

NET PROMOTER SCORE (NPS) FRAMEWORK FOR IMPROVING CUSTOMER LOYALTY IN SUPERMARKET

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ABSTRACT

Net Promoter Score or more simply NPS is used for measuring Customer Loyalty. The case presents the NPS parameter framework for measuring the NPS of a Supermarket chain and relating low scores to identify Supermarket's weaknesses. The measurement and publication of NPS forms an important review mechanism for establishing operational consistency in a chain of supermarkets. The proposed NPS model for the organized retail sector is based on the measured monthly data on customer satisfaction surveys of a grocery chain of supermarkets for 17 stores over a period of 3 months. Use of the DMAIC (Define, Measure, Analyze, Improve, and Control) model in sustaining the improvements is also demonstrated. The paper also compares two clusters of Supermarkets groups for operational routine adherence and provides insights on improving customer offerings through better and consistent store operations leading to improved profitability and customer loyalty.

Keywords: Net Promoter Score (NPS), Customer Loyalty, Organized Retail, DMAIC Process, Customer Satisfaction in Supermarkets.

Introduction

The Net Promoter Score (NPS) framework is a customer loyalty metric that is extensively used by businesses to measure how likely their customers are to recommend their products or services to others. The NPS score is based on a single question: "On a scale of 0 to 10, how likely are you to recommend our product/service to a friend or colleague?" Customers are then grouped into three categories based on their responses as Promoters (score 9-10; highly satisfied with the product or service and are likely to recommend it to others), Passives (score 7-8; satisfied with the product or service but passive to recommend it to others and Detractors (score 0-6; customers dissatisfied with the product or service and may discourage others from using it). By subtracting the percentage of Detractors from the percentage of Promoters NPS score is calculated. Businesses can take actions to increase customer loyalty by identifying areas for improvement in their goods and services using the NPS framework. Modern retail's facilities like self-service, computerized billing, wide range of goods, convenience, and deep discounts is making millennial and housewives visit such stores repeatedly. The corporate retailers like DMart, Big Bazaar are attracting customers through media advertisements. The customer's shopping experience needs to be an enjoyable one for repeat visits. Retailers need to continuously survey, measure and improve their service offerings. They employ techniques like mystery shoppers, Customer satisfaction survey, customer exit interviews, Net Promoter Score (NPS) measurements etc. for improving customer shopping experience. The NPS framework is a powerful tool. By focusing on the needs and preferences of their customers, businesses can create a more loyal customer base and achieve long-term success.

Objectives of the Study

1. To compare the NPS score across a chain of Supermarkets.
2. To understand the constraints in lower NPS scores due to lesser resources at Supermarkets
3. To understand the importance of training and development for efficient store operations.
4. To identify stronger and weaker stores on NPS improvements and identity parameters contributing to this.

This research study aims to highlight the underperforming stores and relating it to store profitability and lower sales.

Literature Review

In a grocery Supermarket, it is imperative that new Customers are acquired and retained. Several organizations go to great lengths to measure Customer satisfaction. Whether a buyer is satisfied after a purchase depends on his shopping experience in relation to the customer’s expectations. If a customer's expectation falls short of his shopping experience he is dissatisfied, if the experience meets his expectation, he is satisfied and if his experience exceeds expectations, the customer is highly satisfied or delighted as per study conducted by David (1999).

A progressive company regularly measures customer loyalty, as Customer satisfaction is the key to retain customers. A highly satisfied customer generally stays loyal longer, buys more as the company introduces new products and upgrades existing products, talks favorably about the company and its products, pays less attention to competing brands and is less sensitive to price. He also offers product or service ideas to the company. High satisfaction or delight creates an emotional bond with the retailer, not just a rational preference as per Kotler (2007)

There are several methods to measure Customer satisfaction:

1. Periodic surveys of the shoppers, post purchase
2. Analyzing Customer loss rate
3. Mystery shopper Shopping trip
4. Measuring Net Promoter Score or NPS

