



Transforming a company by learning to love customers

Most companies aspire to be customer-friendly, but few succeed. Here's a detailed look at how to make it happen, using the Net Promoter SystemSM at the core of a broad transformation.

By Chris Harrop and Rob Markey

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“To most Australians, Telstra seems like a big, unelected government,” *The Age* summed up in a 2007 column titled “Why We All Hate Telstra.” Throughout the 2000s, Australians made a national pastime out of complaining about the telecommunications and media giant’s poor service, slow Internet speeds and institutional arrogance.

Popular outrage turned ugly. It wasn’t unusual for field technicians to find their vans keyed or for employees’ friends and relatives to harangue them at a weekend barbecue with unsolved service problems.

Everyone had a story of woe. In 2010, one customer described how a simple task—moving his phone and fax lines to a new house—became a saga that involved making 30 phone calls and taking four different days off work for technician appointments. Worse still, one technician left half of the job undone, two didn’t arrive at all, and the other said his visit was unnecessary. “I am feeling angry,” he wrote to then-CEO David Thodey. Who could blame him?

As competition intensified, Telstra’s routinely poor service led to a surge in complaints. While it remained the market share leader, the company’s lead began to erode across its consumer and small business markets. Telstra’s strong business became increasingly vulnerable.

A leadership change in 2009 sowed the seeds for a different mindset and approach that put customer priorities first. Thodey, the new CEO, had the audacity to believe that Telstra could not only restore trust but actually earn the advocacy of its customers, even those who’d been vocal critics. Thodey’s customer-centered ambition went against the grain in the telecom sector and within his own company’s culture. Under Thodey’s predecessor, Telstra had made strides in building a world-class network infrastructure, which provided the underpinning to deliver a superior customer experience, but customer dissatisfaction continued.

Making progress at a company as large and complex as Telstra is never easy. Reputations die hard, and Telstra has had to overcome both internal dissent and investor skepticism along the way. But the following evidence speaks for Telstra’s sustained progress:

- It has added more than 10 points of market share in its mobile business over the past five years, according to GSMA Intelligence, while steadily growing companywide operating income.

- The stock rose more than 70% in the past three years, strongly outperforming both the Australian and S&P telecom indices.
- By some measures, Telstra now ranks among Australia’s most respected companies—a dramatic turnaround in public perception. The Net Promoter ScoreSM—a well-established measure of customer loyalty—has improved for every major product, customer segment, service process and point of contact with customers. One pleasantly surprised small business owner named Joyce Odom recently proclaimed her delight at Telstra’s service quality on a Facebook post: “Has anyone ever heard of having a direct line into a telco, let alone into a professional and lateral-thinking representative?”

Telstra’s experience offers a practical view of what it takes at all levels of an organization to implement an advocacy approach through the Net Promoter SystemSM. This system uses regular customer feedback to understand what customers value and what annoys them, not just in customer service but across all the activities that comprise the customer experience. If customers don’t value the entire proposition—product features, usage, service, price and brand—then pleasant customer service reps won’t make a difference.

A look inside Telstra’s journey, including the important decisions and design choices made along the way, shows how a customer-centered transformation can deliver both a better experience for customers and outstanding returns for shareholders. Telstra’s experience thus holds practical lessons for any company that aspires to become truly devoted to customers.

Starting from a bleak place

When Thodey became CEO, he faced several major challenges, notably a sea change in the external market and an organization that was not accustomed to putting the customer’s priorities first. When the Australian government decided to build and operate a nationwide, fiber-based access network that would gradually make Telstra’s copper network redundant, the company lost a major competitive advantage, as it would be consigned to buying services from the new network on an equal footing with its retail competitors. Future success hinged more than ever on developing superior customer service and a differentiated experience.

Principles for a customer-centric transformation

- Credible commitment from the top
- Fresh customer feedback at the heart of the system
- Changing company culture in order to change the customer experience
- Folding customer priorities directly into decision making
- Better for customers means better for company economics

Telstra's culture, however, often put internal priorities ahead of customer concerns. The company did not routinely measure how well it performed across the full experience of its customers, nor did it calculate the value of earning greater loyalty. The P&L included large pools of "bad profits," such as certain fees and charges that annoyed some customers.

