Monetising Customer Satisfaction

Are happy customers profitable ones?

There's an old maxim that goes: 'Life is a journey not a destination'. Part of its meaning lies in the fact that destinations are merely stages in life, that you can't rest on your laurels having reached a certain point because things are ongoing and there are always more stages ahead. In the business banking sector, achieving high customer satisfaction appears to be increasingly viewed as the 'destination'. Customer satisfaction results (positive ones, of course) are consistently trumpeted at results announcements as key indicators of banks' strong and improving performances. Happy customers are, in principle, more receptive customers and are less likely to shift to another provider. They will also over time become better customers provided banks take an intelligent approach to selling to these contented customers. But good customer satisfaction in and of itself does not necessarily deepen and extend customer relationships – nor does it reflect a bank's true performance. Further engagement of products and services with existing customers is really the gauge of how well a bank is performing with its customers. But how often does a bank broadcast its wallet share performance?

Banks are using their customer satisfaction ratings more and more for marketing purposes, and whilst there may be good merit in reporting the findings of independent researchers such as East, and maintaining brand and product awareness generally, it is difficult to know how successful this approach is with customers. (A piece of analysis we ran in the November 2006 issue of Research Note examining whether businesses are receptive to industry award winners, such as 'Best Business Bank', revealed confusion and a general lack of awareness of such results.) For a start, in the metrics we pick up on where prospective customers go for advice on banking matters, marketing initiatives or collateral do not rate a mention. More than 50 percent of respondents nominate colleagues and professional friends as being their primary source of advice, followed by their accountants.

In other words, customer advocacy is a much stronger weapon to be leveraged by banks than customer satisfaction. However, our research shows that satisfaction does not necessarily lead to advocacy as evidenced by the disparity between the respective ratings. Advocacy is generally rated more poorly than satisfaction. Customers may be reasonably satisfied with their banking relationships but getting them to refer their bank to others is another stage altogether and often a stage too far.

Banks must recoup investment in satisfaction

The big issue underpinning all of this is that customers do not become satisfied by osmosis. Banks are paying a huge price in investing in people and systems to improve customer satisfaction. So, the return needs to be much more significant than simply being able to covet and proclaim the "yellow jersey" in customer satisfaction. Customer satisfaction is not the end game but merely a platform to stronger relationships, a hard won attribute that must be monetised.

Part of this process involves banks becoming a lot more analytical about where they focus their efforts in customer satisfaction – as opposed to the homogenous, scatter gun approach to the issue that many seem to be adopting. We have come across many instances over the past six to 12 months where customer satisfaction efforts have proved to be merely window dressing, and as a result, were ineffectual, and in the longer term potentially detrimental if not fatal. These include business customers who were contacted by new and friendly so-called relationship managers who never followed up on any of the issues discussed during the initial contact. Similarly, notwithstanding the efforts to reintroduce business banking expertise into the branch network, small business customers have bemoaned the quality of advice they experienced, and once again a lack of follow up to (often bank initiated) product enquiries.

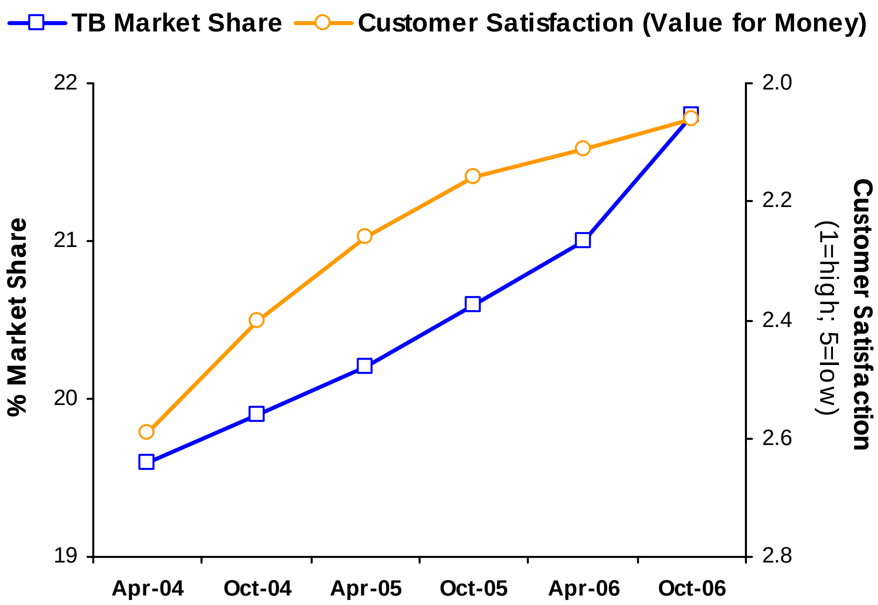
Analysis key to unlocking market share

East's metrics over many years do show a correlation between customer satisfaction and market share gains. In the current hyper-competitive business banking markets, where all providers are purportedly striving for customer satisfaction, it is imperative that the customer satisfaction focus is sharper and more granular than before. This does not mean trying to be all things to all customers and be best of breed on every service measure. It is about taking a product by product view and gaining deeper insights into what customers actually want from their providers. What drives customer satisfaction in Trade Finance, for example, may not be so applicable in Merchant Acquiring. Providers need to analyse the specific product groups to identify key linkages between satisfaction and market share gains. Often it can be four or five "silver bullet" factors that determine the satisfaction performance of a particular product – the old "80/20" rule.

Conversely, there is little point in investing in enhancing Documentation Quality, one of the service attributes in East's Commercial Treasury Banking Markets program, for example, when customers have not identified it as an area which needs addressing. Proactivity and Understanding Customer Needs, on the other hand, are areas that require greater effort from providers, according to Commercial customers (A$20 to 340m turnover). Furthermore, these two service attributes are equally important in the SME segment (A$5 to 20m) but could mean different things in terms of the way banks package and deliver them.

Deploying a "high customer satisfaction in everything" approach can also have negative consequences given that business customers are increasingly split banking. Decisions are often based on perceptions of an individual provider's specific proposition in certain product lines, in a sense locking banks into positions of excellence in the customer's mind. This can thwart a provider's ability to cross sell product 'Y' even if the customer is happy with product 'X'. To sum up: One size does not fit all. Banks need to focus on the service and product attributes as identified as important by different market segments in order to optimise profitable customer satisfaction.

Customer Satisfaction versus Market Share — 'Big Four Bank'



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