

The PERPETUAL INNOVATION MACHINE

How to make one business breakthrough after another.



Case Study: The Bank

An Organic Growth Strategy Pays Off For One of the Largest Banks in the Nation

Most CEOs today talk about the importance of growing the business with current customers. But when you take a close look at their organizational structure and the way they operate, it becomes readily apparent that organic growth is more of a talking point than a vital enterprise-wide strategy.

That was the situation at one of the nation's leading banks before we used innovation engineering to fuel an ambitious cultural transformation.

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Presented by: Vele J. Galovski and Hank Shaw

The Bank

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SNAPSHOT

The Assignment

Help a major national bank build the foundation for an organic growth strategy by sharpening its focus on the customer.

Primary Metrics

- ⊖ Deposit Growth
- ⊖ Customer Delight
- ⊖ Net Checking Account Growth

Key Drivers of Customer Delight

- ⊖ Customer Interest & Appreciation
- ⊖ Branch Network
- ⊖ Checking Accounts & Credit Cards

Major Innovation

- ⊖ National training program for more than 100,000 bank employees focused on nine specific behaviors that drive customer delight
- ⊖ Renewed focus on the Banking Center channel

Breakthrough Results

- ⊖ Customer delight increased from 38 to 52%
- ⊖ 4 million net new checking accounts over a three-year period
- ⊖ \$77 billion added to the deposit base

The Vital Necessity of Organic Growth

The bank had grown into a leading figure on the national scene with a series of high-powered acquisitions.

In fact, by the year 2000, it was nearing the regulatory limit by amassing a ten percent share of the nation's deposit base. That was a remarkable achievement. But it left the bank with an uncertain future.

How could it grow from that point on?

There was one obvious answer: Organic growth. Because the federal legislation that limited banks' share of deposits put no constraints on their efforts to deepen their share of wallet with current customers.

There was just one problem. This particular institution didn't have an organizational or operational structure in place to support an effective strategy based on customer retention and Same Account Growth.

For one thing, the bank's offerings and channels weren't designed as an integrated portfolio of tools and solutions to help customers achieve their financial goals. Instead, the bank's product and channel organizations seemed to compete with each other for both internal funding and customers' attention.

In addition, each product and channel had its own set of surveys for taking the pulse on customer satisfaction, which meant the bank essentially functioned as a holding company of independent fiefdoms that placed little value on building strong relationships between customers and the bank as a whole.

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This every-division-for-itself orientation undermined the bank's ability to cross-sell and generate favorable word-of-mouth advertising from current customers. And those are obviously important objectives in any organic growth strategy.

It was time to use innovation engineering to improve the customer experience, set the stage for effective cross-selling and up-selling, and develop a sustainable plan for long-term growth.

Launching a Strategic Metric

The first step in the transformation process was to understand what customers really wanted in their overall relationship with the bank. So we developed an enterprise-wide customer satisfaction survey aligned with the new organic growth strategy. But instead of settling for a simple satisfaction rating, we raised the bar to focus on the top two scores in a 10-point rating system.

In other words, we wanted to monitor the percentage of customers who gave the bank the highest marks possible: 9s and 10s. We also decided to adopt a new phrase to capture this focus. Instead of measuring customer satisfaction, we would measure “customer delight.” We were the first organization to use the term in this context.

There were a lot of reasons for this decision. But the most important motivator was this: Simple satisfaction doesn’t cut it. After all, research from a number of sources—including Fred

Reichheld, author of *The Loyalty Effect* and other business bestsellers—proves that satisfied customers don’t necessarily re-up with your company or develop more profitable relationships.

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On the other hand, highly satisfied or delighted customers do have a powerful correlation with organic growth. In fact, our own research showed that delighted customers are three times more likely to purchase additional products and services than satisfied customers. They are also four times more likely to provide a favorable recommendation to a friend, family member or colleague.

And that’s a big deal, since word-of-mouth is the most powerful form of advertising.

These points deserve additional emphasis. Rising customer satisfaction scores give everyone a warm, fuzzy feeling. But when you’re increasing customer delight, you’re actually building your business.

That’s why we launched the quarterly survey to measure the percentage of customers who were delighted with the bank. The next step? Set the goal for our innovation engineering efforts. As you’ll see, it was the exact opposite of low-hanging fruit.

