OUR BUSINESS IS BUILDING YOURS

RETHINKING RETENTION

A LOOK AT WHY REACQUISITION IS THE MORE EFFECTIVE LONG-TERM GROWTH STRATEGY AND HOW TO MAKE THE SHIFT

A RESEARCH-BASED WHITEPAPER DISCUSSING THE MERITS OF SWITCHING FROM ACQUISITION + RETENTION TO PERPETUAL ACQUISITION

FEBRUARY 2021

INTRODUCTION

Every business has one. A customer acquisition strategy deployed through sales and marketing efforts. The ultimate goal? To continuously bring new customers into your business. The catch? It's costly, often inefficient and associated budgets are subject to cuts when businesses struggle.

But let's be clear; not having a customer acquisition strategy isn't an option, but it's also not enough to support long-term growth.

It's not a one-and-done event.

Like a personal relationship, your business has to be CHOSEN by the same customer over and over again. Doing just enough to retain them and facilitate transactions isn't encouraging that choice. Similarly, cross-sell attempts off of entry-level products often fall short of motivating customers to deepen their relationship.

However, in the financial services industry we've fallen into accepting these practices as the norm. Unfortunately, that acceptance favors big banks with big acquisition budgets to win the game. It results in average attrition rates of 15 percent among financial institutions.

It's time to do something different.

By treating the acquisition process as a perpetual one, you change the dynamic. That's a game you can win.

In this paper we will explore the limits of current retention/attrition approaches to existing relationships and what the alternative of REAQUISITION could look like for your financial institution. We'll share examples of how it has been implemented by some of your peers.

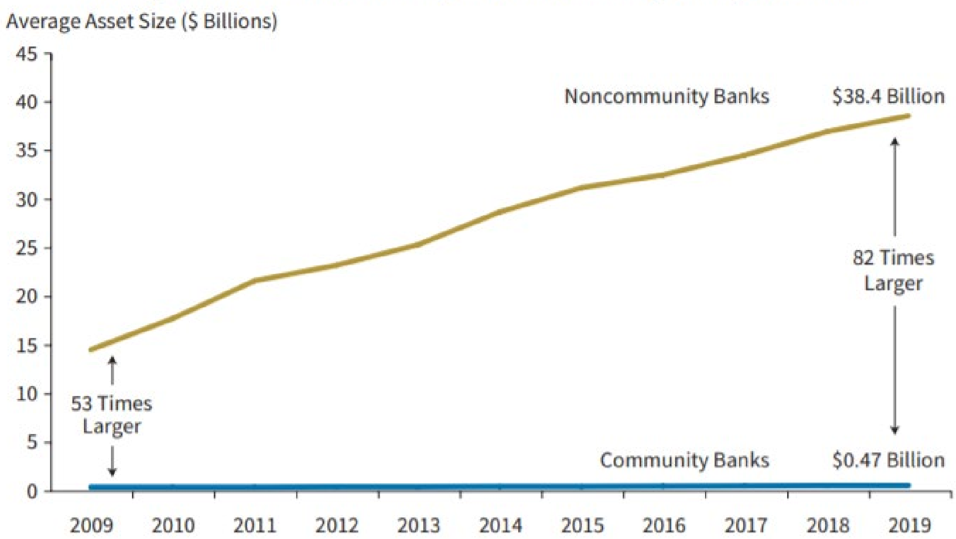
EMBRACING CHANGE

HISTORY DOESN'T HAVE TO REPEAT ITSELF

2020 was not a "normal" year for any company, or any consumer for that matter. But 2021 doesn't have to return to "normal" and there are many reasons we may not want it to.

For motivation to continue to change our approach to growth, we need look no further than reports showing big bank growth at the expense of small and mid-size institutions, a trend that has been ongoing for decades. According to the FDIC Community Banking Study (2020), the average asset size of non-community banks was already 53 times larger than that of community banks in 2009 and exploded to 82 times larger at $38.4 Billion in assets versus an average $47 Million for community banks in 2019. Since the Great Recession, community banks' share of banking industry assets declined from 14 percent in 2012 to 12 percent in 2019.

