

Exhibit 3: Service guarantee operating data.

Key Performance Indicators	Cumulative after 12 Months	Monthly Average of 12 Months	Cumulative after 20 Months	Monthly Average of 20 Months
Number of new RGUs ^a	94,624	7,885	162,474	8,124
Number of unique customers who invoked the MBG	209	17.42	420	21.00
Number of disconnected unique customers	209		420	46.40
Number of disconnected RGUs	470	39.17	928	
% of customers disconnected using 60-day MBG	0.50%		0.60%	
Refund		\$91.56		\$86.00
Service credits issued ^b	\$19,594.37	1,632.86	\$36,119.35	1,805.97

^aRGU (revenue-generating units) refers to digital cable, Internet, and home phone services.

^bService credits refer to total refunds paid out to customers.

STUDY QUESTIONS

Endnotes

1. Explain the impact of a well-designed service guarantee on a firm's service employees, service operations, current and potential customers, and marketing and sales.
2. Evaluate the design and communication of Broadstripe's service guarantee. Would you recommend any changes?
3. Can the guarantee be successful in creating a culture for service excellence within Broadstripe? What else may be needed for achieving such a culture?
4. Do you think customers might take undue advantage of this guarantee and "stage" service failures to invoke the guarantee? If yes, how could Broadstripe minimize potential cheating on its guarantee?
5. Imagine you are in Lent's position. How would you conduct the analysis, and what would you present to the management committee?

1. The cable modem termination system (CMTS) refers to equipment that is located in a cable company's "headend" (an unstaffed facility). It is used to provide high-speed data services (e.g., cable Internet).

2. Trouble tickets are a measure that refers to customer complaints and any problems with the Internet or TV channels.

3. The magazine Small Business Monthly (SBMON.com) publishes a list every year of "Best in Business" based on nominations from its readers of top businesses in various industries for the St. Louis metro area.

4. BBB is a national organization that evaluates and monitors ethical business practices. Based on file information about a business, the BBB assigns letter grades from A+ (highest) to F (lowest) based on the rating of 16 different factors (for details about the factors, see www.BBB.org).

What Drives Share of Streaming for Streaming Video Services? The Launch of HBO Max

Alexander Buoye, Luke Williams, Timothy Keiningham, and Lerzan Aksoy

HBO Max launched its streaming service in May 2020. At the time of the launch, streaming services were already well established and dominated by a few large, well-established competitors (e.g., Netflix, Amazon Prime, Disney+, Hulu, etc.). In the face of intense competition, HBO Max's initial launch was widely characterized as “underwhelming” despite its large content library and a rise in streaming due to the COVID-19 pandemic.

A survey of streaming service customers demonstrated why HBO Max's launch was largely deemed underwhelming. HBO Max's Net Promoter Score (NPS), a measure of customers' satisfaction with the brand, was well below its two largest competitors, Amazon Prime and Netflix.

Despite the low NPS, however, HBO Max's share of streaming by its customers was a respectable 38%. One of the big issues for HBO Max post-launch was finding a way to increase its share of streaming. NPS, however, provides little guidance in improving share as the results of the survey found it to be very weakly correlated to share of streaming.

By using wallet allocation rule analysis, however, data regarding customers' perceptions of HBO Max and competitors is strongly linked to customers' share of streaming. As a result, it was possible to identify what HBO Max must do to gain share in the competitive video streaming market.

INTRODUCTION

Video streaming services are a major entertainment delivery platform. Across the world, the rise in streaming services often came at the expense of traditional cable and broadcast delivery platforms. As a result, traditional video providers had to adapt to the streaming environment becoming obsolete.

The subscription streaming video market was dominated by only a few major players. Netflix and Amazon Prime had been the acknowledged leaders in the vertical, with media giant Disney competing on a robust but more fragmented basis through its family of subsidiary content offerings (Disney+ and Hulu) as well as the sports specialty service, ESPN+. In May 2020, AT&T's WarnerMedia introduced its HBO Max streaming service as another alternative, replacing or enhancing previous incarnations (e.g., HBO Go, HBO Now) of their streaming platform. This case examines the launch of HBO Max.

At the time of the HBO Max launch, the legacy HBO streaming services (HBO Go, HBO Now) claimed only about 8 million subscribers. However, when including all traditional

HBO cable/satellite subscribers, the combined number reached 35 million. By comparison, Netflix boasted 183 million subscribers; Amazon Prime, 150 million; Disney+, 50 million; HBO Max, 33 million; and Hulu 30 million. YouTube, a more general, non-subscription-based streaming video platform, claimed well over 1.6 billion users globally. YouTube's premium subscription service, YouTube Premium (formerly YouTube Red), however, claimed only about 20 million subscribers. Sling TV (a subsidiary of Dish Network) was a minor player, with fewer than 2.5 million subscribers in May 2020. HBO Max's launch was expected to bring the streaming active user numbers more in line with lead competitors. According to AT&T's WarnerMedia third quarter earnings report, the number of HBO and HBO Max subscribers exceeded company targets (38 million vs a previous target by the end of 2020) and reached 57 million globally. However, fewer than half of eligible subscribers had actually activated the service. The low activation rate was attributed in large part to technical issues, as the HBO Max app was not readily available on major platforms like Roku and Amazon Fire TV. By October 2020, the general consensus about the HBO Max launch was “underwhelming” despite a strong content library and increased overall viewership of streaming video due to the COVID-19 global pandemic.

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UNDERSTANDING CUSTOMER PERCEPTIONS

To understand how customers felt about HBO Max post-launch, a survey was sent to streaming customers to gauge their perceptions of the brand and its competitors. Various measures often associated with market success were collected in the survey. Customers were asked their likelihood to recommend the streaming service. This likelihood-to-recommend metric was then converted into the net promoter score (NPS) as a measure of how well the service was satisfying its customers. In addition to NPS, the likelihood-to-recommend question was used to estimate the share of streaming customers who used to various services using the wallet allocation rule.

Market success was assessed by gauging the 1) penetration rate of various streaming services, 2) share of streaming services used (as a percentage of total viewing minutes), 3) the average number of streaming services used, and 4) the total time customers spent using streaming services.

Exhibits 1–6 show the results of these various key performance indicators (KPIs). The Net Promoter Score results supported the perception that the HBO Max launch was disappointing. HBO Max had the second lowest NPS score (–10) among the eight services investigated. As expected, market leaders Netflix (37) and Amazon Prime (32) produced the best NPS scores.

