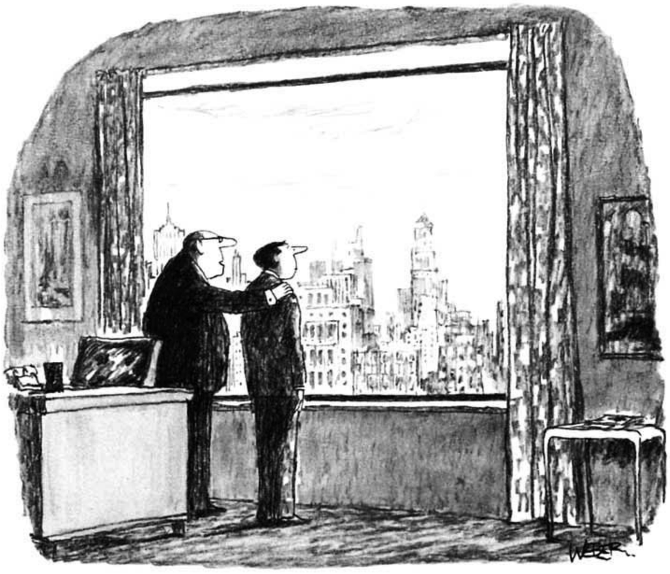

"Somewhere out there, Patrick, is the key to increased sales. I want you to find that key, Patrick, and bring it to me."

Unlock your company's true potential for lasting growth

How to win—and retain—loyal customers in Asia and Australia

by Jayne Hrdlicka, Edmund Lin, Gary Turner, Bruno Lannes, Yeon-Hee Kim and Shintaro Hori

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Jayne Hrdlicka, a partner in Bain & Company's Sydney office, heads the firm's Customer Strategy Practice in the Asia region, working with clients across industry sectors. Edmund Lin, a partner in Bain's Singapore office, is a member of the firm's Financial Services Practice. Gary Turner, a partner in the Financial Services Practice, is based in Bain's Sydney office. Bruno Lannes, a partner in Bain's Financial Services Practice, is based in the firm's Shanghai office. Yeon-Hee Kim, a partner in Bain's Seoul office, works with the firm's Retail, Consumer Products and Financial Services Practices. Shintaro Hori is a partner in Bain's Tokyo office, where he works in a wide range of industries, including automobiles, electronics, retail, food, consumer products, healthcare and telecommunications.

Editorial team: Lou Richman and Susan Donovan
Layout: Global design

Unlock your company's true potential for lasting growth

Service industries across the Asia-Pacific region—from banking to retailing to telecommunications—have profited from Asia's economic rise. But they've often prospered at their customers' expense. Unlike manufacturers, many service companies have been sheltered from competition by regulatory barriers, allowing them the luxury of an inward and "product driven" focus. Serving customers' needs is acknowledged and talked about but rarely the point of focus.

Now that is all starting to change. Thanks to trade liberalization in services, deregulation, cross-border mergers and the emergence of China and India, consumers—fed up with unwarranted fees and convoluted pricing structures—will now have unprecedented choices and insist on doing business on their terms.

This sea change will have profound consequences. Research conducted by Bain & Company over the past decade has found that a passionate commitment to building and sustaining customer advocacy is vital for any company striving for lasting revenue growth and profitability. This holds true in all major markets in the world. But our recent surveys of consumers in Australia, China, Japan, South Korea and Singapore reveal that service businesses in each of those countries still have a long way to go toward that goal. In these markets, financial service providers, retailers, telecommunications companies and other service companies have a deep-rooted problem with customer loyalty—one that they're just beginning to recognize.

Indeed, we asked customers in these industries, on a scale of zero to 10, *"How likely are you to recommend this company to a friend or colleague?"* Customers giving top scores of 9 or 10 we classified as *promoters*; they are a company's biggest fans. Those answering with a 7 or 8 we categorized as *passives*; they're lukewarm at best to the customer experience they're receiving. Those giving a score of 6 or less are *detractors*; this group is dissatisfied, vocal about it and driving away potential new customers. Subtracting the percentage of detractors from the percentage of promoters yields a company's Net Promoter® Score (NPS℠)—a metric that Bain's analysis has found correlates closely with a company's growth. The sobering verdict: With few exceptions, companies in the service sector elicited scores that were negative—often very negative.

