Advocacy Drives Growth

Customer Advocacy Drives UK Business Growth

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Summary

Word of mouth is found to predict sales growth for retail banks, car manufacturers, mobile phone networks and supermarkets in the UK. A telephone survey of a random sample of 1256 adult consumers in the UK found that both word of mouth advocacy rates (as measured by the Net Promoter® score) and negative word of mouth were statistically significant predictors of annual 2003-2004 sales growth (Pearson's correlation coefficients of $r=.484$ and significance of $p < .01$ for Net Promoter score, and $r=-.524$, $p < .01$ for negative word of mouth).

- Companies enjoying higher levels of word of mouth advocacy (higher net promoter scores), such as HSBC, Asda, Honda and O2, grew faster than their competitors in the period 2003-2004.
- Companies suffering from low levels of word of mouth advocacy and high levels of negative word of mouth, such as Lloyds-TSB, Sainsbury's, Fiat and T-Mobile grew slower than their competitors.
- In terms of percentage growth, a 7 point increase in word of mouth advocacy (net promoter score) correlated with a 1% increase in growth (1 point increase = .147% more growth).
- Every 2% reduction in negative word of mouth correlated to just under 1% growth (a 1% reduction = .414% more growth).
- In cash terms, for the average business in our analysis, every 1 point increase in word of mouth advocacy (net promoter score) correlated with an £8.82 million increase in sales, whilst a 1% reduction in negative word of mouth would lead to £24.84m additional revenues;
- Taking the net promoter score and negative word of mouth together, we found that companies with relatively high net promoter scores (>0), and relatively low negative word of mouth rates (<25%), grew *4 times as fast* in 2004 than companies with low net promoter scores (<0) and high negative word of mouth (>25%).
- A literature review of techniques for optimizing word of mouth advocacy and thereby unlocking growth identified 8 distinct techniques; Referral Programs, Tryvertising, Empowered Involvement, Brand Ambassador Programs, Causal Campaigns, Influencer Outreach, Advocacy Tracking and Innovation. We provide brief case studies for each of these growth-by-advocacy tools.

We conclude by suggesting that the net promoter score as a measure of word of mouth advocacy may be useful not only in predicting sales growth, but also in predicting share performance and employee productivity. Specifically we propose that three simple questions could predict overall business performance;

- Likelihood that customers would recommend a company or brand to friends or colleagues. Net promoter score as a predictor of sales growth.
- Likelihood that investors would recommend investing in a company to friends or colleagues. Net promoter score as a predictor of share performance.
- Likelihood that employees would recommend working for their company to friends or colleagues. Net promoter score as a predictor of productivity.

Introduction

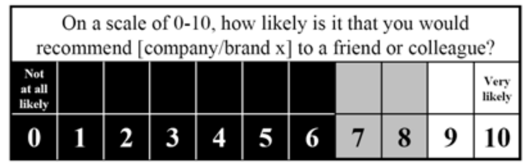
The Economics of Buzz

What's the financial value of word of mouth – product recommendations from friends, colleagues and acquaintances? The value of word of mouth to the *buyer* is undisputable; people systematically rate word of mouth advice above all other forms of communication when deciding what to buy [1]. Whether it's a FTSE100 CEO choosing a consulting firm or investment bank, or a supermarket shopper after the best olive oil, word of mouth recommendations are likely to play a key part in the decision. The logic is simple; word of mouth reduces risk for the buyer – it is free borrowed experience perceived as trustworthy because, unlike advertising, it has nothing to sell but itself.

But what's word of mouth worth to a business – in terms of the sales it generates? What, in other words, are the hard economics of buzz? A litany of statistics exists to show that buzz is valuable to buyers [2], but there is precious little that puts numbers on the value of buzz to business. The main problem is that word of mouth is rather tricky to measure – short of eavesdropping on client, customer or consumer conversations. Whilst the Internet is making digital eavesdropping of 'word of mouse' a real possibility – monitoring product-talk in forums, blogs and review sites – most word of mouth takes place offline in traditional face-to-face situations, which makes it to all intents and purposes, invisible.