The number of active subscribers was best approximated by the penetration rate (the percentage of respondents who

use the service at least once a month). It provided a slightly different story than the NPS—YouTube (58%) proved to be the most commonly used service. This finding likely reflected the nature of the service (free) more than user preferences. HBO Max again delivered relatively disappointing performance, with only 18% of users having reported that they used the service, compared to 50% or more for YouTube and Amazon Prime.

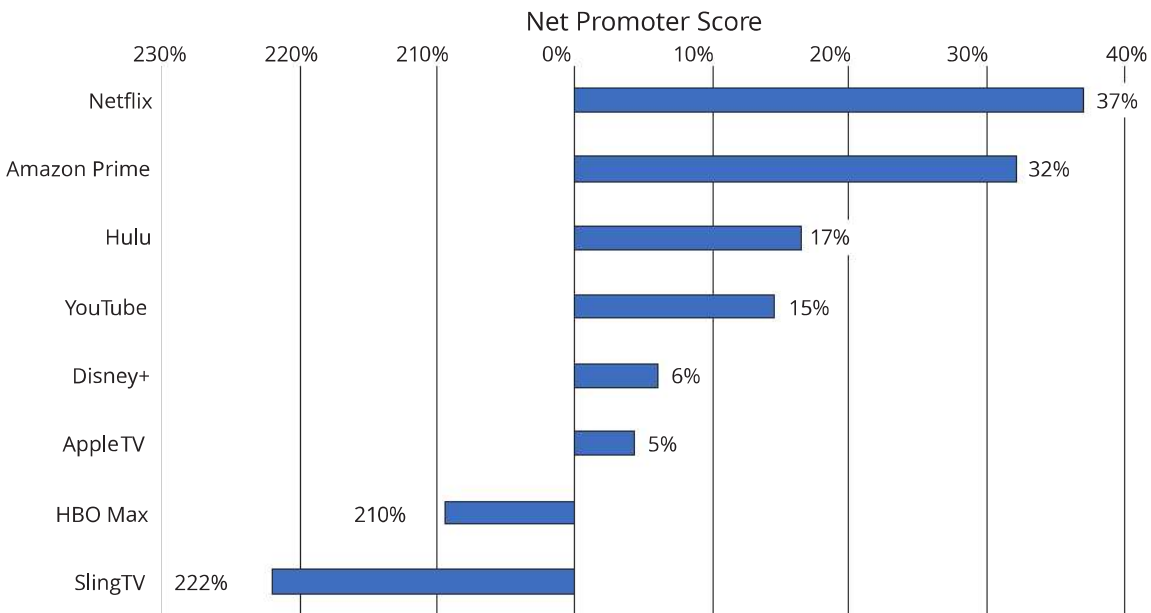
The wallet allocation rule (WAR) results were somewhat more encouraging for HBO Max, with the service scoring in the top half of the brands.

Share of streaming (based on percentage of minutes streaming) put Netflix (47%), YouTube (46%), and Amazon Prime (44%) among the leaders. Five months following its launch, HBO Max garnered only one-third (34%) of the share of streaming among its customers.

YouTube, Netflix, and Amazon Prime users tended to use approximately three streaming services regularly, while HBO Max users more usually use four. Hulu and Sling TV users tend toward five services (Note: Hulu is frequently bundled with Disney+). As such, HBO Max was positioned somewhere between a “core” streaming service and what might be better characterized as an “add-on.”

HBO Max users tended to spend less time streaming overall (across all services) compared to users of the leading services. Especially Amazon Prime, whose users spent approximately double the time streaming video compared to the average

Exhibit 1: Net promoter scores for streaming video services.



What Drives Share of Streaming for Streaming Video Services? The Launch of HBC

Exhibit 2: Penetration rates for streaming video services.

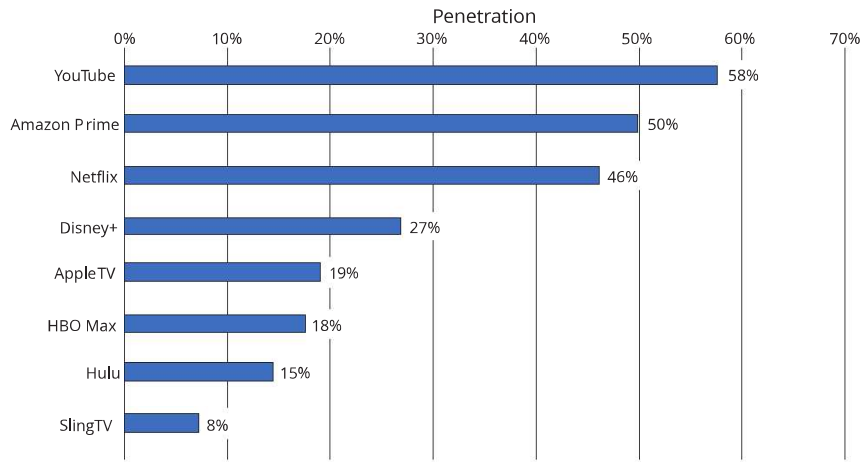


Exhibit 3: WAR scores for streaming video services.

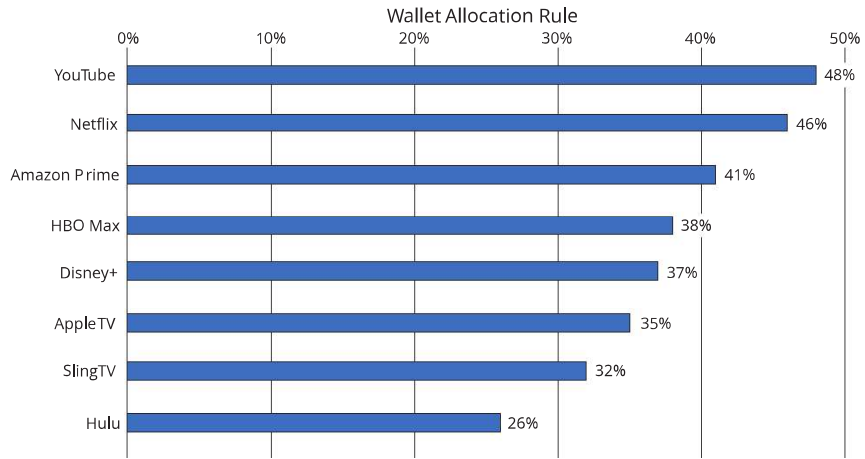


Exhibit 4: Average share of streaming for streaming video services.

