THE ONE NUMBER YOU NEED TO MEASURE

Prepared by David Muir, The Channel

Fred Reichheld's "The Loyalty Effect"[1] is known as the bible at Tesco.

In this book the former Bain consultant outlines how vital to revenue and profit growth it is to win the lifelong loyalty of customers.

Winning this enduring loyalty from shoppers became a mission within Tesco from the early 1990's onwards.

Recently, Reichheld has gone on to look at how to measure loyalty, and crucially what metrics will predict loyalty. In his seminal paper, "The One Number You Need to Measure"[2] he outlines that there is only one consumer metric that counts and that is a "net promoters" score. This hasn't got anything to do with the internet but instead nets off those neutral to negative about a brand versus those who say they are "extremely likely" to recommend the brand. He found that in the ISP and banking sectors those brands with high net promotion scores were subsequently more likely to grow revenues and profits.

For the last two years WPP's global brand equity study BrandZ™ has been using a proxy of this measure and applying it to over twenty categories, including grocery retail.

We found the following results:

- Grocery retail is a heavily talked about category, globally
- Brands with high net promoter scores were likely to have better growth prospects
- That in the US focused innovative players will have much stronger net promotion scores
- That in the UK discounters are likely to go backwards due to low net promotion
- In France, local champions dominate word of mouth promotion
- In Germany, nobody has a bad word to say about the discounters.

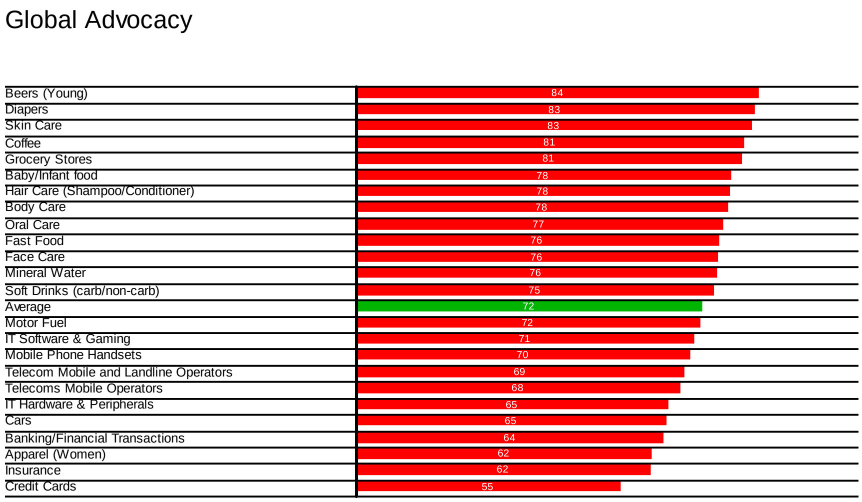
1. Grocery is a category with high advocacy

Grocery retail is in the top five categories for advocacy on a global basis. Only items like beer, haircare and diapers beat it. As a result, if you are in such a category it is absolutely crucial that you get strong word of mouth promotion. Interestingly this means that the service experience requires autistic like attention to detail.

---

[1] Fred Reichheld – "The Loyalty Effect", Harvard Business School Press - 1996
[2] Fred Reichheld – "The One Number You Need to Measure" – Harvard Business Review 2004

Figure One – Global Advocacy of categories[3]

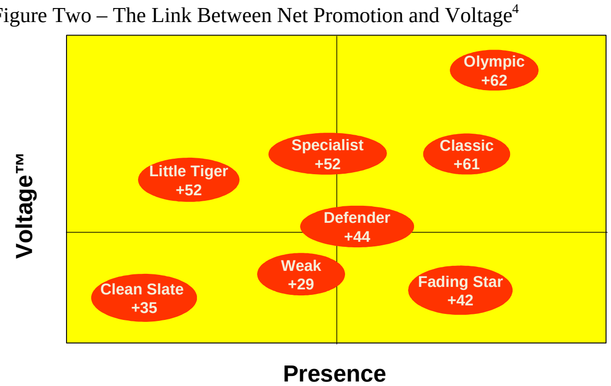


2. Brands with high net promotion, have faster growth prospects

Across all categories, those brands with high net promotion scores consistently had greater growth prospects.

BrandZ measures growth prospects via its Voltage™ metric. We found that those brands with high net promotion scores tended to have consistently higher Voltage™ scores.

