

# Net Promoter® Economics: The Impact of Word of Mouth

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*Exploring the Relationship Between Net Promoter and  
Word of Mouth in the Computer Hardware Industry*

## Introduction

Business success is determined through an effective growth strategy that is executed and improved over time. While simply stated, sustainable growth can be difficult to achieve. Many factors impact performance, including external forces such as the state of the economy and competitive landscape, which are often unpredictable and nearly impossible to control. What businesses can control and manage are its internal strategies, such as the quality of its products/services, sales and marketing initiatives and customer service efforts that are designed to grow customer loyalty.

Many businesses embrace the concept of customer loyalty. However, most struggle to find an easy, understandable way to measure loyalty and link it to financial outcomes. The intuitive appeal of customer loyalty as a concept is undeniable—happy customers reward companies with their repeat business, which in turn fuels growth. While the link between loyalty and financial outcomes has been successfully established (e.g., Heskett, Sasser & Schlesinger, 1997; Ittner & Larcker, 1998; Marsden & Upton, 2005; Reichheld, 2001, 2003), to date there has been little investigation of how individual customer behaviours contribute to larger financial outcomes like profitability and growth.

In this paper, we will look at a specific industry segment—high technology, business-to-consumer computer manufacturers—in an effort to better understand the link between customer loyalty and customer behaviours which contribute to financial success. Specifically, we will examine customer word of mouth (WOM) behaviours—the naturally occurring tendency to share exceptionally positive (or negative) brand experiences with others—and quantify its place in the larger economic picture that links loyalty with growth.

## Measuring Customer Loyalty Using Net Promoter

Co-developed by Satmetrix and Fred Reichheld, Net Promoter® is a discipline that provides companies with a proven approach for measuring and improving customer loyalty. The Net Promoter score compares the number of “Promoters” (those who are highly likely to recommend a company and/or its products) to the number of “Detractors” (those who are unlikely to recommend a company and/or products) within an organisation’s customer universe, resulting in a single metric that serves as an accurate indicator of customer loyalty and long-term growth.<sup>1</sup>

With its elegant simplicity and its growing body of supporting research, Net Promoter is quickly gaining widespread industry adoption. Companies like Apple, General Electric, Charles Schwab, Intuit and other world-class firms are embracing the concept of Net Promoter and have successfully implemented Net Promoter programmes within their organisations. This swell of industry uptake is clearly articulated by Forrester Chairman and CEO, George F. Colony, who observes that “Net Promoter is becoming a driving force within organisations.” (Forrester Marketing Forum, 2007)

## The Economics of Net Promoter

Through ongoing research and application, the link between Net Promoter and financial success continues to garner acceptance and credibility. But acknowledging the link and explaining the link are two different matters. To better understand the relationship between Net Promoter and financial outcomes, Satmetrix has undertaken its own independent research examining the link between customer loyalty and specific customer behaviours. Through this research, we are able to gain a better understanding of just how Net Promoter functions as a predictor and driver of economic success.

The Net Promoter WOM Economic Framework presented in Figure 1 illustrates why Net Promoter has proven to be such a powerful indicator for companies. While it is based on a customer's stated likelihood to recommend a company to friends or colleagues, Net Promoter is not solely a measure of referral behaviour.

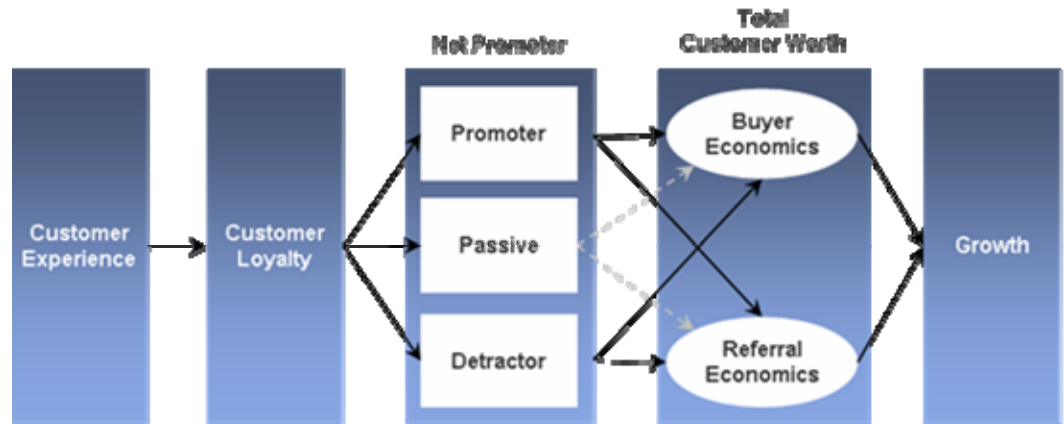


Figure 1. Net Promoter WOM Economic Framework

The foundation for the Net Promoter Score starts with the very first interaction a customer has with a particular company and builds with subsequent encounters. Collectively, these experiences shape the degree of loyalty a customer feels towards the company. If a customer enjoys highly positive experiences, he or she will feel more loyal—the most loyal customers are identified as Promoters, the least, Detractors, and those in between as Passives.

Customer loyalty can manifest itself in multiple ways. For the purpose of our research, we focused on two behaviours most commonly linked with profitability and growth: *buying* and *referral* behaviours. *Buyer economics* capture individual purchase behaviours – how much a customer spends with the company over a given period of time. *Referral economics* capture the amount of new business that is gained—or lost—as a function of the messages that individual customers share via word of mouth. When customer experiences are positive—and loyalty is high—we expect customers to spend more on average and to generate new business via positive word of mouth. Conversely, when customer experience is poor—and loyalty is low—we expect lower purchasing value (perhaps even defection), as well as the potential loss of new business through negative word of mouth.

The Net Promoter WOM Economic Framework helps to illustrate the utility of the Net Promoter Score as an indicator of customer behaviours which have a critical impact on a company's current and future business performance. While identifying Promoters and Detractors is useful in its own right, it is important to understand how these customers impact the bottom line through their buying and referral behaviours.

The remainder of this paper quantifies the relationship between Net Promoter and these customer behaviours. We applied the Net Promoter WOM Economic Framework to the business-to-consumer (B2C) computer hardware industry, linking Net Promoter to financial worth through the buying and referral economics of Promoters and Detractors. We will highlight a significant success story within the industry, as well as offer a detailed discussion of results and implications for real-life application.