One solution to the economics of buzz, recently pioneered by Bain & Company consultant Fred Reichheld and Satmetrix Systems, has been to use surveys to track recommendation rates for different products and services and correlate these with sales growth. In a recent US analysis published in the Harvard Business Review, Reichheld found that a single question; the likelihood (0-10) that buyers of a product or service would recommend it to a friend could predict growth. By subtracting neutral and negative responses (buyers dubbed as word of mouth "detractors") from positive ones (buyers known as word of mouth "promoters"), the resulting "net promoter" score was found to correlate with company sales growth across a dozen product and service categories in the US. The higher the net promoter score, the higher the growth. Interestingly, other measures such as customer satisfaction, category leadership, or innovativeness were not found to predict growth [3].

Figure 1: The Net Promoter Link to Growth



The Net Promoter score, the word of mouth metric found by Bain & Company and Satmetrix Systems in 2003 to predict growth is based on the responses to a simple question on the likelihood of recommending a product of service. The net promoter score is calculated by taking the share of customer 'promoters' - respondents highly likely to recommend (scoring 9-10), and subtracting the share of customers who are detractors (scoring 0-6). Across US companies surveyed by Bain & Company, the average net promoter score was 11% – although high-growth companies were found to have net promoter scores in excess of 70%.

The net promoter score – as a measure of word of mouth – is beginning to establish itself as a key performance metric in a number of US businesses. The 'would recommend' question is simple, fast and cost-effective to research, prompting General Electric CEO Jeffrey Immelt, among others to roll out net promoter tracking across GE's divisions [4]. With its link to sales growth, the net promoter score is proving to be a useful diagnostic tool in identifying those areas in a business that are driving growth, and those that are hampering it.

Word of Mouth and Business Growth

By finding an empirical link between word of mouth recommendations and sales performance among US companies, the Reichheld study answered two thorny business questions: How do you measure word of mouth? (Answer: the net promoter score). And how do you measure the effect of word of mouth? (Answer: sales uplift). However, the Bain & Company findings prompt a number of questions: Was the relationship an isolated fluke result based on a particular time period (1999-2002), or a specific geographic market (US) or a peculiar calculation (net promoter score)? And if word of mouth does influence sales as the results suggest, what is the financial value of this influence? And, finally, and perhaps most importantly if word of mouth advocacy drives growth, how can businesses harness it, practically speaking, to enhance performance?

The 2005 LSE Advocacy-Growth Study

To answer these questions, and to assess the financial impact of word of mouth advocacy on company growth in the UK, we conducted the following study at the London School of Economics in the early summer of 2005.

With the aid of The Listening Company, we carried a telephone survey on a random sample of 1256 adult consumers in the UK. Respondents were asked how likely it was they would recommend their current bank, mobile phone network, supermarket and make of car (if they owned a car) to a friend, or colleague. They were also asked whether they had in fact made any such recommendations in the last twelve months and, on the contrary, if they had spread any negative comments. Finally, as a control question, they were asked how satisfied they were with the brands they were currently using.

From the data, we calculated three measures of word of mouth, and one for satisfaction. For word of mouth, we calculated the net promoter score for each company (proportion of word of mouth "promoters" minus the proportion of word of mouth "detractors"), the proportion of customers who had actually recommended the company or brand they use to others in the last 12 months, and the proportion who had spread negative comments during the same time period. For customer satisfaction, we calculated the average (mean) customer satisfaction score (out of 10) for each company.

