

# Net Promoter Scores Australia 2006

**Independent research conducted by  
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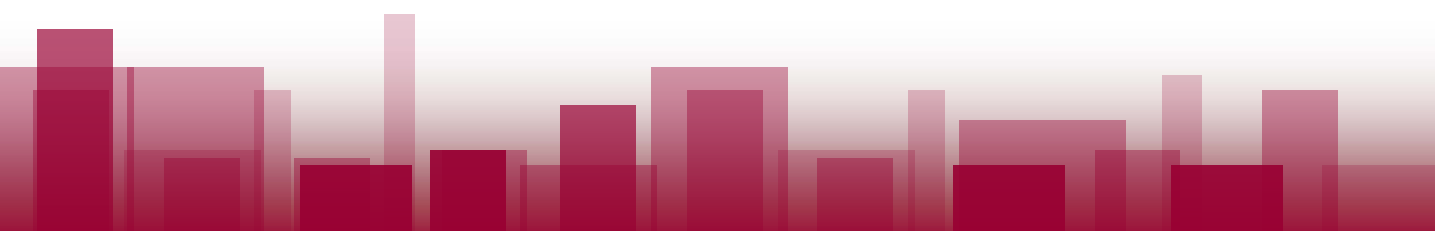
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# Executive Summary

Net Promoter Scores (NPS) are calculated by asking a sample of customers how likely they would be to recommend a brand to others. The proportion of those who think it unlikely they would recommend the brand (Detractors) subtracted from the proportion that are likely to recommend it (Promoters) produces a single number known as a Net Promoter Score.

In the last three years, Net Promoter Scores have become an increasingly important metric for many international organisations. This is because the method is simple, because it enables companies to compare their performance against other firms, and because there is strong evidence that a higher NPS is correlated with future business growth.

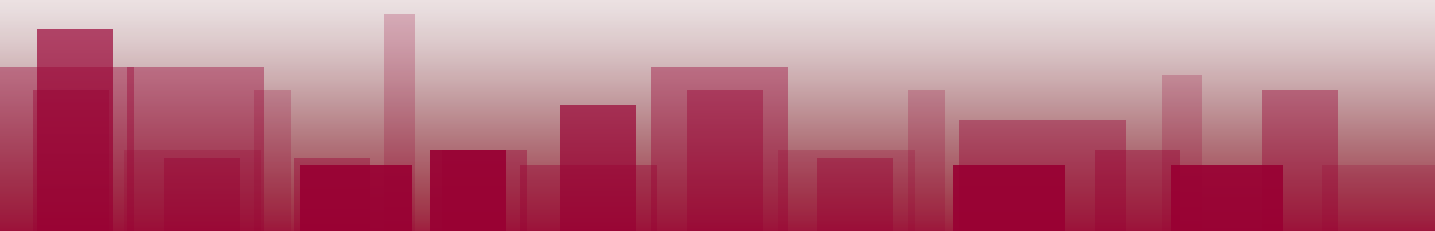
This report presents the results of 2000 face to face interviews with a national sample of Australian residents. Net Promoter Scores were calculated for a range of different products and services that this sample had recently purchased. The results provide the first publicly available study of Australian NPS data.

Several brands emerge as genuine customer champions that excel in meeting or even exceeding customer expectations and are likely to grow their business as a result.

These brands include Singapore Airlines, HSBC, Bendigo Bank, BMW, AAMI, and the AFR. The results also suggest that tourist destinations Broome and Byron Bay are also offering tremendous customer experiences as are the local grocery markets and independent grocery stores of Australia.

In contrast, many brands appear to be struggling to maintain customer relationships and many are likely to experience much slower rates of growth in the future than competitors with higher NPS. These poor performing brands include Commonwealth Bank, Saab, Insurance Australia Group, Coles, Medibank Private and Telstra. The research also suggests that Adelaide provides a particularly poor customer experience for tourists.

This document also reviews many of these companies in light of the NPS data and explores a number of recurring themes. Foreign entrants are making increasing in-roads into Australia. Industries in which there has been a lack of competition exhibit particularly low NPS. The best performing companies are ones that make an explicit focus on customers, target more tightly defined segments and constantly challenge themselves to improve their offer to customers.



# 1. What are Net Promoter Scores?

The success of a company depends not only on its management, on the availability of raw materials, or the quality of its products. Follow the revenues all the way to their origin, and it's clear that ultimately a company succeeds by satisfying its customers.

Net Promoter Scores (NPS) are a simple but remarkably effective new method for measuring customer loyalty.

The approach was invented by Bain consultant Fred Reichheld. He discovered that a single question provides the ultimate measure of just how loyal a company's customers are. This measure can then be used to accurately predict future revenue growth of a company.

The method could not be simpler – ask a sample of a company's customer base a single question:

**“How likely is it that you would recommend [the company] to a friend or colleague ?”**

The customer then responds on an 11 point scale - from 0 (not at all likely) to 10 (extremely likely) depending on how positive they feel about the company in question.

Based on their response to this question customers are then divided into three distinct groups.

## **0-6 are Detractors**

These are customers that have generated sales but are actually bad for the company over the long haul. They are less likely to buy anything else from the company, more likely to spread bad word of mouth, and more costly to serve because of their dissatisfaction.

## **7-8 are Passives**

These customers are generally positive about the company but based on Reichheld's analysis significantly less valuable than Promoters. Many companies over-estimate their success by assuming relatively high customer satisfaction will lead to future growth. In reality Passives may be satisfied but that may not be enough in the long term.

## **9-10 are Promoters**

These customers drive business growth. The company has gone beyond satisfying their needs and truly delights them. As a result they will buy more from this company in future, will recommend the company to many others and will not need costly ad campaigns or sales promotions to retain their business.

The **Net Promoter Score** is created by calculating what percentage of a company's customer base are Promoters and then subtracting the percentage who are Detractors.

$$\% \text{Promoters} - \% \text{Detractors} = \text{NPS}$$

The resulting score captures the current status of a company's customer base and also predicts future revenue growth.

## 2. Why are Net Promoter Scores so Important?

Most companies pride themselves on having a “loyal” and “satisfied” customer base. In reality, however, many companies confuse a lack of complaints with a truly happy, loyal customer.

