Raddon
A Fiserv Company

The Keys to Loyalty

How USAA Engenders Loyalty in Its Members through Service and Branding

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Executive Summary

Most financial institutions will tell you customer loyalty is key to their success, but few can tell you how to measure it. In "The Keys to Loyalty," Raddon Research Insights takes an in-depth look at customer loyalty, how to achieve it and its impact on an institution.

Using USAA as a case study, this report analyzes various metrics – the Net Promoter Score, the Raddon Loyalty Index and Raddon's Relationship Survey, for example – that measure the factors that influence customer loyalty. The importance of brand strength and resolving customer issues is also addressed.

In the end, building and maintaining loyalty can yield additional business for a financial institution and even improve institutional performance. To attract new customers and retain existing ones requires a model that marries convenience, effective branding and prompt problem solving.

Key topics covered in this report include:

The Keys to Loyalty: How USAA Engenders Loyalty in Its Members through Service and Branding

What makes customers loyal? Is it their willingness to recommend a financial institution to friends and family? Or is loyalty merely a satisfied customer's intent to give the institution business in the future – for example, by taking out a loan? Actually, it's a combination of factors, and companies with high customer loyalty know how to recognize and build upon the most important contributors to that allegiance. USAA is a good example: The military-serving bank and insurance company touts its "members for life," and its focus on one particular component of customer service may be the key to their members' loyalty. By building on this model, other financial institutions can attract loyal customers who are willing to maintain and strengthen a relationship with them.

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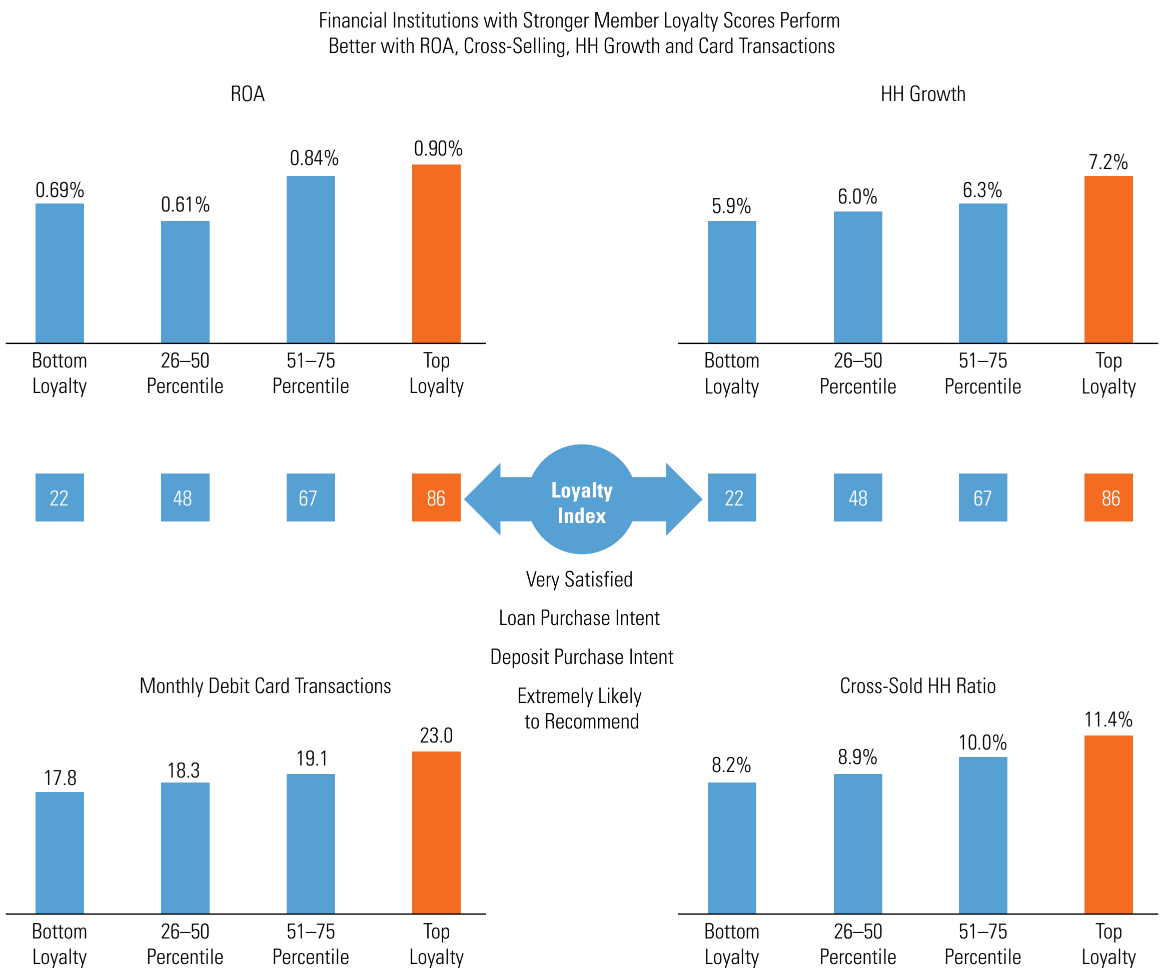
The Value of Customer Loyalty