Figure Two – The Link Between Net Promotion and Voltage[4]

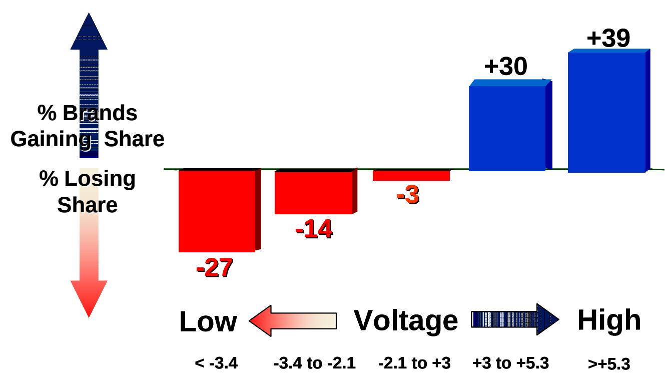


---

[3] Source – WPP BrandZ 2005
[4] Source – WPP BrandZ 2005

The reason why Voltage™ is so important is that it has been found to predict changes in market share. As can be seen from figure three, the higher your Voltage™ score the higher your chances of growth.

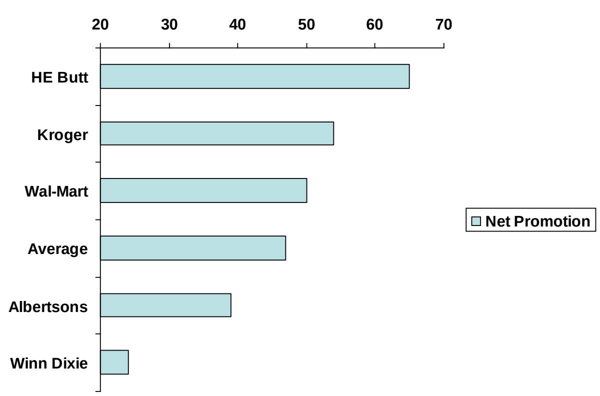
Figure Three – How Voltage is Linked to Market Share[5]



3. Focussed players do better in the US

In the US the brand with the highest level of net promotion is the South Central brand HE Butt. With a net promotion score of 65. Very high and way above the category average.

Figure Four – US South Central Grocery Retail Net Promotion Scores[6]



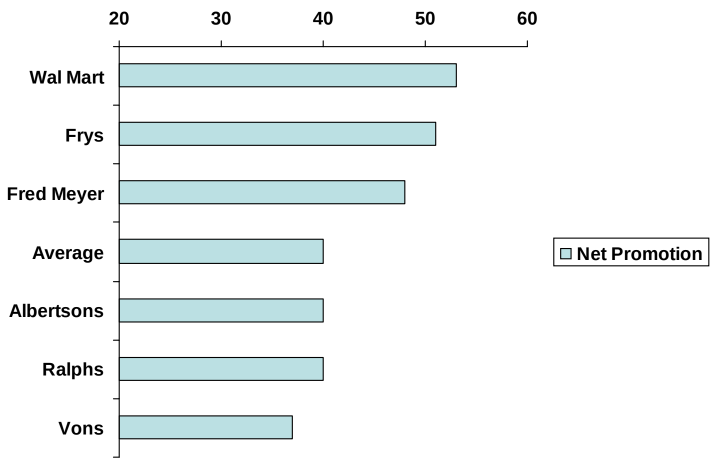
HE Butt have specialised in fresh produce and fresh bakery as a key part of their offering. In addition to this it was an early innovator in ECR and category management. Their

[5] Source – WPP BrandZ 2005
[6] Source – WPP BrandZ 2005

growth is likely to come at the expense of dowdier brands like Albertsons and Winn Dixie.

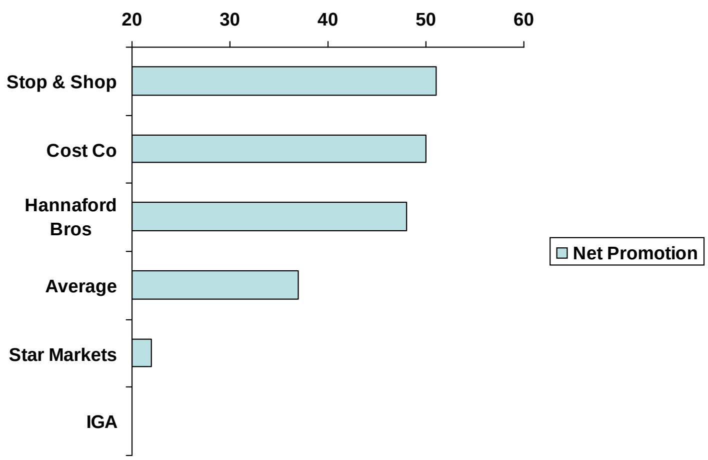
On the West Coast, all evidence suggests that Wal-Mart is winning the hearts and minds of consumers and is likely to grow share as it is benefiting from heavy net promotion.

