Suncorp Group Executive Retail Banking – David Foster
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Topic: Building meaningful relationships with your customers

INTRODUCTION

It is a both a pleasure and a timely opportunity to join you today.

If ever there was time for our industry to discuss customer satisfaction – it is now!

We are in the midst of highly volatile global markets and this has resulted in severe falls in share prices and increased cost of funds for banks and other financial institutions.

We are also experiencing the mixed fortunes of an economy that is in its 17th successive year of growth and is operating at close to capacity.

That has led both the Federal Government and the Reserve Bank to signal their concerns about inflation and the need to reduce consumer demand.

The challenge of gaining and retaining customers in a highly competitive market will intensify in the coming year.

For the first time in well over a decade we will need to market our products and services in a period when demand is being forced down.

To achieve the monetary policy aim of reducing inflation – Australian consumers will be constantly reminded they have to spend and consume less.

They will be constantly reminded of the risk of increased borrowing costs and the impact that will have on their standard of living.

This is a new experience for an entire generation of Australians.

I am not suggesting there are no grounds for concern about the implications of an over-heated economy and growing inflationary pressures. There are.

The efforts of the Federal Government to address supply constraints and the Reserve Bank to address excess demand are timely and needed.

What I am suggesting is that our task in building and sustaining meaningful relationships with our customers will be different to anything we have experienced in recent years.

To be successful we will need a blend of brand building and relationship building strategies and programs. I doubt that relying solely on traditional customer relationship techniques will be adequate.

We are used to developing value propositions that differentiate our products and services and encourage current or potential customers to consume.

Now we have an added requirement.

When customers continue to read and hear about the problems of borrowing they may become far more guarded about consumption of banking and financial services.

That is not something that most of us in the industry are used to.

Nor in recent years has there been much need for us to address customer fears and concerns about the prospects of local and global economic and financial markets.

These concerns have been added to by the convergence of problems with global financial markets and the local need to control inflation in Australia.

Conferences on customer satisfaction often focus on tactical decisions regarding channels, communications, research and measurement.

I believe broader strategic matters will also need to be revisited.

The impacts of structural changes such as the emergence of global services specialists, continued aggregation at regional bank level and growth of low cost mortgage providers has already been factored in to most bank strategies.

We now need to take account of the latest round of global and local influences on our operating environments. That will clearly have a bearing on our approach to building and maintaining customer satisfaction.

GLOBAL AND LOCAL INFLUENCES

I believe two factors will dominate the business environment for banks during the next year.

First , the continuing fall-out and correction of the United States sub-prime mortgages crisis.

Second, the impact of tighter monetary policy in Australia.

Over $150 billion in sub-prime related write-downs have already been announced by banks and financial institutions in the United States and Europe.

That has reduced their profits and seriously impacted their capital reserves.

It has cut the supply and increased the cost of funds obtained by Australian banks. It has also created extraordinary volatility in global equities markets.

There is no immediate end in sight.

It will require a full cycle of balance sheet adjustments before the extent of the damage becomes clearer.

Until then the cost of sourcing funds for lending to business and retail customers in Australia will continue to be more expensive.

Running in tandem with the sub-prime crisis is concern about the health of the US economy and ongoing speculation about recession there.

The situation in Australia is the opposite.

Here, the Federal Government and the Reserve Bank are concerned about the prospect of an unacceptably high rate of inflation.

Demand for Australia's commodities has increased their price, boosted investment in new production and severely stretched Australia's production capacity across all sectors.

It has also increased incomes and spending.

Australia's inflation rate is rising beyond the Reserve Bank target. It has decided to slow growth by increasing interest rates until inflation is under control.

Looking ahead then – the operating environment for banks will include the following:

- Continued volatility in financial and equities markets
- Rising credit costs due to a combination of
    - more expensive globally sourced funds
    - local increases in official interest rates
    - heightened competition for core deposits

- Slower growth in Australia as monetary policy is used to restrain inflation

- Tighter margins as banks absorb part of the increased costs associated with lending

- Increased competition within banks for customers with a flight to quality – including Brands and direct channels

- Some rationalisation in the number and type of providers of Credit including Intermediaries

- Unsettled customers due to a combination of

    - concern about broad economic prospects in Australia

    - the impact on savings and superannuation of share-market volatility – and

    - their own financial situation

All of these will be overlaid on an already highly competitive environment.

At first glance, that does not seem to be a highly encouraging scenario. However, I believe that quality companies will be able to steer their businesses and their customers through the challenges of the next year or so.

RESPONDING TO THE CHALLENGE

The view at Suncorp is that in uncertain times consumers seek the haven of quality, trusted brands and proven companies with reputable management and solid assets.

They turn away from complex and highly sophisticated products to basic, clearly articulated value propositions.

They want these delivered by companies who will stand behind their value propositions and who demonstrate they understand the specific needs of their different customers.