Turning those numbers around won't be easy, but the gains from doing so are great. In industry after industry, companies motivated to deliver the right customer experience in *everything* they do have consistently outperformed their peers. Those all-too-rare companies understand that getting customers to recommend their products and services is the best index of whether customers will come back for more. Such companies aim to turn customers into passionate advocates. Customer advocates not only are less likely to shop for a better deal from your competitors but purchase more of your products and services. And they bring in new business, enthusiastically talking you up to their friends with an effectiveness that no marketing campaign can replicate.

The rewards of customer advocacy show up most dramatically at this personal level. Our studies indicate that 80% to 90% of positive referrals come from promoters. Detractors, meanwhile, are responsible for 80% to 90% of negative word of mouth.

Interestingly, the biggest payoff can come from recovering a customer who's had a bad experience. Companies can do this by empowering their employees to go to extra lengths to resolve the customer's problem immediately and turn him or her into a delighted fan. When we examined customer behavior at one global company, we saw that on average promoters praised the company to three people, detractors warned off nine potential buyers, and converts told a dozen people about their positive experience.

Bain's Net Promoter Score surveys also make clear that customers' expectations vary dramatically across the Asia-Pacific region. Consumers in Japan, for example, are stinting in their praise; they invariably provided the lowest scores in our study. South Korean and Singaporean respondents also score their customer experiences conservatively. Scores in Australia, by contrast, show more extremes within industries—from companies that score very well to the clear laggards that score quite negatively. It would be a mistake, however, to write off a poor score simply because customers in a given market are tough graders. There are genuine differences in the quality of service country by country. Moreover, how your score stacks up relative to the competition is the most telling evaluation. In every industry and in every market surveyed, the high scorer outperforms its peers financially.

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It would be equally wrong to assume that the nature of your industry's products, services or customer-service history puts it at a disadvantage with consumers and that nothing can be done to change things. It takes just one player to seize the opportunity to break from the pack. In Australia we have seen exactly that in one tough services sector with years of deeply negative Net Promoter Scores, ranging from minus 20% to minus 60% across all competitors. Today, two companies perform very positively in their customers' eyes and are enjoying higher growth as a consequence.

Financial services: Invest in retaining customers, not just acquiring them

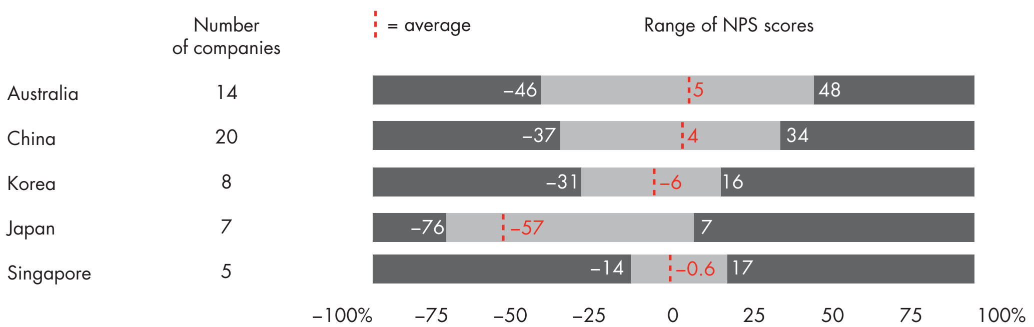
Though financial services is arguably the region's most dynamic and promising sector, it's one with some of the least loyal customers. Banks, brokers, credit-card issuers and insurance underwriters posted low Net Promoter Scores in most markets. The core problem: To win over the large middle class emerging across the region, financial services companies have spent heavily to build branch networks and call centers. But they're investing little in customer retention. With banking laws that kept out foreign competitors and inhibited local institutions from poaching one another's customers, domestic firms once counted on holding customers captive. But in mature markets like Australia, Japan and Singapore, spending to sign up new customers is reaching a point of diminishing returns. And in emerging markets, like China's, where banks are investing heavily to lure service-hungry consumers with modern retail financial products, firms that focus on building customer advocacy early on will be able to minimize costly customer turnover down the road.