There are some star companies in the USA with very high NPS like Harley Davidson (+81) and Amazon (+73). But the growing database of international NPS research shows that most companies struggle to reach an NPS of +5 meaning they have almost as many Detractors in their customer base as Promoters.

In some cases, whole industries fail to produce a single company with a positive NPS – creating a whole market filled with disappointed, unhappy consumers.

Net Promoter Scores have been collected in America and in the UK for several years and the scores appear to show a remarkably clear correlation with business growth.

In America, research firm Satmetrix has demonstrated a clear correlation between Net Promoter Scores and revenue growth for industries as diverse as airlines, insurance, and PCs. In most of the industries that they examined the company with the highest NPS grows at more than twice the rate of the industry average.

In the UK, a team from the London School of Economics has observed a similar relationship for banks, mobile networks and car manufacturers.

The LSE team discovered that an increase of 7 points in a company's NPS equated to a 1% increase in business growth over the industry average. Companies in the UK study like HSBC and Honda with a high NPS grew much faster than their competitors. In contrast, companies like T-Mobile and Fiat with a lower NPS grew at much slower rates than their Industry average.

Many of the world's leading companies have already discovered and adopted Net Promoter Scores as a key performance metric.

General Electric's CEO Jeff Immelt has used NPS as a performance target across his organisation. Immelt recently claimed that this focus on NPS was instrumental in GE's impressive recent growth figures.

The Wall Street Journal now uses the score to drive its readership base. American Express describes the score as a “beacon” for their operations. Software developer Intuit, which began measuring Net Promoter Scores two years ago, boasts that the score has helped them drive revenues, market share and profits.

Both Business Week and the Harvard Business Review have recently reviewed NPS research and concluded that it represents an important new business metric.

It provides a simple, comparable measure of customer satisfaction and future business growth.

But what about Australia?

### 3. How was this data collected?

Australian organisations have yet to embrace Net Promoter Scores to the same degree as their American counterparts.

This research was conducted by Associate Professor Mark Ritson in order to produce the first major, publicly available survey of Australian companies and their Net Promoter Scores.

Ritson and a team of MBA students were assigned to one of six major Australian cities during September 2006. Residents of Sydney, Melbourne, Perth, Brisbane, Canberra and Adelaide contributed to this research.

In total 2000 face to face interviews with Australian customers were conducted and form the basis for this report.

Consumers were selected at random and interviewed about products and services that they had recently purchased or were currently consuming.

They were then asked to rate each of these purchases on the Net Promoter scale developed by Fred Reichheld.

The survey explores 12 different categories including banking, airlines, mobile phones, grocery shopping, cars, holiday destinations and personal computers.

We have left out brands that had only a very small number of customers represented in the research and ones that had very high standard error in their scores.

The results provide an interesting perspective on the current experiences of Australian consumers and the future growth of the companies that serve them.

## 4. How is the data presented?

### Net Promoter Score

The percentage of Promoters minus the percentage of Detractors. Red indicates a negative score, blue indicates a positive score

### Rank

The relative position of the brand versus the other brands in its category



### Promoters

The percentage of the brand's customer base that were very likely (9 or 10) to recommend it to others










### Detractors

The percentage of the brand's customer base that were less likely (0 or 6) to recommend it to others










### Neutrals

The percentage of the brand's customer base that were not particularly likely (7 or 8) to recommend it to others















## 5. Airlines

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1	 SINGAPORE AIRLINES	48	44	9	+39
2	 Emirates	52	23	25	+27
3	 CATHAY PACIFIC	23	43	34	-11
4	 QANTAS THE AUSTRALIAN AIRLINE	23	41	35	-12
5	 AIR NEW ZEALAND	17	54	29	-12
6	 malaysia	24	35	42	-18
7	 THAI	6	65	29	-23
8	 Jet	19	32	49	-30
9	 Virgin blue	12	43	45	-33

## 6. Banks

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1	 Bendigo Bank	37	33	30	+7
2	HSBC 	25	41	33	-8
3		18	40	42	-24
4	 st.george	18	34	48	-30
5	 BankWest	14	39	47	-33
6	 estpac	11	39	50	-39
7	 nab	11	35	53	-42
8	 BankSA	5	41	54	-49
9	 CommonwealthBank	8	29	62	-54

## 7. Cars

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1		61	36	2	+59
2		50	47	3	+47
3		55	35	10	+45
4	 Mercedes-Benz	48	43	9	+39
5		46	44	10	+37
6		32	48	19	+13
7		29	53	17	+12
8		26	50	24	+2
9		22	51	27	-5
10		21	49	30	-9
=11		18	48	34	-16
=11		20	44	36	-16
12		15	45	40	-25
13		6	41	53	-47








## 8. Health Insurance

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1		22	41	37	<b>-15</b>
2		16	49	35	<b>-19</b>
3		16	41	43	<b>-27</b>
4		8	43	37	<b>-30</b>
5		11	47	42	<b>-31</b>
6		10	34	56	<b>-46</b>
7		10	33	57	<b>-48</b>
8		7	34	59	<b>-52</b>


## 9. Personal Computers

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1		48	33	19	+29
2	<b>SONY</b>	27	51	22	+5
3	<b>TOSHIBA</b>	25	53	22	+3
4		22	46	32	-10
5	<b>COMPAQ</b>	11	67	22	-11
6		21	46	32	-11
7	<b>DELL</b>	17	47	36	-19
8	<b>acer</b>	15	30	55	-40







## 10. Grocery Shopping

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1	Local Market	50	38	12	+38
2	Local Indep. Grocer	52	33	15	+37
3		30	29	41	-9
4		22	41	37	-15
5		14	46	40	-26
6		16	42	42	-28
7		11	42	47	-36
8		12	34	54	-42
9		8	36	56	-48




## 11. Mobile Phone Networks

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1		21	35	45	<b>-24</b>
2		18	38	44	<b>-26</b>
3		17	37	46	<b>-29</b>
4		13	41	47	<b>-34</b>
5		12	33	56	<b>-44</b>









