Higher Standards:
Bank of America Setting the Benchmark for Measurement and Management of Customer Satisfaction and Customer Value

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Creating Customer Value requires managing the customers' perceived value from the products and services offered. Accomplishment of this requires metrics and reporting that enable acting on the Voice of the Customer (VOC) as revealed through the customers' eyes.

In 1999, the financial services industry started undergoing a large transformation caused by deregulation much like the telecommunications industry did in the 1980s. The Financial Modernization Act of 1999 with its repeal of the Glass-Stegall Act was a catalyst for the paradigm shift in the Voice of the Financial Services Customer that mirrored the Voice of the Customer (VOC) paradigmatic shift covered malls set in motion for retailing in the 1960s and deregulation set in motion for telecommunications in the 1980s. This change was and is manifested in the expectation of the customers' buying experience. In all three instances the customers' expectations migrated from an expectation of shopping in several establishments in several locations in order to fulfill their product/service demands, to one of "one-stop-shopping". This new expectation has become the "New Voice of the Customer" regarding the key drivers of customer utility (satisfaction). Customers are measuring their utility or negative utility in terms of product, service, and delivery channel bundles rather than individual products. This change has had the effect of changing the basic customer relationship with the financial services organization and demands a new system for measuring and reporting the "New Voice of the Customer" and the "New Customer Value". This includes two views of customer value, the customer view (demand view) and the organization's view (supply view).

While there is a new expectation from the customer around their financial shopping experience, one could argue that for the most part the financial services industry, as a whole, has only paid lip service to this "New Voice of the Customer". While most financial service firms now offer an array of products ranging from checking accounts to mortgages to insurance through banking centers and on-line banking, they functionally operate and measure customer and shareholder value, through GAAP income statements and balance sheets, presented in a silo framework of lines of business (LOBs) or strategic business units (SBUs).

The GAAP LOB/SBU financial measurement structure serves management well as it provides a time-honored means for managing expenses and compensation. It serves GAAP accounting well as it perpetuates the financial model of the industrial era. Regulatory agencies and the Securities and Exchange Commission, until Enron, were comfortable with the GAAP reporting and Wall Street still accepts these GAAP metrics as the basis for sound financial analysis of business organizations.

While the current view may still provide a reasonable synopsis of expense measurement and control for public firms, one might argue is does not provide the necessary insights to the revenue side of the income statement. One can reasonably argue that it does not address the business risk associated with the inability of the firm to measure and manage the interruption of expected cash flows defined by the ongoing activities of the customer. One can also argue that the traditional measurement system of Customer Value (Book Value) greatly understates the asset value of the organization by not considering its largest asset, the intangible asset of its customer base, and the customer value it creates. Whether or not an organization formally reports on this asset, optimizing the manner in which the firm serves its shareholders and stake holders requires measurement and management of this asset. Further, this measurement and management must reflect the manner the customers evaluate their perception of the value the organization delivers to them (utility). Bank of America has heard the "New Voice of the Customer" and is developing leading edge models for measuring customer value in a manner that reflects the "New Voice of the Customer" (NVOC). Bank of America is creating a customer satisfaction and customer value measurement system that cuts across the silos of LOBs and measures the satisfaction and value of a customer based on the manner in which the customer uses the products and services and evaluates the performance of the bank, "The Customer Product Bundle Relationship System" (CPBRS). NVOC says, "I am not a checking customer". "I am a checking, savings, credit card, banking center customer" or "I am a checking, credit card, investment, on-line banking customer". Under the old system of managing satisfaction and value, both of these customers would be checking customers from the perspective of the checking LOB, credit card customers from the perspective of the credit card LOB, one a banking center customer, one an on-line banking customer, one a savings customer and the other an investment customer. This view represents VOC through the eyes of the bank; the way the bank manages its business. The NVOC, through the eyes of the customer, recognizes they are both customers of a given product, service, delivery channel relationship. While the VOC through the eyes of the bank is imperative, given the current functional organization structure, one must not be lulled into a sense of security around managing the asset and the risk of reduction in expected cash flows from loss of this asset by managing exclusively through VOC.