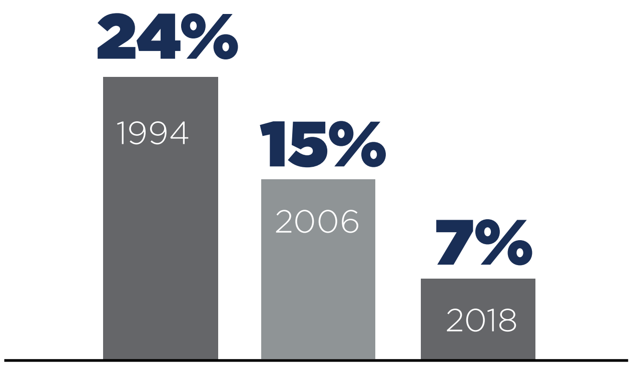
Figure 1: Change in Average Asset Sizes of Community and Noncommunity banks



Source: FDIC.

Synthesized data from the FDIC and NCUA showed that small banks and credit unions (with assets under $1.2 Billion) lost significant share of assets overall in the U.S., dropping from an estimated 24 percent in 1994 to 15 percent in 2006 to 7 percent in 2018. Meanwhile, the "big 4" and other giant banks (with assets over $100.2 Billion) rose from 47 percent share in 2006 to 59 percent in 2018.

Figure 2: Asset share for small banks and credit unions (12-year cycles)



DYNAMICS ARE SHIFTING

While 2020 certainly challenged the "big 4" and other giant banks, they remain in relatively strong overall financial position. The top 100 U.S. banks have substantial provisions for loan losses, being impacted more acutely by credit cards and commercial real estate loans than their smaller counterparts. Having set aside $103.4 Billion according to Deloitte (2020) this is an area that will remain in focus through 2021, even if actual losses are less than what they were during the Great Recession.

After the pandemic, big banks will continue to adjust their strategies and resources beyond covering loan losses, potentially opening up opportunity for smaller and mid-size institutions to capitalize on disruptions. According to the Deloitte Center for Financial Services Global Outlook Survey (2020), 46% of top North American banks surveyed indicated they would be looking to "rationalize compensation and headcount" with another 40% indicating they would "trim discretionary spending."

Could these be chinks in the armor? A sign the giants are slowing down? They could be, but the opening likely won't last long and a sustainable shift that favors smaller financials won't happen without changing how we look at consumer relationships.

WHAT IS REAQUISITION?

Reacquisition is an approach that emphasizes the two-way quality of a relationship. This alternative point of view is a process of continuously championing the customer, prompting them to "choose" the organization time and time again.

It prioritizes continuing to deliver value and addressing their evolving needs. Ultimately, it has to be about more than cross-selling consumers on the next logical product, which industry studies have shown doesn't work. They must feel delighted and valued in order to choose to grow with you as their needs change over time.

Did you know?

While many community banks and credit unions use auto loans as a means to acquire new customers, in a July 2020 American Banker article, Steve Rick, chief economist for CUNA Mutual shared a finding that the conversion rate to other products and to becoming a primary financial institution is ***less than 10 percent.***

The lifetime value of these new customers isn't realized. Quantity of acquisitions may be blinding us to the bottom-line potential of quality.

Reacquisition also shifts the point of view on attrition. A mistake many businesses make is to try to catch a customer as they head for the door. Attrition or churn modeling has become a tool many businesses have tried, including banks and credit unions, to identify customers and members who are giving behavioral signals that they are likely to leave. While an institution may understand their attrition risk and can put a value to it, for many institutions the effort often stops there. For few others, a last attempt may be made to salvage a relationship, but efforts are often fruitless as the focus is merely on retention or a veiled cross-sell. It's too little, too late.

IS REACQUISITION A PART OF YOUR PLAN?

HERE ARE 3 REASONS WHY IT SHOULD BE.

1. THE ALTERNATIVES ARE MORE EXPENSIVE

There is a well-known saying that it costs more to acquire a new customer than it does to keep an existing one. In the past, that guidance was often coupled with the statistic that it was five times more costly to create than to keep. If you think it is expensive now, according to ProfitWell, the cost of acquiring new customers (in any industry) has increased by more than 50 percent over the past several years and is likely to continue climbing.

