



Enhancing the Customer Experience and Engagement in Retail Banking

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Introduction

Enhancing Customer Satisfaction and Loyalty has been an area of focus for managers, business leaders, academics and research consultants for more than two decades. The advantages of focusing on enhancing customer loyalty are well understood, and compelling statistics around the costs associated with keeping an existing customer versus attracting a new one abound. As customer loyalty increases, so does share of spend in a given category, positive word-of-mouth, and retention rates.

To monitor performance and focus improvement efforts, many organizations rely on customer feedback systems. Today, a variety of disparate measures exist across these feedback systems when assessing loyalty. Some organizations still use customer satisfaction as a proxy for loyalty; others rely on the Net Promoter Score (an advocacy based measure); still others incorporate retention measures to gauge stated loyalty and link it to actual behaviors.

Since our inception in 2000, PeopleMetrics has played an important role in the evolution of customer loyalty measurement, interviewing close to 600,000 customers in service industries. Over the years, the findings from our primary and secondary research have led us to the development of our Customer Engagement model.

The PeopleMetrics Customer Engagement model takes today's common metrics of 'loyalty' to a different level. Not only do we track a customer's willingness to return to and recommend an organization, but we also assess whether or not a customer would go out of his way to continue doing business with a company and if he feels passion, even love, for the brand and experience.

Our point of view is that organizations should go beyond providing a satisfactory experience to customers. They should instead strive to engage them by developing a rational and emotional connection. As this is accomplished, an engaged customer will have a strong bond with the company, making it harder for competitors to attract them.

To understand the role of Customer Engagement in the service industry today, PeopleMetrics launched The Most Engaged Customers Study in 2008¹. This annual study focuses on:

- Quantifying the impact that Customer Engagement has on business performance
- Identifying the key drivers of Customer Engagement and industry differences
- Ranking companies according to levels of Customer Engagement

Information on our approach and key research findings follow.

Research Methodology

Sample Profile

Overall Study

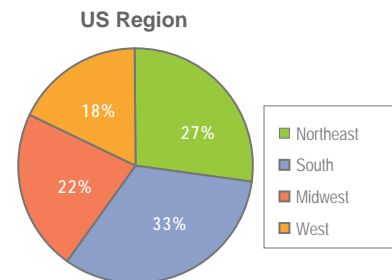
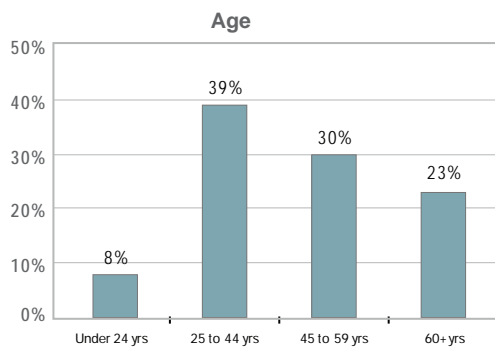
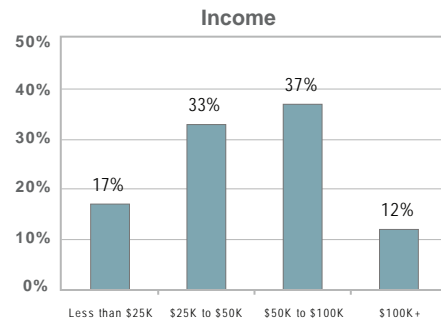
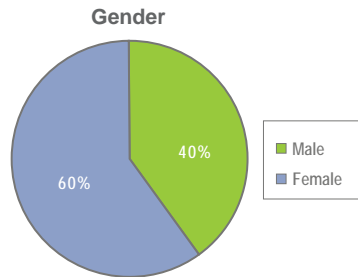
Partnering with Greenfield Online, PeopleMetrics conducted close to 10,000 online interviews across four service-based industries: Casual Dining, Hotels, Retail and Banking.

To ensure a diverse representation in our study, PeopleMetrics and Greenfield reached out to a nationally representative sample of the US population. The final distribution of customers across main groups is within +/- 10 points of the U.S. Census figures. This was expected upon a review of the brands that customers were asked to rate²: half of the company list consisted of Retail stores and many of these, for instance, were skewed towards female buyers.

Still, as illustrated by the charts included on the following page, the overall representation of different demographic groups is strong and, most importantly, in line with the profile of customers of the brands included.

