

Positive and Negative Customer Advocacy

Referral strategies fall flat when businesses won't recommend banks

A consistently woeful metric picked up each month in East & Partners' Business Banking Sentiment Index is the total market advocacy score. In the September Index, which is compiled by talking to 500 businesses turning over between A\$1 and 100 million, the total market customer satisfaction score was 56.1 (out of 100), not exactly setting the world alight but not dreadful either, and it was an improvement on the August score. However, when it came to these businesses – Micro Businesses, SMEs and Lower Commercials – declaring whether they would recommend their primary banks to a business associate or colleague, the scores dropped through the floor. The September total market advocacy score was just 34.2 – almost 22 percentage points less than the satisfaction score. (Scores are a rating not a percentage of businesses.) In much of the Index, the total market scores are dragged down by unhappy and under-serviced Micro Businesses (A\$1 to 5m), and yet the advocacy score for relationship banked Lower Commercial (A\$20 to 100m) companies was just 52.9 contrasted with their satisfaction score of 77.6. Further, their empathy score was a fairly healthy 63.0. So if customers are relatively satisfied with their banks and enjoy an empathic relationship with them, why won't they take that next step and recommend them?

Typically, people are happy to recommend their dentist, mechanic, or a restaurant to someone based on a positive experience, and in particular, good service. Advocacy provides a sense of empowerment, a demonstration that of all the choice available someone has made the "correct" one. Why is it different with banks? Is it foreign to people's mindsets to recommend banks in the same way someone recommends a restaurant or dentist? There may be some overspill of the traditional Australian antipathy towards banks impacting the behaviour of smaller businesses. But middle markets companies with CFOs and Treasurers operate on an altogether more sophisticated level. Given that almost 70 percent of business people say the first place they turn when seeking advice on engaging a provider is a trusted colleague or business associate, these poor advocacy ratings are a concern for banks. It indicates that one of their most vital assets – their customers – is not being leveraged.

Is not recommending the same as dissuading?

In an attempt to gain more insight around this issue of advocacy, East placed an additional question in the September Index to find out whether not recommending a bank was the same as dissuading associates from engaging their bank. This latter measure we have called 'Negative Advocacy'. The results were fascinating. As mentioned, the total market score addressing whether businesses would recommend their banks was a lowly 34.2. But the score for actively dissuading other businesses from engaging their bank was almost identical, just 34.3. For once there was little variance between Micro Businesses, SMEs and Lower Commercial companies, and no real difference either between the states. There was, however, a great deal of variance between individual providers, with the lowest (or best) negative equity score being 20.5 and the highest (or worst) being 50.8. Customers of the worst provider were two and a half times more likely to dissuade people from engaging their bank than customers of the best performer in this measure. The take out from these positive and negative advocacy scores is that, market wide, businesses are generally not inclined to recommend nor advise against others engaging their banks. Perhaps many business people feel they are putting their reputation on the line by positively advocating a provider and it is safer and less risky to simply keep their own counsel.

Judged against the old maxim that seven out of ten customers who have had a bad experience will tell others about it whilst just one out of ten customers who have had a good experience will do so, banks are not doing so badly. East's positive and negative advocacy scores would indicate that businesses are not summarily "dissing" their banks; that there is a positive platform to work from for most providers – especially those with a strong relationship model.

So given the vital role advocacy can and should play in banks' customer acquisition strategies, what do banks have to do to induce positive advocacy? A good start would be to ask for it. "If you don't ask, you don't get" has never been truer in this instance as the data shows. Customers certainly don't feel they are expected to recommend their banks; they require prompting – whether they are satisfied or not. Banks have of course periodically initiated customer advocacy strategies with Relationship Managers expected to ask for referrals, but the September Index advocacy data shows that these strategies are either not embedded on the part of the RM and/or the customer – or they are simply not working.

RMs need to proactively identify and initiate opportunities for referrals and be measured against their success. Advocacy encouragement needs to become part of the organisational culture. But it needs to be applied with intelligence as well as diligence. Customers are individuals: some will always plough a lone furrow, whereas others will be closely connected to trading networks, peer groups, and industry associations. Among this latter group there will be certain influential individuals whose recommendations hold much sway. RMs need to identify and leverage the opportunities these individuals can create. Just as banks work for their customers, they need to find ways of getting their customers to work for them – otherwise the Index advocacy scores each month will continue to make sorry reading.

Figure 1

Negative Advocacy Score by Segment 10 (would not dissuade) to 100 (would dissuade)

Segment	September 2006
Micro Business	35.8
SME	34.9
Lower Commercial	32.1
TOTAL	34.3

Figure 2

Negative Advocacy Score by State 10 (would not dissuade) to 100 (would dissuade)

State	September 2006
NSW	35.0
VIC	34.7
QLD	32.0
OTHER	33.6
TOTAL	34.3