# Methodology

## Data Collection

Data used for this study originated from the Satmetrix Net Promoter Benchmark Database – an ongoing, opt-in benchmarking effort that collects primarily U.S.-based data for 2 markets, 4 industries and 14 segments as shown in the list below:

- Markets
  - B2B
  - B2C
- Industries
  - Financial Services
  - High Technology
  - Internet
  - Telecommunications
- Segments
  - Financial Services – Banking, Brokerage/Equities, Credit Card
  - High Technology – Hardware, Software/ASP, Networking and Peripherals
  - Internet – Ecommerce, Web Information Services, ISP
  - Telecommunications – General, Cable, Cell Phone, Local/Long Distance Phone, Telecom Equipment Providers

Opt-in respondents self-select the industry and company they wish to rate using a 0-10 point scale. Key metrics include Net Promoter, other industry standard loyalty measures, self-reported spend and referral behaviours, as well as various company performance attributes, such as satisfaction with overall product, value, reputation, ease of doing business, etc. Consisting of almost 285,000 responses collected over a period of seven years, the Net Promoter Benchmark Database is a rich data source that provides industry reporting and analysis within a competitive context.

## Analysis

Using the Net Promoter methodology, we first identified and segmented respondents into Promoter and Detractor categories based on their likelihood to recommend. We then set out to quantify the worth of Promoters and Detractors alike by isolating the contribution of buyer and referral economics to total customer worth.

Using self-reported data, we calculated the *buyer economics* of Promoters and Detractors based on their average annual spend amounts. As shown in Figure 2-1, our first hypothesis is that Promoters will tend to spend more, whereas Detractors will tend to spend less relative to the average customer. While this may not be universally true—the nature of the business and pricing structure may constrain incremental purchasing differences in some businesses—we would expect a difference where customers are freer to express their loyalty with their wallet.

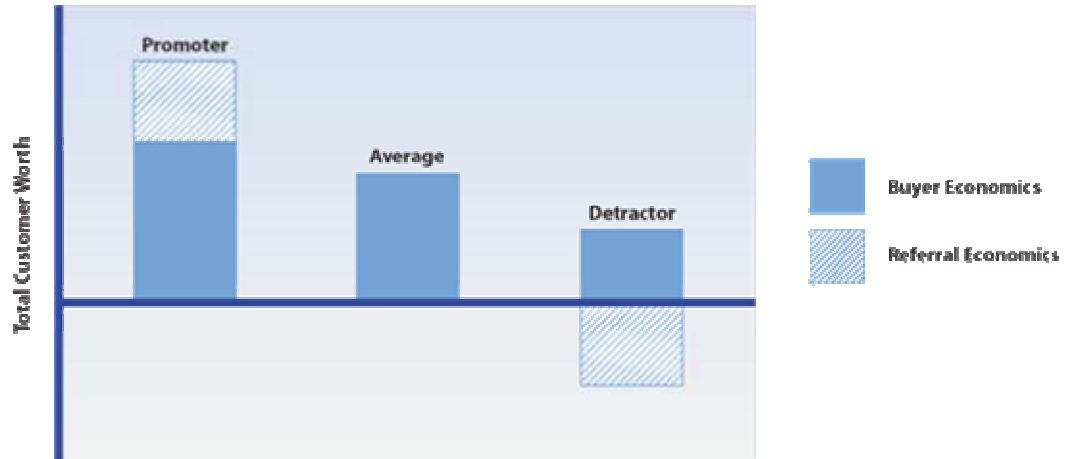


Figure 2-1. Calculating Total Customer Worth

We also hypothesise that the total customer worth of Promoters will be augmented by new business generated through their positive referral behaviours—an indirect, but nonetheless real impact of strong customer loyalty. Conversely, we expect that the total worth of Detractors will drop due to lost opportunity costs resulting from their negative referral behaviours.

To estimate the *referral economics* of Promoters, we first multiplied the percentage of Promoters who had made a positive referral in the past 12 months by the average number of positive referrals issued by Promoters. We then multiplied this product by an overall conversion rate to arrive at the number of customers generated per Promoter.<sup>2</sup> Once we calculated the number of customers acquired per Promoter, we multiplied this estimate by the average spend across all customers to arrive at the dollar impact of positive referrals.

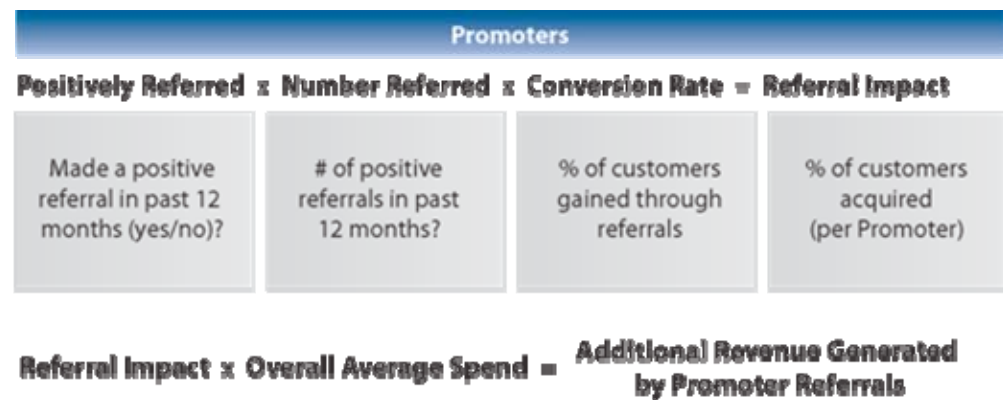


Figure 2-2. Calculating Referral Economics for Promoters

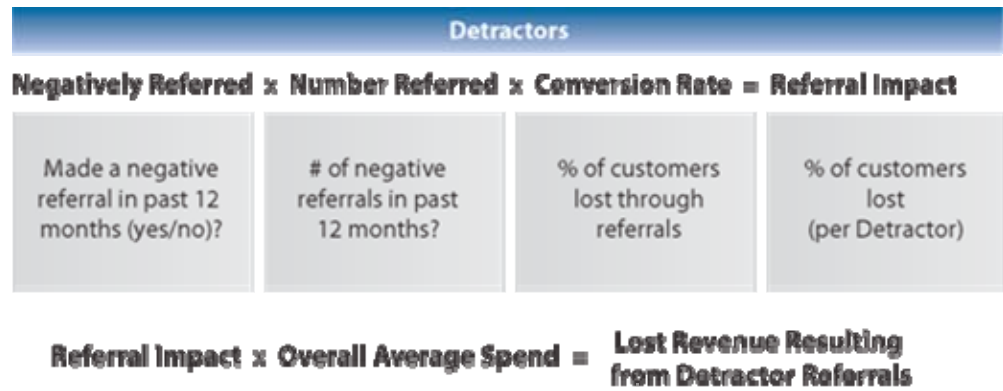


Figure 2-3. Calculating Referral Economics for Detractors

We used a similar approach for calculating the *referral economics* of Detractors. Obtaining the conversion rate for Detractors, however, required an additional inference, as it is not possible to determine the actual number of customers who *would* be current customers of a vendor save for the impact of negative word of mouth. To estimate that conversion rate, i.e., the number of potential customers exposed to negative word of mouth who seek other providers as a result, we reviewed the limited available literature regarding the impact of negative word of mouth. Based on this literature review and across several industry studies, we operationalised the negative conversion rate as 4-5 times that of our calculated positive conversion rate.<sup>3</sup>