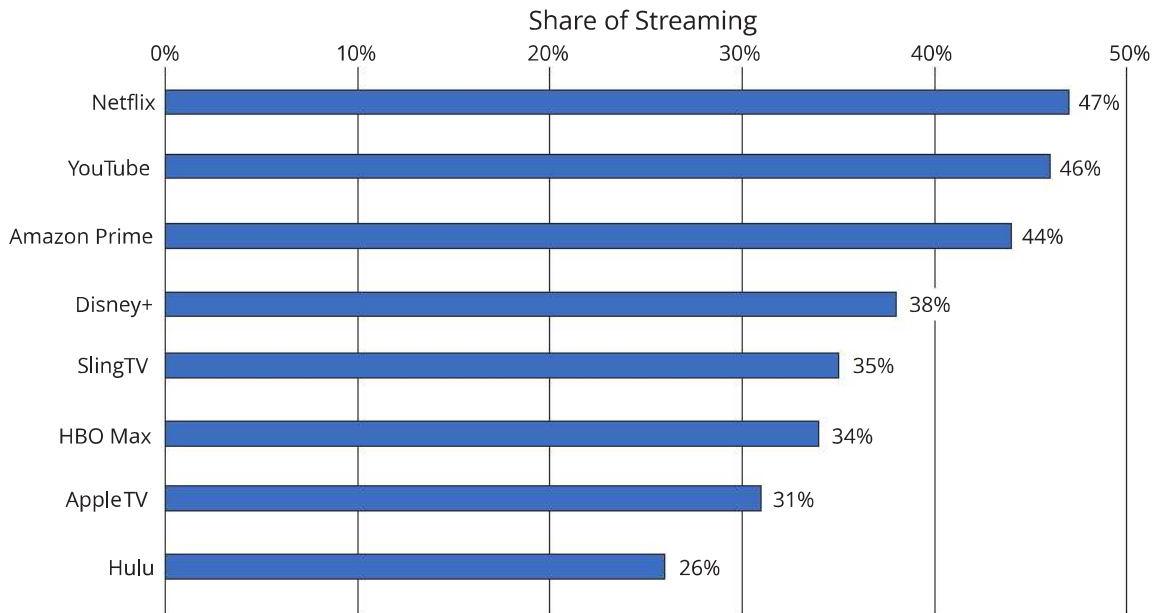
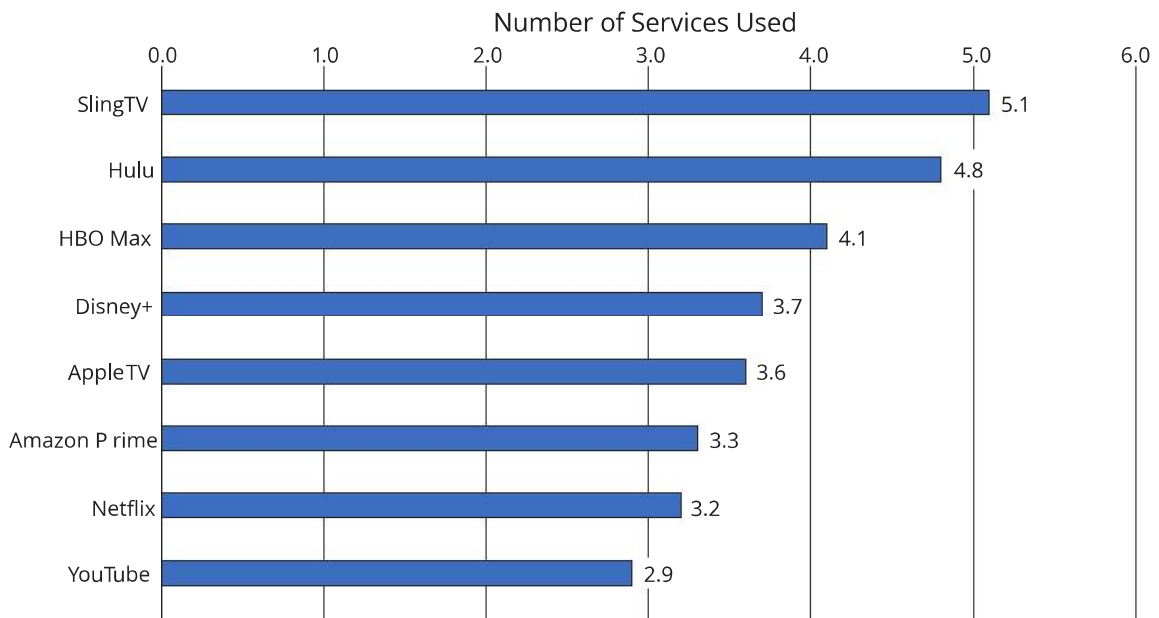
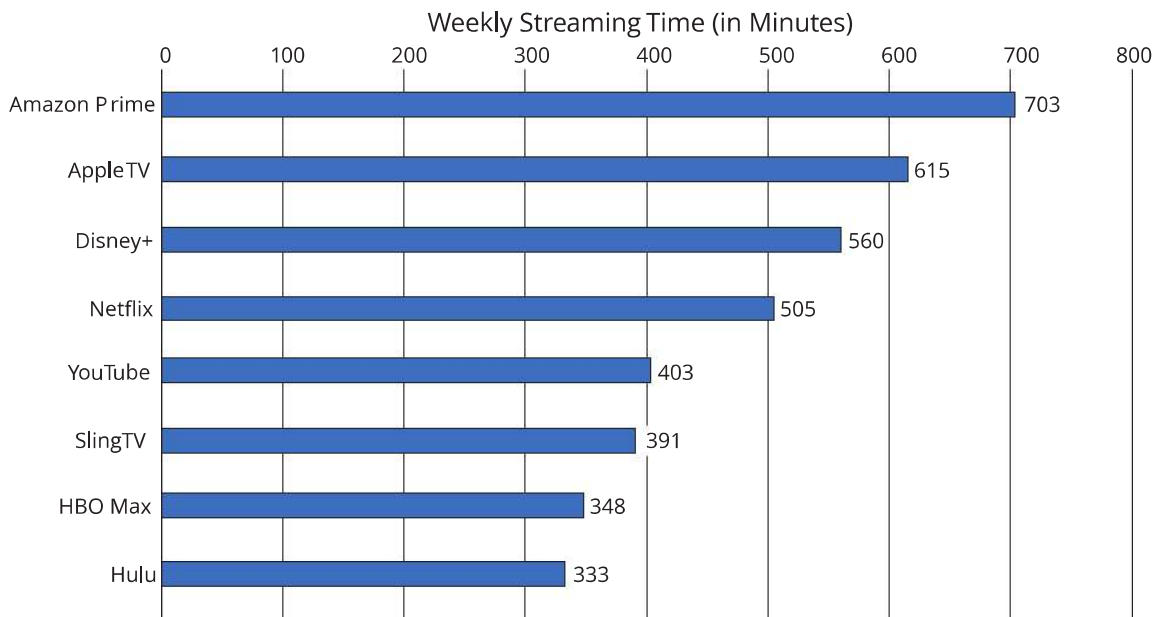


