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LISTEN AND EARN

POOR SCORES FOR CUSTOMER SERVICE WILL SHOW UP ON THE BALANCE SHEET UNLESS BIG BUSINESS LEARNS TO DELIVER WHAT THE CUSTOMER WANTS – A WARNING REFLECTED IN A MELBOURNE BUSINESS SCHOOL SURVEY.

AUSTRALIA'S BIG BUSINESSES ARE PROFITABLE because they are oligopolies, not because they are good at meeting customer expectations. That is the grim conclusion of a survey by the Melbourne Business School that assesses what consumers say to each other. Posing one question – "How likely is it that you would recommend this company to a friend or a colleague?" – the survey found that customers have a dim view of what they are offered. It has long been suspected that Australian corporations rely heavily on their dominant market shares and strategies for keeping the competition out. Evidence is emerging that this is the case. The supermarket duopoly, the big banks, insurance companies, newspaper monopolies and even Virgin Blue all receive dismally low rankings. It is only the limited choice available that is preventing mass defections.

The survey shows that Australian industry compares poorly with international equivalents, Mark Ritson, an associate professor at the Melbourne Business School, says. "These scores are generally much lower than we see in the United Kingdom or United States. This means either that the Australian marketplace is made up of enormously fussy customers, which I find hard to believe, or the organisations are consistently failing to deliver a better customer experience thanks to fat juicy profits and the absence of international competition.

Ritson says Australian business tends to have a consistent lack of true customer focus, contenting itself with paying lip service. "You've only got to look at the company statements or go to the AGMs to discover a contrast with the US and even Europe. [Revenue] does not come from shareholders or CEOs, it comes from customers. But that is not a philosophy that Australian companies can really claim much interest in. [They] have been quite greedy in sharing the money with the financial community and not reinvesting it. Either a new generation of Australian chief executives will review this and grow the market and market shares by reinvesting more or, if none of them do it, which is probably what will happen, we will wait for external entrants."

Why should one indicator of customer response be taken so seriously? Ritson says that, unlike most marketing metrics, this measure is simple to understand and a reliable predictor of a company's revenue growth. This was confirmed by an initially sceptical study by three academics – Paul Marsden, Alain Samson and Neville Upton – at the London Business School. They found that negative word of mouth predicted company performance. "Companies attracting high levels of negative word of mouth ... published poorer results, in terms of growth, than those enjoying low levels of negative word of mouth," they wrote. Their results were consistent within industries and across industries.

There is nothing new about measures of customer loyalty, nor is an analysis of word of mouth especially innovative. Fifteen years ago, Nissan Australia asked a similar question: "What do you say to other people about Nissan cars?" More customers passed on negative comments than positive recommendations. A few years later, Nissan Australia was closed.

In markets subject to oversupply or saturation, the importance of getting such customer measures right is growing. "We have been measuring loyalty satisfaction service quality for pretty much a quarter of a century in different ways and its been a big focus for most organisations," Ritson says. "What is new in the Netpromoter [a score for customer satisfaction that subtracts the percentage of company "detractors" from the percentage of its "promoters"] is that it is so blindingly simple. There is a lot to be said for less being more in this [marketing] game. If you look at the average firm in 2006, yes, they are measuring customer service but they have got multiple measures which they keep changing. They can't reference [the results with] anyone else, even in a different division.

"Most marketing departments are isolated and tend to reinvent the wheel. On the other side, management academics are incredibly over-complicated so it would take a heretic like [Fred] Reichheld [director emeritus of consultancy Bain & Co], who genuinely wanted to cut through the bullshit, to take a simplistic but much more powerful approach."

AIRLINES

Brand	% promote	% passive	% detract	score	variance
Singapore Airlines	48	44	9	+39	5%
Emirates	52	23	25	+27	11%
Cathay Pacific	23	43	34	-11	13%
Qantas	23	41	35	-12	3%
Air New Zealand	17	54	29	-12	14%
Malaysia Airlines	24	35	42	-18	11%
Thai Airways	6	65	29	-23	13%
JetStar	19	32	49	-30	7%
Virgin Blue	12	43	45	-33	4%

BANKS

Brand	% promote	% passive	% detract	score	variance
Bendigo Bank	37	33	30	+7	11%
HSBC	25	41	33	-8	11%
ANZ	18	40	42	-24	4%
St George	18	34	48	-30	N/A
BankWest	14	39	47	-33	8%
Westpac	11	39	50	-39	4%
NAB	11	35	53	-42	4%
Bank SA	5	41	54	-49	10%
Commonwealth Bank	8	29	62	-54	3%

Ritson says the measure predicts revenue growth with 70-90 per cent accuracy, more than double the next-best measures. The results tend to be consistent across companies and industries. Assessing how customers share opinions and meaning solves some of the main problems in linking product quality and customer satisfaction. It is an intersubjective measure (neither objective nor subjective but shared) and does not get bogged down in complex attempts to define quality objectively – a problem that has beset total quality management (TQM). Nor does it become lost in the endless variations of subjective responses, variations that routinely prove too disparate to organise meaningfully.

