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M A R K E T I N G

engaging advertising > staff > customers

The 2009 Consumer Recommendation & Loyalty Study



Banking, Property Insurance, Mobile Networks, Health Insurance & Online Shopping

A study of the depth of consumer loyalty towards Australian brands using the
Net Promoter[®] Score

NET PROMOTER[®]
LOYALTY PARTNER

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Executive Summary

The primary objective of this study is to understand the depth of loyalty Australian consumers feel towards brands across five categories. These include primary financial institutions or banking, health insurance, online shopping, property insurance and mobile phone networks. A secondary objective was to identify the key elements organisations must put in place to increase customer loyalty and positive word of mouth, ultimately resulting in organisational growth.

The Net Promoter Score® an internationally recognised customer loyalty measure was used to measure the depth of customer loyalty. It measures the ‘likelihood to recommend’, a higher order customer metric than mere *satisfaction*.

Current Economic Implications

In the current economic climate it is crucial that organisations focus on their existing customers more than ever. Word of mouth is the most trusted and effective marketing and sales channel, especially during tough times as trust becomes even more important when consumer discretionary expenditure is lower.

The study highlights that a majority of organisations have a huge opportunity to improve their business performance, as only 7 out of 31 organisations in the study achieved positive scores. Only 2 organisations – APIA and Bendigo Bank – achieved world-class scores.

This clearly suggests that organisations should focus on existing customers before resorting to traditional cost-cutting approaches such as shedding staff. This is important as cutting costs can eventually lead to long term disenfranchisement of staff and customers.

This may at first appear counter intuitive but when you factor in a more complete customer economic perspective including incremental loyalty, repurchase rates and especially word of mouth it makes perfect economic sense to focus on customers rather than cutting costs.

Result Highlights

Some of the brand results were expected, some were surprising and only a couple of Australian brands performed at world class standards.

The lowest performing brands in each category were Telstra (Mobile Networks), Medibank (Health Insurance), Greys Online (Online Shopping), CBA (Banking) and GIO (Property Insurance).

Surprisingly neither eBay nor Amazon was the leader in the online shopping category. That honour went to Ozton, an Australian alternative to eBay.

APIA was miles ahead of its competitors in the property insurance market with a truly world class performance.

Bendigo Bank reaffirmed its reputation about being “all about U” as its advertising promises and it seems like their customers agree wholeheartedly, resulting in Bendigo Bank achieving the highest NPS in the banking industry.

Another example of a smaller organisation overtaking the market leaders was Virgin Mobile which was the best performer in the mobile network category.

Finally, HBF was the top performer in the health insurance category despite a negative score which is most likely a function of the category as health insurance may generally be seen as a grudge purchase for consumers.

Key Findings

Our hypothesis was that the creation of promoters (a customer who is highly likely to recommend you) requires the consistent delivery of great customer experiences, strong value propositions and staff engagement. Importantly you need to deliver what you promise in your advertising. The study strongly supports this hypothesis. Though each category has its own unique aspects the following are a few common elements across all five categories:

- End to end consistency - Promoters made positive comments about almost everything the brand delivers **and** does. The implication for organisations is that they cannot focus specifically on just a few product, promotion or service aspects but rather they need to focus on the end to end experience in order to create promoters.
- Customer experience is critical – In comparison to functional elements, such as product features and price, customer experience played a major role in the creation of promoters.
- Staff interactions - How frontline staff interact with customers and, in particular, how they make them feel is critical to creating promoters. A positive comment about staff invariably means a high net promoter score from the customer.
- Internal culture - There is substantial evidence that organisations with a strong customer focussed internal culture such as Bendigo Bank, APIA, AAMI and Virgin Mobile tend to have a higher NPS®. This confirms our belief that you must engage your staff as they are crucial to the creation of engaged customers.

Introduction

At the most basic level the success of a business is driven largely by whether customers decide to purchase its products. If however, a large proportion of its customers are loyal, regularly buy other product lines and recommend the business and its products to others, then the business will naturally be even more successful. In the current economic climate many organisations will need to focus on building stronger relationships with their existing customers as customer loyalty and recommendations are even more important.

The 2009 Consumer Recommendation & Loyalty Study has been conducted in order to understand and measure the depth of consumer loyalty towards their chosen brands in key industry categories. Another objective was to identify the key elements organisations must put in place to increase customer loyalty, positive word of mouth and growth. The study allows organisations to easily compare themselves to others within their industry and, at a high level, outlines the reasons behind the scores of high and low performers.