Reichheld (2003) suggests that for a customer satisfaction survey perhaps only one question matters **“Would you recommend this store to a friend?”** According to him, a customer’s willingness to recommend to a friend result from how well the customer was treated by the front-line employees, which in turn is determined by all the functional areas that contribute to a customer’s shopping experience. By substituting a single question for the complex black box of the typical customer satisfaction survey, companies can put consumer survey results to use and focus employees on the task of stimulating growth. He says that customers talk about their shopping experience at a Supermarket to their friends, family, and colleagues. A recommendation for a Store is one of the best indicators of loyalty because of the customer's sacrifice in making the recommendation. A customer would act as a reference only when he would have received good economic value from the store. A Customer put their own reputations on the line by recommending the store and they would not risk their reputation if they do not feel intense loyalty towards the store as per Reichheld (2003) in his model proposed on Net Promoters score (NPS)

Keiningham (2007) article, NPS Question “What is your likelihood to recommend company X to a friend or colleague?” to customers can help measure loyalty. Depending upon the response to that single question, using a scale of 0 to 10, the respondents were classified as Detractor (0-6), Passive (7-8) and Promoter (9-10)

The illustration below taken from Fred Reichheld’s own material shows the distribution of NPS scores for North American companies.

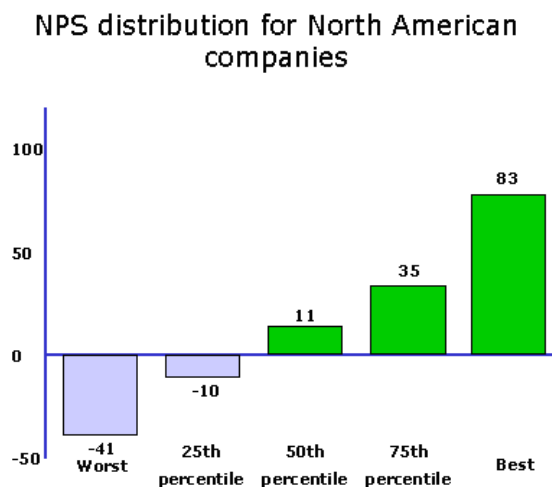


Figure 1: Fred Reichheld’s NPS Distribution for North American Companies
(Source: <http://www.customerchampions.co.uk/net-promoter-score-nps-a-balanced-view/>)

The NPS method of surveying the loyalty of Customers became very popular among companies. This helped predict Customer satisfaction and Customer Loyalty. Several teams adopted NPS scale of measurement of Customer Loyalty due to its inherent following advantages as studied by Howie(2014):

- In this single measure it was possible to cover the complete customer experience – both physical (arrive on time etc.) and emotional (customer experience).
- As there was only a single question the cost of fieldwork is greatly reduced,
- It had a positive impact on respondent's time being surveyed; therefore organizations receive higher participation rates.

Markey's (2020) research in Harvard Business Review shows that loyalty leaders -companies at the top of their industries in Net Promoter Scores or satisfaction rankings for three or more years, grow revenues roughly 2.5 times as fast as their industry peers and deliver two to five times the shareholder returns over the next 10 years as studied by Markey(2020)

O'Malley (2022), firms with the highest net-promoter scores consistently garner the lion's share of industry growth. The companies with the most enthusiastic customer referrals, including eBay, Amazon, and USAA, receive net-promoter scores of 75% to more than 80%. for companies aiming to garner world-class loyalty—and the growth that comes with it—this should be the target.

In their Research paper 'Six sigma DMAIC Literature Review Bhagat (2015) has stated that DMAIC processes (Define, Measure, Analyze, Improve, Control) helps in first measuring the existing parameters then taking corrective steps when certain processes fall below specified levels. This leads to improvement in overall quality of the processes leading to product and services improvements to the customers.

Seng (2018) states that DMAIC(Define, Measure, Analyze, Improve, Control) is an initiative for continuous process and product improvement. DMAIC helps organizations to solve complicated business problems using simple techniques.

Research Methodology

Many organized Retail Chains have started measuring NPS from the customers who have shopped. Researchers selected a chain of popular Supermarkets in South India in the state of Tamil Nadu for studying the Monthly NPS at Stores.