Exhibit 5: Average number of streaming services used by streaming video service.



What Drives Share of Streaming for Streaming Video Services? The Launch of HBC

Exhibit 6: Average weekly streaming time (in minutes) by streaming video service.



HBO Max user. Given the relationship between HBO Max and its parent/sister companies (HBO, DirecTV), it is possible that HBO Max users made more use of traditional cable/satellite television services, which may have accounted for some of the gap.

CONNECTING THE KPIS

Metrics designed to gauge customers' level of satisfaction (e.g., NPS, WAR, etc.) should be linked to KPIs associated with customers' behaviors so that changes in customer perceptions correspond to changes in business outcomes. For example, in industries where customers tend to use multiple brands, loyalty is something called share of wallet, which in the case of streaming services can be thought of as the share of streaming time given to a particular brand.

The WAR score demonstrated the strongest link to share of streaming (r = .92) at the brand level.

The net promoter scores demonstrated a much weaker correlation to share (r = .53) at the brand level.

This difference became much more pronounced when looking at how individual customers behaved. Based on

customer-level data, the WAR demonstrated a strong correlation of r = .80.

By contrast, the recommend intention score upon which the Promoter Score is based had an extremely weak correlation of r = -.04.

It is important to note that "share of streaming" did not directly impact the bottom line for any of these streaming services. Whether a subscriber watched 10 minutes or 100 hours a month, the subscription fee remained the same.

However, the share of streaming (i.e., share of viewing time) was an indicator of the indispensability of the service to each customer, and this was what ultimately impacted activations and retention. If customers only used the service occasionally, they could simply not subscribe to watch "that one show," then they could just sign up again when it suited them. They could also "borrow" a friend's login. These behaviors were less likely to occur for customers who used the service consistently. And it is for this reason that KPIs should demonstrate a strong linkage to share.

KEY DRIVERS

Profiles of each brand can be constructed based on customers' answers to a series of questions designed to understand what is of greatest importance to them. In this investigation,

Exhibit 7: Scatterplot of WAR and average share of streaming.

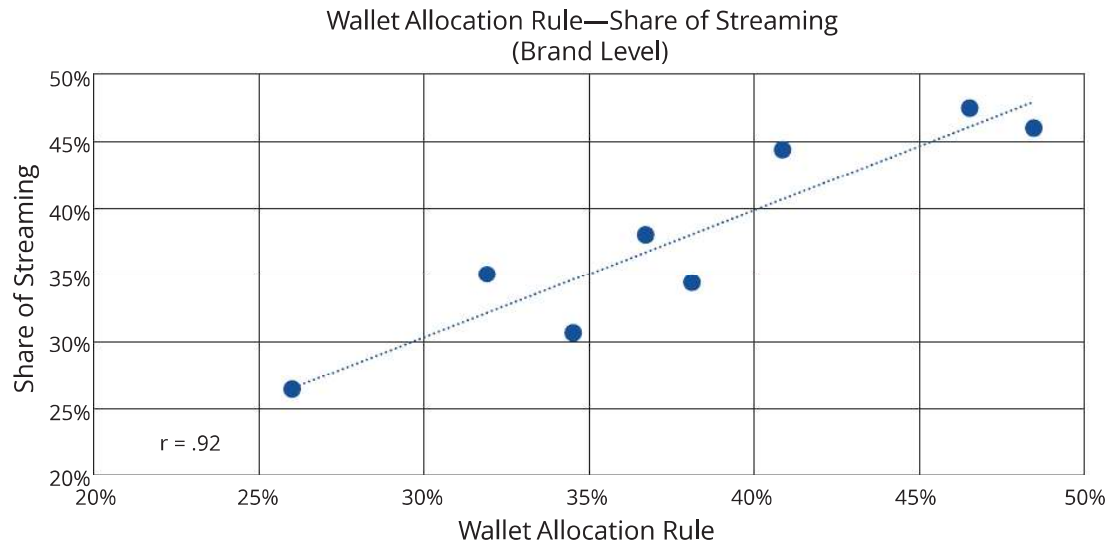
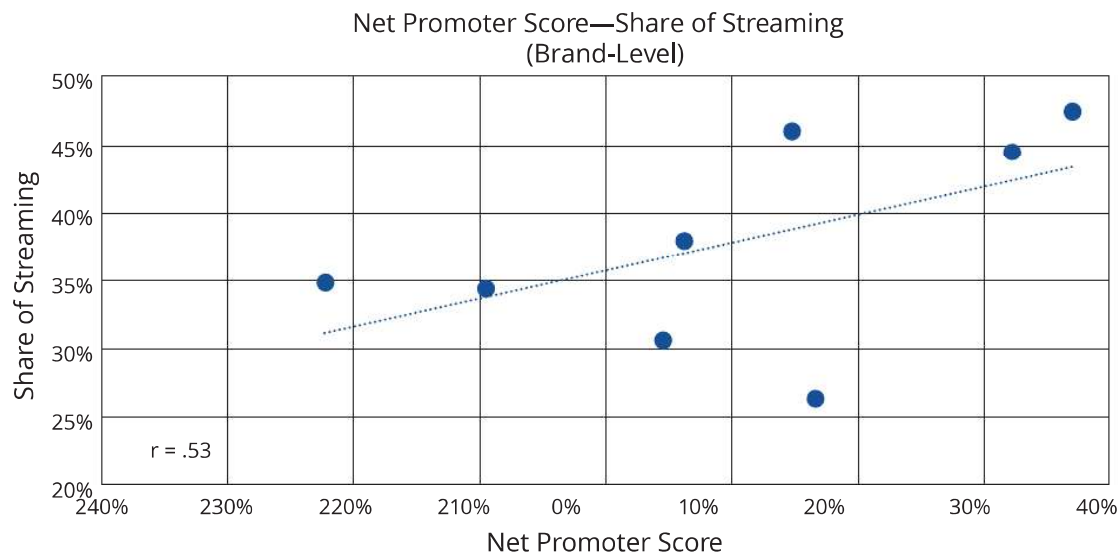


