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## What Satisfies Financial Services Consumers

Firms That Demonstrate Customer Advocacy Overcome Mistrust

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with Ron Shevlin and Tom Watson

### EXECUTIVE SUMMARY

Financial services consumers have changed: They're mistrustful, insecure, and hands-on. But financial services firms haven't changed accordingly. The result is that customer satisfaction has plummeted. What satisfies consumers are firms that are customer advocates — those that do what's best for the customer, not just what's best for the bottom line. Firms that demonstrate the four aspects of customer advocacy — simplicity, benevolence, transparency, and trustworthiness — enjoy higher customer satisfaction rates and greater cross-sell success.

### FINANCIAL SERVICES CONSUMERS' HEARTS CONTINUE TO HARDEN

In 2003, a five-year retrospective of our Consumer Technographics® research revealed that financial services consumers are changing. Today's consumers are:

- **Hands-on.** Most US consumers say that they do their own research before making a financial decision.
- **Insecure.** Most consumers say that the government needs to police companies' use of customer data.
- **Mistrustful.** Less than half of US consumers believe that their firm would do what's right for the consumer without government regulation.

### Consumers Are Changing, But Firms Haven't Changed The Way They Sell

Although consumers' financial behaviors and attitudes have changed, financial services firms' marketing and selling approaches haven't changed to keep pace. Firms still:

- Bombard consumers with mass-market messages.
- Neglect to show fair rate and performance comparisons.
- Ignore consumers' privacy concerns.

### CUSTOMER ADVOCACY IS THE ANSWER

As firms remain unresponsive to the changing consumer, customer satisfaction plummets. In late 2002, 78% of US consumers said that they were either satisfied or very satisfied with their primary financial provider. A year later, despite an improving economy and rising stock market, that percentage dropped to 71%. To reverse this trend, firms must do what's best for the customer and not just for their own bottom line. We call this customer advocacy.



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**Figure 1** US Firms With The Top Customer Advocacy Scores

**Customers of each provider that consider it their advocate:**  
 “My financial provider does what’s best for me and my household.”

USAA	82%	American Express Financial Advisors	56%
A credit union	62%	State Farm	54%
Edward Jones	61%	AAA	54%
GEICO	61%	Morgan Stanley	54%
Wachovia Securities	60%	Vanguard	52%
A.G. Edwards & Sons	56%	Nationwide	52%

Base: US households that are customers of each provider  
 (Average margin of error: 6%)

Source: Forrester’s Consumer Technographics® Q4 2003 North American Study

Source: Forrester Research, Inc.

### Customer Advocacy Pays Off For Firms

Doing what’s best for the customer might sound like motherhood and apple pie, but it pays off. We recently asked 6,000 US consumers to assess the customer advocacy of their financial providers. The firms with the best advocacy scores share a number of characteristics (see Figure 1). Many are customer-owned, such as USAA, State Farm, and credit unions. They include cost leaders, such as GEICO and Vanguard, along with the four biggest national brokerages *not* headquartered in New York. Most significantly, they all succeed with today’s consumer. We found that these top firms’ high customer advocacy scores strongly correlate with:

- Higher satisfaction.
- Greater cross-sell potential.
- Deeper relationships.

### The Four Components Of Customer Advocacy

What are these top firms doing right? Our research reveals four key components of customer advocacy — those attributes that have the strongest statistical correlation to customer advocacy. Firms that score best on customer advocacy also get high marks from their customers on these four components, in order (see Figure 2):

1. **Simplicity.** Top firms simplify their customers’ lives. This attribute has the highest correlation to customer advocacy for every group of consumer, regardless of gender, income, or type of firm used. Smart firms demonstrate customer advocacy by eliminating complexity and making it easy for customers to deal with them.
2. **Transparency.** Top firms show customers fair rate and performance comparisons and lay out the rates and fees they charge. Consumers disparage firms that hide fees in fine print or compare their performance to questionable benchmarks.
3. **Benevolence.** Benevolent firms are perceived to have their customers’ best interests at heart. Instead of disputing the customers’ claims, they take their customers’ sides when problems arise, and they’re competent in delivering solutions.
4. **Trustworthiness.** Firms that score high in advocacy are trusted by their customers to do what’s right for them, whether or not regulations, such as privacy laws, require it.