Retail banking: The easiest profits have a big cost

Few industries are more attuned to measures of financial performance than banks. Ironically, retail banks routinely undermine their long-term performance by alienating customers. Succumbing to the allure of easy profits, banks pile on fees for routine services like ATM use, impose hair-trigger penalties for minor infractions like a rare overdraft, or scrimp on customer service. Those profits all come out of customers' hides and turn them into detractors. Many banks become addicted to these "bad profits" and are blind to the harm they can cause. Yet account holders do not stew in silence, even if they are locked in by mortgages, car loans or other long-term contracts that prevent them from switching banks. Detractors are far more likely than promoters to warn off other potential customers.

That pattern repeated itself across the region. Among customers of Japanese retail banks, promoters provide more than 10 times as many new customer referrals as detractors and buy over a third more products. But it's hard to find promoters: Net Promoter Scores averaged negative 57%. (See Figure 1.) The industry's lone exception: Shinsei Bank, with a positive NPS of 7%. Shinsei (the name translates as "new life") has five times more promoters than its peers and stands out for its customer service. (See Figure 2, next page.) Shinsei's customers praise its no-fee account maintenance, free interbank transfers over the Internet, and

Figure 1: Retail banks



Note: The sample size for each market was, respectively, 2,677; 7,463; 769; 1,142; and 571.

extensive network of ATMs available 24/7 in Tokyo metro stations, convenience stores and post offices throughout Japan. It's little surprise, given its departure from banking as usual, that Shinsei leads the industry with a 10% compound annual revenue growth rate from 2003 to 2005. The average revenues of Shinsei's six principal competitors, by contrast, actually shrank 2% over the same period. (See Figure 3.)

Retail banking in Singapore has long been dominated by large local banks. But as the Monetary Authority of Singapore has opened up the market in recent years, foreign players such as Citibank are shaking up the industry with creative new approaches. Citibank has opened new types of branch offices in strategic locations close to carefully targeted customer segments. Citi has set itself apart by offering new products and better customer service, including the early rollout of Internet banking access. Customers are taking note. Citi is steadily gaining market share and earned the highest NPS in the retail banking sector.

Still recovering from the financial meltdown of the late 1990s, South Korean retail banks are making modest progress in gaining customer loyalty. On average, these banks garnered an NPS of minus 6%, up slightly since 2004. Korea's promoters have long tenures—53% have remained with their bank for more than 10 years—and they're more than twice as likely as detractors to increase their business with the bank.

On the whole, the Australian retail banks also lifted their Net Promoter Scores modestly since the NPS survey done in Australia in 2003. The average NPS of the 14 banks in the 2006 survey was 5%, with Bendigo

Figure 2: Shinsei Bank turns customers into promoters.

