



J.D. Power and Associates and Novantas have collaborated on a new research study that demonstrates how customer satisfaction affects retail bank growth and profitability. The initial findings from the study, while still preliminary, reveal that Customer Satisfaction is a significant and measurable contributor to retail bank financial performance. Specifically:

- Customer Satisfaction alone appears to drive 15-20% of growth performance for bank branches
- Within a single institution, in a single market, branches with above average satisfaction realize 2 to 5 percentage point additional growth over those with below average satisfaction
- This growth differential is worth \$50,000 to \$90,000 of additional annual earnings per branch for above average satisfaction branches
- Bank branches with top satisfaction scores execute well in at least one dimension of satisfaction, but not necessarily all elements, and components of satisfaction that drive financial performance for banks vary by market
- Being consistently above average on one dimension of satisfaction is better than inconsistently exceeding expectations across a number of factors: Consistency tends to trump the “wow factor” in driving financial performance
- Understanding these differences in drivers of customer satisfaction, and how these drivers relate to a specific bank’s growth and profitability, is the key to focused investments on factors that increase overall performance

As banks navigate through the toughest economic environment in decades, management has taken a sharp knife to non-essential expenses, including those that just a few years back were seen as critical to building customer relationships and increasing customer satisfaction. Banks are asking themselves a question that only a few years back would have been unthinkable: Does customer satisfaction really matter? If we invest to increase customer satisfaction, how can we be sure that it will translate into economic benefits to the bank? Can we be sure that all else being equal, banks or branches with more satisfied customers outperform those with less satisfied customers?

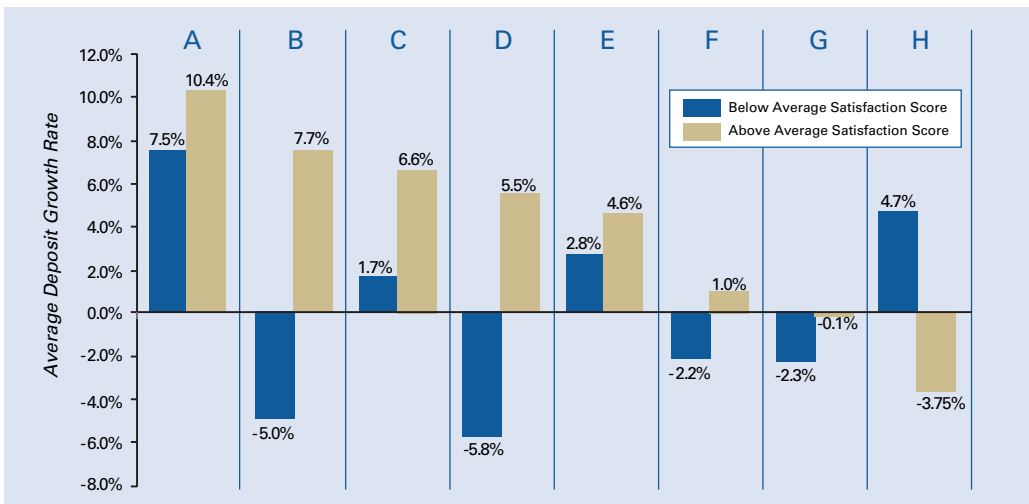
The resounding answer is yes. Even at the aggregate level, before we decompose overall satisfaction scores into the underlying components of satisfaction, the data clearly demonstrates that higher customer satisfaction translates into better financial performance.

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***Customer satisfaction, as measured by J.D. Power’s overall satisfaction score, was strongly aligned with relative growth performance. In each market examined, above-average customer satisfactions scores translated into higher deposit growth.***

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In fact, holding all else equal, we estimated that those branches with above average satisfaction scores grew deposits on average 3 to 4 percentage points more than those with below average scores. That is to say, when we examine branches for a single institution, in a single metropolitan area, where all those branches offer the same deposit products at the same price under the same brand name to the same population, branches with above average customer satisfaction scores grew on average 3 to 4 percentage points faster in 2008 than those below average. The data for New York City/Westchester/Nassau is shown below:



Three to four percentage points of deposit growth translates into significant income for these banks. With an average \$90+ million of consumer deposits each, the better branches would bring in \$3.5 million of additional deposits per year per branch. At an average 200-300 basis points of net deposit spread and longer duration, the bank would realize \$150 to \$200 thousand annually in additional pretax income per branch. For a 500 branch network, a bank would realize \$1.7 billion in additional annual growth, and \$90 million in additional pretax income.

There are other, less quantifiable, yet very significant benefits to having satisfied customers, such as increased

referrals, cross sell opportunities, and lower marketing costs. However, this analysis clearly demonstrates the economics of improving customer satisfaction, and provides the facts to begin to make investment decisions.

We repeated this analysis for other major metropolitan areas, such as Chicago, Cincinnati, St Louis, Miami, and Minneapolis and the conclusions were consistent with those found in New York: Customer satisfaction, as measured by J.D. Power's overall satisfaction score, was strongly aligned with relative growth performance. In each market examined, above-average customer

satisfaction scores translated into higher deposit growth than below-average satisfaction scores. This growth performance differential ranged from 2 to 5 percentage points. The average annual impact of this differential is approximately \$90,000 per branch, after adjusting for pricing, market differences, branch density and other exogenous factors.

Our conclusion? Satisfaction matters, and is a significant factor in performance. In fact, our initial estimate is that of all factors that drive branch

growth—branch location, local economy, pricing, product, service quality and the like, customer satisfaction factors influence about 15% of overall growth. The economic impact of satisfaction appears to be approximately 3.5 percentage points of deposit growth per year, translating into \$90,000 in pretax income per branch. Given the enormous investment banks have already made in their branch networks, and the clear economic gap between above and below average satisfaction scores, the need has never been greater to understand how to cost-effectively improve customer satisfaction and realize the benefits of greater growth and income.

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