



... and Net Promoter Score: Key Drivers of Airline Profitability?

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The world's most successful investor of all time does not invest in airlines. As a matter of principle.



Warren Buffett's Prime Investment Principle



- US star investor Warren Buffett **invests only in companies with «pricing power»**.
- Buffett says: «The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business.
- And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business.»

(In an interview with Bloomberg TV, 18 Feb 2011)

The airline market is structurally predisposed to price pressure. High fixed costs, overcapacity, and price transparency create permanent downward pressure on fares.



Competitive Environment of Airlines

→ **Chronic overcapacity**

- **High fixed costs** push airlines to fill every seat.
- Many carriers expand their fleets to gain market share, so the market often ends up with **more seats than demand, pushing yields down.**
- **State-supported airlines** prevent consolidation.

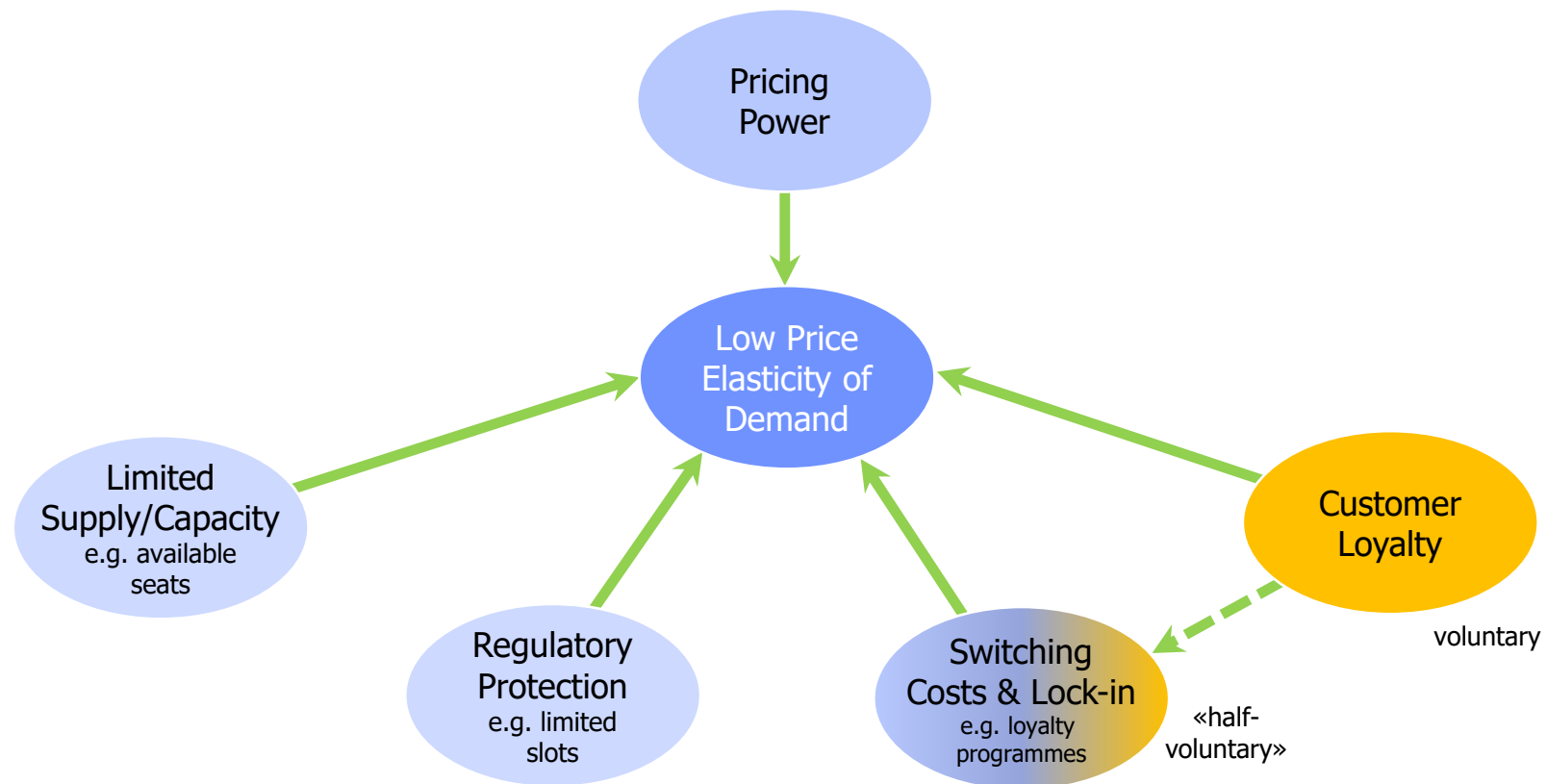
→ **High price pressure**

- Price is the **primary decision factor** for most flight guests, since the
- Core product of an airline is largely standardised (= a **commodity**).
- **Price comparison platforms** make ticket costs fully transparent.
- Customers have been trained over the years by special offers, last-minute prices, and low-cost carriers to always look out for lower prices.

Pricing power can be achieved through restrictions and barriers — or (voluntary) customer loyalty.



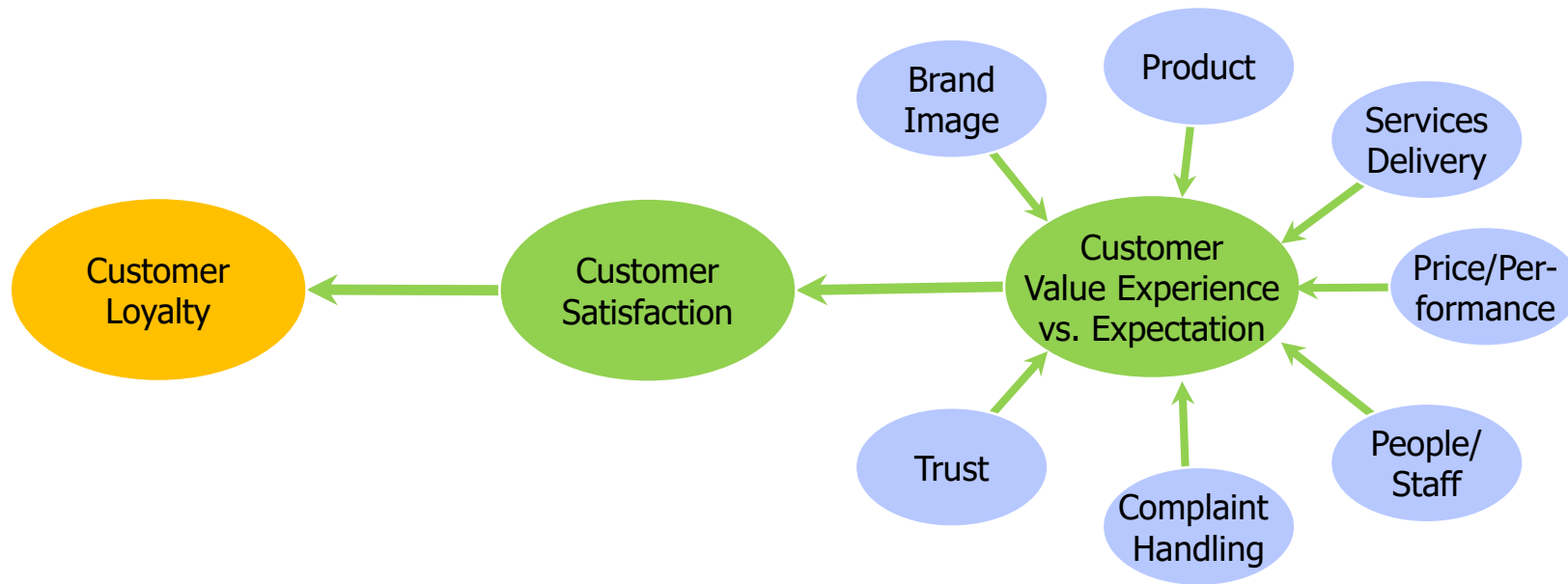
Core Prerequisites for Pricing Power



**Customer loyalty is created through customer satisfaction.
And customer satisfaction comes from permanently
fulfilling the promised product and service performance.**



Drivers of Customer Loyalty and Customer Satisfaction



The miracle of customer loyalty: it reduces the customer's price sensitivity and thus enhances pricing power!



