Measures of Customer Experience in Institutional Financial Services

Executive Summary

Although customer experience management programs based on the popular Net Promoter® Score have proven effective in many business lines, NPS falls short in institutional sales and trading, corporate banking and other highly competitive, complex and fast-moving institutional financial services businesses.

The unique demands of these business lines often call for a more complex measurement that provides a deep look into underlying business drivers, rather than a more general reading of overall favorability. One solution: A bottom-up index such as the Greenwich Quality Index (GQI) uses statistical modeling to combine factors refined through many years of research and consulting into a single composite measure. The result is a metric that is predictive of actual business allocation decisions.

Introduction

Any research-based program designed to increase market share by improving customers' favorability toward a provider must include a valid and actionable measure of provider quality or customer experience. However, choosing the right measure is not always simple, since no single metric is perfect for all circumstances. For any program, the right measurement must have the following characteristics:

- Demonstrable causal impact on business performance
- Simplicity, ease of explanation and interpretation, ability to secure senior management buy-in
- Conceptual meaningfulness
- Applicability to the industry
- Ability to compare to competition—ideally using multiple evaluations per respondent; otherwise using aggregate-level benchmarks
- Diagnostic/analytical depth
- Ease of data collection and calculation

Although there are conflicting opinions about which alternative is "best," there is no one-size-fits-all solution. But important differences emerge when performing an objective analysis of the effectiveness of NPS and other metrics in sales and trading, large corporate banking and other highly competitive institutional businesses. In these unique business lines, Greenwich Associates strongly favors an index metric constructed from of a comprehensive set of concrete factors that are carefully chosen based on their influence on customer decision-making.

A Brief Overview of Survey Metrics

The metrics used in programs to improve customer favorability toward a provider can be grouped into two broad categories:

- *Simple Measures of Overall Sentiment.* Typically these are one-item measures such as overall satisfaction, reported either as average scores or as top-box percentages. These can also be simple indices that combine two or more overall measures. The Net Promoter Score (NPS) is a well-known and widely used example of these measures, employed in most industries. It is based on a single "Likelihood to Recommend" question.

- *Bottom-Up Indices.* These composites measure underlying factors that influence customer business decisions, as opposed to broad survey questions meant to capture overall favorability.

Simple Measures of Overall Sentiment

Most customer experience surveys include at least one top-line question broadly measuring favorability (e.g., overall satisfaction, overall quality). This approach has the advantage of simplicity—the questions are easy to measure, score and understand and do not require an explanation or justification. Also, because they are commonplace, they are accepted as credible measures.

Overall favorability metrics are particularly useful where the priority is on gauging overall improvements and declines, and identifying segments of customers that need attention. They also make diagnosis and action-planning straightforward. As long as the survey also captures a relevant set of driving factors, statistical modeling can quantify the relative impact of each of those factors. Viewed in combination with performance on each of those factors, this provides a good strategic guide for what priorities will have the greatest return.

A drawback of these overall sentiment measures is their ambiguity. Although providers can approximately determine the composition of these metrics through statistical modeling, crafting a single question that captures all the relevant factors that drive business allocation decisions in a particular industry is difficult.

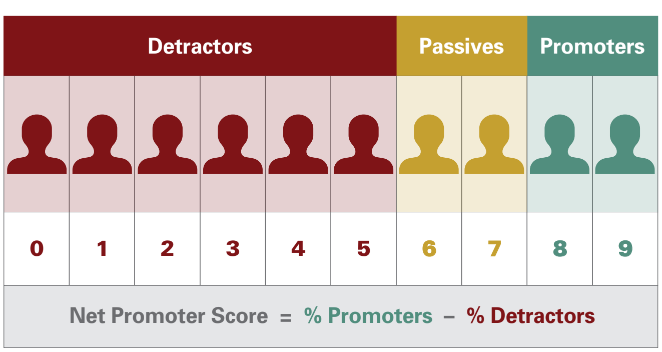
Net Promoter Score: Simple and Popular

NPS has become popular in many industries, largely because of its simplicity. It was originally introduced by Bain & Company and is based on a single "Likelihood to Recommend" question and is always captured on a 0–10 scale. Scores are not calculated at an individual level, other than classifying each respondent into one of three categories.

