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Transforming Customer Experience

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For those of you who may know, I actually lived and worked in Israel for two years in '99-2000, and those were two of the most special years of my life. So actually to be involved with the chamber for me personally is something that's very rewarding.

I'm going to talk a little bit today about just how I'm thinking coming back to Australia, how I look at Optus and how I look at the marketplace, particularly in relation to service, and hopefully I'll get some interesting facts to share that may be thought provoking but certainly will give context to maybe why we're thinking and guiding Optus the way we are just now.

But I might start just with a little bit of a personal introduction. I appreciate I am a new face to many. Scottish, yes, an 18 year industry veteran? Never thought I'd say that when I started out. I started back in 1995 and my start was basically when Motorola phones were the leading handset in the marketplace back in Hong Kong in those days. We sold them at a profit, can you believe? About 80 per cent of the profits of the business came from the sale of handsets, fascinating. Nokia wasn't really on the radar at all in those days, they just started towards the end of 1995. But I had the good fortune to go through 1G, 2G, 3G, 4G and you never know what will happen in 5G, so I've certainly seen a lot. I've operated across four markets, so Hong Kong, yes, Israel, '99 and 2000.

A little bit about the story in Israel. My experience of Israel was as follows: a license was awarded to build a cellular business in April 1998. In 1999, the business launched. Eight months later, the network was built, distribution built, contact centre built and off and running. The IPO in the NASDAQ happened 10 months later for \$2.5 billion. Welcome to Israel! Things move kind of fast when you really do move. Incredibly special environment and a great thing to be part of.

I then came to Australia, one extreme to the other, and certainly incredibly intense to actually a more relaxed environment, and then I was fortunate to have 4.5 years in the UK as well. My Australian experience, for those of you who don't know, was starting up 3, so I kind of started the first 3G network in Australia and with John Stanhope, went over to the UK to run 3 in the UK. I was away for five years, and it was interesting coming back because, you know, some things had changed. My last day in Australia seven years ago now was in the left hand side. I basically went to the Ashes, presented a player of the match,

player of the series, and then celebrated with the rest of the team and then went in a plane and left and then came back five years later and the brand had changed and the smiles had gone.

Coming back has been quite stunning, realising how friendly Australians are. You forget that. That was probably my biggest thing about coming back, which was helpful when you've got kids going to school. It certainly is the happy country.

In my market in telecoms, what's changed? Well, 3's has kind of disappeared and Vodafone's merged in there, so that's one big change. Telstra's a different animal - again, I'll refer to Jon Stanhope. The pot of gold that was negotiated there was a stroke of genius, but the NBN is a different animal. So that market has changed, and then we've got a myriad of additional brands. It's been quite a different market to come back to.

However, what struck me most coming back, and it's an odd statement to make, but it really hit me was service. Standards of service in Australia relative to standards of service that I'd seen change in the UK, just seem to, in my view, have gone backwards. Controversial thing to say, odd thing to say, but maybe when you're away for five years and you come back from a very different environment, maybe there's something in that.

So when I started digging, what I started looking at was TIO complaints. I know Andrew Dyer's in the room and he'll know these numbers well but what's happened in the five or six years I was away?

These are mobile complaints, stratospheric, you know. I thought maybe they might've got up 10, 15 per cent, 20 per cent, 50 per cent. I didn't think they'd go up fourfold - that's when it gets to crisis mode, when you get the ombudsman. That says something's wrong, so it was an interesting wake-up call.

I then started digging a little bit more. Now, as I said, my time in the UK was very much spent focusing around the brand. I fixated day in, day out, as did my competitors, on net promoter score. And net promoter score, for those of you who are not familiar, is a measure of your brand health in terms of advocacy, how customers think about your brand. If you have more advocates talking positively about your brand than you have detractors, you have a positive score. If you have more people talking negatively than you have advocates, you'll have a negative score.

And it has been one of those fundamental measures for our industry in the last six or seven years because I think it will be relevant to people in this room. When you look at a service now, you actually talk to friends or you go on the internet. Word of mouth is just absolutely pivotal.

Advocacy for me during that period was fundamental. I knew advocacy in Australia or the net promoter score in Australian marketplace wasn't that great when I left back in 2006. Negative 30, negative 31.

So, we just estimated it. We took the standard and researched what it was for Telstra, Voda and ourselves and found that where we are now, as telco providers in the Australian marketplace, where our brand is in terms of how we're perceived by consumers is negative 40.

We've gone backwards a little bit. That's maybe not the shocking bit. I mean that's pretty average when you're talking about service providers. But what is probably more impactful for me is - in the UK in the same timeframe, back in 2006, net promoter scores were about negative 18. The US was negative 19. In the last six or seven years, those two markets have gone completely the different direction - which was

consistent with what I was experiencing in Europe. I was experiencing a very different fixation amongst competitors and, in my own company around what do we need to get right from a customer standpoint.

