

# POWERINSIGHT

## What's in a Word?

### WORD OF MOUTH REFERRALS AS A PREDICTOR OF GROWTH IN SUBSCRIBERS

Most wireless industry executives readily acknowledge the value of having a highly satisfied and loyal subscriber base, but not all of them have embraced a full commitment to implementing customer experience or loyalty programs with the same enthusiasm. Those who are less inclined to dedicate adequate resources to customer satisfaction improvement initiatives question their short-term shareholder value. However, J.D. Power and Associates' research within the wireless industry has consistently identified quantifiable links between customer satisfaction and profit. In fact, a satisfying customer experience may be used to drive carrier growth and profitability. While the customer experience impacts each wireless carrier differently, one of the most notable overall benefits is an increase in the number of word of mouth recommendations by customers. These recommendations typically result in increased store traffic and frequency of sales transactions, device upgrades, premium plan package subscriptions, and lower marketing costs. Recent J.D. Power and Associates studies have also shown that recommendations are a strong leading indicator of the effectiveness of customer experience management (CEM) initiatives, growth in subscriber base, and return on investment.

In efforts to track the success of their marketing campaigns and CEM programs, some wireless carriers have focused only on the importance of measuring customer advocacy, using such metrics as the net promoter score (NPS) as their key performance metric. While a valuable tool, measuring advocacy alone is not sufficient, and is perhaps an oversimplification. Wireless carriers must also understand what drives advocacy. To gain more insight into the total customer experience and develop successful, sustainable service and marketing action plans, J.D. Power recommends a holistic approach of measuring the total ownership experience (TOE) and focusing on advocacy metrics, such as a recommendation index. Collectively, these measures provide a more comprehensive indicator of growth and profitability.

To assess the impact of brand advocacy, J.D. Power developed a Recommendation Index that measures a brand's share of stated positive customer recommendations within the most recent 3-month period relative to that company's share of the market. Canadian wireless carriers whose customers are more likely, relative to market share, to recommend their brand achieve Recommendation Index scores greater than 100, while carriers whose customers are less likely to recommend their brand score below 100.

**// Recommendations typically result in increased store traffic and frequency of sales transactions, device upgrades, premium plan package subscriptions, and lower marketing costs. //**

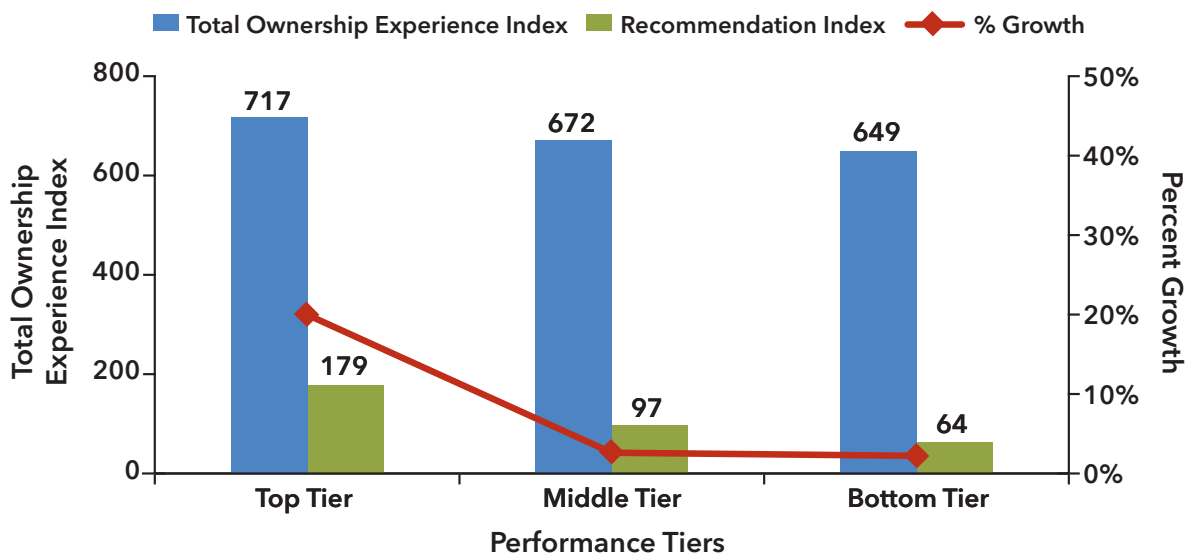
# What's in a Word?