Study Parameters

- Supermarkets: 17; Average Area 7,000 Sq.ft. (630sq.m)
- Study duration: 12 Weeks; 1st Oct. 2018 to 31st Dec. 2018

Process for Collection of NPS Scores from Supermarkets

For the 17 Supermarkets, the Monthly NPS Score was collected for 3 months:

1. Customers who have shopped at Supermarket chains are sent an SMS NPS question "Will you recommend shopping at this store to your friends and relatives? - Rate on a scale of 0(Min.) and 10 (max.)"
2. Average 10%-15% shoppers respond.
3. They are divided in to Promoters (score 7-10), and Detractors (score 0-6)
4. The detractors are sent a follow up questionnaire through a link and paid a small amount as incentive. This helps to understand the areas that have disappointed the customer.
5. These are rated and action plans are formulated to improve service attributes like Store Hygiene, Price and promotions, Service quality, Fresh products quality, and Billing Time.
6. These are monitored centrally and reviewed week on week to measure and sustain store-wise improvements.

Based on the above a Store NPS KPI Template was Designed

Table 1:NPS Template	Action Plan
NPS Questionnaire sent to customers daily and calculation of NPS Score for each supermarket	Collation of responses, segregating into Detractors, passives, and Promoters.
Measurable action	Measure weekly store-wise NPS and publish for review. Identify low scoring Stores. Send follow up survey questionnaires to detractors.
Inputs	Collect NPS data and formulate a plan for improvement. Identify additional resources needed for improvements.
Outputs	1. Store-wise Trend lines for data mining insights 2. Identifying the laggards 3. Deploy additional resources and continue measuring NPS 4. Identify the Training and development needs at such stores.

Table 1: NPS Template and Action Plan

Proposed DMAIC Model for Improvement in Store NPS

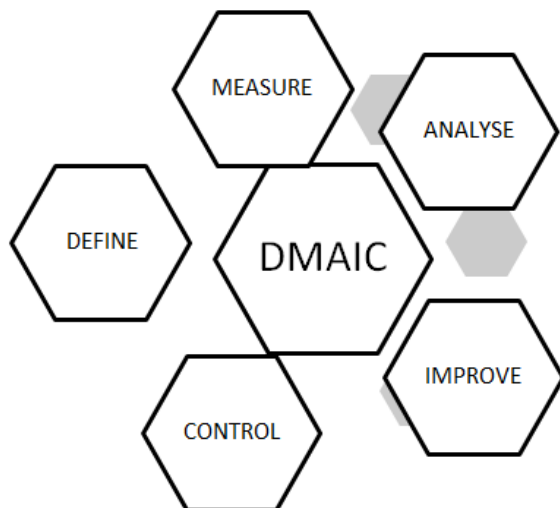


Figure 2: DMAIC Model (source: <https://www.6sigma.us/dmaic-process/>)

DMAIC Model

Phase No.	Name	Parameters
1	Define	1. Scope: Supermarkets 17 Duration 3 Months 2. Geographical reach: Tamil Nadu State Region 1: 7 Supermarkets Region 2: 10 Supermarkets
2	Measure	1. Publishing Store-wise Monthly NPS scores. 2. Mapping of processes and identifying Inputs and Outputs 3. Develop detracting factors rating and send survey questionnaires to detractors. 4. Monitor Weekly Store-wise NPS trends 5. Convert detractor factors in relation with NPS score.

3	Analyze	<ol style="list-style-type: none"> 1. Compare store-wise monthly NPS 2. Plot region-wise, store-wise weekly line charts for 3 months. 3. Get detractor factors rating from customer and plot trends 4. Develop Input and Output relationship 5. Tabulate observations
4	Improve	<ol style="list-style-type: none"> 1. Identify weaker stores. 2. Formulate improvement plans. 3. Provide resources 4. Establish ongoing improvement measures.
5	Control	<ol style="list-style-type: none"> 1. Continue monitoring all stores weekly. 2. Present KPI to Ops Director, AM and RM's weekly 3. Share improvement plans and identify monitoring means 4. Raise standards after satisfactory improvement.

Table 2: DMAIC Model

Cause Effect Table for Lower NPS for a Supermarket

	Cause	Effect	Effect on Other Functions
LOW NPS SCORES	Poor Staff Service	Supermarket's Service image reduces. Customers discuss poor service instances with their friends and relatives.	Customer walk-ins reduces over a time.
	Longer Billing Time	Customer feels frustrated. The shopping experience turns sour.	Lower sales. Shops only for the items needed.
	Higher Prices and lower Promotions	Customers start visiting competitors. Shops only for essentials, or items which are on higher discounts.	Spreads message of lower discounts to others. Starts appreciating competitor's qualities.
	Poor Quality -Fruits and Veg & Non-veg products.	Weekly shopping visits are reduced. Discovers for local Fruits and vegetable vendor	Fresh items sales decrease. Wastage of these items increases. Losses widen.
	Poor Store Hygiene	Leads to lower sales	Lower walk-ins'.