Positive Effects of Customer Loyalty

→ **Satisfied customers keep coming back for more.**

- Reduced acquisition cost → **money saved**

→ **Satisfied customers recommend your company.**

- Reduced advertising cost → **double save!**

→ **Satisfied customers are less price sensitive:**

- Statistically **strong positive correlation between customer satisfaction and willingness to pay**. Correlation grows with increasing customer experience (i.e. stability of quality assessment).
- High customer satisfaction rate will **reduce negative reactions to price increases**.
- Satisfied customers have **less explicit knowledge about prices** and tend to forget price information more quickly.



If customer loyalty has such positive effects: How can it be measured and managed?



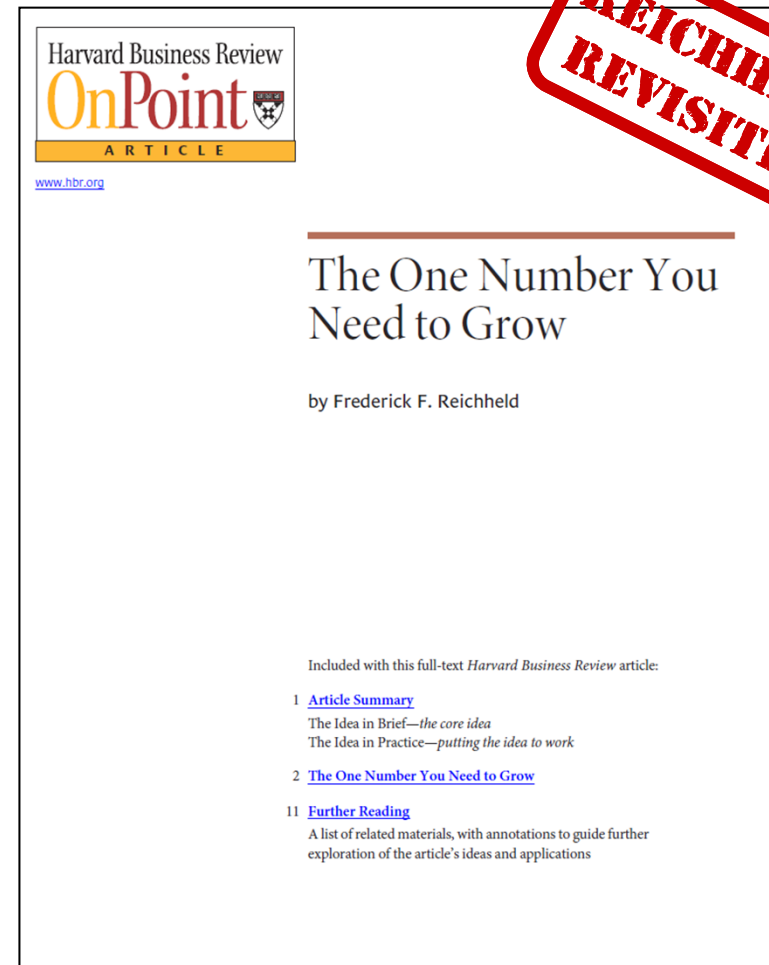
The Creator of the Net Promoter Score (NPS)



Frederick F. Reichheld, Bain Fellow, Boston (Photo: Bain & Company)

In his groundbreaking article «The One Number You Need to Grow» (Harvard Business Review 2003) Fred Reichheld proposed his «Net Promoter Score» as the best tool for measuring not only marketing success, but even overall corporate performance.

Source: own representation



Reichheld's key thought is simple, but intriguing:



The only path to profitable growth may lie in a company's ability to get its loyal customers to become, in effect, its marketing department.

Frederick F. Reichheld
US Customer Loyalty Mastermind,
Creator of the «Net Promoter Score»

Reichheld subdivides the customers of a company into three segments:



Calculating the NPS | Customer Segmentation

→ **Promoters:**

Loyal enthusiasts; they shop with the same company again and again. These are the airline's most devoted consumers who are not only content with their experience but also inclined to recommend it to their reference groups.

→ **Passives:**

Satisfied customers; however, they are not particularly enthusiastic about their provider and are ready to switch airlines under appropriate circumstances. Competitors can win these customers over fairly easily.

→ **Detractors:**

Dissatisfied customers feeling imprisoned in their current customer relationship; they are not loyal to their current provider due to conviction but due to habit or exit barriers. Their negative reports may prevent others from flying with the airline.

→ Resulting **Action Plan:** Firms need to work on converting Critics into Passive Supporters and Passives into Promoters!