## WORD OF MOUTH REFERRALS AS A PREDICTOR OF GROWTH IN SUBSCRIBERS

To examine the positive effects of satisfying wireless customers and how the Recommendation Index correlates to TOE, growth, and loyalty, analyses were conducted using financial metrics and data from J.D. Power's Canadian wireless satisfaction studies. The Total Ownership Index, Recommendation Index, and loyalty metrics from 2011<sup>1</sup> and 2012<sup>2</sup> were compiled and merged with publicly available corporate financial data, such as net subscriber additions (i.e., the number of new subscribers minus the number of lost subscribers). Carriers were then grouped into three tiers based on their Recommendation Index in 2012 thus far: Top Tier Performers, Middle Tier Performers, and Bottom Tier Performers. Results show far-reaching differences among these groups across all levels of satisfaction, growth, and loyalty.

The Recommendation Index is an effective predictor of subscriber growth. There is a strong correlation between this metric and subscriber growth in subsequent fiscal quarters. For example, Top Tier Performers achieve a Recommendation Index score of 179, nearly twice the score of Middle Tier Performers (97) and nearly three times the score of Bottom Tier Performers (64). Between Q1 and Q3 of 2011, the subscriber bases of Top Tier Performers grew by 20%, compared with 3% growth for Middle Tier Performers and 2% for Bottom Tier Performers. Further, TOE scores may also be predictive of subscriber growth, as Top Tier Performers achieved a Total Ownership Index score of 747<sup>3</sup> (on a 1,000-point scale) in Q1 of 2011, compared with 651 among Middle and Bottom Tier Performers.

### Wireless Satisfaction and Subscriber Growth



Source: J.D. Power and Associates 2012 Canadian Wireless Total Ownership Study<sup>SM</sup>—Wave 1

<sup>1</sup> Source: J.D. Power and Associates 2011 Canadian Wireless Total Ownership Study<sup>SM</sup>

<sup>2</sup> Source: J.D. Power and Associates 2012 Canadian Wireless Total Ownership Study<sup>SM</sup>—Wave 1

<sup>3</sup> Caution: small sample.

# What's in a Word?

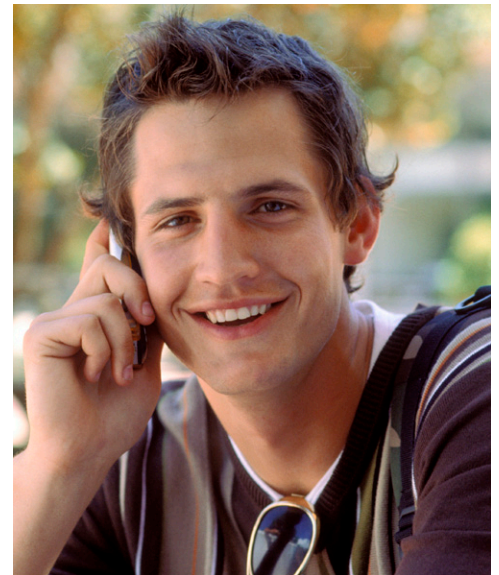
## WORD OF MOUTH REFERRALS AS A PREDICTOR OF GROWTH IN SUBSCRIBERS

In 2012 Wave 1 (data collected during Q4 of 2011), the overall Total Ownership Experience Index score among carriers covered in this analysis is 674, an increase of 23 points from 651 in Wave 2 of 2011 (fielded in Q1 of 2011). There is a nearly 150-point gap in overall satisfaction between the highest- and lowest-ranked carriers in 2012 Wave 1. Also during this time period, Canadian wireless customers made an average of 2.76 positive recommendations for their carrier during the past 3 months. Nearly one-fifth (17%) of customers indicate they “definitely will” recommend their wireless carrier to a friend, relative, or colleague; however, performance in this metric varies greatly by group. For example, 39% of customers of Top Tier Performers indicate they “definitely will” recommend their carrier, compared with just 15% of customers of Bottom Tier Performers.

Scores for both the Total Ownership Index and Recommendation Index are highly correlated with stated customer loyalty. Overall, 20% of Middle Tier Performer customers say they “definitely will” or “probably will” switch their carrier within the next year; however, switching rates among customers of Top Tier Performers are well below average. In 2012 Wave 1, just 10% of these customers are likely to switch wireless carriers in the next 12 months. This level of loyalty allows carriers to allocate resources to growth programs rather than investing in customer retention programs.

In 2012 Wave 1, customers of Top Tier Performers are also more likely to have made a wireless purchase in a retail store, online, or via phone within the past 6 months, with 47% indicating that they had a recent sales experience (i.e., purchase, upgrade, or other), compared with 40% study average. In addition, the study finds that Top Tier Performers may be able to reduce operational costs by effectively directing customers with specific types of issues to self-care contact channels—such as automated response systems (ARS) and carrier websites—to resolve their issues (19%<sup>4</sup> vs. 16% study average).