So how did Thodey and his team manage to transform Telstra's culture and operations? The company followed some specific principles of effective organizational transformation, tailored to its unique circumstances (see the sidebar, "Principles for a customer-centric transformation"). Given its 40,000 employees to engage, Telstra's path to embrace more customer-oriented ways of working has been neither smooth nor straight, with missteps and tough choices along the way. Yet it was able to correct the course as needed by staying true to the principles.

Credible commitment from the top

The success of any major transformation depends on the credibility and persistence of its leaders. Asked at the start of his tenure what he would stand for as CEO, Thodey replied, "I stand for the customer." Thodey then made a deliberate comment that startled many employees and longtime Telstra watchers: He said that he was "personally embarrassed" by the poor quality of Telstra's service.

This set the tone for how he would motivate the changes required for the company to embrace the pursuit of customer loyalty. Thodey and his team drew a line in the sand. In September 2010, they decided to invest AUS\$1 billion in restoring value to Telstra's overall pro-

position to customers. The bulk would go to adding features and reducing price points.

Many large investors criticized the decision: "Why You Shouldn't Buy Telstra Shares—Ever!" declared one analyst's headline. Internal dissent simmered as well, as many inside the company doubted the investment would last or succeed.

Yet Thodey believed the company must adopt a different culture and operating rhythm. He was determined to raise the bar beyond mere customer satisfaction to creating enthusiastic advocacy and referral. After a comprehensive screening of approaches to define and implement the advocacy agenda, Thodey and his senior team selected the Net Promoter System, which had proved successful with organizations Telstra respected, was practical and easy to communicate, and aligned with the company's aspiration to earn advocacy. The team liked that Net Promoter® rests on a set of beliefs, not just a mechanical process, reflecting the philosophy of its creator, Bain & Company Partner Fred Reichheld. Loyalty leaders, Reichheld points out, build their businesses around the "golden rule" that you should treat customers the way you would like to be treated.

Telstra launched its advocacy system on July 1, 2012, turning on a rich array of customer feedback and formally embedding advocacy-oriented priorities into the company's planning and decision-making processes on equal footing with financial priorities.

Improving customer advocacy became the company's top strategic priority. Time and again at internal meetings and investor briefings, Thodey emphasized that delivering

a better customer experience—and without delay—was his No. 1 goal. The Net Promoter System, he explained, would catalyze and accelerate progress.

Fresh customer feedback at the heart of the system

Customer feedback serves as oxygen for the operating rhythm of a customer-oriented company. Feedback generates insights into what customers care about, providing an uncensored view of whether the company is delighting or disappointing customers.

Telstra had long collected reams of customer data. But it did so through cumbersome surveys that most customers ignored, then it took months to analyze and review the data, and it focused on averages that didn't prove meaningful. Such data rarely proved useful to support decisions made by line managers.

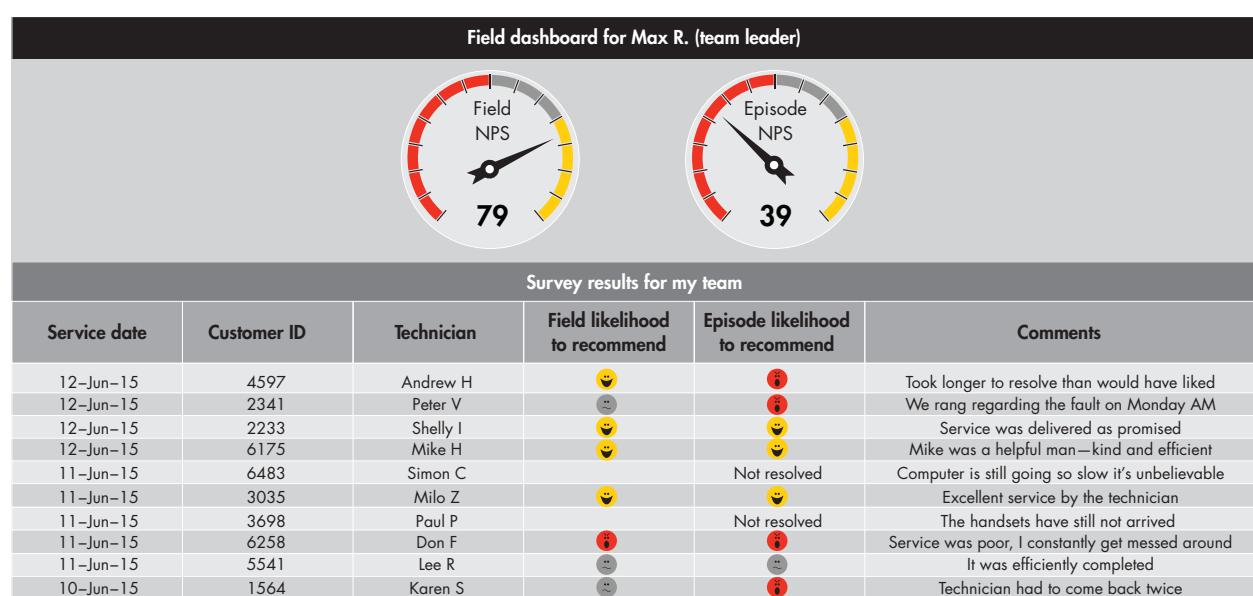
The Net Promoter System, on the other hand, gives companies a high-definition view by providing fresh, rich customer feedback that can be acted on quickly. Telstra collected over 11 million pieces of near-real-time feedback