Losing customers comes with a significant cost as well. The average customer attrition rate among retail financial institutions per year is 15 percent, with a one-to-two percent net income loss for each point of customer attrition (Fiworks, 2020). Do you know your attrition rate? Have you thought about what you could do as an organization if you got in front of it; if you didn't take that kind of loss?

15%

average retail customer attrition rate each year

> *"Many organizations spin their wheels focusing on building a strategy to measure and combat attrition. While their current business models make that an essential tactic, I am a huge proponent of championing the customer much earlier in the process. If you prioritize showing your customers and members that you get it and care about their individual needs early and often, it essentially alleviates the need for attrition propensity modeling altogether. It's a no brainer."*
>
> - Tim Klatt, Director of Retail Strategies & Vivalociti

2. THE BEST DEFENSE IS A GOOD OFFENSE

Why have the big institutions been taking more share at the expense of smaller banks and credit unions? In addition to aggressive organic growth strategies in the past few years, after evaluating a decade of trends in a rapidly changing industry, J.D. Power (2019) found that big banks were able to surpass smaller rivals in customer satisfaction surrounding innovation among customers under 40. They are not only retaining their customers, they have given them a reason to believe there is continued value in the relationship.

While it could be easy to conclude that smaller institutions need to defend against larger institutions to prevent customers from leaving, a shift in thinking to reacquisition embraces the choice that consumers have in banking. We shift from thinking "What can I do to make them stay?" to "What can I do to meet more of their needs?" and "What can I do to motivate them to choose us again, and again, and again?"

While trends indicate that defense isn't winning the game, a stronger offensive strategy informed and strengthened by changing consumer and business needs could shift the tides in favor of long-term bottom-line growth.

3. WE KNOW THE OPPORTUNITY COST - AND IT'S BIG

Many financial institutions have considered "retention strategies," but often struggle to make the financial case to position them as a worthwhile investment, while others don't know where to begin. Acquiring new customers may cost five times that of keeping an existing one, but many financial institutions are not necessarily investing 1/5 of their acquisition budget into growing their existing customers. Many simply don't have any dedicated budget for fueling that kind of growth.

The amount of revenue that could be at risk from inadequate reacquisition efforts.

But what is it worth? In 2019, Boston Consulting Group estimated that a retail bank puts 15 to 25 percent of its revenue at risk if it fails to enhance its daily banking value proposition by adding innovative new features, improving customer experiences and making better use of data. This is why investing in cross-selling what you already have isn't enough.

This is why reacquisition requires you to THINK DIFFERENTLY.

WHAT DOES REAQUISITION LOOK LIKE?

Reacquisition is about taking control of the customer experience early and often by being mindful of it. Seemingly little things that show you understand and care about the needs and priorities of your customers or members can make a huge difference. Rather than focusing on the beginning or end of a relationship, financial institutions should look for the sweet spot right in the middle.

Shifting investments to those that prioritize customer happiness and build it into the very DNA of the organization will achieve the greatest success.

DESIGN EXPERIENCES TO TRIGGER EMOTIONS

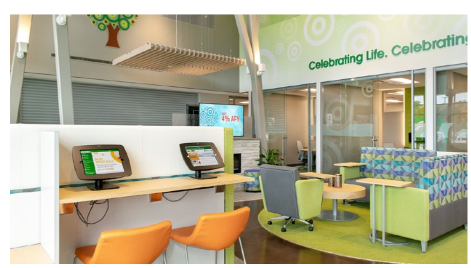
Consumers have to feel delighted and valued to grow with you as their needs change over the long term. The goal is to create a deep, emotional connection with consumers that is much stronger than rate changes and account opening bonuses. Creating a lasting emotional connection requires experiential, behavioral, and physiological stimulation and response. The best place, and some would argue the only place, to do that is in a physical environment, making your branch your most powerful asset to fuel reacquisition.

It's not enough to have a functional space; it has to be brought to life in a way that connects with the customer or member beyond a simple transaction. The secret to creating engaging experiences isn't just having the latest technology or building a new branch. It's about creating a unique and flexible customer journey that at some point along the way elicits happiness, quells fear, builds anticipation and/or nurtures trust.