The scores very much represent that. Australia is going backwards. Other parts of the world are unquestionably going forward in the telco industry. I'll try and give another couple of examples just maybe to see whether this score is or isn't relevant. The net promoter score for Google, plus 56; net promoter score for Apple, plus 70. Very much word of mouth brands. Very much brands which get it right from the customer standpoint and people talk positively about it.

So one of the questions I faced internally quite a bit was; well, Australians are really hard, they're really tough and they're difficult to impress and it's always going to be negative. Okay. So, if we're negative 40, how are the banks doing? So as someone who's been in telco for 18 years, I don't really want to be second to the banks. It's not my aspiration in life to be completely outgunned by banks. But the banks that have done it in Australia have done a good job. You know, in terms of the quality of service and the focus around the customer in the last few years. Unquestionably, they've have done a great job.

Another question asked is - look, is this really important? All that stuff about if you're making money and profits are good, then why do you have to worry about net promoter scores if everyone's bad? You can still compete.

I have two things that I worry about as an industry. Two strategic thoughts which concern me. One is I know, as an industry, our revenues are now declining slightly, quite steadily. And I know that the market certainly is maturing. I also know that we have big investments, whether it's spectrum or 4G infrastructure. And I know to get a return on those investments that we will have to get more money from existing customers. Fact. Normal economics. You're going to have to have people pay you a bit more for your service.

My simple logic is, if you're going to ask people to pay a bit more, your service better be good because happy customers will pay a bit more for a service. My experience has been unhappy customers will not pay a bit more. So I am worried, if our brand is viewed negatively or service isn't good enough, are we going to be able to get those returns going up, those price movements going up? I'm not sure. I worry about that.

The second thing I worry about is that for 10 years, it's been talked about that Google and Apple are competitors of us telcos, and they are, increasingly they are.

It makes me nervous two core competitors, today and going forward, have brand recognition and high net promoter scores. With our customers, it's fundamentally higher than our relationship. I think it exposes us. Telstra, Vodafone, others, to potentially that customer relationship being supplanted in time. And that is a strategic risk that makes me uncomfortable. So yes, I think the fact that we have a negative net promoter score as an industry, is a problem and is an issue.

So, some thoughts as to what went wrong. And again, subjective. This is my view, this is kind of come in as a new guy with a bit - a degree of experience, but just looking at the marketplace and saying - what seems not quite right?

Three things have struck me. One is this incessant chase for customers. Customer, customer - new customer - market share, customers, customers, customers. That's one. Second, how we've managed data growth because data growth has taken off and that's presented its own set of challenges. Third one's

slightly controversial is this view - in my mind again, that as an industry we're becoming increasingly reliant on not non-core revenues but revenues that have come more from breakage or fees. That trend is definitely been there the last six or seven years. I'll try and put some detail around that.

That chase for customers. What is it? What happens when you chase customers? I suspect this won't be news to people in the room but new customers get better offers than existing customers. There's nothing upsets a customer more than seeing this. I signed up a year ago and now you've got a better offer for somebody else. Sales practices get abused. You know, mis-selling becomes a bit more prevalent. The other thing that happens is that your investments tend to get directed towards buying customers rather than improving service and your decisions. Your investment decisions get a little bit binary. We'll have to cut service because we need to aggressively compete in the marketplace.

I've seen all three of those things happen when people chase customers.

Data growth has presented challenges around network. No question, Vodafone's meltdown has very much been right, front and centre in that. Other challenges; products are more complicated. You know, it's setting up emails and other things that come with smartphones, it's a more challenging product. Unless you address that at the point of sale, they are more complicated. Billing becomes more complicated.

How many people here know how many megabytes there are in a song they download, or a game that gets downloaded? It's a different set of challenges.

My final point, in terms of reliance on breakage revenues, I find quite an interesting one because what I think's happened is we've been chasing customers, we've been driving down headline pricing, we've seen our revenues come off and we've gone, "what do we do"? Well, we're going to have to have higher rates for breakage, and we're going to have more fees to prop it up. Nothing upsets customers more than getting hit with a \$3000 bill for going through my data cap, or a \$5000 bill for going overseas and roaming.

But those types of stories have become quite prevalent in our marketplace in the last five or six years, and in my strong view, they are not sustainable. The revenues that come through from that type of activity doesn't make sense. I estimate that in any year, about half of all customers at Optus will go through their caps and will break.

So it is a significant issue for us as an industry and all of those have impacted our customer's trust and relationship with us collectively as brands.

