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RETAIL DELIVERY

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Fleet, Discover Top 'Loyalty Index'; Mutual Funds Fall

■ **BY LEAH GLINIEWICZ**

Customer loyalty to mutual fund companies nose-dived over the past year, though loyalty to retail banks, credit cards, and insurance companies held about steady, according to oneconsumer survey that aims to measure which brands' products and services consumers are likeliest to buy in the next 18 to 24 months.

Last year's trading scandals probably explain the fund firms' plight, experts say.

Fleet scored highest among the seven banking brands rated in **Brand Keys Inc.**'s customer loyalty index. A brand is added when a significant number of survey respondents say they use the associated products or services.

Discover Card led its category for the seventh time, and **New York Life** was the insurance leader for the second straight year. **T. Rowe Price** topped the mutual fund list.

Charles Schwab and **E-Trade** tied for the highest score among online brokerages. Nine of them qualified to be included in the index, the most in any financial services sector.

Brand Keys is a New York company that specializes in tracking customer loyalty. Its telephone surveys are designed to capture the emotional and rational reasons people favor a specific brand, said Robert Passikoff, the company's president.

The index quantifies the customer ideal for a specific sector and tracks how well brands in that sector match up. Brands that exceed the ideal or come closest to meeting it will wind up with the most loyal customers, Mr. Passikoff said.

Loyalty is a more useful measure than customer satisfaction because it predicts purchase behavior, he said "Satisfaction is a lagging indicator," Mr. Passikoff said. "It doesn't tie in to future use. It has to do with what happened the last time a customer used a brand."

The Brand Keys index sets the baseline for companies in each sector at 100. Every point above that means 1% more loyalty than the average for the sector. By that calculation, customers at Fleet, which scored 111, are 11% more loyal than bank customers in general.

But the ideal score for banking brands — the score for what consumers would consider the perfect company — was 116, and all seven banks in the index fell short.

Several industry analysts and marketing experts said they were not surprised by the gap. Common hassles such as waiting in teller lines annoy many bank customers, they said.

"There's an antagonism barrier," said Simon Williams, the president and chief executive officer of **Sterling Group**, a New York brand consulting firm. "It's probably less acute than 20 years ago, but it's still there."

In the mutual fund sector, four of the five brands in the index lost ground, and the customer ideal rose to 123, from 119 last year. All the fund brands came in 13 points or more below this year's ideal score.

The ideal scores tend to go up each year.

"Expectations continually get ratcheted up, because consumers are smarter today," Mr. Passikoff said. If you wanted information on a financial company 10 years ago "you had to rely on the brand itself to provide it for you — you couldn't go online and do the kind of research people are doing nowadays.

"Brands have lost control," Mr. Passikoff said, "and the customer is king."

Brand Keys compiles data on 202 brands in 32 industries. It conducts its telephone survey in two waves, in January and February and in September and October. More than 16,000 people ages 21 to 60 are surveyed nationwide.

The data are analyzed to identify four key drivers of loyalty — the factors most important to consumers in making buying decisions.

For banks the top four were cost, breadth of offerings, accuracy and efficiency, and service. But service is what really makes banks different from each other, Mr. Passikoff said.

Loyalty was less volatile among banks than in the other sectors, though three bank brands — **PNC Bank**, **Wachovia**, and **Bank of America** — were new to this year's index.

Fleet's 111 was 2 points higher than its score a year earlier. Bank of America, which bought Fleet in April, got a 105, the lowest score for any of the seven banks ranked.

Anthony Polini, an analyst with **First Horizon National Corp.**'s **FTN Midwest Research Securities Corp.**, said those scores are counterintuitive. Bank of America is the "best in the country" at cross-selling products and linking them to credit cards and check cards, he said, and doing so can lead to customer retention.

"I have a theory about this," Mr. Passikoff said. "I think what happens is when these banks get in a mode where they're going to be sold, they start ratcheting up on things that are important, like keeping customers."

He said it is also possible that the acquiring bank introduces improvements that help boost customer loyalty.

Matt Carter, a senior vice president at PNC, said it works for customer loyalty by taking an active approach to giving them what they want. PNC's customer retention is generally above 90% and was last measured at 95%, he said.

PNC ranked third among banks on the Brand Keys index. Its 108 means its customer loyalty is 8% higher than average for a bank.

For mutual funds the key drivers of loyalty were fund success, fund management, investment simplicity, and service.

Top-ranked T. Rowe Price had the smallest decline among the five fund brands in the index— 1 point, to 111. But it was 13 points below the ideal, versus 8 points a year earlier.

Fidelity's brand strength took the biggest hit. Fidelity slipped from second place to third among mutual funds, and its score, 107, was down 4 points — the largest loss for any financial services brand in the index.

