

Collective Dynamics



September 2003

Customer Loyalty & Retention
Research Prospectus

COLLECTIVE DYNAMICS

Driving Customer Loyalty and Retention

INTRODUCTION

It has been reported that it can cost up to 5 times more to gain a new customer rather than make changes to keep your current customers. As such, increasing customer loyalty and retention can have a dramatic impact on bank profitability. In this syndicated study, Collective Dynamics (CD) is conducting primary consumer research to determine what drives consumer loyalty.

We believe the results of this research will greatly benefit financial institutions that want to keep the consumers they have, gain a greater "share of wallet," attract new consumers, and focus their resources where they will have the greatest return.

BACKGROUND

Over the last 10 years, financial services organizations have invested time, people, and money in measuring, managing, and maximizing "customer satisfaction." For many organizations, the focus on customer satisfaction has not brought about the significant increases in loyalty or retention for which they had hoped. Why is it that customer satisfaction does not seem to translate directly to customer loyalty? Are customer satisfaction measurement efforts meaningless? Was the whole focus on improving quality and understanding customers needs just a waste of time? We don't think so.

We believe that the reason is that "satisfaction" should not be the only goal. Satisfaction is a "minimum requirement" for customers. It is not a discriminating variable when considering good competitive offers. The delivery of a "satisfying" experience does not create loyal customers. The bottom line is "satisfaction," as a measure of customer commitment, does not correlate well to the customer behavior you want to create and maintain...Loyalty and Retention.

While the concept of "satisfaction" makes a lot of sense at the macro level, it is not sufficient for setting goals and targets for organizations that want to win the battle for customer loyalty. For organizations that want to drive loyalty and retention, we believe that **Customer Perceived Value (CPV)** provides a much stronger link to Loyalty and Retention. CPV is a measure that asks customers, "For the price you pay in terms of time and money, is what you get in return (product, quality, etc.) a good value?" How customers rate CPV directly correlates to their willingness to continue doing business with you, consider doing more business with you, and giving positive recommendations to others.

OVERVIEW

Your image, brand, and everything you do as an organization can impact the CPV. From the quality of the experience with customer service reps, to the image of innovation associated with your product offering; from convenience of working with you, to the prices charged for the products and services. All of these elements contribute to the CPV. These components of the CPV are the critical elements that will impact customer behavior. The higher the CPV, the higher the loyalty and retention. But which of these matter most to the consumer, and where are your greatest opportunities for improvement?

Collective Dynamics' primary research will determine the primary drivers of CPV among financial services customers. The output will be the identification of the factors that have the greatest "impact" on CPV. We will also determine the specific relationship between CPV and loyalty and retention. We will understand the range of performance across competitors, and where the largest gaps or opportunities exist. This type of analysis can be helpful when creating a specific road map for maximizing CPV to drive loyalty and retention.

The approach outlined in this Research Prospectus should be considered a starting point of a program for ongoing evaluation of CPV at your organization. While the research does not fully answer the "cost/benefit" question surrounding making changes, we believe it will provide important insights into improvements that have the greatest potential from a consumer perspective.

TOPIC

The focus of this research is to determine:

- How CPV links to customer loyalty and retention?
- What are the CPV “drivers” in the financial services market?
- How do the “drivers” of CPV link to loyalty and retention?
- How do different competitors compare in terms of CPV?
- How does your organization compare to the CPV industry averages? (Optional)
- What are the biggest CPV issues/opportunities for financial service providers from a customer perspective and what is the potential payback in terms of consumer retention and loyalty?
- What percentage of customers are loyal? What percentage are “available?” What is their profile? What would make them loyal?
- Do CPV perceptions differ based on behavioral and/or demographic characteristics?
- We will focus on the overall banking relationship and the checking account product, which is generally a key driver in the bank relationship.

COST

The cost for the basic study is \$10,000, plus any travel expenses related to presenting the findings at your site. Prices to survey your actual customers for comparison to industry norms or specific peers can be quoted upon request. Please call for specific pricing and to discuss options.

APPROACH/METHODOLOGY

CD will coordinate with key clients at the start of the research to identify/confirm the key points of customer interaction and define customer expectations. This will help us to develop a hierarchy of measures that will link to CPV and drive customer behavior.

These discussions and Collective Dynamics’ industry experience will be used to create a survey that will be administered via on-line surveying techniques. Each respondent will be asked to evaluate 2 providers with whom they have experience (primary financial institution and other). They will be asked to rate the performance of each provider across the points of interaction, as well as on price and image attributes, overall quality of products and services, and CPV. Finally, the respondent will be asked the likelihood they will continue to buy from the provider, buy more from the provider, and tell others that the provider is a good organization to do business with.