Raising the Bar Way the Hell up There

Once the customer delight gauge was plugged into the management instrument panel, we measured the baseline. And we found that the bank had one of the lowest customer delight scores in the industry: thirty-eight percent.

Obviously, we wanted to raise the bar. But how high should we go? We couldn’t settle for a four-point gain, because that would only mean a ten percent improvement. And innovation engineers typically aim to double that. But we even decided that a twenty percent boost wasn’t ambitious enough.

After all, our goal was not just to set the customer delight standard for banks. We wanted to compete with the best in any industry. So we did some research and discovered that a renowned hotel chain was delighting ninety-two percent of its customers!

We wanted to compete with the best in any industry

If they could do it, so could we. Inspired by the hotel's success, we decided to raise our customer delight score from 38 to 92% over the course of the next five years.

As you might imagine, our palms immediately started sweating.

Identifying the Key Drivers of Delight

With the preliminaries out of the way, we began analyzing all of the bank's customer surveys. And we learned that checking accounts, credit cards and the retail branch network had an enormous impact on delighting or disappointing customers.

We also discovered something else: The Sub-level Drivers in each of those categories had a common theme: customer appreciation and interest.

From a statistical standpoint, it was remarkable to find the same Sub-level Driver for three different Key Drivers. So we determined that "customer appreciation and interest" was really the Number One driver of delight for the bank as a whole.

From that point on, the way forward was clear. If we could develop a portfolio of innovative tactics to show our appreciation for our customers and our interest in the quality of their experience, we could boost our customer delight scores and provide critical support for the bank's new organic growth strategy.

Turning the Conventional Wisdom on its Head

When you have a nationwide bank with a vast portfolio of products and services, there are hundreds of opportunities to show more appreciation for customers. But since our innovation engineering program was brand-new, we had to make a big impact in a short amount of time.

That meant we needed to interface with a lot of customers on a regular basis. We also needed a forum that would give us the best opportunity to show appreciation and interest in the most effective way: face-to-face. So the logical choice was to focus on one of our original Key Drivers: The bank's nationwide retail branch network.

There was just one hitch. Even though research showed that the branch network was our most influential channel, a lot of people inside and outside the bank thought that the days of brick-and-mortar branches were numbered.

Sticking to Our Data-Driven Guns

If you go back to the turn of the twenty-first century, you'll find a sea change taking place in the banking world. Online banking was widely considered the wave of the future. And cost-conscious executives were diverting resources to the most economical ways to connect with customers, including telebanking, online banking and ATMs.

In fact, some banks were already developing plans to shut down most of their branches and banking centers.

From a pure cost perspective, the move made perfect sense. But it failed to take into consideration some other facts that were verified by our research: Branches play an important role in building customer relationships. They also give you more opportunities to delight customers than all of the other channels combined.

So despite the emerging trends in the industry...and despite significant opposition within our own company...we started to develop ways to delight our customers within the nationwide branch network.

It was a data-driven decision. But the risks were significant. And if we failed, innovation engineering would have a very short lifespan at one of the biggest banks in the country.

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Predicting the Impact

Despite the headwinds blowing against us, we entered the Innovation Lab and began to develop a series of ideas for improving the customer experience in our branches.

We then applied a proprietary technique for estimating the potential impact of each innovation and discovered that an intensive training program for branch employees would provide the initial breakthrough we needed.

The training program wasn't a standard rah-rah program, however. It was designed specifically to address nine Sub-level Drivers of delight identified in our analysis of customer feedback. If we successfully addressed each driver, we would generate a predictable increase in customer delight. And that gain would correspond to a predictable increase in revenue, too.

Multiplying the "lift" associated with each Sub-level Driver times the number of customer engagements involved, we calculated that the training program would increase the retail branch customer delight score by nine points. That would represent a twenty-four percent improvement from the baseline.

Performing the Ultimate Reality Check

Thanks to the fact-based strength of our concept and the hard work we invested in our predictive lift analysis, we earned the support of a high-level executive in charge of a large southeastern consumer market. And he championed our initiative by signing on for a major pilot program encompassing his region.

Meanwhile, other important improvement efforts were underway in the rest of the company. And while they focused on decreasing customer dissatisfaction by reducing errors and problems, we moved quickly to train every employee in the market in a single month's time. As a result, thousands of bank employees learned how to increase the delight of their customers by engaging in a series of very specific actions and behaviors.