¹ Data for The Most Engaged Customers Study (2008) was collected in Q3 2007.
² A comprehensive list of brands included in the study is provided in the appendix.

Study Demographics



Banking Sector

With regard to the Banking Sector, 2,298 interviews were completed among customers of the following retail banks:

Bank of America	KeyBank
BB&T	National City Bank
Capital One	PNC Bank
Citibank	Sovereign Bank
Comerica Bank	SunTrust Bank
Commerce Bank	Wachovia Bank
Compass Bank	Washington Mutual Bank
Countrywide Bank	Wells Fargo Bank
Fifth Third Bank	
JPMorgan Chase Bank	

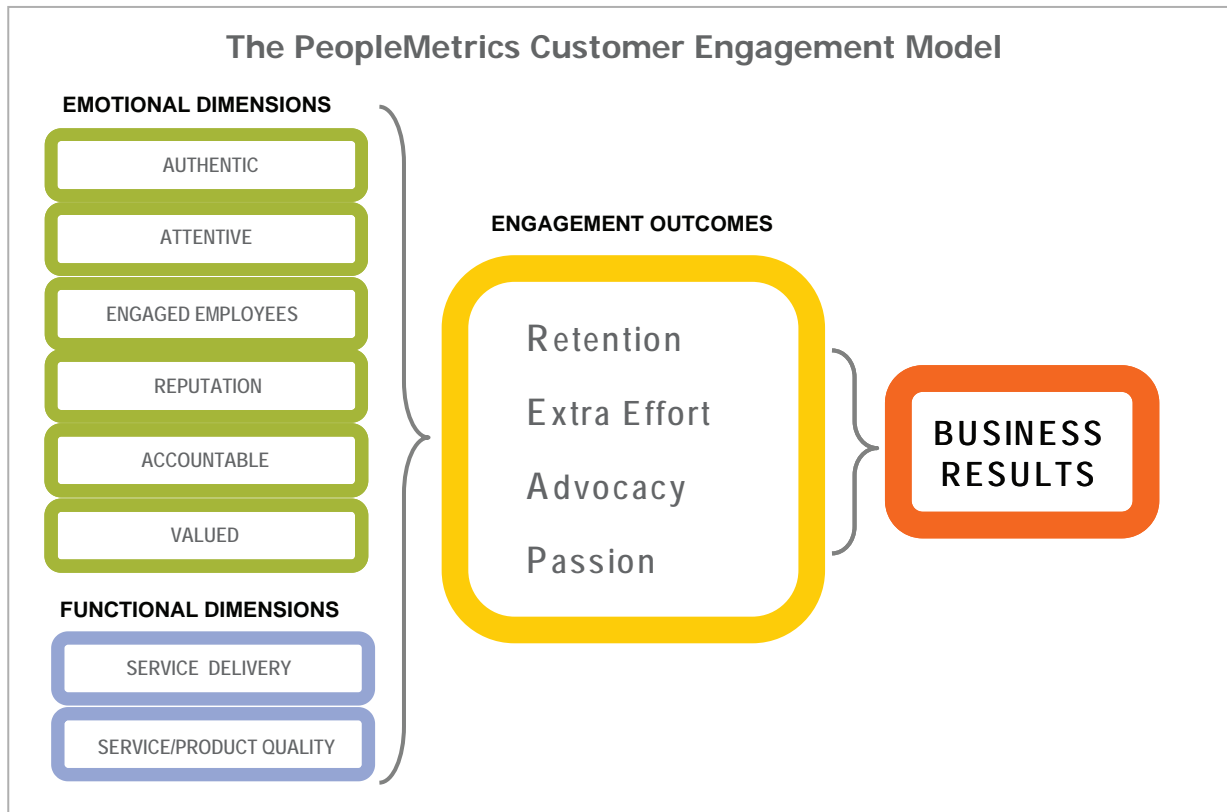
Survey Design

The survey asked customers to rate two of over 100 service providers on a recent (within the last three months) service experience along a number of dimensions. Specifically, questions related to:

- Overall levels of Customer Engagement (Retention, Effort, Advocacy and Passion)

- Functional elements of the service experience: quality and variety of products and services, cleanliness, appearance of service setting, and overall efficiency of the service process.
- Emotional elements of the service experience: problem resolution, company reputation, brand, employee attitudes and behaviors.
- Open-ended commentary: Actions taken because of an outstanding or poor service encounter, reasons for feeling passionately connected to an organization and detailed description of problem experiences.