Using multiple regression techniques, we will determine the relationship between price, quality, and image and their CPV. Then, we will determine the relationship between CPV and customer behavior. The result will be a straight forward “blue print” of those critical few areas that, when performed at a high level, will drive customer loyalty and retention.

DELIVERABLES

Industry level management presentation and report including:

- Presentation at your site
- Detailed appendix and presentation content
- CPV drivers, benchmarks, and improvement simulator model the potential impact CPV improvement has on retention and loyalty
 - Allows cost-benefit analysis of those improvements
- Survey data, etc.
- Comparison of your organization’s ratings to group averages and “high performers” (Optional)
- Conclusions, recommendations, and strategic implications

Optionally, participants can have their own customers included in the survey that will allow CD to provide a confidential comparison to group averages and “high performers.” Additional costs for this will be discussed on an individual basis. From this analysis, an individualized action plan can be created for your organization.

STUDY DATES

The study will begin in September and will be completed by early November 2003

CD QUALIFICATIONS

Collective Dynamics' staff members have over a hundred years of experience in the financial services and payments arena. We have managed a broad array of traditional and alternative payment studies (credit card, ATM/EFT/Debit, Internet banking, ACH, etc.) so we understand the core issues and challenges facing stakeholders in the recurring payments arena. Collective Dynamics staff members also have extensive market research experience and specific skills and experience in the area of conjoint analysis and predictive modeling research. In the past year alone we have delivered research to a broad range of players in the payment system, including:

- Bank of America
- CheckFree
- Concord EFS
- Coca-Cola
- Federal Reserve
- FleetBoston
- Global Payments
- Hypercom
- JP Morgan Chase
- MasterCard
- Unisys
- US Bank
- Visa
- Wachovia
- Washington Mutual
- Wells Fargo Bank

PROPERTY RIGHTS

Collective Dynamics retains all rights to the data and conclusions. Study participants are free to use the study results within their organization/holding company but may not share or divulge study information in any form with any other party without the express prior written consent of Collective Dynamics.

CONTACT INFORMATION

To sign up for this study or for questions or further information regarding this study, please e-mail or call:

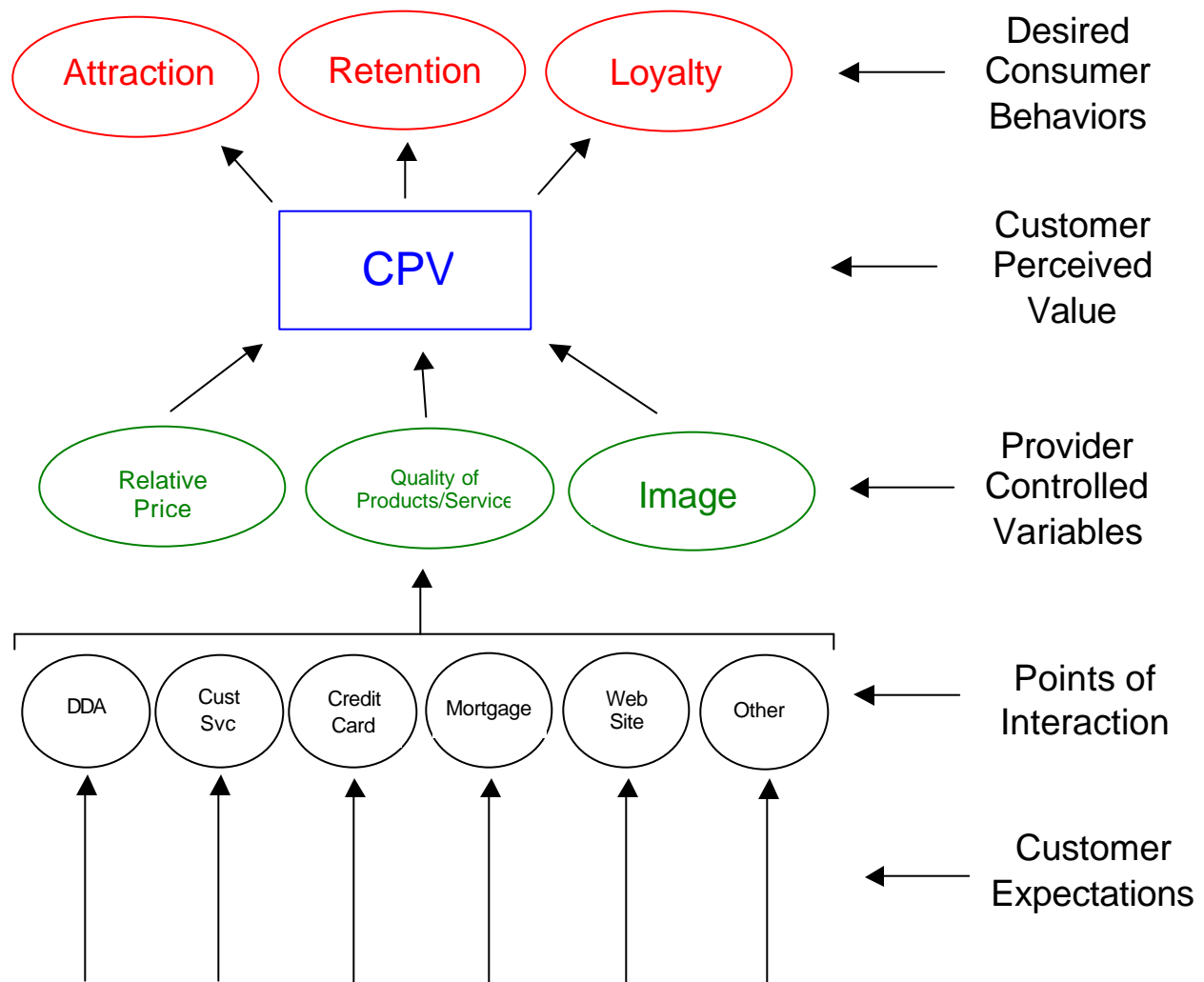
Steve White
Collective Dynamics, LLC
770-392-9944
swhite@coldyn.com