Exhibit 8: Scatterplot of NPS and average share of streaming.



customers were asked to indicate which of the following statements characterize each service:

- a Is available at a great price
- b Has a great selection of movies
- c Has a great selection of television shows
- d Produces excellent original programming
- e Suffers from technical problems

- f Has an easy-to-use interface
- g Has all the latest releases

The most frequently indicated characteristic for HBO Max was the one negative statement on the list, “Suffers from technical problems” (43%) (Exhibit 11).

The percentage who indicated HBO Max suffers from technical problems was, however, matched by the percentage who agreed that HBO Max “produces excellent original

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Exhibit 9: Respondent level correlation of WAR to share of streaming.

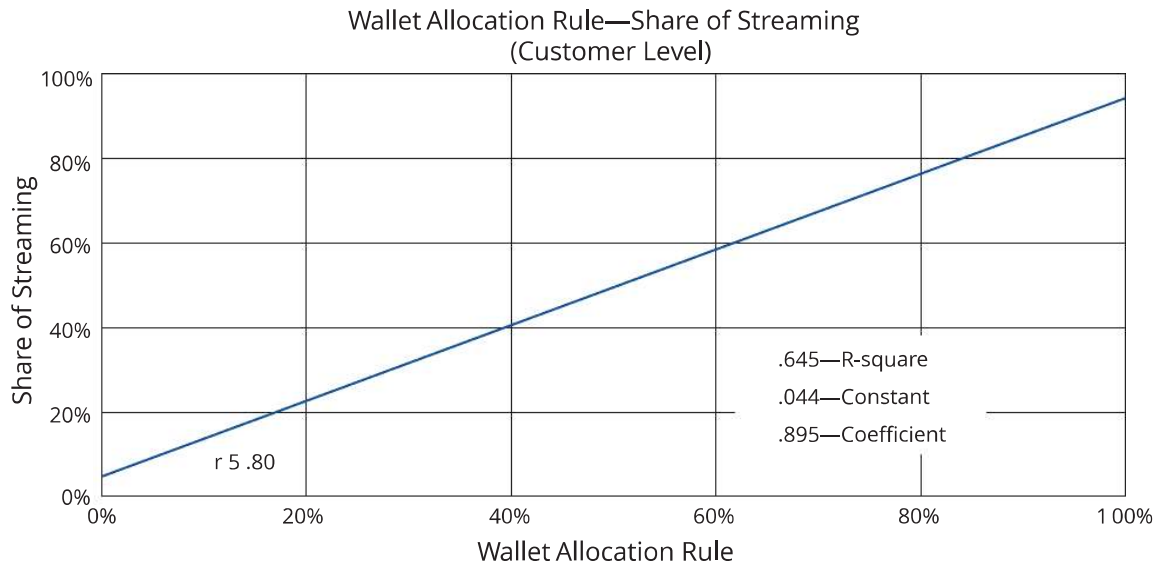
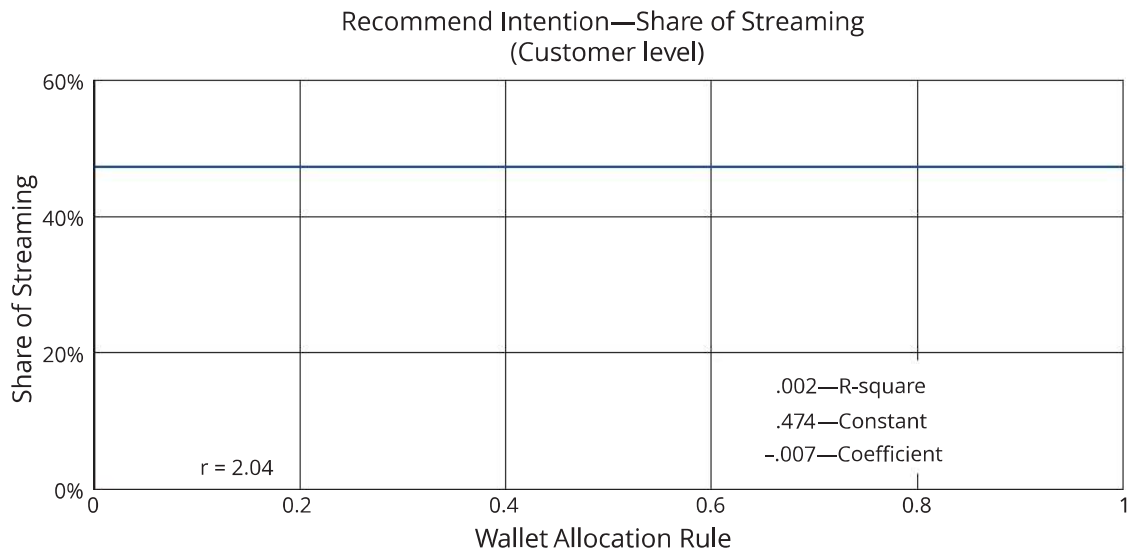


Exhibit 10: Respondent level correlation of recommend intention to share of streaming.



programming” (43%). Given the dearth of programming characteristics for Netflix (Has a great selection of movies, specific to the HBO Max streaming service at the time, 50%), Amazon Prime (Is available at a great price, 44%), and data collection, it was likely that respondents consistently identified (Has an easy-to-use interface, 50%) were all differentiating characteristics for both Netflix and Amazon Prime. Of note, “Suffers from technical problems” was the least differentiating characteristic for both Netflix and Amazon Prime, programming” for HBO Max. By comparison, the defining differentiating point from perceptions of HBO Max.

Exhibit 11: Key drivers for HBO Max.

