Customer Retention And Profitability

profitability business customers customer retention

Summary: Improving customer retention can also enhance customer profitability. You may want to consider some of these ways to boost both.

The latest annual global survey of CEOs by PwC surfaces some interesting points for community bankers. For example, the top threats identified for this year include over-regulation (35%), policy uncertainty (35%), availability of key skills (34%), trade conflicts (31%) and cyber threats (30%). These cut across all sorts of countries, but so many apply to community banking here in the US that we thought we would highlight it for you today.

Speaking of things to highlight, nearly every community banker we know thinks relentlessly about customer growth and opportunity. Improving customer retention can play a significant role in enhancing customer profitability as well. While effective customer retention and cross-selling efforts involve much more than data mining and business intelligence reports, reporting plays a key role. Every customer retention program should consider the following important areas to glean important insights:

Cross-Sell Opportunities - The value of cross-selling is far greater than the simple value of capturing additional wallet share. It is a critical component of customer retention. Studies show the more products a customer uses, the lower the likelihood they will leave. For example, if a customer only has a checking account at a bank, there is a 50% chance of losing that customer in any given year. However, if that customer has a checking and a savings account, the probability drops to 10%. Those banks that can add a loan to the mix can push the probability of defection down to 2%. Knowing which customers to cross-sell and what products make sense play a huge roll in retention.

Early Warning Analytics - Retention program analytics can detect which customers are most at risk of leaving a bank. Used properly, an early warning system with proactive follow-up by staff can cut deposit attrition by 50%. Such systems analyze account activity, the depth and type of relationship the customer has with the bank, and the length of customer relationship. Even tracking simple metrics, such as the length of customer relationship and type of products utilized, can help identify high-risk customers.

Tracking - You can't manage what you don't measure. Unfortunately, many bank's core systems don't easily highlight the customer churn that occurs every day. The typical branch may open 60 checking accounts a month, while it closes 50. At a minimum, bankers should track the number of account openings and closings at the branch level. The simple art of measuring this metric and communicating the results to staff will lead to improved customer retention.

Continual Touch - Increasing the number of customer marketing "touches" also helps. Customers that receive calls, emails, direct mail or visits 18 times per year or more, have a much higher likelihood of staying with the bank. That is the math, but are you doing this or can more be done? It might be time to take a look perhaps, as you seek to continually improve.

Improving customer retention is one of the best ways to boost profitability. For additional information or to continue this discussion, please email me back or contact the Performance Advisory Team at (888) 399-1930.

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