## 12. Mobile Phone Handsets

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1	 <b>NOKIA</b> Connecting People	26	46	28	<b>-2</b>
2	 Sony Ericsson	23	39	38	<b>-15</b>
3	 <b>MOTOROLA</b>	16	42	42	<b>-26</b>
4	 <b>SIEMENS</b>	7	54	39	<b>-32</b>
5	 <b>SAMSUNG</b>	15	37	48	<b>-33</b>
6	 <b>LG</b>	15	36	49	<b>-34</b>

## 13. Search Engines

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1		45	40	15	+30
2		31	38	31	0
3		32	8	60	-38

## 14. Property Insurance

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1		15	48	37	-22
2		21	35	44	-23
3		19	39	42	-23
4		16	41	43	-25
5		10	53	37	-27
6		12	44	44	-33
7		7	48	45	-38
8		9	41	50	-41
9		14	31	56	-42
10		6	34	59	-53

## 15. Newspapers

	BRAND	%PROMOT	%PASSIVE	%DETRAC	NPS
1		31	56	13	<b>+17</b>
2		22	53	25	<b>-3</b>
=3		26	35	38	<b>-12</b>
=3		18	52	30	<b>-12</b>
5		24	38	38	<b>-13</b>
6		19	43	38	<b>-18</b>
7		14	41	44	<b>-30</b>
8		16	32	51	<b>-35</b>
9		11	42	47	<b>-36</b>
10		6	44	50	<b>-44</b>
11		3	37	61	<b>-58</b>

## 16. Holiday Destinations

	DESTINATION	%PROMOT	%PASSIVE	%DETRAC	NPS
1	BROOME	85	10	5	+80
2	BYRON	74	21	5	+69
3	TASMANIA	52	38	10	+42
4	WEST. AUS.	50	41	9	+41
5	QUEENSLAND	51	31	18	+34
6	VICTORIA	48	37	15	+33
7	MELBOURNE	52	25	23	+29
8	PERTH	51	30	19	+27
9	NOOSA	42	41	17	+24
10	GOLD COAST	29	52	19	+21
=10	MARG RIVER	41	38	21	+21
12	CAIRNS	29	52	19	+10
13	BRISBANE	26	57	17	+9
14	SYDNEY	31	39	30	+1
15	ADELAIDE	2	41	57	-55

# Success Stories: Companies Who Get It Right & Are Destined for Growth

Analysis by Mark Ritson



## FINANCIAL REVIEW



**Bendigo Bank**



## German Automotive: Nobody Beats the Germans



What can you say about the German motor industry that has not already been said?

It does not take a statistician to observe a strong correlation between German parentage and positive customer relationships in the Australian market.

German cars appear to satisfy their owners far more than their Asian or Australian rivals. More than half of the owners of the four leading German marques are Promoters. They will actively encourage others to buy the brand and are more likely to buy their next car or a second car from the same company.

Perhaps even more impressive is the remarkably low number of Detractors that these brands have. More than a third of Holden drivers in the sample were Detractors and they will spread an enormous amount of negative word of mouth about their car. Contrast that with either BMW or VW who have almost no Detractors to speak of. Their whole customer base is either passively content or a Promoter of the brand.

It is important in a category like automotive to recognise the crucial importance of low numbers of Detractors for a brand. Detractors spread more than 80% of the word of mouth on a brand – we are much more likely to tell our friends bad things about our products than the good things. For a major social purchase like a new car, this can have a major impact on sales.

Detractors also take up time and cause enormous friction for employees. Working at one of BMW's dealerships would probably prove to be significantly more enjoyable and satisfying than working for Saab or Ford where staff have a much higher probability of encountering Detractors on a frequent basis.

It's easy to underestimate the long term effects of Detractors on service staff. In many cases, Detractors will take up a disproportionate amount of service staff time and leave staff feeling tired and unhappy with their role. This leads to high staff turnover which, in turn, results in poorer service from newer, inexperienced replacements. This then creates more Detractors and a brand is trapped in a vicious cycle in which a weakened consumer brand causes a marked deterioration in the employer brand which then harms service.

In the case of BMW or Audi, it is the exact opposite. Better products beget more and more Promoters in the customer base. These Promoters are easier to serve. The service staff can therefore focus on exceeding rather than just coping with customer expectations and the circle continues. Great products, happy customers, great service.

### **Vorsprung durch Technik**

Progress through technology

# Singapore Airlines: A History of Putting Customers First



When Singapore Airlines began its operations in 1972, it faced a massive strategic challenge – Singaporeans did not need any domestic flights because their country is tiny. As a result, from its very first day of business Singapore Airlines had to compete against a large number of well established, foreign competitors that were significantly bigger than them.

The only way Singapore Airlines could succeed was to consistently offer a superior service to its customers. And, for the last 35 years, that is exactly what the airline has done.

Singapore Airline's history is a litany of customer firsts. The first airline to offer hot meals, free beverages, hot towels, personal entertainment systems, free headsets, on demand entertainment systems. It is no coincidence that Singapore is the world's most awarded airline.

Singapore Airlines is a classic example of a company that invests in customer satisfaction. Rather than take more of the profits for the organisation it has always actively re-invested in new aircraft and new services ahead of the competition. It also recognises that today's innovation will become tomorrow's standard and continues to challenge itself and the industry to offer customers even more.

This year, for example, Singapore will offer live television broadcasts on its flights along with internet connection. It will also be the first airline to fly the new Super Jumbo A380. While Qantas is only now rolling out its on demand entertainment systems, Singapore did this five years ago.

In many ways, Singapore Airlines is the exact opposite of many of our coddled Australian companies. It has experienced, from the very outset, intense competition from major international challengers. As a result it has been impelled to exceed the expectations of its customers again and again rather than offering a standard customer experience.

Rather than investing in short term recruitment approaches like lower prices, mass advertising, or lobbying the government to protect routes, Singapore has opted for a more long term, customer driven approach. Because it's service has been so consistent and so good almost half of its customer base are Promoters (48%).

These customers act as sales agents in promoting the airline to others and are much more brand loyal. Crucially, they are also prepared to pay a price premium to fly Singapore - allowing the airline to avoid the fatal price wars that have enveloped US airlines in recent years.