The technology and staff interactions, the lighting and sound, the messaging and imagery you showcase that make up the thoughtful and intentional application of your brand can create an experience powerful enough to spark an emotional connection. On the surface, it looks like any other clean and beautiful space, but to create a lasting impact requires thorough analysis of your unique markets to design a space that cultivates a true experience.

Park City Credit Union created an inviting space that became a beacon of financial hope and strength in their community.

A coffee shop and lounge does more than facilitate transactions. Park City anticipates the daily needs of consumers.

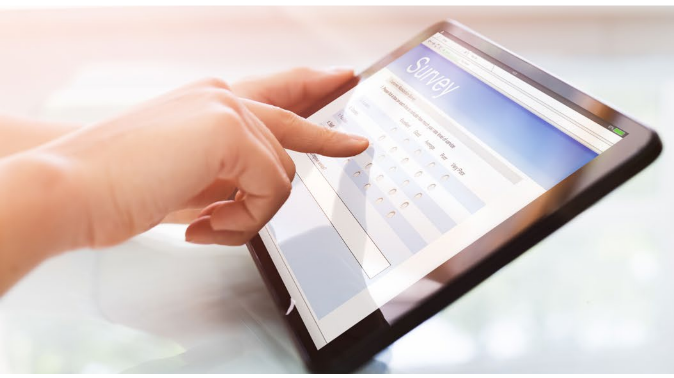


Educational content adds value to the journey and reinforces the brand.

USE DATA...WISELY

Next-best-product or attrition propensity models aren't a bad thing, but they don't address the root issue. What are your customers' or members' challenges? What could you provide to better meet their needs, beyond providing an add-on solution? Why are they leaving?

Instead of allocating resources to plan and implement a retention or attrition model, refocusing this energy to deepening engagement earlier in the relationship alleviates the need for a DEFCON 1 strategy at all. Re-evaluating or creating an onboarding program, unique to the product(s) they first opened with you is a start. Inviting them to your branch and giving them a reason to experience your brand can also be a part of that. And if you implement technology within your branches to help you gather data and connect your digital and physical channels, you'll create an experience worth sticking around for.



Core and transactional data only give you a part of the picture. Survey your customers and members regarding their experiences, their needs and their perceptions. Invest in understanding the data and developing ideas to take action on your findings. If you couple that data with other modeling, your insights could prove powerful in finding the best ways to engage your market.

AVOID BEING A WOLF IN SHEEP'S CLOTHING

As referenced earlier, finding ways to add value to your customers' or members' experience has to be genuine. If every communication and interaction is a lightly veiled or explicit attempt to cross-sell, the relationship you are establishing is one-sided.

The products and services you offer do add value; however, when they aren't positioned as a way to address your customers' unique needs and desires, the offer is cold.

Instead, celebrate what you are developing or offering that strengthens your customers' or members' financial health and the health of your surrounding communities. Look for ways outside of apps and mobile banking solutions that make financial engagement a more seamless part of your consumers' everyday lives.

CONCLUDING THOUGHTS

New acquisitions will and must happen. Customers will also inevitably leave you for reasons outside of your control. However, with a reacquisition mindset embedded in your organization and programs in place to encourage your customers and members to choose you again and again, day after day, your overall net growth potential will be much higher, your word-of-mouth referral potential will be higher and your brand will be stronger.

When you shift your perspective from entry/exit and instead focus on growing the richness of the narrative in between, that's when long-term, sustainable growth happens.

VIVALOCITI CAN HELP

Through our specialized division focused on elevating the experiences that our clients give to theirs, Vivalociti thrives in closing the gap between anticipating and exceeding customer needs.

With Vivalociti, we are better enabling financial institutions to leverage their data, technology and content to curate the next wave of in-branch experiences. With a client's vision in mind, we do the research, then design, source, integrate, produce, and install tailored solutions so our clients can focus on what matters most: serving their community.

From high-impact welcome walls that set the mood to interactive tools to help staff connect with customers, branch visitors can't help but leave with a memorable experience. Unique solutions like branded integrated displays, historical tributes and interactive lounge areas bring spaces to life in a way that truly nurtures an ongoing customer connection and takes the relationship from transactional to evolutionary.

Visit www.lamacchiagroup.com/approach/evolve for more information.

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