Customer loyalty has been the pot of gold at the end of the rainbow for financial institutions for decades, and with good reason. By some metrics, an institution will pay up to 6 to 10 times as much to attract and onboard a new customer as it will to cross-sell to an existing one.[1] A loyal customer will bring additional business to the institution and will recommend the institution to others.

Loyalty also improves institutional performance. As Raddon analyzes the hundreds of financial institutions it works with, we find that higher loyalty leads to stronger return on assets (ROA), faster growth, increased cross-sales and even more debit card transactions.

[1] https://insight.harlandclarke.com/wp-content/uploads/2012/11/Cross-Sell-White-Paper.pdf

Figure 1: Relationship between Raddon's Loyalty Index and Metrics of Financial Performance



Source: Raddon Performance Analytics & Member Relationship Survey

For many years, Raddon and many other organizations have tried to measure the factors that predict and explain loyalty. One popular concept is the Net Promoter Score (NPS), a metric developed by Bain & Company that seeks to boil loyalty down to a single question: On a scale of 0 to 10, would you recommend "Company X" to your friends and family? A score of 9 or 10 signifies a promoter, someone with a strong willingness to recommend; whereas a score of 0 to 6 represents a detractor, someone who may actively be discouraging potential customers. A 7 or 8 is passive, neither promoting nor detracting. One calculates the score by subtracting detractors from promoters, hence the "net" in "net promoter."

For many years, NPS has been a benchmark, yet increasingly we find that it does not tell the full story. According to a 2007 study by Ipsos and others, willingness to recommend "alone will not suffice as a single predictor of customers' future loyalty behavior." By focusing solely on the score, a firm risks "potential misallocations of resources." Instead, Ipsos recommends a multiple indicator, which looks at several independent variables of loyalty.[2]

Over the course of several years, Raddon has developed a Loyalty Index, which it shares with the banks and credit unions who partner with Raddon for survey services. This Loyalty Index combines willingness to recommend with satisfaction, future loan intent and future deposit intent. By asking not only "Would you recommend the bank?" but also "Are you satisfied with the bank?" and, most importantly, "Will you bring future business?" Raddon seeks to identify and quantify customers who will maintain and strengthen their relationship.

This metric, the Raddon Loyalty Index, has proven to be a better predictor of future business intent and share of wallet than NPS alone. The figures below show the coefficient of determination (r^2) for each metric, which is the percentage of the total variation in the dependent variable – in this case future business intent and share of wallet – that can be explained by the independent variable – the Loyalty Index and NPS.

[2] "The value of different customer satisfaction and loyalty metrics in predicting customer retention, recommendation, and share-of-wallet." Keiningham et al. (http://www2.owen.vanderbilt.edu/bruce.cooil/documents/publications/msq2007.pdf)