

Investing in advocacy

Ten years ago customer satisfaction was king. Today, the focus has changed to building “advocates” and the goal is to provide a WOW! customer experience in an effort to increase repeat business and word-of-mouth promotion.

One industry that has done an impressive job of stepping up to the customer experience plate is retail banking. Today, several of the nation’s largest banks have entire departments devoted to providing an excellent customer experience. Many are spending tens of thousands of dollars to be considered for the Malcolm Baldrige National Quality Award, which has specific criteria based on customer knowledge, service and outcomes.

So how successful have these customer-focused efforts been? That question was the impetus behind a national survey of banking consumers conducted by the MSR Group, an Omaha research company.

Initiated in the fourth quarter of 2006, the rolling tracking study queries bank customers about their willingness to recommend and repurchase along with their use and quality evaluation of various banking services. The data are refreshed quarterly to ensure timely comparisons. An equal number of surveys are conducted within each of the four quadrants of the U.S. as defined by the U.S. Census Bureau (West, Midwest, South and Northeast). The study employs a random-digit dialing technique. Respondents are screened to be at least 18 years of age and they must have utilized their bank within the previous 30 days for at least one of the following transaction types: branch visit, ATM, Internet or call center.

Positive news

The positive news is that the study shows nearly 65 percent of U.S. consumers are advocates of their bank. (In the study, advocates are defined as customers who are in the top box for both willingness to recommend and intent to open additional accounts [repurchase].) Looking just at this group of customers, it is easy to see their value: a full 88 percent have told some-

one something positive about their bank.

But advocacy is just an end result. Getting there is the real challenge for banks. To build advocates, retail banking institutions must have a



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As banks strive to build relationships, a national tracking study finds that good service is still key for customers

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clear picture of their customer base and how that fits into the competitive landscape.

Examining the specific areas of advocacy, service quality and service recovery may uncover an opportunity for those banks willing to understand how they compare to the competition. Armed with knowledge of the particular needs of their customers, they can develop initiatives around those needs.

True advocates

Much of the MSR Group's industry research aims to differentiate true "advocates" from self-reported "promoters" (see Fred Reichheld's book *The Ultimate Question* for a more complete description of promoters). Based on data gathered from the MSR Group's 2007 APECS client studies, the company found that combining responses to the "willingness to recommend" (the only factor required to be a promoter) with "willingness to open additional accounts" enhanced the predictability that a customer would be engaged enough to actually begin the desired word-of-mouth promotion cycle.

In the national study, a net advocacy rating (NAR) is computed by subtracting the percentage of at-risk and critical customers from the advocates. (Critical customers are those who are somewhat or very unlikely to recommend and repurchase. At-risk customers fall into the "may or may not" response category or "somewhat unlikely," while loyal customers are those whose responses are mixed between at least one "very likely" or both "somewhat likely" response categories.)

The NAR for 2006 and 2007 is shown in Table 1. While the national NAR has not changed significantly since the beginning of the study, looking at changes within customer segments provides both good and bad news: the percentage of loyal customers has increased, while the percentage of both advocates and at-risk customers has decreased. Monitoring changes within their customer segments helps banks evaluate and identify strategies to improve their NAR.

Table 1: 2006, 2007 Advocacy Segments Based on Branch Office Evaluation

| | 2006 (n=1,021) | 2007 (n=1,200) |
|---------------------------|-------------------|-------------------|
| Advocates | 67.2% | 64.8% |
| Loyal | 18.1% | 21.9% |
| At-Risk | 10.0% | 8.5% |
| Critical | 4.7% | 4.8% |
| Net Advocacy Rating (NAR) | 52.5 | 51.6 |

Talked about service quality

The relationship between advocacy and service quality is clear: nearly two out of three advocates who told someone about their bank talked about service quality. In general, U.S. consumers consider interactions at the branch and on the Internet to provide the highest quality of service, while ATM and call-center interactions are considered to provide lower levels of service. However, between fourth-quarter 2006 and second-quarter 2007, service quality ratings declined for all service delivery points with the exception of call centers.

Branch quality ratings decreased from an index of 87.2 to 86.6 in just six months, while satisfaction with ATMs fell from 82.9 to 80.4 in that same time frame. (The satisfaction index is the mean of summed ratings of service attributes. The highest possible index score is 100; the lowest is 0.) Nationally, diminished levels of satisfaction with ATM services have been driven by declines in ratings for convenience of location, safety and security and adequate supplies of envelopes and pens. More than half of all U.S. consumers are using ATMs, with 53 percent of respondents reporting having used an ATM at least once within the previous three months.

Online service quality ratings declined from an index of 87.3 in first-quarter 2007 to 85.6 by the second quarter. At the same time, the percentage of consumers reporting that they had used a bank Internet site to monitor account balances, transfer funds and for other account activities jumped from approximately 32 per-

cent to 37 percent.