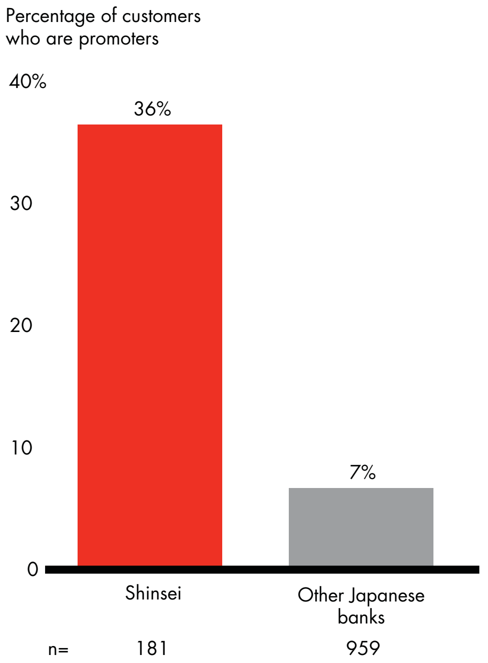
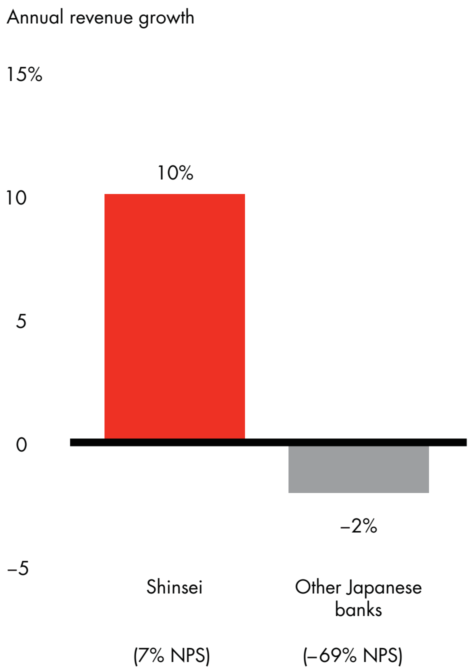


Figure 3: NPS leader Shinsei Bank surpasses competitors in revenue growth.



Bank, an institution that emphasizes its strong community ties and a newcomer to our survey, scoring a splendid 48%. Two other banks from our earlier survey—ANZ and St. George Bank—climbed into positive territory, garnering scores of 16% and 9%, respectively. Both organizations have invested heavily over the last few years to identify the right customer segments, tailor service propositions that suit their target customers and empower local branch employees to solve customers' problems. As a result, both banks have broken away from the pack in terms of customer service, and their competitors are scrambling to catch up.

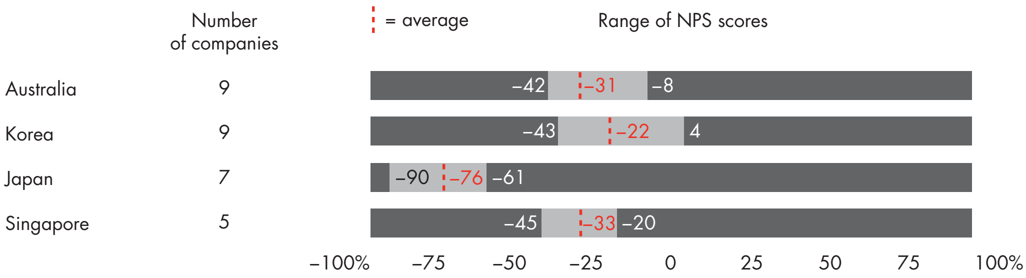
In China, which is opening its markets to international banks under World Trade Organization rules, international banks are lining up local partners, spending on infrastructure and buying market share. But both domestic and foreign competitors ignore the need to cultivate customer advocacy at their peril. Our survey of nearly 7,500 customers of 20 state-owned and publicly traded joint-stock banks in eight major cities found that Chinese consumers are up for grabs—affluent consumers foremost among them. Giving banks an average Net Promoter Score of just 4%, China's consumers are delivering a declaration of dissatisfaction to the financial services industry.

A few forward-looking organizations are beginning to infuse a customer focus into their businesses. China Merchants Bank, one of the new breed of joint-stock banks, is one. China Merchants has set out to distinguish itself as a full-service national retail bank. Among other customer-friendly innovations over the past three years, the bank became one of the first to offer fixed-rate mortgages, giving prospective home buyers the lowest borrowing rates in the industry. The formula is working: In the Bain NPS survey, China Merchants emerged as the top-ranked bank having national reach, with a score of 19%.