Table 3: Cause Effect Table for Lower NPS

Framework for Measuring NPS at a Store

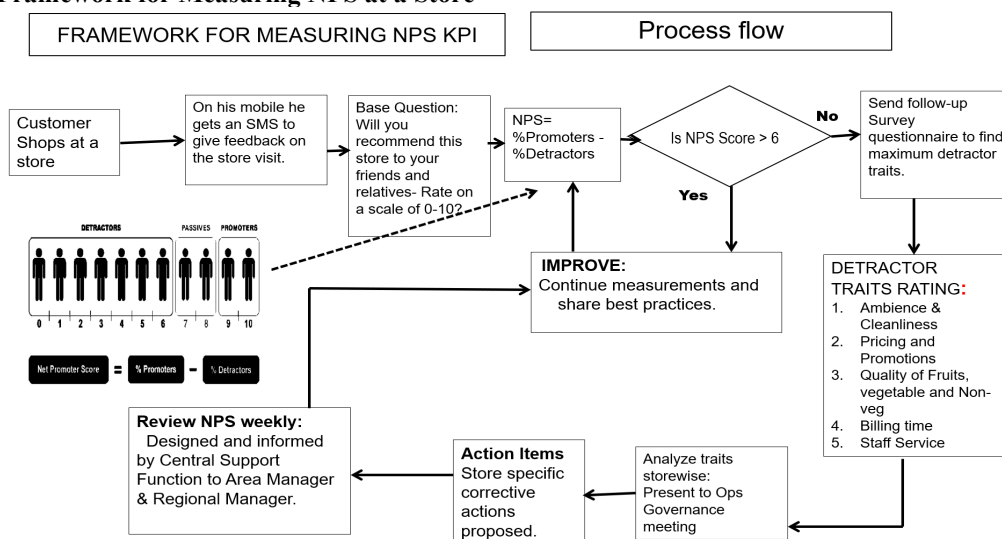


Figure 3: Process Flow on NPS KPI Monitoring (Source Compiled by Researcher)

Data Interpretation

NPS Scores for all 15 stores for Oct.18 were plotted in Tables 4 and Table 5

Store Code	SM02	SM11	SM12	SM18	SM21	SM22	SM23	SMREG1
NPS Oct.18	18	8	25	38	24	13	-3	17.6

Table 4: NPS Trends Region1 – Oct.18

Store Code	SM 01	SM 03	SM 04	SM 06	SM 08	SM 09	SM 13	SM 14	SM 16	SM 17	SM REG2
NPS Oct.18	-9	7	4	13	-13	14	5	13	-31	11	1.4

Table 5: NPS Trends Region2 – Oct.18

The above template was made and all data from Oct.18 was analyzed in this manner for all the 15 stores

Observations

Supermarkets Region 1 and Region 2 trends in NPS. – Oct.18 indicates that

- A. Region 1 is superior to Region 2 on NPS.
- B. Study best practices followed by higher NPS stores in region 2 and emulate other stores.
- C. Lower NPS in several stores in Region 2 indicate lower customer loyalty.
- D. Needs urgent plan to improve NPS for Supermarkets in Region 2.

Action Plan to Improve NPS in Region 2 Stores

- 1. Identify the Detractor factors in all stores.
- 2. Take corrective actions centrally.
- 3. Select two pilot stores, in Region2, for improving the NPS.
- 4. Allocate additional resources for improving detractor factors.