The graphic on the following page depicts the PeopleMetrics Customer Engagement Model that consists of eight overall dimensions: six emotional and two functional in nature. Questions in the study were asked in support of these.



Financial Analysis

To gain insight into the relationship between Customer Engagement and Business Performance, we conducted a financial analysis among customers of all publicly traded companies included in the study. Key steps in this analysis are listed below:

Step 1: Identifying High and Low Performers

The first step in this analysis was to segment all brands into high and low performers based upon their Customer Engagement Index (% Engaged Customers³).

- To accomplish this, we calculated the average level of Engagement for each company in the study and defined high performers as those with Engagement at least two points above the average and low performers with Engagement at least two points below the average (Average Engagement Index = 54%). Companies that did not meet our criteria were excluded from the analysis.

Step 2: Gathering Financial Data

For each publicly traded corporation⁴, the following year-over-year (Q3 2006 to Q3 2007) financials were gathered:

- Return on Assets
- Return on Investment
- Revenue Growth
- P/E Ratio
- EPS (Earnings per Share)

Step 3: Correlating Engagement to Financials

The next and final step was to determine the average financial score for each metric across companies in the low vs. high Customer Engagement groups and compare the performance of these groups.

Key Findings

Does Customer Engagement Impact Business Performance?

As discussed above, companies were classified into two groups based on their Engagement

³ Engaged Customers are defined as those who Agree or Strongly Agree with our four Engagement Questions (Retention, Effort, Advocacy and Passion)

⁴ Engagement scores for brands from the same parent company were combined together in this analysis.

levels. As described in the illustration below, there is a 16-point gap in Engagement levels between those that perform well (62%) and those that perform poorly (46%).

Based on the results of this analysis, we were able to validate our hypothesis that companies with high levels of Customer Engagement perform better financially than companies with low levels of Customer Engagement.

Across all financial metrics analyzed, companies with high Customer Engagement outperform the industry average.

- High-performing companies are able to yield an annual average increase of 8% on Return on Investment above the industry average, while low-performing companies experience a 23% decrease below the industry average.
- The annual revenue growth for high-performing companies is 13% above the industry average, while the average for low-performing companies is 36% below the industry overall figure.
- The average P/E ratio of high-performing companies is 14% above the industry average, while low-performing companies stand at 18% below the industry average.

Comparisons for the financial metrics analyzed are illustrated in the chart to the right:

Taking a Closer Look at the Banking Sector

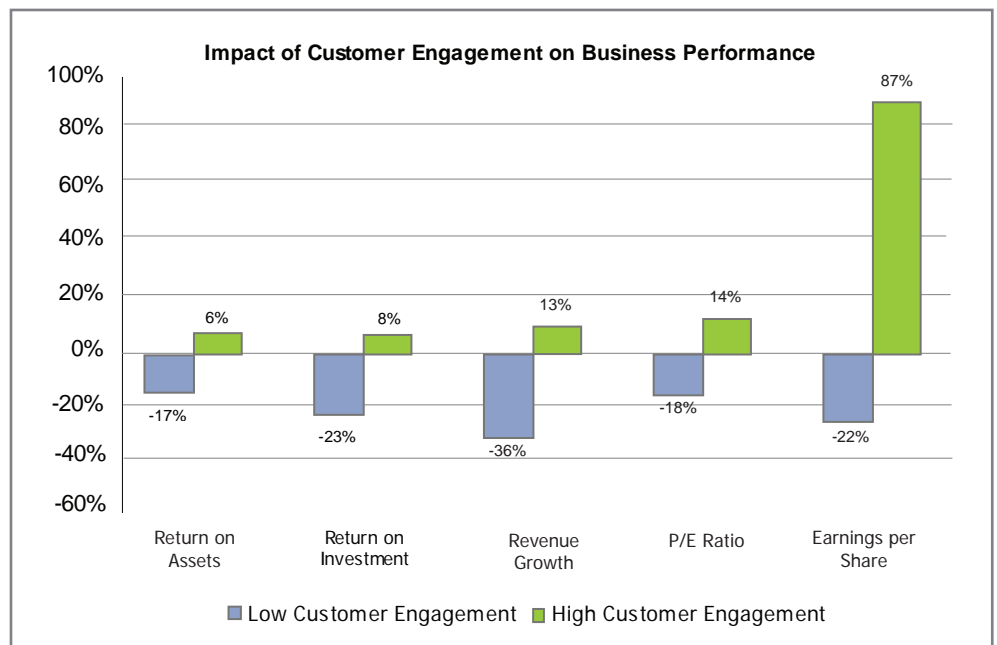
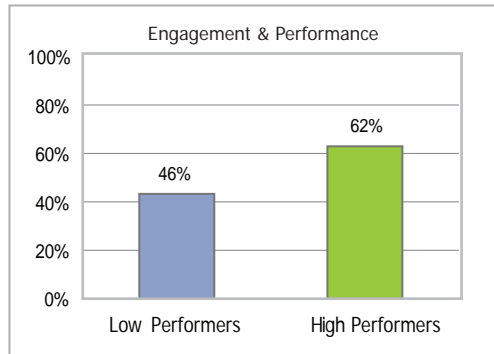
Impact of Customer Engagement on Business Performance in the Banking Sector