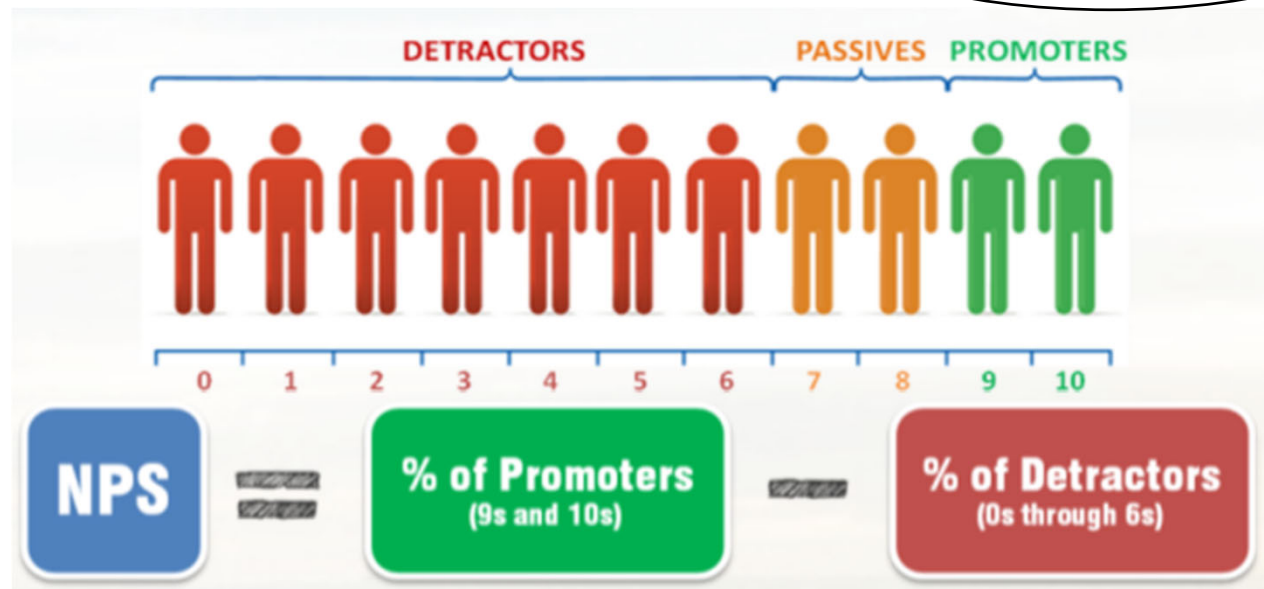
The NPS is defined as the mathematical difference between Promoter and Detractor share. Passives do not count.



Q: How likely is it that you would recommend our product/service to others?

Calculating the NPS | Formula

- NPS is measured in customer satisfaction surveys
- **Indicator:** willingness to recommend a certain provider/product («would recommend»)
- **Measurement:** on an 11-point rating scale from 0 (very unlikely) to 10 (very likely)
- **NPS Formula:** percentage of respondents stating a high willingness to recommend («Promoters» = values 9 and 10) minus the percentage of respondents with middle to low willingness to recommend («Detractors» = value 6 or lower). «Passives» don't count.



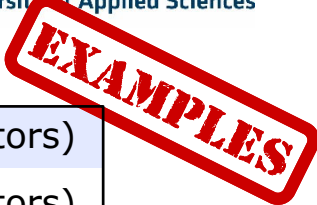
Which NPS is good?



Calculating the Net Promotor Score | Valuation

- ➔ Per definition, the NPS reaches values between -100 and +100. A positive value shows that more customers would recommend the airline than <davon abraten>.
- ➔ Reichheld and Bain & Co. have established the following **NPS scoring system**:
 - above 0 is good (number of promoters > number of detractors),
 - above 20 is very good (but the minimum progress),
 - above 50 is excellent (above average competition), and
 - above 80 is outstanding.

Net Promoter Scores in the Airline Industry. Many airlines set an NPS target of ~50.