A unique feature of Singapore Airlines for many years has been that their board views the airline's brand as being crucial and takes direct responsibility for its upkeep. Rather than simply focus on fiscal metrics, theirs is a leadership for the 21<sup>st</sup> Century. One that does not see brand management as superficial and unimportant but a key driver of satisfaction, differentiation and success.

Singapore remains one of the most profitable airlines in the world because of, not despite, massive international competition.

# Bendigo Bank:

## Growth, Value and Sustainable Competitive Advantage



The Australian banking industry has recently been phenomenally successful in financial terms. But it is clear from the NPS data that this has sometimes come at the expense of customer satisfaction. Every major Australian bank in the study had more Detractors than Promoters. Except one.

Bendigo Bank has quadrupled its size in the last 12 years. On the evidence of their current NPS data this growth looks set to continue. Bendigo Bank is likely to emerge as a major force in Australian retail banking in the years to come.

Their superior service and investment in communities has resulted in a brand that is attracting more customers and doing so with relatively low acquisition costs. According to Merrill Lynch it is the most favoured bank among customers looking to switch.

Once they switch Bendigo's superior customer service ensures that customers stay with the bank. Unlike their major competitors, who are constantly engaged in the costly process of attracting customers to replace the ones that are defecting to other banks, Bendigo's 1.1 million generally happy customers are staying put.

Aside from acquiring and retaining customers, the Bank is also beginning to benefit from another advantage of superior customer relationships – additional revenues from other services. Cross-selling has begun with the introduction of a new credit card and an increase in the home loans it offers its satisfied customers.

When you talk to senior managers from the bigger banks many query the lower profits and slower growth of Bendigo. In reality, Bendigo has a superior model over the long term compared to the leaky bucket approach of the bigger banks.

One of the prime reasons for Bendigo's success is that they have that rarest of talents in Rob Hunt: a Chief Executive who understands the importance of marketing. Hunt has just reported double digit growth in profits and earnings. In that he is not exceptional. The difference is that Hunt is growing his bank by satisfying his customers rather than simply making a profit from them.

Most Australian CEO's perceive value as something that they generate for their shareholders. Value is actually a two way street – generating value both for the investors that own the company and the customers who actually pay for everything.

Bendigo's growth is built on this more balanced, long term perspective. "Value", according to Hunt, "is being produced by a branded retail strategy focused on good outcomes for customers and communities".

Chairman Robert Johanson describes Bendigo's strong relationships with its customers as their "sustainable competitive advantage". When was the last time you heard that phrase from the undifferentiated Australian retail banking landscape?

## Local Markets & Grocers:

### David Triumphs over Goliath for Five Good Reasons

Local Markets	+38	Local Ind. Groceries	+37
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When I designed this research I was very careful to let our sample of customers tell us which companies they purchased from, rather than asking them to select from a list that we provided for them.

The reason is simple. You can never assume who the competitors are. Or who the best performers will be. I never expected that the two very clear leaders in the grocery sector would be local markets and local independent grocers. It's an astonishing result and one that is perhaps peculiar to Australia.

On average almost half the current customers of these local retailers are Promoters. Contrast that with Coles, where the exact opposite is the case – half of their customers are Detractors. How can I explain such a remarkable contrast between the small, local players and the huge, billion dollar supermarket giants?

First, local retailers are surrounded on all sides by competitors. Literally. Walk around the fruit stalls of Belconnen Markets in Canberra and you will find a dozen vendors all spruiking for business. Competition is a wonderful catalyst for customer orientation. In contrast with the duopoly that dominates our supermarket category, if you do not give customers what they want in a local market, all the time, you will not survive for long.

Second, local retailers offer fresher, better quality produce. The big national distribution systems of Coles and Woolworths struggle to provide the same level of freshness or quality that a local butcher at Sydney's Fresh Food Markets can offer to patrons every weekend.

Third, the products sold in local markets tend to be more locally sourced. Whereas the big national supermarkets provide internationally and nationally produced wares, produce grown from the surrounding area is usually the preferred choice for many shoppers. To walk the aisles in Adelaide's Central Market is to take a gastronomic tour of South Australia. Walking round the nearby Woolworths is very similar to any other Woolworths in Australia. Local markets prefer local produce.

Fourth, independent groceries and local markets often offer a far superior level of service to the big supermarket chains. Buying mushrooms from Damien Pike's stall at Melbourne's Prahran Market is an amazing experience. Part-time supermarket shelf stackers are no competition for the expert knowledge, personal service and enthusiasm of local stall owners and the enduring relationships that often form as a result.

Finally, the whole experience of a local market is superior to the less welcoming ambience of big supermarkets. Local market cafes provide great food. You can often find children's entertainment at weekends and sometimes even live music. The market is filled with vibrant, happy people who are enjoying just being there. Melbourne's Queen Victoria Markets is on most tourists' list of must-sees. That's unlikely to be the case for the local Safeway or Bi-Lo.

David is slaying Goliath all over Australia using a green shopping bag as a sling. Our data suggests customers will increasingly go local.

## Broome & Byron:

### Small is Beautiful, Growing Too Quickly is Ugly



With domestic tourism at a twenty year low, it is vital that the Australian tourism industry carefully studies the two outright NPS success stories in this research. Tourism minister Fran Bailey recently called for more research into domestic tourism markets. Well here it is and the lesson is that small is beautiful.

Some may be surprised that Broome and Byron finish top of the table. But remember that this NPS research does not measure what are the most famous locations or the ones that currently attract the highest numbers of domestic tourists. Rather, this research tells us which destinations are the most satisfying and, therefore, the most likely to increase domestic tourist numbers in the future.

Broome has the honour of not only having the highest NPS within its industry, but also of recording the highest score across the whole study. A whopping 85% of visitors to Broome are Promoters. That means they will rave to other people about the place and help increase tourism. It also means that they will be keen to return and experience it again.

Equally important in Broome's success is the tiny proportion of Passives in its sample. Unlike less successful destinations, like Sydney and Melbourne, Broome appears to delight an extraordinary number of its visitors leaving very few people neutral or unimpressed.

The very small proportion of Detractors mean that most people will not hear anything negative. It's only going to be good news when it comes to Broome.