The financial analysis was also conducted within the Banking Sector. Not surprisingly, trends observed in the overall analysis held true across this sector:

- Institutions with low Customer Engagement are more likely to perform below the industry average than those with high

levels of Customer Engagement across the financial metrics analyzed.

- The average annual Return on Equity rate for high-performing retail banks is 4% above the industry average, while low-performing institutions yield, on average, a ROE that is 1% below the industry average.
- The annual revenue growth for high-performing retail banks is 6% above the industry average; while



the average for low-performers is 11% below the industry overall figure.

Additional Insights into Customer Engagement in the Banking Sector

To identify trends specific to the Banking Sector, a separate analysis was undertaken focusing on perceptions and feedback from customers of retail banks. For a complete list of institutions included in this research, please refer to page 2.

The main research questions driving our efforts were:

- 1) What can retail banks do to improve Customer Engagement levels?
- 2) Do the Customer Engagement drivers within the Banking Sector differ from the overall drivers of Customer Engagement? If so, how are they different?
- 3) Which retail banks have the Most Engaged Customers today?

What can retail banks do to improve Customer Engagement levels?

Having confirmed the direct relationship between Customer Engagement levels and financial performance, a driver analysis⁵ was conducted to identify the most influential factors impacting Customer Engagement in the Banking Sector.

The analysis showed that retail bank customers

are engaged most by emotional drivers, with one functional area playing a key role:

Emotional Dimension #1 - The Need to be Valued

Customer Engagement is largely driven by the employees' ability to enhance the self-esteem of their customers. Providing consistent service quality, valuing customers and fulfilling promises positively impact levels of Engagement.

Emotional Dimension #2 - The Impact of Engaged Employees

Engaged employees have a direct impact on Customer Engagement as well. An engaged employee will go the extra mile to offer a positive customer experience. Based on our research, employee engagement is best portrayed by employees who love their jobs, make the customer experience fun and go above and beyond expectations.

Functional Dimension #1 - The Quality of the Service Environment

The actual physical environment of any establishment is also a key driver of Customer Engagement within the Banking Sector. A convenient location and the availability of a variety of offerings are essential to securing Engaged customers.

Do the Customer Engagement drivers within the Banking Sector differ from the overall drivers of Customer Engagement? If so, how are they different?

The table shown compares the Customer Engagement drivers within the Banking Sector

Engagement Dimension: Survey Item	Driver Rank	
	Banking	All Industries
Valued: In general, the employees I interact with value me as a customer	1	1
Service Quality: In general, COMPANY is convenient	2	4
Service Quality: There was an appropriate variety of product/service offerings	3	2
Valued: In general, the employees I interact with make good on their promises	4	6
Valued: In general, the employees I interact with provide a consistent level of service quality	5	3
Engaged Employees: Employees made the experience fun	6	5
Service Delivery: The Service Process was efficient	7	7
Engaged Employees: Employees appeared to truly love their jobs	8	
Engaged Employees: Employees went above and beyond to meet my needs		8
Valued: In general, the employees I interact with treat all customers equally		9

⁵ Multiple regression techniques were employed to help uncover the key drivers of Customer Engagement. A key driver is an area that, if worked upon, will have a significant impact on levels of Customer Engagement – it is the "make a difference" element of the customer relationship when it comes to driving desired attitudes and behaviors.

to the overall drivers of Customer Engagement for all service industries (which also take into account Retail, Casual Dining and Hotels).