NPS of Selected Airlines (as of 2023/24)*

→ Emirates	60 (74% Promoters, 12% Passives, 14% Detractors)
→ Southwest Airlines	47 (66% Promoters, 15% Passives, 19% Detractors)
→ Delta Airlines	43 (64% Promoters, 15% Passives, 21% Detractors)
→ Vietnam Airlines / Domestic NPS	42 (Target 51)
→ Condor	39
→ Alaska Airlines	36 (59% Promoters, 18% Passives, 23% Detractors)
→ Cathay Pacific	27
→ Lufthansa Group Airlines**	27 (Target 50)
→ Vietnam Airlines / International NPS	27 (Target 27)
→ American Airlines	14 (49% Promoters, 16% Passives, 35% Detractors)
→ Ryanair	14
→ British Airways (AIG)	no NPS figures published
→ EasyJet	no NPS figures published
→ Singapore Airlines	no NPS figures published

* Official (corporate) sources, no benchmark data; figures for Promoters/Passives/Detractors where specified. ** incl. Lufthansa, Swiss, Austrian, Brussels

NPS has become a huge success across many industries — including airlines. However, NPS data should always be interpreted with caution, direct comparison is difficult.



Observations | NPS Data Issues

- Generally, there is **official vs external data**: Only official (=corporate) data can be regarded as reliable. Data from external benchmark analysis and Ranking Websites (e.g. Customer Gauge, Comparably) sometimes seem to be questionable.
- Not all airlines publish clear absolute NPS figures in their **annual reports** and disclose source and method.
- Method and comparability: There are **different types of NPS** measurements, esp. **Relationship NPS** vs **Transactional NPS**. These further differ in sample size, sample structure, and time of interview.
- Generally, **NPS scores can fluctuate greatly** — depending on problems with delays, baggage loss, and connection problems.
- Hence, it is important to know **WHO was interviewed** (all customers, only frequent travellers, «random» customers ...) **and WHEN and with what INTENTION**.

Today, Reichheld's smart idea has become the international standard for measuring marketing success. However, the NPS formula has its weaknesses:



NPS | Critical Acclaim

- The strong point of the NPS concept is to **concentrate on enthusiasts as key drivers for profitable growth** — customers that do not only come back but act as your advertisers.
- BUT the **calculation method is arbitrary:**
 - **Insufficient theoretical foundation:** Why three segments? Why are «Promoters» only assigned to the values 9 and 10? Why do «Passives» not count? (Fisher & Kordupleski 2019; Dawes 2022)
 - **Results are ambiguous:** same NPS can be achieved with different proportions of promoters and detractors, e. g. $NPS = 20$: 50% Promoters – 30% Detractors or 30% Promoters – 10% Detractors or ... → Interpretation?
- AND the **NPS is poor at measuring negative word-of-mouth** (East et al. 2010; Dawes 2022)

Managers seem to love NPS rankings ... but Academia remains sceptical: Reichheld's two main assertions could not be proven beyond doubt yet.



NPS | Critical Acclaim

- Easy to measure, easy to interpret results, easy to communicate to staff.
- Makes **Benchmarking** possible.
- Is **Actionable**.
- Satisfies top-management's desire for tools that **reduce complex matters to one single figure**.
- But the **key selling point** is Reichheld's bold prediction, the **NPS could be used to forecast future growth in revenue and profit**.
- This claim has been examined in **numerous studies** over the last 20 years — across various industries, including the airline industry (see recently e. g. Keiningham & Cooil & Andreassen & Aksoy 2007; Grisaffe 2007; Korneta 2018; Chanarpas 2022; and esp. Dawes 2022).
- Results were **not sufficient to support the claim** that NPS could forecast future (!) revenue and profit growth. (Reichheld himself committed the fault to use past data to «prove» the correlation.)

Firms should be cautious about expecting concrete revenue or profit growth from high NPS scores!



Conclusion

- ➔ The **strong point of the NPS concept** is the idea that **positive recommendations and reviews from customers have positive financial effects**. This hypothesis seems intuitively convincing — more than ever **in the age of Social Media**.
- ➔ However, a **statistical connection** between customer loyalty and growth in revenue or profit **has not yet been found**. This may be illustrated using two popular examples:
 - Ryanair is highly profitable, but their NPS is low.
 - Southwest sports a high NPS, but their profitability is low.
- ➔ It seems that **profitability is not only a result of customer loyalty** — and a single metric alone is not sufficient to justify growth or profitability (Dawes 2022).
- ➔ Consequently, NPS appears to be **more of a customer sentiment measure, but less of a predictor of future revenue growth** (Dawes 2022).
- ➔ Many seem to believe that there is more to the NPS than there actually is. **Positive effects of customer loyalty are likely, but not plannable in a statistical way.**



**Thank you very much
for your attention!**