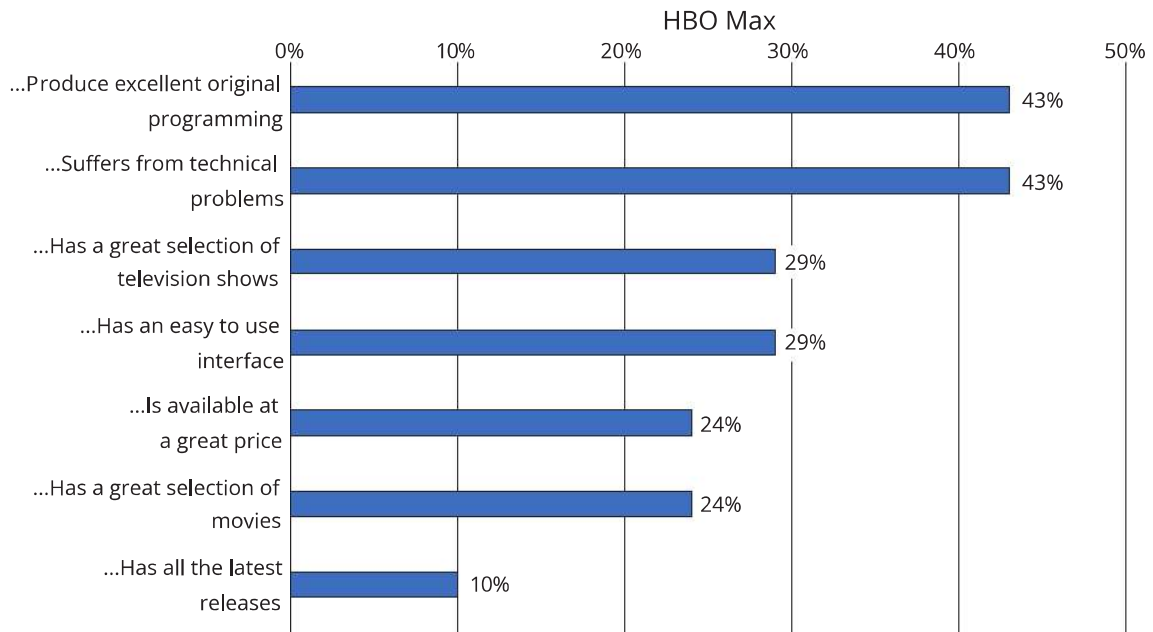
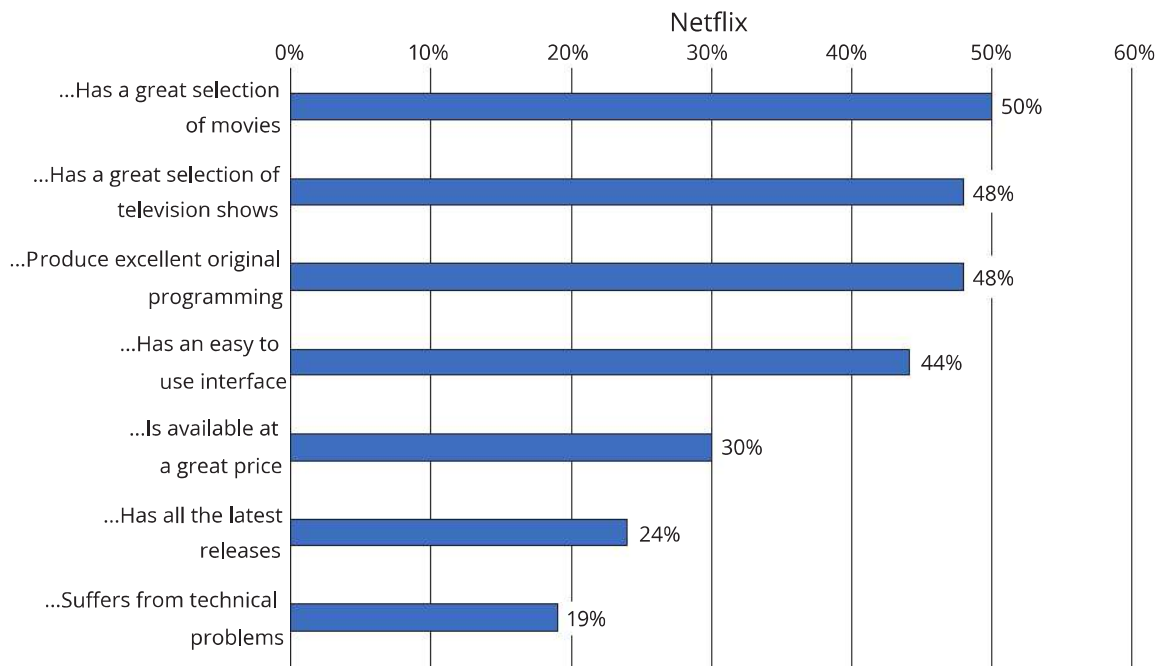


Exhibit 12: Key drivers for Netflix.



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Exhibit 13: Key drivers for Amazon Prime.