in its first year, including millions of verbatim comments. Frontline managers receive data on what happened yesterday, including which individual customers had a good or bad experience, what they had to say about it and which employees served them (see *Figure 1*).

Managers discuss this feedback directly with the employees involved, while the experience is still fresh in their minds. In the traditional customer satisfaction approach, the most common action is no action. With the Net Promoter System, managers can run coaching sessions for frontline staff, using recordings of calls handled the day before, and these sessions serve as the first step to individual learning, fixing a customer problem or replicating a successful practice.

Telstra collects two types of Net Promoter Score data: strategic and operational. Strategic data measures customers' likelihood to recommend Telstra to a friend or colleague and compares that score to competitors' scores. Senior managers use this information mainly to make longer-term strategic decisions. Operational feedback comes after individual customer interactions (such as a conversation with a contact center agent) and

Figure 1: Telstra line managers on the field service team can see customer feedback on a dashboard



Source: Disguised Telstra dashboard

completed episodes (such as buying a new broadband Internet service at a Telstra store, having it installed at home and using it for the first time).

Most companies don't know how they perform over entire episodes, because they measure only individual transactions or define the end point only from an internal perspective, such as when a broadband technician says his work is done. Tracing the performance of entire episodes allows a company to improve what the customer actually experiences. Wayne Smith, a manager on the field team, says, "We get the customer comments in our system, and a lot of the guys are just shocked. They say, 'Well, I thought I fixed it,' but obviously they didn't."

The Net Promoter Score data inform a set of customer feedback loops, centered on the team huddle—a short, regular meeting run by the team supervisor. At Telstra, about 4,000 huddles take place each month among teams ranging from contact center agents to retail store consultants, field technicians, sales executives and network engineers.

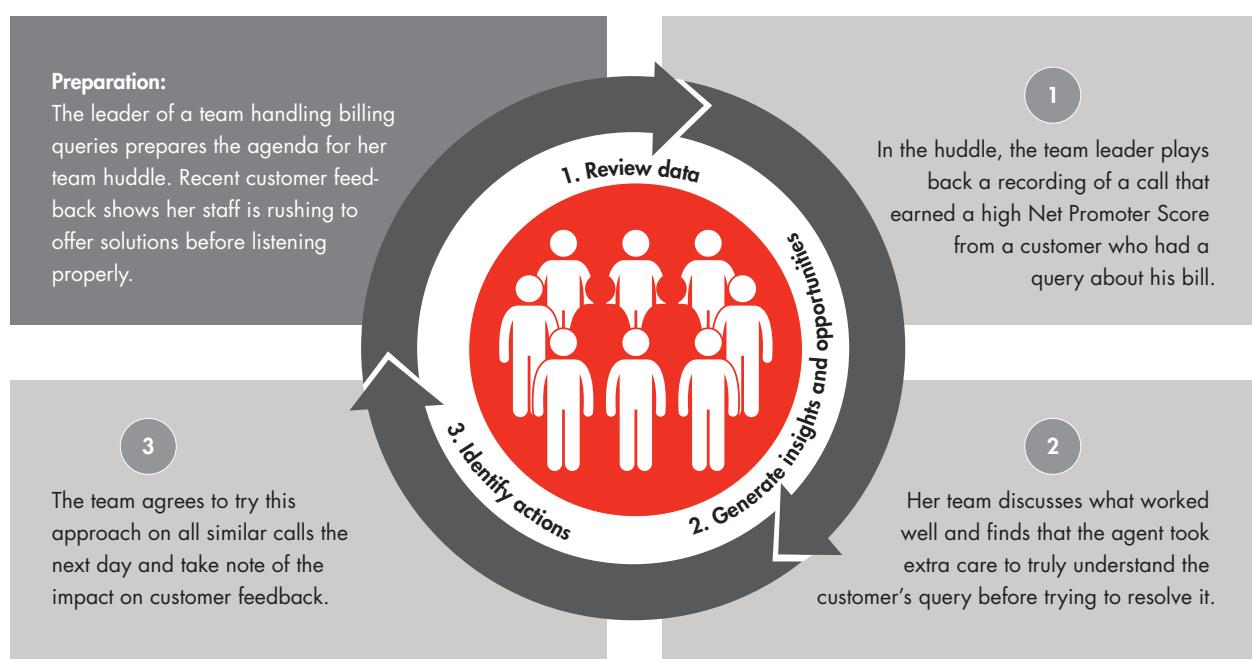
The huddles use fresh operational feedback from customer interactions and episodes to start a high-velocity

