culture and in the market place is the goal of successful Net Promoter program. The other part is the ability to make the right strategic decisions and support innovations. The combination of these two will bring the company the aimed competitive advantage and better market position.

The theoretical base aimed to bring general understanding of used terms in this thesis. First was explained what marketing research is, what kinds and methods there are and in the later chapters more focus was brought on questioning techniques and particularly the questionnaire itself. How to create and structure a questionnaire in order to base a valid research on it was one of the parts that had to be explained before I moved to the topics related to the customer itself. That was an important step before moving to the issues directly linked to the name of my thesis and that is the customer loyalty. The final part of the theoretical part explains the concept of Net Promoter Score as a way how to measure and strengthen customer loyalty. The author believes that the Net Promoter concept can bring profitable growth for a company and uses this method for the

customer loyalty analysis in this thesis. The analysis and the results are to be found in the two following chapters.

3 ANALYSIS OF PROBLEM AND CURRENT SITUATION

In this chapter the author introduces the given entity in which was conducted the NPS customer loyalty analysis. The second part brings information about the research tool as well as the results that serve to propose next steps for the company to strengthen the customer loyalty.

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- [20] Satmetrix. Net Promoter Associate, Customer Loyalty Certification (course training material)

USED ABBREVIATIONS

ERP = Enterprise Resource Planning

CRM = Customer Relationship Management

NPS = Net Promoter Score

B2B = Business-to-business