CPBRS maintains the capability of measurement and reporting through the VOC and simultaneously enables managing and reporting customer satisfaction and customer value through the NVOC. This is a revolutionary change in the way a financial organization views revenue creation and expected cash flows, the top line of the income statement. CPBRS enables an interactive view of products, services and delivery channels for those customers that are more complex than the customers' pre The Financial Modernization Act of 1999. It allows for measuring the weight the customer puts on his/her utility (satisfaction) for each of the products, services, delivery channels that constitute the bundle. It allows for reporting the financial results of customer satisfaction initiatives by LOB/SBU and by relationship bundle. As one can see this type of flexibility in measurement and reporting has copious potential impacts on management decisions; e.g. campaign management, lobby management, cross-sell, etc. While this may at first blush seem complex, it is really on the cutting edge of commonsense.

A quick review of the two customers mentioned previously serves as an example to the commonsense nature of the approach. The first customer, a checking, savings, credit card, banking center customer, clearly determines the value (satisfaction/utility) the bank provides him/her based on the perceived service level of the various products and delivery channel he/she consumes. However, one could argue that based on the bundle that comprises this customer's relationship, credit card may play a more important role than checking, savings or the banking center. In other words, the bank may be able to achieve top two box ratings on checking, savings and banking center, but should they create a situation where credit card perceived value is bottom five, the customer may attrite or diminish quantities consumed of the various products. In addition, one could make the argument that the majority of value the bank receives from the customer is derived from the credit card relationship. CPBRS measures and reports the results of this interactive relationship and the impact a given customer sat, or marketing initiative will have on the change in total lifetime value the customer will bring to the bank. It will report this value by LOB and by total relationship.

The second customer, a checking, credit card, investment, banking center customer, also determines his/her value received based on the perceived service level of the various products and delivery channel he/she consumes. In this case, however, credit card may play a diminished role and one could reasonably argue that the customer heavily weights their value received (satisfaction/utility) based on the perceived service received from both investments and on-line banking. Under the old VOC measurement and reporting system management would not have a clear line of sight into this subtle, but important difference in the customers. In addition to the key driver of satisfaction being different (investment and on-line banking versus credit card), the key driver of value changes as well (investments versus credit card). CPBRS measures and reports on both the weight of the satisfaction key driver for the relationship as well as the financial impact. This is truly managing the bundled relationship by the NVOC.

An additional advantage CPBRS brings is the ability to measure and report on the impact a given initiative will have on each type of bundled relationship as well as the overall impact by LOB. Given the examples above, an initiative centered on credit card customers may have very different impacts on the two customers. In example one a successful credit card initiative to increase customer satisfaction for card may result in a substantial gain in the overall value the customer perceives the bank to be delivering resulting in a significant bump in the customer's barometer satisfaction score and in the overall value the customer brings to the bank. Whereas with customer two the same initiative may have a lesser impact with minimal bump in the barometer satisfaction score or the overall value. However, CPBRS would capture and report the total value generated from both customers. The CPBRS model may show that while the impact is minimal to customer two, there still is an impact. For example one could hypothesize customer two appreciates the consideration given him/her in the credit card initiative and as a result increases the use of the card, although minimally, and moves an additional $1000 into the investment portion of the relationship. At the macro level CPBRS, through modeling techniques, captures both of these movements and attributes the proper customer value to the reporting as we
ll as any associated lift in customer satisfaction at the LOB and barometer levels

From the above discussions on the enhanced measurement and reporting capabilities of CPBRS, it is clear that Bank of America is revolutionizing the manner in which financial service companies will view the voice of the customer in the future and the way in which financial service companies will manage the risk of expected cash flows generated by their largest intangible asset. Bank of America is setting the benchmark for "Higher Standards" in customer satisfaction and customer value management.