Detractor Factors for selected Pilot stores, SM13 and SM14

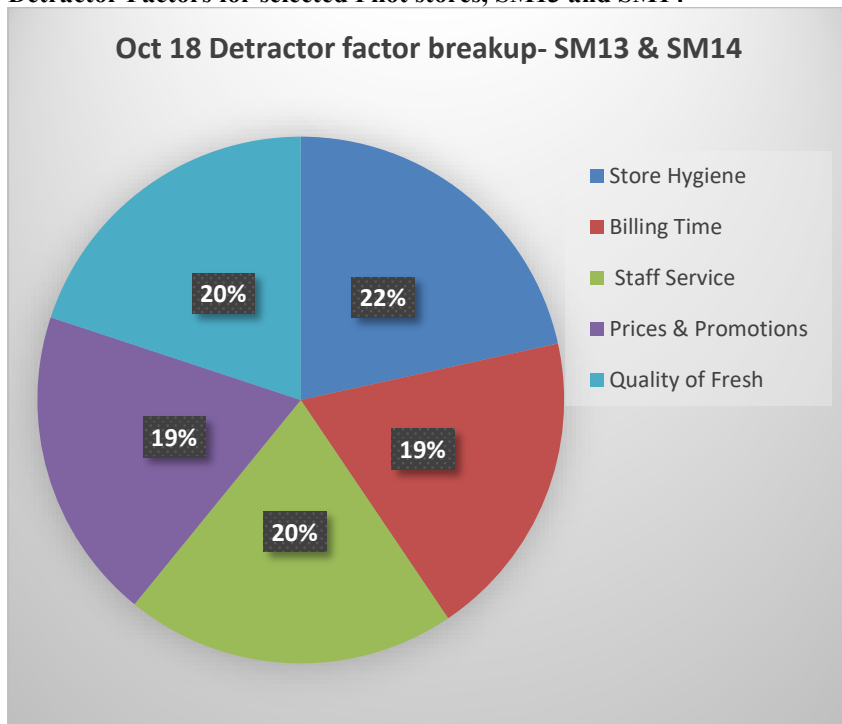


Figure 4 SM13& SM14 Detractor Factor Breakup

Improvement Plan for improving detractor factors for SM13 & SM14

Detractor factor	Plan for Improvement	Additional Resources	Budget allocated
Store Hygiene	1. Daily twice cleaning the store. 2. Hourly cleaning of F&V dept. 3. Change of Ice twice in the Fish bed. 4. Cleaning Checklist in Customer Toilets	1.2 Cleaners to be added. 2. Additional ice to be procured. 3. New uniforms for Butchers 4. Air Freshener in Non- veg dept.	Rs. 45000 Rs. 15000 Rs.3000 Rs.2000
Staff Service	1. New Supervisor for Customer service desk. 2. Training to all staff	1. Transfer from Superstore 2. HO Customer trainer deputed,	----- Rs.1000/ week
Prices & Promotion	1. Highlight promotions through weekly leaflets. 2. All deals in store to have Point of sale	Additional brochures distribution- 2000 Send promotions checklist and SM to audit	Rs.3000/ week
Quality of Fresh	1. Strict quality control of incoming Fruits and Vegetables. 2. Acceptable quality SKU-wise chart to be displayed at receiving. 3. Removing deteriorated fruits n Vegetables hourly from bins.	Laminated charts to be sent F&V n Non -veg Wastage budget increase.	Rs.2000 Rs.3000/ week
Billing Time	1. Increase 2 cashiers in 2 nd shift. 2. Have one additional Fruits n Vegetable weighing station. 3. Measure billing time and communicate daily. 4. Have 3 bag packers on weekends to assist cashiers.	1.2 part-time cashiers to be recruited 2. Shift weighing station from other store. 3.2 Bag packers on weekends from a housekeeping agency.	Rs.15000 Rs.10000

Table 6: Improvement Plan SM13 & SM14

Data Analysis

Summary of Detractor Factors improvements in two Pilot stores- SM13 & SM14 after providing additional support and budget allocation is as shown below-

SM13	Oct 18 Rating	Dec. 18 Rating
Store Hygiene	4.04	5.86
Billing Time	3.56	6.37
Staff Service	3.81	6.09
Prices & Promotions	3.6	6.62
Quality of Fresh	3.73	6.50

Table7: Detractor factor improvements – SM13

SM14	Oct 18 Rating	Dec. 18 Rating
Store Hygiene	4.47	5.74
Billing Time	3.9	6.59
Staff Service	3.97	6.21
Prices & Promotions	3.7	6.3
Quality of Fresh	4.02	6.45