**Figure 2** How The Top Advocates Rate On The Components Of Advocacy

		<b>Simplicity</b>	<b>Transparency</b>	<b>Benevolence</b>	<b>Trustworthiness</b>																																																																	
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<div style="display: flex; align-items: flex-start;"> <div style="margin-right: 20px;"> <ul style="list-style-type: none"> <li><span style="display: inline-block; width: 15px; height: 10px; background-color: #0070C0; margin-right: 5px;"></span> 30% or more above average</li> <li><span style="display: inline-block; width: 15px; height: 10px; background-color: #A6C9E9; margin-right: 5px;"></span> 15%-29% above average</li> <li><span style="display: inline-block; width: 15px; height: 10px; background-color: #D9E1F2; margin-right: 5px;"></span> 1%-14% above average</li> <li><span style="display: inline-block; width: 15px; height: 10px; border: 1px solid #0070C0; margin-right: 5px;"></span> Below average</li> </ul> </div> <div> <p style="text-align: center;"><b>How the top advocates rate on each component:</b></p> <table border="1"> <thead> <tr> <th></th> <th>Simplicity</th> <th>Transparency</th> <th>Benevolence</th> <th>Trustworthiness</th> </tr> </thead> <tbody> <tr> <td>USAA</td> <td>80%</td> <td>65%</td> <td>78%</td> <td>73%</td> </tr> <tr> <td>A credit union</td> <td>72%</td> <td>63%</td> <td>68%</td> <td>62%</td> </tr> <tr> <td>Edward Jones</td> <td>64%</td> <td>57%</td> <td>62%</td> <td>61%</td> </tr> <tr> <td>GEICO</td> <td>75%</td> <td>59%</td> <td>67%</td> <td>57%</td> </tr> <tr> <td>Wachovia Securities</td> <td>68%</td> <td>53%</td> <td>63%</td> <td>56%</td> </tr> <tr> <td>A.G. Edwards &amp; Sons</td> <td>60%</td> <td>51%</td> <td>61%</td> <td>55%</td> </tr> <tr> <td>American Express Financial Advisors</td> <td>61%</td> <td>47%</td> <td>57%</td> <td>48%</td> </tr> <tr> <td>State Farm</td> <td>60%</td> <td>49%</td> <td>62%</td> <td>43%</td> </tr> <tr> <td>AAA</td> <td>60%</td> <td>42%</td> <td>53%</td> <td>38%</td> </tr> <tr> <td>Morgan Stanley</td> <td>50%</td> <td>42%</td> <td>48%</td> <td>48%</td> </tr> <tr> <td>Vanguard</td> <td>66%</td> <td>56%</td> <td>54%</td> <td>48%</td> </tr> <tr> <td>Nationwide</td> <td>51%</td> <td>42%</td> <td>51%</td> <td>39%</td> </tr> </tbody> </table> </div> </div>							Simplicity	Transparency	Benevolence	Trustworthiness	USAA	80%	65%	78%	73%	A credit union	72%	63%	68%	62%	Edward Jones	64%	57%	62%	61%	GEICO	75%	59%	67%	57%	Wachovia Securities	68%	53%	63%	56%	A.G. Edwards & Sons	60%	51%	61%	55%	American Express Financial Advisors	61%	47%	57%	48%	State Farm	60%	49%	62%	43%	AAA	60%	42%	53%	38%	Morgan Stanley	50%	42%	48%	48%	Vanguard	66%	56%	54%	48%	Nationwide	51%	42%	51%	39%
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**Characteristics Of Successful Customer Advocates**

What characteristics distinguish the leading firms? Some shared traits suggest that customer advocacy is best demonstrated by companies that have:

- **Evangelical leaders.** At the top firms strong visionaries at the helm have established a culture of customer advocacy. John Bachmann, a tireless proponent of Edward Jones’ core principles, was the longest-serving chief executive in the financial services industry until his retirement this year; he had succeeded the son of the founder. At Vanguard, Jack Brennan was the handpicked successor of Jack Bogle, who continues to evangelize the values of the firm he founded. In fact, the history of these firms — and the founders’ focus on the interests of their customers — is a feature of most of the top firms’ Web sites.
- **Private ownership.** Many of the firms at the top have a structural advantage: They’re private. USAA, credit unions, State Farm, AAA, and Vanguard are all owned by their customers. Edward Jones is a partnership. And GEICO, as a wholly owned subsidiary of Warren Buffett’s Berkshire Hathaway, can behave like a private company. Free from the quarterly earnings pressure on public companies, all of these firms can afford to focus on customer advocacy and reap the long-term benefits of deeper customer relationships. Private ownership yields one more benefit: Without the currency of stock shares to spend on acquisitions, all the top firms have grown organically and retained their customer-centric cultures.
- **Stable ownership.** Even firms that don’t have the advantage of private ownership can cultivate a loyal investor base. As Frederick F. Reichheld argues in his book “The Loyalty Effect,” firms can build a foundation of stable ownership by shifting their investor mix toward institutions that avoid investment churn. A.G. Edwards, for example, has followed its vision of customer advocacy for so long that its shareholders are people who buy into the philosophy.
- **Affinity bases.** Top firms cultivate a stable, predictable client base as well. All USAA customers have a military connection. Credit unions form around communities of shared interest.

Edward Jones seeks customers with a particular mentality: conservative, buy-and-hold investors. GEICO started by targeting government employees, a stable and sober crowd — and it now markets relentlessly to populations it wants, including members of hundreds of associations. Knowing their customer bases enables firms to become experts in their customers' lifetime value, which, in turn, enables each firm to demonstrate more customer advocacy, especially in upfront offers.

- **Strong remote-selling and -servicing capability.** Local presence is not a requirement for firms with strong customer advocacy scores. USAA, GEICO, and Vanguard have no primary face-to-face presence. Even the brokerages conduct most of their business via the phone. Of the top 12 firms, only credit unions rely heavily on the physical channel. And no bank with a large branch network makes the top 12.

## WHAT IT MEANS

### HOW TO SUCCEED WITH TODAY'S FINANCIAL SERVICES CONSUMER

Which firms will ultimately succeed at satisfying financial consumers? Firms that:

- **Walk the walk.** Customer advocacy is about actions, not words. It's cultural. Smart firms win over today's financial consumers by routinely delivering on the four components of customer advocacy. They simplify their customers' lives; they're transparent about rates and fees; they convey benevolence in service situations; and they can be trusted to do what's right for the customer — even when no one is watching.
- **Talk the talk.** Firms can't fake what's not there; by the same token, those that take customer advocacy seriously can't assume that consumers will infer the firm's values. Successful firms will advertise customer advocacy as opposed to price and rates. A.G. Edwards' current campaign does it well, saying that its brokers "serve their clients' interests and nothing else. That means: No product sales quotas to meet. No incentive to move company products. Everything is out in the open."
- **Let marketing own the contact center.** As consumers become more mistrustful and hands-on, traditional marketing tactics lose their effectiveness. One proof point: Response rates for direct mail, telemarketing, and email marketing continue to decline. As a result, enterprising companies are turning to service as a primary channel for cross-sell, upsell, and retention activities. Forrester believes that smart firms will unify marketing and service under one boss. A single leader can help arbitrate disputes and ensure that both units work together and demonstrate customer advocacy consistently across channels.
- **Organize by customer segment.** Firms that unify marketing and service will also be wise to organize that combined group by customer segment. To date, few financial services companies have been able to move beyond the power of product lines of business, but companies like Royal Bank of Canada that are managing customer segments and defining the right experience and product mix for those customers see improved profitability. RBC saw profitability for all of its customer segments rise in the past two years.
- **Focus their efforts.** Firms that succeed with the changing financial consumer will specialize, focusing on fewer customer segments, products, and channels. Edward Jones, for example, deliberately limits the range of products it sells, eschewing products that can cause complications for its conservative investors and for the firm, such as options, commodities, and penny stocks. Insurers like USAA, GEICO, and AAA don't operate through the agent channel.