Vanguard was the only fund brand that lost no customer loyalty by this measure. Its 109 gave it second place in its category. But Vanguard fell further short of a rising ideal — 14 points, versus 10.

Janus ranked fourth, followed by **Putnam**. Both lost loyalty, and their scores were as much as 18 points below the ideal.

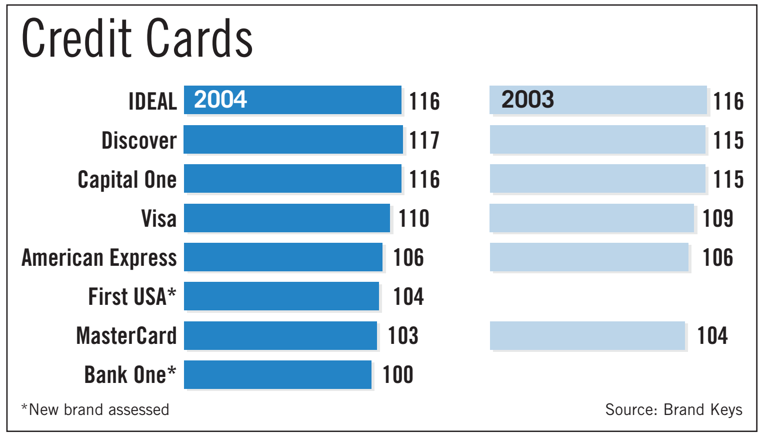
Mark Lane, an equity research analyst with William Blair & Co. LLC in Chicago, said that fund scandals hurt customer loyalty, and that Janus and Putnam turned in below-average performance in the market downturn.

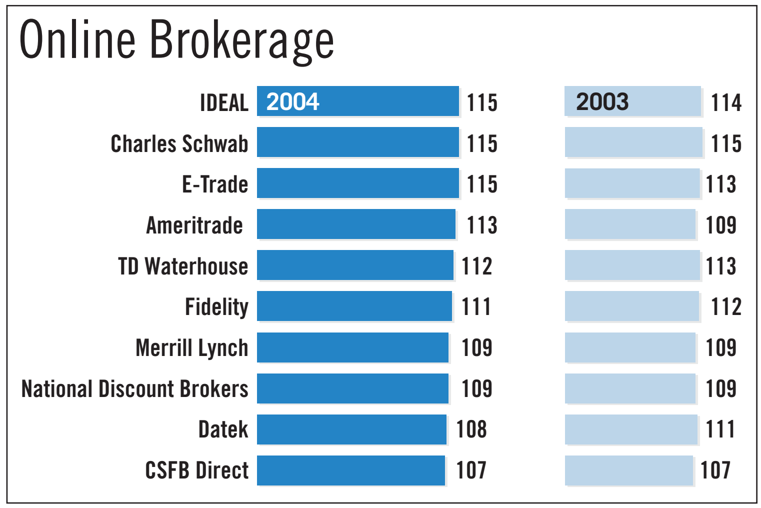
Loyalty to mutual funds is mostly a function of how satisfied customers are with their returns, Mr. Lane said. "Unequivocally, what's going to bring investors back is better investment performance."

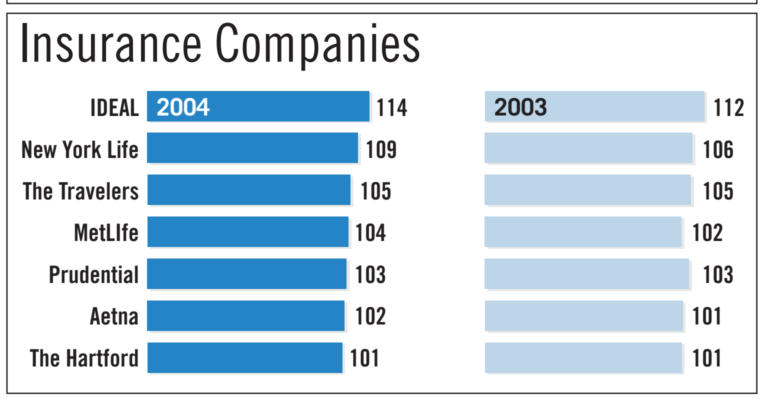
Jim Gately, Vanguard Group Inc.'s managing director for investor programs and services, said one measure of loyalty it uses is the redemption ratio, the share of assets taken out of a given mutual fund.

