

Same-Branch Deposit Growth & The Customer Experience



It seems like only yesterday the branch was history. Do you remember ten years ago when everyone predicted the death of the branch in favor of alternative delivery channels? How things have changed.

Now, the branch is seen as critical to delivering value to not only customers but shareholders as well. Now it appears branches and, more specifically, same-branch deposit growth is a key driver of shareholder value. First Manhattan Consulting Group has determined that other than return on equity and revenue-per-share growth, same-branch deposit growth is the strongest driver of total shareholder return. Furthermore, they quantify this relationship, concluding that 60% of the variance in shareholder return is explained by organic retail deposit growth. The shares of institutions with higher same-branch deposit growth tend to trade at higher multiples-to-earnings than institutions with lower same-branch deposit growth rates.

The specific objectives of this analysis were to:

- 1) Test specific service behaviors/ attributes against purchase intent to determine which behaviors, if any, appear to correlate with purchase intent.
- 2) Evaluate the relationship between the presence of these behaviors and branch deposit growth.
- 3) Test the efficacy of a mystery shop scoring system and branch deposit growth.

With the understanding that same-branch deposit growth is a key driver of shareholder value, Kinēsis has endeavored to test and understand the relationship, if any, between the customer experience and same-branch deposit growth. We have determined that both purchase intent and same-branch deposit growth appears to be strongly associated with behaviors associated with reliability, empathy, and assurance.

To test the relationship between same-branch deposit growth, Kinēsis has conducted thousands of mystery shops of a broad spectrum of institutions ranging in size from community banks with two branches to very large institutions with branch networks in the thousands. To conduct this test, Kinēsis used a measurement instrument based on the five-dimensional SERVQUAL model, which defined the customer experience by the following five-dimensions: tangibles, reliability, responsiveness, empathy and assurance.

Kinēsis first worked to test the relationship between elements of the customer experience and purchase intent, and to determine key drivers of purchase intent in the customer experience. As part of the solution to

achieve this end, Kinēsis asked each shopper, how the experience would have influenced their intention to purchase had they been an actual customer. Responses to this inquiry were collected on a 5-point scale ranging from “significantly increased” to “significantly decreased” the intention to purchase. Furthermore, immediately following this purchase intent rating, Kinēsis asked each shopper to explain why they rated purchase intent as they did.

To help assure the validity of the analysis, two independent analysis plans were applied to the purchase intent data. First, the open-ended comments regarding why the shopper rated their purchase intent as they did were grouped according to common themes and according to the purchase intent rating. Second, the balance of the responses to the mystery shop questionnaire was cross tabulated by the purchase intent rating to determine which specific behaviors correlated most closely with purchase intent.

The results of this first part of the analysis plan revealed Branches with above average frequencies of reliability, empathy and assurance behaviors experienced 26% stronger three-year branch deposit growth rate than branches with low frequencies of these behaviors.

Once a shopper enters the branch, branch personnel clearly drive purchase intent. Over two-thirds (69%) of the reasons given for positive purchase intent are the result of branch personnel, only about one-in-five (18%) were product related, while 8% were due to the branch atmosphere.

The branch personnel driven elements include: generally positive, friendly service (26%), product knowledge/informative/confidence in the personnel (16%), attentive to needs/interest in helping/personalized service (14%), and professional/respectful/not pushy employees (10%). Prospective customers want confidence and trust not just in the bank, but also in the people who are the human face of the institution.

Branches with above average frequencies of reliability, empathy and assurance behaviors experienced **26% stronger three-year branch deposit growth rate** than branches with low frequencies of these behaviors.

Behaviors Correlated to Purchase Intent

- Friendly & Courteous
- Greeting
- Interest in Helping
- Discuss Benefits & Solutions
- Promised Services Get Done
- Accuracy
- Professionalism
- Express Appreciation
- Personalized Comment

The second part of the analysis plan revealed very strong correlations between the behaviors to the left and purchase intent.

Kinēsis then grouped these highly correlated behaviors into the five-dimensional SERVQUAL model and found they group into three of the five-dimensions (reliability, empathy, and assurance) as shown to the left.

Intuitively, this result makes sense, beyond the basic requirement of reliability; customers also want to interact with bank personnel who have empathy (care about their best interest) and assurance (the knowledge and courtesy of employees and their ability to convey trust and confidence).

To evaluate the link between the customer experience, and the above behaviors, to the bottom line, Kinēsis compared mystery shop results to same-branch deposit growth using publicly available deposit data from the FDIC. This analysis determined that branches with above average frequencies of reliability, empathy and assurance behaviors experienced 26% stronger three-year branch deposit growth rate than branches with low frequencies of these behaviors.

Finally, to evaluate the efficacy of the mystery shop scoring methodology, mystery shop scores were compared to branch deposit growth. This analysis revealed branches with above average mystery shop scores experienced a 78% greater branch deposit growth compared to those with below average mystery shop scores.

Our research and experience leads us to the conclusion that there is a link between the customer experience and such critical financial metrics such as same-branch deposit growth. With an understanding of which attributes drive this relationship, managers can now focus training, incentives and other management techniques on reinforcing empathy and assurance among its personnel, and make a financial case to all stakeholders (management, employees and shareholders) that the customer experience does drive financial performance.

For more information contact Eric Larse, co-founder of Seattle-based Kinesis, which helps companies plan and execute their customer experience strategies. Mr. Larse can be reached at elarse@kinesis-cem.com.

Behaviors Grouped Into Three Dimensions

Reliability

Promised Services Get Done
Accuracy

Empathy

Interest in Helping
Discuss Benefits & Solutions
Personalized Comment
Listen Attentively

Assurance

Friendly & Courteous
Greeting
Professionalism
Express Appreciation
Listen Attentively