The internationally renowned Net Promoter Score® was used to measure customer loyalty in the study.

The Net Promoter Score provides a benchmark that is intuitive, easy to understand, transparently comparable with other brands and has been shown to have a strong link to business economics such as organisational growth.

This study focuses on industries within the service sector. The 5 categories included banking, mobile networks, health insurance, property insurance and online shopping. Subsequent studies will examine other industry categories.

Care was taken to ensure that the sample size was representative of the Australian population. As a result the study tends to display the results for brands with large market shares within each category, in line with the Australian population.

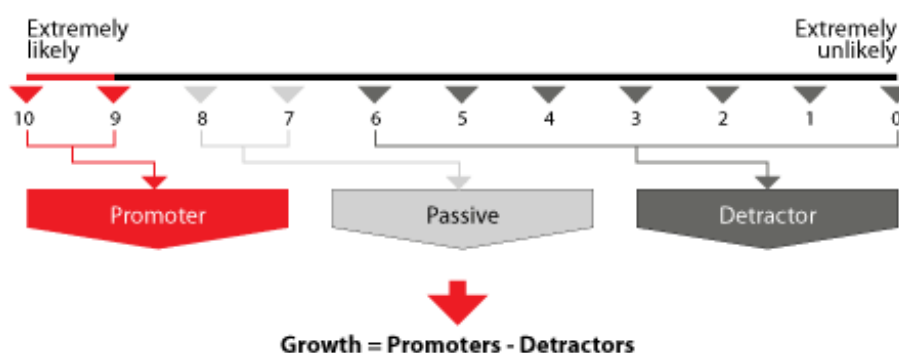
What is the Net Promoter Score?

Net Promoter® Score was developed by loyalty expert Frederick Reichheld of Bain & Company and Satmetrix Systems. The concept is outlined in detail in Reichheld's bestseller *The Ultimate Question: Driving Good Profits and True Growth*.

Net Promoter Score is best known as a customer loyalty metric but it is actually much more. It is a strong indicator of business performance and growth.

In research studies around the world word of mouth is widely acknowledged as the most effective and trusted marketing channel. However, the reality is that few organisations know how to optimally leverage word of mouth for their brand. This is where the Net Promoter Score can help.

The Net Promoter Score starts with the most important question you could ever ask your customers "How likely are you to recommend us to a friend or colleague?" Respondents answer on a scale between 0-10 and based on their response they are categorised into one of three groups: Detractors, Passives or Promoters as outlined below.



Promoters

Promoters are a result of an organisation exceeding their customer's expectations and truly impressing them. This group of customers are likely to buy from you again, and will be less costly to serve. Importantly, this group typically creates and spreads 80 - 90% of positive word of mouth.

Detractors

Detractors are created when organisations don't even meet their customer's expectations. Detractors are less likely to buy from you again, typically cost more to serve and typically spread 80 - 90% of negative word of mouth.

Passives

Passives occur as a result of merely satisfying customers. When customers are just satisfied they will stay with you only until a better offer comes along.

The percentage of Promoters less Detractors gives you your Net Promoter Score

The Net Promoter® approach is about much more than just asking customers a couple of market research questions. It involves the organisation taking strategic and systematic action based on this crucial customer conversation and engaging staff in the process.

Specifically, the organisation develops initiatives to improve its customer experience and value proposition in order to create more promoters and reduce detractors and passives.

Why are Net Promoter Scores Important?

Generally speaking, as an organisation's score increases their retention, repurchase and share of wallet rates also improve. Importantly, a new sales channel is created as the organisation's very own customers recommend them to their friends and colleagues. Peer to peer recommendation is exceptionally powerful. This is crucial for growth as Andy Taylor, CEO of Enterprise Rent-A-Car points out that *"the only way to grow a business is to get customers to come back for more and tell their friends"* (Reichheld, 2006). A best practise NPS implementation requires:

- Strong staff engagement and positive internal cultures
- Executive engagement that is driven by customer economics, not just because it is the 'right thing to do'.