Table 8: Detractor factor improvements – SM14

Effect of Detractor factor rating improvements on NPS of SM13 and SM14

SM13	Oct 18	Dec. 18
NPS	5	22

Table 9: Detractor factor trends – SM13

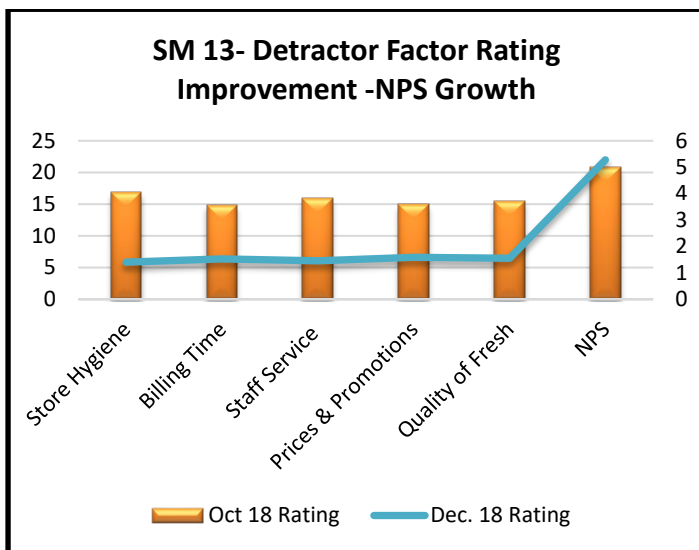


Figure 5: SM13 NPS scores in relation to Detractor factors

SM14	Oct 18	Dec. 18
NPS	13	29

Table 10: Detractor factor trends – SM14

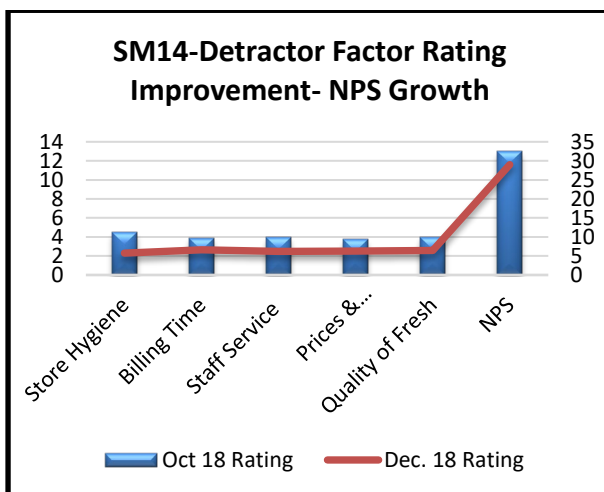


Figure.6: SM14 NPS scores in relation to Detractor factors

Effect of Detractor factor rating trends on NPS of SM09 and SM14

No additional resources were provided to these stores.

SM09	Oct.18 Rating	Dec.18 Rating
Store Hygiene	3.92	3.84
Billing Time	3.06	3.11
Staff Service	3.38	3.57
Prices & Promotions	3.23	3.51
Quality of Fresh	3.40	3.31
NPS	14	2

Table 11: Detractor factor trends – SM09

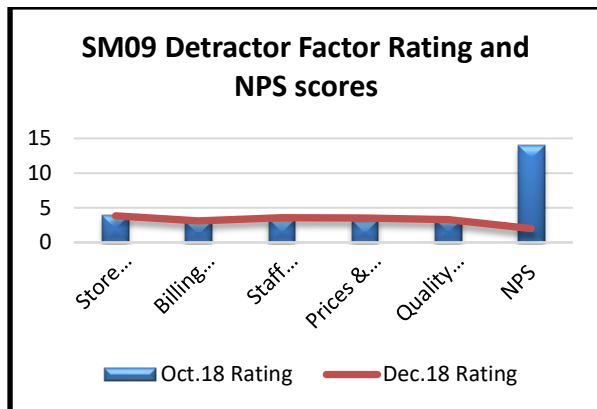


Figure 7: SM09 NPS scores in relation to Detractor factors

SM16	Oct.18 Rating	Dec.18 Rating
Store Hygiene	4.28	3.61
Billing Time	3.8	3.32
Staff Service	3.9	3.31
Prices & Promotions	3.65	3.37
Quality of Fresh	3.90	3.35
NPS	-31	-14