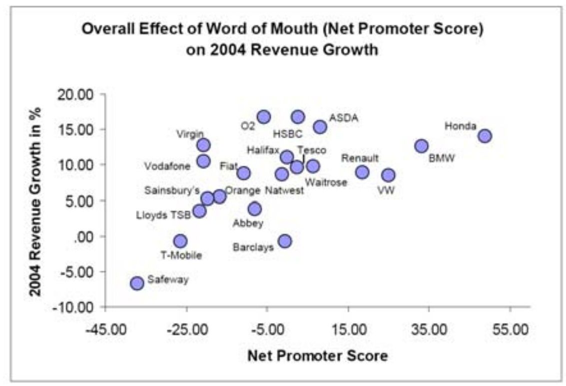
We then collected 2003 and 2004 sales data for the banks, mobile phone networks, supermarkets or car manufacturers mentioned, and calculated 2003-2004 sales growth [5]. Correlations were then computed to see if the word of mouth metrics and satisfaction scores could predict sales growth performance.

Key Finding: Word of Mouth Drives UK Business Growth

Analysing the entire data set, we found that overall two metrics were statistically significant in predicting 2004 business growth: word of mouth as measured by the net promoter score (Pearson's correlation coefficients of $r=.484$ and significance of $p < .01$) and negative word of mouth ($r=-.524$, $p < .01$).

Companies in the UK with a high net promoter score, such as HSBC, Asda, 02 and Honda outperformed their competitors in terms of growth in 2004, whilst those with low net promoter scores, such as Lloyds-TSB, Safeway, Fiat and T-Mobile underperformed. We also found that prior growth (2002-2003) did not correlate with the net promoter score, showing that it is word of mouth that drives growth and not vice versa.

Figure 2: Customer Advocacy Drives UK Business Growth



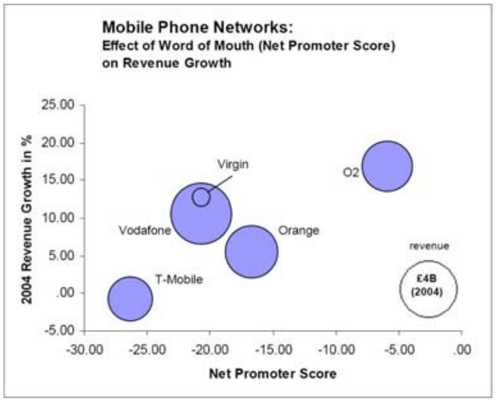
Overall, the higher a company's net promoter score, the higher 2003-2004 sales growth. On average, across the four sectors researched, the average net promoter score for UK companies was found to be 3% - nearly four times lower than the average company in the US survey (11%) – although this varied significantly sector by sector (see figure 3). The relationship between word of mouth as measured by the net promoter score and growth was also found to hold on a sector by sector basis.

Figure 3: Average Net Promoter Scores: Overall and by Sector

Sector	Word of Mouth (Mean Net promoter Scores)
Mobile Networks	-18.1
Retail Banks	-4.8
Supermarkets	-2.3
Cars	+24.7
Overall	+3.2

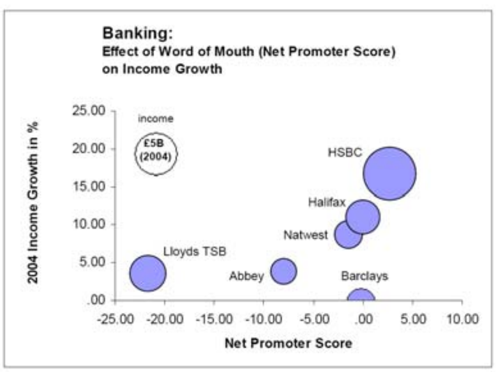
Consider the relationship between word of mouth and recent revenue growth among UK major mobile phone networks, a sector with particularly low advocacy levels.