The NPS is simply calculated as the percentage of promoters minus the percentage of detractors.

The major advantage of NPS is its simplicity. It is easy to understand and to communicate to senior leadership and other stakeholders, including line managers responsible for taking action. For this reason, it is relatively easy to gain organizational acceptance and has thus been widely adopted by many industries.

Net Promoter Score



The Net Promoter Score in Institutional Financial Services

Companies can access benchmark NPS data from Satmetrix in 22 industries (www.researchscape.com/business/netpromoter-survey), including retail, but not institutional financial services. The inability to make competitive comparisons is a significant shortcoming of NPS in institutional businesses. In industries like sales and trading, business is allocated to many providers with little friction, making competitive benchmarks especially important.

Companies considering the use of NPS in sales trading or other institutional financial services businesses must consider an even more fundamental question: Is the concept of a customer "recommendation" even relevant in these industries?

For many retail goods and services, word of mouth may be an important driver of consumer decision-making. This is much less the case in businesses like sales and trading and corporate banking, in which practitioners tend not to exchange recommendations with their competitors. In these businesses, a recommendation, or the lack of one, may not reflect actual positive or negative sentiment since survey respondents may be disinclined to recommend any providers—even those that they strongly favor.

In general, clients in these businesses do not rely on recommendations because they routinely interact with multiple providers and can easily make their own comparisons. Firms that are inclined to seek out information about providers have access to a large number of third-party providers, including Greenwich Associates.

Another consideration: NPS classifies all responses below "7" as detractors and has been criticized for having a negative bias. ForeSee claims that NPS overstates detractors by 260% on average and has recently introduced the Word-of-Mouth Index℠ (WoMI℠), which uses two questions instead of one: "Likelihood to Recommend" and "Likelihood to Discourage." This calculation is simply the percentage highly likely to recommend (9, 10) minus the percentage highly likely to discourage (9, 10).

Finally, NPS is only calculated in aggregate, not at the individual account level. Although many organizations find NPS valuable as a barometer of overall sentiment toward the firm, it is not designed to guide customer-level problem diagnosis and action—a primary consideration for many brokers and other institutional providers.

Bottom-Up Indices

More rigorous than top-line favorability measures are composites of individual factors that collectively drive business-allocation decisions. Though these metrics are more complicated to calculate and explain, they can be much more predictive of business-allocation decisions in sales and trading and other institutional businesses—if the underlying factors are correct.

To increase precision, it is necessary to include as many of the decision-impacting factors as possible in the calculation of these indices. Although the inclusion of these multiple factors makes these measures complex, the lack of ambiguity about their composition is a major advantage. It is clear exactly what these metrics are measuring, and improvements in the component factors necessarily result in improvement on the overall metric.

Because drivers of customer decision-making are unique to individual businesses, these indices are necessarily industry-specific. As such, this approach must draw on the knowledge of industry experts to ensure that no relevant factors are omitted and only important ones are included. For this reason, these bottom-up indices are most often provided by firms with a specialized focus in a particular industry, such as Greenwich Associates in financial services.

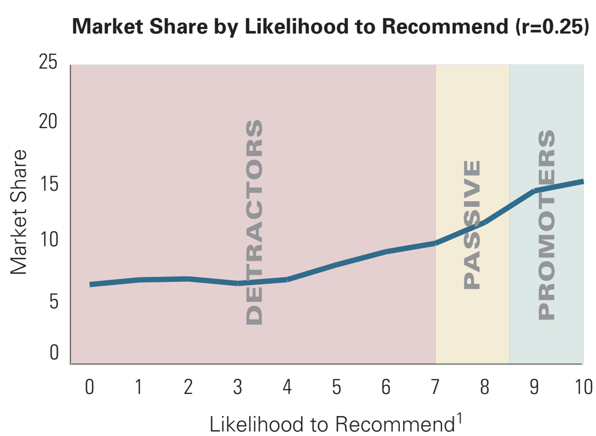
Unlike some industries where customers make stand-alone purchase decisions (e.g., choosing a wireless provider or booking a hotel reservation), the institutional sales and trading business is different. Clients' decisions result in allocation of volume, based on frequent (multiple times per day) individual decisions to "award a trade." For a quality measure to be effective in this context, it must be calculated from competitively oriented data—so that each firm's score should be relative to its competitors'. This is especially true in a business in which allocation is highly fungible; staying ahead of the competition is more important than being individually "good."