Thanks to direct flights from major Australian cities and a marked increase in cruise ship visits Broome is already experiencing a significant upturn in tourist numbers. But with its very high NPS it can expect these increases to continue as more Australians hear about Broome from satisfied visitors who are also likely to return again and again for a bit of Broome magic.

Byron, like Broome, is a relatively small town that has recently benefited from increased air traffic from domestic carriers. It also shares Broome's concern that its resort does not become over-developed and over commercial. In that sense, both destinations demonstrate a key lesson from NPS data: don't grow too quickly.

It's far better to manage growth so that increased revenues are balanced with a superior experience. The relatively poor performance of both Noosa and the Gold Coast in comparison to Byron and Broome illustrate the challenges of tremendous development and growth over a relatively short period of time. While sales may be booming at these two larger resorts, there is a danger that current growth will damage future prosperity as an increasing number of Detractors avoid the destination and advise others to follow suit.

Despite already enjoying positive growth in tourism in recent years, the NPS data suggest that both Byron and Broome will also have something else in common: booming futures.

## The Australian Financial Review: Stay Focused for a Bigger Share of Wallet

FINANCIAL REVIEW +17

These results offer a generally depressing view of the newspaper category. Remember that these results come from current readers of each paper and in many cases show just how poorly some newspapers are serving their readers. For example, around half of the readers of The Canberra Times or The Advertiser are Detractors of the paper.

The one stand-out success, however, is the Australian Financial Review (AFR). It enjoys the only positive NPS of any paper with almost a third of its readers proving to be Promoters and only 13% Detractors.

The key to the success of the AFR is targeting. Too many companies assume that the bigger the potential target market that they aim for, the bigger the eventual revenues they will recoup. Of course the opposite is true.

Go after a big, general market and three things happen. First you bump into an awful lot of competitors who, like you, are trying to go for as many customers as possible. Second, you will struggle to create a product that will satisfy this big heterogeneous group. You risk mildly pleasing all, but delighting no-one. Finally, you are vulnerable to smaller niche players who focus on specific, smaller sub-segments and take these customers from you.

This is effectively the problem for the big general papers like the Herald Sun or the Daily Telegraph. Both enjoy circulations that are currently 3 to 5 times the size of the AFR. But the low NPS of both papers, and especially their very low proportion of Promoters, demonstrate the dangers of mass marketing.

The AFR has avoided this problem through focus. It may have a smaller circulation of around 85,000 but this much more homogenous group is far more satisfied with what the AFR delivers.

It's questionable just how much more the AFR will be able to grow its circulation even with such a relatively high NPS. It already dominates its segment of the market so much there is relatively little room left to grow. But why worry? It's readers are among the highest earners in Australia and because of this, and AFR's great product, it can charge a massive price premium over more general newspapers that struggle with less satisfied readers who have a much lower average disposable income.

The AFR is benefiting from another advantage of a high NPS – additional revenue generating services. Thanks to its significantly high number of Promoters, it is able to offer additional revenue generating line extensions. In 1997 there was the successful launch of the weekend Financial Review. Then in 2000 came AFR's Boss Magazine. AFR Access, a subscription-based online search engine has just been launched.

None of these innovations will increase AFR's market share. They will appeal, however, to existing happy AFR readers and earn significant additional revenues. These additional products will build the AFR brand, improve customer satisfaction even further and increase total profits for a product that wants to find further success without losing its current focus.

## Foreign Entrants Enjoying Weak Australian Competition#1



Five years ago when Aldi opened up for business in NSW the big question was whether the privately owned German retailer could succeed in Australia. For decades many Australian's had speculated that their retail market was too tough, too distant and too different for any foreign entrant to succeed.

In hindsight, that whole argument appears riddled with holes. Aldi may only have taken a 4% market share thus far but they have already dispelled, once and for all, the myth that foreign entrants will struggle in Australia. Aldi already boasts the lowest operating costs of any retailer and according to a recent survey most Australian suppliers prefer them over the existing duopoly. In terms of Private Label, Aldi also leads the pack. While Coles might ambitiously be pushing for a 30% share of its sales from private labels by the end of this year, Aldi already achieves levels in excess of 80%.

The NPS data confirms that, on top of all these other achievements, Aldi is also offering its customers a significantly better experience than either of its major competitors. With more than twice as many Promoters in its customer base compared to Woolworths, and three times that of Coles, Aldi is clearly doing a significantly better job of making its customers happy.

Aldi's high score demonstrates that NPS data does not necessarily favour the premium brands in a category. Instead, it favours those companies that deliver on their promises to customers and exceed their expectations – whatever these might be.

In Aldi's case, it promises low frills, low cost grocery shopping and its business model is dedicated to delivering this to customers. It would be all too easy to confuse Aldi's basic offerings and low price policy with a company that does not care about customers. In reality, Aldi is extremely customer oriented, but its customers do not want premium goods or personal service. They want basic goods at cheap prices.

Rather than extracting most of the profits for themselves, or spending the money on expensive ad campaigns, Aldi stays focused on its market and repays its customers with lower prices achieved through an extremely tight operating model. Aldi Australia boss Michael Kloeters keeps it simple: "We don't have a public relations department. No legal department. We don't have an advertising department or a human resources department. We do have a very lean structure and we have smaller stores, which makes us quite competitive. We can pass the cost savings on to the market."

Aldi eventually plan to extend their existing Australian 100 stores to a network of 500. Our NPS data supports the idea that this growth is eventually tenable. Aldi, however, maintain their customer driven, parsimonious approach in all things. The company claims that growth is not the issue, their key concerns are each store's profitability and Aldi's reputation in the mind of the customer. This balanced approach and customer focus are hallmarks of a company that has and will retain a superior NPS. 500 stores. It's a question of when, not if.

## Foreign Entrants Enjoying Weak Australian Competition#2



For proud Australians a depressingly familiar picture emerges across many of the categories that we studied. From automotive, to airlines, to mobile phone networks, domestic Australian brands significantly under-perform when compared with the NPS of foreign competitors. There is no easy way to say this: Australian firms are losing out across the board when it comes to customer orientation, satisfaction and relationships. Customer focus appears to be a national deficiency.