Jeff Immelt, CEO of General Electric is a public promoter of NPS® and even says that the **"Net Promoter Score is the best customer metric I have ever seen"** (Reichheld, 2006). This is one of many business endorsements for the Net Promoter Score. There are three primary reasons behind the popularity of the Net Promoter Score methodology:

1. Link to business economics
 - Studies by Satmetrix and Bain & Company reveal a strong correlation between organisational growth rates and Net Promoter Scores (Reichheld, 2006).
 - The same studies also show that loyalty leaders in many categories are achieving growth rates at approximately 2 times their category average whilst also enjoying lower operational costs (approximately 15% on average) (Bain & Company, 2006).
 - The correlation to growth has been corroborated by a UK study conducted by the London School of Economics (Marsden, Samson, & Upton, 2005).
 - A further study commissioned by the Filene Research Institute in the USA on the credit union industry suggests that high NPS correlated with high credit union asset growth, high membership growth and high loan growth (Brooks, 2007).
2. Net Promoter is easily understood by all key organisational stakeholders, especially staff, which is empowering. This is a strength that very few metrics have.
3. Organisations are beginning to realise that traditional marketing channels are less effective now with media fragmentation and over communication and word of mouth is therefore increasing in importance.

Who uses Net Promoter Score?

Net Promoter is taking the US and Europe by storm. It is used by a wide range of firms including hospitals, banks, toy manufacturers, electronics, software manufacturers, and the media in both business-to-business and business-to-consumer applications.

Iconic organisations such as GE, Intuit, Microsoft, Paypal, Philips, Sony, American Express, Charles Schwab, Apple, Logitech and The Harvard Business Review are some of the many organisations that use this unique system. Ken Chenault the CEO of American Express sums up the Net Promoter Score's value by recommending that "all companies should ask customers what (Bain) calls the Ultimate question" (Reichheld, 2006).

How is it relevant in the current economic climate?

Of the 31 organisations included in this study only 7 achieved a positive score. Only 2 organisations – APIA and Bendigo Bank – achieved world-class scores.

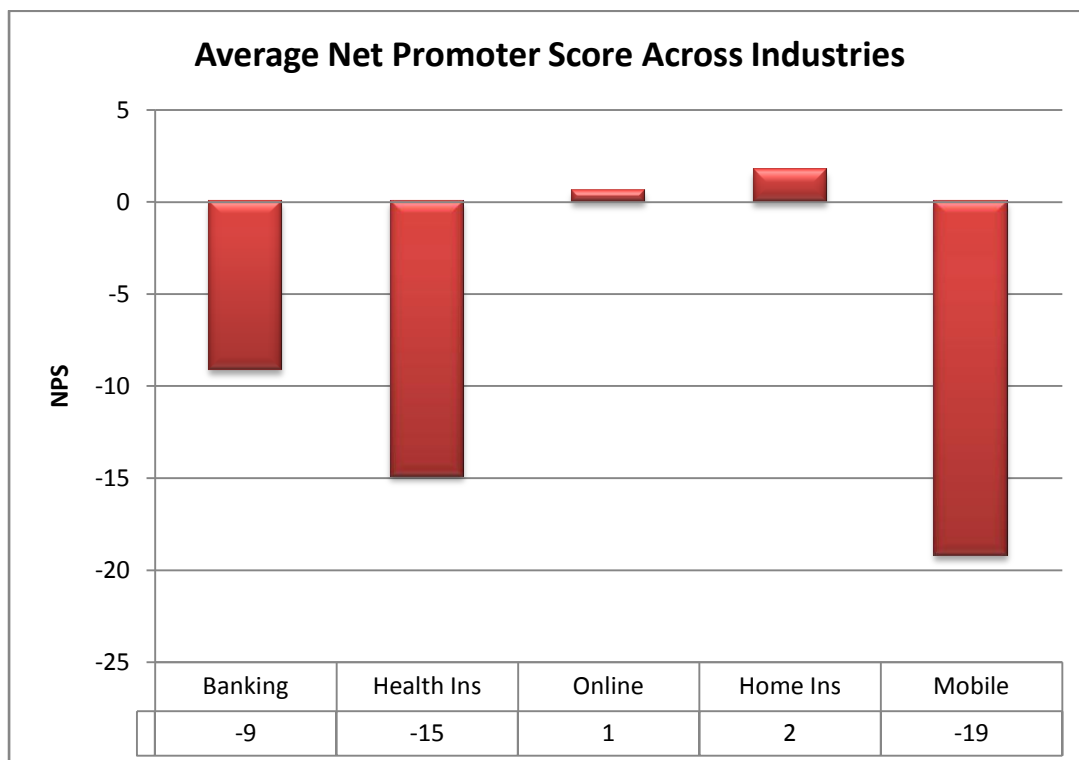
Effectively this means many Australian organisations have the potential to improve their performance before resorting to traditional measures used in tough times, such as cost cutting and shedding staff.