## Results: Computer Hardware

### Net Promoter Performance

Of the industry segments examined in our larger study, the consumer Net Promoter score for computer hardware manufacturers was highest at 27%. Approximately half of the customers within this industry were Promoters, indicating a high likelihood to recommend the computer companies with which they had transacted in the previous year. A little less than one third were Passives, and roughly a fifth were Detractors. Relative to the high technology industry, which is comprised of computer hardware, computer software and networking peripherals, the computer hardware segment demonstrates higher Net Promoter scores while maintaining a similar trend to the overall industry over time.

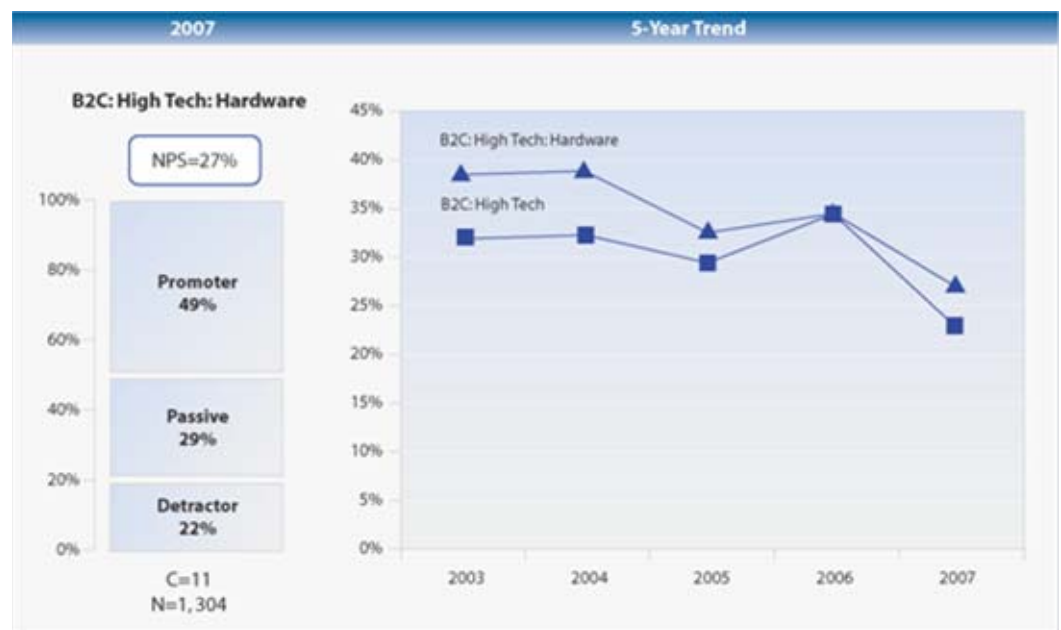


Figure 3-1. 2007 B2C High Tech Computer Hardware Net Promoter Performance and 5 Year Trend vs. Overall B2C High Tech

## Net Promoter and Buyer Economics

The Net Promoter categorisation for computer customers was strongly predictive of their own reported spend. Across all respondents, the average spend reported for the prior year was \$1,615. Relative to this baseline, Promoters spent \$203 more, while Detractors spent \$158 less.

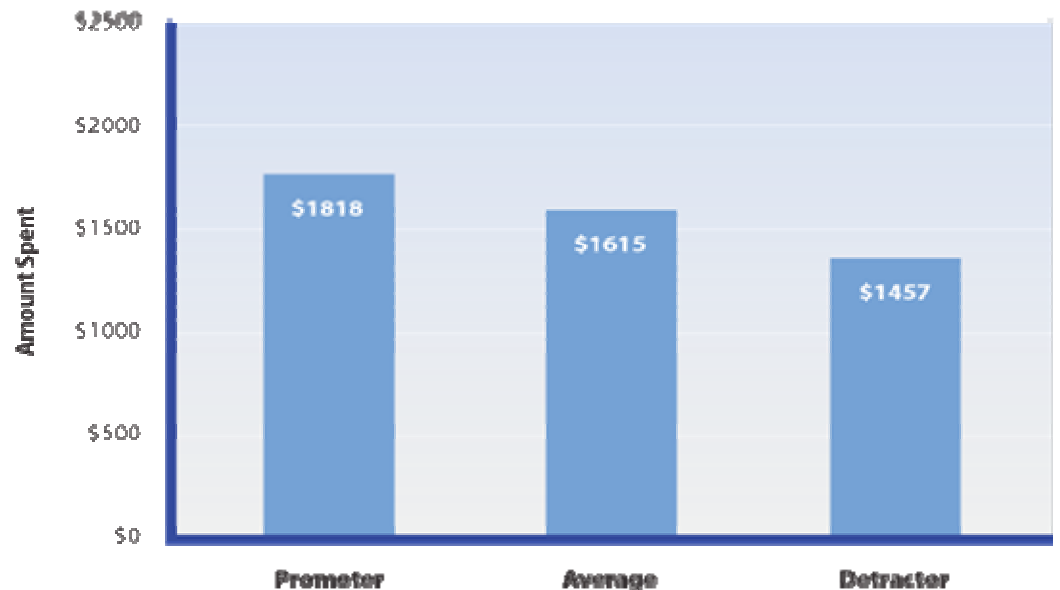


Figure 3-2. Buyer Economics for Promoters and Detractors for B2C Computer Hardware Manufacturers

## Net Promoter and Referral Economics

As expected, Net Promoter was also a robust predictor of referral behaviour. Over 75% of Promoters report having positively referred their vendor of choice to a friend or colleague in the previous 12 months. What's more, on average, each Promoter will share these positive sentiments with nearly 4 others in that period of time.