As can be noted, there is a fair degree of overlap between the two. This confirms that, regardless of industry, Customer Engagement is impacted by more than just the functional elements of the experience and can be maximized through the development of an emotional connection with customers.

Which Retail Banks Have the Most Engaged Customers Today?

Out of the eighteen financial institutions included in our study, Compass Bank and Citibank have the highest Customer Engagement levels today.

Rank	Organization
1	Compass Bank
2	Citibank
3	Commerce Bank
4	Wachovia Bank
5	PNC Bank
6	Countrywide Bank
7	BB&T
8	JPMorgan Chase Bank
9	Capital One
10	SunTrust Bank
11	KeyBank
12	Fifth Third Bank
13	Sovereign Bank
14	Washington Mutual Bank
15	Bank of America
16	National City Bank
17	Comerica Bank
18	Wells Fargo Bank

Supporting our findings on what drives Customer Engagement, customers from these top two corporations praise the employees and the quality of service at these locations. Below is a sample of the comments from customers who “love” doing business with Compass Bank and Citibank:

- “[Compass Bank has a] friendly atmosphere and greeting. You never have to wait on assistance.” (Compass Bank Customer)
- “It’s all about the service. The

employees are so friendly and it makes all the difference in the world to me.” (Compass Bank Customer)

- “Exceptional service! Even though they couldn’t help me one time, the employees went out of their way to be helpful.” (Citibank Customer)
- “I always feel I am treated very nicely by them with their prompt response to my inquiries.” (Citibank Customer)

Additional Insights from the Overall Research

The wealth of data collected through this research has also given us the opportunity to study trends across sub-groups and explore the impact of service experience on Customer Engagement levels. A few additional insights that may help target research efforts to different audiences and guide the interpretation of results are:

- Overall, 54% of customers nationally can be considered engaged.
- Older customers (60+ years) are less likely to be engaged than younger customers.
- Engagement levels vary by industry.
 - o Out of the industries included in our research, Hotels yielded the highest levels of Customer Engagement, while Banking yielded the lowest.
- Drivers of Engagement do not vary greatly across industries.
 - o The overlap between industry-specific drivers and overall drivers of Engagement is evidence that, regardless of industry, Customer Engagement is impacted by more than just the functional

elements of the experience and is maximized through the development of an emotional connection with customers.

- Through word-of-mouth, both engaged and disengaged customers will influence the opinion of potential customers.
 - o In addition to developing a bond with the organization, a portion of engaged customers will also speak publicly about their experiences. A few examples are included below:
 - “I have posted a critique on their site about how nice [they] are.”
 - “On Yahoo! Answers, I told someone asking for the best [type of company] to go with them.”
 - o Similarly, actively disengaged customers also spread their poor opinions publicly:
 - “I have called the company more than once. I have posted opinion polls online. I have emailed the company. I have contacted the bank directly and I have told friends and family the problems that I have had with them.”
 - “I called and spoke with [the] manager, discussed [my] experience with friends and family, and also posted on national and local discussion forums regarding the experience.”
- Other actions taken by actively disengaged customers include: bringing the negative experience to the attention of the organization’s managers or customer service, as well as often saying that they will

“never return.”

- A successful problem recovery process is essential in maintaining your customer base: more than half of customers who experience a problem that is handled well by the organization are engaged. On the contrary, only 15% of those who do not believe that the organization handled their problem well are engaged customers.

Implications for the Reader

Clearly, a focus on Customer Engagement will make a difference to your business. Retail banks that engage more of their customers have better financial results than those that fail to engage. Engagement is going to be impacted by a combination of functional (convenience, cleanliness, choice, efficiency) and emotional (feeling valued, having fun, trusting in the consistency of service delivery) elements of the experience.

In thinking about how this research applies to your business, you should consider the following:

- 1) **Do you know how engaged your customer base is?**
 - More than a single measure of advocacy or retention, Customer Engagement introduces an emotional element to the measurement process. Are you currently measuring these emotional pieces? Do you know what proportion of your customer base would strongly agree that they would go out of their way to visit one of your branches, recommend you, come back, and feel passionate about you and your brand?
- 2) **Do you know how your customers segment based upon Engagement?**
 - It is important to know your

overall level of Engagement, but also to uncover the proportion of customers who are: fully engaged, engaged, on the fence and actively disengaged. Those in the lowest segment can spread viral word-of-mouth affecting your brand strength and reputation. Those sitting on the fence represent an opportunity for movement, an increase in Engagement scores and, more importantly, positive behaviors.