During tough economic times organisations need to focus on customers more not less. This is not just to survive in the current environment but more importantly to ensure they position themselves strongly in the long-term.

Though increasing customer focus rather than cutting costs may seem counter intuitive, when you factor in the incremental loyalty, repurchase rates, and especially word of mouth it makes perfect economic sense. Even if overall demand in a category decreases, organisations can still take a leadership role and ensure they position themselves strongly for the future.

The challenge for organisations now is the dual pressure of cutting costs and maintaining or increasing their customer focus at the same time. These two forces can be in conflict as disenfranchising existing customers now can mean large investments in the future to win them back. Winning back customers is never easy and is seldom cheap. Net Promoter is ideal in these circumstances as it can help organisations cut irrelevant costs (those that are not important to customers) while still improving their customer experience.

Key Findings Overall



The above graph displays the average NPS® for each category based on the responses to the NPS question.

The answer to the second question, which is the reason for the score, was coded into two broad categories which were then broken down even further into specific reasons:

- **Functional Value Proposition** – In other words, what do customers get and what do they pay. This includes product, range, price, fees, channels, etc.
- **Customer Experience** – This is effectively the quality of customer interactions as opposed to the products/services offered. This includes physical elements such as service, timeliness, reliability, staff and critically the emotions felt by customers.

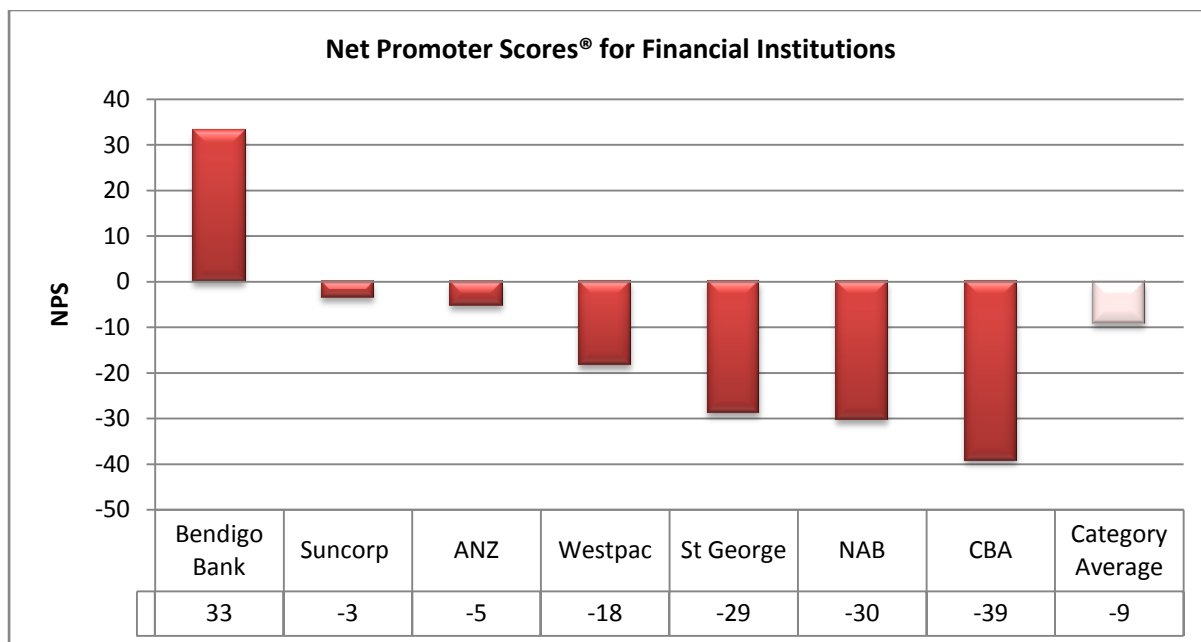
Our initial hypothesis was that the creation of promoters requires the consistent delivery of great customer experiences and strong value propositions. This benchmarking survey strongly supports this hypothesis.