Banking is no different. HSBC officially entered the Australian market in 1986 when banking licenses were first made available to foreign banks. In reality, however, it is only in the last five years that the brand has made major strides within Australia. Despite, or perhaps because of, the entrenched nature of the Big 4 banks in Australia, HSBC has grown quickly while also delivering a superior customer experience compared to many of its domestic rivals.

Indeed, HSBC has done such a good job it is part of a vanguard of banks that are changing the service expectations of customers and performance goals for the banks that serve them.

Recent results from Roy Morgan's service satisfaction research conducted across all banks for the first half of 2006 confirm the growing influence of HSBC. According to the research report, HSBC has maintained its position as one of three "benchmark satisfaction performers in the Australian banking industry" (along with ING and Bendigo) and increased its market penetration as a result.

When Chief Executive Stuart Davis accepted the award for 'Best Foreign Bank' earlier this year he was quick to play down HSBC's potential rivalry with Australia's domestic banks. According to Davis; "HSBC's opportunity in this market doesn't come from competing with the local banks head-on in all areas".

It sounds conciliatory, but HSBC has a track record in more than 70 countries of successfully entering a market and triumphing over domestic rivals.

HSBC enjoys three marketing advantages over domestic banks. First, its de-centralised structure combines with its extensive experience of international market entry to make it almost instinctively customer focused. While Commonwealth Bank boss Ralph Norris is currently trying to build a culture of customer orientation, HSBC has one built from 140 years of global competition.

Second, this local customer orientation is matched by massive global scale. HSBC towers over Australia's Big 4 when it comes to research, adspend or buying power. HSBC can leverage this scale across all their markets. The "world's local bank" can have it both ways: bigger than the Big 4 globally, more attuned to the Australian customer locally.

Finally, HSBC can rely on existing customers from other HSBC markets who enter Australia as pre-formed Promoters, while also converting the increasing number of domestic customers seeking global services and world class customer service.

# Notable Failures: Companies Who Get It Wrong

Analysis by Mark Ritson

ADELAIDE



*'The Fresh Food People'*  
WOOLWORTHS



coles



## Commonwealth, NAB, Westpac: A Lack of Referrals, Lots of Detractors



It might have been a record year for profits for three of Australia's big banks but neither Commonwealth, NAB or Westpac record net promoter scores that are anything like as impressive. All three banks share very low NPS and it is easy to see where these low scores come from. In our sample all three banks had relatively few Promoters with most of their customers either Passives (and therefore easier targets for other banks) or Detractors.

In Commonwealth's sample almost two thirds of its customers were Detractors - among the highest proportion of any company in this study or any of the other NPS studies completed internationally. While Commonwealth may pride itself on the knowledge that 45% of Australians have a relationship with them, many of these people would not recommend the bank to others. Indeed many will probably spread negative word of mouth. This is a classic example of why big market share is not always a good thing over the long term.

To be fair, Commonwealth are aware of the problem and are currently engaged in a major reinvigoration of their sales and service under their SUCCESS program. The bank is seeing relative improvements in key metrics like customer complaints and staff absenteeism but as the NPS data reveals they have a long way to go.

It is a similar story at both NAB and Westpac, where customer service is improving but the banks are still losing ground to their competitors. According to Roy Morgan's June service satisfaction study "relatively new entrants to the Australian banking market have outperformed the major banks in their levels of satisfaction leading to increased penetration of the deposits market".

These big Australian banks aren't used to this level of competition. Competition breeds customer focus which leads to long term success. Banks like Commonwealth must quickly evolve a level of service and consumer focus that many of their international rivals, like ING and HSBC, have had decades of marketing warfare to perfect.

Notably superior to the other Big 4 banks in NPS terms is ANZ. Thanks to their 2002 Customer Charter and the regional CEO model that they subsequently adopted, ANZ had significantly less Detractors in its sample, and more Promoters, than its three main competitors. If you accept the premise that NPS is linked to business growth that means a brighter outlook in retail banking for ANZ than its main rivals.

It's perhaps no coincidence that Commonwealth Bank is currently trialing a similar regional model to ANZ.

## Ford, Holden & Saab: Relatively Weak in Customer Referrals



For Australia's traditional motor manufacturers the news is not good. Both Ford and Holden are struggling to compete with foreign imports from Asia and Germany when it comes to NPS.

Holden, to be fair, had a slightly higher proportion of Promoters in its sample than Ford and as a result its NPS and prospects are slightly better. But this is cold comfort for a vital Australian brand that is much lower than at least eleven major competitors that have significantly higher NPS.

The news is worse still for Ford. The ailing manufacturer has already admitted that a preponderance of larger vehicles has hurt sales this year. But the very low NPS that Ford records in our research points to a far deeper malaise than poor sales for current models.

Most of the existing Ford customers that took part in our study were either Passive or Detractors. That means that Ford will not benefit from strong customer advocacy, repeat sales or increased growth over the long term.

Saab is, however, dead last in terms of NPS in Australia. There are many potential explanations for this position. One possible reason is that Saab's operations in Australia are handled by Holden – a company that struggles to generate positive NPS for its own brand and which is probably too busy and too strategically distracted with this mission to manage the additional challenges of Saab.

Some blame should also be placed at the door of General Motors, the parent company of both Holden and Saab. The problems facing the world's biggest car manufacturer are enormous. There are multibillion-dollar issues associated with labour costs, overheads, supplier problems, dwindling market share, plummeting share price and competition from the Far East. But GM also suffers from one of the most prevalent barriers to customer orientation that a company can face: it has too many brands.

Aside from Holden and Saab, GM owns and markets ten other brands. It is difficult enough for senior managers to build a strong culture of customer orientation in a company with a single brand and a single target market. But GM's matrix of multiple brands, across multiple markets through multiple channels makes customer leadership all but impossible.

GM's marketing supremo Mark LaNeve recently told Business Week: '(Do) I think we have too many brands? No, but we have to manage them a lot better.' But therein lies GM, Holden and Saab's problem. Too many brands invariably leads to bad brand management, poorer products, bad service and eventually very low NPS.

In GM's case, the equation could not be simpler. Too many brands equals lower sales, satisfaction, profits and NPS.

