Customer Loyalty

by Steve Brown

You find them at the grocery store, at the gas station and all the airlines offer them. We are speaking of rewards programs of course. Earnest salespeople implore each customer to sign up for the program, saying you merely have to keep the card in your pocket and then strange and wonderful benefits will begin to flow your way. There are instances where people actually use a given card provider enough to receive benefits, but often such programs are nearly impossible to ever generate enough points to reach the prize. Rewards programs can feel a bit like the guy at the carnival asking you to throw a tennis ball through the clown's mouth. Pay just one more time and we will add a bonus throw just for you. For sure this time you'll win that big stuffed animal.

There are numerous reasons companies use rewards programs. Tracking customer behavior is one, but the primary reason is to generate repeat business. The first rewards program began in 1981 with the American Airlines frequent flyer program. Analysis by its then CEO found that a tiny percentage of customers generated a huge percentage of the company's revenues. That percentage was made up of business travelers who cared little about the price of individual tickets. American also found that to most consumers, all airlines are essentially identical. Thirty years ago service industries were much less commoditized than now and they certainly didn't readily admit this, so it was an important realization. In order to convince the airline's most profitable customers to repeatedly return when the service provided was the same as that of competitors, American created a program to offer good customers a meaningful prize - an occasional free flight or a bump to first class.

Since then, many kinds of businesses offer rewards cards in order to distinguish themselves from competitors. This probably makes sense for truly generic industries like car rental companies or gas stations, but for others it depends. Before launching one, ask whether it is really a better tactic than distinguishing oneself through service or quality. Sometimes, rewards programs can end up being another means of competing on price and so often, competition based on price benefits the largest organizations.

Like American Airlines, many banks have rewards programs. Typically in our industry, the rewards come through use of a debit or credit card. Points can go towards purchases when redeemed or even small cash rewards. The success of this method in building business relies upon the idea that a discount or reward is the most important factor in a customer's decision. If we take a moment to question that conventional wisdom and ask what card has the highest level of customer satisfaction, studies find it is American Express. Interestingly, the primary reason for the top ranking is not their rewards program, but their problem resolution ability and service.

Don't get us wrong, as there can be good reasons to have rewards programs and there is nothing wrong with them. In a business with no product or service differentiation, they can be a good way to compete, which is why you see them commonly in debit or credit card usage. Community banking is not that generic, though, so our advice is not to use a rewards program simply as a crutch. Instead, strive for exceptional service (as we know you do) and offer quality products (that solve customer problems). In the end, studies find those factors are how the most valuable customers determine where they do business.

BANK NEWS

NIM Compression

Fed research finds interest rates offered by the 25 largest banks on commercial loans slipped from 7% in 2006 to less than 3% now.

Smartphone

McKinsey research finds about 5Ys ago some 60% of phone use was for talking vs. only 20% today. Community bankers should have a plan since so many people are now using phones to text, email and look at videos.

M & A

Research by Hovde Group finds M&A activity each year as a percent of total FDIC insured institutions has been running 4% to 5% over the past 4Ys.

C & I

If you wonder why it is so difficult to originate C&I loans, consider FDIC research finds 11% of community banks in 1984 specialized in C&I (more than 33% of their portfolio) lending vs. only 2% now. Clearly training and competition are an issue if bankers are going to grow this area of the loan portfolio.

Mobile Marketing

The Mobile Marketing Association reports mobile coupons get 10x the redemption of traditional coupons.

Customers

: Research by Ernst & Young finds the percentage of retail banking customers with one or multiple banking relationships shifted sharply from 2011 to 2012. During that period, customers who said they had one relationship fell 24% (to 31%), those with two bank relationships declined 3% (to 37%) and those with three or more jumped 52% (to 32%).

Customer Targeting

A Korn/Ferry survey of chief marketing officers at top US companies finds the most popular channels used to engage with customers are through online advertising, Facebook, events, email and Twitter. Those that ranked at the bottom as least popular channels were using print mailers, television advertising or other employees.

Social Banking

Gallup finds people who use social media to find information about a bank product are 18% more likely to become a customer than those who research other ways.