Insurance: Customers care about quick settlements and underwriting

Bain's surveys reveal that Asia-Pacific insurance underwriters are only slowly beginning to recognize the importance of customer advocacy. (See Figure 4.) In Singapore, customers of all life insurers complained about agents who were indifferent to their needs and claims settlement processes that

Figure 4: Life insurance



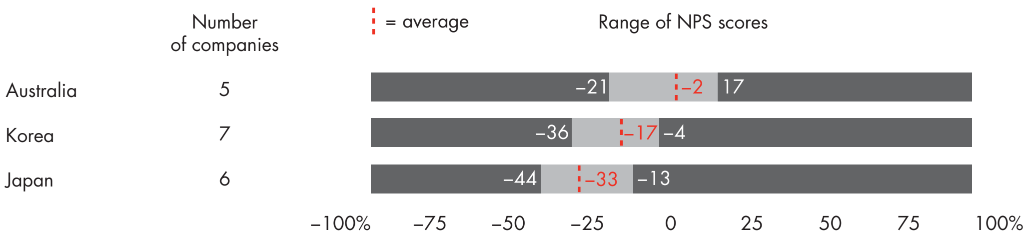
Note: The sample size for each market was, respectively, 1,221; 737; 1,129; and 831.

were slow and inconvenient. Overall, the industry averaged an NPS of minus 33%. In Japan, policyholders—many of them long-standing customers—were unrelievedly negative about the top life insurance underwriters. They complained about premiums that were too high, dissatisfaction with sales agents, poor after-sale service, and a lack of trust and credibility in the companies. Customers of Japanese auto insurance companies also gave negative ratings, grousing about high costs and poor handling of accident claims. In both markets, and for both life and auto insurers, the value of promoters could not be clearer. Promoters referred a friend or a colleague to their insurer 11 to 14 times more than detractors did.

In Australia, the life insurance industry lifted its overall NPS with customers by some 27 percentage points over the past three years. But it still has an average of minus 31% and remains one of the country's worst performing industries. Net Promoter Scores for St. George, Suncorp and ANZ, although still negative, have risen significantly, propelling these companies into the leading positions in the market. None of the three are large underwriters in the traditional sense as developers of technical life insurance products; they all serve chiefly as distributors of other companies' products. As such, their heritage reflects a greater focus on meeting customers' specific needs as opposed to promoting proprietary products.

Steady improvement in building customer advocacy takes persistence, systematic effort and a clear vision that permeates the organization. Just how precarious a reputation for customer advocacy can be is evident in the Net Promoter Scores from customers of Korean life insurance companies, surveyed in 2004 and again in 2006. While the overall industry average was little changed, at minus 22%, the rankings of individual companies varied considerably. The #2 company in 2004, for instance, fell to eighth place out of nine companies in the 2006 study, with a dismal NPS of minus 33%. Meanwhile, Samsung Life Insurance raised its NPS by 32 percentage points, emerging from the middle of the pack in 2004 to grab one of the top spots in the latest survey. Samsung had tackled the problem customers had identified as the principal irritant—poor service provided by the company's sales

Figure 5: Clothing and general merchandise retailers



Note: The sample size for each market was, respectively, 967; 700; and 1,088.

agents. The company stepped up training to strengthen sales reps' personal relationships with customers. By 2006, Samsung's scores for customer service had jumped to near the top of the industry.

Retail: Customer advocacy follows price and localization

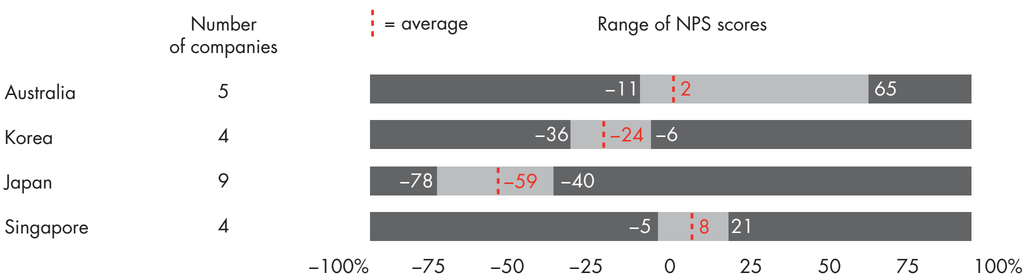
Tools like NPS can help retailers monitor customer trends as the shape of retail changes across the region. In developed markets like Australia, Singapore and Japan, discount chains are challenging traditional department stores. Meanwhile, in China, much of the population outside the biggest cities still buys from traditional kiosks and wet markets or directly from producers. In this fluid environment, customer advocacy appears to be following price and local offerings.