cycle that translates the feedback into action: Draw out insights, coach the team, and identify improvements that have a positive and material effect on customers (see *Figure 2*). Where relevant, huddles also take advantage of the strategic data to provide a wider perspective on progress and priorities.

Team leaders and other staff close the loop by calling back customers who had a bad experience to help address their concerns. They also call some customers who had a good experience to learn more about what made them feel so positive. Talking directly to customers allows the team to understand what real, individual customers want, rather than speculating or thinking in terms of the average customer.

Not all issues can be solved at a team level, so Telstra designed a systematic process to collate and share issues or opportunities that need help from others in the company. This process gives team members a vehicle to enlist the support of other departments to tackle larger problems and inspires trust that senior management will provide the resources needed to address customer concerns.

Figure 2: Team huddles translate insight into action



Source: Telstra

When one retail store consultant recently made a follow-up feedback call with a customer who signed up for a broadband plan, he learned that several problems were holding up installation at the house. “We’d have totally missed that if he hadn’t called, and the customer would have canceled the order,” says John Papadimitriou, a store leader. The consultant quickly shared the problems with people who could fix them, leaving the customer happy with Telstra’s take-charge approach. “The ability to fix a problem used to be based on who you knew in the company,” Papadimitriou adds. “Now our store consultants have great tools that give them a real voice.”

Changing company culture in order to change the customer experience

Early on, Telstra’s senior team realized that changing the experience for customers would entail changing the corporate culture. To that end, they made two significant choices.

First, they chose to deploy the Net Promoter System across all of the company’s major business units at once, not in stages. Thodey and Robert Nason, who was appointed to lead the advocacy program, wanted the full executive team and all employees to use the same language and to see the same rich data that track the advocacy performance for their respective businesses. This decision created an “all in” mentality and, in time, unstoppable company-wide momentum.

Second, they decided that they couldn’t change the experience for customers without changing the experience for all staff. Disengaged, skeptical employees can’t design or deliver a great experience for customers. So Thodey and Nason elected to start by changing how employees felt about their own phone plans. Quick initial research showed that a large share of employees didn’t own the latest smartphones or even subscribe with Telstra as their own telecom provider. Clearly, pride and confidence in Telstra had to be restored.

Every manager in the company, numbering several thousand, attended a two-day event called “Our Customer Connection.” Attendees heard real customers share stories of the problems they had experienced and the effect on their lives, families and businesses. Small groups then discussed how the company could have responded differently.

As a way of personalizing the new approach, each manager was asked to create a “My Telstra” story to share at appropriate encounters with staff or customers. The story explained who the managers are, why they work at Telstra and why they care about their customers. Staff identified their “line of sight”—that is, how their own role ultimately affects the customer experience. That was easy for someone running a call center team, harder but still possible for back-office and support teams. A manager of a legal team, for instance, might explore how she could create simpler purchase contracts and customer-friendly terms and conditions.