Additionally, the following results were also notable:

- Promoters make positive comments about almost everything the organisation delivers **and** does.
 - The implication for organisations is that they cannot focus specifically on just functional aspects such as price or promotion in isolation but rather the end to end experience as a whole. This requires a concerted effort by all functional areas to focus on developing initiatives to create promoters
- All organisations without exception have some promoters.
 - This provides a good starting point for organisations since replicating the experience their promoters have across their customer base could significantly improve their NPS®.
- Customer experience played a major role in driving promoters in comparison to functional elements such as product and price.
 - Organisations need to focus on more than just price and product features. There is a strong need to have a planned and managed customer experience.
- How staff interact with customers and, in particular, how they make them feel is critical to creating promoters. A positive comment about staff invariably means a high net promoter score from a customer.
 - There is evidence that organisations with strong customer focussed internal cultures such as Bendigo Bank, APIA, AAMI and Virgin Mobile tend to have higher Net Promoter Scores®. This confirms our belief that you must have engaged staff before you attempt to create engaged customers.

Key Findings by Category

Banking/Primary Financial Institutions – Smaller is Better

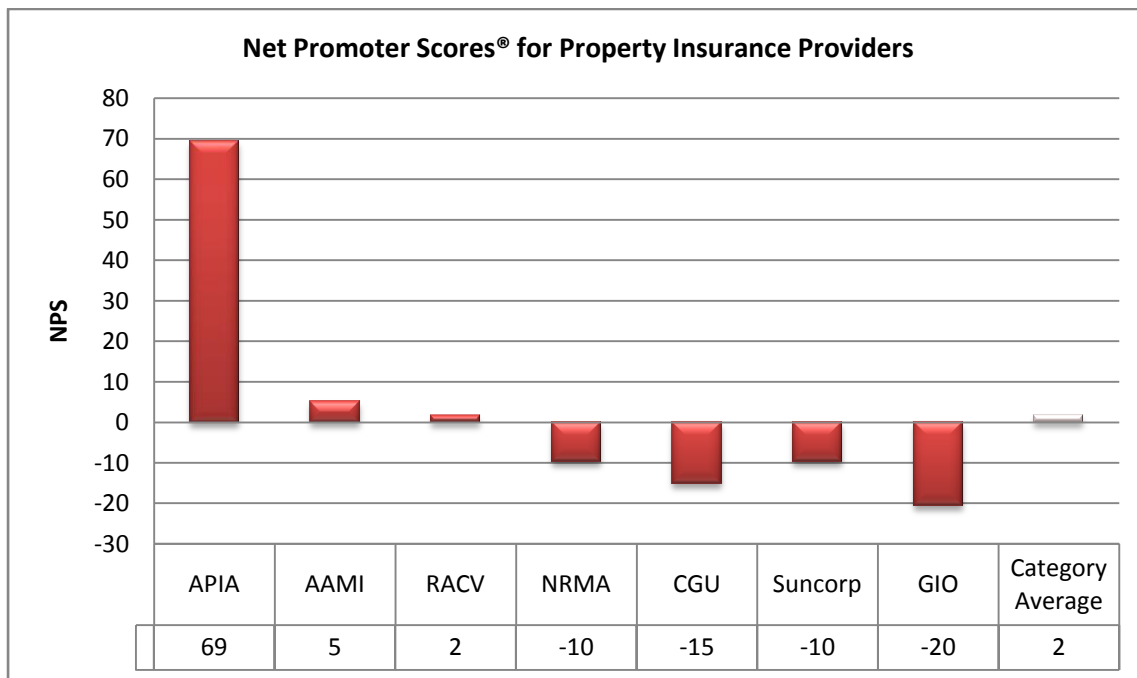


This category refers to the respondent's primary financial institution and as expected typically these are banks. The average score for this category was -9.

All major banks had negative scores except for the top performer which was Bendigo Bank with a Net Promoter Score of +33.

The key distinguishing characteristic of Bendigo Bank is their customer experience. In fact, 81% of Bendigo customers made a positive comment about their personal customer experience with the bank. A large percentage of these customers attribute this to Bendigo staff and typically describe them as friendly, helpful and pro-active. Bendigo does appear to be "all about U" as their advertising suggests. In comparison, some banks, which also promote good service, do not appear to be delivering against this promise. This could actually have a detrimental effect on their brands.

Property Insurance – APIA is miles ahead



The average score for this category was +2.

