NEW ENGLAND
Banking
THE RESOURCE FOR NEW ENGLAND'S FINANCIAL LEADERS
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The Retention Advantage

By **TOM LONG**

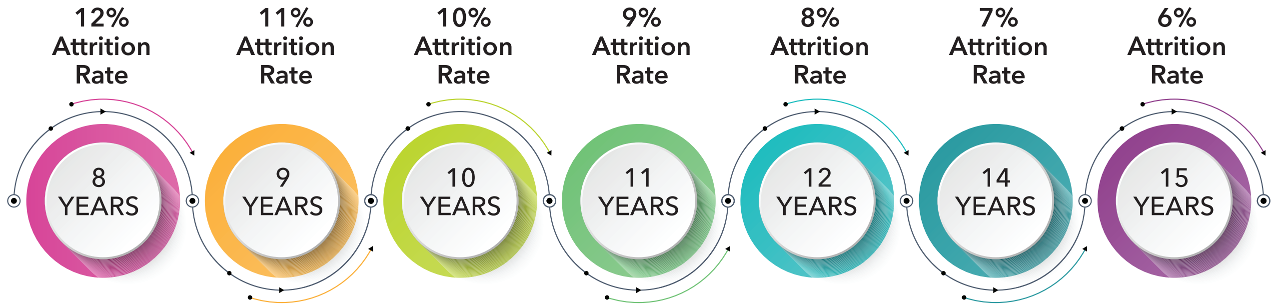
Adam Smith introduced the world to the Industrial Revolution. Centuries later, this revolution has now entered its fourth phase. Termed the Exponential Age, it is defined by the velocity or speed of change found in this new era. Disruption is everywhere. Firms of all types are being put out of business every day.

The New Competitor

In order to survive the Exponential Age, every financial institution must recognize that the definition of its competitive set has changed in an unexpected manner. In this era, no financial institution competes against a class of competitors, a peer group or even the fin tech sector. Rather, in the Exponential Age, each financial institution competes against a single, identical competitor. And, this common competitor is time. Therefore, survival in the Exponential Age is all about slowing down the clock and each financial institution is confronted with this shared challenge and opportunity.

The Expectations Challenge

The Exponential Age is the intersection of digital technology and changing consumer behavior. Changing consumer expectations are rapidly influencing bank-



ing. For more than 25 years, The Long Group has been surveying consumers and businesses regarding their financial behavior. Today, these discussions reveal that consumers expect interacting with their financial institution to be faster, easier, more convenient and less expensive than ever before. In other words, today's consumer wants it all. They expect more for less. These changing expectations are challenging the viability of every financial institution. Furthermore, unmet needs introduce new competitors into the client relationship and promote churn.

The Attrition Tax

How does a financial institution slow down the clock? By focusing on improving retention. Attrition is the tax that every financial institution levies on itself, compromising growth. The average financial institution closes twelve percent of its account base each year. As a result, the average financial institution is expected to replace its entire client base every eight years necessitating an aggressive sales focus to replace volume lost to attrition. Moreover, by halving attrition, the longevity of a client relationship is doubled, slowing down the clock in the Exponential Age and accelerating growth.

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of client churn is produced among transactional clients

The Retention Mystery Solved

Improving retention is not a mystery. It is simply a function of the size of a client relationship. A dichotomy in every client file exists representing those that purchase on a transactional basis and those that maintain a relationship with the financial institution. Each group behaves differently. Eighty percent of client churn is produced among transactional clients, those that maintain one or two accounts with the financial institution. In contrast, those that maintain a relationship define the balance sheet and earnings of a typical financial institution. In other words, the transient nature of a client is halted by simply building a relationship with each customer.


Tom Long

The Gateway to Survival

For decades, expanding a client relationship has advanced at glacial speed with the average financial institution requiring more than ten years to acquire the third account relationship. Today, three in five clients maintain a causal connection to the average financial institution increasing the risk of churn in the Exponential Age. Developing these at risk client relationships by compressing the sales cycle is the gateway to survival in the Exponential Age.

Today, incremental gains in market share are less a function of the acquisition of new clients and more focused on building stability into the relationships that have been acquired. Knowing the precise conversation to have; one that is personalized, relevant, meaningful and consultative improves the customer experience, drives revenue and extends the tenure of a client relationship.

Work Smart Not Hard

With unprecedented risks and opportunities confronting every institution, now is the time to act. Closed accounts and lost relationships are compromising growth. Competing requires financial institutions of all sizes to transform data into information, translate information into knowledge, convert knowledge into strategy and pivot strategy into action. Work smart not hard to change the growth trajectory. Success in the Exponential Age depends on relationship management to create a retention advantage and build customer stability. ■

Tom Long is the principal at The Long Group LLC, based in the Greater Boston area.

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