

## The Importance of That First Embrace

**Smart banks know that they have a limited amount of time to form a lasting relationship with new retail customers.**

*by Teresa J. Tschida*

People are usually excited when they get something new. And I'm not just talking about big-ticket items like cars or plasma televisions; opening a fresh jar of peanut butter provides its own small thrill, no matter how mundane.

So it's a shame that so many banks squander the sense of anticipation people have when they open a new bank account. This moment offers a small but significant window of opportunity for greater emotional and financial engagement -- but when it's gone, it's gone for good.

Obviously, consumers don't open bank accounts for kicks. They do it because they move away from their home bank's territory. Or they notice that another bank has fewer fees or more services. Or maybe they get angry about errors or a lack of customer care at their current bank, and they figure any other bank has to be better. Regardless of their reasoning, every new customer provides a lucrative opportunity for the new bank.



That window is one that banks can ill afford to ignore, because competition between retail banks is ferocious. As soon as one bank drops its ATM fees, every other bank follows. Want to extend your location's closing time from 5:00 p.m. to 6:00 p.m.? The bank down the street will see you and raise you an hour. Remember checking fees? Customers do -- and shudder at the memory. Because no bank can afford to charge high fees any more, every retail bank is working on a margin slimmer than they would like. This makes every retail customer valuable -- and every product sale and cross-selling opportunity that much more important.

### **Sticky situations**

Banks might think they have a lifetime to increase the cross-sell of a particular customer, so why rush the relationship at the first meeting? Well, there's a very good reason. A Bank Administration Institute (BAI) research study found that 73% of cross-sales occur within the first

three months of a banking relationship. That initial flush of anticipation makes customers much more receptive to sales pitches.

But excitement doesn't mean customers will stick around to hear that pitch. The BAI study found that customer attrition can be twice as high in the first three months than it is after six months. According to American Banker, Dove Consulting also found that "About 25% of customers sever their ties with a bank in the first year, about triple the average for all customers." In other words, new customers are likeliest to buy and likeliest to fly the coop.

That's why smart banks make a concentrated effort to embrace new customers from every direction. Because they only have 90 days to create a deep and lasting relationship, these banks must do a lot of work in a very short period of time. For banks that are successful, though, the financial benefit can last for years. The BAI study found that banks that are best at embracing new customers had a cross-sell ratio for checking customers that was 8% higher than the benchmark norm. In an atmosphere of hyper-accelerated competition, that 8% margin adds up.

Embracing a customer essentially means creating a strategy that includes providing meaningful customer touchpoints, orienting the customer to the bank, and instilling a sense of belonging. Embracing a customer also means creating ways to make every customer interaction "sticky" to open those windows of opportunity to greater sales. And because embracing customers is a form of customer service, most of the work falls on the bank staff -- because after all, embracing is as human as it sounds.

So how exactly should banks embrace customers? Very carefully.

### **Orienting the orientation**

Every fall, colleges offer orientation programs to their incoming freshmen. Schools institute these programs not just because students need to know what the college offers and how to find their way around campus -- they know that students who get involved and feel an immediate connection to the campus are less likely to drop out.

The same dynamic is evident with retail bank customers. Customers who know what the bank can provide and how to access it feel much more involved. And customers who feel connected are much less likely to leave.

Unlike colleges, though, banks can't make the orientation program mandatory, and they can't conduct it at their own convenience. Customers must be embraced, not left to fend for themselves. Thus, it's essential for each personal banker to discover what his or her customers really need from the very start.

For example, a young couple that comes in for a checking account may also benefit from online banking, a line of credit for emergencies, college savings accounts, a credit card, a mortgage, and more. An initial meeting with the couple presents a moment of opportunity for the banker, one that can set up the bank for a very rewarding relationship. Smart banks -- those that maximize the

90-day window -- set their employee incentive program to reward bankers for core sales in the first 90 days, rather than just at the initial account opening.

It's not necessary to make every touchpoint person-to-person, though. Contact management systems that schedule calls and keep files of information can be invaluable, and a well-organized direct-marketing program can be helpful too. But every touchpoint does need to be tailored to the needs of the customer -- and they must be easy to understand. Customers leave when they feel like their bank takes advantage of them, and sales efforts fail when they confuse more than thrill.

Take, for example, the young couple with the new checking account mentioned above. If their personal banker inundates them with every product the bank offers, he'll alienate them. And he'll infuriate them if they discover later that every product came complete with hidden fees. Embraces become unpleasant if they're smothering or include nasty surprises.

Think Credit Union, headquartered in Rochester, Minnesota, schedules a series of three touchpoints with its new customers. Two weeks after a customer opens an account, a bank consultant calls to focus on what was discussed at the account opening. Did checks and PINs arrive as promised? Is online banking working well? The consultant reviews the notes from the account opening, checking also on accounts that need to be moved from other institutions.

Next, within four to eight weeks, the same representative calls to ask the customer how Think CU is doing. Is the service acceptable? Is the customer having trouble using any access methods? Six months later, the customer receives a third call, in which the consultant checks on how the current product and service mix is working and probes for opportunities for additional business. According to Tom Floyd, Think CU's chief administrative officer, these interactions are not positioned as sales calls but as open conversations meant to help customers experience Think CU in the best way.

### **The essentials**

In the end, embracing a customer should focus on these three essentials: provide lots of touchpoints within the first 90 days, focus cross-sale efforts on customers' needs, and spell out the fine print. These essentials are easier said than done, but remember: Banks that quickly embrace their new customers may find that those customers embrace them right back.