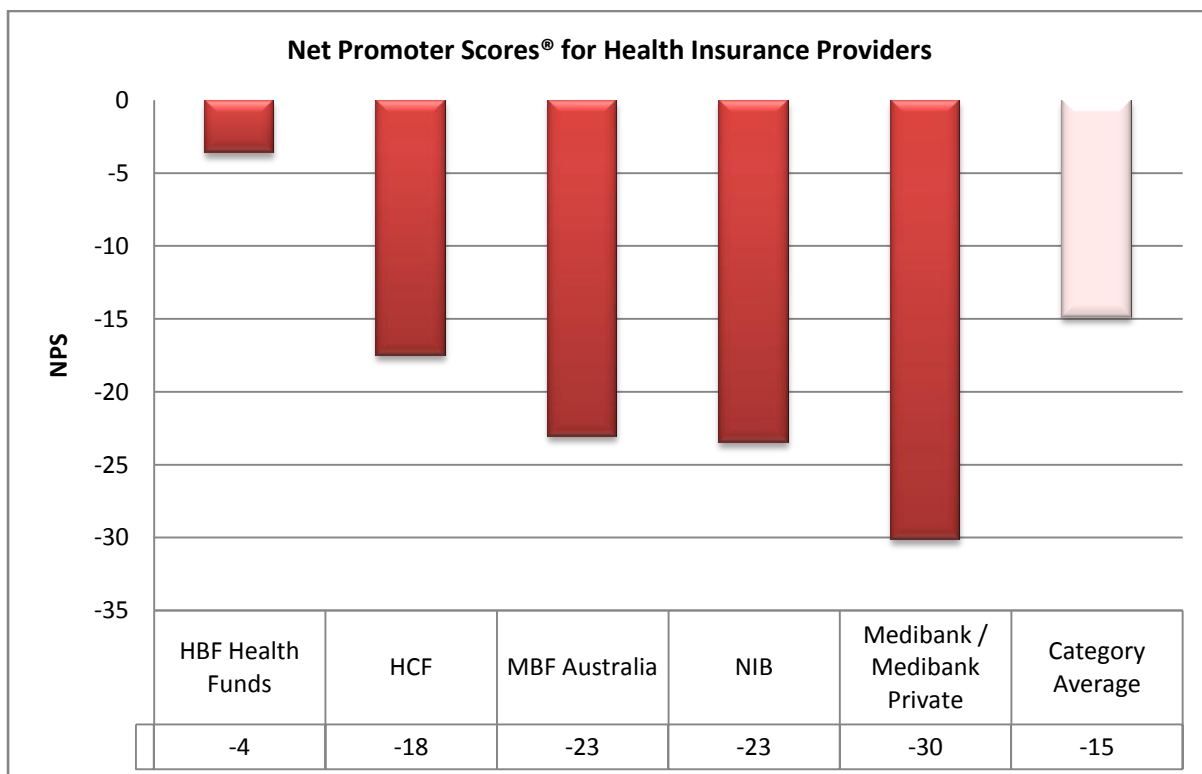
The top performing property insurance provider was APIA by a huge margin with a score of +69 which is truly world class. Even in a low involvement category APIA demonstrates that the key to creating promoters is a:

- Tailored value proposition aimed squarely at the over 50's segment
- Truly great customer experience

APIA's dedication has resulted in almost 80% of respondents saying something positive about their experience with APIA.