## Health Insurance: A Whole Industry of Negative NPS

	-15		-19		-27		-30
	-31		-46		-48		-52

In the original work that was done by Fred Reichheld to develop the Net Promoter approach, he observed several industries in which none of the competitors achieved a positive NPS.

It's clear from this report that different categories have variable levels of average NPS. Its easy to see why vacations, which are generally a positive experience and something most people feel comfortable discussing and recommending to others, would score such a high average NPS.

It is also possible to use this explanation to account for the generally low scores in this category; Health Insurance. Deciding, purchasing and then eventually using health insurance is not necessarily the most positive of experiences. Nor is it one that is usually a source of recommendation or recollection.

However, while that may be partly true, the explanation for these universally low scores must also be attributed to the companies involved. Health insurance brands have failed to make their marketing material accessible, have adopted confusing pricing systems and generally demonstrate relatively poor differentiation from each other.

Put more bluntly, no-one has yet broken free in this category and achieved superior customer service or branded differentiation.

The bottom three brands in this industry, in particular, MBF, Medibank Private and NRMA are especially poor performers in NPS. These three brands serve more than half of the total Australian market for health insurance, and all three have extremely low NPS.

We might expect a lack of Promoters for health insurance brands given the category they compete in. But category explanations do not account for the very high level of Detractors that these three poor performing brands exhibit. Service related issues are almost certainly a key factor in these low scores.

Medibank Private's poor NPS has major political implications. Despite a recent poll in which two thirds of respondents wanted the insurer to remain in public hands, the NPS data suggest that Medibank is not serving its customers very well at all. Only 10% of its customers interviewed in our research, in contrast with the public poll, are actually Promoters of Medibank. Almost half, in contrast, were Detractors.

Privatising Medibank could, potentially improve its customer focus and service, but there are just as many examples of newly privatised companies actually becoming less customer driven as a result of going private or public through an IPO.

## Australian Supermarket Duopoly: Where Others Lead, We Trail



It's not really surprising that both Coles and Woolworths perform so poorly when it comes to NPS. Until Aldi's arrival five years ago the traditional retail duopoly had enjoyed very little significant national competition. The two still account for 80c of every dollar spent on groceries in this country.

Most duopolies exhibit a marked absence of innovation, quality and customer orientation – the very things that drive NPS. Both Coles and Woolworths have far greater core competences in supply chain issues than in customer matters.

For European and North American analysts, the absence of advanced customer orientation at both Australia's leading supermarkets can come as quite a shock. Outside of Australia it is inevitably the big retailers who set the pace when it comes to customer focus.

Take Wal-Mart's CRM system which runs on a computer second only in size to that of the Pentagon, or Tesco's fabled approach to customer segmentation in the UK, or Loblaw's astonishing success with private label in Canada.

The disparity in quality between Australia's supermarkets and their international peers is evident from comparisons of NPS data. Both Tesco and Waitrose recently recorded positive NPS in the UK. In America, Costco has one of the highest NPS levels: +79.

In contrast, both Coles and Woolworths and their subsidiary brands, recorded very low NPS when compared with their competitors.

Perhaps if both organisations had been exposed to more competition earlier they would have evolved a stronger focus on customers and thus posted a higher NPS.

Coles, in particular, should be thankful that it does not operate in a more competitive environment. More than half of the Coles shoppers we interviewed were Detractors and less than 10% were Promoters.

To their credit, the recent brand consolidation of the Coles-Myer group is a step in the right direction. Despite negative media coverage, they are correct to assume that less brands can lead to greater customer proximity and focus. And how they need it.

More troubling for Coles is what this NPS data tells us about their new private label strategy. It is an almost direct copy of Tesco's good : better : best approach. Nothing wrong with that. Except that Tesco is a very different operator in customer and branding terms.

While Coles struggles with a relatively low NPS, Tesco's NPS is both positive and among the best in its industry. Coles can quickly replicate Tesco's private label strategy, but they cannot backward engineer ten years of customer relationships, brand equity and great service.

# Telstra: Last Place in Mobile Networks



Telstra's low NPS is an obvious result of having fewer Promoters and more Detractors than their competitors.

According to AC Nielsen's recent research, Telstra's customer satisfaction has remained steady for the last two years. While this sounds positive, it is actually a bad result for Telstra because their major competitors have been steadily improving their own satisfaction levels.

More satisfied customers with the other networks will reduce their churn and therefore make it harder for Telstra to replace their defecting customers. With so few Promoters within its customer base and relatively low switching costs, Telstra are likely to lose customers and find it harder and more expensive to replace them.

As the penetration of mobile phones increases and the market slows it is getting harder and harder for Telstra to grow or defend its market share.

Next G has come along at just the right time. But Telstra's relatively poor current NPS performance presents Australia with an interesting issue.

Will Next G transform Telstra's performance, or will Telstra stymie Next G's potential?

If you heard Sol Trujillo last October announcing Next G, it was very much all about the former rather than the latter.

Trujillo spoke impressively about incredible coverage, amazing download speeds, and a service superior to anything available anywhere in the World.

But behind these bold promises and technological advances is the more mundane and disappointing evidence of past performance. Telstra is the least advocated mobile network operator in Australia. That message comes not from analysts or investors but from a far more qualified group – Telstra's existing customer base.

This study indicates that more than half of Telstra's customers are Detractors. That gives us a clear insight into the kind of operation we might expect with Next G. It could also prove to be a problem as Telstra attempt to market Next G. Much of their existing customer base are unlikely to be enthusiastic or particularly motivated to trust Telstra when it offers them Next G. Many of these Detractors are also likely to caution other non-Telstra customers against switching based on their own experiences.

It will be tough enough for Telstra without their customers getting involved. Usually, new technologies and complex new systems spell initial disaster for customer service and relationships. Engineers lead the charge and marketers focus on acquisition rather than satisfaction and retention.

But all this assumes that Telstra will stymie Next G. Lets be optimistic. Lets assume Next G does transform Telstra and their NPS too.

## Insurance Australia Group: A Core Competence of Poor Customer Relationships



Occasionally, a company develops such a strong core competence in customer orientation it can also improve the performance of other organisations that it takes over. P&G is a classic example of a company that often improves the customer focus and performance of the brands that it acquires.