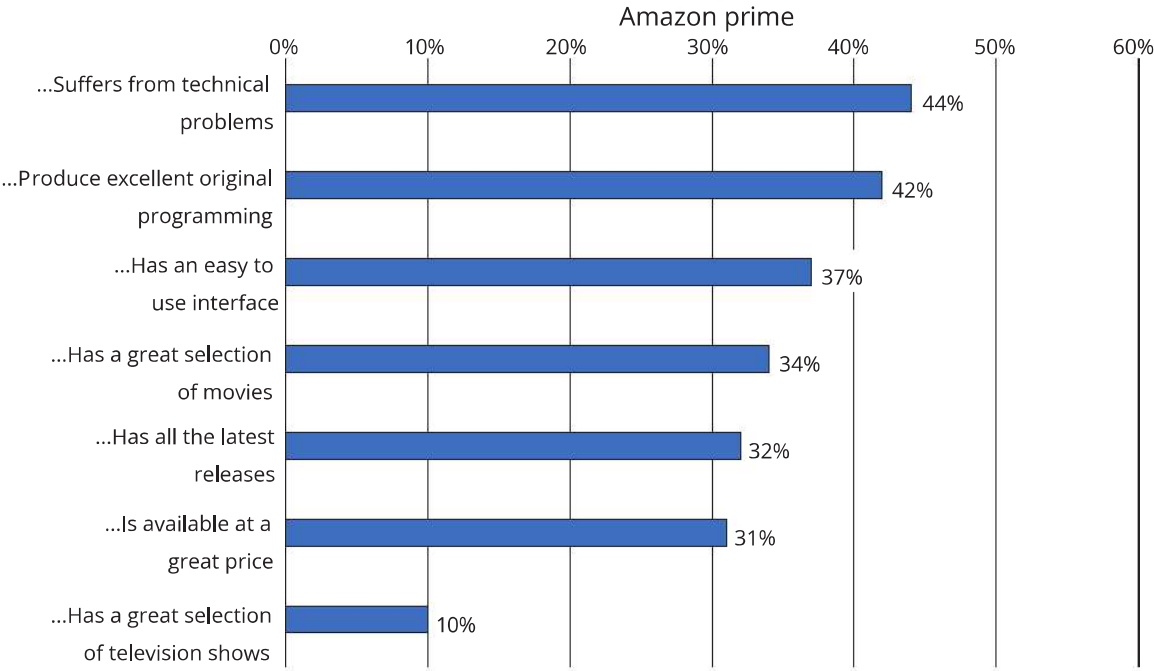


Exhibit 14: Key drivers for YouTube.

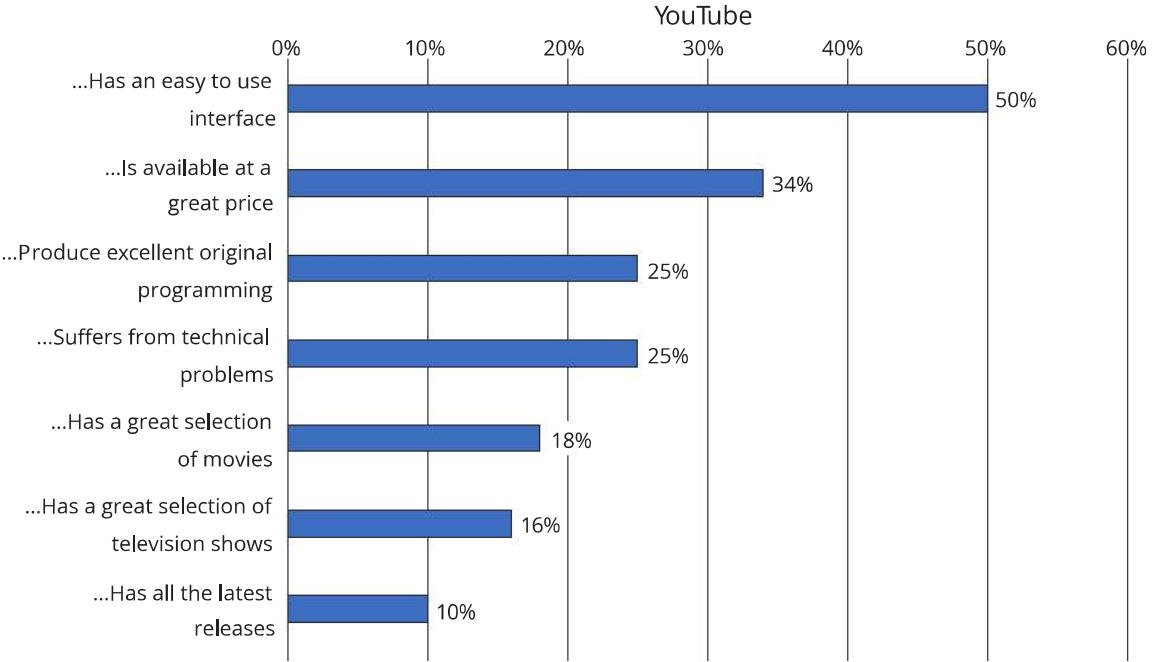
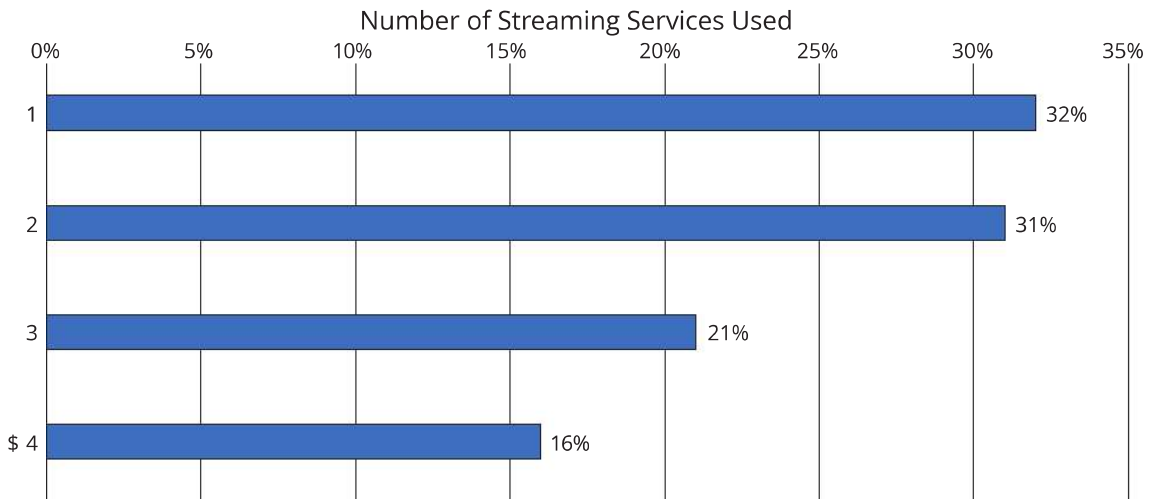


Exhibit 15: Number of streaming video services used.



KEY COMPETITOR PROFILES

One of the key tenets of the WAR approach is that customers have valid reasons for using all the brands that they do. Overall, respondents in the study used an average of 2.4 streaming services. Less than one-third (32.5%) are single-service users.

The largest portion of single-service users were YouTube users (i.e., the service that does not require a paid subscription), meaning that, as a percentage of respondents who use streaming services, the number of single-service users is likely even smaller than it appeared here.

So streaming video was clearly a “repertoire” category where “polygamous” behavior was the norm rather than the exception. Consequently, success in the category was achieved less by being the be-all, end-all provider of everything streaming and more by giving customers a primary reason to include your brand in their usage set, then being competitive enough on other aspects of the service to siphon off share from competitors who had made those other aspects their raison d’être.