Detractors, on the other hand, are less likely to share their negative feelings with others. Almost 30% of these unhappy customers actively attempt to dissuade others from doing business with their chosen vendor. However, there is some evidence that Detractors seek out slightly more individuals with which to share their bad experiences—they speak to an average of 4.2 people compared with Promoters' 3.9 referrals.<sup>4</sup>

Based on these results, we were able to calculate the referral economics of both Promoters and Detractors, which then enabled us to compute the total customer worth for each group.

As seen in Figure 3-3-1, the referral economics for each Promoter amounts to roughly half an additional customer. In other words, given the rate and frequency with which Promoters spread positive word of mouth, two Promoters have the ability to bring in one new customer a year.<sup>5</sup>

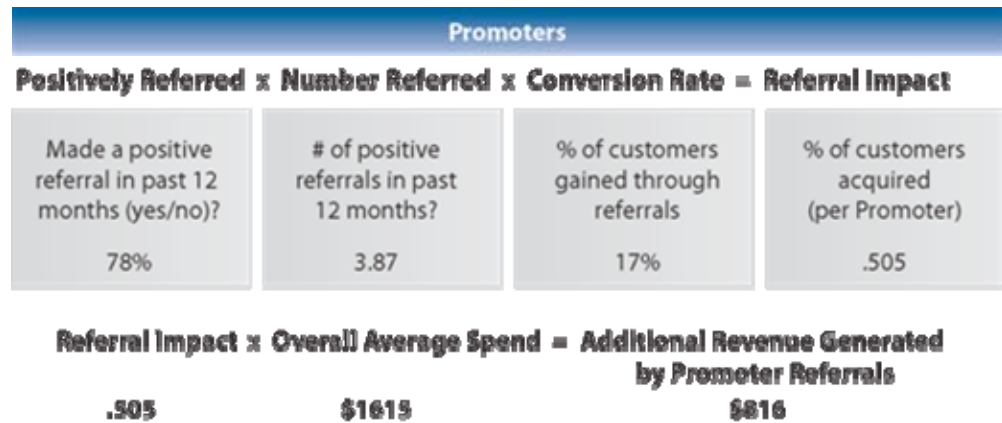


Figure 3-3-1. Referral Economics for Promoters across B2C Computer Hardware Manufacturers

Conversely, as seen in Figure 3-3-2, the referral economics for each Detractor amounts to .84 of a new customer lost. In other words, given the rate and frequency with which Detractors spread negative word of mouth, every six Detractors will cost a vendor roughly five potential new customers a year. While relatively less frequent than positive referrals, the potency of negative referrals underscores the damage that Detractors can inflict.<sup>6</sup>

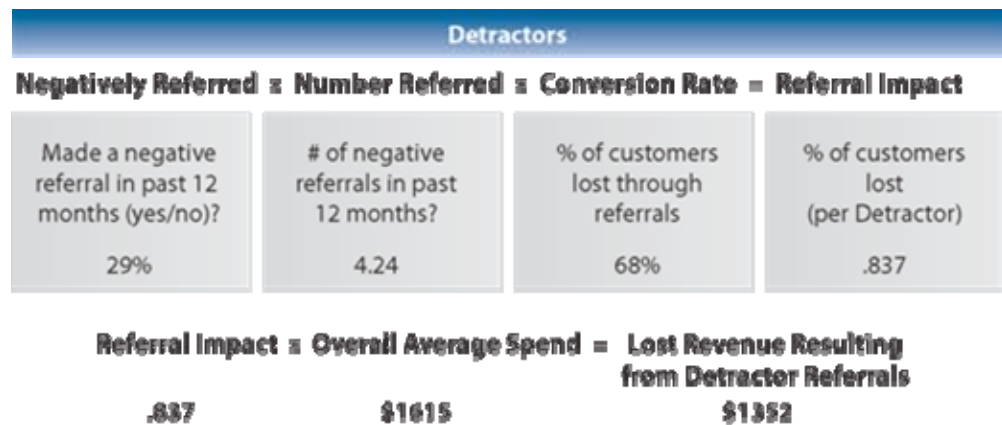


Figure 3-3-2. Referral Economics for Detractors across B2C Computer Hardware Manufacturers

## Net Promoter and Total Customer Worth

Combining the buyer and referral economics associated with Promoters and Detractors allows us to create a much clearer picture of their larger business impact on the computer industry. Promoters, who spend more, also benefit companies indirectly by securing additional revenue through positive word of mouth. Based on the reported average spend across customers, we estimate the total customer worth of Promoters to be over \$2,600.

Detractors are an interesting study in comparison. While their spend lags the average customer by only \$158, their negative word of mouth behaviour represents a significant hidden cost. Lost business associated with their negative referrals subtracts nearly the entire value of their purchase behaviour, leaving a total customer worth for Detractors of just over \$100-- \$2,500 less than their Promoter counterparts! Once acquisition and support costs are factored in, it's likely that Detractors represent a significant net drain on revenue for computer manufacturers.



Figure 3-4. Buyer Economics + Referral Economics = Total Customer Worth for B2C Computer Hardware Manufacturers

## Success Spotlight: Apple Computers

Looking within the computer hardware segment, we can discern clear differences in customer loyalty. Apple is and has been a loyalty leader in the industry segment. While its market share does not compare to industry leaders, its strategy of cultivating a distinct brand image and delivering value to Apple devotees has resulted in strong ongoing brand loyalty. With the exception of Sony, which has begun to differentiate itself in recent years, the rest of the industry is a clear second to Apple's loyalty leader status. It is worth noting that Apple enjoyed this loyalty advantage even before its recent explosion into the digital music and communication markets.