Telstra also gave employees practical tools that equipped them to feel and act differently. The company designed attractive plans that would entice employees to purchase Telstra’s latest products. It created a smartphone app called SNAPP that allowed all staff, not just those at the front line, to personally field customer complaints from friends and acquaintances when away from work and funnel them to a skilled team for expedited resolution.

Useful tools and compelling stories would not by themselves earn employees’ confidence. Senior leaders realized they would need to take other concrete actions to show they were committed. One such step was to link a very significant portion of senior managers’ bonuses to achieving Net Promoter Score targets. Another was to discuss externally where and how the customer experience fell short. Senior executives personally called customers who had suffered a bad experience, and the company shot a video of the executives getting an earful as they handled phone inquiries.

Thodey sought out champions in the senior ranks who would serve as early role models. One example is Warwick Bray, then head of the mobile product team (and now chief financial officer). Bray quantitatively broke down the mobile product experience into its component parts, creating an “advocacy landscape” that showed which parts matter most to customers, and he then devised a program to improve those parts. Thodey praised this effort and encouraged other line executives to take a similar approach.

Gradually, employees began to trust that their senior leaders were serious about making customers happier and about enabling staff to deliver a better experience. Too often in the past, people assumed that improving service fell only to those at the front line. The message now: Everyone must equip frontline teams to deliver a great experience.

Momentum started to build. The central program team led by Nason no longer needed to push programs and priorities out to the business units, as line managers started innovating on their own.

The decision to deploy the Net Promoter System everywhere at once paid dividends. Loyalty scores created a common yardstick used by participants working in all departments. This commonality sparked more collaboration between teams that previously cared about very different measures.

Folding customer priorities directly into decision making

It's one thing to gather insights from customer feedback, quite another to harness those insights in a way that changes how decisions get made across the business.

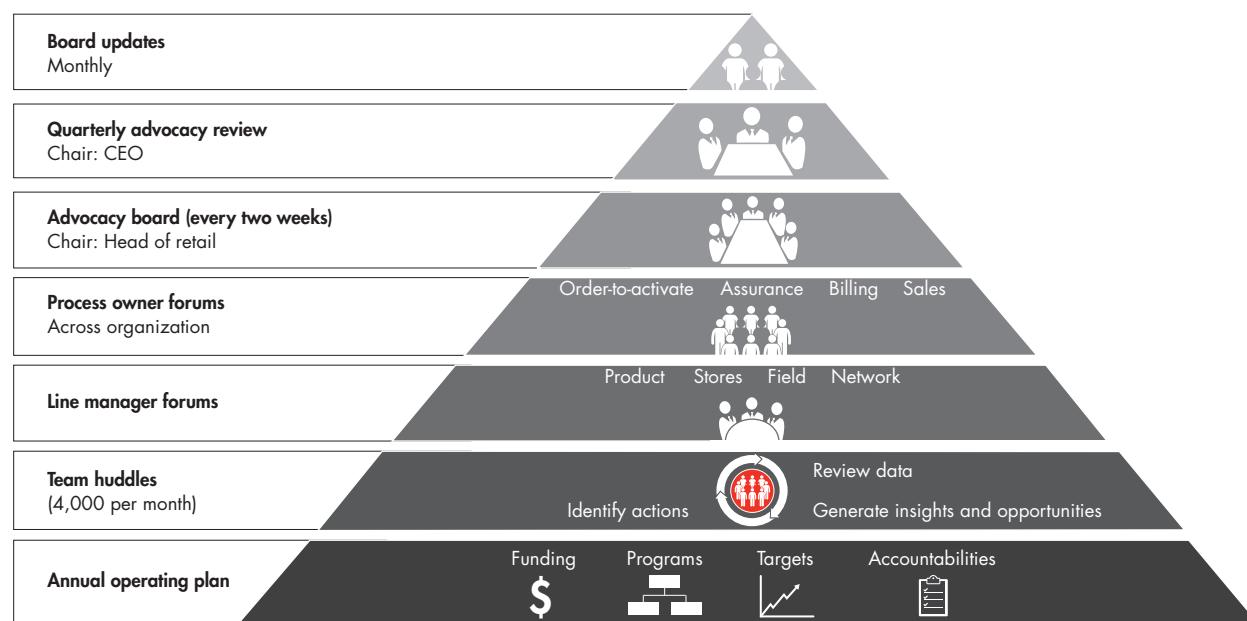
Telstra went about addressing this challenge in a systematic way (see *Figure 3*). From the top, it launched a quarterly daylong advocacy review that mirrored the existing review of financial performance—one of the company's most important management meetings. The two meetings take place on consecutive days, and the CEO chairs both.

