THE SILENT SCREAM OF THE UNLOVED CUSTOMER

Mis-servicing is becoming one of the most critical issues for British companies, especially in the financial services sector. Tamsin Addison and Svetlana Gogolina argue that, by putting the customer at the core of their business strategy, companies can cut costs, drive significant additional profits and develop a stronger sustainable competitive position.

Many financial service providers have recently declared record profits. At first sight, the industry is in perfect shape. But would their customers agree, or is it a case of pride going before destruction? We believe strongly that only through building advocacy and loyalty amongst their customers will these companies be able to achieve sustainable organic growth.

A self-inflicted problem

Establishing the correct level of servicing of customers to enable better focusing of resources is a key challenge for financial services providers. The industry is characterized by rapid change, intense competition and increasing levels of commoditization. Products and services offered by banks and insurers are becoming indistinguishable from each other, as innovative offerings are swiftly copied by the competition. Aggressive customer acquisition strategies coupled with these largely-undifferentiated offerings has created a "switching culture" amongst many customers.

In the past, communication strategies have focused on the ease of switching: a "hassle-free", no-cost experience was promised, and lucrative introductory deals offered. The result has been that the industry *itself* has created promiscuous consumers – "rate tarts", as the CEO of one financial company put it.

Customer churn has increased across the whole industry, with the credit card and mortgage sectors suffering the most. For instance, re-mortgaging rates have increased from 5% in 1999 to close to 20% in 2004, and it is now regarded as the smart thing to switch credit cards when the introductory interest-free period runs out, or to change car insurers every year. But is it so smart for the product providers, and what is the long-term impact?

Short-term gain, long-term pain

From extensive research studies that we have conducted for financial services providers, we know that customers who have switched once are likely to switch again, particularly if they are not entirely satisfied or if they see that a better deal is available. Worryingly for financial services providers, there is a growing number of people who are always on the look-out for better deals, no matter how satisfied they are with their providers. They are the type of customers that providers are most likely to attract in their customer acquisition campaigns – especially if these seek to lure them with special offers – but they are also the type most likely to depart again once the incentives lapse.[1]

Newspapers and broadcast media have also played their part in this process by educating customers not to tolerate second-rate service and encouraging them to search actively for the best deals available. Consumer rights organizations have highlighted instances of over-charging and exposed bad practices within the banking sector – and most others as well. Many websites now offer dispassionate price and product comparisons for different financial products, making it far easier for people to find alternative providers. Also, new entrants have naturally focused their offerings on the perceived shortcomings of the established providers, thus actively educating consumers to the alternatives, and these factors have led to increasingly savvy and demanding financial services customers.

Distilling genuine insight

Our research[2] indicates that there is a widely-recognized need[3] amongst industry decision makers to prioritize resources by aligning business strategy with customer needs. Many *think* about ways of creating better value for their target customers, improving

customer retention and customer loyalty and, as such, boosting their bottom lines. Large budgets and resources are dedicated to market research: measuring and monitoring customer satisfaction and customer loyalty, segmenting their markets and customer-bases, and exploring changing customer needs. However, this vast amount of customer data has not, for the majority, been translated effectively into either actionable knowledge or overall business strategy.

Only a minority of forward-thinking companies have incorporated customer service priorities and loyalty matrixes into strategic decision-making. Customer loyalty, the single most important factor affecting long-term business profitability, still lies solely within marketing functions, remote from the majority of CEOs and company boards.[4]

Most UK financial services providers claim to be truly customer-focused and to put customers at the heart of their business. However, our research shows that less than half (45%) of financial services consumers strongly believe that their needs are being met by their providers. There is also a widespread opinion (a third agreeing strongly) that banks waste money on services that are not required by their customers, and barely a fifth of the sample stated that their financial services providers care about their needs.

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So it seems that companies are often providing customers with services that they do not value, and under-performing on the elements that *are* essential in driving customer loyalty. The impact of customer mis-servicing on providers' profits is significant. Board executives of the twenty-five leading companies covered by the research estimated that, on average, they could increase their annual profits by around 35% if their organizations' business strategies were ideally aligned with the needs of their target customers.

One CEO commented: "We do a lot of research but it is obtaining genuine insight that is the real challenge". This is especially important now, when identifying areas of mis-servicing offers businesses an enormous and exciting financial opportunity. It enables companies to focus their resources, improving customer loyalty whilst at the same time cutting waste. This drives significant additional profits and develops a stronger sustainable position in a largely undifferentiated and highly competitive market.

So why don't they do it?

Our research indicates clearly that a growing proportion of senior executives *understand* the importance of integrating customer insight into future business strategy, yet in practice many are a long way from achieving this goal. We identified two main reasons why so many companies fail to create loyalty-based strategies:

- Customer loyalty is seen as pure marketing, "lower level" rather than a board issue.
- Often, inadequate business matrixes and key performance indicators (KPIs) are used.