Table 12: Detractor factor trends – SM16

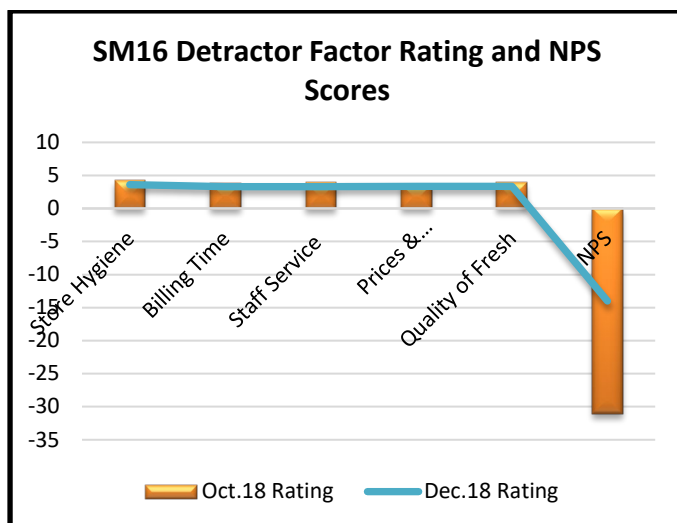


Figure 8: SM16 NPS scores in relation to Detractor factors

Observations

1. The cluster Region 1 Supermarkets have fair NPS and indicate adequate attention to customer’s shopping experience.
2. Customer dissatisfaction is based on shopping experience factors like Staff Service, Price and Promotions, Store hygiene, Billing time and Quality of fresh products.
3. Identifying low NPS stores and surveying customers on detractor factors help improve the NPS.
4. Providing additional resources and closely monitoring the detractor factors have helped improve the NPS score in pilot stores SM13 and SM14.
5. The NPS for the two other stores, SM09 and SM16, where no conscious efforts were made to improve detractor factors, have in fact dipped.
6. The detractor factor rating for the stores SM09 and SM16 have remained consistent, but the NPS scores have dipped.

Findings

1. The Cluster Region 2 is poor in NPS and several peaks and valleys indicate inconsistent operations in a majority of stores.
2. The lower NPS in stores in Oct.18, at SM13, SM14, SM09 and SM16 indicates poor attention to detractor factors and may need additional marketing efforts and resources to achieve budgeted sales.
3. Additional resources at SM13 and SM14 helped improve not only their own NPS but also the Regions NPS.

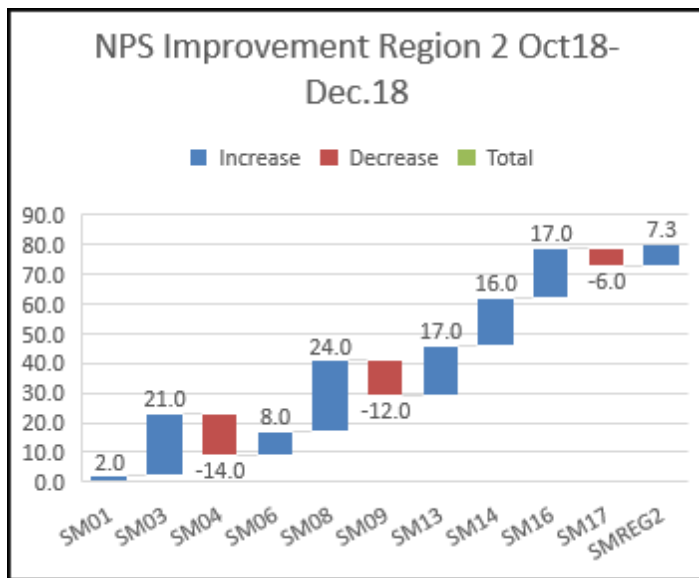


Figure 9: NPS Improvement Region 2

Overall, Region 1 cluster stores have consistently performed well on NPS. Region 2 NPS trends show improvement by 7.3 points over the trial period.

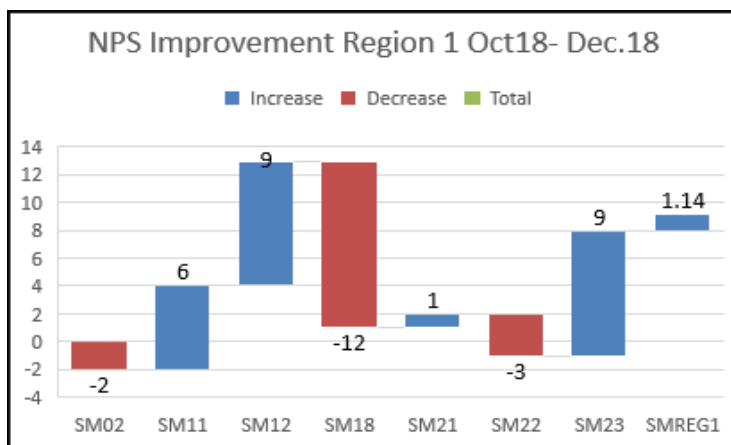


Figure 10: NPS Improvement Region1

The increased NPS at the pilot stores SM13 and SM14 resulted in an increased average sale of 14% and lower losses of 4% over the trial period.