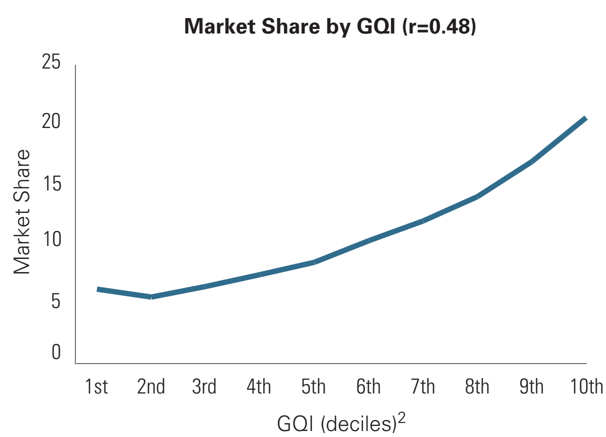
Finally, measures in which each evaluation is adjusted relative to competitive evaluations compensates for the effects of "easy" or "hard" graders, which is common in institutional markets. For all these reasons, competitively relative metrics are more consistent with—and thus more predictive of—actual customer volume allocations.

The Greenwich Quality Index

The Greenwich Quality Index (GQI) is one example of a bottom-up index used in sales and trading, corporate banking and other institutional financial services businesses. The GQI uses statistical modeling to combine factors refined through many years of research and consulting into a single composite measure. The GQI in equity sales and trading, for example, combines sales, trading and research into a highly discriminating score. The result is a metric that is predictive of actual business allocation decisions. GQI is a strong indicator of customer business

As an Indicator of Market Share, GQI is More Effective Than NPS





Note: [1]Net Promoter Score equals percentage of promoters less percentage of detractors. [2]The Greenwich Quality Index is a normalized composite of quality-oriented factors.

decision-making and is significantly correlated with customer business allocations. In institutional sales and trading, this relationship has been measured to a correlation of approximately 0.50.

Discrimination Among Providers

An essential question to ask in determining the relative efficacy of these measures is the following: To what extent do they actually differentiate among providers at the individual customer level? It is difficult to answer this question for NPS because respondents in NPS surveys are typically only evaluating one provider.

Greenwich Associates recently included the standard NPS question in a questionnaire in our institutional sales and trading research and asked respondents to provide evaluations of all of their top dealers. This allowed us to compare the ability of NPS and the GQI to discriminate among dealers. For comparative purposes, we classified evaluations as promoter, detractor or passive responses using each of the two measures. The results: Using the standard NPS, 21% of respondents evaluated all of their dealers as essentially the same, meaning they were all promoters, all detractors or all passives. Using the GQI, that was true of only 5%, demonstrating much greater discrimination among providers from each respondent.

Conclusion and Implications

In a large, sophisticated sector such as institutional financial services, business allocation decisions are driven by a complex combination of quality factors such as sales coverage, understanding of needs, trading execution, and research value. A single favorability question is not adequate to capture all of these dimensions. A broad measure like overall satisfaction or NPS can be useful in monitoring general sentiment, but it does not provide the diagnostic information required by institutional providers. Indeed, we are aware of no institution in such a complex business that manages its customer experience with NPS alone.

The widespread use of NPS across industries does give it an advantage: Its simplicity and popularity are attractive to executives, as is the ability to use one intuitive measure across all lines of business. In reality, though, it is not uncommon for customer experience managers to implement NPS to comply with a corporate mandate, but then rely on a more detailed combination of metrics to actually manage, diagnose, and improve their business. NPS' simplicity and ease of use come at a cost—a lack of detail on which to base concrete prioritization decisions. For that type of "actionable" information, providers in institutional financial services must rely on a more comprehensive and sophisticated bottom-up measure such as the GQI. ■

Need help developing the right metric to improve your business? Contact Gary Parilis, Chief Research Officer, at +1 203.625.5133 or gary.parilis@greenwich.com.

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