Online ease-of-use ratings dropped 4.1 index points. With more consumers migrating to online banking services the result is a higher percentage of customers who lack online experience. As these consumers work their way through the natural learning curve, future results may show a turnaround in ease-of-use ratings. However, having user-friendly sites will become even more critical as more new users test the online banking option.

Although rated the lowest of all service delivery points, satisfaction with call-center service has remained fairly steady, running between 80.9 and 81.7.

Margaret Moog, senior vice president and head of customer service for HSBC Bank USA, Buffalo, N.Y., believes the national comparative norms provided by the study benefit customers and offer banks an opportunity to differentiate themselves from their competitors. "National norms provide benchmarks to gauge how well HSBC is doing against its competition. By comparing results, we can identify areas of opportunity and focus our efforts on understanding differences which ultimately allow us to improve the customer experience," she says.

Clarify the need

While national information provides an industry barometer, regional differences clarify the need for banks with branches in multiple areas of the country to have region-specific strategies for everything from the way employees interact with customers to the

marketing of specific services.

Customers in the Midwest and South are most satisfied with branch services, giving index ratings of 88.1 and 87.4 respectively. Customers in the West are the least satisfied, having an index rating of only 85.3. Consumers in the Northeast fall closest to the national average with an index rating of 86.1.

Usage differs regionally as well. In the Midwest, ATM usage jumped from 46.9 percent in fourth-quarter 2006 to 55.3 percent by second-quarter 2007.

At Bank of the West, with headquarters in San Francisco and nearly 700 branches across the country, the regional comparisons have been useful. "We have a very diverse customer base. Everything from large cities in California to Midwestern hometowns with a population of 1,000," says Susan Strong, vice president of sales and service at Bank of the West. "Seeing how the ratings differ around the country has been very useful in understanding our markets and in working with our branches across the United States."

A challenge

Promoting new services in a way that is meaningful to customers is a challenge for many banks. Bank of the West's Strong notes that, while it can be difficult, her organization has begun an initiative to do just that. "We have our bankers asking questions of our customers to understand their specific needs - both present and future - and then offering products that will meet those needs. It is interesting to see how our employees are doing overall compared to our competition," she says.

Nationally, bank employees have stepped up their cross-selling efforts over the last six months. Twenty-two percent of customers surveyed in the second quarter of 2007 report that branch employees recommended additional products and services during their branch visit, compared with 14 percent in the fourth quarter of 2006.

Since beginning its cross-sell initiative, Bank of the West has experi-

Table 2: Satisfaction with Problem Resolution by Customer Category

| | Advocates | Loyal | At-Risk | Critical |
|------------------------------------|-----------|-------|---------|----------|
| % Experiencing a Problem | 6.3% | 24.5% | 34.0% | 46.4% |
| % "Very Satisfied" with Resolution | 75.0% | 44.4% | 37.5% | 0.0% |

enced steady growth in the number of customers reporting that an employee had recommended additional products or services beyond the customer's original inquiry. If its increases continue at their current rate, Bank of the West's cross-selling scores will exceed the national average by third-quarter 2007.

Problems bound to occur

In spite of a bank's best efforts to provide an excellent customer experience through expanded conveniences and personalized service, problems are still bound to occur.

How a bank responds to a customer calling with a problem or issue affects the customer experience in two ways. First, advocates are less likely to call with a problem or issue, so identifying and then reducing the incidence of problems and issues is one strategy. Second, the level of satisfaction with the outcome of the experience influences a customer's willingness to recommend and repurchase.

Nationally, 14.5 percent of customers experienced a problem with their bank in the last 12 months. Problems relating to fees and charges on their account were most often mentioned (20 percent of respondents), 11 percent said staff or statement error and 10 percent cited bank policies and procedures.

In general, it appears that banks are doing a good job of responding to customer concerns: 69 percent of those who experienced a problem report that it was resolved. Banks in the Northeast tend to have higher rates of problem resolution, with 90 percent of customers reporting that their problem had been resolved.

The way a bank resolves a problem does impact the future relationship between it and the customer (Table 2). Seventy-five percent of advocates who called with a problem said they were very satisfied with the way it was resolved compared to 37.5 percent of those in the at-risk segment and none of the criticals.

While customers who never experience a problem have the greatest loyalty, banks can still make up for some of the resultant loss of goodwill by seeking resolution that, to the extent possible, is acceptable to the customer and by providing a stellar service experience.

Service ranks highest

In addition to providing insight to how the U.S. consumer judges his or her bank, this study also tested how specific attributes figure into the initial selection of a bank. Based on the overwhelming impact of service on a positive banking relationship, it comes as no surprise that among the tested attributes, providing "loyal, old-fashioned service" ranks highest in importance to customers when choosing a bank. What may be somewhat surprising is that a bank that "gives back to the community" ranks second while one that is "conservative and has a strong financial history" ranks third in importance.

Banks that make an organization-wide commitment to providing great service, have systems and processes in place to follow up immediately on customer concerns and that never lose sight of the need to continually cross-sell to the needs of their customers will thrive in the competitive retail banking environment. | Q