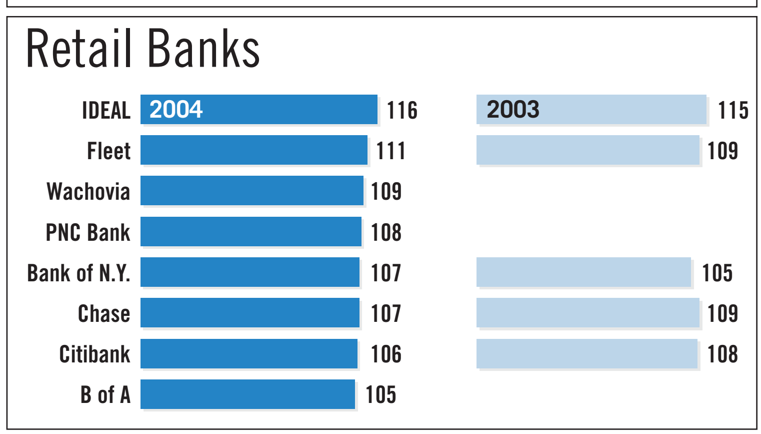
"The lower the redemption ratio, the better the client loyalty," Mr. Gately said. Vanguard prides itself on a redemption ratio half that of the rest of the industry, he said.

Vanguard judges its efforts to improve customer loyalty, Mr. Gately said, by fund performance over the long term and









success in communicating with clients so they know what to expect. Its strategy also includes providing great service and sticking with core competencies, including money management services such as 401(k)s.

In the insurance business, **New York Life**, which again this year led the six brands in the index, made the biggest improvement. Its customer loyalty score rose 3 points, to 109.

It also came 1 point closer to that moving target the customer ideal. Brand Keys tallied customers' ideal for insurance brands at 114, up 2 points.

As a group, the insurance brands drifted slightly further from the customer ideal. The range between the highest and lowest scores was 8 points (versus 5 last year), so the individual brands were 5 to 13 points below the ideal (versus 6 to 11 points).

The top factors in customer loyalty for insurance companies were product range, premiums and rates, ease of claims, and customer support, Mr. Passikoff said. New York Life's overall improvement reflected better numbers for product range and customer support, he said.

Carolyn Buscarino, a senior vice president at New York Life, said it has used the same media messages since 1998 to build on its success in brand awareness. Its goal in the last few years has been to offer a broad range of life insurance products, she said.

Jorge Ramirez, an analyst with FTN Midwest Research, said the customer loyalty index should include distribution as a loyalty driver for insurance companies. The different ways the products are sold, whether through relationships with agents or brokers or less personal options, affect customer loyalty, he said.

For credit card companies, the top loyalty drivers were fees and flexible payments, rewards and services, ease and speed of interactions, and precision and protection.

Discover Card's winning score of 117 was up 2 points from last year, the biggest rise for any of the card brands indexed.

The Morgan Stanley unit was also the only financial services company in the index to top the customer ideal as calculated by Brand Keys. For card companies that ideal was 116, the same as last year.

Mr. Passikoff said excelling in rewards and services is what keeps Discover in the top spot. "No one has only one credit card in the wallet, but there's always one credit card that's used the most," he said. "Money back is where Discover stands out."

Andrew Davidson, the vice president of competitive tracking at **Synovate**, a market research subsidiary of Aegis Group PLC, said Discover cards tend to generate more customer loyalty, satisfaction, and spending than other brands. Synovate's Mail Monitor service tracks credit card mailings.

Mr. Davidson, who is based in Tarrytown, N.Y., said the low introductory rates that many issuers offer does not build loyalty. Now they are trying to lock in customers with rewards and rebates, he said.

Bank One, which **J.P. Morgan Chase & Co.** bought recently, was a new addition to the credit card index. Tom O'Donnell, a senior vice president at Bank One Card Services, said co-branded relationships are its largest source of growth.

Charles Schwab and E-Trade's score of 115 matched the customer ideal for this category — which was 1 point higher than last year.

Schwab excelled in customer service, where E-Trade was weakest. But E-Trade beat it in depth and usefulness of data, which was the strongest loyalty driver for its brand, Mr. Passikoff said.

The other two key drivers for the online brokerage sector were a full line of products and services and ease of using the broker's Web site and operations.

Matthew Snowling, an analyst at Friedman, Billings, Ramsey & Co., said customer retention is critical for online brokerages. "This is a business about scale," he said.

Schwab and E-Trade are coming up with new products to keep customers engaged, Mr. Snowling said; the improvements include portfolio insurance and making marketing data free. "Customers always demand more and more," he said.

Rob Frankel, a brand expert who wrote "The Revenge of Brand X," said financial services companies could stand to improve their brand strategies.

Most lack a distinctive identity in the marketplace because they mistakenly try to be everything to everybody, Mr. Frankel said. What they really need is compelling and memorable brand strategies that tell why they are the solution to customers' problems, he said.

"If brands didn't matter, Tiffany would be out of business," Mr. Frankel said. ■