

WOM

We demonstrated in 2005 that recommendations predict customers' future behaviour more accurately than satisfaction scores. New findings from our True Loyalty program show that recommendations can also predict sales to customers' friends and colleagues

By Ton Otker and Harm van Leeuwen



T rue Loyalty is a large-scale joint Philips and Interview-NSS research program which aims to measure the actual sales effects of consumer's experiences with Philips Consumer Electronics and Domestic Appliances/ Personal Care products and services. The program is heavily influenced by the stimulating publications of Frederick Reichheld who introduced the term Net Promoter Score (NPS) which is a widely-accepted indicator for many leading companies.

Other than most findings reported on the NPS, we decided to set up a single source longitudinal survey. Customers from whom we had obtained satisfaction and recommendation scores via on-going research programs were re-contacted 9-18 months later and both their purchases and those of friends and colleagues were assessed. Our database consists of over 25,000 re-contacted customers.

We discussed findings from the first two experiments in our 2005 paper but meanwhile new data from further studies have become available which focus on how Word of

Mouth (WOM) can impact sales and the possible negative effects of low recommendation. In our studies we use a dedicated question to measure the magnitude of WOM, by asking respondents with how many friends, relatives and colleagues recent product or service experiences were shared.

Our 2005 results showed that the "direct" and "indirect" sales effects of customers scoring "extremely likely" on a five-point recommendation scale are two to three times higher than those scoring "somewhat likely" or lower (see Figure 1). The logical conclusion of our findings was that "all key processes influencing customers' experience with a company's products and services must deliver an excellent performance, leading to top levels of recommendation". Key is the attitude of "doing things that need to be done anyway, right the first time".

Real effects of WOM

In the first wave we deliberately decided to apply a conservative estimate of the effects of WOM and Figure 1 is based on these estimates. We assumed that everyone who

claimed to have recommended a product to someone else, and where we verified that this recommendation resulted in an actual purchase, had created one indirect purchase. The value of this purchase was then equal to the value of their own purchase.

However, we have learned that WOM is spread to some six to nine friends and colleagues and that WOM is strongest in cases of extremely positive or negative experiences (this confirms again what is well established in literature). We therefore assume that our estimates calculated the "indirect effect" too conservatively.

Positive or negative?

Recommendations by their very definition will have a positive impact, ranging from zero (e.g not at all likely to recommend) till 10 (extremely likely to recommend).

Strictly speaking this means that from the receiver's perspective there will be little or no advice in case of low recommendation scores. It is however reasonable to assume that experiences that result in a low

recommendation score express themselves in "actively advise against" behavior.

This phenomenon is clearly visible on internet consumer product comparison sites, and you will all remember horror stories from friends and colleagues that were based on negative experiences with airlines, credit-card or consumer product companies.

We therefore decided to experiment with a scale that includes both a number of recommendation positions, and a number of advise against positions. Figure 2 below summarises our findings so far, based on over 20.000 telephone as well as online/web based surveys.

The findings are quite astonishing. The bottom four positions of the 11-point recommendation scale mainly represent people who indicate they actually would "strongly advise against" the brand in this product field, based on their recent product and/or service experiences. Low scores do not just indicate a low willingness to recommend, they show a strongly negative "advise against" sentiment.

The consequences of this may be best illustrated by a theoretical example. Imagine a company that scores 20% on the bottom four of an 11-point recommendation scale meaning customers will potentially advise nine friends, relatives and colleagues against the brand.

The results of this can be devastating! Simple simulations show that this kind of negative WOM has a heavily negative effect on sales. Any positive "direct effect" may be overshadowed by a stronger negative "indirect effect".

Our conclusion therefore is that both the effects of WOM and of "advise against" behaviour must play a much stronger part in future research on understanding the real effects of recommendation which is why we plan to conduct further experiments.

What's next?

We will re-contact another 20 000 customers in February to March 2007 to measure their own direct purchases and the "indirect" purchases resulting from their involvement in purchases by friends and colleagues, based on their own WOM. The research will be designed so as to capture the full effects of WOM so that every real purchase by their contacts as a result of WOM will be accounted for as well as the negative effects of "advise against".

We anticipate that the positive and negative effects on sales of positive or negative experiences with Philips products and services will be more extreme than reported in Figure 1. If that's the case, it strengthens our conviction that all key processes influencing customers' experience with a company's products and services must deliver an excellent performance, leading to top levels of recommendation.

NPS scores resulting from recommendations will become a key non-financial metric for our company. The outcome of our True Loyalty research was considered when this decision was taken and a company-wide rollout of Recommendation and NPS is in progress.

Have we found answers to all our questions? No of course not. We are still struggling with a number of methodological issues such as the experiences of other research and non-research companies with different scales to measure Recommendation. For instance 5, 7, 10 or 11 point scales which may be "fully labelled" or just labelled at the extremes, or how to account for international/cultural differences in the interpretation of the scales and how to improve upon the definition of the NPS scale by Reichheld if this is possible. Another attention area is the cross-over or carry-over effects of Recommendation and NPS scores, for those companies that like Philips, sell many different products under one and the same brand name. And, we even wonder whether NPS is the best indicator for future business success for all industries. For example in the service

Figure 1

Relation between Recommendation and resulting real expenditures

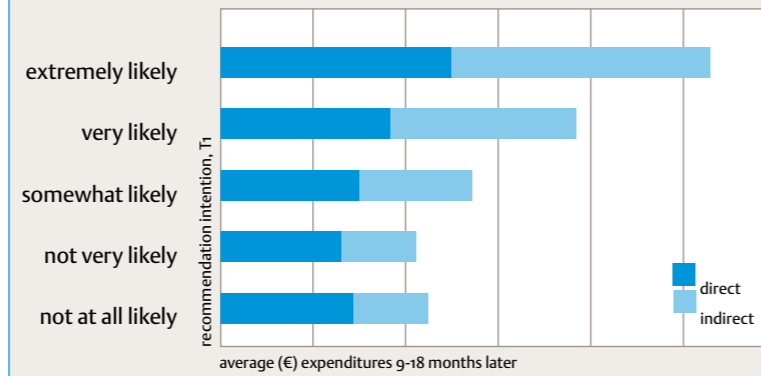


Figure 2

Relationship between 11-point Recommendation scale and our Advise against-Advise in favour scale

10 = extremely likely to recommend 0 = not at all likely

	Strongly advise in favour	Advise in favour	Neutral	Advise against	Strongly advise against
10	75	25			
9	15	70	5		
8	5	70	25		
7	5	40	55		
6		15	75	10	
5		5	70	20	
4			60	30	
3			40	45	10
2			20	55	20
0-1			5	15	75

Key 2005 findings

1. Recommendation is a clearly better predictor of future behaviour than Satisfaction, which is in line with Reichheld's findings.
2. Recommendation is both a good predictor of the consumer's own future purchases (so-called "direct" effect = loyalty) and of future purchases made by friends and colleagues (so-called "indirect" effect = advocacy) as a result of WOM.
3. The most significant sales effects are found at the top position of the five-point Recommendation scale, which we used at that time.
4. WOM/advocacy leads to significant levels of (indirect) purchases.
5. Multiple positive or negative experiences strengthen all the above effects.

industry (such as Telecom) "continuation" may be a better indicator.

We hope to meet colleagues at ESOMAR's Congress in London who are willing to share their thoughts and experiences about these issues with us (contact editorial@esomar.org). ■

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