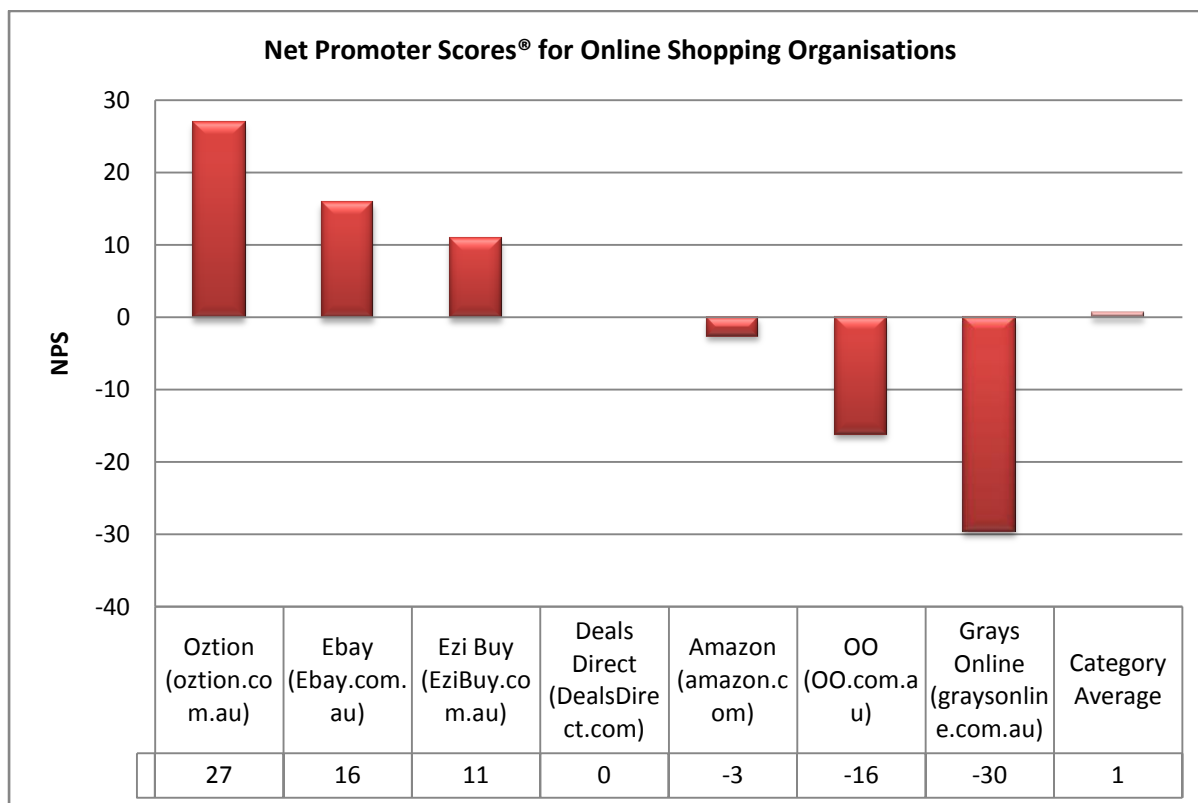
The bottom performer was GIO. In relative terms the key areas for improvement for GIO is a better claim handling process and an improved customer experience, specifically improving the customer interactions with frontline staff.

Health Insurance – It all looks very sick



The average score for this category was -15. This is probably a function of the category. Health insurance for many people may be viewed as a grudge purchase. The top performing health insurer was HBF Health Funds. The key factors behind their leadership included a better claim handling process and a superior customer experience. Even though the leader in this category has a score of -4 the important aspect with NPS is the relativity in comparison to your competitors