On the other hand, reduced NPS scores at SM09 and SM16 resulted in average lower sales by 12% and increased losses by 9% for these stores.

Region 1 NPS trends show improvement by 1.14 points over the trial period.

Outcomes

1. NPS framework can be used for measuring and improving Customer Loyalty in a Supermarket chain.
2. This framework can help compare statistically Supermarkets on NPS month on month. This provides a good review mechanism for improving detractor factors.
3. Management can correlate NPS score, detractor factor ratings with falling sales and increased losses.
4. Management can justify allocation of additional resources to stores for improving NPS. They can make Area Managers and Regional Managers accountable for improving NPS and justified utilization of additional resources.
5. Continuous measurement and follow up of NPS will improve store operations, staff service, better focus on Prices and promotions and improve store hygiene.
6. The action plan described in this case study was followed in other stores, to achieve similar results.

Innovations / Change Aspect of the Process Studied

1. The above study helped to prove that improving detractor factors improves NPS.
2. The Store managers shared these findings, and the effect of improving NPS was demonstrated.
3. The best practices which helped reduce detractor factors were shared with all stores.
4. The Supervisors were sent for a special training in SM13 and SM14 to experience changing conditions and improvements made.
5. The NPS scores were regularly shared in Team meetings with staff and ideas and suggestions were asked from staff and Supervisors.
6. The staff became more conscious of the effect of poor service, poor quality of fresh produce and longer billing times on NPS and thereby on reduced sales and increased losses.

Relevance of the Study to the Organization

1. The results of the improvements in NPS scores in Region 2 were discussed at the Top Management level and appreciated.
2. The additional resources and its cost were justified vis a vis benefits accrued.
3. The stores SM3 and SM14 were used as Model stores for training and sharing best practices.
4. The other low NPS scoring stores also followed best practices, many times without additional resources, improving their performances as well.
5. NPS score became a benchmark on Store Operations and customer's acceptance to service and price perception.
6. The above experiment clearly established the correlation between NPS and store sales and NPS and store losses.
7. The average score of NPS in a store was proposed as one of the Store Manager's KPI and was reviewed during half yearly and annual appraisals for salary increments and promotions.
8. The importance and effect on NPS score were made a part of the induction training for all staff, Supervisors and Store Managers.

Relevance of the Study to the Industry:

1. As organized industry is only 4% of total retail industry in India, NPS score and its measurement can form an important yardstick to measure loyalty.
2. The breaking down of detractor factors into parameters related to the category in which the retail store operates can help management to implement corrective measures.
3. The suggested detractor factors and its inclusion to various retail format can be as follows:

Type of Retail Store	Grocery Retail Store	Apparel Store	White Goods Store	Jewelry Retail Store
Detractor Factors	Price and promotions	Stock Range and availability	Price and promotions	Stock Range and availability
	Staff service	Staff Service	Staff service and product knowledge	Staff service and product knowledge
	Billing time	Trial room waiting time	Store ambience	Store ambience
	Quality of fresh produce	Product quality	Support from brands	Prices, loyalty schemes.
	Store hygiene	After sales service	After sales service	After sales service

Table 13: Detractor factors in other Retail Formats

Further Scope of Studies

Based on the above NPS model, the following Store KPIs can be studied

1. Customer attrition rate
2. Weekly Cash till billing time
3. Weekly Customer invoice nos. and NPS trends.
4. Weekly Food safety and Quality audit (FSQA) scores.

Limitations of the Study

The study was done on food grocery supermarkets and the NPS and detractor factors might vary for other retail stores. The NPS improvements were continuously monitored centrally after an additional budget was allocated. In the event the supervision and measurements were weak, the improvements might not be as high. This study assumes truthful feedback on NPS and reasons for detractors from the customers. Latest information tools like tracking billing and sending SMS, collating the web responses and data analytics were used to arrive at the stores NPS.

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