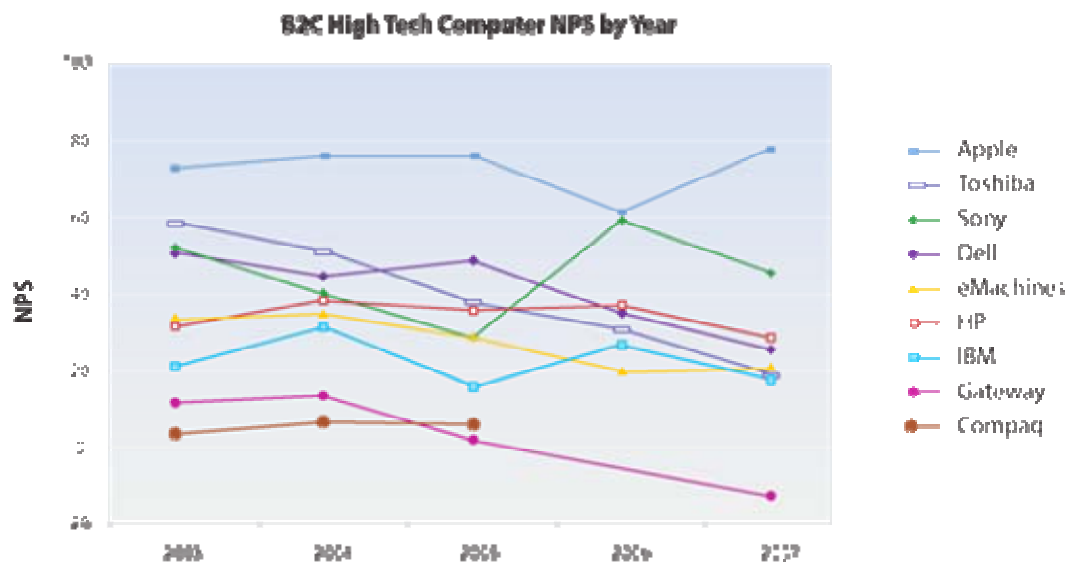


Figure 4-1. Trended NPS Scores for Apple Computers and other B2C Computer Hardware Manufacturers

Within the personal computing market, HP and Dell are far and away the market leaders, accounting for over half of the U.S. desktop and laptop units sold. However, due to the dominance of Wintel machines, and the expectation of advancing technology against ever falling prices held by consumers, these companies rule over an increasingly commoditized market. Share of market has been gained largely from trimming margins and concessions on price; HP has managed to maintain its position on the basis of its breadth of products and sales channels, while Dell has built its competitive position largely on the basis of its game-changing, direct-sale model. On the whole, however, all of these companies face significant challenges in maintaining a high level of service and a truly differentiated customer experience in the face of controlling costs. In 2007, Dell and HP show some Net Promoter score (NPS) advantage over the other industry competitors, but the erosion in their scores over time suggests that the same strategies which insure their share of market may come at the cost of long term customer loyalty.

Unsurprisingly, companies who lack the resources of the market leaders have poorer customer loyalty scores, and the problem is worsening. Among the "second tier" providers, Toshiba has seen the most precipitous drop in NPS over the past five years, with others (e.g., eMachines and Gateway) experiencing a more gradual decline. Many of these providers adopted the tactics of their larger siblings—notably, Dell's direct-sales approach—but either did not have the resources or strategy to execute as well. The changes in their NPS parallel their eroding place in the market.

It can be argued that the best strategy for companies who cannot compete directly in size or price elasticity is to differentiate on the basis of an exceptional customer experience. Apple—whose co-founder and chief executive has long championed the importance of visually attractive, user-friendly designs—has carved its own niche in the marketplace. The style and accessibility that characterise Apple's signature computer brand, the Mac, attract customers who are willing to pay a premium for the Apple brand experience. This tactic sustained Apple in its lean years, and now looks prescient as Apple successfully applies the formula to a widening base of consumer products.

## Apple: Net Promoter Performance

The gap between Apple and the industry is made more apparent in Figure 4-2. The vast majority of Apple respondents are Promoters, while the remaining few are comprised of Passives. Less than 2% are Detractors, an enviable position for any company. Apple has maintained this impressive performance—with minor variance—since the inception of the Satmetrix benchmarking programme in 2001.

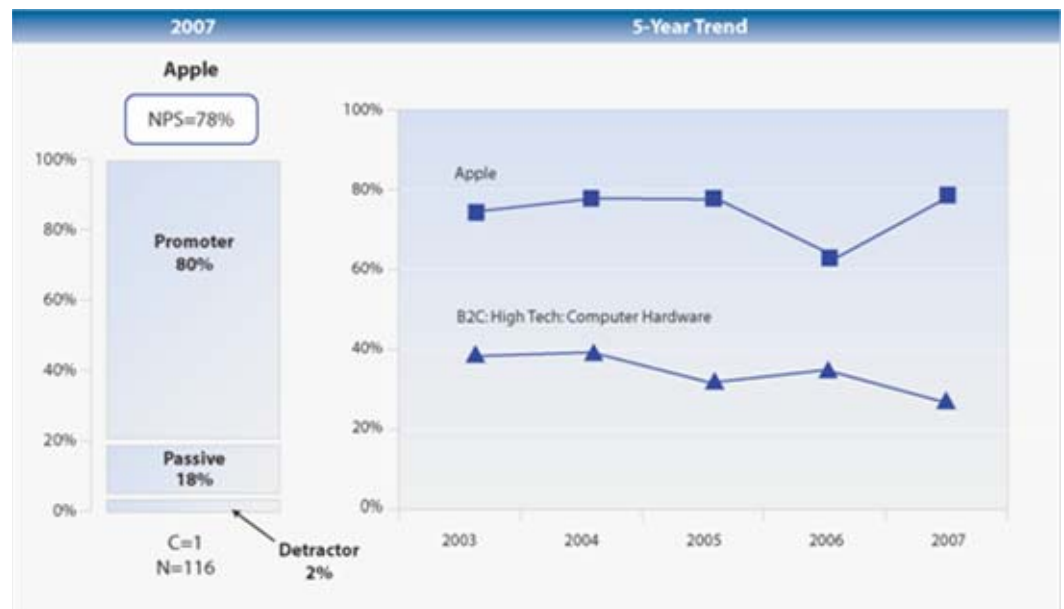


Figure 4-2. Apple: 2007 Net Promoter Performance and 5 Year Trend vs. Overall B2C High Tech Computer Hardware Manufacturers

## Apple: Buyer Economics

Apple's Net Promoter Score (78%) is more than 50 points above the computer hardware average of 27%. The advantage this confers in terms of customer self-reported spend is impressive; average spend for Apple buyers is \$2,344 as compared to \$1,615 for general computer hardware consumers—a gain of 45%. While Apple Promoters spend only \$112 more than the average Apple customer, this similarity is due to the high overall percentage of Promoters within Apple's consumer base. The limited sample size available for Apple Detractors prevented us from calculating their average spend, an omission whose impact is likely to be minimal considering their overall contribution to Apple revenue stands at roughly 2% of their overall customer base in 2007.