Middle Tier Performers, which have an average Recommendation Index of 97, are characterized by fewer customers who will provide recommendations and have a greater intent to switch. On average, customers of Middle Tier Performers made 2.67 positive recommendations in the past 3 months, compared with 4.94 among customers of Top Tier Performers. Middle Tier Performers typically have a dichotomy of advocates and detractors across their subscriber base. The inability of these carriers to command positive word of mouth suggests that many of their customers may not recognize their carrier’s value proposition; may expect more from their carrier through the products and services offered; may have experienced inconsistent customer care; or a combination of these. Thus, Middle Tier Performers fail to generate significant levels of brand engagement and long-term customer commitment.



<sup>4</sup> Caution: small sample.

# What's in a Word?

## WORD OF MOUTH REFERRALS AS A PREDICTOR OF GROWTH IN SUBSCRIBERS

Canadian wireless carriers may use Voice of the Customer metrics such as the Total Ownership Index and Recommendation Index to assess and ultimately develop predictive operational performance models. Although carriers that are ranked in J.D. Power's wireless industry studies vary from year to year, one fact remains constant—the highest-ranked carriers provide their customers three benefits:

- A top-quality network
- Competitive pricing
- Highly knowledgeable, courteous, and helpful customer service and sales representatives

The highest-ranked carriers consistently benefit from high levels of recommendations, subscriber growth, and improved financial performance. Thus, an enhanced focus on the customer experience clearly impacts business growth.

To adapt to industry changes, as well as to continue providing shareholder value, J.D. Power and Associates recommends the following actions:

- **Implement post-transactional and post-plan and device upgrade tracking programs.** It is critical for carriers to ensure that their customers' needs continue to be met in the days and weeks following a plan or device upgrade, as new technology may pose new challenges to some customers. Offering device operation and optimization training and soliciting feedback in the weeks following an upgrade may serve to instill customers' confidence in their wireless investment; reduce customer service inquiries; and foster long-term customer loyalty. Carriers should continually measure the impact of CEM programs that utilize metrics such as the Recommendation Index.
- **Provide a distinct, consistent value to customers.** This is the common denominator among the highest-ranked carriers in J.D. Power's wireless studies over time. Value is not purely a function of providing service at a low cost—value can be recognized in the price, product, or people with whom customers interact. Wireless customers may be willing to pay a premium for an outstanding network when they recognize its value. However, identifying competitive strengths and redefining or reinforcing the value proposition are never-ending endeavors. More importantly, understanding the drivers of value and satisfaction among subscribers will help lay the foundation for improved lifetime customer value and advocacy.

# What's in a Word?

## WORD OF MOUTH REFERRALS AS A PREDICTOR OF GROWTH IN SUBSCRIBERS



- **Provide a satisfying total ownership experience.** J.D. Power has identified quantifiable links among loyalty, the Recommendation Index, and the Total Ownership Experience Index, which clearly impact financial performance and growth. A satisfying total ownership experience is paramount for wireless carriers, as it leads to the creation of sustainable revenue and brand advocacy. The measurable growth generated by positive recommendations further reinforces the need to create and maintain a culture in which satisfying each customer is of utmost importance, given the impact total ownership experience has on the bottom line.

The information contained herein has been obtained by J.D. Power and Associates from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, J.D. Power and Associates does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or for the results obtained from use of such information.

This material is the property of J.D. Power and Associates or is licensed to J.D. Power and Associates. This material may only be reproduced, transmitted, excerpted, distributed or commingled with other information, with the express written permission of J.D. Power and Associates. The user of this material shall not edit, modify, or alter any portion. Requests for use may be submitted to [information@jdpa.com](mailto:information@jdpa.com). Any material quoted from this publication must be attributed to "J.D. Power Insights: What's in a Word? Word of Mouth Referrals as a Predictor of Growth in Subscribers, published by J.D. Power and Associates, © 2012 by J.D. Power and Associates, The McGraw-Hill Companies, Inc. All Rights Reserved. Advertising claims cannot be based on information published in this special report.

For more information, please contact:

Adrian Chung,  
[Adrian.Chung@jdpa.com](mailto:Adrian.Chung@jdpa.com)

Steve Kirkeby,  
[Steve.Kirkeby@jdpa.com](mailto:Steve.Kirkeby@jdpa.com)

Ross Gagnon,  
[Ross.Gagnon@jdpa.com](mailto:Ross.Gagnon@jdpa.com)