Figure 4: Word of Mouth Drives Growth in the UK Mobile Sector



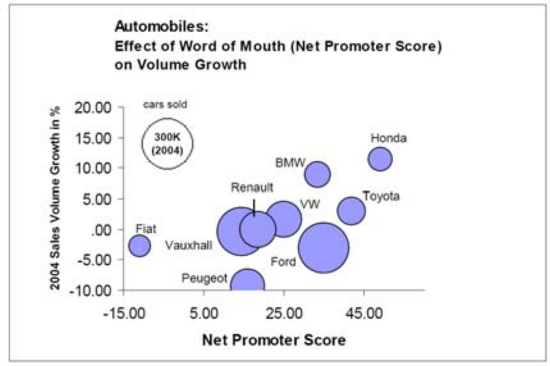
To measure the impact of word of mouth on retail bank performance, we took changes in banks' total assets in customer accounts as well as total income including interest, as a proxy for growth (retail banks do not have sales revenues per se), and examined this in relation to word of mouth. The correlations with the net promoter score for both of these variables turned out to be exponential for banks with positive growth figures ($r=.793$ and $r=.868$, respectively, $p < .05$) [6]. The effect of net promotion became particularly dramatic as the score approached zero. This suggests that growth in the retail banking sector is particularly susceptible to word of mouth.

Figure 5: Word of Mouth Drives Growth for UK Retail Banks



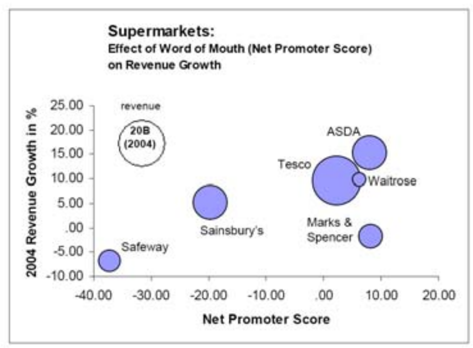
Due to the nature of the car industry and their reporting practices, 2004 sales volume data were more complete than total revenue data. We found a significant relationship between the net promoter score and car sales volume [7] growth ($r=.561$, $p < .05$) and more marginally revenue growth among companies who had released sales data for 2004 ($r=.767$, $p=.065$).

Figure 6: Word of Mouth Drives Growth in the UK Car Industry



Perhaps because it is easier for consumers to switch supermarkets than cars, banks or mobile phone networks, word of mouth appears to have particularly strong impact on sales growth. We found that 2004 growth for different supermarkets was highly correlated with both net promotion ($r=.697$, $p < .05$) and actual negative word of mouth ($r=-.899$, $p < .01$).

Figure 7: Word of Mouth Drives Growth for UK Supermarkets



More Good Buzz is Good, Less Bad Buzz is Better

Whilst positive word of mouth alone, as opposed to the net promoter score that takes into account word of mouth promoters and word of mouth detractors, did not predict growth, we did find that negative word of mouth alone does predict growth. Companies attracting high levels of negative word of mouth, which tended to be, logically enough, those companies with low net promoter scores, published poorer results – in terms of growth – than those enjoying low levels of negative word of mouth.

Figure 8: Bad Buzz Destroys UK Business Growth

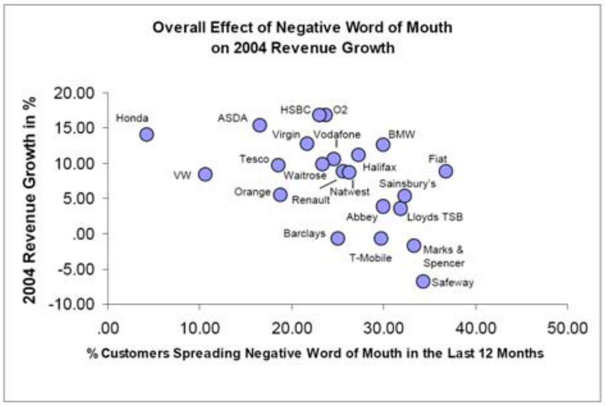


Figure 9: Negative Word of Mouth Rates for UK Retail Business Sectors

Sector	Negative Word of Mouth (% customers spreading negative comments in last 12 month)
Mobile Networks	23.7%
Retail Banks	27.3%
Supermarkets	25.0%
Cars	20.6%
Overall	23.8%

Show Me the Money

Overall, across all the companies researched, we found that a 7 point increase in the net promoter score correlated with a 1% increase in growth (1 point increase = .147% more growth). In cash terms, for the average business in our analysis, every 1 point increase in the net promoter score correlated with an £8.82 million increase in sales.