An advocacy board composed of senior business line leaders meets every two weeks to discuss issues that cross business units or functions. At its inception this board was co-chaired by Nason and the head of the retail business, Gordon Ballantyne. They quickly concluded that advocacy initiatives should work at a large scale to have the desired effect. They scanned the customer data and came up with 40 potential programs that were winnowed down to a dozen must-wins in the first year. This was the first time line managers had worked together to create and monitor a single, companywide set of major customer experience programs.

One such program, for instance, offers rewards such as movie or concert tickets to loyal customers, and research shows that participants are more likely to recommend Telstra to other people. Over time, 60% of Telstra's customers became aware of the program, and more than 4 million have taken up a reward.

Ballantyne's teams went on to develop other initiatives that changed the customer experience and employees' attitudes about what was possible. Innovations included a fast, inexpensive handset replacement service for

Figure 3: Telstra embeds advocacy into its management system



customers whose phones were lost or stolen and a new ability for customers to call back the same person at Telstra.

Telstra built advocacy goals into the annual planning processes, with targets set for each major customer segment, product and element of the experience. This sparked unprecedented scrutiny of opportunities to improve customer experiences and the resource levels assigned to them.

Consider how Telstra changed the way it invests capital expenditure in mobile networks. For years, the decision was dominated by a set of engineering metrics that identified when a given network element no longer met its performance targets. With the new emphasis on advocacy—and the central importance that the experience of using a phone plays in a customer's future purchase decisions—the mobile product team worked closely with their engineering colleagues to add a rich customer filter for network upgrade projects. Using this filter led to a re-ranking of projects, which delivered 30% greater customer benefit for the same amount of capital investment, as measured by the number of customers who would have an improved experience, how much better it would be and how often they would experience it. The advocacy perspective led Telstra to accelerate by six months a large portion of the AUS\$1 billion upgrade program for its 3G network.

Not all decisions run smoothly or quickly, of course. Telstra's competitors in the mobile market acted faster to reduce some fees that had been unpopular with customers, such as late payment fees and prices charged for international roaming. Removing them created a symbolic victory for competitor brands, while Telstra looked flat-footed when it took longer to remove them. The visible effect on its Net Promoter Score would serve as a useful reminder for future decisions.

Better for customers means better for company economics

From the outset, Thodey believed that a superior customer experience should go hand in hand with productivity and better economics for the company. The ultimate goal is not only to have happier customers but also to grow faster, win market share and deliver better returns to investors.