In South Korea, for example, Wal-Mart and Carrefour failed to gain a sufficient following and withdrew as home-grown E-Mart, Home Plus, and other discount chains with a better understanding of what customers wanted and a deep network of Chaebol connections sprang up after the government relaxed rules that protected small shopkeepers. In Japan, where regulatory barriers protect retailers, detractors far outnumber promoters among department store, supermarket and convenience-store customers, who complain about poor product offerings, high prices and unfriendly sales staff. (See Figures 5 and 6.)

In Australia, Aldi, part of the German-headquartered discount supermarket chain, is the preeminent favorite of shoppers. Aldi garnered a superb Net Promoter Score of 65%, based largely on its execution of the original owners' "spend a little, live a lot" philosophy of offering rock-bottom prices and a wide selection of high-quality private-label goods in a no-frills setting. In Singapore, the local favorite, NTUC FairPrice, enjoys a slight NPS edge over Carrefour, the French discounter.

The challenge for retailers across the region will be to remain relentlessly focused on their target customers and not succumb to the temptation to simply add merchandise in a bid to keep same-store sales rising.
(Continued on page 10)

Figure 6: Food retailers



Note: The sample size for each market was, respectively, 478; 400; 1,661; and 1,906.

Credit cards: Think retention

Credit-card issuers across Asia are living way beyond their means. As the region's economic growth has lifted incomes and sparked discretionary consumer spending, card issuers have invested heavily to build market share. But the scramble to sign up new customers is reaching a point of diminishing returns in market after market. The cost of recruiting new cardholders has risen along with evidence of customer discontent. Deregulation and market saturation are putting customers in play for poaching by rivals.

Many credit-card firms are failing to adapt to the new realities. They focus 80% or more of their marketing expenditures on acquiring new customers but invest little to retain them or to give them reasons to spend more. But such unbalanced spending is misguided. For one thing, it usually takes two to three years to recoup the cost of signing up a customer, but high churn rates by unhappy detractors don't give card issuers that much time. And as costs have risen, card issuers have resorted to higher fees, more penalties for late payments and higher interest rates on unpaid balances—all sources of "bad profits" that worsen their problem by driving customers away.

Those shortcomings show up in low Net Promoter Scores across the region. (See Figure 7.) In Japan, where the average credit card NPS of minus 67% is the lowest among all national markets we surveyed, card issuers are greatly underperforming. Their few promoters are 12 times more likely than average to refer their card issuer to a friend or colleague, our survey found, and they are more than seven times more inclined than detractors to say that they intend to increase the purchases they make on their card.

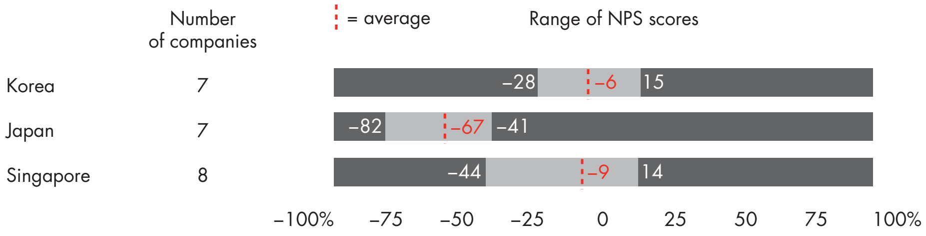
A small city-state of just 4.5 million inhabitants served principally by a half-dozen big domestic and international banks, the mature Singapore market leaves little room for card issuers to grow other than by luring customers away from their equally aggressive rivals. Singaporean cardholders pack more than five cards in their wallets, on average, but no single issuer holds a dominant share. The rivalry among issuers—and the cost of recruiting new cardholders—has increased sharply in recent years as high-powered foreign card issuers like Citibank, HSBC and Standard Chartered stepped up efforts to increase their presence.