Similarly, every 2% reduction in negative word of mouth, correlated to just under 1% growth (1% reduction = .414% more growth). In monetary terms, a 1% reduction in negative word of mouth would lead to £24.84m additional revenues.

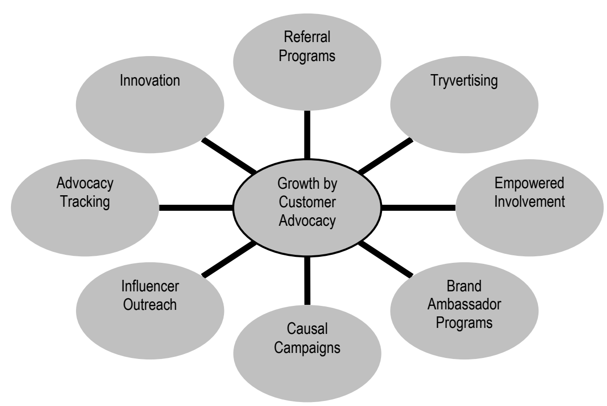
Taking the net promoter score and negative word of mouth together, we found that companies with relatively high net promoter scores (>0), and relatively low negative word of mouth rates (<25%), grew *4 times as fast* in 2004 than companies with low net promoter scores (<0) and high negative word of mouth (>25%).

How to Drive Growth by Customer Advocacy

The key finding of this research is that word of mouth advocacy drives growth; companies enjoying high levels of word of mouth advocacy and/or low levels of negative word of mouth grow fast, whilst those businesses with low advocacy levels and/or suffering from high levels of negative buzz, stagnate or decline.

The business implication is self-evident – businesses that build customer advocacy will grow. But how? How can businesses unlock growth by turning clients, customers or consumer into word of mouth advocates? To answer this question, we conducted a literature review of 30 published business books dealing with word of mouth, looking for proven advocacy optimization solutions [8]. We identified eight distinct advocacy-generating tools that have demonstrated themselves to be effective.

Figure 10: Eight Tools for Driving Growth by Optimizing Customer Advocacy



GROWTH BY ADVOCACY TOOL #1:

REFERRAL PROGRAMS: The most elementary solution for optimizing customer advocacy levels is to put in place a referral program that rewards existing costumers for recommending new customers. Also known as customer-get-customer, introduce-a-friend or member-get-member schemes, referral programs offer cash or gift incentives to satisfied customers who become word of mouth advocates. Whilst such initiatives are typically associated with subscription services, such as the original 'Friends and Family' referral scheme for US telephone operator MCI in 1991 that generated 10 million new subscribers in less than two years [9], referral programs can also work for consumer packaged goods. For example, Unilever ran an effective referral program in 1998 for its Dove soap brand. The scheme involved allowing existing Dove users to order a free Dove gift pack of soap and vouchers for a nominated friend, in return for which they too would receive a Dove gift pack. Psychologically, rewarding both the referrer for referring and the 'referree' for being referred was powerful because it gave the referrer an excuse to refer not based on self-interest. In terms of stimulating growth, this 'Share-a-Secret' referral program as it was known was a success – contributing to a 10% increase in Dove's market share [10].