Our study identified two key elements on which financial services institutions should concentrate in order to create loyalty-based strategies.

1. Understand and appreciate at board level the reality of your customers' experience

The starting point is for executives at **board level** to understand and appreciate the importance of being customer focused, acquiring the right type of customers and driving – and earning – the loyalty of existing target customers. Implementing a customer loyalty **culture** within a financial services organization is a complex and multi-faceted process. It requires changes to both existing customer service processes and internal staff management practices, as well as initiating cross-disciplinary activities. Above all, it relies on putting the customer at the core of business strategy, by linking performance KPIs with customer loyalty. All these can only be achieved if they are sponsored and co-ordinated at the top level.

Most financial services providers are complex organizations, operating in a number of financial market sectors. Each sector has produced a different set of customer loyalty drivers that are conditioned by customer needs and the market itself (eg number of alternative providers, ease of switching, or availability of substitutes). As a result, there is no one-size-fits-all solution for enhancing customer loyalty.

2. Focus on measuring what your customers really value. Identify which activities and costs are *not* valued by customers.

Companies should ensure that their business metrics are appropriate. Organizations frequently focus on internal performance measures, such as percentage of calls answered, without taking into account the importance of these issues to customers and their impact on customer satisfaction and loyalty.

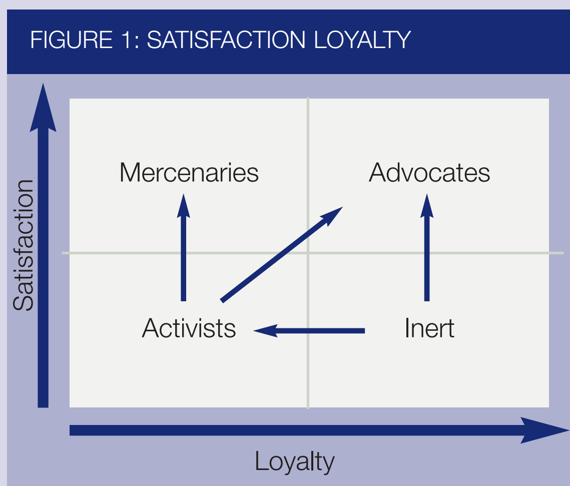
For instance, some financial service players assess performance of their customer call centres by the number of calls answered and average waiting time. These measures are definitely important, but are perceived as hygiene factors[5] by their customers – and

they do not as such drive customer satisfaction and customer loyalty. Issue resolution is a factor that is far more closely correlated with satisfaction. As long as performance levels on these measures are already acceptable, any performance improvement would require resources but will not influence customer behaviour.

For many companies, performance with regard to product offer and customer service has been appraised in terms of "customer satisfaction". However, many companies have now recognized that satisfaction is only a useful measure if it is an accurate predictor of consumer behaviour. Given that many "satisfied" customers still switch suppliers, one has to question this assumption.[6]

For a growing number of people in the financial services market, satisfaction measures do not predict advocacy and loyalty. A number of distinct loyalty groups can be identified by plotting customer loyalty against satisfaction scores (Figure 1):

FIGURE 1: SATISFACTION LOYALTY



- **Advocates** score highly on both their satisfaction with a provider and their loyalty.
- **Inert** customers are highly loyal, although not entirely satisfied.
- **Activists** are not entirely satisfied and are also disloyal.
- **Mercenaries** are inherently disloyal, although highly satisfied.

The satisfaction of mercenaries cannot be translated into loyalty, no matter how satisfied they may be, and their number is growing in the financial services market, as inerts and activists are conditioned by the market to drift slowly into this mercenary category. Although inerts are dissatisfied with their providers, they have often lacked the confidence to switch. However, in the current market environment, where a great number of market players promote "hassle-free" switching and bombard consumers with direct marketing, it appears that many inerts are now taking the plunge and switching. When satisfied with the new provider, some of them become advocates, but others, having realized the benefits of changing providers and feeling more confident about switching, turn into mercenaries.

On the other hand, by optimizing the company's performance it is possible to convert a large proportion of both activists and inerts into advocates. It is crucial, though, to have a mechanism that monitors the changing needs and satisfaction levels of advocates – in customer management, hell knows few furies like an advocate scorned or ignored!

The ultimate goal for providers should be to increase customer loyalty by increasing their satisfaction levels – by addressing their needs better. In a customer-centred organization, meaningful performance KPIs should include *loyalty* rather than customer satisfaction measures.

