CUSTOMER SATISFACTION = FINANCIAL PERFORMANCE

By Jeffrey Remsik, President/CEO
Bottom Line Marketing & Public Relations

It is universally recognized that the banking industry is relationship based — so much so that the word "relationship" is threatened with being almost meaningless. A banking reporter friend of mine echoes the comments of many others: "All banks say they're a relationship-based bank."

At the same time, the banking industry continues to struggle in the current economic environment. The FDIC list of troubled banks totals around 800, and 157 banks failed in 2010, another 23 have failed so far in 2011. Home foreclosure levels remain historically high. The turbulence has brought layoffs — and increased regulatory scrutiny.

Examining Relationships

Understanding the impact of these ongoing industry swells on the relationship between a bank and its customers is mission critical. Recent research from the Customer Relationship Index probed the nature of the customer's relationship with commercial banks. Relationship indicators included:

- Mutual control, or the power balance between customers and their banks
- Satisfaction
- Trust
- Commitment

The research included attitude and behavioral intent to test the impact of relationship indicators on these factors, as well as an analysis of the associations between financial data and the relationship indicators.

Finding Satisfaction

The research outcomes highlight that awareness starts a relationship; that relationships start business transactions; and that satisfaction drives repeat transactions. For example:

- Satisfaction was the most influential relationship indicator of customers' supportive attitudes toward the banks.
- Surprisingly, mutual control does not impact bank customers' supportive attitudes, nor does it negatively influence their attitudes.
- Customers' attitudes had the most significant positive influence on their actual and intended behaviors.
- The perception of trust among bank customers did not have significant impact of their attitudes toward banks.
- While the majority of bank customers believed their banks treated them fairly, most did not believe they had much influence with the decision-makers at their banks.
- Local community bank customers rated their banks more positively across all the relationship indicators than large bank customers.
- Local community bank customers showed the highest levels of satisfaction, trust, commitment and mutual control.
- Local community bank customers provided the highest ratings of overall quality of relationship with their banks.

Financial Performance

The research also looked at the relationship between these indicators and bank financial performance. The primary finding from the financial analysis was that publicly-traded banks' financial performance tends to improve as

BOTTOM LINE
Marketing & Public Relations
600 W. Virginia St., Suite 100
Milwaukee, WI 53204-1551
414-270-3000 414-270-3015 fax
www.blmpr.com

customer relationship scores increase. Specific results included:

- Short-term return on assets (ROA) and equity (ROE) are inclined to increase with higher customer satisfaction scores (the bank is more efficient and profitable).
- Near term deposit growth tends to increase with higher satisfaction scores (existing and new customers want to do business with the bank).
- Selling, general and administrative expense levels tend to decrease as the score increases (satisfied customers are less expensive to service).
- Short-term profit margins and revenue growth tend to increase as satisfaction scores increase (cost are controlled while sales increase).

Strategy for Success

Why did the founder and CEO of a major architectural firm agree to be interviewed by the Financial Times?

Why did the senior research director at the regional utility company agree to spend an hour conducting a one-hour webinar for the readers of Hart Energy publications?

Why did the local bank president agree to present at the regional economic development conference?

The answer to all three questions: awareness.

Business people with influence and spending power learned about the CEO's architectural firm. The utility executive directly interacted with existing and potential customers. And the bank president networked with key business and political leaders.

Why do these people want to generate awareness through tactics like publicity, webinars and speaking opportunities?

The answer: to build relationships.

By improving relationships with key audiences, the bank can increase its customer satisfaction levels. In turn, customers' attitudes will become more supportive and positive. This will drive positive word-of-mouth and increase customer retention. Additionally, the bank can become more efficient and profitable.

While everyone might agree on the value of the strategy, the question becomes: can we develop an effective plan we can consistently execute over time and measure its impact?

We have a positive answer to the question. A Relationship Marketing Plan can help your bank increase awareness and drive positive word-of-mouth messages. Send an email to info@blmpr.com for more information about building new and enhancing existing relationships with key audiences.

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