GROWTH BY ADVOCACY TOOL #2:

'TRYVERTISING': A relatively new marketing term, 'tryvertising' (a combination of 'try' or 'trial' and 'advertising') is a twist on product sampling. The idea is that rather than provide free samples or trials to anyone in a target market, tryvertising involves sampling on a selective and exclusive basis to lead users – ideally with new products or services before they become widely available. The goal is to both remove the price barrier to trial, and to use exclusivity and scarcity to turn the 'privileged' trial participants into advocates who then showcase the innovation to others. In the technology sector, this is the hard-nosed commercial principle behind 'beta-testing', turning lead customers into advocates by giving them sneak peeks of new yet-to-be-launched products. Fashion brands also use tryvertising initiatives to drive growth by inviting trendsetters to participate in exclusive trials. For example, the BCBG fashion brand recently ran a successful tryvertising campaign to launch their new fragrance BCBGirl. The campaign involved sending teen trendsetters a pre-launch bottle of the perfume, along with 100 samples each to share with their friends. In cities where this advocacy-by-tryvertising initiative was run, BCBGirl shot to the bestselling spot on the week of its launch [11].

GROWTH BY ADVOCACY TOOL #3:

EMPOWERERED INVOLVEMENT: Empowering clients, customers and consumers to call the shots on new packaging, advertising, or even new products and services, is an advocacy generating tool that harnesses a powerful psychological phenomenon known as the Hawthorne Effect. The Hawthorne Effect, named after Western Electric's production facility in Hawthorne, near Chicago, where the effect was first identified by researchers at Harvard in the 1930s, turns market research participants into advocates by making them feel they have had a say in how a product, service or initiative is rolled out [12]. In plain English, the Hawthorne Effect is simply the "I did that" effect, the consequence of being asked one's opinion and seeing it acted upon. Think Big Brother/American Idol where audience participation empowers viewers to vote participants off the show. The Hollywood studio Dreamworks SKG uses empowered involvement to create word of mouth advocates, and recently doubled teen attendance for a movie by allowing its target audience to vote on and choose the title of the movie in a web poll [13]. Web polls, SMS votes and other innovations in personal communications technology mean that empowered involvement has become a fast, scalable and cost-effective solution for creating advocacy – and thereby stimulating growth. For example, Procter & Gamble use online voting to give consumers the final say in which new product variants should be launched, such as new flavours in the Crest toothpaste range [14]. The impact on growth of such advocacy-by-empowerment initiatives appears to be impressive: Crayola, the crayon brand, reported a jump in sales when they allowed consumers to vote on the name of new crayon colours, whilst Tremor, an online US-wide customer empowerment panel with some 250,000 members set up in 2001 and working with brands such as Sony, AOL, Toyota estimates the sales uplift effect of empowered involvement initiatives to be 10-30% [15].

GROWTH BY ADVOCACY TOOL #4:

BRAND AMBASSADOR PROGRAMS: A fourth way of transforming customers into advocates is to invite highly valued and satisfied customers to become brand ambassadors. Brand Ambassador Programs work by giving chosen customers special privileges both for themselves and to share with their friends. These privileges may include exclusive offers, special invites, and sneak peeks of new products or inside scoops of brand news. The idea is to give the Brand Ambassador materials that help them promote the brand. For example, L'Oreal, O'Neill, Siemens and Unilever all run Brand Ambassador Programs that involve providing brand fans with their own sets of personal contact cards featuring brand artwork on one side and personal contact details on the other. As well as making Brand Ambassadors feel like privileged 'insiders', part of the brand family, the cards can contain a special privilege code – allowing them to share exclusive promotions with their friends and colleagues [16].

Figure 11: Brand Ambassador Cards

GROWTH BY ADVOCACY TOOL #5:

CAUSAL CAMPAIGNS: A fifth tool for unlocking growth by customer advocacy is to adopt a good cause as a strategic positioning and marketing tool that appeals to existing and target buyers. Adopting a good cause not only increases sales directly by providing an additional 'reason to choose', such as Nike's sponsorship in 2004 of the Lance Armstrong Foundation for cancer research and education, but also gives existing buyers a compelling 'reason to recommend'. The impact on sales can be dramatic. For example, when Persil paired with Comic Relief, sales increased by 13%, and when BT partnered ChildLine, signups for its new voicemail service increased 25% [17]. In the US, when American Express pledged to donate a penny to the restoration of the Statue of Liberty for every transaction made by its cardholders, use of American Express cards in the US increased by 28% and new users increased by 17% [18]. By sponsoring a good cause, businesses can mobilize their customers and create a volunteer sales force with a compelling motive to evangelize.