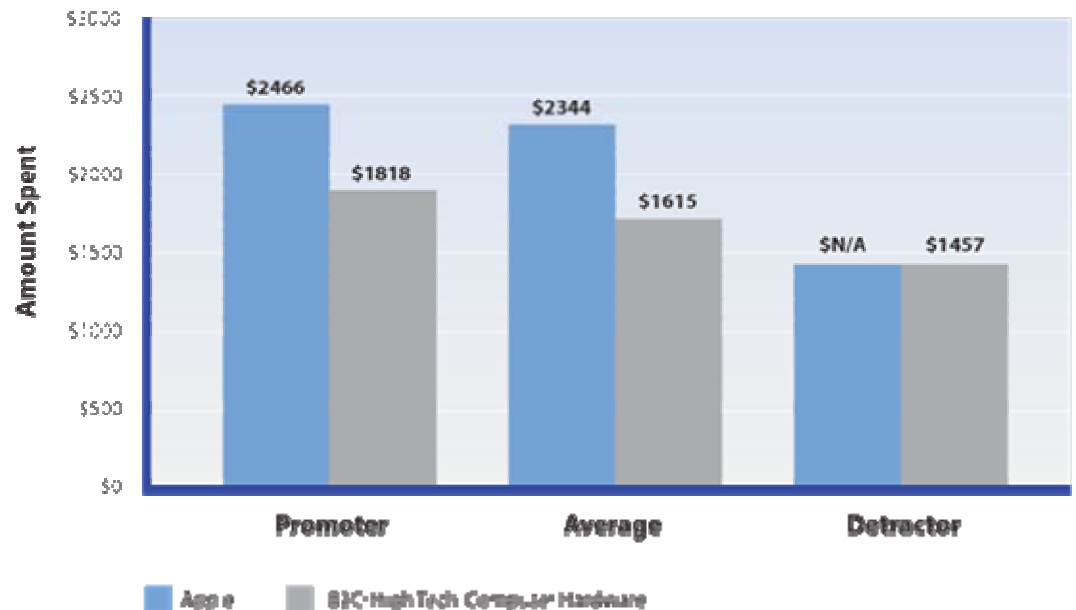


Figure 4-3. Buyer Economics for Apple Promoters and Detractors vs. Overall B2C Computer Hardware Manufacturers

## Apple: Referral Economics

Not only is Apple's high Net Promoter score predictive of spending behaviours, it is also a strong indicator of referral behaviour. In fact, Apple Promoters are among the most passionate we've found about sharing their experiences. Compared to a Promoter referral rate of approximately 75% for the computer hardware industry, over 90% of Apple Promoters report having positively referred Apple to a friend or colleague in the past 12 months. What's more, each Apple Promoter will share these positive sentiments with over 5 people in that period of time as compared to the industry average of a little less than 4 per Promoter.

As seen in Figure 4-4, we estimate that the referral value for each Apple Promoter yields .82 of a new customer as compared to .50 for Promoters within the general computer hardware segment. This difference is significant; given the higher rate and frequency with which Apple Promoters spread positive word of mouth, for every six Promoters, Apple gains approximately five new customers as compared to a 6:3 ratio within the general computer hardware segment.



Figure 4-4. Referral economics for Apple Promoters

Because there were nearly no Detractors within Apple's sample, referral rates for these consumers could not be reliably computed. However, given the low number of Detractors, it is safe to assume that Apple suffers minimally from negative word of mouth, particularly when compared to a negative referral rate of almost 30% for general computer hardware consumers. Most computer providers suffer a negative referral ratio of 6:5 for Detractors (i.e., 6 Detractors have the ability to cost a vendor roughly 5 potential new customers a year). That Apple incurs little to no opportunity costs in potential new business due to negative referral behaviours is an advantage that cannot be overstated.

## Apple: Total Customer Worth

The strong positive referrals and lack of negative word of mouth result in a very positive picture of total customer worth for Apple. In fact, total customer worth for Promoters is almost 1.7 times greater than that of Promoters for other computer providers (approximately \$4,400 as compared to \$2,600). Apple Promoters, who spend significantly more than general Promoters within the computer hardware segment, also benefit Apple by securing almost 2.5 times the referral value attributable to positive word of mouth (\$1927 as compared to \$816).

Furthermore, while Apple incurs very little opportunity cost at the hands of Detractors, negative word of mouth costs other computer providers roughly \$1,350 per Detractor.

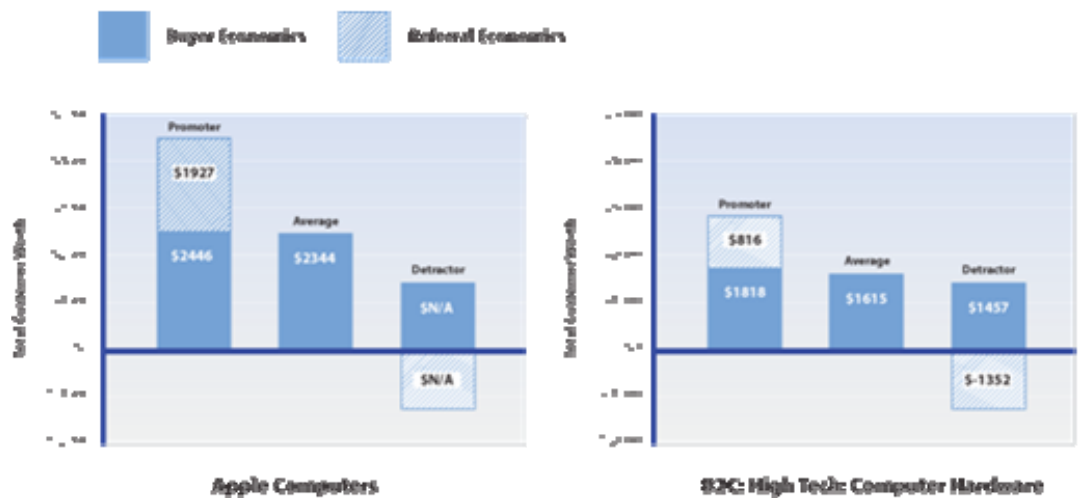


Figure 4-5. Buyer Economics + Referral Economics = Total Customer Worth for Apple Computers vs. Overall B2C Computer Hardware Manufacturers

## What Drives Loyalty in the Computer Hardware Industry?

While it is interesting to explore the economic benefits conferred by loyalty leadership status, it is perhaps more interesting to understand how companies within the computer hardware industry are able to win the hearts and minds of their customers to achieve these outcomes. Within the Satmetrix Net Promoter database, there are a number of satisfaction questions specific to the high technology arena that help us to clarify that issue. For the purposes of this analysis, we assessed strength of association—correlating specific satisfaction attributes with likelihood to recommend—to identify the top overall drivers (here defined by a correlation coefficient of .60 or above).