When you have the combination of customer uncertainty, lower growth and pressure on margins – as we have in Australia today I believe you need to ensure that you:

- Utilise the strength of your existing brand

- Are clear about how your offer differs from your competitors

- Are clear about the relevance of your offer to each of your customer segments

- Have the appropriate focus on customer-facing and distribution activities

The concepts may be simple to understand. But they are very difficult to implement.

I believe implementation will be more difficult than usual as we are entering a period when intangible benefits will be as important for consumers as tangible benefits.

Bankers are often more comfortable marketing a clearly defined product or service. Something that is obvious and concrete.

A key benefit offered by banks is access to the funds to create and sustain the quality of life their customers choose.

When that key benefit becomes more expensive or is questioned –
then the ability to satisfy customers becomes increasingly difficult.

The priority then becomes to:

- Service and retain your existing customers
- Increase the commitment of your existing customers and their potential to be advocates
- And build on that success to acquire new customers

In this environment, brand choice has to matter if we are to secure committed customers.

Ambivalence about brand choice simply increases the likelihood of brand switching.

It is from our pool of committed customers that we find our brand advocates.

They provide us with the stability required during unstable market conditions.

I believe a focus on Net Promoter Scores to increase the proportion of brand advocates will become even more important given the continuing emphasis on the switching of mortgages, deposit accounts and other bank products.

THE POWER OF BRANDS

We need to emphasise the overall strength, security and record of our corporate brands.

That might seem an unusual proposal given the fact that banks have taken a beating on share markets throughout the world.

I believe that makes the need to distinguish between underlying brand strength and current financial market issues even more important.

There is an increased need for banks to manage both their brand positioning and their customer relationships.

Consumers will gravitate to those banks that can reassure them of

- the banks' current strengths and capabilities
- and their long-term prospects.

That is particularly the case for consumers who are ambivalent about bank brand or who are not strongly committed to their current relationship.

In recent years, some banks have augmented their core value propositions with broader corporate social responsibility programs.

In benign market conditions these can provide an opportunity for differentiation.

I am not questioning the value or merit of these programs.

I am suggesting that both customer and community focus in the more challenging times ahead will primarily be on more basic indicators of performance.

Corporate and brand positioning will return to core strengths and clear demonstrations of the delivery of promised services in a manner consistent with customer expectations.

For those banks that are part of a group of related brands,there is the opportunity to promote the overall strength that comes from brand association.

There is also the opportunity to develop enhanced value propositions and service offerings.

The Suncorp strategy has been to build a position of strength within the financial services sector in Australia and New Zealand.

We now have 26 of the most successful and widely known banking, insurance and wealth management brands in our Group.

This critical mass gives us a unique opportunity to leverage the power of brands.

It also gives us the opportunity to leverage the capabilities of the brands within our Group for above average levels of customer service.

Another aspect of brand leveraging I believe important is that of focus.

To increase attention to the specific needs of clearly identified customer segments, non-core brand activities can be divested.

Banks can choose to manufacture and distribute their own products and services. Or they can choose to outsource parts of the value chain completely or in partnership with a specialist service provider.

You can choose to build scale at every point in the value chain.

Or you can rent scale.

Suncorp's Retail Bank refreshed its strategy last year and have opted for what we call a hybrid approach.

We partner with specialists on the provision of selected services -while retaining the Suncorp branding and ownership of our customer relationships.

That enables us to focus our investment and capability on aspects of our business we believe critically important for our success.

In particular, it enables us to increase our attention to the distribution and customer-facing aspects of our value chain.

Whether by good planning or good fortune, I believe this is the model that is best suited to the demands of the current market environment in Australia.

Some examples of this approach include our recently announced transfer of Suncorp's credit card portfolio to Citibank and the use of domestic and global partners for parts of our back office operations.

The final point I want to make in regard to the importance of leveraging brand equity, is the need for alignment of all of the key elements of brand management.

Given the challenges ahead, we will need to be clear about our brand values and ensure they are understood and reflected in all aspects of our business operations.

Successful brands are not simply architecture or advertising. They cover all aspects of the relationship between a company and its customers.

Successful brands have a relationship with their customers built on trust. The current environment will test that trust to the limit.

THE POWER OF KNOWING YOUR CUSTOMERS

Successful brand leveraging requires skilled segmentation supported by accurate research.

We can expect a period of price and margin pressure.

That means we will need to work harder to differentiate our products and services in the minds of consumers.

We can also expect heightened competition to put pressure on our existing market shares and sales volumes.

That means we will need to highlight the relevance of our brand to specific customer segments.

I mentioned earlier that bank strategies would need to take into account the unique blend of global and local operating environment factors.

One of the most significant changes in the Retail Bank strategy at Suncorp has been our development of four distinct business models.

These are built entirely around customer segments and tailored value propositions.

We have evolved from what was in practice one business model offering a broad value proposition to all customers.

My point is that customer segmentation and a multi-channel distribution capability are fundamentally important to leverage brand equity in today's challenging business environment.