GROWTH BY ADVOCACY TOOL #6:

INFLUENCER OUTREACH: Not so much a tool per se as a strategic approach to targeting, where instead of targeting the mass majority directly, the focus in on influencing the influencers – who then influence the majority by word of mouth. Influencers, the preferred label today for 'opinion leaders', are the 10% of any target market who frequently offer and are elicited for category-related advice by friends and colleagues. They are the friends and colleagues we turn to for advice when choosing a new product or service. As a group, influencers/opinion leaders were first identified in the 1940s in a landmark study by Columbia University on media influence. The study found that most people were relatively immune to direct mass media influence, but were influenced indirectly by people they knew and whose opinion they trusted. These influencers were dubbed 'opinion leaders' – and it was subsequently found that these opinion leaders, unlike the mass majority, were influenced by the mass media and other marketing initiatives [19]. Thus was coined the term 'two-step flow' of influence – influence the influencers who then influence the masses by word of mouth. Influencer outreach programs involve identifying influencers in a target market (using influencer screeners), and then engaging them with tools from the advocacy toolbox to transform them into word of mouth advocates. For example, 3M targeted influencers for its Post-It Notes brand; 3M invited secretaries to CEOs to have a say in how the product should be commercialized, and in doing so created an army of influential word of mouth advocates. After a failed mass market launch, 3M's influencer outreach program turned around a doomed product with languishing sales, and through word of mouth advocacy made it America's 5th largest selling office-supply product [20].

GROWTH BY ADVOCACY TOOL #7:

ADVOCACY TRACKING: By monitoring advocacy levels through the net promoter score for products, services and customer-facing departments, businesses can identify what they are doing right and where there is room for improvement. For instance, Enterprise Rent-A-Car tracks net promoter scores across its 5,000 plus branch network in the US. Using a simple customer feedback form, the business identifies high performing and high improvement outlets, learns from what they are doing right, and can focus resources on problem branches. To underline its commitment to customer advocacy, Enterprise Rent-A-Car links compensation and staff promotion to advocacy rates [21]. Other brands, including the Siemens Mobile, run online advocacy trackers to track word of mouth, positive and negative, in forums, blogs, and consumer review sites, using the tracker as a diagnostic tool for product enhancement, innovation and as a planning tool for future marketing campaigns [22]. Apple, tracking early word of mouth for its iPod digital music player, picked up negative buzz around the product's battery that was difficult and costly to replace. The problem was quickly amplified when a couple of disgruntled iPod owners made a video clip called 'iPod's Dirty Secret' and posted it on the Internet where it was seen 1.4 million times. By listening to the bad buzz and by acting upon it – correcting the product weakness through innovation – Apple was able to avert a major PR disaster [23].

GROWTH BY ADVOCACY TOOL #8:

INNOVATION: Ultimately, clients, customers and consumers will recommend a product or service when it is worth recommending. No amount of advertising hype or spin is likely to generate sustainable advocacy; Just as advertising works when you have something worth advertising, advocacy will drive growth when you have something worth advocating. This means that the key to driving growth through advocacy is innovation. Using the psychology of word of mouth provides a useful handle on how to innovate advocacy-worthy products and services. The key here is to have a product or service that delivers an experience that *exceeds expectations* because we only tend talk about things that are at odds with our expectations. In other words, product-talk is triggered when the product either exceeds or falls short of expectations. In practice, what this means is that driving growth through advocacy means identifying the expectation-priorities of a target market – as opposed to needs or satisfaction – and delivering experiences that exceed those expectations. By identifying where customer expectations can be profitably exceeded, and then by focusing new product or service development in these areas, businesses have the opportunity to hardwire customer advocacy into innovation [24].