There are critics of the Net Promoter method. Ken Roberts, chief executive of consultancy Forethought, reckons that purely measuring third-party advocacy is a retrospective measure that does not predict growth in market share. He argues that when a competitor is offering "superior value", third-party referral will not predict future purchasing behaviour.

That organisations do not own their own reputation is a commercial reality yet to impress itself on Australian business, if the survey results are to be believed. Especially poor are supermarket chains but because they are a dominant duopoly, the effect is limited. Customers may not like what they get but they have little choice. Ritson says this opens up space for foreign competitors, such as Tesco, and has created an unusual proliferation of local market suppliers. "They have made extraordinary profits at the expense of delivering any sort of real customer satisfaction. Around the edge of this duopoly threats will grow," he says.

"Australia has a diabolical supermarket network, among the worst I have ever seen anywhere in the world. It is remarkable that a country that is so healthy and so selective in its tastes is having to put up with such an abysmal quality of service. The last time I saw a queue in a UK supermarket was about 1995. Tesco said one in line is too many and trained everyone in its workforce to operate the till. Looking at insurance results, one would say that IAG appears to have whatever the opposite is to the Midas touch in insurance."

Ritson acknowledges that Australia's oligopolistic business structures limit the effect of success or failure in dealing with customers' expectations. He says *The Australian Financial Review*, for example, has a high rating but its growth is limited because it serves a niche market. Obversely, *The West Australian*, *The Advertiser* and *The Canberra Times* have poor ratings but they are monopolies, which will reduce the harmful effects on their businesses.

It is also important to identify clearly who the important customers are. In the banking industry, for instance, the measures are of retail customers, many of whom are not profitable. Looking at business customers would be a better predictor. Likewise, newspaper industry analysis looks at readers when the more important customers, at least in terms of revenue growth, are advertisers.

Transaction types should also be taken into consideration when assessing the importance of results. A newspaper, for instance, is purchased easily and often so the effects of negative advocacy can be turned around quickly. But a car is rarely purchased; recovering from a negative brand perception will take longer.

Ritson also has a reminder: "Some custromers are not good for the business … About 80-90 per cent of word of mouth comes from detractors of a brand." ●

CARS

Brand	% promote	% passive	% detract	score	variance
BMW	61	36	2	+59	8%
Volkswagen	50	47	3	+47	9%
Audi	55	35	10	+45	15%
Mercedes-Benz	48	43	9	+39	13%
Subaru	46	44	10	+36	8%
Toyota	32	48	19	+13	4%
Mazda	29	53	17	+12	7&
Honda	26	50	24	+2	7%
Nissan	22	51	27	-5	7%
Hyundai	21	49	30	-9	10%
Mitsubishi	18	48	34	-16	4%
Holden	20	44	36	-16	4%
Ford	15	45	40	-25	5%
Saab	6	41	53	-47	15%

GROCERY SHOPPING

Brand	% promote	% passive	% detract	score	variance
Local market	50	38	12	+38	11%
Local independent grocer	52	33	15	+37	14%
Aldi	30	29	41	-11	15%
Foodland	22	41	37	-15	12%
Woolworths	14	46	40	-26	4%
IGA	16	42	42	-26	6%
Safeway	11	42	47	-36	3%
Bi-Lo	12	34	54	-42	11%
Coles	8	36	56	-48	2%

NEWSPAPERS

Brand	% promote	% passive	% detract	score	variance
Australian Financial Review	31	56	13	+18	9%
The Age	22	53	25	-3	3%
The Courier Mail	26	35	38	-12	14%
The Australian	18	52	30	-12	7%
mX	24	38	38	-14	12%
The Sydney Morning Herald	19	43	38	-19	9%
Herald Sun	14	41	44	-30	4%
The West Australian	16	32	51	-35	6%
The Daily Telegraph	11	42	47	-36	11%
The Advertiser	6	44	50	-44	8%
The Canberra Times	3	37	61	-58	9%

Source: Melbourne Business Schoo