As with all banks, we use research to delineate broad market segments.

When operating costs increase and margins are squeezed, expense reduction becomes a priority.

Research and other marketing expenses are often prime targets for cost reduction or reduced activity.

Each company represented at this conference would use research and be familiar with what it can offer.

We are most likely using similar methods and common providers.

The differences would be in the way we interpret the data we obtain and use it to influence our strategies and operations.

For the Retail Bank at Suncorp, areas of particular interest include:

- customer satisfaction with our brand and service delivery
  – this ensures continuous improvement and alignment of our activities to support our Value proposition

- consumer awareness of alternative banking and financial services providers

- the importance of brand choice for bank product consumers

- leveraging of the 26 brands I mentioned earlier

The logic here is that in challenging, highly competitive environments, our priority is to ensure we retain our current customers.

We not only want to retain them – we want to increase their level of commitment and create the conditions that will move them to the role of brand advocates.

We also want to assess the likelihood of attracting new customers. We know our share and that of our competitors in specific markets.

We also know there are limits to the number of potential consumers that are available to individual banks.

All banks in Australia have increased both the investment and focus on customer retention in recent years.

As evidence of that, the use of the Net Promoter Score concept has increased – as have the results.

That means that banks are steadily building a core of advocates who are the least likely to move to another provider.

However, we also know that some dissatisfied customers do not switch because they consider the service alternatives will most likely be as poor as their current provider.

So that presents an opportunity.

There may also be process issues customers believe make switching too difficult.

The Federal Government obviously believes that is the case with Australia's banks.

Together with the Australian Bankers' Association and other organisations, the Government recently announced a number of initiatives designed to make it easier to switch banks.

Suncorp fully supports any measures designed to increase consumer choice and will work to ensure it meets the requirements outlined by the Federal Government.

The point here is that seemingly satisfied customers and those who are antagonistic towards a brand – will both be encouraged to consider brand switching.

Building customer advocacy starts with measuring their current level of satisfaction.

Although, we know that current satisfaction with a brand is not necessarily a strong indicator of future behaviour.

The satisfaction measures or drivers we use at Suncorp include –

- price and value
- process efficiency
- branches and access to services
- product quality
- flexibility

- staff quality and performance
- relationship
- problem resolution
- and partnership.

These drivers can change over time.

Consumers in different market segments and for different products place more or less importance on different drivers.

We will compare our current performance with our past performance, the overall market performance and the performance of specific competitors.

We aim to understand what triggers advocacy and antagonism in different environments.

We also try to gain an insight into how we need to vary our product and service offer to increase our advocates numbers.

We will research satisfaction not only across our total brand performance, but also with individual distribution channels or specific drivers.

For example, we conduct Branch Encounter Surveys to assess satisfaction with factors such as

- queue wait time
- staff attitude
- transaction accuracy
- and resourceful service.

We will also research broader attitudinal trends.

I mentioned earlier the prospect of consumer fear in regard to credit and related banking matters in an environment of Government efforts to control inflation and reduce growth.

We recently researched attitudes to the price of housing across Australia.

Fear about an inability to obtain finance, rising rental costs and lack of home choice were certainly evident.

A key insight of the research was that the “great Australian dream” of achieving peace of mind through home purchase and ownership was limited to “young singles”.

Other segments were purchasing simply to avoid what they believed to be the “great Australian nightmare” of renting forever.

There home purchase decision was not the realisation of a dream – it was the avoidance of a nightmare.

This is an example of the way research can assist us build greater understanding of how customers feel about bank product purchase decisions.

Customer commitment is based on how they feel.

Customer loyalty is based on how they act.

When we want to increase commitment, we need to ensure our product and service offer is aligned with how customers feel about their relationship with us.

We also need to be attuned to how they feel about a broad range of issues that impact on their quality of life.

CONCLUSION

In summary, it is clear the banking sector in Australia has entered a challenging period that will require a reappraisal of longstanding business strategies.

Continued volatility in financial markets will impact bank returns and also unsettle consumers.

Monetary policy will be used to reduce credit demand and slow overall growth in Australia.

Marketing in an environment where credit consumption is actively discouraged will be new to many working in banks.

Marketing in a climate of fear and uncertainty also presents unique challenges.

I have suggested that brands that are successfully positioned as high quality, trustworthy and secure, will be preferred by consumers.

Leveraging existing brand equity will be important.

As will careful segmentation, and relevant, tailored product offers.

Banks that can build their business models around specific customer segments and align their customer-facing and distribution activities with those models
– will succeed.

That segmentation will need to be supported by comprehensive research.

There is nothing unique in the customer relationship strategies and tools we have at our disposal.

The differences are in the ways individual banks blend their broad corporate and brand building activities with the more specific requirements of product and service provision for different customer segments.

In the year ahead, I believe those differences will be increasingly obvious and will provide customers will real choice in a highly dynamic market environment.

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