For computer hardware manufacturers, these key customer experience dimensions are *satisfaction with overall product, company reputation, overall value, ability to meet needs* and *ease of doing business*. In Figure 4-6, we compare the performance of Apple against the industry as a whole along these critical dimensions. Here, as with the overall NPS score, Apple acquires itself well, leading its industry counterparts in each of the performance areas.

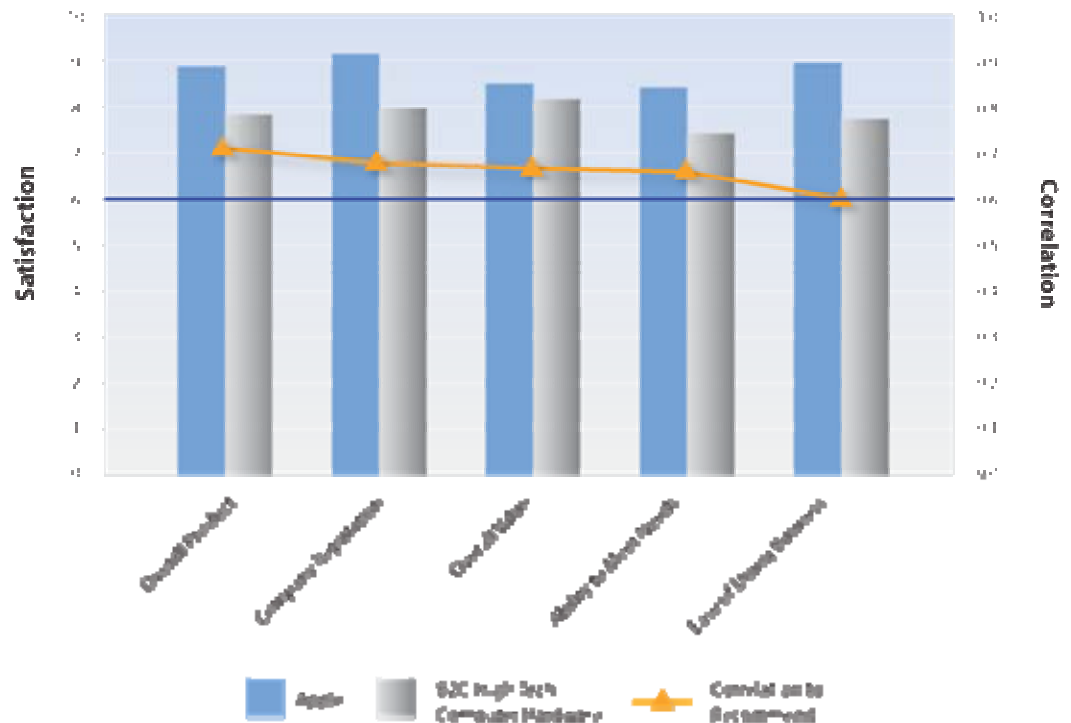


Figure 4-6. Apple vs. Overall B2C Computer Manufacturers on Top Industry Drivers

What aspects of Apple's strategy help to explain these advantages? The quantitative indicators of Apple's success do seem to align with key features of its business strategy—particularly in the areas of *ease of doing business, company reputation, and overall product satisfaction*, where Apple shows a substantial advantage over its competitors. Based on these results, customer comments and industry analysis, we believe Apple's advantage can be linked to specific aspects of its product development, marketing, and retail strategies, including:

**Careful customer segmentation.** Apple continues to focus its energies on students, educators, and creative professionals, even as its latter-day consumer products reach a much wider market than its initial personal computer constituency. Apple's acumen in serving the creative professional has served it well as consumer interest in creating, editing, and managing digital audio, images, and

video has grown—the company has earned a reputation for hardware and software that performs well, meets expectations, and integrates seamlessly. Furthermore, its focus on education insures that potential consumers are introduced to its products at an early age.

*A retail experience differentiated by service.* Apple deliberately changed its retail strategy in 2001, moving forward with plans to open its own dedicated retail locations. By the end of fiscal 2007, the company had opened a total of 197 Apple stores, including 174 stores in the U.S. and a total of 23 stores in Canada, Japan, U.K. and Italy. This strategy has helped Apple to move beyond the existing customers that sustained it during its downturn; in 2007, Apple generated 17% of its sales through its retail channel.

Its retail stores feature a number of features intended to increase the quality of customer experience in both the sales and post-sales support contexts. The layout of its stores permits customers to locate relevant products for specific applications and try them out for themselves. This careful coordination of customer needs, expectations, and product experience—a feature of Apple marketing, retail, and online strategies—provides Apple with an advantage in meeting product performance expectations.

Furthermore, store employees are knowledgeable about Apple products and are trained to provide product selection and purchase advice. Its technical and support services—most famously exemplified by the onsite “Genius Bar,” but also in the regularly offered free training courses—help customers to get maximum value from their purchase. While staffing around these services creates an operating cost which impacts net profitability, the financial cost likely is negligible in comparison to the strong sense of community and positive word of mouth that such noteworthy customer experiences generate.

*Scenario or lifestyle marketing and sales.* Apple has both helped to create and to capitalise on the growing convergence among data devices, offering innovative products which integrate functionality across the personal computer, consumer electronics, and communication domains. At the centre of the “digital lifestyle” that these products support is the personal computer, networking between these devices and the internet and storing and managing the flow of information between them.

The idea of scenario-based marketing—around specific applications like digital music, pictures, and videos—is, along with ease of use, the key message regarding the Apple experience. This philosophy is reflected in the Apple retail stores. Apple and third party products are organised according to specific experiences (e.g., gaming, music, photos, productivity, video, Web) into discrete zones, allowing potential consumers to project themselves into the picture through actual interaction. Products are limited to those which integrate into these specific scenarios to facilitate the decision-making and purchasing process. This approach is no doubt a contributor to consumers’ sense that it is easy to do business with Apple.

The Apple product line increasingly has come to reflect this philosophy as well. Its designs—known for their high style, intuitive interfaces, and innovative design—emphasise interoperability, a shared graphical user interface, and networking capabilities. With digital music, digital pictures, video, and television content, Apple offers integrated access to information at the workstation, in the family room, and on-the-go using their suite of products. In the fall of 2007, Apple re-introduced “iLife,” an application suite that collects many of its disparate applications (e.g., iTunes®, GarageBand®, iWeb™) in a single integrated package.

*An emphasis on style.* Apple’s emphasis on style is one of the factors that has long differentiated the brand. The first Macintosh computers revolutionised the form factor of the personal computer, and recent products—notably, the iPod and the iPhone—have had a similar impact on their market space. The strategy has helped to differentiate Apple and to align it with consumers willing to spend more (as style-conscious consumers tend to be). In contrast to other computer providers—

which must contend with consumer demand for lower and lower prices—Apple is able to mitigate cost-cutting by delivering a more distinctive experience.