Singapore-based United Overseas Bank (UOB) is taking another tack. Rather than simply adding costly benefits indiscriminately, UOB tailored its card offerings to serve the distinct needs of its best customers. The bank's market research found that cardholders were likelier to remain UOB customers, use their cards more often and talk up the bank's card with their friends and colleagues if their cards came with bonus perks. Based on this insight, UOB launched and steadily upgraded its comprehensive dining privileges program with discounts at a wide range of restaurants in Singapore. Cardholders have rewarded UOB with Singapore's highest NPS—14% versus an industry average of minus 9%.

A turnaround appears to be under way in Korea, where six major card issuers lifted their performance with customers over the past three years. In our 2004 survey, no Korean credit-card company earned a positive Net Promoter Score, and the NPS for the industry overall averaged a dismal minus 36%. This year, by contrast, three companies—Hyundai, BC and Samsung—had more promoters than detractors, and the industry's average NPS rose to a much-improved minus 6%.

Hyundai has led the rebound. The company recognized that to rebuild its credibility with cardholders after the consumer-credit bubble burst, in 2002, it would have to sharpen its customer focus. Taking advantage of its affiliation as a subsidiary of the Hyundai Motor Group, Hyundai began by introducing the "M" card, providing Hyundai and Kia car owners who subscribed to the card with discounts on gasoline, auto insurance and other vehicle-related products. As the concept took hold, Hyundai branched out with more cards to serve other distinct target-customer groups—"S" cards for shoppers, "T" cards for subscribers of affiliated telecommunications service plans and "U" cards targeted at university students. Hyundai's "alphabet card" approach is paying off. From a position in the middle of the card-issuer pack three years ago, Hyundai is now the industry's NPS leader with promoters outnumbering detractors by 15 percentage points.

Figure 7: Credit cards



Note: The sample size for each market was, respectively, 700; 1,253; and 2,004.

Rather than trying to serve everyone, they should concentrate instead on fine-tuning their insights into what precisely defined target customers are looking for.

Telecommunications: Customers want short waits and flexible plans

Across the Asia-Pacific region, providers of broadband, fixed-line phone service and mobile communications are all getting static from customers. (See Figure 8.) In all three, markets are becoming saturated, and state-of-the-art technology, offering reliable, low-cost, voice and data transmission, is merely the price of entry.

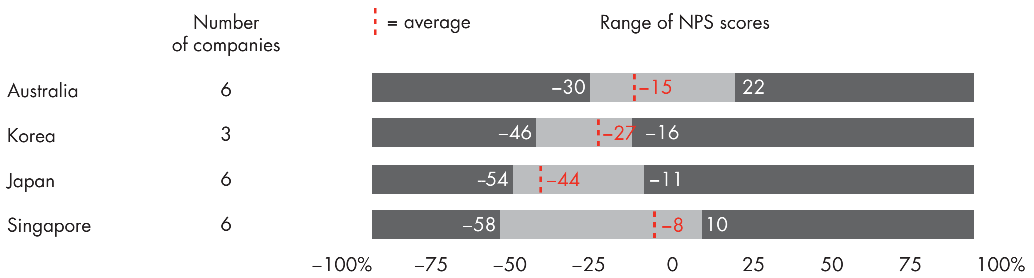
Broadband customers in Japan, for example, cited low fees and a secure, fast and reliable network as the key reasons for promoting their Internet access providers. But what also won the hearts of promoters was good customer service, an established brand image, and access bundled with free Internet phone calls. Likewise in Singapore, where StarHub earned the top NPS, customers wanted a reliable network and low rates. And they were quick to complain when providers didn't reward long-standing customers with incentives to stay.