Collective Dynamics Customer Retention & Loyalty Research Study

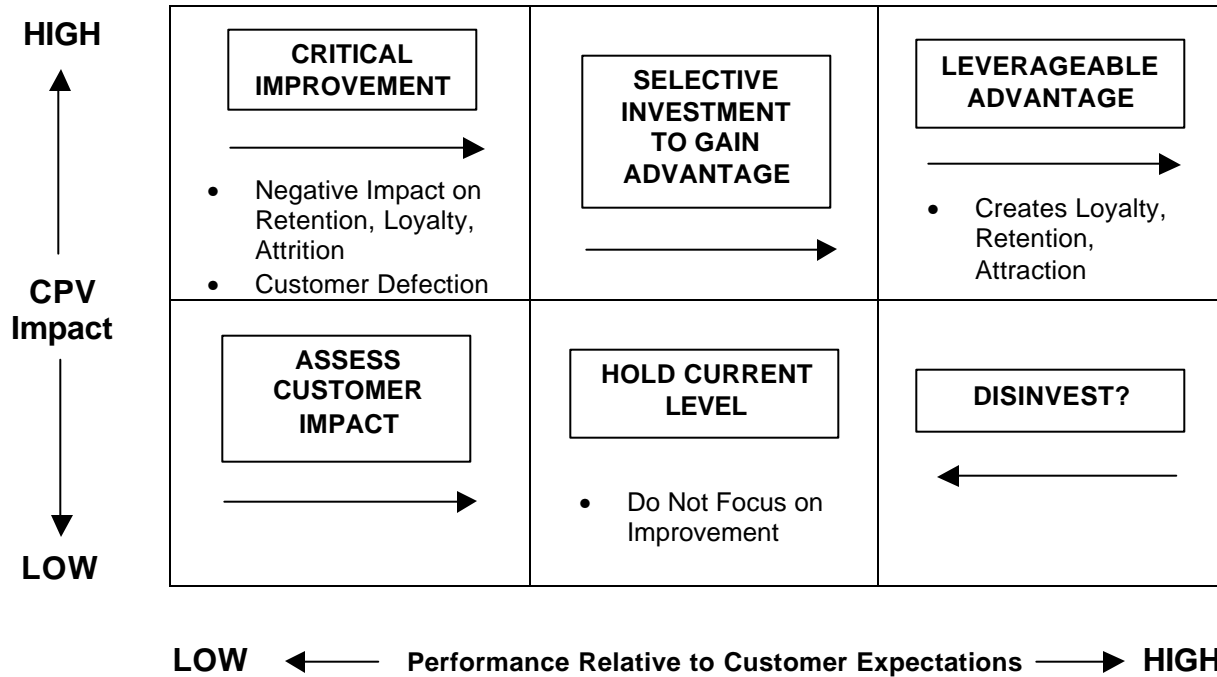
Example Output

The following charts are based on example data and are intended solely to illustrate the types of insights that are being investigated in the research. They are not intended in any way to represent actual business drivers or driver values.

Consumer Relationship Map



Action Priority Matrix



CPV Payback in Loyalty

- Institution #1, #2, #3 -- Low CPV creates lower loyalty than “expected”
- Institution #4 at “break even point” -- CPV equals expected loyalty level
- Institution #5, #6, #7 -- High CPV creates greater than expected loyalty