Six months later, we got the results we anticipated: Customer delight increased by exactly nine points. The rest of the bank's nationwide branch network significantly reduced errors and improved the problem resolution process. But those achievements had only a marginal impact on customer delight, because customers expect error-free service and fast, efficient problem resolution. Gains in those areas are simply not enough to move customers from satisfaction to delight.

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Rolling it out Nationwide

Based on the success of our pilot and the precision of our predictions, the bank invested in a massive rollout that went far beyond our original branch focus to include every single employee in every product and channel group. By the time we wrapped up training eight months later, the total number of program graduates topped the 100,000 mark.

And this time the results were even better: Customer delight increased by fourteen points, which represented a 36.8% improvement from our starting point.

Assessing Results

Let's face it. You're not going to win high fives from the boardroom simply by making customers happy. But it didn't take long to see the powerful correlation between customer delight and organic growth.

Take checking accounts, for example. Before the delight-driven cultural transformation took hold, the bank was treading water: In 2001, it lost as many accounts as it acquired. But after our training initiative and other process improvements took effect, the story was very different. The bank registered a net gain of nearly four million new accounts through 2004, including a net gain of 2.1 million accounts in 2004 alone.

THE BANK

The deposit base also grew from \$238 billion to \$315 billion, which was a clear indication of the success of our organic growth strategy.

Of course, there were many other initiatives at the bank that played a role in this transformation. But those results were exactly what we expected to see once our customer delight scores started to climb.

The bank registered a net gain of nearly four million new accounts

Another outcome of our innovation engineering efforts was this: The bank changed its retail strategy. Instead of closing branches, the leadership team built more than 150 new ones.

That decision expressed tremendous confidence in our newfound ability to turn face-to-face customer engagements into a powerful competitive advantage.



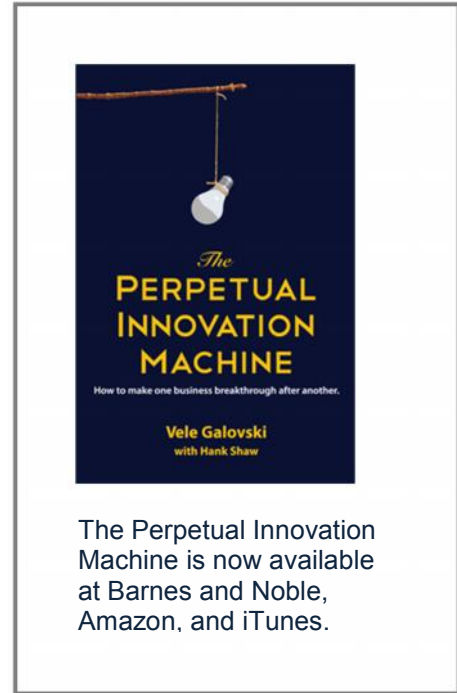
The Perpetual Innovation Machine

How do you make a business breakthrough? You need daring goals, skillful data analysis, highly focused innovation engineering, dynamic leadership and an inspiring approach to employee engagement.

These are the key components of the streamlined management methodology featured in *The Perpetual Innovation Machine*, a practical guide designed to help executives and emerging leaders learn how to transform their organizations...and achieve great things.

The book also covers a number of topics that should be of interest to new managers and business students, including:

- Key Driver and Predictive Lift Analysis
- Power Tools for managing innovations
- Tips on how to create “The Leadership Broadcasting Network”
- Four Case Histories
- And more



About The Authors

Vele Galovski The Innovation Engineer Executive



Over the past 25 years, Vele Galovski has consistently achieved breakthrough results by using his unique approach to innovation engineering.

Vele has dramatically improved the performance of a high-volume manufacturing operation, a national financial services company, a leading provider of professional outsourcing services, and one of the top home-builders in the country.

For more information, visit www.perpetualinnovationmachine.com or read more at Vele's blog: perpetualinnovationmachine.wordpress.com

Hank Shaw Intelligent Writing For the Business World



Hank Shaw is an award-winning writer who has worked for a number of Fortune 500 companies including Amgen, Bank of America, Gilead Sciences and Xerox.

A graduate of Stanford University, he spent several years as a professional journalist before entering the world of advertising, marketing and corporate communications.

For more information, visit www.intelligentwritingforbusiness.com.