Providers of mobile telephony face a particular challenge: The rapid spread and quick adoption of new 3G mobile technology—which delivers everything from video calls to music downloads and live news—is increasing the use of wireless services for entertainment, personal information storage and even everyday purchases. But the technical wizardry appears to be generating lower margins and higher customer churn, as subscribers defect for flashier services at lower prices.

In South Korea, for example, customers of SK Telecom, the country's biggest wireless provider, can subscribe to a Global Positioning System service that allows registered users to locate each other. But dazzling as the new capabilities may be, Korea's wireless providers are not ringing bells with customers. All three of Korea's big mobile companies—SK Telecom, KTF and LGT—are battling to achieve profitable growth in a saturated market that's becoming costlier to serve.

Achieving lasting growth is an even bigger challenge for mobile telcos in Japan. There, the race to offer feature- and fashion-rich handsets has ramped up both customer

Figure 8: Telecommunications (mobile and broadband)



Note: The sample size for each market was, respectively, 475; 300; 686; and 2,045.

As many as 5% of Japan's 90 million mobile subscribers could switch carriers. That will likely lead to price competition and shrinking margins. The companies that pull ahead will find ways to enhance offerings by giving customers service options they want.

acquisition costs and turnover. The problem will worsen in the coming year, when customers who switch mobile carriers will be allowed to retain their phone numbers. As many as 5% of Japan's 90 million mobile subscribers could switch carriers, according to one estimate. That will likely lead to price competition and shrinking margins.

The companies that pull ahead will look for ways to enhance offerings by giving customers service options they want. NTT DoCoMo, for example, is pushing hard to lure customers with flexible family-calling plans that allow subscribers to consolidate their phones and services on a single bill. DoCoMo also allows customers free backup of their electronic phone books on the company's network and a hotline for customers who lose their phone and want to have their data locked. Through such maneuvers, DoCoMo hopes to win as many as 5 million subscribers away from its rivals.

As competition, new technologies and deregulation continue to pry open markets for consumer services across Asia in coming years, companies will have to remain relentlessly focused on the big strategic picture. At the center of this picture must be a deep understanding of customers—who they are, which ones are most important to you, what matters to them and, crucially, what you must do to deliver a complete customer experience. Customers will want more, expect more and demand more, and they will reward companies that deliver on their promises.

Airlines: Get the meals and movies right

With economic growth throughout the Asia-Pacific region taking off, these should be high-flying days for airlines that serve the principal commercial and tourist destinations. But the airline industry has been hammered by a succession of blows. Escalating fuel costs and fears of terrorism, SARS and avian flu, among other things, have posed challenges to airlines' economic success. In that environment, airlines cannot afford to perform poorly in the eyes of customers.

Bain & Company commissioned surveys of passengers of 11 airlines serving routes in Australia and Singapore. Respondents reported that safety, friendly service, on-time performance and good value are all essential to them, but they also made it clear that carriers cannot afford to skimp on amenities on longer flights. Unsurprisingly, given the vast distances many flights traverse, Singapore travelers who gave airlines top marks—who were promoters, in other words—valued high-quality in-flight entertainment. Passives and detractors complained about cramped seats, bad meals, entertainment systems that malfunctioned and poorly maintained bathroom facilities.

How did the carriers fare? Travelers in both Australia and Singapore gave positive Net Promoter Scores to Singapore Airlines and Hong Kong–based Cathay Pacific Airways. In Australia, Emirates, the flagship carrier for the United Arab Emirates, emerged as the NPS leader. But some airlines appear to have hit turbulence with customers in both markets. One that was ranked among the favorites by Australians in 2003 fell to last place among international carriers in our most recent survey, with detractors outnumbering promoters by 23 percentage points. In Singapore, that airline's NPS was a minus 7%. Singapore travelers bailed out on two other airlines, giving them Net Promoter Scores of minus 25% and minus 43%, respectively.

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