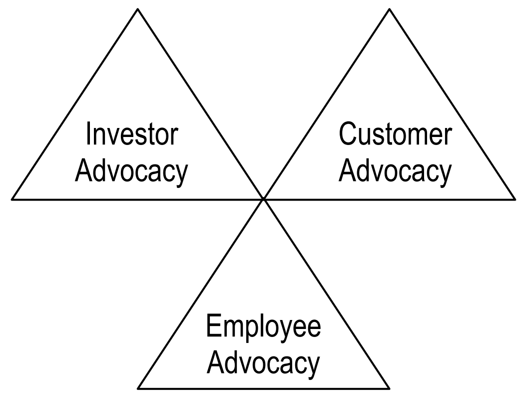
Conclusion: Advocacy as a Performance Predictor

In this study, we found that the word of mouth advocacy is linked to company growth in the UK – the more clients, customers or consumers who are advocates, the higher the growth. By increasing the net promoter score, that is, word of mouth promoters minus word of mouth detractors, by just 7 points UK companies can, on average, expect to boost growth by 1%. Likewise by reducing negative word of mouth by 2% businesses can unlock a further 1% growth. We also found that companies with above average net promoter scores, and who also enjoy below average negative word of mouth, grow 4 times as fast as those suffering from above-average levels of negative word of mouth and below average net promoter scores.

These findings suggest that businesses seeking year-on-year growth may be overlooking their most powerful growth-generating asset; existing clients, customers or consumers. With a range of turn-key solutions for optimizing word of mouth advocacy amongst product or service adopters at their disposal, businesses can transform satisfied buyers into vocal advocates who become part of a volunteer sales force. By delivering product and service experiences that exceed expectations, and by stimulating and amplifying the resulting customer advocacy, businesses have a customer-centric key for unlocking growth.

Moreover, if we extend the advocacy-drives-growth logic to other areas of business performance, notably stock performance and employee productivity, it may be that investor advocacy drives market capitalization and employee advocacy drives business productivity. We would predict that the simple 'would you recommend' question will have predictive power when posed to investors about investing in a particular company, or to employees about working for a particular company [26].

Figure 12: Predicting Overall Business Performance: The Advocacy Trinity



Three Simple Questions to Predict Overall Business Performance

1. To Investors: On a scale of 0-10, how likely is it that you would recommend investing in [company X] to a friend or colleague?

[Prediction Net Promoter score will predict share performance]

2. To Customers: On a scale of 0-10, how likely is it that you would recommend [company or brand X] to a friend or colleague?

[Prediction – Net Promoter score will predict sales growth]

3. To Employees: On a scale of 0-10, how likely is it that you would recommend working for [company X] to a friend or colleague?

[Prediction – Net Promoter score will predict productivity]

Obviously, these hypotheses need to be refined, qualified and above all tested, but the findings from this research certainly support the relationship between customer advocacy and sales growth. It will be for future research to determine whether, in addition, investor advocacy drives share performance and whether employee advocacy drives productivity.

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[6] Linear correlation obtained after log transformations of growth values. Since zero or negative growth figures do not permit log transformations, Barclays Bank was excluded from this calculation.

[7] Source: Automotive Unit of the Department of Trade and Industry (autoindustry.co.uk).

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[22] Reichheld (2003) *op. cit.*

[23] Marsden (2005) *op. cit.*

[24] Sutter, S. (2005) '5 big trends: Consumer empowerment.*' Marketing Magazine* (April 4) Article archived at http://www.marketingmag.ca/magazine/current/feature/article.jsp?content=20050404_67681_67681#

[25] For more on the role of expectations, and more generally on the psychology of word of mouth see Sundaram, D., Mitra, K, & Webster C. (1998) Word of mouth communications: A motivational analysis'. Advances in Consumer Research. Vol 25. pp. 527-531.