Key steps

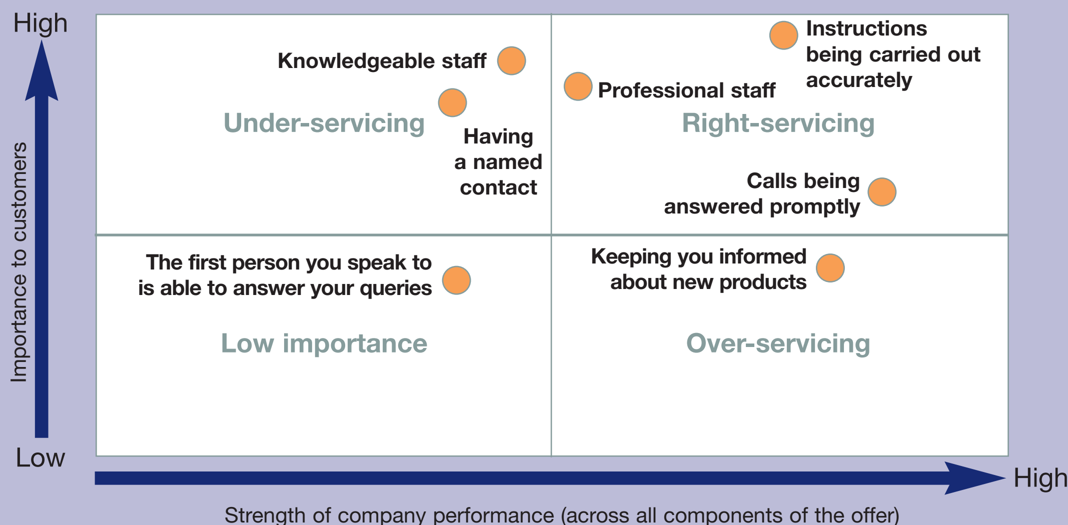
The key steps we have found to be successful in identifying service priorities and cost-cutting opportunities are shown in Figure 2.

Firstly, customer segments need to be assessed in terms of long-term customer value and profitability. These estimates should be based on both projected value and customer propensity to switch. Other factors shown by our research to be relevant for creating value include loyalty group distribution within each segment and the potential of the segment for customer acquisition.

Product, service and relationship attributes should then assessed for each segment (but excluding mercenaries) by their importance to customers (the degree to which they drive customer satisfaction) and the strength of companies' performance. Areas of service excellence, where the provider meets or exceeds customer expectations, and cases of under-

FIGURE 2: SERVICE PRIORITIES

FIGURE 3: THE CAPE™ SERVICING MODEL



servicing and over-servicing, can be identified using the customer aligned profit enhancement (CAPE) servicing model shown in Figure 3.

The CAPE model enables organizations to distil actionable insight from customer research data and use this as an input for future strategy development. Emphasis must also shift to improving performance in areas that the target customer groups really value ("knowledgeable staff" and "having a named contact" in the examples given in Figure 3). Activities that do not affect customer satisfaction and are not hygiene factors represent cost-cutting opportunities.

And, finally, implemented strategic initiatives need to be assessed in terms of their impact on profits, customer satisfaction and loyalty.

This approach provides an actionable and structured way of incorporating the customer perspective into business strategy, and enables companies to differentiate their offer profitably and to enhance performance. However, to be successful, implementation of customer-focused-strategies must be led by the chief executive and must be cascaded throughout the organization – in actions as well as words. ◻

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[1] A similar phenomenon – not surprising, as the customers are the same people – is evident in fmcg and durables retailing. Frequent sales in the furniture trade, for example, initially boosted turnover but savvy customers now wait for the big reductions – so much so that a few retailers seem to have permanent 50%-off sales, despite the regulations that are supposed to prevent this. Similarly, buy-one-get-one-frees are losing their impact in the groceries market. Not only do customers bulk-buy whilst the offers are on, but they increasingly follow the manufacturers' offers from retailer to retailer. Ed

[2] Qualitative interviews, lasting on average an hour and a half, with twenty-five chief executives of major British financial services companies, conducted by RSM Robson Rhodes consultants in June/July 2004; and 400 15-20 minute quantitative interviews with financial services consumers conducted for RSM RR in June 2004, in which respondents were asked a series of open-ended and closed questions on topics related to perception of the providers, attitudes, needs, behaviour and satisfaction.

[3] Or at least a widely-*voiced* need! Ed

[4] Actually – if only they realized it – the effects of customer loyalty are reported to the directors of almost every major life insurer at each board meeting, in the embedded value profit. This is essentially the net present value of the future stream of premiums less expenses from current business, discounted for projected customer mortality and lapses (ie customer disloyalty). This equation is the source of the remarkable leverage (a 1% reduction in lapse rates generally yields about 5% more profit *in the current year*) that surprised so many when Fred Reichheld first voiced it – see, for example, *The loyalty effect*, Boston MA, Harvard Business School Press, 1996, which I reviewed in *Argent 2.2*, March 2003. Ed

[5] That is, factors that customers take for granted as basic requirements. There is also a question of balance. For example, how many customers really want their calls to be answered on the third ring, rather than "reasonably promptly". Yet how many companies set their performance – and perhaps waste resources – on a third-ring metric? Ed

[6] See, for example, the now-classic Harvard Business Review article *Why satisfied customers defect*, by Thomas Jones and Earl Sasser – **73** 6, November–December 1995.