# Retention Strategies In Retail Banks

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Photo by International Information Program (IIP)

The story goes that a study suggested that bank customers who turned right into parking spots in a certain bank's parking lot had a 7% higher retention rate than left-turning customers. And so the Bank went on to shut down the left side parking hoping to up their retention rates! In short – Banks are willing to do everything in their power to retain the customers they have.

It is a truth universally known, that it costs 5 times as much to get a new customer as it does to retain an existing one. Banks are no exception to this – and one of the important activities they engage is in doing what they can to retain the customers that they have. From building their brands to nurturing loyalty, there are many strategies that Banks employ as a part of their retention plan.

Banking is a highly competitive industry – they compete with each other and with non-banks and other financial institutions as well. The thing is that banking products are easy to duplicate and at the end of the day, all of them provide nearly identical services. What distinguishes one bank from another are the prices they offer and the quality of their service. While on the one hand, it costs more to acquire new customers than to retain the existing ones, studies show that reducing customer churn by as little as 5 percent can actually double the profits! Satisfied long term customers market for you through word of mouth and also are less sensitive to price fluctuations.

So how does one do this? What do banks do in order to retain customers?

**Through Competitive Advantage -** Banks in general offer nearly identical products for nearly the same price. But to gain competitive advantage they need to extend their product quality beyond core services to include additional features and value. For example some banks offer remote deposits in the US – where a person can scan the digital image of a cheque and transmit that to a bank without having to present the physical cheque at a branch.

**By Increasing Customer Satisfaction –** A study showed that about 40% of customers switched banks because of what they considered to be poor service. Customer satisfaction has always been a reason why customers either stay or leave an organisation. Which is why banks have started to consolidate all the information that they have about their customers from all the various touch points, create complete profiles on each of them, make this profile available to all customer service representatives at various touch points so they can have meaningful conversations with them each time they engage with the Bank.

**By Offering the Customer what they see as Value** - Today's customers pay for the value that they derive from a product or a service. For example, if customers value convenience, they need to be offered services such as electronic banking, touch-tone phone account access and internet banking. To be more specific, if a 20-year-old customer logs into his bank account on his mobile phone, the bank can offer him a deal where he gets two free movie tickets per month if he spends a certain amount on his credit card every month. This will be more attractive to him than offering him a life insurance policy or wills and estate planning services! Or banks can just let the customer pick and choose what he or she wants and, based on those choices, offer incentives, discounts or rewards.

**By Building up a Positive Corporate Branding or Image** - Today’s banking customers have choices before them. Factors such as developments in technology, globalisation, and increased consumer mobility have totally revolutionised the way people bank. And in order to do this, it is imperative that banks have a comprehensive knowledge of customers’ values, attitudes and needs. They need to see how the customer perceives the services that the bank offers and the image that they have of the bank itself. In such a scenario, branding can be a key differentiator. And differentiators can be what makes a brand. Ally Bank is a formidable force in the banking world. Built on “No nonsense, just people sense,” the bank demonstrates this “simple” philosophy in everything from ads to products and disclosures. They offer an easy banking experience and have an aggressive ad strategy built on humour. Being an online bank they have a blog, a Twitter account with 7,000 followers, and a Facebook page with 28,000 ‘Likes.’

**By Placing Switching Barriers** - These are marketing strategies that make it expensive for customers to switch to another Bank. These can include search costs, transaction costs, learning costs, loyal customer discounts and emotional costs – anything that holds the customer back from leaving the current bank to move to another one.

**Through Cross Selling –** The Bank sells different products and services to a customer, which increases customer loyalty apart from increased revenues alone. The more products a customer holds, the less likely he is to sever the relationship. The cost of selling one more product to an existing customer is just a fifth of the cost of selling it to a new one. Cross-selling to a banking customer can be as simple as selling a credit card to an existing checking account customer. Or it could be selling a mortgage to an existing credit card customer.

**Increasing Customer Loyalty** – Customer loyalty first increases profits by reducing the cost of trying to acquire new customers. Loyalty is not the same as just retention. Loyalty is when customers OPT to remain when there are other choices available. Banks therefore need to understand why the customer opts to stay and build on that. It is no secret that Banks that have a strong customer loyalty have in front of them, an open door to win more of their customers' business. A study by Gallup found that the customers who are 'fully engaged' with a bank are way more likely to buy more products from the same bank than those customers that are just 'satisfied'

Today, with the advances in technology, big data and analytics help Banks provide a more targeted and individual level of service to their customers. For example, when HDFC Bank invested in getting a holistic view of its customers through technology, it showed immediately in the improved service quality – which reflected in increases in both acquisition and retention rates. In another instance, American Express integrated its loyalty scheme with social media to engage its customers. Mobile banking is another excellent way for banks to engage with their customers. In the US, customers can apply for credit cards, and transfer their balances instantly via their smartphones, with no need for paperwork.

With technology and analytics, banks can understand the behaviour of their customers and meet all their unique needs with tailored products and services, improving customer retention as a result. If a bank knew that their customer might move to the competition, they could focus all their efforts on retaining that customer. With the market being saturated, most banks realise that chances for any organic growth in banking are not that great. Therefore customer-retention efforts are more important than ever. And technology is a great enabler in this - to collate data and derive the right metrics to understand customer issues and use all this to improve service which will work in enhancing customer loyalty. Then what you have is a happy customer, a brand ambassador of the Bank who will contribute immensely to enhancing brand value and increasing sales and corresponding profitability.