So just moving on, what are we at Optus thinking about? What are we doing about it? Firstly, we've actually changed our direction, our aspiration, our vision as a company. It's interesting because to me it's quite simple but to a number of people it's really jarred.

We want to be the most loved, recommended, service brand in Australia. Now that's where we want to go. We've got a negative net promoter score just now, we want to have a positive net promoter score that's substantially higher. It's a huge challenge.

The biggest thing I believe in terms of putting that aspiration out was a clear articulation that our purpose at Optus is to serve our customers.

We are a service brand, we're not a digital brand, or a multimedia brand, we are a service brand. We have nine million plus customers, our purpose is to service those customers brilliantly, that's why we are there.

So the first step for me is a clear articulation of our intent, our purpose, our ambition, our aspiration.

Second challenge, and this is a whopper, is actually how do you change the culture within an organisation that is really hard wired to sell? I think any CEO who talks about transformation, or talks about change, will say that cultural change is the number one challenge they have. How successful you will be will very much be driven by the quality of the people you have in the business and how they embrace the direction.

Some of the things we've done - we've restructured the whole organisation to centre around a customer organisation, which is supported by sales and marketing. Not led by sales and marketing, supported by sales and marketing, that's one change. Eight thousand office employees now all KPI'd and bonused and remunerated according to net promoter score, a fundamental change. How we recruit people, how we train people, how we induct people has all fundamentally changed.

And then finally there's a real issue as a CEO of the company which - with 8000 people looking at you to see what decisions are you going to make on your investments today - are you actually going to not take those hard decisions in breakage, or are you going to take them and set the example that we are going to get this right from a customer standpoint. So culture - we are moving on quite significantly and it's probably the biggest thing I worry about.

Final thing, just to put some detail around some of the steps we are taking. The key message is we are listening to customers now, we are trying really hard as an organisation to start to listen a damn sight better and what customers are telling us. You know, it's not really rocket science, it won't be news to anyone in this room, but what do they expect from us? Honesty and fairness. They expect clear transparency on pricing, and they expect us just to fix the issue, just resolve my problem, first time, simple as that.

So what have we been trying to do, what are the changes we've made internally? We have moved all our prices up very aggressively on sales, and on handset pricing, and we've done that because it gives us room to then offer better arrangements, better deals to our existing customers. Big step forward, so unquestionably existing customers now get better deals than new customers.

We have closed, or are closing, 45 per cent of our retail distribution, from last month to three months out, which is pretty big. We've done that because we believe there are poor selling practices in large parts of our retail, and we think we can get a fundamentally better experience for customers in a smaller, branded, retail channel.

On pricing, we introduced back in - late last year, start of this year, a couple of groundbreaking things for us on data caps. We introduced a hard \$200 cap on data breakage. So what that means is that if customers go over, they're not going to get stung with 3000 or 4000, if it gets to 200, I'm sorry you can't use any more, stop. And we did exactly the same with a \$500 data cap on roaming.

What's the impact of that? Well, the impact of that is there are marked results that just came out - we got hit, we got hit in terms of our revenue, we went backwards. But I don't believe you can move forward unless you address those decisions head on. If you've got unsustainable revenues that are upsetting your customers and their loyalty, I think you have to address them head on.

So we are taking some of those tough decisions now. We have got plans that come out in the next few months which will start to address head on with a view that we want to eliminate - we want to eliminate bill shock breakage from the Australian marketplace, which again, is a reasonably big call.

Also, we have more plans on how we get roaming data levels that actually enable people to use a phone rather than be scared of using a phone. Another key thing we've done is substantially increase our investment in the network, which I haven't talked about much today but actually is pretty pivotal. It's pretty fundamental in terms of what customers want. They want a great network. Beyond that, it's really been about trying to rebalance our investment, not into buying customers but very much into how do we improve our service in the medium and long-term.

So, plenty of change. I'll just try to wind up on some key messages. They are my messages, they are my views. I do think as an industry, we are not doing the right thing by Australian consumers. I think we can do better. I think as an industry, we actually need to do better. Our future profitability and our future competitiveness will be hampered and will be vulnerable if we do not do a lot better.

Further, I think we've got some tough decisions to make, decisions to change practices that give away revenue, or stop revenue that was a drug that you could have relied on. They are tough courageous decisions to make.

I think we have started making them at Optus, but as a broader industry question, I think there's going to be some tough decisions to make in the months ahead.

And then finally, from my chair, from an Optus chair, we are committed to a new direction within our business. My hope is that if I stand here in any other form in 12 months time, people will actually see that coming through in terms of decisions we are making and actions that are benefiting our customers.

So, that's all I had to say today. I don't know how long I took actually. I didn't time myself, but hopefully we'll get plenty of time for questions.

Thank you.