Figure Five – US West Grocery Retail Net Promotion[7]



Moreover, this growth could be at the cost of the established Ralph's and Vons. On the East Coast the focussed player of Stop&Shop tops the chart with a relatively high net promotion score, their growth is likely to be at the expense of Star Markets and IGA.

Figure Six – US East Coast Grocery Retail Net Promotion[8]

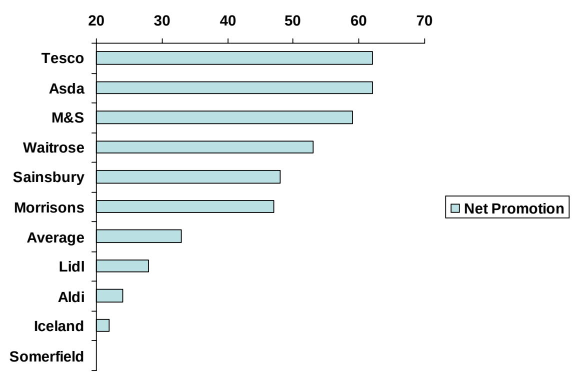


[7] Source: WPP BrandZ 2005
[8] Source: WPP BrandZ 2005

Stop & Shop has been a constant innovator with speedy home delivery via Peapod and customer centric tech innovations like the “shopping pal” a self checkout service.

4. Discounters look unlikely to breakthrough in the UK

Figure Seven – UK Grocery Retail Net Promotion[9]

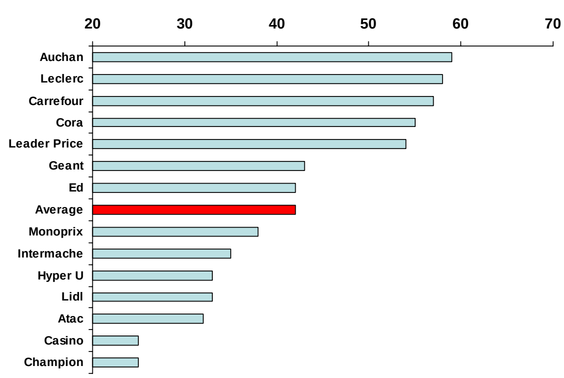


In the UK the discounters Aldi and Lidl have below average net promotion scores suggesting that they will not grow as rapidly at Tesco, Asda and M&S.

However, it is important to remember that Great British snobbery could be playing a role here with consumers unwilling to talk about their allegiance to “cheap” retail brands.

5. In France Domestic Brands Dominate

Figure Eight – French Grocery Net Promotion[10]



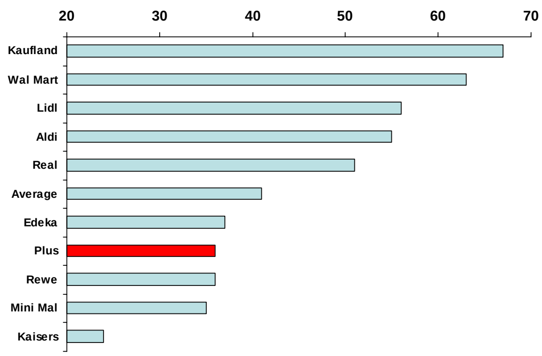
[9] Source – WPP BrandZ 2005

[10] Source – WPP BrandZ 2005

In France Auchan, Leclerc and Carrefour have high net promotion scores and again the German discounters have below average promotion. In a category with such high levels of promotion it may indeed suggest that the early gains made by German discounters may be coming to an end.

6. In Germany the discounters dominate

Figure Nine – German Grocery Net Promotion[11]



In Germany the discounters hold a grip on word of mouth promotion. Interestingly, Wal-Mart which has had some difficulty in the market seems to have won the trust and hence promotion from shoppers. This looks likely to be at the expense of traditional retailers like Rewe and Kaisers.

Summary

This paper has identified the importance of winning loyal, passionate and, most importantly, vocal customers since the global retail market relies so heavily on word of mouth promotion.

Across all markets the brands that tend to win out and win promotion from shoppers tend to offer innovation in customer service and/or innovation in business model e.g. German discounters.

The one number you need to measure is net promotion and the one thing you need to focus in on is innovation.

BrandZ is funded by WPP for the benefit of our operating companies and clients. It can be accessed on https://mb.brandz.com and an introduction to its basic functions can be found on www.brandz.com

[11] Source – WPP BrandZ 2005