Online Shopping – Local Aussie player beats international giants

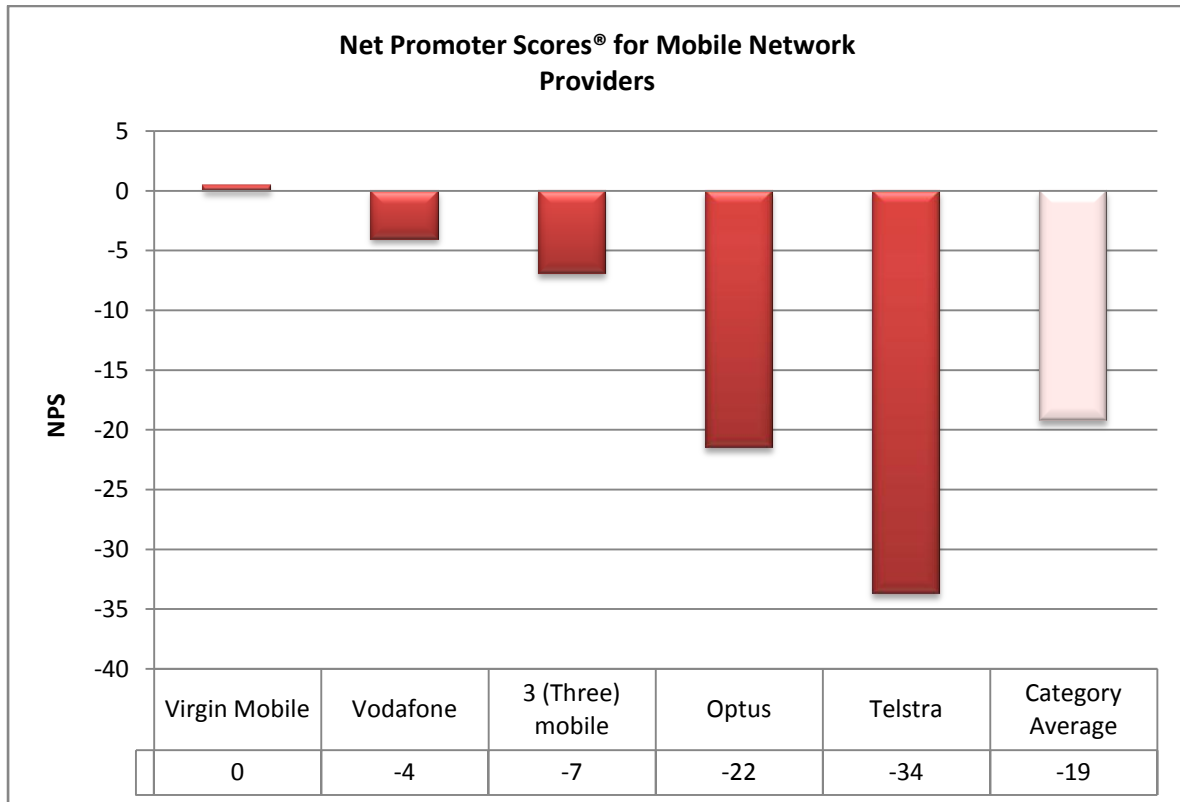


The average score for this category was just +1.

Surprisingly the top performing organisation in this category was Oztion. The key drivers behind their success appears to be their positioning as an Australian alternative to eBay as quite a few customers mentioned the fact that Oztion is Australian when explaining the reason for their patronage. Oztion also appears to have taken advantage of the negative publicity around eBay's previous Paypal restrictions. All of these factors have influenced Oztion's rapid growth rate, resulting in a company which is just 4 years old having more than 800,000 members despite strong international competition from eBay and Amazon.

The bottom performing organisation was Gray's Online. Though Gray's Online did well in terms of their range and bargains/deals, relatively speaking it did not get as many positive mentions for customer experience aspects.

Mobile Networks – Leaders are struggling



The overall score for this category was -19.

The top performing mobile network provider was Virgin Mobile with a Net Promoter Score of 0. What set Virgin apart from their larger competitors was the number of strong, positive customer comments regarding their deals/price and customer experiences.

The bottom performer was Telstra with a Net Promoter score of -34. Detractors made up 52 % of Telstra respondents.

How was the survey conducted?

This is an independent survey conducted by Engaged Marketing Pty Ltd, with fieldwork being undertaken by TNS Brisbane.

Data for this benchmarking report was collected from 1501 respondents via an online opt in survey. For each of the 5 industries participants were asked to select their primary service provider from a list of options. After participants had selected their main provider for each industry they were asked two questions. The first was the Net Promoter® Score Question – “How likely are you to recommend us to a friend or colleague?” Participants responded by answering on a scale from 0 (extremely unlikely) to 10 (extremely likely). Participants were then asked the reason for their score. Care was taken to ensure the survey met the strict conditions for an NPS survey. More information on the NPS methodology is available at the Net Promoter community website, www.netpromoter.com.

All respondents were actual users/customers of the various brands and care was taken to ensure the sample size was representative of the Australian population. Scores for brands with small sample sizes have not been displayed. However, the smaller organisation’s scores were included to calculate the overall category scores.

How can Engaged Marketing help?

Though Net Promoter Score is simple to understand it does not mean it is simple to implement.

In a successful implementation you need to gear your entire organisation to consistently deliver strong value propositions and great customer experiences to create promoters and reduce detractors. You will need to potentially make improvements to systems, processes, channels, experiences and engage your staff through the journey. This requires a structured and disciplined implementation approach.

Engaged Marketing is a Net Promoter® Loyalty Partner. This means we can apply best practice implementation methodologies from around the world. Our Principal Chris Roberts is a Certified Net Promoter® Associate. He is one of the first to achieve this distinction.

We have extensive experience in implementing large organisation wide programs that have delivered spectacular results.

Our end-to-end structured approach includes research, governance, process development, training, staff engagement and customer strategy development.

We guide you through the implementation and then transfer our Intellectual Property so you are empowered to manage the program on an ongoing basis.

If you have already embarked on an NPS implementation then we offer an NPS audit. This only takes a few days where we assess your implementation end to end. At the end of our review your team will receive a report outlining a prioritised list of recommendations to maximise the return on your NPS implementation.

Contact us

As we have access to approximately 7000 responses across 5 categories we can offer additional and detailed insight by category and brand.

If you need further information on the study or to find out how loyalty leaders achieve double digit growth **AND** achieve lower operational costs contact us today.



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