In contrast, consider Australia's largest insurer – Insurance Australia Group. Unlike P&G, IAG appears to have a detrimental effect on the customer focus in the companies that it owns and operates. Of the five lowest scores in the insurance category, four of them belong to IAG brands. What's more, all four have very similar NPS footprints with very low proportions of Promoters and almost half of the consumers in each of IAG's brands' samples consisting of Detractors.

The key problem for IAG is that it is a service business that does not appear to be delivering a truly delightful service to its customers. Too few Promoters and a majority of Detractors are not good news in a category with relatively low switching costs and increased competition.

An even bigger problem for IAG is AAMI which more than makes up for IAG's poor customer focus. For the past decade AAMI has had a very clear customer charter at the core of its business operations. One of the company's core principles is that it "believes that when we do right by our customers, all else follows".

The contrast with IAG could not be clearer. This culture explains AAMI's superior NPS within the industry and also why the insurer is reportedly doing so well that it recently declared that it couldn't stop its growth "even if it tried".

A recent survey by ABN AMRO observed that IAG has recently cut prices in both Melbourne and Sydney. Some analysts attribute these cuts to an attempt to regain market share lost to AAMI and other brands. If this is the case, it is a classic example of a company investing its money in the wrong way by buying customers. This approach works, but focus on lower prices and acquiring more fickle customers can often lead to longer term problems.

## Sydney: An International Hit, But Nationally?



Sydney has had plenty of recent criticism. Paul Keating accused it of being ugly, the Sydney Morning Herald concluded that Melbourne was more beautiful, and local residents have begun to publicly worry about its fading transport links. My NPS data suggests domestic tourism may also prove to be a problem too.

The NPS data is very clear: Sydney performs relatively poorly as a tourist destination. It is important to point out that these findings relate to Australian, domestic tourism not international visitors. In that respect Sydney continues to triumph. In October, for a record 11<sup>th</sup> time, Sydney was voted the favourite destination of Conde Nast's influential readership.

This research, however, paints a very different picture for domestic tourism. Sydney has almost as many Detractors as it has Promoters. This is in stark contrast to most of the other destinations that it competes with which are far superior in terms of customer referrals.

This is particularly worrying for a destination like Sydney because word of mouth and customer testimonials play a crucial role in many tourist decisions – particularly short breaks and weekend vacations.

The galling reality for Sydney is that when it comes to domestic tourism it finishes almost dead last. This is despite it being the most iconic and well recognised location in Australia. The low NPS comes not from embittered citizens who are jealous of Sydney's national prominence. These low scores come from tourists who have recently visited the city on vacation. The results do not bode well for future domestic tourism in the city.

It could be that Australia's smaller, more boutique destinations like Broome and Tasmania are opening up thanks to increasing airline coverage and more adventurous tourists and they are outperforming Sydney in experiential terms.

A more worrying explanation is that Sydney's recent self diagnosed woes are also being recognised by tourists.

If Sydney wants to avoid the dip in domestic visitors that this NPS predicts, its tourist bosses will now need to explore in detail the Detractors in their customer base. Time for some good old fashioned qualitative research that can identify why people don't recommend Sydney to others.

## What are they doing to their tourists?



Every major piece of research throws up one truly astounding finding and Adelaide is very much the big surprise from my data set.

There is no easy way to say this, but Adelaide is a phenomenally disappointing tourist destination for Australians. Only 2% of visitors were Promoters – that is the lowest margin of any of the brands in the whole survey and the lowest number I have ever seen in any of the published NPS research from around the world.

This very low Promoter score means that very few people outside of Adelaide will have anything good to say about the city as a place to visit for a vacation. They are also less likely to return again to the city for a holiday.

More worrying still is the huge number of Detractors that Adelaide has. Almost 60% of visitors, based on our sample, will probably provide strongly negative word of mouth to dissuade others against making the trip in the future. While Adelaide's excellent tourist web sites talk of the "instant appeal" that the city has for tourists, the reality could not be more different. The city actually appears to be anything but appealing.

This is especially troubling for Adelaide's marketing team because the competition is so strong in this category. It's not just that Adelaide has one of the lowest NPS in the whole study, it also must compete with destinations that have some of the highest NPS in my research.

To put this in perspective, imagine you wanted to find 100 Promoters who really loved your city and would recommend it strongly to others. If you worked for Broome's tourism team you would only need to board a single Virgin Blue flight due to depart from Broome and walk from the back of the plane to the front. About half way down the plane you will have met 100 Broome Promoters because more than 80% of the passengers are likely to feel this way about your town.

In contrast, if you were working for Adelaide's tourism team and you also wanted to find 100 Promoters for the city your job would be a lot tougher. You would need to board 27 different Virgin Blue flights departing your city before you met a total of 100 Promoters. Even if every seat was filled by an Aussie tourist departing Adelaide only 3 or perhaps 4 of the 190 passengers on board would be Promoters.

The implications for Adelaide's domestic tourist industry are stunning. Either a radical change is needed in the city's approach to tourism or, more plausibly, Adelaide should focus on other opportunities and not invest heavily in domestic tourism.

This is not meant as a facile suggestion. Based on the NPS results for Adelaide, it makes a lot of sense to look at other options for generating municipal revenues.

Sometimes the best decision to take, in light of market data, is the decision to do something else.

## About the Author

Mark Ritson is the sole author of this research report. However, he wants to acknowledge the assistance of more than 35 MBS students who traveled all over Australia and collected the data for this study.

Ritson is an Associate Professor of Marketing at the Melbourne Business School.

Ritson has a Ph.D. in Marketing and his previous business schools have included the University of Minnesota and the London Business School.

His research focuses on advertising and branding. In 1995 he was awarded the Best Paper prize from the European Marketing Academy Conference in Paris for his work on advertising literacy.

In 2000 he was the recipient of the Robert Ferber Award for his paper: "The Social Uses of Advertising" published in the Journal of Consumer Research.

Aside from his academic work Ritson also works extensively as a consultant on marketing for some of the world's biggest organisations.

Clients include McKinsey, Ericsson, Marks & Spencer, Baxter, PepsiCo, Roche, adidas, CSL, Bunnings, St. George and Pacific Brands. For the past five years he has also been the brand consultant for LVMH in Paris and London.

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