3) **Do you know what drives Customer Engagement for your unique customer base?**

- While the above findings are useful and provide insight for all retail banks, the drivers of Customer Engagement may differ for your customers versus those of a competitor. The drivers may be built off your unique position and brand promise. As such, they need to be customized to your organization. Conducting your own driver analysis will give you a well-rounded assessment of factors with the highest impact on Engagement within your organization.

4) **Do you currently collect and respond to real-time feedback from your customers?**

- Gone are the days of having to wait several months to receive results from a customer satisfaction or loyalty study. With technology and the Internet, companies can collect real-time feedback from customers. This feedback can be shared with the organization through Real-time Alerts that immediately communicate positive and negative customer feedback. Positive feedback should be used to recognize and reinforce the positive behaviors of the internal team. Negative

feedback can be used to guide improvement efforts and attempt a 'win-back' opportunity with a customer.

5) **Do you know how well your employees are handling problems?**

- A problem that is handled poorly can lead to a truly disengaged customer, but a problem that is resolved effectively can turn that disgruntled customer into a true advocate of your brand and services. By collecting customer feedback in real-time, you will have the opportunity to follow-up with at-risk customers, helping to enhance your overall problem recovery process and, ultimately, boost your retention rates.

6) **Do you track Customer Engagement over time to assess improvements and setbacks?**

- Not only should you strive to understand what drives Customer Engagement for your organization, but monitoring these trends over time is also critical. By analyzing Customer Engagement levels on an ongoing basis, you will be able to determine the success of actions implemented and to identify areas of concern.

7) **Do you know how the Engagement of your employees impacts the Engagement of your customers?**

- There is strong evidence in our research, as well as other academic and business publications, that engaged employees help to create engaged customers. The magical moments by which a loyal, passionate customer is created are dependent upon the people in your organization. Furthermore, customers have told us through this research that their views of an institution

are impacted by how much fun the employees are having and making throughout the experience. This 'fun' experience only occurs through engaged, dedicated employees. If you aren't already doing so, you should understand the levels of Employee Engagement in your population and what drives employees to go above and beyond for your customers.

- prepared by Kate Feather and Yvone Chun

About the Authors:

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Detailed results from the 2008 Most Engaged Customers Study are available online through the PeopleMetrics nGauge™ Hub reporting tool. For more information about the PeopleMetrics Customer Engagement research or to inquire about the nGauge™ Hub, please contact: Kate Feather, Executive Vice President, People Engagement at: 215.979.8037 or via email: kfeather@people-metrics.com.

Appendix

Banking
Bank of America
BB&T
Capital One
Citibank
Comerica Bank
Commerce Bank
Compass Bank
Countrywide Bank
Fifth Third Bank
JPMorgan Chase Bank
KeyBank
National City Bank
PNC Bank
Sovereign Bank
SunTrust Bank
Wachovia Bank
Washington Mutual Bank
Wells Fargo Bank
Casual Dining
Applebee's
Bob Evans
Chili's
Cracker Barrel
IHOP
Olive Garden
Outback
Red Lobster
Ruby Tuesday's
Texas Roadhouse
Hotels
Choice Hotels
Hilton
Marriott
Ritz-Carlton
Starwood
The Four Seasons
Wyndham
Retail
Apparel
Abercrombie & Fitch
Aéropostale
American Eagle Outfitters
Ann Taylor
Chico's
Foot Locker
GUESS
J. Crew
Men's Wearhouse
Nine West
The Gap
The Limited
Urban Outfitters

Department
Dillard's
JCPenney
Kohl's
Macy's
Nordstrom
Saks Fifth Avenue
Sears
Discount
Big Lots
BJ's Wholesale Club
Costco
Dollar General
Dollar Tree
Family Dollar
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Avis Rent A Car
Budget Rent A Car
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Hertz Rent A Car
Specialty
Barnes & Noble
Bed Bath & Beyond
Claire's Boutique
Office Depot
PetSmart
Pier 1 Imports
Staples
Williams-Sonoma
Technology
Best Buy
Circuit City
GameStop
RadioShack