Interestingly, another brand noted for its emphasis on style—Sony—shows recent gains in customer loyalty in the consumer computer market. In 2006, and continuing into 2007, Sony's NPS has broken from the pack. In contrast to Apple—which has a signature style within its computer products—Sony has placed its style bet with customisation. Its current strategy for laptops—the highest growth potential within the market—emphasises personalisation to one's own individual style. This heightened sense of engagement between consumer and product, when executed, likely contributes to a stronger sense of brand loyalty.

There are signs that other companies are taking notice. Dell is an interesting case in point. As a loyalty leader along with Apple at the inception of the Satmetrix benchmarking programme, Dell's NPS leveled off and then began a steady decline. Dell volume and market share have been eroding as well, with consumer shipments declining in 2007 (IDC). In response, Dell has made a number of adjustments to differentiate its brand. First, it has begun to divest itself of the low-end market where price is the main driver of competitiveness, and margins trump customer experience. It has begun to experiment with style as a differentiator by acquiring Alienware, a brand well known to the computer gaming community for its high-end performance and high-concept aesthetics, as well as offering greater personalisation in the appearance of its notebooks for consumers.

## How can Net Promoter Help Your Business?

Our investigation of the relationship between the Net Promoter Score and customer worth within the B2C computer industry reveals a robust relationship with purchasing and referral behaviours. On this basis, the Net Promoter WOM Framework can serve as a proxy—and a predictor—of how the mix of Promoters and Detractors within your customer base is impacting your business, and how successful strategies for increasing your customers' loyalty can impact your bottom line.

It is important to remember that knowing your Net Promoter score is only the first step—the metric itself is not the answer. To be successful, companies need to understand what actions they can take to increase Promoters, to decrease Detractors, and to move all customers up the loyalty chain. Once you determine what actions to put in place to effect this change—and take the steps to empower employees across the enterprise to execute against these directives—you will start to see an impact on loyalty and growth.

And this is only the beginning of the journey. As companies learn to listen more effectively to their customers, and to act on their behalf, they will discover other opportunities to strengthen the bonds they share. The data reviewed here hints at one such opportunity in its examination of the power of word of mouth. Given the enormous influence that word of mouth messaging has on brand evaluation and purchase decisions, a company's Promoters represent a significant—and often untapped—asset. Identifying ways to leverage Promoters—through reference programmes, by providing tools that facilitate their naturally occurring word of mouth behaviours, by amplifying their messages through community and social media—is a logical and promising next step in the evolution of how companies can benefit from Net Promoter.

## Endnotes

<sup>1</sup> The Net Promoter metric is based on one simple question: “Would you recommend us to a friend or colleague?” The scale employed is an 11 point (0-10) likelihood scale. To calculate the Net Promoter Score, take the percentage of customers who are Promoters (defined as scores of 9 or 10) and subtract the percentage who are Detractors (defined as scores of 0 through 6).

<sup>2</sup> To obtain the conversion rate, we asked each respondent within the entire sample if they themselves had been referred to their provider by a friend or colleague. We summed the number of customers who had been referred to their provider and divided it by the total number of positive referrals issued. The resulting ratio estimates the impact of positive referrals.

<sup>3</sup> There is a rich psychological and socioeconomic literature regarding the relative weight assigned to positive and negative information. The basic finding—that negative information seems to exert a disproportionate influence relative to positive information—has been replicated many times over both for interpersonal judgments (e.g., Anderson, 1965) as well as for how consumers evaluate brands and make purchase decisions (e.g., Arndt, 1969; Weinberger & Dillon, 1980; Weinberger, Allen, Dillon (1981); Mizerski, 1982; Wilson & Peterson (1989); Herr, Kardes, & Kim (1991); East, 2002). Unfortunately, while many studies support the notion that negative word of mouth is more influential than positive word of mouth, few have tried to quantify the difference. One seminal finding comes from Kroloff (1988), whose influential “Merriam formula” was derived from observations that individuals tend to give negative information approximately four times the weight of positive information. Other researchers have noted that a single negative behaviour can neutralise as many as five positive behaviours (Richey, Koenigs, Richey and Forgin, 1975). In a study of Dell customers, Fred Reichheld and Satmetrix found that, on average, customers report that a single negative comment can offset five positive ones. Across these studies, it is reasonable to expect negative word of mouth to exert 4-5 times the influence of positive word of mouth. In the present study, we chose the more conservative weighting, assigning negative referrals four times the weight of positive ones.

<sup>4</sup> Our findings, particularly around negative referral rates, are corroborated by a few other recent studies. For example, East (2002, ANZMAC proceedings) found that while negative referrals are relatively less common than positive referrals (lower penetration in terms of consumers reporting the behaviour), the frequencies (number of occasions sharing negative and positive word of mouth) is roughly the same. As in the present study, a study conducted by Verde Group and Wharton found that 31% of customers share their negative experiences with a vendor with—on average—four other people. Similarly, Marsden & Upton (2005) found that negative referral rates averaged between 20% to 27% across all UK retail businesses examined (mobile networks, retail banks, supermarkets, cars), while Richins (1983) found that those experiencing dissatisfaction told an average of about 5 other persons (3 family members and 2 coworkers or acquaintances).

<sup>5</sup> Following the methodology described in endnote (2) above, we calculated that for every six positive referrals made on behalf of computer manufacturers, one new customer is gained – a conversion rate of 17%.

<sup>6</sup> To obtain the negative conversion rate, we multiplied the positive conversion rate of 17% by a magnitude of 4, yielding 68% (see endnote (3) for details). This estimate is corroborated by one of the few studies of negative word of mouth on consumer decision making. The Verde Group, in conjunction with the Baker Retailing Initiative at the Wharton School of Business, found that 31% of dissatisfied customers tell others about their problems (compared to our 29%), and that they tell on average 4 other individuals about their negative experience (compared to our 4.2). Likewise, they found that roughly 64% (compared to our 68%) of customers who are recipients of negative word of mouth about a specific vendor will choose to shop elsewhere.

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<sup>1</sup> The Net Promoter metric is based on one simple question: “Would you recommend us to a friend or colleague?” The scale employed is an 11 point (0-10) likelihood scale. To calculate the Net Promoter Score, take the percentage of customers who are Promoters (defined as scores of 9 or 10) and subtract the percentage who are Detractors (defined as scores of 0 through 6).

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