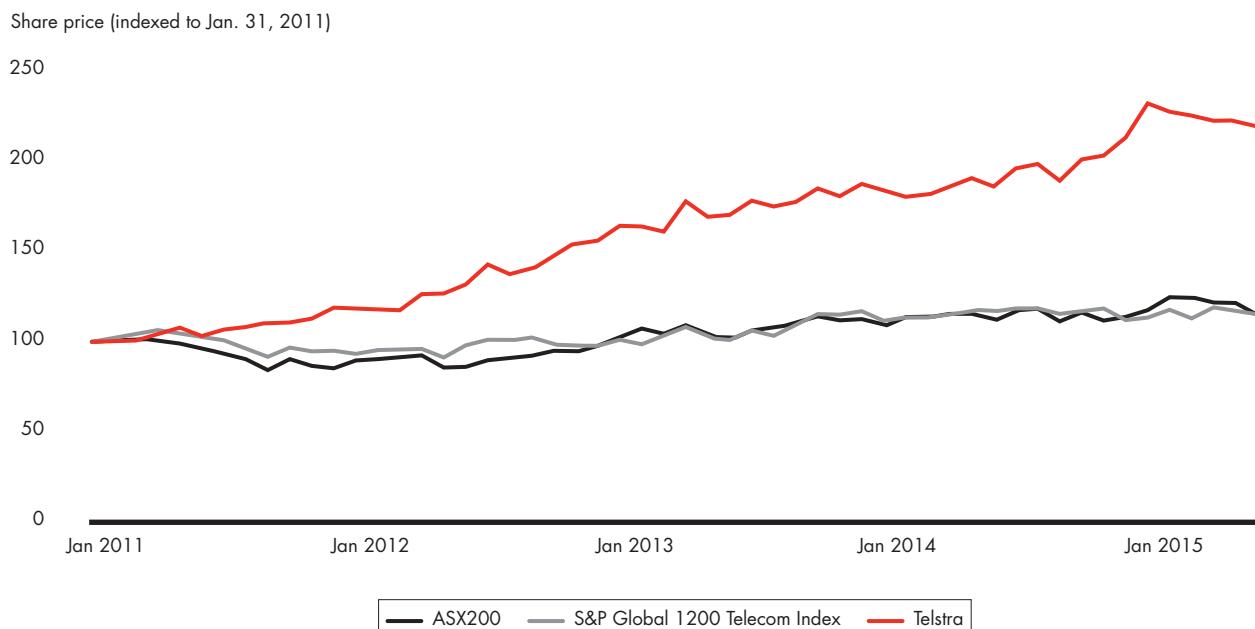
Telstra conducted a rigorous review of its Net Promoter System economics that showed reducing the number of detractors and increasing the number of promoters would be worth many hundreds of millions of dollars. In the consumer business, for instance, customers who are promoters hold more products, have far lower churn rates, call the contact center less often and refer friends and colleagues to Telstra at 10 times the rate as detractors do. Promoters, therefore, have at least three times the lifetime value of detractors.

Advocacy and productivity, moreover, can complement each other nearly everywhere. As Andrew Penn, Telstra's CFO at the time and now its new CEO, noted, "Look at where your worst customer experience is. You will find an area to improve productivity and efficiency. And when you provide better service, you actually spend less money."

This observation has led Telstra to launch "right-first-time" initiatives throughout the company, removing error and waste from operational processes and saving money while giving customers a better experience. For example, Telstra used to encourage call center staff to keep calls as short as possible. Now the emphasis has shifted to resolving calls the first time around, even if that takes extra time to do.

These sweet spots, where a better experience dovetails with better economics, exist on the revenue side, too. As one retail store manager observed, "When the [Net Promoter Score] is strong, our sales rate is strong, too. When a customer trusts the person they're dealing with, they're more likely to buy."

To underscore his view that customer advocacy and productivity should be seen as overlapping rather than conflicting, Thodey made an unusual choice: He positioned the advocacy program within a broader transformation program that had aggressive productivity goals, and he handed the reins for both programs to the same executive—Nason. This proved to be a wise decision. The transformation program has taken out more than AUS\$3 billion of cost over the past four years, even as it delivered dramatic improvements in the customer experience. Revenue has grown as well, despite falling volumes in large legacy businesses such as traditional home phone lines.

Figure 4: Telstra has significantly outperformed the market

A moving target

Three years since launching their focus on customer advocacy, including the Net Promoter System, Telstra has seen substantial results, including a strong share price performance (see *Figure 4*).

The focus on advocacy has sparked initiatives in service, pricing, product design and network differentiation. The actual and perceived quality of the customer experience has improved for all products, episodes, channels and segments.

The staff exhibits a renewed pride in the company and has higher expectations for the service provided. Employee engagement grew by 7 percentage points from 2011 through 2014, as the pursuit of advocacy became ingrained. “We used to say we cared about making things better for customers, but now you can feel it,” notes Papadimitriou, the store leader.

Yet the challenge of customer advocacy continues. Customer expectations rise as people encounter out-

standing service in other areas of life. Competitors are not standing still, which has had the effect of slowing improvements in Telstra’s loyalty scores. Customer feedback can be a harsh judge, deflating any impulse to congratulate oneself for a valiant effort.

Nason reckons that Telstra still has two or three years of work to get close to its aspirations. “We set a high target in our second year, and we missed it by a whisker. That hurt, but it reinforced accountability and reenergized us around the advocacy agenda.”

Some organizations will respond to setbacks with a halfhearted “We must try harder.” Others will act with the same intensity as if revenue suddenly dropped 10%. It takes the latter response to maintain a credible commitment to customers and, by delighting them in many small and large ways, gradually earn their advocacy and trust. ◀

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