For example, if “excellent original programming” was a point of differentiation that led users to log into HBO Max, but users also thought of Netflix as the service with “a greater selection of movies,” HBO Max did not need to provide a greater selection of movies than Netflix to steal share from Netflix. It was enough to make incremental improvements in the selection of movies so that it would be worthwhile for users to browse the HBO Max selection of movies rather than logging in for original programming rather than immediately and reflexively logging out and then going to Netflix where they were done viewing the original content on HBO Max.

With something like streaming video, the point was to create and break habits. And it was still very much like traditional marketing—make an offer to get your customers in the door, then upsell/cross-sell while they are already there.

Conclusion

The results of this study made it clear that the immediate issue that HBO Max needed to address post-launch was technical problems. In WAR parlance, this would be characterized as “removing a barrier.” Despite poor NPS scores, HBO Max earned acceptable WAR scores. Users indicated that HBO Max was a leader in producing original programming but the service suffered from technical issues. It seems likely that more viewers would have used the service were it not for these technical barriers.

In the wake of its launch, HBO Max did take steps to address this problem. The HBO Max app became available on Amazon Fire TV in mid-November 2020, and deals with Roku and Sony (for the PS5) were announced as well. Accordingly, approximately 70% of streaming devices in the United States, and the absence of the app on these devices was a major barrier for the majority of potential users.

HBO Max was also in the process of playing to its strengths by leveraging its original content. In conjunction with the launch of HBO Max, WarnerMedia announced plans to make the “Snyder Cut” of the 2017 film Justice League in response to an extended fan social media campaign. Director Zack Snyder revealed that the film would premiere on the

service in March 2021. Additionally, WarnerMedia debuted its big-budget film *Wonder Woman 1984* on HBO Max on Christmas Day, to be followed by their entire slate of 2021 releases. These unprecedented moves were made explicitly to increase the active user base for the streaming service.

HBO Max was also considered relatively pricey compared to competitors, as revealed in the survey results. Only 21% of users indicated the service was “available at a great price” compared to 30% for Netflix and 44% for Amazon Prime. Moreover, only 10% of users perceived the service as having all the latest releases, compared to 34% for Amazon and 41% for Netflix. WarnerMedia’s plans to release new films directly to HBO Max were likely in response to these perceptions as well—all consistent with the findings of this wallet allocation rule analysis.

DISCUSSION QUESTIONS

1. What insights does a wallet allocation rule approach provide that are not available through traditional measures designed to gauge customer satisfaction (e.g., NPS, customer satisfaction)?
2. Why is it important that a KPI should have a strong linkage to business outcomes?
3. Why is share of streaming important even if the amount of time a user accesses the service does not directly impact revenue?

Several additional materials are included with this case study at www.pearsonglobal editions.com:

- c A “Getting Started” document that walks you through the basics of the Wallet Allocation Rule
- c The original data and analyses in Excel that were used in this case study
- c An exercise that will allow you to calculate WAR scores yourself on a similar data file

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LUX*: Staging a Service Revolution in a Resort Chain

Jochen Wirtz and Ron Kaufman

LUX* is a successful hospitality group operating in the Indian Ocean as well as other locations. In its previous incarnation, the company suffered from poor financial performance, poor service quality, and a weak brand. A change in the leadership of the company prompted a transformation that showed positive results within 12 months. This case study describes a service revolution that led to rapid improvements in service culture and guest experience, which in turn led to sustained financial improvements on a quarter-on-quarter basis and long-term growth.

INTRODUCTION

With its headquarters in Mauritius, the LUX* hospitality group operates a portfolio of eight resorts and a private island in the Indian Ocean (Exhibit 1). The brand promises guests a celebration of life through its new value proposition—luxury resort hospitality that is “Lighter.Brighter.” What is the “Lighter.Brighter” hospitality? Established luxury hotels had come to be associated with stiff-upper-lipped service and stuffy opulence. Lighter hospitality meant breaking away from these precedents to offer a more effervescent experience without compromising on the hotel’s upscale sensibilities. At the same time, LUX* wanted to brighten up guest experiences. For example, the company significantly lowered the prices of items in the mini-bar to encourage guests to just take what they fancied and enjoy themselves. Such measures allowed LUX* to ensure that both guests and business would benefit from its operations.

The group’s resorts have been doing exceptionally well since its launch in 2011. Within a short span of time,

the group has successfully transformed its service culture. The group has seen 16 consecutive quarter-on-quarter improvements in its financial performance. The group’s resorts also enjoy a higher occupancy rate than the industry average in the destinations where they operate (measured quarterly by the Market Penetration Index, which compares the hotel’s occupancy against its competitive set). The group’s financial performance is reflected in the multiple accolades it has won for service excellence. These include the “Indian Ocean Lighthouse Hotel” award for LUX* Maldives from World Travel Awards, the “Best Resort Hotel Mauritius” award for LUX* Belle Mare from International Hospitality Awards, and the “Reunion Island’s Leading Hotel” award for LUX* Ile de la Reunion from World Travel Awards.

THE DARK AGES

However, things were not always this rosy. Before LUX* was launched in 2011, the group was known as Naiade Resorts, and the company suffered from poor financial health. None of its hotels were on the list of top 10 hotels on TripAdvisor in the geographic competitive sets. To top it off, the Naiade brand lacked clarity. Its brand name was used for nine different properties ranging from three to five stars, creating an unclear positioning in the minds of consumers. The problems in its positioning became apparent when the global financial crisis struck in 2008–2009, causing a large drop in occupancy and room rates (Exhibit 2). The group’s troubles culminated in 2011 with a criminal case involving the high-profile murder of an Irish hotel guest.

Having witnessed prolonged economic turmoil and a criminal case, the motivation and morale of hotel employees were unprecedentedly low. Financially, the impact of these

© 2023 by Jochen Wirtz and Ron Kaufman, updated 2022 by Jochen Wirtz and Ron Kaufman. Jochen Wirtz is Professor of Marketing at the National University of Singapore. Ron Kaufman is a bestselling author on uplifting service.

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All dollar amounts referred to in the text are in U.S. dollars unless otherwise indicated. The exchange rate used for all currency conversions is EUR100 to USD2.845.